Montenegro

Montenegrin banks covered by the survey account for 86 per cent of the country's total banking assets (Chart1), the majority of which are owned by foreign banks.[1] About 70 per cent of banks in Montenegro expect their branch network to grow over the next five years (Chart 2).[2] This is the highest share recorded in south-eastern Europe (SEE), where only 20 per cent of banks, on average, expect their networks to expand. In the SEE and EBRD economies more broadly, about half of banks expect their branch network to shrink, but only a couple of Montenegrin banks expect a decline.

Montenegrin banks generally lag their counterparts in the SEE and EBRD regions when it comes to environmental, social and governance policies and targets. Only half of Montenegrin banks surveyed have social and environmental policies and targets in place, compared with nearly 70 per cent of banks in the SEE region. Similarly, only one in five banks has climate change-related policies and targets, 15 percentage points below average in the SEE and EBRD economies. Where lending to small and medium-sized enterprises (SMEs) is concerned, 80 per cent and 60 per cent of Montenegrin banks, respectively, conduct corporate governance and social impact assessments, in line with SEE and EBRD regional averages (Chart 3). However, with only 60 per cent of banks conducting environmental assessments and a small minority conducting climate-change impact assessments, Montenegrin banks lag the SEE regional average.

At least half of the banks surveyed in Montenegro provide loans specifically to improve the energy efficiency of SMEs, corporate clients and commercial real estate (Chart 4). However, only 40 per cent of banks provide loans to improve the energy-efficiency of residential housing, compared with 60 per cent of banks in SEE.

Turning to the effects of fintech on banks' business lines, the survey shows that more than 60 per cent of banks in Montenegro view SME lending, trade finance and corporate lending as businesses with potential to gain from fintech,

Chart 1 Branch presence of surveyed banks

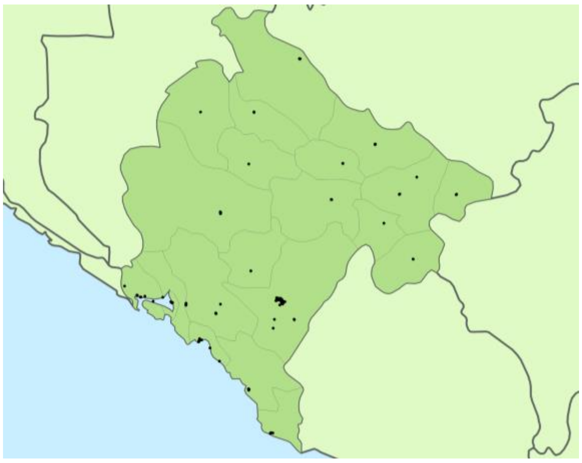


Chart 2 Branch network expectations, next five years

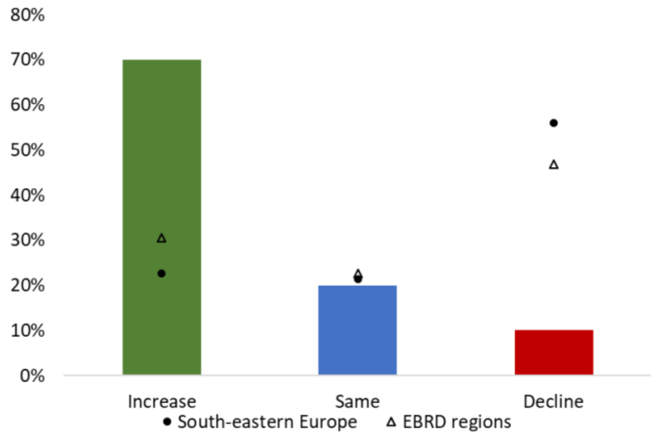


Chart 3 Impact assessment of SMEs before loan approval

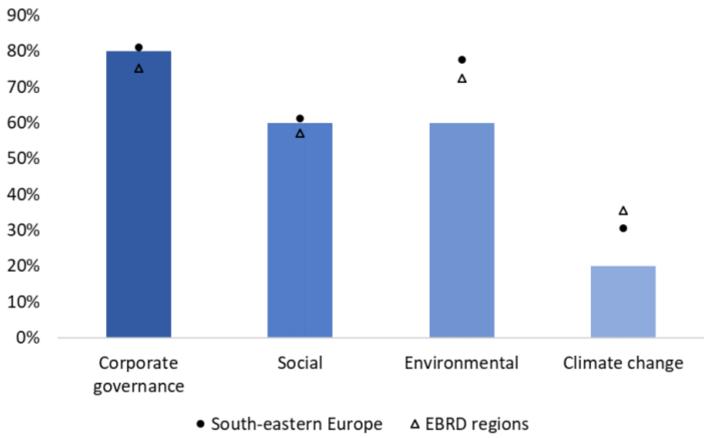
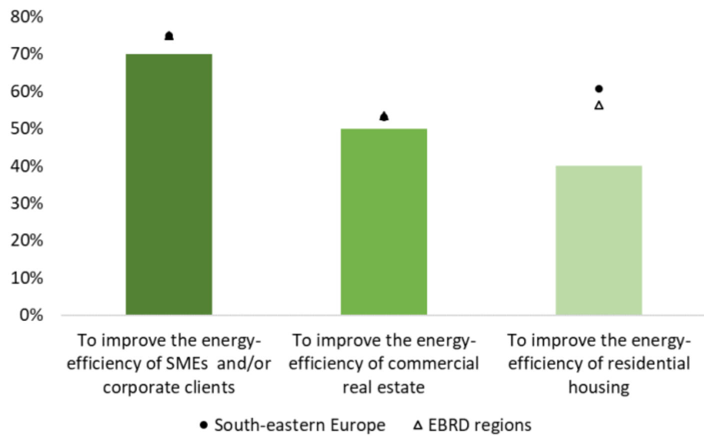


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Foreign banks account for 65 per cent of these banking assets.

