

# MONTENEGRO

## Key conditions and challenges

**Table 1** **2022**

Population, million	0.6
GDP, current US\$ billion	6.2
GDP per capita, current US\$	10093.4
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>	73.8
Total GHG emissions (mtCO2e)	3.8

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2018), 2017 PPPs.  
 b/ Most recent WDI value (2021).

Over the past two years, Montenegro defied external headwinds, as GDP growth remained solid, reaching 6.4 percent in 2022 and prospects remain good. However, multiple challenges loom and require attention, especially on the fiscal front, as the country approaches large debt repayments during 2024-2027 in an environment of high financing costs. Montenegro requires prudent fiscal and debt management policies to overcome these challenges and structural reforms to safeguard and improve development prospects.

Montenegro's small, open, and service-based economy is highly vulnerable to external shocks, while the country's strategies and policies have not always been conducive to enhancing resilience. After a deep recession of -15.3 percent in 2020, the economy recovered strongly in 2021 and 2022, averaging 13 and 6.4 percent growth, respectively. However, the unfavorable global environment, coupled with domestic challenges is weighing on growth prospects. Given euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway, the pandemic, and a lack of commitment to fiscal targets have contributed to increased fiscal vulnerabilities and debt. Despite a significant decline in public debt to an estimated 62.1 percent of GDP in 2023, it nevertheless presents a vulnerability because it is subject to significant financing and rollover risk in the present environment. Considering large Eurobond repayments in 2025 and 2027 and high borrowing costs, Montenegro must demonstrate fiscal prudence by consolidating its public finance to narrow the fiscal deficit and further reduce public debt. Since a major political change in 2020, Montenegro's political and institutional landscape has been complex and fragile, resulting in a vote of no-confidence in two governments in one year. The new

political party, Europe Now, won the most seats in the snap elections that took place in June 2023 and is tasked with forming a government. A political consensus focused on structural reforms, the rule of law, and fiscal prudence will be critical to safeguard and improve Montenegro's development prospects in a highly uncertain external environment.

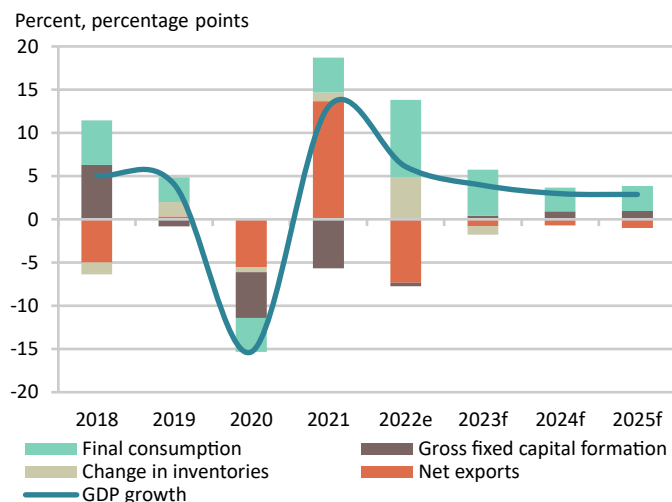
## Recent developments

The economy made a very strong start in 2023, as GDP expanded by 6.6 percent in the first half of 2023, driven by personal consumption, underpinned by an increase in public sector wages, employment gains, and household borrowing, but also a very strong tourism season. In the first seven months of 2023, real retail trade grew by 10.4 percent y/y, while the number of tourist overnight stays outpaced the levels observed in the same period of 2019 by 29.1 percent. In the same period, industrial production increased by 5.4 percent, driven by stronger electricity production amid favorable hydrological conditions, and despite falling manufacturing. However, the value of construction works contracted by 11.8 percent in H1 2023, as investments remain subdued.

Strong employment gains in 2022 continued into 2023. Administrative data show record high employment in July and a record low administrative unemployment rate of 13.1 percent.

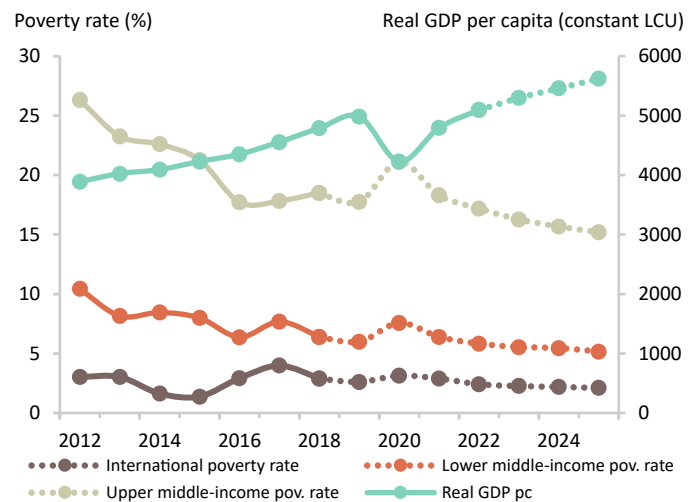
While annual inflation moderated to 10.1 percent y/y over the first eight months,

**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.

monthly inflation remains elevated, led by food prices. Despite high inflation, real wages remained flat. Consequently, poverty (income below \$6.85/day in 2017 PPP) is projected to decline to 16 percent in 2023. By August, banking sector lending and deposits increased by 8.9 and 13.6 percent y/y respectively. In June, the average capital adequacy ratio was at a healthy 20.1 percent, while non-performing loans declined to 6.1 percent from 6.9 percent of total loans a year earlier.

