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Evaluation of Montenegro's EU Maturity in the Light of Economic Indicators[2]

Montenegro submitted its EU membership application to the Council in 2008. Accession negotiations started in 2012 with the Western Balkan country. In December 2023, out of the 33 chapters opened during the negotiations, only 3 chapters were temporarily closed. The aim of the study is to examine on the basis of the European Commission's country report, the EBRD's Transition Report, the OECD's Competitiveness Report, as well as the evaluation of a wide range of macro indicators, to what extent Montenegro can be considered mature for joining the European Union based on its economic structure, performance and catch-up. In the last 15 years, the country has achieved a slow economic catch-up, but it is not yet considered mature for integration from an economic point of view. In order to meet the economic criteria for EU accession, the country still needs to implement reforms in many areas and strictly adhere to budgetary discipline.

Keywords: Montenegro, European Union, enlargement, Copenhagen criteria, accession negotiations, convergence

Introduction

Montenegro, which regained its independence in 2006, submitted its EU membership application to the Council in 2008. The EU accession negotiations started in 2012 with the Western Balkan country. Until December 2023, out of the 33 chapters opened in the negotiations, only 3 chapters were temporarily closed, which could result in a rather long series of negotiations. Parallel to the accession process, the country became a member of several international organisations, such as the UN, the OSCE, the Council of Europe, the IMF, the World Bank Group, CEFTA, the WTO and NATO, partially proving its Euro-Atlantic commitment. In addition, the country uses the common currency of the twenty-member Eurozone as the exclusive legal tender.

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The examination of the accession processes of the Western Balkan countries and the fulfilment of the political criteria are often the subject of domestic and international scientific publications, but the economic dimension is often pushed into the background. The aim of this study is to examine how mature Montenegro is for joining the European Union based on its economic structure, performance and catching up.

Montenegro's accession process, the status of accession negotiations

The first step taken by the independent Montenegro on its way to EU integration can be considered the signing of the Stabilisation and Association Agreement (SAA) and the Interim Agreement on trade and trade-related matters on 15 October 2007 (entered into force on 1 May 2010, respectively 1 January 2008).

Montenegro submitted its application for joining the European Union to the Council of the European Union on 15 December 2008. The European Commission issued its opinion ("avis") on 9 November 2010, in which it recommended to the Council that Montenegro be granted candidate status. In its opinion, the Commission stated that the country had achieved results in the development of the stability of institutions that guarantee democracy, the rule of law, human rights, and the respect and protection of minorities, and had also achieved a certain degree of progress in the development of macroeconomic stability, while at the same time in developing a functioning market economy it still needs to take a number of actions. Based on the avis, the European Council approved the country's candidate status at its next meeting held on 16–17 December 2010.

At its meeting on 26 June 2012, the Council decided to start accession negotiations with Montenegro.[3] Accession negotiations began on 29 June 2012. The dynamism of the accession negotiations is clearly shown by the fact that between 2012 and 2018, 32 negotiation chapters were opened and three of them (25 science and research, 26 education and culture, 30 foreign relations) were temporarily closed.[4]

In the case of Montenegro, the dynamics of the accession negotiations slowed down after 2018, one of the reasons for which is to be found in the domestic political situation. On the other hand, the fact that some EU member states (Benelux states, Sweden, France) wanted to put more emphasis on the rule of law and fundamental values in the EU accession process also contributed to this. In October 2019, France vetoed the start of accession negotiations with Albania and North Macedonia. Emmanuel Macron called for a multi-step, reversible accession process. After that, the European Commission developed a new enlargement methodology, which indicated four basic principles: credibility, stronger political control, dynamism, predictability. The new methodology is characterised by the grouping of the accession chapters. The clustered chapters bring a reinforcement of the rule of law conditionalities, the negotiations will be opened and

3 Council of the European Union 2012.
4 European Commission 2023a.

closed with the rule of law cluster. When there is no progress in a field, it is possible to reverse the negotiations, as well. In practice, the new methodology may slow down the ongoing Western Balkans accession negotiations. Montenegro contributed to the application of the new methodology.[5] Chapter 33 (Competition Policy – 8) was opened on 30 June 2020, under the Croatian Council Presidency.

Methodology of the analysis

The study examines Montenegro's integration maturity from an economic point of view based on the European Commission's country report, the EBRD's Transition Report, the OECD's Competitiveness Report, and the evaluation of a wide range of macro indicators. The evaluation of the Bertelsmann Transformation Index is not involved in the analysis. The scope of the examined indicators is as follows: the structure of the economy (the contribution of each sector to the gross value added [GVA]), GDP per capita (purchasing power parity), real GDP growth, inflation rate, government deficit/surplus, general government debt, unemployment rate, foreign trade balance, relational structure of foreign trade, current account balance. The sources of the data are the statistical time series of Eurostat, the IMF and the Statistical Office of Montenegro (MONSTAT). The time period of the analysis – depending on the availability of statistics – is the 16-year-period between 2007–2022, which includes the effects of the global financial and economic crisis of 2008–2009, the European downturn caused by the sovereign debt crisis, and the recession caused by the Covid-19 pandemic also the first consequences of the Russian–Ukrainian war.

