

Montenegro: Technical Assistance Report-Report on the Monetary and Financial Statistics Mission



MONTENEGRO

TECHNICAL ASSISTANCE REPORT— REPORT ON THE MONETARY AND FINANCIAL STATISTICS MISSION

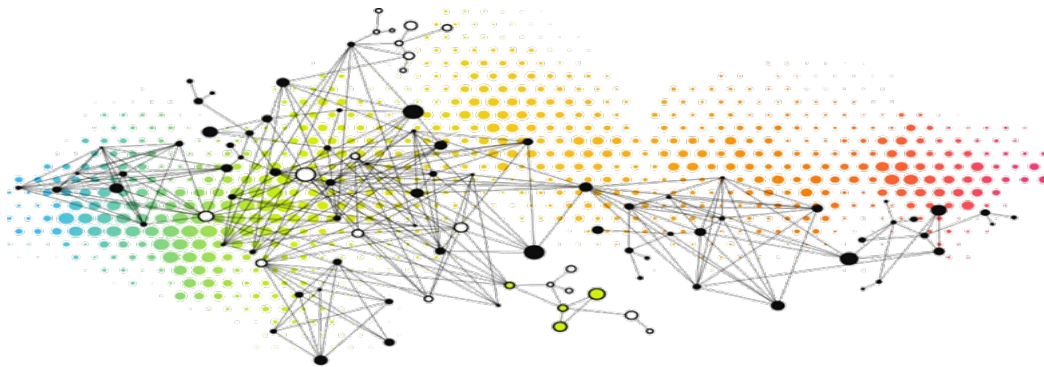
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TECHNICAL ASSISTANCE REPORT ON THE MONETARY AND FINANCIAL STATISTICS MISSION (DECEMBER 5–19, 2018)

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CONTENTS

Glossary	3
SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS	4
BACKGROUND	6
A. Context	6
B. Financial System in Montenegro	6
DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS	8
A. Monetary and Financial Statistics	8
B. Other Information and Metadata	20
C. Resources, Training, and Technical Cooperation	21
ACTION PLAN	22
TABLES	
1. Priority Recommendations	5
2. Financial System in Montenegro	7
3. List of Issues on ODC Data and Suggested Short-Term Actions	15
4. Overview of CBCG's Planned Data Collection Framework from the ODCs	19
APPENDICES	
I. List of ODCs in Montenegro	25
II. Data Tables	26
III. MFS Metadata for the <i>IFS Country Notes</i>	27

Glossary

CB	Central Bank
CBCG	Central Bank of Montenegro
COA	Chart of Accounts
DA	Directorate for Accounting
DC	Depository Corporations
DMPFRD	Directorate for Monetary Policy and Fiscal Research, CBCG
<i>ESA 2010</i>	<i>European System of Accounts 2010</i>
EUR	IMF's European Department
FIN	IMF's Finance Department
FSC	Financial Stability Council
FSRSD	Financial Stability Research and Statistics Department, CBCG
IC	Insurance Corporation
IFRS9	International Financial Reporting Standards 9
<i>IFS</i>	<i>International Financial Statistics</i>
ISA	Insurance Supervisory Agency of Montenegro
ITD	Information Technology Department, CBCG
<i>MFSMCG 2016</i>	<i>Monetary and Financial Statistics Manual and Compilation Guide 2016</i>
MOF	Ministry of Finance of Montenegro
Monstat	Statistical Office of Montenegro
MPRD	Monetary Policy and Research Division, CBCG
ODCs	Other Depository Corporations
OFCs	Other Financial Corporations
PL	Profit and Loss
SEC	Securities Exchange Commission of Montenegro
STA	IMF's Statistics Department
TA	Technical Assistance

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. At the request of the Central Bank of Montenegro (CBCG), and with the support of the IMF's European Department (EUR), a monetary and financial statistics (MFS) technical assistance (TA) mission visited Podgorica, Montenegro during December 5–19, 2018.¹

Its main objectives were to work with the authorities on: (i) compiling monetary data based on the IMF standardized report forms (SRF), 1SR and SRF 2SR, for the depository corporations (DC); (ii) reviewing the adequacy of the available data for the other financial corporations (OFCs) and preparing the ground work for the compilation of monetary data for OFCs based on the IMF standard report form, SRF 4SR; and (iii) designing a joint plan for regular reporting of monetary statistics to the IMF's Statistics Department (STA). The mission also aimed at addressing any other methodological issues on MFS that CBCG staff may wish to raise. The mission delivered all these objectives.

2. The mission agreed with the authorities on an action plan for Montenegro's regular reporting of monetary statistics to IMF. CBCG management and staff are keen to start reporting MFS to STA. Compilation of quality MFS will not only contribute to international comparability of Montenegro's data but also significantly help enhance the underlying information used for monetary policy and macroprudential analysis at the national level.

3. Together with staff of the CBCG's Directorate for Monetary and Fiscal Policy Research (FMFPR), the mission developed bridge tables that automatically generate SRFs 1SR and 2SR from the main data sources of the CBCG and ODCs. The source data for the central bank (CB), which is the CBCG's chart of accounts (COA), is sufficient for the compilation of SRF 1SR using the mapping tables developed during the mission. The ODC sector covers the commercial banks in Montenegro which are the only deposit taking institutions. The main source data for the ODCs are COA of the ODCs as well as their additional reporting forms. Complemented with some additional ad-hoc data to be obtained from the ODCs, source data for ODCs are broadly sufficient for the compilation of SRF 2SR also using the mapping tables developed during the mission.

4. After addressing the few issues identified by the mission, the CBCG can start compiling MFS for the central bank and other depository corporations based on SRFs, for the purpose of national dissemination and reporting to STA for publication in the *International Financial Statistics (IFS)*. The CBCG could start regular reporting to STA starting with data of January 2018, by June 2019. Historical monthly series could also be compiled for the data from January 2013 onwards and reported to STA. To maintain the quality and timeliness of

¹ The mission wishes to thank the Central Bank of Montenegro, in particular, the management and the staff of its Directorate for Monetary Policy and Fiscal Research for their hospitality and full support.

the monetary data, the CBCG is encouraged to automatize the process for the compilation of monetary data.

