International Investment Position and External Debt of Montenegro

Note: There are outstanding methodological issues arising from a detailed analysis of the external private debt by the undertaking over the period 2010 – 2017 that points to a significant share of unpaid loans. These loans represent potential FDIs. This could result in over- or underestimation of individual components comprising the statistics of international investment position and external private debt, therefore, it is advised to take this into consideration when interpreting and using these statistics.

International Investment Position of Montenegro

- methodological note-

International investment position of Montenegro is compiled on the basis of the IMF`s Balance of Payments and International Investment Position Manual, sixth edition - BPM6[1], as well as the EU regulations on Community statistics concerning balance of payments, international trade in services and foreign direct investment (Regulation (EC) no. 184/2005 and Commission Regulation (EU) 555/2012). International investment position (IIP) represents the balance of a country`s external financial assets and liabilities at the end of a calendar year. Financial assets which residents claim from non-residents are showed on the assets side, while liabilities of residents to non-residents are disclosed on the liabilities side. The difference between a country`s external financial assets and liabilities represents the *net international investment position.*

According to the IMF`s methodology, besides transactions (recorded in the balance of payments), the international investment position also covers changes between two accounting periods occurred due to a change in prices by categories of assets/liabilities, exchange rate changes, as well as other adjustments resulting from the allocation or cancellation of SDRs, unilateral debt write-off by creditors, reclassifications and otherwise, as defined by international standards (BPM6).

In accordance with the BMP6, functional categories in the IIP are disclosed as assets and liabilities. Assets/liabilities increase and decrease are shown with a plus (+) and a minus (-) sign, respectively. A net value of these categories is the difference between assets and liabilities. When the net position is negative, this means that the country has foreign capital inflows (mostly in the form of capital investments or debt) that are larger than its foreign investments.

Montenegro`s international investment position is compiled annually. The structure of the IIP is fully in line with the structure of the financial account. The main components are: foreign direct investments, portfolio investments, financial derivatives, and other investments[2], as well as reserve assets.[3] Definitions of standard IIP components are methodologically aligned with the financial account positions.

---

[1] Balance of Payments and International Investment Position Manual, 6th Edition, IMF, 2009 (http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm)

[2] Estimate of cash in circulation on the asset side included.

[3] Data on the stock of portfolio investments arising from investments in debt securities of *other sectors* on the liabilities side are not included, as are trade credits and advances as they are unavailable at the moment.

In order to compile the IIP, the CBCG uses:

- direct reporting by residents (direct reporting of residents on FDIs and loans);
- statistics compiled within the CBCG (balance of payments and monetary statistics);
- administrative sources of data (Ministry of Finance, IMF), and estimates.

External Debt of Montenegro

- methodological note -

External debt statistics is compiled in line with the IMF`s methodology prescribed under the Balance of Payments and International Investment Position Manual (BPM6) and External Debt Statistics – Guide for Compilers and Users, 2014. The structure of external debt is broken down by institutional sectors, debt instruments, and maturity. Debt classification by the sector and instruments is consistent with the financial account classifications as per the BMP6.

Total external debt represents the total debt of a country`s public and private sectors to foreign creditors (non-residents). The structure of external public debt is disclosed per institutional sectors:

- ❖ General government – central government, local governments, as well as legal persons and corporates mainly providing services of public interest and which are controlled and primarily funded by the government, in accordance with the Ministry of Finance`s definition[4];
- ❖ Central bank (SDR allocation);
- ❖ Deposit taking corporations, except the central bank (commercial banks);
- ❖ Other sectors – all financial institutions other than banks, nonfinancial corporates, non-profitable institutions providing services to households, and nonprofit institution serving households, including entrepreneurs and natural persons;
- ❖ Direct investments: intercompany borrowings – debt investments between creditors and debtors of other sectors which are affiliated enterprises.

Data for each sector (other than direct investments) are disclosed as per maturity (short- and long-term) and instruments resulting in debt liabilities (currency and deposits, debt securities, loans, trade credits and advances, other debt liabilities and direct investments: intercompany borrowings). The country`s total external debt represents outstanding debt liabilities at a given date, including all outstanding liabilities arising from principal and interest. Annual data published for the first time have the preliminary status as the release of data for the next year is expected to revise the previous year data in view of the subsequent information received and/or changes on the side of the data source.

In order to compile the external debt statistics,[5] the CBCG uses:

- direct reporting by residents (direct reporting of residents on loans);
- statistics compiled within the CBCG (balance of payments and monetary statistics),
- administrative sources of data (Ministry of Finance, IMF) and estimations.

[4] The General government follows the IMF methodology prescribed under the Sixth Edition of the IMF`s Balance of Payments and International Investment Position (BPM6) and the External Debt Statistics - Guide for Compilers and Users, IMF, 2014 (http://www.tffs.org/edsguide.htm) and it deviates from the nationally defined scope (to include debt of local governments and debt of legal persons and corporates to non-residents).

[5] Foreign debt of other sectors does not include data on liabilities arising from non-residents` investments in domestic debt securities and liabilities arising from trade credits and advances as these are mostly short-term liabilities. It is estimated that these positions could significantly affect the net IIP and the external debt.