In the literature, Viktória Endrődi-Kovács examined the economic integration maturity and economic performance of the Western Balkan countries using a similarly broad methodology.[6] In her study, based on the EBRD's Transition Reports, she analysed the economic performance of the Western Balkan countries in five categories: functioning market economy, competitiveness, macro stability, convergence and financing. Regarding the period between 2002–2015, she stated that not a single country in the Western Balkans, not even Croatia, could be considered fully mature for integration. Viktória Endrődi-Kovács and Oleg Tankovsky established a composite index based on which they examined the Western Balkan countries.[7] Examining the period between 2006 and 2019, they found in their study that – although Serbia and Montenegro made significant progress in the period under review – none of the Western Balkan states was mature for joining the European Union. Gyula Sándor Nagy and Dženita Šiljak examined the convergence of the Western Balkan countries based on seven indicators for the period 2004–2018.[8] They found in their analysis, that there was absolute convergence between the Western Balkan states and the EU27+1 in every analysed period except the post crisis period and that the countries converged in conditional terms in every analysed period.

5 Matheisz 2023.
6 Endrődi-Kovács 2019: 89–108.
7 Endrődi-Kovács–Tankovsky 2022: 148–166.
8 Nagy–Šiljak 2023: 1145–1168.

Evaluation of the European Commission on the fulfilment of the economic criteria

The European Commission stated in its 2023 country report: "Montenegro has made limited progress and is moderately prepared in developing a functioning market economy. […] Montenegro has made some progress and is moderately prepared to cope with competitive pressure and market forces within the EU."[9] Based on the Commission's assessment, Montenegro does not meet the economic Copenhagen criteria.

Based on the Commission's opinion, structural reforms were also slowed down by political instability. The role of the state in the economy is still very high, which can be characterised, for example, by the number and proportion of state-owned enterprises. In some sectors, the privatisation process has not yet taken place or has been completed, and in some companies the state share has even increased (e.g. in the port of Bar). (The privatisation process took place in the banking sector, concentration has been observed in recent years, the Hungarian OTP Bank has become the market leader based on loan portfolio. In retail, three of the five largest chains are owned by Montenegrins and two by Slovenians, but in 2023 Lidl confirmed the purchase of three large locations in Montenegro, as well.) The largest owner of the national energy company, EPCG, remains the Montenegrin state. In 2020, the state airline terminated its business activity, but at the same time, with state support, the first flight of the new national airline, Air Montenegro, to Belgrade started in June 2021. According to international experience, even larger and more developed national economies than Montenegro are not able to operate their own airline profitably.

The general government spending achieves 43–44% of GDP, which is not an outlier in European comparison, but at the same time, the rate of loan repayment and interest payment is high. In addition, the large proportion of the informal sector, which according to estimates can reach up to 37.5% of GDP, is a serious problem.[10] This is not the first time that the government has postponed the implementation of the plan to suppress the informal economy in 2023. Although many measures have been taken to reduce corruption, its level is still high, in 2022 the country ranked 65th in Transparency International's corruption perception index.[11] Corruption reaches the highest levels, in 2022 the President of the Supreme Court, who resigned in 2021, was arrested on suspicion of corruption. The public procurement market is relatively small in size, with a value of 8.74% of GDP. The number of enterprises increased by more than 10,000 to 73,358 in 2022, but at the same time the slow administration hinders the establishment of new enterprises. (80% of the enterprises established in 2022 were founded by foreign owners.)[12]

According to the European Commission, the Montenegrin economy is vulnerable by the high current account balance and, also due to significant loan and interest

[9] European Commission 2023a: 6.
[10] European Commission 2023a.
[11] Transparency International 2023.
[12] European Commission 2023a.

repayments, a general government deficit. The independent body responsible for fiscal discipline, the Fiscal Council, was intended to be established earlier, applications for membership were finally announced on 5 April 2023, but the first meeting still did not take place until 31 December 2023.

EBRD's assessment of the economy of Montenegro

In the EBRD's 2022–2023 Transition Report, the transformation of 35 countries and Kosovo were evaluated based on 6 criteria, on a scale of 1–10 (previously, evaluations were carried out based on other aspects and scale systems). Montenegro's values for all 6 categories exceeded the average of the countries examined by the EBRD and, for 4 categories, the average of Southeastern Europe, as well (Table 1).

Table 1: EBRD's assessment of Montenegro and the countries of Southeastern Europe in the Transition Report 2022–2023 (on a scale of 1–10)

Category	Montenegro	Southeastern Europe	EBRD
Competitive	5.46	5.46	5.14
Well-governed	6.32	5.49	5.63
Green	5.77	5.56	5.62
Inclusive	5.37	5.42	5.25
Resilient	5.38	5.42	5.37
Integrated	6.06	5.92	5.85

Source: EBRD 2022.

In the field of competitiveness minor deteriorations have been recorded in Montenegro driven mainly by decline in labour productivity. Modest improvements have been observed in Montenegro because of greater compliance with standards aimed at tackling money laundering and the financing of terrorism and more favourable perceptions regarding corruption (Category "Well-governed"). Significant improvements have been observed, primarily on account of increases in nationally determined contributions (NDCs) in the context of the Paris Agreement (the share of renewable energy in energy production already exceeds 40%). The country has improved its carbon-pricing mechanism, as well. In the category "Resilient", the government passed new legislation in January 2022 giving the national energy regulator greater powers to monitor the country's electricity and gas markets. New laws entered into force aligning the country's regulatory and supervisory requirements with Basel III standards and the EU's regulatory framework. The level of "Integration" improved driven by the first section of the new Bar-Boljare highway and by augmentation in mobile and fixed broadband coverage and by the development of logistical services.

Over the period 2016–2022, increase in inclusion scores have been driven primarily by greater access to internet services and digital skills. Between 2016 and 2022 in the EBRD regions, progress across all six areas has been fastest in Montenegro, Armenia, Lithuania, Estonia and Uzbekistan.

