CENTRALNA BANKA CRNE GORE

Financial Stability Report

2025

Podgorica, 2026

PUBLISHED BY

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

WEB SITE

www.cbcg.me

TRANSLATED BY

Department for Financial Stability, Research and Statistics

DESIGNED BY

Nikola Nikolić
Nikola Marđonović

PRINTED BY

„Golbi" DOO Podgorica

PRINTED IN

30 copies

Abbreviations

BBM	Borrower-based measures
BRRD II	Bank Recovery and Resolution Directive II
CBCG	Central Bank of Montenegro
CSD&CC	Central Securities Depository and Clearing Company
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
HH	Herfindahl–Hirschman Index
HP	Hodrick–Prescott
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LCR	Liquidity coverage ratio
LIBOR	London Interbank Offered Rate
MONSTAT	Statistical Office of Montenegro
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NPL	Non-performing loans
O-SICIs	Other systemically important credit institutions
pp	percentage points
rhs	right-hand scale
ROAA	Return On Average Assets
ROAE	Return On Average Equity
RTGS	Real Time Gross Settlement
SOFR	Secured Overnight Financing Rate
VIX	Volatility index – indeks volatilnosti
USA	United States of America
wiiw	Vienna Institute for International Economic Studies
WALIR	Weighted Average Lending Interest Rate
WADIR	Weighted Average Deposit Interest Rate

Contents

Introductory Notes

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

With a view to fostering and preserving financial stability, the CBCG primarily relies on microprudential regulation and supervision. However, since this approach focuses primarily on the stability of individual banks, the CBCG also undertakes macroprudential actions when necessary, utilizing instruments that affect the financial system as a whole. Thus, the attention is paid to the complex relationship between banks and other economic operators in order to adequately assess potential systemic vulnerabilities. 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. Systemic risk may occur as a 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 directly the financial system.

The report consists of five sections. The first section provides an overview of macroprudential policy measures, while the following gives an overview of systemic risk trends and assessments. The third 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 fourth section summarises domestic macroeconomic developments and balance of payments trends, providing an overview of Montenegro's economic relations with the rest of the world. It further analyses the risks and vulnerabilities in the domestic private real sector and the general government sector that constitute the main sources of exposure for the Montenegrin banking sector. The fifth section shows trends and risks in the banking sector and other relevant segments of the financial system. It presents a broad set of financial soundness and macroprudential indicators that reflect the resilience and stability of the banking sector. These indicators capture the combined effects of the factors discussed in the second and third sections of the report, as well as risks and developments originating within the banking sector itself.

Summary of Key Assessments

During 2025, Montenegro's financial system remained stable, solvent, liquid, and profitable, with the banking sector preserving its capacity to support credit activity and absorb potential shocks. At the end of the year, systemic risks were assessed as moderate amid elevated cyclical pressures in the lending segment and the real estate market, as well as heightened geopolitical risks.

The banking sector has maintained a strong capital position. Total capital adequacy ratio was 20.3%, while non-performing loans continued to decline and at the end of 2025 accounted for 2.7% of total loans. The liquidity position of the banks remained favourable, with the indicator of liquidity coverage ratio (LCR) at the system level amounting to 261.5%, significantly above the regulatory minimum.

The main sources of vulnerability did not originate within the banking system itself but rather stemmed from the real economy and underlying macroeconomic imbalances. These included high import dependence, a large current account deficit, medium-term fiscal challenges, liquidity constraints affecting parts of the real economy, and the economy's sensitivity to external and geopolitical shocks.

Cyclical risks intensified further during the year, driven primarily by robust credit growth and the continued increase in real estate prices. Retail lending expanded by 21.2%, while loans to the non-financial sector grew by 20.8%. At the same time, apartment prices in new residential buildings reached a new historical high, recording the annual increase of 19.4%.

Throughout 2025, the CBCG continued to actively employ macroprudential policy instruments. The combined capital buffer at the system level increased to 6.16%, and the macroprudential framework was additionally expanded through the legal enabling of borrower-based measures, i.e. measures focused at loan beneficiaries. Should cyclical risks continue to intensify or materialise, the CBCG stands ready to deploy additional macroprudential measures.

1

Macroprudential Policy and Response to Risks

The CBCG macroprudential policy in 2025 was aimed at addressing identified systemic risks, especially in the context of increased cyclical pressures in the lending segment and the real estate market.

The macroprudential framework in Montenegro is based on the Basel III standards and the corresponding CRD IV/CRR regulatory package of the European Union, which was transposed into the national legal framework through the Law on Credit Institutions. This framework provides for the introduction of capital buffers, which enable the CBCG to strengthen the resilience of banks against the various types of systemic risks to which they are exposed.

The CBCG`s macroprudential instruments were further expanded by the latest amendments to the Law on Credit Institutions (OGM 14/26), which explicitly enabled the limitation of borrower-based measures, as well as the introduction of other similar measures and requirements.

The CBCG may also deploy other available macroprudential measures. Furthermore, beyond macroprudential measures in the strict sense, the CBCG may use other instruments to safeguard financial stability, as it did prior to the adoption of the Law on Credit Institutions and as it continues to do.

In line with its macroprudential mandate, the CBCG actively applied capital buffers throughout 2025 (table 1.1). At the end of 2025, taking into account the applicable countercyclical capital buffer (CCyB) rate, the combined buffer rate ranged from 4.42% to 6.50% across institutions, while at the system level it amounted to 6.16% (3.73% at the end of 2024). In absolute terms, the combined buffer requirement totalled 263.4 million euros at the end of 2025, which is an increase of 128 million euros year-over-year.

QR 1

The increase in capital requirements reflected the implementation of the new legal framework, the activation of previously established legal provisions, and the effects of macroprudential measures adopted by the CBCG. Following the implementation of the CRD V/CRR II package through the Law Amending the Law on Credit Institutions (OGM 24/25), institutions became subject to the simultaneous application of the structural systemic risk buffer and the buffer for other systemically important credit institutions (O-SICIs). Under the previous framework, institutions were required to apply only the higher buffer requirement. The increase of the capital preservation buffer[1] was carried out according to the transitional and final provisions of the Law on Credit Institutions, so the capital conservation buffer reached its fully phased-in level of 2.5% on 1 January 2025. In addition, 2025 marked the first year in which institutions were required to hold capital against the countercyclical capital buffer for Montenegro, following the CBCG's decision to activate the buffer in 2024.

QR 2

QR 3

TABLE 1.1
Current capital buffers and levels, in %

Source: CBCG

Buffer	31 December 2024	31 December 2025
Capital conservation buffer	1.875	2.5
Structural systemic risk buffer [QR1]	1.5	1.5
Buffer for other systemically important institutions [QR2]	1.25–2	2
Countercyclical capital buffer [QR3]	0	0.5

1 Articles 138 and 386 of the Law on Credit Institution.

The buffer for structural systemic risk is reviewed at least once every two years, and during the last review conducted at end-2025, the CBCG decided to leave the buffer rate at 1.5%, with all other aspects of the buffer remaining unchanged.

At end-November 2025, the CBCG carried out a regular annual review of O-SICIs, and on that occasion identified six O-SICIs with O-SICIs buffer rates of 2% each, while in the previous part of the year eight O-SICIs were identified, with O-SICIs buffer rates ranging from 1.75% to 2%. Thus, the O-SICIs buffer was released in its entirety for two banks that lost the status of other systemically important credit institutions.

TABLE 1.2

O-SICIs and O-SICIs buffer rates

Source: CBCG

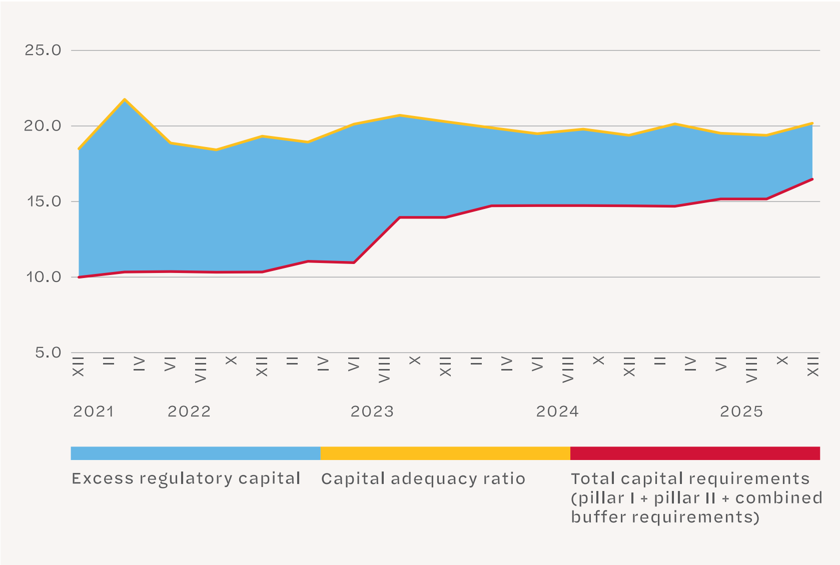
OSI credit institution	Points	OSI buffer rate for credit institution, %
Crnogorska Komercijalna Bank AD Podgorica	2,051	2.00
NLB Bank AD Podgorica	1,900	2.00
Hipotekarna Bank AD Podgorica	1,597	2.00
ERSTE Bank AD Podgorica	1,002	2.00
Adriatic Bank AD Podgorica	888	2.00
Prva Bank Crne Gore AD Podgorica	562	2.00

One of the novelties in the Law Amending the Law on Credit Institutions, for credit institutions that are subsidiaries of banking groups from the EU, and in cases where the competent authority for the group has applied the O-SICIs buffer at the consolidated level, is that in Montenegro, the O-SICI buffer rate applied for such subsidiaries, in simple terms, must not exceed the lower of the O-SICI buffer rate at the group level, increased by 1 pp and 3% of the total amount of risk exposure. Previously, the O-SICI buffer rate could be up to 2% of the risk exposure amount. In case the credit institution was a subsidiary of a banking group from the EU subject to the O-SICI buffer at the consolidated level, the O-SICI buffer rate for that credit institution could not exceed: a) 1% of the risk exposure amount and b) the O-SICI rate that was already applied at the group level.

The build-up of cyclical risks observed since 2024, primarily related to strong credit growth and rising real estate prices, continued in 2025, with these risks increasing further. Although cyclical risks continued to intensify throughout 2025, the CBCG decided not to further increase the countercyclical capital buffer rate. This decision was based on the assessment that the overall level of capital requirements had already increased significantly due to the simultaneous application of other capital buffers, particularly through the combined effect of the buffer for structural systemic risk and the O-SICI buffer, thereby further strengthening banks' capital positions. In addition, the expected gradual moderation of the credit cycle in the period ahead was taken into account.

In addition to the macroprudential capital requirements, additional individual capital requirements within Pillar II were also in force as well as the main capital requirements that are the same for all banks. Thus, the minimum requirement for the Common Equity Tier 1 capital amounted to 11.97%[2] at the system level. Minimum requirements for Tier 1 capital amounted to 13.90%, and the minimum requirement for own funds amounted to 16.48% at the system level. However, many banks allocated surplus capital, which resulted in the actual capital ratio of 19.02% for the Common Equity Tier 1,19.3% for the Tier 1 capital, and 20.25% for total capital ratio (graph 1.2).

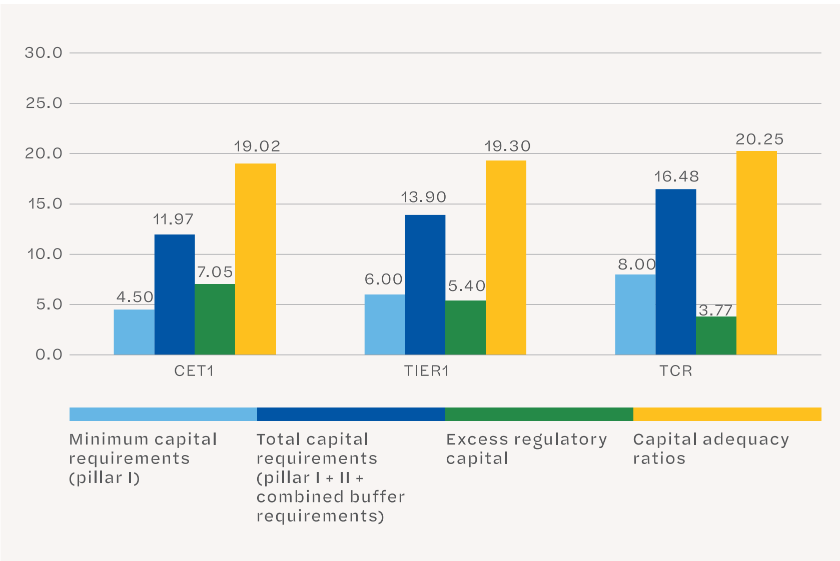
2 Percentages in this and the following sentence refer to all capital requirements, including additional capital requirements within pillar II and capital buffers.



GRAPH 1.1

Capital requirements, %, December 2021 - December 2025

Source: CBCG



GRAPH 1.2

Capital requirements by type of capital, %, 31 December 2025

Source: CBCG

In addition to capital buffers, macroprudential measures applicable to loans granted by credit institutions to natural persons[QR4] remained in force. Introduced in 2020, these measures aim to promote the sustainable growth of retail lending. They limit the maturity of cash retail loans that have no high-quality collateral to a maximum of 10, 8 or 6 years, depending on the size and quality of each credit institution's portfolio of such loans. Cash retail loans continued to record strong growth in 2025 as well, so the validity of the Decision on macroprudential measures related to retail loans granted by credit institutions was extended until the end of 2026.

QR 4

In the coming period, the CBCG will continue to closely monitor developments in the lending segment and the real estate market, as well as overall macroeconomic conditions. In case of further strengthening of cyclical risks or their materialization, the CBCG remains ready to apply additional macroprudential measures, including further adjustment of capital requirements or the implementation of measures aimed at limiting borrower`s indebtedness.

2

Systemic Risks Analysis and Assessment

At the end of 2025, systemic risks were at a moderate level, along with current cyclical risks and, as of spring 2026, elevated risks of a geopolitical nature[3].

During 2025, the Montenegrin economy continued to record positive macroeconomic trends, but at a somewhat more moderate pace, recording slower GDP growth of 2.7% year-on-year. Private consumption remained the key driver of growth, driven by wage growth, better situation in the labour market, and stable credit activity. In addition, gross fixed capital formation also made a significant contribution, which indicates stronger investment activity and confidence in the country's economic stability. An unfavourable factor was the resurgence of price growth after their stabilisation in 2024, following several years of elevated inflation.

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 Montenegrin economy is insufficiently diversified and is dominantly based on services, with a strong participation of activities related to tourism. Due to high import dependence, the economy continuously records an extremely high current account deficit, which is partly financed by borrowings from abroad, both in the private and state sectors. In addition to positive developments in terms of fiscal consolidation, public finance challenges are undoubtedly present both in terms of the amount of debt and in terms of its refinancing, especially in the medium and long term, and also in the context of population aging, climate change, and increased defence expenditures. The liquidity of the real sector is still problematic, given that the economic entities that were blocked through the enforced collection system of the CBCG at the end of 2025 made up a little over a quarter of active economic entities.

Structural imbalances and limited space for fiscal action make Montenegro vulnerable to geopolitical disturbances. The most recent example is the rise in energy prices due to the conflict in the Middle East from March 2026, which will further be reflected by inflationary pressure, through consumer prices and services, and a slowdown in economic activity can also be expected.

In its April report (*World Economic Outlook*), the IMF forecasted lower growth rates for the period 2026–2027 for European emerging and developing economies, including Montenegro (2% or 2.1%) compared to the October 2025 forecast (2.2% or 2.4%).

Regarding cyclical systemic risks, the increased accumulation of cyclical risks was expressed as early as 2024, primarily in the domain of credit growth and real estate price growth. CBCG reacted to the mentioned risks by raising the countercyclical capital buffer rate on two occasions. In 2025, those risks were additionally intensified, and are still subject to monitoring and analysis by the CBCG, although the countercyclical buffer rate was kept at the same level, mainly due to a significant increase in capital buffers on other grounds, and due to the expected slowdown in credit activity in 2026.

Loans to the residential sector continued to grow at extremely high growth rates. Namely, the annual growth rates of loans to the resident sector have been in double digits since the second quarter of 2024, and since the second quarter of 2025 they have hardly fallen below 20%.

---

3 The main vulnerabilities and risks to financial stability are shown in more detail in table 2.1.

At the end of 2025, the loan growth rate was 21.2% for the household sector and 20.8% for the non-financial sector. The intensive growth of household loans was mainly achieved due to the increase in nominal wages in the previous period, with cash and housing loans leading the way. New retail loans recorded a new high, and at the end of December their twelve-month cumulative recorded the annual growth of 25.9%. Household loans recorded the annual growth rate of 20.8% in December 2025, and compared to the end of 2020, their cumulative growth was 91.8% (according to data from the CBCG Credit Registry).

Indebtedness of non-financial institutions to banks in relation to GDP increased during 2025 from 20.2% to 22.9%, which is partly a result of slower than expected GDP growth in 2025. Household debt to banks in relation to GDP increased by 3.4 pp, reaching 29.2% of GDP. The intensive growth of credit activity is the result of the increase in wages and the growth of economic activity in the post-pandemic period. In the following period, a certain correction of lending dynamics can be expected, especially in case of materialization of geopolitical disturbances and their impact on economic activity.

The prices of apartments in new buildings in Montenegro at the end of 2025 reached a new historical maximum (2,198 euros), which is the year-over-year growth of 19.4%. However, compared to 2020, these prices rose as much as 130%. The leading factor in the growth of real estate prices were FDI in real estate, which in the period 2022-2025 amounted to 1.86 billion euros, or an average of 6.5% of nominal GDP per year, which is significantly more than in the multi-year period before that. In addition to FDI, the increase in real estate prices was also affected by the increase in housing loans. In the period 2022-2025, new housing loans amounted to 625.3 million euros.

