

# Central Bank of Montenegro

The image shows the exterior of the Central Bank of Montenegro building. The building is a modern, multi-story structure with a light-colored facade and numerous windows. A flag is visible in front of the building. The text is overlaid on the image in a bold, yellow font.

## LESSONS LEARNED FROM THE CRISIS – EXPERIENCE FROM MONTENEGRO

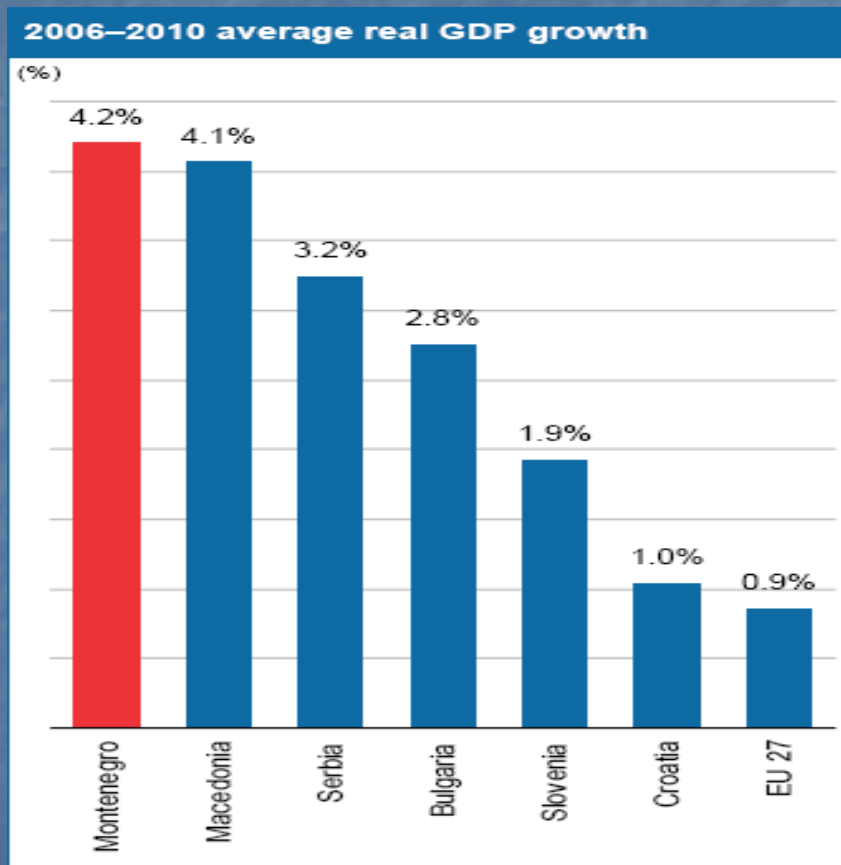
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Economist

# Montenegro – Quick facts

- Ratings
  - S&P BB
  - Moody's Ba3
- GDP 2010 € 3.025 billion
- GDP per capita 2010 € 4.802
- Population approx. 642.000
- Capital city Podgorica
- Area 13.814 km<sup>2</sup>
- Currency Euro



# Montenegrin economy – a regional perspective



- Before the crisis, Montenegro belonged to a group of countries with the fastest development (average GDP growth rate was 8%)
- After the crisis, Montenegro is in the group of countries that were most heavily affected by crisis (in 2009 real GDP decreased 5,7%)

