

The Governor's Report – October 2019

The Governor's Report for October 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 October, 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% and 3.2%, respectively.

In October 2019, consumer prices had a monthly increase of 0.5%, same as their growth compared to October 2018.

During the first ten months of 2019, industrial output recorded a y-o-y decrease of 7.9%. The decline was recorded in manufacturing industry (-5.6%), and in the electricity, gas and steam supply sector (-16.3%), while there was an increase in the mining and quarrying sector (17.7%).

During the first nine months of 2019, according to Monstat data, air passenger transport recorded a y-o-y growth of 7%, while air cargo transport decreased by 8.9%. During this period, railway passenger transport recorded a y-o-y decrease of 0.1%, and railway freight transport increased by 10.5%. The road passenger transport increased by 1%, and road freight transport grew by 10.2% y-o-y.

During the first nine months of 2019, production of forest assortments amounted to 182,460 m³, which is a decrease of 16.3% in relation to the corresponding period of the previous year. During the first nine months of 2019, according to preliminary Monstat data, construction recorded a y-o-y increase of 18.7%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 6.2%.

In September 2019, the average number of employed persons amounted to 205,650, which is a decrease of 2.3% compared to the previous month and 5% more in relation to September 2018. In October 2019, the number of unemployed

persons amounted to 35,993, rising by 6.9% in relation to the previous month and decreasing by 14.2% compared to October 2018.

As at 31 October 2019, out of 48,054 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 14,272 or 29.7% were frozen. Compared to the previous month, the number of blocked business entities increased by 0.8%, while compared to the same month of 2018, its growth stood at 3.8%. At end-October 2019, total amount of debt being the basis for freezing of business entities` accounts amounted to 619.3 million euros, showing the annual and monthly decrease of 0.1% and 4.2%, respectively.

As at 31 October 2019, out of the total number of business entities with frozen accounts (14,272) a total of 2,046 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 32,895,055.91 euros or 5.3% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 12,226 with frozen funds in the amount of 586,434,848.41 euros or 94.7% of the total amount of frozen funds of business entities.

As at 31 October 2019, debt concentration was relatively high, considering that top 10 debtors (0.1% of total recorded debtors) accounted for 17.4% 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 39.6% of the total debt used as the basis for the account freeze.

At end-October 2019, total assets and liabilities of banks amounted to 4,581.2 million euros, recording a monthly decline of 0.1%¹. The main share in the the structure of aggregate balance sheet of banks referred to loans. At end-October 2019, they amounted to 2,988.2 million euros, declining by 1.6% m-o-m and increasing by 0.2% y-o-y.

In the structure of liabilities, deposits made up the main share of 76.2%. In October 2019, deposits in banks amounted to 3,488.8 million euros, recording a monthly decline of 0.7% and rising by 0.9% y-o-y. Total capital of banks at end-October 2019 amounted to 599.7 million euros, or by 0.9% more in relation to the previous

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 (starting in April 2019 and 13 banks) with the balance as at the given date in 2018 (15 banks).

month, and by 14.8% more in relation to the corresponding period of the previous year.

In October, past due loans (without interests, and prepayments and accruals) amounted to 139.2 million euros, which is a decrease of 2% in relation to the previous month, while in relation to October 2018 they declined by 41.7%. At end-October 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 142.2 million euros and made up 4.8% of total loans. In relation to the previous month, non-performing loans of banks increased by 0.3%, while they recorded an annual decrease of 30.4%.

At end-October 2019, the weighted average lending effective interest rate on total loans granted amounted to 6.17% which represents a monthly decrease of 0.05 percentage points and a decrease of 0.27 percentage points y-o-y. In October 2019, the weighted average lending effective interest rate on new loans amounted to 6.11%, recording a monthly decrease of 0.22 percentage points and a decrease of 0.81 percentage points y-o-y. The weighted average effective deposit interest rate amounted to 0.42% at end-October 2019 which represents a monthly decrease of 0.01 percentage points, while it recorded a decline of 0.17 percentage points in relation to end-October 2018.

At end-October 2019, reserve requirement of banks amounted to 262.8 million euros, recording a monthly rise of 4.6 million euros or 1.8% and a year-on-year increase of 4.4 million euros or 1.7%. In October 2019, all banks allocated and maintained reserve requirements within prescribed amounts. In the total allocated reserve requirement, 59.5% was allocated to the reserve requirement account in the country, while 40.5% was allocated to the CBCG's foreign accounts.

Gross insurance premium amounted to 79.8 million euros during the first ten months of 2019. Non-life insurance premiums accounted for the main share in its structure with 83.5%, while invoiced life insurance premiums accounted for 16.5%.

In October 2019, Montenegro Stock Exchange recorded a turnover in the amount of 2.4 million euros, through 289 transactions. The turnover was 95.8% lower than at the end of the previous month but 58.5% lower than in October 2018. As at 31 October 2019, stock exchange capitalisation amounted to 3,455.7 million euros, recording a monthly and annual increases of 0.4% and 15%, respectively. At the same time, the SE MONEX index stood at 11,453.04 index points, recording a monthly and annual increase of 2.2% and 5.4%, respectively. The MNSE10 index

amounted to 792.78 index points, recording a monthly and annual decrease of 0.9% and 6%, respectively.

The Ministry of Finance estimated that Montenegro's fiscal surplus amounted to 3 million euros in October 2019. Source revenues of the budget of Montenegro amounted to 156.6 million euros or 3.3% of estimated annual GDP, which represents a decrease of 16.9% in relation to the plan for October. With regard to source revenues recorded in October 2018, there was an increase of 7.4%. At the same time, budget expenditure amounted to 153.6 million euros or 3.2% of the estimated GDP, recording a year-on-year decrease of 2.9%, and staying below the plan by 3.1%.

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 domestic 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 October 2019, the Government issued Eurobonds in the amount of 500 million euros. The bonds were issued with a maturity of ten years, with an annual interest rate of 2.55%, which is the lowest interest rate as of the date Montenegro offered its bonds in the international market.

In October, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. The CBCG employees participated in the *IPA - Banking Supervision III* project in Ljubljana. Two missions were held in October concerning the Twinning project "Support to the Regulation of Financial Services". Within the multi-beneficiary project *IPA 2015* regarding international trade in services, the report on the quality of statistics on international trade in services, the methodological manual, as well as a final report on the carried out activities during the project from July 2017 to October 2019 were delivered. At the request of Monstat, balance of payments data for the annex to the Progress Report were prepared. With regard to the regular meeting of

the Sub-Committee for Economic and Financial Issues and Statistics, the CBCG prepared the annex within its competence.

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.

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.