



# MONTENEGRO

## CENTRAL BANK TRANSPARENCY CODE REVIEW

April 2025

This paper on Montenegro was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time of the mission and it was completed on March 20, 2025.

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March 20, 2025

# DETAILED REVIEW REPORT

Prepared By  
**Monetary and Capital  
Markets, Finance, and  
Legal Departments**

This Detailed Review Report was prepared based on the work of a hybrid IMF mission to Montenegro in June and September 2024. The IMF team for the Central Bank Transparency Code (CBT) Review mission was led by Cecilia Melo Fernandes (Mission Chief, MCM) and comprised Elie Chamoun, Deputy Mission Chief (FIN); Hans Weenink, Luis Jacome, Mohammed Janahi, Sylvain Choquette (IMF External Experts), Kei Moriya (ITD); and jointly overseen by the Monetary and Capital Markets Department and Legal Departments, IMF.<sup>1</sup> The production assistance was provided by Julie Vaselopoulos.

The team extends its warm appreciation to the Council, senior management, and staff of the CBCG, who provided excellent cooperation, and to outside stakeholders and interested public for their valuable views and insights.

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<sup>1</sup> The mission was backstopped from HQ by Dmytro Solohub and Mario Tamez (MCM and LEG, respectively).

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## Glossary

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AML/CFT Law	Law on Prevention of Money Laundering and Terrorist Financing
APC	Agency for Prevention of Corruption
AC	Audit Committee
AFS	Audited Financial Statements
BCM	Business Continuity Management
CMAM	Capital Market Authority of Montenegro
CBCG	Central Bank of Montenegro
CAR	Central Bank of Montenegro Annual Report
CBCG Law	Central Bank of Montenegro Law
CBCG Public Officials	Governor, Vice-Governor, and members of the Council
CBT	Central Bank Transparency Code
Council	Council of the Central Bank of Montenegro
DM	Deutsche Mark
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
ESCB	European System of Central Banks
ESG	Environmental, Sustainability, and Governance
EU	European Union
FAQ	Frequently Asked Questions
FRM	Foreign Reserves Management
FSC	Financial Stability Council
FSR	Financial Stability Report
FX	Foreign Exchange
GDP	Gross Domestic Product
IC	Investment Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IR	Inflation Report
ISAM	Insurance Supervision Agency of Montenegro
LCC	Law on Consumer Credit
LCI	Law on Credit Institutions
LFAI	Law on Free Access to Information
LLR	Lender of Last Resort
LPC	Law on the Prevention of Corruption
LPDP	Law on Personal Data Protection
ML/TF	Money Laundering and Terrorist Financing
MoU	Memorandum of Understanding
MOF	Ministry of Finance – Montenegro
NBFI	Non-Banking Financial Institutions
NPL	Non-Performing Loans
NLP	Natural Language Processing
SAIM	State Audit Institution of Montenegro
SDR	Special Drawing Rights

## EXECUTIVE SUMMARY

**The transparency of the Central Bank of Montenegro (CBCG)'s legal framework, its mandate, autonomy, and decision-making arrangements have all been strengthened over time, but further improvements are recommended.** The most important room for improvement is for the CBCG's website to clearly explain that Montenegro's unilateral euroization limits the scope for an independent monetary policy and for the provision of ELA. That should be aligned with an enhanced policy strategy, which should explain its operational framework and toolkit, helping the public understand how policies are formulated and what to expect. In addition, it should ensure timely publication of all its opinions on draft laws concerning the financial sector. The discussion on the website of the CBCG's existing functional autonomy could stress that the CBCG can perform its mandate without prior approval needed from the Government. Finally, the CBCG's transparency could be enhanced by clarifying the function of the Governor's Collegium and by publishing the general act establishing the remuneration of the Governor, Vice-Governors, and Council members on its website, along with existing links to their incomes and assets, which is already available in the Anti-Corruption Agency website.

**To boost its governance transparency framework, the CBCG should place more emphasis on risk management, institutional accountability, and human capital.** An institutional view of the central bank's financial and non-financial risk exposures could be outlined in a dedicated chapter on risk management in the annual report and a broader section on the website. Additional transparency on internal and external audits, as well as their oversight arrangements by the Audit Committee of the Council, is also needed. Many of these additional disclosures are quick wins for the CBCG, as the practices are already in place and functioning well. Moreover, the CBCG should consolidate information on its human capital into a single webpage covering careers, human resources management, recruitment, retention, compensation packages (e.g., salary bands by level/category of employee), including details such as gender breakdown by job classification, and staff turnover analysis.

**The CBCG's transparency practices for FX reserve management could be improved with a few changes in the framework.** Key governing documents, i.e. the Guidelines for International Reserves Management and the Investment Committee's Terms of Reference, should be published. Increased transparency would benefit from a systematic presentation of (i) all risks; (ii) portfolio performance (both relative and absolute); and a description of the market environment in the annual report. Additionally, greater disclosure on the oversight framework and ex-post analysis of investments, including the rationale behind benchmark selection, would significantly enhance transparency.

**The CBCG strategic communication plan should include clear objectives and measurable targets, utilizing quantitative tools to enhance its effectiveness.** To effectively assess its progress and impact, specific objectives should be defined, such as increasing public awareness of its policies by a certain percentage along with measurable targets, like the number of successful outreach initiatives or improvements in stakeholder engagement metrics. Data-driven approaches, including survey insights and audience analysis (as outlined in this report), will enable the CBCG to accurately

measure and optimize its communication strategy objectives. In addition, the CBCG should consider updating the website for clearer communication with stakeholders and the public, using simplified language, visuals, and dashboards to disseminate core messages, while also providing report schedules, standardizing press conferences, and establishing guidelines for public appearances and social media conduct.

**The CBCG should enhance the transparency of macroprudential policy and increase the frequency of the Financial Stability Report, a key publication aligned with its mandate.** While the CBCG explains what macroprudential policy is and how the different instruments relate to the macroprudential objectives, it does not place this framework in the context of Montenegro's economy. In addition, the CBCG should better disseminate its assessments about the soundness of the financial system in its Financial Stability Report. Despite being its flagship publication, it is conducted only once a year, and its main findings are not widely shared.

**CBCG's progress in improving financial integrity transparency is notable, although additional disclosures are needed in relation to AML/CFT supervision and related internal controls.** CBCG's AML/CFT supervisory function is largely transparent, but disclosures are needed in relation to AML/CFT processes and outcomes. The CBCG's website provides easy access to AML/CFT laws and guidelines, including general guidance on the CBCG's supervisory approach and different types of supervision. Financial integrity transparency can be further improved with additional disclosures of sanctions and the results of sectoral AML/CFT risk assessments. The CBCG's internal AML/CFT control framework related to its activities that could give rise to money laundering and terrorism financing (ML/TF) activities is not disclosed.

**The CBCG demonstrates adequate transparency in its consumer protection operations, however, further clarity is needed in the anti-corruption framework.** Rights of financial consumers are well publicized and reinforced with strong supervisory processes. Outcomes are disclosed in the annual report and the framework could be enhanced by disclosing the names of sanctioned entities and publishing additional guidance for dispute resolutions. While the anti-corruption framework is in place, more clarity is needed to better explain its applicability to CBCG Public Officials and staff.

**The mission team commends the CBCG's substantial efforts to address numerous recommendations by the time of this publication.** The report captures findings only up to the end of the mission<sup>2</sup>. The CBCG already started to address several of the recommendations in particular in the areas of governance, autonomy, and anti-corruption, highlighting the CBCG's ongoing commitment to enhancing transparency and aligning with international best practices. Further improvements remain to be addressed in foreign exchange reserves, accountability framework, human capital, communications and in its AML/CFT supervisory processes.

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<sup>2</sup> According to the Central Bank Transparency Code Review Guidance Note, the last day of the mission is set as a cut-off date for review's findings, hence initiatives implemented after this date are not considered. The cut-off date of the mission is September 25, 2024. See Guidance Note in the following [link](#).

Table 1. Montenegro: Central Bank Transparency Overview for CBCG

Pillar	Principle	Sub-principle	Practices		
			Core	Expanded	Comprehensive
I. Governance	1.1.	Legal Structure			
	1.2.	Mandate			
	1.3.	Autonomy	1.3.1.	Institutional/Operational	
			1.3.2.	Functional	
			1.3.3.	Personal	
			1.3.4.	Financial	
	1.4.	Decision-Making			
	1.5.	Risk Management	1.5.1.	Risk Exposure	
			1.5.2.	Risk Framework	
	1.6.	Accountability Framework	1.6.1.	Arrangements	
			1.6.2.	Tools	
			1.6.3.	Anti-Corruption/COC	
			1.6.4.	Human Capital Management	
	1.7.	Communication	1.7.1.	Arrangements	
			1.7.2.	Strategy/Tools	
	1.8.	Confidentiality			
II. Policies	2.1.	Monetary Policy	2.1.1.	Objectives/Framework	
			2.1.2.	Policy Decisions	
			2.1.3.	Supporting Analysis	
	2.2.	FX Administration	2.2.1.	Objectives/Framework	
			2.2.2.	Policy Decisions	
			2.2.3.	Supporting Analysis	
	2.3.	FX Management	2.3.1.	Objectives/Framework	
			2.3.2.	Policy Decisions	
			2.3.3.	Supporting Analysis	
	2.4.	FX Reserve Management	2.4.1.	Objectives/Framework	
			2.4.2.	Policy Decisions	
			2.4.3.	Supporting Analysis	
	2.5.	Macroprudential	2.5.1.	Objectives/Framework	
			2.5.2.	Policy Decisions	
			2.5.3.	Supporting Analysis	
	2.6.	Microprudential Supervision			
	2.7.	Emergency Liquidity Assistance	2.7.1.	Market-wide Liquidity Support	
			2.7.2.	Bilateral Liquidity Support	
	2.8.	Resolution			



Table 1. Montenegro: Central Bank Transparency Overview for CBCG (continued)

Pillar	Principle	Sub-principle	Practices		
			Core	Expanded	Comprehensive
	2.9.	FMI			
	2.10.	<b>Financial Integrity</b>	2.10.1	AML/CFT Supervision	
			2.10.2	Internal AML/CFT Controls	
	2.11.	<b>Consumer Protection</b>		...	...
III. Operations	3.1.	<b>Monetary Policy</b>	3.1.1.	Instruments	
			3.1.2.	Coverage	
			3.1.3.	Access	
	3.2.	<b>FX Administration</b>	3.2.1.	Instruments	
			3.2.2.	Coverage	
	3.3.	<b>FX Management</b>	3.3.1.	Instruments	
			3.3.2.	Coverage	
	3.4.	<b>FX Reserve Management</b>	3.4.1.	Instruments	
			3.4.2.	Coverage	
			3.4.3.	Assessment	
	3.5.	<b>Stress Testing</b>	3.5.1.	FS Assessments	
			3.5.2.	ST Methods	
			3.5.3.	ST Coverage	
			3.5.4.	Use of ST Results	
	3.6.	<b>Macroprudential</b>	3.6.1.	Instruments	
			3.6.2.	Enforcement	
	3.7.	Microprudential Supervision			
	3.8.	<b>Emergency Liquidity Assistance</b>	3.8.1	Market-wide Liquidity Support	
			3.8.2	Bilateral Liquidity Support	
	3.9.	Resolution			
	3.10.	FMI			
	3.11.	<b>Financial Integrity</b>	3.11.1	AML/CFT Supervision	
			3.11.2	Internal AML/CFT Controls	
	3.12.	<b>Consumer Protection</b>		...	...
IV. Outcome	4.1.	<b>Monetary Policy</b>	4.1.1.	Governance Actions	
			4.1.2.	Policies	
			4.1.3.	Operations	
	4.2.	<b>FX Administration</b>	4.2.1.	Governance Actions	
			4.2.2.	Policies	
			4.2.3.	Implementation	
	4.3.	<b>FX Management</b>	4.3.1.	Governance Actions	

Table 1. Montenegro: Central Bank Transparency Overview for CBCG (concluded)

Pillar	Principle	Sub-principle	Practices		
			Core	Expanded	Comprehensive
	4.4. <b>FX Reserve Management</b>	4.3.2. Policies			
		4.3.3. Operations			
		4.4.1. Governance Actions			
		4.4.2. Reporting on Imp.			
		4.4.3. Financial Results			
	4.5. <b>Macroprudential</b>	4.5.1. Governance Actions			
		4.5.2. Policies			
	4.6.	Microprudential Supervision			
	4.7. <b>Emergency Liquidity Assistance</b>	4.7.1. Market-wide Liquidity Support			
		4.7.2. Bilateral Liquidity Support			
	4.8.	Resolution			
	4.9.	FMI			
	4.10. <b>Financial Integrity</b>	4.10.1. AML/CFT Supervision			
		4.10.2. Internal AML/CFT Controls			
	4.11.	<b>Consumer Protection</b>		---	---
<b>V. Official Relations</b>	5.1. <b>Government</b>	5.1.1. Institutional			
		5.1.2. Financial			
		5.1.3. Instruments			
		5.1.4. Outcome			
	5.2. <b>Domestic Agencies</b>	5.2.1. Institutional			
		5.2.2. Instruments			
		5.2.3. Macroprudential			
		5.2.4. Financial Stability			
	5.3	<b>Foreign Agencies</b>			
	5.4	<b>Other Relations</b>			
	<b>Denotes "Not Applicable"</b>		<b>Denotes "Not Implemented"</b>		--- Denotes <b>"No Category Assigned"</b> as per the principle in the CBT; detailed descriptions included in the DRR.

## KEY RECOMMENDATIONS<sup>3</sup>

**1. The IMF recommendations encompasses several areas, such as the CBCG's mandate concerning euroization, governance, risk management, and anti-corruption frameworks, along with the consolidation of human capital information and communication strategies, some of which the CBCG has already begun to implement.**<sup>4</sup> Furthermore, the IMF encourages the CBCG to enhance transparency in the management of foreign exchange reserves and in its AML/CFT supervisory processes. Although the CBCG has made strides in implementing recommendations related to governance, autonomy, and anti-corruption, it remains committed to addressing the subsequent recommendations in the other areas as well. Most "core" practices are concentrated within Pillars II (Policies) and IV (Outcome), while Pillars I (Governance), III (Operations), and V (Official Relations) tend to feature assessments categorized as expanded or comprehensive.

**2. Further improve transparency on the CBCG's mandate as it relates to the unilateral euroization of Montenegro.** For example, by: (i) explaining how the euro has been introduced as sole legal tender in Montenegro; and (ii) explaining the limited scope resulting from the euroization for the ability of the CBCG to conduct independent monetary policy and to provide discretionary ELA to banks.

**3. Enhance the description of the CBCG's existing autonomy.** For example, by including: (i) a description of the CBCG's functional autonomy that emphasizes the prohibition of the State to approve CBCG decisions; and (ii) the personal autonomy by including a link to the general act establishing the remuneration of CBCG Public Officials, as well as a link to the information on their assets and incomes that is available on the website of the Agency for Prevention of Corruption (APC).

**4. Improve transparency on the CBCG's governance.** For example, by including: (i) information on the CBCG's website regarding the role of the 'Collegium of the Governor'; and (ii) an overview of governance arrangements in the Central Bank of Montenegro Annual Report (CAR).

**5. Going forward, providing transparency on the need to align the CBCG's mandate in the Constitution and the CBCG Law as envisaged in the ongoing EU accession negotiations.**

**6. Enhance transparency on risk management.** For example, through disclosures on: (i) a high-level overview of key (financial and non-financial) risks clearly mapped to the CBCG's mandate and tolerance towards these risks; (ii) the process, governance arrangements, and strategies to manage these risks. These additional disclosures and other emerging developments could be provided through a dedicated section on risk management in the CAR and on the website.

<sup>3</sup> Please refer to the Detailed Review Table in Annex I for a complete overview of principle wise transparency recommendations.

<sup>4</sup> Please refer to the Authorities' response to detailed review report for details on the recommendations that have been already implemented before this report's publication.

- 7. Improve transparency on the accountability framework.** For example, by including in the CAR: (i) a dedicated section providing an overview of external and internal audit arrangements; (ii) a description of the oversight by the AC and a summary of its activities during the year; and (iii) a full set of AFSs along with the audit opinion by the external auditors.
- 8. The CBCG's anti-corruption framework could be made more transparent.** For example, by: (i) articulating more clearly the applicability of the Law on Prevention of Corruption (LPC) on CBCG Public Officials and staff; and (ii) provide additional information to clarify the varying requirements between the Code of Ethics and the more demanding LPC.
- 9. Consolidate information on human capital under one webpage dedicated to careers and human resources management, including aspects related to recruitment and retention, as well as professional and career development.** Additional disclosures on CBCG's employee management practices, including compensation packages (i.e., salary bands by level/category of employee), gender breakdown by job classification, and comparative analysis on staff turnover could also be considered.
- 10. Include clear objectives and measurable targets on the CBCG's strategic communications plan, utilizing data-driven approaches to quantify them.** The plan should set specific goals, like increasing public awareness of policies, and use measurable targets to assess progress. Data-driven methods could be implemented to refine the communication strategy including surveys and audience analysis. The CBCG should update its website for better communication with traditional stakeholders and the broad public, using simplified language, visuals, and dashboards to clarify objectives, and provide publication schedules for reports. In addition, press conferences should follow a standardized format, and clear guidelines for public appearances as well as communication crisis management should be established.
- 11. Enhance the FX reserves management framework's transparency.** For example, by: (i) correcting and updating the 'Decision on International Reserves Management'; (ii) communicating all the non-market sensitive elements of the 'Guidelines for International Reserves Management'; and (iii) publishing the IC's terms of reference.
- 12. Improve transparency related to AML/CFT supervisory outcomes.** For example, by increasing the frequency of sanctions disclosures, including, without limitation: (i) the names of sanctioned entities and individuals; (ii) details of identified contraventions and proposed remedial plans; and (iii) progress of remedial plans implementation.
- 13. Improve transparency related to AML/CFT supervisory processes.** For example, by periodically disclosing the results of offsite analysis and supervisory-level AML/CFT sectoral risk assessments.

## SCOPE AND OBJECTIVE

**14. In response to a request from the CBCG, the mission conducted a CBT review.** The scope of the review covers all the CBT principles, save for those actions that are not performed by the CBCG.

**15. This review is intended to allow the CBCG to evaluate its transparency practices, with a focus on identifying both its strengths and its areas for improvement.** The review compares the CBCG's transparency choices to the range of best practices detailed in the CBT, which cover transparency in: (i) governance; (ii) policies; (iii) operations; (iv) outcomes; and (v) official relations. The review aims to help the CBCG in further strengthening its dialogue with stakeholders and in finding the proper balance between independence and accountability. While it is important to note that the CBT review is not an assessment of central bank policies, it is likely to benefit the CBCG's efforts to advance policy effectiveness. The CBT's range of practices is not intended to be a tool for ranking the transparency of central banks, as noted in the [IMF Policy Paper Central Bank Transparency Code](#).

## APPROACH AND METHODOLOGY

**16. The mission's approach consisted of a desk review as well as in-depth discussions with the CBCG and its key stakeholders.** The mission team conducted a preliminary desk review based on both publicly available information and the Self-Review Questionnaire responses provided by the CBCG prior to the mission.<sup>5</sup> The desk review formed the basis for discussions with the CBCG's management and staff—and for meetings with the key stakeholders (from the public and private sector, including academia, and journalists).<sup>6</sup> The meetings enabled the mission to collect views on, and to better understand, experiences with the CBCG's transparency practices. The mission conducted 52 meetings (in both hybrid and virtual format) over two weeks. The meetings with key stakeholders were planned in coordination with the CBCG, though the CBCG's staff did not attend those meetings. The team greatly appreciated the very high quality of cooperation, including the provision of responses to the Self-Review Questionnaire, documentation, and technical support, as well as the CBCG's facilitation of the mission meeting schedule. It extends its warm thanks to the staff of the CBCG.

**17. The review was conducted principle-by-principle, taking into consideration the relevant dimensions of transparency.** The review maps the CBCG's transparency practices across a range of best practices and was conducted in the context of the CBCG's legal mandate and policy context, as well as the prevailing general legal framework. The review considered several important dimensions of transparency, including: (i) timeliness; (ii) periodicity; and (iii) quality of disclosure. The latter covers both accessibility and ease of understanding, especially by the general public. The review also considered the views expressed by CBCG stakeholders.

<sup>5</sup> The mission took place from September 11–25, 2024. Initiatives implemented after the mission conclusion date have not been considered.

<sup>6</sup> See Annex II for a list of the CBCG units and external stakeholders that were met as part of the mission.

**18. In addition, the mission employed quantitative methods to the greatest extent feasible to assess qualitative factors such as clarity, accessibility of information and sentiment analysis in the CBCG's disclosures.**

Transparency in central banks' publications goes beyond simply providing information; it requires the information to be clear and accessible. To assess that dimension of transparency, the following methods were applied: (i) Flesch Score index to assess the level of readability of the key CBCG reports; (ii) analysis of document structure to assess the accessibility of CBCG's publications, checking for multilingual support; (iii) Natural Language Processing (NLP) to extract insights and gauge the overall tone and sentiment of the reports, which can be directly related to economic cycles; and (iv) analysis of tracking visits and "clicks" on key links to gain insights into public engagement with press releases and social media.

**19. Finally, a household survey was conducted for the first time in Montenegro, and econometric models were used to extract key insights which are useful to improve CBCG's communication strategy.**

The survey was conducted online, with the IMF setting up the infrastructure and the CBCG assisting in disseminating the link. The survey was entirely in Montenegrin and remained accessible for one week, and users could easily access it through a QR code. Based on the responses, two indexes were developed to assess the participants' level of knowledge regarding the central bank. In addition, methodologies such as multinomial logit regressions were performed on the collected data to better understand public behavior and support the CBCG in refining its communication strategy.

## BACKGROUND

**20. The COVID-19 pandemic and Russia's invasion of Ukraine have had significant repercussions for the Montenegrin economy.**

As a small open economy with high dependence on tourism revenues, the country was hit hard by COVID-19 with GDP plunging by 15 percent in 2020. The authorities responded to the shock by introducing various crisis support measures and securing emergency financial assistance of SDR 60.5 million from the IMF under the Rapid Financing Instrument. The strong recovery of tourism, followed by the influx of relatively affluent Ukrainians and Russians amid Russia's invasion of Ukraine, stimulated growth rebound in 2021–22, resulting in record-high inflation since the country's independence. In 2023, Montenegro's economy experienced strong growth at a rate of 6.3 percent, buoyed by solid consumption and tourism earnings surpassing levels seen before the pandemic. Unemployment rate dropped to its lowest ever. A significant reduction in inflation was facilitated by declining global food prices. Economic growth is anticipated to slow to 3.7 percent in 2024–25 and further decelerate to approximately 3 percent over the medium-term. The longer-term economic outlook heavily depends on the EU accession schedule, authorities' efforts to engineer structural reforms and certainty around political developments.

**21. The financial sector appears to have withstood the consecutive shocks well.** The banking sector has effectively navigated recent challenges. Despite the end of COVID-19 support, the NPL ratio is decreasing, capital adequacy far exceeds the required minimum, and a surge in deposits has ensured ample liquidity. Meanwhile, banks are experiencing record profitability, thanks to expanding

net interest margins. The regulatory and supervisory framework has been significantly strengthened in recent years in line with the recommendations of the Financial Sector Assessment Program conducted in 2015–16. The undercapitalized banks were resolved, the financial safety net strengthened, and a new risk-based AML/CFT framework was introduced. Given ambitious EU accession plans, the authorities strive to bring financial regulations and supervision practices fully in line with current EU frameworks and other international standards.

**22. Fostering and maintaining financial system stability is the primary objective of the CBCG.** The CBCG also has an objective of contributing to achieving and maintaining domestic price stability and, without prejudice to these objectives, supporting the government’s economic policy goals. The CBCG performs a relatively broad set of functions, including banking supervision and resolution, payment systems’ oversight, FX reserve management, protection of rights of financial services’ consumers, etc. With the goal of preventing or mitigating systemic risks in the financial system, the CBCG also acts through the FSC, established in 2010, and comprised of representatives of the CBCG, the MOF, CMAM, and ISAM.

**23. In June 2012 negotiations commenced between the EU and Montenegro on the latter’s candidacy for membership of the EU.** These negotiations are currently ongoing and according to public statements by the European Commission, 33 Chapters of the negotiation framework have been opened, of which three Chapters have now been provisionally closed. The CBCG informed the mission that the negotiations are expected to be concluded in 2026. The CBCG is actively involved in these negotiations and has been nominated to lead the talks regarding three negotiation chapters on which the negotiations are continuing: Chapter 4 on free movement of capital, Chapter 9 on financial services and Chapter 17 on Economic and Monetary Union. Prior to EU membership the Government of Montenegro unilaterally decided in 2002 to introduce the Euro as the sole legal tender in Montenegro. This unilateral euroization has an impact on Montenegro’s economy and financial system. Hence, Box 1 discusses the implications of this euroization on the CBCG’s mandate, operations, and governance.

**24. While the legal framework of the CBCG has been strengthened with technical assistance from the IMF Legal Department, certain issues related to governance remain unaddressed.** The first-time IMF safeguards assessment of the CBCG in 2021 found strong operational controls at the CBCG but identified weaknesses in, inter alia, independent oversight that is undermined by the structure of the CBCG’s Council, the appointment procedures for Council members, and the CBCG’s decision-making structures. The assessment recommended to introduce amendments to the legal framework to address these findings and to improve the autonomy. The legal amendments, a number of which are aligned with IMF Legal Department’s technical assistance, resulted in an amended CBCG Law that was published and entered into force on December 31, 2023; however, certain recommended legal amendments to strengthen the governance remain outstanding.

**25. The domestic political fragmentation weighs on the CBCG’s governance arrangements and policies.** After the collapse of two governments in 2022 due to no-confidence votes, lawmakers struggled to form a new government or initiate snap elections. Following presidential and

parliamentary elections in 2023, a new parliamentary majority and government formation took place. The parliamentarians recently endorsed the proposal to eliminate double veto procedure for Governor's nomination by excluding the President from the process.<sup>5</sup> The CBCG management has also come under repeated attacks from politicians and media, blaming it for poor supervisory policies and lack of integrity. In December 2023, a new governor has been appointed to the CBCG through a parliamentary vote of 58–13, succeeding a failed effort by the country's former president to retain the prior governor in the position. Also, currently, the CBCG has only two Vice-Governors instead of the three prescribed by the CBCG Law: one Vice-Governor continues to act in his role despite the term having expired, while the other Vice-Governor is currently on leave. Proposals for the appointment of two Vice-Governors have been submitted to Parliament on August 27, 2024, with the expectation that the appointment by Parliament might be finalized by the end of the year. In addition, the CBCG currently only has two non-executive Council members, whose mandate expired in July, as opposed to the four prescribed by the CBCG Law.

**26. The CBCG is committed to open and transparent communications.** The CBCG's website is the key communication tool with stakeholders, complemented by the CBCG CAR, monthly Governor's Report and a handful of policy and analytical publications (IR, FSR MR, Price Stability Report, and Bulletin). Once a year the CBCG publishes its work program for the next 12 months, outlining its policy priorities. During the COVID-19 pandemic the CBCG regularly engaged with the public via various communication channels to increase awareness and understanding of the CBCG policies and actions. As part of its program of improving financial literacy and economic knowledge in the society, the CBCG conducts a number of financial education activities through its Money Museum, participates in the Global Money Week and the World Savings Day, and publishes CBCG's Financial Entertainer, which is an educational and entertainment magazine for children.

## MAIN FINDINGS

### A. Pillar I. Transparency in Governance

#### Legal Structure, Mandate, and Decision-making

**27. The legal structure of the CBCG, including its legal framework, autonomy and decision-making structures are all well disclosed on its website, but further improvements are needed.**

The CBCG's transparency could be enhanced by including on its website links to applicable legislation such as the Constitution of Montenegro. An explanation of the limited scope of audits by the State Audit Institution of Montenegro (SAIM) could also be included on the CBCG's website. The function of the Governor's Collegium, which is provided for in the Statute of the CBCG, could be better explained on the CBCG's website. As regards the translated version of the CBCG Law (the mission could not verify the original version), the numbering of the articles in its two Chapters that are applicable to the CBCG: (i) after Montenegro accession to the EU; and (ii) subsequently after the CBCG becomes a member of the Eurosystem, is confusing. The discussion on the website of the CBCG's existing functional autonomy could usefully stress that the CBCG can perform its mandate without prior approval from the Government. Finally, the general act establishing the remuneration



of CBCG Public Officials could be published on the CBCG's website. In addition, while the incomes and assets of the Council members are published on the website of the Agency for Prevention of Corruption (APC), their remuneration is only disclosed in aggregate form in the CBCG's financial statements. The CVs of the non-executive Council members could be provided on the CBCG's website, in addition to the CVs of the Governor and Vice-Governors that are already provided. Links to the aforementioned publications on the website of the APC could be made available on the website of the CBCG. In addition to these points on the website of the CBCG's, the CAR also does not contain a developed section on governance, as is common in other central banks. Finally, as part of the CBCG's strategic communication plan, which is under development as part of ongoing efforts to establish an overall strategic plan for the CBCG, the timeliness of the publication of CBCG opinions on draft laws concerning the financial sector could be stressed.

**28. The CBCG's website clearly discloses the CBCG's mandate, but the discussion of the CBCG's objectives and the limitations resulting from Montenegro's unilateral euroization for the CBCG's mandate could benefit from further explanation on the CBCG's website.** As noted, the legal framework is published on the CBCG's website and both the hierarchy of the CBCG's objectives and its core functions are discussed in a clear and easily accessible manner on the website. However, while the CBCG Law contains the hierarchy of the CBCG's objectives, the Constitution is silent on such a hierarchy. Therefore, the CBCG's website could usefully explain that one of the benchmarks included in the ongoing accession negotiations with the EU foresees the amendment of Montenegro's Constitution to provide for a hierarchy of the CBCG's objectives at a future date. Montenegro has unilaterally adopted the Euro as Montenegro's sole legal tender. While a technical CBCG Working Paper on dollarized/euroized economies on the CBCG's website explains that this policy choice implies a limited possibility for the CBCG to conduct an independent monetary policy and that this policy choice also limits the use of LLR, the subsequent presentation of the CBCG's monetary policy instruments and ELA on the CBCG's website does not explain how these limitations impact and limit said instruments.

## **Risk Management and Accountability Framework**

**29. Increased disclosures about risk exposures and governance would enhance transparency and accountability.** The CBCG's risk exposure is mainly focused on financial risks and disclosed as an integral part of foreign reserves management (FRM). In contrast, disclosures about overall risk governance and management of operational risk are limited. Specifically, the CBCG's publications lack an institutional view on the CBCG's risk management framework and respective governance arrangements, and they are not reflective of latest developments to strengthen risk management practices. To further improve transparency, the CBCG could consider disclosing information on: (i) all financial and non-financial risks as they relate to its mandate and the bank's tolerance for these risks; (ii) the process, governance arrangements, main developments, and strategies to manage these risks. These additional disclosures could be provided through a separate chapter on risk management in the CAR, as well as a broader section on the website.

**30. The CBCG discloses reasonably sufficient information on its financial activities and position in the AFSs and the CAR.** The CBCG publishes a complete set of independently AFSs on its

website. The financial statements are prepared in accordance with IFRS and accompanied by the external auditor's report, which includes an external audit opinion referring to International Standards on Auditing. While financial reporting practices are comprehensive and the external audit mechanism is well-established, the CAR does not include, as a separate chapter, the full set of AFSs.

**31. Additional disclosures on audit mechanisms and oversight arrangements are needed.**

The audit (internal and external) mechanisms and oversight of the latter by the AC are well established in the CBCG Law and explicitly disclosed on the CBCG's website. However, disclosures about the same are lacking in the CAR. In addition, the limited scope of the audits conducted by the SAIM over the CBCG (i.e., excluding activities related to its mandate and functions) merits further clarification on the website and needs to be disclosed in the CAR. Transparency could be enhanced by including in the CAR: (i) a dedicated section providing an overview of external and internal audit arrangements; (ii) a description of the oversight by the AC and a summary of its activities during the year; and (iii) a full set of AFSs along with the audit opinion by the external auditors.

**32. Consideration should be given to increase transparency on governance and the management of human capital.**

The CBCG discloses (on the website and in the CAR) an array of references to legislation and internal regulations on the management of its human resources, including job classifications, staff composition, competencies, and professional development. That said, other important aspects such as diversity and inclusion or leadership and succession planning are lacking, and the disclosures on the website are dispersed across different sections and not consolidated under a specific section.

**33. Transparency would be enhanced by consolidating information on human capital under one webpage dedicated to careers and human resources management,**

including aspects related to recruitment and retention, as well as professional and career development. In particular, the CBCG could use this as a platform to promote its intended strategy of being an "employer of choice" and provide details about: (i) current openings; (ii) partnerships and concrete programs to support diversity and inclusion; and (iii) recruitment programs, including scholarships/internships. In addition, disclosures could be enhanced across a number of dimensions on CBCG's employee management practices, including compensation packages (i.e., salary bands by level/category of employee), gender breakdown by job classification, and comparative analysis on staff turnover and evolution of the workforce. Going forward, as the human resources function is expected to support the CBCG in implementing its forthcoming strategic plan, disclosures in this area should also evolve to provide additional quantitative measures that tie back to the said plan.

**34. CBCG is generally transparent about its anti-corruption efforts, although disclosures on the applicability of anti-corruption legislation and the overall coverage of the CBCG's Code of Ethics could be improved.**

The LPC is published on the CBCG website, a Montenegrin language version only, and applies to CBCG Public Officials only, excluding all other employees. This distinction in applicability is not immediately disclosed and transparency could be enhanced by explicitly setting out any immunities and/or exclusions. While the CBCG's Code of Ethics, published on the CBCG website, largely emulates the provisions of the LPC, important key measures are lacking, including on pre- and post-public employment (i.e., cooling off periods), periodic asset declarations, and periodic

declarations of compliance with the Code of Ethics. As such, transparency regarding the anti-corruption framework could be improved if this variation was articulated more clearly. Furthermore, the internal process for handling whistleblowing reports is not disclosed and could be made more transparent.

## Communications

**35. For the first time, the CBCG Communication Department is developing a strategic communication plan.** The document will address institutional affairs, public relations, and mass media strategies, focusing on tailored communication initiatives to enhance public engagement. Further details on its implementation were not yet available during the mission. The CBCG provides information on its communications function and while it follows clear legal guidelines for reporting and data accessibility, it does not disclose detailed internal principles, guidelines, or processes for external communication. The new CBCG communications strategy should have clear objectives and where possible, measurable targets. It should document its communication processes and integrate them into core activities like supervision, financial stability, and issuing opinions.

**36. The CBCG has clearly identified with its target audiences and utilizes a wide range of tools to engage with them effectively, but key improvements could be included in its new strategy.** For example, key website sections should be updated to better reflect the actual level of communication efforts of the CBCG towards media engagement. Although access to information requests are managed transparently, the publication schedule of the reports could be improved by offering clear publication dates, and press conferences should adhere to a pre-defined format with a structured Q&A session for transparency. Finally, the CBCG should set guidelines for public appearances by policymakers, including the Governor, Vice Governors and staff, with clear social media conduct rules. In addition, regular updates on key topics and crisis protocols for handling misinformation are crucial to protect its reputation.

**37. Tailored and well disseminated communication to the targeted audiences, including simplified explanations or videos on the CBCG's objectives would enhance the public understanding and accessibility of information.** Transparency in reports goes beyond simply providing information; it requires the information to be clear and accessible. To achieve that, the CBCG could prepare messages based on its key contents and publications with a simpler language with the help of illustrations to access a broader audience. In addition, the CBCG could conduct regular surveys to continue assessing public literacy on CBCG topics, which could further inform communication improvements. Ongoing initiatives with children, youth, and academics should continue to foster education. Finally, the key reports—such as the FSR—should also be more advertised to the targeted audience via several channels, highlighting its key findings. Given its relevance and alignment with the CBCG's objective and mandate, the CBCG should consider publish it more frequently than once a year.

## Confidentiality

**38. The CBCG has a confidentiality framework, stemming from the Constitution and further established by law.** A dedicated section on the CBCG’s website provides an overview of the institutional arrangements on access to information and possible exceptions as a result of the confidentiality of, for instance, the privacy of personal data and commercial secrets, as well as monetary and economic policy, are anchored in the Constitution of Montenegro (Article 51) and the national LFAI. The application of this law is ensured through the CBCG’s “Rulebook on Secrecy”—akin to a policy on confidentiality—and a guide on classification of information and a step-by-step procedure to obtain access. The framework also regulates matters related to collection and protection of personal data. That said, free access to information is not absolute and remains subject to limitations that are also regulated. Transparency around the rejection of access is suboptimal and the CBCG could consider publishing a statement with the reasons for rejecting a request for free access when deciding not to allow access to certain information, and in cases for which it estimates that there is a high level of public interest. In addition, high-level information about requests for access to information, including topics and statistics about the responses of the CBCG could be provided through a summary in the CAR.

