

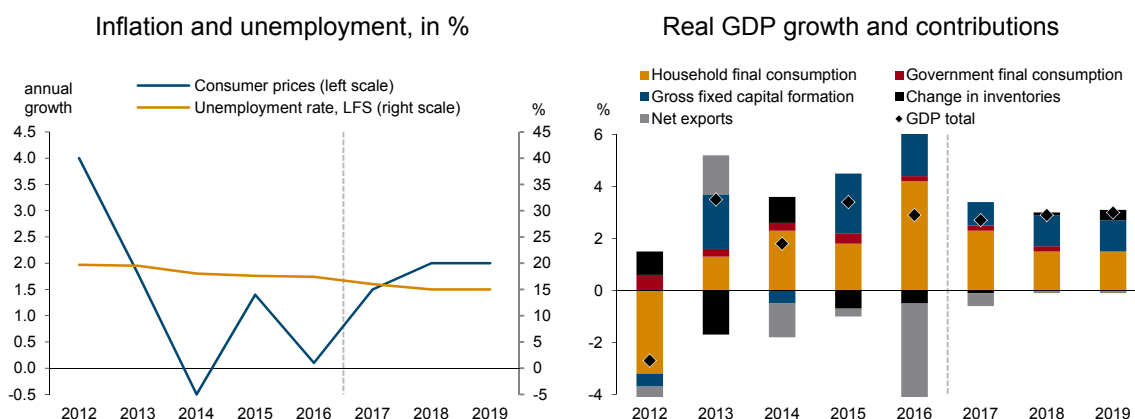


MONTENEGRO: Better than expected

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In the medium term, growth should return to somewhere above 3%. Improved prospects in the EU and in Russia are supportive of the growth of tourism, which should compensate for the necessary macroeconomic adjustments. If the region as a whole does better – which is likely e.g. in the case of Croatia, if not Serbia – that will also help. So overall, Montenegro could see its growth rate fulfil its potential, which is about 4%.

Figure 43 / Montenegro: Main macroeconomic indicators



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

The new government seems to be enjoying a post-crisis recovery with growth being faster than it projected. It planned fiscal consolidation with significant costs in terms of growth with perhaps even higher adjustment costs in 2018, with a speed-up to start in 2019. This still looks as the likely scenario, though growth this year may be higher than forecasted at about 2.7%. The tourist season seems to have gone well and consumption has recovered strongly. The latter is in all probability due to the public relief that a potential political crisis with far-reaching consequences over NATO accession has been averted. Better economic performance will also make fiscal consolidation easier.

Democratisation is advancing, though slowly. The next political challenge is the upcoming presidential election. The ruling party of the Democratic Socialists favours another run for the enduring leader of the country Milo Đukanović, but it is not clear that he stands to win against the next generation politician Aleksa Bečić. This in any case would be a test of the theory of democratisation in a polarised society, which would certainly be interesting.

The conflict of two nationalisms has stood in the way of democratisation so far. The opposition in Montenegro was criticising the authoritarianism of Mr Đukanović, but it in fact was opposed to the independence of the state, which was the outcome of the 2006 referendum. So, basically, this was Serbian opposition to the main Montenegrin party. That led to the persistent division of majority and minority with enduring deficiency in the functioning of the democratic process. Clearly, pluralisation of both sides is needed in order for democratisation to advance. That seems to be happening with the emergence of new political forces, which aim to look beyond the ethnic and national divisions. And, the upcoming presidential elections are another chance for this trend to strengthen.

Montenegro is not enthusiastic about the regional economic area or the single market. In the wake of the Berlin Process, the European Commission and the Serbian government argued for increased regional cooperation and integration. Ideas of the creation of the single market and customs union were tossed around, with which Montenegro went along but without really supporting them. In part, the reason is that these ideas were not well thought out. A customs union of candidate countries does not make sense primarily because there is no way to harmonise trade regimes with third countries. In the case of Montenegro, that would not matter much, but it would in the case of Serbia for instance. More important is the risk that Montenegro would have to accede to the EU together with Serbia at least, which is certainly later than it could manage on its own. The EU, however, has signalled that it plans for Montenegro and Serbia to join the EU by 2025, which has to worry the more advanced Montenegro absent further clarification. The reason is Serbia's reluctance to normalise its relations with Kosovo, which is the condition for an advance in the EU accession process. If in fact Serbia is going to join the EU together with Kosovo, on fears that it would otherwise use its EU membership to block Kosovo's advancement, much like Greece in the case of Macedonia, that may postpone Montenegro's membership if it does not make it quite uncertain.

Macroeconomic balances are worrisome, but sustainable. Foreign debt and other foreign financial obligations are high as are public debts, which of course are in euro, the official currency of the country. Employment is increasing, but the unemployment rate is still quite high as it has been close to 20% for quite some time. Financial stability was the major worry in the post-2008 period and it is still not altogether clear how sound the one bank, Prva Banka, which had to be bailed out, in fact is. Finally, the current account deficit continues to be in double digits due to foreign investments and a complementary high trade deficit. This seems to be sustainable because of the country specialising in tourist and other services. In addition, infrastructure investments are seen as in fact investments in tourism and transportation, and partly also in the production of energy. So, the expectation is that they will pay for themselves.

With such specialisation in production, EU membership would help a lot. Infrastructure investments that are needed are sizeable and EU transfers and investments would certainly prove helpful. In fact, Montenegro's accession would have a hardly noticeable impact on the EU budget, while Montenegro would experience a significant boost in all respects, economic and political.