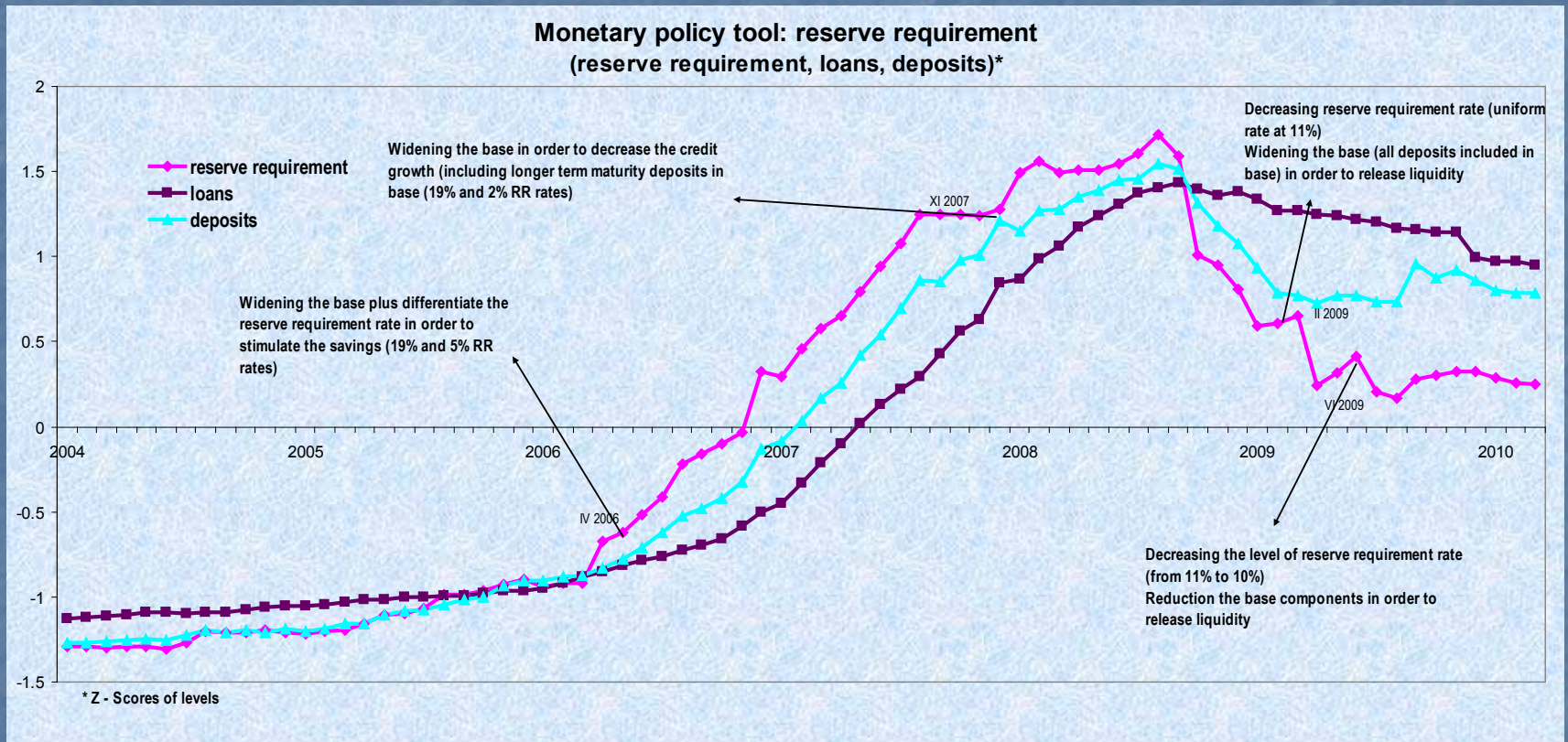
# Banking system is one of the most heavily affected

- Confidence crisis started with withdrawal of deposits at the beginning of the third quarter of 2008
- Only a few banks had a problem with liquidity
- Parent banks strongly supported their subsidiaries in Montenegro
- A number of banks suspended their lending activities during 2009 and 2010
- Decelerated lending activities additionally worsened illiquidity of the corporate sector
- Banks are undercapitalized
- Crisis transferred to real sector
- High growth in non-performing assets and past due loans

