



THE COVID-19 CRISIS IN MONTENEGRO

27 April 2020

COVID-19 update

- On 25 April 2020, the National Coordination Body announced the plan to mitigate measures in four phases (the first phase covering the lockdown measures), if epidemiological situation allows and measures are respected.
 - Phase 2: Starting from 4 May if the situation permits the government is planning to i) enable the operation of retail outlets (textiles, footwear, technical goods, construction materials, crafts, services, hairdressing and beauty salons, fitness centres, bookstores, dental offices, driving schools, rent-a-car services, museums and galleries...). ii) Enable going to cottages in other municipalities. And iii) to enable the urban taxi transportation, as well as local public urban transport in municipalities, in which no cases of the novel coronavirus have been registered.
 - Phase 3: If phase 2 is successful, starting from 18 May the government is planning to open the restaurants, cafes, hotel terraces, beach bars, beaches and shopping malls.
 - Phase 4: if phase 3 is successful, starting from 1 June, establishment of road, rail and navigable urban and interurban traffic, with appropriate protection measures.
- The Ministry of Interior and Real Estate Cadaster closed for services at counters. In other state administrative bodies, limited number of people allowed on the premises (one person per counter), until 2 May 2020.
- Assessment of the health system: According to the latest publicly available data Montenegro had four hospital beds for 1 000 inhabitants in 2012¹.

Economic impact

Short-term indicators of the economic impact:

- It is expected that the COVID-19 outbreak may precipitate a recession in the economy, which heavily relies on tourism and remittances coming from EU countries such as Austria, Germany and Italy. For instance, the tourism sector's direct contribution to the economy accounts for 11.7% of the GDP², when indirect contributions are added such as yachts and cruise ships related spending's, tourism receipts accounts around 25% of the GDP³. In addition to the high volume of the tourism sector in general, remittances, which account for 10.7% of the GDP are likely to diminish as well due to travel restrictions.

¹ World Bank data URL: <https://data.worldbank.org/indicator/SH.MED.BEDS.ZS?locations=ME>

² OECD (2020), COVID-19 CRISIS RESPONSE IN SOUTH EAST EUROPEAN ECONOMIES

³ EBRD (2020), Responding to the Coronavirus Crisis URL: <https://www.ebrd.com/documents/admin/montenegro-coronavirus-policy-response-.pdf?blobnocache=true>

Financial markets

- MNSE10 index lost around 15.1% of its value from 10 January to 24 April. The government bond spread has increased by 28.5% between 1st January and 31 March, signalling a lower investor confidence.

Policy reactions

Extent of containment measures

- Self-isolation is compulsory for all travellers coming from abroad. Public transportation was suspended. The Montenegrin government mandated closures of cools, catering businesses, leisure activities, non-essential shops and cultural establishments until 4 May 2020.
- A curfew is in effect from 7 pm to 5 am on weekdays. On weekends, people will be required to remain in their homes from 1 pm on Saturday until 5 am on Sunday, and from 1 pm on Sunday until 5 am on Monday. Exceptions will be made for those providing essential public services or leaving their home to go to a workplace. People will also be allowed to walk their pets in public spaces for up to 60 minutes. Persons younger than 12 years of age are not allowed to be in public spaces from 5 am until 7 pm, unless escorted by a parent or adult member of their household. All temporary measures mentioned above are extended until 4 May.
- As of 19 March, the Health and Sanitary Inspection and the Police Directorate are tasked to monitor activities of all persons who have been ordered a self-isolation, their household members, as well as persons who brought them from the border crossing to their place of residence. If they find that these persons are not acting in accordance with the imposed measure, the Health Sanitary Inspection and the Police Directorate will immediately file a criminal complaint with the competent state prosecutor's office for committing a criminal offense of failing to comply with the health regulations for the control of a dangerous contagious disease, for which imprisonment of up to one year is prescribed.

Borders

- Montenegro has banned entry of non-citizens except those with permanent or temporary residence in Montenegro. Montenegrin citizens also face travel restrictions to several countries with a strong prevalence of COVID-19. All yachts and cruise ships are banned from entering the country's Adriatic port.

Monetary policy

- The central bank announced a moratorium on loan repayment for a period of up to 90 days. It includes the interim suspension of all payments of obligations based on the loan. Banks are also allowed to restructure loans and reclassify them as new loans, including by additionally extending the repayment period by up to two years, if the borrower's financial position was impacted by the pandemic and restructuring would improve the credit capacity of the borrower. These measures also apply to leasing and microfinance institutions.
- The central bank has also announced measures to temporarily prohibit banks from paying dividends to shareholders, except in the form of equity, and to allow banks to increase exposures to a person or group of related parties beyond the prescribed exposure limits (25% of the bank's own funds), with prior central bank approval.

