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ABBREVIATIONS

CBCG	Central Bank of Montenegro
DNS	Deferred Net Settlement
DSTI	Debt-Service-to-Income
DTI	Debt-to-Income
ECB	European Central Bank
EU	European Union
FDI	Foreign direct investments
FSIs	Financial Soundness Indicators
GDP	Gross Domestic Product
LSTI	Loan-service-to-income
LTI	Loan-to-Income
LTV	Loan-to-Value
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
OGM	Official Gazette of Montenegro
OSI	Other systemically important (credit institutions)
pp	percentage point
rhs	right-hand scale
USA	United States of America

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INTRODUCTORY NOTES

The publication *Macroprudential Analysis and Policy* gives an overview of systemic risks and macroprudential policy implemented by the Central Bank of Montenegro (CBCG), given that financial stability represents its key mandate. In relation to the Financial Stability Report, which is the CBCG's leading annual publication on financial stability trends, the overview of systemic risks here is presented in the context of macroprudential measures taken by the CBCG with the aim of protecting the financial system as a whole. *Macroprudential Analysis and Policy* is a more streamlined publication that covers the system's mid-year developments, thus improving the overall timeliness of CBCG publications on financial stability.

The most typical macroprudential measures are capital buffers that target different types of systemic risks through capital requirements of credit institutions, which were introduced worldwide in a structured manner under the Basel III in response to the 2008 financial crisis. Recently, there has been a growing emphasis on borrower-based measures, although other macroprudential measures continue to be applied. It is useful to keep in mind that instruments often embody both microprudential (supervisory) and macroprudential features, i.e. that they are seldom exclusively one or the other. It should also be noted that some instruments related to other economic policies, such as reserve requirement that has been traditionally considered a monetary policy instrument, can be used as instruments for preserving financial stability, and thus achieving macroprudential effects. It is also worth noting that some instruments tied to other economic policies, such as the reserve requirement that has been considered traditionally a monetary policy tool, can also be used to maintain financial stability and thereby generate macroprudential effects.

SUMMARY

At the end of the second quarter of 2025, systemic risks were moderate. The main systemic risks included growing real estate prices and a strong credit growth, as well as macroeconomic risks which, as a rule, come down to the issue of stability of public finances, i.e. to the level and expected trajectory of the public debt. The main systemic risks from the international environment relate to a possible trade war among leading industrialized countries and global conflicts.

Banking sector is liquid, solvent and profitable. However, there is a certain accumulation of cyclical risks in the form of rising real estate prices and intensified credit growth. Real estate prices reached their record highs, with some overvaluation, while annual credit growth rates exceeded double-digit values. During the review of the countercyclical buffer in the first and second quarter of 2025, the buffer rate was not changed (0.5% and 1%, respectively, starting as of 1 January 2026). The development of cyclical systemic risks will continue to be carefully monitored, and an additional increase in the buffer rate will be implemented in case of continued risk accumulation and if deemed necessary. The evolution of cyclical systemic risks will continue to be closely monitored and, if risk accumulation persists and if deemed necessary, the buffer rate will be further raised.

Also, all other capital buffers were applied in the first half of 2025 and the CBCG will conduct regular reviews of the buffer for structural systemic risk and the buffer for other systemically important (OSI) credit institutions at the end of the year. This will be implemented in the context of implementing new legal provisions, according to which the two buffers will be summed (while only the larger one is applied now), and according to which different limits will apply to the buffer for the OSI credit institutions of the subsidiary group from the EU, when the buffer for the OSI credit institution is applied to the group on a consolidated basis.

Risks related to the sustainability of public finances remain present even though public debt currently stands slightly above 60% of GDP. This constitutes a moderate risk that requires careful monitoring, particularly in light of potential global shocks. On the other hand, banks' exposure to the government has been declining markedly, as in recent years banks have increased their investments in the securities of the euro area member states while simultaneously intensifying lending to the private sector.

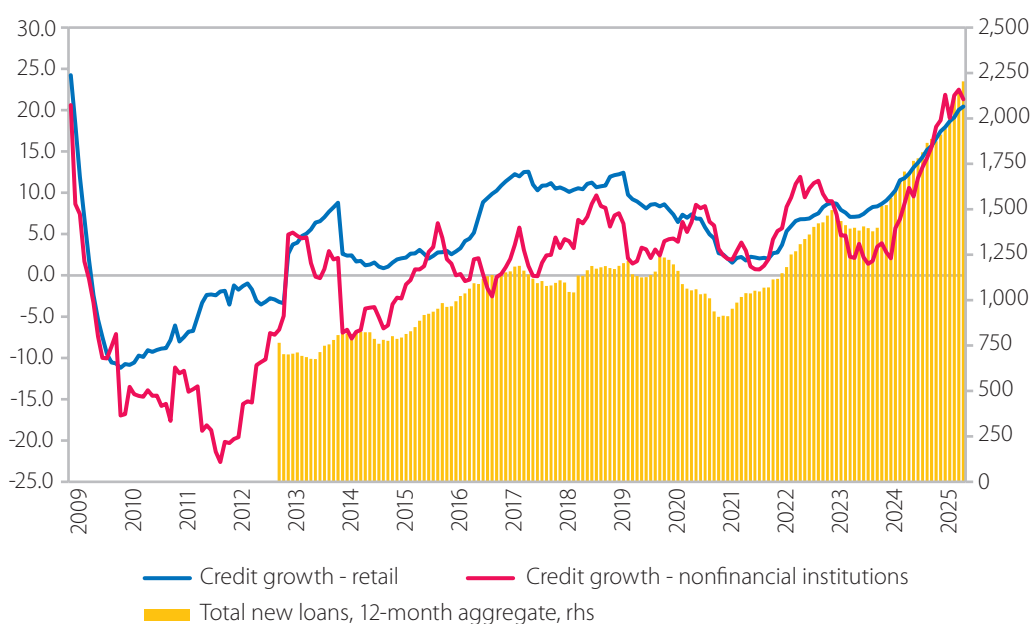
Tensions regarding a potential customs/trade war between the United States and the leading manufacturing countries have subsided relative to March/April of this year, although they have not fully dissipated. While Montenegro maintains relatively low levels of direct economic links with the countries that would be directly affected, indirect spillovers could exert a significant influence on the country's economic growth and inflation.

