

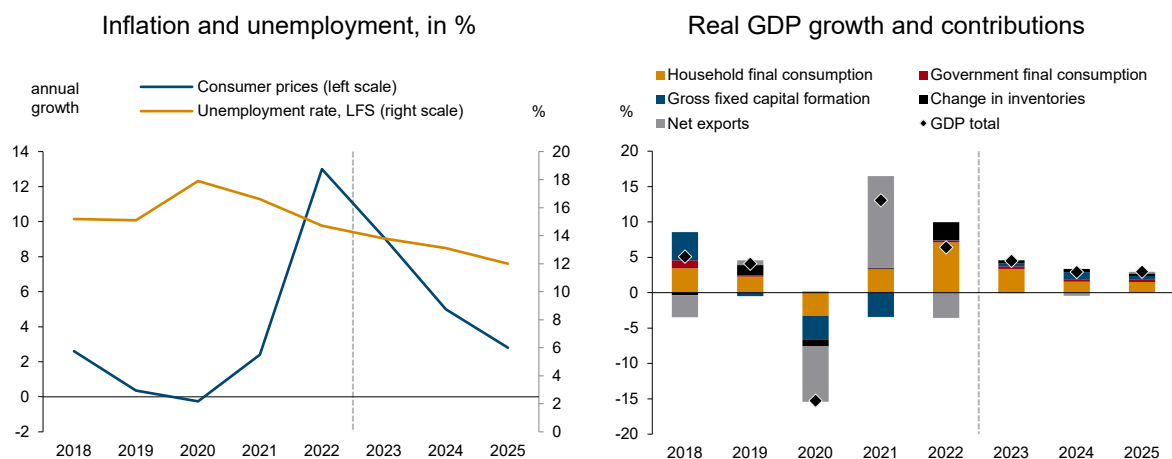


## MONTENEGRO: Election results could offer fresh hope

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Montenegro's economy performed exceptionally well in H1 2023, growing by 6.5%. The economy is still feeling the positive effects of last year's social reform, which is boosting household consumption. Moreover, there has been a strong tourist season, as well as vibrant investment in hotel facilities and energy infrastructure. The potential formation of a new governing coalition offers hope of a stable political environment. We have upgraded our previous GDP growth forecast for 2023 to 4.5%.

Figure 6.14 / Montenegro: Main macroeconomic indicators



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

**Thanks to strong household consumption, a bountiful tourist season and robust inflows of foreign direct investment (FDI), Montenegro will again enjoy very healthy growth in 2023.** GDP increased by 6.9% year on year in Q2 2023 (following growth of 6.1% in Q1). The 2022 social reform – when the government shifted the tax burden from low-income to high-income individuals, and at the same time significantly raised the minimum wage – is continuing to stimulate household consumption. FDI has also contributed to the country's solid performance this year: in the period January-July, the inflow of FDI amounted to EUR 516m, of which 61% was in the form of equity investments. All this leads us to revise our GDP growth forecast for 2023 upward to 4.5% (from 3.5%). Nevertheless, high inflation and elevated interest rates will rein in household spending after a while. The deteriorating growth prospects in the EU may have an adverse effect on Montenegro's own growth prospects next year, given the country's reliance on its vital tourism sector. Accordingly, we are projecting restrained GDP growth of 2.9% in 2024.

**Having surged to 17.5% in November 2022, inflation then fell for eight months in a row (to 6.9% in July), before picking up again in August (8.6%).** The main drivers of August's inflation were food and non-alcoholic beverages (+10.5%). Additional inflationary pressure came from demand-side factors, such as the strong recovery in tourism, favourable developments on the labour market and the government's minimum wage hike of 80% at the beginning of 2022. Despite the recent slowdown, inflation will remain high this year, averaging 9.1% (0.6 percentage points down on our previous forecast).

**Tourist arrivals will generate solid revenue in 2023, helped along by new airline connections.**

Montenegro's service sector is managing the effects of the war in Ukraine better than expected. The number of tourists from abroad in July increased by 10.4% year on year, following a 37.8% surge in June. Last year, the number of tourists reached 85% of pre-pandemic levels (up from 68% in 2021), and this year we expect a full rebound. However, part of the recorded increase may be attributed to Ukrainian and Russian citizens who have fled the war and the draft, and who are registered as tourists in Montenegro. If we look at the structure of overnight stays in 2022, we find that most were undertaken by tourists from Serbia (25.5%), Russia (16.4%), Bosnia and Herzegovina (9.9%), Germany (5.9%) and Ukraine (4.9%).

