



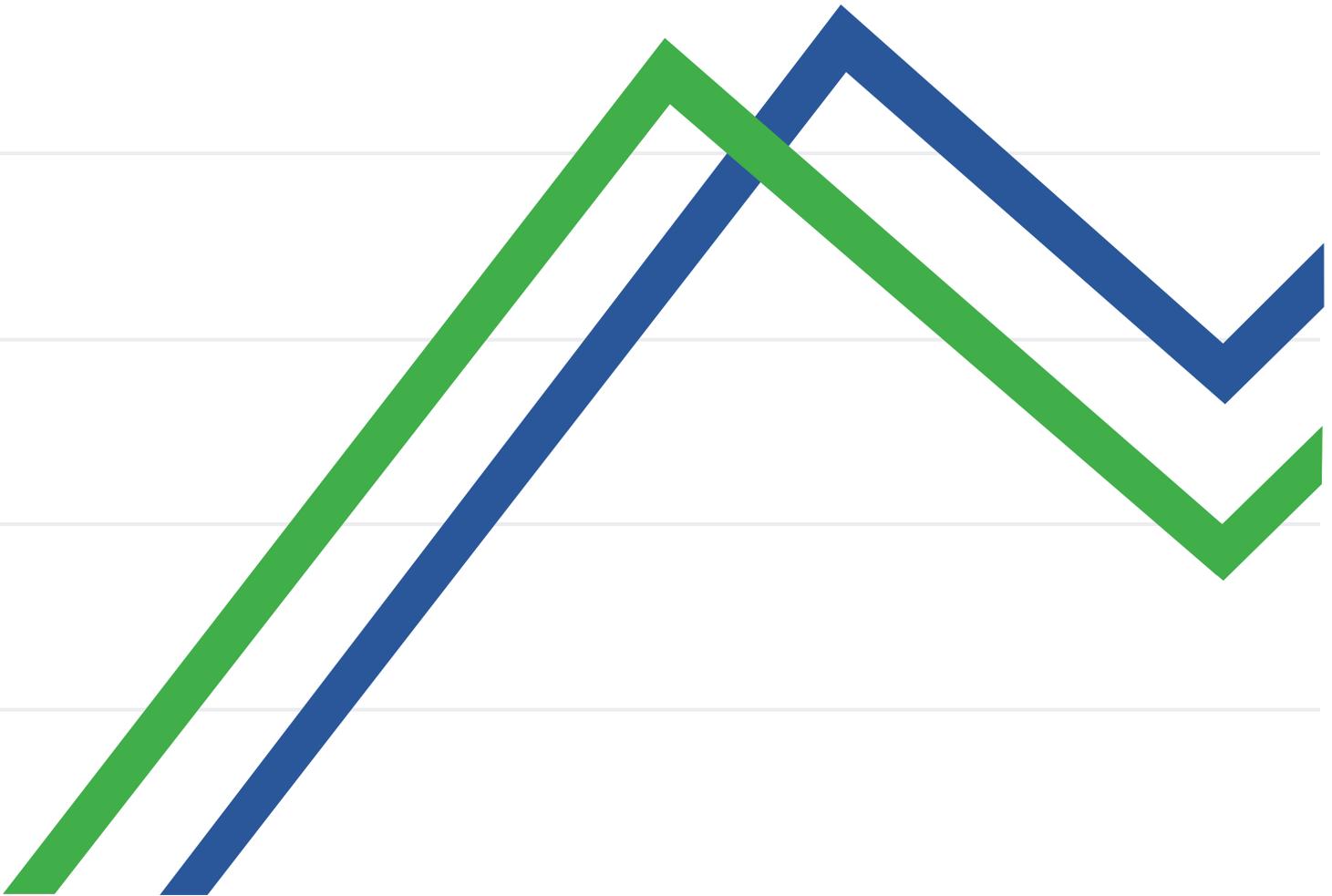


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Executive summary



Executive summary

Global economy was characterized by moderate improvements in the global trade and investments as well as increased political uncertainty in numerous parts. The achieved growth rate of global GDP in 2015 amounted 2.7%, while according to the World Bank expected growth rate of global output in 2016 and 2017 is estimated to be 2.3% and 2.7%, respectively. The biggest risks which could shake global economy are coming from imbalanced economic policies of biggest economies. Looking more regionally, economic growth rate is low in all SEE countries that are characterized by huge budget and trade deficits and lower level of foreign investments in 2016. Montenegro continues with the fiscal consolidation measures with the aim to reach the fiscal sustainability and financial system stability, while trying to reduce budget expenditures rates.

During the first three quarters of 2016, Montenegro recorded positive growth rates. GDP growth rate in the second quarter was 2.7%, while in the third was slightly lower and amounted 2.4%. The main drivers of GDP growth were development of infrastructure (energy and transport) and tourism. Investment activity had major influence on GDP growth. In the first three quarters of 2016, total investments in fixed assets in Montenegro amounted to 702 million EUR in current prices. Out of total fixed capital investments, 52% refer to construction work while 38% refers to equipment. When it comes to specific sector, the sector with the greatest portion of investments share is Government sector (27.5%).

This is not to be surprising, having in mind the railway Bar Boljare project that started in mid-2015. Growth rates of gross fixed capital formation in 2017 and 2018 is estimated at 9.98% and 5.2% respectively. Total inflow of FDI in Montenegro in 2016, according to preliminary Central Bank data, was 687,154,000 EUR. FDI is expected to grow at the rate of 4% in 2017, and 3% in 2018. In the first three quarters of 2016, private consumption increased for 2% in comparison with same period of 2015. The highest value has been achieved in the second quarter when private consumption amounted 747 million EUR. Growth in private consumption could be explained with growth of wages, especially in public sector which employ around 25% of total employment. Also, consumption growth is result of growth of pension and social security.

Namely, during 2016 new Law on Social and Child Protection has been adopted and mothers with three or more children entitled to life-long compensation. The total amount of export of goods in 2016 amounted 338.8 million E, which represents an increase of 4.15% compared to 2015 when it amounted 325.3 million E. The structure of exported goods shows that highest share is related to aluminum and aluminum products and mineral fuels, mineral oils and products of their distillation. With trends like this and upward projections of the future trend, we can most likely expect a continuous trend of increase in exports of services and decrease in exports of goods as a result of the economic situation of the Montenegrin economy and the falling price of aluminum on a global level which could result in a decline in exports. Also, growth in exports of services are expected because of the large investment tourist projects which improve the status of Montenegro as a tourist destination.

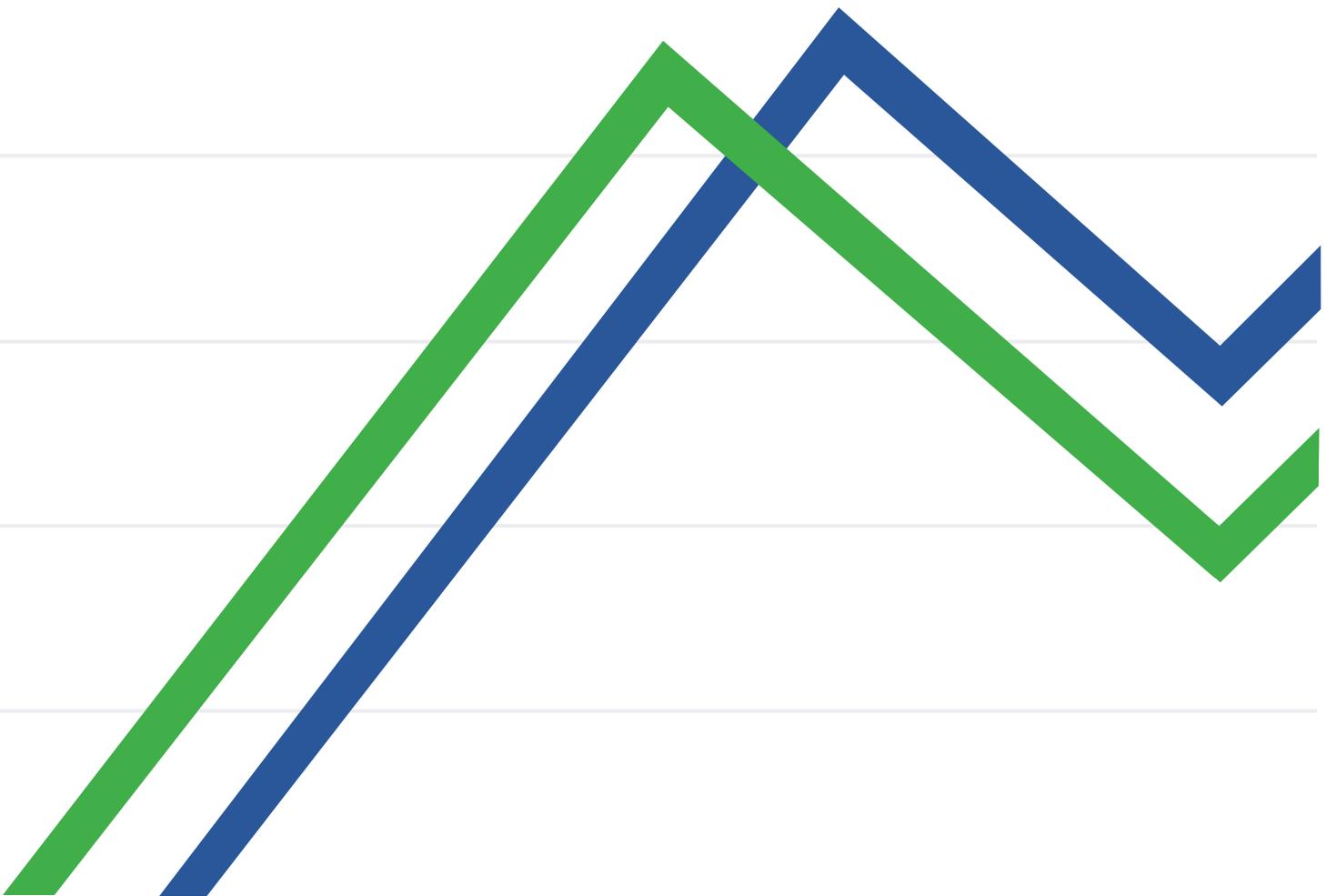
The forecast show that total export will increase in 2017 by 2.97%, which should be the result of increased export of services by 6.30%. On the other side the export of goods will continue to decrease, and it will be lower by 9.39% compared to 2016. Similar trend should be visible in 2018, when total exports will increase by 5.5% (exports of goods will decrease by 8.63% and exports of services will increase by 8.72 %.) The total amount of imports of goods in 2016 amounted to 2 billion E which represent an increase of 11.81% compared to 2015 when import amounted to 1.788 billion E.

The largest shares of imports of goods is related to machinery and transport equipment, food and live animals and manufactured goods classified by material. With trends like this and upward projections of the future trend, we can most likely expect a continuous trend of increase in imports of goods and services. Import of goods will increase in the next two years mostly as a result of increasing imports of machinery and transport equipment for the needs of infrastructural projects, projects in the field of energy and tourism. Forecasts show that total import will have increasing trend in 2017 and 2018, when it will increase by 0.59% and 3.2% respectively.

When it comes to labor market, the activity rate of the population (aged over 15+) in the third quarter of 2016 compared with the third quarter of 2015 increased from 55.0% to 55.9%, (0.9 p.p.), while the employment rate increased from 45, 9% to 46.5% (0.6 p.p.) mainly due to increased activity and employment rates among male labour force. Employment forecasts for the 2017 and 2018 show increasing trend, i.e. total employment will increase by 1.82 and 1.80 percent, respectively. However, this increase will be conditioned by numerous internal and external factors. Average net wage in 2016 amounted 499 E and it was 2.7% higher compared to average net wage from 2015. This increase is mainly due to government decision to increase the wage levels in public administration. The wages will continue to grow slowly in 2017 and more intensively in 2018.

The major economic trends are positive and indicate growth expectations in all components of GDP in the following two years. Main drivers of growth will be the continuation of major infrastructure projects, namely: high-way construction, Adriatic Ionian Corridor, construction of the second block of the thermal power plant, connecting electro-energy systems with Italy and Serbia, as well as the upgrading of the utility and rural infrastructure.

Overview
International environment



Overview international environment

World. Global economy was characterized by moderate improvements in the global trade and investments as well as increased political uncertainty in numerous parts. The achieved growth rate of global GDP in 2015 amounted 2.7%, while according to the World Bank expected growth rate of global output in 2016 and 2017 is estimated to be 2.3% and 2.7%, respectively. The highest growth rates were recorded in emerging markets and developing economies (3.4%), while the advanced economies grow by 1.6%. The expectations for 2017 are related to decrease of export barriers and solid domestic demand for export of goods and services. The biggest risks which could shake global economy are coming from the doubt that world's biggest economies can lead imbalanced economic policies. Fiscal stimulants in biggest economies, especially in USA, can lead to significantly increased economic activity in short term, a lot faster than expected. Considering the fact that macroeconomic policy can't absorb more shocks, structural reforms, which enhance growth potential, are still top priority. Forecasts show that investing in human assets and fixed capital could lead to more stable growth in long-term period. Also, political reforms, as well as improving international integrations through trade promotions and direct foreign investments could strengthen resistance of economy and improve chances for growth EU.

