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LIST OF ABBREVIATIONS

ARIMA	Autoregressive Integrated Moving Average
CBCG	Central Bank of Montenegro
COVID-19	COronaVirus Disease-19 (Coronavirus SARS-CoV-2)
CPI	Consumer Price Index
ECB	European Central Bank
EMU	Economic and Monetary Union
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreing Direct Investments
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MONSTAT	Statistical Office of Montenegro
OPEC	Organization of the Petroleum Exporting Countries
UN	United Nations
USA	United States of America
USD	United States Dollar

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SUMMARY

The inflation trend globally and in Montenegro continued to slow down in 2024. Global inflation was estimated at 5.7%, while annual HICP inflation in the EU was 2.7%.

The inflation in Montenegro averaged to 3.3%, while the annual inflation was 2.1% at end-December. Prices in *housing, water, electricity gas and other fuels, hotels and restaurants* and *communication* categories were the biggest contributors to the growth of annual inflation.

Core inflation, which excludes seasonal food and administratively regulated prices was higher than total inflation during the year. It amounted to 3.4% in December 2024, pointing to still present inflation pressures.

Our survey has shown that most of surveyed banks and entrepreneurs expected inflation to range between 2.3% and 3.3% in 2025.

The aggregate demand was extremely high in the last quarter of 2024 – the highest during the year and significantly higher compared year-to-year.

Even though inflation is expected to slow down in the coming period, geopolitical uncertainty and rising wages and pensions may additionally increase inflation pressures.

For end-2025, our model assessment (with 90% probability) projected inflation in the range of 1.2% to 3.3%, with the central trend of 2.3%. Expert assessment is similar and forecast the inflation in the range of 1.6% to 3.6%, with the central trend of 2.6%.

1. INFLATION INDICATORS

1.1. Inflation trend in Montenegro

The inflation trend globally and in Montenegro continued to slow down in 2024. Although the prices of primary products decreased, prices of services in many economies including the USA and the euro area remained above the pre-COVID-19 pandemic levels. The April IMF¹ report forecasts global inflation in 2024 to 5.7%, which is a decrease compared to 6.6% in 2023. Global inflation is expected to slow to 4.3% in 2025 and to 3.6% in 2026, with faster recovery to target values in advanced economies than in developing and emerging markets. The March report of the ECB² forecast the euro area's inflation in 2024 to 2.4% (a significant drop compared to 5.4% in 2023). Inflation in the euro area is expected to drop slightly to 2.3% in 2025, and then to near to the ECB's target value of some 2% in 2026.

After the highest inflation recorded in November 2022 in Montenegro since gaining independence (in 2006), consumer prices growth significantly slowed down over the last two years. According to MONSTAT data, consumer prices were 3.3% higher on average in the period January - December 2024, compared to same period of the previous year (8.6% in 2023). The main contributors to the annual inflation growth were the prices in the category *housing, water, electricity gas and other fuels* (0.79 pp), *clothing and footwear* (0.56 pp), *food and non-alcoholic beverages* (0.46 pp), and *restaurants and hotels* (0.44 pp). In December 2024, the annual CPI inflation amounted to 2.1%, while the HICP inflation amounted to 2.6%.

Observing the movement of prices by months, the highest growth of consumer prices was seen in January and March (0.5% each), while the highest decline of 0.4% was seen in September (graph 1).

¹ IMF: World Economic Outlook: *A Critical Juncture amid Policy Shifts*, April 2025

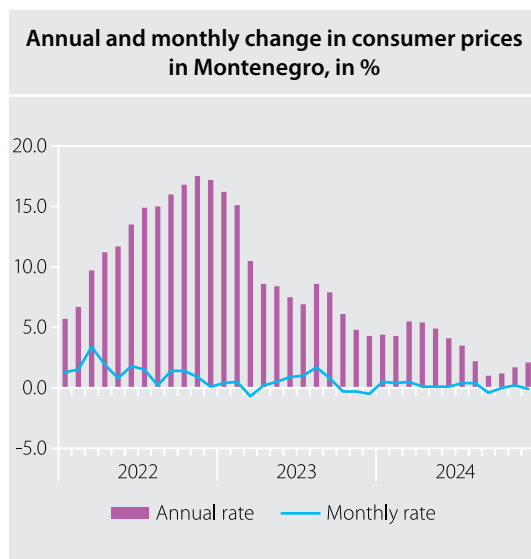
² Source: *ECB staff macroeconomic projections for the euro area*, March 2025

Table 1

Inflation in Montenegro in the period 2023 - 2024, in %								
	2023				2024			
	III	VI	IX	XII	III	VI	IX	XII
Change in relation to the previous year-end	0.2	1.9	5.4	4.3	1.5	1.7	2.1	2.1
Annual change	10.5	7.5	7.9	4.3	5.5	4.1	1.0	2.1

Source: MONSTAT

Graph 1



Source: MONSTAT

The biggest contribution to the growth of the annual inflation rate in December was made by prices from the *housing, water, electricity gas and other fuels* category (0.55 pp) with a growth of 3.9% (table 2), mostly resulting from higher prices of maintenance, repair and security of the dwelling (10.2%), water supply (8.0%), electricity (2.9%) and solid fuels (2.3%). The decision of the Electric Power Company of Montenegro (EPCG) increased the electricity price for domestic consumers from January 2024, while the application of the new price list in line with the Methodology for Determining the Prices of Utility Services prescribed by the Energy and Water Regulatory Agency of Montenegro (REGAGEN) increased the water price in January 2024. A significant contributor to the annual inflation (with 0.35 pp) were prices under the *restaurants and hotels* category that rose 6.7%. The increase in this category resulted mainly from increased prices in accommodation (5.6%) and food provided in catering (7.4%).

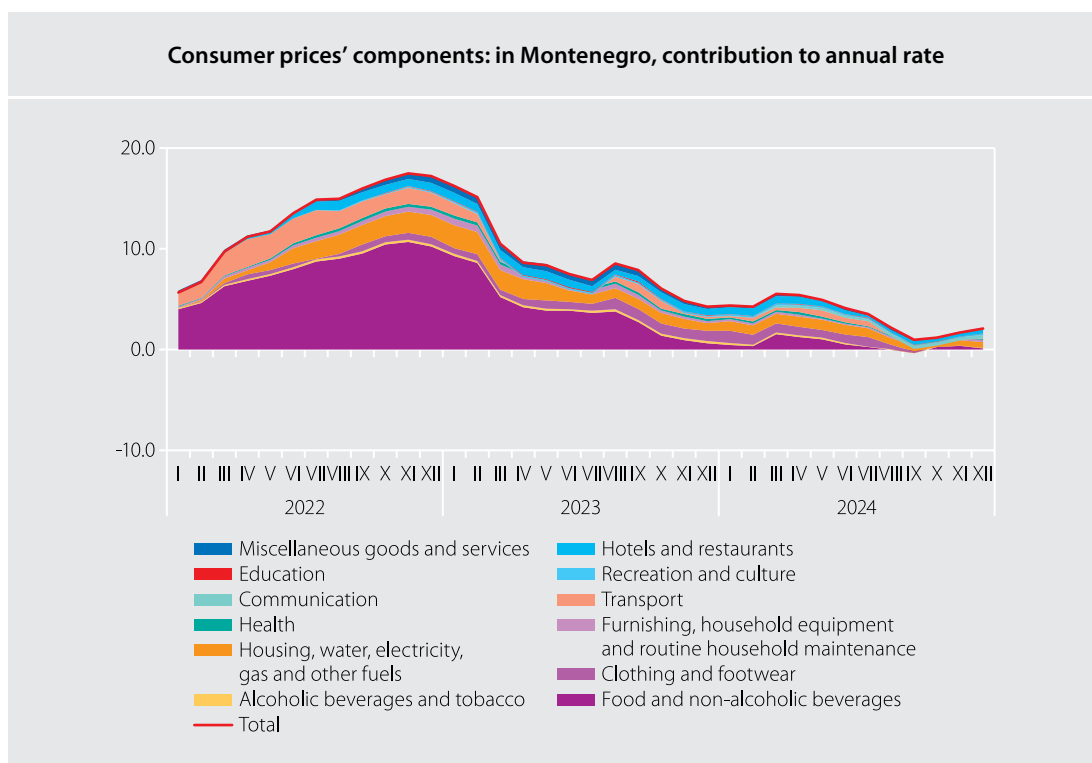
Furthermore, the rise in prices under *communication* (7.4%) contributed the most to the total inflation rise (by 0.32 pp), mainly due to increase in mobile telephony prices (10.8%). An increase in consumer prices was also recorded in the following categories: *furnishing, household equipment and routine household maintenance* (5.2%), *recreation and culture* (4.9%), *miscellaneous goods and services* (3.5%), *health* (2.1%), *alcoholic beverages and tobacco* (1.4%), *education and transport* (0.9% each), *food and non-alcoholic beverages* (0.3%), and *clothing and footwear* (0.1%).