- 5. While the depository corporations sector currently dominates the financial system in Montenegro, the CBCG should also ensure the availability of source data for the compilation and dissemination of a quarterly OFC survey given the sector’s potential to grow.** The mission briefly reviewed the recently developed reporting forms for the leasing and factoring companies and found them broadly consistent for the compilation of monetary data based on the SRF 4SR. Coverage of the insurance companies, which constitute the majority of the OFC sector (around 58 percent) is important and the CBCG is encouraged to work with the ISA to improve the availability of source data. Once source data are in place, STA stands ready to assist the CBCG in the compilation of monetary data for the SRF 4SR.
- 6. The mission also reviewed the Financial Access Survey reports of Montenegro and took note of expected future improvements.** These include the intention of adding a gender breakdown in the newly developed data reporting system for ODCs.
- 7. To support progress in the above areas, the mission recommended a detailed action plan provided in Table 4 with the priority recommendations summarized in Table 1.** Further details can be found in the section *Detailed Technical Assessment and Recommendations*.

Table 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
June 2019	<i>Start reporting to STA, on a regular monthly basis, SRF 1SR in line with the methodology of the MFSMCG 2016.</i>	CBCG
June 2019	<i>Start reporting to STA, on a regular monthly basis, SRF 2SR in line with the methodology of the MFSMCG 2016.</i>	CBCG
June 2020	<i>Ensure that source data for OFCs are appropriate for the compilation of SRF 4SR, including, by requesting data from insurance companies.</i>	CBCG

BACKGROUND

A. Context

8. The CBCG has recently intensified their efforts to improve their financial sector statistics. They are about to start regular reporting and dissemination of Financial Soundness Indicators (FSIs) following the IMF TA mission on FSIs that was conducted in December 2017. They also requested STA's assistance to compile monetary data based on the *Monetary and Statistics Manual and Compilation Guide 2016 (MFSMCG 2016)* for regular reporting to STA.

9. The CBCG currently provides monetary data to STA in a non-standardized format for monetary authorities and deposit money banks (10R and 20R, respectively) for publication in the *International Financial Statistics (IFS)*. Following the adoption of International Financial Reporting Standards 9 (IFRS9) in January 2018, the CBCG is now keen to report MFS, initially for the central bank and other depository corporations, using the IMF's SRFs. Given that the *MFSMCG 2016* is largely consistent with the IFRS9, this will facilitate the compilation of MFS for Montenegro based on their source data.

B. Financial System in Montenegro

10. The financial system of Montenegro is dominated by banks, which constitute around 92 percent of the financial system assets. Fifteen banks operate in Montenegro. Foreign-controlled banks (9 out of 15) hold around 73 percent of the banking sector's assets.²

11. The other financial corporations (OFC) subsector constitutes around 8 percent of the financial system assets. OFCs include insurance corporations, pension funds, and other financial intermediaries (i.e., leasing and factoring companies, micro-credit institutions and investment funds). Seven microcredit finance institutions, constituting 1.3 percent of the financial sector assets, are not allowed to perform deposit taking operations. The insurance sector, while small in terms of market share, has been growing and constitutes an important part of the OFC subsector.

12. The CBCG oversees most of the financial system in Montenegro. Following the recent extension of its regulatory perimeter in November 2017,³ the CBCG is responsible for the supervision and licensing of commercial banks, microcredit financial institutions, financial leasing and factoring companies, companies for the purchase of receivables, and credit-guarantee

² The list of banks operating in Montenegro is available in Appendix I. One bank, Ekos Bank AD Podgorica, has gone into liquidation process in 2003. The liquidation proceedings were finalized while the mission was ongoing in December 2018.

³ See Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations ("Official Gazette of MNE", no. 73/17).

companies.⁴ Insurance companies, and investment and pension funds are supervised by the Insurance Supervisory Agency (ISA) and the Securities Exchange Commission (SEC), respectively.

13. The CBCG performs traditional central bank functions, including responsibility for financial stability. Even though Montenegro is neither part of the European Union nor of the euro area, the euro is used as the legal tender. The financial stability mandate is being carried out by the FSRSD of the CBCG. Monetary data is compiled by the Monetary Policy and Research Division (MPRD).⁵

14. The Financial Stability Council (FSC) established in 2010 monitors the risks related to Montenegro's financial system.⁶ The FSC, chaired by the Governor of the CBCG, is comprised of the Ministry of Finance (MOF), CBCG, ISA and SEC. Determination, collection, and analysis of information of importance for the financial system stability is among the activities of the FSC.

Table 2. Financial System in Montenegro
(thousand Euros, end-2017)

Financial Corporations (FC) Sector	Asset Size	# of Institutions	Share in Total Assets of Sub-Sector (%)	Share in Total Financial Sector Assets (%)
Central Bank of Montenegro				
Other Depository Corporations				
Commercial Banks				
Domestically controlled	1,128,605	6	26.99%	24.84%
Foreign controlled	3,053,329	9	73.01%	67.22%
Total ODCs	4,181,933	15	100.0%	92.06%
Other Financial Corporations				
Insurance Companies	207,177	11	57.44%	4.56%
Pension Funds	569	2	0.16%	0.01%
Other Financial Intermediaries	152,927	20	42.40%	3.37%
Leasing Companies	38,999	4	10.81%	0.86%
Micro-credit Finance Institutions	61,062	7	16.93%	1.34%
Investment Funds	52,866	9	14.66%	1.16%
Total OFCs	360,673	33	100.0%	7.94%
Total Financial Sector	4,542,606	48		100.0%

Note: One factoring company which is going through the licensing process is not included.
Source: CBCG and IMF staff calculations.

⁴ Factoring companies have previously been outside the regulatory perimeter. Currently there is only one factoring company in Montenegro which is in the process of licensing. There are no credit companies for the purchase of receivables, and credit-guarantee companies.

⁵ MPRD is overseen by the Directorate for Monetary Policy and Fiscal Research.

⁶ See Financial Stability Council Law ("Official Gazette of MNE," no. 44/10).

