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FINAL FINDINGS

Eurostat technical visit to Montenegro

2-3 March 2015

EXECUTIVE SUMMARY

Eurostat carried out a technical visit to the EU Candidate Country Montenegro on 2-3 March 2015 in order to assess the status of the preparatory work of the Montenegrin statistical authorities as regards the EDP statistics.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot and representatives of other Commission services also participated at the meetings as observers. Montenegro was represented by the Ministry of Finance (MoF) of Montenegro, Monstat, and the Central Bank of Montenegro (CBM).

Eurostat thanked the Montenegrin statistical authorities for the first submission of the EDP tables and the related questionnaires in October 2014. Although the tables were only partially completed it was in Eurostat's view an excellent start.

At this technical visit Eurostat explained the organisation of the EDP work and made several presentations in order to raise the awareness of the Montenegrin colleagues about the recording issues of EDP statistics as specified in ESA 2010 and in the Manual of Government Deficit and Debt (MGDD). Thirty action points were concluded at this visit with the implementation period ranging from April 2015 to October 2016.

As regards the institutional responsibilities, Eurostat stressed the importance of formal operational agreements between the main institutions involved in the EDP work and the importance of establishment of a permanent working group between such institutions. Montenegrin statistical authorities have a possibility to learn from the Slovenian colleagues and intend to follow the Slovenian model of organisation of the EDP work. Eurostat welcomed the Montenegrin draft ESA 2010 implementation strategy document, which among others will address such issues. The Montenegrin statistical authorities agreed to submit a flow chart about EDP data sources and responsibilities. Finally, Eurostat recommended to transfer the responsibilities for EDP/GFS compilation and reporting to Monstat within the medium term.

Concerning source data for compilation of government accounts, Eurostat took note that there do not seem to be any problems with access to the central budget and the state funds data – Monstat has full access to detailed data, whereas aggregated data are available for municipalities. Eurostat invited the Montenegrin statistical authorities to prepare the bridge table between the national and the ESA code lists and to take steps that the source data on public corporations controlled by central and local government would be available for compilation of government accounts. Eurostat also advised to include all revenues and expenditures currently not recorded via the Single Treasury Account (e.g. for universities, museums and hospitals) in the ESA based expenditures and revenues and encouraged the Montenegrin statistical authorities to start working on the EDP inventories within the medium term.

In the course of the analysis of the October 2014 EDP tables, Eurostat suggested to introduce working balances in the EDP tables. The participants clarified the recording of transactions relating to the “foreign currency savings” issue – according to the ESA 2010 rules, the repayments of principal amounts relating to foreign currency savings should not be included in central government deficit. Several other issues (reporting of “currency and deposits” in EDP table 1; spreading of revenues from permits for the use of government assets over the

lifetime of the relevant contracts; reporting of repayments of credits and lending provided by government to non-government units as financial transactions; reporting of the social security funds separately from the central government in EDP tables) were also clarified.

The Montenegrin public debt currently includes the debt of a number of public corporations, whereas the liabilities of public corporations operating under market terms should be excluded from the Maastricht debt. The participants also identified some components within the public debt, which do not belong to Maastricht debt and should be reported under trade credits and advances instead.

Eurostat welcomed the progress made on sector classification under the IPA 2010 national programme on statistics and recommended to start preparing the list of general government units and also the list of entities controlled by general government (classified outside general government). Eurostat invited the Montenegrin statistical authorities to submit the results of the market / non-market test and to make a clear distinction between subsidies on products and production for this test. Finally, as regards the entities controlled by general government, Eurostat also encouraged to investigate indirect control of public corporations.

The participants concluded that a large unit potentially to be classified into central government is the railways infrastructure company. However, a detailed analysis should be made in order to determine the appropriate sector classification for each of the four entities of the Montenegrin Railways. The participants also agreed that the National Parks of Montenegro, the Investment and Development Fund (IDF) and various (regulatory/supervisory) agencies would also need special attention. It seems that Montenegro Airlines would remain classified outside general government, but this needs to be further verified. It was also agreed that the strategy for implementation of ESA 2010 in the Montenegrin public finance would set clear deadlines for the work on sector classification.

For the recording of accruals, the Montenegrin statistical authorities agreed to introduce “time adjusted cash” method for the main tax categories (revenues). As for recording of interest (which is currently recorded on a cash basis), normally the calculation of accrued interest should be made on the basis of individual instruments. Montenegrin statistical authorities agreed to implement the calculation of accrued interest according to the ESA 2010 methodology.

The recording of guarantee calls seems to be in line with the relevant ESA 2010 rules. Eurostat also took note that in Montenegro guarantee calls always apply to the full amounts of the loans. The participants concluded that standardised guarantees, which are treated differently from one-off guarantees under ESA 2010, do not seem to exist in Montenegro. There have been no cases of debt cancellations and debt write-offs in Montenegro.

As regards the recording of EU flows, Eurostat took note that the implementation of the pre-accession assistance programmes is currently managed by the EU Delegation in Podgorica. Eurostat noted that the recording of pre-accession instruments may be different from the recording of EU flows in the Member States and agreed to clarify the issue, based on the information available in the IPA II agreement between the EU and the government of Montenegro.

Concerning capital injections, the Montenegrin statistical authorities agreed to examine the nature of state aid provided to Montenegro Airlines and to examine the injections made by

the Investment Development Fund. The authorities also agreed to carry out the super dividend test for the distributions by public corporations (including the CBM).

The Montenegrin statistical authorities informed Eurostat there were no active PPPs in Montenegro. As regards privatization, authorities confirmed that the unit responsible for privatization belongs to central government sub sector and agreed to clarify whether and how the proceeds from privatizations are distributed between the relevant funds and the Investment Development Fund.

