



CENTRALNA BANKA  
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Podgorica, 30 December 2022

## **Information on the countercyclical capital buffer rate for Montenegro in Q1 2023**

In its Decision on the Countercyclical Capital Buffer Rate in Q1 2023 and in accordance with the Law on Credit Institutions (OGM 72/19, 82/20, 8/21), the Central Bank of Montenegro has set the countercyclical buffer rate for the first quarter of 2023. The rate shall be 0% of the total amount of risk exposure.

The 0% rate shall apply to the territory of Montenegro, that is, to relevant exposures of credit institutions in Montenegro. Pursuant to Article 147 of the Law on Credit Institutions, every credit institution is obliged to calculate the specific countercyclical buffer rate as the weighted average of the countercyclical buffer rates that apply in Montenegro and other countries where the relevant credit exposures of the credit institution are located.

Article 144 of the Law on Credit Institutions specifies that the Central Bank is obliged to publish the decision on the countercyclical buffer rate and the announcement thereof on its website. The information to be contained in the announcement is specified under Articles 141 and 144 of the law.

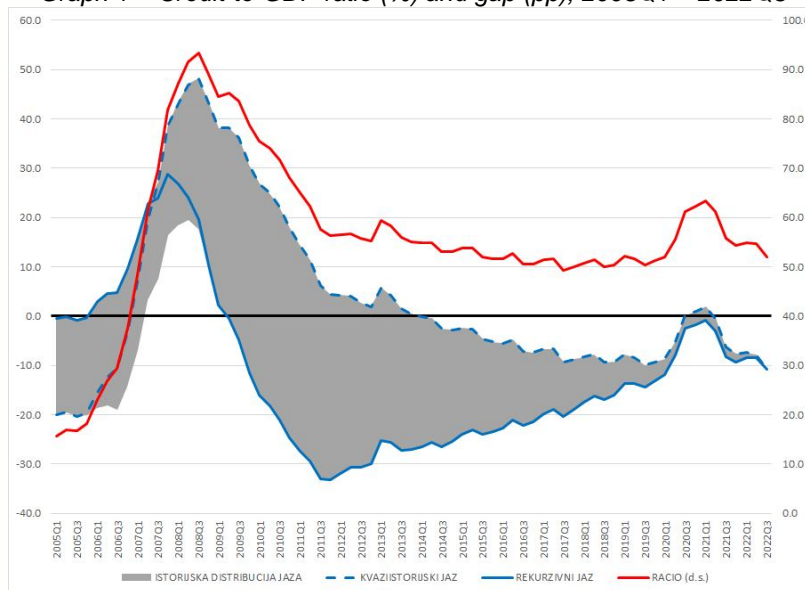
The key findings of the analytical base used for the countercyclical buffer decision are presented below.

The starting point was the calculation of the buffer guide. The buffer guide was calculated using the so-called standardised credit-to-GDP gap in line with the Law on Credit Institutions and the Recommendation of the European Systemic Risk Board on guidance for setting countercyclical buffer rates (ESRB/2014/1).

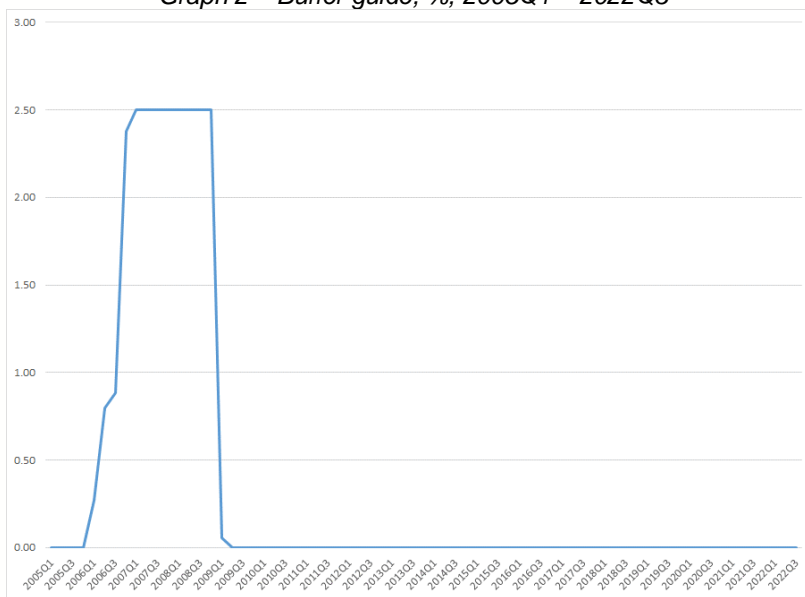
At end-Q3 2022, the credit-to-GDP ratio stood at 51.9%. Compared to its long-term trend, this is a deviation of -10.7 pp, which is below the lower threshold of 2 pp, i.e. the minimum value that would indicate the need to introduce a non-zero countercyclical buffer rate, so the value of the buffer guide was 0%.

