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**MONTENEGRIN FOREIGN TRADE STATISTICS ANALYSIS
USING GENERAL AND SPECIAL TRADE SYSTEMS**

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INTRODUCTION

International trade in goods statistics represents a significant source of data for the economic analysis and projections of economic growth and development, as well as for passing decisions at the government level and specific entities' level. These data are also used for the assessment of the openness and integration of countries into the international trade, particularly nowadays in terms of globalisation and actual European and Euro-Atlantic integrations. Moreover, international trade in goods statistics represents an important source of data for the national accounts and the balance of payments statistics.

Current account balance of payments reflects in savings and investments movements in the local economy. All economic policy measures aimed at influencing the movement of the current account directly affect the changes of household savings and investments. Therefore, the understanding of those effects is important. The current account may be a key element of the nationally available income and an important indicator of the household living standards. Besides, national accounts and balance of payments statistics represent a significant database for determining credit rating of a country influencing also the possibility to access the international financial market. In addition, these statistics represent a significant database for the decision-making process of foreign investors regarding their investments into a specific country. In that respect, an ongoing effort is needed with a view to providing more qualitative data on international trade in goods.

Montenegro is facing with a very high foreign trade deficit. The foreign trade deficit is the main factor of high current account deficit, which was one of the main problems of the Montenegrin economy. During 2008 and 2009, the amount of trade in goods of Montenegro made up 66% and 57% respectively of total balance of payment current account transactions, respectively.

Table 1 – Montenegrin foreign trade deficit, % of GDP

	2007	2008	2009
Montenegro*	-58,73	-67,49	-45,67

** The data are shown using special trade system
Source: MONSTAT and the CBM calculation*

The following table shows the movement of foreign trade deficit in the countries of former Yugoslavia, for the purpose of comparison.

Table 2 – Share of foreign trade deficit in GDP in selected countries, in %

	2006	2007	2008	2009*
Serbia	-21,2	-22,5	-22,0	-15,2
Croatia	-21,3	-22,0	-22,8	-16,9
Bosnia and Herzegovina	-34,6	-37,2	-38,2	-27,8
FYR Macedonia	-20,1	-20,3	-26,7	-23,4
Slovenia	-3,7	-4,8	-7,1	-1,8

* Preliminary data or assessments for 2009

Source: Republic Statistical Offices, Central Banks and Ministries of Finance

Globally, only Maldives (a country which lives on tourism and fishery) and Liberia had the deficit of almost 70% of GDP in period 2002 – 2008, as this represented the amount of deficit in Montenegro in 2008 (Source: IMF, World Economic Outlook, October 2009).

Table 3 – Countries with the largest share of foreign deficit in GDP, in %

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bosnia and Herzegovina	-48,38	-49,42	-50,15	-49,59	-45,54	-45,44	-35,01	-37,61	-38,40
St Kitts and Nevis	-36,84	-32,62	-32,63	-32,69	-25,57	-27,72	-32,99	-35,89	-39,08
St Lucia	-36,67	-31,70	-28,74	-37,79	-31,46	-37,47	-45,48	-45,88	-39,71
Cape Verde	-35,02	-34,77	-38,29	-38,14	-41,17	-34,99	-38,91	-43,88	-41,00
Tajikistan			-10,21	-7,69	-6,54	-13,97	-15,75	-41,98	-41,37
Saint Vincent and the Grenadines	-27,64	-31,66	-31,93	-35,79	-38,57	-38,16	-39,46	-43,33	-41,51
Dominica	-27,91	-26,81	-23,04	-27,22	-29,77	-34,46	-32,37	-39,09	-44,24
Lesotho	-65,96	-56,25	-60,52	-52,25	-46,10	-47,70	-44,01	-47,81	-45,49
Grenada	-32,09	-31,57	-32,04	-38,11	-39,38	-48,46	-41,57	-47,08	-46,10
Antigua & Barbuda	-42,78	-38,43	-37,51	-40,79	-42,15	-42,71	-48,28	-49,64	-47,89
Djibouti	-31,46	-28,43	-27,09	-32,00	-33,54	-33,54	-36,48	-48,96	-51,46
Moldavia	-22,77	-21,29	-22,73	-31,45	-29,03	-39,88	-46,47	-52,40	-53,26
Montenegro		-37,91	-31,85	-23,80	-24,94	-28,30	-39,52	-58,73	-67,49
Maldives	-37,39	-39,47	-33,11	-37,90	-49,46	-65,85	-64,49	-69,90	-70,64
Liberia					-37,93	-32,98	-46,81	-40,58	-82,29

Source: IMF, World Economic Outlook, October 2009, CBM

There is no doubt that Montenegro has high foreign trade deficit. However, taking into consideration developments in Montenegrin economy, economic situation, cash inflows and outflows through different foreign transactions, the question is whether an economy like Montenegro can produce or finance such a high deficit.

These working papers will attempt, through the overview of Montenegrin practice of compiling data on foreign trade using both trade systems – the general and the special – as well as differences in data, converge this issue to interested professionals and raise doubts in the quality of the information obtained using both systems. It will also analyse data obtained from Monstat based on customs declarations for 2008 and 2009. Since Monstat published only preliminary data for 2009 for both trade systems, the analysis will be performed using only the preliminary data. Namely, after serious failures in data processing that was disclosed using the general trade system, Monstat decided to publish final data using only the special trade system. This does not mean that the special trade system is good, but it is better than the general trade system currently as assessed by Monstat.

Monstat data will be compared with the data of more important foreign trade partners, and cash flows will be compared with foreign trade goods flows.

1. INTERNATIONAL TRADE STATISTICS

Data on international trade are an important indicator of the economic openness and development of a country. The statistics on the international trade in goods represents an important source of data for the national accounts, balance of payments and economic analyses. Therefore, data should be reliable and internationally comparable.

Two systems for data presentation are used in the statistics of the international trade in goods: the general and the special trade systems. The general trade system is in use when the statistical territory of a country coincides with its economic territory. The special trade system represents narrower concept, which is in use when the statistical territory comprises only a particular part of the economic territory. Although the objective is to encompass statistically all goods entering or leaving the economic territory of a country, the practice often registers the goods entering or leaving the **statistic territory of a country** that sometimes does not correspond to the economic territory.

The general trade system is a broader concept including all goods entering or leaving the economic territory of a country which collects data, except goods in transit. As opposed to the special trade system, the general one includes in imports, except goods directly imported in the country, all the goods received into the customs warehouse regardless of whether they into free circulation, and/or whether the goods will be used on the territory of the importing country or they will be directly

exported abroad from the customs warehouse. On the other hand, imports also include all goods leaving the customs warehouse (leaving the territory of a country).

