

The Governor's Report – June - July 2020

The Governor's Report for June and July 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 June and July, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2020.

Preliminary Monstat data show that Montenegro's 2019 real GDP growth rate amounted to 3.6%, based on quarterly estimates. According to preliminary Monstat data, a real growth of 2.7% was recorded in Q1 this year in relation to Q1 of the previous year, while according to the Ministry of Finance estimate, a decrease of 6.8% is expected in 2020.

In July 2020, consumer prices decreased by 0.3% compared to the previous month, being 0.5% lower year-on-year.

During the first seven months of 2020, industrial output recorded a year-on-year decrease of 0.9%. The decline was recorded in electricity, gas and steam supply sector (-9.1%), while mining and quarrying and manufacturing industry recorded respective output growths of 11.5% and 2.7%.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first seven months of 2020 amounted to 141,182, which is 79.6% less than in the same period of the previous year. A total of 391,290 overnights were recorded, which is 84.1% less y-o-y.

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

During the first seven months of 2020, production of wood products amounted to 130,584 m³, which is an increase of 19.6% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first six months of

2020, construction recorded y-o-y decline of 6.9% in the value of executed construction works, as well as a 1.7% decrease in effective working hours.

In July 2020, the average number of employed persons amounted to 174,170, which is a decrease of 2.2% compared to the previous month and 19.1% less in relation to July 2019. In July 2020, the number of unemployed persons amounted to 42,367, which represents an increase of 1.1% in relation to the previous month and an increase of 22.5% compared to July 2019.

As at 31 July 2020, out of 49,231 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 14,881 or 30.2% were frozen. Compared to the previous month, the number of blocked business entities was 0.2% higher. At end-July 2020, the total amount of debt used as the basis for the freezing of accounts amounted to 637.4 million euros, showing a monthly increase of 1%.

As at 31 July 2020, out of the total number of business entities with frozen accounts (14,881) a total of 1,915 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 38,062,783.51 euros or 6% of the total amount of frozen funds. The number of business entities under uninterrupted blockage exceeding 365 days was 12,966 with frozen funds in the amount of 599,329,505.22 euros or 94% of the total amount of frozen funds of business entities.

As at 31 July 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 20.1% 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 41% of the total debt used as the basis for the account freeze.

The total assets of banks at end-July 2020 amounted to 4.58 billion euros, which represents an annual growth of 65.4 million euros, or 1.5%. In terms of the structure of balance sheet of banks, total loans make up the dominant share. At end-July 2020, total loans amounted to 3,181.9 million euros, which is 2.6% increase in relation to the end of the previous month and 6% higher in relation to July 2019. Observed in terms of new loans, the lending activity of banks in the first seven months of 2020 was 26.9% lower in relation to the same period in 2019 and amounted to 475.3 million euros.

In the structure of liabilities, deposits made up the main share of 72.1%. At end-July 2020, deposits in banks amounted to 3,301.2 million euros, recording an insignificant monthly increase, while dropping by 3.4% y-o-y. The total capital of banks at end-July 2020 amounted to 614 million euros, and increased by 1% compared to the end of the previous month. Also, the total capital is 5.8% higher than in the same period of the previous year.

At end-July, past due loans (without interests, and prepayments and accruals) amounted to 206.1 million euros, which is an increase of 40.7% in relation to the previous month, while they recorded an increase of 47.8% in relation to end-July 2019. At end-July this year, non-performing loans (without interests, and prepayments and accruals) amounted to 162.5 million euros and made up 5.1% of total loans. In relation to the end of the previous month, non-performing loans of banks decreased by 0.4%, while they recorded an annual increase of 9.4%.

The weighted average lending effective interest rate (WALEIR) on total loans approved (outstanding principal) amounted to 5.87% at end-July 2020, which represents a monthly decrease of 0.06 percentage points, while in relation to end-July 2019 it recorded a decrease of 0.3 percentage points. In July 2020, the weighted average lending effective interest rate on new loans was 5.25%, recording a monthly increase of 0.18 percentage points, and a y-o-y decrease of 1.19 percentage points. The weighted average effective deposit interest rate amounted to 0.41% at end-July 2020 keeping its value seen at the end of the previous month, while recording a decline of 0.04 percentage points in relation to end-July 2019.

At end-July 2020, reserve requirement of banks amounted to 178.8 million euros, which represents a monthly decrease of 771,247 euros or 0.4%, while in relation to the corresponding period of the previous year reserve requirement decreased by 65.4 million euros or 26.8%. During July 2020, all banks allocated and maintained reserve requirement within prescribed limits. In the total allocated reserve requirement, 51.2% was allocated to the reserve requirement account in the country, while 48.8% was at the CBCG foreign accounts.

Gross insurance premium up to end-July 2020 amounted to 54.7 million euros. Non-life insurance premiums still accounted for the main share in its structure with 81.2%, while invoiced life insurance premiums accounted for 18.8%.

In July 2020, Montenegro Stock Exchange recorded a turnover in the amount of 505,954 euros, through 161 transactions. The effected turnover was 36.2% higher

than in the previous month, while in relation to July 2019 it was 98.6% lower. As at 31 July 2020, stock exchange capitalisation amounted to 3,344.5 million euros, recording a monthly and annual decrease of 1% and 3.9%, respectively. At the same time, the MONEX index stood at 10,173.8 index points at end-July this year, recording a monthly and annual decrease of 0.8% and 7.8%, respectively. The MNSE10 index amounted to 689.71 index points, recording a monthly and annual decrease of 2.9% and 14.8%, respectively.

According to the Ministry of Finance preliminary data, the source revenues of the budget for the period January-July 2020 amounted to 881.9 million euros and were lower than planned by 1.4%, being 11.6% lower y-o-y. Budget expenditures amounted to 1.15 billion euros and were 10.9% higher in relation to the same period in 2019, and also 0.6% higher compared to the plan. The fiscal deficit in June-July therefore amounted to 271 million euros or an estimated annual 5.9% of GDP.

Gross government debt of Montenegro amounted to 3,661.4 million euros or 79.5% of GDP as at end-June 2020. Of this amount, domestic debt accounted for 559.6 million euros or 12.1% of GDP, and external debt stood at 3,101.8 million euros or 67.3% of GDP. Net government debt amounted to 71.2% of GDP.

In June and July, the Central Bank carried out activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Among other, the annex containing additional information on the implementation of activities from the negotiation process (1 April - 12 June 2020) was updated and provided to the European Integration Office. The representatives of the Central Bank of Montenegro participated at the meeting of the Sub-committee for Internal Market and Competition (video conference). As part of the IPA 2017 project implementation, balance of payments data necessary for the calculation of the MIP indicators were collected and also provided.

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 June and July.

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.