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MONTENEGRO'S ECONOMY SWOT ANALYSIS

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Introduction

Small countries, i.e. small economies are rather sensitive to the influence of international environment. This especially applies to countries like Montenegro, in which the use of euro as a legal tender additionally limits the manoeuvring space in case of potential external shocks. Therefore, it is important, seems even more important than in any large economy, for Montenegro to have a clear vision, i.e. strategy for medium-term as well as long-term growth and development. There are a variety of economic methods and techniques used in developing these strategies, whether it regards the strategic planning at micro or at macro level. Some of them include SWOT analysis, portfolio matrix, scenario analysis, cost-benefit analysis, GAP analysis, etc. Projecting the future system trends based on the status quo is common to all the said types of analyses.

The main objective of this working paper is to – by means of SWOT analysis - present the strengths and the weaknesses of Montenegro's economy, possible threats to its stability, and present a strategic development model based on the results.

The SWOT analysis emphasises the significance of boosting competitiveness, which is one of fundamental strategic goals for Montenegro's economy. Building up the competitiveness of national economy relates directly to exploring the strengths and minimising the weaknesses of the economy, using its advantages and avoiding threats. On the other hand, successful implementation of the strategy will result in the increase of competitiveness. As per the latest *Global competitiveness report 2015-2016*, Montenegro ranked 70th of 140 countries.

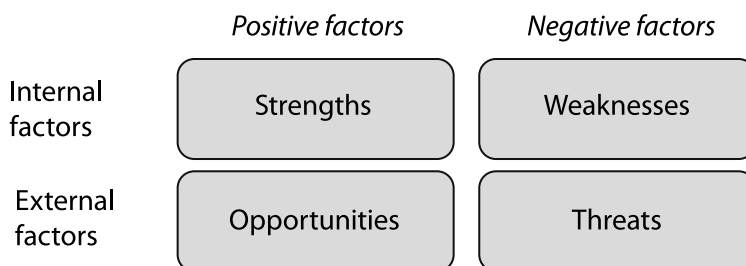
1. SWOT analysis – concept, definition and potential for application

SWOT analysis is an analytical method for identifying significant internal and external factors, which influence the development of an organisation, field, territory, etc. It provides information used for connecting the resources and the abilities of an organisation with its business environment and it represents a significant contribution to strategic planning. It is applicable to every field of industry, and although its original purpose was to determine the current conditions, it is increasingly used as a primary basis for the adoption of future development plans.

SWOT analysis enables the identification of favourable and adverse elements within an organisation and in its business environment. It was initially developed for the purpose of enterprise development; however, it was soon put into use in the personal development analysis, improvement of specific fields within the society and the overall economy of a country. This is hardly the only technique available for those purposes, however, it is the one of the most efficient, and it is frequently used – owing to its simplicity and applicability at all organisational levels. Inter alia, it is used for finding new solutions to specific problems of an organisation, identification of potential for succeeding, introduction of development-directed changes to an organisation, as well as for the decision-making in the most diverse situations an organization can be faced with. This method represents an excellent model for organising the information resulting from research, which preceded the adoption of a new idea or programme, and in that context, it can be very useful for drafting a strategic plan for the implementation of that idea/ programme.

SWOT analysis focuses on its four components: Strength, Weakness, Opportunity, and Threat (chart 1). With a view to achieving goals set for the future, SWOT analysis aims at identification and maximum exploration of strengths and opportunities, while striving to minimise the hampering weaknesses and threats.

Chart 1 – SWOT matrix



This analysis enables a company's managers or an economy's policy makers and creators of economic measures to discover what the organisation, i.e. the economy in question does better, i.e. what are its strengths compared to the competition, what the competition does better and what are its advantages. SWOT analysis provides an insight into whether the potentials are used efficiently and how should the decision-makers react to the influences from the environment, i.e. the changes occurring in the environment. Connecting the afore said elements is necessary to exploit the strengths i.e. the advantages in the context of better use of arising opportunities and avoid the threats on one hand, and overcome weaknesses with a view to better use of those opportunities on the other.

The full use of the SWOT analysis potentials requires the inclusion of many members of the organisation, or numerous experts from various fields of economy, who are thoroughly familiar with the organisation itself (in strategic analysis of enterprises), i.e. the economy itself (in strategic analysis of an economy). When making SWOT analysis, it is necessary to ensure that due

impartiality is preserved upon defining the weaknesses and strengths, current and targeted, i.e. future position that the organisation is striving towards, positive and negative factors regarding the competition, thereby paying special attention to keeping the said factors simple and concise. Internal factors include resources and experience, and the areas considered are natural and human resources, sources of financing, and already operational activities and programmes, as well as the experience, which is in the fundament of the success and reputation of the organisation, i.e. the economy itself. Given that no organisation is immune to the influence of external factors, they must be identified as well. These factors primarily refer to recognising new trends, potential new sources of financing, changes in the demographic structure, changes in legislation, as well as to local, national, and international developments.

Strengths imply a set of internal characteristics, which are positive for the organisation. Upon defining them, it is necessary to identify what it is that an organisation does well, what resources does it have access to, what makes it stand out from the competition.