According to the definition there are three types of imports:

- Foreign goods (other than compensating products after outward processing);
- Foreign goods comprised of compensating products after outward processing;
- Domestic goods in the same state as previously exported.

According to the general trade system, these goods are brought into:

- The free circulation area, premises for inward processing or industrial free zones;
- Premises for customs warehousing.

The following table shows registration of imports using general and special trade systems and their differences.

Table 4 –Imports of goods using general and special trade systems

	IMPORTS	GENERAL TRADE SYSTEM	SPECIAL TRADE SYSTEM
	FOREIGN GOODS (other than compensating products after outward processing)		
	From the rest of the world or from customs transit		
1	Into the free circulation area, premises for inward processing or industrial free zones;	M*	M
2	Into premises for customs warehousing or commercial free zones	M	
	From premises for customs warehousing or commercial free zones		
3	Into the free circulation area, premises for inward processing or industrial free zones		M**
	Foreign goods (compensating products after outward processing)		
	From the rest of the world or from customs transit		
4	Into the free circulation area, premises for inward processing or industrial free zones;	M	M
5	Into premises for customs warehousing or commercial free zones	M	
	From premises for customs warehousing or commercial free zones		
6	Into the free circulation area, premises for inward processing or industrial free zones		M***
	Domestic goods in the same state as previously exported		
	From the rest of the world or from customs transit		
7	Into the free circulation area, premises for inward processing or industrial free zones;	RM	RM
8	Into premises for customs warehousing or commercial free zones	RM	
	From premises for customs warehousing or commercial free zones		
9	Into the free circulation area, premises for inward processing or industrial free zones		RM****

* M- imports; RM – re-import

** This category refers to foreign goods which was brought into the premises for customs warehousing or free commercial zones

*** This category refers to the goods which were initially imported in the customs warehousing premises or free commercial zones after outward processing, and then brought into free circulation.

**** This category includes domestic goods, which were initially imported (exported) in customs warehousing premises or free customs zones, and then imported in the same state as previously exported.
Source: International Merchandise Trade Statistics: Concepts and Definitions (Series M, No 52, Rev. 2)

The **special trade system** represents narrower concept, which is in use when the statistical territory comprises only a particular part of the economic territory. This system does not record, as an import, foreign goods accepted into customs warehousing until it is brought into free circulation (or it is under the customs procedure on inward production or production under the customs supervision), neither the goods leaving the customs warehousing. According to the definition, the special trade system includes only goods brought into the free circulation area of the imported country, where the goods may be disposed of without customs restrictions, which means cleared through the customs for home use.

In the case of the special trade system, the goods are exported from the free circulation area, premises for inward processing or industrial free zones. There are three types of exports:

- Domestic goods originating in the free circulation area or industrial free zones;
- Domestic goods comprised of compensating products after inward processing;
- Foreign goods in the same state as previously imported.

Table 5 – Exports of goods using general and special trade systems

	EXPORTS	GENERAL TRADE SYSTEM	SPECIAL TRADE SYSTEM
	DOMESTIC GOODS (OTHER THAN COMPENSATING PRODUCTS AFTER INWARD PROCESSING)		
	Exports from free circulation areas or industrial free zones:		
1.	To the rest of the world	X*	X
2.	into premises for customs warehousing or commercial free zones		X
	Originating in the free circulation area or industrial free zones but exported from premises for customs warehousing or commercial free zones:		
3.	To the rest of the world	X**	
	Domestic goods (compensating products after inward processing)		
	From premises for inward processing		
4.	To the rest of the world	X	X
5.	Into premises for customs warehousing or commercial free zones		X
	Originating in premises for inward processing but exported from the premises for customs warehousing or commercial free zones:		
6.	To the rest of the world	X***	
	FOREIGN GOODS IN THE SAME STATE AS PREVIOUSLY IMPORTED		
	From free circulation areas, premises for inward processing or industrial free zones:		
7.	To the rest of the world	RX	RX
8.	Into premises for customs warehousing or commercial free zones		RX
	From premises for customs warehousing or commercial free zones		
9.	To the rest of the world	RX	

* X – exports; RX – re-exports

** This category includes domestic goods which are imported into the premises for customs warehousing or commercial free zones from the free circulation area or industrial free zones, and then exported.

*** This category includes goods which are exported from the premises for inward processing into the premises for customs warehousing or commercial free zones and then exported.

Source: *International Merchandise Trade Statistics: Concepts and Definitions (Series M, No 52, Rev. 2)*

The transfer from general to the special trade system requires administrative restructuring, as well as adjustments necessary for:

- Goods imported into and exported from premises for customs warehousing, premises for inward processing, industrial free zones, when the *strict* definition of the special trade system is used;
- Goods imported into and exported from premises for customs warehousing, when the relaxed definition of the special trade system is used.

The UN recommended¹ the use of general trade system for the compilation of their national accounts and balance of payments, since this system is more comprehensive than the special system is and it also provides a better approximation of the change of ownership criterion used in the SNA and BPM5. However, many countries in the world use relaxed definition of the special trade system, due to a difficulty to record goods in the absence of the customs inspection in the areas having the special status, such as commercial and industrial free zones and premises for customs warehousing.

2. PRACTICES OF COUNTRIES IN COMPILING FOREIGN TRADE STATISTICS

Compiling foreign trade statistics is a very complex process and sometimes it is not easy to compare data of several countries due to different concepts and definitions they use. The UN conducted a survey among 132 countries on the practice of countries in compiling and disseminating data on foreign trade. According to the survey results, a high percentage of countries (40.2%) do not follow the UN recommendation to apply the general system. This is in particular the case for developed countries with 54.8% of them indicating that they disseminate trade data only on the basis of the special trade system. Only 21.2% of the countries disseminate data using both systems.

Table 6 – Application of the general and the special trade systems in selected countries

Question	132 countries			Developed countries			Developing and transitional		
	YES	NO	N/A	YES	NO	N/A	YES	NO	N/A
Do you disseminate trade statistics only according to the general trade system?	42,4	53	4,5	16,1	83,9	0	50,5	43,6	5,9
Do you disseminate trade statistics only according to the special trade system?	40,2	53	6,8	54,8	38,7	6,5	35,6	57,4	6,9
Do you disseminate trade statistics according to both the general and special trade system?	21,2	60,6	18,2	22,6	71	6,5	20,8	57,4	21,8

Source: International Merchandise Trade Statistics, National Compilation and Reporting Practice, 2006 survey results

¹ *International Merchandise Trade Statistics: Concepts and Definitions (Series M, No 52, Rev. 2)*

According to the survey results, about 50% of countries have the procedures in place to record movements in and out of commercial and industrial free zones. On the other hand, inclusion in trade statistics of goods admitted into or withdrawn from the customs warehouses is possible in 61.4% of countries.

