



EU dream within reach

Recent revisions put real GDP growth in 2024 at 3.2% y/y. Growth remained unchanged in early 2025, as official data shows same level of growth in 1H25 as well. Domestic demand was key in supporting growth, as shorter foreign tourist nights spent resulted in subpar export figures. After slowing below 3% y/y in 1Q25, inflation accelerated again with prints near 5% y/y in September. While the budget gap at the half-year mark is in line with plan, the 12% y/y rise on the expenditure side suggest rising fiscal risks going forward. The EU accession dream is alive more than ever, as the country closed another chapter since our last report, 7th in total, and hopes to close an additional five by year-end.

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Overview of Forecasts

Economy	2025f	2026f
Real GDP growth (%)	3.1	3.3
Unemployment (%)	11.1	10.8
CPI (%), average	4.0	3.2
Budget balance (% GDP)	-3.5	-3.0
Public debt (% of GDP)	58.6	59.7
Current account (% GDP)	-18.7	-18.1

Source: Erste Group Research

Ratings	Rating	Outlook
Moody's	Ba3	stable
S&P	B+	stable

Source: Erste Group Research

General	2025f
Population (in ths)	623.000
GDP/Capita EUR	13,212

Source: Erste Group Research

**Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.*

- Growth in 1H25 averaged 3.2% y/y, after accelerating in 2Q, and was supported by strong domestic demand factors as private consumption and investments recorded 6.4% y/y and 7.4% y/y growth respectively. A negative surprise came from the external side, as exports of G&S declined 2.8% y/y, while imports increased by 3.7% y/y.
- Outlook suggest growth figures should remain similar in the mid-term, as well as the structure of growth. Double-digit growth of net wages, both in nominal and real terms, has supported consumption in 2025 but we expect wage growth to moderate to around 6% in 2026. Investments, in our opinion, will be the key driver of growth over the medium term due to numerous large scale infrastructure projects. However, predicting the exact timing of these projects is not easy as funding largely depends on meeting EU and IFI's reform goals. Although visitor numbers grew, the season-mix and average length of stay deteriorated, indicating softening tourism which could likely continue over the medium term as replacing the important Russian market is a multi-year task. News that WizzAir will have a hub in Montenegro as of March next year is certainly a step in the right direction. We expect improvement on goods side, as electricity export disruption should be contained to 2025. We expect real GDP to rise towards 3.3% y/y and 3.5% y/y in 2026 and 2027 respectively.
- After averaging just 2.2% y/y over 4Q24 and 1Q25, inflation started to pick up in Spring, with the most recent print landing as high as 4.9% y/y. Most of the recent inflation pressure can be attributed to food prices. While in 1Q25, food prices contributed to just 11% of headline CPI overall, in September food and non-alcoholic drinks are responsible for almost 50% of the headline figure. We expect increased inflation pressures until the end of 1Q26, some easing through middle of the year due to base effects and then rather sticky prints around 3%.
- Both general budget revenues and expenditures came in around 3% below plan at the half-year mark, shaping a 1.3% of GDP budget gap. A quick glance on y/y performance indicates rising fiscal risks as revenues are up 1.3% y/y, while expenditures surged 11.8% y/y. Full implementation of the investment pipeline is likely to keep the budget gap elevated around 3% of GDP in the upcoming period.
- After placing an EUR 850mn eurobond in March, Montenegro has covered most of its gross refinancing needs for the year. MoF also plans to issue a retail bond in November in the amount of EUR 50mn.
- Montenegro remains the WB's front-runner in EU integration, having opened all 33 negotiating chapters and provisionally closed 7. Brussels has praised the reform momentum and while the set goal of closing all chapters by end-2026 seems ambitious there is no doubt country is on the right track.

