

The Governor's Report – June - July 2023

The Governor's Report for June and July 2023 provides an overview of key activities of the Central Bank concerning the attainment of targets and objectives defined by the Central Bank of Montenegro Policy for 2023, on monthly basis.

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

As per MONSTAT's data, the year-over-year growth of real GDP in 2022 reached 6.4%. Preliminary MONSTAT data for 2023 indicate the year-on-year growth of GDP of 6.1% in Q1 and 6.9% in Q2.

In July 2023, consumer prices increased by 1.0% compared to the previous month and by 6.9% year-on-year.

During the first seven months of the year, according to preliminary MONSTAT data, industrial output recorded the year-on-year increase of 5.4%. Production growth was recorded in electricity, gas and steam supply sector of 34.9%, while output decline was seen in manufacturing industry and the mining and quarrying sector of 12.2% and 0.9%, respectively.

During the first seven months of 2023, the number of tourist arrivals in collective accommodation establishments reached 805,151, which is 29.80% more than in the same period last year. This resulted in 2.80 million overnights, which is an increase of 23.96%.

According to preliminary MONSTAT data, passenger transport recorded a significant year-on-year growth in all modes of transport in the first six months of 2023, with the railway passenger transport increasing 7.60%, road by 0.70%, and passenger traffic at airports by 43.10%.

Data also show that construction recorded the year-over-year decline of 9.51% in the value of executed construction works and a 3.41% decrease in effective working hours.

In July this year, the average number of employed persons amounted to 258,024, which is an increase of 2.09% compared to the previous month and 9.64% more in relation to the same months last year. The number of unemployed persons

amounted to 38,733, which represents a decrease of 3.90% in relation to the previous month and a 14.15% decline compared to July 2022.

As at 31 July 2023, out of 61,537 economic operators registered as active in the Central Registry of Business Entities and having active accounts in the Central Registry of Transaction Accounts, a total of 16,344 or 26.56% were blocked. Compared to the previous month, the number of blocked business entities was 0.34% higher, while compared to the same month of 2022, this number was 4.94% higher. At end-July 2023, the total amount of debt used as the basis for the account freeze was 1,081,979,058.45 euros, showing a monthly increase of 3.42% and the annual increase of 17.53%.

As at 31 July 2023, of the total number of business entities with blocked accounts (16,344) 1,607 were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 39,381,926.65 euros or 3.64% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 14,737 and the frozen funds amounted to 1,042,597,131.80 euros or 96.36%.

As at the same date, debt concentration was relatively high since the top 10 blocked economic operators (0.06% of total blocked economic operators) accounted for 29.02% of the total debt. Also, 50 of the frozen business entities (0.30% of total frozen legal entities) accounted for 51.07% of the total debt that had served as the basis for freezing the accounts.

Total assets of banks amounted to 6,652.70 million euros at end-July 2023, which represents the annual growth of 848.64 million euros or 14.62%. In the structure of the banks' assets, total loans accounted for the main share of 4,006.65 million euros and they increased year-over-year by 12.34% and by 0.56% compared to June this year.

At end-July, past due loans (without interests, and prepayments and accruals) amounted to 166.31 million euros, which is an increase of 8.01% in relation to the previous month, while they recorded a decline of 12.71% in relation to the same month last year. At the same time, non-performing loans (without interests, and prepayments and accruals) amounted to 206.31 million euros and they made up 5.15% of total loans. These loans recorded both the month-on-month and the year-over-year decline of 0.90% and 4.89%, respectively.

Deposits in banks amounted to 5,399.52 million euros, which represents a monthly increase of 2.45% and a growth of 17.09% compared to July 2022. Total capital of banks amounted to 772.27 million euros at end-July this year, which is

an increase of 2.19% in relation to the previous month as well as an increase of 28.24% year-on-year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.39% at end-July 2023, which represents a monthly decrease of 0.05 pp, while in relation to the same month last year, it rose 0.89 pp. The WALEIR on new loans amounted to 6.74%, which represent a monthly decline of 0.489 pp but a 1.80 pp increase in relation to July 2022. The weighted average deposit effective interest rate (WADEIR) amounted to 0.26%, recording a monthly decline of 0.02 pp and the year-on-year decline of 0.03 pp.

Reserve requirement of banks amounted to 270.77 million euros, recording a monthly rise of 609 thousand euros or 0.23% and the year-on-year increase of 40.75 million euros or 17.71%. During July 2023, all banks allocated and maintained reserve requirements in the prescribed amount. Of the total allocated reserve requirement, 69.15% was allocated to the reserve requirement account in the country, while 30.85% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 71.71 million euros during the first seven months of 2023. Non-life insurance premiums still accounted for the main share in its structure with 83.14%, while invoiced life insurance premiums accounted for the remaining 16.86%.

The generated turnover on the Montenegro Stock Exchange amounted to 6.88 million euros during the first seven months of 2023, achieved through 1,195 transactions and being 77.26% lower in relation to the same period of the previous year. As at 31 July 2023, market capitalisation amounted to 2,420.01 million euros, recording both monthly and annual decreases of 26.37% and 0.32%, respectively.

At the same time, the MONEX SE index stood at 14,747.40 index points, recording a 0.35% monthly growth and the annual increase of 32.17%. The MNSE10 SE index amounted to 995.35 index points, recording a monthly decrease of 0.67% and the year-on-year increase of 22.71%.

According to the Ministry of Finance preliminary data, the current revenues of the budget for the first seven months of 2023 amounted to 1,443.86 million euros and they were 21.62% higher than planned and 33.70% higher year-over-year. Budget expenditure totalled 1,292.38 million euros and they were 9.05% lower than planned but 12.05% higher than in the same seven-month period last year. The fiscal deficit reached 151.48 million euros or 2.35% of the estimated annual GDP.

According to the Ministry of Finance data, the gross government debt amounted to 4,024.47 million euros or 62.42% of GDP. Of this amount, a total of 411.07 million euros or 6.37% of GDP referred to domestic debt, while external debt accounted for 3,613.40 million euros or 56.05% of GDP. Public debt of Montenegro amounted to 4,102.22 million euros or 70.77% of GDP as at end-2022.

In June and July, the Central Bank carried out activities aimed at meeting the obligations on the road towards Montenegro's accession to the EU. Inter alia, representatives of the Central Bank of Montenegro participated in the meeting of the Subcommittee for Internal Market and Competition. The Contribution to the EC report on Montenegro for the year 2023 for the reporting period from April to June 2023 was submitted to the Ministry of European Affairs. The Central Bank representatives participated in the meetings of negotiation working groups for the preparation and management of negotiations on Montenegro's EU accession for the areas related to the negotiation chapter 4 - *Free movement of capital* and the negotiation chapter 32 - *Financial supervision*. Within the implementation of the Phase II of the *IPA* regional project, the fourth meeting of the Project Management Board was held. As for the implementation of bilateral activities within the framework of component II of the same project, a second expert mission of the Croatian National Bank was implemented on the topic of *monetary statistics*.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous supervision and analysis. International reserves management was performed following the principles of liquidity and safety. Activities regarding the Central Bank's function of the fiscal agent were also performed successfully. The RTGS and DNS systems availability was 99.98% in June and 100% in July.

In line with the highest transparency standards, the general public was timely informed about the activities, objectives, and results of the CBCG operations via public announcements, publications, web presentations, and media appearances. Pursuant to the adopted Law Supplementing the Payment System Law, the Central Bank continued to publish on its website the information on legal entities and entrepreneurs whose accounts have been blocked for the amounts exceeding 10,000 euros and for a continuous period of over 30 days.