The European Union bases its foreign trade statistics on the special trade system. Denmark, Spain and Ireland publish data using general trade system for their national needs for extra-EU trade, but they submit data to Eurostat using special trade system. Germany, Estonia, Cyprus, Netherlands and Great Britain publish data on visible trade using both systems. Of other countries in the world, USA, Japan and Canada apply the general trade system. Such methodological differences among countries often lead to discrepancies in data and it is necessary to make adjustments in order to make data comparable.

In the last several years, significant efforts have been made with a view to harmonizing methods for compiling data on foreign trade at the international level. The World Customs Organization developed the Harmonized System (HS) which represents the international nomenclature of goods using numerical system, which was applied in 150 countries of the world. The UN has published the International Merchandise Trade Statistics: Compilers Manual. At the EU level, significant efforts have been made and regulations have been adopted as a basis for compiling extra-EU and intra-EU trade for member states. However, the EU countries often use within EU national methods in compiling data for their needs.

The result of the application of different methodologies, different methodological approaches, unequal evaluation of the same goods for different reasons represent, globally and individually, the mismatch in the value of imports and exports. At the global level, the value of total exports should correspond to the value of total imports, since the exports of one country represent the imports of another. However, the practice shows different situation.

Table 7 – Global foreign trade, USD billion

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Exports	6.351,6	6.092,6	6.393,6	7.466,9	9.069,3	10.375,0	11.993,6	13.866,8	16.014,7
Imports	6.368,8	6.119,0	6.381,2	7.421,9	9.046,4	10.330,4	11.885,2	13.692,3	15.857,5
Difference	17,1	26,4	12,4	45,0	22,9	44,6	108,4	174,5	157,2

Source: IMF

The difference between exports and imports was USD 157.2 billion in 2008, which represented a 68 times higher amount than Montenegrin imports in 2009 or 381 times higher amount than Montenegrin exports in 2009.

With a view to accomplishing better trade in goods statistics, so called mirror statistics were applied. In these statistics, two producers of the foreign trade statistics of trade partner countries compare the data. The differences in data are determined and the work on their correction begins. Those differences can be very significant. For example, when mirror statistics was performed between Poland and Croatia in 2001, the difference in data on Croatian exports to Poland was 60%, while this difference in imports data was 7.13%². Significantly lower difference was evident in matching statistics of the USA and Canada, which is shown in the table below.

Table 8 – Balance on goods accounts of the USA and Canada, USA billion

	Published assessments*		Matched assessments	
	USA	Canada	USA	Canada
2002				
Goods- balance	-50,9	58,6	-58,8	58,8
2003				
Goods - balance	-54,3	64,6	-63,5	63,5

* Note: Surplus (+) USA is the deficit of Canada (-) and vice versa.

Source: www.bea.gov

Based on the aforesaid, although it sounds logically to follow flows of exports and imports of goods, the practice shows different case. The differences occur due to different scope, increase or decrease in the value of goods during transport, shadowed economy, different application of methodology, different valuation of goods, and time difference in registering imports or exports. It is generally known that this type of statistics belongs to the most complicated ones used for processing and monitoring.

No generally accepted standard exist which would describe the discrepancies in mirror statistics. However, the fact that specific differences exist should result in paying special attention to monitor of these flows.

3. MONTENEGRIN FOREIGN TRADE STATISTICS

The process of compiling statistics on Montenegrin foreign trade went through different phases in the last several years. In period before 2003, foreign trade with the most important export partner, Serbia, could not be monitored through customs declarations. Instead, the international transaction reporting system (ITRS) was used as data source. In addition, data on foreign trade

² Source: Republic of Croatia - Central Bureau of Statistics, "Mirror statistics of foreign trade – Poland and Yugoslavia, 2001, 2002"

for 2003 were processed by two institutions: by the Federal Bureau of Statistics from January to April 2003, and by the Central Bank of Montenegro from April until the end of 2003. This gives the possibility of different use of processing. Besides, during the existence of the State Union of Serbia and Montenegro, majority of goods which passed the border of Montenegro and Serbia were not registered at the customs, neither it was possible to make their evaluation. In 2004, it was technically possible to follow transactions of goods between Serbia and Montenegro using data of the Customs Administration of Montenegro or customs declarations. Since 2005, Monstat began processing of the foreign trade statistics.

Since January 2009, Monstat started to publish data on foreign trade using general and special trade systems. However, due to comparability of data the final data for 2007 and 2008 were revised and processed using the same principle.

The following table shows the analysis of foreign trade of Montenegro for 2009 based on both systems.

Table 9 – Trade in goods of Montenegro in 2009, EUR 000

	2009		Difference
	General trade system	Special trade system	
Exports	312.914,25	287.876,91	-25.037,34
Imports	1.314.621,51	1.652.169,84	337.548,33
Balance	-1.001.707,26	-1.364.292,93	362.585,67
Coverage of imports by exports (%)	23,8	17,4	

Source: Monstat

3.1. Analysis of data on trading of goods using general trade system

According to Monstat preliminary data, trade in goods was EUR 1,627.5 million in 2009, by the **general trade system**, of which EUR 312.9 million related to exports, and EUR 1,314.6 million to imports. Trade in goods declined by 34% in relation to the same period of the previous year. Exports were for more than four times lower than the imports.

In 2009, foreign trade deficit amounted to EUR 1.001.7 million representing a decline of 33.3% in one-year period. The share of foreign trade deficit in GDP was 33.4%. In 2009, according to Monstat preliminary data, exports were 312.9 million. This represents year-one-year decline of 35.4%. The decline in exports of aluminium and products of aluminium, iron and steel contributed to the decline in total exports.

Table 10 – Structure of exports in 2009, in EUR 000

Goods	2009	Share in %
Aluminium and related products	114.329,0	36,5
Iron and steel	32.133,8	10,3
Nuclear reactors, boilers, machines and mechanical devices and their parts	22.596,8	7,2
Beverages, alcohol and vinegar	21.776,9	7,0
Mineral fuels, mineral oils and products of their distillation	18.471,9	5,9
Wood and related products; wood coal	13.735,7	4,4
Fruits, stone fruit; peels of citrus fruit or cantaloupe and watermelon	11.278,6	3,6
Pharmaceutical products	9.168,2	2,9
Iron and steel products	7.857,7	2,5

Source: Monstat

The exports of aluminium and related products were EUR 114.3 million in 2009, representing a year-on-year decline of 37.3%. In addition to aluminium, iron and steel registered a decline in exports of EUR 53 million. This represented a year-on-year decline of 62.3%. Exports in mineral fuels, mineral oils and products of their distillation were EUR 18.5 million, showing a year-on-year decline of 55.3%. A significant decline was registered in exports of iron and steel products by 59%.

