MONTENEGRO

Table 1	2023
Population, million	0.6
GDP, current US$ billion	7.6
GDP per capita, current US$	12252.6
International poverty rate ($2.15)[a]	2.0
Lower middle-income poverty rate ($3.65)[a]	3.7
Upper middle-income poverty rate ($6.85)[a]	12.2
Gini index[a]	34.3
School enrollment, primary (% gross)[b]	100.7
Life expectancy at birth, years[b]	76.2
Total GHG emissions (mtCO2e)	3.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2022).

Montenegro's economy is expected to grow by 3.4 percent in 2024. Growth is projected to moderate but remain solid at 3.5 percent in 2025, boosted by wage increases. However, fiscal challenges persist as the government reduces pension contributions, likely increasing the deficit to 4.1 percent of GDP in 2025. Public debt is expected to rise to an estimated 64.5 percent of GDP by 2026. Maintaining fiscal sustainability will require disciplined policies amid high external financing costs and geopolitical uncertainties.

Key conditions and challenges

Montenegro, characterized by its small open economy, rich biodiversity, and EU ambitions, has shown resilience despite vulnerabilities to external and domestic demand shocks. As a euroized economy, it relies heavily on fiscal policy for macroeconomic stability. Given its reliance on tourism and the challenges of environmental degradation and climate change, the country would benefit from more sustainable development strategies. After a 15.3 percent contraction in 2020, the economy rebounded swiftly in 2021-23, averaging 8.6 percent growth per annum. Growth is estimated to remain robust in 2024 at 3.4 percent, driven by private consumption, still supported by foreign residents, primarily Russian and Ukrainian citizens.

Montenegro successfully reduced its public debt from 103.5 percent of GDP in 2020 to 59.3 percent in 2023, but a lumpy debt repayment profile represents a vulnerability. While one-off revenues resulted in a fiscal surplus of 0.6 percent of GDP in 2023, a return to fiscal deficits is expected in the medium term. Tax revenues remain below 2021 levels following the 2022 reform, which removed healthcare contributions and introduced the PIT allowance (Europe Now 1). Under the government's Fiscal Strategy 2024-27 (Europe Now 2), revenues are projected to decline further with the proposed reduction in pension contributions.

After years of political instability following the 2020 elections and the first power shift in 30 years, Montenegro's government, formed in October 2023 and reshuffled in July 2024, has made EU accession its priority. By March 2024, key judiciary and prosecution appointments were made, and in June 2024, a positive Interim Benchmark Assessment Report marked a crucial step, enabling the country to begin closing chapters and move closer to EU membership.

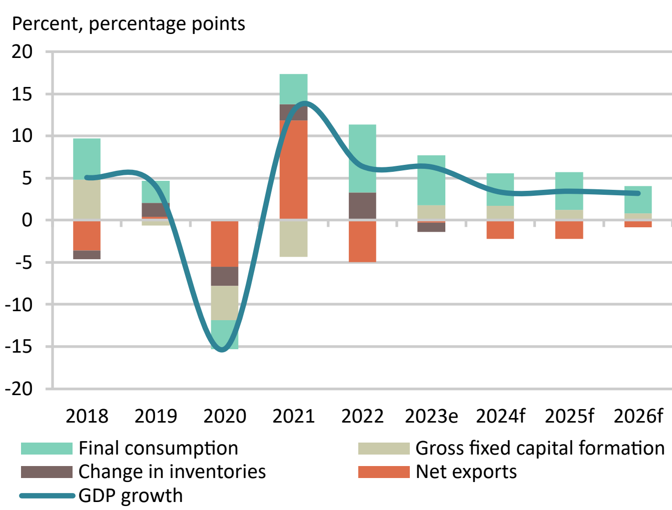
Recent developments

The solid growth from 2023 continued into 2024, although GDP growth moderated from 4.4 percent in Q1 to 2.7 percent in Q2. While increased private consumption and investment supported growth, their high import dependence led to higher imports, weighing on overall growth. By July, real retail trade had grown by 6.4 percent, and the value of construction works by 3.1 percent. However, tourist overnight stays fell by 4 percent, and industrial production by 6.5 percent.

Strong employment gains across all sectors continued into 2024. In Q2, LFS data showed employment and activity rates of 56.7 percent and 64 percent, respectively, while the unemployment rate dropped to 11.4 percent.

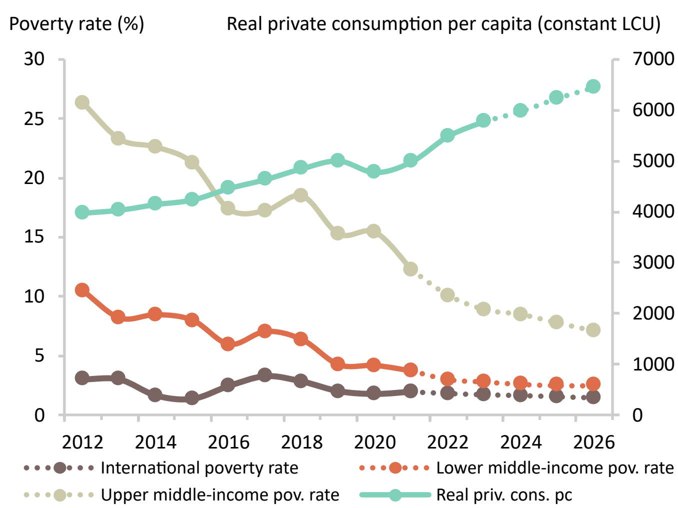
By July, annual inflation averaged 4.6 percent, and real wages increased by 1.2 percent y/y. Poverty (income below $6.85/day in 2017 PPP) is projected to have declined to 8.8 percent in 2023.

