



## Montenegro

### Highlights

- **Economic growth has remained strong in 2023.** The economy continued its robust expansion in the first half of 2023 and the tourism sector is on course to exceed pre-pandemic levels in 2023.
- **Tax changes aimed at boosting revenues have been adopted.** The amendments introduce progressive taxation of real-estate sales, higher corporate income taxes for offshore companies and an increase in excise duties on sweets, single-use plastic, tobacco and online gaming.
- **The state-owned electricity company, Elektroprivreda Crne Gore (EPCG), is undertaking its first utility-scale renewable energy investment.** A new 55 MW onshore wind farm near the village of Gvozd in the Nikšić municipality will help the company to accelerate its decarbonisation plan and the country with its broader energy transition.

### Key priorities for 2024

- **Systemic measures are needed to support medium-term fiscal sustainability.** Adopting a medium-term fiscal framework and establishing the fiscal council would help govern a much-needed return to fiscal consolidation in an environment of elevated borrowing costs.
- **Enhancing the business environment would encourage investment.** A more efficient public administration system (to streamline, in particular, the burden stemming from local administration and para-fiscal charges), and more transparent and cohesive economic policymaking are needed to improve investor confidence in uncertain times.
- **The country would benefit from accelerating the pace of green transition.** The National Energy and Climate Plan (NECP), set to govern Montenegro's energy transition, and the country's first law on renewable energy, have not yet been adopted.

#### Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	4.1	-15.3	13.0	6.4	3.5
Inflation (average)	0.4	-0.3	2.4	13.1	8.3
Government balance/GDP	-1.8	-10.9	-1.7	-4.2	-1.7
Current account balance/GDP	-14.3	-26.0	-9.2	-13.2	-10.7
Net FDI/GDP [neg. sign = inflows]	-6.2	-11.2	-11.7	-13.2	-8.0
External debt/GDP	167.4	221.6	191.7	157.9	n.a.
Gross reserves/GDP	27.6	41.5	35.3	32.3	n.a.
Credit to private sector/GDP	51.3	55.7	56.2	55.7	n.a.

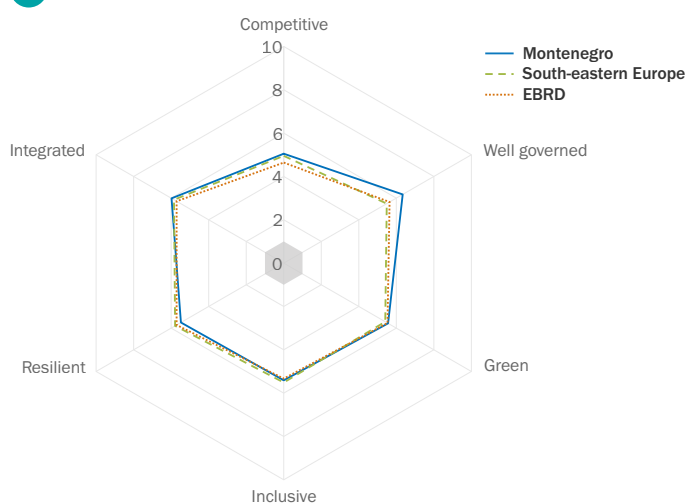
## Macroeconomic developments and policy response

**Strong economic growth has continued in 2023.** The economy grew by 6.4 per cent in 2022, boosted by robust household consumption and a strong performance by the hospitality sector. Gross domestic product (GDP) growth accelerated to 6.6 per cent year on year in the first half of 2023 as household consumption expanded by 10 per cent year on year, driven by the large increase in arrivals from abroad, partly reflecting the substantial inflows of Russian and Ukrainian immigrants. A record year for the tourism sector is anticipated for 2023 as a whole, with foreign tourist arrivals up by 25 per cent year on year and by 13 per cent in the first eight months of 2023 compared with record 2019 levels. Tourism revenues have nearly doubled on an annual basis, while retail trade expanded by 16 per cent in the first half of the year. Economic growth was supported by investment on the expenditure side and a 4 per cent annual increase in industrial output on the production side, driven by an increase in electricity production resulting from favourable rainfall patterns for hydropower generation. The current account deficit in the first half of 2023 remained unchanged from the same period of 2022, as strong service exports offset higher goods imports.

