CENTRAL BANK OF MONTENEGRO

INFLATION REPORT
H1, 2025

Podgorica, 2025

PUBLISHED BY
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1. INFLATION INDICATORS

The global economy in H1 2025 is characterised by the easing of inflation pressures. The inflation continued to slow down in with temporary fluctuations, approaching the target level of central banks. The updated IMF[1] forecast from July 2025 estimated global average inflation in this year at 4.2% (drop from 5.6% in 2024), and at 3.6% in 2026. The inflation in the USA is expected to above the 2% target, while moderate inflation trend in expected in the euro area.

According to the ECB's[2] June projections, the average annual inflation rate in the euro area will amount to 2.0% (0.3 pp lower than in the March projections), while it is expected to fall further to 1.6% in 2026. Following eight consecutive interest rate cuts, the ECB kept interest rates unchanged in July 2025 due to significant economic uncertainty stemming from trade tensions, as well as weakening price pressures and slower wage growth. Inflation expectations are more uncertain than usual owing to the volatile global trade environment. A potential appreciation of the euro and reduced demand for euro area exports resulting from higher tariffs could contribute to lower inflation. On the other hand, inflation could turn out higher if "fragmented" global supply chains lead to rising import prices and increased capacity constraints in the economies of the member states (for more detailed projections see the link[3]).

In H1 2025, compared to the same period of the previous year, consumer prices were 3.3% higher, while the year-on-year growth in June this year averaged at 4.2%. Compared to December 2024, their growth averaged to 3.8%. It mainly resulted from the increase in categories food and non-alcoholic beverages, housing, water, electricity gas and other fuels, health care and hotels and restaurants with the respective shares of 6.4%, 4.2%, 12.0%, and 6.4% (table 2). Monthly trends of consumer prices shows that the price increase was recorded in all six months, with the highest growth recorded in January of 1.2%.

Table 1

Inflation in Montenegro in the period March 2024-June 2025, in %

	2024				2025	
	III	VI	IX	XII	III	VI
Change in relation to the previous year-end	1.5	1.7	2.1	2.1	1.9	3.8
Annual change	5.5	4.1	1.0	2.1	2.6	4.2

Source: MONSTAT

[1] Source: IMF - World Economic Outlook Update: *Global Economy: Tenuous Resilience amid Persistent Uncertainty,* July 2025

[2] Source: ECB - *Eurosystem staff macroeconomic projections for the euro area*, June 2025

[3] *https://www.ecb.europa.eu/press/press_conference/monetary-policy-statement/2025/html/ecb.is250724~a66e730494.en.html*

During the same period, price growth in Montenegro was recorded in eight out of twelve categories that accounted for 75.48% of the consumer basket (table 2). The main contributors to the annual inflation growth (2.22 pp) were the prices in the category food and non-alcoholic beverages (6.4% pp), mainly due to the increase in the prices of fruit (44.2%), meat (4.2%), milk, cheese and eggs (4.1%), oils and fats (11.8%), bread and cereals (3.0%) and vegetables (5.3%). With a view to reducing inflation and protecting the vulnerable category of low-income customers, at the end of January 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 Products*[4]. The Decision limited trade margin for 73 retail and wholesale products (several hundreds of items considering different weights and producers) and significantly extended the duration of the "Limited Prices" action until 30 April 2025.

During the reporting period, price increases were also recorded in the following categories: health by 12.0%, restaurants and hotels by 6.4%, alcoholic beverages and tobacco by 5.9%, recreation and culture by 4.4%, housing, water, electricity, gas and other fuels by 4.2%, other goods and services by 2.9%, and furnishing, household equipment and routine household maintenance by 1.7%. Prices declined in the categories clothing and footwear, transport and communication by 4.3%, 0.6% and 0.4%. Prices under education in June remained at the level of the average of this category in December 2024.

Table 2

Growth rate and contribution of individual categories in total inflation[5] in Montenegro

	Weights %	VI 2025 / XII 2024	Rate	Contribution
TOTAL	1,000.0	103.8	3.8	3.8
Food and non-alcoholic beverages	348.6	106.4	6.4	2.2
Alcoholic beverages and tobacco	38.8	105.9	5.9	0.2
Clothing and footwear	74.2	95.7	-4.3	-0.3
Housing, water, electricity gas and other fuels	144.7	104.2	4.2	0.6
Furnishing, household equipment and routine household maintenance	45.2	101.7	1.7	0.1
Health	38.8	112.0	12.0	0.5
Transport	109.4	99.4	-0.6	-0.1
Communication	44.1	99.6	-0.4	0.0
Recreation and culture	31.0	104.4	4.4	0.1
Education	17.6	100.0	0.0	0.0
Restaurants and hotels	56.3	106.4	6.4	0.4
Miscellaneous goods and services	51.4	102.9	2.9	0.1

Source: MONSTAT and CBCG calculations

[4] Source: 66th Cabinet session of 30 January 2025

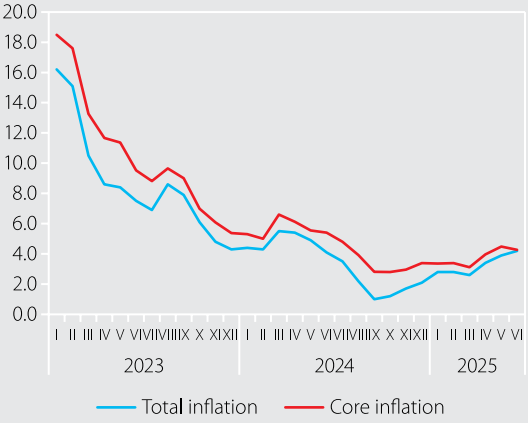
[5] It should be noted that, regardless of the index changes, the contribution of the share of certain categories is not recorded before the second and/or third decimal due to the weight structure.

The annual core inflation rate (inflation excluding seasonal food products, administratively regulated products, oil and oil derivatives, etc.)[6] amounted to 4.26% in June, bringing it close to the overall annual inflation rate (which was only slightly higher, by 0.03 pp). During the whole six months, the annual core inflation was higher than total inflation (graph 1) 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 some agricultural products, tobacco, fuel and lubricants, and the like).

During H1 2025, oil price dropped until June when the monthly growth of 11.4% was recorded due to the concerns on the escalating conflicts in the Middle East and potential problems in supply with this fuel. However, the oil price in June was lower both compared to December 2024 and year-over-year. The price of the OPEC reference basket averaged at 69.73 USD/bbl. in June, being 4.57% lower than in December 2024 (year-over-year drop of 16.21%). The average price of Brent in the reporting period was 71.35 USD/bbl. or 3.25%less than in December 2024 (13.41% less year-over-year). The lowest average price of Brent oil of 64.07 USD/bbl. since February 2021 was recorded in May, due to increased oil production in spring 2025 and the agreement of OPEC+ members on further production increase. According to the World Bank's June 2025[7] report, a sharp drop in the average price of crude oil is expected from 80.7 USD/bbl. to 66 USD/bbl. while a further decline to an average of 61 USD/bbl. is expected in 2026.

