

Summary of the Governor's Report – September-October 2017

Updated: 12 February 2018

The Governor's Report for September and October 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 September and October, activities of the Central Bank were conducted pursuant to the planned obligations, determined by the Central Bank of Montenegro Work Programme for 2017.

In 2016, according to the final Monstat data, gross domestic product of Montenegro increased by 2.9%, while during the first and second quarter of 2017 it increased y-o-y by 3.2% and 5.1%, respectively.

In October 2017, prices decreased by 0.1% in relation to the previous month, while the annual inflation rate in October amounted to 2.3%.

The y-o-y comparison shows that industrial output decreased by 5.8% in the first ten months of 2017. The decline was recorded in the sector of manufacturing industry (-3.2%), and in the electricity, gas and steam supply sector (-28.5%), while there was an increase in the mining and quarrying sector (151.3%). During the first ten months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 17.2%, while overnights increased by 10%.

During the first ten months of 2017, according to MONSTAT data, air passenger transport recorded a y-o-y growth of 17.4%, while air freight transport decreased by 3.5%. Over the same period, road passenger transport increased by 0.5%, while road freight transport grew by 4.9%. In the first nine months of 2017, railway passenger transport recorded a y-o-y decrease of 28.5%, while railway freight transport increased by 38.4%.

During the first ten months of 2017, some 289,860 m³ of wood products were produced, which was 30.7% more in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first nine months of 2017, construction recorded y-o-y increase of 43.4% in the value of executed construction works, as well as in a 21.6% increase in effective working hours.

In October 2017, the average number of employed persons amounted to 177,369, which is a decrease of 4% compared to the previous month and 0.7% less in relation to October 2016. In October 2017, the number of unemployed persons amounted to 50,752, which represents an increase of 4.1% in relation to the previous month and an increase of 12.1% compared to October 2016.

Out of 42,567 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 as at 31 October 2017, a total of 12,599 or 29.60% was frozen. Compared to the previous month, the number of frozen business entities increased by 0.11%. At end-October 2017, total amount of debt being the basis for freezing of accounts amounted to 606,8 million euros, showing an increase of 0.65% in relation to the previous month.

Out of the total number of frozen business entities as at 31 October 2017 (12,599), uninterrupted freezing of accounts up to 365 days was recorded by a total of 1,923 business entities with frozen funds in the amount of 21,666,209.88 euros, which accounts for 3.57% of the total amount of frozen funds, while uninterrupted freezing of accounts longer than 365 days was recorded by 10,676 business entities with an amount of frozen funds in the amount of 585,155,566.23 euros, which accounts for 96.43% of the total amount of frozen funds of business entities.

On 31 October 2017, debt concentration was relatively high, considering that top 10 debtors (0.08% of total recorded debtors) accounted for 13.59% 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 36.31% of the total debt being the basis for freezing of accounts.

At end-October 2017, total assets and liabilities increased by 1% compared to the previous month and amounted to 4,135.4 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-October 2017, total loans amounted to 2,731.7 million euros, which is 1.2% more in relation to the previous month and 9.2% higher in relation to October of the previous year.

In the structure of liabilities, deposits made up the main share of 77.1%. In October 2017, deposits in banks amounted to 3,188.7 million euros, which represents a monthly increase of 1.6% and an increase of 12.2% compared to October 2016. Total capital of banks at end-October 2017 amounted to 522 million euros, which is a decrease of 0.2% in relation to the previous month, while there was an increase of 4.1% in relation to the corresponding period of the previous year.

In October, past due loans (without interests, and prepayments and accruals) amounted to 245.2 million euros, which is an increase of 7% in relation to the previous month, while in relation to October 2016 they declined by 26.4%. At end-October 2017, non-performing loans (without interests, and prepayments and accruals) amounted to 194.2 million euros and made up 7.1% of total loans. In relation to the previous month, non-performing loans of banks decreased by 2.8%, while they recorded an annual decrease of 25.9%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.94% at end-October 2017, which represents a monthly decrease of 0.04 percentage points, while in relation to end-October 2016 it recorded a decrease of 0.71 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 7.21% in October 2017, which represent a monthly increase of 0.20 percentage points, and a decrease of 0.48 percentage points in relation to October 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.74% at end-July 2017 which represents a monthly decrease of 0.01 percentage points, while it recorded a decline of 0.25 percentage points in relation to October 2016.

