

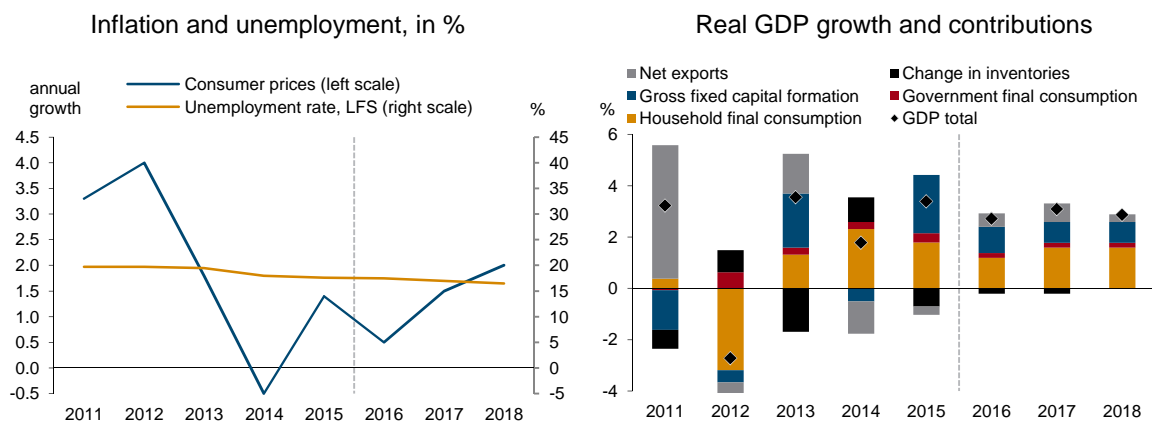


## MONTENEGRO: Public investment intentions

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With political risks influencing investment decisions in both the private and public sectors, GDP growth may well prove disappointing in the current year. Assuming, however, that the political uncertainty finally gets resolved, medium-term growth should rise to somewhere around 3% and possibly slightly above.

**Figure 36 / Montenegro: Main macroeconomic indicators**



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

The beginning of the year was not encouraging, with growth of GDP decelerating to just over 1% in the first quarter. The first half saw an improvement apparently due to a surge, somewhat spurious, in investments in infrastructure. There should be some additional acceleration thanks to a good tourist season and the resumption of infrastructure projects along with political stabilisation.

These plans have been criticised by the international financial institutions on concerns for the sustainability of public finances. Indeed, public debt is increasing anyway and would jump significantly as a share of GDP if the planned highways and railways are going to be built. It is not as if the country has much of a choice. Montenegro is a services economy and it will continue to rely on tourism and related services, which require improvements in communal and city services. Also, the real estate market is crucial for the sustainability of consumption and investment, because in a way the economy is premised on the continuous mortgaging of the country. And given the mountainous geography, improved infrastructure is clearly the way to support growing touristic and other services.

Tourism is supposed to have been quite successful this year too. Traditional visitors from the region and from abroad (e.g. from Russia) have not changed their holiday plans and some seem to have redirected theirs from other Mediterranean countries to the Adriatic Sea. Industrial production, however, has continued its decline. It does not play much of a role anyway, but its decline does fuel up the negative social sentiments among those who have lost their jobs and demand for their professions.

Even if there were efforts put into the revival of industry, which is one of the strategic goals of the government, those will be hard to implement given the relatively high wages, which continue to go up even with inflation turning negative. Still, with that, employment is slowly increasing and unemployment decreasing, though the latter's rate has been stuck to closer to 20% for many years. It is to be remembered also that Montenegro uses the euro, so a significant real exchange rate adjustment would be needed for manufacturing to be comparatively advantageous. Alternatively, the internationalisation of small and medium-sized enterprises in the sense of getting connected with regional and European production chains seems not to be the preferred business strategy. Eventually that may work if regional investments increase, but there is no evidence that this is happening in manufacturing.

The financial sector has stabilised and does not seem to present the economy with high risks as was the case immediately after the start of the crisis in 2008-2009. However, stock prices, which may proxy for real estate prices, have not performed well and improvement is not in sight. Also, yields on government bonds have gone up by around 200 basis points, which may be one of the reasons why the planned infrastructure investments have not been put to effect so far this year.

These developments in the financial and capital markets are in part influenced by the continuing political crisis in the country. The opposition was exerting huge pressure on the government ahead of the 16 October general elections. Two issues have dominated the prolonged legitimacy crisis. One is corruption, given that the government has been run by the same parties and the same people for a decade or two. The charges are directed towards Milo Đukanović, who has been running the country as its President and now Prime Minister at least since independence in 2006 (prior to that he was also in charge, but had to share power with the Serbian leader as Montenegro was in a federation and confederation with Serbia). Indeed, Montenegro faces a typical succession problem, as the ruling party does not seem to be able to have a change in its leadership. The outcome of the elections suggests that there will be no significant change in the ruling coalition, though Mr. Đukanović is stepping down as a Prime Minister.

The other issue is membership in NATO. NATO has voted to accept Montenegro as a member. This has been criticised by the opposition, which has also received strong support in that from Russia. The opposition demands that the government's decision to join NATO be tested in a referendum. It is banking on a strong traditionally pro-Russian popular sentiment both among the Montenegrins and among the Serbs. It is, however, unclear whether the win by the opposition, which is by no means certain, would also mean that the new government, with a composition hard to tell at the moment, will indeed want to give up on the membership in NATO.

