

Pursuant to Article 44, paragraph 2 item 1 of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17), at its meeting held on 29 March 2022, the Council of the Central Bank of Montenegro adopted the following

CENTRAL BANK OF MONTENEGRO POLICY RELATED TO CLIMATE CHANGE CHALLENGES

1. The Central Bank of Montenegro (hereinafter: the Central Bank) expresses its concern about the effects of climate change which have a significant impact on the global economic development and financial and monetary stability. Having in mind that climate change is one of the biggest challenges the world is facing, the Central Bank recognizes the importance of transitioning to a green economy, greening the financial system and expanding the offer of green financial products aimed at customers whose activities contribute to environmental protection, climate-related risks reduction, and addressing climate change issues, as well as the importance of introducing "green business" by credit institutions and other financial service providers (hereinafter: credit institutions) and by the Central Bank by applying energy efficiency, developing online access to their services and the like. Given that climate-related risks affect financial risks, and the latter affect the soundness and stability of the financial system, the Central Bank hereby points out that it is necessary for credit institutions to identify and monitor climate risks and the related exposure to these risks and include them in their operations, and that central banks, as regulators and supervisors of the financial system, within their competences and with the preservation of independence, should alert to, monitor, and assess the resilience to these risks.

2. Starting from the constitutional responsibility of the Central Bank for monetary and financial stability and the functioning of the banking system, as well as the visionary and fundamental values contained in the Declaration on the Ecological State of Montenegro adopted by the Parliament of Montenegro on 20 September 1991, constitutional proclamation of Montenegro as an ecological state, the goals of the 2015 Paris Agreement (COP21), the 2021 Glasgow Climate Pact (COP26) to reduce global warming and the commitment of the 2015 National Strategy for Sustainable Development by 2030, in accordance with its powers, available instruments and resources, the Central Bank shall pursue an active policy aimed at strengthening the resilience of the financial system to climate change challenges, with the aim of reducing the negative impact of climate changes on the financial system and committing to greening the financial system, by taking actions aimed particularly at:
 - membership in international organizations dealing with climate change and greening the financial system, and in particular membership in the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), as well as participation in working groups and initiatives (e.g. the Vienna Climate Change Working Group) with the aim of exchanging experience and best practices in the field of climate-related risks management in the financial system

and mobilizing capital for green and low-carbon investments in the broader context of environmentally sustainable development;

- development of professional and analytical capacities for identification, comprehension, assessment and monitoring of climate-related risks in various areas within its competence, especially in the areas of financial stability, supervision of credit institutions, research, international reserve management and operational risk management;
- integrating sustainability criteria and commitment to climate change risk reduction into the Central Bank policies, strategies and prudential regulations;
- inclusion of climate-related risks in supervisory expectations, bearing in mind those specified in the ECB Guide on climate-related and environmental risks, regarding the identification and management of climate-related risks by credit institutions;
- encouraging open dialogue with credit institutions to promote the integration of climate-related and environmental risks in their risk management frameworks;
- developing a monitoring methodology for climate-related and environmental risks and all related monitoring requirements to establish indicators and data collection system;
- integrating physical and transition risks associated with climate change into macroeconomic modelling and stress testing models;
- assessing its carbon footprint and setting standards for its reduction;
- transition to renewable energy sources and reduction of harmful impact on the environment;
- continuous education of its employees with the aim of acquiring and improving knowledge and skills in the field of climate change and reducing its negative impact on achieving the goals and performing the functions of the Central Bank;
- supporting activities aimed at raising public awareness of the importance of climate change and its impact on the financial system and the environment, as well as on the overall quality of life.

3. This policy shall be implemented through the Action Plan, which will be adopted by the Governor of the Central Bank by the end of 2022.

4. This Policy shall be published on the website of the Central Bank of Montenegro.

CENTRAL BANK OF MONTENEGRO COUNCIL

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CHAIRMAN

GOVERNER

Radoje Žugić, m.p.