

The Governor's Report – February-March 2022

The Governor's Report for February - March 2022 gives an overview of key activities of the Central Bank concerning the implementation of objectives and tasks defined under the Central Bank of Montenegro Policy for 2022, on monthly level.

In February and March, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2022.

Preliminary MONSTAT data for 2021 indicate that the year-on-year growth of GDP was 12.4%, as per quarterly estimates. After a 6.5% decline in Q1 2021, GDP grew in the remaining three quarters, recording the rates of growth of 19.0%, 25.8%, and 8.2% in Q2, Q3, and Q4, respectively.

In March 2022, consumer prices were 3.4% higher in relation to the previous month and 9.7% higher y-o-y.

During the first three months of 2022, industrial output recorded the year-on-year decline of 15.2%. Production decrease was recorded in electricity, gas and steam supply sector and the mining and quarrying sector of 33.4% and 7.4%, respectively, while manufacturing industry recorded output growth of 11.2%.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first two months of 2022 amounted to 83,872, which is 117.47% more than in the same period of the previous year. At the same time, tourist overnights reached 227,907, which the year-on-year growth of 137.87%.

MONSTAT's preliminary data indicate that transport recorded positive trends in most segments during 2021. Road passenger transport and road cargo transport increased by 38.86% and 5.88%, respectively. Passenger transport via railways rose by 17.34%, while cargo transport declined by 18.28%. Air passenger transport recorded a growth of 150.84%, while air freight transport increased by 38.28%.

According to preliminary MONSTAT data for 2021, construction recorded the year-on-year decrease of 4.80%, measured in terms of the value of executed construction works, yet it saw an increase in effective working hours of 0.72%.

In February 2022, the average number of employed persons amounted to 212,959, which is an increase of 0.43% compared to the previous month and 23.27% more in relation to February last year. The number of unemployed persons amounted to 46,979 in March this year, which represents a decrease of 6.93% in relation to December 2021 and the year-on-year decline of 3.39%.

The total assets of banks at end-March 2022 amounted to 5.40 billion euros, which represents the annual growth of 758.18 million euros or 16.33%. In terms of the structure of balance sheet of banks, total loans made up the main share and reached 3,439.71 million euros at end-March this year, which is the month-on-month increased of 0.84% and the year-on-year growth of 5.43%.

As at 31 March 2022, of 53,184 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 15,714 or 29.55% were blocked. Compared to the previous month, the number of blocked business entities decreased by 0.22%, while compared to the same month of 2021, its growth stood at 2.26%. At end-March this year, the total amount of debt used as the basis for the freezing of accounts amounted to 893.88 million euros, showing a monthly and the annual increase of 1.43% and 14.20%, respectively.

As at 31 March 2022, of the total number of business entities with blocked accounts (15,714) a total of 1,614 were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 39,836,726.47 euros or 4.46% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 14,100 and the blocked funds amounted to 854,051,107.78 euros or 95.54% of the total amount of blocked funds of business entities.

As at the same date, debt concentration was relatively high since the top 10 debtors (0.06% of total blocked economic operators) accounted for 24.71% of the total debt. In addition, 50 of all blocked business entities (0.32%) accounted for 46.44% of the total debt used as the basis for account freeze.

Bank deposits amounted to 4,280.67 million euros at end-March 2022 and they recorded a monthly decline of 0.27% but also a 23.81% growth in relation to March last year. Total capital of banks amounted to 615.62 million euros, which is an decrease of 0.01% in relation to the previous month, but also an increase of 2.54% in relation to the corresponding period of the previous year.

Past due loans (without interests, and prepayments and accruals) amounted to 200.68 million euros, which is an increase of 14.74% and 25.54% in relation to the previous month and the same month last year. At end-March this year, non-performing loans (without interests, and prepayments and accruals) amounted to 223.67 million euros and they accounted for 6.50% of total loans. They recorded a 25.75% increase year-on-year, but they dropped by 1.92% compared to February this year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.59% at end-March this year, which represents a monthly decrease of -0.03 pp and the year-on-year decline of -0.22 pp. The WALEIR on new loans amounted to 5.44%, recording the year-on-year rise of 0.23 pp and a 0.57 pp decrease month-on-month. The weighted average deposit effective interest rate (WADEIR) amounted to 0.31%, recording a monthly increase of 0.01 pp and the year-on-year decline of 0.10 pp.