## B. Pillars II, III, and IV. Transparency in Policies, Operations, and Outcome

### Monetary Policy

**39. The CBCG should articulate and disseminate a broad institutional policy strategy.** This implies reiterating its mandate focused on preserving financial stability and stressing that, in practice, it has no capacity to formulate monetary policy owing to the official euroization of the economy. The policy strategy should also explain its policy and operational framework as well as the toolkit it has at its disposal, which is not used for monetary policy purposes and, instead, helps to preserve financial stability. CBCG’s communication should build on this institutional strategy, stressing the limits imposed by euroization for having a meaningful monetary policy. This is particularly important for accountability purposes as the CBCG is not responsible for inflation developments, which fundamentally come from abroad.

#### Box 1. Montenegro: Central Bank Mandates in Euroized Economies

**The government of Montenegro has unilaterally decided to Euroize the economy.** Following hyperinflation in the 1980’s and 1990’s, Montenegro pegged the Dinar to the DM in December 1998. This was followed by the unofficial parallel circulation of these currencies until November 1999, when the DM was designated as legal tender in Montenegro alongside the Dinar. This lasted until January 2001 when the government of Montenegro first decided to introduce the DM as sole legal tender and then the Euro as sole legal tender in 2002.

**Box 1. Montenegro: Central Bank Mandates in Euroized Economies (concluded)**

**The following reflections explain in general terms how Euroization limits the scope of a central bank's mandate, including in Montenegro.** Because such a central bank does not issue its own currency, it cannot set interest rates to manage inflation or stimulate economic growth. Thus, an independent monetary policy is not possible and there is also only a limited possibility for the central bank to act as a LLR. This dependence on a foreign currency makes the economy vulnerable to external shocks and to policy decisions made by the issuing country. Against this backdrop, such a central bank law should assign the primary objective to the central bank to foster and maintain a stable financial system. The central bank's mandate to contribute to achieving and maintaining price stability should be understood as protecting the functioning of the payments system, strengthening banking supervision, and providing, to the extent possible, LLR assistance to credit institutions. Of course, the issuance of new domestic banknotes and coins is no longer possible within this context.

**The governance arrangements of a central bank should reflect its mandate.** For instance, the central bank decision-makers should have the relevant expertise to adequately implement the main objective of financial stability, and the decision-making bodies' structure, functions, and operational arrangements should be designed accordingly. Also, because seigniorage does not exist, and as monetary policy operations cannot generate income either, the central bank is limited in its income generation and an alternative to ensure its financial soundness is needed.

**Finally, as euroization is a monetary arrangement with specific characteristics, transparency is served by external stakeholders having a proper understanding of the limitations resulting from euroization for the central bank's mandate and governance.** In addition, to a clear explanation on the website, incorporating the principles elaborated here in the central bank's legal framework will maintain the credibility of the central bank and help to clarify the scope of the central bank's accountability.

Source: Economic Policy in Dollarized Economies with a Special Review of Montenegro, CBCG, Working Paper No. 1, 2004; Implementing Official Dollarization, L. Jácome and A. Lönnberg, IMF Working Paper No. 10/106, 2010 and Official Dollarization/Euroization: Motives, Features and Policy Implications of Current Cases, ECB Occasional Papers Series, No. 11/February 2004.

**Cross-Border Financial Flows and Foreign Exchange Administration**

**40. The CBCG should clarify its framework for potential exchange controls.** The Law on Foreign Current and Capital Operations stipulates that all current and capital transactions may be carried out freely by both residents and non-residents. The same law provides for the implementation of FX controls if capital movements seriously jeopardize or threaten to jeopardize Montenegro's monetary policy or financial stability. However, exchange controls are in principle not foreseen subsequent to an euroization and, a country that has chosen to unilaterally adopt a freely tradable foreign currency as legal tender will face significant policy and operational challenges if it tries to implement them.<sup>7</sup> The CBCG should be transparent about these challenges to prevent misunderstandings regarding the availability of exchange controls as a remedial measure.

<sup>7</sup> Even though, under the EU legal framework, member countries can impose temporary restrictions on cross-border transactions in certain circumstances, e.g., in balance of payment crisis"

## Foreign Exchange Reserve Management

**41. The CBCG's transparency practices for FX reserve management are reasonably well communicated but could benefit from further enhancements.** The CBCG Law defines the CBCG's objectives and eligible asset classes for its reserve management. The 'Decision on International Reserves Arrangements' (adopted by the Council) lists and defines the unidimensional risks to manage. However, key documents essential for ensuring an appropriate level of transparency regarding the framework are not published, inter alia, the investment guidelines and the Investment Committee (IC)'s Terms of Reference. The CAR discloses some information on some risks considered and some performance data. However, this document would gain from a more systematic presentation of: (i) all the risks; (ii) all the portfolios' performances (relative and absolute); and (iii) a relevant description of the prevailing market environment. Finally, the financial statements provide other information on the performance and unidimensional risks. Greater disclosure regarding the oversight framework and ex-post analysis of the investments and their risks, particularly the rationale behind the benchmark selection, could significantly enhance transparency.

## Financial Stability and Macprudential Policies

**42. The macroprudential policy framework published by the CBCG falls short of providing a comprehensive policy strategy that aims at preserving systemic financial stability in Montenegro.** While it explains what macroprudential policy is and how the different instruments relate to the macroprudential objectives, it does not place this framework in the context of Montenegro's economy. For instance, some of the CBCG's analysis associates macroprudential policy with inflation, like the 2022 CAR, where the analysis addresses the causes of inflation and contends that "the instruments of monetary and macroprudential policy in Montenegro would not produce sufficiently effective results in reducing retail prices." The need of providing a comprehensive macroprudential policy strategy is more important in a euroized economy, like Montenegro, because interest rates set by the ECB may at times place financial stability risks, which should be tackled through macroprudential policy measures.

**43. The CBCG should enhance the explanation to the public about the soundness of the financial system.** After the Governor of the CBCG attends Parliament following the submission of the FSR, this document is posted on the CBCG's website. However, because it is its flagship publication, the CBCG should disseminate more widely its main findings, in particular the risks to financial stability, as well as the outlook and possible policy corrective actions if needed.

**44. The CBCG could usefully conduct ex-post evaluations of macroprudential policies and disclose the results, hinting possible adjustments if necessary.** Macroprudential policy, like other economic policies, is not exempt from potential costs, especially because decisions are often taken when the economy is growing and in situations which credit would be increasing at a rapid pace. In this environment, macroprudential policy may hamper the development of the financial system and the provision of services to the rest of the economy, thus hindering economic growth. Assessing the impact of policy decisions is thus warranted to minimize unintended costs. There is a burgeoning literature on macroprudential policy evaluation conducted by the BIS, ECB, IMF, and several central

banks that the CBCG could use as a reference.<sup>8</sup> Building on this analysis, the CBCG could disseminate the main takeaways.

### Emergency Liquidity Assistance

**45. The CBCG's ELA framework is well communicated.** The CBCG Law does not allow market-wide liquidity provision. On the other hand, Article 16 of the same law authorizes bank-specific lending. The different instruments available to provide credit to banks are detailed in a policy document as well as some of the ELA's operational specificities. The CBCG is preparing a manual for publication on its website to cover all operational aspects of the ELA. The framework omits to consider and communicate the CBCG's limited capacity to extend ELA due to the fact that it is euroized; this ELA capacity would be influenced by the CBCG's financial soundness. This blind spot could accentuate a crisis if stakeholders were not initially aware that even legitimate requests for discretionary ELA could not be entertained in specific cases.

### Financial Integrity

**46. The CBCG discloses information relating to its policies and powers supporting its AML/CFT supervisory function, but additional transparency is needed with respect to the processes and outcomes of its supervisory efforts.** The CBCG supervises the implementation of AML/CFT measures across banks and NBFIs. The CBCG exercises its supervisory powers through the AML/CFT Directorate and details on its general activities are available on the CBCG website. However, updated information on resource allocation is not publicly accessible, limiting insight into how CBCG allocates human and technical resources to AML/CFT supervision. The CBCG publishes information on supervisory sanctions within the CAR cumulatively by type of measure imposed, as well as remedial actions and implementation progress by providing information on follow-up inspections, it does not publish information on the names of sanctioned entities, details of the contraventions, and implementation progress. In mitigation, the new AML/CFT law which came into effect in 2024 widens the scope of sanctions disclosures and provides for case-by-case exceptions particularly where publication jeopardizes the stability of financial markets or an on-going investigation.

**47. Although the CBCG publishes general guidance on its AML/CFT policies and provides guidance on implementing risk analysis, there is a notable lack of disclosure regarding the effectiveness of preventive measures applied by the private sector as the results of the supervisory-level AML/CFT sectoral risk assessment are not published.** The number of completed onsite inspections is disclosed in the CAR without articulating the actual completion rate based on the number of planned inspections, notwithstanding a 100 percent completion rate factually during recent years. Information regarding the outcomes of offsite assessments, and related

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<sup>8</sup> See Jácome, L. I., & Mitra, S. (2015). LTV and DTI Limits - Going Granular. IMF Working Paper No. 15/154, International Monetary Fund. This paper, published in July 2015 highlights practical methodologies for evaluating macroprudential measures and contributes to the broader literature on policy evaluation.



analysis, is not disclosed. While names of supervised entities are disclosed on the CBCG website, information regarding cross border activity is not available.

**48. The CBCG's internal AML/CFT control framework related to its activities that could give rise to ML/TF activities is not disclosed.** The CBCG is exposed to such risks in respect to multiple functions, including its payment services and reserve management activities, and the Financial and Banking Operations Department applies measures to mitigate ML/TF risks. However, these measures are not disclosed. While the CBCG Law does not provision for this level of internal oversight, the CBCG should consider disclosing its internal AML/CFT control activities, their oversight and accountability within the organizational structure, and the human and technical resources allocated to perform the functions. Following the establishment of such a function, the CBCG would be able to improve transparency of its AML/CFT oversight by publishing information of the AML/CFT internal framework and periodically reporting on the results of the control activities.

### Consumer Protection

**49. Transparency related to CBCG's framework for consumer protection is adequate and minor improvements should be considered.** Consumer protection policies and processes are largely disclosed on the CBCG's website, which includes a dedicated page for financial consumers' rights and obligations. In addition to applicable legislation, the page includes relevant information for consumers before concluding agreements, guidance on submitting complaints, and an annually updated list of effective interest rates offered by credit institutions. Outcomes of the CBCG's consumer protection operations are reported annually in the CAR, including details and statistics on inspection outcomes, sanctions, and complaints handling. CBCG could enhance the consumer protection transparency by: (i) disclosing the names of sanctioned entities; (ii) publishing additional guidance on methods of out-of-court dispute resolution before relevant arbitration bodies; and (iii) explaining the CBCG's role in the Central Consumer Protection Information System.

## C. Pillar V. Transparency in Official Relations

**50.** While the CBCG discloses its relationship with domestic and foreign financial institutions, as well as with semi-public entities, there is still room for improvement, in particular with respect to the government. For instance, the confidential character of the Agreement between the CBCG and the MOF, by which the CBCG performs the duties of banker, depository, and fiscal agent, as well as the tariff that is calculated for the services rendered, should be reviewed to make public this information, thus enhancing the transparency of the relationship between the CBCG and the government.

## D. Quantitative Insights for Transparency Practices

**51. The CBCG should enhance its communication channels by tailoring messages to different target audiences and prioritizing more press releases that highlight key publications and main findings.** This would underscore the CBCG's efforts to fulfill its mandate and provide timely updates on the economy's status. The CBCG utilizes a diverse range of communication channels to engage with the public, ensuring broad outreach. Recently, the CBCG has also increased



its presence on social media, an initiative that is encouraged to expand further in order to attract more followers and foster greater engagement across all platforms, thereby strengthening its connection with the public. Additional initiatives are encouraged to attract more followers and engagement in all platforms. They include for example, engaging in communication for the broad public regarding its core messages, objectives and functions using simplified language, visuals, explainers and dashboards to enhance accessibility.

**52. For the first time, the IMF, in collaboration with the CBCG, conducted a survey targeting households in Montenegro, which provided insights about the public understanding about the central bank and helped to predict their behavior regarding CBCG's public and educational initiatives.** Based on the data from the survey, indexes to evaluate the audience's awareness and knowledge gaps were created, which are useful to evaluate the effectiveness of the CBCG's engagement in enhancing the literacy of the audience once it is repeatedly conducted over time. In addition, econometric method allowed the prediction of public behavior regarding central bank initiatives. While there is a reasonable understanding of the CBCG's core functions, misconceptions about its objectives remain, with nearly 50 percent of respondents exhibiting low or very low awareness. A key challenge for the CBCG is to engage those who are less informed, less aware, and have lower levels of education in consultations and discussions. In contrast, individuals with higher education levels, greater confidence in their knowledge, and more awareness are more likely to participate in CBCG-organized consultations and discussions.

## QUANTITATIVE INSIGHTS FOR TRANSPARENCY PRACTICES

**53. Data driven analyses are crucial for enhancing transparency practices within the CBCG's communications strategy, which is currently under development.** By leveraging data-driven analysis, the CBCG can better understand audience interests, identify the most popular topics, and tailor its messages accordingly. In addition, other insights allow for the assessment of the readability of reports, ensuring that they are accessible and comprehensible to a wider audience. Furthermore, analyzing the focus of press releases through quantitative metrics ensures that key economic and policy updates are prioritized and can resonate with stakeholders. Finally, surveys with the population further enrich this strategy, providing direct feedback on public perceptions, and insights to predict the audience's behavior for example towards the central bank's key initiatives, enabling the CBCG to fine-tune its communication methods and reinforce its commitment to transparency.

### Data Extraction and Analysis of Existing CBCG's Tools

**54. The CBCG employs a diverse set of communication channels to engage with the public.** The CBCG website has been the primary tool for communications, as it is the official portal for announcements, press releases, reports, data, and articles. The website is predominantly accessed by users in Montenegro, accounting for 69 percent of visits, followed by 17 percent from Serbia, 2 percent from Bosnia and Herzegovina, and 1 percent from Croatia, with the remainder spread

mainly across other European countries. Most visitors access the site via mobile devices (57 percent), while 42 percent use desktop computers, and the remaining users access the site through tablets. Most visitors are primarily seeking information related to exchange rates.<sup>9</sup> In addition to its website, the CBCG also engages with the media through interviews and by responding to inquiries. It is also involved in several projects aimed at promoting financial literacy with students of different age groups. Recently, the CBCG has increased its activity on social media, utilizing a variety of platforms to reach a wider audience.

**55. The CBCG would benefit from prioritizing more press releases broadcasting its key publications as well as its main findings, highlighting its effort to achieve its mandate and the providing up-to-date status of the economy.** Press releases and reports are vital communication tools for central banks, serving as official channels to disseminate timely and accurate information to the wide public, including media and stakeholders. Since 2010,<sup>10</sup> the volume of communications increased significantly, reaching 94 press releases in 2023 and 95 by September 2024 (see Figure 1). Over time, the primary areas of focus<sup>11</sup> of the CBCG press releases have been mainly focusing on international cooperation (33 percent) and public relations (24 percent)<sup>12</sup> and internal meetings (14 percent), mainly informing the public about Council meetings. The remaining topics are concentrated on the CBCG's decisions and key initiatives. Those are: announcements of measures to support the economy and financial sector (7 percent), decisions and ESG initiatives (6.5 percent), and clarifications and reiterating facts that are treated in a misleading way by the media (4.5 percent). In addition, the CBCG also promotes education and financial literacy through recognition and awards (3.4 percent) and engages in social campaigns, including donations (3.3 percent). Enhancing the dissemination of these topics rather than focusing mainly on public appearances on its press releases could enhance transparency and build public trust, allowing stakeholders to better understand its initiatives and their impact. Furthermore, it could help to promote financial literacy and engagement.

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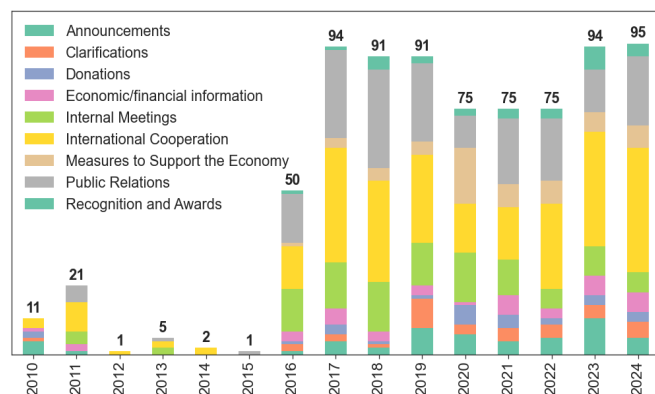
<sup>9</sup> The information regarding the accesses on the CBCG's websites are based on data collected and provided by the CBCG from May 2023 to August 2024.

<sup>10</sup> The analysis starts in 2010 due to data availability, however, the CBCG started publishing press releases on January 18, 2007.

<sup>11</sup> The topics were classified according to the title of the releases and not through an extensive revision of the content of the text. It is consistent with the assumption that the title of the press releases reflects what the CBCG wants to emphasize as the primary messaging. Therefore, it is important to mention that some press releases may cover multiple topics—for example, a press release on internal meetings also may contain information on economic support measures.

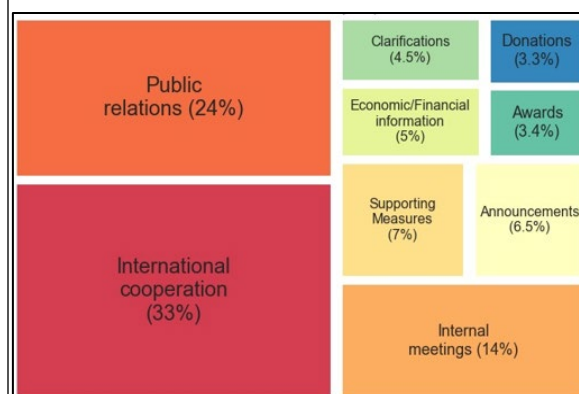
<sup>12</sup> These topics include respectively about: (i) meetings with external counterparts and joint collaboration between the CBCG and multilateral organizations and other central banks/governments; and (ii) engagements with regional counterparts and public initiatives such as conference announcements.

**Figure 1. Montenegro: Evolution of CBCG's Press Releases**



Source: CBCG and IMF staff calculations.

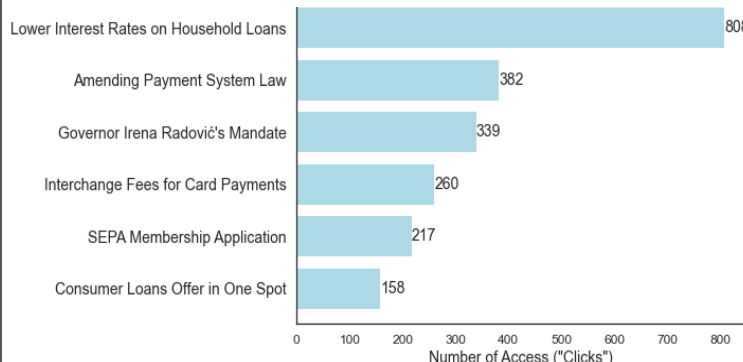
**Figure 2. Montenegro: Overall Focus of CBCG's Press Releases**



Source: CBCG and IMF staff calculations.

**56. The highest level of public engagement in press releases is centered around household financial relief, consumer-oriented policies, and financial initiatives, as they directly impact the broader public.** Figure 3 shows the rank of top 5 topics with the highest level of interest of all times by the public, measured by the number of access ("clicks"). Topics like measures to lower household loan interest rates, improving payment systems, and limiting interchange fees for card payments were the most accessed by the public, as they have a significant effect on the financial well-being of individuals and businesses alike. Maintaining transparency and providing regular updates on these topics not only keeps the public informed but also reinforces the CBCG's role in safeguarding financial stability and consumer protection, fostering a stronger relationship with the general public.

**Figure 3. Montenegro: Top Popular Topics by Public Interest**



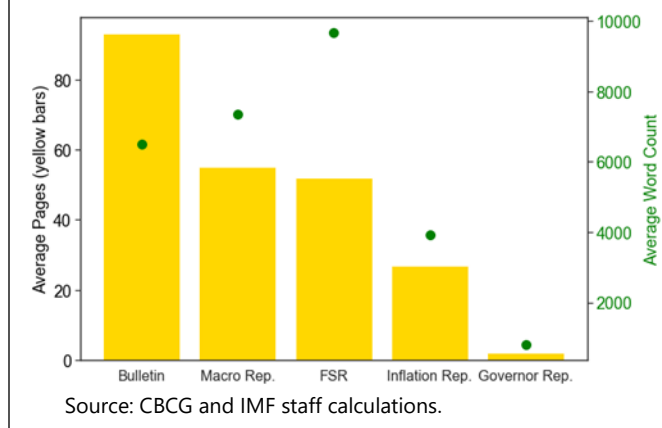
Source: CBCG and IMF.

**57. The CBCG has several publications of different frequencies with updates on the economic and financial situation, and the Financial Stability Report deserves greater emphasis given the CBCG's mandate.** Figure 4 shows some of the key publications (for a complete list, see item 1.7 of the detailed review). The CBCG Bulletin is historically the most extensive report, averaging over 80 pages and exceeding 10,000 words, published monthly. Since its reformulation in 2016, it was reduced from more than 120 to 58 pages, but considering it is a bilingual publication, it essentially has 29 pages.<sup>13</sup> The Macroeconomic Report (MR, quarterly) and the Financial Stability

<sup>13</sup> Additionally, it should be noted that out of the 58 pages, 28 are methodological explanations with links to statistical tables.

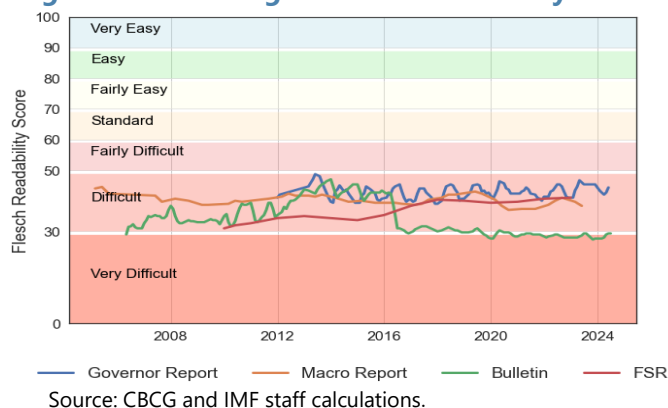
Report (FSR, annual) have similar page counts, around 60. The Inflation Report is shorter with moderate length, while the monthly Governor Report - which gives a brief overview of the CBCG's key activities and provides economic/financial data—is the briefest in both pages and word count. While the CBCG publishes relevant information regularly, the FSR, which is a key source of information aligned with the CBCG's goal of preserving financial stability, is published only once a year. In addition, its access remains low (172 in 2022, dropping to eight in 2023). Despite its importance, some stakeholders reported that they were unaware of its existence. To address this, the report should be published more frequently (at least twice a year) and actively disseminated with key messages in an accessible language to raise awareness and interest among stakeholders and the public, informing them by the main risks and CBCG's measures.

**Figure 4. Montenegro: Information on Key CBCG Publications (Average Over Time)**



**58. Transparency in reports goes beyond simply providing information; it requires the information to be clear and accessible.** Complex or overly detailed reports may obscure important points, making it harder for readers to understand. Therefore, clear communication is essential for ensuring that transparency serves its purpose. To access the level of complexity, the Flesch Readability Ease Score<sup>14</sup> is applied in key publications. As shown in Figure 5, all reports fall in the “Difficult” category.<sup>15</sup> The overall result is not surprising, as the content of the reports is mainly focused on economic and financial topics, which demand a certain level of expertise to comprehend. The CBCG could enhance accessibility to other segments of its audience by translating key messages into simpler language in separate versions for broadcasting, considering using illustrations and dashboards to better engage a broader audience.

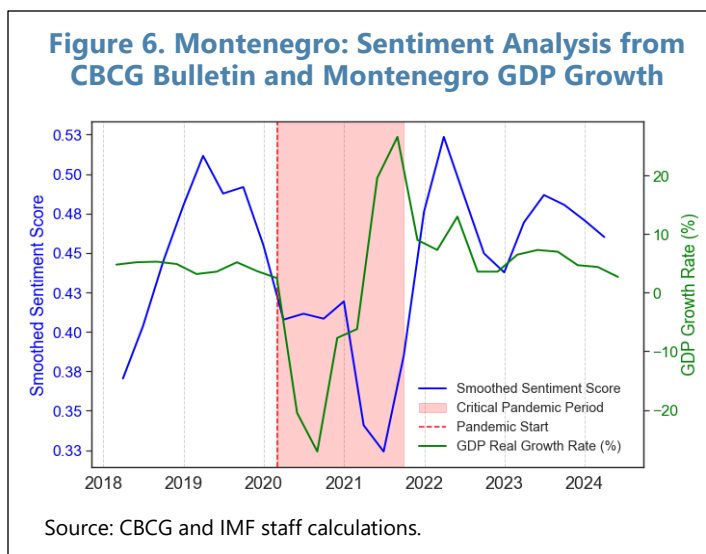
**Figure 5. Montenegro: Flesch Readability Ease**



<sup>14</sup> Flesch, Rudolf. "A New Readability Yardstick." *Journal of Applied Psychology*, vol. 32, no. 3, 1948, pp. 221-233. Note that this score captures only lexical features of the language and not semantical meaning.

<sup>15</sup> The Bulletin was reformulated and shortened in 2016, and the index indicates that the report became more difficult to read after this change. This result was likely obtained because the annex, which includes the methodology intended for researchers and specialists in this field, was also taken into account by software assessment.

**59. Central Bank reports are a useful source for conducting sentiment analysis on economic language, however, they are most effective when forward looking, which is not the case for most of CBCG's publications.** Through the application of Natural Language Processing (NLP) tools, it is possible to extract insights and gauge the overall tone and sentiment of the reports. Figure 6 shows the application of a methodology developed by the Federal Reserve's Sentiment Analysis<sup>16</sup> on the CBCG Bulletin and its comparison with the quarterly GDP growth. This report was chosen because its higher word count and more frequent publication provide a larger dataset compared to the others. The chart demonstrates that the sentiment index provides a backward-looking analysis, where sentiment scores consistently reflect the conditions of previous months. This reporting delay accounts for the observed lag between sentiment and real GDP growth, especially during volatile periods like the COVID-19 pandemic. For example, while the sharp GDP contraction in early 2020 captures the immediate economic impact, sentiment reacts more slowly due to the reporting delay. This indicates that the index accurately captures sentiment, although with a noticeable lag. Although the concept of the Bulletin is to report on conjectural recent past economic events, the CBCG publications in general would benefit from more forward-looking insights regarding the economy. That is helpful to manage market sentiment and expectations, fostering greater confidence among investors, businesses, and consumers. In addition, it can be useful to identify and address potential risks before they materialize, promoting financial stability and enhancing the effectiveness of their policy measures.



**60. Recently, the CBCG started to engage actively in social media, and additional initiatives are encouraged to attract more followers and engagement in all platforms.** The CBCG first established an account in Facebook in August 2021 and in X, Instagram and LinkedIn since December 2023. The CBCG has the highest followers on LinkedIn (close to 3000), and they consist mostly of professionals in the banking industry (25 percent), financial services (8 percent), government administration (7 percent), IT services and consulting (4 percent), followed by small numbers segregated in other related industries. The CBCG also regularly launches videos on YouTube and engages in TV campaigns. Figure 7 shows the cumulative growth of followers across three platforms—Facebook, Instagram, and X (given data availability)—over time. Facebook consistently maintains the highest number of followers, reaching close to 1,600 by September 2024. Despite X

<sup>16</sup> See Shapiro, Adam Hale, and Daniel J. Wilson. "Taking the Fed at its Word: Direct Estimation of Central Bank Objectives Using Text Analytics." *Federal Reserve Bank of San Francisco Working Paper Series*, 2019-02. Note that the index was converted to quarterly frequency and was smoothed through moving average.

being a widely used medium for sharing official updates and news, its follower count has only 300 followers, lagging behind Instagram (800 followers), which is typically associated with more casual or visual content. The relatively low number of followers across all platforms highlights the restricted reach of these social media channels.

**61. The CBCG can enhance its social media presence by creating engaging, audience-tailored content, such as infographics and videos, while fostering direct interaction through live sessions and monitoring trends to maintain transparent communication.** Figure 8 shows that

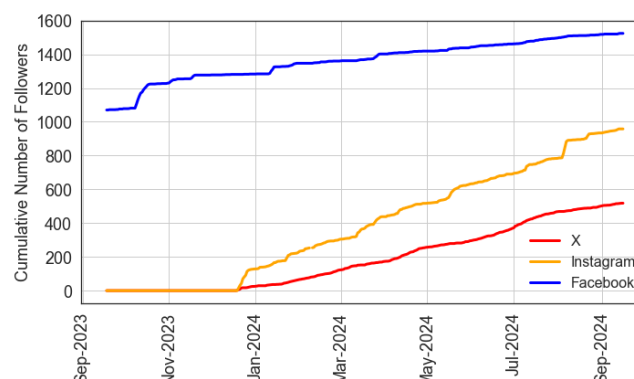
Facebook posts on practical measures and social initiatives attract the most followers, while Instagram sees more interaction with educational and environmental content. X remains the least engaged platform in this dataset. To enhance its presence on social media, the CBCG could create informative and engaging content tailored to the interests of diverse audiences, such as infographics or videos that explain its mandate, objective and economic indicators in simple terms. In particular, these tools could be paired with regular publications to increase accessibility and readability in the CBCG website,

summarizing the key insights of each report in an accessible way. Additionally, hosting live Q&A sessions or webinars can foster direct interaction with the public, allowing citizens to ask questions and gain insights in real-time. Collaborating with financial educators can also help broaden the bank's reach, making its messages more relatable and accessible. Lastly, actively monitoring social media trends and public sentiment will enable the central bank to respond promptly to concerns and maintain a transparent dialogue with the community.

## Household Survey for Montenegrin Citizens

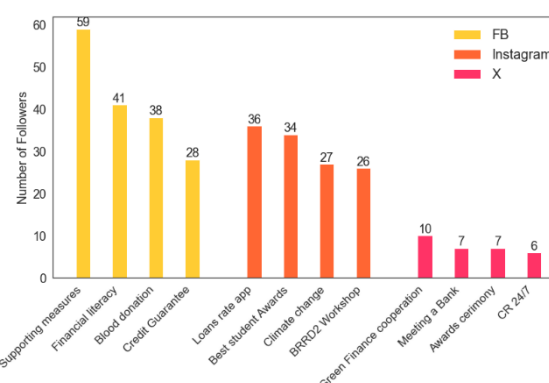
**62. Conducting a household survey about the CBCG's role and policies provides valuable insights into public awareness and perception regarding its key functions while also helping to predict audience behavior toward key CBCG initiatives.** By surveying not only financial, business, and academic communities but also households, the CBCG can gain a more complete understanding

**Figure 7. Montenegro: CBCG Followers on Social Media**



Source: CBCG and IMF staff calculations.

**Figure 8. Montenegro: Key Topics that Attracted the Most Followers**



Source: CBCG and IMF staff calculations.



of its effectiveness, fostering greater public trust and encouraging stronger engagement between the central bank and the wider population. This feedback helps the CBCG to refine their transparency, communication strategies, and ensures policies resonate with broader societal concerns, fostering a stronger relationship between the institution and the public. Importantly, highlighting the gaps in knowledge that can be addressed through improved communication can increase the trust and ultimately the credibility of the central bank. This is crucial as central bank policies are more effective when trusted. The data can also help to gauge insights on the public's behavior, when treated with appropriate econometric tools.

**63. For the first time, the IMF, in collaboration with the CBCG, conducted a survey targeting households in Montenegro featuring specific questions related to its central bank.**

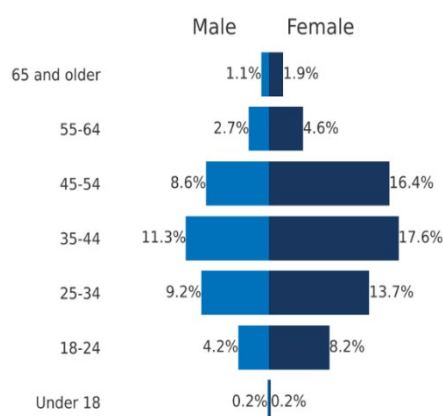
The primary goal of the survey is to gain a deeper understanding of the public's perception and knowledge of the CBCG. By collecting insights from the population, the CBCG can understand and address the knowledge gaps about its role, objectives, and its impact on Montenegro's citizens. Those are valuable insights for an effective communication strategy implementation. The survey was set up by the IMF and conducted online<sup>17</sup> through a link, which was widely promoted by media channels and the CBCG, including the use of a QR code for easy access (Figure 9). The survey was available for 7 days, during which 492 responses were collected. Of these, 298 were from females (62.5 percent), 178 from males (37.3 percent), 1 from a non-binary individual and 13 preferred not to reveal their gender. It was completely anonymous, and all responses were handled with the utmost confidentiality. Figure 10 displays age and gender, with the majority aged 35-44 and 45-54, and females generally more represented across all age groups given its higher participation. Figure 11 highlights the education levels of the participants, with most respondents holding a bachelor's or master's degree, while smaller numbers had a high school education, a doctorate, or other qualifications. It is important to mention that the short duration of the survey and the potential for limited outreach may have introduced some limitations, as a broader campaign across diverse social environments could be crucial in obtaining a more representative sample that better reflects the general population.

**Figure 9. Montenegro: QR Code to Household Survey**

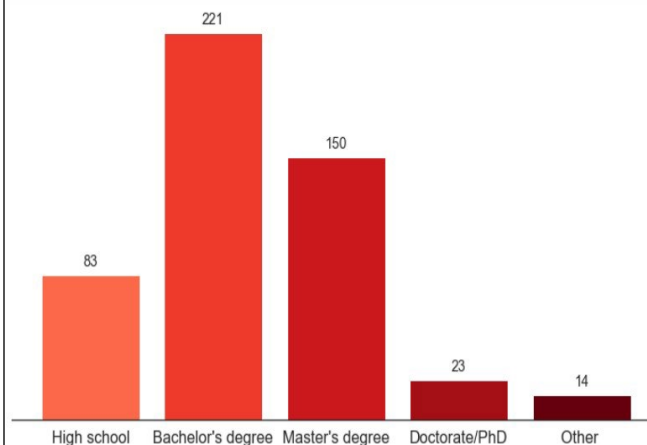


Source: IMF staff.

<sup>17</sup> Typically, surveys aimed at this type of audience are also conducted by phone to ensure broader population coverage, enhancing randomization. However, due to constraints, this approach was not feasible to implement.

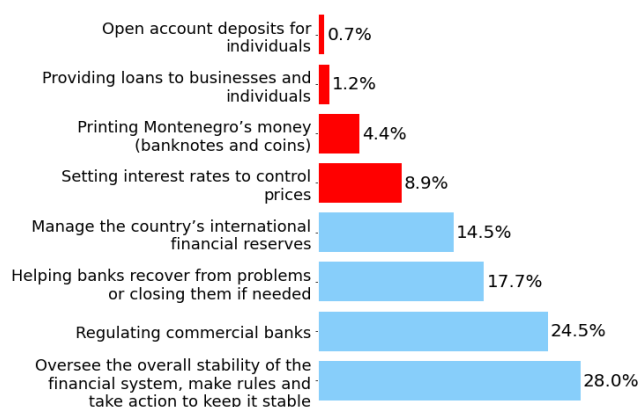
**Figure 10. Montenegro: Survey Participants: Age Group Profile**

Source: IMF staff calculations.

**Figure 11. Montenegro: Survey Participants by Level of Education**

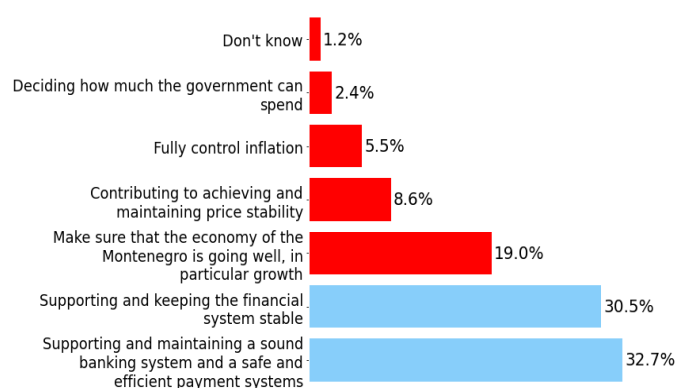
Source: IMF staff calculations.

**64. While there is a reasonable understanding of the CBCG's core functions, there is a need for further clarification to address misconceptions about its objectives.** The survey included two multiple choice questions asking what the participant believes to be the main CBCG's functions and objectives, shown respectively in Figures 12 and 13. Each bar represents the percentage of people who selected a particular answer as the correct function of the central bank. The red bars indicate incorrect answers, and the blue bars reflect correct responses. Figure 12 shows that a significant portion of the respondents correctly identified key functions such as overseeing the overall stability of the financial system (28 percent), regulating commercial banks (24.5 percent), and helping banks recover from problems (17.7 percent). However, there are notable misconceptions as well, with 4.4 percent of people mistakenly believing that printing Montenegro's money is a key responsibility, and 0.7 percent thinking the central bank opens deposit accounts for individuals—both shown in

**Figure 12. Montenegro: What are the Main CBCG's Functions?**

Source: IMF staff calculations.

