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Montenegro: tourism to the rescue

Last year saw an improvement in the export of services, i.e., growth of tourism. Other services also posted healthy growth rates. Some investments in infrastructure have been finished, e.g. the tunnel leading from the capital Podgorica to the coast, so that a further expansion of tourism is to be expected. Contrary to that, industrial production continued to struggle, ending the year with a negative growth rate. There is scant evidence that recovery is to be expected in the short run.

Foreign investments grew beyond every expectation. Most of the investments are in tourism, but additional investments went to other services and to the aluminium plant. Though similar levels of foreign investment cannot be expected in the next few years, a steady stream of foreign money going to the development of tourism is likely. Also, the government can be expected to continue to invest in the upgrading of infrastructure to connect the hinterland with the coast, but also to upgrade the ailing railway that is vital to the development of the main port city of Bar.

In previous years it was the general budget that presented the main source of possible instability in the macroeconomic balances. Because of stricter control on spending through the well-functioning treasury system and because of improved revenues due to the growing economy, the fiscal deficit has shrunk to a rather low level. Further improvements are likely if the GDP continues to expand as is realistic to forecast.

Montenegro uses the euro as its official currency and has been able to maintain stability of prices. In addition, the banking system has been mostly privatized and is much sounder than it has traditionally been. As in other countries in the region, the restructured banking system has started to expand credit, thus contributing to the growth of consumption. This can be expected to continue because the debt levels of the enterprise and the household sectors are rather low. The government may choose to pay back some of its debts, which are also accumulated in the banking system, and thus contribute to a further recovery of the banks as well as the economy as a whole.

High unemployment remains the main problem and the failure of industry to recover is not contributing to easing this problem. The government has so far been able to contain the social problems and will continue to do so especially in view of the political events which are scheduled for this year. In April, the referendum on independence should be held. The decision will have a major political significance. Current predictions are that there will be a small majority for independence. After that, local elections should be held and even early general elections are possible. There is no doubt that, by the end of this year, Montenegro will look rather different politically from what it looks now.

Table Montenegro

Montenegro: Selected Economic Indicators

	2000	2001	2002	2003	2004	2005 ¹⁾	2006	2007 forecast
Population th pers., mid-year ²⁾	608.9	612.9	615.9	620.1	625	630	.	.
Gross domestic product, EUR mn, nom. ³⁾	1022.2	1244.8	1301.5	1433.0	1535.0	1640	1770	1900
annual change in % (real)	.	-0.2	1.7	2.3	3.7	4	5	5
GDP/capita (EUR at exchange rate)	1679	2031	2113	2311	2456	2600	.	.
GDP/capita (EUR at PPP - wiiw)	4800	4840	5030	5140	5460	5790	.	.
Gross industrial production ⁴⁾								
annual change in % (real)	4.2	-1.0	1.0	2.0	13.8	1.0	3	3
Net agricultural production								
annual change in % (real)	-5.0	6.9	5.9	1.0	.	.	.	.
Construction output total								
annual change in %	.	.	.	.	.	.	.	.
Gross fixed investment, EUR mn, nom. ⁵⁾	.	226	183	166	.	.	.	.
annual change in % (real)	.	.	.	.	.	.	.	.
LFS - employed persons, th, Oct ⁶⁾	230.3	214.4	220.6	.	187.3	185	.	.
annual change in %	.	-6.9	2.9	.	.	-1.2	.	.
Reg. employees in industry, th pers., avg.	.	36.7	35.8	34.1	.	.	.	.
annual change in %	.	.	-2.3	-5.0	.	.	.	.
LFS - unemployed, th pers., average ⁶⁾	54.9	57.5	57.7	.	71.8	.	.	.
LFS - unemployment rate in %, average ⁶⁾	19.3	23.7	20.7	.	27.7	28	28	28
Reg. unemployment rate in %,end of period ⁷⁾	.	.	.	32.9	29.3	26.3 ^{viii}	.	.
Average gross monthly wages, EUR ⁸⁾	151	176	251	271	303	326	.	.
annual change in % (real, net)	1.0	8.0	.	9.3	9.1	6.7	.	.
Consumer prices, % p.a.	20.2	21.8	16.0	6.7	2.4	2.5	3	3
Producer prices in industry, % p.a.	.	.	14.5	4.5	5.8	2.0	3	3
Central governm. budget, nat.def., % GDP ⁹⁾								
Revenues	.	17.8	17.7	23.6	.	.	.	.
Expenditures	.	20.8	20.5	26.6	.	.	.	.
Deficit (-) / surplus (+), % GDP	-6.0	-3.1	-2.8	-3.0	-2.1	.	.	.
Public debt in % of GDP	.	.	.	.	.	.	.	.
Discount rate, % p.a., end of period	.	.	.	.	.	.	.	.
Current account, EUR mn	.	-195.4	-163.4	-102.0	-143.0	-150	-160	-150
Current account in % of GDP	.	-15.7	-12.6	-7.1	-9.3	-9.1	-9.0	-7.9
Gross reserves of NB, excl. gold, EUR mn	.	.	.	.	.	.	.	.
Gross external public debt, EUR mn	.	.	.	438.8	502.4	.	.	.
FDI net, EUR mn	.	10.6	89.2	38.7	50.0	250	.	.
Exports of goods, BOP, EUR mn	.	235.4	322.6	270.6	381.6	330	350	400
annual growth rate in %	.	.	37.1	-16.1	41.0	-14	6	14
Imports of goods, BOP, EUR mn	.	722.9	747.3	629.9	812.5	900	950	1000
annual growth rate in %	.	.	3.4	-15.7	29.0	11	6	5
Exports of services, BOP, EUR mn	.	150.2	171.7	191.4	241.1	300	.	.
annual growth rate in %	.	.	14.3	11.5	26.0	24	.	.
Imports of services, BOP, EUR mn	.	53.4	71.7	79.7	101.2	120	.	.
annual growth rate in %	.	.	34.3	11.1	27.1	19	.	.
Average exchange rate EUR/USD	0.92	0.90	0.94	1.13	1.24	1.24	.	.
Purchasing power parity EUR/USD, wiiw ¹⁰⁾	0.31	0.37	0.36	0.38	0.38	0.37	.	.
Purchasing power parity EUR/EUR, wiiw ¹⁰⁾	0.35	0.42	0.42	0.45	0.45	0.45	.	.

Notes: 1) Preliminary. - 2) From 2003 according to census November 2003. 2004, 2005: wiiw estimate. - 3) Including non-observed economy. - 4) Excluding small private enterprises and arms industry. - 5) 2003 excluding private sector. - 6) From 2004 according to census 2003 and revisions based on ILO and Eurostat methodology. - 7) In % of unemployed plus employment (excluding individual farmers), wiiw. - 8) From 2002 including various allowances and new personal income tax system. - 9) Revenues excluding grants, expenditures excluding net lendig. - 10) Estimate based on a 45% price level (EU-25=100) in 2003 and extrapolation with GDP deflator.

Source: wiiw Database incorporating national statistics; wiiw forecasts.