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.

The financial sector is well capitalized and liquid, and credit growth remains strong. In June, the average capital adequacy ratio was at 19.5 percent, while non-performing loans declined to 5 percent from 6.1 percent of total loans a year ago. By June 2024, banking sector lending and deposits increased by 12.5 and 2.1 percent y/y respectively.

In H1, the current account deficit (CAD) widened due to lower service exports and a decline in net income accounts, driven by higher dividend and interest payments. Net foreign direct investment (FDI) fell by 5 percent, covering a third of the CAD, with the remainder financed through new debt. External debt stays high at 130 percent.

In the first seven months of 2024, the central government achieved a fiscal surplus of 0.4 percent of GDP. Revenues rose by 8.6 percent, despite one-off revenues in 2023, supported mainly by stronger VAT and CIT collection.

Expenditures grew by 17.9 percent, mainly due to increased social transfers following the minimum pension increase to €450 in January 2024. In June, public debt stood at 60.8 percent of GDP, and in September, S&P upgraded Montenegro's credit rating from 'B' to 'B+'.

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, but also investments. Considering the anticipated increase in the minimum and net wages from October 2024 as reflected in the Fiscal Strategy, personal consumption is expected to drive growth in 2025 to 3.5 percent, despite a closure of the thermal power plant in 2025 for reconstruction that will require greater energy imports. Medium-term growth is expected to be sustained and stimulated by the progress towards EU membership. The CAD is projected to widen to 12.6 percent of GDP in 2024 and further to 13.7 percent in 2025 due to higher energy imports, with just half of it financed by net FDI, which may challenge sustainability. Inflation is expected to soften only slightly to 3.7 percent in 2025 and further to 2.7 percent in 2026. Poverty is projected to decline by 1.8 percentage points from 2023 to 7.0 percent in 2026. Most of the poor are chronically unemployed, students, or out of the labor force, often living in the northern region. Thus, reducing poverty further requires targeted government policies alongside sustained economic growth. The fiscal deficit is expected to increase in 2025 to an estimated 4.1 percent of GDP before gradually declining to 3.7 percent in 2026. The reduction in pension contributions is expected to create a revenue shortfall despite the government's planned compensatory measures. Implementing additional fiscal consolidation measures would improve fiscal performance and help ensure sustainability. Public debt is expected to rise to an estimated 64.5 percent of GDP in 2026. Maintaining debt sustainability will require strong fiscal discipline, especially amid challenging global financial conditions and significant financing needs over 2025-27. The outlook is clouded by potential downside risks. Heightened geopolitical uncertainties may weaken growth prospects for Montenegro's trading partners, while the high cost of external financing poses a risk given the country's substantial financing needs. Domestic political developments also pose a risk.

TABLE 2 Montenegro / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	13.0	6.4	6.3	3.4	3.5	3.2
Private consumption	4.0	9.7	6.5	4.0	4.8	3.5
Government consumption	0.5	1.5	3.1	2.8	2.7	1.8
Gross fixed capital investment	-12.3	0.1	6.9	6.6	4.6	3.0
Exports, goods and services	81.9	22.7	9.0	0.4	3.8	4.0
Imports, goods and services	13.7	21.3	5.9	3.1	5.3	3.5
Real GDP growth, at constant factor prices	13.2	6.3	5.7	3.4	3.4	3.2
Agriculture	-0.5	-2.9	-0.3	0.5	0.5	0.5
Industry	1.4	-5.2	5.1	-2.5	-6.8	5.0
Services	19.1	10.6	6.5	5.0	6.0	3.1
Inflation (consumer price index)	2.4	13.0	8.6	4.2	3.7	2.7
Current account balance (% of GDP)	-9.2	-12.9	-11.4	-12.6	-13.7	-13.2
Net foreign direct investment inflow (% of GDP)	11.7	13.2	6.2	7.0	7.0	7.0
Fiscal balance (% of GDP)	-2.1	-4.9	0.6	-2.8	-4.1	-3.7
Revenues (% of GDP)	44.0	38.6	42.2	41.5	39.7	39.7
Debt (% of GDP)	84.0	69.2	59.3	62.2	61.6	64.5
Primary balance (% of GDP)	0.2	-3.3	2.4	-0.8	-1.8	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.0	1.8	1.7	1.6	1.5	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.7	3.0	2.8	2.6	2.5	2.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.2	10.1	8.8	8.1	7.5	7.0
GHG emissions growth (mtCO2e)	3.9	2.6	2.6	-2.3	-4.4	0.6
Energy related GHG emissions (% of total)	67.8	69.2	70.3	70.0	69.1	69.9

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 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.