

# EXTERNAL SECTOR

07



## 7.1. Balance of Payments

The deficit on the current account in the period January - June 2023 amounted to 538.96 million euros and is 2.24% lower compared to the same period of the previous year (with which all comparisons were made in this section of the report). This is the result of a strong increase in the surplus on the services account, recorded due to the growth of inflows from travel - tourism and transport services. The growth of imports, followed by the decline of exports, in the observed period, resulted in an increase in the foreign trade deficit by 18.02%. On the secondary income account, growth was recorded if compared to the same period of the previous year, while on the primary income account, a decrease in surplus was recorded. The decrease in the net inflow of capital on the financial account is the result of a decrease in the net inflow of foreign direct investments, with a simultaneous increase in the net outflow based on portfolio investments, as well as the net outflow on the other investments' account.

The deficit on the goods account amounted to 1,361.35 million euros and was 18.02% higher compared to the comparative period. Visible imports amounted to 1,758.44 million euros and was by 192.08 million euros or 12.26% higher than in the same period of the previous year, mostly due to the increase in the import of road vehicles and industrial machines for general use. At the same time, the total visible exports amounted to 397.09 million euros and decreased by 15.81 million euros or 3.83% compared to the same period of the previous year. The decrease in the visible exports is mainly the result of a decrease in the export of non-ferrous metals, as well as a decrease in the export of the subcategory metalliferous ores and metal scrap.

The services account recorded a surplus in the amount of 526.11 million euros, which is 68.24% higher than in the comparative period, due to a 43.94% increase in revenues. Their growth is primarily the result of increased income from travel - tourism services, as well as income from transport. At the same time, the services account also recorded an increase in expenditures, which resulted in a total volume of exchange of services of 431.20 million euros, which was 37.35% higher than in the comparative period.

A surplus of 296.29 million euros was recorded on the primary and secondary income accounts, which represents a growth of 2.36% compared to the same period of the previous year. A surplus of 69.81 million euros was realised on the primary income account, which is 1.95 million euros less than in the comparative period. This outcome is the result of an increase in expenditures from international investments by 15.86%, which amounted to 102.82 million euros, as well as an increase in expenditures based on employee compensation, which amounted to 31.85 million euros (an increase of 12.59%).

The secondary income account recorded a surplus in the amount of 226.48 million euros, which is 4.04% more compared to the same period of the previous year, and the result is mostly an increase in inflows based on current international cooperation (increase of 23.35 million euros) and represents 72.98% of the total growth of the inflow realised on the secondary income account. The inflow on the basis of remittances amounted to 400.42 million euros and recorded a decrease of 1.11% relative to the comparative period.

On the financial account, the net FDI inflow amounted to 267.07 million euros, which represents a decrease of 26.37% relative to the comparative period. The recorded decrease is the result of a decrease in

inflows based on investments in companies and banks, which amounted to 51.97 million euros (a decrease of 44.99%). On the basis of portfolio investments in the observed period, a net outflow of 205.01 million euros was recorded, which represents a growth of 199.13% and is the result of an increase in investment by Montenegrin banks in debt securities. On the account of other investments, a net outflow was recorded in the amount of 299.14 million euros, which is higher by 57.49% or 109.20 million euros.

Table 7.1

Balance of Payments of Montenegro, in thousand euros <sup>50</sup>				
No.	Description	January-June 2022	January-June 2023	Change in %
1	CURRENT ACCOUNT	-551,296.81	-538,955.14	-2.24
1.A	GOODS AND SERVICES BALANCE	-840,747.69	-835,241.88	-0.65
1.A.a	Goods	-1,153,464.02	-1,361,350.17	18.02
1.A.a.1	Exports f.o.b.	412,894.66	397,085.68	-3.83
1.A.a.2	Imports f.o.b.	1,566,358.68	1,758,435.85	12.26
1.A.b	Services	312,716.33	526,108.29	68.24
1.A.b.1	Revenues	733,551.40	1,055,846.24	43.94
1.A.b.2	Expenditures	420,835.07	529,737.95	25.88
1.B	Primary income	71,761.56	69,811.15	-2.72
1.B.1	Revenues	188,789.62	204,476.75	8.31
1.B.2	Expenditures	117,028.06	134,665.60	15.07
1.C	Secondary income	217,689.32	226,475.59	4.04
1.C.1	Revenues	261,612.89	282,188.95	7.87
1.C.2	Expenditures	43,923.57	55,713.36	26.84
2	CAPITAL ACCOUNT	0.00	-13.54	
2.A	Revenues	0.00	0.00	
2.B	Expenditures	0.00	13.54	
	CURRENT AND CAPITAL ACCOUNT BALANCE	-551,296.81	-538,968.68	-2.24
3	FINANCIAL ACCOUNT, net	-204,966.04	-123,763.09	-39.62
3.A	Financial assets net increase	4,315.71	95,209.03	
3.B	Liabilities net increase	209,281.75	218,972.12	4.63
3.1	Direct investments, net	-362,697.06	-267,067.75	-26.37
3.1.1	Financial assets net increase	12,441.35	10,747.65	-13.61
3.1.2	Liabilities net increase	375,138.41	277,815.40	-25.94
3.2	Portfolio investments, net	68,534.90	205,006.68	199.13
3.2.1	Financial assets net increase	4,341.05	212,499.56	4795.11
3.2.2	Liabilities net increase	-64,193.85	7,492.88	-111.67
3.3	Financial derivatives, net	-5,061.64	-66,235.20	1208.57
3.3.1	Financial assets net increase	-5,061.64	-66,191.04	1207.70
3.3.2	Liabilities net increase	0.00	44.16	
3.4	Other investments, net	189,940.62	299,136.13	57.49
3.4.1	Financial assets net increase	88,277.80	232,755.80	163.66
3.4.2	Liabilities net increase	-101,662.82	-66,380.33	-34.71
3.5	CBCG reserves (changes)	-95,682.86	-294,602.95	207.90
4	NET ERRORS AND OMISSIONS (3-2-1)	346,330.77	415,205.59	19.89

Source: CBCG

<sup>50</sup> Montenegro's balance of payments' data published in accordance with the new IMF methodology (IMF Balance of Payment and International Investment Position Manual, sixth edition - BMP 6), 2009.

