



Podgorica, 29 September 2023

Information on the countercyclical capital buffer rate for Montenegro in Q4 2023

In its Decision on the Countercyclical Capital Buffer Rate in Q4 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 fourth 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.

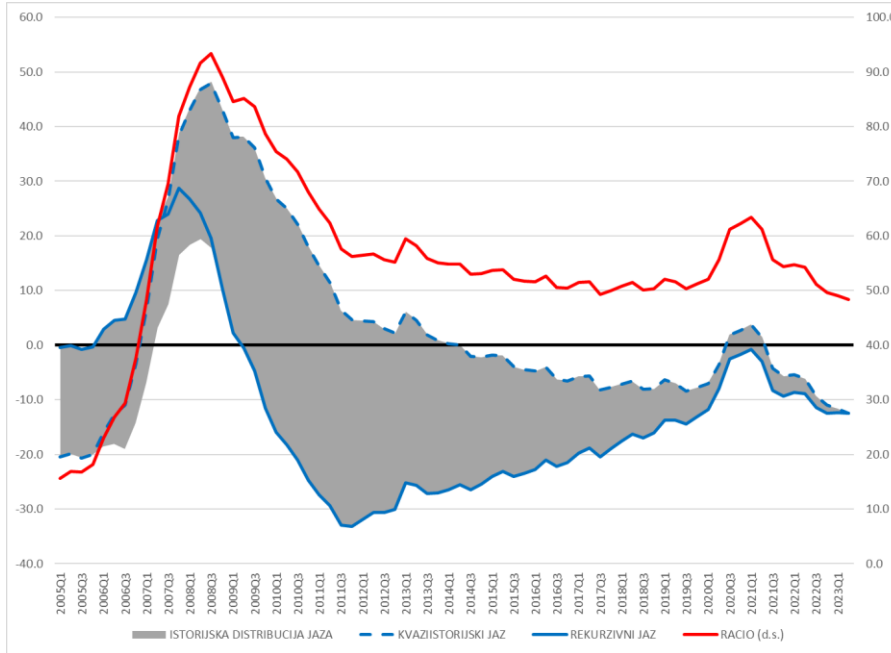
The key findings of the analytical base used for the countercyclical buffer decision are presented below.

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).

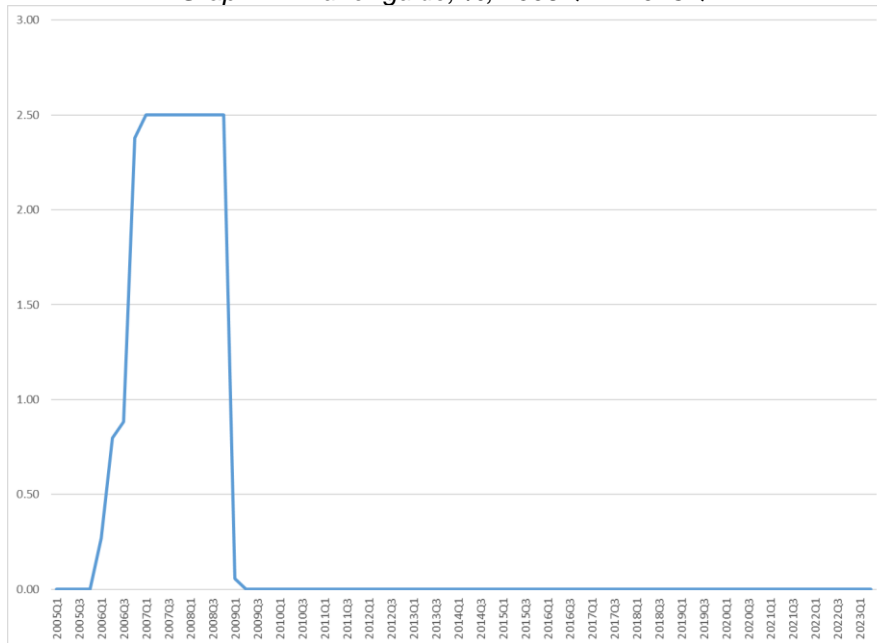
At end-Q2 2023, the credit-to-GDP ratio stood at 48.4%. Compared to its long-term trend, this is a deviation of -12.5 pp, which is below the lower threshold of 2 pp, i.e. the minimum value that would indicate the need to introduce a non-zero countercyclical capital buffer rate, so the value of the buffer guide was 0%.

The gap has been rather wide over the last three quarters, which is the consequence of a stronger GDP over loan growth.

Graph 1 – Credit-to-GDP ratio (%) and gap (pp), 2005Q1 – 2023Q2



Graph 2 – Buffer guide, %, 2005Q1 – 2023Q2



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, new loans were lower at the end of June 2023 compared to a year ago.

A decline in new loans mostly referred to the corporate sector that took out fewer loans to refinance their liabilities to other banks, but also fewer investment loans. When it comes to the retail sector, cash loans recorded the most notable decline as they had become more expensive over the past few months. The maturity structure of cash loans remains still relatively unfavourably tilted towards long-term loans.

The movement of interest rates on new loans in the first six months of the current year indicates that borrowing was 1.01 pp on average more expensive than in the comparative period last year. Increase in interest rates on new loans was particularly pronounced in the last three quarters and it almost equally affected both household and business sector.

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, in the first half of 2023, the balance sheet structure tilted positively towards total loans¹ and investments in securities. The system has remained highly liquid. The share of liquid assets in total assets was somewhat lower than at end-Q2 2023 than a year ago, amounting to 26%. The loan-to-deposit ratio increased further compared to end-2022 and it reached 75.6% gross and 72.9% net.

In the period until the end of June this year, banks made 2.1 times more profit than in the comparative period of 2022 (66.4 million euros). The capital adequacy ratio stood at 20.1% and it was higher than at the end of the first quarter of 2023 when it was 18.9%. During the pandemic, the share of non-performing loans slightly increased but it was on a decline since early 2022, falling down to 5.2% at end-June 2023.

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 further increase in real estate prices. Also, the prices of dwellings in new residential buildings (data produced by MONSTAT) were on a notable uptrend in 2022 that continued in Q2 2023. As a result, the prices of these dwellings reached their maximum values recorded in the past 10 years but they remain lower than during the 2006-2008 boom period.

¹ This was primarily owing to growing deposits with banks and other depository institutions.



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New 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. A somewhat lower level of new housing loans was also recorded in the first half of the current year as compared to the same period in 2022. Interest rates on newly approved housing loans have recorded a significant growth over the past year. Construction activity was lower in the first half of 2023.

A further decline in market capitalization and a relative stagnation of the stock exchange indices have been recorded on the capital market. The values of trade and indices are 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.

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.