**Unemployment in 2022 fell to an all-time low of 14.7%, from 16.6% the previous year.** According to the Montenegrin employment agency, the number of jobless people in Montenegro at the end of August (38,108) was 12.8% lower than a year previously. Supported by economic growth and policy measures (such as abolishing mandatory health contributions and introducing a non-taxable part of wages), the unemployment rate for 2023 should hit a new record low of 13.8%.

**The energy sector remains an important driver of the Montenegrin economy.** Montenegro enjoyed the largest share of wind power in domestic electricity production anywhere in Europe in December 2022, and was one of the biggest net exporters of electricity in 2022. This year, electricity production and exports will see a further rise, thanks to the solid rainfall season, which boosted hydropower electricity generation. Higher energy prices are also supporting Montenegro's electricity exports. All this, together with exports of tourism and transport services and solid remittances, is projected to support a modest reduction in the current account deficit to 11% of GDP by 2024.

**Investments in the energy industry promise further stimulus.** Montenegro has great potential in the renewable energy sector – a potential that has by no means been fully exploited. The government managed in March to approve the construction of solar power plants in Cetinje and Nikšić. The Montenegrin grid operator CGES is also planning to invest some EUR 200m over the next few years to prepare the country's power grid for the additional solar energy. Next to renewables, the country also wants to focus on gas as a source of energy in the future. That is why the government decided in May 2023 to construct a EUR 1bn liquefied natural gas (LNG) terminal at the port of Bar; it is due to commence operations by the end of 2025. The Serbian government was quick to voice interest in purchasing liquefied gas from the planned terminal. It could supply LNG not only to Montenegro and Serbia, but also to other neighbouring countries, most notably Bosnia and Herzegovina, Kosovo and Albania.

**Montenegro is in the process of becoming an electricity transport hub serving the Western Balkans and Italy.** In 2019, the governments of Italy and Montenegro started operating an underwater power cable, worth some EUR 1.15bn, between the Italian port city of Pescara and the Montenegrin city of Bar. The cable, which stretches for 423 kilometres along the Adriatic seabed, at a depth of over 1,000

metres, represents an important energy transit route, connecting the electricity systems of Italy, Montenegro, Serbia, Bosnia and Herzegovina and Romania.

**Following the June parliamentary elections, the recently formed pro-European Europe Now! party will be central to the new government coalition.** Montenegro had been embroiled in political and institutional deadlock since August 2022, when the previous government fell after a vote of no confidence, but the results of the June elections are encouraging. Following the victory of Europe Now! in the elections, President Jakov Milatović nominated its head Milojko Spajić, as prime minister designate. The latter then announced that he had reached an agreement with several parties to form a new governing coalition, giving him the support of 44 MPs in the 81-seat parliament. He has until 10 November to receive approval from parliament for the formation of his new government. A new, stable government in Montenegro would help attract capital investment to the country and would bode well for its overall prospects.

