



THE COVID-19 CRISIS IN MONTENEGRO

08 June 2020

COVID-19 update

- As of Sunday 24 May, there have been no COVID-19 cases in Montenegro. Since the beginning of the pandemic, the total number of infected persons was 324, while 315 persons have recovered and nine persons died.
- Since 1 June, public gatherings (including weddings and funerals) are allowed outdoors and indoors, with the attendance of no more than 200 people.
- As of 1 June, foreign nationals can enter Montenegro without quarantine/self-isolation. The key criterion for entry is the rate of active coronavirus cases of less than 25 per 100,000 inhabitants in the economy of which the foreigner is a resident and in the economy from which the foreigner enters Montenegro. Currently, the list includes: Slovenia, Iceland, Croatia, Slovakia, Georgia, Switzerland, Albania, Austria, Norway, Monaco, Kosovo* , Germany, Greece, Hungary, Denmark, Lithuania, Latvia, Azerbaijan, Luxembourg, Bosnia and Herzegovina, Bulgaria, Israel, North Macedonia, Ireland, Czech Republic, Finland and Estonia. For economies with active cases of more than 25 per 100 000 inhabitant, 14 days of quarantine/self-isolation remain mandatory. The work of disco clubs/bars, night clubs/bars, kids' playrooms, cinemas, theatres and kindergartens is allowed in accordance with the instructions of the Public Health Institute.
- Permits for permanent and temporary residence and work of foreigners, whose validity period has expired, are considered valid until 1 July 2020.
- As of 5 June, it is no longer required to wear protective masks with the exception of health care facilities, institutions related to social and child protection, and for employees and passengers in public transport vehicles (plane, train, bus, van, taxi).

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 ship related spending, tourism receipts account for around 25% of the GDP³. In addition to the high volume of

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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>

the tourism sector in general, remittances, which account for 10.7% of the GDP, are likely to diminish as well due to travel restrictions.

Financial markets

- The MNSE10 index lost around 11.9% of its value from 10 January to 30 April; however, since the end of April, the MNSE10 index recovered around 5% to reach 713.21 points on 05 June 2020. The government bond spread has increased by 28.5% between 1 January and 31 March, signalling lower investor confidence.

Policy reactions

Deconfinement

- From 15 May, the work of catering facilities and shopping malls and the use of beaches/bathing areas may resume. These business groups are obliged to organise their work according to recommendations provided by the Public Health Institute. As of 1 June, disco clubs/bars and night clubs/bars may resume their activities.
- Companies, other legal entities and entrepreneurs engaged in the provision of tourist services at beaches and bathing areas are obliged to organise their work according to recommendations provided by the Public Health Institute.
- Owners/users and managers of shopping malls and legal entities and entrepreneurs engaged in indoor trade on stands/stalls are obliged to organise their work according to recommendations provided by the Public Health Institute.
- Indoor and outdoor sports activities that are performed in groups will also be allowed, but for larger team sports, the possibility of dividing the team into smaller groups during training should be taken into account, when possible. The last phase of easing sports measures will come into effect on 30 May and will allow for the organisation of sports competitions without the presence of an audience.

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 1:00pm on Saturday until 5:00 am on Sunday, and from 1:00pm on Sunday until 5:00am 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.

- On 25 April 2020, the National Coordination Body announced the plan to mitigate measures in four phases (the first phase covering the lockdown measures), with the final aim to make Montenegro a Covid-free destination. The government announced on 4 May that the first phase has successfully been completed and that the plan will continue as announced. On 8 May, consent was given to ease the temporary measures on movement between municipalities and passenger motor vehicles. Consequently, public transport in road traffic and internal maritime transport will be operational starting from 11 May.
 - Phase 2: Starting from 4 May; 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...).. In addition, the government announced the ban on leaving housing facilities every day from 23:00 until 5:00 the next day until 18 May.
 - Phase 3: If phase 2 is successful, starting from 18 May the government is planning to open restaurants, cafes, hotel terraces, beach bars, beaches and shopping malls.
 - Phase 4: if phase 3 is successful, starting from 1 June, establishment of road and rail services as well as navigable urban and interurban traffic will resume, with appropriate protection measures.
- Civil servants are prohibited from traveling abroad.

Borders

- Foreigners are prohibited from entering the country, except foreigners with permanent or temporary residence in Montenegro. This measure is not applicable since 1 June.
- Suspension of public transport of passengers in international road, rail and air traffic, except for irregular charter transport, organised for returning Montenegrin nationals and foreign nationals back to their home country, with the consent of the National Coordination Body for Communicable Diseases. This measure is not applicable since 1 June.
- Montenegrin citizens face travel restrictions to Japan, France, Germany, Switzerland, Denmark and Austria; and from Montenegro to Ital, Spain, South Korea, Iran and China (Hubei province). All yachts and cruise ships are banned from entering the country's Adriatic port. Both measures are valid until further notice. This measure is not applicable since 1 June.

Monetary policy

- The central bank announced a moratorium on loan repayments for a period of up to 90 days. It includes the interim suspension of all payments on 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 9 April, 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.
- A shortening of VAT refund deadlines in the area of taxes and customs was implemented.
- Preliminary estimates from the Ministry of Finance expect the fiscal deficit to rise to more than 7% of the GDP and public debt to increase by an additional 2.6 percentage points (pps.) to 82% of the GDP in 2020

Investment

- The Montenegrin Cabinet, without holding a session and based on the obtained consent of the majority of members, gave its consent on Thursday, 14 May, to amend the Medium-Term Plan of the Investment and Development Fund (IDF) of Montenegro for the period 2019 – 2022, due to the new situation caused by the coronavirus pandemic. In the coming period, the IDF will create support programs in line with the needs of the economy.

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 the 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 with 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.

- Arrangements of all student tours, educational meetings etc. abroad is prohibited.

Energy

- Energy firms will be exempt from 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 allocating EUR 3 million for the repurchase and storage of surplus agricultural products, as well as the assistance of 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 of up to a maximum of EUR 20 000 with an interest rate at 1.5% and a repayment period of up to two years and grace period of up to one year may be granted for the purchase of current assets related to registered agricultural producers, processors, and fishermen. One-off assistance was allocated for 3 200 elderly beneficiaries of EUR 64 each, for which EUR 225 000; one-time assistance was allocated for 184 fishermen with a valid license for which EUR 200 000 and an advance payment of 80% of premiums in livestock and per hectare of arable land was allocated based on data from the previous year. On this basis, about EUR 3.5 million will be paid to producers in the first half of May.
- On 10 May 2020, through the Public Invitation for granting support to agricultural producers for 2020, the Ministry of Agriculture and Rural Development, in cooperation with the International Fund for Agricultural Development (IFAD), implemented a non – refundable assistance of EUR 460 thousand allocated to 284 producers. Also, through the Public Invitation, the municipalities of Nikšić, Šavnik, Žabljak, Mojkovac, Bijelo Polje, Berane and Petnjica received a total of 135 applications, in which a total value of EUR 5.6 million was allotted to support the development of rural infrastructure for 2020.

International support

- The European Union announced a support package of EUR 3 million for the health sector and EUR 50 million of support for social and economic recovery.
- On 20 May, the European Council adopted a decision to provide EUR 60 million of macro-financial assistance to Montenegro to help them cope with the economic fallout of the COVID-19 pandemic. Financial assistance will be provided in the form of loans on highly favourable terms.

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 the 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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