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- ▶ COVID-19 and the World of Work
Rapid Assessment of the Employment Impacts and Policy Responses

MONTENEGRO



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Covid-19 and the World of Work

MONTENEGRO

Rapid Assessment of the Employment Impacts and Policy Responses

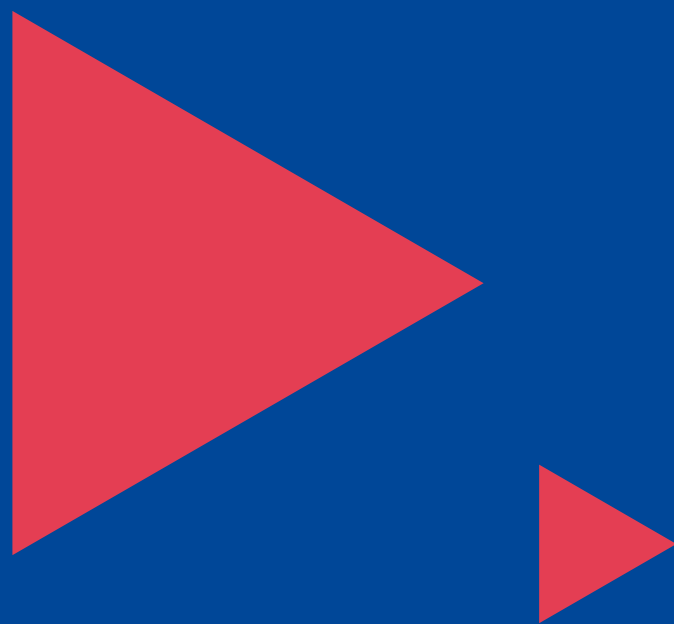
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▶ Key Messages



The decline in working hours during quarter 2 is equivalent to the loss of 31,000 full-time jobs. According to the ILO “nowcasting” model, which tracks declines in working hours resulting from lay-offs and other temporary reductions in working time, working hours in the Western Balkans declined by an estimated 11.6 per cent during quarter 2. While the ILO has not yet released country-level estimates, application of this ratio would imply that Montenegro stands to lose approximately 31,000 full-time equivalent jobs (assuming a 40-hour working week) during this quarter.¹

Manufacturing, wholesale and retail trade, and accommodation and food service activities top the list of sectors at high risk in terms of employment impacts, followed by transportation, construction, professional, scientific, and technical activities, and administrative and support service activities. Based on an analysis of the specific labour vulnerabilities of all sectors (Annex 1) and the estimated impact of the crisis, this report identifies seven sectors in which workers and enterprises have been severely affected. Certain jobs have been curtailed only temporarily, while others will be lost permanently, depending on how and when aggregate demand and consumer spending pick up again. Evidence suggests that, particularly in some of these sectors, it is people’s own voluntary decisions about their behaviour after the lockdown that will shape the trajectory of the reactivation phase, more than what the government tells them to do.

In these seven sectors, 36,000 jobs are at immediate risk, which could imply a loss of 15 percentage points in the employment rate (baseline scenario), if adequate measures are implemented during the reactivation and recovery phases. According to the analysis conducted on workers and enterprises at risk (Section 4.1), there are 34,221 workers in micro-enterprises of up to 10 workers in these sectors. Almost 47,000 workers (that is, more than 40 per cent of wage employment in these seven sectors) have only fixed-term and temporary contracts. When gender-specific considerations are brought into the sectoral analysis the overall share of employment in sectors with high labour-related vulnerabilities more than doubles. Furthermore, the large share of young people employed in vulnerable jobs in accommodation and food services, and in trade, may have an even larger negative impact on jobs compared with the baseline scenario.

The enterprise survey conducted by the Montenegrin Employers’ Organization, in collaboration with the ILO and the EBRD, highlights the vulnerability to shocks of specific categories of enterprises. The enterprise survey brings to the fore the lack of access to liquidity that plagues over 60 per cent of micro-enterprises and almost half of small enterprises. This includes almost three-quarters of enterprises in the hospitality sector. As a result, businesses are over-reliant on cash and savings, which are also limited. On the other hand, these enterprises are signalling their willingness to retain workers and restart operations if adequately supported in the medium term. **The employment retention measures in the current Covid response package are, overall, progressive with regard to firms and workers supported** (see section 5.2 for a cross-country comparison); that is, the most intensive support is provided for workers and firms at low wage levels. This is highly desirable as low-wage firms are more frequently found in more affected high-contact sectors and micro and small firms are harder hit, have lower wages and have higher shares of vulnerable categories of workers compared with larger firms. Employment retention should continue to be a priority for policy-makers, however. **Options related to a subsidy that waives the tax wedge, with a cap at the level of tax paid on the minimum wage,** should be given serious consideration to avoid negative employment outcomes in the coming months.

¹ As noted in the nowcasting methodological notes for the ILO Monitor: Covid-19 and the World of Work, this estimated loss in working hours should translate into a significantly less severe employment reduction, as firms and individuals adjust by simultaneously reducing working hours, cutting jobs and withdrawing from work. *ILO Monitor: Covid-19 and the world of work* (7 April 2020), Second edition, updated estimates and analysis.

Decision-makers have to be careful not to exacerbate a dynamic of “winners and losers” that is emerging from the current crisis. Sections 4.1 and 5.2 of the report contend that the crisis may inflate the cohorts of existing poor and vulnerable individuals. “New” poor and “new” vulnerable remain almost invisible to the system, except for the symbolic one-off payment to registered unemployed ineligible for unemployment, disability or social assistance benefits. They include atypical, informal, seasonal and migrant workers who have either lost their jobs or will not be able to earn (enough) money later during the season; young people; and long-term unemployed without unemployment benefits and with worsened household income situations.

Globally, the ILO is warning about the risk of an emerging “lockdown generation”; this report advocates policy solutions in Montenegro based on inter-generational solidarity. The recent global ILO Monitor raises concerns about the three channels through which young people are particularly affected by the Covid-19 crisis. In Montenegro, young people face growing difficulties in starting or completing school-to-work transition; young people also tend to have less secure, less well-paid and often high-contact secondary jobs, which have been most affected by the crisis and might be the last to re-emerge from it. This report suggests that renewed efforts to support employment retention and preserve the jobs of more experienced workers should be balanced with adequate investments to let less experienced workers fill gaps as they open up.² Investing in jobs for young people could also have a positive trickle-down effect on sustaining aggregate demand. In the Covid-19 context, young people, in their capacity as consumers, are less constrained by health concerns than older workers, who will refrain from high-contact consumption (travels, restaurants) and probably also from investment in real estate and durables.

Six preliminary policy recommendations emerge from this Rapid Assessment. They need to be further evaluated and adjusted through social dialogue. The initial policy response to the Covid-19 crisis did not reflect adequate consultations with the social partners. Thus, innovative policy solutions may have been overlooked, particularly those requiring careful negotiation and a renewed social compact that supports the world of work in Montenegro. Based on the data and analysis presented in this Rapid Assessment, the ILO/EBRD Task Force has elaborated six policy options to be implemented during the next two quarters of 2020 (Section 5.3 of the report contains additional details on design and cost options). It would be appropriate for tripartite partners to review and discuss the legal, economic and financial aspects of these policy proposals. Some trade-offs will have to be considered, while building on common ground for the protection of workers and enterprises.

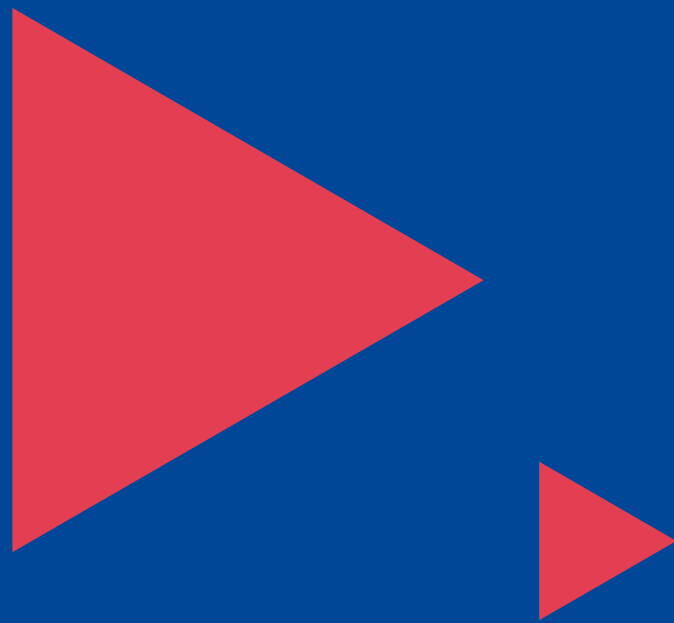
² This suggestion, further elaborated in Section 5.3, moves from the empirical observation that Covid-19 health risks, firm-specific human capital, and worker reallocation all have distinct age profiles. For a more detailed elaboration, please see: Fujita et al. 2020.

Six policy options for supporting enterprises, jobs, and incomes during the reactivation phase:

- ▶ build new temporary safety nets for the new poor and new vulnerable. This will require a combination of interventions, including broadening eligibility criteria for social assistance, and introducing unconditional and non-contributory unemployment assistance for up to six months;
- ▶ pilot a non-contributory unemployment allowance linked to activation; the scheme targets young people of working age and able to work in households that receive social assistance;
- ▶ urgently establish an additional employment retention programme, lasting until September 2020, in which support is conditioned on longer retention of workers by beneficiary enterprises;
- ▶ restructure the existing, expensive graduate professional training programme (GTP – see Box 5.1) into a universal and open-ended internship programme (for the duration of the crisis), aligned with similar EU practices and geared towards the school-to-work transition of all young people under the age of 30;
- ▶ promote in-work intergenerational solidarity by linking the revised internship scheme to an innovative framework for job sharing;
- ▶ facilitate timely and adequate tripartite negotiations around the Covid-19 response and the elements of a new social compact in response to the crisis, including job sharing and voluntary reductions of working hours; wages; job rotation during periods of force majeure; and other aspects related to the organization of work (working time and teleworking).

▶ 01

- ▶ Preliminary considerations and methodology
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The Covid-19 crisis is novel in many ways. Policy-makers around the world are grappling with the challenges of managing a health crisis – on the home front – and the multiple channels through which a global economic crisis, with falling oil prices and crashing stock markets, can have knock-on effects on their country's economy. Like many others, the Government of Montenegro found itself confronting unprecedented events unfolding domestically, regionally and globally. The first local case of Covid-19 came to light on 17 March 2020. In order to contain the virus, a National Coordination Body (the NKT) began operations in March. The Deputy Prime Minister was tasked with coordinating the work of the NKT, with the Institute of Public Health and the Clinical Centre of Montenegro taking the lead.³ Six special operational groups were set up, dealing with different aspects of the evolving situation. Their mandate includes the coordination of coronavirus prevention measures (headed by the Ministry of Health); implementation of activities related to the return home of Montenegrins (under the Ministry of the Interior); support for the economy (led by the Minister of Economy); coordination of international assistance; donation management (headed by the Prime Minister's Cabinet); and the crisis medical team.

The operational group to support the economy has 16 members. They represent ministries (Economy, Transport and Maritime, Agriculture, Tourism, and Finance), as well as customs, the police, the NHI, the Directorate for Inspectorial Affairs, the city of Podgorica, the Prime Minister's Cabinet and the Montenegro Chamber of Commerce.⁴ Notably, representatives of free and independent organizations of the private sector and of the free and independent trade unions were not permitted to participate in this advisory group, despite their repeated requests, because this response structure was based on earlier legislation on health emergencies. Subsequently, the Government indicated a commitment to broadening the consultation process and to expanding interactions with the social partners.

In line with this mobilization and given the magnitude of the challenge, the social partners have been seeking further dialogue with the Ministry of Labour and Social Welfare (MLSW), particularly within the scope of Montenegro's Social Council (SC), a permanent tripartite body charged with facilitating social dialogue and socio-economic stability.⁵ Thus, within the existing framework of technical assistance to the Social Council, the tripartite partners have encouraged the ILO to develop evidence toward an assessment of the impact of Covid-19 on the world of work and support the working out of adequate policy responses to the crisis. In March 2020, an ILO regional Task Team on Covid-19 and the World of Work, comprising ILO experts and national and regional advisors, extended its operations to Montenegro, thanks to the EU-funded project "Improving labour market governance through effective social dialogue". In April, the European Bank for Reconstruction and Development (EBRD) joined the Task Team. The objective is to facilitate dialogue among government, social partners and other relevant stakeholders on coherent policy responses to support workers, families and enterprises. Policy dialogue should stem from evidence on the immediate employment impacts and most significant transmission mechanisms of the Covid-19 pandemic in Montenegro.

³ The legal bases for this organization of the Covid response lay in Article 15 of the Law on Public Administration (Official Gazette of Montenegro, No. 078/18 of 04.12.2018); Article 56 of the Decree on the organization of the work of the state administration (Official Gazette of Montenegro, No. 087/18 of 31.12.2018, 002/19 of 11.01.2019, 038/19 of 05.07.2019, 018/20 of 18.03.2020); and the Law on Protection against infectious diseases.

⁴ The NKT organizational chart shows the complexity of the tasks and of the decision-making process.

⁵ The Social Council was established upon the promulgation of the new Social Council Law (Official Gazette of Montenegro, No. 44/2018), in June 2018. It consists of 24 members, eight representatives of government, workers and employers. They are elected for a period of four years. <http://www.mrs.gov.me/organizacija/socijalnisavjet>. The establishment of the Social Council brought Montenegro into closer alignment with existing European practices of tripartite dialogue and concertation around socio-economic policies.

The Rapid Assessment conducted by the Task Team looks at the situation of vulnerable workers and at-risk enterprises in multiple sectors. It strives to generate evidence and options to improve the structuring of dialogue and negotiations around plausible policy measures. With regard to the latter, three main considerations are relevant:

1. general policy packages need to be calibrated in accordance with the available fiscal space and the existing policy framework;
2. policy packages already adopted have some gaps – either in design or implementation – from the perspective of protecting the most vulnerable, such as non-standard workers,⁶ own-account workers and micro-enterprises;
3. policy measures are instrumental only if tailored and properly timed to the phase of the Covid-19 crisis in which the economy is primarily placed.

With regard to the need for the Government and its social partners to sync policies better, the chain of events that was triggered by the health crisis and has had an economic impact is presented in Figure 1.1.

Figure 1.1 Covid-19 and the World of Work: timing policies to the appropriate phase

Lockdown	Reactivation	Recovery
<ul style="list-style-type: none"> ■ near complete and mandatory timing and gradual removal subject to debate balancing health, political and economic interests ■ high-contact and non-essential labour heavily constrained ■ consumer demand for durables and non-essential goods and services plummeted, fuelled by uncertainty ■ loss of working hours as key metrics in the short term 	<ul style="list-style-type: none"> ■ workers trickle back into workplaces ■ slowed down by safety and health considerations for workers and clients ■ negotiations on safe return to work occur ■ ruptured supply chains, particularly in tourism, need mending ■ in the medium term, liquidity shortages undermine also viable businesses ■ unemployment, underemployment and job losses as useful metrics in the medium term 	<ul style="list-style-type: none"> ■ made difficult by (still) low aggregate demand ■ fiscal limitations circumscribe government room to manoeuvre ■ registered employment; GDP per person employed; and mortality rate of enterprises are helpful indicators in this phase ■ employment indicators to be read in conjunction with sector-specific metrics, such as hotel occupancy and tourist arrival indicators

Source: Task Force elaboration based on several sources.⁷

In Montenegro, the Government did not declare a state of emergency during the lockdown. The NKT took steps to contain and prevent community transmission by imposing measures to “flatten the contagion curve” (see Annex 3), including a general requirement for workplace closures, applying to all sectors except some essential activities. From a labour market perspective, informality and the incidence of rural work may have mitigated the lockdown’s stringency.⁸ Montenegro started to lift the lockdown gradually in early May.

⁶ Montenegro’s labour legislation does not define the terms “non-standard forms of employment” or “non-standard workers”. The most recent labour law, however, introduced some non-standard forms of work in the Montenegrin legal system, such as employee leasing. Flexible solutions are applied in some existing forms of work, such as fixed-term employment contracts and external employment. For more, see: Vesna Simović-Zvicer, *Atypical Employment Relationships: The position in Montenegro*, in *Restatement of Labour Law in Europe*, Vol. II (Hart Publishing, 2019), pp. 571–99.

⁷ For an analysis of the stringency of the lockdown, please see: Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira: *Oxford Covid-19 Government Response Tracker*, Blavatnik School of Government (2020). Data use policy: Creative Commons Attribution CC BY standard. Available at: <https://Covidtracker.bsg.ox.ac.uk/>

The situation varied through the weeks of the lockdown. For two weeks in April, lockdowns were from 4 pm to 5 am the next day; the longest curfew took place over 84 consecutive hours during a long weekend.

⁸ ILO Monitor: *Covid-19 and the world of work* (7 April 2020), Second edition, Updated estimates and analysis.