At end-March this year, reserve requirement of banks amounted to 221.27 million euros, recording the year-on-year rise of 39.03 million euros or 21.42% and the month-on-month increase of 2.27 million euros or 1.04%. During this month, all banks allocated and maintained reserve requirements within the prescribed limits. Of the total allocated reserve requirements, 62.34% were allocated to the reserve requirement account in the country, whereas 37.66% was held on the CBCG foreign accounts.

Gross insurance premium amounted to 26.89 million euros during the first three months of 2022. Non-life insurance premiums accounted for the main share in its structure with 83.68%, while invoiced life insurance premiums accounted for 16.32%.

The generated turnover on the Montenegro Stock Exchange amounted to 1.97 million euros during the reporting three-month period, achieved through 245 transactions and being 10.37 times lower in relation to the same period of the previous year. As at 31/03/22, stock exchange capitalisation amounted to 3,202.92 million euros, recording both monthly and annual increase of 0.21% and 0.12%, respectively.

At the same time, the MONEX SE index stood at 9,912.38 index points, recording a 0.81% monthly growth and the annual decrease of 10.01%. The MNSE10 SE index amounted to 778.83 index points, recording a monthly increase of 2.03% and the annual increase of 2.38%.

According to the Ministry of Finance preliminary data, current revenues of the budget for the first two months of 2022 amounted to 416.56 million euros and they were 13.78% higher than planned and 19.55% higher year-on-year. Budget expenditure reached 438.60 million euros and they were lower than planned and compared to the same period last year by 12.84% and 2.89%, respectively. The budget deficit amounted to 22.04 million euros or 0.42% of the estimated annual GDP.

Gross government debt of Montenegro amounted to 4,162.79 million euros or 84.75% of GDP as at end-2021. Of this amount, domestic debt accounted for 401.54 million euros or 8.17% of GDP, the external debt accounted for 3,688.48 million euros or 75.10%, while the debt of local self-government units accounted for 72.77 million euros or 1.48% of GDP. The net state debt of Montenegro amounted to 75.29% of GDP.

In February and March, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. This involved, inter alia, an online video conference with representatives of the European Commission within the negotiation chapter 9 - Financial services. At an online meeting of the Stabilization and Association Committee, we submitted a Draft report on the meeting discussing point 5 - Economic governance, financial issues and statistics. The representatives of the CBCG participated in the meeting with representatives of the European Central Bank in relation to the annual assessment of the Economic Reforms Programme. Meetings were held with the representative of the Croatian National Bank regarding the planning of future bilateral cooperation with this institution. Regarding the notification of the Office for European Integration on the preparation of the first bilingual contribution to the EC Report on Montenegro for 2022, a contribution for the reporting period from 15 June 2021 to 20 March 2022 was prepared and submitted to the Office for European Integration. For the purposes of holding a meeting of the Joint Consultative Committee of Civil Society (JCO) of Montenegro and the European Union, which will be dedicated to cluster 1, at the request of the Office for European Integration, the CBCG Contribution for the abovementioned report was prepared for the chapter *Economic criteria*, as well as negotiation chapter 32 – Financial supervision. With regard to the application for the organisation of a series of TAIEX events in cooperation with the Croatian National Bank entitled *Support to implementation of the new Law on Credit Institutions and accompanying bylaws*, the first expert mission was carried out. At the request of the Ministry of Economic Development, the national coordinator for the implementation of the principles of the Small Business Act (*Small Business Act - SBA*), comments were submitted on the

preliminary report on the implementation of policies for the development of micro-, small and medium-sized enterprises in Montenegro, which concern Dimension 6 - Access to finance.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous supervision and analysis. International reserves were managed in line with 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 February and 99.87% in March.

In line with the highest transparency standards, the general public was timely informed about the activities, objectives, 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.