

Summary of the Governor's Report – June - July 2017

Updated: 8 February 2018

The Governor's Report for June and July 2017 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 2017 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2017, 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 2017.

Preliminary Monstat data show that in 2016 Montenegro's real GDP growth rate amounted to 2.5%, based on quarterly estimates. In Q1 2017, the real growth amounted to 3.2% y-o-y.

In July 2017, prices increased by 0.2% in relation to the previous month, while the annual inflation rate in July amounted to 2.4%.

During the first seven months of 2017, industrial output recorded the y-o-y decrease of 8.1%. The decline was recorded in the sector of manufacturing industry (-5.2%), and in the electricity, gas and steam supply sector (-30.9%), while there was an increase in the mining and quarrying sector (129.9%). During the first seven months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 18.2%, while overnights increased by 13.1%.

During the first six months of 2017, according to MONSTAT data, air passenger transport recorded a y-o-y growth of 23%, while air freight transport decreased by 2.6%. Over the same period, road passenger transport increased by 0.7%, while road freight transport grew by 8.9%. In H1 2017, railway passenger transport recorded a y-o-y decline of 20.3%, while railway cargo transport increased by 59.4%.

During the first seven months of 2017, some 145,408 m³ of wood products were produced, which was 9.3% more in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first six months of 2017, construction recorded the y-o-y increase of 45.3% in the value of executed construction works, as well as in a 22.6% increase in effective working hours.

In July 2017, the average number of employed persons amounted to 191,770, which is an increase of 1.9% compared to the previous month and 3.3% more in relation to July 2016. In July 2017, the number of unemployed persons amounted to 46,876, which represents an increase of 0.2% in relation to the previous month and an increase of 16.8% compared to July 2016.

Out of 42,334 business entities that are registered as active in the Central Registry of Business entities, and which have active accounts in the Central Registry of Transaction Accounts of the CBCG, a total of 12,372 or 29.22% was frozen at end-July. Compared to the previous month, the number of frozen business entities declined by 1.5%. At end-July 2017, total amount of debt being the basis for freezing of accounts amounted to 598.5 million euros, showing a decrease of 0.46% in relation to the previous month.

Out of the total number of frozen business entities as at 31 July 2017 (12,372), uninterrupted freezing of accounts up to 365 days was recorded by a total of 1,795 business entities with frozen funds in the amount of 24,592,398.85 euros, which accounts for 4.10% of the total amount of frozen funds, while uninterrupted freezing of accounts longer than 365 days was recorded by 10,577 business entities with an amount of frozen funds in the amount of 573,930,041.97 euros, which accounts for 95.89% of the total amount of frozen funds of business entities (this continuous freezing of accounts indicates the total passivity of entities with frozen accounts over one year).

On 31 July 2017, debt concentration was relatively high, considering that top 10 debtors (0.08% of total recorded debtors) accounted for 13.66% of the total debt being the basis for freezing of accounts. Also, 50 of the frozen business entities (0.4% of total frozen legal entities) accounted for 37.07% of the total debt being the basis for freezing of accounts.

At end-July 2017, total assets and liabilities increased by 2.5% compared to the previous month and amounted to 3,988.4 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-July 2017, total loans amounted to 2,633.3 million euros, which is 1.3% more in relation to the previous month and 7.4% higher in relation to July of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.9%. In July 2017, deposits in banks amounted to 3,025.5 million euros, which represents a monthly increase of 3.9% and an increase of 10.3% compared to July 2016. Total capital of banks at end-July 2017 amounted to 504.3 million euros, which is an increase of 0.5% in relation to the previous month as well as an increase of 2.6% in relation to the corresponding period of the previous year.

In July, past due loans (without interests, and prepayments and accruals) amounted to 266.1 million euros, which is a decrease of 2.8% in relation to the previous month, while they recorded a decline of 31% in relation to July-2016. At end-July 2017, non-performing loans (without interests, and prepayments and accruals) amounted to 215.5 million euros and made up 8.2% of total loans. In relation to the previous month, non-performing loans of banks decreased by 5.5%, while they recorded an annual decrease of 23.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.03% at end-July 2017, which represents a monthly decrease of 0.03 percentage points, while in relation to end-July 2016 it recorded a decrease of 0.86 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 7.62% in July 2017, which represent a monthly increase of 0.69 percentage points, and an increase of 0.77 percentage points in relation to July 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.78% at end-July 2017 which represents a monthly decrease of 0.05 percentage points, while it recorded a decline of 0.26 percentage points in relation to July 2016.

At end-July 2017, reserve requirement of banks amounted to 213.8 million euros, which represents a monthly decrease of 2.7 million euros or 1.3%, while in relation to the corresponding period of the previous year reserve requirements decreased by 37.2 million euros or 14.8%. During July 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 47% was allocated to the reserve requirement account in the country, while 53% was at the CBCG account abroad.

Gross insurance premium amounted to 7.4 million euros in July 2017. Non-life insurance premiums still accounted for the main share in its structure with 86.4%, while invoiced life insurance premiums accounted for the remaining 13.6%.

In July 2017, Montenegro Stock Exchange recorded turnover of 3.2 million euros and 406 transactions. The turnover was 57.7% lower than at the end of the previous month but 2.1 times higher than in July of the previous year. Market capitalisation, as at 31 November 2017 amounted to 2,874 million euros, thus recording a monthly decrease of 11.3%.

The MONEX index, which stood at 10,658.91 index points at end-July 2017, declined by 5.9% in relation to the previous month. The MNSE10 index amounted to 821.31 index points and decreased by 7.1% in relation to the previous month.

In June 2017, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 14.2 million euros or 0.4% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 134 million euros or 3.4% of estimated annual GDP, which represents a decrease of 0.9% in relation to the plan for June. In relation to source revenues recorded in June 2016, there was an increase of 7.7%. Budget expenditure amounted to 148.2 million euros or 3.8% of GDP which is 13.6% more in relation to the plan for June 2017, and 27.1% more in relation to expenditure in June 2016.

At end-June 2017, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 2,483 million euros or 62.8% of GDP. Out of that figure, domestic debt accounted for 474.1 million euros or 12% of GDP, while external debt accounted for 2,008.9 million euros or 50.8% of GDP.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to ongoing 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.

In June and July, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The representatives of the Central Bank of Montenegro participated in the meeting of the Subcommittee for Internal Market and Competition. The CBCG prepared Annex for the Report of the European Commission referring to Chapter 4 - Free movement of capital, for the part referring to prevention of money laundering and terrorist financing, for the period 1 March 2017 - 31 May 2017. Action plan for implementation of recommendations from the ECB's Needs Assessment Report of the CBCG was updated. As part of the negotiation chapter 17, the representatives of the CBCG participated in the public debate of the Committee for European Integration of the Parliament of Montenegro, with a topic "Montenegro and the EU: Negotiations in the area of economy and monetary policy". A final mission was held with the expert from the Croatian National Bank as part of the project for the improvement of statistics of public finances.

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.