For the purposes of this report, reactivation is defined as the period post-lockdown and before the wide availability of a vaccine (in the absence of a miraculous disappearance of the virus). There seems to be a consensus that the virus will continue to be around as a threat and an obstacle to normalcy even if it may temporarily be less acute in the country or region. Covid-19 is a threat as long as it exists somewhere and there is a risk of resurgence during the fourth quarter of 2020. During the reactivation phase, it is helpful to distinguish between high-contact and low-contact sectors and occupations, because reactivation will clearly be constrained by health and safety concerns in high-contact types of business. Supply chain disruptions and demand shocks will play a more important role in low-contact sectors.

Social dialogue underpins the process of identifying an adequate policy mix across these different phases. This requires the active participation of representative employers' and workers' organizations, along with other experts, including sectoral associations.

The methodology used by the Task Force includes multiple tools. In particular, the following approaches were applied:

- a. **Enterprise survey.** The Rapid Assessment builds on the results of the enterprise surveys that the Montenegrin Employers Federation (MEF) conducts periodically, in partnership with the ILO and the EBRD. While having no pretensions to represent the full extent of Covid-19's impacts, the enterprise survey provides snapshots of how formal establishments in different sectors are faring through the different phases of the crisis and what urgent needs they voice.⁹ To avoid any "cross-contamination" of perceptions, this Rapid Assessment derives its findings only from the questionnaires that were answered with reference to the lockdown phase. The enterprise survey will be repeated during the reactivation phase.
- b. **Sectoral analysis.** Through a sectoral decomposition of Labour Force Survey (LFS) data, the sectoral analysis provides an overview of the sectors most at risk from the viewpoint of quantity and quality of jobs.¹⁰ It also offers some data for the parametrization of policy options. The LFS also provides baseline microdata for nowcasting.
- c. **Administrative data.** Selected administrative data are collected from the public employment service, social welfare centres, tax authority, and other institutions (together with relevant time series) to gauge real-time occurrences in the labour market.¹¹ High-frequency economic and labour market data support the ILO's nowcasting model.
- d. **ILO nowcasting model.** This method uses data that are available almost in real time to predict aggregate hours worked, which are published with substantial delay. The resulting estimates are compared with the baseline (the latest pre-crisis quarter, namely, the fourth quarter of 2019, seasonally adjusted). The data in the nowcasting model include a variety of economic indicators, including the evolution of the labour market. The ILO nowcasting model produced Western Balkan aggregates for both quarter 1 and quarter 2. As enough high-frequency indicators become available, the ILO will produce a direct nowcast for each Western Balkan economy during the second half of June 2020.

⁹ At the time of writing, 430 enterprises have responded to the survey, representing around 1.3 per cent of total establishments in Montenegro. Among the respondents, 234 are based in Podgorica. The majority (54 per cent) are micro enterprises with 1–10 employees. MSMEs account for 98 per cent of all responses. This implies that large companies (250+ employees) are slightly overrepresented, as in reality, they constitute only 0.2 per cent of the total number of companies in Montenegro (MONSTAT, 2018).

¹⁰ As opposed to other countries in the region, where the analysis could be based on a 2-digit sectoral decomposition, Montenegro's Labour Force Survey did not allow for this level of disaggregation. Naturally, more granularity in the assessment would enable better analytics. It would be helpful, just by way of example, to differentiate manufacturing of perishable and non-perishable goods, or to look into the specifics of subsectors. Other limitations in the LFS did not allow the report to capture all the dimensions of labour vulnerability that were used in other countries. For instance, temporality or seasonality of contracts cannot be observed directly through Montenegro's LFS. The microdata also do not have variables related to informality and wages. Furthermore, with regard to employment status, the LFS does not differentiate between an employer (with employees) and a self-employed person who is an own-account worker.

¹¹ Administrative data will grow in importance and significance as the country moves through the reactivation and recovery phases. For instance, the increase in registrations at the employment agency and in claims for unemployment benefits may still be limited during the lockdown, as people are trying to "decipher" the crisis and do not take the necessary administrative steps. In addition, there can be a time lag between the lifting of containment measures and filing for bankruptcy, as enterprises try to restart operations using government programmes, bank loans, and/or their own savings.

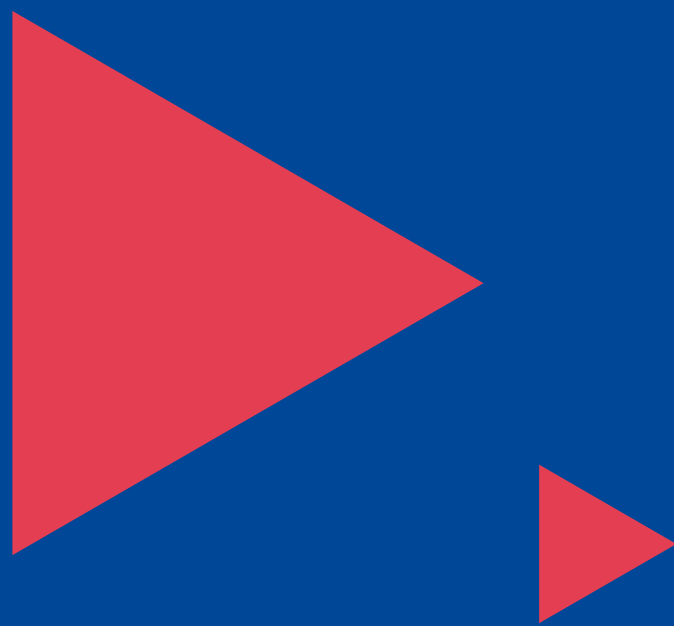
Importantly, times of turbulence tend to be marked by worse quality data. Because real-time data are lacking in most countries, particularly on labour market impacts, it is essential that the assessment take into account multiple indicators and qualitative insights on economic and employment effects. The overall principle guiding the approach is pragmatism. Today, there are so many things that policy-makers still do not know about Covid-19, such as how profoundly it has hit the country, and for how long it will reverberate through the economy. Thus, by pinning down some of the facts and evidence available at the time of writing, the Rapid Assessment strives to support the formulation of an adequate exit strategy from the current situation.

This Rapid Assessment was conducted primarily during April/May, and released to the Social Council in June 2020. Based on official statistics, at the time of writing there were 324 officially reported cases.¹² During this period, the country was still predominantly under lockdown, with the large majority of workers experiencing workplace closure and dramatically reduced working hours. Subsequent iterations of the Rapid Assessment will provide additional updates and analytics as the country moves through the reactivation phase.

¹² <https://www.coronainfocg.me/>

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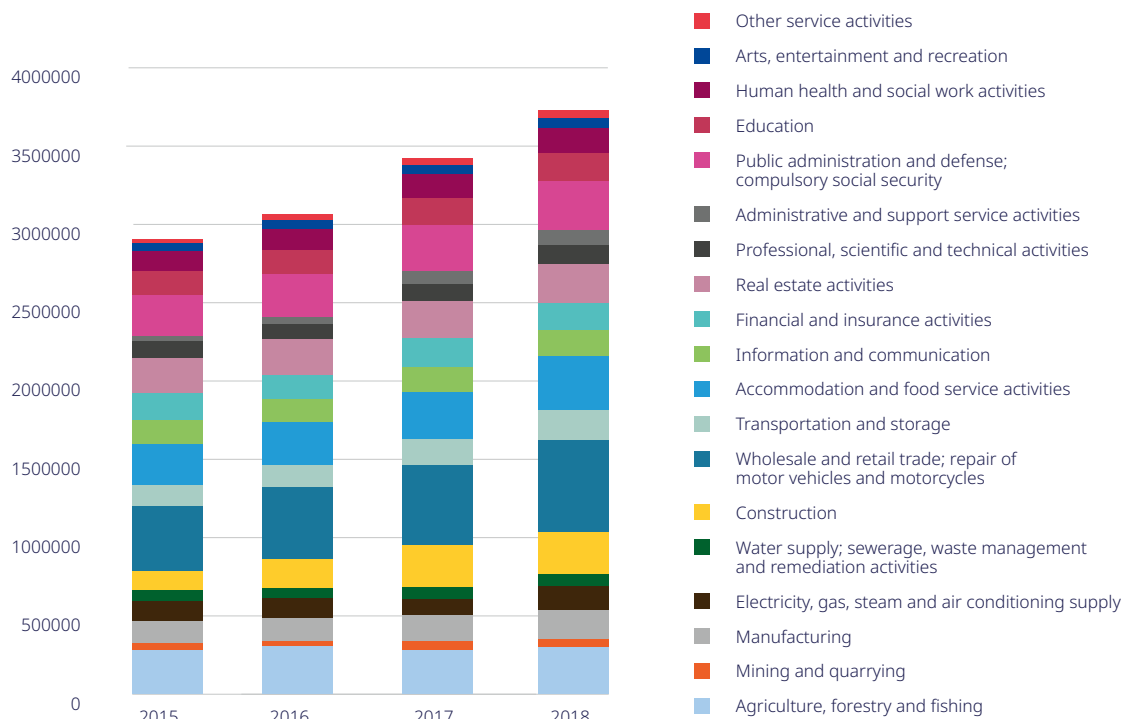
- ▶ **Socio-economic situation before the health crisis**
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Montenegro has enjoyed strong economic growth in recent years, averaging 3.5 per cent between 2014 and 2018,¹³ boosted by the implementation of large investment projects, the expansion of the tourism sector and increasing private consumption. In 2019, gross domestic product (GDP) growth declined to 3.6 per cent from 5.1 per cent in 2018.¹⁴ This decline was driven by under-execution of investment projects, which subtracted 0.5 percentage point from output growth, a contraction of industrial production (by 6.3 percent year on) and a cooling of construction.¹⁵ Conversely, the retail trade and tourist arrivals continued to grow (by 5.2 percent and 10.3 percent, respectively). Retail trade, hospitality, agriculture, the public sector and construction are the top sectors in terms of value added (Figure 2.1, plot a). The retail, tourism, manufacturing, construction and transport sectors provide half the jobs in the private economy (Figure 2.1 plot b). The wages paid to workers in these sectors, however, are below the national average (Figure 1 plot c). On the demand side, private consumption has been the main driver of economic growth and the trend was expected to continue. In 2019, the increase of net foreign direct investments (FDIs) was still strong at 7 per cent of GDP, albeit below the annual average growth of 12 per cent recorded between 2010 and 2017.¹⁶ Over two-thirds of FDI is equity investment (61.6 per cent, most of which is investment in companies and banks), while the remaining share (38.4 per cent) is related to intercompany debt.¹⁷ The inflow of remittances was estimated at US\$ 584 million, equal to 10.6 per cent of GDP, around the average recorded in other Western Balkan economies, but a high share globally. This may pose a risk to the country should this inflow decline steeply, due to job losses in host countries.¹⁸

Figure 2.1 Sectoral composition of growth, employment and wages

a) Value added



¹³ World Bank. GDP growth (annual %), Montenegro.

¹⁴ Montenegro Statistical Office: Gross domestic product. Release N.171&2018.

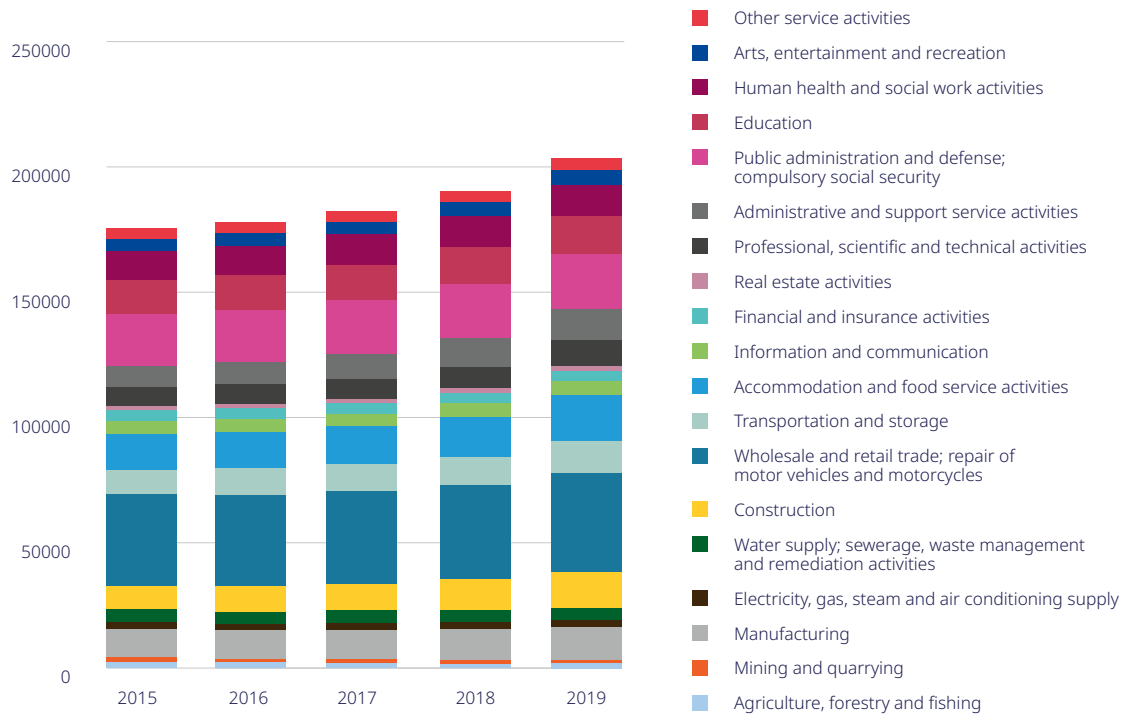
¹⁵ World Bank: The economic and social impact of Covid 19 (Country notes, Western Balkans Regular Economic Report No. 17/2020).

¹⁶ World Bank, World Development Indicators, various years.

¹⁷ Central Bank of Montenegro: Annual report 2018 (Podgorica, 2019).

¹⁸ World Bank, World Development Indicators, various years, see also World Bank: The economic and social impact of Covid 19 (Country notes, Western Balkans Outlook Regular Economic Report N.17/2020).

b) Employment



c) Wages



Source: Statistical Office of Montenegro (MONSTAT): Statistical Yearbook 2017-2019.

According to the World Bank's Regular Economic Report (RER) for the Western Balkans (April 2020), the current account deficit narrowed from 17 per cent of GDP in 2018 to 15.2 per cent in 2019, driven by a strong tourism season, slower growth of imports (especially for machinery) and the holding of remittance inflows. Net FDI covered almost half of the current account deficit, while the rest was financed by external debt.¹⁹ The public debt (including deposits) increased to 70.8 per cent of GDP at the end of 2018, up from 64.2 per cent a year earlier, caused by the need to finance the budget deficit and to increase government deposits to service future financial obligations.²⁰ The fiscal deficit declined from 4.6 per cent of GDP in 2018 to 3 per cent in 2019, following consolidation efforts. Public revenues increased to 43.6 per cent of GDP in 2019, compared with 42 per cent in 2018, boosted by value added tax (VAT) receipts, income taxes and social security contributions, while public expenditures remained stable (at 46.6 per cent of GDP).²¹ Average inflation fell drastically – from 2.6 per cent in 2018 to 0.4 per cent in 2019 – while real wages remained almost flat (0.5 per cent growth year on).

The structural transformation of the country has been slow. Despite an increase in value added by sectors such as information technology, finance and insurance and professional activities, the contribution of these sectors to job creation has remained low. A large part of the workforce is trapped in low-productivity jobs in the construction, retail and tourism sectors, which on average command wages that are 20 per cent lower than the national average. Small and medium-sized enterprises (SMEs) dominate the formal private sector landscape, representing 99.8 per cent of all firms in the country, with a contribution to value added of 69.5 per cent and 80.1 per cent to employment. Large firms (100 or more employees), while representing only 0.2 per cent of all enterprises, produce over a third of the value added (30.5 per cent) and 19.9 per cent of employment.²²

Positive economic growth was instrumental in an improvement of labour market indicators. In the period 2011–2019 labour force participation rates for the working age population increased by 9 percentage points (from 57.2 per cent to 66.2 per cent), the employment-to-population ratio rose from 45.8 per cent to 56 per cent and the unemployment rate declined (from 19.8 per cent in 2011 to 15.4 per cent in 2019). The gender gap in labour force participation and employment rates remained stable throughout the period, with women's activity and employment rates 14 and 12 percentage points lower than men, respectively.²³ The employment growth recorded in the past few years has been led by agriculture, tourism, construction, trade, and administrative services. These sectors created 80 per cent of all new jobs in the period.²⁴ Job creation has accelerated in the past two years, with over 7,000 jobs created year on, compared with an average of 5,000 jobs created annually in the period 2010–2017.

In 2019 the unemployment rate of the working age population was 15.4 per cent (15 per cent for men and 15.9 per cent for women). Long-term unemployment remains pervasive at 78.9 per cent of all unemployed persons, with women more exposed to long-term unemployment than men (80.6 per cent and 77.4 per cent, respectively). The unemployment rate of low-skilled individuals (ISCED 0–2) is over twice that recorded among persons with tertiary education or higher (11.6 per cent in 2019). In 2019, the unemployment rate among young people (15–24) stood at 25.2 per cent, over one and a half times that of adults. Approximately 17 per cent of young people are not in employment, education or training (NEET), with young men more likely than young women to be disengaged (18.8 per cent and 15.8 per cent, respectively). The labour market situation of young people (15–24 years of age) in the country has been improving since 2015, with increasing labour force participation rates (from 29.2 to 36.5 per cent), raising employment rates (from 18.8 per cent to 27.3 per cent) and declining unemployment (from 37.6 per cent to 25.2 per cent). This improvement, however, has benefitted young men more than young women and

¹⁹ World Bank Group: The Economic and Social Impact of Covid-19 (Country notes, Western Balkans Regular Economic Report No. 17, Spring 2020).