1. SYSTEMIC RISKS ANALYSIS AND ASSESSMENT

At the end of June 2025, the exposure of the banking sector to systemic risks was moderate, with a certain increase in cyclical risks.

Trends in the domestic economic environment were generally supportive of financial stability. Montenegro's economy recorded a growth of 2.8% in the first quarter and 3.5% in the second quarter of 2025, so the growth in the first half of the year was 3.2%. The Ministry of Finance forecasts a growth of 3.5% in 2025 based on dynamic private spending and investments, with a favourable macroeconomic environment. Price growth accelerated in recent months, resulting in the annual inflation of 4.2% in June. Data from the real sector show annual growth in retail trade, construction industry and industrial production. In the first six months, the number of tourist arrivals recorded the annual increase of 4.2%, while the number of overnights decreased by 0.9%.

Annual credit growth of the household sector and non-financial institutions (%), and 12-month total of new loans cumulative (million euros), January 2009 - June 2025 **Graph 1.1**



Source: CBCG

The debt balance of resident non-financial institutions and households towards banks increased both in nominal terms¹ and relative to GDP due to the intensified credit growth, which has been on a multi-year upward trend (graph 1.1).

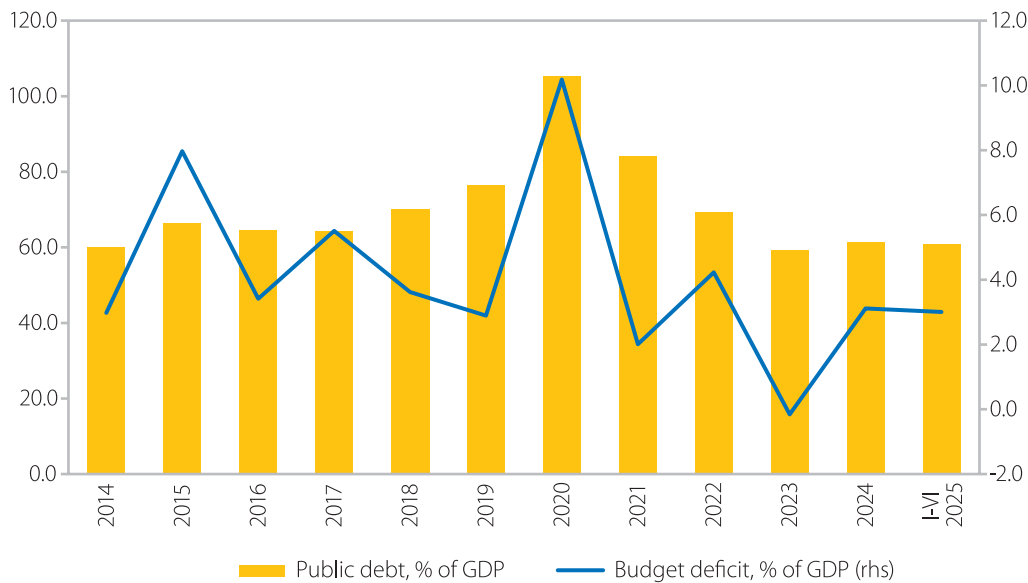
Non-financial institutions' debt to banks amounted to 1.8 million euros at end-June this year, recording an annual increase of 21.2%. In relation to GDP, non-financial institutions' debt recorded annual increase from 20% to 22.6% of GDP. The frozen amount on business entities' accounts was 1.4 billion euros, which is 16.6% more than at end-June 2024. Business entities that were blocked at end-June 2025 accounted for over a quarter of active business entities (25.9%), and their number increased by 2.1%.

Household indebtedness to banks recorded the annual increase of 20.4% during H1 2025 amounting to 2.2 billion euros, which continued the trend started in 2013 and reached the historically highest level of indebtedness in nominal terms. In relation to GDP, household debt increased by 3 pp, reaching 27.8% of GDP. The growth of real average earnings, together with a drop in the unemployment rate, indicate an improvement in the financial position of the household sector. Namely, the real salary for the first six months of 2025 was 11.9% higher year-over-year, while the unemployment rate was at a historically low level of 10.5% (MONSTAT).

Public finances were relatively stable at end-June, having in mind the mostly moderate deficit financing in the period 2023 – June 2025. The budget deficit amounted to 3.1% of GDP in 2024, while in the first six months of 2025 it stood at 3% of the semi-annual GDP. At end- 2024, public debt accounted for 61.3% of GDP (graph 1.2), while at the end of the first quarter of 2025, this share dropped to 56.9%. In this context, Montenegro's credit rating was upgraded to B+ at the end of August 2024 and then reaffirmed in March 2025. This is Montenegro's first credit rating upgrade since 2007 although it remains below investment grade (BBB-). The new Eurobond issue at the end of March helped in early repayment of debt due this year, thus covering Eurobond refinancing needs until the end of 2027. Certainly, effective public finance management remains crucial for Montenegro's macroeconomic and financial stability.

¹ 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, debt of non-financial institutions and households is primarily monitored through their relationship with Montenegrin banks.