Growth rate in EU will stay at low point and, with the aging population, will more depend on productivity growth. Despite lower global growth rate, which led to lower demand of EU's products abroad, EU had a growth rate of 1,9% in 2016. According to the latest research of Eurobarometer, dissatisfaction about political institutions, rooted negative interests as well as aging population could strengthen resistance about growth enhancing reforms. Monetary policy came up to expectations up to this point; interest rates are on a record low level and in some countries even credits in total grew. Expansionary fiscal policy can contribute to growth rate in EU. However, member countries of EU with need of fiscal stimulant also have high public debt, which continues to grow despite lowest interest rates in history. Reforms in service sectors as well as productivity growth can lead to increased growth rate in general. However, low level of investments and decline in labor force could cause negative growth rate.

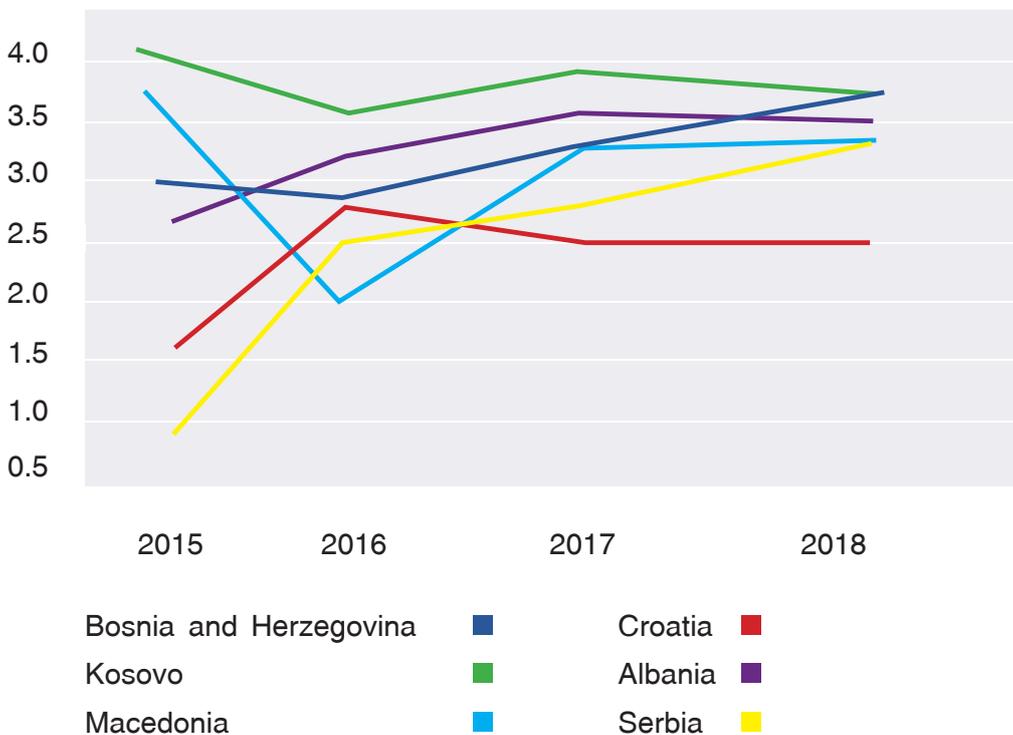
GDP grow rates 2015 2016 2017 2018

	2015	2016	2017	2018
World	2.7	2.3	2.7	2.9
Euro Area	2.0	1.6	1.5	1.4
EMDEs	3.5	3.4	4.2	4.6
BRICS	3.8	4.3	5.1	5.4
United States	2.6	1.6	2.2	2.1
Japan	1.2	1.0	0.9	0.8
China	6.9	6.7	6.5	6.3
Russia	-3.7	-0.6	1.5	1.7

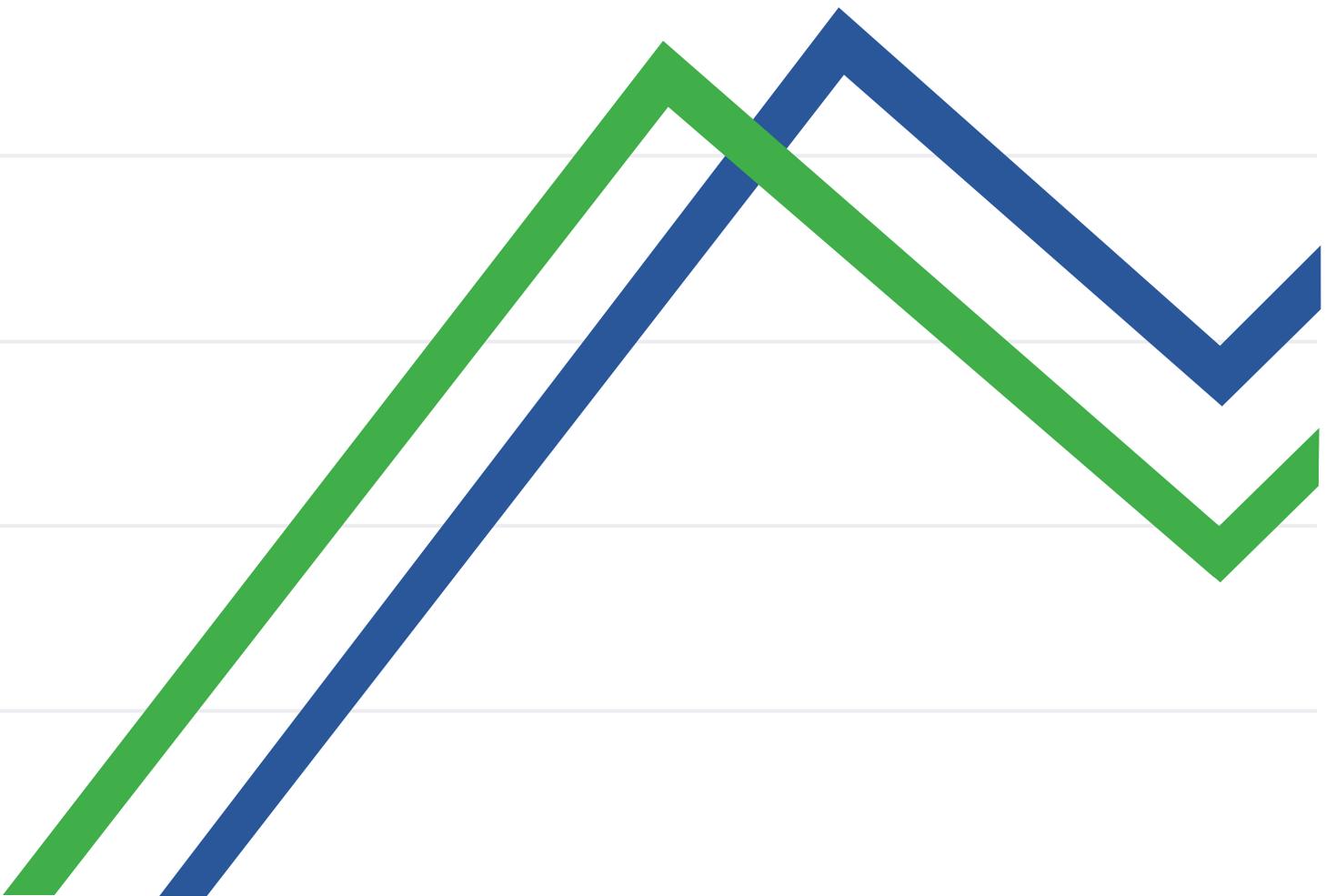
Balkans. Countries on Balkans: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia (in further text: SEE) function in very specific environment. Huge insecurities in political, legal and institutional systems have big negative effects on these countries. Economic growth rate is low in every SEE country. All SEE countries are characterized by huge budget deficits, large trade deficits and lower level of foreign investments in 2016. Balkan countries are persistent in developing successful fiscal policy from the beginning of recession. It payed off in some countries of this region: Serbia, Albania and Bosnia and Herzegovina. However, downturn in fiscal policy as well as increase of public debt is expected in Kosovo, Macedonia and Montenegro. Credit activity has increased in Serbia, Albania and Macedonia, whilst it has decreased in Montenegro and Bosnia and Herzegovina due to reduced demand. Banks in Balkans are still profitable, liquid and well capitalized.

Main problems are low growth rate of GDP, high unemployment and large public debt. Countries from EU will still have huge effect on countries from Balkans. Hence, rising insecurity in politics of EU could lead to decreased economic activity in SEE countries. World bank predicts bigger growth rate in the region in 2016 by 0,5%. Economic growth is mostly expected in Serbia and Albania, with majority of foreign investments in Serbia, Albania and Montenegro.

GDP growth rate of Balkan countries



Introduction Montenegro



Introduction Montenegro

Gross Domestic Products GDP

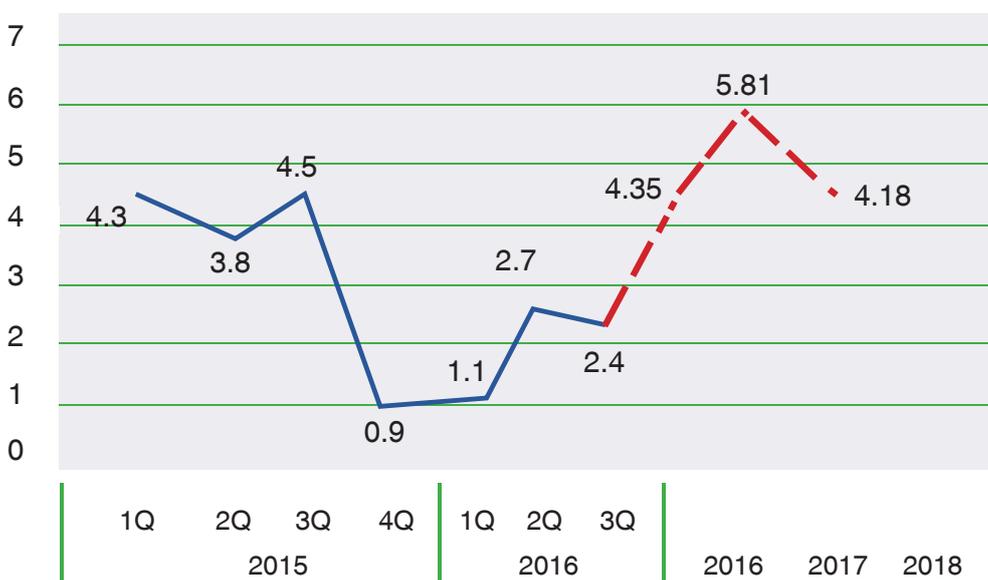
During the first three quarters of 2016, Montenegro recorded positive growth rates of GDP. Similarly to growth trend from previous years, the growth was slower in first quartet, while during the period from April to September (second and third quarter) a more intensive growth of GDP has been recorded. GDP growth rate in the second quarter was 2.7%, while in the third quarter it was slightly lower and amounted 2.4%. The main drivers of GDP growth during mentioned period were development of infrastructure (energy and transport) and tourism. Investment activity largely contributed to GDP growth. In the second quarter of 2016, it was more than doubled in comparison with the first quarter of the same year. However, high investments have affected the import of goods to meet investment spending. Besides investments, on the consumption side, significant impact on GDP growth had private consumption. Contribution of private consumption to GDP growth rate is around 2 percentage points.

These positive trends were realised due to significant share of foreign tourists who made 88.4% of total number of overnight stays.

However, during 2016 industrial production recorded negative growth rates. Namely, index of industrial production was 95.6. The decline in production was registered in manufacturing production (7.8%) and mining and quarrying (18.1%). Downtime of coal mine affected the decline in production in mining and quarrying. On the other side, there were increase in production of electricity, gas, steam and air conditioning supply for 3.5%.

