



Montenegro Prepares for Dynamic Economic Growth

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PODGORICA, May 24, 2013 - The World Bank today presented an economic report entitled Montenegro: Preparing for Prosperity - Ensuring Sustainability, Connectivity, and Flexibility for Dynamic Growth. Prepared in close partnership with the authorities, this report provides recommendations to Montenegro on key areas for future policy development that can significantly improve the country's business environment for investment, growth, and employment. Specifically, the report emphasizes the critical role of fiscal and financial sector sustainability in ensuring a macroeconomic environment conducive to long-term growth. At the same time, the report recognizes the importance of Montenegro's connectivity--via trade, infrastructure (both physical and informational), and human capital--with world markets, and of regulatory and institutional flexibility to attract investment and create jobs. "Since independence, Montenegro has made considerable progress in increasing per capita income and reducing poverty and preparing for EU membership, says Ellen Goldstein, World Bank Country Director for Western Balkans. "But the Eurozone crisis has exposed Montenegro's vulnerabilities, leading to sluggish growth based on capital inflows and a narrow export base. For this small economy to become a powerhouse, Montenegro needs a better growth model based on sustainability of the macro-fiscal environment, flexibility of factor markets, and connectivity with the region and beyond. The report finds that in order to accelerate growth in coming decades, Montenegro needs to shift toward more productivity-based policies that foster knowledge and skills as well as fiscal and financial sector sustainability. Improving skills is a long-term struggle for Montenegro, whose labor force is now facing the challenges of a much more competitive international economy. Given its current indebtedness, Montenegro must address its vulnerabilities through fiscal consolidation and reduction in public and external debt, backed by credible rules to ensure fiscal discipline. Furthermore, Montenegro could significantly improve its connectivity with regional and world markets. At 11 percent of GDP in 2011, Montenegro has one of the lowest ratios of goods exports to GDP in the world. When services are included, that ratio has been only 35 percent in recent years. This contrasts with other successful small economies, where the ratio is 70 to 85 percent - showing the scope for Montenegro to do better. "Montenegro is an exciting, fast-growing tourist destination, and it has abundant potential to be a great place to do business, says ?eljko Bogetic, World Bank Lead Economist for the Western Balkans and lead author of the report. "It is well positioned in Europe to integrate into both regional and global markets. Unfortunately, the country is not yet taking full advantage of these opportunities. In the Western Balkans, much can be done to further improve the investment climate in most countries. Montenegro consistently scores as having the second best business environment in the region (after FYR Macedonia). Among Montenegro's areas of strength are regulations on starting a business, product market regulation, freedom of retail distribution, and absence of regulatory limitations on the number of competitors in a product market, the report notes. Increased flexibility of land and labor markets and better enforcement of contracts are areas for further improvement. The broad conclusion of the report is optimistic: if Montenegro vigorously pursues the remaining policy agenda to strengthen sustainability, connectivity, and flexibility, it can reap the substantial benefits of higher and more robust growth, greater employment, and better living standards for its citizens. The World Bank
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