



THE COVID-19 CRISIS IN MONTENEGRO

27 April 2020

COVID-19 update

- On 25 April 2020, the National Coordination Body announced the plan to mitigate measures in four phases (the first phase covering the lockdown measures), if epidemiological situation allows and measures are respected.
 - Phase 2: Starting from 4 May if the situation permits the government is planning to 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...). ii) Enable going to cottages in other municipalities. And iii) to enable the urban taxi transportation, as well as local public urban transport in municipalities, in which no cases of the novel coronavirus have been registered.
 - Phase 3: If phase 2 is successful, starting from 18 May the government is planning to open the restaurants, cafes, hotel terraces, beach bars, beaches and shopping malls.
 - Phase 4: if phase 3 is successful, starting from 1 June, establishment of road, rail and navigable urban and interurban traffic, with appropriate protection measures.
- The Ministry of Interior and Real Estate Cadaster closed for services at counters. In other state administrative bodies, limited number of people allowed on the premises (one person per counter), until 2 May 2020.
- Assessment of the health system: According to the latest publicly available data Montenegro had four hospital beds for 1 000 inhabitants in 2012¹.

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 ships related spending's, tourism receipts accounts around 25% of the GDP³. In addition to the high volume of the tourism sector in general, remittances, which account for 10.7% of the GDP are likely to diminish as well due to travel restrictions.

¹ World Bank data URL: <https://data.worldbank.org/indicator/SH.MED.BEDS.ZS?locations=ME>

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>

Financial markets

- MNSE10 index lost around 15.1% of its value from 10 January to 24 April. The government bond spread has increased by 28.5% between 1st January and 31 March, signalling a lower investor confidence.

Policy reactions

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

Borders

- Montenegro has banned entry of non-citizens except those with permanent or temporary residence in Montenegro. Montenegrin citizens also face travel restrictions to several countries with a strong prevalence of COVID-19. All yachts and cruise ships are banned from entering the country's Adriatic port.

Monetary policy

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

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 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 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.

Energy

- Energy firms will exempt 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 to allocate EUR 3 million for the repurchase and storage of surplus agricultural products, the assistance in 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, up to a maximum of EUR 20 000 with an interest rate at 1.5% and a repayment period up to two years and grace period of up to one year for the purchase of current assets related to registered agricultural producers, processors, and fishermen. One-off assistance for 3 200 elderly beneficiaries of EUR 64 each, for which EUR 225 000 was allocated; one-time assistance for 184 fishermen with a valid license for which EUR 200 000 was allocated and an advance payment of 80% of premiums in livestock and per hectare of arable land, based on data from the previous year. On this basis, about EUR 3 500.000 will be paid to producers in the first half of May.

International support

- The European Union announced a support package of EUR 3 million for the health sector and EUR 50 million of support for the social and economic recovery.
- On 22 April 2020, the European Commission proposed the use of the macrofinancial assistance (MFA) programme of EUR 60 million to support the Montenegrin economy. (The Commission's proposal is subject to adoption by the European Parliament and the Council of the EU.)

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 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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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),
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 - earnings of employees on paid leave (70% of gross minimum wage)
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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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THE COVID-19 CRISIS IN MONTENEGRO

15 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. 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.
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Economic impact

Short-term indicators of the economic impact:

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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 6% to reach 721.3 points on 12 June 2020. The government bond spread has increased by 28.5% between 1 January and 31 March, signalling lower investor confidence.

Policy reactions

Deconfinement

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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 earning; the creations 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).
- On 14 June, the Government announced wage subsidies for the media employees classified as vulnerable. A credit line has been provided under the Investment and Development Fund with a total amount of EUR 1.6 million.

