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## **Montenegro: New government strives for stability**

At the end of last year, the long-time prime minister stepped down and handed over the government to the vice-prime minister and the minister of finance in the previous government, Igor Lukšić. This has been the characteristic of Montenegrin adjustment to crisis. At the onset, early elections were held in order to garner the needed legitimacy to the government's policy responses to the crisis. Also, the application for membership in the European Union was handed in, which was approved in December 2010, so Montenegro is now a candidate country. Finally, the cabinet reshuffle is intended to further contribute to political stability and also increase the efficiency of the government. This concern with political stability proved appropriate because the effects of the crisis were strong and a number of unpopular measures had to be taken. The banking system went through a crisis and the same is true for industry. The government was able, however, to sustain the inflow of foreign investments and also had some fiscal reserves that it could use to support investments in infrastructure and did not have to resort to a significant decrease in employment. Still, the economy practically stagnated, with GDP growth of only 0.5% last year. This is mainly due to the recovery of industrial production and to the sustained performance of the tourist industry. However, in view of the decline of GDP of almost 6% in 2009, last year's small recovery is certainly not reassuring.

Employment has declined for two years in a row and unemployment has increased, but these effects are not as strong as in a number of other countries in the region. Similarly, real net wages have either not grown or have declined, but the adjustment is not strong due to the fact that Montenegro uses the euro and prices have been practically flat last year. Overall, the social effects of the crisis have been less strong than in other countries.

In the short run, the speed-up of the recovery depends on the performance of the tradable sector. As in other countries, imports have declined or stagnated, while exports of goods have been recovering following a steep decline in 2009. Exports of services have proved resilient and there are indications that those will do well this year and in the future. Foreign investments in tourism and public investments in infrastructure should also prove beneficial to growth and employment. Both foreign and public debts are not all that high and are not

expected to be major constraints on economic policy. In the medium run, growth prospects will depend on the resilience of foreign investments. Montenegro continues to be attractive for investments in tourism and in real estate. As the country is expected to start negotiations for EU membership in the next year or so, that will certainly help. It will also be able to draw on EU funds more than before. The key risk is high dependency on the services sector and very weak industrial or any other production. In addition, regional risks are important and slow recovery of the Balkan economies will continue to drag the Montenegrin economy down. Thus, slow recovery is the most probably scenario in the medium run.

