



# MONTENEGRO

## TECHNICAL ASSISTANCE REPORT—REPORT ON EXTERNAL SECTOR STATISTICS MISSION

May 2020

This Technical Assistance Report paper on Montenegro was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on February 2020.

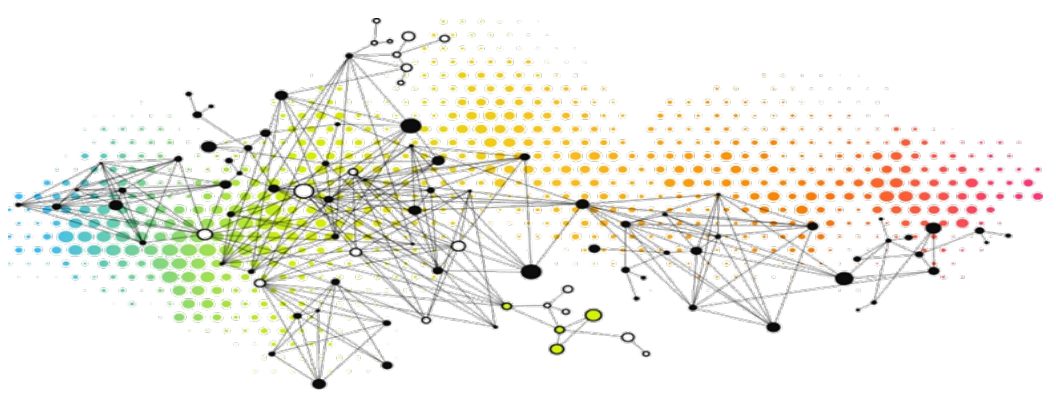
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# MONTENEGRO

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## REPORT ON EXTERNAL SECTOR STATISTICS MISSION (JANUARY 20–31, 2020)

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## Glossary

BIS	Bank for International Settlements
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition</i>
CBM	Central Bank of Montenegro
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey
DIEs	Direct Investment Enterprises
DTCs	Deposit-Taking Corporations
ECP	Economic Citizenship Program
EDS	External Debt Statistics
ESS	External Sector Statistics
EU	European Union
FISIM	Financial Intermediary Services Indirectly Measured
IIP	International Investment Position
IMF	International Monetary Fund
ITRS	International Transactions Reporting System
e-GDDS	Enhanced General Data Dissemination System
LBS	Locational Banking Statistics
MFS	Monetary and Financial Statistics
MOF	Ministry of Finance
MONSTAT	Statistical Office of Montenegro
OFCs	Other Financial Corporations
RDT	Reserves Data Template
SDDS	Special Data Dissemination Standard
STA	Statistics Department, IMF
TA	Technical Assistance

## SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. The International Monetary Fund (IMF)'s Statistics Department (STA) conducted a technical assistance (TA) mission to support the Central Bank of Montenegro (CBM) for the compilation of external sector statistics (ESS) in Montenegro during January 20–31, 2020. The mission was funded by Eurostat to meet the European Union (EU)'s *acquis*<sup>1</sup> from the ESS perspective. The CBM has already met most of the EU requirements in ESS. The main outstanding issue is a production of international investment position (IIP) quarterly.
2. **The CBM has made several important achievements in ESS since the last TA mission conducted in December 2017.** They include estimation of euros circulating in Montenegro, production of annual IIP and external debt statistics (EDS), and estimation of remittances brought in cash, which resulted in a significant reduction of net errors and omissions. Following the achievements, the mission focused on assisting the CBM in improving the frequency of compiling IIP from annual to quarterly and compiling the Reserves Data Template (RDT). The mission also assisted the CBM in recording the Economic Citizenship Program (ECP)<sup>2</sup> and financial intermediary services indirectly measured (FISIM), as well as enhancing the consistency between balance of payments and IIP.
3. **The mission recommended that the CBM compile preliminary quarterly IIP data and submit them to STA for review by the end of December 2020.** This will be another major achievement by the CBM, given the first annual IIP for Montenegro was released less than a year ago (June 2019). The mission provided guidance to compile quarterly position data for direct, portfolio, and other investment. The main remaining task for the CBM before producing quarterly IIP data is to review the results of the pilot quarterly direct investment survey focusing on largest direct investment enterprises. Most of the source data to produce quarterly portfolio and other investment positions have already been made available.
4. **The mission recommended that the CBM prepare a draft RDT and submit it to STA for review by the end of June 2020.** Montenegro is a fully euroized economy that is not yet part of the Eurosystem. Therefore, the euro is foreign currency for Montenegro and most of its reserve assets are denominated in euros. This causes some complications in defining the scope of the RDT. For example, regular government's domestic spending could result in a decrease in reserve assets. The mission provided guidance to prepare the RDT, focusing on foreign currency asset positions as well as scheduled payments that emanate from positions on the balance sheet (e.g., interest payments for Eurobonds issued by the government). To distinguish positions and

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<sup>1</sup> EU *acquis* is the term used to refer to the accumulated legislation, legal acts, and court decisions which constitute the body of EU Community law.

