

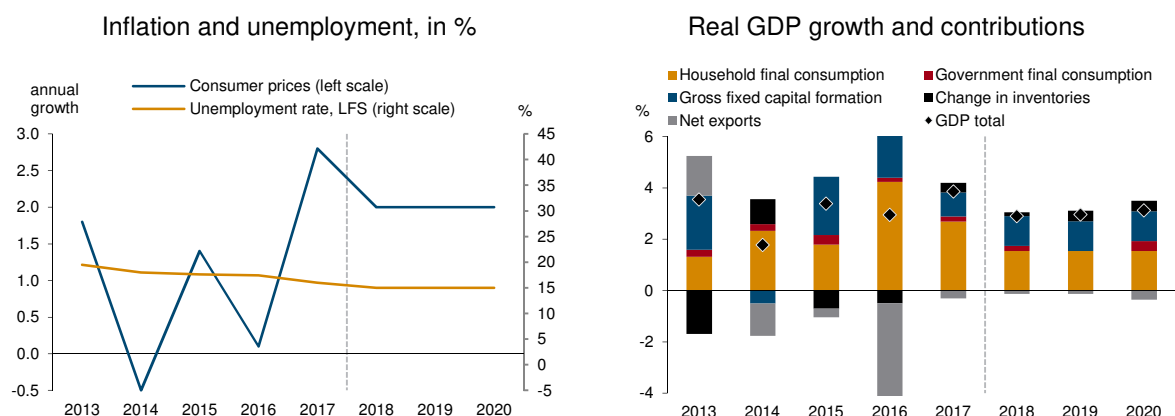


MONTENEGRO: Tourism to the rescue

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Overall, the economy should expand by 3% in the medium term. Assuming EU recovery is sustained, tourism should continue to support expansion. Infrastructure investments should continue and help as well. That should also lead to improvements in the labour market. In the same period, additional political stabilisation should take place and EU accession should advance steadily.

Figure 53 / Montenegro: Main macroeconomic indicators



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

Growth last year exceeded all expectations. The initial assumption was that the fiscal consolidation that the new government had announced would slow down the expansion of GDP. In addition, lower growth rates, below 3%, were forecasted for the medium term. Indeed, public consumption grew more slowly than the GDP, but tourism had a very good year. Also, with political stabilisation after the parliamentary elections last year, investments recovered and overall growth came at 4% (this is still a preliminary figure).

The economy is primarily based on the services sector. Industrial production and agriculture are contributing little to GDP. However, it seems that these two sectors are also undergoing a change because heavy industry has practically disappeared, while some recovery of small and medium-size manufacturing is taking place. Similarly, agricultural production is more oriented towards fruits and

vegetables, for which the climate is accommodating. It is probable that these sectors will continue to expand.

Unemployment seems to be stuck at a relatively high level, which will probably go down slowly as new activities with the demand for new skills advance. Montenegro has deindustrialised, and the unemployment which comes with that is harder to deal with – especially if there is limited support for flexibility in the labour market and in the activation institutions.

Officially, the next two to three years should see a slowdown in growth due to fiscal consolidation. Public debt is relatively high and has been increasing due to ambitious infrastructure investments. Those are needed in a mountainous country which specialises in services. Investment needs are huge, but foreign financial obligations are also quite high. The latter is also a consequence of Montenegro being an attractive place to invest in real estate. The risk of a real estate bubble is smaller than in some other countries because the rest of the economy is relatively small. So, as long as tourism and the connected activities continue to do well, possible fluctuations in real estate prices should not have strong negative effects on the overall economic activity.

The banking sector seems to have stabilised and is performing rather well. There are remaining weaknesses in one or two banks, which are more closely connected with the public sector. With that in mind, the strategy to narrow down the fiscal deficit and put the public and foreign debts on a sustainable path seems to be what indeed should be done. Assuming that tourism will continue to perform well, in part due to the recovery in the EU, gradual fiscal consolidation should not prove to be all that costly in terms of GDP. With that, the economy should expand at a rate of around 3% in the medium run. It could do better if employment increases faster than has been the case so far.

There will be presidential elections in mid-April. The odds are even that a representative of the ruling party or the one standing for the new Democratic Party will win. It may be the best if the political change starts with the presidential elections. Democratisation of Montenegro would be conducive to the speed-up of EU integration, which is needed for enduring stability of the state. The president does not have much of a role of power, but the change in the government in a few years' time would be made easier with the change at the head of the state.