Public debt and budget deficit, % of GDP, 2014 - June 2025 **Graph 1.2**



Source: CBCG

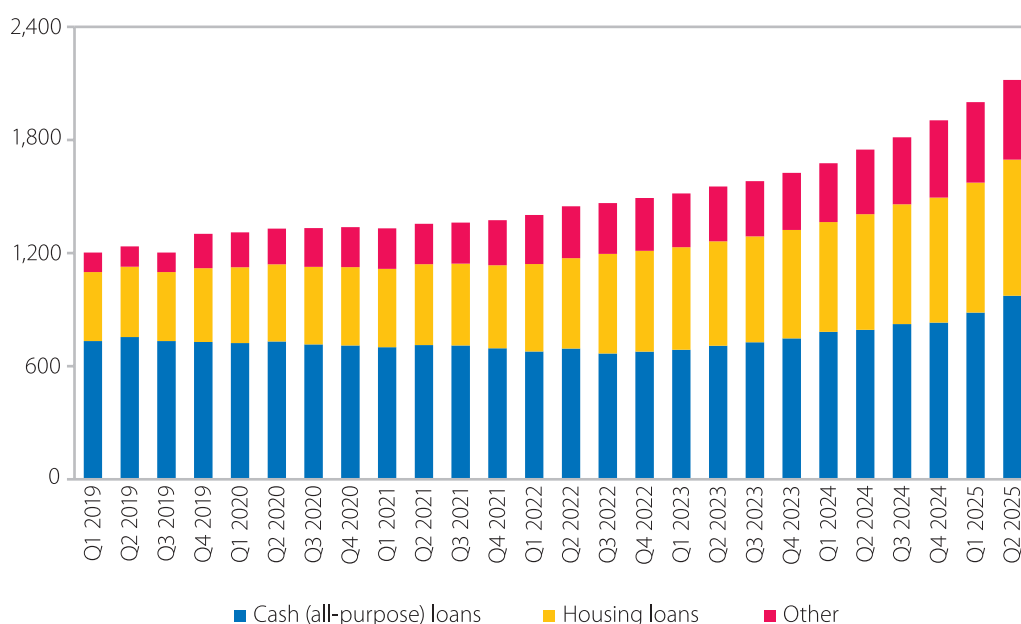
Trends in the international economic and financial environment were generally favourable for financial stability, particularly as euro interest rates were declining. Since June 2024, the ECB had reduced its key interest rates eight times, with the most recent cut in June 2025, when the deposit facility rate was lowered to 2%. This policy can have a positive impact on Montenegro, as lower interest rates in the euro area may facilitate the refinancing of public debt, i.e. reduce borrowing costs. Nevertheless, certain risks to the Montenegrin economy persisted in the first half of 2025. Key challenges include global conflicts, such as the war in Ukraine and tensions in the Middle East, as well as protectionist measures from the new US administration that have disrupted trade between the USA and many industrialised countries, creating additional uncertainty that may affect other economies, including Montenegro.

The banking sector maintained a high level of stability, remaining solvent, liquid and profitable. Stable deposits, as a system stability indicator, continued to grow during the first half of the year, reaching 5.7 billion euros and making up the largest part of liabilities (77.1%). Recently, banks have prioritised channelling deposits into loans rather than holding them in liquid assets or securities.

According to the CBCG's very conservative definition (which completely excludes securities), liquid assets have declined slightly in the recent period but still remain at a high level (19.4% of total assets). A significant portion of banks' liquidity was held in securities (17.2%), the majority of which was invested abroad, primarily in short-term investment-grade securities issued by the euro area member countries.

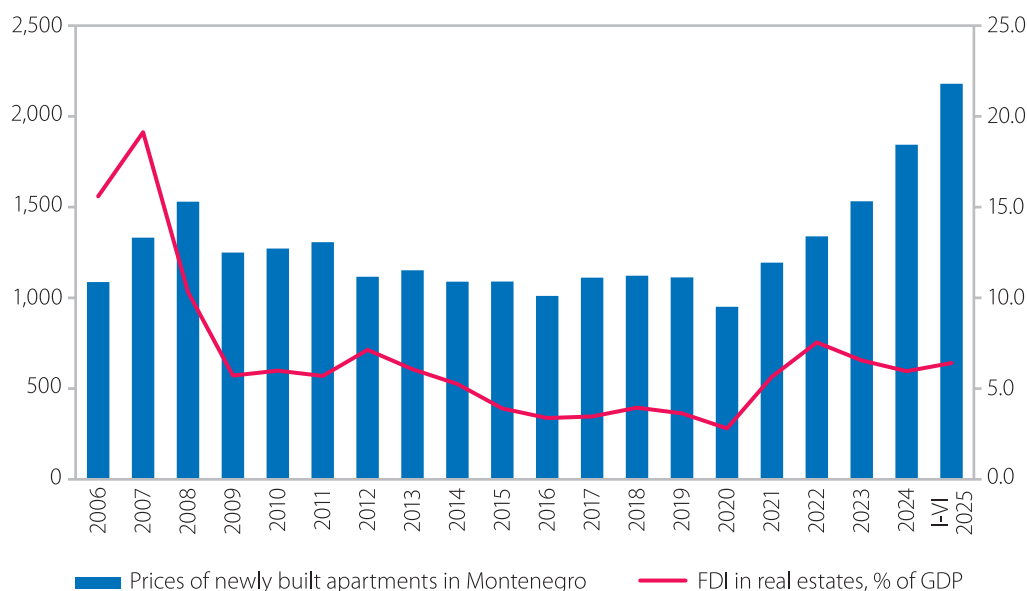
Cyclical risks are primarily reflected in rapid credit growth and rising real estate prices, which have reached historically high levels. The banking system is currently in the upward phase of the credit cycle, with a strong annual loan growth of 20.4% to the household sector and a 21.2% increase in loans to non-financial institutions in June 2025. According to the Credit Registry data, cash (all-purpose) loans dominated the structure of loans granted to households, with a high annual growth rate of 22.8% (graph 1.3). The leading factor in the growth of real estate prices were FDI in real estate, which amounted to 1.37 billion euros in the period 2022-2024 or an average of 6.7% of nominal GDP per year (228.9 million euros or 6.4% of the semi-annual GDP in H1 2025), which is significantly more than in the multi-year period before that (graph 1.4). In addition to FDI, the increase in real estate prices was also affected by an increase in housing loans. Household loans recorded an annual growth rate of 17.7%, and compared to the end of 2020, their cumulative growth was 73.9% (Credit Registry data). Also, anecdotal evidence indicates that a certain portion of cash loans, including mortgage loans, was probably used for the purchase of real estate.

