

The Governor's Report – December 2018

Updated: 20 February 2019

The Governor's Report for December 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 December, 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 Monstat data, the real growth rate of Montenegro's GDP in 2017 was 4.7%, while as per preliminary data in Q1, Q2, and Q3 2018 real growth stood at 4.5%, 4.9%, and 5.0%, respectively.

In December 2018, prices recorded monthly decline of 0.6%, while in this month, the annual inflation rate amounted to 1.6%.

In 2018, the industrial output recorded a year-on-year growth of 22.4%. Output increase was recorded in the manufacturing industry (12.1%), and in the sector of electricity, gas and steam supply (62.1%). Output drop was observed in the mining and quarrying sector (-21.3%).

Preliminary Monstat data show that in the first nine months of 2018, air passenger transport grew by 12.6% y-o-y, while air freight transport rose by 5.9%. Over the same period, railway passenger transport increased by 7%, and railway freight transport dropped by 38.1%. The road passenger transport increased by 0.7%, and road freight transport declined by 2.3% y-o-y.

In the first eleven months of 2018, a total of 281,243 m³ of wood products were produced, which was by 15% less in relation to the corresponding period of the previous year. Monstat data suggests that in the first nine months of 2018, construction recorded an increase of 31.5% y-o-y, measured in terms of executed construction works, as well as an increase in effective working hours of 14.9% y-o-y.

In December 2018, the average number of employed persons amounted to 194,085, or by 0.3% less compared to the previous month and by 9.3% more in relation to December 2017. At the same time, the number of unemployed persons amounted to 41,378, which represents a monthly decrease of 3.5%, and a year-on-year decrease of 19.3%.

As at 31 December 2018, out of 43,104 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 14,197 or 32.9% were frozen. Compared to the previous month, the number of blocked business entities increased by 2%, while compared to the same month of 2017, this number rose by 11.6%. At end-December 2018, the total amount of debt used as the basis for the account freeze was 635.3 million euros, showing a monthly increase of 1.7% and an annual increase of 17.8%.

As at 31 December 2018, out of the total number of business entities with frozen accounts (14,197) a total of 2,311 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 30,553,641.03 euros or 4.8% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,886 with frozen funds in the amount of 604,800,250.39 euros or 95.2% of the total amount of frozen funds of business entities.

As at 31 December 2018, the debt concentration was relatively high, considering that the top 10 blocked business entities (0.08% of total recorded blocked business entities) accounted for 14.9% 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% of the total debt used as the basis for the account freeze.

At end-December 2018, total assets and liabilities of banks amounted to 4,407.2 million euros, recording a monthly increase of 0.03%. The main share in the the structure of aggregate balance sheet of banks referred to loans. At end-December 2018, they amounted to 2,930.2 million euros, declining by 1.9% m-o-m and increasing by 8.5% y-o-y.

In the structure of liabilities, deposits made up the main share of 78.5%. In December 2018, deposits in banks amounted to 3,459.2 million euros, rising by 0.2% m-o-m and by 5.9% y-o-y. At the end of this month, total capital of banks

amounted to 516.8 million euros, decreasing by 1.8% m-o-m, and rising by 0.5% y-o-y.

Past due banking loans (without interests, and prepayments and accruals) amounted to 198 million euros, which is a monthly drop of 12.4% and an increase of 5.1% y-o-y. At end-December 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 202.4 million euros and made up 6.9% of total loans. In relation to the previous month, non-performing loans of banks decreased by 2.5%, while recording an annual increase of 2.8%.

At end-December 2018, the weighted average lending effective interest rate on total loans granted amounted to 6.36% which represents a monthly decrease of 0.01 percentage points and a decrease of 0.45 percentage points y-o-y. In December 2018, the weighted average lending effective interest rate on new loans amounted to 5.51%, recording a monthly decline of 0.95 percentage points and a decline of 0.72 percentage points y-o-y. At the same time, the weighted average effective deposit interest rate amounted to 0.56% declining by 0.02% in relation to the end of the previous month, and by 0.13 percentage points in relation to end- December 2017.

At end-December 2018, reserve requirement of banks amounted to 249.6 million euros, decreasing by 1.7 million euros or 0.7% on a monthly level. All banks allocated and maintained reserve requirements within prescribed limits over the course of the reporting month. In the total amount of allocated reserve requirement, 54,6% was allocated to the reserve requirement account in the country, while 45,4% was allocated to the CBCG's account abroad.

This year, the gross insurance premium amounted to 86.8 million euros. Non-life insurance premiums still accounted for the main share in its structure with 82,5%, while invoiced life insurance premiums accounted for the remaining 17,5%.

In December 2018, Montenegro Stock Exchange recorded a turnover in the amount of 1.5 million euros, through 235 transactions. The turnover increased by 2.3 times in relation to the previous month. As at 31 December 2018, stock exchange capitalisation, amounted to 3,045.1 million euros, recording a monthly increase of 1.1%. At the same time, the MONEX index stood at 10,840.49 index points, recording a decline of 0.6% in relation to the end of the previous month. The MNSE10 index amounted to 837.08 index points and it decreased by 1.2% in relation to the previous month.

The Ministry of Finance estimated that in December of this year, Montenegro's fiscal deficit amounted to 70.4 million euros or 1.5% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 184.7 million euros or 4% of estimated annual GDP, being below the plan for December by 5.9%. Source revenues recorded a minor decline of 0.6% in relation to December 2017. At the same time, budget expenditure amounted to 255.1 million euros or 5.5% of GDP, recording a year-on-year decrease of 5.6%, and exceeding the plan by 45.5%.

According to the Ministry of Finance data, at end-September 2018, Montenegro's gross government debt amounted to 3,093.9 million euros or 67.2% of GDP. Net government debt amounted to 59.1% 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. The RTGS and DNS systems availability amounted to 98.97% in December.

Over the course of the reporting month, the Central Bank carried out significant activities aimed at meeting the obligations on the road towards Montenegro's accession to the EU. The representatives of the CBCG took part in the Sub-Committee for Economic and Financial Issues and Statistics meeting in Brussels. The CBCG took part in the constitutive session of the Commission on European Integration in which the participants discussed the overview of obligations from the Pre-Accession Economic Program 2018-2020 pending from the first three quarters, current breakdown of implementation in the fourth quarter, as well as the analysis of activities on drafting the Programme of Accession of Montenegro to the EU 2019-2020. The CBCG also participated in the second session of the Commission on European Integration, in which the first draft version of the Programme of Accession of Montenegro to the EU 2019-2020 was discussed.

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 media statements, 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.