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MONTENEGRO

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2023

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ABBREVIATIONS

CBCG	Central Bank of Montenegro
CSDCC	Central Securities Depository and Clearing Company of Montenegro
DNS	Deferred net settlement
ECB	European Central Bank
ERP	Economic Reform Programme
€STR	Euro Short-Term Rate
EU	European Union
EUREP	Eurosystem repo facility for central banks
EURIBOR	Euro Interbank Offered Rate
FDI	Foreign direct investments
FED	Federal Reserve
FSIs	Financial Soundness Indicators
GDP	Gross Domestic Product
HHI	Hirschman-Herfindahl Index
HP	Hodrick-Prescott
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MONSTAT	Statistical Office of Montenegro
NPL	Non-performing loans
OGM	Official Gazette of Montenegro
pp	percentage point
rhs	right-hand scale
ROAA	Return on Average Assets
ROAE	Return On Average Equity
RTGS	Real Time Gross Settlement
SOFR	Secured Overnight Financing Rate
USA	United States of America
USD	United States Dollar
VIX	Volatility index
WAELIR	Weighted average effective lending interest rate
WAEDIR	Weighted average effective deposit interest rate

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INTRODUCTORY NOTES

The main objective of the Central Bank of Montenegro (CBCG) is to maintain financial stability.

The CBCG primarily uses microprudential regulation and supervision in fostering and maintaining financial stability. However, since this approach focuses primarily on stability of individual banks, the CBCG uses, as needed, macroprudential instruments which effects impact the entire system. Thus the attention is paid to the complex relationship between banks and other economic operators in order to adequately assess potential vulnerabilities in the entire system. The Financial Stability Report represents one of the ways the CBCG contributes to financial stability and this by raising awareness of the sources of risks to financial stability among other economic and financial policy makers in the financial sector and with the general public.

Herein the CBCG analyses trends of those risks that are considered to be or may be systemic in nature. Basically, a systemic risk may occur as the consequence of certain internal imbalances and vulnerabilities in the financial system/banking sector, but also as the consequence of external shocks that may hit the economy in general or the financial system.

The report comprises of four sections. The first section gives an overview of systemic risk trends and assessments. The following section depicts trends and expectations in international economic and financial environment, which is very important considering the connectivity of the Montenegrin economy with the international economic and financial flows. The third section summarises generally accepted local macroeconomic trends and the balance of payments developments as an overview of the relationship between Montenegro and foreign countries, as well as the risks and vulnerabilities in the local private real sector and general government to which Montenegrin banks are exposed. The forth section discusses trends and risks in the banking sector and other relevant segments of the financial system. Here, a spectrum of financial soundness and macroprudential indicators most directly reflects the banking sector stability as a result of activity of both factors discussed in the second and third section of the report and factors generated by the banking sector itself.

1. SYSTEMIC RISKS ANALYSIS AND ASSESSMENT

At the end of 2023, systemic risks were moderate and at a slightly lower level than at the end of 2022.

Increased income from foreign tourists and the end of the impact of the coronavirus pandemic in 2023 contributed to the growth of economic activity of 6%, which rebounded from the pandemic already in mid-2022. On the other hand, retail prices and to some extent the state of public finance are of concern, primarily due to the situation on the international financial markets as well as the conflict in Ukraine and other geopolitical risk factors.

When it comes to the non-financial segment of the economy, it should be noted that the debt of resident non-financial institutions and households to banks increased slightly in nominal terms, but it declined relative to GDP (due to a notable increase in nominal GDP in 2023).[1]

In the reporting year, debt of resident non-financial institutions with Montenegrin banks rose by 3.9%, while the share of this debt in GDP declined from 21.3% to 19.8%. In addition, the liquidity of the real sector still indicates the presence of risks. Namely, funds of enforced debtors frozen in the process of enforced debt collection increased from 971.5 million euros to 1,158.6 million euros (17.5% of GDP), while the number blocked economic entities rose 2.5%, to 16.511.

Household debt to Montenegrin banks significantly increased over the past few years although it is still considerably lower compared to the peak leverage if observed in relation to GDP (close to 35% at end-September 2008, 26.3% at end-2022, and 25.5% at end-2023). Real earnings were 2.4% higher than in 2022. Additionally, as per the Labour Force Survey, the unemployment rate declined in the reporting year to 13.1% from 14.7% in 2022. This is still a high unemployment rate with an pronounced structural component.

After a certain reduction of public debt in relation to GDP during 2016 and 2017, the public debt increased from 64.2% in 2018 to 105.3% in 2020, which was primarily due to the corononavirus pandemic and borrowings for the construction of the priority highway section. Recovery of economic activity and elevated inflation (stronger nominal GDP growth than debt growth) caused debt reduction during 2021 - 2023 to 60.3% of GDP. However, certain fiscal vulnerabilities have remained.

As of March 2021, *Standard & Poor`s* assigned B credit rating (with a stable outlook) to Montenegro. This rating was confirmed after the reporting period (March 2024), and outlook was upgraded to "positive". In addition to the ongoing conflict in Ukraine, increased global uncertainty on the market and the worsening of funding conditions due to the normalization of monetary policy in the European Un-

[1] Observed as a percentage of GDP, the debt is at a lower level when compared to end-2019 as well.

ion, challenges for public finances will also persist in 2024 with the contiunuation of debt repayment under credit arrangements and interest for Eurobonds. An extenuating circumstance is certainly that the state has a certian amount of free funds at its disposal, as well as that there will be no principal repayment for Eurobonds in 2024.

When it comes to the banking sector, very good capitalization has been preserved since the capital adequacy ratio increased slightly during the year and is still at a significantly higher level than the legally prescribed minimum, and owns funds are mainly made up of the highest quality Tier 1 capital. In addition, liquidity of banks was still ample despite a decline of the share of liquid assets in total assets during the reporting year.

Among the main structural vulnerabilities of banks those that stand out are the following: the share of non-performing loans in total loans, banks` exposure to the government, banks` exposure to households (cash loans in particular), as well as an increasing maturity mismatch between sources of funding and funds (due to the general growth of demand deposits on the one hand, and long-term loans on the other hand).

The situation sightly improved in 2023 as the share of non-performing loans declined from 5.7% to 5%. However, this share is not negligible and it is a reflection of the existing credit risk in the system that has exerted unfavorable pressure on banks' risk appetite, that is, on the level of lending activity and lending conditions. However, credit growth reached 11.9% (8.2% for credits to residetns) in 2023.

Banks` exposure to the government rose year-over-year from 883.5 million euros to 971.9 million euros (14.4% of banks`assets). This exposure growth was due to an increase in loans and to a less extent a growth in securities. In any case, the trend of banks' exposure to the government will remain subject to continuous monitoring by the CBCG.

Although abating, risks arising from retail cash (all-purpose) loans were not completely neutralized, so at end-2023, the Central Bank passed a decision on continuation of limiting the growth of thiese loans also in 2024. Previous measures had had a significant impact on ceasing a rapid growth of these loans. Thus, at end-2023, retail cash loans amounted to 536.5 million euros or 2.9% less than at end-2022 (552.7 million euros (e.g. They reached 707.3 million euros at end-2019). In addition, their share in total retail cash loans fell from 34.9% to 31% in 2023. However, the maturity structure of retail cash loans did not change significantly so 92.6% loans at end-2023 were loans with agreed maturity over three years, of which as much as 40.7% were loans with agreed maturity over eight years.

Higher net interest and fees/commissions income, as well as much lower allowances for impairement added to a profit of 146 million euros at the system level, which is 75.3% more compared to 83.3 millon euro profit in 2022.

Banks are the most stable segment of the economic system, which is largely reflected in the stability of deposits in the banking system. They stood at a record 5.5 bln euros and made up the largest portion of banks' liabilities and capital (81.3%) at end-2023.

On the other hand, total liquid assets of banks declined during the year by 19.6% to 1.6 bln euros, as did their share in relation to assets and deposits, to 23.5% and 32.2% (from 30.7% and 42.9%), respectively. However, in the context of structural limitations of Montenegro`s economic growth, these liquid assets are currently the banks' best safety reserve against the risk of asset quality deterioration and/or deposit outflow. Here it should be noted that liquid assets declined also due to investments in securities but most of the new investments in securities were investments in government bonds of the euro area countries that bear the lowest credit risk and thus are easily marketable.

Other financial intermediaries do not represent sources of systemic risk, primarily due to their limited size and importance in the Montenegrin financial market, and also the nature of activities they perform (non-depository institutions) as well as a solid financial position of some of the most important ones among them, namely insurance companies.

With regard to the real estate prices, as the key form of property (and collateral) in the situation of a relatively underdeveloped financial market and instruments in the country, after a strong increase in real estate prices in the previous few years, it`s safe to say that real estate prices in the reporting year were at higher levels from their fundamentals.

The turnover of a mere 12.3 million euros was recorded at the Montenegro Stock Exchange (0.2% of GDP) in 2023, as compared to 78.2 million euros in the previous year. Most of the stocks traded were shares. The Monex index grew by 10.2% relative to end-2022, but it was still multiple times lower compared to its maximum values in April 2007.

The CBCG`s payment system and the CSDCC`s securities settlement system, as the financial infrastructure pillars in Montenegro, continued working smoothly in 2023.

Scheme 1.1

Key financial stability risks as at 31/ 12/ 2023	
Levels of public debt and budget deficit, taking into account deteriorating credit conditions of financing sources and the situation in Ukraine	🟥 ↓
Negative feedback loop between the share of non-performing loans and credit growth in the context of uncertain economic growth	🟧 ↓
Unsecured retail cash loans, primarily their long maturity and increased share of non-performing loans in that loan segment in few banks	🟧 ↓
Exposure of banks to the government considering the challenges in government finances	🟨 ↑

Explanation

🟥 High systemic risk

🟧 Moderate systemic risk

🟨 Low systemic risk

Colours represent the level of risk as a combination of probability of materialisation and potential impact in case of materialisation during the next two years, based on the CBCG expert assessment. The arrow shows the direction of change in the level of risk relative to the previous Financial Stability Report.

2. INTERNATIONAL ECONOMIC AND FINANCIAL ENVIRONMENT

2.1. Global economic trends

The global economy continued recovering from the impact of the COVID-19 pandemic, geopolitical issues, and rising inflation. A major contributors to the growth of the global economy in the second half of 2023 were the USA and the largest developing and emerging economies. The growing inflationary pressure was stopped and the inflation trend itself was reversed. The rate of inflation remains above what central banks consider acceptable, forcing most of the world's monetary authorities to delay cutting their benchmark interest rates. The latest data indicate that the reduction in inflation rates is not proceeding according to the forecasted dynamics and, therefore, it is currently expected that the leading central banks will keep their interest rates at the current levels longer than it was initially expected at the end of 2023.

In addition to slowing down aggregate demand, keeping interest rates at elevated levels had other undesired effects such as a drop in the value of bonds and difficulties in refinancing existing debts. These effects were obvious in the first part of 2023 in the case of failure of certain banks in the USA, as well as in the refinancing of large accumulated exposures to the commercial real estate sector in developed markets. In addition to commercial real estate, the banking systems in the euro area are exposed to challenges when it comes to residential real estate whose average value has declined, thereby reducing the value of collateral for housing loans. However, banks in the EU have been recording growth in profitability and thus are better prepared for a potential unfavourable chain of events.

The economic outlook for the growth of the global economy has partially improved in recent months, as the IMF in its April forecasts increased the growth rate of the global economy for 2024 to 3.2%, which is in line with the estimated growth in 2023. According to this report, the world economy could achieve higher growth rates if certain factors are positive. This primarily refers to a greater reduction in inflation than market expectations, a faster recovery of the Chinese economy, the implementation of artificial intelligence, and the improvement of aggregate supply in developing and emerging economies. On the other hand, what could undermine the existing forecasts are a new jump in the prices of stock exchange commodities due to geopolitical problems, the persistence of core inflation that would result in a tightening of monetary policy, disturbances with fiscal consolidation and slower growth of the Chinese economy due to the inability to consolidate the accumulated problems in the its real estate market.

According to the IMF's assessment, advanced economies have significantly slowed down their growth compared to 2022, with the exception of the US economy. The IMF April forecast indicates a slight acceleration of economic activity growth in advanced economies in 2024 and 2025. Economic activity in developing economies and emerging markets maintained the same dynamics as in 2022, and the IMF expects that these economies will achieve a slightly lower growth rate in 2024 and 2025 (table 2.1).

Table 2.1

Overview of selected global indicators, %

Indicator	2022	2023 estimate	Forecasts		Difference in relation to October 2023 projections, pp	
			2024	2025	2024	2025
Real GDP growth						
World	3.5	3.2	3.2	3.2	0.3	0.0
Advanced economies	2.6	1.6	1.7	1.8	0.3	0.0
USA	1.9	2.5	2.7	1.9	1.2	0.1
Euro area	3.4	0.4	0.8	1.5	-0.4	-0.3
Japan	1.0	1.9	0.9	1.0	-0.1	0.4
Emerging market and developing economies	4.1	4.3	4.2	4.2	0.2	0.1
China	3.0	5.2	4.6	4.1	0.4	0.0
India	7.0	7.8	6.8	6.5	0.5	0.2
Russia	1.2	3.6	3.2	1.8	2.1	0.8
Emerging and developing Europe	1.2	3.2	3.1	2.8	0.9	0.3
World trade volume (goods and services)	5.6	0.3	3.0	3.3	-0.5	-0.4
Commodity prices, average rate						
Oil	39.2	-16.4	-2.5	-6.3	-1.8	-1.4
Nonfuel	7.9	-5.7	0.1	-0.4	2.8	-0.3
Consumer prices, average rate						
Advanced economies	7.3	4.6	2.6	2.0	-0.4	-0.2
Emerging market and developing economies	9.8	8.3	8.3	6.2	0.5	0.0

Source: IMF, April 2024

Economic activity in the euro area slowed significantly in 2023 (IMF 0.4%, ECB 0.6%) compared to the previous year, and the factors that contributed to this are numerous - high inflation, monetary tightening, weak domestic demand due to lower real wages, and external factors in the form of lower external demand. Thus the euro area recorded a large decrease in private and government spending, as well as weaker exports and imports According to the latest data, the euro area economy achieved a zero growth rate in 2023Q4 after registering a slight decline of 0.1% in Q3. During 2023, the euro area quarterly growth rates were often below market expectations, which is what happened in the two largest economies as well, namely France and Germany. Other euro area economies achieved very uneven growth rates. The ECB constantly reduced the growth forecast for the euro area in 2024 and, according to the December forecast, the ECB predicts that the real growth of the euro area will be 0.8% in 2024 and 1.5% in 2025. As inflation weakens and real wages rise, it is expected that the key factor in the recovery of economic activity will be private consumption.

The IMF forecast for the 2024 growth of the US economy has been revised upwards. However, due to the prolonged effect of the tightened monetary policy, the gradual tightening of the fiscal policy and the weakening of the labour market, the forecasted growth rates for the next two years are on average lower than the estimate for 2023 (2.5%). China's economy in 2023 achieved higher growth than market expectations (5.2%), and the growth forecast for 2024 was revised upwards (4.6%).

World trade growth significantly reduced in 2023, given growing trade fragmentation and numerous trade barriers. The IMF has forecast the growth of global trade in the period 2024-2025. (3% and 3.3%, respectively), which is historically still lower than average growth rates.