[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Montenegro.

similar to the average of the SEE and EBRD economies (Chart 5). However, in the case of retail lending and leasing, while half of Montenegrin banks surveyed view fintech as an opportunity, more than a quarter view it as a threat. In the trading and sales segment, only a fifth of Montenegrin banks view fintech as an opportunity. However, in the SEE and EBRD regions more broadly, almost double the percentage of banks see fintech as an opportunity for trading and sales.

When it comes to the adoption of digital technologies, 40 per cent of Montenegrin banks say they use alternative credit-scoring data commercially, double the average of the EBRD economies and three times the SEE average (Chart 6). Montenegrin banks are on a par with banks in SEE on the use of algorithms to improve credit decision-making and digital wallet solutions. However, with just 30 per cent of surveyed banks having launched these technologies in Montenegro, this is still shy of the 40 per cent EBRD regional average. Moreover, only 10 per cent of Montenegrin banks have adopted the use of biometric authentication for customer identification services or cloud computing compared with a 30 per cent average in SEE. Only a small minority of banks surveyed in Montenegro accept online applications for loans to SMEs; one of the lowest shares in the EBRD economies surveyed.

About 90 per cent of Montenegrin banks say they would like to invest more in fintech companies, but are financially constrained, reflecting a hesitancy to shift to digital technologies (Chart 7). This is the highest share in the EBRD regions and double the share reported, on average, by banks in the SEE and EBRD regions. However, banks in Montenegro appear far less concerned than other banks in the SEE or EBRD regions about information technology (IT) security and regulatory uncertainty,

A lack of creditworthy customers and insufficient demand for credit are two of the main constraints Montenegrin banks face in lending to innovative industries, such as information technology (IT), chemicals and pharmaceuticals (Chart 8). It is worth noting that 40 per cent of banks cite a lack of creditworthy customers as the main constraint, double the SEE average.

Chart 5 How fintech will affect banks' business lines

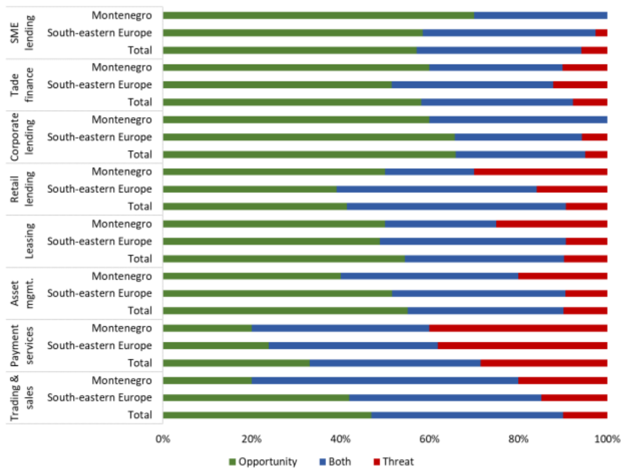
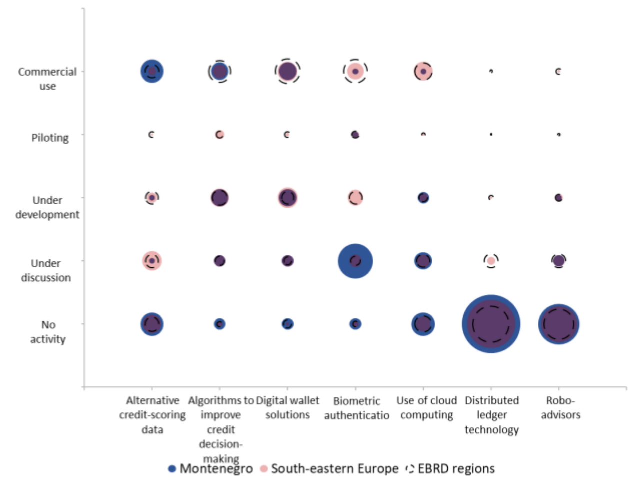


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

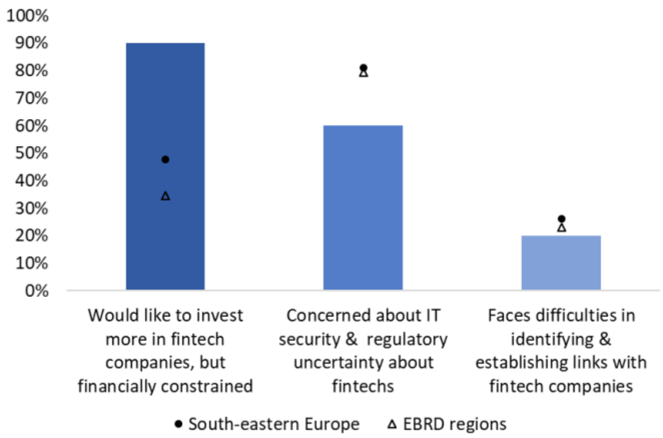


Chart 8 Constraints on lending to innovative industries