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Montenegro: stability in crisis

The Montenegrin leadership anticipated the possibility that the crisis may lead to political instability and held early elections before the worst effects transpired. The incumbent government scored a resounding victory and is now facing the crisis with renewed legitimacy. However, while the space of policy manoeuvring does not shrink with political stability, it does not necessarily increase either. Therefore, the government is facing some tough choices.

How tough they turn out to be will depend on how deep the crisis will prove to be. The first problem that the government faced already at the beginning of this year was the need to bail out one major bank, in which the prime minister has a minority equity stake. It was judged that the bankruptcy of that bank would present a systemic risk and EUR 40 million of government credit was used to stabilize the banking sector. That still does not mean that all financial problems have been solved because the banking sector remains shaky.

The next challenge was the fate of the aluminium producer, which accounts for a rather large part of total exports of goods. Due to the fall in commodity prices, the owner, Mr Oleg Deripaska, was not able to meet his obligations towards the employees and the government again had to come to the rescue. The rescue package is reportedly worth EUR 130 million, a very large sum given the fact that Montenegro is quite a small economy. This support should come with an ambitious programme of restructuring, but it does suggest a commitment on the part of the government to this sector. This may prove to be even more costly if the prices on the world market do not recover soon enough and well enough.

When it comes to overall economic activity, GDP is expected to decline by about 3% this year, though some forecasts are bleaker than that. There is no doubt that there is a need to find foreign financing to support consumption and investment, because domestic savings are far from being enough and exports may disappoint this year as well. The main exporting sector is tourism and the outlook for this year's tourist season is uncertain. A decline compared to last year seems inevitable, but if it turns out to be large, as is quite possible, there will be additional problems for the banks and for the public finances.

As in other countries, industrial production is declining strongly as are exports. The current account and trade deficits are shrinking together with the inflow of foreign investment and foreign credits. So, short-term prospects are rather negative, with possibly negative GDP growth even in the next year. Industrial production, as well as exports of goods, will not recover. It will all depend on public

investment and on tourism, which have uncertain prospects in the short run. Some support may come from an IMF programme, but it is not obvious how this is going to be helpful given that Montenegro uses the euro and does not need money for reserves. The government is rather looking for investors in the energy sector and in tourism, but so far there have been few takers. Sovereign creditors may be easier to find with an IMF programme, which may turn out to be the decisive reason to have one later this year.

In the medium run the outlook depends on the recovery of foreign investment and of tourism trade. So far, prospects are not good. Montenegro has taken the step to apply for EU membership and its application is being reviewed in the usual way. It is expected that its candidacy will get a favourable assessment by the European Commission. That should stabilize the expectations of foreign investors and should be helpful.

