



TECHNICAL ASSISTANCE REPORT

MONTENEGRO

Report on External Sector Statistics Mission

(July 29–August 9, 2024)

AUGUST 2024

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Acronyms and Abbreviations

BOP	Balance of Payments
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition</i>
CBM	Central Bank of Montenegro
DIE	Direct Investment Enterprises
ECP	Economic Citizenship Program
ESS	External Sector Statistics
EU	European Union
FDI	(Foreign) Direct Investment
GDP	Gross Domestic Product
IIP	International Investment Position
IMF	International Monetary Fund
ITRS	International Transactions Reporting System
MFS	Monetary and Financial Statistics
MOF	Ministry of Finance
MONSTAT	Statistical Office of Montenegro
NEO	Net Errors and Omissions
NTO	National Tourist Organization
RDT	Reserves Data Template (the Template for International Reserves and Foreign Currency Liquidity)
SDDS	Special Data Dissemination Standard
STA	Statistics Department, IMF
TA	Technical Assistance

Summary of Mission Outcomes and Priority Recommendations

- 1. The Statistics Department (STA) of the International Monetary Fund (IMF) conducted a technical assistance (TA) mission for Central Bank of Montenegro (CBM) on the compilation of external sector statistics (ESS) during July 29–August 9, 2024.** The mission focused on assisting the CBM in reducing net errors and omissions (NEO), which had increased to more than 10 percent of Gross Domestic Product (GDP) in 2022. The mission also assisted the CBM and the Ministry of Finance (MOF) in preparing the Template for International Reserves and Foreign Currency Liquidity (Reserves Data Template—RDT).
- 2. The mission and the CBM established measures to address major sources for the large NEO and reduced the average NEO from 2021 to 2023 from 9 percent to 1.1 percent of GDP.** The measures included estimations for spending by immigrants and refugees who received a permit to stay in Montenegro and for spending and investments by citizens who received a Montenegrin passport under the Economic Citizenship Program (ECP). The external assets held by these new residents became external assets for Montenegro and should have been properly reflected in the integrated IIP through the other changes account (i.e., not via BOP flows).¹ Part of those external assets were spent and invested by the new residents in Montenegro. However, these transactions were not recorded in the BOP—which resulted in large NEO, so the BOP should be adjusted and properly record those missing inflows. The CBM plans to implement these BOP adjustments in the third quarter of 2024. The mission also recommended that the CBM continue to improve these estimations by exploring additional data sources. In addition, the mission recommended conducting a survey to major realtors on the use of crypto assets for real estate settlements, with a view to supplementing the data compiled based on the International Transactions Reporting System (ITRS).
- 3. The mission provided guidance on how to fill out items in Section I through Section IV of the RDT to both the CBM and the MOF and recommended that the CBM coordinate with the MOF and send a final draft RDT for STA’s sign off.** The preparation of the RDT is required for Montenegro to subscribe to the IMF’s Special Data Dissemination Standard (SDDS). The mission also provided guidance to establish institutional arrangements between the CBM and the MOF that permit the CBM to produce the RDT with required frequency and timeliness.

¹ During the mission, it was not possible though coming up with reliable estimates on external assets held by all the different types of immigrants, refugees, and new passport folders under the ECP to adjust the IIP. Therefore, these adjustments remain to be incorporated to the IIP in the future, once additional information becomes available (for instance, through the new tax information reporting system which is planned to be introduced in the country next year).

TABLE 1. Montenegro: Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
November 2024	Estimate the spending and investments by resident permit holders and Montenegrin passport holders from the ECP and record a corresponding adjustment in the BOP.	CBM
January 2025	Submit a final draft RDT by consolidating the information for the CBM and the MOF for STA's sign off.	CBM

4. 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 and the MOF for their cooperation.

