

## Summary of the Governor's Report – December 2016

*Updated: 9 February 2017*

The Governor's Report for December 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 December, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2016.

In 2016, according to the final data, gross domestic product of Montenegro increased by 3.4%, while during the first, second and third quarter of 2016 it increased y-o-y by 1.1%, 2.7% and 2.4%, respectively.

In December 2016, prices recorded a monthly increase of 0.2, while the annual inflation rate in December amounted to 0.9%.

In 2016, industrial output recorded a y-o-y decline of 4.4%. The decline was recorded in the mining and quarrying sector (-18.1%) and in the sector of manufacturing industry (-7.8%), while growth of 3.5% was recorded in the electricity, gas and steam supply sector. In 2016, the number of tourist arrivals recorded a y-o-y increase of 5.9%, while overnights increased by 1.8%. During the first nine months of 2016, according to Monstat data, the air passenger transport recorded a y-o-y increase of 12.3% while the air cargo transport increased by 3.2%. During this period, railway passenger transport recorded a y-o-y increase of 6.7%, and railway cargo transport increased by 1.2%. During the first nine months of 2016, the road passenger transport recorded a y-o-y increase of 10.7%, while road cargo transport increased by 1%.

In 2016, production of forest assortments totalled at 293,594 m<sup>3</sup>, recording an annual decline of 22.4%. Preliminary data shows that in the first nine months of 2016, construction recorded a y-o-y increase of 27.8%, measured in terms of executed construction works, as well as a y-o-y increase in terms of effective working hours of 14.4%.

In December 2016, the average number of employed persons amounted to 177,473, recording a monthly decrease of 0.5% and a y-o-y increase of 2.9%. In December 2016, the number of unemployed persons amounted to 49,487 recording a monthly increase of 3.6% and a y-o-y increase of 23.7%.

At end-December 2016, out of 81,417 legal persons and entrepreneurs, accounts of 15,430 or 19% were frozen. The number of frozen accounts of legal persons and entrepreneurs recorded a monthly increase of 0.2% and an annual growth of 3.8%. At end-December 2016, total amount of debt being the basis for freezing of accounts amounted to 628.3 million euros, showing a monthly increase of 0.8% and an annual increase of 14.6%.

As at 31 December 2016, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13.2% of the total debt based on which the accounts were frozen. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 36.4% of the total debt based on which the accounts were frozen.

At end-December 2016, total assets and liabilities of banks amounted to 3,791 million euros, recording a monthly increase of 1%. The structure of aggregate balance sheet of banks reveals that loans accounted for the main share. At end-December 2016, loans amounted to 2,416 million euros, recording a monthly decline of 1.2% and a y-o-y increase of 1.3%.

The structure of liabilities shows that deposits account for the main share of 75.7%. In December 2016, deposits in banks amounted to 2,871.5 million euros, recording a monthly increase of 0.7% and an annual increase 9.4%. Out of the total amount of deposits placed in banks, corporate deposits accounted for 967.7 million euros or 33.7%. Household deposits accounted for 1,534.1 million euros or 53.4% of total deposits. At end-December 2016, total capital of banks amounted to 488.2 million euros which is a monthly decline of 2.2% and a y-o-y increase of 5.7%.

In December, past due loans (without interests and prepayments and accruals) amounted to 271 million euros, which is a monthly decrease of 11.8%, and a y-o-y decline of 23%. At end-December 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 248.8 million euros and made up 10.3% of total loans. In relation to the previous month, non-performing loans decreased by 0.3%, while they recorded an annual decrease of 17%.

At end-December 2016, the weighted average lending effective interest rate (WALEIR) on total loans granted amounted to 7.45%, which represents a monthly decrease of 0.102 percentage points, while in relation to end-December 2015 it recorded a decrease of 1.08 percentage points.

In December 2016, WALEIR on new loans amounted to 6.27%, which is a monthly decline of 0.71 percentage points, and a y-o-y decrease of 1.85 percentage points.

