



Montenegrin
Economic
Outlook

Institute For Strategic
Studies and Prognoses



This publication is created under the project “Increasing the analytical capacities of ISSP” which is implemented by KOF and ISSP as part of SCOPES – Scientific Co-operation between Eastern Europe and Switzerland program which is funded by Swiss National Science Foundation and Swiss Agency for Development and Cooperation.





Executive
Summary

Executive summary

The global economy has been characterised by moderate improvements in global trade and investments, as well as by increased political uncertainty in numerous parts of the world. The achieved growth rate of the global GDP in 2015 amounted to 2.7%, while according to the World Bank, the expected growth rate of global output in 2016 and 2017 is estimated at 2.3% and 2.7%, respectively. The biggest risks that could shake the global economy are coming from imbalanced economic policies of the biggest economies. Looking more regionally, the economic growth rate is low in all South Eastern European countries, which were characterised by huge budget and trade deficits and lower levels of foreign investments in 2016. During 2016, Montenegro recorded positive GDP growth rates. If compared to 2015, growth was slightly positive in the first quarter, with a growth rate of 1.1%, while in the second, third, and fourth quarters, growth was more intense. In the second quarter, the GDP growth rate was 2.7%; it was somewhat lower with 2.4% in the third quarter, while the highest growth rate happened in the fourth quarter, amounting to 3.4%. The main drivers of GDP growth were the development of infrastructure (mainly energy and transport) and tourism. Investment activity had a major influence on GDP growth. In 2016, total investments in fixed assets in Montenegro amounted to 931 million €. Out of the total fixed capital investments, 52% refers to construction work, while 38% refers to equipment. When it comes to specific sectors, the sector with the greatest portion of investments share is the public sector (27.5%). This fact does not come as a surprise, having in mind the railway Bar-Boljare project that started in mid-2015. The expected growth rate of gross formed capital in 2017 is 29.6%. The total inflow of foreign direct investments in Montenegro in 2016, according to preliminary Central Bank data, was 687.1 million €, and FDI is expected to fall at a rate of 5.9% in 2017. Private consumption increased by 3% in 2016 compared to the previous year. The highest value was achieved in the fourth quarter, when private consumption amounted to 755 million €. Growth in private consumption could be explained by the growth of wages, especially in the public sector, which employs around 25% of all employed persons. Also, consumption growth is the result of the growth of pension funds and social security. The total amount of the export of goods in 2016 amounted to 325.8 million

€, which represents an increase of 2.7%. The structure of exported goods shows that the highest share is related to aluminium and aluminium products and mineral fuels, mineral oils, and products of their distillation. The export of services in 2016 amounted to 1.3 billion €, which represents an increase of 3.3% compared to 2015. Forecast shows that total exports will increase by 10.5% in 2017, which should be the result of the 11.3% increase in the export of services. On the other hand, the export of goods will continue to decrease and will be 9.4% lower. The total amount of the import of goods in 2016 amounted to 2 billion €, which represents an increase of 11.9% compared to 2015. The largest shares of the import of goods are related to machinery and transport equipment, food and live animals, and manufactured goods classified by material. The import of goods will increase in the next two years mostly as a result of increasing the import of machinery and transport equipment for the needs of infrastructural projects and projects in the fields of energy and tourism. The import of services in 2016 amounted to 478.9 million €, which represents an increase of 12.7% compared to the previous year. Forecast shows that total imports will have an increasing trend in 2017, when they will increase by 9.2%. On the labour market, the activity rate of the population (aged over 15+) in 2016 compared with 2015 increased from 53.7% to 54.5%, while the employment rate increased from 44.3% to 44.8% mainly due to increased activity and employment rates among the male labour force. The employment forecast for 2017 shows an increasing trend, i.e. total employment will increase by 2.0%. However, this increase will be conditioned by numerous factors. Average net wage in 2016 amounted to 499 €, and it was 4% higher compared to the average net wage from 2015. This increase is mainly due to the government decision to increase the wage levels in public administration. The major economic trends are positive and indicate growth expectations in all components of the GDP in the following two years. The main drivers of growth will be the continuation of major infrastructure projects, namely: highway construction, the Ionian Adriatic Corridor, the construction of the second block of the thermal power plant, connecting electro-energy systems with Italy and Serbia, as well as the upgrade of utility and rural infrastructure.



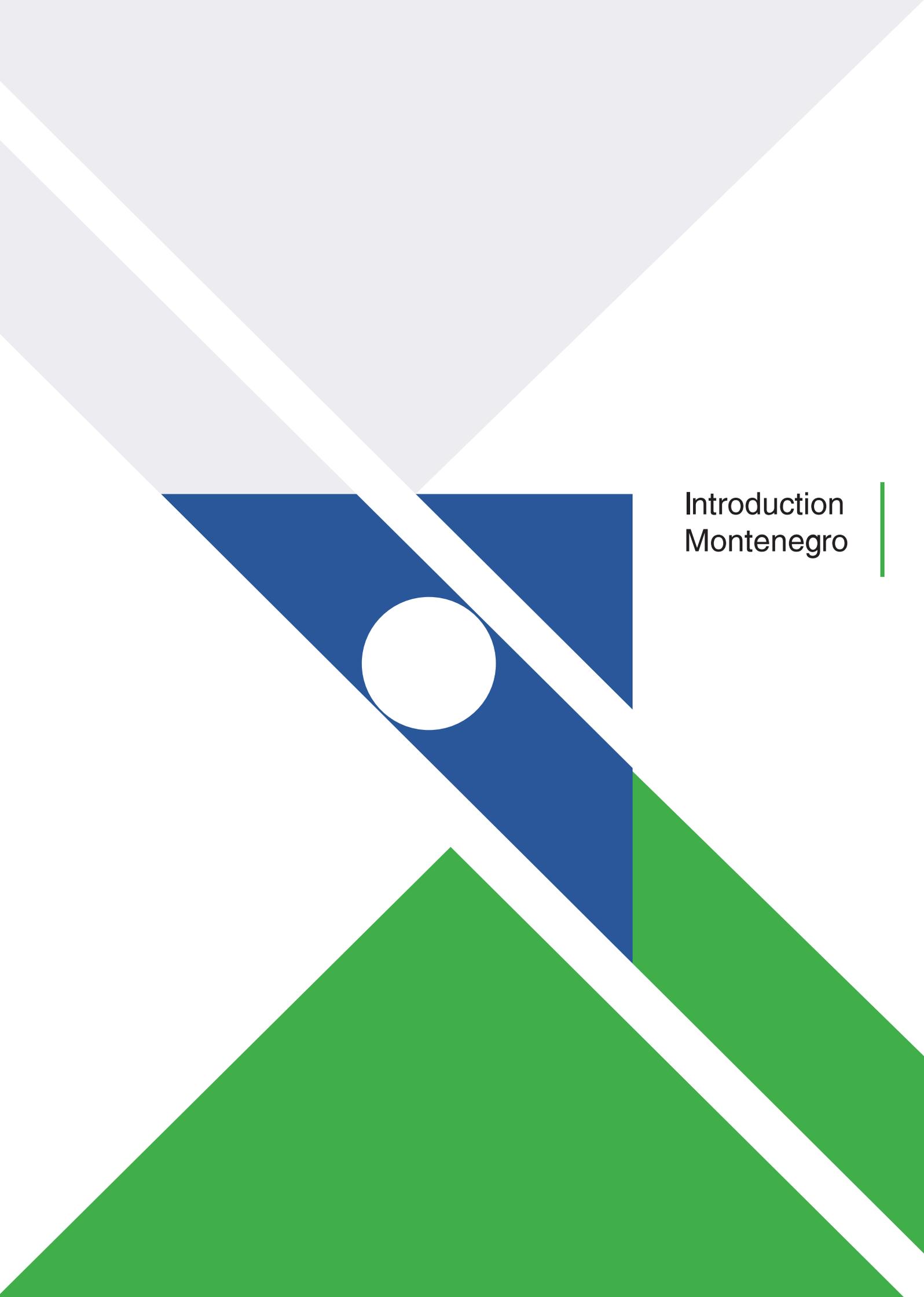
Overview of
international
environment

Overview of international environment

The global economy has been characterised by moderate improvements in global trade and investments, as well as by increased political uncertainty in numerous parts of the world. The achieved growth rate of the global GDP in 2015 amounted to 2.7%; according to the World Bank, the estimated growth rate of global output in 2016 was 2.3%, while the forecast for 2017 is 2.7%. The highest growth rate of 3.4% was recorded in emerging markets and developing economies, while advanced economies grew by 1.6%. The expectations for 2017 are related to the decrease of export barriers and solid domestic demand for the export of goods and services. The biggest risks that could shake the global economy are coming from the doubt that the world's biggest economies can lead imbalanced economic policies. Fiscal stimulants in the biggest economies, especially in the USA, can significantly increase economic activity in the short-term, a lot faster than expected. Considering that macroeconomic policy cannot absorb more shocks, structural reforms, which enhance growth potential, are still the top priority. Forecasts show that investing in human assets and fixed capital could lead to more stable growth in the long-term. Also, political reforms, as well as improving international integrations through trade promotions and direct foreign investments, could strengthen the resistance of the economy and improve chances for growth. The growth rate in the EU will stay low and, with an aging population, will depend more on productivity growth. Despite the lower global growth rate, which led to a lower demand of the EU's products abroad, the EU had a growth rate of 1.9% in 2016. According to the latest research of Eurobarometer, dissatisfaction with political institutions, rooted negative interests, as well as an aging population could strengthen resistance to growth-enhancing reforms. Monetary policy has lived up to expectations up to this point; interest rates are at a record low lev-

