

Pursuant to Article 44, paragraph 2, point 3, and in conjunction with Articles 20 and 21 of the Central Bank of Montenegro Law (OGM 40/10 and 46/10), at its session held on 28 March 2011, the Council of the Central Bank of Montenegro adopted the following

## **DECISION**

### **ON INTERNATIONAL RESERVES MANAGEMENT (OGM 19/11 as of 07 April 2011)**

#### **Article 1**

This decision shall regulate in more detail the management of international reserves of Montenegro (hereinafter: the international reserves).

#### **Article 2**

The international reserves shall represent all receivables from non-residents at disposal of the Central Bank of Montenegro (hereinafter: the Central Bank).

The international reserves are a part of the balance sheet of the Central Bank.

#### **Article 3**

The Central Bank shall hold and manage the international reserves in a way that is consistent with the monetary policy and which ensures undisturbed fulfilment of external liabilities of Montenegro, adhering to the principles of liquidity and safety of investments.

#### **Article 4**

In accordance with the law, the international reserves may include the following:

- 1) gold held by the Central bank or a third party for the account of the Central Bank, including credit balances on the gold accounts;
- 2) banknotes and coins in freely convertible foreign currencies held by the Central Bank or by a third party for the account of the Central bank;
- 3) credit balances and interbank deposits payable in freely convertible foreign currencies, on demand or in short term, on the accounts of the Central Bank held in foreign central banks, international financial institutions or foreign banks whose short-term liabilities were assigned one of the three highest rating by two internationally recognized credit rating agencies;
- 4) easily marketable debt securities denominated in freely convertible foreign currencies issued by foreign Governments, foreign central banks or international financial institutions;

- 5) highly liquid and easily marketable debt securities denominated in convertible foreign currencies specified by the Council of the Central Bank of Montenegro;
- 6) receivables on the basis of purchase, sale and repurchase (repo transactions) of securities under items 4 and 5 above;
- 7) special drawing rights and reserve position held in the accounts of Montenegro with the International Monetary Fund;
- 8) other assets which, with regard to the content thereof, may be made equal with assets under items 1) to 7) above.

### **Article 5**

In managing the international reserves, the Central Bank may:

- open accounts in foreign central banks, international financial institutions or foreign banks, and invest funds there;
- purchase and sell legal tenders other than euros in FX markets;
- purchase and sell gold;
- purchase and sell securities;
- purchase and sell banknotes and coins.

### **Article 6**

The international reserves management shall include the limiting of exposure to the following risks:

- 1) credit risk;
- 2) liquidity risk;
- 3) interest rate risk;
- 4) currency risk, and
- 5) operating risk.

Within the meaning of this decision:

- credit risk shall represent the risk of default on contractual obligations of a counterparty;
- liquidity risk shall represent the risk of inability to convert some forms of the international reserves into liquid assets, as required, and/or the risk of assets underpricing at the moment of conversion;
- interest rate risk presents the risk that exposes some forms of international reserves to losses in case of interest rate changes;
- currency risk presents the risk that exposes some forms of international reserves to losses caused by changes in the exchange rates;
- operating risk presents the risk arising from disruptions in the established operating processes, inadequate managerial and

organizational structure, failures and disruptions of information systems, as well as external risks (natural disasters, terrorism, vandalism, etc.)

#### **Article 7**

The investment strategy that is to prescribe certain forms of investments, parameters for the international reserves management and risk management shall be prescribed under the guidelines for the international reserves management to be adopted by the Council of the Central Bank.

#### **Article 8**

An Investment Committee may be formed for carrying out certain tasks regarding the international reserves management.

The composition and scope of work of the Investment Committee shall be regulated with act on forming that Committee.

#### **Article 9**

The Governor of the Central Bank shall submit a report on the international reserves management to the Council of the Central Bank

The report under paragraph 1 above shall be submitted when required but not less frequently than semi-annually.

#### **Article 10**

The Decision on Foreign Exchange Reserves Management (OGRM 31/06 and 62/06) shall be repealed with effect from the date of entry into force of this Decision.

#### **Article 11**

This decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro

### **THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO**

Decision No. 0101-4014/11-2-2010  
Podgorica, 28 March 2011

**CHAIRMAN  
GOVERNOR**

**Radoje Žugić, m.p.**