

The Governor's Report – May 2018

Updated: 22 November 2018

The Governor's Report for May 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 May, 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 May 2018, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in May amounted to 3.1%.

During the first five months of 2018, industrial output recorded a year-on-year increase of 31.8%. Output increase was recorded in the electricity, gas and steam supply sector (100.7%), and in the manufacturing industry sector (5.5%), whereas the mining and quarrying sector saw a decline in output (-22.2%). During the first five months of 2018, the number of tourist arrivals in collective accommodation establishments recorded a year-on-year increase of 19.8%, while overnights increased by 17.9%.

Preliminary Monstat data show that in the first three months of 2018, air passenger transport grew by 18.8% y-o-y, while air freight transport decreased by 1.1%. Over the same period, railway passenger transport dropped by 12%, and railway cargo transport by 21.4%. The road passenger transport increased by 0.1%, and road freight transport grew by 2% y-o-y.

During the first five months of 2018, some 71,841 m³ of wood products were produced, which was 3.8% less in relation to the corresponding period of the previous year. As per Monstat's preliminary data, in the first three months of 2018, construction saw a year-on-year increase of 46.8% in the value of

executed construction works, as well as a 29.1% year-on-year increase in effective working hours.

In May 2018, the average number of employed persons amounted to 189,341, which is an increase of 2.9% compared to the previous month and 1.9% more in relation to May 2017. In May 2018, the number of unemployed persons amounted to 43,692, which represents a decrease of 2.9% in relation to the previous month and a decrease of 14.8% compared to May 2017.

As at 31 May 2018, out of 44.165 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 13,393 or 30.3% were frozen. Compared to the previous month, the number of blocked business entities increased by 1.6%. At end-May 2018, the total amount of debt used as the basis for the freezing of accounts amounted to 599.5 million euros, showing a monthly increase of 1.7%.

As at 31 May 2018, out of the total number of business entities with frozen accounts (13,393) a total of 2,291 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 39,475,665.77 euros or 6.6% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,102 with frozen funds in the amount of 560,002,768.17 euros or 93.4% of the total amount of frozen funds of business entities.

On 31 May 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-May 2018, total assets and liabilities increased by 2.6% compared to the previous month and amounted to 4,276.5 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-March 2018, total loans amounted to 2,895.8 million euros, which is 2.6% increase in relation to the previous month and 10.2% higher in relation to the end of the previous year.

In the structure of liabilities, deposits made up the main share of 78.6%. Total banks' deposits amounted to 3,362.7 million euros at end-May 2018 and they recorded a monthly increase of 2.2%, and a 15.6% growth in relation to May

2017. At end-May 2018, total capital of banks amounted to 504.8 million euros, increasing by 0.3% in relation to the previous month, and 1.2% in relation to the corresponding period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 229.3 million euros, which is an increase of 6.6% in relation to the previous month, while they recorded a decline of 24.3% in relation to May-2017. At end-May 2018, non-performing loans (without interests, and prepayments and accruals) amounted to 205.2 million euros and made up 7.1% of total loans. In relation to the previous month, non-performing loans of banks increased by 2.3%, while they recorded an annual decrease of 15.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.58% at end-May 2018, which represents a monthly decrease of 0.10 percentage points, while in relation to end-May 2017 it recorded a decrease of 0.51 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 4.82% in May 2018, which represent a monthly decrease of 1.89 percentage points, and a decrease of 2.80 percentage points in relation to May 2017. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.62% at end-May 2018. The rate saw a monthly decline of 0.02 percentage points, and a year-on-year decline of 0.22 percentage points.

At end-May 2018, reserve requirement of banks amounted to 241 million euros, recording a monthly rise of 1.7 million euros or 0.7% and a year-on-year increase of 31.6 million euros or 15.1%. During May 2018, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 53% was allocated to the reserve requirement account in the country, while 47% was at the CBCG account abroad.

Gross insurance premium amounted to 33.4 million euros during the first five months of 2018. 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 May 2018, Montenegro Stock Exchange recorded a turnover in the amount of 69.8 million euros and 270 transactions. The turnover was 59.1 times higher in relation to the previous month. As at 31 May 2018, market capitalization amounted to 2,990.8 million euros, recording 1.4% increase in relation to the previous month. The MONEX index, which stood at 9,761.36 index points at

end-May 2018, declined by 3.9% in relation to the previous month. The MNSE10 index amounted to 756.87 index points and decreased by 3.7% in relation to the previous month.

In May 2018, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 2.9 million euros or 0.1% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 138.8 million euros or 3.1% of estimated annual GDP, which represents an increase of 1.3% in relation to the plan for May. In relation to source revenues recorded in May 2017, there was an increase of 10.8%. Budget expenditure amounted to 141.8 million euros or 3.2% of estimated annual GDP, which was a year-on-year increase of 9.4%, and by 5.2% below planned.

According to the Ministry of Finance data, at the end of March 2018, Montenegro's gross government debt stood at 2,665.3 million euros or 60.6% of GDP. Net government debt amounted to 59% 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. In May, RTGS and DNS systems availability amounted to 100%.

In May, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG prepared contribution for the Sub-Committee for Internal Market and Competition, which was later held in Brussels. The representatives of the CBCG prepared answers to questions by the Twinning project experts, related to the area of prevention of money laundering and terrorist financing. The representatives of the CBCG took part at the meeting with the Council of Europe expert, on the topic "Monitoring the implementation of the Law on the Prevention of Money Laundering and Terrorist Financing and secondary legislation by payment institutions". As per request of the European Central Bank on updating the document that comprises an overview of implemented macro-prudential measures, the CBCG sent the requested information to the ECB. The representatives of the CBCG participated in meetings with the expert mission of the Croatian National Bank, within the IPA 2015 project for international trade in services. At the request of the Ministry of European Affairs, in relation to the ninth meeting of the Stabilisation and Association

Council, the CBCG prepared contribution for the position for the Council, for the reporting period from June 2017 until June 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.