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## **Montenegro: Another year of negative growth**

There is a disagreement between the IMF and the government about the GDP decline last year: -6.6% as opposed to -5.3%. There is, however, no disagreement about the causes, the course, and the outcome of the crisis. Also, the government's policy has met with support by the international financial institutions, but also by the voters. The recently held local elections reaffirmed the support for the governing coalition. In addition, the European Commission is reviewing the outcome of the screening exercise and will submit its opinion on Montenegro's readiness to start negotiations for membership sometime later this year. The opinion is expected to be positive, though there is no telling when the negotiations will actually start. Finally, the negotiations for membership in NATO should end with membership in the next couple of years.

The economic news, however, is not all that good. The scale of the impact of the crisis can be debated, but there is no doubt that the impact was severe. More important is the fact that it was channelled via the banking sector, which at one point was close to collapsing. The government and the central bank needed to come up with a significant amount of financial support in order to ensure that the early run on the banks did not develop into a wholesale panic. In that, the authorities were successful and confidence has returned, but the financial sector is not without problems.

In addition, industrial production collapsed due to the fall in prices of metals, which affected the country's aluminium plant and steel-mill. The two account for much of Montenegro's industrial production. Especially important is the aluminium plant, which is a major exporter and also employs many people. The government decided to come to the rescue of aluminium production and spend a lot of money to stabilize the situation in the plant.

These significant fiscal injections into the banking and the industry sectors were possible because the budget had saved significant surpluses during the boom years. Also, foreign investments held up because they came in part from Third World countries. It is expected that foreign investments will continue this year too though the scale is uncertain. Montenegro intends to build water power plants and improve its infrastructure. These

investments should help to cover the large external imbalances and the rather large fiscal deficit planned for the current year. Still, with all that, the economy should shrink by an additional 1% to 2%, though the government is forecasting a small positive growth. The outcome may depend on the results of the tourist season as that is the crux of the economy.

Policies so far have been rather accommodative. Although the ruling parties have a very liberal programme, they did not refrain from expanding public spending as much as was needed. It is, however, to be expected that along with the recovery, the fiscal policy will change and major reforms will be attempted in order to achieve fiscal balance. That will be easier if recovery is stronger than in most countries in the region. That, in turn, depends on an increased inflow of foreign finances, which at the moment is uncertain.

The prospects for the near future are rather dim. In the medium term, however, the country may continue to be attractive for investments in tourism and other tradable services. The IMF expects a recovery rate of 4% in the medium run. That may be on the optimistic side because it depends on the recovery in the EU which may disappoint. So, growth may prove elusive, but stability should not be threatened.

