COMPETITIVENESS OF MONTENEGRO

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MONTENEGRO – General information

Well-positioned Adriatic economy

Key facts

- Population: 625,266
- Capital city: Podgorica
- Area: 13,812 km²
- Currency: Euro
- GDP 2017: 4,202 mil €
- GDP PC PPP (IMF): 10,862 $
• Inaccessible and poor, always a battlefield

• Up until the 21st century Montenegro was an absolutely and relatively poor country, dependent on grants and aid from the great powers and federal instance transfers

• 22 times poorer than Slovenia in the Kingdom of Yugoslavia, the least developed in socialist Yugoslavia when industrialization started to take place

• Big demographic sufferings – in order to find a better life, a large part of the population temporarily or permanently has moved out of Montenegro

• Up until the 21st century noncompetitive and nonattractive for business
During the last decade of the 20th century, negative economic trend has been recorded (mid 90’s - GDP dropped to 40% of 1989 level)

Certain reforms started in 1998, including crucial introduction of German mark as a legal tender switching to Euro in 2002

The pace of reforms picks up in 2003 with the adoption and later on the implementation of the comprehensive Economic Reforms Agenda

Economic growth supported by FDI flows

Montenegro has doubled GDP pc in last 15 years and it is the highest one (after Croatia) in Western Balkans

GDP has risen in relative terms (PPP) from 29% of the average income EU (2000), to 45% (2017)

Relatively large public spending, growing public debt and high unemployment are main challenges
MONTENEGRO – International outlook

• UN Human Development Report (2016)
  – 48th out of 188 countries
  – VERY HIGH HUMAN DEVELOPMENT

• World Bank - Doing Business Report
  – Rank in DB2006: 70th
  – Rank in DB2018: 42nd

• Fraser Institute – Economic Freedom
  – Rank in 2007: 76th
  – Rank in 2016: 59th
  – Rank in 2017: 85th

• Heritage Foundation – Economic Freedom
  – Rank in 2009: 94th
  – Rank in 2016: 65th
  – Rank in 2017: 83rd

• World Economic Forum – Global Competitiveness Index
  – Rank in 2007: 82nd
  – Rank in 2017: 77th
Source: WEF (GCI), HF (EFI), WB (DB), FI (EF)
WEF breaks down countries’ competitiveness into 12 distinct areas, which are grouped into three sub-indexes:

1. “Basic requirements” – institutions, infrastructure, macroeconomic environment and health and primary education.
2. „Efficiency enhancers“ – higher education and trainings, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size
3. „Innovation and sophistication factors“ – business sophistication and innovation

Montenegro – “efficiency driven phase“

The newest report for 2017/2018: Montenegro ranked as 77th

- The best result achieved in 2010/2011 report: 49th place
- The worst result achieved in 2016/2017 report: 82nd place
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Competitiveness of Montenegro and other small countries

Source: WEF
Global Competitiveness Index: 12 European countries have less than 3 millions population.
Competitiveness of small European countries

Two groups:

- *Countries with less rank volatility (Lux, Iceland, Estonia, Malta, Lithuania)* – rank <50
- *Countries characterized by rank volatility*

Sudden changes in competitiveness can be a consequence of inconsistencies in economic reforms, political stability challenges, or insufficient administrative capacity for implementation of reforms.

Montenegro has the most pronounced volatility, changes can not be described as classical cyclical, nor only upward or decreasing trend, since there are also "sharp" changes in positions.
Small countries:

- Do not have the opportunity to use economies of scale
- Do not have the opportunity to use benefits of using resources as a large economies have
- Very vulnerable to the global economy circumstances

Market size is a limitation for a number of indicators, and therefore for the overall position in the GCI.

Among 10 most competitive countries in the world, six are not members of the European Union (Switzerland, USA, Singapore, Hong Kong, UK, Japan)

The best ranked small country, the EU member is in the 19th place (Luxembourg)

Impact of EU regulations and administrative costs on the competitiveness of small countries?
Recommendations

Competitiveness of small countries should be based on:

- Openness
- Connectivity
- Makroeconomic stability
- Strong fiscal and financial system
- Small and efficient administration
- Flexible working legislation
- High quality education system
- Consistency
THANK YOU!

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