Weaknesses represent internal characteristics, which are negative for the organisation. When defining them, it is necessary to identify what needs to be improved, what should be avoided and what is not functioning adequately.

Opportunities represent external factors, which an organisation can use for its own benefit. The best way to pinpoint them is by identifying: the potential advantages when changing markets and new technologies; the changes in legislation that can be beneficial to the organisation; the potential benefits from changes in policies referring to area being analysed; the changes in the prevailing social conditions; population profile; and local developments contributing to the development of the organisation itself.

Threats represent the fourth and the final element of SWOT analysis. Threats are external factors, which can act as a potential source of failure of a project or an organisation, and they comprise all the barriers an organisation or an economy faces, potential financial problems, i.e. the existence of debt issues, as well as the threats that can seriously jeopardise the continuum of the area under analysis.

The afore said leads to a conclusion that the SWOT analysis is highly applicable, starting from the analysis of only one business idea, to rendering the most important strategies for an enterprise or an entire economy. It is comprehensible, simple, well laid out, and, unlike the other available analytical approaches, making it does not require specific technical skills – these are the reasons for its increasingly frequent application.

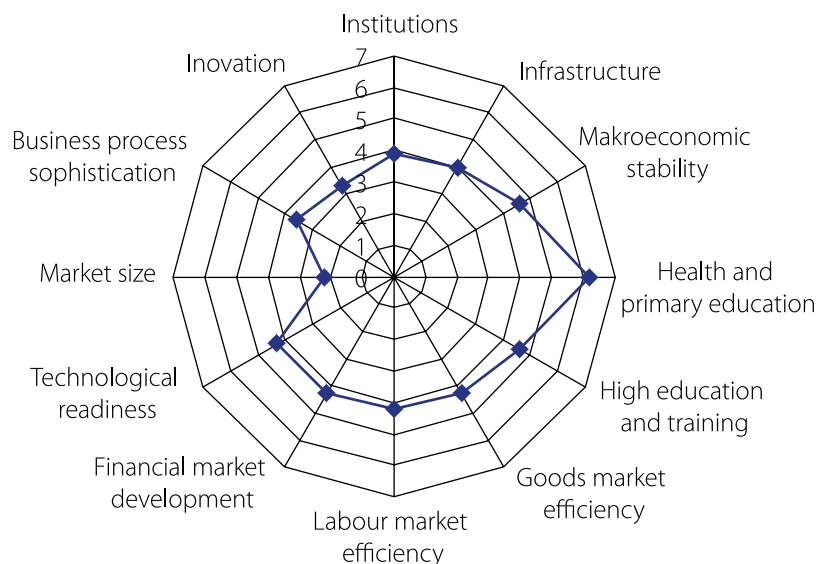
2. Competitiveness of Montenegro's economy

The ever-changing world calls for a more rapid development. Therefore, it is necessary to analyse these changes continuously, adjusting the directions of development of an enterprise or an entire economy of a country, all in the aim of competitiveness improvement. SWOT analysis is one of the methods that can be used for improving the competitiveness of a specific area, region and an entire country. It represents a means for determining comparative advantages, providing an overview of the most significant factors of development of a country. Strengths and weaknesses include internal - positive and negative elements of an economy that can be influenced on, while the positive and negative factors from the environment that influence the competitiveness are comprised in opportunities and threats.

The analysis of competitiveness of numerous countries is the subject of the World Economic Forum within its Global Competitiveness Report. The analysis is based on the researches that cover various factors influencing the competitiveness of a country. The factors affecting the competitiveness are grouped in twelve pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

The latest Global Competitiveness Report 2015-2016 ranked Montenegro as 70th out of 140 countries covered by the survey. In relation to 2014, Montenegro's position deteriorated from 67th to 70th place; however, its index value remained unchanged, i.e. 4.2 out of possible 7 points. In reference to the 12 pillars (indicators) of competitiveness, a slight index decline of 0.1 point each was recorded with the following: institutions, infrastructure, health and primary education, higher education and training, business sophistication, and innovation. At the same time, macroeconomic environment indicator index improved by 0.1 point. The remaining indicators recorded no change in relation to 2014. Montenegro scored worse as regards market size (2.2 points), while health and primary education scored highest (6.2 points).

Graph 1 – Montenegro's global competitiveness index as per the pillars of competitiveness 1-7 (best)



Source: World Economic Forum

The global competitive index 2015-2016 shows that in reference to countries in the region, only Macedonia ranked better than Montenegro, with Bosnia and Herzegovina being ranked the worst (Table 1). In the upcoming period it will be necessary to implement reforms with a view to improving the country's competitiveness, especially bearing in mind its ranking which has worsened in relation to 2010 when Montenegro held 49th place (with the index of 4.4).