OECD Competitiveness Outlook on Montenegro

In its 2018 and 2021 Competitiveness Outlook, the OECD examined Southeastern European countries based on 15 criteria.[13] According to the OECD, Montenegro has made progress between 2018 and 2021 in all the policy dimensions except the state-owned enterprises. The improvements have been first of all in the legal and regulatory environment, which forms a solid basis to improve the overall competitiveness of the economy.[14] In most aspects, the value of Montenegro exceeds the average of the Western Balkan countries outside the EU. The report highlights it as a positive that school participation levels are increasing, labour laws are aligned with EU standards, the science, technology and innovation (STI) policy framework has advanced significantly (smart specialisation strategy adopted), the energy sector is guided by a comprehensive energy policy, tourism destination accessibility has increased, and agro-food system regulation has improved.

In addition, the OECD has formulated quite a few recommendations e.g. improvement of investment promotion and facilitation, introduction of alternative equity-based finance, review of the effectiveness of the current state ownership arrangements and development a state ownership policy, investment in the scientific research system, strengthening of programmes for the digital transformation of the private sector and introduction of a land-use management framework.[15]

Analysis of the main macro indicators of Montenegro

Economic structure and growth

Three main characteristics of the economic structure of Montenegro can be highlighted based on the contribution of each economic activity to the gross value added (Table 2). The first is the higher share of agriculture, forestry and fishing than in developed countries, which can be partially explained by the importance of sea fishing, in addition to which the role of wine and olive oil production can be highlighted; the low share of industrial activities and the decisive role of tourism (to the 9.62% share of the tourism sector in the narrow sense, we must also add the impact of tourism on retail trade). Overall, the share of the service sector corresponds to the level of developed countries. Research and development activity in the economy is very low, the value of the GERD indicator achieves only 0.36%.[16]

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13 The examined aspects are as follows: access to finance, agriculture policy, anti-corruption policy, digital society, education policy, employment policy, energy policy, environment policy, investment policy and promotion, science, technology and innovation, state-owned enterprises, tax policy, tourism policy, trade policy, transport policy.

14 OECD 2021.

15 OECD 2021.

16 European Commission 2023a.

Table 2: Contribution of economic activities to gross value added in Montenegro in 2022 (%)

Classification of activities	Share in GVA (%)	Classification of activities	Share in GVA (%)
Agriculture, forestry and fishing	7.27	**Financial and insurance activities**	4.76
Mining and quarrying	1.35	**Real estate activities**	6.47
Manufacturing	4.63	**Professional, scientific and technical activities**	4.46
Electricity, gas	3.63	**Administrative and support service activities**	2.08
Water supply; sewerage, waste management	2.04	**Public administration and defence; compulsory social security**	7.81
Construction	4.64	**Education**	5.45
Wholesale and retail trade; repair of motor vehicles	17.36	**Human health and social work activities**	4.93
Transportation and storage	5.14	**Arts, entertainment and recreation**	1.85
Accommodation and food service activities	9.62	**Other service activities**	1.23
Information and communication	5.26		

Source: Compiled by the author based on MONSTAT 2023a data.

The economic structure (especially the significant role of tourism) partially explains the trend of real GDP growth (Figure 1).

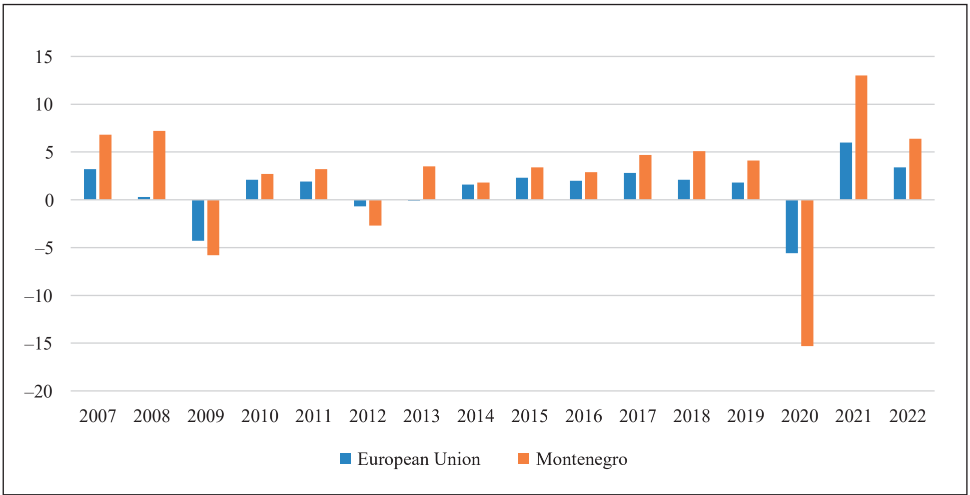

Figure 1: Real GDP growth in the European Union and Montenegro (%)

Source: Compiled by the author based on Eurostat 2023a and MONSTAT 2023a data.

In the "crisis years" of 2009, 2012 and 2020, the Montenegrin economy suffered a more severe recession than the EU (the 15.3% drop in 2020 is particularly striking), while in the other 13 years respectively showed higher growth, so it was able to slowly but steadily approach the European Union average. The real GDP growth in most of the examined years (of the crisis years in 2009 and 2020) moves together with the indicators of the tourism sector (Figure 2). In 2020, the number of tourist arrivals and tourist overnight stays dropped drastically due to the pandemic and the lockdowns. At the same time, the fact that even the 2022 tourism data will not catch up to the 2019 level can mean positive prospects for the coming years.

