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February 20, 2009

**Statement by Mr. Gibbs and Ms. Fisher on Montenegro  
(Preliminary)  
Executive Board Meeting 09/18  
February 23, 2009**

We thank staff for their paper, and Messrs Bakker and Cerovic for their helpful Buff. We commend the Montenegrin authorities for the significant economic progress achieved over recent years including improving inflation performance, restructuring the banking sector, pressing on with privatisation, strengthening market infrastructure, and making progress with fiscal consolidation.

However, we share the concerns set out in the Staff report that Montenegro is highly exposed to the global downturn and support many of the Staff's recommendations, which should at least help mitigate the sizeable risks for Montenegro's economy over the short to medium term.

We share Staff's concerns about the authorities proposed fiscal policies, including tax cuts and proposed increased capital expenditure which could further widening of the structural fiscal deficit in 2009 and beyond. Having said that, given the lack of monetary policy tools, we share the concerns raised by Messrs Yamaoka and Imamura about the constricted options available to the Montenegrin authorities to tackle the economic downturn. *We would therefore be interested to hear Staff's views on the questions asked by our Japanese colleagues about fiscal policy conduct in the current circumstances.*

We also agree that it is important for Montenegro to implement further structural reforms to ensure sustained growth over the medium term. In particular we support the recommendations to pursue policies that will enhance labour market flexibility, reduce bureaucracy, and improve overall competitiveness. Given the forecast that FDI is unlikely to return quickly to recent high levels, without such reforms we agree that Montenegro's attractiveness as an FDI destination will be limited, and will make broadening of the economic base more difficult.

We agree that the financial sector vulnerabilities are substantial, though we welcome the

moves taken by the Montenegrin authorities to strengthen financial sector soundness, including seeking agreements with parent banks and home supervisors in dealing with possible liquidity and solvency problems. We also commend the authorities for taking steps to implement the FSAP recommendations, and their appreciation of the banking sector risks, including the implementation of MCM's recommendations on contingency planning for emergency liquidity support cases.