

## The Governor's Report – January 2019

The Governor's Report for January 2019 provides an overview of key activities of the Central Bank concerning the implementation of targets and objectives defined by the Central Bank of Montenegro Policy for 2019, 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 2019.

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, Q2, and Q3 2018 real growth stood at 4.5%, 4.9%, and 5.0%, respectively.

In January 2019, prices decreased by 0.3% in relation to the previous month, while the annual inflation rate in January amounted to 0.3%.

In January 2019, industrial output recorded a decline of 8.9% year-on-year. Output decrease was recorded in all three sectors: manufacturing industry (-2.6%), mining and quarrying (-11.5%), and electricity, gas and steam supply (-13.1%).

In 2018, as per preliminary Monstat data, the air passenger transport recorded a year-on-year increase of 12.3%, while air cargo transport increased by 6.3%. In the same period, railway passenger transport increased by 7%, while railway freight transport declined by 39.7%. The road passenger transport recorded annual increase of 0.6%, while road freight transport declined by 3.5%.

In January 2019, production of wood products amounted to 570 m<sup>3</sup>, which is a decrease of 88.9% in relation to the corresponding month of the previous year. Preliminary Monstat data show that, in 2018, construction recorded annual increase of 24.9% in the value of performed construction works, as well as in a 10.9% increase in effective working hours.

In January 2019, the average number of employed persons amounted to 194,589, which is an increase of 0.3% compared to the previous month and 9.2% more in relation to January 2018. In January 2019, the number of unemployed persons amounted to 38,917, which represents a decrease of 5.9% in relation to the previous month and a decrease of 19.9% compared to January 2018.

As at 31 January 2019, out of 46,036 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 14,061 or 30.5% were frozen. Compared to the previous month, the number of blocked business entities decreased by 1%, while compared to the same month of 2018, its growth stood at 8.3%. At end-January 2019, the total amount of debt used as the basis for the account freeze was 653.3 million euros, showing a monthly increase of 2.8% and an annual increase of 18%.

As at 31 January 2019, out of the total number of business entities with frozen accounts (14,061) a total of 2,329 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 36,856,286.56 euros or 5.6% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,732 with frozen funds in the amount of 616,503,024.28 euros or 94.4% of the total amount of frozen funds of business entities.

As at 31 January 2019, debt concentration was relatively high, considering that top 10 blocked business entities (0.08% of total recorded blocked business entities) accounted for 15.2% 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 37.9% of the total debt used as the basis for the account freeze.

At end-January 2019, total assets and liabilities decreased by 0.6% compared to the previous month and amounted to 4,380.1 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-January 2019, total loans amounted to 2,939.8 million euros, which is an increase of 0.3% in relation to the previous month and 10.2% higher in relation to January of the previous year.

In the structure of liabilities, deposits made up the main share of 78%. In January 2019, banks' deposits amounted to 3,416.9 million euros recording a monthly decline of 1.2%, and a year-on-year increase of 5.6%. Total capital of banks at end-January 2019 amounted to 524.8 million euros, which is an increase of 1.5% in relation to the previous month as well as an increase of 7% in relation to the corresponding period of the previous year.

In January, past due loans (without interests, and prepayments and accruals) amounted to 230.7 million euros, which is an increase of 16.5% in relation to the

previous month, while they recorded an increase of 8.1% in relation to January 2018. At end-January 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 184.4 million euros and made up 6.3% of total loans. In relation to the previous month, non-performing loans of banks decreased by 8.9%, while they recorded an annual decrease of 6.7%.

At end-December 2018, the weighted average lending effective interest rate on total loans granted amounted to 6.36% which represents a monthly decrease of 0.01 percentage points and a decrease of 0.45 percentage points y-o-y. In December 2018, the weighted average lending effective interest rate on new loans amounted to 5.51%, recording a monthly decline of 0.95 percentage points and a decline of 0.72 percentage points y-o-y. At the same time, the weighted average effective deposit interest rate amounted to 0.56% declining by 0.02% in relation to the end of the previous month, and by 0.13 percentage points in relation to end- December 2017.

At end-January 2019, reserve requirement of banks amounted to 249.7 million euros, which represents a monthly decrease of 2.1 million euros or 0.8%, while in relation to the corresponding period of the previous year reserve requirements increased by 12.6 million euros or 5.3%. During January 2019, all banks allocated and maintained reserve requirements within prescribed limits. In the total amount of allocated reserve requirement, 54,6% was allocated to the reserve requirement account in the country, while 45,4% was allocated to the CBCG's account abroad.

In January 2019, the gross insurance premium amounted to 7.4 million euros. Non-life insurance premiums still accounted for the main share in its structure with 87%, while invoiced life insurance premiums accounted to 13%.

In January 2019, Montenegro Stock Exchange recorded a turnover in the amount of 127,978 euros, through 122 transactions. The turnover was 91.5% lower in relation to the previous month. Market capitalisation, as at 31 January 2019 amounted to 2,988.4 million euros, thus recording a monthly decrease of 1.9%. At the same time, the MONEX index stood at 10,363.69 index points, recording a monthly decrease of 4.4%. The MNSE10 index amounted to 802.26 index points and it decreased by 4.2% in relation to the previous month.

The Ministry of Finance estimated that in December of this year, Montenegro's fiscal deficit amounted to 70.4 million euros or 1.5% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 184.7 million euros

or 4% of estimated annual GDP, being below the plan for December by 5.9%. Source revenues recorded a minor decline of 0.6% in relation to December 2017. At the same time, budget expenditure amounted to 255.1 million euros or 5.5% of GDP, recording a year-on-year decrease of 5.6%, and exceeding the plan by 45.5%.

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 January.

In January, the Central Bank carried out numerous activities aimed at meeting obligations on the road towards Montenegro's accession to the EU.

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.