Podgorica, 1 December 2025

Information on review of the structural systemic risk buffer

Pursuant to Article 151 paragraph 5 of the Law on Credit Institutions, the Central Bank is obliged to review the obligation of maintaining the structural systemic risk buffer at least every two years. Based on the review, the Central Bank has decided that the buffer rate and other aspects of the structural systemic risk buffer shall remain unchanged, i.e. that the Decision on Applying the Structural Systemic Risk Buffer (OGM 139/21), which has been applied as of 1 January 2022, shall remain in effect. The previous review was conducted at the end of 2023 when the Central Bank also decided that the Decision should continue to remain in force.

The buffer rate of 1.5% of the total exposure shall apply to all credit institutions in Montenegro, equally to exposures in Montenegro and in another country where these credit institutions have exposure.

Below are the key segments of the analytical basis used to decide on maintaining the structural systemic risk buffer at its current level.

Structural systemic risks in Montenegro largely stem from the real economy, i.e. from various types of macroeconomic imbalances, rather than from the financial system. The economy is relatively moderately diversified and predominantly services-based, with a strong share of tourism-related activities. After a strong rebound in the initial years following the outbreak of the coronavirus pandemic, supported by consumption by migrants from the Ukraine-Russia conflict and by certain government economic policy reforms, among other factors, the country`s economic growth slowed to 3.2% in 2024. Current forecasts indicate that the growth rate will be at most 3.5% in 2025, while medium-term growth projections range between 3% and 3.2% so growth could be stronger given that GDP per capita (PPS) stands at 54% of the EU average.

The Montenegrin economy continues to record an exceptionally high current account deficit (Annex, Graph 1), which has been partly financed by external borrowing, both by the private and public sectors, resulting in Montenegro’s external debt remaining consistently high.

The position of public finances has improved significantly compared with the pandemic period, and public debt has stabilized at a level slightly above 60% of GDP (Annex, Graph 2). However, challenges in public finances undoubtedly remain present, both in terms of the level of public debt and its refinancing,

particularly in the medium and long term, and in the context of population ageing, climate change, and increased defence expenditures.

The unemployment rate (according to the Labour Force Survey) stood at 10.5% in the second quarter of 2025, which is historically the closest it has come to a single-digit rate. On the other hand, unemployment indicators are less favourable compared with the reference group of European emerging and developing economies (Annex, Graph 3), with a still significant structural component.

The liquidity of business entities is also a matter of concern, as observed through the number of blocked entities and the amount of debt per blockage. The share of blocked entities in the total number of business entities remains above 25% despite a declining trend, whereas the debt of these entities has been growing, now amounting to nearly 19% of GDP (Annex, Graph 4).

The banking sector is liquid, solvent, and profitable. However, certain developments and structural characteristics could make it more vulnerable, such as mismatches between short-term funding sources (mainly demand deposits) and long-term investments, exposures to the government, an elevated share of foreign assets/liabilities in total assets, predominantly foreign ownership, and, by some indicators, higher concentrations.

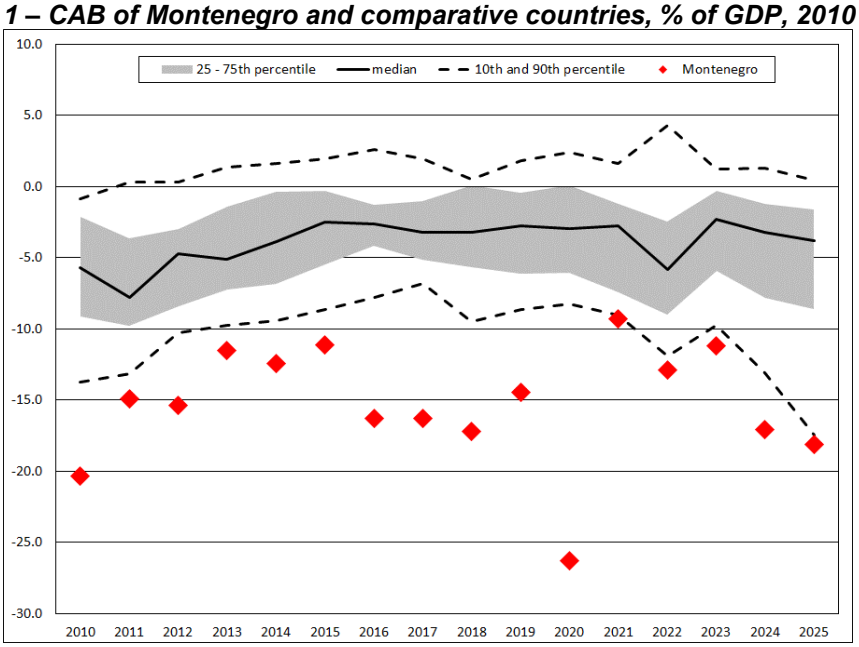
In view of the above, it was assessed that the existing measures under Article 134 paragraph 9, Article 139, and Articles 158 to 165 of the Law on Credit Institutions (minimum capital requirements, capital requirements under Pillar 2, and capital requirements for other capital buffers) will not be sufficient to mitigate the risks of disruptions to the financial system.