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Monetary and Financial Statistics

15. The mission found the CBCG's current data collection framework is broadly appropriate for the compilation of monetary data in line with the *MFSMCG 2016* for the depository corporations sector, but further work is needed for OFCs. The CBCG has been reporting monetary data to STA for the monetary authorities and commercial banks in a nonstandard manner. The CBCG's chart of accounts (COA) was revised in December 2017 and CBCG staff expects further changes in the COA in the context of alignment with ECB requirements over the coming years. Regarding the ODCs, the CBCG has been using an improved data collection framework since 2013 which is in line with IFRS9 and the European regulations. The framework consists of key financial statements of ODCs (e.g. balance sheet, income statement) as well supplementary schedules that provide more granular data. Significant improvements are planned in the medium term to improve the reporting framework (See Table 4). Given that the CBCG does not supervise all OFCs, further work needs to be done to ensure the availability of source data for OFCs for the compilation of monetary data for this sector in line with the *MFSMCG 2016*.

16. The concept of residency of institutions is set out by an official definition which is in line with the definition set out in the *MFSMCG 2016*.⁷ The official definition of residency is based on the concepts of economic territory and center of predominant interest. For statistical reporting purposes, financial institutions operating in Montenegro, identify their clients' residency based on this official definition.

17. The Statistical Office of Montenegro (Monstat) is responsible for maintaining a register of institutions operating in Montenegro. Under the cooperation agreement signed among Monstat, CBCG and MOF, CBCG and MOF have advisory roles for the classification of the financial and government sectors, respectively. Monstat is responsible for the list of rest of institutions. The draft version of this list was prepared in 2017 for the reference year 2015 based on the *European System of Accounts (ESA 2010)*. CBCG staff indicated that while currently useful, the list is still on an experimental stage and needs to be further improved and officialized.

⁷ See Law on Foreign Current and Capital Operations, ("Official Gazette of RoM" no. 45/05, "Official Gazette of MNE", no. 62/08, 40/11, 62/13, 70/17).

18. The classification of financial institutions in Montenegro is in line with the definitions of the *MFSMCG 2016*. The Investment Development Fund (IDF),⁸ which is a borderline case regarding sectoral allocation, is classified in the government sector given that it does not incur risks by itself. The mission considers this classification as appropriate. The STA TA mission on government finance statistics held in September 2018 and Eurostat also recommended the classification of IDF within the government sector.

19. Recommended Action:

1. Relevant authorities to officialize and continuously update the registry of institutions in Montenegro.

20. The currency classification into national and foreign currency for the monetary statistics is made according to the *MFSMCG 2016* and in line with the official international reserves definition of the *Balance of Payments and International Investment Position Manual, Sixth Edition*. The euro is the legal tender in Montenegro. All domestic positions in euros are included under the domestic currency category. Positions in euros with nonresidents are included under foreign currency.

Central Bank of Montenegro

21. Source data for the compilation of monetary data for the CBCG is its COA, which is sufficient for the compilation of SRF 1SR. MPRD receives from the CBCG's Directorate for Accounting (DA) selected accounts of the COA that provide instrument, currency and some counterparty sector information for the compilation of monetary data. Counterparty sector information is also tracked separately for a pre-selected group of assets and liabilities and updated on an ad hoc basis when a new entity appears as a counterparty to the transactions of the CBCG. The mission considered that it is important for the MPRD to automatize the counterparty sector information, in cooperation with the DA and CBCG's Information Technology Department (ITD), in order to maintain the quality of the data and its timeliness.

22. Recommended Action:

2. MPRD in cooperation with the DA and ITD will automatize the calculation of counterparty sector information for the relevant instruments of the CBCG's balance sheet.

23. Accrual accounting is the method used and the financial assets are valued in accordance with the IFRS9 in the COA of CBCG. Use of accrual accounting is in line with IFRS9 and the recommendations of the *MFSMCG 2016*. CBCG's holdings of debt securities issued by nonresidents are recorded at fair value through other comprehensive income. CBCG's holdings of

⁸ IDF is a government backed fund established in 2009 with the goal of encouraging and facilitating economic development of Montenegro. Its core businesses is established through granting loans and extending guarantees, performing activities pertaining to the sale of capital in its portfolio and other activities aimed at supporting economic development.

Eurobonds issued by the Government of Montenegro are classified as held to maturity and recorded at amortized cost. While the *MFSMCG 2016* recommends valuing all securities at market prices, the approach taken by the CBCG is consistent with IFRS9 and therefore acceptable for MFS.

24. Together with CBCG staff,⁹ the mission developed a bridge table that links the accounts of the CBCG's COA to the different items of SRF 1SR. The DA was consulted as needed. The bridge table, which was created based on data as of June 2018, is presented in Appendix II. While, in most cases, CBCG's classification of its asset and liability items was in line with the *MFSMCG 2016* and allowed for a one to one mapping from CBCG's COA to the SRF 1SR, in some cases, some amendments/assumptions were made. These are noted below as well as in the bridge table at the more specific account level.

25. Interest receivables/payables were already available at the instrument level and are allocated by the mission to counterparty sectors based on some assumptions. The interest accrued on assets and liabilities is identified separately for each instrument in the COA, making it possible to add them together with their underlying instruments in the SRF 1SR as recommended by the *MFSMCG 2016*. Given that the counterparty sector information was not available for the interest receivable/payables through the CB's COA, these were allocated to the counterparty sectors based on the sectoral distribution of the underlying instrument. Considering the small amounts of these figures, the mission considers that, initially, the CBCG might continue to use these assumptions. As a next step, it could consider adding the counterparty sector account information to all interest receivables/payables in the CBCG's COA.

26. Recommended Action:

3. For the allocation of interest/receivable payable amounts to the counterparty sectors in SRF 1SR, initially, the CBCG to continue using the assumptions made during the mission. As a next step, to consider adding the counterparty sector account information to all interest receivables/payables in the CBCG's COA.

27. The mission advised on the correct treatment of negative interest accruals (due to negative interest rates) to ensure that the negative accruals diminish the value of the asset. Given the negative interest rates, for the deposits of the MOF within the CB, an interest receivable was recorded on the asset side. Similarly, on the liability side, for the deposits of the CBCG within the nonresident banks, an interest payable was recorded. For the compilation of monetary data, both amounts are moved to the opposite sides of the balance sheet and classified under the respective instrument and counterparty sectors with a change in the sign to ensure that the negative interest accruals diminish the value of the asset. Going forward, the

⁹ The main counterparts of the Mission consisted of the Head of the CBCG's DMPFR, the Head of CBCG's MPRD as well as a Senior Advisor from the CBCG's MPRD.