2.2. Global financial trends

Most central banks of developed countries began to tighten their monetary policies as early as in 2022 and ended that cycle in 2023, so the markets are counting heavily on the easing of monetary policy in 2024. Inflation continued its downward trajectory from its peak in 2022, which took place at a faster pace than expected by the markets. A sharp drop in the prices of stock exchange goods was the key factor for inflation decline, with the energy prices leading the way and falling from their peaks in 2022 to 53.4% at the end of 2023. On the other hand, although apparent, the process of reducing core inflation was somewhat slower. The latest available data from early 2024 show that core inflation was higher than forecasted and, consequently, expectations regarding the beginning of the monetary easing cycle have changed in some of the largest economies. In contrast, a number of central banks have already started to reduce reference interest rates, and in the EU that has been done by the Czech Republic, Hungary and Poland.

During 2023, the ECB increased reference interest rates six times. Although the increases were more frequent than in 2022, their intensity weakened as inflation decreased. At first, the increases were 0.5 pp, and then 0.25 pp, a total of 2 pp, and the main refinancing operations interest reached 4.5% rate at the end of the year. The interest rates increases had a strong effect on financial conditions and lowered demand. Borrowing costs reached their record levels while the volume of lending slowed down. The ECB kept interest rates unchanged in the last quarter and at the beginning of 2024, and confirmed that inflation is moving within the medium-term target. To this end, the ECB plans to maintain a restrictive monetary policy as long as necessary, so key interest rates will remain at levels that will make a significant contribution to the goal of returning inflation to the desired 2%. The ECB's December 2023 forecasts suggest that inflation (HIPC) will reach the target level in 2025, coming down to 2.1%. According to the ECB's Survey of Professional Forecasters from the first quarter of 2024, inflation expectations for 2024 and 2025 have been revised downwards from 2.7% to 2.4% and from 2.1% to 2.0%, respectively.

The Fed has implemented four increases of the federal funds rate in 2023 that reached the level of 5.25-5.5%, the level last seen in 2001. During this year, the US economy proved to be more resilient than expected but, according to the Fed, tightened credit conditions will have an impact on economic activity and inflation with a certain lag. The IMF's lower average forecasts for 2024 and 2025 also followed this trend (table 2.1). Due to primarily a decisive reaction of the regulators, the banking system avoided major consequences and according to the Fed's claims, today it is „strong and resilient". Risks that may have a certain systemic impact are concentrated in the commercial real estate sector. According to the December projections, members of the Federal Open Market Committee (FOMC) were unanimous in that the cycle of interest rate increases was over and, according to the largest number of assessments, the federal funds rate will be at the level of 4.5–4.75% at the end of 2024. Market expectations indicate that the first reduction in the interest rate will not take place before September. Also, there is no agreement among market participants on the extent of the interest rate reduction for the second part of 2024.

Bond yields fell significantly in the last quarter of the year, especially on bonds with longer maturities. In the USA, for example, yields have risen to levels last seen before the Global financial crisis. At the end of 2023, there was a decrease in the negative difference between the yield on three-month and/or two-year and ten-year debt. In general, during 2023, higher yields in developed economies were attractive to investors, so outflow of funds from emerging markets was observed.

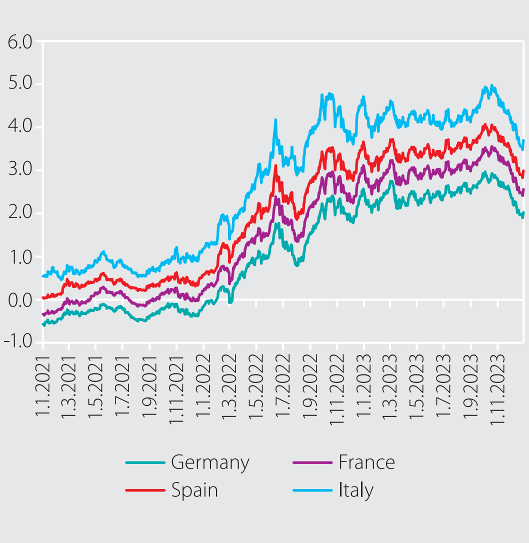
The growth of yields on the European bond market during 2023 was mainly marked by an increase in the reference interest rates of the ECB and the FED. In the first half of the year, the markets did not expect a quick end to the restrictive cycle of the ECB's monetary policy, given that many ECB officials indicated their determination to fight inflation, and that this could be implemented in several iterations of raising the reference interest rate. The growth of bond yields was also influenced by bad economic data in the largest economy of the euro area, Germany. Yields often followed the movement of US government debt yields.

After the collapse of the American bank SVB, the demand for safe assets increased, so the yields in that period went on a downward path. After a major disruption in the banking sector was avoided, markets recovered. Bearing in mind that the yield on German ten-year bonds recorded a large growth during 2022 and the first part of 2023, during most of the third quarter of 2023 it did not fluctuate and we saw a much milder but relatively stable yield growth. At the beginning of the third quarter, data indicated that inflation was in line with expectations. The growth of bond yields, in addition to expectations of further tightening of monetary policy, was influenced by the recovery of share prices in the banking sector and the publication of more positive data on the producer price index in Germany than initially expected. On the other hand, the decline in bond yields was influenced by deteriorated economic indicators in the euro area, and a decline in indices that measure investor expectations in Germany.

In the last quarter of the year, markets expected the ECB to take a break from raising interest rates, which was fuelled by already present expectations in the US bond market about a reduction in benchmark interest rates. Because of this, the yields on the ten-year government debt of the four largest economies of the euro area fell in the last quarter of 2023 and were lower than at the end of the previous year (graph 2.1). However, yields rose again in early 2024 due to a slower-than-expected reduction in inflation and the perception that monetary authorities will maintain restrictive monetary policy for a while longer.

Graph 2.1

10-year government bond yields in the euro area, 2021–2023, %



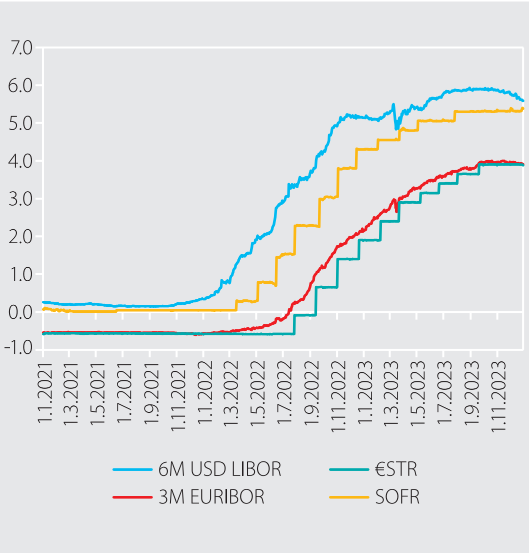
Source: Bloomberg

Short-term market reference interest rates followed monetary policies and continued the reporting year`s trend with a noticeable slowdown in growth towards the end of the year (graph 2.2). At the end of 2023, the three-month *EURIBOR* and *€STR*[2] amounted to 3.9% and 3.88%, respectively, and they were 105.4% and 83.3% higher on the annual basis. The *SOFR* and the six-month *USD LIBOR*[3] were 5.38% and 5.59%, respectively, and they were 25.1% and 8.7% higher at the annual level.

Measured by the expected volatility of US stock prices, the VIX index, instability on the financial markets subsided and a short banking crisis at the beginning of the year was the only period when the index deviated from the trend. Judging by the VIX index, volatility was significantly lower in 2023. The price of gold, as a specific indicator of stress and risks in the global economy and financial markets, fluctuated significantly during 2023, averaging at 1,943 $/oz.[4]

Graph 2.2

Short-term market interest rates, 2021–2023, %



Source: Bloomberg

[2] Euro Short-term Rate that reflects the cost of overnight borrowing in the euro area.

[3] SOFR is the reference rate on USD derivatives and loans that replaced LIBOR in June 2023 and it is based on overnight transactions secured by government securities.

[4] A measure of the expected volatility of the U.S. stock prices.

3. DOMESTIC ECONOMIC ENVIRONMENT

3.1. General macroeconomic trends

The economy of Montenegro moved on an upward trajectory in 2023 as well, achieving a real GDP growth rate of 6%.[5] General growth was driven primarily by strong growth in end consumption, which was the result of a successful tourist season, further growth in wages with an emphasis on the public sector, a better situation on the labour market, stable lending, and positive net migration of the population. To a much lesser extent, economic growth was driven by higher gross fixed capital formation and also by a lower negative balance of imports and exports. In addition to tourism as a key driver of growth, the activities of transport, trade and industrial production (table 3.1), which recovered in 2023 under the influence of a strong increase in electricity production, had a greater impact on the growth of economic activity.

Table 3.1

Change rates in key industries, 2023/2022, %

Activity	Annual rate of change
Tourism, all accommodations, arrivals	19.7
Tourism, all accommodations, overnights	31.9
Passenger transport, road	8.4
Passenger transport, railways	9.8
Passenger transport, air	30.6
Retail trade, constant prices[6]	7.9
Industrial production	6.4
Construction, value of performed construction work	-7.9
Construction, effective working hours	-4.0
Forestry, produced assortments	28.1

Source: MONSTAT

According to the CBCG forecast, the 2024 GDP growth will be 3.6%. The 2024 forecasts of the Ministry of Finance and relevant international institutions also indicate a slowdown in economic activity. As laid out in the 2024-2026 Economic Reform Program (ERP), the Ministry of Finance forecasted a decline in domestic demand and household spending and a small decline in government spending, while it expects an increase in investments. The impact of net exports on the growth of the economy will be insignificant despite the fact that high rates of growth in tourism and export activities are expected due to the anticipated increase in imports for personal and investment consumption needs. In the indicated period, looking at the production side of the economy, the sectors of tourism, energy, agriculture and construction will be the key drivers of economic growth. In the conditions of the lower growth scenario, GDP growth would be halved in the medium term compared to the forecasts from the

[5] MONSTAT preliminary data.

[6] As an average of annual rates of change for quarterly turnover data.

baseline scenario. Key assumptions for this outcome include deterioration of global and domestic economic trends, which implies a decline in economic activity in the EU, and lower foreign direct investments, deterioration of the balance of payments, continuation of high interest rates and inflation rates, and the absence of implementation of infrastructure projects in Montenegro. This would inevitably be reflected in lower consumption and lower budget inflows, that is, in a greater need for borrowing. As indicated in the 2024-2026 ERP, the Ministry of Finance forecasts 3.8% and 3% GDP growth in 2024 and 2025, respectively, while the low-growth scenario forecasted respective growths of 1.4% and 1.8%.

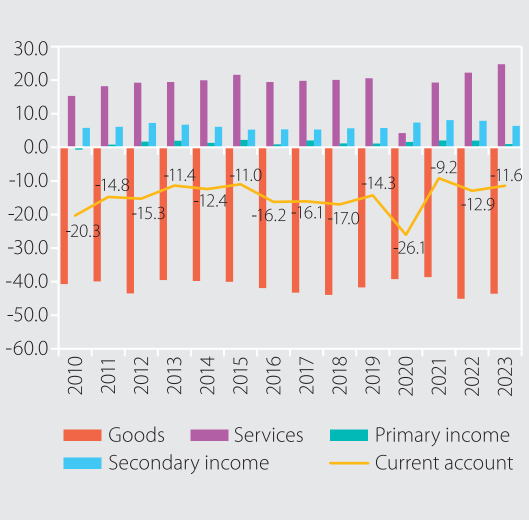
The relevant international institutions also expect a somewhat lower growth rate of the Montenegrin economy in 2024. According to the IMF forecasts from April 2024, Montenegro`s GDP will record a real growth rate of 3.7% in 2024. According to the forecasts of the World Bank (April 2024), the economy is expected to grow at a rate of 3.4%, while according to the European Commission (November 2023), the growth rate will be 2.7%.

Inflation in Montenegro has significantly declined, especially considering that double-digit inflation rates had been present for twelve months and that the inflation recorded in 2022 was the highest since the introduction of the euro in Montenegro (17.2% in November 2022). At the end of the year, the inflation rate was 4.3%, which narrowed the gap compared to the inflation rate in the euro area. Inflation in Montenegro will depend on external factors in 2024 as well, starting from geopolitical trends, the price of stock exchange goods, and financial conditions, but it may also partly depend on domestic demand, namely wage growth.

The current account deficit was 791.3 million euros or 11.6% of GDP in the reporting year and it was 1.4 pp less year-over-year. The current account deficit growth was generated by a negative balance on the goods account which increased additionally, reaching 3 billion euros. In the last two years, the goods deficit amounted to about 45% of GDP. After a notable increase in 2022, commodity imports continued to grow in 2023 and the main contributors to this growth were categories „machines and transport devices“, „road vehicles“ and „food products“. In 2023, significantly less was spent on electricity imports, as a result of a combination of excess production and the return of market prices to the levels before the conflict in Ukraine. Also, lower market prices influenced a smaller outflow of money for oil and oil derivatives. A large drop in the import of non-ferrous metals was also recorded. On the other hand, exports of goods were lower in 2023 as a result of lower exports of non-ferrous metals and the category "metalliferous ores and metal scrap". The largest growth in export categories was in the export of electricity and beverages.

Graph 3.1

Current account components, % of GDP, 2010–2023



Source: CBCG calculations

A record surplus was recorded on the services account of 1.7 billion. euros, or 25.6% of GDP. Estimated revenues from travel-tourism amounted to 1.5 billion euros, which is 43.7% more year-over-year and is the result of an increase in overnights by foreign tourists and an increase in the general level of prices.

The primary and secondary income accounts recorded surplus declines due to the simultaneous increase in expenditures based on primary and secondary income (graph 3.1).

Historically observed, the permanent current account deficit was financed through foreign direct investments, but also through portfolio investments and other foreign investments, which affected the level of external debt of Montenegro which was still in a slight decline in 2023. The net inflow of foreign direct investments amounted to 428.7 million euros or 6.3% of GDP, which represents a decrease of 45.2% compared to 2022. The total FDI inflow in 2023 is lower by one quarter, primarily due to a decline in investments in companies and banks and intercompany debt, while investments in real estate increased for the second year in a row. In the same period, FDI outflow increased by 16.1%.

3.2. Position of non-financial institutions[7]

Debt of non-financial institutions[8] to banks saw an increase of 3.9% during the reporting year, reaching 1.3 billion euros. In relation to GDP, it fell from 21.3% to 19.1%, due to a new strong wave of GDP growth. The reduction of this ratio represents a trend that has been present for many years.

During 2023, the banking sector provided adequate support to the economy with the extension of new loans in the amount of 753.6 million euros. In terms of purpose, new borrowing mostly referred to loans for liquidity for working capital, 61.5%. For years, this type of loan has been the most common type of loans granted to non-financial institutions.[9] The implementation of investment programs and the acquisition of fixed assets represented the next largest types of indebtedness of the economy, with the respective shares of 12.8% and 10.3% in new loans extended to this sector.

In 2022, the position of net creditors of the non-financial institutions sector was significantly increased due to a huge inflow of deposits from that sector. In 2023, that position slightly reduced (0.9% of total assets), given that the sector's deposits decreased (0.5%), while loans increased (3.9%).

When it comes to the maturity of non-financial institutions` debt to banks, debts maturing after three years accounted for the main share of 64.2% at end-2023.[10] Debt with the agreed maturity of over one year made up 84.2% of the debt. As for the debt currency structure, the entire debt of non-financial institutions was in euros, which was also the situation that has not changed essentially over the past years.

The quality of debt of non-financial institutions to banks improved during 2023 as well. For the last two years, the increase in non-performing loans (NPLs) was marginal compared to the growth of to-

[7] Since Montenegro does not have the financial account statistics. i.e. an overview of financial assets and liabilities by all institutional sectors of the economy, the position of non-financial institutions and households is primarily monitored through their relationship with Montenegrin banks via data the banks submit to the CBCG.

[8] Non-financial institutions cover resident business entities (private and state companies).

