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## Montenegro: Waiting for investors

***In the short term Montenegro's economy should get out of recession and in the medium term recovery should speed up, but still at a relatively slow pace. It will take a much more pronounced return of foreign investors to get the economy back to growth rates experienced before the crisis.***

Probably the main success throughout the crisis has been the preservation of financial and social stability. In addition, the intermediate years of recovery, before the second dip into recession of last year, were characterised by somewhat stronger recovery than in most countries in the neighbourhood or in the EU in general. Last year's recession was rather shallow, but so will probably be the next couple of years of recovery. Still, given the macroeconomic imbalances, especially on the external account, and the banking crisis early on in the crisis, the outcome so far has been not as bad as one might have expected.

One more important effect of the crisis has been additional strong deindustrialisation. The already low level of industrial output has been reduced by about one third with no indication that this trend is going to be reversed in the future. As the level was already quite low, this further deindustrialisation did not have dramatic consequences, except in the public which is uncertain that reliance only on services is sustainable in the long run. Still, with the main industrial enterprises, the aluminium plant and the steel mill, left all but inoperative, there is hardly any industry now except for food processing and some suppliers of spare parts.

Tourism has so far performed as well as could have been expected in these current economic circumstances. Most of the foreign investments that are still coming in are targeting the coastal area and this has certainly been instrumental to economic stability. In general, the Montenegrin economy depends on this interest of investors not drying out. The current situation is nowhere near what it was before the crisis. In a way, the main policy task is to manage to preserve stability until a new way of investors starts to come.

Though political stability has been maintained, the latest parliamentary and subsequent presidential elections have proved challenging for the ruling party and their leaders. They

have run the country since the late 1980s and their time seems to be running out. The opposition has started to put more stress on democratic rather than ethnic issues and that has turned out to be a much more credible opposition stance to take. It is hard to see that the political change will be blocked in the next general elections.

This process of democratisation has been supported by social dissatisfaction which has seen a significant increase in the activity of non-governmental organisations. They have proved to be vocal critics of the government and seem determined to continue with their opposition in cooperation with some of the opposition parties.

Democratisation is needed also to strengthen and sustain the process of EU integration. Montenegro is negotiating for membership and is set to become the 29th Member State. This will be made easier and perhaps even speed up the process if far-reaching changes in the rule of law and democratic accountability are made.

In the short run the economy should get out of recession and in the medium run recovery should speed up, but still at relatively slow speed. It will take a much more pronounced return of foreign investors to get the economy back to growth rates experienced before the crisis.

