Podgorica, 30 September 2025

Information on the review of the countercyclical capital buffer rate carried out in Q3 2025

The countercyclical buffer rate of 1% that is to be applied as of 1 January 2026 is prescribed under the Decision on Raising the Countercyclical Capital Buffer Rate (OGM 27/24 and 125/24) and it remains appropriate for maintaining the resilience of the banking system against potential materialization of systemic risks or sudden shocks. Pursuant to the aforesaid decision, the countercyclical buffer rate of 0.5% is to be applied from 1 April 2025 until 1 January 2026.

Below are the key findings of the countercyclical buffer rate review carried out in the third quarter of 2025.

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 the end of the second quarter of 2025, the credit-to-GDP ratio stood at 52.9%. Compared to its long-term trend, this is a deviation of -3.6 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%. For many years now, the credit-to-GDP gap had exhibited a negative deviation from its long-term trend. However, due to intensified credit activity in the past four quarters, the negative gap has rapidly diminished.

In addition to the buffer guide, the analysis includes other selected indicators that the Central Bank uses to monitor cyclical systemic risks in Montenegro, which signal a continued elevated accumulation of cyclical risks, primarily those related to credit growth and rising real estate prices.

During the second quarter of 2025, the annual growth rate for loans disbursed to residents remained at a high level, standing at 17.5% in June. The growth was driven by the rise in retail and non-financial sector loans, which rose by 20.4% and 21.3% year-on-year, respectively.

The growth in retail loans was partly fuelled by increases in nominal wages in the prior period, and in terms of structure, it was driven by growth in cash and housing loans. According to data from the Credit Registry of the Central Bank, the annual growth of cash loans in June was 22.8 %. Newly granted retail loans

reached a new record high at the end of the second quarter of 2025, with cash loans accounting for the largest share. The number of loan agreements and the average amount of cash loans also increased, and loan maturities of five to ten years have become more common as opposed to shorter-term loans.

Retail housing loans recorded the annual rate of growth of 17.7% in June this year, and their cumulative increase since end-2020 reached 73.9% (Credit Registry data). Housing loans reached one third of total retail loans, and their share in GDP also increased. This increase was accompanied by larger average loan amounts and number of loan agreements. Growth in retail housing loans has been noticed with new loans as well, and their 12-month cumulative total has shown significant growth since end-2021.

Apartment prices in new residential buildings in Montenegro recorded a significant annual increase in the second quarter of 2025 (20.9%), reaching a new historical peak of 2,201 euros per square meter. The growth of real estate prices in real terms (nominal prices adjusted for the consumer price index) was naturally less pronounced (16%). The ratio of new apartment prices to average nominal wages showed no significant deviations. Overall, the evaluation indicates that real estate prices remain somewhat overvalued.

The leading factor spurring the growth of real estate prices was foreign direct investments in real estate, which amounted to 1.37 billion euros in the period 2022-2024 or 6.8% of the nominal GDP per year on average (228.9 million euros or 6.9% of GDP in the first six months of 2025), which is substantially more than over several years prior to this period.

Besides foreign direct investments, the aforementioned increase in housing loans also affected the growth in real estate prices. In the period from 2022 to 2024, new housing loans amounted to 400.8 million euros, while in the first six months of 2025 they totalled 107.5 million euros.

Real estate prices are important for the assessment of cyclical systemic risks because real estate is one of the most important forms of collateral used to secure both housing and mortgage loans. Unrealistically high real estate prices could amplify the upward phase of the financial cycle, driving loans to unjustifiable levels, yet in the phase of a possible sharp drop in real estate prices, they would negatively affect both debtors and bank balance sheets.

The banking sector has remained solvent, liquid and profitable. The steady year-on-year growth of deposits continued, with banks increasingly redirecting these funds into loans rather than into liquid assets or securities. As a result, liquid assets recorded some decline year-on-year relative to total assets. On the other hand, it is important to consider the highly conservative definition of liquid

assets established by the CBCG regulation governing liquidity risk management in credit institutions, as well as the fact that a significant portion of the securities held by banks remains highly tradable. Due to a growing lending activity, the loan to deposit ratio was on an increase since end-2022, reaching 90.5% gross and 88% net at end-Q2 2025.

The capital adequacy ratio stood at 19.5% and it has been on a mild downtrend. Non-performing loans have declined, continuing this downward trend that has been present since early 2022. At the end of the second quarter of 2025, their share in total loans amounted to 3.2%.

The growth cycle of the weighted average lending interest rate (for the entire credit portfolio of banks, i.e., on outstanding principal/debt), which began in mid-2022, came to a halt in mid-2024 and has been on a slight decline ever since. The aforesaid interest rate amounted to 6.3% at the end of the second quarter this year.

During the first two quarters of 2025, banks recorded a profit of 70 million euros, which is a 19.8% decline year-over-year (profitability reached a record high in the comparative period in 2024), but this is still a significant profit.

International and geopolitical developments also play a role in assessing cyclical systemic risk, as tensions persist despite some signs of improvement, and recently the issue of tightening customs policies by leading industrial nations has become relevant.

Given the aforementioned factors related to credit growth, the real estate market, and global trends, the countercyclical buffer rate of 1% that is to be applied as of 1 January 2026, as specified in the Decision on Raising the Countercyclical Capital Buffer Rate (OGM 27/24 and 125/24), remains appropriate considering the need to maintain the resilience of the banking system against potential materialization of systemic risks or sudden shocks. Pursuant to the aforesaid decision, the countercyclical buffer rate of 0.5% is to be applied from 1 April 2025 until 1 January 2026.

The development of cyclical systemic risks will be carefully monitored going forward, and the appropriateness of the buffer rate will be assessed accordingly. In case of continued accumulation of risks, if deemed necessary, the countercyclical capital buffer rate may be increased at the next review.

We also emphasize that credit institutions are obliged to align their operations with the Law on Amending the Law on Credit Institutions (OGM 24/25) by the end of 2025. The amended law prescribes, inter alia, the summation of the structural systemic risk buffer and the buffer for other systemically important

credit institutions, unlike the previous requirement to apply the higher of the two buffer rates.

In accordance with its macroprudential responsibilities, the Central Bank of Montenegro will continue to regularly monitor potential imbalances in financing the needs of the non-financial sector and households, and publish the results of review of the countercyclical capital buffer rate on quarterly basis.