Table 1 – Regional countries' ranking as per the global competitiveness index

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Montenegro	49	60	72	67	67	70
Serbia	96	95	95	101	94	94
Macedonia	79	79	80	73	63	60
Croatia	77	76	81	75	77	77
Bosnia and Herzegovina	102	100	88	87	N/A	111
Albania	88	78	89	95	97	93

Source: World Economic Forum, the Global Competitiveness Report

In its *Doing Business Report*, the World Bank also analyses the countries' competitiveness through the analysis of key business indicators, existence of business barriers, and the implementation of reforms aimed at removing them. In the latest report (*Doing Business 2016*), Montenegro ran-

ked slightly better on the ease of doing business list. Montenegro improved by one place, ranking 46th¹ out of 189 countries covered by the report. As regards the countries in the region, better ranked were Macedonia (12th), Slovenia (29th) and Croatia (40th), while Serbia (59th), Kosovo (66th), Bosnia and Herzegovina (79th) and Albania (97th) ranked worse than Montenegro.

Table 2 – Montenegro's ranking as per key business indicators

	DB 2016	DB 2015	Position change
Starting a business	59	55	-4
Dealing with construction permits	91	102	+11
Getting electricity	163	162	-1
Registering property	79	77	-2
Getting credit	7	6	-1
Protecting minority investors	36	33	-3
Paying taxes	64	97	+33
Trading across borders	42	42	No change
Enforcing contracts	43	43	No change
Resolving insolvency	36	33	-3

Source: Doing Business 2016 – The World Bank Group

The report reveals improvement in dealing with construction permits and paying taxes as a result of successfully implemented reform in these areas. The area of issuing construction permits improved by eleven positions as a result of a series of reforms introduced with a view to reduce the time required to acquire them. With regard to paying taxes, Montenegro progressed by 33 positions, as a result of the introduction of electronic system for filing and paying labour taxes – and the application of the emergency consolidation tax i.e. “crisis tax” on gross income exceeding 720 euros a month. The following indicators recorded slight decline: starting a business (decline by four positions), getting electricity and getting credit (-1 each), registering property (-2), and resolving insolvency and protecting minority investors (-3 each). Regardless of the slight improvement in the business reform stated in the report, it was emphasised that there is room for improvement of the business environment. Therefore, conducting activities that are more determined will be of essence for removing the business barriers at all levels, with a view to increasing the competitiveness.

¹ The methodology changed in relation to the previous report, thus the rank list for 2015 was adjusted in line with the new methodology.

3. Montenegro's economy SWOT analysis

The main idea behind the SWOT analysis of Montenegro's economy is to focus on specific areas, i.e. on the implementation of measures that will enable long-term growth and development of the economy.

Table 3 shows the SWOT analysis pointing to the strengths and weaknesses of Montenegro's economy, as well as to the opportunities and threats.

Table 3 – SWOT matrix

Strengths	Weaknesses
<ul style="list-style-type: none"> • Natural resource wealth – potential for FDI attraction • Euro as a legal tender • Liquid and solvent banking system • Cessation of the negative lending activity trend • Low customs duty rates • Low tax rates • Potential for the development of tourism, energy industry, and agriculture • EU candidate status – access to funds 	<ul style="list-style-type: none"> • Persistent real sector illiquidity • Although considerably reduced – still high level of non-performing loans (NPL) • Albeit declining – still high interest rates • Unused credit potential of banks • Inconsistent regional development • Underdeveloped infrastructure • Rigid labour market and unemployment • High FDI dependency, low levels of greenfield investments, and investments in production • Low and undiversified exports • Dependency on imports and unfavourable imports structure • High level of public debt • Shadow economy • Tax evasion
Opportunities	Threats
<ul style="list-style-type: none"> • Change in the structure of bank financing in favour of deposits • Increase of competitiveness through the introduction of new banks into Montenegro's market • Resolution of NPLs through "Podgorica approach" • Drinking water springs and good water, air and soil pollution protection • Agricultural production potentials – strengthening of processing sector in agriculture • Wood-processing industry and production of finished wood products • Potential for the development of low carbon tourism • Planned development projects, especially in the sectors of tourism and energy • Actualisation of major infrastructure projects • Tax debt collection • Attraction of FDI in production industries 	<ul style="list-style-type: none"> • Further public debt growth • Threats of issued state guarantees being called upon • High level of fiscal deficit • Lower FDI inflow, low level of reinvestment and potential foreign capital outflow • Decline in external demand (exports and tourism revenues)

1. **Strengths** are the factors that have a positive influence on the economic growth.

Natural wealth is undoubtedly an enormous potential for long-term economic growth, achievable through domestic, as well as foreign investments. This is one of Montenegro's strategic goals. Nevertheless, the exploitation of natural potentials is uncertain in terms of duration. This is the issue of large agricultural, tourism, and hydro-energy potentials. In addition to hydro-potential, there is also coal as the second most important source of energy, followed by biomass, wind-potential etc.² The existing unemployed potentials are good grounds for FDI attraction.

Euro as a legal tender gives advantage to domestic as well as foreign investors, because it protects the economy from the FX risks and the threats of FX – inflation spiral developing. This fact is a huge strength of Montenegro in comparison to other countries in the region.

Montenegro's banking system liquidity is on a high level and on an uptrend. At the end of December 2015, the amount of liquid assets available to banks was 860.2 million euros, which was a year-on-year increase of 23.4%. Amounting 15.49% at the end of 2015, the aggregate solvency ratio is significantly above the statutory minimum of 10%. Results of the stress testing conducted in 2015 showed that none of the banks required recapitalisation.

