

The Governor's Report – May 2019

The Governor's Report for May 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 May, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2019.

Preliminary Monstat data show that Montenegro's 2018 real GDP growth rate amounted to 4.9%, based on quarterly estimates, with real growth of 3% recorded in Q1 2019 compared y-o-y.

In May 2019, prices increased by 0.2% in relation to the previous month, while the annual inflation rate in May amounted to 0.7%.

In the first five months of 2019, industrial output recorded a y-o-y decrease of 15.5%. The decline was recorded in the sector of manufacturing industry (-3.8%), and in the electricity, gas and steam supply sector (-31.2%), while there was an increase in the mining and quarrying sector (14.9%).

Preliminary Monstat data show that in the first three months of 2019, air passenger transport grew by 6.4% y-o-y, while air freight transport increased by 9.2%. During this period, railway passenger transport recorded a y-o-y increase of 1.1%, and railway cargo transport decreased by 24.7%. The road passenger transport increased by 0.5%, and road freight transport grew 4.5% y-o-y.

During the first five months of 2019, production of wood products amounted to 7,554 m³, which is a y-o-y decrease of 36.5%. As per Monstat preliminary data, in the first three months of 2019, construction saw a year-on-year increase of 12.4% in the value of executed construction works, as well as a 1.5% year-on-year increase in effective working hours.

In May 2019, the average number of employed persons amounted to 205,164, which is a monthly increase of 2.3% and y-o-y increase of 8.4%. In May 2019, the number of unemployed persons amounted to 36,658, which represents a decrease of 3.8% in relation to the previous month and a decrease of 16.1% compared to May 2018.

As at 31 May 2019, out of 47,312 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 14,090 or 29.8% were frozen. Compared to the previous month, the number of blocked business entities decreased by 0.1%, while its y-o-y growth stood at 5.2%. At end-May 2019, the total amount of debt used as the basis for the account freeze was 622.1 million euros, showing a monthly decrease of 1.6% and an annual increase of 3.8%.

As at 31 May 2019, out of the total number of business entities with frozen accounts (14,090) a total of 2,113 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 25,072,710.88 euros or 4% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 11,977, with frozen funds in the amount of 597,009,943.36 euros or 96% of the total amount of frozen funds of business entities.

As at 31 May 2019, debt concentration was relatively high, considering that top 10 blocked business entities (0.07% of total recorded blocked business entities) accounted for 16.4% 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 38% of the total debt used as the basis for the account freeze.

At end-May 2019, total assets and liabilities decreased by 0.9% compared to the previous month and amounted to 4,298.8 million euros¹. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-May 2019, total loans amounted to 2,939.2 million euros, which is monthly decrease of 0.2% and y-o-y increase of 10.2%.

In the structure of liabilities, deposits made up the main share of 76.9%. Total banks' deposits amounted to 3,303.6 million euros at end-May 2019 and they recorded a monthly decrease of 0.6%, and a y-o-y decline of 1.8%. Total capital of banks at end-May 2019 amounted to 527 million euros, recording a mild monthly increase and a y-o-y increase of 4.4%.

¹ 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).

Past due loans over 30 days (without interests, and prepayments and accruals) amounted to 181 million euros in May, which is a monthly growth of 16.3% and a year-on-year decline of 21.1%. At end-May 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 139.6 million euros and made up 4.7% of total loans. In relation to the previous month, non-performing loans of banks recorded slight growth, while they recorded an annual decrease of 32%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.18% at end-May 2019, which represents a monthly decrease of 0.02 percentage points, and a y-o-y decrease of 0.40 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 6.20% in May 2019, which represent a monthly increase of 0.21 percentage points, and an increase of 1.38 percentage points in relation to May 2018. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.47% at end-May 2019 which represents a mild monthly decrease and a decline of 0.15 percentage points y-o-y.

At end-May 2019, reserve requirement of banks amounted to 243.4 million euros, recording a monthly decline of 208,748 euros or 0.1% and a year-on-year increase of 2.4 million euros or 1%. During May 2019, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 56.3% was allocated to the reserve requirement account in the country, while 43.7% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 37.7 million euros during the first five months of 2019. Non-life insurance premiums still accounted for the main share in its structure with 83.5%, while invoiced life insurance premiums accounted for the remaining 16.5%.

In May 2019, Montenegro Stock Exchange recorded a turnover in the amount of 74.8 million euros and 389 transactions. The turnover was 36.7% lower in relation to the previous month. As at 31 May 2019, stock exchange capitalisation amounted to 3,175.6 million euros, recording a monthly increase of 1.9% and y-o-y increase of 6.2%. The MONEX index, which stood at 10,549.90 index points at end-May 2019, declined by 1.3% in relation to the previous month, yet grew 8.1% compared y-o-y. The MNSE10 index amounted to 812.47 index points and it decreased by 2.8% in relation to the previous month, yet grew 7.3% compared y-o-y.

In May 2019, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 7.7 million euros or 0.2% of estimated annual GDP. Source revenues of the Budget of Montenegro amounted to 144.1 million euros or 3% of estimated annual GDP, which represents a decrease of 0.5% in relation to the plan for May. In relation to source revenues recorded in May 2018, there was an increase of 3.8%. Budget expenditure amounted to 136.4 million euros or 2.8% of estimated annual GDP, which was a year-on-year decrease of 3.8% and by 18.7% below planned.

According to the Ministry of Finance data, at the end of March 2019, Montenegro's gross government debt amounted to 3,179.4 million euros or 66.2% of GDP. Net government debt amounted to 60.9% 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, whereas the debt of local self-government units accounted for 115.6 million euros or 2.5% of GDP.

In May, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. In May 2019, programme activities were conducted under the regional *ESCB project*. Within the *Twinning* project "Support to Regulation of Financial Services", the planned activities continued to be implemented.

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%.

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.