CENTRALNA BANKA
CRNE GORE

# Macroprudential Policy Framework

Podgorica, November 2026

PUBLISHED BY

Central Bank of Montenegro
Bulevar Svetog Petra Cetinjskog 6
81000 Podgorica
Telephone: +382 20 664 997, 664 269

WEB SITE

www.cbcg.me

CENTRAL BANK COUNCIL

Irena Radović, PhD, Governor
Zorica Kalezić, PhD, Vice-Governor
Gordana Kalezić, Vice-Governor
Milan Remiković, MSc, Vice-Governor
Tamara Backović, PhD
Srđan Milić, PhD
Šućo Orahovac, MSc
Ismet Hadžić

TRANSLATED BY

Department for Financial Stability, Research and Statistics

DESIGNED BY

Nikola Nikolić

# Contents

1. Background ..... 4
2. Definitions ..... 6
3. Primary and Intermediate Macroprudential Policy Objectives ..... 8
4. Decision-Making Process and Organisation of Macroprudential Policy ..... 11
4.1. Identification and assessment of systemic risks ..... 12
4.2. Selection and calibration of macroprudential instruments ..... 13
4.3. Implementation of measures and assessment of their impact ..... 13
5. Cooperation ..... 15
6. Communication ..... 17

# 1

# Background

The mandate of the Central Bank of Montenegro to conduct macroprudential policy derives from the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17 and 125/23), with Article 4(1) prescribing that "the primary objective of the Central Bank shall be to foster and maintain the stability of the financial system, including fostering and maintaining a sound banking system and safe and efficient payment system." Furthermore, Article 14(1)(1) of that Law prescribes that the Central Bank "shall oversee the maintenance of the stability of the financial system as a whole and pass pertinent regulations and measures", while Article 44(2)(10) provides that the Council of the Central Bank shall "decide on the introduction of safeguard and other measures for the purpose of maintaining stability of the financial system as a whole."

In addition, Article 16(35) of the Law on Credit Institutions (OGM 72/19, 8/21, 24/25, 14/26 and 152/26), which is aligned with the EU acquis (CRD VI and CRR III), designates the Central Bank as the authority responsible for setting all capital buffers. In line with that designation, Article 171a empowers the Central Bank, where it deems necessary for the purpose of preserving the stability of the financial system as a whole, strengthening the resilience of the financial system, and preventing and mitigating systemic risks, to prescribe appropriate measures and instruments, including: (1) the maximum allowed ratio of the amount of credit granted loan to value ratio; (2) the maximum allowed loan to income ratio; (3) the maximum allowed debt service to income ratio; (4) the maximum allowed loan maturity; (5) requirements related to methods for calculating loan repayment; or (6) other measures and requirements aimed at preserving the stability of the financial system as a whole, as well as preventing and mitigating systemic risks.

In accordance with the aforementioned provisions, the Macroprudential Policy Framework defines the macroprudential policy objectives, the process of identification and assessment of systemic risks, the principles of selection and implementation of macroprudential instruments, the decision-making process, and the principles governing cooperation and communication.

The Framework is based on the legislative framework of Montenegro and it is aligned with relevant EU recommendations and principles in the field of macroprudential policy, in particular the Recommendation ESRB/2013/1 of the European Systemic Risk Board on intermediate objectives and instruments of macroprudential policy. When defining the institutional framework, due consideration was also given to Article 5 of Regulation (EU) No. 1024/2013, which lays down macroprudential tasks and instruments and the allocation of responsibilities between national authorities and the European Central Bank.

Without prejudice to the statutory responsibility of the Central Bank for determining and implementing macroprudential policy and in accordance with the law, the Financial Stability Council, serves as an institutional mechanism for information exchange and coordination of activities among the competent authorities on matters relevant to financial stability.

# 2

# Definitions

**Macroprudential policy** comprises a set of activities aimed at identifying, monitoring and assessing systemic risks, as well as applying macroprudential measures to safeguard financial stability. Its primary function is to strengthen the resilience of the financial system and limit the build-up of systemic risks that could impair the orderly functioning of the financial system and adversely affect the real economy.