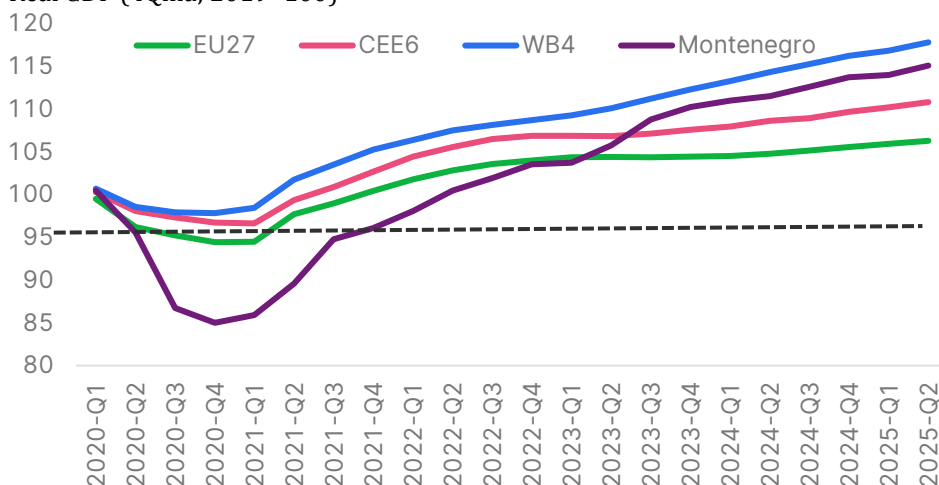
Real economy

Domestic demand underpins growth

After a tad weaker start of the year, when real GDP rose 2.8% y/y, preliminary estimates for 2Q25 shows growth accelerated to 3.5% y/y. Key drivers came from the domestic side, as private consumption and investments rose by 6.4% y/y and 7.4% y/y respectively in 1H25. Some softness in tourism and outage of the thermal plant weighed on export figures, as they declined 2.8% y/y in the same period. Mentioned strong infrastructure cycle inevitably brings the need for stronger imports, hence the 3.7% y/y rise after 1H25.

Growth trajectory intact

Real GDP (4Qma; 2019=100)



Source: Eurostat

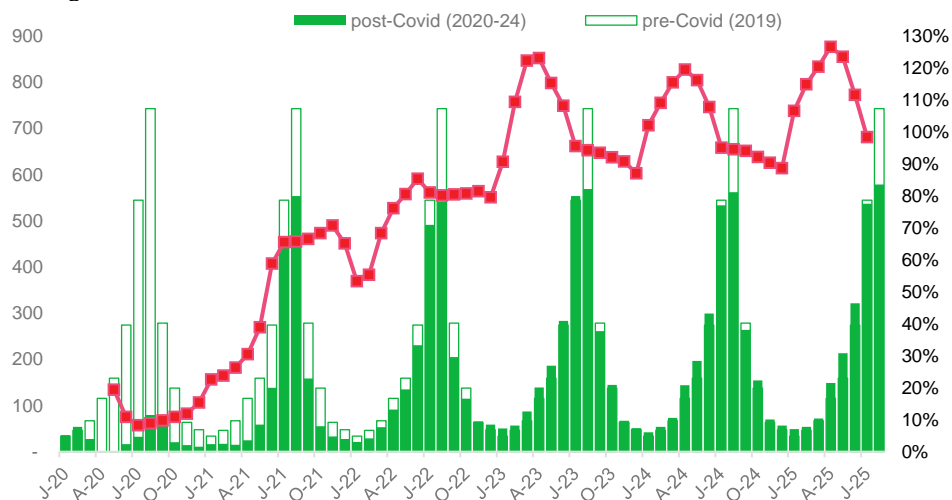
Infrastructure investments should drive growth in the mid-term

Looking ahead, we expect the economy to maintain similar growth structure in the near term. Domestic factors should continue to support growth. Consumption looks supported both from the wage and credit side. Labor market remains tight, with the unemployment rate falling to a low of 10.5% in 2Q25, down from 11.6% at the end of 2024. That said, job growth slowed a tad, as employment grew 4.7% by July, according to administrative data, which could be contributed to somewhat softer tourism season. Investments are likely to be the cornerstone of growth in the next few years with planned Bar-Boljare highway works for the Matesevo-Andrijevisa section and the large national transport infrastructure development programme (estimated at EUR 9bn). The latter is anchored under the Western Balkans Investment Framework and the EU's Economic & Investment Plan for the Western Balkans. Montenegro also plans to build a second underwater power cable link to Italy, which will double the capacity between the countries. Construction is expected to begin in 2027. Bottom line, we expect real GDP to average 3.1% y/y in 2025, followed by acceleration to 3.3% y/y and 3.5% y/y in 2026 and 2027 as big infrastructure tickets are put in motion. That said, the ambitious scale of investments means execution risk is non-trivial including possible delays, cost overruns as readiness of institutional frameworks could affect pace of spending and thus investment growth trajectory.

