

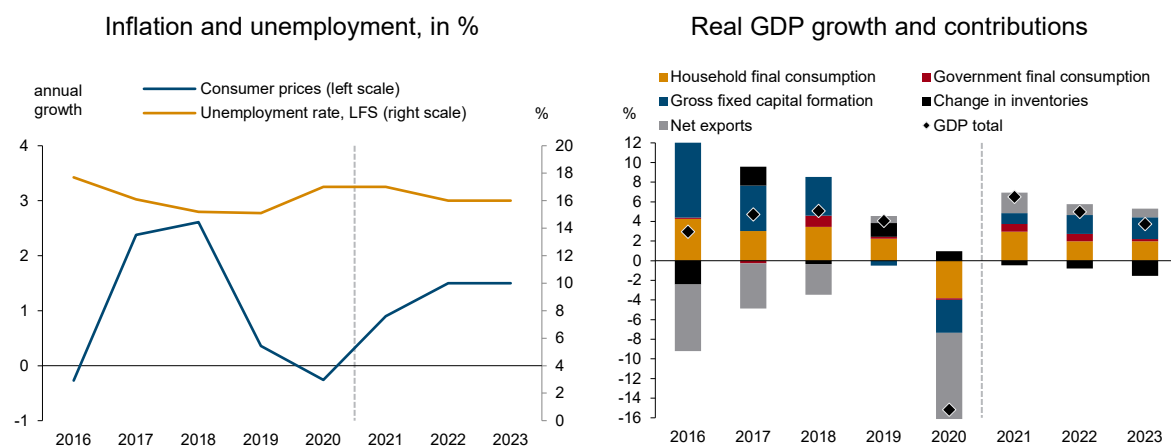


## MONTENEGRO: Tourism to drive recovery in 2021

BERND CHRISTOPH STRÖHM

Montenegro suffered comfortable CESEE's deepest contraction in economic activity in 2020, with GDP shrinking by 15.2% on the back of a steep decline in tourism revenue and the country's limited fiscal cushion. In 2021, we expect economic recovery to be somewhat inhibited, with the government's COVID-19 restrictions from 2020 radiating well into 2021. We still expect GDP to grow by 6.5%, boosted by tourism and remittances.

Figure 4.14 / Montenegro: Main macroeconomic indicators



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

**Despite COVID-19 having a profound impact on Montenegro's growth in 2020, economic recovery is expected in 2021 and 2022.** Montenegro suffered extensively from the pandemic-related travel restrictions of 2020, which caused a steep decline in revenue from tourism. Next to tourism, retail earnings and employment also collapsed. The drop in tourist arrivals led to a deep slump in domestic consumption and investments in 2020. In 2021, Montenegro will see a recovery from the economic downturn, thanks to bigger earnings from tourism and remittances. Nevertheless, the country will not regain the full potential of its tourism sector this year, compared to pre-pandemic levels. Since tourism revenue accounts for more than 20% of Montenegro's GDP, the country's recovery in 2021 will also depend on whether the pandemic leads to travel restrictions in Western European countries in Q2-Q3, which could get in the way of a successful tourist season. We expect an increase in revenue from tourism this year; however, the outlook for Montenegro's tourist industry remains uncertain. We expect GDP to recover by 6.5% in 2021, supported by revenue from tourism and remittances. With COVID-19 subsiding in 2021, we expect GDP to grow by about 5% in 2022.

**Tourism revenue, foreign direct investment and remittances from Montenegro's diaspora should curb the country's current account deficit in 2021.** As a result of the pandemic, imports and the export of services both crashed in 2020, with Montenegro's current account deficit contracting sharply. In particular, the regional travel restrictions were damaging for the country, which relies heavily on service exports and remittances. The virus-related restrictions further widened Montenegro's traditionally large current account deficit, to an astonishing 26% in 2020, making it by far the largest contraction in the CESEE region. However, low domestic demand from consumers and investors helped to limit the country's trade deficit. For 2021, we expect imports to rise, due to the planned completion of the first section of the Bar-Boljare motorway, as well as other investment projects. Service exports will surge as well, with the recovery of the Montenegrin tourism industry. Rising income from tourism, remittances from Montenegrins living abroad and foreign direct investment should rein in the current account deficit to about 20.9% in 2021.