As regards implementation of the ESA 2010 Transmission Programme, Eurostat took note that Monstat is currently working on other ESA-based government data, such as COFOG and breakdown of revenues and expenditures for the purpose of ESA table 2 and reminded the Montenegrin statistical authorities about the list of the ESA 2010 Transmission programme tables relevant for government accounts. Eurostat also stressed the importance of availability of financial accounts for the compilation of the EDP tables.

Eurostat agreed to provide feedback on the draft strategy for implementation of ESA 2010 in the Montenegrin public finance and encouraged the Montenegrin statistical authorities to include relevant action points resulting from this technical visit in its strategy.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Montenegrin statistical authorities during the meeting and the documents provided before and also during the visit.

EUROSTAT TECHNICAL VISIT TO MONTENEGRO 2-3 MARCH 2015

AGENDA

- 1. Introduction and overview of EDP statistics work** (by Eurostat)
- 2. Institutional responsibilities for EDP/GFS data compilation and reporting**
- 3. Data sources for EDP/GFS statistics** (presentation by Montenegrin authorities)
- 4. Revision policy, EDP inventory**
- 5. Presentation of EDP tables and the related questionnaires** (by Eurostat)
- 6. Follow-up of the October 2014 EDP reporting – analysis of EDP tables**
- 7. Methodological issues and recording of specific government transactions**
 - 7.1. Compliance of the Montenegrin general government debt with Maastricht debt definition
 - 7.2. Delimitation of general government, 50% rule and qualitative criteria
 - 7.2.1. Register of general government units
 - 7.2.2. Register of entities controlled by general government
 - 7.2.3. Review of specific units (railway, motorway, transportation companies, airports, ports, public utility companies, public hospitals etc.)
 - 7.3. Implementation of the accrual principle
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 - 7.4.1. Government operations relating to the financial crisis
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 - 7.4.4. Recording of military equipment procurement
 - 7.4.5. Debt assumptions, debt cancellations and debt write-offs
 - 7.4.6. Capital injections in public corporations
 - 7.4.7. Dividends, super dividends
 - 7.4.8. Public-Private Partnerships (PPP) and concessions
 - 7.4.9. Privatization
 - 7.4.10. Others: emission trading permits, sale and leaseback operations, UMTS, securitisation, financial derivatives.
- 8. Other issues**
 - 8.1. ESA 2010 Transmission Programme
 - 8.2. Any other business

INTRODUCTION

Eurostat carried out a technical visit to the EU Candidate Country Montenegro on 2-3 March 2015 in order to assess the status of the preparatory work of the Montenegrin statistical authorities as regards the EDP statistics, in particular as regards the institutional arrangements, the government data sources and application of ESA methodology for compilation of government deficit and debt, and reporting of government data within the EDP notifications and the ESA 2010 transmission programme.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot (Director of Directorate D "Government Finance Statistics (GFS) and quality") and Eurostat was also represented by Mr Peeter Leetmaa (EDP desk officer for Montenegro), Mr Denis Besnard and Mr Viktor Popov. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the Delegation of the European Union to Montenegro also participated at the meetings as observers.

Montenegro was represented by the Ministry of Finance (MoF) of Montenegro, Monstat, and the Central Bank of Montenegro (CBM).

At this technical visit Eurostat explained the organisation of the EDP work and made several presentations in order to raise the awareness of the Montenegrin colleagues about the recording issues of EDP statistics as specified in ESA 2010 and in the Manual of Government Deficit and Debt (MGDD).

With regard to procedural arrangements, the main conclusions and action points would be sent to Montenegro for review. Then, within weeks, the provisional findings would be sent to Montenegro for review. After this, final findings will be sent to Montenegro and published on the website of Eurostat.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Montenegrin statistical authorities during the meeting and the documents provided before and also during the visit.

At this visit Eurostat and the Montenegrin statistical authorities agreed on the following.

1. INTRODUCTION AND OVERVIEW OF EDP STATISTICS WORK (BY EUROSTAT)

Eurostat informed the Montenegrin statistical authorities about the aim of the visit and described briefly the organisation of the EDP statistics work carried out by Member States and Eurostat. Eurostat outlined the three main focus areas of this work: (1) institutional responsibilities of the EDP statistics, (2) accrual recording and (3) sector delimitation of general government and its relations with public corporations. Eurostat also presented the legal basis in the area of EDP statistics and explained that there is a dedicated GFS section on the Eurostat's website where more information on the EDP statistics processes can be found.

The MoF proposed a new point to be added to the agenda relating to the strategy for implementation of ESA 2010 in the Montenegrin public finance (to be adopted by the end of the first quarter of 2015). It was agreed that the MoF would present this point at the end of the meeting.

2. INSTITUTIONAL RESPONSIBILITIES FOR EDP/GFS DATA COMPILATION AND REPORTING

Introduction

Currently the data collection for completion of the EDP tables is fully under the responsibility of the MoF. The national statistics law¹ specifies that the MoF is among the official producers of statistics in Montenegro. The MoF is thus responsible for the compilation of both government deficit and debt figures.

The official EDP/GFS statistics contact point for Eurostat is Monstat. Besides compilation of general government data for GDP, Monstat is also working on other ESA-based government data, such as COFOG and breakdown of revenues and expenditures for the purpose of ESA table 2.

Discussion

As regards inter-institutional relations, the Montenegrin statistical authorities informed Eurostat that there are bilateral co-operation agreements between Monstat and the MoF and between Monstat and the CBM. The authorities agreed to send a copy of the agreement between Monstat and the MoF (the agreement between Monstat and the CBM does not concern EDP/GFS issues). The agreement between Monstat and the MoF specifies the limited access of Monstat to the public accounts sub database, which includes data on spending units of the central budget and the state funds.

Eurostat stressed on the importance of formal operational agreements and recommended to the Montenegrin statistical authorities to make such agreements public. Eurostat also agreed to equip the Montenegrin statistical authorities with the “best practice” type of guidelines about formal operational agreements. The participants also discussed about preparation of a flow chart about EDP data sources and responsibilities in Montenegro.

