

The Governor's Report – September 2019

The Governor's Report for September 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 September, 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 relation to the same period of 2018.

In September 2019, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in September amounted to -0.2%.

During the first nine months of 2019, industrial output recorded a year-on-year decrease of 8.1%. The decline was recorded in the sector of manufacturing industry (-5%), and in the electricity, gas and steam supply sector (-16.8%), while there was an increase in the mining and quarrying sector (16.1%).

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

During the first nine months of 2019, production of wood products 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 increased by 8.7%, measured in terms of executed construction works, as well as a year-on-year 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% increase in relation to September 2018. In September 2019, the number of unemployed persons

amounted to 33,675, which represents a decrease of 2% in relation to the previous month and a decrease of 15.6% compared to September 2018.

As at 30 September 2019, out of 47,955 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 14,157 or 29.5% 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 4.1%. At end-September 2019, total amount of debt being the basis for freezing of accounts amounted to 620 million euros, showing a monthly decrease of 2% and an annual decrease of 1.6%.

As at 30 September 2019, out of the total number of business entities with frozen accounts (14,157) a total of 2,150 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 42,284,493.72 euros or 6.8% of the total amount of frozen funds. The number of business entities under uninterrupted blockage for over 365 days was 15,639 with frozen funds in the amount of 607,125,130.86 euros or 97.9% of the total amount of frozen funds of business entities.

On 30 September 2019, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 17.1% 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% of the total debt used as the basis for the account freeze.

At end-September 2019, total assets and liabilities amounted to 4,588 million euros and decreased by 0.1% compared to the previous month. In terms of the structure of aggregate balance sheet of banks, total loans of banks make up the dominate share. At end-September 2019, total loans amounted to 3,036 million euros, which is 0.1% higher in relation to the previous and 1.6% higher in relation to September of the previous year.¹

In the structure of liabilities, deposits made up the main share of 76,6%. In September 2019, banks' deposits amounted to 3,514.8 million euros recording a monthly decline of 0.6%, and a year-on-year increase of 1.6%. Total capital of banks at end-September 2019 amounted to 594.2 million euros, which is an increase

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).

of 0.4% in relation to the previous month as well as an increase of 14.8% in relation to the corresponding period of the previous year.

In September, past due loans (without interests and prepayments and accruals) amounted to 136.5 million euros, which is a decrease of 9.2% in relation to the previous month, while they recorded a decrease of 41.5% in relation to September 2018. At end-September 2019, non-performing loans (without interests, and prepayments and accruals) amounted to 141.8 million euros and made up 4.7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 1.5%, while they recorded an annual decrease of 29.3%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.17% at end-September 2019, which represents a monthly increase of 0.01 percentage points, while in relation to end-September it recorded a decrease of 0.23 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.33% in September 2019, which represents a monthly increase of 0.30 percentage points, and a decrease of 0.22 percentage points in relation to September 2018. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.43% at end-September 2019, showing a decline of 0.01% in relation to the previous month, while it recorded a decline of 0.15 percentage points in relation to end-September 2018.

At end-September 2019, reserve requirement of banks amounted to 258.1 million euros, which represents a monthly increase of 10.1 million euros or 4.1%, while in relation to the same period of the previous year, reserve requirements decreased by 1.2 million euros or 0.5%. During September 2019, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 58.8% was allocated to the reserve requirement account in the country, while 41.2% was allocated to the CBCG account abroad.

Gross insurance premium amounted to 72.3 million euros during the first nine 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 September 2019, Montenegro stock exchange recorded a turnover in the amount of 57.3 million euros, through 190 transactions. The turnover was 56.7 million euros higher than in the previous month, i.e. 10% higher than in September 2018. Market capitalisation, as at 30 September 2019 amounted to 3,443.3 million euros, thus recording a monthly decrease of 1.7% while year-on-year increase was 15.6%.

At end-September 2019, the MONEX index stood at 11,208.19 index points, recording a monthly decrease of 0.1%. Annual increase amounted to 7.2%. The MNSE10 index amounted to 799.836 index points and it decreased by 0.8% in relation to the previous month while annual increase amounted to 0.2%.

The Ministry of Finance estimated that Montenegro's fiscal surplus amounted to 16.7 million euros in September 2019. Source revenues of the budget of Montenegro amounted to 166 million euros or 3.5% of estimated annual GDP, which represents an increase of 9.6% in relation to the plan for September. In relation to source revenues recorded in September 2018, there was a decrease of 11.4%. At the same time, budget expenditure amounted to 149.3 million euros or 3.1% of GDP, recording a year-on-year decrease of 10.1%, and staying below the plan by 7.4%.

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. 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 September, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Participation in the twinning mission meetings was related to the drafting of the Decision on Capital Adequacy of Banks and the Decision on Large Exposures. At the request of the Ministry of Economy, the accompanying annexes required for the meeting of the Subcommittee on Industry, Trade, Customs and Taxes were submitted. Participation in the meetings of the working groups for negotiation chapters 4 - Free movement of capital, 17 - Economic and Monetary Union and 32 - Financial Supervision was recorded.

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 99.95% in September.

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.