The banking sector remained solvent, liquid and profitable. Deposits continued to record strong annual growth, with banks increasingly channelling these funds into lending rather than liquid assets or securities. Under the CBCG's conservative definition of liquid assets, which excludes securities altogether, liquid assets declined by 10.8% in absolute terms and by 4.2 percentage points relative to total assets. Despite this decline, the banking sector's liquidity position remained favourable. The LCR, which is characterized by a more complete coverage of liquid instruments, showed that all banks in Montenegro maintained this indicator far above the prescribed minimum of 100%, and at the system level it reached 261.5%. Banks recorded a record-high profit in 2024, followed by a slightly lower, yet still strong, profit in 2025. Overall, the banking sector has remained highly profitable over the past three years, further strengthening its capital position. At the end of 2025, the capital adequacy ratio stood at 20.3%. Non-performing loans continued to decline, extending the downward trend that had been in place since the beginning of 2022. At the end of 2025, their share in total loans stood at 2.7%.

At end-2025, total exposure of banks to the government was 10.3% of total assets or 1.3 pp less year-over-year. In 2025, the government used the possibility of new borrowings from banks significantly less than in the previous year, thus the debt of the general government on loans fell by 29.5%, down to 158.2 million euros.

Other financial intermediaries do not pose a source of systemic risk, mainly owing to their limited size and systemic importance in the Montenegrin financial market, the non-deposit-taking nature of their business models, and the sound financial position of the most significant institutions, particularly insurance companies.

TABLE 2.1

Main vulnerabilities and risks to financial stability

Main vulnerabilities and risks to financial stability	Risk level	Risk direction
Vulnerabilities outside the financial system		
Geopolitical risks	Increased	↑
Geopolitical risks in 2025 were characterized by protectionist US trade policies and the risk of countermeasures. The emerging war in the Middle East represents a significant geopolitical risk in 2026. The main risks for the Montenegrin economy are the increase in energy prices and the consequent increase in inflation above the predicted levels, as well as the slowdown in economic growth.		
Inflationary pressures	Moderate	↑
In 2025, there was a reactivation of price growth and inflationary pressures were higher than in the euro area. CBCG expects inflation, with a 90% probability, to range from 1.8% to 7.3%, with a central projection of around 4.0%.		
Global financial conditions and financial markets	Moderate	↑
Yields on ten-year German government bonds maintained a slight growth trend throughout the year. Increasing yields and worsening conditions would make new borrowing by Montenegro more difficult and expensive.		
Slowing down of economic growth	Moderate	↑
During 2025, the Montenegrin economy recorded a slightly slower GDP growth of 2.7%, and the main driver of growth remained private consumption, stimulated by wage growth, better conditions on the labour market and strong credit growth. Effect of wage growth from previous years could weaken in the coming period, which would have an impact on the reduction of private consumption, especially in case of higher price growth, as well as on budget revenues.		
High current account deficit and import dependence	Increased	↔
Montenegrin economy is insufficiently diversified and is dominantly based on services, with a strong participation of activities related to tourism. Foreign direct investments in recent years have been significantly focused on real estates. Due to high import dependence, the economy continuously records an extremely high current account deficit, which is partly financed by borrowings from abroad, both in the private and state sectors.		
Fiscal sustainability - public debt and future debt repayments	Moderate	↑
In addition to positive developments in terms of fiscal consolidation, public finance challenges are undoubtedly present both in terms of the amount of debt and in terms of its refinancing, especially in the medium and long term.		
Liquidity of the real sector / blocked accounts of the economy	Increased	↔
Liquidity of the real sector is still problematic, given that economic entities that were blocked through the CBCG forced collection system at the end of 2025 accounted for a little over a quarter of active economic entities, with the increase in the blockade debt.		
Vulnerabilities within the financial system		
Household lending	Increased	↑
Intensive growth of household loans was mainly achieved due to the increase in nominal wages in the previous period, with cash and housing loans leading the way. New loans to natural persons recorded a new record, and at the end of December their twelve-month cumulative recorded an annual growth of 25.9%.		
Lending to non-financial corporations	Moderately increased	↑
During 2025, the economy sector borrowed more intensively from banks, with an annual growth of 13%. More than half of the new borrowings was related to liquidity loans for working capital.		
Real Estate Market	Increased	↑
Prices of apartments in new buildings in Montenegro at the end of 2025 reached a new historical maximum. Their annual growth was 19.4%. Leading factor in the growth of real estate prices was foreign direct investments in real estate and housing loans.		
Loan portfolio quality	Low	↓
Quality of the loan portfolio continues with positive trend during 2025. Non-performing loans recorded a decline, and their share in total loans amounted to 2.7% at the end of the year. Non-performing loans were 13.2% lower.		
Banks' solvency	Low	↔
Banks were adequately capitalized, with the total capital adequacy ratio being 20.3%, while the core capital adequacy ratio was 19.3%. At the end of the year, all banks had capital ratios above regulatory requirements (Pillar I, Pillar II and capital buffers), which amounted to 14.9% to 18.2% (depending on the bank).		
Banks' liquidity	Low to moderate	↔
Liquidity position of banks can be assessed as favourable despite the slight drop in liquid assets. Liquidity coverage indicator (LCR), which is characterized by a more complete coverage of liquid instruments, showed that all banks in Montenegro maintained the regulatory requirement related to this indicator significantly above the prescribed minimum.		
Banks' profitability	Low	↔
In 2024, banks made a record profit, while a slightly smaller profit was made in 2025. In general, in the last three years, banks have operated extremely profitably, which was reflected in the banks' stronger capital position.		

Main vulnerabilities and risks to financial stability	Risk level	Risk direction
Banks' exposures to the government	Moderate	↓
Total exposure of banks to the government at end-2025 was 10.3% of total assets or 1.3 pp less in relation to end-2024. Eurobonds dominate the exposure structure.		
Exposure to non-resident entities	Moderate	↔
Deposits of non-resident entities peaked in the period 2021–2023, making up more than a quarter of the total deposits in the system. At end-2025, this indicator was 19.1%.		
Rest of the financial system		
Insurance sector	Low	↔
Role of the insurance sector in Montenegro is continuously growing, although the share of assets of insurance companies in the assets of the financial system is limited. Sum of gross invoiced premiums, as well as life and non-life insurance premiums, recorded double-digit growth rates in 2025.		
Other financial intermediaries	Low	↔
Other financial intermediaries (besides insurance) account for slightly more than 3% of the assets of the financial system, and the most significant segment are micro credit financial institutions.		
Capital Market	Low	↔
Although the capital market represents a segment of the financial system with great potential for growth and development, the role of the capital market and its influence on financial stability have been very limited for a long time.		
Other risks		
Impact of "non-traditional" types of risks, such as demographic risks, climate change and cyber risks, is becoming increasingly significant in Montenegro and represents an important segment of the future assessment of overall financial stability. Although these risks are still not fully covered through standardized measurement and monitoring mechanisms, their potential direct and indirect impact on the financial system is recognized.		

3

International Economic and Financial Environment

3.1. **Global economic trends**

During 2025, US trade policy, characterised by heightened protectionism and the risk of retaliatory measures, remained one of the main challenges for the global economy. It contributed to increased volatility in international financial markets and weighed on global growth prospects. Toward the end of the year, however, trade relations showed signs of improvement. Together with more favourable financial conditions and stronger growth in the world's largest economies, this contributed to global economic growth accelerating slightly to 3.4% in 2025, compared with the previous year (table 3.1).

Global inflation in 2025 declined compared with the previous year, reaching 4.1%. Protectionist trade policies generated inflationary pressures by fostering fragmentation of the global market, forcing trading partners to rely on more expensive alternative routes and restructure their supply chains. Despite these barriers, the total volume of global trade exceeded the previous year's levels. On the other hand, increased oil production and a broad decline in commodity prices (with the exception of precious and certain industrial metals) were the main factors contributing to lower inflation.

The growth of economic activity in the euro area, despite a significantly higher growth rate (1.4%) than in the previous year (0.9%), was far from dynamic, and the differences between countries are very pronounced. Euro area countries that had previously faced significant macroeconomic imbalances generally recorded positive growth, whereas Germany, the largest economy in the euro area, continued to slow, expanding by a mere 0.2%. The 0.9% decline in industrial production in Germany was smaller than in 2024, but the sector has recorded negative growth rates for four consecutive years. Additionally, German industrial production remains well below the peak levels recorded during the period 2017-2018. Growth rates in France (0.9%), Spain (2.8%) and Italy (0.5%) were lower than in the previous year.

According to the ECB's March 2026 estimates, the euro area economy grew by 1.5% in 2025, which was 0.1 percentage points higher than projected in December. For 2026, the ECB forecasts slower economic growth of 0.9%, representing a downward revision of 0.3 percentage points compared with its previous projections. This weaker outlook primarily reflects a combination of adverse factors constraining economic activity, including higher energy costs stemming from geopolitical tensions and weaker external demand, partly driven by trade tensions and slower global growth. More broadly, euro area economies continue to face a range of significant challenges, most notably structural issues such as fiscal constraints, declining competitiveness, the need to strengthen defence capacities, and climate change.

Annual inflation in the euro area in 2025 was 2.1%, and was generally within the inflation target, making the euro area well positioned to deal with the uncertainties caused by the war in the Middle East. According to the March forecasts, and due to the jump in oil and gas prices, the European Central Bank (ECB) forecasts that overall inflation will rise to 2.6% in 2026.

The emerging war in the Middle East has significantly increased uncertainty from rising inflation and slowing economic growth. The main risk is a long-term interruption in the supply of oil and gas, and the consequent growth of inflation above the predicted levels. According to the IMF`s April 2026 forecasts, the decline in global economic activity in the next two-year period will be moderate, while inflation growth will also be of limited intensity. The medium-term consequences of such a shock depend critically on the duration of the conflict, as well as the extent to which elevated energy costs will spill over to the prices of other goods and services. The responses of central banks will play a crucial role in determining both the persistence and the magnitude of inflation.

TABLE 3.1

Overview of selected global indicators, %

Source: IMF, April 2026

Indicator	2024	2025 estimate	Forecasts		Difference in relation to the October 2025 projections, pp	
			2026	2027	2026	2027
Real growth of GDP						
World	**3.3**	**3.4**	**3.1**	**3.2**	**0.0**	**0.0**
Advanced economies	**1.8**	**1.9**	**1.8**	**1.7**	**0.2**	**0.0**
USA	2.8	2.1	2.3	2.1	0.2	0.0
Euro area	0.9	1.4	1.1	1.2	-0.1	-0.2
Japan	-0.2	1.2	0.7	0.6	0.1	0.0
Emerging market and developing economies	**4.3**	**4.4**	**3.9**	**4.2**	**-0.1**	**0.0**
China	5.0	5.0	4.4	4.0	0.2	-0.2
India	6.5	7.6	6.5	6.5	0.3	0.1
Russia	4.3	1.0	1.1	1.1	0.1	0.0
Emerging and developing Europe	3.5	2.0	2.0	2.1	-0.2	-0.3
World trade volume (goods and services)	**3.6**	**5.1**	**2.8**	**3.8**	**0.5**	**0.7**
Commodity prices, average rate						
Oil	-1.8	-14.4	21.4	-7.6	25.9	-7.4
Nonfuel	3.7	9.6	21.7	1.9	17.6	1.3
Consumer prices, average rate						
Advanced economies	2.6	2.5	2.8	2.2	0.6	0.1
Emerging market and developing economies	8.0	5.2	5.5	4.6	0.8	0.4

3.2. **Global financial trends**

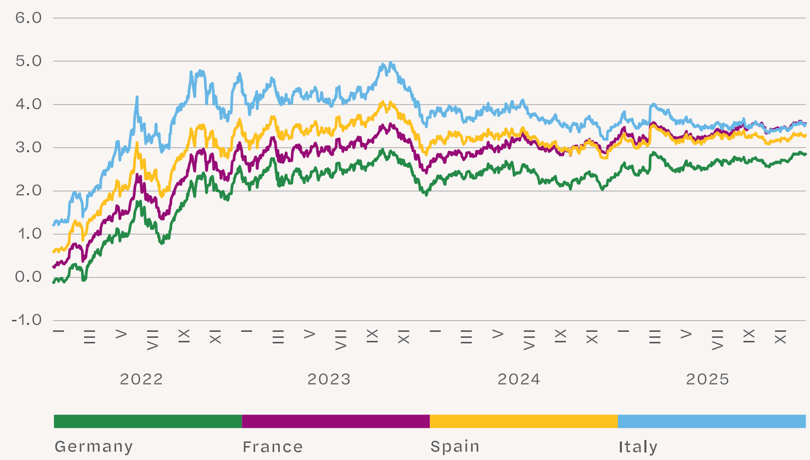
Contrary to the previous period of highly coordinated monetary policies of the largest central banks, in 2025, there was a certain discrepancy regarding the further loosening of monetary policy, and even the direction of monetary policy (in the case of the Bank of Japan). Favourable funding conditions and lower volatility in the foreign exchange market have enabled better access to financing for many countries with lower credit ratings.

Since June 2024, the ECB has implemented a total of eight reductions in reference interest rates, the last in June 2025, when the deposit facility rate was 2%. At its latest meeting, held in March 2026, the ECB Governing Council decided to keep the key interest rates unchanged. The ECB assessed that the current economic indicators do not provide sufficient grounds for new changes in interest rates, considering that their existing levels were adequate to achieve the target inflation of 2% in the medium term. Expectations of the financial markets indicate that the possibility of an interest rate increase of 0.25 pp during the second quarter of 2026 is not excluded.

Only at the end of 2025, the FED implemented three consecutive reductions of the reference interest rate of 0.25 pp each, which dropped it to the level of 3.5%–3.75%. The FED made this decision due to the slowdown in economic activity and deterioration in the labour market, but also due to the reduction in inflation[4]. According to current market expectations (FedWatch), the reference rate will remain at this level until the end of 2026.

During the reporting year, financial markets showed certain weaknesses in the event of sharp declines in indices. This particularly related to the stock market, where there was a higher probability of a correction due to the discrepancy between market value and actual risks. The strong growth of the technology sector and artificial intelligence has led to higher concentration in the markets, and the possible creation of a bubble.

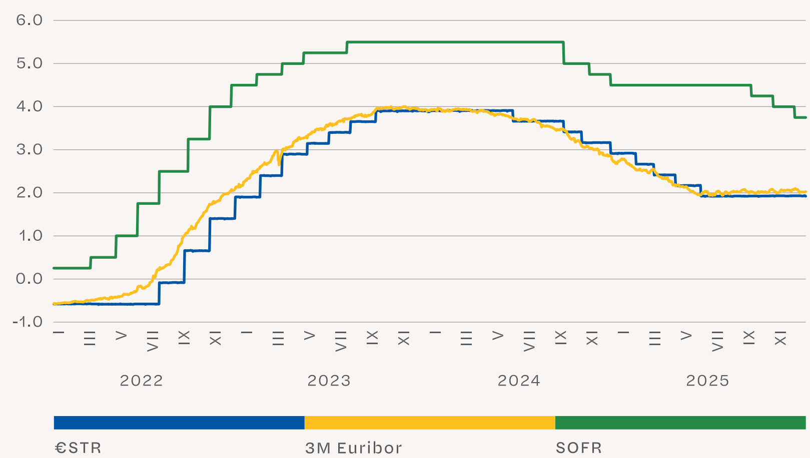
Yields on ten-year German government bonds maintained a slight growth trend throughout the year. The yield on French ten-year debt increased compared to German due to budgetary and political instability, as well as downgrading of the credit rating, thus approaching the levels of countries which markets perceive as riskier.



GRAPH 3.1

10-year Government bond yields in the euro area, 2022–2025, %

Source: Bloomberg



GRAPH 3.2

Short-term market interest rates, 2022–2025, %

Source: Bloomberg

Short-term market reference interest rates mostly mirrored the reference interest rates of the central banks (graph 3.2). Thus, the €STR rate followed every reduction in ECB interest rates, while the decline of the

4 In 2025, the FED made changes to the monetary policy strategy and long-term goals, the most significant of which is the symmetrical approach to the target inflation of 2%, which implies targeting inflation as a medium-term average of 2%, whereby deviations above and below that level are given equal importance.

three-month EURIBOR started at the beginning of 2024. At the end of 2025, the three-month EURIBOR and €STR[5] amounted to 2.03% and 1.92%, respectively, and they were 0.69 pp and 0.98 pp higher on the annual basis. The SOFR stood at 3.75% at the end of the year and it was 0.75 pp lower year-over-year[6].

Market volatility, measured by the expected volatility of US stock prices - the VIX index[7], after reaching the highest level in April since the COVID-19 pandemic, was mostly on the decline for the rest of the year, with occasional short-term spikes in October and November, which were a direct consequence of the escalation of trade tensions between the USA and China, including the announcement of high tariffs. The price of gold, as a specific indicator of stress and risks in the global economy and financial markets, moved upwards, achieving new record values. The annual growth of the gold price was 64.6%, and the price reached 4,319.4 USD/oz at the end of 2025.

5 €STR is the rate that reflects the cost of overnight borrowing in the euro area.

6 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.

7 An index of expected volatility of share prices based on options on the S&P 500 stock index, calculated by the Chicago Board Options Exchange.

4

Domestic Economic Environment

4.1. General macroeconomic trends

During 2025, the Montenegrin economy continued to record positive macroeconomic trends, but at a somewhat more moderate pace, recording slower GDP growth of 2.7% year-on-year. Private consumption remained the key driver of growth, based on wage growth, an improved situation on the labour market and stable lending. Gross fixed capital formation also made a significant contribution, which indicates stronger investment activities and confidence in the country's economic stability.

When it comes to the contribution of individual sectors to the growth of economic activity in 2025, retail trade, construction and forestry sectors had a positive impact (table 4.1). Somewhat divergent trends were recorded in the tourism sector, a 4.7% increase in tourist arrivals but a 1.5% drop in tourist overnights. Industrial output was 9.2% lower.