Table 11 – Five products with the most significant impact on the decline in exports in 2009, EUR 000

Goods	2008	2009	Difference
Aluminium and related products	182.241,2	114.329,0	-67.912,2
Iron and steel	85.195,8	32.133,8	-53.062,0
Mineral oils, mineral fuels and products of their distillation	41.365,7	18.471,9	-22.893,8
Iron and steel products	19.143,3	7.857,7	-11.285,6
Pharmaceutical products	17.158,2	9.168,2	-7.989,9

Source: Monstat

According to the Monstat preliminary data, imports were EUR 1,314.6 million in 2009, which represented a decline of 33.8% in relation to 2008. The imports from the category mineral fuels, mineral oils and products of their distillation amounted to EUR 107.5 million, showing a decline of 34.7% in relation to 2008. The imports of electricity within this category amounted to EUR 68 million (63.4%) and it was by 59.6% less than in 2008. Imports of products from the category reactors, boilers, machines and mechanical devices fell by 52.6% amounting to EUR 95.7 million.

Table 12 – Structure of imports in 2009, EUR 000

Name	2009	Share in %
Mineral fuels, mineral oils and products of their distillation	107.476,9	8,2
Reactors, boilers, machines, mechanical devices and their components	95.653,8	7,3
Electrical machines and equipment and their components	89.126,9	6,8
Vehicles, except for railway and tram vehicles and their components and equipment	61.459,8	4,7
Iron and steel products	56.343,0	4,3
Furniture, linen, mattresses and their frames, pillows and other components	50.802,6	3,9

Source: Monstat

In the observed period, imports of electrical machines, equipment and their components amounted to EUR 89 million. It was year-on-year declined of 36.2%. Total imported vehicles represented a year-on-year decline of 66.9% amounting to EUR 61.5 million. The decline in iron and steel products was EUR 56.3 million, showing fall of 40.8% in one-year period.

Table 13 – Five products with the majority decline in imports in 2009, EUR 000

Goods	2008	2009	Difference
Vehicles, except for railway and tram vehicles and their components and equipment	185.888,4	61.459,8	-124.428,6
Nuclear reactors, boilers, machines and mechanical devices and their components	201.735,6	95.653,8	-106.081,8
Iron and steel	96.357,0	31.401,7	-64.955,3
Mineral fuels, mineral oils and products of their distillation	164.608,7	107.476,9	-57.131,8
Electrical machines and equipment and their components	139.692,5	89.126,9	-50.565,6

Source: Monstat

According to the structure of exports by groups of countries, Montenegro exports majority of goods to the countries of the European Union, which represents 43.2% of total exports. In the observed period, majority of goods was exported to Serbia to the amount of EUR 83.9 million (26.8%), to Greece to the amount of EUR 47.8 million (15.3%) and to Italy to the amount of EUR 33.5 million (10.7%).

Table 14 – Structure of exports and imports in 2009, EUR 000

Country	Exports	Share in %	Imports	Share in %	Balance
TOTAL:	312.914,25	100,00	1.314.621,51	100,00	-1.001.707,26
Total EU	135.273,64	43,23	423.679,78	32,23	-288.406,14
Austria	1578,23	0,50	35.178,37	2,68	-33.600,14
Germany	2.683,60	0,86	43.293,45	3,29	-40.609,85
Greece	47.813,40	15,28	48.610,47	3,70	-797,07
Hungary	11.965,41	3,82	20.462,16	1,56	-8.496,75
Italy	33.467,58	10,70	88.479,51	6,73	-55.011,93
Netherlands	4.958,13	1,58	11.087,27	0,84	-6.129,14
Slovenia	24.236,84	7,75	96.587,29	7,35	-72.350,45
Sweden	685,04	0,22	2054,93	0,16	-1369,89
Great Britain	1890,31	0,60	5.017,21	0,38	-3126,9
Total CEFTA	151.549,31	48,43	764.706,78	58,17	-613.157,47
Albania	9.355,66	2,99	16.127,68	1,23	-6.772,02
Bosnia and Herzegovina	22.925,15	7,33	91.285,67	6,94	-68.360,52
Croatia	9.872,15	3,15	99.866,54	7,60	-89.994,39
Serbia	83.902,26	26,81	538.193,47	40,94	-454.291,21
FYR Macedonia	1834,27	0,59	17.254,87	1,31	-15.420,60
Kosovo	23.660,82	7,56	1957,12	0,15	21.703,70
Other countries	26.091,30	8,34	126.234,95	9,60	-100.143,65

Source: MONSTAT

In the structure of imports by groups of countries, majority of Montenegrin imports were still from the countries signatories to the CEFTA agreement, representing 58.2% of total imports. Majority of goods were imported from Serbia to the amount of EUR 538.2 million (40.9%), Croatia to the amount of EUR 99.9 million (7.6%), Slovenia to the amount of EUR 96.6 million (7.4%), Bosnia and Herzegovina to the amount of EUR 91.3 million (6.9%), Italy to the amount of EUR 88.5 million (6.7%) and Greece to the amount of EUR 48.6 million (3.7%).

3.2. Analysis of data on trading of goods using special trade system

According to Monstat data, foreign trade deficit of Montenegro was EUR 1,364.3 million in 2009 according to the **special trade system**, which represented a year-on-year decrease of 34.8%. Total foreign trade was EUR 1,940 million. This represented a decline of 34.5% in relation to 2008 when it was EUR 2,960.3 million. The share of imports was significantly higher in total trade and it amounted to 85%, while the share of exports was only 15%, which was an indicator of the low competitiveness of the domestic economy.

According to the Monstat preliminary data, total exports were EUR 287.9 million, which represented a decline of 33.5% compared to 2008. In the structure of exports, the largest share was that of aluminium and related products (39.6%), then iron and steel (11.1%); reactors, boilers, machines and mechanical devices and their components (8.1); beverages, alcohol and vinegar (7.7%) and wood and related products (4.7%). These five products made up 71.2% of total exports. The highest absolute decline in exports was that of aluminium and related products (by EUR 66.7 million), iron and steel (by EUR 53.3 million) and iron and steel products (EUR 11 million).

Table 15 – Structure of exports in 2009, EUR 000

Goods	Exports	Share in %
Aluminium and related products	113.940,1	39,6
Iron and steel	31.864,8	11,1
Nuclear reactors, boilers, machines and mechanical devices and their components	23.355,7	8,1
Beverages, alcohol and vinegar	22.294,1	7,7
Wood and related products; wood coal	13.534,1	4,7
Pharmaceutical products	8.971,3	3,1
Iron and steel products	7.883,1	2,7
Mineral fuels, mineral oils and products of their distillation; bitumen materials; mineral waxes	7.855,8	2,7
Etherical oils and resinoids; perfume, cosmetic and toilet products	4.568,4	1,6
Vegetables, roots and potatoes	3.706,0	1,3

Source: Monstat

In 2009, the lowest imports of EUR 113.9 million of aluminium and related products was registered in the last several years, showing a fall of 36.9% as compared to 2008, and a fall of 55.3% as compared to 2007. Due to the reduced demand and the decline in prices of iron and steel at the global market, a year-on year decline of 62.6% in exports of products from the group iron and steel was registered. The exports of products from the group “reactors, boilers, machines, mechanical devices and their parts” increased by 56.2%.

