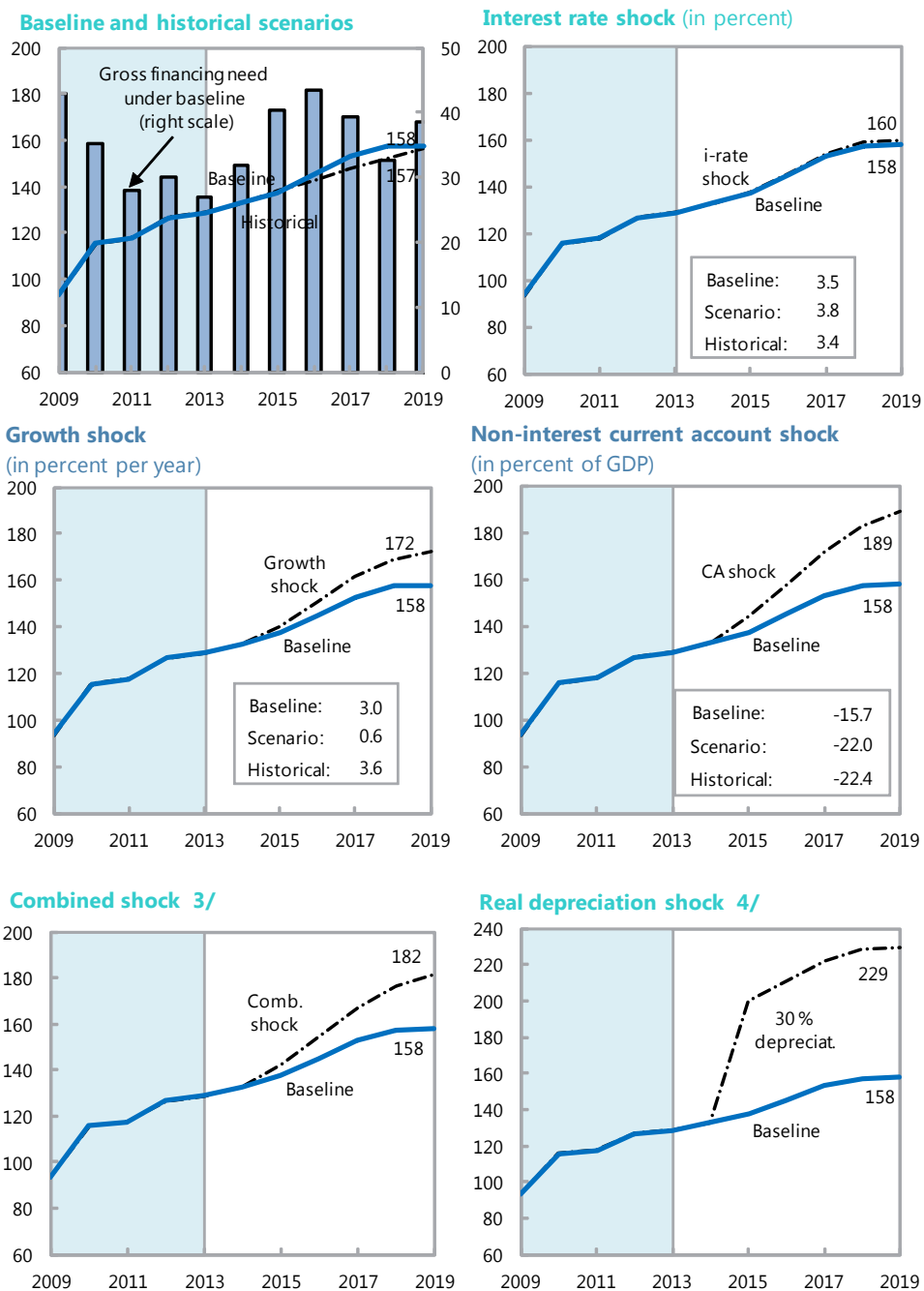


Figure 1. Montenegro: External Debt Sustainability: Bound Tests ^{1/2/}



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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2015.



