

**Government of Montenegro**

**Ministry of Finance**

## **Questionnaire**

Information requested by the European Commission to the Government of Montenegro for the preparation of the Opinion on the application of Montenegro for membership of the European Union

### **17 Economic and monetary policy**

**Minister: Igor Luksic**

**Podgorica, December 2009**



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**CHAPTERS OF THE ACQUIS – ABILITY TO ASSUME THE  
OBLIGATIONS OF MEMBERSHIP**

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## **Chapter 17: Economic and monetary policy**

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## **I. MONETARY POLICY**

### **A. Country alignment**

**1 Please provide a copy of the constitution and central bank law and possibly of other important monetary and financial laws (in one of the official EU languages).**

**Please find enclosed herewith:**

- 1) The Constitution of Montenegro (Official Gazette of Montenegro 01/07), ([Annex 147](#))
- 2) Central Bank of Montenegro Law (Official Gazette of the Republic of Montenegro 52/00 and 47/01), ([Annex 144](#))
- 3) Central Bank of Montenegro Statute (Official Gazette of the Republic of Montenegro 34/01, 44/03, 57/04, 47/06, 74/06 and 81/06 and Official Gazette of Montenegro 03/07, 15/08 and 34/08), ([Annex 148](#))
- 4) Banking Law (Official Gazette of Montenegro 17/08), ([Annex 146](#))
- 5) Banks Bankruptcy and Liquidation Law (Official Gazette of the Republic of Montenegro 47/01 and Official Gazette of Montenegro 62/08), ([Annex 136](#))
- 6) Deposit Protection Law (Official Gazette of the Republic of Montenegro 40/03 and 65/05), ([Annex 149](#))
- 7) Current and Capital Foreign Operations Law (Official Gazette of the Republic of Montenegro 45/05 and Official Gazette of Montenegro 62/08), ([Annex 135](#))
- 8) Law on National Payment Operations (Official Gazette of Montenegro 61/08), ([Annex 138](#))
- 9) Business Organization Law (Official Gazette of the Republic of Montenegro 06/02 and Official Gazette of Montenegro 17/07 and 80/08) ([Annex 18](#))
- 10) Accounting and Audit Law (Official Gazette of the Republic of Montenegro 69/05 and Official Gazette of Montenegro 80/08).

**2 What are in your view the necessary reforms in national legislation (central bank law, laws on banking sector, insurance companies, pension funds, social security funds, compensation funds, interest rates, exchange rate law, etc.) with a view to EU membership requirements? Which reforms are already underway?**

#### Banking system

By adoption of the new Constitution new responsibilities have been specified for the Central Bank of Montenegro (CBM), new functions, as well as a new organisational structure. It is necessary to adopt a new CBM Law to the end of harmonising the applicable Law with the Constitution, aligning CBM's institutional independence to the ECB rules and providing for the implementation of the new objectives. Drafting of the new CBM Law is underway.

The Ministry of Finance and the Central Bank, assisted by the World Bank and the International Monetary Fund consultants, are drafting the amendments to the Law having regard to Law on Banks; that should complete the regulatory framework, and provide for an additional alignment with the directives regulating banking system.

#### Capital Market

In accordance with the National Programme of Integration of Montenegro in the European Union the priorities for amendments to legislation with the objective of harmonisation with the relevant EU regulations are short-term and mid-term.

In course of II quarter of 2009 a proposal for the Law on Takeover of Joint Stock Companies was drafted to the end of harmonisation with the Directive 2004/25 on takeover bids.

Activity on amending the Law on Investment Funds (Official Gazette of the Republic of Montenegro 49/04) ([Annex 140](#)) is underway. The amendments to the Investment Funds Law will be adopted to the end of harmonisation with the European Union directives and the best international practices.

Amendments to Securities Law (Official Gazette of the Republic of Montenegro, 59/00, 10/01, 42/05, 28/06 and Official Gazette of Montenegro 53/09) ([Annex 141](#)) and Voluntary Pension Funds Law (Official Gazette of the Republic of Montenegro 78/06 and 14/07) ([Annex 142](#)) have been defined as long term priorities.

The Law on Amendments to the Law on Securities, scheduled for adoption by the end of II quarter of 2012, will be harmonised in its entirety with the respective European Union regulations.

The Law on Amendments to the Voluntary Pension Funds Law, scheduled for adoption by the end of 2012, will be fully harmonised with the Directive 32003L0041 on the activities and supervision of institutions for occupational retirement provision and with the Council Directive 31998L0049 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community.

### Insurance Market

In accordance with the Insurance Law and the necessity of harmonisation with relevant EU regulations, thirteen secondary regulations have been adopted so far:

To the end of further harmonisation of insurance market legislative framework with the regulations of the European Union, and pursuant to the provisions of Insurance Law, Law on Compulsory Traffic Insurance and Law on Bankruptcy and Liquidation of Insurance Companies, adoption of other required secondary regulations is scheduled by the end of 2010. Previously mentioned rulebooks will provide for the harmonisation of Montenegrin legislation with the most important EU directives covering the field of insurance.

Mid-term priority in the field of insurance is a complete harmonisation of laws with the European Union law by opening the insurance market in part of providing the opportunity to establish branch offices without the status of a legal person. By 2012 development of insurance sector in Montenegro will reach the level that provides for the harmonisation of also this segment of law with the European directives that provide for full territorial openness for doing business. At the same time harmonisation of minimal insured sums will be done in part of compulsory insurance in accordance with the levels of insured sums as specified in regulations of the European Union; the standard of Solvency II will also be incorporated through the legal solutions.

## **B. Implementation capacity**

### **Central bank institutional, personal and financial independence**

**3 What is the degree of functional independence of the central bank from public authorities (President, Government, especially Ministry of Finance, Parliament, etc.)? What is the specific role of those actors in the functioning of the central bank? Describe the present situation both in legal terms (information based on the central bank law) and in practice.**

Pursuant to the provisions of Article 143 paragraph 1 of the Constitution of Montenegro, the Central Bank of Montenegro is an independent organisation of Montenegro, responsible for monetary and financial stability and functioning of the banking system. The provision on independence of the Central Bank of Montenegro has also been specified in Article 1 paragraph 2 of the CBM Law, regulating that the Central Bank is an independent organisation of the Republic of Montenegro that is solely responsible for monetary policy, establishing and maintaining of a sound banking system and efficient payment operation in the Republic. Provisions of Article 2 of the CBM Law have specified that the Central Bank of Montenegro is independent within the authorisations established by that Law. By the provisions of Article 7 of the CBM Law it is specified that the Republic does not guarantee for the obligations of the Central Bank, nor does the Central Bank guarantee for the obligations of the Republic.

The relationship of the Central Bank of Montenegro and the Parliament of Montenegro has been arranged in a way that the Central Bank submits as needed, and not less than once a year, Report on its operations to the Parliament of Montenegro (Article 8 of the CBM Law) and annual account with the report and opinion of an independent external auditor for information (Article 59 paragraph 2 of the CBM Law). In practice the Central Bank of Montenegro submits to the Parliament of Montenegro once a year the report on its operations; the Parliament deliberates and adopts the report. The Central Bank of Montenegro submits to the Parliament of Montenegro annual account with the report and opinion of independent external auditor once a year, for information only.

According to the provisions of Article 11 item 8 of the CBM Law (Official Gazette of the Republic of Montenegro 52/00 and 47/01), the Central Bank of Montenegro drafts and takes part in drafting of laws and other regulations in the field of monetary, foreign exchange and banking system, in compliance with international standards.

The relationship of the Central Bank of Montenegro and the Government of Montenegro has been regulated in a way that the Central Bank of Montenegro submits to the Government its annual financial plan for information only (Article 56 of the CBM Law), and the Government gives the approval to the selection of internationally recognised independent auditor for review of the accounts, records and balance of the Central Bank (Article 60 of the CBM Law). The subject relation of the Central Bank of Montenegro and the Government of Montenegro is implemented in practice in the manner established by the law.

According to the provisions of Article 3 paragraph 2 of the CBM Law, the Central Bank of Montenegro may not grant loans to the Government of Montenegro. Pursuant to the provisions of Article 11 items 3) and 11) of the CBM Law, the Central Bank of Montenegro acts as a banker, advisor and fiscal agent of Montenegro's authorities and organisations, opens and keeps accounts for state authorities' and organisations' needs.

In practice, the Central Bank of Montenegro cooperates with the Government and other state authorities in implementing the functions and competences established by the law, but in a manner that does not question the autonomy and independence of the Central Bank of Montenegro established by the Constitution of Montenegro and by the CBM Law.

By the State Property Law (Official Gazette of Montenegro 21/09) it has been specified that the property used by the state authorities, the Central Bank of Montenegro being listed among them, is in state ownership. By the provisions of Article 5 of the CBM Law it has been explicitly specified

that the Central Bank of Montenegro uses and disposes of its property in the way established by that law. In compliance with the relevant European legal arrangement, it is essential to specify also in the new Central Bank of Montenegro Law that the Central Bank of Montenegro independently acquires, uses and disposes of the state property in implementation of its functions, in order to maintain its financial independence, as substantial determinants of its functional independence.

**4 Does the central bank act provide for the following prohibitions for third parties:**

**a) to give instructions;**

Except that the provisions of Article 2 of the Central Bank Law specify that the Central Bank of Montenegro is independent within its competences granted by the law, this Law does not contain explicit provisions on prohibiting the third parties to give instructions to the Central Bank of Montenegro; it is necessary to provide this by the new CBM Law, to the end of harmonisation with the European legal arrangements.

**b) to approve, suspend, annul or defer decisions;**

In the CBM Law there are no provisions that refer to this question, so that in practice there is no possibility of approving, suspending, annulling or deferring the CBM decisions.

**c) to censor decisions on legal grounds;**

The CBM Law does not contain provisions referring to this question, therefore there is no possibility of censoring decisions.

**d) to participate in decision-making bodies of the central bank with a voting right;**

The Central Bank of Montenegro is governed by the Council of the Central Bank of Montenegro which decisions are adopted by majority votes of members of the Council (Article 28 paragraph 3 of the CBM Law), what means that there is a prohibition to third parties to participate with the voting right in the work of the Council of the Central Bank of Montenegro.

**e) to require ex-ante consultation on the central bank's decisions?**

There is no right of the third parties to require ex-ante consultations on decisions that are adopted by the Central Bank.

**5 Does the central bank have any ex-ante reporting obligations towards other authorities regarding its monetary policies?**

According to the CBM Law, the Central Bank of Montenegro independently establishes its monetary policy; it is solely responsible for its implementation and does not have any ex-ante reporting obligations towards other authorities regarding the formulation of monetary policy.

## **6 How is the management of the central bank organised (composition and responsibilities of the governing bodies, in particular the managing board)?**

The Central Bank of Montenegro is governed by the Council of the Central Bank. The Council is composed of seven members. The members of the Council are: President of the Council, Director General and two Director General's Deputies, who are the executive officers of the Central Bank, and three external members.

The Council has the authority to:

- 1) establish policy pursuant to the provisions of Article 11 of this Law;
- 2) adopt regulations, recommendations and orders that the Central Bank issues;
- 3) approve reports and recommendations that the Central Bank submits to the Parliament or to the Government;
- 4) decide on the Central Bank's presence in international organisations;
- 5) adopt the Central Bank Statute and establish general guidelines for Central Bank's operation;
- 6) adopt financial plan and annual financial account of the Central Bank;
- 7) decide on requests for granting and revoking the licenses for operation of banks, financial institutions and payment operation system.

The President of the Council chairs the Council's session represents the Central Bank and ensures the implementation of the decisions of the Council. If the President of the Council deems that the act of the Council is contrary to law, the Central Bank Statute or other general act, he/she shall warn the Council thereof. Should the Council remain with its act after the warning, the President of the Council will notify the Parliament of Montenegro thereof- (Article 18 paragraphs 1 and 2 of the CBM Law).

As regards the Central Bank of Montenegro organisational structure we point to the provisions of Article 143 of the Constitution of Montenegro, which provide for the status, new functions, new objectives and new organisation of the Central Bank of Montenegro. Pursuant to the new Constitution, the Central Bank is governed by the Council, and managed by the Governor of the Central Bank. From quoted constitutional provision it clearly results that by the new CBM Law it is essential to change the organisational structure of the Central Bank with the objective of compliance to the Constitution of Montenegro. Drafting of the new CBM Law is underway.