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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THE COVID-19 CRISIS IN MONTENEGRO

30 July 2020

COVID-19 update

- Between 24 May and 18 June, there had been no active cases of COVID-19 recorded in Montenegro. However, around 341 new active cases were detected on 23 July, the highest since the beginning of the pandemic. As of 29 July, there are 474 active cases per 100 000 people, consequently, the Government reintroduced a number of restrictions to prevent the spread of the coronavirus.
- As of 21 July, it is mandatory to use protective masks indoors and outdoors in the entire territory, including children older than seven years of age. Gatherings of people are limited to a maximum of 40 persons in outdoor public places, and to 20 persons in closed public places, with the obligation to maintain a physical distance of at least two meters.
- Until 6 August, the operating of discos/bars and nightclubs/bars is prohibited, and private gatherings such as weddings, prom nights, birthdays and other private celebrations are prohibited.
- As of 19 July, 21 days of self-isolation is prescribed to persons who have been or are suspected of being in contact with persons infected or with persons who have a positive PCR test.
- In certain municipalities, some special measures are still applicable until 30 July. In the northern region, catering facilities can operate from 06:00 to 22:00. In the municipalities: Berane, Bijelo Polje, Petnjica, Pljevlja and Rožaje, catering facilities can operate from 06:00 to 00:00. As of 21 July, catering facilities in Podgorica, the Old Royal Capital Cetinje and the municipality of Nikši can host a maximum of two guests inside or four guests on the terrace/garden; self-service, standing and remaining in front of the bar is prohibited. Starting from 26 July, all catering facilities in the entire territory can operate from 06:00 to 24:00. The ban on entertainment and music programmes in catering facilities, which was introduced on 7 July, is lifted. Live music in restaurants is allowed under strict social distancing measures. These measures are valid until further notice.
- In the Municipality of Rožaje, the ban on leaving residential buildings is eased. Instead of the previous measure, which enabled movement from 05:00 to 18:00, the eased measure enables movement from 05:00 to 22:00. The ban on road transport of passengers to and from the Municipality of Rožaje has been extended until 30 July, except for transport for the purpose of performing regular work activities, providing emergency medical services and other urgent tasks. As of 26 July, the government lifted all specific restriction that applies to the norther region.
- The Government has prohibited all political rallies in public places as well as the presence of spectators at sporting events. Religious gatherings in public places, except in areas belonging to religious buildings, are also prohibited. Only immediate family members are permitted to attend funerals, and a number of upcoming cultural events have been postponed. All measures are valid until 6 August 2020, with possible extension.
- As of 2 July, the Government is encouraging teleworking whenever possible. In addition, the Government introduced new fines for legal entities (between EUR 2 000 and 20 000) and individuals (between EUR 100 and 2 000) in case of non-compliance with sanitary measures.

- Starting from 21 June, the Montenegrin Government adopted a set of criteria to increase accessibility. Three lists of countries were formed depending on the number of active and new coronavirus cases, the trend of the number of infected persons and the overall response of a country to the pandemic, taking into account available information on aspects such as testing, monitoring, contact tracing capacity, treatment and reporting. As of 7 July, citizens coming from UK, UAE, Turkey, Ukraine and Belarus were added on the green list.
- The transit of residents of neighbouring economies from the 'yellow list' (Bosnia and Herzegovina, Kosova, Albania) through Montenegro between the countries of the yellow list is enabled without obligation of having a PCR, ELISA or ECLIA test for COVID-19.
- The functioning of 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 7 October.
- As of 1 July, EU Member States lifted the restriction on non-essential travel into the EU for residents of Montenegro, however as of 14 July, the EU removed Montenegro from its list of safe countries.

