

The Governor's Report – January-February 2020

The Governor's Report for January and February 2020 provides an overview of key activities of the Central Bank concerning implementation of targets and objectives defined by the Central Bank of Montenegro Policy for 2020, on a monthly basis.

In January and February, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2020.

Preliminary Monstat data show that Montenegro's 2019 real GDP growth rate amounted to 3.6%, based on quarterly estimates. Positive growth rates in 2019 were recorded in all four quarters, growth being 3%, 3.2%, 4.7%, and 3.1% in first, second, third and fourth quarter, respectively.

In February 2020, consumer prices were lower by 0.1% compared to the previous month, while the growth was 0.9% in relation to February 2019.

During the first two months of 2020, industrial output recorded a y-o-y increase of 10.2%. All three sectors recorded an output increase: mining and quarrying sector (30%), manufacturing industry (15.5%) and electricity, gas and steam supply sector (1.6%).

In 2019, as per preliminary Monstat data, the air passenger transport recorded a year-on-year increase of 8.1%, while air cargo transport decreased by 6.4%. The rail passenger transport declined by 0.8%, while rail freight transport increased by 17.1%. The road passenger transport increased by 0.8%, and road freight transport grew by 9.4% y-o-y.

During the first two months of 2020, production of forest assortments amounted to 11,120 m³, which is an increase of 6.7% in relation to the corresponding period of the previous year. In 2019, according to preliminary Monstat data, construction recorded an increase of 10.7% y-o-y, measured in terms of the value of executed construction works, as well as an increase of effective working hours of 4.2% y-o-y.

In February 2020, the average number of employed persons amounted to 189,933, which is a decrease of 1.8% compared to the previous month and 2.8% less in relation to February 2019. In February 2020, the number of unemployed persons in

Montenegro amounted to 35,582, which represents a decrease of 7.9% compared to February 2019 and a decline of 0.1% in relation to the previous month.

As at 29 February 2020, out of 48,637 business entities registered as active in the Central Registry of Business Entities, and as having active accounts in the Central Registry of Transaction Accounts, a total of 14,699 or 30.2% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.3%, while compared to the same month of 2019, its growth stood at 3.9%. At end-February 2020, total amount of debt being the basis for freezing of business entities' accounts amounted to 606.97 million euros, showing a monthly and an annual decrease of 0.7% and 6.8%, respectively.

As at 29 February 2020, out of the total number of business entities with frozen accounts (14,699) a total of 2,166 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 36,478,806.37 euros or 6% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,533 with frozen funds in the amount of 570,495,767.51 euros or 94% of the total amount of frozen funds of business entities.

As at 29 February 2019, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 18.6% of the total debt being the basis for freezing of accounts. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 40.4% of the total debt used as the basis for the account freeze.

At end-February 2020, total assets and liabilities of banks increased by 0.6% compared to the previous month and amounted to 4,676.4 million euros¹. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-February 2020, total loans amounted to 3,068.8 million euros, which is 0.1% and 4.5% higher in relation to the previous month and the end of the previous year, respectively.

In the structure of liabilities, deposits made up the main share of 73.8%. In February 2020, deposits in banks amounted to 3,451.1 million euros, recording a minor monthly decline and also dropping by 0.9% y-o-y. Total capital of banks at end-

¹Data for the banking sector refer to the condition of the system at a given date, in line with the application of relevant international methodology. Therefore, the calculation of the annual change compares the condition of the system at the time of comparison (as of April 2019 and 13 banks) with the balance as at the given date in 2018 (15 banks).

February 2020 amounted to 614.8 million euros, or 0.9% more in relation to the previous month, and 16.3% more in relation to the corresponding period of the previous year.

In February, past due loans (without interests, and prepayments and accruals) amounted to 142.7 million euros, which is an increase of 7,5% in relation to the previous month, while they recorded a decrease of 31% in relation to February 2019. At end-February 2020, non-performing loans (without interests, and prepayments and accruals) amounted to 157.9 million euros and made up 5.1% of total loans. In relation to the previous month, non-performing loans of banks increased by 0.8%, while they recorded an annual decrease of 14.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.97% at end-February 2020, which represents a monthly decrease of 0.02 percentage points, while in relation to end-February 2019 it recorded a decrease of 0.29 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 5.89% in February 2020, which represents a monthly decrease of 0.11 percentage points, and a decrease of 0.40 percentage points in relation to February 2019. The weighted average effective depositing interest rate (WAEDIR) amounted to 0.40% at end-February 2020, remaining the same as in the previous month, while it recorded a decline of 0.09 percentage points in relation to end-February 2019.

