

The Governor's Report – July 2021

The Governor's Report for July 2021 gives an overview of key activities of the Central Bank concerning the implementation of targets and objectives defined under the Central Bank of Montenegro Policy for 2021, on monthly basis.

In July this year, activities of the Central Bank were conducted in line with the planned obligations specified under the Central Bank of Montenegro Work Programme for 2021.

According to preliminary Monstat data, a real year-on-year decline of 6.4% was recorded in Q1 this year.

In July 2021, consumer prices were 0.3% higher in relation to the previous month, and 3.1% higher year-on-year.

During the first seven months of 2021, industrial output recorded the year-on-year increase of 8.9%. Production increase was recorded in electricity, gas and steam supply sector (32.1%) and manufacturing industry (1%), while decline was recorded in the mining and quarrying sector (25%).

According to preliminary data, the number of tourist arrivals in collective accommodation in the first seven months of 2021 amounted to 347,266, which is 146% more than in the same period of the previous year. At the same time, a total of 1.4 million overnights were recorded, which is a year-on-year increase of 247.8% increase.

Preliminary MONSTAT data show that during the first six months of the current year, air passenger transport recorded the year-on-year growth of 20.6%, while air freight transport rose by 35.3%. The number of passengers transported via railways declined by 5.2%, and railway freight transport dropped by 34.7%. Road passenger transport decreased by 17.5%, while road freight transport increased by 0.5% year-on-year.

During the first seven months of 2021, forestry recorded the production of 37,995 m³ of forest assortments, which is a decrease of 72.3% in relation to the comparative period last year. Preliminary Monstat data show that construction recorded the year-on-year decrease of 1.3% in the first six months of this year in the value of executed construction works, as well as a 1.5% growth in effective working hours.

In June 2021, the average number of employed persons amounted to 149,371, which is the month-on-month decrease of 1.2% and the year-on-year decline of 16.2%. The number of unemployed people amounted to 54,697, which represents a 1.8% decrease in relation to the previous month and an increase of 29.1% compared to July 2020.

As at 31 July 2021, of 51,629 economic entities registered as active in the Central Registry of Business Entities and having active accounts in the Central Registry of Transaction Accounts, a total of 15,311 or 29.7% were blocked. Compared to the previous month, the number of blocked business entities decreased by 0.3%, yet it rose by 2.9% y-o-y. The total amount of debt used as the basis for the account blockage was 802 million euros, showing the monthly increase of 0.04% and the annual increase of 25.8%.

As at 31 July 2021, of the total number of business entities with blocked accounts (15,311) a total of 1,471 blocked funds in the amount of 88.6 million euros or 11.1% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 13,840 and the blocked funds amounted to 713.4 million euros or 88.9% of the total amount of blocked funds of business entities.

As at the same date, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 23.7% of the total debt being the basis for blocking the accounts. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 45.7% of the total debt used as the basis for the account blockage.

The total assets of banks at end-July 2021 amounted to almost 5 billion euros, which represents an annual growth of 421.4 million euros, or 9.2%. In terms of the structure of balance sheet of banks, total loans accounted for the main share and amounted to 3,415.1 million euros, which is a 3.1% increase in relation to the previous month and a 7.3% increase year-on-year.

In the structure of liabilities, deposits made up the main share of 76.6%. In July 2021, deposits in banks amounted to 3,829.9 million euros, rising by 4.2% m-o-m and 16% y-o-y. Total capital of banks amounted to 620.6 million euros at end-July or 1.1% more in relation to the previous month, and 1.1% more in relation to the same period last year.

Past due loans (without interests and prepayments and accruals) amounted to 168.6 million euros, which is an increase of 1.4% in relation to the previous month, while they recorded a decrease of 18.2% in relation to end-July 2020. At end-July this year, non-performing loans (without interests, and prepayments and accruals) amounted to 186.3 million euros and made up 5.5% of total loans. In relation to the previous month, non-performing loans of banks decreased by 1.4%, but they recorded the year-on-year increase of 14.6%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.75% at end-July 2021, which represents a monthly decrease of 0.03 pp, while in relation to end-July 2020 it recorded a decrease of 0.12 pp. In July 2021, the weighted average lending effective interest rate on new loans was 5.38%, same as in the previous month, and a y-o-y increase of 0.13 pp. The weighted average deposit effective interest rate amounted to 0.36%, recording a monthly decline of 0.01 pp and the year-on-year decline of 0.05 pp.

At end-July 2021, reserve requirement of banks amounted to 193.4 million euros, recording a monthly rise of 4.2 million euros or 2.2% and a year-on-year increase of 14.6 million euros or 8.2%. During July 2021, all banks allocated and maintained reserve requirement within prescribed limits. Of the total allocated reserve requirement, 54.9% was allocated to the reserve requirement account in the country, while 45.1% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 58.3 million euros in the first seven months of 2021. Non-life insurance premiums accounted for the main share in its structure with 82%, while invoiced life insurance premiums accounted for the remaining 18%.

The realized turnover on the Montenegro Stock Exchange amounted to 33.2 million euros during the reporting seven-month period, realized through 1,050 transactions and being 2.3 times higher in relation to the same period of the previous year. As at 31 July 2021, stock exchange capitalisation amounted to 3,169.1 million euros, recording a monthly increase of 0.4% and annual decrease of 5.2%.

At the same time, the MONEX SE index stood at 10.874,37 index points, recording a monthly decline of 1.7% and the annual increase of 6.9%. The MNSE10 SE index amounted to 744.90 index points, recording a monthly increase of 0.1% and the year-on-year increase of 8%.

According to preliminary data from the Ministry of Finance and Social Welfare, the current revenues amounted to 982 million euros in the first seven months of the current year, and they were insignificantly lower than planned while compared to

the same period of the previous year they increased by 11.3%. Budget expenditures amounted to 1.1 billion euros and they were 4.5% lower in relation to the period January - July 2021, and also 7.6% lower compared to the plan for the reporting period. The budget deficit amounted to 118.9 million euros or 2.6% of the estimated annual GDP.

At end-March this year, (gross) government debt amounted to 4,097.5 million euros or 88.4% of GDP. Of this amount, a total of 454.8 million euros or 9.8% of GDP referred to domestic debt, while external debt accounted for 3,642.7 million euros or 78.6% of GDP. The net government debt of Montenegro amounted to 77% of GDP.

In July, the Central Bank carried out activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Among other things, within the application for expert support for assessing the compliance of the Draft Law on Amendments to the Law on Payment Operations with EU Directive 2015/2366 on Payment Services in the Internal Market (*PSD2*), a project task was prepared, the so-called *Terms of Reference*, which was then submitted to the EU Delegation in Montenegro. A meeting with representatives of the Office for European Integration was held in order to consider modalities for improving cooperation in the area of information and data exchange for the needs of the negotiation process. The draft document "Roadmap for meeting the final criteria in PP 9" has been updated.

With a view to fostering and maintaining a healthy banking system, Montenegro's banking sector was subject to continuous oversight and analysis. International reserves management was performed following the principles of liquidity and safety. Activities regarding the Central Bank's function of the fiscal agent were also successfully performed. RTGS and DNS systems availability was 100% in July.

In line with the highest transparency standards, the general public was timely informed about the activities, goals, and results of the CBCG operations via 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 whose accounts were blocked for the amounts exceeding 10,000 euros for a continuous period of over 30 days.