

The Governor's Report – January-February 2021

The Governor's Report for January and February 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 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 2021.

According to preliminary Monstat data, Montenegro's GDP, based on quarterly estimates in 2020, amounted to 4,193.2 million euros, which is an estimate of a real decline in GDP of 15.2% in relation to 2019. According to preliminary Monstat data, a real growth of 2.6% was recorded in Q1 2020, a drop of 20.3% was recorded in Q2, whereas respective declines of 26.9% and 7.5% were recorded in Q3 and Q4 in relation to the same quarters of 2019.

In February 2021, consumer prices were 0.5% higher in relation to the previous month, and 0.1% lower y-o-y.

During the first two months of 2021, industrial output recorded a year-on-year increase of 13.4%. The increase was recorded in electricity, gas and steam supply sector (49.4%), while the declines of -18.9% and -1.8% were recorded in the manufacturing industry and mining and quarrying sector, respectively.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first two months of 2021 amounted to 28,666, which is 59.6% less than in the same period of the previous year. A total of 67,556 overnights were recorded, which is 55.2% less y-o-y.

According to preliminary Monstat data, passenger transport in 2020, as a result of the COVID-19 pandemic, recorded a significant y-o-y decline in all types of transport: railway by 52%, road by 64.9% and passenger transport at airports 80.3%.

During the first two months of 2021, production of forest assortments amounted to 2,071 m³, which is a decrease of 88.1% in relation to the corresponding period of 2020. In 2020, according to preliminary Monstat data, construction recorded a

decrease of 5.6% y-o-y, measured in terms of the value of executed construction works, as well as a decrease of effective working hours of 3.2% y-o-y.

In February 2021, the average number of employed persons amounted to 157,355, which is a decrease of 1.1% compared to the previous month and 17.2% less in relation to February 2020. In February 2021, the number of unemployed persons amounted to 52,437, which represents a monthly increase of 11% and an increase of 47.4% compared to February 2020.

As at 28 February 2021, out of 50,347 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 15,337 or 30.5% were frozen. Compared to the previous month, the number of blocked business entities was 0.3% higher, while compared to the same month of 2020, its growth stood at 4.3%. At end-February 2021, the total amount of debt used as the basis for the freezing of accounts amounted to 782.8 million euros, showing a monthly and an annual increase of 3.4% and 29%, respectively.

As at 28 February 2021, out of the total number of business entities with frozen accounts (15,337) a total of 1,606 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 114,309,618.89 euros or 14.6% of the total amount of frozen funds. The number of business entities under uninterrupted blockage exceeding 365 days was 13,731 with frozen funds in the amount of 668,448,923.52 euros or 85.4% of the total amount of frozen funds of business entities.

As at 28 February 2021, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 24.1% 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 45.1% of the total debt used as the basis for the account freeze.

The total assets of banks at end-February 2021 amounted to 4.66 billion euros, which represents an annual drop of 15.9 million euros, or 0.3%. In terms of the structure of balance sheet of banks, total loans make up the dominate share. At end-February 2021 total loans amounted to 3,190.7 million euros, which is 0.2% lower in relation to the previous month yet 4% higher in relation to February 2020.

In the structure of liabilities, deposits made up the main share of 73.3%. Total banks' deposits amounted to 3,416.3 million euros in February 2021 and they

recorded a monthly increase of 1.2%, and a 0.1% decline in relation to February 2020. Total capital of banks at end-February 2021 amounted to 595.9 million euros, which is an increase of 0.8% in relation to the previous month, but also a decline of 3.4% in relation to the corresponding period of the previous year.

At end-February this year, past due loans exceeding 30 days (without interests, and prepayments and accruals) amounted to 161.5 million euros, which is a decrease of 10.2% in relation to the previous month, while they recorded an increase of 13.2% in relation to February 2020. At end-February 2021, non-performing loans (without interests, and prepayments and accruals) amounted to 181.8 million euros and made up 5.7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 0.2%, while recording an annual increase of 15.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.83% at end-February 2021, which represents a monthly decrease of 0.01 percentage points, while in relation to end-February 2020 it recorded a decrease of 0.14 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.09% in February 2021, which represent a monthly increase of 0.68 percentage points, and an increase of 0.20 percentage points in relation to February 2020. The weighted average effective deposit interest rate amounted to 0.4% at end-February 2021 keeping its value seen both at the end of the previous month, and at end-February 2020.

At end-February 2021, reserve requirement of banks amounted to 181.1 million euros, which represents a monthly increase of 606 thousand euros or 0.3%, while in relation to the same period of the previous year, reserve requirement was 74.8 million euros or 29.2% lower. During February 2021, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 51.8% was allocated to the reserve requirement account in the country, while 48.2% was on the CBCG foreign accounts.

Gross insurance premium amounted to 15.2 million euros during the first two months of 2021. Non-life insurance premiums still accounted for the main share in its structure with 84.9%, while invoiced life insurance premiums accounted for 15.1%.

The effected turnover at the Montenegro Stock Exchange in the first two months of 2020 was 8.3 million euros, done through 306 transactions, and being 8.9% lower year-on-year. As at 28 February 2021, stock exchange capitalisation amounted to

3,186.7 million euros, recording a monthly increase of 0.4%, but also an annual decline of 7.4%. At the same time, the MONEX SE index stood at 10,793.96 index points, recording a 2.1% monthly growth, and the annual decrease of 4.4%. The MNSE10 SE index amounted to 744.14 index points, recording a monthly increase of 2.3% and an annual decrease of 5.2%.

According to the Ministry of Finance preliminary data, the source revenues of the budget for the first two months of 2021 amounted to 194.2 million euros and were lower than planned by 1.7%, also being 9.3% lower y-o-y. Budget expenditures amounted to 284.4 million euros and were 3.7% higher in relation to January-February 2020, whereas 20.8% lower compared to the plan. The fiscal deficit reached 90.2 million euros or 1.9% of the estimated annual GDP.

Gross government debt of Montenegro amounted to 4,409 million euros or 105.2% of GDP as at end-2020. Out of that figure, domestic debt accounted for 495.6 million euros or 11.8% of GDP, while external debt accounted for 3,835.3 million euros or 91.5% of GDP, The debt of local self-government units accounted for 78.1 million euros or 1.9% of GDP. The net state debt of Montenegro amounted to 84.3% 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. Comments/amendments to the Economic Reform Programme 2021-2023 wording related to regulatory activities, were prepared. As a part of the ESCB regional project, an online preparatory meeting concerning the implementation of a bilateral measure on "Bank Recovery and Resolution" was held with the Hungarian National Bank experts. The CBCG representatives also had a meeting with their ECB colleagues. At the initiative of the IPA regional project coordinator from the Bundesbank, an online meeting with the coordinators of the Western Balkans central banks was held on 23 February. At the request of the Ministry of Economy, concerning the Chapter 30 - External Relations, 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 were conducted. At the request of Monstat, balance of payments data for the annex to the Progress Report were prepared. The first online expert mission, within the multi-user project IPA-2017 in the area of statistics on international trade in services was released. An opinion on the draft agreement on trade, partnership and cooperation between Montenegro and the United Kingdom of Great Britain and Northern Ireland, related to Chapter 4 - Free movement of capital was delivered. At the request of Monstat, an assessment of the compliance of the CBCG statistical

system with EU legislation, in the part related to external sector, was prepared, by updating the SMIS questionnaire in accordance with the Compendium.

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 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.