

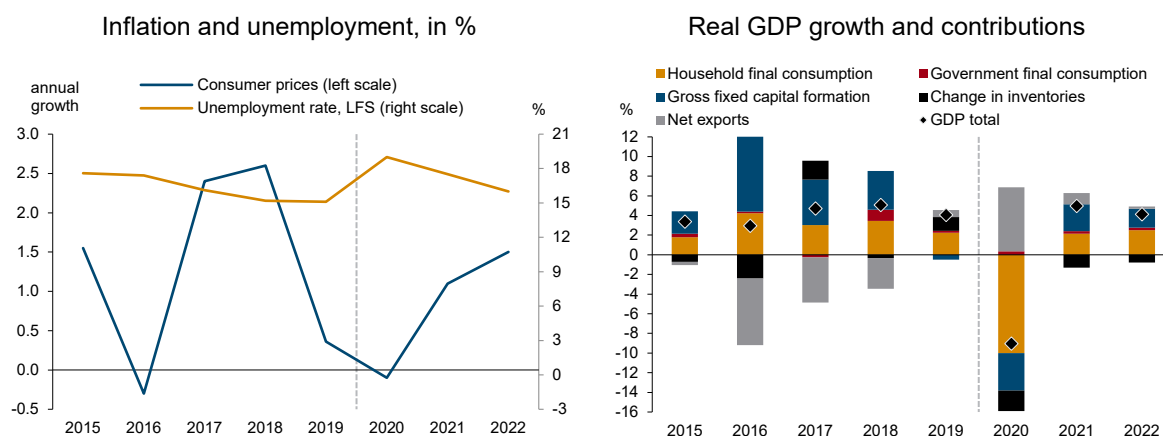


MONTENEGRO: Tourism decline drives major slump in economic growth

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The COVID-19 pandemic is exacting a heavy toll on the Montenegrin economy, largely because of the country's reliance on its tourism sector: arrivals were 77.9% down in the first eight months of the year. This has had serious repercussions for employment, and foreign direct investment has also declined. Alongside Croatia, Montenegro is one of those countries in CESEE that will be hardest hit by COVID-19, with GDP contracting by 9% in 2020. In 2021, we expect a partial recovery in tourism, supporting overall growth of 5%.

Figure 4.14 / Montenegro: Main macroeconomic indicators



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

The COVID-19 pandemic has had a profound effect on Montenegro's economic growth in 2020. With tourism the most important pillar of the country's economy, generating around 22% of its GDP and creating revenue of between EUR 1.1 billion and EUR 1.3 billion, Montenegro's growth prospects have been badly damaged by COVID-19. Tourism directly and indirectly creates around 36,000 jobs – a fifth of all employment in the country. According to data supplied by Montenegro's statistical office, the tourism industry reported an astonishing 77.9% drop in tourist arrivals in the first eight months of the year, compared to 2019. According to data from the Central Bank of Montenegro, the tourism industry's income in the first seven months of 2020 was only EUR 73.2 million, compared to EUR 532 million in the same period last year. Aside from tourism, Montenegro's economic growth also depends on its role as a hub for electricity traffic between the Balkans and Italy; in this respect, it is suffering badly after a drop in foreign direct investment (FDI) and the COVID-19-induced temporary shutdown of large investment projects in the energy and construction sectors. Remittances by Montenegro's diaspora are traditional drivers of the country's economic growth: in 2019, remittances amounted to about 10% of GDP. According to the World Bank, however, the figure in 2020 will likely plummet to only 3.4% of GDP, as a result of COVID-19. Especially due to the slump in tourism revenue, the country's GDP is expected to contract by 9% in 2020, to be followed in 2021 by a solid recovery of 5%.

The government has limited fiscal space to react to the economic downturn, as public debt is already close to 80% of GDP, higher than in other Western Balkan countries. The government is additionally faced with a sharp drop in tax revenue, due to the slump in economic activity and the tax deferrals. For those reasons, the stimulus package of the Montenegrin government is smaller than those of other Western Balkan countries. Short-term measures in 2020 aimed at supporting the country's tourism sector amounted to EUR 82.7 million. Montenegro uses the euro and so has no monetary levers to help cushion the downturn. However, like the rest of the Western Balkans, it will benefit from spillovers from ultra-loose monetary policy in the euro area.