## **7 Which provisions from the law ensure democratic accountability and transparency of the central bank?**

Democratic accountability and transparency of the Central Bank of Montenegro are ensured by the following provisions:

- The Central Bank of Montenegro is an autonomous organisation of Montenegro (Article 143 of the Constitution of Montenegro and Article 1 paragraph 2 of the CBM Law) and independent within the authorities established by the law (Article 2 of the CBM Law);
  - The Council of the Central Bank decides on matters from its competence on sessions, that take place at least once a month; it may decide provided that not less than five members of the Council are present, and it decides by majority vote of members of the Council (Article 28 of the CBM Law);
  - The decisions of the Council of the Central Bank, that have the character of general acts, are published in the Official Gazette of Montenegro (Article 17 paragraph 3 of the CBM Law);
  - The Central Bank submits, as needed but not less than once a year, a report on its operations to the Parliament of Montenegro (Article 8 of the CBM Law);

- Material expenditures of the Central Bank are established by the annual financial plan that is adopted by the Council and delivered to the Government, exclusively for information (Article 56 of the CBM Law). The Annual account of the Central Bank for previous year is prepared in compliance to accepted international accounting standards; annual account with the report and opinion of independent external auditor is examined and adopted by the Council by 31 May of current year and submitted to the Parliament, for presentation (Article 59 paragraphs 1 and 2 of the CBM Law);
- The Central Bank informs the public on its operations by providing timely information, publishing reports and official publications, launching press conferences, etc. (Article 51 of the CBM Statute);

The transparency of work of the Central Bank of Montenegro is also implemented by posting of certain acts and publications on the website of the Central Bank of Montenegro, primarily by publishing the Policy of the Central Bank for a specific year and of certain reports. The Central Bank of Montenegro publishes on weekly level "Weekly Report from International Financial Market"; monthly it publishes "CBM Bulletin"; quarterly "Chief Economist Report" and "Inflation Report" as well as quarterly financial reports of banks (balance sheet and income statement), whereas "CBM Annual Report on Operations", "CBM Financial Report" with Auditor's Report and "Annual Report of Chief Economist" are published annually. In addition, the Central Bank prepares and publishes working papers referring to current economic issues.

## **8 What are the appointment and removal conditions and procedures for the central bank governor and the other members of the decision-making bodies of the central bank?**

By the provisions of Article 15 of the CBM Law it is specified that a member of the Council must have a specific professional knowledge in the field of monetary, credit and foreign exchange systems and that he/she:

- cannot be an officer or employee of a bank that operates in the Republic or owner of more than 5% of shares of some bank;
- must have moral qualities and may not be appointed if he punished for criminal offence, respectively if the proceedings are instituted against him/her for a criminal offence that makes him/her unworthy of discharging the function of member of the Council;
- must be a person with recognised integrity, who will perform the function in the Central Bank in such a manner that he/she will not put his/her own interests or interests of with him/her connected parties before the interests of the Central Bank and its clients;
- is obliged to submit to the Council at least once a year the report on implementing his/her direct and indirect financial interests, as well as the interests of parties he/she is connected with, in a manner specified by the Central Bank.

The members of the Council are appointed by the Parliament (Article 14 paragraph 3 of the CBM Law). The member of the Council is appointed for a term of office of six years and he/she may not be appointed more than twice (Article 16 of the CBM Law).

The members of the Council, as follows: the President of the Council, the Director General and two Directors General's Deputies, who are the executive officers of the Central Bank are nominated by the working board of the Parliament competent for nominations and appointments, whereas the other three members of the Council are nominated by the Government (Article 14 paragraph 2 of the CBM Law).

Pursuant to the provisions of Article 23 of the CBM Law member of the Council will be removed if:

- 1) he/she is unworthy of being a member of the Council for the purpose of Article 15 of the CBM Law;
- 2) he/she was a debtor in a bankruptcy procedure;

- 3) he/she was sentenced to an unconditional prison sentence or for an offence that makes him/her unworthy of discharging the function of member of the Council;
- 4) performs the function of member of the Council unprofessionally and negligently;
- 5) permanently loses the capacity of discharging the function of member of the Council.

A Member of the Council may submit his/her resignation in writing to the Parliament of Montenegro, with prior notification of at least one month (Article 25 of the CBM Law).

## **9 Do the statutes of the central bank comply with the following requirements?**

**a) minimum term of office of the Governor should be at least 5 years (indicate the current term of office);**

Pursuant to the provisions of Article 16 of the CBM Law, the President of the Council, as a member of the Council, is appointed for a six year term of office. Term of office of the Governor of the Central Bank will be specified by the new CBM Law, drafting of which is ongoing.

**b) grounds for dismissal of the Governor may not be different from the following: if the Governor no longer fulfils the conditions required for the performance of his/her duties or if he/she is guilty of serious misconduct;**

President of the Council, as a member of the Council, may be dismissed for the reasons specified in provisions of Article 23 of the CBM Law, given in answer to question number 8 of this Chapter.

**c) security of tenure of other members of decision-making bodies of the central bank (how long is the term of their office?) and grounds for their dismissal should be similar to those here above mentioned**

In accordance with the provisions of Article 16 of the CBM Law, all the members of the Council are appointed for a six year term of office. The grounds for dismissal are the same for all the members of the Council and they are specified in the provisions of Article 23 of the CBM Law, as mentioned in answer to the question number 8 of this Chapter.

**d) membership of a decision-making body involved in the performance of the central bank's tasks is incompatible with the exercise of other functions that might create a conflict of interest (are members authorised to hold part-time jobs?);**

Members of the Council, during their term of office, may not exercise other function, service, job or duty, unless they have obtained a special approval by the Council. Member of the Council, during the term of office, and employee of the Central Bank may not accept gifts, embrace loans or other types of benefits from the person he/she has connected business or financial interests, if such accepting could create impartial execution of the activities (Article 64a of the CBM Law).

**e) right of judicial review of any dismissal decision by independent national courts?**

By the provisions of Article 8 of Administrative Dispute Law (Official Gazette of the Republic of Montenegro 60/03) it is specified that the administrative dispute may not be instituted against the acts adopted in matters on which the Parliament of the Republic of Montenegro and the President of the Republic of Montenegro decide directly, pursuant to their constitutional competences. Therefore, the possibility of conducting the administrative dispute against the decisions of the Parliament on dismissal of appointed person is excluded. Presently in our legal system it is not explicitly established which court is competent for adjudicating against Parliament's decision on dismissal of a person it has appointed.

**10 Is the central bank in a position to avail itself of the appropriate means to ensure that its tasks can be properly fulfilled? Does a consultation on and/or right exist for a third party to amend, approve or control by any means the central bank's draft budget and annual accounts? If yes, where is it regulated?**

The Central Bank of Montenegro independently uses and disposes with its property and no third party in any way can control drafting of financial plan and annual account.

The Central Bank's of Montenegro property consists of the property rights related to: real estates and movables, founding capital and other financial means, precious metals and other proprietary rights (Article 51 paragraph 2 of the CBM Law).

The Central Bank makes revenues on basis of:

- 1) property;
- 2) charges for granting of licenses for banks operation;
- 3) charges for supervision of banks operations; and
- 4) other charges for performing the activities from the Central Bank's competence. The Council of the Central Bank adopts decision on amount of the charge (Article 55 of the CBM Law).

Material expenditures of the Central Bank of Montenegro are set out in annual financial plan adopted by the Council; the financial plan is submitted to the Government for information only (Article 56 of the CBM Law).

The Annual account with the report and opinion of independent external auditor is discussed and adopted by the Council until 31 May of current year and submitted to the Parliament, for information (Article 59 paragraph 2 of the CBM Law).

**11 What are the provisions governing the distribution of the central bank's profits?**

The distribution of net revenues-profits has been specified in the provisions of the CBM Law (Article 54, paragraph 3) pursuant to which "The rest of net revenues constitutes the Budget of the Republic and shall be transferred to the account of the Ministry of Finance kept with the Central Bank".

**12 Does the ex-post review of the central bank's accounts reflect adequate safeguards to prevent it from infringing on the bank's independence?**

There is an explicit legal safeguard from ex post reviews of the Central Bank of Montenegro financial accounts, in a manner that the CBM Law explicitly provides that annual financial plan is submitted to the Government, for information only, and annual account with the report and opinion of independent auditor to the Parliament, for presentation only.

**Prohibition of monetary financing and privileged access**

**13 Please provide a copy of laws and regulations (in one of the official EU languages) governing the access of government to financial institutions (e.g. laws and other regulations governing the asset allocation of banks, savings and co-operative banks, insurance companies, social, pension and special funds, other institutional investors, investors compensation schemes, tax laws, etc.).**

Please find enclosed

- Voluntary Pension Funds Law (Official Gazette of the Republic of Montenegro 78/06, 14/07) ([Annex 142](#))
- Securities Law (Official Gazette of the Republic of Montenegro 59/00, 10/01, 42/05, 28/06 and Official Gazette of Montenegro 53/09) ([Annex 141](#))
- Investment Funds Law (Official Gazette of the Republic of Montenegro 49/04) ([Annex 140](#))
- Law on Takeover of Joint Stock Companies (Official Gazette of the Republic of Montenegro 52/04) ([Annex 137](#))
- Insurance Law (Official Gazette of the Republic of Montenegro 78/06, 19/07) ([Annex 139](#))
- Law on Budget (Official Gazette of the Republic of Montenegro, 40/01, 44/01, 28/04, 71/05, Official Gazette of the Republic of Montenegro 12/07, 73/08, 53/09) ([Annex 145](#))
- Law on Membership of the Republic of Montenegro in International Monetary Fund and Other Financial Institutions (Official Gazette of the Republic of Montenegro 66/06) ([Annex 143](#))

For other relevant laws the reference is given to question 1 of this chapter.

**14 Please indicate the respective provisions in these documents, as well as any other elements, which might constitute privileged access of the government to financial institutions.**

No sector regulation governing doing business and making investments on the market specifies any other provision which might constitute privileged access of the Government to financial institutions. In Montenegro it is not permitted by law to issue preferential shares only to the state, golden shares or shares with multiple voting right. Moreover, the regulations of Montenegro do not provide for any other mode of establishing privileged treatment of Government as a shareholder in the companies.

**15 In particular, the following questions have to be addressed:**

**a) Are there national legal provisions requiring or encouraging (through tax or other advantages) banks, insurance companies, pension funds, social security funds, investor compensation fund or other financial institutions to invest (e.g. a certain portion of their assets) in domestic government securities or other government liabilities?**

Banks are permitted to invest up to 25% of their reserve requirements into state securities. They are stimulated to invest these assets in state securities, as doing so they gain higher returns. The CBM Council has adopted this measure on temporary basis until the implications of global financial crisis are encountered.

No sectoral regulation specifying financial institutions' investments (Securities Law, Voluntary Pension Funds Law, Investment Funds Law) provides for specific conditions that would stimulate investment in domestic state securities.

An investment fund may invest in domestic and foreign securities listed on regulated markets of OECD countries, as well as on other markets that meet the norms of transparency in transactions with securities and that are determined by the supervisory board of that fund (Article 54 paragraph 2 of the Investment Funds Law).

Voluntary Pensions Funds Law, when the word is about differing the investments of voluntary pension fund's property in domestic and foreign securities, specifies only one relevant provision, contained in the fact that voluntary pension funds may acquire not more than 10% of issue of specific securities and that the voluntary pension fund may invest not more than 10% of its assets in securities issued by one issuer (Article 38 paragraphs 2 and 3 of Voluntary Pension Funds Law). By way of derogation from this rule, the assets of voluntary pension fund may be invested in treasury bills and other short-term securities issued by Montenegro and local self-government units and short-term bank deposits, in a way set out by the Commission as well as in long term bonds and other long-time securities issued by the State of Montenegro and the local self-government units, without limitation.

**b) To what extent has the central bank contributed to the financing of the public sector? Describe the present situation both in legal terms and in practice. Describe the rules governing central bank credit to the government (limits, repayment, maturity, etc.), if such rules exist.**

An explicit prohibition to the financing of the Government and public sector by the Central Bank of Montenegro has been established by the CBM Law. Namely, by the provisions of Article 3 of the CBM Law it is specified that the Central Bank of Montenegro may not issue money and that it may not grant loans to the Government of Montenegro, or other legal and natural persons. The CBM has indirectly contributed on temporary basis to the financing of budget by creating the possibility of investing 25% of banks' reserve requirements into government securities. Refer to answer under a).

**c) Is the central bank authorised to buy Montenegro public debt instruments directly on the primary market? Can it buy public debt instruments from EU Member States?**

By the CBM Law an explicit prohibition of buying the securities by the Central Bank of Montenegro issued by the Republic on the primary market has been established, since it has been provided that the Central Bank may buy and sell the securities issued by the Republic only on the secondary market (Article 11 item 6a) and Article 33a paragraph 1 of the CBM Law). The Central Bank of Montenegro may buy the securities issued by the member states of the European Union on both the primary and the secondary market.

