



# OUR PRIORITY IS A STABLE FINANCIAL SYSTEM

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The CBM continues to be dedicated to further improving the stability and development of the financial system as a whole, carrying out intensive activities to improve the regulatory framework and boost supervision and money laundering prevention

**I**n the coming period, a special segment of our activities is focused on improving payment operations. Recognizing significant innovations in the payment industry and the accelerated development of digitalization, the CBM is considering all the possibilities of introducing instant payment services in the foreseeable future.

**Montenegro is in the group of countries most severely affected by the pandemic. How did that affect the country's financial system? Have there been any improvements in the first five months of 2021?**

The Montenegrin economy has been hit hard by the coronavirus-induced crisis. According to preliminary data from MONSTAT, in 2020, our economy recorded a 15.2% decline. One of the key reasons why our economy has suffered such strong negative consequences from the coronavirus crisis lies in its inadequate structure, i.e. its reliance on tourism and the service sector, as well as inherited vulnerabilities in the

fiscal and real economy.

In 2020, almost all economic sectors recorded a decline (with the tourism and transport sector suffering the most), while, on the other hand, there were dwindling fiscal parameters (increased deficit and public debt), the result of reduced economic activity and implementation of socio-economic measures to assist citizens and

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the economy, as well as to finance the growing costs incurred by the health care system.

Based on the latest data on bank operations, we can conclude that the banking sector's safety and stability have been preserved, which we can

see from the solvency ratio of 19.3%, almost twice the prescribed minimum. All key balance sheet items have been growing since the beginning of 2021. Banks' lending activity is strong, while deposits are also continuing to grow, which is partly due to the reduced propensity to spend, but also a sign of trust in the banking system. The impact of the pandemic is noticeable in non-performing loans, which amounted to 5.53% at the end of May 2021, compared to 4.7% at the end of 2019, i.e. before the crisis caused by the coronavirus.

**What measures did the CBM implement to mitigate the effects of the pandemic on citizens and businesses?**

The CBM has implemented nine sets of measures aimed at mitigating the effects of the pandemic. The measures were, among other things, aimed at delaying and facilitating the repayment of liabilities, through a moratorium on payment of loans and loan restructuring. In this way, the banking sector 'conceded' liquidity to the popu-

lation and businesses. We focused on providing direct support to those categories of the population and economy that were most severely affected by the pandemic.

We also used the monetary instrument at our disposal and reduced the required reserve of banks by 2%, which provided 70 million euro for liquidity and increased the credit potential of banks. The CBM also "halved" the costs of withdrawing liquidity of required reserves, thus providing affordable access to additional sources of liquidity of banks in case of need. In parallel, through communication with the European Central Bank and the Bank for International Settlements, we worked on boosting systemic liquidity, i.e. providing additional funds (up to 350 million euro) that would be made available to Montenegro in case of more serious shocks due to the coronavirus pandemic.

We can confidently say that we have managed to maintain a balance between providing the necessary support to the real sector and the population and preserving the stability of the banking sector. Unfortunately, the uncertainty caused by the pandemic continues, which makes us quite cautious. We will continue to monitor and analyze developments in the economy, and especially in the banking system, in order to prepare a plan for the withdrawal of measures. In drafting this plan, which will be in line with IMF guidelines, we will strictly ensure that the measures are phased out in a timely manner, in order to minimize the risks of negative impact on the real sector and also on the banking system, which will play a major role in the long-term economic recovery ahead.

### **What is your cooperation with the International Monetary Fund and the World Bank like?**

We have extremely good cooperation with the IMF and the World Bank. Senior officials of both institutions praised our activities on mitigating the consequences of the coronavirus crisis, underlining that the CBM anti-crisis measures were created and implemented

in a timely, adequate and strong manner and that the right steps have been taken to build a strong and credible institution.

In February this year, for the first time since the establishment of the CBM, the IMF prepared an external analysis of our control mechanisms, based on which it was determined that the CBM has strong operational control mechanisms regarding its key functions.

During the previous period, both institutions gave us technical assistance on many occasions thanks to which we improved our institutional capacities.

## **IN ORDER TO IMPROVE THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES, WE RECOMMENDED THAT A NEW FISCAL STRATEGY BE DEVELOPED AS SOON AS POSSIBLE**

### **What are the CBM's key recommendations to the Government of Montenegro related to economic policy?**

The CBM has forwarded recommendations for implementing economic policy to the Montenegrin government. Taking into account the peculiarities of the situation, we have prepared this year's recommendations in a reduced form, focusing on measures that are crucial in crisis and which implementation should not be delayed due to potentially negative effects in the long run. The document points out that all recommendations from previous years, which have not been implemented, remain in force. Here, we especially highlight the recommendation that refers to changing the structure of the economy in terms of diversification of production and increasing the degree of product finalization. It is necessary to focus on those activities in which we have comparative

advantages and increase the level of competitiveness.

### **Montenegro has entered a public debt crisis, the most severe since hyperinflation in 1993. How can this problem be resolved?**

The coronavirus pandemic has seriously impaired fiscal performance in many countries around the world. Montenegro is not exempt from this either. We really felt the consequences due to the fact that we are a small and very open economy that predominantly relies on the service sector.

Through the mentioned recommendations to the Government, we underlined the urgent need to prepare a fiscal consolidation programme and engage in its systematic and decisive implementation. Given the successful comparative examples of fiscal consolidation, the programme should be predominantly focused on the expenditure side of the budget, especially in areas related to reducing budget expenses with a high share of total expenditures and tax debt collection. Also, in order to improve the long-term sustainability of public finances, we recommended that a new Fiscal Strategy be developed as soon as possible, followed by a new Debt Management Strategy.

To that end, we recommended the Government to launch an initiative with creditors to restructure parts of the public debt, which, in addition to refinancing, is one of the mechanisms to ensure its long-term sustainability in the context of the expected pandemic, weakened economic growth and reduced public revenues. We pointed out the need to create a medium-term budgetary framework, with more binding medium-term expenditure limits (introduction of a "spending ceiling"). We have again proposed the establishment of the Fiscal Council as an independent fiscal oversight body, as well as redefining fiscal rules. We pointed out the need to refrain from planning new large capital expenditures in the budget until the risk to the sustainability of public debt is reduced and the state of public finances is significantly improved. ●