Following a downtrend that started as of 2009, in 2015, loans recorded positive growth rates. These rates ranged from 0.2% in June and July, to 4.8% in September 2015. Both retail and corporate sectors financing recorded respective annual increases of 3.1% and 2%. Albeit insufficient to induce stronger economic growth, these rates still represent significant improvement, i.e. a reversal of the negative trends recorded in the previous years. Lending activity intensification is best seen in the growth of new loans. A total of 962.7 million euros was granted in 2015, which is an annual increase of 20.1%. Annual growth in new loans was recorded in both key sectors – corporate (6.3%) and retail (25.7%).

Low custom duty rates and liberal foreign trade system vitalise the business environment and encourage potential investments.

Value added tax (VAT) with the rates of 19% and 7% puts Montenegro in the group of countries with lowest VAT rates, which makes it competitive in attracting investments in the upcoming period. Corporate profit tax rate of 9% is also among the lowest not only in the region but also in Europe, giving Montenegro a significant advantage in attracting foreign investors.

Montenegro's enormous natural potential is particularly suitable for the development of the three main pillars of its economy: tourism, energy industry, and agriculture. Tourism is becoming more and more the main driver of economic development, directly influencing the regio-

² Details on all the energy potentials can be found in the "Energy Development Strategy of Montenegro by 2030" ("the White Book").

nal development through its relations with complementary sectors. The energy sector founded on renewable sources such as water, wind, and biomass makes for an excellent investment potential. Finally, there is agriculture - a sector that creates the conditions for the development of manufacturing industry and food production using natural potentials. This can induce the development of the rural areas, help reduce imports and increase exports, spur employment and increase the quality of living standard.

Acquiring the status of EU membership candidate, Montenegro became eligible for access to the Instrument for Pre-Accession Assistance (IPA) funding for the areas like regional development, human resources development, agriculture and rural development. The key national-level document defining the priorities for receiving the IPA II funding is the Indicative Strategy Paper for Montenegro 2014-2020. According to this document, Montenegro has access to 270.5 million euros³ (or an average of 38-39 million euros per year). Financial assistance under IPA II pursues the following four specific objectives: reforms in preparation for Union membership and related institution- and capacity-building; socio-economic and regional development; employment, social policies, education, promotion of gender equality, and human resources development; agriculture and rural development; regional and territorial cooperation. To this end, in May 2015, Montenegro adopted the Law on ratification of Framework agreement between the Government of Montenegro and the Commission of the European Communities on the rules for cooperation concerning EC financial assistance to Montenegro in the framework of the implementation of the assistance under the Instrument for pre-accession assistance (IPA II). In December 2015, Law on Ratification of the Sector Agreement between the Government of Montenegro and the Commission of the European Communities on the Rules for Management and Implementation of EC Financial Assistance to Montenegro in the Framework of the Implementation of the Assistance under the Instrument for Pre-Accession Assistance for Rural Development (IPARD) was adopted.

2. **Weaknesses** are the factors that have negative impact on the economic growth.

In 2015, Montenegro witnessed favourable growth rate and real sector recovery through the growth of important areas of the economy (industry, tourism, construction, forestry), however the economic improvement was insufficient – the worrying issues of poor liquidity remained. Analysis of the enforced collection indicators reveals that, as at 31 December 2015, there were 14,870 legal persons and entrepreneurs with blocked accounts, which is an annual increase of 5%. In reference to value, the total amount of the debt on which the blockages were based amounted to 548 million euros, or 10.5% more than at the end of 2014.

High NPL levels have been an evident problem in the Montenegrin banking system ever since the crisis broke out. Regardless of the NPL downtrend recorded over the past three years, they remain the most challenging issue in the banking system of Montenegro. At the end of 2015,

³ Source: Ministry of Foreign Affairs and European Integration – Information on EU support programmes for Montenegro in 2015, November 2015 (*Informaciju o programima podrške Evropskeunije Crnoj Gori za 2015*)

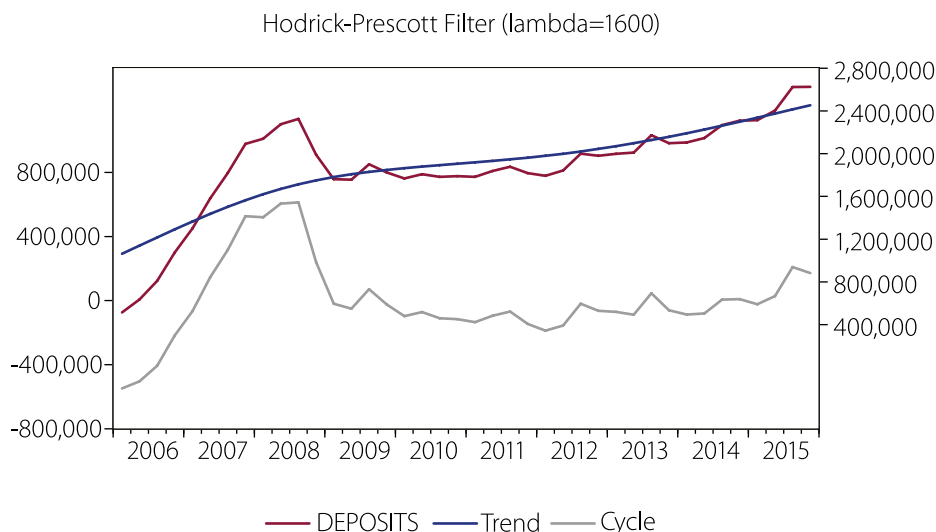
NPLs accounted for 12.57% of total loans, which is year-on-year decline of 3.3 percentage points. High NPL level is deemed the main reason behind the limited lending activity, i.e. rigid lending policy of banks. Limited lending activity has a discouraging effect on the economic growth.