**16 Is there an emergency liquidity mechanism/overdraft facility or any other type of credit facility provided by the central bank to the central governments, regional, local or other public authorities, or any other public bodies governed by public law or public undertakings? If yes, on which conditions and where is it regulated?**

There are no legal possibilities for the Central Bank to credit public authorities on either the central or local level, or any other authorities the activity of which has been regulated by public law, or public undertakings.

**Monetary and exchange rate policy**

**17 What are the main objectives of the central bank? Who formulates the monetary policy?**

Pursuant to the CBM Law, the Central Bank of Montenegro does not have issuing function, and it is responsible for monetary policy, therefore the main objectives of the Central Bank are conducting of efficient monetary policy, establishing and maintaining of a sound banking system and efficient payment operations in the Republic (Article 1 paragraph 2 of the CBM Law). Pursuant to the provisions of the new Constitution of Montenegro, the Central Bank of Montenegro is responsible for monetary and financial stability and functioning of the banking system. Harmonisation of the objectives and functions of the Central Bank of Montenegro with the Constitution of Montenegro will be implemented by the new CBM Law, drafting of which is underway.

The Council of the Central Bank formulates monetary policy, pursuant to the provisions of Article 11 paragraph 1 item 1) of the CBM Law.

**18 Is the maintenance of price stability the primary objective of the central bank? Without prejudice to that objective, does the central bank support the general economic policy objectives of the government?**

The Constitution of Montenegro sets out that the CBM is responsible for monetary and financial stability and functioning of the banking system. In conditions of Euroisation, the price stability is difficult to implement as a monetary policy objective, owing to the lack of monetary policy instruments necessary for its implementation. By the new Central Bank Law it will be necessary to provide for additional reasoning of objectives (responsibilities) of the Central bank of Montenegro.

The Central Bank of Montenegro is not obliged to support the general economic policy objectives.

**19 Is the central bank act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and acting in compliance with the principles set out in Article 4 of the EC Treaty?**

The applicable CBM Law does not contain an explicit provision on harmonization with the principles of an open market economy and free competition. As regards this question, we point out that the provisions of Article 139 of the Constitution of Montenegro, proclaimed on 22 October 2007, specify that the economic arrangement of Montenegro is based on free and open market, freedom of entrepreneurship and free competition. Therefore, the new CBM Law that is in the process of drafting should be harmonised with the principles of open market economy and free competition set out in Article 4 of the EC Treaty.

**20 Which is the official currency unit used for conducting the monetary policy? Where is it referred to in the law?**

The official currency is the Euro. Euro as the means of payment has been defined by the Central Bank of Montenegro Law in Article 1 paragraph 3.

**21 Do the basic tasks of the central bank include the following: definition and implementation of monetary policy, conduct of foreign exchange policy, holding and management of the official foreign reserves of the country, and promotion of the smooth operation of payment systems?**

The authorisations of the Central Bank of Montenegro include the following areas quoted in this question: definition and implementation of monetary policy, holding and management of the official foreign reserves of the country, and promotion of the smooth operation of payment system.

**22 How is monetary policy carried out (what are the specific reserve requirements, refinancing facilities, open market operations, major central bank interest rates, other monetary instruments)? What have been the main recent developments in the use of monetary instruments? To what extent have direct instruments of monetary control (such as credit ceilings, interest rate controls, etc.) been replaced by indirect, market-based instruments (such as open market operations, financing facilities, etc.)? Is the framework for monetary policy sufficient to allow policy makers to conduct successful stabilisation policies? Are open market and credit operations, if any, based on collateral arrangements?**

In conditions of Euroisation, monetary policy is substantially limited. The main monetary policy instrument is the reserve requirement policy. The law provides for the facility of performing the open market operations, but owing to limited resources the CBM has at its disposal, this facility has not been used. Also, there are some limited facilities for granting of short-term liquidity loans. Other monetary policy instruments are not available, including the reference interest rate.

The most important instrument of monetary policy in Montenegro, as a Euroised economy, the reserve requirement, has been changed several times since the establishment of the CBM. The

changes in reserve requirement are presented through a review of basic elements of this instrument in the past two years:

- From July 2009: the basis for reserve requirement calculation are demand deposits and time deposits; reserve requirement rate amounts to 10%; reserve requirement resources may be allocated on reserve requirement account in the country, on the CBM accounts abroad and up to 25% may be kept in form of treasury bills of Montenegro; the Central Bank pays interest calculated at the rate of 1% at annual level on 25% of resources allocated on the reserves account; the interest rate for erroneously calculated reserve requirement or reserve requirement that was not allocated within the prescribed time limit amounts to 12% at annual level; banks may use not more than 50% of reserve requirement resources for liquidity interest free, provided that they repay the resources by the end of the same working day, whereas the CBM monthly calculates interest of 7% at annual level on the resources of reserve requirement the banks do not repay by the end of the same working day.

- **From February to July 2009: the basis for reserve requirement calculation are demand deposits and time deposits;** reserve requirements rate amounts to 11%; reserve requirement resources may be allocated on the account of reserve requirement in the country, on the CBM accounts abroad and up to 20% may be kept in form of treasury bills of Montenegro; the Central Bank pays interest calculated at rate of 1% at annual level on 30% of the resources allocated on the reserves account; interest rate on erroneously calculated reserve requirement and reserve requirement resources not allocated within the prescribed time limit amounts 12% at annual level; banks may use not more than 50% of their reserve requirement for liquidity interest free, provided that they repay the resources by the end of the same working day, whereas the CBM calculates interest monthly at rate of 11% at annual level on the amount of reserve requirement the banks do not repay by the end of the same working day.

- **From January 2008 to February 2009: the basis for reserve requirements calculation are the public sector deposits irrespective of their maturity and demand deposits and time deposits of other sectors with maturity period shorter than two years; the reserve requirement rate amounts to 19% on public sector deposits, irrespective of maturity, on demand deposits and time deposits of other sectors the maturity of which, on the days for the reserve requirement calculation, is shorter than 180 days, and 2% on time deposits of other sectors, the maturity of which, on the days for the reserve requirement calculation, is longer than 180 days, and shorter than two years;** reserve requirement resources may be allocated on the reserve requirement account in the country and on the CBM's account abroad; the Central Bank pays interest calculated at rate of 1% at annual level on 50% of resources allocated on the account of reserves; interest rate on erroneously calculated reserve requirement and reserve requirement that was not allocated within the prescribed time limit amounts 12% at annual level; banks may use not more than 50% of reserve requirement interest free for liquidity maintenance, provided that they repay the resources by the end of the same working day, whereas the CBM calculates interest monthly at rate of 11% at annual level on the reserve requirement resources the bank does not repay by the end of the same working day.

In addition, pursuant to the Law on Measures for Banking System Protection (Official Gazette of Montenegro 64/08), a Decision on Using Reserve Requirement of Banks Held with the Central Bank of Montenegro for a Period Longer Than One Day (Official Gazette of Montenegro 65/08, 15/09, 41/09) was adopted; it was modified two times after the adoption, and it will be in force until 31 December 2009.

By the original decision it was prescribed that the CBM may permit to the bank experiencing the problem in liquidity maintenance as a result of global financial crisis to use of up to 50% of allocated reserve requirement resources, on daily basis, for a period longer than one day, but not longer than seven working days. This time limit was later extended to 10 working days within one month. Originally it was prescribed the bank to pay interest on used amount of reserve requirement

resources monthly at rate of 5% at annual level, than 4%, whereas the last change provided that the interest rate is paid at the rate established at the level of ECB rate for major refinancing operations increased for 0.5 percentage points. If the resources are not repaid after the expiration of permitted period the bank pays interest monthly at rate which was originally fixed on the level of 11% at annual level, than it was decreased to 9%, whereas after the last change it amounts 7% at annual level.

Credit limits existed only in 2008 as a result of too large credit expansion. Other direct instruments of monetary control have never been used.

In conditions of euroisation, the monetary policy has no available instruments for implementing of successful stabilisation policies.

The Central Bank, pursuant to the Central Bank Law (Official Gazette of the Republic of Montenegro 52/00, 53/00, 47/01, 04/05) may carry out open market operations. Article 33a, paragraphs 1 and 2 of the Law specifies that "the Central Bank may buy or sell securities issued by the Republic on secondary market. On primary and secondary market the Central Bank may sell and buy securities issued by the EU member states or other states defined by the Central Bank's regulation". No matter that there were facilities for the implementation, the open market operations have not been carried out so far.

Pursuant to the Central Bank of Montenegro Law, Article 30, 3, paragraph 2: "The Central Bank may not grant loans to the Government of the Republic of Montenegro or other legal and natural persons, except under the conditions specified by this Law." Article 30 of the Law provides that: with the objective of liquidity maintenance of the bank licensed for operation in the Republic the Central Bank may:

1) permit the bank to use its by the law specified reserve requirement resources deposited in the Central Bank, that the bank shall repay to prescribed level until the end of the same working day

2) grant intra-day-loan from its own resources;

3) grant loan from its own resources, provided that the amount of the loan is completely collateralised by securities issued by the Republic, the European Union member state or other state determined by the CBM regulation. Granting loans for liquidity is regulated in more detail by the Decision on More Detailed Conditions and Manner of Using the Resources that the Central Bank May Grant to Banks with the Objective of Liquidity Maintenance (Official Gazette of the Republic of Montenegro 02/02).

The amount of the loan granted to banks for liquidity maintenance must be completely collateralised by securities issued by Montenegro, EU member state or other state determined by the Central Bank regulation. The loan is granted in the amount of up to 80% of the nominal value of securities used as collateral. Time limit until the maturity of securities pledged as loan collateral shall not be less than three days and not more than one year.

So far the commercial banks have not used intra-day and over-night loans of the Central Bank.

In addition, pursuant to the Law on Measures for Banking System Protection (Official Gazette of Montenegro 64/08), a Decision on Granting Short-Term Loans to Banks was adopted (Official Gazette of Montenegro 65/08), that shall be in force until 31 December 2009. The Decision prescribes that the Central Bank may grant a short-term loan for a period that does not exceed 30 days to a solvent bank that faces the problem of liquidity maintenance as a consequence of global financial crisis, provided that the bank has utilised all other facilities available on the market to solve the liquidity. In order to use the short-term loans, such bank is obliged to pledge securities (Article 2). Article 4 specifies that the Central Bank must not grant short-term loan in the amount that exceeds 90% of market value of pledged securities issued by the state of Montenegro or the European Union member state. Maturity of the securities pledged as collateral must be longer than the maturity of the short-term loan (Article 4 paragraph 2).

**23 Which factors hinder the conduct of monetary policy (e.g. elasticity of loans and domestic expenditure to interest rates, competition in the banking sector, changes in the structure of financial markets)?**

Bearing in mind the context of Euroisation the facilities for executing monetary policy are very limited. The greatest difficulties for current conduct of monetary policy are the inadequate legal framework (Banks Law and the CBM Law), as well as the aggravated situation in banking sector resulting from the Global financial crisis (decline in deposits, non-performing assets growth, decrease in solvency ratio, etc).

**24 Describe the major characteristics and objectives of your exchange rate regime and policy: anchor, choice of the central rates, width of the fluctuation bands, etc.**

Since Montenegro uses the Euro as its legal tender, there is no facility of conducting the exchange rate policy.

**25 How is the exchange rate policy implemented? What are its instruments (interventions, monetary policy, fiscal policy, capital control)? What is the intervention policy – if any – (currencies used, financing, and sterilisation)?**

Owing to Euroisation it is not possible to conduct exchange rate policy.

**26 Are any reforms of the exchange rate policy envisaged? If yes, why? What part does the prospect of EU accession play in this respect?**

Montenegro can not conduct the exchange rate policy due to euroisation.

**27 Are there any attempts to measure equilibrium (real) exchange rates? What has been the recent evolution of the equilibrium real exchange rate?**

Owing to euroisation Montenegro cannot conduct exchange rate policy, and for that reason equilibrium (real) exchange rate has not been calculated.

**28 What is the link between the exchange rate policy and monetary policy?**

There is no link. As a result of Euroisation Montenegro cannot conduct exchange rate policy, or have impact on its movement. Likewise, it does not have at its disposal monetary policy instruments through which it could affect either positive or negative movement of the euro exchange rate.

