

# MONTENEGRO

**Table 1** **2023**

Population, million	0.6
GDP, current US\$ billion	7.4
GDP per capita, current US\$	11996.9
International poverty rate (\$2.15) <sup>a</sup>	2.1
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	3.8
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	12.3
Gini index <sup>a</sup>	34.4
School enrollment, primary (% gross) <sup>b</sup>	100.7
Life expectancy at birth, years <sup>b</sup>	73.8
Total GHG emissions (mtCO2e)	3.5

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

a/ Most recent value (2021), 2017 PPPs.

b/ WDI for School enrollment (2022); Life expectancy (2021).

Montenegro's economy performed strongly in 2023, with an estimated GDP growth of 6 percent. However, economic growth is expected to moderate in 2024, and the fiscal deficit is projected to widen during 2024-27 owing to higher social and capital spending. The country is also facing high financing needs due to significant debt repayments in an environment of high financing costs. Prudent fiscal and debt management policies are required, alongside structural reforms aimed at safeguarding and enhancing development prospects.

## Key conditions and challenges

Montenegro's small, open, and service-based economy is vulnerable to external shocks, while the country's strategies and policies have not always been conducive to enhancing resilience. After a 15.3 percent contraction in 2020, the economy rebounded swiftly in 2021-22, averaging 9.7 percent growth per annum. Growth remained robust in 2023 at an estimated 6 percent, driven by booming tourism and private consumption, also supported by an influx of foreigners, primarily Russian and Ukrainian citizens.

Montenegro successfully reduced its public debt from 103.5 percent of GDP in 2020 to 60.7 percent in 2023, aided greatly by high nominal GDP growth. However, growth is expected to moderate in the medium term, while financing needs are high due to large debt repayments in an environment of uncertain global conditions. While one-off revenues resulted in a fiscal surplus in 2023, a return to fiscal deficits is expected in the medium term. The Parliament adopted the 2024 budget with a fiscal deficit of 3.2 percent of GDP; it includes an increase in the minimum monthly pensions from €300 to €450. In March, Montenegro issued a 7-year \$750 million Eurobond at a coupon rate of 7.25 percent. Yet, financing needs in the medium term remain high and leave little or no fiscal room for other policy changes either on the revenue or expenditure side

of the budget without adversely affecting the debt trajectory.

A new government, appointed in October 2023, placed EU accession at the top of its agenda. In the first three months of the new government, the country made key judiciary and prosecution appointments, unblocking the reform processes in the area of the rule of law, a cornerstone of Montenegro's EU accession process. Delivering on committed reforms is important for advancing Montenegro's long-term development prospects.

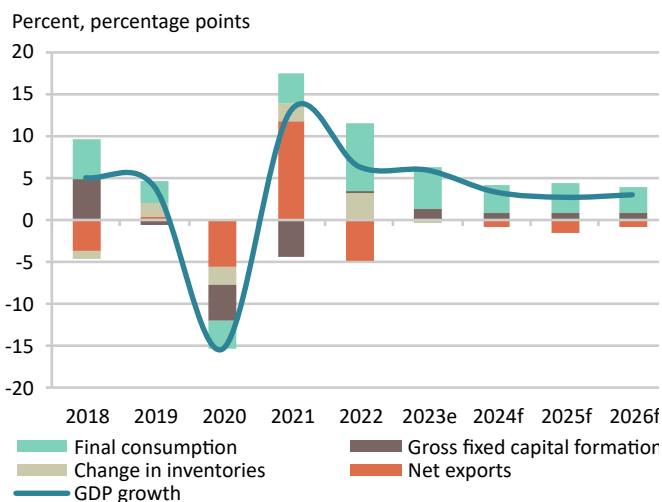
## Recent developments

In 2023, real GDP growth reached 6 percent, driven by a strong tourism season and solid private consumption, underpinned by higher public sector wages, employment gains, and household borrowing, though it slowed down in the second half of the year. In 2023, real retail trade grew by 7.7 percent, while tourist overnight stays grew by 32.1 percent. Industrial production increased by 6.4 percent, but the value of construction works contracted by 7.9 percent.

In 2023 employment reached a historic high, with gains across all sectors. In Q3, the LFS data showed record employment and activity rates of 58.7 percent and 66.5 percent, respectively, while the unemployment rate dropped to 11.8 percent, the lowest on record. Administrative data show similar trends continued into Q4.

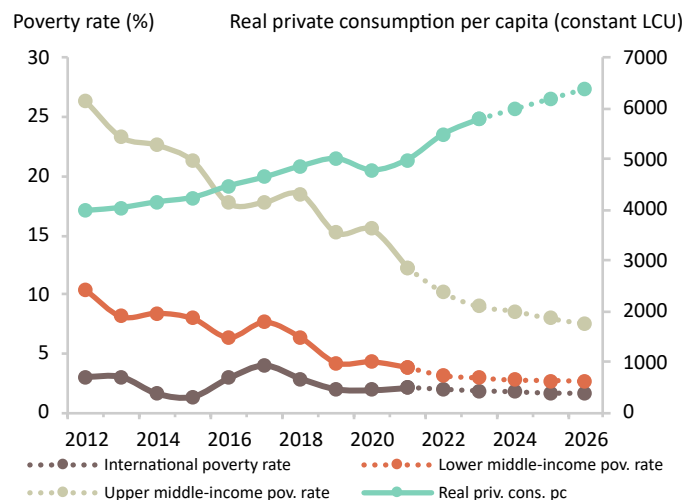
In 2023, inflation moderated to 8.6 percent, while real net average wages increased by

**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 private consumption per capita**



Source: World Bank. Notes: see Table 2.