At end-December 2016, the weighted average effective deposit interest rate (WAEDIR) amounted to 0.93%, showing a monthly decline of 0.01 percentage points, and a y-o-y decline of 0.30 percentage points.

At end-December 2016, reserve requirements of banks amounted to 265.7 million euros, recording a monthly increase of 1.1 million euros or 0.4%, and a y-o-y increase of 16.6 million euros or 6.7%. In December 2016, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, 49.9% was allocated to the CBCG reserve requirement account held abroad, 35.1% to the reserve requirement account in the country, and 15% in the form of T- bills.

In December 2016, the gross insurance premium amounted to 7.5 million euros. Non-life insurance premiums still accounted for the main share in its structure with 73.2%, while invoiced life insurance premiums accounted for 26.8%.

In December 2016, Montenegro Stock Exchange recorded turnover in the amount of 1.8 million euros, through 464 transactions. Recorded turnover was 97.8% lower in relation to the previous month. Market capitalisation, as at 31 December 2016 amounted to 2,877.8 million euros, thus recording a monthly increase of 0.8% The MONEX index, which amounted to 11,510.59 index points at end-December 2016, increased by 5.5% in relation to the end of the previous month, while the MONEXPIF index amounted to 2,673.36, recording a monthly increase of 1.9%. The MNSE10 index amounted to 928.27 index points, recording a monthly decline of 0.7%.

Ministry of Finance estimates show that in December 2016, Montenegro's fiscal deficit amounted to 24.9 million euros, while the deficit recorded in the eleven months of 2016 amounted to 45.9 million euros or 1.2% of the estimated annual GDP. In November, the source revenues of the budget of Montenegro amounted to 112.5 million euros or 3% of estimated annual GDP, exceeding the plan for November by 5.6%. In relation to source revenues recorded in November 2015, there was an increase of 17.3%. Budget expenditures amounted to 137.4 million euros or 3.7% of estimated annual GDP being by 4.8% below the plan for November 2016, and recording a y-o-y increase of 25.2%. At end-September 2016, according to the Ministry of Finance data, government debt (gross) amounted to 2,309.2 million euros or 61.9% of GDP. Out of that amount, a total of 314 million euros or 8.4% of GDP referred to domestic debt, while external debt accounted for 1,995.2 million euros or 53.5% of GDP.

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 was 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. CBCG took part in the meeting of the Stabilisation and Association Committee held in Brussels. At the request of the Ministry of Finance, CBCG delivered annex to the Economic Reform Programme 2017-2019 referring to the Chapter 2 - Macroeconomic Framework and Chapter 4 - Free movement of capital. At the request of the Ministry of Foreign Affairs and European Integration, the CBCG submitted proposals for amendments to the Programme of Accession of Montenegro to the EU 2017 - 2018, in the part referring to Chapter 4 - Free Movement of Capital, Chapter 9 - Financial Services and Chapter 20 - Enterprise and Industrial Policy. Representatives of the CBCG participated in the regular quarterly meeting of the Subgroup - domain 2, as part of negotiation Chapter 18 - Statistics. CBCG representatives took part in the meeting with the representatives of Monstat and the Ministry of Finance, where they discussed the institutional classification of units by sector in line with the ESA methodology, and the drafting of the Action Plan required by the Eurostat, for the obligations arising from the Chapter 18 - Statistics. Based on the abovementioned, Monstat was submitted the Action Plan for Financial Accounts Development. In addition, CBCG took part in the meeting of the Chapter 9 - Financial Services Task Force coordinators from the CBCG, KHOV, ANO and MF. Within the negotiating Chapter 32 - Financial Control, CBCG participated in the meeting with the European Commission representatives. The meeting was aimed at briefing the EC on the progress achieved in the area of protection of the euro from counterfeiting in Montenegro, as well as in the area of protection of the EU's financial interests. CBCG participated in the meeting with the European Commission expert mission on enforcement, in relation to Article 218a of the Law on Enforcement and Securing of Claims.

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 on its website 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 Payment System Law.