Detailed Technical Assessment and Recommendations

TABLE 2. Montenegro: Recommendations Provided by the Mission

Priority	Action/Milestone	Target Completion Date
<i>Outcome: Improved periodicity, timeliness, and consistency of data</i>		
PR	Estimate spending and investments by resident permit holders and Montenegrin passport holders from the ECP and record a corresponding adjustment in the BOP.	November 2024
H	Conduct a survey to major realtors to obtain the ratio of real estate investments paid by crypto assets.	March 2025
H	Continue to improve the estimations for spending and investments by resident permit holders and Montenegrin passport holders from the ECP by exploring additional data sources.	Ongoing basis
M	Monitor and contribute to the improvements to the financial statements of direct investment enterprises (DIEs) to record reinvested earnings in the balance of payments (BOP).	Ongoing basis
H	Request data on the portfolio investment asset positions for nonbank financial and nonfinancial corporations as well as households from custodian banks.	October 2024
H	Coordinate with the MOF to exclude residents' holdings of Eurobonds issued by the government from portfolio investment liabilities and external debt.	March 2025
M	Coordinate with the MOF to record the market value of the financial derivative contracts vis-à-vis nonresidents for the general government in the international investment position (IIP).	September 2024
M	Estimate maintenance services fees paid by yacht owners outside the banking system.	December 2024
H	Record required items in the RDT following the guidance provided by the mission (e.g., guarantees and the market value of derivative contracts by the MOF and details of deposits and currency composition by the CBM).	December 2024
PR	Submit a final draft RDT by consolidating the information for the CBM and the MOF for STA's sign off.	January 2025
<i>Outcome: Statistical techniques are sound</i>		
M	Propose to the Tax Office items on portfolio investment assets to be included in the new tax data information reporting framework, particularly for the sectors not covered by the monetary and financial statistics (MFS).	December 2024
H	CBM to transfer the responsibility to compile travel data to the government authority in charge of tourism policies and statistics.	March 2025

Priority	Action/Milestone	Target Completion Date
M	Coordinate with the government authority in charge of tourism policies and statistics to collect data on an average spending by nationality once the responsibility is transferred to them.	June 2025
M	Contact BOP compilers in other countries to explore new data collection methods for travel services.	March 2025
H	Establish an arrangement (sign a Memorandum of Understanding) between the CBM and the MOF that permits the CBM to produce the RDT monthly with a lag of one month.	December 2024
M	Propose to the Tax Office that certain items be included in the new tax information reporting framework to compile key indicators for BOP and IIP.	December 2024
H	Allocate additional IT resources and support to the BOP Division to automate data collection and dissemination processes for ESS.	March 2025
H	Keep attending training courses conducted by the IMF and other international organizations.	Ongoing basis
<i>Priority Scale: PR – Priority, H – High, M – Medium</i>		

A. INTRODUCTION

5. **The Central Bank of Montenegro (CBM) has made several important achievements in external sector statistics (ESS) in recent years, including estimation of euros circulating in Montenegro, production of international investment position (IIP) statistics annually followed by its quarterly compilation.** Estimation of remittances brought in cash resulted in a significant reduction of net errors and omissions (NEO) in the balance of payments (BOP) statistics in 2017. However, NEO started increasing again in 2020 and reached to 12 percent of Gross Domestic Product (GDP) in 2022. The NEO remained at more than 9 percent of GDP in 2023 and the first quarter of 2024. The CBM and the IMF's European Department requested a technical assistance (TA) mission to investigate the sources for the large net errors and omissions² and establish measures to address them.

6. **In addition, the CBM plans to prepare the Template for International Reserves and Foreign Currency Liquidity (Reserves Data Template—RDT), which is one of the requirements for Montenegro to subscribe to the IMF's Special Data Dissemination Standard (SDDS).** The 2020 TA mission conducted by the IMF's Statistics Department (STA) met the Ministry of Finance (MOF) to facilitate monthly source data provision from the MOF to the CBM; however, the source data has not been provided periodically, mainly due to the MOF's concerns on resources for monthly reporting. The mission was requested to provide detailed guidance on the recording of each of the four sections of the RDT for the CBM and the MOF and to facilitate an institutional arrangement that permit the CBM to produce the RDT with required monthly frequency with a lag of less than one month.

