

The Governor's Report – November 2018

Updated: 20 February 2019

The Governor's Report for November 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 November, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2018.

According to the final Monstat data, the real growth rate of Montenegro's GDP in 2017 was 4.7%, while as per preliminary data in Q1, Q2, and Q3 2018 real growth stood at 4.5%, 4.9%, and 5.0%, respectively.

In November 2018, prices increased by 0.2% in relation to the previous month, while the annual inflation rate in November amounted to 2%.

In the first eleven months of 2018, industrial output recorded the year-on-year growth of 22.8%. Output increase was recorded in the manufacturing industry sector (10.1%), and in the sector of electricity, gas and steam supply (70.2%). Output drop was observed in the mining and quarrying sector (-21.6%).

Preliminary Monstat data show that in the first nine months of 2018, air passenger transport grew by 12.6% y-o-y, while air freight transport rose by 5.9%. Over the same period, railway passenger transport increased by 7%, and railway freight transport dropped by 38.1%. The road passenger transport increased by 0.7%, and road freight transport declined by 2.3% y-o-y.

In the first eleven months of 2018, a total of 281,243 m³ of wood products were produced, which was by 15% less in relation to the corresponding period of the previous year. Monstat data suggests that in the first nine months of 2018, construction recorded an increase of 31.5% y-o-y, measured in terms of executed construction works, as well as an increase in effective working hours of 14.9% y-o-y.

In November 2018, the average number of employed persons amounted to 194,756, which is an increase of 0.1% compared to the previous month and 9.4% more in relation to November 2017. In November 2018, the number of unemployed persons in Montenegro amounted to 42,889, which represents an increase of 2.3% in relation to the previous month and a decrease of 17.9% compared to November 2017.

As at 30 November 2018, out of 45,715 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 13,921 or 30.5% were frozen. Compared to the previous month, the number of blocked business entities increased by 1.2%, while compared to the same month of 2017, its growth stood at 9.5%. At end-November 2018, total amount of debt being the basis for freezing of accounts amounted to 624.7 million euros, showing a monthly decrease of 3.3%, while it recorded an annual increase of 2.7%.

As at 31 November 2018, out of the total number of business entities with frozen accounts (13,921) a total of 2,431 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 31,750,369.26 euros or 5.1% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,490 with frozen funds in the amount of 593,005,129.98 euros or 94.9% of the total amount of frozen funds of business entities.

As at 30 November 2018, debt concentration was relatively high, considering that top 10 blocked business entities (0.08% of total recorded blocked business entities) accounted for 15.3% of the total debt used as the basis for the account freeze. In addition, 50 of blocked business entities (0.4% of total number of blocked business entities) accounted for 37.2% of the total debt used as the basis for the account freeze.

At end-November 2018, total assets and liabilities decreased by 0.1% compared to the previous month and amounted to 4,405.8 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-November 2018, total loans amounted to 2,986.8 million euros, which is 0.1% higher in relation to the previous month and 9.9% higher in relation to November of the previous year.

In the structure of liabilities, deposits made up the main share of 78.4%. Total banks' deposits amounted to 3,452.2 million euros at end-November 2018 and they recorded a monthly decrease of 0.2%, and a growth of 8.3% in relation to November 2017. Total capital of banks at end-November 2018 amounted to 526.5 million euros, which is an increase of 0.8% in relation to the previous month as well as an increase of 0.5% in relation to the corresponding period of the previous year.

In November, past due loans (without interests, and prepayments and accruals) amounted to 226.1 million euros, which is a decrease of 5.3% in relation to the previous month, while they recorded an increase of 7.3% in relation to November-2017. At end-November 2018, non-performing loans (without interests and prepayments and accruals) amounted to 207.7 million euros and accounted for 7% of total loans. In relation to the previous month, non-performing loans of banks increased by 1.6%, while they recorded an annual increase of 9.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.37% at end-November 2018, which represents a monthly decrease of 0.02 percentage points, while in relation to end-November 2017 it recorded a decrease of 0.53 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.46% in November 2018, which represents a monthly decline of 0.46 percentage points, and a decrease of 0.04 percentage points in relation to November 2017. The weighted average effective deposit interest rate amounted to 0.58% at end-November 2018 keeping the value seen at the end of the previous month, while recording a decline of 0.14 percentage points in relation to end-November 2017.

