

## **The Governor's Report – February-March 2018**

*Updated: 21 November 2018*

The Governor's Report for February and March 2018 provides an overview of key activities of the Central Bank concerning the implementation of targets and objectives defined by the Central Bank of Montenegro Policy for 2018 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2018, on a monthly basis.

In February and March, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2018.

Preliminary Monstat data show that Montenegro's 2017 real GDP growth rate amounted to 4.4%, based on quarterly estimates. Year-on-year growth was recorded in all four quarters of 2017, amounting to 3.1%, 5.2%, 4.7% and 4.0%, respectively.

In March 2018, prices increased by 0.2% in relation to the previous month, while the annual inflation rate in March amounted to 2.9%.

In the first three months of 2018, industrial output recorded a year-on-year increase of 39%. Output increase was recorded in the electricity, gas and steam supply sector (82.6%), and in the manufacturing industry sector (17%), whereas the mining and quarrying sector saw a decline in output (-20.2%). In the first three months of 2018, the number of tourist arrivals in collective accommodation establishments rose by 28.7% y-o-y, while overnights grew by 11.9%.

Preliminary Monstat data show that in the first three months of 2018, air passenger transport grew by 18.8% y-o-y, while air freight transport decreased by 1.1%. Over the same period, railway passenger transport dropped by 12%, and railway cargo transport by 21.4%. The road passenger transport increased by 0.1%, and road freight transport grew by 2% y-o-y.

In the first three months of 2018, production of wood products amounted to 13,475 m<sup>3</sup>, which is a decrease of 36.2% y-o-y. As per Monstat's preliminary data, in the first three months of 2018, construction saw a year-on-year

increase of 46.8% in the value of executed construction works, as well as a 29.1% year-on-year increase in effective working hours.

In March 2018, the average number of employed persons amounted to 181,260, which is an increase of 1.2% compared to the previous month and 0.8% more in relation to March 2017. In March 2018, the number of unemployed persons amounted to 46,979, which represents a decrease of 1.1% in relation to the previous month and a decrease of 11.2% compared to March 2017.

As at 31 March 2018, out of 43,524 business entities registered as active in the Central Registry of Business Entities, and with active accounts in the Central Registry of Transaction Accounts, a total of 13,161 or 30.24% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.59%. At end-March 2018, the total amount of debt used as the basis for the account freeze amounted to 576.9 million euros, showing a monthly increase of 2.32%.

As at 31 March 2018, out of the total number of business entities with frozen accounts (13,161) a total of 2,384 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 39,055,953.54 euros or 6.77% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 10,777 with frozen funds in the amount of 537,841,419.54 euros or 93.23% of the total amount of frozen funds of business entities.

On 31 March 2018, debt concentration was relatively high, considering that top 10 debtors (0.08% of total recorded debtors) accounted for 15.67% of the total debt being the basis for freezing of accounts. Also, 50 of the frozen business entities (0.4% of total frozen legal entities) accounted for 36.95% of the total debt being the basis for freezing of accounts.

At end-March 2018, total assets and liabilities decreased by 0.1% compared to the previous month and amounted to 4,130.2 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-March 2018, total loans amounted to 2,754.2 million euros, which is 2.3% higher in relation to the previous month and 9.9% higher in relation to March of the previous year.

In the structure of liabilities, deposits made up the main share of 78.4%. Total banks' deposits amounted to 3,239.9 million euros at end-March 2018 and they

recorded a monthly increase of 0.1%, and a 13.4% growth in relation to March 2017. At end-March 2018, total capital of banks amounted to 496.9 million euros, increasing by 0.4% in relation to the previous month, and 0.4% in relation to the corresponding period of the previous year.

In March, past due loans (without interests, and prepayments and accruals) amounted to 217.3 million euros, which is an increase of 18.8% in relation to the previous month, while they recorded a decrease of 26.3% in relation to March 2017. At end-March 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 200.4 million euros and made up 7.3% of total loans. In relation to the previous month, non-performing loans of banks increased by 1.5%, while they recorded an annual decrease of 19.3%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.70% at end-March 2018, which represents a monthly decrease of 0.05 percentage points, while in relation to end-March 2017 it recorded a decrease of 0.51 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 7.05% in March 2018, which represents a monthly decline of 0.02 percentage points, and an increase of 0.68 percentage points in relation to March 2017. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.65% at end-March 2018 which is the same as at the end of the previous month, while it recorded a decline of 0.24 percentage points in relation to March 2017.

At end-May 2018, reserve requirement of banks amounted to 237.1 million euros, which represents a monthly decrease of 2.5 million euros or 1%, while in relation to the corresponding period of the previous year reserve requirements decreased by 30.6 million euros or 11.4%. During March 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total amount of allocated reserve requirement, 52.2% was allocated to the reserve requirement account abroad, while 47.8% was allocated to the CBCG account in the country.

In the period January-March 2018, the gross insurance premium amounted to 18.4 million euros. Non-life insurance premiums still accounted for the main share in its structure with 84.1%, while invoiced life insurance premiums accounted for the remaining 15.9%.

In March 2018, Montenegro Stock Exchange recorded turnover in the amount of 1.4 million euros through 293 transactions. The turnover was 9.2% higher in

relation to the previous month. As at 31 March 2018, market capitalization amounted to 2,935.3 million euros, recording 4.9% increase in relation to the previous month. The MONEX index, which stood at 10,087.99 index points at end-March 2018, declined by 1.2% in relation to the previous month. The MNSE10 index amounted to 782.68 index points increasing by 0.7% in relation to the previous month.

In March 2018, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 33.6 million euros or 0.8% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 138.8 million euros or 3.2% of the annual GDP, which represents a decrease of 5.4% in relation to the plan for March. In relation to source revenues recorded in March 2017, there was an increase of 2.7%. Budget expenditure amounted to 172.4 million euros or 3.9% of the annual GDP, which was a year-on-year increase of 3.6%, and by 18.3% higher than planned.

According to the Ministry of Finance data, at the end of March 2018, Montenegro's gross government debt stood at 2,665.3 million euros or 60.6% of GDP. Net government debt amounted to 59% of GDP.

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 February and March.

In February and March, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Representatives of the CBCG participated at the meeting with the newly appointed representative of the European Commission for Chapter 4 - Free movement of capital and Chapter 24 - Justice, freedom and security. The representatives of the CBCG participated in the meeting with representatives of the European Central Bank in relation to the annual assessment of the Economic Reforms Programme 2018–2020. As per request of the Office of the Prime Minister of Montenegro, the CBCG submitted answers to additional questions of the European Commission related to Measure 9 from ERP for 2018-2020. Representatives of the CBCG participated at the meeting with representatives of the European Commission, as well as representatives of the EU Delegation to Montenegro; the meeting was held on the occasion of

assessment of the status of implementation of the EC recommendation from the Ministerial dialogue with candidate countries related to the resolution of the problem of NPLs. At the request of the EU Delegation to Montenegro, on the occasion of preparation of the EC Progress Report of Montenegro, the CBCG submitted updated information under the jurisdiction of the CBCG on the adoption of new regulations and important activities implemented in the period from 15 January until 15 March 2018, within Chapter 4 and Chapter 9. *TAIEX* expert mission was implemented on the topic of implementation of direct reporting system in the area of balance of payments statistics and international investment position, in cooperation with experts of the HNB, and organised by the CBCG.

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.