<sup>2</sup> The ECP allows foreign nationals to acquire the citizenship of Montenegro in return for lump sum payments to the Montenegrin government and investment projects in Montenegro.

transactions for the CBM and central government, the mission recommended that two templates be prepared for the CBM and central government separately. The Ministry of Finance (MOF) agreed that it would provide to the CBM monthly information on positions, pre-determined transactions, and contingent assets and liabilities of the central government.

5. **The mission recommended that the CBM start recording the ECP according to the characteristics of the payments from the applicants by the end of March 2020.** The ECP was just introduced in 2019 and details of the program were not made available during the mission. The mission advised that the payments from applicants for the ECP should be recorded in services, current or capital transfers, or direct or portfolio investment, according to the characteristics of the payments. The CBM plans to start recording data based on the information obtained from the international transaction reporting system (ITRS). The mission advised that the CBM approach the agency in charge of the ECP to collect precise information on the characteristics of the payments and cross-check the data from the ITRS.

**Table 1. Montenegro: Priority Recommendations**

Target Date	Priority Recommendations	Responsible Institutions
December 2020	<i>Compile preliminary quarterly IIP data and submit them to STA for review.</i>	CBM
June 2020	<i>Prepare a draft RDT and submit it to STA for review.</i>	CBM
March 2020	<i>Start recording payments under the ECP in services, current/capital transfers, or direct/portfolio investment following the guidance provided by the mission.</i>	CBM

6. Further details on the recommendations can be found in the action plan under *Detailed Technical Assessment and Recommendations*. The mission expresses its gratitude to the staff of the CBM for their cooperation and hospitality.

## DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

Priority	Action/Milestone	Target Completion Date
<b>Outcome:</b> A new data set has been compiled and made available internally and/or disseminated to the public.		
H	Complete reviewing the quality of reported quarterly direct investment position data focusing on largest DIEs.	June 2020
H	Compile quarterly IIP data and submit them to STA for review.	December 2020
M	Start recording positions of financial derivatives in IIP. If the ITRS captures transaction data on financial derivatives, record them in balance of payments.	June 2020
M	Use the LBS data to supplement the data reported by Form RN-1 for other sectors' deposit positions in IIP.	June 2020
M	Start recording data on trade credit and advances based on the survey results.	December 2021
M	Compile a preliminary version of the currency composition table required by Appendix 9 of the BPM6 and submit them to STA.	December 2020
H	Receive necessary information from the MOF to start drafting RDT for the CBM and the central government.	March 2020
H	Submit draft RDTs to the IMF's Statistics Department for review.	June 2020
H	Start recording payments under the ECP in services, current/capital transfers, or direct/portfolio investment following the guidance provided by the mission.	March 2020
M	Start recording FISIM from the data for the first quarter of 2019 according to the methodology agreed during the mission.	June 2020
<b>Outcome:</b> Source data are adequate for the compilation of these macroeconomic statistics.		
M	Investigate potential direct investment in kind in the new enterprise that explores oil and natural gas in Montenegro.	December 2020
M	Source the data for OFCs from the MFS and discontinue to estimate the position data by accumulating flow data from the ITRS.	December 2021
H	Record equity liabilities of non-financial corporations using the data from the CPIS with adjustments based on the information from the ITRS.	June 2020