On the external side, the current account deficit (CAD) narrowed slightly in H1, as export growth of 26.7 percent y/y outpaced import growth of 15.1 percent. Net income accounts increased marginally, despite a decline in net remittances of 5.7 percent y/y. Net FDI fell by 26.4 percent y/y, financing just half of the CAD, the remainder being financed from reserves.

On the fiscal side, by July, the central government achieved a fiscal surplus of 2.3 percent of GDP, due to strong revenues and capital budget under-execution. The surge in revenues of 24.5 percent y/y was supported by one-off payments of 1.8 percent of GDP for the economic citizenship program, a hedging fee, and grants, but also strong CIT and contributions collection. Expenditure growth of 12.9 percent

was more moderate, as capital spending declined by 54.6 percent y/y, despite an increase in public sector wages and social spending. Consequently, government deposits increased to 3.9 percent of GDP from 1.9 percent of GDP in December 2022. By end-June, public debt declined to an estimated 61.3 percent of GDP.

## Outlook

Montenegro's growth is expected to remain strong at 4.8 percent in 2023, underpinned by private consumption and service exports, while investments remain subdued. However, the slowing of the global economy is weighing down on Montenegro's outlook. Over 2024-25, declining private consumption growth is expected to result in a slower average growth of 3.2 percent. Tourism is likely to surpass its 2019 level in 2023, and continue growing, although deteriorating growth prospects in the EU and the region may adversely affect tourism. Poverty is projected to decline by 0.6 percentage points from 2023 to 15.4 percent in 2025. Expected service export growth and moderation of imports due to slowing consumption are

estimated to bring the CAD to 10.9 percent of GDP by 2025.

On the fiscal side, while one-off revenues will result in a lower-than-planned fiscal deficit of 2 percent of GDP in 2023, the fiscal deficit is expected to remain elevated at 3.9 and 3.6 percent of GDP in 2024 and 2025, respectively. Public debt is expected to increase from 62.1 percent of GDP in 2023 to 66.1 percent of GDP in 2024. Fiscal consolidation measures would, however, result in a better fiscal performance.

Given the tightening of global financial conditions and Montenegro's sizable financing needs over 2023-25, cautious fiscal management is needed, particularly with respect to expenditures, including implementing the pension and public administration reforms.

The outlook is surrounded with downside risks. High geopolitical uncertainties may weaken growth prospects in Montenegro's major trading partners. Monetary tightening is rapidly increasing the cost of external financing. Political challenges are major domestic risks. The severity of challenges ahead, however, requires strong political and economic stewardship through carefully designed and well-costed policies.

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

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-15.3	13.0	6.4	4.8	3.2	3.1
Private consumption	-4.6	4.0	9.7	6.3	3.3	3.5
Government consumption	0.8	0.5	1.5	2.8	0.6	0.4
Gross fixed capital investment	-12.0	-12.3	0.1	0.0	2.6	2.8
Exports, goods and services	-47.6	81.9	22.7	11.1	4.9	4.3
Imports, goods and services	-20.1	13.7	21.3	5.9	3.9	3.8
<b>Real GDP growth, at constant factor prices</b>	-14.4	13.2	6.3	4.8	3.1	3.1
Agriculture	1.1	-0.5	-2.9	-0.2	0.1	0.1
Industry	-12.0	0.3	-8.1	1.6	2.0	2.4
Services	-16.9	19.9	11.7	6.1	3.6	3.5
<b>Inflation (consumer price index)</b>	-0.3	2.4	13.0	8.4	4.0	2.8
<b>Current account balance (% of GDP)</b>	-26.1	-9.2	-12.9	-11.5	-11.3	-10.9
<b>Net foreign direct investment inflow (% of GDP)</b>	11.2	11.7	13.2	8.0	8.1	7.9
<b>Fiscal balance (% of GDP)</b>	-11.0	-1.9	-5.1	-2.0	-3.9	-3.6
<b>Revenues (% of GDP)</b>	44.4	44.0	38.6	40.5	39.0	39.1
<b>Debt (% of GDP)</b>	105.3	84.0	69.3	62.1	66.1	62.3
<b>Primary balance (% of GDP)</b>	-8.3	0.5	-3.4	-0.3	-1.8	-1.0
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	3.1	2.9	2.4	2.3	2.2	2.1
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	7.6	6.4	5.8	5.5	5.3	5.1
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	21.1	18.3	17.2	16.0	15.4	14.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-9.2	5.2	1.9	1.8	1.2	1.6
<b>Energy related GHG emissions (% of total)</b>	68.8	71.1	72.3	71.7	72.8	73.8

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 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.