Graph 1

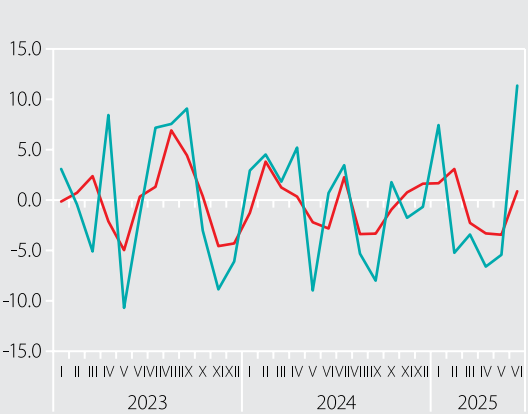
Annual rate of total and core inflation in Montenegro, in %



Source: MONSTAT and CBCG calculations

Graph 2

Fuel and lubricant prices in Montenegro and OPEC oil prices*, monthly rate, in %



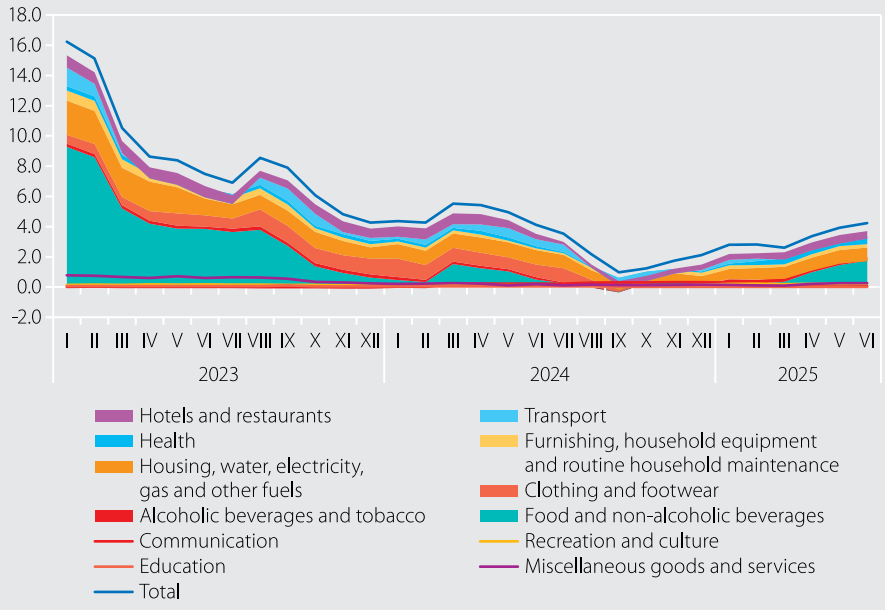
Source: MONSTAT and OPEC Monthly Oil Market Reports
(*North Sea Dated)

[6] Core inflation is used as an indicator of the trend of a long-term rate or a future inflation rate, i.e. it enables distinguishing 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_stope_inflacije_english.pdf*

[7] World Bank - *Global Economic Prospects,* June 2025

Graph 3

Consumer prices' components in Montenegro, contribution to annual growth rate



Source: MONSTAT

Total annual inflation stood at 4.2% in June this year. The price growth of 5.0% in the *food and non-alcoholic beverages* category gave the largest positive contribution of 1.78 pp to the increase in the total annual inflation. Annual price growth was also recorded in health by 13.2%, restaurants and hotels by 9.0%, recreation and culture by 7.3%, housing, water, electricity, gas and other fuels by 6.2%, alcoholic beverages and tobacco by 5.8%, miscellaneous goods and services by 4.9%, furnishing, household equipment and routine household maintenance by 4.8%, communications by 1.6%, and education by 0.9%.

Graph 4

Annual and monthly change in consumer prices in Montenegro, in %

Source: MONSTAT

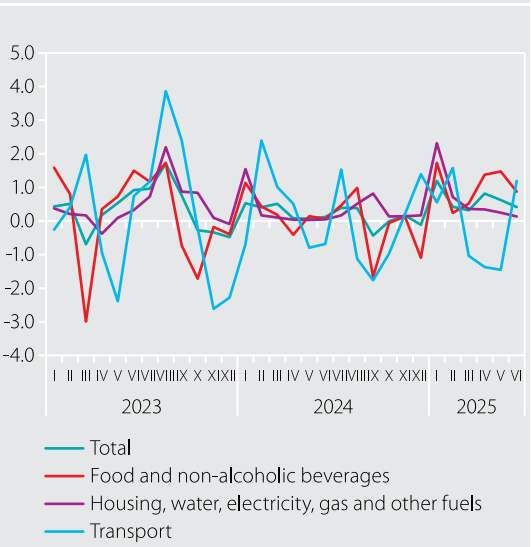
Producers` prices of manufactured products recorded an increase of 0.6% in June this year compared to December 2024. Mining and quarrying and manufacturing industry sectors recorded respective increases in prices of 0.7% and 0.9%. Prices remained unchanged in the electricity, gas and steam supply sector. In June this year, the producers' prices of manufactured products recorded the annual growth of 1.4%.

The highest annual rate of consumer prices among countries in the region in June was recorded in Serbia and Bosnia and Herzegovina (4.6% each), North Macedonia (4.5%), while Albania recorded the lowest rate of 2.4% (graph 6).

The annual HICP[8] inflation recorded in the EU stood at 2.3% in June 2025. Of the EU countries, the highest inflation was seen in Romania and Estonia (of 5.8% and 5.2%, respectively), while the lowest inflation rate was recorded in Cyprus (0.5%). The annual HICP inflation in the euro area amounted to 2.0% and it was 0.4 pp lower than the annual rate in December 2024, and the main contributors with 1.51 pp and 0.59 pp were the annual price growth of services of 3.3% and food, alcoholic beverages and tobacco of 3.1%. In its June report[9], the European Commission forecast inflation in the euro area of 2.0% in 2025 and 1.6% in 2026.

Graph 5

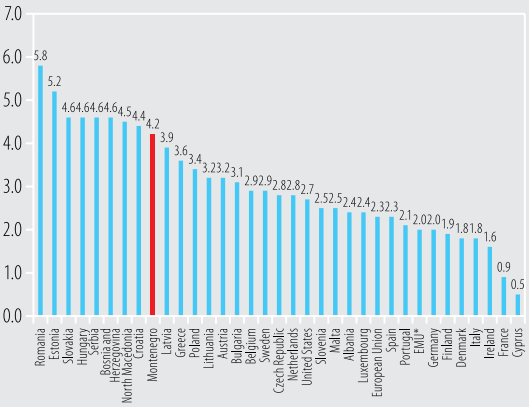
Monthly change in consumer prices under the selected categories in Montenegro, in %



Source: MONSTAT

Graph 6

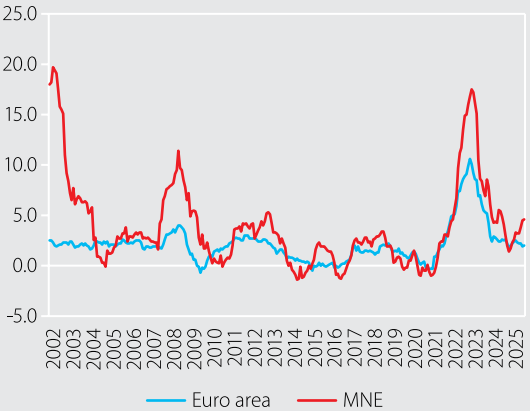
Annual inflation rate in selected European countries, June 2025, in %



Source: National statistical offices (CPI in countries in the region) and Eurostat (HICP in the EU countries)

Graph 7

Inflation in the euro area (HICP) and Montenegro (CPI)[10] since the introduction of the euro (annual rate, in %)



Source: MONSTAT and Eurostat

[8] 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.

[9] Source: ECB - *Eurosystem staff macroeconomic projections for the euro area*, June 2024

[10] Cost of living has been used for measuring inflation in Montenegro until 2009, after which consumer prices were introduced.