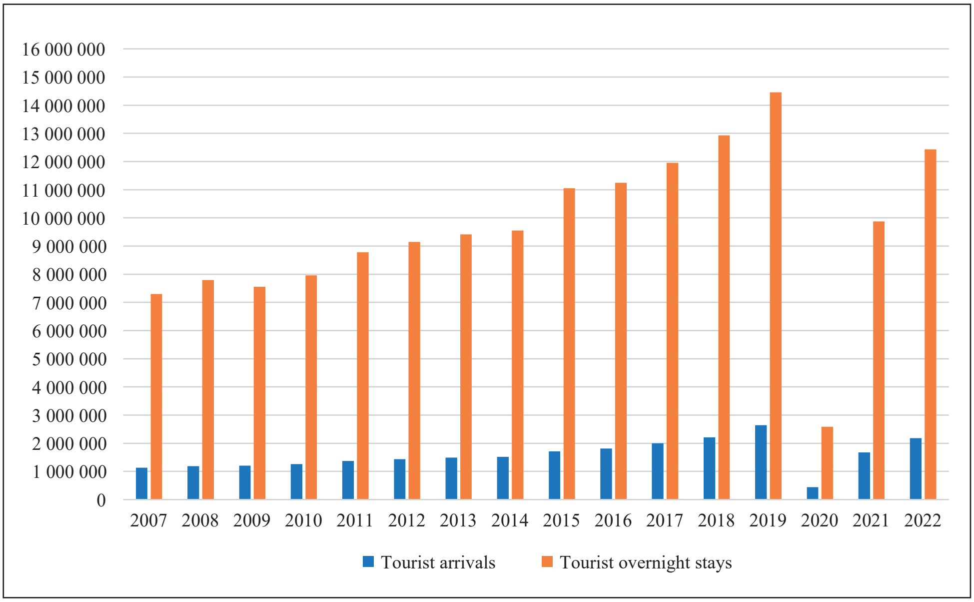

Figure 2: Tourist arrivals (number) and tourist overnight stays (night) in Montenegro 2007–2022

Source: Compiled by the author based on MONSTAT 2023b data.

Based on the GDP per capita, calculated at purchasing power parity, a slow catch-up can be observed in the examined period (Figure 3, which illustrates three Western Balkan countries, the EU member Croatia, Serbia and Montenegro, in addition to the Eastern and Central European EU member states, with the exception of the Czech Republic and Slovenia, which show exceptionally high values), which was interrupted by the 2020 recession, and the country was not even able to reach the level before the 2020 crisis until 2022.

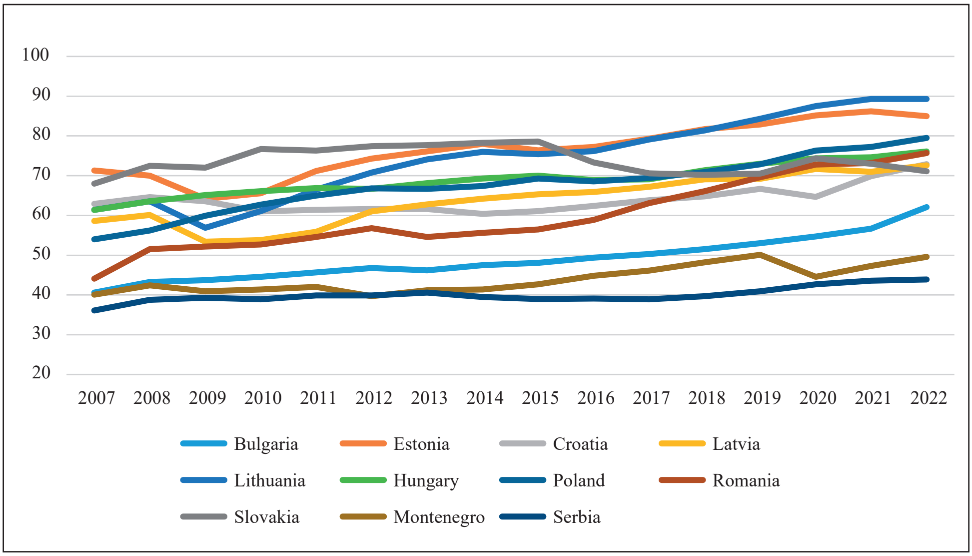

Figure 3: GDP per capita of Eastern and Central European EU member states, as well as Serbia and Montenegro, calculated at purchasing power parity in the EU27 between 2007 and 2022 (%)

Source: Compiled by the author based on Eurostat 2023b data.

At the same time, it can be observed that, based on the GDP per capita, in 2002 Montenegro exceeds the level of development of Serbia, and even the level of Romania and Bulgaria in 2007, in the year of their EU accession (the figure does not include data from 2004, but it exceeds the level of Latvia at the time of accession and is already close to the 2004 value of Lithuania and Poland.) If we had added Montenegro to the ranking of NUTS 2 regions in the EU (if Montenegro joins the EU, it will be able to form a NUTS 2 region based on the number of its population), based on the 2021 regional GDP data, it would have overtaken 5 Bulgarian, 4 Greek and 1 Croatian regions (in addition, 3 out of 4 Serbian regions) and would have only minimally fallen short of the Hungarian Northern Great Plain region.[17] In connection with this, it is also important to examine the development of the comparative consumer price level, in this field, with its value of 61.2% in 2022 compared to the EU average, Montenegro also exceeds the price level of Romania, Bulgaria and Poland.[18]

17 Eurostat 2023c.
18 Eurostat 2023d.

Development of the inflation rate

The Montenegrin Statistical Office continuously harmonises its statistics in accordance with Eurostat standards, however, for some indicators, longer harmonised time series are not available. In the case of the HICP, MONSTAT publishes data from 2016 (Figure 4). During the available 7 years, despite the significantly lower price level, the inflation rate in Montenegro was higher in 3 years than in the EU and the euro area, of where there was a difference of several percentage points in 2022, at the same time, if either the EU or the Western Balkan countries are examined, the inflation rate of 11.9% is not an outlier at all.

