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CRITICAL OVERVIEW OF MONTENEGRO'S GROWTH MODEL

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ABSTRACT: There are numerous theoretical explanations of growth models, but the authors hereof intend to analyse the growth model of Montenegro, without any pretention to fit it in any of the existing theories, but to point to the key growth factors, the existing model's limitations, and future actions to be taken in order to return Montenegro to the path of economic growth. In the pre-crisis period, Montenegro had been in a group of European countries experiencing the fastest growth. However, the global crisis induced a sharp decline in activity, unemployment increase, and severe difficulties in numerous sectors. The backbones of growth in the pre-crisis period were a large inflow of foreign accumulation and a high level of domestic aggregate demand. Such a growth created many contradictions so that it is likely that serious problems would have arisen even if it hadn't been for the crisis. The paper consists of two parts. The first part gives an analysis of the existing growth model and shows why it is not viable in the long-term. The second part analyzes the challenges that Montenegro will face in the upcoming period and provides recommendations for acceleration of economic growth.

KEYWORDS: Montenegro, growth model, crisis, challenges, recommendations.

JEL classification: E60, E66

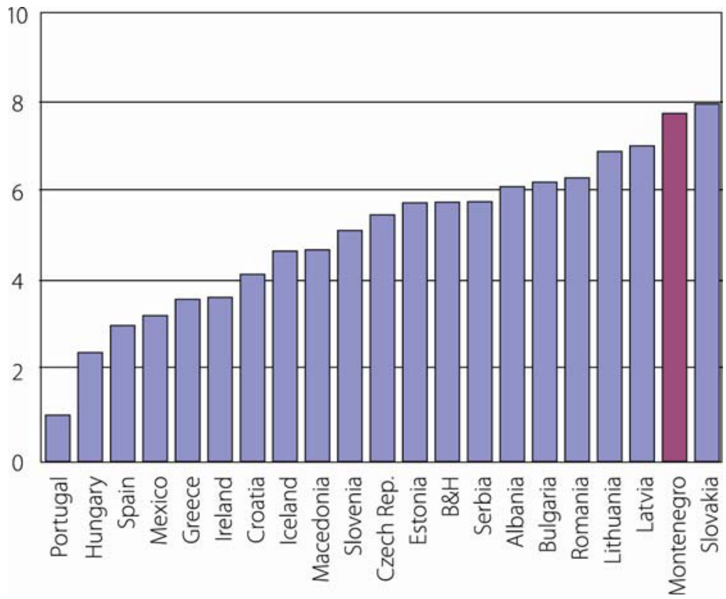
Growth model of Montenegro before the crisis

Growth economics studies factors that explain economic growth – an increase in a country's output per capita of over a long period of time. As Becker and Murphy (1990) point out, economic growth has posed an intellectual challenge ever since the beginning of systematic economic analysis. Adam Smith connects growth model with the division of labour, Tomas Malthus with population growth, and the neoclassical model considers that growth is connected with the rate of investment in physical capital. Some recent theories link growth to investment in education and an increase in the number of researchers, whereas the endogenous growth theory developed at the end of the previous century includes a mathematical explanation of technological advancement. The variety of growth models goes as far as developing theories seeking to link economic growth with a country's stage of democracy[4]. We can conclude that there are a lot of models offering different explanations of economic growth, yet the question is whether any of these theories could apply to Montenegro.

Before the global financial crisis, Montenegro had been in the group of European economies in transition growing at an accelerated pace. Rather impressive results had been achieved over the pre-crisis period: remarkably high rates of growth, GDP growth, large inflows of foreign direct investments, an increase in the living standard, and an accelerated growth experienced by certain sectors such as construction, tourism, the financial system, and the like. Montenegro's rate of GDP growth averaged 8% in that period and Slovakia was the only country whose GDP growth was higher.

[4]For further reading see Helliwell (1994).

Figure 1: Average rate of GDP growth of the selected European countries in transition in the period 2006 – 2008

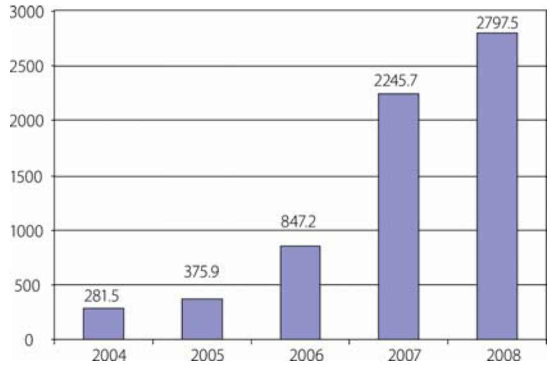


Source: IFS, IMF

However, the existing model was based on a high increase in domestic demand. The figure below shows the high levels of growth in domestic aggregate demand[5], lending and public spending in the period preceding the crisis. For example, an average net salary in Montenegro amounted to EUR 213 at end-2005, reaching twice this amount at end-2008 of EUR 420.