el, and in some countries, even total credits have increased. Expansionary fiscal policy can contribute to the growth rate in the EU. However, member countries of the EU with need for a fiscal stimulant also have high public debt, which continues to grow despite the lowest interest rates in history. Reforms in the service sectors, as well as productivity growth, can increase the growth rate in general. However, the low level of investments and the decline in the labour force could cause a negative growth rate. Balkan countries, Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia (in further text: SEE), function in a very specific environment. Huge insecurities in political, legal, and institutional systems have big negative effects on these countries. The economic growth rate is low in every SEE country. All SEE countries were characterised by huge budget deficits, large trade deficits, and lower levels of foreign investments in 2016. Balkan countries have been persistent in developing successful fiscal policy from the beginning of the recession. This approach has paid off in some countries of the region, such as Serbia, Albania, and Bosnia and Herzegovina. However, a downturn in fiscal policy and an increase of public debt is expected in Kosovo, Macedonia, and Montenegro. Credit activity has increased in Serbia, Albania, and Macedonia, whilst it has decreased in Montenegro and Bosnia and Herzegovina due to reduced demand. Banks in the Balkans are still profitable, liquid, and well capitalised. The main problems are the low growth rate of the GDP, high unemployment, and large public debt. EU countries will still have a huge effect on the countries from the Balkans. Hence, rising insecurity in politics of the EU could lead to decreased economic activity in the SEE countries. The World Bank predicts a bigger growth rate of 2.7% in the region in 2016. Economic growth is mostly expected to recover in Serbia and Albania, with the majority of foreign investments in Serbia, Albania, and Montenegro.

GDP grow rates	2015	2016	2017
World	2.7	2.3	2.7
Euro Area	2.0	1.6	1.5
EMDEs	3.5	3.4	4.2
BRICS	3.8	4.3	5.1
United States	2.6	1.6	2.2
Japan	1.2	1.0	0.9
China	6.9	6.7	6.5
Russia	-3.7	-0.6	1.5



Introduction
Montenegro

Graph 1: Growth rates of GDP



Gross Domestic Product GDP

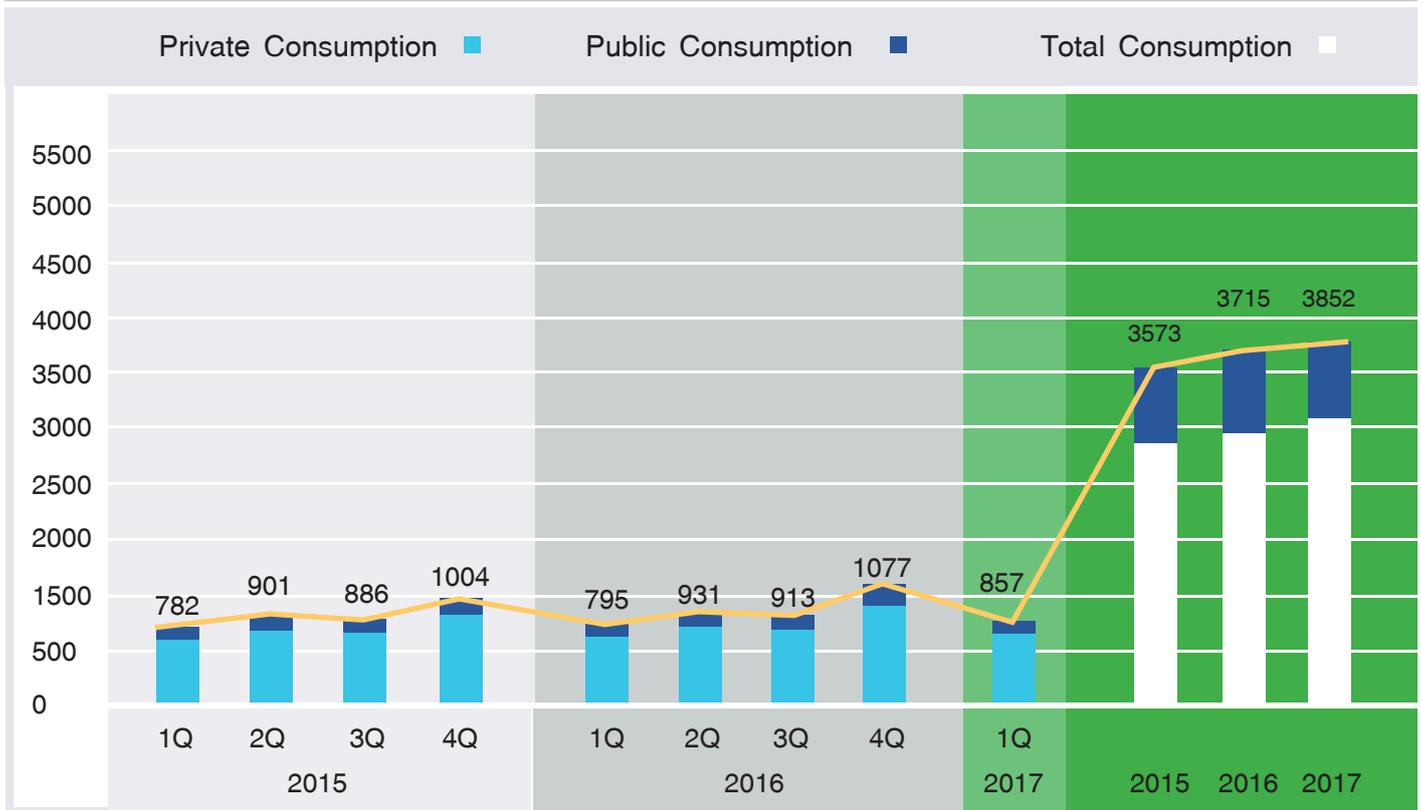
During the four quarters of 2016, Montenegro recorded positive growth rates of the GDP. Similarly to the growth trend from the previous years, growth was slightly positive in the first quarter, while during the period from April to December (second, third, and fourth quarters), a more intensive growth of the GDP was recorded. The GDP growth rate in the second quarter was 2.7%, while in the third quarter it was lower and amounted to 2.4%. The highest growth rate happened in the last quarter, and it amounted 3.4% compared to the previous year. The main drivers of GDP growth during the mentioned period were the development of infrastructure (energy and transport) and tourism. Investment activity greatly contributed to GDP growth. In the second quarter of 2016, it was more than doubled in comparison to the first quarter of the same year. However, high investments have affected the ability of the import of goods to meet investment spending. Besides investments, on the consumption side, private consumption had a significant impact on GDP growth. The contribution of private consumption to the GDP growth rate is around 2 percentage points. An analysis of GDP growth based on production shows that the most important contributing sectors were tourism and construction. The construction of the highway and the wind power plants generated high investments. Namely, the index of realised construction works in 2016 was 149, and the number of issued construction permits increased by 27.2% in 2016 in comparison with 2015. Activity in the tourism sector contributed to an increase of the export of services and GDP growth. In 2016, the number of tourist overnight stays increased by 8.4%, while total arrivals in-

creased by 10.2%. These positive trends were realised due to the notable share of foreign tourists who made up 87.5% of the total number of overnight stays. Turnover in retail trade recorded positive growth rates as well. In comparison to 2015, turnover in retail trade increased by 4.1%. The highest turnover was reached in the second and the third quarters, considering that these quarters are quarters with the largest tourism activity. The transport of passengers and goods also increased during 2016. Positive growth rates were recorded for all types of transport, except for maritime. Railway transport of goods increased by 41.2% in 2016. However, problems in maritime companies contributed to the negative trends in maritime transport. Total maritime transport of goods and passengers decreased by 20.5% and 8.3%, respectively. However, industrial production recorded negative growth rates during 2016. Namely, the index of industrial production was 95.6. The decline in production was registered in manufacturing production (7.8%) and mining and quarrying (18.1%). Temporary closed down of coal mine decreased production in mining and quarrying. On the other side, there was an increase of 3.5% in the production of electricity, gas, steam, and air conditioning supply. Further growth of investments in the coming period will contribute to GDP growth. Connected to investments, construction will record positive growth rates. An increase in total consumption is expected in 2017. Improvements in tourism offers and an increase in the number of tourists will affect growth in the export of services. In addition, positive trends are expected in agricultural production. Finally, according to the projections for 2017, the GDP of Montenegro is expected to increase by 4.2%.

