

## Summary of the Governor's Report - July-August 2016

*Updated: 12 December 2016*

The Governor's Report for July and August 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 July and August, 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 the final Monstat data, gross domestic product of Montenegro increased by 3.4%, while according to preliminary data, during the first and second quarter of 2016 it increased by 1.1%, and 2.7% in relation to the corresponding period of 2015.

In August 2016, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in August amounted to -0.5%.

During the first eight months of 2016, industrial output recorded a y-o-y decrease of 5.2%. There was a decrease in all three sectors: mining and quarrying sector (-30.2%), manufacturing industry (-4.3%) and in the electricity, gas and steam supply sector (-3.2%). During the first eight months of 2016, the number of tourist arrivals recorded a y-o-y increase of 4.9%, while overnights increased by 0.6%. During the first six months of 2016, according to Monstat data, the air passenger transport recorded a y-o-y increase of 9.6% while the air cargo transport increased by 2.1%. During this period, railway passenger transport recorded a y-o-y increase of 0.9%, and railway cargo transport decreased by 11.5%. During H1 2016, the road passenger transport recorded a y-o-y increase of 7.4%, while road cargo transport decreased by 3.1%.

During the first eight months of 2016, production of wood products amounted to 160,690 m<sup>3</sup>, which is a decrease of 18.9% in relation to the corresponding period of the previous year. During the first six months of 2016, according to preliminary Monstat data, construction recorded a y-o-y increase of 22.5%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 10.9%.

In August 2016, the average number of employed persons amounted to 184,308, which is a decrease of 0.7% compared to the previous month and 1.7% more in relation to August 2015. In August 2016, the number of unemployed persons amounted to 41,088, which represents an increase of 2.4% in relation to the previous month and an increase of 24.2% compared to August 2015.

Out of 79,964 legal persons and entrepreneurs, at end-August 2016, accounts of 15,222 or 19.04% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.2%, while it recorded an annual growth of 5.4%. At end-August 2016, total amount of debt being the basis for freezing of accounts amounted to 605.9 million euros, showing an increase of 2.7% in relation to the previous month as well as an annual increase of 13.2%.

On 31 August 2016, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13.3% of total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 36% of the total debt being the basis for freezing of accounts.

At end-August 2016, total assets and liabilities increased by 1.6% compared to the previous month and amounted to 3,690.1 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-August, total loans amounted to 2,489.7 million euros,

which is an increase of 1.5% in relation to the previous month and 0.6% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.9%. In August 2016, deposits in banks amounted to 2,802.4 million euros, which represents a monthly increase of 2.2% and an increase 7.8% compared to August 2015. Out of the total amount of deposits in banks (2.8 billion euros), corporate deposits accounted for 944.1 million euros or 33.7%. Household deposits accounted for 1,475.8 million euros or 52.7% of total deposits. At end-August 2016, total capital of banks amounted to 496.3 million euros, which is 1% more in relation to the previous month and an increase of 3.9% in relation to the corresponding period of the previous year.

In July, past due loans (without interests, and prepayments and accruals) amounted to 368.1 million euros, which is a decrease of 4.5% in relation to the previous month, while they recorded a decline of 19.6% in relation to August-2015. At end-August 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 283.1 million euros and made up 11.4% of total loans. In relation to the previous month, non-performing loans increased by 0.04%, while they recorded an annual decrease of 21.9%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.81% at end-August 2016, which represents a monthly decrease of 0.08 percentage points, while in relation to end-August 2015 it recorded a decrease of 1.05 percentage points.

The weighted average effective interest rate (WAEIR) on new loans amounted to 7.48% in August 2016, which represent a monthly increase of 0.63 percentage points, and a decrease of 1.57 percentage points in relation to August 2015.

The weighted average effective deposit interest rate (WAEDIR) amounted to 1.02% at end-August 2016, showing a decline of 0.02 percentage points in relation to the previous month, while it recorded a decline of 0.32 percentage points in relation to end-August 2015.

At end-August 2016, reserve requirement of banks amounted to 262.6 million euros, which represents a monthly increase of 11.7 million euros or 4.6%, while in relation to the corresponding period of the previous year reserve requirements increased by 26.5 million euros or 11.2%. During August 2016, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 45.3% was allocated to the account of reserve requirement in the country, 39.8% to the CBCG account held abroad, and 14.9% in the form of T-bills.

In August 2016, the gross insurance premium amounted to 6.8 million euros. Non-life insurance premiums still accounted for the main share in its structure with 84.3%, while invoiced life insurance premiums accounted for the remaining 15.7%.

In August 2016, Montenegro Stock Exchange recorded a turnover in the amount of 3,089.4 million euros, through 282 transactions. The turnover was two times higher in relation to the previous month. Market capitalisation, as at 31 August 2016 amounted to 2,812.7 million euros, thus recording a monthly increase of 0.05%. The MONEX index, which amounted to 10,839.56 index points at end-August 2016, decreased by 0.3% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,670.48 and recorded a monthly increase of 2.7%. The MNSE10 index amounted to 889.47 index points and decreased by 0.8% in relation to the previous month.

In July 2016, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 0.8 million euros, while during seven months of 2016, there was a deficit in the amount of 108.4 million euros or 2.9% of the estimated annual GDP. In July, source revenues of the budget of Montenegro amounted to 126.2 million euros or 3.4% of GDP, which represents a decrease of 10% in relation to the plan for July. In relation to source revenues recorded in July 2015, there was a decrease of 1%. Budget expenditure amounted to 125.4 million euros or 3.3% of GDP which is 13.1% less in relation to the plan for July 2016, and 2.9% less in relation to expenditure in July 2015. At end-June 2016, according to the Ministry of Finance estimates, government debt (gross) amounted to 2,360.7 million euros. Out of that figure, a total of 326.9 million euros or 8.7% of GDP referred to internal debt, while

external debt accounted for 2,033.8 million euros or 54.1% of GDP. Net government debt amounted to 61.3% 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 amounted to 99.56% in July and 100% in August.

In July and August, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The representatives of the Central Bank of Montenegro participated in the meeting of the Subcommittee for Internal Market and Competition which was held on 7 July 2016, in Brussels. As per request of the Ministry of Economy, the CBCG submitted the data for draft Report of the EC on the implementation of the Stabilisation and Association Agreement (SAA). As per request of the Ministry of Foreign Affairs and European Integration, the CBCG prepared the materials under its competence for Annex II for the Montenegro Progress Report; materials include information and carried out activities for the reporting period from 1 May until 15 July 2016.

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.