

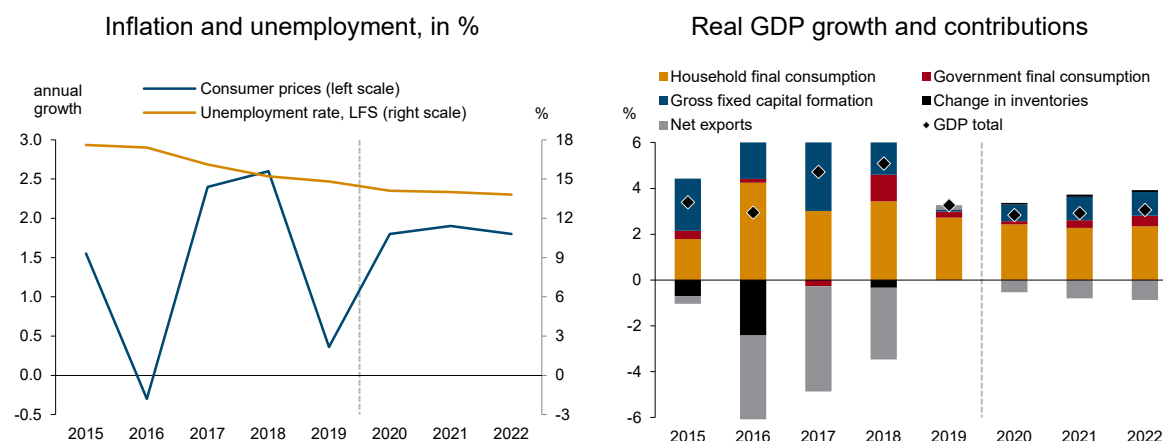


MONTENEGRO: Longing for European integration

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Montenegro's economy continues to benefit from strong tourism, a rise in investments and an increase in industrial production. Economic growth will continue in 2020 at 3.3%, the same as in 2019. A fall in private and public consumption, however, will restrain growth in 2021-2022. Public debt remains the greatest medium-term risk to the economy, especially the huge investment in the Bar–Boljare motorway project. The country is still struggling with domestic problems: deindustrialisation, demographics, an inflated government apparatus and a still rigid labour market.

Figure 6.14 / Montenegro: Main macroeconomic indicators



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

Constantly increasing investments and a rise in tourism will ensure Montenegro's stable growth in 2020; however, the country's growth potential will be dampened over the following two years.

In 2019, Montenegro's real GDP grew by 3.3%, and this will continue in 2020. Nevertheless, weak demographics, reduced investments and a slump in private and public consumption mean that growth will be constrained and is expected to decelerate in 2021 and 2022 to below 3%. The unemployment rate is steadily declining, but will remain high in 2020, at 14.3%. Average income will rise in 2020 and 2021 to a monthly average of EUR 800, but purchasing power remains low and private and household debt stays relatively high.

The completion of several infrastructure projects will have an impact on Montenegro's growth.

The main reason why Montenegro was last year unable to maintain its growth rate for 2018 (which saw real GDP growth of 5.1%) is that several infrastructure projects that benefited Montenegro's growth in 2017 and 2018 had run their course. With the completion of the first section of the Bar–Boljare motorway in 2020, Montenegro will experience a further decline in investment growth, which is why GDP growth

can be expected to slump to 2.9% by 2021. Other key factors that will contribute to this decrease include a tight fiscal policy and higher inflation. Consumption in 2020 will be dampened further by cutbacks in public administration and by the completion of the first section of the Bar–Boljare motorway, leading to a decrease in employment.

Inflation will pick up again in 2020/2021. Lower oil prices meant that inflation slumped dramatically from 2.6% in 2018 to 0.4% in 2019. But an increase in wages and strong tourism will cause inflation to pick up again to 1.4% in 2020. A rise in food and oil prices will further drive inflation to 1.6% in 2021.

The political uncertainty is hindering potential growth. In addition to external factors (such as a decrease in FDI), the risks to Montenegro's growth include increasing political uncertainty ahead of the 2020 parliamentary elections and the vulnerability of the country's banking sector, which in 2020 is still heavily influenced by foreign interests. This precarious situation makes the system very vulnerable to external shocks and disruptions on the global financial markets. The lack of diversification in the Montenegrin economy, which is heavily focused on its tourism sector, also limits the effects resulting from FDI, since modernisation of the former state large-scale industry is being largely neglected.

Reforms aimed at the public sector will increase fiscal discipline. The Montenegrin government's policies of public finance consolidation measures have influenced both the country's economic development and the reforms aimed at improving state administration, especially in the light of Montenegro's efforts to join the EU. Those measures were a response to the increase in Montenegro's public debt share, which rose from about 62% in 2015 to 78% of GDP in 2019, on account of additional investment in national infrastructure projects. Measures to reduce the country's public debt share include cutting wages, making public officials redundant and increasing VAT. The economic reform programme for the period 2018-2020 aims at further fiscal consolidation. However, it is unlikely that the initial aim of the reform programme – which sought to reduce public debt below 60% – will have been achieved by the end of 2020. Nevertheless, it may be expected that the general public finance strategy of the Montenegrin government will ensure a surplus in the period 2020-2022, with a decline in the share of public debt to about 62% of GDP in 2022.

