



MONTENEGRO: Relying on tourism

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In Montenegro, growth will slow down over the current year owing to poor performance in terms of industrial production and investment. In the medium term, public investment and tourism should make for some acceleration of growth. The rift with Russia over the sanctions, which Montenegro introduced in view of its being a candidate country, has not had any appreciable negative impact to date.

Last year's growth will not be repeated this year. The reasons are mostly on the supply side. Industrial production has been declining as have exports of goods. As in the past, almost everything depends on the performance of tourism, which is uncertain due to disappointing weather conditions in the summer. In the end, the modest increase in the first half of the year may get extended for the year as a whole, which would probably be enough to support growth of GDP of around 2%. This result depends also on investments and some increase in private consumption. In the medium run, growth should accelerate to about 3% driven more or less by the same factors.

In the next few years, most of the inherited industrial production will probably disappear altogether. This refers primarily to the aluminium plant and also to the steel mill, which are most probably not going to restart producing. Bankruptcy of the aluminium plant is responsible for the sharp drop in industrial production and in exports of goods in the first half of this year. Chances are that this type of industrial production will not come back. Small and medium-sized industrial firms are yet to make an appearance, so the key sector is that of services and in tourism in particular. Its growth, however, is constrained somewhat by the slow growth or even decline of tourists from the neighbouring countries because those have been doing poorly. Despite all that, there is no doubt that potential investment in tourism is far from being exhausted.

There is some increase in political uncertainty. Internally, the time is running out on the long-time leader of the country, Milo Đukanović, though there is yet to emerge a credible alternative to the largest party. The opposition is divided and without a creditable alternative programme. But, the same could be said for the ruling coalition, especially when it comes to economic policies that would speed up growth and to increased employment.

Externally, some heightened uncertainty is due to the announcement by the incoming president of the EU Commission that there will be no new additions to the EU in the next five years. Montenegro is a frontrunner, having started negotiations a couple of years ago. EU accession has been seen as a major contributor to the country's stability and raising doubts about that is potentially damaging, as are the

repeated delays to the membership in NATO. In the latter case also, Montenegro was hoping for speedy accession in order to buttress its stability in a volatile region. Both prospects for membership are not imminent to say the least, which is not helpful.

There has been an improvement in the relationship with the neighbours, in particular with Serbia. This should help the process of democratisation in Montenegro, because the main internal division used to go along ethnic lines, i.e. Montenegrin against Serb, but that rift is bound to ease with the improved relationship between Podgorica and Belgrade. Now the main contentious issues have to do with the internal economic and other policy issues, especially those connected with the rule of law and corruption. Those are also main issues in the ongoing process of negotiations with the EU.

Past the current year, some acceleration of growth should be possible due to investments in infrastructure and tourism and continued, though incremental, growth of private consumption. Policy-makers need to be mindful of widening the current account deficit, which continues to be very large. If foreign investments dry up, the adjustment will be painful. So far, those have held up, though they are well below the peak years before the crisis. So, barring large shocks, growth should rise to about 3% in the medium term.

One such shock could be a significant decline of the number of Russian tourists due to Montenegro introducing sanctions on Russia in solidarity with the EU, a member of which Montenegro is negotiating to become. Similarly, investment in real estate by Russians may abate, though so far there is no indication that either of the two is happening. Russia did not impose sanctions on imports of food from Montenegro, but this is not a very large item. In fact, given the experience with Russian investments, e.g. the one in KAP (the aluminium plant), these investment may not be missed in Montenegro.

