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## Montenegro: Instability looming

***In Montenegro, growth prospects depend on the financial and fiscal stability, but are still not much above stagnation this year and slow recovery in the medium run. A start of negotiations with the EU would certainly contribute to overall stability***

The recovery is slowing down and the problems are aggravating. Montenegro faced the crisis with very large external imbalances and a rather favourable fiscal position. Large inflows of foreign investment before the crisis led to significant fiscal revenues and made it possible to accumulate significant reserves. Those have in all probability been exhausted in the support of the banking system and in the bail-out of the loss making enterprises. That is a never ending story as the recent instalment of the problems with the Aluminijski kombinat testifies. The investment in it by Oleg Deripaska was guaranteed by the government and that guarantee is being called now. That is over EUR 100 million, which is quite a bill for a EUR 3.3 billion economy. That may prove a hard test for the government to pass.

Apart from that, the slowdown is driven mainly by the necessity to rebalance the external accounts in view of declining foreign investments. Tourism plays the main role in that and it has done rather well last year and is expected to continue to do well in the coming years. Industry is a drag on the economy as it continues to shrink. Similarly, the contribution of agricultural production is not very high and cannot be expected to improve too much in the future. Other services depend to a significant extent on the budget and there is certainly still room for the government to run fiscal deficits. Public debt stands at about 44% and is still in sustainable territory. However, the slowdown of growth and possible stagnation or even a bout of recession can prove quite harmful.

In the short run, growth will slow down due to unfavourable external developments and increased problems in the financial and public sectors. In the medium run, recovery is predicated on the maintenance of macroeconomic stability. That may prove to be hard to achieve given the growing problems with the political acceptability of rising fiscal support for loss making enterprises.

It is expected that Montenegro will start negotiating for membership with the EU during or at the end of this year. That is important for the stability of the country, but a more sustained recovery will depend on the ability of the government to restructure the corporate and the financial sectors. So, in the medium run, rather sluggish growth is to be expected if stability is maintained.

Table ME

## Montenegro: Selected Economic Indicators

	2006	2007	2008	2009	2010	2011 <sup>1)</sup>	2012	2013 Forecast	2014
Population, th pers., mid-year <sup>2)</sup>	624.2	626.2	628.8	631.5	618.8	620	621	622	623
Gross domestic product, EUR mn, nom. <sup>3)</sup>	2149.0	2680.5	3085.6	2981.0	3103.9	3300	3400	3600	3800
annual change in % (real) <sup>3)</sup>	8.6	10.7	6.9	-5.7	2.5	2	1	2	3
GDP/capita (EUR at exchange rate)	3400	4300	4900	4700	5000	5300	.	.	.
GDP/capita (EUR at PPP - wiiw)	8400	10000	10700	9700	10100	10500	.	.	.
Consumption of households, EUR mn, nom. <sup>3)</sup>	1660.9	2369.0	2814.8	2503.7	2550.7	2680	.	.	.
annual change in % (real) <sup>3)</sup>	.	.	12.1	-12.9	2.0	2	2	3	3
Gross fixed capital form., EUR mn, nom. <sup>3)</sup>	469.8	867.1	1180.2	797.6	655.1	640	.	.	.
annual change in % (real) <sup>3)</sup>	.	.	27.3	-30.1	-18.5	-5	2	5	5
Gross industrial production <sup>4)</sup>									
annual change in % (real)	1.0	0.1	-2.0	-32.2	17.5	-10.3	5	5	5
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	1.9	-11.0	10.0	3.0	2.0	2	.	.	.
Construction output <sup>5)</sup>									
annual change in % (real)	28.0	23.6	20.7	-19.2	-7.4	5	5	5	5
Employed persons - LFS, th, average <sup>6)</sup>	178.4	217.4	218.8	212.9	208.2	198	198	200	210
annual change in %	-0.3	21.9	0.6	-2.7	-2.2	-5	0	1	5
Unemployed persons - LFS, th, average <sup>6)</sup>	74.8	52.1	45.3	50.9	50.9	50	.	.	.
Unemployment rate - LFS, in %, average <sup>6)</sup>	29.6	19.3	17.2	19.3	19.6	20	20	20	19
Unemployment rate, reg., %, average	20.5	16.5	14.4	15.1	16.9	15.8	18	17	16
Average gross monthly wages, EUR <sup>7)</sup>	377	497	609	643	715	722	.	.	.
real growth rate, % (net wages) <sup>7)</sup>	12.0	15.0	14.6	7.6	3.0	-2.0	.	.	.
Consumer prices, % p.a.	3.0	4.2	7.4	3.4	0.5	3.1	3	3	3
Producer prices in industry, % p.a. <sup>8)</sup>	3.6	8.5	14.0	-3.9	-0.9	3.2	.	.	.
General government budget, nat. def., % GDP									
Revenues	45.4	50.0	49.1	45.8	40.9	41	.	.	.
Expenditures	42.7	43.3	47.5	49.4	43.9	44	.	.	.
Deficit(-)/Surplus(+)	2.7	6.7	1.7	-3.6	-3.0	-3	-1	-1	-1
Public debt, nat. def., in % of GDP	32.6	27.5	29.0	38.2	40.9	44	44	42	41
Central bank policy rate, % p.a., end of period <sup>9)</sup>	9.06	8.34	8.81	8.85	8.98	10.00	9	9	8
Current account, EUR mn	-531.2	-1077.5	-1583.7	-896.3	-764.2	-550	-700	-800	-800
Current account in % of GDP	-24.7	-40.2	-51.3	-30.1	-24.6	-16.7	-20.6	-22.2	-21.1
Exports of goods, BOP, EUR mn	648.3	483.4	450.4	296.3	356.6	430	470	520	570
annual growth rate in %	40.8	-25.4	-6.8	-34.2	20.4	20.6	10	10	10
Imports of goods, BOP, EUR mn	1497.7	2090.6	2552.3	1668.0	1623.8	1750	1930	2120	2330
annual growth rate in %	53.7	39.6	22.1	-34.6	-2.7	7.8	10	10	10
Exports of services, BOP, EUR mn	418.0	673.0	750.6	680.5	747.0	860	950	1050	1160
annual growth rate in %	26.8	61.0	11.5	-9.3	9.8	15.1	10	10	10
Imports of services, BOP, EUR mn	220.9	234.0	351.2	295.9	336.8	340	360	380	400
annual growth rate in %	64.6	5.9	50.1	-15.8	13.8	1	5	5	5
FDI inflow, EUR mn	496.0	682.7	655.7	1099.4	574.2	300	500	800	1000
FDI outflow, EUR mn	26.0	115.0	73.7	32.9	22.1	5	20	20	50
Gross reserves of NB, excl. gold, EUR mn <sup>10)</sup>	172.8	259.0	216.6	172.8	164.6	175	.	.	.
Gross external public debt, EUR mn	504.0	462.1	481.7	699.9	912.4	1000	.	.	.
Gross external public debt in % of GDP	23.5	17.2	15.6	23.5	29.4	30.3	.	.	.
Purchasing power parity EUR/EUR <sup>11)</sup>	0.4077	0.4294	0.4596	0.4884	0.4964	0.5093	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2010 according to census April 2011. - 3) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). From 2007 FISIM reallocated to industries. - 4) Excluding small enterprises in private sector and arms industry. - 5) Gross value added. - 6) Until 2007 as of October. - 7) From 2007 wages of employees who actually received wages (previously wage bill divided by all registered employees). - 8) Domestic output prices. - 9) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 10) Data refer to reserve requirements of Central Bank. - 11) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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