

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 30 November 2022, the Council of the Central Bank of Montenegro adopted the following

CENTRAL BANK OF MONTENEGRO POLICY IN 2023

- I. In line with its constitutional accountability for monetary and financial stability and the banking system functioning, in line with the principles of independence, and with the aim of fulfilling its prescribed responsibilities and powers, in 2023, the Central Bank of Montenegro (the Central Bank), will:
 1. pursue a policy of preserving monetary and financial stability using available instruments and measures within its authority in order to preserve the financial system stability, and particularly the stability, soundness and resilience of the banking sector. The Central Bank will continue monitoring the effects of temporary measures to mitigate the negative impact of the COVID-19 pandemic and the situation in Ukraine on the financial system, adjusting them from time to time, as necessary. 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 preventing systemic risks, and develop 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 also support the preparation and publication of scientific and professional papers on current topics in the field of macroeconomics, central banking, and financial stability topics.
 2. The Central Bank will carry out activities to monitor the implementation of the Law on Credit Institutions and the pertinent enabling legislation, whilst continuously providing assistance to credit institutions in the process of their application. At the same time, it will work on drafting amendments to the mentioned law and regulations. With the aim of further improvement of the regulatory framework that govern the operations of financial service providers, the existing regulations will be analysed, as will activities on the possible drafting of amendments to the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations and the enabling legislation. It will continue with the monitoring of implementation and the effects of implementation of the Decision on Macroprudential Measures Related to Retail Loans Granted by Credit Institutions whose aim is the maintainance and enhancement of the financial system resilience and sustainability of retail sector financing. 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). It will create new

products for supervisory needs, as well as those of financial institutions related to information on financial statements of legal entities and financial indicators that will be generated from them for the past three years, which will facilitate the assessment of credit risk of legal entities. It will continue on improving the off-site supervision of credit institutions and financial service providers by developing supervisory tools and techniques necessary for comprehensive, continuous and efficient monitoring of operations and risks that these institutions face or may face in their operations. It will work on improving monthly and quarterly reports of credit institutions and financial service providers in order to obtain a more complete picture of their financial position and operations. It will continue to perform on-site and off-site supervision of credit institutions and financial service providers and, depending on the established factual circumstances and risk profile of credit institutions and financial service providers, take necessary measures, as well as other actions and activities in accordance with the Law. In line with the identified needs, it will conduct on-site and off-site targeted inspections of individual entities, as well as thematic supervision of credit institutions or financial service providers on the system level, and continuously monitor further compliance of financial institutions with the Law on International Restrictive Measures and with the decisions of the Government of Montenegro adopted based on this law. It will continue to pursue a prudent licensing policy for new credit institutions and follow prudence when deciding on applications for granting the approval for membership of supervisory boards and/or management boards, applications for acquiring qualifying holding in relation to changes in the shareholder structure of the existing credit institutions and taking into account the protection interests of depositors and creditors, as well as when issuing other approvals under the Law on Credit Institutions and the relevant enabling legislation. It will continue to apply the policy of prudent licensing and approval granting to financial service providers, in accordance with the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations.

It 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 banks, as well as the calculation of regular contributions that credit institutions need to pay to the Resolution Fund. The Central Bank will continue with the activities on further harmonization with the 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 groups of credit institutions from other countries having subsidiaries in Montenegro, as well as with the EU Single Resolution Board (SRB) both in terms of information exchange, as well as in planning the resolution of credit institutions with cross-border operations.

The Central Bank will undertake activities in order to further improve the AML/CFT system in supervised entities through the development and implementation of risk-based supervision, as well as assessing risk management in the reporting entities, especially credit institutions. It will continue with on-site inspections involving the application of the National Risk Assessment of Money Laundering and Terrorist Financing, as the most

important strategic document in the area of preventing money laundering and terrorist financing. It will carry out activities on education and checks on the implementation of the obligations that will result from the adoption of the new Law on Prevention of Money Laundering and Terrorist Financing. It will also continue to cooperate with local and 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. It will conduct activities on the education and supervision of creditors with regard to the implementation of obligations that will arise from the adoption of the new Consumer Credit Law.

3. The Central Bank will support the pursuit of the economic policy of the Government of Montenegro without prejudice to its constitutional responsibilities, attainment of objectives, and independence by implementing measures and instruments aimed at maintaining financial stability and fostering economic growth and development.
4. It will carry out activities that 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 in 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. It will also improve the quality of payment systems in Montenegro 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 by conducting continuous oversight in order to ensure the operation of payment service providers in accordance with the law and the regulations adopted pursuant to the law. It will also pursue a prudent policy of issuing approvals to payment institutions and e-money institutions, as well as registration and deletion of information from the register of service providers.