CBCG will closely follow the account to be able to distinguish and properly classify the actual interest receivables/payables from those that relate to negative interest rates.

28. The CBCG's holdings of Government of Montenegro's bonds that were bought at the international markets are re-classified as claims on government rather than international reserves. In Montenegro, the CBCG cannot directly lend to the government through the purchase of its securities on the primary market but could do so through the secondary market. To this end, the CBCG has been classifying the Eurobonds of the government that were bought at the international markets as claims on nonresidents (i.e. *Securities included in official reserve assets in FC*, in SRF 1SR). The mission, also in consultation with the Balance of Payments Division of STA, excluded these securities from the official reserve assets and classified them as claims on government for the compilation of monetary data. Both the DMPFR and DA agreed, in principle, with the classification of these securities as claims on government and implementing this classification in the monetary data for all periods. DA indicated some operational challenges in making this classification in the accounting records for data of previous periods but was willing to do so starting with data of 2019. The effects of this reclassification are discussed in paragraph 33.

29. Recommended Action:

4. The CBCG to classify the Eurobonds of the government that were bought at the international markets as claims on government rather than international reserves.

30. The CBCG presents the IMF accounts based on an analytical representation focusing on the components considered to be reserve assets. The CBCG's COA includes the concept of *Reserve Position in the IMF (Other deposits included in official reserve assets, foreign currency*, in SRF 1SR) with a balance consistent with the records of the IMF's Finance Department (FIN). The balance of *SDR Holdings* is broadly consistent with the records of the IMF's FIN. DA included the small amount of loans received from the IMF for the poverty reduction purposes under the *SDR Holdings*. The mission reclassified this item as *foreign currency holdings* instead of *SDR Holdings* and on the liability side, removed it from *SDR Allocation* and added it to *Loans from the IMF*. Some portion of *SDR Allocations* were recorded by DA in a separate account on the liability side as deposits for settling obligations to IMF. The mission classified the respective portion of this account as *SDR Allocation*, making it consistent with the IMF'S FIN's records. DA staff requested mission's help in contacting IMF's FIN for further guidance on the detailed classification of the Fund accounts.

31. Recommended Action:

5. DA to ensure that the IMF Accounts are recorded consistent with the IMF'S FIN's records.

32. Based on the bridge table created during the mission, the MPRD will prepare SRF 1SR forms initially starting from January 2018, followed by historical series going back to 2013. To ensure that historical time series data are provided for the users of monetary data,

CBCG will produce SRF 1SR forms based on data starting from January 2013. Even though some changes occurred in the CBCG's COA with the adoption of IFRS9 starting from January 2018, COA for the periods of 2013–17 also provides the needed granularity for the construction of SRF 1SR. The mission agreed that MPRD staff will initially focus on producing the SRF 1SR forms starting from January 2018 based on IFRS9 consistent data, followed by the data for 2013–17 period.

33. The CB survey compiled by the mission (based on the SRF 1SR) slightly differs compared with the previously reported survey. The *net foreign assets* calculated by the mission are approximately 60 million lower and *net domestic claims* are approximately 60 million higher than the previously calculated survey. The decrease of around 50 million Euros in *net foreign assets* and the respective increase in *net domestic assets* is due to the reclassification by the mission of Eurobonds of the government of Montenegro as *claims on central government* instead of claims on nonresidents. The 10 million Euros of increase in *foreign liabilities* and the respective decrease in liabilities to the central government is explained by the reallocation of part of the *SDR Allocation* figures that were previously recorded as *liabilities to the government* as *liabilities to nonresidents*.

34. It is important that the process for mapping of the CBCG's accounts to SRF 1SR is fully automatized. To maintain the quality and timeliness of the data, MPRD, in cooperation with the ITD, should put in place an automated system for the mapping of SRF 1SR.

35. Recommended Actions:

6. CBCG to migrate to SRF 1SR for the compilation of the central bank survey, using the bridge table developed during the mission initially based on data of January 2018 onwards followed by historical series for January 2013–December 2017.
7. CBCG to fully automatize the compilation of SRF 1SR.
8. CBCG to start reporting to STA, on a regular monthly basis, SRF 1SR for publication in *IFS*; initially with data of January 2018 onwards by June 2019.
9. CBCG to start reporting to STA, SRF 1SR for publication in *IFS*; historical time series data for January 2013–December 2017 by December 2019.

Other Depository Corporations

36. Commercial banks provide their detailed COA (i.e. balance sheet and, profit and loss accounts) as well as additional supervisory reports to CBCG. Banks provide their monthly and quarterly financial statements to CBCG with T+8 and T+20 days timeliness, respectively.¹⁰ CBCG

¹⁰ See Decision on Chart of Accounts for Banks ("Official Gazette of MNE", no. 82/17) and Decision on Reporting to the Central Bank of Montenegro ("Official Gazette of MNE", nos. 64/12, 83/17).

has in place an automatic validation processes to check the consistency of the COA with the additional reports which contribute to the quality and consistency of the information.

37. Together with the CBCG staff, the mission developed a bridge table that links the accounts of the ODCs' COAs and additional report forms to the different items of SRF 2SR.

The CBCG's Supervision Department (SD) as well as the commercial banks were consulted as needed. The bridge table, with data as of June 2018, is presented in Appendix II.

38. Ekos Bank AD Podgorica, which has been under liquidation process since 2003, is not included in the reporting population of the ODCs. The *MFSMCG* recommends keeping in the depository corporations survey the accounts of the institutions that are undergoing liquidation process as long as they own financial assets and liabilities.¹¹ Ekos Bank, as per the Law on Bankruptcy and Liquidation, has not been required to be part of the regular bank reporting population. Considering its small size (with assets of 8.5 million Euros as of end-2002 which constitutes 0.2 percent of end-2017 assets of the ODC sector), the mission considered the exclusion of Ekos Bank from the reporting population of the ODCs as acceptable while noting it in the *IFS Country Notes*. The liquidation process of Ekos Bank was finalized while the mission was ongoing in December 2018.