Both S&P and Moody's delivered credit rating upgrades over the summer

Following both S&P's and Moody's credit rating upgrade over the summer, investor confidence grew. Most recent operational breakthrough came last month as the country operationalized SEPA membership, achieving further financial integration. On the political front, EU chapter 5 (public procurement) was provisionally closed in June, bringing total closed chapters to seven. The country plans to close an additional five chapters by year-end which could again spur investor confidence.

Arrivals in main season still below record 2019 result
 Foreign tourist arrivals

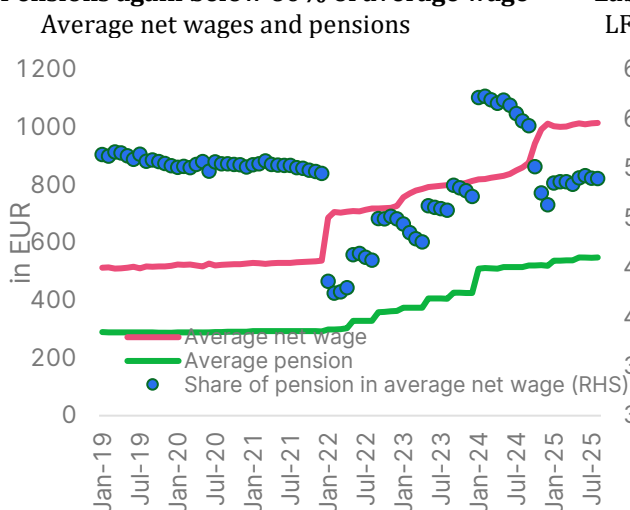


Source: Monstat, Erste Group Research

Tourism results mixed

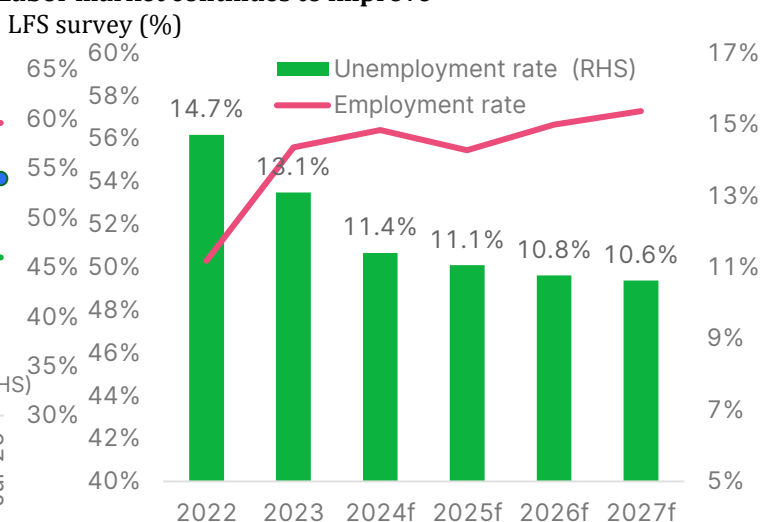
Tourist arrivals are slowly recovering (3.7% y/y after 8M25) and are just 0.4% below record 2019. Overnight stays are showing soft spots as nights spent are lower 3.3% y/y, suggesting although visitor volume is recovering, spending per tourist is under pressure. Part of the decline can be attributed to the exit of large numbers of Russian visitor which in 2019 amounted to 15% of total foreign arrivals, compared to roughly ‘just’ 7% which we expect this year. The competition on the Mediterranean is fierce, and after the government raised VAT in the sector by 8pp to 15% in 2025, competitiveness partly deteriorated. The sector also faces structural issues such as poor state of local airports as well as underwhelming connectivity. The latter should improve next year when WizzAir opens a hub in Podgorica. Finally, the heavy concentration in seaside resorts suggests limited diversification.

