

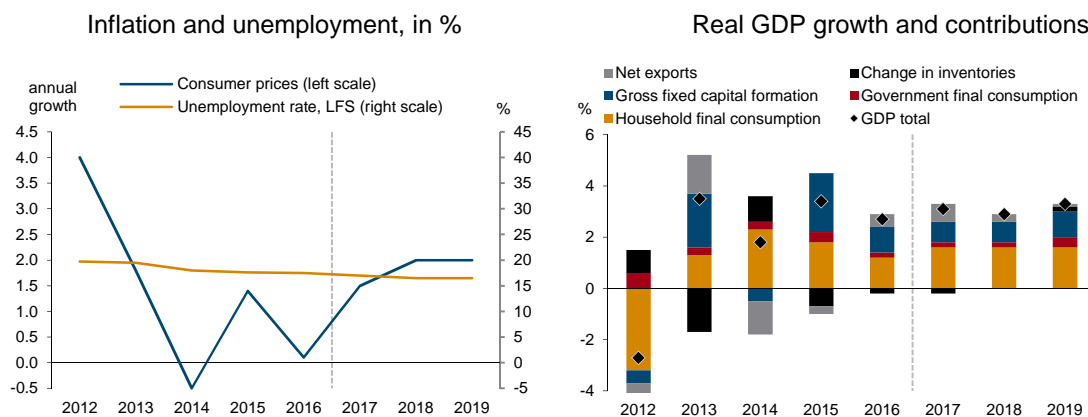


## MONTENEGRO: Growth returns

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Montenegro's economic growth slowed markedly at the turn of 2016, largely because of a surge in imports. It recovered in the course of the year and is now poised to return to 3% or thereabouts in the medium term. Political risks also contributed to economic volatility, though a degree of stability should have returned following the early elections. The economy will continue to rely even more on services, i.e. on tourism.

Figure 46 / Montenegro: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**Growth for the year as a whole declined to below 3%.** Though the slowdown occurred at the height of the political crisis over the legitimacy of the government, it was actually deteriorating net exports that were the proximate reason for it. Some of the increased imports went to build up inventories. This was possibly connected both with the coming tourist season, and with planned investment in a highway that is to connect the country along its north–south axis. With that in mind, growth should rebound this year and in the medium term.

**The economy is unbalanced.** Consumption is over 100% of GDP, and public consumption is a shade above 20% of GDP, more or less as large a share as investment. Net exports are strongly negative, at somewhere around a third of GDP. The question is always posed: is this sustainable? With Montenegro being a microstate (i.e. less than 1 million population) that is largely dependent on real estate and tourism, it is probably not reasonable to look at sustainability through debt-to-income ratios. Foreign debt

is probably in excess of 200% of GDP. However, most of the investment is in real estate, which has its price tied to the performance of the tourist industry. So long as tourism grows at a healthy rate, as it has done since 2006 or so, the debt is sustainable.

**Public debt is something of a concern.** Historically, public debt has tended to be low, but it has been rising due to ambitious infrastructure investments. On the one hand, there is no doubt that those investments are needed if Montenegro is to sustain a growing, services-based economy. On the other hand, misallocated investment could indeed lead to a fiscally unsustainable situation, which would require major adjustments in revenue and expenditure. Montenegro uses the euro and can hardly rely on financial repression or devaluation. The new government has embarked on some measures of expenditure control, but the key will be growth generation from spending in infrastructure and energy, as well as in education and research and development.

**The employment and unemployment figures have been stable.** There are strong seasonal variations, but the unemployment rate is still not much below 20%. It has been declining somewhat, and in all likelihood will continue to do so rather slowly. In the tourist sector, however, there is a seasonal shortage of employable people.

**EU integration is a slow process.** Montenegro is ahead of other candidate countries in the process of EU integration. One stumbling block has been the suspicion that rule of law is not enforced and that democracy is deficient. The latter concern was emphasised by the prolonged political crisis, which was partly fuelled by the fact that one party and its leader has been running the country for decades. Changes to the governing coalition and a new head of government should allay those concerns, at least in part. But the polarised nature of Montenegrin politics makes it hard to have a speedier and clearer change in government.

**NATO membership is at hand.** It is expected that US Congress will ratify the NATO agreement for Montenegro to join the organisation, as will the remaining NATO member states. The government has enough votes to carry the accession motion in parliament. That should prove stabilising for the government. Impending accession to NATO has not led to a decline in the number of Russian tourists, although the Russian government has been very strongly opposed to the move. Russian investments have dried up, but that is related more to the state of the Russian economy. There is continuing litigation over Oleg Deripaska's investments in the Aluminium Kombinat, which would bankrupt the country if it lost. But that is a distant prospect at the moment.

**Growth should speed up this year and continue at a pace of 3% or so in the medium term.** It is likely to be driven by investments and continued improvement in the export of services, i.e. tourism. The government has ambitious plans for investment in infrastructure, some with regional reach (so that may be financed within the Berlin Process). This should also boost investments in tourism. High foreign debt is the main risk on the down side, but political stabilisation should mitigate that risk, at least in part.