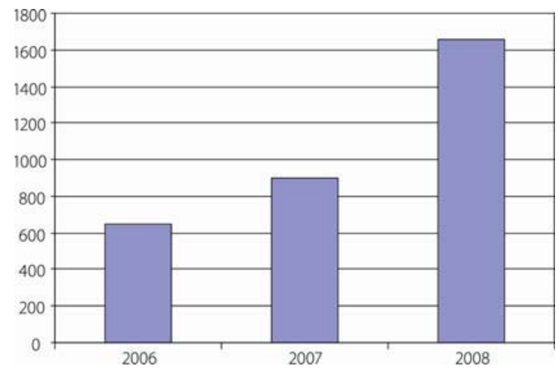
[5]Private investment data are not available.

Figure 2: Household demand, in million EUR [6]



Source: Inflation report, CBM

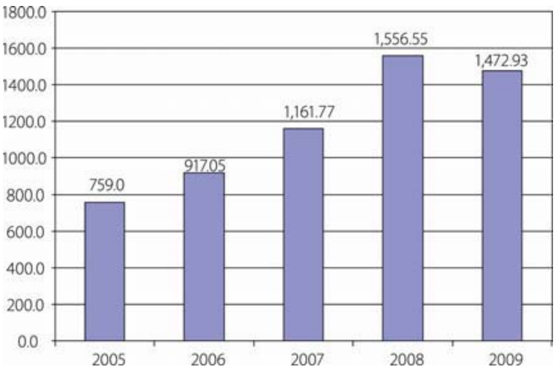
Figure 3: Loans, in million EUR



Source: Chief Economist's Annual Report

[6] The aggregate demand herein is an estimate of the Central Bank of Montenegro and not the exact level of aggregate demand. Estimates prior to 2006 are not available.

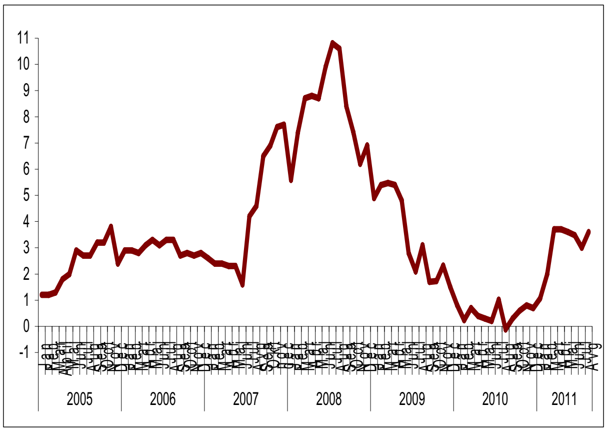
Figure 4: Consolidated public spending, in million EUR



Source: Bulletin, Ministry of Finance, December 2009

Taking into consideration economic activity in the pre crisis and post crisis time, price levels[7] were adjusting to the boom and bust phases in the same direction (during the time of overheating CPI reached 7.7% in 2007 and 2009 ended with the 1.5%,).

Figure 5: Inlation, CPI (annual change)



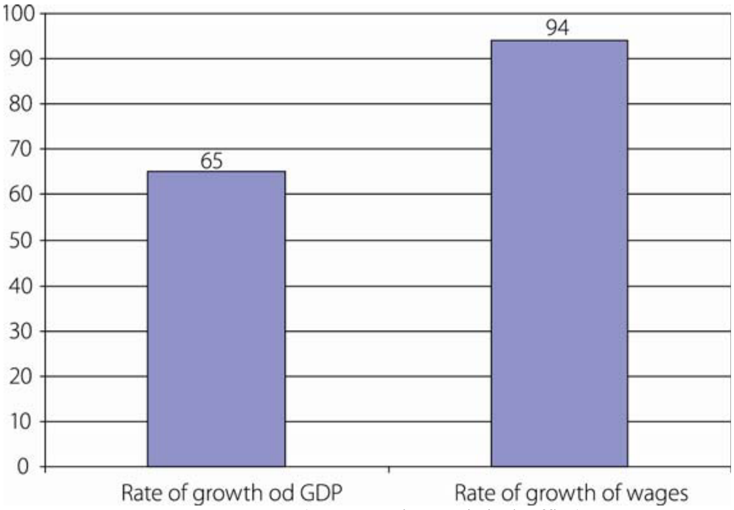
Source: Central bank of Montenegro

[7] For more developments on inflation in Montenegro see Price Stability Report 2010

A model based on high growth in domestic aggregate demand is a well-functioning model for a small and open economy in the short-run. Nevertheless, it is a short-lived model because domestic aggregate demand cannot be increased indefinitely, thus Montenegro would have encountered problems even if it had not been for the crisis, that is, the slowing down of GDP was inevitable.

In addition, wages grew remarkably fast and at much more rapid pace than GDP. It is clear that when wages increase much faster than GDP they encourage production growth, yet only in the short-term.