Further growth of investments in coming period will contribute to GDP growth. Connected to investments, construction will record positive growth rates. Increase in total consumption is expected also in 2017 and 2018. Improvements of tourism offer and increase of number of tourists will affect growth in export of services. In addition, positive trends are expected in agriculture production

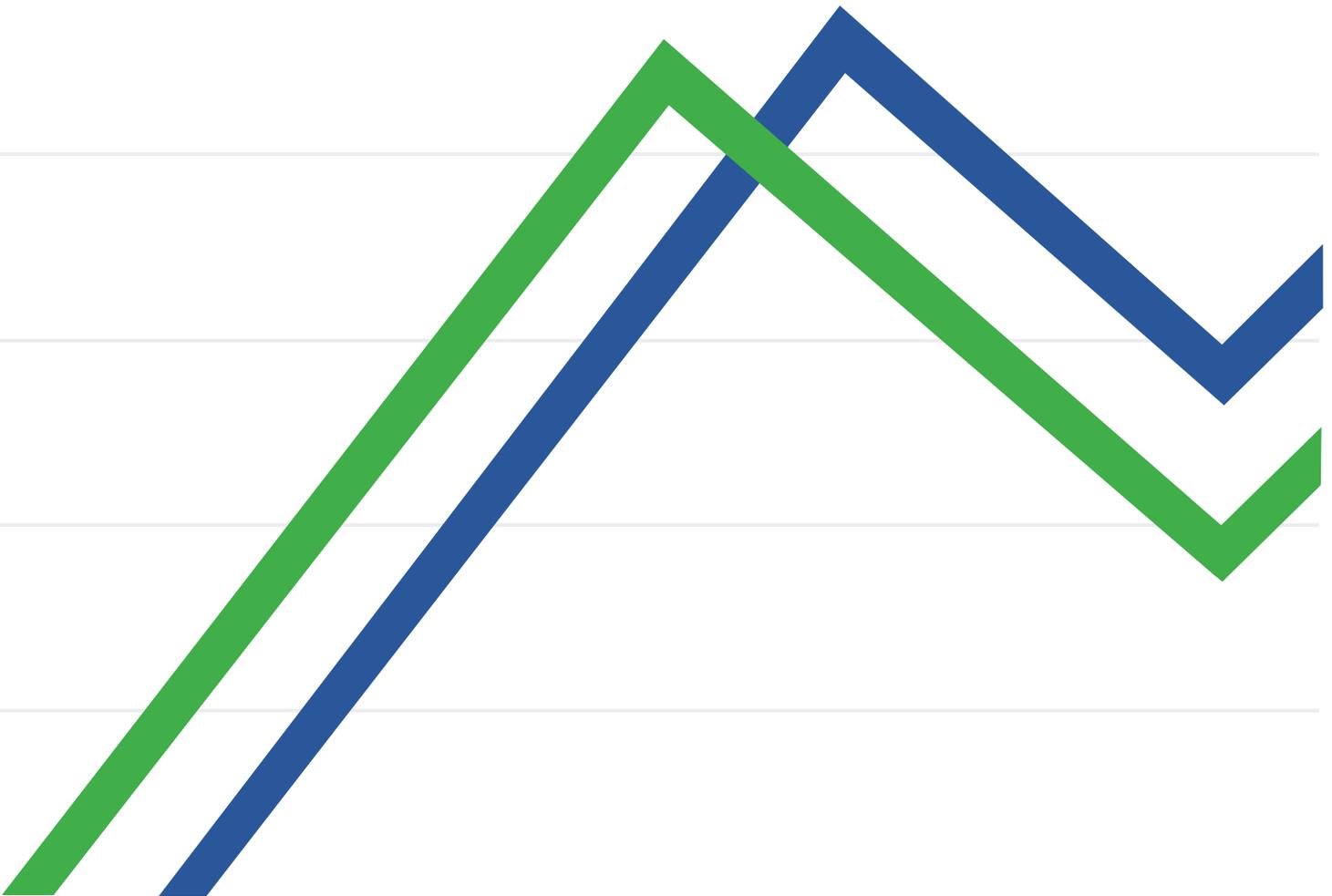
Graph: Growth rates of GDP



Source: MONSTAT (actual data), ISSP (forecasts)

Analysis of GDP growth based on production show that the most important contributing sectors were tourism and construction. Construction of the highway and the wind power plants generated high investments. Namely, index of realized construction works in 2016 was 130.6 and number of issued construction permits increased for 27.2% in 2016 in comparison with 2015. Activity in tourism sector contributed to increase of export of services and GDP growth. In 2016, number of tourist overnight stays increased for 8.4%, while total arrivals increased for 10.2%.

Consumption



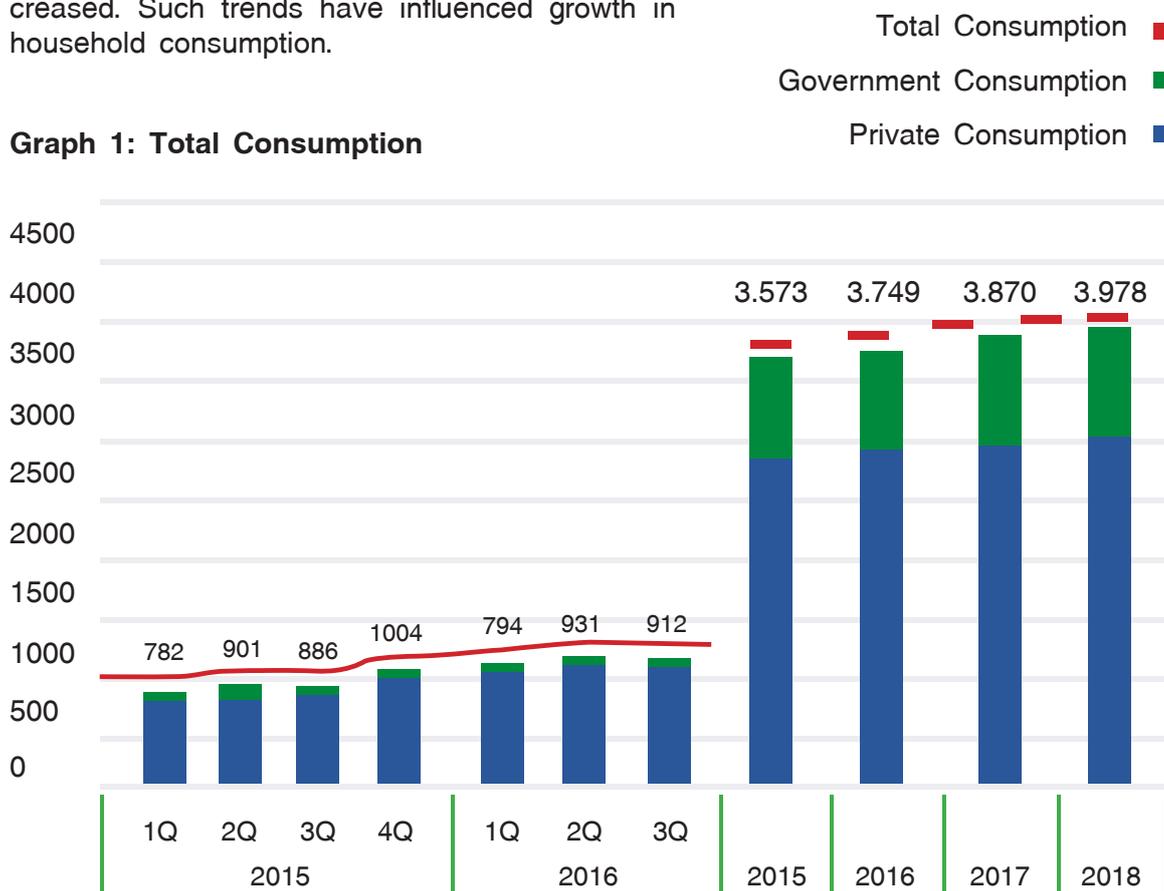
Consumption

Total consumption amounted 912 million EUR at the end of third quarter 2016. In comparison with same period from previous year, it increased for 2.9%. However, it was lower than consumption in second quarter (for 2.0%). Regarding to structure, private consumption makes up 80% of total consumption, while the one fifth is government consumption. In the first three quarters of 2016, private consumption increased for 2% in comparison with same period of 2015. The highest value has been achieved in the second quarter when private consumption amounted 747 million EUR. Growth in private consumption could be explained with growth of wages, especially in public sector which employ around 25% of total employment. Also, consumption growth is result of growth of pension and social security. Namely, during 2016 new Law on Social and Child Protection has been adopted and mothers with three or more children entitled to lifelong compensation. Also, lending activity of households increased in 2016 for the 10.5% in comparison with 2015, and influenced growth in consumption. However, deposits of population increased too, but in lower amount than increasing of loans. An average annual inflation rate in 2016 was -0.3. With higher income, and lower prices, especially food and oil prices, the purchasing power of the population has increased. Such trends have influenced growth in household consumption.

Government consumption increased in 2016, too. In the first three quarters, government consumption increased for 5.5%. Considering that public sector wages make up 60% of total budget expenditure (current), the growth of wages of public administration affected increase of government consumption. In addition, total subsidies and costs for material increased for the 38% and 22%, respectively and contributed to growth of government consumption.

In the coming period it is expected increase of consumption. At the end of 2017, total consumption will be 3870.6 million EUR, out of which household consumption will amount 3007.74 million EUR or 77.7% of total consumption. Annual growth rate of government consumption in next two years will be 3.2% and 2.1%, respectively. In addition, total annual growth contribution of total consumption in 2017 will be 2.66%, while this percentage in 2018 will be slightly lower (2.59%). Private consumption will have higher annual growth contribution in comparison with government spending.

Graph 1: Total Consumption



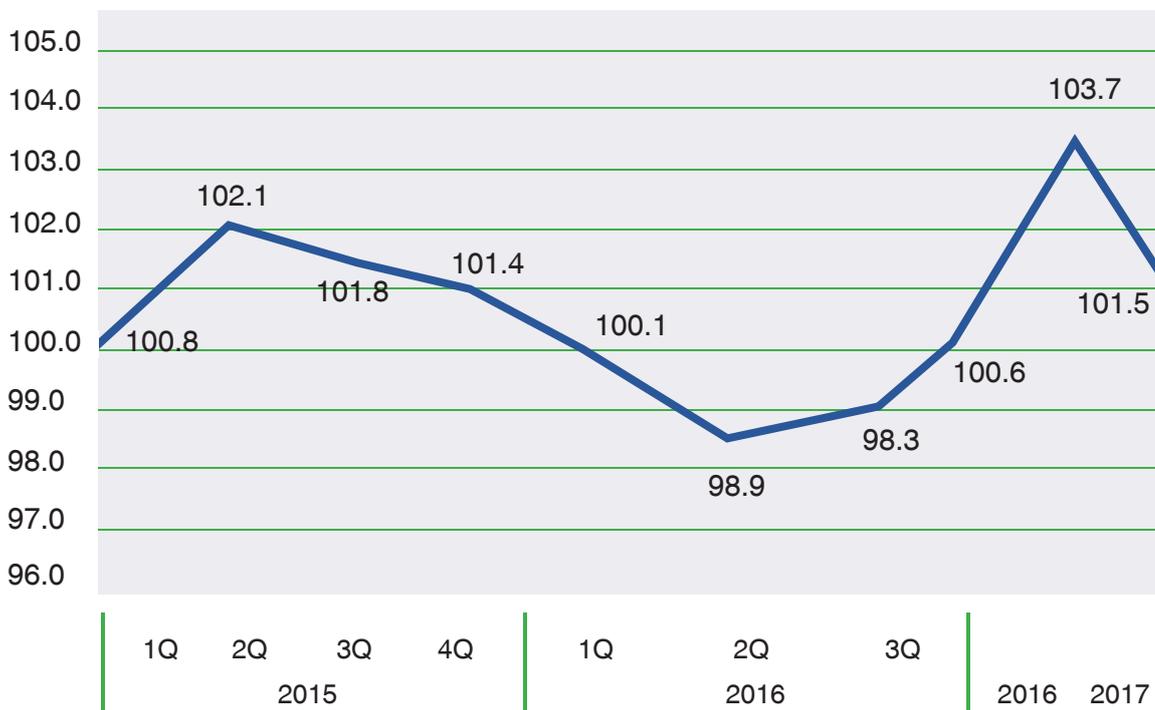
Source: MONSTAT (actual values), ISSP forecasts

Prices

Considering that Montenegro is opened and eurised economy, price level is strongly influenced by international economic trends and Central bank does not have possibility to control inflation rate. Accordingly, price level in the countries that are most important trade partners of Montenegro are spilled on the domestic market. CPI in 2016 amounted 99.7. Deflation is a result of the low prices of food and fuel at global market which was reflected on Montenegrin market. Food prices have fallen for 0.8% in comparison with 2015. The highest deflation rate was recorded for vegetables and fruits (8.6% and 5.5, respectively) and meat (2.3%). Prices of electricity was lower than those in 2015, too. In addition, transport prices fell down for 4.6% in comparison with previous year. The most significant impact on deflation had oil prices, where prices of Fuels and lubricants for personal transport equipment decreased for 1.2%. The lowest inflation rate was recorded in second quarter - 16.2%.

