

SU/20/124

June 25, 2020

**The Acting Chair's Summing Up
Montenegro—Request for Purchase Under the Rapid Financing Instrument
Executive Board Meeting 20/72
June 24, 2020**

Executive Directors noted that the COVID-19 pandemic has adversely affected Montenegro, creating an urgent balance of payments need. The pandemic is imposing a heavy toll on tourism—a key sector of the economy—and on Foreign Direct Investment. Reduced fiscal space due to COVID-related spending and large infrastructure investment has added further stress. Emergency financing under the RFI will help preserve fiscal space for essential healthcare expenditures and contribute towards closing the external and fiscal financing gaps.

Directors welcomed the authorities' swift and decisive containment and mitigation measures, which have enabled a relatively speedy reopening of the economy. They noted that this year's significant fiscal support to the economy was warranted, and that banking sector measures to reduce financing pressures on the real sector were broadly appropriate.

Directors noted that while the immediate challenge is to support economic activity, resuming fiscal consolidation as soon as conditions allow will be necessary to restoring fiscal space. They emphasized that preserving fiscal sustainability will require sizeable primary fiscal surpluses well into the medium term. Specifically, they urged restraint in launching and implementing large public investment projects and capital outlays before the fiscal position has significantly improved. In this context, they welcomed the authorities' commitment to not undertake construction of the further phases of the Bar-Boljare highway. Directors underscored the importance of measures aimed at improving public administration and the gradual elimination of tax expenditures.

Directors emphasized the importance of ensuring that COVID-related spending is used in a well-targeted, cost-effective and transparent manner. Undertaking a safeguards assessment as soon as feasible will also be helpful.

Directors encouraged the authorities to stay vigilant in preserving financial sector health. They welcomed the commitment to undertake the banking sector asset quality review whenever conditions permit. Directors underscored that rebuilding fiscal and financial buffers is essential given the absence of a lender of last resort, as Montenegro is unilaterally euroized.