Graph 1.3 Household sector loans by purpose (Q1 2019 - Q2 2025) in million euros



Source: CBCG

Prices of newly built apartments in Montenegro, in euros, and FDI in real estates, in % of GDP, 2006 - June 2025 **Graph 1.4**



Source: CBCG

Challenges with regard to maturity mismatch of loans and deposits and the level of non-performing loans at few banks are still present in the banking sector. When it comes to non-performing loans at the system level, the situation at the end of the second quarter this year was significantly better as the share in total loans fell to 2.9% (1.4 pp less compared to end-June 2024).

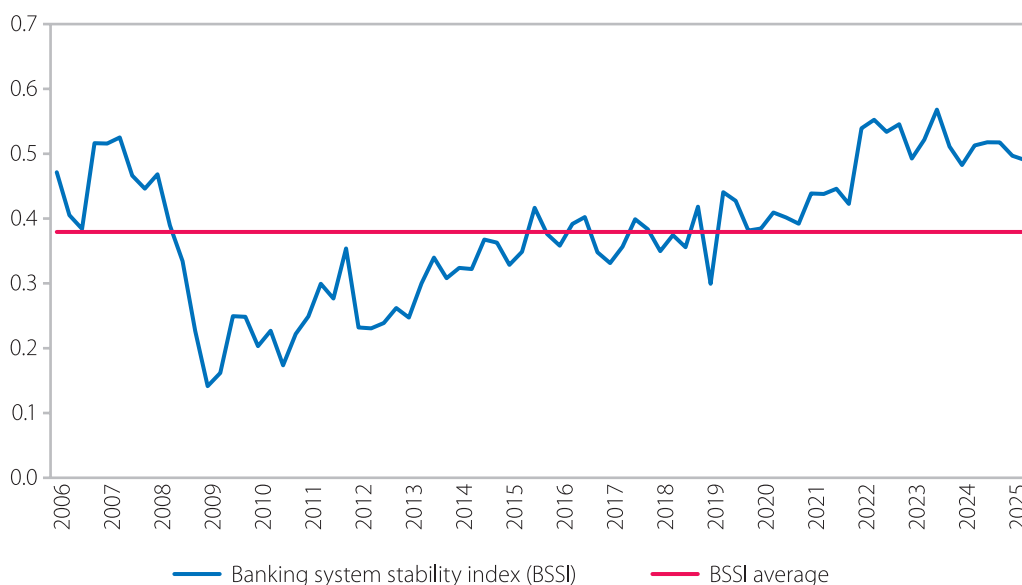
Risks related to banks' exposure to the state are decreasing during H1 2025, given the decline in the share of that exposure in total assets.

After the record in 2024, bank profits in the first six months of 2025 were lower than in the comparative period of the previous year, although remaining still high (70 million euros). The four largest banks, which individually exceed 10% market share by assets, recorded a total profit of 58.5 million euros.

Good capitalisation contributes to bank resilience, and the total capital adequacy ratio of banks in Montenegro at the aggregate level stood at 19.5% at the end of the second quarter of 2025, while the capital adequacy ratio of own funds was 18.8%. In addition to the minimum capital requirements, which are the same for all banks (Pillar 1), the so-called bank-specific capital requirements (Pillar 2) and capital buffers, and the minimum requirement for own funds and eligible liabilities (MREL).

From a historical point of view, all key balance sheet indicators of banks are at high levels, as confirmed by the index created for the purpose of aggregating indicators (graph 1.5).

Graph 1.5 Banking sector stability index, 2006 - Q2 2025



Source: CBCG

Box 1 – Banking sector stability index

Banking sector stability index is an analytical indicator that summarises the condition of key balance sheet indicators of banks. It was created on the basis of eight indicators, mainly financial stability indicators (FSIs), which are normalised so that the minimum value of the indicator is 0 and the maximum is 1. Afterwards, the indicators were adjusted by taking the reciprocal value of the indicators whose lower value indicates a better situation in the system. The indicators are grouped into five subgroups, with mainly equal weights. The subgroups are then grouped into an index, with weights of 22.5% each, except for the foreign exchange risk subgroup (10% weight). A higher risk value indicates a better state in the system.

Potential shortcomings of the index are reflected in the selection of indicators and determination of weights (which was carried out on the basis of expert assessment), then the fact that it is rather backward-looking because it functions on the basis of past observations of data, as well as the fact that it was created only on the basis of historical data of the banking system in Montenegro. In other words, there is a lack of matching with other banking systems in terms of some standard data series of desirable or undesirable values of certain indicators included in its composition, regardless from the historical indicator values in Montenegro. Certainly, the simplicity and intuitiveness of the index could represent its advantages.

Other financial intermediaries do not represent sources of systemic risk, primarily due to their limited size and importance in the Montenegrin financial market and a solid financial position of some of the most important ones among them, namely insurance companies.

By the end of June 2025, total stock exchange turnover was 77.8 million euros, making up only 2.2% of the semi-annual GDP, which is still more compared to the first half of 2024, when the turnover was 5.7 million euros. The turnover mostly comprised of trading of shares, with the change of about 75% ownership in one bank accounting for the largest portion of this trade. The stock exchange indices MONEX and MNSE10 recorded year-over-year growths of 15.4% and 14.8%, respectively.