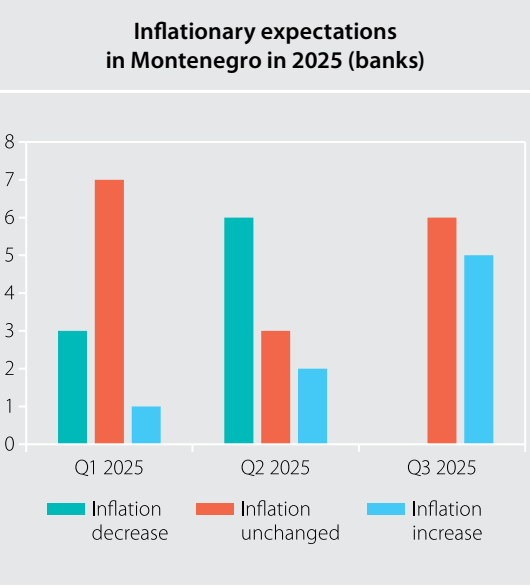
2. INFLATION EXPECTATIONS

2.1. Banks' expectations

When it comes to banks' inflation expectations, based on the survey conducted in August this year, five banks expect inflation to grow, while six banks believe that it will remain at the 2024 level (graph 8).

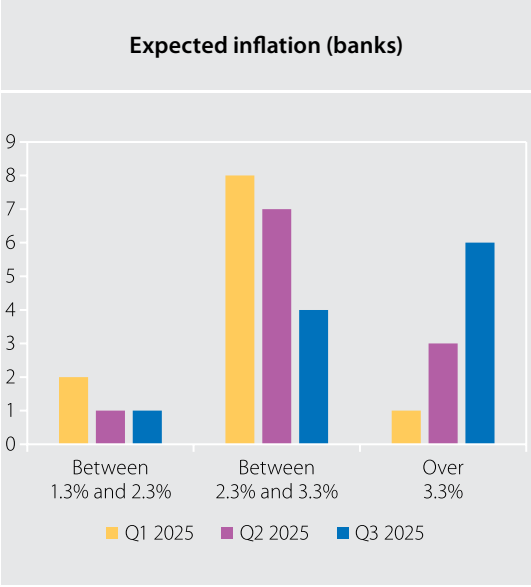
When it comes to banks' expectations regarding inflation levels, one bank expects inflation between 1.3% and 2.3%, four banks expect it to be between 2.3% and 3.3%, and six banks expect it will be higher than 3.3% (graph 9).

Graph 8



Source: Central Bank Survey

Graph 9

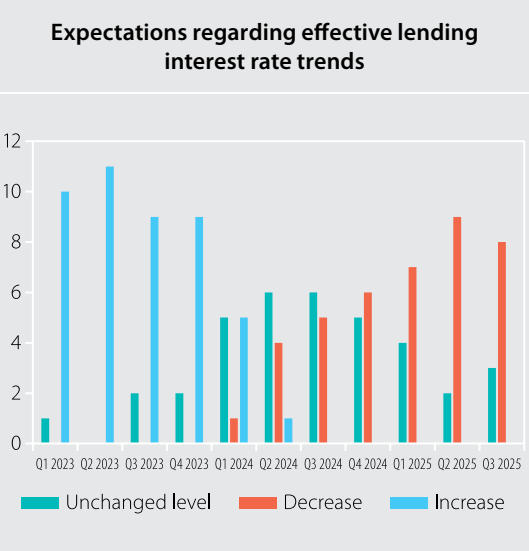


Source: Central Bank Survey

As for expectations regarding the nominal lending interest rates, seven banks expect decline, four banks believe they will remain at the same levels, while none of the banks expect them to rise. When it comes to expectation of effective lending interest rates, eight banks expect them to decline, three banks expect them to stay at the same levels, while none of the banks expected them to grow compared to 2024 (graph 10).

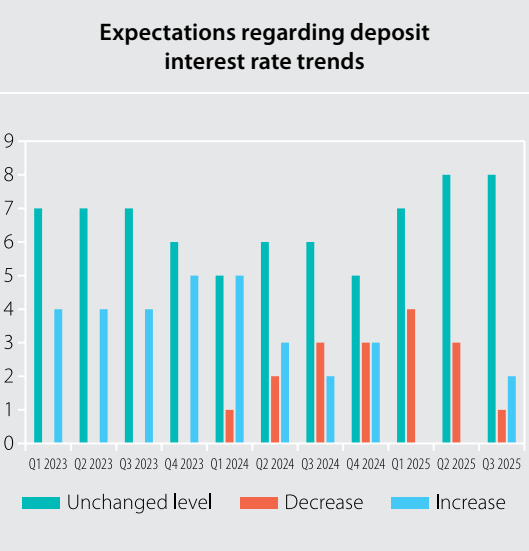
In reference to deposit interest rates' trends, eight banks expect no change, two banks expect their increase, while one banks expects a decline in deposit interest rates (graph 11).

Graph 10



Source: Central Bank Survey

Graph 11



Source: Central Bank Survey

For the purpose of calculating inflation forecasts, we use the market trend indicator (line in graph 12) 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 survey conducted in the third quarter of the year indicates an increase in banks' inflation expectations in 2025 compared to 2024.

Graph 12

Source: Central Bank Survey

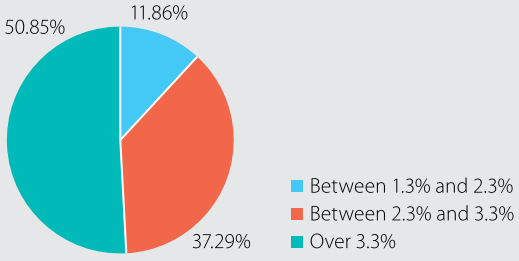
2.2. Expectations of economy (except banks)

Inflation

Of the total number of surveyed companies, 11.86% expect the inflation to range between 1.3% and 2.3% in 2025. Some 37.29% of companies expect inflation between 2.3% and 3.3%, while 50.85% of companies expect inflation above 3.3% (graph 13).

Graph 13

Expected annual inflation rate in Montenegro in 2025 (responses based on percentage share)



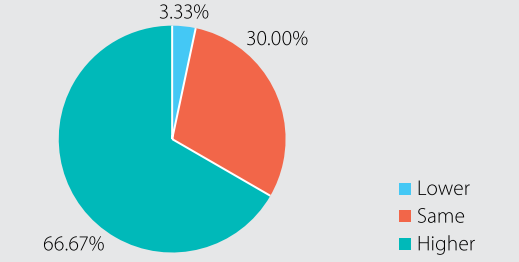
Source: Central Bank Survey

As much as 66.67% of the surveyed companies expect earnings to rise in 2025 in relation to the previous year, 30.00% expect them to remain the same and 3.33% their drop (graph 14). With regard to employment, 53.33% of the respondents expect it to remain the increase, 43.33% expect this number to remain unchanged, and 3.33% expect it to decline in relation to the previous year (graph 15).

The majority of surveyed companies (70.18%) expect higher prices of production inputs they use (graph 16), while 50.85% do not plan to increase the prices of their products/services in 2025 (graph 17).

Graph 14

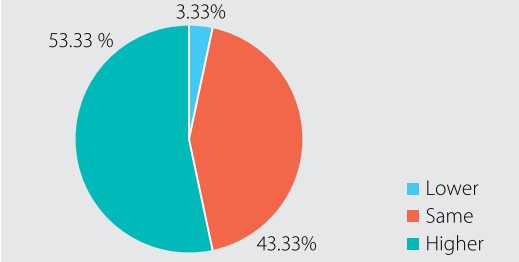
Expected earnings in 2025 in relation to 2024