At end-November 2018, reserve requirement of banks amounted to 253.4 million euros, which represents a monthly decline of 4.9 million euros or 1.9%, while in relation to the corresponding period of the previous year, reserve requirements increased by 20.8 million euros or 8.9%. During November 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 55.3% was allocated to the reserve requirement account in the country, while 44.7% was at the CBCG account abroad.

In the period January-November 2018, the gross insurance premium amounted to 79.4 million euros. Its structure shows the main share of non-life insurance (83.6%), while the rest referred to invoiced life insurance premiums (16.4%).

In November 2018, the Montenegro Stock Exchange recorded a 665,127 euros turnover that was achieved through 176 transactions. The turnover was 88.4% lower in relation to the previous month. As at 30 November 2018, stock exchange capitalisation amounted to 3,010.7 million euros, recording a monthly increase of 0.1%. At end-November 2018, the MONEX index stood at 10,901.72 index points, recording a monthly increase of 0.4%. The MNSE10 index amounted to 847.45 index points increasing by 0.5% in relation to the previous month.

In November 2018, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 44.6 million euros or 1% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 142.8 million euros or 3.1% of estimated annual GDP, which represents an increase of 4.3% in relation to the plan for November. In relation to source revenues recorded in November 2017, there was an increase of 13.8%. At the same time, budget expenditure amounted to 187.4 million euros or 4.1% of GDP, recording a year-on-year increase of 19.1%, and 7.2% above the plan.

According to the Ministry of Finance data, at end-September 2018, Montenegro's gross government debt amounted to 3,093.9 million euros or 67.2% of GDP. Net government debt amounted to 59.1% 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 November.

In November, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The representatives of the CBCG participated in the 12th meeting of the Commission on European Integration, where the receipt of new CELEX package was presented (1.820). The CBCG also participated at the meeting of the Sub-Committee for Economic and Financial Issues and Statistics. The representatives of the CBCG also took part at the constitutive session of the Working Group for the preparation and conduct of negotiations on the accession of Montenegro to the European Union for the area of the EU acquis referring to Chapter 17 - Economy and Monetary Policy. At the request of the Ministry of Economy, for the purpose of reviewing Programme of Accession of Montenegro, the CBCG

submitted comments under its jurisdiction in relation to Chapter 20 - Enterprise and Industrial Policy. The CBCG prepared contribution for the Programme of Accession of Montenegro to the EU 2019–2020, for negotiation Chapter 9 - Financial Services. The Table of the Programme of Accession of Montenegro the EU (PAMNE 2019–2020) for Chapter 32, in the part referring to the protection of euro against counterfeiting was updated at the request of the European Integration Office. Contribution of the CBCG within the Economic Reforms Programme 2019–2021, related to the implementation of conclusion no. 3 of the European Commission from the Ministerial Conference from May 2018 was updated. The revised Action Plan for the harmonisation of the acquis in the area of Chapter 17 was submitted to the European Commission. The representatives of the CBCG participated in the video conference with the European Commission where final benchmarks in the negotiation chapter 17 were discussed. The representatives of the CBCG took part in the meeting related to resolving issues of the Constitution of Montenegro, in the part referring to the Central Bank and negotiation Chapter 17. The CBCG performed evaluation of new CELEX within the negotiation Chapter 17. As per request of the Ministry of Economy, the CBCG submitted the information on the evaluation and relevance of CELEX within the Chapter 30 - External relations As per request of the Office for European Integration related to the preparation of the first Contribution to the EC Progress Report of Montenegro, the CBCG submitted the material translated into English language for the period 1 January - 20 October 2018.

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.