The CBCG's payment system and the securities settlement system operated by the Central Securities Depository and Clearing Company (CSDCC), as key financial infrastructures in Montenegro, continued their uninterrupted operation during the first half of 2025. At the end of May, the CBCG launched a significantly enhanced version of its Payment System which, among other improvements, enables online clearing. This allows banks that receive funds in the DNS system to be fully confident that the funds will be settled, enabling them to credit their clients' accounts in advance, without waiting for the completion of clearing cycles. Another important feature of the updated system is its compliance with the ISO 20022 standard.

Among non-financial risks, cyber risks have been gaining increasing importance, even though there have been no significant cases of their materialisation in Montenegro's banking system so far. Climate change risks will also remain present in the long term, with an expected negative impact on economic growth and potentially on financial stability.

1.1. Indebtedness indicators for household borrowers

In 2024, the CBCG started collecting data from credit institutions on the indebtedness indicators of individual borrowers. 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), credit institutions are required to calculate the LTI, DTI, LSTI, DSTI, and LTV ratios² for assessing indebtedness of a debtor that is a natural person, as well as to internally determine the acceptable level of indebtedness when approving loans to natural persons based on these ratios. As of mid-2024, banks have begun monthly reporting to the CBCG on the calculated ratios for all new individual liabilities, which in some cases also includes liabilities based on leasing, overdrafts and credit cards. The CBCG plans to establish a structured way of re-

² LTI (loan-to-income), the ratio of the approved loan amount to 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 repaying 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.

porting, most likely through the Credit Registry, which will include uniform and more detailed definitions of the constituent components of the aforementioned ratios. All this will form a high-quality statistical basis for the CBCG, if it deems it necessary, to prescribe future limits to these ratios.

The existing reporting system allows the CBCG to monitor risks in the segment of household loans to a reasonably good extent, including potential introduction of limits for individual ratios. At the same time, the CBCG plans to introduce a structured reporting system, which will also entail a corresponding legal act in the form of a new regulation or amendments and supplements to some of the existing CBCG decisions.

In the period December 2024 - June 2025³, in the structure of the amount of loans according to DSTI (calculated by banks for loans in the amount of 610.2 million euros)⁴, 33.7% related to loans approved with DSTI in the range from 40% to 50%, which is an elevated level of DSTI, and 46.5% of loans with DSTI were under 40% (graph 1.6). With DSTI of over 50%, almost 20% of the loan amount was approved, which can be very problematic, even though it was a small number of loans (5,971 or 13.1%). Observed by banks, there are several large banks whose share of granted loans with DSTI of over 50% exceeded the system average, and there are also a couple of medium-sized banks where more than 40% of approved loans had DSTI above 50%. The average monthly DSTI was 36.2% and the weighted average monthly DSTI by loan amounts was 40%.

However, comparison with the situation in other relevant countries is difficult, mainly due to different definitions/scopes of the constituent components of the quantities that enter into the calculation of ratios, namely their numerators and denominators, which applies not only to DSTI but also to other ratios.

Nevertheless, a DSTI above 50% means that, after servicing the debt on all loans, including the loan in question, the borrower is left with less than 50% of their income, which is particularly concerning for borrowers with lower income levels. In Montenegro, enforced collection cannot be applied to the amount exceeding 50% of their salary/pension (in the case of a minimum salary no more than a third of the salary), which usually makes the major portion of the debtor's regular income so this could make the situation even more problematic, regardless of the fact that nearly half of the loan amounts approved with a DSTI above 50% related to housing and mortgage loans.

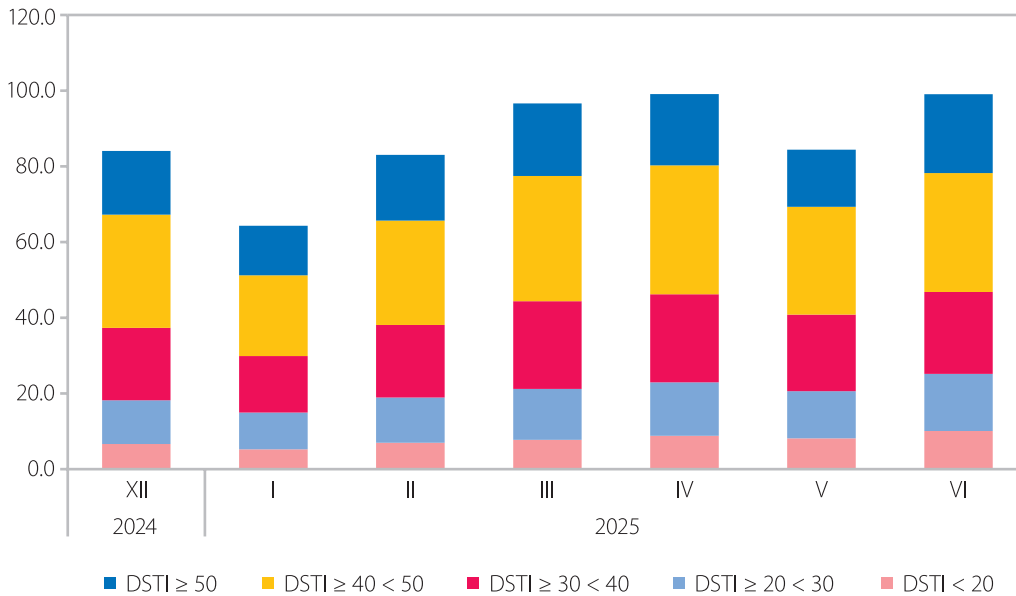
In the structure of loans according to LTV (calculated by banks for 344 loans amounting to 182.5 million euros), 26.8% related to loans approved with LTV in the range from

³ The data presented in this part of the text should be interpreted primarily as 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 2024 - June 2025), and in any case they should be interpreted with a certain reserve, because the CBCG did not collect them through official reporting.