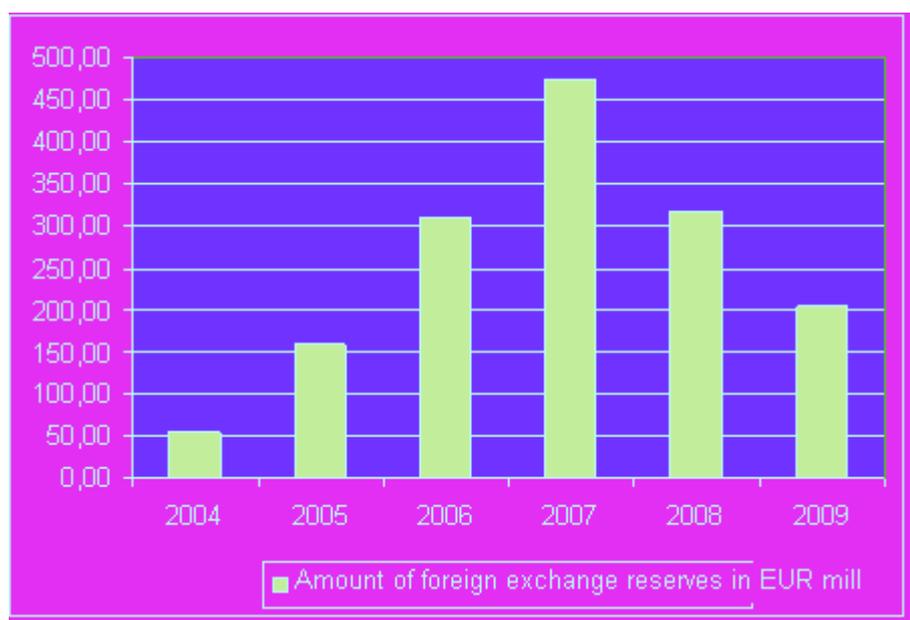
**29 How will the liberalisation of capital movements affect the monetary and exchange rate policies? How vulnerable is your economy to a significant appreciation or depreciation of the currency?**

The liberalisation of capital movement has already been implemented. It does not affect the exchange rate movement, owing to Euroisation. So far it has not affected monetary policy to a higher extent, and it should be kept in mind that in the conditions of Euroisation there are no classic links on the relation of capital inflow/outflow → change in foreign exchange supply/demand → exchange rate level change. As for the vulnerability of our economy to a significant appreciation or depreciation of the currency, we may state that the company Aluminium Plant Podgorica, the largest Montenegro's exporter of goods, is considerably vulnerable to such movements, since it sells its products at prices fixed in Dollars, but purchases majority of its inputs in the Euro. The rest of the economy is not vulnerable to a higher extent compared to the level common in other countries, at similar changes of exchange rate level.

**30 What is the situation of foreign exchange reserves? Are there any targets for the size of these? How are the reserves managed?**

Foreign exchange reserves in case of Montenegro do not have the function they have in countries possessing their own currency, therefore there are no target values. Foreign reserves, in addition to the Central Bank's own resources (capital and general reserve), consist of the deposit resources of the Ministry of Finance (including gold), resources the commercial banks allocate as a reserve requirement with the CBM and reserve positions with the IMF.

Range of the amounts of foreign exchange reserves in period from 31 December 2004 to 30 June 2009 is presented in the graph:



The Central Bank of Montenegro manages foreign exchange reserves of Montenegro (Articles 11 and 33 of the Central Bank of Montenegro Law). Foreign exchange reserves management is conducted in compliance to the Central Bank's Policy, Decision on Foreign Exchange Reserves Management (Official Gazette of the Republic of Montenegro 31/06 and 62/06), general and

operative guidelines. The Council of the Central Bank adopts decision on those documents and their contents (Article 17 of the CBM Law).

By the Decision on General Guidelines for Foreign Exchange Management, it is specified that the Council of the Central Bank determines:

- type and level of risk the Central Bank can undertake in foreign exchange reserves management,
- forms in which the resources may be invested,
- criteria for selection of banks and the portion of resources, out of the total amount of foreign exchange reserves held abroad, which may be kept with them individually,
- portfolio currencies.

Resources of the reserves are invested only in financial instruments with fixed return (bonds, deposits and similar instruments) issued by some states and held with the highest rating commercial banks. Investments in shares, private companies bonds or in derivatives of those financial instruments are not permitted. Strictly established general and operative guidelines define qualitative and quantitative limits for foreign exchange management.

**31 How has the gross external debt stock developed? Please indicate the main sources of growth and its structural elements (e.g. maturity, creditor, currency composition etc.). What will the past debt accumulation mean in terms of medium- and long-term growth of amortisation? How has the servicing of the external debt been managed?**

A large portion of debt consists of the debt inherited from the period of former SFR of Yugoslavia and the State Union of Serbia and Montenegro (SUSM). Debt from the SUSM period in general had a guarantee of either Serbia or Montenegro depending on which state the beneficiary was coming from. The Government of Montenegro has undertaken its portion of SUSM debt pursuant to the Agreement of the Republic of Serbia and the Republic of Montenegro on Regulating the Membership in International Financial Organisations and Apportionment of Financial Rights and Obligations, signed on 10 July 2006.

### **Developments of external debt in 2006**

Based on established apportionment of obligations in accordance with the above mentioned Agreement, on 30 June 2006 the external debt amounted EUR 477.3 million or 74.0% of the total debt or 27.1% of GDP.

In the structure of foreign public debt of Montenegro, by the end of September 2006, the largest portion related to the old reprogrammed debt to the International Bank for Reconstruction and Development (IBRD) - 55.4%, respectively EUR 264.2 million. The old debt to IBRD was reprogrammed in 2001 in scope of regulating the relationships with this institution, when it was agreed to perform the reprogramming through six consolidated loans. The loans were contracted on 30 years with grace period of three years and a favourable interest rate - LIBOR and a fixed spread. The other significant creditor has been the Paris Club of creditors the debt to which on 30 September 2006 amounted EUR 125.3 million or 26.3% of foreign debt. The remaining debt related to other international financial institutions like EIB, IDA, the European Commission, etc.

At the end of 2006 the public debt of Montenegro was EUR 701.1 million, the portion of external foreign debt was EUR 504 million or 71.9% of the total public debt. In the structure of foreign debt the main change in comparison to 30 September 2006 relates to increased obligation of around EUR 12.5 million to the Paris Club of Creditors due to adding of capitalised interest to the amount of debt, as well as the obligations arising from the first withdrawals of loans granted by the

Government of Poland (projects for agriculture and railways) and Hungary (education), as well as withdrawals from the arrangement with KfW (water supply project). The new credit indebtedness related to the projects of water supply, agriculture, education.

As for the currency and interest composition of foreign debt of Montenegro, the situation is very favourable, too. Out of the total amount of foreign debt of Montenegro during 2006, only a part of Paris Club (26% of debt in US\$, 3% in other currencies), as well as debts to Anglo Yugoslav Bank (in US\$) and IDA loans (in SDR) were not planned for servicing in Euro, whereas the remaining obligations have been serviced in Euro.

As regards the interest rates on foreign debts, fixed interest rate is applied (with Paris Club - ODA loan it amounts 2%, or even below with commercial bilateral loans) - with Paris Club 96.4% of the loan is serviced at fixed interest rate and with IBRD (more than 60% is serviced at fixed interest rate), what makes almost 80% of foreign obligations. With other loans, the interest rate (with the exception of IDA, which are interest-free and require only the costs of servicing 0.75% and engagement 0.50%) a respective LIBOR is applied (mainly EURIBOR) + 0.5%.

### **Developments of external debt in 2007**

State debt at the end of 2007 amounts EUR 737.2 million or 32.4% of GDP, the share of foreign debt amounting EUR 462.1 million or 20.3% of GDP.

In addition to favourable currency and interest composition of the loans, the loans contained in the public debt of the Republic of Montenegro have a long repayment and grace periods (until 2031 with IBRD, 2024 respectively 2041 with Paris Club creditors), whereas the new credit indebtedness had a grace period of 2 to 10 years and repayment period of 10 to 20 years.

At the end of 2007 foreign state debt declined in both nominal and proportional amounts in relation to GDP by EUR 41.9 million or by 4.9% of GDP (in 2006 GDP amounted EUR 2003 million). The decrease resulted from the prepayment of three tranches of consolidated loan of International Bank for Reconstruction and Development (IBRD) totalling around EUR 59 million, regular repayment of principal amounting around EUR 12 million, as well as the repayment ... Engagement of resources from existing loans has increased the status of debt by EUR 27.6 million, as follows: with International Development Organisation (IDA) (project of sustainable tourism development), Credit Bank for Development (KfW), Hungarian (education) and Polish commercial loans (equipment for agriculture and railways) as well as the first withdrawal of resources from the loan with the Societe General Bank for the procurement of IT equipment for schools.

In respect of interest and currency structure of foreign obligations of Montenegro almost the same trend has been retained, so that around 89% of foreign debt was serviced in the Euro, 77% of obligations were serviced at fixed rate, whereas the repayment period with grace period retained the same trend as in 2006.

### **Foreign debt developments in 2008**

State debt of Montenegro on 31 December 2008 amounted EUR 894.7 million or 26.8% of gross GDP, the share of foreign debt amounting EUR 481.7 million or 14.4% of GDP.

Foreign debt in 2008 increased by EUR 19.6 million as compared to the end of 2007. Around EUR 36.4 million from the existing loans was engaged, as follows: with International Development organisation (IDA), Credit Bank for Development (KfW), European Bank for Reconstruction and Development (EBRD), Hungarian commercial loan, Polish loan, loan with Societe Generale bank and transfer commercial loan of the Government of the Republic of France for EPCG. The amount of debt decreased on grounds of regular repayments of principal totalling around EUR 16.8 million, this amount also including the premature repayment of obligations on grounds of debt to Japan

and the United Kingdom in scope of the Paris Club of creditors. The debt to Anglo Yugoslav Bank, serviced in USD was fully repaid. Debt on grounds of loans signed before 2000, the so called old debt, makes 68% of the total amount of foreign debt.

As regards the interest rates, repayment period, as well as the currency of repayment, a favourable trend from 2007 was retained.

### **Foreign debt developments in 2009, concluding with 30 September 2009**

State debt of Montenegro on 30 September 2009 amounted EUR 1,071.2 million or 33.0% of GDP, the share of foreign debt amounting EUR 645.2 million or 16.9% of GDP.

Foreign debt in the first three quarters of 2009 increased by EUR 163.5 million in comparison to the end of 2008. The amount of foreign debt increased owing to overtaking the debt by Railway Infrastructure of Montenegro (Željeznička infrastruktura Crne Gore A.D.) towards Czech Export Bank (ČEB) amounting EUR 48.1 million, European Investment Bank (EIB) amounting EUR 7.0 million (resources have not been withdrawn yet), European Bank for Reconstruction and Development (EBRD) amounting EUR 11.0 million (7.8 million withdrawn so far) and overtaking of debt by Railway Transportation of Montenegro (Željeznički prevoz Crne Gore A.D.) towards EUROFIMA amounting CHF 34.5 million. In addition, the amount of foreign debt increased by withdrawing the resources of the loan from the contracts concluded with international financial institutions in previous period.

