



MONTENEGRO: Slowly improving picture

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Last year ended with a rebound from the year before: GDP grew 2.5% mostly because of increased investments, both public and private, and improving net exports due to a continued contribution from tourism and declining imports of goods and services. Consumption stagnated and there are few signs that it will be recovering more than modestly in the medium term. As in most other countries in the Balkan region, but also elsewhere in the transition world, real growth of GDP is not expected to accelerate beyond 3%. Whether that is the new long-term growth rate is an open question.

The Montenegrin economy is slowly restructuring with the remaining heavy industry, i.e. the aluminium plant, being phased out and some small and medium-size enterprises starting to spring up. Those depend on the improvement of skills and on the development of regional industrial networks. The latter are still in an infant phase, but are in all probability the preferred way that new services-cum-industry activities can develop. This is a very small economy and is not really demand constrained, except in its main industry, which is tourism. Assuming recovery in Europe and Russia, there is plenty of room for tourism to flourish given the resources that can still be developed. In other words, there are plenty of investment opportunities once recovery in Europe and the region gets entrenched. Assuming that this is the case, construction, which has been in the doldrums throughout the crisis, should improve in the coming years.

The country has weathered political and social instability rather well, though some structural challenges remain. Although there have been regular elections, there has been no change in the government of any significance. The country has been run as if it had a presidential political system with a dominant or hegemonistic party. This development has in part been due to the inadequate policies of the opposition, which has taken time to accept the reality of Montenegro being an independent state, and has relied on ethnic, Serb vs. Montenegrin, differences, but that may be coming to an end. So, the major test of democratisation will come when there is a change in government, which does not seem to be a realistic prospect in the near future.

Social protests have also calmed down in part because those have not led to political changes in the last elections. In a country that uses a democratic procedure of decision-making, i.e. elections, social protests will either lead to a change in government or will have to transform into a social dialogue of one kind or another. The Montenegrin government has used early and regular elections quite efficiently to channel social dissatisfaction, though it has not developed institutions of social dialogue and partnership.

The process of negotiations with the EU is progressing slowly as is that of accession to NATO. The latter will obviously happen before the completion of the former. Like other post-socialist countries, an anchor to stability, both domestic and regional, is needed and this is what the EU and NATO are providing even as a destination rather than reality. The Montenegrin public has not been among the Europe-enthusiastic ones, but it does seem to understand the EU's role as provider of security and stability.

The medium-term prospect is for slow recovery mainly based on investments and on net exports. The banking sector has stabilised, after near bankruptcy at the beginning of the crisis. The economy will take time to restructure in order to improve the services sector and to build up a small and medium-size industrial sector. That also means that the labour market will remain depressed and that social and political challenges will have to be constantly faced.