Consumption



Graph 2: Total Consumption



Source: MONSTAT (actual values), ISSP forecasts

Consumption

Total consumption at the end of the fourth quarter in 2016 amounted to 983 million €. It increased by 6.4% in comparison with the same period from the previous year. With respect to structure, private consumption amounts up to 80% of total consumption, while only one fifth of total consumption is government consumption. In 2016, private consumption increased by 3% in comparison with the same period in 2015. The highest value was achieved in the fourth quarter when private consumption amounted to 755 million €. Growth in private consumption could be explained by the growth of wages, especially in the public sector, which employs around 25% of all employed persons. Also, consumption growth was the result of the growth of pension funds and social security. Specifically, the new Law on Social and Child Protection was adopted in 2016, and mothers with three or more children became entitled to lifelong compensation. Also, lending activity of households increased by 10.5% in 2016 compared to the previous year, which also influenced growth in consumption. However, deposits of the population increased too, but by a lower amount than the increase in loans.

The average annual inflation rate in 2016 was -0.3%, and with higher income and lower prices, especially food and oil prices, the purchasing power of the population has increased. Such trends have influenced the growth in household consumption. Government consumption increased by 4.0% in 2016. Considering that public sector wages make up 60% of the total budget expenditure (current), the growth of wages in public administration affected the increase of government consumption. In addition, total subsidies and costs for material increased by 38% and 22%, respectively, which contributed to the growth of government consumption. In the coming period, an increase in consumption is expected. At the end of 2017, total consumption will be 3,851.6 million €, out of which household consumption will amount to 3,075.1 million € or 79.8% of total consumption. The annual growth rate of government consumption in 2017 will be -2.3%. In addition, annual growth contribution of final consumption in 2017 is estimated at 2.6%. Private consumption will have a higher annual growth contribution in comparison to government consumption.

Prices



Graph 3: Consumer Price Index



Prices

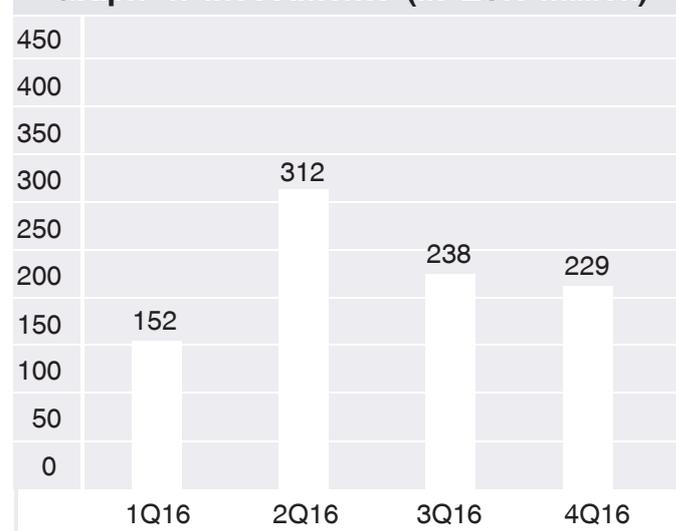
Considering that Montenegro is an open and eurised economy, the price level is strongly influenced by international economic trends, and the Central Bank of Montenegro does not have the ability to control the inflation rate. Accordingly, the price level in the countries that are the most important trade partners of Montenegro spills over to the domestic market. CPI in 2016 amounted to 99.7. Deflation was a result of the low prices of food and fuel on the global market, which were reflected on the Montenegrin market. Food prices decreased by 0.8% in comparison with those in 2015. The highest deflation rate was recorded for vegetables and fruits (8.6% and 5.5%, respectively) and meat (2.3%). The price of electricity was lower than that in 2015. In addition, transport prices decreased by 4.6% in comparison with the previous year. Oil prices had the most significant impact on deflation, as, the price of fuels and lubricants for personal transport equipment decreased by 1.2%. The lowest inflation rate was recorded in the second quarter (-16.2%). On the other hand, trends in tourism influenced the growth of prices. That is to say, the prices of accommodation services increased by 6.1% in 2016. The highest inflation rates were recorded in the fourth quarter (8.8%) and in the second quarter (7.4%). Growth of CPI was influenced by the growth in excise duties on tobacco and alcoholic beverages. Accordingly, tobacco prices increased by 3.3% and alcoholic beverages increased by 1.8%. In addition, clothing and footwear prices also increased in 2016. However, these price increases had a lesser impact on the inflation rate than the decrease of food and

fuel prices, which ultimately resulted in a negative inflation rate. Further price growth is expected in 2017. Oil prices increased at the end of 2016, as well as in January of the current year. In addition, an increase of excise duties is also expected, especially for mineral oils. Increasing excise duties is one part of harmonising Montenegrin legislation with EU legislation. The average inflation rate in 2017 is estimated at 3.0%.

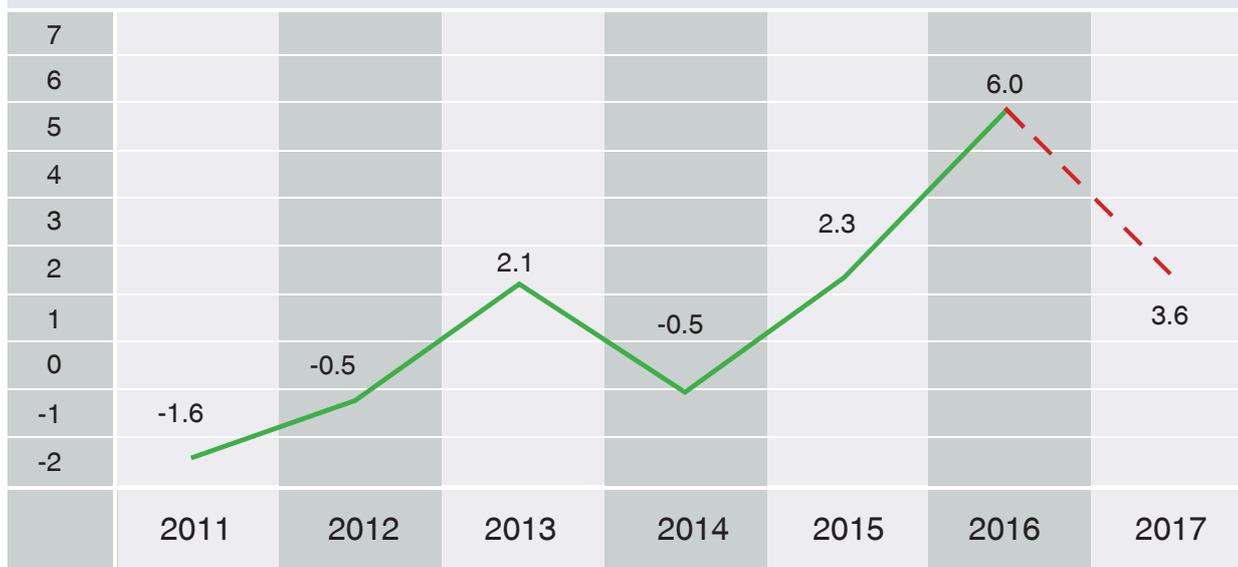
Overview of investments in 2016

In 2016, total capital assets investments in Montenegro were 931 million € in current prices. This represents a growth of 28% compared to the same period last year, when investments in 2015 amounted to 550 million €. The share of investments in the GDP also grew by 4.5% in 2016 compared to 2015.