## 7.1.1. Current and capital accounts

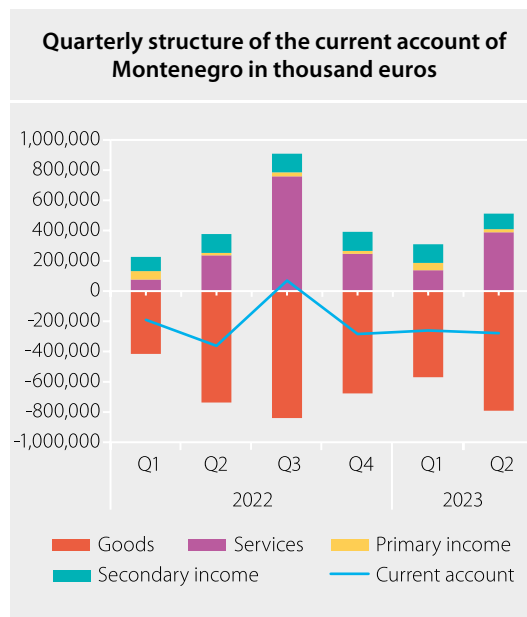
The deficit on the current and capital account of Montenegro in the period January - June 2023 amounted to 538.96 million euros and is the result of a deficit on the goods account, while a surplus was realised on other accounts (Graph 7.1). The foreign trade deficit amounted to 1,361.35 million euros, while the deficit in the visible and invisible trade amounted to 835.24 million euros and was lower by 5.51 million euros relative to the comparative period, as a result of a lower increase in the deficit on the goods account (by 207.89 million euros) compared to the growth of the surplus on the services account (by 213.39 million euros). The degree of coverage of import by visible and invisible exports amounted to 63.50%, which represents a growth of 5.81 pp relative to the comparative period.

As for the service account, the realised surplus amounted to 526.11 million euros or 68.24% more compared to last year, which is largely the result of higher revenues from travel services - tourism, transport, as well as income from telecommunications, computer and information services. A surplus of 296.29 million euros was realised on the primary and secondary income accounts (an increase of 6.84 million euros or 2.36%).

### 7.1.1.1. Visible trade<sup>51</sup>

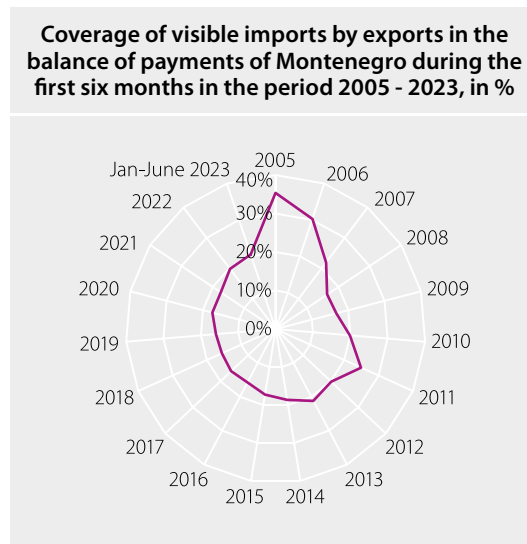
In the period January - June 2023, according to MONSTAT data, there was an increase in the total international visible trade by 9.32% compared to the same period of the previous year, as a result of the increase in imports, while a decrease was recorded in the visible exports. Due to the higher growth of imports (by 197.96 million euros or 12.28%) compared to the decrease in exports (by 12.01 million euros or 3.14%), there was a decrease in the coverage of visible imports by exports to 20.48%, which represents a drop of 3.26 pp compared to the coverage recorded in the same period of the previous year (Graph 7.2).

Graph 7.1



Source: CBCG

Graph 7.2



Source: MONSTAT and CBCG calculations

<sup>51</sup> Methodological notes: Data on foreign trade in the balance of payments of Montenegro are presented according to the special system of trade. The CBCG adjusts the data obtained from MONSTAT for the needs of the balance of payments in accordance with the IMF methodology (*Balance of Payments Manual, sixth edition, IMF, 2009*). Data on visible imports and exports are shown by f.o.b. The adjustments made by the CBCG are the reason for the difference in the data presented in table 7.1 and the data analysed in this chapter.

The total visible exports in the observed period, according to MONSTAT data, amounted to 370.70 million euros. Observed by SITC categories<sup>52</sup> (Table 7.2), the decline in total exports was mostly affected by the decline in the category of *products classified by material*, whose export amounted to 55.46 million euros and was lower by 63.73 million euros or 53.47% compared to the same period of the previous year. This is largely the result of a decrease in exports in the *non-ferrous metals* subcategory, where the value of exported goods amounted to 44.40 million euros, which represents a decrease of 59.62 million euros or 57.31% relative to the same period of the previous year.

In the structure of exports, according to SITC, the most exported products were *mineral fuels and lubricants*, whose exports amounted to 182.87 million euros (49.33% of total exports), which represents an increase of 54.29 million euros or 42.23%. Within this category, *electricity* is singled out with a total export of 171.79 million euros and relative to the comparative period it is higher by 53.39 million euros or 45.10%. Previously mentioned category of *products classified by material* follows with a share of 14.96% in total exports. A significant share in exports (9.92%) is also recorded in the category of *raw materials except fuels*, which was exported in the amount of 36.76 million euros, but still by 9.24 million less than in the comparative period, which means that the share of this category in total exports decreased by 2.10 pp. In this category, the most represented are *cork and wood* with exports of 17.81 million euros, which recorded a growth of 12.07%, and *metalliferous ores and metal scrap* whose exports amounted to 15.96 million euros (a drop of 40.29%).

Table 7.2

Structure of visible exports from Montenegro, in thousand euros							
				Share		Change	Change
		January - June 2022 in thousand euros	January - June 2023 in thousand euros	January - June 2022 (%)	January - June 2023 (%)	January-June 2023 January-June 2022 (%)	January-June 2023 January-June 2022 (in thousand euros)
0	Food and live animals	13,675.84	18,530.56	3.57%	5.00%	35.50%	4,854.72
1	Beverages and tobacco	5,527.50	12,936.36	1.44%	3.49%	134.04%	7,408.86
2	Raw materials, except fuels	45,991.41	36,755.60	12.02%	9.92%	-20.08%	-9,235.81
3	Mineral fuels and lubricants	128,578.37	182,871.81	33.60%	49.33%	42.23%	54,293.44
4	Animal and vegetable oils and fats	643,668.13	771,772.84	0.17%	0.21%	19.90%	128.10
5	Chemical products	19,125.20	24,324.75	5.00%	6.56%	27.19%	5,199.55
6	Products classified by materials	119,182.93	55,457.62	31.14%	14.96%	-53.47%	-63,725.31
7	Machinery and transport equipment	36,724.21	17,799.07	9.60%	4.80%	-51.53%	-18,925.14
8	Miscellaneous manufactured articles	13,262.96	15,052.71	3.46%	4.06%	13.49%	1,789.75
9	Products and transactions, otherwise not mentioned	0.00	6,200.00	0.00%	1.67%		6200
TOTAL:		382,712.09	370,700.25	100.00%	100.00%	-3.14%	-12,011.84

Source: MONSTAT and CBCG calculations

The total visible imports in the observed period, according to SITC, amounted to 1,809.73 million euros and increased by 12.28% relative to the comparative period (Table 7.3). The increase in imports in comparison to the same period of the previous year, viewed by SITC categories, was mostly affected by the increase in imports of *machinery and transport equipment* (428.75 million euros) by 98.90 million euros or 29.98%. This is largely the result of the growth in the import of the *road vehicles* subcategory (155.40 million euros), which increased by 55.27 million euros or 55.20% relative to the comparative

<sup>52</sup> Standard International Trade Classification.

period. The additional growth of imports in this category was significantly affected by the subcategory of *industrial machinery for general use* (import of 73.60 million euros) with a growth of 20.61 million euros or 38.91%.

