

## The Governor's Report – October 2020

The Governor's Report for October 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 October, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2020.

The final Monstat data indicate that Montenegro's real GDP growth amounted to 4.1% in 2019. According to preliminary Monstat data, a real growth of 2.7% was recorded in Q1 this year and a drop of 20.2% was recorded in Q2 in relation to the same quarter of the previous year.

In October 2020, consumer prices decreased by 0.1% compared to the previous month, being 0.6% lower year-on-year.

In the first ten months of 2020, industrial output recorded the same volume as in the comparative period of the previous year. The decline was recorded in manufacturing industry (-0.9%), and in the electricity, gas and steam supply sector (-0.5%), while there was an increase in the mining and quarrying sector (6.3%).

According to preliminary data, the number of tourist arrivals in collective accommodation in the first ten months of 2020 amounted to 252,953, which is 78.9% less than in the same period of the previous year. A total of 892,857 overnights were recorded, which is 80.2% less y-o-y.

According to preliminary Monstat data, passenger transport in the first nine months of 2020, in relation to the same period of the previous year, as a result of the COVID-19 pandemic, recorded a significant decline in all types of transport: railway by 51.7%, road by 63.4% and passenger transport at airports 80.4%.

During the first ten months of 2020, production of forest assortments amounted to 226,305 m<sup>3</sup> in total, which is an increase of 3.7% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first nine months of 2020, construction recorded y-o-y decline of 7.9% in the value of executed construction works, as well as a 3.8% decrease in effective working hours.

In October 2020, the average number of employed persons amounted to 165,961, which is a decrease of 1.7% compared to the previous month and 18.2% less in relation to October 2019. In October 2020, the number of unemployed persons amounted to 44,811, which represents a monthly increase of 3.3% and an increase of 24.5% compared to October 2019.

As at 31 October 2020, out of 49,715 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 15,080 or 30.3% were frozen. Compared to the previous month, the number of blocked business entities was 0.9% higher, while compared to the same month of 2019, its growth stood at 5.7%. At end-October 2020, the total amount of debt used as the basis for the freezing of accounts amounted to 689.1 million euros, showing a monthly and an annual increase of 1.9% and 11.3%, respectively.

As at 31 October 2020, out of the total number of business entities with frozen accounts (15,080) a total of 1,812 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 51,748,770.77 euros or 7.5% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 13,268 with frozen funds in the amount of 637,341,090.20 euros or 92.5% of the total amount of frozen funds of business entities.

As at 31 October 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 21.3% 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 42.5% of the total debt used as the basis for the account freeze.

The total assets of banks at end-October 2020 amounted to 4.6 billion euros, which represents an annual growth of 14.1 million euros, or 0.3%. The main share in the structure of aggregate balance sheet of banks referred to loans. At end-October 2020, they amounted to 3.2 billion euros, declining by 0.1% m-o-m and increasing by 7.3% y-o-y. In October 2020, banks approved a total of 79 million euros in new loans, which is 10% less than in the previous month, and 24.4% less y-o-y.

In the structure of liabilities, deposits made up the main share of 71.9%. In October 2020, deposits in banks amounted to 3.3 billion euros, recording an insignificant monthly increase, but dropping by 5.3% y-o-y. Total capital of banks at end-October 2020 amounted to 620.4 million euros, or by 0.2% more in relation to the

previous month, and by 3.4% more in relation to the corresponding period of the previous year.

In October this year, past due loans over 30 days (without interests, and prepayments and accruals) amounted to 191.5 million euros, which is an increase of 1.8% in relation to the previous month, while they recorded an increase of 37.6% in relation to October 2019. At end-October 2020, non-performing loans (without interests, and prepayments and accruals) amounted to 182.5 million euros and made up 5.7% of total loans. In relation to the previous month, non-performing loans of banks increased by 1.4%, while they recorded an annual increase of 28.3%.

