

## The Governor's Report – November 2019

The Governor's Report for November 2019 provides a monthly 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.

In November, the Central Bank conducted its activities according 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 preliminary data show that it stood at 3.0%, 3.2%, and 4.7% in Q1, Q2, and Q3 2019, respectively.

In November 2019, consumer prices had a monthly increase of 0.1%, while the y-o-y growth was 0.5%.

During the first eleven months of 2019, industrial output recorded a y-o-y decrease of 8%. The decline was recorded in manufacturing industry (-9.4%) and in the electricity, gas and steam supply sectors (-11.7%), while there was an increase in the mining and quarrying sector (17.5%).

During the first nine months of 2019, according to preliminary Monstat data, air passenger transport recorded a y-o-y growth of 7%, while air cargo transport decreased by 8.9%. During this period, railway passenger transport recorded a y-o-y decrease of 0.1%, and railway cargo transport increased by 10.5%. The road passenger transport increased by 1%, and road freight transport grew by 10.2% y-o-y.

During the first eleven months of 2019, production of wood products amounted to 247,519 m<sup>3</sup>, which is a decrease of 16.1% compared year-on-year. During the first nine months of 2019, according to preliminary Monstat data, construction recorded a y-o-y increase of 18.7%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 6.2%.

In November 2019, the average number of employed persons amounted to 203,123, which is an increase of 0.2% compared to the previous month and 4.3% more compared to November 2018. In November 2018, the number of unemployed

persons in Montenegro amounted to 37,924, which represents a monthly decrease of 5.4% and a decrease of 11.6% compared to November 2018.

As at 30 November 2019, out of 48.170 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 14,459 or 30% were frozen. Compared to the previous month, the number of blocked business entities increased by 1%, while compared to the same month of 2018, its growth stood at 3.9%. At end-November 2019, the total amount of debt as the basis for freezing of accounts amounted to 618.4 million euros, showing a monthly decrease of 0.1% and an annual decrease of 1.0%.

As at 30 November 2019, out of the total number of business entities with frozen accounts (14,459) a total of 2,128 business entities were under uninterrupted blockage up to 365 days, with frozen funds of 32,193,575.23 euros or 5.2% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,331 with frozen funds of 586,242,660.07 euros or 94.8% of the total amount of frozen funds of business entities.

Debt concentration was relatively high as at 30 November 2019, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 17.8% of the total debt as the basis for freezing of accounts. In addition, 50 of blocked business entities (0.4% of the total number of blocked business entities) accounted for 40.1% of the total debt used as the basis for the account freeze.

At end-November 2019, total assets and liabilities of banks increased by 2.5% compared to the previous month and amounted to 4,697.1 million euros.<sup>1</sup> In terms of the structure of the aggregate balance sheet of banks, total loans make up the largest share. At end-November 2019, total loans amounted to 3,091.4 million euros, which is 3.5% higher both compared to the previous month and y-o-y.

In the structure of liabilities and capital, deposits made up the largest share of 75.6%. Total banks' deposits amounted to 3,550.8 million euros at end-November 2019, and they recorded a monthly increase of 1.8% and a growth of 2.9% compared to November 2018. The total capital of banks at end-November 2019 amounted to

---

<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 (starting in April 2019: 13 banks) with the balance as at the given date in 2018 (15 banks).

612.3 million euros or by 2.1% more relative to the previous month. Moreover, it was by 16.3% higher compared y-o-y.

In November, past due loans (without interests, and prepayments and accruals) amounted to 139.1 million euros, which is a monthly decrease of 0.1%, and a y-o-y decline of 38.5%. At end-November 2019, non-performing loans (without interests and prepayments and accruals) amounted to 142.9 million euros and accounted for 4.6% of total loans. Non-performing loans of banks recorded monthly increase of 0.5%, yet an annual decrease of 31.2%.

At end-November 2019, the weighted average lending effective interest rate on total loans granted amounted to 6.08%, which represents a monthly decrease of 0.04 percentage points and a decrease of 0.29 percentage points y-o-y. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 4.74% in November 2019, which represents a monthly decline of 1.37 percentage points, and a decrease of 1.72 percentage points relative to November 2018. The weighted average effective deposit interest rate amounted to 0.42% at end-November 2019 keeping the value seen at the end of the previous month, while recording a y-o-y decline of 0.16 percentage points.

At end-November 2019, the reserve requirement of banks amounted to 258.2 million euros, which represents a monthly decline of 4.6 million euros or 1.7%, while its year-on-year increase was 4.7 million euros or 1.9%. During November 2019, all banks allocated and maintained reserve requirements within statutory limits. In the total allocated reserve requirement, 58.8% was allocated to the reserve requirement account in the country, while 41.2% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 87 million euros during the first eleven months of 2019. Non-life insurance premiums still accounted for the largest share in its structure with 83.1%, while invoiced life insurance premiums accounted for 16.9%.

In November 2019, Montenegro Stock Exchange recorded a turnover of 20.6 million euros, through 273 transactions. The recorded turnover was 8.6 times higher compared to the previous month, and 31 times higher compared to November 2018. As at 30 November 2019, stock exchange capitalisation amounted to 3,474.6 million euros, recording a monthly and annual increase of 0.6% and 15.4%, respectively. At the same time, the MONEX index stood at 11,650.9 index points, recording a monthly and annual increase of 1.7% and 6.9%, respectively. The MNSE10 index

amounted to 789.11 index points, recording a monthly and annual decrease of 0.5% and 6.9%, respectively.

In November 2019, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 50 million euros. Source revenues of the Budget of Montenegro amounted to 147.2 million euros or 3.1% of estimated annual GDP showing a decrease of 1% compared to the plan for November yet an increase of 3.5% relative to source revenues recorded in November 2018. At the same time, budget expenditures amounted to 197.2 million euros or 4.1% of estimated annual GDP, recording a year-on-year increase of 5.4%, and 29.5% above the plan.

According to the Ministry of Finance data, at end-September 2019, Montenegro's gross government debt amounted to 3,127.9 million euros or 64.9% of GDP. Out of that figure, a total of 504.5 million euros or 10.5% of GDP referred to internal debt, while external debt accounted for 2,623.4 million euros or 54.4% of GDP. Net government debt amounted to 61.6% of GDP. At end-December 2018, (gross) public debt 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, external debt accounted for 2,760 million euros or 59.8% of GDP, and the debt of local self-government units accounted for 115.6 million euros or 2.5% of GDP.

In October, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Study visit to Bundesbank was organised within the Twinning Project "Support to Regulation of Financial Services". The CBCG also participated at the meeting of the Sub-Committee for Economic and Financial Issues and Statistics. On the European Commission's request, and in line with the conclusions of the Sub-Committee for Economic and Financial Issues and Statistics, the CBCG completed the questionnaire concerning the international role of the euro. On the invitation of the head of the working group for Chapter 18 - Statistics, the CBCG participated at the thematic meeting concerning the negotiations for this chapter.

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.

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 through public announcements, publications, web presentations, and media appearances. Under 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.