Source: Central Bank Survey

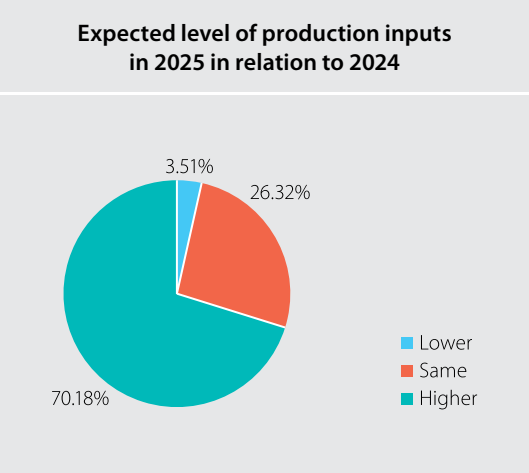
Graph 15

Expected number of employed persons in 2025 in relation to 2024



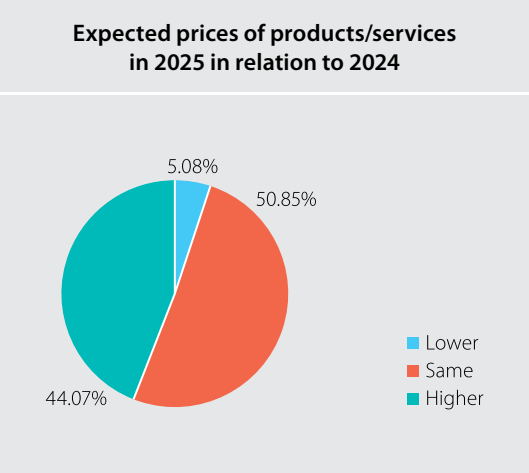
Source: Central Bank Survey

Graph 16



Source: Central Bank Survey

Graph 17



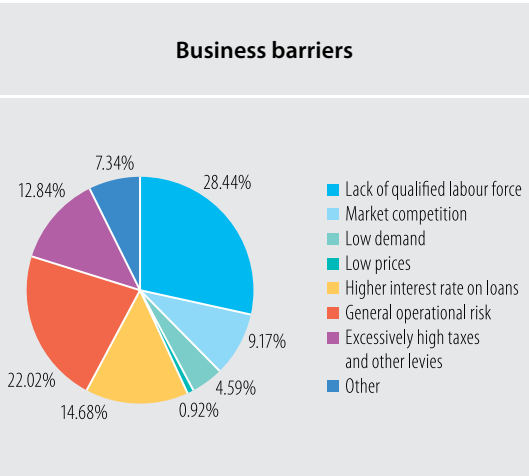
Source: Central Bank Survey

Business Environment

The survey results also show that most of the surveyed companies (28.44%) see lack of qualified labour force at the labour market as the major business barriers (graph 18), followed by general operational risks (22.02%), high lending interest rates (14.68%), too high taxes and other duties (12.84%), market competition (9.17%), other obstacles (7.34%), poor demand (4.59%), and low prices (0.92%).

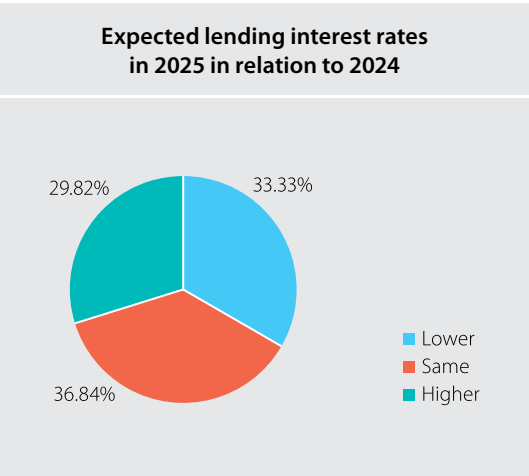
With regard to the lending interest rates, 36.84% of the respondents expect unchanged levels, 33.33% expect them to decrease, while 29.82% expect them to increase in the current year relative to 2024 (graph 19).

Graph 18



Source: Central Bank Survey

Graph 19

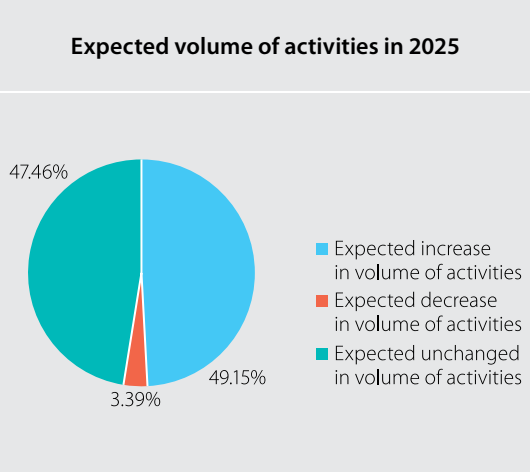


Source: Central Bank Survey

Investments

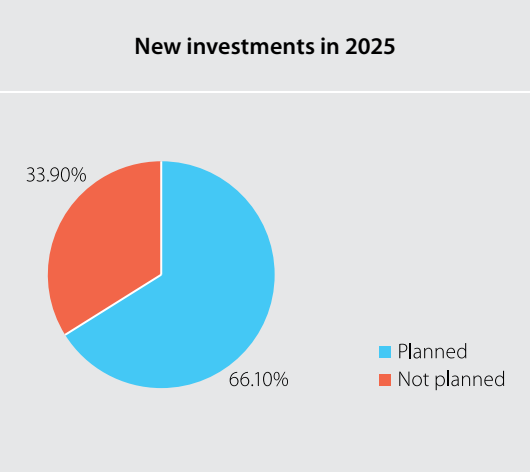
Out of the total number of companies surveyed, 49.15% of them plan to increase the volume of their activities by the end of 2025, while 47.46% of the respondents expect unchanged volume of activities (graph 20). The majority of those surveyed (66.10%) plan new investments (graph 21), where most of the investments (33.82%) will be used to increase their fixed assets (graph 22). The surveyed entities highlighted insufficient exploitation of the existing capacities, high interest rates and unfavourable conditions for capital borrowing and high current production costs as the main barriers to new investments (graph 23).

Graph 20



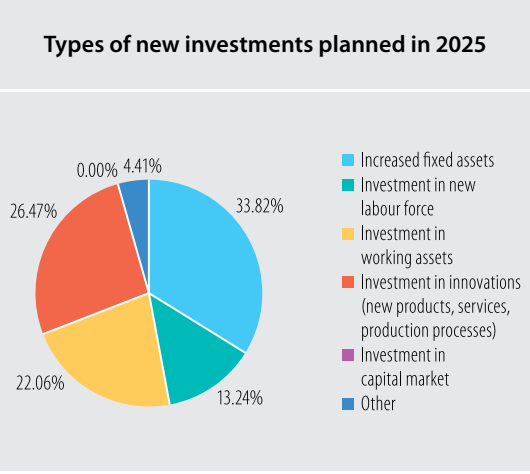
Source: Central Bank Survey

Graph 21



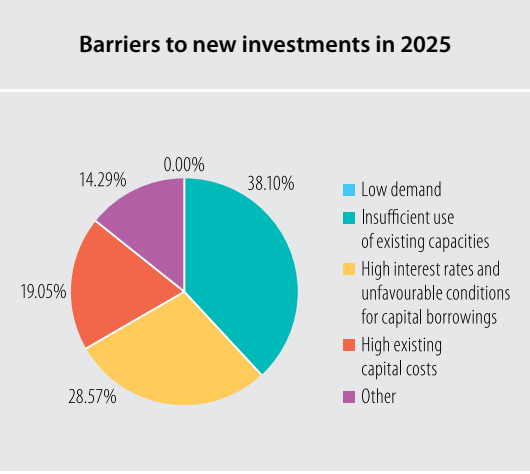
Source: Central Bank Survey

Graph 22



Source: Central Bank Survey

Graph 23



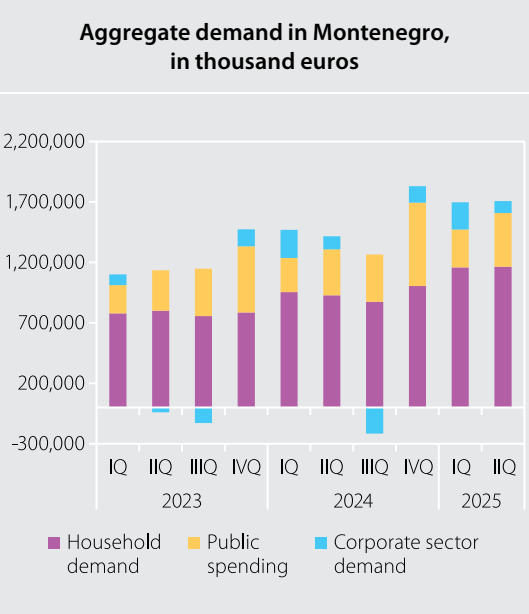
Source: Central Bank Survey

3. INFLATION DETERMINANTS

3.1. Demand

According to preliminary data, aggregate demand recorded slight quarterly growth in Q2 2025 but also the year-on-year increase. Observing the structure of total demand in the reporting period, the share of retail demand and public spending increased compared to the previous quarter, while wholesale demand declined (graph 24).