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 GDP¹, when indirect contributions are added, such as yachts and cruise ship related spending, tourism receipts account for around 25% of the GDP². In addition to the high volume of 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 714 points on 21 July 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

¹ OECD (2020), COVID-19 CRISIS RESPONSE IN SOUTH EAST EUROPEAN ECONOMIES

² EBRD (2020), Responding to the Coronavirus Crisis URL: <https://www.ebrd.com/documents/admin/montenegro-coronavirus-policy-response-.pdf?blobnocache=true>

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 carried out 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 was to come into effect on 30 May and would 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 schools, catering businesses, leisure activities, non-essential shops and cultural establishments until 4 May 2020.
- A curfew is in effect from 19:00 to 05:00 on weekdays. On weekends, people will be required to remain in their homes from 13:00 on Saturday until 05:00 on Sunday, and from 13:00 on Sunday until 05:00 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 05:00 until 19:00, unless escorted by a parent or adult member of their household. All temporary measures mentioned above were 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 had been successfully 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 was to 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 05:00 the next day until 18 May.

- Phase 3: If phase 2 is successful, starting from 18 May the Government planned 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 were to resume, with appropriate protection measures.
- Civil servants are prohibited from traveling abroad.

Borders

- Foreigners are prohibited from entering the country, except those with permanent or temporary residence in Montenegro. This measure is no longer applicable as of 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 no longer applicable as of 1 June.
- Montenegrin citizens face travel restrictions to Japan, France, Germany, Switzerland, Denmark and Austria; and from Montenegro to Italy, 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 no longer applicable as of 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 2019-22, 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 the 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)
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- 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 460 000 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 28 July, as part of the support package, the EU provided 86 ventilators and over 235 000 pieces of personal protective equipment.
- 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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THE COVID-19 CRISIS IN MONTENEGRO

31 August 2020

COVID-19 update

- Between 24 May and 18 June, there had been no active cases of COVID-19 recorded in Montenegro. Since the end of June, however, the number of cases has grown substantially in Montenegro and consequently, the Government reintroduced a number of restrictions to prevent the spread of the coronavirus. As of 31 August, there have been 769 active cases per 100 000 people.
- As of 21 July, it is mandatory to use protective masks indoors and outdoors in the entire territory, including children older than seven years of age. Gatherings of people are limited to a maximum of 40 persons in outdoor public places, and to 20 persons in closed public places, with the obligation to maintain a physical distance of at least two meters. This obligation does not apply to residential buildings.
- As of 17 August, the operating of discos/bars and nightclubs/bars is prohibited, and private gatherings such as weddings, prom nights, birthdays and other private celebrations are prohibited. The work of catering facilities (restaurants, cafes, cafeterias, hotel restaurants and similar catering facilities), including catering facilities on beaches and bathing areas is allowed from 6:00 a.m. to 1:00 a.m, under strict social distancing measures.
- Gathering of citizens for political rallies is limited to a maximum of 100 people in open public places, and 50 people in closed public places, with the obligation to respect the physical distance of at least two meters between persons, wear protective masks and sanitise hands with suitable sanitisers. The presence of spectators at sporting events is prohibited. Religious gatherings in open public places, except on the property of the religious facilities are prohibited (it is recommended to all religious communities to perform religious rites in religious facilities, without presence of the citizens). Only immediate family members are permitted to attend funerals, and a number of upcoming cultural events have been postponed. All measures are valid until further notice. The functioning of kids' playrooms, cinemas, theatres and kindergartens is allowed in accordance with the instructions of the Public Health Institute.
- As of 17 August, the measure of self-isolation is prescribed as follows: i) 14 days to persons who have been or are suspected of being in contact with persons infected with a novel coronavirus or with persons suspected of being infected with this disease and self-isolation and until recovery, and ii) at least 14 days to persons who have a positive PCR test for a novel coronavirus, have mild symptoms or no symptoms of the disease.
- The Government has been encouraging teleworking whenever possible as of beginning of July. In addition, the Government introduced new fines for legal entities (between EUR 2 000 and 20 000) and individuals (between EUR 100 and 2 000) in case of non-compliance with sanitary measures.
- Starting from 21 June, the Montenegrin Government adopted a set of criteria to increase accessibility. Three lists of countries were formed depending on the number of active and new coronavirus cases, the trend of the number of infected persons and the overall response of a country to the pandemic, taking into account available information on aspects such as testing,

monitoring, contact tracing capacity, treatment and reporting. As of 7 July, citizens coming from UK, UAE, Turkey, Ukraine and Belarus were added on the green list.