Accordingly, the CBCG has decided that the buffer rate (of 1.5%) and other elements of the structural systemic risk buffer should remain unchanged, thereby maintaining the strong capital position of credit institutions. The Central Bank, in line with its macroprudential mandate, will continue to closely monitor the development of systemic risks of a structural nature, with a formal review of the maintenance of the structural systemic risk buffer at least every two years.

Credit institutions will continue to report to the Central Bank on compliance with the requirements set out in this decision in accordance with the obligations defined under the Decision on Reporting to the Central Bank of Montenegro (OGM 128/20).

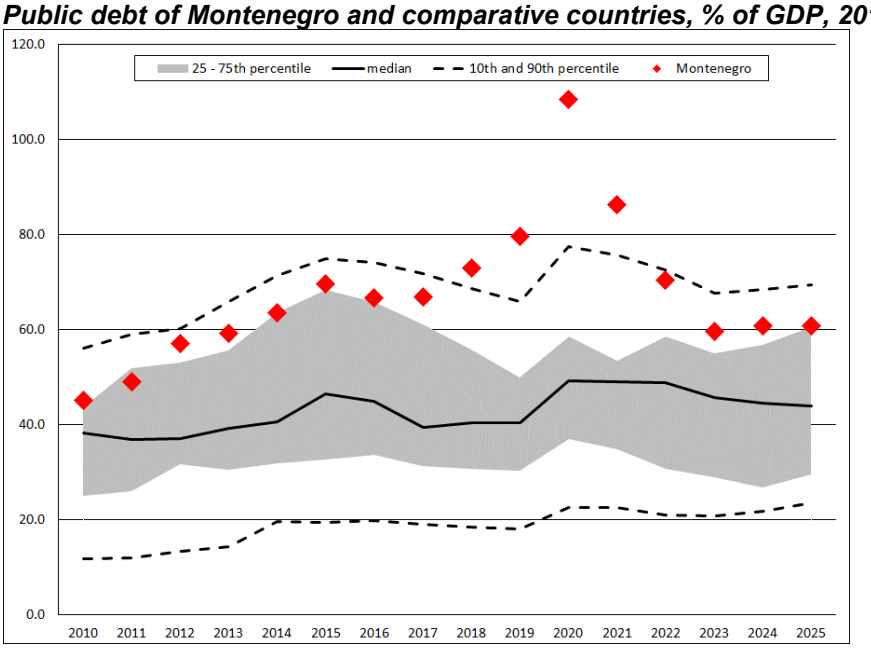
ANNEX: Graphical overview of selected indicators

