EMN Legislative Mapping Report

MONTENEGRO

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EUROPEAN MICROFINANCE NETWORK

This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:
1 Regulation of lending activity
2 Supervisory framework for non-bank lending
3 Products
4 Incentives and support
5 Development of existing framework for non-bank microcredit provision
6 Inclusive entrepreneurship and microenterprise development

1

Regulation of Lending Activity

Since 2017, the provision of microcredit in Montenegro has been regulated by the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending, and Credit Guarantee Operations. Under this legal framework, the Central Bank of Montenegro is responsible for granting licenses to “micro-lending financial institutions” (MFIs), which must be established as either joint stock companies or limited liability companies.

In accordance with the law, MFIs are permitted to:
1. Grant micro-loans from their own or borrowed funds to legal entities, entrepreneurs, and natural persons;
2. Issue guarantees to entrepreneurs;
3. Provide consulting services.

To be licensed, an MFI must meet a minimum capital requirement of EUR 125,000. Importantly, MFIs are not authorised to accept deposits from the public.
The introduction of this regulatory framework marked a significant shift, enabling MFIs to disburse microcredits directly without the need to operate through partnerships with banks. In parallel, credit unions - which also provide micro-loans - are permitted to lend directly under the provisions of the Law on Banks.

2

Supervisory Framework for Non-Bank Lending

The Central Bank of Montenegro is responsible for the supervision of the lending activities of MFIs. The Central Bank applies sound banking principles on MFIs such as rules for secret banking, protection of clients and minimum standards for risk management in MFI operations. The latter includes credit risk, liquidity risk, market risk, operational risk, reporting, provision for loan losses and capital requirements.
MFIs are required by the Law on Banks to share client data with the national credit bureau, which also applies to the State Development and Investment Fund[1]. These institutions can also access data from the national credit bureau.

1. A state agency providing microloans to microbusinesses, entrepreneurs, unemployed and start-ups from 10K-50K.

3

Products

In Montenegro, MFIs are authorised to provide both personal and business microloans. They may disburse loans of up to EUR 30,000 to entrepreneurs and up to EUR 50,000 to micro, small, or medium-sized enterprises (MSMEs), with no interest rate cap currently in place for these categories.
For natural persons (personal microloans), MFIs are legally permitted to issue loans of up to EUR 20,000, also without an interest rate cap under the existing framework. However, each loan contract with a natural person must include, at a minimum, all elements required under the law governing consumer credit.
This situation is expected to change with the entry into force of the new Law on Consumer Loans in November 2025, which will introduce an interest rate cap on personal loans. As detailed in Section V, this development is anticipated to have a negative impact on the sustainability of MFIs, particularly those serving high-risk clients.

While credit unions are also authorised to disburse business microloans, information is not available on the maximum loan amounts these institutions are permitted to provide.

4

Incentives and Support

In Montenegro, there are no national or regional funds dedicated to support microcredit in the form of guarantees, equity or any form of business development services.
There are also no tax incentives for organisations and individuals that offer financial support to support microcredit provision in the country.

5

Development of the Existing Framework for Non-Bank Microcredit Provision

A significant legislative development in Montenegro is the adoption of the Law on Consumer Loans by the national Parliament in early 2025, based on a proposal by the Government. The law, which transposes the EU Credit Consumer Directive (CCD II)[2] introduces several new provisions relevant to the financial sector, most notably Article 52, which sets an interest rate cap on consumer loans issued by both banks and MFIs. The law is scheduled to enter into force in November 2025.According to Article 52, the maximum effective interest rate on consumer loans shall not exceed twice the average weighted effective rate on the outstanding stock of consumer loans recorded in the Central Bank's Credit Registry, as of the end of the previous quarter. This average is to be calculated and published quarterly by the Central Bank of Montenegro.

While the cap will apply to both banks and MFIs, the operational and financial consequences will be more severe for MFIs, given their higher funding costs and risk exposure. Unlike banks, MFIs cannot take deposits and rely entirely on equity or external borrowing, typically at interest rates of 7–8%. They serve higher-risk clients, many of whom are excluded from the formal banking sector and are located in economically weaker regions such as northern Montenegro. These clients often seek financing for early-stage or informal business activities, which MFIs are uniquely positioned to support.

As of mid-2025, the Central Bank estimates that the cap would limit interest rates to 15.6%, with further reductions likely once the law takes effect. Under such constraints, MFIs would struggle to operate sustainably, and may only be able to lend to formally registered legal entities such as LLCs, licensed entrepreneurs, or certified farmers. However, the majority of MFI clients currently lack formal registration and use microloans to launch small-scale economic activities with the goal of formalising later.

If enforced without modification, the law risks severely undermining the financial sustainability of the MFI sector, which plays a crucial role in fostering financial inclusion and poverty reduction. Given that around one-third of Montenegro's population is estimated to live below the poverty line, MFIs are often the only financial institutions capable of serving vulnerable groups and stimulating grassroots entrepreneurship.

2. Directive (EU) 2023/2225 of the European Parliament and of the Council of 18 October 2023 on credit agreements for consumers and repealing Directive 2008/48/EC

Furthermore, the interest rate cap introduced by the new law is more restrictive than what is required by relevant EU directives, which typically allow for greater national discretion in setting such limits. While the impact on banks is expected to be minimal, the implications for MFIs could be severe — potentially leading to their widespread closure and the expansion of informal, unregulated, and potentially predatory lending channels.

To mitigate these risks while preserving the law's consumer protection objectives, the Montenegrin MFI sector has proposed a targeted amendment to further specify article 52: for the microfinance sector, the average weighted effective interest rate shall be increased by 25%. This solution will ensure the protection of consumers while allowing the microfinance sector to continue operating and providing financial support to the segment of the population that needs it the most.

6 Inclusive Entrepreneurship and Microenterprise Development

Currently, one challenge the sector faces is the cumbersome administrative procedure to establish a business. Entrepreneurs have no welfare bridge to support them in the transition out of unemployment, education at the secondary school does not incorporate entrepreneurship nor is there any form of awareness from the State on inclusive entrepreneurship. However, a development fund for the micro and SME sector has been established and some other agencies are promoting entrepreneurship. However, these programmes do not have any significant effects to date.

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