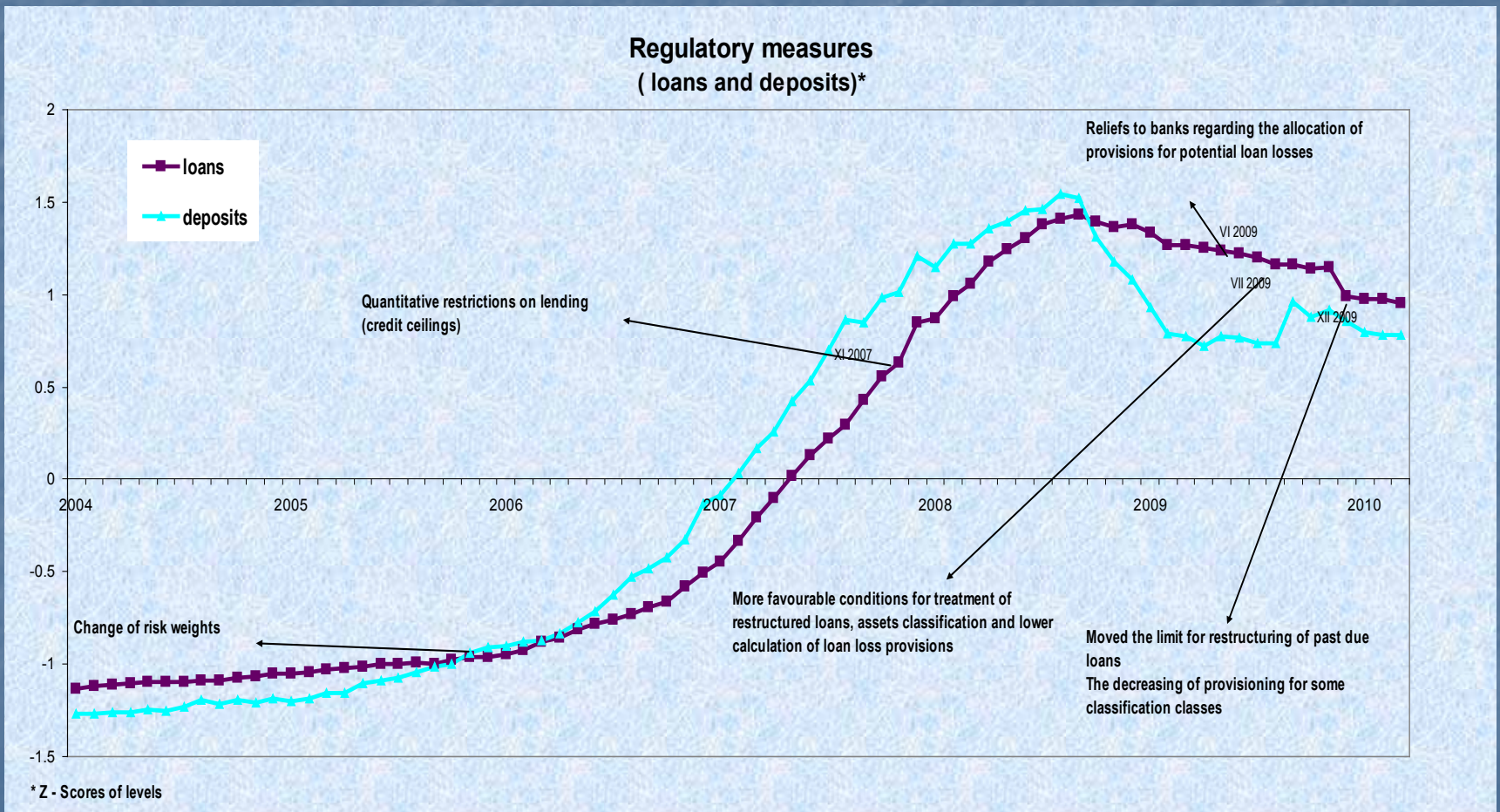
# Central Bank of Montenegro activities

- Activities taken so far :
  - Law on the Protection of the Banking System
  - MOU between CBoF M, Ministry of Finance and Deposit Protection Fund
  