Note: Red bars indicate wrong answers (or unknown, as it is the case of the first option in Figure 13).

**Figure 13. Montenegro: What are the Main CBCG's Objectives?**

Source: IMF staff calculations.

Note: Red bars indicate wrong answers (or unknown, as it is the case of the first option in Figure 13).

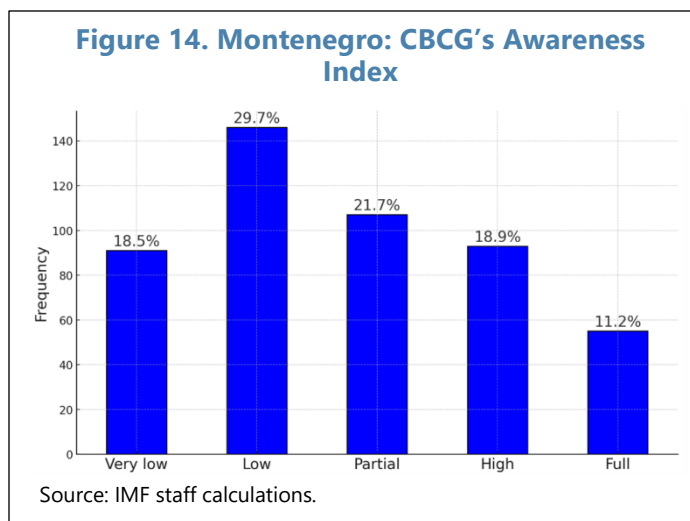


red. Figure 13 shows that many respondents accurately pointed out that supporting and maintaining a sound financial system (32.7 percent) and contributing to economic stability (30.5 percent) are central roles of the institution. On the other hand, 19 percent incorrectly thought that ensuring Montenegro's economic growth is a primary task of the central bank, and 2.4 percent believed that the CBCG is responsible for deciding how much the government can spend.

**65. Nearly 50 percent of the respondents exhibit low or very low awareness of the CBCG (Figure 14).** Based on the 14 answers for the two questions regarding the main CBCG's functions and objectives discussed above, an index measuring the awareness about the CBCG was developed. The index indicates that 31 percent of the participants have high or full awareness regarding the main functions and objectives of CBCG, while 21.7 percent have partial awareness and the remaining have low or very low awareness. This index is determined by the count of correct, incorrect, and omitted responses that participants were prompted to choose from, according to weights assigned to each option. It imposes a greater penalty for incorrect answers compared to omitted responses. The result is categorized as follows: a score of 85-100 percent indicates full, 60-84 percent indicates high, 40-59 percent indicates partial, 20-39 percent indicates low, and below 20 percent indicates very low awareness. Respondents' answers were evaluated based on the following formula:

$$\text{Awareness Score (\%)} = \left| \frac{\text{CorrectSelection} - (\text{Omissions} * \text{OP}) - (\text{IncorrectSelections} * \text{IP})}{\text{Total Correct Answers}} \right|$$

- **Correct Selections:** Number of correct options chosen by the respondent.
- **Omissions:** Number of correct options the respondent failed to select.
- **Incorrect Selections:** Number of false options incorrectly selected by the respondent.
- **Omission Penalty (OP):** A penalty of 0.1 points for each correct option omitted.
- **Incorrect Penalty (IP):** A penalty of 1 point for each false option incorrectly selected.

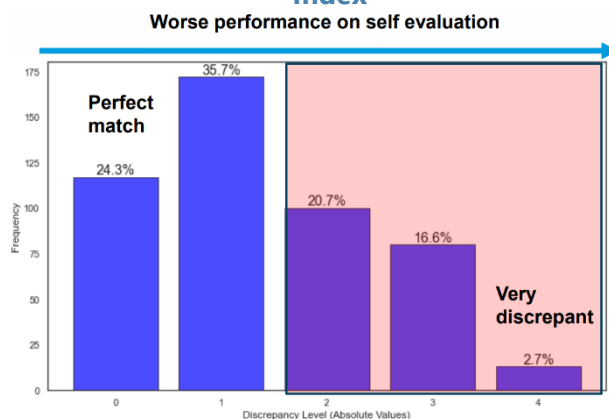


**66. Nearly half of the participants show a significant discrepancy between their self-assessed knowledge and their actual level of awareness of the CBCG's functions and objectives.** A Knowledge Gap Index was built to provide insights into how well individuals perceive their own understanding compared to their true level of knowledge (see Figure 15). The index is based on the absolute difference between a participant's self-assessed knowledge score based on a multiple-choice question "How would you rate your understanding of the role of the Central Bank of Montenegro?" (Figure 16) and their actual awareness score, based on the awareness index presented above. It is calculated based on the following formula:

$$\text{Knowledge Gap Level} = | \text{Selfassessed Score} - \text{Awareness Index Score} |$$

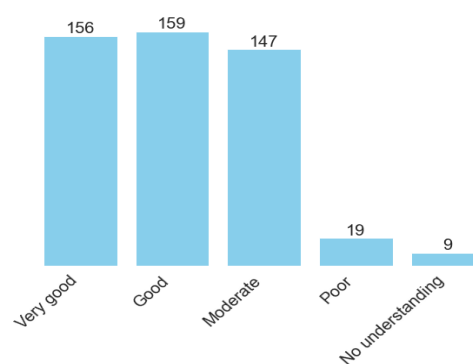
When the self-assessment aligns with the accuracy of the answers reflected in the awareness index, the discrepancy is low. However, when the self-assessment does not match, it indicates an under or overestimation of the participant's knowledge. The results show that 40 percent of participants have a significant gap between their perceived level of awareness and their actual level, with 66 percent of them overestimating their knowledge. This is relevant for the CBCG because a significant discrepancy between public perception and actual awareness can hinder effective communication. Addressing these gaps is crucial for ensuring that the public has accurate knowledge, which is essential for informed decision-making and fostering confidence in the central bank's actions. Most importantly, both indexes are valuable for evaluating how the population's knowledge evolves over time, especially if the survey is conducted multiple times in the future. This provides a great opportunity to assess the effectiveness of the communication strategy.

**Figure 15. Montenegro: CBCG's Knowledge Gap Index**



Source: IMF staff calculations.

**Figure 16. Montenegro: Self-awareness Evaluation (Number of Replies)**



Source: IMF staff calculations.

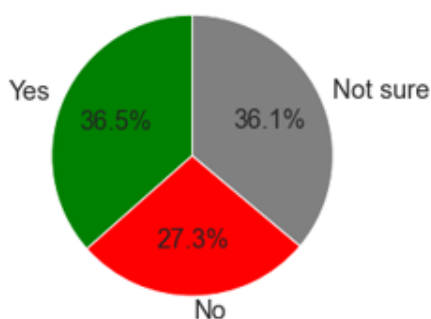
## Predicting Audience's Behavior Based on Survey's Data

**67. A major challenge for the CBCG is to capture the attention and encourage the engagement in consultations and discussions of those who are less informed, less aware, and have lower levels of education.** Based econometric tools such as multinomial logistic regressions, the data from the survey allows to derive insights about the behavior of different segments of the population regarding CBCG's initiatives. This information is valuable for tailoring and strengthening the CBCG's strategy to effectively achieve its objectives in these initiatives. Overall, individuals who are more informed, confident in their knowledge, and have higher levels of education are more likely to participate in consultations and public discussions organized by the CBCG (see Figure 17). Education is a strong predictor of participation, with individuals holding a PhD having the highest likelihood of engagement (66.7 percent), followed by those with a master's degree (39.3 percent), while high school diploma holders have the lowest (24.5 percent). Similarly, self-assessment of knowledge impacts participation, with those rating their knowledge as "Very Good" showing a 50.4 percent probability to participate in CBCG's events, compared to 23.7 percent for those who rated themselves as "Poor." Awareness levels also correlate with participation, as individuals with "High" awareness (44.5 percent) are much more likely to engage than those with "Very Low"

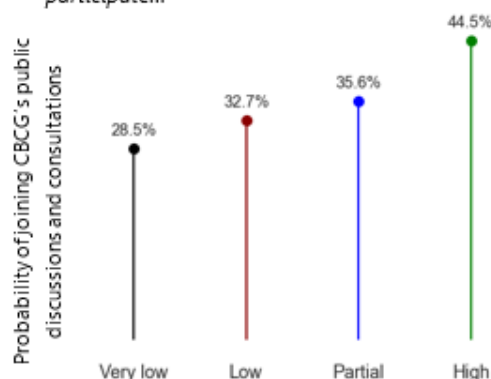
awareness (28.5 percent). Finally, younger individuals are more likely to engage. The 25-34 age group has the highest likelihood participation rate at 45.5 percent, while those above 55 have the lowest at 19.3 percent, suggesting that older individuals are less engaged. The CBCG could benefit from enhanced engagement by implementing targeted programs designed to clarify its roles and objectives, specifically for individuals who are less aware of the central bank's existence, along with other key factors identified as predictors of lower engagement. Furthermore, these findings could guide and inform the best strategies to engage in each social media platform according to each audience profile.

**Figure 17. Montenegro: Predictable Factors of Participation in CBCG's Public Discussions**

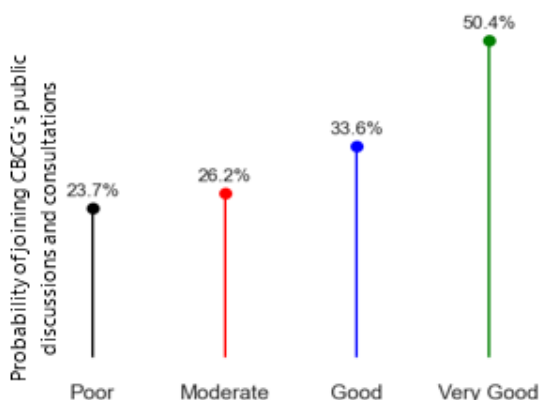
*The willingness to participate in CBCG's public events and consultations is nearly evenly distributed across the responses...*



*...however, those with lower levels of awareness regarding the CBCG functions and objectives are less likely to participate...*

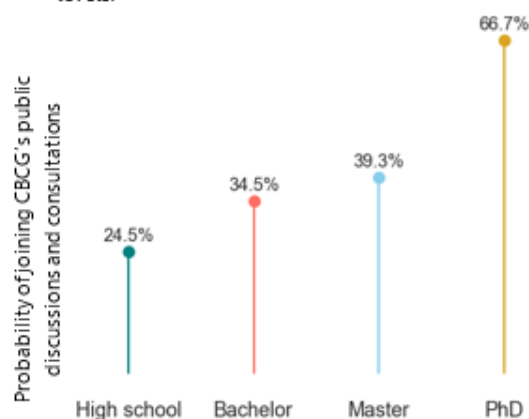


*...as well as those who perceive themselves to have limited knowledge about the CBCG...*



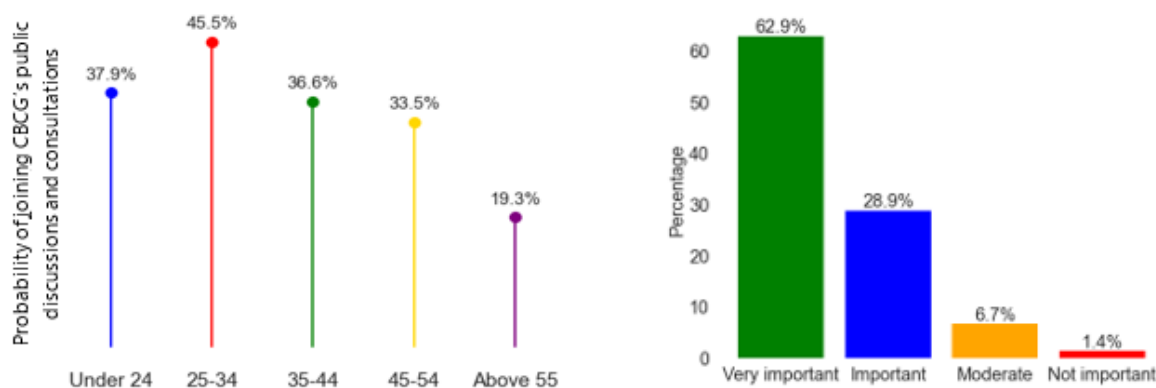
*Younger people are more likely to engage with CBCG...*

*...which also reflects on the probabilities across educational levels.*



*...and over 90 percent view educating the public about the CBCG as important or very important.*

**Figure 17. Montenegro: Predictable Factors of Participation in CBCG's Public Discussions**  
(concluded)



Source: IMF staff calculations.

## Box 2. Montenegro: Predicting the Participation of Individuals in CBCG's Public Discussions and Consultations

**Deriving probabilities for individuals' participation in CBCG's public discussions and consultations is useful because it offers insights to shape the CBCG's communication strategy.** While several approaches can be implemented for this purpose using survey's data, the multinomial logistic regression framework allows for a more flexible understanding of outcomes with more than two categories, which is particularly relevant when studying complex decisions like participation in public discussions. Including multiple predictor variables and comparing them to a reference category allows for more accurate predictions of participation tendencies. This approach helps in understanding how different groups—such as those with varying awareness levels or self-assessed knowledge—are more or less likely to participate.

**In the model applied in this report, the probability of falling into each participation outcomes are based on predictor variables, such as age, awareness, self-assessed knowledge level, and gender.** For this analysis, the dependent variable is multinomial encompassing the responses about the public's willingness to participate in CBCG's consultations and public discussions: "yes", "unsure" and "no" (used as the base outcome). Each category's probability  $P_{ik}$  is compared to the base outcome  $P_{i(k+1)}$ , allowing to assess how changes in predictors shift the odds of being in a particular category relative to the baseline.  $X_i'$  is vector of covariates (such as intercept, age, awareness, self-assessed knowledge, education, gender, etc.). The objective is to estimate the vector of unknown regression parameters  $\beta_k$ , which further enables the estimation of the probabilities.

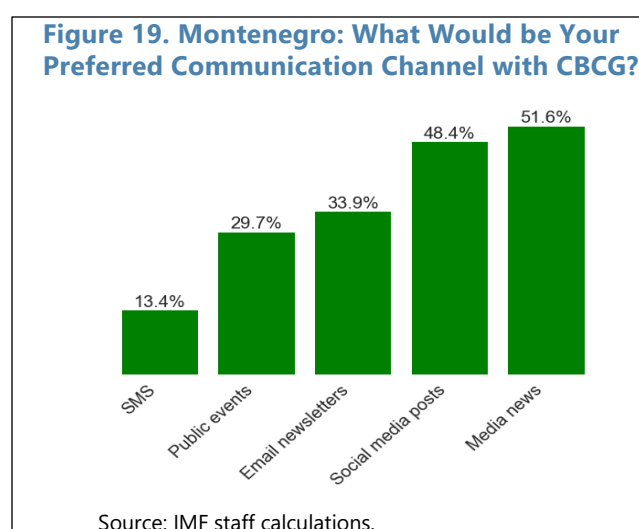
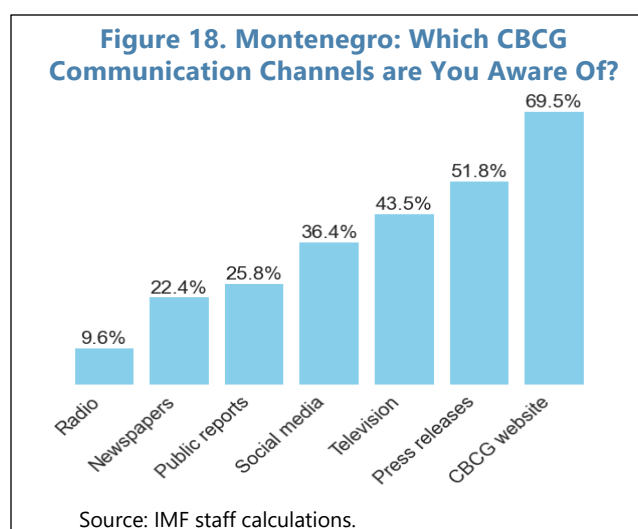
$$\text{Log} \left( \frac{P_{ik}}{P_{i(k+1)}} \right) = X_i' \beta_k, \quad k = 1, \dots, K$$

Source: Methods and Applications of Longitudinal Data Analysis by Xian Liu (1st Edition, 2015, Elsevier), ISBN: 9780128013427 (Hardback), ISBN: 9780128014820 (eBook).

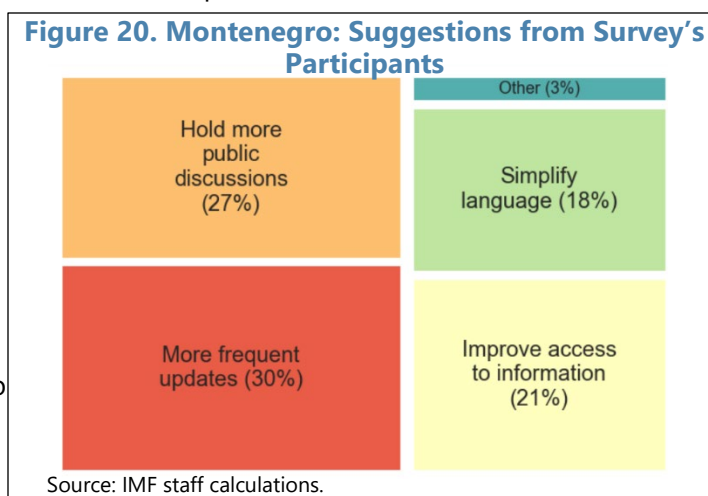
## Further Insights on Social Media and Suggestions from the Audience

**68. Although social media would be the preferred communication channel of the participants, it remains unfamiliar to them.** Figure 18 shows that the CBCG website is the most widely recognized communication channel, with 69.5 percent of respondents aware of it. This is

followed by press releases (51.8 percent) and television (43.5 percent), which also enjoy relatively high levels of awareness. On the other hand, radio, with only 9.6 percent, and newspapers (22.4 percent) seem to be the least recognized channels, suggesting a shift in public engagement from traditional media to more modern communication platforms. Figure 19 provides an overview of respondents' preferred communication channels with the CBCG. Interestingly, media news is the most preferred channel, with 51.6 percent of respondents selecting it. Social media posts and email newsletters also show significant preference rates at 48.4 percent and 33.9 percent, respectively. This indicates a growing trend toward digital communication methods. Meanwhile, channels such as SMS (13.4 percent) and public events (29.7 percent) are less favored, showing that respondents lean more toward indirect sources rather than direct or event-based communication. This highlights the importance of continuing to strengthen CBCG's digital and media presence to meet public preferences.



**69. Suggestions to improve the CBCG'S transparency reflect the public's desire for consistent and timely communication (Figure 20).** The most prominent recommendation, with 30 percent of respondents, is to provide more frequent updates. Additionally, 27 percent of respondents believe that holding more public discussions could enhance transparency, fostering greater engagement with the community. Improving access to information (21 percent) and simplifying the language used (18 percent) are also seen as important steps to make the content more understandable and accessible to a broader audience.



## AUTHORITIES' RESPONSE TO DETAILED REVIEW REPORT

The Central Bank of Montenegro (CBCG) expresses its sincere appreciation to the International Monetary Fund (IMF) for conducting the Central Bank Transparency Code Review (CBTR). We would also like to extend our gratitude to the authors of the Detailed Review Report for their thorough and systematic assessment of the CBCG's transparency practices.

The CBCG initiated this review with the goal of strengthening its transparency, enhancing accountability towards key stakeholders, and improving the efficiency and visibility of its policies.

As part of our ongoing commitment to enhancing transparency, the review of CBCG practices outlined in the CBTR further bolstered our efforts toward achieving this strategic objective. In addition to our regular internal assessments, we highly value feedback from external stakeholders and remain attentive to broader trends within the central banking community. This commitment made our participation in the CBTR review especially valuable, as it provided an opportunity for a diverse group of CBCG stakeholders to offer an objective evaluation of our transparency initiatives.

The CBCG requested a comprehensive review of its transparency in governance, policies, operations, outcomes, and official relations with government and other agencies to independently assess these areas. In the Detailed Review Report, the Mission stated that the CBCG is committed to open and transparent communications, and its website serves as the key communication tool with stakeholders, complemented by a variety of policy and analytical publications. It also noted that the CBCG discloses extensive economic information and analysis explaining current economic developments and projections as well as the stability of the financial sector. The assessment further observed the CBCG's dedication to transparency through clear communication practices, comprehensive financial disclosures, and the use of established audit mechanisms, as well as its commitment to openness and transparency across different aspects of its work.

The Detailed Review report also provides twelve Key Recommendations across the five mentioned pillars of the CBTR. The CBCG will carefully consider all recommendations to proceed with their implementation to further enhance the effectiveness of its transparency policies in the near term. Therefore, the Action Plan for implementing the recommendations is an integral part of the Report and outlines the responses and timelines for their execution.

CBCG welcomes the publication of the Detailed Review Report by the IMF Mission Team and acknowledges the valuable insights, findings, and recommendations provided. The insights from the IMF Review will play a pivotal role in guiding our continued improvements, ensuring our transparency policies align with international best practices.

The CBCG emphasizes that transparency is the foundation of trust between the central bank, its citizens, and stakeholders. We remain committed to continuously improving our practices to enhance accountability, efficiency, and openness, with a strong belief that the IMF's findings affirm

the institution's dedication and progress. The IMF's recommendations will serve as a valuable guide in the CBCG's ongoing development as a modern, responsible institution.

Finally, we would like to extend our gratitude to the members of the IMF Mission Team, who held productive meetings from September 11 to September 24, 2024, with the CBCG Council members, management, staff, and key stakeholders, including financial sector regulators, government agencies, the banking community, business associations, financial analysts, academia and the media. Their expertise, commitment, and professionalism in engaging with us have significantly contributed to the success of the Mission and to the depth and relevance of the findings in this Detailed Review Report.

CBCG: Proposed Action Plan			
CBT Review Recommendation	Central Bank's Response	Timeframe for Implementation	Technical Assistance Needed
<b>1. Further improve transparency on the CBCG's mandate as it relates to the unilateral euroization of Montenegro</b>	Additional explanation on unilateral euroization is published on CBCG's official website. See details in the attached document.	Implemented <a href="https://www.cbcg.me/en/core-functions/monetary-policy/euroisation">https://www.cbcg.me/en/core-functions/monetary-policy/euroisation</a>	
<b>2. Enhance the description of the CBCG's existing autonomy</b>	CBCG will enhance (i) the description of the CBCG's functional autonomy that emphasizes the prohibition of the State to approve CBCG decisions and (ii) the personal autonomy by including a link to the general act establishing the remuneration of CBCG Public Officials, as well as a link to the information on their assets and incomes that is available on the website of the Agency for Prevention of Corruption (APC).	Implemented (i) and partially implemented (ii) <a href="https://www.cbcg.me/en/about-us/history-goals-and-functions/cbcg-independence-and-transparency">https://www.cbcg.me/en/about-us/history-goals-and-functions/cbcg-independence-and-transparency</a>  <a href="https://www.cbcg.me/en/about-us/prevention-of-corruption-and-integrity-protection/prevention-of-corruption">https://www.cbcg.me/en/about-us/prevention-of-corruption-and-integrity-protection/prevention-of-corruption</a>	No
<b>3. Improve transparency on the CBCG's governance</b>	(i) The chapter/paragraph on external and internal audit arrangements as well as AC will be added in the Central Bank Activity Report for 2024, and will become a permanent part of the report.  (ii) information regarding the role of the 'Collegium	Near term (i)  Implemented (ii) <a href="https://www.cbcg.me/en/about-us/governance-management-and-organisation/management/collegium-of-the-governor">https://www.cbcg.me/en/about-us/governance-management-and-organisation/management/collegium-of-the-governor</a>	No



	of the Governor' is added on the CBCG's website		
<b>4. Going forward providing transparency on the need to align the CBCG's mandate</b>	CBCG has published additional information on the need to align the CBCG's mandate in the Constitution and the CBCG Law as envisaged in the ongoing EU accession negotiations. CBCG will continue to inform the public about it.	Implemented <a href="https://www.cbcg.me/en/about-us/history-goals-and-functions/objectives-and-functions/objectives">https://www.cbcg.me/en/about-us/history-goals-and-functions/objectives-and-functions/objectives</a>	
<b>5. Enhance transparency on risk management</b>	The CBCG will further enhance transparency in risk management by disclosing a high-level overview of key financial and non-financial risks, where permitted by confidentiality rules. This will include information on the processes, governance arrangements, and strategies for managing these risks. These additional disclosures, along with other emerging developments, will be made available in a dedicated risk management section of the CBCG Annual Report and on the website.	Near term	No
<b>6. Improve transparency on the accountability framework</b>	The chapter/paragraph on Internal Audit activity and AC in CAR will be added in Report for 2024, and will become a permanent part of the activity report.  In the "Financial performance of the Central Bank of	Near term	No

	<p>Montenegro" section of the Annual Report, three reports are presented: the Profit and Loss Account, the Balance Sheet and the Statement on Changes in Equity. According to the recommendation in the CAR for 2024, two additional financial statements will be included, namely: Statement of other comprehensive income and Statement of cash flow, as well as opinion by external auditors.</p> <p>In that way, full set of AFSs along with the audit opinion by the external auditors will be added in the CAR for 2024 and will become a permanent part of the annual activity report.</p>		
<b>7. The CBCG's anti-corruption framework could be made more transparent</b>	<p>On its official website, the CBCG has clarified in a more clearly manner the applicability of the Law on Prevention of Corruption (LPC) on CBCG Public Officials and staff. CBCG has also provided additional information to clarify the varying requirements between the Code of Ethics and the more demanding LPC.</p>	<p>Implemented</p> <p><a href="https://www.cbcg.me/en/about-us/prevention-of-corruption-and-integrity-protection/prevention-of-corruption">https://www.cbcg.me/en/about-us/prevention-of-corruption-and-integrity-protection/prevention-of-corruption</a></p>	
<b>8. Consolidate information on human capital</b>	<p>CBCG will consolidate information on the website related to human resources - including</p>	<p>Near term</p>	<p>No</p>

	details on employment and selection, employees, gender structure of employees, by education levels and leadership positions, and other related data.		
<b>9. Finalize the CBCG's strategic communications plan</b>	The CBCG started drafting the Communication Strategy. However, after reviewing the draft TCR report, we concluded that IMF technical assistance would be highly beneficial in this process.	Near/medium term (depending on TA)	Yes
<b>10. Enhance the FX reserves management framework's transparency</b>	<p>Work on new Decision on International Reserves Management is in progress.</p> <p>A section concerning financial risks and management of foreign reserves will be improved in accordance with the suggestions.</p> <p>The website will provide explanations on the governance in the process of management of foreign reserves, as well as IC TOR.</p>	Near term	No
<b>11. Improve transparency related to AML/CFT supervisory outcomes</b>	The Central Bank of Montenegro (CBCG) has already amended the AML/CFT Law, which was adopted on July 1, 2024, establishing a legal basis for the disclosure of information, allowing supervisors to start with implementation. With the	Near term	No

	new provision of the mentioned Law appropriate mechanism is defined which has to be used when deciding on the scope of information to be disclosed, taking into account relevant aspects that may have an impact.		
<b>12. Improve transparency related to AML/CFT supervisory processes</b>	CBCG has already prepared sanitized analysis of thematic inspections performed in this year, which will be published soon.	Near term	No

## Annex I. CBCG: Central Bank Transparency Code—Detailed Review

Central Bank Transparency Code—Detailed Review	
CBCG	
Pillar I—Central Bank Governance	
Principle 1.1.	Legal Structure: The central bank discloses its legal framework to the public in a manner that is clear and easily accessible.
Description	<p><b>Legal Framework:</b> The CBCG discloses its <a href="#">legal framework on its website</a>. This framework includes the Constitution, the <a href="#">CBCG Law</a>, as well as laws regulating the operations of credit institutions and other entities whose operations are regulated or controlled by the CBCG, such as the LCI, the Law on Resolution of Credit Institutions, the Bank Bankruptcy and Liquidation Law, the Payment System Law, the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations, and the AML/CFT Law. Other laws relevant for the CBCG – e.g., the FSC law, the Law on Official Statistics and Official Statistical System, the Law on Accounting, the Law on Auditing, the Labor Law, the LPDP, the Law on State Property and the Law on the SAIM are also published on the website. Other laws, such as the Laws on Administrative Procedure, and on the LPC, are only available in Montenegrin on the CBCG’s website.</p> <p>The CBCG’s Statute is a legal document that provides more details of general principles established in the CBCG Law. For example, it deals with central bank governance and operations as well as the rights and obligations of its employees, transparency and secrecy of information and data. The <a href="#">Statute</a> is published on the CBCG’s website as are the <a href="#">regulations</a> issued by the CBCG. The regulations are entitled “decisions” on the website. As per the CBCG Law the regulations are also published in the Official Gazette of Montenegro. The CBCG Law enables the CBCG to prepare draft laws related to the pursuit of its objectives and the exercise of its functions. Also, the Government is required to consult the CBCG on any draft law concerning the financial system, and which may affect the attainment of its objectives and the exercise of its functions; such draft laws are subject to the CBCG’s opinion. The Government shall submit the CBCG’s opinion to Parliament together with the proposal of the law.</p> <p><b>Legal Nature:</b> Article 143 of the Constitution provides that the CBCG is an independent organization responsible for monetary and financial stability and banking system operations. The CBCG Law states that the CBCG is a legal person with its registered office in Podgorica, and the CBCG’s initial capital is owned by the State. Moreover, the CBCG can autonomously acquire, manage, use and dispose of the state property required for the exercise of the CBCG’s statutory functions (as per Article 93c of the CBCG Law until Montenegro’s accession to the EU, the disposal of such property exceeding EUR 150.000.000 shall be decided by Parliament). It has all the powers necessary for the pursuit of its objectives.</p> <p><b>Legal Protection:</b> Article 83 of the CBCG Law, Article 241 of the LCI and Article 9 of the Law on the Resolution of Credit Institutions all provide identical legal protection to the CBCG, its Council members, employees and any person authorized by the CBCG to perform activities relating to the CBCG’s functions. Specifically, the CBCG and the aforementioned categories of persons are not liable for damages that have occurred during the performance of their duties in accordance with the CBCG Law and CBCG regulations, unless it is proven that a particular action has been performed deliberately, or as an act of gross negligence. The CBCG shall cover the costs of the aforementioned persons in court proceedings concerning the performance of their duties. The CBCG is subject to the jurisdiction of the courts, but administrative legal procedures do not suspend the applicability of CBCG decisions.</p>

Review	<p><i>Expanded</i></p> <p><b>Legal Framework:</b> The legal framework regulating the CBCG is published on its website. These legal documents are presented clearly and are easily accessible. However, the CBCG website does not contain links to the Constitution. A consolidated Decisions on the earlier introduction of the DM as legal tender are available but there is no subsequent legal decision on the introduction of the Euro as the sole legal tender in Montenegro. Other laws, such as the Laws on, Administrative Procedure, and on the LPC, are only available in Montenegrin on the CBCG's website. While the CBCG's information is primarily of interest to the domestic audience, providing translations of said laws will enhance the CBCG's transparency vis-à-vis external, international stakeholders. In addition, while the CBCG's Statute is available on the CBCG's website, the Rules of Procedure of the Council are absent.</p> <p>The CBCG Law contains two Chapters with provisions applicable to the CBCG (i) after Montenegro accedes to the EU, which means that the CBCG becomes a member of the ESCB (Chapter X.a), and (ii) subsequently after the CBCG becomes a member of the Eurosystem (Chapter X.b). Article 93c of the CBCG Law provides for the deferred application of these Chapters, while Article 94a of the CBCG Law repeals the relevant provisions after the deferred application of the respective Chapters enters into force. However, the numbering of the two Chapters is confusing (e.g., in Chapter X.a Article 87 b is followed by Article 87 v and then Article 87 g).</p> <p>Finally, the integrity of the CBCG Law is ensured by the provision enabling the CBCG to prepare draft laws related to the pursuit of its objectives and the exercise of its functions. Also, as noted, the Government shall submit the CBCG's opinion on draft laws concerning the financial sector to Parliament together with the proposal of the law. In general, the CBCG publishes these opinions in a timely manner.</p> <p><b>Legal Nature:</b> The legal nature of the CBCG is clear in the applicable legal framework and the website contains a detailed section discussing the evolution of the CBCG and its framework.</p> <p><b>Legal Protection:</b> the CBCG's legal protection is clearly laid down in the CBCG's legal framework but this is not explained on the website.</p>
Comments	<p>The CBCG's transparency with respect to its legal framework could be enhanced by including a link on its website to the Constitution, which is absent. In the absence of a legal decision on the introduction of the Euro the CBCG's website could briefly explain how the legality of the use of the Euro as legal tender is ensured. Also, those laws that are only available on the website in Montenegrin could also be provided in English to further enhance the CBCG's transparency, also vis-a-vis external, international stakeholders.</p> <p>As part of the development of the CBCG's communication strategy, the timely publication of its opinions on draft laws on the financial sector could be stressed.</p> <p>The numbering of the CBCG Law's Chapters that are applicable (i) after Montenegro accedes to the EU, respectively (ii) after the CBCG becomes a member of the Eurosystem, could be reviewed.</p>
<b>Principle 1.2.</b>	<p><b>Mandate:</b> The central bank discloses its mandate—including its objectives, functions, and legally defined powers—in a manner that is clear and easily accessible to the public.</p>
Description	<p>The CBCG's <a href="#">objectives and functions</a> are explained on its website.</p> <p><b>Objectives:</b> According to the Constitution of Montenegro, the CBCG is responsible for monetary and financial stability and the functioning of the banking system. In turn, Article 4 of the CBCG Law adds that the CBCG's primary objective is to foster and maintain financial system stability, including fostering and maintaining a sound banking system and safe and efficient payment systems. The CBCG Law also adds that the CBCG shall contribute to achieving and maintaining price stability. In addition, the CBCG Law provides that, without prejudice to pursuit of its objectives, the CBCG shall support the conduct of the Government's economic policy,</p>

	<p>acting in accordance with the principles of free and open market and freedom of entrepreneurship and competition.</p> <p>The CBCG's website explains this hierarchy and provides that <i>"Generally, the performance of all CBCG functions is directed towards the ultimate objective and that is the fostering of preservation of financial stability"</i>.</p> <p>The CBCG Law provides that as from the date of Montenegro's membership of the EU, the CBCG's primary objective shall be to maintain price stability. The CBCG shall, without prejudice to pursuing its primary objective, support the general economic policies of the EU with a view to contributing to the achievement of the objectives of the EU. The CBCG shall act in accordance with the principle of an open market economy with free competition and shall work on pursuing the objectives and exercising tasks of the in accordance with the provisions of the Treaty on European Union, the Statute of the ESCB and of the ECB, EU regulations, and provisions of the Law. This is also explained on the CBCG's website.</p> <p>However, Article 143 of the Constitution provides that the CBCG is responsible for monetary and financial stability as well as banking system operations. In other words, it does not include a hierarchy of the CBCG's objectives. The mission was informed by the CBCG that the second benchmark in Chapter 17 of the ongoing EU accession negotiations envisages that Montenegro will amend the Constitution to align CBCG objectives in these two documents.</p> <p><b>Functions:</b> The CBCG's core functions are listed in the Law; they are individually presented and explained on the CBCG's website. These core functions are:</p> <ul style="list-style-type: none"> <li>• Monetary policy,</li> <li>• Financial stability,</li> <li>• Regulation and supervision of credit institutions and other financial institutions,</li> <li>• Financial and banking operations, including the management of the official reserves of Montenegro,</li> <li>• Operation, regulation, supervision and oversight of the payment system,</li> <li>• Resolution of credit institutions,</li> <li>• Statistics and research,</li> <li>• AML/CFT Supervision and protection of consumers' rights.</li> </ul> <p>An explanation of financial stability – which is the CBCG's primary objective - is provided on the CBCG's website under <a href="#">key functions</a> with a <a href="#">specific link</a> relating to the role and activities of the Central Bank. The website explains that the CBCG employs <i>"different policy instruments for maintaining financial stability, micro-prudential policy instruments, as well as monetary policy instruments, whenever possible"</i> to achieve financial stability. The Law contains the CBCG's function to identify, analyze and assess the impact of "certain factors on the financial system as a whole". Article 44 of the CBCG Law adds that the Council's functions include (1) deciding on the introduction of safeguard and other measures in order to maintain the stability of the financial system as a whole and (2) defining a financial crisis management plan covering the areas of the CBCG's competence.</p> <p>The CBCG publishes an FSR once a year. The website explains the roles of other Montenegrin financial supervisors and it includes, as already noted under principle 1.1, a link to the FSC Law that has created a platform for consultation and exchange of information between the competent authorities on financial stability issues.</p> <p>The CBCG Law does not explicitly list the CBCG's macroprudential function, but this function is based on the financial stability mandate set out in Article 4 of the CBCG Law. The website also has a section on macro-prudential measures, which includes a link to the CBCG Macroprudential Policy</p>
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	<p>Framework. The same section contains a link to the LCI and explains that it is the legal basis for the introduction of capital buffers. The CBCG's Payment System Oversight Policy Framework is included in a link in the section on core functions/financial stability/payment system oversight.</p> <p>The CBCG Law and the CBCG website discuss the CBCG's monetary policy function. Article 15 of the CBCG Law includes the mandate to conduct open market operations, but the CBCG website explains that <i>"although the Law enables the CBCG to perform open market operations, this monetary policy instrument has not been used so far, since due to the sound banking sector and macroeconomic stability this instrument has not been needed"</i>. In addition, the CBCG Law allows the CBCG to impose minimum reserve requirements and decide on other (not defined) monetary policy measures and instruments. As already noted, the CBCG website contains links to all decisions; these include the Decision on open market operations (OGM 15/11)' and the 'Decision on reserve requirements of credit institutions (OGM 19/22)'.</p> <p>The CBCG Law mandates the CBCG to conduct credit operations. Article 16 of the CBCG Law allows loans to solvent credit institutions against interest rates higher than the prevailing rates in the market in Montenegro and against adequate collateral. The CBCG website explains that a 'Decision on detailed conditions for granting loans to credit institutions in case of their liquidity needs (OGM 82/17)' foresees three types of liquidity loans, namely: intraday liquidity loans, overnight liquidity loans and short-term ELA loans to solvent banks experiencing short-term liquidity difficulties. Article 34 of the Law on Resolution of Credit Institutions indicates that to remedy a serious disturbance in the economy and preserve financial stability, the CBCG can provide liquidity support to solvent institutions when backed by a state guarantee.</p> <p>In the section of the website where the CBCG's functions are listed, <a href="#">its functions after Montenegro's entry into the European Union</a>, respectively after the CBCG joins the Eurosystem are listed. As noted under principle 1.1, the CBCG has all the powers necessary for the pursuit of its objectives.</p> <p>The CAR contain detailed information on the implementation of the CBCG's core functions. The policies for achieving the CBCG's objectives and performing its functions are laid down in guidelines for planned activities. These policies are adopted annually at the end of the calendar year for the next year and are published on its website.</p>
Review	<p><i>Expanded</i></p> <p>The objectives and functions of the CBCG are clearly specified in the CBCG's legal framework. As noted, the legal framework is published on the CBCG's website and both the hierarchy of the CBCG's objectives and its objectives and core functions are discussed in a clear and easily accessible manner on the CBCG's website. In addition, the CARs are also published on the website.</p> <p>The published information clearly explains the objectives and functions of the CBCG, both prior to Montenegro's accession to the EU and after joining the EU. The website explains the CBCG's involvement in the EU negotiation process and that the CBCG is tasked with the negotiations relating to the free movement of capital, financial services and EMU, while it also contributes to the negotiations on statistics and protecting the euro from counterfeiting. As also discussed under principle 1.4, the CBCG has established an internal Coordination Body for Monitoring EU Negotiations within the CBCG's Competence.</p> <p>The Governor's reports include information on the meetings attended by the CBCG and the topics discussed with the EU authorities as part of Montenegro's accession process. In addition, press releases by the CBCG and the FSC update the general public after relevant meetings with EU authorities. Finally, the CAR includes information on the progress of these negotiations. Montenegro has unilaterally adopted the Euro as its official currency.</p>