⁴ Loans for which the banks did not report the calculated DSTI/LTV, and some loans with excessively high and thus unreliable DSTI/LTV values, have been excluded from the scope of data related to DSTI and LTV.

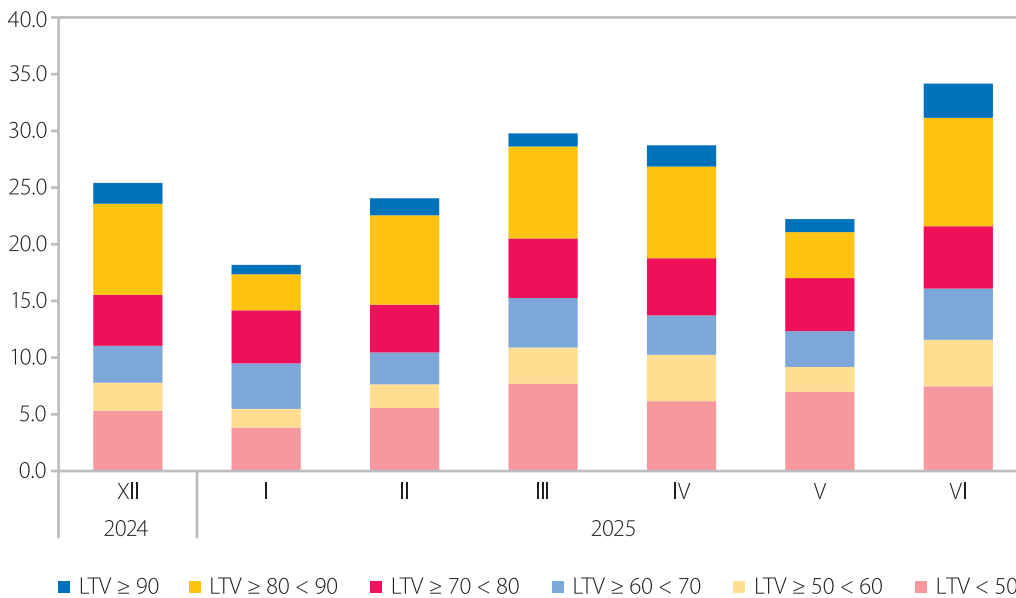
80% to 90%, which is a higher level of LTV, and 67% of loans with DSTI lower than 80% (graph 1.7). Some 6.2% of loan amounts was approved (189 loans or 8.3%) with the LTV of over 90%. The monthly average LTV was 63%, and the average LTV weighted by loan amounts was 65.6%.

DSTI with new loans in the period December 2024 - June 2025, in million euros Graph 1.6



Source: Banks' monthly reports

LTV with new loans in the period December 2024 - June 2025, in million euros Graph 1.7



Source: Banks' monthly reports

The closer the LTV ratio value is to 100%, the more exposed a bank is to risk in case the collateral value declines (typically if real estate prices fall), and it may be forced to sell the collateral at a price that would not compensate for its losses if the client were to default on the loan. The current situation regarding real estate prices in Montenegro makes those risks even more relevant.

In the structure of the amount of housing loans according to DSTI and LTV, 30.1% of housing loans were approved with DSTI above 40% and with LTV above 80%, which can be very problematic, although only 2.3% of housing loans were approved with DSTI above 50% and LTV above 90% (table 1.1). Observed by banks, three large banks accounted for over 90% of housing loans approved with DSTI above 40% and LTV above 80%.

Table 1.1 New housing loans by DSTI and LTV, % (December 2024 - June 2025)

	LTV < 50	LTV ≥ 50 < 60	LTV ≥ 60 < 70	LTV ≥ 70 < 80	LTV ≥ 80 < 90	LTV ≥ 90	Total
DSTI ≥ 50	2.9	3.5	4.9	8.6	13.6	2.4	36.1
DSTI ≥ 40 < 50	2.9	2.7	4.1	5.6	11.8	2.2	29.4
DSTI ≥ 30 < 40	1.9	2.3	1.9	3.8	9.0	1.6	20.7
DSTI ≥ 20 < 30	2.7	1.0	1.4	1.8	2.3	0.8	10.0
DSTI < 20	0.8	0.5	0.7	0.5	0.7	0.6	3.9
Total	11.3	10.1	13.0	20.3	37.5	7.7	100.0

Source: Banks' monthly reports

Pursuant to the aforementioned decision governing the criteria and the manner of asset classification and calculation of provisions for potential loan losses, banks are obliged to determine an acceptable level of indebtedness when approving loans to natural persons based on these ratios. Thus, the CBCG recently reviewed the internal ratio limits in all banks. In general, banks' internal limits are in line with the values of the ratios according to which banks approve loans, and they are at higher and/or high levels, which means that they can contribute to risk accumulation. So, for example, the DSTI limit in several banks is set at 60%, at some banks even at 70%, while the LTV limit in few banks is set at 100%. The higher the limit, the more "relaxed" the client's credit rating, i.e. the bank considers the client to be more creditworthy than they actually are. Extremely high limits are undesirable, as they ultimately mean that loans may be approved in amounts greater than would be justified from a risk perspective.

As stated, this reporting represents a statistical basis for a potential introduction of limits, i.e. the maximum levels of certain ratios, which fall under the category of borrower-based measures (BBMs), i.e. measures targeting loan beneficiaries. 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. Typically, these measures are

applied to newly approved loans (not to previously approved outstanding loans), so it takes some time before their full impact can be observed.