The country's economy continues to face a severe challenge in ensuring the sustainability of its public finances. The country's indebtedness problem remains a significant burden for the Montenegrin economy, which in Q2 2020 already stood at about 80% of GDP. This follows the financing of infrastructure projects such as the Bar–Boljare motorway project, for which the government took out a loan of EUR 800 million. Considering the increase in government consumption due to COVID-19, it is expected that public debt will rise to 88% of GDP, with a budget deficit of about 8% in 2020.

The COVID-19 pandemic is exacting a heavy toll on all sectors of the economy, with a sharp decline in industrial production and exports. The pandemic created major disruptions in the country's supply side, due to the lockdown imposed in March and April; this led to a 12.4% decline in industrial output in Q2 2020, compared to the same period in 2019. The drop in industrial production was also partly due to a fall in demand abroad and the non-diversification of the country's exports, which are dominated by aluminium.

The COVID-19 pandemic has resulted in negative trends in disposable income, the labour market and private consumption. According to the State Employment Office, unemployment stood at above 16% in the vital months of June and July, and could well rise further due to the downturn in the tourism sector. A drop in FDI is further negatively affecting employment in the country. All in all, unemployment will likely rise to 19% on average in 2020 – nearly 4 percentage points higher than last year. This will severely affect the country's young people, who are at greatest risk of losing their jobs. The drop in disposable income means that private consumption in 2020 will likely fall by 14% compared to 2019. As tourism starts to pick up next year, the situation in the labour market should improve, and private consumption should begin to recover.

COVID-19 will weaken the country's export of services and lead to a substantial decline in demand for imported goods. Montenegro traditionally runs a strong current account deficit, with an average of about 16% of GDP over the past three years. However, falling consumer and investment expenditure means that the drop in demand for imported goods will likely be sharper than the decline in exports. This slump in demand for imported goods will therefore likely cause a decrease in Montenegro's current account deficit in 2020 to about 14.8%. It is expected that the country's current account deficit will narrow further to 13% in 2021, driven by the recovery of its tourism sector and the expected completion of the Bar–Boljare motorway project.

The sharp drop in international oil prices caused inflation to stay low in 2020. This was further supported by a decline in domestic demand. We expect consumer prices to fall to about 0.1% on average in 2020. With the expected economic recovery in 2021, as demand picks up and oil prices stage a moderate recovery, inflation will likely increase to 1.1%.

