

## **The Governor's Report – June/July 2019**

The Governor's Report for June and July 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 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 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 and Q2 2019 real growth stood at 3.0% and 3.2%, respectively.

In July 2019, prices decreased by 0.1% in relation to the previous month, while the annual inflation rate in July amounted to -0.4%.

During the first seven months of 2019, industrial output recorded a y-o-y decrease of 9.8%. The decline was recorded in the sector of manufacturing industry (-2.5%), and in the electricity, gas and steam supply sector (-22%), while there was an increase in the mining and quarrying sector (13.6%).

During the first six months of 2019, according to preliminary Monstat data, air passenger transport recorded a y-o-y growth of 8.7%, while air cargo transport decreased by 4.1%. The rail passenger transport remained unchanged, while rail freight transport increased by 2.2%. The road passenger transport increased by 1.1%, and road freight transport grew by 8.2% y-o-y.

During the first seven months of 2019, production of forest assortments amounted to 106,509 m<sup>3</sup>, which is a decrease of 23.3% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first six months of 2019, construction recorded y-o-y increase of 12.3% in the value of executed construction works, as well as a 3% increase in effective working hours.

In July 2019, the average number of employed persons amounted to 215,181, which is an increase of 0.8% compared to the previous month and 8.1% more in relation to July 2018. In July 2019, the number of unemployed persons amounted to 34,576, which represents a decrease of 2% in relation to the previous month and a decrease of 17.2% compared to July 2018.

As at 31 July 2019, out of 47,818 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 14,057 or 29.4% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.3%, while compared to the same month of 2018, its growth stood at 5.1%. At end-July 2019, total amount of debt being the basis for freezing of accounts amounted to 618.7 million euros, showing a monthly decrease of 0.4%, while it recorded an annual increase of 1%.

As at 31 July 2019, out of the total number of business entities with frozen accounts (14,057) a total of 2,020 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 23,709,410.07 euros or 3.8% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,037 with frozen funds in the amount of 595,020,641.23 euros or 96.2% of the total amount of frozen funds of business entities.

As at 31 July 2019, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 17% 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 38.3% of the total debt used as the basis for the account freeze.

At end-July 2019, total assets and liabilities increased by 4.7% compared to the previous month and amounted to 4,510.6 million euros<sup>1</sup>. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-July 2019, total loans amounted to 3,002.6 million euros, which is 1.8% increase in relation to the previous month and 2.0% higher in relation to July 2018.

In the structure of liabilities, deposits made up the main share of 75.8%. In July 2019, deposits in banks amounted to 3,419.1 million euros, rising by 4.9% month-on-month and 0.1% year-on-year. Total capital of banks at end-July 2019 amounted to 580.6 million euros, which is an increase of 1.6% in relation to the

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<sup>1</sup>Data 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).

previous month, while there was an increase of 13.7% in relation to the corresponding period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 139.5 million euros, which is a decrease of 6.8% in relation to the previous month, while they recorded a decline of 33.7% in relation to June-2018. At end-July 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 148.6 million euros and made up 4.9% of total loans. In relation to the previous month, non-performing loans of banks increased by 5.1%, while they recorded an annual decrease of 31.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.17% at end-July 2019, which represents a monthly decrease of 0.03 percentage points, while in relation to end-July 2018 it recorded a decrease of 0.28 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.44% in July 2019, which represent a monthly increase of 0.06 percentage points, and a decrease of 0.23 percentage points in relation to July 2018. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.47% at end-July 2019 which is 0.02% lower than at the end of the previous month, while it recorded a decline of 0.16 percentage points in relation to July 2018.

At end-July 2019, reserve requirement of banks amounted to 244.2 million euros, which represents a monthly decline of 1.2 million euros or 0.5%, while in relation to the corresponding period of the previous year reserve requirement decreased by 3.4 million euros or 1.4%. During July 2019, all banks allocated and maintained reserve requirement within prescribed limits. Out of the total allocated reserve requirement, 56,5% was allocated to the reserve requirement account in the country, while 43,5% was allocated to the CBCG`s foreign accounts.

Gross insurance premium amounted to 55.6 million euros during the first seven months of 2019. Non-life insurance premiums still accounted for the main share in its structure with 83.8%, while invoiced life insurance premiums accounted for 16.2%.

In July 2019, Montenegro Stock Exchange recorded a turnover in the amount of 1.2 million euros, through 218 transactions. The turnover was 9.1% higher in relation to the previous month. As at 31 July 2019, stock exchange capitalisation amounted to 3,479.1 million euros, recording a slight monthly increase as well as

the annual increase of 13.1%. At the same time, the MONEX index stood at 11,037.86 index points, recording an insignificant monthly decline, but the annual increase of 4.8%. The MNSE10 index amounted to 809.42 index points, slightly decreasing in relation to the previous month, but declining by 0.7% year-on-year.

In July 2019, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 5.3 million euros. Source revenues of the budget of Montenegro amounted to 174.1 million euros or 3.6% of estimated annual GDP, which represents an increase of 6.4% in relation to the plan for July. In relation to source revenues recorded in July 2018, there was an increase of 8.4%. At the same time, budget expenditure amounted to 179.4 million euros or 3.7% of GDP, recording a year-on-year increase of 15.1%, and 3.3% more than planned.

At end-June, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 3,133.7 million euros or 65.2% of GDP. Net government debt amounted to 61.4% 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, 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 June and July, the Central Bank carried out significant activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The CBCG representatives participated in the ninth *Twinning* mission, related to the supervisory review process (*SREP*). They also participated in the meeting of the Sub-Committee for Internal Market and Competition, held on 12 July 2019 in Podgorica. At the request of Monstat, *BOP Quality Report* was prepared and submitted for reporting purposes under the IPA 2015 Macroeconomic Imbalance Procedures (*MIP*). The CBCG representatives took part in the IPA 2015 workshop on international trade in services in Luxembourg, as well as in the coordination meeting to discuss the obligations regarding planning and meeting the closing benchmarks and recommendations of the 2019 EC Report for Montenegro. Likewise, the CBCG representatives also attended the meetings of working groups for the following negotiation chapters: 4 - Free movement of capital, 9 - Financial services, 17 - Economic and monetary policy, 18 - Statistics, 20 - Enterprise and industrial policy, 30 - External relations and 32 - Financial control.

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.

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.