Priority	Action/Milestone	Target Completion Date
H	<i>Revise the data on Eurobonds issued by the government to reflect residents' holdings. In case the data cannot be revised, explain it in the metadata.</i>	<i>December 2020</i>
M	<i>Investigate the information that is available at the Montenegrin depository of securities, with a view to using it as a source to record portfolio investment liabilities.</i>	<i>December 2021</i>
M	<i>Explore the possibility to expand the coverage of the direct investment or the loan asset and liability survey to collect information on portfolio investment positions.</i>	<i>December 2021</i>
M	<i>Remove holdings of Deutsche Mark and Austrian Schilling banknotes from reserve assets. They should not be included in the reporting to the IMF for the international liquidity and the survey for Currency Composition of Official Foreign Exchange Reserves.</i>	<i>March 2020</i>
H	<i>Continue to check the consistency between balance of payments and IIP data.</i>	<i>ongoing basis</i>
M	<i>Remove from IIP and EDS the large loans for which principal and interest have not been repaid. The amount should be recognized as other changes (when it becomes clear that the loans will no longer be repaid).</i>	<i>See left</i>
H	<i>Execute the planned updates to an average daily spending of travelers and share of unregistered accommodations. Start recording travel services based on the updated information.</i>	<i>March 2020</i>
<b>Outcome:</b> <i>Staff capacity increased.</i>		
H	<i>Allocate three additional staff to the Balance of Payments Division.</i>	<i>December 2020</i>
H	<i>Keep attending training courses for ESS.</i>	<i>ongoing basis</i>
Priority Scale: H – High, M – Medium		

## A. Introduction

7. **The technical assistance (TA) mission from the IMF's Statistics Department (STA) conducted in December 2017 worked with the Central Bank of Montenegro (CBM) to start producing international investment position (IIP) for Montenegro.** In June 2019, the CBM started disseminating annual IIP for 2016 and forward. The CBM also made other important improvements to the external sector statistics (ESS) for Montenegro, including estimation of euros circulating in Montenegro, production of EDS, and estimation of remittances brought in



cash, which resulted in a significant reduction of net errors and omissions. The mission commended the CBM's very successful achievements.

8. **The European Union (EU) has identified Montenegro as a candidate country for membership.** The CBM has already met most of the EU requirements (e.g., data on trade in services by partner country)<sup>3</sup> in external sector statistics. The main outstanding issue is production of IIP quarterly.

## B. International Investment Position (IIP) and Financial Account

### Direct Investment

9. **The CBM conducts an annual direct investment survey.** The CBM keeps improving the coverage of the survey, covering 2,111 direct investment enterprises (DIEs) for end-2018 data. The response rate to the survey is high (more than 90 percent of surveyed enterprises responded), due to the Law of the Central Bank of Montenegro and the Law on Foreign Current and Capital Operations that empower the CBM to collect data to compile statistics with penalty provisions when enterprises and individuals do not comply with data requests. The CBM cross-checks reported data with the balance sheet information of the same enterprises collected from the tax authority<sup>4</sup> and information from the international transaction reporting system (ITRS). The ITRS is also used to improve the coverage of the survey by identifying new enterprises that made large amounts of international transactions.

10. **The results of the annual survey are also used to report data for the IMF's Coordinated Direct Investment Survey (CDIS).** Since less than 20 enterprises have outward direct investment, the CBM reports data only for inward direct investment for the CDIS (most of outward CDIS data would be marked as confidential). The CBM and mission reviewed the inward direct investment data, comparing with the outward direct investment data reported by partner countries (i.e., mirror data) in the CDIS. Most of the mirror data were consistent with CBM's data with a few exceptions. The mission recommended that the CBM continue to explore measures to address the discrepancy (e.g., sharing aggregated data by industry).

11. **In the first quarter of 2017, the CBM launched a project to improve the frequency of the survey from annual to quarterly.** Enterprises were requested to submit quarterly data by the twenty-fifth of the following month. Around 1,000 DIEs responded to the quarterly survey, covering more than 90 percent of the total direct investment liabilities. The CBM is in the process of reviewing the results of the quarterly data to ensure their quality is sufficient to produce IIP quarterly. To mitigate resource constraints, the mission recommended that the CBM focus on largest DIEs when it reviews the results of quarterly reporting (e.g., largest 40 DIEs that account for 90 percent of direct investment liabilities). The CBM should conduct more comprehensive

<sup>3</sup> The CBM has already compiled data on trade in services by partner country for 93 percent of items in services (the EU's minimum requirement is 85 percent).

<sup>4</sup> The share of foreign direct investor is not available in the information from the tax authority.

review for annual data and revise quarterly data as needed. Due to lack of information to estimate quarterly data, some enterprises (mostly smaller enterprises that do not produce quarterly financial statements) provided the same position data on their equity liabilities for the first, second, and third quarters and updated them only for the fourth quarter. The mission explained the methodology to estimate equity liabilities from profit and loss statements of enterprises.<sup>5</sup> The mission advised that the CBM should estimate quarterly data if large enterprises start missing reporting quarterly data.

