

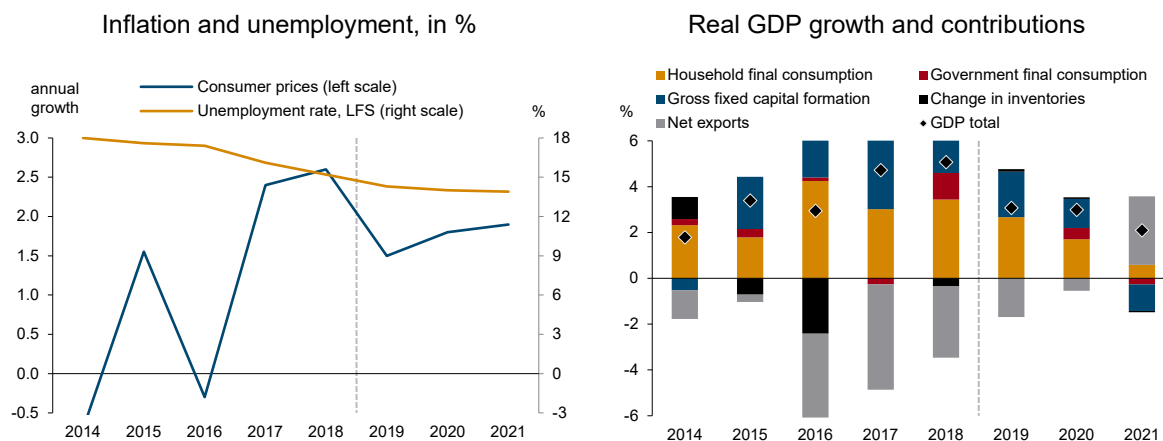


## MONTENEGRO: Fiscal consolidation puts a brake on growth

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Growth will slow to around 3% in the short run but may accelerate somewhat beyond that, depending primarily on the resumption of ambitious government investments. Politically, the opposition is yet to find a way to challenge the governing coalition, though the democratic deficit is taking its toll on internal and external credibility. Montenegro is a front-runner in EU integration, though the prospects of accession are not rosy as the EU does not appear to be interested in enlargement any time soon.

Figure 5.14 / Montenegro: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**The economy grew by 4.9% last year but momentum has slowed significantly this year on the back of fiscal consolidation and weaker investment activity.** Real GDP growth was 3% year on year in Q1 but firmed slightly to 3.2% in the second quarter of the year. A growth rate of around 3% looks likely for 2019 as a whole.

**Montenegro is a services based economy with significant dependence on tourism and related activities.** However, the country has large regional disparities which are an economic as well as a political problem. The government has embarked on an ambitious series of investments. These investments are intended both to connect the south and the north of the country, to improve the overall tourism offering, and to increase the number of arrivals outside of the peak summer season. In recent years, these investments have contributed to the speeding up of economic growth.

**In the last couple of years, the government has been under pressure to start worrying about its public, and especially foreign, debt.** Montenegro uses the euro as its official currency, so all its debts, public as well as private, are in some sense foreign. Public debt has indeed grown but it is not clear if it faces a sustainability problem as long as the economy grows at 3-4% per year. The level of foreign debt is not precisely known, but according to some estimates it is more than twice the GDP, and probably around two-thirds privately owned. To assess its sustainability, it has to be seen as basically a mortgage as it is mostly tied up in real estate. Clearly, if tourism were to go into crisis, these debts would be problematic as real estate prices might collapse. That might suggest that it would be prudent for the country to diversify outside of tourism, but there are not all that many opportunities. Improved infrastructure would be useful in that case too.

**Given Montenegro's weak industrial base, and with the heavy reliance on foreign finance, we do not expect external imbalances to be corrected any time soon.** They are also not as risky as in other countries which have to export goods rather than services to finance foreign debts. This is because there is still a lot of scope for investments to increase as real estate prices could still rise much further. Demand for the kind of services which tourism in the Adriatic provides can continue to be upgraded for quite some time.

**Democratisation, meaning a change in the party in power, would certainly contribute to both economic growth and political stability.** However, the opposition has a hard time coming up with a viable programme and with a sustainable coalition. That is in part due to the opposition being in two minds about Montenegro's independence from Serbia and about Russian support. As long as the opposition is pushing for reintegration with Serbia, it is bound to be persistently in the minority. The country joined NATO for the most part to strengthen internal stability, which makes the opposition to NATO a disadvantage given that stability is rather high on the voters' agenda, given not just recent history.

**Overall, growth should return to somewhere between 3% and 4% in the medium run.** It would be strongly supported by positive signals from Brussels which, however, are not forthcoming.