MONTENEGRO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 8, 2015

Prepared By

The European Department
(In Consultation with Other Departments)

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FUND RELATIONS

(As of October 31, 2014)

Membership Status: Joined January 18, 2007; Article VIII.

General Resources Account:	SDR Million	% Quota
Quota	27.50	100.00
Fund Holdings of Currency	20.90	76.00
Reserve Position	6.60	24.00

SDR Department:	SDR Million	% Allocation
Net cumulative allocation	25.82	100.00
Holdings	26.34	102.02

Outstanding Purchases and Loans: None.

Latest Financial Arrangements: None.

Projected Obligations to Fund (In millions of SDR):

	Forthcoming				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

Implementation of HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Exchange Arrangement: Montenegro does not issue its own currency and has been using the euro as legal tender since 2002. It 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.

Latest Article IV Consultation: Concluded on July 22, 2013 (IMF Country Report No. 13/271).

FSAP Participation: A Financial Sector Assessment Program was initiated in July 2006, jointly with the World Bank, and concluded during the 2007 Article IV consultation. The Executive Board discussed the Financial System Stability Assessment in January 2008 (IMF Country Report No. 08/50).

Technical Assistance in the Past 12 Months:

Department	Timing	Purpose
STA	Sep-14	National Accounts Statistics
MCM	Jul-14	Financial Stability Analysis, including Stress Testing, Early Warning System
STA	Jun-14	Consumer Prices/Producer Price
FAD	Jun-14	Public Financial Management
STA	Jun-14	National Accounts Statistics
MCM	May-14	Reserve Management
STA	Jan-14	Consumer Prices/Producer Price
STA	Jan-14	National Accounts Statistics

In addition, technical assistance was available through resident advisors covering tax administration and public financial management.

Resident Representative: None.

WORLD BANK GROUP RELATIONS

1. Montenegro joined the World Bank Group (WBG) as an independent country in January 2007. The Bank had implemented a program of lending and analytical work for Montenegro for most of the period since the State Union of Serbia and Montenegro joined the WBG in 2001. Six projects are currently active, with 1½ years before the end of the Montenegro’s second Country Partnership Strategy (CPS) for the fiscal years 2011–15. The CPS was prepared at a time when the country was striving to recover from a sharp economic contraction associated with the 2008 global and Eurozone crisis. In the wake of the crisis, the initially-envisaged total IBRD lending of US\$215.7 million was increased by nearly US\$100 million. The lending program was complemented by a mix of analytic and technical support aligned with the CPS pillars.

2. The Board approved the CPS in January 2011 and the CPS Progress Report in May 2014 extending the CPS by one year through FY15 as both CPS pillars—(i) strengthening institutions and aligning them with European Union (EU) requirements in areas critical for longer-term competitiveness in global markets; and (ii) improving environmental management—remain highly relevant, and the additional year facilitates the delivery of the planned lending program. Also, with uncertainties in the fiscal framework and public investment program, an additional year was deemed helpful in gaining greater clarity on the likely medium-term macro-fiscal framework that would underpin a new Country Partnership Framework (CPF) and influence planned lending volumes and instruments.

Montenegro: World Bank Project Portfolio, November 2014				
Project Name	Date, Board App	Net Comm Amt (\$m)	Total Percent Disb.	Percent Disb. Ratio FY15 (as of Oct. 2014)
Higher Education and Research for Innovation and Competitiveness	01/24/2012	15.98	36.8	21.3
Energy Efficiency	12/09/2008	16.20	57.4	4.1
Montenegro Institutional Development and Agriculture Strengthening	04/21/2009	15.70	66.7	19.3
Montenegro Institutional Development and Agriculture Strengthening (GEF)	04/21/2009	4.00	58.1	21.8
Land Administration and Management	12/09/2008	16.20	71.3	19.6
Industrial Waste Management and Cleanup	09/19/2014	68.90	0.2	0.0
		136.98	29.0	17.2