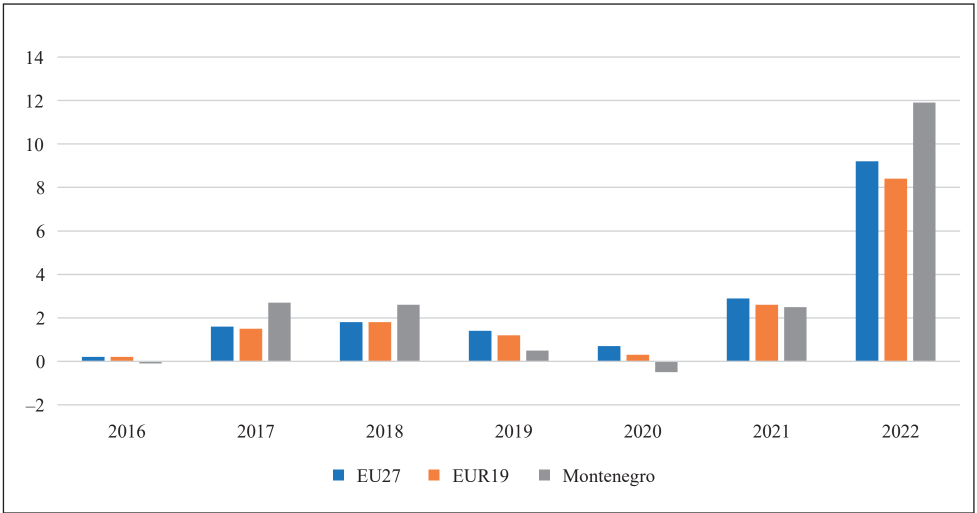

Figure 4: Evolution of the annual HICP in the EU27, EUR19 countries and Montenegro between 2016 and 2022 (%)

Source: Compiled by the author based on Eurostat 2023e data.

The fact that the country's official currency is the euro has a beneficial effect on Montenegro's inflation rate, monetary stability, and ability to attract FDI.[19] The Montenegrin main refinancing interest rate is the same as the 4.5% key ECB interest rate in December 2023.

Labour market characteristics

In Montenegro, as in other Western Balkan countries outside the EU, high unemployment is typical (Figure 5). Based on the European Commission's October 2023 forecast, a further decrease is expected, the predicted value for 2023 is 13.6%.[20]

19 Bacovic 2019.

20 European Commission 2023b.

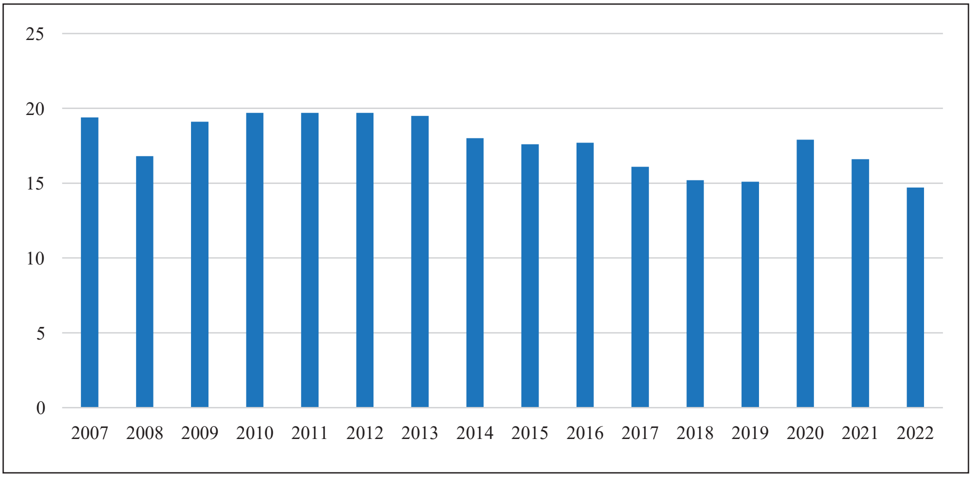

Figure 5: Evolution of the unemployment rate in Montenegro between 2016 and 2022 (%)
Source: Compiled by the author based on MONSTAT 2023c data.

The 2022 minimum wage increase did not lead to an increase in unemployment. Regarding the employment rate, there is no data available for the 20–64 age group suitable for EU comparison (MONSTAT publishes data for the 15–89 age group), the latest data published by Eurostat refers to 2020, then the employment rate achieved 55.2% (60.8% in 2019). Based on all this, we can conclude that there is still a potential workforce available in the country, especially since the rate of early school leavers is otherwise low. At the same time, it should be emphasised that the proportion of state employees is very high, in 2022, out of 223,744 employees, 22,975 people worked directly in the public administration and defence, compulsory social security sector, 16,200 in education and 14,325 in health and social care. In addition, 29,319 work permits were issued to foreigners.[21] As a result of all this, the Montenegrin labour market is still facing significant structural transformations.

