

## The Governor's Report – August 2020

The Governor's Report for August 2020 gives an overview of key activities of the Central Bank concerning monthly implementation of objectives and tasks defined by the Central Bank of Montenegro Policy for 2020.

In August this year, activities of the Central Bank were conducted in line with the planned obligations determined by the Central Bank of Montenegro Work Programme for 2020.

The final Monstat data indicate that Montenegro's real GDP growth amounted to 4.1% in 2019. According to preliminary Monstat data, a real growth of 2.7% y-o-y was recorded in Q1 this year but also a 20% decline in Q2, and the Ministry of Finance estimate points to a decrease of 6.8% in 2020.

Consumer prices recorded monthly increase in August of 0.1% and the year-on-year decline of 0.5%.

During the first eight months of 2020, industrial production recorded a decrease of 1.1% compared to the same period last year. Decline was recorded in electricity, gas and steam supply sector (-8.4%), while mining and quarrying and manufacturing industry recorded respective output growths of 12% and 1.6%.

According to preliminary Monstat data, as a result of the COVID-19 pandemic, passenger transport recorded a significant year-on-year decline in all types of transport in the first six months of 2020: railway dropped by 52.9%, road by 54.3% and passenger transport at airports decreased by 75.5%.

In the first eight months of 2020, some 166.443m<sup>3</sup> of forest assortments were produced, which is 14.6% more in relation to the same period last year. Preliminary Monstat data show that construction recorded the year-on-year fall of 6.9% in the value of executed construction works, as well as a 1.7% decrease in effective working hours in the first six months of 2020.

In August this year, the average number of employed persons amounted to 172,154, which is a decrease of 1.2% compared to the previous month and an 18.2% decline in relation to the same month last year. At the same time, the number of unemployed persons amounted to 43,065, which represents an increase

of 1.6% in relation to the previous month and an increase of 25.4% compared to August 2019.

As at 31 August 2020, of 49,320 business entities registered as active in the Central Registry of Commercial Entities and having active accounts in the Central Registry of Transaction Accounts, a total of 14,875 or 30.2% were blocked. Compared to the previous month, the number of blocked commercial entities decreased by 0.04%, while compared to the same month in 2019 it increased by 5.9%. At end-August 2020, the total amount of debt used as the basis for freezing the accounts of commercial entities amounted to 656.6 million euros, showing both monthly and annual increase of 3% and 3.9%, respectively.

As at 31 August 2020, of the total number of commercial entities with frozen accounts (14,875) a total of 1,857 were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 53,312,959.77 euros or 8.1% of the total amount of frozen funds, while the number of commercial entities under uninterrupted blockage for over 365 days reached 13,018, with frozen funds in the amount of 603,258,730.30 euros or 91.9% of the total amount of frozen funds of commercial entities.

As at the last day of August this year, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 20.2% of the total debt being the basis for freezing the accounts. In addition, 50 of blocked commercial entities (0.3% of total number of blocked commercial entities) accounted for 40.7% of the total debt used as the basis for account freeze.

At end-August this year, total assets and liabilities increased by 0.9% compared to the previous month and amounted to 4,618.8 million euros. In terms of the structure of aggregate balance sheet of banks, total loans accounted for the main share and they reached 3,235.5 million euros at end-August, which is 1.7% more in relation to the previous month and a 6.7% increase compared to August last year.

In the structure of liabilities, deposits made up the main share of 71.7%. Deposits in banks amounted to 3,313.5 million euros, which represents a monthly increase of 0.4% and a 6.3% decline compared to August 2019. Total capital of banks at end-August 2020 amounted to 622.4 million euros and it increased by 1.4% compared to the previous month. Also, total capital was 5.1% higher than in the same month last year.

Past due loans (without interests, and prepayments and accruals) amounted to 192.9 million euros, which is a decrease of 6.4% in relation to the previous month and an increase of 28.4% in relation to August 2019. At end-August 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 160.1 million euros and made up 5% of total loans. In relation to the previous month, non-performing loans of banks decreased by 1.5%, but they recorded the year-on-year increase of 11.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.87% at end-August 2020, same as in the previous month, while in relation to end-August 2019 it recorded a decrease of 0.29 percentage points. The weighted average lending effective interest rate on new loans stood at 6.02%, recording a monthly increase of 0.77 percentage points, and the year-on-year decline of 0.01 percentage points. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.40% at end-August this year, showing a decline of 0.01 percentage points in relation to the previous month and a 0.03 percentage points decline in relation to end-August 2019.

At the end of the reporting month, reserve requirement of banks amounted to 177.7 million euros, which represents a monthly decrease of 1 million euros or 0.6%, while in relation to the comparative month of the previous year, reserve requirements dropped by 70.3 million euros or 28.3%. During the month, all banks allocated and maintained reserve requirements within the prescribed limits. Of the total allocated reserve requirement, 50.9% was allocated to the reserve requirement account in the country, while 49.1% was allocated to the CBCG's foreign account.

Gross insurance premium amounted to 63 million euros in the first eight months of 2020. Non-life insurance premiums still accounted for the main share in its structure with 81,2%, while invoiced life insurance premiums accounted for the remaining 18,8%.

In the first eight months of the current year, Montenegro stock exchange recorded a turnover in the amount of 15.9 million euros through 1,319 transactions. The effected turnover was 93.5% lower than in the same period last year when it stood at 233.3 million euros (achieved through 1,868 transactions). As at 31/8/2020, stock exchange capitalisation amounted to 3,336.4 million euros, recording both monthly and annual decrease of 0.2% and 4.7%, respectively. At the same time, the SE index MONEX stood at 9,886.6 index points, recording both monthly and annual declines of 2.1% and 11.8%, respectively. The MNSE10 index amounted

to 659.7 index points, also recording monthly and annual declines of 4.4% and 18.8%, respectively.

According to the Ministry of Finance's preliminary data, source revenues of the budget amounted to 881.9 million euros in the period January-August 2020 and they were 2.1% lower than planned and 12.7% lower y-o-y. Budget expenditures amounted to 1.34 billion euros and they were 8.8% higher than in the same period in 2019, and also 1.8% higher compared to the plan. The fiscal deficit reached 312 million euros or 6.8% of the estimated annual GDP.

Gross government debt of Montenegro amounted to 3,664.6 million euros or 79.5% of GDP as at end-June 2020. Of this amount, domestic debt accounted for 559.4 million euros or 12.1% of GDP, and external debt stood at 3,105.2 million euros or 67.4% of GDP. Net government debt amounted to 71.3% of GDP.

In August, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Activities were carried out under the project IPA 2017 Multi-beneficiary Programme - 1.2 International Trade in Services Statistics. In this regard, Monstat was provided with monthly reports on the activities of the members of the task force. At the invitation of the Office for European Integration, the Central Bank participated in a panel discussion on "EU Presidency 2020: a look into the future" organized by the Office for European Integration and the General Secretariat of the Government, in cooperation with the Montenegrin Pan-European Union. At the request of the Ministry of Economy, the Annex - Exchange of data in the field of foreign direct investments was updated and submitted for the purposes of the meeting of the Subcommittee on Trade, Industry, Customs and Taxation with the European Commission, which was initially planned for October 2020.

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 based on the principles of liquidity and safety. The activities regarding the Central Bank's function of the fiscal agent were carried out successfully. RTGS and DNS systems availability was at 100% in August.

The general public was informed timely and in line with the highest transparency standards about the activities, goals, and results of the CBCG's operations through 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 with frozen funds in the amount of over 10,000 euros for a continuous period exceeding 30 days.