Table 2

Annual rate of growth (%) and contribution of individual categories to total inflation ³ in Montenegro				
	Weights	XII 2024 XII 2023	Growth rate	Contribution
Total	1,000.0	102.1	2.1	2.12
Food and non-alcoholic beverages	360.6	100.3	0.3	0.10
Alcoholic beverages and tobacco	39.1	101.4	1.4	0.05
Clothing and footwear	76.8	100.1	0.1	0.01
Housing, water, electricity gas and other fuels	141.5	103.9	3.9	0.55
Furnishing, household equipment and routine household maintenance	44.2	105.2	5.2	0.23
Health	38.4	102.1	2.1	0.08
Transport	112.6	100.9	0.9	0.11
Communication	42.5	107.4	7.4	0.32
Recreation and culture	30.2	104.9	4.9	0.15
Education	17.7	100.9	0.9	0.02
Restaurants and hotels	52.5	106.7	6.7	0.35
Miscellaneous goods and services	43.8	103.5	3.5	0.16

Source: MONSTAT

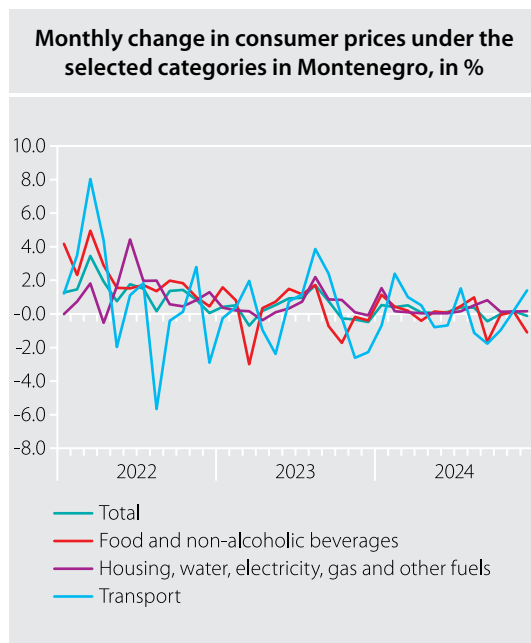
Graph 2



Source: MONSTAT

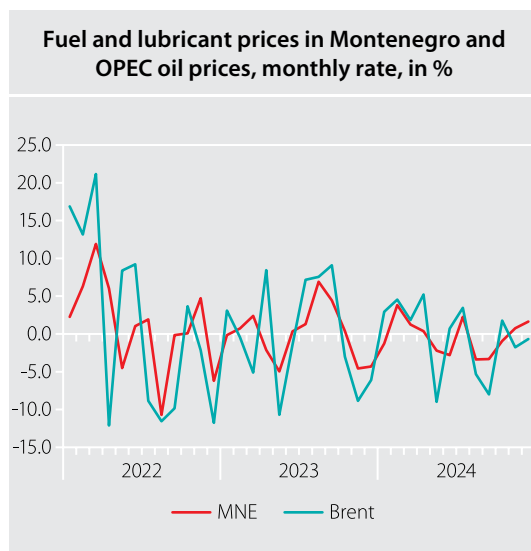
³ It should be noted that, regardless of the index changes, the contribution of the share of certain categories is not recorded before the second and/or third decimal due to the weight structure.

Graph 3



Source: MONSTAT

Graph 4



Source: MONSTAT and OPEC Monthly Oil Market Reports (*North Sea Dated)

During 2024, compared to the previous year trends, the reducing the oil price trend continued in Montenegro and globally due to the slowed growth of demand for this fuel present after the COVID-19 pandemic; the slowdown in the growth of the economy of China, the world's largest oil importer, and resulting from the output growth in the USA and other producing countries outside OPEC+. The price of the OPEC reference basket averaged at USD 79/86 USD/bbl. in 2024, being 3.76% lower than the 2023 average. The average price of Brent in the reporting period was 80.63 USD/bbl. or 2.41% less year-over-year. Observed on monthly level, the lowest average price of Brent oil of 73.75 USD/bbl. was recorded in December, which was also the lowest price since August 2021. The IMF⁴ April 2025 report forecasts crude oil price to average at 66.94 USD/bbl. in 2025 and 62.38 USD/bbl. in 2026.

Despite the slowdown, core inflation (which excludes seasonal food products, administratively regulated prices, oil and oil derivatives, and the like)⁵ was higher than the total inflation throughout the whole year. The annual core inflation rate stood at 3.4% in December and it was 1.3 pp higher than total annual inflation. The largest spread between total annual and core inflation was recorded in September due to price changes of certain products that are included in the annual inflation calculation, but not included in the core inflation calculation (e.g. prices of a large number of agricultural products, electricity, tobacco, fuel and lubricants, water and the like).

⁴ IMF: World Economic Outlook: *A Critical Juncture amid Policy Shifts*, April 2025

⁵ Core inflation is used as an indicator of the trend of the long-term or future rate of inflation, that is, it enables the distinction between temporary price shocks and long-term inflation. Total annual inflation is an indicator of the average price change of all products and services used by households for consumption purposes. Read more on the methodology at: <https://www.cbcg.me/slike-i-fajlovi/eng/fajlovi/fajlovi/publikacije/radne-studije/obracun-bazicne-stopje-inflacije-english.pdf>

With a view to reducing inflation and protecting the vulnerable category of low-income customers, at the end of March this year, the Government of Montenegro adopted the Decision Amending the Decision on Interim Measures for Limiting Prices of Products of Special Importance for Human Life and Health and the List of Products⁶. The Decision limited trade margin for 43 retail and wholesale products from 5% to 15% (and covered over 500 items considering different weights and producers). The Decision was valid until 31 May 2024, when the adopted Decision⁷ was passed. It contained the list of products that focused on local producers and extended the validity until end-June. Due to increased prices of basic food products, the Decision on Interim Measures for Limiting Prices of Products of Special Importance for Human Life and Health and the List of Products⁸ was adopted in end-July. It limited the maximum margins to up to 5% in wholesale and up to 7% in retail sale for wheat flour (types 400 and 500), sugar, sunflower oil and kitchen salt. In addition to additional limiting of margins, the Decision on Interim Measures for Limiting Prices of Products of Special Importance for Human Life and Health and the List of Products adopted at end-August⁹ also expanded the list of products of special importance to 66 (some 1000 items) except retail traders.

The UN report *World Economic Situation and Prospect 2025* from January 2025 indicates that inflation in advanced economies amounted to 2.6% in 2024, which is a significant drop compared to the previous year, when it amounted to 4.8%. A slowdown in inflation was also recorded in the developing economies from 7.0% in 2023 to 6.0% in 2024. On the contrary, transition countries recorded inflation rise from 7.3% in 2023 to 7.7% in 2024 (whereby south-eastern European countries recorded a decline in average annual rate from 9.3% to 3.4%). The Report¹⁰ forecast lower inflation rates: annual rate in advanced economies would amount to 2.2%, 5.3% in transition countries, and 5.1% in developing countries.