Figure 6: Rates of growth in nominal wages and GDP, 2005 – 2008



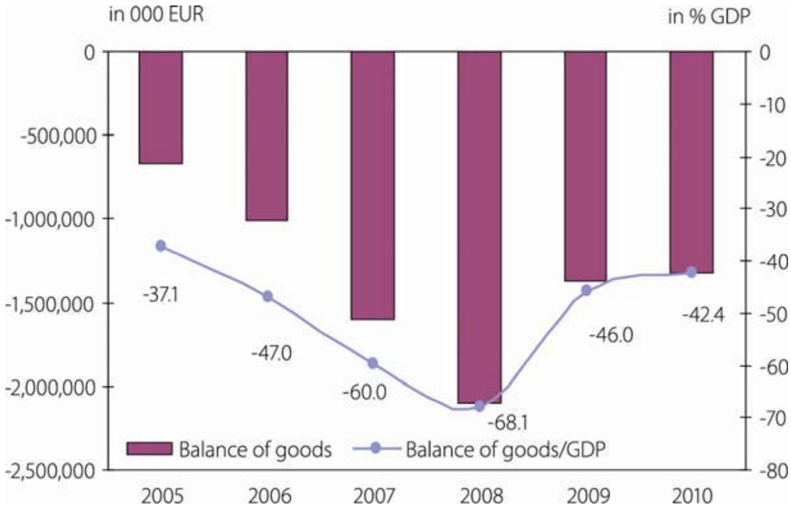
Source: Monstat (Montenegrian Statistical Office)

In the long run, this causes deterioration in economic competitiveness so it is not surprising why the country ran an extremely high current account deficit[8]. The rapid economic development in pre crisis time, fuelled by high inflow of foreign direct investments and loans, contributed to the increase in imports of goods, which led to the high trade deficit, and therefore to such a high level of current account deficit. The rapid development of the economy especially in the construction and tourism sectors required a large amount of goods that the Montenegrin economy was not able to produce and therefore the majority of goods were imported. This

[8]The current account deficit amounted over 50 % of GDP. However, there are certain doubts that the existing deficit is overrated. For more details see Fabris (2010).

was partly a component of the deficit, which brought positive effects in growth contributions. The first signs of adjustment in current account flows become visible with the impact of global financial crisis and due to that contraction in aggregate demand which decreased deficit momentum.

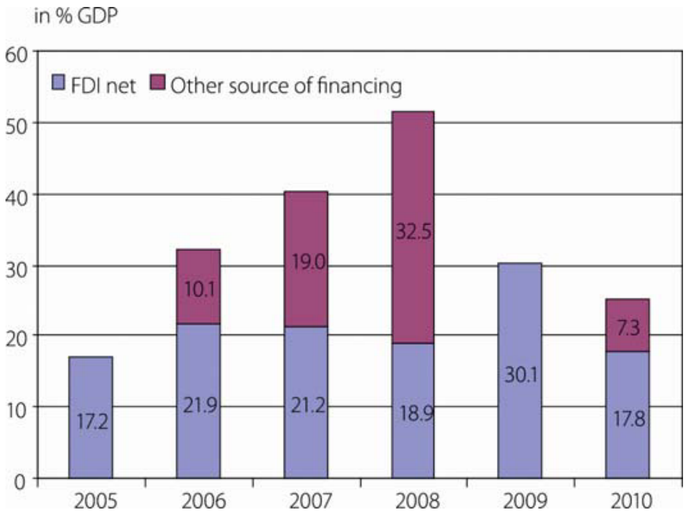
Figure 7: Trade deficit as a % of GDP (2005-2010)



Source: Central bank of Montenegro

In case of Montenegrin economy which is euroised, the current account deficit represent fewer risks than in countries that have their own currency, but options for its elimination are limited as Montenegro can not use exchange rate policy. The current account deficit can be considered as a balanced response of the system to a large foreign private capital inflow and a high credit growth rate. Therefore, it is certain that a part of the current account deficit has self-correcting effects, that is, the decline of FDI inflow will lead to a substantial reduction in imports. This is the trend that is also present in other economies in transition. Of course, it would be of exceptional importance to influence the change of the FDI structure, to attract more Greenfield and export oriented investments. During previous years, the large inflows of foreign capital were able to fund the current account deficit.

Figure 8: Financing the current account deficit

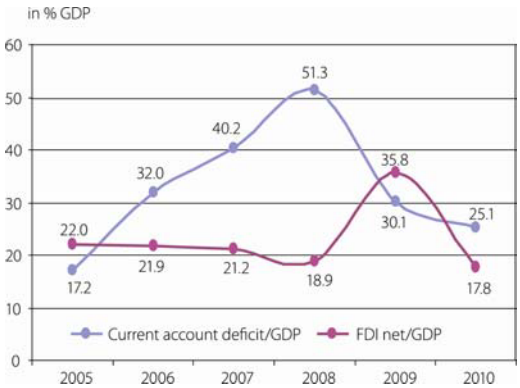


Source: Central bank of Montenegro

With a global crisis, there was a slowdown in credit activity, investment cycle, reducing the inflow of funds (through loans), thus reducing imports and current account deficit. The crisis and fast declining in domestic and external demand had a major impact on balance of payments in previous years. The decline in the external trade deficit is the result of the decrease in personal consumption, and therefore of lower imports of consumer goods. In addition, the companies' waiver from capital investments as well as the decline in demand led to the decline in imports of capital and intermediary products. The decline of industrial production in the country as well as the reduced volume of bank loans led to additional decrease in foreign products demand. As a result of the economic crisis the current account deficit in 2009 was reduced by 43.4% compared to the previous year and amounted 30% GDP. Also, the decline in current account continue in 2010, primarily as the result of reducing the trade deficit, and amounted to 25% GDP.

