

MONTENEGRO INVESTOR UPDATE FOR Q1 2019

Ministry of Finance



JULY 2019



Economy grew by 3.0% in real terms and 4.4% in nominal terms y-o-y.

Growth was driven by strong domestic demand, increasing tourist arrivals and significant capital investments.

Tourist arrivals increased by 44.1%, construction works by 12.4%, net FDI by 63%, credit by 10.2%, and employment by 4.5% y-o-y.

Credit Ratings were affirmed at B1 with positive outlook by Moody's and B+ with stable outlook by S&P.

Budget Revenues were 13.4% higher y-o-y and 4.7% higher than budgeted.

Central Government Debt net of deposits was at 60.9% of GDP as of March 31st.

Annual Financing Needs for 2019 almost fully covered already by a mix of domestic issuance, infrastructure related loans and deposits from last year's Eurobond.

EU Accession Negotiations

Montenegro remains regional leader in accession negotiations with the EU, with 32 negotiating chapters opened.

Q1 2019: ECONOMIC ACTIVITY AND FISCAL PERFORMANCE

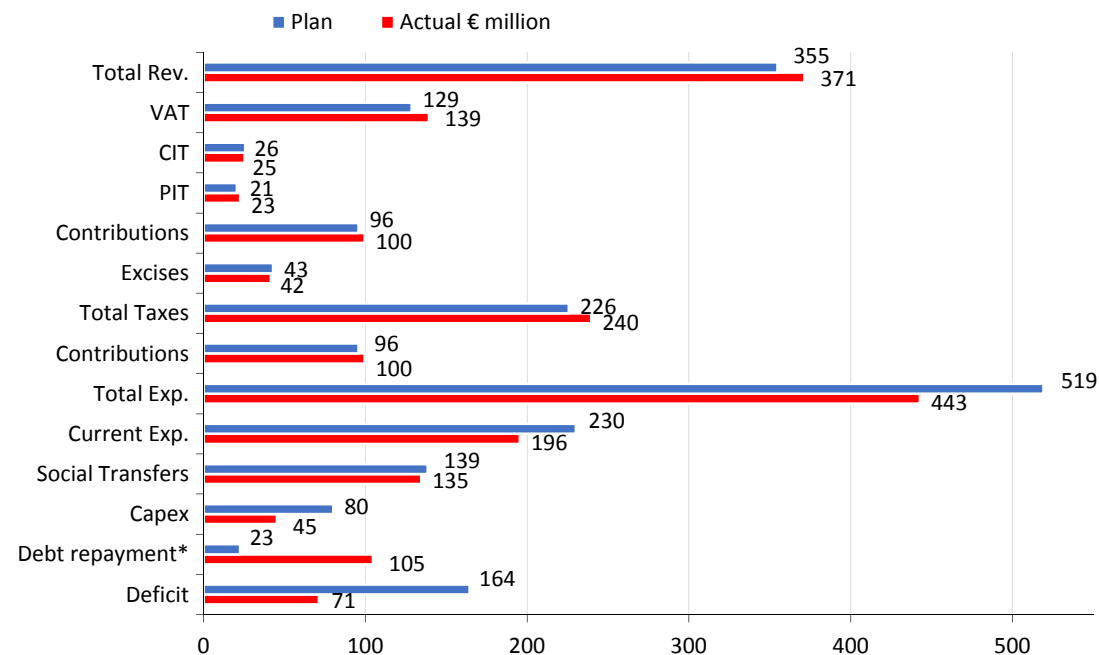


Indicators of economic activity

(All changes are y-o-y unless indicated otherwise)

Economic growth	■ After expanding by 4.9% in 2018, the economy grew by 3% Q1 2019, driven by strong domestic demand, increasing tourist arrivals and significant capital investments.
Labour market	■ Number of employed persons increased by 4.5%, and the unemployment rate declined by 1.1pp to 15%.
FDI	■ Gross FDI inflows amounted to €182m with net FDI inflows of €83m higher by 63%.
Tourism	■ Arrivals and overnight stays increased by 44.1% and 22.5% respectively indicating the extension of the tourism season.
Prices and Trade	■ Annual inflation remained low with consumer prices increasing by 0.50%. ■ Retail trade turnover increased by 5.5% in real terms.
Construction	■ Value of finalised construction works increased by 12.4% to €164m.
Air and sea transport	■ Air passenger traffic reached 256,000 passengers, up by 6.4%. ■ Montenegrin seaports handled 912,000 tonnes of cargo, up by 7.3%
Industrial production	■ Industrial production decreased by 14.4%, driven primarily by lower electricity production.
Foreign trade	■ Mild decrease in goods exports of 0.6%, while imports increased by 4.3% due to higher energy imports. ■ Largest trade partners were CEFTA members and the EU states.
Banking sector	■ Stable sector with total assets of €4.4bn and total equity of €0.5bn. ■ No disruption observed from the closure of the two small banks. ■ Lending increased by 10.2%, interest rates on new loans decreased by 0.75pp and NPLs ratio fell to 5.9%.