- As of 17 August, entry into Montenegro is allowed to the residents of the economies from the 'yellow list'¹ and those coming from one of the countries on the 'green list', who in the period of 15 days before entering Montenegro, stayed in one of the economies on the 'yellow list' under the following conditions: with the negative PCR test for novel coronavirus (SARS-CoV-2) older not more than 72 hours or a positive coronavirus antibody test result (SARS-CoV-2) of the IgG class obtained by ELISA serologic test older not more than 72 hours
- Permits for permanent and temporary residence and work of foreigners, whose validity period has expired, are considered valid until 7 October.
- As of 1 July, EU Member States lifted the restriction on non-essential travel into the EU for residents of Montenegro, however as of 14 July, the EU removed Montenegro from its list of safe countries.
- Eleventh parliamentary elections since the first multi-party elections in 1990 and fifth in Montenegro as an independent country were held on 30 August. Elections were organised in special conditions, due to COVID-19 pandemic in Montenegro.

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 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 714 points on 21 July 2020. The government bond spread has increased by 28.5% between 1 January and 31 March, signalling lower investor confidence.

Policy reactions

¹ As of 17 August: Albania, Australia, Bosnia and Herzegovina, Israel, Kosovo, Lebanon, North Macedonia, Serbia, Seychelles, Singapore and the USA.

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>

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 carried out 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 was to come into effect on 30 May and would 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 schools, catering businesses, leisure activities, non-essential shops and cultural establishments until 4 May 2020.
- A curfew is in effect from 19:00 to 05:00 on weekdays. On weekends, people will be required to remain in their homes from 13:00 on Saturday until 05:00 on Sunday, and from 13:00 on Sunday until 05:00 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 05:00 until 19:00, unless escorted by a parent or adult member of their household. All temporary measures mentioned above were 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 had been successfully 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 was to 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 05:00 the next day until 18 May.

- Phase 3: If phase 2 is successful, starting from 18 May the Government planned 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 were to resume, with appropriate protection measures.
- Civil servants are prohibited from traveling abroad.

Borders

- Foreigners are prohibited from entering the country, except those with permanent or temporary residence in Montenegro. This measure is no longer applicable as of 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 no longer applicable as of 1 June.
- Montenegrin citizens face travel restrictions to Japan, France, Germany, Switzerland, Denmark and Austria; and from Montenegro to Italy, 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 no longer applicable as of 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 2019-22, 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 the 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).
- On 14 June, the Government announced wage subsidies for the media employees classified as vulnerable. A credit line has been provided under the Investment and Development Fund with a total amount of EUR 1.6 million.

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.
- The beginning of the new school year 2020/2021 was postponed in Montenegro until 1 October due to the resurgence of pandemic.

