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Montenegro: More of the same

In Montenegro, forecasts for this and the next two years are not all that different from that for the neighbouring countries and the Balkan region as a whole. Prospects in the medium term depend on the success of the tradable sectors, which in turn will depend on the regional and the developments in Europe and in Russia. The fact that the country is negotiating with the EU should prove helpful. The main hurdle, rule of law issue, has now been shifted to the beginning of the negotiations and will be a challenge. Once that is cleared, Montenegro can expect to be the next new member of the EU.

In the election held in the autumn of last year, the ruling coalition was re-elected, though this time around the opposition staged a much more credible challenge. Apart from the usual competition between Montenegrin and Serbian parties, a third party attracted a significant number of votes, but still not enough to take over the government from the party and its leaders that have run the country for about the past two decades. In the election, alternative economic models were discussed, but the main issues were social decline and corruption. With the outcome of the election, it cannot be expected that there will be any significant changes in the way things are done in Montenegro.

It is not altogether clear that much can be changed anyway. This is a small country that has little possibilities to develop either industry or agriculture and has to rely mostly on services. That means tourism and, potentially, financial and perhaps educational and IT services. Industrial production, or the little that is left of it, has been declining during the crisis and also last year. It is expected to recover somewhat this year and in the medium run, but its contribution to the GDP is not large and will not increase substantially. Similarly, some agricultural and food production has potential (wine, for instance), but these are niches, not backbone activities.

Tourism has been doing well during this crisis and has continued to support growing exports of services. However, overall exports have not performed all that well mainly because of the changing fortunes of the production of aluminium. The country's large and important plant has a turbulent history, with various foreign managers and owners, and is

presenting the government with a constant dilemma – whether it is better to continue to subsidize it, or whether it would be best to close it down. Apart from the social and political costs that the choice of the latter alternative would bring, there is the issue of this plant providing the bulk of the export of goods.

With these fundamentals, the development model adopted by the government does not have obvious alternatives. The business community is pushing for more diversification and more government support, but the possibilities and the expected advantages are limited. The government will continue to rely on foreign investments in tourism and related activities as it has already been doing.

Macroeconomic stability was threatened early on into the crisis by possible failure of the banking sector, and that threat is not altogether over. The budget continues to support the fragile banks and will have to go on doing so in the future. It is still not severely fiscally constraint, though public debt may prove to be a problem if recovery is delayed. The forecasts for this year and the next two are not all that different from those for the neighbouring countries and the Balkan region as a whole. That may prove to be too slow for macroeconomic stability to be sustained without more determined efforts to deal with the solvency problems in the corporate and the banking sectors.

Still, the prospects in the medium term depend on the success of the tradable sectors and that will depend on the regional and the developments in Europe and in Russia. The fact that the country is negotiating with the EU should prove helpful. The main hurdle, which is rule of law issue, has now been shifted to the beginning of the negotiations and will be a challenge. Once that is cleared, Montenegro can expect to be the next new member of the EU.