2.3 percent. Hence, poverty (income below \$6.85/day in 2017 PPP) is projected to have declined to 9 percent in 2023.

Montenegro's financial soundness indicators improved in 2023. In September, the average capital adequacy ratio was at 20.7 percent, while non-performing loans declined to 5.9 percent from 6.7 percent of total loans a year earlier. By January 2024, banking sector lending and deposits increased by 12.1 and 3.6 percent y/y respectively.

The current account deficit (CAD) narrowed to 11.4 percent of GDP in 2023, owing to strong exports, despite a decline in net income accounts because of higher dividend and interest payments. Net FDI fell by 45 percent, financing just half of the CAD, the remainder being financed from reserves.

One-off revenues and strong economic activity resulted in a 0.5 percent of GDP fiscal surplus in 2023. Revenues increased by 28 percent, supported primarily by one-off revenues worth 2.3 percent of GDP. Expenditure growth was more moderate, at 12.8 percent, despite an 18.7 percent increase in public wages and higher social transfers. Public debt declined to an estimated 60.7 percent of GDP.

## Outlook

The growth outlook is positive albeit challenged by an unfavorable global environment. Coming from a very high base, growth is expected to moderate to 3.4 percent in 2024, still led by private consumption and service exports, with investment in the tourism and energy sectors making a slight positive impact. Public investment is also expected to provide positive contribution to growth. The possibility of some announced, but not budgeted, large public investments and airport concessions could further boost growth, but the fiscal space is limited. Considering a closure of the thermal power plant in 2025 for reconstruction, which will necessitate greater energy imports, growth is expected to slow down to around 2.8 percent, and then bounce back in 2026 to 3 percent. While the CAD is expected to narrow to 11.0 percent of GDP in 2024, energy imports in 2025 would increase it again to an estimated 11.6 percent of GDP but are expected to remain largely financed by net FDI. Inflation is expected to soften to 3.9 percent in 2024 and further to 2.5 percent in 2025.

Poverty is projected to decline by 1.5 percentage points from 2023 to 7.5 percent in 2026.

The 2024 budget increased the minimum pensions and capital spending, which are expected to contribute to a fiscal deficit of 3.6 percent of GDP in 2024. The deficit is expected to decline gradually to 3.5 percent of GDP in 2025 and 3.4 percent of GDP in 2026. Additional fiscal consolidation measures would, however, result in a better fiscal performance. Public debt is expected to stabilize at around 62.5 percent of GDP through 2024–26. Maintaining debt sustainability requires strong fiscal discipline, particularly given challenging global financial conditions and Montenegro's sizable financing needs over 2024–26. The announced policies of reducing labor taxes and/or contributions without compensatory measures represent a risk to public finances.

The outlook is clouded by potential downside risks. Elevated geopolitical uncertainties could dampen growth prospects for Montenegro's trading partners, while the high cost of external financing poses a risk given the country's substantial financing needs.

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

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	13.0	6.4	6.0	3.4	2.8	3.0
Private consumption	4.0	9.7	5.4	3.4	3.4	3.3
Government consumption	0.5	1.5	3.1	2.8	2.7	1.8
Gross fixed capital investment	-12.3	0.1	4.8	3.4	3.5	3.3
Exports, goods and services	81.9	22.7	8.6	4.4	3.9	3.8
Imports, goods and services	13.7	21.3	5.2	3.9	4.5	3.5
<b>Real GDP growth, at constant factor prices</b>	13.2	6.3	5.4	3.0	2.8	3.1
Agriculture	-0.5	-2.9	-1.0	-0.5	0.0	0.0
Industry	1.4	-5.2	3.4	2.2	-5.0	6.0
Services	19.1	10.6	6.6	3.6	4.9	2.7
<b>Inflation (consumer price index)</b>	2.4	13.0	8.6	3.9	2.5	2.0
<b>Current account balance (% of GDP)</b>	-9.2	-12.9	-11.4	-11.0	-11.6	-11.3
<b>Net foreign direct investment inflow (% of GDP)</b>	11.7	13.2	6.3	7.1	7.0	7.0
<b>Fiscal balance (% of GDP)</b>	-2.1	-4.9	0.5	-3.6	-3.5	-3.4
<b>Revenues (% of GDP)</b>	44.0	38.6	42.8	41.5	41.7	41.8
<b>Debt (% of GDP)</b>	84.0	69.2	60.7	63.5	62.6	61.3
<b>Primary balance (% of GDP)</b>	0.2	-3.3	2.3	-1.6	-1.2	-0.9
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	2.1	2.0	1.8	1.8	1.7	1.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	3.8	3.1	2.9	2.7	2.7	2.6
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	12.3	10.2	9.0	8.6	8.0	7.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	3.9	2.6	2.6	0.8	-2.2	-0.4
<b>Energy related GHG emissions (% of total)</b>	67.8	69.2	70.3	70.6	71.0	71.0

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 2022-SILC-C. Actual data: 2021. Nowcast: 2022–2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.