Graph 24



Source: Central Bank calculations

Graph 25

Source: Central Bank calculations

Box 1 – Aggregate demand calculation methodology

For the purpose of a more complete monitoring of aggregate demand as a determinant of inflation, the Central Bank 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:

$$AD = C + I + G$$

C = sum of paid salaries + sum of paid pensions + paid frozen foreign currency deposits + net compensations to households – net household savings (savings – loans granted)

I = – net savings of economy (deposits – loans)

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

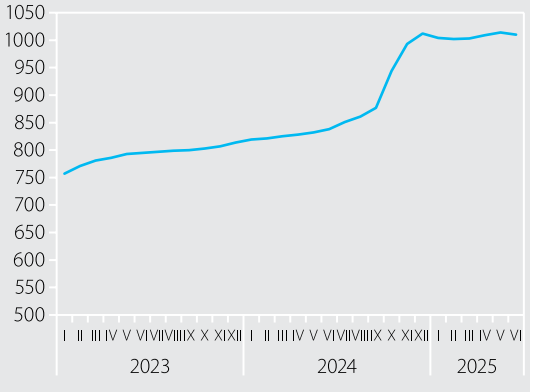
AD – aggregate demand, C – personal spending, I – investment spending, G – public spending

3.1.1. Earnings and other available demand determinants

In the first half of 2025, average gross earnings in Montenegro amounted to 1,200 euros, while average earning without taxes and contributions amounted to 1,007 euros. In relation to H1 2024, the average gross earnings increased by 15.94% and net earnings rose 21.77%. This increase mainly resulted from the application of the fiscal programme *Europe Now 2!* from October 2024 (a segment from Montenegro's Fiscal Strategy 2024-2027 which implies increasing minimum wage increase from 450 to 600 or 800 euros and decreasing contributions for pension insurance paid by employees from 15% to 10%).

Graph 26

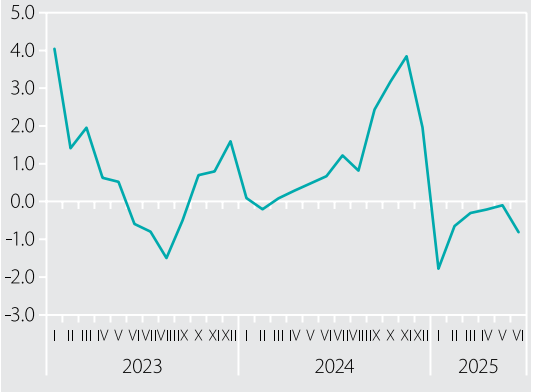
Average earnings without taxes and contributions in Montenegro, in euros



Source: MONSTAT

Graph 27

Monthly change in real gross earnings in Montenegro, in %



Source: MONSTAT

If we take into account consumer prices, i.e. the wages and salaries trend observed in real terms, it is concluded that real wages and salaries fell in all months of the first half of 2025.

Retail[11] loans recorded a positive trend during the first six months of 2025. Loans to this sector grew at a monthly average rate of 1.78% during the reporting period, as compared to 1.23% in the comparative period of the previous year.

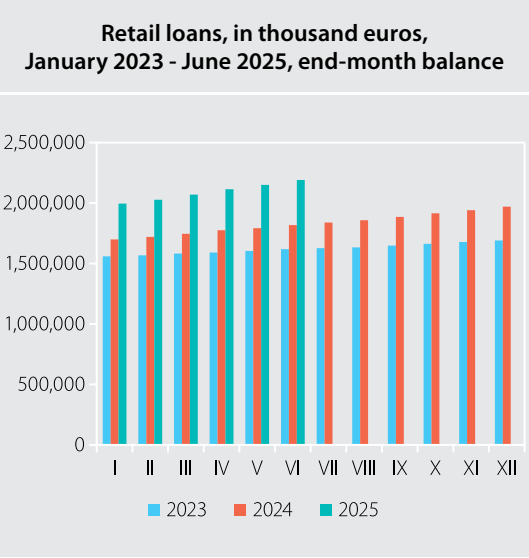
At end-June 2025, retail loans amounted to 2,190.05 million euros, which is 371.75 million euros or 20.44% more than in same month last year, and 220.30 million euros or 11.18% more than in December 2024 (graph 28).

Debt per capita[12] amounted to 3,513.48 euros at the end of the reporting period, recording an increase of 598.05 euros or 20.51% year-on-year and 355.21 euros or 11.25% increase in relation to end-2024.

At end-June this year, total MFI loans granted to the retail sector amounted to 91.49 million euros, which is 13.04 million euros or 16.62% more year-on-year, and 5.75 million euros or 6.70% more than at end-2024.

Retail deposits amounted to 2,205.79 million euros at end-June this year, being 293.26 million euros or 15.33% higher than at end-June last year and 50.91 million euros or 2.36% higher than at end-2024.

Graph 28



Source: CBCG calculations

The loans to deposits ratio of the non-financial sector was 0.99 at end-June this year and it increased year-on-year when it was 0.95 and compared to the end of the previous year when it stood at 0.91.

At the end-June 2025, the retail sector had a net savings of 15.75 million euros, which recording a decrease compared to June 2024 when the retail sector net savings amounted to 94.23 million euros. At end-December 2024, the retail sector recorded net savings in the amount of 185.14 million euros.

[11] The retail sector includes resident natural persons and entrepreneurs.

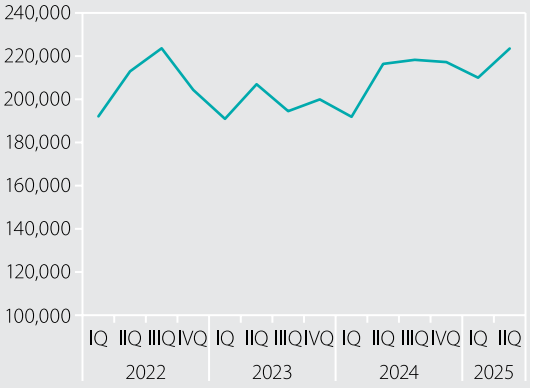
[12] Population estimate for 2025 amounts to 623.327, Source: MONSTAT.

In 2025, 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 2024 (graph 29).

The comparison of the total retail sector demand by quarters shows that it was slightly higher in Q2 this year than in the previous quarter and significantly higher than in Q2 2024 (graph 30).

Graph 29

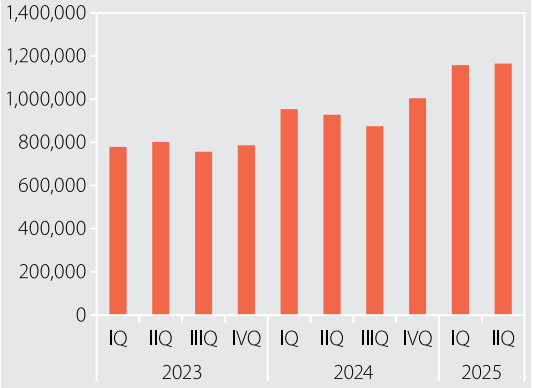
Inflow of foreign funds to households, in thousand euros



Source: Central Bank

Graph 30

Aggregate retail demand in Montenegro, in thousand euros



Source: Central Bank calculations

3.1.2. Public sector demand

Montenegro's public finances[13]

According to the Ministry of Finance preliminary data, **public spending** reached 1.63 billion euros or 20.55% of the estimated GDP[14] for 2025. Compared to the plan, public spending was 53.71 million euros or 3.20% lower, and 171.12 million euros or 11.75% higher year-on-year. The increase in spending was mostly caused by an increase in expenditures based on pensions and disability insurance due to the regular adjustment of pensions based on the change in the annual inflation rate and average gross wage, and increased number of pensioners.