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 460 000 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 28 July, as part of the support package, the EU provided 86 ventilators and over 235 000 pieces of personal protective equipment.
- 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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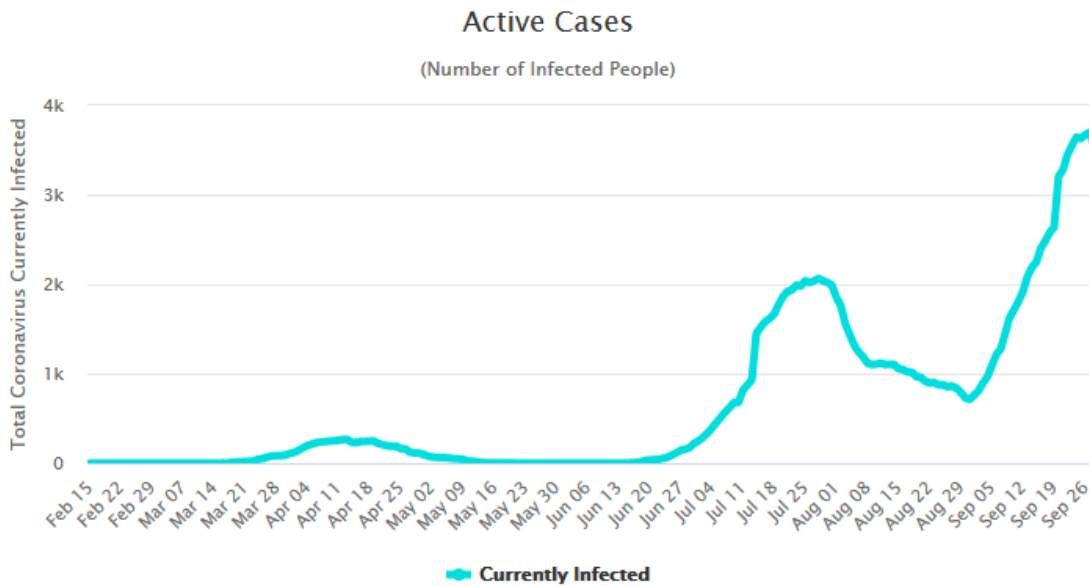
THE COVID-19 CRISIS IN MONTENEGRO

1 October 2020

COVID-19 health situation – August/September 2020

- Montenegro successfully achieved zero cases by 24th May following the first period of infections. However, by 14th June, Montenegro began experiencing a second wave of infections. Over the summer season, the situation continued to be aggravated. As of 29 September, the total number of [cases reached 10 441 and 163 people have died since the outbreak](#). The number of active cases is 594.4 per 100 000 people, ranking Montenegro 11th among the economies with the most active cases.

Evolution of active cases in Montenegro



Source: Worldometers.info

- Wearing protective masks indoors and outdoors is mandatory throughout the entire territory, including children older than 5 years. Some specific measures applied in [some regions](#) depending on the number of detected active cases over the last 14 days per 100 000 inhabitants, the list of which is updated every week on Saturday (<https://www.ijzcg.me/>). Accordingly, for regions with less than 400 active cases per 100 000 inhabitants, strict compliance and tight control over the implementation of applicable epidemiological measures will be continued. Between 400 and 799 cases, the work of catering facilities is limited until 10 pm and the number of guests should not exceed two persons inside the facility. Between 800 and 1 199 cases, the work of catering facilities is prohibited, and gatherings in residential premises is prohibited for persons who are not members

of a shared family household. In addition to the aforementioned measures, for regions with more than 1 200 cases, it is forbidden to leave the residential building from 20:00 to 05:00.

- Public gatherings throughout the entire territory are limited to a maximum of 40 persons in outdoor public places, and 20 persons in closed public places. Gathering of citizens for political rallies is limited to a maximum of 100 people in open public places, and 50 people in closed public places. The presence of spectators at sports events is prohibited.

Policy reactions – August/September 2020

- Over the last month, the Government decided to [tighten already existing measures](#). In this regard, the competent inspection authorities at both state and local levels are asked to mobilise all available human and technical capacities to control compliance with the epidemiological measures and to sanction violators.
- Educational work in public and private educational institutions, as well as in preschool institutions is suspended. The operating of discos/bars and nightclubs/bars is also prohibited in the entire territory.
- Permits for permanent and temporary residence and work of foreigners, whose validity period has expired, are considered valid until 7 October.
- All border crossings for entry into Montenegro are open, except for the following road border crossings: Vraćenovići on the road route Nikšić - Bileća, which was closed on 27 February due to the construction of border infrastructure. Vuča on the road route Rožaje - Tutin, which was closed on 20 June, in order to suppress the transmission of coronavirus from Serbia. Entry of passengers from Bosnia and Herzegovina to Montenegro is not allowed through the border crossing Šćepan Polje on the road route Plužine - Foča. However, it is possible from 07:00 to 19:00 through the border crossing Metaljka on the road route Pljevlja - Čajniče. Passengers are allowed to leave Montenegro without restrictions at these crossings.
- Montenegro airports remain open for citizens of Montenegro and foreigners with permanent or temporary residence. In June, the Government formed three categories of countries (green, yellow and red) depending on the number of active and new coronavirus cases, and the trend of the number of infected persons. For passengers traveling from green list destinations, a negative PCR test no older than 72 hours is required. Passengers travelling from yellow list destinations are required to self-quarantine for 14 days, however, borders remain closed for countries in the red list. Only tourists traveling to Montenegro from green countries are granted entry.