⁶ OGM 26/24 of 25 March 2024

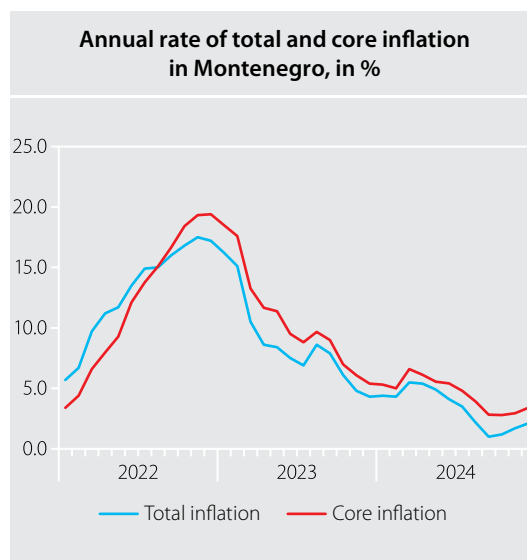
⁷ OGM 50/24 of 30 May 2024

⁸ OGM 70/24 of 22 July 2024

⁹ OGM 83/24 of 29 August 2024

¹⁰ Detailed data on inflation trends for individual regions and countries are listed in the Report Annex *World Economic Situation and Prospect 2025*, in Tables A.5, A.6 and A.7.

Graph 5



Source: MONSTAT and CBCG calculations

Producer prices of export manufactured products¹¹ recorded the year-over-year increase of 8.1% in December 2024, while their average annual price growth was 4.8%. Average annual price growths were recorded in both manufacturing industry and mining and quarrying sectors of 3.9% and 10.4%, respectively.

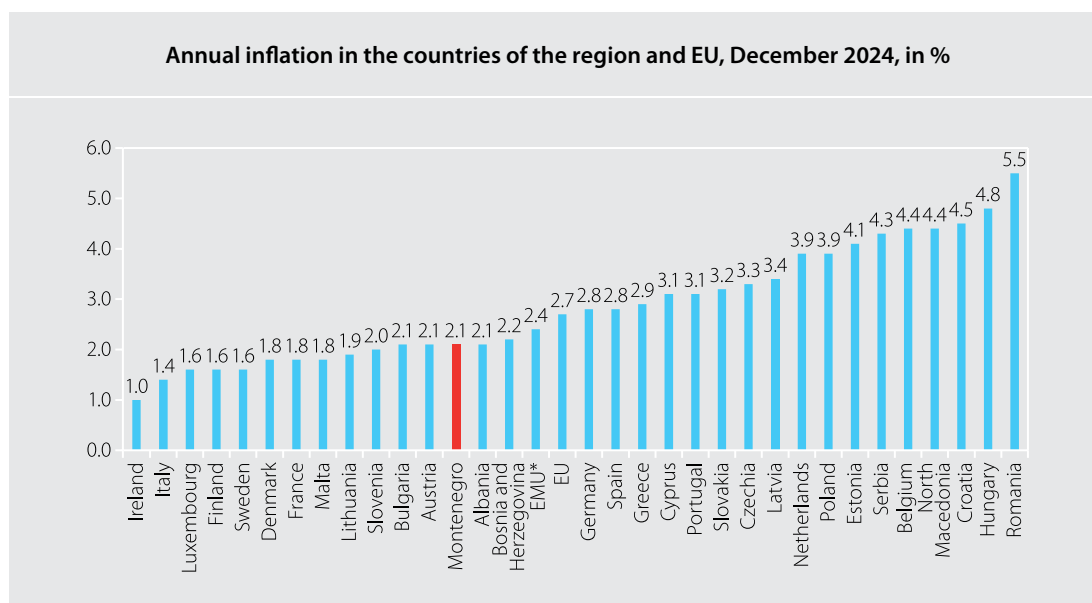
Import prices of manufactured products¹² recorded the the year-on-year increase of 0.6%, and the average annual rate of growth amounted to 0.0% in December 2024. Average annual price growth of 0.7% was recorded in mining and quarrying respective yet a decline of 0.1% in manufacturing industry.

The trend in import and export prices has an impact on the price competitiveness of Montenegrin products and services, emphasising still low competitiveness, evident in the current account deficit.

1.2. Inflation trends in the region and the EU

Inflation slowdown was seen in many countries in the region and of the EU member states. In December 2024, the highest annual rate of consumer prices among countries in the region was recorded in North Macedonia (4.4%), Serbia (4.3%) and Bosnia and Herzegovina (2.2%), while Albania recorded the rate of 2.1%.

Graph 6



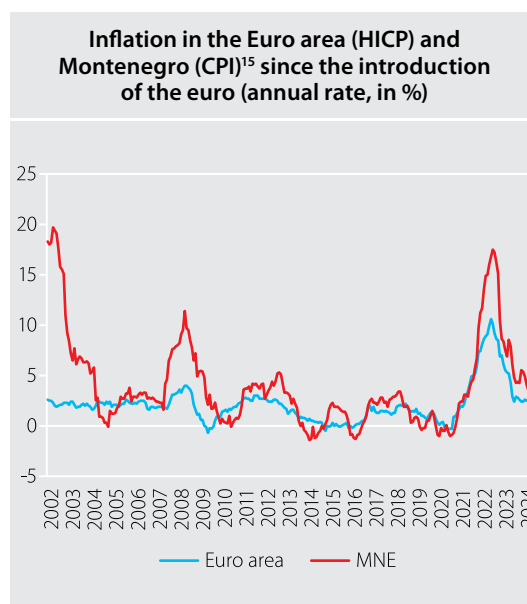
Source: National statistical offices and Eurostat

¹¹ The exports prices index represents monthly changes in the prices of manufactured products made by companies and sold at foreign markets. It is an important economic indicator that can be used as time series deflator, particularly for national account purposes.

¹² The Import Price Index refers to the monthly change in prices of imported manufactured products. It can be used as a time series deflator, especially for the needs of national accounts and as a means of harmonising prices at the conclusion of different sales contracts.

The annual HICP¹³ inflation recorded in the EU stood at 2.7% in December 2024. Of the EU member states, the highest annual inflation rates were recorded in Romania and Hungary of 5.5%, respectively, while the lowest rate of 1.0% was in Ireland (graph 6). The HICP annual inflation in the euro area amounted to 2.4% and it was 0.5 pp lower than the annual rate in December 2023, and the highest contributors to inflation with the respective 1.78 pp and 0.51 pp were the annual price increases of *services* and *food, alcoholic beverages and tobacco* of 4.0% and of 2.6%. In its March report¹⁴, the ECB forecasted the euro area inflation rate of 2.3% in 2025.

Graph 7



Source: MONSTAT and Eurostat

¹³ Harmonised Index of Consumer Prices (HICP) is the basis for a comparative measure of inflation in Europe and the assessment of stability of monetary value in the euro area. Each EU member state is obliged to produce the HICP index.

¹⁴ Source: *ECB staff macroeconomic projections for the euro area*, March 2025

¹⁵ Cost of living had been used for measuring inflation in Montenegro until 2009, after which consumer prices were introduced.

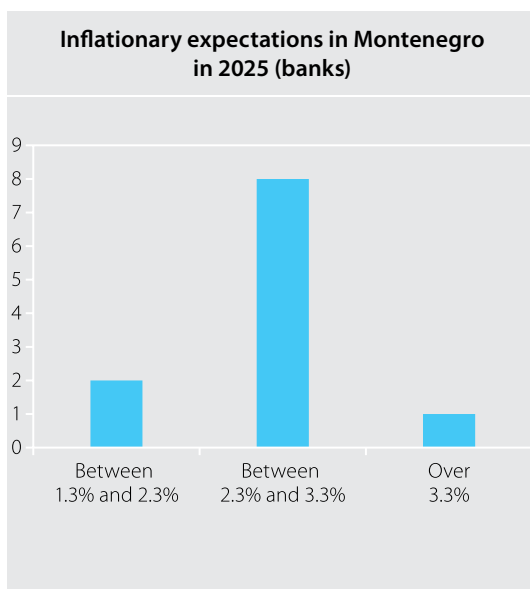
2. INFLATION EXPECTATIONS OF THE BANKING AND CORPORATE SECTOR

2.1 Banks' expectations

When it comes to banks' inflation expectations, based on a survey conducted in January and February 2025¹⁶, eight banks expect inflation in 2025 in the range of 2.3% - 3.3%, two banks expect it between 1.3% and 2.3% (graph 8), while one bank expects inflation higher than 3.3%.

