

# MONTENEGRO

**Table 1** **2022**

Population, million	0.6
GDP, current US\$ billion	6.9
GDP per capita, current US\$	11089.9
International poverty rate (\$2.15) <sup>a</sup>	2.9
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	6.4
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	18.5
Gini index <sup>a</sup>	36.9
School enrollment, primary (% gross) <sup>b</sup>	102.3
Life expectancy at birth, years <sup>b</sup>	75.9
Total GHG emissions (mtCO2e)	3.7

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2020).

While growth in 2022 was strong at an estimated 6.1 percent, it decelerated in the second half of the year. Private consumption propelled growth, but its contribution weakened by year-end as inflation surged to an average of 13 percent for the year. At 5.2 percent of GDP, the fiscal deficit was lower than planned, but still high due to forgone revenues and additional spending. The rise in the cost of financing and forthcoming debt repayments require utmost fiscal vigilance.

## Key conditions and challenges

Montenegro's small, open, and service-based economy is highly vulnerable to external shocks, while the country's choice of strategies and policies has not always been conducive to enhancing its resilience. After a historic recession of -15.3 percent in 2020, the economy recovered strongly in 2021 and 2022, averaging 13 and 5.9 percent growth, respectively. However, it is facing renewed challenges from the global geopolitical and economic uncertainties, but also domestic instability. Given unilateral euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway construction, the pandemic, and a lack of commitment to fiscal targets have increased fiscal vulnerabilities and increased public debt. Despite a significant decline to 73 percent of GDP in 2022, public debt remains high, particularly in the environment of increasing financing costs. In 2022, the government implemented a major tax reform, which reduced labor taxes from a flat 39 percent of total labor cost to an average of 22 percent by removing healthcare contributions and introducing progressive income taxation, while increasing the minimum wage from €250 to €450. The program has the potential to reduce inequalities and increase growth in the medium term, but also poses fiscal risks. These have been further amplified by additional spending, particularly

social and wage bill. Considering large Eurobond repayments in 2025 and 2027 and higher borrowing costs, Montenegro must show fiscal prudence by consolidating its public finance and reducing the fiscal deficit and public debt by 2025.

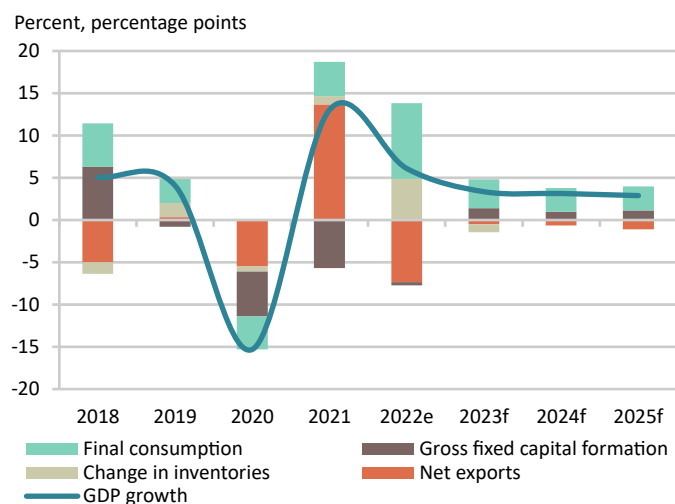
Montenegro has been in a political and institutional standstill since August 2022, following a no-confidence vote and a loss of quorum in the the Constitutional Court. The complexity and fragility of the political landscape exacerbates uncertainties, slows the reform process, and not only diverts the focus from imminent economic challenges, but amplifies them. Montenegro's immediate priority should thus be to resolve the institutional and political crisis.

## Recent developments

In 2022, economic activity was driven by an increase in real disposable incomes, further recovery in tourism, employment growth, and household lending. Real retail trade grew by 13.4 percent y/y, while the number of tourist overnights reached 92 percent of the 2019 level. However, construction contracted by 4.4 percent in nominal terms, and industrial production declined by 3.2 percent as unfavorable hydrological conditions affected electricity generation.

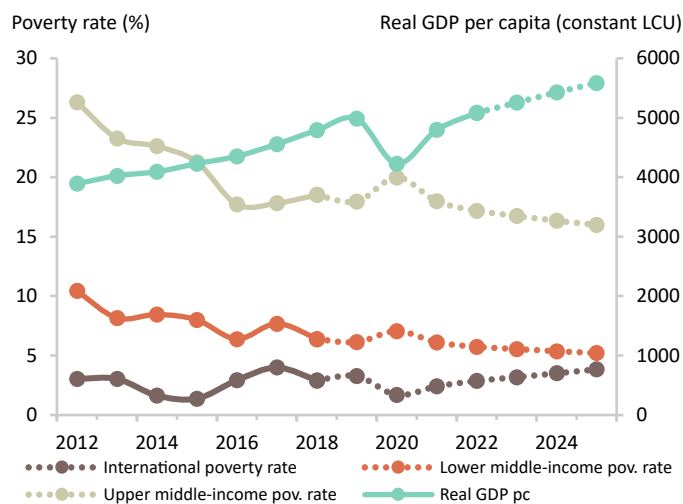
Employment gains were strong in 2022, contributing to a record-high activity rate and a record-low unemployment rate of 60.1 and 13 percent in Q3, respectively. In 2022, real net monthly wages increased by 18.7 percent. Consequently, poverty (in-

**FIGURE 1 Montenegro / Real GDP growth and contributions to real GDP growth**



Sources: MONSTAT and World Bank.