39. Recommended Action:

10. CBCG to include in the Country Notes for *IFS*, the exclusion of Ekos Bank from the reporting population.

40. The accounting and valuation methodology implemented by the ODCs in Montenegro are broadly in line with the recommended compilation practices identified in the *MFSMCG 2016*. Commercial banks in Montenegro, have been implementing International Accounting Standards 39 since 2013 and started complying with the *IFRS9* since January 2018. Commercial banks have also been following the Basel II regulatory framework since 2009.

41. Securities are classified into four groups in line with IFRS9: (i) held for trading; (ii) measured at fair value through other comprehensive income (OCI); (iii) measured at fair value through profit and loss (PL); and (iv) those valued at amortized cost. If securities are not traded for twelve months (in some banks this period may be longer) then they are not considered to be held for trading. Government securities are measured at fair value (bonds and other securities) through OCI or at amortized cost (treasury bills).

42. Loans are also valued consistent with IFRS9 and mostly valued at amortized cost. Some loans, as a result of the Solely Payments of Principal Interest, are measured at fair value through PL. Given that these loans are not tradeable, the mission decided to classify them as loans.

¹¹ See *MFSMCG*, paragraph 3.143.

43. ODC's COAs and additional supervisory reports are broadly sufficient for the compilation of SRF 2SR although in some cases supplementary information would be needed. ODC's COA provides most instrument and some counterparty sector breakdowns while the additional supervisory report forms include further details on the type of instrument, counterparty sector and currency breakdowns. In some cases, supplementary information would be needed to ensure the granularity of the information as follows:

(i) *additional tables need to be created:* In some cases, MPRD requested further information from the SD. For these cases, automatic tables need to be created for MPRD's use for the compilation of monetary statistics.

(ii) *additional requests need to be added to the ODCs' report forms:* For a few assets and liabilities, counterparty sector and currency breakdowns were unavailable therefore additional information were requested from the ODCs during the mission. The mission considers that it is important that these data requests are added to the existing reporting forms of ODCs. In the meantime, as an interim solution, MPRD could request these data from the banks on a less frequent basis (e.g., quarterly) and for the remaining months rely on assumptions for the shares made using the quarterly data.

(iii) *assumptions:* In some cases, given the insignificance of the amounts, assumptions were made to allocate assets and liability items into relevant instrument, sector and currency buckets which could be continued in the short term. These assumptions should be noted in the *IFS Country Pages*.

The suggested short-term strategy for each of the issues is elaborated below in Table 2.

Recommended Actions:

11. CBCG to create automatic tables for the calculation of the breakdowns indicated in Table 2 as inputs for the compilations of SRF 2SR forms.
12. CBCG to add the additional data requests indicated in Table 2 to the existing reporting forms of ODCs as inputs for the compilations of SRF 2SR forms.
13. CBCG to continue using the assumptions made during the mission and indicated in Table 3 to the extent possible by creating tables for automatic calculations.

Table 3. List of Issues on ODC Data and Suggested Short-Term Actions

	Issues	Actions During the Mission	Suggested Short-Term Action
Assets			
Interest receivables, accruals on interest and accruals on fees for all financial assets	Counterparty sector breakdown unavailable.	Allocated based on the shares of loans and other receivables for the main borrowing sectors.	Tables need to be created by CBCG for automatic calculation based on the available data and using the same allocation method. (Recommendation 11)
Debts securities and equities that are held for trading, and those that are valued at fair value through other comprehensive income	Counterparty sector breakdown for "other resident sectors" unavailable.	Additional supervisory data that was available to CBCG were used to breakdown "other resident sector" into ODCs, OFCs, PNFCs, ONFCs.	Tables need to be created by CBCG for automatic calculation based on the available data. These also need to be included by the SD in the validation checks at the institution level. (Recommendation 11)
Debts securities and equities that are valued at fair value through profit and loss	Counterparty sector breakdown unavailable.	Additional supervisory data that was available to CBCG were used to breakdown into the respective sectors.	Tables need to be created by CBCG for automatic calculation based on the available data. These also need to be included by the SD in the validation checks at the institution level. (Recommendation 11)

	Issues	Actions During the Mission	Suggested Short-Term Action
Investments in subsidiaries, joint ventures and controlled entities	Currency or counterparty sector breakdown was unavailable.	Additional data was requested from the ODCs during the mission.	Data requests need to be added to the existing reporting forms of ODCs. In the meantime, allocations are to be made based on the sector and currency shares calculated during the mission based on June 2018 data. As an interim solution, MPRD could request these data from the banks on a less frequent basis (e.g. quarterly) and for the remaining months make assumptions for the shares based on quarterly data. (Recommendation 12)
Deposits	Currency breakdown was unavailable at the instrument and counterparty sector level.	Allocation of currency information to type of deposits (e.g. transferable or other deposits) was made based on the shares of deposit types in total deposits.	CBCG staff to continue using the assumptions made during the mission to the extent possible by creating tables for automatic calculations rather than through manual calculations. (Recommendation 13)
Liabilities			
Subordinated debt	Instrument, sector and currency breakdowns were unavailable.	Additional data was requested from the ODCs during the mission.	Data requests need to be added to the existing reporting forms of ODCs. In the meantime, allocations are to be made based on the sector and currency shares calculated during the mission based on June 2018 data. As an interim solution, the MPRD could request these data from the banks on a less frequent basis (e.g. quarterly) and for the remaining months make assumptions for the shares based on quarterly data. (Recommendation 12)

	Issues	Actions During the Mission	Suggested Short-Term Action
Interest payables, accruals on interest and accruals on fees for most financial liabilities	Instrument (e.g. type of deposit) and counterparty sector information were unavailable while currency information was present in the reporting forms.	Assumptions were made to allocate the total amounts into counterparty sector, instrument and currency buckets using the shares of total deposits of main sectors.	Tables need to be created by CBCG for automatic calculation based on the available data and using the same allocation method. (Recommendation 11)
Interest payable and other liabilities; commissions and fees from intermediary activities (Account 2907)	Counterparty sector was unavailable.	ODCs were consulted during the mission which informed that the counterparties are residents.	Data requests need to be added to the existing reporting forms of ODCs. In the meantime, allocations are to be made based on the sector and currency shares calculated during the mission based on June 2018 data. As an interim solution, the MPRD could request these data from the banks on a less frequent basis (e.g. quarterly) and for the remaining months make assumptions for the shares based on quarterly data. (Recommendation 12)
Advances payable (Account 2908)	Counterparty sector and currency breakdowns were unavailable.	Additional data was requested from the ODCs during the mission.	Data requests need to be added to the existing reporting forms of ODCs. In the meantime, allocations are to be made based on the sector and currency shares calculated during the mission based on June 2018 data. As an interim solution, the MPRD could request these data from the banks on a less frequent basis (e.g. quarterly) and for the remaining months make assumptions for the shares based on quarterly data. (Recommendation 12)