According to Monstat preliminary data, the imports were EUR 1,652 million in 2009, representing a year-on-year decline of 35%. In the observed period, majority of imported products were from categories “mineral fuels, oils and products of their distillation”, “reactors, boilers, machines and mechanical devices” and “electrical machines and equipment and their components”.

Table 16 – Structure of imports in 2009, EUR 000

Goods	Imports	Share in %
Mineral fuels, mineral oils and products of their distillation; bitumen materials; mineral waxes	208.885,0	12,6
Reactors, boilers, machines and mechanical devices and their components	119.990,8	7,3
Electrical machines and equipment and their components	117.109,3	7,1
Vehicles, except for railway and tram vehicles and their components and equipment	89.424,7	5,4
Meat and other related products	59.796,4	3,6
Iron and steel products	59.584,9	3,6
Furniture, linen, mattresses, pillows and related products; lamps and other fluorescent items not included in other parts, visible signs, lighted tiles by names, prefabricated buildings	54.051,4	3,3
Pharmaceutical products	50.093,8	3,0
Plastic items and related products	48.874,4	3,0
Beverages, alcohol and vinegar	46.526,5	2,8

Source: Monstat

Imports of products from the category “mineral oils, mineral fuels and products of their distillation” amounted to EUR 208.9 million, representing a year-on-year decline of 42.5%. This resulted from the reduction in oil and oil derivative prices and lower imports of electricity. Within this group, the majority of imported products were oils and bitumen minerals of EUR 112 million, showing a year-on-year decline of 47.5%, and electricity EUR 68 million (annual decline of 40.4%). The imports of products from the category “reactors, boilers, machines and mechanical devices” fell by 54.1% amounting to EUR 120 million. In the observed period, the imports of electrical machines and equipment and their parts and components amounted to EUR 117 million. This showed a year-on-year decline of 34.2%. The largest decline of imports in relation to the previous year was that of vehicles (by EUR 155.7 million), mineral fuels, mineral oils and products of their distillation (by EUR 154.6 million), and reactors, boilers, machines and mechanical devices (by EUR 141.6 million).

Table 17 – Products which mostly influenced the decline in imports, EUR 000

Goods	2008	2009	Difference	Change in %
Vehicles, except for railway and tram vehicles and their components and equipment	245.155	89.425	-155.730	-63,52
Mineral fuels, mineral oils and products of their distillation	363.473	208.885	-154.588	-42,53
Nuclear reactors, boilers, machines, mechanical devices and their parts	261.632	119.991	-141.642	-54,14
Iron and steel	103.575	34.178	-69.398	-67,00
Electrical machines and equipment and their parts	177.880	117.109	-60.771	-34,16
Iron and steel products	103.592	59.585	-44.007	-42,48

In 2009, exports to EU countries made up 48.3% of total exports and it declined by 12.9 percentage points in one-year period. Imports from EU countries had a share of 37.8% in total imports, which represented a decline of 3.4 percentage points in one-year period. Of EU countries, the majority of goods was exported to Greece to the amount of EUR 47.8 million (16.6%), Italy to the amount of EUR 34.2 million (11.9%) and Slovenia to the amount of EUR 24.1 million (8.4%). However, the majority of goods was imported from Slovenia to the amount of EUR 114.8 million (7%), Italy to the amount of EUR 108.6 million (6.6%) and Greece to the amount of EUR 107 million (6.5%).

Exports to CEFTA countries were 45.9% of total exports, thus increased by 9.2 percentage points in one-year period. The majority of goods was exported to Serbia to the amount of EUR 79.6 million (27.7%), Bosnia and Herzegovina to the amount of EUR 18.9 million (6.6%) and Kosovo to the amount of EUR 16.3 million (5.6%). The imports from CEFTA countries made up 53.3% of total imports. The share of these imports has increased by 4.7 percentage points in one-year period. Majority of goods was imported from Serbia EUR 599.2 million (36.3%), Croatia EUR 126.5 million (7.7%) and Bosnia and Herzegovina EUR 115 million (7%).

Table 18 – Trade in goods by countries in 2009, EUR 000

	EXPORTS	Share in %	IMPORTS	Share in %	BALANCE
TOTAL:	287.877		1.652.170		-1.364.293
EU (27)	139.128	48,3	624.019	37,8	-484.890
Austria	1.571	0,5	66.521	4,0	-64.950
Greece	47.797	16,6	107.007	6,5	-59.210
Italy	34.218	11,9	108.577	6,6	-74.360
Hungary	11.683	4,1	31.433	1,9	-19.750
Germany	6.792	2,4	63.215	3,8	-56.423
Slovenia	24.095	8,4	114.816	6,9	-90.721
CEFTA	132.131	45,9	880.278	53,3	-748.148
Albania	6.096	2,1	16.198	1,0	-10.103
Bosnia and Herzegovina	18.881	6,6	114.988	7,0	-96.107
Croatia	9.829	3,4	126.477	7,7	-116.648
Serbia	79.606	27,7	599.232	36,3	-519.626
FYR Macedonia	1.439	0,5	21.347	1,3	-19.908
Moldavia	0	0,0	21	0,0	-21
Kosovo	16.279	5,7	2.014	0,1	14.265
Other countries	16.618	5,8	147.873	9,0	-131.255
USA	7.407	2,6	4.671	0,3	2.735
Russia	1.513	0,5	10.158	0,6	-8.645

Source: Monstat

Total foreign trade of Montenegro was reduced by 34.5%, but the fall was uneven. Trade with EFTA³ countries has declined by 53.3%, which was not so significant taking into consideration small volume of trade. Trade with the EU and CEFTA countries fell by 41.5% and 27%, respectively. Observed by individual countries, Montenegro registered the largest deficit in trading with Serbia (EUR 519.6 million), Croatia (EUR 116.6 million) and Bosnia and Herzegovina (EUR 96.1 million).

3.3. Comparative analysis of the general and the special trade system

In practice, if the records of flows of goods are accurate, the imports and exports based on general trade system should have the same or insignificantly higher value than the imports and/or exports based on special trade system. This is completely understandable, as the scope of the general system is somewhat larger than the scope of special trade system. However, data on Montenegrin imports significantly deviate from the aforesaid.