12. **The CBM has not recorded reinvested earnings, due to continuous negative reinvested earnings reported by large DIEs (e.g., developers of resort hotels).** As large losses recorded by these enterprises also affect other statistics as well as tax revenues of Montenegro, the CBM published a working paper on the issue and concluded that the quality of the financial statements of enterprises has serious issues.<sup>6</sup> The CBM encouraged the Tax Office to examine the financial statements reported by enterprises in Montenegro. The CBM plans to start recording reinvested earnings after the quality of source data has been improved.

13. **In 2018, the CBM included new questions in the direct investment survey to capture investment in kind.** The CBM can also verify the reported information with the information from the ITRS. In cases where equities have increased without corresponding payments reported by the ITRS, the CBM should request the enterprises to provide reasons for the increase. The mission recommended that the CBM investigate the enterprise that has been established recently to explore oil and natural gas in Montenegro, given it may be receiving large investment in kind (e.g., equipment for the exploration).

14. **Investment in residential property is recorded using the information from the ITRS.**<sup>7</sup> The customs' information is also used when cash is brought into Montenegro for investment in residential properties. The CBM accumulates transaction data and adjust them using the national land price index to reflect price changes. Investment in residential properties accounts for 16 percent of direct investment liabilities.

#### **Recommendations:**

- *Complete reviewing the quality of reported quarterly direct investment position data focusing on largest DIEs (high priority by June 2020).*

<sup>5</sup> The CBM's report form is designed to collect data on operational profits and losses, and capital gains and losses separately.

<sup>6</sup> <https://www.cbcbg.me/slike-i-fajlovi/fajlovi/fajlovi/publikacije/radne-studije/radna-studija-kvalitet-finansijskog-iz-vestavanja.pdf>

<sup>7</sup> There are no restrictions for non-residents' investment in residential properties. The land registry keeps information on property owners without values of the properties. Montenegrin government has a plan to update it to include values of the properties. Once the update is completed, the information may be used to compile direct investment data.

- *Compile quarterly direct investment position data and submit them to STA for review (top priority by December 2020).*
- *Investigate potential direct investment in kind in the new enterprise that explores oil and natural gas in Montenegro (medium priority by December 2020).*

## Portfolio Investment

15. **Portfolio investment data for deposit-taking corporations (DTCs) are obtained from the monetary and financial statistics (MFS).** These data are cross-checked with the information from the ITRS. The CBM started collecting data for other financial corporations (OFCs) targeting leasing and micro-financing corporations for the MFS in 2019. The data collection is still on a pilot basis and the CBM plans to expand the data collection to insurance corporations, investment funds, and pension funds by 2021. Once the data collection is fully implemented, the CBM should use the data for IIP, instead of accumulating flow data from the ITRS.

16. **Portfolio investment data for the general government are obtained from the MOF.** The size of liabilities for the general government (i.e., Eurobonds issued by the government) recorded in Montenegro's IIP was twice as large as the mirror data (i.e., debt security liabilities for all sectors) in the CPIS. The mission suggested adjusting the Eurobonds' issuance data with the information from the ITRS to reflect residents' purchases of the Eurobonds. However, the CBM informed the mission that it does not have enough information to make the adjustment. The CBM and mission met the MOF and requested that the MOF receive the information on Montenegrin residents' holdings of the Eurobonds from the custodian in London. Once the information is received, the CBM and MOF should exclude the amount from the IIP and EDS. In case the MOF and CBM cannot revise the data, it should be explained in the metadata. The CBM also consulted with the mission on the recording of a discounted government note issued in late 2019. The mission advised recording of accrued interest for the note and financial service fees paid to the arrangers.

17. **The CBM estimates portfolio investment position data for non-financial corporations and households by accumulating transaction data from the ITRS.** The CBM does not adjust the flow data to reflect price and foreign exchange rate changes, given the investment is not significant. The mission provided guidance on the use of the IMF's Coordinated Portfolio Investment Survey (CPIS) portal to review liabilities in equity securities with mirror data reported by partner countries. The review found that mirror data in the CPIS for end-2018 were almost twice as large as the data recorded in the IIP for Montenegro. The mission recommended that the CBM use the mirror data from the CPIS to record liabilities in equity securities. To produce quarterly data with a lag of one quarter (the CPIS is a semi-annual exercise with a lag of nine months), the CBM should adjust data using the information from the ITRS. The CBM assessed that non-residents' holdings of debt securities issued by Montenegrin non-financial corporations are not significant and plans to continue the current practice to record the data.

