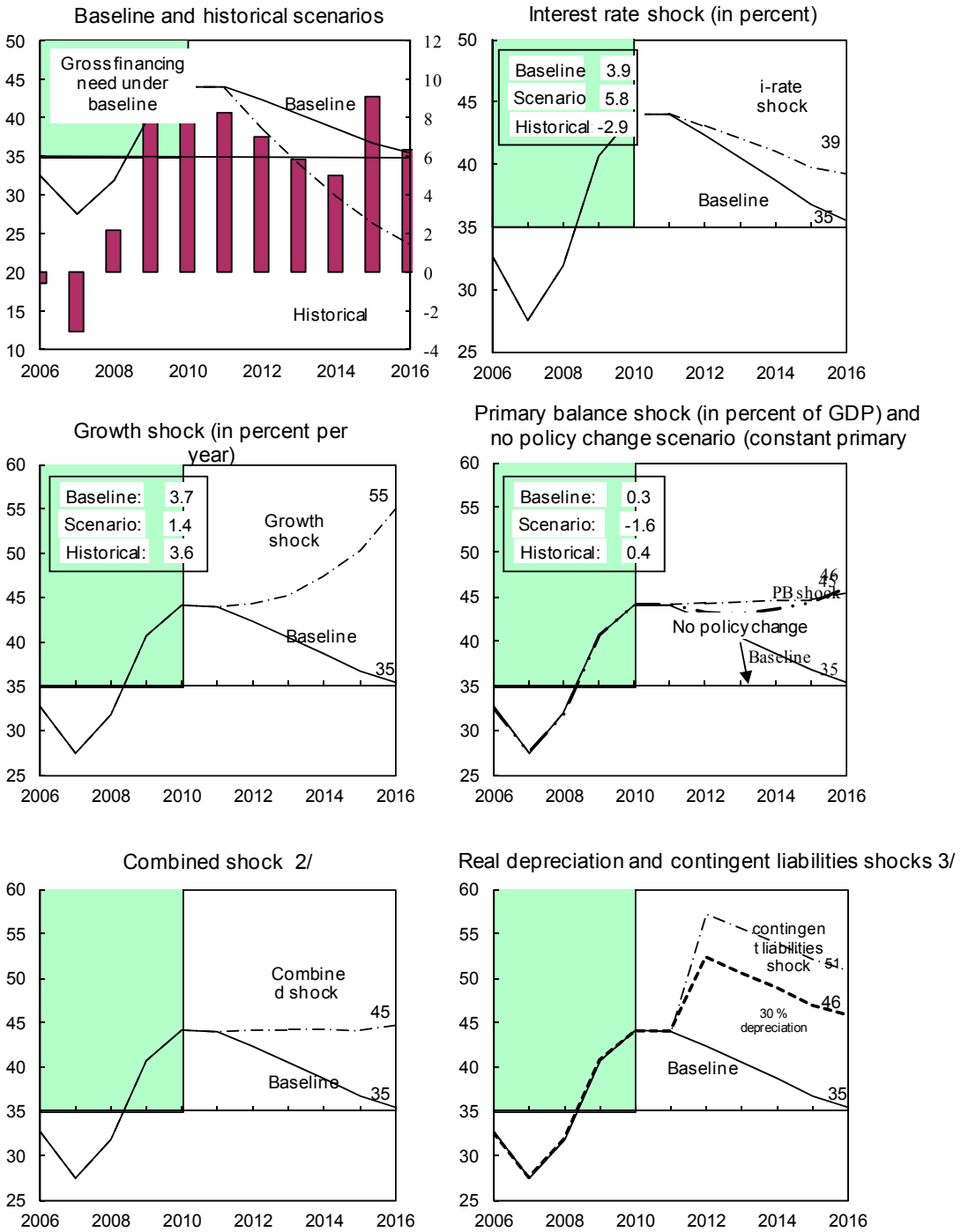


Figure 2. Montenegro: General Government Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

MONTENEGRO

Staff Report for the 2011 Article IV Consultation— Informational Annex

Prepared by the European Department

April 15, 2011

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Annex I. Fund Relations¹
(As of March 31, 2011)

I. **Membership Status:** Joined: 01/18/07; Article VIII

II.	General Resources Account:	<u>SDR Million</u>	<u>% Quota</u>
	Quota	27.50	100.00
	Fund Holdings of Currency	20.90	76.00
	Reserve position in Fund	6.60	24.00
III.	SDR Department:	<u>SDR Million</u>	<u>% Allocation</u>
	Net cumulative allocation	25.82	100.00
	Holdings	26.17	101.34

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None

VI. **Exchange Rate Arrangement:** Montenegro does not issue its own currency, has been using the euro as legal tender since 2002, and has accepted the obligations under Article VIII.

Montenegro maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except with respect to pre-1992 blocked foreign currency savings accounts and restrictions maintained for security purposes that have not been notified to the Fund.

VII. **Article IV Consultation:** Montenegro is on a 12-month cycle.

VIII. **FSAP Participation and ROSCs:** A Financial Sector Assessment Program, initiated in July 2006 jointly with the World Bank, was concluded during the 2007 Article IV consultation.