Pensions again below 60% of average wage



Source: Monstat, Pension Fund, Erste Group Research

Labor market continues to improve



Source: Makstat, Erste Group Research

Labor market supports growth

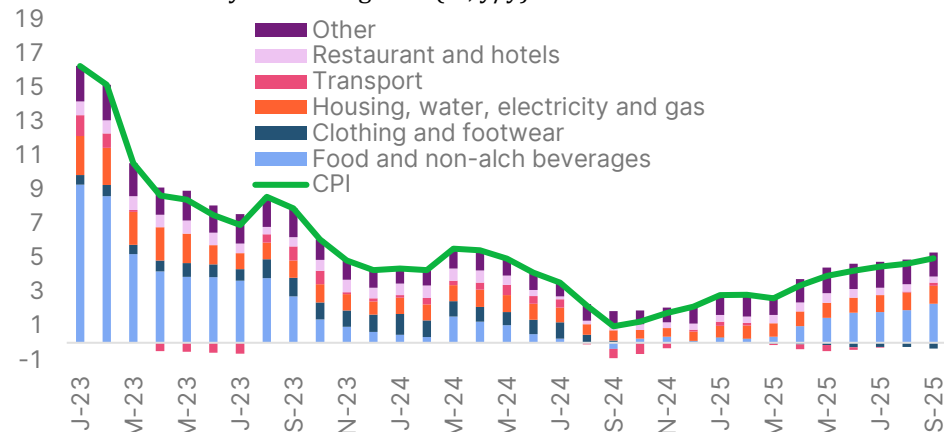
After legislative changes in October last year, the average net wage climbed above EUR 1000 at the end of 2024. While strong y/y growth in 2025 appears staggering, it is merely a result of mentioned changes in October and base effects playing out. While pensions were recently also buffed, the hike was not as strong pushing the pension to wage ratio lower. Labor market improved further, with falling unemployment rate and rising employment, albeit the latter slowed its growth pace.

Food prices driving inflation higher

Inflation will be higher in 2025 compared to 2024. After 9M25, average inflation is at 3.8% y/y. While the start of the year was benign in terms of pressure (1Q25 2.7% y/y), inflation accelerated to 3.8% y/y and 4.7% y/y in 2Q and 3Q on average respectively. Most of the recent pressures are stemming from food prices, pushing the categories contribution to headline CPI in 3Q25 to an average 43%, compared to just 11% at the start of the year. We expect prints will remain elevated until 2Q26 due to base effects, soften over the summer, and then again pickup and linger around the 3% y/y mark.

Inflation on the rise in 2025

CPI contributions by main categories (% y/y)



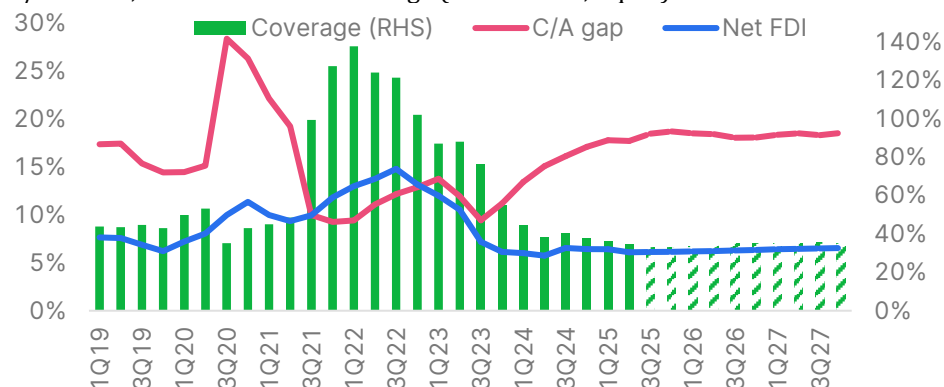
Source: Monstat, Erste Group Research

External balance deteriorating amid increased import needs

After deteriorating considerably in 2024, external balance is under further pressure in 2025. Coming from a 17.1% of GDP C/A gap at the end of 2024, the gap stands at 17.7% of GDP at the half-year mark (on a 4Q rolling basis). Namely, a 9.5% y/y higher goods trade gap is the main reason behind the widening. The upgrade of the thermal power plant Pljevlja have resulted with increased import needs, but this was in line with expectations at the start of the year. The plant is schedule to resume operations in mid-November but will take a few months before it becomes fully operational again. EPCG expects domestic generation to rise 15%-20% y/y once the plant is running again which should offset import needs and allow the country to become a net exporter of energy in 2026 again. The C/A gap should improve slightly due to the mentioned reversal but remain elevated given still high import needs linked to major infrastructure projects. We expect gradual improvement of FDI as well if the country remains focused on further EU accession chapter closure.