44. Interest is recorded on an accrual basis and reported separately instead of together with the underlying instrument.

The interest amounts for each instrument broken down by currency is separately identified in the COA therefore it was possible for the mission to make a proper allocation to the instruments. However, neither the COA nor the additional reporting forms included information on the counterparty sector of interest. To this end, for the compilation of SRF 2SR, accrued interest by instrument was allocated—on the asset and liability sides—to the counterparty sectors based on the shares of the respective sectors in the total amount of the underlying instrument.

45. In the ODC's COA interest had three components: (i) interest due but not yet paid; (ii) interest accrued but not due; and (iii) accruals on fees. The *accruals on interest (ii)* refer to amounts accrued but not yet due. The *accruals on fees (iii)* refer mostly to loan processing fees/commissions, charged at the beginning, i.e. when the loan is disbursed/extended to client, and constitute a significant portion of the effective yield of the underlying instrument. Therefore, the mission treated both (ii) and (iii) along with (i) as *interest* and classified them together with the underlying instrument.

46. Based on the bridge table created during the mission, the CBCG will prepare SRF 2SR forms initially for data starting from January 2018, followed by historical series going back to 2013. While with the adoption of IFRS9, some changes occurred in the ODCs' COA starting from January 2018, COA from the period of 2013–17 provides the needed granularity for the construction of SRF 2SR for these periods. The mission agreed that DMPR staff will initially focus on producing the SRF 2SR forms starting from January 2018 based on IFRS9 consistent data followed by the data for 2013–17.

47. The ODC survey compiled by the mission (based on the SRF 2SR) slightly differs from the previously reported survey. The *net foreign assets* of ODCs calculated by the mission is approximately 5 million euro higher than the figures in the previously calculated survey. The difference is partly due to the reclassification of *advances payable* in the respective counterparty sectors. They were previously classified as *other items net* due to lack of information on the counterparty sector. In addition, *interest payable* amounts which were not allocated to respective sectors are now allocated including as *liabilities to nonresidents*.

48. It is important that the process for mapping of the ODCs' reports to SRF 2SR is fully automatized. To maintain the quality and timeliness of the data, the MPRD, in cooperation with the ITD, should put in place an automated system for the mapping of SRF 2SR.

49. Recommended Actions:

14. The CBCG to migrate to SRF 2SR for the compilation of the ODC survey, using the bridge table developed during the mission initially based on data of January 2018 onwards followed by historical series for January 2013–December 2017.

15. The CBCG to fully automatize the compilation of SRF 2SR.
16. The CBCG to start reporting to STA, on a regular monthly basis, SRF 2SR for publication in *IFS*; initially with data of January 2018 onwards by June 2019.
17. The CBCG to start reporting to STA, SRF 2SR for publication in *IFS* historical time series data for January 2013–December 2017 by December 2019.

50. CBCG is in the process of setting up a framework to collect granular information from the ODCs, to be implemented by 2020. The planned new framework aims to collect granular data in line with the *ESA 2010* and *MFSMCG 2016* methodology. Once this framework is implemented, the issues identified above will be addressed as the framework allows for a flexible way of presenting ODCs' data. An overview of CBCG's planned data collection framework is provided in Table 4.

Table 4. Overview of CBCG's Planned Data Collection Framework from the ODCs

I. GENERAL INFORMATION	II. SETS OF ATRIBUTES	III. TYPE OF AMOUNT
<ul style="list-style-type: none"> • Name of reporting institution • Type of report • Balance sheet items • Statistical Information • Reporting period • Type of report 	<ul style="list-style-type: none"> • Instrument • Head office country • Sectoral breakdown (ESA 2010) • Currency • Original maturity • Period of notice • Grace period • Loan purpose • Activity • Subordination of debt instruments • Risk group • New activities • Type of interest rate • Period of initial interest rate fixation • Type of reference interest rate • Maturity of reference interest rate • Frequency of change in interest rate • Loan amount category • Collateral/Guarantee • Gender 	<ul style="list-style-type: none"> • Gross total receivables (liabilities) on the principal • Gross total receivables (liabilities) on interest or voted dividends • Impairment of receivables on balance sheet items or amount of provisions for off-balance sheet items or cost of acquiring own shares • Impairment of receivables on interest or dividends • Write-off of the principal • Write-off of interest • Price adjustments (changes) • Average weighted nominal interest rate (AAR or NDER) • Average weighted effective interest rate (APRC) • Gross total amount of reclassifications and other adjustments • Number

Source: CBCG

51. Recommended Action:

18. CBCG to start implementing the planned new data collection framework.

Other Financial Corporations

52. Micro-credit institutions have been under the supervision of CBCG and are subject to the same reporting requirements as commercial banks. COAs of these institutions and their supplementary report forms, similar to banks, provide sufficient granularity for mapping to SRF 4SR form on a monthly and quarterly frequency.

53. Leasing companies are expected to report granular data to the CBCG starting in early 2019 which will be broadly sufficient for mapping to SRF 4SR while their report forms before 2019 were not sufficient for the compilation of SRF 4SR.

Leasing companies started being supervised by the CBCG since November 2017 and as per the decision in April 2018, they are expected to start reporting to the CBCG on a quarterly basis starting with data of 2019Q1. While the existing report forms of leasing companies (that contain data from 2011 to 2018) provide some instrument and counterparty sector breakdown, they are not sufficient for mapping to SRF 4SR form. CBCG could consider requesting additional information from the leasing companies for the periods before 2019. Factoring companies being outside the regulatory perimeter have only been reporting data to the Tax Administration. Starting from 2019Q1 those companies that obtain the operating license from the CBCG will also start reporting to the CBCG.

54. DMPFR has developed and is about to launch a new and improved set of reporting forms for the collection of data from leasing (and factoring) companies starting from 2019Q1.