Economic impact/outlook

- According to preliminary estimates, Montenegrin GDP growth decelerated to 2.7% y-o-y in Q1 2020 and is expected to [decrease on average by 5.9% for 2020](#) compared to 2019. Private consumption growth accelerated to [3.8% y-o-y in Q1](#). Government consumption remained practically flat (0.1% y-o-y). Investments swung into a 2.2% y-o-y rise after declining by 2.5% y-o-y in the previous quarter (EC, 2020_[1]).
- On the supply side, industrial output recorded strong growth, rising by [13% y-o-y in Q1 2020](#), thanks to strong results in all three sectors (manufacturing, mining, and utilities). Positive results were also recorded in construction and agriculture. After the positive Q1 results, industrial production and retail sales fell in April by 16% and 26.2% y-o-y, respectively. In May, the reopening

of most commercial establishments brought no relief to retail sales, which plunged by 20.1% y-o-y due to the absence of tourists and weak local demand (EC, 2020_[1]). Despite some efforts to maintain the borders open to back summer tourism season, [a 50% drop is expected in total tourism receipts for 2020 compare to 2019](#). Also in May, the contraction of industrial production totalled 8.5% y-o-y.

- The labour market performance deteriorated compared to the year before. According to [MONSTAT preliminary data](#), the unemployed rate increased to 16.3% in Q1 2020 from 15.1% in 2019, due to the negative effects from the coronavirus outbreak.
- The [MNSE10 index](#) is at its lowest since the pandemic outbreak and lost around 15.7% of its value between 12 March 2020 and 28 September 2020, settling at 655.65.

All previously published COVID-19 notes can be accessed on the [OECD South East Europe webpage](#)

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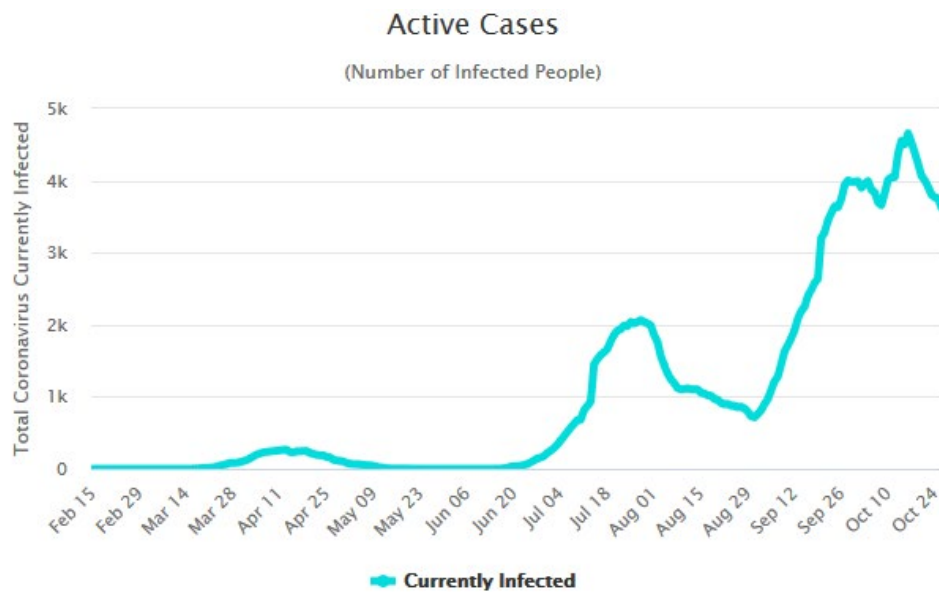
THE COVID-19 CRISIS IN MONTENEGRO

