

The Governor's Report – March 2020

The Governor's Report for March 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 March, 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. Positive growth rates in 2019 were recorded in all four quarters, growth being 3%, 3.2%, 4.7%, and 3.1% in first, second, third and fourth quarter, respectively.

In March 2020, consumer prices were lower by 0.3% compared to the previous month, while they remained the same in relation to March 2019.

In the first three months of 2020, industrial output recorded a year-on-year increase of 12.9%. All three sectors recorded an output increase: mining and quarrying sector (21.3%), manufacturing industry (17%) and electricity, gas and steam supply sector (6.9%).

In 2019, as per preliminary Monstat data, the air passenger transport recorded a year-on-year increase of 8.1%, while air cargo transport decreased by 6.4%. The rail passenger transport declined by 0.8%, while rail freight transport increased by 17.1%. The road passenger transport increased by 0.8%, and road freight transport grew by 9.4% y-o-y.

During the first three months of 2020, production of forest assortments amounted to 17,840 m³, which is 2.4 times more in relation to the corresponding period of the previous year. In 2019, according to preliminary Monstat data, construction recorded an increase of 10.7% y-o-y, measured in terms of the value of executed construction works, as well as an increase of effective working hours of 4.2% y-o-y.

In March 2020, the average number of employed persons amounted to 187,251, which is a decrease of 1.4% compared to the previous month and 5.2% less in relation to March 2019. In March 2020, the number of unemployed persons in Montenegro amounted to 35,515, which represents a decrease of 0.2% in relation to the previous month, and a decline of 7.9% y-o-y.

As at 31 March 2020, out of 48,720 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 14,701 or 30.2% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.01%, while compared to the same month of 2019, its growth stood at 3.9%. At end-March 2020, total amount of debt being the basis for freezing of accounts amounted to 609.7 million euros, showing a monthly increase of 0.5%, while it recorded an annual decrease of 4.5%.

As at 31 March 2020, out of the total number of business entities with frozen accounts (14,720) a total of 2,089 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 26,892,800.12 euros or 4.4% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,612 with frozen funds in the amount of 582,807,204.16 euros or 95.6% of the total amount of frozen funds of business entities.

As at 31 March 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 19.8% 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 40.5% of the total debt used as the basis for the account freeze.

At end-March 2020, total assets and liabilities of banks decreased by 2.3% compared to the previous month and amounted to 4,570.5 million euros¹. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-March 2020, total loans amounted to 3,157.9 million euros, which is 2.9% and 4.3% higher in relation to the previous month and the end of the previous year, respectively.

In the structure of liabilities, deposits made up the main share of 73.6%. In March 2020, deposits in banks amounted to 3,363.5 million euros, recording a monthly decline of 2.5%, also dropping by 2% y-o-y. Total capital of banks at end-March 2020 amounted to 609.8 million euros, or 0.8% less in relation to the previous month, and 17.6% more in relation to the corresponding period of the previous year.

In March, past due loans (without interests, and prepayments and accruals) amounted to 171.5 million euros, which is an increase of 20.2% in relation to the

¹ Data for the banking sector refer to the condition of the system at a given date, in line with the application of relevant international methodology. Therefore, the calculation of the annual change compares the condition of the system at the time of comparison (as of April 2019 and 13 banks) with the balance as at the given date in 2018 (15 banks).

previous month, while they recorded a decrease of 21.3% in relation to March 2019. At end-March 2020, non-performing loans (without interests, and prepayments and accruals) amounted to 160.6 million euros and made up 5.1% of total loans. In relation to the previous month, non-performing loans of banks increased by 1.7%, while they recorded an annual decrease of 9.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.96% at end-March 2020, which represents a monthly decrease of 0.01 percentage points, while in relation to end-March 2019 it recorded a decrease of 0.31 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 5.93% in March 2020, which represents a monthly increase of 0.04 percentage points, and a decrease of 0.37 percentage points in relation to March 2019. The weighted average effective depositing interest rate (WAEDIR) amounted to 0.41% at end-March 2020, being higher by 0.01 percentage points in relation to the previous month, while it recorded a decline of 0.11 percentage points in relation to end-March 2019.

At end-March 2020, reserve requirement of banks amounted to 256.4 million euros, which represents a monthly growth of 697 thousand euros or 0.3%, while in relation to the corresponding period of the previous year, reserve requirement increased by 4.4 million euros or 1.7%. During March 2020, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 58,5% was allocated to the reserve requirement account in the country, while 41,5% was allocated to the CBCG's foreign accounts.

Gross insurance premium amounted to 24.8 million euros during the first three months of 2020. Non-life insurance premiums still accounted for the main share in its structure with 82.4%, while invoiced life insurance premiums accounted for 17.6%.

In March 2020, Montenegro Stock Exchange recorded a turnover in the amount of 1.5 million euros, through 279 transactions. The turnover was 8.5% higher than in the previous month and 45.6% higher than in March 2019. As at 31 March 2019, stock exchange capitalisation amounted to 3,324.3 million euros, recording a monthly decline of 3.4% and an annual increase of 6.9%. The MONEX SE index, which stood at 10,060.53 index points at end-March 2020, declined by 10.9% in relation to the previous month, while at the annual level it decreased by 5.4%. The MNSE10 index amounted to 657.27 index points and it decreased by 16.3% and 21% in relation to the previous month and year-on-year, respectively.

In March 2020, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 17 million euros. Source revenues of the budget of Montenegro amounted to 161.1 million euros or 3.2% of the estimated annual GDP, which represents an increase of 4.9% in relation to the plan for March. In relation to source revenues recorded in March 2019, there was an increase of 9.2%. At the same time, budget expenditures amounted to 178.1 million euros or 3.5% of the estimated annual GDP, recording a year-on-year increase of 3.4%, and staying below the plan by 11.6%.

At end-December 2019, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 3,788.8 million euros or 77.2% of GDP. Out of that figure, domestic debt accounted for 580 million euros or 11.8% of GDP, while external debt accounted for 3,128.5 million euros or 63.7% of GDP, while the debt of local self-government units accounted for 80.4 million euros or 1.6% of GDP. If we take into account the deposits of the Ministry of Finance, which include 38,477 ounces of gold, the public debt (net) at end-2019 amounted to 3,191.7 million euros or 65% of GDP.

In March, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. As a part of the Twinning Project "Support to the Regulation of Financial Services", the CBCG representatives were trained in the Croatian National Bank concerning stress testing. They also went to the Bundesbank as a part of bilateral visit, regarding the *SREP* methodology development.

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 March.

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.