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Montenegro: Policy challenges

The decline in output was quite marked: about 6% in 2009. In 2010 the economy did not recover all that much. GDP growth will pick up speed somewhat in 2011, increasing to 2%. It is expected that the EU will set a date for the start of negotiations on accession: possibly December this year. That will be of benefit to the financial markets, as the state is borrowing in commercial markets. It will also mean increased transfers from EU funds.

The output decline was quite strong, about 6%, in 2009. There was not much of a recovery in 2010, but there is going to be some speed-up, up to 2%, of GDP growth in 2011. However, the ride was more turbulent than the growth figures indicate. The banking sector almost collapsed and had to be supported by massive injections of public money; industrial production also experienced a strong decline; and employment fell by about 5% within two years.

The government could rely on money it had saved in good times and also foreign investments did not decline in 2009; in fact, there was a record inflow of foreign direct investments in that year. Even in 2010 the FDI inflow was on a level close to the pre-crisis average. Also, a decision was taken to hold early elections early into the crisis so that political stability was ensured by the re-election of the incumbent government. In addition, at the end of 2010, Prime Minister Djukanovic resigned and the government was reconstructed with a new prime minister, Igor Luksic, and some new ministers. Also, social stability was preserved by the decision to subsidize some of the industrial sectors heavily hit by sharply declining sales. This refers to the aluminium plant in particular as it had to be saved from bankruptcy, which would have led to serious social unrests. Aluminium is a major exporting item and the plant is now contributing significantly to the recovery of exports.

Prospects in the short run are for more recovery, though at a slow pace. Like most other Balkan economies, consumption has to grow rather slowly while investments and net exports should be the driving forces of growth. This turnaround cannot be achieved in the

short run. In addition, for it to be done gradually and sustainably, foreign investments have to continue to flow in. The current account deficit is large and will preferably continue to narrow gradually. If so, in the medium run a return to growth rates which are around the potential ones, i.e. around 5%, could be achieved. That would also ensure fiscal sustainability which is important given that Montenegro uses the euro and has to rely on fiscal policy for adjustments.

It is expected that the EU will set the date for the start of negotiations in December of this year. That will help with the financial markets, as the state is borrowing in commercial markets, and will also mean increased transfers from the EU funds.

Table ME

Montenegro: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 1st quarter	2011	2011 Forecast	2012 Forecast	2013
Population, th pers., average	626.2	628.8	630.0	631.5	.	.	632	633	634
Gross domestic product, EUR mn, nom. ²⁾	2680.5	3085.6	2981.0	3025.0	.	.	3200	3400	3600
annual change in % (real) ²⁾	10.7	6.9	-5.7	0.5	.	.	2	3	3
GDP/capita (EUR at exchange rate)	4300	4900	4700	4800	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	10000	10800	9700	9800	.	.	.	.	.
Consumption of households, EUR mn, nom. ²⁾	2369.0	2814.8	2503.7	2500.0	.	.	.	.	1
annual change in % (real) ³⁾	8	7	-4	0	.	.	2	2	3
Gross fixed capital form., EUR mn, nom. ²⁾	867.1	1180.2	797.6	800.0	.	.	.	.	.
annual change in % (real) ³⁾	10	8	-6	-2	.	.	2	2	5
Gross industrial production									
annual change in % (real)	0.1	-2.0	-32.2	17.5	-13.9	-0.4	3	5	5
Net agricultural production									
annual change in % (real)	-11.0	10.0	3.0	2.0	.	.	.	.	.
Construction output total ⁴⁾									
annual change in % (real)	23.6	20.7	-19.2	-10.0	.	.	0	5	5
Employed persons - LFS, th, average ⁵⁾	217.4	218.8	212.9	208.2	207.8	.	210	212	214
annual change in %	21.9	0.6	-2.7	-2.2	-2.2	.	1	1	1
Unemployed persons - LFS, th, average ⁵⁾	52.1	45.3	50.9	50.9	51.5	.	.	.	.
Unemployment rate - LFS, in %, average ⁵⁾	19.3	17.2	19.3	19.6	19.9	.	20	20	20
Reg. unemployment rate, in %, end of period ⁶⁾	16.5	14.4	15.1	16.9	16.2	17.1	18	18	17
Average gross monthly wages, EUR ⁷⁾	497	609	643	715	695	749	.	.	.
annual change in % (real, net)	15.0	14.6	7.6	3.0	6.5	5.2	.	.	.
Consumer prices, % p.a.	4.2	7.4	3.4	0.5	0.6	2.5	3	3	3
Producer prices in industry, % p.a. ⁸⁾	8.5	14.0	-3.9	-0.9	-5.7	4.3	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	61.1	49.1	45.5	42.0	.	.	.	.	.
Expenditures	52.9	47.5	49.0	45.0	.	.	.	.	.
Deficit(-)/Surplus(+)	8.2	1.7	-3.5	-3.0	.	.	-3	-1	-1
Public debt, nat. def., in % of GDP	27.5	29.0	38.2	42.0	.	.	44	42	41
Central bank policy rate, % p.a., end of period ⁹⁾	9.1	9.4	9.4	9.5	9.5	9.7	9	9	9
Current account, EUR mn	-1077.5	-1583.7	-896.3	-778.3	-243.2	-188.5	-700	-700	-800
Current account in % of GDP	-40.2	-51.3	-30.1	-25.7	.	.	-21.9	-20.6	-22.2
Exports of goods, BOP, EUR mn	483.4	450.4	296.3	356.6	60.3	115.7	390	410	430
annual growth rate in %	-25.4	-6.8	-34.2	20.4	-21.1	91.7	10	5	5
Imports of goods, BOP, EUR mn	2090.6	2552.3	1668.0	1674.0	314.6	352.8	1810	1990	2190
annual growth rate in %	39.6	22.1	-34.6	0.4	-11.5	12.1	8	10	10
Exports of services, BOP, EUR mn	673.0	750.6	680.5	747.0	50.5	60.9	820	900	990
annual growth rate in %	61.0	11.5	-9.3	9.8	-8.5	20.7	10	10	10
Imports of services, BOP, EUR mn	234.0	351.2	295.9	300.6	67.7	58.3	300	320	340
annual growth rate in %	5.9	50.1	-15.8	1.6	5.4	-13.9	0	5	5
FDI inflow, EUR mn	682.7	655.7	1099.4	574.2	135.7	111.8	600	1000	800
FDI outflow, EUR mn	115.0	73.7	32.9	22.1	2.5	2.4	10	50	50
Gross reserves of NB, excl. gold, EUR mn ¹⁰⁾	259.0	216.6	172.8	170.0	165.8	164.0	.	.	.
Gross external public debt, EUR mn	462.1	481.7	699.9	912.4	.	.	.	.	.
Gross external public debt in % of GDP	17.2	15.6	23.5	30.2	.	.	.	.	.
Purchasing power parity EUR/EUR ¹¹⁾	0.4293	0.4562	0.4865	0.4896	.	.	.	.	.

1) Preliminary. - 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). - 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.