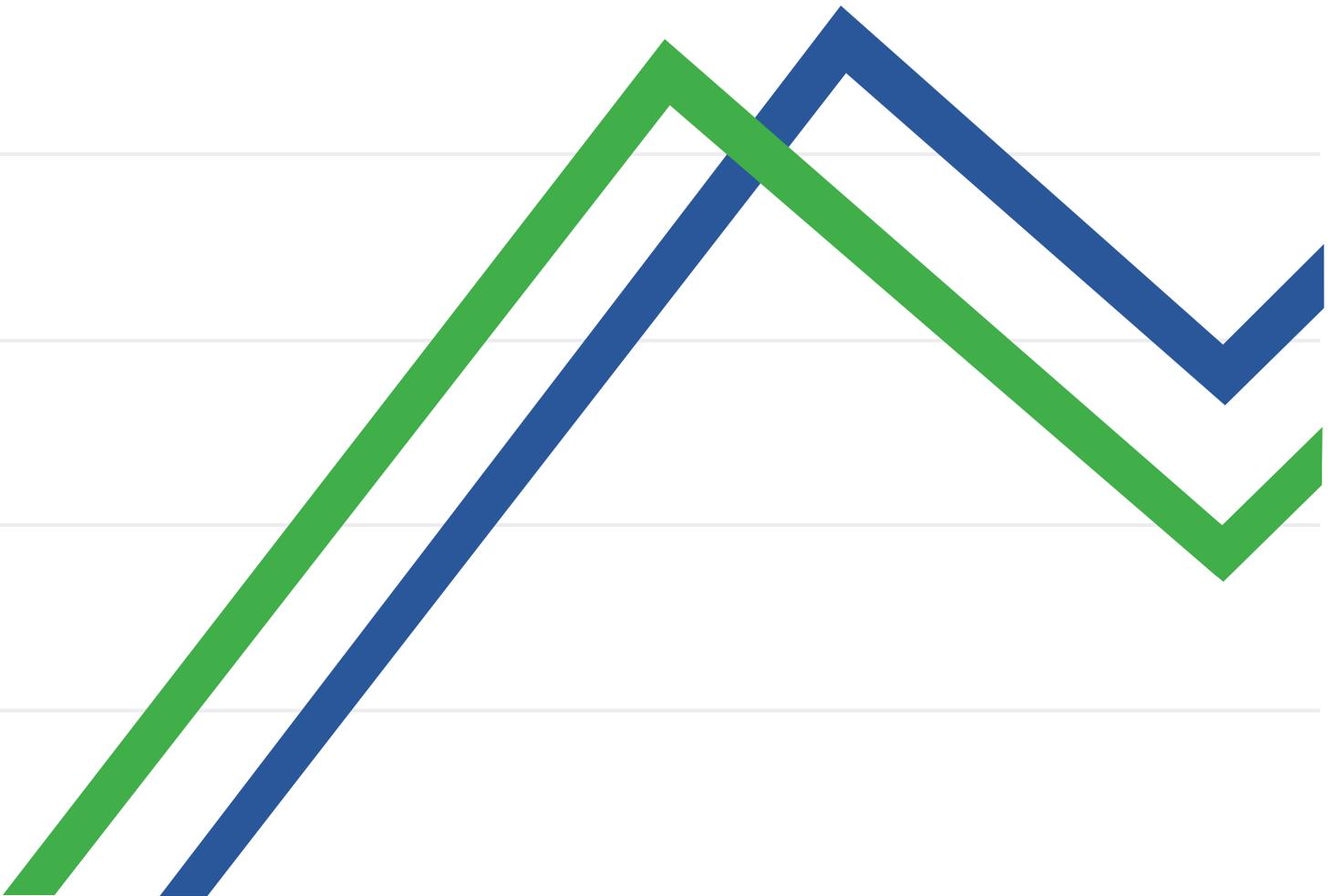
On the other side, trends in tourism have influenced growth of prices. Namely, prices of accommodation services rose for 6.1% in 2016. The highest inflation rate was recorded in the fourth quarter (8.8%) and second quarter (7.4%). Growth of CPI was influenced by the growth in excise duties on tobacco and alcoholic beverages. Accordingly, prices of tobacco increased for 3.3% and alcoholic beverages for 1.8%. In addition, the prices of clothing and footwear also rose in 2016. However, this increase of prices would have a minor impact on inflation rate than decrease food and fuel prices, which is in the final resulted in a negative inflation rate.

Graph: Consumer Price Index



- In 2017, further growth in prices is expected. At the end of 2016, oil prices have increased, as well as in January current year. In addition, increase of excise duties is expected also, especially for mineral oils. Increase in excise duties is one of the segments of harmonization of Montenegrin legislation with EU legislation. Average inflation rate in 2017 will be 3.7%, while in 2018 will amount to 1.5%.

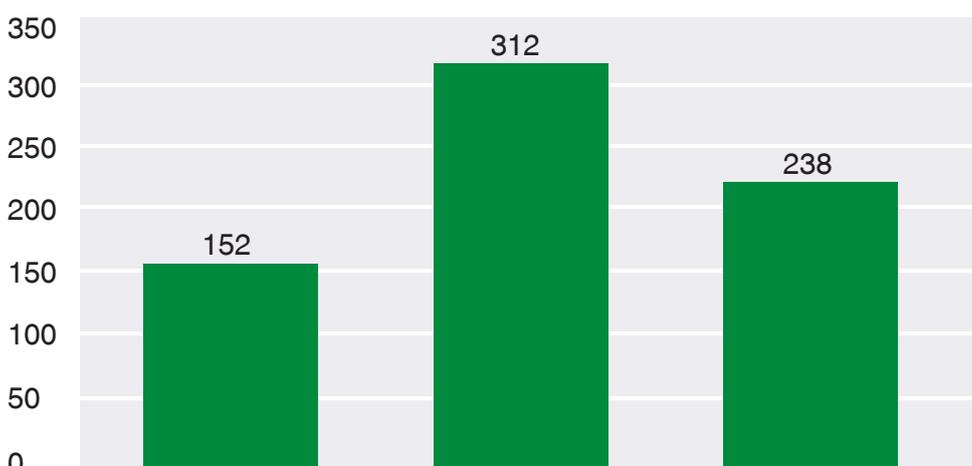
Investments



Investments

In the first three quarters of 2016, total investments in fixed assets in Montenegro amounted to 702 million EUR in current prices. This is 27.6% more than in the same period of previous year, when total investments for the first three quarters was 550 million EUR. The share of investments in GDP has, similarly, risen by 1.1, 9.4 and 3.3 percentage points in the first, second, and third quarter of 2016 respectively, compared to the same quarters of 2015.

Graph 1: Investments in fixed assets in Montenegro (2016)



Source: Monstat

Out of total fixed capital investments, 52% refer to construction work while 38% refers to equipment. When it comes to specific sector, the sector with the greatest portion of investments share is Government sector (27.5%). This is not to be surprising, having in mind the railway Bar Boljare project that started in mid-2015. In 2016, the Government procurement of equipment rose by 152%, from 8,185,059 EUR in 2015 to 20,644,082 EUR in 2016. The biggest sector when it comes to investments in Montenegro, is Retail and wholesale (13.8% of total investments) which is the biggest sector of Montenegrin economy (12% of GDP in 2015). This sector is followed by Information and communication (13.2% of total investments), energy sector (7.9% of total investments) and manufacturing sector (6.4% of total investments), that are, by nature, capital intensive sectors. Growth rates of gross fixed capital formation in 2017 and 2018 is estimated at 9.98% and 5.2% respectively.

The growth is expected mostly due to the continuation of construction works on the Bar-Boljare highway, and other public investments in fixed assets. The contribution of gross fixed capital formation to GDP in 2017 and 2018 is estimated at 2.39% and 1.26%, respectively. In the following graph, the contribution of gross fixed capital formation to Montenegrin GDP is presented. Although, they are not recognized as a component of GDP formation, foreign direct investments are certainly the factor that has influence on GDP. Total inflow of FDI in Montenegro in 2016, according to preliminary Central Bank data, was 687,154,000 EUR. This is a 9.2% decrease compared to the previous year. Out of total FDI inflow, 25.5% were Investments in companies and banks, 27.2% refer to intercompany debt, while 19.4% were investments in real estate. The remaining 27.9% are classified as other investments.

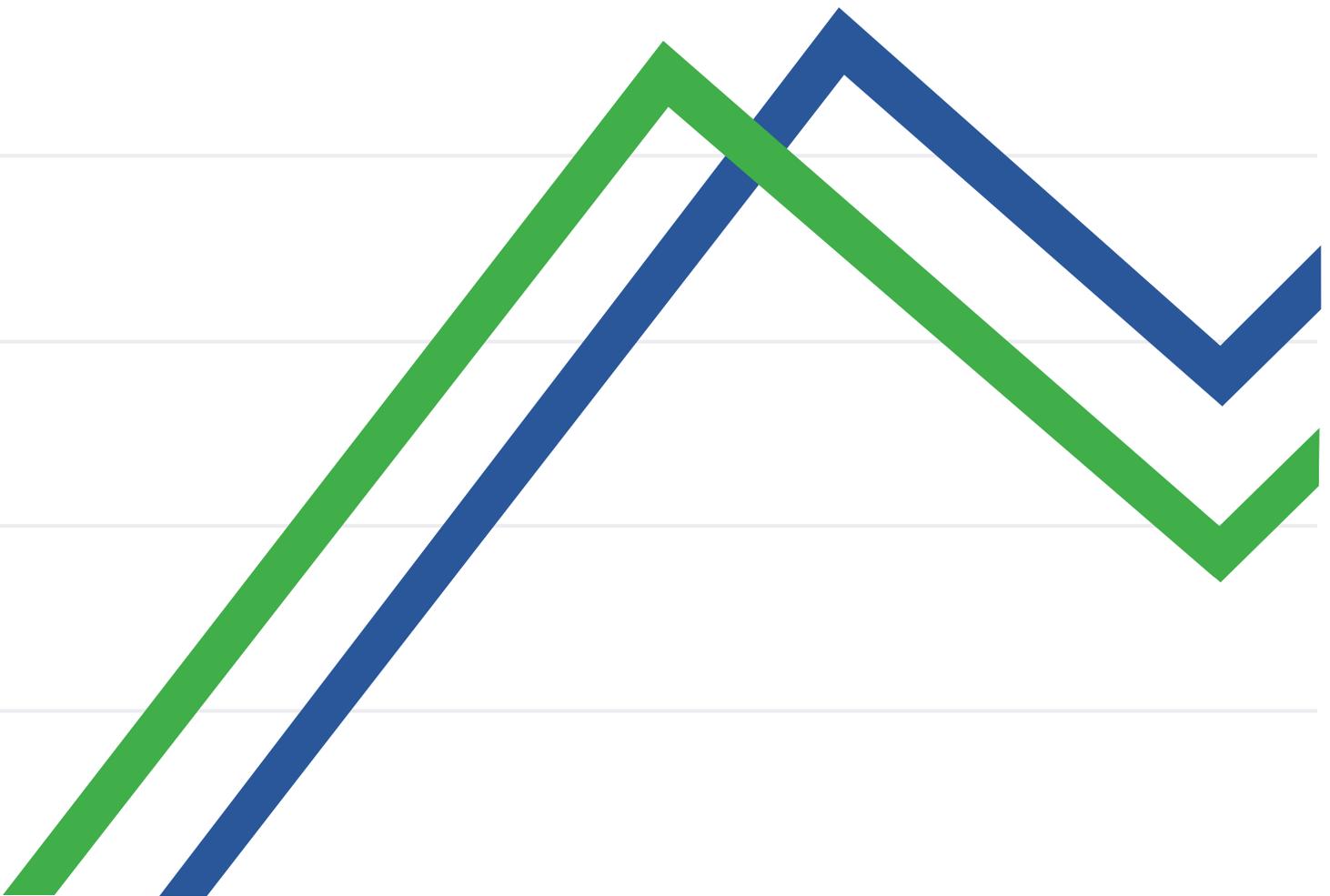
Graph 3: FDI growth rates in Montenegro



Source: Monstat

In Montenegro, there are investors from 102 countries; leading countries are Norway with the investment amounting to 189,040,000 EUR in 2016, followed by Russia with investment of 52,807,000 EUR and Italy with 50,600,000 EUR. According to the projections, FDI are expected to grow at the rate of 4% in 2017, and 3% in 2018.

