



# Weekly Briefing

**Montenegro economy briefing:  
Moderate growth is expected in 2020**  
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## **Moderate growth is expected in 2020**

The economic policy of Montenegro in the coming period will be oriented towards the development of priority industries, i.e. tourism, energy, agriculture and manufacturing. In 2020, positive GDP growth is expected, but real economy growth rates will be lower than those have been achieved in recent years. First of all, the expected growth in private investments, export of services and consumption will contribute to economic growth this year. There are different forecasts of real economic growth, ranging from 2.5% (International Monetary Fund (IMF)<sup>1</sup>) to 3.4% (Programme of Economic Reforms of Montenegro 2020-2022 (PER 2020-2022)). According to World Bank<sup>2</sup> projections, GDP growth rate in 2020 will be 2.8%.

According to the PER 2020-2022, following period will be characterised by strengthening of export and production, continuation of investment activity, moderate growth of private and public consumption. Domestic demand is expected to grow and it will increase by 3.3% this year, with an estimated contribution to GDP growth at 3.8 pp. (PER 2020-2022). The growth in domestic demand is based on the growth in household consumption, which is projected to grow at 2.9%. According to World Bank estimates, household consumption will increase by 2.4%. Consumption growth is based on the expected growth in labour income, i.e. employment and wages, but also an increase in tourism revenue and inflows from abroad, primarily remittances which will make 4% of GDP in 2020 (according to World Bank projections). However, growth of household consumption could be limited by restrictions on the cash loans, which are introduced by Central Bank of Montenegro. The Decision on measures to limit the maturity of cash loans has been in force since January 2020 and provides for stronger collateral for loans if they are granted for a longer period. The reason for this decision is the intense growth of cash loans, which, according to the Central Bank data, have increased almost twice in the previous five-year period. Such restrictions may affect the disposable income of the citizens and consequently also on private consumption in the coming period.

Net exports are also expected to grow over the next period, projecting 3.8% growth in exports of goods and services, mainly due to growth in the tourism sector. On the other side, imports are expected to grow, but at lower rates than exports (projected growth rate is 2.4%,

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<sup>1</sup> International Monetary Fund (2019) Montenegro: 2019 Article IV Consultation, Washington DC

<sup>2</sup> World Bank Group (2019) Rising Uncertainties, Western Balkan Regular Economic Report, No. 16, Washington DC

PER 2020-2022). Trends in import will be influenced by investment activity and trends in household consumption and disposable income. Also, the expected growth in agriculture due to increased investments could contribute to the growth of agricultural production and import substitution, especially during the summer tourist season. Higher coverage of imports by exports will have a positive effect on GDP growth. The share of export of goods in total GDP will increase to 9.5%, while the share of imports of goods will be lower compared to the previous year and amount to 52.5% (World Bank, 2019).

On the other side, a lower intensity of investment activity is expected. Namely, the completion of works on the largest infrastructure project related to the construction of the highway will affect investment activity, and therefore the impact on GDP will be moderate. Completion of works on the first section of the highway is planned for the end of the third quarter of 2020, however, the benefits from its use can be expected next year as a result of the procedures for commissioning the infrastructure, but also lower traffic frequencies and economic activities during the winter period. On the other hand, private investment is expected to continue to grow. First of all, the growth of investments is expected in the tourism sector and the continuation of tourism capacity building in the seaside region, especially those related to the implementation of projects for the construction of tourist complexes in Boka Bay. In relation to investment growth, growth in the construction sector is expected (5% in 2020, by PER 2020-2022). In addition, the inflow of foreign direct investment (FDI) can be expected to continue in 2020. The FDI net inflow is expected to be at 8% of GDP this year (World Bank, 2019).

Expectations for growth in the tourism sector and the opening of high category hotels in the coming period will represent a positive impetus for economic growth, as it will contribute to the growth of export of services. The realization of projects in tourism will increase hotel's accommodation capacities of high category which present significant revenue generator in comparison to private accommodation. In addition, tourism growth can also be contributed by the growth in the number of destinations with which Montenegro will be connected by air lines and become available tourist destination to more visitors.