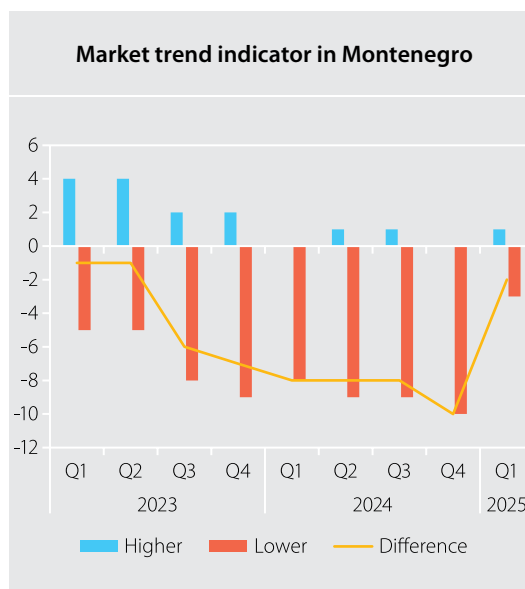
For the purpose of calculating inflation forecasts, we use the market trend indicator (line in graph 9) that is calculated as the difference between the number of banks expecting inflation growth and those expecting inflation decline. If the market trend indicator has a negative value, a decrease in inflation is expected in the upcoming period. However, if its value is positive, then an increase in the inflation rate can be expected. If it has a zero value, an unchanged inflation rate can be expected in the upcoming period. The more negative value of the market trend indicator, the lower the inflation expectations and vice versa, higher positive value means higher inflation level expectations. The surveys conducted in the first quarter indicate a decline in banks' inflation expectations in 2025, with the most banks expecting the same level as in 2023.

Graph 8



Source: CBCG Survey

Graph 9



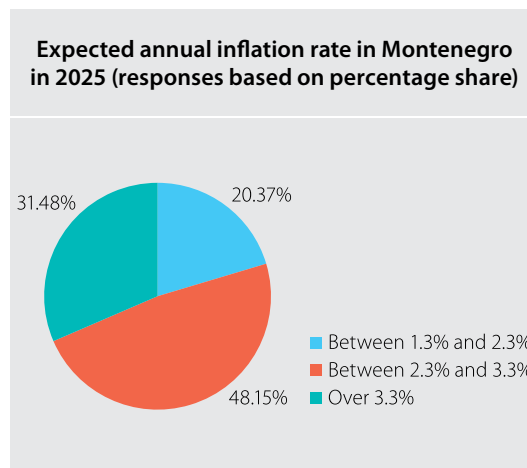
Source: CBCG Survey

¹⁶ Event after the reporting period of the Price Stability Report 2024.

2.2. Expectations of the corporate sector (banks excluded)

Of the total number of the surveyed economic entities, most of them (48.15%) expect that the annual inflation rate in 2023 will be from 2.3% and 3.3% (graph 10), 31.48% forecast the annual inflation rate higher than 3.3%, while 20.37% of the respondents think that inflation will range between 1.3% to 2.3%.

Graph 10



Source: CBCG Survey

3. INFLATION DETERMINANTS

3.1. Demand

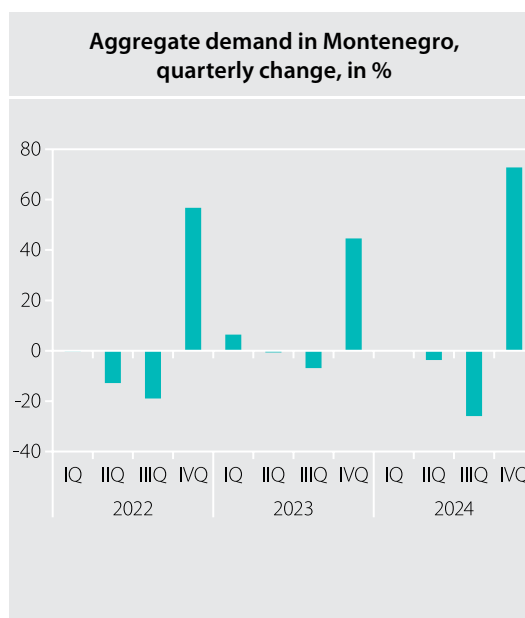
According to preliminary indicators, the total demand in the fourth quarter of 2024 was higher than in the remaining three quarters, as well as compared to the fourth quarter of the previous year. Observing the structure of total demand in Q4 2024, compared year-over-year, the share of household demand and public spending increased, while the corporate demand component decreased.

Graph 11



Source: CBCG calculations

Graph 12



Source: CBCG calculations

Box 1 - Aggregate demand calculation methodology

For the purpose of a more complete monitoring of aggregate demand as a determinant of inflation, the CBCG has developed the aggregate demand calculation methodology. The starting point of this methodology states that the aggregate demand represents the sum of the demand of three sectors: personal spending (households), investment spending (corporate sector), and public spending. However, taking into account the lack of numerous data necessary for calculating the aggregate demand, the existing data should not be treated as the indicator of the exact amount of aggregate demand, but as an indicator showing the aggregate demand trend. In the existing methodology, a number of substantial data were not available, such as: corporate investments, revenues from share sales, non-market income, non-observed economy revenues, and the like. Methodology of aggregate demand calculation is expressed by the following equation:

$$AD = C + I + G$$

AD – aggregate demand

C - personal spending = sum of paid salaries + sum of paid pensions + paid frozen foreign currency deposits + net compensations to households – retail sector net savings (savings – loans granted)

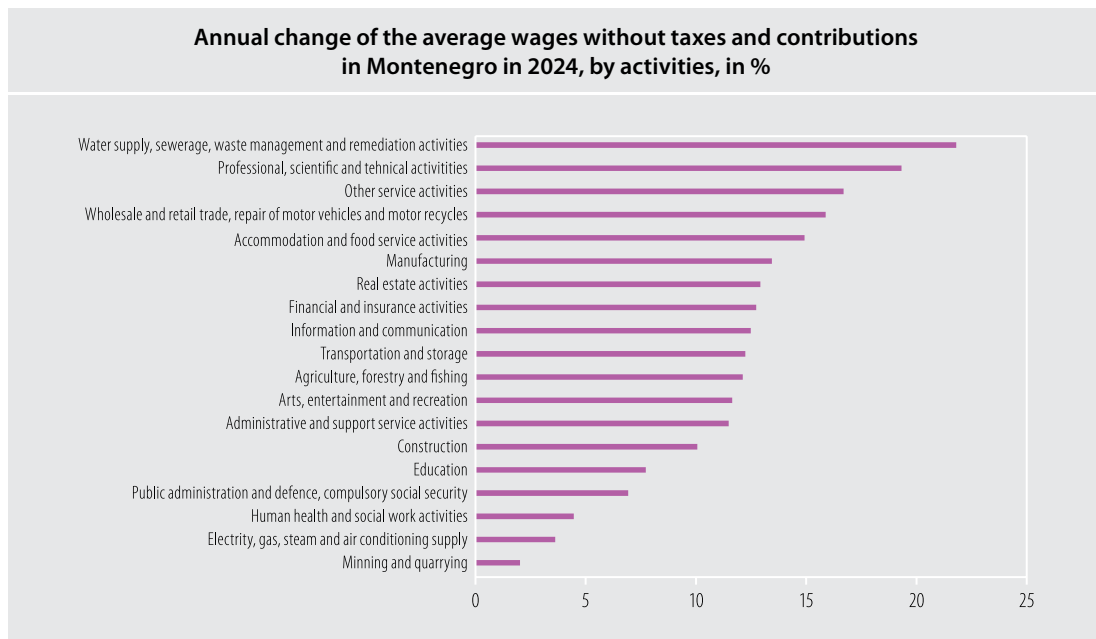
I - investment spending = - net corporate savings (deposits – loans)

