



# MONTENEGRO

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 3, 2022

Prepared By

European Department

### CONTENTS

FUND RELATIONS	<u>2</u>
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	<u>4</u>
STATISTICAL ISSUES	<u>5</u>

## FUND RELATIONS

(As of January 19, 2022)

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

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>% Quota</b>
Quota	60.50	100.00
Fund Holdings of Currency	106.15	175.45
Reserve Tranche Position	14.85	24.55

<b>SDR Department:</b>	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	83.81	100.00
Holdings	75.08	89.58

<b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>% Quota</b>
Emergency Assistance	60.5	100.00

### Latest Financial

#### Arrangements:

<b>Type</b>	<b>Date of Commitment</b>	<b>Date Drawn/Expired</b>	<b>Amount Approved</b>	<b>Amount Drawn</b>
RFI	June 24, 2020	June 26, 2020	60.5	60.5

**Projected Obligations to Fund** (In millions of SDR):

	Forthcoming				
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Principal		15.3	30.25	15.3	
Charges/Interest	0.66	0.65	0.42	0.11	0.01
Total	<u>0.66</u>	<u>15.78</u>	<u>30.67</u>	<u>15.23</u>	<u>0.01</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:** September 10, 2019 (IMF Country Report No. 19/293).

**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:**

<b>Department</b>	<b>Timing</b>	<b>Purpose</b>
STA	May 2021	External sector statistics
FAD	July 2021	Public Investment Management Assessment
LEG	September 2021	Central bank law
FAD	October 2021	Corporate income tax
FAD	December 2021	SOE oversight and risk management

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

**Resident Representative:** Ms. Eble is the Regional Resident Representative for the Western Balkans.

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

**European Commission:** [https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/negotiations-status/montenegro\\_en](https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/negotiations-status/montenegro_en)

**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

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> 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.</p>
<p><b>Real Sector Statistics:</b> The Statistical Office of Montenegro (MONSTAT) suffers from resource constraints and limited capacity.</p>
<p><b>National Accounts:</b> 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.</p> <p>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). Recent national accounts TA missions have focused on developing robust quarterly GDP estimates by expenditure approach. Quarterly GDP estimates have been compiled for 2010-2018.</p> <p>MONSTAT is participating in a Dutch funded project, delivered by the IMF, which will run until end of 2019 to improve the national accounts. The project will assist MONSTAT to improve coverage of agriculture and services in the quarterly estimates of GDP, and the consistency between the quarterly and annual estimates of GDP.</p> <p>There is a need to improve the industrial production index.</p>
<p><b>Price Statistics:</b> 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.</p>
<p><b>Labor market statistics:</b> 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.</p>
<p><b>Government Finance Statistics:</b> 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.</p>

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:** The Central Bank of Montenegro (CBM) reports monthly monetary statistics covering the CBM balance sheet and the balance sheet of commercial banks only. However, the monetary data are reported in non-standardized Report Forms.

**Financial Soundness Indicators (FSIs):** Montenegro does not report FSIs to the IMF.

**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. In July 2017 Montenegro received an e-GDDS Implementation mission, and the National Summary Data Page (NSDP) went live in September 2017.

No data ROSC available.

**Montenegro: Table of Common Indicators Required for Surveillance**  
(As of January 19, 2022)

	Date of latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Nov-2021	Jan-2022	M	M	M
Reserve/Base Money <sup>1</sup>	Nov-2021	Jan-2022	M	M	M
Central Bank Balance Sheet <sup>1</sup>	Nov-2021	Jan-2022	M	M	M
Consolidated Balance Sheet of the Banking System <sup>1</sup>	Nov-2021	Jan-2022	M	M	M
Interest Rates <sup>2</sup>	Nov-2021	Jan-2022	M	M	M
Consumer Price Index	Dec-2021	Jan-2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	2020	Jul-2021	A	A	A
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	Nov-2021	Dec-2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Q2-2021	Sep-2021	Q	Q	Q
External Current Account Balance	Q3-2021	Dec-2021	Q	Q	Q
Exports and Imports of Goods and Services	Q3-2021	Dec-2021	Q	Q	Q
GDP/GNP	Q3-2021	Dec-2021	Q	Q	Q
Gross External Debt	2020	Sep-2021	A	A	A
International Investment Position <sup>6</sup>	2020	Sep-2021	A	A	A

<sup>1</sup>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. 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.

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

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

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

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>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.

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