In the structure of imports according to SITC, the most imported products were the aforementioned category of *machinery and transport equipment*, whose import accounted for 23.69% of total imports (which is 3.22 pp more compared to the share in the comparative period). Then follow the products of the *food and live animals* category (19.15%), which were imported in the amount of 346.62 million euros, which represents an increase of 68.88 million euros or 24.80% compared to the comparative period and a significant part of the result of the increase in import prices of products of this category. Within this category, the most represented are *meat and meat preparations* in the amount of 73.61 million euros and *vegetables and fruits* in the value of 52.81 million euros. A significant share in imports was also recorded in the category of *products classified by material* with 309.15 million euros, or 17.08%. Within this category, the recorded value of imported products in the subcategory *non-metal mineral products* increased by 32.53% and amounted to 80.67 million euros, while in the subcategory *metal products*, imports amounted to 69.87 million euros (an increase of 22.06% relative to the comparative period).

**Table 7.3**

Visible imports structure in Montenegro, in thousand euros							
				Share		Change	Nominal difference
		January - June 2022 in thousand euros	January - June 2023 in thousand euros	January - June 2022 (%)	January - June 2023 (%)	January-June 2023 January-June 2022 (%)	January-June 2023 January-June 2022 (in thousand euros)
0	Food and live animals	277,741.18	346,624.52	17.23%	19.15%	24.80%	68,883.34
1	Beverages and tobacco	50,840.62	69,976.83	3.15%	3.87%	37.64%	19,136.21
2	Raw materials, except fuels	13,745.30	17,576.35	0.85%	0.97%	27.87%	3,831.05
3	Mineral fuels and lubricants	241,636.89	158,357.72	14.99%	8.75%	-34.46%	-83,279.17
4	Animal and vegetable oils and fats	11,666.67	8,700.70	0.72%	0.48%	-25.42%	-2,965.97
5	Chemical products	170,161.83	212,567.31	10.56%	11.75%	24.92%	42,405.48
6	Products classified by materials	314,021.75	309,149.16	19.48%	17.08%	-1.55%	-4,872.59
7	Machinery and transport equipment	329,849.39	428,749.94	20.47%	23.69%	29.98%	98,900.55
8	Miscellaneous manufactured articles	202,102.18	254,240.15	12.54%	14.05%	25.80%	52,137.97
9	Products and transactions, otherwise not mentioned	0.83	3,788.61	0.00%	0.21%	453,869.80%	3,787.78
	TOTAL:	1,611,766.64	1,809,731.29	100.00%	100.00%	12.28%	197,964.65

Source: MONSTAT and CBCG calculations

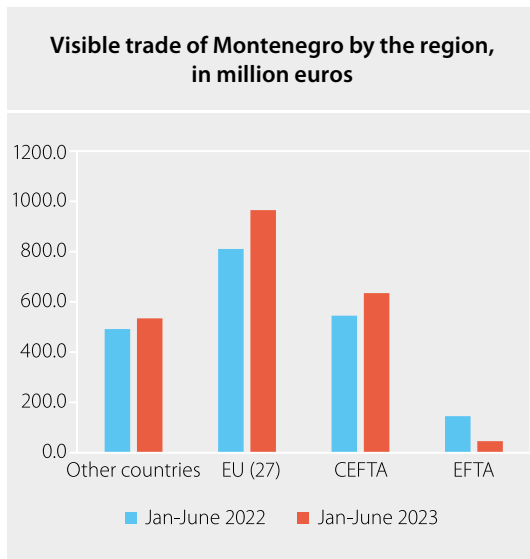
When we talk about exports by region, the main foreign trade partners of Montenegro were the countries of the CEFTA<sup>53</sup> group, where 45.40% of goods were exported, the largest part of which is electricity. Countries of the European Union recorded a share of 39.42%, where aluminium and electricity are mostly exported, the EFTA<sup>54</sup> (4.31%) and other countries (10.87%).

Most goods were imported from the EU countries (45.26%), followed by CEFTA and EFTA countries (25.76% and 1.67%, respectively), while other countries accounted for 27.31% of total imports

<sup>53</sup> Central European Free Trade Agreement (CEFTA) is a trade agreement between Albania, Bosnia and Herzegovina, the Republic of North Macedonia, Moldova, Serbia, the Republic of Kosovo and Montenegro.

<sup>54</sup> The European Free Trade Association (EFTA) is an international governmental organization consisting of Iceland, Liechtenstein, Norway and Switzerland.

Graph 7.3



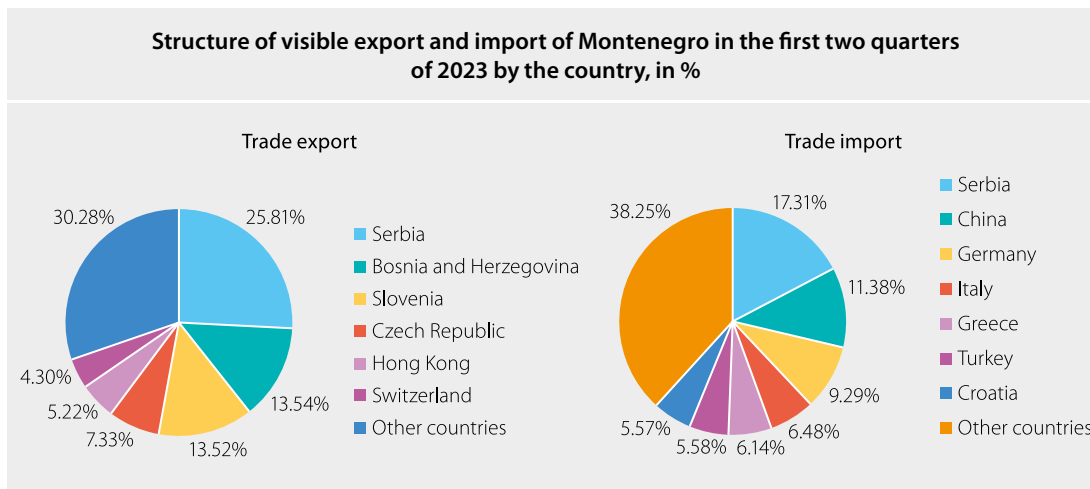
Source: MONSTAT

(Graph 7.3). If the structure of imports from individual regions is observed by types of goods, the EU countries mostly import oil and oil derivatives, as well as road vehicles, while the CEFTA countries import mostly electricity, water and food and live animals.

The increase in the value of imports of the food and live animals category was influenced by inflationary trends, as well as the growth in demand. In the observed period, most products of this category were imported from Serbia, Bosnia and Herzegovina and Italy.

Individually, the biggest export partners of Montenegro were Serbia (95.67 million euros), Bosnia and Herzegovina (50.19 million euros), and Slovenia (50.10 million euros). In imports, Serbia is in first place (313.18 million euros), followed by China (205.90 million euros) and Germany (168.14 million euros), (Graph 7.4).

