

STRONG ECONOMIC GROWTH

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In the last few years, we have been recording a strong growth of the Montenegrin economy



In this interview, the Governor of the Central Bank of Montenegro (CBM), Radoje Žugić, PhD, talks about the developments in the country's banking sector, the challenges and capacity of its economy and current trends.

What was the independent external auditor's assessment of the Central Bank's operations for last year? What results do you expect to achieve this year?

▼ The independent external auditor gave a positive opinion regarding the financial statements of the CBM for the

previous year and assessed that they showed the true and objective financial position of the CBM, as well as the results of its operations and cash flows

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in accordance with international standards. CBM's total realized revenue in 2018 stood at 16.7 million euro, which is 17% higher than planned and 14% higher than in 2017. These data, in addition to the fact that in 2017 and 2018, our tariff policy did not change in terms of the increase in tariffs that the CBM collects for the services it provides, confirm that the bank's financial performance in 2018 was very successful. As a result of this, in 2018, the bank recorded a net profit of approximately 3.57 million euro, which is close to a 30% increase relative to 2017. According to our projections, we expect that we are going

to end 2019 with positive business results at the last year's level.

We often hear that new banks are still actively interested in entering the Montenegrin market. Do you think that the banking sector will undergo a reorganization or new banks are going to come here, and if they do, which ones?

▼ Potential investors are interested in establishing new banks. There are currently no formal requests for the establishment of new banks in Montenegro. CBM has prepared a new Law on Credit Institutions which, among other things, makes the conditions for the establishment of new banks in Montenegro much stricter, in terms of the minimum level of founding capital, which will in the future amount to 7.5 million euro. The implementation of this law is expected to begin in 2020. Recently, CBM gave its consent to Crnogorska Komercijalna Banka AD Podgorica, a member of OTP Group, acquiring Societe Generale Bank Montenegro. After realization of the mentioned transaction, Societe Generale Bank continues to operate in Montenegro as an independent financial institution, owned by CKB and as a member of the OTP Group. CBM will decide on the potential merger of these two banks after obtaining their formal request.

CBM has released a new list containing the names of the companies that had their bank accounts frozen. This year's list has 8 more companies on it compared to the previous one. What is the current situation in the Montenegrin economy like and are the numbers optimistic?

▼ In the last few years, we have been

recording a strong growth of the Montenegrin economy. The Montenegrin authorities deciding to join the Euro-Atlantic integration process has materialized the interest of foreign investors in Montenegro to a significant extent, which is recognized as a politically stable and economically promising investment destination. This is confirmed by the fact that the total FDI influx in the 2006-2018 period amounted to 9.5 billion euro, i.e. 6.6 billion euro net. The strong growth

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was stimulated by the implementation of large-scale infrastructure projects, with the engagement of domestic resources and an increasingly attractive tourist offer, which resulted in positive GDP growth rates. According to the preliminary data compiled by MONSTAT, the country's GDP grew by 4.9% in 2018. The further validation of these tendencies was provided by the banking sector which recorded positive trends that are important for the economy, namely credit growth and continuous decline in interest rates

and non-performing loans.

However, insufficient diversification and inadequate competitiveness of the Montenegrin economy in the international market continue to be limiting factors of economic growth. Positive trends in the economy are expected to continue in the upcoming period, which cannot be jeopardized by the systemically recognized vulnerability relating to a certain segment of illiquid entities being temporarily or permanently immobilized in the financial flows.

What does CBM propose in terms of reducing the economy's illiquidity as soon as possible and providing more loans for businesses?

▼ A problem that has been growing over a longer period of time cannot be solved overnight. I would like to remind that, in order to stimulate the resolution of the problem with non-performing loans and restructuring of corporate debt outside the banking sector, in recent years we have undertaken a number of activities with the aim of improving the framework for the forced collection of receivables. CBM has carried out intensive activities on the implementation of the Law on Consensual Financial Restructuring of Debt Toward Financial Institutions, which resulted in the restructuring of 36.8 million euro worth of receivables, out of which 35.2 million euro were the receivables of legal entities. As a result of all implemented measures, as well as the recent elimination of the contaminated segment of the banking system, embodied in two banks of non-systemic importance that declared bankruptcy, non-performing loans were reduced from 25.9% in June 2011 to 4.7% in April 2019.