Budget execution (Million of Euros)



* Debt repayment includes €72m of T-bills rollover

Budget revenues

- Revenues were 13.4% higher y-o-y and 4.7% higher than budgeted as a result of strong economic activity, increased proceeds of a tax debt rescheduling program, and implementation of new excise tax policy.

Budget Expenditures

- Expenditures were 14.7% lower than budgeted, primarily due to a lower execution of capital expenditures of the current budget.

Deficit

- Budget deficit amounted to €71m or 1.5% of GDP.
- Deficit of the current budget was at €26m or c 0.55% of GDP.

Q1 2019: GOVERNEMENT DEBT AND FINANCING ACTIVITIES



Financing needs and Domestic bond issuance

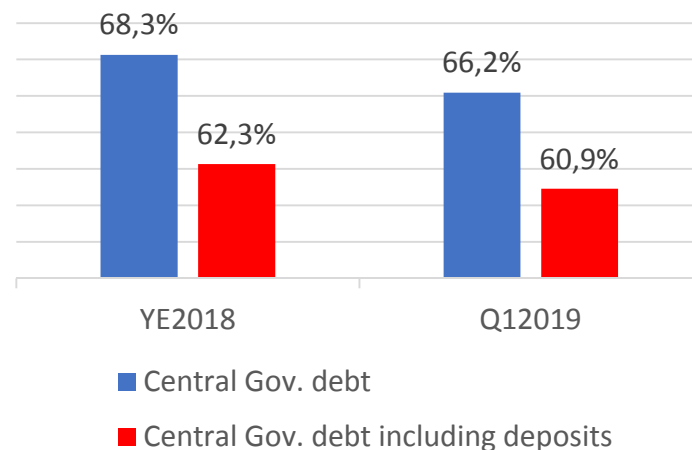
Financing needs for 2019

- Financing needs for 2019 according to the Law on Budget, amount to €556m.
- This amount will be sourced via:
 - Deposit in the amount of €180m carried over from last year's Eurobond issuance
 - Issuance of the domestic government bonds in the amount of up to €190m
 - Draw down from China Exim Bank loan for the highway construction of €180m
 - Privatisation proceeds of €6m.
- 85% of the financing needs for 2019 have already been covered.
- Ministry is also considering pre-financing 2020 needs.

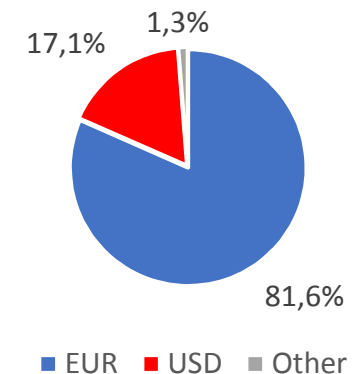
Domestic Issuance

- One of the priorities of the Medium Term Debt Strategy is the further development of the domestic bond market.
- In April, Ministry opened a new issue of 5-year and 7-year domestic bonds.
- 5-year bonds carry a 3.00% coupon, with target issue size of €140m - €92.6m placed so far.
- 7-year bonds carry a 3.50% coupon, with target issue size of €50m – fully placed already.
- Both bonds traded on Montenegro Stock Exchange.

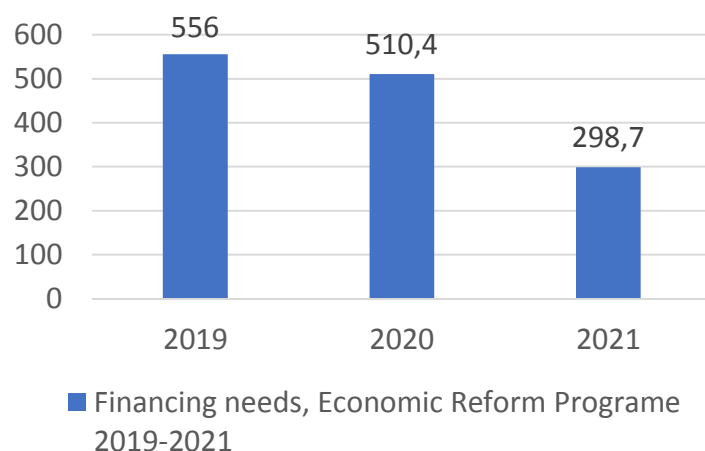
Central Government Debt (Percent of GDP)



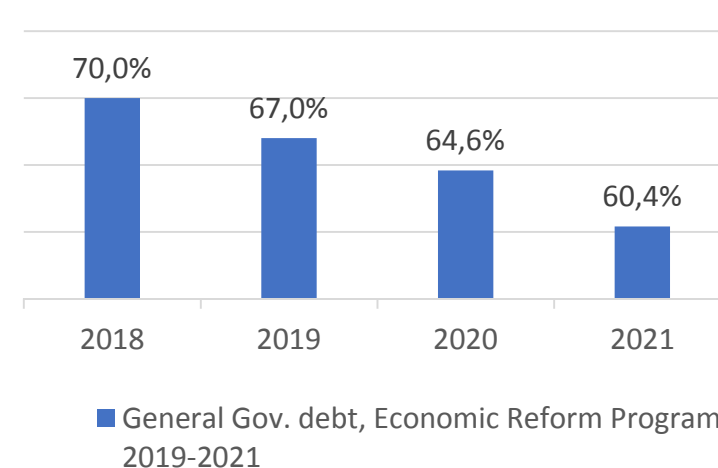
Central Government Debt – Currency structure



