

## Summary of the Governor's Report – December 2015

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The Governor's Report for December 2015 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 2015 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2015, on a monthly basis.

In December, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2015.

In 2014, according to the Monstat data, real growth of Montenegro amounted to 1.8%, while during the first, second, and third quarter of 2015 it increased y-o-y by 3%, 3.7% and 4.2%, respectively.

In December 2015, prices decreased by 0.3% in relation to the previous month, while the annual inflation rate in December amounted to 1.4%.

In 2015, industrial output recorded a y-o-y increase of 7.9%. The growth was recorded in the sector of manufacturing industry (19.9%), while there was a decline in the electricity, gas and steam supply sector (5.9%) and in the mining and quarrying sector (8.1%). In 2015, the number of tourist arrivals recorded a y-o-y increase of 12.9%, while overnights increased by 15.7%. In 2015, according to Monstat data, the air passenger transport recorded a y-o-y increase of 2% while the air cargo transport increased by 3.1%. During this period, the road passenger transport increased by 1.4%, while road cargo transport increased by 20.2%. The railway passenger transport recorded a y-o-y increase of 10.2%, and railway cargo transport grew by 9.4% over the reporting period.

In 2015, production of wood products amounted to 377,043 m<sup>3</sup>, which is an increase of 17.6% in relation to the previous year. In 2015, according to preliminary Monstat data, construction recorded a y-o-y increase of 5.8%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 4.7%.

In December 2015, the average number of employed persons amounted to 172,517, which is a decrease of 1.1% compared to the previous month and 0.8% more in relation to December 2014. In December 2015, the number of unemployed persons amounted to 39,991 which represents an increase of 5.4% in relation to the previous month and an increase of 15.3% compared to December 2014.

Out of 76,973 legal persons and entrepreneurs, at end-December 2015, accounts of 14,870 or 19.3% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs decreased by 0.2%. At end-December 2015, total amount of debt being the basis for freezing of accounts amounted to 548 million euros, showing a decrease of 1.8% in relation to the previous month as well as an increase of 10.5% in relation to end-2014.

On 31 December 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12.3% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.4% of the total debt being the basis for freezing of accounts.

At end-December 2015, total assets and liabilities decreased by 1.3% compared to the previous month and amounted to 3,476.9 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-December, total loans amounted to 2,386 million euros, which is 5% lower in relation to the previous month and 0.8% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.5%. In December 2015, deposits in banks amounted to 2,625 million euros, which represents a monthly decrease of 1.3% and an increase of 13.7% compared to end-2014. Out of the total amount of deposits in banks, corporate deposits accounted for 784,4 million euros or 29.9%, while household deposits accounted for 1,439.8 million euros or 54.9% of total deposits. At end-December 2015, total capital of banks amounted to 469.4 million euros, which is 0.8% less in relation to the previous month and an increase of 5.7% in relation to the end of the previous year.

In December, past due loans (without interests and accruals) amounted to 354.9 million euros, which is a decrease of 13.4% in relation to the previous month, while they recorded a decrease of 20.2% in relation to end-2014. At end-December 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 297.5 million euros and made up 12.5% of total loans. In relation to the previous month, non-performing loans decreased by 10.8%, while they recorded a decrease of 20.8% in relation to the end of the previous year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.53% at end-December 2015, which represents a monthly decrease of 0.12 percentage points, while in relation to end-December 2014 it recorded a decrease of 0.69 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 8.12% in December 2015, which represent a monthly increase of 0.76 percentage points, and a decrease of 0.9 percentage points in relation to December 2014. The weighted average effective deposit interest rate (WAEDIR) amounted to 1.22% at end-December 2015, showing a decline of 0.02 percentage points in relation to the previous month, while it recorded a decline of 0.63 percentage points in relation to end-December 2014.

At end-December 2015, reserve requirements of banks amounted to 249.1 million euros, which represents a monthly increase of 3.7 million euros or 1.5%, while in relation to the end of the previous year, reserve requirements increased by 34.1 million euros or 15.9%. In December, five banks did not use the possibility to allocate a part of their reserve requirements in the form of T-bills. Of the total amount of allocated reserve requirements, some 45.4% was allocated to the CBCG account held abroad, 33.2% to the account of reserve requirement in the country, and 21.4% in the form of T-bills. During December 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In December 2015, the gross insurance premium amounted to 7 million euros. Non-life insurance premiums still accounted for the main share in its structure with 73.7%, while invoiced life insurance premiums accounted for the remaining 26.3%.

