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## **Montenegro: IMF to the rescue, perhaps**

The government estimates the GDP decline at about 5% in 2009. The IMF believes that the decline has been sharper, as much as 7%. Given that most of the economy is production of services, these differences are not unusual. In any case, recession has been deep. Negative growth is likely this year too due to difficulties in securing financing, both foreign and domestic.

Montenegro entered the crisis with an overheated economy and with an exceptionally high current account deficit. However, the fiscal balances were in good shape due to significant surpluses in the last few years before the recession. As a consequence, the government was in a position to come to the rescue to one failing domestic bank and to the main industrial enterprise, the aluminium plant. These fiscal injections were sizable for this small economy and have proved useful for stabilization and for the maintenance of employment. In addition, foreign investments continued to come in due to privatization of the electricity company and to some sales in the tourist sector. Of course, industrial production declined dramatically and so did exports of goods. However, the tourist season was not all that disappointing, which is crucially important for this economy.

The medium-run strategy is clear. The need for foreign investment is high, but the government intends to improve the attractiveness and to support employment by investing in infrastructure projects. Those may be financed from multilateral sources, which often prove to be more stable in a crisis. Thus, important investments in roads to the hinterland and in improved infrastructure on the coast should support consumption and employment. The government submitted its application for EU membership early last year and has been making progress towards achieving the status of a candidate country. It is conceivable that the EU will decide to accept the application by the end of this year. That will open up additional EU funds which are badly needed.

There is reluctance to requesting an IMF programme, though that may also prove necessary. Montenegro uses the euro, so it is not clear what conditions the IMF would insert in its stand-by programme. In any case, given that external finance is crucial for recovery, foreign investments may not be enough and thus additional funds from the international financial institutions may be necessary. The IMF programme may also be a condition to access some EU funding, so the government may not have much choice.

As in most countries in the region, recovery will probably prove to be slow and not very impressive. This is a small open economy that depends heavily on external investment and demand. Once those recover, growth will return.

Table ME

**Montenegro: Selected Economic Indicators**

	2004	2005	2006	2007	2008	2009 <sup>1)</sup>	2010	2011	2012
							Forecast		
Population, th pers., average <sup>2)</sup>	622.1	623.3	624.2	626.2	628.8	630	631	632	633
Gross domestic product, EUR mn, nom. <sup>3)</sup>	1669.8	1815.0	2149.0	2680.5	3085.6	3000	3100	3300	3500
annual change in % (real) <sup>3)</sup>	4.4	4.2	8.6	10.7	6.9	-5	-1	2	3
GDP/capita (EUR at exchange rate)	2700	2900	3400	4300	4900	4800	.	.	.
GDP/capita (EUR at PPP - wiiw)	6500	6900	8400	10000	10700	10300	.	.	.
Consumption of households, EUR mn, nom. <sup>3)</sup>	1221.1	1268.0	1660.9	2369.0	2814.8	2800	.	.	.
annual change in % (real) <sup>4)</sup>	16	3	10	8	7	-4	0	2	2
Gross fixed capital form., EUR mn, nom. <sup>3)</sup>	286.1	326.3	469.8	867.1	1180.2	1100	.	.	.
annual change in % (real) <sup>4)</sup>	37	12	8	10	8	-6	0	3	4
Gross industrial production									
annual change in % (real)	13.8	-1.9	1.0	0.1	-2.0	-30	0	2	4
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	3.8	-0.9	1.9	-11.0	10.0	2	.	.	.
Construction output total <sup>5)</sup>	.	.	.	.	.	.	.	.	.
annual change in % (real)	3.7	18.4	28.0	23.6	20.7	5	.	.	.
Employed persons - LFS, th, average <sup>6)</sup>	187.3	178.8	178.4	217.4	218.8	215	215	220	220
annual change in %	.	-4.5	-0.3	21.9	0.6	-1.7	0	1	1
Unemployed persons - LFS, th, average <sup>6)</sup>	71.8	77.8	74.8	52.1	45.3	50	.	.	.
Unemployment rate - LFS, in %, average <sup>6)</sup>	27.7	30.3	29.6	19.3	17.2	19	20	20	20
Reg. unemployment rate, in %, end of period <sup>7)</sup>	29.3	25.2	20.5	16.5	14.4	14.5	.	.	.
Average gross monthly wages, EUR <sup>8)</sup>	303	326	377	497	609	640	.	.	.
annual change in % (real, net)	9.1	6.7	12.0	15.0	14.6	8	.	.	.
Consumer prices, % p.a.	2.4	2.3	3.0	4.2	7.4	4.0	3	3	3
Producer prices in industry, % p.a. <sup>9)</sup>	5.8	2.1	3.6	8.5	14.0	-4	.	.	.
General government budget, nat. def., % GDP									
Revenues	39.2	39.4	45.4	61.1	49.1	48	.	.	.
Expenditures	41.8	42.0	42.7	52.9	47.5	50	.	.	.
Deficit(-)/Surplus(+)	-2.6	-2.6	2.7	8.2	1.7	-2	0	0	0
Public debt in % of GDP	44.5	38.6	32.6	26.3	26.8	37	38	36	32
Base rate of NB, % p.a., end of period	.	.	.	.	.	.	.	.	.
Current account, EUR mn <sup>10)</sup>	-119.6	-154.0	-531.2	-642.8	-1005.7	-450	-310	-330	-350
Current account in % of GDP	-7.2	-8.5	-24.7	-24.0	-32.6	-15	-10	-10	-10
Exports of goods, BOP, EUR mn	452.1	460.6	648.3	543.4	519.1	363	440	460	480
annual growth rate in %	.	1.9	40.7	-16.2	-4.5	-30	20	5	5
Imports of goods, BOP, EUR mn	868.6	974.3	1497.7	1702.7	2008.7	1310	1180	1300	1430
annual growth rate in %	.	12.2	53.7	13.7	18.0	-35	-10	10	10
Exports of services, BOP, EUR mn	249.5	329.8	418.0	674.1	754.3	680	710	780	860
annual growth rate in %	30.4	32.2	26.8	61.2	11.9	-10	5	10	10
Imports of services, BOP, EUR mn	101.4	134.2	220.9	233.9	351.2	300	290	260	290
annual growth rate in %	27.2	32.4	64.6	5.9	50.1	-15	-5	-10	10
FDI inflow, EUR mn	52.7	384.5	492.8	639.8	641.3	800	1000	1000	1000
FDI outflow, EUR mn	2.1	3.6	26.1	115.0	73.7	25	.	.	.
Gross reserves of NB, excl. gold, EUR mn <sup>11)</sup>	33.2	61.7	172.8	259.0	216.6	175	.	.	.
Gross external public debt, EUR mn	488.6	513.3	504.0	462.1	481.7	540	.	.	.
Gross external public debt in % of GDP	29.3	28.3	23.5	17.2	15.6	18	.	.	.
Purchasing power parity EUR/EUR <sup>12)</sup>	0.41	0.42	0.41	0.43	0.46	0.46	.	.	.

1) Preliminary and wiiw estimates. - 2) wiiw estimate in 2009. - 3) According to ESA'95 (including shadow economy, real growth rates based on previous year prices). - 4) wiiw estimate. - 5) Gross value-added. - 6) Until 2007 as of October. - 7) In % of unemployed plus employment (excluding individual farmers). - 8) From 2007 wage data refer to employees who received wages (previously wages were divided by all registered employees in enterprises); comparable value for 2006: 433. - 9) Domestic output prices. - 10) Including all transactions with Serbia. - 11) Refer to reserve requirements of Central Bank. - 12) Benchmark results 2005 from Eurostat and wiiw estimates.

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