External balance gap will remain elevated in the near term

C/A deficit, Net FDI and FDI coverage (in % of GDP, 4qma)

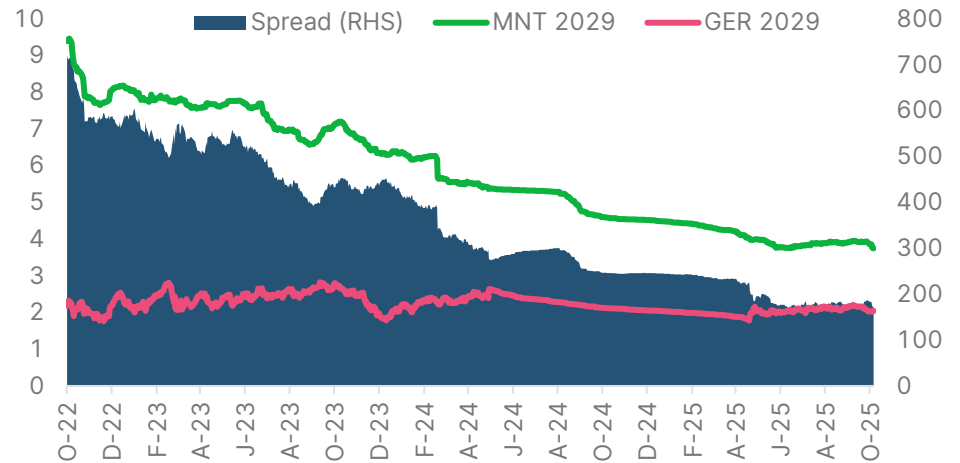


Source: CBCG, Erste Group Research

Spread vs core continues to tighten as investors honor EU progress

Progress on the EU agenda and steady rating upgrades boosted investor confidence, hence also compressing spreads to benchmark. While not so long ago, at the start of 2024, spread to benchmark was above 400bps, most recent data shows spread compressed to just 170 bps. We expect similar, steady progress going forward given sentiment around EU accession negotiations but also expected solid growth rates. Lack of new issuance does complicate things a bit, as liquidity is not easy to find.

Montenegro and Germany 2029 YTM



Source: Bloomberg, Erste Group Research

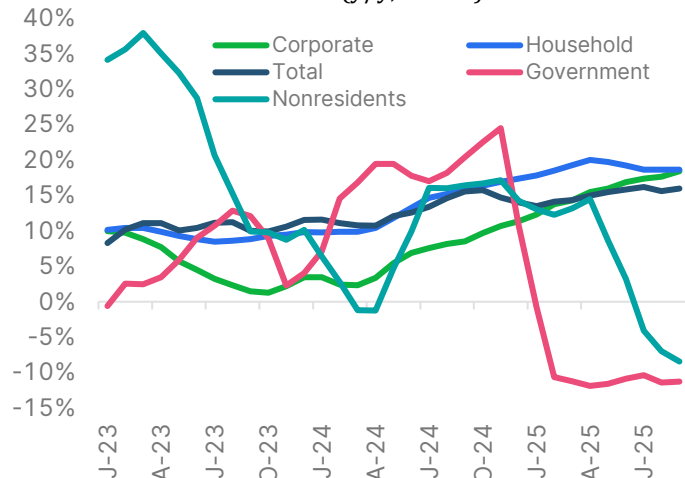
Monetary and fiscal developments

Loan growth in 2025 again double digit

Similar to noted developments early in the year, credit expansion shows no signs of slowing and thus continues to support overall economic activity. Total credit growth after 9M25 stands at 15.4% YTD. Both retail and corporates continue to show strong appetite, rising 16% and 15% YTD respectively. On the deposit side we saw 4.5% YTD growth, with solid growth across all sectors, except non-residents where we saw a contraction. As far as sector stability, banks kept strong capital buffers, while, on average, decreasing their NPL's which have declined to a record low of 3.4% in 2Q25.