Graph 4: Investments (in EUR million)



Graph 5: Contribution of gross formed capital to GDP

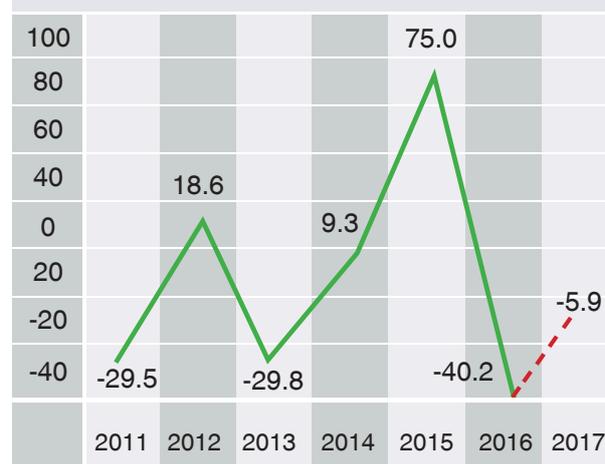


Source: Central Bank of Montenegro; Projections: ISSP

Of total investments in capital assets, 52% refers to construction works, while 38% refers to equipment. When it comes to specific sectors, the sector with the biggest share in investments is the public sector (27.5%). This does not come as a surprise, considering the start of the Bar-Boljare highway construction, which began in the middle of 2015. In 2016, funds spent on buying equipment by this sector grew by 152%, from 8.2 million € in 2015 to 20.6 million € in 2016. Another important sector in Montenegro, when it comes to investments, is wholesale trade (13.8% of total investments), which is at the same time the biggest sector in the structure of Montenegrin economy (12% of the GDP in 2015). Following the wholesale trade sector, the sectors with the biggest share in investments are information and communication (13.2% of total investments), energy (7.9% of total investments), and processing (6.4% of total investments), which are, by their nature, intensive capital sectors. The expected growth rate of gross formed capital in 2017 is 14.4%. Growth is mostly expected due to the continuation of the Bar-Boljare highway construction, as well as other state investments. The contribution of gross formed capital to the GDP in 2017 is estimated at 3.6%. The contribution of gross formed capital to the GDP in Montenegro is presented in the next graph. Although they are not part of the GDP, Foreign Direct Investments (FDI) are cer-

tainly a factor that affects the GDP. Total inflow of FDI into Montenegro in 2016, according to preliminary data of the Central Bank, was 371.6 million €. This amount represents a decrease of 40.0% compared to the previous year. Of the total inflow FDI, 25.5% were investments in companies and banks, 27.7% refers to inter-company debt, while 19.4% refers to real estate investment. The remaining 27.9% are classified as other investments. FDI in Montenegro comes from 102 countries; the leading countries are Norway, followed by Russia and Italy. According to projections, FDI rates are expected to fall by 5.9%.

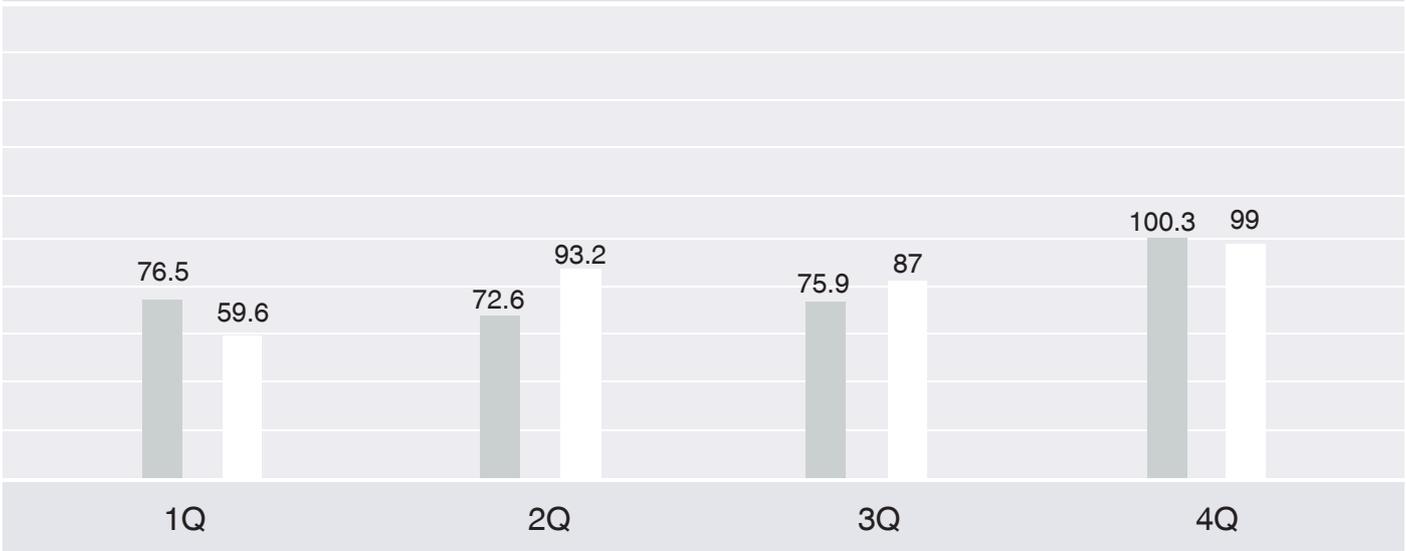
Graph 6: Rates of FDI in Montenegro



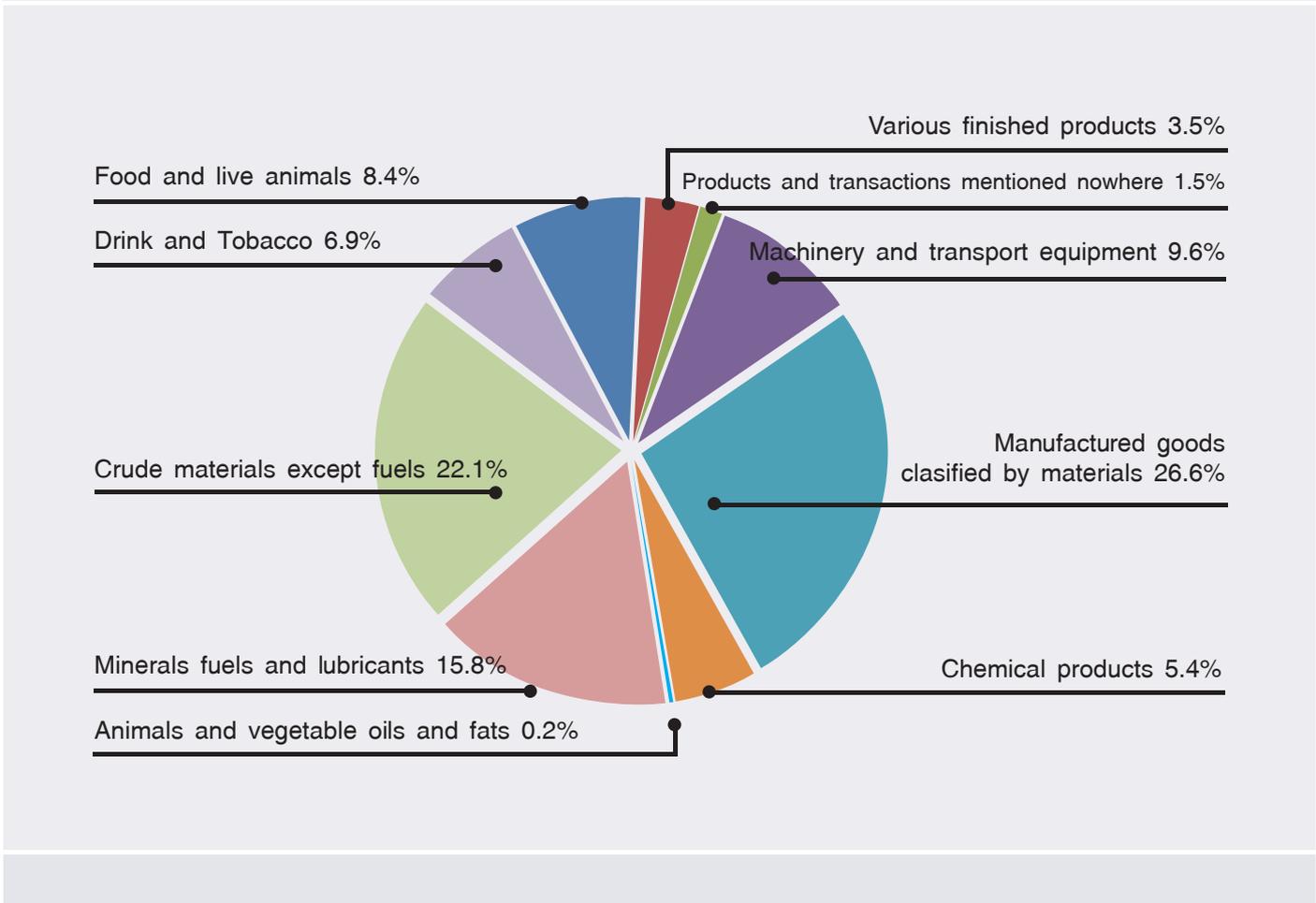
Export



Graph 7: Exports of goods in 2015 and 2016 (in million EUR)