²⁰ European Commission: Montenegro 219 report (SWD 2019/217 final).

²¹ European Commission: Montenegro 219 report (SWD 2019/217 final).

²² European Commission: SBA Fact Sheet. Montenegro, 2019.

²³ Statistical Office of Montenegro: Labour Force Survey data (various years).

²⁴ Ibid.

young people with higher educational attainment. Part of the employment gains recorded for young people are due to higher employment levels and part to demographic factors (the population in this age group has declined by 8 per cent since 2010).

The quality of employment remains a challenge in Montenegro. Around 30 per cent of work is undeclared. Informal employment remains a significant part of total employment and it affects mostly men, young people, less educated and elderly workers.²⁵ Nearly one-third of all workers (27 per cent) are employed on temporary contracts, nearly double the share recorded in 2011 (14.2), while 10.6 per cent are in precarious employment, over four times the average recorded in European Union (EU) countries (2.5 per cent) and on a continuous increasing trend since 2011.

Economic growth, rising employment, and low inflation reduced the at-risk-of-poverty rate from 25.2 per cent in 2013 to 23.8 per cent in 2018. The groups most at risk of poverty are children and young people, with one quarter of young people 18 to 24 at risk of poverty, low-skilled individuals (41.6 per cent), the unemployed (47.5 per cent), persons living in the north of the country (40 per cent) and in rural areas (35.6 per cent).²⁶ According to World Bank research, in 2014 Montenegro had the highest proportion of low-wage workers of any European country (27.3 per cent).²⁷ Level of education and contract types are strongly inversely correlated to low wages, with over 60 per cent of low-educated workers and 40 per cent of temporary contract holders being low-wage earners.²⁸

Social transfers reduce the propensity to be at risk of poverty by 7.4 percentage points, with the main social assistance programme in the country covering approximately 31,000 individuals. According to the figures of the Employment Agency of Montenegro (EAM), the number of unemployed who benefitted from the unemployment benefit in 2019 represented approximately 25 per cent of all the unemployed recorded by the Labour Force Survey.²⁹

At around 40 per cent, the tax wedge on labour is high in Montenegro, despite a low personal income tax rate, and it is independent of the income level due to lack of progressivity. The personal income tax is flat at 9 per cent with no personal allowance and without any degree of progressivity after the recent (beginning of 2020) withdrawal of the temporary “crisis” tax of 10 per cent that applied to above-average wages. Social security contributions are also flat, adding to a combined tax burden of 33.8 per cent of gross wages (there are virtually no deductions from wage taxes). Given the absence of a basic allowance, and the lack of progressivity of the personal income tax on wages, there is little variation in the total tax wedge, which stands slightly higher than the EU average (see Figure 2.2), but is very high for an upper middle-income country.³⁰ Such a high tax wedge may discourage formal labour supply and demand and contribute to involuntary unemployment and inactivity. This is especially important for individuals on low incomes, because social benefits and transfers are forgone or severely taxed away when workers enter the formal market, implying high effective marginal tax rates. In this area, longer-term reform options include a reduction of the tax wedge, especially on low-income earners and the introduction of activation strategies for welfare benefit recipients, which includes in-work benefits. In the short term, a subsidy that waives the tax wedge, with a cap at the level of tax paid for the minimum wage, may help enterprises maintain their workforce.

²⁵ UNDP, National Human Development Report 2016: Informal work from challenges to solutions (2016)

²⁶ MONSTAT: Survey on Income and Living Conditions (EU-SILC), Release 217/2019.

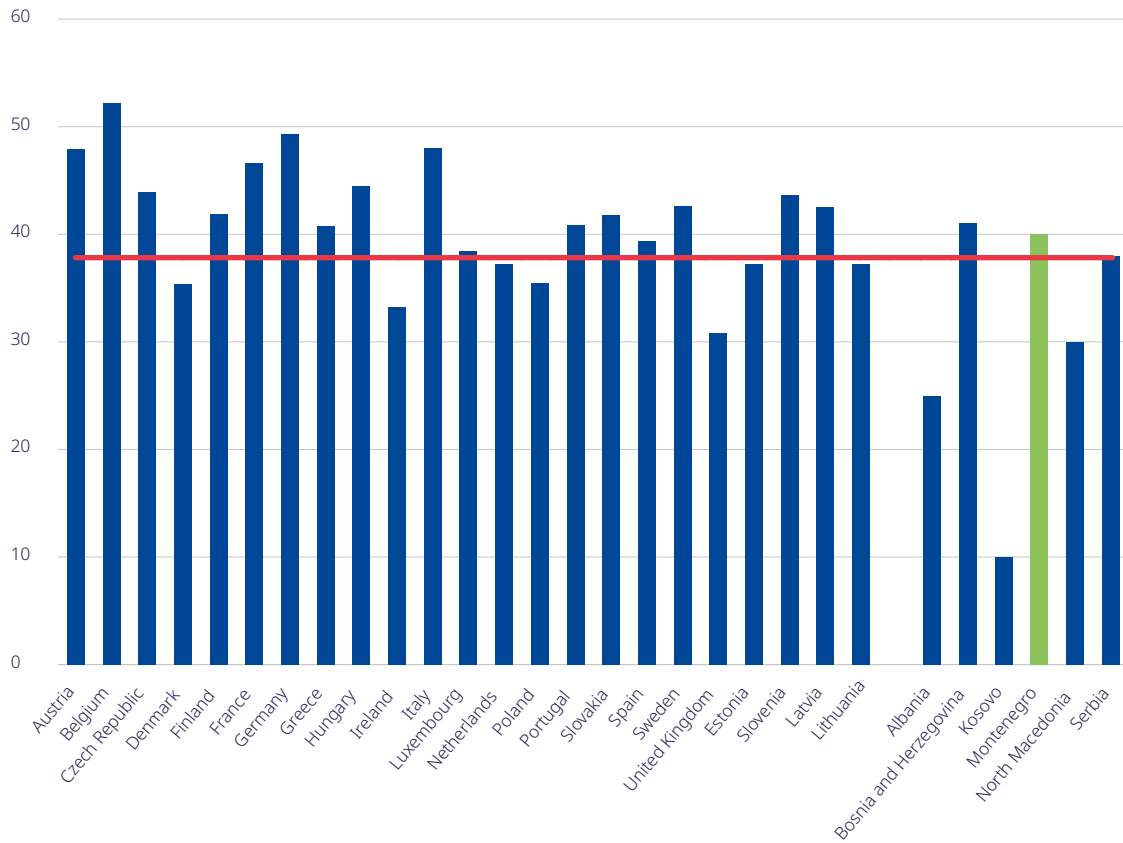
²⁷ World Bank: Western Balkans labour market trends 2018 (World Bank, Washington, D.C. 2018)

²⁸ World Bank and Vienna Institute for International Economic Studies: Western Balkans labour market trends 2019 (March 2019).

²⁹ See Employment Agency of Montenegro: Monthly Statistical Bulletin, January 2020.

³⁰ International Monetary Fund: Montenegro selected issues (Country report 18/122).

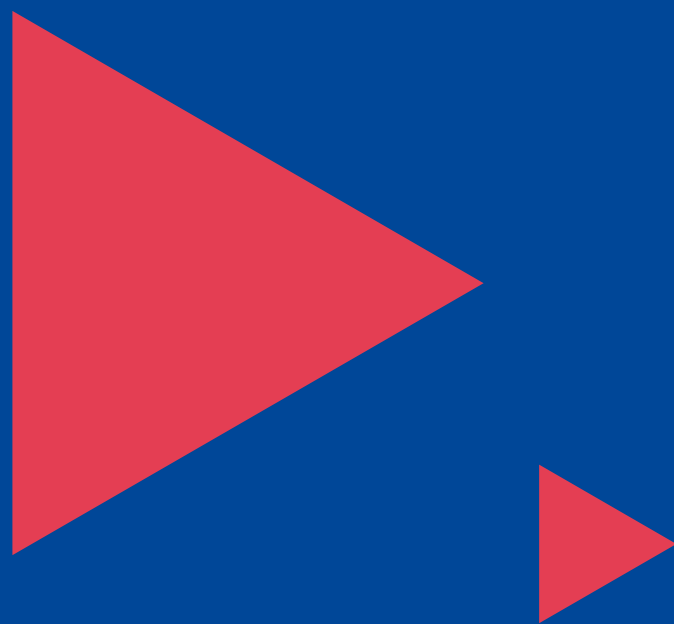
Figure 2.2 Labour tax wedge by countries, 2019
(single person, 67 per cent of the average gross wage)



Source: OECD tax wedge database and IMF, Montenegro selected issues (Country report 18/122).

▶ 03

▶ Transmission mechanisms



3.1 Direct effects due to containment measures

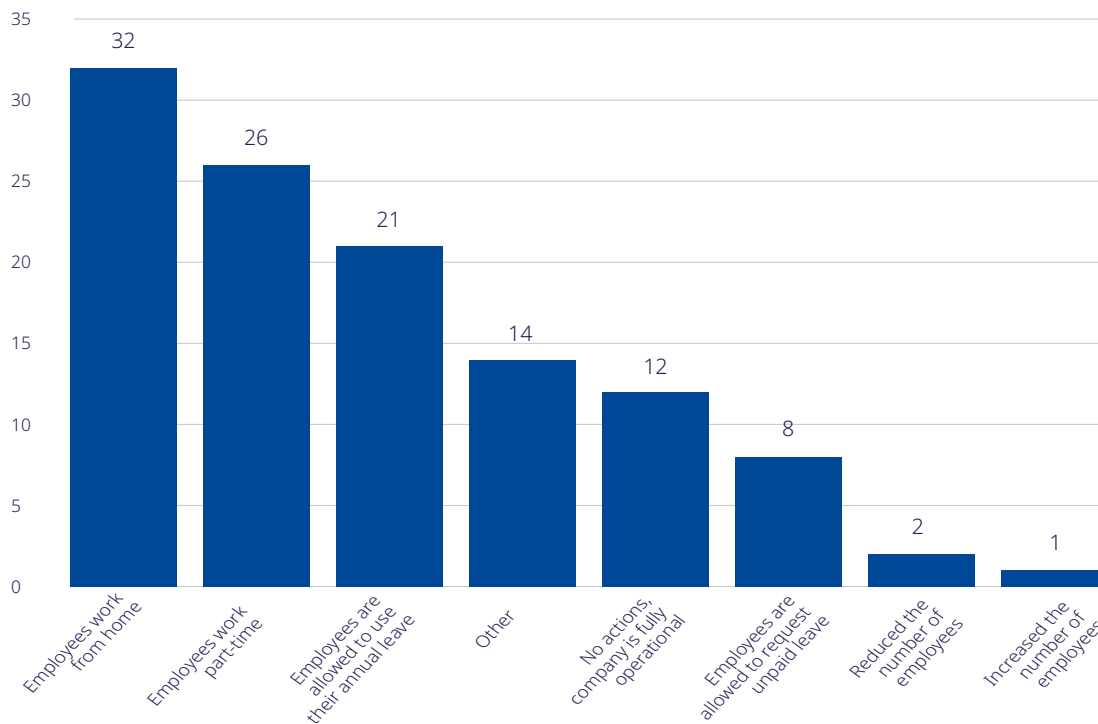
In mid-March, even before the first case of coronavirus infection was reported, Montenegro introduced measures to limit the spread of the virus and protect the population's health. With the appearance of the first cases, the range of measures expanded. The full set of measures included a ban on public gatherings and mandatory social distancing, restricted movement and a curfew during evening and night hours, as well as on weekends. Bans included public transport and taxis, movement between cities, and international passenger traffic. All people coming from abroad had to go into mandatory quarantine. Annex 3 offers more details on the containment, closure and health measures adopted since the beginning of the crisis. Although a wide range of measures have been implemented, Montenegro did not introduce a state of emergency.

These measures prevented the spread of the virus, but also restricted or suspended the operations of a large number of companies. These restrictions had significant consequences for individual enterprises and economic activity more generally. Companies in the tourism and hospitality sector, those working in recreation, arts and entertainment, and a number of companies in the transport, trade, and service sectors, received instructions to close down. Containment measures severely limited business operations across sectors. Transmission mechanisms have varied significantly in terms of intensity and reaction time. The simultaneity of the supply- and demand-side shocks makes this crisis extremely dangerous. Government restrictions and social safeguards at the workplace immediately contracted supply. Not only have people reduced their consumption of certain goods and services during confinement, but also incomes have been lost and non-essential consumption postponed, including in severely affected sectors, such as tourism and hospitality. There is growing evidence from around the world that it is people's own voluntary decisions about how they behave, including with regard to consumption and spending patterns, which are shaping the trajectory of the reactivation phase more than guidance from governments.

During the lockdown period, some companies introduced elements of innovation in work organization and added new services, such as online service delivery. Many restaurants organized meal deliveries to customers, shops bundled online sales and product delivery, while education service providers organized online lectures. Gyms offered online training and provided personalised advice remotely. Some companies continued their business activities onsite, by putting safeguards in place, while others introduced teleworking relatively swiftly.

Nevertheless, economic disruption was widespread. According to the enterprise survey conducted by the Montenegrin Employers Federation (MEF), in cooperation with the ILO and the EBRD, 42 per cent of the surveyed business entities suspended operations, while 35 per cent remained partially operational. The majority of companies have implemented some measures in order to adjust to the circumstances. Among the respondents, almost one-third introduced telework and 26 per cent introduced part-time work. Around 21 per cent of companies activated the use of "special" leave in response to the Government's decision to let parents of children younger than 11 years stay at home (one parent in the family) and to subsidize their paid leave.³¹ The percentage of economic entities that introduced working from home appears to be correlated to their size, in terms of the number of employees. Thus, telework was least common among micro enterprises (28 per cent), and much more so in large ones (80 per cent). Similarly, the introduction of part-time work was less significant in micro enterprises (18 per cent) and recurrent in large enterprises (47 per cent).

³¹ After the closure of schools and pre-schools, the Government envisaged the right to paid leave for one of the parents of children under the age of 11. In this case, the parent concerned had the right to compensation at 100 per cent of the base wage, regardless of the amount of the subsidy the Government paid to the employer. However, if the parents were working for companies that had been closed down by decree due to Covid-19, they would be entitled to the same compensation as other workers, that is, 70 per cent of the base wage.

Figure 3.1 Measures taken by companies in relation to the workforce (%)

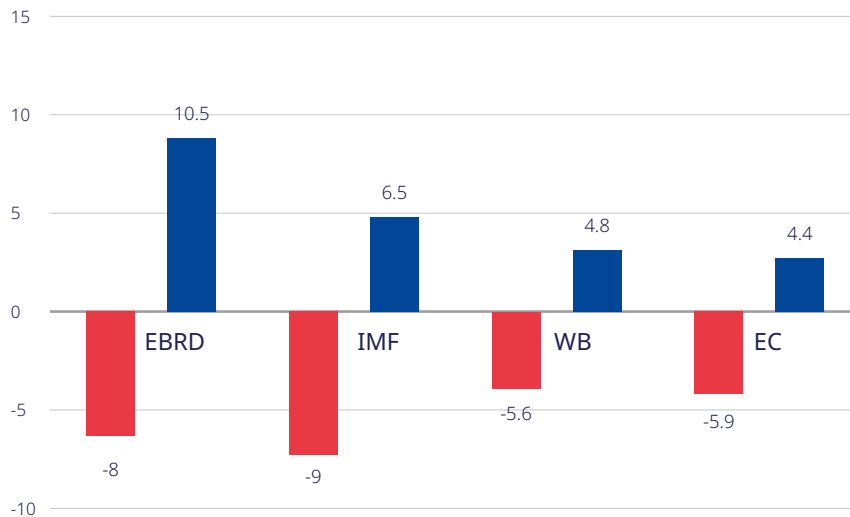
Source: Enterprise Survey. MEF, ILO, EBRD (2020).

During April and May, several international institutions issued revised economic projections to account for the impact of the crisis caused by the Covid-19 pandemic. All projections indicate that Montenegro will face a very strong recession during 2020. The World Bank has provided the most optimistic projections, according to which GDP is expected to fall by 5.6 per cent (baseline scenario³²), while the largest decline is projected by the IMF, which predicts a downturn of 9 per cent in 2020. All these projections indicate that, in 2020, Montenegro will report the largest decline in GDP in the region. The only exception is the EBRD,³³ which predicts that the largest decline will occur in Albania. The Ministry of Finance of Montenegro has not yet published its own projections; the Institute for Strategic Studies and Prognoses (ISSP) will announce quarterly and annual projections in July. It is expected that the biggest downturn will be recorded in the second quarter (when it is realistic to expect a double-digit decline in GDP), followed by a significant decline also in the third quarter, given the strong dependence of the Montenegrin economy on tourism.

³² In a pessimistic scenario, the World Bank also predicts a significant decline in GDP, by 8.9 per cent, in 2020.