Table 1 / Montenegro: Selected Economic Indicators

	2010	2011	2012	2013 ¹⁾	2013 January-June	2014	2014 Forecast	2015 Forecast	2016 Forecast
Population, th pers., mid-year ²⁾	619	621	620	622	.	.	623	625	625
Gross domestic product, EUR mn, nom.	3,104	3,234	3,149	3,327	1,409	1,436	3,400	3,500	3,700
annual change in % (real)	2.5	3.2	-2.5	3.3	1.8	0.8	2.1	2.9	3.0
GDP/capita (EUR at exchange rate)	5,000	5,200	5,100	5,300	.	.	.	.	.
GDP/capita (EUR at PPP)	10,200	10,600	10,400	11,200	.	.	.	.	.
Consumption of households, EUR mn, nom.	2,551	2,667	2,632	2,712	.	.	.	.	.
annual change in % (real)	2.0	1.9	-3.2	1.1	.	.	1.0	2.0	2.0
Gross fixed capital form., EUR mn, nom.	655	596	584	639	.	.	.	.	.
annual change in % (real)	-18.5	-10.3	-3.3	8.8	.	.	4.0	5.0	5.0
Gross industrial production ³⁾									
annual change in % (real)	17.5	-10.3	-7.0	10.7	10.4	-15.3	-1.0	3.0	5.0
Net agricultural production									
annual change in % (real)	-1.7	9.5	-12.7	5.0	.	.	.	.	.
Construction output ⁴⁾									
annual change in % (real)	-7.4	15.8	-11.9	1.2	.	.	5.0	5.0	5.0
Employed persons, LFS, th, average ⁵⁾	208	195	200	202	200	.	207	210	210
annual change in %	-2.2	.	2.4	1.0	2.6	.	2.5	1.0	1.0
Unemployed persons, LFS, th, average ⁵⁾	51	48	49	49	51	.	.	.	.
Unemployment rate, LFS, in %, average ⁵⁾	19.6	19.7	19.7	19.5	20.4	.	19.0	19.0	19.0
Reg. unemployment rate, %, average	16.5	15.9	15.3	15.8	14.4	.	15.0	15.0	15.0
Average monthly gross wages, EUR	715	722	727	726	729	724	.	.	.
annual change in % (real, gross)	10.6	-2.1	-3.3	-2.3	-3.8	0.2	.	.	.
Average monthly net wages, EUR	479	484	487	479	482	477	.	.	.
annual change in % (real, net)	2.9	-2.0	-3.3	-3.8	-5.1	-0.1	.	.	.
Consumer prices, % p.a.	0.5	3.5	4.1	2.2	3.2	-0.8	0.0	1.0	2.0
Producer prices in industry, % p.a. ⁶⁾	-0.9	3.2	1.9	1.6	3.8	-0.5	.	.	.
General governm.budget, nat.def., % of GDP									
Revenues	40.9	39.7	35.8	37.4	36.5	.	41.0	41.0	41.0
Expenditures	43.9	45.2	42.4	41.0	41.9	.	44.0	43.0	43.0
Deficit (-) / surplus (+)	-3.0	-5.4	-6.6	-3.6	-5.4	.	-3.0	-2.0	-2.0
Public debt, nat.def., % of GDP	40.9	46.0	54.0	56.3	.	.	59.0	58.0	58.0
Central bank policy rate, % p.a., end of period ⁷⁾	8.98	9.06	8.83	8.68	8.8	8.6	8.0	8.0	8.0
Current account, EUR mn ⁸⁾	-710	-573	-588	-487	-418	-442	-525	-555	-570
Current account, % of GDP	-22.9	-17.7	-18.7	-14.6	-29.7	-30.8	-15.4	-15.9	-15.4
Exports of goods, BOP, EUR mn ⁸⁾	357	477	392	403	202	161	360	380	400
annual change in %	20.4	33.6	-17.8	2.8	4.3	-20.1	6.0	6.0	6.0
Imports of goods, BOP, EUR mn ⁸⁾	1,624	1,783	1,781	1,733	824	805	1,730	1,800	1,870
annual change in %	0.4	9.8	-0.1	-2.7	-4.9	-2.3	0.0	4.0	4.0
Exports of services, BOP, EUR mn ⁸⁾	801	906	998	1,058	260	272	1,160	1,280	1,410
annual change in %	9.5	13.1	10.1	6.0	-4.1	4.8	10.0	10.0	10.0
Imports of services, BOP, EUR mn ⁸⁾	337	317	385	411	151	151	430	450	470
annual change in %	1.8	-5.9	21.6	6.6	-10.5	0.0	5.0	5.0	5.0
FDI inflow (liabilities), EUR mn ⁸⁾	574	401	482	337	155	166	350	390	430
FDI outflow (assets), EUR mn ⁸⁾	22	12	21	13	0	3	20	20	20
Gross reserves of NB, excl. gold, EUR mn ⁹⁾	165	171	187	195	187	198	.	.	.
Gross external public debt, EUR mn	912	1,064	1,295	1,433	1,318	1,584	.	.	.
Gross external public debt, % of GDP	29.4	32.9	41.1	43.1	.	.	.	.	.
Purchasing power parity EUR/EUR	0.4927	0.4904	0.4893	0.4993	.	.	.	.	.

1) Preliminary. - 2) According to census April 2011. - 3) Excluding small enterprises in private sector and arms industry. From 2011 NACE Rev. 2. - 4) Gross value added. From 2011 NACE Rev. 2. - 5) From 2011 according to census April 2011. - 6) Domestic output prices. - 7) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 8) Half-year data according to BOP 6th edition. - 9) Data refer to reserve requirements of Central Bank.

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