




# Weekly Briefing

**Montenegro economy briefing:  
Overview of the industry sector in Montenegro**  
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## **Overview of the industry sector in Montenegro**

*In recent years, the industry has recorded a decline in GDP, so the industry now accounts for less than 10% of GDP. Industrial production in Montenegro is primarily characterized by a significant share of products with low level of processing, but also the technological obsolescence, which affects the competitiveness of industrial companies at domestic and international markets. Export of industrial products is characterized by non-diversification. The structure of exports is dominated by products of a lower level of processing or semi-products, which is reflected in the lower added value of this sector. The most important sector in industrial production is the manufacturing industry.*

In order to develop the industrial sector, Montenegro adopted the Industrial Policy by 2020, which sets out the priorities of industry development. The priorities defined by this policy, are related to encouraging the growth and development of an enterprises based on efficiency, productivity and innovation, and establishing preconditions for more efficient use of available resources, as well as the development of the necessary infrastructure. Therefore, the industry development priorities are related to competitiveness and innovation in order to increase the added value of this sector.

### **Contribution of industrial production to GDP**

Changing the structure of the Montenegrin economy and orienting growth to the service sector, share of the industry sector to total value of production has decreased during last period. The opening of the Montenegrin economy, globalization and unreadiness to respond to the demands of the international market, but the deindustrialization of the economy has influenced the decline in the share of industrial production to GDP. Thus, industrial production in 2010 amounted to 12.2% of GDP, while the share of industrial production gradually decreased in the observed period and in 2017 it was at the level of 9.1% (MONSTAT, 2018). Compared to the period two and three decades ago, the differences in these percentages are significantly higher.

The most prominent category of industrial production is the manufacturing industry, which accounts for about 40% of industrial production. However, the manufacturing industry accounts for only 3.8% of GDP. Reduction in production in some of the major industrial companies, such as Aluminum Plant and Steel Company, has contributed to the reduction of

manufacturing and its contribution to the total added value. A quarter of industrial production (24.6% in 2017) refers to electricity, gas steam and air conditioning supply, while the least share in industrial production has a mining and quarrying sector (15% in 2017) and it accounts 1.1% of GDP.

However, significant problem of industry sector in Montenegro is the low level of competitiveness and efficiency of using the available resources. Industrial production is characterized by technological underdevelopment and obsolescence, which is further linked to a low level of production, but also to the reduction of product range. In addition, very important characteristics of industrial production is low level of processing and lower phase of production of the final products.

The low level of processing is very pronounced in the metal industry. There are large companies which produce metal as a final product which in fact represents raw material for the next phase of production of other companies, most often from abroad. On the other side, there is a smaller number of companies in Montenegro engaged in metal processing and production of products with higher degree of processing. In addition, these group is consisted by small companies with smaller volume of production.

### **Indices of industrial production**

In the first four months of 2019, industrial production fell by 17.6% in comparison to the same period of the last year. The decline is due to reduced production in the sector of electricity, gas, steam and air conditioning supply, where production fell by 34.7%. Decrease in production, but in a significantly lower percentage is recorded in manufacturing industry (-1.5%). Positive growth was recorded in certain industries of the manufacturing industry, such as Manufacture of leather and related products, wood and furniture, pharmaceutical products, beverages and food products. However, a larger fall, in both nominal and relative terms, was recorded in other activities (e.g. Manufacture of metal products) which also caused a negative growth rate of manufacturing. On the other side, the negative growth rates achieved in these sectors are slightly offset by the growth of mining and quarrying by 11.6%. Mining of metal ores recorded growth for 13.3% and mining of coal and lignite for 6.8%.

## **Industrial production and export: The export of industrial products is not diversified**

In general, Montenegrin export of goods is not diversified and it is based on few dominant industrial products. Export is generated through great traditional production systems, such as Aluminum Plant, Still Company and Mine of bauxite. An important characteristic of export of industrial products is its non-diversification. More than 50% of exports relate to three types of products. Actually, more than half of the exports of goods are non-ferrous metals, electric energy and mineral and metalliferous ores and metal scrap (51.9%, the first four month of 2019). This structure of exports of industrial products as well as the industry in general, indicates that changes in the domestic and international market in the sectors that has highest share to exports, cause significant changes in the structure of exports of the industrial products.

In the first four months of 2019, the largest share in total exports had electric energy, whose total exports amounted to 27.2 million EUR or 21.8% of total export of goods. Almost one fifth of exports, or 17.3%, were made by non-ferrous metals that are one of the most important export products. Also, significant share to total exports, compared to other industrial products, have metalliferous ores and metal scrap, whose total exports in the observed period amounted to 16.1 million EUR or 12.8% of total export of goods. These three groups of products also accounted for the largest exports in 2018. However, total exports of goods fell by 3.3% in the period January-April 2019 compared to the same period of 2018. Exports of electricity fell by 2.7%, while exports of non-ferrous metals and ore were reduced by more than 15%. As industrial production is chipped, the recorded growth of over 100% in some industry activities that individually makes under 1% of total exports did not have a significant impact on the overall growth rate of exports of industrial products.

The analysis of the structure of exports and imports of goods indicates a low level of competitiveness of Montenegrin products at international market. As can be seen through the structure of export of goods, products with lower level of processing have dominant share in export of industrial products, i.e. raw materials and semi-finalized products (metals, ore, electricity). On the other side, Montenegro imports products of higher level of processing such as products and materials used in construction, produced by materials which are previously exported from Montenegro (primarily metal). Similar trends are also observed in the food and wood industry.

## **Employment and wages in Industry sector**

In the first four months of 2019, the total number of employees in the industrial sector was close to 22,000, representing 11% of the total number of employees (MONSTAT, 2019). Compared to the same period of the previous year, the number of employees grew by 4.6%. In the period since 2010, the number of employees in the industry has decreased due to the reduction of activity in this sector. For example, in 2010, the number of employed in the industry accounted for more than 15% of total employment, while in 2019 this indicator was 11%. The highest number of employees in the industry are in the manufacturing industry or 57% of the total number of employees in the industry sector and 6.5% of the total number of employees in Montenegro. Trends in industry sector have affected the reduction of number of employees in mining and quarrying. Analysis of the trends during previous ten-year period shows that total employment in mining and quarrying represented 1.3% of total employment in Montenegro in 2010, while it decreased to 0.7% in 2019.

An important segment of industry sector are wages. Net wages in the industry range from 404 EUR in manufacturing industry to 876 EUR in electricity, gas steam and air conditioning supply sector (average wage for the first four months of 2019, MONSTAT). It can be noticed that the largest number of workers in the industry are in manufacturing, but at the same time they have the lowest earnings. On the other hand, 13% of employees in industry are employed in electricity, gas steam and air conditioning supply sector (MONSTAT, 2019). Compared to the average wages in Montenegro, wages in the sector of electricity, gas steam and air conditioning supply represent 217% of average wage in Montenegro. Higher wage in comparison with the Montenegrin average are recorded in the mining and quarrying sector (129.5% of the average net salary), while the lowest in the Water supply, sewerage, waste management and remediation activities sector representing 53.1% of average wage and manufacturing (60.9% of average net wage).