Graph 7.4



Source: MONSTAT and CBCG calculations

**Box 7.1 – Import and export of electricity of Montenegro with foreign countries**

Electricity represents a significant position in the visible trade between Montenegro and foreign countries. According to MONSTAT data, in the first half of 2023, electricity accounted for 8.65% of Montenegro's trade, of which 46.34% of total exports and 0.92% of total imports. The growth of the total exchange of electricity with foreign countries of 8.72 million euros, compared to the same period in 2022, is the result of the increase in the export of electricity of 53.39 million euros, although at the same time there was a decrease in the import of this category of goods by 44.67 million euros.



Since 2019, the trend of import and export of electricity (Graph 1) has been different than that of the previous decade. During 2019, a deficit of 3.28 million euros was recorded, followed by a realised surplus of 8.95 million euros in 2020. During 2021, a deficit was recorded again and amounted to 6.26 million euros. In the previous year, the deficit rose to 39.32 million euros, while in the current year, the surplus amounted to 155.09 million euros in the first six months alone. According to the estimates of the Electric Power Company of Montenegro shown on the energy balance during 2023, an additional 486.11 Gwh will be available for export as the difference between total production and consumption. Accordingly, in the second half of the current year, a surplus is expected in the exchange of electricity with foreign countries.

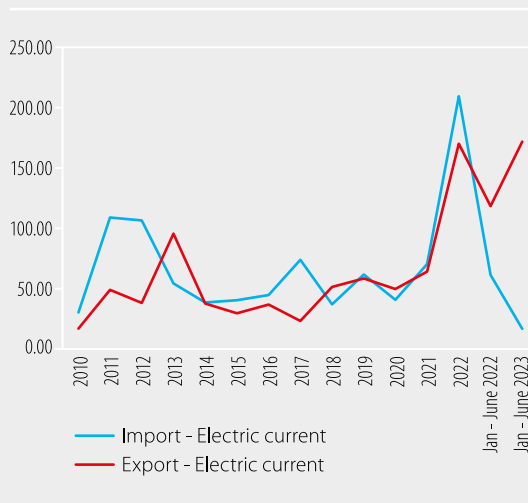
During the first two quarters of 2023, electricity exports grew by 45.10%, with a simultaneous decrease in imports by 72.78%. Annual average share of electricity exports in total goods exports in the period from 2019-2022. was 16.66%. Bearing in mind the significant hydro potential of Montenegro, by encouraging investments in this sector and implementing activities from the strategy for the development of the energy sector, the net position in the export of electricity can be significantly improved. Additional investments are also necessary in terms of other forms of renewable energy sources. In 2023, it is estimated that the share of renewable sources will represent 60% of total electricity production, of which 51% refers to production from hydroelectric power plants, 38% from thermo power plant Pljevlja, 9% from wind power plants and 1.2% from solar power plants. The increase in production from solar power plants would represent an increase of 37.2 GWh.

The main producers of electricity in Montenegro are hydropower plants and thermo power plants with a share of 44.78% and 44.66% respectively in the total amount of electricity. By gradually reducing dependence on electricity imports, then by increasing production using domestic resources, by building an undersea cable between Montenegro and Italy, by increasing the electricity production of wind farms and hydropower plants, Montenegro is well on its way to improving its energy balance and increasing the positive impact of energy exports on foreign trade balance.

Data on the electricity prices show different trends (Graph 2). In the observed period of 2023, the average price of electricity on the world market was reduced and amounted to 127.67 euros per MWh, which is 49.18% less compared to the same period of the previous year.

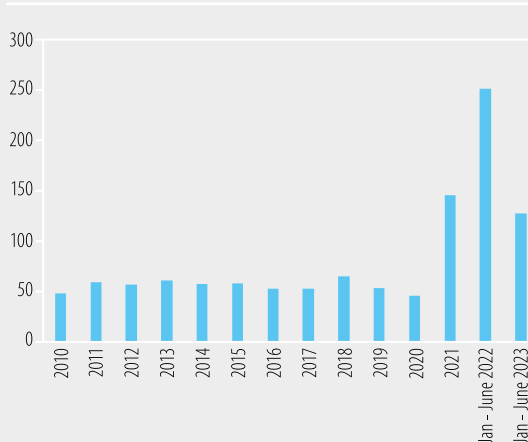
Despite all the circumstances that were reflected in the unpredictable trends in the electricity market, Montenegro has significant electricity production potentials that could have a positive impact on the trade balance in the future.

**Graph 1**  
Exports and imports of electricity in Montenegro (in million euros)



Source: MONSTAT

**Graph 2**  
Average electricity price (in euros/MWh)

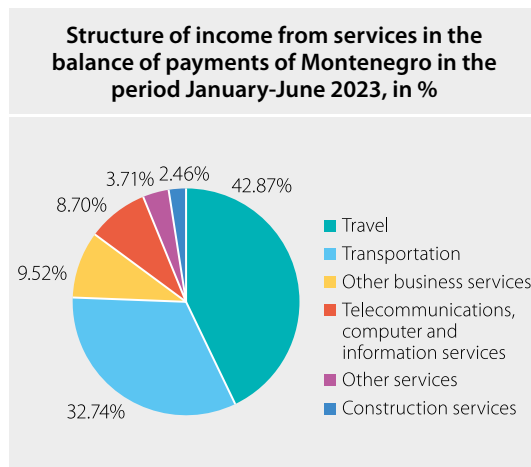


Source: Bloomberg

### 7.1.1.2. Services

In the international exchange of services in the first half of 2023, a surplus was recorded in the amount of 526.11 million euros, which is 213.39 million euros or 68.24% more relative to the comparative period. The surplus on this account was realised due to the higher growth of income than the growth of expenses relative to the comparative period, observed in absolute numbers (in terms of percentages, income and expenses increased by 43.94% and by 25.88%). The total volume of invisible trade amounted to 1,585.58 million euros, which is 37.35% more relative to the comparative period.

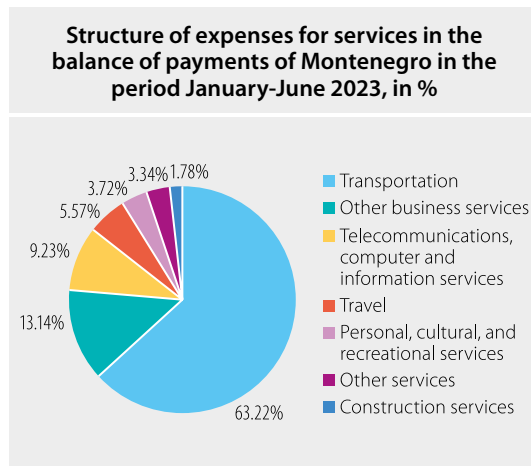
Graph 7.5



Source: CBCG

Total revenues from services amounted to 1,055.85 million euros and they primarily came from travel-tourism (452.61 million euros), then transport (345.68 million euros), (mostly based on the transmission of electricity), followed by other business services 100.53 million euros and telecommunication, computer and information services 91.85 million euros (Graph 7.5).

