

## ***ASSOCIATION OF MONTENEGRIN BANKS***

*EBF 27<sup>th</sup> meeting in Brussels,  
4 December 2008*

Round table:

1. Impact and consequences of the financial crisis on Montenegro

2. Measures undertaken by the Government, industry and others to prevent crisis

1. Global financial crisis did not directly reflect on Montenegro, since our banks have not operated with problem securities, but the developments at the international financial market will definitely have impact on our economy.

With a view of preventing negative effects of crisis and reducing them to a minimum, the Central Bank of Montenegro kept measures on restricting credit growth of banks that were adopted at the end of 2007. It has also adopted more severe regulation with respect to the international accounting standards and minimum standards defined by Basel II.

Some analyses showed that the inflow of foreign direct investments stagnated, and that the real estate prices fell as well. The analyses also showed that the crisis is moving towards the real sector and that it will mostly affect tourism and civil engineering in the following period, which will contribute to the increase in unemployment. The deposit withdrawal from Montenegrin banks occurred, since the information that appeared on crisis, particularly in Europe, has caused anxiety among population. However, it turned out that our banks are liquid and that they can meet their obligations, which resulted in the reduction of the psychological pressure that came from the region.

The fall at the capital market has started even before the appearance of the global crisis, and stock exchange indices fell over 70%. However, favorable circumstance is that the capital market is not very significant for Montenegrin economy.

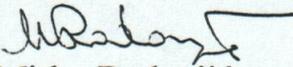
2. The Parliament of Montenegro adopted the Law on Measures for the Protection of the Banking System on 28 October 2008. This law was prepared by the Government of Montenegro in cooperation with the Central Bank of Montenegro. It prescribes the preventive measures that are almost identical to the measures adopted by most of the EU countries. Those measures were important to preserve safety and stability of the banking system as well as the competitiveness of the local banking system.

This Law prescribed the following measures:

- The Government of Montenegro guarantees payment of deposits to citizens and legal entities pledged with banks in full amount.
- It is anticipated that the Government may issue guarantees for the purpose of creating conditions for mutual lending to banks.
- The Government may make, for the purpose of providing liquidity to the bank, upon its request, premature payment of its total debt to that bank, and if such bank needs additional funds for liquidity – the Government may provide credit support as well.
- For the purpose of ensuring solvency of the bank, there is the possibility that the Government provides funds for capital increase.

Fiscally, the Government anticipated, within these measures, an increase in the amount of investments in the infrastructure, and also the decrease in current expenditures. The government introduced also encouraging measures for the economy relief, renouncing significant portion of budgetary revenues (decrease in taxes and salary contributions from 15% to 12%).

Montenegro belongs to the group of the countries that have low level of indebtedness, according to the level of the external debt (6% GDP). It means that it would be realistically possible to provide international loans, if needed.

  
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Secretary General of the Association of Montenegrin Banks