**Table 6.14 / Montenegro: Selected economic indicators**

	2020	2021	2022 <sup>1)</sup>	2022 January-June	2023	2023 Forecast	2024 Forecast	2025
Population, th pers., average	621	619	617	.	.	619	618	618
Gross domestic product, EUR m, nom.	4,186	4,955	5,924	2,469	2,922	6,800	7,300	7,700
annual change in % (real)	-15.3	13.0	6.4	10.5	6.6	4.5	2.9	3.0
GDP/capita (EUR at PPP)	13,440	15,540	17,910	.	.	.	.	.
Consumption of households, EUR m, nom. <sup>2)</sup>	3,400	3,617	4,424	2,002	2,339	.	.	.
annual change in % (real)	-4.6	4.0	9.7	12.8	10.6	4.5	2.1	2.0
Gross fixed capital form., EUR m, nom.	1,166	1,096	1,274	610	634	.	.	.
annual change in % (real)	-12.0	-12.3	0.1	2.1	10.6	2.0	5.0	2.5
Gross industrial production <sup>3)</sup>								
annual change in % (real)	-0.9	4.9	-3.2	-2.3	4.5	7.0	4.0	3.0
Net agricultural production <sup>4)</sup>								
annual change in % (real)	1.1	-0.5	-2.9	.	.	.	.	.
Construction output								
annual change in % (real)	-5.5	-4.8	-4.4	-1.8	-9.5	.	.	.
Employed persons, LFS, th, average <sup>5)</sup>	219.4	212.6	251.2	243.6	269.6	257	265	273
annual change in %	-10.0	-3.1	18.2	26.0	10.7	2.5	3.0	3.0
Unemployed persons, LFS, th, average <sup>5)</sup>	47.8	42.2	43.2	45.2	44.5	40	40	40
Unemployment rate, LFS, in %, average <sup>5)</sup>	17.9	16.6	14.7	15.7	14.2	13.8	13.1	12.0
Reg. unemployment rate, in %, eop	20.1	24.7	20.1	19.8	18.1	.	.	.
Average monthly gross wages, EUR	783	793	883	876	971	950	1,020	1,070
annual change in % (real, gross)	1.6	-1.1	-1.5	1.0	-0.2	-1.0	2.0	2.5
Average monthly net wages, EUR <sup>6)</sup>	524	532	712	704	781	770	820	860
annual change in % (real, net)	2.1	-0.9	18.4	21.1	0.0	-1.0	1.5	2.5
Consumer prices, % p.a.	-0.3	2.4	13.0	9.8	11.0	9.1	5.0	2.8
Producer prices in industry, % p.a. <sup>7)</sup>	-0.1	1.3	11.2	8.8	8.3	6.0	4.0	2.6
General governm. budget, nat. def., % of GDP								
Revenues	44.6	44.3	38.8	.	.	39.3	39.0	38.9
Expenditures	55.7	46.2	43.9	.	.	44.2	43.8	43.4
Deficit (-) / surplus (+)	-11.1	-1.9	-5.1	.	.	-4.9	-4.8	-4.5
General gov. gross debt, nat. def., % of GDP	105.3	84.0	69.2	.	.	70.5	70.0	69.0
Stock of loans of non-fin. private sector, % p.a.	2.9	3.4	8.8	9.1	4.8	.	.	.
Non-performing loans (NPL), in %, eop	5.5	6.2	5.7	6.3	5.2	.	.	.
Central bank policy rate, % p.a., eop <sup>8)</sup>	5.33	5.16	5.45	5.06	5.82	5.8	5.5	5.4
Current account, EUR m	-1,090	-456	-766	-551	-539	-800	-790	-782
Current account, % of GDP	-26.1	-9.2	-12.9	-22.3	-18.4	-11.8	-10.8	-10.2
Exports of goods, BOP, EUR m	409	526	763	413	397	990	1,070	1,120
annual change in %	-12.2	28.6	45.2	70.9	-3.8	30.0	8.4	5.0
Imports of goods, BOP, EUR m	2,051	2,441	3,434	1,566	1,758	3,850	4,100	4,270
annual change in %	-19.0	19.0	40.7	47.4	12.3	12.2	6.6	4.1
Exports of services, BOP, EUR m	679	1,597	2,289	734	1,056	2,580	2,780	2,960
annual change in %	-60.2	135.2	43.3	71.9	43.9	12.9	7.8	6.4
Imports of services, BOP, EUR m	503	641	972	421	530	1,070	1,140	1,210
annual change in %	-26.8	27.5	51.6	72.7	25.9	10.5	7.0	6.5
FDI liabilities, EUR m	466	591	833	375	278	700	.	.
FDI assets, EUR m	-5	9	50	12	11	45	.	.
Gross reserves of CB excl. gold, EUR m <sup>9)</sup>	1,739	1,749	1,915	1,657	1,616	.	.	.
Gross external debt, EUR m	9,275	9,501	9,396	.	.	10,880	11,610	12,170
Gross external debt, % of GDP	221.6	191.7	158.6	.	.	160.0	159.0	158.0

1) Preliminary. - 2) Including expenditures of NPISHs. - 3) Enterprises with 5 and more employees. - 4) Based on gross value added data. - 5) From 2021 the new LFS methodology is applied in line with the Integrated European Social Statistics Regulation (IESS). - 6) From 2022 net wages excluding health insurance contributions and including an impact of personal income tax reform. - 7) Domestic output prices. - 8) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 9) Data refer to reserve requirements of the Central Bank.

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