The analysis of data according to the general and the special trade systems showed that data on imports according to the general trade system were significantly underestimated due to incorrect filling out or failure to fill out customs declarations on goods entering the customs warehouse. According to the Monstat preliminary data for 2009 obtained on the basis of customs declarations, imports were EUR 1,314.6 million using general trade system, which represented a decline of EUR 337.5 million as compared to the imports of EUR 1,652.2 million using special trade system.

Table 19 – Trade in goods of Montenegro using general and special trade systems in period 2007-2009, EUR 000

	Exports	Imports	Balance
2007			
1 General trade system	514.715	1.685.218	-1.170.503
2 Special trade system	487.119	2.072.481	-1.585.361
Difference (1-2)	27.595	-387.263	414.858
2008.			
1 General trade system	484.686	1.986.641	-1.501.955
2 Special trade system	433.158	2.527.151	-2.093.993
Difference (1-2)	51.528	-540.510	592.038
2009*			
1 General trade system	312.914	1.314.622	-1.001.707
2 Special trade system	287.877	1.652.170	-1.364.293
Difference (1-2)	25.037	-337.548	362.586

** Preliminary data for 2009*

Source: Monstat

³ Norway, Island, Liechtenstein and Switzerland

Imports of goods using general trade system amounted to EUR 540.5 million in 2008 representing a decline as compared to the imports shown by the special trade system. In 2007, the difference was EUR 387.3 million. The difference between these two systems of trade was also evident in foreign trade deficit. According to the general trade system, foreign trade deficit in 2009 was by EUR 362.6 less than the deficit according to the special system. This difference was significantly higher in 2007 and 2008 due to higher imports. The values of imports shown by the general trade system should be approximately the same or insignificantly higher than the values shown by the special trade system. However, a significant difference between the values of imports shown by both systems pointed to serious impairment of data quality.

The following table shows the difference between recording of foreign goods entering the customs warehouse (included in the general trade system) and placing them into free circulation after the customs warehousing (included in the special trade system).

Table 20 – Registering of goods in customs warehouse according to customs procedures, EUR million

Customs procedures	2007	2008	2009*
7100 Procedure of customs warehousing without the previous procedure (included in the general trade system)	68,32	86,93	82,37
4071 Placing goods into free circulation after customs warehousing (included in special trade system)	472,49	627,92	420,40
Difference (7100 - 4071)	-404,17	-540,99	-338,03

* Preliminary data for 2009

Source: Monstat

If data are compared by customs procedures, the difference was evident between the registration of goods entering the customs warehouse (included in the general trade system) and placing them into free circulation after customs warehousing (included in the special trade system). According to preliminary data for 2009, goods of EUR 82.4 million was imported into the customs warehouse, while some EUR 420.4 million was placed into free circulation (which was five times higher than that it was entered) in the same period. The differences were significantly higher in 2007 and 2008 when imports were higher compared to 2009. In 2007 imports of goods into the customs warehouse (according to the general trade system) decreased by EUR 404.2 million as compared to goods placed into free circulation after customs warehousing. This difference amounted to EUR 541 million in 2008.

Observed by groups of products, the difference in value of imports according to the general and the special trade system was significant in the following groups of products: mineral fuels, mineral oils and products of their distillation; meat and related products; electrical machines and equipment and their parts; vehicles and reactors, boilers, machines, mechanical devices and their parts.

Table 21– Imports by groups of products according to the special and the general trade system, EUR million

Name	GENERAL TRADE SYSTEM		SPECIAL TRADE SYSTEM		DIFFERENCE	
	2008	2009	2008	2009	2008	2009
Mineral oils, mineral fuels and products of their distillation	164,6	107,5	363,5	208,9	-198,86	-101,41
Meat and other related products	17,3	20,9	58,9	59,8	-41,60	-38,86
Electrical machines and equipment and their parts	139,7	89,1	177,9	117,1	-38,19	-27,98
Vehicles	185,9	61,5	245,2	89,4	-59,27	-27,96
Reactors, boilers, machines and mechanical devices and their parts	201,7	95,7	261,6	120,0	-59,90	-24,34
Non-organ chemical products	1,8	1,5	15,3	20,5	-13,47	-19,03
Pharmaceutical products	29,4	32,3	44,5	50,1	-15,18	-17,77
Optical, photographic, cinematographic and other devices	12,8	13,9	25,0	27,2	-12,17	-13,28
Different food products	13,2	12,8	23,6	23,9	-10,31	-11,09
Beverages, alcohol and vinegar	45,8	37,1	56,3	46,5	-10,47	-9,43

Source: Monstat

According to the international standards, it is possible that the imports according to the special trade system are higher than the imports according to the general trade system, but only in short-term (for example on a monthly level). However, data from the table above shows higher imports according to the general trade system for 2007, 2008 and 2009 than those according to the special trade system, which points to the systemic failure in data compiling. Monstat analysts with an expert from foreign trade statistics who works as IMF technical assistance gave, as main reason, large number of customs declarations with the empty field under the title “Statistical value”. These were customs declarations that “follow” entering or exiting goods from the customs warehouse, i.e. data entering from the scope of the general trade system.

The Customs Administration does not have any legal obligation to fill in the field “statistical value” on entering the goods into the customs warehouses, which resulted in discrepancies in comparing data of goods entering and exiting. The value of goods entering was several times lower than its value which was exported from the warehouse. This pointed out that data presented through general trade system were underestimated and their use for any kind of analysis gave wrong results. However, if data given through special trade system were correct, foreign trade deficit presented through general trade system, recommended by the IMF for the balance of payments, should be equal or somewhat higher than the one represented through special trade system. Another question is imposed on whether the Montenegrin economy can generate such a large deficit (67.5% GDP in 2008).

3.4. Comparison of cash flows and goods

Flows of goods are followed, in principle, by cash flows. Each imported good means the outflow of cash, and vice versa in imports. This is not the case only gifts in goods, and foreign direct investments in goods. All foreign flows are monitored by the ITRS in the Central Bank of Montenegro. This is International transactions reporting system where commercial banks deliver reports to the CBM on all foreign transactions. Commercial banks deliver data directly to the CBM on a daily basis. These data usually contain:

- Identification of a customer /seller or a client;
- Transaction date;
- Type of transaction (purchase/sale of goods, services, gifts, etc);
- Manner of performing a transaction (SWIFT, travellers cheques, letters of credit, etc);
- Transaction currency;
- Identification of a bank

Some IMF member countries use the ITRS as main source of data on foreign trade.

When the resident gives order to a domestic bank to transfer the funds from his account to the account of his foreign partner to buy the goods, the commercial bank sends report to the CBM on such transaction using the code 112 –imports of goods, or payment for foreign goods. The amount of these transactions, as for the goods, differs from the amount of the goods reported through customs declarations. This is due to purchase of goods through loan, leasing, purchase of goods in advance, inaccurate reporting of goods in declarations with a view to reducing customs duties, payment in cash outside banking channels and vice versa. As for Montenegro, data on flows of goods given according to the general and the special trade system as well as cash flows (ITRS) will be compared.