The Montenegrin statistical authorities also informed Eurostat that the CBM will be responsible for compilation of financial accounts in Montenegro (financial accounts are currently not being compiled in Montenegro).

The MoF explained that the new strategy for the implementation of ESA 2010 in the public finance includes the creation of a working group, which would include participants from Monstat, the MoF and the CBM. Once the working group is set up, it would also reflect on signing a common memorandum of understanding between the three institutions, which would specify, among other issues, responsibilities concerning compilation of government accounts and the respective fiscal reporting.

Eurostat stressed that one of the key tasks of such working group would be the sector classification of units, where Monstat should have the final say. The Montenegrin statistical authorities explained that they have a possibility to learn from the Slovenian colleagues and intend to follow the Slovenian model of the formal operational arrangements. These issues will be addressed also in the ESA 2010 strategy in the Montenegrin public finances (please see item 8.2 below).

Finally, Eurostat also recommended to the Montenegrin statistical authorities to transfer the responsibilities for EDP/GFS compilation and reporting to Monstat within the medium term and in that process Monstat should be provided with adequate resources. However, until such

¹ Law on Official statistics and official statistical system (Official Gazette of Montenegro 22/08 and 42/11), available on the [Monstat's website](#).

date the EDP and the questionnaire tables would be compiled by the MoF, whereas Monstat would transmit them to Eurostat.

Findings and conclusions

Action point 1. The Montenegrin statistical authorities will provide the formal agreement between the MoF and Monstat to Eurostat shortly after the technical visit². Eurostat recommends that such agreements are made public. Eurostat will provide the Montenegrin statistical authorities with the guidelines about formal operational agreements shortly after the technical visit³.

Action point 2. The Montenegrin statistical authorities will transmit to Eurostat a flow chart about EDP data sources and responsibilities by end-October 2015.

Action point 3. Eurostat encourages of the setting up of the working group of the institutions involved in compilation of government accounts and in the respective fiscal reporting.

Action point 4. Eurostat recommends to transfer the responsibilities of EDP/GFS to Monstat within the medium term. Monstat should then be provided with adequate resources in order to successfully cope with these functions.

3. Data sources for EDP/GFS statistics (presentation by the Montenegrin authorities)

Introduction

The central budget of Montenegro includes all budgetary units (i.e. spending units of the central budget) and the state funds, as Montenegro introduced Single Treasury Account for the central budget and the state funds in 2009. Therefore, the revenues and expenditures of the central budget include all budgetary spending units and expenditures of the state funds (Pension Fund, Health Fund, Employment Fund, Employment Office and Restitution Fund).

Municipalities (21) report their revenues, expenditures (which currently amount to about 8-10 % of total general government expenditure) and debt quarterly to the MoF.

Discussion

Montenegrin statistical authorities explained that the MoF runs a single SAP database combining all central budgetary units and the state funds. The SAP program is checking compliance of the entries against the budget law. A single chart of accounts is used for all central and local budgetary units. Montenegro uses the accounting codes, which are close to the codes of IMF GFS Manual, version 1986.

Eurostat took note that there do not seem to be any problems with access to the central budget and the state funds data⁴ – Monstat has full access to detailed data. However, municipalities submit only aggregated data to the MoF, on a quarterly basis. Central government data are available (data from SAP are collected and transformed into readable tables) 15 days after the end of the month and published within the “GDDS⁵ file” on the MoF website⁶ 20 days after

² On 12.03.2015 Monstat sent to Eurostat a copy of the co-operation agreement between Monstat and the MoF of 28.04.2010 (and also the co-operation agreement between Monstat and the CBM).

³ On 11.03.2015 Eurostat sent to Monstat the document “GFS Formal Operational Arrangements” (version 16.01.2013).

⁴ On 17.06.2015 Monstat clarified that the SAP database does not provide information by individual health units. Monstat collects these data directly from the health units.

⁵ General Data Dissemination System of the IMF.

⁶ For example, <http://www.mif.gov.me/rubrike/statistika/151050/SAOPsTENJE-GDDS-tabela-sa-fiskalnim-i-podacima-o-javnom-dugu.html>

the end of the month. The Public Finance data are published on a quarterly basis 50 days after the end of quarter. The local government data arrives to the MoF approximately one month after the end of the quarter, whereas delays occur sometimes.

As regards exhaustiveness of the budget data, the Montenegrin statistical authorities informed Eurostat that the “own revenues” of hospitals and educational institutions are not passing through the Single Treasury Account (see also item 6 and action point 10 below).

Eurostat also took note that currently there is no bridge table between the national and the ESA code lists, whereas the Montenegrin statistical authorities explained that this has already been introduced in the relevant draft strategy document (see also item 8.2 below).

Eurostat recommended to make available the source data on public corporations controlled by the central and local government. Special data collection may need to be established in case financial statements of the companies are not available for the preparation of the first (April) EDP notifications.

Findings and conclusions

Action point 5. Eurostat invites the Montenegrin statistical authorities to prepare the bridge table between the national and the ESA code lists and submit to Eurostat by end-June 2016⁷.

Action point 6. Eurostat recommends to take steps that the source data on public corporations controlled by the central and local government will be available for preparation of the October 2016 EDP notification.

4. REVISION POLICY, EDP INVENTORY

Introduction

In parallel with the EDP data reporting requirements the EU Member States are also obliged to prepare the EDP inventories, which describe the institutional arrangements of EDP data compilation, the relevant data sources and the compilation methods.

Discussion

Eurostat shortly explained the nature of and need for the EDP inventory and encouraged the Montenegrin statistical authorities to start working on the EDP inventories within the medium term. Eurostat committed to send to Monstat the guidelines for completing the EDP Inventory⁸. The MoF explained that the EDP Inventory would be part of the strategy for the implementation of ESA 2010 in the public finance.