Labour productivity in Montenegro is significantly lower than the average in the EU (27% of the EU27 average in the period 2007–2021). Lower productivity (labour productivity and total factor productivity) is influenced by insufficient technological development, quality of education, qualifications and expertise of the workforce, and inadequate management and organisation in companies.[22]

Evaluation of the public finances

The high general government deficit is a constant problem in Montenegro. From 2012, with the exception of 2021, the deficit significantly exceeded the average of the EU and the Eurozone (Figure 6). In order to increase fiscal discipline, the government decided on

21 MONSTAT 2023d.
22 Bacovic 2023.

the proposal of the EU to establish the Fiscal Council, but as the realisation progressed very slowly, the Council did not even hold its first meeting in 2023. For the year 2023, a deficit of less than 3% has been predicted, which is lower than previous expectations. The reasons for the lower deficit could be the relatively dynamic economic growth generated by the good tourist season and the expansion of private consumption, the significant increase in excise tax revenues, and the additional revenues of the citizenship law, which has also been criticised by the EU.[23] In 2022, in the year of the elections, fiscal expansion was introduced to stimulate consumption: the 9% personal income tax rate was abolished under EUR 700 per month, the net minimum wage increased from EUR 250 to EUR 450, and the health contribution for individuals was also abolished. As a result of all this, the net average wages increased from 532 to 712 euros from 2021 to 2022. The annual gross wages at purchasing power parity already exceed the Bulgarian and Slovak wage levels. On the one hand, these measures significantly reduced the expenditure side of the budget, but at the same time, thanks to the dynamically expanding consumption, they resulted in an increase in revenue that also improved the balance of the general government. At the same time, the effect of stimulating economic growth and increasing tax revenue is primarily limited to 2022 and 2023, while in the long term, the abolition of the health contribution in particular represents a serious budgetary risk.[24]

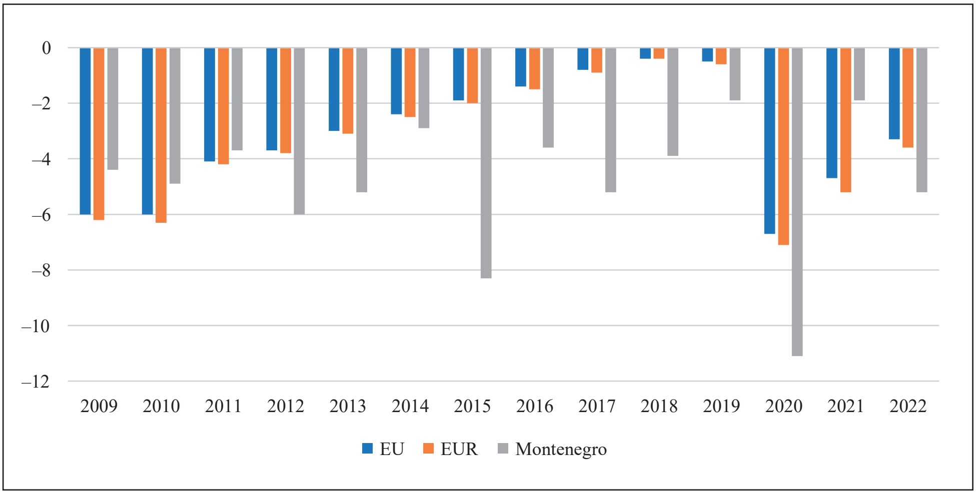

Figure 6: Government deficit/surplus (% of GDP) in Montenegro between 2009–2022

Source: Compiled by the author based on European Commission 2011, 2013, 2015, 2017, 2019, 2021, 2023 data.

Montenegro's gross government debt as a percentage of GDP showed a continuous increase between 2010 and 2020 (Figure 7). In addition to financing the high budget deficit, Montenegro's government debt is significantly burdened by the USD 944 million

23 European Commission 2023b.

24 WIIW 2023.

loan taken from the China Export–Import Bank in 2014 for the construction of the 41 km section of the Bar-Boljare highway. The loan is planned to cover 85% of the costs, the loan amount reached 20% of Montenegro's GDP in 2014. The highway section was built by the China Road and Bridge Corporation (CRBC) and was completed in 2022 with significant delays. In 2021 Montenegro has reached an arrangement with four Western financial institutions: Goldman Sachs, Merrill Lynch, Société Generale and Deutsche Bank to convert the loan into euros, cutting the interest rate on the loan from 2 to 0.88%. (In 2023 the country has left the agreement due to favourable market conditions.)[25] As of 31 December 2022, Montenegro owed China Exim Bank 701.99 million EUR.

