



Podgorica, 31 December 2021

### **Information on setting the structural systemic risk buffer**

The Central Bank of Montenegro has set the structural systemic risk buffer rate for the first time under its Decision on application of the structural systemic risk buffer (OGM 139/21), in accordance with the Law on Credit Institutions (OGM 72/19, 82/20 and 8/21). The rate is set at 1.5% of the total amount of risk exposure and it will be applied starting from 1 January 2022.

The rate shall apply to all credit institutions in Montenegro and equally to their exposures in the country and in other countries where the credit institutions have exposures. Due to the equal treatment of exposures, Article 165 prescribes that where a credit institution is subject to the requirement for the O-SICI buffer and the requirement for structural systemic risk buffer, the buffer that is higher shall apply.

Pursuant to Article 156 of the Law on Credit Institution, the Central Bank is obliged to publish on its website the decision on application of the structural systemic risk buffer and the announcement thereof. The information to be contained in the announcement is specified under the same article. The key segments of the analytical basis used for passing the decision on structural systemic risk buffer rate are presented below.

Structural systemic risks have increased, as the already inherent structural vulnerabilities of the system have become even more pronounced due to the ongoing coronavirus pandemic.

Most structural systemic risks come from the real economy and/or from various macroeconomic imbalances rather than from the banking and/or financial system.

One of the key characteristics of Montenegro's economy is high current account deficit that has been partly financed by foreign borrowing, both private and public, resulting in a high external debt that has been on an increase since the tracking of the data series has begun.

The economy is predominantly service-based, with a strong share of tourism-related activities that are particularly vulnerable in circumstances such as the current pandemic.



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The public debt to GDP ratio has been on a long-term upward trend, with the presence of constant budget deficits. Although the situation has fairly stabilized during the first three quarters of 2021 with the public debt decline and a much lower fiscal deficit than that recorded in 2020 as the year of the pandemic outbreak, vulnerabilities still remain.

The Q2 2021 Labour Force Survey showed that the unemployment rate stood at 17.1% and the activity rate was 46.8%. Coupled with the growing indebtedness of households to banks over the recent years, this poses a threat to household finances and thus, indirectly, to bank balance sheets.

Indebtedness of the non-financial sector to banks is also on the rise, but this increase is much milder than that of the households. A growing number of blocked economic entities as well as the growth of blocked funds in the system of enforced collection are certainly worrying.<sup>1</sup>

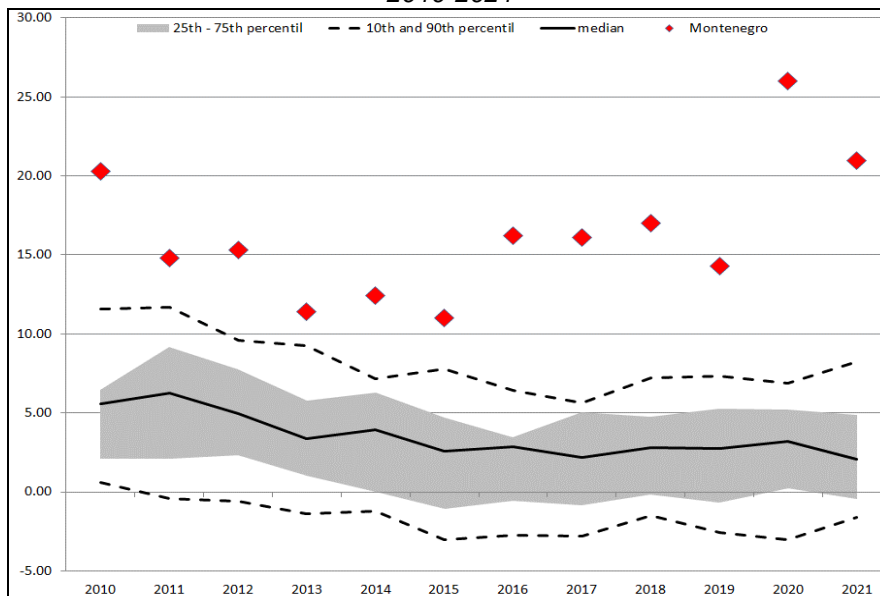
In view of the above, the CBCG has introduced the structural systemic risk buffer rate of 1.5%. Also, in accordance with its macroprudential competencies, the CBCG will continue to monitor the development of systemic risks of structural nature on an ongoing basis, with a formal review of the structural systemic risk buffer rate at least every two years.

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<sup>1</sup>A number of data used to assess the financial position of enterprises and households is of insufficient quality and some are yet to be produced.

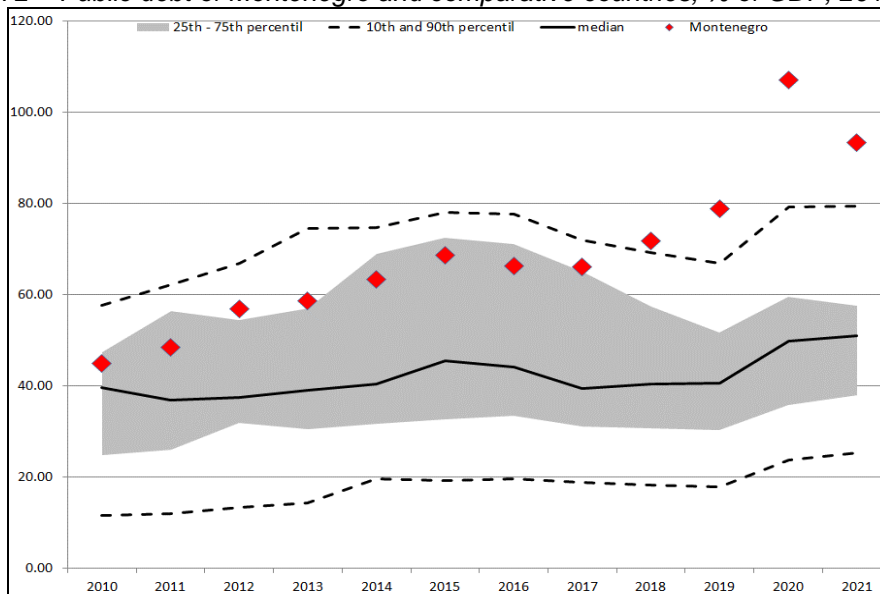
ANNEX: Graphical presentation of selected indicators