Table ME

## Montenegro: Selected Economic Indicators

	2005	2006	2007	2008	2009	2010 <sup>1)</sup>	2011	2012	2013
							Forecast		
Population, th pers., average	623.3	624.2	626.2	628.8	630.0	631.5	632	633	634
Gross domestic product, EUR mn, nom. <sup>2)</sup>	1815.0	2149.0	2680.5	3085.6	2981.0	3000	3200	3400	3600
annual change in % (real) <sup>2)</sup>	4.2	8.6	10.7	6.9	-5.7	-1	2	3	3
GDP/capita (EUR at exchange rate)	2900	3400	4300	4900	4700	4800	.	.	.
GDP/capita (EUR at PPP - wiiw)	6900	8400	10000	10800	9700	9700	.	.	.
Consumption of households, EUR mn, nom. <sup>2)</sup>	1268.0	1660.9	2369.0	2814.8	2503.7	2500	.	.	.
annual change in % (real) <sup>3)</sup>	2.8	10	8	7	-4	0	2	2	3
Gross fixed capital form., EUR mn, nom. <sup>2)</sup>	326.3	469.8	867.1	1180.2	797.6	800	.	.	.
annual change in % (real) <sup>3)</sup>	12.0	8	10	8	-6	-2	2	2	5
Gross industrial production									
annual change in % (real)	-1.9	1.0	0.1	-2.0	-32.2	17.5	5	5	5
Net agricultural production									
annual change in % (real)	-0.9	1.9	-11.0	10.0	3.0	2	.	.	.
Construction output total <sup>4)</sup>									
annual change in % (real)	18.4	28.0	23.6	20.7	-19.2	-10	.	.	.
Employed persons - LFS, th, average <sup>5)</sup>	178.8	178.4	217.4	218.8	212.9	204	206	208	210
annual change in %	-4.5	-0.3	21.9	0.6	-2.7	-4	1	1	1
Unemployed persons - LFS, th, average <sup>5)</sup>	77.8	74.8	52.1	45.3	50.9	51	.	.	.
Unemployment rate - LFS, in %, average <sup>5)</sup>	30.3	29.6	19.3	17.2	19.3	20	20	20	20
Reg. unemployment rate, in %, end of period <sup>6)</sup>	25.2	20.5	16.5	14.4	15.1	17	.	.	.
Average gross monthly wages, EUR <sup>7)</sup>	326	377	497	609	643	715	.	.	.
annual change in % (real, net)	6.7	12.0	15.0	14.6	7.6	3.0	.	.	.
Consumer prices, % p.a.	2.3	3.0	4.2	7.4	3.4	0.6	3	3	3
Producer prices in industry, % p.a. <sup>8)</sup>	2.1	3.6	8.5	14.0	-3.9	-0.8	.	.	.
General government budget, nat. def., % GDP									
Revenues	39.4	45.4	61.1	49.1	45.5	45	.	.	.
Expenditures	42.0	42.7	52.9	47.5	49.0	50	.	.	.
Deficit(-)/Surplus(+)	-2.6	2.7	8.2	1.7	-3.5	-5	-3	-1	-1
Public debt, nat. def., in % of GDP	38.6	32.6	26.3	26.8	38.0	43	44	42	41
Central bank policy rate, % p.a., end of period <sup>9)</sup>	12.1	9.9	9.1	9.4	9.4	9.5	.	.	.
Current account, EUR mn	-154.0	-531.2	-1060.6	-1564.3	-896.3	-700	-700	-700	-800
Current account in % of GDP	-8.5	-24.7	-39.6	-50.7	-30.1	-23.3	-22	-21	-22
Exports of goods, BOP, EUR mn	460.6	648.3	515.8	467.4	296.3	350	370	390	410
annual growth rate in %	1.9	40.8	-20.4	-9.4	-36.6	18.1	5	5	5
Imports of goods, BOP, EUR mn	974.3	1497.7	2090.0	2549.7	1668.0	1670	1750	1930	2120
annual growth rate in %	12.2	53.7	39.6	22.0	-34.6	0.1	5	10	10
Exports of services, BOP, EUR mn	329.8	418.0	673.0	750.6	680.5	730	800	880	970
annual growth rate in %	32.2	26.8	61.0	11.5	-9.3	7.3	10	10	10
Imports of services, BOP, EUR mn	134.2	220.9	234.0	351.2	295.9	310	330	360	400
annual growth rate in %	32.3	64.6	5.9	50.1	-15.8	4.8	5	10	10
FDI inflow, EUR mn	384.5	492.8	672.7	625.4	951.9	500	1000	1000	800
FDI outflow, EUR mn	3.6	26.1	115.0	73.7	32.9	50	50	50	50
Gross reserves of NB, excl. gold, EUR mn <sup>10)</sup>	61.7	172.8	259.0	216.6	172.8	170	200	200	200
Gross external public debt, EUR mn	513.3	504.0	462.1	481.7	699.9	940	1000	1000	1000
Gross external public debt in % of GDP	28.3	23.5	17.2	15.6	23.5	31.3	30	29	29
Purchasing power parity EUR/EUR <sup>11)</sup>	0.4198	0.4076	0.4293	0.4561	0.4864	0.4893	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (including shadow economy, real growth rates based on previous year prices). - 3) wiiw estimate. - 4) Gross value added. - 5) Until 2007 as of October. - 6) In % of unemployed plus employment (excluding individual farmers). - 7) From 2007 wage data refer to employees who received wages (previously wages were divided by all registered employees in enterprises); comparable value for 2006: 433. - 8) Domestic output prices. - 9) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 10) Refer to reserve requirements of Central Bank. - 11) Benchmark results 2005 from Eurostat and wiiw estimates.

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