¹ Updated information relating to members' positions in the Fund can be found on the IMF web site (<http://www.imf.org/external/np/fin/tad/exfin1.aspx>).

IX. Technical Assistance:

MFD/FAD	July 2005	Management of Proceeds of Privatization and Review of PFM (Montenegro)
FAD	April 2006	Assessment of state-owned enterprises under the World Bank Public Expenditure Review
STA	June 2006	Monetary and financial statistics
FAD	January 2007	Peripatetic advisor on debt management
FAD	March 2007	Fiscal risk assessment of Private Public Partnership
FAD	April 2007	Tax administration
STA	April 2007	Real sector statistics
MCM	October 2007	Emergency liquidity management
MCM	March 2008	Enforcement of securities regulation
MCM	January 2009	Crisis preparedness and management
LEG/MCM	February 2009	Exchange system
STA	Aug. 2009–July 2010	Resident advisor for real sector statistics
LEG	April 2010	Bank Resolution Framework
FAD	June 2010	Debt management
STA	Dec. 2010	Real sector statistics
FAD	February 2011	Tax policy
FAD	March 2011	Tax administration
FAD	March 2011	Medium-term budget framework

X. Resident Representative: None.

Annex II: Statistical Issues
(As of end-March, 2011)

A. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in national accounts and balance of payments.

National Accounts: The Statistical Office of Montenegro (MONSTAT) compiles real sector data. MONSTAT has started to adopt the *1993 System of National Accounts* as a framework for compiling national accounts estimates. However, the scope of the accounts is limited to compiling the annual production account in current and in previous year prices. The accuracy of the data sources needs to be improved and breaks in the time series eliminated by revising historic data. Business statistics are still following the material system product concepts, collecting data mainly on quantities produced. The national accounts estimates depend solely on bookkeeping data. The coverage of the informal sector is not exhaustive. On the expenditure side, there are no data on changes in inventories and the quality of investment and merchandise trade data is unsatisfactory. MONSTAT switched from general to specific trade statistics in an effort to better capture imports; however, there are indications that exports might be seriously under-recorded, resulting in a corresponding under-estimation of GDP. National accounts data are also undermined by the lack of sound techniques to account for nonobserved activities. Some work has been done on measuring informal activity in construction, retail trade, hotels and restaurants, but a more comprehensive approach needs to be developed. Statistical techniques for deriving volume measures of GDP are constrained by the lack of suitable price and volume indices. The business register is being expanded and a general census is scheduled for 2011.

Preparations are advancing for the compilation of quarterly national accounts. An STA mission visited Podgorica in December 2010 to assist the MONSTAT in the compilation of QNA. The mission concluded there is still a critical need to: (i) improve the accuracy and reliability of the quarterly indicators to be used in compiling QNA; and (ii) compile volume measures of quarterly GDP at previous year's prices. More TA will be needed to achieve compilation of QNA.

Price statistics: MONSTAT compiles and disseminates monthly consumer and producer price indices, which broadly follow international standards. However, in both indices, the "carry-forward" technique for treatment of seasonal goods, new goods, and missing items are used, resulting in downward bias. New consumer price indices, monitoring more items and with a broader geographic coverage, started to be compiled in 2010 and the EU harmonized consumer price indices are scheduled to be released in 2011.

Labor market statistics: The quality of the labor and wage indicators is relatively good but there is little information on foreign employment; frequent methodological revisions impair time series analyses.

Government finance statistics: Fiscal data are compiled by the Ministry of Finance (MOF) based on a new GFS institutional classification, and since early 2006, include data for the social security funds and local governments. The chart of accounts introduced in 2001 has been implemented at the local level from mid-2005. Fiscal data reporting suffers from frequent re-classifications, especially at all levels of local government and social funds. The MOF has established a unit responsible for data collection for state-owned enterprises (SOE), but a satisfactory compilation of the public sector fiscal balance requires significant further effort. Data on enterprises owned by municipalities are rarely available. Data on the stock of local government arrears need to be strengthened.

Monetary statistics: Monetary and financial statistics are compiled by the Central Bank of Montenegro (CBM), broadly following the institutional coverage, classification, and valuation methodology set forth in the *Monetary and Financial Statistics Manual (2000)*. Dissemination practices meet the recommendations of the General Data Dissemination System (GDDS) with respect to the periodicity and timeliness for financial sector data. Beginning in early 2006, the CBM publishes detailed monetary statistics in its monthly *Statistical Bulletin*, which includes tables on monetary statistics, balance sheets and surveys for the CBM and the commercial banks.

Balance of payments: Balance of payments statistics are compiled by the CBM following international reporting standards. The external sector statistics have benefited from improvements undertaken by MONSTAT to improve coverage, valuation, and classification of merchandise trade statistics. Merchandise trade debits (imports) are valued at CIF, rather than FOB prices. Data on imports and exports in the BOP are based on the general trade system. There is evidence that general trade imports are seriously under recorded, prompting MONSTAT to switch from general to special trade statistics in the national accounts. There are also indications that exports are underestimated, an issue MONSTAT is currently investigating. In the meantime, there is an inconsistency between balance of payments statistics, which are based on general trade data, and national accounts, which are based on special trade data. The CBM has not developed acceptable methodology to estimate the value of insurance and freight on imports, which should be deducted from the CIF value.