The recorded level of public spending was financed from tax revenues (1.19 billion euros), contributions (184.08 million euros), fees (73.35 million euros), donations (34.87 million euros), other revenues

[13] 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).

[14] Source: Ministry of Finance; estimated GDP for 2025 amounts to 7.92 million euros.

(30.73 million euros), revenues from duties (9.14 million euros), and revenues from loan repayment (0.18 million euros).

Current public spending (public spending reduced by capital expenditure) amounted to 1.47 billion euros or 18.52% of GDP and it grew year-over-year by 9.95%, while capital expenditure amounted to 161.19 million euros or 2.04% of GDP.

According to individual economic classification, transfers accounted for the main share in the structure of public expenditures with 49.82%, followed by current public expenditures with 38.01%, capital expenditure with 9.90%, while 2.27% 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 1.52 billion euros or 19.17% of estimated GDP, being 2.88% and 1.31% lower in relation to the plan yet 1.31% higher year-on-year. As for the structure of public revenues, tax revenues accounted for the main share of 78.10%, followed by contributions with 12,13%, whereas the other revenues accounted for the remaining 9.77%.

According to the Ministry of Finance preliminary data, the budget recorded **public spending cash deficit** of 109.64 million euros or 1.38% of GDP, while public spending recorded a cash surplus of 41.79 million euros or 0.55% of GDP in the same period of 2024.

Budget of Montenegro

According to Ministry of Finance preliminary data, total revenues[15] of the Budget of Montenegro amounted to 2.26 billion euros or 28.51% of GDP in 2025.

Current revenues of the Budget amounted to 1.32 billion euros and they accounted for 16.71% of the projected GDP. Compared to the plan, they dropped by 2.70%, yet they were higher by 1% compared year-over-year. In the structure of current revenues, tax revenues accounted for the main share of 81%, followed by contributions with 13.92%, fees with 2.37%, other revenues with 1.79%, duties with 0.52%, and donations with 0.40%.

Tax revenues amounted to 1.07 billion euros, recording a 0.61% increase relative to the plan and a 11.69% increase year-on-year. All taxes recorded the annual increase, with the largest rise of 66.10 million euros registered in value added tax due to the increased economic activity, higher spending and investment, and decreased scope of non-observed economy.

Revenues based on contributions amounted to 184.08 million euros and by 9.22% lower than planned, while at the annual level they declined by 30.78% due to the abolition of the employer-borne tax burden and its reduction for employees[16], which is one of the measures from Montenegro's Fiscal Strategy for the period 2024–2027.

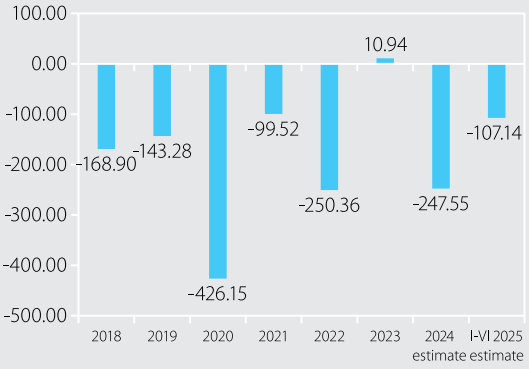
[15] Revenues include current revenues (direct and indirect taxes and non-tax revenues), borrowings and loans from domestic and foreign sources, as well as revenues from property sale and receipts from loan repayment.

[16] Its application started in October 2024.

Consolidated budget expenditure amounted to 1.43 million euros or 18.06% of GDP in the first half of the year. Recorded expenditures were 3.11% lower than planned but also 11.70% higher year-on-year.

Graph 31

Budget surplus/deficit of Montenegro in the period 2018 – I-VI 2025, in million euros



Source: Ministry of Finance

Current budget expenditures amounted to 558.01 million euros and they were 5.32% lower in relation to the plan yet 8.65% higher year-on-year. The largest nominal decrease compared to planned expenditures was recorded in gross wages and employer-borne contributions (11.90 million euros), while the increase compared to the same period of the previous year was driven by higher interest payments (20.19 million euros) due to the rising cost of external sources of budget financing over the past two years, i.e. the maturity of obligations arising from issued bonds and concluded loan arrangements.

Social welfare transfers amounted to 543.62 million euros or 6.87% of GDP, transfers to institutions, individuals, NGO and public sectors amounted to 203.13 million euros or 2.57% of GDP, while capital expenditures amounted to 106.26 million euros or 1.34% of GDP.

In H1 2025, the ***cash deficit*** of the Budget of Montenegro is estimated at 107.14 million euros or 1.35% of GDP.

3.1.3. Non-financial sector

Lending to the non-financial sector[17] recorded positive trends in the first six months of the current year. Loans to this sector grew at a monthly average rate of 2.40% during the reporting period, while they grew by 1.95% year-on-year.

At end-June 2025, total loans extended to the non-financial sector amounted to 1,781.77 million euros, which is 311.42 million euros or 21.18% more year-on-year and 235.35 million euros or 15.22% more compared to end-2024.

Long-term loans accounted for the main share in the structure of loans to the sector with 84.04%, which indicates that loans to the corporate sector were mainly used for increasing the volume of economic activity.

Deposits of the non-financial sector amounted to 1,644.65 million euros at end-June this year, recording an increase of 67.78 million euros or 4.30% in relation to June 2024, while they were 88.70 million euros or 5.12% lower than in December 2024.

[17] The non-financial sector includes state companies and private companies.

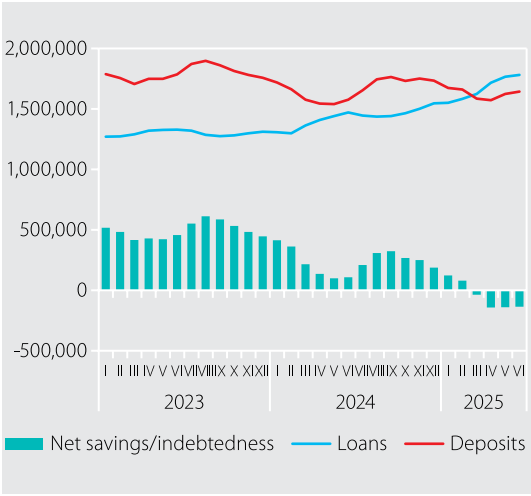
The loans to deposits ratio of the non-financial sector was 1.08 at end-June this year and it increased year-on-year when it was 0.93 and compared to the end of the previous year when it stood at 0.89.

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

At end-June this year, net debt of the non-financial sector amounted to 137.13 million euros, while net savings amounted to 106.51 million euros was recorded year-on-year and compared to end-December 2024 when net savings amounted to 186.93 million euros (graph 32).