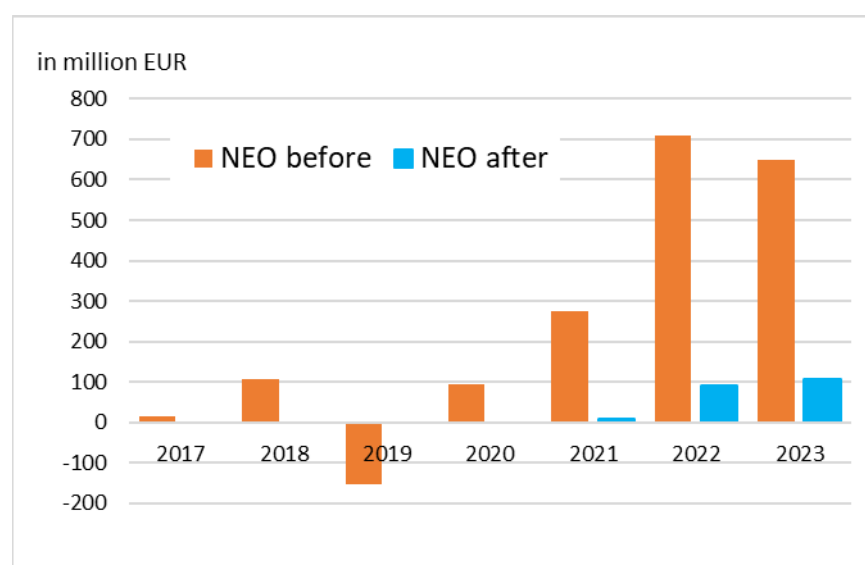
² The large net errors and omissions are recorded with a positive sign. This means that inflows are understated, outflows are overstated, or a combination of both.

B. BALANCE OF PAYMENTS

Net Errors and Omissions (NEO)

7. **The mission and the CBM identified major sources for the large positive NEO and established measures to address them—as explained in the next paragraphs.** The measures were applied to the data for 2021, 2022, and 2023, and as a result, the average NEO for these three years decreased from 9 percent to 1.1 percent of GDP. The CBM plans to implement these measures in the data for the third quarter of 2024. The mission also identified a potential source for the remaining NEO and recommended conducting a survey to establish an additional estimation to address it (see paragraph 11).

Figure 1. Net Errors and Omissions Before/After Improvements



8. **In recent years, an increased number of Russians, Ukrainians, and Turks moved to Montenegro to escape from the war in Ukraine as well as political and religious pressures in their home country.** Their regular expenses are included as travel services export in the BOP until they become residents. These foreign nationals can receive a resident permit when they purchase real estate in Montenegro. As soon as they receive the permit, they are treated as residents in the ESS and national accounts for Montenegro.³ When they become residents in Montenegro, their assets abroad (e.g., assets held at accounts at their country of origin) become external assets for Montenegro through other changes (i.e., instead of via BOP transactions). When they move to Montenegro, they usually spend a large amount of the external assets to purchase a house, a car, and other goods (e.g., furniture and electronics).⁴

9. **First, the mission recommended adjusting the BOP to record the use of external assets (e.g., currency and deposits) by foreign nationals who received a permit to stay in Montenegro to finance their spending and investments in Montenegro.** Due to the lack of source data, an average

³ Methodologically, FDI should be recorded first, then it should be removed through other changes account when they become residents of Montenegro. However, to avoid confusion of data users, this recording was not recommended.

⁴ Anecdotal evidence shows that these refugees are relatively rich compared to other types of refugees and that they can use credit/debit cards and bring cash when they flee from their countries.

spending for a household was estimated, which was multiplied by the number of households. The average spending for the first year they moved to Montenegro would be higher, due to a purchase of their primary residence and durable goods. The decrease in external assets was estimated lower in the following years because their spending would be less, and their income earned in Montenegro would grow. The CBM plans to estimate quarterly spending based on the price information from the Statistical Office of Montenegro (MONSTAT).

10. **Second, the mission recommended adjusting the BOP to also reflect the use of external assets (e.g., deposits and securities) held by residents who received their passports under the Economic Citizenship Program (ECP) to finance their spending and investments in Montenegro.** In the same way as the first case, when they become residents in Montenegro, their assets abroad become external assets for Montenegro through other changes. Their external assets as well as spending in Montenegro would be significantly higher than those for the first case. In addition, they may invest in financial assets in Montenegro (e.g., deposits and investment funds) and make additional investment in businesses beyond the required amount to receive a passport under the ECP. With these assumptions, their spending and investments were estimated in the same way as the first case (e.g., an average spending and investments of a household multiplied by the number of households) but with higher average spending and investments. The mission also recommended eliminating double counting of deposits in escrow accounts required by the ECP and imputed direct investment (FDI) recorded to reflect their investments in businesses in Montenegro as required by the ECP.