The specificities of a small and open economy help to explain the large and volatile current account. Montenegro is heavily dependent on FDI to address its current account deficit. Any of several big projects may further influence the international statistics but should not be seen exclusively from the negative side as it is in function of development.

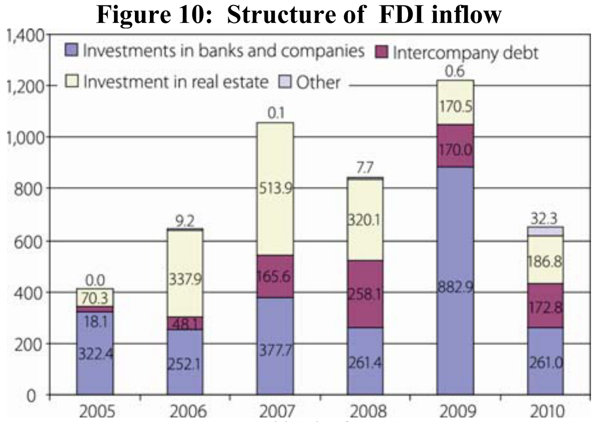
Figure 9: Current account deficit and FDI in % of GDP



Source: Central bank of Montenegro

However, pre-crisis period was characterized by unfavourable structure of FDI. A significant part of FDI inflows were investment in real estate. The share of investment in real estate increases from 17% in 2005 to 49% in 2007. In the period 2008-2010, the structure was changed and it was recorded an increase of share of FDI in domestic banks and companies. In 2009 it was recorded the largest share of investment in banks and companies amounting 72% of total FDI inflow. This tendency finally put a pressure on asset prices and contributed to the *bubble* creation. The global economic crises and less interest of foreign investors, led to decrease of FDI inflow in 2010.

Figure 10: Structure of FDI inflow

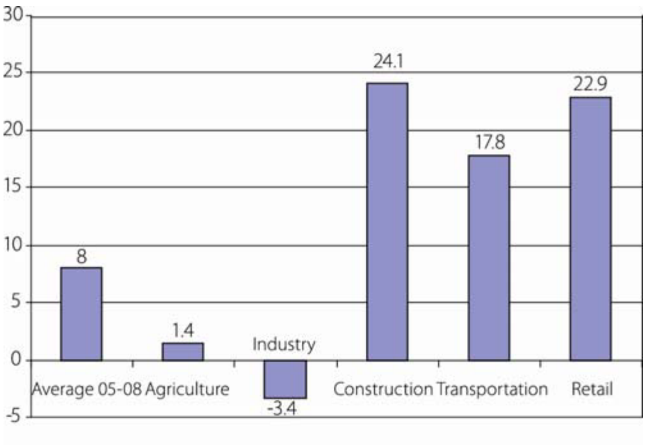


Source: Central bank of Montenegro

It is likely that such a large inflow of foreign accumulation was not optimally used. One should also take into consideration the finding of Beoreszentain *et al.* (1998) that FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy. It is obvious that this requirement was not met in case of Montenegro.

Pre crisis time brought large structural changes as well. Namely, the service sector experienced an accelerated growth (trade, construction, services) that ran in parallel with a very slow growth or a decline in industry and agriculture. To wit, Montenegro followed the trend of advanced countries in changing its production structure, but a sudden change in economic structure is one of the causes of the crisis since ongoing reduction of production followed by an increasing service sector is unsustainable in the long-term. This was advocated by the Physiocrats as early as in the 18th century[9]. Figure 11 shows the growth trend of the selected branches of the Montenegrin economy.

Figure 11: Rates of growth of selected branches of Montenegrin economy, 2005-2008

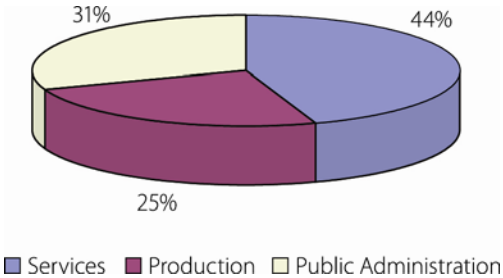


Source: Monstat (Montenegrin Statistical Office)

[9] Physiocrats saw the backbone of a society's welfare in material production and/or agriculture and they believed that a country's welfare cannot be improved by forcing the service sector (agriculture). Although this is somewhat one-sided as it disregards the development of the service sector, it still advises that the production sector must not be neglected. For more details see Dimitrijević and Fabris (2007).

