

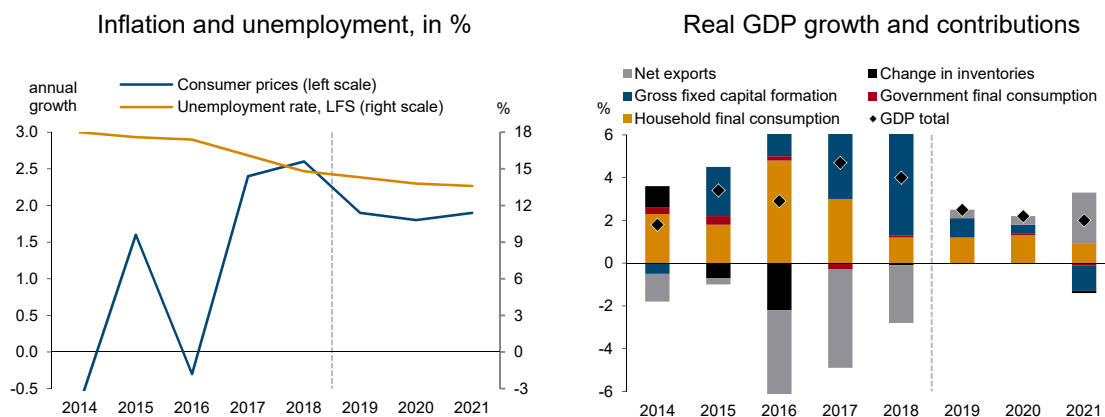


MONTENEGRO: Gradual growth deceleration expected

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In 2018, GDP is estimated to have grown by 4% and was mostly driven by surging investment and growing exports. Employment increased considerably, but unemployment still remains high. The high government debt burden represents the largest challenge for policy-makers, which pursue an ambitious fiscal consolidation plan. During 2019-2021, economic growth will gradually slow down with an average rate of around 2.2%. In 2019, the government started the Montenegro Citizenship by Investment Programme.

Figure 6.14 / Montenegro: Main macroeconomic indicators



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

In 2018, real GDP is estimated to have grown by 4%, down from 4.7% in 2017. The largest contribution to growth came from gross fixed capital formation, which expanded by more than 20%. This investment surge has largely been driven by the Bar-Boljare highway construction project, but also by investment in tourism and energy production capacities. Government consumption grew only slightly, while household consumption is estimated to have risen by 1.6%.

The contribution of the external sector to GDP growth was negative despite the accelerating growth of exports of goods and services. Considerable increases were recorded in exports of electricity, of medical and pharmaceutical products, as well as in transport and tourism services. However, the strong domestic (mostly investment) demand led to an import surge – imports of machinery and transport equipment grew by 15% year on year, and represented around a quarter of merchandise imports in 2018. As a consequence, the persistent trade and current account deficits deteriorated further during 2018.

Boosted by the strong investment performance, construction output recorded a 24.9% increase in 2018. Industrial production did not lag far behind as it expanded by 22.4%, with the strongest increases in the sectors of electricity, gas, steam and air conditioning supply, in the manufacture of other non-metallic mineral products, and manufacture of furniture. Such developments contributed to employment increases estimated at 2.5%, and the unemployment rate declining to 14.8%. With unemployment still being high, strong economic performance was not reflected in wage developments and the real wage decline from 2017 continued into 2018 and intensified. This has been supported by the stagnating nominal wages in the government-dominated sectors of economic activities.

Despite negative real wage growth, domestic prices increased by 2.9% in 2018 measured by the harmonised index of consumer prices. The price push is likely to have been fuelled by the consumption tax hikes in 2018, as the general VAT rate and some excises were increased. The largest price increases were recorded for alcoholic beverages and tobacco, and in transport services.

