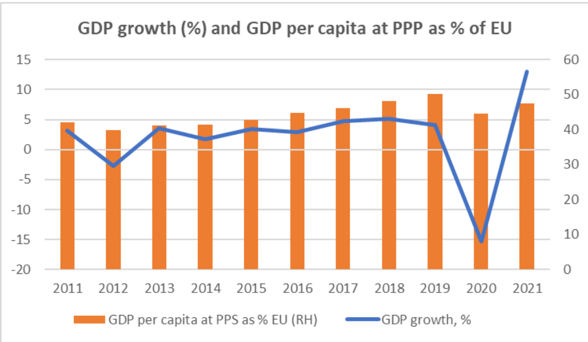
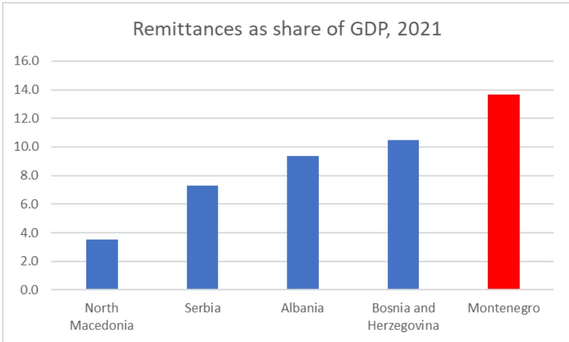
MONTENEGRO
Country brief

Economic overview

A tourism-dependent economy that bounced back from the COVID-19 crisis

The economy had been expanding at steady pace before the COVID-19 crisis hit it strongly, given the importance of tourism, which accounts for around one fourth of GDP, but recovered quickly afterwards. However, the pandemic reversed the process of income convergence with the EU, which had accelerated in the previous five years. Large infrastructure investments had contributed to the expansion, but also fuelled massive external imbalances. Remittances are an important source of income, representing by far the largest share of GDP among West Balkans countries. Around one third of the population lives in rural areas. Despite being a small country, regional disparities are significant.

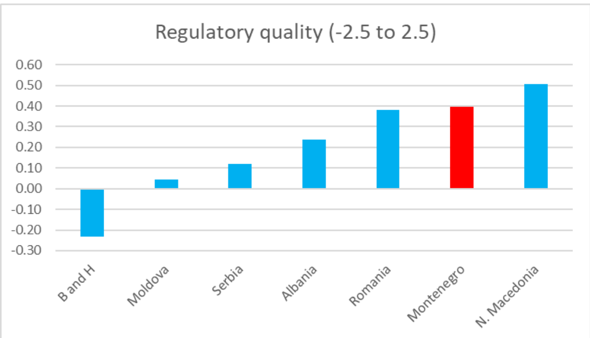


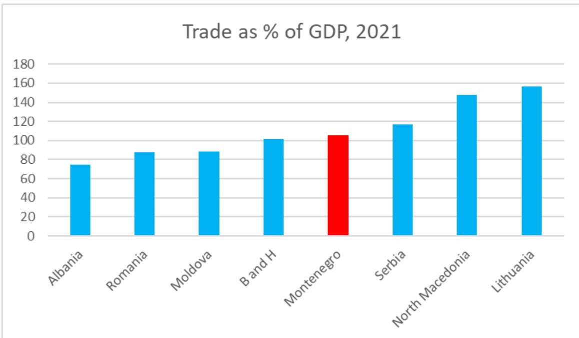


Source: IMF, Eurostat, World Bank

Improved connectivity would help to expand trade

Trade openness is high, but this is largely explained by the importance of the tourism sector. While the country ranks better than regional peers in overall regulatory quality, there is still scope for reducing costs of trading across borders. Roads are better than in other West Balkan countries but infrastructure shortcomings continue to restrict connectivity. The tourism sector is highly concentrated, both regarding seasonal patterns and the origin of visitors, which underlines the need for diversification.

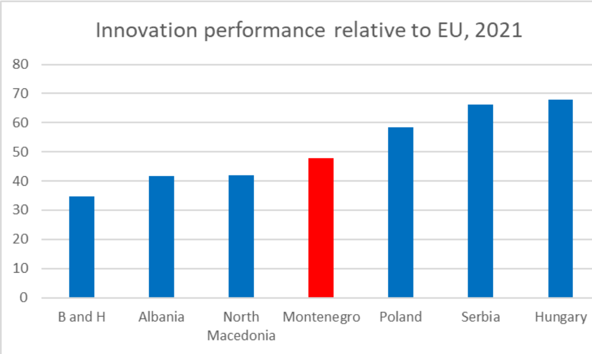


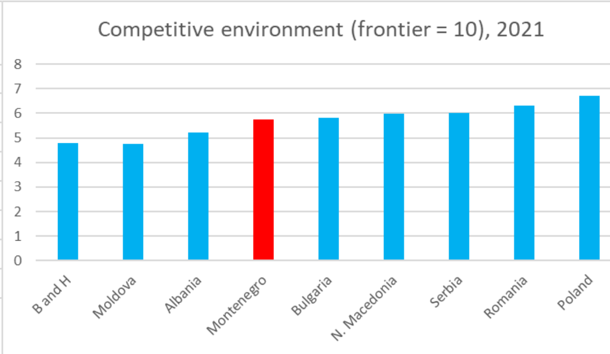


Source: OECD, World Bank Development Indicators

Informality and business environment shortcomings constrain private sector development