Graph 32

Net savings/indebtedness of the non-financial sector, in thousand euros, January 2023 - June 2025, end-month balance



Source: CBCG calculations

3.1.4. External demand and the current account

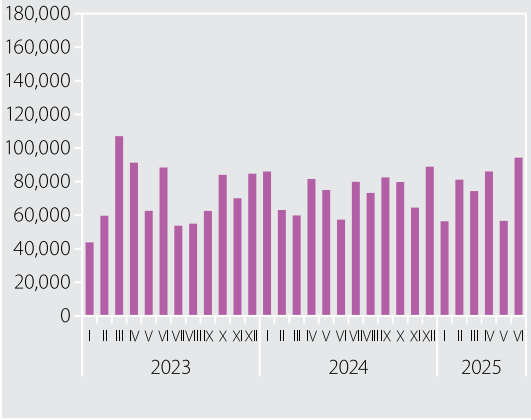
Preliminary data shows that the current account deficit amounted to 958.64 million euros in the period January - June 2025, which is the year-on-year increase of 10.39%. This growth resulted from an increase in deficit on the goods account, and the decrease of surplus on the secondary income account.

The goods account recorded a deficit of 1,729.11 million euros or 9.44% more than in the comparative period last year. Total visible exports amounted to 290.05 million euros, recording a decrease of 5.30%, whereas total visible imports amounted to 2,019.16 million euros, being 7.05% higher year-on-year. The services account recorded a surplus of 484.82 million euros, which is approximately the same as in June 2024. The primary income account registered a surplus of 79.70 million euros, mostly due to increased revenues from paid dividends. The secondary income account ran a surplus of 205.95 million euros, which is 4.55% less than in the first two quarters of 2024.

Preliminary data suggests that net foreign direct investments (FDI) inflow for the period January-June 2025 amounted to 235.26 million euros, which is the year-on-year decline of 4.15%.

Graph 33

Monthly inflow of total FDI in the balance of payments of Montenegro, in thousand euros



Source: CBCG

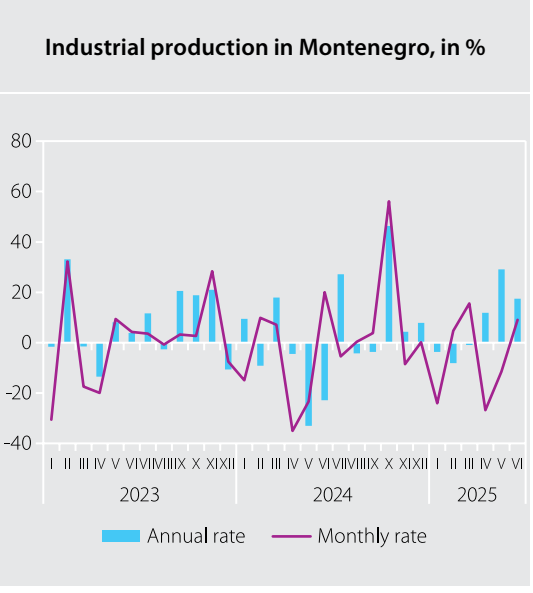
Total FDI outflow amounted to 448.57 million euros or 6.14% more than in the comparative period. Equity investments amounted to 267.72 million euros (a 3.03% increase), while the inflow in the form of intercompany debt added up to 162.90 million euros or 3.93% more year-over-year. In the structure of equity investments, investments in companies and banks accounted for 38.86 million euros (a 35.12% decline), while investments in real estate amounted to 228.86 million euros (a 14.46% growth). The inflow arising from the withdrawal of funds invested abroad amounted to 17.95 million euros. In the structure of total FDI inflow, the share of real estate investments amounted to 51.02%, followed by intercompany debt with 36.31%, while 8.66% were investments in companies and banks. Total FDI outflow amounted to 213.31 million euros or 20.41% more than in June 2024. Outflow from residents' investments abroad amounted to 51.86 million euros, while withdrawal of non-residents' funds invested in Montenegro amounted to 161.45 million euros.

In 2024, portfolio investments account recorded net inflow of 266.92 million euros, while the net inflow in the other investments account amounted to 187.20 million euros.

3.2. Supply and production

In H1 2025, industrial output recorded the year-over-year increase of 4.6% due to an increase recorded in the *manufacturing industry* and *mining and quarrying* sectors of 18.7% and 8.3%. The growth in prices was recorded in the sector of *electricity, gas and steam supply* (16.2%). Observing monthly data on industrial output (graph 34), the highest monthly growth was recorded in March (15.6%), while the highest decrease was recorded in April (26.8%).

Graph 34



Source: MONSTAT

In H1 2025, as per MONSTAT data, a total of 93,110 m³ of **forest assortments from state forests**[18] was produced, which is 104,9%[19] more than in the comparative period last year.

According to preliminary MONSTAT data, the total *value of executed* **construction works** amounted to 322.02 million euros in the reporting period recording y-o-y growth of 3.02%, whereas measured by the *effective working hours at construction sites*, it increased by 1.50%.

According to preliminary MONSTAT data, **passenger transport** in the first six months of 2025 recorded year-over-year growth in airport passenger transport of 6.97% and in road transport of 2.26%, while rail transport registered a decline of 8.73%. During this period, **freight transport** recorded growth in rail transport at 8.06%, while

[18] The total 2024 production of forest assortments (from national and private forests) is to be published by MONSTAT at end-2025.

[19] Presented through weighted index.

a decline was registered in the volume of goods handled at airports and in road transport of 7.00% and 2.11%, respectively. Total turnover of goods in ports amounted to 1.22 million tonnes, being 0.21% higher year-over-year. Of this amount, exports accounted for 53.36% and imports for the remaining 46.64%. The export of goods from Montenegrin ports dropped in this period by 15.70%, while the import of goods in tonnes rose by 27.81%.

3.3. Stock exchange indices

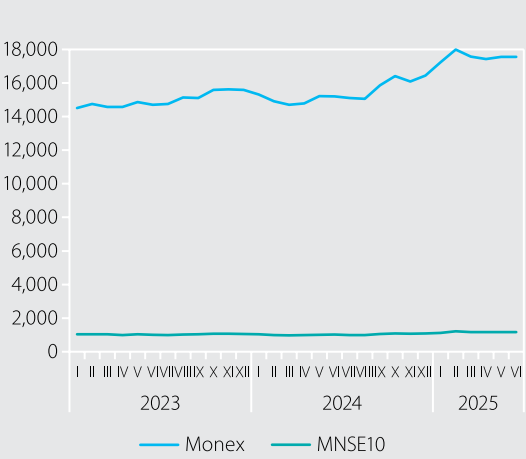
At end-June 2025, the MONEX[20] and MNSE10[21] indices rose compared to the same period last year as well as compared to end-2024 (graph 35).

At end-June 2025, the SE index Monex reached 17,556.00, recording a growth of 2,348.80 index points or 15.45% year-on-year, while compared to the end of the previous year it recorded a growth of 1.122,54 index points or 6.83%.

At end-June 2025, the SE index MNSE10 reached 1,166.62, recording a growth of 150.45 index points or 14.81% year-on-year, and f 81.10 index points or 7.47% compared to the end of 2024.

Graph 35

Movement of Montenegro Stock Exchange indices, in index points, January 2023 - June 2024, end-month balance



Source: Montenegro Stock Exchange calculations

[20] MONEX is a general (*benchmark*) index of the Montenegro Stock Exchange with the aim of describing as precisely as possible the trend of share prices on the Stock Exchange and Free Market of "Montenegro Stock Exchange" AD Podgorica. With the new Methodology, the MONEX index, as the successor of the MONEX20 index, contains more companies in its index basket.

[21] MNSE10 represents a leading (*blue-chip*) index of the Montenegro SE, aimed at precisely describing developments of prices of shares at the Stock Exchange and Free market of "Montenegro Stock Exchange" AD Podgorica. It includes ten best companies from the Montenegrin market.

4. MONETARY POLICY

During the first six months of 2025, there were no changes to the existing monetary policy instruments nor were any new decisions passed regarding the Central Bank of Montenegro's monetary policy instruments.

5. INFLATION FORECAST FOR Q3 2025 AND Q4 2025, AND Q1 2026 AND Q2 2026

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 fan chart is aimed at considering uncertainties in the real economy, which consequently reflect on the inflation rate movements (increase in energy prices, increase/decrease in foreign trade deficit, and the like).