- Monetary and prudential countercyclical measures
  - Reduced reserve requirements
  - Reduced loan loss provisions
  - Facilitated conditions for asset classifications
  - Relief for loan restructuring
  
- Supervision measures
  - On site inspections of all of the banks
  - Stress testing of all banks
  - Recapitalization requirements for undercapitalized systemic banks

# Monetary policy measures



# Prudential measures



**Overheating of economy is stopped**

**Recovery from the crisis**

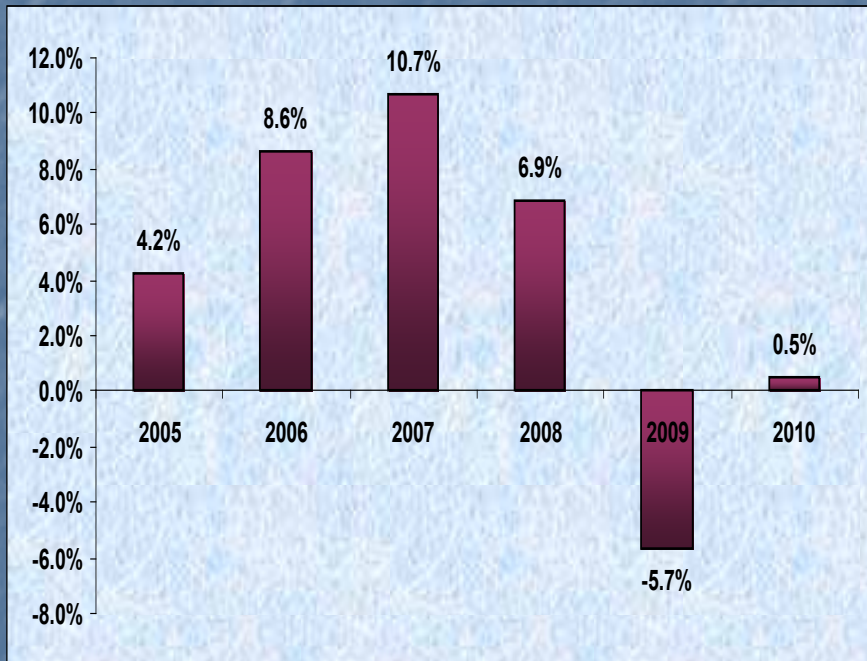
# Economic recovery in 2010

- A fast Government response and structural flexibility limited the impacts of global economic crisis and set Montenegro on the path to recovery
- 2010 real GDP growth of 0,5%, with almost all sectors of the economy growing
- Industrial production grew 9,3% in 2010 and is diversifying towards the energy sector
- Real estate prices show a gradual recovery
- Strong tourism season in 2010 with revenues increasing 6,4% vs 2009
- Reduced budget deficit from 4,4% in 2009 to 2,8% in 2010