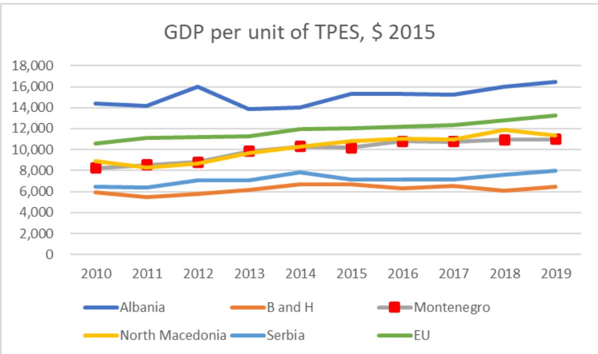
The large informal economy, accounting for around one third of GDP, suggests shortcomings in the business environment, while introducing distortions in competition and undermining productivity growth. Skill mismatches constrain the development of private business. As in other Western Balkan countries, there is a sizeable gender gap in participation rates, oscillating at around 15 percentage points. The country performs better than other West Balkan countries regarding innovation but the gap with the EU is significant and is becoming larger.

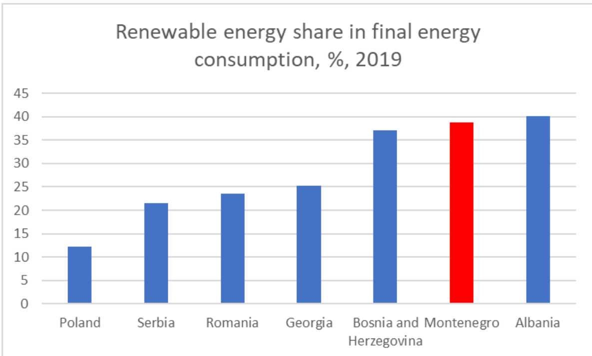




Source: EU, EBRD

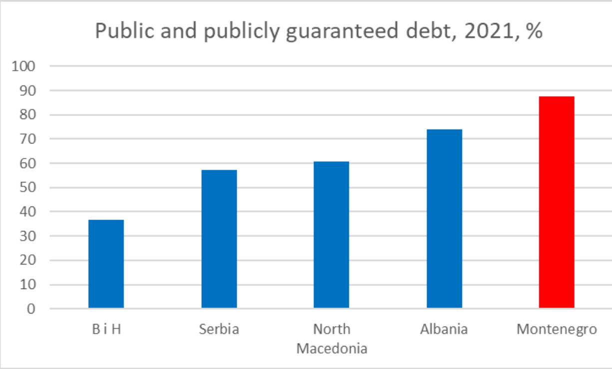
A more rapid shift to a circular economy would contribute to addressing environmental pressures
Energy intensity compares well with most West Balkans countries, but it is higher than in the EU, with a significant potential for efficiency savings, in particular in the residential sector. A relatively high share of renewables reflects hydropower generation. However, coal still represents around one third of energy supply. Waste management has received increased attention but still requires further development, while recycling levels are low. The country is vulnerable to floods and other climate change related risks.

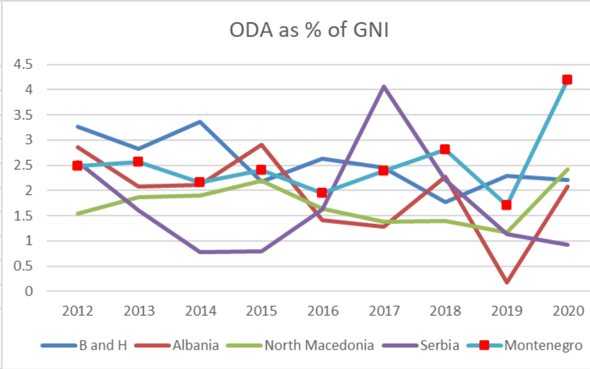




Source: IEA, SDG UNECE database

High levels of public debt reduce fiscal space
Public debt has increased rapidly in recent years and it is the largest in the region as percentage of GDP. External debt accounts for around 90% of the total. The country has had good access to capital markets in the past, with a number of Eurobonds representing around half of external debt. However, financing conditions have become more adverse and high debt levels constraint fiscal space, while infrastructure needs are still significant. The country has been a magnet for FDI in the region, mostly on real estate and the banking sector. The latest figures show increased ODA inflows.





Source: World Bank Development Indicators