G - public spending = public consumption – paid pensions – salaries paid from the budget – net Government savings (deposits – loans – Treasury bills)

3.1.1. Earnings and other available demand determinants

MONSTAT data show that an average gross wage in Montenegro was 1,083 euros in 2024 and it increased by 9.73% in relation to the average in the previous year. At the same time, the average wage without taxes and contributions amounted to 876 euros and it was 10.61% higher. It resulted from the fiscal programme, which application started in October (and it implies increasing minimum wage increase from 450 to 600 or 800 euros, decreasing contributions for pension insurance paid by employees from 15% to 10%, and abolishing of those paid by employers of 5.5%). The highest wages without taxes and contributions were recorded in the financial and insurance activities (1,417 euros) and electricity, gas, steam, and air conditioning supply (1,262 euros), while the lowest wages were recorded in administrative and ancillary services sector and manufacturing industry (709 euros each).

Graph 13

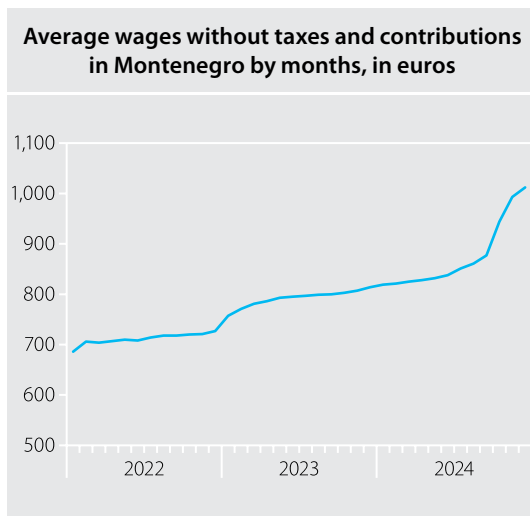


Source: MONSTAT

The highest wages without taxes and contributions were recorded in the *water supply, sewerage, waste management and remediation activities* (21.80%), *professional, scientific and technical activities* (19.32%), and *other service activities* (16.69%), while the lowest wages increase was in *mining and quarrying* (2.01%) (graph 13).

Observed by months, nominal growth in wages without taxes and contributions was recorded in all months, while the lowest nominal growth of 0.24% was recorded in February.

Graph 14



Source: MONSTAT

If we consider consumer prices, i.e. trends in wages in real terms, it can be concluded that real wages recorded the highest growth in November, while the highest real decline was reported in February.

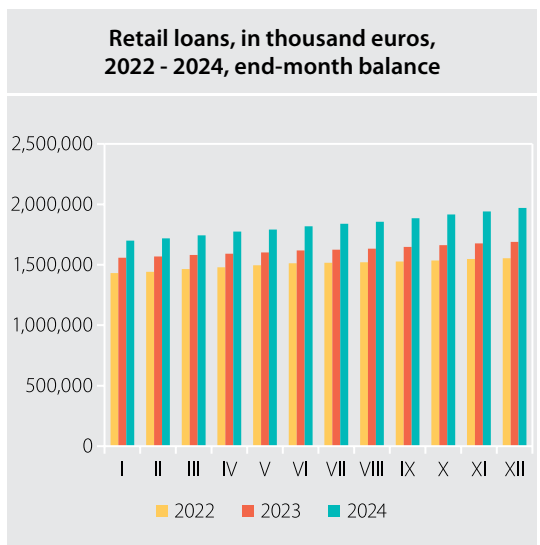
Retail loans¹⁷ increased in 2024. The lending activity increase resulted mainly from higher wages and pensions. Loans to this sector grew at a monthly average rate of 1.29% during the reporting period, as compared to 0.70% in 2023. Total retail loans amounted to 1,969.75 million euros at 2024 year-end, which indicated a growth of 279.90 million euros or 16.56% in relation to 2023 year-end (graph 16).

Graph 15



Source: MONSTAT

Graph 16



Source: CBCG calculations

¹⁷ The retail sector includes resident natural persons and entrepreneurs.

Per *capita debt*¹⁸ amounted to 3,158.56 euros at the end of the reporting period and it rose 448.63 euros of 16.56% year-over-year.

At end-2024, total MFI loans granted to the retail sector amounted to 85.74 million euros, which is 12.95 million euros or 17.79% more than at end-2023.

Retail deposits amounted to 2.154,88 million euros at end-2024, recording an intensive growth of 258.87 million euros or 13.37% than a year ago.

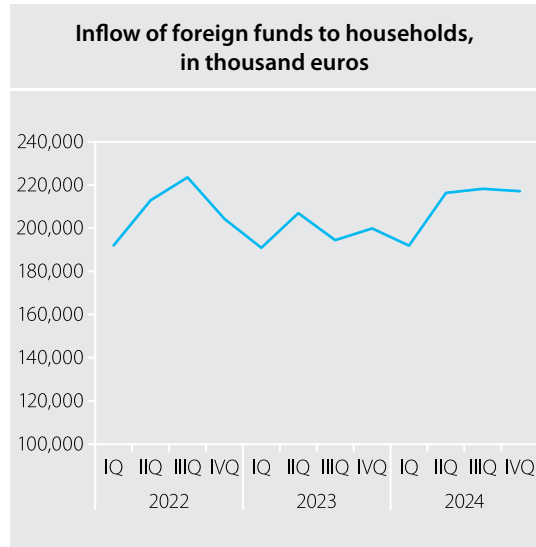
The loans to deposits ratio of the retail sector was 0.91 at end-December 2024 and it increased year-on-year when it was 0.89.

At end-2024, the retail sector had a net savings of 185.14 million euros, which is less year-on-year. At end-December 2023, the retail sector recorded net savings in the amount of 210.99 million euros.

In 2024, the balance of payments statistics recorded a slight increase in the inflow of funds based on employee compensation, other current transfers and personal transfers from abroad compared to the same period in 2023 (graph 17).

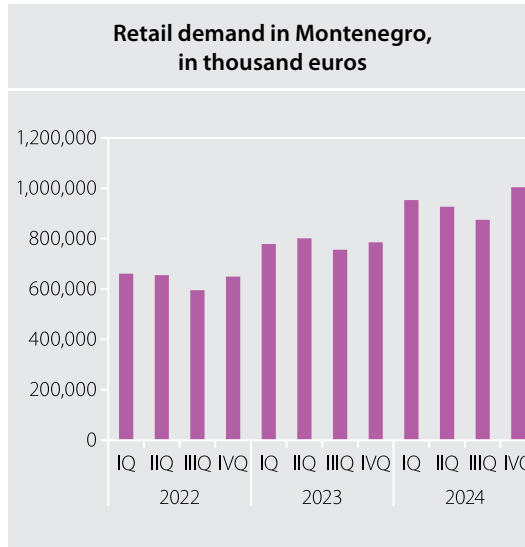
According to preliminary indicators, total retail demand in Q4 2024 was lower than in the previous three quarters, and compared to the comparative quarter of 2023.

Graph 17



Source: CBCG

Graph 18



Source: CBCG calculations

¹⁸ Population estimate for 2024 as at 1 January 2024 amounts to 623,680 Source: MONSTAT.

