

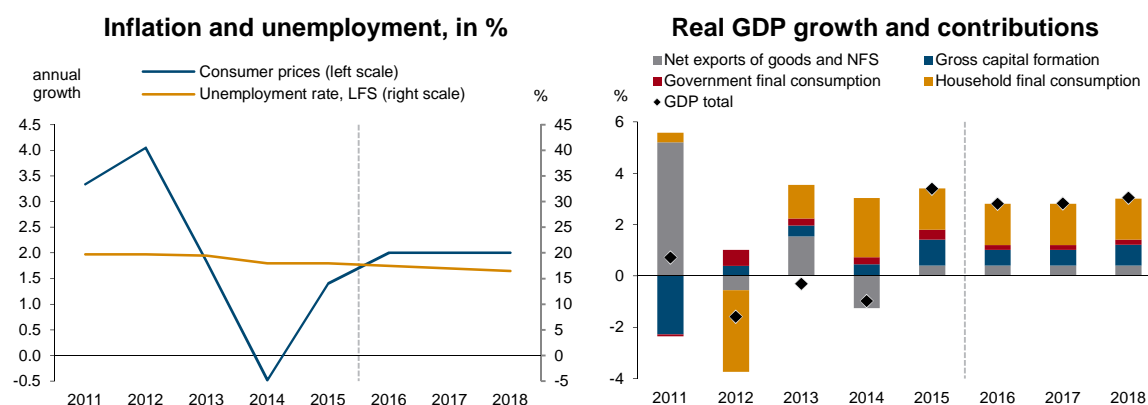


MONTENEGRO: Maintaining stability

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Growth of up to 3% per year is expected, with investments and exports acting increasingly as the main drivers. The upcoming elections and joining NATO should prove stabilising factors, while improved regional cooperation should have the same effect.

Figure 49 / Montenegro: main macroeconomic indicators



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

Growth should remain to be above the average for the region. Last year's growth at 3.4% has already been high by regional standards. It was driven by exports of services (tourism) and by investments. In addition, consumption has continued to increase, public as well as private. Consumption is around 100% of GDP and its share will have to decline in order for the drivers of growth to be rebalanced. In the medium term, growth should slow down somewhat to accommodate the rebalancing. Still, growth rates of around 3% should not be unattainable.

Foreign investments are expected to continue to pour in, but the government plans to boost its investments too. Tourism continues to be the most important economic activity and the main sector in which is being invested. The coastal area is still relatively underdeveloped, given its potential, e.g. if neighbouring Croatia or Greece are considered. Also, the potential of the ports and other maritime resources are far from developed. One constraint is the connection with the hinterland of the country and beyond. Regional differences in this tiny country are large in part because of its poor inland connections. That motivates the government's programme of investments in roads, railroads, and in energy generation. Developmental advantages are unmistakable, the concern, raised by the IMF among others,

is that foreign debt may increase beyond what can be sustained. So, there are some risks to this strategy of development, but it is not as if there is any good alternative.

Regional recovery should prove supportive of growth and development. Much of the investment comes from far-away countries, from the Gulf countries to Canada. However, a significant number of tourists come from the region. Improved regional infrastructure and connectivity, e.g. supported by the Berlin Process (a framework supporting and coordinating investment in the Western Balkans), which targets precisely that, will certainly be helpful. Also, improved prospects in neighbouring countries will be supportive of economic activity. The same goes for improved prospects in the EU, which may spur investments in real estate in addition to spending on summer and winter tourism.

Regional stability is crucial, especially improved relations with neighbouring Serbia. Currently, official relations with Serbia have been better than any time since the first half of the 1990s and certainly since the declaration of independence in 2006. The Serbian government is refraining from interference in the internal affairs of Montenegro, which is very supportive of the latter country's stability. Also, improved relations in the region and good relations with neighbouring Kosovo and Albania are helpful. All the neighbours have the capacity to destabilise Montenegro if they choose to do so, which is why their restraint and cooperation has been quite positive.

The upcoming accession to NATO is raising issues with Russia, however. Montenegro has been looking to join NATO since its independence. This has been recognised by the majority of political parties as needed for stability and security of this small country in a volatile region. At the end of last year, NATO invited Montenegro to join and negotiations have started and are expected to be concluded quite speedily. In the current security state of affairs, Russia has expressed strong objections to this development. It worries that other countries in the region, and Serbia in particular, may follow suit, at some time in the future, while Macedonia is in the waiting room anyway and it is only for the Greek veto that it is staying out. Finally, where Serbia goes, Bosnia and Herzegovina will follow, which would mean that all the Balkan countries will be members of NATO.

Political instability is looming ahead of the elections. The issue of the membership in NATO has been taken up by the opposition, which has also received strong support by Moscow, in its attempts to question the legitimacy of the government. Its attempts to stage a legitimacy crisis by non-parliamentary contests by protests and meetings have so far failed. However, the parliamentary majority broke up and a new one was patched up. All of that will have to be resolved in the elections which should take place before summer. It is not likely that the Serbian pro-Russian opposition will do particularly well, in part because it is not supported by official Serbia. It is hard to say how much of an influence Russian support will have.

