

The Governor's Report – October 2021

The Governor's Report for October 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 monthly basis.

In October 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 final Monstat data, Montenegro's GDP in 2020 amounted to 4,185.6 million euros, which is a real decline in GDP of 15.3% in relation to 2019. According to preliminary Monstat data, a real decline of 6.5% was recorded in Q1 this year, while respective growths of 19% and 25.8% were recorded in Q2 and Q3 in relation to the same quarter of the previous year.

In October 2021, consumer prices were 0.7% higher in relation to the previous month, and 3.8% higher year-on-year.

During the first ten months of 2021, industrial output recorded the year-on-year increase of 5%. Production increase was recorded in electricity, gas and steam supply sector (13.3%) and in manufacturing industry (5.5%), while the mining and quarrying sector saw the production decline (-23.2%).

According to preliminary data, the number of tourist arrivals in collective accommodation establishments amounted to 677,635 in the first ten months of 2021, which is 167.9% more than in the same period of the previous year. At the same time, a total of 2.8 million overnights were recorded, which is a 241.9% increase.

Preliminary Monstat data show that during the first nine months of the current year, air passenger transport recorded a year-on-year growth of 145.5%, while air cargo transport rose by 53.2%. The number of passengers transported via railways increased by 14.4%, and railway freight transport dropped by 27.6%. Road passenger transport was 23% higher, while road freight transport increased by 5.5% year-on-year.

During the first ten months of 2021, forestry recorded the production of 117,368 m³ of forest assortments, which is a decrease of 51.8% in relation to the comparative period of the previous year. Preliminary Monstat data show that construction recorded the year-on-year decrease of 3.6% in the first nine months of this year in the value of executed construction works, as well as a 1.7% growth in effective working hours.

In October 2021, the average number of employed persons amounted to 202,981, which is the month-on-month increase of 2.2% and the year-on-year increase of

22.3%. In October this year, the number of unemployed persons amounted to 55,241, which represents a 2.4% increase in relation to the previous month and an increase of 23.3% compared to October 2020.

As at 31 October 2021, of 52,274 business 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 15,432 or 29.5% were blocked. Compared to the previous month, the number of blocked business entities increased by 0.3%, yet it rose by 2.3% compared to the same month of 2020. At end-October 2021, the total amount of debt used as the basis for the account blockage was 837.5 million euros, showing the monthly increase of 1.6% and the annual increase of 21.5%.

As at 31 October 2021, of the total number of business entities with blocked accounts (15,432) a total of 1,434 were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 65,715,445.38 euros or 7.9% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 13,998 and the blocked funds amounted to 771,750,378.89 euros or 92.1% 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 23.8% 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 45.6% of the total debt used as the basis for the account blockage.

Total assets of banks amounted to 5.2 billion euros at end-October 2021, which represents the annual growth of 602.2 million euros or 13.1%. In terms of the structure of balance sheet of banks, total loans accounted for the main share and amounted to 3,440.8 million euros, which is a 1.7% decrease in relation to the previous month, yet a 7.3% increase year-on-year.

In the structure of liabilities, deposits made up the main share of 78.1%. Total bank deposits amounted to 4,061 million euros at end-October this year and they recorded both monthly and year-on-year increase of 1.8% and 22.9%, respectively. Total capital of banks amounted to 619.2 million euros at end-October 2021 or 1.5% less in relation to the previous month, and 0.2% less in relation to the same period of the previous year.

Past due loans (without interests, and prepayments and accruals) stood at 151.9 million euros at end-October this year, which is an increase of 10.6% in relation to the previous month, while they recorded an increase of 20.7% in relation to October 2020. At the same time, non-performing loans (without interests, and prepayments and accruals) amounted to 194.5 million euros and made up 5.7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 1.1%, while they recorded the annual increase of 6.5%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.71% at end-October this year, which represents a monthly decrease of 0.01 pp and the year-on-year decline of 0.16 pp. The WALEIR on new loans amounted to 5.00%, which represent a monthly decline of 0.90 pp, and an decline of 1.09 pp in relation to October 2020. The weighted average deposit effective interest rate (WADEIR) amounted to 0.34%, recording a monthly decline of 0.01 pp and the year-on-year decline of 0.06 pp.

At the same time, reserve requirement of banks amounted to 213.5 million euros, recording a monthly rise of 3.9 million euros or 1.9% and the year-on-year increase of 35.4 million euros or 19.9%. During October 2021, all banks allocated and maintained their reserve requirement within the prescribed limit. Of the total allocated reserve requirement, 61% was allocated to the reserve requirement account in the country, while 39% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 82.6 million euros in the first ten 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 the remaining 18.6%.

The recorded turnover on the Montenegro Stock Exchange amounted to 39.9 million euros during the reporting ten-month period, generated through 1,381 transactions and being 1.4 times higher in relation to the same period of the previous year. As at 31 October 2021, market capitalisation amounted to 3,180.7 million euros, recording both monthly and the year-on-year decrease of 0.8% and 3.5%, respectively.

At the same time, the MONEX index stood at 11,244.66 index points, recording a monthly decline of 0.6% and the annual increase of 14.9%. The MNSE10 index amounted to 777.23 index points, recording a monthly decrease of 2.3% and the year-on-year increase of 19.9%.

According to preliminary data from the Ministry of Finance and Social Welfare, the source revenues amounted to 1.5 billion euros in the first ten months of the current year, and they were slightly higher than planned, yet being 15.4% higher compared to the same period of the previous year. Budget expenditures amounted to 1.57 billion euros and they were 7.2% lower in relation to the period January - October 2020, and also 6.9% lower compared to the plan for the reporting period. The fiscal deficit amounted to 61.8 million euros or 1.3% of the estimated annual GDP.

At end-September this year, (gross) government debt amounted to 4,076.2 million euros or 83.5% of GDP. Of this amount, a total of 417.3 million euros or 8.6% of GDP referred to domestic debt, while external debt accounted for 3,658.9 million euros or 74.9% of GDP. The net government debt of Montenegro amounted to 72.8% 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 Economic and Financial Issues and Statistics. The online bilateral technical cooperation was carried out with the Croatian National Bank as a part of the technical cooperation with partner central banks. At the invitation of the European Integration Office, the Central Bank representatives took part at the constitutive session of the working group for Negotiating Chapter 20 - Enterprise and Industrial Policy. The constitutive session of the working group for Chapter 4 - Free Movement of Capital, Chapter 9 - Financial Services, and Chapter 17 - Economic and Monetary Policy was also held. An assessment of the *acquis communautaire* relevance for Chapter 4 - Free Movement of Capital, Chapter 9 - Financial Services, and Chapter 17 - Economic and Monetary Policy was completed. Meetings were held with the expert from the Croatian National Bank, who was engaged in developing the financial accounts tables for financial sector. The multi-beneficiary project IPA 2017 in the field of international trade in services, aimed at harmonising and producing statistics on international trade in services by countries, in accordance with the EU regulations, was successfully completed. As a result of this project, data on international trade in services by countries for 2019 and 2020 were prepared and delivered to Eurostat in a timely manner in September 2021 (*T3 - International Trade in Services Statistics*). Under the project, the *Quality Report*, the *Methodological Handbook*, as well as the *Final Report* on the implemented activities during the project were also prepared and delivered. As a part of the project *Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the integration into the European System of Central Banks*, an expert mission on the topic *Monetary Statistics (Financial Accounts)* was held.

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 following the principles of liquidity and safety. Activities regarding the Central Bank's function of a fiscal agent were also performed successfully. The RTGS and DNS systems availability was 100% in October.

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.