Regardless of the downtrend recorded in 2015, the lending interest rates remain high. Lending interest rates have been declining since the final quarter of 2014 because of the decline in deposit interest rates, increased competition in the banking market – due to the entrance of new banks, as well as the Central Bank's recommendations for the reduction lending interest rates. However, the banks are still showing a high dosage of prudence in granting loans, due to the bad experience regarding the NPL growth that followed the crisis outbreak. Thus, the banks are trying to create reservations for potential losses by increasing the interest margin. This is one of the main factors explaining the banks' prudential attitude towards a more substantial reduction of lending interest rates, particularly considering the real sector's liquidity issues.

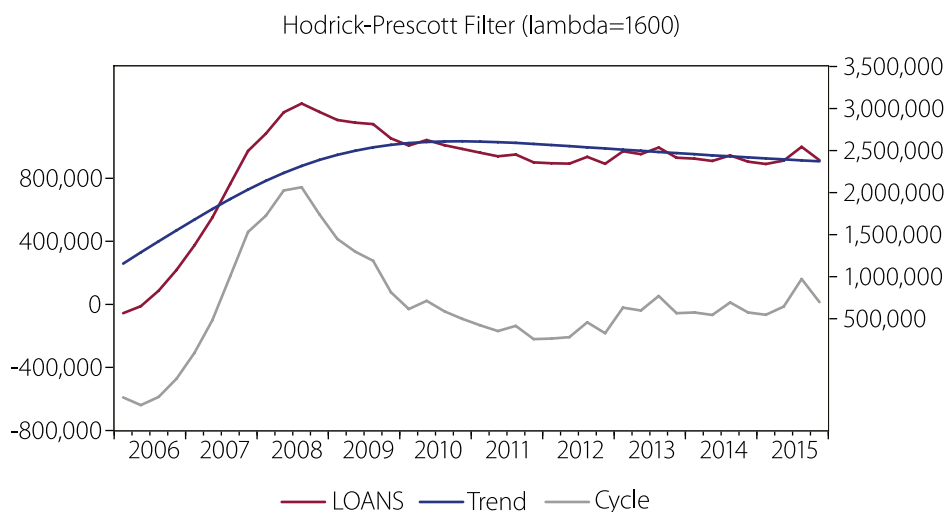
Loans have been lower than deposits as of the middle of 2015. In 2015, deposits recorded significant annual growth rates, which ranged from 9.2% in February to 16.9% in November, mainly reflecting high growth rates of the corporate sector's deposits (ranging between 13.6% and 34.3% depending on the month). Regardless of the decline in deposit interest rates, the increase in the deposit potential occurs due to favourable trends recorded in major areas of the economy in 2015, and the increase in foreign direct investments in the significant sectors of Montenegro's economy. On the other hand, household sector's deposits are on a continual rise reflecting the confidence in the stability of the banking system. In December 2015, deposits exceeded loans by 239.4 million euros at the banking system level. Consequently, lending potential in the banking sector is underemployed.

Graphs 2 and 3 show the amount of loans and deposits in relation to their long-term trend recorded between 2006 and 2015, measured by the Hodrick–Prescott filter. The graphs show that loans and deposits were above the long-term trend in 2015, while in 2014 they were at (deposits) or below (loans) the level of long-term trend. However, deposit growth was more prominent and deviation from the long-term trend is clearly lower in loans in relation to deposits.

Graph 2 –Deposits' deviation from the long-term trend (2006 - 2015)



Graph 3 - Loans' deviation from the long-term trend (2006 - 2015)



Lack of uniformity is evident at the regional level, especially in the underdeveloped northern part of the country, which makes up 52.8% of Montenegro's territory.

Therefore, it is necessary to implement continuously the activities aimed at achieving a uniform socio-economic development of all the local self-government units and the region. This development should be based on competitiveness, innovation and employment, as is defined in the Strategy for Regional Development of Montenegro 2014-2020, which was adopted in June 2014. The implementation of the Strategy aims at carrying out priorities and actualising

measures in the key development areas at the regional level. This is of special importance to the northern region, which has great potentials for the development of agriculture, food production, wood processing, and its valorisation should induce faster development. With a view to improving the implementation of regional development policy, the Act to amend and supplement the Act on Regional Development was adopted in April 2015. Specific areas, such as agriculture and rural development, transportation, etc. are to receive IPA funds support by 2020, which can provide a significant boost to the economic development of the northern region and thereby induce the decline in depopulation.

