

The Governor's Report – February-March 2019

The Governor's Report for February and March 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 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 2019.

Preliminary Monstat data show that Montenegro's 2018 real GDP growth rate amounted to 4.9%, based on quarterly estimates. Year-on-year growth was recorded in all four quarters of 2018, amounting to 4.5%, 4.9%, 5.0%, and 4.8%, respectively.

In March 2019, prices increased by 0.6% in relation to the previous month, while the annual inflation rate in March amounted to 0.8%.

In the first three months of 2019, industrial output recorded a y-o-y decrease of 14.4%. The decline was recorded in the sector of manufacturing industry (-0.5%), and in the electricity, gas and steam supply sector (-27.5%), while there was an increase in the mining and quarrying sector (9.5%)

In 2018, as per preliminary Monstat data, the air passenger transport recorded a year-on-year increase of 12.3%, while air cargo transport increased by 6.3%. Over the same period, railway passenger transport increased by 7%, and railway freight transport dropped by 39.7%. The road passenger transport recorded annual increase of 0.6%, while road freight transport declined by 3.5%.

During the first three months of 2019, production of wood products amounted to 7,554 m³, which is a decrease of 44.6% 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 March 2019, the average number of employed persons amounted to 197,594 which is an increase of 1.1% compared to the previous month and 9% more in relation to March 2018. In March 2019, the number of unemployed persons amounted to 38,570, which represents a decrease of 0.2% in relation to the previous month and a decrease of 17.9% compared to March 2018.

As at 31 March 2019, out of 46,677 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 14,151 or 30.3% were frozen. Compared to the previous month, the number of blocked business entities did not change, while compared to the same month of 2018, its growth stood at 7.5%. At end-March 2019, the total amount of debt used as the basis for the account freeze was 638.2 million euros, showing a monthly decrease of 2.1% and an annual increase of 10.6%.

As at 31 March 2018, out of the total number of business entities with frozen accounts (14,151) a total of 2,291 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 31,486,960.91 euros or 4.9% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,860 with frozen funds in the amount of 606,694,092.25 euros or 95.1% of the total amount of frozen funds of business entities.

As at 31 March 2019, debt concentration was relatively high, considering that top 10 blocked business entities (0.08% of total recorded blocked business entities) accounted for 15.7% 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 37.8% of the total debt used as the basis for the account freeze.

At end-March 2019, total assets and liabilities decreased by 0.5% compared to the previous month and amounted to 4,404 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-March 2019, total loans amounted to 3,028.8 million euros, which is 0.6% higher in relation to the previous month and 10.2% higher in relation to March 2018.

In the structure of liabilities, deposits made up the main share of 78%. Total banks' deposits amounted to 3,433.6 million euros at end-March 2019 and they recorded a monthly decrease of 1.4%, and a 6% growth in relation to March 2018. Total capital of banks at end-March 2019 amounted to 518.1 million euros, which is a decrease of 2% in relation to the previous month, while there was a y-o-y increase of 4.4%.

In March, past due loans (without interests, and prepayments and accruals) amounted to 217.8 million euros, which is a m-o-m increase of 5.3%, while they recorded a decrease of 0.4% in relation to March 2018. At end-March 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 177.4 million euros and made up 5.9% of total loans. In relation to

the previous month, non-performing loans of banks decreased by 3.6%, also recording an annual decrease of 11.5%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.27% at end-March 2018, which represents a monthly increase of 0.01 percentage points, yet a decrease in relation to end-March 2017 of 0.43 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.30% in March 2019, which represent a monthly growth of 0.01 percentage points, and a decrease of 0.75 percentage points in relation to March 2018. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.52% at end-March 2019 which represents a monthly growth of 0.02 percentage points, while it recorded a decline of 0.13 percentage points in relation to March 2018.

At end-March 2019, reserve requirement of banks amounted to 252.1 million euros, which represents a monthly increase of 1.7 million euros or 0.7%, and a y-o-y increase of 15 million euros or 6.3%. During March 2019, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 55.1% was allocated to the reserve requirement account in the country, while 44.9% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 22.1 million euros during the first three months of 2019. Non-life insurance premiums still accounted for the main share in its structure with 84.5%, while invoiced life insurance premiums accounted for the remaining 15.5%.

In March 2019, Montenegro Stock Exchange recorded a turnover in the amount of one million euros, through 138 transactions. The turnover was by 49.3% higher in relation to the previous month, as a result of trade with corporate bonds. As at 31 March 2019, stock exchange capitalisation amounted to 3,110.6 million euros, recording a monthly increase of 2.7%. At end-March 2019, the MONEX index stood at 10,638.74 index points, recording a monthly increase of 0.7%. The MNSE10 index amounted to 832.28 index points increasing by 1.9% in relation to the previous month.

In March 2019, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 24.4 million euros or 0.5% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 147.5 million euros or 3.1% of estimated annual GDP, which represents an increase of 2.2% in relation to the plan. In relation to source revenues recorded in March 2018, there was an increase of 6.2%. Budget expenditure amounted to 171.9 million euros

or 3.6% of estimated annual GDP, which was a year-on-year decrease of a mere 0.3%, as well as by 8.8% below planned.

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, whereas 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. 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. With a view to assessing the Montenegro's Economic Reform Programme (*ERP* 2019-2021), the CBCG participants attended meetings with the representatives of the EC Directorate-General for Economic and Financial Affairs (*DG ECFIN*), and of the EC Directorate-General for Neighbourhood Policy and Enlargement Negotiations (*DG NEAR*). On the request of the Office for European Integration, the CBCG submitted the Contribution for the European Commission's Report on Montenegro's Progress for the reporting period 20 October 2018 - 20 February 2019. 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 Reform Programme 2019–2021. The experts of the National bank of Belgium conducted two bilateral visits to the banking Supervision on the topics of "*Risk Based On-site supervision of banks*" and "*LCD - Liquidity Coverage Ratio*". Within the Negotiation Chapter 32 - Financial Control, the transposition tables for secondary legislation under the protection of euro from counterfeiting were submitted to the Office for European Integration. On the request of the Ministry of Economy, for the purpose of drafting "II Annex to the European Commission's Report on Montenegro for the period October 2018 - March 2019", the CBCG submitted the draft text under its competence related to Chapter 20 - Enterprise and industrial policy. The CBCG representatives participated at the bilateral visit to the Croatian National Bank in Zagreb on 21-22 March, so that the members of the Working group for harmonisation with the *GDPR* be introduced with the practical experience of the CNB in the application of this legislation.

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.