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Montenegro: fast growth

The growth acceleration that started last year has continued in the first quarter of 2007 – not in industry though. While GDP expanded by 6.6%, industrial production contracted by 5.3% in comparison with the first quarter of 2006. This is partly because growth of industrial production was rather strong last year, but it is also a continuation of the decline in industrial production in the second half of last year. Growth in Montenegro is mostly due to services, i.e., financial services and tourism.

On the demand side, there has been a significant worsening of the trade balance and also of the current account. This is just the other side of the large inflows of foreign investments, or rather investments from abroad. Most of these investments go into real estate, but also into privatization. In addition, domestic investments are also growing, as the high growth of equities at the stock exchange indicates. Finally, private consumption is rising as well because of the growing wealth of real estate owners and somewhat increased employment and compensations. Public consumption, on the other hand, is not expanding all that much and it seems that fiscal consolidation has been fully achieved in Montenegro. This was the weak point for many years, but the ministry of finance has finally succeeded in balancing the budget.

Recently there has been dissatisfaction with the fast process of privatization, in particular to foreigners and especially to Oleg Deripaska, who already owns the aluminium plant, which is the largest exporter in Montenegro. He intended to buy the power plant and a number of other state-owned assets, but the parliament failed to approve these deals. The smaller coalition partner in the government voted with the opposition against the government-sponsored privatizations. This was partly because of the very large share of the country's assets that Mr. Deripaska would thus acquire (he would have owned about 40% of the assets in Montenegro), but it is also partly a sign of social protest. As of this moment, the further process of privatization is very much in doubt.

Unlike in other post-Yugoslavia countries, political stability was never a serious issue in Montenegro. It was not easy to achieve independence, but the risk of political, not to mention violent, conflicts was always rather low. That does not mean that it is easy to take political decisions. At the moment the public is debating the new constitution and it has proved to be difficult to reach a consensus on some of the key issue connected with the national identity and the rights of the minorities.

The constitutional problems are not having significant political, let alone economic consequences, but the adoption of the constitution is important for the process of EU integration. Montenegro has initialled a Stabilization and Association Agreement with

the EU and is expecting to sign it in autumn. For further progress in this process, it will be necessary to complete the state building process. At the moment it is not easy to see what a compromise would look like, but Montenegrins have proved to be able to reach compromises when it turned out to be necessary.

The country is also seeking membership in NATO. It has very good relations both with the United States and with Russia. Unlike Serbia, it has no territorial problems within itself or with its neighbours. Its stability is not threatened, but the added anchor of NATO would be useful to this very small country.

Economic prospects are favourable. Montenegro's tourist sector will continue to grow. Similarly, the development of other services has great potential. The main problem is high unemployment, which is the consequence of the collapse of industrial production and of government employment. Also, Montenegro accepted large inflows of refugees and its labour market has difficulty in handling the increased supply of labour. However, with political and macroeconomic stability achieved, sustained high growth rates are achievable. The only worry is the external account, but that may become an issue in a few years down the road. The other cloud is the decline in support for reforms; that may slow down further liberalization which has proved crucial so far.

