

The Governor's Report – January 2022

The Governor's Report for January 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 January, activities of the Central Bank were carried out in line with the planned obligations specified under 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, GDP grew in the remaining three quarters, recording the rates of growth of 19%, 25.8%, and 8.2% in Q2, Q3, and Q4, respectively.

In January this year, consumer prices were 1.3% higher month-on-month and 5.7% year-on-year.

Industrial production recorded a decline of -10% year-on-year. Production decrease was recorded in electricity, gas and steam supply sector and the mining and quarrying sector of -34.8% and -6.2%, respectively, while manufacturing industry recorded output growth of 46.8%.

According to preliminary data, the number of tourist arrivals in collective accommodation establishments amounted to 19,677 in January this year, which is 30.02% more than in the same month last year. Total tourist overnights amounted to 55,391, which is a 58.96% growth year-on-year.

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 -4.8%, measured in terms of the value of executed construction works, yet it saw an increase in effective working hours of 0.72%.

In January this year, the average number of employed persons amounted to 212,046, which is an increase of 0.35% compared to the previous month and 24.84% more in

relation to January 2021. At the same time, the number of unemployed persons amounted to 56,233, which represents a decrease of -2.01% in relation to the previous month and an 18.99% growth year-on-year.

Total assets of banks amounted to 5.36 billion euros at end-January 2022, which represents the annual growth of 747.3 million euros or 16.2%. As for the structure of balance sheets of banks, total loans accounted for the main share and reached 3,383.80 million euros at end-January this year, recording the year-on-year growth of 5.82% and 0.7% increase month-on-month.

As at 31 January 2022, out of 52,743 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 15,756 or 29.87% were blocked. Compared to the previous month, the number of blocked business operators increased by 0.63% and by 3.05%, respectively, compared to the same month of 2021. The total amount of debt used as the basis for the account freeze was 871.19 million euros, showing a monthly increase of 1.62% and the annual increase of 15.08%.

As at 31/01/22, of the total number of economic operators with frozen accounts (15,756), 1,655 were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 32,150,866.02 euros or 3.69% of the total amount of frozen funds, while those under uninterrupted blockage for over 365 days totalled 14,101, with frozen funds in the amount of 839,043,728.95 euros or 94.31% of the total amount of frozen 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 24.16% of the total debt. In addition, 50 of all blocked business entities (0.32%) accounted for 45.78% of the total debt used as the basis for account freeze.

Deposits in banks amounted to 4,230.53 million euros in January this year, rising by 0.7% and 25.29% month-on-month and year-on-year, respectively. Total capital of banks at end-January this year amounted to 631.23 million euros, which is the year-on-year increase of 6.75% and the month-on-month growth of 0.28%.

Past due banking loans (without interests, and prepayments and accruals) amounted to 201.73 million euros, which is an increase of 12.12% in relation to the same month last year and a 22.74% increase in relation to December 2021. At the same time, non-performing loans (without interests, and prepayments and accruals) amounted

to 232.41 million euros and they made up 6.87% of total loans. Compared to January and December 2021, non-performing loans rose 27.61% and 12.12%, respectively.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.64% at end-January 2022, which represents a monthly decrease of -0.02 pp and the year-on-year decline of -0.20 pp. The WALEIR on new loans amounted to 5.22%, recording the year-on-year decline of -0.19 pp and a 0.39 pp month-on-month increase. 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 end-January 2022, reserve requirements of banks amounted to 219.93 million euros, which represents a monthly increase of 2.86 million euros or 1.32%, and the year-on-year increase of 39.47 million euros or 21.87%. During the reporting month, all banks allocated and maintained reserve requirements within prescribed limits. Of the total allocated reserve requirements, 62.11% were allocated to the reserve requirement account in the country, whereas 37.89% was held on the CBCG foreign accounts.

Gross insurance premium amounted to 9.03 million euros in the first month of the current year. Non-life insurance premiums accounted for the main share in its structure with 85.14%, while invoiced life insurance premiums accounted for the remaining 14.86%.

In January 2022, the Montenegro Stock Exchange recorded a turnover in the amount of 295.94 thousand euros through 55 transactions. This is 26.48 times less the amount traded in the same month last year, and 2.2 times less the amount traded in the preceding month. As at 31/01/22, stock exchange capitalisation amounted to 3,196.32 million euros, recording both monthly and annual increase of 0.24% and 0.7%, respectively.

At the same time, the MONEX index stood at 9,971.02 index points, recording a monthly increase of 1.05% and the year-on-year decline of -5.64%. The MNSE10 SE index amounted to 776.46 index points, recording a monthly increase of 1.54% and the annual increase of 6.69%.

According to the Ministry of Finance estimates, in January this year, Montenegro's fiscal deficit amounted to 27.72 million euros or 0.52% of the estimated annual GDP. Own source revenues of the budget of Montenegro amounted to 107.80 million euros or 2.03% of the estimated annual GDP, which represents an increase of 3.77% in relation to the plan for the reporting month. In relation to the source revenues in the

same month last year, this is an increase of 21.6%. At the same time, budget expenditure amounted to 135.53 million euros or 2.55% of the estimated GDP, being -23.79% lower than planned, yet they recorded the year-on-year increase of 6.38%.

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 75.31% of GDP.

The Central Bank continued with activities aimed at meeting the requirements on Montenegro's road towards EU accession. This involved, inter alia, the implementation of obligations under the Stabilization and Association Agreement and the regular dialogue with the European Commission, so an online meeting of the Stabilization and Association Committee was held in January this year. In this regard, additional information was provided to the Office for European Integration and the Ministry of Finance and Social Welfare for the contribution to the Committee. At the request of MONSTAT, the balance of payments data for the Annex to the Progress Report was prepared. The action plan for harmonization with the *acquis communautaire* for Chapter 17 - Economic and Monetary Policy was updated in the part related to the implementation of the regional *IPA project* entitled "*Program for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the European System of Central Banks*".

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous oversight 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 January.

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.