18. **In the medium term, position data for non-financial corporations and households should be collected directly, rather than accumulating transaction data from the ITRS, to avoid an accumulation of errors from price and exchange rate changes.** To collect position data on portfolio investment liabilities, the CBM could use the information from the Montenegrin depository of securities (Montenegrin enterprises are required to register the securities they issue at the depository). To collect position data on portfolio investment assets, the coverage of existing report forms (e.g., the direct investment survey or the loan asset and liability survey) could be expanded by adding questions on portfolio investment positions.

**Recommendations:**

- *Compile quarterly portfolio investment position data and submit them to STA for review (top priority by December 2020).*
- *Source the data for OFCs from the MFS and discontinue to estimate the position data by accumulating flow data from the ITRS (medium priority by December 2021).*
- *Record equity liabilities of non-financial corporations using the data from the CPIS with adjustments based on the information from the ITRS (high priority by June 2020).*
- *Revise the data on Eurobonds issued by the government to reflect residents' holdings. In case the data cannot be revised, explain it in the metadata (high priority by December 2020).*
- *Investigate the information that is available at the Montenegrin depository of securities, with a view to using it as a source to record portfolio investment liabilities (medium priority by December 2021).*
- *Explore the possibility to expand the coverage of the direct investment or the loan asset and liability survey to collect information on portfolio investment positions (medium priority by December 2021).*

**Table 2. Data Source for Portfolio Investment Position by Sector**

Institutional Sector	Assets	Liabilities
General Government	Not Applicable	MOF
Deposit-taking Corporations	MFS	MFS
Other Financial Corporations	ITRS	ITRS
Non-Financial Corporations, Households, and Non-Profit Institutions Serving Households	ITRS	ITRS (CPIS with adjustments for equity liabilities by June 2020)

## Financial Derivatives

19. **The mission recommended that the CBM start recording financial derivatives separately in balance of payments and IIP.** Currently, the CBM includes small positions of financial derivatives in other account receivable/payable. The mission confirmed that positions of financial derivatives can be separately available in the MFS for 2019 and forward.

20. **Transactions and positions should be recorded in balance of payments and IIP when the government makes financial derivative contracts to hedge the risk in exchange rate changes for its loan repayments.** Montenegro is building a highway that connects the coast area in the south with the mountain area in the north. The project is financed by loans in US dollars made by the Chinese government. The Montenegrin government is considering entering into financial derivative contracts to hedge the risk in exchange rate changes.

### **Recommendation:**

- *Start recording positions of financial derivatives in IIP. If the ITRS captures transaction data on financial derivatives, record them in balance of payments (medium priority by June 2020).*

## Other Investment

21. **Deposits assets and liabilities for DTCs are sourced from the MFS.** To cover transactions by other sectors at accounts with nonresident banks, around 50 largest enterprises are requested to fill out the report form (Form RN-1) monthly to report transactions and positions at accounts held abroad. To capture deposits for enterprises and individuals that do not submit Form RN-1, the CBM uses the Locational Banking Statistics (LBS) compiled by the Bank for International Settlements (BIS). The LBS provides position data as well as changes in positions during the quarter excluding those from exchange rate fluctuations. The CBM uses the latter to record balance of payments. The CBM assesses that deposits with nonresident banks that are not covered by the LBS or Form RN-1 (e.g., households' deposits with Serbian banks) are not significant.

22. **The mission recommended that the CBM use LBS data to supplement deposits for other sectors not only for balance of payments but also for IIP.** The LBS separately identifies DTCs, OFCs, non-financial corporations, general government, and households. Although some data are classified as "unallocated" in the LBS, the mission provided guidance on how to calculate data for non-financial corporations and households by subtracting data for the general government.

23. **Data on loan assets and liabilities are collected by Forms KO-1 and KZ-1.** Form KO-1 (to report loan assets) was submitted by around 60 enterprises and the total amounted to around 30 million euro. Form KZ-1 (to report loan liabilities) was submitted by around 1,500 enterprises and the total amounted to 2 billion euros.

24. **The CBM introduced a pilot survey to capture trade credit and advances in 2019**, selecting enterprises based on the custom declarations with corresponding payment information from the ITRS (i.e., enterprises with largest gaps between the customs and ITRS). Around 20 enterprises responded to the survey. After ensuring the quality of the survey, the CBM plans to fully implement the survey and start recording trade credit and advances by the first quarter of 2021.

