



Podgorica, 30 June 2023

## **Information on the countercyclical capital buffer rate in Q3 2023**

In its Decision on the Countercyclical Capital Buffer Rate in Q3 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 third 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.

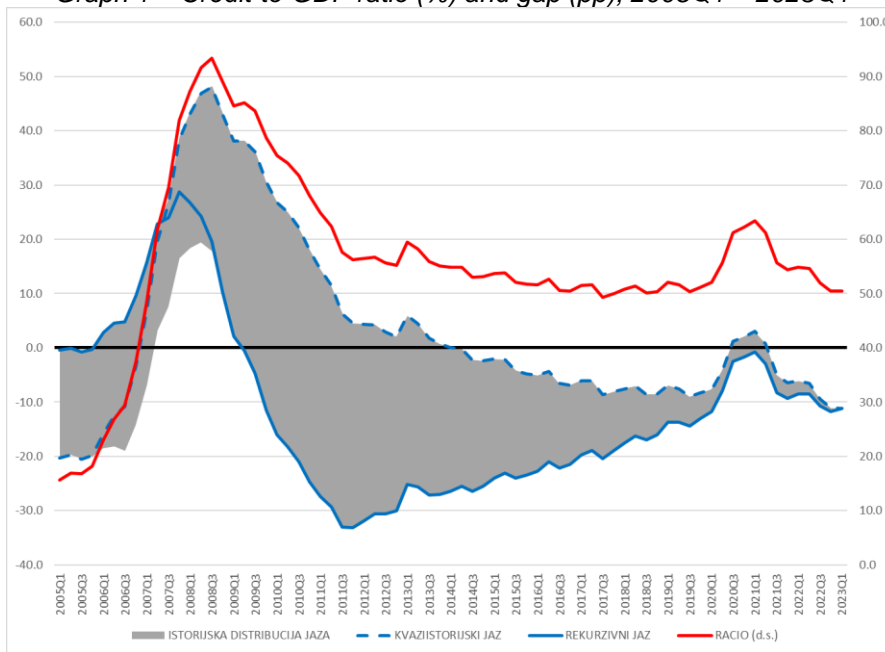
The key findings of the analytical base used for the countercyclical buffer decision are presented below.

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).

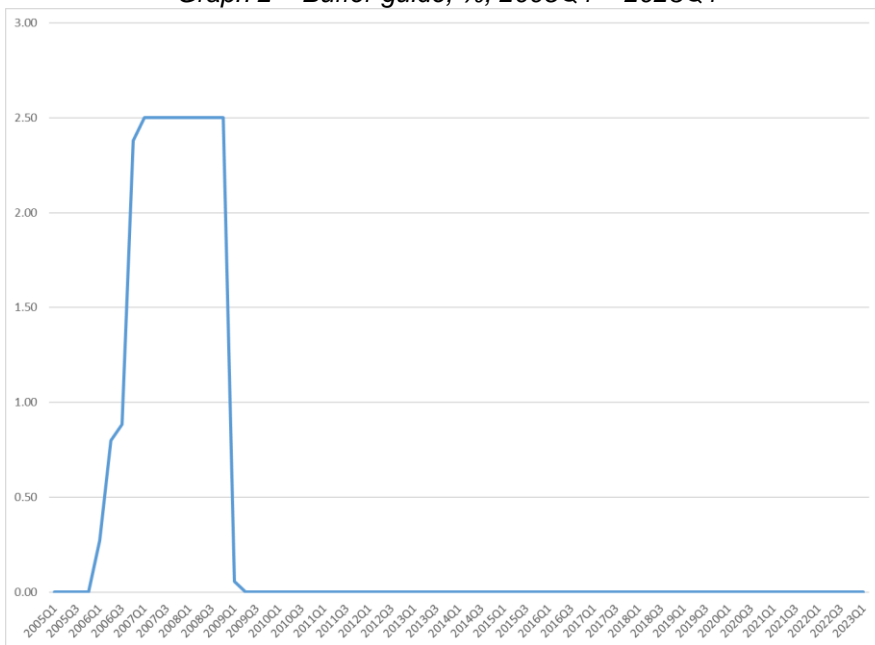
At end-Q1 2023, the credit-to-GDP ratio stood at 50.5%. Compared to its long-term trend, this is a deviation of -11.2 pp, which is below the lower threshold of 2 pp, i.e. the minimum value that would indicate the need to introduce a non-zero countercyclical buffer rate, so the value of the buffer guide was 0%.

The gap further widened in absolute terms in Q3 and Q4 2022 due to a stronger GDP growth over loans, while in Q1 2023 it was slightly narrower.

Graph 1 – Credit-to-GDP ratio (%) and gap (pp), 2005Q1 – 2023Q1



Graph 2 – Buffer guide, %, 2005Q1 – 2023Q1





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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, maintained their steady growth on the annual level. However, in Q1 2023, they were lower compared to the same period a year ago.

Observed by the sector and the purpose of newly approved loans, the aforementioned dynamics were mainly driven by the reduction of new corporate loans, and this included loans for almost all purposes, except working capital loans. When it comes to the retail sector, cash loans recorded the severest decline as they had become more expensive over the past months. The maturity structure of cash loans remains still relatively unfavourably tilted towards long-term loans.

Interest rates rose 0.58 pp over the past twelve months, with a notable increase being recorded in the last two quarters. Observing it as the weighted average growth, the increase was higher with interest rates on new corporate loans. A somewhat smaller but certainly significant increase in interest rates was recorded in retail loans.

The balance sheets of banks saw an increase in deposits in 2022, which primarily contributed to the growth in banks' assets, but banks funnelled the received funds more into liquid assets and less into loans. However, deposits were somewhat lower in the first quarter of 2023. Regardless of a high increase in 2022, liquid assets declined in the reporting quarter but remained higher than in the comparative period last year. At the same time, the loan-to-deposit ratio rose to 73.9% gross and 71.2% net.

In Q1 2023, banks recorded almost 150% profit increase year-over-year. The solvency ratio amounted to 18.9% and it was higher than in the Q4 2022. The share of non-performing loans increased somewhat during the pandemic but it was on a downward trend over the past few months and it dropped to 5.6% at end-March this year.

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 December 2022 survey, pointed to a continued increase in real estate prices albeit somewhat lower than that noted in the previous survey. Also, the prices of dwellings in new residential buildings (data produced by MONSTAT) have been on a notable uptrend in 2022 but they recorded a 4.1% decline in Q1 2023. However, the prices of these dwellings have not exceeded the maximum values recorded in the past 10 years and they remain lower than during the 2006-2008 boom period.



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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 and this level of crediting continued in Q1 2023. Interest rates on newly approved housing loans have recorded a significant growth over the past year. Construction activity was lower in the first quarter of 2023.

There was a sharp drop in market capitalisation but also a growth of both stock exchange indices. On the other hand, the value of trade and indices is many times lower compared to the time of strong expansion in 2007.

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 cumulative 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 inadequate length, frequency, and reliability of those data series.