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# IMF Completes Staff Visit to Montenegro

July 28, 2022

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

- The global economic outlook is likely to remain unfavorable, and financial conditions could further tighten next year—strong advance preparation would serve Montenegro well.
- Fiscal policy should focus on three key priorities—safeguarding revenues, stronger expenditure controls, and securing adequate financing.
- The banking system is well capitalized and liquid. Rising global risks call for continued strong supervisory vigilance.

**Podgorica, Montenegro:** An International Monetary Fund (IMF) team led by Mr. Srikant Seshadri conducted a staff visit to Montenegro from July 18-27, 2022. At the end of the visit, Mr. Seshadri issued the following statement:

**"The war in Ukraine is casting a long shadow over the global economic and financial outlook.** This year's challenging environment could worsen further next year due to deteriorating growth prospects in Europe, the US, and Asia. Global financial conditions are likely to remain tight. Credit spreads on emerging country debt have climbed significantly higher along with global interest rates. It is a distinct possibility that access to international credit might even be sharply curtailed next year.

"**Montenegro's economy is similarly entering a period of high uncertainty.** First quarter growth this year in Montenegro was strong at 7.2 percent (y-o-y). Available information suggests private consumption has remained strong during the second quarter, as well. The strength of this year's summer tourist season depends on whether lower arrivals from Russia and Ukraine will be balanced by higher arrivals from elsewhere. Policy makers should prepare in advance, for the risk of sharply slower global growth next year. Montenegro's rich natural endowments in renewable energy have not shielded it from global inflationary pressures, as food, fertilizer, gasoline, and construction materials prices have soared. Furthermore, IMF staff is of the view that inflation is not completely "imported". Rising wage pressures due to the recent minimum wage increase and tax reforms also appear to be playing a role.

"**In the context of relatively high public debt, fiscal policy needs to remain nimble.** There are three keys to strong preparation for possibly increased turbulence of the coming period:

· First, the state's revenues must be safeguarded. While tax cuts and other support measures aimed at protecting the population from rising prices are understandable, they should be targeted towards the most vulnerable in society, with a clear view that they will remain in place only so long as they have served their purposes.

· Second, against a backdrop of already high levels of public debt, this is a particularly inopportune time to saddle the state with large permanent increases in current expenditures, or with capital expenditures whose longer-term economic returns are uncertain. Given the difficult global conditions, it would be wise to signal much stronger expenditure control now, to prevent unnecessary future economic hardship.

· Third, to meet financing needs when global conditions are tight, the state needs the flexibility to consider all possible sources not only for this year, but also further ahead . It should also be recognized by all stakeholders in society that the cost of funds is likely to remain high, relative to the last few years.

**"The banking system is performing well.** Last year's strong economic recovery, combined with forward-looking efforts by the Central Bank of Montenegro Council (CBCG) to align the legal and regulatory environment with global standards are paying strong dividends. Capital adequacy, liquidity, and asset quality indicators for the system remain strong, allowing lending this year to continue to grow to both the corporate and household sectors, despite growing economic headwinds. The IMF also strongly supports the central bank's efforts to modernize the country's payment systems as part of its broader efforts to enhance integration with the EU.

**"Still, continued strong supervisory vigilance is essential as global risks continue to rise.** Housing prices are rising sharply. Although this appears to be largely driven by foreign purchases, it will be important to guard against signs of excessive domestic leverage. Pockets of weakness in the banking system could emerge, particularly if growth slows sharply in the coming period. Contingency planning takes on greater significance, to mitigate the risk of disruptions in such an environment. This includes maintaining close relationships and information exchange with the home country supervisors of foreign financial institutions. Finally, efforts to strengthen the Anti Money Laundering and Combating of the Financing of Terrorism (AML/CFT) framework, alongside effective risk-based implementation require continuing attention.

**"The IMF is—and will remain—a strong partner of Montenegro.** We have been providing candid assessments and advice on the authorities' budgetary plans, as well as technical assistance in tax and expenditure policies, public financial management, and debt management. We have also actively been providing advice and technical assistance to the authorities in a broad range of areas pertaining to the financial sector from supervision, to fintech, as well as AML/CFT. We look forward to continuing our cooperation with the authorities in all these areas.

*"The mission held fruitful discussions with Prime Minister Mr. Dritan Abazović, Minister of Finance Mr. Aleksandar Damjanović, Governor of the Central Bank of Montenegro Mr. Radoje Zugi ć, government and central bank officials, regulatory agencies, and representatives from the private sector. The mission thanks the authorities and all interlocutors for the frank and constructive dialogue. The IMF looks forward to the 2022 Article IV Consultation, later this year."*


## MEDIA RELATIONS

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