

## Summary of the Governor's Report - April 2016

*Updated: 31 August 2016*

The Governor's Report for April 2016 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 2016 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2016, on a monthly basis.

In April, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2016.

In 2015, according to preliminary Monstat data, GDP of Montenegro amounted to 3.2%, based on quarterly estimates. The growth was recorded in all four quarters of 2015 in relation to the comparative period of 2014, amounting to 3.0%, 3.7%, 4.2% and 1.4%, respectively.

In April 2016, prices increased by 0.4% in relation to the previous month, while the annual inflation rate in April amounted to -0.7%.

During the first four months of 2016, industrial output recorded a y-o-y decrease of 10.4%. The decline was recorded in all three sectors: mining and quarrying sector (-40%), electricity, gas and steam supply (-11.1%), and in the sector of manufacturing industry (-6.5%). During the first four months of 2016, the number of tourist arrivals recorded a y-o-y increase of 9.9%, while overnights increased by 11.2%. During the first three months of 2016, according to Monstat data, the air passenger transport recorded a y-o-y increase of 5.1% while the air cargo transport remained unchanged. During Q1 2016, the road passenger transport recorded a y-o-y increase of 15.4%, while road cargo transport increased by 14.2%. During Q1 2016, railway passenger transport recorded a y-o-y increase of 12.9%, and railway cargo transport decreased by 13.3%.

During the first three four of 2016, production of wood products amounted to 29,524 m<sup>3</sup>, which is an increase of 93.9% in relation to the corresponding period of the previous year. During the first quarter of 2016, according to preliminary Monstat data, construction recorded a y-o-y increase of 12.3%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 1.5%.

In April 2016, the average number of employed persons amounted to 174,700, which is an increase of 1.5% compared to the previous month and 0.3% more in relation to April 2015. In April 2016, the number of unemployed persons amounted to 41,478, which represents a decrease of 2.2% in relation to the previous month and an increase of 22.1% compared to April 2015.

Out of 78,483 legal persons and entrepreneurs, at end-April 2016, accounts of 15,161 or 19.3% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.4%. At end-April 2016, total amount of debt being the basis for freezing of accounts amounted to 566.4 million euros, showing an increase of 3.6% in relation to the previous month and an annual increase of 11%.

As at 30 April 2016, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12.4% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.9% of the total debt being the basis for freezing of accounts.

At end-April 2016, total assets and liabilities increased by 0.2% compared to the previous month and amounted to 3,448.7 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-April 2016, total loans amounted to 2,361 million euros,

which is 0.6% lower in relation to the previous month and 0.2% lower in relation to April of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.7%. In April 2016, deposits in banks amounted to 2,609.6 million euros, which represents a monthly decrease of 0.03% and an increase of 11.6% compared to April 2015. Out of the total amount of deposits in banks, corporate deposits accounted for 811.3 million euros or 31.1%, while household deposits accounted for 1,455.8 million euros or 55.8% of total deposits. At end-April 2016, total capital of banks amounted to 475.1 million euros, which is 1.1% more in relation to the previous month and an increase of 3.6% in relation to the corresponding period of the previous year.

In April, past due loans (without interests, and prepayments and accruals) amounted to 340.4 million euros, which is a decrease of 7.3% in relation to the previous month, while they recorded a decrease of 24.9% in relation to April 2015. At end-April 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 292.4 million euros and made up 12.4% of total loans. In relation to the previous month, non-performing loans increased by 2.7%, while they recorded an annual decrease of 24.1%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.24% at end-April 2016, which represents a monthly decrease of 0.08 percentage points, while in relation to end-April 2015 it recorded a decrease of 0.83 percentage points.

The weighted average effective lending interest rate (WALEIR) on new loans amounted to 7.65% in April 2016, which represent a monthly decline of 0.39 percentage points, and a decrease of 1.36 percentage points in relation to April 2015.

The weighted average effective deposit interest rate (WAEDIR) amounted to 1.15% at end-April 2016 and recorded a decline of 0.02 percentage points in relation to the previous month, while it recorded a decline of 0.44 percentage points in relation to April 2015.

