

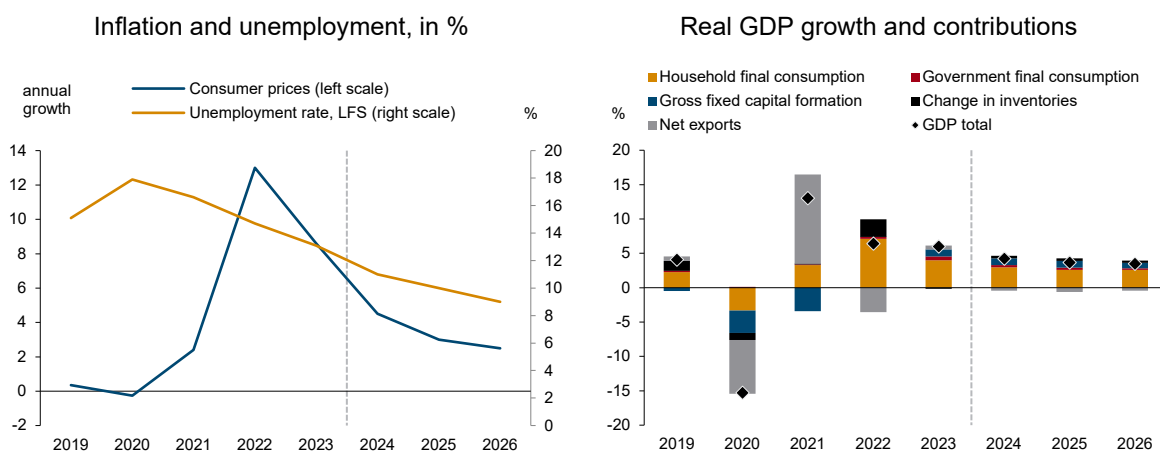


## MONTENEGRO: EU integration hopes at an all-time high

MARKO SOŠIĆ

Amidst political turmoil, Montenegro managed in 2023 to achieve considerable growth of 6%. This owed much to a record tourist season, the influx of Russian and Ukrainian immigrants and improvements on the labour market. Starting as it does from such a high base, 2024 will likely see a slowing of growth to 4.2%. A range of cross-cutting reforms aimed at increasing salaries and pensions is likely to boost consumption; but it will also place a strain on public finances. EU integration is back on the agenda of both the government and the EU. However, political stability may be tested during the planned government reshuffle in 2024.

Figure 6.14 / Montenegro: Main macroeconomic indicators



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

**Montenegro's economy grew by 6% in 2023 – the highest growth rate in CESEE for the second year in a row.** This owed much to the strong (and extended) tourist season, the large influx of immigrants (mostly from Ukraine and Russia), the increase in public-sector wages and record employment rates. Growth is expected to moderate to 4.2% in 2024; it will be driven by private consumption and service exports, along with investment in tourism and the energy sector.

**The outlook for 2024 is rather overshadowed by the 'Europe Now 2' programme, which has been announced.** The new government swept to power on a promise to implement an ambitious agenda in 2024, with an increase in pensions and in the minimum and average salary, and with full employment – all while reducing working hours. However, the programme has been controversial both because of its overly ambitious promises and because no detailed analysis or roadmap for its implementation exists,

beyond the public statements of officials. Not even the International Monetary Fund Article IV mission was given sight of the programme as a coherent document. One way to achieve the promises could involve cutting the obligatory pension contributions, with the state taking over funding of the pension fund; but that would come at significant fiscal cost. Even though Q2 2024 is already under way, the government has yet to publish its annual agenda or fiscal strategy.

**Average real net wages rose by 2.4% in 2023.** The growth in wages generally is expected to continue in 2024, assuming the electoral promises of the Europe Now! party are fulfilled. At the same time, the government is hoping to tame the rapid growth in public-sector wages (35% higher in 2024 than in 2020) and their impact on public finances. Over the last four years, frequent changes to legislation and hastily signed new collective-bargaining agreements with the civil service trade unions have led public-sector wages to grow rapidly and haphazardly; 2024 should be the year when the government responds to this issue.

**The unemployment rate reached a historic low of 13.1% in 2023 and is expected to fall further during 2024.** This was a result of implementation of the 'Europe Now 1' programme and such measures as abolishing the mandatory health contribution and raising the non-taxable wage threshold; these steps have boosted employment. The extended tourist season also helped, as did the country's demographic decline. We expect these trends to continue in 2024 and unemployment to decline further to 11%.