In December 2015, Montenegro Stock Exchange recorded a turnover in the amount of 27.7 million euros, through 781 transactions. The turnover was 2.8 times higher in relation to the previous month. Market capitalisation, as at 31 December 2015 amounted to 2,980.9 million euros, thus recording a monthly increase of 3.4%. The MONEX index, which amounted to 12,128.07 index points at end-December 2015, increased in relation to the end of the previous month by 7.5%, while investment fund index MONEXPIF amounted to 2,694.81 and recorded a monthly increase of 2.6%. The MNSE10 index amounted to 1,044.74 index points and increased by 11.6% in relation to the previous month.

In December 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 20.1 million euros, while in December 2014 there was a deficit in the amount of 38.2 million euros. For 2015, budget deficit amounted to 287.7 million euros, i.e. 7.9% of estimated GDP. Source revenues of the budget of Montenegro amounted to 155.5 million euros or 4.2% of GDP, which represents a decrease of 1.1% in relation to the plan for December. In relation to source revenues recorded in December 2014, there was a decrease of 0.9%.

At end-September 2015, according to the Ministry of Finance estimates, public debt (gross) amounted to 2,304.3 million euros. Out of that figure, a total of 329.2 million euros or 9% of GDP referred to internal debt, while external debt accounted for 1,975.1 million euros or 54% of GDP. Net public debt amounted to 58.8% of GDP.

In 2015, according to preliminary data, current account deficit of the balance of payments amounted to 481.9 million euros or 13.2% of GDP, which represents a y-o-y decrease of 8.3%. Decline of the current account deficit came as a result of increased surplus in the services and primary income account. Foreign trade deficit amounted to 1.5 billion euros or 40% of GDP, which represents an increase of 6.3% in relation to 2014. High import dependence remains to be evident in terms of foreign visible trade. In 2015 there was a decline in the value of exported goods by 9%, while the import increased by 3.1%. In 2015, as per preliminary data, net FDI inflow amounted to 619.3 million euros which is 75% more in relation to 2014.

With a view to fostering and maintaining a sound banking system, the condition of the banking sector in Montenegro was subject to ongoing monitoring and analysis. International reserves management was performed based on the principles of liquidity and security. The activities regarding the Central Bank's role as a fiscal agent were performed successfully. RTGS and DNS systems availability amounted to 100% in December.

In December, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Representatives of the CBCG participated in the meeting of the Working group for implementation of ESA 2010 methodology in the Montenegrin public finance system. Heads of working groups and negotiators participated at the meetings with the Director General for European Affairs at the Ministry of Foreign Affairs and European Integration (WG4, WG9 and WG17). The CBCG prepared comments to the Draft Programme of Montenegro's Accession to the European Union for negotiation chapter 4 - Free movement of capital for the period 2016–2018 in the part referring to prevention of money laundering and terrorist financing. The CBCG representatives submitted inputs for revision of the Montenegro's Programme of Accession to the European Union (2016–2018) under the competence of the CBCG. The CBCG submitted to the Ministry of Finance Draft Project Fiche, prepared by the CBCG in cooperation with the Deutsche Bundesbank, in relation to the initiative to implement a number of recommendations from the ECB/ESCB report through continuation of the CBCG Needs Assessment Project. The project is planned to be implemented through Twinning Light and its implementation to be funded from the instrument for European integration (so-called reserve funds). The CBCG prepared amendments to the Code list for foreign payment transactions, aimed at further harmonisation of the balance of payments statistics with the Regulation (EU) 555/2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on statistics concerning balance of payments, international trade in services and foreign direct investments. This document was submitted to commercial banks and shall apply from 1 January 2016. Representatives of the CBCG participated at the meeting of the working group for subdomain 2 of the negotiation chapter 18 - Statistics. Representatives of the CBCG also participated in the Workshop for planning of administrative capacities for Montenegro's Programme of Accession to the European Union 2016–2018, which was organised by the Ministry of Foreign Affairs and European Integration and held on 7th and 8th of December 2015. Representatives of the CBCG participated in the 5th meeting of the Committee for stabilisation and association, held on 9 December 2015 in Podgorica.

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. The Central Bank has continued to publish information on its website on legal entities and entrepreneurs whose accounts are frozen in the amount exceeding 10,000 euros for a continuous period exceeding 30 days, in line with the Law on Amendments to the Law on National Payment Operations.