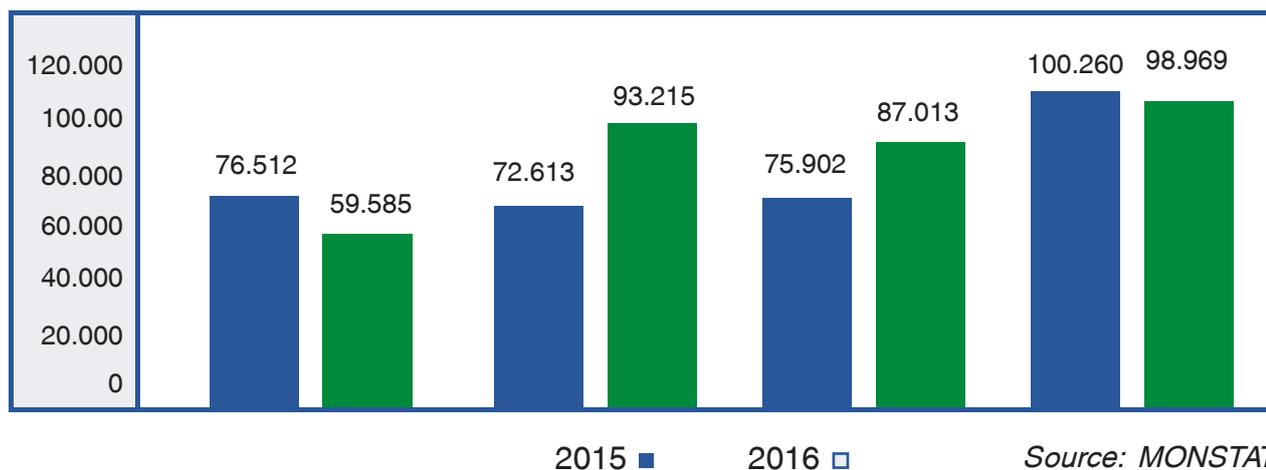
Exports and Imports



Export

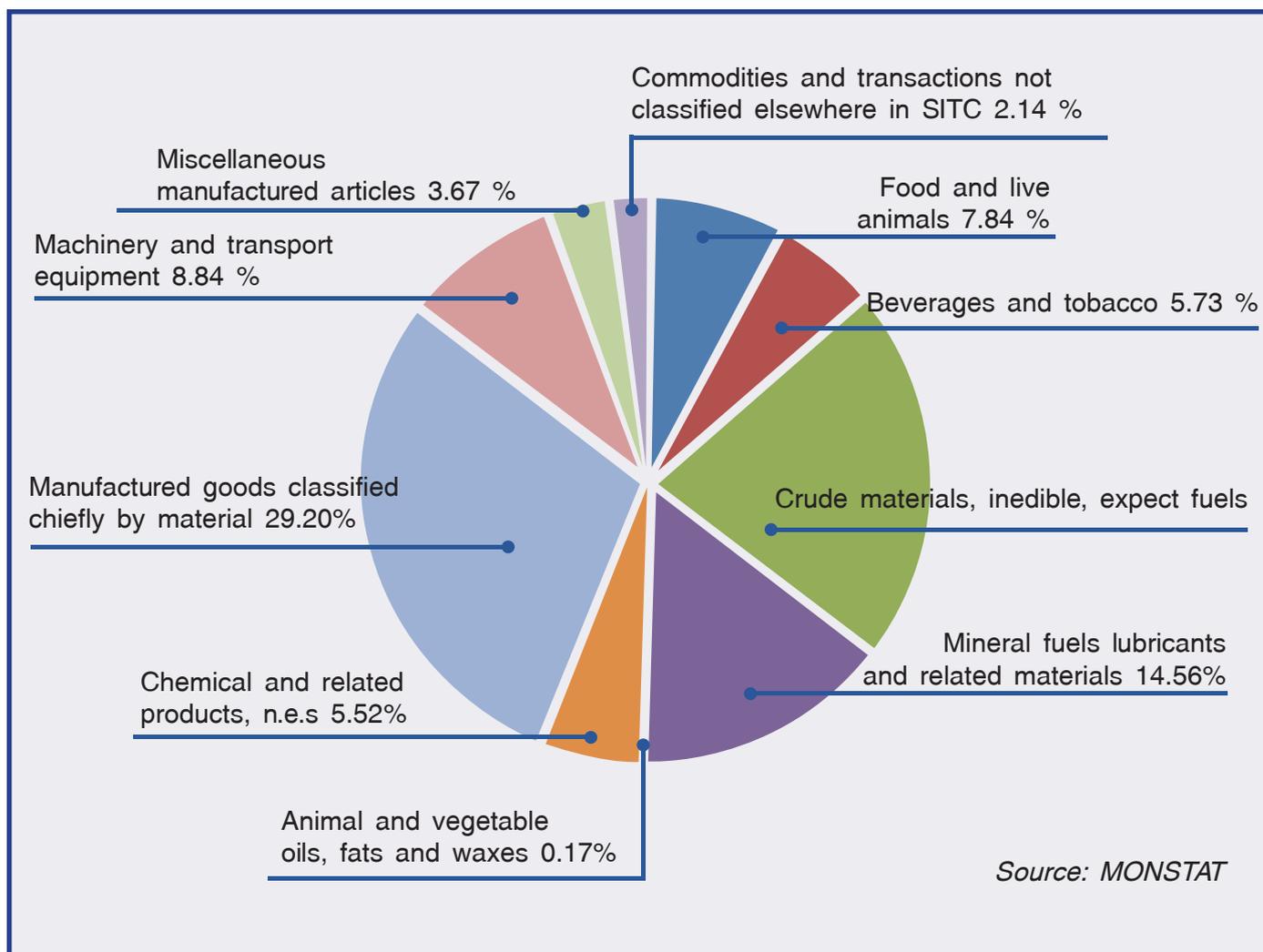
The total amount of export of goods in 2016 amounted 338.8 million EU, which represents an increase of 4.15% compared to 2015 when it amounted 325.3 million EU. The structure of exported goods shows that highest share is related to aluminum and aluminum products and mineral fuels, mineral oils and products of their distillation.

Graph 1: Export of goods during 2015-2016 (in million EU)



Total export of goods in 2016 compared to previous year was due to higher export in second and third quarter compared to the same quarters of 2015. Namely, this is the result of higher exports of aluminum during mentioned period, even though the reduced price of aluminum at the global level. Total export of goods during fourth quarter of 2016 was approximately at the same level as of fourth quarter 2015. In the first quarter of 2016 decreased compared to 2015. The result is a decrease in exports of aluminum and electricity and the increase in expenditures from services is the result of a large outflow from other business services, transport and tourism. In the structure of exports by SITC highest share of exports manufactured goods classified chiefly by material constituting 29,2% of total exports, followed by crude materials, inedible, except fuels (22,2%) and mineral fuels, lubricants and related materials (14.7%). In the category of manufactured goods classified chiefly by material, the most common is aluminum in the amount of 72% of the total category of manufactured goods classified chiefly by material, while the export of iron and steel in the amount of 18% of the total category. Although the price of aluminum recorded decrease at the global level, Montenegro registered an increase in exports of aluminum, as well as in export of electricity compared to 2015.

Graph 2: The structure of exports of goods for the period January-September 2016



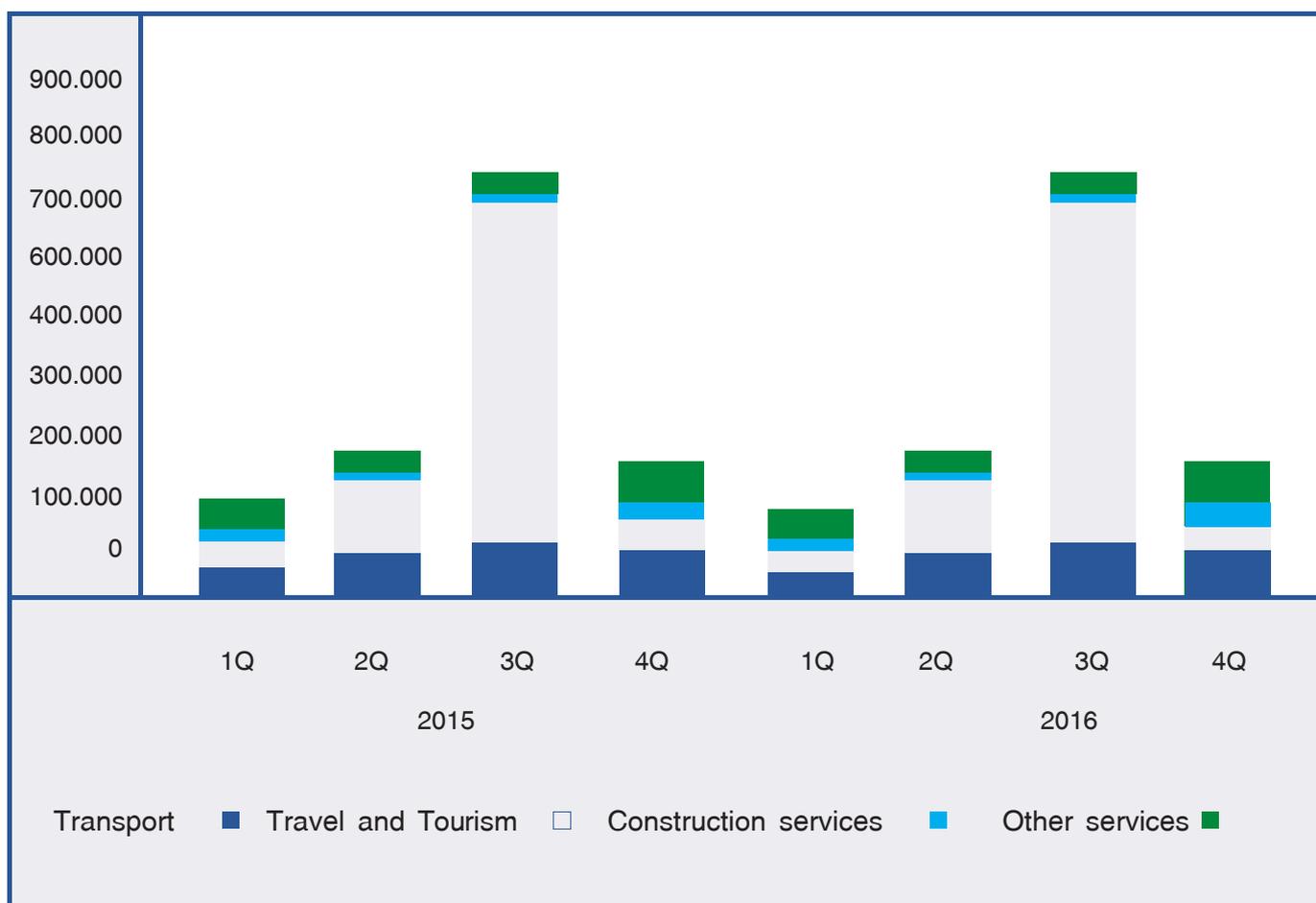
Besides the above mentioned manufactured goods classified chiefly by material, crude materials, inedible, except fuels, mineral fuels, lubricants and related materials have significant share of the Montenegrin exports amounting 14.65% of total export. Graphic clearly shows that the essential role in total export have Machinery and transport equipment with 8.84% of total exports, and food and live animals (7.84%), and beverages and tobacco (5.73%).. The lowest percentage of total exports of Montenegro for the first three quarters of 2016 was related to the export of animal and vegetable oils, fats and waxes,(0.17%).

Observed by export destination, during first three quarters of 2016, the main foreign trade partner of Montenegro are CEFTA countries with 41.4% of total export, followed by the EU where is exported 40.8% of goods, and other the country with the share in total export of 17%. The single largest export partners are: Serbia (53.6 million EU), Hungary (31 million EU) and Bosnia and Herzegovina (15.8 million EU).

Export of services

Volume of trade of services in 2016 amounted to 2 billion EU, which represents an increase of 11,8% compared to 2015 when it amounted 1,78 billion EU. The highest revenue in export of services came from transport services which registered 9% growth over the previous year, travel and tourism (growth of 2.8%) and other business services (growth of 8.7%) Also, one of the largest income in export of services is generated in air transport, while there was a decrease compared to 2015 in maritime transport.

Graph 3: Export of services by type



Source: MONSTAT

Positive trends in the transport sector are the result of an increase in economic activity - increase in the volume of foreign trade, the positive developments in the field of tourism and energy, as well as improved work on transport infrastructure.