	<p>The CBCG website notes that the CBCG conducts monetary policy in a specific foreign exchange regime and that it does not conduct an exchange rate policy. The <a href="#">CBCG's website</a> provides transparency on the pros and cons of euroization by publishing to a <a href="#">Working Paper on dollarized/euroized economies</a>. This publication explains that the policy choice of euroization implies a limited possibility of conducting an independent monetary policy and limits on the use of LLR.” However, while the CBCG’s website introduces the CBCG’s Decisions on open market and credit operations (with the Decision on credit operations covering ELA as well), this presentation is silent on these limitations resulting from the unilateral euroization of Montenegro.</p> <p>Hence, the limitations of Montenegro’s unilateral euroization for the implementation of the CBCG’s functions could benefit from – without creating any moral hazard expectations - a more general discussion on the CBCG website. See also box 1.</p>
Comments	<p>The CBCG’s website contains clear information on its objectives and core functions. However, as Montenegro has unilaterally adopted the Euro as its official currency, the limitations thereof for the implementation of the CBCG’s monetary policy and ELA functions could benefit from more discussion on the CBCG website.</p>
<b>Principle 1.3.</b>	<p><b>Autonomy:</b> The central bank discloses its autonomy—as defined in relevant legislation or regulations, allowing it to reveal the extent to which it is autonomous or not, in what forms, and under which conditions—in a manner that is clear and easily accessible for the public.</p>
<b>Principle 1.3.1.</b>	<p><b>Institutional/Operational Autonomy:</b> There is clarity on whether the central bank is prohibited from seeking or taking instructions from any private or public body. The extent to which the central bank’s autonomy varies for the various elements of its mandate is clearly disclosed. Where appropriate, a central bank’s governing law clarifies whether it has goal, or instrument autonomy concerning its various objectives.</p>
Description	<p>The CBCG’s website explains the CBCG’s operational/institutional autonomy.</p> <p>The Constitution of Montenegro stipulates that the CBCG is an independent organization responsible for monetary and financial stability and the functioning of the banking system. The CBCG Law explicitly prohibits the Government and other bodies and organizations and other persons from exerting any influence on the performance and decision-making of members of the CBCG bodies. Moreover, the CBCG, the members of its bodies and its employees shall be independent in the performance of their functions and their activities. They may not receive or seek any instruction from the Government and other bodies and organizations or any other entities.</p> <p>Also, the cooperation and exchange of information by the CBCG with the Government, other bodies and organizations will be without prejudice to its autonomy and independence.</p> <p>The CBCG Law prohibits the members of the Government, other bodies and organizations whose attendance might undermine the CBCG’s autonomy from attending meetings of the CBCG. The CBCG is subject to the jurisdiction of the courts, but administrative legal procedures do not suspend the applicability of CBCG decisions.</p> <p>Finally, Article 76a of the CBCG Law provides that the SAIM may not audit the CBCG’s pursuit of its objectives and the exercise of its functions. Acts and actions of the CBCG that are not related to the CBCG’s pursuit of its objectives and the exercise of its functions, can be audited by the SAIM in accordance with the ‘Law governing the SAIM’.</p> <p>The CBCG’s website contains a link to the Law on the SAIM, but it does not have a link to the - so far only audit in 2013 - of the CBCG by the SAIM. As per Article 94a, paragraph 1 of the Law, the mandate for the SAIM to audit the CBCG is limited in that it may not audit the CBCG’s pursuit of its objectives and the exercise of its functions. Article 94a will be repealed as of the day of Montenegro’s accession to the EU. The limited scope of the possible audits of the CBCG by the SAIM is not explained on the CBCG website.</p>

Review	<p><i>Comprehensive</i></p> <p>The CBCG Law clearly provides for the CBCG's operational/institutional autonomy. In addition, this is clearly explained in an easily accessible manner on the CBCG's website. However, the website does not have a link to the SAIM's one audit of the CBCG in 2013. Importantly, the limited scope of audits of the CBCG by the SAIM is not explained on the website of the CBCG.</p>
Comments	The clarity of the CBCG's website could be enhanced by providing a link to the SAIM's - so far only audit in 2013 - of the CBCG and also clearly explaining the limited scope of such audits by the SAIM.
<b>Principle 1.3.2.</b>	<b>Functional Autonomy:</b> There is clarity on whether the central bank can perform its duties without prior approval from the government.
Description	The CBCG Law provides that the Government, other bodies and organizations or any other entities are prohibited from approving, cancelling, annulling or in any other way affecting any decision within the CBCG's authority. The CBCG is given the power to autonomously acquire, manage, use and dispose of the state property required for the exercise of its functions, albeit that until Montenegro joins the EU, Parliament shall decide on the disposal of property more than EUR 150 million.
Review	<p><i>Core</i></p> <p>The Law clarifies the CBCG's functional autonomy. However, <a href="#">the discussion of functional autonomy on the website</a> focuses exclusively on the fact that the CBCG's objectives are laid down in the CBCG Law. This discussion could benefit from explaining that the Government, other bodies and organizations or any other entities are also clearly prohibited from approving, cancelling, annulling or in any other way affecting any decision within the CBCG's authority.</p>
Comments	Explain on the CBCG's website that the CBCG's functional autonomy is ensured by the prohibition in the CBCG Law for the Government, other bodies and organizations or any other entities to approve, cancel, annul or in any other way affect any decision within the CBCG's authority.
<b>Principle 1.3.3.</b>	<b>Personal Autonomy:</b> Whether there is security of tenure for the members of the central bank's decision-making bodies is clear, as is the nature of such security. In this respect, security of tenure encompasses the eligibility and disqualification criteria for the appointment of the members of a central bank's decision-making bodies, the appointment procedure, the dismissal criteria and procedure, their remuneration, and the duration of their tenure.
Description	<p>The CBCG Law contains a clear appointment procedure for CBCG Public Officials. The Governor is appointed by the Parliament, at the proposal of the President of Montenegro. The Governor shall be appointed for six years and serve no more than two consecutive terms of office. The Vice-Governors are nominated by the Governor and appointed by Parliament. There is no true double veto procedure for the appointment of the non-executive members of the Council as they are appointed by Parliament upon the proposal of the working body of Parliament responsible for economic affairs. The Vice-Governors and the non-executive members of the Council are appointed for a period of six years and may be reappointed to serve not more than two consecutive terms of office. The CBCG Law contains a cooling off procedure for former Council members; this prevents them from working in, or for a credit institution, or another entity subject to CBCG supervision, for a period of 12 months following the expiry of their term of office, unless approved by the Council. The CBCG's website explains this appointment procedure.</p> <p>A Council member can only be appointed if he/she meets the CBCG Law's eligibility criteria and incompatibility for appointment. The CBCG Law also provides the conditions and procedure for dismissal of a Council member. This includes the right to judicial protection in case of dismissal. In particular, a Council member can only be removed from office if: (1) he/she no longer fulfils the conditions for his/her appointment, or (2) he/she has been guilty of serious misconduct in the performance of his/her duty. The CBCG Law adds that a Council member may be relieved of</p>

	<p>duty at his/her personal request. After Montenegro's accession to the EU, a Council member can be relieved from office before the expiry of his/her term of office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct.</p> <p>The Council members must also adhere to the Code of Ethics provisions for them. The <a href="#">Code of Ethics for Council members</a> is available on the CBCG's website. The Council members are obliged to report their income and assets to the competent authority in accordance with the LPC.</p> <p>The CBCG Law provides that the Council members shall receive remuneration for their service to the Council. Article 60 of the CBCG Law adds that the remuneration of the Council's non-executive members as well as the salaries and other remunerations of the Governor and Vice-Governors shall be determined in a general act adopted by the Council and published in the central bank reports in line with the CBCG Law. Neither this legal act, nor the individual remuneration of CBCG public officials are published by the CBCG; instead, the CBCG's financial statements include the aggregate figure for this remuneration. However, the incomes and assets of CBCG Public Officials are published on the website of the APC.</p> <p>The CBCG's website provides details on the personal autonomy of the Council members: <a href="#">CBCG Independence and Transparency</a>.</p>
Review	<p><i>Expanded</i></p> <p>The details of the remuneration of all the Council members are available in aggregate form in the financial statements but individual information on the remuneration of CBCG Public Officials is not provided on the CBCG's website (but instead their incomes and assets are available on the website of the APC. The legal act on these remunerations is not published on the CBCG's website.</p>
Comments	<p>The CBCG could consider further enhancing the discussion of personal autonomy on its website by including a link on the CBCG's website to the website of the APC which contains details on the incomes and assets of all the Council members. The legal act on their remuneration could be published as well.</p>
<b>Principle 1.3.4.</b>	<p><b>Financial Autonomy:</b> The central bank's financial resources available to fulfill its mandate, and the nature of those resources, are clearly disclosed. In this respect, there is clarity regarding the central bank's capital, the rules governing any recapitalization of the central bank, its budget, reserves, provisions, profit distribution mechanism, monetary financing, and applicable accounting standards.</p>
Description	<p>Similar to other aspects of autonomy (detailed above), the <b>CBCG's website</b> provides a description of financial autonomy under the <a href="#">Financia Independence Principle</a>. It also provides for the alignment with the Statue of the ESCB and ECB as of the day of Montenegro's accession to the EU.</p> <p>The <b>CBCG Law</b> regulates issues that treat the concept of financial independence of the central bank, and enshrines the latter through the following provisions:</p> <ul style="list-style-type: none"> <li>• The Central Bank independently acquires, manages, uses and disposes of state assets for execution of the other functions established by law (Article 6);</li> <li>• The structure of the capital of the Central Bank, the amount of the basic capital, its ownership, the method of increase, as well as the structure and the method of using the reserves of the Central Bank (Articles 11 to 13);</li> <li>• Acquisition, management, use and disposal of property (Article 65);</li> <li>• The structure of income and expenditure (Articles 66 and 67);</li> <li>• The method of determining profit for distribution, the rule of profit distribution, as well as recapitalization-loss and deficit coverage (Articles 13, 68 to 70); The Central Bank prepares financial statements in accordance with International Accounting Standards and International Financial Reporting Standards. The CBCG also publishes its <a href="#">Rulebook-on-Accounting</a>.</li> <li>• The Central Bank plans its income and expenses in the Financial plan (akin to an annual budget), which is due until December 31 current year for the next year. The Financial plan, after adoption by the Council of the CBCG, is delivered to the Government and Parliament,</li> </ul>

	<p>for information purposes (Article 71). The Financial plan is published on the official website of the <a href="#">Parliament of Montenegro</a> as well as the website of the central bank under <a href="#">Financial Activities</a>. The plan should be considered in conjunction with the CBCG Policy for the Attainment of Objectives and the Exercising of Functions, which defines the guidelines for the main activities of the CBCG stemming from its obligations defined under the CBCG Law.</p> <ul style="list-style-type: none"> <li>• The CBCG is exempt from taxes, duties, and levies as the government bodies and organizations (Article 79).</li> <li>• The prohibition of lending (Article 43). Namely, the Central Bank may not, directly or indirectly, grant any loans to the Government, other government bodies and organizations, local self-government units, or any other persons owned by or in the majority ownership of the state or local self-government units. The central bank is also prohibited from buying securities issued by the state on the primary market, but it can only buy these securities on the secondary market. Finally, the CBCG Law does not foresee quasi-fiscal activities.</li> </ul> <p>Reflecting on its <a href="#">Financial Performance</a> in the 2022 CAR, the CBCG provides an overview of the key highlights that should be read in conjunction with the AFSs, including on management of the balance sheet, structure of income and expenses, as well as the profit distribution for the year.</p> <p>Disclosures about the bank's capital, General and special reserves, revaluation, and profit are detailed in the <a href="#">FY 2023 AFSs</a>.</p> <p>The financial autonomy of the CBCG is also reflected in the fact that the rights and obligations of employees in the CBCG are subject to general regulations on work, i.e. that earning and other rights, obligations and responsibilities of employees at the CBCG in the performance of work and tasks are more closely regulated by the Statute, and other general acts of the CBCG. The salaries of CBCG Public Officials, are regulated by a general act of the Council and declarations about their assets and expenditures are publicly disclosed on the official website of the <a href="#">APC</a>. Details about their actual remunerations are made public (and where), and the CBCG's website does not provide links to the act or the declarations (see above).</p>
Review	<p><u>Comprehensive</u></p> <p>The financial autonomy of the CBCG is clearly explained and explicitly articulated on the website, the specific provisions in the CBCG Law, the disclosure notes in financial statements, as well as the annual financial plan. This articulation would benefit from references to central bank recapitalization and prohibition of monetary financing.</p>
Comments	<p>Transparency could be enhanced if the explicit positioning and description of financial autonomy clearly includes references to existing statutory provisions on automatic recapitalization and the clear prohibition of monetary financing. Both aspects are important to strengthen the case for autonomy more broadly, and this will be especially beneficial to the general public to further appreciate the rationale for the same.</p>
<b>Principle 1.4.</b>	<p><b>Decision-Making Arrangement:</b> The central bank discloses a clear overview of the organizational structure or allocation of responsibilities to its decision-making bodies: policy making, day-to-day management, and internal oversight of the central bank.</p>
Description	<p><b>Decision-Making Bodies:</b> According to the Constitution of Montenegro, the CBCG is governed by the Council and managed by the Governor. This is repeated in Articles 44 and 45 of the CBCG Law. The Council consists of eight members, which include the Governor, three Vice-Governors and four non-executive members. The website discloses that apart from the</p>

	<p>Governor, the Council currently has two Vice-Governors and two non-executive members. The Governor chairs the meetings of the Council.</p> <p>The Council's functions, which are also described on the CBCG's website, include notably: (1) determining the policies of the CBCG regarding the execution of its functions and the pursuit of its objectives, (2) adopting regulations and other acts necessary for the exercise of the CBCG's mandate in accordance with the legal framework, (3) deciding on the use of monetary policy instruments and other measures, (4) deciding on the licensing and authorization, as well as their withdrawal with respect to entities supervised by the CBCG (including temporary administration measures for credit institutions), (5) deciding on the introduction of protective and other measures for the purpose of maintaining stability of the financial system as a whole, (6) adopting the CBCG's annual budget, CAR and approving other reports, (7) determining the investment strategy for the management of the official foreign reserves, (8) deciding on the distribution of profits, (9) establishing policies on operational risk management, information security and business continuity, (10) adopting the strategic and annual internal audit plan and adopting internal audit activity reports, (11), and appointing the independent external auditor and establishing the AC. The CBCG Law also enumerates the Council's functions once the CBCG has become a member of the Eurosystem.</p> <p>The CBCG Law and the Rules of Procedure regulate the Council's meetings, but while the CBCG informs the public on decisions taken by the Council, and also might notify the public on other issues discussed in Council meetings, not all (electronic) meetings have been communicated on the CBCG website. Council meetings are convened – and chaired – by the Governor and he/she shall also convene a meeting at a written request of three Council members.</p> <p>Meetings are to be held once a month, as a rule, but no less than ten times in a calendar year. Other persons, <i>except</i> members of the Government and other representatives of the Government bodies and organizations whose attendance at the meetings could undermine the independence of the CBCG, may be invited to attend the Council meetings, albeit without the right to vote. The Council may adopt decisions provided that at least five members of the Council attend the meeting. Decisions are taken by majority vote of the Council members, and the Governor has the casting vote in case of a tie. The Council adopts the rules of procedure to regulate in more detail the manner of the Council's work, but these are not available on the CBCG's website. The CBCG keeps minutes of the Council meetings, but neither the minutes, nor excerpts thereof, are published on the CBCG website. Instead, summaries of Council discussions and decisions adopted by it are published as press releases on the website.</p> <p>The Governor's functions, which are also listed on the CBCG's website, include (1) representing and acting on behalf of the CBCG, (2) organizing its work adopting general acts relating to the CBCG's internal operations and issuing instructions for the uniform application of the Council's regulations, (3) ensuring that the CBCG policy of and the Council decisions are implemented, (4) reporting to the Council at least ten times a year on the CBCG operations and policies, (5) reporting to the Council on macroeconomic and financial developments, including monetary, fiscal, financial and the balance of payments analyses, and financial system stability matters, (6) proposing policies, regulations, acts and other documents to the Council for decision, and (7) passing administrative decisions and acts regarding the entities supervised by the CBCG. The Governor's reports are published on the CBCG's website.</p> <p>The Governor chairs the FSC. Also, the Governor designates the Vice-Governor to replace him/her during his/her absence and the Governor may delegate some of the managerial tasks within his/her authority to the Vice-Governors. The Law provides that after Montenegro joins the EU, the Governor will become a member of the General Council of the ECB and – after a decision on the CBCG's participation in the Eurosystem – a member of the ECB's Governing Council. According to the CBCG Law, the Governor may delegate certain tasks within their jurisdiction to the Vice-Governors.</p>
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	<p>The framework for the delegation of powers in the CBCG is not explained on the CBCG website, but Article 8 of the CBCG's Statute, which is published on the CBCG's website, does clarify that the delegation of specific powers by the Governor to a Vice-Governor and/or another employee shall be in writing, and shall specify the scope, content and validity of the delegated powers. Article 26 of the Statute adds a provision on accountability regarding any delegated powers including the timely notification of the execution of delegated tasks. Information about the Council is published on the website, <a href="#">Governance</a>.</p> <p>The website includes the biographies of the Governor, Vice-Governors, and the Executive Director, but not of the non-executive Council members and <a href="#">Management</a>. The governance and management of the CBCG are further regulated by the Statute of the Central Bank, <a href="#">CBCG Statute</a>.</p> <p><b>Organizational Structure/Standing Bodies:</b> The <a href="#">CBCG's organizational structure</a> is published on its website. The Council has established the AC as a Standing Body of the Council. The AC (1) oversees and evaluates the functioning of the internal control system, (2) monitors and evaluates financial reporting, (3) provides opinions on the selection of an independent external auditor, (4) supervises and evaluates the audit process of the CBCG's financial statements, and (5) monitors and analyses the compliance of the CBCG's operations with the law, other regulations, and general acts. The composition and responsibilities of the AC are determined by the CBCG Law, and the scope and manner of its work are regulated by an act of the Council, which is published on the website, <a href="#">AC</a>.</p> <p>In accordance with the Law, the Council has also established the Advisory Committee as a Standing Body of the Council. This Committee provides recommendations to the Council regarding policies and other acts on which the Council decides or adopts. Information about the Advisory Committee is published on the website, <a href="#">Advisory Committee</a>.</p> <p><b>Committees:</b> In addition, pursuant to Article 44 of the CBCG Law, the CBCG has established a number of committees to enhance its operations. The CBCG's website discloses that these committees are expert working groups with an advisory role supporting the Governor. The following committees have been established:</p> <ul style="list-style-type: none"> <li>• Committee on Supervision and Resolution of Credit Institutions,</li> <li>• IC</li> <li>• Payment System Committee,</li> <li>• IT Committee,</li> <li>• Committee for Operational Risk, Information Security and BCM,</li> <li>• Committee of the Certification Authority of the CBCG,</li> <li>• <a href="#">Coordination Body for Monitoring EU Negotiations within the CBCG's Competence</a></li> </ul> <p>The <a href="#">functions of these committees</a> are discussed on the CBCG site.</p> <p>Finally, Article 28 of the Statute mentions the existence of the Collegium of the Governor. The Statute mentions that this body, which comprises the Governor and Vice-Governors, discusses issues "important for the undisturbed functioning" of the CBCG. This is very broad language and the Collegium's role is not properly explained on the CBCG's website.</p> <p><b>Strategic Planning:</b> The CBCG has recently conducted a SWOT analysis and is starting to conceptualize its strategic planning. As per Article 44,2,1 of the CBCG Law, the Council adopts the CBCG's policies for the next year. These policies are included as chapters in the CBCG's CARs, and they are also published separately as Policies for the Attainment of the Objectives and the Exercising of Functions; <a href="#">these are published on the website of the CBCG</a>.</p>
Review	<i>Expanded</i>



	<p>The CBCG's website contains detailed and easily accessible information about the Council and the CBCG's management. This information covers the work and decision-making processes within the CBCG, as well as its organizational structure or allocation of responsibilities to its decision-making bodies: policy making, day-to-day management, and internal oversight of the CBCG.</p> <p>The Governor's reports are published on the website and the CBCG's policies for the next year are also available on the website. The Rules of Procedure of the Council are available on the website. As regards the Collegium of the Governor, the language used in the Statute is very broad, and the role of the Governor's Collegium is not explained on the website.</p> <p>Also, the website includes the biographies of the Governor, Vice-Governors, and the Executive Director, but not of the non-executive Council members.</p> <p>Finally, while the CBCG publishes its policies and objectives for the coming year, these do not yet constitute a developed strategic planning. Hence, as the CBCG has only started to develop its strategic planning, the CBCG's website does not contain information on this.</p>
Comments	<p>The biographies of the Council's non-executive members could be published on the website. Also, the role of the Governor's Collegium could be clarified on the CBCG's website. Finally, the CBCG could provide information on its strategic planning as this is further developed and operationalized.</p>
<b>Principle 1.5.</b>	<p><b>Risk Management:</b> The central bank discloses the principal risks that it needs to take to meet its objectives (such as financial, operational, and legal risks), and the framework to manage these risks. This includes information on the risk governance structure and risk strategy.</p>
<b>Principle 1.5.1.</b>	<p><b>Risk Exposure:</b> The central bank discloses the principal risks that it needs to take to meet its objectives.</p>
Description	<p>The CBCG makes a distinction between operational risks and risks (credit, liquidity, interest rate, currency and operating) related to the international reserves management. A brief definition/description of the latter can be found on the website as part of the <a href="#">Decision on International Reserves Management</a> and a set of internal <a href="#">Guidelines for International Reserves Management</a> (not publicly available). These guidelines provide for managing the financial risks as well as exposure limits and deviations. However, the website is not explicit about the positioning of financial risks and has a narrow coverage of operational risks solely (see below).</p> <p>That said, financial risks and related exposures are partially covered in the CAR and disclosure notes in the AFSs, both published on the CBCG's website.</p> <ul style="list-style-type: none"> <li>The <a href="#">International Reserves Management section in the CAR</a> (FY 2022 published in English) mentions the division of international reserves by portfolio, currency structure, unaggregated generated returns by type of assets, as well as broad descriptions of financial risks of international reserves.</li> <li>Similarly, the disclosures under <a href="#">Note 4 Financial Instruments</a> in the AFSs provide some information with respect to CBCG's exposure to financial risks (credit, market and liquidity risk), measurement techniques, limits, and controls. Exposure levels by type of issuers, geographic regions and instruments are also given.</li> </ul> <p>With respect to non-financial (<b>operational, security, business continuity</b>) risks, disclosures relate to the following references:</p> <ul style="list-style-type: none"> <li><a href="#">The section on Risk Management in the function of policy pursuit in the CAR</a> makes the case for risk management as an important function for the effective implementation of CBCG objectives. The section is very brief and focused on operational risks, business continuity, and information security including developments to mitigate increasing risks from growing trends of cyberthreats.</li> </ul>

	<ul style="list-style-type: none"> <li>The disclosures under <a href="#">Note. 4.1 Risk Management</a> in the AFS include a very brief reference stating that “For operational risks, a unified framework for identification, monitoring, and reporting is defined at the bank level, while other risks are considered and monitored within the organizational units themselves”. The AFS also include a provision for operational risks, but no detailed disclosures are provided in this respect.</li> <li>An <a href="#">Operational Risk Management</a> section on the website of the CBCG provides an overview of the basic principles and methodological framework for management of operational risks at the central bank, as well as high level references to information security and business continuity as key risks. Within this context, special focus is made to information security-related risks, including cyber threats and breaches of personal data. While the mission was informed that following a recommendation from the 2021 safeguards assessment, the risk universe now includes “compliance risks” but this category of risk is not yet explicitly stated in the current disclosures.</li> </ul> <p>In addition to the above, the CBCG discloses its approach to <b>risks stemming from climate change</b> and expected to have implications for the financial system as well as the financial reporting practices for the central bank. In this connection, the activities of the CBCG against climate change are defined by the <a href="#">Policy on climate change challenges, adopted by the Central Bank Council on March 29, 2022</a>. This is also detailed in the disclosures under <a href="#">2.1. (c) Climate Change and the activities of the CBCG and impacts on Financial Reporting</a>. Also in its CAR, the CBCG states that “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.”</p>
Review	<p><u>Core</u></p> <p>The CBCG is lacking an institutional view on its risk exposures. It clearly discloses the level of, and developments in, financial risk exposures related to foreign reserves since financial risk management is mostly undertaken as an integral part of FRM. However, there are no explicit disclosures of high-level references to credit and market risks (along with exposure limits and risk tolerance parameters) since these are incorporated in the “Guidelines for FRM” – an internal reference. In addition, both the CAR and the website are silent about the other financial risks that are inherent to open market and lending operations. Furthermore, disclosures about the level of risk exposure to non-financial (operational and compliance) risks are very limited.</p> <p>While the mission was informed that the CBCG's total exposure to identified risks can be obtained through its institutional risk register, risk reports are classified as “confidential” and a high-level overview of the key risks mapped to the CBCG mandate is lacking.</p>
Comments	<p>The transparency arrangements underpinning the CBCG's risk management function should be strengthened by disclosing:</p> <ul style="list-style-type: none"> <li>A high-level overview of key risks clearly mapped to its mandate. An option for the CBCG is to provide this through a general risk statement (a separate chapter on risk management) that outlines the CBCG's stance on <u>all</u> risks.</li> <li>More complete information about risk exposures and limits related to financial risks management (see analysis and recommendations under principle 2.4 on Foreign Exchange Reserves Management).</li> </ul> <p>In this respect, a special section on the website dedicated to risk management (broader than the current narrow focus on operational risks) could be considered, as well as a similar section in the CAR.</p>
<b>Principle 1.5.2.</b>	<b>Risk Framework:</b> The central bank discloses the process for identifying financial and nonfinancial risks, the overall risk strategy, and the accompanying risk governance structure designed to monitor and evaluate risks effectively.
Description	<b>Financial risks:</b>

	<p>Article 20 of the CBCG Law prescribes the international reserves management in more detail, and Article 44 of the same law stipulates that the <i>Council establishes policies governing the operational risk management</i>.</p> <p>Also as indicated above, the '<u>Decision</u> on Foreign Reserves Management' and the respective <u>Guidelines</u> set out the institutional framework for the management of financial risks in the context of foreign exchange reserves management. The Decision is published, but not the Guidelines. While the governance structure and the division of responsibilities of the FRM process are implied in these references, there is no mention of a risk governance structure and the allocation of related responsibilities between the Council, Governor, and IC. In addition, management of financial risks is assumed by the Middle Office function, but there are no explicit disclosures about the same.</p> <p>With respect to non-financial risks, the CBCG Law (Article 44.16) stipulates that the <i>Council "determines policies that regulate the issues of:</i></p> <ul style="list-style-type: none"> <li>- <i>Operational Risk Management,</i></li> <li>- <i>information security, and</i></li> <li>- <i>ensuring the business continuity of the Central Bank".</i></li> </ul> <p>The CBCG's website provides an overview of the basic principles and methodology for management of operational risks, as well as the key aspects/principles related to management of <u>cybersecurity and business continuity risks</u>. However, none of the policies governing these risk dimensions is published (although these are not classified as confidential). Both the website and the CAR indicate that "(...) <i>system for operational risk, information security and BCM, appropriate to the standards and good practice in these areas within the framework of the ESCB and the ECB</i>". Also, it is stated that:</p> <ul style="list-style-type: none"> <li>• <i>[...]. The framework for managing non-financial risks in the CBCG is aligned with the latest international standards and good practice. Operational risk in the CBCG is managed in accordance with the Policy and Methodology, which are fully aligned with the Policy and Basic Principles of Operational Risk Management of the ECB (EUROSYSTEM/ESCB/SSM Operational risk management policy/ Operational risk management guiding principles) and ISO 31000 international quality standard.</i></li> <li>• <i>[...]. Information security management is determined by the Information Security Policy and Rules, as well as the Information Security Risk Management Methodology, which are aligned with international information security standards ISO/IEC 27000 series.</i></li> <li>• <i>[...]. Also, in case of unavailability of critical business functions, there is a framework for ensuring BCM of the Central Bank, which consists of the BCM Policy and Methodology, which are fully aligned with the Policy and Basic Principles of BCM of the ECB (EUROSYSTEM/ESCB/SSM BCM policy/ BCM guiding principles), as well as with the leading standard for BCM ISO 22301.</i></li> </ul>
Review	<p><u>Core</u></p> <p>Both the website and the CAR provide clear references to the frameworks governing financial and non-financial risk management. The website also provides a high-level overview of the tasks of the "<u>Committee for operational risk, information security and BCM - CBCG</u>". However, for both categories no disclosures on the full risk governance structure or the risk management process - important transparency dimensions.</p>

Comments	<p>Transparency around the risk management framework should be enhanced. In this respect, a broader section on the website dedicated to risk management could be considered, as well as a similar section in the CAR providing an overview of the risk management policy objectives and risk governance across the bank. In particular, additional disclosures should be provided with respect to:</p> <ul style="list-style-type: none"> <li>• Operational Risk Management Policy (given that the policy is not classified as confidential).</li> <li>• Description of institutional risk governance arrangements related to both financial and Non-financial risks. These would include a clear depiction of responsibilities among the governance bodies of the CBCG (i.e., Council, Governor) and other pertinent bodies such as the Executive Director and the various risk committees. Disclosures should include charters/regulations that define the roles and responsibilities of such committees.</li> </ul>
<b>Principle 1.6.</b>	<b>Accountability Framework:</b> The central bank discloses its accountability framework that provides transparency and reporting mechanisms to internal decision-making bodies, political institutions, and the general public.
<b>Principle 1.6.1.</b>	<b>Arrangements:</b> Accountability arrangements are clearly identified, including (i) internal and external audit arrangements and compliance; (ii) reporting to an AC or Board having an oversight responsibility; and (iii) the external publication of AFSs and CARs.
Description	<p>Articles 71-76a of the CBCG Law prescribe the accountability and reporting framework, including financial reporting, internal audit, external audit and external audit by the SAIM.</p> <p>The CBCG presents a framework of framework of accountability, transparency, and reporting lines featuring the following:</p> <p><a href="#">CAR</a></p> <p>The CBCG Law (Article 73) requires the CBCG to regularly, and in a timely manner, inform the public on the pursuit of its objectives and the exercise of its functions. As such, the CBCG is required to provide information on macroeconomic analysis, financial and monetary stability, monetary and credit trends, and the balance of payments. To that effect, the CBCG website includes: (1) the Governor's Reports, (2) the CAR, (3) the FSR, (4) the CBCG MR, (5) the IR, and (6) the International Financial Markets Report. Together, these reports are submitted in one bundle to Parliament for consideration. Finally, the CBCG's regulations and other acts passed by the Council in the course of the exercise of the CBCG's functions, are published in the Official Gazette of Montenegro (Article 44). They are also provided on the CBCG website.</p> <p><a href="#">AFSs with the Independent external Auditor's Report - CBCG.</a></p> <p>According to Articles 71 and 72 of the CBCG Law, by June 30 of a current year, the Council shall adopt the AFSs for the previous year, with the independent external auditor's opinion. The AFS are prepared in line with IFRS. These are published on the CBCG's website and submitted for information to Parliament (together with the opinion of the independent external auditor).</p> <p>The audit of the AFSs of the CBCG is performed by an independent external auditor who has international experience in auditing central banks. The external auditors are appointed by the Council (Article 76), on the basis of the procedures specified in the Law on Public Procurements and <a href="#">Guidelines for the selection of an independent external auditor - CBCG</a> adopted by the Council. The criteria for the selection of the external auditors state clearly that the external auditor is internationally recognized, and references to International Standards on Auditing (ISA) and IFRS are also explicitly stated in the audit opinion, and AFSs.</p> <p>The CBCG is also subject to audit by the <a href="#">Audit by the SAIM</a> in accordance with the law governing the state audit (Article 76a). In this connection, only the acts and actions of the CBCG that are not related to the pursuance of objectives and the exercise of functions of the CBCG can be audited by the SAIM. The last time SAIM audited the CBCG was in 2013.</p>

	<p><a href="#">Internal Audit</a></p> <p>The CBCG Law and the CBCG website are clear about the CBCG's internal audit function (Article 74). Internal audit performs ongoing and comprehensive monitoring of the CBCG's activities in accordance with the CBCG Law, the Internal Audit Charter and internationally accepted standards. The CBCG Law clearly establishes the roles and duties of an internal audit function and provides for explicit criteria for the appointment and dismissal of the Chief Internal Auditor by the Council. The Internal Audit Charter (approved by the Council and available online) defines the purpose, powers and responsibilities of the internal audit and chief internal auditor while general act regulates the manner of performing internal audit and reporting, in accordance with internationally accepted internal audit standards. In accordance with the Charter, Internal Audit is functionally independent and organizationally separated from other organizational units in the CBCG. The Chief Internal Auditor reports to the Governor (administrative reporting line), as well as to the AC and the Council of the Central Bank (functional reporting line). Article 9 of the Audit Charter provides that the effectiveness and efficiency of internal audit is monitored by the AC. However, Article 44, paragraph 2, item 16a of the CBCG Law adds that the Council passes the annual audit plan and adopts the internal audit activity reports.</p> <p><a href="#">AC</a></p> <p>The Law (Article 75) and the CBCG website are explicit and clear about the composition and role of the AC, as a standing body of the Council:</p> <ul style="list-style-type: none"> <li>• <i>The AC shall have three members, which shall not be full-time employees of the Central Bank, of which two members shall be members of the Council and one member shall be an expert with the relevant experience in the field of accounting or auditing.</i></li> <li>• <i>The AC shall oversee and evaluate the functioning of the internal controls system; monitor and evaluate financial reporting; give opinion on the appointment of independent external auditor, and monitor and assess the procedure of auditing of financial statements of the Central Bank, and monitor and analyze the compliance of the Central Bank's operations with the law, other regulations and general acts. The AC shall oversee the effectiveness and efficiency of the internal audit work.</i></li> </ul> <p>The Law indicates that the scope and method of work of the AC shall be regulated in more detail in a general act adopted by the Council, and that the AC shall pass its rules of procedures. The CBCG website contains such regulation under <a href="#">Rulebook on the work of the AC</a> and <a href="#">Rules of Procedure of the AC</a>.</p>
Review	<p><a href="#">Comprehensive</a></p> <p>While the accountability arrangements (i.e., external and internal audit, audit by the SAIM, and oversight by the AC) are explicitly provided for on the CBCG's website, an overview of such arrangements is lacking in the CAR and would benefit from a dedicated section in this respect.</p> <p>In addition, the limited scope of audits of the CBCG by the SAIM is not well explained on the website of the CBCG and there is no link to audit reports issued by the said institution.</p>
Comments	<p>Disclosures on the CBCG's accountability arrangements could be enhanced through:</p> <ul style="list-style-type: none"> <li>• Establishing a dedicated section in the CAR that describes external and internal audit mechanisms, including the references to international standards underpinning these arrangements, as well as the oversight by the AC (which could be placed in a separate section on governance arrangements).</li> </ul>