Graph 1 – CAB of Montenegro and comparative countries, % of GDP, 2010 - 2025



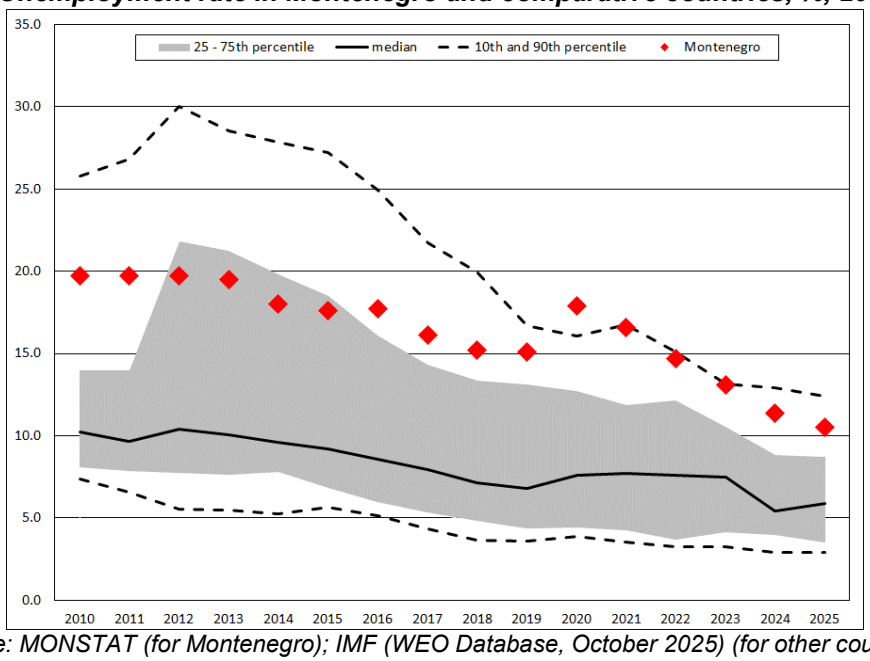
Source: IMF (WEO Database, October 2025)

Graph 2 – Public debt of Montenegro and comparative countries, % of GDP, 2010 - 2025



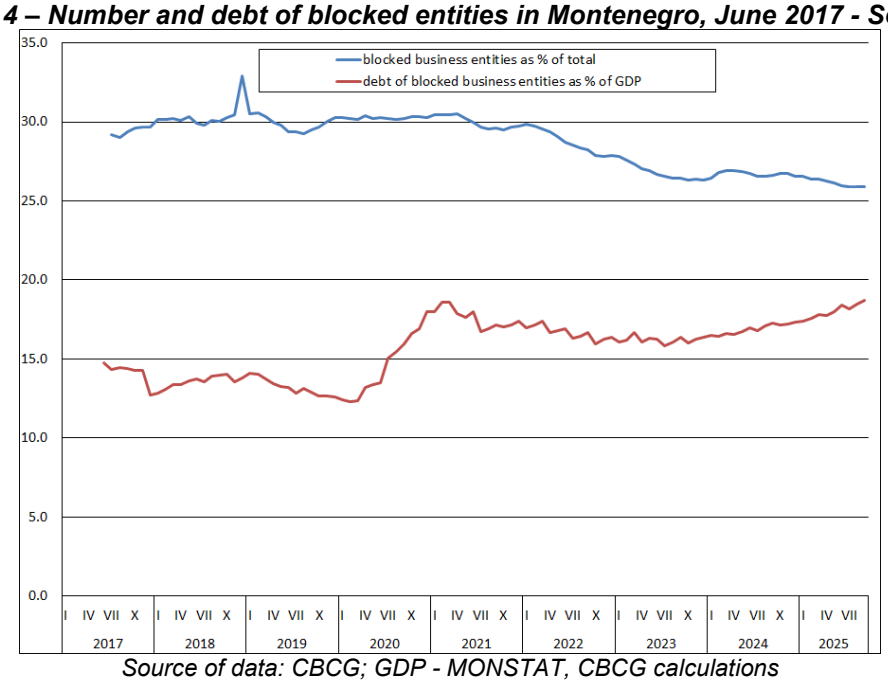
Source: IMF (WEO Database, October 2025)

Graph 3 – Unemployment rate in Montenegro and comparative countries, %, 2010 - 2025



Source: MONSTAT (for Montenegro); IMF (WEO Database, October 2025) (for other countries)

Graph 4 – Number and debt of blocked entities in Montenegro, June 2017 - Sep 2025



Source of data: CBCG; GDP - MONSTAT, CBCG calculations

In graphs 1, 2, and 3, the comparable countries are: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Kosovo, Hungary, Moldova, Poland, Romania, Russia, North Macedonia, Serbia, Turkey, and Ukraine which, together with Montenegro are classified by the IMF under the group of "Emerging and Developing Europe". Data for 2025 are forecasts. The 2025 data for Montenegro in graph 3 refer to the reported data for Q2 2025, as the latest available data for this year.