**Table 5.14 / Montenegro: Selected economic indicators**

	2015	2016	2017	2018 <sup>1)</sup>	2018 January-June	2019	2019 Forecast	2020 Forecast	2021
Population, th pers., average	622	622	622	622	.	.	625	625	630
Gross domestic product, EUR mn, nom.	3,655	3,954	4,299	4,663	1,934.6	2,014.5	4,900	5,100	5,300
annual change in % (real)	3.4	2.9	4.7	5.1	4.8	3.1	3.1	3.0	2.1
GDP/capita (EUR at PPP)	12,300	13,000	13,700	14,700	.	.	.	.	.
Consumption of households, EUR mn, nom. <sup>2)</sup>	2,893	3,035	3,216	3,425	1,619	1,681	.	.	.
annual change in % (real)	2.2	5.4	3.9	4.6	4.8	4.1	3.6	2.3	0.8
Gross fixed capital form., EUR mn, nom.	736	978	1,157	1,364	667	660.8	.	.	.
annual change in % (real)	11.9	38.4	18.7	14.7	24.6	-1.8	6.7	4.3	-3.9
Gross industrial production <sup>3)</sup>									
annual change in % (real)	7.9	-2.9	-4.2	22.4	31.6	-12.1	-10.0	4.0	4.0
Net agricultural production <sup>4)</sup>									
annual change in % (real)	9.4	-8.5	-3.2	2.0	.	.	.	.	.
Construction output <sup>3)</sup>									
annual change in % (real)	5.8	31.5	51.5	24.9	40.4	12.3	.	.	.
Employed persons, LFS, th, average	222	224	229	237	233	242	246	248	249
annual change in %	2.5	1.1	2.3	3.5	2.2	3.8	3.6	1.0	0.4
Unemployed persons, LFS, th, average	47.2	48.3	43.9	42.5	41.9	42	40.0	40.0	40.0
Unemployment rate, LFS, in %, average	17.6	17.4	16.1	15.2	15.3	14.7	14.3	14.0	13.9
Reg. unemployment rate, %, average	16.5	19.4	21.7	18.7	19.4	16.0	.	.	.
Average monthly gross wages, EUR	725	751	765	766	766	770	780	800	820
annual change in % (real, gross)	-1.1	3.5	-1.1	-2.6	-2.9	0.1	0.2	1.0	0.2
Average monthly net wages, EUR	480	499	510	511	511	513	520	530	540
annual change in % (real, net)	-0.9	4.2	-0.2	-2.3	-2.9	-0.1	0.2	1.0	0.2
Consumer prices, % p.a.	1.6	-0.3	2.4	2.6	3.0	0.5	1.5	1.8	1.9
Producer prices in industry, % p.a. <sup>5)</sup>	0.3	-0.1	0.4	1.7	1.2	2.1	1.5	1.5	1.5
General governm. budget, nat. def., % of GDP									
Revenues	41.8	42.6	41.5	42.3	.	.	43.1	42.8	42.0
Expenditures	50.0	46.2	46.8	45.2	.	.	45.3	42.3	40.6
Deficit (-) / surplus (+)	-8.3	-3.6	-5.3	-2.9	.	.	-2.2	0.5	1.4
General gov. gross debt, nat. def., % of GDP	66.2	64.4	64.2	70.1	.	.	69.0	66.0	62.0
Stock of loans of non-fin. private sector, % p.a.	2.5	5.4	7.7	9.1	8.5	5.6	.	.	.
Non-performing loans (NPL), in %, eop	12.6	10.3	7.3	6.7	7.0	4.8	.	.	.
Central bank policy rate, % p.a., eop <sup>6)</sup>	7.70	6.74	6.16	5.75	5.86	5.61	5.50	5.50	5.50
Current account, EUR mn	-402	-642	-691	-793	-619	-644	-870	-920	-760
Current account, % of GDP	-11.0	-16.2	-16.1	-17.0	-32.0	-32.0	-17.8	-18.0	-14.3
Exports of goods, BOP, EUR mn	330	351	382	436	211	216	440	460	480
annual change in %	-7.6	6.2	9.0	14.0	26.6	2.2	1.0	4.0	4.0
Imports of goods, BOP, EUR mn	1,794	2,008	2,243	2,485	1,173	1,207	2,640	2,760	2,730
annual change in %	3.5	12.0	11.7	10.8	13.0	2.9	6.1	4.7	-1.0
Exports of services, BOP, EUR mn	1,214	1,255	1,382	1,563	475	534	1,700	1,830	1,950
annual change in %	17.8	3.3	10.2	13.1	19.4	12.5	8.8	7.5	6.5
Imports of services, BOP, EUR mn	425	486	531	627	277	323	680	730	740
annual change in %	25.0	14.1	9.3	18.1	17.0	16.7	9.0	7.8	2.0
FDI liabilities, EUR mn	630	205	494	415	177	280	510	.	.
FDI assets, EUR mn	11	-167	10	92	23	52	20	.	.
Gross reserves of NB excl. gold, EUR mn <sup>7)</sup>	624	753	847	1,050	970	837	.	.	.
Gross external public debt, EUR mn	1,956	2,003	2,214	2,760	2,644	2,622	2,890	2,910	2,860
Gross external public debt, % of GDP	53.5	50.6	51.5	59.2	56.7	53.5	59.0	57.0	54.0
Average exchange rate EUR/EUR	1.00	1.00	1.00	1.00	1.0	1.0	1.0	1.0	1.0

1) Preliminary. - 2) Including expenditures of NPISHs. - 3) Enterprises with 5 and more employees. - 4) Based on UN-FAO data, wiiw estimate from 2017. - 5) Domestic output prices. - 6) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 7) Data refer to reserve requirements of the Central Bank.

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