

The Governor's Report – May 2022

The Governor's Report for May 2022 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 2022, 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 2022.

Preliminary MONSTAT data for 2021 indicate that the year-on-year real GDP growth was 12.4%, as per quarterly estimates. In Q1 2022, a real growth was 7.2% higher relative to Q1 2021.

In May 2022, consumer prices were 0.8% higher in relation to the previous month, and 11.7% higher y-o-y.

During the first five months of 2022, industrial output recorded a year-on-year decrease of 5.9% according to preliminary data. The decrease was recorded in electricity, gas and steam supply sector (23.9%), while the respective increases of 10.7% and 6.9% were recorded in the manufacturing industry and mining and quarrying sectors.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first five months of 2022 amounted to 267,530, which is 156.16% more than in the same period of the previous year. At the same time, tourist overnights reached 760,749, representing the year-on-year growth of 179.26%.

The passenger transport recorded a significant year-on-year growth in all types of transport in the first three months of 2022: railway transport grew by 85.29%, road transport by 47.10% and passenger transport at airports increased by 158.97%.

Preliminary Monstat data show that in the first three months of 2022, construction recorded year-on-year decrease of 5.24% in the value of executed construction works, as well as a 6.10% decrease in effective working hours.

In May 2022, the average number of employed persons amounted to 222,901, which is an increase of 5.49% compared to December 2021 and 23.18% more in relation

to May 2021. In May 2022, the number of unemployed persons amounted to 47,584, which represents a decrease of 17.08% in relation to December 2021 and a decrease of 15.61% compared to May 2021.

Total number of business entities registered as active in the Central Registry of Business Entities and having active accounts in the Central Registry of Transaction Accounts as at 31 May 2022 was 53,819, of which 15,641 or 29.06% were blocked. Compared to the previous month, the number of blocked business entities decreased by 0.31%, while compared to the same month of 2021, its growth stood at 1.55%. At end-May 2022, the total amount of debt used as the basis for blocking of accounts amounted to 902.48 million euros, showing a monthly and an annual increase of 0.87% and 14.74%, respectively.

As at 31 May 2022, out of the total number of business entities with blocked accounts (15,641) a total of 1,430 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 25,591,632.92 euros or 2.83% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 14,211 with frozen funds in the amount of 876,888,823.79 euros or 97.16% 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 business entities) accounted for 25.39% of the total debt. In addition, 50 of all blocked business entities (0.32%) accounted for 46.83% of the total debt used as the basis for account blockage.

The total assets of banks at end-May 2022 amounted to 5,568.25 million euros, which represents the annual growth of 816.55 million euros or 17.18%. In terms of the structure of balance sheet of banks, total loans made up the main share and reached 3,560.55 million euros at end-May this year, which is the month-on-month increase of 0.33% and the year-on-year growth of 7.18%.

Total banks' deposits amounted to 4,392.30 million euros at end-May 2022 and they recorded a monthly increase of 0.34%, and a 22.17% growth in relation to May 2021. Total capital of banks amounted to 598.61 million euros, which is a decrease of 2.72% in relation to the previous month, and 1.25% in relation to the corresponding period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 213.49 million euros, which is an increase of 14.72% in relation to the previous

month, while they recorded an increase of 19.25% in relation to May 2021. At end-May 2022, non-performing loans (without interests, and prepayments and accruals) amounted to 220.48 million euros and made up 6.19% of total loans. They recorded a 19.93% increase year-on-year, and 0.09% compared to the previous month.

The weighted average lending effective interest rate (WALEIR) on total loans amounted to 5.54% at end-May this year, which represents a monthly decrease of 0.04 pp and the year-on-year decline of 0.25 pp. The WALEIR on new loans amounted to 5.44%, recording the year-on-year rise of 0.19 pp and a 0.27 pp decrease month-on-month. The weighted average deposit effective interest rate (WADEIR) amounted to 0.30%, recording a monthly decrease of 0.01 pp and the year-on-year decline of 0.09 pp.

At end-May 2022, reserve requirement of banks amounted to 225.44 million euros, recording a monthly rise of 961,512 euros or 0.43% and a year-on-year increase of 40.42 million euros or 21.85%. During May 2022, all banks allocated and maintained reserve requirement within prescribed limits. Of the total allocated reserve requirements, 63.04% were allocated to the reserve requirement account in the country, whereas 36.96% was held on the CBCG foreign accounts.

Gross insurance premium amounted to 44.07 million euros during the first five months of 2022. Non-life insurance premiums accounted for the main share in its structure with 82.04%, while invoiced life insurance premiums accounted for 17.96%.

The generated turnover on the Montenegro Stock Exchange amounted to 26.72 million euros during the reporting period, achieved through 383 transactions and being 9.96% lower in relation to the same period of the previous year. As at 31 May 2022, market capitalisation amounted to 3,264.70 million euros, recording a monthly decrease of 0.28%, but also an annual growth of 1.25%.

At the same time, the MONEX SE index stood at 10,855.55 index points, recording a 7.94% monthly growth and the annual decrease of 6.27%. The MNSE10 SE index amounted to 793.20 index points, recording a monthly increase of 0.32% and the annual decrease of 1.53%.

According to the Ministry of Finance preliminary data, source revenues of the budget for the first five months of 2022 amounted to 753.28 million euros and they were 12.66% higher than planned and 19.74% higher y-o-y. Budget expenditure reached 789.91 million euros and they were lower than planned and compared to the

same period last year by 8.30% and 0.27%, respectively. The budget deficit amounted to 36.63 million euros or 0.69 of the estimated annual GDP.

According to the Ministry of Finance data, at the end of March 2022, Montenegro's gross government debt amounted to 4,064.40 million euros or 76.59% of GDP. Out of that figure, a total of 393.21 million euros or 7.41% of GDP referred to internal debt, while external debt accounted for 3,671.19 million euros or 69.18% of GDP. The net government debt of Montenegro amounted to 68.13% of GDP.

In May, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. In addition, the CBCG submitted to the Ministry of Economic Development and Tourism the Report on the implemented activities within the CBCG competence, for the reporting period from the last year's meeting of the Subcommittee to 01 May 2022. Upon the request of the Ministry of European Affairs, a second Annex to the EC Report on Montenegro for 2022 was prepared for the reporting period 20 March 2022 - 06 June 2022. At the invitation of the Head of the Working Group for the preparation of negotiations for Chapter 20 - Entrepreneurship and industrial policy, a meeting was held and plans and activities for the next period were defined in order to fulfil all the obligations of the Working Group. Montenegrin delegation participated in this year's Ministerial Dialogue in Brussels. Regarding the continuation of programming *the IPA III program* and the drafting of project concepts that will be proposed for financing through the annual program *IPA 2023*, a prepared draft *Action fiche* was submitted to the Ministry of Finance for the project proposed by the CBCG. At the request of the Ministry of Economic Development and Tourism, the national coordinator for the implementation of the principles of the *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, referring to Dimension 6 - Access to finance. Within the *TAIEX* series of events in cooperation with the Croatian National Bank entitled *Support to implementation of the new Law on Credit Institutions and accompanying bylaws*, a second expert mission entitled *Liquidity was realized Coverage and Net Stable Funding Ratio* was organized.

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. In May, RTGS and DNS systems availability amounted to 100%.

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.