**Limited targeted fiscal measures have been introduced.** Annual inflation peaked at 17.5 per cent in November 2022, decelerated to 6.9 per cent in July 2023 before picking up again to 7.9 per cent year on year in September. Net nominal wages maintained strong annual growth of 11 per cent in August 2023, given the 80 per cent minimum wage hike and the abolition of healthcare contributions that took place in 2022, and spurred on by an increase in most public sector wages from the beginning of 2023. A set of tax changes was introduced in July 2023 with the aim of boosting budget revenues, and the government brought in lower excise duties on fuel for farmers, fishermen and some transport companies. An extraordinary adjustment in the minimum pension, set to benefit a third of Montenegrin pensioners, was enacted from October 2023. Following several years of elevated fiscal spending (with the government budget deficit for 2022 coming in at 4.2 per cent of GDP), the budget deficit target for 2023 was revised to 2.9 per cent of GDP in May 2023 (down from 5.9 per cent), on account of higher revenues from the EU Energy Support Package and elevated inflation, which boosts government revenues. General government debt has decreased from its peak at 107 per cent of GDP in 2020 but remained elevated at 72 per cent of GDP at the end of 2022.

**Growth is projected to slow down amid elevated uncertainty.** GDP growth is forecast at 3.5 per cent in 2023 and 3.7 per cent in 2024, with the weak global growth outlook dampen short-term prospects. Nonetheless, strong private consumption and the robust performance of the hospitality sector tilt the risks to the outlook towards the upside. A potential resolution of the current political deadlock presents further upside potential, as this would allow the implementation of the economic reform agenda to resume and public investments to move forward.

### Assessment of transition qualities (1-10)



## Structural reform developments

**Energy market reforms have advanced.** A new day-ahead market, launched in April 2023 on the Montenegrin Power Exchange (MEPX), is expected to lead to a more liquid and transparent market. It will benefit both consumers and producers by ensuring fair prices and leading to better integration of energy systems in the Western Balkans and the broader region.

**Parliament has enacted a set of amendments to tax laws.** The main aims are to reduce tax fraud, bring about environmental and health benefits, and enhance revenues. The amendments, adopted in February 2023 and valid from 2024, introduce progressive taxation of real-estate sales and higher corporate income taxes for offshore companies, as well as higher excise duties on sweets, single-use plastic, tobacco and online gaming. As per amendments to the Budget Law, Montenegro will also establish a fiscal council, an independent body tasked with evaluating the country's fiscal policy and providing recommendations.

**Reform and privatisation of state-owned enterprises (SOEs) have been slow.** There has been no progress on the previously planned state ownership strategy, the establishment of a list of key companies remaining in state ownership, or plans to improve SOE management and financial performance. Due to a lack of political consensus, a holding company managing SOEs has also not been set up, and the unit in the Ministry of Finance monitoring SOE fiscal risks has been scaled down. Privatisation has also not progressed: the state has instead increased its share in certain SOEs (the Simo Milosevic health institute, Meljine hospital, Plantaze winery and the Bar sea port).

**The legal framework for doing business is being enhanced.** A public consultation was completed in September 2023 for two key laws on the business environment in Montenegro: the Law on Companies and the draft Law on the Registration of Business and Other Entities. The amendments to the Law on Companies aim to enhance the environment for doing business by harmonising regulations further with three European Union (EU) directives on the use of digital tools and processes, cross-border mergers and divisions, and shareholder engagement. The draft Law on the Registration of Business is a new, complementary piece of legislation governing how businesses are registered (which has so far been regulated through the Law on Companies), which aims to simplify the registration process while increasing the transparency of data and documentation, in line with the EU acquis.

**The state-owned electricity company, EPCG, is undertaking its first utility-scale renewable energy investment.** A new 55 MW onshore wind farm near the village of Gvozd in the Nikšić municipality will help the company accelerate its decarbonisation plan and the country with its broader energy transition. Once completed, the Gvozd wind farm is expected to generate enough renewable energy output to supply more than 25,000 households per year. It is a milestone project for EPCG, being its first major new-generation asset in more than 40 years, as well as its first wind farm.

**An action plan has been adopted to operationalise the Strategy for the Development of Women's Entrepreneurship.** An action plan for the 2023-24 period was adopted in July 2023 and focuses on three strategic priorities: enhancing the business environment for women in business, supporting the competitiveness of female-owned businesses, and improving the position of women in business.