As regards revisions to public accounts of central government, the previous months’ data are revised in the monthly publications. Concerning the revisions resulting from audits (which are performed on an annual basis), public accountants are able to include auditors’ proposals in the budget data even before the audit reports are finalised.

Findings and conclusions

Action point 7. Eurostat encourages the Montenegrin statistical authorities to prepare the EDP inventories within the medium term, as it will be a legal obligation at the time when Montenegro will join the EU.

⁷ This action point is currently outstanding.

⁸ On 11.05.2015 Eurostat sent the guidelines for completing the EDP Inventory to Monstat.

5. PRESENTATION OF EDP TABLES AND THE RELATED QUESTIONNAIRES (BY EUROSTAT)

Eurostat made a detailed presentation of EDP tables.

6. FOLLOW-UP OF THE OCTOBER 2014 EDP REPORTING – ANALYSIS OF EDP TABLES

Introduction

On 21 October 2014 Monstat delivered for the first time the EDP notification to Eurostat, prepared by the MoF on a “best-effort basis”. The notification included the EDP notification tables, the questionnaire related to EDP and the supplementary questionnaire on the financial crisis.

A variety of issues were discussed under this agenda item, including the so called “foreign currency savings” issue. After the break-up of former Yugoslavia, a number of banks failed and depositors lost their government-guaranteed deposits. As specified in the national law⁹, the government of Montenegro issued in 2004 bonds in order to settle the obligations it had established towards non-government entities, including the obligations relating to foreign currency savings of the Montenegrin citizens. The law also specified that annual payments are made on 1 July each year by the government to the citizens during 2004-2017. The payments include “anticipatively calculated” interest of 2% per annum.

Discussion

Eurostat welcomed the first submission of the EDP tables and the related questionnaires. Although the tables were only partially completed it was in Eurostat’s view an excellent start.

The Montenegrin statistical authorities informed Eurostat that the figures that they have introduced in line “Currency and deposits” of EDP table 1 do not actually represent government’s liabilities. The authorities explained that the Montenegrin government does not have liabilities in currency and deposits and, therefore, the participants agreed that these data should be removed from EDP table 1.

Eurostat raised the issue of missing working balances in EDP tables 2. The starting line of EDP table 2A (“working balance”) is, according to Council Regulation 479/2009, as amended, the most often used concept and measure of the country’s budget deficit / surplus as it generally appears in public accounts or budgetary presentations. In other words, it should normally correspond to the outcome of the public budget voted by the parliament. The Montenegrin statistical authorities agreed to introduce working balances in the EDP tables 2, following their national public balance concepts as specified in the Budget Law.

The Montenegrin statistical authorities informed Eurostat that not all revenues and expenditures of certain types of budget institutions (e.g. universities, museums and hospitals) are currently recorded via the Single Treasury Account. They report these “own revenues” to the MoF on a monthly basis, whereas these amounts are not included in the state budget and its execution reports. However, these data appear in a separate annex to the final account (consolidated revenues and expenditure). The Montenegrin authorities agreed to include these (currently missing) revenues and expenditures in the calculation of government deficit, to be reported under “Non-financial transactions not included in the working balance” of EDP tables 2.

⁹ Law on settlement of obligations and claims in respect of foreign debt and foreign currency savings of citizens (OGRM 55/03 of October 1, 2003, 11/04 of February 20, 2004), available on the [CBM website](#).

The Montenegrin authorities explained that the government has issued a large number of licences and permits to non-government units for the use of government assets, mainly natural resources. Eurostat observed that, in case there are upfront payments for licenses and permits, these government revenues should be spread over the lifetime of the relevant contracts (MGDD VI.1.2.3 §12).

The Montenegrin authorities informed Eurostat that the MoF increased the central government deficit (national concept) figures following the recommendations of the State Audit Institution. The changes concerned the repayment of obligations from previous periods, including foreign currency savings, and the net increase in liabilities. However, Eurostat observed that, according to the ESA 2010 rules, the repayments of principal amounts relating to foreign currency savings should not be included in central government deficit. Instead, these amounts should be recorded as financial transactions and accordingly adjusted with a positive entry under “Financial transactions recorded in the working balance” in EDP table 2A. Eurostat added that the central government deficit should only include accrued interest relating to the bonds. Finally, Eurostat also noted that the respective capital transfers (deficit increasing transactions) from government to households should have been recorded at the time when the bonds were issued (in 2004).

The Montenegrin authorities noted that the public revenues currently include repayments of credits and lending provided by government to non-government units. Eurostat suggested to report these as financial transactions in EDP tables 2, in line with ESA 2010 rules.

Eurostat also recommended to the Montenegrin statistical authorities to report the social security funds separately from the central government in EDP tables 2D and 3E. The Montenegrin statistical authorities explained that they would check if such separate reporting would be feasible from a technical point of view. Finally, Eurostat invited the Montenegrin statistical authorities to introduce the stock of trade credits and advances (AF.89), as defined in ESA 2010, in EDP table 4.

Eurostat welcomed the efforts made by the Montenegrin statistical authorities to fill in the EDP tables and encouraged them to provide more information, notably in EDP tables 3 and in the Questionnaire tables related to the EDP tables, in the April 2015 EDP notification.

Findings and conclusions

Action point 8. The Montenegrin statistical authorities will remove the currency and deposits (government assets) from EDP table 1 by the April 2015 EDP notification¹⁰.

Action point 9. The Montenegrin statistical authorities will introduce working balances in the EDP tables 2 in the April 2015 EDP notification¹¹.

Action point 10. The Montenegrin statistical authorities will include all revenues and expenditures currently not recorded via the Single Treasury Account (e.g. for universities, museums and hospitals) in the ESA based expenditures and revenues by the October 2015 EDP notification. The Montenegrin statistical authorities will make these adjustments under “Non-financial transactions not included in the working balance” of EDP tables 2.

