

The Governor's Report – March 2021

The Governor's Report for March 2021 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 2021, 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 2021.

According to preliminary Monstat data, Montenegro's GDP, based on quarterly estimates in 2020, amounted to 4,193.2 million euros, which is an estimate of a real decline in GDP of 15.2% in relation to 2019. According to preliminary Monstat data, a real growth of 2.6% was recorded in Q1 2020, a drop of 20.3% was recorded in Q2, whereas 26.9% and 7.5% respective drops were recorded in Q3 and Q4 in relation to the same quarters of 2019.

In March 2021, consumer prices were 0.6% higher in relation to the previous month, and 0.8% higher y-o-y.

During the first three months of 2021, industrial output recorded a year-on-year increase of 11.8%. The increase was recorded in electricity, gas and steam supply sector (42%), while the respective declines of -13.1% and -3.8% were recorded in the manufacturing industry and mining and quarrying sector.

The number of tourist arrivals in collective accommodation in the first three months of 2021 amounted to 38,568, which is 57.1% less than in the same period of the previous year. A total of 95,813 overnights were recorded, which is 49.7% less y-o-y.

The passenger transport recorded a significant year-on-year decline in all types of transport in the first three months of 2021: railway dropped by 51.3%, road by 59% and passenger transport at airports decreased by 71.2%.

During the first three months of 2021, production of forest assortments amounted to 2,527 m³, which is a decrease of 90.3% in relation to the corresponding period of 2020. During this period, construction recorded a year-on-year decrease of 0.8%, measured in terms of executed construction works, as well as a decrease of effective working hours of 1.3% y-o-y.

In March 2021, the average number of employed persons amounted to 154,782, which is a decrease of 1.6% compared to the previous month and 17.3% less in relation to March 2020. In March 2021, the number of unemployed persons amounted to 55,283, which represents a monthly increase of 5.4% and an increase of 55.7% compared to March 2020.

As at 31 March 2021, out of 50,486 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 15,366 or 30.4% were frozen. Compared to the previous month, the number of blocked business entities was 0.2% higher, while compared to the same month of 2020, its growth stood at 4.5%. At end-March 2021, the total amount of debt used as the basis for the freezing of accounts amounted to 782.7 million euros, showing a monthly decline of 0.005% and an annual increase of 28.4%.

As at 31 March 2021, out of the total number of business entities with frozen accounts (15,366), a total of 1,599 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 113,549,554.73 euros or 14.5% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 13,767 with frozen funds in the amount of 669,171,113.69 euros or 85.5% of the total amount of frozen funds of business entities.

As at 31 March 2021, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 24.4% 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 45.2% of the total debt used as the basis for the account freeze.

The total assets of banks at end-March 2021 amounted to 4.64 billion euros, which represents an annual growth of 77.3 million euros, or 1.7%. In terms of the structure of balance sheet of banks, total loans make up the dominate share. At end-March 2021 total loans amounted to 3,262.5 million euros, which is 2.3% higher in relation to the previous month yet 3.3% higher in relation to March 2020.

In the structure of liabilities, deposits made up the main share of 74.5%. Total banks' deposits amounted to 3,457.5 million euros at end-March 2021 and they recorded a monthly increase of 1.2%, and a 2.8% growth in relation to March 2020. Total capital of banks at end-March 2021 amounted to 600.4 million euros, which is an increase of 0.8% in relation to the previous month, but also a decline of 0.9% in relation to the corresponding period of the previous year.