Table ME

## Montenegro: Selected Economic Indicators

	2009	2010	2011	2012 <sup>1)</sup>	2012 1st quarter	2013	2013	2014	2015
							Forecast		
Population, th pers., mid-year <sup>2)</sup>	631.5	618.8	620.0	621.0	.	.	622	623	625
Gross domestic product, EUR mn, nom. <sup>3)</sup>	2981.0	3103.9	3234.1	3276.3	.	.	3400	3600	3800
annual change in % (real) <sup>3)</sup>	-5.7	2.5	3.2	-0.5	.	.	1.3	2.0	3.0
GDP/capita (EUR at exchange rate)	4700	5000	5200	5300	.	.	.	.	.
GDP/capita (EUR at PPP)	9700	10200	10500	10500	.	.	.	.	.
Consumption of households, EUR mn, nom. <sup>3)</sup>	2503.7	2550.7	2728.5	2900.0	.	.	.	.	.
annual change in % (real) <sup>3)</sup>	-12.9	2.0	4.2	1.0	.	.	1.0	1.0	2.0
Gross fixed capital form., EUR mn, nom. <sup>3)</sup>	797.6	655.1	596.5	600.0	.	.	.	.	.
annual change in % (real) <sup>3)</sup>	-30.1	-18.5	-10.3	2.1	.	.	3.0	5.0	5.0
Gross industrial production <sup>4)</sup>									
annual change in % (real)	-32.2	17.5	-10.3	-7.1	-14.7	6.3	5.0	5.0	5.0
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	2.6	-1.7	9.5	0.0	.	.	.	.	.
Construction output <sup>5)</sup>	.	.	.	.	.	.	.	.	.
annual change in % (real) <sup>3)</sup>	-19.2	-7.4	15.8	0.0	.	5.7	5.0	5.0	5.0
Employed persons, LFS, th, average <sup>6)</sup>	212.9	208.2	195.4	200.0	.	.	210	215	220
annual change in % <sup>6)</sup>	-2.7	-2.2	.	2.4	.	.	4.0	2.5	1.0
Unemployed persons, LFS, th, average	50.9	50.9	47.9	49.0	.	.	.	.	.
Unemployment rate, LFS, in %, average	19.3	19.6	19.7	19.7	.	.	20.0	19.0	19.0
Unemployment rate, reg., %, average	14.0	16.5	15.9	15.3	16.3	16.4	16.0	16.0	15.0
Average gross monthly wages, EUR	643	715	722	727	741	730	.	.	.
annual change in % (real, net)	7.6	3.0	-2.0	-3.1	-4.6	-4.9	.	.	.
Consumer prices, % p.a.	3.4	0.5	3.1	4.1	3.6	3.7	3.0	3.0	3.0
Producer prices in industry, % p.a. <sup>7)</sup>	-3.9	-0.9	3.2	1.9	-1.0	4.2	.	.	.
General governm. budget, nat. def., % of GDP									
Revenues	45.8	40.9	39.7	39.6	.	.	.	.	.
Expenditures	49.4	43.9	45.2	43.7	.	.	.	.	.
Deficit (-) / surplus (+)	-3.6	-3.0	-1.3	-0.4	.	.	-1.0	-1.0	-1.0
Public debt, nat. def., % of GDP	38.2	40.9	45.9	51.9	.	.	52.0	53.0	53.0
Central bank policy rate, % p.a., end of period <sup>8)</sup>	8.85	8.98	9.06	8.83	9.0	8.8	9.0	8.0	8.0
Current account, EUR mn	-830.3	-710.2	-573.4	-587.2	-236.6	-192.2	-510	-540	-570
Current account, % of GDP	-27.9	-22.9	-17.7	-17.9	.	.	-15.0	-15.0	-15.0
Exports of goods, BOP, EUR mn	296.3	356.6	476.5	391.9	89.3	90	420	450	490
annual change in %	-34.2	20.4	33.6	-17.8	-22.8	5.2	6.0	8.0	8.0
Imports of goods, BOP, EUR mn	1617.9	1623.8	1782.8	1780.7	388.1	350	1780	1830	1920
annual change in %	-34.6	0.4	9.8	-0.1	12.4	-9.0	0.0	3.0	5.0
Exports of services, BOP, EUR mn	731.5	801.0	906.1	997.6	83.2	.	1100	1270	1460
annual change in %	-5.7	9.5	13.1	10.1	34.4	.	10.0	15.0	15.0
Imports of services, BOP, EUR mn	331.0	336.8	316.8	385.3	74.3	.	390	410	430
annual change in %	-18.3	1.8	-5.9	21.6	12.9	.	0.0	5.0	5.0
FDI inflow, EUR mn	1099.4	574.2	401.4	474.4	85.6	.	400	700	800
FDI outflow, EUR mn	32.9	22.1	12.3	20.8	18.6	.	0	20	20
Gross reserves of NB, excl. gold, EUR mn <sup>9)</sup>	172.8	164.6	170.8	190.0	169.6	.	.	.	.
Gross external public debt, EUR mn	699.9	912.4	1063.7	1295.0	.	.	.	.	.
Gross external public debt, % of GDP	23.5	29.4	32.9	39.5	.	.	.	.	.
Purchasing power parity EUR/EUR	0.4877	0.4917	0.4957	0.5027	.	.	.	.	.

1) Preliminary. - 2) From 2010 according to census April 2011. - 3) According to ESA95 (FISIM reallocated to industries, including non-observed economy, real growth rates based on previous year prices). - 4) Excluding small enterprises in private sector and arms industry. - 5) Gross value added (until 2010 NACE Rev. 1, NACE Rev. 2 thereafter). - 6) From 2011 based on census April 2011. - 7) Domestic output prices. - 8) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 9) Data refer to reserve requirements of Central Bank.

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