# Macroeconomic conditions after the crisis

## Real GDP growth



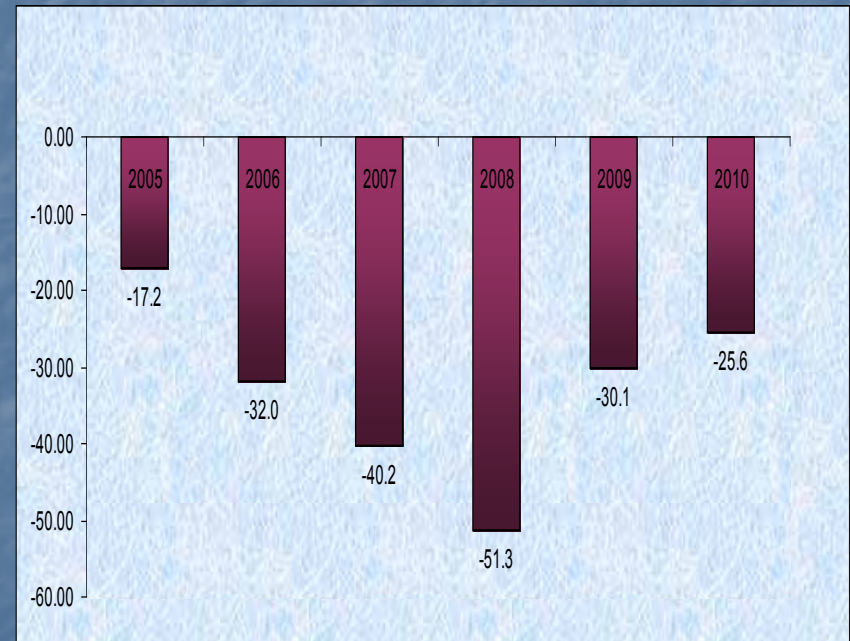
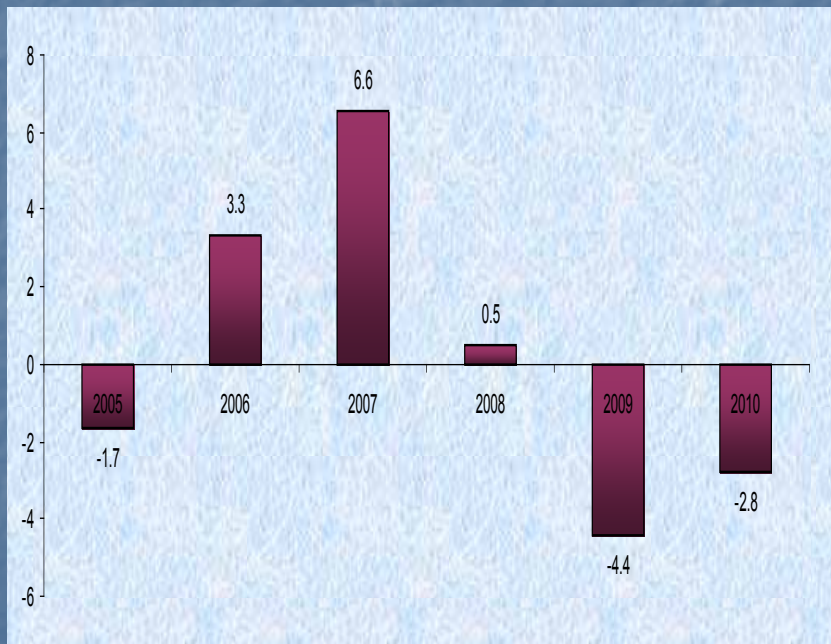
## Inflation



# Macroeconomic conditions after the crisis

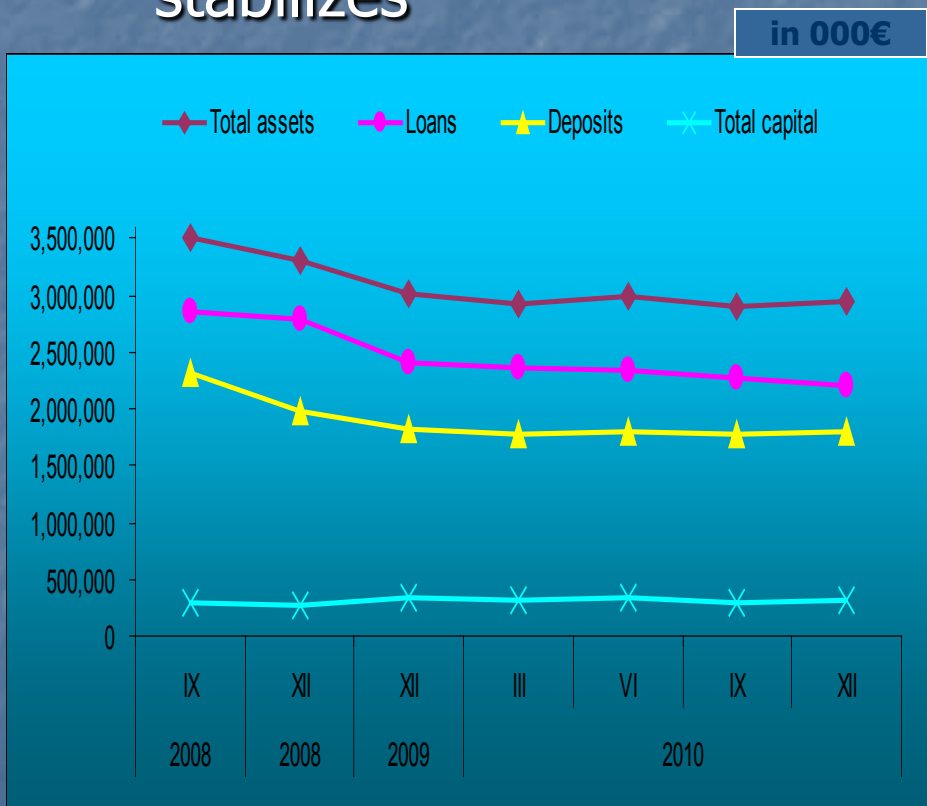
Budget deficit/surplus (in % of GDP)

