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Montenegro: small miracle

Since the declaration of independence in May of 2006, Montenegro has experienced a strong economic upturn. The resolution of the uncertainty about its sovereignty has proved beneficial to foreign investments. In addition, the country proved capable of adopting a new constitution and of negotiating and signing a Stabilization and Association Agreement with the EU. Both the early parliamentary and regular presidential elections confirmed the strength of the pro-independence parties and politicians. Thus, this was one example of a stabilizing secession in the Balkans.

GDP growth has been remarkable in the last couple of years and should continue to be fast in the medium run. It has mainly been supported by investments in the tourist sector and in real estate in general. That has fuelled consumption as well, which also accounts for the sharp increase in the trade and current account deficits. Montenegro uses the euro and cannot influence the supply of money. As most of the inflow of investments has translated into growing imports, inflation has not speeded up as much as in other countries in the region. It can also be expected to slow down in the medium term.

Given the sharp speed-up in growth, the fiscal performance has been remarkable. Montenegro does not have a history of fiscal prudence, quite to the contrary. However, last year it ran a fiscal surplus and the same is expected in the medium term. Thus, fiscal policy has not been pro-cyclical, which is mostly due to political stability.

It is also supported by the considerable improvement in the labour market. Though there are some significant problems with the statistics, there is no doubt that employment has been growing quite fast and unemployment has been declining with similar speed. Indeed, Montenegro has been seen large inward migration from the neighbouring countries, primarily from Bosnia and Herzegovina.

Medium-term prospects are favourable. The main risk is connected with the slowdown of investments, which could lead to the adjustment of real estate prices and could require slower growth or decline in consumption. However, tourism and the services sector in general should continue to grow in the medium run because it has only recently started to grow. There are also significant investments in infrastructure, so risks of adverse adjustments in the medium run are low even though external imbalances are exceptionally large. Finally, EU integration prospects are quite good because of the internal consensus and due to the lack of open or difficult issue with the neighbours.

Table ME

Montenegro: Selected Economic Indicators

	2004	2005	2006	2007 ¹⁾	2007 1st quarter	2008 Forecast	2008	2009	2010
Population th pers., mid-year ²⁾	622.1	623.3	624.2	625	.	.	.	.	.
Gross domestic product, EUR mn, nom. ³⁾	1669.8	1815.0	2149.0	2422.8	.	586.6	2700	2900	3200
annual change in % (real)	4.4	4.2	8.6	8.2	.	8.1	6	6	6
GDP/capita (EUR at exchange rate)	2684	2912	3443	3876	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	6330	6730	8140	9040	.	.	.	.	.
Gross industrial production									
annual change in % (real)	13.8	-1.9	1.0	0.1	-5.3	11.1	5	5	5
Net agricultural production									
annual change in % (real)	3.8	-0.9	1.9	.	.	.	.	.	.
Construction industry									
annual change in % (real)	.	.	.	.	.	.	.	.	.
Consumption of households, EUR mn, nom.	1221.1	1268.0	1660.9	.	.	.	.	.	.
real growth rate, % ⁴⁾	16	2.8	10	8	.	.	6	7	8
Gross fixed capital form., EUR mn, nom.	286.1	326.3	469.8	.	.	.	.	.	.
real growth rate, % ⁴⁾	36.7	12	8	10	.	.	8	8	8
LFS - employed persons, th, Oct	187.3	178.8	178.4	217.4	.	.	.	.	.
annual change in %	.	-4.5	-0.3	21.9	.	.	.	.	.
LFS - employed persons in industry, th, Oct.	30.9	29.2	26.5	30.0	.	.	.	.	.
annual change in %	.	-5.5	-9.3	13.4	.	.	.	.	.
LFS - unemployed, th pers., Oct.	71.8	77.8	74.8	52.1	.	.	.	.	.
LFS - unemployment rate in %, Oct.	27.7	30.3	29.6	19.0	.	.	18	18	19
Reg. unemployment rate in %, end of period ⁵⁾	29.3	25.2	20.5	16.5	24.4	16.1	17	.	.
Average gross monthly wages, EUR ⁶⁾	303	326	377	497	464	576	.	.	.
annual change in % (real, net)	9.1	6.7	12.0	15.0	13.0	15.6	.	.	.
Consumer prices, % p.a.	2.4	2.3	3.0	4.2	2.5	8.0	5	3	3
Producer prices in industry, % p.a.	5.8	2.1	3.6	8.5	3.0	12.0	3	.	.
Central governm. budget, nat.def., % GDP ⁷⁾									
Revenues	22.3	23.7	26.4	31.8	.	.	.	.	.
Expenditures	24.3	25.4	24.8	27.2	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-2.0	-1.7	1.6	4.5	.	.	0	0	0
Public debt in % of GDP	.	.	.	.	.	.	.	.	.
Discount rate, % p.a., end of period	.	.	.	.	.	.	.	.	.
Current account, EUR mn ⁸⁾	-119.6	-154.0	-531.2	-1007.6	-216.8	.	-800	-650	-700
Current account in % of GDP	-7.2	-8.5	-24.7	-41.6	.	.	-29.6	-22.4	-21.9
Gross reserves of NB, excl. gold, EUR mn	.	.	.	.	.	.	.	.	.
Gross external public debt, EUR mn	488.6	513.3	504.0	462.1	.	.	.	.	.
Gross external public debt in % of GDP	29.3	28.3	23.5	19.1	.	.	.	.	.
FDI inflow, EUR mn	52.7	392.7	644.3	1007.7	.	.	800	.	.
FDI outflow, EUR mn	2.1	11.5	177.6	482.8	.	.	400	.	.
Exports of goods, BOP, EUR mn ⁹⁾	452.1	460.6	648.3	627.7	136.1	.	690	790	910
annual growth rate in %	.	1.9	40.7	-3.2	22.9	.	10	15	15
Imports of goods, BOP, EUR mn ⁹⁾	868.6	974.3	1497.7	2151.9	377.6	.	2580	3100	3720
annual growth rate in %	.	12.2	53.7	43.7	41.1	.	20	20	20
Exports of services, BOP, EUR mn	249.5	329.8	418.0	674.1	49.3	.	940	1320	1720
annual growth rate in %	30.4	32.2	26.8	61.2	48.0	.	40	40	30
Imports of services, BOP, EUR mn	101.4	134.3	220.9	230	45.2	.	250	280	310
annual growth rate in %	27.2	32.5	64.6	5.9	-5.3	.	10	10	10
Average exchange rate USD/EUR	1.24	1.24	1.26	1.37	.	.	.	.	.
Purchasing power parity USD/EUR ¹⁰⁾	0.36	0.37	0.36	0.36	1.31	1.50	.	.	.
Purchasing power parity EUR/EUR ¹⁰⁾	0.42	0.43	0.42	0.43	.	.	.	.	.

Note: The term 'industry' refers to NACE classification C+D+E.

1) Preliminary. - 2) In 2007 wiiw estimate. - 3) Including non-observed economy. - 4) wiiw estimate. - 5) In % of unemployed plus employment (excluding individual farmers). - 6) In 2007 data refer to employees who received wages (previously wages were divided by all registered employees in enterprises); comparable value for 2006 is 433. - 7) Revenues excluding grants, expenditures excluding net lending. - 8) Including all transactions with Serbia. - 9) From 2004 trade with Serbia and Kosovo based on customs statistics (before on ITRS) . - 10) Benchmark results 2005 from Eurostat and wiiw estimates.

Source: wiiw Database incorporating national statistics; wiiw forecasts.