³³ EBRD, Regional Economic Prospects in the EBRD Regions, May 2020 Update.

Figure 3.2 Projected impact of Covid-19 crisis on the Montenegrin economy

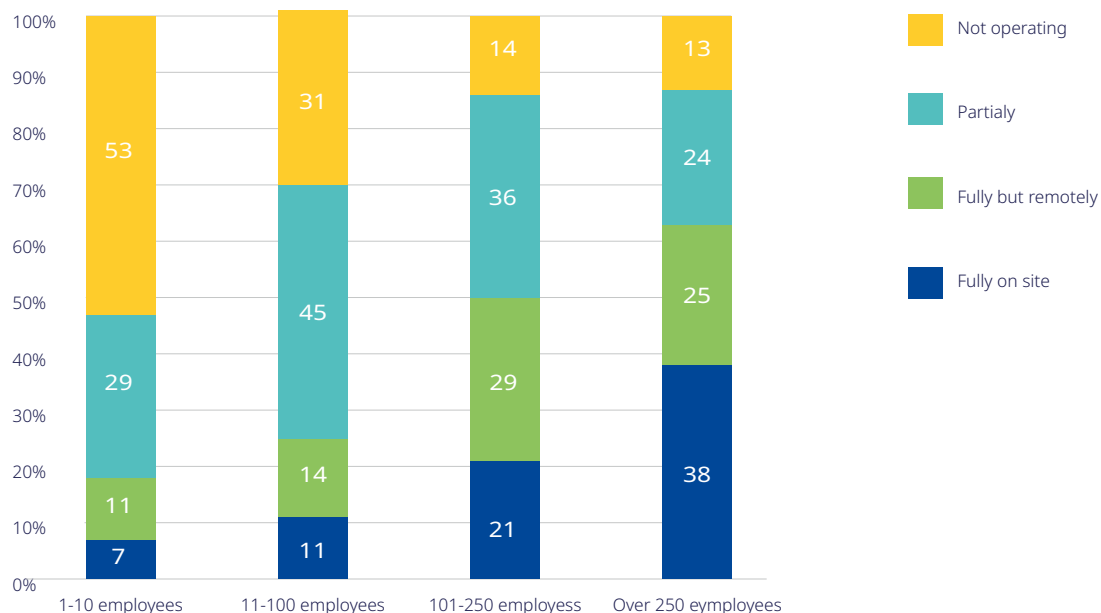


Source: EBRD Regional economic prospects – from shock to recovery, EC Spring 2020 Economic Forecast, WB Spring forecasts, IMF World Economic Outlook: The Great Lockdown.

In April 2020, the tax administration collected revenues amounting to EUR 69 million. This is almost 27 per cent (about EUR 25 million) less than in April 2019. This reduction is due mainly to lower personal income tax revenues and compulsory social insurance contributions, which registered a decrease of about EUR 23 million compared with the same period last year, because of the deferral granted by the Government as one of its first economic relief measures. On the other hand, the collection of VAT continued to grow in April, amounting to EUR 17.4 million, which is about EUR 2 million more than in April 2019. This means that, despite the difficulties due to the pandemic, the total taxable turnover in the economy was not reduced, but was redirected toward the activities operating during that period. Furthermore, corporate income tax revenues increased by some 12.7 per cent (about EUR 1 million) compared with the same month in 2019. In the first quarter of 2020, total tax revenues amounted to EUR 281.8 million, which is 7.2 per cent (EUR 19 million) more than the same quarter in the previous year.

The reduced volume of economic activity had contributed to the reduction of total employment in the country, in terms of both number of jobs and aggregate hours of work. Certain jobs were curtailed only temporarily, while others will be lost for good. The analytics in Section 4 provide some guidance on labour vulnerabilities in specific sectors and the enterprises at risk. The global estimates from the ILO’s now-casting model show that the crisis is shrinking economic activity and working time to an unprecedented extent. As of 1 May 2020, estimates for the Western Balkans indicate that working hours will decline in the current quarter (Q2) by around 11.6 per cent. For the purpose of illustration, applying this ratio to Montenegro would imply a loss of 31,030 full-time jobs (assuming a 40-hour working week). Many of these workers will face a loss of income and deeper poverty, even if substitute activities can be found (such as survival agriculture in rural areas or casual, platform work).

According to the MEF enterprise survey, the Covid-19 pandemic has affected 90 per cent of businesses. The most affected were, as expected, micro and small enterprises. Every second company with fewer than ten employees, as well as almost every third company with 11 to 100 employees, was closed during the lockdown. On the other hand, large companies showed greater resilience during this phase of the crisis, and only 13 per cent of them ceased operations (Figure 3.3).

Figure 3.3 Business organization during the Covid-19 lockdown, by size (in %)

Source: Enterprise Survey. MEF, ILO, EBRD (2020).

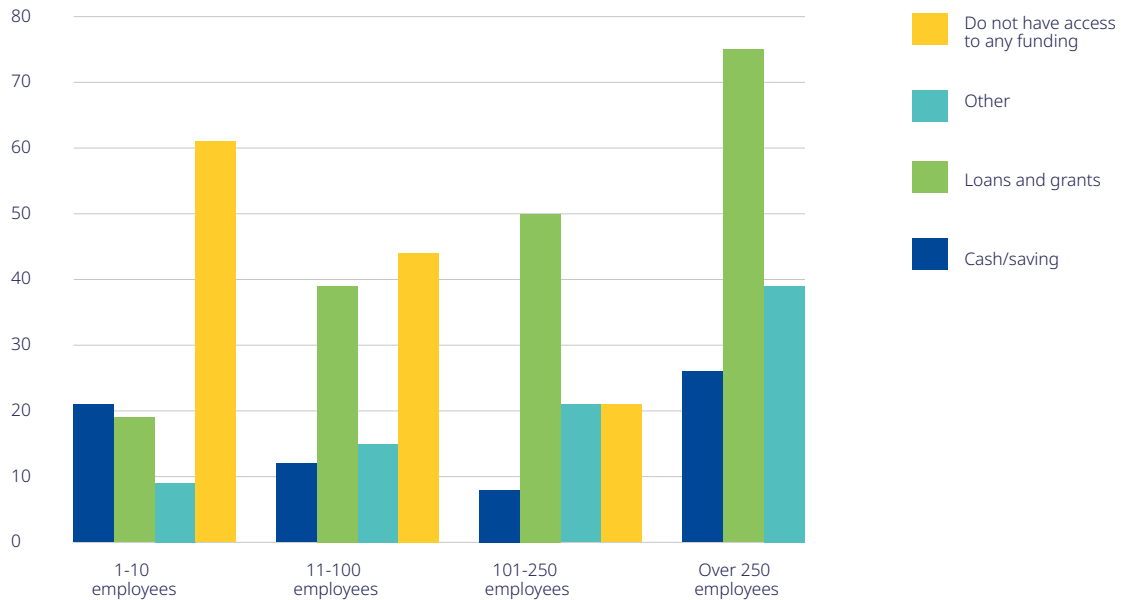
Continuation of the lockdown would not be sustainable for 98 per cent of companies. Almost 10 per cent of respondents indicated that they would not be able to sustain operations for more than a week; 17 per cent of companies estimated that they would be able to survive under lockdown conditions for six months overall; and 9 per cent of companies noted that they could sustain the situation for longer than a year. The businesses most susceptible to the crisis were crafts (29 per cent of businesses would close in less than a week), and among companies in the hospitality and transport sectors, where 22 per cent and 20 per cent of companies, respectively, would be sustainable for less than seven days under prolonged lockdown conditions.

While around 28 per cent of companies indicated that they would be able to reopen in less than one month, around one-third would need one to three months to restore their operations. To become fully operational, however, almost half (47 per cent) would need more than three months, and almost a quarter (23 per cent) more than six months. Companies in transport, trade and tourism signalled higher vulnerability in this respect, as around 40 per cent would need more than six months to restore their operations.

In order to mitigate the consequences of the pandemic, 58 per cent of companies have implemented extraordinary actions, changing their business model or business organization. In addition, seven out of ten companies came up with a business continuity plan.

About half of the respondents noted that they do not have access to financial resources to overcome the challenges generated by the Covid-19 crisis. On the other hand, 16 per cent of companies pointed to savings as a source of financing, while 29 per cent would need to access loans or grants.

Figure 3.4 Companies' access to finance, by size (in %)



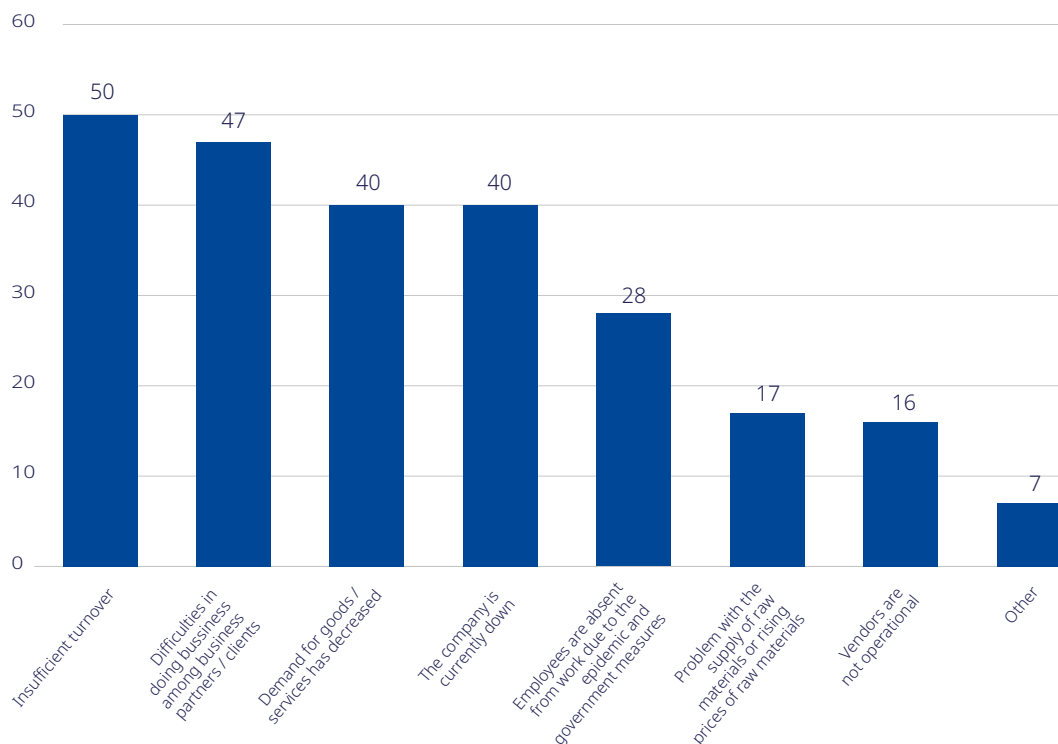
Source: Enterprise Survey. MEF, ILO, EBRD (2020).

As company size increases, so does the possibility to obtain loans or grants or other sources of funding. Micro companies face the biggest challenge in accessing finance: 61 per cent do not have access to any funding source and would have to rely mainly on cash and savings (21 per cent). Around 80 per cent of large companies have access to credit, and just over a quarter of this group of companies have cash and savings. With regard to sector, 72 per cent of companies in hospitality and 38 per cent of companies in tourism complained of a lack of access to finance.

According to the enterprise survey, 10 per cent of economic entities have already reduced their workforce due to the Covid-19 crisis. Among them, the largest share (54 per cent) reduced staff by less than 10 per cent, and one-third of companies by over 30 per cent. Given that micro-enterprises tend to be family or quasi-family businesses and the prevalence of own-account workers among them, it is not surprising that very few (8 per cent) laid off workers and only half more than 30 per cent. About 12 per cent of companies employing 11 to 100 employees noted that they had implemented lay-offs. In terms of sector, enterprises operating in trade (16 per cent), tourism and hotels (15 per cent), and catering (11 per cent) stated that they had already laid off workers, while companies in the transport sector responded that they had not cut staff yet.

About 81 per cent of respondents do not plan to reduce their workforce. Among those that do plan to downsize, however, one-third would have to lay off more than 30 per cent of workers and half less than 10 per cent. There are plans to reduce staff mainly among companies employing between 11 and 100 people (23 per cent). Almost 60 per cent of them plan a reduction, albeit by less than 10 per cent. Around 19 per cent of companies operating in the hotel and tourism sector, catering (17 per cent), trade (16 per cent), transport (15 per cent), services (12 per cent), and crafts (11 per cent) plan to lay off workers.

Figure 3.5 Problems faced by enterprises due to the Covid-19 pandemic (multiple choices allowed)



Source: Enterprise Survey. MEF, ILO, EBRD (2020).

Enterprises identified several common challenges, including lack of turnover (50 per cent), vulnerability of business partners (47 per cent), declining demand for products or services (40 per cent) and disruption due to containment measures (40 per cent). These problems are equally troubling across all categories of enterprises. Micro-enterprises most often pointed to the lockdown as the major challenge to their business, while large enterprises identified the reduced demand for their goods or services as the most pressing problem.

3.2 Indirect effects due to regional and global interdependence

Montenegro, as a small, open economy, is largely dependent on tourism and foreign capital inflows. It is highly integrated and interdependent with the economies of the Western Balkans, as well as with the EU, and the rest of the world. Lockdowns in these countries cut trade and transport flows even before Montenegro introduced its own restrictive measures. Therefore, the successful containment of Covid-19 in Montenegro would not bring back full normalcy for businesses and people alike, as long as the country's main economic partners are affected. The Covid-19 crisis is exposing Montenegro's compounded vulnerability to external shocks.

The economy will suffer from a steep decline in tourism (which accounts for approximately 20 per cent of GDP), as well as other sectors linked to it (retail trade, transport and construction). In 2019, Montenegro realised a surplus of EUR 1.02 billion in the international exchange of services (8.9 per cent higher compared with the previous year).³⁴ Health concerns, however, will make international travel costlier and

³⁴ It should be noted, nevertheless, that a significant share of seasonal work in tourism in Montenegro is performed by foreign workers. In 2019, 27,634 work and employment permits for foreigners were issued (15,582 within the quota and 12,052 outside the quota). Of the total number of permits issued to foreigners within the quota, 80.3 per cent were issued for general employment (12,513), and 19.7 per cent for seasonal employment (i.e. 3,069 permits).

riskier for many tourists in 2020, which plays into the strategy of many countries to promote domestic tourism and travel to support their own ailing economies. Additionally, remittances may substantially decline due to job losses in host European Union countries and in the United States, together with the reduction of seasonal work opportunities for Montenegrin nationals.³⁵ Restrictions on travel and a sharp decline in economic activity will affect Montenegrin migrants who work short term, often without work permits (on tourist visas) in the EU and other high-income countries. This will strain the earnings of many households, given that remittances have a very significant amortizing impact on the Montenegrin economy, and their inflow has been fairly stable (almost 11 per cent of GDP in 2018).

The decline in tourist activity may result in a slowdown and suspension of the implementation of infrastructure projects in the coastal region, too. Because Montenegro is also highly dependent on foreign seasonal workers in the construction sector, their reduced availability during and after the pandemic will probably slow down construction activities. A case in point is the construction of the Bar-Boljare highway, which has had to be delayed due to travel restrictions. A considerable number of workers from China are engaged in this project. The situation also affects domestic workers, however, whose work complements and is conditional on the activities of the Chinese workers.

The EU, Montenegro's main trading partner (around 47 per cent of trade volume) is experiencing a serious and prolonged crisis due to Covid-19. As of April 2020, the economic outlook of Montenegro's top five trading partners was projected to be negative (with the exception of China), with some recovery expected in 2021. This will probably determine a similar trend in Montenegro (sharp decrease in 2020, with a partial recovery in 2021).

Table 3.1 Shares in trade and estimated GDP changes among the main trade partners

	Share in trade*	2020 (est.)	2021 (est.)
Serbia	20.1%	-3	7.5
Germany	8.6%	-7	5.2
China	7.9%	1.2	9.2
Italy	6.6%	-9.1	4.8
Bosnia and Herzegovina	6.5%	-5	3.5

Source: *MONSTAT data for the first eleven months of 2019, IMF forecasts, April 2020.

Declining demand in partner countries will further reduce the export of goods from Montenegro, despite the growing trend during previous years. This will certainly lead to a reduced level of production, or increased inventories among the largest export-oriented companies.

Table 3.2 Reduction in international trade in March 2020 (in %)

	Annual change	Monthly change
Trade volume	-11.3	-0.4
Export of goods	-18.5	-9.0
Import of goods	-10.2	1.0

Source: MONSTAT.

