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Montenegro: Anger and EU Integration

In the short-term, prospect for growth in Montenegro is dim. Medium-term prospects are also not stellar. The start of negotiations with the EU should boost foreign investments: a helpful development. However, given the need to reduce still further the current account deficit and consolidate public finances, rapid recovery cannot be expected. The government stands ready to ward off political and social disaffection, but at some point a credible opposition will have to come to the fore in order to provide the much-needed impetus to democratic stability.

Despite the extent of its pre-crisis external imbalances, Montenegro has weathered the crisis somewhat better than expected. Furthermore, the decision to call a snap election in early 2009 ensured the renewal of the government's legitimacy. A government reshuffle in the midst of the crisis with the prime minister stepping down contributed to maintaining political stability. However, prolonged stagnation, a series of complicated banking issues and problems with a major aluminium plant, a major domestic industrial enterprise and important exporter, have worn the patience of society thin and fuelled political polarization. That notwithstanding, the general expectation that the European Council will decide to open membership negotiations with Montenegro in June should prove a stabilizing factor.

Economic developments were not encouraging in the first quarter of the current year. GDP has probably shifted into negative territory, albeit perhaps only just. Decline in industrial production has been rather pronounced; that, however, is a reflection of problems that have re-surfaced in the aluminium plant. The government is facing the probability of having to meet its obligations of well over 100 million euro, which it entered into under a guaranty scheme with the owner, Mr. Oleg Deripaska: an enormous sum for a small economy. The decline in the plant's output is reflected in the poor performance reported for the industrial sector.

That having been said, industrial production does not contribute all that much to Montenegro's economy, which depends on its services sector, mainly in the field of tourism. The export of services has more than recovered since the beginning of the crisis; it is expected to continue to exhibit healthy growth both this year and in the medium term.

Foreign investments are still flowing in, although certainly not on the same scale as in the years prior to the crisis.

The outburst of protests is partly attributable to the government's fiscal policy. Revenues and expenditures alike have plummeted. Expenditures declined by almost 10 per cent of GDP, while revenues decreased still more and in 2011 they stood at only 34% of GDP. The government has decided to embark on a policy of increasing taxes, initially on mobile phones and similar services, but more is sure to come. Moreover, the representatives of the corporate sector are not subscribing to the government's commitment to free market economic policy. Requests have been made for greater government intervention, in terms of both financial and industrial policies.

The same party, indeed the same person or persons, have run Montenegro since the onset of the transition process more than twenty years ago. It thus comes as no surprise that widespread allegations abound hinting at government corruption and the lack of democratic governance. By way of contrast, the country has managed to speed up its progress along the path to the EU: Montenegro is now the prime candidate for the distinction of being the first country to join the EU after Croatia.

Medium-term prospects are not stellar. The start of negotiations with the EU should boost foreign investments: a helpful development. However, given the need to reduce still further the current account deficit and consolidate public finances, rapid recovery cannot be expected. The government stands ready to ward off political and social disaffection, but at some point a credible opposition will have to come to the fore in order to provide the much-needed impetus to democratic stability.