**FIGURE 2 Montenegro / Actual and projected poverty rates and real GDP per capita**



Source: World Bank. Notes: see Table 2.

come below \$6.85/day in 2017PPP) is projected to have declined to 17.2 percent in 2022. Inflation averaged 13 percent, led by a surge in food and energy prices. The inflationary impact on households has been largely mitigated by a wage increase through the tax reform program. By December, lending and deposits increased by 9 and 24.3 percent y/y, respectively. In September, the average capital adequacy ratio was at 18.4 percent, while non-performing loans increased to 6.7 percent from 6.5 percent of total loans a year earlier. The current account deficit widened to 13 percent of GDP but was fully financed by net FDI. The trade deficit expanded despite strong export growth, because of even stronger imports growth. Strong remittances helped limit the increase in the current account deficit. A shortfall in social security contributions and personal income tax collections, new spending and ad-hoc spending commitments, the clearance of health insurance arrears, and higher capital spending increased the fiscal deficit from 1.9 percent of GDP in 2021 to an estimated 4.5 percent of GDP in 2022. Public debt declined from 84 percent of GDP in 2021 to an estimated 73.3 percent of GDP in 2022, supported by regular repayment of debt and limited new borrowing. A shortfall in social security contributions and personal income

tax collections, new spending and ad-hoc spending commitments, the clearance of health insurance arrears, and higher capital spending increased the fiscal deficit from 1.9 percent of GDP in 2021 to an estimated 5.2 percent of GDP in 2022.

## Outlook

The unfavorable global economic outlook and domestic uncertainty are weighing on Montenegro's otherwise positive outlook. Over 2023-25, growth is projected to average 3.1 percent, with slower private consumption growth offsetting stronger investment growth. Tourism is likely to continue recovering in 2023 to reach pre-covid levels, although deteriorating growth prospects in the EU and the region may have an adverse effect on both tourism and wider growth prospects. Poverty is projected to decline to 16.6 percent in 2023. Inflation is projected to decelerate to 7.9 in 2023 and to 4.0 percent 2024. While higher energy prices are disproportionately affecting the poor, they are supporting Montenegro's electricity exports, helped by increasing generation capacities. Together with improved exports of tourism and transport services the current account

deficit is projected to decline to 11.1 percent of GDP in 2025.

The fiscal balance is expected to moderate over the medium term but will remain elevated at 4.9 percent of GDP in 2023 and 4.5 percent of GDP in 2024, due to higher wages, social, and capital spending. As a result, public debt will stay high at around 70 percent of GDP in 2023-25. Additional fiscal consolidation measures (both revenue measures and tighter expenditure control) would, however, result in a better fiscal performance.

Given the tightening of global financial conditions and Montenegro's sizable financing needs of around 10 percent of GDP in 2023, the country will require very careful fiscal management and stronger control over its expenditures.

The outlook is surrounded with multiple downside risks. High geopolitical uncertainties and global inflation may weaken growth prospects in Montenegro's major trading partners. Inflationary pressures are accelerating monetary tightening which translates into more expensive external financing. Political instability and delays in resolving the institutional standstill are major domestic risks. The severity of the challenges ahead requires strong political commitment and actions to mitigate these risks.

## Preview : Confidential unsaved draft

**TABLE 2 Montenegro / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-15.3	13.0	6.1	3.4	3.1	2.9
Private Consumption	-4.6	4.0	9.7	3.3	2.9	3.1
Government Consumption	0.8	0.5	1.2	1.6	0.4	0.1
Gross Fixed Capital Investment	-12.0	-12.3	-1.1	4.3	3.0	3.4
Exports, Goods and Services	-47.6	81.9	22.7	4.9	4.4	4.1
Imports, Goods and Services	-20.1	13.7	21.3	3.4	3.3	3.5
<b>Real GDP growth, at constant factor prices</b>	-14.4	13.2	4.8	3.3	3.1	2.9
Agriculture	1.1	-0.5	-0.4	0.1	0.1	0.1
Industry	-12.0	0.3	-5.0	2.0	2.0	2.0
Services	-16.9	19.9	8.4	4.1	3.8	3.4
<b>Inflation (Consumer Price Index)</b>	-0.3	2.4	13.0	7.9	4.0	2.8
<b>Current Account Balance (% of GDP)</b>	-26.1	-9.2	-13.3	-12.4	-11.9	-11.1
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	11.2	11.7	13.5	8.7	7.6	7.4
<b>Fiscal Balance (% of GDP)</b>	-11.0	-1.9	-5.2	-4.9	-4.5	-4.2
<b>Revenues (% of GDP)</b>	44.4	44.0	39.4	39.3	39.1	38.8
<b>Debt (% of GDP)</b>	105.3	84.0	70.8	69.0	70.3	69.6
<b>Primary Balance (% of GDP)</b>	-8.3	0.5	-3.5	-3.1	-2.2	-1.7
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	1.7	2.4	2.9	3.2	3.5	3.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	7.1	6.1	5.7	5.5	5.4	5.2
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	20.0	18.0	17.2	16.7	16.3	16.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-9.2	5.2	-0.9	1.5	1.3	1.3
<b>Energy related GHG emissions (% of total)</b>	68.8	71.1	71.4	72.1	72.5	72.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2015-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

b/ Projection using point-to-point elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.