

## **The Governor's Report – December 2020**

The Governor's Report for December 2020 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 2020, on a monthly basis.

In December, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2020.

According to Monstat data, the real GDP growth rate of Montenegro amounted to 4.1% in 2019. According to preliminary Monstat data, a real growth of 2.6% was recorded in Q1 this year, a drop of 20.3% was recorded in Q2, a 26.9% drop was recorded in Q3, whereas a 7.5% drop was recorded compared year-on-year.

In December 2020, consumer prices were 0.1% higher in relation to the previous month, and 0.9% lower y-o-y.

In 2020, industrial output declined by 0.9% compared to 2019. The decline was recorded in manufacturing industry (-0.5%), and in the electricity, gas and steam supply sector (-3.8%), while there was an increase in the mining and quarrying sector (7.2%).

According to preliminary data, the number of tourist arrivals in collective accommodation in 2020 amounted to 444,065, which is 83.2% less than in the same period of the previous year. A total of 2,587,255 overnights were recorded, which is 82.1% less y-o-y.

According to preliminary Monstat data, passenger transport in 2020 recorded a significant y-o-y decline in all types of transport: railway by 52%, road by 64.9% and passenger transport at airports 80.3%.

In 2020, production of wood products amounted to 280,175 m<sup>3</sup>, which is an increase of 8.2% in relation to the previous year. In 2020, according to preliminary Monstat data, construction recorded a decrease of 5.6% y-o-y, measured in terms of the value of executed construction works, as well as a decrease of effective working hours of 3.2% y-o-y.

In December 2020, the average number of employed persons amounted to 160,978 or by 1.8% less compared to the previous month and by 18.9% more in relation to December 2019. In December 2020, the number of unemployed persons amounted to 47,509 which represents an increase of 1% in relation to the previous month and an increase of 26.3% compared to December 2019.

As at 31 December 2020, out of 50,133 business entities registered as active in the Central Registry of Business Entities, and as having active accounts in the Central Registry of Transaction Accounts, a total of 15,167 or 30.3% were frozen. Compared to the previous month, the number of blocked business entities was 0.2% higher, while compared to the same month of 2019, its growth stood at 3.9%. At end-May 2020, the total amount of debt used as the basis for the freezing of accounts amounted to 745.5 million euros, showing a monthly and an annual increase of 6.4% and 21%, respectively.

As at 31 December 2020, out of the total number of business entities with frozen accounts (15,167) a total of 1,584 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 89,311,472.37 euros or 12% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 13,583 with frozen funds in the amount of 656,203,727.77 euros or 88% of the total amount of frozen funds of business entities.

As at 31 December 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 22.7% of the total debt being the basis for freezing of accounts. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 43.6% of the total debt used as the basis for the account freeze.

The total assets of banks at end-December 2020 amounted to 4.59 billion euros, which represents an annual growth of 17.5 million euros, or 0.4%. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-December 2020 total loans amounted to 3,159.2 million euros, which is 2.7% lower in relation to the previous month yet 3.2% higher in relation to December 2019.

In the structure of liabilities, deposits made up the main share of 73.5%. In December 2020, deposits in banks amounted to 3.372,9 million euros, rising by 0.2% m-o-m and declining by 3% y-o-y. At the end of this month, total capital of banks amounted to 586.7 million euros, decreasing by 6.3% m-o-m, and by 1.9% y-o-y.

Past due banking loans over 30 days (without interests, and prepayments and accruals) amounted to 168.7 million euros as at end-December 2020, which is a monthly drop of 21.8% and an increase of 45.5% y-o-y. At end-December 2020, non-performing loans (without interests, and prepayments and accruals) amounted to 172.1 million euros and made up 5.5% of total loans. In relation to the previous month, non-performing loans of banks decreased by 10.4%, while recording an annual increase of 19%.

At end-December 2020, the weighted average lending effective interest rate on total loans granted amounted to 5.84% which represents a monthly decrease of 0.02 percentage points and a decrease of 0.17 percentage points y-o-y. The weighted average effective interest rate (WAEIR) on new loans amounted to 5.16% in December 2020, which represents a monthly increase of 0.02 percentage points, and a decrease of 0.86 percentage points in relation to December 2019. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.40% at end-December 2020, increasing by 0.01 percentage points in relation to the previous month, while it recorded a decline of 0.01 percentage points in relation to end-December 2019.

At end-December 2020, reserve requirement of banks amounted to 179.4 million euros, which represents a monthly increase of 1.5 million euros or 0.8%, while in relation to the corresponding period of the previous year reserve requirements decreased by 80.7 million euros or 31%. During December 2020, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 51.4% was allocated to the reserve requirement account in the country, while 48.6% was at the CBCG foreign accounts.

This year, the gross insurance premium amounted to 93.7 million euros. Non-life insurance premiums still accounted for the main share in its structure with 78.9%, while invoiced life insurance premiums accounted for 21.1%.

The effected turnover in 2020 was 31.4 million euros done through 1,762 transactions, and it was 90.1% lower year-on-year. As at 31 December 2020, stock exchange capitalisation amounted to 3,177.7 million euros, recording a monthly and an annual decrease of 0.6% and 8%, respectively. At the same time, the MONEX index stood at 10,328.64 index points, recording a 4.9% monthly growth, yet the annual decrease of 9.4%. The MNSE10 SE index amounted to 712.83 index points, recording a monthly increase of 12.6% and an annual decrease of 8.3%.

According to the Ministry of Finance preliminary data, the source revenues of the budget in 2020 amounted to 1.64 billion euros and were lower than planned by 3.9%, also being 13.1% lower y-o-y. Budget expenditures amounted to 2.06 billion euros and were 1.6% higher in relation to 2019, and also 1% higher compared to the plan. The budget deficit amounted to 422.6 million euros or 10.1% of the estimated annual GDP (4,193.2 million euros - preliminary MONSTAT data).

Gross government debt of Montenegro amounted to 3,660.3 million euros or 87.3% of GDP as at end-September 2020. Out of that figure, a total of 570.5 million euros or 13.6% of GDP referred to internal debt, while external debt accounted for 3,089.8 million euros or 73.7% of GDP. Net government debt amounted to 80.8% of GDP.

In December, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The CBCG representatives attended the tenth meeting of the Stabilisation and Association Committee between Montenegro and the European Union on economic and financial issues and statistics. The CBCG also attended the sixth meeting of the Steering Committee of the ESCB Regional Project, held online. The CBCG team participated at the meeting of the sectoral working group for programming EU pre-accession support in Competitiveness and Innovation.

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 a fiscal agent were performed successfully. RTGS and DNS systems availability was 100% in December.

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. This was done by means of 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 accounts in the amount over 10,000 euros for a continuous period exceeding 30 days.