	<ul style="list-style-type: none"> <li>Providing a link on the CBCG's website to the SAIM's and clearly explaining the limited scope of such audits by the SAIM.</li> </ul> <p><i>See also analysis and recommendation under 1.3.1</i></p>
<b>Principle 1.6.2.</b>	<p><b>Tools:</b></p> <p><b>Independently AFSs:</b> The central bank discloses its auditing and accounting standards and compliance frameworks and gives the public sufficient information to assess and understand the central bank's financial performance, use of resources, and transactions with the government and other stakeholders.</p> <p><b>Internal Audit:</b> The central bank provides the public with information regarding its internal audit function, discloses its framework and compliance with the framework, and the scope of its responsibilities.</p> <p><b>AC:</b> It is clear whether an internal oversight body that reports to the Board exists, and which of the activities are published.</p>
Description	<p><a href="#">AFSs with the Independent external Auditor's Report</a></p> <p>The CBCG's AFS are in accordance with IFRS. AFSs with the opinion of the independent external auditor are adopted by the Council by June 30 of the current year for the previous year and are published within statutory deadlines. The AFSs of the CBCG for 2023, with the opinion of an independent auditor, was published on the website of the CBCG on April 15, 2024. (adopted by the Council on April 11, 2024).</p> <p>The <a href="#">Rulebook on Accounting - CBCG</a> adopted by the Governor as an internal act defines that the AFS is also published on the website within fifteen days from the date of adoption.</p> <p>The Notes to the Financial Statements (an integral part of the annual financial report) disclose significant accounting policies and accounting standards as well as frameworks for compliance and provide the public with sufficient information to assess and understand the financial performance of the central bank, the use of funds and transactions with the government and other stakeholders.</p> <p>The CBCG's "<b>Financial Performance</b>" section of the CAR provides detailed information and explanations related to the most important activities that led to the realization of income and the execution of expenses, the amount of the balance sheet and capital, cash flows and the overall financial position of the CBCG for the observed year.</p> <p><b>Internal Audit</b></p> <p>The website provides a clear description of the internal audit function and its mandate which is executed in conformity with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing (IPPF) and enshrined in the Charter approved by the Council. Conformity with the IPPF was ascertained through an external quality review conducted by the EQA team of the De Nederlandsche Bank in 2023.</p> <p><b>AC</b></p> <p>According to its Rulebook and Rules of Procedure, the AC of the Council <i>oversees and evaluates the functioning of the internal controls system; monitors and evaluates financial reporting; gives opinion on the appointment of independent external auditor, and monitors and assesses the procedure of auditing of financial statements of the Central Bank, and monitors the compliance of the central bank's operations with the law, other regulations and general acts.</i></p> <p>The AC reports on its activities to the Council on a quarterly basis and provides a <a href="#">summary report on its activities</a> on a yearly basis.</p>
Review	<i>Expanded</i>

	While the CAR contains a detailed section on the CBCG's "Financial Performance", it does not include the full set of AFSs along with the audit opinion by the external auditors. Similarly, the CAR lacks disclosures with respect to the activities of both the internal audit function and the AC.
Comments	In addition to providing an overview of accountability arrangements in a dedicated section in the CAR, the latter should also include high level summaries of activity of both the Internal Audit function and the AC.
<b>Principle 1.6.3.</b>	<b>Anti-corruption Measures and Internal Code of Conduct:</b> It is clear whether domestic anti-corruption legislation and measures apply to the decision-makers, staff, and agents of the central bank. The central bank discloses its internal Code of Conduct with additional requirements specific to central bank management and staff.
Description	<p><b>LPC / CBCG Code of Ethics</b></p> <p>The professional conduct provisions of the LPC are available on the CBCG website in Montenegrin only, an English version is not available. The LPC applies to CBCG Public Officials, which are only the members of the Council. The LPC doesn't apply to the remaining employees of the CBCG but the CBCG's Code of Ethics (published on the CBCG website) applies to all staff and it largely emulates the LPC provisions of professional conduct that the employees shall observe, including in relation to conflicts of interest, ethical values, and accepting of gifts – although it doesn't include restrictions on employees' pre- and post-public employment, which are set-out in the LPC. Also, since the LPC doesn't apply to the majority of CBCG employees, the criminalization of corruption offences only applies to the Public Officials. Provisions of the Code of Ethics include:</p> <ol style="list-style-type: none"> <li>1. Ethics rules and values: Articles 3, 4.1, and 4.2</li> <li>2. Rules to prevent conflicts of interest: Article 4.3</li> <li>3. Gifts &amp; favors: Article 4.4</li> <li>4. Abstention from decisions where a conflict of interests exists: Article 4.4</li> <li>5. External activities, outside income: Article 4.6</li> </ol> <p><b>Access to Confidential Information</b></p> <p>The CBCG website is well resourced and discloses information on the CBCG legal framework, monetary policy, functioning of the banking system, payment system, and statistical data. However, other information, which is not immediately available, and for which there are no regulatory limitations or banking secrecy provisions, can be accessed via the '<b>Guide to Accessing Information in possession of the CBCG</b>' (the Guide). The Guide is a decision passed by the Governor on June 4 2018, and available on the website, which explicitly indicates that access to CBCG information is in-line with the 'LFAI'. The Guide sets out the type of information in possession of the CBCG and the procedure for accessing the information.</p> <p><b>Whistleblowing</b></p> <p>The LPC provisions related to whistleblowing are set out in Articles 51-52 (identity protection) and 65-72 (compensation for damages, judicial protection, and protection from retaliation) and apply to CBCG as a 'reporting entity' under the LPC. The CBCG Governor appointed an employee to receive and act on whistleblowing reports. However, while the CBCG declares that the employee is unbiased, the specific powers and reporting lines of this individual are not established, including in circumstances if the report concerns CBCG Public Officials which jeopardizes the individual's independence. Furthermore, the CBCG internal procedures for handling whistleblowing reports are not disclosed. The internal procedures include details regarding turn-around times and the nature of engagement with the APC. The dedicated page for 'Prevention of Corruption' on the CBCG website includes a document titled 'Instruction on Submitting Report on Threat to the Public Interest that Indicates to the Existence of Corruption', which indicates that whistleblowing reports will be treated 'Confidential'.</p> <p><b>Violations &amp; Sanctions</b></p>



	<p>For CBCG Public Officials, the APC is responsible for determining any violations of the LPC. The procedure to determine whether a Public Official has violated the provisions of the LPC is prescribed by the provisions of Articles 34 to 46 of the LPC and the decision is published on the APC website. There have never been any recorded violations of the LPC by any CBCG decision maker or employee. Furthermore, there are no provisions to disclose employee violations of the Code of Ethics. The Code of Ethics Article 5.2 prescribes that any violations of the Code must be reported to the person appointed by the Governor to receive whistleblowing reports.</p> <p><b>Integrity Plan</b></p> <p>Reporting entities under the LPC are required to formulate and execute an Integrity Plan as per Article 75 of the LPC. The Plan is renewed every 2-years and drafted based on pre-set and unpublished methodology by the APC. Execution of the Integrity Plan is overseen by the Integrity Manager who reports progress to the Governor on a quarterly basis. However, progress reports are not disclosed, including during the culmination of the plan.</p>
Review	<p><i>Core</i></p> <p>Criminalization of corruption offences only applies to CBCG Public Officials, excluding most employees of the CBCG, and this distinction is not clearly visible or articulated. While the Code of Ethics is published, it's missing material information which impacts the extent of transparency in applying anti-corruption measures and ethical practices, including in areas related to cooling-off periods, asset declaration of staff, and whistleblowing protections.</p>
Comments	<p>The CBCG's accountability framework could be made more transparent by providing additional information on the applicability of domestic anti-corruption laws and Code of Ethics to CBCG public officials and staff. It would be essential to outline the extent of coverage between higher control measures required by the domestic anti-corruption legislation and the less demanding Code of Ethics. The CBCG should consider regularly disclosing updated information on its rules and statistics demonstrating its efforts in combatting corruption and upholding ethical values. CBCG's quarterly efforts in implementing its Integrity Plan should be published to demonstrate the continuous focus in this area. In addition, the Integrity Plan could be utilized to improve transparency practices across the CBCG, including by periodically tracking progress and supporting resource allocation. Furthermore, whistleblowing protections (confidentiality of reports and protection from retaliation) should be clearly articulated in an easily accessible format to ensure that whistleblowers are aware of the afforded protections.</p>
<b>Principle 1.6.4.</b>	<b>Human Capital Management:</b> The central bank discloses its policies and practices concerning the governance and management of human capital.
Description	<p>The Human Resources Directorate of the CBCG is responsible for all aspects pertaining to human capital management, in accordance with the: CBCG Law, Labor Law, Employment Law, General Collective Agreement. This is in addition to CBCG Statute, Code of Ethics, and an array of related internal regulations (i.e., Rulebooks).</p> <p>The CBCG website provides information related to its management of human capital under two different sections: <a href="#">Organisation - CBCG</a> and <a href="#">Responsibility towards Employees - CBCG</a>. In this connection, the following references are published:</p> <ul style="list-style-type: none"> <li>• <b>Rulebook on the internal organization of CBCG.</b> It establishes the internal organizational structure of the CBCG, including the names and scope of work of individual functions, organizational units, departments, divisions, and support directorates. An organizational chart is also available.</li> <li>• <b>Rulebook on Job Classification in CBCG.</b> It defines the unique job titles, job descriptions, the number of employees, and special requirements for the performance of certain jobs in the CBCG. Job classification shall represent the basis for employment, job placement,</li> </ul>

	<p>guiding and developing the personnel, professional training of employees, and performance appraisal.</p> <ul style="list-style-type: none"> <li>• <b>Rulebook on professional training and development.</b> It regulates the process of professional training and development of employees in the CBCG.</li> </ul> <p>Also available on the website under <a href="#">Integrity Protection - CBCG</a> are the :</p> <ul style="list-style-type: none"> <li>• <b>Integrity plan.</b> It identifies areas of work, processes, and jobs subject to risks of the emergence and development of corruption and other forms of conduct that may breach the integrity of the CBCG. The plan defines measures for raising the central bank's integrity level, based on the assessment of susceptibility to identified risks.</li> <li>• <b>Code of Ethics of the CBCG.</b> It establishes the rules of professional conduct that employees are obliged to adhere to in order to preserve, affirm and improve the dignity of <u>all employees</u> and the reputation and integrity of the CBCG.</li> <li>• <b>Code of Ethics for the members of the CBCG Council.</b> It establishes the ethical principles and ethical rules of professional conduct that the members of the Council of the CBCG should observe when exercising their functions.</li> </ul> <p><b>Recruitment and Retention</b></p> <p>The CBCG does not yet have a dedicated webpage for promoting the CBCG as a prime employer and other human resources-related matters. A job vacancy is published in the media through the <b>National Employment Agency</b> in accordance with the <u>Labor Law</u> (Article. 24) and the <u>Employment Law</u>. The mission was informed that, at the same time, information about the advertisement is published on the CBCG website and social media.</p> <p>The advertisement contains all information about the position, conditions, and basic duties. It also contains information about the candidate selection process that will be carried out. The selection process is regulated by the Procedure, which is of an internal nature. After the selection process is completed, a report with a proposal for filling vacant position is submitted to the Governor for approval.</p> <p>The <u>Law on the CBCG (Article 7)</u> states: "<i>The Central Bank, members of its bodies, and employees of the Central Bank are independent in performing the functions and tasks established by this and other laws, and they must not receive or seek instructions from state or other bodies, organizations, or other persons</i>". In addition, the <u>Labor Law (Article 7)</u> stipulates that: "<i>Direct or indirect discrimination of persons seeking employment and employed persons, on the grounds of race, skin color, nationality, social or ethnic origin, connection with a minority nation or minority national community, language, religion or conviction, political or other belief, gender, change of sex, gender identity, sexual orientation, health condition, disability, age, financial status, marital or family status, pregnancy, membership of a group or assumption of membership of a group, political party, trade union or other organizations, or any other personal feature shall be prohibited</i>". These provisions are considered as explicit safeguards of the independence and suggest recruitment on non-political grounds and non-discriminatory basis.</p>
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	<p>Relatedly, work is currently ongoing to establish a three-year strategic plan for the bank, which is expected to include a module dedicated to human capital management with a strategic focus on boosting the profile of the CBCG as an employer of choice and reinforcing recruitment and retention.</p> <p><b>Other procedures for HR management (Human Resources Directorate)</b></p> <p>The purpose of these procedures is to standardize human resources management processes, improve work quality, and reduce errors, as well as to execute complex tasks quickly and efficiently regardless of who performs them, and to enable quicker onboarding of new employees into work processes.</p> <p>The procedures regulate the performance of key work processes in the Human Resources Directorate, including the recruitment and selection process, which is of significance to the external public.</p> <p>As indicated above, human capital management activities are mainly anchored in:</p> <ul style="list-style-type: none"> <li>• <a href="#">Labor Law</a> and <a href="#">Employment Law</a>. The main laws which govern the employer-employee relationship. These also cover the rights and obligations of the employees based on work and its performance, incentives, and the flexibility of the labor force.</li> <li>• <a href="#">Collective Agreement</a>. It regulates the rights, obligations and responsibilities from the employment relationship, the procedure concluding, amending and supplementing the collective agreement, mutual relations of the signatories of the collective agreement, as well as other issues of importance for the employee and the employer.</li> <li>• <a href="#">Law on Pension and Disability Insurance</a>. It regulates mandatory pension and disability insurance based on current funding.</li> </ul> <p>The <b>CAR</b> includes a section related to human resources management, which provides information on the number of employees, changes in gender structure, qualification structure, as well as an overview on training and professional development. However, there are no explicit references to diversity and inclusion.</p>
Review	<p><u>Core</u></p> <p>The CBCG publishes on its website and in the CAR an array of legislation and internal regulations related to the management of its human capital, including on staff composition, competencies, and development. However, the website does not include links to the Labor Law and Employment Law as key legislation governing human resources activities, and there are no explicit references to other important aspects such as diversity and inclusion or leadership and succession planning. Also, the disclosures on the website are dispersed across different sections and not consolidated under a specific section.</p>
Comments	<p>Transparency would be enhanced by consolidating information on human capital under one webpage dedicated to careers and human resources management, including aspects related to recruitment and retention, as well as professional and career development. In particular, the CBCG could use this as a platform to promote its intended strategy of being an “employer of choice” and</p>

	<p>provide details about: (i) current openings; (ii) partnerships and concrete programs to support diversity and inclusion; and (iii) recruitment programs, including scholarships/internships. In addition, disclosures could be enhanced across a number of dimensions on CBCG's employee management practices, including compensation packages (i.e., salary bands by level / category of employee), gender breakdown by job classification, and comparative analysis on staff turnover and evolution of the workforce. Going forward, as the human resources function is expected to support the CBCG in implementing its forthcoming strategic plan, disclosures in this area should also evolve to provide additional quantitative measures that tie back to the bank's strategic plan.</p>
<b>Principle 1.7.</b>	<b>Communication:</b> The central bank discloses means and methods of communication and the forms of disclosure of information to its stakeholders.
<b>Principle 1.7.1.</b>	<b>Arrangement:</b> The central bank discloses the organizational structure, responsibilities, and processes relevant for communication.
Description	<p>The CBCG communication with the public is based on the <a href="#">CBCG</a>, the <a href="#">CBCG Policy</a> (111), the LFAI, as well as internal acts.</p> <p>For the first time, the CBCG Communication Department is developing a strategic communication plan. This document will encompass institutional affairs, public relations, and various means and methods for engaging with mass media. Communication initiatives will be targeted toward specific audiences and the general public, utilizing methodologies to enhance the effectiveness of interactions with the public. Further details on its implementation were not yet available during the mission.</p> <p><b>Organizational structure:</b> The CBCG publishes the <a href="#">organizational chart</a> which clearly includes the placement of the Directorate of Communications. In addition, the chart displays the senior executives responsible for the communication function (Governor and the respective Executive Director).</p> <p><b>Responsibilities:</b> The CBCG publishes its <a href="#">objectives</a> and <a href="#">functions</a> on its website.</p> <p><b>Processes for Communications:</b> The CBCG does not disclose detailed information on communication arrangements, such as internal principles, guidelines, and processes for external communication. However, the following documents are available for specific procedures:</p> <ul style="list-style-type: none"> <li>• <a href="#">Guide to accessing information</a>: it describes the type of information in possession of the central bank as well as procedures for accessing the information. Pursuant to the LFAI, any resident or non-resident foreign legal and natural entity shall have access to information filed with the CBCG.</li> <li>• <a href="#">Guideline for authors of the Journal of Central Banking Theory and Practice</a>: it describes the process for submission of papers, the review and the publication process of the Journal, which the CBCG publishes three times per year covering professional and scientific articles.</li> <li>• <a href="#">Guidelines for the selection of an independent external auditor</a></li> <li>• <a href="#">Guidelines on reporting for monetary and financial statistics</a>: it specifies reporting requirements attributes.</li> <li>• <a href="#">Guidelines related to the Asset Quality Review</a>, which took place in 2020. It is a series of documents related to the process, including Q&amp;A sessions and operational plan. It also</li> </ul>

	<p>indicates the existence of <a href="#">Guidelines for Portfolio Selection</a>, which was sent to banks on 21 August 2020 but it is not disclosed in the website.</p> <ul style="list-style-type: none"> <li>• <a href="#">FAQs</a> concerning areas within the CBCG's jurisdiction.</li> <li>• The CBCG <a href="#">states in its website</a> that it publishes the CBCG policy and practical rules for providing electronic trust service for the development of certificates for an advanced electronic stamp for the participants in the CBCG Payment System. However, it is only available in <a href="#">Montenegrin</a>.</li> <li>• In addition, the CBCG also communicates on its implementation of principles such as <a href="#">independency and transparency</a>.</li> </ul> <p>Besides publicly available documents, the CBCG produces Guidelines for Crisis Communication, as well as specific communication plans for each campaign: SEPA, Informative List, Global Money Week, Green Award, etc.</p>
Review	<p><i>Expanded</i></p> <p>The CBCG discloses information on the communications function within the CBCG, including placement of the communications function in the organizational structure and senior executives responsible for it. In addition, the CBCG discloses information and guidelines on specific processes, given that the legal framework of the CBCG is clear in its practice of reporting obligation and data accessibility.</p> <p>However, the CBCG does not disclose detailed information on communication arrangements, such as internal principles and guidelines and processes for external communication.</p>
Comments	<p>The new CBCG communications strategy should include documents about its communication processes and how they are integrated into its core activities. For instance, it should provide clear explanations on the decision-making process on policies referent to supervision and financial stability, as well as issuance of opinions and statements.</p> <p>In addition, the new strategy should include principles for external communication in key areas, such as on the appropriate frequency of public appearances of policymakers, addressing sensitive topics that are outside of the scope of the CBCG and context for appearances by the Executive Directors, CBCG Public Officials, and staff.</p> <p>It is essential for the CBCG to maintain a dynamic communication framework that is regularly updated, clearly outlining the relevant topics to be prioritized and discussed publicly. This strategy should include guidance on addressing questions both within and beyond the CBCG's scope to ensure clear and consistent messaging.</p> <p>Additionally, the development of crisis communication protocols is crucial for handling emergency situations, such as the spread of misleading information. These protocols would ensure a swift, coordinated response, helping to protect the CBCG's reputation and maintain public trust during critical moments.</p> <p>The website should provide a dedicated session to archived materials that are already published but is currently outdated. That would allow the content to remain accessible to the public in accordance with the LFAI while providing a clear cut on the information regarding the time of the publications.</p>
<b>Principle 1.7.2.</b>	<p><b>Strategy/Tools:</b> The central bank discloses the objectives, target audiences, channels, and tools of communication policy.</p>

Description	<p><b>Communication Objectives and Strategy:</b> As noted previously, the CBCG is currently developing its communication strategy for the first time. No detailed information regarding the specific objectives and execution plan were provided.</p> <p><b>Communication Channels:</b> The CBCG communicates with its broad audience regularly through:</p> <ul style="list-style-type: none"> <li>• <a href="#">Website announcements</a> and <a href="#">press releases</a>. The CBCG also provides a list of <a href="#">events</a> of international and national relevance to which the CBCG participates or organizes. The CBCG also has a <a href="#">blog</a>, which is not regularly updated (last publication on 24 March 2023).</li> <li>• Social networks/TV: Recently, the CBCG started to engage actively in social media. It first established an account in <a href="#">Facebook</a> in August 2021 and in <a href="#">X</a>, <a href="#">Instagram</a> and <a href="#">LinkedIn</a> since December 2023. It also regularly launches videos on YouTube and engages on TV campaigns when necessary.</li> <li>• The CBCG has a session on its website dedicated to <a href="#">interviews and text</a>. Currently, the session contains very little content (more recently, only three interviews held in 2023 and one in June 2024).</li> <li>• The CBCG occasionally conducts press conferences, although they are not held regularly and do not follow a standard format.</li> <li>• Regular release of <a href="#">statistical data</a>. The website publishes data on <a href="#">Monetary and Financial Statistics</a>, <a href="#">Financial Soundness Indicators</a>, <a href="#">Interest rates</a>, <a href="#">T-bills Statistics</a>, <a href="#">Capital Market</a>, <a href="#">International and Economic Relations</a>, <a href="#">Payment System</a>, <a href="#">Real Economy</a>, <a href="#">Fiscal Developments</a>. The data is updated regularly and the website offers a detailed <a href="#">calendar</a> specifying the dates for each release. The format of the data downloaded is not standardized, such as some data are provided in excel while others are provided in pdf (for example, the data on banks' balance sheets).</li> <li>• <b>Regular publications:</b> <a href="#">Governor's Report</a> (monthly), <a href="#">CAR</a>, <a href="#">FSR</a> (annual), <a href="#">IR</a> (quarterly and annual), <a href="#">CBCG Bulletin</a> (monthly), <a href="#">MR</a> (quarterly and annual), <a href="#">Report on Bank Lending Survey Results</a> (quarterly) and <a href="#">International Finance Report</a> (weekly). The release <a href="#">calendar</a> of these reports only shows the frequency, therefore missing the specific releasing dates. In addition, in some cases there are discrepancies regarding the timing of publications of the English and Montenegrin versions, with the former carrying relative delays (for example, the English version of the 2023 CAR is still not published, in contrast to the Montenegrin version). As of now, there is only access to the Q1 Macroeconomic Report (in Montenegrin <a href="#">Kvartalni izvještaj - CBCG</a>) and the 2023 Q3 report (in English <a href="#">Quarterly Report - CBCG</a>). In addition, a press release on the website suggests that the CBCG already have a ready Q2 Report (<a href="#">CBCG Council: Moderate economic growth and a stable banking sector in 2024 - CBCG</a>). Similarly, the most recent Inflation Report for Q2 is only available in Montenegrin. The latest report on the English website is from 2023Q3 (<a href="#">Quarterly Report - CBCG</a>).</li> <li>• <b>Other publications:</b> The CBCG also values the academic community and research, as it publishes <a href="#">Working papers</a> and <a href="#">books</a>. In addition, it publishes academic articles in its <a href="#">Journal of Central Banking Theory and Practice</a>, which has a high reputation within the country.</li> </ul> <p><b>Communicators:</b> The primary communicator at CBCG is the Governor, with the Communications Directorate playing a continuous role in external communication, as determined by CBCG's internal organizational and systematization acts. Besides the Governor, the Vice Governors, the Executive Director, also directors of organizational units and CBCG employees communicate with the public, in line with the procedures and the final approval of the top management, where appropriate.</p>
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	<p>Recently, as part of an initiative to decentralize the communication strategy, Directors and Heads of Departments have been more actively conducting public interviews and appearances.</p> <p><b>Target Audiences:</b> The CBCG's target group is classified in: (i) internal, which consists of the CBCG management and its employees; and (ii) external, which broadly consists of media, commercial banks, NBFIs, economic entities, academia and the general public (citizens and civil society).</p> <p>Internally, the CBCG communicates to its employees mainly via its intranet portal and a dedicated email address for all users. Externally, the communication channels can be further specified as follows:</p> <ol style="list-style-type: none"> <li>I. <b>Media:</b> All press releases and materials that are published on the CBCG website and its official social networks accounts are also delivered to media counterparts via e-mail and CBCG Viber group established by the CBCG exclusively for journalists. The CBCG also responds to media inquiries. In addition, the CBCG organizes workshops and has held some informal working breakfasts, where journalists and economic desks' editors can meet and talk with the directors of the departments and directorates of the core CBCG functions.</li> <li>II. <b>Commercial banks:</b> The CBCG Communication Directorate and Consumer Protection Office representatives have recently initiated meetings with public relation (PR) representatives of commercial banks. These briefings are organized periodically, but at least twice a year. The CBCG Communication Department also established the Viber group for PR representatives of commercial banks to exchange critical information in a timely manner.</li> <li>III. <b>General Public:</b> The CBCG communicates with the general public via Info email and phone, answering questions sent by individuals and legal entities. The CBCG also responds to questions received through official pages on social networks, while it disables interactive features on all its social media channels, so public comments are not permitted. The CBCG clarified that once a request is received, the relevant organizational unit is consulted for each answer, which is aimed to be delivered as soon as possible, usually within 1-3 working days, unless the nature of the inquiry requires more time. In addition, the CBCG engages in educational programs such as <a href="#">student scholarships</a>, awards for best articles or thesis in areas such as <a href="#">climate change</a>, as well as <a href="#">banking, monetary policy and theory</a>. Some initiatives envisage to promote financial education and financial literacy such as the <a href="#">Program for Financial Education Development 2023-2027</a> and events like the <a href="#">Global Money Week</a> and <a href="#">Savings Week</a>, the <a href="#">CBCG Financial Magazine</a> published for children and youth. The CBCG also owns the <a href="#">Money Museum</a>, which is open to the public.</li> </ol> <p>Other initiatives of general interest to the public are:</p> <ul style="list-style-type: none"> <li>• <a href="#">Informative List on Offered Consumer Loans</a>, which contains basic information that consumers need when deciding on choosing a loan, such as data on the interest rate level, loan repayment period, interest rate type (fixed, variable or combined) etc. It is available on the website and via app.</li> <li>• CBCG website contains contacts for the <a href="#">Protection of clients of credit institutions and users of financial services</a> available to the public, through which they can submit complaints about the work of credit or financial institutions.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Contact for the <a href="#">Protection of clients of credit institutions and users of financial services</a> available in the CBCG's website to the public, through which they can submit complaints about the work of credit or financial institutions.</li> <li>• Data publication on <a href="#">Fees for Services Related to a Consumer Payment Account</a> in Montenegrin commercial banks on its website.</li> <li>• Several <a href="#">e-services</a>, such as <a href="#">CBCG Auction Platform Access</a>, <a href="#">Resident Reporting</a>, <a href="#">Enforced Collection System Access</a>, <a href="#">Accessing Data from the Central Register of Transaction Accounts</a>, <a href="#">Web service Search of legal persons and entrepreneurs in the ISPN and CRTR</a>.</li> <li>• <a href="#">Fintech hub</a>; The CBCG has established the CBCG FinTech Hub - Regulatory Innovation Centre as a platform for dialogue with the FinTech sector in 2021, where the FinTech sector will be able to directly present its innovations. The aim is to obtain the opinion and interpretation of the CBCG on regulatory issues within its competence related to innovations in banking and payment services.</li> <li>• Practices of allocating funds for <a href="#">donations, sponsorships, and humanitarian activities</a>.</li> </ul>
Review	<p><u>Expanded</u></p> <p>The CBCG has clearly identified its target audiences and utilizes a wide range of communication tools to engage them effectively. It actively interacts with the public and stakeholders, regularly responding to media inquiries. However, key sections of the website are outdated, for example the sections dedicated to the blog, to the "interviews and text" amid others, which underrepresents the level of the CBCG's engagement and external communication efforts, given that the CBCG interacts regularly with the media, engaging on several requests.</p> <p>While the process for handling access to information requests is well-structured and transparent, other processes, such as the format and frequency of press conferences and the release calendar of regular publications lack clarity and consistency. Additionally, the CBCG does not publish its speeches or presentations that eventually are held to the public.</p> <p>The CBCG also does not evaluate its communication policy with the public.</p>
Comments	<p>The new CBCG communications strategy should define clear communication objectives aligned with the CBCG's goals, with specific and where possible, measurable targets within a pre-determined horizon. To enhance its communication strategy, the CBCG should prioritize updating and maintaining key sections of its website, such as the blog and the "interviews and text" sections, to better reflect its current level of engagement with the media and public. A more dynamic and regularly updated website in sections related to the media will ensure that the CBCG's efforts in external communication are properly reflected, allowing stakeholders to fully understand its outreach activities.</p> <p>The CBCG should also implement a clear structure and consistent schedule for press conferences.</p> <p>More clarity on regular publications should be applied to ensure greater transparency and consistency. This could be achieved by including information in the current release calendar specifying the dates on when reports and other relevant and predictable updates will be published, helping both the media and the public to stay informed. The English and the Montenegrin versions should be ideally published at the same time. Publishing speeches and presentations delivered to the public would further contribute to the transparency and visibility of the CBCG's work.</p>



	<p>Moreover, the CBCG should consider implementing a system to evaluate its communication policy, such as surveys, gathering feedback from both internal and external stakeholders. This will help assess the effectiveness of its strategies and identify areas for improvement, ensuring that communication remains a two-way process.</p> <p>The CBCG could further tailor its communication to the general public and citizens by explaining its functions, objectives and decisions in simple words or even generating videos with the content targeted to the general population. Surveys could be conducted on a regular basis with the population to assess the evolution of their literacy on CBCG's topics, which may also indicate aspects related to the effectiveness of the CBCG's communication policies. The data and information received from these exercises could be further utilized to develop analyses in cooperation with the research department.</p> <p>Finally, the CBCG should continue with its initiatives with, children, youth, students and the academic audience, which helps to foster the analytical and educational environment in the country.</p>
<b>Principle 1.8.</b>	<b>Confidentiality:</b> The central bank discloses its policy on confidentiality or secrecy of central bank information, including the reasons underlying the choices it has made on disclosure or non-disclosure of sensitive information.
Description	<p>The CBCG's institutional arrangements on confidentiality and access to information are anchored in the <b>Constitution of Montenegro</b> and the national <b>LFAI</b>.</p> <p>According to Article 51 of the Constitution, <i>everyone shall have the right of access to public information held by state authorities and public organizations exercising public functions</i>. Stemming from the Constitutional provision, the CBCG's website refers to the LFAI as binding for the <i>general public to obtain information that would allow exercising democratic control over public authorities and to safeguard human rights and freedoms</i> (although without providing a link to the said law). According to Article 11 of this law, the CBCG is <i>obliged to develop, publish, and regularly update its website for this purpose</i>.</p> <p>Under a dedicated section on its website <a href="#">Access to Information</a> the CBCG presents a framework containing the following:</p> <ul style="list-style-type: none"> <li>• <a href="#">Guide to accessing Information</a> describing the <b>types</b> of information in possession of the central bank and <b>step-by-step procedure</b> on how to access such information.</li> <li>• <a href="#">Rulebook on Secrecy</a> (akin a policy on confidentiality) providing for a classification (i.e., secret, confidential, internal) of documents and the manner on how to handle confidential and secret documents. This rulebook also includes protection measures and a clause under which disclosure of information would not be feasible. An integral part of the Rulebook on Secrecy, which is owned by the Directorate for Legal Affairs, is the list of secret documents, which defines the data that is considered secret and determines its level of secrecy.</li> <li>• <a href="#">Rulebook on Personal Data Protection</a> including provisions on personal data collection, personal data protection measures, as well as obligations and responsibilities of employees.</li> </ul> <p>In addition, Article 84 of the CBCG Law prescribes the obligation to preserve the secrecy of data and information, which in accordance with the law or other act constitute a secret, as well as the conditions under which they can be made available to third parties. Also, Article 203 of the LCI contains a provision guaranteeing banking secrecy and Article 53 of the Law on Official Statistics and Official Statistical System requires that all types of dissemination of statistical data must comply with the provisions of said Law related to their confidentiality.</p>

	<p>The Information Classification procedure, owned by the Directorate for Operational Risk, Information Security and BCM, "prescribes responsibilities and provides guidelines and rules for the classification of information of the Central Bank. The procedure relies on the Information Security Policy (an internal document), especially the Information Security Rule no. 2 - Management of values, which at a higher level provides guidelines for inventory, ownership, acceptable use, classification, labeling and handling of information values. At least once a year, and in the case of significant changes more often, a regular procedure for reviewing and updating the data of the Classification Table is carried out.</p> <p>That said, free access to information is not absolute and remains subject to limitations set out by Article 52 (paragraph 2) of the Constitution that reads as follows: <i>"The right to accessibility of information may be limited if this is in the interest of: the protection of life; public health; morality and privacy; carrying of criminal proceedings; security and defence of Montenegro; foreign, monetary and economic policy."</i> The same limitation is picked up in Article 14 of the LFAI which explicitly provides that the public authority may restrict access to information or a part thereof if it is in the interest of certain motivations (listed in the law).</p> <p>If the CBCG decides to reject the request for access to public information, it elaborates in detail the reasons for restricting access, with reference to protecting specific interests from Article 14 of the LFAI.</p> <p>The mission was informed that the CBCG plans to publish (or segments from) decisions with reasons for rejecting requests for free access to information, in cases for which it assesses that there is a high level of public interest and/or in often repeated cases, thus contributing to raising awareness and educating the public regarding their rights in the free access to information domain.</p>
Review	<p><u>Expanded</u></p> <p>The CBCG website does not provide a link to the LFAI. In addition, the CBCG does not publish information related to its rejection of a certain request for access to information.</p>
Comments	<p>Under the section on "Access to information", the CBCG may consider publishing a statement with the reasons for rejecting a request for free access when deciding not to allow access to certain information, and in cases for which it estimates that there is a high level of public interest. High-level information about requests for access to information, including topics and statistics about the responses of the CBCG could be provided through a summary in the CAR.</p> <p><i>See also analysis and recommendations under 1.6.3</i></p>
<b>Pillar II—Central Bank Policies</b>	
<b>Principle 2.1.</b>	<b>Monetary Policy:</b> The central bank publicly and clearly discloses the objectives, policy framework, and instruments of monetary policy.
<b>Principle 2.1.1.</b>	<b>Objectives and Framework:</b> The central bank discloses its monetary policy framework and strategy for achieving its objectives.
Description	<p>Montenegro adopted the euro as its legal tender in 2002. In the absence of a domestic currency, the CBCG does not conduct monetary policy and, therefore, there is no monetary policy framework to build on (see Box 1).</p> <p>Yet, article 4 of the Law of the CBCG requires the central bank to "contribute to achieving and maintaining price stability" as a secondary objective. The objective of monetary stability is included in the CBCG annual Policy for the Attainment of Objectives and the Exercising of Functions when it states that "the Central Bank of Montenegro will pursue a policy of preserving monetary and financial stability using available instruments and measures within its authority in order to preserve</p>

	<p>the financial system stability, and particularly the stability, soundness and resilience of the banking sector. With a view to fostering and preserving monetary stability, it will pursue an active reserve requirement policy based on assessing the effectiveness and efficiency of the existing solutions.” . The objective of monetary stability is also mentioned in many of its publications, most notably the CBCG CAR. A <a href="#">study explaining the reasons for the adoption and the effects of euroization</a>, is posted on the CBCG website.</p> <p>Because Montenegro aims to officially join the eurozone and the European System of Central Banks/Euro system, its framework and toolkit will change, as the CBCG will officially engage in monetary policy operations. The main framework for the changes is already provided in the CBCG Law, in chapter Xa, Membership of Montenegro in the European Monetary Union (Articles 87lj – 87dž).</p>
Review	<p><i>Expanded</i></p> <p>The CBCG discloses the objectives of monetary policy, including legal provisions, through several means, in particular article 4 of the Law of the CBCG, but also the CBCG annual Policy for the Attainment of Objectives and the Exercising of Functions. Market participants can access this documentation and information through its website. However, the CBCG cannot formulate monetary policy to preserve price stability because Montenegro is formally euroized.</p>
Comments	<p>The CBCG should define and disseminate a broad institutional policy strategy, in which its mandate is clearly established, together with the policy and operational framework in place to achieve such mandate, including the toolkit at its disposal. CBCG’s communication should build on this institutional strategy, stressing the limits imposed by euroization for having a meaningful monetary policy. This is particularly important for accountability purposes as the CBCG is not responsible for inflation developments, which fundamentally come from abroad.</p>
<b>Principle 2.1.2.</b>	<p><b>Policy Decisions:</b> The central bank discloses its monetary policy decisions in a timely manner and indicates how the decisions foster the achievement of its monetary policy objective(s). The central bank discloses the process by which policy decisions are taken, including with respect to the meeting calendar of its monetary policy decision-making bodies and their voting procedures.</p>
Description	<p>Pursuant to Article 63 of CBCG Law, immediately after its meeting, the Council of the central bank must inform the public about its policy decisions. Changes to reserve requirements (which are de facto used for financial stability purposes) are executed through amendments of the relevant by law.</p> <p>Policy decisions are discussed and adopted by the Council. According to the CBCG Law, “The Council shall decide on issues within its competence by majority vote of the members of the Council. In case of a tie, the Governor shall have the casting vote” (Article 62). On the day of the decision, the CBCG issues a press release announcing the decision and explaining its rationale. The decision and the CBCG statement are also posted on the CBCG website and disseminated through social media. The <a href="#">decision (legal text)</a> is subsequently published in the Official Gazette of Montenegro. However, the minutes of the meetings are not revealed to the public. In addition, a <a href="#">CBCG working paper</a> explains the impact and changes to reserve requirements, which is posted on the CBCG website.</p>
Review	<p><i>Core</i></p> <p>The CBCG discloses policy decisions immediately after the meeting of the Council takes place. The CBCG discloses and disseminates decisions that adjust reserve requirements, explaining the motivation behind the decision adopted. Market participants can access these documents and information via the CBCG website. However, in the absence of monetary policy, there is no calendar for these policy decisions.</p>
Comments	<p>The CBCG does not disclose a comprehensive account of policy deliberations within the CBCG Council.</p>