**Macroprudential instruments** represent regulatory and supervisory measures applied by the Central Bank to prevent, mitigate or reduce systemic risks and strengthen the resilience of the financial system.

**Financial stability** refers to a state in which the financial system effectively performs its key functions — financial intermediation, risk management and the provision of payment services, both in normal time and in the face of unexpected economic and financial shocks. A stable financial system is a necessary prerequisite for sustainable financing of the economy and long-term economic growth.

**Systemic risk** is the risk of disruption to the functioning of the financial system that could have serious adverse consequences for the financial system and the real economy. Systemic risk comprises two interrelated dimensions:

- **Cyclic systemic risk** rises from changes in the financial cycle, namely the propensity of financial institutions to take excessive risks during periods of economic expansion and to become excessively cautious in providing funding during periods of economic slowdown.
- **Structural systemic risk** arises from the structure of the economic and financial system, particularly from the size, interconnectedness and significance of individual financial institutions or market segments, whereby disruptions in their operations could jeopardize the stability of the financial system as a whole.

3

# Primary and Intermediate Macroprudential Policy Objectives

The **primary objective** of the Central Bank's macroprudential policy is to contribute to safeguarding financial stability by strengthening the resilience of the financial system and preventing, mitigating or reducing systemic risks. Achieving this objective contributes to the smooth functioning of the core functions of the financial system and sustainable economic growth.

Given that systemic risks may arise from different sources and manifest themselves in different ways, intermediate objectives of macroprudential policy are defined to support the achievement of the primary objective.

**Intermediate objectives** enable more effective monitoring of the sources of systemic risks, the selection of appropriate macroprudential instruments and the assessment of effectiveness of measures taken.

In defining the intermediate objectives, the Central Bank takes into account the structure and characteristics of Montenegro`s financial system, with particular consideration given to the dominant role of the banking sector. Although macroprudential policy applies to the financial system as a whole, the instruments available are primarily focused on the banking sector, in line with the applicable regulatory framework within the Central Bank's remit.

In line with the principles and recommendations set out in Recommendation ESRB/2013/1 of the European Systemic Risk Board on intermediate objectives and instruments of macroprudential policy, the following intermediate objectives have been identified:

- mitigation and prevention of excessive credit growth and excessive financial leverage;
- mitigation and prevention of excessive maturity mismatch and market illiquidity;
- limiting the concentration of direct and indirect exposures;
- limiting the systemic impact of systemically important credit institutions and incentives for excessive risk-taking;
- strengthening the financial infrastructure resilience.

To achieve these objectives, the Central Bank applies macroprudential instruments laid down in the Law on Credit Institutions and relevant secondary legislation, in accordance with the nature of identified systemic risks and the assessment of effectiveness of these instruments.

The intermediate objectives and the corresponding instruments are subject to periodic review to ensure their continuous adaptation to changes in the structure of the financial system, the evolution of systemic risks and the EU regulatory framework. The list of instruments is not exhaustive; rather, it represents the set of instruments available to the Central Bank at the time of adoption of this Framework and may be supplemented in line with developments in international standards and the domestic regulatory framework.

The Central Bank links the dimensions of systemic risk to intermediate macroprudential objectives, thereby enabling more effective risk identification and the selection of appropriate instruments. First, limiting the build-up of systemic macrofinancial vulnerabilities over time entails reducing the procyclical feedback loop between financial asset prices

and credit, limiting excessive credit growth and financial leverage, and mitigating and preventing excessive maturity mismatches and market illiquidity. Second, addressing structural vulnerabilities in the financial system requires managing risks arising from market characteristics, including interconnectedness which, due to misaligned incentives and the concentration of exposures, may cause credit institutions to become "too big to fail". Finally, the selection and targeted application of macroprudential instruments, including their combined use, does not only limit the build-up of vulnerabilities but also enhances the resilience of the financial system to adverse shocks, enabling a more effective response to systemic risks.

