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**Statement by Mr. Bhalla and Mr. Goyal on Montenegro
(Preliminary)
Executive Board Meeting 20/72
June 24, 2020**

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1. We thank Staff for the Report and Mr. De Lannoy and Mr. Voinea for a helpful Buff statement. Montenegro has requested for financial support under the Rapid Financing Instrument (RFI) to mitigate the economic consequences of the pandemic and to preserve macroeconomic stability.
2. We note that prior to the pandemic, growth of Montenegro averaged about 4 percent in 2015 to 2019, and economic results based on high-frequency indicators also point towards positive GDP growth in Q1 of 2020. While growth has been reasonably healthy, there are concerns about fiscal sustainability as a large public investment in recent years caused a sizeable increase in debt level. To address these concerns, Montenegro, since 2017, has adopted a medium-term adjustment strategy that led to the improvement of the primary fiscal balance exceeding 4 percentage points of GDP through 2019.
3. Montenegro economy - significantly dependent upon the tourism sector – has been severely affected by the pandemic. While earnings from the tourism sector have dipped and capital inflows have weakened, there is a sharp increase in the health-related expenditure and additional spending to mitigate the impact of containment measures. These have brought strains on the budget and have widened the balance of payment financing needs.

4. We appreciate that authorities are acting responsibly. With limited fiscal space, current spending has been reduced, including salary cuts for high-ranking government officials and a partial postponement of other expenditures, totaling about 1.5 percent of GDP. However, we encourage authorities to remain committed to fiscal consolidation by carefully managing the expenditure from next year onward when growth is expected to revive. As recommended by the Staff, efforts should be made to achieve a primary surplus by 2024, so that debt levels converge.
5. Authorities have requested the support of SDR 60.5 million equivalent to 100 percent of quota, which would cover only 30 percent of the financing gap and the remainder to be covered by lending from the World Bank and the EU.
6. As per Staff assessment, Montenegro is having sustainable debt and adequate capacity to repay the Fund. Debt dynamics are improving as, given prevailing global monetary conditions, nominal interest rates are likely to be below nominal growth rates over the forecast horizon beyond this year. Obligations to the Fund are small relative to exports, reserves, and external debt service. Importantly, authorities have provided Fund staff with the most recent central bank audit reports and authorized the external auditors of the central bank to hold discussions with Staff.
7. We welcome the authorities' commitment to transparency and governance by auditing crisis-mitigating spending and publishing the results.
8. We wish authorities all the best in their future endeavors.