TABLE 4.1

Change rates in key industries, 2025/2024, %

Source: MONSTAT

Industry	Annual rate of change
Tourism, all accommodations, arrivals	4.7
Tourism, all accommodations, overnights	-1.5
Passenger transport, road	1.4
Passenger transport, railways	-12.4
Passenger transport, air	7.4
Retail trade, constant prices	4.0
Industrial production	-9.2
Construction, value of performed construction work	4.5
Construction, effective working hours	2.4
Forestry, produced assortments	5.9

According to the CBCG forecast, GDP 2026 growth is expected to reach to 3.2%. According to the forecasts of the Ministry of Finance from the Economic Reform Programme (ERP) for the period 2026–2028, made before the outbreak of the conflict in Iran, the real GDP growth rate for 2026 and 2027 had been projected at 3.2% and 3.1%, respectively, under the basic scenario, and 1.6% and 2.1%, respectively, under the lower growth scenario. Macroeconomic projections for the period from 2026 to 2028 indicate the growth of domestic demand, private consumption and investments as key drivers of economic growth. Growth in private consumption will be largely driven by the growth in employment and wages, credit activity and remittances from abroad. Medium-term macroeconomic forecasts of the Ministry of Finance indicate growth in the tourism and construction sectors, with further growth and recovery of agricultural production.

According to the forecasts of reference international institutions, in Montenegro`s 2026 economic growth is expected to remain at approximately the same level as in 2025. The World Bank (April 2026) forecasts real GDP growth of 2.9%, while the IMF (April 2026) and the European Commission (May 2026) forecast a growth rate of 2.8%.

During 2024, prices stabilized, and inflation intensified during 2025, with the annual inflation rate averaging 3.9% (0.5 pp more than in 2024). At end-2025, inflation amounted to 4%. CBCG expects inflation, with a 90% probability, to range from 1.8% to 7.3%, with a central projection of around 4.0%. According to forecasts from the ERP, for the period

2026-2028, Ministry of Finance predicts a reduction in inflation to 2% at the end of the projected period (2028), which is also the ECB's inflation target for the euro area.

In 2025, the current account deficit was 1.7 billion euros or 20.5% of GDP and it was 3.5 pp higher year-on-year. The main cause of the increase in the deficit was the negative balance on the goods account, which increased further and amounted to 3.7 billion euros (45.8% of GDP). The export of goods recorded a decline, mainly due to a decrease in the export of electricity and other means of transport. On the other hand, the import of goods continued to grow, which is the result of the increase in the import of electricity and road vehicles.

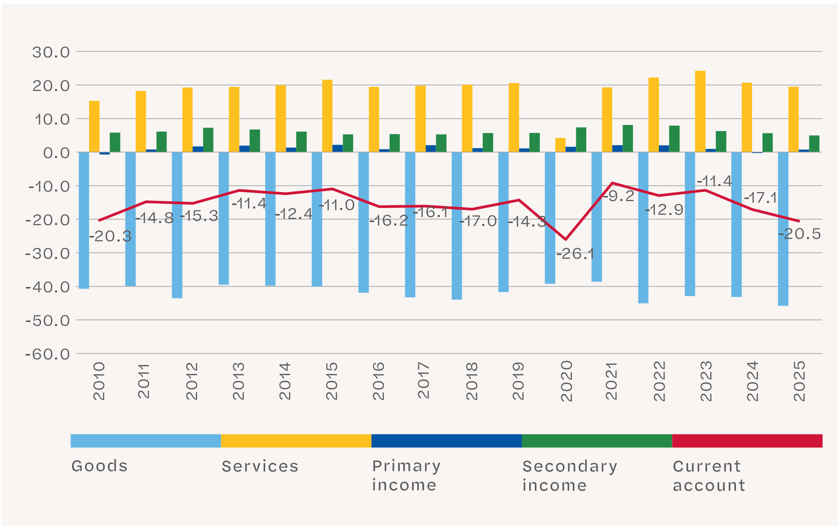
The surplus on the services account remained high and amounted to 1.6 billion euros or 19.5% of GDP at end-2025. Estimated revenues from travel-tourism amounted to 1.5 billion euros, which is 1.4% more than in the comparative period. This result is primarily a consequence of the increase in the number of tourist arrivals.

The primary income account recorded a surplus, while the surplus on the secondary income account decreased compared with the previous year, reflecting higher expenditures (graph 4.1).

GRAPH 4.1

Current account components, % of GDP, 2010–2025

Source: CBCG calculations



The net inflow of foreign direct investments amounted to 530.7 million euros or 6.5% of GDP, which represents an increase of 8% compared to 2024. The total FDI inflow increased by 14.2%, due to a slight increase in investments in companies and banks, as well as the growth of inter-company debt. On the other hand, real estate investments, after a slight decline in 2024, recorded a growth of 9.2%. At the same time, FDI outflow increased by 21.9%.

4.2. Position of non-financial institutions[8]

Debt of non-financial institutions[9] to banks saw an increase of 20.8% during the reporting year, reaching 1.9 billion euros. In relation to GDP, the debt of non-financial institutions increased from 20.2% to 22.9% of

8 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 that banks report to the CBCG.

9 Non-financial institutions cover resident business entities (private and state-owned companies).

GDP, thus ending the multi-year downward trend of this indicator. This growth is partly the result of a slower than expected GDP growth in 2025.

During 2025, the corporate sector borrowed more intensively from banks, with new loans amounting to 1.1 billion euros, which represents a growth of 13% compared to the previous year. In terms of purpose, new borrowing mostly referred to liquidity loans for working capital (54.4% of total borrowings). For years, this type of loans has been the most common type of loans granted to non-financial institutions[10]. The implementation of investment programs and the acquisition of fixed assets represented the next largest types of indebtedness, with the respective shares of 18.6% and 9.3% in new loans extended to this sector.

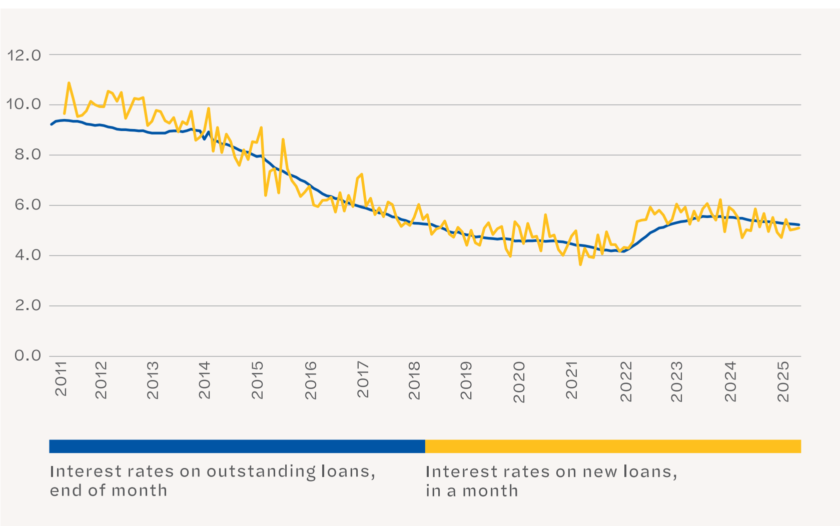
In 2024, the position of net creditors of the sector of non-financial institutions amounted to 2.6% of total assets. However, in 2025, non-financial institutions were in the opposite position - net debtors, in the amount of 1.4% of total assets, considering that loans of the non-financial sector recorded a significant growth of 20.8%, while deposits of the non-financial sector increased by 1.4%.

Regarding the initial maturity of the debt of non-financial institutions to banks, debt with an initial maturity of more than three years accounted for the main share with 65.4% of the total debt at the end of 2025. Debt with the agreed maturity exceeding one year made up 84.5% of the debt. As for the currency structure, the entire debt of non-financial institutions in 2025 was denominated in euros.

Judging by the quality of the debt of non-financial institutions to banks, credit risk continued to decline during 2025, with the share of non-performing loans in the total debt of non-financial institutions dropping to 4.3%. Total sum of non-performing loans fell by 16% relative to end-2024.

The average interest rate on the debt balance of non-financial institutions remained stable, amounting to 5.23% at end-2025, which is 0.21 pp less than at end-2024 (graph 4.2). At the same time, the average interest rate on new loans decreased from 5.45% in 2024 to 5.21% in 2025, registering a decrease of 0.24 pp.

Data on blocked business entities can serve as an indicator of the financial position of the economy. At the end of 2025, business entities that were blocked through the enforced collection system of the CBCG



GRAPH 4.2

Interest rates on debt of non-financial corporations, %, 2012–2025

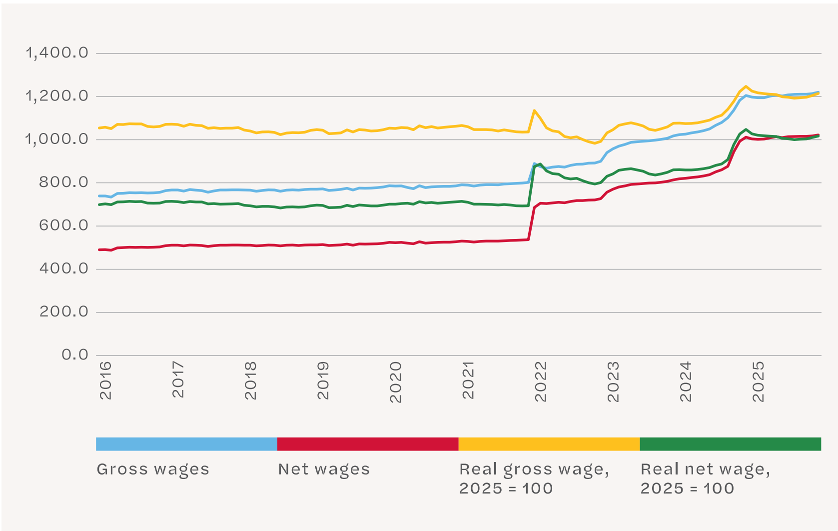
Source: CBCG

10 This data refers to all legal persons but they are sufficiently representative as 88.8% of total debt of legal persons in 2025 referred to non-financial institutions.

accounted for over a quarter of active business entities (25.7%), and their number increased by 1.8% in one year. In terms of value, the frozen funds on their accounts was 1.6 billion euros, which is 17.7% more than at the end of 2024. Some 7% of business entities were in a continuous blockade for up to a year, accounting for 2.2% of the total amount frozen funds, while 93% of business entities were blocked for more than a year, with a debt of 97.8%. For the most part, these are almost uncollectible liabilities from previous years.

4.3. **Position of households**

Favourable trends continued on the labour market, driven by implemented fiscal reforms (which include an increase in minimum and average wages) and improvement in economic activity. Real incomes of households, seen through average earnings, indicate an improvement in the financial position of this sector, despite inflation pressures. Average net earnings increased by 6.9% in 2024, while in 2025 the growth was 11.3% (graph 4.3).



GRAPH 4.3

Real gross and net earnings, 2025=100, 2016 – 2025

Izvor: CBCG

A decrease in unemployment additionally contributed to the improvement of the income position of the household sector. According to data from the labour force survey, the unemployment rate in 2025 has fallen to 10.7%. However, unemployment in Montenegro still faces structural challenges, which is reflected in the relatively slow decline of the unemployment rate, which remains high compared to the average of European countries. According to the projections of the Ministry of Finance from the ERP document, the unemployment rate is expected to decrease to 8.1% by the end of the forecast period (2028).

Household indebtedness to banks increased by 21.2% during 2025 to 2.4 billion euros, which continued the trend started in 2013 and reached the historically highest level of indebtedness in the nominal amount. In relation to GDP, household debt increased by 3.4 pp, reaching 29.2% of GDP.

During 2025, new retail loans amounted to a record 1 billion euros. In terms of purpose, the largest part of new borrowings was related to cash (all-purpose) loans, which accounted for 60.2% of total new loans. This type of borrowing is still under the CBCG`s macroprudential measures due to the growing risks arising from the level of these loans and imbalances in their maturity.

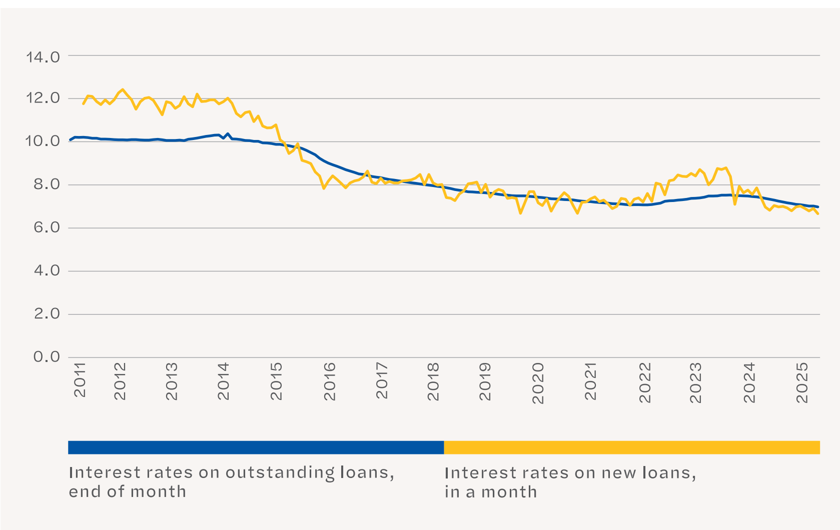
Observed through the financing of demand on the real estate market, banks play an increasingly important role, since the second largest category of new retail loans was those for the purchase of apartments and apartment adaptation. If we look at loans for the construction of buildings and adaptations, these two categories, as in recent years, together accounted for nearly a quarter of the total new household loans. Also, the population sector shows increasing financial awareness, actively seeking more favourable conditions on the banking market. In this context, loans for the refinancing of liabilities to other banks are becoming more important, occupying the third place in terms of share among new loans.

The quality of household debt to banks continues to improve. The amount of bad debt of households decreased by 6.7% to 44.2 million euros in 2025, and the share of bad debt in total households' debt dropped to 1.9%.

Due to the continuous growth of deposits, the household sector maintained its position as a net creditor, although it decreased (from 2.6% to 1.1% of total bank assets). At the end of 2025, household deposits reached a historical maximum, amounting to 2.5 billion euros.

Regarding the initial maturity of the debt of households to banks, debt with an initial maturity over three years dominated with 95.8% in the total debt at the end of 2025. This structure is primarily a consequence of indebtedness based on cash and housing loans. Debts with agreed maturity of over one year made up 99.1% of the debt. The share of household loans denominated in euros amounted to 99.9% of total household loans.

In general, borrowing by the household sector is "more expensive" compared to the corporate sector. At the end of 2025, the average interest rate on household total debt was 6.98% (graph 4.4), with the average interest rate on new borrowing reduced from 7.86% in 2024 to 6.90% in 2025. This decrease is largely the result of the CBCG initiative from March 2024, which recommended banks to lower interest rates on retail loans, but also a consequence of a drop in market reference rates. In parallel with the decrease of the interest rate, the amount of new household debt continuously grew throughout the year, and in total it increased by 25.9% compared to 2024.



GRAPH 4.4

Interest rates on households' debt, %, 2012–2025

Source: CBCG

4.4. Government finances

The situation in government finances is mostly stable, bearing in mind relatively balanced spending in the period 2023-2025. Government finances are characterized by some positive trends, such as the stabilization of the public debt at around 60% of GDP, and the gradual improvement of the credit rating and accompanying prospects. In 2024, the credit rating was increased for the first time since 2007 from level B to B+, and at the beginning of 2026 the rating agencies assigned a positive outlook. However, the credit rating is still far from investment level. In addition to positive developments in terms of fiscal consolidation, the country`s process of European integration contributes to increasing confidence among investors.

Budget revenues were lower than planned (0.4%), but higher than last year's revenues (4.3%), and amounted to 2,873.1 million euros. The implementation of the budget according to the key revenue items - taxes and contributions, mostly proceeded according to plan. Total budget revenues amounted to 35.2% of GDP, which represented a slight decrease compared to the ten-year average.

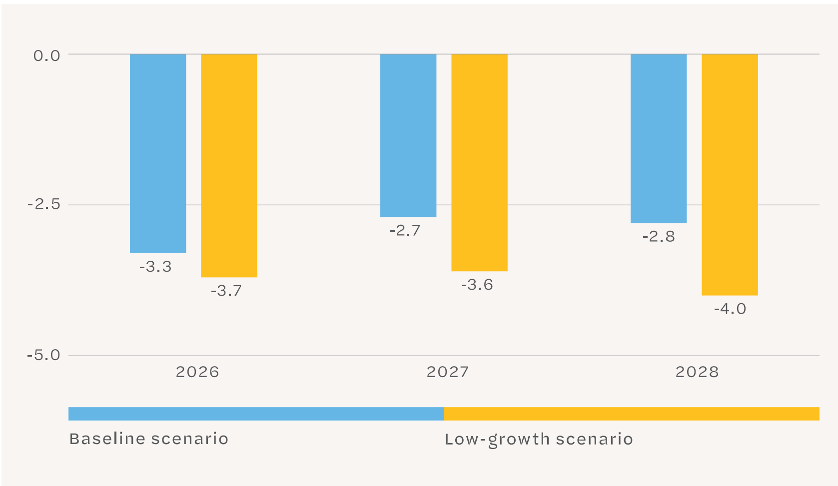
Budget expenditures were higher than planned (1%), and then last year's expenditures (6.4%), and amounted to 3,194.8 million euros. The largest increase in expenditures compared to the plan was recorded in social welfare. In relation to GDP, budget expenditures amounted to 39.1%, and were lower compared to the ten-year average.

The government budget recorded a deficit in the amount of 321.6 million euros (3.9% of GDP) in the reporting year. A budget deficit of 279.1 million euros or 3.3% of GDP[11] is projected for 2026 (graph 4.5).

GRAPH 4.5

Fiscal balance projections, % of GDP, 2026 – 2028

Source: Ministry of Finance



During 2025, public debt increased by 3.7 pp and amounted to 5.19 billion euros or 63.5% of GDP. Some 29.4 million euros or 0.4% of GDP related to the debt of local self-governments. According to the baseline scenario in Montenegro`s 2026-2028 ERP document, public debt will amount to 69.4% of GDP at the end of 2026, while it will decrease to 63.8% of GDP at the end of 2028.

At end-2025 public debt amounted to 5.16 billion euros or 63.1% of GDP (external 59.3% of GDP, domestic 3.8% of GDP). Within the external government debt, debt arising from Eurobonds accounted for the main share (57.5%). At the end of 2025, the current/outstanding issues were

11 ERP for the period 2026-2028

from 2019, 2020, 2024 and 2025. In 2025, a new issue of Eurobonds worth 850 million euros and maturing in 2032 was made, as well as the issue of domestic bonds intended for individuals and legal entities in the amount of 49.9 million euros. Within the domestic debt, one bond issue from 2019 was active on the Montenegro Stock Exchange from 2019, maturing in 2026.