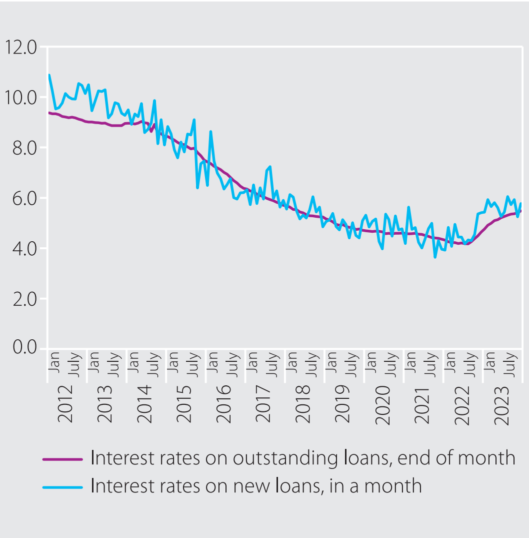
[9] This data refers to all legal persons but they are sufficiently representative as 80.1% of total debt of legal persons in 2023 referred to non-financial institutions.

[10] Data as per the initially agreed maturity.

tal loans to this sector, so the reduction in credit risk was reflected in a new decrease in the share of NPLs in the total debt of non-financial institutions to 9.6%.

Graph 3.2

Interest rates on debt of non-financial institutions, %, 2012–2023



Source: CBCG

In August 2022, the average interest rate on the debt balance of non-financial institutions by loans was at the historically lowest level (4.2%), but since that moment it has been on the rise, deviating from the long-term downward trend (graph 3.2), reaching 5.5% at the end of 2023. Similarly, the average interest rate on new loans rose from 4.6% to 5.6%[11]. However, it should also be mentioned that the overall increase in the cost of borrowing, which is a consequence of the tightening of the ECB's monetary policy, although evident in Montenegro, was relatively limited, that is, felt to a lesser extent than was the case in many euro area economies.

Data on blocked economic operators can be indicative in terms of the resilience of the economy and its competitiveness, sustainability, corporate governance and business practices. At the end of 2023, business entities that were blocked through the forced collection system of the CBCG accounted for over a quarter of active business entities (26.3%), and their number increased by 2.5% in one year. In terms of value, the frozen amount on business entities' accounts was 1.16 billion euros, which is 19.2% more than at the end of 2022. The largest part of the debt (97.5%) was blocked for over a year, and often for more years, and it related to 91.7% of blocked business entities. For the most part, these are almost uncollectible liabilities from previous years. The growth of the debt of business entities which have been in a continuous blockade for over a year amounted to 21.2%, and the frozen amount was 197.4 million euros.

3.3. Position of households

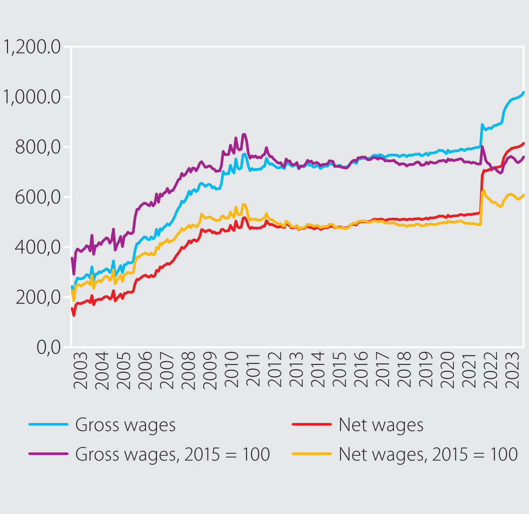
Despite significant inflationary pressures, the real incomes of households, seen through average earnings, indicate that the household sector is in a better position. After changes in the tax burden in the wage structure, real average earnings were 18.4% higher in 2022 and 2.4% higher in 2023 (graph 3.3). Over the past two years, the growth in the prices of components of the consumer basket with the highest weights, which are very important to the majority of the population (food, clothing and footwear, utilities and transportation), has led the way of price growth. The latest inflation forecasts for Montenegro and the euro area for the next period indicate a slower but constant decline in the inflation rate, so if the general situation on the labour market in Montenegro continues to improve, it can be expected that the real income of the household sector will be higher, and consequently consumption, borrowing and investment opportunities will also grow.

[11] The rate is obtained by weighting monthly interest rates on new debt with monthly annuities.

Undoubtedly, a decrease in unemployment was in favour of a better income position of the household sector. In the last two years, the labour market has been significantly more dynamic, especially in terms of the number of employees, which is partly due to the positive net migration of the population. According to the Labour Force Survey, the 2023 average unemployment rate was 13.1%, being 1.6 pp lower year-on-year. However, unemployment in Montenegro has had a pronounced structural character for years, which is reflected in the very slight downward trend of the unemployment rate, while the rate itself is still relatively high.

Graph 3.3

Gross and net earnings, 2015=100, 2003–2023



Source: CBCG

Household indebtedness to banks increased by 8.7% during 2023 to 1.69 billion. euros, which is the continuation of the trend that started in 2013. The level of indebtedness of the households thus reached its historically peak in absolute amount. Observed in relation to GDP, the debt of households still decreased by 1.6 pp to 24.7% of GDP, as a result of a strong GDP recovery. Households` debt based on new loans reached a record amount of 578.2 million euros. Seen according to purpose, the new borrowing of the household sector mostly referred to cash (all-purpose) loans with 54.6%. This type of borrowing was preventively limited by the CBCG`s macroprudential measure due to the growing risks arising from the level of these loans and imbalances in their maturity. The effect of the measure was a decrease in the balance of these loans, but in 2023 the volume of newly approved cash loans approached the (nominal) level from the period when the measure was introduced.[12]

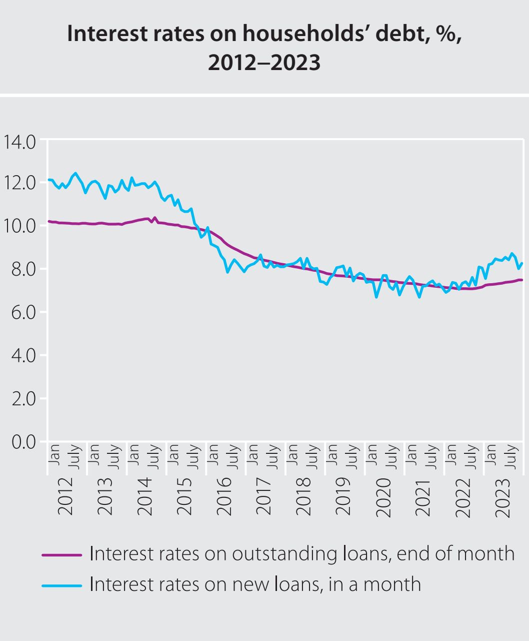
Banks play an increasingly important role in the real estate market, viewed through the financing of demand, because the next largest group of newly extended loans to the household sector related to loans for housing purchase and renovation loans. If we look at loans for the construction of buildings and adaptations, these two categories have accounted for about a quarter of newly approved household loans in recent years. The household sector also shows growing mobility, seeking better conditions from other banks, and thus loans for refinancing obligations to other banks are on the rise.

The quality of household debt to banks continues to improve. With the real growth of earnings, the purchasing power, that is, the disposable income of the population has increased, thus reducing credit risk. The amount of bad debt of households decreased by 7.7% to 57.2 million euros in 2023, and the share of bad debt in total debt dropped to 3.4%.

Due to the strong growth of deposits, the position of the household sector as a net creditor strengthened (to 3.1% of total bank assets), which at the end of 2023 were at a historical maximum, amounting to 1.9 billion euros.

[12] Households include only resident natural persons.

Graph 3.4



Interest rates on households' debt, %, 2012–2023

Source: CBCG

With regard to the maturity of the households' debt to banks, the debt with maturity of over three years accounted for the main share of 95.9% of debt[13] at end-2023, mainly due to the cash and housing loans-based leverage. Debt with the agreed maturity of over one year made up 98.9% of the debt. Household loans in other foreign currencies accounted for a mere 0.2% of total retail loans.

In general, borrowing by the household sector is „more expensive" compared to the corporate sector. At the end of 2023, the average interest rate on the households' debt balance on loans amounted to 7.5% (graph 3.4). On the other hand, the average interest rate on new loans grew from 7.4% in 2022 to 8.3% in 2023[14]. Although the cost of borrowing by the household sector increased, this did not affect new borrowing, which was stable throughout the year and higher overall.

3.4. Government finances

The 2023 government budget recorded a surplus of 10 million euros (0.2% of GDP) or 216.3 million euros more than planned. This is the first positive fiscal balance since 2008. Previously, the average deficit in the period 2009–2022 was 4.9% of GDP.The presence of a deficit in the long term represents one of the systemic risks, given that deficits are mostly debt-financed. A deficit of 362 million euros or 5.1% of GDP is projected for 2024.

Budget revenues were 5.9% higher than planned and amounted to 2,565.3 million euros. The better realisation of budget revenues is primarily the result of higher revenues based on value added tax and contributions. Budget revenues were 28.6 %higher compared to 2022. Viewed in relation to GDP, budget revenues amounted to 37.5% of GDP, which was 2.8 pp more than in 2022 and slightly above the ten-year average. It should also be noted that the growth of budget revenues was also affected by high inflation.

Budget expenditures were 3.2% lower than planned and amounted to 2,555.4 million euros. Expenditures were reduced due to lower reserves, social security transfers and capital expenditures, The largest increase in expenditures compared to the plan was recorded in transfers to institutions, individuals, non-government and public sectors, and in gross wages and contributions paid by the employer. On the annual basis, expenditures increased by 13.8%. In relation to GDP, budget expenditures accounted for 38.6% and they were 0.7 pp higher than in the previous year and by 3.6 pp lower compared to the ten-year average.

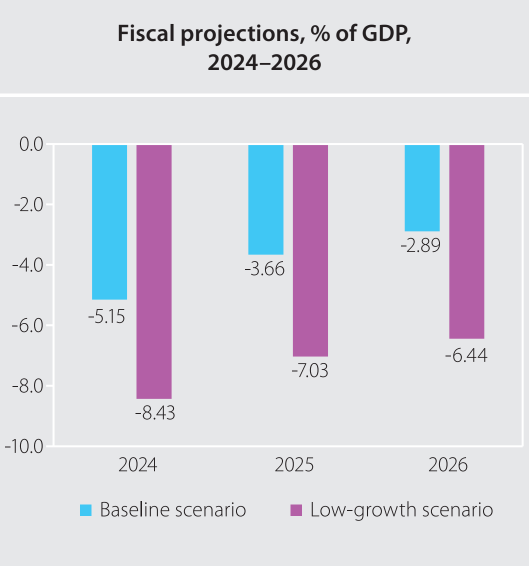
[13] Data as per the initially agreed maturity.

[14] The rate is obtained by weighting monthly interest rates on new debt with monthly annuities.

As at 31 December 2023, public debt amounted to 4.1 billion euros or 60.3% of GDP, of which the external debt made up 3.52 billion euros, internal debt was 542.6 million euros and debt of local self-governments accounted for 66.9 million euros. During the reporting year, the public debt`s share in GDP dropped by 9 pp. Certainly, in addition to the slight reduction of the public debt in absolute amount, a decline in the ratio of public debt to GDP was primarily affected by the continuation of the strong recovery of economic activity. In 2022, public debt decreased by 14.8 pp of GDP. At the end of the reporting year, the government had a significant reserve of liquid assets so that the net public debt amounted to 58% of GDP, which is a decrease of 9.3 pp at the annual level.

According to the baseline scenario in Montenegro`s 2024-2026 ERP, public debt will amount to 61.2% of GDP at the end of 2024, and it will reach 4.74 billion euros or 61% of GDP at end-2026.

Graph 3.5



Source: Ministry of Finance

As at 31 December 2024, public debt amounted to 4.06 billion euros or 59.3% of GDP. Of this amount, 3.52 billion euros or 51.4% of GDP related to external debt, while 542.6 million euros or 7.9% of GDP was domestic debt Within the external debt, debt arising from issued Eurobonds accounted for the main share of 49.8%. The current outstanding Eurobond issues are those from 2018, 2019, and 2020, which collected a total of 1.75 billion euros.In March 2024, there was a new issue of Eurobonds in the amount of 750 million US dollars and with agreed maturity in 2031. Within the domestic debt, two bond issues from 2019 maturing in 2024 and 2026 are active on the Montenegro Stock Exchange.

During 2023, the principal of the debt was repaid (to residents and non-residents, liabilities for frozen foreign currency deposits and restitution) in the total amount of 301.3 million euros, repayment of interest in the amount of 124.3 million euros, and repayment based on guarantees in the amount of 2.81 million euros. According to the data from the ERP, public finances are facing a challenging period, given that debt repayment costs will amount to 532.7 million euros or 7.6% of GDP in 2024, while that amount for 2025 will be 819.5 million euros or 11% of GDP. A reduction to 290.3 million euros or 3.7% of GDP is not expected before 2026.

More than three quarters of the government debt is repaid at a fixed (79.9%), and the rest at a variable interest rate (20.1%). As for the currency structure, 81.3% of the debt is returned in euros, and 18.7% in other foreign currencies. During the year, the share of euro debt in the total government debt decreased from 95.6% at the end of the first quarter to 79.9% at the end of the third quarter, due to the exit from the hedging transaction that had led to an increase in the value of the debt to the Chinese Exim Bank. The debt balance under government guarantees was reduced compared to 2022 by 26.3 million euros and amounted to 150.2 million euros or 2.2% of GDP.

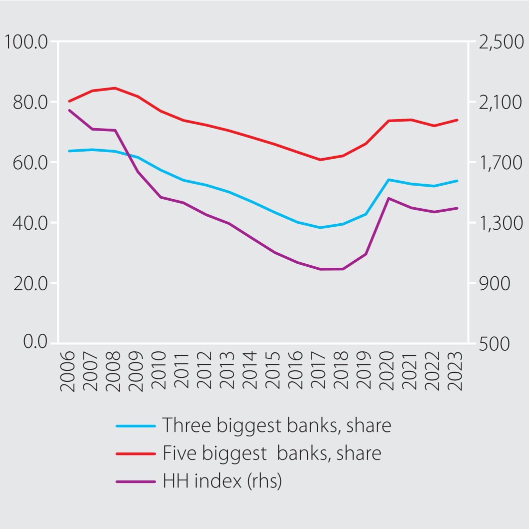
In March 2024, credit rating agency *Standard & Poor's* confirmed Montenegro`s B rating with a positive outlook for the country. Rating agency Moody's previously confirmed the B1 credit rating with a stable outlook for the country.

4. FINANCIAL SYSTEM

At the end of 2023, the value of financial sector assets amounted to 7.2 billion euros or 105% of GDP. On the annual level, the assets of the financial sector recorded a 5.8% growth, primarily owing to the growth of banks' assets. The banking sector accounted for the majority share in the financial sector`s assets (93.7%). The insurance sector, as in the previous period, represents the second most important group of institutions (4,3%). The remaining segments of the financial sector - microcredit financial institutions (MFIs), leasing companies, factoring companies, and companies for purchase of receivables had a collective share of a mere 2% in the structure of the financial system.

Graph 4.1

HH index, market shares (%), 2006–2023



Source: CBCG

In the past few years before 2023, the number of banks in the Montenegrin banking market has declined as a result of bank mergers and the introduction of bankruptcy in certain banks. During 2023, eleven banks operated in the system, eight of which were majority foreign owned. Banks with majority foreign ownership accounted for over 80% of banking assets.

The banking sector concentration, according to the HHI index (graph 4.1), increased from 1,370 to 1,395 points, still remaining in a zone of relatively low values. As per the same indicator, market concentration of loans was higher (1,750 points), which indicates a moderate concentration level at end-2023, whereas the index value with deposits stood at 1,364 points at the year-end. Looking at assets, the market share of three and five largest banks amounted to 53.8% and 73.9%, respectively.