Table ME

Montenegro: Selected Economic Indicators

	2002	2003	2004	2005	2006 ¹⁾	2006	2007	2007	2008
						1st quarter		forecast	
Population th pers., mid-year ²⁾	617	620	622	623	625	.	.	.	.
Gross domestic product, EUR mn, nom. ³⁾	1301.5	1392.0	1565.0	1735.0	1932.0	.	433.9	2100	2300
annual change in % (real)	1.7	2.4	4.2	4.0	6.5	6.8	6.6	5	5
GDP/capita (EUR at exchange rate)	2109	2244	2516	2784	3091	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	4910	4990	5350	5680	6180	.	.	.	.
Gross industrial production ⁴⁾									
annual change in % (real)	0.6	2.4	13.8	-1.9	1.0	4.4	-5.3	3	3
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	5.9	1.0	3.8	-0.9	.	.	.	.	.
Construction industry	.	.	.	.	.	.	.	.	.
annual change in % (real)	.	.	.	.	.	.	.	.	.
Consumption of households, EUR mn, nom. ⁵⁾	1067.3	1024.8	1137.3	.	.	.	.	.	.
real growth rate, % ⁵⁾	6.4	.	.	.	.	.	.	.	.
Gross fixed capital form., EUR mn, nom. ⁵⁾	198.9	200.8	286.1	.	.	.	.	.	.
real growth rate, % ⁵⁾	-16.1	.	.	.	.	.	.	.	.
LFS - employed persons, th, Oct ⁶⁾	220.6	.	187.3	178.8	179.6	.	.	.	.
annual change in %	2.9	.	.	-4.5	0.5	.	.	.	.
Reg. employees in industry, th pers., avg.	35.8	34.1	.	.	.	.	.	.	.
annual change in %	-2.3	-5.0	.	.	.	.	.	.	.
LFS - unemployed, th pers., average ⁶⁾	57.7	.	71.8	77.8	77.0	.	.	.	.
LFS - unemployment rate in %, Oct. ⁶⁾	20.7	.	27.7	30.3	30.0	.	.	30	30
Reg. unemployment rate in %, end of period ⁷⁾	.	32.9	29.3	25.2	20.5	25.2	20.3	20	18
Average gross monthly wages, EUR ⁸⁾	251	271	303	326	377	464	418	.	.
annual change in % (real, net)	.	9.3	9.1	6.7	12.0	.	13.0	.	.
Consumer prices, % p.a.	16.0	6.7	2.4	2.3	3.0	2.9	2.5	3	3
Producer prices in industry, % p.a.	14.5	4.5	5.8	2.1	3.6	0.9	3.0	3	3
Central governm. budget, nat.def., % GDP ⁹⁾									
Revenues	17.7	24.2	23.8	24.8	29.4	.	.	.	.
Expenditures	20.5	27.4	25.9	26.6	27.6	.	.	.	.
Deficit (-) / surplus (+), % GDP	-2.8	-3.1	-2.1	-1.8	1.8	.	.	0	0
Public debt in % of GDP	.	.	.	.	.	.	.	.	.
Discount rate, % p.a., end of period	.	.	.	.	.	.	.	.	.
Current account, EUR mn ¹⁰⁾	-163.4	-102.1	-119.6	-154.0	-568.2	-131.2	-175.8	-320	-350
Current account in % of GDP	-12.6	-7.3	-7.6	-8.9	-29.4	.	-40.5	-15.2	-15.2
Gross reserves of NB, excl. gold, EUR mn	.	.	.	.	.	.	.	.	.
Gross external public debt, EUR mn	893.6	461.5	488.6	513.3	630.0	.	.	.	.
Gross external public debt in % of GDP	68.7	33.2	31.2	29.6	32.6	.	.	.	.
FDI inflow, EUR mn	.	43.8	52.7	392.7	644.3	.	.	.	.
FDI outflow, EUR mn	.	5.1	2.1	11.5	177.6	.	.	.	.
Exports of goods, BOP, EUR mn ¹¹⁾	322.6	270.6	452.1	460.6	514.5	105.7	134.7	590	680
annual growth rate in %	37.1	-16.1	.	1.9	11.7	.	27.4	15	15
Imports of goods, BOP, EUR mn ¹¹⁾	747.3	629.9	868.6	974.3	1420.1	258.0	338.5	1700	2040
annual growth rate in %	3.4	-15.7	.	12.2	45.8	.	31.2	20	20
Exports of services, BOP, EUR mn	171.7	191.3	249.5	329.8	433.5	33.7	50.9	560	730
annual growth rate in %	14.3	11.4	30.4	32.2	31.5	.	51.0	30	30
Imports of services, BOP, EUR mn	71.7	79.7	101.4	134.3	217.1	46.7	44.6	270	340
annual growth rate in %	34.3	11.1	27.2	32.5	61.7	.	-4.5	25	25
Average exchange rate USD/EUR	0.94	1.13	1.24	1.24	1.26	1.20	1.31	.	.
Purchasing power parity USD/EUR, wiiw ¹²⁾	0.37	0.38	0.40	0.41	0.41	.	.	.	.
Purchasing power parity EUR/EUR, wiiw ¹²⁾	0.43	0.45	0.47	0.49	0.50	.	.	.	.

Note: From 2002 the term "industry" refers to NACE classification C+D+E.

1) Preliminary. - 2) From 2003 according to census November 2003; 2006 wiiw estimate. - 3) Including non-observed economy. - 4) Excluding small private enterprises and arms industry. - 5) Unrevised data. - 6) From 2004 according to census 2003 and revisions based on ILO and Eurostat methodology. - 7) In % of unemployed plus employment (excluding individual farmers). - 8) Quarterly wage data refer to employees who received wages (previously wages were divided by all registered employees in enterprises). - 9) Revenues excluding grants, expenditures excluding net lending. - 10) Including all transactions with Serbia. - 11) From 2004 trade with Serbia and Kosovo based on customs statistics (before on ITRS). - 12) Estimate based on a 45% price level (EU-25=100) in 2003 and extrapolation with GDP deflator.

Source: wiiw Database incorporating national statistics; wiiw forecasts.