

The Governor's Report – June - July 2018

Updated: 28 November 2018

The Governor's Report for June and July 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 June and July, 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 in 2017 Montenegro's real GDP growth rate amounts to 4.3%, based on quarterly estimates. In Q1 2018, the real growth amounted to 4.5% y-o-y.

In July 2018, prices increased by 0.2% in relation to the previous month, while the annual inflation rate in July amounted to 3.4%.

During the first seven months of 2018, according to preliminary Monstat data, industrial output recorded a year-on-year increase of 27.7%. Output increase was recorded in the electricity, gas and steam supply sector (97.8%), and in the manufacturing industry sector (3.7%), whereas the mining and quarrying sector saw a decline in output (-18.4%).

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% and railway freight transport decreased 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 six months of 2018, some 110,516 m³ of wood products were produced, which was 0.3% 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 July 2018, the average number of employed persons amounted to 198,987, which is an increase of 1.2% compared to the previous month and 3.8% more in relation to July 2017. In July 2018, the number of unemployed persons amounted to 41,755, which represents a decrease of 2.3% in relation to the previous month and a decrease of 10.9% compared to July 2017.

As at 31 July 2018, out of 44,920 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 13,373 or 29.8% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.1%. At end-July 2018, the total amount of debt used as the basis for the freezing of accounts amounted to 612.8 million euros, showing a monthly increase of 1.2%.

As at 31 July 2018, out of the total number of business entities with frozen accounts (13,373) a total of 2,077 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 40,553,471.99 euros or 6.6% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,296 with frozen funds in the amount of 572,307,877.76 euros or 93.4% of the total amount of frozen funds of business entities.

On 31 July 2018, debt concentration was relatively high, considering that top 10 debtors (0.08% of total recorded debtors) accounted for 15.5% 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 37.5% of the total debt used as the basis for the account freeze.

At end-July 2018, total assets and liabilities increased by 1% compared to the previous month and amounted to 4,352.1 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-July 2018, total loans amounted to 2,944.1 million euros, which is 0.4% increase in relation to the previous month and 11.8% higher in relation to the end of the previous year.

In the structure of liabilities, deposits made up the main share of 78.5%. In July 2018, deposits in banks amounted to 3,415.3 million euros, rising by 1.9% m-o-m and 14.9% y-o-y. At end-July 2018, total capital of banks amounted to

510.4 million euros, decreasing by 0.5% in relation to the previous month, while increasing by 1.2% in relation to the corresponding period of the previous year.

In June, past due loans (without interests, and prepayments and accruals) amounted to 210.3 million euros, which is a decrease of 6.9% in relation to the previous month, while they recorded a decline of 20.9% in relation to July-2017. At end-June 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 217.9 million euros and made up 7.4% of total loans. In relation to the previous month, non-performing loans of banks increased by 6.5%, while they recorded an annual increase of 1.1%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.42% at end-July 2018, which represents a monthly decrease of 0.02 percentage points, while in relation to end-July 2017 it recorded a decrease of 0.58 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.67% in July 2018, which represent a monthly increase of 0.28 percentage points, and a decrease of 0.95 percentage points in relation to July 2017. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.61% at end-July 2018. The rate saw a monthly decline of 0.02 percentage points, and a year-on-year decline of 0.18 percentage points.

At end-July 2018, reserve requirement of banks amounted to 247.5 million euros, recording a monthly rise of 1.3 million euros or 0.5% and a year-on-year increase of 33.8 million euros or 15.8%. During July 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 54.2% was allocated to the reserve requirement account in the country, while 45.8% was at the CBCG account abroad.

Gross insurance premium amounted to 50.6 million euros during the first seven months of 2018. Non-life insurance premiums still accounted for the main share in its structure with 84.2%, while invoiced life insurance premiums accounted for the remaining 15.8%.

In July 2018, Montenegro Stock Exchange recorded a turnover in the amount of 1.6 million euros, through 296 transactions. In relation to the previous month, the turnover was lower by 60.6%. As at 31 July 2018, market capitalization amounted to 3,076.9 million euros, recording 1.8% increase in relation to the previous month. At end-July 2018, the MONEX index stood at

10,528.73 index points, recording a monthly increase of 6.3%. The MNSE10 index amounted to 815.11 index points increasing by 5.8% in relation to the previous month.

In July 2018, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 17 million euros or 0.4% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 160.6 million euros or 3.6% of estimated annual GDP, which represents an increase of 2.2% in relation to the plan for June. In relation to source revenues recorded in July 2017, there was an increase of 10%. Budget expenditure amounted to 143.6 million euros or 3.2% of estimated annual GDP, which was a year-on-year decrease of 1.5%, and by 9.2% below planned.

At end-June 2018, 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 June and July.

In June and July, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Representatives of the CBCG participated in the second working visit of partners from the Croatian National Bank as part of the Twinning Project. The representatives of the Central Bank of Montenegro participated in the meeting of the Subcommittee for Internal Market and Competition which was held in June, in Brussels. As per request of the Montenegro's Chief Negotiator with European Union, the CBCG updated information on the plan for fulfilling final benchmarks for closing negotiations in Chapter 9 - Financial services. Representatives of the CBCG participated at the tenth meeting of the Commission for European Integration, held at the beginning of July. At the invitation of the Ministry of Finance, the representatives of the CBCG participated at the final conference of IPA 2014 project "Support to assessing the macroeconomic influence of structural reforms". As per request of Monstat, the CBCG submitted balance of payments data need for the project on indicators for the Macroeconomic Imbalance Procedure as part of IPA

2015. The CBCG updated its contribution needed for drafting contribution for the position for the Stabilisation and Association Council. At the request of the European Commission, for the purpose of preparation of the quarterly report, the CBCG submitted the required data on non-performing loans for March, April and May 2018. The CBCG submitted draft cost analysis for the Business and Consumer Survey project (*BCS*) to the European Commission for the period May 2017 - April 2018.

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.