Action point 11. The Montenegrin statistical authorities will check whether there are upfront payments for licenses and permits for use of government assets and will spread these government revenues over the lifetime of the relevant contracts by the April 2016 EDP notification.

¹⁰ The April 2015 EDP notification excludes completely the debt data.

¹¹ The EDP notification submitted by Monstat on 14.05.2015 includes working balances.

Action point 12. Eurostat clarified that the government deficit for 2013 (and for earlier years, where applicable) should not include the payments related to the bonds issued as compensation for the lost bank deposits in the past. The respective capital transfers (deficit increasing transactions) should have been recorded at the time when the bonds were issued. The Montenegrin statistical authorities will make these adjustments under “Financial transactions recorded in the working balance” of EDP tables 2 in the April 2015 notification¹².

Action point 13. The Montenegrin statistical authorities will remove the revenues from repayment of credits and lending to third parties from the deficit in EDP tables 2 by the April 2015 EDP notification. The Montenegrin statistical authorities will make these adjustments under “Financial transactions recorded in the working balance” of EDP tables 2¹³.

Action point 14. The Montenegrin statistical authorities will report the social security funds sub sector in EDP table 2D in the April 2015 notification¹⁴.

Action point 15. Eurostat invites the Montenegrin statistical authorities to introduce the stock of trade credits and advances (AF.81), as defined in ESA 2010, in EDP table 4 in the April 2016 EDP notification.

7. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

7.1. Compliance of the Montenegrin general government debt with Maastricht debt definition

Introduction

The publicly available information suggests that the “public debt” of Montenegro includes the debt of public corporations and local government, whereas the central government should approve in advance the long-term borrowing of local government. It is also known that so far the share of debt incurred in foreign currency is very small (in the second quarter of 2014 only around 4% of public debt was in other currencies than euro).

Discussion

According to the Montenegrin statistical authorities the public debt of Montenegro is at face value, whereas it includes the debt of a number of public corporations as specified in the law on budget and fiscal responsibility. Contingent liabilities, such as government guarantees, are not included in the public debt. Eurostat explained that Maastricht debt should include only the debt of those units, which belong to general government (S.13) sector. The Montenegrin statistical authorities confirmed that the public debt is consolidated between central and local government sub sectors, while social security funds do not have any debt. Local government debt amounts to approximately 4% of GDP.

Although the Montenegrin statistical authorities have not yet implemented the ESA 2010-based sector classification of public corporations, the available information suggests that the railway infrastructure company may be an important candidate to be reclassified to the general government sector (in fact, the debt of this company is included in the public debt).

¹² This action point is currently outstanding.

¹³ This action point is currently outstanding.

¹⁴ The EDP notification submitted by Montenegro on 14.05.2015 includes the social security funds sub sector in EDP table 2D.

The discussion also revealed that the public debt includes components (such as “loans with non-financial institutions” and “accrued pensions”), which do not belong to Maastricht debt and should be reported under trade credits and advances instead.

No derivative instruments are used to hedge the currency risks, as the share of debt incurred in foreign currency is very small. However, this share could significantly increase as a result of the borrowing in order to finance the Bar-Boljare highway (priority section Smokovac-Mateševo) construction, planned to start in 2015.

Findings and conclusions

Action point 16. The Montenegrin statistical authorities will exclude the debt of public corporations from the Maastricht debt and inform Eurostat about the size of the railway infrastructure company’s debt. The authorities will also exclude any trade credits and advances (such as “loans with non-financial institutions” and “accrued pensions”) from the Maastricht debt. This is to be carried out by the April 2015 EDP notification¹⁵.

7.2. Delimitation of general government, 50% rule and qualitative criteria

7.2.1. Register of general government units

Introduction

The deficit data published nationally and delivered for the first time within the EDP tables to Eurostat on 21 October 2014 refers only to the budget units of central and local government. The budgetary state funds (Pension Fund, Health Fund, Employment Fund, Employment Office and Restitution Fund) are included under central government, i.e. the social security funds (S.1314) were not reported separately in the EDP tables. There is no state sub sector (S.1312) in Montenegro. However, the public debt published nationally and submitted within the EDP tables includes, according to the law, besides the budget entities the debt of a number of public corporations.

Before the visit Monstat informed Eurostat that within the ongoing IPA 2010 national programme on statistics. Monstat started in the beginning of December 2014 with the activities on the classification of institutional units by institutional sectors in accordance with ESA 2010 methodology. The “top-down” approach starting from the statistical business register data is defined to be used for selecting institutional units in the institutional sectors, which include data from the financial statement reports, income statement reports of the individual companies and data on subsidies from the Statistical Annex. The statistical business register covers all legal entities (about 30 000 units, including private companies). Generally, a draft version of the market-non / market test (50% test) was prepared and applied for all units for which financial statement data exist. There are some “borderline cases” which should be investigated in detail in order to implement properly the ESA 2010 sector classification rules. The IPA 2010 national programme is ongoing up to June 2015. Taking into account the importance of the definition of institutional sectors following ESA 2010, the work on this activity will be continued after the end of IPA 2010 national programme.

Discussion

Eurostat welcomed the progress made on sector classification under the IPA 2010 national programme. The Montenegrin statistical authorities explained that a proper list of general

¹⁵ This action point is currently outstanding. As noted above, the April 2015 EDP notification excludes completely the debt data.

government units does not yet exist. However, Monstat agreed to send to the MoF the list of units that is at their disposal. Besides the list of general government units, Eurostat recommended to start preparing also the list of entities controlled by general government, which are classified outside general government (mainly public corporations operating under market terms).