<b>Principle 2.1.3.</b>	<b>Supporting Analysis:</b> The central bank discloses relevant economic information and supporting analysis that informs its monetary policy decisions.
Description	<p>As noted above, the CBCG does not formulate monetary policy and rarely changes the rate of reserve requirements. When the CBCG adjust reserve requirements, it publishes economic information but not in connection with the fulfillment of a monetary policy objective. Yet the CBCG discloses extensive economic information and analysis explaining current economic developments and projections as well as the stability of the financial sector. This information is posted on the CBCG website and also published through various reports that include the quarterly IRs, and the FSR, which is published once a year. In Addition, analysis of this information is occasionally done through working papers, and through thematic conferences and speeches, or interviews, given by central banks' high-ranking officials. Session 1.7 in Communications provides a detailed overview and the links for the publications.</p> <p>While it does not include data, pursuant on Article 44 1) of the CBCG Law, the CBCG discloses on its website the document "Policy for the Attainment of Objectives and the Exercising of Functions", which contains a list of all policies it intends to develop in the next calendar year with the aim of fulfilling its <a href="#">mandate and functions</a>.</p>
Review	<p><i>Expanded</i></p> <p>The CBCG discloses economic information and forecasts of relevant economic indicators. The timing of these publications is publicly available. On the other hand, because adjustments to reserve requirements are not conducted on a regular basis with the aim of achieving a policy target, the CBCG does not disclose macroeconomic forecasts associated with reserve requirements' decisions.</p>
Comments	The CBCG should clarify in its website and publications that managing reserve requirements has primarily a financial stability objective given its inability to implement monetary policy given the formal euroization of the economy.
<b>Principle 2.2.</b>	<b>Cross-Border Financial Flows and Foreign Exchange Administration:</b> The central bank is clear about its role in determining and implementing the policy on cross-border financial flows and foreign exchange administration. It discloses the objective(s), the legal and institutional frameworks it is acting under, its policy decisions, as well as the process by which policy decisions are taken.
<b>Principle 2.2.1.</b>	<b>Objectives and Framework:</b> The central bank discloses the policy's objective(s), legal and institutional frameworks, and the strategy to achieve the policy objectives. There is clarity whether the central bank can delegate some of its functions to implement policy decisions to other entities and on the modalities of such delegation.
Description	<p>The <a href="#">Law on Foreign Current and Capital Operations</a> stipulates that all current and capital transactions may be carried out freely by both residents and non-residents.</p> <p>However, the law provides for the implementation of FX controls if capital movements seriously jeopardize or threaten to jeopardize Montenegro's monetary policy or financial stability.</p> <p>These measures are precisely defined in the law but to have not been utilized.</p> <p>Article 8 of the same law stipulates that exchange operations may be conducted by legal entities and entrepreneurs who have a contract with a bank and are registered to perform exchange operations. The Central Bank has detailed the terms and procedures for conducting exchange operations in its <a href="#">Decision on detailed requirements and manner of conducting bureau de change operations</a></p>
Review	<p><i>Core</i></p> <p>This framework is well communicated.</p>

	<p>However, the framework for the imposition of exchange controls allowed by the Law on Foreign Current and Capital Operations can induce misunderstandings. The implementation of exchange controls in a country that has chosen to unilaterally adopt a freely tradable foreign currency as legal tender will face significant policy, communication and operational challenges.</p> <p>The communication regarding this component of the CBCG's toolbox might create unrealistic expectations in case of extreme shocks.</p>
Comments	<p>The CBCG might want to consider reviewing the underlying scenarios linked to the use of Article 11 of this law as "serious risk to financial stability or balance of payment crisis" is too broad. Additionally, specific communication about their potential implementation hurdles would also better manage expectations.</p>
<b>Principle 2.2.2.</b>	<b>Policy Decisions:</b> Policy decisions, whether on new actions or changes to standing policy or other changes in the regulatory framework, are publicly announced, explained, and disclosed in a timely manner. The central bank is clear about the process by which policy decisions are taken.
Description	See Principle 2.2.1
Review	<p><u>Core</u></p> <p>Implementing exchange controls would be a monetary policy decision triggered by financial stability concerns. However, the CBCG has no formal monetary policy mandate.</p> <p>The Law on Foreign Current and Capital Operations states that the CBCG, i.e. the Governor, could introduce the measures stipulated in Article 11. No other internal body is specifically accountable. On the other hand, the Central Bank Law (Article 44, paragraph 2, item 10) stipulates that the CBCG Council decides on the introduction of safeguard and other measures for the purpose of maintaining stability of the financial system as a whole.</p>
Comments	<p>In Montenegro's context, it is understood that using Article 11 would be a major policy decision. CBCG's transparency could be further improved in clarifying its potential objectives and its role in determining and implementing the policy on cross-border financial flows and foreign exchange administration</p>
<b>Principle 2.2.3.</b>	<b>Supporting Analysis:</b> The central bank discloses in a timely manner the supporting analysis, including the intended outcome that informs its policy decisions.
Description	<p>See Article 2.2.1</p> <p>There is no disclosure framework.</p> <p>However, because of CBCG's context and the significance of the imposition of exchange controls, communication would be, <i>de facto</i>, included in the FSR.</p> <p>Due to the nature of the policy change, the operational measures and desired outcomes associated with the implementation of exchange controls must be communicated at the same time as their rollout. However, there is no <i>ex-ante</i> communication on the issue.</p>
Review	<p><u>Core</u></p> <p>The communication of supporting analysis would be done through the FSR</p>
Comments	No comment
<b>Principle 2.3.</b>	<b>Foreign Exchange Management:</b> The central bank clearly and publicly discloses its foreign exchange policy objectives, including the hierarchy of objectives and the operational framework and instruments of foreign exchange interventions.

<b>Principle 2.3.1</b>	<b>Objectives and Framework:</b> The central bank discloses its policy objectives and legal, operational, and institutional frameworks, consistent with the chosen foreign exchange regime.
Description	See 2.1 and 2.2.
Review	Not Applicable.
Comments	
<b>Principle 2.3.2.</b>	<b>Policy Decisions:</b> The central bank discloses its decision-making process, including the rationale for foreign exchange management instruments, and the means and methods of reaching a decision. The potential impact of its policy decisions is explained in a timely manner.
Description	See 2.1 and 2.2.
Review	Not Applicable.
Comments	
<b>Principle 2.3.3.</b>	<b>Supporting Analysis:</b> The central bank discloses its assumptions, transmission channels, and analysis backing the intervention policy decisions, as well as ex-post evaluation of economic impact.
Description	See 2.1 and 2.2.
Review	Not Applicable.
Comments	
<b>Principle 2.4.</b>	<b>Foreign Exchange Reserve Management:</b> The central bank discloses its policy objectives for foreign exchange reserve management, along with key considerations behind the policy, details on how oversight responsibility is allocated, and the potential impact of the policy.
<b>Principle 2.4.1.</b>	<b>Objectives and Framework:</b> The central bank discloses broad investment objectives, operative models, how it allocates oversight responsibility, and the institutional framework of its policy decisions.
Description	<p>The <a href="#">Central Bank of Montenegro Law</a> and the <a href="#">Decision on International Reserves Management</a> define the broad investment objectives and permitted instruments.</p> <p>Pursuant to Article 20 of the CBCG Law, the Decision on International Reserves Management and the unpublished Guidelines for International Reserves Management define the institutional framework of the international reserves management.</p> <p>The Decision on International Reserves Management describes international reserves, their basic management principles and the allowed instruments. It broadly defines the risks that are monitored and establishes the competence of the Council to adopt the Guidelines, a fundamental non-public strategic document in the management of CBCG's international reserves. The Decision also (i) describes the management structure and distribution of responsibilities; (ii) leaves the option for the creation of an IC; and (iii) prescribes minimum reporting standards to the Council.</p> <p>The principles of security and liquidity are emphasized in the CBCG Law and the non-public Guidelines for International Reserves Management. Parameters for credit and market risk supervision and the allowed exposure levels have also been set. The Guidelines for International Reserves Management also establish how broad duties are segregated in the operationalization of the international reserves management process. The detailed distribution of responsibilities of employees involved in the international reserves management process is defined in the non-public organizational structure and work procedures.</p>

	<p>In addition to its financial results, CBCG's AFSs provide some unidimensional information on credit, market and liquidity risks.</p> <p>The <a href="#">CAR</a> alludes to portfolio tranching but is not totally clear on the size, function, parameters and composition of tranches. It also provides (i) absolute investment results for some components of the portfolios; (ii) the market trends that led to those results; and (iii) a brief description of market, credit and liquidity risk and methods used to monitor them.</p> <p>The CBCG provides substantial information on its FX reserve management activities and framework on its website. These include: (i) the most recent financial statements containing detailed notes on reserve management risks; (ii) the latest public CAR outlining the portfolio structure and the financial market conditions during the reporting year; (iii) a dedicated website section describing the management framework and providing links to additional related documents, including the Decision on International Reserves Management; (iv) a paragraph of the yearly <a href="#">policy for the attainment of objectives and the exercising of functions</a>; and (v) a line in the monthly <a href="#">Governor's report</a>.</p>
Review	<p><i>Core</i></p> <p>A broad picture of the governance aspects and oversight responsibility is provided in the Law and the Decision on International Reserves Management.</p> <p>However, much of the relevant information needed for a comprehensive understanding of CBCG's FX reserves investment framework is found in the Guidelines for International Reserves Management and the IC Terms of Reference. Both of these documents are not accessible to external stakeholders as the CBCG feels this information is proprietary.</p> <p>The CBCG is also concerned that the potential publication of its Guidelines for International Reserves Management would increase the number of non-pertinent inquiries from the public, particularly considering the perceived general low levels of financial literacy. These potential rudimentary requests should not be a concern and, if the information is communicated properly, this improved transparency will contribute to raise financial literacy.</p> <p>The publicly available 2017 Decision on International Reserves Management states that an IC "may be formed..." while this IC has been in place since 2012.</p> <p>The information on the portfolio's risks is not complete and does not allow the stakeholder to fully understand the risk appetite and the quality of the return from the reserves. The CBCG discloses its unidimensional risk vectors (modified duration, FX risk and credit risk) but limits for these risks are not communicated. Furthermore, although <i>ex ante</i> tracking error, a broader indicator of risk relative to the portfolio benchmark, is part of CBCG's internal framework, CBCG does not publish it. Similarly, Value-at-Risk (VaR), an indicator of aggregated portfolio risk on an absolute basis (CBCG's risk tolerance) is part of the internal framework but not disclosed to external stakeholders.</p>
Comments	<p>To improve its FX reserves management framework's transparency, CBCG should (i) consider amending the Decision on International Reserves Management and update it; (ii) publish all the non-market sensitive elements of the Guidelines for International Reserves Management; and (iii) publish the IC terms of reference on its website.</p> <p>Publishing more complete information about risk exposures and limits would enhance transparency significantly. The information currently provided about unidimensional risk exposures should be complemented with the corresponding limits as well as (i) the VAR limit to express CBCG's risk tolerance (limits and usage); and (ii) the tracking error against the relevant indices (limits and usage).</p>



	CBCG should consider adding an FX reserves management module to the financial literacy module of its website.
<b>Principle 2.4.2.</b>	<b>Policy Decisions:</b> The central bank discloses key elements of policy formulation, related risk exposures, instruments, decision-making hierarchy, and the oversight allocation process.
Description	<p>See Principle 2.4.1<sup>1</sup></p> <p>The CBCG policy formulation for its FX reserve management activity is not communicated to its stakeholders except the two very high level CBCG Law and Decision on FX reserves management.</p> <p>The CBCG produces internal quarterly and yearly reports covering the results of international reserves management, and parts of those reports are included in the CAR.</p>
Review	<p><u>Core</u></p> <p>As discussed in Principle 2.4.1, the central bank does not disclose the key elements of policy formulation, related risk exposures, instruments, decision-making hierarchy, and the oversight allocation process.</p> <p>The Guidelines for International Reserves Management contain non-market sensitive information about the CBCG investment framework. However, this document is not published.</p> <p>The communication on the liquidity risk and its management could be improved. The CBCG manages its portfolio tranche size but the rebalancing rules are not communicated to stakeholders.</p>
Comments	<p>The publication of the governing documents discussed in the comments' section of Principle 2.4.1 will also increase the transparency related to policy decisions. The internal rules' section of the IC's Terms of reference is particularly relevant in shedding light on the committee's functioning, reporting and CBCG's decision-making process.</p> <p>To better convey its strong liquidity bias to its stakeholders, CBCG should publish the minimum threshold for the Liquidity Portfolio and incorporate the rules triggering liquidity cascading between the different portfolios in its publicly available governing documents.</p>
<b>Principle 2.4.3.</b>	<b>Supporting Analysis:</b> The central bank discloses the key assumptions and review process related to its policy decisions.
Description	The CBCG views the key assumptions underlying its policy decisions as proprietary. It also does not communicate on the review process related to its policy decisions.
Review	<p><i>Not implemented</i></p> <p>The CBCG does not communicate the assumptions used in its strategic asset allocation exercise nor the review process related to its policy decisions.</p> <p>The current version of the Decision on International Reserves Management was adopted in 2017. Currently the revision cycle of the Guidelines for International Reserves Management and the Decision on International Reserves Management are not communicated.</p>
Comments	CBCG should publish the assumptions that determine its strategic allocation of reserves, the benchmark selection process and, once it is adopted, the portfolio tranches rebalancing framework.

<sup>1</sup> The CBCG is considering a revision of the Decision on International Reserves Management to increase transparency. This change is not included in the transparency review. However, it is expected that the new Decision would, inter alia, disclose the distribution of responsibilities and the institutional framework, as well as some additional explanation on risk exposure and constraints. To avoid inducing internal and external confusion with its planned new Decision, particular attention should be given to avoid overlap in governing documents. The contemplated new broader Decision should remain at the policy level while the implementation framework and specific constraints stay in the existing Guidelines for International Reserves Management and the IC's Terms of reference.



	<p>These inputs would include, <i>inter alia</i>, its investment horizon, the absolute risk tolerance of the CBCG and the indices composing its reference portfolios.</p> <p>For all its governing documents, CBCG should set and communicate a review cycle.</p> <p>Once the CBCG has added a formal performance attribution process for its FX reserve management, it should consider communicating the main findings of the exercise in its CAR.</p>
<b>Principle 2.5.</b>	<b>Macroprudential Policy:</b> The objectives, decision-making process, and instruments of macroprudential policy are clearly communicated to the public. Indicators and supporting analysis to assess the need for macroprudential measures are disclosed alongside policy decisions.
<b>Principle 2.5.1.</b>	<b>Objectives and Framework:</b> The central bank discloses its macroprudential policy framework, including its objectives, instruments, and strategy for achieving its objectives.
Description	<p>The CBCG does not have an explicit macroprudential policy mandate. This rests on the FSC. The CBCG builds on Article 4 of the CBCG Law to implement macroprudential policy decisions as it assigns the central bank the primary objective of “fostering and maintaining the financial system stability, including fostering and maintaining a sound and safe banking system and an efficient payment system.”</p> <p>The CBCG regulates and supervises credit institutions (banks), as well as entities engaged in financial leasing, factoring, purchase of receivables, micro-lending and credit guarantee operations, while the Insurance Supervision Agency and the Capital Market Commission regulate insurance and securities, respectively.</p> <p>The CBCG has introduced various macroprudential instruments. In particular, capital buffers: countercyclical capital buffer, structural systemic risk buffer, and a buffer for other systemically important credit institutions (O-SICIs), for which the CBCG is the designated authority under the LCI. In addition, the CBCG uses the financial leverage ratio and the liquidity coverage ratio, as well as macroprudential measures for limiting growth of unsecured retail cash loans. Finally, the CBCG uses the reserve requirement instrument primarily with a view to preserving financial stability.</p> <p>In 2018, the <a href="#">CBCG published its macroprudential policy framework</a>, which includes, <i>inter alia</i>, objectives and instruments of macroprudential policy.</p> <p>The CBCG’s FSR builds on the macroprudential policy framework to explain the macroprudential measures introduced in the previous year.</p>
Review	<p><u>Core</u></p> <p>In absence of an explicit macroprudential policy mandate, the CBCG relies on Article 4 of its law to implement macroprudential policies. This article assigns the CBCG a broad mandate for financial stability. The CBCG has published its macroprudential policy framework, which is available on its website.</p>
Comments	<p>The macroprudential policy framework published by the CBCG primarily explains what macroprudential policy is and how the different instruments relate to the macroprudential objectives. However, this document falls short of providing a comprehensive macroprudential policy strategy that aims at preserving systemic financial stability in Montenegro. For instance, while the CBCG states on its website that macroprudential policy has a financial stability goal, some of its analysis also associates macroprudential policy with inflation. Specifically, in its 2022 CAR, when addressing the causes of inflation, the CBCG contends that “the instruments of monetary and macroprudential policy in Montenegro would not produce sufficiently effective results in reducing retail prices.”</p>
<b>Principle 2.5.2.</b>	<b>Policy Decisions:</b> The central bank publicly announces its macroprudential policy decisions in a timely manner, and discloses the decision-making process leading up to macroprudential action.

Description	<p>The formulation of macroprudential policy rests on the Financial Stability Council (FSC), which is responsible for “monitoring, identifying, preventing, and mitigating potential systemic risks in the financial system.” The FSC is chaired by the Governor of the CBCG and comprises the Minister of Finance, the President of the Council of the Insurance Supervision Agency, and the President of the Securities Commission. The CBCG has introduced an array of macroprudential policy measures. They are announced in a timely manner and disclosed on its website.</p> <p>Among macroprudential measures, the countercyclical capital buffer—regulated under the LCI—stands out. It is subject to quarterly review and its <a href="#">decisions are announced and published on the CBCG’s website</a>.</p> <p>Other measures are taken under separate decisions and are <a href="#">immediately announced</a>. For example, the structural systemic risk buffer rate, which is reviewed every two years.</p> <p>Similarly, the identification of other systemically important credit institutions (O-SICIs) and the methodology for such identification is <a href="#">posted in the CBCG’s website</a>.</p> <p>This decision is fully aligned with the relevant European Banking Authority (EBA) guidelines, except in the part governing the scoring threshold score which is set at 500 basis points in Montenegro due to the specific features of the market. The review of O-SICIs and O-SICI buffer rate is carried out once a year, with the <a href="#">analytical explanation</a> there of being published on the CBCG’s website. In addition, the financial leverage ratio and the LCR, as well as other macroprudential decisions, are prescribed in separate decisions and disclosed on the CBCG’s website.</p>
Review	<p><u>Core</u></p> <p>The adoption of macroprudential policy decisions is publicly disclosed and communicated to banks. These policy decisions are the responsibility of the FSC (Article 2 of the Financial Stability Council Law), which meets at least quarterly or more frequently at the Chairman’s request (Article 4 of the Financial Stability Council Law), although the schedule of meetings is not disclosed in advance. They are published in the Official Gazette and on the CBCG’s website. When the decision involves adjusting parameters over time, the announcement also includes the calendar telling when those adjustments are expected to materialize. The FSR of the year in which the decision is taken provides further analysis.</p>
Comments	<p>The introduction of macroprudential policy instruments is often in line with European guidelines. And while decisions adopted are disclosed, policy deliberations by the CBCG Council—respecting the confidentiality of information—are not provided within a reasonable amount of time.</p>
<b>Principle 2.5.3.</b>	<p><b>Supporting Analysis:</b> The central bank discloses the key indicators and analyses used to assess the need for macroprudential measures. It explains the rationale and the expected transmission channels of policy instruments in achieving their objectives.</p>
Description	<p>The CBCG publishes key indicators and analyses used as the basis for its macroprudential measures. The key analytical piece on the state of financial stability is the <a href="#">annual FSR</a>, which is posted on the CBCG’s website.</p> <p>For example, the 2019 FSR (pp. 39-40) provides the rationale for tightening conditions under which banks extend retail loans, the main driver of rapid credit growth at that moment. The same document (pp. 46-47) reports the approval of the LCI, which provided the legal foundations to introduce macroprudential measures aimed at strengthening the solvency of banks, including a capital conservation buffer, countercyclical capital buffer, structural systemic risk buffer, and a buffer for systemically important institutions (Basel III regulations). The 2021 FSR (pp. 28-29), in turn, documents the Decision by the CBCG that effectively introduced those capital buffers on a gradual basis starting in the first quarter of 2022.</p>

	The CBCG also compiles and publishes financial soundness indicators (FSIs)—and submits them to the IMF on a quarterly basis. In addition, the FSR contains the results of stress tests conducted by the CBCG to assess the resilience of the banking system against hypothetical adverse scenarios.
Review	<p><u>Core</u></p> <p>The CBCG publishes annually an evaluation of the banking system that includes assessing systemic risks. The role of macroprudential policy has gained momentum since 2019, with the approval of the LCI which provided the legal basis for adopting capital buffers in line with Basel III recommendations. Capital buffers were introduced in late 2021 to enter into effect gradually, starting in early 2022, as documented in the 2021 Financial Stability Report. The annual FSR also provides information about the results of stress tests on the banking system. In addition, the CBCG publishes FSI calculated quarterly.</p>
Comments	While the CBCG discloses an extensive analysis of stress tests and their results, it does not make a clear connection between those outcomes and the need of potentially introducing macroprudential policies to mitigate specific systemic risks. It does not identify either what the transmission channels to cope with financial vulnerabilities are.
<b>Principle 2.6.</b>	<b>Microprudential Supervision:</b> Selected principles from BCP, ICP, and IOSCO.
	<p>Reference as per Section II.A. of the <a href="#">Guidance Note</a>: Not Applicable.</p> <p>Explanation: The Central Bank does not publish the compliance with the BCP on its website. This assessment was carried out by the WB/IMF mission (FSAP Mission) and the reports are posted on the <a href="#">website of the International Monetary Fund</a> (the assessments were carried out in 2005 and 2016). The adoption of the Basel Core Principles for Effective Banking Supervision (BCP) and their implementation in the domestic legal regulation and practice of banking operations created the conditions for connecting the Montenegrin banking system to international flows, and thus for the increase of the country's rating in international financial institutions such as the World Bank Group and the IMF.</p> <p>The banking supervision, within the <a href="#">CAR</a>, lists the number of examinations (on-site and off-site), as well as the measures imposed on the supervised institutions (statistically only, without specifying the name of the institution against which the measure was imposed). In addition, the publication of <a href="#">statistical data</a> on the part of the imposed supervisory measures and violations are posted on the website in accordance with Article 353 of the LCI.</p> <p>Finally, the Credit Registry dataset from the CBCG established in 2005, provides a highly detailed record of all loans within the economy. The system operates 24/7, offering continuous access. The level of granularity of the dataset sets it apart as a high-standard resource compared to many other credit registry databases globally. It is regarded by counterparts as a high-quality system due to its comprehensive coverage, functionality and effectiveness to protect the system against frauds.</p> <p>Additionally, the CBCG has a <a href="#">dedicated section on its website</a> that explains the system's confidentiality measures, ensuring the protection of sensitive financial information in compliance with strict data privacy regulations. However, the information available does not fully reflect the dataset's level of granularity or the long period since its establishment, which are remarkable features. Enhancing the information around the dataset's scope and the depth of historical data it encompasses could further reinforce its value and utility for the system and for the users.</p>
<b>Principle 2.7.</b>	<b>Emergency Liquidity Assistance:</b> The central bank discloses the scope and objectives of emergency liquidity assistance, while maintaining the necessary confidentiality, to preserve financial stability and in support of monetary policy and its implementation.

<b>Principle 2.7.1</b>	<b>Market-wide Liquidity Support:</b> The central bank discloses the scope and objectives of market-wide liquidity support, while maintaining the necessary confidentiality, to preserve financial stability and in support of monetary policy and its implementation.
Description	There is no market-wide liquidity support by the CBCG, as it does not engage in asset swaps, outright purchases, or similar operations/instruments.
Review	Not Applicable.
Comments	
<b>Principle 2.7.2</b>	<b>Bilateral Liquidity Support:</b> The central bank discloses the scope and objectives of bilateral liquidity support, while maintaining the necessary confidentiality, to preserve financial stability and in support of monetary policy and its implementation.
Description	<p>According to Article 16 of the Law, “In the case of liquidity needs of credit institutions, the Central Bank may grant loans to solvent credit institutions against the interest rates that must be higher than the prevailing rates in the market in Montenegro and against adequate collateral.” To that end, the CBCG has passed a separate decision titled Detailed Conditions for and the Manner of Granting Loans to Credit Institutions, which regulates not only intra-day and overnight loans but also ELA loans.</p> <p>ELA may be granted to a solvent credit institution. This institution may use the liquidity loan exclusively for meeting its obligations to depositors and other creditors. The loan must be secured by debt securities issued by the state of Montenegro, EU Member States and international financial institutions or other collateral that the Central Bank deems appropriate. The nominal value of those securities and/or the market value of other collateral offered as security for the liquidity loan shall be no less than 115% of the loan value. If the CBCG determines that the value of collateral for ELA loan is not sufficient to secure receivables on that loan, a credit institution shall, at the request of the CBCG, provide additional collateral referred and/or repay the appropriate portion of the loan.</p> <p>In addition, the credit institution has to submit an overview of activities and measures it has taken to improve its liquidity, along with a plan of inflow and outflow of funds for the requested liquidity loan’s term. The institution is also required to submit a statement from its management board confirming that the credit institution has been unable to provide funds from other sources of liquidity available in the market. If the credit institution is a foreign credit institution’s subsidiary, it must include a statement indicating its inability to provide the necessary liquidity support to its subsidiary.</p> <p>The CBCG may grant the ELA loan to a credit institution for the period of up to 180 days. Interest on the granted ELA loan will be charged at a rate equal to the weighted average effective lending interest rate on loans granted by credit institutions, calculated on the last day of the month preceding the month in which this loan is being granted, increased by 1.5 percentage points. The Council of the Central Bank shall decide on the credit institution’s request for the renewal of the ELA loan by passing a decision to either approve or deny the application for the renewal.</p>
Review	<p><u>Core</u></p> <p>The currently communicated ELA framework may create expectations CBCG might not be able to fulfil. There is no transparency regarding any limits on legitimate requests for ELA. Given Montenegro’s current context – characterized by CBCG low capitalization and incapacity to issue currency-, CBCG might not be able to satisfy the demand in the event of a run on a large bank. Consequently, the reassurance provided in the published ELA framework might not be available when it is most needed.</p>
Comments	Rather than risking amplifying a liquidity crisis by revealing its constraints only when ELA would be needed, CBCG should enhance transparency regarding its limited ELA capacity in the current low-

	stress environment. To be transparent on the potential cap on its ELA, the CBCG should consider adding a <i>caveat</i> on its website highlighting its finite capacity to provide assistance due to (i) its non-currency issuing situation; and (ii) considerations about its own stability.
<b>Principle 2.8.</b>	<b>Resolution:</b> Selected principles from KA
	Reference as per CBT Review in Practice: Key considerations (A. CBT Review Scope) of the <a href="#">Guidance Note</a>  Not Applicable.
<b>Principle 2.9.</b>	<b>Financial Market Infrastructures:</b> Selected principles from PFMI
	<p>Reference as per CBT Review in Practice: Key considerations (A. CBT Review Scope) of the <a href="#">Guidance Note</a>. This section is not reviewed in TC reviews, as the PFMIs represent part of other international standards, assessed under different exercises.</p> <p>As such, it is not applicable.</p> <p>Comment:</p> <p>The CBCG is inter alia in charge of overseeing payment systems, including the CBCG Payment System that it operates at the same time. The conflict of interest is resolved by formation of a special organisational unit that is responsible for overseeing the system, which is organisationally and by lines of responsibility separated from the organisational unit that is in charge of operating the system.</p> <p>The CBCG passed a <a href="#">decision implementing the Principles for Financial Market Infrastructures</a> (PFMIs), that has been in effect as of 1 January 2016.</p> <p>PFMIs apply equally to the CBCG Payment System and private payment systems, if any.</p> <p>In addition, in 2015, the CBCG passed the <a href="#">Payment System Oversight Policy Framework</a> that discloses the roles, principles, objectives, standards, and activities of the CBCG oversight.</p> <p>As part of the current “Western Balkans Payment Modernization Project”, with the consulting assistance of the World Bank, a first assessment of the CBCG Payment System against the PFMIs began at the end of 2023. The project is expected to be completed by end of 2024. The project includes a publication of the disclosure framework on the website of the CBCG. As part of the project, the Responsibilities of the CBCG with respect to payment systems (as the only type of financial infrastructures the CBCG is in charge of) will also be assessed.</p>
<b>Principle 2.10.</b>	<b>Financial Integrity:</b> The central bank discloses its policies and powers for AML/CFT supervision, and a description of its internal control framework relating to the activities or services that may give rise to ML/TF risk.
<b>Principle 2.10.1</b>	<b>AML/CFT Supervision:</b> The central bank discloses information relating to its policies and powers supporting its AML/CFT supervisory activities.
Description	<p>The CBCG, pursuant to Article 131 paragraph 1 items 1) of the AML/CFT Law, oversees the supervision of ML/TF preventive measures by banks and NBFIs, as below:</p> <ol style="list-style-type: none"> <li>1) Credit institutions and branches of foreign credit institutions;</li> <li>2) Entities performing the following activities: <ul style="list-style-type: none"> <li>• Purchase of receivables;</li> <li>• Financial leasing;</li> <li>• Renting safe deposit boxes;</li> <li>• Factoring;</li> <li>• Issuance of guarantees and other sureties;</li> </ul> </li> </ol>

	<ul style="list-style-type: none"> <li>• Granting loans and loan mediation;</li> <li>• Exchange services;</li> <li>• Payment service providers and electronic money institutions in accordance with the law governing the provision of payment services and electronic money issuance;</li> </ul> <p>Within the CBCG, the Directorate for the Prevention of ML/TF &amp; the Protection of Client Rights of Credit Institutions and Financial Services Users (AML/CFT Directorate) is responsible for activities in this area. While the CBCG's supervisory and enforcement powers are set-out in Articles 131-138 of the AML/CFT Law, the scope and defined activities of the AML/CFT Directorate are set-out in Article 18b of the CBCG's Internal Organization and Operations Rulebook, which is not a public document.</p> <p>However, the CBCG dedicated a page on its website for AML/CFT which includes easily accessible information on the CBCG's AML/CFT supervisory approach, including:</p> <ol style="list-style-type: none"> <li>1) CBCG AML/CFT policy</li> <li>2) A description of CBCG's regulatory &amp; supervisory role in AML/CFT: details regarding the CBCG's mandate as it relates to supporting the legislative process and its responsibilities as a supervisory body.</li> <li>3) Reporting entity categories</li> <li>4) Applicable law (i.e.: AML/CFT Law)</li> </ol> <p>To guide supervised entities, the CBCG publishes on its website guidelines and other supporting material periodically, including:</p> <ol style="list-style-type: none"> <li>1) Guidelines for Risk Analysis and Establishment of a Risk Management System for ML/TF</li> <li>2) Guidance on the Identification and Verification of Beneficial Owners</li> <li>3) The latest Mutual Evaluation Report of Montenegro's AML/CFT Framework</li> <li>4) A sanitized version of Montenegro's National ML/TF Risk Assessment</li> <li>5) Common ML/TF typologies</li> <li>6) Indicators for identifying suspicious clients and transactions</li> <li>7) A list of applicable sanctions and High-Risk Countries</li> </ol>
Review	<p><u>Core</u></p> <p>The CBCG discloses an overview of its AML/CFT supervisory policies, and related guidance, as well as information on its AML/CFT supervisory powers. However, transparency in relation to public consultation practices and information regarding the CBCG's annual/periodic supervisory strategy could be improved. Furthermore, information regarding the CBCG's annual risk assessment methodology is not disclosed.</p>
Comments	<p>The CBCG could consider disclosing that any revisions of supervisory laws, bylaws, and decisions are in consultation with the private sector. Subsequently, the CBCG should also consider disclosing how it ensures consideration of the private sector's feedback on the implementation of the revised laws, bylaws, and decisions.</p>
<b>Principle 2.10.2</b>	<b>Internal AML/CFT Controls:</b> The central bank discloses a description of its internal AML/CFT control framework relating to its activities or services that give rise to ML/TF risk.
Description	<p>The CBCG engages in specific activities that give rise to ML/TF risks and internal AML/CFT controls are needed to mitigate them. The activities include:</p> <ol style="list-style-type: none"> <li>1) Carry-out the payment system operations as per Article 14 paragraph 4 of the CBCG Law;</li> <li>2) Ownership of and participation in payment systems as per Article 14 paragraph 5 of the CBCG Law (i.e.: the RTGS, DNS, ACH); and</li> <li>3) Provision of bank accounts as per Article 14 paragraph 15 of the CBCG Law.</li> </ol>

	<p>There are no disclosures made by the CBCG to describe its internal AML/CFT control framework. Although the function is not formally established, CBCG conducts the following activities:</p> <ul style="list-style-type: none"> <li>• The relevant Know Your Customer documentation and AML/CFT questionnaires required during CBCG activities are completed by the Financial and Banking Operations Department (FBO) and are initiated by the relevant credit institution in each transaction. Although the procedure is not documented nor is it subject to accountability measures to ensure effectiveness, the central unit responsible for communication for the procedure is the International Payment Operations and Correspondent Relations Directorate., which is a unit within the FBO.</li> <li>• CBCG applies screening against the list of cross-border sanctions (UN, EU, and OFAC lists) against the payment systems in-line with Swift requirements.</li> </ul>
Review	<p><u>Not implemented</u></p> <p>An internal policy to mitigate ML/TF risks arising from the above activities has not been documented and a function to apply AML/CFT measures has not been established. Furthermore, while certain AML/CFT internal controls are carried-out in respect of payments, controls for other functions within the CBCG that give rise to ML/TF risk such as, for example, during reserve management operations, have not been disclosed. Although the CBCG Law does not specifically provide for this level of internal oversight, the CBCG could improve transparency related to its oversight activities by formalizing, and subsequently disclosing, its internal AML/CFT control activities; including the allocation of human and technical resources for these functions.</p>
Comments	Once formalized, the CBCG should disclose its internal AML/CFT control policies.
<b>Principle 2.11.</b>	<b>Consumer Protection:</b> The central bank discloses its policies relating to consumer protection, conducted solely or jointly with other agencies.
Description	<p>Consumer protection is one of the key functions of CBCG, recognized as such by Article 14, Paragraph 1, Item 11a of the CBCG Law. Within CBCG, the Department for the Protection of Rights of Clients of Credit Institutions and Users of Financial Services (PRCD), a unit within the AML/CFT Directorate, is responsible for tasks in this area. The scope and description of the PRCD's tasks are set out by Article 18b, Paragraph 4 of the CBCG Internal Organization and Operations Rulebook, which is not published. However, the CBCG website has a dedicated page for consumer protection which includes an overview on CBCG's mandate in this area, including:</p> <ol style="list-style-type: none"> <li>1) Supervising financial institutions for compliance with consumer protection requirements in their lending activities as per Article 31 of the LCC;</li> <li>2) Handling complaints in cooperation with the Central Consumer Protection Information System; and</li> <li>3) Improve financial literacy.</li> </ol> <p>The CBCG's website consumer protection page also includes FAQs consumers should ponder before entering into a loan agreement, which provides easily accessible guidance to consumers regarding their consumer rights as per the LCC. CBCG occasionally produces printed brochures to raise consumer awareness about their rights. Hard copies are distributed to financial institutions and placed in public buildings. For ease of access, the CBCG intends to publish these brochures on the dedicated consumer protection page.</p> <p>The LCC is published on the CBCG's website in the dedicated consumer protection page. The LCC sets out requirements for lenders in relation to disclosures requirements, fair treatment, and business conduct measures while conducting lending activities. The LCC's coverage of consumer protection issues include:</p> <ol style="list-style-type: none"> <li>1) Minimum content requirements of loan advertisements – Article 8</li> <li>2) Pre-contractual information to be disclosed to consumers – Articles 9-12</li> </ol>



	<ol style="list-style-type: none"> <li>3) Obligation on lenders to assess the suitability of consumers before provision of loans Article 14</li> <li>4) Guidelines relating to notification of rejection – Article 15</li> <li>5) Credit Agreement content – Article 16-17</li> <li>6) Requirements regarding the periodic statement of account – Article 19</li> <li>7) Rights regarding unilateral termination – Article 21</li> <li>8) Rights regarding assignment and transfer – Article 24</li> </ol> <p>Furthermore, the following bylaws provides additional guidance for regulated entities to adhere to consumer protection rights:</p> <ol style="list-style-type: none"> <li>1) Decision on the Calculation and Display of the Effective Interest Rate on Loans and Deposits;</li> <li>2) Decision on the Record of Credit Intermediaries Maintained by the CBCG; and</li> <li>3) Decision on the Content of the Form for Informing Consumers about Consumer Loans.</li> </ol> <p>The CMAM jointly supervises banks for investment purposes. For example, the CMAM supervises consumer protection requirements relating to investment advice provided to clients via private banking departments in banks regulated by CBCG. However, this is not immediately clear in either CBCG legislation or other published information.</p> <p><b>Data Protection &amp; Privacy Usage of Customer Data</b> Collecting, using, and processing personal data by credit institutions shall be in accordance with the LPDP as per Article 351 of the LCI. The LPDP is published on the CBCG's website. Furthermore, the CBCG published the 'Rulebook on Personal Data Protection' which regulates data processed by the CBCG.</p> <p><b>Consumer Complaints</b> Consumers' right to complain is set out in Article 29 of the LCC and Article 30 describes out-of-court dispute resolution mechanisms. Furthermore, the 'Decision on the Manner and Deadlines for Submitting Data on Complaints of Clients of Credit Institutions and Users of Financial Services' provides additional guidelines in relation complaint handling by regulated entities. The CBCG's consumer protection page includes a dedicated page to provide consumers with easily accessible information on their right to complain. The page includes information turnaround times, complaint submission avenues, CBCG powers in handling complaints, and circumstances beyond the CBCG's mandate in handling complaints. While complaints can be submitted online via the website centralized complaint management system in Montenegro, the Central Consumer Protection Information System, the coordination mechanism and procedures on a national level are not disclosed.</p>
Review	--
Comments	The central bank publishes its consumer protection policies, including policies relating to disclosure measures and transparency of financial institutions, fair treatment and business conduct, and complaints handling. CBCG could enhance the consumer protection section of its website with information on methods of out-of-court dispute resolution before relevant arbitration bodies, as well as additional information on CBCG's role in the Central Consumer Protection Information System.
<b>Pillar III—Central Bank Operations</b>	
<b>Principle 3.1.</b>	<b>Monetary Policy:</b> The central bank discloses its operational framework with a well-defined operational target, objectives, instruments, collateral, and access criteria.