Favourable economic developments and the aforementioned tax increases during 2018 contributed to narrowing down the government deficit to an estimated 2.7% of GDP, down from 5.3% in 2017. The government is dedicated to bring the soaring public debt on a downward trajectory, by increasing revenues and implementing fiscal consolidation in the segment of current expenditures, while leaving some fiscal space for capital investment. Given the projected real decline in government expenditure over the 2019-2021 period, further planned increases in some excises, and reforms aiming at more efficient tax collection, the government expects Montenegro to reach a substantial budget surplus in 2020, which should further expand in 2021.

The fiscal medium-term plans are very ambitious, and their fulfilment will require very strict fiscal discipline over a prolonged period of time including the likely election year 2020 (the last parliamentary elections were held on 16 October 2016). At the same time, public investment dynamics, as well as the fiscal consolidation efforts in the current transfers segment will considerably influence the overall economic performance.

A gradual deceleration of economic growth for the forecasting period is expected, with an average rate of around 2.2% – a forecast based on the assumptions of considerable fiscal discipline in current expenditures, though not as strong as in the government's plans, of the announced public investment dynamics, and of slightly deteriorating external conditions.

The final consumption of households will be a comparatively more important source of growth, although the contribution to GDP growth from domestic investment will remain positive for the next two years. Given that investment demand will first stabilise and then decline, import growth is expected to weaken, especially towards the end of the forecasting period. With projected further increases in exports of goods and services, driven, inter alia, by current investment in tourism capacities or electricity production, the contribution of net exports is expected to turn out positive over the forecasting period. Correspondingly, the current account deficit is expected to narrow gradually.

Employment growth and the decline in unemployment are expected to continue, although at a slower pace. Real wage growth should pick up, even if only modestly. Such trends will lend support to an expected inflation rate of slightly below 2% over the forecasting period.

The public debt share in GDP is expected to decline from (the government's estimate of) 70% at the end of 2018, to around 62% in 2021 – under the above assumption of strong fiscal discipline motivated by the high debt burden. The government balance is expected to show a small surplus already in 2020, which should then widen in 2021.

The government announced hedging arrangements to mitigate the increased exchange rate risk. Although the largest part of public debt is denominated in euros (around 83% in 2018), the share of debt denominated in US dollars is bound to increase due to remaining tranches of the Chinese Exim bank loan, used to finance the Bar-Boljare highway construction project.

On 1 January 2019, the government started the Montenegro Citizenship by Investment Programme which could contribute to increased government revenues and foreign financing of investment projects. The programme will last for three years and offers full citizenship to (up to 2,000) investors (and their families) against a contribution of a government fee (called a grant) amounting to EUR 100,000, and an investment of at least EUR 250,000 in government-approved investment projects in underdeveloped areas of the country. For investment in more developed regions of Montenegro, the minimum amount is EUR 450,000. Other fees will also be charged to applicants.

In summary, our real GDP growth forecasts of 2.5%, 2.2% and 2% for 2019, 2020 and 2021, respectively, represent a considerable deceleration from the growth rates recorded in the last two years. It will mostly be driven by a significant slowdown in public investment, coupled with fiscal consolidation efforts in the segment of current transfers. Some support for growth will come from net exports, especially towards the end of the forecasting period, as the domestic investment-related imports should decline more strongly.