Table ME

Montenegro: Selected Economic Indicators

	2005	2006	2007	2008 ¹⁾	2008 1st quarter	2009	2009 Forecast	2010 Forecast	2011 Forecast
Population, th pers., average ²⁾	623.3	624.2	626.2	628.0	.	.	.	.	.
Gross domestic product, EUR mn, nom. ³⁾	1815.0	2149.0	2807.9	3340.0	586.6	.	3300	3400	3600
annual change in % (real) ³⁾	4.2	8.6	10.7	8.1	8.1	.	-3	-1	2
GDP/capita (EUR at exchange rate)	2900	3400	4500	5300	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	6900	8300	10300	11100	.	.	.	.	.
Consumption of households, EUR mn, nom.	1268.0	1660.9	2157.6	.	.	.	.	.	.
annual change in % (real) ⁴⁾	3	10	8	7	.	.	-2	0	2
Gross fixed capital form., EUR mn, nom.	326.3	469.8	683.6	.	.	.	.	.	.
annual change in % (real) ⁴⁾	12	8	10	8	.	.	-2	0	3
Gross industrial production									
annual change in % (real)	-1.9	1.0	0.1	-2.0	11.1	-14.1	-5	0	0
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	-0.9	1.9	-11.0	.	.	.	.	.	.
Construction industry	.	.	.	.	.	.	.	.	.
annual change in % (real)	.	.	.	.	.	.	.	.	.
Employed persons - LFS, th, average ⁵⁾	178.8	178.4	217.4	218.8	213.1	.	.	.	.
annual change in %	-4.5	-0.3	21.9	0.7	.	.	.	.	.
Unemployed persons - LFS, th, average ⁵⁾	77.8	74.8	52.1	45.3	46.7	.	.	.	.
Unemployment rate - LFS, in %, average ⁵⁾	30.3	29.6	19.3	17.2	17.98	.	19	20	20
Reg. unemployment rate, in %, end of period ⁶⁾	25.2	20.5	16.5	14.4	16.1	14.6	.	.	.
Average gross monthly wages, EUR ⁷⁾	326	377	497	609	576.0	649.0	.	.	.
annual change in % (real, net)	6.7	12.0	15.0	14.6	15.6	12.6	.	.	.
Consumer prices, % p.a. ⁸⁾	2.3	3.0	4.2	7.4	7.2	5.3	3	3	3
Producer prices in industry, % p.a. ⁹⁾	2.1	3.6	8.5	14.0	12.0	3.6	.	.	.
General government budget, nat. def., % GDP ¹⁰⁾									
Revenues	39.4	45.4	47.7	45.4	.	.	.	.	.
Expenditures	42.0	42.7	41.4	43.8	.	.	.	.	.
Deficit(-)/Surplus(+) in % of GDP	-2.6	2.7	6.4	1.5	.	.	-2	0	0
Public debt in % of GDP	.	.	29.0	.	.	.	.	.	.
Base rate of NB, % p.a., end of period	.	.	.	.	.	.	.	.	.
Current account, EUR mn ¹¹⁾	-154.0	-531.2	-825.1	-975.8	-308.7	.	-330	-340	-360
Current account in % of GDP	-8.5	-24.7	-29.4	-29.2	-52.6	.	-10	-10	-10
Exports of goods, BOP, EUR mn	460.6	648.3	659.7	529.6	110.6	.	480	460	480
annual growth rate in %	1.9	40.7	1.8	-19.7	-28	.	-10	-5	5
Imports of goods, BOP, EUR mn	974.3	1497.7	2001.4	1970.7	431.2	.	1770	1590	1750
annual growth rate in %	12.2	53.7	33.6	-1.5	41.9	.	-10	-10	10
Exports of services, BOP, EUR mn	329.8	418.0	674.1	753.4	64.0	.	750	790	870
annual growth rate in %	32.2	26.8	61.2	11.8	29.9	.	0	5	10
Imports of services, BOP, EUR mn	134.3	220.9	233.9	351.2	69.6	.	320	300	330
annual growth rate in %	32.5	64.6	5.9	50.1	54.0	.	-10	-5	10
FDI inflow, EUR mn	392.7	644.3	1007.7	668.5	.	.	.	.	.
FDI outflow, EUR mn	11.5	177.6	482.8	100.9	.	.	.	.	.
Gross reserves of NB, excl. gold, EUR mn	.	.	.	.	.	.	.	.	.
Gross external public debt, EUR mn	513.3	504.0	462.1	481.7	.	.	.	.	.
Gross external public debt in % of GDP	28.3	23.5	16.5	14.4	.	.	.	.	.
Purchasing power parity EUR/EUR ¹²⁾	0.42	0.41	0.44	0.48	.	.	.	.	.

1) Preliminary. - 2) wiiw estimate in 2008. - 3) Including non-observed economy. - 4) wiiw estimate. - 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) From 2008 according to COICOP classification. - 9) Based on domestic output prices. - 10) Revenues excluding grants, expenditures excluding net lending. - 11) Including all transactions with Serbia. - 12) Benchmark results 2005 from Eurostat and wiiw estimates.

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