



MONTENEGRO

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 8, 2019

Prepared By

The European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS	2
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	4
STATISTICAL ISSUES	5

FUND RELATIONS

(As of June 30, 2019)

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

General Resources Account:	SDR Million	% Quota
Quota	60.50	100.00
Fund Holdings of Currency	45.65	75.45
Reserve Position	14.85	24.55

SDR Department:	SDR Million	% Allocation
Net cumulative allocation	25.82	100.00
Holdings	18.21	70.52

Outstanding Purchases and Loans: None.

Latest Financial Arrangements: None.

Projected Obligations to Fund (In millions of SDR):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.04	0.08	0.08	0.08	0.08
Total	<u>0.04</u>	<u>0.08</u>	<u>0.08</u>	<u>0.08</u>	<u>0.08</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, Sections 2, 3, and 4. Montenegro maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except with respect to restrictions maintained for security purposes that have not been notified to the Fund.

Latest Article IV Consultation: May 18, 2018 (IMF Country Report No. 18/121).

FSAP Participation: A Financial Sector Assessment Program was initiated in August 2015, jointly with the World Bank, and concluded during the 2015 Article IV consultation. The Executive Board discussed the Financial System Stability Assessment in January 2016.

Technical Assistance in the Past 12 Months:

Department	Timing	Purpose
MCM	July 19	Debt Management
MCM	May 19	Bank Supervision
FAD	April 19	Revenue Administration
FAD	March 19	Tax Policy
FAD	Feb 19	Revenue Administration
MCM	Jan 19	Debt Management
STA	Dec 18	Monetary and Financial Statistics
FAD	Nov 18	Tax Policy/Expenditure Policy
STA	Sep 18	National Accounts
STA	Sep 18	Government Financial Statistics

In addition, technical assistance was available through regional advisors covering public financial management.

Resident Representative: None.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

EBRD: <https://www.ebrd.com/where-we-are/montenegro/overview.html>

European Investment Bank: <https://www.eib.org/en/projects/regions/enlargement/the-western-balkans/montenegro/index.htm>

World Bank: <https://www.worldbank.org/en/country/montenegro>

STATISTICAL ISSUES

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. The Statistical Office of Montenegro (MONSTAT) suffers from resource constraints and limited capacity.

Real Sector Statistics: The Statistical Office of Montenegro (MONSTAT) suffers from resource constraints and limited capacity.

National Accounts: MONSTAT compiles annual GDP by the production and expenditure approach in current and previous year's prices. The quality of the annual GDP is good.

MONSTAT disseminates quarterly GDP series by expenditure but the methodology has room for improvement. Recent national accounts TA missions have focused on: (i) the development of robust quarterly GDP estimates by expenditure approach, including the improvement of estimates of changes in inventories and the use of the commodity flow approach; (ii) the development of supply and use tables; and (iii) the use of foreign trade statistics in national accounts.

MONSTAT is participating in a Dutch funded project, delivered by the IMF, which will run until end of 2019 to improve the national accounts.

There is a need to improve the industrial production index.

Price Statistics: MONSTAT compiles and disseminates a monthly consumer price index that broadly follows international standards. The coverage of the PPI could be expanded to include services.

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, on a cash basis, by the Ministry of Finance (MOF) based on the new GFS institutional classification, and, since 2006, include data on local governments and social security funds. The latter were merged with the treasury account in 2010. The chart of accounts introduced in 2001 has been implemented at the local level from mid-2005. Although progress is being made, there are still some gaps in coverage, and fiscal data do not include all units that should be classified in general government according to the GFSM 2001/2014 guidelines. Own revenues and associated expenditures of extrabudgetary units (including schools and hospitals) are also excluded. Fiscal data reporting suffers from frequent re-classifications, and the classification of some revenues and expenditures is not fully aligned with GFSM 2001/2014. 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.

Montenegro does not report either annual or high frequency *GFSM 2001* based data to the IMF. However, renewed technical assistance aimed at improving fiscal data compilation and reporting to both the IMF and EU resumed in 2017 and STA has field diagnostic missions.

Monetary and Financial Statistics (MFS): The Central Bank of Montenegro (CBM) reports monthly monetary statistics covering the CBM balance sheet and the balance sheet of commercial banks only. The CBM has not yet reported MFS using the Standardized Report Forms (SRFs). Data for other financial corporations are not reported.

Montenegro reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (the number of commercial bank branches per 100,000 adults and the number of ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Soundness Indicators (FSIs): The CBM does not currently report FSIs to the Fund for dissemination on the Fund's external website.

External Sector Statistics: Balance of payments (BoP) statistics are compiled by the CBM according to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The CBM adjusts export and import data from MONSTAT from CIF to FOB basis. One of the challenges to the BoP statistics is the positive and persistent net errors and omissions, suggesting understated inflows, due to the compilation of data based on an international transaction reporting system from banks. Tourism-related and remittances inflows could especially be underestimated due to the share of cash transactions. Using a new set of surveys, the CBM released in June 2019 the first International Investment position (IIP) data for 2016-17, with 2018 IIP data planned for September 2019. In July 2019 the CBM revised the BoP changes in international reserves, and the related Primary Income in the BoP current account to exclude CBM's holdings of Montenegrin government securities and SDR misclassifications over 2015-17. The CBM has received technical assistance from STA and plans to implement methodological changes that will reduce net errors and omissions and produce quarterly IIP data.

Montenegro participates in the IMF's Coordinated Direct Investment Survey (CDIS) reporting inward direct investment positions, but not outward direct investment positions. It has not yet participated in the Coordinated Portfolio Investment Survey (CPIS) or prepared the Reserves Data Template.

II. Data Standards and Quality

Participant in the Fund's Enhanced General Data Dissemination System (e-GDDS) since December 2011. Montenegro's [National Summary Data Page](#) (NSDP) went live in September 2017. The NSDP disseminates key macroeconomic indicators recommended in the context of the Enhanced General Data Dissemination System (e-GDDS).

No data ROSC available.

Montenegro: Table of Common Indicators Required for Surveillance
(As of July 17, 2019)

	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	May-2019	Jun-2019	M	M	M
Reserve/Base Money ¹	May-2019	Jun-2019	M	M	M
Central Bank Balance Sheet ¹	May-2019	Jun-2019	M	M	M
Consolidated Balance Sheet of the Banking System ¹	May-2019	Jun-2019	M	M	M
Interest Rates ²	May-2019	Jun-2019	M	M	M
Consumer Price Index	Jun-2019	Jul-2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2018	Mar-2019	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Apr-2019	Jun-2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q4-2018	Mar-2018	Q	Q	Q
External Current Account Balance	Q1-2019	Jun-2019	Q	Q	Q
Exports and Imports of Goods and Services	Q1-2019	Jun-2019	Q	Q	Q
GDP/GNP	Q1-2019	Jun-2019	Q	Q	Q
Gross External Debt	Q4-2017	Jul-2019	A	A	A
International Investment Position ⁶	Q4-2017	Jul-2019	A	A	A

¹Any 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. In July 2019, the CBM revised international reserves and its NFA to correct misclassification of CBM's holdings of Montenegrin government bonds and SDR holdings.

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 nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents. The annual IIP and external position data were released for the first time in June 2019, starting with the data for 2016 and 2017.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).