

The Governor's Report – October 2018

Updated: 28 January 2019

The Governor's Report for October 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 October, 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 and Q2 2018 real growth stood at 4.5% and 4.9%, respectively.

In October 2018, prices decreased by 0.2% in relation to the previous month, while the annual inflation rate in October amounted to 1.9%.

In the first ten months of 2018, industrial output recorded a year-on-year increase of 23.4%. Output increase was recorded in the electricity, gas and steam supply sector (78.2%), and in the manufacturing industry sector (7%), whereas the mining and quarrying sector saw a decline in output (-19.1%).

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.

During the first nine months of 2018, some 212,078 m³ of wood products were produced, which was 13.6% 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 October 2018, the average number of employed persons amounted to 194,555, or by 0.6% less compared to the previous month and by 9.7% more in relation to

October 2019. In October 2018, the number of unemployed persons amounted to 41,927, rising by 5.1% in relation to the previous month and by 17.4% compared to October 2017.

As at 30 October 2018, out of 45,460 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 13,756 or 30.3% were frozen. Compared to the previous month, the number of blocked business entities increased by 1.1%, while compared to the same month of 2017, its growth stood at 9.2%. At end-October 2018, the total amount of debt used as the basis for the account freeze amounted to 646.1 million euros, showing a monthly increase of 2.5% and an annual increase of 6.5%.

As at 31 October 2018, out of the total number of business entities with frozen accounts (13,756) a total of 2,299 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 54,184,119.33 euros or 8.4% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,457 with frozen funds in the amount of 591,952,694.74 euros or 91.6% of the total amount of frozen funds of business entities.

As at 30 October 2018, debt concentration was relatively high, considering that top 10 blocked business entities (0.08% of total recorded blocked business entities) accounted for 15.7% 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 38.6% of the total debt used as the basis for the account freeze.

At end-October 2018, total assets and liabilities of banks amounted to 4,409.4 million euros, recording a monthly decline of 0.1%. The main share in the the structure of aggregate balance sheet of banks referred to loans. At end-October 2018, they amounted to 2,982.6 million euros, declining by 0.2% m-o-m and increasing by 9.2% y-o-y.

In the structure of liabilities, deposits made up the main share of 78,4%. In October 2018, deposits in banks amounted to 3,459 million euros, recording a minor monthly decline and rising by 8.5% y-o-y. Total capital of banks at end-October 2018 amounted to 522.6 million euros, or by 0.9% more in relation to the previous month, and by 0.1% more in relation to the corresponding period of the previous year.

At end-October 2018, the weighted average lending effective interest rate on total loans granted amounted to 6.39% which represents a monthly decrease of 0.01 percentage points and a decrease of 0.55 percentage points y-o-y. In October 2018, the weighted average lending effective interest rate on new loans amounted to 6.92%, recording a monthly growth of 0.37 percentage points and a decrease of 0.29 percentage points y-o-y. The weighted average effective deposit interest rate amounted to 0.58% at end-October 2018 keeping its value seen at the end of the previous month, while recording a decline of 0.16 percentage points in relation to end- October 2017.

At end-October 2018, reserve requirement of banks amounted to 258.3 million euros, recording a monthly decline of 993,621 euros or 0.4% and a year-on-year increase of 28.8 million euros or 12.5%. In October 2018, all banks allocated and maintained reserve requirements within prescribed amounts. In the total allocated reserve requirement, 56,1% was allocated to the reserve requirement account in the country, while 43,9% was allocated to the CBCG account abroad.

In the period January-September 2018, the gross insurance premium amounted to 64.9 million euros. Non-life insurance premiums still accounted for the main share in its structure with 83,9%, while invoiced life insurance premiums accounted for 16,1%.

In October 2018, Montenegro Stock Exchange recorded a turnover in the amount of 5.7 million euros, through 344 transactions. The turnover was by 89% lower in relation to the previous month. As at 30 October 2018, stock exchange capitalisation, amounted to 3,006 million euros, recording a monthly increase of 0.9%. At the same time, the MONEX index stood at 10,863.30 index points, recording a monthly increase of 3.9%. The MNSE10 index amounted to 843.46 index points increasing by 5.7% in relation to the previous month.

The Ministry of Finance estimated that Montenegro's fiscal surplus amounted to 23.6 million euros or 0.5% of estimated annual GDP in September 2018. Source revenues of the budget of Montenegro amounted to 187.3 million euros or 4.1% of estimated annual GDP, being below the plan for September by 0.6%. Over the same period, the source revenues recorded a year-on-year increase of 35.1%. At the same time, budget expenditure amounted to 163.7 million euros or 3.6% of GDP, recording a year-on-year increase of 19%, and staying below the plan by 6.1%.

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. RTGS and DNS systems availability amounted to 100% in October.

In October, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The Office for European integration was submitted the Contribution for the Annual Progress Report of Montenegro (1 January 2018 – 20 October 2018). In relation to the regular meeting of the Sub-Committee for Economic and Financial Issues and Statistics on 22 November of this year, the CBCG submitted to the Ministry of Finance its contribution for items on the agenda within its mandate. The CBCG took part in the eleventh meeting of the Commission on European Integration, held on October 2018. Within its mandate, the CBCG prepared contributions for the Economic Reform Programme 2019-2021, in the part of chapter 2 - Macroeconomic Framework, and in the part of chapter 4 - Structural Reforms. Representatives of the CBCG took part in the constitutive meeting of the Working Group for the preparation and conduct of negotiations on the accession of Montenegro to the European Union in the field of the *acquis communautaire* relating to Chapter 4 - Free movement of capital, Chapter 9 - Financial services, Chapter 20 - Enterprise and industrial policy, and Chapter 33 - Financial and budgetary provisions. In response to an invitation by the Ministry of Economy, the CBCG also took part in the meeting of the Sub-committee for trade, industry, customs and taxation.

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.