

Pursuant to Article 44 paragraph 2 item 1 of the Central Bank of Montenegro Law (OGM 40/10, 46/10, 6/13, 70/17), at its meeting held on 9 November 2021, the Council of the Central Bank of Montenegro adopted the following

CENTRAL BANK OF MONTENEGRO POLICY IN 2022

- I. In line with its constitutional accountability for monetary and financial stability and the banking system functioning, and in line with the principles of independence and transparency, in 2022, the Central Bank of Montenegro (hereinafter: the Central Bank) will:
 1. pursue a policy of preserving monetary and financial stability using available instruments and measures within its authority and, if necessary, revise temporary measures to reduce the negative impact of the new coronavirus pandemic on the operations of credit institutions and other financial service providers and their clients - citizens, entrepreneurs and businesses, and/or the financial system of Montenegro in order to preserve its stability, and particularly the stability, soundness and resilience of the banking sector. In order to foster and preserve monetary stability, it will pursue an active reserve requirement policy based on assessing the effectiveness and efficiency of the existing solutions. It will monitor the effects of introduced macroprudential measures and, if required, implement other monetary and macroprudential policy instruments. With a view to fostering and preserving financial stability, it will carry out macroeconomic and financial research and forecasts, develop a structural macroeconomic model of Montenegro, improve indicators for assessing financial stability and combating systemic risks, as well as the crisis management framework. It will encourage and propose the application of international/European regulatory standards and best practices in the field of financial stability and monetary policy. It will support the preparation and publication of scientific and professional papers on current macroeconomics, central banking, and financial stability topics;
 2. It will carry out activities to monitor the implementation of the Law on Credit Institutions and the pertinent enabling regulations. At the same time, the CBCG will work on the preparation of amendments to the mentioned law and bylaws, and consider further improvement of the regulatory framework that regulates operations of financial service providers. It will continue improving the register of indebtedness of individuals with credit institutions and other creditors specified in the law or regulation of the Central Bank (Credit Registry). New products will be created for supervisory purposes, as well as for the needs of financial institutions and with regard to information on financial statements of legal persons and financial indicators that will be generated therefrom to cover the last three years, which will facilitate credit risk assessment of the legal persons. It will work on improving the off-site examination of credit institutions and financial service providers, which is necessary for comprehensive, continuous and efficient monitoring of operations and risks that these institutions face in their operations. It will work on the development of new software for monthly and quarterly reporting by credit institutions in accordance with the new regulatory framework. It will continue to apply the policy of prudent licensing of new credit institutions, and deciding on applications for approval on membership of

supervisory boards and board of directors, deciding on acquiring qualified share in relation to changes in the shareholders' structure of existing credit institutions and creditors, as well as issuing other approvals under the Law on Credit Institutions and the pertinent enabling regulations. It will continue to apply the policy of prudent licensing of financial service providers and approvals in accordance with the Law on Financial Leasing, Factoring, Purchase of Receivables, Microcrediting and Credit Guarantee Operations.

The implementation of the Law on Resolution of Credit Institutions and the pertinent enabling regulations will be initiated, thus fully transposing the EU Directive on Bank Recovery and Resolution (BRRD). The Central Bank will work on the creation and development of resolution plans for all credit institutions, the calculation of the minimum regulatory capital and eligible liabilities for credit institutions, as well as the calculation of regular contributions that credit institutions need to pay to the Resolution Fund. It will continue with the activities on further harmonization with the most recent European regulatory framework governing resolution, with the aim of improving the operational implementation of credit institution resolution, as well as strengthening the powers of the resolution authorities. It will cooperate intensively with the resolution authorities of parent credit institutions and credit institution groups having subsidiaries in Montenegro.

The Central Bank will undertake activities in order to further improve the system of anti-money laundering and terrorist financing by supervised entities through the development and implementation of risk-based supervision, as well as assessing risk management by the reporting entities, especially by credit institutions. It will also continue to cooperate with international institutions in this area, further improve the framework and implementation of international standards, as well as continue with an active role in the delegation of Montenegro to the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). It will continue carrying out activities and taking adequate measures to further improve the rights of credit institution clients and financial service users.

3. It will support the pursuit of the economic policy of the Government of Montenegro without prejudice to the attainment of its objectives, constitutional responsibilities, and central bank independence by implementing measures and instruments contributing to economic recovery, increasing employment, competitiveness and productivity in the function of maintaining financial stability by passing measures aimed at mitigating the impact of the coronavirus pandemic and fostering economic growth and development.
4. It will carry out activities that will ensure the maintenance of a safe and efficient payment system of the Central Bank and payment system transactions in general. In order to further improve the payment system, it will continue to implement international standards, principles, and best practices of modern payment systems functioning. It will continue with activities on the introduction of instant payments in order to ensure simpler and faster payment transactions and encourage market competitiveness and/or cost reduction. Moreover, it will improve the quality of payment system through the implementation and

continuous development of payment system oversight. It will continue to actively participate and support the development of the payment system market through harmonisation with new technologies (FinTech), improvement of the infrastructure framework, and support of the development of digitalisation in the field of payment transactions. It will improve the quality of payment system transactions, especially by conducting effective supervision of payment transactions in the country, as well as by implementing a prudent policy of issuing approvals to payment institutions and electronic money institutions.

