

Summary of the Governor's Report - March 2016

Updated: 26 May 2016

The Governor's Report for March 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 March, 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 March 2016, prices decreased by 0.1% in relation to the previous month, while the annual inflation rate in March amounted to -0.9%.

During the first three months of 2016, industrial output recorded a y-o-y decrease of 9.2%. The decline was recorded in the mining and quarrying sector (43.9%) and in the electricity, gas and water supply (18.9%), while there was growth in the sector of manufacturing industry (5.2%). During the first three months of 2016, the number of tourist arrivals recorded a y-o-y increase of 9%, while overnights increased by 11.9%. 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 months of 2016, production of wood products amounted to 14,618 m³, which is an increase of 61.8% 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 March 2016, the average number of employed persons amounted to 172,098, which is an increase of 0.7% compared to the previous month and 0.1% more in relation to March 2015. In March 2016, the number of unemployed persons amounted to 42,406, which represents a decrease of 0.5% in relation to the previous month and an increase of 21.5% compared to March 2015.

Out of 78,039 legal persons and entrepreneurs, at end-March 2016, accounts of 15,100 or 19.3% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.6%. At end-March 2016, total amount of debt being the basis for freezing of accounts amounted to 546.8 million euros, showing a decrease of 1.9% in relation to the previous month and an annual decrease of 9.1%.

As at 29 February 2016, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12.6% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.3% of the total debt being the basis for freezing of accounts.

At end-March 2016, total assets and liabilities increased by 0.6% compared to the previous month and amounted to 3,440.9 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-March, total loans amounted to 2,374.6 million euros, which

is 0.02% lower in relation to the previous month and 1.4% 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 March 2016, deposits in banks amounted to 2,610.4 million euros, which represents a monthly decrease of 0.2% and an increase of 12.8% compared to March 2014. Out of the total amount of deposits in banks, corporate deposits accounted for 810.8 million euros or 31.1%, while household deposits accounted for 1,440.8 million euros or 55.2% of total deposits. At end-March 2016, total capital of banks amounted to 469.9 million euros, which is 0.1% more in relation to the previous month and an increase of 5.1% in relation to the corresponding period of the previous year.

In March, past due loans (without interests, and prepayments and accruals) amounted to 367.4 million euros, which is an increase of 5.2% in relation to the previous month, while they recorded a decrease of 25.4% in relation to March 2015. At end-March 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 284.7 million euros and made up 12% of total loans. In relation to the previous month, non-performing loans decreased by 5.7%, while they recorded an annual decrease of 22.9%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.32% at end-March 2016, which represents a monthly decrease of 0.10 percentage points, while in relation to end-March 2015 it recorded a decrease of 0.79 percentage points. The weighted average lending effective interest rate (WALEIR) on new loans amounted to 8.04% in March 2016, which represent a monthly decline of 0.59 percentage points, and a decrease of 0.90 percentage points in relation to March 2015. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.16% at end-March 2016 and remained unchanged in relation to the end of the previous month, while it recorded a decline of 0.49 percentage points in relation to March 2015.

At end-March 2016, reserve requirement of banks amounted to 245.5 million euros, which represents a monthly increase of 4.5 million euros or 1.9%, while in relation to the corresponding period of the previous year reserve requirements increased by 29.3 million euros or 13.6%. In March, 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 54.4% was allocated to the account of reserve requirement in the country, 26.1% to the CBCG account held abroad, and 19.5% in the form of T- bills. During March 2016, all banks allocated and maintained reserve requirements within prescribed limits.

In March 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 83.2%, while invoiced life insurance premiums accounted for the remaining 16.8%.

In March 2016, Montenegro Stock Exchange recorded a turnover in the amount of 4.5 million euros, through 653 transactions. The turnover was 2.7 times higher in relation to the previous month. Market capitalisation, as at 31 March 2016 amounted to 2,841.4 million euros, thus recording a monthly decrease of 3.2%. The MONEX index, which amounted to 11,410.33 index points at end-March 2016, decreased in relation to the end of the previous month by 1.8%, while investment fund index MONEXPIF amounted to 2,576.74 and recorded a monthly decrease of 1.3%. The MNSE10 index amounted to 986.17 index points and decreased by 2.5% in relation to the previous month.

In March 2016, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 9.6 million euros or 0.3% of annual GDP, while during the three months of 2016 there was a deficit in the amount of 47.2 million euros or 1.2% of annual GDP. Source revenues of the budget of Montenegro amounted to 121.5 million euros or 3.2% of GDP, which represents an increase of 12.7% in relation to the plan for March. In relation to source revenues recorded in March 2016, there was an increase of 21%. 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 the import increased by 3.1%. During the first three months of 2016, as per preliminary data, net FDI inflow amounted to 11.6 million euros which is 86.3% more 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 activities regarding the Central Bank's role as a fiscal agent were performed successfully. RTGS and DNS systems availability amounted to 100% in March.

In March, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG's representatives harmonised the text from the minutes of the European Commission from the video conference for Chapter 9 in relation to final benchmarks, held on 25 February 2016. The representatives of the CBCG participated in the public debate for Chapter 9 – Financial Services, organised by the office of the Chief Negotiator for Montenegro's Accession to EU. The debate was held on 14 March 2016. The CBCG implemented recommendation – Fa8 Produce statistical data in the SDMX-ML format within the Project of technical cooperation with the CBCG and preparation for accession to the European System of Central Banks (ESCB). The representatives of the CBCG participated in the XIX meeting of the European Integration Committee held on 25 March 2016, where participants discussed unexecuted obligations from the first quarter in accordance with the Montenegro's Programme of Accession to the European Union (2016-2018). As per request of the Ministry of Economy, the CBCG submitted data for FDI by countries for 2015, which was needed for the meeting of the Sub-committee on industry, trade, customs, taxes and cooperation with other candidate countries. The CBCG's representatives participated in the meeting (hosted by MONSTAT) of the subgroup for domain 2 within the negotiation Chapter 18- Statistics, where they presented current situation and future plans that rely on negotiation Chapter 18 in the domain under the jurisdiction of CBCG in MONSTAT. The CBCG submitted to the European Commission revised Action plan for harmonisation of legislation with the EU acquis for Chapter 17 – Economic and Monetary Policy. In relation to the project Business and Consumer Surveys, the CBCG submitted to the European Commission a modified plan of expenses for the action period May 2016 – April 2017. From 21st to 25th of March 2016, the CBCG's representatives participated in the bilateral cooperation with the Deutsche Bundesbank, at a seminar titled "Legal framework of modern central banks and financial system" aimed at learning about the experience of the Deutsche Bundesbank in respect of implementation of the Directive 2013/36/EU.

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.