Nine companies performed insurance activities in the Montenegrin insurance market during 2023, of which four companies performed life insurance, and five companies performed non-life insurance activities. Taken as a whole, the insurance market was characterized by moderate market concentration. However, individually, both life[15] and non-life[16] insurance segments are characterized by high market

[15] The HHI value with regard to assets and gross premium amounted to 3,948 points and 3,069 points, respectively.

[16] The HHI value with regard to assets and gross premium amounted to 2,357 points and 2,497 points, respectively.

concentration, especially the life insurance segment. The share of gross invoiced insurance premiums in GDP was 1.8% at the end of 2022 %, which is at a significantly lower level compared to developed European markets, and in 2023 it stood at 1.7.

In 2023, eight microcredit financial institutions, one leasing company, two factoring companies and three receivables repurchase companies were operating in Montenegro.

4.1. Banks' balance sheet structure

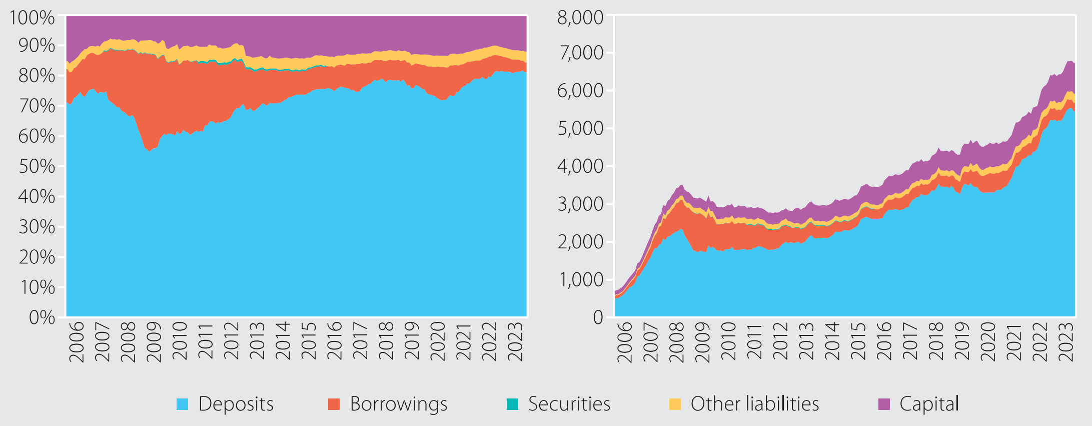
The trend of growth in the balance sheet of banks continued in 2023. The growth of the balance sheet amounted to 5.2% and was driven by the growth of deposits and total capital (in liabilities), that is, loans and securities (in assets).

Deposits have been the primary source of bank funding for many years now and they accounted for 81.3% of total liabilities at end-2023, while their share in the balance sheet decreased by 0.3 pp annually (graph 4.2). Deposits grew every month during the reporting year, except in March and May, reaching the annual growth of 248.9 million euros or 4.8%. Thus, total deposits were at their historical peak of 5.5 billion euros, which undoubtedly points to a confidence in the banking sector.

Retail deposits amounted to 1.9 billion euros and they were 11.7% higher year-over-year. Deposits by the non-financial sector amounted to 1.8 billion euros or 0.5% less compared to 2022.. Household deposits were at their all-time high at the end of the year, while non-financial sector deposits were at their all-time high in August. Deposits of non-residents accounted for a significant share of total deposits although they recorded a drop of 27.9 million euros or 2.1% at the end of 2023, while their share decreased from 25.2% in 2022 to 23.6% in 2023.

Graph 4.2

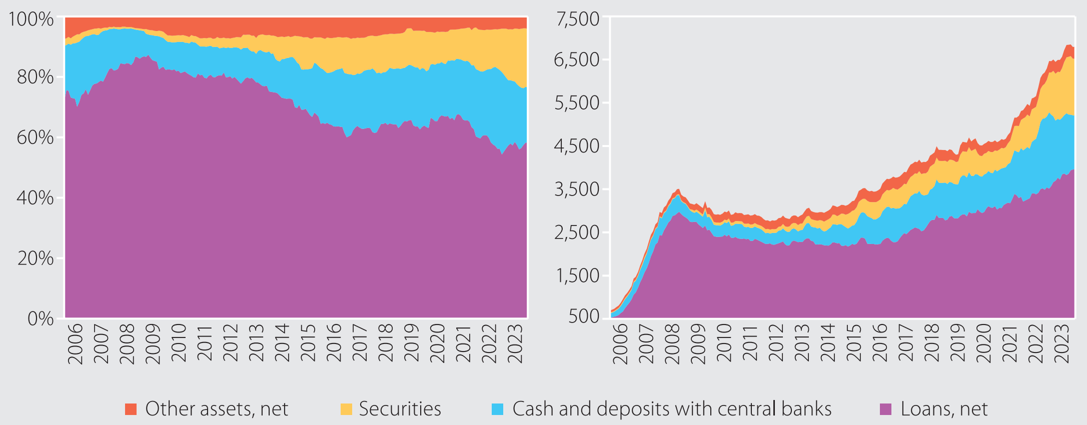
Liabilities and capital: structure (left) and amount in million euros (right), 2006–2023



Source: CBCG

Graph 4.3

Assets: structure (left) and amount in million euros (right), 2006–2023



Source: CBCG

Borrowings recorded a decline during the reporting year of 30.4% or 94.3 million euros. Their share in total liabilities and capital was 3.2% and it decreased by 1.6 pp compared to the previous year. At the end of 2023, borrowings from the Government of Montenegro accounted for the largest share in total loans, 43.1%. The share of borrowings from parent banks and members of the group was 23.4% At the end of the year, there were no short-term borrowings of parent banks, while long-term borrowings of parent banks dropped by 16.7% and their share in total borrowings amounted to 3%.

In the second half of the year, there was a decrease in the most liquid assets due to a drop in cash and deposit accounts with central banks, which at the end of the year amounted to 1.24 billion euros, recording a decline of 29.4% or 519.4 million euros.At the end of the year, the share of cash and deposit accounts with central banks in total assets and liabilities amounted to 18.5%, which represents a decrease of 9.1 pp compared to the previous year (graph 4.3).

At the same time, a part of the significant inflow from deposits was directed to investments in securities. Securities were up 42% year-on-year and amounted to 1.3 billion euros or 19.5% of total assets and liabilities. Historically, this is the highest level (1.4 billion euros) and share (19.9%) of these instruments in the total assets and liabilities.

Government securities accounted for the majority of the banks` securities portfolios (51.7%) but their share decreased significantly compared to the previous year (18 pp). Banks generally consider these as investments with a favourable interest rate in relation to their risks, and this has been especially appealing to banks in recent years. In addition, regulatory risk weight for this type of investment is 0%, whereby banks make profit for this type of portfolio and do not have any related regulatory capital requirements. In 2023, banks increased the portfolio of government securities of Montenegro to 677.7 million euros or by 5.3%. On the other hand, foreign securities achieved a significant growth of 355 million euros (or 120.4%), reaching 649.7 million euros at the end of 2023.

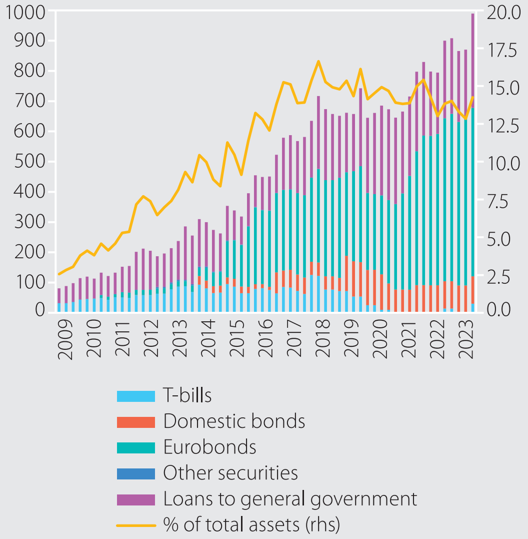
In October 2023, they reached their historical maximum (724.3 million euros), with securities of euro area countries with a high credit rating accounting for the main share.

Total exposure of banks to the government at end-2023 was 14.2% of total assets or 0.4 pp more in relation to end-2022 (graph 4.4). In absolute amount, the exposure reach 959.6 million euros[17]. This year, the government made more use of the possibility of taking new loans from banks (111.1 million euros) than was the case in 2022 (67.5 million euros). The central government debt arising from loans rose 27.2% to 284.2 million euros. In 2023, the government again issued treasury bills, and at the end of the year, their value in the portfolio of banks amounted to 30 million euros.

At end-2023, banks' claims on non-residents for deposits were 46.7% higher than at the end of the previous year. These were mainly demand deposits with non-resident banks that amounted to 535.9 million euros at the end of the reporting year.

Graph 4.4

Banks' exposure to the general government, in million euros and % of assets, 2009–2023



Source: CBCG

Total claims on non-residents stood at 1.7 billion euros, accounting for 24.6% of assets. Total liabilities to non-residents amounted to 1.4 billion euros or 21.3% of liabilities (foreign deposits accounting for the largest share and reaching 1.3 billion euros, being 2.1% lower year-over-year). High exposure to the non-resident sector in terms of received deposits has implications for liquidity risk because regardless of this source being generally stable, it could cause instability in situations of potential significant drop/withdrawal of these deposits. Thus, net foreign assets stood at 3.3% of total assets and liabilities of banks at end-2023.

4.2. Credit growth and non-performing loans

In general, a solid growth banks' lending activity continued in 2023, but we cannot speak of any generally excessive credit growth.[18]

[17] The exposure relates to government securities and loans granted to the general government. General government includes central government, local governments (municipalities) and social security funds.

[18] Unless otherwise stated, the data on loans presented in this chapter, as well as in the rest of the report, refer to loans and other receivables of the credit type on a gross principle (with corresponding value adjustments), without accrued interest and prepayments and accruals of interest/fees.

Total loans were at their record high in December and amounted to 4.1 billion euros, recording the year-over-year growth of 11.9%. The share of net loans in assets increased from 54.9% in 2022 to 58.8% in 2023. Lending activity in terms of new loans amounted to 1.5 billion euros or 3.7% more than in the previous year.

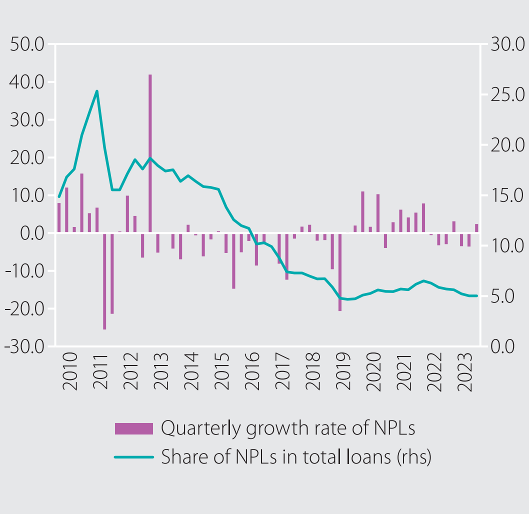
Retail loans accounted for the largest share in banks' loan portfolio (41.3%) and they have been recording positive growth rates since 2013. In 2023, this rate was 8.7%. The volume of new retail loans was 7.9% higher in 2023 compared to the previous year, recording a 13.9% growth compared to the pre-pandemic year 2019. At end-2023, new retail loans amounted to 578 million euros. Most of these were cash loans (54.6%).

Loans to resident non-financial institutions accounted for 32% of total loans at end-2023, and they increased by 3.9% at the annual level. Observed by new loans, this is still the sector that banks finance the most, with 753.5 million euros in the reporting year, which is 3.4% less and 23.2% more than in 2022 and 2021, respectively. As in the previous years, the main share of new corporate loans referred to loans for liquidity (working capital). The share of liquidity loans in new corporate loans increased from 64.4% in 2021 to 63.4% in 2022, dropping down to 61.4% in 2023.

In terms of FX risk, i.e. currency-induced credit risk, the loans' currency structure is still very favourable. A negligible share of loans was approved in other foreign currencies, which has been characteristic of banks' loan portfolios for a longer period.

Graph 4.5

Quarterly growth rate of NPLs and share of NPLs in total loans, %, 2010–2023



Source: CBCG

In reference to the maturity structure of loans as per initially agreed maturity (not including credit-type receivables), long-term loans accounted for 92.9% at end-2023. Observed in terms of remaining loan maturity, the share of long-term loans appears to be lower, 80.5%.

Looking at non-performing loans (NPLs), credit risk reduced during 2023. At the aggregate level, the NPL share in total loans fell by 0.7 pp year-on-year, down to 5% at the end of the reporting year (graph 4.6). Four banks had higher shares and seven banks had lower shares of NPLs in their total loans than at the end of the previous year.

The sum of NPLs decreased by 1.7% and amounted to 205.6 million euros. The NPL to GDP ratio amounted to 3%, being lower compared to the end of the previous year (3.5%), with GDP growing significantly in the reporting year. At end-2019, this indicator was 2.9%. The share of loans that were over 30 days past due decreased in the one-year period and accounted for 2.8% of total loans.

Distribution of the share of NLPs by banks at the end of 2023 indicates a somewhat different situation compared to end-2022 (graph 4.6). The range between the lowest and the highest share decreased, while the range between the first and third quartile was lower, as were the values recorded for the both quartiles. The shares of NPLs of three large banks were below the median NPL value of 4.8%, while the share of one large bank was above this value.

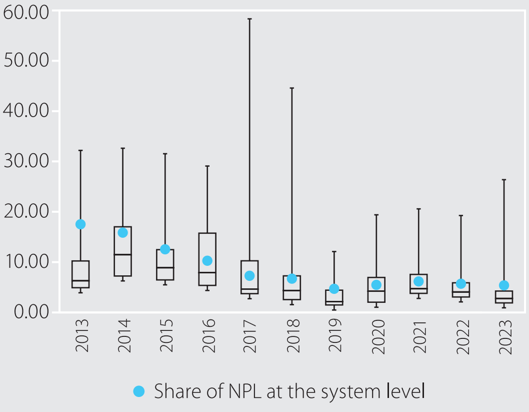
The biggest change in the structure of loans by quality category was realized in the A loan category whose share increased from 76.1% to 80% during the year (graph 4.7). The share of B category loans decreased from 18.2% to 15%, while their annual decrease amounted to 8.1%. This category accounts for a significant portion of portfolios of one bank with a big market share and one bank with a small market share. The share of C loan category fell to 3.3%, while the annual growth in the sum of category C loans amounted to 1.1%. D and E loan categories were much smaller in share and they accounted for 0.2% and 1.8% of total loans, respectively.

A development of credit risk can be seen by observing how banks perceived the movement of risk according to the expected credit losses, i.e. in accordance with the IFRS 9.

Phase 1 loans, which still represent by far the largest category, increased during every quarter in both 2022 and 2023[19], and their share in total loans reached 80.3% at the end of the reporting year.