The result of such a production structure is the unfavourable employment structure as only one quarter of workers were employed in the production sector.

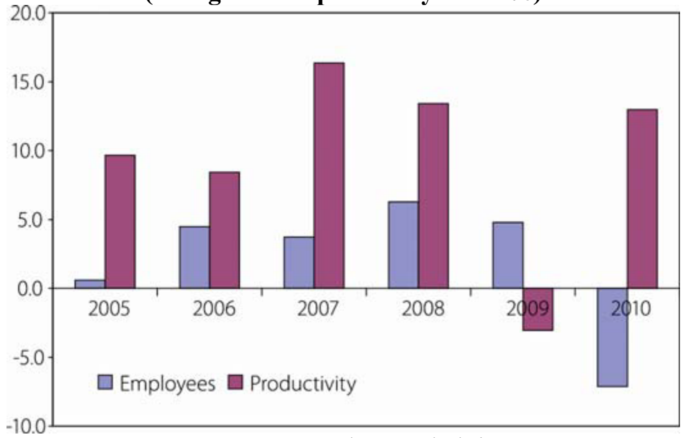
Figure 12: Employment structure



Source: Monstat, release on the number of employees

Though such a structure, very dynamic economic activity was expressed in a significant growth in gross domestic product, which resulted in high percentage changes in productivity, as well as, an increase in employment but not to the extent as productivity.

Figure 13: Growth rate of employees and productivity[10] (change on the previous year in %)



Source: Monstat and CBM calculations

[10] Measurred by GDP per capita

Therefore, we can conclude that Montenegro's economic growth hitherto has been based on large inflows of foreign capital, borrowings, and high levels of domestic consumption[11].

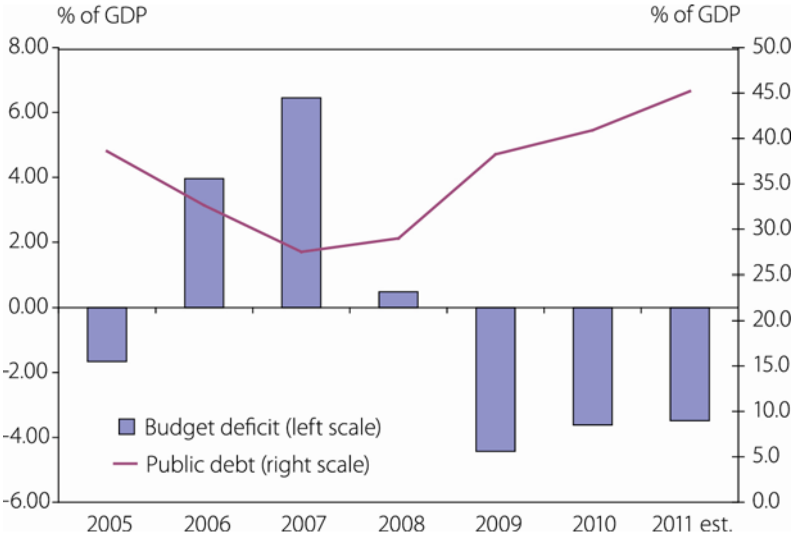
The global financial crisis that emerged in the midst of overheated domestic demand led to the GDP downturn (5.7% in 2009), an increase in unemployment, the capital market crash, and serious difficulties in certain activities such as construction, banking, metal industry, and so on. The crisis has opened numerous issues and pointed to many imbalances such as the following:

1. Fiscal deficit,
2. Public debt sustainability,
3. Pension fund financing,
4. Decline in lending activity and an increase in non-performing assets in the banking system,
5. Capital and real estate market crises (bubble burst),
6. Growing lack of liquidity in the corporate and household sectors, and
7. High increase in unemployment.

Although the crisis also hit other economies in transition, it is safe to say that it was much deeper in countries that had been recording high rates of economic growth over the pre-crisis period, such as Montenegro, the Baltic states and others. However, when it comes to Montenegro, these problems are much more dangerous than in other transitional economies as the result of being a euroised economy. To wit, due to the existing monetary regime, Montenegro has very limited monetary policy instruments[12] at its disposal and consequently exchange rate policy cannot be used. Limited monetary policy transfers the adjustment mechanism of the econimy in crisis time toward the fiscal authority and sustainability of fiscal position. Even though, Montenegro does not belong to the group obliged to respect Maastricht criteria "de facto", having eurisation as an official policy brought this criteria into the policy making. The fiscal crisis adjustment was obvious since 2008. From the time of fiscal surplus, Montenegro has been running fiscal deficit since the economic downturn caused by the crisis.

[11] Large capital inflows during the expansion period exerted pressure on asset prices in the country and led to the creation of bubbles at certain markets. The markets that were mostly affected were those of shares and real estates where the prices of certain products rose by more than 100%.
[12] For more developments on monetary policy in Montenegro see CBM Annual Raport, 2010.