Most of the government debt is repaid at a flat rate (78.8%), and the rest at a variable interest rate. Regarding the currency structure, at the end of 2025, almost the entire debt was effectively repaid in euros (99.8%).

During the reporting year, the principal of the debt was repaid (to residents and non-residents) in the total amount of 812.4 million euros, along with the attributed interest in the amount of 161.1 million euros.

According to data from the ERP document, public finances will be facing a challenging period. In 2026, debt repayment costs will amount to 400.3 million euros or 4.7% of GDP, while in 2027 the repayment will amount to 1,182.5 million euros or 13.2% of GDP. After that, in 2028, the repayment amount will decrease to 356 million euros or 3.8% of GDP. The largest one-time repayments, whose impact on the total amount of debt repayment is the most significant, refer to domestic bonds due in 2026 in the amount of 50 million euros, as well as Eurobonds due in 2027 in the amount of 750 million euros.

The dynamics of the primary budget balance (budget balance minus interest) is also significant, because it shows that due to interest expenditures, which are related to fiscal decisions in previous periods, the current fiscal policy was more balanced, although not to a significant extent, because negative values of the primary budget balance have been present for many years. In the period 2019-2025, the primary budget balance was -1.7% of GDP, while interest expenses were 2.1% of GDP. In the last two years, interest expenses hovered around to 2% of GDP. At the end of 2025, yield on Montenegro's Eurobonds ranged from 3.7% to 5.7%, depending on the issue, with the fact that on the last Eurobond issue (March 2025), the interest rate was 4.875%, and the yield to maturity was 5.125%.

5

Financial System

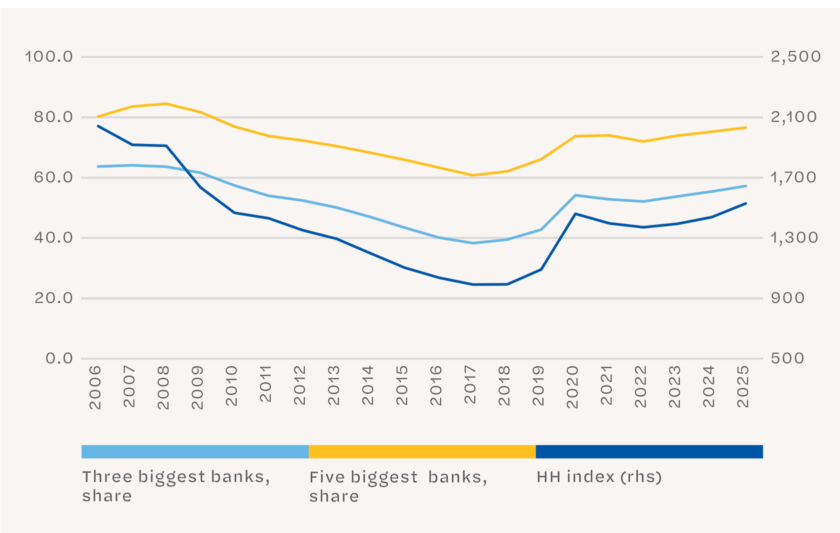
At the end of 2025, the value of financial sector assets amounted to 8.6 billion euros or 104.8% of GDP. On an annual level, the assets of the financial sector recorded a growth of 9.7%, primarily due to the growth of the assets of the banking sector, which still account for the main share in the financial sector assets (92.4%). 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, companies for purchase of receivables, and investment funds had a collective share of a mere 3.3% in the structure of the financial sector.

During 2025, eleven banks operated in the system, eight of which were majority foreign owned, with the share in assets of 85.8%.

The banking sector concentration, measured by the Hirschman-Herfindahl index (HHI) (graph 5.1) according to assets, increased from 1,438 to 1,529 points at the annual level, while according to deposits it was 1,470 points at the end of 2025. Observed in those segments, it can be concluded that the banking market is in the transition between competitive and moderately concentrated. Measured by the same indicator, the concentration of the credit market was 1,804 points, which clearly indicates a moderate concentration and the presence of several banks with a significant market share. Looking at assets, the market share of three and five largest banks amounted to 57.2% and 76.6%, respectively.

Compared to selected EU countries of a similar size at the end of 2024 (latest available data), the banking sector of Montenegro shows a lower concentration. Montenegro's HHI (according to assets) is at the very beginning of the zone of moderate concentration, significantly below the level of high concentration in Cyprus (2,537). The other observed countries, Estonia (2,110), Latvia (2,096), Slovenia (1,972) and Lithuania (1,960) are also in the range of moderate concentration, but with noticeably higher index values compared to Montenegro, while Malta (1,660) and Croatia (1,611) are closest in terms of concentration.

Nine insurance firms operated in the Montenegrin insurance market during 2025, of which four engaged in life insurance, and five in non-life insurance activities. Overall, the insurance market shows a moderate concentration, both in terms of assets and in terms of gross invoiced



GRAPH 5.1

HHI, market shares (%), 2006–2025

Source: CBCG

premium. Individually, the life insurance[12] market was characterized by high concentration, which points to the dominance of a small number of firms. On the other hand, the non-life insurance[13] market is still in the zone of moderate concentration, with a tendency to move towards a highly concentrated market. The share of total gross invoiced insurance premium in GDP was 1.7%.

In 2025, twelve microcredit financial institutions, one leasing company, two factoring companies, three receivables purchase companies, and seven investment funds were operating in Montenegro.

5.1. Banks' balance sheet structure

The trend of growth in the balance sheet of banks continued in 2025. The growth of the balance sheet amounted to 9.1% and it was driven by the growth of deposits and borrowings (on the liabilities side) and loans (on the assets side).

Deposits have been the primary source of bank funding for many years now and they accounted for 76.8% of total liabilities at end-2025, while their share in the balance sheet decreased by 3.7 pp annually (graph 5.2). At the end of December 2025, deposits recorded the annual growth of 233.6 million euros, i.e. 4%, while they also recorded a positive annual growth rate throughout the year. In October 2025, deposits reached a historical maximum of 6.1 billion euros, which reflects stability and confidence in the banking system.

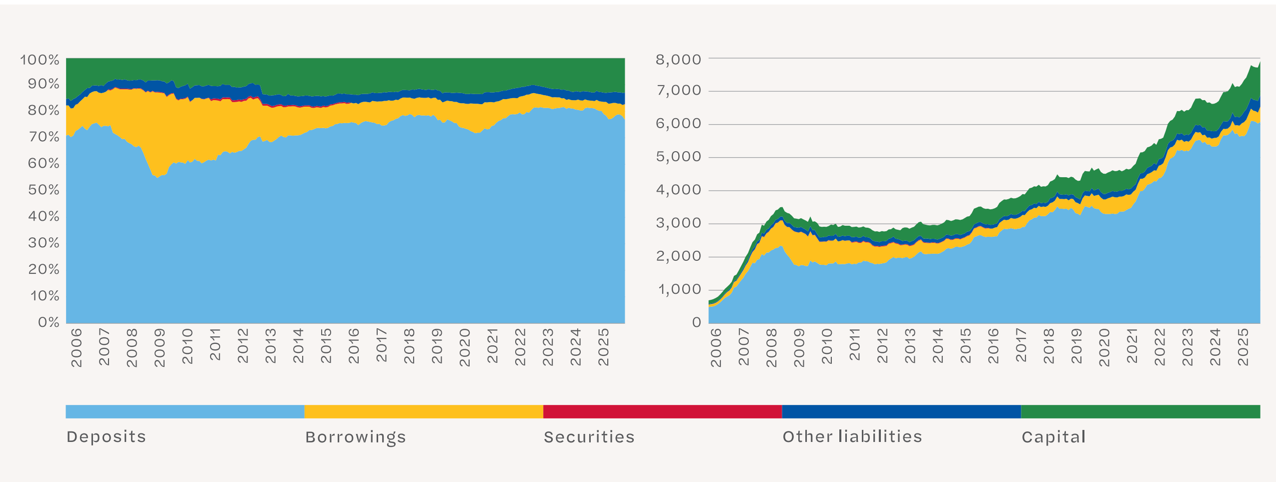
Retail deposits amounted to 2.5 billion euros and they were 14.7% higher year-over-year. Deposits by the non-financial sector amounted to 1.8 billion euros or 1.4% more compared to end-2024. Household deposits were at their all-time high at the end of the year, while non-financial sector deposits were at their all-time high in September. Deposits of non-residents accounted for a significant share of total deposits and they recorded a growth of 147.3 million euros or 11.3% at the end of 2025, while their share decreased from 22.4% in 2024 to 19.1% in 2025.

The financing of banks from loans shows growth in 2025, both in terms of amount and share in total liabilities. Their annual growth rate was 73% or 197.2 million euros, while the share in total liabilities amounted to

GRAPH 5.2

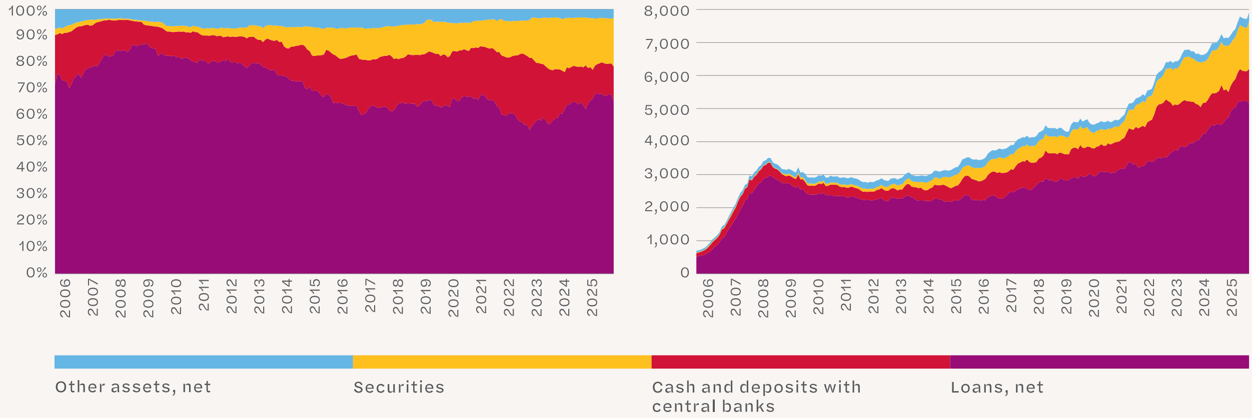
Liabilities and capital: structure (left) and amount in million euros (right), 2006–2025

Source: CBCG



12 The HHI value with regard to assets and gross premium amounted to 3,723 points and 3,341 points, respectively.

13 The HHI value with regard to assets and gross premium amounted to 2,371 points and 2,448 points, respectively.



GRAPH 5.3

Assets: structure (left) and amount in million euros (right), 2006–2025

Source: CBCG

5.9% and it increased by 2.2 pp compared to the previous year, mainly in order to prepare banks for MREL requirements in accordance with the Law on Resolution of Credit Institutions (that is aligned with BRRD II), with a deadline of 31 December 2028. The largest share in total loans was made up of loans from parent banks and other members of the banking group, 65.6%. The share of loans from the Government of Montenegro was 14.2%. At the end of the year, the share of short-term borrowings in total borrowings amounted to 36.3%, while long-term borrowings had a share of 63.7% (about half of which were loans from parent banks and members of the group).

The level of funds and deposits with central banks was in constant decline throughout the year, and at the end of December 2025 it amounted to 1 billion euros, which represents a decrease of 14.7% or 177.1 million euros compared to the end of the previous year. At the end of the year, the share of cash and deposit accounts with central banks in total assets and liabilities amounted to 13%, which represents a decrease of 3.6 pp year-over-year (graph 5.3).

Securities were 9.6% higher than in 2024 and amounted to 1.4 billion euros or 18.3% of total assets and liabilities (which represents their highest historical level).

The majority of the securities portfolio was invested abroad (805.8 million euros), primarily in investment-grade securities issued by euro area member countries. The share of foreign securities compared to the previous year increased by 1.6 pp, with the fact that these securities reached their historical maximum at end-2025. Investments in domestic government securities are also attractive to banks, and at the end of 2025, that portfolio has increased to 656.3 million euros[14] or 6.3%. 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.

Total exposure of banks to the government was 10.3% of total assets at end-2025 or 1.3 pp less in relation to end-2024 (graph 5.4). In absolute terms, the exposure reached 814.6 million euros[15]. In 2025, the government made more use of the possibility of new borrowing from banks

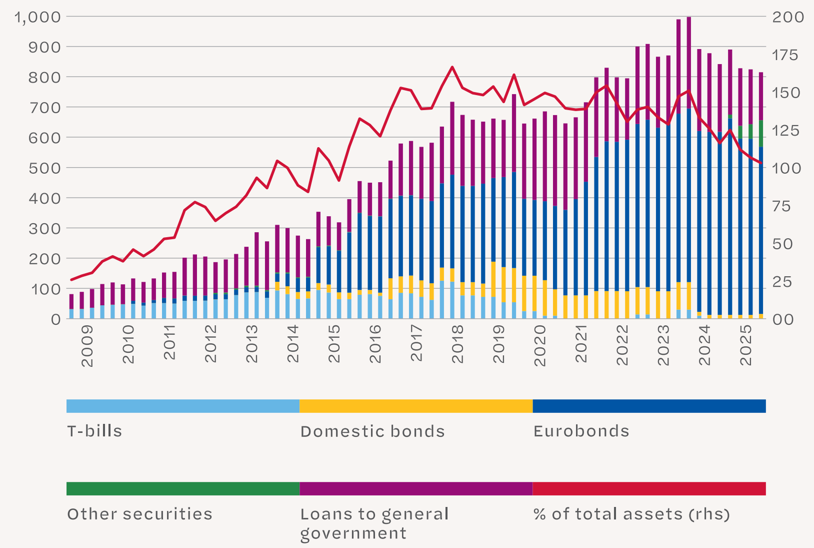
14 Value expressed without discounts/premiums.

15 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.

GRAPH 5.4

Banks' exposure to the general government, in million euros and % of assets, 2009–2025

Source: CBCG



(23.5 million euros) compared to the previous year, when the new borrowing amounted to only 2 million euros. However, when looking at the total debt (balance) of the general government by loans, it decreased by 29.5% on the annual basis.

At end-2025, banks' deposit claims on non-residents were 0.5% lower than at the end of the previous year. These were mainly demand deposits with non-resident banks that amounted to 644.2 million euros at the end of the reporting year.

Total bank claims on non-residents stood at 1.9 billion euros, accounting for 23.9% of assets. Total liabilities to non-residents amounted to 1.6 billion euros or 20.3% of liabilities (foreign deposits accounting for the largest share and reaching 1.2 billion euros, being 11.2% 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 3.6% of total assets and liabilities of banks at end-2025.

5.2. **Credit growth and non-performing loans**

Strong credit growth continued in 2025. Total loans were at their record high at the end of October 2025, while at the end of the year they amounted to 5.3 billion euros, achieving the annual growth of 14.2%, while the share of net loans in assets increased during the year from 62.1% to 65.3%. The intensive credit activity is best reflected in the record volume of new loans, which amounted to 2.2 billion euros and were 19.7% higher than in the previous year.

The largest share of the banks' loan portfolio refers to retail loans (45%), which have recorded a positive growth rate since 2013, which has recently intensified, mainly due to the higher creditworthiness of households due to increased income. In 2025, this rate was 21.2%. The volume of new retail loans in 2025 is 26% higher compared to the previous year, amounting to 1 billion euros. Individuals continue to use cash loans the most (60.2% of new retail loans), with the fact that the share of retail housing loans has recently become more pronounced (21.4%).

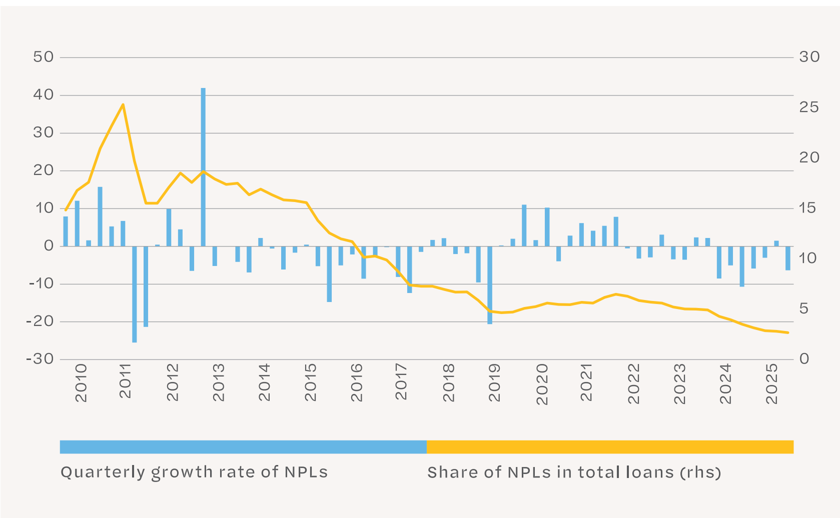
Loans to resident non-financial institutions accounted for 35.3% of total loans at end-2025, and they increased by 20.8% at the annual level. Observed by new loans, this is still the sector that banks finance the most. The total amount of new loans to non-financial institutions reached 1.1 billion euros, which is 13% more than in 2024. 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 loans to legal entities in 2025 was 54.4%, almost the same as in the previous year.

In terms of foreign exchange risk (FX 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.

In the maturity structure of loans according to the initial maturity, long-term loans accounted for 81.2% of loans at end-2025. If we look at gross loans, then long-term loans made up 92.7%.

Looking at non-performing loans, credit risk declined. At the aggregate level, non-performing loans share in total loans fell by 0.8 pp year-on-year, down to 2.7% at the end of the reporting year (graph 5.5).

The sum of NPLs decreased by 13.2% and amounted to 141.5 million euros. The NPL to GDP ratio amounted to 1.7%, being lower compared to the end of the previous year (2.1%). Loans that were over 30 days past due decreased in the one-year period by 11.6% and accounted for 2% of total loans.