Table indicating foreign debt

<b>FOREIGN DEBT SITUATION IN MONTENEGRO ON 30 September 2009</b>					
		-			
<b>EUR (millions)</b>					
<b>Foreign debt</b>					
<b>Creditor</b>	<b>Debt situation</b>	<b>GDP est.</b>	<b>Foreign debt/GDP</b>	<b>% foreign debt</b>	<b>% public debt</b>
			<b>(2/3)</b>		
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
International Bank for Reconstruction and Development (IBRD)	184.1	3,242.0	5.7%	28.5%	17.2%
International Financial Corporation (IFC)	6.9	3,242.0	0.2%	1.1%	0.6%
Member countries of Paris Club of creditors *	124.4	3,242.0	3.8%	19.3%	11.6%
International Development Agency (IDA)**	52.7	3,242.0	1.6%	8.2%	4.9%
European Investment Bank (EIB)****	39.8	3,242.0	1.2%	6.2%	3.7%
European Bank for Reconstruction and Development (EBRD)	18.0	3,242.0	0.6%	2.8%	1.7%
Development Bank of Council of Europe	1.2	3,242.0	0.0%	0.2%	0.1%
European Community	5.5	3,242.0	0.2%	0.9%	0.5%
Credit Bank for Reconstruction - Germany (KfW)	10.8	3,242.0	0.3%	1.7%	1.0%
Austrian loan	4.1	3,242.0	0.1%	0.6%	0.4%
Hungarian credit	12.2	3,242.0	0.4%	1.9%	1.1%
Polish loan	11.8	3,242.0	0.4%	1.8%	1.1%

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Societe Generale - Education IT	1.6	3,242.0	0.0%	0.2%	0.1%
French loan***	8.5	3,242.0	0.3%	1.3%	0.8%
EUROFIMA - debt of Railways*****	22.8	3,242.0	0.7%	3.5%	2.1%
Czech EXIM - debt of Railroads	45.0	3,242.0	1.4%	7.0%	4.2%
Steiermarkische Bank und Sparkassen AG*****	5.5	3,242.0	0.2%	0.9%	0.5%
Erste Bank	30.0	3,242.0	0.9%	4.6%	2.8%
Credit Suisse Bank	60.3	3,242.0	1.9%	9.3%	5.6%
<b>TOTAL</b>	<b>645.2</b>	<b>3,242.0</b>	<b>16.9%</b>	<b>100.0%</b>	<b>60.2%</b>
* Amount of original debt in the Euro is 71%, American Dollars 26% and 3% in other currencies.					
**Original amount is in special drawing rights (SDR). Used exchange rate XDR/EUR = 1.1101					
***Commercial loan - EPCG					
**** EIB loan totalling EUR 47.0 million serviced by public enterprises (Monteput, Airports of Montenegro and EPCG) are not contained in the amount of foreign debt; they are treated as guaranties.					
*****Debt to EUROFIMA amounts CHF 34.5 million, used exchange rate 0.6636					
*****Loan for financing the purchase of fire engines for Ministry of Interior (MUP)					

Table with interest rates by creditors

<b>FOREIGN DEBT</b>	
<b>EUR (million)</b>	
<b>Creditor</b>	<b>Interest rate</b>
<b>IBRD</b>	<b>fixed: 5.44 - 5.81 , floating: EURIBOR + 0.55%</b>
<b>IFC</b>	<b>LIBOR + 1%</b>
<b>Paris Club</b>	<b>fixed: 2 - 5.90,      floating: EURIBOR (LIBOR) + 0.5</b>
<b>IDA</b>	<b>0.75% service charge, 0.50% commitment fee</b>
<b>EIB</b>	<b>EURIBOR + 0.50%</b>
<b>EBRD</b>	<b>EURIBOR + 1%</b>
<b>CEB</b>	<b>3.558</b>
<b>European Community</b>	<b>EURIBOR + 0.2%</b>
<b>KfW</b>	<b>0.25% service charge</b>
<b>Austrian loan</b>	<b>interest rate: 1.164, service charge: 0.25</b>
<b>Hungarian credit</b>	<b>0.69</b>
<b>Polish loan</b>	<b>0.75</b>
<b>Societe Generale - Education IT</b>	<b>EURIBOR + 1.5</b>
<b>French loan</b>	<b>0.9</b>
<b>Erste Bank</b>	<b>9.067%</b>
<b>Credit Suisse</b>	<b>8.38%</b>

Table with projection of public debt amount in period 2009-2012

	<b>2009 projection</b>	<b>2010 projection</b>	<b>2011 projection</b>	<b>2012 projection</b>
Foreign debt (in mil €)	879.5	1,104.5	1,292.8	1,272.3
Foreign debt (in % of GDP)	27.1	33.2	37.4	35.4
Internal debt (in mil €)	469.5	456.3	461.4	448.1
Internal debt (in % of GDP)	14.5	13.7	13.4	12.5
<b>Total debt (in mil €)</b>	<b>1,349.0</b>	<b>1,560.8</b>	<b>1,754.2</b>	<b>1,720.4</b>
<b>Total debt (in % of GDP)</b>	<b>41.6</b>	<b>47.0</b>	<b>50.8</b>	<b>47.9</b>

In respect of public debt servicing, since the year 2000, public debt has been financed by donations, resources of privatisation revenues, loans and credits and treasury bills. Besides this, in periods 2007 and 2008, public debt was financed by the surplus of the state budget.

## **II. ECONOMIC POLICY**

### **A. Country alignment**

#### **32 How is the policy coordination, in particular in the fiscal and monetary policy areas, governed by your legislation?**

Provisions of Article 11 item 7 of the Law on the Central Bank of Montenegro prescribes that the Central Bank has the authorization to carry out regular macro-economic analyses, including monetary, fiscal, financial and balance of payments analyses of the economy of Montenegro, and to give the Government recommendations in the area of economic policy. Please see the answer to question 6, in II Economic Criteria, V Economic and Structural Reform Issues.

Since Montenegro uses the Euro as the legal tender, the monetary policy has very limited instruments of action. In such conditions potential alignments are predominantly done on the side of fiscal policy instruments.

Coordination of policies in Montenegro has been provided through elaboration of the strategic documents of the Government, the most important of them being the Economic and Fiscal Programme, implemented in scope of the dialog of Montenegro with the European Commission.

The basis for elaboration of the projections in the document is the macroeconomic model being jointly developed by the Ministry of Finance and the Central Bank of Montenegro. Based on the model and established projections, plans for the policies in the forthcoming period are set out. At the same time, in part of structural reforms, the plans are aligned with the guidelines of fiscal policy.

#### **33 Which legal acts may contain provisions that are non-compliant with the acquis?**

The Law on the Central Bank, with respect to coordination of fiscal and monetary policy, is harmonized with the provisions of Article 101 of the EC Treaty and Article 21 of the Protocol No. 18 of the EC Treaty on the Statute of the ESCB and of the ECB.

Laws and other acts concerning the fiscal policy were made on basis of best practices of developed countries.

#### **34 How does your country participate in the pre-accession economic policy surveillance?**

By accepting the obligations from the Stabilisation and Association Agreement and the Interim Agreement on Trade and Trade Related Matters between the European Union and Montenegro, as well as of the obligations from wider context of the process of harmonisation with the EU regulation, and in accordance with National Programme of Integration of Montenegro 2008-2012, Montenegro treats with special attention the implementation of acquis in the field of economic and monetary policy. The established system of monitoring the implementation of the Interim Agreement with constituted Interim Committee and five interim sub-committees as joint bodies of the European Commission and the Government of Montenegro, and the activities within the Enhanced Permanent Dialogue, provide for monitoring the results in transformation of the system

and its harmonisation with the EU rules and regulations, as well as the exchange of opinions in respect of implementation of the suggestions for the upgrading and more consistent alignment with the EU legislature, norms and standards. In accordance with the aforementioned and periodical reports on the progress of Montenegro, the European Commission communicates its observations on achieved progress with the recommendations in view of the new activities. Previous Reports have affirmed the progress of Montenegro in accepting the requests and obligations arising from the process of the EU accession. At the same time, by Economic and Fiscal Programme 2008-2011, which is prepared by the countries that are in the process of preparation for acquiring the status of candidate of the EU membership and countries that have such status, through the process of Programme annual updating, general objectives, directions of structural reforms and measures of development policy are elaborated in context of the process of the EU association. The objective of establishing and implementation of the Programme is to improve the Montenegro's administrative capacities for planning in function of preparing for the activities expected after acquiring the status of candidate, respectively after becoming the EU member. The scenarios and measures for mitigation of the effects of economic and financial crisis are implemented in the Programme. By harmonised assessments and consent to basic solutions from the Programme, and by its monitoring, the European Commission practically implements the surveillance of the process of alignment of economic and fiscal systems to EU regulations.

Implementing the commitment of accepting the solutions from *acquis* related to economic policy and accepting the standards and norms from that framework, Montenegro implements in full capacity the cooperation and cooperativity in the process of implementation of established mechanisms of surveillance of the economic policy. In this way, it is intended to provide for a highest level of compatibility of economic and development policy with the frameworks and requirements of development policies within the EU.

### **35 Which are the general objectives taken into account into the preparation of the government's medium-term fiscal framework and Budget Law?**

Basic macroeconomic objective set out by a mid-term fiscal framework and annual budget laws indicate the observance of Maastricht fiscal criteria:

- public debt below the level of 60% of GDP,
- maximal deficit on the level of public finance (central budget, state funds and local self-government) to 3% of GDP

We point out that the objectives set out in mid-term framework of public expenditure are much stricter and more ambitious, and they relate to establishing of a balanced budget until 2012, as well as a decrease in total public debt.

Bearing in mind that Montenegro is a euroised economy, with very limited space for conduction of monetary policy, a special accent is placed on the measures of fiscal policy. Basic mid-term objectives of fiscal policy, steaming from moderately positive expectations for forthcoming fiscal years, are:

- Upgrading of transparency and control of public resources expenditure – complete integration of state funds, continuing of the implementation of capital and programme budget, beginning of the implementation of mid-term framework of budget expenditure, change of legal regulations concerning the internal financial control
- Decrease of total load on salaries– elimination of road charges and charges for use of construction land, subsidies to households and MSP for consumed electric energy

- Continuing of decrease of «grey» economy – intensified efforts of Tax Administration and afore mentioned tax reliefs as supporting measures to business legalisation
  
- Functioning of a sustainable public finance system – relative decline in current expenditure, with the increase in capital budget, balanced current budget and decrease in public debt. Recognising the reality of possible negative developments in part of economic policy in coming years (scenario of significantly lower rates of economic growth) and the resulting reflection on public finances (decrease of revenues), the last mentioned objective (functioning of sustainable public finances system) will understand observance of Maastricht fiscal criteria through:
  - a more substantial decrease in current expenditures,
  - deferring and slowing of capital projects implementation aimed at major decrease in capital expenditure,
  - borrowing to cover the fiscal deficit.

Basic structural reforms to be implemented in mid-term are the following:

- Continuation of the process of privatisation
- Business barrier elimination
- Upgrading of the traffic infrastructure
- Change of legislation concerning labour market
- Use of the EU pre-accession funds

The policy of budget expenditure in forthcoming period must count on the decreased inflow of revenues in budget, as well as with several additional factors:

- 1) Budget deficit must be kept within the Maastricht criteria limits - 3%
- 2) Gradual balancing of budget is planned by 2012
- 3) Decreased borrowing facilities
- 4) The EU accession process requires allocation of substantial resources for these purposes, although Montenegro counts on using the pre-accession assistance funds (IPA)
- 5) Beginning of the construction of highway Bar-Boljare requires allocation of substantial resources as a part of assumed obligations
- 6) Servicing of foreign and internal debt
- 7) Social programme for protection of the population most severely affected by the consequences of global economic crisis;

## **B. Implementation capacity**

### **36 Does your country intend to align with the ESA 95 methodology for the purpose of statistical reporting to the EU?**

In 2003 Monstat started the implementation of the System of National Accounts – SNA93 and European System of Accounts – ESA95. Time series covers the period 2000-2007, and further aligning with mentioned methodology will also be done in future.

See Chapter18, question C18081, Topic 2.01.01.

**37 How does your country assess the conditions for long-term macroeconomic stability? How does this interact with promoting integration and convergence with the EU?**

The assessments of the conditions for a long term macro-economic stability are substantially based on the implementation of strategic development orientation of Montenegro, obtained results and expectations in that respect. The process of economic transformation, with already predominating private ownership, market orientation, openness of economic system, trend of economic freedoms strengthening and developed entrepreneurial initiative, primarily within the small and medium sized enterprises, with support and incentive measures in scope of economic policy, within the foundations of development concept, has provided for creation of a stimulative economic environment with conditions for competition development and strengthening of the competitiveness. Directing of support to the process of investment in starting and development of the new business, investment and new employment, resulted in an extraordinary economic growth dynamics in past years (real growth rate of GDP for 2006 was 8.6%, for 2007 10.7%, for 2008 estimated at 8.0%). The stability of public finance was established in that framework. A good dynamics of budget inflow was being realised, as well as surplus in Budget (EUR 39.04 million in 2008), low level of external indebtedness (15.7% of GDP by the end of the first semester of 2009), and proper servicing of obligations on that ground. This resulted in creating of macro-economic stability conditions with relatively low inflation rates and inflationary expectations (consumer prices growth of 2.8% in June 2009), high rates of new employment (average rate for the first five months of 2009 was 5.4%) and decline in unemployment rate (10.2% by the end of June 2009).

Economic and financial crisis, endangering the banking system liquidity with an inevitable reflection on real sector, stopped the dynamics of economic growth (GDP for the first semester of 2009 was lower in real terms by 3.5%). In such conditions it was not possible to realise established budget proportions for 2009, thus by amending the budget it has been adjusted to the circumstances stemming from decreased economic activity. However, by economic policy measures aimed at strengthening the liquidity of economy and population sectors, with support from loan resources of international financial institutions to sector of small and medium sized enterprises, for which the Government of Montenegro has issued guarantees, the effects of the crisis have been substantially mitigated, and the system in so doing has demonstrated the vitality and flexibility in adjusting to the new conditions. The primary thing is that the preservation of basic strategic development processes in conditions of crisis indicates that the expectations, as regards the maintenance of macro-economic stability environment, have been realistic. Moreover, the system, in harmony with global developments, leaving the crisis, will have the prospect of economic activity revival and economic growth on that ground. In that framework, according to current projections, budgetary balance should be restored from 2012 onwards.