Graph 7.6



Source: CBCG

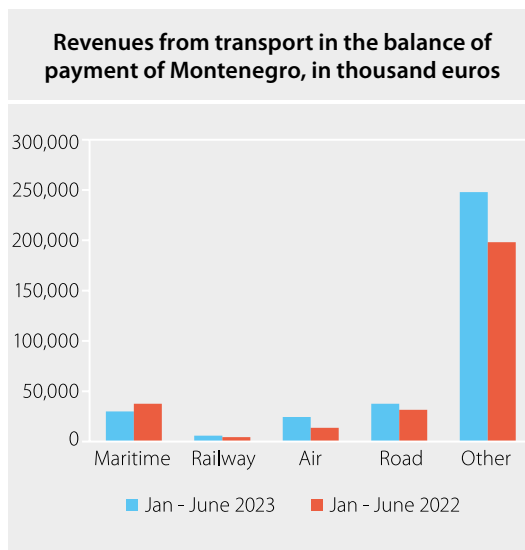
In the period January - June 2023, expenditures for services amounted to 529.74 million euros and were 25.88% higher compared to the comparative period. In the structure of expenditures, the largest share (63.22%) is spent on transportation in the amount of 334.89 million euros, followed by expenditures on other business services (13.14%), which amounted to 69.61 million euros (Graph 7.6). Within this group of services, the largest expenditures were realised on the basis of professional and consulting services in the amount of 45.96 million euros, while the next largest expenditure was on the basis of technical, trade and other business services in the amount of 18.13 million euros.

A surplus in the amount of 10.79 million euros was recorded in the transport services account in the observed period. The difference of 45.64 million euros at the annual level was due to the increase in expenditures on the basis of all key categories of transport services, the largest part (65.87%) of electricity transport.

Total revenues from transport services amounted to 345.68 million euros and are 21.20% higher than in the same period of the previous year. The largest share of these revenues, 89.24%, refers to the "other" category, which also includes revenues from electricity transmission, which accounted for 62.75% of total revenues and amounted to 216.93 million euros (increase from 38.78%, compared to the comparative period, is partly a consequence of the growth in the demand for electricity on the international market), (Graph 7.7).

In the structure of revenue from transport services, road traffic accounts for 10.88%, maritime traffic 8.67%, air traffic 7.08%, and railway traffic 1.68%. Revenues in road traffic amounted to 37.61 million euros and recorded a growth of 19.11%. Revenues recorded in maritime traffic amounted to 29.97 million euros, which is 20.08% less compared to the comparative period. Revenues recorded in air traffic amounted to 24.48 million euros, which represents a growth of 78.28%, and is the result of an increase in revenue from passenger transport related to air traffic. In railway traffic, revenues amounted to 5.81 million euros and are higher by 33.56% compared to the comparative period. Revenues realised on the basis of assistance, support and other transport services amounted to 27.93 million euros, which represents a decrease of 31.63% and is the result of a decrease in revenues based on the services of renting vehicles with a crew and forwarding services.

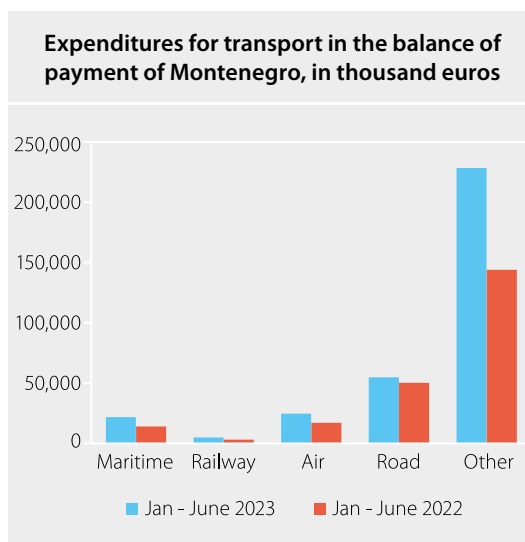
Graph 7.7



Source: CBCG

Total transport expenses amounted to 334.89 million euros, which is 106.10 million euros or 46.37% more relative to the comparative period. The largest expenditures were realised on the basis of electricity transmission (part of the “other” category) and road traffic, and they account for 62.41% and 16.38% of total expenditures (air traffic 7.40%, maritime traffic 6.53 %, and railway traffic 1.48% of total transport expenditures). Expenditures in the field of electricity transport amounted to 209.01 million euros (an increase of 76.63%), as well as in exports, which are partly a consequence of the growth in demand for electricity on the international market. In the field of road transport, expenditures amounted to 54.86 million euros (an increase of 9.11%), air transport expenditures amounted to 24.78 million euros (an increase of 44.18%), while maritime transport expenditures amounted to 21.87 million euros (an increase of 54.87%). In the area of railway transport, expenditures amounted to 4.97 million euros and recorded a growth of 54.35%. Expenditures realised on the basis of aid, support and other transport services amounted to 14.97 million euros (a decrease of 39.29%).

Graph 7.8



Source: CBCG

When all types of transport are taken into account, the largest invisible trade was recorded on the basis of freight transport, 274.77 million euros for imports and 262.27 million euros for exports.

In the observed period, the estimated revenues from travel-tourism amounted to 452.61 million euros and are higher by 90.23% relative to the comparative period. Expenditures on the same basis amounted to 29.52 million euros (a growth of 41.83%), which resulted in a surplus on this account that amounted to 423.09 million euros, which represents a growth of 94.87% relative to the comparative period.

In the observed period, the *construction services* account recorded a total revenues in the amount of 26 million euros (a decrease of 4.73% relative to the comparative period), while expenditures based on the engagement of non-residents in the construction amounted to 9.44 million euros (a decrease of 29.57%). This ratio of revenues and expenditures based on construction services resulted in a surplus in the amount of 16.56 million euros, which is 19.24% more relative to the comparative period.

Revenues from *other business services* amounted to 100.53 million euros, of which the largest part, in the amount of 72.01 million euros, related to the provision of various business, professional and consulting services. Expenditures based on other business services amounted to 69.61 million euros. The increase in revenues on this basis of 27.44%, along with a decrease in expenditures of 20.64%, led to a surplus of 30.92 million euros.

### 7.1.1.3. Primary income

In the H1 of 2023, a surplus in the amount of 69.81 million euros was realised on the primary income account, which represents a decrease of 2.72% compared to the H1 of the previous year, and is the result of an increase in expenditures from international investments by 15.86%, which amounted to 102.82 million euros, while the inflow on the basis of compensations to employees remained at approximately the same level and amounted to 178.49 million euros.

Revenues recorded on the basis of primary income amounted to 204.48 million euros (8.31% growth relative to the comparative period), and were realised for the most part on the basis of employee compensation (87.29%). Revenues based on income from international investments amounted to 25.99 million euros, of which the largest part (89.37%) related to the inflow based on interest, which amounted to 23.22 million euros (an increase of 16.63 million euros relative to for the comparative period). Some 2.76 million euros (10.63%) were related to the inflow based on paid dividends and it decreased by 20.97% relative to the comparative period).

