

32. MONTENEGRO

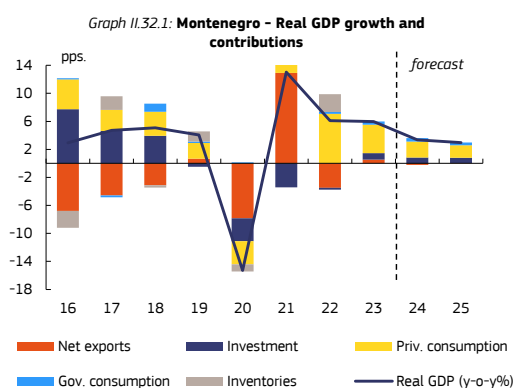
Montenegro's economy recorded high GDP growth in 2023, driven by very strong private consumption and a good tourism season. Output growth is projected to moderate in 2024-2025, as household consumption decelerates. Subdued external demand is likely to affect tourism growth. A good fiscal performance in 2023 was supported by high growth of revenue from consumption taxes and one-off items while capital spending remained under-executed. Going forward, the budget deficit is set to widen and the public debt-to-GDP ratio is forecast to increase.

Following strong economic growth in 2023, some deceleration ahead

Based on quarterly data, real GDP growth is estimated at 6% in 2023. This was driven by a successful tourism season and strong private consumption growth on the back of a large inflow of foreign nationals, higher wages and pensions, rising employment and household borrowing. The increase in exports of goods and services outpaced the growth of imports. The overall contribution of net exports to GDP growth was positive. Gross fixed capital formation and government consumption expanded moderately.

The current account deficit as a percentage of GDP narrowed to 10.9% in 2023 due to the strong growth of service exports. The surpluses of primary and secondary income declined, in line with the slowdown in the EU and lower remittances. The current account deficit is set to narrow slightly over 2024-2025 due to the solid performance of the tourism sector and the lower growth of imports resulting from moderating consumption.

The balance of risks is tilted to the downside due to high financing costs and political risks. A positive risk relates to Montenegro's participation in the EU's Growth Plan for the Western Balkans which would support capital expenditure investment and productivity. The expected growth of investment in 2024 is likely to support credit activity, in particular for the corporate sector.



Decreasing but still high unemployment

A strong tourism season and labour market measures adopted in late 2021 continued to exert a positive impact on job creation in 2023. The unemployment rate declined to a record low of 13.4%. However, employment growth is expected to decelerate in 2024-2025, in line with slower output growth, and the rate of unemployment is set to decline only slightly.

Inflation set to ease

Inflation eased throughout 2023 and remained relatively stable in the first quarter of 2024. In 2024, consumer prices are projected to increase at a slower pace than in 2023 due to lower import prices, while some positive impact is expected from domestic factors such as a large increase in the minimum pension since January and ongoing increases in wages and social transfers. Inflation is expected to moderate further in 2025.

Good fiscal performance in 2023, but risks ahead

The 2023 budget performed much better than expected. It recorded a surplus as a percentage of GDP estimated at 0.6%, driven by strong growth in public revenue and an under-execution of capital spending. The higher-than-projected revenue growth was supported by strong performance of VAT and excise income, as well as several one-off measures such as the economic citizenship program, the termination of a hedging arrangement and the EU energy support grant. Going forward, the general government deficit is projected to widen due to a significant increase in mandatory spending from 2024 onwards and slower revenue growth in line with decelerating consumption and the absence of one-off items. Due to the good fiscal performance and strong nominal GDP growth, the public debt-to-GDP ratio declined by almost 10 pps. in 2023 to 58.2%. Absent fiscal consolidation measures, the public debt-to-GDP ratio is projected to increase in 2024-2025 as nominal GDP and inflation are set to slow down while debt servicing costs rise. Public debt rollover needs will be significant in the upcoming years.

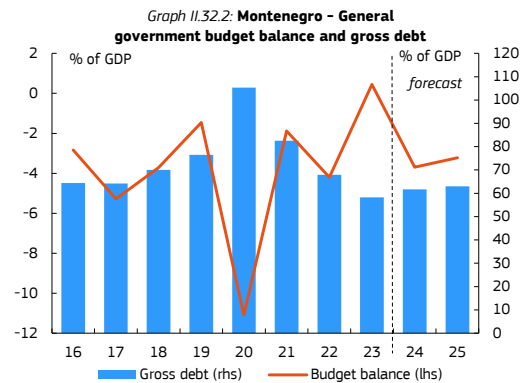


Table II.32.1:

Main features of country forecast - MONTENEGRO

	2023		Annual percentage change							
	mio EUR	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP	7160.2		100.0	3.3	-15.3	13.0	6.1	6.0	3.4	3.0
Private Consumption	5076.4		70.9	:	-4.6	4.1	9.7	5.4	3.2	2.5
Public Consumption	1240.6		17.3	:	0.8	0.5	1.2	2.6	2.8	2.4
Gross fixed capital formation	1448.4		20.2	:	-11.9	-12.3	-1.1	4.4	4.2	3.7
Exports (goods and services)	3596.2		50.2	:	-47.6	81.9	22.7	8.6	6.1	5.9
Imports (goods and services)	4709.2		65.8	:	-20.1	13.7	21.3	5.2	5.0	4.5
GNI (GDP deflator)	7227.6		100.9	:	-14.9	13.6	6.0	4.9	-1.2	2.6
Contribution to GDP growth:										
Domestic demand				4.6	-6.4	0.0	7.1	5.5	3.6	2.9
Inventories				-0.3	-1.0	0.2	2.5	0.0	0.0	0.0
Net exports				-1.5	-7.8	12.9	-3.5	0.5	-0.2	0.0
Employment				:	-10.1	-2.4	17.3	10.5	1.4	1.2
Unemployment rate (a)				18.1	18.3	16.8	15.0	13.4	11.8	11.7
Compensation of employees / head				:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				:	:	:	:	:	:	:
Consumer price index				2.7	-0.8	2.5	11.9	8.9	4.8	4.3
Terms of trade goods				:	:	:	:	:	:	:
Trade balance (goods) (c)				-43.0	-39.2	-38.7	-45.1	-40.4	-40.1	-39.6
Current-account balance (c)				-14.9	-26.1	-9.2	-12.9	-10.9	-10.3	-9.7
General government balance (c)				-2.9	-11.1	-1.9	-4.2	0.4	-3.7	-3.2
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				50.5	105.3	82.5	68.0	58.2	61.7	62.9

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.