GRAPH 5.5

Quarterly growth rate of NPLs and share of NPLs in total loans, %, 2010–2025

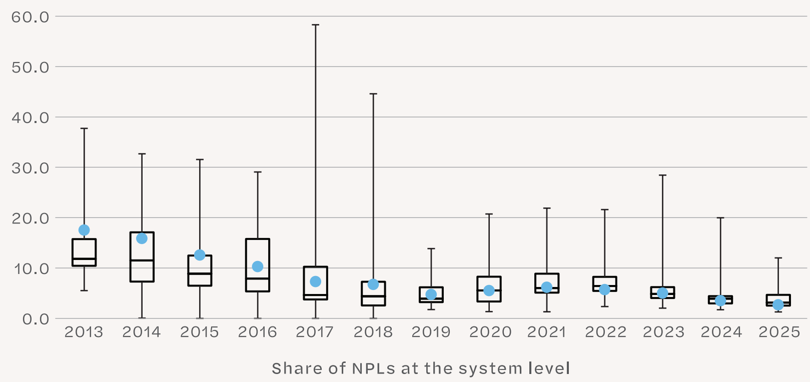
Source: CBCG

In the reporting year we saw a further reduction in the range between the lowest and highest share of non-performing loans by banks (graph 5.6). The median also reduced by 0.8 pp compared to 2024, while the extreme values, especially the maximums, were lower than before. This speaks in favour of the stabilization and uniformity of the credit portfolio quality in the banking system. The share of non-performing loans of all large banks was below the median value of non-performing loans of 3.1%.

GRAPH 5.6

Distribution of the share of NPLs and their share at the system level, %, 2013–2025[16]

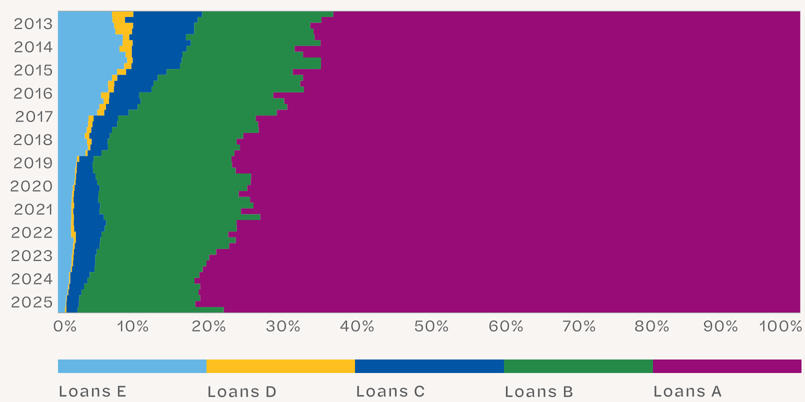
Source: CBCG



GRAPH 5.7

Movement of classified loans, %, 2013–2025

Source: CBCG



The change in the structure of loans by quality category was realized in the A loan category whose share slightly increased from 80.8% to 77.7% during the year (graph 5.7). The share of B category loans increased from 15.7% to 19.7%, while their annual increase amounted to 43.5%. One small bank in the system had an extremely high share of loans from this category, while two smaller banks and one large bank had about a third of their loan portfolio classified as category B. The share of C loans in total loans fell to 1.5% at end-2025, while the annual fall in the sum of category C loans amounted to 13.2%. D and E loan accounted for 0.2% and 1% of total loans, respectively.

The condition of credit risk can also be viewed according to how banks perceived the risk trend on expected credit losses in accordance with the implementation of International IFRS 9, which in this sense divides receivables into three levels/phases[17].

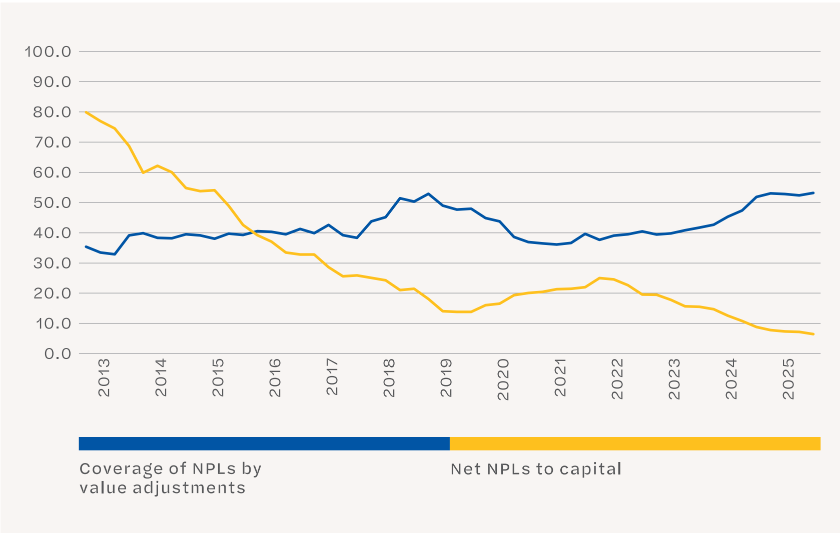
Phase 1 loans, which still represent the largest category, increased during every quarter, and their share in total loans reached 86.7% at the end of the reporting year. At end-2025, the annual decrease in phase 2 loans amounted to 4.4% and their share in total loans decreased from 13% to 10.6%. Loans in phase 3 registered the annual decline during all quarters, and their share decreased from 3.6% to 2.7%.

16 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.

17 Phase 1 includes financial instruments whose credit risk has not significantly deteriorated or which had low credit risk at the time of reporting. Phase 2 covers financial instruments where there was a significant increase in credit risk, but there was no objective evidence that loan losses had occurred. In phase 3, there are financial assets where there is objective evidence of the occurrence of credit losses, which essentially corresponds to non-performing loans, i.e. the sum of classification categories C, D and E.

The share of non-performing loans in total loans of non-financial institutions was 4.3% at end-2025, while it amounted to 6.2% at end-2024. Credit risk was still less pronounced in the retail sector. The sum of retail non-performing loans decreased by 6.7% and their share in total retail loans stood at 1.9% at end-2025. The share of retail loans that are more than 30 days past due in total retail loans also declined and stood at 1.7%.

The coverage of non-performing loans by value adjustments for loan losses (only for non-performing loans) amounted to 52.5% at end-2025, while they stood at 51.9% at the previous year-end (graph 5.8). The ratio of net ("uncovered") non-performing loans and capital dropped year-over-year from 8.8% to 6.5%.



GRAPH 5.8

Selected credit risk indicators, %, 2013–2025

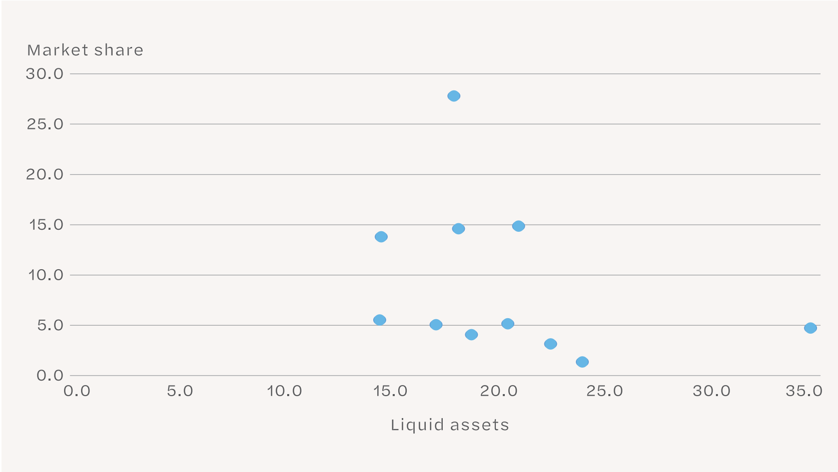
Source: CBCG

During 2025, banks mostly continued to approve loans at fixed interest rate, so the share of loans with a variable interest rate dropped to 5% (7.6% at the end of 2024). The downward trend in the share began in mid-2022, with the fact that in the second half of 2022 and during 2023, in addition to the transition to approving loans at fixed interest rate, the decline in participation was also affected by the conversion of interest rates from variable to fixed interest rates for previously approved loans (also as a result of the CBCG initiative, in the period when the ECB was planning to increase its key interest rates).

5.3. **Liquidity**

Banks' liquid assets amounted to 1.5 billion euros at the end of December 2025, with the annual decrease of 10.8%. At end-2024, liquid assets of banks accounted for 18.9% of total assets, which is 4.2 pp less year-on-year (graphs 5.9 and 5.10). Despite the decline that has been present for several years, the liquidity position of banks can still be assessed as favourable. It should also be noted that the CBCG's definition of liquid assets is quite conservative as it completely excludes securities, while a large part of the securities held by banks is highly marketable.

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 433.7 million euros or 30.1% of liquid assets



GRAPH 5.9

Liquid assets of banks as per market share, %, 31 December 2025

Source: CBCG

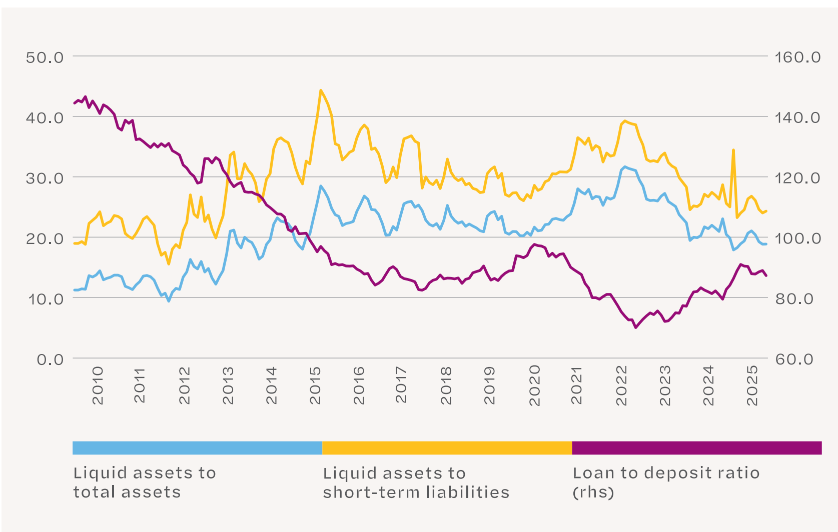
at end-2025. Banks hold significant funds with foreign financial institutions and these are primarily demand deposits. They amounted to 544.2 million euros or 37.8% of liquid funds. Also, banks held cash in vaults in the amount of 267.3 million euros at end-2025.

The loan to deposit ratio increased year-on-year and reached 79.5%, since the increase in loans (662.2 million euros) was 2.8 times higher than the increase in deposits (233.6 million euros).

Demand deposits accounted for the main share in the structure of deposits by the maturity. At end-2025, they accounted for 84.2% of total deposits or 1.1 pp less than at the end of the previous year. For the purpose of comparison, this share was 42% at end-2013. This tendency can primarily be explained by the decline in passive interest rates, increased inflationary expectations in certain periods and more favourable return and risk ratios for alternative forms of investment. Thus, term deposits have become less attractive.

The ratio of liquid assets to financial liabilities up to one year stood at 24.3% and it was 4.4 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 26.6%.

In January 2025, the ECB decided to extend the deadline for the CBCG for using the EUREP line until the end of January 2027. The extension of the credit line represents additional safety for maintaining the stability



GRAPH 5.10

Liquid assets and loans to deposits ratio, %, 2010–2025

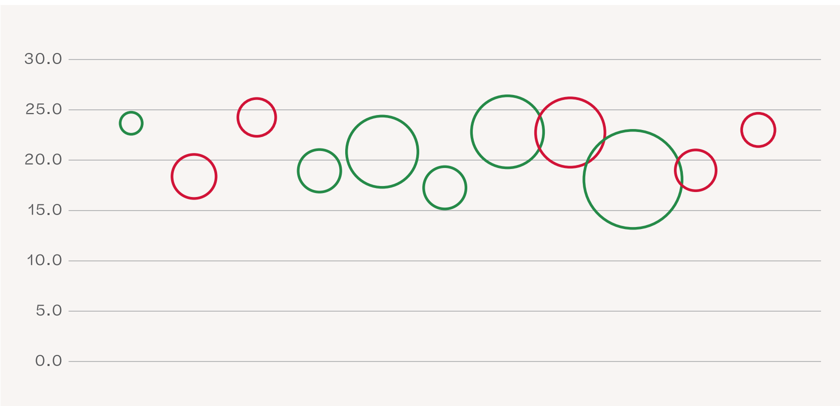
Source: CBCG

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. So far, the CBCG has not used the EUREP line.

5.4. **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 Tier 1 capital adequacy ratio was 19.3%. At four largest banks, the total capital adequacy ratio ranged between 18.1% and 22.8% (graph 5.11). At the end of the year, all banks had capital ratios above regulatory requirements (Pillar I, Pillar II and capital buffers), ranging from 14.9% to 18.2%.

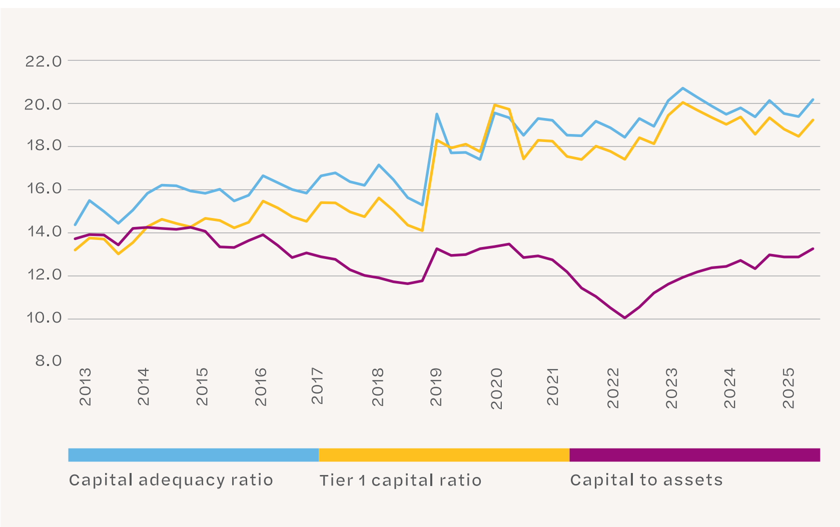
Total capital of banks recorded a growth of 15.1% and reached 1.03 billion euros, primarily due to the banks' profit realized during the year. The share of total capital in total assets and liabilities of banks rose from 12.3% in 2024 to 13% in 2025, while the regulatory core capital/balance sheet ratio amounted to 10.4% (graph 5.12).



GRAPH 5.11

Capital adequacy ratio, %, 31 December 2025 (as per market share: bubble size and annual change: green- growth, red- decline)

Source: CBCG



GRAPH 5.12

Selected capital ratios, %, 2013–2025

Source: CBCG

5.5. **Profitability and interest rates**

Net profit of banks amounted to 147.3 million euros in 2025, which was 6.5% less 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 120.7 million euros. Despite the decline compared with the previous record-breaking year, banks' profits remained exceptionally high.

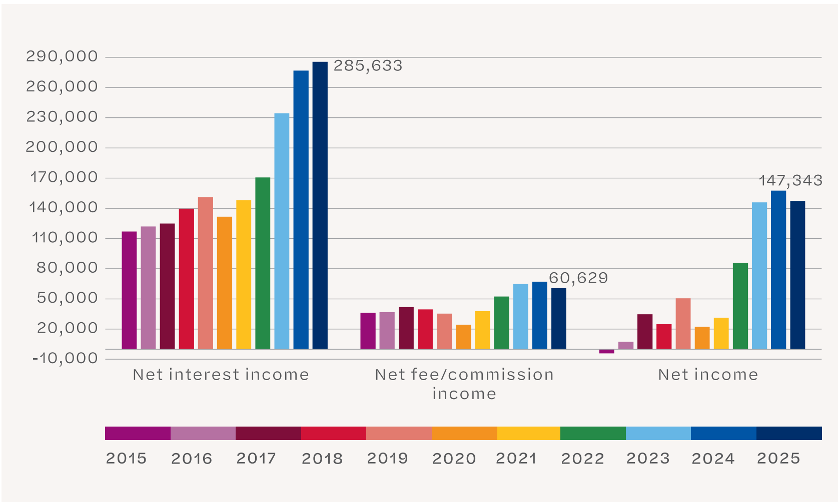
Interest income and similar revenues were 6.1% higher year-on-year at the system level. In recent years, income from fees and commissions have gained importance, and they amounted to 53.1% of interest income in 2025. After a decline in 2020, these incomes were on an uptrend over the next five years and reached growth of 3.6% in the reporting year.

Net interest income was 3.2% higher year-on-year, while net income from fees and commissions decreased by 9.7% (graph 5.13).

GRAPH 5.13

Selected income statement components, in thousand euros, 2015 – 2025

Source: CBCG



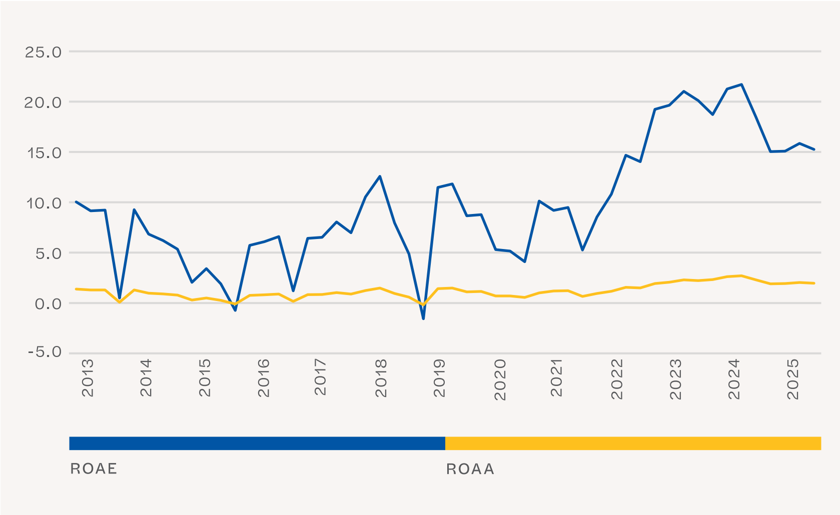
Impairment costs increased significantly (from 6.5 million euros in 2024 to 1.9 million euros), as did provisioning costs (from 1.7 million euros in 2024 to -0.3 million euros), although their amount was not high enough to significantly affect banks' profitability.

