

The Governor's Report – May 2023

The Governor's Report for May 2023 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 2023, 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 2023.

Preliminary MONSTAT data for 2022 indicate that the year-on-year growth of GDP was 6.1%, as per quarterly estimates. In Q1 2023, according to preliminary data, a real growth was 6.1% in relation to Q1 2022.

In May 2023, consumer prices were 0.51% higher in relation to the previous month, and 8.4% higher y-o-y.

According to preliminary MONSTAT data, industrial output recorded the year-on-year growth of 4.6% during the first five months of 2023. Production growth of 34.0% was recorded in the electricity, gas and steam supply sector, while decline were recorded in manufacturing industry and the mining and quarrying sector of 13.8% and 11.9%, respectively.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first five months of 2023 amounted to 400,436, which is 49.68% more than in the same period of the previous year. At the same period, tourist overnights reached 1.12 million, which is the year-on-year growth of 47.57%.

MONSTAT's preliminary data indicate that passenger transport in Q1 2023 recorded significant year-on-year growth in all types of transport. Passenger transport via railways rose by 16.67%, road passenger transport rose by 6.56% while air passenger transport rose by 78.41%.

According to preliminary MONSTAT data for Q1 2022, construction recorded the year-on-year decrease of 7.04%, measured in terms of the value of executed construction works, as well as a drop in effective working hours of 1.52%.

In May 2023, the average number of employed persons amounted to 244,245, which is an increase of 2.43% compared to the previous month and 9.58% more in relation to May 2022. In May 2023, the number of unemployed persons

amounted to 41,415 which represents a decrease of 2.77% in relation to the previous month and a decrease of 12.96% compared to May 2022.

The total number of economic entities that are listed as active in the Central Register of Economic Entities, and that have active accounts in the Central Register of Transaction Accounts as of 31 May 2023, amounted to 60,413, of which 16,273 or 26.94% were blocked. Compared to the previous month, the number of blocked business entities increased by 0.23% and by 4.04%, respectively, compared to the same month of 2022. At end-May 2023, the total amount of debt used as the basis for the freezing of accounts amounted to 1,047,951,884.92 euros, showing a monthly and an annual increase of 1.23% and 16.12%, respectively.

As at 31 May 2023, of the total number of business entities with blocked accounts (16,273) a total of 1,590 were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 40,056,844.20 euros or 3.82% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 14,683 and the blocked funds amounted to 1,007,895,040.72 euros or 96.18% of the total amount of blocked funds of business entities.

As at 31 May 2023, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 27.86% of the total debt being the basis for freezing of accounts. In addition, 50 of all blocked business entities (0.31%) accounted for 50.01% of the total debt used as the basis for account freeze.

The total assets of banks at end-May 2023 amounted to 6.43 billion euros, which represents the annual growth of 861.65 million euros or 15.47%. In terms of the structure of balance sheet of banks, total loans made up the main share and reached 3,864.69 million euros at end-May 2023, which is the year-on-year increase of 15.47% and the month-on-month growth of 0.01%.

In May 2023, past due loans (without interests, and prepayments and accruals) amounted to 170.83 million euros, which is a decrease of 19.98% in relation to May 2022, while they recorded a monthly growth of 16.40%. At end-May 2023, non-performing loans (without interests, and prepayments and accruals) amounted to 212.24 million euros and made up 5.49% of total loans. They recorded a 3.74% decrease year-on-year and they dropped by 1.81% compared to April 2023.

In May 2023, banks' deposits amounted to 5,195.90 million euros recording a y-o-y growth of 18.30%, and a monthly decrease of 0.32%. Total capital of

banks at end-May 2023 amounted to 744.54 million euros, which is a year-on-year increase of 24.38% and an increase of 1.72% in relation to the corresponding period of the previous year.

The weighted average lending effective interest rate (WALEIR) on total loans granted amounted to 6.30% at end-May 2023, which represents a y-o-y increase of 0.76 pp and the monthly increase of 0.08 pp. The WALEIR on new loans amounted to 6.94% at end-May 2023, recording the year-on-year rise of 1.50 pp and a 0.35 pp increase month-on-month. The weighted average deposit effective interest rate (WADEIR) amounted to 0.32% at end-May 2023, recording the year-on-year growth of 0.02 pp and a monthly growth of 0.04 pp.

At end-May 2023, reserve requirement of banks amounted to 269.10 million euros, which represents a y-o-y growth of 43.67 million euros or 19.37%, while it recorded a monthly decline of 2.29 million euros or 0.85%. During May 2023, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 69.03% was allocated to the reserve requirement account in the country, while 30.97% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 48.40 million euros during the first five months of 2023. Non-life insurance premiums still accounted for the main share in its structure with 82.97%, while invoiced life insurance premiums accounted for the remaining 17.03%.

The generated turnover on the Montenegro Stock Exchange amounted to 3.88 million euros during the reporting period, achieved through 985 transactions and being 85.50% lower in relation to the same period of the previous year. As at 31 May 2022, stock exchange capitalisation amounted to 2,411.86 million euros, recording a monthly decrease of 26.12%, but also an annual growth of 0.39%.

At the same time, the MONEX SE index stood at 14,862.67 index points, recording a respective annual and monthly growth of 36.91% and 1.98%. The MNSE10 SE index amounted to 1,034.69 index points, recording both monthly and annual increase of 30.45% and 3.64%, respectively.

According to the Ministry of Finance preliminary data, source revenues of the Budget for the first five months of 2023 amounted to 983.99 million euros and they were 17.40% higher than planned and 31.39% higher year-on-year. Budget expenditures reached 973.97 million euros and they were 11.66% lower than planned and 11.06% higher at the annual level. The fiscal surplus reached 110.02 million euros or 1.78% of the estimated annual GDP.

According to the Ministry of Finance data, at the end of March 2023, Montenegro's gross government debt amounted to 4,080.56 million euros or 66.09% of GDP. Out of that figure, a total of 461 million euros or 7.47% of GDP referred to internal debt, while external debt accounted for 3,619.56 million euros or 58.62% of GDP. Public debt of Montenegro amounted to 4,102.22 million euros or 70.77% of GDP as at end-December 2022.

In May, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Within the implementation of the Phase II of the *IPA* regional project, a workshop on internal audit was held at the Bulgarian National Bank. Moreover, the expert mission of de Nederlandsche Bank on internal audit's external review was held in Podgorica.

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 reached 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 media releases, 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.