At end-October 2017, reserve requirement of banks amounted to 229.6 million euros, which represents a monthly increase of 4.1 million euros or 1.8%, while in relation to the corresponding period of the previous year reserve requirements increased by 35.4 million euros or 13.3%. During October 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 50.6% was allocated to the reserve requirement account in the country, while 49.4% was at the CBCG account abroad.

In October 2017, the gross insurance premium amounted to 6.4 million euros. Non-life insurance premiums still accounted for the main share in its structure with 80.2%, while invoiced life insurance premiums accounted for the remaining 19.8%.

In October 2017, Montenegro Stock Exchange recorded a turnover in the amount of 5.4 million euros, through 364 transactions. Turnover increased by 7.5 times in relation to the previous month. Market capitalisation, as at 31 October 2017 amounted to 2,784.9 million euros, thus recording a monthly decrease of 2.1%. The MONEX index, which stood at 11,729.04 index points at end-October 2017, declined by 0.4% in relation to the previous month. The MNSE10 index amounted to 822.27 index points and decreased by 1.5% in relation to the previous month.

In October 2017, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 18 million euros or 0.4% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 138.8 million euros or 3.3% of estimated annual GDP, which represents an increase of 5.4% in relation to the plan for October. In relation to source revenues recorded in October 2016, there was an increase of 15%. Budget expenditure of the budget of Montenegro amounted to 156.8 million euros or 3.7% of estimated annual GDP, which represents an increase of 1.8% in relation to the plan for October 2017, while in relation to expenditure from October 2016 it increased by 42.1 million euros or 36.7%.

At end-September 2017, according to the Ministry of Finance data, government debt (gross) amounted to 2,490.3 million euros or 59.3% of GDP. Out of that figure, domestic debt accounted for 431.3 million euros or 10.3% of GDP, while external debt accounted for 2,059 million euros or 49% of GDP. Net government debt amounted to 57% 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 September and October.

In September and October, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG submitted to the Ministry of Economy replies to the comments of the EU Delegation, which refer to the CBCG, as part of the IPA 2016 Action Document. At the request of the Ministry of European Affairs, for the purpose of drafting the Progress Report, the CBCG submitted replies within its mandate in relation to Chapter 20 - Enterprise and Industrial Policy. Also, representatives of the CBCG submitted an analysis of developments in the balance of payments for H1 2017. The CBCG submitted data for the CPC database, which represents a basis for statistical Annex to the Progress Report, submitted to Eurostat. Also, representatives of the CBCG submitted an analysis of developments in the balance of payments for H1 2017. Representatives of the CBCG participated in the meeting with representatives of the company *Particip GmbH*, in charge for monitoring the results achieved based on two IPA project where the CBCG took part. Representatives of the CBCG participated in the second meeting of the Committee on European Integration, held on 20 September, where participants discussed the overview of obligations from Q3 that have not been implemented under the Montenegro's Programme of Accession to the European Union 2017–2018. Representatives of the Central Bank participated in the third meeting of the Committee on European Integration, held on 5 October, where participants discussed further obligations envisaged for Q4 under the Montenegro's Programme of Accession to the European Union 2018–2020. As per request of the Ministry of Finance, the representatives of the CBCG prepared its contribution to the Economic Reforms Programme 2018–2020, in the area of financial services. Participants of the CBCG participated in the meeting related to programming IPA 2018 and informing participants on the status of IPA 2014 and IPA 2016. The meeting was held in the Ministry of Economy. In relation to the regular meeting of the Sub-Committee for Economic and Financial Issues and Statistics, the CBCG submitted to the Ministry of Finance its contribution for items on the agenda within its mandate.

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.