**FDI and remittances in 2021 will remain strong and will continue to support the country's economic recovery.** FDI inflow into the Montenegrin real estate and energy sectors will remain buoyant and will support several energy-transition projects in 2021, such as the Komarnica hydropower plant, in which the government invested some EUR 246m in 2020. The country's role as a hub for electricity traffic, new investment projects in the energy and construction sectors, and investment in telecommunications and 5G network expansion projects will likely boost FDI to 8.3% in 2021.

**The slow progress of the government's COVID-19 vaccination campaign could create difficulties for the start of the Montenegrin tourism season.** The previous government managed to sign an agreement in October 2020, by which Montenegro joined the World Health Organization (WHO) COVAX mechanism. The aim was to procure some 250,000 COVID-19 vaccination doses, allowing up to 20% of the country's population to be inoculated. However, following Foreign Minister Radulović's announcement in February 2021 that the health authorities had not yet received a single dose of any COVID-19 vaccine approved by the EU, it seems unlikely that the government will manage to fully launch an inoculation campaign by Q2 2021. The government received a donation of 30,000 doses of the Sinopharm vaccine from China. In addition, the Serbian government has pledged to donate 4,000 doses of the Russian-made Sputnik V vaccine. On 25 February, Prime Minister Krivokapić's cabinet secured the delivery of a further 5,000 Sputnik V doses from Russia. However, those symbolic deliveries alone will not suffice to ensure the launch of an effective vaccination campaign. The first batch of 24,000 AstraZeneca doses finally arrived in Montenegro through the COVAX mechanism on 28 March.

**Montenegro's parliamentary elections of August 2020 ended 21 years of government by the Democratic Party of Socialists (DPS).** The new prime minister, Zdravko Krivokapić (whose party has very close ties to Serbia), will likely continue to drive the country's EU accession efforts forward, despite initial concerns that the new coalition would abandon the pro-West stance of the former government. The new administration, however, seems rather fragile, on account of diverging policy views within the governing coalition and with only a small majority in parliament. One of the new cabinet's key policy drivers, next to COVID-19, is how to service the EUR 900m loan that was issued in 2014 to facilitate construction of the Bar-Boljare motorway project. The government has already called on the EU to help Montenegro repay the loan from the Chinese Exim Bank. As for EU membership, of all the CESEE EU candidate countries, Montenegro still has the best prospects for EU accession.

**The Montenegrin government exhausted its fiscal capacity in 2020 by financing measures to mitigate the economic downturn caused by COVID-19.** Because of the pandemic, the budget deficit ended up at about 10% in 2020, with budget revenue some 13% lower than in 2019. Deferred tax payments – a move introduced by the government to help companies in the face of the economic downturn – contributed to the surge in the country's budget deficit. The new government has managed to gain some financial leeway for 2021, after a EUR 750m Eurobond sale in December 2020. This has enabled the repayment of unfavourable credits and has forestalled the planned cuts to pensions in 2021. The government's measures to mitigate the COVID-19 economic downturn mean that the country is expected to record a budget deficit of 6% in 2021, with a debt-to-GDP ratio of 98%. Without the construction of the Bar-Boljare motorway section, the debt-to-GDP ratio would have fallen to some 65% of GDP in 2021.

**Employment prospects for 2021 are linked to the recovery of Montenegro's service sector.**

Following the drop in tourist arrivals and the government-mandated closure of bars and nightclubs, Montenegro recorded a deep contraction in employment, with unemployment growing to 17% in 2020. As COVID-19 subsides, unemployment will likely return to its pre-pandemic levels in 2022. Any forecasts regarding the development of Montenegro's labour market in 2021 are still subject to a high degree of uncertainty, given that the tourist industry is responsible – either directly or indirectly – for a fifth of all employment in the country. The country's unemployment rate in 2021 is expected to exceed 2019's 15%.

**With the expected economic recovery, higher demand will support a slight increase in inflation in 2021.** A sharp drop in international oil prices caused inflation to remain low in 2020. As oil prices rise, so we expect inflation to increase slightly to 0.9% in 2021.