In line with a somewhat weaker financial result compared to the previous year, ROAA stood at 2% in 2025 (2.3% in 2024), while ROAE was lower and amounted to 15.4% (18.5% in 2024), due to the strong growth of average equity during the year (graph 5.14).

The breakdown of ROAE shows that net interest income had the largest positive contribution (graph 5.15). Regular expenses - employees' expenses and general and administrative expenses made up the largest part of banks' expenditure. Banks' employee expenses increased by 10.9% year-on-year. As in the previous year, impairment losses, reported under other operating expenses, had a negative impact on the 2025 financial result, while provisioning expenses had a positive impact.

The difference between the interest income to average earning assets ratio and the interest expenses to average interest-bearing liabilities ratio was lower at end-2025 and amounted to 4.2 percentage points (graph 5.16). The spread varied considerably across banks, ranging from

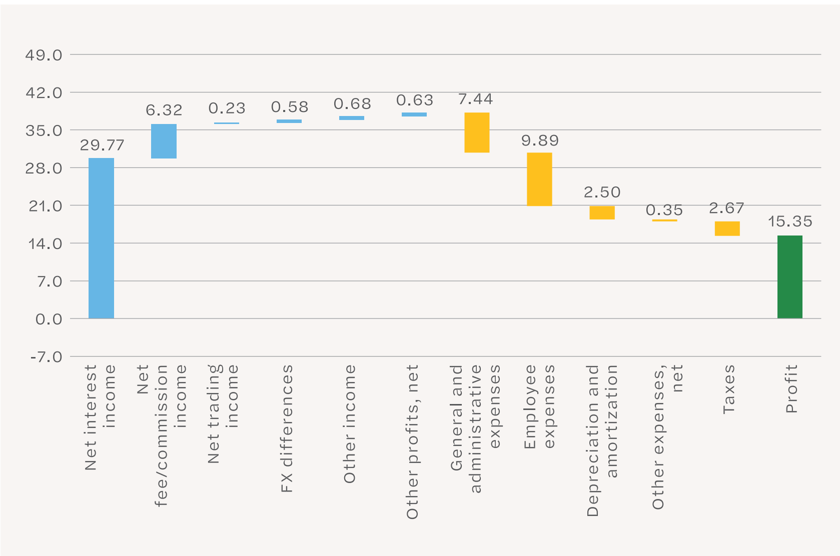
1.7 to 5.6 pp. Average earning assets were 16.3% higher than in 2024, accounting for 89% of average assets.



GRAPH 5.14

Selected profitability ratios, %, 2013–2025[18]

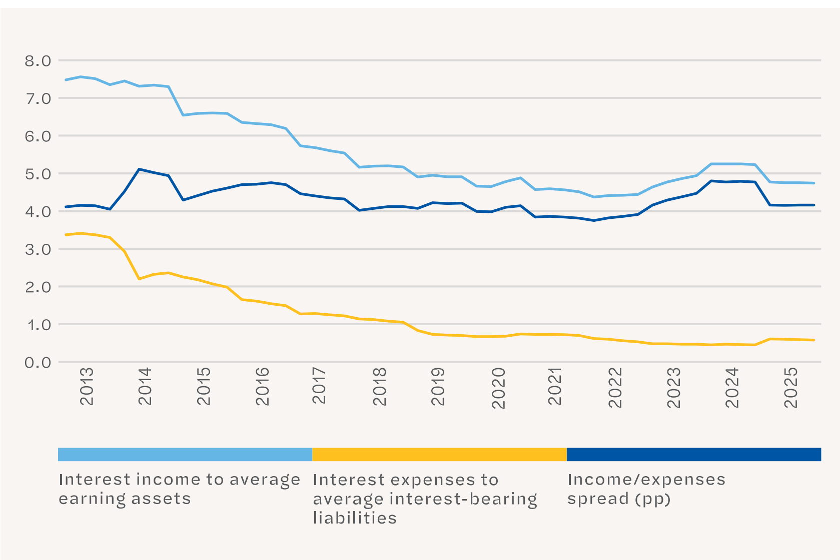
Source: CBCG



GRAPH 5.15

Components of banks' income statements in 2025, share in ROAE, pp

Source: CBCG

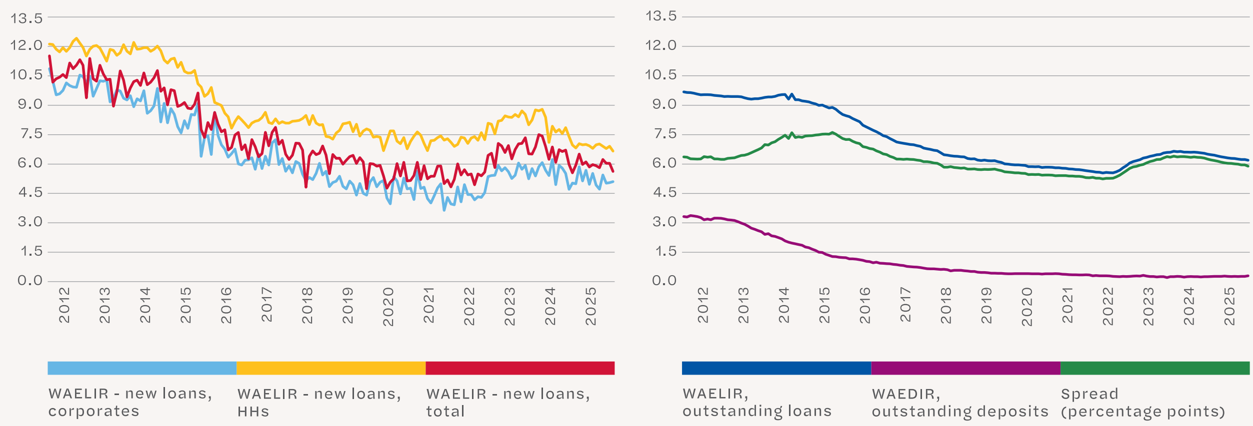


GRAPH 5.16

Income/expenses spread (percentage points) and its components (%), 2013–2025

Source: CBCG

18 Quarterly data for the first three quarters refers 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.



GRAPH 5.17

Selected interest rates, %, 2012 – 2025

Source: CBCG

The upward trend in the weighted average lending interest rate (for banks' entire loan portfolio, based on outstanding loan balances), which began in mid-2022, ended in mid-2024, and has since been followed by a slight decline. During the year, the weighted average lending interest rate fell by 0.31 pp (graph 5.17). As for the weighted average deposit interest rate, its annual growth was 0.05 pp. At end-2025, the weighted average lending interest rate was 6.19%, while the weighted average deposit interest rate was 0.3%. Thus, the interest spread amounted to 5.89 pp at the year-end.

The lending interest rate on newly approved loans declined by 0.54 percentage points year-on-year in 2025, standing at 5.98%. The decline was driven primarily by lower interest rates on new retail loans, which were 0.96 percentage points lower than a year earlier, while interest rates on newly approved loans to the corporate sector declined by 0.24 percentage points.

5.6. **Sensitivity analysis**

Sensitivity testing using four credit risk tests showed a significant resilience of banks since all of them went through this testing (table 5.1)[19].

As expected, the sensitivity tests indicated only minor adverse effects on the sector's solvency ratio: under the interest rate risk scenario, the ratio declined by 0.41 percentage points to 19.8%, whereas under the foreign exchange risk scenario, it remained unchanged.

The sensitivity to liquidity risk test, actually tested as a risk of deposit run, was conducted through 11 extremely severe and less likely scenarios/tests (table 5.2). 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 requirement[20]. On the other hand, the possibility of using bank funds in the form of demand deposits held abroad, which amounted to 581 million euros at end-2025, was not assumed nor did the remaining 50% of the reserve requirement (163.9 million euros).

19 Observed in relation to the statutory minimum for total regulatory capital that amounts to 8% of total exposure for all banks and it is equal for all banks.

20 Available liquid funds represent free liquid funds increased by 50% of reserve requirement. According to the Decision on reserve requirement of credit institutions at the Central Bank (OGM 19/22, 78/24), bank can use up to 50% of the reserve requirement without the fee charged by the CBCG, if it returns the funds taken by the end of the working day. With the CBCG fee of 12% per year, bank can use the funds of the reserve requirement even after the end of the working day.

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 considered.

TABLE 5.1

Sensitivity analysis of credit and market risks, 31/12/2025

Source: CBCG

No.	Test	Solvency ratio after the test, %					Amount of lacking capital at the sector level, thousand euros	Number of banks that failed the test
		Minimum	Q1	Q3	Max	System		
		Solvency ratio before the test, %						
		17.3	18.7	22.9	24.3	22.3	---	---
		Credit risk test						
1.	Negative reclassification of classified loans' structure[21]	14.7	16.3	21.3	21.6	18.2	0	0
2	Increase in non-performing loans by 30% and value adjustments by 40%	16.6	17.7	22.5	23.3	19.8	0	0
3	Large debtor bankruptcy[22]	16.0	17.4	22.1	22.5	19.2	0	0
4	Largest debtor bankruptcy	10.7	14.5	19.8	21.9	17.3	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	16.9	18.7	22.8	25.7	19.8	0	0
2	Adjustment of net open FX position by 20%	17.3	18.7	22.9	24.3	20.3	0	0

No.	Test	Coverage by immediately available liquid assets, thousand euros (703,175 as at 31 December 2025)			Coverage by available liquid assets, thousand euros (867,072 as at 31 December 2025)		
		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	-511,304	9	-516,102	-347,407	9	-366,338
2	Withdrawal of 20% of demand deposits	-322,890	7	-362,373	-158,993	6	-229,994
3	Withdrawal of 10% of household demand deposits and 30% of corporate demand deposits	-299,576	6	-353,413	-135,679	6	-221,108
4	Withdrawal of 20% of household time deposits and 30% of corporate time deposits	473,795	2	-16,230	637,692	1	-4,638
5	Withdrawal of deposits of the largest depositor	374,572	2	-25,974	538,469	1	-10,473
6	Withdrawal of 50% of deposits by 10 largest depositors	163,842	4	-96,201	327,739	3	-58,406
7	Withdrawal of 30% of government deposits	472,106	0	0	636,003	0	0
8	Withdrawal of 50% of government deposits	318,060	0	0	481,957	0	0
9	Withdrawal of 30% of non-resident deposits	354,771	3	-126,659	518,668	2	-104,981
10	Withdrawal of 30% of deposits by non-residents from Russian Federation and Ukraine	614,666	1	-13,078	778,563	1	-3,193
11	Withdrawal of 50% of deposits by non-residents from Russian Federation and Ukraine	555,660	1	-31,476	719,557	1	-21,591

TABLE 5.2

Sensitivity analysis of liquidity risk, 31. 12. 2025

Source: CBCG

21 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.

22 Median value of the debt of banks' 20 top debtors.

Even under these rigorous assumptions, the stress tests confirmed that the banking sector as a whole remained liquid. However, the first three scenarios proved the most challenging, as the sector would not have been able to withstand the assumed deposit withdrawals even after drawing on 50% of its required reserve holdings. In the remaining stress test scenarios, some banks would face liquidity shortfalls, with insufficient liquid assets to cover the assumed deposit outflows. The largest shortfall, even after the use of 50% of required reserves, was recorded in the ninth scenario, in which two banks failed the test, with a combined liquidity deficit of 105 million euros.

However, if banks' deposits held with foreign banks and the full amount of required reserves were also taken into account, all banks would pass all stress test scenarios (with only minor shortfalls in the first scenario Again, it should be kept in mind that these scenarios exclude several additional sources of liquidity, such as the sale of securities or the possibility of borrowing from other counterparties.

5.7. Macro-stress testing

The results of stress testing indicate the satisfactory resilience of the banking system of Montenegro to possible adverse macroeconomic trends. Projections for 2025 and 2026 show that in the case of two scenarios, all credit institutions meet the minimum capital requirements.

Using financial information with the balance as at 31 December 2024, the CBCG conducted regular annual stress resistance testing of all credit institutions during 2025, with the aim of determining additional capital needs. The process of stress resistance testing was carried out through three stages:

- **Phase I** - the trend of key macroeconomic variables is projected in the baseline scenario and the pessimistic scenario for 2025 and 2026;
- **Phase II** - the projection of the rate of non-performing loans is made for previously defined scenarios;
- **Phase III** - the simulation of impact of the projected rate of non-performing loans on the capital adequacy ratios of credit institutions for each of the scenarios.

As a result of the first phase of macro-stress testing, two scenarios were created - baseline and worst-case scenarios of economic trends in 2025 and 2026. The scenarios describe the movement of key macroeconomic variables: GDP, unemployment rate, inflation, earnings, and real estate prices in the period 2025 - 2026 (table 5.3).

TABLE 5.3

Macroeconomic trends and financial variables assumptions, 2025- 2026

Source: CBCG

Macro indicators - annual change	Two macro stress scenarios			
	Baseline		Worst-case	
	2025*	2026	2025	2026
Real growth of GDP, %	3.2%	3.0%	1.8%	1.7%
Inflation, %	2.9%	2.3%	4.0%	3.5%
Unemployment rate (in percentage points)	-2.2pp	-1.0pp	0.0pp	0.5pp
Wages (% of change)	19.3%	9.0%	10.2%	5.0%
Real estate prices (% of change)	20.0%	2.0%	10.0%	-1.90%

Notes: Wage growth is nominal (without inflation).

* The projections are model and expert projections of the CBCG, which are partially presented in the Central Bank of Montenegro Annual Report (2025).

The basic scenario is based on the Central Bank's projections of the given indicators trends in 2025, published in the CBCG`s 2024 Annual Report, while the average projections of the relevant international institutions - the IMF, the World Bank, the EBRD, the European Commission were used and the Vienna Institute for International Economic Studies (wiiw) - were used for the year 2026, especially in terms of GDP and inflation.

The worst-case scenario assumes that certain positive but realistic macroeconomic trends will not be realized in the coming period due to prolonged and intensified global uncertainty. The central feature of this scenario is the elevated and permanent level of geopolitical tensions, which would negatively affect the investment climate and the global willingness to take risks. This environment can lead to serious disruptions in the international movement of goods, people and capital, which, along with the strengthening of protectionist policies and the disruption of supply chains, can lead to a drop in foreign direct investments and a decrease in capital inflows, as well as to a decrease in tourism turnover, especially in developing countries.

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

The share of NPL in total loans (dependent variable) is used as a measure of credit risk. A separate model for each scenario was estimated for each of the eleven credit institutions. Several models were estimated, depending on the length of the time series, as well as the suitability of those series for the implementation of certain models. The econometric model used to estimate the rate of NPL in each of the eleven credit institutions is the error correction model (ECM), which is presented as model (2) in the text. Although model (1) is theoretically set as the basic specification of the Autoregressive Distributed Lag (ARDL) model, in practical application its reparameterization in the form of ECM was used, which enables the analysis of both short-term and long-term relationships between variables:

$$npl\_rate_t = \beta_0 + \beta_1 npl_{rate(t-1)} + \beta_2 X_{it} + \sum_{k=0}^{t} \beta_3 X_{it-k} + time\_dummy + e_i \quad (1)$$

In this model, npl_rate_t, it represents the percentage of non-performing loans in total loans; $time\_dummy$ is a vector of artificial time variables that control structural breaks in the independent variable; X is the vector of independent variables that include macroeconomic and banking indicators, e is the 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 available time series relating to the period 2006 q1 – 2024 q4. The model was able to calculate the NPL of all eleven banks in the system. All diagnostic tests are found to be valid. Gross earnings, inflation, and credit series have been adjusted to account for changing definitions of these variables. Given the nature of quarterly data, the series were adjusted for seasonal variations.

The ARDL model was used, which is particularly suitable for stress testing: a) ARDL modelling allows connecting microeconomic variables (non-performing loans) with macroeconomic variables under the assumption that they are exogenous, b) ARDL model allows taking into account all short-term and long-term relationships (co-integrating relationships) between these variables, c) ARDL modelling does not require prior testing of the presence of a unit root during the co-integration testing,

d) enables neutrality regarding the order of integration of all variables in the model, which can be I(0) or I(1), co-integrated or not. The ARDL model is a reparameterization of the ECM model (error correction model). The ARDL model can be viewed as an ECM model that can model short-term and/or long-term relationships between endogenous variables and a set of exogenous variables: X determines Y, but Y does not determine X.

The form of ECM is:

$$\Delta y_t = \alpha - \underbrace{\psi(1)\left(y_{t-1} - \sum_{j=1}^{k} \frac{\beta_j(1)}{\psi(1)} x_{j,t-1}\right)}_{Long\ term\ dynamics} + \underbrace{\tilde{\psi}^*(L)\Delta y_{t-1} + \sum_{j=1}^{k} \gamma_j(L)\Delta x_{j,t}}_{Short\ term\ dynamics} + \varepsilon_t \qquad (2)$$

Based on the parameters obtained by model (2) which was applied to each credit institution individually, and the given assumptions for 2025 and 2026, the 2025 and 2026 NPL rates were projected. GDP, unemployment and wages have the most significant impact on the level of non-performing loans.

It should be taken into account that the model cannot predict factors in the banking sector in 2025 and 2026 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. 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.

During the third phase of testing credit institutions' resistance to stress, a simulation of the impact of projected NPL growth on capital adequacy ratios (regular initial, initial and total capital) for 2025 and 2026 was carried out. The parameters of credit institutions' operations as at 31/12/2024 were taken as a starting point, assuming a static balance sheet and income statement. This means that when projecting the growth of value adjustment, missing reserves, i.e. the growth of the risk-weighted value, the assumption of a constant proportion of these parameters in the total gross non-performing loans, i.e. risk-weighted assets for exposures that are in default status was taken.

