



MONTENEGRO: Public and foreign investments driving growth improvement

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Growth in the previous year fell short of expectations: it was probably not more than 1.3%. It can be attributed to slower growth in exports. The government plans to increase investments in infrastructure and will continue to rely on foreign investments in the tourist sector. Over the current year and in the medium term, growth should accelerate up to as much as 3%. Efforts are being made to join NATO and step up the pace of negotiations with the EU.

Growth should accelerate this year to more than 2% and should improve further to close to 3% in the medium term. This should be mainly due to the ambitious plan for public investments and continued growth in the export of services. Public and foreign debts are increasingly constraining, but are manageable.

Last year growth slowed down to about 1.3% with the decline of industrial production, mainly because of the reduction of production of energy. Manufacturing is anyway a small part of the economy. Services have increased, though not as much as expected due to the bad beginning of the summer season. Interestingly enough, and in opposition to most forecasts, Russian tourists and their spending continued to increase in spite the worsening situation in Russia and the political rift between the two countries due to Montenegro's solidarity with the EU sanctions.

The government has drafted a programme of reforms for the period 2015-2017. The centre piece of those is infrastructure projects. The key is the highway to the north, which makes a lot of sense in terms of internal connection within the state and also as connecting this coastal and mountainous country with the Balkan hinterland. Foreign investments, mainly in tourism, continue to be important and high inflows are pencilled in. Last year's FDI was around 10% of GDP and similar or higher numbers are expected in the medium term.

The labour market has improved with more people employed and less unemployed. Nevertheless, the unemployment rate continues to be quite high at close to 19%. Still, Montenegro continues to be a recipient of seasonal labour from the neighbouring countries. There is no doubt that public investment projects will be beneficial to the construction industry, which started to recover last year, but it is not clear how much a boost to domestic as opposed to foreign labour it will have.

A structural characteristic of Montenegro is a high current account deficit fuelled and financed by foreign direct and portfolio investments. Export of goods covers imports by about 20% only and as much as 70% when services are included. So, foreign financing is crucial for sustained consumption and for the financing of the foreign debt. There is some lingering worry about the health of the banking sector, which was almost bankrupted at the beginning of the crisis.

Overall, managing this small country is no small problem. So far, social and public stability have been maintained, even though the past five years have seen growth that is on average close to stagnation. Also, the process of EU integration, though quite slow, contributes to domestic and regional stability. The government hopes to join NATO as soon as possible for the same reason.

Overall, this year should see some improvement and some acceleration of growth can be expected in the medium term. Improved regional prospects should also be helpful. The forecast is not substantially different from the last one expect for the more disappointing GDP growth last year.