Graph 4.6

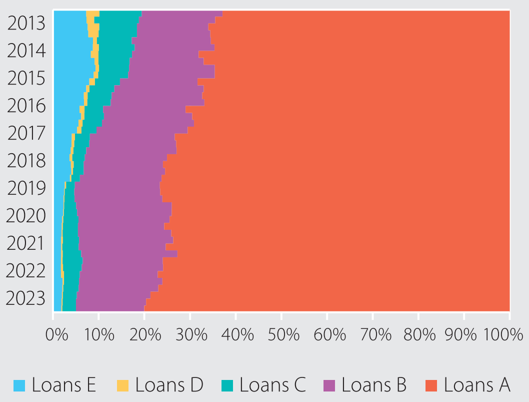
Distribution of the share of NPLs and their share at the system level, %, 2013–2023[20]



Source: CBCG

Graph 4.7

Trends of classified loans, 2013–2023

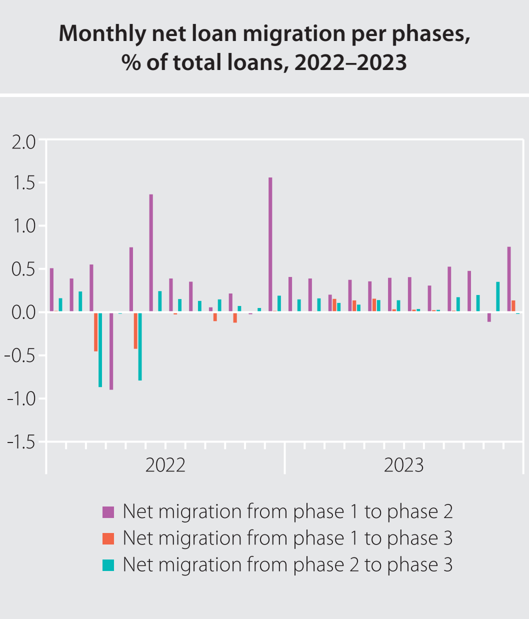


Source: CBCG

[19] Phase 1 includes financial instruments whose credit risk has not significantly deteriorated or which had low credit risk at the time of reporting.

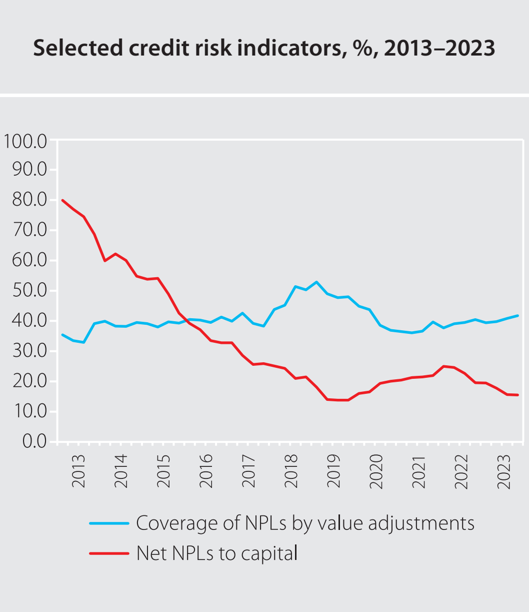
[20] Reading from the bottom up, the graph's horizontal lines for each year mark the minimum, first quartile, second quartile (median), third quartile, and the maximum.

Graph 4.8



Source: CBCG

Graph 4.9



Source: CBCG

During the whole 2023, banks transferred significantly less loans to phase 2 compared to the previous year (graph 4.8)[21]. At end-2023, the annual decrease in phase 2 loans amounted to 3.3% and their share in total loans decreased from 16.2% in 2022 to 14.6%.

Phase 3 loans, i.e. those loans with objective evidence of loan losses[22], recorded a continuous annual fall during each quarter (falling down to 3.7% at end-2023), while their share decreased from 5.7% in 2022 to 5.1%. These loans also recorded quarterly declines in 2022.

The share of NPLs in total loans of non-financial institutions was 9.6% at end-2023, while it amounted to 9.9% in 2022. Credit risk was less pronounced in the retail sector. The sum of retail NPLs decreased by 7.6% and their share in total retail loans stood at 3.4% at end-2023. The share of retail loans that are more than 30 days past due in total retail loans was 2,7%.

The coverage of NPLs by value adjustments for loan losses (only for NPLs) amounted to 41.7% at end-2023, while they stood at 40.4% at the previous year-end (graph 4.9). The ratio of net ("uncovered") NPLs and capital dropped year-over-year from 19.6% in 2022 to 15.5% in 2023.[23]

During 2023, banks continued to offer their clients the conversion of interest rates from variable to fixed rates (for previously approved loans), and for new loans they mostly approved loans with a fixed interest rate as a result, among other things, of the CBCG`s initiative implemented in mid-2022, in an era when the ECB was gearing up to raise its benchmark interest rates.

[21] Phase 2 covers financial instruments that saw a significant increase in credit risk, but there was no objective evidence that loan losses had occurred.

[22] Phase 3 contains financial assets which had objective evidence of incurred loan losses.

[23] In order to achieve consistency of the coefficients in this paragraph, non-performing loans include both interest receivables and prepayments and accruals, because there is no separate classification of quality for interest and prepayments and accruals for value adjustments but only for the total amount/sum: principal, interest and prepayments and accruals.

Thus, the share of loans with a variable interest rate decreased from 25.2% to 12.2% during 2023, and it further decreased at the beginning of 2024, down to 11.1% at the end of February. The share of loans with a variable interest rate, which is particularly significant, also decreased significantly in retail loans, from 12.1% at the end of 2022 to 4.2% at the end of 2023 and 3.8% at the end of February 2024. With that, potential vulnerabilities in that matter practically ceased to exist.

4.3. Liquidity

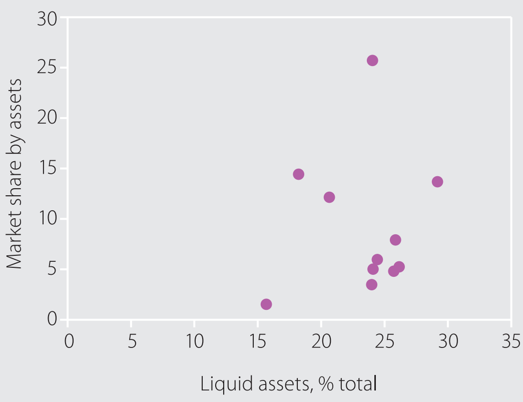
Banks' liquid assets amounted to 1.6 billion. euros, recording the year-over-year decline of 19.6% in the reporting year although there was a significant increase in quite liquid securities with a high credit rating. At end-2023, liquid assets of banks accounted for 23.7% of total assets, which is 7.3 pp less year-on-year (graphs 4.10 and 4.11).

Banks maintained satisfactory daily and ten-day liquidity levels during the entire reporting year. Significant funds were available to banks for their liquidity needs on a very short notice, primarily deposits that banks hold in settlement accounts with the CBCG (besides reserves requirement), which amounted to 685.2 million euros or almost 42.8% of liquid assets at end-2023. Banks hold significant funds with foreign financial institutions and these are primarily demand deposits. They amounted to 493.7 million euros or 30.8% of liquid funds at the end of the year. Also, banks held cash in vaults in the amount of 264.2 million euros.

The loan to deposit ratio increased year-on-year and reached 74.8%, as the increase in loans (435.1 million euros) was more than two times the increase in deposits (248.9 million euros).

Graph 4.10

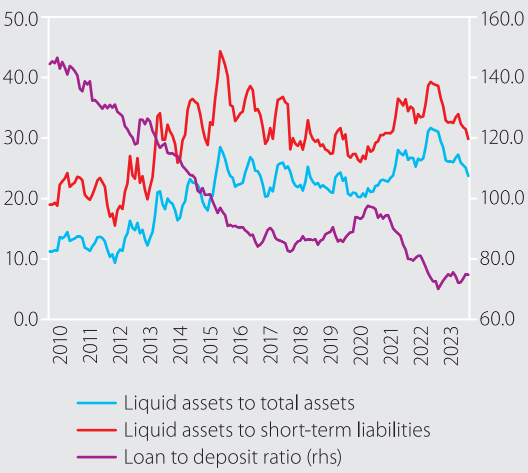
Liquid assets of banks as per market share, %, 31/ 12/ 2023



Source: CBCG

Graph 4.11

Liquid assets and loans to deposits ratio, %, 2010–2023



Source: CBCG

Demand deposits accounted for the main share in the structure of deposits by the maturity. At end-2023, they accounted for 82.7% of total deposits or 3.8 pp more than at the end of the previous year. For the purpose of comparison, this share was 42% at end-2013. This could be explained with a downtrend in deposit interest rates so term deposits became less attractive.

The ratio of liquid assets to financial liabilities up to one year stood at 29.8% and it was 8.7 pp lower year-on-year. If we observe the ratio of liquid assets to financial liabilities up to three months, then this ratio amounted to 32.2%. Both indicators were higher at the end of the year due to a decrease in liquid assets.

The ECB has passed a decision to extend the *EUREP*[24] facility to the CBCG until January 2023 (later extended to January 2024) The extension of the credit line by the ECB represents additional safety for maintaining the stability of the country's financial system, because in case of need, the *EUREP* facility allows Montenegro to obtain funds to support systemic liquidity in the amount of up to 250 million euros.

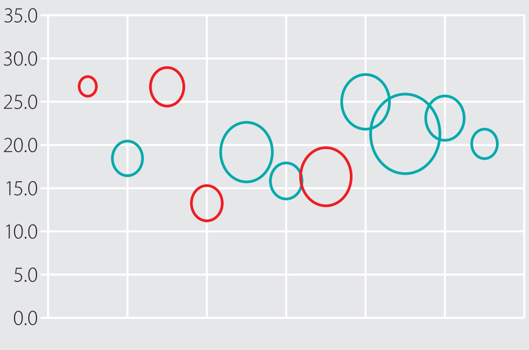
4.4. Solvency

Observed by capital indicators, at the aggregate level, banks were adequately capitalized. At the system level, the total capital adequacy ratio stood at 20.3% at the end of the year, while the share capital adequacy ratio was 19.7%. During the year, all banks in the system had capital ratios above the prescribed regulatory minimums. At the four largest banks, the total capital adequacy ratio was in the range of 16.3% to 25% (graph 4.12).

One small bank and one medium-to large- sized bank recapitalized during the reporting year. One of the banks increased the share capital by issuing shares. The other bank increased the share capital by converting preferred non-cumulative shares into ordinary shares. In 2022, the same bank converted the subordinated debt into preferred non-cumulative shares.

Graph 4.12

Capital adequacy ratio, %, 31/ 12/ 2023 (as per market share: bubble size and annual change: green - growth, red - decline)



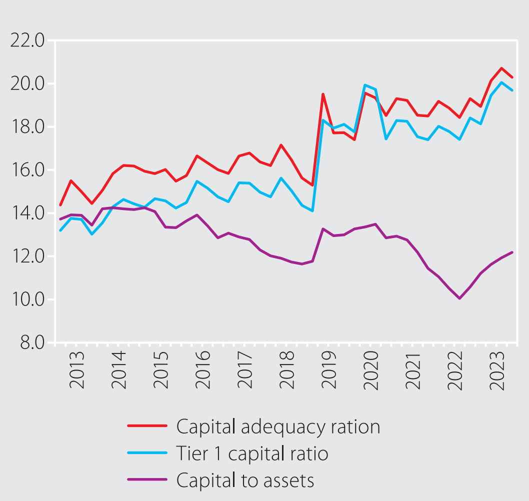
Source: CBCG

[24] *EUREP - Eurosystem repo facility for central banks.*

The total capital of banks achieved a significant year-over-year growth of 21.4% at the end of 2023 that reached 820.3 million euros, primarily due to the profits of banks realized during the reporting year. The share of total capital in total assets and liabilities of banks rose from 10.5% in 2022 to 12.2% in 2023, while share capital[25] accounted for 9% (graph 4.13).[26]

Graph 4.13

Selected capital ratios, %, 2013–2023



Source: CBCG

4.5. Profitability and interest rates

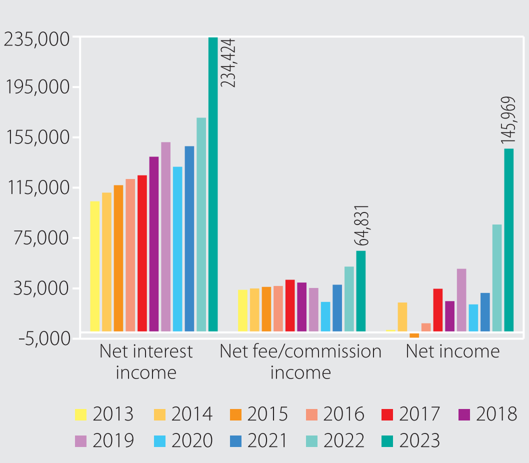
Net profit of banks amounted to 146 million euros in 2023, which was 75.3% more than in the previous year. Four largest banks, which individually hold more than 10% of market share in terms of assets, recorded a profit of 110.1 million euros. No bank in the system operated with loss.

Interest income and similar revenues were 34.3% higher year-on-year at the system level. In recent years, income from fees and commissions have gained importance, and they amounted to 58.7% of interest income in 2023. After a decline in 2020, these revenues recorded a growth over the past three years that reached 25%.

Net interest and similar income were 37.4% higher year-on-year, while net income from fees and commissions increased by 23.9% (graph 4.14).

Graph 4.14

Selected income statement components, in thousand euros, 2013–2023



Source: CBCG

[25] Refers to regulatory capital.

[26] Refers to balance sheet/accounting capital.

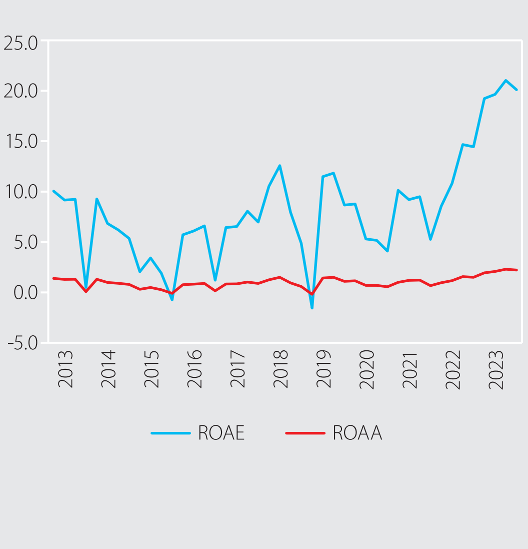
Allowances for impairment decreased significantly (from 30.7 million euros in 2022 to -0.3 million euros in 2023), while provisioning costs had a smaller positive impact on the result compared to 2022 (-21.4 million euros) and amounted to -0.5 million euros.

In line with the better financial result, the ROAA increased to 2.2% in 2023 from 1.5% in 2022, while the ROAE increased to 20.1% from 14% (graph 4.15).

The breakdown of return on average capital shows that net interest income had the largest positive contribution (graph 4.16). Also, provisioning costs and allowances for impairment, as a part of other expenses, gave a positive contribution as the negative expenses reflects positively on the result. On the other hand, regular expenses accounted for the largest share of expenditure, these being personnel expenses and general and administrative expenses. At the system level, banks` employee expenses increased by 12.4% year-on-year.

Graph 4.15

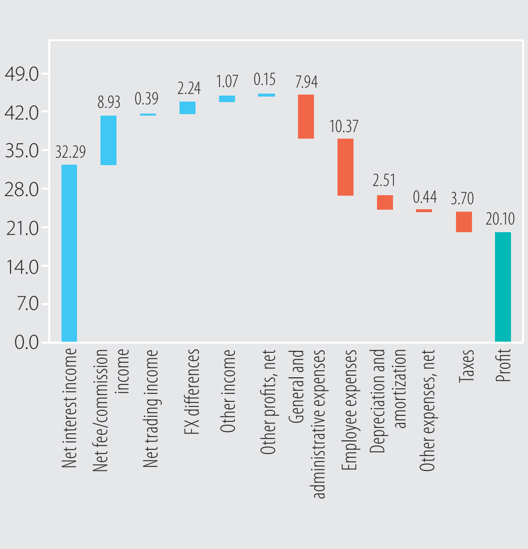
Selected profitability ratios, %, 2013–2023[27]



Source: CBCG

Graph 4.16

Components of banks' income statements in 2023, share in ROAE, percentage points[28]



Source: CBCG

[27] Quarterly data for the first three quarters refer to cumulative amounts - first three months, first six months, and first nine months of the year, respectively, and for the annual level they were transferred by multiplying by 4, 2, and 4/3, respectively.