Table 1 / Montenegro: Selected Economic Indicators

	2009	2010	2011	2012	2013 ¹⁾	2014	2015	2016	
							Forecast		
Population, th pers., mid-year ²⁾	618.3	619.4	620.6	620.0	622.0	623	625	625	
Gross domestic product, EUR mn, nom.	2981.0	3103.9	3234.1	3148.9	3200.0	3400	3600	3800	
annual change in % (real)	-5.7	2.5	3.2	-2.5	2.5	2.1	2.9	3.0	
GDP/capita (EUR at exchange rate)	4800	5000	5200	5100	5100	.	.	.	
GDP/capita (EUR at PPP)	9900	10200	10600	10400	10800	.	.	.	
Consumption of households, EUR mn, nom.	2503.7	2550.7	2667.4	2632.0	2700.0	.	.	.	
annual change in % (real)	-12.9	2.0	1.9	-3.2	0.0	1.0	2.0	2.0	
Gross fixed capital form., EUR mn, nom.	797.6	655.1	596.5	583.8	600.0	.	.	.	
annual change in % (real)	-30.1	-18.5	-10.3	-3.3	3.0	4.0	5.0	5.0	
Gross industrial production ³⁾									
annual change in % (real)	-32.2	17.5	-10.3	-7.1	10.6	5.0	5.0	5.0	
Net agricultural production									
annual change in % (real)	2.6	-1.7	9.5	-12.7	5.0	.	.	.	
Construction output ⁴⁾									
annual change in % (real)	-19.2	-7.4	15.8	-11.9	5.0	5.0	5.0	5.0	
Employed persons, LFS, th, average ⁵⁾	212.9	208.2	195.4	200.0	210.0	215	220	220	
annual change in % ⁵⁾	-2.7	-2.2	.	2.4	5.0	2.5	1.0	1.0	
Unemployed persons, LFS, th, average	50.9	50.9	47.9	49.0	52.4	.	.	.	
Unemployment rate, LFS, in %, average	19.3	19.6	19.7	19.7	20.0	19.0	19.0	19.0	
Reg. unemployment rate, %, average	14.0	16.5	15.9	15.3	15.8	15.0	15.0	15.0	
Average monthly gross wages, EUR	643	715	722	727	726	.	.	.	
annual change in % (real, gross)	2.1	10.6	-2.1	-3.3	-0.1	.	.	.	
Average monthly net wages, EUR	463	479	484	487	479	.	.	.	
annual change in % (real, net)	7.6	2.9	-2.0	-3.3	-3.8	.	.	.	
Consumer prices, % p.a.	3.4	0.5	3.1	4.1	2.2	3.0	3.0	3.0	
Producer prices in industry, % p.a. ⁶⁾	-3.9	-0.9	3.2	1.9	1.6	.	.	.	
General governm.budget, nat.def., % of GDP									
Revenues	45.8	40.9	39.7	41.2	41.0	41.0	41.0	41.0	
Expenditures	49.4	43.9	45.2	45.4	45.0	44.0	43.0	43.0	
Deficit (-) / surplus (+)	-3.6	-3.0	-5.4	-4.2	-4.0	-3.0	-2.0	-2.0	
Public debt, nat.def., % of GDP	38.2	40.9	46.0	54.0	58.5	59.0	58.0	58.0	
Central bank policy rate, % p.a., end of period ⁷⁾	8.85	8.98	9.06	8.83	9.00	8	8	8	
Current account, EUR mn	-830.3	-710.2	-573.4	-587.6	-480.0	-525	-555	-570	
Current account, % of GDP	-27.9	-22.9	-17.7	-18.7	-15.0	-15.4	-15.4	-15.0	
Exports of goods, BOP, EUR mn	296.3	356.6	476.5	391.9	410.0	430	460	490	
annual change in %	-34.2	20.4	33.6	-17.8	4.6	6.0	6.0	6.0	
Imports of goods, BOP, EUR mn	1617.9	1623.8	1782.8	1781.1	1730.0	1760	1830	1900	
annual change in %	-34.6	0.4	9.8	-0.1	-2.9	2.0	4.0	4.0	
Exports of services, BOP, EUR mn	731.5	801.0	906.1	997.6	1100.0	1210	1330	1460	
annual change in %	-5.7	9.5	13.1	10.1	10.3	10.0	10.0	10.0	
Imports of services, BOP, EUR mn	331.0	336.8	316.8	385.3	425.0	450	470	490	
annual change in %	-18.3	1.8	-5.9	21.6	10.3	5.0	5.0	5.0	
FDI inflow, EUR mn	1099.4	574.2	401.4	482.4	400.0	700	800	800	
FDI outflow, EUR mn	32.9	22.1	12.3	20.8	0.0	20	20	20	
Gross reserves of NB, excl. gold, EUR mn ⁸⁾	172.8	164.6	170.8	187.1	195.0	.	.	.	
Gross external public debt, EUR mn	699.9	912.4	1063.7	1295.0	1433.0	.	.	.	
Gross external public debt, % of GDP	23.5	29.4	32.9	41.1	44.8	.	.	.	
Purchasing power parity EUR/EUR	0.4885	0.4927	0.4904	0.4893	0.4772	.	.	.	

1) Preliminary and wiiw estimates. - 2) According to census April 2011. - 3) Excluding small enterprises in private sector and arms industry. - 4) Gross value added (until 2010 NACE Rev. 1; NACE Rev. 2 thereafter). - 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.