

## **The Governor's Report – September 2018**

*Updated: 30 November 2018*

The Governor's Report for September 2018 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 2018 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2018, on a monthly basis.

In September, 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 data of MONSTAT, the real growth rate of Montenegro's GDP in 2017 was 4.7%, while as per preliminary data in the first and second quarter of 2018 real growth was 4.5% and 4.9%, respectively.

In September 2018, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in September amounted to 1.9%.

During the first nine months of 2018, industrial output recorded a year-on-year increase of 24.4%. Output increase was recorded in the electricity, gas and steam supply sector (84.8%), and in the manufacturing industry sector (5.3%), whereas the mining and quarrying sector saw a decline in output (-18.6%).

During the first six months of 2018, according to preliminary MONSTAT data, air passenger transport recorded a year-on-year growth of 15.2%, while air freight transport increased by 6.3%. In the same period railway passenger transport decreased by 0.7% while railway freight transport increased by 32.5%. Number of passengers carried in road transport increased by 1.1%, while cargo transport decreased by 0.2% compared to the same period last year.

During the first nine months of 2018, some 212,078 m<sup>3</sup> of wood products were produced, which was 13.6% less in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first six months of 2018, construction recorded the year-on-year increase of 40.4% in the value of executed construction works, as well as in a 20.3% increase in effective working hours.

In September 2018, the average number of employed persons amounted to 195,784, which is an increase of 0.4% compared to the previous month and 6% more in relation to September 2017. In September 2018, the number of unemployed persons amounted to 39,902, which represents a decrease of 2.7% in relation to the previous month and a decrease of 18.2% compared to September 2017.

As at 30 September 2018, out of 45,272 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 13,604 or 30.1% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.2%. At end-September 2018, the total amount of debt used as the basis for the freezing of accounts amounted to 630.2 million euros, showing a monthly increase of 0.4%.

As at 30 September 2018, out of the total number of business entities with frozen accounts (13,604) a total of 2,223 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 48,804,487.40 euros or 7.7% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,381 with frozen funds in the amount of 581,399,567.58 euros or 92.3% of the total amount of frozen funds of business entities.

On 30 September 2018, debt concentration was relatively high, considering that top 10 debtors (0.08% of total recorded debtors) accounted for 16% of the total debt being the basis for freezing of accounts. In addition, 50 of blocked business entities (0.4% of total number of blocked business entities) accounted for 38.5% of the total debt used as the basis for the account freeze.

At end-September 2018, total assets and liabilities decreased by 1.8% compared to the previous month and amounted to 4,412.6 million euros. In terms of the structure of aggregate balance sheet of banks, total loans of banks make up the dominate share. At end-September 2018, total loans amounted to 2,989.6 million euros, which is 2.1% lower in relation to the previous month while they were 10.7% higher in relation to September of the previous year.

In the structure of liabilities, deposits made up the main share of 78.4%. In September 2018, banks' deposits amounted to 3,459.3 million euros recording a monthly decline of 2.1%, and a year-on-year increase of 10.3%. Total capital of banks at end-September 2018 amounted to 518.3 million euros, which is only

slightly higher in relation to the previous month, while there was a decrease of 0.9% in relation to the corresponding period of the previous year.

In September, past due loans (without interests and accruals) amounted to 231.7 million euros, which is a decrease of 11.4% in relation to the previous month, while they recorded an increase of 1.1% in relation to September 2017. At end-September 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 200.6 million euros and made up 6.7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 2.7%, while they recorded an annual increase of 0.4%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.40% at end-September 2018, which represents a monthly decrease of 0.02 percentage points, while in relation to end of the previous month it recorded a decrease of 0.58 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.55% in September 2018, which represents a monthly increase of 0.07 percentage points, and a decrease of 0.46 percentage points in relation to September 2017. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.58% at end-September 2018. The rate saw a monthly growth of 0.03 percentage points, and a year-on-year decline of 0.17 percentage points.

At end-September 2018, reserve requirements of banks amounted to 259.3 million euros, which represents a monthly increase of 8.5 million euros or 3.4%, while in relation to the end of the previous year, reserve requirements increased by 33.9 million euros or 15%. During September 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 56.3% was allocated to the reserve requirement account in the country, while 43.7% was at the CBCG account abroad.

In the period January-September 2018, the gross insurance premium amounted to 64.9 million euros. Non-life insurance premiums still accounted for the main share in its structure with 83.9%, while invoiced life insurance premiums accounted for 16.1%.

In September 2018, Montenegro Stock Exchange recorded a turnover in the amount of 52.1 million euros, through 184 transactions. Turnover increased by 12.9 times in relation to the previous month. As at 30 September 2018, market capitalization amounted to 2,978 million euros, recording 0.1% increase in relation to the previous month. At end-September 2018, the MONEX index

stood at 10,455.09 index points, recording a monthly increase of 1%. The MNSE10 index amounted to 798.38 index points increasing by 1.4% in relation to the previous month.

In August 2018, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted 34.1 million euros or 0.8% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 161.2 million euros or 3.6% of estimated annual GDP, which represents a decrease of 1.5% in relation to the plan for August. In relation to source revenues recorded in August 2017, there was an increase of 7.9%. Budget expenditure amounted to 127.1 million euros or 2.8% of estimated annual GDP, which was a year-on-year decrease of 14.3%, and by 19.6% below planned.

According to the Ministry of Finance data, the gross government debt of Montenegro amounted to 3,105 million euros or 70.1% of GDP. Net government debt amounted to 62.3% 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 September.

In September, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. At the request of the Ministry of Economy, the CBCG submitted data on the total inflow of foreign direct investments in the period January-July 2018, needed for the preparation of material for the meeting of the Subcommittee on Industry, Trade, Customs and Taxes (Chapter 30). Representatives of the CBCG participated in meetings with the IMF expert, Ministry of Finance and Monstat, on the topic of implementation of the *ESA 2010* methodology in the system of public finances. Meetings were held within the Working Group for the implementation of the *ESA 2010* methodology into the system of public finances, coordinated by the Ministry of Finance.

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.