3.1.2. Public sector demand

Montenegro's public finances¹⁹

According to the Ministry of Finance preliminary data, **public spending** reached 3.42 billion euros or 45.90% of the estimated GDP²⁰ for 2024. Compared to the plan, public spending was 23.73 million euros or 0.70% higher, and 523.93 million euros or 18.07% higher than in the previous year. The increase in consumption was mostly caused by an increase in expenditures based on pensions and disability insurance due to increased amount of minimum pension, the regular adjustment of pensions and increased number of pensioners.

The recorded level of public spending was financed from tax revenues (2.12 billion euros), contributions (584.71 million euros), fees (138.28 million euros), other revenues (119.51 million euros), revenues from donations (104.64 million euros), and duties (21.60 million euros).

Current public spending (public spending reduced by capital expenditure) amounted to three billion euros or 40.18% of GDP and it grew year-over-year by 16.96%, while capital expenditure amounted to 426.13 million euros or 5.71% of GDP.

According to economic classification individually, transfers accounted for the main share in the structure of public expenditures with 38.79%, followed by capital expenditure with 12.45%, while 3.24% referred to other expenditures – reserves, borrowings and loans, repayment of guarantees and repayment of obligations from the previous period.

Preliminary public revenues were estimated at 3.19 billion euros or 42.75% of estimated GDP, being 0.84% and 8.41% higher in relation to the 2024 plan and 2023, respectively. As for the structure of public revenues, tax revenues accounted for the main share of 69.62%, followed by contributions with 18.34%, whereas the other revenues accounted for the remaining 12.04%.

According to the Ministry of Finance preliminary data, the budget recorded **public spending cash deficit** of 234.73 million euros or 3.15% of GDP, which is 41.89 million euros or 0.60% of GDP more than in 2023.

¹⁹ The structure of Montenegro's public finances comprises of the Budget of Montenegro with the state funds (Pension and Disability Fund, Health Insurance Fund, Compensation Fund, Employment Agency, and Labour Fund) and local government budgets (Old Royal Capital Cetinje, Capital Podgorica, and 23 municipalities).

²⁰ The estimated GDP for 2024 is 7.46 billion euros.

Budget of Montenegro

According to Ministry of Finance preliminary data, total revenues of the Budget of Montenegro amounted to 3.51 billion euros in 2024 or 47.06% of GDP.

Current revenues of the Budget amounted to 2.76 billion euros and they accounted for 36.94% of the projected GDP. Compared to the plan, they were slightly lower, yet higher by 7.35% compared to 2023, which is primarily the result of an increased revenues from VAT. A significant increase was recorded with the corporate income tax and excise duties. Increase in tax income resulted from the economic activity growth, increased spending due to the rising available income of citizens, decreased non-observed economy, and increased collection of excise duties on mineral oils and their derivatives, and those on tobacco and tobacco products.

In the structure of current revenues, tax revenues accounted for the main share of 71.46%, followed by contributions with 21.22%, other revenues with 3.32%, donations with 1.48%, fees with 1.93%, and duties with 0.59%.

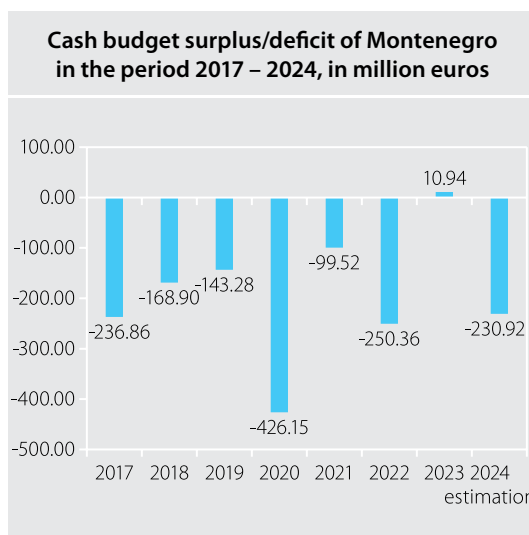
Tax revenues amounted to 1.97 billion euros, recording a 38.28 million euros or 1.98% increase relative to the plan and a 302.58 million euros or 18.16% increase year-over-year. The biggest increase compared to the previous year was recorded in the collection of value added tax (163.33 million euros or 15.42%), primarily due to increased spending.

Revenues based on contributions amounted to 584.71 million euros and were slightly lower than planned, while at the annual level they recorded a growth of 1.56%, due to the increased employment and increased base for calculating contributions.

Consolidated budget expenditures amounted to 2.99 billion euros in 2024 and they accounted for 40.03% of GDP. Recorded expenditure was 0.74% lower than planned but 16.84% higher year-on-year. Current budget expenditures amounted to 1.19 million euros, being 2.83% lower than planned but also 11.12% higher than in 2023. Social welfare transfers amounted to 1.01 billion euros or 13.52% of GDP. Capital expenditures amounted to 280.75 million euros or 3.76% of GDP.

The cash deficit of the Montenegrin budget was estimated at 230.92 million euros or 3.10% of GDP, compared to a cash surplus was 10.94 million euros or 0.16% of GDP in the previous year. Debt repayment amounted to 495.64 million euros.

Graph 19



Source: Ministry of Finance

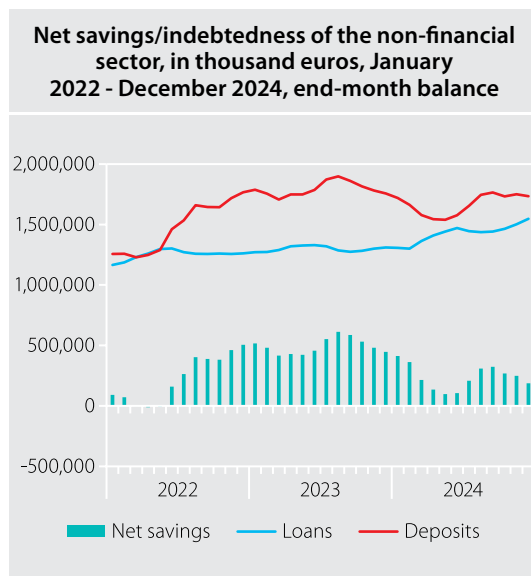
3.1.3. Non-financial sector

Lending to the non-financial sector²¹ recorded positive trends in 2024. Loans to this sector grew at a monthly average rate of 1.41% during the reporting period, as compared to 0.33% in 2023.

Total loans of the non-financial sector amounted to 1,546.43 million euros at the end of 2024, which is 235.81 million euros or 17.99% more than a year ago.

Long-term loans accounted for the main share in the structure of loans to the sector with 84.08%, which indicates that loans to the corporate sector were mainly used for increasing the volume of economic activity.

Graph 20



Source: CBCG calculations

Deposits of the non-financial sector amounted to 1,733,35 million euros at end-2024, recording a drop of 23.74 million euros or 1.35% than a year ago.

The loans to deposits ratio of the non-financial sector was 0.89 at end-2024 and it recorded an increase compared to the end of the previous year when it stood at 0.75.

Due to the lack of data on the non-financial sector investments, we can use the sector's net savings/indebtedness as an approximation to analyse the contribution of this sector to the demand.

At the end of 2024, net savings of the non-financial sector amounted to 186.93 million euros, which is less than in the comparative period of the previous year when it amounted to 446.47 million euros (graph 20), which points that the corporate demand component decreased.

3.1.4. External demand and the current account

Preliminary data show that the current account deficit amounted to 1,292.52 million euros in 2024, which is the year-on-year increase of 63.34%. This decline is a result of an increase in deficit on the goods account, the decrease of surplus on services account, while the primary income account recorded deficit.

²¹ The non-financial sector includes state companies and private companies.

The goods account recorded a deficit of 3,286.01 million euros or 10.06% more compared to last year. Total visible exports amounted to 665.77 million euros, recording a decrease of 7.07%, whereas total visible imports amounted to 3,951.78 million euros, being 6.74% higher year-on-year. The services account recorded a surplus of 1,583.02 million euros, which is 6.26% less than in 2023. The primary income account registered a deficit of 21.30 million euros, while it recorded a surplus on this account in the comparable year-over-year period, mostly due to increased expenses from paid dividends. The secondary income account ran a surplus of 431.77 million euros in 2024, which is 1.50% less than in the previous year.