<b>Principle 3.1.1.</b>	<b>Instruments:</b> The central bank discloses its monetary policy instruments.
Description	<p>The CBCG Law specifies its monetary policy instruments, consisting of open market operations (Article 15), credit operations (Article 16) and reserve requirements (Article 18). In addition, the law states that the CBCG “may, in the pursuance of its objectives and the exercise of its functions referred to in this Law, decide on the use of other monetary policy measures and instruments” (Article 19). Specificities of each instrument are further regulated by separate bylaws. <a href="#">Key aspects of these instruments</a> are disclosed to the public on the CBCG’s website.</p> <p>In the context of euroization, open market operations have never been used. Credit operations, although designated by the law as a monetary policy instrument, are essentially part of the ELA framework, and have never been used either. The CBCG has only used reserve requirements a handful of times. They are mostly considered a financial stability instrument as they provide a liquidity buffer that could help banks withstand a run on deposits. <a href="#">The last time the CBCG used reserve requirements</a> for financial stability reasons was in 2020, when the CBCG cut the rate by two percentage points in response to the negative impact of Covid 19 on economic activity.</p>
Review	<p><u>Core</u></p> <p>The CBCG discloses decisions about changes in reserve requirements—which rarely take place. However, reserve requirements are not considered a monetary policy instrument in the context of the CBCG. It is rather a financial stability instrument used to cope with banks’ liquidity problems.</p>
Comments	Reserve requirements are not an instrument that is part of a monetary policy framework in the context of Montenegro. In a monetary policy framework, the key policy instrument typically works as an operational lever to influence a specific intermediate target, given that the central bank cannot control the latter. The intermediate target, in turn, aims to have an impact on the objective of monetary policy, namely inflation. This policy framework cannot exist in a euroized economy like Montenegro and therefore this should be clearly communicated to the public.
<b>Principle 3.1.2.</b>	<b>Coverage:</b> The central bank discloses: (i) the type of instrument (open market operations, standing facilities, other facilities, reserve requirements, and direct instruments of monetary control); (ii) the characteristics of each instrument; and (iii) the collateral framework.
Description	The Law on the CBCG spells out the monetary policy instruments that the CBCG has legally at its disposal (OMOs, credit operations, and reserve requirements). Since adjusting the rate of reserve requirements is the only instrument available to be used for policy purposes, the CBCG posts on its website the <a href="#">characteristics of reserve requirements and the parameters for its fulfilment</a> .
Review	<p><u>Comprehensive</u></p> <p>The CBCG discloses on its website the terms and conditions of its monetary policy instruments, particularly reserve requirements, as well as the related detailed regulations. This information is regularly updated.</p>
Comments	
<b>Principle 3.1.3.</b>	<b>Access:</b> The central bank discloses the monetary policy counterparties’ framework.
Description	While the CBCG does not have a comprehensive counterparty framework, the <a href="#">Decisions for each instrument includes</a> (implicit) provisions about access to the instrument by counterparties. The only allowed counterparties are credit institutions i.e. banks, which are licensed by the CBCG. The CBCG’s Decisions are posted on its website.
Review	<u>Comprehensive</u>

	The categories of monetary policy counterparties and access rights are clearly defined and disclosed. The only allowed counterparties are credit institutions i.e. banks, which are licensed by the CBCG.
Comments	
<b>Principle 3.2.</b>	<b>Cross-Border Financial Flows and Foreign Exchange Administration:</b> The central bank discloses how it implements this policy in terms of the instruments and the scope of its operations and actions.
<b>Principle 3.2.1.</b>	<b>Instruments:</b> The central bank's instruments for implementing the policy and the circumstances in which they can be used are clearly defined and disclosed.
Description	See 2.2.
Review	Not Applicable.
Comments	
<b>Principle 3.2.2.</b>	<b>Coverage:</b> The central bank discloses information about the persons (entities and individuals), transactions, and other aspects of the foreign exchange system that it can and does regulate; persons, transactions, and activities that it can license, approve, monitor, and sanction; and foreign exchange transactions that it can perform.
Description	See 2.2.
Review	Not Applicable.
Comments	
<b>Principle 3.3.</b>	<b>Foreign Exchange Management:</b> The central bank discloses how it implements its foreign exchange policies framework in terms of instruments, markets, size, and mode of access.
<b>Principle 3.3.1.</b>	<b>Instruments:</b> The central bank discloses the set of instruments used for foreign exchange management policy, key considerations under which these instruments are chosen, and eligibility criteria of counterparties and mode of access.
Description	Not Applicable.
Review	
Comments	
<b>Principle 3.3.2.</b>	<b>Coverage:</b> The central bank discloses the markets and agents who are targeted by the foreign exchange management policy.
Description	Not Applicable.
Review	
Comments	
<b>Principle 3.4.</b>	<b>Foreign Exchange Reserve Management:</b> The central bank discloses the general principles governing its foreign exchange reserve management operations, including relationships with counterparties and service providers.
<b>Principle 3.4.1.</b>	<b>Instruments:</b> The central bank discloses the broad selection criteria for eligible asset classes, composition of instruments, investment horizon and constraints.
Description	See Principle 2.4.1  The <a href="#">CBCG Annual Report</a> , a public document, includes a chapter on international reserves management that provides information on the assets structure by portfolio, the purpose of

	<p>individual portfolios, maturities, the issuers of securities owned by the CBCG, the currency structure of assets, the financial markets' movements during the year, the achieved annual average rates of return for different components of the portfolio, and the conditions under these returns were recorded. A dedicated section refers to all monitored risks, including the exposure of funds to banks and issuers with the highest rating, which serves as an indicator of a conservative approach in international reserves management.</p> <p>The <a href="#">CBCG Financial Statements</a> lists the allowed credit ratings for investing with foreign banks, including those engaged in buying and selling of currencies, cash, and payment operations. The allowed ratings are also listed for investing in debt securities. In addition, the financial statements contain a table with the exposure of total funds by credit risk level (according to the bank/issuer's rating) and a breakdown of exposure by geographic region. It outlines measures for monitoring market risk, presents the modified duration for individual portfolios at the end of the year as an indicator of interest rate risk, and quantifies the risk associated to interest rate changes.</p>
Review	<p><u>Core</u></p> <p>The central bank discloses broad criteria on the selection of reserve assets and instruments.</p> <p>Even though, the presentation sometimes is not reader friendly, the CBCG also discloses its unidimensional risk vectors (modified duration, FX risk and credit risk). Unfortunately, limits for these risks are not communicated. Furthermore, although <i>ex ante</i> tracking error, a broader indicator of risk relative to the portfolio benchmark, is part of CBCG's internal framework, CBCG does not publish it.</p> <p>The adhesion to the EU will require a major shift in the reserve management process and the portfolio composition. New asset classes will be used, and the Euro portfolio will shrink. To migrate seamlessly, the CBCG will have to use new systems, processes, relationships, know-how, asset classes etc.</p>
Comments	<p>CBCG should be more transparent regarding its risk limits and publish its Guidelines (see Principle 2,4,1).</p> <p>Furthermore, since they are already components of its internal framework, the CBCG's should incorporate tracking error and value-at-risk in its communication about market risk constraints to provide stakeholders with a more global view of the portfolio's risk.</p> <p>Finally, CBCG should proactively communicate the impact of Montenegro's potential integration in the EU on its FX reserves management's framework. If Montenegro joins the EU in 2028, CBCG should already be transparent about its strategic and operational readiness to manage a large portfolio of FX reserves without euros and with many new asset classes.</p>
<b>Principle 3.4.2.</b>	<b>Coverage:</b> The central bank discloses the criteria to select eligible market counterparties and service providers and eligible markets to conduct its operations.
Description	<p>Other than its minimum acceptable credit rating, CBCG considers that the criteria for the selection of partners should not be disclosed. The Decision on International Reserves Management gives a broad overview of the risks monitored throughout this process. In accordance with Article 7 of the Decision, the undisclosed Guidelines for International Reserves Management define the limits and restrictions for potential counterparties, i.e. the methodology for selecting eligible counterparties.</p> <p>The IC, as an advisory body to the Governor, determines the internal List of approved banks for cooperation in international reserves management.</p> <p>Similarly, CBCG's does not publish the eligible markets for investing its FX reserve. However, the yearly financial statements disclose the markets where CBCG is invested in at year end.</p>

Review	<p><u>Core</u></p> <p>The lack of clear communication about its counterparties and the selection criteria used for its FX reserves management activity exposes CBCG to potential critics that it engages with inappropriate counterparties.</p> <p>Because of its index choices, the CBCG is exposed to multiple jurisdictions. This could also generate undue suspicions as CBCG sometimes invests in atypical jurisdictions for small central banks.</p>
Comments	<p>Aside from the minimum acceptable rating for its counterparties, the CBCG currently does not plan to disclose details about its selection process. As a first step towards increased transparency, CBCG should consider publishing, for each type of service it procures in its FX reserves management activity, the maximum number of counterparties it engages with and its non-credit rating-related scoring criteria, e.g. global reputation, coverage of specific markets, available training, operational robustness etc.</p> <p>Since CBCG invests in non G7 jurisdictions, it might be appropriate to communicate the minimum criteria for a jurisdiction to be eligible, e.g. inclusion in one of the CBCG's investment benchmarks.</p> <p>With the expected accession to the EU, the transparency on issuers' jurisdictions will overlap partially with the transparency on eligible currencies required by the migration to non-euro FX reserves. In that context, CBCG should already communicate on its criteria for currency eligibility in the portfolio.</p>
<b>Principle 3.4.3.</b>	<b>Review:</b> The central bank discloses criteria to assess adequacy and liquidity parameters and discloses such analysis regularly, at predetermined times.
Description	The Financial and Banking Operations Department prepares quarterly and CARs for internal stakeholders. While information from these reports is included in the CAR, the adequacy indicator is not.
Review	<p><u>Expanded</u></p> <p>Considering CBCG's peculiar euroization situation, the assessment of reserves adequacy (ARA) is less relevant. However, once Montenegro joins the EU, the currency composition of its FX reserves will change drastically, and the ARA indicator will gain in importance.</p> <p>The different tranches' liquidity parameters cannot be shared with stakeholders as the current framework does not incorporate rebalancing rules for the different portfolios (see Principle 2.4.2).</p> <p>However, the yearly <u>financial statements</u> for 2023 (Table in Note 4.3.3) provide the extent of the gap between the maturities of the assets and the liabilities. Even though there is insufficient granularity in the displayed maturity buckets to infer an accurate liquidity indicator, this is a step in the right direction.</p> <p>Financial <u>statements</u> mention a 6-month maximum tenor constraint for term deposits. However, without bucket granularity, this long tenor limit for an illiquid asset does not provide comfort to the stakeholders regarding CBCG's liquidity.</p>
Comments	<p>CBCG should start publishing the ARA in the CAR.</p> <p>To move up the transparency ladder, CBCG should start publishing annual liquidity stress tests.</p>
<b>Principle 3.5.</b>	<b>Financial Stability Reviews and Stress Testing:</b> The central bank periodically discloses its review of domestic financial stability to the public and is transparent about the methods used for such reviews, including its framework for stress testing.
<b>Principle 3.5.1.</b>	<b>Financial Stability Reviews:</b> The central bank periodically provides the public its review of risk to financial stability, including new and emerging sources of vulnerability.

Description	<p>The CBCG prepares two documents annually that address financial sector developments. The first, and most important, is the FSR, and the second document is the Central Bank CAR. The CBCG submits both documents to Parliament by June 30.</p> <p>The FSR is the key <a href="#">analytical document</a> that evaluates the stability of the financial system as it identifies risks and vulnerabilities, which published on the CBCG's website.</p> <p>The report comprises four sections. The first section gives an overview of systemic risk trends and assessments. The second section depicts trends in the international economic and financial environment. The third section summarizes local macroeconomic trends, balance of payments developments, and the risks and vulnerabilities in the private sector, the government, and the public sector in general. The fourth section discusses trends and risks in the banking sector as well as in other areas of the financial system. The FSR also contains a sensitivity analysis and simple stress scenarios for credit risk, market risks, and deposit outflow risk, with methodological references. The summary results of the macro stress testing, including the scenarios and the associated methodology, are for the first time published in the 2023 FSR.</p> <p>The Central Bank CAR describes major economic developments in Montenegro and the policies adopted by the CBCG, including those that aim to preserve stability of the financial system.</p> <p>The CBCG also compiles and <a href="#">publishes financial soundness indicators</a> (FSIs)—and submits them to the IMF on a quarterly basis.</p> <p>FSIs are produced in accordance with the 2019 IMF's manual and cover primarily banks, the dominant activity within the financial system in Montenegro (more than 90 percent of total assets).</p> <p>In addition, the CBCG publishes key indicators and analyses used as the basis for the adoption of macroprudential measures.</p>
Review	<p><u>Enhanced</u></p> <p>The CBCG publishes annually information on its assessment of financial sector vulnerabilities and publishes the methods and underlying data used for such assessments. The CBCG's publication of FSIs and other financial stability indicators of the banking system provides additional valuable information to monitor strengths and vulnerabilities of the financial system.</p> <p>The FSR also includes a discussion on new and emerging vulnerabilities in the financial sector.</p>
Comments	
<b>Principle 3.5.2.</b>	<b>Macroprudential Stress Testing Methods:</b> The central bank discloses the methods and key assumptions of the stress testing framework.
Description	<p>The FSR contains sensitivity analysis—stresses scenarios for credit risk, market risks, and deposit outflow risk—with methodological explanations. The CBCG also carries out macro stress testing of the banking system once a year, with the main objective of assessing the possible need of additional capital requirements based on data at the end of the previous year. This exercise simulates the impact of negative macroeconomic developments that may arise in the next two years. At the same time, the CBCG requires each bank to run stress tests using its own methodology. Banks are required to submit to the CBCG the stress test results together with the methodology used.</p> <p>The CBCG's Supervision Department runs stress tests on a quarterly basis, but it discloses key assumptions and aggregate results for the fourth quarter in the FSR. The summary results of the macro stress testing, including the scenarios and the associated methodology, were for the first time published in the 2023 FSR.</p>
Review	<u>Comprehensive</u>

	The CBCG discloses the types of stress tests it undertakes (top-down), the results on an aggregated basis, and the stress testing methodology.
Comments	
<b>Principle 3.5.3.</b>	<b>Stress Testing Coverage:</b> The central bank discloses the coverage of the stress testing exercise.
Description	The sensitivity analysis and the macro stress testing cover all banks operating in Montenegro. <a href="#">Key information on all banks</a> in the system are available at the CBCG's website.
Review	<u>Comprehensive</u>  The coverage of sensitivity analysis exercises is publicly known (all the banks), whereas the coverage of the macro stress testing is disclosed in terms of number of banks covered and percentage of total loan portfolio of the system covered.
Comments	
<b>Principle 3.5.4.</b>	<b>Central Bank Use of Stress Test Results:</b> There is clarity about the ways the central bank uses the stress test results.
Description	The CBCG uses the sensitivity analysis results for analytical purposes and the outcome of the macro stress test for the purpose of preparing supervisory strategies of individual banks. The Supervision Department carries out sensitivity analysis on a quarterly basis, which represents an important tool to complement the assessment of the stability and resilience of the banking system in the event of various types of adverse shocks.
Review	<u>Core</u> The stress test results are used for assessing the resilience of banks and for potentially implementing corrective measures. However, commercial banks claim that they are not formally informed about the use of the stress test they submit to the CBCG and how their results are reconciled with the central bank's own stress tests.
Comments	Commercial banks claim that they are not formally informed about the use of the stress test they submit to the CBCG and how their results are reconciled with the central bank's own stress tests. The CBCG should explain to commercial banks how stress tests inform its policy decisions.
<b>Principle 3.6.</b>	<b>Macroprudential Policy Implementation:</b> The central bank discloses how it implements macroprudential policies, including the design of policy instruments and enforcement arrangements.
<b>Principle 3.6.1.</b>	<b>Instruments:</b> The central bank discloses the precise design and objectives of its macroprudential instruments, including the scope of entities and financial instruments subject to macroprudential constraints.
Description	The design and objectives of macroprudential instruments are primarily defined in the LCI, CBCG's regulations, and the Macroprudential Policy Framework. The design and objectives of macroprudential measures are also disclosed, in particular in relation to capital buffers: i) <a href="#">Countercyclical capital buffer</a> , ii) <a href="#">Structural systemic risk buffer</a> <a href="#">O-SICI buffer</a> .  The <a href="#">design and objectives</a> of other macroprudential instruments are presented under a separate link on the CBCG's website. Macroprudential policy refers to banks, which as today account for about 95 percent of the financial sector's assets.

	The process of making macroprudential decisions for the capital buffers, financial leverage ratio and LCR is defined by the LCI, which is disclosed on the CBCG's website. The adoption of macroprudential decisions is public and, as a rule, is accompanied by communication with commercial banks, announcements on the central bank's website, and the publication of the regulations in the Official Gazette and the central bank's website.
Review	<u>Core</u> The design and objectives of macroprudential instruments are primarily defined in the LCI, the CBCG's regulations, and the Macroprudential Policy Framework, which refer to the type of financial institutions to whom these measures apply. All this information is disclosed on the CBCG's website.
Comments	Based on the meetings held with major stakeholders, there is no clear understanding of what macroprudential is and what its objectives are. The relative novelty of macroprudential policy and because it is one of the primary instruments aimed at preventing financial crises, the CBCG could explain in simple words what macroprudential policy is about, the instruments it is using, and how they contribute to preserve financial stability. This could be done through a dedicated communication strategy that seeks to help the public understand the other objective pursued e CBCG, its strategy, and its processes.
<b>Principle 3.6.2.</b>	<b>Enforcement:</b> The central bank discloses enforcement mechanisms and responsibilities for all entities and financial instruments subject to macroprudential constraints.
Description	Pursuant to provisions of the LCI, the CBCG enjoys clear authority to enforce banks fulfillment of the requirements stemming from macroprudential instruments and their calibration. The law also defines the penalties and consequences in case of non-compliance with the macroprudential restrictions.
Review	<u>Comprehensive</u> Because the LCI is publicly disclosed by the CBCG, all market participants are informed about the consequences in case of non-compliance with the macroprudential policy measures adopted.
Comments	
<b>Principle 3.7.</b>	<b>Microprudential Supervision:</b> Selected principles from BCP, ICP, and IOSCO.
	<p>Reference as per Section II.A. of the <a href="#">Guidance Note</a></p> <p>Not Applicable</p> <p>Explanation: The Central Bank does not disclose the compliance with the BCP on its website. This assessment was carried out by the WB/IMF mission (FSAP Mission) and the <a href="#">reports are posted on the website of the International Monetary Fund</a> (the assessments were carried out in 2005 and 2016)</p> <p>The adoption of the Basel Core Principles for Effective Banking Supervision (BCP) and their implementation in the domestic legal regulation and practice of banking operations created the conditions for connecting the Montenegrin banking system to international flows, and thus for the increase of the country's rating in international financial institutions such as the World Bank Group and the IMF. The supervision, within the CBCG CAR, lists the number of examinations (on-site and off-site), as well as the measures imposed on the supervised institutions (statistically only, without specifying the name of the institution against which the measure was imposed). In addition, the publication of statistical data on the part of the imposed supervisory measures and violations are posted on the website in accordance with Article 353 of the LCI.</p>

<b>Principle 3.8.</b>	<b>Emergency Liquidity Assistance:</b> The central bank may disclose any ongoing provision of emergency liquidity assistance (including bilateral and market-wide support) and its conditions and parameters once the need for confidentiality has ceased.
<b>Principle 3.8.1</b>	<b>Market-wide Liquidity Support:</b> The central bank may disclose any ongoing provision of market-wide liquidity support and its conditions and parameters once the need for confidentiality has ceased.
Description	There is no market-wide liquidity support by the CBCG, as it does not engage in asset swaps, outright purchases, or similar instruments.
Review	Not Applicable.
Comments	Not Applicable.
<b>Principle 3.8.2</b>	<b>Bilateral Liquidity Support:</b> The central bank may disclose any ongoing provision of bilateral liquidity support and its conditions and parameters once the need for confidentiality has ceased.
Description	<p>According to Article 16 of the Law, “In the case of liquidity needs of credit institutions, the Central Bank may grant loans to solvent credit institutions against the interest rates that must be higher than the prevailing rates in the market in Montenegro and against adequate collateral.” To that end, the CBCG has passed a separate decision titled Detailed Conditions for and the Manner of Granting Loans to Credit Institutions, which regulates not only intra-day and overnight loans but also ELA loans.</p> <p>ELA may be granted to a solvent credit institution. This institution may use the liquidity loan exclusively for meeting its obligations to depositors and other creditors. The loan must be secured by debt securities issued by the state of Montenegro, EU Member States and international financial institutions or other collateral that the Central Bank deems appropriate. The nominal value of those securities and/or the market value of other collateral offered as security for the liquidity loan shall be no less than 115% of the loan value. If the CBCG determines that the value of collateral for ELA loan is not sufficient to secure receivables on that loan, a credit institution shall, at the request of the CBCG, provide additional collateral referred and/or repay the appropriate portion of the loan.</p> <p>In addition, the credit institution has to submit an overview of activities and measures it has taken to improve its liquidity, along with a plan of inflow and outflow of funds for the requested liquidity loan’s term. The institution is also required to submit a statement from its management board confirming that the credit institution has been unable to provide funds from other sources of liquidity available in the market. If the credit institution is a foreign credit institution’s subsidiary, it must include a statement indicating its inability to provide the necessary liquidity support to its subsidiary.</p> <p>The CBCG may grant the ELA loan to a credit institution for the period of up to 180 days. Interest on the granted ELA loan will be charged at a rate equal to the weighted average effective lending interest rate on loans granted by credit institutions, calculated on the last day of the month preceding the month in which this loan is being granted, increased by 1.5 percentage points. The Council of the Central Bank shall decide on the credit institution’s request for the renewal of the ELA loan by passing a decision to either approve or deny the application for the renewal.</p>
Review	<p><u>Core</u></p> <p>No ELA has been provided to banks in the past. The ELA framework’s is not clear on (i) the central bank’s decision-making process once a demand for ELA is communicated; (ii) whether other</p>



	agencies are involved in this process; (iii) the commercial banks required operational steps to obtain ELA from the CBCG; (iv) what is meant by “collateral that the Central Bank deems appropriate”; and its disclosure policy.
Comments	The CBCG is in the process of finalizing a manual to guide its commercial banks on the operational steps needed to access ELA. Once completed, this manual should be published on CBCG’s website and aim to address the current operational blind spots.
<b>Principle 3.9.</b>	<b>Resolution:</b> Selected principles from KA
	<p>Reference as per Section II.A. of the <a href="#">Guidance Note</a> Not Applicable.</p> <p>Explanation: Pursuant to Article 7 paragraph 7 of the <a href="#">Law on Resolution of Credit Institutions</a>, the Central Bank publishes on its web site a summary form on any relevant internal acts of the Central Bank governing the organisation of activities from the area of the credit institution resolution, including rules on professional secrecy and exchange of <a href="#">information</a> between the resolution function and supervisory function of credit institutions.</p> <p>The Single Resolution Board (SRB) and the CBCG signed the Cooperation Arrangement that covers the exchange of information and cooperation on resolution planning and implementation for banks with cross-border operations. The agreement means closer and regular cooperation between the two authorities due to ever-increasing cross border banking operations. The Central Bank has <a href="#">published this Cooperation Agreement</a> on its website.</p> <p>Also, according to Article 41 of the Law on Resolution of Credit Institutions, the Central Bank is obliged to publish on its website the decision to initiate resolution proceedings and all subsequent decisions implementing the decision to initiate the resolution proceedings or notification containing key elements of the resolution action and its effects on natural persons, micro, small and medium enterprises.</p> <p>With regard to public disclosure of information on misdemeanours by credit institutions and responsible persons in credit institutions, Article 157 of the aforementioned law specifies that the Central Bank shall, without delay, publish on its official website information on any final and binding penalties imposed on a credit institution and responsible persons in a credit institution, in a misdemeanour proceedings for infringing the provisions of this Law or regulations adopted pursuant to this Law, initiated upon a request of the Central Bank as the responsible authority and misdemeanours for which the Central Bank has issued a misdemeanour warrant in accordance to the law governing the misdemeanours.</p>
<b>Principle 3.10.</b>	<b>Financial Market Infrastructures:</b> Selected principles from PFMI
	<p>Reference as per Section IIAF. of the <a href="#">Guidance Note</a></p> <p>Not Applicable, see 2.9.</p>
<b>Principle 3.11.</b>	<b>Financial Integrity:</b> The central bank discloses its AML/CFT supervisory processes as well as details about resources allocated to its internal AML/CFT controls.
<b>Principle 3.11.1</b>	<b>AML/CFT Supervision:</b> The central bank discloses its AML/CFT supervisory processes.

Description	<p>The CBCG discloses its AML/CFT supervisory processes on its website. A high-level overview of its approach to off-site and on-site AML/CFT supervisory activities and type of inspections is set out in the dedicated AML/CFT page on the CBCG website. In addition, the process of applying the AML/CFT risk-based approach is also included. The human resources available to AML/CFT supervision within the CBCG is set out in the published report of the 2020 National ML/TF Risk Assessment. However, the statistics were dated given that the assessment is not updated periodically.</p> <p>The CBCG CAR discloses information on the number of planned and ad-hoc onsite inspections conducted in the previous year and an updated list of all the entities supervised by the CBCG is available on its website.</p>
Review	<p><i>Expanded</i></p> <p>The CBCG discloses general information and statistics on its supervisory approach and activities, including an up-to-date list of supervised entities. However, specific areas of supervisory focus in the short/medium term are notably missing, given that the results of offsite analysis (i.e.: supervisory level AML/CFT risk assessment report) are not published. In addition, information on awareness raising activities is not disclosed. Updated information regarding the human and technical resources allocated to supervisory activities is not disclosed. Furthermore, the completion rate of planned on-site inspections and response rate of off-site analysis questions are not disclosed.</p>
Comments	The CBCG should consider periodically disclosing the human and technical resources allocated to its AML/CFT supervisory processes. In addition, the completion rate of its planned on-site and off-site activities should be disclosed. The CBCG should consider including information regarding cross-border activities of its supervised entities.
<b>Principle 3.11.2</b>	<b>Internal AML/CFT Controls:</b> The central bank discloses resources allocated to its internal AML/CFT controls.
Description	See 2.10.2.
Review	Not Implemented.
Comments	--
<b>Principle 3.12</b>	<b>Consumer Protection:</b> The central bank discloses its operations relating to consumer protection conducted solely or jointly with other agencies.
Description	<p><b>Supervision</b></p> <p>The CAR includes the number of consumer complaints handled by the CBCG in the previous year. The CBCG also disclosed statistics on the number of on-site and off-site inspections conducted, including a description of the common findings. Furthermore, the CBCG discloses measures taken against regulated entities because of contraventions identified during inspections. The sanctions include private warnings and misdemeanor court proceedings against regulated entities and responsible persons. Sanctions information is disclosed in an aggregated format within a consumer-protection dedicated section in the CBCG's CAR.</p> <p><b>Awareness Raising</b></p> <p>In pursuit of protecting consumers rights and raise awareness on effective interest rates in the lending market, the CBCG publishes an 'Informative List on Offered Consumer Loans' on its website which sets-out effective interest rates for each bank across its deposit-taking and lending products. The list is compiled using information from credit institutions which is submitted annually as per Article 5 of the 'Decision on the Calculation and Reporting of the Effective Interest Rate on Loans and Deposits'.</p>
Review	--

Comments	<p>Guidelines to assist regulated entities in implementing the LPDP are not available. The CBCG should consider disclosing the following information on its website to improve transparency of its consumer protection operations:</p> <ul style="list-style-type: none"> <li>• Guidelines on data protection, privacy usage of customer data, and information sharing of customer data; and</li> <li>• Publish copies of brochures produced to improve awareness of consumers' rights and financial literacy.</li> </ul>
<b>Pillar IV—Central Bank Outcome</b>	
<b>Principle 4.1.</b>	<b>Monetary Policy:</b> The central bank is transparent about the outcome of its monetary policy conduct.
<b>Principle 4.1.1.</b>	<b>Governance Actions:</b> The accountability of the central bank in monetary policy is clear as to whom accountability is owed and how it is discharged.
Description	<p>The CBCG is held accountable in accordance with Article 39 of the CBCG Law that specifies that the CBCG “shall submit, as needed, and at least once a year, by 30 June of the current year, the report on its prior year’s operations to the Parliament of Montenegro for its consideration.” The same article also requires the CBCG to “publish reports on financial system stability and price stability matters, which it shall submit to the Parliament and the Government for information purposes, as needed, and at least once a year, no later than by 30 June of the current year for the previous year.” In addition, Article 45, 15) states that “<i>The Governor may address the Parliament and its bodies upon invitation thereof with regard to the issues of monetary and financial stability and the functioning of the banking system.</i>”</p> <p>Similarly, Article 73 establishes that the CBCG “<i>shall regularly and timely inform the public on the pursuance of its objectives and the exercise of its functions, and particularly on macroeconomic analysis, financial and monetary stability, monetary and credit trends, and the balance of payments, and may publish reports and studies on other financial and economic issues.</i>” The CBCG expands its accountability duties by disclosing and disseminating several documents—such as the annual Policy for the Attainment of Objectives and the Exercising of Functions, many regular publications/reports, as well as press releases and public presentations that explain the conduct and challenges of any issues, including monetary policy.</p> <p>As part of its accountability, the CBCG makes its yearly financial plan and financial statements transparent. In accordance with Article 71, the CBCG “<i>shall submit the adopted financial plan to the Government and the Parliament for information purposes,</i>” while Article 72 requires the CBCG to “<i>publish AFSs referred to in Article 71 on its website or via other electronic or printed media.</i>”</p>
Review	<p><u>Core</u></p> <p>The CBCG Law establishes clear accountability provisions to hold the CBCG accountable about its mandate and the policies adopted. The CBCG sent to the Parliament the CAR before June 30 of each year. The Governor of the CBCG appears in front to Congress to respond to questions that members of Parliament may have.</p>
Comments	While the CBCG fulfill the requirement of the law and send to Parliament the economic and financial reports referred to above, a meaningful accountability about monetary policy is not possible given that the Montenegrin economy is officially euroized.
<b>Principle 4.1.2.</b>	<b>Policies:</b> The central bank discloses progress toward achieving its monetary policy objective(s) as well as prospects for achieving them.
Description	In a euroized economy like Montenegro, inflation—the standard monetary policy objective—is exogenously driven and the central bank is unable to formulate monetary policy.
Review	Not Applicable.

Comments	
<b>Principle 4.1.3.</b>	<b>Operations:</b> The central bank discloses the volumes and interest rates of the operations, as well as the level of the operational target achieved.
Description	While the CBCG is authorized to conduct open market operations these transactions have never taken place. As a result, there is no volume of operations to disclose, nor a policy rate working as operational target to make public. The CBCG does not have a quantitative operational target either.
Review	Not Applicable.
Comments	
<b>Principle 4.2.</b>	<b>Cross-Border Financial Flows and Foreign Exchange Administration:</b> The central bank discloses the outcome of its policy implementation.
<b>Principle 4.2.1.</b>	<b>Governance Actions:</b> The central bank discloses information about to whom its accountability on the policy is owed and how it is discharged.
Description	See 2.2.
Review	<i>Not implemented</i> As discussed in Principle 2.2.2, the CBCG (i.e. the Governor) is given the authority to activate Article 11 of the Law on Foreign Current and Capital Operations to initiate exchange controls. On the other hand, the Central Bank Law (Article 44, paragraph 2, item 10) stipulates that the CBCG Council decides on the introduction of safeguard and other measures for the purpose of maintaining stability of the financial system as a whole.  As for all its decisions, the CBCG is accountable to Parliament through its CAR.
Comments	If CBCG decides to leave Article 11 in the Law on Foreign Current and Capital Operations, it should consider adapting it to reflect the actual owner of the final say.
<b>Principle 4.2.2.</b>	<b>Policies:</b> The central bank discloses on a regular basis information about the results in achieving the policy objectives.
Description	See 2.2.
Review	Not Applicable.
Comments	
<b>Principle 4.2.3.</b>	<b>Implementation:</b> The central bank discloses on a regular basis information about the results of the policy implementation.
Description	See 2.2.
Review	Not Applicable.
Comments	
<b>Principle 4.3.</b>	<b>Foreign Exchange Management:</b> The central bank discloses how its governing committee is accountable for undertaking and reporting on foreign exchange interventions.
<b>Principle 4.3.1.</b>	<b>Governance Actions:</b> The central bank discloses its decision-making structure and how it is accountable for Foreign Exchange Management.
Description	Not Applicable.
Review	
Comments	

<b>Principle 4.3.2.</b>	<b>Policies:</b> The central bank discloses the role of Foreign Exchange Management toward achieving its policy objective(s) as well as its interaction with broader monetary policy objectives.
Description	Not Applicable.
Review	
Comments	
<b>Principle 4.3.3.</b>	<b>Operations:</b> The central bank discloses the results of its market operations, the volume of activity, and the direction of interventions on its website at a predefined time lag.
Description	Not Applicable.
Review	
Comments	
<b>Principle 4.4.</b>	<b>Foreign Exchange Reserve Management:</b> The central bank discloses any changes to the general principles of internal governance and provides clarity on the outcomes of its policy decisions about foreign exchange reserve management.
<b>Principle 4.4.1.</b>	<b>Governance Actions:</b> The central bank publicly discloses the general principles of internal governance to ensure the integrity of its policy formulation and operations.
Description	<p>See Principle 2.4.1</p> <p>The CBCG Law, the Decision on International Reserves Management and the unpublished Guidelines for International Reserves Management define the international reserves' institutional framework. These documents cover, <i>inter alia</i>, the management structure, the division of responsibilities, and the reporting framework.</p> <p>The CAR contains limited information about the investment process's evaluation and changes in the investment framework.</p>
Review	<p><u>Core</u></p> <p>The CBCG Law and the Decision on International Reserves Management provide a partial view of CBCG's general principles of internal governance and operations. As mentioned in Principle 2.4.1, the responsibilities of the different decision-making bodies are not communicated. This incomplete information on the portfolio management's governance process is insufficient to reassure external stakeholders about the intended implementation, across the FX reserves management function, of proper (i) segregation of duties; and (ii) checks and balances.</p>
Comments	CBCG should publish the IC's Terms of reference and the Guidelines for International Reserves Management as recommended <i>supra</i> (See Principle 2.4.1).
<b>Principle 4.4.2.</b>	<b>Reporting on Implementation:</b> The central bank discloses data relating to the level and composition of reserve assets, short-term liabilities, and drains that can lead to demand on reserves at a predefined frequency.
Description	<p>The <u>CBCG CAR</u> and the yearly <u>Financial Statements</u>, provide partial information on the structure of assets by portfolio, the purpose of individual portfolios, maturities, issuers of securities owned by the CBCG, the annual average rates of return for individual parts of the portfolio and the market conditions in which such returns were generated. These documents also provide a partial view of the monitored risks, and of the exposure to banks and issuers of the highest rating.</p> <p>More complete information is provided on the assets' growth during the last year and on the currency structure of assets.</p>

	Data on individual outflows and short-term liabilities are considered confidential by CBCG and are not disclosed.
Review	<u>Core</u> Information about the level and composition of reserves, purpose of portfolios and developments influencing investment process is spread throughout the FX reserve management section of the <u>CAR</u> . CBCG regards the missing element needed to achieve the “expanded” rating - specifically, liabilities and outflows - as proprietary information.
Comments	For clarity, the FX reserves management’s information should be better organized in the <u>CAR</u> . Transparency on the liabilities and outflows would improve the rating from “core” to “expanded”
<b>Principle 4.4.3.</b>	<b>Financial Results:</b> There is clarity in AFSs on the amount, composition, profit/loss, and risks arising from foreign exchange reserves.
Description	The audited AFSs provide information on the measurement of credit, market and liquidity risk. The <u>Financial statements</u> also report information from the point of view of the asset and liability position of the CBCG.  The 2023 <u>Financial Statements</u> include the amount, composition and profit and loss. In addition, it discusses the level and evolution of some of CBCG’s exposures to financial risks. In addition to the structure of the portfolios, the disclosure note includes information on eligible counterparties and bond issuers, permissible limits, mitigations, benchmarks, as well as quantified exposures and references to methods/concepts used for quantification.
Review	<u>Core</u> The <u>Financial statements</u> are clear.  The aggregate profit and loss are disclosed but this information is not sufficient. Furthermore, in the context of a portfolio exposed to exogenous inflows and outflows such as CBCG’s FX reserves portfolio, this information is meaningless to evaluate the performance of the FX reserves management activity. Sometimes, communication of fundament information is blurred by (i) translation issues e.g. the English version of the CAR provides the “annual yield rate on primary placement categories” which does not mean anything and can actually be wrongfully interpreted as an undefined rate applied exclusively to purchases in the primary market; and (ii) editing issues e.g. the AFS currency units are using different currency units’ conventions throughout the document and confusing the reporting of actual risk exposures.  No information is available on the relative performance of CBCG’s portfolios compared to their benchmarks and risks (see Principle 2.4.1).  Finally, in its latest available CAR (2022), CBCG’s communication on portfolio management performance may have misled stakeholders and distorted transparency. While the report discusses the broader financial environment, including significant interest rate hikes and their negative impact on the performance of peer FX reserve managers, it fails to adequately address the underlying issues specific to CBCG. Given that CBCG’s liabilities are in the same currency as its FX reserves and have a known duration of less than one month, the extent of the losses reported in CBCG’s FX reserves portfolio stem more from (i) an imperfect asset and liability management framework; or (ii) a conscious active risk-taking decision. The communication in the CAR omits these factors.
Comments	In addition to the already communicated annual profit and loss required for financial reporting purposes, CBCG should be transparent on the actual absolute and relative rate of return for each tranche and on an aggregate basis.