Graph 4: Growth rates of import of goods and services



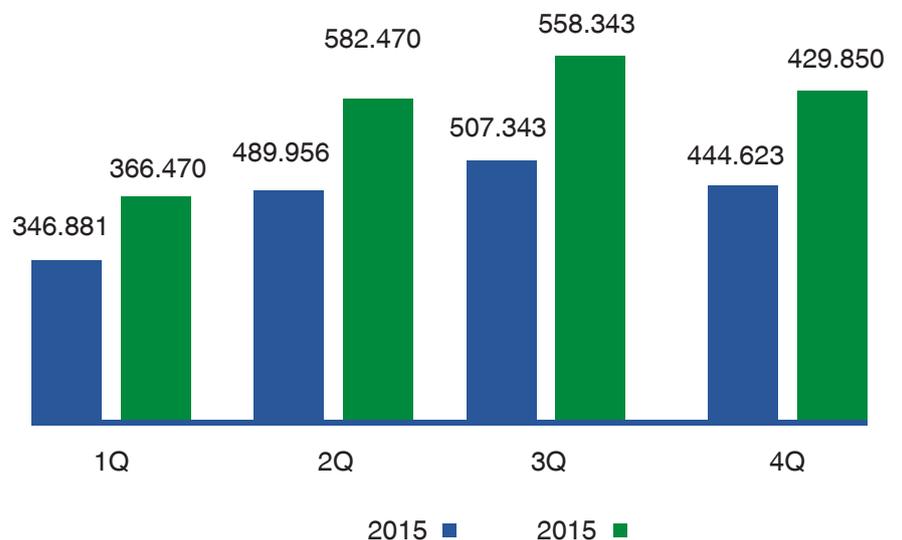
Source: Monstat for actual values, ISSP for forecast

Source: Monstat for actual values, ISSP for forecast. With trends like this and upward projections of the future trend, we can most likely expect a continuous trend of increase in exports of services and decrease in exports of goods as a result of the economic situation of the Montenegrin economy and the falling price of aluminum on a global level which could result in a decline in exports. because the export of aluminum makes up the largest share of exports. Also, growth in exports of services are expected because of the large investment tourist projects which improve the status of Montenegro as a tourist destination.

Import

The total amount of imports of goods in 2016 amounted to 2 billion EU which represent an increase of 11.81% compared to 2015 when import amounted to 1.788 billion EU. The largest shares of imports of goods is related to machinery and transport equipment, food and live animals and manufactured goods classified by material.

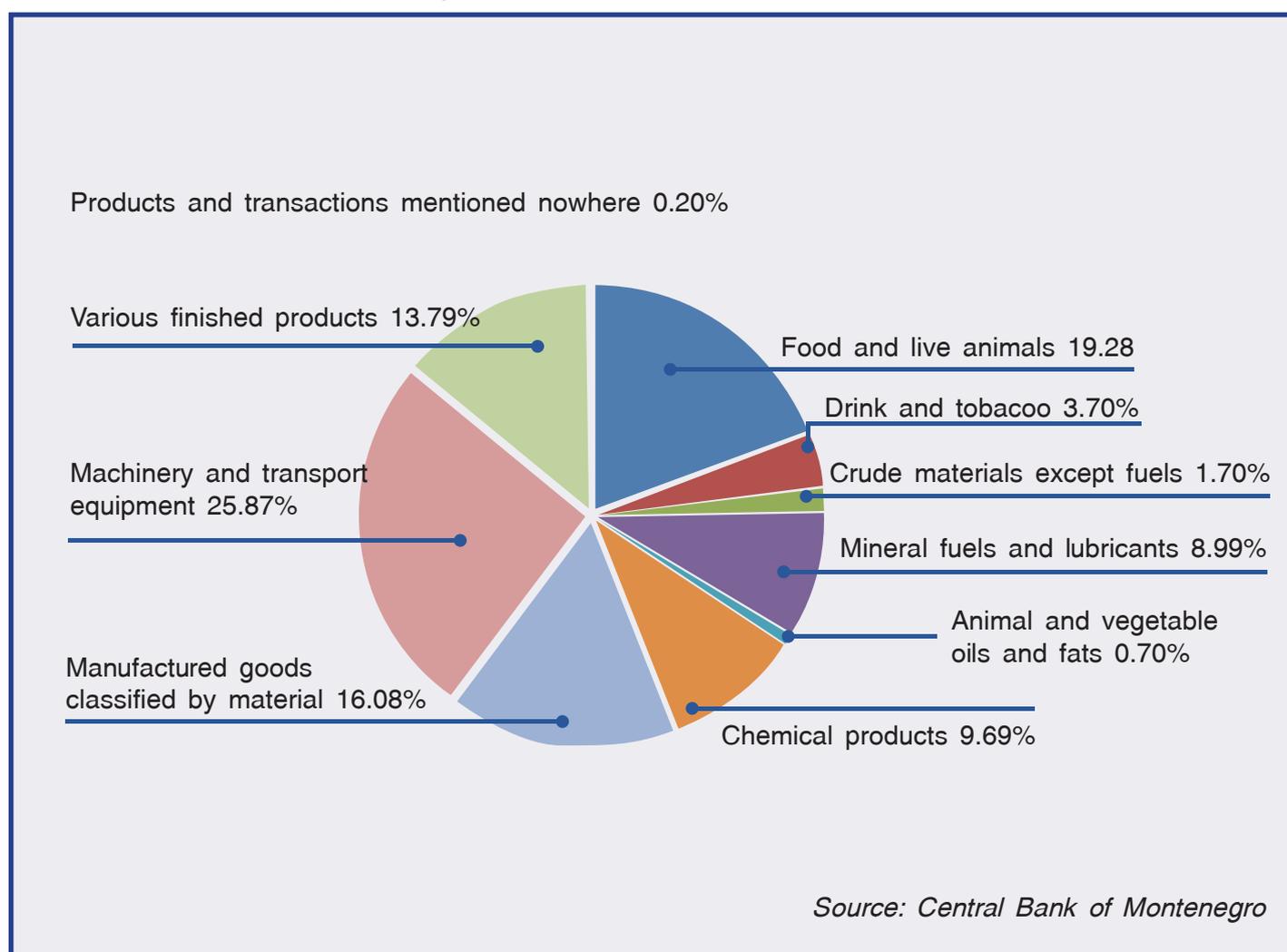
Graph 5: Import of goods for 2015 and 2016 (in million EU)



The graph shows that the import of goods in 2016 in each of four quarters was higher than import from the same quarters 2015. Compared to the previous year, the highest increase had import of road vehicles, propulsion machinery and transport equipment while the highest decrease was recorded by the following subcategories: oil and oil products, mineral ores and metal scrap.

In the structure of imports, the highest share belongs to machinery and transport equipment (25.9%), followed by food and live animals (19.3%) and manufactured goods classified by material (16.1%). Import of food and animals grew by 4.2% compared to the previous year. Within this category, the most common import products are meat and meat products as well as fruits and vegetables. Import of oil and petroleum products fell by 15.8%.

Graph 6: Structure of import of goods for first nine months of 2016

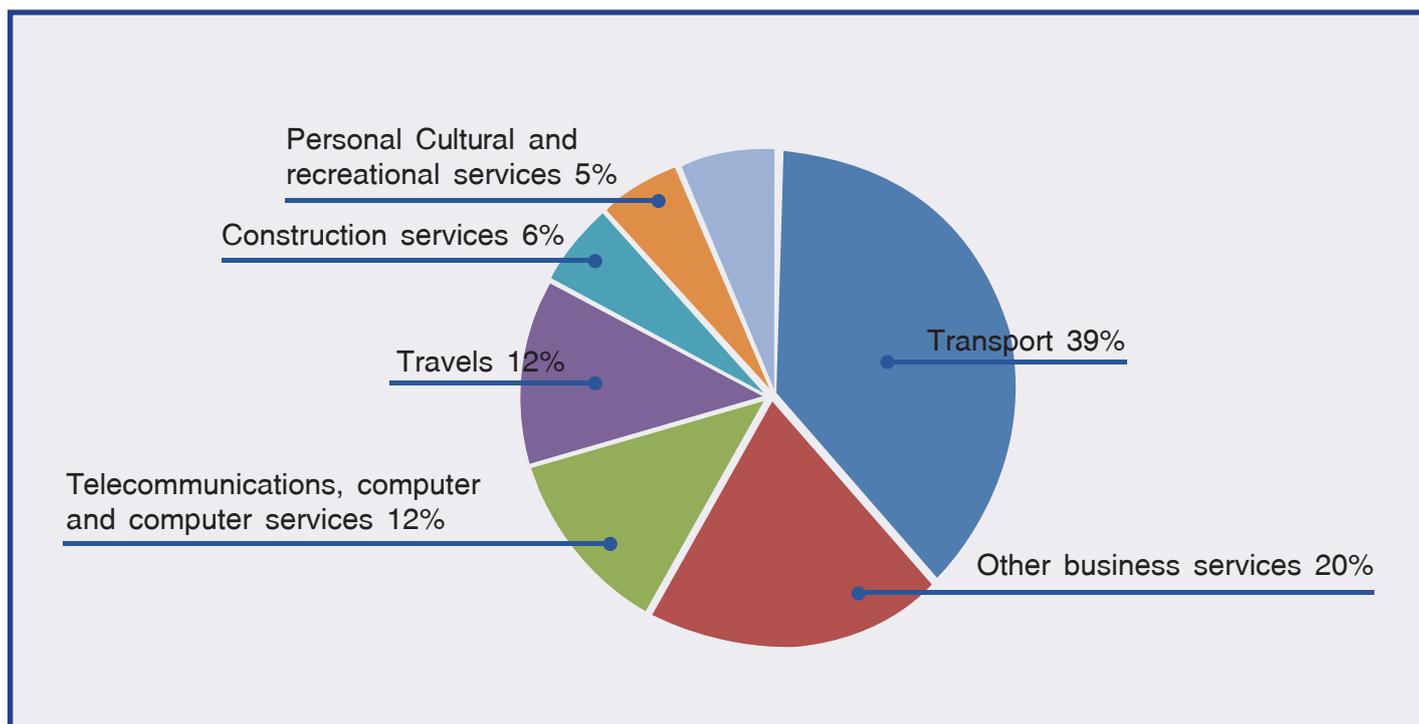


In addition to the above mentioned products, big role in total import of goods also have various finished products (13.79% of total imports), chemical products (9.69%), as well as mineral fuels and lubricants which amounted 8.99% of total imports. In the first three quarters of 2016, the main foreign trade partner of Montenegro, from the side of imports, was Serbia (345.9 million EU), followed by Germany (172.5 million EU) and China (142.7 million EU). Other significant partners with somewhat smaller share in total import were Italy, Bosnia and Herzegovina, Croatia and Greece.

Import of services

Import of services in 2016 amounted to 478.94 million EU, which represents an increase of 12.75% compared to the previous year, when imports of services amounted to 424.76 million EU. In the structure of expenditures based on the imports, the largest share in the first three quarters have expenditures on transport (133.4 million EU), expenditures on other business services (67.4 million EU) and telecommunication and computer services (42.37 million EU). Compared to the previous year, the total expenditures for transport services have increased by 23%, in the area of road transport expenditures increased by 16.1%, while air transport expenditures fell by 11.1% compared to the previous year

Graph 7: Structure of expenditures for services during first nine months of 2016



Forecasts show that total import will have increasing trend in 2017 and 2018, when it will increase by 0.59% and 3.2% respectively. Imports of goods will increase by 1.97% in 2017 and 3.83% in 2018, while the imports of services will decrease by 5.15% in 2017, and increase by 0.33% in 2018.