Underdeveloped infrastructure could act as a limiting factor of Montenegro's future economic development. Transportation represents a branch complementary to other industries (tourism, trade, industry), and this prioritises its improvement. Transportation affects the level of country's integration into the regional and wider international environment; therefore, to connect Montenegro with the rest of the world it is of essence to build, modernise and reconstruct the transportation system. Significant improvement in this segment regards the carrying out of preparation works for the construction of the priority highway section (Smokovac-Uvač-Mateševo), in 2015. The Agreement on the preferential loan between the Government of Montenegro and the Chinese Exim Bank will provide 85% of funds necessary for the construction of this section, and the remaining 15% will be provided from the Budget of Montenegro.

In reference to Montenegro's labour market, there is an evident mismatch between the workforce offer and the labour market requirements, along with a high level of long-term unemployment, and a high rate of youth unemployment. Regardless of the numerous programmes and projects implemented with a view to reducing unemployment, especially with regard to youth, the youth unemployment rate (aged 15 to 24) remains rather high. The latest available data reveals that in 2015, this rate amounted to 37.6%, while the total unemployment rate stood at 17.6%. In December 2015, the National Strategy for Employment and Human Resources Development 2016-2020 was adopted setting the following main goals: increase in employment, reduction of unemployment rate, efficient labour market functioning, matching the professional qualifications with market requirements and poverty downscaling. Enhancing the conditions in the labour market, i.e. increasing employment and reducing unemployment, requires an purposeful employment of funds provided through the Instrument for Pre-Accession Assistance (IPA II by 2020), which are earmarked for the areas of education, employment and social policy.

In addition to substantial FDI inflow, we cannot be satisfied with their structure, given that majority of them refers to investments in existing facilities and development of real estate for personal use, while a very small portion refers to investments in the area of production. Because of this, investments have but a short-term impact on Montenegro's economy and a mild effect on the creation of new jobs, adoption of new knowledge and technologies, increase in productivity and exports, i.e. on the long-term development of Montenegro.

Low diversification marks Montenegro's exports. The main share in visible exports belongs to raw materials and low processing level products, often affected by market volatility and subject to business cycle. In addition to better diversification, narrowing the foreign trade deficit and achieving structural adjustment of our economy will also require the increase in the volume of exports. The main share in invisible trade refers to tourism, which is also highly dependent on business activity.

High dependence on imports represents a persistent sore spot of Montenegro's economy. The issue could in part be resolved by increasing the import substitution within the real capacities of the domestic economy. Imports structure is also very unfavourable. Consumer goods take the main share in imports, while the share of equipment and machine is considerably lower. Shifting the imports structure towards equipment and machines could boost the economic activity and jumpstart an investment cycle in the country.

High public debt cannot contribute to the development of the economy. Resorting to public debt for the current deficit financing will lead the economic growth into stagnation in the upcoming years. Ultimately, the entire population suffers the adverse effects of public debt; therefore, Montenegro needs to come up with a very clear definition of debt control. The country's public debt has been on the rise ever since it re-established its independence, to reach the Maastricht ceiling of 60% of GDP at the end of 2015. The new 500 million euros Eurobond issue, as well as the withdrawal of Chinese Exim Bank funds used for financing the construction of a section of the Bar-Boljare highway induced the government debt increase in 2015.

Shadow economy stands as one of the most challenging issues that Montenegro faces. Shadow economy is a major obstacle in the development of the corporate sector and building of a functional market economy on one hand, while on the other it produces adverse effect on the regular inflow of fiscal funds, calling into question the accomplishment of the state's fundamental functions. Consequences of the shadow economy are evident in the area of tax evasion, disloyal competition and inefficient allocation of resources. Shadow economy is the most evident in the areas of labour market and excisable products market.

One of the causes of shadow economy certainly lies in tax evasion, which results in the failure to achieve the planned fiscal revenues. Failure to settle financial obligations towards the state in the previous period, due to tax evasion and the economic activity decline in the aftermath of the economic crisis, have led to a tax debt of over half a billion euros. A large number of countries face difficulties in the tax debt management, especially the countries in the transition process.

3. **Opportunities** represent the possibilities of further economic development and they depend on a series of factors.

The change in the structure of bank financing reflected in the decline of banks' foreign borrowings, which has ensued since the middle of 2009 as well as in constant increase in deposits, is a prerequisite of a sustainable model of banking operations in the future.

In 2015, Montenegro's banking system widened by two more banks - admitting a new one in 2016 - and now comprises 15 banks. This provides for real expectations that the increased competition in the banking market will serve as an additional spur to lending interest rates reduction and the lending activity boost in the country.

Continuing the activities on the implementation of the NPL workout project – the so-called Podgorica Approach – implied the adoption of the Law on Voluntary Financial Restructuring of Debt to Financial Institutions in May 2015. This left us with the great challenge of adequately applying the Law in releasing the banks of a major burden that are NPLs in terms of inflow (flows), while from the perspective of balance, i.e. the level of NPLs, it will be necessary to improve the deadlines and the efficiency in the agreement enforcement.