11. **The mission also recommended surveying major realtors (or a realtor's association if it exists) to record foreign investors' investments in real estate paid by crypto assets.** Foreign investors can freely purchase real estate in Montenegro without reporting their use of crypto assets. The mission and the CBM found various types of advertisement from realtors in Montenegro and Russia on investments in real estate in Montenegro which can be paid by crypto assets.⁵ Since the data for investments in real estate are collected mostly by the ITRS,⁶ these investments paid by crypto assets are not recorded in BOP for Montenegro. Once the survey gives an idea on the ratio of the use of crypto assets for the payments, the CBM will be able to supplement the data compiled based on the ITRS (i.e., the investments measured by the ITRS can be increased by the ratio). The real estate registry should provide more robust data; however, Montenegro currently does not have reliable data from it. It is crucially important to update the land registry along with the planned update to the tax information reporting framework, not only for recording investments in real estate but also for monitoring the investments by nonresidents in real estate in Montenegro.

12. **The mission recommended that the CBM continue to improve the estimation by exploring additional data sources.** Montenegro is planning to improve its tax information reporting framework in 2025. The new reporting framework could include items that can also be used for statistical purposes. It will be a critically important opportunity for the authorities to develop additional data sources for ESS and other macroeconomic statistics (see more discussions on this topic in Section D).

⁵ Some news articles and economists' reports also mentioned easy uses of crypto assets for various types of investments in Montenegro.

⁶ To estimate position (stock) data on investments in real estate by households, the CBM accumulates transaction data and adjust them using the national real estate price index to reflect price changes. Investment in residential properties accounts for more than 27 percent of direct investment liabilities in 2022.

Recommendations:

- *Estimate spending and investments by resident permit holders and Montenegrin passport holders from the ECP and record a corresponding adjustment in the BOP (top priority by November 2024).*
- *Conduct a survey to major realtors to obtain the ratio of real estate investments paid by crypto assets (high priority by March 2025).*
- *Continue to improve the estimations by exploring additional data sources (high priority on ongoing basis).*

Direct Investment (FDI)

13. **The CBM successfully started disseminating FDI position data quarterly in September 2022 (from the data for 2019).** The CBM focused on surveying the largest direct investment enterprises (DIEs) (around 50 DIEs—which constitute 85 percent of the FDI liability position in Montenegrin enterprises) on a quarterly basis, and the remaining 15 percent was estimated. The CBM makes the necessary adjustments to balance of payments data by cross checking the ITRS and the survey data (direct investment survey and inter-company debt survey).

14. **The CBM needs more robust data to start recording reinvested earnings.** Most DIEs in Montenegro were reporting negative reinvested earnings for recent years in the direct investment survey and in their financial statements submitted to the Tax Office. The planned update to the tax information reporting system may contribute to improving the quality of the financial statements of DIEs.

Recommendation:

- *Monitor and contribute to the improvements to the financial statements of DIEs to record reinvested earnings in BOP (medium priority on ongoing basis).*

Portfolio Investment

15. **The mission recommended that the CBM approach three custodian banks to source portfolio investment asset positions for other sectors as custodian banks are required to maintain the account for their clients and for their own separately.** Currently, the CBM accumulates transaction data obtained from the ITRS (the accumulation starts with the data for 2006 when Montenegro became an independent state). To avoid accumulating errors from price and foreign exchange changes, it's important to obtain position data directly. The mission provided to the CBM the model report form for international securities included in the *BPM6 Compilation Guide*. Custodian banks could also provide transaction data for other sectors. However, the CBM's review of the data turned out that the ITRS can provide source data with better coverage and quality for transactions.

16. **The mission recommended proposing to the Tax Office items on portfolio investment assets to be included in the new tax information reporting framework.** In general, data from the Tax Office have better coverage and quality compared to other sources (e.g., household survey), particularly for assets held by households with banks and custodians abroad.

17. **The MOF classifies all Eurobonds issued by the government of Montenegro as external liabilities, including those held by the residents in Montenegro.** The monetary and financial statistics (MFS) data shows that commercial banks in Montenegro hold around 20 percent of Eurobonds issued from 2018 to 2022. The mission reiterated the need for removing these residents' holdings of the

Eurobonds from external liabilities.⁷ This issue was also raised in previous TA missions, but the MOF has not yet implemented the correction, possibly due to data limitations and cost constraints.

18. **The mission met the MOF and recommended excluding the residents' holdings from external liabilities by acquiring the information from custodians in London.**⁸ This would not only improve the quality of the IIP but also reduce the government's external debt which is currently overstated and might be affecting Montenegro's country rating. The IMF's Article IV mission should also emphasize this issue with the Minister of Finance, given that the MOF has not implemented the recommendations from STA's previous TA missions on this outstanding issue.