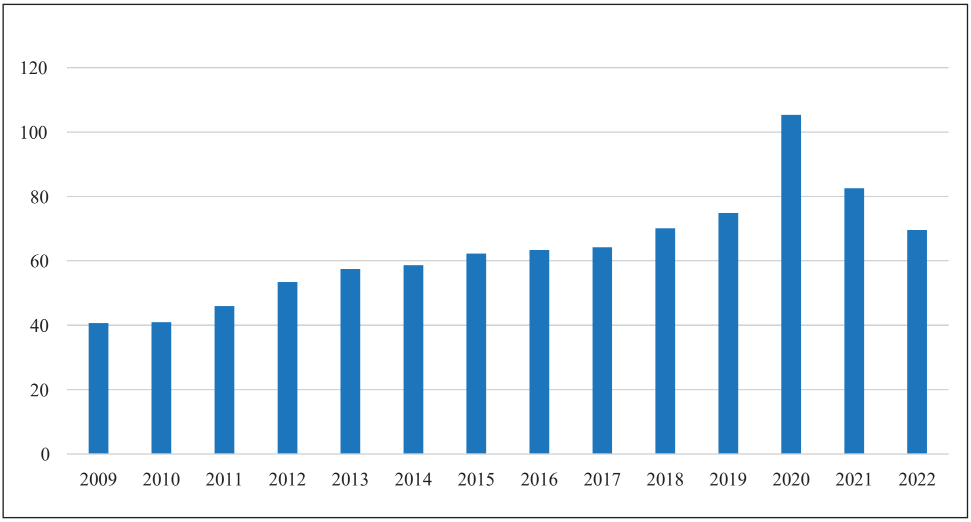

Figure 7: General government debt (% of GDP) in Montenegro between 2009–2022

Source: Compiled by the author based on European Commission 2011, 2013, 2015, 2017, 2019, 2021, 2023 data.

In 2020, in addition to the Chinese debt repayment, the 15% GDP decline caused the gross debt to exceed the value of GDP. In the same year, the country benefited from the IMF Rapid Financing Instrument in the amount of USD 83.7 million and issued government bonds in the international financial markets in the amount of EUR 750 million.[26] The total central government debt (excluding deposits) as of 31 December 2022 was €4,026.32 million, or 69.46% to the GDP. The total central government debt including deposits, as of the end of 2022, was €3,914.57 million or 67.53% to the GDP. The foreign debt was €3,557.56 million, or 61.37% to the GDP, while the domestic debt was €468.76 million, or 8.09% to the GDP. The value of repayment and interest payments reached 6.7% of GDP in 2022.[27] In 2022, the government borrowed EUR 100m from Deutsche

25 Scepanovic 2023.
26 IMF 2020.
27 Montenegro Ministry of Finance 2023.

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Bank at the highest interest rate Montenegro has ever agreed to for a loan (5.9% plus a six-month Euribor rate, currently 3.3%). It is also disquieting that the country's gross external debt, which includes enterprises and individuals, exceeded 160% of the GDP even in 2022 (it reached 220% in 2020).[28] This is by far the highest ratio among Eastern and Central European and Western Balkan countries.

External equilibrium: Trends in trade and current account balance

The product export volume of Montenegro is particularly low, in 2022 the export value achieved 700 million EUR, which amounts only to 13.3% of the GDP (Figure 8). The deficit in balance of trade in goods is also significant in relation to the size of the national economy, exceeding 50% of the GDP in 2022. Thanks to the tourism sector, balance of trade in services – with the exception of 2020 – shows a significant surplus, but it still does not approach the deficit of balance of trade in goods.

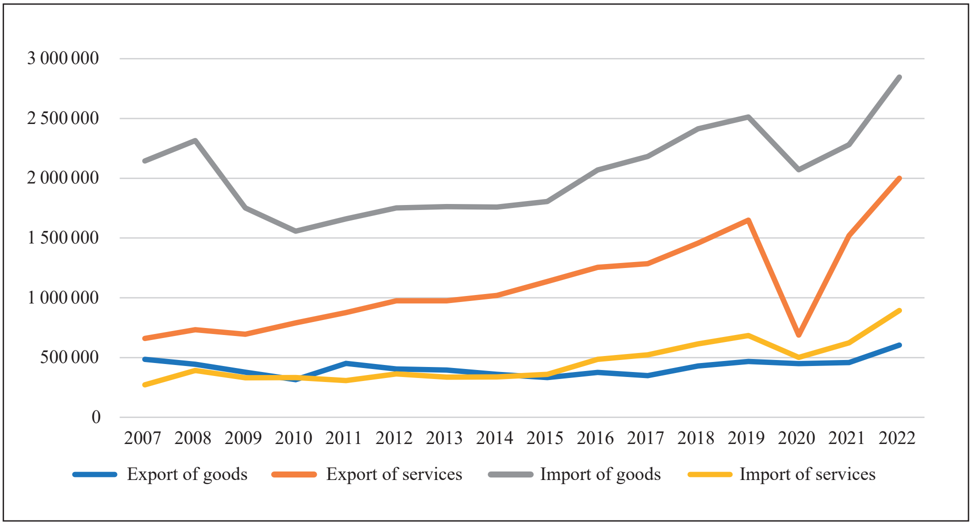

Figure 8: Export and import of goods and services of Montenegro 2007–2022 (thousand EUR)
Source: Compiled by the author based on MONSTAT 2023a data.

The overview of the most important export and import products (Table 3) reveals a picture of an economy and industry offering products with low added value.

28 WIIW 2023.

Table 3: Montenegro's most important export and import products in 2022 (thousand EUR)

SITC sections	Export (thousand EUR)	SITC sections	Import (thousand EUR)
68 Non-ferrous metals	171,310	**33 Petroleum, petroleum products and related materials**	389,968
35 Electric current	170,166	**78 Road vehicles**	228,550
24 Cork and wood	43,204	**35 Electric current**	209,483
28 Metalliferous ores and metal scrap	41,745	**54 Medicinal and pharmaceutical products**	154,132
54 Medicinal and pharmaceutical products	33,120	**77 Electrical machinery, apparatus and appliances**	142,259
33 Petroleum, petroleum products and related materials	27,728	**68 Non-ferrous metals**	141,734
01 Meat and meat preparations	26,030	**01 Meat and meat preparations**	140,627
Total export	700,252	**Total import**	3,533,838

Source: Compiled by the author based on MONSTAT 2023e data.

