



# POLICY OF OPERATING COSTS RATIONALIZATION

## RADOJE ŽUGIĆ

Governor of the Central Bank of Montenegro

We believe that this year we will be able to generate a planned profit, which validates the continuity of our successful and responsible operations.

**W**e talked with Radoje Žugić, the Governor of the Central Bank of Montenegro, about the diversification of the Montenegrin economy, harmonization with EU policies and cooperation with the National Bank of Serbia (NBS).

**You have stated that, due to the crisis caused by the war in Ukraine, the Montenegrin economy's dependence**

**on imports and its insufficient diversification were sources of potential risks. How do you intend to prevent these types of risks?**

**ALL PLANNED REVENUE ITEMS ARE REALIZED, EVEN BEYOND THE PLAN**

After one crisis peaked, the world was hit by a new, even stronger crisis caused by the war in Ukraine, the consequences of which are incalculable. Global supply chains are in jeopardy and risk further collapse. The war caused the enormous growth in prices of a large number of products, predominantly food, energy and building materials. This, in turn, led to the highest inflation globally since the oil crisis of the 1970s. This situation was also reflected in the finan-

cial markets, which recorded a marked decline in almost all securities.

In such conditions, the insufficiently diversified economy, with the dominant share of service activities in the gross domestic product, such as the Montenegrin one, becomes even more vulnerable. As a consequence of this situation, our economy is highly import-dependent and with a high current account deficit which is covered by a surplus in tourism, remittances from abroad and substantial foreign direct investments.

The Central Bank of Montenegro (CBM) has previously pointed to these vulnerabilities, primarily by giving the Government economic policy recommendations. We proposed to have the phased diversification of the economy per its branches in which Montenegro has comparative advantages, such as manufacturing, energy, agriculture ... Also, we believe that the IT sector and green economy have the potential for generating more sustainable growth.

I think that this process must be implemented immediately because the diversification of the economy is a prerequisite for boosting its resilience to external shocks of any kind, but also for its growth and development.

**Russia is the biggest foreign direct investor in Montenegro, as the country's investments amounted to 82.58 million euros. How much will the war in Eastern Europe affect Montenegro, in the context of the harmonization with the EU policy?**

The war in Ukraine will certainly have negative consequences for Montenegro, as well as other countries in the region and the EU. Unfortunately, due to the high degree of uncertainty about future developments, precise quantifications of this impact are not possible.

Negative consequences could be a reduced FDI influx from these countries, as well as a reduced number of tourists from Russia and Ukraine. Data for the first four months of this year, however, show that the influx of foreign direct investments from these countries went up compared to the same period last year, with the share of Russian investments in the total FDI influx standing at 13.5% and Ukraine at 1.7%. The impact of the current crisis on the influx of tourists from these countries is also uncertain. As a result of the war in Ukraine, a large number of Russian and Ukrainian citizens came to Montenegro, planning to stay here longer, compared to a standard tourist stay.

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## IN THE PREVIOUS PERIOD, THE CBM AND THE NBS HAVE HAD SUCCESSFUL TECHNICAL COOPERATION

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In terms of external trade, the impact is negligible. Namely, our exports to Russia amounted to only 2.3 million euros, and imports to 10.6 million euros in 2021. Also, for now, there is no negative impact on the banking system.

**You said that the systemic weaknesses of the banking system were resolved before the pandemic and that you are approaching full harmonization with the EU legal system. What are the next steps on that path?**

Anti-crisis measures designed and implemented by the CBM have been positively evaluated by a number of international institutions, such as the Euro-

pean Commission (EC), the European Central Bank (ECB), the International Monetary Fund (IMF), the World Bank and others. The banking sector has shown good resilience to the shock caused by the COVID-19 pandemic and has remained stable, as a result of the good pre-crisis situation and carefully designed and successfully implemented support measures.