After a relative stagnation in the previous few quarters, the gap widened in absolute terms in Q3 2022 due to a stronger GDP growth over loans.

Graph 1 – Credit-to-GDP ratio (%) and gap (pp), 2005Q1 – 2022Q3



Graph 2 – Buffer guide, %, 2005Q1 – 2022Q3



In addition to the buffer guide, the analysis covers numerous other selected indicators that the CBCG uses to monitor cyclical systemic risks in Montenegro.

Banking loans, observed through the definition of credit used to calculate the buffer guide, continued with their steady growth. In Q3 this year, new banking loans were above their pre-pandemic level, which has led to the aforesaid uptrend in loans in banks' balance sheets.



Observed by sectors and purpose of new loans, the aforementioned dynamics was guided by the dynamics of new retail and wholesale loans, specifically cash, housing, and liquidity loans. Risks associated with retail cash loans eased during the pandemic as those loans decreased, as did their share in retail loans (observed through the balance sheets)<sup>1</sup>. However, the maturity structure of these loans is still relatively unfavourably tilted towards long-term loans.

Interest rates were on a slight upturn over the past several months.

The balance sheets of banks continued to see a growth in deposits that reached their all-time high in 2022. It was this deposit growth that primarily contributed to the growth of banks' assets, with banks redirecting the received funds more into liquid assets and less into loans. At end-Q3 2022, liquid assets accounted for 31.7% of total assets, as compared to 27.5% a year ago. At the same time, the loan-to-deposit ratio fell to 73.8% gross and 70.9% net.

In the first nine months of 2022, banks reported almost a 50% profit increase year-over-year. The solvency ratio, which banks maintain significantly above the regulatory minimum of 10%, amounted to 18.4%. The share of non-performing loans increased somewhat during the pandemic only to slightly decline over the past few months to 5.9% at end-Q3 2022.

When it comes to the real estate market, the value of the hedonic real estate price index (data produced by the CBCG), as indicated in the latest survey, points to a notable increase in real estate prices. The same trend has been observed with the prices of new apartments (data produced by MONSTAT). However, the prices of newly built apartments have not exceeded the maximum values recorded in the past 10 years and they remain lower than during the 2006-2008 boom period.

Newly approved housing loans had been on a notable decline during most of the pandemic period but they bounced back towards 2021 year-end and continued to rise in 2022. Interest rates on these loans declined but slightly during the pandemic yet they have been on a mild uptrend over the past few months. Construction activity is currently lower than in the pre-pandemic period.

Activity on the capital market is still quite weak, with both turnover and index values being multiple times lower compared to the time of strong expansion in 2007.

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<sup>1</sup>With the passing of the Decision on Macroprudential Measures Related to Retail Loans Granted by Credit Institutions (OGM 138/21) these risks will remain under regulatory control in the coming period as well.



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In view of the above, the CBCG has set the countercyclical capital buffer rate at 0%. In accordance with its macroprudential powers, the CBCG will continue to regularly monitor the development of potential imbalances in financing the needs of the non-financial sector and households, and publish countercyclical capital buffer rates on quarterly level.

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Methodological notes on the calculation of the buffer guide:

The calculation of the credit-to-GDP ratio and gaps was conducted on a sample from Q1 2002. The quasi-historical gap is calculated for the entire sample, while the recursive gap is calculated using the right-hand shifting sample (of available data in each quarter), with the latest observations always being the same for both gap indicators. The historical distribution of the calculated gap represents the area between the smallest and the largest value of the gap calculated by moving the sample to the right. The historical series of the buffer guide is presented as a function of the recursive gap, with the upper limit of the standard statutory maximum of 2.5% (exceptionally, the countercyclical buffer rate can exceed 2.5%).

Data sources:

1. MONSTAT, nominal GDP. GDP data are recalculated as annual cumulatives, i.e. as the sum of GDP values in a given quarter and the previous three quarters. Data on GDP before 2006 were obtained by applying the average share of quarterly GDP values in the annual GDP value for the period 2006Q1 – 2021Q4.
2. CBCG, gross loans and other credit receivables. Data on loans refer to the end-quarter sum of loans in banks, microcredit financial institutions, leasing companies and factoring companies, which these institutions approved to the non-financial sector and households, excluding non-residents. These loans do not include those that the non-financial sector and households received from foreign entities due to the inadequate length, frequency, and reliability of those data series.