



*Vladimir Gligorov*

## **Montenegro: banking problems**

Recent high growth was based on high foreign investment inflows that have all but stopped. As a consequence, growth expectations have had to be revised, even though the government still expects growth of around 2% in 2009. That expectation is premised on the a number of investment projects being implemented, mostly in tourism and hydro-plant construction. If those plans fall through, it is hard to see how recession can be averted.

One serious problem is the current state of the banking sector. Late last year, the government had to come to the rescue of the Prva banka with 40 million euro. The liquidity of the economy would have been threatened, had the bank been allowed to fail. After that, the government realised that a comprehensive package was needed to shore up the banking sector. It is not yet altogether clear what that plan entails. It cannot be doubted, however, that the banking sector faces serious problems and challenges.

These problems are due to the drop in the prices of their assets and a lack of investment opportunities in general. Over the past few years, real estate prices and the stock exchange boomed excessively. That boom has now come to an end, creating problems for the banks that invested in those assets. The state will clearly have to recapitalize the banks because few private investors are interested in taking over stakes in those banks.

The government is in a strong position because it ran general budget surpluses over the past couple of years. It, thus, disposes of some resources with which to address the adjustment problem. Fiscal policy is practically the sole option on account of Montenegro using the euro as its legal tender. Fiscal policy, however, does not have much room for manoeuvre because it offers little scope for spending cuts. Indeed, expenditures will have to increase in order to meet the higher bills for social and welfare transfers.

Exports have plummeted owing to the low price of aluminium, the major export item. Imports have also declined for want of credit and foreign financing. In the past few years the current account deficit was as high as 40% of GDP; it will have to shrink quite dramatically this year and in the medium term. In that context, the key factor governing the country's economic prospects is the performance of the tourism sector. If tourism has a bad season and slumps markedly, the economy will have no other resources for growth. If, in addition, the planned foreign investments fail to materialize, prolonged recession is quite probable.

Table ME

**Montenegro: Selected Economic Indicators**

	2003	2004	2005	2006	2007	2008 <sup>1)</sup>	2009	2010	2011
	Forecast								
Population, th pers., average <sup>2)</sup>	620.3	622.1	623.3	624.2	626.2	628.0	.	.	.
Gross domestic product, EUR mn, nom. <sup>3)</sup>	1510.1	1669.8	1815.0	2149.0	2807.9	3340	3400	3500	3700
annual change in % (real) <sup>3)</sup>	2.5	4.4	4.2	8.6	10.7	8.1	-2	0	2
GDP/capita (EUR at exchange rate)	2400	2700	2900	3400	4500	5300	.	.	.
GDP/capita (EUR at PPP - wiiw)	6100	6500	6900	8300	10300	11400	.	.	.
Consumption of households, EUR mn, nom.	1120.5	1221.1	1268.0	1660.9	2157.6	.	.	.	.
annual change in % (real) <sup>4)</sup>	.	16	3	10	8	7	-2	0	2
Gross fixed capital form., EUR mn, nom.	200.8	286.1	326.3	469.8	683.6	.	.	.	.
annual change in % (real) <sup>4)</sup>	.	37	12	8	10	8	-2	0	3
Gross industrial production									
annual change in % (real)	2.4	13.8	-1.9	1.0	0.1	-2.0	5	0	0
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	1.0	3.8	-0.9	1.9	-11.0	.	.	.	.
Construction industry	.	.	.	.	.	.	.	.	.
annual change in % (real)	.	.	.	.	.	.	.	.	.
Employed persons - LFS, th, average <sup>5)</sup>	.	187.3	178.8	178.4	217.4	220	.	.	.
annual change in %	.	.	-4.5	-0.3	21.9	1.2	.	.	.
Unemployed persons - LFS, th, average <sup>5)</sup>	.	71.8	77.8	74.8	52.1	50	.	.	.
Unemployment rate - LFS, in %, average <sup>5)</sup>	.	27.7	30.3	29.6	19.3	18.5	19	20	20
Reg. unemployment rate, in %, end of period <sup>6)</sup>	32.9	29.3	25.2	20.5	16.5	16.0	.	.	.
Average gross monthly wages, EUR <sup>7)</sup>	271	303	326	377	497	609	.	.	.
annual change in % (real, net)	9.3	9.1	6.7	12.0	15.0	13.4	.	.	.
Consumer prices, % p.a.	6.7	2.4	2.3	3.0	4.2	8.5	3	3	3
Producer prices in industry, % p.a. <sup>8)</sup>	4.5	5.8	2.1	3.6	8.5	15.0	.	.	.
General governm.budget, nat.def., % GDP <sup>9)</sup>									
Revenues	39.7	39.2	39.4	45.4	47.7	44	.	.	.
Expenditures	42.1	41.8	42.0	42.7	41.4	42	.	.	.
Deficit(-)/Surplus(+) in % of GDP	-2.4	-2.6	-2.6	2.7	6.4	2	-2	0	0
Public debt in % of GDP	.	.	.	.	.	.	.	.	.
Base rate of NB, % p.a., end of period	.	.	.	.	.	.	.	.	.
Current account, EUR mn <sup>10)</sup>	-102.1	-119.6	-154.0	-531.2	-825.1	-900	-340	-350	-370
Current account in % of GDP	-6.8	-7.2	-8.5	-24.7	-29.4	-26.9	-10	-10	-10
Exports of goods, BOP, EUR mn <sup>11)</sup>	270.6	452.1	460.6	648.3	659.7	530	480	460	480
annual growth rate in %	-16.1	.	1.9	40.7	1.8	-20	-10	-5	5
Imports of goods, BOP, EUR mn <sup>11)</sup>	629.9	868.6	974.3	1497.7	2001.4	2300	2070	1860	2050
annual growth rate in %	-15.7	.	12.2	53.7	33.6	15	-10	-10	10
Exports of services, BOP, EUR mn	191.3	249.5	329.8	418.0	674.1	740	740	780	860
annual growth rate in %	11.4	30.4	32.2	26.8	61.2	10	0	5	10
Imports of services, BOP, EUR mn	79.7	101.4	134.3	220.9	230	340	310	290	320
annual growth rate in %	11.1	27.2	32.5	64.6	5.9	50	-10	-5	10
FDI inflow, EUR mn	43.8	52.7	392.7	644.3	1007.7	700.0	.	.	.
FDI outflow, EUR mn	5.1	2.1	11.5	177.6	482.8	250.0	.	.	.
Gross reserves of NB, excl. gold, EUR mn	.	.	.	.	.	.	.	.	.
Gross external public debt, EUR mn	461.5	488.6	513.3	504.0	462.1	481.7	.	.	.
Gross external public debt in % of GDP	30.6	29.3	28.3	23.5	16.5	14.4	.	.	.
Purchasing power parity EUR/EUR <sup>12)</sup>	0.40	0.41	0.42	0.41	0.44	0.47	.	.	.

Note: The term 'industry' refers to NACE classification C+D+E.

1) Preliminary and wiiw estimates. - 2) From 2003 according to census November 2003; 2008 wiiw estimate. - 3) Including non-observed economy. - 4) wiiw estimate. - 5) Until 2007 as of October. - 6) In % of unemployed plus employment (excluding individual farmers). - 7) From 2007 wage data refer to employees who received wages (previously wages were divided by all registered employees in enterprises); comparable value for 2006: 433. - 8) Based on domestic output prices. - 9) Revenues excluding grants, expenditures excluding net lending. - 10) Including all transactions with Serbia. - 11) From 2004 trade with Serbia and Kosovo based on customs statistics (before on ITRS). - 12) Benchmark results 2005 from Eurostat and wiiw estimates.

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