

## The Governor's Report – August 2019

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

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

According to the Monstat data, the real growth rate of Montenegro's GDP in 2018 was 5.1%, while as per preliminary data in Q1 and Q2 2019 real growth stood at 3.0% and 3.2%, respectively.

In August 2019, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in August amounted to -0.2%.

During the first eight months of 2019, industrial output recorded a y-o-y decrease of 8.9%. The decline was recorded in the sector of manufacturing industry (-2.8%), and in the electricity, gas and steam supply sector (-20.2%), while there was an increase in the mining and quarrying sector (13.8%).

During the first six months of 2019, according to Monstat data, air passenger transport recorded a y-o-y growth of 8.7%, while air cargo transport decreased by 4.1%. The rail passenger transport remained unchanged, while rail freight transport increased by 2.2%. The road passenger transport increased by 1.1%, and road freight transport grew by 8.2% y-o-y.

During the first eight months of 2019, production of forest assortments amounted to 144,990 m<sup>3</sup>, which is a decrease of 19.4% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first six months of 2019, construction recorded y-o-y increase of 12.3% in the value of executed construction works, as well as a 3% increase in effective working hours.

In August 2019, the average number of employed persons amounted to 210,455, which is a decrease of 2.2% compared to the previous month and 7.9% more in relation to August 2018. In August 2019, the number of unemployed persons amounted to 34,355, which represents a decrease of 0.6% in relation to the previous month and a decrease of 16.2% compared to August 2018.

As at 31 August 2019, out of 48,007 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 14,044 or 29.3% were frozen. Compared to the previous month, the number of blocked business entities decreased by 0.1%, while compared to the same month of 2018, its growth stood at 3.4%. At end-August 2019, the total amount of debt used as the basis for the freeze of business entities' accounts amounted to 632.2 million euros, showing a monthly and annual increases of 2.1% and 0.7%, respectively.

As at 31 August 2018, out of the total number of business entities with frozen accounts (14,044) a total of 1,929 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 36,970,592.45 euros or 5.9% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,115 with frozen funds in the amount of 595,266,300.53 euros or 94.1% of the total amount of frozen funds of business entities.

As at 31 August 2018, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 17% 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 38.9% of the total debt used as the basis for the account freeze.

At end-August 2019, total assets and liabilities increased by 1.8% compared to the previous month and amounted to 4,593.9 million euros<sup>1</sup>. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-August, total loans amounted to 3,033.7 million euros, which is 1% higher in relation to the previous month and 0.7% lower compared to August 2018.

In the structure of liabilities, deposits made up the main share of 76.9%. In August 2019, deposits in banks amounted to 3,535 million euros, rising by 3.4% month-on-month and 0.1% year-on-year. Total capital of banks at end-August 2019 amounted to 592 million euros, which is an increase of 2% in relation to the previous month, while there was an increase of 14.3% in relation to the corresponding period of the previous year.

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<sup>1</sup>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).

In August, past due loans (without interests, and prepayments and accruals) amounted to 150.3 million euros, which is an increase of 7.7% in relation to the previous month, while they recorded a decline of 42.5% in relation to August 2018. At end-August 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 144 million euros and made up 4.7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 3.1%, while they recorded an annual decrease of 30.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.16% at end-August 2019, which represents a monthly decrease of 0.01 percentage points, while in relation to end-August 2018 it recorded a decrease of 0.26 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.03% in August 2019, which represent a monthly decrease of 0.41 percentage points, and a decrease of 0.45 percentage points in relation to August 2018. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.43% at end-August 2019, showing a decline of 0.02 percentage points in relation to the previous month, while it recorded a decline of 0.12 percentage points in relation to end-August 2018.

At end-August 2019, reserve requirement of banks amounted to 248 million euros, which represents a monthly increase of 3.8 million euros or 1.6%, while in relation to the corresponding period of the previous year reserve requirements decreased by 2.9 million euros or 1.2%. During August 2019, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 57,1% was allocated to the reserve requirement account in the country, while 42,9% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 64.3 million euros during the first eight 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 August 2019, Montenegro Stock Exchange recorded a turnover in the amount of 573,449 euros, through 192 transactions. The turnover was 51.4% lower than at the end of the previous month but 85.8% lower than in August of the previous year. As at 31 August 2019, stock exchange capitalisation amounted to 3,501.8 million euros, recording a monthly and annual increases of 0.7% and 17.7%, respectively. At the same time, the MONEX index stood at 11,214.62 index points, recording a monthly and annual increases of 1.6% and 8.3%, respectively. The MNSE10 index amounted

to 806.59 index points and it decreased by 0.3% in relation to the previous month, but it increased by 2.5% year-on-year.

The Ministry of Finance estimated that Montenegro's fiscal surplus amounted to 14.5 million euros in August 2019. Source revenues of the budget of Montenegro amounted to 174.1 million euros or 3.6% of estimated annual GDP, which represents an increase of 5.8% in relation to the plan for August. In relation to source revenues recorded in August 2018, there was an increase of 7.9%. At the same time, budget expenditure amounted to 159.6 million euros or 3.3% of GDP, recording a year-on-year increase of 25.5%, and 1.4% more than planned.

At end-June, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 3,133.7 million euros or 65.2% of GDP. Net government debt amounted to 61.4% of GDP. At end-December 2018, 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.

In August, the Central Bank carried out significant activities aimed at meeting requirements on the road towards Montenegro's accession to the EU. In accordance with the IPA 2015 project plan concerning International Trade in Services Statistics (*ITSS*), data for services by Eurostat countries for the period from 2013 to 2018 were prepared and delivered.

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 August.

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.