Expenditures based on primary income in the observed period amounted to 134.67 million euros (an increase of 15.07% compared to the comparative period), and most of them related to expenditures based on international investments, 102.82 million euros or 76.35%, while 31.85 million euros or 23.65% related to expenditures based on employee compensation. Of the total expenditures based on international investments, 76.81 million euros were related to interest payments, which represents an increase of 46.76%.

### 7.1.1.4. Secondary income

In the first half of 2023, the surplus on the secondary income account amounted to 226.48 million euros, which is 4.04% more compared to the comparative period. This trend is the result of an increase in inflows based on current international cooperation (an increase of 23.35 million euros) and represents 72.98% of the total inflows realised by the state on the account of secondary income (Graph 7.9). The increase in inflows in the form of ongoing international cooperation is the result of direct support for energy efficiency by the European Commission.

Inflow based on secondary income amounted to 282.19 million euros (7.87% growth). If we look at its structure, 85.25% of the inflow, or 240.56 million euros, was related to other sectors, while a smaller part of 41.63 million euros was related to the government sector, which is 91.43% higher than in the previous period. Of the total inflow of transfers from other sectors, 199.01 million euros were realised

based on personal transfers from abroad (a decrease of 2.70%), while the inflow based on other current transfers amounted to 41.55 million euros (an increase of 17.62%). The largest part of other current transfers related to social benefits (pensions) and amounted to 22.92 million euros (an increase of 5.74%).

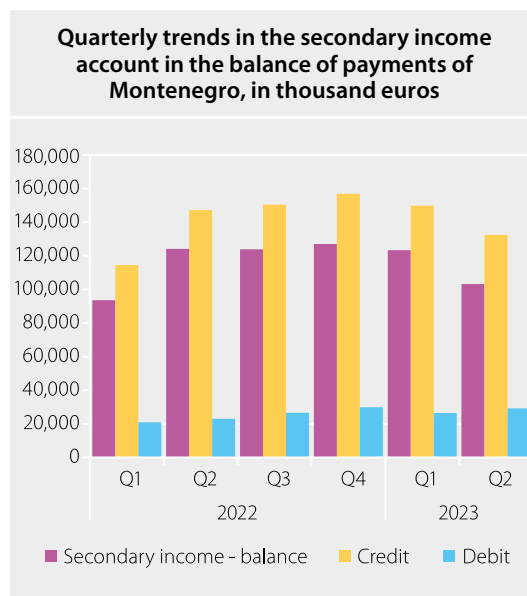
Outflow based on secondary income, i.e. transfers abroad, amounted to 55.71 million euros, which represents an increase of 26.84% relative to the comparative period. The largest share in this outflow of funds, 44.85 million euros, was related to other sectors, while 10.86 million euros was related to the state sector. Within the outflow of funds from other sectors, 27.22 million euros were related to personal transfers, which is by 22.08% more than in the observed period, while the outflow based on other current transfers amounted to 17.63 million euros and by 10.61 % is higher compared to the same period.

### 7.1.2. Financial account

In the financial account, a net inflow of capital in the amount of 123.76 million euros was realised, which represents a drop of 39.62% compared to the same period of the previous year. This decrease is the result of a decrease in the net inflow of foreign direct investments, with a simultaneous increase in the net outflow on the account of portfolio investments, as well as the net outflow on the account of other investments (Graph 7.10). The recorded changes in the FDI part are primarily the result of a decrease in inflows based on inflows of investments in companies and banks and inflows based on the withdrawal of investments from abroad.

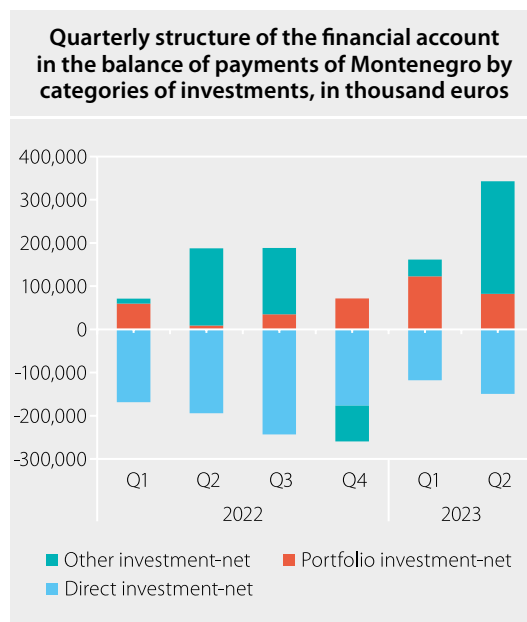
Trends in the financial account are the result of higher borrowing by the state on the international capital market and banks, but also higher borrowing by other sectors on the basis of loans taken. A decrease in intercompany loans was recorded, while at the same time a decrease in outflows based on the repayment of previously taken loans was recorded.

Graph 7.9



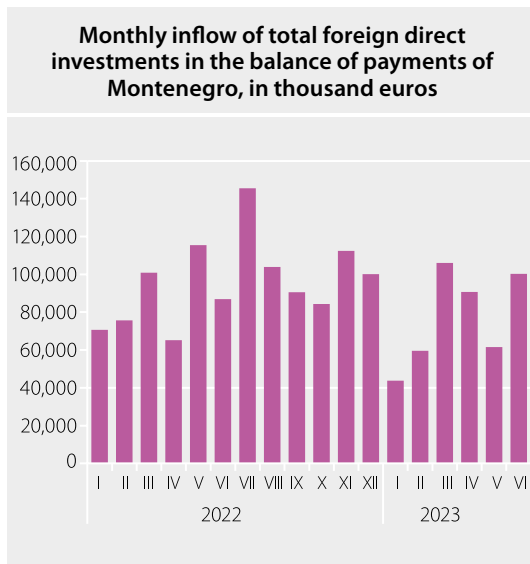
Source: CBCG

Graph 7.10



Source: CBCG

Graph 7.11

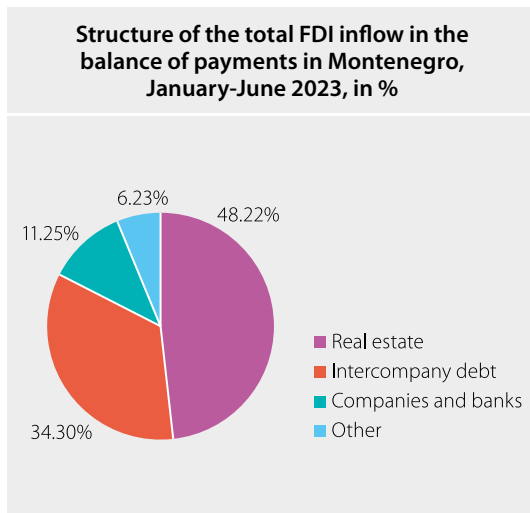


Source: CBCG

A decrease in net inflow was recorded on the direct investment account. The net inflow of FDI amounted to 267.07 million euros and is 26.37% lower compared to the same period of the previous year. The total inflow of foreign direct investments amounted to 462 million euros (Graph 7.11), while at the same time an outflow was recorded in the amount of 194.93 million euros.

