

The Governor's Report – April 2019

The Governor's Report for April 2019 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 2019, on a monthly basis.

In April, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2019.

Preliminary Monstat data show that Montenegro's 2018 real GDP growth rate amounted to 4.9%, based on quarterly estimates. Real GDP grew by 3% in Q1 2019 compared to Q1 2018.

In April 2019, prices recorded monthly increase of 0.1%, while this month's annual inflation rate stood at 0.9%.

In the first four months of 2019, industrial output recorded a y-o-y decrease of 17.6%. The decline was recorded in the sector of manufacturing industry (-1.5%), and in the electricity, gas and steam supply sector (-34.7%), while there was an increase in the mining and quarrying sector (11.6%).

Preliminary Monstat data show that in the first three months of 2019, air passenger transport grew by 6.4% y-o-y, while air freight transport increased by 9.2%. During this period, railway passenger transport recorded a y-o-y increase of 1.1%, and railway cargo transport decreased by 24.7%. The road passenger transport increased by 0.5%, and road freight transport grew by 4.5% y-o-y.

During the first four months of 2019, production of wood products amounted to 15,748 m³, which is a decrease of 31.2% in relation to the corresponding period of the previous year. As per Monstat's preliminary data, in the first three months of 2019, construction saw a year-on-year increase of 12.4% in the value of executed construction works, as well as a 1.5% year-on-year increase in effective working hours.

In April 2019, the average number of employed persons amounted to 200,595, which is an increase of 1.5% compared to the previous month and 9% more in

relation to April 2018. The number of unemployed persons amounted to 38,102, dropping by 14.2% m-o-m, and by 15.3% y-o-y.

As at 30 April 2019, out of 46,9986 business entities registered as active in the Central Registry of Business Entities, and as having active accounts in the Central Registry of Transaction Accounts, a total of 14,098 or 30% were frozen. Compared to the previous month, the number of blocked business entities decreased by 0.4%, while compared to the same month of 2018, its growth stood at 7%. At end-April 2019, the total amount of debt used as the basis for the account freeze was 632.3 million euros, showing a monthly decrease of 0.9% and an annual increase of 7.2%.

As at 30 April 2018, out of the total number of business entities with frozen accounts (14,098) a total of 2,206 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 33,393,190.28 euros or 5.3% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,892 with frozen funds in the amount of 598,897,623.89 euros or 94.7% of the total amount of frozen funds of business entities.

As at 30 April 2019, debt concentration was relatively high, considering that top 10 blocked business entities (0.07% of total recorded blocked business entities) accounted for 15.8% of the total debt used as the basis for the account freeze. In addition, 50 of blocked business entities (0.35% of total number of blocked business entities) accounted for 37.8% of the total debt used as the basis for the account freeze.

At end-April 2019, total assets and liabilities decreased by 1.5% compared to the previous month and amounted to 4,337.2 million euros¹. The main share in the the structure of aggregate balance sheet of banks referred to loans. At end-April 2019, loans amounted to 2,945.6 million euros, recording the decrease of 2.7% m-o-m yet an increase of 4.3% y-o-y.

In the structure of liabilities, deposits made up the main share of 76,6%. In April 2019, deposits in banks amounted to 3,323.8 million euros, declining by 3.2% m-o-m, yet increasing 1% y-o-y. If the calculation excludes deposits of Atlas Bank

¹ Data for the banking sector refer to the condition of the system at a given date, in line with the application of relevant international methodology. Therefore, the calculation of the annual change compares the condition of the system at the time of comparison (as of April 2019 and 13 banks) with the balance as at the given date in 2018 (15 banks).

(which has been under bankruptcy since April 2019), the deposits would increase by 2.4% m-o-m, and by 7.6% y-o-y.

Total capital of banks at end- April 2019 amounted to 526.8 million euros, which is an increase of 1.6% in relation to the previous month. Moreover, total capital increased by 4.7% y-o-y.

Past due loans (without interests, and prepayments and accruals) amounted to 155.6 million euros in April, which is a monthly decline of 28.6% and a year-on-year decline of 27.6%. At the end of April 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 139,7 million euros and made up 4.7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 21.5%, while they recorded an annual decrease of 30.3%.

At end-April 2019, the weighted average lending effective interest rate (WALEIR) on total loans granted amounted to 6.20% which represents a monthly decrease of 0.07 percentage points and a decrease of 0.48 percentage points y-o-y. In April 2019, the weighted average lending effective interest rate (WALEIR) on new loans amounted to 5.99%, which represent a monthly drop of 0.31 percentage points, and a decrease of 0.72 percentage points in relation to April 2018. The weighted average effective depositing interest rate (WAEDIR) amounted to 0.48% in April 2019, showing a decline of 0.04 percentage points in relation to the previous month, while it recorded a decline of 0.16 percentage points in relation to April 2018.

At end-April 2019, reserve requirement of banks amounted to 243.6 million euros, recording a monthly decline of 8.4 million euros or 3.4%, yet a year-on-year increase of 15 million euros or 6.3%. During April 2019, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 56,4% was allocated to the reserve requirement account in the country, while 43,6% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 29.9 million euros during the first four months of 2019. 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 April 2019, Montenegro Stock Exchange recorded a turnover in the amount of 118.2 million euros, through 421 transactions. The turnover was by 11,484.3% higher in relation to the previous month, as a result of trade with government

bonds. As at 30 April 2019, stock exchange capitalisation amounted to 3,116.8 million euros, recording a monthly increase of 0.2% and y-o-y increase of 5.7%. At the same time, the MONEX index stood at 10,689.05 index points, recording a monthly increase of 0.5%, and y-o-y increase of 5.3%.

The Ministry of Finance estimated that Montenegro's fiscal surplus amounted to 10.1 million euros or 0.2% of estimated annual GDP in April 2019. Source revenues of the budget of Montenegro amounted to 165 million euros or 3.4% of estimated annual GDP, which represents an increase of 5.5% in relation to the plan for April. In relation to source revenues recorded in April 2018, there was an increase of 5.2%. Budget expenditure amounted to 154.9 million euros or 3.2% of estimated annual GDP, which was a year-on-year decrease of 5%, and by 10.3% below planned.

According to the Ministry of Finance data, at the end of March 2019, Montenegro's gross government debt amounted to 3,179.4 million euros or 66.2% of GDP. Net government debt amounted to 60.9% of GDP.

Public debt (gross) of Montenegro amounted to 3,268.6 million euros, or 70.8% of GDP. Out of that figure, domestic debt accounted for 393 million euros or 8.5% of GDP, while external debt accounted for 2,760 million euros or 59.8% of GDP, while the debt of local self-government units accounted for 115.6 million euros or 2.5% 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. In April, the availability of the RTGS and DNS systems was 100%.

In April, the Central Bank carried out numerous activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. For the purpose of Sub-Committee for Internal Market and Competition, the CBCG submitted its contribution concerning the reporting period from 20 June 2018 to 1 May 2019. The CBCG also participated in the meeting of the Balance of Payments Working Group in Luxembourg. The CBCG prepared the answer to the questions of the EU Delegation to Montenegro concerning the plan of adopting the set of financial laws. The mission of the Croatian National Bank experts was conducted with a

view to preparing the Decision on Large Exposures and the Decision on Liquidity Coverage Ratio (*LCR*).

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.