19. **The Eurobonds are recorded at face value in the IIP.** The mission explained that the international statistical standards recommend recording securities at market value.

20. **Compiling data on a security-by-security basis could improve the quality of portfolio investment data.** The data obtained on a security-by-security basis would help the CBM with BOP and IIP data reconciliation, comparison with mirror data from other countries, and various international projects on the exchange of securities data. The CBM plans to learn from experiences of neighboring countries to assess the merits and feasibility for introducing a security-by-security data compilation approach.

Recommendations:

- *Request data on the portfolio investment asset positions for nonbank financial and nonfinancial corporations as well as households from custodian banks (high priority by October 2024).*
- *Propose to the Tax Office items on portfolio investment assets to be included in the new tax data information reporting framework, particularly for the sectors not covered by the MFS (medium priority by December 2024).*
- *Coordinate with the MOF to exclude residents' holdings of Eurobonds issued by the government from portfolio investment liabilities and external debt (high priority by March 2025).*

Financial Derivatives

21. **The mission recommended the CBM acquire information from the MOF to record the market value of the financial derivative position vis-à-vis nonresidents for the general government.** The central government has financial derivative contracts to hedge the foreign exchange risks related to loans received for building highways. The market value of the derivative contracts should be recorded in the IIP. Transactions are already recorded in the BOP.

Recommendation:

- *Coordinate with the MOF to record the market value of the financial derivative contracts vis-à-vis nonresidents for the general government in the IIP (medium priority by September 2024).*

Trade Credit

22. **The CBM introduced a survey for trade credit and advances and started checking the quality of the reported data.** The mission provided guidance on how to identify additional data reporters (currently, only five exporters and eight importers submit the report forms to the CBM) and how to record

⁷ BOP data should also be adjusted to remove purchases by residents.

⁸ The Ministry of Finance is in charge of compiling and releasing the data for external debt statistics.

transactions and positions including the cases where trade credit should be included in FDI. The mission also explained to the CBM the difference between trade credit and trade finance provided by banks. The CBM needs to explain it to data reporters to avoid misreporting. Based on the guidance, the CBM plans to improve the coverage and quality of the data further.

Travel Services

23. **Travel (credit) is calculated based on estimation and information from the ITRS.**⁹ The number of overnight stays from the survey on arrivals and overnights at hotels and other accommodations conducted monthly by MONSTAT is multiplied by the average expenditure per day by region. The number of overnight stays at unregistered accommodations is estimated (30 percent of stays at hotels and registered accommodations)¹⁰ and added to the total.

24. **The CBM estimates average expenditures of travelers from websites and phone contacts for major hotels and restaurants.** The National Tourist Organization (NTO), the Ministry of Tourism, and the Hotel Association also provide price information. Data for health-related expenditures, education-related expenditures, and business travel are from the ITRS.

25. **The mission recommended the CBM transfer the responsibility to compile the data for tourism to the government authority in charge of tourism policies and statistics as is the case in many other countries.** The Ministry of Tourism and Ecology or the NTO is better positioned to conduct sample surveys at border points (e.g., airports) to estimate average travel expenditures by type (e.g., hotels and restaurants) and by nationality. The average expenditures are multiplied by the number of tourists captured at border points. Average expenses often differ significantly depending on nationality of the traveler, so it's important to collect the information. It will also enable data comparison with statistical agencies in partner countries.

26. **The mission recommended studying experiences of other European countries on data collection methods, such as scraping major hotel booking websites.** The mission explained examples of these methods and provided contact information on BOP compilers in other countries to facilitate the discussion.

27. **The mission recommended reviewing the data for the maintenance services provided to nonresident yacht owners collected by the ITRS to assess the impact of payments made outside the banking system (e.g., cash and crypto assets).** An average cost of maintaining a yacht can be multiplied by the number of yachts at seaports in Montenegro to estimate the total cost for the maintenance of the yachts. The data collected from the ITRS can be deducted from the estimated total cost to estimate the payments not through bank accounts.

⁹ Travel (debit) is compiled from the ITRS (including use of credit cards).

¹⁰ The survey results in 2005 indicated that 50 percent of private accommodations were not registered. The CBM adjusted the share to 30 percent, reflecting the impact of the government's recent campaign to decrease the informal economy.

