

The Governor's Report – December 2019

The Governor's Report for December 2019 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 2019, 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 2019.

According to the Monstat data, the real growth rate of Montenegro's GDP in 2018 was 5.1%, while as per preliminary data in Q1, Q2, and Q3 2019 real growth stood at 3.0%, 3.2%, and 4.7%, respectively.

In December 2019, consumer prices were lower by 0.1% compared to the previous month, while price growth was 1% compared to December 2018.

In 2019 industrial output decreased by 6.3% year-on-year. The decline was recorded in manufacturing industry (-10%), and in the electricity, gas and steam supply sector (-7.1%), while there was an output increase in the mining and quarrying sector (20.8%).

In 2019, as per preliminary Monstat data, the air passenger transport recorded a year-on-year increase of 8.1%, while air cargo transport decreased by 6.4%. The rail passenger transport declined by 0.8%, while rail freight transport increased by 17.1%. The road passenger transport increased by 0.8%, and road freight transport grew by 9.4% y-o-y.

In 2019, production of forest assortments amounted to 267,889 m³, which is a decrease of 10.8% in relation to the previous year. In 2019, according to preliminary Monstat data, construction recorded an increase of 10.7% y-o-y, measured in terms of the value of executed construction works, as well as an increase of effective working hours of 4.2% y-o-y.

In December 2019, the average number of employed persons amounted to 198,566, or by 2.2% less compared to the previous month and by 2.3% more in relation to December 2018. At the same time, the number of unemployed persons amounted to 37,616, which represents a monthly decrease of 0.8%, and a year-on-year decrease of 9.1%.

As at 31 December 2019, out of 48,278 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 14,605 or 30.3% were frozen. Compared to the previous month, the number of blocked business entities increased by 1%, while compared to the same month of 2018, its growth stood at 2.9%. At end-December 2019, the total amount of debt used as the basis for the account freeze was 616.2 million euros, showing a monthly and an annual decrease of 0.4% and 3%, respectively.

As at 31 December 2019, out of the total number of business entities with frozen accounts (14,605) a total of 2,202 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 30,157,042.17 euros or 4.9% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,403 with frozen funds in the amount of 586,004,946.54 euros or 95.1% of the total amount of frozen funds of business entities.

As at 31 December 2019, debt concentration was relatively high, considering that top 10 blocked business entities (0.07% of total recorded blocked business entities) accounted for 18.2% of the total debt used as the basis for the account freeze. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 40.5% of the total debt used as the basis for the account freeze.

At end-December 2019, total assets and liabilities decreased by 2% compared to the previous month and amounted to 4,603.9 million euros¹. The main share in the the structure of aggregate balance sheet of banks referred to loans. At end-December 2019, they amounted to 3,061.7 million euros, declining by 1% m-o-m and increasing by 4.5% y-o-y.

In the structure of liabilities, deposits made up the main share of 75.5%. In December 2019, deposits in banks amounted to 3,475.8 million euros, declining by 2.1% m-o-m and rising by 0.5% y-o-y. At the end of this month, total capital of banks amounted to 600 million euros, decreasing by 2% m-o-m, and rising by 17% y-o-y.

¹Data for the banking sector refer to the condition of the system at a given date, in line with the application of relevant international methodology. Therefore, the calculation of the annual change compares the condition of the system at the time of comparison (as of April 2019 and 13 banks) with the balance as at the given date in 2018 (15 banks).

In December, past due loans (without interests, and prepayments and accruals) amounted to 115.9 million euros, which is a decrease of 16.6% in relation to the previous month, while they recorded a decline of 36.6% in relation to December 2018. At end-December 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 144.6 million euros and made up 4.7% of total loans. In relation to the previous month, non-performing loans of banks increased by 1.2%, while they recorded an annual decrease of 26.5%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.01% at end-December 2019, which represents a monthly decrease of 0.07 percentage points, while in relation to end-December 2018 it recorded a decrease of 0.35 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.02% in December 2019, which represent a monthly growth of 1.28 percentage points, and an increase of 0.51 percentage points in relation to December 2018. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.41% at end-December 2019, showing a decline of 0.01 percentage point in relation to the previous month, while it recorded a decline of 0.16 percentage points in relation to end-December 2018.

At end-December 2019, reserve requirement of banks amounted to 260.1 million euros, recording a monthly rise of 2 million euros or 0.8% and a year-on-year increase of 8.3 million euros or 3.3%. All banks allocated and maintained reserve requirement within prescribed limits over the course of the reporting month. In the total allocated reserve requirement, 59.1% was allocated to the reserve requirement account in the country, while 40.9% was held on the CBCG foreign accounts.

This year, the gross insurance premium amounted to 94.8 million euros. Non-life insurance premiums still accounted for the main share in its structure with 81.9%, while invoiced life insurance premiums accounted for 18.1%.

In December 2019, Montenegro Stock Exchange recorded a turnover in the amount of 4.6 million euros, through 267 transactions. The turnover was 77.5% lower than in the previous month but 208.9% higher than in December 2018. As at 31 December 2019, stock exchange capitalisation amounted to 3,455.1 million euros, recording a monthly decline of 0.6% and annual increase of 13.5%. At the same time, the MONEX SE index stood at 11,403.61 index points at end-December 2019, recording a monthly decrease of 2.1%, and an annual increase of 5.2%. The MNSE10 index amounted to 777.61 index points, recording a monthly and annual decrease of 1.5% and 7.1%, respectively.

In December 2019, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 32.7 million euros. Source revenues of the budget of Montenegro amounted to 243.1 million euros or 5% of estimated annual GDP, which represents an increase of 25.7% in relation to the plan for December. In relation to source revenues recorded in December 2018, there was an increase of 31.4%. At the same time, budget expenditure amounted to 275.8 million euros or 5.7% of estimated annual GDP, recording a year-on-year increase of 7.7%, and 88.8% more than planned.

According to the Ministry of Finance data, at end-September 2019, Montenegro's gross government debt amounted to 3,127.9 million euros or 64.9% of GDP. Out of that figure, a total of 504.5 million euros or 10.5% of GDP referred to internal debt, while external debt accounted for 2,623.4 million euros or 54.4% of GDP. Net government debt amounted to 61.6% of GDP. At end-December 2018, public debt (gross) of Montenegro amounted to 3,268.6 million euros, or 70.8% of GDP. Out of that figure, domestic debt accounted for 393 million euros or 8.5% of GDP, while external debt accounted for 2,760 million euros or 59.8% of GDP, while the debt of local self-government units accounted for 115.6 million euros or 2.5% of GDP.

In December, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The Annex for the 2020 Annual Progress Report of Montenegro (1 January 2019-1 November 2019) was submitted to the European Integration Office. At the request of the Ministry of Economy, the CBCG's answers to additional questions the EC had after the meeting of the Sub-Committee for Internal Market and Competition were updated. As a part of the ESCB regional project, the CBCG representatives participated at the fourth meeting of the project Steering Committee, held at the National Bank of Slovakia. The CBCG representatives also took part at the meeting of the Stabilisation and Association Committee. The working groups meetings for the negotiation chapters 4 - *Free movement of capital* and 30 - *External relations* were also attended by the representatives of the CBCG. As part of the ongoing Twinning Project "Support to the Regulation of Financial Services", a mission of Bundesbank experts concerning IFRS 9 was carried out.

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 was 100% in December.

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 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.