Projected Financing needs (Million of Euros)



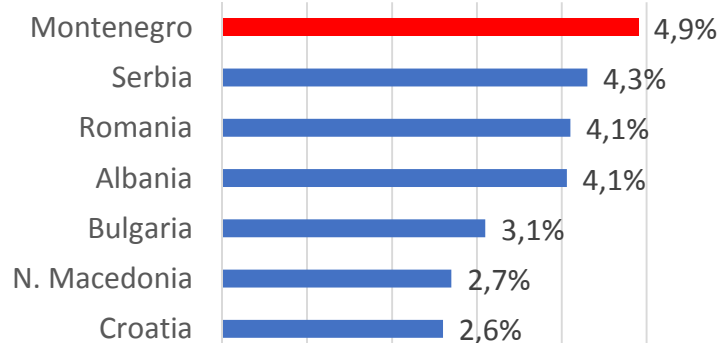
General Government Debt projections (Percent of GDP)



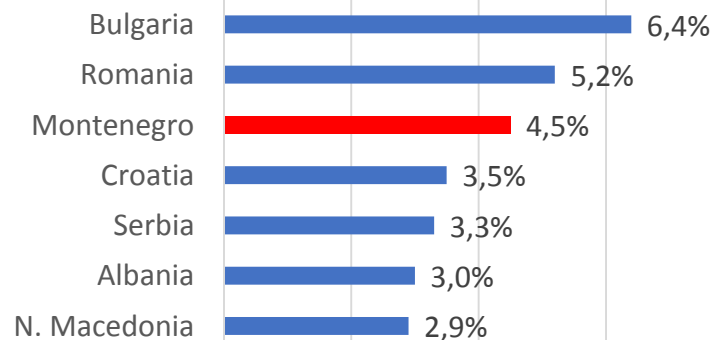
2018 ECONOMIC GROWTH AND 2019 PROJECTION



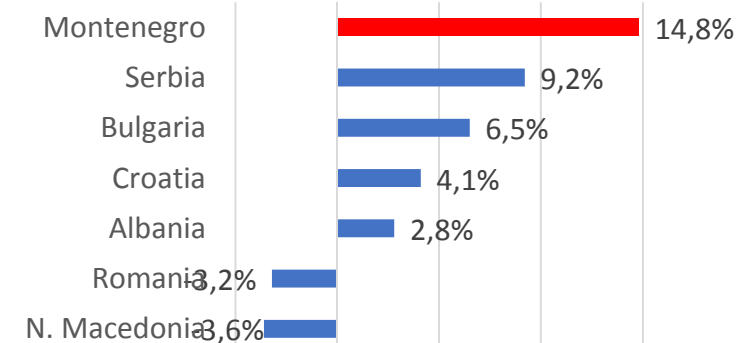
Real GDP growth 2018



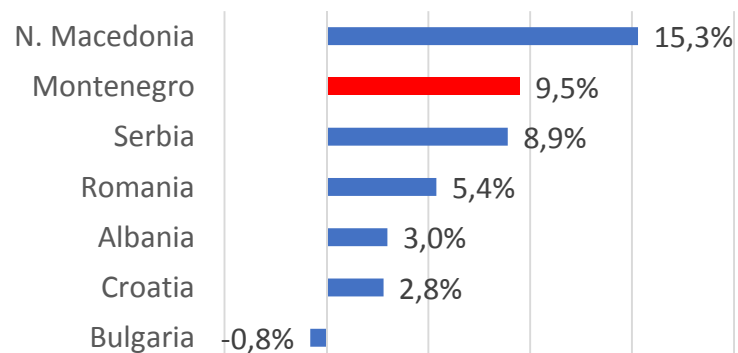
Private consumption growth 2018



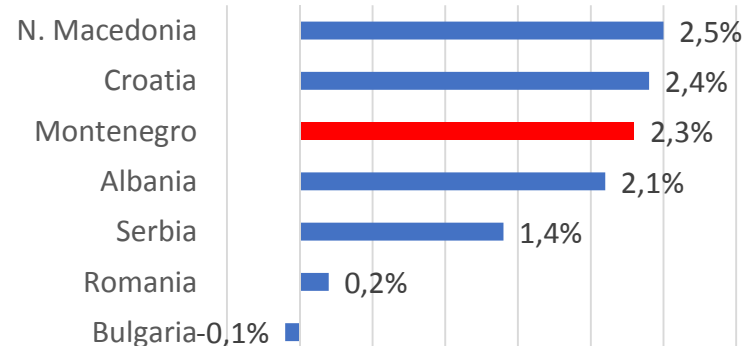
Gross fixed capital formation 2018



Exports (goods and services) growth 2018



Employment growth in 2018



Real GDP growth 2019 (EC spring forecasts)

