

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

*Updated: 28 November 2018*

The Governor's Report for August 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 August, 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 in the first and second quarter of 2018 real growth was 4.5% and 4.9%, respectively.

In August 2018, prices decreased by 0.1% in relation to the previous month, while the annual inflation rate in August amounted to 2.8%.

During the first eight 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 (90.2%), and in the manufacturing industry sector (2.4%), whereas the mining and quarrying sector saw a decline in output (-19.6%).

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 eight months of 2018, some 177,169 m<sup>3</sup> of wood products were produced, which was 7.3% 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 August 2018, the average number of employed persons amounted to 195,041, which is a decrease of 2% compared to the previous month and 3.7% more in relation to August 2017. In August 2018, the number of unemployed persons amounted to 41,012, which represents a decrease of 1.8% in relation to the previous month and a decrease of 16.4% compared to August 2017.

Total number of economic entities registered in the CRPS as active, with active accounts in the central registry of transaction accounts (CRTR) as at 31 August 2018 was 45,169, out of which 13,581 or 30.1% was blocked. Compared to the previous month, the number of blocked business entities increased by 1.6%. At end-August 2018, the total amount of debt used as the basis for the account freeze amounted to 627.9 million euros, showing a monthly increase of 2.5%.

As at 31 August 2018, out of the total number of business entities with frozen accounts (13,581) a total of 2,279 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 51,081,190.89 euros or 8.1% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,302 with frozen funds in the amount of 576,842,293.96 euros or 91.9% of the total amount of frozen funds of business entities.

On 31 August 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 38.3% of the total debt used as the basis for the account freeze.

At end-August 2018, total assets and liabilities increased by 3.2% compared to the previous month and amounted to 4,493.2 million euros. 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 3,053.9 million euros, which is 3.7% higher in relation to the previous month and 13.9% higher in relation to the end of the previous year.

In the structure of liabilities, deposits made up the main share of 78.6%. In August 2018, deposits in banks amounted to 3,531.8 million euros, rising by 3.4% m-o-m and 13.7% y-o-y. Total capital of banks at end-August 2018 amounted to 518.1 million euros, which is an increase of 1.5% in relation to

the previous month, while there was an increase of 0.2% in relation to the corresponding period of the previous year.

In August, past due loans (without interests, and prepayments and accruals) amounted to 261.6 million euros, which is an increase of 24.4% in relation to the previous month, while they recorded an increase of 7.7% in relation to August 2017. At end-August 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 206.2 million euros and made up 6.8% of total loans. In relation to the previous month, non-performing loans of banks decreased by 5.4%, while they recorded an annual decrease of 1.6%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.42% at end-August 2017, which represents a monthly decrease of 0.03 percentage points, while in relation to end-August 2017 it recorded a decrease of 0.58 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.48% in August 2018, which represent a monthly decrease of 0.19 percentage points, and a decrease of 1.39 percentage points in relation to August 2017. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.55% at end-August 2018. The rate saw a monthly decline of 0.06 percentage points, and a year-on-year decline of 0.22 percentage points.

At end-August 2018, reserve requirement of banks amounted to 250.9 million euros, recording a monthly rise of 3.3 million euros or 1.3% and a year-on-year increase of 33.5 million euros or 15.4%. During August 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 54.8% was allocated to the reserve requirement account in the country, while 45.2% was at the CBCG account abroad.

In the period January-August 2018, the gross insurance premium amounted to 58.1 million euros. Non-life insurance premiums still accounted for the main share in its structure with 84.1%, while invoiced life insurance premiums accounted for the remaining 15.9%.

In August 2018, Montenegro Stock Exchange recorded turnover in amount of 4 million euros and 266 transactions. Turnover increased by 2.6 times in relation to the previous month. Market capitalisation, as at 31 August 2018 amounted to 2,974.2 million euros, thus recording a monthly decrease of 3.3%. The MONEX index, which stood at 10,353.48 index points at end-August

2018, declined by 1.7% in relation to the previous month. The MNSE10 index amounted to 787.18 index points and decreased by 3.4% 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 August.

In August, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Work Group for Twinning Project, the part referring to Decision on Large Exposures and *LCR*, continuously worked on their responsibilities. The CBCG made a version of Draft Law on Credit Institutions as a preparation for meetings within Twinning Programme, scheduled for October.

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.