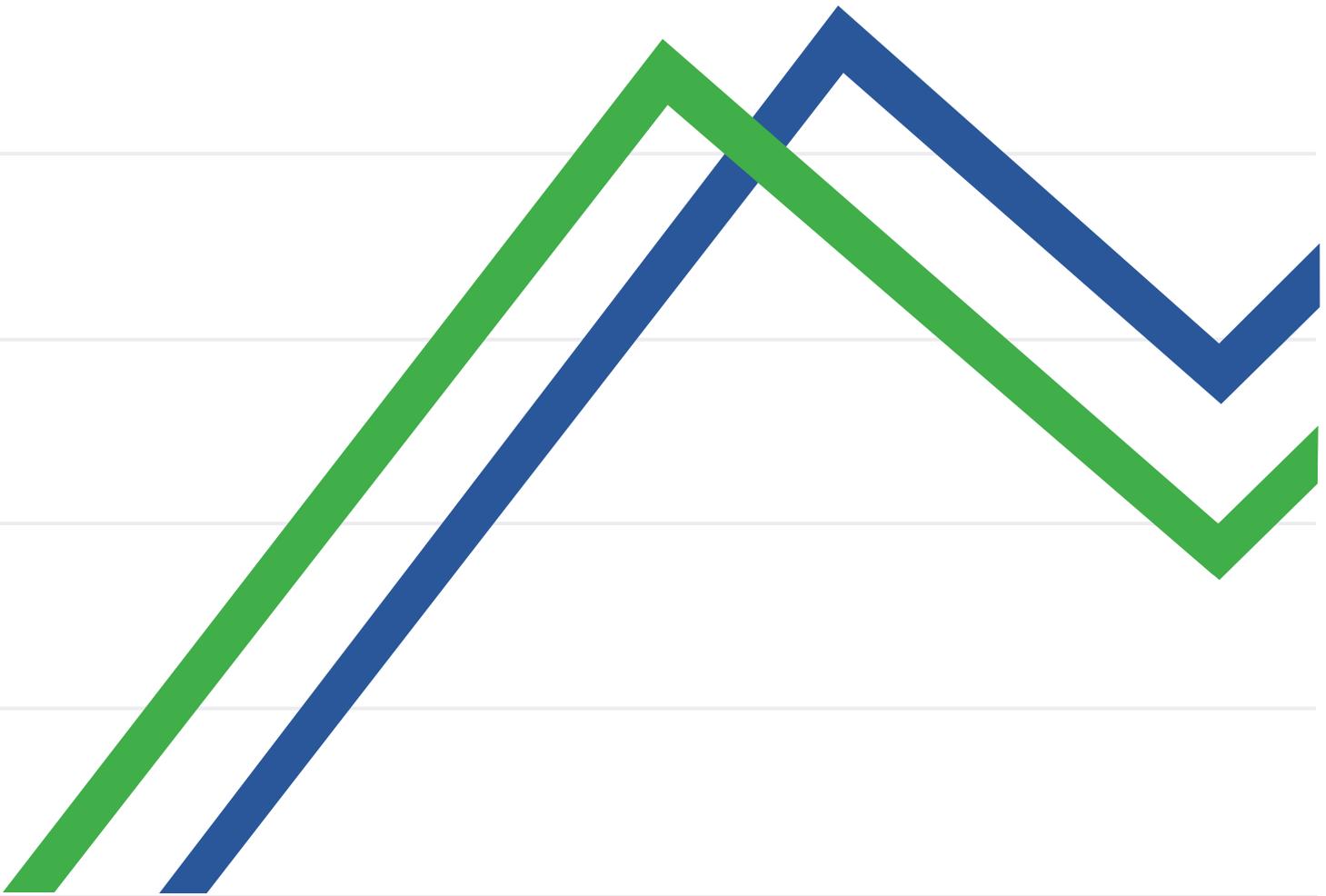
Graph 4: Growth rates of import of goods and services



Source: Monstat for actual values, ISSP for forecast

With trends like this and upward projections of the future trend, we can most likely expect a continuous trend of increase in imports of goods and services. Import of goods will increase in the next two years mostly as a result of increasing imports of machinery and transport equipment for the needs of infrastructural projects, projects in the field of energy and tourism. In particular, imports will increase due to the construction of the highway, the construction of hydropower plants and wind farms, as well as setting up the power cable. Given that the expenditures of the services in 2016 have increased by 12.75%, where the largest expenditures were in transport and business services, in the 2017 the import of services is expected to fall due to lower demand of those services because of high import growth rate in 2016. For 2018, import of services will slightly increase, with very low positive trend.

Labor Market





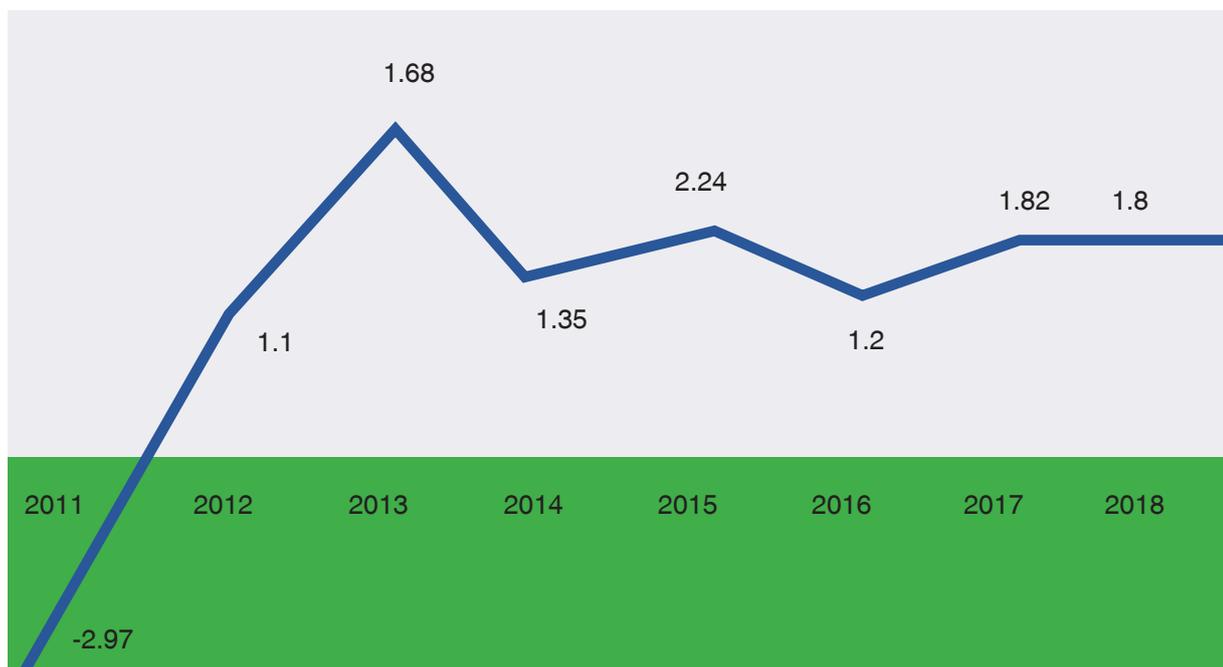
Labor Market

Basic characteristics of realized labour market trends in Montenegro (according to indicators of MONSTAT and Employment Agency of Montenegro) could be summarized as follows:

The activity rate of the population (aged over 15+) in the third quarter of 2016 compared with the third quarter of 2015 increased from 55.0% to 55.9%, (0.9 p.p.), while the employment rate increased from 45, 9% to 46.5% (0.6 p.p.) mainly due to increased activity and employment rates among male labour force. Something higher activity and employment rates were recorded in the population aged 15-64. Unemployment rate remain at almost the same level as in trihrd quarter of previous year according to LFS data, and in amounted 16.8%. However, registered unemployment (EAM data) show that at the end of 2016 total unemployment increased and unemployment rate amounted 21.3% which is significantly higher compared to the 17.2% from the end of 2015. The main reason for these changes is the application of the new provisions of the Law on Social and Child Protection according to which the achievement of financial compensation of certain categories of women is associated with a particular period of unemployment status.

According to EAM data, the share of women and men in total unemployment amounted 52.3% and 47.7% respectively, which is approximately the same structural relationship as at the end of 2015. Employment. Registered employment during 2016 amounted to 177,908 which represents growth of 1.2% compared to 2015. Observed by quarters, the highest employment during 2016 was registered during the third quarter as a result of the. increased employment in the tourism and construction sectors during summer months. Total employment recorded a growth during all four quarters of 2016 in relation to the same quarters of 2015. The highest growth rate compared to the same quarter of the previous year was recorded in the 4th quarter of 2016 and amounted to 2.43%. In the Northern, Central and Coastal region, employment growth was at the level of achieved average, hence their share in total employment remained at approximately the same level , i.e. 19.5, 52.0 and 28.5 percent respectively.

Graph: Employment growth rates
(actual values 2011-2016, forecasts 2017-2018)



Employment forecasts for the 2017 and 2018 show increasing trend, i.e. total employment will increase by 1.82 and 1.80 percent, respectively. However, this increase will be conditioned by numerous factors such as projected trends in the global and regional level, the obligations of the EU accession process, efficiency in implementation of strategically defined goals related to strengthening economic growth and development and, in respect to this, valorization of significant natural, economic and human resources.

Employment will gradually increase during the period as a result of growth in economic activity caused by high levels of investment. Total employment will increase in the following period as a result of increased economic activity, particularly in the sectors of construction and mining and quarrying. Expectations are that the dynamics of the labor market will be more intense, because strategic investment projects assume a higher degree of involvement of local capacities and labour force in project implementation.

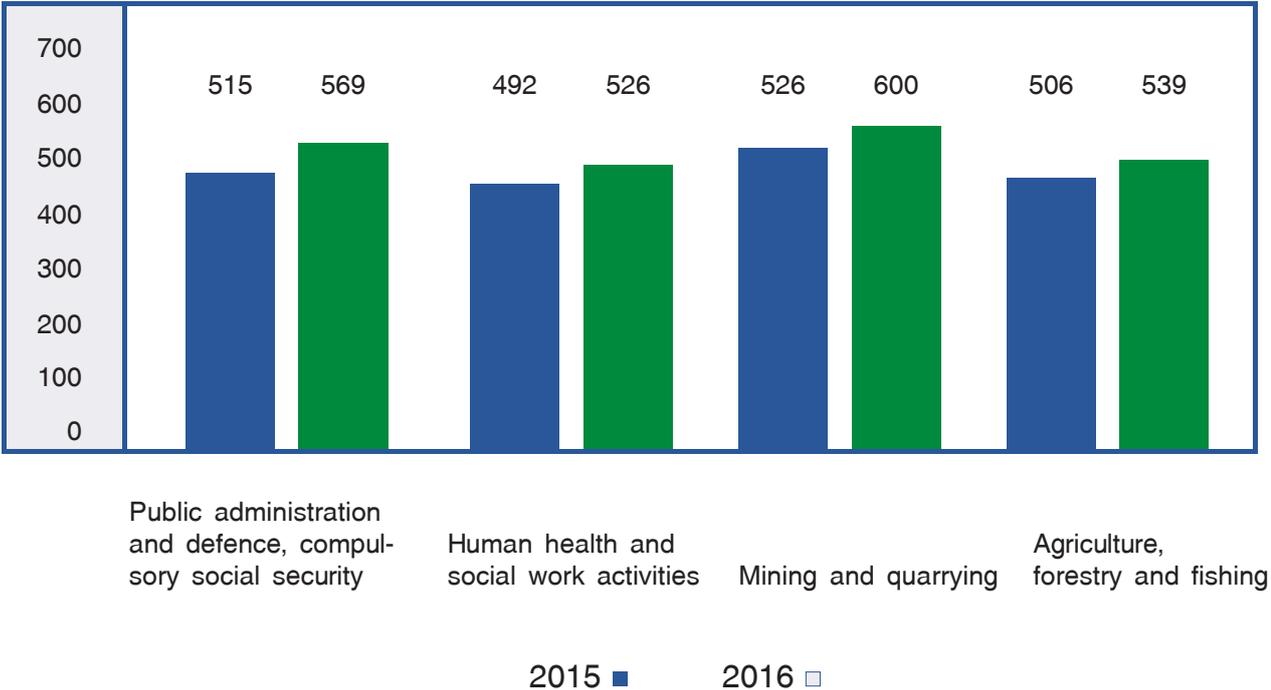
Wages

Average net wage in 2016 amounted 499 e and it was 2.7% higher compared to average net wage from 2015. This increase is mainly due to government decision to increase the wage levels in public administration.

The Law on salaries of public sector employees came into force in March 2016 which assumed increased wages for civil servants. Also, representatives of the Ministry of Health and trade unions signed in April 2016 branch collective agreement, which assumed increase of salaries for employed in health sector. Hence, the highest growth rate of wages is registered in sector Public administration, defense and compulsory social security (10.5%). Beside this sector, following sectors registered highest growth rates of wages in 2016 compared to 2015: Agriculture, forestry and fishing (6.5%), Mining and quarrying (6.8%) Human health and social work activities(6.9%), etc.

In order to reduce unemployment, increase activity and employment it is necessary to effectively implement measures of active employment policy, bearing in mind their limited amount (2.8 million in 2017) due to budget consolidation and saving measures. This especially applies to those measures which target young people, women and less employable categories of unemployed persons. The expected elimination of legislative measures that discourage women’s participation in the labor market (for example, provisions of the Law on child and social protection that led to the increase in unemployment at the end of 2016) should contribute to the enhancement of labour market indicators.