Table ME

Montenegro: Selected Economic Indicators

	2008	2009	2010	2011	2012 ¹⁾	2013	2014 Forecast	2015
Population, th pers., mid-year ²⁾	628.8	631.5	618.8	620.0	621.0	622	623	625
Gross domestic product, EUR mn, nom. ³⁾	3085.6	2981.0	3103.9	3234.1	3300.0	3400	3600	3800
annual change in % (real) ³⁾	6.9	-5.7	2.5	3.2	-1.0	1.0	2.0	3.0
GDP/capita (EUR at exchange rate)	4900	4700	5000	5200	5300	.	.	.
GDP/capita (EUR at PPP)	10700	9700	10200	10500	10600	.	.	.
Consumption of households, EUR mn, nom. ³⁾	2814.8	2503.7	2550.7	2728.5	2900.0	.	.	.
annual change in % (real) ³⁾	12.1	-12.9	2.0	4.2	1.0	1.0	1.0	2.0
Gross fixed capital form., EUR mn, nom. ³⁾	1180.2	797.6	655.1	596.5	600.0	.	.	.
annual change in % (real) ³⁾	27.3	-30.1	-18.5	-10.3	2.1	5.0	5.0	5.0
Gross industrial production ⁴⁾								
annual change in % (real)	-2.0	-32.2	17.5	-10.3	-7.1	5.0	5.0	5.0
Net agricultural production
annual change in % (real)	10.3	2.6	-1.7	9.5	0.0	.	.	.
Construction output ⁵⁾
annual change in % (real) ³⁾	20.7	-19.2	-7.4	15.8	0.0	5.0	5.0	5.0
Employed persons, LFS, th, average ⁶⁾	218.8	212.9	208.2	195.4	200.0	210	215	220
annual change in %	0.6	-2.7	-2.2	.	2.4	4.0	2.5	1.0
Unemployed persons, LFS, th, average	45.3	50.9	50.9	47.9	50.0	.	.	.
Unemployment rate, LFS, in %, average	17.2	19.3	19.6	19.7	20.0	20.0	19.0	19.0
Unemployment rate, reg., %, average	15.1	14.0	16.5	15.9	15.3	16.0	16.0	15.0
Average gross monthly wages, EUR	609	643	715	722	727	.	.	.
real growth rate, % (net wages)	14.6	7.6	3.0	-2.0	-3.1	.	.	.
Consumer prices, % p.a.	7.4	3.4	0.5	3.1	4.1	3.0	3.0	3.0
Producer prices in industry, % p.a. ⁷⁾	14.0	-3.9	-0.9	3.2	1.3	.	.	.
General governm.budget, nat.def., % of GDP								
Revenues	49.1	45.8	40.9	34.6	34.0	.	.	.
Expenditures	47.5	49.4	43.9	38.8	40.0	.	.	.
Deficit (-) / surplus (+)	1.7	-3.6	-3.0	-4.1	-6.0	-4.0	-3.0	-2.0
Public debt, nat.def., % of GDP	29.0	38.2	40.9	45.9	51.0	53.0	53.5	53.0
Central bank policy rate, % p.a., end of period ⁸⁾	8.81	8.85	8.98	10.00	9.00	9	8	8
Current account, EUR mn	-1535.2	-830.3	-710.2	-573.4	-495.0	-510	-540	-570
Current account, % of GDP	-49.8	-27.9	-22.9	-17.7	-15.0	-15.0	-15.0	-15.0
Exports of goods, BOP, EUR mn	450.4	296.3	356.6	476.5	405.0	450	500	550
annual growth rate in %	-6.8	-34.2	20.4	33.6	-15.0	10.0	10.0	10.0
Imports of goods, BOP, EUR mn	2475.7	1617.9	1623.8	1782.8	1820.0	1910	2100	2310
annual growth rate in %	22.1	-34.6	0.4	9.8	2.1	5.0	10.0	10.0
Exports of services, BOP, EUR mn	776.0	731.5	801.0	906.1	1010.0	1160	1330	1530
annual growth rate in %	15.3	-5.7	9.5	13.1	11.5	15.0	15.0	15.0
Imports of services, BOP, EUR mn	404.9	331.0	336.8	316.8	365.0	380	400	420
annual growth rate in %	45.7	-18.3	1.8	-5.9	15.2	5.0	5.0	5.0
FDI inflow, EUR mn	655.7	1099.4	574.2	401.4	500.0	800	1000	1000
FDI outflow, EUR mn	73.7	32.9	22.1	12.3	20.0	20	50	50
Gross reserves of NB, excl. gold, EUR mn ⁹⁾	216.6	172.8	164.6	170.8	190.0	.	.	.
Gross external public debt, EUR mn	481.7	699.9	912.4	1063.7	1300.0	.	.	.
Gross external public debt, % of GDP	15.6	23.5	29.4	32.9	39.4	.	.	.
Purchasing power parity EUR/EUR	0.4596	0.4877	0.4917	0.4957	0.5027	.	.	.

1) Preliminary and wiw estimates. - 2) From 2010 according to census April 2011. - 3) According to ESA/95 (FISIM reallocated to industries, including non-observed economy, real growth rates based on previous year prices). - 4) Excluding small enterprises in private sector and arms industry. - 5) Gross value added (until 2010 NACE Rev. 1, NACE Rev. 2 thereafter). - 6) From 2011 based on census April 2011. - 7) Domestic output prices. - 8) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 9) Data refer to reserve requirements of Central Bank.

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