

The Governor's Report – January 2018

Updated: 21 November 2018

The Governor's Report for January 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 January, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2018.

Preliminary Monstat data show that Montenegro's 2017 real GDP growth rate amounted to 4.4%, based on quarterly estimates. Year-on-year growth was recorded in all four quarters of 2017, amounting to 3.1%, 5.2%, 4.7% and 4.0%, respectively.

In January 2018, prices increased by 1% in relation to the previous month, while the annual inflation rate in January amounted to 2.6%.

In January 2018, the industrial output recorded the year-on-year increase of 52.4%. Production growth was recorded in all three sectors: electricity, gas and steam supply by 91%, the manufacturing sector by 26.5% and in mining and quarrying by 18%. In January 2018, the number of tourist arrivals in collective accommodation establishments recorded the year-on-year increase of 37.3%, while overnights increased by 23.1%.

In 2017, according to Monstat preliminary data, the air passenger transport recorded an increase of 17.7% y-o-y, while the air cargo transport decreased by 3.7%. Over the same period, road passenger transport increased by 0.4%, while road freight transport decreased by 1.5%. In 2017, railway passenger transport recorded a decrease of 27.8% year-on-year, while railway freight transport increased by 14.9%.

In January 2018, production of wood products amounted to 5,937 m³, which is an increase of 200% in relation to the corresponding month of the previous year. In 2017, according to preliminary Monstat data, construction recorded an

increase of 51.5% y-o-y, measured in terms of the value of executed construction works, as well as an increase of effective working hours of 24.5% y-o-y.

In January 2018, the average number of employed persons amounted to 178,160, which is an increase of 0.3% compared to the previous month and 0.6% more in relation to January 2017. In January 2018, the number of unemployed persons amounted to 48,580, which represents a decrease of 5.2% in relation to the previous month and a decrease of 5% compared to January 2017.

Out of 43,012 business entities that are registered as active in the Central Registry of Business Entities, and which have active accounts in the Central Registry of Transaction Accounts as at 31 January 2018, a total of 12,978 or 30.2% was frozen. Compared to the previous month, the number of blocked business entities increased by 2%. At end-January 2018, the total amount of debt used as the basis for the freezing of accounts amounted to 553.5 million euros, showing a monthly increase of 2.6%.

As at 31 January 2018, out of the total number of business entities with frozen accounts (12,978) a total of 2,267 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 37,594,312.42 euros or 6.8% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 10,711 with frozen funds in the amount of 515,961,592.10 euros or 93.2% of the total amount of frozen funds of business entities.

On 31 January 2018, debt concentration was relatively high, considering that top 10 debtors (0.1% 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 37.7% of the total debt used as the basis for the account freeze.

At end-January 2018, total assets and liabilities decreased by 1.5% compared to the previous month and amounted to 4,117.6 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-January, total loans amounted to 2,671.6 million euros, which is 1.1% lower in relation to the previous month and 10.5% 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 January 2018, banks' deposits amounted to 3,236.1 million euros recording a monthly decline of 1%, and a year-on-year increase of 13.5%. Total capital of banks at end-January 2018 amounted to 490.8 million euros, which is a decrease of 4.6% in relation to the previous month as well as a decrease of 0.6% in relation to the corresponding period of the previous year.

In January 2018, past due loans (without interests, and prepayments and accruals) amounted to 213.5 million euros, which is an increase of 8.4% in relation to the previous month, while they recorded a decrease of 15% in relation to January 2017. At end-January 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 201.4 million euros and made up 7.4% of total loans. In relation to the previous month, non-performing loans of banks increased by 2.2%, while they recorded an annual decrease of 19.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.78% at end-January 2018, which represents a monthly decrease of 0.03 percentage points, while in relation to end of January 2017 it recorded a decrease of 0.62 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.45% in January 2018, which represent a monthly increase of 0.22 percentage points, and a decrease of 0.80 percentage points in relation to January 2017. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.69% at end-December 2017, showing a decline of 0.03 percentage points in relation to the previous month, while it recorded a decline of 0.24 percentage points in relation to end-December 2016.

At end-January 2018, reserve requirement of banks amounted to 237.1 million euros, which represents an increase of 3.5 million euros or 1.5% on a monthly level, while in relation to the corresponding period of the previous year, reserve requirements decreased by 28.8 million euros or 10.8%. During January 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 52.2% was allocated to the reserve requirement account in the country, while 47.8% was at the CBCG account abroad.

In January 2018, the gross insurance premium amounted to 5.5 million euros. Non-life insurance premiums still accounted for the main share in its structure

with 85.5%, while invoiced life insurance premiums accounted for the remaining 14.5%.

In January 2018, Montenegro Stock Exchange recorded a turnover in the amount of 4.2 million euros, through 293 transactions. In relation to the previous month, the turnover was lower by 15.1%. As at 31 January 2018, market capitalization amounted to 2,980.7 million euros, recording 4.4% increase in relation to the previous month. At the same time, the MONEX index stood at 10,672.76 index points, recording a monthly increase of 4.9%. The MNSE10 index amounted to 828.80 index points increasing by 6.7% in relation to the previous month.

In January 2018, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 24.6 million euros or 0.6% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 81.5 million euros or 1.9% of estimated annual GDP, which represents an increase of 1.3% in relation to the plan for January. In relation to source revenues recorded in January 2017, there was an increase of 10.7%. Budget expenditure amounted to 106.1 million euros or 2.4% of estimated annual GDP, which was a year-on-year increase of 11.4%, and by 27.2% below planned.

At end-December 2017, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 2,627.9 million euros or 62% of GDP. Net government debt amounted to 60.4% of GDP. Public debt (gross) of Montenegro amounted to 2,758.8 million euros, or 65.1% of GDP. Out of that figure, domestic debt accounted for 413.9 million euros or 9.8% of GDP, while external debt accounted for 2,214 million euros or 52.2% of GDP, while the debt of local self-government units accounted for 130.9 million euros or 3.1% 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. RTGS and DNS systems availability amounted to 99.83% in January.

In January, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. At the request of the Ministry of European Affairs, the CBCG submitted the second

Annex to the EC Progress Report of Montenegro. As per request of Monstat, i.e. Eurostat, the CPC database for the period 2005-2016 was updated. The representatives of the CBCG participated at the first meeting and prepared the needed documentation in relation to the preparation of the project for *IPA 2017* multi-beneficiary programme in the area of international service trade statistics. There was a meeting of the Committee for Coordination and Implementation of the Agreement on cooperation in the area of national accounts statistics of the general government sector and its related statistics and other activities related to the methodology *ESA 2010*, where it was agreed to perform drafting of the Annex of the Agreement, the so called indicator passport and institutional register for 2015, 2016 and 2017. At the request of the Ministry of Economy, for the purpose of drafting Montenegro's Programme of Accession to the European Union 2017–2018, the CBCG submitted comments and answers in relation to Chapter 20 - Enterprise and Industrial Policy. At the request of Monstat, representatives of the CBCG participated in the regular quarterly meeting of Domain 2, Chapter 18 - Statistics. At the invitation of the Ministry of European Affairs, the CBCG participated at the public debate on the occasion of drafting the Programme of Accession of Montenegro to the EU 2018-2020.

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.