

The Governor's Report – January-February 2023

The Governor's Report for January and February 2023 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 2023, on a monthly basis.

In January and February, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2023.

According to preliminary Monstat data, Montenegro's real annual GDP increased by 6.1% in 2022.

In February 2023, consumer prices were 0.5% higher in relation to the previous month, and 15.1% higher y-o-y.

According to preliminary MONSTAT data, industrial output recorded the year-on-year growth of 15.5% during the first two months of 2023. Production growth of 53.3% was recorded in the electricity, gas and steam supply sector, while decline were recorded in manufacturing industry and the mining and quarrying sector of 12.7% and 18.1%, respectively.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first two months of 2023 amounted to 70,568, which is 57.16% more than in the same period of the previous year. At the same time, tourist overnights reached 177,000, which the year-on-year growth of 45.49%.

MONSTAT's preliminary data indicate that passenger transport in 2022 recorded significant year-on-year growth in all types of transport. Passenger transport via railways rose by 40.18%, road passenger transport rose by 55.70% while air passenger transport rose by 45.77%.

In 2022, according to preliminary Monstat data, construction recorded a decrease of 4.44% y-o-y, measured in terms of the value of executed construction works, as well as a decrease of effective working hours of 2.89% y-o-y.

In February 2023, the average number of employed persons amounted to 232,461, which is an increase of 1.04% compared to the previous month and 9.16% more in relation to February 2022. In February 2023, the number of unemployed

persons amounted to 44,632, which represents a monthly decrease of 0.34% and a decrease of 19.53% compared to February 2022.

The total number of economic entities that are listed as active in the Central Register of Economic Entities, and that have active accounts in the Central Register of Transaction Accounts as of 28 February 2023, amounted to 58,781, of which 16,227 or 27.60% were blocked. Compared to the previous month, the number of blocked business entities increased by 0.27% and by 3.04%, respectively, compared to the same month of 2022. At end-February 2023, the total amount of debt used as the basis for the freezing of accounts amounted to 988.15 million euros, showing a monthly and an annual increase of 0.52% and 12.12%, respectively.

As at 28 February 2023, of the total number of business entities with frozen accounts as at the reporting date (16,227) a total of 1,564 were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 38,224,166.73 euros or 3.87% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 14,663 and the blocked funds amounted to 949,935,102.73 euros or 96.13%.

As at 28 February 2023, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 27.42% of the total debt being the basis for freezing of accounts. In addition, 50 of all blocked economic entities (0.31%) accounted for 48.52% of the total debt used as the basis for account freeze.

The total assets of banks at end-February 2023 amounted to 6.44 billion euros, which represents an annual increase of a billion euros, or 18.43%. In terms of the structure of balance sheet of banks, total loans make up the dominate share. At end-February 2023 total loans amounted to 3,809.84 million euros, which is 11.69% higher in year-on-year yet 2.38% higher relative to the previous month.

At end-February 2023, non-performing loans (without interests, and prepayments and accruals) amounted to 214.09 million euros and made up 5.62% of total loans. They recorded a 6.12% decrease year-on-year and a 0.34% growth month-on-month.

Total banks' deposits amounted to 5,231.44 million euros in February 2023 and they recorded a monthly increase of 21.88%, and a 0.51% growth in relation to February 2022. Total capital of banks at end-February 2023 amounted to 706.31 million euros, which is a y-o-y increase of 16.84% and an increase of 1.49% in relation to the previous month.

The weighted average lending effective interest rate on total loans granted amounted to 6.13% at end-February 2023, which represents a monthly increase of 0.51 pp and the year-on-year growth of 0.08 pp.

The weighted average lending effective interest rate on new loans amounted to 7.05% in February 2023, recording the year-on-year increase of 1.04 pp and a 1.23 pp increase month-on-month.

The weighted average deposit effective interest rate (WADEIR) amounted to 0.28%, recording a year-on-year decrease of 0.02 pp and the monthly growth of 0.01 pp.

At end-February 2022, reserve requirement of banks amounted to 269.08 million euros, recording an annual rise of 50.06 million euros or 22.86% and a monthly increase of 2.15 million euros or 0.81%. During February 2023, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 69.03% was allocated to the reserve requirement account in the country, while 30.97% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 19.79 million euros during the first two months of 2023. Non-life insurance premiums accounted for the main share in its structure with 85.14%, while invoiced life insurance premiums accounted for the remaining 14.86%.

The generated turnover on the Montenegro Stock Exchange amounted to 2.39 million euros during the reporting two-month period, done through 642 transactions and being 4.86 times higher in relation to the same period of the previous year. As at 28 February 2022, stock exchange capitalisation amounted to 3,527.61 million euros, recording a y-o-y increase of 10.36%, yet a monthly decline of 1.22%.

At the same time, the MONEX SE index stood at 14,755.42 index points, recording a 50.06% year-on-year growth, and the monthly increase of 1.82%. The MNSE10 SE index amounted to 1,032.77 index points, recording annual increase of 35.29% and a monthly decrease of 0.16%.

According to the Ministry of Finance preliminary data, source revenues of the Budget for the first two months of 2022 amounted to 312.05 million euros and they were 11.07% higher than planned and 34.23% higher year-on-year. Budget expenditure reached 286.29 million euros and they were both lower than planned by 22.71% and compared year-on-year by 2.23%. The fiscal surplus reached 25.76 million euros or 0.42% of the estimated annual GDP.

At end-December 2022, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 4,026.33 million euros or 69.46% of GDP. Out of that figure, a total of 468.77 million euros or 8.09% of GDP referred to internal debt, while external debt accounted for 3,557.56 million euros or 61.37% of GDP. Public debt of Montenegro amounted to 4,102.22 million euros or 70.77% of GDP as at end-December 2022.

In January and February, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The representatives of the CBCG participated at the online meeting of the Stabilisation and Association Committee. The Ministry of Finance received the report from the Meeting of the Stabilisation and Association Committee. The Action Plan for harmonisation with the *acquis communautaire* for Chapter 17 – Economic and Monetary Policy, the part concerning the regional project's implementation, was updated. The CBCG representatives attended many meetings concerning the annual assessment of Montenegro's Economic Reforms Programme.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous supervision and analysis. International reserves were managed in line with the principles of liquidity and safety. Activities regarding the Central Bank's function of the fiscal agent were also successfully performed. RTGS and DNS systems availability amounted to 100% in January and February.

In line with the highest transparency standards, the general public was timely informed about the activities, objectives, and results of the CBCG operations via media releases, 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 whose accounts were blocked for the amounts exceeding 10,000 euros for a continuous period of over 30 days.