Longer-term stability depends on the solution to the succession problem. Montenegro has been run by Milo Djukanovic since its independence. He was its leader even before, but had to share the power with Serbian authorities as Montenegro was in a Union with Serbia. Still, inevitably, the criticism of the opposition is directed at him, and his long tenure is creating problems within his own party too as well as with his traditional coalition partners. There is no doubt that the succession problem is becoming ever more prominent, and will have to be addressed at some point in the medium run.

The economy will continue to recover at moderate speed, NATO membership will be stabilising, once it happens, but political transition will remain a problem.

Table 18 / Montenegro: selected economic indicators

	2011	2012	2013	2014	2015 ¹⁾	2016	2017	2018
						Forecast		
Population, th pers., mid-year	620	621	621	622	625	625	625	625
Gross domestic product, EUR mn, nom.	3,265	3,181	3,362	3,458	3,600	3,800	4,000	4,200
annual change in % (real)	3.2	-2.7	3.5	1.8	3.4	2.8	2.8	3.1
GDP/capita (EUR at exchange rate)	5,200	5,100	5,400	5,600	5,800	6,100	6,400	6,700
GDP/capita (EUR at PPP)	10,700	10,400	10,800	11,200	11,700	.	.	.
Consumption of households, EUR mn, nom. ²⁾	2,663	2,632	2,724	2,775	2,900	.	.	.
annual change in % (real)	0.5	-3.9	1.6	2.9	2.0	2.0	2.0	2.0
Gross fixed capital form., EUR mn, nom.	637	628	678	657	700	.	.	.
annual change in % (real)	-7.2	-2.4	10.7	-2.5	4.0	5.0	4.0	4.0
Gross industrial production								
annual change in % (real)	-10.3	-7.0	10.6	-11.4	8.2	5.0	5.0	5.0
Net agricultural production								
annual change in % (real)	9.5	-12.7	5.0	3.0	3.0	.	.	.
Construction output ³⁾								
annual change in % (real)	15.9	-11.9	1.2	2.2	4.0	.	.	.
Employed persons, LFS, th, average ⁴⁾	195	200	202	216	221	223	225	227
annual change in %		2.4	1.0	7.1	2.2	1.0	1.0	1.0
Unemployed persons, LFS, th, average	48	49	49	48	50	50	50	40
Unemployment rate, LFS, in %, average	19.7	19.7	19.5	18.0	18.0	17.5	17.0	16.5
Reg. unemployment rate, %, average	15.9	15.3	15.8	16.1	18.0	.	.	.
Average monthly gross wages, EUR	722	727	726	723	725	750	770	790
annual change in % (real, gross)	-2.3	-3.2	-1.9	0.1	-1.1	1.0	1.0	1.0
Average monthly net wages, EUR	484	487	479	477	480	490	500	520
annual change in % (real, net)	-2.2	-3.3	-3.4	0.1	-0.8	1.0	1.0	1.0
Consumer prices, % p.a.	3.3	4.0	1.8	-0.5	1.4	2.0	2.0	2.0
Producer prices in industry, % p.a. ⁵⁾	3.2	1.9	1.6	0.1	0.3	2.0	3.0	2.0
General government budget, nat. def., % of GDP								
Revenues	39.3	35.4	37.0	39.1	39.0	40.0	38.0	40.0
Expenditures	43.0	41.9	40.7	42.1	45.0	43.0	40.0	42.0
Deficit (-) / surplus (+)	-3.7	-6.5	-3.7	-3.0	-6.0	-3.0	-2.0	-2.0
Public debt, nat. def., % of GDP	45.6	53.4	55.7	56.2	60.0	60.0	60.0	60.0
Central bank policy rate, % p.a., end of period ⁶⁾	9.06	8.83	8.68	8.50	8.53	8.0	8.0	8.0
Current account, EUR mn	.	.	-487	-526	-525	-555	-585	-590
Current account, % of GDP	.	.	-14.5	-15.2	-14.6	-14.6	-14.6	-14.0
Exports of goods, BOP, EUR mn	.	.	396	357	360	380	400	420
annual change in %	.	.	.	-9.7	0.7	5.0	5.0	5.0
Imports of goods, BOP, EUR mn	.	.	1,724	1,734	1,800	1,870	1,940	2,020
annual change in %	.	.	.	0.6	3.8	4.0	4.0	4.0
Exports of services, BOP, EUR mn	.	.	994	1,031	1,110	1,170	1,230	1,290
annual change in %	.	.	.	3.6	7.7	5.0	5.0	5.0
Imports of services, BOP, EUR mn	.	.	341	340	370	390	410	430
annual change in %	.	.	.	-0.3	8.7	5.0	5.0	5.0
FDI liabilities (inflow), EUR mn	.	.	337	375	390	.	.	.
FDI assets (outflow), EUR mn	.	.	13	21	20	.	.	.
Gross reserves of NB, excl. gold, EUR mn ⁷⁾	303	348	424	545	674	.	.	.
Gross external public debt, EUR mn	1,064	1,295	1,433	1,562	1,800	1,900	2,000	2,100
Gross external public debt, % of GDP	32.6	40.7	42.6	45.2	50.0	50.0	50.0	50.0
Purchasing power parity EUR/EUR	0.4910	0.4907	0.5015	0.4964	0.4909	.	.	.

1) Preliminary and wiiw estimates. - 2) Including expenditures of NPISHs. - 3) According to gross value added. -

4) According to census April 2011. - 5) Domestic output prices. - 6) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 7) Data refer to reserve requirements of Central Bank.

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