Loan appetite still sizeable

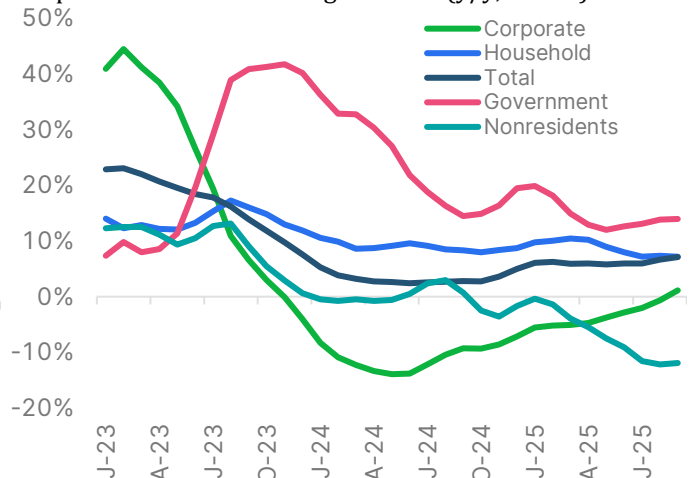
Loans distribution to sectors (y/y, 3mma)



Source: CBCG, Erste Group Research

Deposit inflow stable

Deposit distribution through sectors (y/y, 3mma)



Source: CBCG, Erste Group Research

Pressure rising on the expenditure side

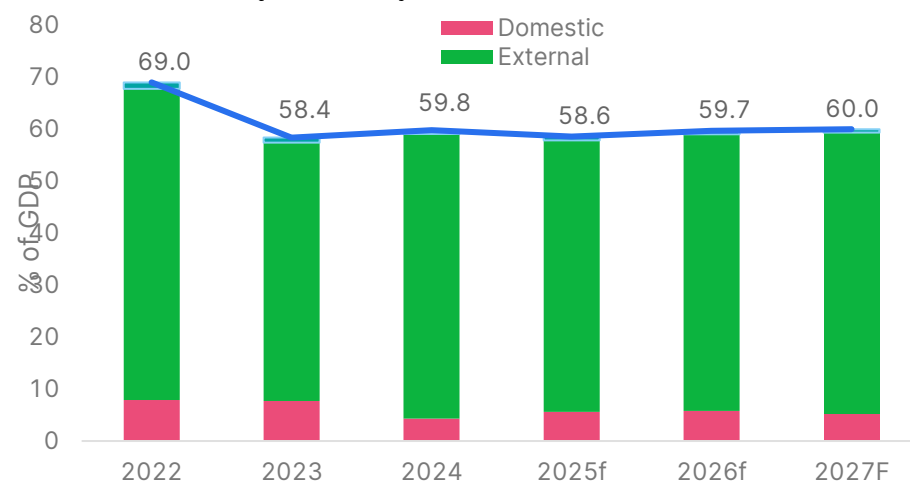
The fiscal result at half-year checkpoint is in line with expectations, with data showing a 1.3% of GDP consolidated budget gap. Both the revenue and expenditure side are roughly 3% below plan. When comparing to last year's figures, there is room for concern as revenues are up 1.3% y/y, while the expenditure side rose 11.8% y/y, and that is with only partial implementation of the planned 30% hike of public sector wages. Full implementation would add almost 1pp of GDP to the expenditure side. As central government budget data show net result in August is significantly weaker than last year, risks to official expectations of a 3.5% of GDP gap this year are to the downside. In the next two years we expect mild improvement in line with forecasted slight acceleration of growth and expect the budget gap around 3% of GDP.

No big tickets maturing until late 2027

With the launch of 7Y EUR 850mn eurobond back in March most of the needs for the year have been met early in the year. Additionally, the MoF plans to issue a 2Y retail bond in the amount of EUR 50mn by the end of November. Next year's needs offer some relief, as they stand at 'just' around EUR 600mn, with roughly equal split between maturing needs and the budget gap. In 2027 refinancing needs climb towards EUR 1.3bn due to a EUR 750mn eurobond redemption in December. The MoF is negotiating with the World Bank in order to get a Policy based guarantee which would be a basis for loan arrangements with commercial banks up to EUR 300mn in 2026. Depending on interest for the upcoming retail bond, we see room for similar issues next year as well. We don't expect a eurobond issuance before 2027. The country could by then make significant progress in EU accession negotiations, which could compress its risk premium.