The participants also discussed the implementation of the market / non-market test (50% test) in the Montenegrin statistical system. The Montenegrin statistical authorities informed Eurostat that they have already started analysing individual companies and agreed to provide the results to Eurostat as soon as they are available. Eurostat also stressed that a clear distinction should be made between subsidies on products and production, as subsidies on products must be included as part of sales (independently of the final beneficiary of the subsidies). As explained above, Monstat uses data on subsidies from the Statistical Annex that all legal entities submit. However, this data source does not allow them to distinguish between subsidies on products and subsidies on production.

Findings and conclusions

Action point 17. The Montenegrin statistical authorities will establish the register of general government units and entities controlled by general government classified outside of the general government sector and report the lists of units (approved by Monstat, the MoF and the CBM) to Eurostat by the April 2016 EDP notification.

Action point 18. Eurostat invites the Montenegrin statistical authorities to submit the results of the market / non-market test (50% test) to Eurostat as soon as they are available. Eurostat encourages to make a clear distinction between subsidies on products and production as specified in ESA 2010 chapter 3 and mentioned in MGDD I.2.4.3. The subsidies on products must be included as part of sales independently of the final beneficiary of the subsidies.

7.2.2. Register of entities controlled by general government

Discussion

In addition to the Eurostat's recommendation to start preparing the list of entities controlled by general government classified outside of the general government sector (see also part 7.2.1, which includes action point 17), Eurostat also enquired about the availability of information about indirect control of public corporations (subsidiaries of public corporations directly controlled by government). Monstat agreed to make the appropriate sector classification of these units in the statistical business register.

Findings and conclusions

Action point 19. Monstat will investigate indirect control of public corporations (subsidiaries of public corporations directly controlled by government) and make the appropriate sector classification of these units in the statistical business register by the April 2016 EDP notification.

7.2.3. Review of specific units (railway, motorway, transportation companies, airports, ports, public utility companies, public hospitals etc.)

Discussion

The discussion focused on larger public corporations, which receive subsidies from the budget. However, the exhaustive market / non-market test should provide a complete picture of the situation (see also the relevant discussion shown in part 7.2.1 and action point 18).

According to the Montenegrin statistical authorities, a large unit potentially to be classified into central government is the railways infrastructure company ŽICG (mentioned also under action point 16). Taking 2013 data as an example, it received 7 MEUR in subsidies out of a total 11 MEUR of its revenue. As to the railways passenger company, Eurostat noted that similar entities in other Member States are usually classified outside general government. However, a detailed analysis should be made in order to determine the appropriate sector classification for each of the four entities of the Montenegrin Railways - the railways infrastructure company, the railways passenger company, the cargo company and the maintenance company (which pays for the maintenance of the railways infrastructure). This analysis should take into account the calculation of consumption of fixed capital for all assets of the entities as well as net interest charge as defined in ESA 2010. As also mentioned above (e.g. action point 18), Monstat should closely examine the nature of the subsidies provided by government, in light of the MGDD provisions (I.2.4.3).

The National Parks of Montenegro and the Investment and Development Fund (IDF) also need special attention. The IDF has been established by government “with the purpose of encouraging and facilitating economic development of Montenegro”, i.e. primarily to support SMEs (credit and guarantee support) and infrastructure and ecological projects. The Montenegrin statistical authorities explained that government does not provide any funds to the IDF, but it is responsible for the IDF's liabilities. Eurostat suggested to Monstat to analyse sector classification of this unit against the rules regarding the entities having the features of captive financial institutions (MGDD I.6). The participants also agreed that a special analysis should be carried out as regards the sector classification of the Central Depository Agency, the Deposit Insurance Fund, the financial supervisory bodies (MGDD I.5) and other regulatory agencies (energy, drugs, communications, etc.).

The Montenegrin statistical authorities believe that Montenegro Airlines would remain classified outside general government, but this needs to be further verified. The analysis of Montenegro Airlines carried out by Monstat took into account net interest charge and also depreciation from the profit and loss account was used as a proxy for consumption of fixed capital.

It was agreed that the strategy for the implementation of ESA 2010 in the Montenegrin public finance would set clear deadlines for the work on sector classification. The Montenegrin statistical authorities committed to send to Eurostat the list of general government units, when available, together with the results of the 50% test for all borderline cases.

The Montenegrin statistical authorities explained that there are no public banks and public insurance companies in Montenegro.

Findings and conclusions

Action point 20. The Montenegrin statistical authorities will provide Eurostat with an analysis about the sector classification of the Investment Development Fund when it is available.

Action point 21. Eurostat encourages the Montenegrin statistical authorities to analyse the sector classification of the financial supervisory bodies.

7.3. Implementation of the accrual principle

As regards time of recording in the public accounts at both central and local government level, the revenues are cash-based, whereas certain adjustments are made to expenditures. The MoF applies time adjustment (“interpolation”) for paid wages, social contributions, health insurance contributions and pensions and reaches the so-called modified cash based

accounting. According to the Montenegrin statistical authorities, this principle could also be observed in the Law on Budget Final Account¹⁶, where the MoF includes net increase of liabilities as a part of modified cash deficit (only on an annual basis).

7.3.1. Taxes and social contributions

Introduction

The Department of Public Revenues, which is part of the MoF, is responsible for tax collection system, tax regulations, implementation of laws and other regulations. Montenegrin tax system is compatible with tax systems of the EU directives as regards types of taxes and procedures of determining collection methods and audit procedure. Tax system is based on direct and indirect taxes. Montenegrin tax system comprises, among others:

- personal income tax
- property tax
- corporate income tax
- VAT
- excise duty
- contributions, duties, fees and other revenues.

Relevant bodies of local administration decide on the rates of construction, utilities, communal taxes and local income tax (local surtax), which are not the same in all municipalities.