There is no one-to-one relationship between intermediate objectives and macroprudential instruments. Accordingly, one or more instruments may be used to achieve a particular objective, while a single instrument may contribute to achieving several intermediate objectives.

| Intermediate macroprudential policy objectives | Macroprudential instruments |
|---|---|
| Mitigation and prevention of excessive credit growth and excessive financial leverage | Countercyclical Capital Buffer (CCyB); sectoral capital requirements, where applicable; loan-to-value (LTV) limit; loan-to-income (LTI) limit; debt-to-income (DTI) limit; loan service-to-income (LSTI) limit; debt-service-to-income (DSTI) limit; loan maturity limit. |
| Mitigation and prevention of excessive maturity mismatch and market illiquidity | Loan-to-deposit (LDR) limit, where applicable; other macroprudential measures relating to liquidity and stable funding, in accordance with the applicable regulatory framework |
| Limiting the concentration of direct and indirect exposures | Systemic Risk Buffer (SyRB), where applicable; additional or stricter limits on concentration and large exposures; sectoral exposure limits, if prescribed. |
| Limiting the systemic impact of systemically important institutions and incentives for excessive risk-taking | Other Systemically Important Institutions (O-SII) buffer; Systemic Risk Buffer (SyRB), where applicable |
| Strengthening the financial infrastructure resilience | Measures aimed at ensuring safety, business continuity and operational resilience of the financial infrastructure, in accordance with relevant regulations and the statutory powers of the Central Bank |

TABLE 3.1

**Links between intermediate objectives and instruments of macroprudential policy**

The links between intermediate objectives and macroprudential instruments presented in Table 3.1 are indicative and provide a basis for selecting appropriate measures depending on the nature, intensity and sources of the identified systemic risks. A single macroprudential instrument may contribute to achieving several intermediate objectives, while one or a combination of several instruments may be applied to achieve a particular objective, in accordance with the applicable regulatory framework and the Central Bank's expert assessment.

The selection and calibration of macroprudential instruments are based on a comprehensive assessment of systemic risks and cannot be derived automatically from individual indicators or intermediate objectives.

4

# Decision-Making Process and Organisation of Macroprudential Policy

The Central Bank conducts macroprudential policy through a continuous and interconnected process of identifying and assessing systemic risks, selecting and calibrating appropriate macroprudential instruments, as well as monitoring their implementation and assessing their effects. This process enables timely identification of systemic risks and the adjustment of macroprudential policy to changes in the financial system and its environment. The process comprises three interrelated stages: identification and assessment of systemic risks; selection and calibration of macroprudential instruments; and implementation of measures and assessment of their effects.

Within the Central Bank, the organisational unit responsible for financial stability and macroprudential policy identifies and assesses systemic risks, proposes and calibrates the macroprudential instruments or measures to be activated, and discusses them with the organisational units responsible for the supervision and resolution of credit institutions. The agreed document setting out the proposed application of macroprudential instruments and/or measures is reviewed by the Committee for Supervision and Resolution of Credit Institutions before being submitted to the Council of the Central Bank for adoption.

The relevant organisational units within the Central Bank monitor the implementation of adopted instruments and/or measures, assess their effects and, accordingly, review the need for their continued application or modification, or for the introduction of new instruments or measures.

## 4.1. Identification and assessment of systemic risks

The Central Bank continuously monitors and analyses developments in the financial system to identify and assess systemic risks that may jeopardize financial stability.

Given the dominant role of the banking sector in Montenegro's financial system, the analysis focuses primarily on the sector of credit institutions, while also monitoring risks that may arise from other segments of the financial system.

The assessment of systemic risks is based on quantitative and qualitative indicators, analytical assessments, stress testing results, and expert judgement. The list of indicators is not exhaustive and is adjusted in line with developments in the financial system and the needs of macroprudential policy (Table 4.1).