In the medium term, growth should return to somewhere above 3%. Improved prospects in the EU and in Russia are supportive of the growth of tourism, which should compensate for the necessary macroeconomic adjustments. Gradual democratisation should prove stabilising and supportive of EU integration. If the region also does better, which is likely e.g. in the case of Croatia if not Serbia, that will also help. So, overall, Montenegro could see its growth rate climbing to its potential, which is about 4%.

Table 18 / Montenegro: Selected economic indicators

	2013	2014	2015	2016 ¹⁾	2016 January-June	2017	2017 Forecast	2018 Forecast	2019
Population, th pers., mid-year	621	622	622	622	.	.	625	625	625
Gross domestic product, EUR mn, nom. ²⁾	3,362	3,458	3,655	3,954	1,586	1,694	4,100	4,300	4,500
annual change in % (real)	3.5	1.8	3.4	2.9	2.0	4.2	2.7	2.9	3.0
GDP/capita (EUR at PPP)	10,900	11,300	12,200	12,900	.	.	.	.	.
Consumption of households, EUR mn, nom. ²⁾³⁾	2,724	2,775	2,893	3,035	1,389	1,488	.	.	.
annual change in % (real)	1.6	2.9	2.2	5.4	1.7	5.7	3.0	2.0	2.0
Gross fixed capital form., EUR mn, nom. ²⁾	678	657	736	917	464.3	478.0	.	.	.
annual change in % (real)	10.7	-2.5	11.9	27.5	27.7	4.2	4.0	5.0	5.0
Gross industrial production ⁴⁾									
annual change in % (real)	10.6	-11.4	7.9	-3.7	-4.5	-9.5	0.0	5.0	4.0
Net agricultural production									
annual change in % (real)	5.0	3.0	3.0	5.0	.	.	.	.	.
Construction output ⁴⁾									
annual change in % (real)	41.6	34.1	20.3	47.4	40.1	44.0	.	.	.
Employed persons, LFS, th, average	201.9	216.3	221.7	224.2	220.9	227.6	229	231	233
annual change in %	1.0	7.1	2.5	1.1	1.1	3.1	2.0	1.0	1.0
Unemployed persons, LFS, th, average	48.9	47.5	47.2	48.3	47.3	44.1	50	40	40
Unemployment rate, LFS, in %, average	19.5	18.0	17.6	17.4	18.3	16.3	16.0	15.0	15.0
Reg. unemployment rate, %, average	15.8	16.1	16.5	21.9	18.8	21.3	.	.	.
Average monthly gross wages, EUR	726	723	725	751	745	766	770	790	810
annual change in % (real, gross)	-1.9	0.1	-1.1	3.1	2.5	0.3	1.0	1.0	1.0
Average monthly net wages, EUR	479	477	480	499	495	509	510	530	550
annual change in % (real, net)	-3.4	0.1	-0.8	3.9	3.1	0.4	1.0	1.0	1.0
Consumer prices, % p.a.	1.8	-0.5	1.4	0.1	0.0	2.5	1.5	2.0	2.0
Producer prices in industry, % p.a. ⁵⁾	1.6	0.1	0.3	-0.1	-0.5	0.8	1.0	2.0	2.0
General governm.budget, nat.def., % of GDP									
Revenues	37.0	39.1	36.3	37.6	39.9	40.2	39.0	40.0	40.0
Expenditures	43.0	42.1	44.3	41.0	45.9	44.0	42.0	42.0	42.0
Deficit (-) / surplus (+)	-6.0	-3.0	-8.0	-3.4	-6.0	-3.8	-3.0	-2.0	-2.0
Public debt, nat.def., % of GDP	55.7	56.2	62.3	60.8	60.6	62.8	60.0	60.0	60.0
Stock of loans of non-fin.private sector, % p.a	5.0	-1.5	2.9	6.3	4.3	5.9	.	.	.
Non-performing loans (NPL), in %, eop	18.4	16.8	13.4	11.1	12.6	9.5	.	.	.
Central bank policy rate, % p.a., eop ⁶⁾	8.68	8.41	8.53	7.45	8.0	7.1	7.00	8.00	8.00
Current account, EUR mn	-487	-526	-483	-715	-665	-631	-810	-850	-880
Current account, % of GDP	-14.5	-15.2	-13.2	-18.1	-42.0	-37.3	-19.8	-19.8	-19.6
Exports of goods, BOP, EUR mn	396	357	325	345	153	164	370	400	440
annual change in %	2.1	-9.7	-9.0	6.2	2.5	7.0	7.0	9.0	9.0
Imports of goods, BOP, EUR mn	1,724	1,734	1,789	2,003	950	1,030	2,160	2,350	2,560
annual change in %	-2.7	0.6	3.2	12.0	13.6	8.4	8.0	9.0	9.0
Exports of services, BOP, EUR mn	994	1,031	1,214	1,255	311	371	1,380	1,530	1,700
annual change in %	4.6	3.6	17.8	3.3	5.2	19.3	10.0	11.0	11.0
Imports of services, BOP, EUR mn	341	340	425	486	224	237	500	530	560
annual change in %	1.0	-0.3	24.8	14.3	28.8	5.6	4.0	5.0	5.0
FDI liabilities, EUR mn	337	375	630	205	-22	230	600	.	.
FDI assets, EUR mn	13	21	11	-167	-177	10	-100	.	.
Gross reserves of NB excl. gold, EUR mn ⁷⁾	424	545	674	803	666	702	.	.	.
Gross external public debt, EUR mn	1,433	1,562	1,956	2,003	2,034	2,009	2,260	2,450	2,660
Gross external public debt, % of GDP	42.62	45.16	53.53	50.65	51.43	49.00	55.0	57.0	59.0

1) Preliminary. - 2) Half-year GDP data unrevised. - 3) Including expenditures of NPISHs. - 4) Enterprises with 5 and more employees. -
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 Central Bank.

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