**Recommendations:**

- *Compile quarterly other investment position data and submit them to STA for review (top priority by December 2020).*
- *Use the LBS data to supplement the data reported by Form RN-1 for other sectors' deposit positions in IIP (medium priority by June 2020).*
- *Start recording data on trade credit and advances based on the survey results (medium priority by December 2021).*

**Table 3. Data Source for Main Items in Other Investment**

Item in Other Investment	Data source	Comments
Euros circulating in Montenegro	MFS and information from neighboring countries	Deposits in euros are divided by the ratio of currency in circulation to deposits obtained from neighboring countries.
Deposits	MFS/LBS/Form RN-1	Data from the LBS should be used not only for transactions but also for positions to supplement the information from Form RN-1.
Loans	MFS/Forms KO-1 and KZ-1	Coverage of the report forms could be expanded to include portfolio investment positions.
Trade credit/advances	General government: Report from the MOF Other sectors: New survey	Results of the pilot survey should be reviewed.

**Reserve Assets**

25. **The CBM consulted with the mission on the treatment of small holdings of Deutsche Marc and Austrian Schilling banknotes kept in its vault for many years.** The CBM and mission agreed that these holdings should not be included in reserve assets.

**Recommendation:**

- *Remove holdings of Deutsche Mark and Austrian Schilling banknotes from reserve assets. They should not be included in the reporting to the IMF for the international liquidity and the survey for Currency Composition of Official Foreign Exchange Reserves (medium priority by March 2020).*

**IIP Currency Composition**

26. **Source data for the MFS provides currency composition information for most banks' external assets and liabilities with a distinction of euros and other foreign currencies.** The report forms for direct investment and Forms KO-1 and KZ-1 for loans also include information on currency denomination. Form RN-1 for accounts held abroad and the survey form for trade credit do not include currency information, but they include information on counterpart countries, which enables the CBM to estimate currency denomination of these financial instruments. Currency composition information on assets (other than reserve assets) and liabilities of the CBM and general government is also available from the Accounting Office of the CBM and the MOF. Other items for which currency composition information is not available can be recorded under the line "unallocated" in the report form to STA.

**Recommendation:**

- *Compile a preliminary version of the currency composition table required by Appendix 9 of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) and submit them to STA (medium priority by December 2020).*

**Consistency Between IIP and Balance of Payments**

27. **Prior to its visit to the CBM, the mission conducted a quality check of the IIP data that the CBM disseminated for the first time in 2019.** The mission confirmed the quality of the data and re-disseminated them on the IMF's website. To further enhance the data quality, the mission shared with the CBM a file to check the consistency between balance of payments and IIP data, which indicated a few inconsistencies between the two data sets (e.g., loans made by other financial corporations' assets). The CBM identified errors in reported data and swiftly contacted the reporters to revise the data. The mission also provided guidance on recording transactions and positions in cases where a guarantee is activated, and the government repays the debt to non-resident on behalf of the defaulted enterprise.

**Recommendation:**

- *Continue to check the consistency between balance of payments and IIP data (high priority on ongoing basis).*

### C. Reserves Data Template (RDT)

28. **The RDT presents a comprehensive information on reserve assets and other foreign currency assets for the country.** The RDT covers data beyond the framework of balance of payments and IIP, encompassing future pre-determined inflows and outflows (Section II), contingent assets and liabilities (Section III), and additional information related to reserve assets and other foreign currency assets (Section IV). The RDT also encompasses positions and transactions for both the central bank and the central government with resident entities (e.g., banks in the compiling economy). The compilation of the RDT is required to subscribe to the IMF's Special Data Dissemination Standard (SDDS).<sup>8</sup> The mission provided training on the compilation of the RDT to the CBM.

29. **Montenegro is a fully euroized economy that is not yet part of the Eurosystem.** Therefore, euros circulating in Montenegro are its foreign currency assets and most of its reserve assets are denominated in euros. This causes some complications in defining the scope of the RDT. For example, regular government's domestic spending could result in a decrease in reserve assets.

30. **To clarify the scope of the RDT, the mission recommended that the CBM record foreign currency asset positions as well as scheduled payments that emanate from balance sheet and off-balance sheet positions of the central bank and the central government** (e.g., interest payments for bonds issued by the government), according to paragraph 141 of the RDT Guidelines. In other words, expected payments and receipts that do not emanate from balance sheet and off-balance sheet positions (e.g., expenses for the government's construction projects or expected tax revenues) should not be recorded in the RDT. The mission provided guidance to fill out Sections I through IV of the RDT according to assets and liabilities recorded on the balance sheet of the CBM and the central government.