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Table 23 / Montenegro: Selected economic indicators

	2013	2014	2015	2016	2017 ¹⁾	2018 Forecast	2019 Forecast	2020
Population, th pers., average	621	622	622	622	625	625	625	630
Gross domestic product, EUR mn, nom.	3,362	3,458	3,655	3,954	4,200	4,400	4,600	4,800
annual change in % (real)	3.5	1.8	3.4	2.9	3.9	2.9	3.0	3.1
GDP/capita (EUR at PPP)	10,900	11,300	12,300	13,000	13,500	.	.	.
Consumption of households, EUR mn, nom. ²⁾	2,724	2,775	2,893	3,035	3,240	.	.	.
annual change in % (real)	1.6	2.9	2.2	5.4	3.5	2.0	2.0	2.0
Gross fixed capital form., EUR mn, nom.	678	657	736	917	960	.	.	.
annual change in % (real)	10.7	-2.5	11.9	27.5	4.0	5.0	5.0	5.0
Gross industrial production ³⁾								
annual change in % (real)	10.6	-11.4	7.9	-3.3	-4.2	5.0	4.0	4.0
Net agricultural production								
annual change in % (real)	5.0	3.0	3.0	5.0	4.0	.	.	.
Construction output ³⁾								
annual change in % (real)	41.6	34.1	20.3	47.4	15.0	.	.	.
Employed persons, LFS, th, average	201.9	216.3	221.7	224.2	229.0	231	233	238
annual change in %	1.0	7.1	2.5	1.1	2.1	1.0	1.0	2.0
Unemployed persons, LFS, th, average	48.9	47.5	47.2	48.3	50.0	40	40	40
Unemployment rate, LFS, in %, average	19.5	18.0	17.6	17.4	16.0	15.0	15.0	15.0
Reg. unemployment rate, %, average	15.8	16.1	16.5	21.9	21.7	.	.	.
Average monthly gross wages, EUR	726	723	725	751	765	790	810	830
annual change in % (real, gross)	-1.9	0.1	-1.1	3.5	-1.1	1.0	1.0	1.0
Average monthly net wages, EUR	479	477	480	499	510	530	550	570
annual change in % (real, net)	-3.4	0.1	-0.8	3.9	-0.8	1.0	1.0	1.0
Consumer prices, % p.a.	1.8	-0.5	1.4	0.1	2.8	2.0	2.0	2.0
Producer prices in industry, % p.a. ⁴⁾	1.6	0.1	0.3	-0.1	0.4	2.0	2.0	2.0
General governm.budget, nat.def., % of GDP								
Revenues	42.6	44.8	41.8	42.6	43.0	40.0	40.0	40.0
Expenditures	47.2	47.7	50.0	46.2	45.0	42.0	42.0	41.0
Deficit (-) / surplus (+)	-4.6	-2.9	-8.3	-3.6	-2.0	-2.0	-2.0	-1.0
General gov.gross debt, nat.def., % of GDP	55.7	56.2	62.3	60.8	60.0	60.0	60.0	59.0
Stock of loans of non-fin.private sector, % p.a.	5.0	-1.5	2.9	6.0	6.4	.	.	.
Non-performing loans (NPL), in %, eop	18.4	16.8	13.4	11.1	11.0	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	8.68	8.41	8.53	7.45	6.81	8.00	8.00	8.00
Current account, EUR mn	-487	-526	-483	-715	-790	-890	-920	-850
Current account, % of GDP	-14.5	-15.2	-13.2	-18.1	-18.8	-20.2	-20.0	-17.7
Exports of goods, BOP, EUR mn	396	357	325	345	355	390	430	450
annual change in %	2.1	-9.7	-9.0	6.2	2.8	9.0	9.0	5.0
Imports of goods, BOP, EUR mn	1,724	1,734	1,789	2,003	2,180	2,380	2,590	2,770
annual change in %	-2.7	0.6	3.2	12.0	8.9	9.0	9.0	7.0
Exports of services, BOP, EUR mn	994	1,031	1,214	1,255	1,390	1,540	1,710	1,920
annual change in %	4.6	3.6	17.8	3.3	10.8	11.0	11.0	12.0
Imports of services, BOP, EUR mn	341	340	425	486	515	540	570	600
annual change in %	1.0	-0.3	24.8	14.3	6.1	5.0	5.0	6.0
FDI liabilities, EUR mn	337	375	630	205	500	.	.	.
FDI assets, EUR mn	13	21	11	-167	-60	.	.	.
Gross reserves of NB excl. gold, EUR mn ⁶⁾	424	545	674	803	898	.	.	.
Gross external public debt, EUR mn	1,433	1,562	1,956	2,003	2,310	2,510	2,710	2,780
Gross external public debt, % of GDP	42.6	45.2	53.5	50.6	55.0	57.0	59.0	58.0

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.