In the upcoming years, Montenegro should focus on economically valorising its relatively rich drinking water springs. This bears a special significance given the numerous researches pointing to the global issue of drinking water scarcity the world will face in the decades to come. Importantly, Montenegro is ecologically “well preserved” (with the exception of several locations – e.g. near KAP), which gives solid grounds for the development of tourism, agriculture and food production, which are the main “users” of environment.

In addition to tourism and energy industry, the sector of agriculture represents one of the main pillars of Montenegro's economy. Montenegro enjoys a significant agricultural production potential and its exploration would make an impact on the imports substitution and exports increase. The access to pre-accession funds for rural development aimed at enhancing competitiveness in the agriculture sector and overall agricultural production development are of high importance for Montenegro. The process of withdrawal of resources from the EU funds for the purposes of investing in domestic agriculture started at the end of 2014. IPARD-like program, valued at 4.5 million euros⁴, enables the attraction of EU grants for the development of rural areas and production modernisation and productivity increase of farms. At the same time, this programme serves as a preparation for the implementation of IPARD II programme for Montenegro, which the European Commission adopted in July 2015. Through this programme, local agricultural producers will have access to 39 million euros (50% of grants for the projects). The further development and reinforcement of competitiveness in this sector will be spurred by ADMAS⁵ project for the support of Montenegro's agricultural development provided by the Abu Dhabi Fund for Development. Agreement on long-term lending of Montenegrin agriculture worth 50 million U.S. dollars was signed in June 2015. The appro-

⁴ Source: Ministry of Agriculture and Rural Development – Information on priority development projects in the area of agriculture, December 2015 (*Informacije o prioritetnim razvojnim projektima iz oblasti poljoprivrede*)

⁵ Abu Dhabi to Montenegro Agricultural Support

prate utilisation of the funds earmarked for agricultural production strengthening can be a significant contribution to the increase in gross value added in total gross domestic product, which stood at 8.1% in 2014.

With 60% of its territory under forests, Montenegro has among the highest forest coverage in Europe, along with the Scandinavian countries. Nevertheless, the upcoming period will require the increase in the GDP contribution from the forestry sector, wood processing and other forest-dependent industries. Montenegro should employ its forestry sector potential to encourage the connecting of timber producers and wood processors, with a view to exporting products with higher finalisation levels. In the upcoming period, Montenegro needs to enhance the wood-processing industry, which harbours a large unemployed potential, and by doing so increase the share of manufacturing industry in total industry. Enhancing the institutional framework for promoting and encouraging investment with the emphasis on manufacturing, especially wood-processing industry, would help reduce unemployment in the northern municipalities, strengthen the export potential and increase the gross domestic product, as planned by the Development Strategy of the manufacturing industry in Montenegro 2014-2018.

In addition to being one of the main factors of economic growth, infrastructure development and investment attraction, the tourism sector is also a large contributor to greenhouse gas (GHG) emissions due to its connectedness with other sectors. Therefore, the promotion of low-carbon tourism is of high significance for Montenegro especially bearing in mind its status of ecological state. In this regard it should be noted that, based on best international practices, Montenegro has developed a detailed methodology for the calculation of GHG originating from the tourism sector. In the upcoming period, Montenegro plans to implement the activities aimed at GHG emission reduction and to work on developing the concept of Montenegro as a low-carbon tourist destination. Reducing GHG emissions in tourism will help this sector's sustainable development, and the development of low-carbon tourism would transform the tourist offer, improve the quality of services, create new jobs, enhance energy efficiency of tourist facilities, protect biodiversity and generate additional revenues, which would help strengthen Montenegro's international position on the world tourist map.

Montenegro bases its economic growth and development on the three priority sectors⁶: tourism, energy industry, and agriculture. The implementation of projects in the tourism sector will drive, directly or indirectly, the activities in the complementary sectors (transportation, trade, specific manufacturing industry areas, etc.). In the tourism sector, continuous efforts are being invested in the implementation of priority projects for the future development of high-end tourism (Mamula, Kraljičina plaža, Luštica), which will boost domestic workforce employment and widen the offer of high-category hotel capacities. Implementation of projects aimed at improving the tourist infrastructure will continue in 2016 with special attention given to the northern part of the country, with a view to downsizing the regional differences

⁶ *National Development Plan 2013-2016*

and pulling together and enhancing the overall tourist offer. Some investment projects in the energy industry are already underway e.g. construction of small-scale hydro and wind power plants, construction of a submarine cable that will connect the electric energy systems of Italy and Montenegro, and energy efficiency improvement projects; while others are in various preparation stages. Those projects are the construction of the Block II of the Thermal Power Plant Pljevlja and Ionian Adriatic Pipeline (IAP). Finalisation of the planned projects will induce favourable trends, not only in these industries, but also in the entire economy.

Accomplishment of large-scale infrastructure projects will accelerate the country's economic growth, increase the competitiveness of its economy, and boost employment and living standard of its population. In 2015, Montenegro started the construction of its largest and most significant infrastructure project – the Bar –Boljare highway – priority section Smokovac- Mateševo, which will be financed from the capital budget. In the long term, the implementation of this project will bring about the increase in public revenues through increased economic growth rates, creating thus the conditions for the stabilisation of public finances.