	<p>Engaging the operational units in the final editing phase of key documents can help minimize the risk of technical miscommunication.</p> <p>Information provided on the website about CBCG's reserve management performance (absolute or relative to its peers) must be unbiased and fact driven.</p>
<b>Principle 4.5.</b>	<b>Macroprudential Policy:</b> The central bank discloses outcomes and evaluations of its macroprudential policy actions and its accountability for such actions.
<b>Principle 4.5.1.</b>	<b>Governance Actions:</b> The accountability of the central bank on macroprudential policies is clear as to whom accountability is owed and how it is discharged.
Description	<p>Pursuant to Article 7 of the CBCG Law, the CBCG "shall be independent in the in pursuing the objectives and exercising the functions laid down in this Law." In exchange, the CBCG is held accountable. Article 39 of the same law states that the CBCG shall submit, as needed, and at least once a year, by June 30 of the current year, the report on its prior year's policies and operations to Parliament for its consideration.</p> <p>The report shall contain information on the economic environment during the reporting year, including the assessment of economic trends in the following year, emphasizing the central bank's policy objectives and the condition of the financial system. The report shall also include the review and assessment of the CBCG's policies followed during the reporting year. The CBCG shall also publish reports on financial system stability, the FSR, which it shall submit at least once a year to Parliament and the government for information purposes, no later than June 30 of the current year.</p>
Review	<p><u>Core</u></p> <p>In absence of an explicit macroprudential policy mandate, the CBCG's accountability on macroprudential policy is embedded on its broad accountability duties discharged to the Parliament, which include the mandate "to foster and maintain the financial system stability, including fostering and maintaining a sound banking system and safe and efficient payment system". The publication of the FSR allows the CBCG to discharge its accountability responsibilities to market participants and the public at large.</p>
Comments	The Governor of the CBCG attends Parliament following the submission of the CAR and the FSR. However, there is little explanation to the public about the CBCG's assessment of the financial system soundness. An example of this is the relative low dissemination of the FSR the CBCG's flagship publication, which, instead of being explained to major stakeholders, it is simply posted on the CBCG's website after sending it to Parliament.
<b>Principle 4.5.2.</b>	<b>Policies:</b> The central bank discloses ex-post evaluations of its macroprudential policies.
Description	The CBCG analyzes trends and developments in the financial system but does not conduct ex post evaluations about the impact and the achievements of its macroprudential policies.
Review	<p><u>Not implemented</u></p> <p>The CBCG does not publish subsequent evaluations of its macroprudential policies in a structured and explicit manner.</p>
Comments	Macroprudential policy, like other economic policies, is not exempt from potential costs. For example, it can hamper the development of the financial system and the provision of services to the rest of the economy, and thus impair economic growth. To minimize these costs, the CBCG could usefully conduct ex-post evaluations of macroprudential policies and disclose the results, hinting possible adjustments if necessary. There is a burgeoning literature on macroprudential policy evaluation conducted by the BIS, ECB, IMF, and several central banks. See, for example, Jácome and Mitra's (IMF WP/15/154) collection of papers for six countries with the references included.

<b>Principle 4.6.</b>	<b>Microprudential Supervision:</b> Selected principles from BCP, ICP, and IOSCO.
	Reference as per Section II.A. of the <a href="#">Guidance Note</a> Not Applicable. See item 2.6.
<b>Principle 4.7.</b>	<b>Emergency Liquidity Assistance:</b> The Emergency Liquidity Assistance framework allows for appropriate disclosure of the provision of liquidity support, terms and conditions, and amounts provided, while maintaining confidentiality as long as required.
<b>Principle 4.7.1</b>	<b>Market-wide Liquidity Support:</b> The ELA framework allows for appropriate disclosure of the provision of market-wide liquidity support, terms and conditions, and amounts provided, while maintaining confidentiality as long as required.
Description	There is no market-wide liquidity support by the CBCG, as it does not engage in asset swaps, outright purchases, or similar instruments.
Review	Not Applicable.
Comments	
<b>Principle 4.7.2</b>	<b>Bilateral Liquidity Support:</b> The ELA framework allows for appropriate disclosure of the provision of bilateral liquidity support, terms and conditions, and amounts provided, while maintaining confidentiality as long as required.
Description	See Principle 2.7.2 Information about the provision of support is disclosed only (i) after the financial stability risk has passed; and (ii) if divulgation does not violate confidentiality agreements with the requesting institution.
Review	<u>Core</u> Banks may hesitate to seek ELA if they fear their liquidity challenges could be prematurely disclosed to the market. However, maintaining some degree of post-ELA transparency is still advisable to ensure accountability. Even though CBCG does not intend to communicate prematurely, the current Decision regarding ELA lacks clarity on the level of transparency applied to ELA transactions.
Comments	CBCG should update its "Decision on detailed conditions for and the manner of granting loans to credit institutions in case of their liquidity needs" to allow the anonymous disclosure of actual ELA transaction's details after a reasonable definite delay. e.g. two or three years after the repayment. To bolster its ELA related transparency, CBCG should align the contractual confidentiality requirements with this chosen disclosure delay.
<b>Principle 4.8.</b>	<b>Resolution:</b> Selected principles from KA.
	Reference as per Section II.A. of the <a href="#">Guidance Note</a> Regarding the public disclosure of decisions in the resolution procedure, according to  Article 41 of the Law on the Resolution of Credit Institutions, the Central Bank shall publish on its website the decision to initiate resolution proceedings and all subsequent decisions implementing the decision to initiate the resolution proceedings or notification containing key elements of the resolution action and its effects on natural persons, micro, small and medium enterprises.  Regarding the public disclosure of information on violations by credit institutions and responsible persons in credit institutions, according to Article 157 of the Law on the Resolution of Credit Institutions, the Central Bank shall, without delay, publish on its official website information on any final and binding penalties imposed on a credit institution and responsible persons in a credit



	<p>institution, in a misdemeanor proceedings for violating the provisions of this Law or regulations adopted pursuant to this Law, initiated upon a request of the Central Bank as the responsible authority and misdemeanors for which the Central Bank has issued a misdemeanor warrant in accordance to the law governing the misdemeanors.</p> <p>Since there were no penalties or Decisions of this kind issued by the Central bank so far, there is no information on the website available for the time being.</p>
<b>Principle 4.9.</b>	<b>Financial Market Infrastructures:</b> Selected principles from PFMI.
	<p>Reference as per Section II.A. of the <a href="#">Guidance Note</a></p> <p>See section 2.9.</p>
<b>Principle 4.10.</b>	<b>Financial Integrity:</b> The central bank discloses the outcome of its AML/CFT supervisory actions as well as details about the oversight of its internal AML/CFT controls.
<b>Principle 4.10.1</b>	<b>AML/CFT Supervision:</b> The central bank discloses the outcome of its AML/CFT supervisory actions.
Description	CBCG publishes the outcome of its AML/CFT supervisory actions as part of the CBCG's CAR, which pertains to the number of inspections conducted and aggregated issued sanctions by type (i.e.: warning letters, referral to courts). Although a description of the contraventions and names of sanctioned entities were not published yet, the new AML/CFT Law provides for additional powers in this area, including to make exceptions if disclosure would jeopardize the stability of financial markets or an on-going investigation in criminal proceedings.
Review	<p><u>Core</u></p> <p>CBCG publishes in its CAR the number of sanctioned entities and the type of sanctions imposed. However, disclosures do not include the name of sanctioned entities, a description of the contravention, and information regarding progress in implementation of remedial actions. In addition, there are no disclosures made regarding the level of effectiveness of preventive measures applied by the private sector, including because of the CBCG's supervisory engagement by way of onsite/offsite analysis, sanctions, and awareness raising activities.</p>
Comments	The CBCG should consider improving transparency in relation to outcomes of its supervisory actions, such as names of sanctioned entities and analysis of the contraventions. The CBCG should also consider publishing information on the results of remedial actions imposed because of sanctions.
<b>Principle 4.10.2</b>	<b>Internal AML/CFT Controls:</b> The central bank discloses the details about the oversight of its internal AML/CFT controls.
Description	See 2.10.2.
Review	Not Implemented.
Comments	--
<b>Principle 4.11.</b>	<b>Consumer Protection:</b> There is clarity about the results and implications of consumer protection policies and operations conducted solely or jointly with other agencies.
Description	CBCG publishes information about the results and implications of consumer protection policies and operations in the CBCG CAR. CBCG CARs include statistics on inspections conducted and supervisory measures taken, The CAR is published in both Montenegrin and English.
Review	--

Comments	CBCG adequately reports on outcomes of its consumer protection policies and operations. As the CBCG is not obliged by law to appear before a public authority to report on outcomes of its consumer protection operations, the CBCG could consider improving transparency by disclosing the names of sanctioned entities.
<b>Pillar V—Central Bank Official Relations</b>	
<b>Principle 5.1.</b>	<b>Government:</b> The central bank discloses its relationship with the government. This includes the exchange of information, the coordination of policies, and financial aspects such as rules on profit distribution, clearly distinguishing the different roles and modalities this can take.
<b>Principle 5.1.1.</b>	The institutional relationship between the central bank and the government/its agencies is clearly defined and publicly disclosed.
Description	<p>The Law on the CBCG regulates the institutional relationship between the CBCG and the government. Article 8 of the law stipulates that the CBCG may, without questioning its autonomy and independence, cooperate with the government and the rest of the public sector and, within its jurisdiction, take measures to improve that cooperation. Furthermore, Article 3 states that the CBCG shall, without prejudice to the pursuance of its objectives, support the conduct of the government's economic policy. The recommendations the CBCG may provide are posted on its website. In addition, before submitting to the Assembly draft legislation that relates to the financial system and has an impact on the achievement of the goals and performance of the CBCG's functions, the government consults the CBCG on such proposals.</p> <p>The CBCG also interacts with the government and with the Capital Markets Authority and the Insurance Supervision Agency in the FSC, as prescribed in the <a href="#">law that created this council</a>.</p> <p>An important part of the relationship between the central bank and the government is the exchange of information. Article 8 of the same law prescribes that the government should submit to the CBCG, upon its request, the data and information necessary for the achievement of the CBCG's goals and functions. In exchange, the CBCG should submit to the government, at its request, data and information related to the pursuance of the central bank's objectives and exercise of its functions, when these do not challenge the central bank's independence, except data and information regarding the entities subject to the central bank supervision and/or obligation of secrecy in accordance with the law. And in accordance with Article 39, the CBCG submits to the government—and the Parliament—for information purposes, by June 30 every year, a FSR and an IR with the analysis of the previous year's events and developments. The CBCG also submits to the government—and the Parliament—the financial plan, after its adoption, in accordance with Article 71 of the CBCG Law.</p> <p>The CBCG has signed several Memorandums/Agreements on cooperation/understanding with the government and other public sector entities related to various projects and programs. These include a program that aims to improve financial literacy that incorporates the government. The <a href="#">cooperation agreement</a> is posted on the CBCG's website.</p> <p>The CBCG has also signed a cooperation agreement for the preparation and use of the national accounts and the statistics recording the operations of the government sector and the rest of the public sector. related statistics. The <a href="#">signatories of the agreement</a>, which was published on the CBCG's website, are the CBCG, the MOF and Statistical Office of Montenegro.</p> <p>In addition, a memorandum of understanding on cooperation with the Insurance Supervision Agency and the Capital Market Authority have been prepared in order to exchange data for the production of financial accounts and define inter-institutional cooperation. This memorandum will be signed soon.</p>

Review	<p><u>Comprehensive</u></p> <p>The CBCG Law provides a clear legal framework that governs the institutional relationship between the CBCG and the government. It specifically lays the ground for their mutual cooperation in a transparent manner while still preserving the independence of the central bank.</p>
Comments	<p>The CBCG is recognized by the public as an open and accessible institution, which performs its functions in the system in a transparent manner.</p>
<b>Principle 5.1.2.</b>	<p>The central bank publicly discloses its policies and terms and conditions governing financial transactions with the government, including its fiscal agent role, the management of the current account, deposit taking, advances, guarantees, loans and credit arrangements to the public sector, as well as agency services performed on behalf of the government.</p>
Description	<p>One of the functions of the CBCG, prescribed by Article 14 paragraph 1 point 4) of its law, is the regulation and execution of payment transactions. The CBCG and the MOF have signed the Agreement on the performance of banker, depository and fiscal agent activities by the CBCG. In accordance with Article 14 of this Agreement, the contracting parties are obliged to keep all information obtained in the implementation of this Agreement confidential.</p> <p><b>Fiscal agent</b></p> <p>Article 42 of the law stipulates that the CBCG “may perform tasks related to securities issued by Montenegro, including the tasks of registering those securities, the payment of principal, interest and other costs related to those securities, and perform other related tasks. under the conditions agreed with the ministry responsible for financial affairs.” Building on this legislation and on an Agreements between the MOF and the CBCG, the central bank acts as fiscal agent for operations related to Treasury bills issued by Montenegro, including the registration of those securities, payment of principal, interest and other expenses related to the issuance of those Treasury bills. The responsibility of the CBCG as an agent for the issuance of government securities is defined by the Technical Manual on the Procedure for Issuance and Means of Selling Treasury Bills No. 04-406/23-5296/1 of 1-Dec-2023 (available on the MOF’s website) as well as the Decision on the Issuance of Treasury Bills for each issue separately. These documents are public and can be found either on the MOF’s website or on the CBCG’s website.</p> <p><b>Depository and banker of the government and state institutions</b></p> <p>Article 41 of the law defines the rules by which the CBCG operates as the banker of the government. It stipulates that the CBCG can receive funds from the government and other public sector institutions, open accounts and perform payment transactions on those accounts. CBCG will carry out payment operations at the behest of state authorities and organizations, up to the amount of deposited funds. Interest on deposited funds shall not exceed the rates prevailing on the market and shall charge fees for the provision of services as banker of the government. The level of the interest rate and the amount of the fees should be specified in the Agreement between the contract of the CBCG and the ministry responsible for financial affairs. Yet the content of this Agreement is not public. The tariffs for services performed by the CBCG are determined by the <a href="#">Decision on determining the tariff according to which fees</a> are calculated for services performed by the CBCG and its amendments.</p> <p><b>Account opening and RTGS system</b></p> <p>Opening an account with the CBCG is carried out in accordance with the <a href="#">Decision on the structure, detailed conditions and method of opening transaction accounts</a>, as well as the contracts concluded by the CBCG with its clients. In turn, the participation of state authorities in the RTGS system, whose operator and owner is the CBCG, is regulated by the Rules of Operation of the CBCG Payment System.</p> <p><b>Prohibition of lending</b></p>

	Article 43 of the law prevents the CBCG, either directly or indirectly, from approving loans to the government and the rest of the public sector. Banks whose founder or majority owner is the state are an exception, under the conditions established by this law. Nonetheless, the CBCG can buy government securities on the secondary market.
Review	<u>Comprehensive</u> CBCG discloses detailed and public information on operations, including its role as fiscal agent, as well as depository and banker of the government and the public sector at large. The Agreement between the CBCG and the MOF by which the CBCG performs the duties of banker, depository and fiscal agent, as well as the tariff that is calculated for the services rendered.
Comments	.
<b>Principle 5.1.3.</b>	The instruments used in interaction (including the financial transactions) between the central bank and the government/its agencies are clearly defined and publicly disclosed.
Description	The instruments used in the interaction between the CBCG and the MOF are clearly defined but the specifics of the financial transactions are not publicly available. National payment transactions are executed electronically in accordance with the Rules of Operation of the Payment System of the central bank, which are published on the CBCG website.
Review	<u>Core</u> The CBCG discloses to the public the instruments used in the interactions with the government and the public sector, but not all the information pertaining to the financial transactions are publicly available.
Comments	See comment on Principle 5.1.2.
<b>Principle 5.1.4.</b>	The central bank discloses publicly on a regular basis the outcome of its interaction (including operations) with the government/its agencies.
Description	As a fiscal agent, the CBCG “may perform operations related to the securities issued by Montenegro, including the registration thereof, the payment of principal, interest and other securities-related expenses and perform other related operations, on such terms and conditions to be agreed with the ministry responsible for financial affairs,” (Article 41 of the Central Bank of Montenegro Law). However, the CBCG shall not, either directly or indirectly, grant any loans to the Government, other government bodies and organizations, local self-government units or any other persons owned by or in the majority ownership of the state or local self-government units (Article 43). The CBCG <a href="#">regularly posts data</a> on auctions of government T-bills as well as archival data on auctions on its website.  The annual Independent Auditor’s Report on Financial Statements reports on the outcome of financial transactions performed for the government. In this report, data on the balances in the accounts of the government and other state institutions with the central bank are disclosed.
Review	<u>Expanded</u> The CBCG manages public debt and discloses information, including amounts and financial parameters of such debt.
Comments	
<b>Principle 5.2.</b>	<b>Domestic Financial Agencies:</b> The central bank discloses its relationships with domestic financial agencies as relevant to the pursuit of its mandate and the execution of its functions.
<b>Principle 5.2.1.</b>	The relationship between the central bank and relevant domestic financial agencies is clearly defined and publicly disclosed, including cooperation and (co-) decision-making modalities and arrangements for the formal/informal sharing of information.

Description	<p>The CBCG formally interacts with the Capital Market Commission and the Insurance Supervision Agency through the FSC (FSC), as laid out in the FSC Law. The Minister of Finance also participates in the FSC, whereas the Deposit Protection Fund may attend meetings upon invitation by the members of the FSC (Article 3). The FSC is chaired by the Governor of the CBCG. The FSC is responsible for monitoring, identifying, preventing, and mitigating systemic risks in the financial system of Montenegro (Article 2), without prejudice to the pursuing of the objectives and the exercising of functions of its member institutions (Article 1). The FSC Law is posted on the CBCG's website. The FSC issues public statements approved unanimously by the Council and submit a report of activities to Parliament once a year, by June 30 (Article 11).</p> <p>The FSC meets under a <i>modus operandi</i> defined in its law (Article 4). It convenes at least quarterly to perform the responsibilities established in Article 8 of the law. Article 9 sets the rules for the collection and exchange of information. In particular, the Capital Market Commission and the Insurance Supervision Agency shall submit to the CBCG quarterly reports. The CBCG, in turn, shall forward the submitted reports to the Council within the next five days. The CBCG can request additional data and information to these two institutions, specifying the deadline for the submission.</p> <p>In addition, Article 35 of the CBCG Law specifies that "with a view to pursuing its objectives and exercising its functions specified under this and other laws, the central bank shall collect and disseminate data and information obtained from the government bodies and organizations, credit institutions and other institutions providing financial services, business undertakings, legal persons, entrepreneurs, and other persons.</p> <p>The CBCG has signed with the Insurance Supervision Agency and the Capital Market Commission a Memorandum of Cooperation to improve inter-agency cooperation, through coordination of activities, exchange of views and opinions, as well as exchange of data and information between regulators and supervisors of the financial sector. These <a href="#">bilateral agreements are published</a> on the CBCG's website and all of them are communicated to the public by press releases.</p> <p>The Deposit Protection Law regulates the system of insurance of deposits placed with credit institutions, the status, competences an operation of the Deposit Protection Fund, as well as modalities of cooperation with the CBCG.</p>
Review	<p><u>Comprehensive</u></p> <p>The relationship between the central bank and relevant domestic financial agencies is clearly defined and publicly disclosed, including clear guidelines for sharing of information. Legislation and cooperation agreements helps the CBCG fulfill its mandate of preserving financial stability. These institutional arrangements are publicly disclosed.</p>
Comments	
<b>Principle 5.2.2.</b>	The policies and instruments used in the interaction of the central bank with domestic financial agencies, and the outcome of the interaction are transparent.
Description	<p>The policies for cooperation between the CBCG and the Insurance Supervision Agency and the Capital Market Commission are defined in the Law of the FSC. The interaction between the CBCG and the two financial agencies takes place during the meetings of the FSC. However, the minutes of the FSC meetings are confidential. Still, after each meeting of the FSC, a press release is published on the CBCG website under a separate link designated for the FSC.</p> <p>The CBCG's cooperation agreements with the Insurance Supervision Agency and the Capital Market Authority are regularly informed to the public via press releases and disclosed through the CBCG's website. One of these cooperation agreements aims at exchanging information for statistical</p>

	purposes with the aim of fulfilling the functions of the CBCG as defined under the CBCG Law. These <a href="#">agreements are published</a> on the CBCG's website.
Review	<i>Expanded</i> There is a dedicated page for the work of the FSC on the CBCG website, where the reports on the FSC work and all related announcements are publicly available, except for information with a category of confidential. In addition, the CBCG discloses MoUs with the domestic financial agencies.
Comments	
<b>Principle 5.2.3.</b>	With respect to macroprudential policy, the central bank discloses its role, responsibly, and actions—and those of any other authority it collaborates with. The central bank also discloses any advice it receives.
Description	<p>While the CBCG does not have an explicit mandate for macroprudential policy, Article 143 paragraph 1 of the Constitution of Montenegro specifies that "The CBCG shall be an independent organization, responsible for monetary and financial stability and banking system operations."</p> <p>Building on this constitutional provision, the CBCG Law specifies the following:</p> <ul style="list-style-type: none"> <li>• The primary objective of the central bank shall be to foster and maintain the financial system stability, including fostering and maintaining a sound banking system and safe and efficient payment system (Article 4 paragraph 1);</li> <li>• The central bank shall oversee the maintenance of the stability of the financial system as a whole and pass pertinent regulations and measures (Article 14 paragraph 1);</li> <li>• The Council of the Central Bank shall decide on the introduction of safeguards and other measures for the purpose of maintaining stability of the financial system as a whole (Article 44 paragraph 2 point 10).</li> </ul> <p>The process of taking macroprudential decisions for the capital buffers, financial leverage ratio and LCR is defined by the LCI. The adoption of macroprudential decisions is public and, as a rule, is accompanied by communication with the banks, announcements on the central bank's website and the publication of the regulations in the Official Gazette.</p>
Review	<i>Expanded</i> The CBCG discloses its role, responsibly, and actions with regard to macroprudential policy. Besides the CBCG's website, there is a dedicated page for the work of the FSC, where press releases and reports on the Council's work and all related announcements are publicly available.
Comments	
<b>Principle 5.2.4.</b>	With respect to financial stability, all arrangements to restore or maintain financial stability are clearly disclosed, including arrangements on data sharing, liquidity support, and who is responsible for which type of decision or action at what stage.
Description	<p>Based on the provisions in the Constitution of Montenegro (Article 143), the CBCG Law (Article 4), and the LCI, the CBCG implement policies that aim at maintaining the stability of the financial system and at preventing or mitigating systemic risk in the financial system. Moreover, the CBCG, together with members of the FSC, prepares contingency plans for financial crisis management. This legislation is disclosed and publicly available.</p> <p>Legislation also assigns responsibilities to the CBCG for deciding about prudential regulation and for deciding, executing, and enforcing macroprudential decisions. These decisions are announced to the public and accompanied by communication with the banks. They are then posted on the CBCG's website and published in the Official Gazette.</p>

	The FSC requests data collection and coordinates the exchange of information among the member institutions. The CBCG plays a major role receiving such information and providing administrative and technical support for its analysis by the FSC.
Review	<u>Comprehensive</u> Legislation supports regulation to maintain or prevent financial crises, both from microprudential and macroprudential perspectives. The policy framework provided by the FSC Law establishes the basis for exchanging data and information across the financial industry. Disclosure of policy measures are made through press releases by the CBCG and the FSC. Policy measures are also published and analyzed in the Financial Stability Report and the Central Bank CAR.
Comments	
<b>Principle 5.3.</b>	<b>Foreign Agencies:</b> The central bank discloses its dealings with international organizations foreign governments, other central banks, and other relevant foreign agencies, including the nature of the involvement or interactions, and any obligations and commitments that may arise from these relationships.
<b>Principle 5.3.1.</b>	The relationship for the exchange of information and coordination of actions and policies between the central bank and international organizations, foreign governments, other central banks, and other relevant foreign agencies is clearly defined and publicly disclosed.
Description	<p>The CBCG publishes legislation, its responsibilities, and processes relevant to international cooperation in a clear manner.</p> <p>Article 9 of the CBCG Law (International Cooperation) states that “the CBCG may cooperate with other central banks, international financial institutions and organizations (hereinafter, the international financial institutions), with a scope of activities consistent with the pursuance of the objectives and functions of the CBCG.” The law also entitles the CBCG to be a member of international institutions pursuing such activities. In addition, Article 31 of the CBCG Law states that, “with a view to strengthening supervision and resolution of credit institutions, the central bank shall cooperate with foreign institutions authorized for the supervision and resolution of credit institutions.”</p> <p>Similarly, Article 35 stipulates that, with a view to pursuing its objectives and exercising its functions, the central bank may cooperate with institutions and bodies of the European Union (EU), international financial institutions, and other foreign authorities. In general, the CBCG Law includes a whole section that aims at regulating the CBCG’s operations once Montenegro becomes EU member, including the collection of statistical data. Article 87I authorizes the CBCG to participate in the collection, processing, and dissemination of statistical data in accordance with Article 5 of the Statute of the ESCB and of the ECB. In addition, in line with best practices and the highest standards of central banking, cooperation with international financial institutions, institutions of the EU, and technical cooperation with other central banks, rank high among CBCG’s activities. The CBCG’s website has a dedicated link for <a href="#">international cooperation</a>.</p> <p>Upon joining the IMF, the cooperation of the CBCG with the IMF is particularly important. Article 4 of the ‘Law on Membership of the Republic of Montenegro in the IMF and other International Financial Institutions’ stipulates that “the CBCG is the fiscal agent in accordance with Article V, section 1 of the <a href="#">Statute of the IMF</a> and authorized to perform in the name of the Republic any operations and transactions envisaged in the provisions of the Statute of the IMF.”</p> <p>All activities related to the exchange of information and the coordination of actions and policies between the CBCG and other international institutions and central banks are made public through regular announcements on the CBCG’s website and are posted on social media.</p>



	<p>In addition, in the context of harmonizing its institutional, regulatory, and operational framework with European central banking standards, CBCG pays close attention to the cooperation with the ESCB and to projects financed by the EU. For instance, there is a <a href="#">separate link</a> on the CBCG's website dedicated to the ongoing Instrument for Pre-accessing Assistance regional project, for which the CBCG, along with other central banks from the Western Balkans region, is a beneficiary institution.</p> <p>MoUs and bilateral agreements between CBCG and other international agencies can be accessed through the CBCG's website.</p> <p><b>Financial Operations and International Agencies:</b>  Relevant information on financial transactions with international organizations, foreign governments, other central banks, and other relevant foreign agencies is published annually in AFSs. The CBCG <a href="#">publishes information about the cooperation with international organizations</a>, foreign agencies, and other central banks as an integral part of its CARs, which are regularly and readily available on the CBCG's website.  The texts of some agreements on the cooperation of the CBCG with international institutions and organizations are published on the central bank's official website.</p> <p>At the same time, the public is regularly informed through official media releases about all other concluded agreements concerning cooperation and exchange of information between the signatory institutions. For instance, the Single Resolution Board (SRB) and the CBCG have signed a Cooperation Agreement related to the exchange of information and cooperation in the planning and resolution of banks with cross-border operations. The agreement establishes a closer and more regular cooperation between the two institutions due to growing cross-border banking business. The CBCG <a href="#">has published the Agreement on Cooperation with the Single Resolution Committee of the EU</a> at the following link.</p>
Review	<p><i>Expanded</i></p> <p>The CBCG has a clear legal framework that establishes in detail terms and conditions of cooperation between the CBCG and foreign agencies. MoUs and bilateral agreement between the CBCG and other international agencies are disclosed on its website.</p>
Comments	
<b>Principle 5.3.2.</b>	The central bank publicly discloses its policies, terms, and conditions governing interaction with international organizations, foreign governments, other central banks, and other relevant foreign agencies.
Description	The CBCG has established a close cooperation with many central banks, international institutions and foreign agencies. All activities related to international cooperation, international arrangements, activities and projects are regularly published on the CBCG's website through press releases and through posting on social media. Each core business area has a dedicated link on the CBCG's website for the cooperation agreements: i) <a href="#">Banking Supervision</a> , ii) <a href="#">AML/CFT</a> , and iii) <a href="#">Payment Systems</a> .
Review	<p><i>Expanded</i></p> <p>The CBCG discloses the agreements that rules its cooperation with foreign agencies and issue press releases to disseminate their content and importance.</p>
Comments	
<b>Principle 5.3.3.</b>	The instruments used in the interaction (including financial transactions) between the central bank and international organizations, foreign governments, other central banks, and other relevant foreign agencies are clearly defined and publicly disclosed.
Description	The CBCG has close cooperation with other central banks, international organizations and other foreign agencies. The CBCG has formalized this cooperation through MoUs. The establishment and



	<p>signing of such agreements are regularly disclosed to the public through press releases. Some MoUs and bilateral agreements between CBCG and international agencies are fully disclosed on the CBCG's website as illustrated below.</p> <p>The CBCG's website has <a href="#">a separate link</a> where it posts banking supervision agreements, with all MoUs listed.</p> <p>Additionally, in the annual financial reports with the independent auditor's opinion, data on the structure and amount of funds with the IMF are disclosed, with clarification of the basis and recorded amounts in the positions of assets and liabilities.</p>
Review	<p><i>Expanded</i></p> <p>The CBCG regularly reports on instruments used in interaction with other international institutions. A number of MoUs are publicly disclosed outlining the purpose of cooperation, terms and conditions.</p>
Comments	
<b>Principle 5.3.4.</b>	The central bank discloses publicly on a regular basis the outcome of its relationship with international organizations, foreign governments, other central banks, and other relevant foreign agencies.
Description	<p>Activities and outcomes pertaining to the cooperation with international organizations, foreign governments, central banks, and relevant foreign agencies are, in general, published and disclosed by the CBCG through press releases, posting on social media, and including them in the CBCG CAR. <a href="#">Special coverage</a> receives the interaction with the IMF and other international organizations.</p> <p>In the context of harmonizing its institutional, regulatory, and operational framework with European central banking standards, the CBCG pays close attention to the cooperation with the ESCB and projects financed by the EU. Information on these projects are <a href="#">disclosed with EU's visibility policy</a>.</p>
Review	<p><i>Expanded</i></p> <p>The CBCG posts a detailed account of the results achieved from the cooperation and interaction with international institutions, in particular with the IMF and different European monetary and financial entities.</p>
Comments	
<b>Principle 5.4.</b>	<b>Other Relations:</b> The central bank discloses its involvement with private or semi-public institutions.
<b>Principle 5.4.1.</b>	The central bank discloses its investments in and ownership of subsidiaries and joint ventures with private, semi-public, or public entities.
Description	<p>The CBCG is one of the founders of the Central Securities Depository and Clearing Company a.d. Podgorica (CKDD), with a 35% share in the shareholder structure of the company. CKDD, formerly known as the Central Depository Agency (CDA), supports the capital market as a technical service provider for account management of securities holders, registration of issuers, issues and owners of securities, processing of non-market transactions, as well as clearing and settlement services for market transactions concluded on the stock exchange. CKDD was established in 2000. Information of the CBCG investment is posted on CKDD's website but not on the CBCG's website.</p> <p>The CBCG <a href="#">has signed a Memorandum of Cooperation with NGO "ICT Cortex"</a> for the implementation of joint activities that aim to intensify the cooperation for developing new technologies on the financial market, as well as on the exchange of knowledge and the promotion of platforms for the development of fintech in Montenegro.</p>

	The Central Bank publishes <a href="#">data on other income earned</a> in its <a href="#">CAR</a> . Among other things, this income relates to dividend income according to its ownership stake in CKDD a.d. Podgorica.
Review	<u>Core</u> The CBCG has investments and memorandum of understandings with private and non-government organizations with the aim of developing new technologies on the financial market, and for the exchange of knowledge and the promotion of platforms for the development of fintech.
Comments	The CBCG could usefully complete the disclosure of all these investments and memorandum of understandings with private and non-government organizations.

## Annex II. List of CBCG Units and External Stakeholders

### **CBCG Senior Management and Staff**

- Governor
- Vice-Governor
- External Member of the Council (Mr. Milorad Jovovic)
- Advisers to the Governor
- Secretary to the Council/Audit Committee
- Governor's Office
- Directorate for Legal Affairs
- Department for Financial Stability, Research and Statistics
- Directorate for Resolution of Credit Institutions
- Supervision Department
- Internal Audit
- Directorate for Finances, Accounting and Controlling
- Directorate for Operational Risk Management, Information Security and Business Continuity
- Directorate for Supervision of AML/CFT Compliance and the Financial and Credit Institutions Consumer Protection
- Financial and Banking Operations
- Human Resources Directorate
- Directorate for International cooperation and European Integration
- Payment System Department
- Directorate for Communication
- Information Technology Department

### **External Stakeholders in Montenegro**

#### ***Government/Government Agencies/Regulators***

- Ministry of Finance
- Ministry of Economic Development
- Tax Administration of Montenegro
- Police Administration - Department for Financial Intelligence Affairs
- Members of Parliament (Skupština Crne Gore) - Committee on Economy, Finance and Budget
- Committee on Economy, Finance, and Budget
- Insurance Supervision Agency
- Capital Market Authority

***Financial Sector Entities***

- Erste Bank
- Hipotekarna Bank
- NLB Banka
- Crnogorska Komercijalna Banka
- Addiko Bank
- Prva Banka Crne Gore
- Ziraat Bank
- Investment Development Fund
- VIP Broker
- Montenegro Stock Exchange

***Business Associations/Consulting and Audit Firms***

- Chamber of Economy
- Employers Federation of Montenegro
- BDO
- PwC
- Deloitte
- Ernst Young (EY)
- KPMG
- CEED Consulting

***Media***

- Dan Daily
- RTCG
- Vijesti
- Pobjeda

***Academia***

- University of Montenegro Faculty of Economics
- UDG
- Mediterranean University