At end-October 2020, the weighted average lending effective interest rate on total loans granted amounted to 5.87% which represents a monthly increase of 0.01 percentage points and a decrease of 0.25 percentage points y-o-y. In October 2020, the weighted average lending effective interest rate on new loans amounted to 6.09%, recording a monthly increase of 0.70 percentage points and a decrease of 0.02 percentage points y-o-y. The weighted average effective deposit interest rate amounted to 0.40% at end-October 2020 keeping its value seen at the end of the previous month, while recording a decline of 0.02 percentage points in relation to end-October 2019.

At end-October 2020, reserve requirement of banks amounted to 178.1 million euros, which represents a monthly decrease of 398 thousand euros or 0.2%, while in relation to the corresponding period of the previous year reserve requirement decreased by 84.6 million euros or 32.2%. In October 2020, all banks allocated and maintained reserve requirement within prescribed amounts. In the total allocated reserve requirement, 51.1% was allocated to the reserve requirement account in the country, while 48.9% was on the CBCG foreign accounts.

Gross insurance premium amounted to 79.2 million euros during the first ten months of 2020. Non-life insurance premiums still accounted for the main share in its structure with 80%, while invoiced life insurance premiums accounted for 20%.

In the first ten months this year, Montenegro Stock Exchange recorded a turnover of 28.8 million euros, through 1,546 transactions. The effected turnover was 90.2% lower in relation to the same period of the previous year, when the effected turnover was 293 million euros, done through 2,347 transactions. As at 31 October 2020, stock exchange capitalisation amounted to 3,296.6 million euros, recording a monthly and an annual decrease of 0.4% and 4.6%, respectively. At the same time,

the MONEX SE index stood at 9,784.75 index points at end-October this year, recording a monthly and an annual decrease of 1% and 14.6%, respectively. The MNSE10 SE index amounted to 648.09 index points, recording a monthly and an annual decrease of 1.2% and 18.3%, respectively.

According to the Ministry of Finance preliminary data, the source revenues of the budget for the period January-October 2020 amounted to 1.3 billion euros and were lower than planned by 6.9%, also being 12.9% lower y-o-y. Budget expenditures amounted to 1.69 billion euros and were 8.5% higher in relation to the same period in 2019, but 1.4% lower compared to the plan. The budget deficit amounted to 385.8 million euros or 8.4% of the estimated annual GDP <sup>1</sup>.

Gross government debt of Montenegro amounted to 3,660.3 million euros or 79.5% of GDP as at end-September 2020. Out of that figure, a total of 570.5 million euros or 12.4% of GDP referred to internal debt, while external debt accounted for 3,089.8 million euros or 67.1% of GDP. Net government debt amounted to 73.6% of GDP.

In October, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The Annex for the needs of the Sub-Committee for Economic and Financial Issues and Statistics was prepared by the CBCG (in Montenegrin and English) and submitted to the Ministry of Finance. Also, the CBCG representatives participated in the preparatory online meeting concerning the *ECFIN* Sub-Committee. Activities as a part of the IPA 2017 Multi-beneficiary Programme (1.2 Statistics of International Trade in Services) were implemented, with the CBCG representatives participating in the workshop on International Trade in Services organized by GOPA/Eurostat. They also participated in the Committee on Monetary, Financial and Balance of Payments Statistics meeting. The CBCG representatives also took part in the Sub-Committee on Trade, Industry, Customs and Taxation meeting. Data on the foreign direct investments was prepared and submitted to the European Commission for the needs of the meeting. At the request of the Ministry of Economy, concerning Chapter 30 - External Relations, participation and coordination of activities related to the assessment of the relevance of the new "celexes" assigned to the CBCG through the European Integration online portal, covering the period from September 2019 to September 2020 was conducted.

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<sup>1</sup> According to the latest official Ministry of Finance forecast (from July 2020), the GDP for 2020 will amount to 4,607.3 million euros.

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 the fiscal agent were carried out successfully. RTGS and DNS systems availability amounted to 100% in October.

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 through 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.