The composition of the current account deficit represents a risk to the Montenegrin balance of payments position. Thanks to an increase in tourism and exports, the current account deficit is expected to narrow to an average of 15% p.a. in the period 2020-2024. However, the composition of the current account deficit and its financing represent a risk to the sustainability of the Montenegrin balance of payments position. This is particularly true for infrastructure projects such as the construction of the Bar–Boljare highway, which was largely financed by loans from the Chinese Exim Bank; Montenegro needs to start paying these back from 2021. The Exim Bank of China remains one of the largest creditors in Montenegro, with outstanding debt totalling EUR 652 million in 2019; the country's foreign debt amounts to almost 80% of GDP. Montenegro, which introduced the euro as its currency in 2002 without actually being part of the euro area, continues to be heavily dependent on foreign investments, exports and income from tourism (as well as remittances from its diaspora) to regulate its capital flows.

Strong tourism and higher capacity in some industries will benefit exports. Montenegro is expected to increase its exports of goods and services in 2020 by 4% – spurred by growing tourism. In addition, higher capacities in the tobacco, aluminium and pharmaceutical industries are likely to boost exports further in the period 2020-2022.

The precarious political situation in Montenegro will remain tense in 2020, ahead of the upcoming parliamentary elections. The political tension has been further heightened by the ruling Democratic Party of Socialists (DPS) arguing that the political opposition is unfit to govern. The DPS, which has dominated the political landscape of Montenegro for three decades, is again expected to emerge victorious in the 2020 parliamentary elections, according to polls carried out in 2019. The risk of anti-government protests remains high in 2020: towards the end of 2019, the government adopted a new law on religion, which may strip the Serbian Orthodox Church of hundreds of religious sites in the country. This new law will also create further disputes both with neighbouring Serbia and among Montenegrin parties in 2020.

Corruption and a lack of press freedom remain stumbling blocks to proper EU accession in 2025. Nevertheless, Montenegro is clearly oriented towards integration within the European Union. The disagreement within the European Union about opening accession talks with Albania and North Macedonia (caused by a French veto in 2019), is contributing to internal debate within Montenegro over the country's foreign policy, which has pursued the case for rapid EU accession ever since 2012. This lack of certainty has helped external actors to expand their spheres of influence – most notably Russia (which generally runs an 'anti-EU campaign' in the Western Balkans) and China. Montenegro's accession to NATO in 2017, which signalled a clear anti-Russian commitment by the country's government, is continuing to contribute towards internal division within Montenegrin society on account of the country's large ethnic Serbian community and a potent pro-Russian political opposition.

