

Small States Economic Development

Montenegro

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Economic Development– Historical Background

- Economy of Montenegro is ranked as 73rd in GDP per Capita in the world in 2019
- In terms of historical development, the most important processes are industrialization in the planned economy era, followed by a transition from planned to market economy upon the dissolution of Yugoslavia
- Privatization process resulting in 198 companies privatized for 735 million euros
- Mostly it is a service based economy that is largely dependent on tourism (75% of employment is in service industry), transport and small export base (energy and unprocessed wood)
- The economy registered steady growth over the last several years with 4.7% and 3% growth in 2018 and 2019.

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Economic Development– Country overview

- Unemployment rate is on a decline, but still is quite high with 15.3% overall, and 27.5% youth unemployment in June 2019 (source: Eurostat)
- In risk of poverty National Statistical Office estimate in December 2018 values 23.6% of the population, with GINI coefficient amounting to 36.7. Furthermore, inequality of income for 2018 shows that top 20% earned 7.6 times more than the bottom 20%.
- In terms of human capital, Human Development Index for 2018 was quite high 0.816 .

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Economic Development– Well-being

- World Happiness report for 2020 places Montenegro at 72rd position overall, and at 47th place in happiness increase over the 2008-2012 and 2017-2019 period.
- Eurostat data from 2018 shows that 73% on Montenegrin population declare to be of very good health.
- Data from 2018 shows that 32.4% has tertiary education attained, which is well below European average.
- One of the factors that has a strong effect on the well-being is the urban rural divide with people living in cities evaluating their life significantly better.

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Economic Development– Country Comparison

- Differentiated data for specific dimensions of well-being is not available. However, If we look at the overall happiness levels from the UN World Happiness report 2020 Montenegro ranks relatively high at 73rd place but is not comparatively in a better place than its neighboring countries. Kosovo is at 35th place, Serbia (65th), Croatia (79th), Bosnia and Hercegovina (69th), Albania(105th) and North Macedonia(90th).

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Economic Development: Challenges ahead

- Primary economic challenges are dependency on import and tourism making the country vulnerable to trends on world markets
- High levels of national debt – Currently at the 77,2% of GDP.
- Dependence on EUROZONE – country uses EURO and has no national currency.
- Inadequate infrastructure.
- Lack of internal capital accumulation for large scale economic endeavors.

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Economic Development: Key Recommendations

- National High Way project – Loan at China Road and Bridge Corporation estimated to have breached 1 billion Euros
- Highly liberalized economy
- Economic citizenship plan
- Specific tax returns for impactful investment (for example Porto Montenegro in Tivat received around 5.6 million waiver)

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Economic Development: Current Strategies and Policies

- Differentiated development with specific focus on the Northern region of the country
- Financial and fiscal incentives for businesses through Investment and Development Fund
- Regional cooperation as a mechanism to ensure successful economic growth, and adopt European business standards

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Economic Development: Forecast

- What is the economic development forecast for the country ?
 - IMF estimates 2.5% growth for 2020, however, that should be adjusted for the impact of the global pandemic
 - Even in 2018 and 2019 the economy has suffered from a lack of labor force to work in the service industry, despite the overall unemployment rate of 15.3%. The idea that was seriously considered was to import seasonal workers from Thailand for 3 months at the time.
 - Public debt has reached 77.3% and without payment of the new loan to China Road and Bridge Corporation. It is highly likely that it will burden the fiscal stability of the country, especially if the pandemic and general country lockdown that is in place as of March 2020, lasts for several months.