**Table 4.14 / Montenegro: Selected economic indicators**

	2017	2018	2019	2020 <sup>1)</sup>	2021	2022	2023
					Forecast		
Population, th pers., average	622	622	622	625	630	630	630
Gross domestic product, EUR m, nom. <sup>2)</sup>	4,299	4,663	4,951	4,193	4,500	4,800	5,100
annual change in % (real)	4.7	5.1	4.1	-15.2	6.5	5.0	3.7
GDP/capita (EUR at PPP)	13,520	14,610	15,680	13,440	.	.	.
Consumption of households, EUR m, nom. <sup>2)</sup>	3,216	3,425	3,534	3,336	.	.	.
annual change in % (real)	3.9	4.6	3.1	-5.4	3.7	2.5	2.5
Gross fixed capital form., EUR m, nom.	1,157	1,364	1,352	1,158	.	.	.
annual change in % (real)	18.7	14.7	-1.7	-12.3	4.0	7.0	8.0
Gross industrial production <sup>3)</sup>							
annual change in % (real)	-4.2	22.4	-6.3	-0.9	3.2	3.4	3.4
Net agricultural production <sup>4)</sup>							
annual change in % (real)	-3.1	3.3	-2.2	-3.0	.	.	.
Construction output <sup>4)</sup>							
annual change in % (real)	51.5	24.9	10.7	-5.5	.	.	.
Employed persons, LFS, th, average	229.3	237.4	243.8	222.0	226	231	236
annual change in %	2.3	3.5	2.7	-8.9	2.0	2.0	2.0
Unemployed persons, LFS, th, average	43.9	42.5	43.4	50.0	50	40	40
Unemployment rate, LFS, in %, average	16.1	15.2	15.1	17.0	17.0	16.0	16.0
Reg. unemployment rate, in %, eop	22.1	17.8	16.2	20.5	.	.	.
Average monthly gross wages, EUR	765	766	773	783	790	800	810
annual change in % (real, gross)	-0.5	-2.4	0.6	1.6	0.2	0.2	0.2
Average monthly net wages, EUR	510	511	515	524	530	540	550
annual change in % (real, net)	-0.2	-2.3	0.4	2.0	0.2	0.2	0.2
Consumer prices, % p.a.	2.4	2.6	0.4	-0.3	0.9	1.5	1.5
Producer prices in industry, % p.a. <sup>5)</sup>	0.4	1.7	2.4	-0.1	1.1	2.5	2.5
General governm.budget, nat.def., % of GDP							
Revenues	41.5	42.2	43.4	42.0	43.0	41.0	41.0
Expenditures	46.8	46.2	45.4	52.0	49.0	45.0	44.0
Deficit (-) / surplus (+)	-5.3	-3.9	-2.0	-10.0	-6.0	-4.0	-3.0
General gov.gross debt, nat.def., % of GDP	64.2	70.1	76.5	100.0	98.0	97.0	95.0
Stock of loans of non-fin.private sector, % p.a.	7.7	9.1	6.6	2.8	.	.	.
Non-performing loans (NPL), in %, eop	7.3	6.7	4.7	5.5	.	.	.
Central bank policy rate, % p.a., eop <sup>6)</sup>	6.16	5.75	5.46	5.84	5.5	5.5	5.5
Current account, EUR m	-691	-793	-744	-1,089	-940	-890	-820
Current account, % of GDP	-16.1	-17.0	-15.0	-26.0	-20.9	-18.5	-16.1
Exports of goods, BOP, EUR m	382	436	466	409	440	470	490
annual change in %	9.0	14.0	6.8	-12.2	7.0	7.0	5.0
Imports of goods, BOP, EUR m	2,243	2,485	2,531	2,049	2,110	2,280	2,500
annual change in %	11.7	10.8	1.8	-19.0	3.0	8.0	9.5
Exports of services, BOP, EUR m	1,382	1,563	1,698	671	960	1,180	1,480
annual change in %	10.2	13.1	8.6	-60.5	43.0	23.0	25.0
Imports of services, BOP, EUR m	531	627	678	490	580	610	640
annual change in %	9.3	18.1	8.1	-27.7	18.0	5.0	5.0
FDI liabilities, EUR m	494	415	373	463	.	.	.
FDI assets, EUR m	10	92	67	-5	.	.	.
Gross reserves of CB excl. gold, EUR m <sup>7)</sup>	847	1,050	1,367	1,738	.	.	.
Gross external debt, EUR m	6,905	7,612	8,310	8,345	8,820	9,260	9,690
Gross external debt, % of GDP	160.6	163.2	167.9	199.0	196.0	193.0	190.0

1) Preliminary and wiiw estimates. - 2) Including expenditures of NPISHs. - 3) Enterprises with 5 and more employees. - 4) Based on gross value added data. - 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.