In the observed period, the total inflow of foreign direct investments decreased by 52.85 million euros or 10.27% compared to the same period of the previous year. Inflow based on debt investments (intercompany debt) amounted to 158.46 million euros and decreased by 7.53%, while equity investments amounted to 274.73 million euros and decreased by 7.19% relative to the comparative period.

Graph 7.12



Source: CBCG

In the structure of equity investments (Graph 7.12), 222.76 million euros related to the inflow based on investments in real estates (growth of 10.52%), while the inflow based on investments in companies and banks amounted to 51.97 million euros (fall of 44.99%). The FDI inflow in the form of other investments, that is, the inflow based on the withdrawal of investments from abroad, amounted to 28.81 million euros (a drop of 39.29%).

The total outflow of FDI in the first six months of 2023 amounted to 194.93 million euros and increased by 42.78 million euros or 28.11% relative to the comparative period. In the structure of the total outflow of FDI, the outflow based on the investment of residents abroad amounted to 39.56 million euros, while the withdrawal of funds by non-residents invested in our country amounted to 155.37 million euros.

In the *portfolio investment* account in the observed period, a net outflow in the amount of 205.01 million euros was recorded, which represents a growth of 199.13% relative to the comparative period when the net outflow amounted to 68.53 million euros, and is the result of higher investment of deposit institutions, except for the central bank, in the international capital market. The net outflow on the account of *other investments* amounted to 299.14 million euros, which represents a change of 109.20 million euros relative to the comparative period, when the net outflow on this account amounted to 189.94 million euros, and is the result of the growth of domestic deposits in foreign banks.

Inflow based on the withdrawal of loan funds by other sectors amounted to 113.44 million euros (an increase of 43.75%), while at the same time an outflow was recorded based on the principal repayment of other sectors in the amount of 130.95 million euros (a decrease of 27.33%). At the same time, the inflow based on the withdrawal of loan funds by the state amounted to 115.79 million euros (an increase of 32.71%), while at the same time an outflow was recorded based on the repayment of the principal in the amount of 125.42 million euros (a decrease of 23.44%).

At the end of Q2 2023, the Central Bank's monetary assets in foreign accounts and the vault decreased by 294.60 million euros y-o-y.

## 7.2. External debt

Preliminary data indicate that the total foreign debt of Montenegro amounted to 9,167.79 million euros at end-Q2 2023<sup>55</sup>, which is 205.94 million euros less year-over-year, mainly as a result of the reduction of the external debt of both public and private sectors.

At the end of the second quarter of 2023, 40.53% of the external debt structure of Montenegro was related to public sector debt, while 59.47% was related to private sector debt.

Table 7.4

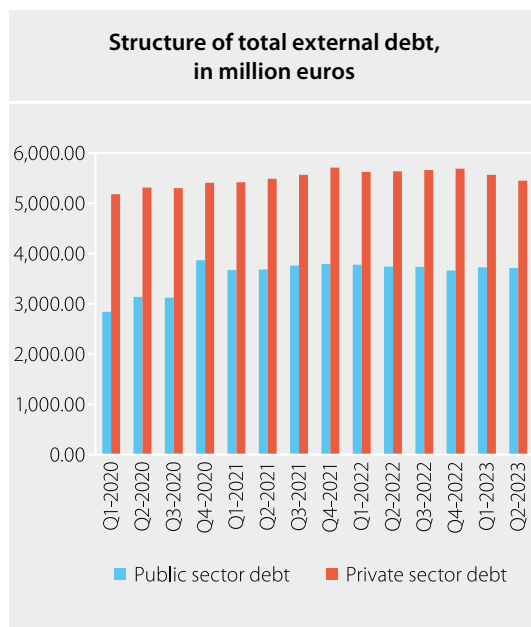
The structure of the external debt of Montenegro, in million euros and in %						
	2022				2023	
	Q1-2022	Q2 2022	Q3 2022	Q4 2022	Q1-2023	Q2-2023
Public sector debt	3,775.55	3,739.31	3,734.53	3,662.57	3,723.23	3,715.99
General Government	3,671.19	3,632.18	3,624.50	3,557.56	3,619.56	3,613.40
Central Bank	104.37	107.13	110.04	105.01	103.67	102.59
Private sector debt	5,626.88	5,634.42	5,660.26	5,691.13	5,565.77	5,451.80
Depository institutions	1,457.96	1,421.83	1,518.88	1,546.27	1,566.50	1,514.84
Other sectors	2,092.71	2,077.73	2,010.74	1,834.51	1,885.38	1,790.56
Intercompany borrowings	2,076.21	2,134.86	2,130.64	2,310.35	2,113.89	2,146.39
Total external debt	9,402.44	9,373.73	9,394.79	9,353.69	9,289.00	9,167.79
Structure of external debt, in %						
Public sector debt	40.16	39.89	39.75	39.16	40.08	40.53
General Government	39.05	38.75	38.58	38.03	38.97	39.41
Central Bank	1.11	1.14	1.17	1.13	1.11	1.12
Private sector debt	59.84	60.11	60.25	60.84	59.92	59.47
Depository institutions	15.50	15.17	16.17	16.53	16.86	16.53
Other sectors	22.08	22.17	21.40	19.61	20.30	19.53
Intercompany borrowings	22.26	22.77	22.68	24.70	22.76	23.41
Total external debt	100.00	100.00	100.00	100.00	100.00	100.00

Source: CBCG and Ministry of Finance

<sup>55</sup> Data on the debt balance at the quarterly level is published for the first time in September 2022 in accordance with the Calendar of publication of statistical data, <https://www.cbcg.me/en/statistics/release-calendar>.

The external debt of the public sector amounted to 3,715.99 million euros (23.32 million euros or 0.62% less compared to the same period of the previous year), of which the general government category accounted for 3,613.4 million euros or 97.24 %. In the structure of the general government category, 1,863.40 million euros or 51.57% related to the debt balance based on credit liabilities, 1,750.00 million euros or 48.43% based on Eurobonds issued in earlier years. In the category of external debt of the public sector, 102.59 million euros or 2.76% related to the Central Bank, that is, the SDR allocation at the IMF.

Graph 7.13



Source: CBCG and Ministry of Finance

External debt of the private sector<sup>56</sup> amounted to 5,451.80 million euros which is 182.62 million euros less than in the same period of 2022 (Graph 7.13). The largest part of private sector debt was related to loans, 4,114.10 million euros, or 75.46%, of which intercompany borrowings amounted to 2,146.39 million euros.

The debt of the other sector amounted to 1,790.56 million euros or 32.84% of the total external debt of the private sector. The liabilities of depository institutions abroad amounted to 1,514.84 million euros or 27.79% of the total debt of the private sector, the largest part of which was related to deposits, 1,312.02 million euros.

The currency structure of the total foreign debt was dominated by the euro with 95% share, which makes the country's risk relatively low considering that the euro is the official means of payment in Montenegro. The structure of the external debt of the private sector according to maturity is favourable, considering that about 90% is of a long-term nature (not including deposits).

### 7.3. International investment position

At end-H1 of 2023, the net international investment position (IIP) of Montenegro was 7,477.61 million euros. The total receivables of residents abroad amounted to 4,835.74 million euros, and liabilities amounted to 12,313.35 million euros.