Fiscal policy

- The government has announced several measures, including the delay of tax payments and contributions to earnings; the creation of a new Investment Development Fund (IRF) credit line to improve liquidity of entrepreneurs; the deferral of lease payments for state-owned real estate; and advance payments to contractors for capital projects.
- The government will also offer one-off financial assistance to low-income pensioners and social welfare beneficiaries in the amount of EUR 50 (EUR 1 million has been allocated for this).
- On April 9, the government announced a package of measures, including subsidies in April and May of 70% of the minimum wage for employees in sectors that are closed because of the pandemic, employees who are unable to work due to childcare for children aged under 11, or people who have to be self-isolated and quarantined; and a subsidy of 50% of the minimum wage for employees in sectors at risk due to the pandemic-related lockdown.
- The government will also subsidize 70% of the gross minimum wage of newly employed workers in SMEs for six months if these workers are registered as unemployed.
- Shortening of VAT refund deadlines in the area of taxes and customs.
- Preliminary estimates from the Ministry of Finance expect the fiscal deficit to rise to more than 7% of GDP and public debt to increase by an additional 2.6 percentage points (pps.) to 82% of GDP in 2020

Employment

- During the closure of schools and kindergartens, one parent of a child not older than 11 years of age is entitled to a paid leave from work, with the exception of healthcare employees, and employees in certain state institutions. Sick leave was allowed to be extended to 30 April 2020 by GPs (normally, a committee is required for this long extension).
- In addition to measures announced on 9 April 2020; the Ministry of economy announced a business and employee support programme to mitigate negative effects of coronavirus outbreak on 24 April 2020. The proposed measures include subsidies for:
 - businesses whose work is prohibited (100% of gross minimum wage),
 - tourism sector (100% of gross minimum wage),
 - endangered industries (50% of gross minimum wage),
 - earnings of employees on paid leave (70% of gross minimum wage)
 - earnings of employees in quarantine or isolation (70% of gross minimum wage).

Education

- The government developed the #UciDoma (learn from home) initiative to provide students with distance learning and online courses due to school closures related to the COVID-19 crisis. The initiative provides students distance learning materials via a number of mediums, including over 300 online courses and televised lessons in a number of subjects on three national TV channels. All courses will also be made available on a dedicated YouTube channel.

Energy

- Energy firms will exempt the fixed portion of electricity bills for businesses that have stopped operating due to the pandemic-related lockdown, and the state energy utility will double its electricity subsidies for vulnerable households.

Agriculture and fisheries

- On 24 April 2020, the ministry of Agriculture and Rural Development announced a support package of EUR 17 million to support agriculture and fisheries. The government foresees to allocate EUR 3 million for the repurchase and storage of surplus agricultural products, the assistance in their placement or transfer to public institutions. The Government will oblige the Investment and Development Fund to provide credit support to retail chains, with the obligation of payment to domestic producers, within no more than 15 days. A favourable loan, up to a maximum of EUR 20 000 with an interest rate at 1.5% and a repayment period up to two years and grace period of up to one year for the purchase of current assets related to registered agricultural producers, processors, and fishermen. One-off assistance for 3 200 elderly beneficiaries of EUR 64 each, for which EUR 225 000 was allocated; one-time assistance for 184 fishermen with a valid license for which EUR 200 000 was allocated and an advance payment of 80% of premiums in livestock and per hectare of arable land, based on data from the previous year. On this basis, about EUR 3 500.000 will be paid to producers in the first half of May.

International support

- The European Union announced a support package of EUR 3 million for the health sector and EUR 50 million of support for the social and economic recovery.
- On 22 April 2020, the European Commission proposed the use of the macrofinancial assistance (MFA) programme of EUR 60 million to support the Montenegrin economy. (The Commission's proposal is subject to adoption by the European Parliament and the Council of the EU.)

Outlook

- *Situation prior to COVID-19:* In 2019, Montenegro's GDP growth was estimated at 3.1%, driven by household consumption and boosted by strong tourism performance. The economy is particularly reliant on its tourism sector, which employs 15% of workforce and provides 20% of its gross value added. Despite high unemployment rates of 15.1%, they have been on a constant decline since 2015. Consumer inflation has been low for several years; in 2019, it averaged only 0.5%. The net foreign direct investment inflows picked up to 7.2% of GDP in 2019, covering less than half of the current account deficit; however, the debt level remains one of the highest in the Western Balkan region (see below).
- The debt level of Montenegro rose from 66% of GDP in 2017 to 80% in 2019, Montenegro's trade deficit is structural, resulting from a narrow domestic production base and a high import dependence for investment and consumption goods, therefore spending will still need to be carefully prioritized to cover the most urgent needs, in order not to jeopardize debt sustainability. Although Montenegro unilaterally adopted euro in 2002, the country may also be affected by the Euro's depreciation against the USD. In such a scenario, debt servicing costs for Montenegro may increase, as it starts repaying the USD denominated loans from China to finance the construction of the Bar-Boljare motorway.

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