Graph 8: The structure of export of goods for the period January-December 2016



Export

The total amount of the export of goods in 2016 amounted to 325.8 million €, which represents an increase of 2.7% compared to 2015 when it amounted to 317.2 million €. The structure of exported goods

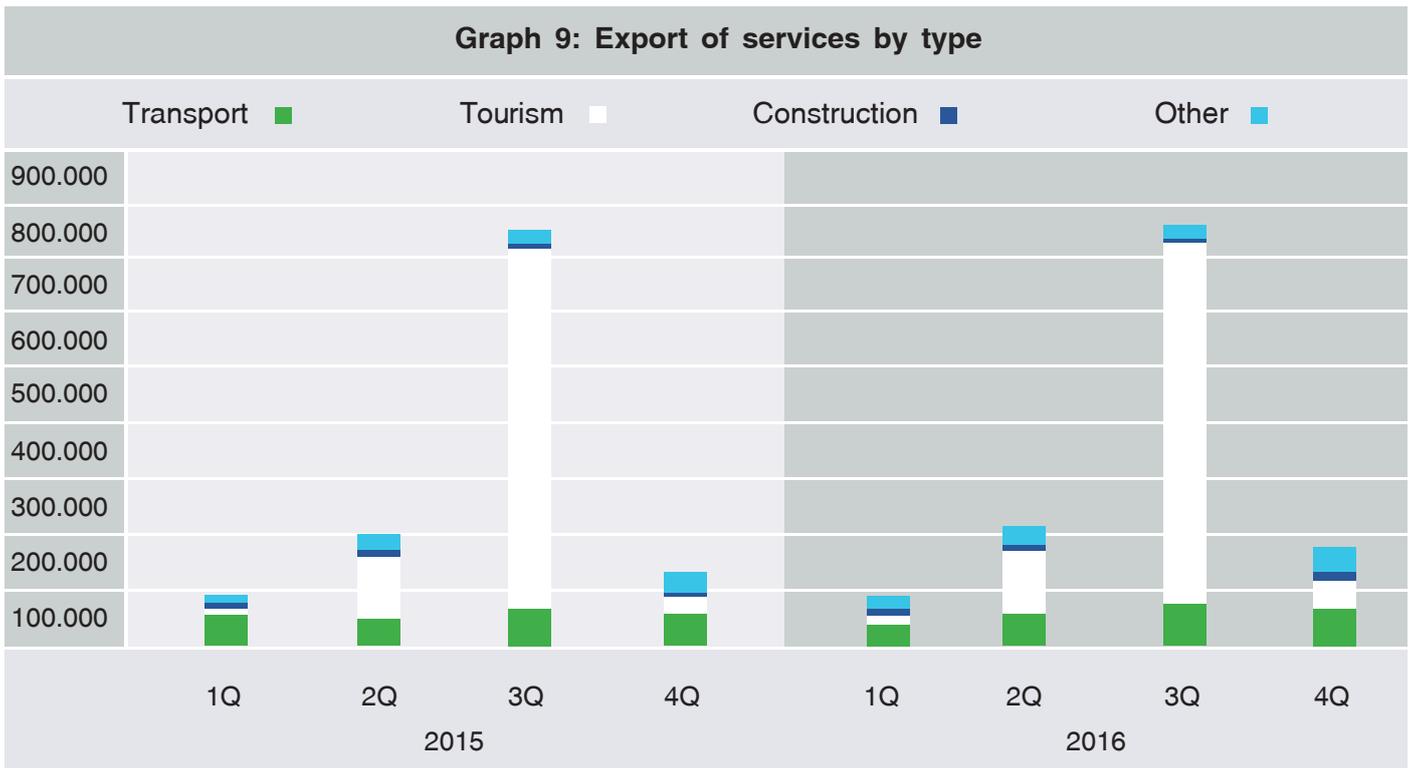
shows that the highest share is related to aluminium and aluminium products and mineral fuels, mineral oils, and their distillation products. The total export of goods in 2016 compared to the previous year was due to higher exports in the second and third quarters compared to the same quarters in 2015. Name-

ly, this was the result of the higher export of aluminium during the mentioned period, even though the price of aluminium at the global level was reduced. The total export of goods during the fourth quarter of 2016 was approximately at the same level as in the fourth quarter of 2015. In the first quarter of 2016, there was a decrease when compared to 2015. The result was a decrease in the export of aluminium and electricity, while an increase in expenditures from services was the result of a large outflow from other business services, transport, and tourism. In the structure of exports by the SITC, the highest share of exports came from manufactured goods classified chiefly by material, which constituted 26.6% of total exports, followed by crude and inedible materials, excluding fuels (22.1%), and mineral fuels, lubricants, and related materials (15.8%). In the category of manufactured goods classified chiefly by material, the most common was aluminium, amounting to 72% of the total category of manufactured goods classified chiefly by material, while the export of iron and steel amounted to 18% of the total category. Although the price of aluminium recorded a decrease at the global level, Montenegro registered an increase in the export of aluminium, as well as in the export of electricity compared to 2015. Besides the abovementioned manufactured goods Graph 9 clearly shows that machinery and transport equipment (with 9.6% of total exports), food and live animals (8.4%), and beverages and tobacco (6.9%) also had an essential role in total exports. The lowest percentage of total exports in Montenegro in 2016 was related to the export of animal and vegetable oils, fats, and waxes (0.2%). When analysing export destination during 2016, the main foreign trade partners of Montenegro were CEFTA countries with 45% of total exports, followed by the EU where Montenegro exported 37.5% of goods, and other countries with a share of 17% in total exports. The largest export partners were Serbia (82 million €), Hungary (35 million €), and Bosnia and Herzegovina (26.6 million €).

Export of services

The trade volume of services in 2016 amounted to 1.3 billion €, which represents an increase of 3.3% compared to 2015 when it amounted to 1.2 billion €. The highest revenues in the export of services came from transport services, which registered 9% growth over the previous year, travel and tourism (growth of 2.8%), and other business services (growth of 8.7%). Also, one of the largest incomes in the export

of services was generated by air transport, while there was a decrease compared to 2015 in maritime transport. Positive trends in the transport sector were the result of an increase in economic activity – an increase in the volume of foreign trade, positive developments in the field of tourism and energy, as well as improved work on transport infrastructure. Forecast shows that total export will increase by 10.5% in 2017, which should be the result of an 11.3% increase in the export of services. In addition, the export of goods will increase as well. Namely, the growth rate of the export of goods will be 7.6% in 2017. With trends like these and upward projections in the future, we can most likely expect a continuous trend of increase in the export of services and a decrease in the export of goods as a result of the economic situation in Montenegro and the falling price of aluminium at the global level. This situation could result in a decline in exports because the export of aluminium makes up the largest share of exports. Also, growth in the export of services is expected because of the large investments and tourism projects, which will improve the status of Montenegro as a tourist destination.



