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February 16, 2022

**Statement by Mr. Bhalla and Mr. Goyal on Montenegro
(Preliminary)
Executive Board Meeting
February 18, 2022**

1. We thank Staff for the report and Mr. Dresse and Mr. Voinea for a helpful Buff statement.
2. Montenegro being dependent on the tourism industry was severely hit by the pandemic. Reflecting a sharp decline in tourism receipts, GDP contracted by more than 15 per cent in 2020. While authorities implemented support measures to mitigate the impact of the pandemic on the economy, during the 2021 season, borders were opened to the tourists without any requirement of vaccination or COVID testing. Although this policy helped revive the economy with a strong rebound in tourist inflow, COVID cases rose sharply with a human toll. Probably authorities could have followed a better approach giving due consideration to COVID related precautions. Staff may like to comment.
3. Although policy measures by the authorities provided support to mitigate the impact of the pandemic on the economy, an already elevated debt level worsened further. As per Staff's projections, with the proposed revenue measures in the current budget, the fiscal deficit will likely exceed the budgeted level, and the debt level will rise further. We agree with the Staff recommendations and encourage authorities to front-load revenue-raising measures and implement revenue-reducing steps in a phased manner. Moreover, large fiscal spending proposals may be dovetailed with the available fiscal space.
4. We note that authorities have proposed steep upward revision in the minimum wage level to contain outward migration. We agree that minimum wage

stipulation would help address the issue of informal payments made by the employer and help in tax administration. However, any wage revision unrelated to productivity level could be counterproductive, adversely impacting competitiveness, future investment, and growth potential. Staff may like to apprise about the productivity trends in the Montenegro economy.

5. We welcome the implementation of the Law on Credit Institutions, the Law on Resolution of Credit Institutions and related regulations to align regulation and supervision with the EU framework. We would encourage authorities to continue improving the AML/ CFT framework.

We wish authorities all the success in their future endeavours.