3. Within the CPS FY11–FY15, the IBRD Board approved five IBRD loans to provide selective support to two key CPS priorities. The CPS originally envisaged a series of two financial sector development policy operations (DPOs). In light of post-crisis needs, the second DPO was converted into a larger financial sector policy-based guarantee (PBG) that supported a comprehensive program of measures designed to strengthen the banking sector, address its vulnerabilities, and bolster its resilience to possible future shocks. This support also led to advisory work on nonperforming loans (NPL) resolution. Additional countercyclical stimulus was considered through a Public Expenditure DPO, but did not materialize in FY13–14 given the remaining

weaknesses in the medium-term fiscal framework. New investment lending was approved for a Higher Education/R&D project (US\$16 million), Energy Efficiency Additional Financing (US\$6.8 million) and an Industrial Waste Management and Clean-Up Project (US\$69 million). The committed portfolio has doubled since to US\$137 million in 2014. About 71 percent of these commitments remain to be disbursed.

4. Pipeline projects include (i) a Revenue Administration and Modernization Project building on the recent tax administration assessment that aims to increase the effectiveness and efficiency of tax administration as well as reduce the cost of compliance for the taxpayer; (ii) a Fiscal and Debt Management technical assistance operation that aims to support strengthening the institutional capacity of fiscal resources and public debt management; (iii) a Trade and Competitiveness project that aims to provide support to the business environment, enterprise development and skills and labor market development interventions; (iv) a second Health Improvement project that aims to provide a support for financing reforms and governance for quality in the health sector.

5. Cooperation with the IMF has been good, particularly in the areas of macroeconomic and financial sector policies. Bank and Fund teams coordinated closely during the preparation of the Financial Sector DPL and Policy-Based Guarantee in 2011 and 2012 and the TA on NPL resolution. The World Bank Group, through its ongoing and planned operations, as well its complementary economic and sector work, will continue to provide input to the IMF on issues such as (i) public expenditure, including pension and health reforms; (ii) business climate and competitiveness, including labor market reform and the resolution of nonperforming loans; (iii) public sector institutions and fiduciary reviews, (iv) agricultural assessments; and (v) statistical capacity building and poverty monitoring. The Fund and Bank staff have sought each other's input in internal review processes.

Montenegro: Joint Management Action Plan - Bank and Fund Planned Activities in Macro-critical Structural Reform Areas, January—December 2015

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1. Fund work program	Article IV staff report	Fall 2015	January 2016
2. Bank work program	Systematic Country Diagnostics	February 2015	March 2015
	TA on pension model PROST	January-April 2015	May 2015
	Revenue Administration Project	February 2015	April 2015
	Fiscal and Debt Management	January 2015	May 2013
3. Joint work program	None	None	
Prepared by World Bank staff. Questions may be addressed to Sanja Madzarevic-Sujster, country economist (smadzarevic@worldbank.org), and Gallina A. Vincelette, lead economist Western Balkans (gvincelette@worldbank.org).			

STATISTICAL ISSUES

MONTENEGRO—STATISTICAL ISSUES APPENDIX

As of December 2014

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are labor market indicators, and government finance statistics.

National Accounts: The Statistical Office of Montenegro (MONSTAT) compiles annual production and expenditure accounts in current and previous year's prices. The production GDP estimates are reconciled with the expenditure GDP estimates through the supply and use framework (i.e. reconciling supply and use). The quality of the annual GDP is good.

Montenegro started disseminating quarterly GDP by production using an indirect method in 2012, but the methodology has room for improvement. The estimates are compiled at an aggregated level (mostly NACE section level). The accuracy of the short term statistics needs to be improved, mostly for agriculture, and construction. The latest national accounts TA mission in September 2014 continued working on developing quarterly GDP estimates by expenditure approach. Experimental estimates have been compiled; the official dissemination will be in March 2015.