The process of macro-economic stability maintenance, negatively affected by economic and financial crisis, also relies on possibility of making the arrangements with international financial institutions aimed at strengthening the support to public finances, but in its essence it is compatible and based on the EU integration and association processes. The continuity of adopting the EU norms and standards and alignment of economic policy measures with European development policies, to the extent of obligations and facilities emerging from the stepwise process of the EU association, is in the basis of the process of maintenance of long-term macro-economic stability and long-term development prospects of Montenegro.

**38 As regards Articles 100 and 119 of the EC Treaty, what does your country's legislation state in the field of international treaties regulating the receipt of foreign assistance? Under which conditions is financial assistance from abroad allowed?**

There are no regulations directly dealing with these issues, therefore there are no limitations as regards the receipt of assistance for the purposes defined by Montenegro.

Each individual case would be treated through the decisions of the Government respectively the Parliament of Montenegro.

## Compliance with Treaty provisions

### 39 How do you assess compliance by your country with the Treaty as it states that Member States should join with a derogation for introducing the euro? (see table in Annex)

After the disintegration of SFRY, two former member republics – Montenegro and Serbia formed the Federal Republic of Yugoslavia (FRY) on 28 April 1992. In the new country the monetary system was re-centralized, wherein the National Bank of Montenegro (NBM) lost its autonomy and became a regional office of the National Bank of Yugoslavia whose main office was in Belgrade. Thus, the National Bank of Montenegro was no longer governed by the Governor, who had been previously appointed by the Parliament or the Government of the Republic of Montenegro, but by the Director General who was appointed by the Governor of the NBY in Belgrade.

Accumulated foreign debts, bad use of foreign credits and their bureaucratic allocation (the same as with domestic sources of income) resulted in periodical devaluations and foreign exchange fluctuations losses, i.e. the accumulation of losses in the National Bank of Yugoslavia. To wit, the NBY conducted a policy of taking over the exchange rate risk from the banking system, which was socially owned, and mostly from the enterprises it was crediting (these were also socially owned enterprises). The second most important characteristic of the banking system was direct allocation of loans instead of profitable allocations, with the policy of soft budgetary limitation for all socially owned banks and enterprises, at the same time. Wrongly allocated loans led many banks to illiquidity and insolvency, and the economy was directed towards mutual lending. With the lack of banking loans, this lending led to an increase in mutual indebtedness and the illiquidity of enterprises. Another important characteristic of the monetary system was such currency hedging there the NBY took over the currency risk from the banking system which was not profit motivated, but non-economically oriented.

The situation deteriorated drastically since 1993 when Milosevic, using all means to preserve his power, starts with the monetary policy abuse. Monetary policy of that time was used for financing wars and preserving social order, but with no adjustments in the fiscal policy. Such a policy led to the longest, and the second highest hyperinflation in the world history. Montenegro suffered the negative consequences of this monetary policy, but with almost no possibility to participate in its creation.

After a short break and successful stabilization program in 1994, and the removal of economic sanctions in 1995, a gradual increase in inflation reoccurred. The situation additionally worsened after the problems in Kosovo in 1998 and the NATO intervention in 1999.

Montenegrin Government on that time made a **decision** not to stay aside any longer and to undertake certain measures to prevent the continuation of the wrong policy. At that period the dinar was estimated as one of the world's worst-performing currencies. At the beginning of 1999 the Montenegrin government started looking for a way to establish monetary independence for Montenegro.

High inflation, constant Dinar devaluation, incapability of Montenegro to control monetary flows, which caused negative consequences for Montenegro, as well as the fact that more than 60% transactions has been realized in DM (what formally was not permitted), as fact that both citizens

and the business sector had been used to performing transactions and to saving in German marks for years, were **reasons** why Montenegro entered in this area of reform.

Different solutions were considered when Montenegro is talking about payment instrument. Three solutions were possible options: 1) Currency Board; 2) National currency introduction; 3) DM introduction as a payment instrument. The third solution was chosen.

Due to extremely bad history of national currency, it was estimated that new national currency would not revolve credibility, not even in the format of currency board, due to a numerous unsuccessful programs, which stemmed from a kind of currency program in the past.

**DM was introduced on the beginning of November 1999.** Initial DM amount, which the State put in the legal turnover, was DM 20 millions (wages paying out to administration, pensions and other state expenditures), what was around 15% of the money supply in Montenegro (the rest money presented were Dinars). During the first part of 2000, DM supplanted Dinar from the turnover system, and there were 90% of the money quantum in DM in July 2000. The entire process was conducted swiftly and without IMF support or guidance.

The new system gained trust, so more and more transactions previously performed in the grey zone, started entering the legal flows.

Since November 2000, Deutsche mark started to be parallel paying instrument with Dinar in Montenegro, i.e. the only paying instrument after 12 months. DM has been changed by Euro since the January 2002. After that, Euro is the only legal paying instrument in Montenegro.

Pursuant to Article 94 item 3 of the Constitution of the Republic of Montenegro, with the view to protecting economic interests of the Republic, the Government of the Republic of Montenegro, in its session held on 2 November 1999, adopted

**DECISION**

**ON USE OF DEUTSCHE MARK AS LEGAL TENDER WITH THE VIEW TO PROTECTING ECONOMIC INTERESTS OF MONTENEGRO**

**(Published in the "Official Gazette of the Republic of Montenegro",  
No. 41/99, 43/99, 22/00, 24/00)**

**Article 1**

Apart from Yugoslav Dinar, Deutsche Mark is hereby introduced as legal tender in Montenegro.

The Government of the Republic of Montenegro can identify or authorise other entities to sell and charge particular types of goods and services exclusively in Deutsche Mark.

The Ministry of Finance, the Directorate for Public Revenues and the Settlement and Payments Institute are obliged to control enforcement of this Decision through their inspections and services.

**Article 2**

Provisions of the Law on the National Bank of Yugoslavia, Law on Foreign Exchange Operations and other regulation, prohibiting payments and charging in foreign currency in Montenegro, shall not be applied.

**Article 3**

This Decision comes into force on the day of its publishing in the "Official Gazette of the Republic of Montenegro".

**Number: 02-3929**

**Podgorica, 2 November 1999**

**Government of the Republic of Montenegro**

The Monetary Council ran the National Bank of Montenegro of that time, from the moment the German mark was adopted until the establishment of **the Central Bank of Montenegro**. Until the establishment of the Central Bank, during 2000 and 2001, this body enacted numerous regulations and acts which enabled the German mark to be fully accepted as the means of payment, accounting and hoarding.

Montenegro also met all theoretical requirements for a **successful implementation** of dollarization. It was a very small Republic (officially, one of the smallest European countries after independence), highly open country with experience of hyperinflation in the past, with almost no seignorage income, with a great contribution of foreign trade with the EU.

**The Central Bank of Montenegro** has no primary issue. The only real instrument is the reserve requirement policy. Montenegro has lost some important monetary policy instruments (in fact always located in Belgrade), primarily instruments to conduct monetary and foreign exchange, but at the same time, it has gained credibility and economic stability.

In other words, within the monetary reform, it has been changed the Central Bank role. Actually, before the new **Central Bank Law** has been implemented (adopted in 2000), the Central bank has been a part of the Central bank of Yugoslavia. After this Law was adopted, the Central bank have become independent institution (independent from the Central bank of Yugoslavia) and from the Government of Montenegro as well. The Central bank's Council manages the bank, and it is chosen by the Parliament. Its key functions are responsibility for banking sector control; as well as conducting activities of system of payment; and Relations with international monetary institutions.

Moreover, the Central bank is obligated to convey its **opinion** on implementing economic policies every year as well as projections of key economic indicators for current year.

The main **effects of dollarization** in Montenegro are:

- It created stability and prerequisites for economic growth,
- Downfall in inflation, since 128,4% in 1999, to 24,8% in 2000, than 9,4% in 2002 and app. 3,5% u 2009.
- Raising trend of BDP growth since 2001 (2001 – 1,1%, 2004 – 4,4%, in period 2006 – 2008 average rate was app 9%, but in 2009, due to global economic crisis, it is expected to be negative, on level of - 4%.
- Fiscal discipline in mid term – at the moment of introduction of dollarization, the fiscal deficit amounted to 20% of GDP, which soon brought the Government in the situation when it could not use the inflationary tax to cover the fiscal deficit. In 2000, it amounted to 8,9%, and 2,2 in 2004%. In 2006, 2007, and 2008, budget surplus was 3,7%, 6,3% and 1,4

% respectfully. In 2009, due to global economic crisis, it is expected to be negative, on level of – 3% of GDP.

- Raising trend in saving (deposits of both companies and citizens),
- Reduction on grey economy,
- Incentive for privatization process and FDI inflow in Montenegro,
- Support reform of financial sector and privatization of banking sector,
- Reduction of transaction costs,
- Incentive for tourism sector development,
- Better public debt management, etc.

It is important to highlight that dollarization in Montenegro still **did not** lead to the convergence of interest rates - it only eliminated the foreign exchange risk, leaving the country risk and the client risk behind. But process of convergence is still ongoing, and Montenegro is trying to gradually harmonize it with EU interest rate.

Dollarization in Montenegro also did not offer any **exit strategy** since the reintroduction of the national currency would have numerous adverse and **very negative consequences** such us: extremely negative economic consequences on GDP growth, inflation trends, FDI inflow, public revenues reduction, level of grey economy (part of the transactions would still be performed in foreign currency, which would lead to a growth in grey economy), credibility of the creators of economic policy would be ruined, etc.

**Law on Central Bank of Montenegro** (Official Gazette of RMNE, no 52/00, 53/00, 47/01 and 04/05), in Article 1, paragraph 3, it is stated “The monetary policy of the Central Bank is based on the DEM as the monetary unit, as the means of payment and as the reserves currency, until the introduction of the Euro.” According to the aforementioned, Euro was introduced in Montenegro as a replacement for DM, in the period in which the Euro was introduced in the countries, members of the Euro zone.

The Central Bank of Montenegro prepared **Program of activities in conversion of DEM in EUR**, which was presented, in September 2001, to the Bundesbank – German central bank and to the ECB. On their proposal, double legal tender system was prolonged for a month in comparison to the EMU member states. Given the fact that Montenegro was not independent state at that time, it was suggested to communicate a commercial bank in relation to Program of conversion, as the ECB did not deliver any euro-banknotes to the countries in transition. The Central Bank of Montenegro chose Commerzbank (Frankfurt), as one of the biggest commercial banks in Germany. In addition, Montenegro had good cooperation with this bank in period prior to that. The currency delivery contract was signed with Commerzbank (in the contract, one of the guarantees defined was Bundesbank as well, which would guarantee for the euro-banknotes delivered to the Commerzbank). Commerzbank had to send request to the Bundesbank for every banknote delivered in Montenegro, as it exclusively receives money from that bank. Commerzbank had to get approval from the Bundesbank to take the money out of Germany. According to the contract signed with Commerzbank. Montenegro obliged itself to handle banknotes in compliance with ECB rules and regulations.

In order to carry out **Program of conversion of DEM in EUR** in timely manner and through clearly defined procedures, the Central Bank of Montenegro adopted a number of legal acts and instructions („Decision on buying up of Euro zone currencies”, Official Gazette of RMNE, no 45/02, Instructions on manner and procedures of conversion of Dem and other currencies in EUR, Official Gazette of RMNE, no 64/01 and 14/02). DM was exchanged to Euro from January till the end of March 2002 (just as in Germany and other EU states that changed currency). Around DM 900

millions (474 mil €) has been exchanged in Montenegro. The majority of exchanged money was outside the bank sector in people hands.

To summarize, official dollarization in Montenegro took place not as consensual dollarization, but as **unilateral dollarization**, without an agreement with ECB, but with some sort of **ex post** acknowledgment by EC authorities during the process of negotiation of Montenegrin SAA.

Having in mind fact that the enlargement of the Euroarea towards new EC Member States can take place only with the approval of the European Community, provided that the Maastricht convergence criteria are respected, and fact that the requirements for joining the EC (the Copenhagen criteria) are different from the ones established for joining the Euroarea (the Maastricht convergence criteria), it is obvious that Montenegro, as an **“euroised economy” – potential candidate for EU membership**, finds itself in a specific situation in the framework of European integration process.