Table 6.14 / Montenegro: Selected economic indicators

	2014	2015	2016	2017	2018 ¹⁾	2019	2020	2021
						Forecast		
Population, th pers., average	622	622	622	622	625	625	625	630
Gross domestic product, EUR mn, nom.	3,458	3,655	3,954	4,299	4,600	4,800	5,000	5,200
annual change in % (real)	1.8	3.4	2.9	4.7	4.0	2.5	2.2	2.0
GDP/capita (EUR at PPP)	11,300	12,300	13,000	13,700	14,300	.	.	.
Consumption of households, EUR mn, nom. ²⁾	2,775	2,872	3,035	3,216	3,400	.	.	.
annual change in % (real)	2.9	2.2	6.1	3.9	1.6	1.6	1.8	1.2
Gross fixed capital form., EUR mn, nom.	657	736	978	1,157	1,400	.	.	.
annual change in % (real)	-2.5	11.9	38.4	18.7	20.7	3.4	1.5	-4.4
Gross industrial production ³⁾								
annual change in % (real)	-11.4	7.9	-2.9	-4.2	22.4	5.0	4.0	4.0
Net agricultural production ⁴⁾								
annual change in % (real)	-6.1	9.4	-8.5	-3.2	2.0	.	.	.
Construction output ³⁾								
annual change in % (real)	1.9	5.8	31.5	51.5	24.9	.	.	.
Employed persons, LFS, th, average	216.3	221.7	224.2	229.3	234.0	236	238	239
annual change in %	7.1	2.5	1.1	2.3	2.0	1.0	1.0	0.4
Unemployed persons, LFS, th, average	47.5	47.2	48.3	43.9	40.0	40	40	40
Unemployment rate, LFS, in %, average	18.0	17.6	17.4	16.1	14.8	14.3	13.8	13.6
Reg. unemployment rate, %, average	16.1	16.5	21.9	21.7	18.7	.	.	.
Average monthly gross wages, EUR	723	725	751	765	766	790	810	830
annual change in % (real, gross)	0.1	-1.1	3.5	-1.1	-2.6	1.0	1.0	0.2
Average monthly net wages, EUR	477	480	499	510	511	530	540	550
annual change in % (real, net)	0.3	-0.9	4.2	-0.2	-2.3	1.0	1.0	0.2
Consumer prices, % p.a.	-0.7	1.6	-0.3	2.4	2.6	1.9	1.8	1.9
Producer prices in industry, % p.a. ⁵⁾	0.1	0.3	-0.1	0.4	1.7	1.5	1.5	1.5
General government budget, nat.def., % of GDP								
Revenues	44.8	41.8	42.6	41.5	42.9	43.1	42.8	42.0
Expenditures	47.7	50.0	46.2	46.8	45.8	45.3	42.3	40.6
Deficit (-) / surplus (+)	-2.9	-8.3	-3.6	-5.3	-2.9	-2.2	0.5	1.4
General gov.gross debt, nat.def., % of GDP	56.2	62.3	60.8	61.1	70.0	69.0	66.0	62.0
Stock of loans of non-fin.private sector, % p.a.	-1.1	2.5	5.4	7.7	9.1	.	.	.
Non-performing loans (NPL), in %, eop	15.9	12.6	10.3	7.3	6.5	.	.	.
Central bank policy rate, % p.a., eop ⁶⁾	8.41	7.70	6.74	6.16	5.75	5.50	5.50	5.50
Current account, EUR mn	-429	-402	-642	-691	-793	-810	-840	-730
Current account, % of GDP	-12.4	-11.0	-16.2	-16.1	-17.2	-16.9	-16.8	-14.0
Exports of goods, BOP, EUR mn	357	330	351	382	436	460	480	500
annual change in %	-9.7	-7.6	6.2	9.0	14.0	5.0	4.5	4.0
Imports of goods, BOP, EUR mn	1,734	1,794	2,008	2,243	2,486	2,600	2,700	2,730
annual change in %	0.6	3.5	12.0	11.7	10.8	4.5	4.0	1.0
Exports of services, BOP, EUR mn	1,031	1,214	1,255	1,383	1,563	1,690	1,810	1,940
annual change in %	3.6	17.8	3.3	10.2	13.1	8.0	7.0	7.0
Imports of services, BOP, EUR mn	340	425	486	530	627	670	710	720
annual change in %	-0.3	25.0	14.1	9.2	18.2	6.5	6.0	2.0
FDI liabilities, EUR mn	375	630	205	494	415	.	.	.
FDI assets, EUR mn	21	11	-167	10	87	.	.	.
Gross reserves of NB excl. gold, EUR mn ⁷⁾	545	674	803	898	1,101	.	.	.
Gross external public debt, EUR mn	1,562	1,956	2,003	2,214	2,760	2,830	2,850	2,810
Gross external public debt, % of GDP	45.2	53.5	50.6	51.5	60.0	59.0	57.0	54.0

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 from 2017. - 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 the Central Bank.

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