Table ME

## Montenegro: Selected Economic Indicators

	2006	2007	2008	2009 <sup>1)</sup>	2009 1st quarter	2010 1st quarter	2010	2011	2012
							Forecast		
Population, th pers., average <sup>2)</sup>	624.2	626.2	628.8	630.0	.	.	631	632	633
Gross domestic product, EUR mn, nom. <sup>3)</sup>	2149.0	2680.5	3085.6	3003.0	.	.	3100	3300	3500
annual change in % (real) <sup>3)</sup>	8.6	10.7	6.9	-5.3	.	.	-1	2	3
GDP/capita (EUR at exchange rate)	3400	4300	4900	4800	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	8400	10000	10700	10000	.	.	.	.	.
Consumption of households, EUR mn, nom. <sup>3)</sup>	1660.9	2369.0	2814.8	2800	.	.	.	.	.
annual change in % (real) <sup>4)</sup>	10	8	7	-4	.	.	0	2	2
Gross fixed capital form., EUR mn, nom. <sup>3)</sup>	469.8	867.1	1180.2	1100	.	.	.	.	.
annual change in % (real) <sup>4)</sup>	8	10	8	-6	.	.	0	3	4
Gross industrial production									
annual change in % (real)	1.0	0.1	-2.0	-32.2	-13.6	-14.5	0	2	4
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	1.9	-11.0	10.0	2.0	.	.	.	.	.
Construction output total <sup>5)</sup>	.	.	.	.	.	.	.	.	.
annual change in % (real)	28.0	23.6	20.7	5.0	.	.	.	.	.
Employed persons - LFS, th, average <sup>6)</sup>	178.4	217.4	218.8	213.6	212.5	.	215	220	220
annual change in %	-0.3	21.9	0.6	-2.4	-0.3	.	0	1	1
Unemployed persons - LFS, th, average <sup>6)</sup>	74.8	52.1	45.3	50.4	51.6	.	.	.	.
Unemployment rate - LFS, in %, average <sup>6)</sup>	29.6	19.3	17.2	19.1	19.5	.	20	20	20
Reg. unemployment rate, in %, end of period <sup>7)</sup>	20.5	16.5	14.4	15.1	14.6	16.2	.	.	.
Average gross monthly wages, EUR <sup>8)</sup>	377	497	609	643	649	695	.	.	.
annual change in % (real, net)	12.0	15.0	14.6	7.6	7.1	6.5	.	.	.
Consumer prices, % p.a.	3.0	4.2	7.4	3.4	5.3	0.6	1	3	3
Producer prices in industry, % p.a. <sup>9)</sup>	3.6	8.5	14.0	-3.9	3.6	-5.7	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	45.4	61.1	49.1	45.5	.	.	.	.	.
Expenditures	42.7	52.9	47.5	49.0	.	.	.	.	.
Deficit(-)/Surplus(+)	2.7	8.2	1.7	-3.5	.	.	-5	-3	-1
Public debt, nat. def., in % of GDP	32.6	26.3	26.8	38.0	.	.	43	44	42
Base rate of NB, % p.a., end of period	.	.	.	.	.	.	.	.	.
Current account, EUR mn <sup>10)</sup>	-531.4	-1060.8	-1564.2	-896.2	-193	.	-500	-550	-600
Current account in % of GDP	-24.7	-39.6	-50.7	-29.8	.	.	-16	-17	-17
Exports of goods, BOP, EUR mn	648.3	515.8	467.4	296.3	83.7	.	440	460	480
annual growth rate in %	40.8	-20.4	-9.4	-36.6	-22.7	.	20	5	5
Imports of goods, BOP, EUR mn	1497.7	2090.0	2549.7	1667.8	287.0	.	1180	1300	1430
annual growth rate in %	53.7	39.5	22.0	-34.6	-34.5	.	-10	10	10
Exports of services, BOP, EUR mn	418.0	672.9	750.6	680.6	55.2	.	710	780	860
annual growth rate in %	26.7	61.0	11.5	-9.3	-15.0	.	5	10	10
Imports of services, BOP, EUR mn	220.9	234.0	351.2	296.0	64.4	.	290	260	290
annual growth rate in %	64.6	5.9	50.1	-15.7	-7.6	.	-5	-10	10
FDI inflow, EUR mn	492.8	672.7	625.4	943.8	99.1	.	500	1000	1000
FDI outflow, EUR mn	26.1	115.0	73.7	32.9	10.4	.	0	50	50
Gross reserves of NB, excl. gold, EUR mn <sup>11)</sup>	172.8	259.0	216.6	175.0	202.0	165.8	.	.	.
Gross external public debt, EUR mn	504.0	462.1	481.7	540.0	.	.	.	.	.
Gross external public debt in % of GDP	23.5	17.2	15.6	18.0	.	.	.	.	.
Purchasing power parity EUR/EUR <sup>12)</sup>	0.41	0.43	0.46	0.48	.	.	.	.	.

1) Preliminary. - 2) wiiw estimate in 2009. - 3) According to ESA'95 (including shadow economy, real growth rates based on previous year prices). - 4) wiiw estimate. - 5) Gross value-added. - 6) Until 2007 as of October. - 7) In % of unemployed plus employment (excluding individual farmers). - 8) 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. - 9) Domestic output prices. - 10) Including all transactions with Serbia. - 11) Refer to reserve requirements of the central bank. - 12) Benchmark results 2005 from Eurostat and wiiw estimates.

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