Montenegro's fan chart for Q3 2025 and Q4 2025, and Q1 2026 and Q2 2026 is based on three estimated constituent parts:

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 for Q3 2025 and Q4 2025, and Q1 2026 and Q2 2026

With 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[22] was developed.

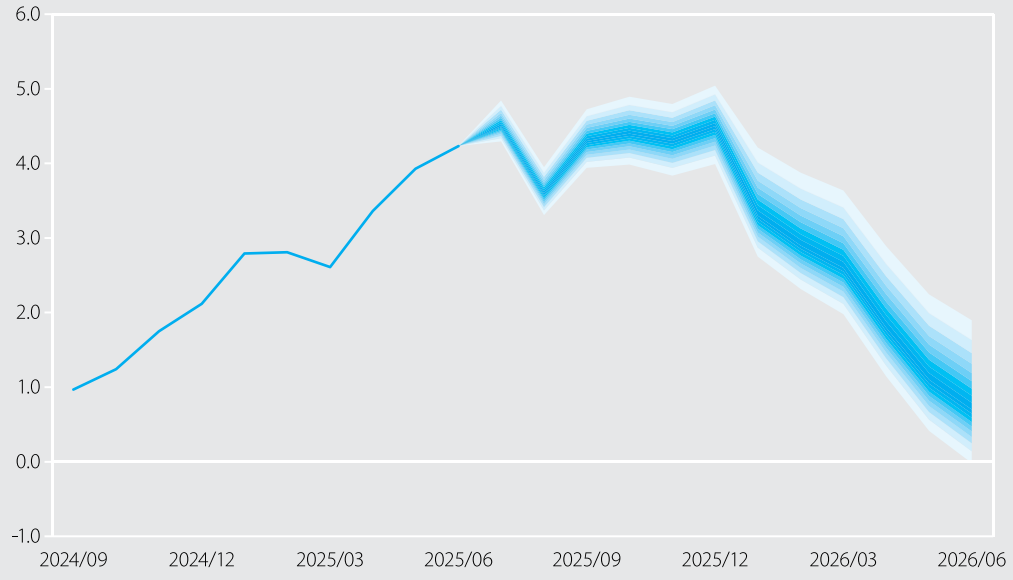
[22] A detailed explanation of the ARIMA model of Montenegro was presented in the working study of the Central Bank no. 11 "Inflation forecasting: Empirical research on the retail price index trend of Montenegro for 2007 - applying the ARIMA model."

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 (2,1,1)[23] has sufficient confidence level for forecasts.

The monthly forecasts value was used as the value of central projection of the CPI graph for Q3 2025 and Q4 2025, and Q1 2026 and Q2 2026. Obtained values represent the distribution mode, i.e. values with the highest frequency in the distribution of this time series.

Graph 36

Montenegro's CPI projections for the Q3 2025 and Q4 2025, and Q1 2026 and Q2 2026



Source: CBCG, 2025

The mean value of inflation (central projection) of the received model (2025M07 – 2026M06) is 3.2%. The value of the coefficient of asymmetry varies between 0.42 and 0.7, and the relative standard deviation is 0.3. 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[24]. 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.

[23] The ARIMA model is generally referred to as an ARIMA (p, d, q) where p represents the number of autoregressive variables, d refers to the level of dependent variable that needs to be made stationary, and q is the number of variables, moving averages, in the certain model.

[24] Usually, mode value (central projection) is the darkest band; however, if there is a significant level of risk, then it may happen that the central projection does not include any of these values. (Britton, E, Fisher, P.G. and Whitley, J.D. (1998), 'The Inflation Report projections: Understanding the Fan Chart', Bank of England, Quarterly Bulletin, 38, pp. 30–37.)

The Fan Chart of inflation in Montenegro, based on the ARIMA model assessment for Q3 2025 and Q4 2025, and Q1 2026 and Q2 2026, indicates that there is a *90% probability that the CPI inflation will range between 0.0% and 5.0%, depending on the month, with the central projection at 3.2%.*

Table 3

Model assessment of inflation in Montenegro for Q3 2025 and Q4 2025, and Q1 2026 and Q2 2026		
Lower inflation threshold	Central projection	Upper inflation threshold
0.0%	3.2%	5.0%

Inflation projected for December 2025 ranges between 4.0% and 5.0%, with the central projection at 4.5%. The Fan Chart central projection (the darkest part) represents a 10% probability span (graph 36).

Table 4

Model inflation rate in Montenegro at end-2025		
Lower inflation threshold	Central projection	Upper inflation threshold
4.0%	4.5%	4.3%

Projection is based on the following assumptions:

- **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 estimated that the inflation in the euro area will average to 2.0% in 2025 and 1.6% 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.
- **ECB Monetary policy and interest rates.** In 2025, after the tightening cycle, the ECB continued with easing monetary policy by reducing interest rates. Market expectations point to disinflation continuation, although there is risk related to the timeline and volume of mitigating monetary policy.
- **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.

- **Geopolitical risks and oil price trends.** Conflicts in Ukraine and the Middle East remain key risk factors with possible supply chain disturbances. WTI Crude oil price dropped to 62.6 USD/bbl. which is the lowest level in more than two months, due to International Energy Agency forecasts of rising inventories and an oversupply this year and next. Reserves are expected to reach a 46-month high by June 2026. Projections indicate that production in the United States will remain at its peak this year, before decreasing next year. The price of crude oil is expected to hover around 62.6 USD/bbl. by the end of Q2, with slight fluctuations over the following 12 months, depending also on the outcome of the upcoming US–Russia summit regarding the war in Ukraine and any potential changes to US sanctions on Russian oil.

- **Global economic developments.** Global economic growth has been revised downward: for 2025, the most realistic projection stands at 2.6–2.9%, while more extreme estimates range from 2.3% to 3.0%. US trade policies — involving the introduction of a wide array of new tariffs on products from China, Canada, Mexico and other countries — are increasing production and logistics costs and significantly disrupting global trade. The WTO forecasts global trade growth of only about 0.9% this year, which is considerably lower than earlier projections. In the short term, there has been a temporary increase in import volumes due to stockpiling ahead of the tariffs taking effect, but activity is expected to decline in H2. This uncertainty and fragmentation of trade policies are undoubtedly weakening investment and consumption impulses, with possible indirect effects on inflation in Montenegro, given rising import costs and uncertainty in global supply chains.

- **Domestic factors: political stability and domestic fiscal policy.** Changes in fiscal policy (e.g. increased public spending, new taxes) or potential political instability within Montenegro may affect inflation through changes in consumption and investment, as well as through consumer and investor confidence.

6. EXPECTED INFLATION IN 2025

The largest number of surveyed banks and corporate sector expect the inflation rate higher than 3.3%. Aggregate demand recorded a mild quarterly growth in Q2 2025 but also the year-on-year increase.

Inflation in Montenegro has been driven mainly by international factors, although domestic imbalances have also had an impact. The international environment is unfavourable for small, highly open economies, which is why most small euro area economies are also facing inflationary pressures.

The expected growth in production and investment will certainly have a disinflationary effect in the coming period, while the economy's expectations regarding further growth in aggregate demand could act in the opposite direction. Nevertheless, from a short-term perspective, a gradual easing of inflationary pressures can be anticipated.

Our model estimate for end-2025 projects inflation within the range from 4% to 5%, with the central projection at 4.5%. Our expert assessment is similar to the model estimate and it indicates that inflation in 2025 will range between 4.2% and 4.5%, with the central trend of 4.7%.

Table 5

Estimated inflation rate		
Optimistic assessment	Realistic assessment	Pessimistic assessment
4.2%	4.7%	5.2%

The expert assessment is based on the same assumptions as the model assessment. Deviation of any of the mentioned parameters from the expected values would also require revision of the estimation.