

Summary of the Governor's Report - September 2016

Updated: 12 December 2016

The Governor's Report for September 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 September, 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 during the first and second quarter of 2016 it increased y-o-y by 1.1% and 2.7%, respectively.

In September 2016, prices increased by 0.9% in relation to the previous month, while the annual inflation rate in September amounted to -0.1%.

During the first nine months of 2016, industrial output recorded a y-o-y decrease of 4.2%. There was a decrease in all three sectors: mining and quarrying sector (-26.1%), manufacturing industry (-3.2%) and in the electricity, gas and steam supply sector (-2.6%). During the first nine months of 2016, the number of tourist arrivals recorded a y-o-y increase of 5.2%, while overnights increased by 1.2%. 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 nine months of 2016, production of wood products amounted to 194,115 m³, which is a decrease of 21.2% 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 September 2016, the average number of employed persons amounted to 180,409, which is a decrease of 2.1% compared to the previous month and 1.9% more in relation to September 2015. In September 2016, the number of unemployed persons amounted to 42,483, which represents an increase of 3.4% in relation to the previous month and an increase of 25.8% compared to September 2015.

Out of 80,334 legal persons and entrepreneurs, at end-September 2016, accounts of 15,312 or 19.06% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.6%, while it recorded an annual growth of 5.5%. At end-September 2016, total amount of debt being the basis for freezing of accounts amounted to 614.6 million euros, showing an increase of 1.4% in relation to the previous month as well as an annual increase of 13.6%.

On 30 September 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 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-September 2016, total assets and liabilities increased by 1.3% compared to the previous month and amounted to 3,739.9 million euros. In terms of the structure of aggregate balance sheet of banks, total loans of banks make up the dominate share. At end-June 2016, total loans amounted to 2,506.6

million euros, which is 0.7% higher in relation to the previous month while they were 1.5% lower in relation to September of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 76.3%. In September 2016, deposits in banks amounted to 2,854.1 million euros, which represents a monthly increase of 1.8% and an increase 8.8% compared to September 2015. Out of the total amount of deposits, corporate deposits accounted for 978.8 million euros or 34.3%. Household deposits accounted for 1,486.1 billion euros or 52.1% of total deposits. At end-September 2016, total capital of banks amounted to 501.7 million euros, which is 1.1% more in relation to the previous month and an increase of 7.8% in relation to the corresponding period of the previous year.

In September, past due loans (without interests and accruals) amounted to 316.3 million euros, which is a decrease of 14.1% in relation to the previous month, while they recorded a decrease of 25.3% in relation to end-2014. At end-September 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 254.9 million euros and made up 10.2% of total loans. In relation to the previous month, non-performing loans decreased by 10%, while they recorded an annual decrease of 27.5%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.72% at end-September 2016, which represents a monthly decrease of 0.09 percentage points, while in relation to end of the previous month it recorded a decrease of 1.17 percentage points.

The weighted average effective lending interest rate (WALEIR) on new loans amounted to 7.61% in September 2016, which represents a monthly increase of 0.13 percentage points, and a decrease of 2.02 percentage points in relation to September 2015.

The weighted average effective deposit interest rate (WAEDIR) amounted to 0.96% at end-September 2016, showing a decline of 0.06% in relation to the previous month, while it recorded a decline of 0.33 percentage points in relation to end-September 2015.

At end-September 2016, reserve requirements of banks amounted to 266.5 million euros, which represents a monthly increase of 3.9 million euros or 1.5%, while in relation to the end of the previous year, reserve requirements increased by 24.6 million euros or 10.1%. During September 2016, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 47.5% was allocated to the CBCG account held abroad, 37.5% to the account of reserve requirement in the country, and 15% in the form of T- bills.

In September 2016, the gross insurance premium amounted to 6.5 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 September 2016, Montenegro Stock Exchange recorded a turnover in the amount of 2.4 million euros, through 331 transactions. The turnover was 22.4% lower in relation to the previous month. Market capitalisation, as at 30 September 2016 amounted to 2,799.5 million euros, thus recording a monthly decrease of 0.5%. The MONEX index, which amounted to 10,820.81 index points at end-September 2016, decreased by 0.2% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,668.73 and recorded a monthly decrease of 0.1%. The MNSE10 index amounted to 892.90 index points and decreased by 0.4% in relation to the previous month.

In September 2016, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 9.6 million euros, while during nine months of 2016, there was a deficit in the amount of 24.2 million euros or 0.6% of the estimated annual GDP. Source revenues of the budget of Montenegro amounted to 132.9 million euros or 3.6% of estimated annual GDP, which represents an increase of 0.2% in relation to the plan for September. In relation to source revenues recorded in September 2015, there was an increase of 7.4%. Budget expenditures amounted to 123.3 million euros or 3.3% of GDP which is 14.6% less in relation to the plan for September 2016, and 10.5% less in relation to expenditures in September 2015. At end-September 2016, according to the Ministry of Finance estimates, public debt (gross) amounted to 2,309.2 million euros or 61.8% 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 1,995.2 million euros or 53.4% 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 September.

In September, 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 meetings with the representative of the Directorate General for Economic and Financial Affairs (DG ECFIN) and representative of the EU Delegation to Montenegro. As per request of the Ministry of Foreign Affairs and European Integration, the CBCG submitted an annex for the Annual progress report of Montenegro in the part referring to the balance of payments for the period until 1 September 2015. Representatives of the CBCG participated in the 21th meeting of the Commission for European Integration where they discussed activities related to preparation of the III quarterly report on implementation of obligations under the Programme of Accession of Montenegro to the EU 2016–2018 and activities within the drafting of the Programme of Accession of Montenegro to the EU for the period 2017–2018. The CBCG submitted the Action plan for negotiation Chapter 17 - Economy and Monetary Policy to the Ministry of Finance to the Ministry of Finance for further action. At the request of Monstat, representatives of the CBCG participated in the regular quarterly meeting of the Subgroup - domain 2, as part of negotiation Chapter 18 - Statistics. The CBCG participated in the meetings with representatives of the EU Delegation to Montenegro in relation to the project: Strengthening regulatory and supervisory capacities of financial regulators (IPA 2008) and Programme of technical cooperation with the CBCG in the process of joining the ESCB.

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.