With a view to facilitating the provision of new payment services, payment initiation and account information services, as well as improving payment services transparency and protection of payment service users, especially consumers, it will work on drafting and adopting enabling regulations for the implementation of the Law Amending the Payment System Law for the purpose of its alignment with the EU Directive 2015/2366 on payment services in the internal market (Payment Services Directive 2 -PSD2).

It will prepare and adopt secondary legislation for the implementation of the Law on Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Payment Accounts with Basic Features (the Payment Accounts Directive - PAD) and the Law on Interchange Fees and Special Rules for Card-Based Payment Transactions (Interchange Fees Regulation).

5. In order to efficiently manage international reserves against the backdrop of negative rates in the euro market, the ongoing situation with the coronavirus pandemic, and guided primarily by the principles of liquidity and investment security, the Central Bank will manage international reserves in accordance with defined investment strategy. It will permanently monitor the situation on the international financial market and revise, and if necessary, innovate the current investment strategy, considering the introduction of new financial instruments and repositioning of the existing ones, as well as cooperation with new foreign partners. It will analyse risk profiles of credit institutions and issuers and, accordingly, redirect funds to those that show an improved investment to risk yield ratio. It will improve the quality of performing international payment transactions through the improvement of control mechanisms, as well as the implementation of international standards for the functioning of modern payment systems. It will maintain the continuity of active business cooperation with correspondent credit institutions. It will provide quality and efficient performing of tasks of the depositor, banker and fiscal agent for the public authorities and institutions, in line with their needs and requirements.

It will continuously work on a comprehensive and efficient assessment of needs and planning of optimal quantities and denomination structure of cash necessary for orderly and timely supply for the domestic payment transactions, especially in the situation caused by the coronavirus pandemic. Activities on the protection of the euro against counterfeiting will be continued, as well as cooperation with competent foreign and domestic authorities (European Central Bank, European System of Central Credit institutions, European Commission, European Centre for Technical and Scientific Cooperation, Supreme State Prosecutor's Office, and Police Directorate). Also, the infrastructure for the needs of improving the work

of national centres for the analysis of euro banknotes and coins will be developed, an adequate good-quality database will be created, and relations with all cash handlers in Montenegro will be improved.

6. It will improve the statistics for which it is responsible as the official producer of statistics, with special attention to be paid to the implementation of international and EU methodologies (ESA 2010). It will continue testing the new bank reporting system to the CBCG for the needs of improving monetary and financial statistics and development of new statistical reviews. It will create reporting requirements for financial institutions other than those subject to the Central Bank's supervision (investment funds, insurance companies, etc.) for the purpose of compiling the financial sector's financial account. It will improve the system of direct reporting in order to raise the quality of statistics of the balance of payments, international investment position, and external debt.
7. It will continue with its active role in the negotiation process of Montenegro with the European Union and work on improving cooperation with the European Central Bank, the European Commission, and other institutions of the European Union. It will intensify cooperation with central credit institutions and other international financial institutions and organizations, especially with the International Monetary Fund and the World Bank. It will develop cooperation with home supervisors of foreign parent banking groups of subsidiaries operating in Montenegro, as well as with the key international financial institutions such as the European Bank for Reconstruction and Development, the European Central Bank, and the European Banking Authority with a view to synchronising supervisory activities. It will monitor and implement improvements based on international multilateral agreements and adopted banking conventions. With a view to further improving and aligning its regulatory, institutional and operational framework with the standards of the European System of Central Credit institutions, it will continue being actively involved in the preparation and implementation of the EU-funded projects. It will intensify activities on strengthening its administrative capacity and creating conditions for the future functioning of the Central Bank within the European System of Central Credit institutions and the European Central Bank.
8. It will continue with professional development of employees, with particular emphasis on employees' participation in seminars and workshops organized by relevant international institutions and organizations.
9. By adhering to the highest transparency standards, it will continue providing timely, reliable and relevant information about all aspects of its operations. It will promote raising awareness and economic knowledge in the society with a view to ensuring better understanding of central banking, the importance of financial stability, and banking system safety. It will intensify activities in the field of financial education, financial literacy and inclusion, by implementing traditional projects such as "Savings Week" and "Global Money Week". A special segment of education will be dedicated to the development of the digital communication platform, communication on social networks, and education in the field of banking and payment systems as unavoidable modern trends.

10. It will continue promoting the Money Museum as the institution of cultural and historical importance and an institution significant for educating the public and promoting the role and importance of the Central Bank in Montenegro's financial system. Also, as the circumstances allow, it will continue with activities on collecting the museum material for the purpose of completing its numismatic collection, primarily the collection of the only Montenegrin money, the Perper, with a view to preserving, protecting and maintaining the historical and cultural numismatic heritage in Montenegro.
11. It will continue improving other areas of importance for the attainment of its objectives and the exercising of its functions such as the information system, the system for operational risk management, information security, business continuity, in accordance with the standards and good practices in these areas applied within the European System of Central Credit institutions and the European Central Bank.
12. The Central Bank will continue to be guided by the principles of socially responsible institution and, in accordance with its financial possibilities, continue to allocate part of its income for humanitarian causes and support of cultural, historical and other values in the society, and thus contributing to the strengthening of civil society through public participation in numerous social activities. It will harmonize its business with the goals of sustainable development and the principles of green economy.

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

CENTRAL BANK OF MONTENEGRO COUNCIL

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Podgorica, 09 November 2021

CHAIRMAN

THE GOVERNOR,

Radoje Žugić