TABLE 4.1

**Links between intermediate objectives and indicative systemic risk indicators**

| Intermediate macroprudential policy objectives | Indicative systemic risk indicators |
|---|---|
| Mitigation and prevention of excessive credit growth and excessive financial leverage | Credit growth; credit-to-GDP gap, where applicable; credit-to-GDP ratio; developments in property prices; private sector indebtedness; capitalisation and leverage indicators of credit institutions |
| Mitigation and prevention of excessive maturity mismatch and market illiquidity | Loan-to-deposit ratio; funding structure; liquidity indicators; stable funding indicators; maturity of assets and liabilities |
| Limiting the concentration of direct and indirect exposures | Concentration of exposures by the sector, country, currency and individual client; concentration of funding sources; concentration of collateral |
| Limiting the systemic impact of systemically important credit institutions and incentives for excessive risk-taking | Institution size; interconnectedness; substitutability; complexity of operations; cross-border activity; importance for the financial system functioning |
| Strengthening the financial infrastructure resilience | Operational resilience indicators; availability of critical infrastructure; business continuity; operational incidents; concentration of critical service providers |

The assessment of systemic risks is forward-looking and includes an analysis of potential sources of vulnerabilities, possible risk transmission channels, and the resilience of the financial system to potential shocks.

## 4.2. Selection and calibration of macroprudential instruments

The Central Bank selects, adjusts and implements macroprudential instruments in accordance with the nature, intensity and sources of the identified systemic risks and taking into account expected effectiveness, proportionality, timeliness and impact of these instruments on the financial system and the real economy (Table 4.2).

TABLE 4.2

**Indicative basis for the selection and application of macroprudential instruments**

| Intermediate macroprudential policy objectives | Indicative basis for the selection and application of macroprudential instruments |
|---|---|
| Mitigation and prevention of excessive credit growth and excessive financial leverage | Where the overall assessment indicates an accumulation of cyclical systemic risks, excessive credit growth, rising indebtedness or vulnerabilities associated with the real estate market and lending standards |
| Mitigation and prevention of excessive maturity mismatch and market illiquidity | Where the overall assessment indicates increased maturity mismatches, an unstable funding structure, reduced liquidity or a risk of disruptions to funding |
| Limiting the concentration of direct and indirect exposures | Where the overall assessment indicates excessive concentration of exposures to particular sectors, clients, countries, currencies, types of collateral or funding sources |
| Limiting the systemic impact of systemically important credit institutions and incentives for excessive risk-taking | Following the identification of systemically important credit institutions in accordance with the prescribed methodology and assessment of their systemic importance, interconnectedness, substitutability and complexity |
| Strengthening the financial infrastructure resilience | Where the overall assessment indicates operational or other vulnerabilities that may threaten the availability, security or continuity of key financial infrastructure functions |

The selection of an instrument does not automatically stem from an identified systemic risk but is rather based on a comprehensive assessment of its nature, intensity, potential transmission channels and expected effectiveness of the available instruments. Where necessary, a combination of several macroprudential instruments may be applied to achieve the intermediate objectives.

In selecting and calibrating instruments, the Central Bank applies the principles of effectiveness, proportionality and transparency, and suitability to the specific characteristics of Montenegro's financial system.

## 4.3. Implementation of measures and assessment of their impact

Following the adoption of decisions on macroprudential instruments, the Central Bank monitors their implementation and continuously assesses the effects of the measures taken on the financial system and the level of systemic risk.

The assessment of effects is based on an analysis of changes in relevant systemic risk indicators, the behaviour of financial market participants, and the resilience of the financial system. In this context, potential unintended effects of the measures applied are also considered, including their impact on lending activity, financial intermediation, and market functioning. Where relevant, the assessment also takes into account possible interactions between the macroprudential instruments applied and other regulatory or economic policies.

The assessment of effects also includes an evaluation of whether the expected objectives of a measure have been achieved and whether there are grounds for its continued implementation, adjustment or withdrawal.

