

## Summary of the Governor's Report - January-February 2016

*Updated: 1 April 2016*

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

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

According to preliminary MONSTAT data, based on quarterly assessments, the annual GDP growth of Montenegro amounted to 3.2% in 2015. 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 February 2016, prices decreased by 0.4% in relation to the previous month, while the annual inflation rate in February amounted to 0.1%.

During the first two months of 2016, industrial output recorded a y-o-y decrease of 15.8%. The decline of output was recorded in the sector of electricity, gas and water supply (27.5%) and in the mining and quarrying sector (37.5%), while there was an increase in the manufacturing industry sector (0.4%). In February 2016, the number of tourists increased by 5.2% compared to February 2015, while the number of overnights increased by 10%. 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 January 2016, production of wood products amounted to 2,845 m<sup>3</sup>, which is a decrease of 46.9% in relation to the corresponding period of 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 January 2016, the average number of employed persons amounted to 170,434, which is a decrease of 1.2% compared to the previous month and 0.4% more in relation to January 2015. In February 2016, the number of unemployed persons amounted to 42,616, which represents an increase of 3.5% in relation to the previous month and an increase of 21.2% compared to February 2016.

Out of 77,584 legal persons and entrepreneurs, at end-February 2016, accounts of 15,014 or 19.3% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.2%. At end-February 2016, total amount of debt being the basis for freezing of accounts amounted to 557.2 million euros, showing an increase of 0.6% in relation to the previous month as well as an annual increase of 8.7%.

On 29 February 2016, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12.2% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.2% of the total debt being the basis for freezing of accounts.

At end-February 2016, total assets and liabilities of banks increased by 0.3% compared to the previous month and amounted to 3,461.6 million euros. In terms of the structure of aggregate balance sheet of banks, total loans of banks make up the dominate share. At end-February 2016, total loans amounted to 2,375.1 million euros, which is 0.2% lower in relation to the previous month while they were only insignificantly lower in relation to February of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.6%. In February 2016, deposits in banks amounted to 2,615.7 million euros, which represents a monthly increase of 0.3% and an increase 14% compared to February 2015. Out of the total amount of deposits in banks, corporate deposits accounted for 779.7 million euros or 29.8%, while household deposits accounted for 1,443.6 billion euros or 55.2% of total deposits. At end-February 2016, total capital of banks amounted to 469.2 million euros, which is 0.03% more in relation to the previous month and an increase of 4.7% in relation to the corresponding period of the previous year.

In February, past due loans (without interests, and prepayments and accruals) amounted to 349.2 million euros, which is a decrease of 11.5% in relation to the previous month, while they recorded a decrease of 23.8% in relation to February 2015. At end-February 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 302.1 million euros and made up 12.7% of total loans. In relation to the previous month, non-performing loans decreased by 0.4%, while they recorded an annual decrease of 22.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.42% at end-February 2016, which represents a monthly decrease of 0.05 percentage points, while in relation to end-February 2015 it recorded a decrease of 0.75 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 8.63% in February 2016, which represent a monthly increase of 0.87 percentage points, and a decrease of 1.11 percentage points in relation to February 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.16% at end-February 2015, showing a decline of 0.06 percentage points in relation to the previous month, while it recorded a decline of 0.56 percentage points in relation to end-February 2015.

At end-February 2016, reserve requirement of banks amounted to 241 million euros, which represents a decline of 1.5 million euros or 0.6%, while in relation to the corresponding period of the previous year, reserve requirements increased by 27.3 million euros or 12.8%. In February, four 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 43.5% was allocated to the account of reserve requirement in the country, 36.7% to the CBCG account held abroad, and 19.8% in the form of T- bills. During February 2016, all banks allocated and maintained reserve requirements within prescribed limits.

In January 2016, the gross insurance premium amounted to 4.8 million euros. Non-life insurance premiums still accounted for the main share in its structure with 84.5%, while invoiced life insurance premiums accounted for the remaining 15.5%.

In February 2016, Montenegro Stock Exchange recorded a turnover in the amount of 1.7 million euros, through 389 transactions. In relation to the previous month, the turnover was lower by 57.9%. Market capitalisation, as at 29 February 2016 amounted to 2,934.7 million euros, thus recording a monthly decrease of 0.8%. The MONEX index, which amounted to 11,622.62 index points at end-February 2016, decreased in relation to the end of the previous month by 2.8%, while investment fund index MONEXPIF amounted to 2,610.58 and recorded a monthly decrease of 1.2%. The MNSE10 index amounted to 1,011.56 index points and decreased by 1.7% in relation to the previous month.

In February 2016, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 12.9 million euros or 0.3% of annual GDP, while during the two months of 2016 there was a deficit in the amount of 34.1 million euros or 0.9% of annual GDP. In February 2016, source revenues of the budget of Montenegro amounted to 95.7 million euros or 2.5% of GDP, which represents an increase of 5.2% in relation to the plan for February. In relation to source revenues recorded in February 2015, there was an increase of 10.3%.

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. In 2015, as per preliminary data, foreign trade deficit amounted to 1.5 billion euros or 40% of GDP, which represents an increase of 6.3% in relation to 2014. When it comes to international visible trade, high level of imports dependence remains to be evident. In 2015 there was a decline in the value of exported goods by 9%, while there was a slower increase of import of 3.1%. In January 2016, as per preliminary data, net FDI inflow amounted to 8 million euros which is 66.7% more in relation to January 2015.

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 January and February.

In January and February, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG participated in the meetings with the ECB representatives in relation to the assessment of the Economic Reform Programme for Montenegro (ERP). As per request of the Head of the Working Group for Chapter 9 - Financial Services, there was a preparatory meeting with coordinators of the working group in relation to the video conference with the EC representatives. The CBCG representatives participated in the meeting of the General Assembly of IPA 2013. In February, representatives of the CBCG participated in the introductory meeting with the expert from Slovenia for the area of implementation of ESA 2010 methodology into the system of public finances. As per request of the Ministry of Foreign Affairs and European Integration, the CBCG's representatives participated in the video conference with the experts of the EC in relation to open questions from Negotiation position of the EC for Chapter 9 - Financial Services.

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.