

The Governor's Report – August/September 2021

The Governor's Report for August and September 2021 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 2021, on a monthly basis.

In August and September, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2021.

According to preliminary Monstat data, Montenegro's GDP in 2020 amounts to 4,185.6 million euros or 15.3% less in real terms than in 2019. In the first quarter of 2021, according to preliminary Monstat data, there was a real decline of 6.5%, whereas the second quarter of 2021 saw an increase of 19% compared to the same quarter of the previous year.

In September 2021, consumer prices were 0.5% higher in relation to the previous month, and 2.9% higher year-on-year.

During the first nine months of 2021, industrial output recorded a year-on-year increase of 7%. The increase was recorded in electricity, gas and steam supply sector (20.3%), and in the manufacturing industry (4.7%), while the decline was recorded in the mining and quarrying sector (-23.1%).

The number of tourist arrivals in collective accommodation establishments in the first nine months of 2021 amounted to 631,970, which is 162.9% more than in the same period of the previous year. A total of 2.7 million overnights were recorded, which is 214.9% more y-o-y.

According to preliminary Monstat data, air passenger transport recorded a year-on-year growth of 145.5% in the first nine months this year, while air cargo transport was 53.2% higher. The rail passenger transport was 14.4% higher, while rail freight transport decreased by 27.6%. The road passenger transport increased by 23%, while road freight transport grew by 5.5% y-o-y.

During the first nine months of 2021, production of wood products amounted to a total of 92,180 m³, which is a decline of 57.4% in relation to the corresponding period of 2020. Preliminary Monstat data show that in the first nine months of 2021,

construction recorded a year-on-year decline of 3.6% in the value of executed construction works, as well as a 1.7% increase in effective working hours.

In September 2021, the average number of employed persons amounted to 198,549, which is an increase of 2.6% compared to the previous month and 17.6% more in relation to September 2020. In September this year, the number of unemployed persons amounted to 53,958, which represents a decrease of 0.1% in relation to the previous month and an increase of 24.4% compared to September 2020.

As at 30 September 2021, out of 51,972 business entities registered as active in the Central Registry of Business Entities, and with active accounts in the Central Registry of Transaction Accounts, a total of 15,384 or 29.6% were blocked. Compared to the previous month, the number of blocked business entities was 0.3% lower, while compared to the same month of 2020, its growth stood at 2.9%. At end-September 2021, the total amount of debt used as the basis for the blocking of business entities' accounts amounted to 824 million euros, showing a monthly and annual increase of 1.4% and 21.8%, respectively.

As at 30 September 2021, out of the total number of business entities with blocked accounts (15,384) a total of 1,465 business entities were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 68,255,509.44 euros or 8.3% of the total amount of blocked funds. The number of business entities under uninterrupted blockage for over 365 days was 13,919 with blocked funds in the amount of 755,760,361.78 euros or 91.7% of the total amount of blocked funds of business entities.

As at 30 September 2021, debt concentration was relatively high, considering that top 10 business entities (0.06% of total recorded debtors) accounted for 23.8% of the total debt being the basis for blocking of accounts. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 45.8% of the total debt used as the basis for the account blocking.

The total assets of banks at end-September 2021 amounted to 5.16 billion euros, which represents an annual growth of 567.5 million euros or 12.4%. In terms of the structure of assets, total loans of banks make up the dominate share. At end-September 2021, total loans amounted to 3,498.5 million euros, which is 0.8% lower in relation to the previous month while they were 9% higher in relation to September of the previous year.

In the structure of liabilities, deposits made up the main share of 77.4%. In September 2021, banks' deposits amounted to 3,991.3 million euros recording a monthly increase of 0.1%, and a year-on-year increase of 20.9%. Total capital of banks at end-September 2021 amounted to 628.7 million euros, being 0.2% lower in relation to the previous month, but 1.6% higher in relation to the corresponding period of the previous year.

At end-September this year, past due loans (without interests, and prepayments and accruals) amounted to 137.3 million euros, which is a decline of 14.6% in relation to the previous month, while they also recorded a decrease of 27% in relation to September-2020. At end-September 2021, non-performing loans (without interests, and prepayments and accruals) amounted to 196.7 million euros and made up 5.6% of total loans. In relation to the previous month, non-performing loans of banks increased by 0.9%, while they recorded an annual increase of 9.3%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.72% at end-September 2021, which represents a monthly decrease of 0.02 pp, while in relation to end-September 2020 it recorded a decrease of 0.14 pp. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 5.90% in September 2021, which represents a monthly increase of 0.01 pp, and an increase of 0.51 pp in relation to September 2020. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.35% at end-September 2021, remaining the same in relation to end of the previous month, while compared to the same period of the previous year it was 0.05 pp lower.

At end-September 2021, reserve requirement of banks amounted to 209.6 million euros, which represents a monthly increase of 10.8 million euros or 5.5%, while in relation to the same period of the previous year, reserve requirement increased by 31.1 million euros or 17.4%. During September 2021, 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 74.4 million euros during the first nine months of 2021. Non-life insurance premiums accounted for the main share in its structure with 81.7%, while invoiced life insurance premiums accounted for 18.3%.

The recorded turnover on the Montenegro Stock Exchange during the nine months of 2021 amounted to 34.1 million euros, and it was effected through 1,263 transactions, and in relation to the same period of the previous year it was 1.6 times higher. As at 30 September 2021, stock exchange capitalisation amounted to 3,206.9

million euros, recording a monthly increase of 0.2%, but also an annual decline of 3.1%.

At the same time, the MONEX index stood at 11,314.4 index points at end-September this year, recording a monthly and annual increase of 2.5% and 14.5%, respectively. The MNSE10 index amounted to 795.3 index points and it increased by 2.9% in relation to the end of the previous month, but it also increased by 21.2% year-on-year.

The source revenues for the first nine months of 2021, according to preliminary Ministry of Finance and Social Welfare data, amounted to 1.34 billion euros and were slightly higher than planned, while compared to the same period of the previous year were 15.3% higher. Budget expenditures amounted to 1.41 billion euros and they were 6% lower in relation to the period January-September 2020, whereas 6.7% lower compared to the plan. The budget deficit amounted to 64.7 million euros or 1.3% of the estimated annual GDP.

At end-September 2021, public debt (gross) of Montenegro amounted to 4,076.3 million euros or 83.5% of the estimated annual GDP. Out of that figure, a total of 417.4 million euros or 8.5% of GDP referred to internal debt, while external debt accounted for 3,658.9 million euros or 75% of GDP. Net government debt amounted to 72.8% of GDP.

In August and September, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Inter alia, with the aim of preparing the *ECOFIN* remainder, the European Integration Office was provided with data within the CBCG competence for the second quarter of 2021, with an update of the document. Regarding the notification of the European Integration Office on the preparation of the amendment to the second Annex of the 2021 EC Report on Montenegro, the material within the CBCG competence was delivered. As a part of the ESCB regional project through the online platform, the ninth meeting of the project steering committee was held. As a part of the IPA 2017 multi-beneficiary programme "1.2 Statistics of International Trade in Services", activities were carried out on the preparation of documents defined by the project plan as the project delivery subject (*deliaverables*), including: *Methodological Handbook*, *Final Report* and *Quality Report*, with the assistance of an external expert.

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 August and September.

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 blocked accounts in the amount over 10,000 euros for a continuous period exceeding 30 days.