At end-April 2016, reserve requirement of banks amounted to 243.8 million euros, which represents a monthly decrease of 1.6 million euros or 0.7%, while in relation to the corresponding period of the previous year reserve requirements increased by 26.8 million euros or 12.4%. During April 2016, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 52.5% was allocated to the account of reserve requirement in the country, 28% to the CBCG account held abroad, and 19.5% in the form of T- bills. In April, four banks did not use the possibility to allocate a part of their reserve requirements in the form of T-bills.

In April 2016, the gross insurance premium amounted to 7.3 million euros. Non-life insurance premiums still accounted for the main share in its structure with 85.4%, while invoiced life insurance premiums accounted for the remaining 14.6%.

In April 2016, Montenegro Stock Exchange recorded a turnover in the amount of 7.4 million euros, through 428 transactions. The turnover was 1.6 times higher in relation to the previous month. Market capitalisation, as at 30 April 2016 amounted to 2,837.4 million euros, thus recording a monthly decrease of 0.1%. The MONEX index, which amounted to 11,263.78 index points at end-April 2016, decreased in relation to the end of the previous month by 1.3%, while investment fund index MONEXPIF amounted to 2,566.57 and recorded a monthly decrease of 0.4%. The MNSE10 index amounted to 982.38 index points and decreased by 0.4% in relation to the previous month.

In April 2016, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 19 million euros or 0.5% of GDP, while during the four months of 2016 there was a deficit in the amount of 87.6 million euros or 2.3% of annual GDP. Source revenues of the budget of Montenegro amounted to 114.1 million euros or 3% of GDP, which represents a decrease of 4.7% in relation to the plan for April. In relation to source revenues recorded in April 2015, there was an increase of 2.3%. Budget expenditures amounted to 133.1 million euros or 3.5% of GDP, which represents a decrease of 7.8% in relation to the plan for 2016, as well as a decline of 36.9% in relation to expenditures in April 2015. At end-March 2016, according to the Ministry of Finance data, government debt (gross) amounted to 2,544.1 million euros or 67.2% of GDP. Out of that figure, internal debt accounted for 320.5 million

euros or 8.5% of GDP, while the external debt accounted for 2,223.6 million euros or 58.7% of GDP. Net government debt amounted to 59.3% of GDP.

In the period January-March 2016, according to preliminary data, current account deficit of the balance of payments amounted to 283.9 million euros, which represents a y-o-y increase of 45.6%. Increase of the current account deficit came as a result of increased deficit in the goods account, deficit in the services account and a significant y-o-y decline of surplus in the primary income account. In the period January-March 2016, as per preliminary data, foreign trade deficit amounted to 36.1 million euros or 13.2% more in relation to the corresponding period of 2015. In Q1 2016, there was a decline in the value of exported goods by 24.9%, while the growth of import decelerated and amounted to 4.8%. In the period January-April 2016, as per preliminary data, net FDI inflow amounted to 26.5 million euros which is 76% less in relation to the corresponding period of the previous year.

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 CBCG successfully performed its role as a fiscal agent. RTGS and DNS systems availability amounted to 100% in April.

In April, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. In relation to the announcement of the Ministry of Foreign Affairs and European Integration on preparation of the First Annex to the EC's 2016 Progress Report on Montenegro, the representatives of the CBCG prepared an Annex under the jurisdiction of the CBCG for the reporting period from 1 September 2015 until 1 May 2016. Related to the planned project IPA 2014, titled "Support to Regulation of Financial Services", to be implemented as Twinning project, whose beneficiaries will be financial regulators in Montenegro, meetings were held in the premises of the Agency for Insurance Supervision, and later in the CFCU (Ministry of Finance), in relation to the completion of the Project-fiche for the abovementioned project. The CBCG sent a proposal of its activities to the Ministry of Finance. In relation to the activities of the Working Group for Chapter 9 – Financial Services, and in line with the usual practice of the Ministry of Foreign Affairs and European Integration, following videoconference with the EC's experts, the representatives of the CBCG participated in drafting of the Information on the Final Benchmark Fulfilment Plan for completion of negotiations in Chapter 9 – Financial Services. The Information proposed conclusions, which would oblige relevant institutions to take concrete activities for completion of benchmarks.

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. On its website, the Central Bank has continued to publish information 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.