Table 22 – Goods and cash flows, 2007 -2009, EUR 000

	General trade system	Special trade system	ITRS
2007			
Exports	514.715	487.119	535.382
Imports	1.685.218	2.072.481	2.095.865
Balance	- 1.170.503	- 1.585.361	- 1.560.483
2008			
Exports	484.686	433.158	564.774
Imports	1.986.641	2.527.151	2.480.229
Balance	- 1.501.955	- 2.093.993	- 1.915.455
2009			
Exports	312.914	287.877	348.115
Imports	1.314.622	1.652.170	1.616.040
Balance	- 1.001.707	- 1.364.293	- 1.267.925

Source: Monstat and CBM

The table above shows higher cash inflows based on exports in goods than the goods reported in customs declaration using both systems. With respect to the imports of goods, the cash inflows are similar to data given by the special trade system.

Cash inflows based on exports of goods may be larger than the goods exported based on customs declarations due to the following:

1. payment of goods in advance – advance payments and/or use of letter of credit;
2. payment of goods in instalments – commercial loans (goods exported in previous years and the money comes later, although this reason is not acceptable in long term)
3. information gap – data for processing from customs declarations from come slower than banking data on cash flows
4. presented underestimated value of exported goods on customs declaration

On the other hand, domestic companies are enabled to have accounts abroad. It is expected that payments will be executed from those accounts directly in case of some transactions. Thus the case will be opposite – the value of exported goods reported in customs declarations should be higher than the cash inflows on that basis (cash which does not enter Montenegro). These are the cases where, for example, cash for exports is directly paid to the account of domestic company abroad, to the account of parent company or some imported goods are paid directly from abroad. If we have the a resident subsidiary, which sells the goods abroad, gives the order to a foreign buyer to pay in the funds directly to the account of parent company or to the account of some other company, foreign partner of a resident company. The third case in this transaction when the cash flow “is not visible” would be if the resident company have an account abroad from which it performs cash transactions.

On the side of imports, if the fact that the observed years were those of high foreign direct investments and of investments in goods (in 2007 more than in 2008 and 2009) are taken into account, the cash outflow should be less than the value of imported goods. The goods imported as a direct investment was mostly financed from abroad, by foreign parent company. Unfortunately, it was not possible to obtain the data on the amount of such goods due to imprecise filling out of customs declarations. Besides, if the goods were purchased abroad through credit, the value of imports presented on customs declarations should be higher than the registered cash outflow on that basis. This is the case with leasing as well as trade loans. With respect to trade loans, the question is imposed on whether the Montenegrin companies have the possibility of trading in goods abroad with deferred payment (except for leasing companies) bearing in mind the economic strength of domestic companies. On the other hand, the reason for the larger cash outflows from the customs imports may be advance payment. It is logical that non-resident producer of goods requires a specific advance. Furthermore, observed in short-term, in terms of payment of goods imported on credit in the previous period, cash flow will be registered later.

This means that there are many reasons which lead to the fact that cash flows and flows of goods do not match. However, the right question is to what extent this discrepancy is allowed in practice.

In exports, this discrepancy is lower in case of general system. Although the direction of this discrepancy is less logical – more goods were paid than the exported goods. Another question imposed is on whether Montenegrin export companies are paid in advance so much. Better match of cash flow is evident in the special system, and the direction of mismatch is more logical, at least in the last two years. It was paid less than it was the value of imported goods (in terms of trade loans, goods as FDIs).

It is very difficult to give the final opinion about this, but the general conclusion would be that this was underestimated exports.

3.5. Comparative („mirror“) analysis of foreign trade by countries

With a view to obtaining valid statistical data and their testing, the statisticians very often use so called comparative (mirror) analysis. Comparative analysis wants to prove whether there are differences between the amounts of the same form registered in different countries. However, comparison of data on foreign trade is not always simple, due to different methodologies used by countries and their trade partners. Differences may also arise due to registering in different periods (months) because of time of transport, different procedures used by countries. All these differences lead to significant discrepancies of statistical data.

This chapter gives comparative analysis of foreign trade of Montenegro with countries which are the most important trade partners at the level of total exports and imports. With respect to trade in goods of Montenegro with abroad, there are certain asymmetries in relation to data presented by national statistic agencies of partner countries. The analysis of data is concentrated on countries which were most important foreign trade partners of Montenegro in 2008 and 2009.

It should be also mentioned that the Central Bank could not perform more detail comparison of data using mirror statistics. This analysis would, except for comparing methodologies used, require comparison of data even to the level of products in monitoring flows of goods (the lowest aggregate level). These comparisons may be made only by official processors of customs declarations, and in most cases, those are the statistical offices. Data of statistical offices given on a highest aggregate level will be used for this analysis.

According to the Monstat preliminary data, exports of Montenegro to Serbia in 2008 was EUR 107.8 million (based on the special trade system). However, the imports of Serbia from Montenegro, registered by the Statistical Office of Serbia, were EUR 137.3 million (difference EUR 29.5 million). As for the exports of Montenegro in 2008, after Serbia, a large asymmetry was registered in trade with Greece EUR 11.7 million. As for the exports in 2009, the largest difference in absolute amounts was in data with Serbia of EUR 43.4 million, and then followed by Croatia and Italy with differences of EUR 28.1 and 10.7 million respectively.

Table 23 – Comparative analysis of Montenegrin exports or imports of partner countries from Montenegro in 2008 and 2009, EUR million

	2008					2009				
	Exports of Montenegro		Statistics of countries	Difference (special trade system – statistics of countries)		Exports of Montenegro		Statistics of countries	Difference (special trade system – statistics of countries)	
	General trade system	Special trade system		EUR	in %	General trade system	Special trade system		EUR	in %
Serbia	113,02	107,81	137,30	-29,49	-21,5	83,9	79,61	123,00	-43,39	-35,3
Greece	53,4	53,23	64,90	-11,67	-18,0	47,8	47,80	37,54	10,25	27,3
Italy	129,8	130,56	124,21	6,35	5,1	33,5	34,22	44,87	-10,66	-23,7
Slovenia	37,8	37,35	39,97	-2,62	-6,5	24,2	24,09	17,63	6,46	36,7
Croatia	5,1	6,62	4,71	1,91	40,7	9,9	9,83	37,93	-28,10	-74,1
Bosnia and Herzegovina	26,1	22,09	20,24	1,85	9,1	22,9	18,88	19,82	-0,94	-4,8

Source: Monstat and national statistical offices

With respect to Montenegrin imports or exports of partner countries to Montenegro, the largest difference was in trade of goods with Greece. In 2008, the value of Montenegrin imports from Greece was EUR 185.5 million against EUR 30 million of exports to Greece, thus making the difference of EUR 155.5 million. Differences are also large in bilateral data with Bosnia and Herzegovina of EUR 46.5 million and Croatia of EUR 43.8 million. As for Montenegrin exports in 2009, differences were significantly lower than in 2008, mainly due to lower trade volume. However, the differences were not neglectable: Greece of EUR 78.7 million and Slovenia of EUR 27.4 million.