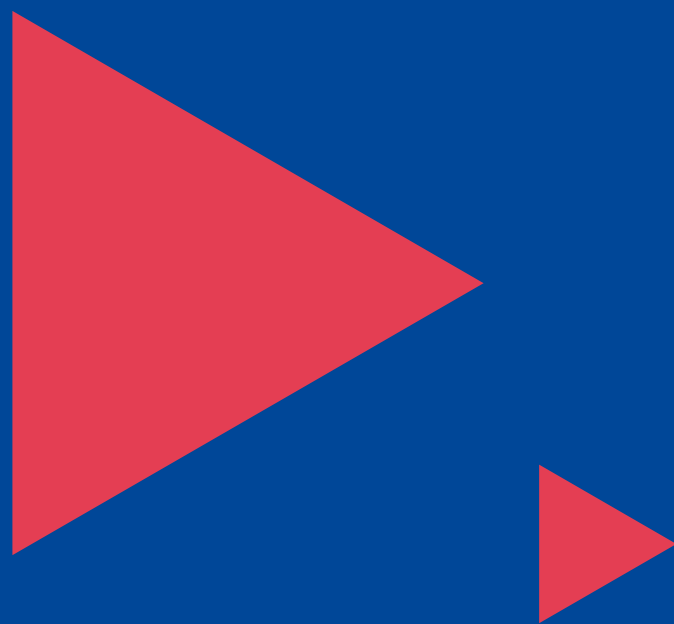
³⁵ Many Montenegrins work seasonally as sailors and staff on cruise ships. Generally, no accurate data are available on Montenegrins going abroad for seasonal work. The Union of Seafarers of Montenegro has tried to consolidate data jointly with the Harbour Master's Office and confirmed that about 7,000 seaman service books have been issued in total.

Along with the decline in economic cooperation between countries at the global level, activities aimed at attracting FDI have slowed down significantly, too. Since the outbreak of the pandemic, many countries have turned to inward-looking measures to support domestic production. Before the crisis, Montenegro had the highest share of FDI in GDP among its regional peers, and the net FDI inflow continuously recorded positive growth rates. In 2019, net FDI inflow increased by 6.9 per cent, year on year, amounting to EUR 344.7 million. Signs that capital flows were slowing down were already present, however: the positive rate of net FDI inflow was the result of a lower decrease of FDI inflow rather than the decrease of FDI outflow. In 2019, FDI inflow amounted to EUR 770 million, 10.3 per cent lower than in 2018. Due to unfavourable global economic trends, in the following period one can expect a further decline in FDI inflow.

On the side of public policy, action is constrained by the lack of monetary policy tools to buffer shocks, and the already high public debt. Montenegro faced fiscal sustainability problems and high levels of public debt well before the Covid-19 crisis. It is clear now that both the internal and external position of the country will come under increased pressure. For instance, it was already expected that the building of the Bar-Boljare highway, once seen as an engine of growth likely to boost employment and development in the northern region, will have to be slowed down after the completion of the first phase by the end of 2020. Similar delays or diversions in other investment and infrastructure projects will represent further drags on recovery and growth.

▶ 04

- ▶ **Transmission to the labour market**
-



The Covid-19 pandemic hit Montenegro following a couple of years marked by strong GDP growth and a moderate acceleration in job creation. The ILO nowcasting model shows an employment contraction in the Western Balkan economies during the first quarter of 2020 estimated at a 1.5 per cent decline in working hours. This target variable reflects both lay-offs and other temporary reductions in working hours. The estimated loss of working hours for quarter 2 is 11.6 per cent.

Unemployment is clearly not the best indicator of the immediate labour market impact of the crisis.³⁶ The ILO suggests considering the number of working hours lost every week due to the crisis and then transforming this information, for the purpose of illustration, into full-time equivalents (FTE). The short-term impacts are likely to be extremely bad, as many economic activities had to stop completely, while others operate at reduced capacity. Importantly, though, not all workers who stopped working in the early days of the crisis are unemployed. Some employers have opted to continue paying their workers, hoping that the worst of the crisis would be over soon. As noted in Section 3, in Montenegro the employers' immediate response has tended to focus on shorter working hours, paid annual leave and telework.

Table 4.1 Working hours and FTE jobs lost in the Western Balkans

Quarter	FTE jobs lost (40 hours)	FTE jobs lost (48 hours)	Percentage of hours lost
2020 - Q1	100 000	85 000	1.5
2020 - Q2	810 000	675 000	11.6

Source: ILO Nowcasting model.

On the assumption that the Western Balkans average is an appropriate approximation of the number of hours lost in Montenegro, the estimated number of FTE jobs lost in quarter 2 is 31,030. This should not be considered to be the actual number of jobs lost, however, given how the crisis has impacted workers and enterprises in Montenegro (as elaborated in Section 3) and the fact that employment retention measures were announced and undertaken relatively early during the lockdown. Unemployment, particularly registered unemployment, and other related indicators will play a more significant role in guiding policy decisions during the reactivation and recovery phases. Between the beginning of the year and the end of May 2020, the number of unemployed individuals registered at the Employment Agency of Montenegro (EAM) increased by only 4,578 (53 per cent of them women). Nevertheless, it is important to note that, in April, registered unemployment increased by 6.2 per cent compared with the same month in 2019 and jumped by over 4,500 (57 per cent of them women) compared with March 2020. For May 2020, the EAM paid cash benefits to 12,108 unemployed, a declining trend since the beginning of the year. This relative "lack of response" of unemployment benefit to the crisis could be partially explained by the generally limited coverage of unemployment benefits in Montenegro and an overall delayed adjustment of employment indicators to the crisis.

4.1 Beyond unemployment: workers and enterprises at risk

This section builds on the methodology used in the ILO Monitor on Covid-19 and the World of Work.³⁷ Based on real-time economic and financial data, the impact of the crisis on economic output can be assessed at the sectoral level. Some of the results of the enterprise survey conducted by the employers' organizations are used to calibrate this assessment. The next section provides estimates of work and enterprises at risk, based on the identification of the sectors most vulnerable to severe declines in economic output.

³⁶ ILO Monitor: Covid-19 and the world of work. Second edition (14 April 2020).

³⁷ Available at: <https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/lang--en/index.htm>

4.1.1 Mapping labour vulnerabilities at sectoral level

The mapping of labour vulnerabilities at sectoral level takes into consideration all 21 sections³⁸ of the economy. A number of factors are used to determine the relative vulnerability of each sector in terms of exposure to negative shocks. These factors include the incidence of self-employment and informal employment; the precariousness of contracts (with special consideration for temporary and part-time work); and the presence of micro-enterprises (up to 10 employees). Aggregate labour vulnerability of sectors is estimated with a five-point granularity: low; low-medium; medium; medium-high; high. Overall, eleven sectors are considered medium-high or highly vulnerable to the shocks generated by the crisis, representing around 68 per cent of total employment (Table 4.2). When gender and age dimensions are taken into consideration, the total share of employment remains unchanged, but an intensification of vulnerability (from medium-high to high) occurs, especially in relation to the age-related vulnerability of these sectors. The latter is a reflection of the high incidence of young people in precarious jobs.

Women, who account for 81 per cent of jobs in the health and care sector in Montenegro, are in the frontline of the crisis, and are also overrepresented in the informal service sectors and in labour-intensive manufacturing sectors. When the gender dimension is taken into consideration, 38.8 per cent of employment immediately falls into high-vulnerability sectors,³⁹ nearly three times the number of jobs that were considered highly vulnerable in the initial scenario.

Table 4.2 Labour vulnerability of sectors to shocks

	Total vulnerability		Gender-related vulnerability		Age-related vulnerability	
	# sectors	Share of employment (%)	# sectors	Share of employment (%)	# sectors	Share of employment (%)
Low vulnerability	3	3.0	3	3.0	3	3.0
Low-medium vulnerability	6	23.3	4	16.5	4	19.5
Medium vulnerability	1	5.5	3	12.2	2	7.6
Medium-high vulnerability	7	54.1	5	29.4	3	14.9
High vulnerability	4	14.1	6	38.8	9	55.0

Source: Author's calculations based on the LFS.

With regard to age-related vulnerabilities, this first edition of the Rapid Assessment only looks at the specific vulnerabilities of young people (15–29 years of age) in the labour market. It adjusts the analysis of sectoral vulnerabilities by taking into consideration the findings from the previous global crises about factors that make youth employment pro-cyclical, including a higher SME share of employment (ILO, OECD, IMF). Further iterations of the report should also take into consideration the heightened vulnerabilities of older workers during this health crisis.

Annex 1 provides a detailed mapping of sectoral labour vulnerabilities.

³⁸ This refers to a one-digit classification of economic activities within the NACE framework (NACE Rev. 2).

³⁹ For the purpose of sectors' vulnerability profile, a sector is considered female-dominated if the share of women exceeds the median share of women in the sectors economy-wide. This results in more accurate estimates, as women face lower employment and higher unemployment and inactivity rates than men. The same logic applies when the analysis introduces age-related considerations.

4.1.2 Work and enterprises at risk

The approach taken here to identifying work and enterprises at risk in specific sectors is similar to that of the previous section. In addition to the sectoral distribution of economic units, the analysis also considers different types of enterprises (employers and non-employer enterprises⁴⁰ or own-account workers), along with employment by size of economic units. More than half of all employers and non-employer enterprises⁴¹ in Montenegro are in hard-hit sectors. These sectors include varying degrees of informality and the policy space to respond to the needs of such enterprises is currently limited, or non-existent.

Workplace closures have an immediate and severe impact on enterprises' operations and leave them at high risk of insolvency. Even once containment measures are lifted, surviving enterprises will continue to face challenges. Multiple sources point to the fact that the recovery is likely to be uncertain and slow. For enterprises that are engaged in global supply chains, disruptions to suppliers and consumers in other countries will continue to suppress demand for their goods. Returning to business operations as usual is likely to require significant adjustments with cost implications, including securing safe working environments. Unless tackled by effective policies, these new requirements are likely to put a severe strain on enterprises.

Based on a survey of 335 companies, the relative shock impact is determined for 17 sectors out of the 21 defined in the previous section.⁴² For instance, companies were asked, "If the current restrictions continue, how long can your business continue to operate?", on a scale from 1 (less than a week) to 7 (no impact); and "Assuming that the Covid-19 crisis will last until 30 June 2020, to what extent do you anticipate that your revenues will drop? Please select the appropriate range of revenue decline", on a scale from 1 (no revenue decrease) to 6 (over EUR 500,000). A statistical algorithm produced a (1–5) scale response, ranging from 1 (no impact) to 5 (full impact), which was further adjusted to take into account whether the enterprise closed fully, closed partially or continued operating (remote or on-site). Table 4.3 shows that the majority of one-digit sectors reported a medium impact (35.3 per cent), followed by those reporting a medium-high impact (23.5 per cent), while two sectors reported a high impact. It should be noted, however, that the impact levels are sector-specific averages.

Table 4.3 Impact of the Covid-19 pandemic at sectoral level

		Risk					Total
		Low	Low-medium	Medium	Medium-high	High	
Vulnerability	Low	0	1	1	0	0	2
	Low-medium	1	1	2	1	1	6
	Medium	0	0	0	1	0	1
	Medium-high	0	1	2	2	1	6
	High	0	1	1	0	0	2
	Total	1	4	6	4	2	17

Source: Authors' calculations.

⁴⁰ For the purpose of this note, the term "non-employer enterprises" refers to independent workers without employees. This consists of owner-operators of corporations without employees and own-account workers in household market enterprises without employees, which are the official terms in the Resolution concerning statistics on work relationships, 20th International Conference of Labour Statisticians: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_648693.pdf

⁴¹ <https://www.monstat.org/userfiles/file/biznis%20registar/BROJ%20I%20STRUKTURA%20POSLOVNIH%20SUBJEKATA%20u%20%202019%20god.pdf>

⁴² Companies from four NACE Rev.2 sectors did not appear in the enterprise survey, namely: arts, entertainment and recreation; other service activities; activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and activities of extraterritorial organizations and bodies. In any case they employ only 5.6 per cent of the total workforce in Montenegro.

Table 4.3 also cross-tabulates exposure to and magnitude of the shock, on a five-level scale. The light-grey cells indicate the sectors that have been above medium-level vulnerable and above medium-level impacted by Covid-19, while the dark-grey cells indicate the same for the above medium-high ones. In this way, we arrive at 7 and 3 sectors, respectively. Table 4.4 reports that these employ 59.9 per cent and 33.7 per cent of total employed in Montenegro, respectively, which we consider to be the jobs at risk and at high risk, respectively, from Covid-19. It should be noted that the table identifies only mining and quarrying as low-medium vulnerable, but highly impacted, while real estate activities are highly vulnerable, but low-medium impacted.

Table 4.4 Impact of the Covid-19 at sectoral level (by share of employment)

		Risk				
		Low	Low-medium	Medium	Medium-high	High
Vulnerability	Low	0.0%	1.9%	1.0%	0.0%	0.0%
	Low-medium	8.4%	1.6%	7.6%	5.1%	0.6%
	Medium	0.0%	0.0%	0.0%	5.5%	0.0%
	Medium-high	0.0%	7.2%	10.7%	25.3%	8.4%
	High	0.0%	0.9%	10.0%	0.0%	0.0%

Source: Authors' calculations.

The three sectors that are highly exposed to and impacted by Covid-19 are as follows:

1. manufacturing;
2. wholesale and retail trade; and
3. accommodation and food service activities.

The following four are medium-high exposed:

4. transportation and storage;
5. construction;
6. professional, scientific and technical activities; and
7. administrative and support service activities.

In these seven sectors, 29,898 workers are self-employed and 34,221 workers work in micro-enterprises employing up to 10 workers. An estimated 46,618 have only a fixed-term contract. Hence, the cumulative number of workers at the highest risk of losing their jobs and incomes account for around 15 per cent of total employment in Montenegro.⁴³

The greater impact of the crisis on workers and micro-enterprises already in a vulnerable position in the labour market threatens to exacerbate working poverty and existing inequalities.

The ILO's global estimates show that informal workers' monthly average labour income would fall by 27 per cent in upper-middle-income countries, by 70 per cent in high-income countries and by 74 per cent in

⁴³ According to MONSTAT's latest Monthly Statistical Review (No. 5, 28.05.2020), total employment in Montenegro contracted by 4.2 percentage points during the first four months of 2020, compared with the same period in 2019. The reduction was driven by declines in agriculture, administrative and support service activities, manufacturing, accommodation and food services, and financial and insurance activities. Available at: https://www.monstat.org/eng/publikacije_page.php?id=1593

lower-middle and low-income countries. With further increases in income inequality among workers, an even greater proportion of informal economy workers will be left behind. Assuming a situation without any alternative income sources, lost labour income would result in an increase in relative poverty for informal workers and their families by more than 21 percentage points in upper-middle income countries, by almost 54 points in high-income countries and by 55 points among lower and low-income countries.

The Table in Annex 2 provides a cross-tabulation of the mapping of sectors' labour vulnerabilities and an assessment of the impact of the crisis.

4.2 Mitigating vulnerabilities: the role of labour market institutions

Since the beginning of the crisis, governments and social partners in countries with strong labour market institutions have had three main avenues for protecting jobs and workers' incomes. A first line of intervention is employment retention schemes, aimed at preserving employment while enterprises wade through the crisis. This includes different types of schemes, including job-sharing and voluntary reductions in working hours. Temporary income support schemes have also been used for workers who are not generally eligible for employment retention measures (self-employed and seasonal workers, workers in atypical forms of work). A second line of intervention is to expand support for workers who will lose their jobs due to the economic slowdown by temporarily relaxing eligibility criteria for unemployment benefit and jobseeker allowance. A third line of intervention is the expansion of social protection tools (such as social assistance and activation schemes) for persons and households that do not qualify for job retention measures and protection against unemployment schemes.

In line with some of the pathways illustrated above, the Government of Montenegro has adopted a series of temporary measures to prevent and mitigate the negative economic and social consequences of the crisis (see Annex 4 for a list of the measures and Section 5 for a review of the impacts). Delivery of these measures and schemes would, however, require investments in the efficiency and operational capacities of the Employment Agency of Montenegro (EAM), including better cooperation with other institutions, such as the Centre for Social Welfare and the Tax Authority. In the same vein, the Labour Inspectorate and trade unions are called upon to play a significant role in negotiating and monitoring safe return to the workplace, in partnership with the employers and their organizations, during the reactivation phase.⁴⁴

In Montenegro, labour law affords certain protections to workers in case of interruption of an employer's activity, without employee responsibility. Article 103 defines the relevant instances.⁴⁵ In these cases, workers receive compensation of 70 per cent of the average wage in the previous six months, or, if a worker receives the minimum wage, compensation equivalent to the minimum wage. This is in line with the stipulations in the general collective agreement. Such compensation can be paid for up to four months (according to labour legislation) or six months (according to the general collective agreement) within one year.

Workers who need to go into mandatory isolation or quarantine are also entitled to monetary compensation at the level of 100 per cent of the base wage.⁴⁶ Workers in companies closed by decree would be entitled to 70 per cent of the base wage, like all other workers in enterprises whose activities were

⁴⁴ Some resources are already available at: https://www.ilo.org/global/topics/safety-and-health-at-work/resources-library/publications/WCMS_745549/lang--en/index.htm

⁴⁵ The instances allowed by law include the existence of objective circumstances (lack of raw materials, breakdown of equipment); a prohibition decreed by a competent authority (such as the Labour Inspectorate or bodies in charge of health, and protection of general interest, such as the NKT); natural disasters; circumstances envisaged in the collective agreement.

⁴⁶ The Mandatory Health Insurance Act envisages 100 per cent wage compensation during a temporary impossibility to work, including in the case of quarantine. The Law on Protection of the Population from Infectious Diseases defines quarantine diseases as those infectious diseases whose agents are transmitted by air and contact and that have a high mortality rate. On 26 March 2020, the Ministry of Health adopted the Order declaring the "epidemic of the infectious disease Covid-19".

suspended.⁴⁷ Involvement of trade unions could help mitigate possible lack of trust among workers in the organization of return-to-work schedules.

