



Podgorica, 31 March 2022

Information on countercyclical capital buffer for Q2 2022

In its Decision on the Countercyclical Capital Buffer Rate and in accordance with the Law on Credit Institutions (OGM 72/19, 82/20 and 8/21), the Central Bank of Montenegro set the countercyclical buffer rate for the second quarter of 2022 at 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.

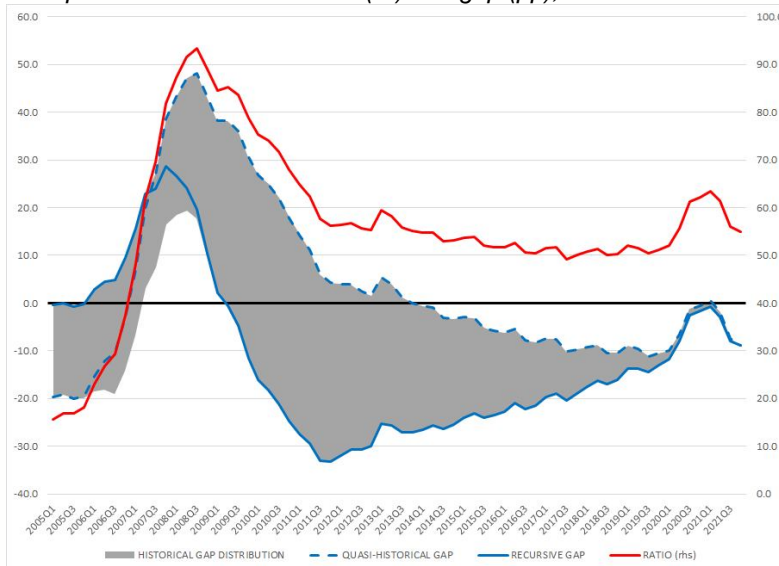
The key findings of the analytical base used for the countercyclical buffer decision are presented below.

The starting point was the calculation of a buffer guide 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).

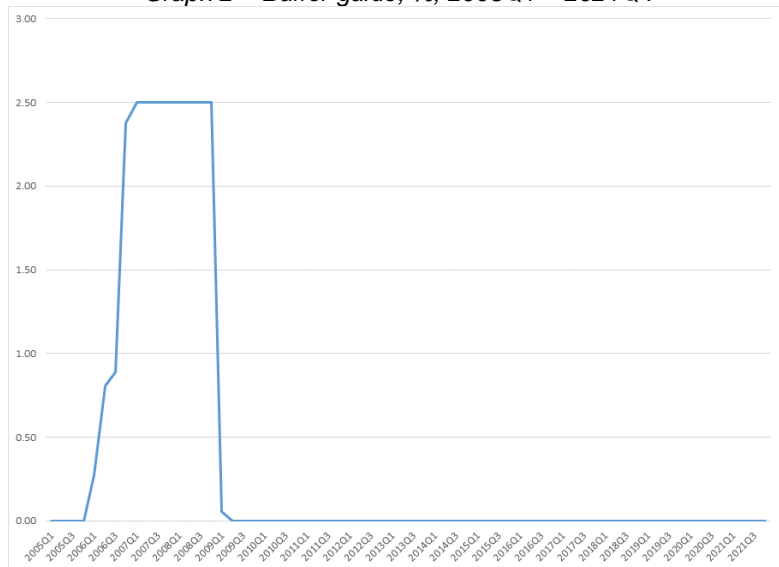
At end-2021, the credit-to-GDP ratio stood at 54.9%. Compared to its long-term trend, this is a deviation of -8.9 pp, which is below the lower threshold of 2 pp, i.e. the minimum value that would indicate the need to introduce a non-zero countercyclical buffer rate, so the value of the buffer guide was 0%.

The credit-to-GDP gap was closing towards the zero value at end-Q1 due to a sharp drop in GDP induced by the coronavirus pandemic; however, after GDP recovery that ensued, it moved back deeper into the negative zone for the remainder of the year.

Graph 1 – Credit-to-GDP ratio (%) and gap (pp), 2005Q1 – 2021Q4



Graph 2 – Buffer guide, %, 2005Q1 – 2021Q4



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

Banks` credit growth, observed through the definition of credit used to calculate the buffer guide, slowed down notably during the pandemic, yet it showed some signs of recovery at end-2021. In 2020, we saw a sharp decline in new bank loans, but they picked up pace towards a strong recovery in the following year



that was still not sufficient to lead to any notable increase in the balance of loans in banks' balance sheets.

Observed by sectors and purpose of new loans, the aforementioned dynamics was guided by the dynamics of new retail loans, specifically retail cash (all-purpose) loans. Risks associated with retail cash loans eased during the pandemic as those loans decreased, and so did their share in retail loans¹. However, the maturity structure of these loans is still relatively unfavourably tilted towards long-term loans.

Interest rates on new loans remained broadly stable during the pandemic, while interest rates on credit stock slightly declined.

The balance sheets of banks were primarily characterized by growing deposits that reached their all-time high at the end of 2021. It was the deposit growth that conditioned the growth of banks' assets, with banks redirecting the received funds more into liquid assets and less into loans. At the end of the year, liquid assets accounted for 26.4% of total assets, compared to 22.2% a year ago. At the same time, the loan-to-deposit ratio fell to 80% gross and 76.5% net.

In 2021, banks made significantly higher profits than in 2020, but these were lower than in 2019. The solvency ratio, which banks maintain significantly above the regulatory minimum of 10%, amounted to 18.5% at the end of last year. The share of non-performing loans increased during the pandemic albeit not significantly, sitting at 6.2% at the end of 2021.

When it comes to the real estate market, the value of the hedonic real estate price index (data produced by the CBCG), as analysed from the latest survey, points to an increase in real estate prices. The prices of new apartments (data produced by MONSTAT) have been on a notable uptrend that has been primarily driven by rising prices of solidarity housing construction. However, the prices of newly built apartments are not above the maximum values recorded in the past 10 years and they are also much lower than during the 2006-2008 boom period.

Newly approved housing loans were on a notable decline during most of the pandemic period but they bounced back towards 2021 year-end. Interest rates on these loans remained generally stable during the pandemic. Construction activity is currently lower than in the pre-pandemic period but it has somewhat stabilised.

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



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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.

In view of the above, the CBCG introduced the countercyclical capital buffer rate of 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 the population, 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 cumulatives, i.e. as the sum of the 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 sum of loans in banks, microcredit financial institutions, leasing companies and factoring companies at end-quarter, 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.