**Public investment is likewise expected to support growth in 2024.** This includes the continuation of the Bar-Boljare highway with the support of the European Bank for Reconstruction and Development and the Western Balkans Investment Framework, as well as a range of other infrastructure projects. All this will be coupled with structural reforms in the way public infrastructure projects are managed.

**Foreign direct investment (FDI), the dominant identifiable source of financing of the current account, saw a significant decline in 2023.** After a very successful 2022, when FDI accounted for 14% of GDP, in 2023 the figure was almost half that – just 7.1% of GDP. Notably, EU FDI fell by more than a half. Despite the decline, FDI in Montenegro relative to GDP remains among the highest in the whole of Europe.

**Average inflation fell to 8.6% in 2023, from its 2022 peak of 17.2%, and is expected to continue to decline in 2024.** The latest available data show that inflation had dropped to 4.3% in February but rose back to 5.5% in March. In an effort to rein it in even further, in March 2024 the government imposed limits on the profit margins of over 500 consumer products (although the impact of these and similar measures implemented in the past has been restricted). Factors such as strong consumer spending, low domestic food production, and the significant market power of food and trade businesses are likely to exert upward pressure on prices. Consequently, our forecast for 2024 sees inflation likely to average around 4.5%.

**The minimum pension has been increased by over 50% from January 2024, as part of the new government's welfare programme.** This has raised pensions for more than a third of pension beneficiaries. Further reforms are planned for later in the year to boost other pensions. While this is likely to support consumption and economic activity, it will place a further strain on the pension fund and require the establishment of new sources of funding.

**The management of public debt could become challenging in 2024.** Total government debt (without deposits) at the end of 2023 amounted to 59% of GDP. During the fourth quarter of the year, there was an increase in the debt: new bonds were issued and credit arrangements were concluded with domestic commercial banks to finance the budget deficit. In early 2024, the government raised USD 750m (around 10% of GDP) from its first US dollar bond issue. The seven-year bond will refinance some of Montenegro's previous bonds and debts that mature in 2024 and 2025, and which amount to over EUR 1.2bn. Especially in the area of public-sector wages and welfare, the increase in public spending that stems both from previous decisions and from undertakings that have been announced for later in the year will increase the government's reliance on loans to finance current spending.

**EU integration is back on the agenda in the country.** In just a short period of time, several important issues that were blocking the integration process have been resolved, mainly concerning appointments to the judiciary. Intensive efforts are being made to secure a positive Interim Benchmark Assessment Report (IBAR) from the European Commission regarding the *acquis* fundamentals cluster. Success in this would provide an opportunity to start closing off other chapters, and the EU membership perspective would be greatly invigorated if the Council of the EU were to approve the next stage in the accession process in June 2024, after the expected intergovernmental conference. However, a government reshuffle that has been announced (with the goal of including more parties) and that is due to take place after the IBAR decision, could give rise to another period of political instability.

**The favourable economic trends of 2023 were, in part, fuelled by a large influx of immigrants and foreigners to Montenegro, which had a major effect on private consumption, tourism, the real estate sector, banking parameters and employment.** According to the Ministry of Interior, around 96,000 foreigners were residing in Montenegro at the end of 2023 – equivalent to 15% of the country's population. The number is heavily dependent on the geopolitical situation, but is expected to decline in 2024; meanwhile, the effect of the foreigners on the economy may already be waning, if the early 2024 indicators (such as the stabilisation of prices in the real estate sector) are to be trusted.

**A population census was held in December 2023, after much political wrangling about its transparency and accuracy.** The preliminary results indicate a 2.5% increase in the population since 2011. The final results (with a distinction drawn between actual citizens and foreigners or non-residents) will be published by June 2024.