31 October 2020

COVID-19 health situation – October 2020

- Montenegro successfully achieved zero cases by 24 May following the first period of infections. However, by 14 June, Montenegro began experiencing a second wave of infections. Over the summer season, the situation continued to be aggravated. As of 26 October, the total number of [cases reached 16 909 and 270 people have died since the outbreak](#). Montenegro has recorded the second highest rate of cases in Europe at 2699.69 cases per 100 000 people.

Evolution of active cases in Montenegro



Source: Worldometers.info

- Wearing protective masks indoors and outdoors remains mandatory, including children older than 5 years. The government announced that strict controls will apply to check whether people wear masks.
- Public gatherings are limited to a maximum of 40 persons in outdoor public places, and 20 persons in closed public places. The gathering of citizens for political rallies, public events, cultural and artistic events and festivals are limited to a maximum of 100 people in open public places, and 50 people in closed public places. The presence of spectators at sports events is prohibited.
- Religious gatherings in open public places except on the property of the religious facilities are prohibited. Receiving condolences and private gatherings such as weddings and birthdays are prohibited.

- 14 days self-isolation is prescribed for persons who have been or are suspected of having been in contact with persons infected with COVID19.

Policy reactions – October 2020

- The Government decided to [tighten already existing measures](#). In this regard, the competent inspection authorities at both state and local levels are asked to mobilise all available human and technical capacities to control compliance with measures and to sanction violators.
- Educational work in public and private educational institutions, as well as in preschool institutions has been moved to the online learning system. One of the parents of a child under the age of eleven and children with special educational needs are entitled to the benefit of paid leave.
- The operating of discos/bars and nightclubs/bars remains prohibited in the entire territory. The work of catering facilities is banned in [numerous municipalities](#).
- All border crossings for entry into Montenegro are open, with a few exceptions for the following road border crossings: Vuča, which was closed on 20 June, in order to suppress the transmission of coronavirus from Serbia. Entry of passengers from Bosnia and Herzegovina to Montenegro is not allowed through the border crossing Šćepan Polje. Passengers are allowed to leave Montenegro without restrictions at these crossings.
- Montenegro airports remain open but the entry depends on the epidemiological situation of the point of departure. Passengers traveling from green list destinations, can enter the territory without additional restrictions, if they have spent at least 15 days before the entire to Montenegro in a country from the green list. For passengers traveling from yellow list a negative PCR test no older than 72 hours is required. Borders remain closed for countries in the red list.

Economic impact/outlook

- According to preliminary estimates, Montenegrin GDP growth plunged by a preliminary 20.2% y-o-y in Q2 2020 affected by weak domestic and external demand as result of travel restrictions, which devastated the tourism sector. Private consumption growth plunged by -15% y-o-y in Q2. In contrast, Government consumption slightly rose (0.5% y-o-y). Overall, Montenegro's GDP fell by a preliminary 8.8% y-o-y in the first half of 2020. (EC, 2020^[1]).
- On the supply side, industrial output and trade data indicate that Q2 growth was pulled downwards by industry, retail sales, and hotel and restaurant services. Industrial output fell by 15.4% y-o-y in Q2 owing to a steep (-38.8% y-o-y). The employment rate dropped to 51.2% in Q2, down from 56.9% a year earlier. The largest drops in employment were recorded in construction (-29.3% y-o-y) and accommodation and food services (-24.0% y-o-y).
- The [MNSE10 index](#) is at its lowest since the pandemic outbreak and lost around 16% of its value between 12 March 2020 and 23 October 2020, settling at 643.92.

All previously published COVID-19 notes for Montenegro can be accessed [here](#)

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