Table 6.14 / Montenegro: Selected economic indicators

| | 2015 | 2016 | 2017 | 2018 | 2019 ¹⁾ | 2020 | 2021 | 2022 | |
|---|--------|--------|--------|--------|--------------------|-------|----------|-------|--|
| | | | | | | | Forecast | | |
| Population, th pers., average | 622 | 622 | 622 | 622 | 625 | 625 | 630 | 630 | |
| Gross domestic product, EUR mn, nom. | 3,655 | 3,954 | 4,299 | 4,663 | 4,800 | 5,000 | 5,200 | 5,400 | |
| annual change in % (real) | 3.4 | 2.9 | 4.7 | 5.1 | 3.3 | 3.0 | 2.9 | 2.8 | |
| GDP/capita (EUR at PPP) | 12,300 | 13,000 | 13,700 | 14,800 | 15,400 | . | . | . | |
| Consumption of households, EUR mn, nom. ²⁾ | 2,893 | 3,035 | 3,216 | 3,425 | 3,600 | . | . | . | |
| annual change in % (real) | 2.2 | 5.4 | 3.9 | 4.6 | 3.7 | 3.2 | 3.0 | 3.0 | |
| Gross fixed capital form., EUR mn, nom. | 736 | 978 | 1,157 | 1,364 | 1,400 | . | . | . | |
| annual change in % (real) | 11.9 | 38.4 | 18.7 | 14.7 | 0.2 | 2.5 | 3.5 | 3.5 | |
| Gross industrial production ³⁾ | | | | | | | | | |
| annual change in % (real) | 7.9 | -2.9 | -4.2 | 22.4 | -6.3 | 2.5 | 3.2 | 3.4 | |
| Net agricultural production ⁴⁾ | | | | | | | | | |
| annual change in % (real) | 9.4 | -8.5 | -3.2 | 2.0 | 2.0 | . | . | . | |
| Construction output ³⁾ | | | | | | | | | |
| annual change in % (real) | 5.8 | 31.5 | 51.5 | 24.9 | 18.5 | . | . | . | |
| Employed persons, LFS, th, average | 221.7 | 224.2 | 229.3 | 237.4 | 246.0 | 248 | 249 | 250 | |
| annual change in % | 2.5 | 1.1 | 2.3 | 3.5 | 3.6 | 1.0 | 0.4 | 0.5 | |
| Unemployed persons, LFS, th, average | 47.2 | 48.3 | 43.9 | 42.5 | 40.0 | 40 | 40 | 40 | |
| Unemployment rate, LFS, in %, average | 17.6 | 17.4 | 16.1 | 15.2 | 14.8 | 14.1 | 14.0 | 13.8 | |
| Reg. unemployment rate, %, average | 16.5 | 19.4 | 21.7 | 18.7 | 15.2 | . | . | . | |
| Average monthly gross wages, EUR | 725 | 751 | 765 | 766 | 773 | 790 | 810 | 830 | |
| annual change in % (real, gross) | -1.1 | 3.5 | -1.1 | -2.6 | 0.6 | 1.0 | 0.2 | 0.2 | |
| Average monthly net wages, EUR | 480 | 499 | 510 | 511 | 515 | 530 | 540 | 550 | |
| annual change in % (real, net) | -0.9 | 4.2 | -0.2 | -2.3 | 0.4 | 1.0 | 0.2 | 0.2 | |
| Consumer prices, % p.a. | 1.6 | -0.3 | 2.4 | 2.6 | 0.4 | 1.8 | 1.9 | 1.8 | |
| Producer prices in industry, % p.a. ⁵⁾ | 0.3 | -0.1 | 0.4 | 1.7 | 2.4 | 2.1 | 2.3 | 2.5 | |
| General governm.budget, nat.def., % of GDP | | | | | | | | | |
| Revenues | 41.8 | 42.6 | 41.5 | 42.3 | 43.0 | 42.8 | 42.0 | 41.0 | |
| Expenditures | 50.0 | 46.2 | 46.8 | 45.2 | 45.3 | 42.3 | 40.6 | 40.5 | |
| Deficit (-) / surplus (+) | -8.3 | -3.6 | -5.3 | -2.9 | -2.3 | 0.5 | 1.4 | 0.5 | |
| General gov.gross debt, nat.def., % of GDP | 66.2 | 64.4 | 64.2 | 70.1 | 69.0 | 66.0 | 62.0 | 62.0 | |
| Stock of loans of non-fin.private sector, % p.a. | 2.5 | 5.4 | 7.7 | 9.1 | 6.6 | . | . | . | |
| Non-performing loans (NPL), in %, eop | 12.6 | 10.3 | 7.3 | 6.7 | 5.0 | . | . | . | |
| Central bank policy rate, % p.a., eop ⁶⁾ | 7.70 | 6.74 | 6.16 | 5.75 | 5.46 | 5.5 | 5.5 | 5.5 | |
| Current account, EUR mn | -402 | -642 | -691 | -793 | -800 | -850 | -770 | -710 | |
| Current account, % of GDP | -11.0 | -16.2 | -16.1 | -17.0 | -16.7 | -17.0 | -14.8 | -13.1 | |
| Exports of goods, BOP, EUR mn | 330 | 351 | 382 | 436 | 460 | 520 | 570 | 630 | |
| annual change in % | -7.6 | 6.2 | 9.0 | 14.0 | 5.6 | 14.0 | 10.5 | 10.0 | |
| Imports of goods, BOP, EUR mn | 1,794 | 2,008 | 2,243 | 2,485 | 2,560 | 2,670 | 2,790 | 2,900 | |
| annual change in % | 3.5 | 12.0 | 11.7 | 10.8 | 3.0 | 4.4 | 4.6 | 4.1 | |
| Exports of services, BOP, EUR mn | 1,214 | 1,255 | 1,382 | 1,563 | 1,720 | 1,850 | 1,970 | 2,090 | |
| annual change in % | 17.8 | 3.3 | 10.2 | 13.1 | 10.0 | 7.5 | 6.5 | 6.0 | |
| Imports of services, BOP, EUR mn | 425 | 486 | 531 | 627 | 720 | 780 | 800 | 810 | |
| annual change in % | 25.0 | 14.1 | 9.3 | 18.1 | 15.0 | 7.8 | 2.0 | 1.5 | |
| FDI liabilities, EUR mn | 630 | 205 | 494 | 415 | 510 | 540 | . | . | |
| FDI assets, EUR mn | 11 | -167 | 10 | 92 | 80 | 20 | . | . | |
| Gross reserves of NB excl. gold, EUR mn ⁷⁾ | 624 | 753 | 847 | 1,050 | 1,367 | . | . | . | |
| Gross external public debt, EUR mn | 1,956 | 2,003 | 2,214 | 2,760 | 2,640 | 2,850 | 2,910 | 2,970 | |
| Gross external public debt, % of GDP | 53.5 | 50.6 | 51.5 | 59.2 | 55.0 | 57.0 | 56.0 | 55.0 | |

1) Preliminary and wiiw estimates. - 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.