Figure 14: Budget balance and public debt of Montenegrin economy, 2005-2010 (2011 estimation)



Source: Ministry of Finance

This deficit is mainly financed by the international borrowing (in a form of loans or euro bond emission). In order to ensure the maintenance of the financial system stability and avoid episodes that may lead to widespread financial distress fiscal authority should enter into the structural reforms of the Government sector and balance the public consumption with real potential of Montenegrin economy.

Montenegro's experience challenges the new growth theory developed by Romer, Lucas and Barro or at least questions its applicability in crisis situations. Namely, this theory advocates that growth does not slow as capital accumulates[13]. However, Montenegro had a record inflow of foreign capital in 2009 and a remarkably high capital inflow in 2010 in parallel with the respective negative growth and a very low growth.

Bearing in mind the grounds on which Montenegro's growth was based, it is certain that problems would have arisen even if it had not been for the global

[13] For more details on the new growth model see Barro (1997) and Mankiw, *et al.* (1992).

financial crisis. Maybe GDP would not experience any dramatic decline, but economic growth would substantially slow down.

Challenges in the Upcoming Period and Return to the Path of Economic Growth

Although the main impact of the crisis has passed[14], certain negative effects will still be felt in 2011. The main challenges Montenegro will face in the upcoming period are:

1. Growing illiquidity in the corporate sector and more companies with frozen accounts,
2. Adjustment of the level of public and private spending to the actual possibilities;
3. High level of past due loans, deterioration in asset quality in the banking system, and the revival of lending activity;
4. Attraction of substantial amounts of foreign investments,
5. New role of the state, and
6. Change of the growth model.

1. Illiquidity – The number of companies, including entrepreneurs whose accounts are frozen has exceeded one quarter of the total number of legal persons. However, the number of enterprises with liquidity problems is much higher and the chain of illiquidity is already present. Moreover, it often happens that we have big companies abusing their position and not paying their obligations to the small ones which depend on them. In the conditions where court settlement of such disputes is slow, certain companies deliberately avoid or delay the settlement of their obligations and thus acquire for themselves interest-free borrowings or borrowings at low cost. It would be unreasonable to expect that the illiquidity problem could be solved in the short-term, but it could be mitigated by accelerated court settlement of disputes, improved competition policy that would punish those who misuse their market position, as well as by enhanced targeted inspections to establish whether some companies circumvent decisions on account freezing by doing business through their affiliates or in any other way. However, only once the economic activity has revived we could expect some significant problem mitigation.

[14] The estimated GDP growth in 2010 is 2%, which is much below the pre-crisis rates which went as far as over 8%.

2. *Adjustment of spending* – During the expansion period, Montenegro experienced high economic growth and the related high increase in public spending that now has to be adjusted to the actual possibilities. However, regardless of the general austerity measures and the reduction of public spending by 4.5% in 2009, the fiscal deficit still amounted to over 3%, and the estimates show around the same figure in 2010. It is obvious that Montenegro will run a fiscal deficit in 2010 as well, so it is necessary to continue with structural adjustments of public spending since the deficit implies an increase in public debt. Montenegro's great challenges in the domain of structural adjustments of public expenditures refer to:

   - the lowest taxes in the region (which were good incentives to attract FDI), with a high share of public spending in GDP (48%),
   - the share of public administration employees in total employment being the highest in the region, thus resulting in the public wages` share in GDP much higher than the regional average.

   It is obvious that public expenditures in 2010 could not have been lowered by any larger amounts as that would imply substantial declines in aggregate demand and an additional shock to the economy, yet the deficit must be gradually reduced and its balancing must be ensured no later than by 2012. Besides the public debt, private debt is also important for economic sustainability. Investment debt also has a character of debt and thus affects market sustainability, as shown by the current crisis. So, if investments do not bring more yield than the interest rate, then their financing from loans leads to growing company debt, thus affecting market sustainability. The same principle goes for household indebtedness. Credit expansion in Montenegro did exactly that – it increased both corporate and household indebtedness. Estimates show that the current level of public debt is very high, but there are no precise data on the actual amount, yet it is expected that the Central Bank of Montenegro will calculate this macro aggregate by the middle of 2011.

3. *Banking system* – In the case of Montenegro, the crisis manifested as a crisis of confidence. In fear of repeated problems from 1990s, a certain number of citizens reacted with panic and started withdrawing their deposits from the banking system. The situation at the beginning of the second quarter of 2009 showed that the banking system had managed to preserve its stability and household saving deposits have been increasing ever since, which is the undeniable signal that the confidence crisis has passed. However, the problem is that the crisis spread to the real economy, resulting in an increasing number

of companies in difficulty and/or becoming illiquid. In such circumstances, the number of companies failing in regularly servicing their debts started increasing, as did non-performing assets in the banking sector, followed by a decline in corporate deposits. At the same time, due to the declining real estate and securities prices, the value of collateral held by banks has reduced as well. Therefore, the banks reacted by significantly lowering their lending activity, which actually led to negative rates of growth in both 2009 and 2010.