Based on a review of the measures and the current legal framework, there are some categories of workers whose legal position requires additional attention during this crisis. These include: workers with fixed-term contracts; non-standard workers with temporary or occasional contracts; workers facing a unilateral decision by the employer to reduce working hours (and wages). In the Montenegrin legal system there is no obligation for the employer to extend the duration of such contracts in extraordinary circumstances. An exception is envisaged in labour law only for women during pregnancy and during maternity and parental leave. Contracts for temporary or occasional tasks can last 120 workdays at most during one year. For them, no special guarantees are envisaged in terms of the amount of compensation in case of interruption of operations without any responsibility of the employer. There are no other guarantees for the protection of their status.

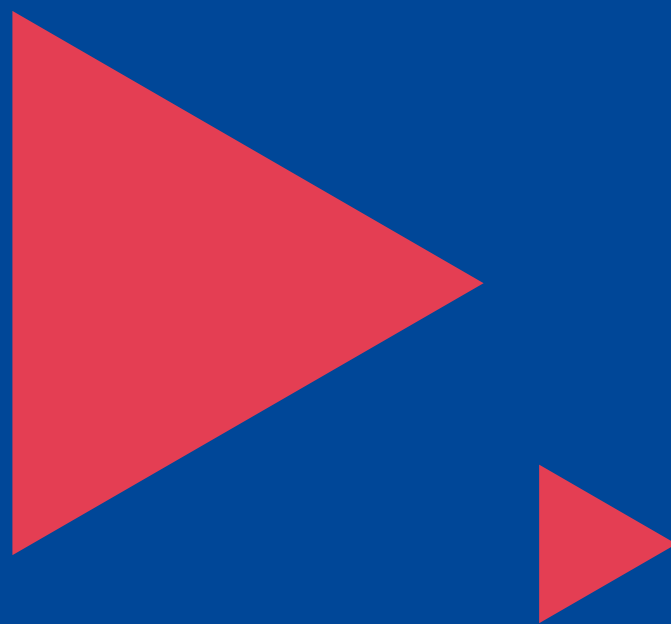
During the Covid-19 crisis, some workers have reported abuses in terms of employers implementing unilateral amendments that would reduce employees' contracts from full to less than full working hours. These would be cases in which the company's activities had not been suspended but simply the volume of work had declined. Employers used the possibility envisaged in labour law to offer their employees an annex to their contract "reducing" full working hours to less than full working hours, although such a possibility was not envisaged in their enactments on systematization.⁴⁸

⁴⁷ Except in cases in which the isolation was imposed before the suspension of the company's activities.

⁴⁸ Labour law defines the conditions under which full working hours can be reduced, namely, when the enactment on systematization envisages the option of work with less than full working hours for that particular position; and if the employee accepts the offered annex to the contract. According to the law, if the employee does not accept the offered annex, the employer is not allowed to dismiss the worker.

▶ 05

▶ Policy responses and gaps



5.1 Overview of the policy response⁴⁹: four key pillars based on international labour standards

As of 1 June 2020, the Government of Montenegro adopted several sets of policy measures to mitigate the impacts of Covid-19 on the economy and the world of work. A summary is included in Annex 4; policy measures are organized around four pillars based on international labour standards. The ILO uses this framework to structure dialogues on policy responses at the global level. Naturally, some policy measures cut across several pillars and are mutually reinforcing. Furthermore, as noted in Section 1, the relative effectiveness of some aspects of the policy packages depends on their coming to fruition during the right phase of the crisis.

Figure 5.1 Covid-19 and the world of work: policy responses



Source: ILO, 2020.

In order to facilitate cross-country comparison, some ongoing research (Bruegel University, IMF) structures discretionary fiscal responses to Covid-19 into three categories: immediate fiscal impulse, deferrals and other liquidity provisions and guarantees.⁵⁰

⁴⁹ This review considers only adopted measures. Other measures under discussion will be added to the analysis when adopted.

⁵⁰ Immediate fiscal impulse: additional government spending (such as medical resources, keeping people employed, subsidising SMEs, public investment) and forgone revenues (such as the cancellation of certain taxes and social security contributions). Deferrals (in principle should be paid back later): payments, including taxes and social security contributions, servicing of loans, the payment of utility bills (even if the loans were granted by private banks and utilities are provided by private providers). Other liquidity provisions and guarantees: these measures include export guarantees, liquidity assistance, and credit lines through national development banks. <https://www.bruegel.org/publications/datasets/Covid-national-dataset/>

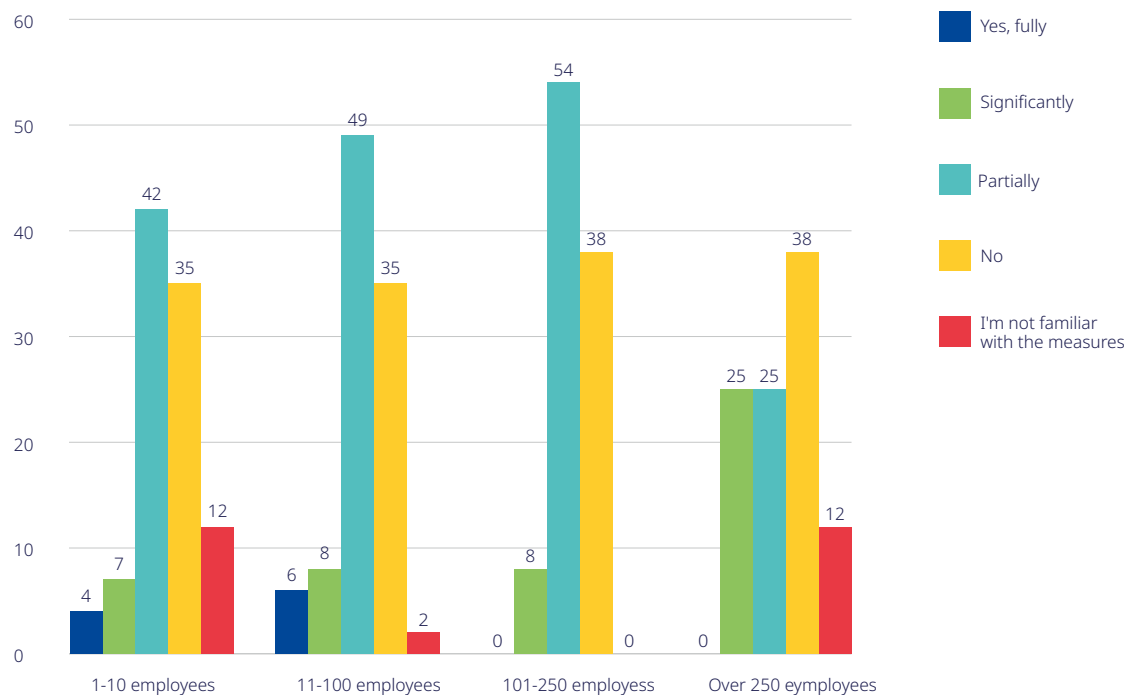
Table 5.1 Discretionary fiscal response (as of 31.05.20)

	Total pledged (% of 2019 GDP)	Total actual (% of 2019 GDP)	Immediate fiscal impulse (million EUR)	Deferrals (million EUR)	Other liquidity/ guarantees
WB-6	tba		tba	tba	tba
Montenegro	3.6	1.27 ⁵¹	34.6 ⁵²	28 ⁵³	No information to date
North Macedonia	5	tba	60	Limited information to date ⁵⁴	No information to date

Source: Authors' elaboration.

As of 1 June 2020, the Government committed itself to and disbursed cash support to enterprises and individuals in the amount of 0.64 per cent of GDP. Around EUR 34.6 million were allocated to employment retention subsidies for April and May and one-off assistance to the identifiable vulnerable groups within the population. There were also deferrals of payment of tax and non-tax claims in the amount of EUR 28 million (0.57 per cent of GDP).

According to the enterprise survey, only 5 per cent of companies responded that measures announced by the Government fully satisfied their most urgent needs. Around 45 per cent of respondents noted that their needs were only partially satisfied, while 35 per cent of them claimed that the announced measures did not satisfy their needs. Larger companies are even more unsatisfied with the current packages of measures.

Figure 5.2 Do support measures announced by the Government satisfy your most urgent needs? (share by size)

Source: Enterprise Survey. MEF, ILO, EBRD (2020).

⁵¹ Amount includes sum of subsidies, assistance to individuals and deferrals.

⁵² Total amount of subsidies for enterprises and assistance to individuals.

⁵³ Since implementation commenced of the Decree on the conditions for the disposal of tax and non-tax claims, taxpayers have been able to defer liabilities in the amount of EUR 28 million (as of May 11); Source: Tax Administration of Montenegro.

⁵⁴ Only preliminary data are available at the time of writing.

In addition, the enterprise survey provided an opportunity for companies to rank the type of support that would help them the most in overcoming the current challenges. The temporary reduction of tax rates and social contributions on wages, and release from the obligation to pay other contributions related to wages take priority. The request is that this support continue for some time also after the lockdown. Next in line is the postponement of deadlines for paying taxes, as well as for paying all tax liabilities incurred since the beginning of the Covid-19 crisis, with the possibility of payment in up to 24 instalments. In third place is wage subsidies to employers who have temporarily ceased operations in accordance with the measures implemented by the Government, employers whose employees have been subjected to self-isolation or quarantine, as well as employers whose employees have taken out leave to care for children under 11 years of age. This measure allows employers to introduce part-time working, with a proportional reduction in wages over the period of Covid-19 crisis, as well as providing access to interest-free loans with a grace period of no less than 12 months, with the provision of “soft” collateral or guarantees from the state or local government.

With regard to key measures aimed at protecting jobs, Montenegro has implemented a set of employment retention measures. The following two measures are by far the most consequential:

1. Employment retention subsidy to private sector employee and non-employee enterprises whose operations were either suspended due to the pandemic or belong to specified sectors within the National Classification of Economic Activities whose normal operations were blocked due to the pandemic. The subsidy is fixed per employee and amounts to 100 per cent of net minimum wage and of related taxes and social contributions, that is, EUR 364 per month. The subsidy is granted for April and May, provided that the number of employees remains the same as in February 2020. There is no condition to retain employees beyond May 2020.
2. Employment retention subsidy to private sector employee and non-employee enterprises belonging to specified sectors within the National Classification of Economic Activities whose operations were strongly negatively affected due to pandemic. The subsidy is fixed per employee and amounts to 50 per cent of net minimum wage, related taxes, and social contributions, that is, EUR 182 per month. The subsidy is given for April and May, on condition that the number of employees remains the same as in February 2020. There is no condition to retain employees beyond May 2020.

Additionally, a newly-introduced job creation subsidy extends from April through October, but it requires firms to increase employment. The Ministry of Economy designed this measure to incentivize job creation after the lockdown. Job creation subsidies are provided to companies that have not reduced their workforce compared with February 2020 and have employed additional workers (from the unemployment register) for a period of six months, starting from 1 April 2020. As for other subsidies, the condition for receiving this subsidy is the regular settlement of tax obligations. This is a lump sum subsidy, and its amount is fixed at the level of 70 per cent of total labour costs (net wage and all social contributions) for the minimum wage. The subsidy for new employees is granted for a period of six months, provided that the company keeps the subsidized employees (or their replacements) for at least 12 months after the expiration of the measure, while at the same time not reducing the total number of employees. Public sector institutions and firms, as well as financial and insurance companies are not eligible.

Measures thus far have targeted almost exclusively those visible to the social protection system, that is, the “old” poor and “old” vulnerable, and, in all but one instance, those among them with a pre-Covid-19 record of cash benefits. These measures include the following:

1. One-off assistance of EUR 50 to pensioners in the lowest pension bracket. In total, 11,957 pensioners were to receive this lump sum assistance, for a total of around EUR 600,000. In addition, the same amount of assistance was granted to pensioners who receive part of their pension in Montenegro and part from abroad, if their cumulative pension amount was below the minimum pension. On that basis, 5,676 pensioners received the EUR 50 lump sum (in total EUR 288,350).
2. One-off assistance of EUR 50 to households benefitting from social assistance. The number of eligible households in February 2020 was 8,583 and thus the amount of this income support measure totalled EUR 429,150.
3. In May, a one-off assistance of EUR 50 was granted to all registered unemployed persons who were not eligible for the unemployment or social assistance cash benefits. In total, 17,078 unemployed persons received this one-off assistance, for a total of EUR 853,900.
4. The Government decided, through the Special Support Programme to Agriculture and Fisheries, to pay additional non-contributory old-age benefits in agriculture of EUR 64.41 to 3,419 beneficiaries, making a total amount of around EUR 440,000.
5. Subsidies of electricity bills owed to the Montenegrin Electricity Enterprise to socially disadvantaged households. In total, 20,892 households are entitled to this subsidy for three months.

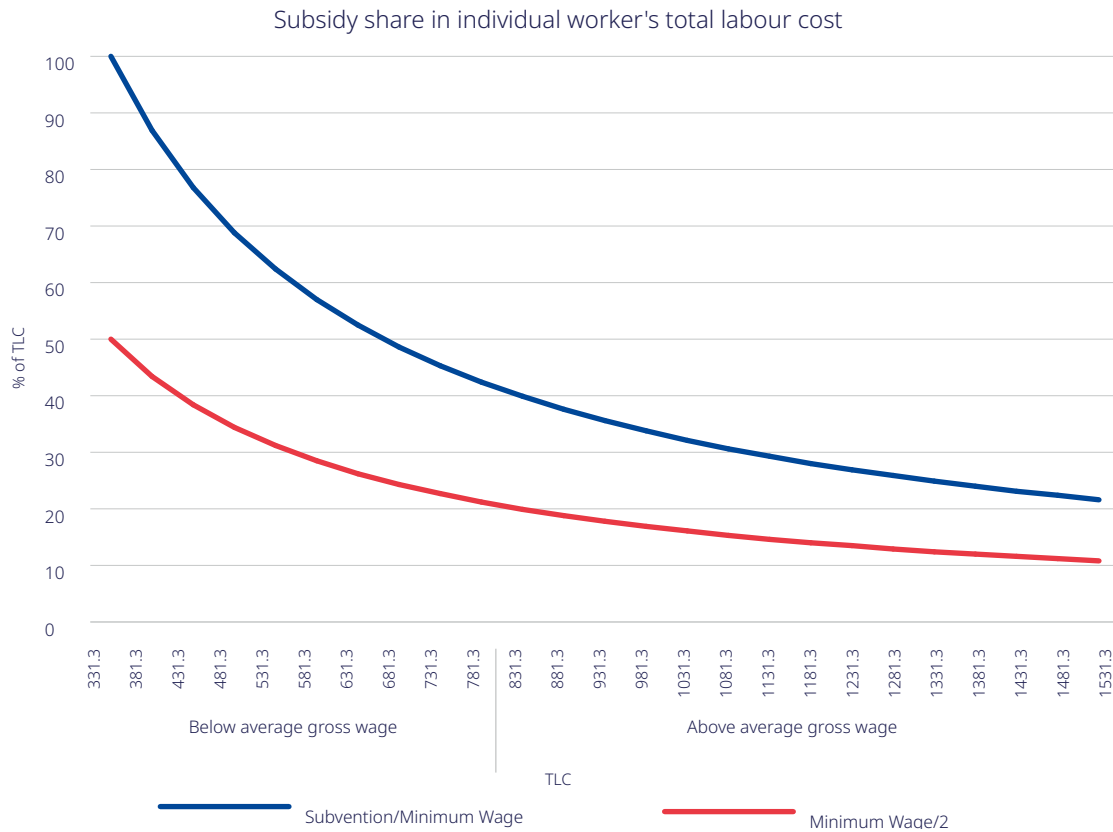
The amounts spent thus far are relatively modest and do not extend beyond those who are already covered, however modestly, by the social safety net, with a single exception of registered unemployed without other forms of financial support, as described under point 3 above.

5.2 Winners and losers in the current phase of the crisis

The ILO/EBRD Task Force has carried out a preliminary analysis of the policy response implemented in Montenegro during the lockdown phase. The review focused on the measures aimed at supporting enterprises, jobs and incomes. It considers: (i) the intensity of the impact of the measures, and (ii) the differentiation and distributional impacts of the policy package.

For ease of understanding, the rules of the employment retention schemes are presented in Figure 5.3 below.

Figure 5.3 Generosity of employment retention schemes for individual workers along the wage distribution



Source: Authors' elaboration.

Figure 5.3 shows that the share of subsidy in the total labour costs of individual workers receiving the minimum wage is exactly 100 per cent for suspended activities and 50 per cent for affected activities. The fixed amount of subsidy per worker has the consequence that, as the wage increases, the share gradually declines, but remains substantial at the level of the average wage (EUR 784 gross), covering approximately 42 per cent of total labour costs for prohibited, and 21 per cent for affected activities. Given Montenegro's perfectly proportional labour taxation rules, at double the average wage, the subsidies drop to around 21 per cent and 10.5 per cent, respectively.