Source: Monstat for actual values, ISSP for forecast

Import



Import

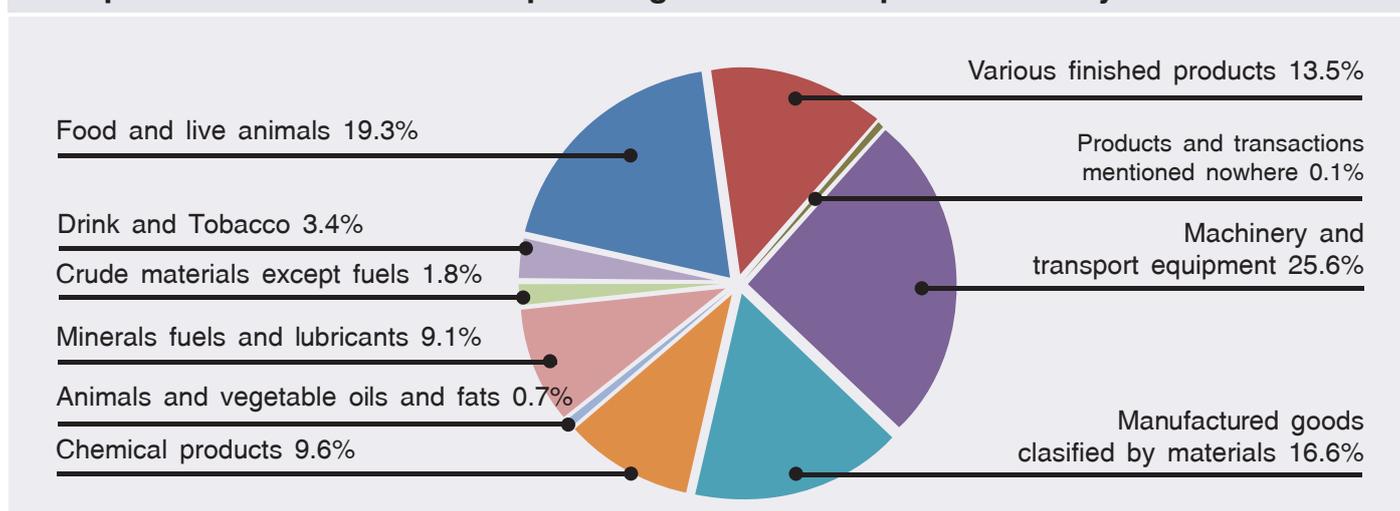
The total amount of the import of goods in 2016 amounted to 2 billion €, which represents an increase of 11.9% compared to 2015 when import amounted to 1.8 billion €. The largest shares of the import of goods were related to machinery and transport equipment, food and live animals, and manufactured goods classified by material. The graph shows that the import of goods in 2016 in each of the four quarters was higher than the import from the same quarters in 2015. Compared to the previous year, the highest increase came from the import of road vehicles, propulsion machinery, and transport equipment, while the highest decrease was recorded by the subcategories of oil and oil products, mineral ores, and scrap metal. In the structure of imports, the highest shares belonged to machinery and transport equipment (25.6%), followed by food and live

animals (19.3%), and manufactured goods classified by material (16.6%). The import of food and animals grew by 4.5% compared to the previous year. Within this category, the most common import products were meat and meat products as well as fruits and vegetables. The import of oil and petroleum products fell by 17%. In addition to the abovementioned products, various finished products (13.5% of total imports), chemical products (9.9%), and mineral fuels and lubricants (9.1%) also played a big role in the total import of goods. In 2016, the main foreign trade partners of Montenegro from the import side were Serbia (457.2 million €), followed by Germany (217.2 million €), and China (185.1 million €). Other significant partners with somewhat smaller shares in total import were Italy, Bosnia and Herzegovina, Croatia, and Greece.

Graph 11: Import of goods in 2015 and 2016 (in million E)



Graph 12: The structure of import of goods for the period January-December 2016



Import of services

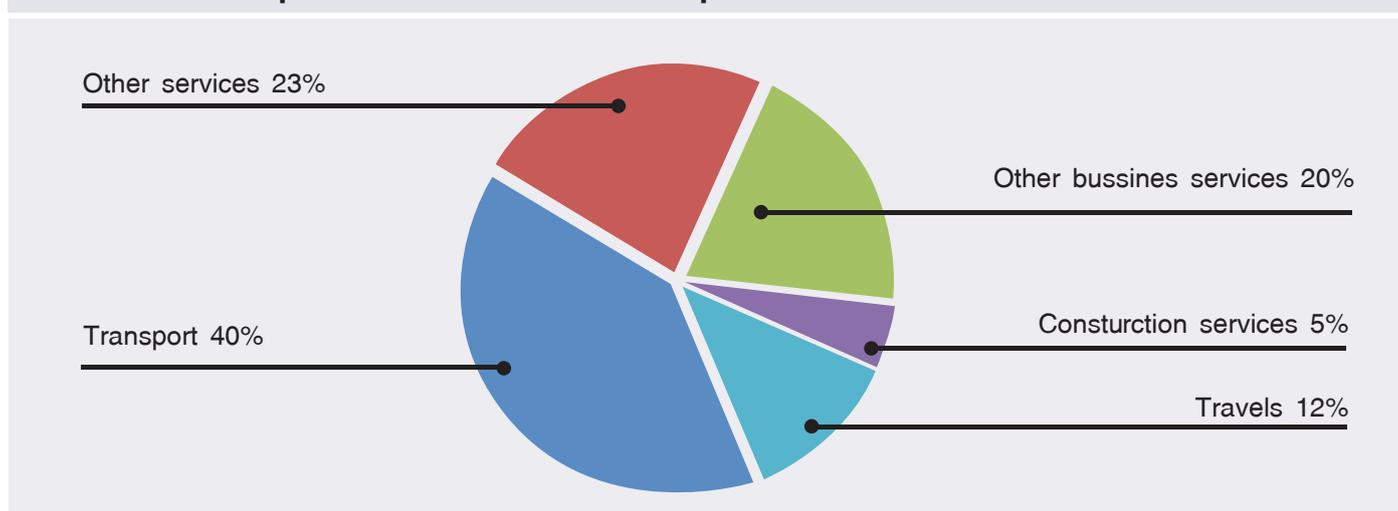
The import of services in 2016 amounted to 478.9 million €, which represents an increase of 12.7% compared to the previous year, when the import of services amounted to 424.7 million €. In the structure of expenditures based on the imports in 2016, the largest shares were made up by transport expenditures (185.1 million €), expenditures on other services (112.3 million €), and expenditures on other business services (96.9 million €). Compared to the previous year, the total expenditures for transport services increased by 22.8%, and in the area of travel, expenditures increased by 48.9%, while the import of construction services fell by 48.8%. Forecast shows that total imports will exhibit an increasing trend in 2017, when they will increase by 9.2%. The

import of goods will increase by 9.9%, and the import of services will increase by 6.5% in 2017. With trends like these and upward future projections, we can most likely expect a continuous trend of increase in the import of goods and services. The import of goods will increase in the next two years mostly as a result of the increasing import of machinery and transport equipment for the needs of infrastructural projects and projects in the field of energy and tourism. In particular, imports will increase due to the construction of the highway, the construction of hydropower plants and wind farms, as well as the setting up of power cables. Expenditures for services increased by 12.7% in 2016, with the largest expenditures being in transport and business services.