The mission briefly reviewed these forms and found them to be sufficient for the compilation of SRF 4SR.

55. DMPFR also plans to develop reporting forms for the OFCs that are not supervised by the CBCG (i.e. insurance companies, pension and investment funds).

The reporting forms for these institutions are planned to have similar granularity as those of the leasing companies. Given that CBCG is not the supervisor of these institutions, CBCG intends to present the suggested forms for discussion at the FSC.

56. The mission understands that insurance companies have recently made progress in reporting information, including to the FSC, due to European Union requirements.

Insurance companies currently have a COA which provides some breakdowns by instrument but not by counterparty sector and currency. CBCG staff considers that the instrument breakdown could be improved with additional information, but sector and currency breakdowns need to be introduced. Considering their largest share in the OFC subsector, the mission considers that coverage of insurance companies in the OFC's reporting population is essential.

57. Recommended Action:

19. Following the regular reporting of SRF 1SR and SRF 2SR forms, CBCG to ensure that the source data for OFCs are appropriate for the compilation of SRF 4SR including by requesting data from insurance companies through the Insurance Supervisory Agency.

B. Other Information and Metadata

58. The mission assisted the CBCG to draft the relevant part of the IFS Country Notes.

The deviations from the *MFSMCG 2016* are noted in the draft country notes which will continue to be updated by the CBCG as necessary and provided to STA for publication (Appendix III).

59. Recommended Action:

20. Along with the reporting of SRF 1SR and SRF 2SR forms, CBCG to provide country notes for Montenegro to STA for publication in *IFS* and use of the IMF's European Department.

60. The CBCG has been reporting to STA interest rate information using 6SR forms.

These include treasury bill rate, weighted average deposit rate, lending rate and Montenegro Stock Exchange Index. CBCG will continue sending this information to STA using the SRF 6SR for publication in the *IFS* and use of the IMF's European Department.

61. The CBCG will use the monetary data based on the SRFs for dissemination on their website. The mission indicated the usefulness of granular monetary data based on the SRFs not only for international comparability and consistency but also for national policy purposes. CBCG staff indicated their intention to use the revised series to disseminate monetary data on the CBCG's website.

62. Recommended Action:

21. CBCG to Compile national disseminated MFS using the SRFs 1SR and 2SR.

63. The mission also reviewed the Financial Access Survey reports of Montenegro and noted some expected improvements. With the inclusion of some OFCs under the supervisory perimeter of the CBCG, more information will be available from these institutions (e.g. number of branches, outstanding loans and acquired funds). More information will also be available for the ODCs with the planned new data collection framework. These expected improvements include number of depositors, number of deposit accounts, number of borrowers, number of loan accounts, outstanding loans, outstanding deposits all broken down by type (households vs. small and medium enterprises) and gender of customers. The CBCG also informed the mission that they could also collect information on internet banking (i.e. number of internet banking accounts).

C. Resources, Training, and Technical Cooperation

64. Staff of the DMPFR is very well informed about the monetary data and MFSMCG 2016 and is in good cooperation with the AD and SD, but further support from ITD will help automatize the process for the compilation of SRFs. Some of the additional data needs could be addressed by the creation of automatized tables by ITD based on existing data which would reduce manual work helping improve the overall quality of the data.

65. Given the staff turnover, to ensure continuity of information, MFS compilers in CBCG are encouraged to continue receiving training on MFS methodology. As of December 2018, the MPRD has four officials, including the Head of the Division. The CBCG officials were of the view, and the mission agreed, that staff training is required to enhance their understanding of MFS concepts and definitions as well as their analytical interpretation of MFS. One CBCG official

has already participated in the introductory and advanced MFS training courses and found it very useful. Another staff member is in the process of application to participate at the introductory course on MFS at the Joint-Vienna Institute to be held in April 2018.

66. The mission also informed CBCG staff about the balance sheet approach (BSA).

Once the CBCG starts reporting the key underlying statistics of the BSA, namely, monetary statistics, international investment position and government finance statistics, STA could provide HQ based guidance on creating a BSA matrix as needed. At the same time CBCG staff could also attend regional BSA workshops.

67. The CBCG officials indicated that a TA may be needed on the compilation of SRFs for OFCs.

The mission also pointed out that for any remaining issues particularly on SRFs for the DCs, STA staff is ready to provide technical support from the IMF's headquarters via e-mail.

ACTION PLAN

The Action Plan below includes steps to accomplish milestones as well as the risks/verifiable indicators to achieving the outcomes. The plan is for technical compilers.

Priority	Action/Milestone	Risk Assumptions/Verifiable Indicators	Target Completion Date
Monetary and Financial Statistics			
<i>Outcome: The CBCG compiles a depository corporations survey that follows the methodology of the MFSMCG 2016, covering the central bank and ODCs.</i>			
H	Compile and start reporting to STA a monthly central bank survey based on SRF 1SR, in line with the methodology of the MFSMCG 2016 starting with data of January 2018. (Recommendation 6, 8)	Form 1SR is received by STA on a regular monthly basis for publication in <i>IFS</i> . Benchmark.	June 2019
H	Produce historical series for SRF 1SR, with data from January 2013 onwards. (Recommendation 9)	Historical series for SRF 1SR reported to STA for publication in <i>IFS</i> . Benchmark.	December 2019
H	Compile and start reporting to IMF-STA a monthly ODC survey based on SRF 2SR, in line with the methodology of the MFSMCG 2016, starting with data of January 2018. (Recommendation 14–16)	Form 2SR is received by STA on a regular monthly basis for publication in <i>IFS</i> . Benchmark.	June 2019