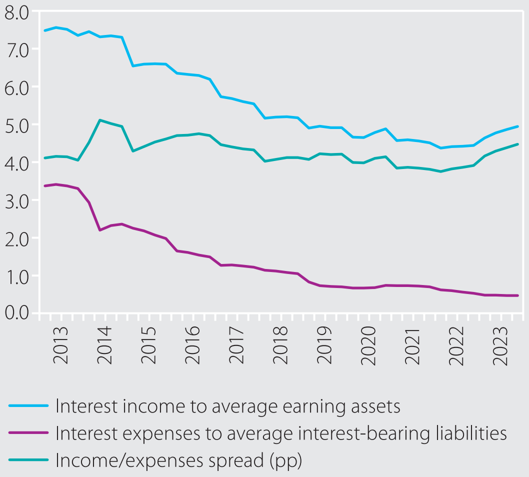
[28] From the graph above, net profit/loss: (1) due to derecognition of financial instruments that are not measured at fair value through profit and loss statement, (2) financial instruments disclosed at fair value in income statement that are not held for trading, (3) from impairment of financial instruments that are not measured at fair value through income statement.

The difference between the interest income to average earning assets ratio and the interest expenses to average interest-bearing liabilities ratio was higher at end-2022 and amounted to 4.5 pp (graph 4.17). The spread per banks was very uneven, ranging from 1.2 pp to 5.8 pp. Average earning assets was 20.3% higher than in 2022, accounting for 78.9% of average assets.

The growth cycle of the weighted average lending interest rate (for the entire loan portfolio of banks, i.e. on outstanding principal/debt) that had started in mid-2022 continued throughout the entire 2023. During the year, the weighted average lending interest rate rose by 0.67 pp (graph 4.18). As for the weighted average deposit interest rate, its annual decline was 0.05 pp. At end-2023, the weighted average lending interest rate was 6.59%, while the weighted average deposit interest rate was 0.21%. Thus the interest spread amounted to 6.38 pp at the year-end.

Graph 4.17

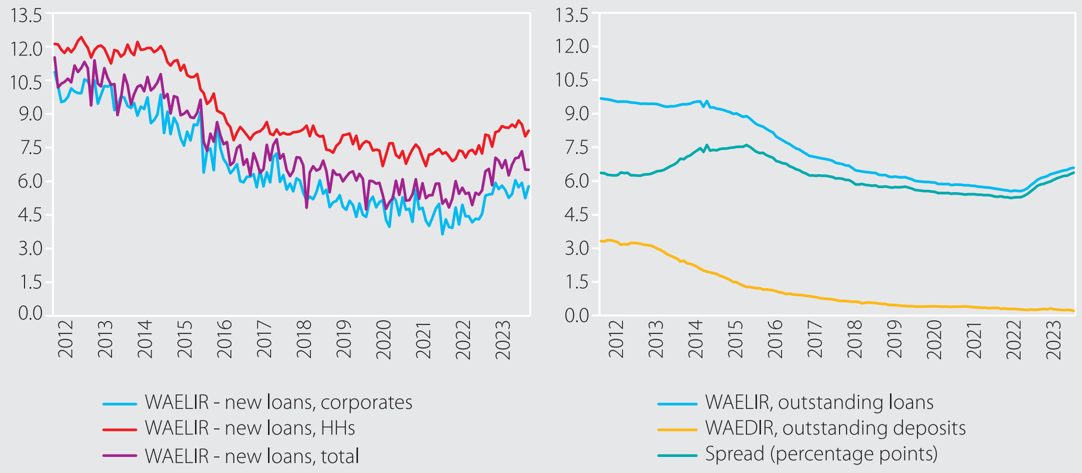
Income/expenses spread (percentage points) and its components (%), 2013–2023[29]



Source: CBCG

Graph 4.18

Selected interest rates, %, 2012–2023



Source: CBCG

[29] Quarterly data for the first three quarters refer to cumulative amounts - first three months, first six months, and first nine months of the year, respectively, and for the annual level they were transferred by multiplying by 4, 2, and 4/3, respectively.

Lending interest rate on new loans for the entire 2023 (weighted by monthly amounts of new loans) was 1 pp higher compared to 2022 and it amounted to 6.69%. This growth was driven by higher interest rates on new corporate loans, where investments were 1.04 pp more expensive than a year ago. According to the same calculation method, interest rates on new retail loans were 0.93 pp higher.

4.6. Sensitivity analysis

Sensitivity testing using four credit risk tests showed a significant resilience of banks since all of them went through this testing (table 4.1)[30].

Table 4.1

Sensitivity analysis of credit and market risks, 31/ 12/ 2023

No.	Test	Solvency ratio after the test, %					Amount of lacking capital at the sector level, 000 euros	Number of banks that failed the test
		Minimum	Quartile 1	Quartile 3	Max	System		
		Solvency ratio before the test, %						
		13.3	17.4	24.0	26.8	20.3		
Credit risk test								
1.	Negative reclassification of classified loans' structure[31]	11.5	14.2	21.7	23.9	18.3	0	0
2.	Increase in non-performing loans by 30% and value adjustments by 40%	10.3	16.4	23.3	25.9	19.5	0	0
3.	Large debtor bankruptcy[32]	11.3	16.2	23.0	25.4	19.2	0	0
4.	Largest debtor bankruptcy	9.2	14.3	21.2	22.4	17.8	0	0
Market risks test								
1.	Interest rate increase by adding 2 pp to cumulative gap of interest rate sensitive positions with 181–365 days maturity	11.5	17.0	24.9	28.9	19.9	0	0
2.	Adjustment of net open FX position by 20%	13.3	17.4	24.2	26.7	20.3	0	0

Source: CBCG

As expected, the sensitivity to interest rate risk and the sensitivity to FX risk test showed minor negative impacts on the solvency ratio which, in the first case, declined by 0.4 pp to 19.9% at the sector level, while in the latter case, it rose by 0.1 pp (table 4.1).

The sensitivity to liquidity risk test, actually tested as a risk of deposit run, was conducted through 11 extremely severe and less probable tests (table 4.2). In addition to the most liquid banks' funds in the country, the tests very conservatively assumed the possibility of using only 50% of the reserve require-

[30] Observed in relation to the statutory minimum for total own funds that amounts to 8% of total exposure for all banks.

[31] Reclassification of the structure of classified loans and receivables is implemented as follows: 1) category A – "pass" - calculated in the amount of 90%, and category B was increased by 10% of loans from category A, 2) category B – "special mention assets" – calculated in the amount of 95% of the increased category B, 3) category C – "substandard assets" – calculated in the amount of 5% from category B, whereby 95% of category C was kept, 4) category D – "doubtful assets" - calculated in the amount of 5% from category C assets, while 95% from category D was kept, and 5) category E - "loss" amount was increased by 5% of the amount from category D assets.

[32] Median value of the debt of banks' 20 top debtors.

ment.[33] On the other hand, the possibility of using bank funds in the form of demand deposits held abroad, which amounted to 493.7 million euros at end-2023, was not assumed nor did the remaining 50% of the reserve requirement (145.3 million euros). Also, the options of selling non-cash assets (e.g. securities) or taking loans from parent banks, other participants in domestic or foreign markets or possibly from the CBCG or the government, were not taken into account.

Table 4.2

Sensitivity analysis of liquidity risk, 31/ 12/ 2023

No.	Test	Coverage by immediately available liquid assets, 000 euros (953,030 as at 31 December 2023)			Coverage by available liquid assets, 000 euros (1,098,345 as at 31 December 2023)		
		Lacking amounts (-), sector, 000 euros	Number of banks that failed the test	Lacking amounts (-) for banks that failed the test	Lacking amounts (-), sector, 000 euros	Number of banks that failed the test	Lacking amounts (-) for banks that failed the test
1.	Withdrawal of 20% of deposits	-141,605	7	-199,512	3,710	5	-115,828
2.	Withdrawal of 20% of demand deposits	23,052	4	-138,479	168,367	2	-73,538
3.	Withdrawal of 10% of household demand deposits and 30% of corporate demand deposits	-143	5	-152,426	145,172	3	-82,227
4.	Withdrawal of 20% of household time deposits and 30% of corporate time deposits	758,134	1	-1,264	903,449	0	0
5.	Withdrawal of deposits of the largest depositor	641,593	1	-80	786,908	0	0
6.	Withdrawal of 50% of deposits of 10 largest depositors	417,665	3	-26,917	562,980	2	-15,626
7.	Withdrawal of 30% of government deposits	758,036	0	0	903,351	0	0
8.	Withdrawal of 50% of government deposits	628,041	1	-2,182	773,356	1	-139
9.	Withdrawal of 30% of non-resident deposits	565,998	2	-50,355	711,313	2	-32,305
10.	Withdrawal of 30% of deposits by non-residents from Russian Federation and Ukraine	841,471	0	0	986,786	0	0
11.	Withdrawal of 50% of deposits by non-residents from Russian Federation and Ukraine	767,098	0	0	912,413	0	0

Source: CBCG

Even under these rigorous assumptions, testing expectedly indicated good liquidity of the banking sector as a whole although the most problematic was the first test where the sector as a whole could respond to the withdrawal of deposits only after using 50% of the required reserve funds. In all other tests, inadequacy of liquid funds to cover deposit outflow would appeared in some of the banks, and the most pronounced inadequacy even after the use of 50% of reserve requirement funds occurred after the conduct of the third test with three banks failing the test with the liquidity shortfall of 82.2 million euros.

However, with the use of deposits that banks have in accounts abroad and with the full amount of reserve requirement, every bank would pass all tests. Again, it should be kept in mind that these conditions also exclude some of the abovementioned additional layers of liquidity in the form of sale of securities or potential borrowings from other entities.

[33] Available liquid funds represent free liquid funds increased by 50% of reserve requirement. Pursuant to the Decision on Bank Reserve Requirement to be Held With the Central Bank of Montenegro (OGM 19/22), a bank may use up to 50% of the reserve requirement without the fee charged by the CBCG, provided that it returns taken funds by the end of the working day. With the CBCG fee of 12% per annum (reduced to 6% under temporary measures to mitigate the negative effects of the coronavirus pandemic and situation in Ukraine), a bank can use its reserve requirement after the end of the working day.

4.7. Macro-stress testing

The testing of resilience of credit institutions to stress shows that credit institutions are capable of withstanding the materialization of real and hypothetical risks at the capitalization level from 2022. The results of stress testing indicate the satisfactory resistance of the banking system of Montenegro to possible adverse macroeconomic trends. Projections for 2023 and 2024 show that in the case of all three scenarios, all banks would still have the capital adequacy ratios above the regulatory minimum of 8%. The basis for stress testing (performed in 2023) was data for the period up to 31/12/2022. Considering the length of the time series, macro-stress testing is applied to eight out of eleven banks in the banking system, which together make up 94% of the total credit activity of the banking sector.

Macro-stress testing projects the rate of non-performing loans in the case of realization of three different scenarios - baseline scenario, milder worst-case scenario and severe worst-case scenario (so-called hypothetical scenario) of economic trends in 2023 and 2024. The scenarios describe the movement of key macroeconomic variables: GDP, unemployment rate, inflation, earnings, stock market index and real estate prices. Table 4.3 gives an overview of trend assumptions for macroeconomic indicators in two scenarios in 2023 and three scenarios in 2024.

Table 4.3

Macroconomic and financial variables assumptions, 2023/2024

	2023		2024		
Scenario	Baseline	Worst-case	Baseline	Worst-case	Hypothetical
GDP growth rate	3.4%	-0.5%	3%	-1%	-2.7%
Decline in average unemployment rate	-1	1	-0.5	1.5	1
Average annual inflation	8%	10%	5%	7%	4.2%
Annual earnings growth	5%	1%	2%	0.5%	0.7%
MONEX20 index annual growth	7%	2%	3%	-2%	5.6%
Annual real estate price growth	2%	-3%	-2%	-5%	1.8%

The baseline scenario is based on the CBCG projections of movements of the given indicators in 2023, published in the CBCG`s Annual report, as well as on the projections of international institutions on the movements of the given macroeconomic indicators in 2024.[34]

The key feature of the worst-case scenario is persistently high inflation, mainly driven by energy price shocks and the „second round“ effects, which are partially offset by the resistance of foreign and domestic demand. In this scenario, the spiral of wages and prices leads to higher and longer lasting inflation, with negative effects on private consumption, investments and especially on the unemployment rate. Finally, high and permanent inflation coexists with low or negative economic growth in 2023 and 2024.

The severe worst-case scenario, that is, the hypothetical scenario, is based on historical data from 2012 when Montenegro`s economy recorded a decline of -2.7% and was exposed to inflationary pressures.

[34] The growth rate of the stock market index corresponds to the growth rate of the MONEX20 in 2023 and 2024 given by the Capital Market Authority.

This scenario does not assume the projection of unfavourable macroeconomic developments, but rather describes the unlikely materialization of risks from the macroeconomic environment, which have been assessed as relevant for the operations of the banking sector in Montenegro. Unlike the previous two scenarios, the hypothetical scenario was created only for the year 2024.

In addition to the variables presented in table 4.3, the model for stress testing also includes a set of additional variables: the banking competition index (HH index), foreign direct investments, the level of interest rates, as well as the level of credit activity of banks. All data were collected on a quarterly basis.

In this phase, by applying an adequate econometric model on a sample consisting of a set of macroeconomic and banking indicators (independent variables) and the share of non-performing loans in total loans - NPL (dependent variable), we obtain the parameters that best describe the dependence of NPL and macroeconomic/banking indicators.

$$npl_t = \beta_0 + \beta_1 npl_{(\text{t-1})} + \beta_2 X_{it} + \sum_{k=0}^{t} \beta_3 X_{it-k} + time\_dummy + e \qquad (1)$$

The share of non-performing loans in total loans is used as an independent variable npl_t, i.e. a measure of credit risk, $time\_dummy$ is a vector of artificial time variables that control structural breaks in the independent variable, X_{it} is a vector of independent variables that include macroeconomic and banking indicators, e is standard error in the regression, while β are the parameters of the independent variables estimated by the model. All macroeconomic series and banking variables have their own theoretical and empirical background, which is the reason for their incorporation into the model.

The model uses time series referring to the period 2006–2022 for seven banks and 2014–2022 for one bank. Gross earnings, inflation, and credit series have been adjusted to account for changing definitions of these variables. Also, the stationarity of the series has been checked. Given the nature of quarterly data, the series have been adjusted for seasonal variations.

Based on the parameters obtained by model (1) which was applied to each bank individually, and the given assumptions for 2023 and 2024, the NPL rates in 2023 and 2024 were projected.

Model (1) was applied to each bank individually. The level of gross domestic product (GDP) has the most significant influence on the level of non-performing loans for each of the eight tested variables. Variables of unemployment, real estate prices, stock market index, inflation and earnings have a partial influence and/or statistical significance and only for certain banks in the system.

Based on model (1), forecasts of the level of NPLs in 2023 and 2024 were made for all three scenarios. Based on the given NPL projections, i.e. of the percentage share of non-performing loans in total loans, capital adequacy ratios were calculated for individual banks both for 2023 and 2024. When calculating the capital adequacy ratio, the assumption of a static balance sheet and income statement, i.e. constant values without including a dynamic component, was taken into account. Such approach makes it possible to achieve greater objectivity and consistency in the calculation. Also, when calculating the capital adequacy ratio, it was assumed that the risk parameters and portfolio structure remain unchanged during the observed period.