Graph 13: Growth rates of imports of goods and services



Graph 14: The structure of expenditures for services in 2016



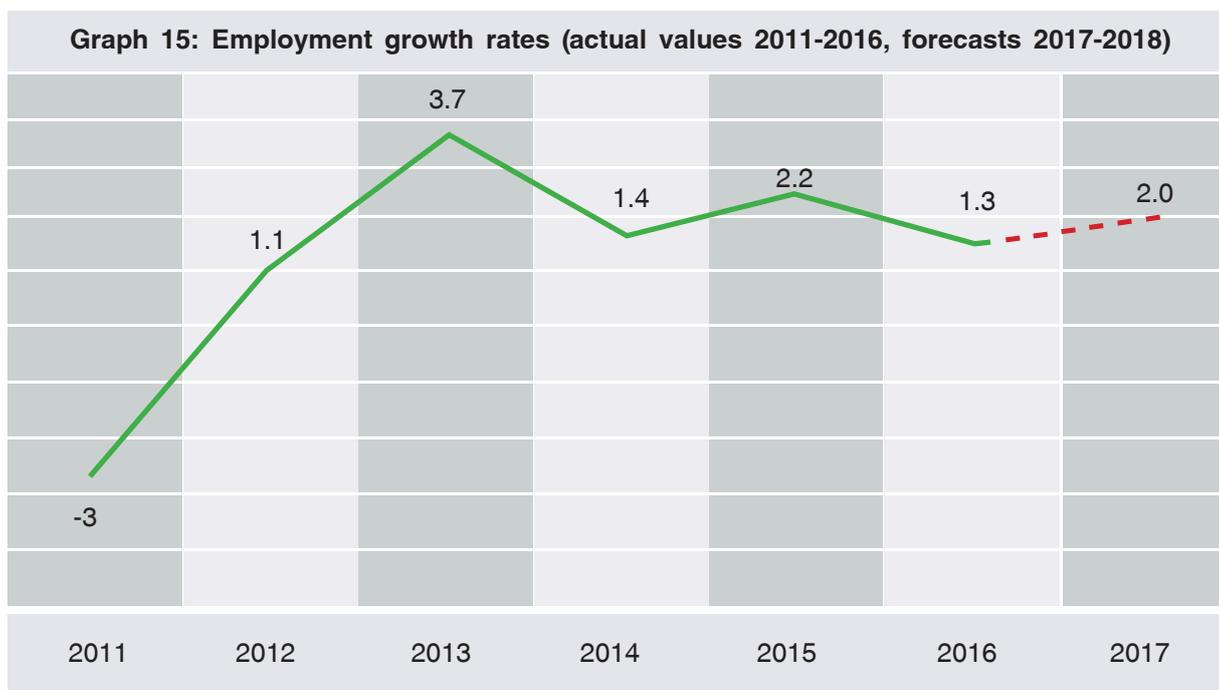


Labor Market

Labor Market

The basic characteristics of the realised labour market trends in Montenegro (according to indicators of MONSTAT and the Employment Agency of Montenegro) can be summarised as follows: The activity rate of the population (aged over 15+) in 2016 compared to 2015 increased from 53.7% to 54.5% (0.8 p.p.), while the employment rate increased from 44.3% to 44.8% (0.5 p.p.), mainly due to increased activity and employment rates among the male labour force. Somewhat higher activity and employment rates were recorded in the population aged 15-64. The unemployment rate remained at almost the same level as in 2015 according to LFS data, and it increased slightly from 17.8% to 18%. However, registered unemployment (EAM data) shows that at the end of 2016 total unemployment increased and the unemployment rate amounted to 21.3%, which is significantly higher compared to the 17.2% from the end of 2015. The main reason for these changes is the application of the new provisions of the Law on Social and Child Protection, according to which the achievement of financial compensation of certain

categories of women is associated with a particular period of unemployment status. According to EAM data, the share of women and men in total unemployment amounted to 52.3% and 47.7%, respectively, which is approximately the same structural relation as at the end of 2015. Registered employment during 2016 amounted to 177,908, which represents growth of 1.2% compared to 2015. When observed by quarters, the highest employment during 2016 was registered during the third quarter as a result of increased employment in the tourism and construction sectors during the summer months. Total employment recorded growth during all four quarters of 2016 in relation to the same quarters in 2015. The highest growth rate, compared to the same quarter of the previous year, was recorded in the 4th quarter of 2016 and amounted to 2.4%. In the Northern, Central, and Coastal regions, employment growth was at the average level; thus, the regions' share in total employment remained at approximately the same levels, i.e. 19.5%, 52.0%, and 28.5%, respectively. The employment forecast for 2017 shows an



Source: MONSTAT and EAM for actual values, ISSP for forecasts

Graph 16: Employment growth rates (actual values 2011-2016, forecasts 2017-2018)

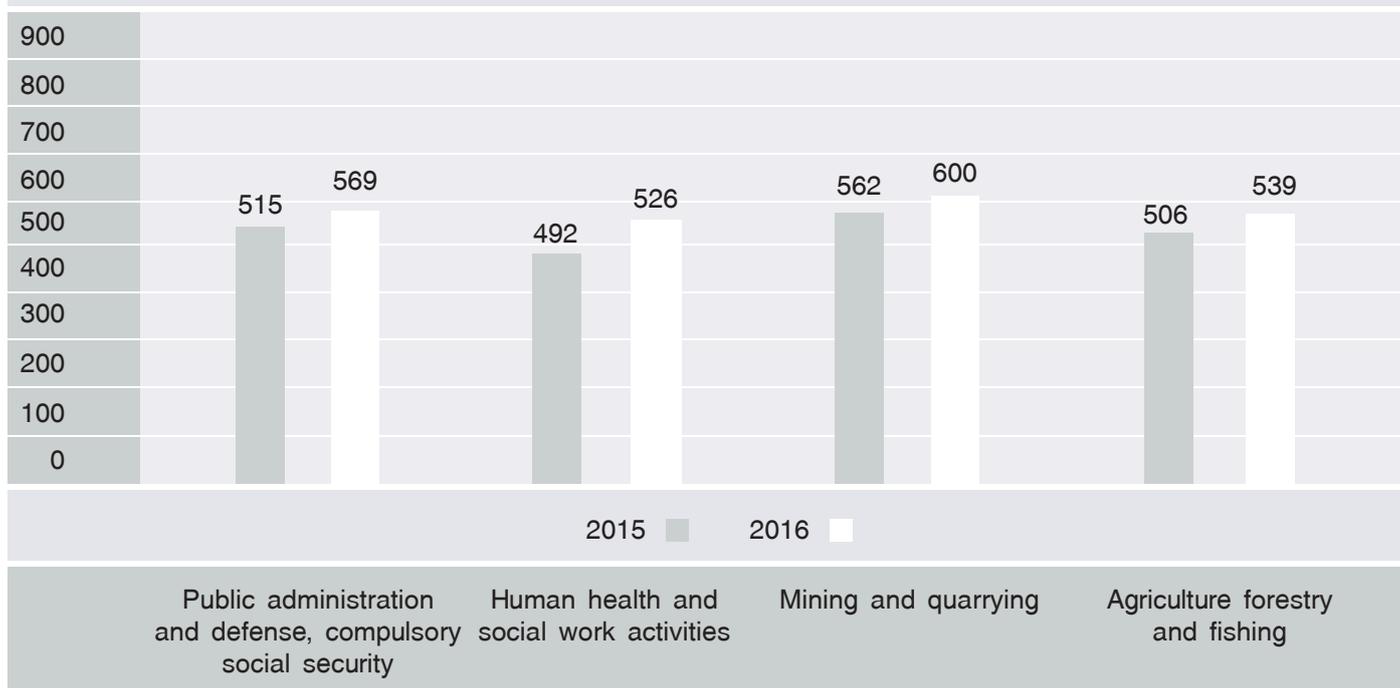


Source: MONSTAT for actual values, ISSP for forecasts

increasing trend, i.e. total employment will increase by 2.0%. However, this increase will be conditioned by numerous factors, such as projected trends at the global and regional levels, the obligations of the EU accession process, efficiency in the implementation of strategically defined goals related to strengthening economic growth and development, and, in respect to this, the valorisation of significant natural, economic, and human resources. Employment will gradually increase during the period as a result of growth in economic activity caused by high levels of investment. Total employment will increase in the following period due to increased economic activity, particularly in the sectors of construction, mining, and quarrying. It is expected that the dynamics of the labour market will be more intense because strategic investment projects assume a higher degree of involvement of local capacities and the labour force in project implementation. In order to reduce unemployment, as well as increase activity and employment, it is necessary to effectively implement an active employment policy, bearing in mind its limited funding (2.8 million € in 2017) due to budget consolidation and saving measures. This approach especially applies to those measures that target young people, women, and the less employable categories of unem-

ployed persons. The expected elimination of legislative measures that discourage women's participation in the labour market (for example, provisions of the Law on Social and Child Protection that led to an increase in unemployment at the end of 2016) should contribute to the enhancement of labour market indicators. The average net wage in 2016 amounted to 499 €, and it was 4% higher compared to the average net wage from 2015. This increase was mainly due to the government decision to increase wage levels in public administration. The Law on Salaries of Public Sector Employees came into force in March 2016, and it assumed increased wages for civil servants. Furthermore, representatives of the Ministry of Health and trade unions signed a branch collective agreement in April 2016, which assumed an increase of salaries for those employed in the health sector. Hence, the highest growth rate of wages was registered in the public administration, defence, and compulsory social security sectors (10.5%). Besides these sectors, the following sectors registered the highest growth rates of wages in 2016 compared to 2015: agriculture, forestry, and fishing (6.5%), mining and quarrying (6.8%), human health and social work activities (6.9%), etc. Net wages registered growth during each quarter of 2016. The increase is visible

Graph 17: Wage levels in sectors with the highest growth rate of net wages (in E)



in comparison to the same quarter of the previous year, but also compared to the previous quarter. The highest growth rate was registered in the first quarter of 2016 when the average wage increased by 1.4% compared to the previous quarter. Wages will continue to grow in 2017 and slowly in 2018. Growth of 2.4% in 2017 could be a consequence of the ex-

pected wage growth in sectors such as manufacturing, information, and communication (negotiations in some companies are ongoing), but also in sectors such as arts, entertainment, and recreation, which have a greater share in employment.