Price Statistics: MONSTAT compiles and disseminates a monthly consumer price index that broadly follows international standards. MONSTAT continues to implement improvements to the producer price index. Improvements include developing a total output PPI; expanding index coverage to include services and construction; and updating index calculation methods. MONSTAT began compiling and disseminating the EU harmonized consumer price indices, beginning in 2011. An export price index has been published since 2009, and an industrial import price index since 2011. There is need to improve the industrial production index.

Labor market statistics: MONSTAT reports labor and wage statistics based on data from the labor force survey (LFS) and administrative sources. The unemployment rate from the LFS is computed according to the ILO definition. The quality of wage indicators is relatively good, but information on foreign employment remains limited. The presence of a large informal sector impedes the accurate assessment of the unemployment rate. Frequent methodological revisions also 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, includes data on local governments and social security funds. The latter was merged with the treasury account in 2010. The charter of accounts introduced in 2001 has been implemented at the local level from mid-2005. Fiscal data reporting suffers from frequent re-classifications. The MOF has established a unit responsible for data collection for state-owned enterprises, 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 significantly strengthened and disseminated. Data on stocks of financial assets and liabilities are incomplete.

The latest GFS TA mission in March 2013 recommended updating the table on the institutional structure of the public sector to facilitate consistency among producers of official statistics. It was also recommended to establish a migration plan to phase in the *GFSM 2001* framework and to start publishing quarterly budgetary central government data in the *IFS*.

Monetary and Financial Statistics: Monetary and financial statistics are compiled by the Central Bank of Montenegro (CBM), broadly following the institutional coverage, classification, and evaluation methodology set forth in the Monetary and Financial Statistics Manual (2000). However, the monetary data are not reported in IMF recommended Standardized Report Form format. 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 has published detailed monetary statistics in its monthly Statistical Bulletin, which includes tables on monetary statistics, balance sheets and surveys for the CBM and commercial banks. At the beginning of 2013, the CBM adopted new financial reporting requirements for banks in line with IAS 39; as a result, monetary data for 2013 are not comparable with data from previous years.

Montenegro does not report Financial Soundness Indicators to the IMF.

External sector statistics: Balance of payments statistics are compiled by the CBM and follow international reporting standards. External sector statistics have benefited from improvements undertaken by MONSTAT to improve coverage, valuation, and classification of merchandise trade statistics. Data on imports and exports in the BOP are compiled according to the special trade system. The CBM adjusts export and import data from MONSTAT from CIF to FOB basis. The biggest challenge to the BoP statistics is the coverage of transactions through the informal economy. As with many euroized economies, difficulty in estimating currency and deposits and large errors and omissions continue to be an issue in the balance of payment statistics. Although current account statistics have been revised recently, errors and omissions are still large and with a persistent positive sign, largely due to an underestimation of the export of tourism services. The CBM has made progress in improving the recording of transactions via the ITRS by refining the transactions coding system and increasing interaction with 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. The CBM has expressed its interest in reporting BoP statistics under the presentation of the sixth edition of the *Balance of Payments and International Investment Position Statistics Manual (BPM6)*.

The CBM has received TA on International Investment Position (IIP) statistics, but does not yet disseminate these data. More recently, the CBM has conveyed to STA continuous difficulties with compiling and disseminating IIP statistics.

The latest BoP TA mission in January 2013 concluded with the following action items: (i) the compilation and regular dissemination of the IIP and external debt statistics; (ii) the revision of the compilation of the flows in currency and deposits assets by other sectors; and (iii) the improvement of the currently estimation procedure for the item Compensation of Employees (credit).

II. Data Standards and Quality

Participant in the Fund's General Data Dissemination System (GDDS) since December 2011. The latest update of metadata and GDDS plans for improvement were in 2012.

No data ROSC available.