It should be taken into account that the model cannot predict factors in the banking sector in 2023 and 2024 that cannot be quantitatively covered (for example, the sale of a part of non-performing assets, removing „E" category loans from balance sheet to internal records), and which can influence the level of NPLs to a larger or a lesser extent. Also, changing the assumptions of the two scenarios would result in a different outcome of the stress test. Nevertheless, the projections of the rates of non-performing loans in the past few years indicate that, in most cases, they are very similar to the actual rates of NPLs.

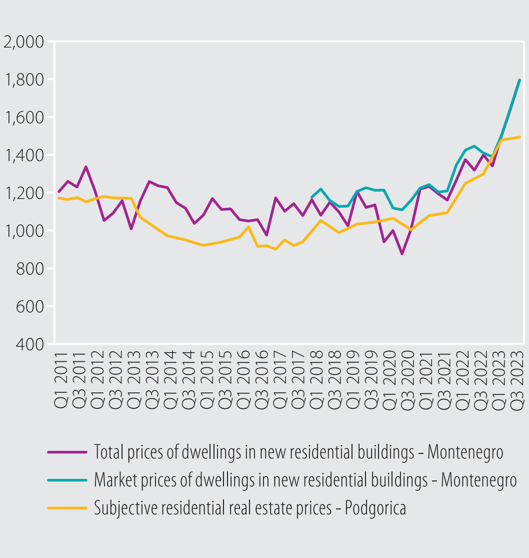
Same as in the case of the baseline and the worst-case and hypothetical scenario, the results of the stress tests indicate the satisfactory resistance of the banking system of Montenegro to unfavourable developments in the macroeconomic environment. Projections for 2023 and 2024 show that in the case of all three scenarios, all banks would still have the capital adequacy ratios above the regulatory minimum.

4.8. Real estate markets

Results of the CBCG December 2023 survey suggest that the average price of a real estate in Podgorica amounted to 1,493 euros per square meter, which represents the year-on-year increase of 15% (graph 4.19). The price of an apartment in a new building[35] in the area of Podgorica had a higher value in December 2023 (1,862 euros) and recorded the annual growth of 26.1% (annual growth in the same period of the previous year was 19.9%). When it comes to the whole country, a square meter of a newly built apartment cost 1,790 euros, with the annual growth rate of 27.9%. It should be noted that the differences in the prices dwellings in new residential buildings depend mostly on the share of the Montenegrin Fund for Solidarity Housing Development, so the higher the share of these housing units, the lower the prices of newly built housing units and vice versa. In 2023, the average price of apartments of solidarity housing development was 589 euros for a square meter.[36]

Graph 4.19

Prices of residential buildings obtained using the Hedonic Index and prices of of dwellings in new residential buildings, in euros[37]



Source: CBCG and MONSTAT

Based on the survey conducted by the CBCG[38], 25% of real estate agencies recorded turnover increase in 2023. Most of the real estate agencies (82.1%) estimated that the average price per square meter increased from 5% to 50%. The prevailing opinion among the agencies is that the prices will not change in the coming period. They also believe that the demand will not decrease but remain the

[35] MONSTAT data.

[36] As per the Hedonic Index obtained from the CBCG survey where the prices do not reflect actual prices but essentially represent subjective prices of the real estate owners, i.e. the prices below which they would not be willing to sell their property.

[37] The market price per square meter of an apartment in a new building includes apartments sold by companies, while the total price in a new building also includes apartments sold by institutions of solidarity housing development.

[38] For the purpose of the analysis, 164 real estate agencies were surveyed, most of which have their activities in Podgorica and the coastal region of Montenegro. Answers were submitted by 28 agencies.

same or even increase. During the year, demand was concentrated in apartments worth from 1,580 to 2,360 euros/m^2. The most demanded apartments were in the wider centre of the capital, as well as in cities in the southern part of the country.

Housing loans are a significant determinant of demand on the real estate market, and the most important trends are presented in Table 4.4.

Table 4.4

Housing loans, 2015 - 2023

Year	Stock at end-year, in million euros	Year-over-year growth, %	% of GDP	% of total loans
2015	284.3	-2.8	7.8	11.9
2016	315.6	11.0	8.0	13.1
2017	323.8	2.6	7.5	12.0
2018	360.0	11.2	7.7	12.3
2019	395.2	9.8	8.0	12.9
2020	422.3	6.9	10.1	13.4
2021	431.5	2.2	8.7	12.8
2022	493.1	14.3	8.5	13.5
2023	501.0	1.6	7.3	12.2

Source: CBCG and MONSTAT

According to the survey on the banks' lending activity, the credit standards for housing loans had been eased until end-Q4 and tightened as of Q42023. The factors that affected the easing of lending standards in the first three quarters of the year were the willingness to take risks and greater competition from other banks. The most significant factor that influenced the break in the trend of easing credit standards for housing loans was the increase in the risk of required collateral. According to banks' expectations, credit standards will maintain a similar or the same level at the beginning of 2024. A similar trend was followed by the share of rejected applications for the approval of housing loans, which decreased during the first three quarters and then, in the last quarter it slightly increased. Banks' assessment of the demand for housing loans generally pointed to growth despite milder fluctuations in the third quarter. Finally, the banks considered that the overall growth of the household demand for loans during 2023 was mainly due to the increased financial needs of the population for refinancing, purchasing real estate, and purchasing durable consumer goods.

The share of private housing loans in GDP was 7.3% and it was 1.2 percentage points lower than at the end of 2022. The share in GDP was still significantly lower than the EU average (over third of the GDP value), which may be the result of lower solvency of citizens, but also less favourable lending conditions compared to the EU countries.

Looking at a share in total loans, housing loans declined (by 1.3 pp) compared to 2022 and accounted for 12.2%, rising 1.6% year-over-year. In 2023, banks approved 4.2% more new housing purchase and renovation loans, in the amount of 121.2 million euros. Interest rates on new housing loans recorded a growth of 1.25 pp) reached the level of 6.22%[39] in 2023.

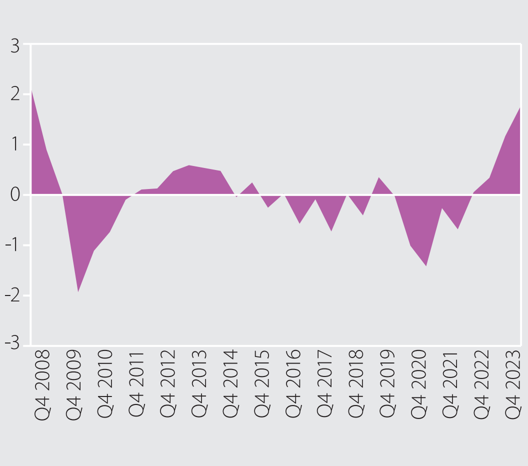
[39] The rate was obtained by weighting monthly interest rates on new debt with monthly annuities.

Considering the importance of the real estate market for the business cycle and financial stability, a risk assessment of the market was performed. For this assessment, five indicators were used, monitored in the period 2007-2023, which approximate the real (fundamental) value of real estate. Any major deviation from the calculated real estate value could signal increased risk in the real estate market which, as the financial crisis has shown, may affect financial stability. Considering the period of high inflation in 2022 and 2023, certain variables are deflationary in order to subtract the price effect.

Therefore, six series were used for this analysis, which describe the market value, domestic and foreign demand, and the offer on the real estate market. The prices of dwellings in new residential buildings in Montenegro approximate the market value of real estate. The ratio of net earnings and the price of dwelling in new residential building as well as the percentage growth of housing loans in Montenegro approximate the domestic demand for real estate in Montenegro through the inclusion of the citizens` purchasing power and the demand for external sources of real estate financing. The share of foreign direct investments (FDI) in real estate in total FDIs approximates the foreign demand for real estate, which is very important considering that Montenegro is recognized as a tourist destination and has had a high influx of non-residents in the past period. The level of supply on the real estate market is described through the subjective assessment of real estate owners about the price of their real estate and through the share of construction in GDP.

Graph 4.20

Deviation from the real value of real estates during the period 2008-2023



Source: CBCG

Note: When interpreting the graph, it should be taken into account that the HP filter method is sensitive at the beginning and the end of the calculation period and that the values are not comparable to the middle of the series (Hamilton, 2018).[40] Also, the length of the series prevents a precise calculation of the deviation of real estate values from its fundamentals in 2008.

These series are available for the period 2007-2023, on semi-annual basis. The *Principal Component Analysis* was applied to these five series, which creates a new variable that includes the common variability of the given series during the specified period.

In order to estimate the deviations from the real value of real estates, cyclic movements were calculated using the HP filter method (applying the recommendations of Ravn and Uhlig (2004) in the estimation). The given cyclical trends are presented in graph 4.20.

It can be concluded that real estate prices are very much affected by macroeconomic trends, but also by shocks such as the global financial crisis and the coronavirus pandemic.

Based on the given graph, it can be estimated that the period up to 2008 had been characterized by overestimated real estate values on the market (boom), while the period 2008–2011 was characterised by very underestimated real estate values in relation to its fundamentals (bust). This boom

[40] Source: Hamilton, James D. „Why you should never use the Hodrick-Prescott filter“, *Review of Economics and Statistics* 100.5 (2018): 831-843.

and bust cycle was a consequence of the global financial crisis that hit Montenegro precisely because of the overemphasized price bubble on the real estate market. The period after the financial crisis has been characterized by smaller fluctuations in real estate prices compared to the fundamentals, which, considering their magnitude, did not represent a financial risk.

In the frist pandemic year (2020), real estate prices were much below the fundamental values. Namely, in order to protect the health of the population and prevent the spread of the pandemic, Montenegro was in the lockdown and applied a more rigid international transport policy, which resulted in weaker demand, investments and lending, so the prices were slightly underestimated.

In the years after the pandemic, specifically in 2022 and 2023, the real estate market recovered and warmed up due to several factors. The first factor was the accumulated savings from the period 2020-2021 due to lower consumption during the pandemic period. The second factor was the growth of real wages, as a result of the implemented "Europe Now!" program which caused a real growth in wages in 2022 of 18.4%. Average real earnings also increased in 2023, by 2.4%, mainly due to the increase in wages in the public sector. The third important factor was the high level of FDI in real estate in 2023, which accounted for as much as 54% of total foreign direct investments. It can be said that it was primarily the foreign demand that caused the growth of real estate prices significantly above their fundamentals, precisely because the real wages growth was mild compared to the growth of FDI in real estate. A high influx of non-residents who found refuge in Montenegro after the outbreak of the war in Ukraine, certainly contributed to the high demand for real estate in 2023.

It is important to note that the high growth of real estate prices in the past period was seen in many countries of the European Union and the region, and the trends in Montenegro do not deviate from European trends. Analyses made for the purposes of the CBCG`s Annual Report also indicate that real estate prices will stabilize in the coming period. However, the shortcomings of this analysis lie in short series that do not include the complete business cycle from the period before 2007, but also the sensitivity of the HP filter method to the length of the series, i.e. its final values (beginning and end). The analysis would be improved if additional series were available, such as the amount of rent, the level of investments in the construction sector, as well as other indicators that can more precisely describe the factors affecting the real estate market in Montenegro.

4.9. Capital Market

The turnover of a mere 12.3 million euros was recorded at the Montenegro Stock Exchange (0.2% of GDP) in 2023, as compared to 78.2 million euros in the previous year.

Trading with shares made up 94.2% of the secondary turnover, of which trading with shares of companies other than investment funds amounted to 11.5 million euros and trading with shares of investment funds to a mere 20.9 thousand euros. The rest of the secondary turnover (0.7 million euros) related to bond trading, and almost entirely to corporate bond trading. There were no primary issues.

At end-2023, the SE indices MONEX and MNSE10 stood at 15,583.13 and 1,063.32 points, respectively, recording the respective year-on-year growths of 10.2% and 5.4%. Despite the growth in the previous few years, the values of the MONEX index were two to three times lower compared to the period of strong expansion in 2007, which was followed by a decline in the value of that index, and from which it has never recovered.

4.10. Payment Systems

The payment system of the CBCG, which consists of the Real Time Gross Settlement (RTGS) system and the Deferred Net Settlement (DNS) system, worked almost without interruptions and in accordance with the time schedule of the system during all 252 working days in 2023 (this excluding the extraordinary working days of 30 and 31 December at the Ministry of Finance`s request). There were short interruptions in the operation of the system with the duration of 102 seconds (2 minutes in June and 100 minutes in September) so the availability of the system during the year was 99.93%.

A total of 13.7 million payments worth 21.9 billion euros were effected, which is 8.9% and 20.1% more than in 2022, respectively. Of the total number of payments, 37.9% were effected in the RTGS system, with the share in the total value of payments of 94.1%. On the other hand, 62.1% of the total number of payments was effected in the DNS system (5.9% of the total value of payments).

A very small number of rejected and pending payments was recorded, which indicates that liquidity of participants in the system was excellent and that the reasons for putting payments on hold and/or refusing payments were primarily of technical and operational nature. For example, due to the lack of funds in the account, 43 payments were put on hold (all of them in the RTGS system), and all were made following the inflow of funds during the day.

4.11. Macroprudential policy

The CBCG adopts macroprudential measures as part of the activities it carries out with a view to preserving financial stability and with which it targets the prevention or mitigation of certain systemic risks. First of all, CBCG uses capital buffers, as protective layers of capital. Capital buffer were introduced under the Law on Credit Institutions (OGM 72/19, 82/20, 8/21) which transposed the provisions of the CRD IV package into the Montenegrin regulatory system (Regulation (EU) No. 575/2013 and Directive 2013/36/EU) that also provided for the implementation of Basel III in the EU. There are four capital buffers: capital preservation buffer, countercyclical capital buffer, structural systemic risk buffer, and buffer for other systemically important credit institutions (O-SICI).

In accordance with its Macroprudential Policy Framework[41], the CBCG may deploy other available macroprudential measures. Additionally, besides macroprudential measures in the strict sense of the word, the CBCG may deploy other measures to preserve financial stability, as was the practice before the adoption of the Law on Credit Institutions, and as it continues to do.

At the end of 2023, the CBCG actively used three of the four capital buffers (table 4.5), and the request for the combined buffer ranged from 2.75% to 3.25%, i.e. up to 3.28%, taking into account the specific countercyclical capital buffer rate. In addition to the macroprudential capital requirements, additional individual capital requirements within pillar II were also in force as well as the mainc capital requirements that are the same for all banks. Thus, the minimum requirement for the Common Equity Tier 1 capital amounted to 9.15%[42] at the system level. Minimum requirements for Tier 1 capital amounted to

[41] https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_naslovna/macroprudential_policy_framework.pdf

[42] Percentages in this and the following sentence refer to all capital requirements, including additional capital requirements within pillar II and capital buffers.

11.21%, and the minimum requirement for own funds amounted to 13.96% at the system level. However, many banks allocated surplus capital, which resulted in the actual capital ratio of 19.7% for the Common Equity Tier 1 and and Tier 1 capital, and 20.3% for total capital ratio (graph 4.21).

Table 4.5

Current capital buffers, %, 31/ 12/ 2023

Buffer	Buffer level
Capital conservation buffer[43]	1.25%
Structural systemic risk buffer[44]	1.5%
Buffer for ther systemically important institutions[45]	1.25%-2%
Countercyclical capital buffer[46]	0%

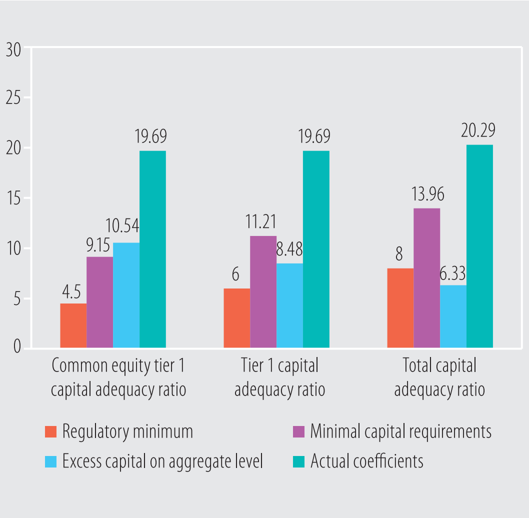
Source: CBCG

Capital preservation buffer is regulated under the Law on Credit Institutions that planned a phased introduction of tis buffer so as of 1 January 2025 it will amount to 2.5% of total amount of risk exposure. In 2023, the capital presevration buffer amounted to 1.25%, whereas the prescribed rate for 2024 is 1.875%.