Montenegro did not sign the agreement with the IMF and thus missed the opportunity of becoming a part of the Vienna Initiative. That is why it is not surprising why certain banks reduced their credit exposure to Montenegro and this consequently reduced the banks` credit potential.

The banking system was substantially recapitalized during 2010, but it is evident that further recapitalization will be required during 2011. However, it should be taken into account that the banking and the real sector function according to the connected vessels principle and that any deterioration in the real economy inevitably hits the financial sector. This means that the real recovery of the banking system is not possible without the real sector revival.

4. *Attracting FDI* – One of the most important factors of the rapid growth of Montenegro in the pre-crisis period was a large inflow of FDIs. Montenegro's potential for attracting FDIs has not been fully exploited, but in the conditions of a very limited domestic accumulation, attraction of FDIs remains the factor that will greatly affect future rates of the country's economic growth. Great potential remains in tourism and energy, but the key challenge will also be a diversification of FDI inflows to other branches such as agriculture and food industry. Moreover, another big challenge will be the increasing of Greenfield investments` share considering the unfavourable structure of FDI inflows so far. The state must do everything in its power to attract as many FDIs as possible, including intensive promotion, finalization of spatial plans, resolving of property ownership issues and local barriers, preparation of catalogues of potential projects, even granting tax reliefs to investors in underdeveloped areas, and the like. The conclusion of the agreement on the motorway construction gave a big incentive to economic growth as it could substantially change expectations and lead to the revival of economic activity and attraction of sizeable amounts of capital. However, the motorway construction should not be the option at any cost as it could become an excessive burden to the servicing of public debt in the following period.

5. *New role of the state* – Practise of modern states nowadays does not recognize any of the extreme situations – either free market or state intervention that entirely suspends the market mechanisms. The *laissez-faire* concept[15], which is the synonym for the ideology of a completely free market, has never existed in practise, not even during the liberal capitalism period. The free trade ideal has never been attained because regardless of the general liberalization trend, states have retained numerous functions in the areas of free trade, country defence, maintenance of public peace and order, infrastructure construction, subsidizing the export sector, development of certain activities of public interest that are not profitable for private capital, and the like [16]. On the other hand, systems with full state intervention with no functional market systems existed only in the centrally planned economies. However, these systems proved to have numerous weaknesses and they practically vanished with the socialism crash.

The main task of the state in the following period should be the creation of a stimulating business environment like the one existing in developed market economies. Such an environment implies deregulation of economic activity, which means fast, simple and cheap administrative procedures. This means that it is necessary to gradually reduce public spending and balance the fiscal deficit. It also implies the withdrawal of the state from the production process and leaving it with the main roles of protecting the public peace and order, security, and the guaranteeing of ownership and contractual rights. The state's engagement in other areas should be to the extent the aforesaid activities are necessary for a normal country development and not profitable to the private sector. Such an environment would boost entrepreneurship, employment and investments.

Such a concept of the state role does not mean that the state should stand aside from all developments in the economy. It should retain its corrective function in case of any major disturbances where state intervention should not be refrained from. On the contrary, such situations call for a swift and energetic intervention. The intervention may be in various forms starting from the organisation of public work, increasing public spending, lowering of taxes, rationalisation of the state apparatus, subsidies, nationalisation of systemically important corporate entities, increasing social welfare contributions, and so on. Economic history has shown

[15] The origin of the *laissez-faire* concept dates back to the 18th century and protests of the French entrepreneurs against state intervention. It denotes the lack of confidence in interventionism, that is, anti-interventionism. Fore more details see Jakšić, 2003.
[16] Even the founder of the classical school Adam Smith approved of state intervention when it came to protecting domestic production from customs duties, and he also approved of the English ships` having monopoly right in transport (Vučo, 1975).

that although a market can have the role of a self-balancing mechanism, it cannot retain such a role indefinitely. In such a situation, a state should intervene and "help" the market in its functioning. This hypothesis has proved to be right during the current global financial crisis when markets have been unable to solve current disturbance by themselves. In addition, it is generally known that marketplace cannot solve problems such as monopols, public goods and externalities, and so on. As Kooros and Badeaux (2007) point out: "Despite its apparent plausibility, markets by themselves cannot provide an accelerated and well-coordinated comprehensive economic plan, and therefore each country must develop a blue print for its own future economic well being".

When it comes to state assistance to the economy, whether in the form of loans or subsidies, it should be present to a limited extent. This function should be more present in crisis times, but in normal times it should be directed towards entrepreneurs, small enterprises, and start-up companies, depending on the budget possibilities.

6. *New growth model* – The country's growth so far has been based on a high increase in domestic aggregate demand. There were four factors that pushed domestic demand up:

    - Large FDI inflows and/or sale of real estates;
    - High rates of credit growth;
    - Accelerated increase in public spending, and
    - Higher increase in wages over GDP.