Source: MONSTAT

Anex



Nominal variables in levels	2011	2012	2013	2014	2015	2016	2017
Final consumption expenditure	3350.72	3303.5	3378.62	3444.74	3573.4	3715.0	3851.6
Household consumption	2663.1	2632.4	2723.7	2774.9	2871.9	2947.2	3075.1
Government consumption	687.7	671.13	654.9	669.9	701.5	767.8	776.5
Gross fixed capital formation	637.0	628.4	678.1	657.1	736.3	930.9	1045.5
Total export	1382.6	1389.4	1390.1	1388.1	1539.2	1593.4	1786.1
Export of goods	476.6	391.9	395.7	357.5	325.3	338.8	375.4
Export of services	906.1	997.6	994.4	1030.64	1213.93	1254.6	1410.7
Total import	2099.6	2166.38	2065.52	2074.2	2213.57	2477.3	2738.0
Import of goods	1782.79	1781.07	1724.34	1733.9	1788.8	2000.2	2208.2
Import of services	316.79	385.32	341.2	340.3	424.8	478.9	529.9
Gross Domestic Product	3264.8	3181.5	3362.5	3457.92	3624.74	3772.6	3945.1
Inventories	-6.0	26.6	-18.84	42.11	-10.56	10.7	0.0
Domestic demand without inventories	3987.71	3931.85	4056.7	4101.87	4309.7	4645.9	4897.1
Domestic demand	3987.7	3931.9	4056.7	4101.9	4309.7	4645.9	4897.1
Total demand without inventories	5370.3	5321.3	5466.8	5490.0	5848.9	6239.3	6683.2
Total demand	5364.4	5347.9	5428.0	5532.1	5838.31	6249.9	6683.2

At previous year prices - levels	2011	2012	2013	2014	2015	2016	2017
Final consumption expenditure	3257.4	3267.1	3354.1	3465.5	3519.3	3656.4	3811.7
Household consumption	2569.1	2559.1	2674.2	2801.6	2836.6	2947.9	3061.4
Government consumption	688.3	708.1	680.0	663.9	682.7	708.5	750.4
Gross fixed capital formation	627.8	621.5	695.5	660.9	735.6	954.0	1065.0
Total export	1327.0	1377.9	1370.8	1380.2	1530.0	1618.0	1760.5
Export of goods	451.0	404.0	396.1	360.2	327.5	341.5	364.5
Export of services	876.0	973.9	974.7	1020.0	1202.6	1276.5	1395.9
Total import	1967.4	2113.3	2098.9	2097.9	2237.5	2525.5	2707.2
Import of goods	1659.2	1750.7	1762.4	1759.2	1726.3	2021.5	2197.3
Import of services	308.2	362.4	336.5	338.7	411.2	504.0	509.9
Gross Domestic Product	3226.0	3175.9	3294.4	3422.5	3575.2	3713.9	3930.0
Inventories							
Domestic demand without inventories	3885.2	3888.6	4049.7	4126.4	4254.9	4610.4	4876.7
Domestic demand	3866.3	3911.0	4022.4	4140.2	4272.6	4621.5	4876.7
Total demand without inventories	5212.2	5266.5	5420.5	5506.6	5784.9	6228.3	6637.2
Total demand	5193.3	5288.9	5393.2	5520.3	5802.7	6239.4	6637.2

Annual Growth Rate (Chain-linked variables)	2011	2012	2013	2014	2015	2016	2017
Final consumption expenditure	0.3	-2.5	1.5	2.6	2.2	2.3	2.6
Household consumption	0.5	-3.9	1.6	2.9	2.2	2.7	3.9
Government consumption	-0.3	3.0	1.3	1.4	1.9	1.0	-2.3
Gross fixed capital formation	-7.2	-2.4	10.7	-2.5	12.0	29.6	14.4
Total export	14.6	-0.3	-1.3	-0.7	10.2	5.1	10.5
Export of goods	26.5	-15.2	1.1	-9.0	-8.4	5.0	7.6
Export of services	9.4	7.5	-2.3	2.6	16.7	5.2	11.3
Total import	0.4	0.6	-3.1	1.6	7.9	14.1	9.2
Import of goods	2.2	-1.8	-1.1	2.0	5.3	13.0	9.9
Import of services	-8.5	14.4	-12.7	-0.7	20.8	18.7	6.5
Gross Domestic Product	3.2	-2.7	3.6	1.8	3.4	2.5	4.2
Inventories							
Domestic demand without inventories	-1.0	-2.5	3.0	1.7	3.7	7.0	5.0
Domestic demand	-1.6	-1.8	1.6	2.5	3.1	7.5	4.7
Total demand without inventories	2.6	-1.9	1.9	1.1	5.4	6.5	6.4
Total demand	2.1	-1.4	0.9	1.7	4.9	6.9	6.2

Annual Growth Contribution (Chained link variables)	2011	2012	2013	2014	2015	2016	2017
Final consumption expenditure	0.3	-2.6	1.6	2.6	2.2	2.3	2.6
Household consumption	0.4	-3.2	1.3	2.3	1.8	2.1	3.0
Government consumption	-0.1	0.6	0.3	0.3	0.4	0.2	-0.5
Gross fixed capital formation	-1.6	-0.5	2.1	-0.5	2.3	6.0	3.6
Total export	5.4	-0.1	-0.6	-0.3	4.1	2.2	4.4
Export of goods	3.0	-2.2	0.1	-1.1	-0.9	0.5	0.7
Export of services	2.4	2.1	-0.7	0.8	5.0	1.7	3.8
Total import	-0.2	-0.4	2.1	-1.0	-4.7	-8.6	-6.1
Import of goods	-1.1	1.0	0.6	-1.0	-2.7	-6.4	-5.2
Import of services	0.9	-1.4	1.5	0.1	-2.1	-2.2	-0.8
Gross Domestic Product	3.2	-2.7	3.6	1.8	3.4	2.5	4.2
Inventories	-0.7	0.9	-1.7	1.0	-0.4	0.6	-0.3
Domestic demand without inventories	-1.2	-3.0	3.7	2.1	4.4	8.3	6.1
Domestic demand	-2.0	-2.2	2.0	3.0	3.7	8.9	5.8
Total demand without inventories	4.2	-3.2	3.1	1.8	8.5	10.5	10.6
Total demand	3.5	-2.3	1.4	2.8	7.8	11.1	10.3

Annual Growth of Deflators	2011	2012	2013	2014	2015	2016	2017
Final consumption deflator	2.9	1.0	0.8	-0.7	1.6	1.5	1.2
Household consumption deflator	3.6	2.9	1.9	-1.0	1.3	0.0	0.5
Government consumption deflator	0.6	-5.8	-3.5	0.6	3.1	7.6	4.1
Gross fixed capital formation deflator	1.4	1.2	-2.6	-0.6	0.2	-2.6	-1.7
Total export deflator	3.6	0.2	1.3	0.4	1.6	-2.1	2.1
Export of goods deflator	6.3	-3.2	0.0	-1.3	0.3	-1.5	3.2
Export of services deflator	3.9	2.1	0.6	2.3	0.8	-2.0	1.9
Total import deflator	6.8	2.6	-1.6	-1.2	-0.9	-2.1	1.2
Import of goods deflator	7.6	1.8	-2.1	-1.5	-2.1	-1.1	0.5
Import of services deflator	2.7	6.4	1.1	0.9	5.6	-7.1	4.0
GDP deflator	2.4	1.2	0.2	2.1	1.0	1.4	1.5

Annual Growth Rate	2011	2012	2013	2014	2015	2016	2017
Endogenes variables							
Employment	-3.0	1.1	3.7	1.4	2.2	1.3	2.0
Net wages	1.1	0.7	-1.7	-0.5	1.7	3.0	2.4
Foreign tourist overnight stays	12.1	4.2	3.3	2.2	19.6	2.1	9.8
Exogeneous variables							
World economic activity	8.0	0.8	2.5	1.1	6.0	0.5	2.5
Consumer price index	2.6	1.0	-1.9	-2.9	2.2	-1.8	3.0
Foreign direct investments	-29.5	18.6	-29.8	9.3	75.0	-40.0	-5.9
Interest rate (effective)	9.7	9.5	9.4	9.4	9.0	8.0	7.2
GDP of Serbia	12.5	-5.3	8.2	-3.5	1.3	1.9	2.3
GDP of Eu	3.0	1.9	0.8	3.0	5.7	0.7	2.9



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