Weaknesses remain, due primarily to the paucity of source data and the shortage of staff to undertake the data collection and compilation processes. The CBM has made progress in improving the recording of transactions in the ITRS by refining the transactions coding system and increasing interaction with the commercial banks; however, the ITRS remains

inadequate for recording a broad range of balance of payments transactions such as reinvested earnings and trade credits. Further, the ITRS records transactions on a cash basis, whereas balance of payments transactions should be recorded on an accruals basis. The CBM still needs to undertake a small number of direct surveys of enterprises to supplement the data received through the ITRS, and prepare comprehensive documentation on compilation methods and data sources. Montenegro does not yet compile International Investment Position statistics.

B. Data Standards and Quality

Montenegro does not participate in the GDDS.

No data ROSC is available.

C. Reporting to STA

A page for Montenegro in *International Financial Statistics* (IFS) was introduced in the March 2007 issue.

Montenegro does not report government finance statistics for publication in the *Government Finance Statistics Yearbook* or *IFS*.

Montenegro does not report data for the IMF's Coordinated Portfolio Investment Survey and the Coordinated Direct Investment Survey, respectively.

The CBM does not yet report monetary data in the format of Standardized Report Forms (SRFs). To avoid duplication of effort, the CBM will need to decide whether to adopt the European Central Bank's framework for collecting, compiling and reporting monetary data or the STA-developed SRFs, either of which will provide monetary data that accord with international standards.

Montenegro: Table of Common Indicators Required for Surveillance
(As of end-March, 2011)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
International reserve assets and reserve liabilities of the monetary authorities ¹	Mar. 2011	Apr. 2011	M	M	M
Reserve/base money	NA	NA	NA
Central bank balance sheet	Feb. 2011	Mar. 2011	M	M	M
Consolidated balance sheet of the banking system	Feb. 2011	Mar. 2011	M	M	M
Interest rates ²	Feb. 2011	Mar. 2011	M	M	M
Consumer price index	Dec. 2010	Feb. 2011	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	Dec. 2010	Feb. 2011	Q	Q	Q
Revenue, expenditure, balance and composition of financing ³ – central government	Dec. 2010	Feb. 2011	M	M	M
Stocks of central government and central government-guaranteed debt ⁵	Dec. 2010	Feb. 2011	Q	Q	Q
External current account balance	Dec. 2010	Feb. 2011	Q	Q	Q
Exports and imports of goods	Dec. 2010	Feb. 2011	Q	Q	Q
GDP/GNP	2009	Nov. 2010	A	I	A
Gross external debt	Dec. 2010	Feb. 2011	Q	Q	Q
International Investment Position ⁶	NA	NA	NA

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic non-bank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. General government reporting is incomplete; local government expenditure data are available only after a six-month lag.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annually (SA), Annually (A), Irregular (I); or Not Available (NA).

Annex III: Relations with the World Bank Group

Montenegro has joined World Bank Group (WBG) as an independent country in January 2007. The Bank had implemented a discrete program of lending and analytical work for Montenegro for most of the period since the State Union of Serbia and Montenegro had joined the WBG in 2001, with three projects still being active at the onset of Montenegro's first *Country Partnership Strategy* (CPS) for the fiscal years 2007–10. Within this framework, the Board approved two IDA credits (US\$19 million)—just prior to graduation—and five IBRD loans (US\$54 million) to provide selective support to three key country priorities, viz., (i) enhancing sustainable macroeconomic growth; (ii) building institutions and strengthening the rule of law; and (iii) improving the standard of living for citizens. The committed portfolio has grown from US\$34 million in 2007 to US\$81 million in 2011. About 70 percent of these commitments remain to be disbursed. Investment operations are focused principally on supporting programs in the sustainable development and human development sectors.

Montenegro: World Bank Project Portfolio, March 31, 2011

Project name	Board date	Original commitment (US\$ millions)	Disbursement ratio (percent)
Active project portfolio			
Environment (solid waste management)	Nov. 2003	12.5	24.3
Health system improvement	Jun. 2004	14.2	56.8
SEE energy community (APL3)	Jul. 2007	9.0	65.6
Energy efficiency	Dec. 2008	9.4	24.7
Land administration	Dec. 2008	16.2	9.9
Agriculture and institutional development	Apr. 2009	19.7	18.7

In January 2011, the Board approved the US\$ 216-million CPS for FY2011–14. This CPS supports the government's overarching objective of full integration with the EU within a medium-term horizon. The strategy—reflecting Montenegro's status as an upper middle income client with well-defined development priorities—aims at (i) strengthening institutions and competitiveness in line with EU accession requirements; and (ii) improving environmental management, including reducing the costs of environmental problems. The government has requested the Bank to focus its support in areas where it had previously been engaged and/or gained applicable regional or global experience. The centerpiece of the Bank's engagement will be two financial-sector development policy loans (about US\$105 million), which will support a program to strengthen the banking