The results of the assessment provide the basis for reviewing the existing macroprudential measures and, where necessary, for their modification or withdrawal or introducing new instruments in order to ensure that macroprudential policy remains effective, proportionate, and responsive to changes in the financial system and the broader environment.

This phase constitutes an ongoing process aimed at ensuring that the measures achieve their intended objectives and that macroprudential policy remains focused on preserving the financial stability.

# 5

# Cooperation

Macroprudential policy requires effective cooperation and information exchange among institutions responsible for preserving financial stability. The Central Bank cooperates with the Ministry of Finance, the Capital Market Authority, the Insurance Supervision Agency, and the Deposit Protection Fund, including through the work of the Financial Stability Council.

Cooperation includes the exchange of relevant information, the assessment of risks that may affect the financial system as a whole, and the coordination of activities within the legally defined mandates of each institution. Information is exchanged in accordance with applicable legislation, agreements concluded between the relevant institutions, and rules governing the protection of confidential information.

The Financial Stability Council has no authority to define or implement macroprudential policy; rather, the Central Bank independently decides on the introduction, amendment and withdrawal of macroprudential measures within the scope of its statutory powers.

Cooperation within the Financial Stability Council contributes to more effective information exchange and coordination of activities among the competent institutions, without prejudice to the independence of the Central Bank or the responsibilities of other institutions in performing their statutory functions.

The Central Bank also cooperates with relevant EU institutions, international financial institutions, central banks, and other competent authorities, in accordance with applicable legislation, concluded agreements, and the European integration process of Montenegro. Such cooperation may include the exchange of information, the assessment of cross-border systemic risks and the effects of macroprudential measures, as well as matters relating to the recognition and reciprocity of measures, where applicable.

# 6

# Communication

Communication is an integral part of implementing macroprudential policy and aims to enhance the Central Bank's transparency, improve the understanding of systemic risks and support the effectiveness of measures taken.

The Central Bank's communication on financial stability, systemic risks and macroprudential policy is based on the principles of credibility, openness, clarity, timeliness, consistency and comprehensibility. Communication aims to inform the public, market participants and other stakeholders while safeguarding confidential and market-sensitive information.

The Central Bank publishes information on:

- the mandate, framework, and institutional arrangements for macroprudential policy;
- the primary and intermediate objectives of macroprudential policy;
- the process of identifying and assessing systemic risks and making decisions;
- the assessment of systemic risks, the main sources of vulnerabilities, and their potential impact on the financial system and the real economy;
- adopted macroprudential measures, including their legal grounds, objective, scope, calibration, modalities and timing of implementation, and expected effects, to the appropriate extent.

Financial stability and systemic risk assessments are published in relevant Central Bank publications and other communication channels. Such assessments may include an analysis of existing and potential risks, sources of vulnerabilities within the financial system, possible shocks, their transmission channels, and an assessment of their impact on financial stability.

Where applicable, the adoption of a decision to introduce or amend a macroprudential measure is accompanied by an explanation of identified systemic risk, the rationale for selecting the instrument and its link to the relevant intermediate objective, the scope and modalities of implementation of the measure, its expected effects, and the adjustment period envisaged for the entities affected by the measure.

Where relevant, the Central Bank also publishes information on the reasons for tightening, loosening, maintaining, or withdrawing the existing macroprudential measures, as well as the results of periodic assessments of their effectiveness.

The Central Bank ensures the timely communication of adopted measures and, taking into account the nature, urgency, and characteristics of the specific measure, allowing relevant stakeholders an appropriate period to adjust to the new requirements.

The scope, content, timing, and means of communication are tailored to the significance of identified risks, the nature of the specific measures, and the needs of different target groups. The Central Bank may restrict or defer the publication of certain information where its disclosure could jeopardise financial stability, reduce the effectiveness of the measure, trigger inappropriate market reactions, or result in the disclosure of confidential information.

Effective communication of macroprudential policy contributes to a better understanding of systemic risks, helps steer the expectations and behaviour of market participants, strengthens market discipline and enhances the Central Bank's transparency in conducting macro-prudential policy.