Current account deficit (in % of GDP)



# Signs of banking sector recovery

## The banking sector stabilizes



- CBoFM and Government measures helped stem the decline in banking sector deposits and boost liquidity
- Stress tests carried out in 2010 and good liquidity ratios place banks in a sound position
- Limited room for further growth of NPLs in view of the recovering economy

# Lessons learned from the crisis

- Need for comprehensive financial stability framework
- Need for wider range of monetary policy instruments
- Need for improvement more effective resolution framework for dealing with the banks in crisis
- Need for improvement more effective cooperation between home and host supervisors

# **New financial stability framework**

Based on:

- New Financial Stability Council Law
- New Central Bank of Montenegro Law
- New Deposit Protection Law
- Financial Stability Council (governor of CBoFM, minister of finance, president of council of of the Insurance Supervision Agency and president of the Securities and Exchange Commission )

# Monetary policy: wider range of monetary policy instruments

- August 2010 Law introduced new instruments for use by Central Bank including **open market operations**, **loans for liquidity needs** and role as **lender of last resort**. Also banks can use intra-day and overnight loans to maintain liquidity, but this facility is very rarely used
- Mandatory reserve requirement (10% currently)
- The Central Bank requires banks to hold mandatory reserves at the Central Bank's accounts (whether in Montenegro or overseas), a proportion of which may be in the form of T-bills

# Improved resolution framework for dealing with the banks in crisis

- Law Amending the Banking Law
  - New corrective prudential measures
  - Revocation of licence is a trigger event for the introducing bankruptcy or liquidation procedure
  - Interim administrator may sell the shares of the bank or may transfer a part or total assets and/or liabilities of the bank under bankruptcy proceedings to another bank or banks
- Law Amending the Bank Bankruptcy and Liquidation Law
  - Bankruptcy administrator may transfer a part or total assets and/or liabilities of the bank under bankruptcy proceedings to other bank or banks

# Improvement of cross-border cooperation

- CBoFM as monetary policy maker and supervisory authority has increased the level of mutual coordination and exchange of information with authorities from the region through the bilateral or multilateral MOU, supervisory colleges etc.
- In accordance with this MOU, the authorities will take the actions on:
  - building mutual trust and understanding in order to provide effective dealing with the large cross-border banking groups,
  - developing a common understanding of the risk profile of large cross-border banking groups.



# Conclusion

- Crises occurred in the past and they will occur in the future
- The preventive action or intervention at the very beginning of crisis is crucial
- All potential future vulnerabilities should be reviewed bearing in mind their possibility to develop into crisis.
- The improvement of regulatory and supervisory activities is a continuous process
- Transmission of negative shocks between real and financial sectors is extremely high
- Countries from the region should increase the level of mutual coordination and exchange of information