Structural systemic risk buffer is reviewed every two years and the CBCG prescribed the buffer rate for structural systemic risk at the level of 1.5%, with equal application to all exposures. The latter stipulates that only one of the buffers is to be applied to a given credit institutions and that is higher of the structural systemic risk buffer or the O-SICI buffer. It was estimated that the existing measures prescribed by the law and other applicable regulations would not be sufficient to solve the risks to the financial system and that the continued application of structural systemic risk buffer would further strengthen the capital position of credit institutions.

Graph 4.21

Capital requirements, %, 31/ 12/ 2023



Source: CBCG

[43] Articles 138 and 386 of the Law on Credit Institutions (OGM 72/19, 82/20, 8/21) *https://www.cbcg.me/slike_i_fajlovi/eng//fajlovi/fajlovi_brzi_linkovi/propisi/laws/law_credit_institutions_8-21.pdf*

[44] *https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_fin_stabilnost/obavjestenje_bafer_strukturni_sistemski_rizik_01122023_eng.pdf*

[45] *https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_fin_stabilnost/information_on_review_O-SICI_identification_and_determining_buffer_rates_for_O-SICIs_310323.pdf*

[46] *https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_brzi_linkovi/propisi/fin_stability/dec_on_countercyclical_capital_buffer_rate_q1_112-23.pdf*

The structural systemic risk buffer seeks to strengthen the capital position of banks in order to ensure their resilience to inherent and long-term risks in the business environment. Structural systemic risks in Montenegro mostly come from the real economy, that is, from macroeconomic imbalances of various types, rather than from the financial system.

The O-SICI buffer is reviewed annually, and the last time the CBCG determined the O-SICI buffer rate was for the period starting on 31 March 2023, in the range of 1.25% – 2%, depending on the degree of systemic importance of the given credit institution. Exceptionally, according to the Law, if a credit institution is a subsidiary of a banking group from the EU, the rule applies that the O-SICI buffer rate that is higher than: a) 1% and b) the O-SICI buffer rate at the group level cannot be applied to that credit institution.[47]

In general, O-SI credit institutions are those institutions whose "whose disruption in business operations or termination of business operations can lead to a systemic risk in Montenegro". The BCG determines these institutions on the basis of the Decision on Identifying Other Systemically Important Credit Institutions (OGM 127/20), i.e. the methodology that forms an integral part of that decision. This methodology is fully compliant with the EBA Guidelines on the assessment of O-SIIs (EBA/GL/2014/10) and it is based on the four criteria: 1) size of a credit institution; 2) importance of a credit institution for the economy of Montenegro; 3) significance of cross-border activities of a credit institution; and 4) interconnectedness of a credit institution or a group with the financial system. Table 4 shows the O-SI credit institutions, their basis points and associated buffer rates.

The countercyclical buffer rate is reviewed on quarterly level for credit institutions` exposures to entities in Montenegro. During 2023. according to the indicators for the calculation of this buffer, the CBCG has maintained a zero rate in all four quarter. The starting point used is the buffer guide that is calculated using the so-called 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). In relation to its long-term trend, the credit-to-GDP ratio deviated and it was significantly negative and below the lower threshold of 2 pp, i.e. minimum value that would indicate the need to introduce a non-zero countercyclical capital buffer rate, which made the value of the reference indicator 0%. Additionally, other parameters that the CBCG uses to monitor cyclical systemic risks did not indicate the need to introduce a non-zero countercyclical capital buffer rate.[48]

In addition to capital buffers, Decision on macroprudential measures related to retail loans granted by credit institutions (OGM 138/21, 144/22) was also in effect[49]. With these measures the CBCG aims to prevent risk accumulation in retail loans that are not properly collateralized and which have been on a strong uptrend over the past few years. At the end of the reporting year, the applied measure was extended for another year, to remain valid until 31 December 2024.

[47] After the reporting period, the CBCG conducted a new review of the O-SI credit institutions and the O-SICI buffer to be applied as of 31 March 2024.

[48] In its review of the countercyclical capital buffer rate in Q12024, the CBCG decided to increase the rate to 0.5% with the application as of 1 April 2025.

[49] *https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_brzi_linkovi/propisi/fin_stability/dec_on_macroprudential_measures_retail_loans_granted_by_ci_unoff_consol_120-23.pdf*

Also, another CBCG regulation that was in effect in 2023 was Decision on interim measures to mitigate negative impact of the communicable disease COVID-19 epidemic and the situation in Ukraine on the financial system (OGM 135/22, 69/23) that was repealed in 2024. These measures do not have the character of macroprudential measures in the strictest sense of the word (except for certain segments of measures), but they were introduced in order to preserve the stability of the financial system.[50]

[50] *https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_brzi_linkovi/propisi/fin_stability/decision_interim_measures_covid-19_unoff_consol_69-23.pdf*

5. CONCLUSION

Montenegro`s economy fully recovered from the recession caused by the coronavirus pandemic in mid-2022, and the estimated growth for 2023 is 6% (preliminary MONSTAT data), while the forecasted growth for 2024 is 3.3%. However, key indicators show that risks are still present, i.e. that the financial position of non-financial institutions and households, the two main groups of clients the banks are exposed to, has improved but remains susceptible to challenges.

Pressures on government finances continue to represent a systemic risk in Montenegro, although the public debt fell drastically after the end of 2020, from 105.3% of GDP to 60.3% of GDP at the end of 2023. Indirectly, the public debt level in the case of Montenegro points to a relatively weak international competitiveness, high spending relative to low accumulation, and dependence on foreign capital inflows. In the context of the current situation in Ukraine and the Middle East, and the tightening of financing conditions on the international market, a determined continuation of the measures of a responsible and well-balanced fiscal policy aimed at solving structural economic problems is necessary.

A substantial portion of public debt was created in the period of relatively available and cheap money on international financial markets, which largely resulted from the policy of historically lowest interest rates of the leading central banks. Against this background, the government managed to borrow under low interest rates compared to the historical standards. Therefore, an additional challenge for financing interest expenses and for debt refinancing will be the period of interest rate growth on the international financial market which began in mid-2022. Already in 2023, interest expenses were more significant than before and were estimated at 123.9 million euros (1.9% of GDP), while the projected interest expenses in 2024 amount to 138.4 million. euros (2% of GDP).

The fiscal situation is relevant for the preservation of financial stability and the banks' exposure to the government in the form of securities and loans. During 2023, the banking sector exposure to the government increased by 88.4 million euros to 971.9 million euros or 14.4% of banks' assets. However, although significant, the mentioned exposure is still lower than in a number of the EU countries, and does not pose a threat to financial stability, but is subject to close monitoring by the CBCG.

On the other hand, banks are the soundest segment of Montenegro's economic and financial system, which is indicated by their high capitalisation, liquidity and positive business results. During 2023, the share of non-performing loans decreased from 5.7% to 5%, and credit growth was solid. Liquidity declined so some extent due to banks` investments in securities but most of the new investments in securities were investments in government bonds of the euro area countries that bear the lowest credit risk and thus are easily marketable. Net profit at the system level was achieved in a record amount of 146 million euros, which was the main reason for the increase in the (balance sheet) capital of banks.

The CBCG`s macroprudential measures to limit the growth of unsecured retail cash loans (in effect as of 2020, as amended), has acted towards mitigating the movement of these loans over the previous period. However, the maturity structure of cash loans remains still incomparably closer to the maturity structure of housing loans. Also, few banks saw an increase in the share of non-performing loans in that loan segment. Therefore, the mentioned CBCG`s measures will remain in effect in 2024 as well.

Regarding the measures aimed at mitigating the negative consequences of the coronavirus pandemic and the situation in Ukraine on the financial system, only two measures were effectively applied, while the need for the validity of numerous other measures that were previously in force has ceased.

As for capital requirements, in addition to the main capital requirements prescribed by law and equal for all banks (4.5% for Common Equity Tier 1 capital, 6% for Tier 1, and 8% fortotal capital adeauacy ratio of total capital), additional individual capital requirements were also applied within pillar II, as well as capital buffers. In addition, banks held surpluses of own funds so the capital adequacy ratio at the system level was 20.3%, thus indicating a high resilience of banks to possible further problems with non-performing loans or a decline in the value of other asset items.

ANNEX

Table 1 – Financial Soundness Indicators (FSIs), 2018–2023

	2018	2019	2020	2021	2022	2023			
	XII	XII	XII	XII	XII	III	VI	IX	XII
Core FSIs for cedit institutions									
Regulatory capital to risk weighted assets[1]	15.6	17.7	18.5	18.5	19.3	18.9	20.1	20.7	20.3
Tier 1 capital to risk weighted assets[1]	14.4	18.1	17.4	17.4	18.4	18.1	19.5	20.1	19.7
Net non-performing loans net of provisions to capital[2]	21.0	14.9	21.2	22.6	21.4	22.0	19.2	18.3	18.4
Common Equity Tier 1 capital to risk-weighted assets[1]	---	---	---	---	18.3	18.1	19.5	20.1	19.7
Tier 1 capital to assets	8.4	10.0	9.9	9.2	7.9	8.2	8.8	8.5	8.6
Non-performing loans to total gross loans[3]	7.4	5.1	5.9	6.8	6.3	6.4	6.1	5.9	5.8
Non-performing loans to total gross loans[4]	6.7	4.7	5.5	6.2	5.7	5.6	5.2	5.0	5.0
Loan concentration of loans by economic activity[5]	68.4	67.4	66.5	67.1	66.7	66.8	65.4	63.6	64.5
Provisions to non-performing loans	56.7	52.9	40.0	42.4	43.0	42.0	42.6	43.5	44.4
Return on assets[6]	0.7	1.2	0.5	0.8	1.7	2.2	2.3	2.6	2.6
Return on equity[7]	4.9	9.0	3.7	5.9	13.9	17.9	18.5	20.3	19.3
Interest margin to gross income[8]	56.1	56.6	60.8	55.6	54.0	56.9	56.4	55.3	55.9
Noninterest expenses to gross income	82.5	75.0	74.4	72.3	58.4	58.2	57.5	57.6	57.6
Liquid assets to total assets[9]	22.3	20.6	21.8	26.0	30.7	26.0	25.7	25.7	23.5
Liquid assets to short-term liabilities[10]	35.4	31.1	35.1	39.7	42.9	36.1	35.6	35.3	32.2
Liquidity coverage ratio[11]	---	---	---	---	317.7	334.6	318.2	323.3	310.7
Net stable funding ratio[11]	---	---	---	---	---	---	---	---	---
Net open position in foreign exchange to capital[12]	0.0	0.6	0.7	0.1	0.1	0.6	0.3	0.0	-0.3
Residential real estate prices (percentage change/last 12 months)[13]	1.8	3.4	-11.3	15.3	20.5	6.0	9.1		27.9
Additional financial soundness indicators									
Credit institutions									
Large exposures to capital[14]	138.1	97.4	96.8	118.1	132.6	149.8	118.1	117.6	121.1
Geographical distribution of loans to total loans[15]									
Montenegro	96.4	96.7	97.2	95.7	94.7	94.7	94.8	94.7	94.9
Developed economies	0.7	0.6	0.7	0.5	0.5	0.8	0.7	0.6	0.7
Emerging market and developing economies	2.9	2.6	2.1	3.8	4.8	4.6	4.5	4.6	4.5

Table 1 – Financial Soundness Indicators (FSIs), 2018–2023 – continued

	2018	2019	2020	2021	2022	2023			
	XII	XII	XII	XII	XII	III	VI	IX	XII
Emerging and developing Asia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Emerging and developing Europe, excluding Montenegro	1.4	1.7	1.1	1.6	2.6	2.4	2.5	2.5	2.5
Latin America and the Caribbean	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Middle East and Central Asia	1.5	0.9	1.0	2.2	2.2	2.1	2.1	2.1	2.0
Sub-Saharan Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross asset position in financial derivatives to capital [12]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Gross liability position in financial derivatives to capital [12]	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.4
Trading income to total income [16]	1.8	3.8	3.1	3.8	3.6	4.7	5.4	4.6	4.6
Personnel expenses to non-interest expenses	32.2	37.3	34.9	31.6	37.3	33.8	32.8	30.9	31.7
Spread between reference lending and deposit rates (basis points) [17]	580	560	544	531	566	588	606	623	638
Customer deposits to total (noninterbank) loans [18]	123.1	116.1	108.3	131.0	151.8	148.0	147.5	156.2	147.2
Foreign-currency-denominated loans to total loans [19]	0.5	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Foreign-currency-denominated liabilities to total liabilities [20]	6.3	6.4	4.8	5.3	4.8	4.9	4.7	4.8	4.8
Credit growth to private sector [21]	9.4	6.6	3.0	3.4	8.8	6.5	4.7	4.9	6.3
Real estate markets									
Residential real estate loans to total gross loans [22]	13.5	13.9	14.3	14.2	14.9	14.6	14.4	14.6	14.1
Commercial real estate loans to total gross loans [23]	6.7	6.1	5.5	5.6	5.5	5.7	5.6	5.4	5.9

The text of all footnotes can be found in the excel file available at *https://www.cbcg.me/en/statistics/statistical/financial-soundness-indicators*, and the most important footnotes are presented below.

3/ Non-performing loans refer only to the principal of loans, without interest and prepayments and accruals of interest and fees. On the other hand, total loans (in addition to the principal) include interest and prepayments and accruals of interest and fees for performing loans, while interest and prepayments and accruals of interest and fees for non-performing loans are excluded from the scope. Exceptionally, for the period before 2013, total loans in addition to the principal include only the mentioned interest rates, because data on prepayments and accruals of interest and fees were not available.
Prior to 2013, loans classified in category E (i.e. in the worst classification category - „loss“) were kept in off-balance sheet, so that the counter of this indicator (i.e. non-performing loans) contains loans classified as E, while the denominator of this indicator (i.e. total loans) does not contain the same.

4/ Internal definition, according to the methodology used in the CBCG.
By definition, interest and prepayments and accruals of interest and fees are completely excluded from both non-performing loans and total loans. Also, according to the requirements of IFRS 9 (former IAS 39), the definition treats bank deposits with other banks and depository institutions as loans, which is especially relevant for the account No. 1009 (from the Decision on Chart of Accounts for Credit Institutions, OGM 128/20). Prior to 2013, the definition of loans did not include the aforementioned deposits.

* On 1 January 2018, IFRS 9 replaced IAS 39, with limited impact on the comparability of data series before and starting from 1 January 2018.
IAS 39 is introduced on 1 January 2013. The introduction of IAS 39 resulted in incomparability of a significant number of data series before and starting from 1 January 2013. Most importantly, on 1 January 2013: non-performing loans increased, as well as accounting capital, then total loans to a lesser extent and to an even lesser extent assets. The comparability of loan loss provisions, and therefore the comparability of net profit, was also affected by the change. As a consequence, all indicators calculated using these data series are basically incomparable before and starting from 1 January 2013. The consistency of other data series or indicators, such as liquid assets or capital adequacy ratios, has been largely maintained.

Source: Quarterly and monthly reports of banks; MONSTAT

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