Montenegro is fully aware that unilateral euroization is not compatible with an application to acquire EC membership, but from an international law point of view, however, a State of the European region eligible for EC membership – and, not having started negotiations yet, unaffected by the leverage exerted by the Community – has to be considered free to unilaterally confer the euro legal tender status. For the time being, only Montenegro (and Kosovo, by UNMIK Administrative decision 2001/24 on the currency permitted to be used in Kosovo) – not foreseeing a rapid accession to the EC – took this opportunity and adopted the Euro as their official currency. ECB noted that these decisions were taken by the respective authorities on their own responsibilities, and that the unilateral nature of these decisions implies that neither legal obligations nor policy constraints would arise for the Eurosystem in the conduct of its policies.

**The Ecofin Council** of 7 November 2000, in its conclusion on exchange rate strategies for **accession countries**, made it clear that “any unilateral adoption of the single currency by means of euroization would run counter to the underlying economic reasoning of EMU in the Treaty, which foresees the eventual adoption of the Euro as the endpoint of a structured convergence process within a multilateral framework. Therefore, unilateral euroization would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro”( 2301 Council Meeting - ECOFIN 12925/00 (Presse 417) of 7 November 2000. Also the ECB's Policy Position of the Governing Council of the European Central Bank on Exchange Rate Issues Relating to the Acceding Countries of 18 December 2003, p. 1.). In that period, Montenegro **already** introduced DM as legal tender, independence still was not achieved and EU accession negotiation was too far, as medium term strategy. Only after the independence in May 2006, Montenegro became eligible to acquire EU membership.

In addition, Montenegro is of opinion that other countries **can not introduce Euro** unilaterally, calling upon case of Montenegro, having in mind **time and rationale** under which Montenegro introduce (DM) Euro, as well as the **EU regulation in force at that time**. Furthermore, Montenegro is one of the smallest European countries, and the money flow within it is relatively low so that cannot in any manner influence on trends and flows within EU. At the same time, request for recalling euro in Montenegro would cause serious economic consequences, as elaborated above in the text.

On 8 November 2006, the Commission issued for the first time a dedicated **Annual Progress Report on Montenegro** (COM (2006)649final, Brussels 8.11.2006). While assessing the macroeconomic stability of Montenegro, the Commission notes that Montenegro has continued to

use the Euro as legal tender and that the only monetary policy instruments are reserve requirements.

On 22 January 2007, the Council adopted a decision on the principles, priorities and conditions that Montenegro should meet in order to move closer to the EU (**European partnership priorities**). The Council defined some key short-term and medium-term priorities to Montenegro. In particular, Montenegro should achieve a sustained macroeconomic stability by pursuing the necessary fiscal adjustment and consolidation, by implementing the public expenditure management system (notably program budgeting), and by fully liberalizing capital movements and payments in line with EC principles.

As demonstrated by the SAA and by the 2007 Council decision, the euroization issue in Montenegro was treated only through constant references to macroeconomic stability and economic convergence. For example, it was noted in Declaration on Euro (Council of Ministers, October 2007), that introduction on DM and consequently Euro in Montenegro as legal tender is **result of “exceptional circumstances in the country in that period”**.

**Declaration (October 2007, before the signing of MNE SAA)**

- The Council welcomes the Stabilisation and Association Agreement (SAA), which supports Montenegro's European aspirations. The Council emphasizes that the signature of this agreement does not prejudice its position on how Montenegro's current de facto use of the euro will be addressed in possible future accession negotiations. Montenegro's present use of the euro, decided by the Montenegrin authorities in exceptional circumstances, is fully distinct from euro area membership.
- The Council recalls that unilateral “euroisation” is not compatible with the Treaty, which foresees the eventual adoption of the euro as the endpoint of a structured convergence process within a multilateral framework.
- A EU Member State cannot adopt the euro and join the euro area without fulfilling all the criteria defined in the Treaty. These comprise the achievement of a high degree of sustainable convergence as defined in the Treaty.
- Taking into account the above, the implications of the Treaty framework for Montenegro's monetary regime will be detailed in due course, at the latest by the time of possible future negotiations for accessions to the EU.

Also, in SAA, Chapter VIII Cooperation Policies, Article 89 stated:

**Article 89  
Economic and trade policy**

The Community and Montenegro shall facilitate the process of economic reform by co-operating to improve understanding of the fundamentals of their respective economies and the formulation and implementation of economic policy in market economies.

To these ends, the Community and Montenegro shall co-operate to:

- exchange information on macroeconomic performance and prospects and on strategies for development;
- analyse jointly economic issues of mutual interest, including the framing of economic policy and the instruments for implementing it;
- promote wider co-operation with the aim to speed up the inflow of know-how and access to new technologies.

Montenegro shall strive to establish a functioning market economy and to gradually approximate its policies to the stability-oriented policies of the European Economic and Monetary Union. At the request of the authorities of Montenegro, the Community may provide assistance designed to support the efforts of Montenegro in this respect.

Co-operation will also aim at strengthening the rule of law in the business area through a stable and non-discriminatory trade-related legal framework.

Co-operation in this area will include exchange of information concerning the principles and functioning of the European Economic and Monetary Union.

Having in mind all mentioned, from Montenegrin point of view, the decision on dollarization was a very good decision for Montenegro's economic future and stability. The whole process was kind of **extremely valuable historical achievement**, which was not an obstacle for signing of SAA

Finally, regarding EC request in annexed table, Montenegro prepared following information:

<b>Consolidated versions of TEC, Official Journal C 115 , 09/05/2008, (2008/C 115/01)</b>	
<b>Rights and Obligations</b>	<b>MONTENEGRO</b>
<b>LEGAL CONVERGENCE</b>	<b>Level of compliance</b>
<b>Title IV: Free Movement of Persons, Services and Capital</b> <b>Chapter 4: Capital and Payments</b> <b>Free Movement of Capital</b>  <b>Article 63</b> (ex article 56)  1. Within the framework of the provisions set out in this Chapter, all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited. 2. Within the framework of the provisions set out in this Chapter, all restrictions on payments between Member States and between Member States and third countries shall be prohibited.	Harmonized
<b>Title VII: Economic and Monetary Policy</b> <b>Chapter 1: Economic Policy</b>  <b>Prohibition of direct financing of the public sector</b>  <b>Article 123</b> (ex Article 101) 1. Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as "national central banks") in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments. 2. Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the European Central Bank as private credit institutions.	Harmonized
<b>Title VII: Economic and Monetary Policy</b> <b>Chapter 1: Economic Policy</b>  <b>Prohibition of privileged access</b>  <b>Article 124</b> (ex Article 102) Any measure, not based on prudential considerations, establishing privileged access by Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States to financial institutions, shall be prohibited.	Harmonized
<b>Title VII: Economic and Monetary Policy</b> <b>Chapter 2: Monetary policy</b> <b>ECB Independence</b> <b>Article 130</b> (ex Article 108) When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake	Ustavom je garantovana samostalnost CBCG. Važećim zakonom nije u potpunosti

<p>to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.</p> <p><b>+ Protocol (No 4) on the statute of the European System of Central Banks and of the European Central Bank</b></p> <p><b>Independence</b></p> <p><b>Article 7 of Protocol 4</b></p> <p>In accordance with Article 130 of the Treaty, when exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and this Statute, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks.</p>	<p>obezbijđena nezavisnost. Donošenjem novog Zakona o CBCG trebalo bi u potpunosti obezbijediti nezavisnost u skladu sa pravilima Evropskog monetarnog sistema i najboljom međunarodnom praksom.</p>
<p><b>Title VII: Economic and Monetary Policy</b></p> <p><b>Chapter 2: Monetary policy</b></p> <p><b>Legal convergence <i>sensu stricto</i></b></p> <p><b>Article 131 (ex Article 109)</b></p> <p>Each Member State shall ensure that its national legislation including the statutes of its national central bank is compatible with the Treaties and the Statute of the ESCB and of the ECB.</p>	<p>Obligation of Montenegro assumed by SAA to follow</p>
<p><b>ECONOMIC POLICY</b></p>	
<p><b>PART ONE: PRINCIPLES</b></p> <p><b>itle VII: Economic and Monetary Policy</b></p> <p><b>Chapter 1: Economic Policy</b></p> <p><b>Basic Objectives</b></p> <p><b>Article 120 (ex Article 98)</b></p> <p>Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Union, as defined in Article 3 of the Treaty on European Union, and in the context of the broad guidelines referred to in Article 121(2). The Member States and the Union shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.</p>	<p>Obligation of Montenegro assumed by SAA to follow</p>
<p><b>Title VII: Economic and Monetary Policy</b></p> <p><b>Chapter 1: Economic Policy</b></p> <p><b>Co-ordination of Economic Policies</b></p> <p><b>Article 121§1 (ex article 99§1)</b></p> <p>1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 120.</p>	<p>Obligation of Montenegro assumed by SAA to follow</p>
<p><b>Broad economic policy guidelines, surveillance...</b></p> <p><b>Article 121§2-5 (ex article 99§2-5)</b></p> <p>2. The Council shall, on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Union, and shall report its findings to the European Council.</p> <p>The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union.</p> <p>On the basis of this conclusion, the Council shall adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation.</p> <p>3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States and in the Union as well as the consistency of economic policies with the broad guidelines referred to in paragraph 2, and regularly carry out an overall assessment.</p> <p>For the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary.</p> <p>4. Where it is established, under the procedure referred to in paragraph 3, that the economic policies of a Member State are not consistent with the broad guidelines referred to in paragraph 2 or that they risk jeopardising the proper functioning of economic and monetary union, the Commission may address a warning to the Member State concerned. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned. The Council may, on a proposal from the Commission, decide to make its recommendations public.</p> <p>Within the scope of this paragraph, the Council shall act without taking into account the vote of the member of the Council representing the Member State concerned.</p>	<p>For EU Members, Montenegro indirectly follows</p>

<p>A qualified majority of the other members of the Council shall be defined in accordance with Article 238(3)(a).</p> <p>5. The President of the Council and the Commission shall report to the European Parliament on the results of multilateral surveillance. The President of the Council may be invited to appear before the competent committee of the European Parliament if the Council has made its recommendations public.</p>	
<p><b>PART SIX INSTITUTIONAL AND FINANCIAL PROVISIONS</b></p> <p><b>TITLE I INSTITUTIONAL PROVISIONS</b></p> <p><b>Chapter 1 The institutions</b></p> <p><b>Section 6 The European Central Bank</b></p> <p><b>Participation in Council-ECB consultations</b></p> <p><b>Article 284</b> (ex article 113)</p> <p>1. The President of the Council and a Member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the European Central Bank.</p> <p>The President of the Council may submit a motion for deliberation to the Governing Council of the European Central Bank.</p> <p>2. The President of the European Central Bank shall be invited to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB.</p> <p>3. The European Central Bank shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the European Central Bank shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis.</p> <p>The President of the European Central Bank and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent committees of the European Parliament.</p>	<p>For EU Members</p>
<p><b>TITLE VIII ECONOMIC AND MONETARY POLICY</b></p> <p><b>Chapter 3: Institutional provisions</b></p> <p><b>Participation in the Economic and Financial Committee</b></p> <p><b>Article 134</b> (ex Article 114§2-4)</p> <p>2. The Economic and Financial Committee shall have the following tasks:</p> <ul style="list-style-type: none"> <li>- to deliver opinions at the request of the Council or of the Commission, or on its own initiative for submission to those institutions,</li> <li>- to keep under review the economic and financial situation of the Member States and of the Union and to report regularly thereon to the Council and to the Commission, in particular on financial relations with third countries and international institutions,</li> <li>- without prejudice to Article 240, to contribute to the preparation of the work of the Council referred to in Articles 66, 75, 121(2), (3), (4) and (6), 122, 124, 125, 126, 127(6), 128(2), 129(3) and (4), 138, 140(2) and (3), 143, 144(2) and (3), and in Article 219, and to carry out other advisory and preparatory tasks assigned to it by the Council,</li> <li>- to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of the Treaties and of measures adopted by the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination.</li> </ul> <p>The Member States, the Commission and the European Central Bank shall each appoint no more than two members of the Committee.</p> <p>3. The Council shall, on a proposal from the Commission and after consulting the European Central Bank and the Committee referred to in this Article, lay down detailed provisions concerning the composition of the Economic and Financial Committee. The President of the Council shall inform the European Parliament of such a decision.</p> <p>4. In addition to the tasks set out in paragraph 2, if and as long as there are Member States with a derogation as referred to in Article 139, the Committee shall keep under review the monetary and financial situation and the general payments system of those Member States and report regularly thereon to the Council and to the Commission.</p>	<p>For EU Members</p>
<p><b>FISCAL DISCIPLINE</b></p>	
<p><b>Title VII: Economic and Monetary Policy</b></p> <p><b>Chapter 1: Economic Policy</b></p> <p><b>Prohibition of excessive government deficits</b></p> <p><b>Article 126</b> (ex Article 104)</p> <p>1. Member States shall avoid excessive government deficits.</p> <p>2. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:</p> <p>(a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless:</p> <ul style="list-style-type: none"> <li>- either the ratio has declined substantially and continuously and reached a level that comes close to the reference value,</li> <li>- or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio</li> </ul>	<p>Regulated by Montenegrin Law on Budget</p> <p>(Montenegro try to respect fully all Convergence criteria)</p>