Table 4.14 / Montenegro: Selected economic indicators

	2017	2018	2019 ¹⁾	2020 1Q	2020 2Q	2020 1-2Q	2020 Forecast	2021 Forecast	2022
Population, th pers., average	622	622	622	.	.	.	625	630	630
Gross domestic product, EUR mn, nom.	4,299	4,663	4,951	913	900	1,814	4,500	4,800	5,100
annual change in % (real)	4.7	5.1	4.1	2.7	-20.2	-10.3	-9.0	5.0	4.1
GDP/capita (EUR at PPP)	13,470	14,490	15,530	.	.	.	.	.	.
Consumption of households, EUR mn, nom. ²⁾	3,216	3,425	3,534	808	765	1,572	.	.	.
annual change in % (real)	3.9	4.6	3.1	3.8	-15.0	-6.2	-14.0	3.0	3.5
Gross fixed capital form., EUR mn, nom.	1,157	1,364	1,352	285	274	558	.	.	.
annual change in % (real)	18.7	14.7	-1.7	2.2	-26.3	-13.9	-14.0	10.0	7.0
Gross industrial production ³⁾									
annual change in % (real)	-4.2	22.4	-6.3	12.7	-15.9	-0.9	-5.0	3.2	3.4
Net agricultural production ⁴⁾									
annual change in % (real)	-3.2	2.0	2.0	.	.	.	.	.	.
Construction output ³⁾									
annual change in % (real)	51.5	24.9	10.7	4.6	-15.9	-6.9	.	.	.
Employed persons, LFS, th, average	229.3	237.4	243.8	237.0	226.8	231.9	246	247	248
annual change in %	2.3	3.5	2.7	0.8	-8.5	-4.0	1.0	0.4	0.5
Unemployed persons, LFS, th, average	43.9	42.5	43.4	46.2	40.7	43.5	60	50	50
Unemployment rate, LFS, in %, average	16.1	15.2	15.1	16.3	15.2	15.8	19.0	17.5	16.0
Reg. unemployment rate, %, average	21.7	18.7	15.3	15.3	18.1	16.7	.	.	.
Average monthly gross wages, EUR	765	766	773	786	780	783	780	790	800
annual change in % (real, gross)	-0.5	-2.4	0.6	1.4	1.9	1.6	1.0	0.2	0.2
Average monthly net wages, EUR	510	511	515	524	522	523	520	530	540
annual change in % (real, net)	-0.2	-2.3	0.4	1.4	2.4	1.9	1.0	0.2	0.2
Consumer prices, % p.a.	2.4	2.6	0.4	0.8	-0.7	0.1	-0.1	1.1	1.5
Producer prices in industry, % p.a. ⁵⁾	0.4	1.7	2.4	1.3	-0.4	0.4	2.1	2.3	2.5
General governm.budget, nat.def., % of GDP									
Revenues	41.5	42.2	43.4	.	.	.	42.0	43.0	41.0
Expenditures	46.8	46.2	45.4	.	.	.	50.0	46.5	44.0
Deficit (-) / surplus (+)	-5.3	-3.9	-2.0	.	.	.	-8.0	-3.5	-3.0
General gov.gross debt, nat.def., % of GDP	64.2	70.1	76.5	.	.	.	88.0	88.0	85.0
Stock of loans of non-fin.private sector, % p.a.	7.7	9.1	6.6	5.4	7.0	7.0	.	.	.
Non-performing loans (NPL), in %, eop	7.3	6.7	4.7	5.1	5.3	5.3	.	.	.
Central bank policy rate, % p.a., eop ⁶⁾	6.16	5.75	5.46	6.0	5.9	5.9	5.5	5.5	5.5
Current account, EUR mn	-691	-793	-744	-322	-316	-638	-665	-625	-635
Current account, % of GDP	-16.1	-17.0	-15.0	-35.3	-35.1	-35.2	-14.8	-13.0	-12.5
Exports of goods, BOP, EUR mn	382	436	466	96	87	182	440	460	490
annual change in %	9.0	14.0	6.8	-5.5	-23.9	-15.2	-6.0	4.0	7.0
Imports of goods, BOP, EUR mn	2,243	2,485	2,531	521	489	1,010	1,950	2,120	2,310
annual change in %	11.7	10.8	1.8	2.1	-29.8	-16.3	-23.0	8.5	9.0
Exports of services, BOP, EUR mn	1,382	1,563	1,698	178	115	293	1,360	1,540	1,700
annual change in %	10.2	13.1	8.6	1.9	-68.1	-45.2	-20.0	13.0	10.3
Imports of services, BOP, EUR mn	531	627	678	138	106	245	610	620	630
annual change in %	9.3	18.1	8.1	-7.1	-39.0	-24.3	-10.5	2.0	1.5
FDI liabilities, EUR mn	494	415	412	135	119	254	400	.	.
FDI assets, EUR mn	10	92	67	0	-6	-5	20	.	.
Gross reserves of NB excl. gold, EUR mn ⁷⁾	847	1,050	1,367	947	1,212	1,212	.	.	.
Gross external debt, EUR mn	6,905	7,612	8,310	.	.	.	8,440	8,780	9,130
Gross external debt, % of GDP	160.6	163.2	167.9	.	.	.	187.5	183.0	179.0

1) Preliminary. - 2) Including expenditures of NPISHs. - 3) Enterprises with 5 and more employees. - 4) Based on UN-FAO data, wiiw estimate. - 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 the Central Bank.

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