Graph: Wage levels in sectors with highest growth rate of net wages (in e)



Source: MONSTAT

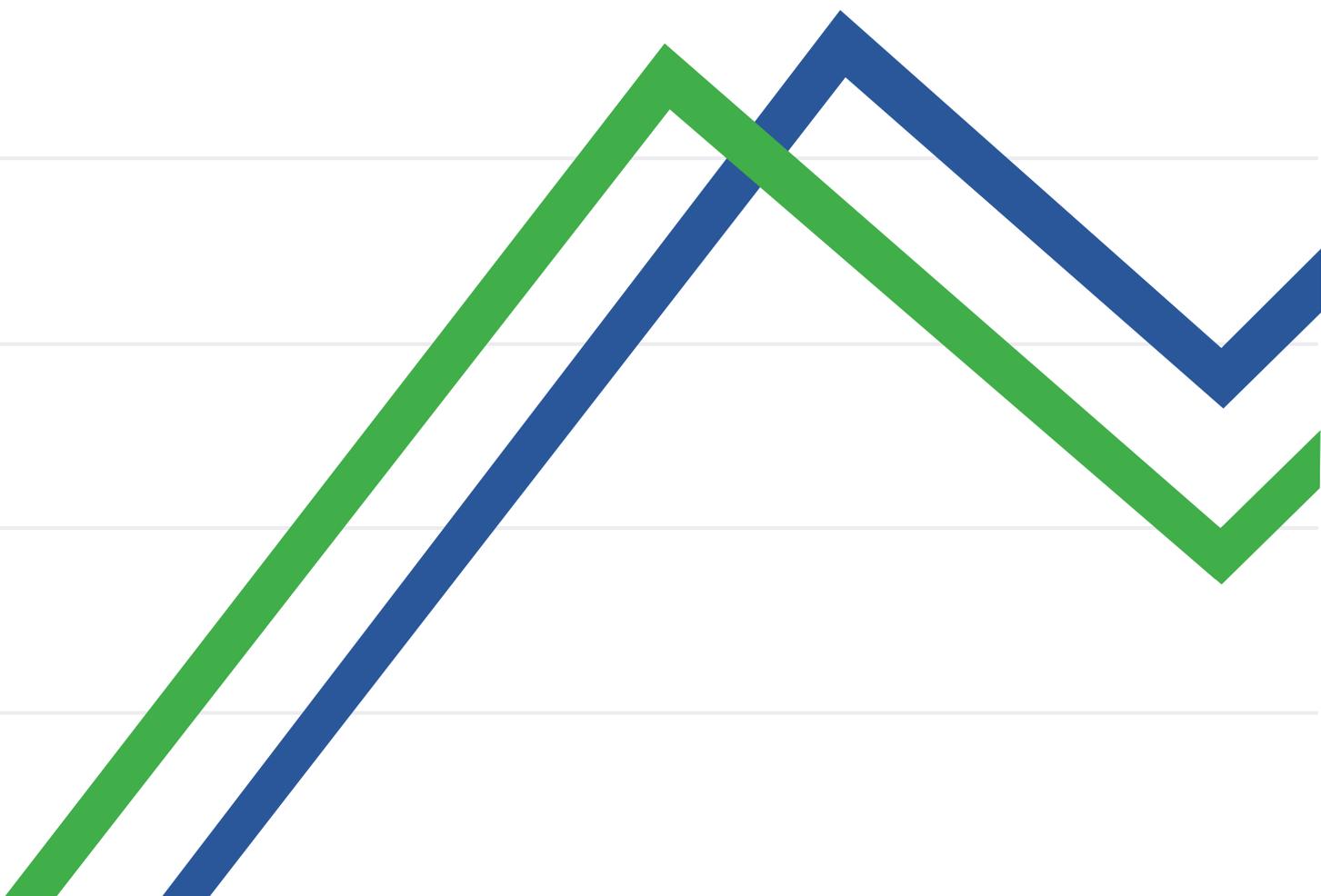
Net wages registered growth during each quarter of 2016. The increase is visible in comparison to same quarter of previous year, but also compared to the previous quarter. The highest growth rate was registered in first quarter of 2016 when average wage increased 1.45 % compared to the previous quarter

Graph: Net wages growth rates (actual values 2011-2016, forecasts 2017-2018)



The wages will continue to grow slowly in 2017 and more intensively in 2018. The growth of 0.67% in 2017 should be consequence of the expected growth in sectors such as Manufacturing, Information and communication (negotiations in some companies are actual) but also in sectors such as Arts, Entertainment and recreation which take more share in employment.

Anex



SNA Components current prices	2011	2012	2013	2014	2015	2016	2017	2018
Final consumption expenditure	3350.72	3303.5	3378.62	3444.74	3573.38	3749.83	3870.63	3987.85
Household consumption	2663.07	2632.37	2723.71	2774.85	2871.86	2937.11	3007.74	3095.56
Government consumption	687.65	671.13	654.91	669.9	701.52	812.72	862.89	892.29
Gross fixed capital formation	636.99	628.35	678.1	657.12	736.28	920.19	992.85	1044.45
Total export	1382.6	1389.43	1390.13	1388.14	1539.21	1602.84	1665.83	1757.44
Export of goods	476.55	391.86	395.71	357.5	3325.29	340.13	309.17	282.48
Export of services	906.05	997.57	994.42	1030.64	1213.93	1262.71	1356.67	1474.95
Total import	2099.58	2166.38	2065.52	2074.2	2213.57	2434.77	2445.74	2523.97
Import of goods	1782.79	1781.07	1724.34	1733.9	1788.8	1963.59	2004.7	2081.49
Import of services	316.79	385.32	341.19	340.3	424.77	471.18	441.04	442.48
Gross Domestic Product	3264.78	3181.48	3362.48	3457.92	3624.74	3842.11	4083.57	4265.77
Inventories	-5.95	26.58	-18.84	42.11	-10.56	4.02	0	0
Domestic demand without inventories	3987.71	3931.85	4056.72	4101.87	4309.66	4670.02	4863.48	5032.3
Domestic demand	3981.77	3958.43	4037.87	4143.98	4299.1	4674.04	4863.48	5032.3
Total demand without inventories	5370.31	5321.28	5321.28	5446.84	5490	5848.87	6272.86	6529.31
Total demand	5364.36	5347.86	5428	5532.12	5838.31	6276.88	6529.31	6789.74

SNA Components at previous year prices levels	2011	2012	2013	2014	2015	2016	2017	2018
Final consumption expenditure	3257.35	3267.14	3354.14	3465.5	3519.29	3720.74	3825.05	3976.19
Household consumption	2569.05	2559.07	2674.19	2801.58	2836.6	2945.02	3013.36	3095.56
Government consumption	688.3	708.06	679.96	663.92	682.69	775.72	838.68	880.63
Gross fixed capital formation	627.82	621.51	695.54	660.89	735.63	942.99	1012.07	1044.45
Total export	1327.02	1377.89	1370.82	1380.19	1467.86	1631.11	1650.47	1757.44
Export of goods	450.98	404.02	396.14	360.2	331.91	346.47	308.13	282.48
Export of services	876.03	973.87	974.68	1019.99	1135.94	1284.63	1342.28	1474.95
Total import	1967.35	2113.02	2098.85	2097.88	2165.34	2495.16	2449.25	2523.97
Import of goods	1659.16	1750.65	1762.38	1759.23	1805.3	1986.99	2002.35	2081.49
Import of services	308.19	362.37	336.47	338.65	360.03	508.17	446.9	442.48
Gross Domestic Product	3225.98	3175.85	3294.39	3422.46	3575.16	3782.27	4065.34	4254.11
Domestic demand without inventories	3885.17	3888.64	4049.68	4126.38	4254.92	4663.74	4864.12	5020.64
Domestic demand	3866.32	3910.98	4022.41	4140.15	4272.63	4646.32	4864.12	5020.65
Total demand without inventories	5212.19	5266.54	5420.5	5506.57	5722.78	6294.84	6514.58	6778.08
Total demand	5193.34	5288.87	5393.23	5520.34	5740.49	6277.43	6514.58	6778.08

Annual growth Contribution (chain linked variables)	2011	2012	2013	2014	2015	2016	2017	2018
Final consumption expenditure	0.31	-2.56	1.59	2.58	2.16	4.07	2.66	2.59
Household consumption	0.38	-3.19	1.31	2.32	1.79	2.02	1.98	2.15
Government consumption	-0.07	0.63	0.28	0.27	0.37	2.05	0.68	0.43
Gross fixed capital formation	-1.55	-0.47	2.11	-0.51	2.27	5.7	2.39	1.26
Total export	5.42	-0.14	-0.58	-0.3	2.31	2.54	1.24	2.24
Export of goods	3.02	-2.22	0.13	-1.06	-0.74	0.58	-0.83	-0.65
Export of services	2.4	2.08	-0.72	0.76	3.05	1.95	2.07	2.9
Total import	-0.22	-0.41	2.12	-0.96	-2.64	-7.77	-0.38	-1.92
Import of goods	-1.13	0.98	0.59	-1.04	-2.64	-7.77	-0.38	-1.92
Import of services	0.91	-1.4	1.54	0.08	-0.57	-2.3	0.63	-0.04
Gross Domestic Product	3.23	-2.72	3.55	1.78	3.39	4.35	5.81	4.18
Inventories	-0.73	0.87	-1.69	0.97	-0.71	-0.19	-0.1	0
Domestic demand without inventories	-1.24	-3.03	3.7	2.07	4.43	9.77	5.05	3.85
Domestic demand	-1.97	-2.17	2.01	3.04	3.72	9.58	4.95	3.85
Total demand without inventories	4.18	-3.18	3.12	1.78	6.73	12.3	6.29	6.09
Total demand	3.45	-2.31	1.43	2.75	6.03	12.11	6.19	6.09

Annual growth rate (chain linked variables)	2011	2012	2013	2014	2015	2016	2017	2018
Final consumption expenditure	0.33	-2.49	1.53	2.57	2.16	4.12	2.73	2.73
Household consumption	0.46	-3.91	1.59	2.86	1.23	2.55	2.6	2.92
Government consumption	-0.31	2.97	1.32	1.38	1.91	10.58	3.2	2.06
Gross fixed capital formation	-7.17	-2.43	10.69	-2.54	11.95	28.08	9.98	5.2
Total export	14.63	-0.34	-1.34	-0.72	5.74	5.97	2.97	5.5
Export of goods	26.46	-15.22	1.09	-8.97	-7.16	6.51	-9.39	-8.63
Export of services	9.36	7.49	-2.29	2.57	10.22	5.82	6.3	8.72
Total import	0.35	0.64	-3.12	1.57	4.39	12.72	0.59	3.2
Import of goods	2.18	-1.8	-1.05	2.02	4.12	11.08	1.97	3.83
Import of services	-8.48	14.39	-12.68	-0.74	5.8	19.64	-5.15	0.33
Gross Domestic Product	3.23	-2.72	3.55	1.78	3.39	4.35	5.81	4.18
Domestic demand without inventories	-0.99	2.48	3	1.72	3.73	8.22	4.16	3.23
Domestic demand	-1.57	-1.78	1.62	2.53	3.1	8.08	4.07	3.23
Total demand without inventories	2.57	-1.93	1.86	1.1	4.24	7.62	3.85	3.81
Total demand	2.12	-1.41	0.85	1.7	3.77	7.52	3.79	3.81

Annual growth rate of deflators	2011	2012	2013	2014	2015	2016	2017	2018
Final consumption deflator	2.91	1.03	0.82	-0.68	1.57	0.81	0.49	0.31
Household consumption deflator	3.59	2.89	1.9	-0.99	1.25	-0.24	-0.18	0
Government consumption deflator	0.56	-5.8	-3.52	0.62	3.08	4.71	2.78	1.45
Gross fixed capital formation deflator	1.37	1.89	-2.59	-0.55	0.19	-2.59	-1.74	0
Total export deflator	3.55	0.22	1.25	0.35	3.52	-0.17	1.45	0.05
Export of goods deflator	6.33	-3.16	0	-1.25	-1.07	-2.45	0.39	0
Export of services deflator	3.89	2.12	0.64	-2.26	3.56	1.05	1.9	0
Total import deflator	6.79	2.57	-1.56	-1.19	2.39	-2.57	-0.1	0
Import of goods deflator	7.57	1.8	-2.09	-1.5	-0.95	-1.18	0.15	0
Import of services deflator	2.72	6.36	1.09	0.85	19.85	-8.62	-1.38	0
GDP deflator	2.43	1.2	0.18	2.07	1.04	1.39	1.58	0.45

Endogeneous Variables

Exogeneous variables

Annual growth rate of deflators	2011	2012	2013	2014	2015	2016	2017	2018
Employment	-2.97	1.11	3.68	1.35	2.24	1.2	1.82	1.8
Net Wages	1.05	0.72	-1.71	-0.54	1.7	2.7	0.67	3.54
Foreign tourist overnight stays	12.05	4.15	3.33	2.17	19.9	1.83	8.13	9.3
World Economic activity	7.95	0.81	2.48	1.1	6.02	1.04	1.93	2.6
Consumer price index	2.59	1.02	-1.85	-2.86	2.24	-1.7	3.71	1.45
Foreign direct Investments	-29.52	18.63	-29.83	9.28	74.97	-20.17	4	3
Intrest rate (Effective)	9.67	9.54	9.39	9.44	8.95	7.97	7.43	7.3
GDP of Serbia	12.48	-5.34	8.22	-3.52	1.33	1.8	2.2	2.9
GDP of EU	3	1.87	0.75	2.95	5.68	1.87	1.65	2.3

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