<p>remains close to the reference value;</p> <p>(b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.</p> <p>The reference values are specified in the Protocol on the excessive deficit procedure annexed to the Treaties.</p> <p>3. If a Member State does not fulfill the requirements under one or both of these criteria, the Commission shall prepare a report. The report of the Commission shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State.</p> <p>The Commission may also prepare a report if, notwithstanding the fulfillment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State.</p> <p>4. The Economic and Financial Committee shall formulate an opinion on the report of the Commission.</p> <p>5. If the Commission considers that an excessive deficit in a Member State exists or may occur, it shall address an opinion to the Member State concerned and shall inform the Council accordingly.</p> <p>6. The Council shall, on a proposal from the Commission, and having considered any observations which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists.</p> <p>7. Where the Council decides, in accordance with paragraph 6, that an excessive deficit exists, it shall adopt, without undue delay, on a recommendation from the Commission, recommendations addressed to the Member State concerned with a view to bringing that situation to an end within a given period. Subject to the provisions of paragraph 8, these recommendations shall not be made public.</p> <p>8. Where it establishes that there has been no effective action in response to its recommendations within the period laid down, the Council may make its recommendations public.</p> <p>9. If a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.</p> <p>In such a case, the Council may request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.</p> <p>10. The rights to bring actions provided for in Articles 258 and 259 may not be exercised within the framework of paragraphs 1 to 9 of this Article.</p> <p>11. As long as a Member State fails to comply with a decision taken in accordance with paragraph 9, the Council may decide to apply or, as the case may be, intensify one or more of the following measures:</p> <ul style="list-style-type: none"> <li>- to require the Member State concerned to publish additional information, to be specified by the Council, before issuing bonds and securities,</li> <li>- to invite the European Investment Bank to reconsider its lending policy towards the Member State concerned,</li> <li>- to require the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Union until the excessive deficit has, in the view of the Council, been corrected,</li> <li>- to impose fines of an appropriate size.</li> </ul> <p>The President of the Council shall inform the European Parliament of the decisions taken.</p> <p>12. The Council shall abrogate some or all of its decisions or recommendations referred to in paragraphs 6 to 9 and 11 to the extent that the excessive deficit in the Member State concerned has, in the view of the Council, been corrected. If the Council has previously made public recommendations, it shall, as soon as the decision under paragraph 8 has been abrogated, make a public statement that an excessive deficit in the Member State concerned no longer exists.</p> <p>13. When taking the decisions or recommendations referred to in paragraphs 8, 9, 11 and 12, the Council shall act on a recommendation from the Commission.</p> <p>When the Council adopts the measures referred to in paragraphs 6 to 9, 11 and 12, it shall act without taking into account the vote of the member of the Council representing the Member State concerned.</p> <p>A qualified majority of the other members of the Council shall be defined in accordance with Article 238(3)(a).</p>	
<p><b>Stability and Growth Pact</b> (104§1-8,10,12,13)</p> <p>Resolution of the European Council on the Stability and Growth Pact, Amsterdam 17 June 1997</p>	<p>MNE indirectly follows and try to implement</p>
<p><b>Title VII: Economic and Monetary Policy</b>  <b>CHAPTER 5: Transitional provisions</b>  <b>Nominal convergence</b>  <b>Article 140§1 (ex article 121§1)</b></p> <p>1. At least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. These reports shall include an examination of the compatibility between the national legislation of each of these Member States, including the statutes of its national central bank, and Articles 130 and 131 and the Statute of the ESCB and of the ECB. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfillment by each Member State of the following criteria:</p> <ul style="list-style-type: none"> <li>- the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,</li> </ul>	<p>Montenegro try to respect fully all Convergence criteria excluding exchange-rate mechanism of EMS</p>

## 17 Economic and monetary policy

<p>- the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6),</p> <p>- the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the euro,</p> <p>- the durability of convergence achieved by the Member State with a derogation and of its participation in the exchange-rate mechanism being reflected in the long-term interest-rate levels.</p> <p>The four criteria mentioned in this paragraph and the relevant periods over which they are to be respected are developed further in a Protocol annexed to the Treaties. The reports of the Commission and the European Central Bank shall also take account of the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices.</p>	
<p><b>Chapter 1: Economic policy</b>  <b>Financial and balance of payment assistance</b>  <b>Article 122§2</b> (ex Article 100§2)  2. Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned. The President of the Council shall inform the European Parliament of the decision taken.</p> <p><b>Chapter 5: Transitional provisions</b>  <b>Article 143</b> (ex Article 119 TEC)  1. Where a Member State with a derogation is in difficulties or is seriously threatened with difficulties as regards its balance of payments either as a result of an overall disequilibrium in its balance of payments, or as a result of the type of currency at its disposal, and where such difficulties are liable in particular to jeopardise the functioning of the internal market or the implementation of the common commercial policy, the Commission shall immediately investigate the position of the State in question and the action which, making use of all the means at its disposal, that State has taken or may take in accordance with the provisions of the Treaties. The Commission shall state what measures it recommends the State concerned to take.</p> <p>If the action taken by a Member State with a derogation and the measures suggested by the Commission do not prove sufficient to overcome the difficulties which have arisen or which threaten, the Commission shall, after consulting the Economic and Financial Committee, recommend to the Council the granting of mutual assistance and appropriate methods therefor.</p> <p>The Commission shall keep the Council regularly informed of the situation and of how it is developing.</p> <p>2. The Council shall grant such mutual assistance; it shall adopt directives or decisions laying down the conditions and details of such assistance, which may take such forms as:  (a) a concerted approach to or within any other international organisations to which Member States with a derogation may have recourse;  (b) measures needed to avoid deflection of trade where the Member State with a derogation which is in difficulties maintains or reintroduces quantitative restrictions against third countries;  (c) the granting of limited credits by other Member States, subject to their agreement.</p> <p>3. If the mutual assistance recommended by the Commission is not granted by the Council or if the mutual assistance granted and the measures taken are insufficient, the Commission shall authorise the Member State with a derogation which is in difficulties to take protective measures, the conditions and details of which the Commission shall determine.</p> <p>Such authorisation may be revoked and such conditions and details may be changed by the Council.</p>	<p style="text-align: right;">For Members      EU</p>
<p><b>Protective measures – BOP crisis</b>  <b>Article 144</b> (ex Article 120 TEC)  1. Where a sudden crisis in the balance of payments occurs and a decision within the meaning of Article 143(2) is not immediately taken, a Member State with a derogation may, as a precaution, take the necessary protective measures. Such measures must cause the least possible disturbance in the functioning of the internal market and must not be wider in scope than is strictly necessary to remedy the sudden difficulties which have arisen.</p> <p>2. The Commission and the other Member States shall be informed of such protective measures not later than when they enter into force. The Commission may recommend to the Council the granting of mutual assistance under Article 143.</p> <p>3. After the Commission has delivered a recommendation and the Economic and Financial Committee has been consulted, the Council may decide that the Member State concerned shall amend, suspend or abolish the protective measures referred to above.</p>	<p style="text-align: right;">For Members      EU</p>
<p><b>MONETARY POLICY</b></p>	
<p><b>Protocol (No 4) on the statute of the European System of Central Banks and of the European Central Bank</b></p> <p><b>Participation of national central banks (NCB) in the European System of Central Banks (ESCB)</b>  <b>Article 1</b>  <b>The European System of Central Banks</b>  In accordance with Article 282(1) of the Treaty on European Union, the European Central Bank (ECB) and the national central banks shall constitute the European System of Central Banks (ESCB). The ECB and</p>	<p style="text-align: right;">For Members      EU</p>

the national central banks of those Member States whose currency is the euro shall constitute the Eurosystem. The ESCB and the ECB shall perform their tasks and carry on their activities in accordance with the provisions of the Treaties and of this Statute.	
<b>Participation in General Council of ECB</b> <b>Article 44 of Protocol</b> (ex Article 45) The General Council of the ECB 44.1. Without prejudice to Article 129(3) of the Treaty on the Functioning of the European Union, the General Council shall be constituted as a third decision-making body of the ECB. 44.2. The General Council shall comprise the President and Vice-President of the ECB and the Governors of the national central banks. The other members of the Executive Board may participate, without having the right to vote, in meetings of the General Council. 44.3. The responsibilities of the General Council are listed in full in Article 46 of this Statute.	For EU Members
<b>EXCHANGE RATE POLICY</b>	
<b>Title VII: Economic and Monetary Policy</b> <b>Chapter 5: Transitional provisions</b> <b>Treatment of exchange rate policy as a matter of common interest</b> <b>Article 142 (ex article 124)</b> Each Member State with a derogation shall treat its exchange-rate policy as a matter of common interest. In so doing, Member States shall take account of the experience acquired in cooperation within the framework of the exchange-rate mechanism.	MNE has no instruments of exchange-rate policy
<b>Participation in an exchange rate arrangement with participating countries</b>  Articles are already noted in articles <b>142, 140§1 i 143</b> (ex articles 124, 121§1, 119§2).	MNE has no instruments of exchange-rate policy

Finally, Montenegro is ready and **devoted to fulfill all remaining Maastricht criteria** and does not consider Euro as any kind of facilitation in future EU accession process. To recall, Montenegro is of opinion that other countries can not introduce Euro unilaterally, calling upon case of Montenegro, having in mind **time and rationale** under which Montenegro introduce (DM) Euro, as well as the **EU regulation in force at that time**.

#### **40 Which reforms may be needed in order to comply with the relevant Treaty provisions and a possible timetable for adoption?**

**The SAA** provides a legal framework for the relations between EU and Montenegro towards future membership, such as for its further development and strengthening. It aims at the creation of a free trade zone and, under its attached conditionality, Montenegro is required to adopt Community legislation in areas such as customs and trade, competition, money laundering, and the free movement of capital and payments. Report about progress achieved is regularly covered by meetings of **Sub-Committee on Economic and Financial Matters and Statistics**, followed by sectoral Enhanced permanent dialogue (EPD). Sessions were organized on October 24, 2008, in Brussels and on May 2009, in Podgorica. **Minutes** from the meetings are agreed and available for the Commission.

Having in mind all mentioned under question 39, there is already high level of legal compliance with relevant provisions of the Acquis.

Adopted **Law on Current and Capital Transactions with Foreign Countries** (Official Gazzette of RMNE, no 45/05 and 62/08) prescribes general regime of full flow of money and capital in/from the country, and in that sense, all current and capital transactions can be performed freely by residents and non-residents, and there is no limitation for transaction of the property in/from foreign countries, and there is no limitation of currency or exchange control.

New **Law on Central Bank of Montenegro** shall harmonize its provisions with the provisions of the relevant EU legislation.

Fiscal policy of Montenegro is based on **the Budget Law**, Articles 1 and 2 of which prescribes: “ the budget adoption, records and budget management; budget preparation and planning; the execution of the budget of Montenegro and the budgets of municipalities; borrowings and guarantees; internal control; budget accounting; the State Treasury; budget operations and internal audit. Based on the authorities provided for by this Law, the Ministry of Finance shall issue orders, instructions, programs, guidelines, and directions for enforcement of this Law.

In previous period, Montenegro has been fulfilling all or the majority of Maastricht criteria. In this moment, due to obstacles caused by global financial crisis, special challenge for Montenegro is achieving of the level of harmonization envisaged by these criteria.

**Annex: List of issues to verify based on the Treaty provisions:**

Rights and obligations	Article of TEC
Legal convergence	
Free movement of capital	56
Prohibition of direct financing of the public sector	101
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Basic objectives	98
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Participation in Council-ECB consultations	113
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Prohibition of excessive government deficits	104§1-8, 10, 12,13
Stability and growth pact	104§1-8, 10, 12, 13 - Resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997
Nominal convergence	121§1
Financial and balance of payment assistance	100§2 119

Protective measures- BOP crisis	120
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Participation of National Central Banks (NCB) in the European System of Central Banks (ESCB)	1 of Prot (ESCB/ECB Protocol)
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