Podgorica, 31 December 2025

Information on the review of the countercyclical capital buffer rate

carried out in Q4 2025

The countercyclical buffer rate of 1% that is to be applied as of 1 January 2026, as prescribed by the Decision on Raising the Countercyclical Capital Buffer Rate (OGM 27/24 and 125/24), remains appropriate for maintaining the resilience of the banking system against potential materialization of systemic risks.

Below are the key findings of the countercyclical buffer rate review carried out in the fourth quarter of 2025.

The starting point was the calculation of the buffer guide. The buffer guide was calculated using the standardised credit-to-GDP gap in line with the Law on Credit Institutions and the Recommendation of the European Systemic Risk Board on guidance for setting countercyclical buffer rates (ESRB/2014/1).

At the end of the third quarter of 2025, the credit-to-GDP ratio stood at 53%. Compared to its long-term trend, this is a deviation of -3.3 pp, which is below the lower threshold of 2 pp, i.e., the minimum value that would indicate the need to introduce a non-zero countercyclical buffer rate, so the value of the buffer guide was 0%. For many years now, the credit to GDP gap had exhibited a negative deviation from its long-term trend. However, due to intensified credit activity, the negative gap has rapidly diminished over the past few quarters.

In addition to the buffer guide, the analysis includes other selected indicators that the Central Bank uses to monitor cyclical systemic risks in Montenegro, which signal a continued accumulation of cyclical risks, primarily those related to credit growth and rising real estate prices.

Loans to the resident sector continued to grow at high rates. Namely, annual growth rates of loans to the resident sector had been recording double digits since the second quarter of 2024, and from the second quarter of 2025 they have rarely fallen below 20%. At end-Q3 2025, loan growth amounted to 21.2% for the household sector and 23.6% for the non-financial sector.

The growth in retail loans was primarily driven by increases in nominal wages in the previous period while in terms of purpose, it was led by growth in cash and housing loans. Newly approved retail loans reached a new record high so their

12-month cumulative amount recorded the annual increase of 31.9% at the end of September this year. The number of loan agreements and the average amount of loans also increased, with loan maturities of five to ten years becoming more common at the expense of shorter-term loans. When discussing retail cash loans, data from the Credit Registry indicate that their annual growth amounted to 23.6% in September.

Data also show that retail housing loans recorded the annual rate of growth of 19%, while their cumulative increase since end-2020 reached 82.2%. Housing loans reached one third of total retail loans and have also been increasing relative to GDP. Their growth was accompanied by an increase in both the average loan size and the number of loan agreements. Growth in retail housing loans was also reflected in newly disbursed loans, whose 12-month cumulative total has recorded a pronounced increase since the end of 2021.

Apartment prices in new residential buildings in Montenegro recorded a significant annual increase in the third quarter of 2025 (20.2%), reaching a new historical peak of 2,228 euros per square meter. The rise of real estate prices in real terms (nominal prices adjusted for the consumer price index) was naturally less pronounced (14.5%), while their real increase compared to the end of 2020 amounted to 40.2%. The ratio of prices of newly built apartments to average nominal wages has shown a mild upward trend in recent years. Overall, the assessment is that a certain degree of overvaluation of real estate prices remains present.

The leading factor spurring the growth of real estate prices was foreign direct investment in real estate, which amounted to 1.37 billion euros in the period 2022-2024 or 6.7% of the nominal GDP per year on average, which is substantially more than over the earlier multi-annual period. In the first nine months of 2025, foreign direct investment in real estate amounted to 361.8 million euros or 5.9% of GDP recorded in the first three quarters.

Besides foreign direct investment, the aforementioned increase in housing loans also contributed to the growth in real estate prices. In the period from 2022 to 2024, new housing loans amounted to 400.8 million euros, while in the first nine months of 2025 they totalled 157.9 million euros.

Real estate prices are important for the assessment of cyclical systemic risks because real estate is one of the most important forms of collateral used to secure both housing and mortgage loans. Unrealistically high real estate prices can amplify the upswing phase of the financial cycle, driving loans to unjustifiable levels and, in the event of a sharp decline in real estate prices, negatively affect both borrowers and banks' balance sheets.

The banking sector has remained solvent, liquid and profitable. The steady year-on-year growth of deposits continued, with banks increasingly redirecting these funds into loans rather than into liquid assets or securities. As a result, liquid assets recorded some decline year-on-year relative to total assets. On the other hand, it is important to note that the definition of liquid assets set out by the Central Bank decision governing liquidity risk management in credit institutions is very conservative, and that a large share of the securities held by banks is highly marketable. Due to growing lending activity, the loan to deposit ratio was on an increase since end-2022, reaching 87.8% gross and 85.5% net at the end of the third quarter of 2025.

The capital adequacy ratio stood at 19.4% at end-Q3 and it has been on a mild downtrend. Non-performing loans have declined, continuing their downward trend that has persisted since early 2022. At the end of the third quarter of this year, their share in total loans amounted to 2.8%.

The growth cycle of the weighted average lending interest rate (for the entire credit portfolio of banks, i.e., on outstanding principal/debt), which began in mid-2022, came to a halt in mid-2024 and has been on a slight decline ever since. The aforesaid interest rate amounted to 6.25% at the end of the third quarter this year.

Banks generated significant profits, amounting to 112.5 million euros in the first three quarters of 2025, which is 17.5% lower than in the comparable period of 2024 when profitability had been at a record high.

Geopolitical circumstances are also relevant for the assessment of cyclical systemic risk as tensions remain present alongside the still ongoing issue of tightening trade policies by major industrial economies.

On the other hand, the deadline by which credit institutions were required to align their operations with the Law Amending the Law on Credit Institutions (OGM 24/25) has recently expired. The amended law prescribes, among other things, the summation of the structural systemic risk buffer and the buffer for other systemically important credit institutions, unlike the previous requirement to apply the higher of the two buffer rates. Consequently, taking into account the previously determined/increased countercyclical capital buffer rate (from 0.5% to 1%, applicable as of 1 January 2026) and based on data as of 30 September 2025, the combined buffer requirement at the banking sector level will increase significantly as of 1 January 2026, by 76.4 million euros or 1.82% of total risk exposure.

In addition, the application of the Law on Consumer Credits (OGM 15/25) started at the end of November 2025, while the Decision on Capital Adequacy

of Credit Institutions (OGM 65/25) will become applicable as of 1 January 2026. Elements of these regulations may have implications for restricting credit activity.

Additionally, in the year ahead, the impact of the net earnings increase program on credit activity is expected to weaken, while real estate demand may come under downward pressure due to the tightening of residence regulations for foreign nationals from countries that have accounted for a significant share in real estate demand in recent years, as a part of efforts to align Montenegro's policy with that of the European Union.

Given the aforementioned factors related to credit growth, the real estate market, the circumstances related to the application of the aforementioned regulations, as well as the expectations regarding the movement of the credit/financial cycle in the coming year, the countercyclical buffer rate of 1% that is to be applied as of 1 January 2026, as specified in the Decision on Raising the Countercyclical Capital Buffer Rate (OGM 27/24 and 125/24), remains appropriate for preserving the resilience of the banking system against the potential materialisation of systemic risks.

Going forward, the CBCG will continue to closely monitor the development of cyclical systemic risks and assess the appropriateness of the buffer rate accordingly. In case of continued accumulation of risks, and if deemed necessary, the countercyclical capital buffer rate may be increased at the next review.