Table ME

Montenegro: Selected Economic Indicators

	2008	2009	2010	2011 ¹⁾	2011 1st quarter	2012	2012 Forecast	2013	2014
Population, th pers., mid-year ²⁾	628.8	631.5	618.8	620.0	.	.	621	622	623
Gross domestic product, EUR mn, nom. ³⁾	3085.6	2981.0	3103.9	3300	.	.	3400	3600	3800
annual change in % (real) ³⁾	6.9	-5.7	2.5	2	.	.	1	2	3
GDP/capita (EUR at exchange rate)	4900	4700	5000	5300	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	10700	9700	10100	10500	.	.	.	.	.
Consumption of households, EUR mn, nom. ³⁾	2814.8	2503.7	2550.7	2680	.	.	.	.	.
annual change in % (real) ³⁾	12.1	-12.9	2.0	2	.	.	2	3	3
Gross fixed capital form., EUR mn, nom. ³⁾	1180.2	797.6	655.1	640	.	.	.	.	.
annual change in % (real) ³⁾	27.3	-30.1	-18.5	-5	.	.	2	5	5
Gross industrial production ⁴⁾									
annual change in % (real)	-2.0	-32.2	17.5	-10.3	-0.5	-14.7	-10	5	5
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	10.0	3.0	2.0	2	.	.	.	.	.
Construction output ⁵⁾
annual change in % (real)	20.7	-19.2	-7.4	5	.	.	5	5	5
Employed persons - LFS, th, average	218.8	212.9	208.2	196.0	.	.	196	198	210
annual change in %	0.6	-2.7	-2.2	-5.8	.	.	0	1	6
Unemployed persons - LFS, th, average	45.3	50.9	50.9	48.1	.	.	.	.	.
Unemployment rate - LFS, in %, average	17.2	19.3	19.6	19.7	.	.	20	20	19
Unemployment rate, reg., %, average	14.4	15.1	16.9	15.8	17.1	16.3	17	17	16
Average gross monthly wages, EUR	609	643	715	722	749	741	.	.	.
real growth rate, % (net wages)	14.6	7.6	3.0	-2.0	5.2	-3.8	.	.	.
Consumer prices, % p.a.	7.4	3.4	0.5	3.1	2.5	2.8	3	3	3
Producer prices in industry, % p.a. ⁶⁾	14.0	-3.9	-0.9	3.2	4.3	-1.0	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	49.1	45.8	40.9	33.9	.	.	.	.	.
Expenditures	47.5	49.4	43.9	38.0	.	.	.	.	.
Deficit(-)/Surplus(+)	1.7	-3.6	-3.0	-4.2	.	.	-1	-1	-1
Public debt, nat. def., in % of GDP	29.0	38.2	40.9	44.0	.	.	44	42	41
Central bank policy rate, % p.a., end of period ⁷⁾	8.81	8.85	8.98	10.00	9.00	9.00	9	9	8
Current account, EUR mn	-1560.7	-881.3	-764.2	-633.8	-186.9	-216.7	-700	-800	-800
Current account in % of GDP	-50.6	-29.6	-24.6	-19.2			-20.6	-22.2	-21.1
Exports of goods, BOP, EUR mn	450.4	296.3	356.6	476.6	115.7	89.2	450	500	550
annual growth rate in %	-6.8	-34.2	20.4	33.6	91.7	-22.9	-5	10	10
Imports of goods, BOP, EUR mn	2475.7	1617.9	1623.8	1782.6	345.3	367.2	1910	2100	2310
annual growth rate in %	22.1	-34.6	0.4	9.8	13.1	6.3	7	10	10
Exports of services, BOP, EUR mn	750.6	680.5	747.0	847.2	61.3	82.4	970	1070	1180
annual growth rate in %	11.5	-9.3	9.8	13.4	21.4	34.6	15	10	10
Imports of services, BOP, EUR mn	404.9	331.0	336.8	316.8	65.8	73.6	330	350	370
annual growth rate in %	45.7	-18.3	1.8	-5.9	-11.4	11.9	5	5	5
FDI inflow, EUR mn	655.7	1099.4	574.2	401.4	113.7	72.3	500	800	1000
FDI outflow, EUR mn	73.7	32.9	22.1	12.3	-2.4	18.3	20	20	50
Gross reserves of NB, excl. gold, EUR mn ⁸⁾	216.6	172.8	164.6	170.8	164.0	169.6	.	.	.
Gross external public debt, EUR mn	481.7	699.9	912.4	1000	.	.	.	.	.
Gross external public debt in % of GDP	15.6	23.5	29.4	30.3	.	.	.	.	.
Purchasing power parity EUR/EUR ⁹⁾	0.4596	0.4884	0.4964	0.5047	.	.	.	.	.

1) Preliminary. - 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. - 6) Domestic output prices. - 7) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 8) Data refer to reserve requirements of Central Bank. - 9) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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