Table 17 / Montenegro: Selected economic indicators

	2012	2013	2014	2015	2016 <sup>1)</sup>	2017 Forecast	2018 Forecast	2019
Population, th pers., mid-year	621	621	622	622	625	625	625	625
Gross domestic product, EUR mn, nom.	3,181	3,362	3,458	3,625	3,700	3,900	4,100	4,300
annual change in % (real)	-2.7	3.5	1.8	3.4	2.7	3.1	2.9	3.3
GDP/capita (EUR at PPP)	10,500	10,900	11,300	12,100	12,400	.	.	.
Consumption of households, EUR mn, nom. <sup>2)</sup>	2,632	2,724	2,775	2,872	2,915	.	.	.
annual change in % (real)	-3.9	1.6	2.9	2.2	1.5	2.0	2.0	2.0
Gross fixed capital form., EUR mn, nom.	628	678	657	736	773	.	.	.
annual change in % (real)	-2.4	10.7	-2.5	11.9	5.0	4.0	4.0	5.0
Gross industrial production <sup>3)</sup>								
annual change in % (real)	-7.1	10.6	-11.4	7.9	-4.4	3.0	5.0	4.0
Net agricultural production								
annual change in % (real)	-12.7	5.0	3.0	3.0	5.0	.	.	.
Construction output <sup>3)</sup>								
annual change in % (real)	7.7	41.6	34.1	20.3	47.4	.	.	.
Employed persons, LFS, th, average	200	202	216	222	224	226	228	230
annual change in %	2.4	1.0	7.1	2.5	1.0	1.0	1.0	1.0
Unemployed persons, LFS, th, average	49	49	48	47	48	50	50	50
Unemployment rate, LFS, in %, average	19.7	19.5	18.0	17.6	17.5	17.0	16.5	16.5
Reg. unemployment rate, %, average	15.3	15.8	16.1	16.5	21.9	.	.	.
Average monthly gross wages, EUR	727	726	723	725	751	770	790	810
annual change in % (real, gross)	-3.2	-1.9	0.1	-1.1	3.1	1.0	1.0	1.0
Average monthly net wages, EUR	487	479	477	480	499	510	530	550
annual change in % (real, net)	-3.3	-3.4	0.1	-0.8	3.9	1.0	1.0	1.0
Consumer prices, % p.a.	4.0	1.8	-0.5	1.4	0.1	1.5	2.0	2.0
Producer prices in industry, % p.a. <sup>4)</sup>	1.9	1.6	0.1	0.3	-0.1	1.0	2.0	2.0
General governm. budget, nat. def., % of GDP								
Revenues	35.2	37.0	39.1	36.6	40.2	39.0	40.0	40.0
Expenditures	41.4	43.0	42.1	44.6	41.8	42.0	42.0	42.0
Deficit (-) / surplus (+)	-6.1	-6.0	-3.0	-8.0	-1.6	-3.0	-2.0	-2.0
Public debt, nat. def., % of GDP	53.4	55.7	56.2	62.8	61.0	60.0	60.0	60.0
Stock of loans of non-fin. private sector, % p.a	-3.5	5.0	-1.5	2.9	6.3	.	.	.
Non-performing loans (NPL), in %, Dec	17.6	18.4	16.8	13.4	11.0	.	.	.
Central bank policy rate, % p.a., end of period <sup>5)</sup>	8.83	8.68	8.41	8.53	7.45	8.00	8.00	8.00
Current account, EUR mn	.	-487	-526	-483	-630	-640	-850	-850
Current account, % of GDP	.	-14.5	-15.2	-13.3	-17.0	-16.4	-20.7	-19.8
Exports of goods, BOP, EUR mn	.	396	357	325	340	350	370	380
annual change in %	.	.	-9.7	-9.0	4.5	4.0	5.0	4.0
Imports of goods, BOP, EUR mn	.	1,724	1,734	1,789	1,970	2,050	2,130	2,220
annual change in %	.	.	0.6	3.2	10.1	4.0	4.0	4.0
Exports of services, BOP, EUR mn	.	994	1,031	1,214	1,270	1,350	1,430	1,520
annual change in %	.	.	3.6	17.8	4.6	6.0	6.0	6.0
Imports of services, BOP, EUR mn	.	341	340	425	470	490	510	530
annual change in %	.	.	-0.3	24.8	10.6	5.0	4.0	4.0
FDI liabilities, EUR mn	.	337	375	630	150	.	.	.
FDI assets, EUR mn	.	13	21	11	-180	.	.	.
Gross reserves of NB excl. gold, EUR mn <sup>6)</sup>	348	424	545	674	803	.	.	.
Gross external public debt, EUR mn	1,295	1,433	1,562	1,956	1,960	2,150	2,340	2,540
Gross external public debt, % of GDP	40.7	42.6	45.2	54.0	53.0	55.0	57.0	59.0

1) Preliminary and wiiw estimates. - 2) Including expenditures of NPISHs. - 3) Enterprises with 5 and more employees. - 4) Domestic output prices. - 5) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 6) Data refer to reserve requirements of Central Bank.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.