31. **To distinguish positions and transactions for the CBM and central government, the mission recommended that two templates be prepared for the CBM and central government separately.** The RDT for the central bank should include its reserve assets in Section I.A and its holdings of Eurobonds issued by the central government should be recorded in Section I.B. In Section II, demand deposits from the central government and commercial banks should be recorded with a maturity of up to one month. In Section III, reserve requirements received from commercial banks should be recorded as other contingent liabilities. In Section IV, currency composition of reserve assets should be recorded (all reserve assets are held in the currencies of the basket of the Special Drawing Right as of end-2019).

32. **The RDT for the central government should include its demand deposits with the CBM in Section I.B.** Section II should include scheduled payments of principal and interest for Eurobonds and loans issued and received by the central government. Repayments for the gold

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<sup>8</sup> Montenegro currently participates in the enhanced General Data Dissemination Standard.



swap agreement should also be recorded in the line for repos (i.e., Section II.3). Guarantees the central government provided to corporations should be recorded in Section III.1. The value of gold used for the gold swap should be recorded in Section IV.(1)(d) "lent or repoed but not included in Section I". Neither the CBM or the central government has financial derivative positions. The CBM and mission met the staff at the MOF to request information (e.g., debt service schedules for bonds issued by the central government) to prepare the RDT. The MOF agreed to start providing the information to the CBM monthly.

**Recommendations:**

- *Receive necessary information from the MOF to start drafting RDT for the CBM and the central government (high priority by March 2020).*
- *Submit draft RDTs to the IMF's Statistics Department for review (top priority by June 2020).*

#### D. External Debt Statistics (EDS)<sup>9</sup>

33. **In the EDS, the CBM identified loans (intercompany lending in direct investment and loans in other investment), for which borrowers have not repaid principal nor interest for more than five years.** Based on the explanations from the borrowers, the mission advised that the intercompany lending in question should be treated as permanent debt (i.e., the debt should stay in debt instruments in direct investment). The CBM investigated the loans in other investment and found that a large portion of them are incurred by a couple of large corporations that are currently under bankruptcy procedures. The mission advised that the loans should be removed from IIP and EDS when it becomes clear that the loans will no longer be repaid (e.g., at the point when the liquidation of the corporations is completed). The removed amount should be recognized as other changes (i.e., other flows) and should not be recorded in balance of payments.

**Recommendation:**

- *Remove from IIP and EDS the large loans for which principal and interest have not been repaid. The amount should be recognized as other changes (medium priority when it becomes clear that the loans will no longer be repaid).*

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<sup>9</sup> The CBM and the MOF submit the core table to the World Bank's Quarterly External Debt Statistics Database along with an encouraged table on payments schedules for the public and publicly-guaranteed private sector external debt.

## E. Current Account

### Goods and Services<sup>10</sup>

34. **The main data source for merchandise trade is the foreign trade statistics compiled by the Statistical Office of Montenegro (MONSTAT).** The CBM verifies the data from the MONSTAT with the information from the ITRS. A small ratio for freight (3.03 percent) and no ratio for insurance are estimated for the cost-insurance-freight to free-on-board adjustment based on the survey to largest importers (the results of the survey is plausible, given the predominant part of import is from the neighboring countries). The CBM records merchanting in the goods account. For example, some resident enterprises are engaged in trading of automobiles, purchasing them from factories abroad and selling them to other countries (the automobiles do not cross the border of Montenegro).

35. **Transactions of one air carrier and one sea carrier in Montenegro are captured by the ITRS.** Construction services are also sourced from the ITRS. In addition, the CBM introduced a new survey to construction corporations in 2019 and plans to use the information obtained from the survey to cross-check the data from the ITRS. Export and import of manufacturing and maintenance services are not significant.

### Travel

36. **Travel services are recorded based on the number of travelers and their average spending.** The CBM estimates an average daily spending per traveler from websites and phone contacts for major hotels and restaurants.<sup>11</sup> The average spending is available by region and by season. The average spending is multiplied by the number of overnight stays provided by the MONSTAT.<sup>12</sup> Currently, the number of overnight stays at unregistered accommodations are estimated as 30 percent of the stays at registered accommodations<sup>13</sup> and included in the total. Data from the ITRS are used to record business, health, and education related travel. The ITRS encompasses expenses using credit cards.