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

	2020	2021	2022	2023 <sup>1)</sup>	2024	2025	2026
					Forecast		
Population, th pers., average	621	619	617	615	613	611	609
Gross domestic product, EUR m, nom.	4,186	4,955	5,924	6,847	7,500	8,000	8,500
annual change in % (real)	-15.3	13.0	6.4	6.0	4.2	3.7	3.5
GDP/capita (EUR at PPP)	13,420	15,460	17,580	19,020	.	.	.
Consumption of households, EUR m, nom. <sup>2)</sup>	3,400	3,617	4,424	5,037	.	.	.
annual change in % (real)	-4.6	4.1	9.7	5.4	4.0	3.5	3.5
Gross fixed capital form., EUR m, nom.	1,166	1,096	1,275	1,318	.	.	.
annual change in % (real)	-11.9	-12.3	0.1	4.8	5.0	5.0	4.0
Gross industrial production <sup>3)</sup>							
annual change in % (real)	-0.9	4.9	-3.3	6.4	4.0	3.0	2.0
Gross agricultural production <sup>4)</sup>							
annual change in % (real)	3.8	-1.5	-0.7	-2.0	.	.	.
Construction output							
annual change in % (real)	-5.5	-4.8	-4.4	-3.0	.	.	.
Employed persons, LFS, th, average <sup>5)</sup>	219.4	212.6	251.2	278.3	287	296	305
annual change in %	-10.0	-3.1	18.2	10.8	3.0	3.0	3.0
Unemployed persons, LFS, th, average <sup>5)</sup>	47.8	42.2	43.2	41.8	40	30	30
Unemployment rate, LFS, in %, average <sup>5)</sup>	17.9	16.6	14.7	13.1	11.0	10.0	9.0
Reg. unemployment rate, in %, eop	20.1	24.7	17.0	14.0	.	.	.
Average monthly gross wages, EUR	783	793	883	987	1,050	1,100	1,150
annual change in % (real, gross)	1.6	-1.1	-1.5	2.9	2.0	2.0	2.0
Average monthly net wages, EUR <sup>6)</sup>	524	532	712	792	850	930	960
annual change in % (real, net)	2.1	-0.9	18.4	2.4	3.0	6.0	1.0
Consumer prices, % p.a.	-0.3	2.4	13.0	8.6	4.5	3.0	2.5
Producer prices in industry, % p.a. <sup>7)</sup>	-0.1	1.3	11.2	6.2	3.0	2.5	2.0
General governm. budget, nat. def., % of GDP							
Revenues	44.6	44.3	38.8	39.0	38.0	38.0	38.0
Expenditures	55.7	46.2	43.9	44.0	44.0	44.0	44.0
Deficit (-) / surplus (+)	-11.1	-1.9	-5.1	-5.0	-6.0	-6.0	-6.0
General gov.gross debt, nat.def., % of GDP	105.3	84.0	69.2	70.5	72.0	74.0	76.0
Stock of loans of non-fin. private sector, % p.a.	2.9	3.4	8.8	6.5	.	.	.
Non-performing loans (NPL), in %, eop	5.5	6.2	5.7	5.0	.	.	.
Central bank policy rate, % p.a., eop <sup>8)</sup>	5.33	5.16	5.45	6.11	5.0	4.5	4.0
Current account, EUR m	-1,090	-456	-766	-782	-800	-850	-880
Current account, % of GDP	-26.1	-9.2	-12.9	-11.4	-10.7	-10.6	-10.4
Exports of goods, BOP, EUR m	409	526	763	716	790	860	920
annual change in %	-12.2	28.6	45.2	-6.2	10.0	9.0	7.5
Imports of goods, BOP, EUR m	2,051	2,441	3,434	3,699	4,070	4,420	4,730
annual change in %	-19.0	19.0	40.7	7.7	10.0	8.5	7.0
Exports of services, BOP, EUR m	679	1,597	2,289	2,769	3,120	3,450	3,760
annual change in %	-60.2	135.2	43.3	21.0	12.5	10.5	9.0
Imports of services, BOP, EUR m	503	641	972	1,074	1,190	1,290	1,380
annual change in %	-26.8	27.5	51.6	10.5	10.5	8.0	7.0
FDI liabilities, EUR m	466	591	833	487	.	.	.
FDI assets, EUR m	-5	9	50	58	.	.	.
Gross reserves of CB excl. gold, EUR m <sup>9)</sup>	1,739	1,749	1,915	1,425	.	.	.
Gross external debt, EUR m	9,275	9,501	9,381	9,002	9,000	9,200	9,350
Gross external debt, % of GDP	221.6	191.7	158.4	131.5	120.0	115.0	110.0

Note: Introduction of new index 2021=100 (new weights) for gross industrial production.

1) Preliminary and wiiw estimates. - 2) Including expenditures of NPISHs. - 3) Enterprises with 5 and more employees. - 4) Based on UN-FAO data, wiiw estimate in 2023. - 5) From 2021 new LFS methodology 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.