Usually, the measures are introduced for new loans (not for previously approved and outstanding loans), so it takes a certain time to fully feel their impact.

In recent years, measures targeting loan beneficiaries have become quite prominent in macroprudential policy, especially in the EU member states where they are currently introduced in 24 out of 27 countries (they do not exist in Denmark, Italy and Spain)⁵. There are no measures of this type applied in the entire EU, but its competence belongs to individual member states. Restrictions are sometimes set in the form of recommendations, which in some cases turn into measures over time. In addition to the ratios mentioned above, the measures aimed at loan beneficiaries also include those related to the loan maturity or the loan repayment, which are often combined with some of the ratios that are the subject to setting limits. Usually, measures are adopted for debtors who are natural persons, and very rarely also for legal persons.

In our environment, the most characteristic examples include Croatia, The Republic of North Macedonia and Slovenia. The Croatian National Bank introduced DSTI limits of 40% for non-residential loans and 45% for residential loans, as well as a 90% LTV limit for loans secured by real estate. In addition, the maturity for non-housing loans is limited to 10 years, and for housing loans to 30 years. Certain deviations from the mentioned limits on DSTI and LTV are allowed, which in the case of housing loans mainly refer to situations where debtors solve their housing situation, meaning that they finance the purchase of their first real estate. The measures were adopted in mid-March 2025 and entered into force as of 1 July.

The National Bank of the Republic of North Macedonia adopted measures limiting DSTI to 50% for foreign currency loans and loans with a currency clause, i.e. to 55% for loans approved in the local currency - denars, while the LTV for loans secured by real estate is limited to 85%. Also, the maturity of non-residential mortgage loans is limited to 20 years, while the maturity of housing loans is limited to 30 years. These macroprudential measures have been in effect as of 1 July 2023.

The Bank of Slovenia has longer track record with measures aimed at credit beneficiaries as it introduced the first such measures in 2016, and the measures currently in force include: 1) a limit on DSTI of 50%, with the fact that after servicing the loan debt, the debtor must not have less than the amount necessary to cover basic living expenses, which is currently estimated at 745 euros, and 2) a 7-year maturity limit for cash loans that are not secured by residential property. In addition to the measures, there is also a recommendation for a general limit on LTV for housing loans of 70%, and a limit of 80% for housing loans used to finance the purchase of the borrower's primary real estates.

⁵ The data sources for the text below are the European Systemic Risk Board (https://www.esrb.europa.eu/national_policy/html/index.en.html) and the mentioned central banks of the surrounding countries.

2. MACROPRUDENTIAL MEASURES

The CBCG has been passing macroprudential measures as part of its activities aimed at preserving financial stability in order to prevent or mitigate certain systemic risks. First of all, the CBCG uses capital buffers as an additional layer of usable capital. Capital buffers were introduced under the Law on Credit Institutions, which initially transposed provisions of the CRD IV/CRR⁶ package into the Montenegrin regulatory system and that provided for the implementation of Basel III in the EU. As of 20 March 2025, the CRD V/CRR II⁷ package was implemented in Montenegro and credit institutions have been given nine months to harmonise their operations with the relevant provisions of the law implementing the package.

In accordance with its Macroprudential Policy Framework⁸, the CBCG may deploy other available macroprudential measures. Also, besides macroprudential measures in the strict sense of the word, the CBCG may deploy other measures to preserve financial stability, as was the practice before the enactment of the Law on Credit Institutions, and as it continues to do.

2.1. Capital buffers

During H1 2025, the CBCG actively used capital buffers (table 2.1). At the end of the second quarter, the requirement for the combined buffer varied by the bank in the range from 4.41% to 5%, amounting to 4.86% at the system level.

In addition to the macroprudential capital requirements, additional individual capital requirements within Pillar II were also in force as well as the minimum capital requirements that are the same for all banks (Pillar 1). Thus, the minimum requirement for the Common Equity Tier 1 capital amounted to 10.67%⁹ at the system level. Minimum requirements for Tier 1 capital amounted to 12.6%, and the minimum requirement for

⁶ Directive 2013/36/EU and Regulation (EU) 2013/575

⁷ Directive 2019/878/EU and Regulation (EU) 2019/876

⁸ https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_naslovna/macprudential_policy_framework.pdf

⁹ Percentages indicated in this and the following sentence refer to all capital requirements, including additional capital requirements within Pillar II and capital buffers.

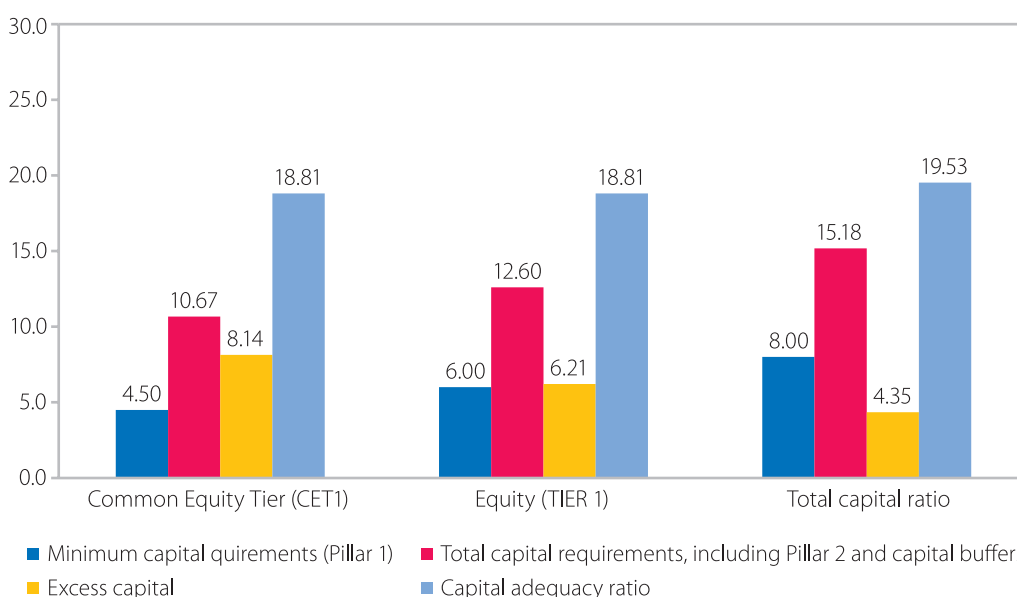
own funds amounted to 15.18% at the system level. However, many banks allocated excess capital, which resulted in the capital adequacy ratio of 18.81% for the Common Equity Tier 1 and Tier 1 capital, and 19.53% for total regulatory funds (graph 2.1).