From the point of view of trade, Montenegro shows relatively low-level integration into the internal market of the EU. Its most important export market is the group of CEFTA countries, among which Serbia is in first place, the share of the EU achieves only 30% (Table 4). (In the EU only Cyprus's intra-EU exports shows lower ratio than Montenegro.) On the import side, the EU is already ahead of the CEFTA countries with a share of 44%, in the country-level, Serbia is followed by China, Greece, Germany and Croatia.

Table 4: Montenegro's main export and import partners in 2022 (trade in goods, thousand EUR)

Country (group)	Export (thousand EUR)	Country (group)	Import (thousand EUR)
CEFTA	291,728	**EU27**	1,560,768
EU27	212,186	**CEFTA**	925,351
Serbia	149,447	**Serbia**	614,776
Switzerland	107,951	**China**	330,596
Bosnia and Herzegovina	90,561	**Greece**	289,142
Slovenia	51,072	**Germany**	272,015
Luxemburg	36,715	**Croatia**	214,740
Total export	700,252	**Total import**	3,533,838

Source: Compiled by the author based on MONSTAT 2023e data.

It is worth examining the most important partner countries for tourism exports within service exports. Most overnight stays were spent in Montenegro by travellers from the following countries: Serbia (25.5%), Russian Federation (16.4%), Bosnia and Herzegovina (9.9%), Germany (5.9%), Ukraine (4.9%), Kosovo (4.0%) and United Kingdom (3.3%).[29]

[29] MONSTAT 2023e.

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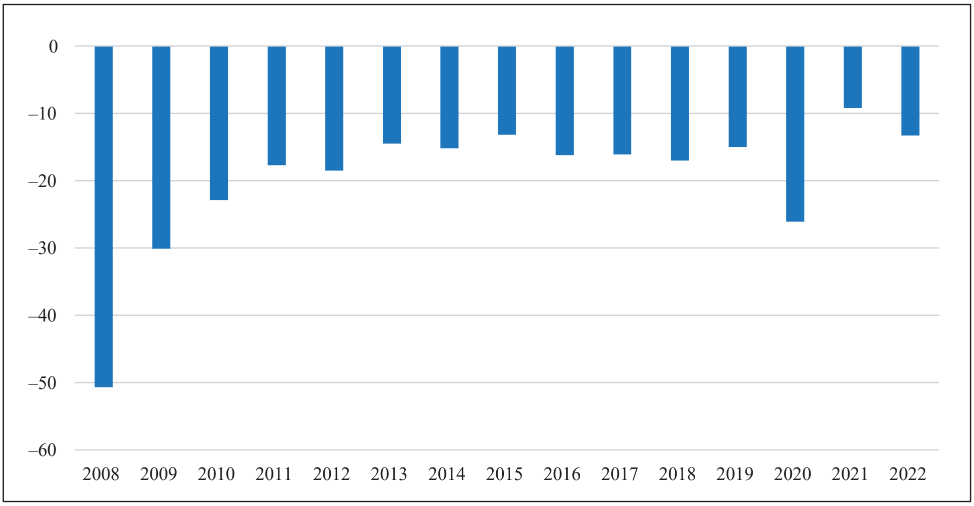

Figure 9: Evolution of Montenegro's current account balance as a % of GDP (2008–2022)

Source: Compiled by the author based on European Commission 2011, 2013, 2015, 2017, 2019, 2021, 2023 data.

The current account deficit in Montenegro is considered high in relation to the European Union and the Western Balkans (Figure 9). Despite income remittances of up to 10% of the GDP, there was only one year between 2008 and 2022 when the deficit was in the single digits in percentage of GDP. Due to the high general government and current account deficit, Montenegro is constantly characterised by twin deficits, which makes the country with the smallest population in the Western Balkans vulnerable. In the future, the export of services could be increased by developing the tourist infrastructure and the port of Bar. At the end of 2022, the proportion of productivity-enhancing investments in the invested FDI stock (5.68 billion EUR) is relatively low, an increasingly significant part is real estate investment (in 2022 it reached more than a third of all inflows), which comes from individuals, including Russian and Ukrainian investors. Overall, it can be concluded that – in contrast to several Western Balkan countries – Montenegro does not depend on Russia or Turkey from a political and economic point of view, only the credit of China Exim Bank represents a dangerous exposure. In the 2022 ranking of the Global Connectedness Index, Montenegro ranked only 101, behind all EU member states, Albania, North Macedonia and Serbia.[30]

Conclusions

In summary, it can be concluded that in the last 15 years, Montenegro has achieved a slow economic catch-up, has implemented or initiated several economic reforms, and on the basis of several macro-indicators, it is reaching the lowest performing member

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states of the EU, but at the same time, it is not yet considered ready for integration from an economic point of view. The country cannot currently be classified as a functioning market economy, primarily due to the high level of role the state plays in the economy, the large proportion of the informal economy, and the low level of competition in some sectors. As a result of the consistent implementation of the initiated and planned reforms, the strengthening of budgetary discipline, and the implementation of labour market reforms, the country can be economically ready for EU accession at the beginning of the EU's next financial perspective in 2028–2029. This would give the country the chance to further catch up, to implement the planned infrastructure projects with European funding and enterprises. For Montenegro, the development of the (tourism) infrastructure, as well as the expansion and modernisation of the port of Bar, can be a turning point. However, according to the current state of the accession negotiations, it is likely that the fulfilment of the economic criteria will not be the most serious obstacle and will not hinder the accession of the country with the smallest population in the Western Balkans.

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