Priority	Action/Milestone	Risk Assumptions/Verifiable Indicators	Target Completion Date
H	Produce historical series for SRF 2SR, with data from January 2013 onwards. (Recommendation 17)	Historical series for SRF 2SR reported to STA for publication in <i>IFS</i> . Benchmark.	December 2019
M	Compile national disseminated MFS using the SRFs 1SR and 2SR. (Recommendation 22)	Monetary series disseminated by the CBB compiled using SRFs 1SR and 2SR.	June 2019
H	Automatize the compilation of SRF 1SR. (Recommendation 7)	Manual intervention in the compilation of SRF 1SR is minimal.	June 2019
M	Relevant authorities to officialize and continuously update the registry of institutions in Montenegro. (Recommendation 1)	An official registry of institutions created and communicated to reporters.	December 2019
M	Automatize the calculation of counterparty sector information for the relevant instruments of the <i>CBCG's balance sheet</i> . (Recommendation 2)	Counterparty sector information for the relevant instruments of the CBCG's balance sheet calculated automatically for the compilation of SRF 1SR.	June 2019
M	For the allocation of interest/receivable payable amounts to the counterparty sectors in SRF 1SR, initially, CBCG to continue using the assumptions made during the mission, at the next stage, to consider adding the counterparty sector account information to all interest receivables/payables in the CBCG's COA. (Recommendation 3)	Interest payable/receivable amounts are appropriately allocated to counterparty sectors.	June 2019
H	Reclassify the Eurobonds of the government that were bought at the international markets as claims on government rather than international reserves. (Recommendation 4)	Eurobonds issued by the government of Montenegro and held by the CBCG are excluded from official reserves.	June 2019
H	Ensure that the IMF Accounts are recorded consistent with the IMF's FIN's records. (Recommendation 5)	SDR Allocation figures are consistent with IMF's FIN's records.	June 2019

Priority	Action/Milestone	Risk Assumptions/Verifiable Indicators	Target Completion Date
H	Include in the Country Notes for <i>IFS</i> , the exclusion of Ekos Bank from the reporting population in the metadata. (Recommendation 10)	<i>IFS Country Notes</i> indicate the coverage of commercial banks included in the reporting population in MFS.	June 2019
M	Create automatic tables for the calculation of the breakdowns indicated in Table 2 as inputs for the compilations of SRF 2SR forms. (Recommendation 11)	Automatic tables are created for the items indicated in Table 2.	June 2019
H	Automatize the compilation of SRF 2SR (Recommendation 15)	Manual intervention in the compilation of SRF 2SR is minimal.	June 2019
M	Add the additional data requests indicated in Table 2 to the existing reporting forms of ODCs as inputs for the compilations of SRF 2SR forms. (Recommendation 12)	Additional data request indicated in Table 2 are added to the ODCs report forms.	June 2019
M	Continue using the assumptions made during the mission and indicated in Table 2 to the extent possible by creating tables for automatic calculations. (Recommendation 13)	Assumptions indicated in Table 2 are automatized.	June 2019
M	Implement the planned new data collection framework for ODCs. (Recommendation 18)	Data from ODCs start to be collected based on the new data reporting framework.	January 2020
Outcome: The CBCG ensures that the source data for OFCs are appropriate for the compilation of SRF 4SR.			
H	Start preparing the source data for the compilation of SRF 4SR including by requesting data from insurance companies. (Recommendation 19)	Source data for OFCs are appropriate for the compilation of SRF 4SR. Benchmark.	June 2020

Appendix I. List of ODCs in Montenegro

1. Crnogorska komercijalna banka AD Podgorica member of OTP Group.
2. Hiipotekarna banka AD Podgorica.
3. Societe Generale banka Montenegro AD.
4. Invest banka Montenegro AD Podgorica.
5. Prva banka Crne Gore AD Podgorica osnovana 1901. Godine.
6. ERSTE Bank AD Podgorica.
7. Atlas banka AD Podgorica.
8. NLB Banka AD Podgorica.
9. Komercijalna banka AD Podgorica.
10. Addiko Bank AD Podgorica.
11. Universal Capital Bank AD Podgorica.
12. Lovćen banka AD Podgorica.
13. Zapad banka AD Podgorica.
14. ZIRAAT Bank Montenegro AD Podgorica.
15. NOVA BANKA AD Podgorica.
16. One bank in liquidation: Ekos banka AD Podgorica. The liquidation process was finalized in December 2018 while the mission was still ongoing.

Appendix II. Data Tables

- a) The [bridge tables for SRF 1SR and SRF 2SR](#) which link the source data to the SRFs have been shared with the authorities bilaterally.
- b) The [Depository Corporations Survey](#), which consolidates central bank and other depository corporations surveys, has been shared with the authorities bilaterally.

Appendix III. MFS Metadata for the IFS Country Notes

Date of Fund Membership:

January 18, 2007

Standard Sources:

Central Bank of Montenegro (CBCG)
Statistical Office (Monstat)

Exchange Rates:

Market Rate (End of Period and Period Average):

Euro market rate. Since April 1, 2002, the euro is the legal tender and the unit of account in Montenegro. During the transition period January–March 2002, the Deutsche Mark and the euro were the parallel legal tender.

Central Bank:

Consists of the CBCG only. The classifications of economic sectors and financial instruments used in the accounts are based on the ESA 2010.

† Beginning in January 2013, data are based on an SRF for central banks, which accords with the concepts and definitions of the IMF's *MFSMCG 2016*.

The data is based on CBCG's chart of accounts. The CBCG's chart of accounts was revised in December 2017 therefore starting from January 2018, data are based on this new chart of accounts.

As of January 2018, securities are valued based on International Financial Accounting Standards 9. CBCG's holdings of Government of Montenegro bonds are classified as held to maturity and recorded at amortized cost.

Interest receivables and payables are allocated into counterparty sectors based on the shares of these sectors within the underlying instrument.

Other Depository Corporations

Comprises commercial banks. One bank which has been in liquidation process from 2003 to 2018 is not included in the reporting population.

† Beginning in January 2013, data are based on an SRF, which accords with the concepts and definitions of the IMF's *MFSMCG 2016*.

The data is based on commercial banks' chart of accounts and supporting reports, which were revised in December 2017 for alignment with *IFRS9* therefore starting from January 2018, data are based on the revised forms. Data for the 2013–17 period are in line with *International Accounting Standards 39*.

Data are available to the CBCG on a monthly basis with around T+8 days timeliness.

The classifications of economic sectors and financial instruments used in the accounts are based on the *ESA 2010*.

On the asset side, the allocation of currency information to type of deposits (e.g. transferable or other deposits) was made based on the shares of deposit types in total deposits.

Both on the asset and liability sides interest accruals were allocated to counterparty sectors based on the shares of the main sectors within the underlying instruments.

Depository Corporations:

† See notes on central bank and other depository corporations.