At end-March this year, past due loans exceeding 30 days (without interests, and prepayments and accruals) amounted to 159.9 million euros, which is a decrease of 1% in relation to the previous month, while they recorded a decline of 3.9% in relation to March 2020. At end-March 2021, non-performing loans (without interests, and prepayments and accruals) amounted to 177.9 million euros and made up 5.5% of total loans. In relation to the previous month, non-performing loans of banks decreased by 2.2%, while recording an annual increase of 10.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.81% at end-March 2021, which represents a monthly decrease of 0.02 percentage points, while in relation to end-March 2020 it recorded a decrease of 0.15 percentage points. The weighted average lending effective interest rate on new loans amounted to 5.21% in March this year, which represent a monthly decrease of 0.88 percentage points, and a decrease of 0.72 percentage points in relation to March 2020. The weighted average effective deposit interest rate amounted to 0.41% at end-March 2021 and was 0.01 percentage points higher compared to the end of the previous month, while being at the same level compared to end-March 2020.

At end-March 2021, reserve requirement of banks amounted to 182.2 million euros, which represents a monthly increase of 1.2 million euros or 0.7%, while in relation to the same period of the previous year, reserve requirement was 74.2 million euros or 28.9% lower. During March 2021, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 52.2% was allocated to the reserve requirement account in the country, whereas 47.8% was on the CBCG foreign accounts.

Gross insurance premium amounted to 23.8 million euros during the first three months of 2021. Non-life insurance premiums accounted for the main share in its structure with 82.9%, while invoiced life insurance premiums accounted for 17.1%.

The effected turnover at the Montenegro Stock Exchange in the first three months of 2021 was 20.4 million euros, done through 461 transactions, and being 92% higher year-on-year. As at 31 March 2021, stock exchange capitalisation amounted to 3,199 million euros, recording a monthly increase of 0.4%, but also an annual decline of 3.8%. At the same time, the MONEX SE index stood at 11,015.18 index points, recording a 2% monthly growth, and the annual increase of 9%. The MNSE10 SE index amounted to 760.76 index points, recording a monthly increase of 2.2% and an annual increase of 15.7%.

According to the Ministry of Finance preliminary data, the source revenues of the budget for the first three months of 2021 amounted to 348.4 million euros and were higher than planned by 4.8%, also being 7.2% lower y-o-y. Budget expenditures amounted to 451.9 million euros and were 0.2% lower in relation to January-March 2020, whereas 14.6% lower compared to the plan. The fiscal deficit reached 103.5 million euros or 2.2% of the estimated annual GDP.

Gross government debt of Montenegro amounted to 4,409 million euros or 105.2% of GDP as at end-2020. Out of that figure, domestic debt accounted for 495.6 million euros or 11.8% of GDP, while external debt accounted for 3,835.3 million euros or 91.5% of GDP. The debt of local self-government units accounted for 78.1 million euros or 1.9% of GDP. The net state debt of Montenegro amounted to 84.3% 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. At the request of the European Integration Office for the preparation of a bilingual first annex to the 2021 European Commission Report on Montenegro, an annex for the reporting period from 1 January to 31 December 2020 was prepared. At the request of the EU Delegation to Montenegro regarding the preparation of the annex to the EC Report on Montenegro, information from the CBCG competence on the adoption of new regulations and important activities implemented from 12 June 2020 to 12 March 2021 was updated. At the request of the European Integration Office, concerning the preparation of Montenegro's Programme of Accession to the European Union 2021 – 2023 (PAEU), the PAEU table was updated as a part of the negotiation Chapter 32, related to protection of the euro against counterfeiting. As a part of the Component 2, online meetings related to the implementation of a bilateral measure on "Bank Recovery and Resolution" were held with the Hungarian National Bank experts. The TAIEX expert mission named "*Analysis of procedures and working methods in the field of resolution of credit institutions*" was released online from 3 to 5 March 2021. As a part of the technical cooperation with partner central banks, online bilateral cooperation with the Deutsche Bundesbank related to *MREL and TCA calculation* was completed. The technical assistance with partner central banks also included an online training in order to provide technical assistance to colleagues from the Central Bank of Bosnia and Herzegovina on "Operational risk management in the CBCG". Activities on the implementation of the multi-user project IPA-2017 in the area of 1.2 International Trade in Services Statistics (1.2 *ITSS*) continued.

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 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 through 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.