

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

*Updated: 26 January 2017*

The Governor's Report for October 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 October, 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, second and third quarter of 2016 it increased y-o-y by 1.1%, 2.7%, and 2.4%, respectively.

In October 2016, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in October amounted to 0.2%.

During the first ten 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 (-22.8%), manufacturing industry (-6.1%) and in the electricity, gas and steam supply sector (-1.1%). During the first ten months of 2016, the number of tourist arrivals recorded a y-o-y increase of 5.8%, while overnights increased by 1.6%. 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%.

During the first ten months of 2016, production of wood products amounted to 223,801 m<sup>3</sup>, which is a decrease of 24% in relation to the corresponding period of the previous year. During the first nine months of 2016, according to preliminary Monstat data, 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 of effective working hours of 14.4%.

In October 2016, the average number of employed persons amounted to 178,629, which is a decrease of 1% compared to the previous month and 2.2% more in relation to October 2015. In October 2016, the number of unemployed persons amounted to 45,273, which represents an increase of 6.6% in relation to the previous month and an increase of 24.5% compared to October 2015.

Out of 80,684 legal persons and entrepreneurs, at end-October 2016, accounts of 15,332 or 19% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.1%, while it recorded an annual growth of 4.2%. At end-October 2016, total amount of debt being the basis for freezing of accounts amounted to 618.1 million euros, showing an increase of 0.6% in relation to the previous month as well as an annual increase of 13.4%.

On 31 October 2016, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13.3% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 36.2% of the total debt being the basis for freezing of accounts.

At end-October 2016, total assets and liabilities decreased by 0.2% compared to the previous month and amounted to 3,732.1 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominant share. At end-October, total loans amounted to 2,501.5 million

euros, which is 0.2% lower in relation to the previous month and 1.5% lower in relation to October of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 76.1%. In October 2016, deposits in banks amounted to 2,842 million euros, which represents a monthly decrease of 0.4% and an increase of 6.9% compared to October 2015. Out of the total amount of deposits, corporate deposits accounted for 976.5 million euros or 34.3%. Household deposits accounted for 1,488.9 million euros or 52.4% of total deposits. At end-October 2016, total capital of banks amounted to 501,6 million euros, which is slightly less in relation to the previous month, while it recorded a y-o-y increase of 7.1%.

In October, past due loans (without interests, and prepayments and accruals) amounted to 333.3 million euros, which is an increase of 5.4% in relation to the previous month, while they recorded a decrease of 25.3% in relation to October 2015. At end-October 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 262.1 million euros and made up 10.5% of total loans. In relation to the previous month, non-performing loans increased by 2.8%, while they recorded an annual decrease of 25.9%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.65% at end-October 2016, which represents a monthly decrease of 0.07 percentage points, while in relation to end of the previous month it recorded a decrease of 1.14 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.73 in October 2016, which represent a monthly decline of 0.88 percentage points, and a decrease of 1.03 percentage points in relation to October 2015.

The weighted average effective deposit interest rate (WAEDIR) amounted to 0.99% at end-October 2016, showing an increase of 0.03 percentage points in relation to the previous month, while it recorded a decline of 0.29 percentage points in relation to end-October 2015.

At end-October 2016, reserve requirement of banks amounted to 264.9 million euros, which represents a decline of 1.6 million euros or 0.6% on a monthly basis, while in relation to the corresponding period of the previous year, reserve requirements increased by 20.1 million euros or 8.2%. During October 2015, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 46.8% was allocated to the CBCG account held abroad, 38.2% to the account of reserve requirement in the country, and 15% in the form of T- bills.

In October 2016, the gross insurance premium amounted to 6.3 million euros. Non-life insurance premiums still accounted for the main share in its structure with 81,7%, while invoiced life insurance premiums accounted to 18,3%.

In October 2016, Montenegro Stock Exchange recorded a turnover in the amount of 3.2 million euros, through 359 transactions. The turnover was 35.3% higher in relation to the previous month. Market capitalisation, as at 31 October 2016 amounted to 2,814 million euros, thus recording a monthly increase of 0.5%. The MONEX index, which amounted to 11,038.82 index points at end-October 2016, increased by 2% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,730.08 and recorded a monthly increase of 2.3%. The MNSE10 index amounted to 925.71 index points and increased by 3.7% in relation to the previous month.

In October 2016, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 6 million euros, while during ten months of 2016, there was a deficit in the amount of 18.2 million euros or 0.5% of the estimated annual GDP. In October, source revenues of the budget of Montenegro amounted to 120.5 million euros or 3.2% of estimated annual GDP, which represents a decrease of 15.8% in relation to the plan for October. In relation to source revenues recorded in October 2015, there was an increase of 8.9%. Budget expenditures amounted to 114.5 million euros or 3.1% of estimated GDP which is 20.6% less in relation to the plan for October 2016, and 0.1% more in relation to expenditures in October 2015. At end-September 2016, according to the Ministry of Finance estimates, government debt (gross) amounted to 2,309.2 million euros or 61.9% of GDP. Out of that figure, a total of 314 million euros or 8.4% of GDP referred to internal debt, while external debt accounted for 1,99.2 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 amounted to 100% in October.

In October, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Representatives of the CBCG participated in the expert meeting - *Autumn 2016 Economic Forecast* for candidate countries, which was held in Brussels. The CBCG's representatives made a bilateral visit to the National Bank of Serbia, related to national negotiation structures, the role of the Central Bank in the process of negotiations for the EU membership, as well as internal coordination mechanisms in this process. The Ministry of Finance was given annual accounts for 2012, 2013, 2014 and 2015, for units that are defined as part of the government sector within the project of harmonisation of finances of state finances in line with ESA 2010 methodology. The CBCG prepared and submitted to Monstat the scope of institutional units that belong to the financial sector, in line with ESA 2010 methodology; it is part of a wider project for development of a Registry of institutional units by sectors in line with ESA 2010 methodology. As per request of the Ministry of Foreign Affairs and European Integration, the CBCG submitted the balance of payments data for the meeting of the Subcommittee for economic and financial issues and statistics to be held in November, in Brussels. The CBCG's representatives attended the meeting of the working group for balance of payments in Luxembourg, organised by Eurostat.

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 information on its website 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.