With a view to enabling the provision of new payment services such as payment initiation and account information services, as well as improving payment services transparency and protection of payment service users, especially consumers, it will carry out activities to monitor the implementation of the Law Amending the Payment System Law and passing enabling legislation for the implementation of this law.

It will draft and adopt enabling legislation for the implementation of the Law on Comparability of Fees Related to Consumer Payment Accounts, Payment

Accounts Switching and Payment Account with Basic Features, with the aim of efficient providing these services.

5. In order to efficiently manage international reserves against the backdrop of exiting negative rates in the euro market, but at the same time considering the extremely complex situation in the market without adequate forecasts, and guided primarily by the principles of liquidity and investment safety, the Central Bank will manage international reserves in accordance with the defined investment policy. It will permanently monitor the situation on the international financial market to revise and, if necessary, update the current investment strategy, taking into consideration the introduction of new financial instruments and the repositioning of the existing ones, as well as cooperation with new foreign partners. It will analyse the financial situation and credit ratings of credit institutions and issuers and, as necessary, redirect funds to those that offer better investment to risk yield ratios. It will analyse the green bond market and the need to define limits in its investment policy related to this market.

It will improve the quality of performing international payment transactions through the implementation of international standards and principles of modern payment system functioning. It will maintain the continuity of active business cooperation with correspondent banks.

6. It will provide quality and efficient services of the depositor and banker for the public bodies and organisations, as well as those of the fiscal agent.
7. 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 to credit institutions and other Central Bank clients. Activities on the protection of the euro against counterfeiting will be continued, as will the cooperation with the relevant foreign and domestic authorities (European Central Bank, European System of Central Banks, European Commission, European Centre for Technical and Scientific Cooperation, Supreme State Prosecutor's Office, and Police Directorate). Also, the infrastructure will be developed for the purpose of improving the work of the Central Bank Vault, creating an adequate good-quality database, improving the analysis of the suspect euro banknotes and coins, as well as the cooperation with the competent government authorities and institutions in Montenegro and abroad..
8. 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 methodologies. It will complete activities on the introduction of a new reporting system for credit institutions` reporting to the Central Bank, thus achieving a full compliance with the relevant EU standards governing the production of monetary and financial statistics. It will continue activities on the development of financial accounts statistics. It will improve the system of direct reporting in order to raise the quality of the balance of payments, international investment position, and external debt statistics.

9. It will continue with its active role in the negotiation process of Montenegro with the European Union with the aim of further harmonizing central banking laws and enabling legislation with the relevant EU regulations. It will intensify cooperation with central banks and other international financial institutions and organisations, especially with the International Monetary Fund and the World Bank, in order to mutually identify opportunities for the recovery from shocks caused by the situation in Ukraine, the coronavirus pandemic, rising inflation and food and energy prices, the global geopolitical instability, and the effects of climate change we are currently facing.

The Central Bank 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 Banks, it will continue its active involvement 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 Banks.

10. It will continue with professional development of its employees, with particular emphasis on employees' participation in seminars and workshops organized by relevant international institutions and organizations, as well as trainings organised by the Central Bank.
11. 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 the banking system safety. It will intensify activities in the field of financial education and financial literacy and inclusion by implementing traditional projects such as "Savings Week" and the "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.
12. 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 and with a view to preserving, protecting and maintaining the historical and cultural numismatic heritage in Montenegro.

13. It will continue improving other areas within the scope of its authority and of importance for the attainment of its objectives and the exercising of its functions such as the information system, where it will endeavour to ensure an adequate level of its availability and security, especially of the ICT infrastructure that has been designed to support the functioning of the Central Bank Payment System, the main banking system, the enforced collection system, as well as other systemic services for the needs of internal and external users; then the system for operational risk management, information security and business continuity, in accordance with the relevant standards and good practices in these areas applied within the European System of Central Banks and the European Central Bank.

14. The Central Bank will continue to be guided by the principles of socially responsible institution, as well as to adopt, promote, and apply in its operations the universal principles of the protection of human rights and labour, environmental protection, and anti-corruption defined in the United Nations Global Compact. In accordance with its financial possibilities, the Central Bank will continue to allocate a part of its income for humanitarian causes and support of cultural, historical and other values in the society, thus contributing to the strengthening of civil society through public participation in numerous social activities. It will pursue an active policy of strengthening the resilience of the financial system to climate change challenges and harmonize its business with the sustainable development goals 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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**CHAIRMAN
GOVERNOR,**

Radoje Žugić