Discussion

Eurostat explained to the Montenegrin statistical authorities the accrual recording methods for taxes and social contributions as specified in ESA2010 / MGDD. The key issue is that the unpaid (not collected) taxes and social contributions must not be recorded as part of government revenue. The method used in many EU Member States is the so called “time adjustment” of cash receipts (see also MGDD II.2). In fact, Monstat already has experience with the time-adjusted cash method (notably for taxes on products, such as VAT and excise duties) and the Montenegrin statistical authorities agreed to introduce this method also for the government tax and social contributions’ revenues to be reported in the EDP tables.

The Montenegrin statistical authorities explained that a one-month time adjustment would be appropriate for VAT and excise duties, based on the current practice of paying these taxes / duties in Montenegro. On the other hand, customs duties should be rather booked on a cash basis. Corporate income taxes are paid by the end of March for the previous year (without any prepayments throughout the previous year), while a one-month time adjustment could be envisaged also for personal income taxes.

The issue of tax arrears was also discussed. In July 2014 the tax arrears of the electric power company EPCG were converted into equity, which increased the government’s shareholding in EPCG by two percentage points to 57%. Eurostat explained that in such case the tax revenues are not to be recorded and the increase in the shareholding (F.5) would be recorded only in the revaluation account.

Another issue was briefly discussed, notably when taxes are substituted in some cases with property. Eurostat explained that this would be treated as gross fixed capital formation for

¹⁶ The Law on Budget Final Account for 2014 is published in Official Gazette of Montenegro No 60/14 and on website <http://www.mif.gov.me/biblioteka/zakoni>.

government, with no impact on net borrowing / net lending (the GFCF expenditures are mirrored by entries under tax revenues).

Findings and conclusions

Action point 22. The Montenegrin statistical authorities will introduce “time adjusted cash” method for the main tax categories (revenues) in the April 2015 EDP notification¹⁷.

7.3.2. Interest

Introduction

Currently, Montenegro reports interest expenditure on a cash basis.

Discussion

Eurostat presented the principles of accrual recording of interest. The participants discussed about the types of debt instruments used. Notably, Eurostat explained the treatment of discounts and premiums, together with the way of their recording in EDP tables. Eurostat also explained that normally the calculation of accrued interest should be made on the basis of individual instruments. The Montenegrin statistical authorities agreed that they could provide the interest accruals by the spring notification of 2016.

The recording of interest in the grace periods was also discussed in the light of the forthcoming borrowing for the construction of Bar-Boljare highway. The participants concluded that there is no issue as, according to the contract, the six years’ grace period applies only to the loan principal and not to the interest.

Findings and conclusions

Action point 23. The Montenegrin statistical authorities will implement the calculation of accrued interest according to the ESA 2010 methodology by the April 2016 EDP notification¹⁸.

7.4. Recording of specific government transactions

7.4.1. Government operations relating to the financial crisis

As already mentioned above, there are no public banks in Montenegro, except for the CBM, and neither there have been any government interventions in the private banks. The participants briefly discussed the “Podgorica approach” of resolving the non-performing loans in the private banks, which does not concern the general government accounts. The MoF explained that a stimulus package to the private banks would be adopted in 2015, so that these banks could repay their debt. The package would also include a stand-by arrangement, which would be only activated in the case of a bank failure.

7.4.2. Government guarantees (one-off, standardised), guarantee calls

Introduction

The Montenegrin statistical authorities delivered the EDP questionnaire table 9.1 (Government guarantees in public accounts) together with the EDP tables on 21 October 2014. According to this table, in end-2013 the total stock of government guarantees was 9.4 % of GDP. There were several guarantee calls during 2011-2014, of which the largest was the 107.2 MEUR (3.2 % of GDP) call relating to the aluminium factory KAP. All calls have

¹⁷ This action point is currently outstanding.

¹⁸ In August 2015 Eurostat and the Montenegrin statistical authorities agreed upon a new deadline: October 2016.

been recorded as expenditure of government, which is in line with the relevant rules (MGDD VII.4).

Discussion

Eurostat shortly explained that ESA 2010 introduced different treatments for one-off guarantees and standardised guarantees. The participants concluded that standardised guarantees do not seem to exist in Montenegro.

7.4.3. Recording of EU flows

Introduction

The implementation of the pre-accession assistance programmes is currently managed by the EU Delegation in Podgorica. As regards the recording, only government co-financing is included as expenditure in the public accounts.

Discussion

Eurostat noted that the recording of pre-accession instruments may be different from the recording of EU flows in the Member States and agreed to clarify the issue once the Montenegrin statistical authorities have provided Eurostat with the IPA II agreement between the EU and the government of Montenegro.

Findings and conclusions

Action point 24. The Montenegrin statistical authorities will provide Eurostat with the IPA II agreement between the EU and the government of Montenegro as soon as possible. Eurostat will then clarify the recording of financing under IPA programmes in the government accounts and provide its view to the Montenegrin statistical authorities.

7.4.4. Recording of military equipment procurement

Eurostat explained that the deliveries of large equipment need special attention in government accounting (MDGG II.5), whereas the Montenegrin statistical authorities informed Eurostat that there have not been any deliveries of large equipment recently.

7.4.5. Debt assumptions, debt cancellations and debt write-offs

Eurostat explained the “three guarantee calls” principle, which would lead to assumption of guaranteed debt by government in national accounts. The Montenegrin statistical authorities explained that this is not an issue for Montenegro because guarantee calls always apply to the full amounts of the loans. In other words, the whole outstanding debt under guarantee is deemed to be assumed by government with the first call. Eurostat also explained that claims of government (loan assets) should not be recorded in national accounts as a result of debt assumptions by government.

Eurostat also briefly explained the treatment of debt cancellations and debt write-offs in national accounts. The Montenegrin statistical authorities explained that there have been no cases of debt cancellations and debt write-offs in Montenegro.

7.4.6. Capital injections in public corporations

Discussion

Eurostat explained the rules governing the recording of capital injections in public corporations (see also MGDD III.2) in government accounts and the participants briefly discussed the capital injections made in Montenegro Airlines and also the injections made by the Investment Development Fund.