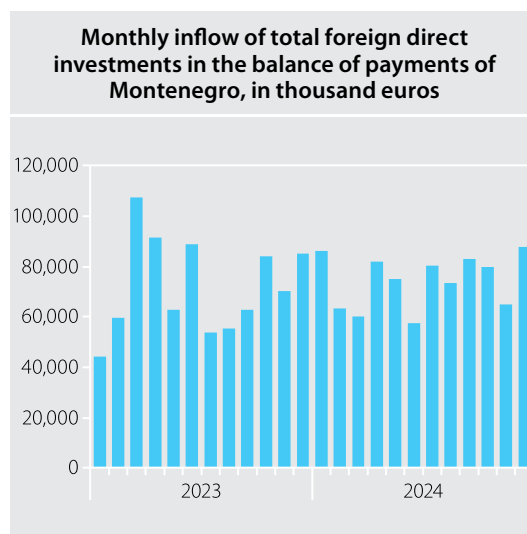
Preliminary data suggests that the net inflow of foreign direct investments (FDI) amounted to 489.94 million euros in the reporting year, which is the year-on-year growth of 12.99%. Total FDI outflow amounted to 889.80 million euros or 3.18% more than in 2023. Equity investments amounted to 569.27 million euros (a 1.91% increase), while the inflow in the form of intercompany debt added up to 290.84 million euros or 9.78% more year-over-year. The structure of equity investments shows that investments in companies and banks amounted to 113.94 million euros (a 19.60% increase), whereas investments in real estate totalled 455.33 million euros (a 1.72% decline). The inflow arising from the withdrawal of funds invested abroad amounted to 29.69 million euros. In the structure of total FDI inflow, the share of real estate investments amounted to 51.17%, followed by intercompany debt with 32.69%, while 12.80% were investments in companies and banks. Total FDI outflow amounted to 399.86 million euros or 6.74% less than in 2023. In the outflow structure, outflow from residents' investments abroad amounted to 92.30 million euros, while withdrawals of non-residents' funds invested in Montenegro amounted to 307.56 million euros.

In 2024, portfolio investments account recorded net inflow of 328.88 million euros, while the net inflow in the other investments account amounted to 595.17 million euros.

3.2. Supply and production

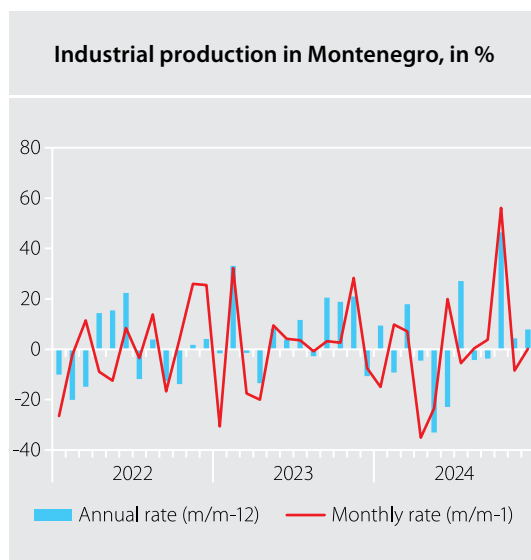
Preliminary MONSTAT data indicate that industrial production recorded a slight year-on-year decline of 0.2% in 2024. Output growth was recorded in *manufacturing industry* (11.9%) and *mining and quarrying* (8.9%). Decline in the *electricity, gas and steam supply* sector of 15.1% gave the negative contribution to the total industrial output due to lower output in hydropower plants in 2024 and high base in 2023 with record export of electricity. Observing monthly data on industrial output (graph 22), the highest monthly growth was recorded in October (56.1%), while the highest decrease was recorded in April (35.1%).

Graph 21



Source: CBCG

Graph 22



Source: MONSTAT

Preliminary MONSTAT data indicate that 2.61 million tourists visited Montenegro in 2024, which is 0.25% less than in the previous year due to the decline in arrivals in individual accommodation of 1.72% while collective accommodation recorded a 0.96% increase. At the same time, tourist overnights amounted to 15.59 million, which is a decrease of 4.85%. Of the total number of these overnights, domestic tourists accounted for 0.61 million or 0.60% less than in 2023, while foreign tourists recorded 14.99 million overnights or 5.02% less. The structure of foreign tourist arrivals shows the highest share of tourists from Serbia (22.59%), Russia (17.54%), Bosnia and Herzegovina (8.08%), Türkiye (4.75%), Germany (4.55%), Ukraine (4.09%), the United Kingdom (3.65%), Kosovo (2.91%), Poland (2.79%), and France (2.59%). The number of overnights in the collective accommodation increased by 1.48%, while their number in individual accommodation decreased by 7.73%.

MONSTAT data shows that a total of 271,678 m³ of **forest assortments from the national forests**²² were produced in 2024, which is the year-on-year decrease of 38.0%²³.

Preliminary MONSTAT data show that the value of executed **construction works** amounted to 649.63 million euros in 2024, which is a 2.40% growth year-on-year. Measured by the effective working hours, construction activity amounted to 17.66 million euros and it rose 1.60%.

MONSTAT data also indicate that the results in **transport** showed positive trends in the majority of its segments. Thus, road passenger transport increased 11.55%²⁴ year-over-year, while road freight transport increased by 6.04%²⁵. Railway transport saw a 1.29%²⁶ increase in passenger transport, while freight transport declined by 10.23%²⁷. Air transport saw a 15.18% growth in passenger traffic at airports, and cargo traffic at airports increased by 16.42%. Total turnover of goods in ports amounted to 2.46 million tonnes and it was 2.27% higher compared to the previous year, with exports accounting for 57.24% (rise of 0.04%) and imports made up 42.78% (rise of 5.42%).

²² The total production of forest assortments is to be published by MONSTAT at end-2025.

²³ Presented through weighted index - *Monthly Statistical Review* – MONSTAT, January 2025.

²⁴ Presented through the number of transported passengers, while it increased by 9.85% when expressed in passenger kilometres.

²⁵ Presented through transported goods in thousand tonnes, and when presented in ton-kilometres it decreased by 1.23%.

²⁶ Presented through the number of transported passengers, but when presented in passenger-kilometres, it increased by 2.81%.

²⁷ Presented in transported goods in thousand tonnes, while presented in ton-kilometres, it declined by 17.18%.

4. MONETARY POLICY

During 2024, there were no changes to the Central Bank of Montenegro's monetary policy. In April 2024, the Central Bank of Montenegro (CBCG) passed the Decision on Detailed Conditions for and the Manner of Granting Loans to Credit Institutions in Case of Their Liquidity Needs (OGM 35/24), which details conditions for granting this type of loans. Although the Decision was defined as a monetary policy instrument, it is more used in practice as support to credit institutions' liquidity than a direct monetary policy instrument in Montenegro.

In Q3 2024, the CBCG passed the Decision amending the Decision on Bank Reserve Requirement at the Central Bank of Montenegro (OGM 78/24). This Decision foresees that the CBCG does not charge fee on reserve requirement funds to credit institutions.

5. INFLATION FORECAST FOR 2025

5.1. Model assessment

Montenegro's inflation *Fan Chart* is a graphic representation of inflation forecast probability distribution presented by the consumer price index. In that respect, instead of determining specific points, the Fan Chart also takes into account potential risks and uncertainties through probability distribution that might influence the inflation trend in the following period. The very purpose of the Fan Chart is to indicate and consider the uncertainties in the real economy flows, which are consequently reflected in the inflation rate trend (increase in energy prices, increase/decrease in the foreign trade deficit, and the like.).