Public debt inching higher but remains overall stable

Public debt structure (in % of GDP)



Source: MoF, Erste Group Research

Politics

Domestic polarization

On the domestic political spectrum tensions were heightened again last month after president of the parliament, Mr. Mandić, called on the Chief State Prosecutor Milorad Marković to resign, accusing the prosecutor's office of acting as a "fourth branch of government". Such developments add to deepening institutional-political conflict which has been in play for some time now. Public opinion research for September 2025 shows that only 29% of citizens view the government as stable, while nearly 40% consider it unstable. Major concern among the public is political patronage in employment (50.5%) and not just economic issues.

EU accession progress remains on track

While EU accession remains a rallying theme, internal coalition fragmentation and institutional conflict (e.g., between Parliament leadership and the prosecutor's office) could undermine reform momentum. There are plenty of positives as well. In mid-October Ursula von der Leyen visited Montenegro and stated that the country is "on good track to become the EU's 28th member. Such high-level visits and public statements underscore that Montenegro remains a front-runner among Western Balkan candidates and retains strong political backing in Brussels. Should the country manage to close additional five chapters by the end of the year, such statements such could become even more frequent in 2026.

Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Nominal GDP (EUR mn)	4,601	4,898	4,145	4,923	5,944	7,069	7,645	8,231	8,773	9,352
Population (thous)	626	627	627	625	624	624	624	623	623	623
GDP per capita (EUR)	7,490	7,960	6,740	8,000	9,600	11,000	12,257	13,212	14,081	15,012
Real GDP (growth y/y %)	4.7	4.4	-15.0	13.0	7.7	6.5	3.2	3.1	3.3	3.5
Private consumption (growth y/y %)	3.0	3.7	-4.5	5.5	13.5	7.0	10.5	5.8	3.6	3.7
Fixed capital formation (growth y/y %)	15.1	-2.1	-11.7	-12.8	0.9	11.3	10.2	7.1	6.0	6.1
Gross wages (EUR)	766	773	783	793	883	987	1,083	1,207	1,279	1,379
Gross wages growth (%)	0.2	0.8	1.3	1.3	11.3	11.8	9.8	11.5	6.0	7.8
Net wages growth (%)	0.1	0.8	1.7	1.5	33.9	11.3	10.6	15.6	5.9	7.8
CPI (y/y, average %)	2.6	0.4	-0.3	2.4	13.0	8.6	3.3	4.0	3.2	3.0
CPI (y/y, year end %)	1.6	1.0	-0.9	4.6	17.2	4.3	2.1	4.8	3.0	3.2
Unemployment (%)	15.2	15.1	17.9	16.6	14.7	13.1	11.4	11.1	10.8	10.6
Goods trade balance (% of GDP)	-44.5	-42.2	-39.6	-38.9	-44.9	-42.2	-43.2	-44.1	-43.0	-43.1
Current account balance (% of GDP)	-17.2	-14.4	-26.3	-9.3	-12.9	-11.2	-17.1	-18.7	-18.1	-18.5
Net FDI inflow (% of GDP)	7.0	6.2	11.4	11.8	13.2	6.1	6.4	6.1	6.3	6.5
General government budget balance (% of GDP)	-4.0	-1.5	-11.2	-1.9	-5.0	0.6	-3.1	-3.5	-3.0	-2.9
Public debt (% of GDP)	71.0	77.3	106.4	84.6	69.0	58.4	59.8	58.6	59.7	60.0
External debt to GDP (%)	165.9	169.2	223.8	192.7	158.5	127.3	125.0	122.7	119.7	117.6
Long term interest rate (EUR 2029) average		2.6	3.5	3.8	7.3	7.3	5.3	4.0	3.0	2.5
Long term interest rate (EUR 2029) year-end		2.6	3.2	4.3	8.2	6.3	4.5	3.6	2.7	2.2

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