Intensification of activities on strengthening the fiscal discipline and efficiency of competent bodies, primarily the Tax Administration, will contribute to the tax debt reduction and the consequential increase in fiscal revenues. Reducing the tax debt by only a third would yield a substantial increase in fiscal revenues, providing a needed boost to the process of fiscal consolidation.

The long-standing high FDI levels pose a question to what extent are they exploited in terms of economy. The current FDI structure has room for improvement, in terms of increased investment in Greenfield projects, production capacities and export oriented production. Montenegro lacks such investments and the change of the existing FDI structure would generate extensive multiplicative effects of FDI on economy, strengthen the exports sector and give a new momentum to the entire economy.

4. **Threats** represent the factors with potential adverse effects on overall economy in the upcoming period.

Montenegro's public debt has been on a continuous rise over the past ten years, virtually doubling since 2007, which is a rather worrying trend. Failure to keep the public debt level under control could cause numerous difficulties for the budget, as well as for the entire Montenegro's economy. Ensuring that the public debt growth rate does not exceed real growth of the economy could curb the rapid growth trend of the public debt. The state can achieve this is only by borrowing in order to finance projects that can bring additional value, i.e. projects in which the benefits exceed the risk and costs.

Persistent fiscal deficit as of 2009 largely contributed to the government debt increase – given that the deficit is financed through borrowing. At the end of 2015, fiscal deficit amounted to

291.3 million euros or 8.1% of GDP, nearly tripling in relation to the previous year. The reason behind the deficit increase in 2015 lies in the fiscal revenues decline and the rise in expenditures, which was primarily due to increased capital budget expenditures for the highway construction.

Extremely high level of state guarantees poses a worrying threat to the public debt sustainability and further increase in fiscal deficit. Calling of state guarantees would result in extraordinary expenses, imposing a restricted financing of the spending planned by law.

In the past several years, we have witnessed a high inflow of capital in the form of FDI, which has had a favourable effect on economic growth. Decline in inflow, along with low level of re-investing on one hand, and a potential foreign capital outflow on the other, would have an adverse effect on Montenegro's long-term economic development.

Crisis deepening and contracted demand in the export markets could exert negative impact on the generation of revenues arising from visible and invisible exports. This refers to the sector of tourism and its prevailing share in total revenues from services, i.e. to the economy's large dependence on tourism, and the fact that, in case of a weak tourist season, such high reliance on tourism would be a potential threat by itself.

4. Conclusion

SWOT analysis is an analytical method for identifying significant internal and external factors of an organisation, area, territory, etc. which affect their development. Through focussing on its four integral elements: strength, weakness, opportunity and threat, this analysis enables the identification and maximum utilisation of strengths and opportunities of an economy, and minimisation of weaknesses and threats. SWOT analyses find application on micro and on macro level, even on the level of an entire economy of a country.

Compiled SWOT table, i.e. the analysis of Montenegro's economy reveals numerous strengths and opportunities typical of a small economy. Nevertheless, all small economies, especially those with low competitiveness, fall under the considerable influence of larger economic systems. In the table, this is presented as weaknesses, i.e. threats.

MONTENEGRO'S ECONOMY SWOT ANALYSIS

SWOT matrix

Strengths	Weaknesses
<ul style="list-style-type: none"> • Natural resource wealth – potential for FDI attraction • Euro as a legal tender • Liquid and solvent banking system • Cessation of the negative lending activity trend • Low customs duty rates • Low tax rates • Potential for the development of tourism, energy industry, and agriculture • EU candidate status – access to funds 	<ul style="list-style-type: none"> • Persistent real sector illiquidity • Although considerably reduced – still high level of non-performing loans (NPL) • Albeit declining – still high interest rates • Unused credit potential of banks • Inconsistent regional development • Underdeveloped infrastructure • Rigid labour market and unemployment • High FDI dependency, low levels of greenfield investments, and investments in production • Low and undiversified exports • Dependency on imports and unfavourable imports structure • High level of public debt • Shadow economy • Tax evasion
Opportunities	Threats
<ul style="list-style-type: none"> • Change in the structure of bank financing in favour of deposits • Increase of competitiveness through the introduction of new banks into Montenegro's market • Resolution of NPLs through "Podgorica approach" • Drinking water springs and good water, air and soil pollution protection • Agricultural production potentials – strengthening of processing sector in agriculture • Wood-processing industry and production of finished wood products • Potential for the development of low carbon tourism • Planned development projects, especially in the sectors of tourism and energy • Actualisation of major infrastructure projects • Tax debt collection • Attraction of FDI in production industries 	<ul style="list-style-type: none"> • Further public debt growth • Threats of issued state guarantees being called upon • High level of fiscal deficit • Lower FDI inflow, low level of reinvestment and potential foreign capital outflow • Decline in external demand (exports and tourism revenues)

The general conclusion is that Montenegro should draw its opportunities from the areas relying on available natural resources (tourism, energy industry, agriculture), by continuing to pursue the policy of creating an environment favourable for FDI attraction, further improvement of domestic economy competitiveness, and creating a more stable business environment.