Table 1 / Montenegro: Selected Economic Indicators

	2010	2011	2012	2013	2014 ¹⁾	2015	2016	2017
						Forecast		
Population, th pers., mid-year ²⁾	619	621	620	621	623	625	625	625
Gross domestic product, EUR mn, nom.	3,104	3,234	3,149	3,327	3,400	3,500	3,700	3,900
annual change in % (real)	2.5	3.2	-2.5	3.3	1.3	2.3	2.6	2.9
GDP/capita (EUR at exchange rate)	5,000	5,200	5,100	5,400	5,500	.	.	.
GDP/capita (EUR at PPP)	10,200	10,600	10,400	10,700	10,900	.	.	.
Consumption of households, EUR mn, nom.	2,551	2,667	2,632	2,712	2,800	.	.	.
annual change in % (real)	2.0	1.9	-3.2	1.1	1.0	2.0	2.0	2.0
Gross fixed capital form., EUR mn, nom.	655	596	584	639	680	.	.	.
annual change in % (real)	-18.5	-10.3	-3.3	8.8	4.0	5.0	5.0	4.0
Gross industrial production ³⁾								
annual change in % (real)	17.5	-10.3	-7.0	10.7	-11.4	3.0	5.0	5.0
Net agricultural production								
annual change in % (real)	-1.7	9.5	-12.7	5.0	3.0	2.0	3.0	2.0
Construction output ⁴⁾								
annual change in % (real)	-7.4	15.8	-11.9	1.2	5.0	5.0	5.0	5.0
Employed persons, LFS, th, average ⁵⁾	208	195	200	202	210	210	210	210
annual change in %	-2.2	.	2.4	1.0	4.0	2.0	1.0	1.0
Unemployed persons, LFS, th, average ⁵⁾	51	48	49	49	49	.	.	.
Unemployment rate, LFS, in %, average ⁵⁾	19.6	19.7	19.7	19.5	19.0	19.0	19.0	19.0
Reg. unemployment rate, %, average	16.5	15.9	15.3	15.8	16.5	16.0	15.0	15.0
Average monthly gross wages, EUR	715	722	727	726	723	.	.	.
annual change in % (real, gross)	10.6	-2.1	-3.3	-2.7	0.3	1.0	1.0	1.0
Average monthly net wages, EUR	479	484	487	479	477	.	.	.
annual change in % (real, net)	2.9	-2.0	-3.3	-3.8	0.3	1.0	1.0	1.0
Consumer prices, % p.a.	0.5	3.5	4.1	2.2	-0.7	1.0	2.0	2.0
Producer prices in industry, % p.a. ⁶⁾	-0.9	3.2	1.9	1.6	0.1	1.0	2.0	3.0
General government budget, nat.def., % of GDP								
Revenues	42.3	39.7	35.8	37.4	37.0	37.0	38.0	38.0
Expenditures	47.2	43.4	42.4	41.1	39.0	40.0	40.0	40.0
Deficit (-) / surplus (+)	-4.9	-3.7	-6.6	-3.8	-2.0	-3.0	-2.0	-2.0
Public debt, nat.def., % of GDP	40.9	46.0	54.0	56.3	59.0	58.0	58.0	58.0
Central bank policy rate, % p.a., end of period ⁷⁾	8.98	9.06	8.83	8.68	8.50	8.0	8.0	8.0
Current account, EUR mn	-710	-573	-588	-487	-680	-525	-555	-585
Current account, % of GDP	-22.9	-17.7	-18.7	-14.6	-20.0	-15.0	-15.0	-15.0
Exports of goods, BOP, EUR mn	357	477	392	396	370	380	400	420
annual change in %	20.4	33.6	-17.8	1.0	-6.5	5.0	5.0	5.0
Imports of goods, BOP, EUR mn	1,624	1,783	1,781	1,724	1,730	1,790	1,860	1,930
annual change in %	0.4	9.8	-0.1	-3.2	0.3	4.0	4.0	4.0
Exports of services, BOP, EUR mn	801	906	998	994	1,090	1,070	1,120	1,180
annual change in %	9.5	13.1	10.1	-0.3	9.6	5.0	5.0	5.0
Imports of services, BOP, EUR mn	337	317	385	341	400	340	360	380
annual change in %	1.8	-5.9	21.6	-11.5	17.2	3.0	5.0	5.0
FDI inflow (liabilities), EUR mn	574	401	482	337	350	390	430	470
FDI outflow (assets), EUR mn	22	12	21	13	20	20	20	20
Gross reserves of NB, excl. gold, EUR mn ⁸⁾	165	171	187	197	200	210	220	230
Gross external public debt, EUR mn	912	1,064	1,295	1,433	1,530	1,700	1,800	1,900
Gross external public debt, % of GDP	29.4	32.9	41.1	43.1	45.0	45.0	45.0	45.0
Purchasing power parity EUR/EUR	0.4927	0.4904	0.4893	0.4993	0.5007	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census April 2011. - 3) Excluding small enterprises in private sector and arms industry. From 2011 NACE Rev. 2. - 4) Gross value added. From 2011 NACE Rev. 2. - 5) From 2011 according to census April 2011. - 6) Domestic output prices. - 7) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 8) Data refer to reserve requirements of Central Bank.

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