Montenegro's Fan Chart for 2025 was based on the following three estimated components:

1. **Central projection value** – the value of the fan chart central projection derived from the ARIMA model.
2. **Degree of uncertainty** – determines the Fan Chart width. The uncertainty degree ratios are obtained through analytical assessment and calculation of the relative impact of potential internal and external shocks that are possible in the Montenegrin economy over the one-year period and which are reflected through the “thickness” of the band around the central projection.
3. **Fan Chart skewedness** – based on the level of skewedness of the distribution of inflation projection, the fan chart is adjusted to the forecast to show whether the values of the central projections have overestimated or underestimated inflation rates. The position of the mean value of inflation distribution will also depend on this.

Central projection of Fan chart - ARIMA model 2025

With a view to developing a Fan Chart, an ARWith a view to developing a Fan Chart, an ARIMA (Autoregressive Integrated Moving Average) model of time series of inflation of Montenegro presented via the Consumer Price Index was developed. The ARIMA model was used for short term forecasts (12 months), whereby iteration of several ARIMA models was made, which were ranked based on their

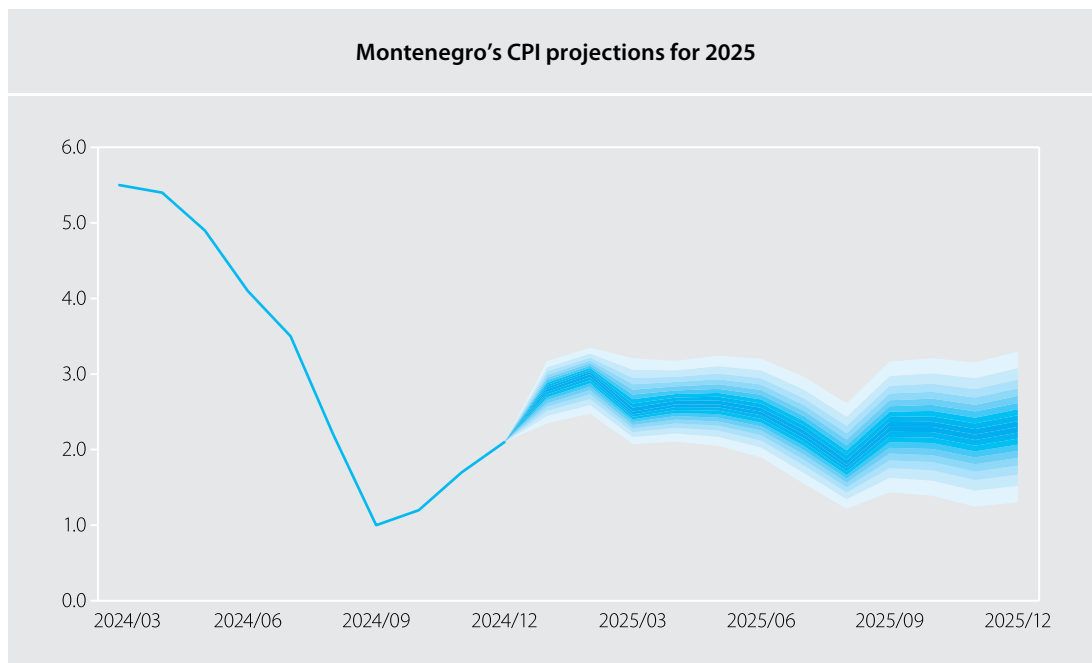
efficiency and diagnostics quality. The selected ARIMA model, ARIMA (3,1,2) has a sufficient confidence level for the forecast purposes.

Monthly forecast values were used as the value of central projection in the CPI graph for 2025. Obtained values represent the distribution mode, i.e. values with the highest frequency in the distribution of this time series.

Mean value of the obtained model is 2.3%. The value of the coefficient of asymmetry varies between 0.6 and 1.1, and the relative standard deviation is 0.25. Model projection of inflation is located in the central span of the distribution. This indicates that the corresponding range of uncertainty of future inflation is rather symmetrically oriented both towards higher and lower levels of uncertainty. The Fan Chart explains a 90% probability of inflation distribution. The central projection is usually in the deepest shade of the Fan Chart, i.e. in the central 10% of probability. The Fan Chart has an equal number of bands (eight) on either side of the central band whereby every band of the same colour, both above and below the central band, cumulatively describe the next 10% of inflation trend probability. As the degree of uncertainty grows over time, so the Fan Chart spreads.

The *Fan Chart* of inflation in Montenegro, based on the ARIMA model assessment for 2025, indicates that there is a 90% probability that the CPI inflation will range between 1.2% and 3.3%, depending on the month, while the average inflation in 2025 will amount to 2.3%. In December 2025, the model projected inflation to range between 1.3% and 3.3%, with the central projection at 2.3%. The Fan Chart central projection (the darkest part) represents a 10% probability span (graph 23).

Graph 23



Source: CBCG 2025

Projection is based on the following assumptions:

1. **Stabilisation of inflation in countries that are the main foreign trade partners.** The inflation in the euro area continues to drop, primarily due to the drop in the price of fuels, raw materials and food. The ECB's estimated that the inflation in the euro area will average to 2.3% in 2025 and 1.9% in 2026. Decrease of output costs and more moderate wages increase in the euro area will contribute to the inflation pressures decrease, although there is uncertainty related to long-term effects of the previous labour costs increase.
2. **ECB Monetary policy and interest rates.** In 2025, after the tightening cycle, the ECB continued with easing monetary policy started in June 2024 by reducing interest rates. Market expectations point to disinflation continuation, although there is risk related to the timeline and volume of mitigating monetary policy.
3. **Prices of food and raw materials.** Global food prices were lower compared to the previous two years, but geopolitical uncertainty and market disturbance may still cause short-term fluctuations. FAO data point to decline in food prices of 2.1% compared to 2023. Still, war in Ukraine continues to bring uncertainty in supply with key agricultural products, which may lead to increased price stability.
4. **Geopolitical risks and oil price trends.** Conflicts in Ukraine and the Middle East remain key risk factors with possible supply chain disturbances. Crude oil price dropped by 11.07 USD/bbl. and by 15.44% since early 2025. It is expected to range around 64.15 USD/bbl. by the end of the second quarter, and around 67.68 USD/bbl. over the 12-months period.
5. **Global economic developments.** The global economic growth is slowing and is forecast to 2.8% in 2025, which may contribute to inflation pressures decline. The US trade policies, including the introduction of import tariffs to wide range of products, especially from China, may increase output and trade costs and have an indirect impact on inflation in Montenegro.

5.2. Expert assessment

After significant jumps in 2022 due to the global turmoil (war in Ukraine, energy crisis, stopped supply chains), inflation in Montenegro declined in 2023 and 2024. Most of surveyed banks and entrepreneurs expect inflation in 2025 to range between 2.3% and 3.3%. Despite positive trends, risks remain notable primarily due to geopolitical uncertainty, raw materials prices volatility and trends in the euro area. The fact that the core inflation has exceeded the current inflation rate over the last two years also points to possible inflation risks.

In 2025, there will be factors that will act oppositely. Still present geopolitical tensions, the adverse effects of the protectionism policy of “key players” on the global economy and high aggregate demand in Montenegro are factors that will pressure inflation. On the other hand, the expected economic activity growth, slowdown in prices of food products and inflation slowdown in main external trade partners will reduce inflation pressures.

The inflation forecast for 2025 is based on the expected inflation drop in the euro area, eased ECB's monetary policy, lower prices of food and raw materials, with risks connected to the growth in food and pensions, slowed global economic growth and geopolitical shocks.

Model assessment of the Central Bank with a probability of 90%, for end-2024, projects inflation in the range of 1.2% to 3.3% with a central tendency of 2.3%, with similar expert assessment that forecast the inflation in the range of 1.6% to 3.6%, with the central trend of 2.6%.

Table 3

Estimated inflation rate at end-2025		
Lower inflation threshold	Central projection	Upper inflation threshold
1.6%	2.6%	3.6%

The expert assessment is based on the same assumptions as the model assessment, and a deviation from any of the assumptions would require the forecast revision.

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