<sup>56</sup> The private sector includes: deposit institutions except the central bank (commercial banks) and other sectors (all financial institutions except banks, non-financial corporations, non-profit institutions that provide services to households and households, including entrepreneurs and natural persons) and direct investments (intercompany borrowings). Data on private sector debt include estimates of the debt of natural persons, as well as estimates of the debt of companies that have not submitted reports, based on net flows from the balance of payments (ITRS).



**Table 7.5**

Structure of the international investment position of Montenegro, in million euros												
	Net IIP Q1-2022	Share in %	Net IIP Q2-2022	Share in %	Net IIP Q3-2022	Share in %	Net IIP Q4-2022	Share in %	Net IIP Q1-2023	Share in %	Net IIP Q2-2023	Share in %
1. International investment position, net	-8,271.25		-8,204.54		-7,853.63		-7,702.93		-7,555.82		-7,477.61	
2. ASSETS	3,789.38	100.00%	3,855.53	100.00%	4,368.33	100.00%	4,484.92	100.00%	4,749.01	100.00%	4,835.74	100.00%
2.1. Direct investments, net	170.08	4.49%	173.60	4.50%	190.08	4.35%	198.22	4.42%	210.43	4.43%	210.16	4.35%
2.2. Portfolio investments-net	562.01	14.83%	564.20	14.63%	593.77	13.59%	761.49	16.98%	1,010.09	21.27%	1,146.51	23.71%
2.3. Financial derivatives	0.02	0.00%	0.03	0.00%	0.04	0.00%	0.02	0.00%	0.02	0.00%	0.27	0.01%
2.4. Other investments	1,371.32	36.19%	1,460.89	37.89%	1,661.13	38.03%	1,610.57	35.91%	1,741.24	36.67%	1,862.63	38.51%
2.5.CBCG reserves	1,685.96	44.49%	1,656.81	42.97%	1,923.30	44.03%	1,914.62	42.69%	1,787.23	37.63%	1,616.17	33.42%
3. LIABILITIES	12,060.63	100.00%	12,060.06	100.00%	12,221.96	100.00%	12,187.85	100.00%	12,304.83	100.00%	12,313.35	100.00%
3.1. Direct investments	4,717.47	39.12%	4,805.74	39.85%	4,939.38	40.41%	5,123.50	42.04%	5,103.57	41.48%	5,263.44	42.74%
2.2. Portfolio investments	1,773.33	14.70%	1,772.01	14.69%	1,774.85	14.52%	1,777.54	14.58%	1,782.38	14.48%	1,784.82	14.50%
3.3. Financial derivatives	0.11	0.00%	0.03	0.00%	0.08	0.00%	0.05	0.00%	0.31	0.00%	0.32	0.00%
3.4. Other investments	5,569.72	46.18%	5,482.28	45.46%	5,507.65	45.06%	5,286.76	43.38%	5,418.58	44.04%	5,264.77	42.76%

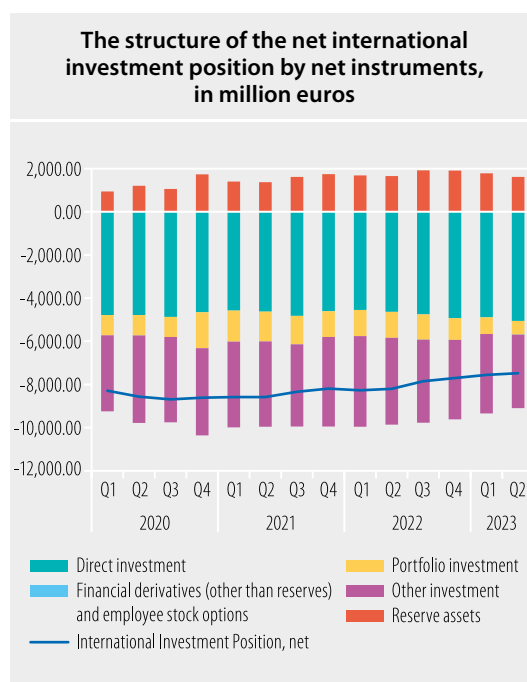
Source: CBCG

Compared to the end of the second quarter of 2022, the negative net international investment position decreased by 726.93 million euros, mainly due to a significant increase in financial assets (by 980.21 million euros). Preliminary data show that compared to the same period of the previous year, there was a decrease in the net position (assets less liabilities) in other investments by 619.25 million euros, then in the net position in portfolio investments by 569.50 million euros, while the FDI net position increased by 421.14 million euros.

Growth on the assets side during the second quarter of 2023 compared to the observed period from the previous year was largely generated by the growth of portfolio investment positions, other investments and reserves of the Central Bank of Montenegro. Analysing the structure of assets by financial instruments, other investments have a dominant share (38.52% of total assets), as well as CBCG reserves (33.42% of total assets), followed by portfolio investments (23.71%).

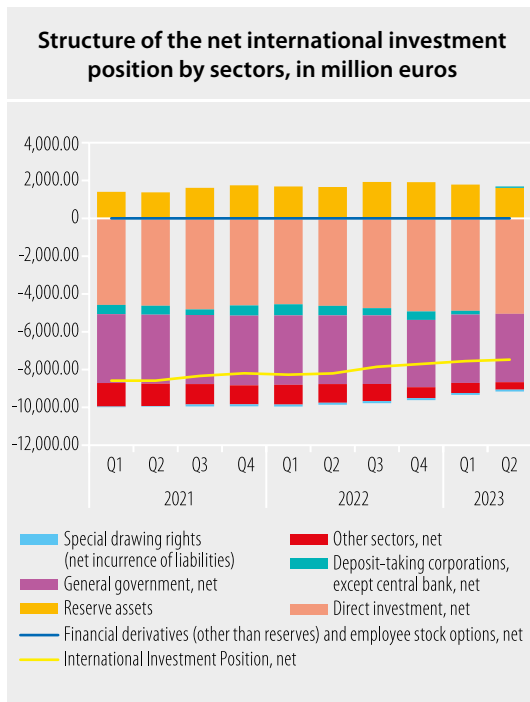
Analysis of the structure of Montenegro’s total foreign financial liabilities shows the largest share of other investments of 42.76% (5,264.77 million euros) and direct investments 42.74% (5,263.44 million euros), most of which refers to equity investments, 59.22% (3,117.04 euros).

**Graph 7.14**



Source: CBCG

Graph 7.15



Source: CBCG

During the second quarter of 2023, a decrease of 271.51 million euros was recorded on the basis of other investments on the financial liabilities side of Montenegro compared to the same period of the previous year, thus, at the end of the observed period they amounted to 5,264.77 million euros (share of 42.76% in total liabilities). With an annual decrease of 407.92 million euros, loans dominate with 3,831.11 million euros (a share of 31.11% in total liabilities).

The share of liabilities for portfolio investments reached 1,784.82 million euros or 14.50% of total liabilities at end-Q2 2023 (main share was of liabilities for issued Eurobonds).