In addition to tourism, activities in the energy sector can also have a positive effect on exports. Namely, at the end of the previous year, a submarine cable connecting Montenegro with Italy was put into operation and which represents a great potential for electricity export. The growth of electricity trade and the growth of electricity transit through Montenegro can be

expected in the coming period, due to the fact that this project connects Montenegro with the market in Italy and places Montenegro on the map of the European energy system.

As GDP growth is expected in 2020 and growth in certain sectors, such as tourism, construction, transport and agriculture, growth in employment is also expected. However, indicators on the labour market are not expected to improve significantly. According to the estimates from PER 2020-2022, employment growth is expected to be 1.2%, which is a significantly lower growth rate than those achieved in the previous two years. On the other hand, a slight decrease in the unemployment rate is expected. According to World Bank estimates, the unemployment rate will be 14.7%. Throughout 2020, one of the major issues in the labour market will be the implementation of Labour Law, which was adopted at the end of 2019, and which can contribute to increasing flexibility in the labour market. In addition to employment growth, wages are also expected to grow in 2020. According to the PER 2020-2022 projections, the projected wages growth rate is 1.6%. First of all, there are plans to increase wages in the health and education sectors during 2020.

A stable prices is also expected in the coming period. Projected inflation rate 1.3% (PER 2020-2022). The relatively stable prices are projected by the World Bank, i.e. the projected inflation rate is 1.6%. However, comparisons with projected wage growth do not indicate that real wage will rise.

### **Trends in public finances**

In 2020, planned public spending is at the level of 2.3 billion EUR or 45% of GDP. The most significant part is current public spending, which accounts for 39% of GDP, while the capital budget is at 6% of GDP. Also, the same level of public revenue is expected as public expenditure. Therefore, a balanced fiscal balance of public finances is projected in 2020 (PER 2020-2022). On the other hand, the IMF and World Bank project budget deficit around 1% of GDP.

Airport concession and economic citizenship, according to the World Bank, may also affect a one-off inflow of funds, which can have an impact on improving public finances. In 2020, it is expected that the selection of concessionaires for Montenegro Airports will be realized. At the end of last year, 33 companies were interested in Montenegrin airports. In this case, the advance amount of the initial one-off concession fee is at least 100 million EUR. The state will also be entitled to an annual concession fee of at least 10% of the company's gross

revenue. An inflow of funds into the state budget can also be expected from economic citizenship. This Government Program foresees that a potential applicant can acquire Montenegrin citizenship by investing exclusively in one of the projects from the Development List previously established by the Government, amounting to 450,000 EUR for projects in the south and central region and 250,000 EUR for projects in the northern region, while application costs amounts to 100,000 EUR.

An important issue related to public finances is high public debt. According to an estimates of PER 2020-2022, public debt will be at 72.3% of GDP in 2020. The World Bank estimate shows that public debt will be 71.2% of GDP, while public and publicly guaranteed debt will be at 75.7% of GDP. The construction of the highway, as well as the planned debt on the basis of a loan arrangement backed by a PBG guarantee of World Bank up to 250 million EUR (PER 2020-2022), will have the greatest impact on the public debt in 2020. According to estimates and the Budget Law for 2020, almost 600 million EUR is missing. These funds can be secured from two sources, i.e. 500 million EUR from bond issues from 2019 and rest resources by withdrawing loans from arrangements with China's EXIM bank, for the construction of the highway.

GDP is expected to achieve positive growth rate, which are at a lower level than those achieved in the last three years. Growth in the tourism, construction and its related sectors, as well as improving ratio between exports and imports, are the drivers of economic growth this year. Completion of publicly funded infrastructure projects will have a moderate impact on economic growth, unlike private investment, which is expected to continue to grow in 2020. In addition, the indebtedness problem remains a significant burden for the Montenegrin economy in the coming period.