The above analysis implies that the employment retention measures are, overall, progressive: that is, the highest intensity of support is provided for workers and firms at low-wage levels. This is desirable for both empirical and theoretical reasons. Low-wage firms are to be found more frequently in more affected high-contact sectors. Similarly, micro and small firms are more often more severely affected, have lower wages and have higher shares of vulnerable categories of workers than larger firms. From comparative research, it is also well known that low-wage occupations have fewer tasks that could be done from home or without direct interpersonal contacts. And finally, from the strictly theoretical standpoint of efficiency, if maximizing the number of retained jobs with the resources available is defined as the ultimate goal of employment retention measures, then the most efficient way to achieve that is through the lump sum subsidy, because this maximand has no weighting.

On the other hand, these measures have some problematic aspects. The economic damage that firms experienced during the acute pandemic phase is not judged on an individual basis, but in terms of their

belonging to certain categories of economic activities. This means that these two employment retention subsidies are prone to both exclusion errors (by excluding heavily affected firms in sectors not listed as affected) and inclusion errors (by subsidising unaffected or lightly affected firms belonging to sectors listed as affected). Admittedly, this still might be a rational compromise between a rather time-consuming individual administration of subsidies based on the evidence of lost revenues (as in North Macedonia) and almost completely indiscriminative support (as in Serbia).

As of 31 May,⁵⁵ the Ministry of the Economy had approved 14,469 subsidy applications. These subsidies cover a total of 61,402 employees, at a cost of EUR 16.3 million (or EUR 265 per worker). The coverage of these measures is around 45 per cent of all private sector wage workers. They make up some 13.8 per cent of the total labour costs (macroeconomic wage bill).

Table 5.2 Subsidy share in total formal wage bill

	Formal wage bill (month/million EUR)	Cost of the job retention package (est. month/million EUR)	Coverage of the private sector workforce (%)	Subsidy (%)	Subsidy (adjusted) (%)
WB-6	tba	tba	tba	tba	tba
Montenegro	162.3	16.3	45	13.8	n.a.
North Macedonia	385	33–44	35	8–12	4–6

Source: Authors' own elaboration.

Another important weakness of the current employment retention measures is that, despite being relatively expensive and generous, they do not require that firms retain the same number of workers beyond May. This is rather different from the arrangements in the other Western Balkan economies.

Making receipt of the subsidy conditional on retaining the same level of employment for, for example, two more months (June and July) would have been a perfectly reasonable requirement. There might be some legalistic reasoning behind the measure providing 100 per cent coverage, in the sense that it is not a true subsidy, but compensation for having had to suspend activities completely during the lockdown. A flat subsidy or compensation of EUR 364 per month per worker, however, is nevertheless not full compensation for any worker earning more than the minimum wage.

Now that these employment retention measures have reached their time limit, there is already a sense of urgency as regards designing new measures to fill a potentially dangerous void. Thus, there may be a need to establish another measure, slightly prolonged over time, and to condition the subsidy to achieve longer worker retention.

Furthermore, a preliminary review of the job creation subsidy indicates that it may not be a very promising avenue if implemented as an isolated, all-purpose measure to retain employment after May 2020. Within a carefully crafted labour market policy portfolio, including new worker retention measures, as well as active labour market measures aimed at reinvigorating school-to-work transition and youth participation in the labour market, the job creation subsidy might otherwise prove useful.

Besides the obvious losers (high-risk and poorly protected groups) in the lockdown phase, currently there are also less visible individuals and groups who will face increased difficulties making ends meet or pursuing a career path as the economy lingers in the post-lockdown pre-vaccine phase, which may last between one and two years from now. Probably the largest and most affected groups will be young people and women.

⁵⁵ The amounts noted here are based on data until the end of April 2020.

Young people are especially vulnerable during economic crises because they face multiple challenges: if employed, their jobs are typically protected only by weak, if any, employment contracts, while if they are unemployed, the number of decent jobs shrinks alongside increased competition, including from prime-age workers; if they are in education or training, they need to overcome disruptions and to preserve their motivation for learning. As noted in Section 2, the school-to-work transition is difficult in Montenegro, even during favourable economic times, and it will be much more difficult for students graduating from secondary schools and universities during the coming summer and autumn months.

Women account for around 80 per cent of jobs in the health and care sector in Montenegro, and are thus in the frontline of the crisis. They are also overrepresented in the seven sectors (see Section 4.1.2 above) that are highly impacted and highly vulnerable, and particularly in the informal service sectors and in some labour-intensive manufacturing sectors.

The “new” poor and the “new” vulnerable remain almost invisible for the system, except for the symbolic one-off payment to registered unemployed people who are not eligible for unemployment, disability or social assistance benefits.

It may not be easy to identify immediately these new poor and new vulnerable categories. In some circumstances these categories overlap. In other situations, such as in the case of informal employment,⁵⁶ a proportion of these workers were already considered to be at-risk, and the Covid-19 crisis has pushed a larger number of them into poverty and heightened vulnerability.

Thus, forthcoming policy measures need to articulate better responses to the emerging challenges for the following population categories:

- ▶ Atypical (non-standard), informal, / seasonal / migrant workers who either lost their jobs or will not be able to earn (enough) money later during the season, or who will remain locked down in the country instead of going to work abroad (sailors, cruiser staff, seasonal migrants to the United States, Germany, Austria, Luxemburg and other countries).
- ▶ Young people facing growing difficulties in starting or completing school-to-work transition, or enrolling in traineeship programmes. Young people are among the main victims of the social and economic consequences of the pandemic, and there is a risk that they will be scarred for the rest of their working lives, leading to the emergence of a “lockdown generation”. They are disproportionately affected by the Covid-19 crisis, with multiple shocks, including disruption to education and training, employment and income losses, and greater difficulties in finding a job (ILO Monitor 4th edition). Unfortunately, Montenegrin young people will probably be among the hardest hit, because of both the expected deep economic recession and the pronounced labour market duality. Young workers generally occupy less secure, less well-paid and often high-contact secondary jobs that have been most affected by the crisis and might be the last to re-emerge from it.
- ▶ Long-term unemployed without unemployment benefits and with worsened household income situations.

5.3 Options for a more inclusive policy response

In order to protect and empower the diverse groups exposed to elevated labour market risks, existing safety nets need to be expanded and innovative income protection schemes and proactive labour market measures need to be rapidly conceived and introduced.

⁵⁶ The case of informal employment may warrant some additional explanation. While specific data for Montenegro are not yet available from the Labour Force Survey, the ILO has observed global trends in upper-middle income countries and in Montenegro's neighbouring economies with better data availability on informal work. In the region, informal workers are spread along the wage distribution curve, and not necessarily concentrated in low-wage occupations. The Covid-19 crisis has pushed an increased number of informal workers, who were not necessarily “poor” before the crisis, toward vulnerability and poverty. ILO Monitor: Covid-19 and the World of Work. Third edition (April 2020). Available at: https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_743146/lang--en/index.htm

The roles of the social partners and of the Social Council are critical during this phase, as trade-offs have to be negotiated on the basis of evidence, cost-benefit analysis of different options and fairness. The ILO and the EBRD can support the Social Council to run cost-benefit analysis of alternative options.

As in other middle-income countries, fiscal space in Montenegro is limited, but it would be important to push its limits to the maximum relatively quickly in the following few months. A deep recession might otherwise set in, making recovery more difficult and perhaps costlier. The social partners and the Social Council will play a crucial role during the reactivation phase in negotiating balanced sector-specific guidelines for a safe return to work and influencing the behaviour of both workers and enterprises.

Options for enhancing the support provided by existing measures and schemes for jobs, enterprises and incomes include the following:

1. Build a new temporary safety net for the new poor and the new vulnerable. This will require a combination of interventions, including: (i) broadening the eligibility criteria for social assistance by significantly relaxing means-testing and allowing families that have experienced a reduction in their income by 50 per cent or over since the beginning of the crisis and are now earning less than EUR 300 per month to register as “families in need” and be considered for social assistance; and (ii) introducing unconditional and non-contributory unemployment assistance for up to six months, calibrated at 80 per cent of unemployment benefit (taking care to avoid double eligibility for new social assistance and unemployment assistance).
2. Pilot a non-contributory unemployment allowance linked to activation, targeting young people of working age and able to work in households that receive social assistance. This would provide young people with a six-month unemployment allowance, equal to 80 per cent of the unemployment benefit, while they actively search for work or participate in active labour market programmes aimed at accelerating their entry in the labour market.
3. Urgently establish an additional employment retention programme, lasting until September 2020, within the framework of which support is conditioned on longer retention of workers by beneficiary enterprises. Among the options to be considered in the medium term to help enterprises maintain their workforce is a subsidy that waives the tax wedge (see Section 2 for a detailed explanation), with a cap at the level of tax paid on the minimum wage.
4. Restructure the existing expensive graduate professional training programme (GPTP) into a universal and open-ended internship programme (for the duration of the crisis), aligned with similar EU practices and geared towards school-to-work transition of all young people under the age of 30. The worrying prospect of a “lockdown generation” calls for a strong and early policy intervention in an attempt to prevent long-lasting damage to young people, especially in their transition from school to work and long-term labour market opportunities.

Montenegro already has a broad and expensive instrument it has used for the past seven years to facilitate school-to-work transition of university graduates (Box 5.1). The graduate professional training programme, as a pre-Covid-19 programme with a specific purpose and relatively narrowly defined target group (current generation of university graduates), is not suitable for meeting the challenges of post-lockdown reality for most young people. Still, it could be restructured and reorganized to facilitate a rapid and effective response to some of the pressing challenges facing young people. The urgency of the situation and the potential breadth of the youth employment crisis would

require that the restructured scheme starts as soon as possible, ideally in September or October 2020, with the following features:

- ▶ the internship programme will be offered to both university and secondary education graduates, who have completed their education as of 1 January 2020 and onwards;
- ▶ the period of the internship is reduced to six months for all young participants. Hosting enterprises will have no obligation to employ the young trainees, but if they do so they may be granted a three-month wage subsidy;
- ▶ the scheme will be offered on a rolling basis throughout the year, as young people graduate and new internship positions become available in enterprises.

Interns will receive a flat internship allowance of EUR 220 per month plus insurance against accidents at work (paid by the public employment service). After the internship period, the employer may opt for subsidized recruitment, payable for three months, with an obligation to retain the former intern/worker for six additional months after the end of the subsidy. The wage subsidy will apply the same modalities as the new job creation subsidy (see Section 5.1 above) announced by the Government in the response package.

▶ Box 5.1 Summary description of the graduate professional training programme

The scheme, known in Montenegrin as Program stručnog osposobljavanja visokoškolaca (Graduate professional training programme - GTP) is basically a cross between an extended education programme and an active labour market measure. It is available to all university graduates for nine months, which are recognized as equivalent to the 12-months work experience needed for some (but not all) high-skilled professions to take the mandatory state exam.

The participants get a flat net fee of EUR 250 (half an average wage), but no social insurance coverage. Enrollment in the past few years has stabilized at over 3,000 persons annually, representing around 90 per cent of all new university graduates and costing the budget around EUR 7.5–8 million, or slightly below 0.2 per cent of GDP, more than all standard ALMPs run by the Employment Agency combined. Slightly less than half of all participants pursue their training in the public sector, which is the sector of choice for the majority of them. The programme is also very popular with private sector employers, because it provides free (for them) helping hands with very few strings attached. While all participants must have a designated individual mentor, there is no obligation on the firms with regard to trainees after the end of their internship. There have been no full-fledged evaluations of this programme thus far, nor are simple retention rates and direct transition rates from practice to outside jobs known. The next round of the GTP should start in January 2021.

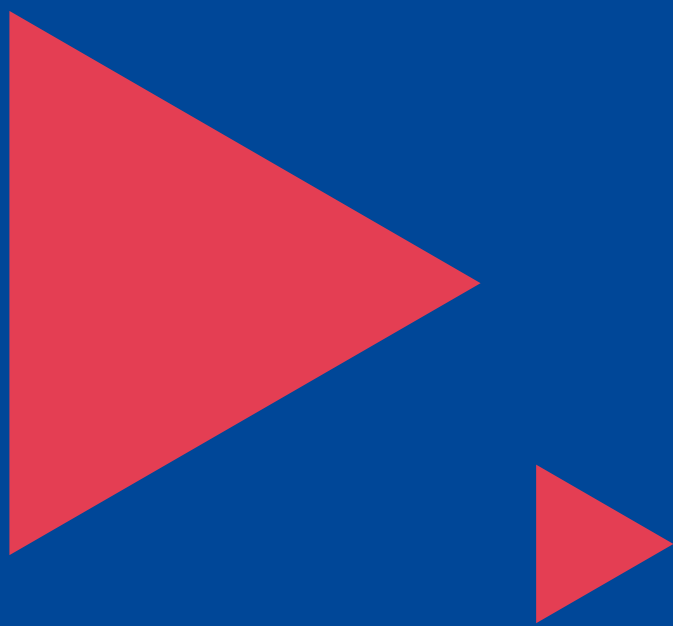
Source: Authors' elaboration.

5. Promote in-work intergenerational solidarity by linking the revised internship scheme to an innovative framework for job sharing. This restructured GPTR scheme would last seven months and it would require, after an initial one-month learning period, a shift to an employment relationship, implied by its job sharing / job rotation content. The participants of the restructured scheme during the first-month of internship will be paid a flat trainee fee (EUR 220), while for the remaining six months in a job sharing / rotation programme, they will be paid 80 per cent of the minimum wage, based on a half-time work week of 20 hours. These measures will make it possible to respond better to any resurgence of Covid-19 or similar occurrence, whereby older workers or workers with pre-existing medical conditions are at high risk in high-contact occupations. As has been extensively researched during the Covid-19 lockdown, some jobs are exclusively high-contact, some are exclusively low-contact, but many or indeed most jobs have both high-contact and low-contact components. As long as the epidemic lingers, either in the background or more visibly, older workers in high-contact or mixed-contact jobs might feel uneasy about doing the high-contact tasks that are part of their regular jobs, or might be advised against working in their workplaces because of their underlying health issues. Having younger interns trained to do high-contact tasks (in job-sharing schemes), and/or to alternate in all job tasks (in job-rotation schemes) would, on one hand, provide a sort of insurance to firms that their business operations would be less exposed to interruptions and absenteeism, and on the other hand provide more physical and psychological safety to older workers (who will act as mentors of the young trainees), and first and foremost provide training, work experience and social and basic income security to younger workers when they need them the most. Because most high-contact jobs employ workers with a secondary education, the existing target group of the scheme would need to be extended to include secondary education graduates. In view of the inevitably grave situation on the open labour market in the aftermath of lockdown, the scheme should be broadened even further to all long-term unemployed young people with at least secondary education. Unlike with the current scheme, where there is a set start date for all participants, the new scheme will take new participants continuously, as they graduate and as new job positions become available.

These combined and extended schemes are aimed at facilitating school-to-work transitions, while balancing the interests of enterprises in maintaining business continuity in times of crisis with the specific needs of older and younger workers. They should start early in autumn of 2020 and, depending on uptake, they would cost between 0.4 and 0.5 per cent of GDP.

This relatively high investment in the future generation of Montenegrins is nevertheless justified by some macro-level considerations as well. As indicated earlier, low aggregate demand would undermine the prospects of an early recovery for the country. Younger people have a higher propensity for consumption. In a Covid-19 crisis context, young people are set to lose more spending power relative to older workers, but they would want to consume as much as before because they are less constrained by health concerns as consumers, unlike older workers, who will refrain from high-contact consumption (travels, restaurants) and probably also from investment in real estate and durables. Investing in young people, in job opportunities for them, and in their spending power may contribute to sustaining aggregate demand.

6. Facilitate timely and adequate tripartite negotiations around some of the elements of a new social compact in response to the crisis. These would include job sharing and voluntary reductions of working hours, job rotation during periods of force majeure, as well as other aspects that may be considered relevant, based on evidence. Currently there is a possibility to reallocate employees to different jobs and tasks, but it is limited to 30 days. The same applies to special leave and cuts in working hours. They exist but need to be adjusted, in the spirit of social dialogue, to the changing realities of the Covid-19 crisis.