Capital buffers as of 30/06/2025, % **Table 2.1**

Buffer	Buffer rate
Capital conservation buffer ¹⁰	2.5
Structural systemic risk buffer ¹¹	1.5
Buffer for other systemically important institutions ¹²	1.25–2
Countercyclical capital buffer ¹³	0.5

Source: CBCG

Capital requirements as at 30 June 2025, in % **Graph 2.1**



Source: CBCG

When reviewing the adequacy of the **countercyclical capital buffer** in the first quarter of 2024, in order to preserve the banking sector's resilience to the possible materialisation of cyclical systemic risks, the CBCG decided to increase this rate and thus for the

¹⁰ Article 138 of the Law on Credit Institutions (OGM 72/19, 82/20, 8/21, 24/25) https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_brzi_linkovi/propisi/laws/law_on_credit_institutions_unoff_consol_24-25.pdf

¹¹ https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_fin_stabilnost/obavjestenje_bafer_strukturni_sistemski_rizik_01122023_eng.pdf

¹² https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_fin_stabilnost/information_on_review_O-SICI_identification_and_determining_buffer_rates_for_O-SICIs_290324.pdf

¹³ https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_fin_stabilnost/information_on_countercyclical_capital_buffer_rate_in_q4-2024_300924.pdf

first time introduced a non-zero countercyclical capital buffer rate (0.5%), which became effective as of 1 April 2025. In the last quarter of 2024, the CBCG once again increased the countercyclical capital buffer rate (to 1%) that will become effective as of 1 January 2026¹⁴.

Namely, certain indicators pointed to the accumulation of cyclical risks, primarily in the domain of credit growth and further growth in real estate prices. Intensive credit growth was notable in the household sector, partly due to the increase in wages in the previous period. Cash and housing loans led the way, and loan expansion was also evident through the record volume of new loans. Prices of newly built apartments reached a new record high, contributing to cyclical vulnerabilities.

By reviewing the countercyclical capital buffer in the first and second quarter of 2025, the applicable buffer rate of 0.5% and the announced rate of 1% as of 1 January 2026 were assessed as appropriate. Certainly, the development of cyclical systemic risks will be closely monitored in the coming period, and the appropriateness of the countercyclical capital buffer rate will be assessed accordingly. If risk accumulation continues and is deemed significant, the countercyclical capital buffer rate will be increased as necessary.

Capital conservation buffer is determined under the Law on Credit Institutions, which prescribes a gradual introduction and/or the increasing of this buffer¹⁵. As of 1 January 2025, this rate is 2.5% of total risk exposure, which is in line with Basel III.

OSI credit institution buffer is reviewed annually¹⁶. The last time the CBCG set the OSI buffer rates was for the period starting from 31 March 2024, with the rate ranging between 1.25% and 2%, depending on the degree of systemic importance of the given credit institution. The procedure mainly used data submitted by credit institutions to the CBCG as a part of the regular reporting process for the fourth quarter of 2023. On this occasion, the CBCG identified eight other systemically important credit institutions. The next review will be conducted in the second half of 2025, and the results will be published by 1 December.

Structural systemic risk buffer is reviewed bi-annually and the last review from end-2023 estimated that structural systemic risks in Montenegro mostly derive from the real economy, i.e. different types of macroeconomic imbalances, rather than from the financial system, and the measures specified in the law and other applicable legislation would not be sufficient to cover those risks. The CBCG prescribed the structural systemic risk buffer rate at the level of 1.5%, with equal implementation to all exposures. The next review will be conducted at the end of 2025.

¹⁴ Both increases were implemented in line with the Decision on Raising the Countercyclical Capital Buffer Rate (OGM 27/24, 125/24).

¹⁵ Article 386 of the Law on Credit Institution

¹⁶ Decision on Identifying Other Systemically Important Credit Institutions (OGM 127/20, 17/25).

Article 163(4) of the amended Law on Credit Institutions (OGM 24/25) also changed the method of calculating the implementation the OSI capital buffer for those OSI credit institutions whose parent credit institutions are from the EU and that are subject to the OSI buffer on consolidated basis. In addition, at the end of 2025, the summing of structural systemic risk buffers and OSI credit institution buffers will begin in accordance with the latest amendments to the Law on Credit Institutions (OGM 24/25), since previously only the higher of the two buffer rates was applied.

2.2. Macroprudential measures related to retail loans granted by credit institutions

In addition to capital buffers, macroprudential measures related to retail loans granted by credit institutions were also in place. The measures have been in effect since 2020 and they have been adopted with the aim of establishing the sustainability of retail sector lending and in the context of preserving financial stability. The measures limit the maturity of cash retail loans without a high-quality collateral to 10 years and/or to eight or six years, depending on the size and quality of the portfolio of those loans for each individual credit institution. The validity of the Decision on Macroprudential Measures Related to Retail Loans Granted by Credit Institutions has been extended until the end of 2025.