

The Governor's Report – May 2021

The Governor's Report for May 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 May, 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 4,193.2 million euros or 15.2% less in real terms than in 2019. In the first quarter of 2021, according to preliminary MONSTAT data, there was a real decline of 6.4% compared to the first quarter of the previous year.

In May 2021, consumer prices were 0.3% higher in relation to the previous month, and 2.4% higher y-o-y.

During the first five 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%), while the decline was recorded in the manufacturing industry and mining and quarrying sectors of 3.1% and 21.9%, respectively.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first five months of 2021 amounted to 104,437, which is 13.9% more than in the same period of the previous year. A total of 272,419 overnights were recorded, which is 37.4% more y-o-y.

According to preliminary Monstat data, passenger transport in the first three months of 2021, in relation to the same period of the previous year, recorded a significant decline in all types of transport: railway by 51.3%, road by 59% and passenger transport at airports 71.2%.

During the first five months of 2021, production of wood products amounted to 10,120 m³, which is an decrease of 87% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first three months of 2021, construction recorded y-o-y decline of 0.8% in the value of executed construction works, as well as a 1.3% decrease in effective working hours.

In May 2021, the average number of employed persons amounted to 151,252, which is a decrease of 1.3% compared to the previous month and 16.4% less in relation to May 2020. In May 2021, the number of unemployed persons amounted to 56,385 which represents a decrease of 0.1% in relation to the previous month and an increase of 33.6% compared to May 2016.

As at 31 May 2021, out of 50,980 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 15,403 or 30.2% were frozen. Compared to the previous month, the number of blocked business entities decreased by 0.6%, while compared to the same month of 2020, its growth stood at 4.4%. At end-May 2021, total amount of debt being the basis for freezing of accounts amounted to 786.5 million euros, showing a monthly decrease of 1.3%, while it recorded an annual increase of 25.9%.

As at 31 May 2021, out of the total number of business entities with frozen accounts (15,403) a total of 1,609 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 88,627,021.08 euros or 11.3% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 13,794 with frozen funds in the amount of 697,896,656.15 euros or 88.7% of the total amount of frozen funds of business entities.

As at 31 May 2021, 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 freezing of 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 freeze.

The total assets of banks at end-May 2021 amounted to 4.75 billion euros, which represents an annual growth of 239.7 million euros or 5.3%. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-May 2021 total loans amounted to 3,322.1 million euros, which is 0.8% higher in relation to the previous month and 8% higher in relation to May 2020.

In the structure of liabilities, deposits made up the main share of 75.7%. Total banks' deposits amounted to 3,595.2 million euros at end-May 2021 and they recorded a monthly increase of 3.2%, and a 9% growth in relation to May 2020.

Total capital of banks at end-May 2021 amounted to 606.2 million euros, which is an increase of 0.9% in relation to the previous month while it decreased by 0.2% in relation to the corresponding period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 179 million euros, which is an increase of 5% in relation to the previous month, while they recorded an increase of 11.5% in relation to May-2020. At end-May 2021, non-performing loans (without interests, and prepayments and accruals) amounted to 183.8 million euros and made up 5.5% of total loans. In relation to the previous month, non-performing loans of banks increased by 1.1%, while they recorded an annual increase of 13.4%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.79% at end-May 2021, which represents a monthly decrease of 0.02 percentage points, while in relation to end-May 2020 it recorded a decrease of 0.15 percentage points. The weighted average lending effective interest rate (WALEIR) on new loans amounted to 5.25% in May 2021, which represent a monthly decrease of 0.66 percentage points, and an increase of 0.48 percentage points in relation to May 2020. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.38% at end-May 2021 recording a monthly decline of 0.02 percentage points and a y-o-y decline of 0.03 percentage points.

At end-May 2021, reserve requirement of banks amounted to 185 million euros, which represents a monthly increase of 339,439 euros or 0.2%, while in relation to the corresponding period of the previous year, reserve requirements increased by 5.7 million euros or 3.2%. During May 2021, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 52.9% was allocated to the reserve requirement account in the country, while 47.1% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 39.7 million euros during the first five months of 2021. Non-life insurance premiums still accounted for the main share in its structure with 81,4%, while invoiced life insurance premiums accounted for 18,6%.

The realized turnover on the Montenegro Stock Exchange during the five months of 2021 amounted to 20.9 million, and it was realized through 800 transactions and in relation to the same period of the previous year it was 2.2 times higher. As at 31 May 2021, stock exchange capitalisation amounted to 3,224.3 million euros, recording a monthly increase of 1.3%, but also an annual decline of 4.5%.

At the same time, the MONEX index stood at 11,581.30 index points at end-May this year, recording a monthly increase of 5.2% and an annual increase of 13.1%. The MNSE10 SE index amounted to 805.51 index points, recording a monthly increase of 6.9% and an annual growth of 13.4%.

The source revenues for the first five months of 2021, according to preliminary data from the Ministry of Finance and Social Welfare, amounted to 628.6 million euros and were slightly lower than planned, while compared to the same period of the previous year were higher by 2.1%. Budget expenditures amounted to 792.3 million euros and were 1.2% higher in relation to the period January-May 2020, whereas 9.3% lower compared to the plan. The budget deficit amounted to 163.7 million euros or 3.5% of the estimated annual GDP.

At end-May 2021, public debt (gross) of Montenegro amounted to 4,097.5 million euros or 88.4% of GDP. Out of that figure, 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. Net government debt amounted to 77% of GDP.

In May, the Central Bank continued with the activities aimed at meeting the requirements towards Montenegro's accession to the EU. On the occasion of the meeting of the Sub-Committee for Internal Market and Competition, the CBCG Annex on the implemented activities and adopted regulations in the reporting period 1 May 2020 - 1 May 2021 was prepared. The meeting was realized within the TAIEX expert mission called *Implementation of the General Data Protection Regulation*. Activities on the implementation of the IPA 2017 Multi-Beneficiary Program in the field of 1.2 Statistics on International Trade in Services (*1.2 ITSS*) continued. Participation in the meeting with the Chief Negotiator on the accession of Montenegro to the European Union and the heads of the working groups for the preparation and conduction of negotiations on the accession of Montenegro to the European Union were realized. Within the framework of technical cooperation with partner central banks, online bilateral cooperation with the Deutsche Bundesbank was realized on the topic "*Necessary standards and manner for banking supervision of cash handlers*".

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. In May, RTGS and DNS systems availability reached 100%.

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