▶ Annexes

Annex 1 Mapping the labour vulnerabilities of selected sectors

Sector	
Agriculture, forestry and fishing	
Mining and quarrying	
Manufacturing	
Electricity, gas, steam and air conditioning supply	
Water supply; sewerage, waste management and remediation activities	
Construction	
Wholesale and retail trade; repair of motor vehicles and motorcycles	
Transportation and storage	
Accommodation and food service activities	
Information and communication	
Financial and insurance activities	
Real estate activities	
Professional, scientific and technical activities	
Administrative and support service activities	
Public administration and defence; compulsory social security	
Education	
Human health and social work activities	
Arts, entertainment and recreation	
Other service activities	
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	
Activities of extraterritorial organizations and bodies	

	Employment (level)	Share in total employment	Total vulnerability	Women	Gendered total vulnerability	Youth (15-29)	Youth-aged total vulnerability
	17 378	7.2%	4	7 068	4	1 498	4
	1 418	0.6%	2	59	2	154	2
	14 451	6.0%	4	4 347	4	2 474	4
	2 509	1.0%	1	823	1	163	1
	4 532	1.9%	1	832	1	559	1
	23 987	10.0%	5	2 337	5	4 939	5
	46 307	19.3%	4	24 770	5	12 898	5
	13 181	5.5%	3	1 995	3	2 271	3
	20 284	8.4%	4	8 450	4	7 791	5
	5 158	2.1%	2	2 846	2	1 498	3
	3 892	1.6%	2	2 461	3	884	4
	2 264	0.9%	5	1 576	5	558	5
	12 991	5.4%	4	6 619	5	2 925	5
	12 788	5.3%	4	3 622	4	2 822	5
	20 061	8.4%	2	9 551	2	2 471	2
	13 106	5.5%	2	9 759	2	1 656	2
	12 331	5.1%	2	10 002	3	2 249	2
	5 803	2.4%	4	2 838	4	1 825	5
	6 735	2.8%	5	4 379	5	2 155	5
	889	0.4%	5	716	5	60	5
	138	0.1%	1	-	1	78	1

Annex 2 Impact of the crisis on enterprises

Agriculture forestry and fishing	
Mining and quarrying	
Manufacturing	
Electricity gas steam and air conditioning supply	
Water supply; sewerage waste management and remediation activities	
Construction	
Wholesale and retail trade; repair of motor vehicles and motorcycles	
Transportation and storage	
Accommodation and food service activities	
Information and communication	
Financial and insurance activities	
Real estate activities	
Professional scientific and technical activities	
Administrative and support service activities	
Public administration and defence; compulsory social security	
Education	
Human health and social work activities	
Arts entertainment and recreation	
Other service activities	
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	
Activities of extraterritorial organizations and bodies	

	Employment (level)	Vulnerability	Risk	Self-employed	Share of self-employed in total employment	Share of employed in firms with up to 10 employees in total employment	Share of employed in firms with 10+ employees in total employment
	17 378	4	2	9 745	56.1%	39.8%	13.6%
	1 418	2	5	71	5.0%	5.0%	95.0%
	14 451	4	4	2 368	16.4%	18.0%	76.6%
	2 509	1	3	-	0.0%	3.4%	97.2%
	4 532	1	2	45	1.0%	3.9%	99.1%
	23 987	5	3	9 253	38.6%	16.0%	56.1%
	46 307	4	4	8 343	18.0%	30.2%	62.2%
	13 181	3	4	1 982	15.0%	8.0%	81.3%
	20 284	4	5	2 410	11.9%	24.3%	76.2%
	5 158	2	3	223	4.3%	4.4%	95.4%
	3 892	2	2	-	0.0%	10.3%	89.7%
	2 264	5	2	757	33.4%	26.8%	61.5%
	12 991	4	3	3 582	27.6%	31.3%	54.5%
	12 788	4	3	1 960	15.3%	29.3%	69.4%
	20 061	2	1	-	0.0%	5.6%	95.5%
	13 106	2	3	252	1.9%	5.3%	103.3%
	12 331	2	4	417	3.4%	8.3%	91.8%
	5 803	4	n.a.	408	7.0%	18.8%	75.7%
	6 735	5	n.a.	1 937	28.8%	50.9%	34.4%
	889	5	n.a.	212	23.9%	74.8%	1.3%
	138	1	n.a.	-	0.0%	0.0%	100.0%

Annex 3 Covid-19: containment, closure and health measures adopted⁵⁷

Covid-19 containment measures adopted⁵⁸

Measures to curtail movement

- ▶ First temporary measures on 13 March. Most restrictive measures from 18 March
 - From 21 April: first stage of easing measures (extended opening hours of consumer stores; individual activities in public spaces allowed; Tuzi municipality to have same restrictions as other municipalities)
 - From 4 May: second stage of easing measures (re-opening of most stores, hair salons, dental clinics, driving schools, museums; taxis and public transportation allowed within municipalities; individual sports allowed, also in gyms)
 - From 18 May: third stage of easing measures (re-opening cafes, restaurants, hotel terraces, shopping malls and beach facilities; collective sports allowed)
 - From 1 June: fourth stage of easing measures (road, railroad and water transport re-established; competitive sports allowed without spectators)

School and workplace closures

- ▶ Schools closed since 16 March.
 - #UčiDoma (Study at home) programme of Ministry of Education since end of March
- ▶ Kindergartens closed since mid-March
- ▶ Service providers closed (hairdressers, manicures, fitness centres, tailors, etc; only food stores and pharmacies remained open)
- ▶ Most shops closed from mid-March until 4 May.⁵⁹ Food delivery and takeaways were allowed
 - Stores still open to comply with strict hygienic measures & 1 person per 10 sqm
 - Consumer goods stores open since end of April

Restrictions on events and gatherings

- ▶ Since 18 March:
 - Ban on gatherings
 - No sports activities until 6 May.⁶⁰ (Individual sports allowed since end of April)
 - People aged 65+ recommended to stay indoors
- ▶ Since end of March:
 - Religious ceremonies involving presence of citizens forbidden
 - Weddings forbidden
 - Funerals only with immediate family

⁵⁷ Unless otherwise noted, all information provided in the table comes from the "Situation reports on the novel Coronavirus Covid-19", various dates, last accessed on 4 May 2020, on the UN homepage for North Macedonia: <https://un.mk/reports/>

⁵⁸ Unless otherwise stated, all information provided in this box is from the official homepage of the Government of Montenegro, last accessed on 11 May: <http://www.gov.me/en/homepage>

⁵⁹ UN Montenegro Situation Report No. 10, published 29 April 2020.

⁶⁰ Ibid.

- ▶ Stricter restrictions for regions/municipalities harder hit (such as Tuzi)

Restrictions on movement within the country

- ▶ Since 18 March:
 - No public transport (busses)
 - No trains
 - No taxi services until end of April
 - Only 2 people per car
- ▶ Ban on leaving home during certain hours since 30 March
- ▶ Self-isolation period extended for another 14 days – 28 in total – since 27 March
- ▶ Restriction on meeting with others (only allowed out alone in public spaces) since 24 March
- ▶ Mandatory to wear mask in closed spaces outside home since 4 May⁶¹

Restrictions on international travel

- ▶ Closed borders since 16 March⁶²
- ▶ Mandatory quarantine when coming from abroad since end of March⁶³

Measures to support health sector

Public information

- ▶ National Coordination Body set up on 3 February
- ▶ Crisis Medical Staff set up 25 March
- ▶ Press conference twice per day since 31 March
- ▶ Covid-19 phone hotline since end of March⁶⁴
- ▶ Mobile app to report Covid-19 symptoms since 3 April⁶⁵
- ▶ Covid-19 National Preparedness and Response Plan since end of March
- ▶ Donations of citizens collected via <https://www.coronainfocg.me/> or SMS (15888)
- ▶ Information material on Covid-19 for Sinti and Roma communities⁶⁶

Testing policy

- ▶ Contact tracing of Covid-19 cases⁶⁷

61 UN Montenegro Situation Report No. 10, published 29 April 2020.

62 <https://montenegro.un.org/sites/default/files/2020-04/Country%20Preparedness%20and%20Response%20Plan%20Montenegro.pdf>, p. 8.

63 Ibid, p. 6.

64 <https://www.ijzcg.me/me/novosti/otvoren-call-centar-broj-1616-za-sve-koji-sumnjaju-da-su-bili-izlozeni-novom-koronavirusu>

65 <https://www.ijzcg.me/me/novosti/ijzcg-lansirao-aplikaciju-za-prijavu-simptoma-i-zdravstvenog-stanja-osoba-ko-je-su-pod-medicinskim-nadzorom>

66 <https://www.ijzcg.me/me/novosti/nastavak-aktivnosti-za-bolju-informisanost-rae-populacije-o-koronavirusu>

67 <https://montenegro.un.org/sites/default/files/2020-04/Country%20Preparedness%20and%20Response%20Plan%20Montenegro.pdf>, p.6

- ▶ Capacity of health system:⁶⁸
 - 20 tests per day possible
 - 8300 health professionals in the country
 - 4/1 000 hospital bed density
- ▶ Collaboration with Joint Research Centre of the European Commission to ensure correct testing⁶⁹

Emergency investment in health care

- ▶ 30 March: decision to allocate EUR 2.5 million to state budget to fight Covid-19
- ▶ A total of EUR 21 million investment in health sector⁷⁰
- ▶ Stocks of protective equipment made available to health sector first
- ▶ Non-emergency operations suspended since 18 March
- ▶ Delivery of medicines to homes available since 18 March
- ▶ 17 tonnes of medical equipment procured, arrived on 4 April
- ▶ Sports facilities repurposed as temporary hospitals in mid-April
- ▶ Joined EU mechanism for joint procurement of necessary health equipment
- ▶ 300.000 masks distributed to pensioners and other vulnerable categories⁷¹

Support from abroad

- ▶ European Commission and European Investment Bank granted financial support of EUR 3.3 billion to Western Balkans to address pandemic
 - 53 million grant to Montenegro⁷²
- ▶ EUR 8 million from international donors (not EU) to support fight against Covid-19⁷³
 - EUR 6.3 million of this used to build Infectious Disease Clinic⁷⁴
- ▶ Testing and medical equipment donations from other countries, such as Israel⁷⁵ or Turkey, but also private companies from abroad

68 Ibid, p. 7f.

69 <https://www.ijzcg.me/me/novosti/donacija-evropske-komisije-kontrolni-materijal-za-unaprijedenje-validnosti-testova>

70 UN Montenegro Situation Report No. 10, published 29 April 2020.

71 Ibid.

72 Ibid.

73 Ibid.

74 Ibid.

75 <https://www.ijzcg.me/me/novosti/crna-gora-od-izraela-dobila-cetiri-hiljade-testova-za-utvrdivanje-korona-virusa>

Annex 4 Policy packages already adopted

As of 20 May 2020, the following sets of policy measures had been adopted in Montenegro.⁷⁶

Economic support packages to stimulate the economy

Fiscal policies

- ▶ Several financial packages/measures passed as Covid-19 response:
 - 19 March: first economic package⁷⁷
 - Support for job retention and for MSMEs and sectors hit hard by the pandemic
 - 28 March: National Responses and Preparedness Plan for Covid-19 estimates that EUR 59 million are needed to tackle impacts of Covid-19⁷⁸
 - 30 March: EUR 2.5 million added to state budget to combat Covid-19⁷⁹
 - 24 April: second economic package of EUR 71.4 million
 - Support for businesses and employees negatively impacted by Covid-19
 - End May: third economic package
 - To stimulate production of selected sectors and ensure preservation of companies⁸⁰
- ▶ May: Revision of 2020 state budget to adjust for Covid-19 response⁸¹
- ▶ Delay of tax and social contribution payments⁸²
- ▶ VAT refund now possible within max. 45 days
- ▶ Deferral of lease payments of state-owned real estate
- ▶ Total value of postponed liabilities of citizens and the economy:
 - EUR 1.3 billion to banks
 - EUR 100 million to state
- ▶ Double the amount of subsidies to socially disadvantaged households for electricity bills
- ▶ Suspension of public procurement proceedings, except health care sector⁸³

Monetary policies

- ▶ Moratorium on loan repayments prolonged to 90 days
- ▶ Restructuring of loans as new loans possible and extension of repayment period of up to 2 years⁸⁴
- ▶ Temporary prohibition of payments of dividends to shareholders, with exceptions when transformed into equity
- ▶ Fee for withdrawing reserve requirement liquidity halved on 7 May⁸⁵

⁷⁶ Unless otherwise noted in a footnote, the information provided in the following four boxes is from: <https://www.ilo.org/global/topics/coronavirus/country-responses/lang--en/index.htm#ME>, last accessed on 13 May 2020

⁷⁷ UN Montenegro Situation Report No. 4, published 25 March 2020.

⁷⁸ UN Montenegro Situation Report No. 5, published 1 April 2020.

⁷⁹ Ibid.

⁸⁰ UN Montenegro Situation Report No. 6, published 29 April 2020.

⁸¹ Ibid.

⁸² <https://www.imf.org/en/Topics/imf-and-Covid19/Policy-Responses-to-Covid-19#M>

⁸³ <https://www.coronainfocg.me/me/mjere/obustava-javnih-nabavki-osim-za-zdravstvo>

⁸⁴ <https://www.imf.org/en/Topics/imf-and-Covid19/Policy-Responses-to-COVID-19#M>

⁸⁵ Ibid.

Support for specific sectors, enterprises and employment retention

Support for specific sectors

- ▶ EUR 17 million to support agriculture and fisheries
 - EUR 3 million to maintain market stability⁸⁶
 - Support for prioritising domestic products⁸⁷
 - Domestic producers have to be paid within 15 days⁸⁸
 - Financial assistance to fishermen and agricultural workers⁸⁹
 - EUR 10 for loans of up to EUR 20,000⁹⁰
 - Advance payment of up to 80 per cent of premiums⁹¹
- ▶ EUR 5 million to tourism sector to pay employees' salaries for two months
- ▶ Broadcasters exempt from paying broadcasting fee for three months⁹²
- ▶ Loans to media of max. EUR 600,000, with interest rate of 2 per cent and repayment period of eight years

Support for enterprises and business continuity

- ▶ Support for companies forced to shut down due to pandemic:
 - Customs guarantee for deferred payment of customs debt extended to 60 days (from 30) for April and May
 - Exemption from paying fixed part of electricity bill⁹³
- ▶ Support for entrepreneurs and MSMEs:
 - New credit line of up to EUR 3.4 million per enterprise, no approval fee and interest rate at 1.5 per cent, to improve liquidity
 - Additional support of EUR 120 million from EBRD⁹⁴
 - Allowed back to work since 4 May
- ▶ Support for businesses that continued working:
 - Provision of bank guarantee to ensure liquidity
- ▶ EUR 4 million to companies engaged in capital projects, mainly in the Northern Region
- ▶ EUR 28.2 million to support company liquidity through loans

86 <http://www.gov.me/en/News/224014/Government-s-specific-measures-to-support-agriculture-and-fisheries-introduced-Over-EUR-17-million-for-repurchase-loans-interest.html>

87 Ibid.

88 <https://www.coronainfocg.me/me/mjere/posebne-mjere-podrske-poljoprivredi-i-ribarstvu>

89 Ibid.

90 <http://www.gov.me/en/News/224014/Government-s-specific-measures-to-support-agriculture-and-fisheries-introduced-Over-EUR-17-million-for-repurchase-loans-interest.html>

91 <http://www.gov.me/en/News/224178/EUR-3-3-million-in-grants-paid-to-farmers-in-advance.html>

92 <https://www.coronainfocg.me/me/mjere/emiteri-oslobodeni-placanja-naknade-za-emitovanje>

93 <https://www.imf.org/en/Topics/imf-and-Covid19/Policy-Responses-to-COVID-19#M>

94 UN Montenegro Situation Report No. 6, published 29 April 2020.

Employment retention measures

- ▶ 15 per cent increase in wages of health care workers in March
- ▶ Ministry of the Economy announced a business and employee support programme on 24 April

The proposed measures include subsidies for:

- Businesses whose operation is prohibited (100 per cent of gross minimum wage)
- Tourism sector (100 per cent of gross minimum wage)
- Endangered industries (50 per cent of gross minimum wage)
- Earnings of employees on paid leave (70 per cent of gross minimum wage)
- Earnings of employees in quarantine or isolation (70 per cent of gross minimum wage)
- Subsidies for new employment of 70 per cent of the gross minimum wage for at least six months for entrepreneurs and MSMEs, who registered new employees in April
 - To date, 1,612 companies and 6,651 workers have received support through this programme⁹⁵

Worker protection measures

Unemployment benefits and social protection

- ▶ Financial support of EUR 50 to 8,583 families who receive financial support
- ▶ Financial support of EUR 64.41 to 11,957 pensioners who receive minimum pension⁹⁶
- ▶ One-time assistance of EUR 50 to all registered unemployed persons who do not receive financial compensation or material security
- ▶ Additional old-age pension of EUR 64.41 to 3,419 beneficiaries

Access to paid leave

- ▶ One parent of a child not older than 11 years of age is entitled to a paid leave from work (with some exemptions)

Other measures

Social dialogue

- ▶ Social partners' proposals integrated in updated sets of measures
- ▶ Comprehensive stabilization and support programme for entrepreneurs and MSMEs passed in consultation with local self-governments, the Chamber of the Economy of Montenegro, the Union of Employers of Montenegro, the Union of Free Trade Unions of Montenegro, the Union of Trade Unions of Montenegro, Montenegrin economists and university professors
- ▶ Trade unions donated EUR 10,418 to National Coordination Body

⁹⁵ Ibid.

⁹⁶ <http://www.gov.me/en/News/224194/Additional-old-age-pension-paid-to-beneficiaries.html>

About this report

The report “Covid-19 and the World of Work: Rapid Assessment of the Employment Impacts and Policy Responses” is part of a series of reports that the ILO and the EBRD are preparing to contribute to evidence-based policy dialogues in the Western Balkan economies in the aftermath of the Covid-19 pandemic.

This first edition for Montenegro covers the unfolding of the crisis and its impacts on the labour market during the lockdown phase, as well as reflections on the measures proposed by the Government to attenuate the impact of the crisis. Policy recommendations can inform decisions by the Government and the social partners during the reactivation and recovery phases.

For more comprehensive thematic reviews of the impacts of Covid-19 on the world of work, please consult the relevant pages, available at:

www.ilo.org and www.ebrd.com

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