Graph 1 – Current account deficit of Montenegro and comparative countries, % of GDP, 2010-2021



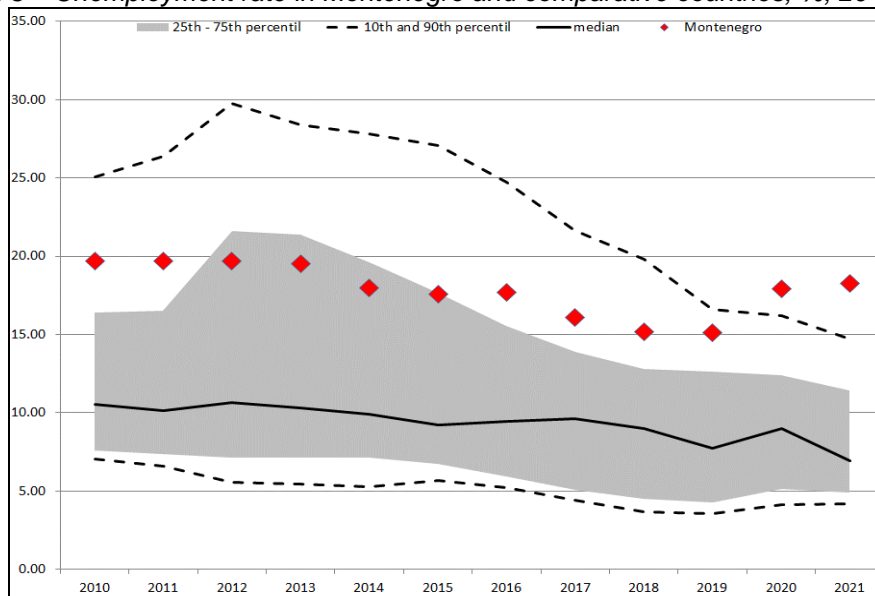
Current account deficit as a percentage of GDP. Comparative countries are: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Moldova, North Macedonia, Poland, Romania, Russia, Serbia, Turkey, and Ukraine. Together with Montenegro, these countries form a group of "Emerging and Developing Europe". Data source: IMF (WEO Database, October 2021)

Graph 2 – Public debt of Montenegro and comparative countries, % of GDP, 2010-2021



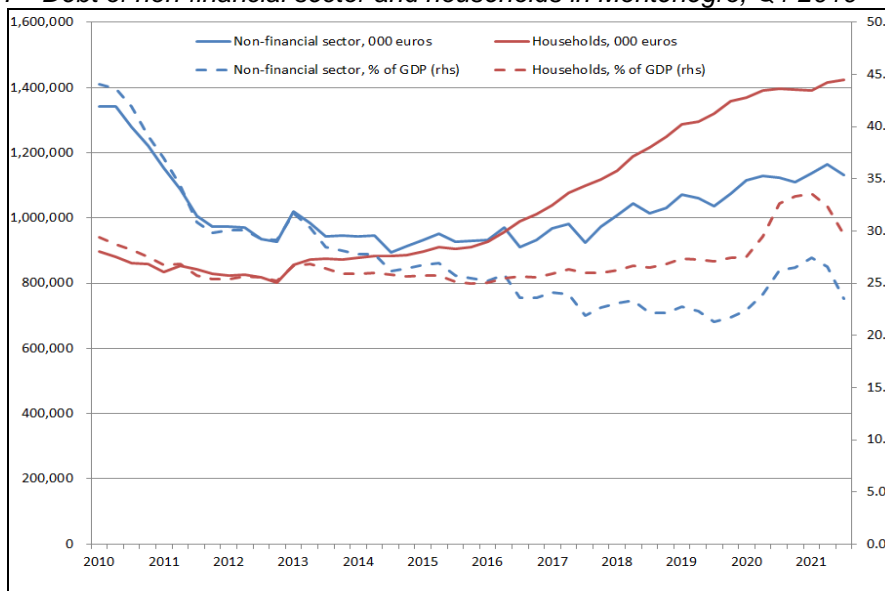
Public debt as a percentage of GDP. Comparative countries are: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Moldova, North Macedonia, Poland, Romania, Russia, Serbia, Turkey, and Ukraine. Together with Montenegro, these countries form a group of "Emerging and Developing Europe". Data source: IMF (WEO Database, October 2021)

Graph 3 – Unemployment rate in Montenegro and comparative countries, %, 2010-2021



Unemployment rate. Comparative countries are: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Moldova, North Macedonia, Poland, Romania, Russia, Serbia, Turkey, and Ukraine e. Together with Montenegro, these countries form a group of “Emerging and Developing Europe”. Data source for Montenegro: MONSTAT; data source for other countries: the IMF (*WEO Database, October 2021*).

Graph 4 – Debt of non-financial sector and households in Montenegro, Q1 2010 – Q3 2021



Graph 4. Debt of non-financial sector and households in Montenegro, in euro thousand and as a percentage of GDP. GDP data are recalculated as an annual cumulative, i.e. as a sum of the GDP values in a given quarter and the previous three quarters. Data sources: CBCG for loans to the non-financial sector and households; MONSTAT for GDP values; and CBCG calculations.