Table 24 – Montenegrin imports or exports of partner countries to Montenegro in 2008 and 2009, EUR million

	2008					2009				
	Imports of Montenegro		Statistics of countries	Difference (special trade system – statistics of countries)		Imports of Montenegro		Statistics of countries	Difference (special trade system – statistics of countries)	
	General trade system	Special trade system		EUR	In %	General trade system	Special trade system		EUR	in %
Greece	22,7	185,46	29,96	155,50	519,1	48,6	107,01	28,31	78,69	277,9
Bosnia and Herzegovina	155	164,81	118,35	46,46	39,3	91,3	114,99	117,31	-2,32	-2,0
Croatia	139,2	169,67	125,92	43,75	34,7	99,9	126,48	120,50	5,98	5,0
Slovenia	134,1	161,30	120,46	40,84	33,9	96,6	114,82	87,41	27,41	31,4
Serbia	770,8	839,18	865,60	-26,42	-3,1	538,2	599,23	598,70	0,53	0,1
Italy	148,3	193,19	205,49	-12,29	-6,0	88,5	108,58	121,74	-13,17	-10,8

Source: Monstat and national statistical offices

The comparative (mirror) analysis represents a good way to verify the internal statistics. Trade in goods can be compared only at the level of total imports/exports, but also at the level of customs tariffs and procedures and clarify the reasons of discrepancies in statistical data.

FINAL CONSIDERATIONS

The foreign trade deficit is the fact, i.e. the reality of the economy of Montenegro. The economy of Montenegro bases its development mostly on the development of the services sector, which had a share of 54.6% in GDP of Montenegro in 2008. In the same year, industry sector contributed to 10.8%, while the share of the agricultural, hunting, forestry and fishery sector was 7.5%. Such orientation of the economic development includes the foreign trade deficit, i.e. the facts that demand for goods were higher than the domestic production.

Foreign trade deficit does not mean something bad. The developed countries like Luxembourg, Belgium, USA, France, Spain and Slovenia can be an example for this. Their common characteristic is foreign trade deficit, i.e. deficit ranging up to maximum 15% of the share in GDP. However, as well as with the indebtedness, the question is imposed whether it is justified. If the deficit was a consequence of the purchase of new capital goods and if that additional capital provided significant revenues in the form of new goods and services, there is no reason to be concerned. If this is mostly about the imports of consumer goods and if the funds are provided through borrowings, it can create problems in the future. This is the case with Montenegro. In the last several years there have been high imports of consumer goods, significant foreign direct investments, as well as significant indebtedness of both natural and legal persons. Unfortunately, a significant FDI inflow was not properly used. More attention should be paid to more efficient use of these funds with a view to strengthening the competitive advantages. The objective of these working papers is to give due consideration on whether there is a possibility that the foreign trade deficit of Montenegro is really as high as presented by the official statistics.

In 2007, foreign trade deficit was 58.7% of GDP; in 2008 it represented 67.5% of GDP, while in 2009 it was 45.7%⁴. With a view to financing such high deficit, large financial funds and/or their significant sources are needed. Besides, it is very difficult to finance such high deficit for several successive years. The fact is that an exceptionally high FDI inflow has occurred for the last several years. In addition, substantial funds came to Montenegro through the banking system, thus increasing the money supply, and the revenues from tourism reached the record level. However, the question remained on whether it was enough to finance the deficit of over EUR 5 billion, as it totalled in the last three years.

⁴ *Previous years are not included in the working papers, since Monstat is currently preparing foreign trade audit.*

In years of high investment activity, significant trade deficit was expected, although high deficit attracted the attention. However, what was 2009 like when the real economy indices showed substantial decline, and when banks led restrictive lending policy for retail and corporate sectors (the deficit was 45.7% of GDP) is yet to be seen.

The answer to the question on whether such foreign trade deficit is realistic was researched through the brief analysis of flows of goods according to both trade systems (the general and the special), as well as by simplified mirror statistics and comparing cash flows with flows of goods. The mirror statistics showed large discrepancies with the data of significant trade partners of Montenegro. This should lead to raising the quality of this type of statistics. Moreover, the application of comparative statistics, i.e. the mirror statistics is the best way to determine what is happening in the process from the filling out to the processing of the customs declaration. This resulted in discrepancies in imports of goods from Greece (according to the special system, Montenegro imported goods of EUR 185.5 million, while based on statistical data of Greece the amount was a mere EUR 29.9 million). Such “clearing” of statistics requires a significant effort. However, taking into account the importance of foreign trade in total foreign transactions of Montenegro as well as that accuracy of these data directly influence the specific segments of the economic policy of the country, the question is whether there was any choice.

With respect to economic logics, the question is imposed on whether Montenegro belongs to countries with the enormous trade deficit like Liberia (one of the poorest countries which has been in a civil war until recently), Maldives (country with over 1200 islands with the main economic activity of fishery and tourism). Figures say one thing – there is no suspicion that colleagues from foreign trade statistics did their job well – but whether they describe the condition of the Montenegrin economy in reality is another question.

Regardless of different economists’ opinion on trade deficit – whether it is useful or not, the fact is that foreign trade statistics is the starting point for many decisions which directly influence the events in the economy and as such it should present the movements in that area as accurate as possible. Therefore, a significant effort should be made on further rising of the quality of this statistics. In addition, the education should be improved of all entities which contribute to the foreign trade statistics, and their individual and institutional responsibility should be improved as well. These are natural and legal persons participating in international trade, institutions responsible for drafting and implementation of legal acts covering this area and the producers of statistical data or users of these data.

If this is not the case, incorrect calculation of foreign trade has a variety of consequences. The calculated value of GDP was lower, which led to a higher share of the budget deficit and public debt in GDP. It also hinders the fulfilment of the Maastricht criteria. The economic policy measures were wrongly designed, since they were created on the basis of incorrect data. This indicator influences the movement of the credit rating of Montenegro. Finally, it should be emphasised that

IMF raised, in its document after consultations held based on Article IV of the IMF Agreement, a concern concerning the accuracy of data on foreign trade.

With a view to removing all these irregularities, a working group should be established consisting of the representatives of the Monstat, Customs Administration and the CBM. This group would determine what irregularities should be removed to obtain reliable foreign trade statistics.

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