

The Governor's Report – June 2021

The Governor's Report for June 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 June 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 June 2021, consumer prices were 0.2% higher in relation to the previous month, and 2.4% higher year-on-year.

During the first six months of 2021, industrial output recorded the year-on-year increase of 10.6%. Production increase was recorded in electricity, gas and steam supply sector (39.4%), while declines were recorded in the mining and quarrying sector and manufacturing industry of 26% and 0.2%, respectively.

According to preliminary data, the number of tourist arrivals in collective accommodation establishments amounted to 174,360 in the first six months of 2021, which is 61% more than in the same period of the previous year. At the same time, a total of 549,886 overnights were recorded, which is a 115.5% 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 six months of 2021, forestry recorded the production of 20,905 m³ of forest assortments, which is a decrease of 80.5% 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 55,703, which represents a 1.2% decrease in relation to the previous month and an increase of 33% compared to June 2020.

As at 30 June 2021, of 51,223 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 15,355 or 30% were blocked. Compared to the previous month, the number of blocked business entities decreased by 0.3%, yet it rose by 3.4% compared to the same month of 2020. The total amount of debt used as the basis for the account blockage was 801.6 million euros, showing the monthly increase of 1.9% and the annual increase of 27.1%.

As at 30 June 2021, of the total number of business entities with blocked accounts (15,355) a total of 1,504 were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 91 million euros or 11.3% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 13,851 and the blocked funds amounted to 710.7 million euros or 88.7% 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 23.6% 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 45.5% of the total debt used as the basis for the account blockage.

Total assets of banks amounted to 4.82 billion euros at end-June 2021, which represents the annual growth of 265.2 million euros or 5.8%. In terms of the structure of balance sheet of banks, total loans accounted for the main share and amounted to 3,111.6 million euros, which is a 0.3% decrease in relation to the previous month yet a 6.8% increase year-on-year.

In the structure of liabilities, deposits made up the main share of 76.4%. Total bank deposits amounted to 3,676.4 million euros at end-June this year and they recorded both monthly and year-on-year increase of 2.3% and 11.4%, respectively. Total capital of banks amounted to 613.7 million euros at end-June or 1.2% more in relation to the previous month, and 1% more in relation to the same period last year.

Past due loans (without interests, and prepayments and accruals) stood at 166.2 million euros at end-June this year, which is a decrease of 7.2% in relation to the previous month, while they recorded an increase of 13.5% in relation to June 2020. At the same time, non-performing loans (without interests, and prepayments and accruals) amounted to 188.9 million euros and made up 5.7% of total loans. In relation to the previous month, non-performing loans of banks increased by 2.7%, while they recorded the annual increase of 15.7%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.78% at end-June this year, which represents a monthly decrease of 0.01 pp and the year-on-year decline of 0.15 pp. The WALEIR on new loans amounted to 5.38%, which represent a monthly increase of 0.13 pps, and an increase of 0.31 pp in relation to June 2020. The weighted average deposit effective interest rate (WADEIR) amounted to 0.37%, recording a monthly decline of 0.01 pp and the year-on-year decline of 0.04 pp.

At the same time, reserve requirement of banks amounted to 189.1 million euros, recording a monthly rise of 4.1 million euros or 2.2% and the year-on-year increase of 9.6 million euros or 5.3%. During June 2021, all banks allocated and maintained their reserve requirement within the prescribed limit. Of the total allocated reserve requirement, 53.9% was allocated to the reserve requirement account in the country, while 46.1% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 49 million euros in the first six months of 2021. Non-life insurance premiums still accounted for the main share in its structure with 81,2%, while invoiced life insurance premiums accounted for the remaining 18,8%.

The realized turnover on the Montenegro Stock Exchange amounted to 30.8 million euros during the reporting six-month period, realized through 933 transactions and being 2.2 times higher in relation to the same period of the previous year. As at 30 June 2021, market capitalisation amounted to 3,157.8 million euros, recording both monthly and the year-on-year decrease of 2.1% and 6.6%, respectively.

At the same time, the MONEX index stood at 11,056.71 index points, recording a monthly decline of 4.5% and the annual increase of 7.8%. The MNSE10 SE index amounted to 744.08 index points, recording a monthly decrease of 7.6% and the year-on-year increase of 4.8%.

According to preliminary data from the Ministry of Finance and Social Welfare, the current revenues amounted to 787.6 million euros in the first six months of the current year, and they were 1.8% and 5.3% higher than planned and compared to the same period of the previous year, respectively. Budget expenditures amounted to 948.2 million euros and they were 1.5% lower in relation to the period January - June 2020, and also 8.3% lower compared to the plan for the reporting period. The budget deficit amounted to 160.6 million euros or 3.5% of the estimated annual GDP.

At end-June 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.

The Central Bank continued its activities aimed at meeting the requirements on the country's road toward the EU membership. Among other activities, representatives of the Central Bank participated in the meeting of the Subcommittee for Internal Market and Competition. At the request of the Office for European Integration, the Central Bank submitted the second Annex to the Report of the European Commission on Montenegro for 2021. Within the technical cooperation with partner central banks, online bilateral cooperation was realized with the Deutsche Bundesbank on the topic *Foreign reserve management and Risk management (Front, Risk, Back Office)*.

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. The RTGS and DNS systems' availability was 100% in June.

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.