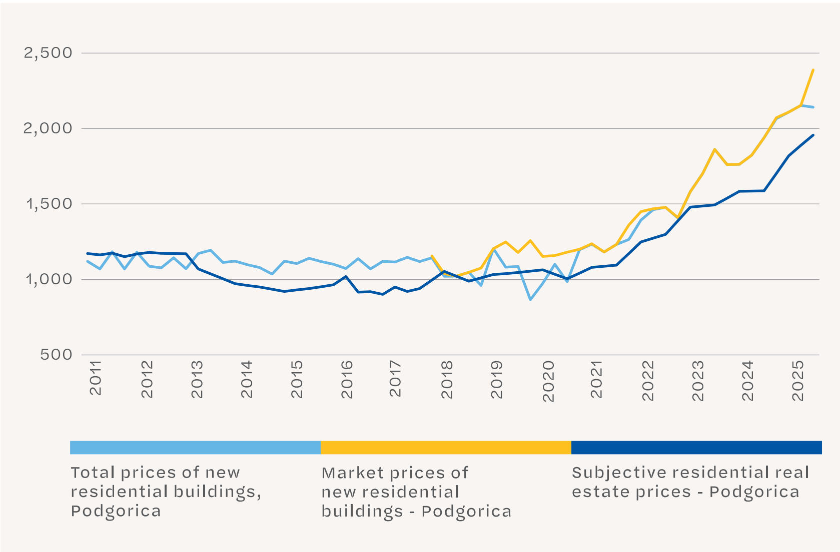
The results of the third phase of testing credit institutions' resilience to stress showed that in all scenarios, all credit institutions, except one, meet the minimum capital requirements. Having in mind that supervisory activities and measures are already being undertaken for that credit institution, the results of this test will not result in the undertaking of new supervisory measures.

The analysis of the results indicates that the biggest contributor to potential losses would be the lending segments that are most associated with cyclical movements, especially retail loans and loans related to the real estate market. In general, the results of stress testing confirm that the banking sector of Montenegro is capable of absorbing significant shocks, but at the same time point to the need for continuous monitoring of cyclical risks and timely action of macroprudential policy.

5.8. **Real Estate Market**

Real estate prices are important for assessing financial stability, considering the contribution of housing loans to the current upward credit cycle, and the fact that real estate is one of the most important forms of collateral, which secures both housing and mortgage loans. The imbalance in real estate prices increases the impact of sudden shocks that can directly or indirectly affect the balance sheets of banks. That is why monitoring of the real estate market is necessary, in order to try to prevent the development of cyclical risks by increasing the resilience of the banking system to sudden shocks. The CBCG has the ability to impose measures in the form of borrowing conditions, which can prevent the accumulation of credit risk associated with the real estate market.

Prices of apartments in new buildings in Montenegro reached a new historical maximum at the end of 2025. An average market price of apartment in new buildings[23] in Montenegro (2,251 euros) recorded the annual growth rate of 22.1%. Compared to 2020, the prices of apartments in new buildings increased by 95.7%. In Podgorica, the market value of apartments in new buildings reached 2,180 euros per square meter, which represents the annual growth of 19.7% (83.7% compared to 2020). According to the results of the CBCG survey on real estate prices, the average price per square meter of all residential real estates in Podgorica was 1,841 euros, which represents a growth of 17.1% year-on-year[24] (graph 5.18). The prices obtained in this way follow the general growth trend, but due to certain shortcomings of the survey, i.e. untimely or inadequate information of the respondents, they are significantly lower than the transaction prices of newly built apartments (MONSTAT data).



GRAPH 5.18

Prices of apartments in residential buildings obtained using the Hedonic Index and prices of apartments in new residential buildings, in euros

Source: CBCG and MONSTAT

The CBCG also conducted a survey among real estate agencies[25], which showed that 28.6% of agencies recorded an increase in turnover in 2025, while turnover was the same or lower in 35.7% of agencies. Most of the real estate agencies (53.6%) believe that the real estate prices per square meter increased. The majority of agencies (67.9%) expect prices to remain at the same level in 2026. On the other hand, the majority of agencies (60.7%) believe that overall demand will decrease in the coming year. When asked about the growth of demand from abroad, which has been significant for the last years and is generally the key factor of the price growth, the agencies in this survey were pessimistic, given that 71.4% of them expect this demand to fall.

23 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.

24 Real estate prices obtained from the survey conducted by the CBCG basically represent the subjective prices of real estate owners, i.e. prices below which they would not be willing to sell the properties.

25 For the purpose of the analysis, 154 real estate agencies were surveyed, most of which operate in Podgorica and the coastal region of Montenegro. Answers were submitted by 28 agencies.

Year	Stock at end-year, in million euros	y-o-y growth, %	% of GDP	% of total loans	New housing loans, in thousand euros
2020	419,688	6.0	10.1	13.3	67,214
2021	444,296	5.9	9.0	13.2	84,182
2022	539,006	21.3	9.1	14.7	111,209
2023	578,340	7.3	8.2	14.1	115,961
2024	666,443	15.2	8.7	14.4	173,659
2025	804,844	20.8	9.9	15.2	232,694

TABLE 5.4

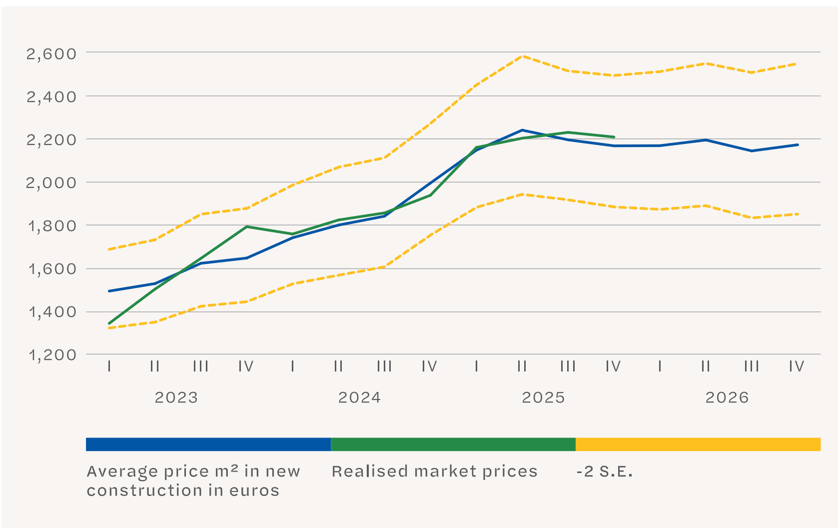
Housing loans in the period 2020-2025

Source: CBCG

The growth rate of housing loans for natural persons in 2025 was 20.8%, and the cumulative growth compared to the end of 2020 was about 92%. The growth of housing loans for natural persons is also visible through new loans, so the annual cumulative of new loans had grown at an accelerated pace 2022, and especially in 2025 (almost 34%). Retail housing loans show a growth trend in retail loans, total loans and GDP, and their growth is accompanied by a larger number of credit sub-accounts and a larger average amount of loans. The value in relation to GDP is still significantly lower than the average in the EU countries (over a third of the GDP value).

The CBCG`s Bank Lending Survey indicates an increased demand of the households for housing loans, but also the clear willingness of banks to finance the purchase of real estates. The results of the survey also show a decrease in the number of rejected applications, which can be explained by the easing of credit standards during all quarters of 2025. As the key reasons for such trends, banks cite increased willingness to take risks, a better perception of risk (better general economic situation and prospects, lower credit risk, etc.) and significantly greater competition on the market. In addition, the conditions for housing loans were more favourable, in particular interest rate margin, collateral requirements, mortgage and deposit values, maturity, commissions and fees.

Despite maintaining a high level of FDI inflow into the real estate sector, their share in total FDI decreased from 51.1% in 2024 to 48.9% in 2025, which may indicate the beginning of the process of gradual diversification of investment flows. According to preliminary data from MONSTAT, activity in the construction sector remained positive, with an increase in the value of completed works of 4.5% and effective working hours of 2.4%.



GRAPH 5.19

Prices of apartments in new buildings per square metre in Podgorica, in euros[26]

Source: CBCG, 2025

26 Note: ±2 S.E. denotes a confidence interval of two standard errors around the mean of the estimate, which includes approximately 95% probability that the true value will lie within that range.

Graph 5.19 shows that the prices of apartments in new buildings in Montenegro had recorded a strong growth during 2024 and in early 2025, after which they gradually slowed down and stabilized. Realized market prices (green line) move close to estimated values (blue line), which suggests a relatively high alignment of market trends with fundamental factors. At the same time, the confidence intervals (orange dashed lines) indicate the present uncertainty, especially in the projection period. Projections for 2026 point to the stabilization of price growth, while maintaining a relatively high price level and moderate growth dynamics, with possible slight oscillations during the year.

Considering the importance of the real estate market for the business cycle and financial stability, a risk assessment of the market was performed by using a selected set of indicators. For this analysis, six series were used, monitored in the period 2012–2025, which approximate the market value, domestic and foreign demand, as well as the offer on the real estate market. Prices of apartments in new buildings in Montenegro are used as an indicator of the market value of real estate, while net earnings approximate domestic demand through the households' purchasing power. The share of foreign direct investments in real estates in total FDI reflects foreign demand, while the offer on the real estate market is seen through the growth in the number of issued building permits and the share of construction in GDP. Additionally, the activity of the real estate sector is observed through the trend of this sector as a component of GDP. Any significant deviation of these indicators from their long-term trends may indicate potential imbalances and increased risks to financial stability. In order to eliminate the impact of inflation, certain variables are expressed in real values.

Real values of these series are available for the period 2012-2025, on a quarterly basis. In order to assess the deviation from the long-term (fundamental) level, cyclical trends were calculated using the Hodrik-Preskot (HP) filter method. The resulting trends and cyclical components are shown in graph 5.20.

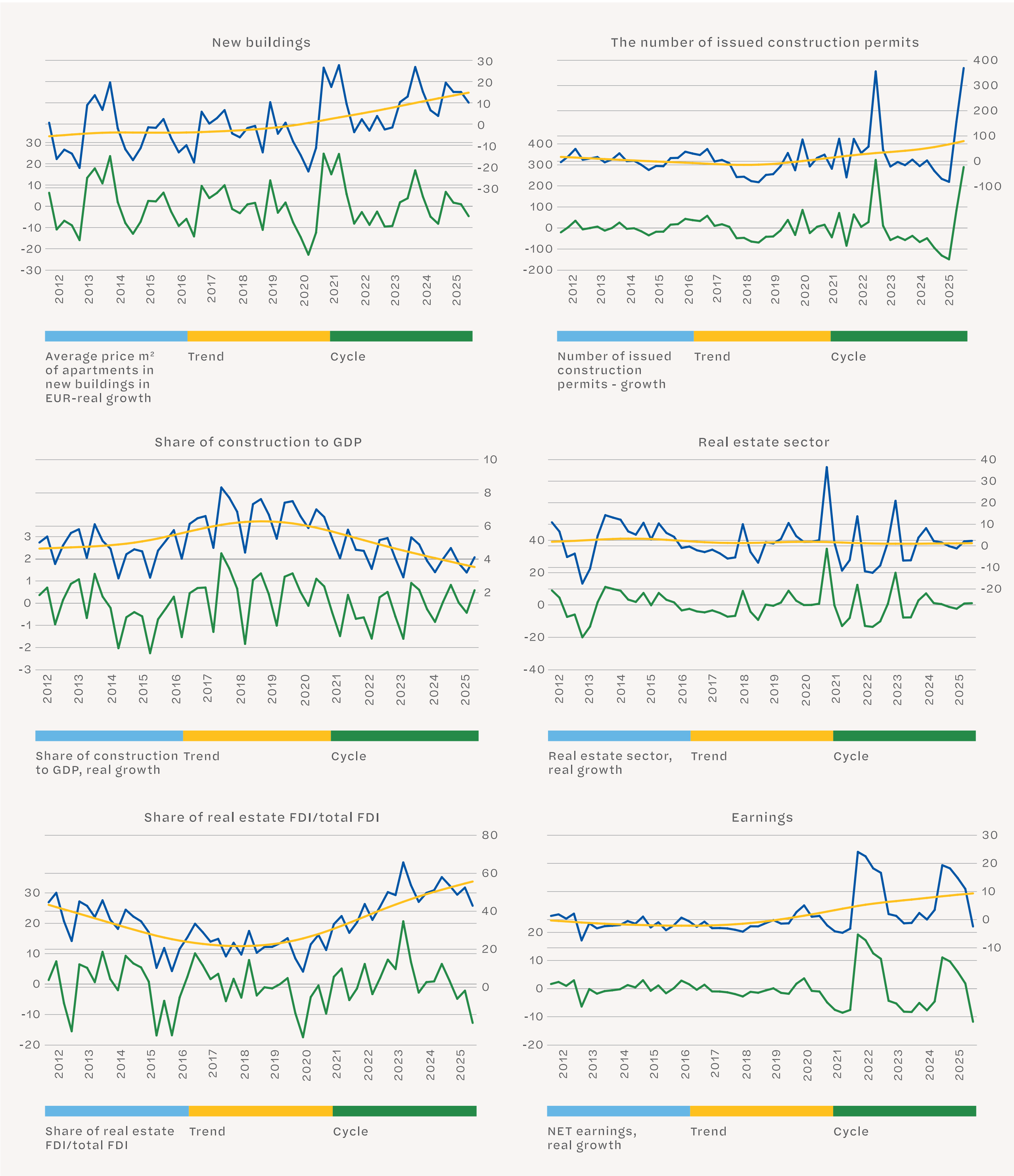
1. **Newly built apartments_GAP and Trend**: The prices of apartments in new buildings are still characterized by expressed short-term oscillations, which confirms the presence of cyclical movements in the market. However, the long-term trend remains upward, whereby after 2020 more intense growth is recorded, and its gradual easing recently. Observed fluctuations point to the changing dynamics of supply and demand, as well as the impact of macroeconomic factors, including construction costs and inflationary pressures. In 2025, there is a slight calming down of cyclical deviations, which may indicate a phase of market stabilization after a period of stronger growth. Despite this, the long-term trajectory still suggests a relatively high price level and a continuation of the positive trend, with more moderate growth dynamics.
2. **Permits_GAP and Trend**: The number of issued construction permits is characterized by pronounced short-term oscillations, with occasional sudden deviations from the long-term trend, which indicates the volatility of investment activity in the sector. The long-term trend has a slightly upward trajectory, especially in recent years, which may indicate a gradual strengthening of construction activity and the investment cycle. In 2025, recovery after the previous decline is evident, with a significant positive cyclical deviation, which may signal renewed investment momentum. Nevertheless, pronounced fluctuations indicate the sensitivity of this indicator to changes in the macroeconomic environment and investment climate, and the need for careful interpretation of short-term trends.

3. **Real estate sector_GAP and Trend**: Operations in the real estate sector is characterized by expressed short-term fluctuations, with occasional sharp deviations from the long-term trend, which indicates the sensitivity of this sector to changes in the economic environment. The long-term trend remains relatively stable, with a slight upward trajectory in certain periods, which may reflect continued economic activity and investor interest. In the observed period, more pronounced cyclical jumps are observed, especially around 2020 and in the following years, after which the deviation gradually subsides. In 2025, trends indicate a convergence to the long-term trend, which may signal a certain degree of stabilization in the sector. However, the present volatility indicates the need for careful monitoring in order to identify potential risks in a timely manner.

GRAPH 5.20

Deviation from the real value of real estate during the period 2012-2025

Source: CBCG



4. **Share of real estate FDI/FDI_GAP and Trend**: The share of FDI in real estates recorded certain oscillations during the observed period, while it is still maintained at a relatively high level. After the downward trajectory in the earlier period, the long-term trend from 2020 shows renewed growth, which indicates renewed interest of foreign investors in the Montenegrin real estate market. Cyclical deviations indicate occasional changes in the dynamics of investment flows, while developments in the last period suggest a slight decrease compared to previous peaks. Despite this, the level of this indicator remains significant, which confirms the continued role of foreign demand in the movements of the real estate market.
5. **Share of construction/GDP_GAP and Trend**: The deviation indicator (GAP) shows pronounced cyclical fluctuations throughout the observed period, which indicates the variability of construction activity and its sensitivity to macroeconomic conditions. Changes in periods of growth and slowdown are noticeable, in accordance with investment cycles and demand trends. The long-term trend indicates an increase in the share of construction in GDP until the period 2019–2020, followed by a gradual decline. In recent years, including 2025, the trend continues to move slightly downward, which may indicate a moderate weakening of the relative significance of the construction sector in overall economic activity. Although there are occasional cyclical deviations, the trends suggest a stabilization phase at a lower level compared to the previous peak.
6. **Earnings_GAP and Trend**: Net earnings show a relatively stable long-term growth trend, with moderate cyclical deviations during the observed period. After a period of more stable trends, in recent years there has been a more pronounced increase in earnings, which is also reflected in positive deviations from the trend. Such developments were, among other things, stimulated by the implementation of the fiscal programs "Europe Now 1" and "Europe Now 2", which contributed to the increase in the disposable income of the population. In 2025, a decrease in the cyclical component can be observed after previous more pronounced deviations, which may indicate a gradual approach to the long-term trend. The observed trends suggest an improvement in the purchasing power of the population, which can have a significant impact on domestic demand in the real estate market.

Finally, the analysis of trends and cyclical deviations enables a deeper insight into the long-term trends in the real estate market in Montenegro, providing a clearer insight into the fundamental changes in the sector. Most of the analysed indicators point to stable to moderate growth, which suggests continuous demand, present investment interest and relatively favourable trends in the segment of the population's purchasing power. At the same time, although short-term fluctuations are still pronounced in certain variables, in the last period there are signs of a gradual calming down of cyclical deviations and convergence with long-term trends.

Movements indicate a certain stabilization of the market after a period of more intense growth, while some indicators, such as the share of construction in GDP, indicate a slight weakening of dynamics compared to previous peaks. Also, although foreign demand remains significant, certain changes in its structure and intensity are evident. In this context, the real estate market can be seen as entering a more mature phase of the cycle, with more moderate growth dynamics and increased sensitivity to macroeconomic conditions.

Projections for the next period additionally confirm such developments, pointing to the stabilization of real estate price growth while maintaining a relatively high price level and moderate growth dynamics. Although the models show a high compliance between the estimated and realized values, the confidence intervals indicate the presence of uncertainty, which requires caution in the interpretation of future trends.