Findings and conclusions

Action point 25. The Montenegrin statistical authorities will examine the nature of state aid provided to Montenegro Airlines and will conclude about its recording in government accounts by the October 2015 EDP notification.

Action point 26. The Montenegrin statistical authorities will examine the injections made by the Investment Development Fund in, for example, ski resort and will conclude about its recording in government accounts by the October 2015 EDP notification.

7.4.7. Dividends, super dividends

Discussion

Eurostat explained the rules governing the recording of super dividends (see also MGDD III.5) in government accounts and the participants discussed the introduction of the “super dividend test” in the Montenegrin government accounts.

The Montenegrin statistical authorities explained that dividends are reported as revenues in the working balance. However, some of these may well correspond to super-dividends and adjustments would be needed in this case in EDP table 2A. Eurostat noted that also the annual payments made from the CBM to government should be subject to the super-dividend test.

Findings and conclusions

Action point 27. Eurostat invites the Montenegrin statistical authorities to carry out the super dividend test for the distributions by public corporations (including the CBM) by the October 2015 EDP notification.

7.4.8. Public-Private Partnerships (PPP) and concessions

Introduction

The Montenegrin statistical authorities informed Eurostat in October 2014 that at that time there were no active PPPs in Montenegro.

According to the Montenegro Economic Reform Programme 2015 – 2017 (January 2015), a proposal of the Law on Public-Private Partnership to be adopted by the Government in the first quarter of 2015 will provide the basis for a regulatory and institutional framework for the identification and the award of PPP projects as well as the oversight of their implementation. A choice of a PPP project will be conditioned by its fiscal sustainability. The establishment of an Agency for Investments is envisaged, which will be responsible for the approval of PPP projects, among others.

Discussion

Eurostat presented the definitions of PPPs and concessions as specified in the MGDD and their recording in national accounts. Public-Private Partnerships (PPP) may mean different things in different contexts. In the context of the ESA 2010 / MGDD, the term "PPPs" is exclusively used to describe those long-term contracts in which government is paying to a partner all or a majority of the fees under a contractual arrangement, thus covering most of the total cost of the service. This distinguishes PPPs from concession; in a concession, government makes no regular payments to the partner, or such payments do not constitute a majority of fees received by the partner. In a PPP contract, the final users do not pay directly, or pay only a minor part, for the use of the assets.

7.4.9. Privatization

Introduction

Montenegro has been very actively privatizing public companies. Privatization and Capital Projects Council manages privatization in Montenegro.

Discussion

The Montenegrin statistical authorities confirmed that the Privatization and Capital Projects Council belongs to the central government sub sector. However, the authorities also informed Eurostat that the privatization proceeds are received by various funds. Eurostat explained that, for example, the privatization proceeds received by the IDF should be recorded as disposals of equity (F.5) by the IDF (see also action point 20 above about the sector classification of the IDF). The Montenegrin statistical authorities agreed to clarify the distribution of the proceeds from privatizations.

Findings and conclusions

Action point 28. The Montenegrin statistical authorities will clarify whether and how the proceeds from privatizations are distributed between the relevant funds and the Investment Development Fund by the April 2015 EDP notification¹⁹.

7.4.10. Others: emission trading permits, sale and leaseback operations, UMTS, securitisation, financial derivatives.

Discussion

Eurostat enquired about the sales of UMTS permits in Montenegro. The Montenegrin statistical authorities explained that sales of frequencies are made by the Agency for Electronic Communications and Postal Services (EKIP) and the proceeds are used, for example, to build telecom infrastructure. EKIP is currently classified outside general government.

Findings and conclusions

Eurostat advised the Montenegrin statistical authorities to analyse the sector classification of EKIP together with other supervisory agencies, which may potentially belong to general government sector.

8. OTHER ISSUES

8.1. ESA 2010 Transmission Programme

Introduction

So far the Montenegrin statistical authorities have not transmitted any GFS tables as specified in the ESA 2010 Transmission programme. However, as mentioned under part 2 above, Monstat is currently working on ESA-based government data, such as COFOG and breakdown of revenues and expenditures for the purpose of ESA table 2.

Discussion

Eurostat reminded the Montenegrin statistical authorities about the list of the ESA 2010 Transmission programme tables relevant for government accounts (tables 2, 6, 7, 801 (25), 9, 11, 27 and 28) and stressed the importance of availability of financial accounts (tables 6, 7 and 27) for the compilation of the EDP tables.

¹⁹ This action point is currently outstanding.

8.2. Any other business

Introduction

The strategy for implementation of ESA 2010 in the Montenegrin public finance was addressed under this agenda item. In December 2014 the Montenegrin statistical authorities informed Eurostat that they are drafting such strategy.

Discussion

On 2 March 2015 The Montenegrin statistical authorities provided Eurostat with the draft strategy document “ESA 2010 Methodology Implementation in Public Finance”²⁰ and made a short presentation about its content. Eurostat agreed to provide its comments on this document shortly after the technical visit.

Findings and conclusions

Action point 29. Eurostat will provide feedback on the draft strategy for implementation of ESA 2010 in the Montenegrin public finance shortly after the technical visit²¹. The Montenegrin statistical authorities will submit to Eurostat the strategy by end-April 2015.

Action point 30. Finally, Eurostat encourages the Montenegrin statistical authorities to include relevant action points resulting from this technical visit in its strategy for implementation of ESA 2010 in the public finance.

²⁰ An updated version of the document was renamed in end-March 2015 to “The Strategy of ESA 2010 Methodology Implementation in the Public Finance Statistics”.

²¹ Eurostat sent its comments to Montenegro on 12.03.2015 and further comments on 30.03.2015. Eurostat received the translated version (in English) of the strategy (adopted by the Montenegrin government on 09.04.2015) on 12.06.2015.

ANNEX 1. LIST OF PARTICIPANTS

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