37. **The CBM plans to update the amount of the average daily spending and the ratio for unregistered accommodations by March 2020 so that the new estimates can be used from the first quarter of 2020.** Export of travel services is expected to increase after the updates. In recent years, more than 100 large and small new hotels (including luxury five-star

<sup>10</sup> The CBM and MONSTAT received two TA missions on services under EU's Instrument for Pre-Accession Assistance Program until October 2019.

<sup>11</sup> Due to budget constraints, the National Tourism Agency conducts a survey on tourists only in the coast area during summer. The survey results are not sufficient for the balance of payments compilation.

<sup>12</sup> Hotels are required to report the number of guests and their stays and pay an accommodation tax to local tourism organizations. The MONSTAT aggregates the data from local tourism organizations and provide them to the CBM. Other statistics on tourism are also based on the same data source to provide consistent information.

<sup>13</sup> The survey results in 2005 indicated that 30 percent of private accommodations were not registered.

hotels) have been built in Montenegro. Also, many unregistered accommodations have been registered. Some large hotels have casinos that are popular among non-resident tourists. The mission provided guidance to record receipts from gambling in services and current transfers.

**Recommendation:**

- *Execute the planned updates to an average daily spending of travelers and share of unregistered accommodations. Start recording travel services based on the updated information (high priority by March 2020).*

**Economic Citizenship Program (ECP)**

38. **The CBM consulted with the mission on the recording of transactions under the ECP that was introduced in Montenegro in 2019.** The ECP allows foreign nationals to acquire the citizenship of Montenegro in return for lump sum payments to the Montenegrin government or investment projects in Montenegro.

39. **The CBM and mission agreed to record the entire amount of the processing fees paid by the applicants to the ECP in government services for simplicity** although the fees may surpass the actual costs incurred by the government. Subsequent payments under the ECP should be recorded as follows:

- **Capital transfers:** payments to governments to develop social infrastructure without receiving equities from the payments.
- **Current transfers:** payments to governments for their general spending (not for specific development projects) without receiving any equities.
- **Direct investment or portfolio investment** (equity and investment fund shares): Investment in development projects (e.g., resort hotels) receiving equities from the investment.

40. **The CBM plans to start recording data based on the information obtained from the ITRS.** The mission advised that the CBM approach the agency in charge of the ECP to collect precise information on the characteristics of the payments and cross-check the data from the ITRS.

**Recommendation:**

- *Start recording payments under the ECP in services, current/capital transfers, or direct/portfolio investment following the guidance provided by the mission (high priority by March 2020).*

**Financial Intermediary Services Indirectly Measured (FISIM)**

41. **The CBM consulted with the mission on the recording of FISIM sharing preliminary estimates it had prepared.** The reference rate was calculated based on the weighted average of

paid and received interest for all deposit and loan assets and liabilities of Montenegrin banks. The mission advised that the CBM calculate average interest rates received from loan assets and paid for deposit liabilities of DTCs, respectively. Export of FISIM should be calculated by the differences between the reference rate and calculated interest rates for loan assets and deposit liabilities, separately. Import of FISIM should be calculated in the same way from the differences between the reference rate and calculated interest rates for loan liabilities and deposit assets for other sectors. The mission advised that the CBM discuss the methodology with the MONSTAT so that the methodologies to compile FISIM for balance of payments and national accounts will be consistent.

**Recommendation:**

- *Start recording FISIM from the data for the first quarter of 2019 according to the methodology agreed during the mission (medium priority by June 2020).*

## F. Resources

42. **In line with the production of IIP, the CBM created a new division responsible for IIP.** The total number of staff at the Balance of Payments Division and IIP Division remains eight, including two staff members who specialize in handling the ITRS. The CBM has plans to increase the number of staff for both divisions, but a budget for additional staff members has not been allocated yet.

43. **The mission recommended that the CBM allocate at least three additional staff to the divisions.** The workload undertaken by the two divisions will continue to increase, particularly with the full implementation of the quarterly direct investment survey. Production of quarterly IIP and monthly RDT is required to subscribe to the SDDS and sufficient resources should be allocated.

44. **Compilation of ESS in Montenegro is relying on the expertise of the staff of the CBM and the expertise can be fostered only through continuous training and experience.** The staff should keep attending training courses conducted by the IMF and other international organizations and stay in the divisions for a sufficient period. Frequent staff changes should be avoided.

**Recommendation:**

- *Allocate three additional staff to the Balance of Payments Division (high priority by December 2020).*
- *Keep attending training courses for ESS (high priority on ongoing basis).*