The new growth strategy will seek to change the GDP structure to rely on increasing productivity, investments, and a greater creation of ideas. Following Schumpeter ideas, the new growth model shall assume that individual innovations are important to affect the entire economy (Silva, 2007). Although this assumption is problematic for big economies, it is much more significant for small economies.

It is hard to conceive that a small economy, such as Montenegro, could achieve any significant economic growth in the long-term unless it is highly open to international trade and financial flows. As Fingleton and Lopez-Bazo (2010) point out, "theoretical and empirical arguments suggest that regions, as well as not being homogeneous, are also not independent". This means that Montenegro has a role of micro-region on the global scale and it must get involved in the global market.

Improving competitiveness is important for a change of the export structure because the main visible export products of Montenegro are primary products. In their paper, Sachs and Werner clearly show economies with a high ratio of natural resource exports to GDP tended to grow slowly (Sachs and Warner, 1997). The areas in which Montenegro should seek to increase its export income (and improve competitiveness as well) are food and alcoholic and non-alcoholic industries, energy, wood industry, and the service sector.

In order to be successful, the new growth strategy will have to face several big challenges at the very outset:

a) low competitiveness of the Montenegrin economy,
b) inadequate labour force – both in term of quality and quantity,
c) big regional differences, and
d) social inequality (Crnogorska akademija nauka, 2010).

The service sector has experienced the fastest growth over the past period, as did the non-tradable service sector to a large extent, while the production sector, primarily industrial production and exports developed at slow pace. It is obvious that such a growth pattern will not be possible in the following period and the best case scenario is that the aggregate demand will stagnate. In addition, the remainder of the service sector, except for tourism, will not be able to contribute to economic growth in the next few years, as it did in the past period. This means that export demand has to be the instigator of economic activity since no accelerated economic growth will be possible without a parallel fast growth in exports. The state should also encourage the creation of export oriented clusters as they have proven to yield good results in some economies in transition and Montenegro currently has no such cluster.

Tourism has proved to be the vital sector to a great extent, but it is necessary to continue improving the quality of accommodation capacities and increasing the share of hotel accommodation over the private tourist accommodation, improve infrastructure, open Montenegro for low-cost companies, but also to further reduce prices as they are still higher than in competition countries. As for industrial production, it is necessary to finalize the restructuring of big enterprises and provide adequate support to new exporters, including the state's help in reaching international quality standards, as well as greater support to banking loans and development fund credits for quality export programmes. In addition, numerous areas require the implementation of programmes of export substitution with domestic products (e.g. import of water, food, and the like). Also, with a view to preserving competitiveness, wages increase should not be more rapid than that of economic activity. In this context, it is important to increase the labour market flexibility, that is, to remove barriers standing in the way of new employments with excessive costs imposed on employers, in particular when reducing employment is necessary. The state should create a stable, predictable and stimulating business environment in the following period. This means to ensure macroeconomic stability, continue with programmes of deregulation and creation of stimulating business environment, with "cheap" state that would cost business as least as possible.

Poverty is widespread in Montenegro. According to the Montenegrin Academy of Science and Art, 24% of the population are categorized as poor (Crnogorska akademija nauka, 2010). The new growth model must take into consideration this component as well, because, as Melamed *et al.* (2010) point out, "while economic growth is necessary, it is not sufficient for progress on reducing poverty".

Conclusion

Montenegro had experienced a remarkably accelerated growth during the pre-crisis period. However, the crisis resulted in severe difficulties and a plummet in economic activity. Nevertheless, it would be wrong to believe that the global financial crisis was the main culprit for difficulties the country has experienced. To wit, the problems would have appeared even if it had not been for the crisis because Montenegro's growth model primarily relied on a high increase in domestic aggregate demand. This model can be efficient only in the short-term, but small countries like Montenegro must seek for other incentives of economic growth in the long-term.

Therefore, the authors conclude that Montenegro requires a new growth model as difficulties would have emerged regardless of the global financial crisis. The new growth model should take into consideration the following:

1. Montenegrin economy should develop in the long-term in line with the concept of a small and highly open economy, with export demand as the main instigator of growth.
2. Integration of the Montenegrin economy into European economy and the global market is the prerequisite for its long-term growth.
3. The key long-term sources of Montenegro's economic growth are entrepreneurship, innovations, knowledge, ideas, institutional development and integration, with the imperative increase in the economic competitiveness.
4. Montenegro must specialize in a smaller number of activities that can ensure competitive advantage.

5. Substantial inflows of FDIs will remain in the upcoming period, but they should be put to much more efficient use than in the previous period.
6. It is necessary to adjust both public and private spending to the actual possibilities.
7. An important limitation to Montenegro's economic growth is the existing organisation of the state, its functions and its role. Large public spending represents the limitation to the development of businesses as the main bearers of growth.

A change of the growth model is a long-term process that cannot be made over night, but in order for Montenegro to return to the path of high rates of growth, this process should be initiates as soon as possible.

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