

The Governor's Report – September 2020

The Governor's Report for September 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 September, 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 final 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 and a drop of 20.2% was recorded in Q2 2020 in relation to the same quarter of the previous year.

In September 2020, consumer prices were 0.7% higher in relation to the previous month, and 0.1% higher y-o-y.

During the first nine months of 2020, industrial output recorded a y-o-y decrease of 1.5%. The decline was recorded in electricity, gas and steam supply sector (-7.2%), while mining and quarrying and manufacturing industry recorded respective output growth of 8.1% and 0.5%.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first nine months of 2020 amounted to 240,395, which is 77.7% less than in the same period of the previous year. A total of 848,372 overnights were recorded, which is 79.7% 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 nine months of 2020, production of forest assortments amounted to 200,250 m³ in total, which is an increase of 10.7% 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 September 2020, the average number of employed persons amounted to 168,778, which is a decrease of 2% compared to the previous month and 17.9% less in relation to September 2019. In September 2020, the number of unemployed persons amounted to 43,383, which represents a monthly increase of 0.7% and an increase of 28.8% compared to September 2019.

As at 30 September 2020, out of 49,476 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 14,948 or 30.2% were frozen. Compared to the previous month, the number of blocked business entities was 0.5% higher, while compared to the same month of 2019, its growth stood at 5.6%. At end-September 2020, the total amount of debt used as the basis for the freezing of accounts amounted to 676.4 million euros, showing a monthly and an annual increase of 3% and 4.2%, respectively.

As at 30 September 2020, out of the total number of business entities with frozen accounts (14,948) a total of 1,844 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 52,561,407.62 euros or 7.8% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 13,104 with frozen funds in the amount of 623,849,808.51 euros or 92.2% of the total amount of frozen funds of business entities.

As at 30 September 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 21.4% 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 42.5% of the total debt used as the basis for the account freeze.

The total assets of banks at end-September 2020 amounted to 4.59 billion euros, which represents an annual growth of 2.6 million euros, or 0.1%. In terms of the structure of balance sheet of banks, total loans of banks make up the dominate share. At end-September 2020, total loans amounted to 3.21 billion euros, which is 0.8% lower in relation to the previous month while they were 5.7% higher in relation to September of the previous year. In September 2020, banks approved a total of 87.8 million euros in new loans, which is 53.5% more than in the previous month, or 3.4% more y-o-y.

In the structure of liabilities, deposits made up the main share of 71.9%. In September 2020, banks' deposits amounted to 3.3 billion euros recording a respective monthly and annual decline of 0.3% and 6.1%. Total capital of banks at end-September 2020 amounted to 618.9 million euros, which is a decrease of 0.5% in relation to the previous month, yet an increase of 4.2% in relation to the corresponding period of the previous year.

In September this year, past due loans (without interests, and prepayments and accruals) amounted to 188 million euros, which is a decrease of 2.5% in relation to the previous month, while they recorded an increase of 37.8% in relation to September 2019. At end-September 2020, non-performing loans (without interests, and prepayments and accruals) amounted to 180 million euros and made up 5.6% of total loans. In relation to the previous month, non-performing loans of banks increased by 12.5%, while they recorded an annual increase of 27%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.86% at end-September 2020, which represents a monthly decrease of 0.01 percentage points, while in relation to end-September 2019, it recorded a decrease of 0.31 percentage points. The weighted average lending effective interest rate (WALEIR) on new loans amounted to 5.39% in September 2020, which represents a monthly decrease of 0.63 percentage points, and a decrease of 0.94 percentage points in relation to September 2019. The weighted average effective deposit interest rate amounted to 0.40% at end-September 2020 keeping its value seen at the end of the previous month, while recording a decline of 0.03 percentage points in relation to end-September 2019.

At end-September 2020, reserve requirements of banks amounted to 178.5 million euros, which represents a monthly increase of 797.2 thousand euros or 0.4%, while in relation to the end of the previous year, reserve requirements was 79.6 million euros or 30.8% lower. During September 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 on the CBCG foreign accounts.

Gross insurance premium amounted to 71.6 million euros during the first nine months of 2020. Non-life insurance premiums still accounted for the main share in its structure with 79.9%, while invoiced life insurance premiums accounted for 20.1%.

In the first nine months this year, Montenegro Stock Exchange recorded a turnover of 21.3 million euros through 1,419 transactions. The effected turnover was 92.7% lower in relation to the same period of the previous year, when it equalled 290.6 million euros, effected through 2,058 transactions. As at 30 September 2020, stock exchange capitalisation amounted to 3,309.9 million euros, recording a monthly and an annual decline of 0.8% and 3.9%, respectively. At the same time, the MONEX SE index stood at 9,880.81 index points at end-September this year, recording a monthly and an annual decrease of 0.1% and 11.8%, respectively. The MNSE10 SE index amounted to 655.94 index points, recording a monthly and an annual decrease of 0.6% and 18%, respectively.

According to the Ministry of Finance preliminary data, the source revenues of the budget for the period January-September 2020 amounted to 1.17 billion euros and were lower than planned by 5%, also being 12.9% lower y-o-y. Budget expenditures amounted to 1.15 billion euros and were 8.9% higher in relation to the same period in 2019, and 1.2% higher compared to the plan. The budget deficit amounted to 333.6 million euros or 7.2% of the estimated annual GDP¹.

Gross government debt of Montenegro amounted to 3,660 million euros or 79.5% of GDP as at end-September 2020. Out of that figure, a total of 570.5 million euros or 12.4% of GDP referred to internal debt, while external debt accounted for 3,089.8 million euros or 67.1% of GDP. Net government debt amounted to 73.6% of GDP.

In September, 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 ESCB regional project, a meeting of the project executive board was held in a virtual format, and consultations regarding the extension of the *IPA* project continued. At the request of Monstat, balance of payments data for the annex to the Progress Report were prepared.

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 September.

¹ According to the Ministry of Finance latest official estimates (from July 2020), the GDP for 2020 will amount to 4,607.3 million euros.

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.