Fiscal Sustainability

PRESERVING FISCAL SUSTAINABILITY WILL BE A KEY CHALLENGE FOR ECONOMIC POLICYMAKERS IN 2019

In terms of corporate loans, the March data suggest that of the total granted loans, banks approved 1,071.3 million euro worth of loans, or 35.4%, to businesses which is a 3.8% increase compared to December 2018, i.e. a growth of 6.3% annually. In the first three months of this year, the banks approved 267.4 million euro worth of new loans at the system level, which is 27.4 million euro or 11.4% more than in the same period of 2018. Growing credit activity has largely influenced macroeconomic stability through stimulation of growth and recovery of the economy, which, as a consequence, has had an expansion of the tax base and reducing fiscal pressures.

A Montenegrin delegation, which you were a member of, took part in the spring session of the International Monetary Fund and the World Bank. What is your cooperation with these institutions like and how much your assistance means to them?

▼ Cooperation with these institutions is very important for Montenegro. I can confidently say that we have excellent, mutually satisfying cooperation. We received a lot of technical assistance from both institutions owing to which we improved the functioning of a large number of institutions in Montenegro. The World Bank granted us a significant number of loans aimed at protecting the environment, education, agriculture, etc. We are currently negotiating with the World Bank on a loan for development policy that would facilitate budget financing.

How did the situation with Atlas Bank and IBM Bank affect the market?

▼ The fact that Atlas Bank and IBM Bank first went into administration and later declared bankruptcy did not interrupt positive trends that were already present in the banking system. The Montenegrin banking system can be characterized as highly liquid, solvent and profitable.

After implementing bankruptcy procedure in these two banks in late April this year, the non-performing loans, at the system level, were only 4.74% of total loans, while the loans, which repayment was late more than 90 days, amounted to only 2.96% of total loans. Solvency ratio is at a significantly higher level than the prescribed 10% and amounted to 16.64%. Also,



WE ARE CURRENTLY NEGOTIATING WITH THE WORLD BANK ON A LOAN FOR DEVELOPMENT POLICY THAT WOULD FACILITATE BUDGET FINANCING

net profit at the system level amounted to almost 20 million euro. Furthermore, the growth trend in total deposits continued at the system level, while the liquid assets remained at a high level and represented 21.54% of the total assets.

At the same time, confidence in the banking system has been preserved, which is a special quality given the experience with the pyramid banks from the 1990s. Payment of guaranteed deposits to these two banks runs smoothly. The Deposit Protection Fund has sufficient funds for the payment of guaranteed deposits.

What will be the biggest risks for the Montenegrin economy in 2020?

▼ Preserving fiscal sustainability will be a key challenge for economic policymakers in 2019. The total amount of public debt, as well as the expected future growth, due to the more intense implementation of planned infrastructure projects, points to the need to pursue fiscal consolidation measures that will ensure the sustainability of public debt in the medium term. The emphasis is on balanced development and implementation of priority measures in structural reforms, with the aim of increasing the economy's competitiveness and accelerating economic growth.

Bearing in mind the stable and favourable macroeconomic environment, recently confirmed by Moody's and Standard & Poor's ratings, the projected GDP growth in 2019 will be dominated by two factors - the continuation of a strong investment cycle and the continued implementation of intense fiscal consolidation measures. According to CBM's projections, GDP growth is expected to be around 3% in 2019. We also expect that the stimulating macroeconomic environment will lead to the increase in the volume of banking sector operations in 2019, especially considering the continuous growth of the key balance sheet items and the improvement of banks' performances.