At end-February 2020, reserve requirement of banks amounted to 255.7 million euros, which represents a monthly decline of 4.5 million euros or 1.7%, while in relation to the corresponding period of the previous year, reserve requirement increased by 5.4 million euros or 2.2%. During February 2020, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 58.4% was allocated to the reserve requirement account in the country, while 41.6% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 17.1 million euros during the first two months of 2020. Non-life insurance premiums still accounted for the main share in its structure with 85.4%, while invoiced life insurance premiums accounted for 14.6%.

In February 2020, Montenegro Stock Exchange recorded turnover in the amount of 1.4 million euros through 252 transactions. The turnover was 82.4% lower than at the end of the previous month but 100.4% higher than in February 2020. As at 29 February 2019, stock exchange capitalisation amounted to 3,440 million euros,

recording a monthly decline of 0.8% and an annual increase of 13.5%. The MONEX SE index, which stood at 11,289.24 index points at end-February 2020, declined by 0.8% in relation to the previous month, while at the annual level it increased by 6.9%. The MNSE10 index amounted to 785.19 index points and it increased by 0.9% in relation to the previous month, but it decreased by 3.8% year-on-year.

In February 2020, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 26 million euros. In February 2020, source revenues of the budget of Montenegro amounted to 119.9 million euros or 2.4% of the estimated annual GDP, which represents an increase of 1% in relation to the plan for February. In relation to source revenues recorded in February 2019, there was an increase of 2.8%. At the same time, budget expenditures amounted to 145.8 million euros or 2.9% of the estimated annual GDP, recording a year-on-year increase of 11.4%, and staying below the plan by 21.4%.

At end-December 2019, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 3,788.8 million euros or 77.2% of GDP. Out of that figure, domestic debt accounted for 580 million euros or 11.8% of GDP, while external debt accounted for 3,128.5 million euros or 63.7% of GDP, while the debt of local self-government units accounted for 80.4 million euros or 1.6% of GDP. If we take into account the deposits of the Ministry of Finance, which include 38,477 ounces of gold, the public debt (net) at the end-2019 amounted to 3,191.7 million euros or 65% of GDP.

In January and February, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. At the request of the Ministry of Finance, an updated Annex to Montenegro Economic Reform Programme 2020-2022 was delivered. The implementation of the planned IPA 2017 project activities, related to international trade in services statistics, also continued. The CBCG representatives participated at the fourth session of the working group for Chapter 4 - *Freedom of movement of capital*. They also took part at ninth session of the working group for the negotiating Chapter 30 - *External Relations*. At the invitation of the Ministry of Economy and Head of the working group for preparation of negotiations for the Chapter 20 - *Enterprise and Industrial Policy*, representatives of the CBCG participated at a meeting concerning further activities related to the harmonisation of the national regulation with the EU acquis and meeting the final requirements for closing the Chapter. As for the preparation of the second Annex to the 2020 EC Report for Montenegro, the European Integration Office received the CBCG Annex for the reporting period (1 November 2019 - 29 January 2020), as well as the translation of the material the CBCG prepared, under

its competence. An updated CELEX translation schedule was submitted to the Ministry of Finance, which needs to be translated into Montenegrin in the upcoming period, in line with the obligations planned under the Programme of Accession of Montenegro to the EU. As a part of the ESCB regional project, the CBCG representatives participated at the *Financial Stability II* training, held from 24 to 26 February 2020 in Croatia. As a part of the Twinning Project "Support to the Regulation of Financial Services", a mission of experts from the Croatian National Bank, as well as the experts from De Nederlandsche Bank concerning anti money laundering and terrorist financing, was carried out. The CBCG representatives participated at the meetings with representatives of the European Central Bank regarding the annual assessment of the Montenegro's Economic Reform Programme 2020-2022. Within the second component of the ESCB regional project an expert mission of representatives of the Croatian National Bank was held from 10 to 14 February 2020. As a part of the Twinning Project "Support to the Regulation of Financial Services", missions of Croatian National Bank experts were held in February concerning *ICAAP*, as well as the micro-stress testing.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous oversight and analysis. International reserves management was performed based on the principles of liquidity and safety. The activities regarding the Central Bank's function of a fiscal agent were performed successfully. RTGS and DNS systems availability amounted to 100% in January and February.

The general public was informed timely, and in line with the highest transparency standards about the activities, goals, and results of the CBCG's operations. This was done by means of public announcements, publications, web presentations, and media appearances. Pursuant to the Law Supplementing the Payment System Law, the Central Bank continued to publish on its website the information on legal entities and entrepreneurs with frozen accounts in the amount over 10,000 euros for a continuous period exceeding 30 days.