

The Governor's Report – November 2020

The Governor's Report for November 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 November, 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 2.7% was recorded in Q1 this year, a drop of 20.2% was recorded in Q2, whereas a 26.9% drop was recorded in Q3 in relation to the same quarters of 2019.

In November 2020, consumer prices decreased by 0.3% compared to the previous month, being 1% lower year-on-year.

In the first eleven months of 2020, industrial output recorded the same volume as in the comparative period of the previous year. The decline was recorded in manufacturing industry (-0.2%), and in the electricity, gas and steam supply sector (-2%), while there was an increase in the mining and quarrying sector (7.4%).

According to preliminary data, the number of tourist arrivals in collective accommodation in the first eleven months of 2020 amounted to 261,042, which is 79.1% less than in the same period of the previous year. A total of 923,453 overnights were recorded, which is 79.9% less y-o-y.

According to preliminary Monstat data, passenger transport in the first nine months of 2020, in relation to the same period of the previous year, as a result of the COVID-19 pandemic, recorded a significant decline in all types of transport: railway by 51.7%, road by 63.4% and passenger transport at airports 80.4%.

During the first eleven months of 2020, production of wood products amounted to 261,313 m³, which is an increase of 10.2% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first nine months of 2020, construction recorded y-o-y decline of 7.9% in the value of executed construction works, as well as a 3.8% decrease in effective working hours.

In November 2020, the average number of employed persons amounted to 163,851, which is a decrease of 1.3% compared to the previous month and 19.3% more in relation to November 2019. In November 2020, the number of unemployed persons amounted to 47,053, which represents a monthly increase of 5% and an increase of 24.1% compared to November 2019.

As at 31 November 2020, out of 49,849 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 15,130 or 30.4% were frozen. Compared to the previous month, the number of blocked business entities was 0.3% higher, while compared to the same month of 2019, its growth stood at 4.6%. At end-November 2020, total amount of debt being the basis for freezing of accounts amounted to 700.6 million euros, showing an increase of 1.7% in relation to the previous month and annual increase of 13.3%.

As at 31 November 2020, out of the total number of business entities with frozen accounts (15,130) a total of 1,719 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 54,482,637.86 euros or 7.8% of the total amount of frozen funds. The number of business entities under uninterrupted blockage exceeding 365 days was 13,411 with frozen funds in the amount of 646,134,985.41 euros or 92.2% of the total amount of frozen funds of business entities.

As at 30 November 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 21.2% 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 42.2% of the total debt used as the basis for the account freeze.

The total assets of banks at end-November 2020 amounted to 4.63 billion euros, which represents an annual growth of 68.6 million euros, or 1.5%. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-November 2020 total loans amounted to 3,246.6 million euros, which is 1.2% higher in relation to the previous month and 5% higher in relation to November of the previous year.

In the structure of liabilities, deposits made up the main share of 72.7%. Total banks' deposits amounted to 3,364.7 million euros at end-November 2020 and they recorded a monthly increase of 1.9%, and a decline of 5.2% in relation to November 2019. Total capital of banks at end-November 2020 amounted to 626,3 million euros, which is an increase of 1% in relation to the previous month

as well as an increase of 2,3% in relation to the corresponding period of the previous year.

In November 2020, past due loans over 30 days (without interests, and prepayments and accruals) amounted to 215.7 million euros, which is an increase of 12.6% in relation to the previous month, while they recorded an increase of 55.1% in relation to November 2019. At end-November 2020, non-performing loans (without interests and prepayments and accruals) amounted to 192 million euros and accounted for 5.9% of total loans. In relation to the previous month, non-performing loans of banks increased by 5.2%, while they recorded an annual increase of 34.3%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.82% at end-November 2020, which represents a monthly decrease of 0.05 percentage points, while in relation to end-November 2019 it recorded a decrease of 0.26 percentage points. The weighted average effective lending interest rate (WALIR) on new loans amounted to 5.14% in November 2020, which represents a monthly decline of 0.95 percentage points, and an increase of 0.40 percentage points in relation to November 2019. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.39% at end-November 2020 which represents a monthly decrease of 0.01 percentage points, while it recorded a decline of 0.03 percentage points in relation to November 2019.

At end-November 2020, reserve requirement of banks amounted to 177.9 million euros, which represents a monthly increase of 181,178 euros or 0.1%, while in relation to the corresponding period of the previous year reserve requirements decreased by 80.2 million euros or 31.1%. During November 2020, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 51% was allocated to the reserve requirement account in the country, while 49% was at the CBCG account abroad.

Gross insurance premium amounted to 85.9 million euros during the first eleven months of 2020. Non-life insurance premiums still accounted for the main share in its structure with 79.8%, while invoiced life insurance premiums accounted for 20.2%.

In the first eleven months of 2020, Montenegro Stock Exchange recorded a turnover of 29.2 million euros, through 1,625 transactions. The recorded turnover was 90.7% lower compared year-on-year. As at 30 November 2020,

stock exchange capitalisation amounted to 3,198.2 million euros, recording a monthly and an annual decrease of 3% and 8%, respectively. At the same time, the MONEX index stood at 9.841,90 index points, recording a 0.6% monthly growth, and the annual decrease of 15.5%. The MNSE10 SE index amounted to 633.19 index points, recording a monthly and an annual decrease of 2.3% and 19.8%, respectively.

According to the Ministry of Finance preliminary data, the source revenues of the budget for the period January-November 2020 amounted to 1.46 billion euros and were lower than planned by 4.6%, also being 11.3% lower y-o-y. Budget expenditures amounted to 1.85 billion euros and were 5.8% higher in relation to the same period in 2019, yet 1.2% lower compared to the plan. The budget deficit amounted to 397.3 million euros or 9.5% 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 November, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The CBCG and the European Central Bank established a high-level dialogue which the ECB conducts once a year with the central banks of the candidate countries. The assessment of celexes under the CBCG competence concerning the areas belonging to the negotiating chapter 9 - Financial services was made. At the Eurostat's request, after analysing the quality of the data submitted under the first round of the CPC (Annex to the Progress Report), certain data were clarified. The CBCG representatives participated at the online meeting of the workshop on International Trade in Services. At the same meeting, they presented the latest changes in regulations in the field of international trade in services and business statistics.

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 amounted to 100% in November.

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.