Recommendations:

- *CBM to transfer the responsibility to compile travel data to the government authority in charge of tourism policies and statistics (high priority by March 2025).*
- *Coordinate with the government authority in charge of tourism policies and statistics to collect data on an average spending by nationality once the responsibility is transferred to them (medium priority by June 2025).*
- *Contact BOP compilers in other countries (possibly by the Ministry of Tourism or the National Tourism Association) to explore new data collection methods for travel services (medium priority by March 2025).*
- *Estimate maintenance services fees paid by yachts owners outside the banking system (medium priority by December 2024).*

C. RESERVES DATA TEMPLATE (RDT)

28. **The mission recommended that the CBM coordinate with the MOF to prepare a draft RDT for STA's review.** The mission provided guidance on how to fill out items listed in Sections I through IV of the RDT to both the CBM and the MOF. Montenegro is a fully euroized economy without participating in the Eurosystem, so euro is considered as foreign currency for Montenegro.

29. **The mission recommended that the MOF record the guarantees that the central government provided to public companies (e.g., utility and public transportation companies) in Section III and the market value of a swap contract in Section I.B and Section IV.** The central government also holds deposits and gold to be recorded in Section I.B. In addition, the mission recommended that the CBM record details of its deposits (e.g., nationality of corresponding banks with which the CBM has deposits) in Section I.A and currency composition of reserve assets in Section IV.

30. **The mission also provided guidance to establish institutional arrangements between the CBM and the MOF that permit the CBM to produce the RDT monthly with a lag of one month.** The MOF should provide the data to the CBM within two weeks after the end of each month so that the CBM can consolidate the data for the central bank and the central government and post the RDT on the National Summary Data Page for Montenegro by the end of the month.

Recommendations:

- *Record required items in the RDT following the guidance provided by the mission (e.g., guarantees and the market value of derivative contracts by the MOF and details of deposits and currency composition by the CBM) (high priority by December 2024).*
- *Establish an arrangement (sign a Memorandum of Understanding) that permits the CBM to produce the RDT monthly with a lag of one month between the CBM and the MOF (high priority by December 2024).*
- *Submit a final draft RDT by consolidating the information for the CBM and the MOF for STA's sign off (top priority by January 2025).*

D. INSTITUTIONAL ISSUES AND RESOURCES

31. **Montenegro plans to improve its tax information reporting framework in 2025.** As mentioned above, this is a crucially important opportunity for the authorities to collect comprehensive information that cannot be collected in the current data collection framework or practices.
32. **The mission recommended that the CBM propose to the Tax Office items to be included in the new tax information reporting framework to compile key indicators for BOP and IIP.** This approach will enable the CBM to compile BOP and IIP beyond the information from the ITRS, which is also in line with the EU integration requirements. Confidentiality particularly for households and corporations should not be an issue because the data can be anonymized and used only for statistical purposes. Most data for deposit-taking corporations and nonbank financial corporations could also be collected from the MFS and the supervisory information.
33. **The IMF recommended that the CBM allocate additional IT resources and support to the BOP Division to automate data collection and dissemination processes for ESS.** This is crucial for producing monthly BOP data required by Eurostat and compiling detailed BOP data by partner country. The automation will improve the efficiency, accuracy, and timeliness of the data compilation and help the CBM fulfill the statistical requirements set by international organizations.
34. **The mission also recommended that the CBM allocate an additional three staff members in total to the CBM's BOP Division and External Debt and IIP Division.** These additional staff members are required to start (i) disseminating the RDT monthly, (ii) disseminating BOP data by partner country monthly, and (iii) disseminating FDI data by activity (i.e., by industry) cross-classified by partner country. The last two items will be required by the European Union (EU) once Montenegro joins the EU. The European Commission assesses the implementation status for the requirements annually. Montenegro is currently indicated as “non-compliant” for these requirements in the annual report from the European Commission.
35. **The compilation of BOP and IIP is relying on the expertise of the staff of the CBM.** 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 keep compiling the data for a sufficient period. Frequent staff changes should be avoided.

Recommendations:

- *Propose to the Tax Office that certain items be included in the new tax information reporting framework to compile key indicators for BOP and IIP (medium priority by December 2024).*
- *Allocate additional IT resources and support to the BOP Division to automate data collection and dissemination processes for ESS (high priority by March 2025).*
- *Keep attending training courses conducted by the IMF and other international organizations (high priority ongoing basis).*