Despite its resilience, the market shows outlook will largely depend on financial conditions, inflation, the investment climate, and the balance between supply and demand. Therefore, continuous monitoring of key indicators is of particular importance in order to timely identify potential risks and preserve the stability of the sector. In that sense, an adequately managed macroeconomic and regulatory policy remains crucial for ensuring a sustainable development of the real estate market in Montenegro.

5.9. Capital Market

In 2025, a turnover of 86.6 million euros was realized on the Montenegro Stock Exchange (SE) (1.1% of GDP), which represents a significant increase compared to 2024 when it amounted to 9.7 million euros (0.1% of GDP). The increase in turnover is the result of a block trade in shares of Hipotekarna Bank in the amount of almost 75 million euros, which is the reason why share trading accounted for 99.8% of the total turnover in 2025. For the same reason, 86.4 million euros related to the trading of shares of entities other than investment funds, while only 23.4 thousand euros related to the trading of shares of investment funds. Bonds were traded in the amount of 0.2 million euros, and it was almost entirely related to the corporate bonds trade. Primary turnover on the stock exchange was realized in the amount of 3 million euros.

At end-2025, the Montenegro SE indices MONEX and MNSE10 stood at 18,754.66 and 1,203.02 points, respectively, recording the respective year-on-year growths of 14.1% and 10.8%. Despite the growth recorded in the last few years, the value of the MONEX index is still significantly lower than in the period of strong expansion in 2007, which was followed by a sharp decline, and the index has never returned to those levels.

5.10. Payment Systems

The CBCG`s payment system, which consists of the RTGS system and the DNS system, worked almost without interruption and in accordance with the time schedule of the system during all 274 working days in 2025. During 2025, for 274 working days in the CBCG Payment System, i.e. out of 158,890 minutes of production, there were 468 minutes of downtime, so the availability of the system was high (99.71%).

A total of 15.9 million payment orders worth 26.6 billion euros were effected, which is 9.2% and 7.6% more than in 2024, respectively. Of the total number of payments, 39.9% were effected in the RTGS system, with the share in the total value of payments of 93.9%. On the other hand, 60.1% of the total number of payments was effected in the DNS system (6.1% of the total value of payments).

Relatively 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. Due to the lack of funds in the account, 102 payments were put on hold (all in the RTGS system), of which 101 were made according to the inflow of funds during the day, while one payment was not realized due to the lack of funds in the account by the end of the day. Observing the intra-day liquidity of banks, it can be said that the initial balances on the RTGS accounts of banks were largely sufficient to cover their outgoing payments, with some variations by banks which had no impact on liquidity risk.

5.11. Indebtedness indicators of debtors who are natural persons

In 2025, the CBCG continued to collect data from credit institutions on the indebtedness indicators of retail debtors that had started in 2024. Namely, according to the Decision on the Criteria and the Manner of Classification of Assets and Calculation of Provisions for Potential Loan Losses of Credit Institutions (OGM 127/20, 140/21 and 94/25), credit institutions are required to calculate the ratio of LTI, DTI, LSTI, DSTI and LTV[27] for the purposes of assessing the indebtedness of a debtor who is a natural person, as well as to internally determine the acceptable level of indebtedness when approving retail loans based on these ratios. As of mid-2024, banks began to report to the CBCG the calculated ratios for all individual new liabilities on a monthly basis, which in some cases also includes liabilities based on leasing, overdrafts and credit cards. In the medium term, the CBCG plans to establish a structured way of reporting through its Credit Registry, which will include uniform and more detailed definitions of the constituent components of the aforementioned ratios.

The existing reporting system enables the CBCG to monitor risks in the segment of loans to natural persons to a reasonably good extent, with the fact that the introduction of a structured reporting system will also entail a corresponding legal act - either a new regulation or amendments to some of the existing decisions of the CBCG.

For this purpose, the CBCG requested technical assistance from the IMF, which will be implemented in 2026. Also, as part of preparatory activities for a further development of the macroprudential framework in the segment of retail lending to incorporate best experience practices, the CBCG organized individual meetings with all banks in the system at the end of 2025, getting acquainted with the banks' credit policies and practices. The established dialogue and exchange of information will continue until the end of the process. After the end of the first round of meetings, all banks in the system were sent a questionnaire on indicators for assessing the indebtedness of retail debtors (the so-called BBM ratios). The document included questions related to the methodology of calculating BBM ratios (LTV, LSTI, DSTI, LTI and DTI), internal limits on DSTI/LTV, planned activities related to the future management policy of these indicators, as well as certain additional questions of importance for the entire process. At the end of the process, the CBCG will, if it deems necessary, prescribe the caps for some of the indicators.

For example, in 2025, banks reported 95,853 new claims on which they calculated at least one of the above-mentioned ratios when approving claims, in the total amount of 1.07 billion euros[28]. It was mainly

27 LTI (loan-to-income), the ratio between the amount of the approved loan and the debtor's total annual income; DTI (debt-to-income), the ratio of the total debt based on the loan and the total annual income of the debtor; LSTI (loan-service-to-income), the ratio of the annual cost of repaying the loan and the debtor's total annual income; DSTI (debt-service-to-income), which represents the ratio of the annual cost of repayment of the total loan debt and the debtor's total annual income, and LTV (loan-to-value), the ratio of the amount of the approved loan to the estimated value of the collateral.

28 The data presented in this part of the text should be interpreted primarily in the sense of presenting the activities undertaken by the CBCG in that area, and bearing in mind that it is only about one part of the situation (receivables/loans that were approved only in December 2025), and in any case they should be interpreted with a certain reserve, because the CBCG did not collect them through official reporting.

about loans (98% of the amount), while the rest related to credit cards, overdrafts and leasing. All loans were approved in euros, and were mostly resident retail loans, with a fixed interest rate, monthly repayment method, and mostly involving the "A" loan category. Of the total amount of approved loans, 60.1% were cash loans, 22% housing loans, 8.3% refinancing loans. and 9.6% were other loans. Regarding maturity, only 7.2% of the amount related to loans with a maturity up to three years, 67.1% to loans with a maturity from three to ten years, and 25.7% to loans with a maturity over ten years.

In the structure of the amount of loans according to DSTI (calculated by the banks for 82,945 loans, amounting to 1.04 billion euros)[29], 34.5% related to loans approved with DSTI in the range of 40% - 50%, which is an increased level of DSTI, and 46.4% of loans with DSTI lower than 40% (graph 5.21). With a DSTI of over 50%, 19.2% of the loan amount was approved, which can be problematic, even though it was a smaller number of loans (11,595, or 14%). The average DSTI was 36.8%, and the average DSTI weighted by loan amounts was 39.7%.

A DSTI above 50% means that after debt servicing for all loans, including the loan in question, the debtor is left with less than 50% of income, which is especially controversial for debtors with lower income level. In Montenegro, enforced collection against a debtor's funds cannot be carried out in the amount exceeding 50% of their salary or pension (and in the case of minimum wage, no more than a third of their wage), which usually makes up the majority of the debtor's regular income, which could make the mentioned situation even more problematic, regardless of the fact that close to half of the amount of loans approved with DSTI above 50% related to housing and mortgage loans.

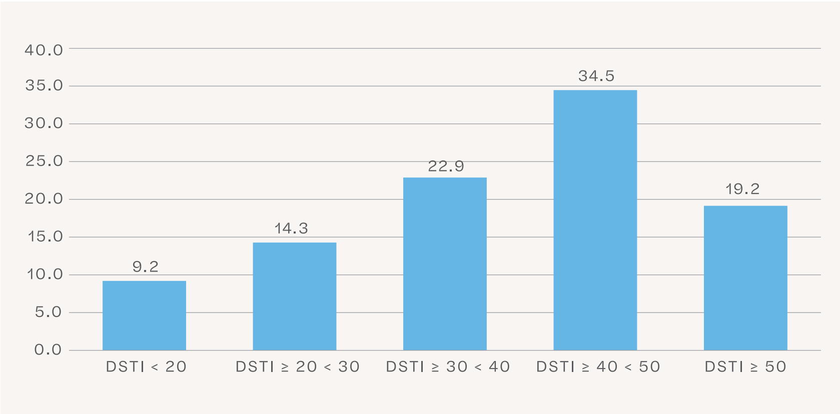
Of particular importance in this regard is the fact that the Law on Consumer Credits ("Official Gazette of Montenegro", No. 15/25) entered into application at the end of November 2025, with banks being granted a 60-day period to align their operations with the provisions of the Law. Namely, under the Law, banks are obliged to determine, as part of the creditworthiness assessment process, the minimum living expenses of the consumer and their immediate family members sharing the same household, which may not be lower than the amount stipulated by legislation governing the portion of personal income protected from enforcement, which implicitly limits DSTI to 50% or 33.3% of minimum wages when assessing creditworthiness. According to the first data from 2026, all banks generally comply with the restrictions, while the volume of lending is somewhat higher.

In the structure of loans according to LTV (calculated by banks for 3,732 loans amounting to 313 million euros), 26.8% related to loans approved with LTV in the range of 80% - 90%, which is a slightly higher level of LTV, and 67.2% of loans with DSTI lower than 80% (graph 5.22). With an LTV of over 90%, 6% of the loan amount was approved (292 loans, or 7.8% of the number). The average LTV was 62.5%, and the average LTV weighted by loan amounts was 65.1%.

In the structure of the amount of housing loans according to DSTI and LTV, 30.4% of housing loans were approved with DSTI above 40% and LTV above 80%, which can be problematic, although only 2% of housing loans were approved with DSTI above 50% and LTV above 90%.

---

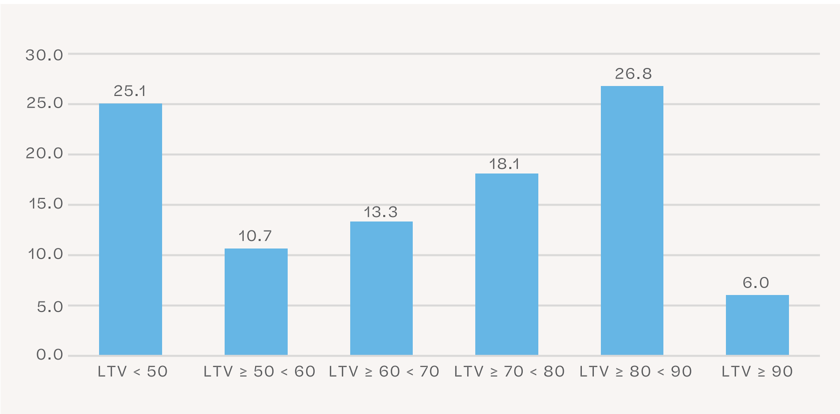
29 Loans for which the banks did not report the calculated DSTI/LTV, as well as certain loans with excessively high and thus unreliable DSTI/LTV values, are excluded from the scope of data related to DSTI and LTV.



GRAPH 5.21

New loans in 2025 according to DSTI, in %

Source: Banks' monthly reports



GRAPH 5.22

New loans in 2025 according to LTV, in %

Source: Banks' monthly reports

	LTV < 50	LTV ≥ 50< 50	LTV ≥ 60< 70	LTV ≥ 70< 80	LTV ≥ 80< 90	LTV> 90	Total
DSTI ≥ 50	3.1%	3.0%	4.9%	7.3%	12.1%	2.5%	33.0%
DSTI ≥ 40< 50	3.3%	2.7%	3.9%	6.0%	13.5%	2.3%	31.6%
DSTI ≥ 30< 40	2.7%	2.1%	1.9%	3.4%	7.6%	1.7%	19.4%
DSTI ≥ 20< 30	2.5%	1.4%	1.3%	1.9%	3.4%	0.5%	11.0%
DSTI < 20	1.3%	0.6%	0.7%	0.9%	0.9%	0.5%	5.0%
Total	13.0%	9.8%	12.6%	19.6%	37.6%	7.4%	100.0%

TABLE 5.5

New housing loans in 2025 according to DSTI and LTV, %

Source: Banks' monthly reports

This reporting represents the statistical basis for the future introduction of limits, i.e. maximum levels of individual debt indicators of retail debtors (BBMs). These are macroprudential measures which directly affect the preservation of the debtor's financial position, by limiting the level of their indebtedness, and indirectly also the stability of banks as creditors, by reducing the possibility of losses. Normally, the measures are introduced for new loans (not for previously approved and unpaid loans), so it takes a certain amount of time to fully feel their impact.

Annex

TABLE 1

Financial Stability Indicators (FSIs), 2020–2025

Source: Quarterly and monthly reports of banks; MONSTAT

	2020	2021	2022	2023	2024		2025		
	XII	XII	XII	XII	XII	III	VI	IX	XII
Core FSIs for credit institutions									
Regulatory capital to risk weighted assets [1]	18.5	18.5	19.3	20.3	19.4	20.1	19.5	19.4	20.3
Tier 1 capital to risk weighted assets [1]	17.4	17.4	18.4	19.7	18.6	19.3	18.8	18.5	19.3
Nonperforming loans net of provisions to capital [2]	21.2	22.6	21.4	18.4	11.2	9.2	8.7	8.8	7.8
Common Tier 1 regulatory capital to risk-weighted assets [1]	---	---	18.3	19.7	18.6	19.3	18.8	18.5	19.0
Tier 1 regulatory capital / assets	9.9	9.2	8.0	8.6	8.8	10.0	10.0	9.5	9.9
Nonperforming loans to total gross loans [3]	5.9	6.8	6.3	5.8	4.1	3.7	3.4	3.4	3.0
Nonperforming loans to total gross loans [4]	5.5	6.2	5.7	5.0	3.5	3.2	2.9	2.8	2.7
Loan concentration by economic activity [5]	66.5	67.1	66.7	64.5	62.4	62.9	63.0	61.5	60.3
Provisions to non-performing loans	40.0	42.4	43.0	44.4	51.9	53.0	52.8	52.4	52.5
Return on assets [6]	0.5	0.7	1.7	2.6	2.7	2.1	2.2	2.3	2.3
Return on equity [7]	3.7	4.5	13.5	19.3	18.5	15.0	15.2	15.9	15.4
Interest margin to gross income [8]	60.8	55.6	54.0	55.9	57.6	63.8	60.7	58.6	59.2
Non-interest expenses to gross income	74.4	75.7	58.4	57.6	58.8	62.2	61.9	61.8	62.5
Liquid assets to total assets [9]	21.8	26.0	30.7	23.5	22.9	17.7	19.2	20.2	18.7
Liquid assets to short-term liabilities [10]	35.1	39.7	42.9	32.2	31.1	24.9	26.8	27.9	26.6
Liquidity coverage ratio [11]	---	---	---	317.7	310.7	315.7	269.2	286.5	293.3
Net stable funding ratio [11]	---	---	---	---	---	---	---	---	---
Net open position in foreign exchange to capital [12]	0.7	0.1	0.1	-0.3	0.3	0.1	0.5	0.4	0.2
Residential real estate prices (percentage change/last 12 months) [13]	-11.3	15.3	20.5	28.0	8.2	22.9	20.9	20.2	14.0
Additional financial soundness indicators									
Credit institutions									
Large exposures to capital [14]	968	118.1	131.5	121.1	125.5	99.5	120.2	139.6	100.1
Geographical distribution of loans to total loans [15]									
Domestic economy	97.2	95.7	94.7	94.9	95.4	95.8	96.0	96.1	96.5
Advanced economies	0.7	0.5	0.5	0.7	0.8	0.8	0.6	0.5	0.5
Emerging market and developing economies	2.1	3.8	4.8	4.5	3.8	3.4	3.4	3.4	3.0
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	1.2	1.6	2.6	2.5	2.0	1.8	1.8	1.9	1.5
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	1.0	2.3	2.2	2.0	1.8	1.6	1.5	1.5	1.5
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	0.0	0.0
Gross liability position in financial derivatives to capital [12]	0.0	0.0	0.0	0.4	0.4	0.3	0.3	0.2	0.2
Trading income to total income [16]	3.1	3.8	3.6	4.6	4.7	1.6	1.8	1.7	1.8
Personnel expenses to noninterest expenses	35.0	30.2	37.3	31.7	30.7	33.8	32.9	31.2	32.0
Spread between reference lending and deposit rates (basis points) [17]	546	532	567	638	625	614	604	599	589
Customer deposits to total (no interbank) loans [18]	108.3	131.0	151.9	147.2	136.5	126.3	119.6	126.4	120.9
Foreign-currency-denominated loans to total loans [19]	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.1	0.1
Foreign-currency-denominated liabilities to total liabilities [20]	4.8	5.3	4.8	4.8	4.6	5.1	4.5	4.6	4.8
Credit growth to private sector [21]	3.0	3.4	8.8	6.3	17.1	18.8	20.8	22.2	21.0

	2020	2021	2022	2023	2024	2025			
	XII	XII	XII	XII	XII	III	VI	IX	XII
Real Estate Markets									
Residential real estate loans to total gross loans [22]	14.3	14.2	14.9	14.1	17.0	17.0	16.8	17.2	17.2
Commercial real estate loans to total gross loans [23]	5.5	5.,6	5.5	5.9	6.2	6.0	6.2	6.0	5.6

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 IFRS 9 requirements (formerly IAS 39), the definition treats deposits of credit institutions deposited with other credit institutions as loans, which is particularly relevant for account no. 1009 (from the Decision on the accounting framework for credit institutions, (OGM 128/20). Prior to 2013, the definition of loans did not include the aforementioned deposits.

* 01 January * On 01 January 2018, IFRS 9 replaced IAS 39, with limited impact on the comparability of data series before and starting from 01 January 2018.

IAS 39 is introduced on 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 01 January 2013: non-performing loans increased, as well as accounting capital, then total loans to a lesser extent and to an even lesser extent asset. 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.

CIP - Каталогизација у публикацији
Централна народна библиотека Црне Горе, Цетиње

336(497.16) (060.55) (047)

FINANCIAL Stability Report 2025. - 2010 - . - Podgorica (Bulevar Sv. Petra Cetinjskog 6) : Central Bank of Montenegro, 2026 (Podgorica: Golbi, d.o.o.). - 28 cm

Godišnje
ISSN 1800-8941 = Financial Stability Report (Podgorica)
COBISS.CG-ID 18454544