At the same time, we are committed to continuously harmonizing the legal and institutional framework with EU criteria and standards. In the recent evaluation of the Economic Reform Programme of Montenegro for 2022 by the European Commission and the ECB, progress was noted in terms of harmonization with EU regulations, which was predominantly due to the Law on Credit Institutions and the Law on Rehabilitation of Credit Institutions entering into force in January 2022. In the segment of payment operations, the Law on Amendments to the Law on Payment Operations is expected to be adopted soon, which fully incorporates the PSD2 Directive. With the adoption of this law, the Montenegrin regulatory framework on payment operations will be fully harmonized with the *acquis communautaire* in this field.

Simultaneously, we are constantly working on building capacities, especially in the segment of the supervisory function, as well as on the prevention of money laundering and terrorist financing.

Due to the dynamic development of technology and unpredictable circumstances, as well as the constant changes in the business environment, the financial sector is constantly facing new challenges. Therefore, regulations in this area are often revised and improved to adapt to new circumstances. The CBM has been continuously



### **BUILDING CAPACITIES**

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monitoring these changes and strives to incorporate them into the domestic regulatory framework as soon as possible, all to preserve the financial and thus macroeconomic stability of Montenegro.

**The CBM's financial plan for this year stipulates a profit of 2.15 million euros, which is 780,000 euros more than last year. On what basis do you expect such growth, given the ongoing crisis?**

The planned profit in the amount higher than in 2021 is the result of the expected higher growth of revenues compared to the growth of expenditures this year. Namely, our financial plan for the current year, projected revenue growth of 7%, while the expected expenditure growth is 3%.

Such a plan is based on the expectation that this year we will have higher income from interest on securities, as a result of changes in the monetary policy of the ECB, i.e. the gradual increase of benchmark interest rates. Furthermore, we planned to increase revenues from fees for payment services by 17% com-

## THE CBM CONTINUOUSLY IMPLEMENTS MEASURES RELATED TO ITS INTERNAL ECONOMY AND THE POLICY OF RATIONALIZATION OF OPERATING COSTS

pared to the 2021 plan, because, due to the expected economic growth and return of tourism revenues to the pre-crisis level, we expect higher volume and number of payment transactions.

The expected revenue increase has a realistic basis which is validated by the data on revenue from the first five months of 2022. Namely, all planned revenue items are realized, even beyond the plan.

On the other hand, the CBM continuously implements measures related to its internal economy and the policy of rationalization of operating costs.

Bearing in mind the aforemen-

tioned, we believe that we will succeed this year to generate a profit in the planned amount despite the adverse environment caused by the pandemic and the war in Ukraine, which confirms the continuity of our successful and responsible operations.

**What kind of cooperation do you have with the National Bank of Serbia (NBS)?**

Our institutions face similar tasks, so the exchange of experiences on several issues, such as the EU integration process, the adoption of banking standards and the like, would be mutually beneficial. The CBM is absolutely open to all initiatives that lead to increased financial stability in Montenegro and the region.

In the previous period, the CBM and the NBS have had successful technical cooperation, through bilateral visits, exchange of experiences at all levels and mutual support within regional initiatives. Unfortunately, due to the impact of the pandemic, bilateral cooperation has not been so intense in the last two years.

**Montenegro and Serbia are both EU candidates. Are there opportunities for the Central Bank of Montenegro and the National Bank of Serbia to support each other during the harmonization with European policies?**

The CBM and the NBS are cooperating on this issue, within the regional project for central banks and banking supervisors located in the Western Balkans. The project, coordinated by the Federal Bank of Germany, with the support of the ECB, is aimed at boosting the monetary and financial stability in the region and preparing beneficiary institutions for future membership in the European System of Central Banks.

After the completion of the first phase of the two-year project in December 2021, we expect the second phase, which will last for three years, to begin. We also expect that through the continuation of this project, our institutions will strengthen cooperation and continue to work hard on further harmonization with European policies. ●