These political risks are influencing investment decisions, both private and public ones, which is why GDP growth may disappoint this year. Assuming that the political uncertainty is resolved, medium-term growth should be somewhere around and possibly slightly above 3%.

Table 19 / Montenegro: Selected economic indicators

	2012	2013	2014	2015 <sup>1)</sup>	2015 January-June	2016	2016 Forecast	2017 Forecast	2018
Population, th pers., mid-year	621	621	622	622	.	.	625	625	625
Gross domestic product, EUR mn, nom.	3,181	3,362	3,458	3,625	1,524	1,568	3,700	3,900	4,100
annual change in % (real)	-2.7	3.5	1.8	3.4	3.4	2.0	2.7	3.1	2.9
GDP/capita (EUR at exchange rate)	5,100	5,400	5,600	5,800	.	.	5,900	6,200	6,600
GDP/capita (EUR at PPP)	10,400	10,800	11,200	11,900	.	.	.	.	.
Consumption of households, EUR mn, nom. <sup>2)</sup>	2,632	2,724	2,775	2,872	1,335	1,368.9	.	.	.
annual change in % (real)	-3.9	1.6	2.9	2.2	1.5	2.9	1.5	2.0	2.0
Gross fixed capital form., EUR mn, nom.	628	678	657	736	356	459.1	.	.	.
annual change in % (real)	-2.4	10.7	-2.5	11.9	6.7	28.6	5.0	4.0	4.0
Gross industrial production <sup>3)</sup>									
annual change in % (real)	-7.0	10.6	-11.4	7.9	9.7	-5.3	-4.0	3.0	5.0
Net agricultural production									
annual change in % (real)	-12.7	5.0	3.0	3.0	.	.	.	.	.
Construction output <sup>3)</sup>									
annual change in % (real)	7.7	41.6	34.1	20.3	21.9	40.1	.	.	.
Employed persons, LFS, th, average	200	202	216	222	219	221	224	226	228
annual change in %	2.4	1.0	7.1	2.5	2.5	1.1	1.0	1.0	1.0
Unemployed persons, LFS, th, average	49	49	48	47	48	47	50	50	50
annual change in %	19.7	19.5	18.0	17.6	18.0	18.3	17.5	17.0	16.5
Reg. unemployment rate, %, average	15.3	15.8	16.1	16.5	14.7	17.9	.	.	.
Average monthly gross wages, EUR	727	726	723	725	727	745	740	760	780
annual change in % (real, gross)	-3.2	-1.9	0.1	-1.1	-0.6	2.7	1.0	1.0	1.0
Average monthly net wages, EUR	487	479	477	480	480	495	495	510	530
annual change in % (real, net)	-3.3	-3.4	0.1	-0.8	-0.3	3.3	1.0	1.0	1.0
Consumer prices, % p.a.	4.0	1.8	-0.5	1.4	0.9	-0.2	0.5	1.5	2.0
Producer prices in industry, % p.a. <sup>4)</sup>	1.9	1.6	0.1	0.3	0.6	-0.5	0.0	1.0	2.0
General governm. budget, nat. def., % of GDP									
Revenues	35.4	37.0	39.1	36.6	38.6	40.4	39.0	39.0	40.0
Expenditures	41.9	40.7	42.1	44.5	55.4	46.3	43.0	42.0	42.0
Deficit (-) / surplus (+)	-4.3	-3.7	-3.0	-7.9	-16.8	-5.9	-4.0	-3.0	-2.0
Public debt, nat. def., % of GDP	53.4	55.7	56.2	62.8	60.2	60.6	61.0	60.0	60.0
Central bank policy rate, % p.a., end of period <sup>5)</sup>	8.83	8.68	8.41	8.53	8.14	7.98	8.00	8.00	8.00
Current account, EUR mn	.	-487	-526	-483	-488	-662	-555	-585	-590
annual change in %	.	-14.5	-15.2	-13.3	-32.0	-42.2	-15.0	-15.0	-14.4
Exports of goods, BOP, EUR mn	.	396	357	325	149	148	330	340	360
annual change in %	.	.	-9.7	-9.0	-5.7	-0.5	2.0	4.0	5.0
Imports of goods, BOP, EUR mn	.	1,724	1,734	1,789	837	947	1,860	1,930	2,010
annual change in %	.	.	0.6	3.2	3.5	13.2	4.0	4.0	4.0
Exports of services, BOP, EUR mn	.	994	1,031	1,214	296	313	1,310	1,380	1,450
annual change in %	.	.	3.6	17.8	8.9	5.6	8.0	5.0	5.0
Imports of services, BOP, EUR mn	.	341	340	425	174	221	450	470	490
annual change in %	.	.	-0.3	24.8	15.1	26.8	5.0	5.0	5.0
FDI liabilities (inflow), EUR mn	.	337	375	630	191	-23	150	.	.
FDI assets (outflow), EUR mn	.	13	21	11	8	-119	120	.	.
Gross reserves of NB, excl. gold, EUR mn <sup>6)</sup>	348	424	545	674	819	671	.	.	.
Gross external public debt, EUR mn	1,295	1,433	1,562	1,956	2,160	2,034	2,050	2,150	2,300
Gross external public debt, % of GDP	40.7	42.6	45.2	54.0	59.6	55.0	53.0	55.0	57.0
Purchasing power parity EUR/EUR	0.4907	0.5015	0.4964	0.4901	.	.	.	.	.

1) Preliminary. - 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.