

Summary of the Governor's Report – February 2017

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The Governor's Report for February 2017 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 2017 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2017, on a monthly basis.

In February, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2017.

Real GDP growth rate of Montenegro, according to preliminary MONSTAT data, based on quarterly estimates in 2016 amounts to 2.5%. All four quarters in 2016 recorded a y-o-y growth: 1.1%, 2.7%, 2.4% and 3.4%, respectively.

In February 2017, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in February amounted to 2.5%.

During the first two months of 2017, industrial output recorded a y-o-y decrease of 6.6%. The decline was recorded in the sector of manufacturing industry (-19.2%), and in the electricity, gas and steam supply sector (-7.9%), while there was an increase in the mining and quarrying sector (151.6%)

During the first two months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 10.4%, while overnights increased by 6.5%. In 2016, according to Monstat data, the air passenger transport recorded a y-o-y increase of 12.9% while the air cargo transport increased by 2.4%. During this period, the road passenger transport increased by 8%, while road cargo transport increased by 10.9%. In the observed period, railway passenger transport increased by 3.9%, while freight transport grew by 41.2%.

During the first two months of 2017, production of wood products amounted to 6,329 m3, which is a decrease of 45% in relation to the corresponding period of the previous year. In 2016, according to preliminary Monstat data, construction recorded a y-o-y increase of 31.5%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 16.7%.

In February 2017, the average number of employed persons amounted to 178,112, which is an increase of 0.6% compared to the previous month and 4.2% more in relation to February 2016. In February 2017, the number of unemployed persons amounted to 52,241, which represents an increase of 2.1% in relation to the previous month and an increase of 22.6% compared to February 2016.

Out of 82,054 legal persons and entrepreneurs*, at end-February 2016, accounts of 15,541 or 18.9% 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 3.5%. At end-February 2017, total amount of debt being the basis for freezing of accounts amounted to 617.3 million euros, showing a decrease of 1% in relation to the previous month and an annual increase of 10.8%.

On 28 February 2017, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 12.7% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.7% of the total debt being the basis for freezing of accounts.

At end-February 2017, total assets and liabilities of banks increased by 0.2% compared to the previous month and amounted to 3,774.7 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-February 2017, total loans amounted to 2,433.2 million euros, which is 0.7% higher in relation to the previous month and 2.4% higher in relation to February of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.2%. In February 2017, deposits in banks amounted to 2,837.2 million euros, which represents a monthly decrease of 0.5% and an

increase 8.5% compared to February 2016. Out of the total amount of deposits, corporate deposits accounted for 925.6 million euros or 32.6%. Household deposits accounted for 1,549 million euros or 54.6% of total deposits. Total capital of banks at end-February 2017 amounted to 498.4 million euros, which is an increase of 1% in relation to the previous month as well as an increase of 6.5% in relation to the corresponding period of the previous year.

In February, past due loans (without interests, and prepayments and accruals) amounted to 266.6 million euros, which is a decrease of 12.5% in relation to the previous month, while they recorded a decrease of 23.7% in relation to February 2016. At end-February 2017, non-performing loans (without interests, and prepayments and accruals) amounted to 249.3 million euros and made up 10.2% of total loans. In relation to the previous month, non-performing loans of banks decreased by 0.7%, while they recorded an annual decrease of 17.5%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.30% at end-February 2017, which represents a monthly decrease of 0.1 percentage points, while in relation to end-February 2016 it recorded a decrease of 1.12 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.88% in February 2017, which represents a monthly decrease of 0.37 percentage points, and a decrease of 1.75 percentage points in relation to February 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.91% at end-February 2017, showing a slight decline in relation to the previous month, while it recorded a decline of 0.25 percentage points in relation to end-February 2016.

At end-February 2017, reserve requirement of banks amounted to 264.5 million euros, which represents a decline of 1.4 million euros or 0.5%, while in relation to the corresponding period of the previous year, reserve requirements increased by 23.5 million euros or 9.7%. During February 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 48% was allocated to the reserve requirement account in the country, 48% was allocated to the Central Bank's account abroad, while 4% was in T-bills.

In January 2017, the gross insurance premium amounted to 5.2 million euros. Non-life insurance premiums still accounted for the main share in its structure with 82.9%, while invoiced life insurance premiums accounted for the remaining 17.6%.

In February 2017, Montenegro Stock Exchange recorded turnover in the amount of 9.5 million euros through 472 transactions. Turnover increased by 3.3 times in relation to the previous month. As 28 February 2017, market capitalisation amounted to 2,950.9 million euros, recording 1.7% increase in relation to the previous month. The MONEX index, which amounted to 11,400.20 index points at end-February 2017, increased by 0.6% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,730.10 and recorded a monthly increase of 0.7%. The MNSE10 index amounted to 969.89 index points and increased by 3.8% in relation to the previous month.

In February 2017, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 17.7 million euros or 0.5% of annual GDP. In February 2017, source revenues of the budget of Montenegro amounted to 88.8 million euros or 2.3% of annual GDP, which represents a decrease of 13.1% in relation to the plan for February. In relation to source revenues recorded in February 2016, there was a decrease of 7.3%. Budget expenditures amounted to 106.5 million euros or 2.7% of the annual GDP which is 17.6% less in relation to the plan for February 2017, and 5.9% below revenues recorded in February 2016. 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 1,995.2 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 February.

In February, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG submitted to the Ministry of Finance an action plan for harmonisation with the acquis in the area of Economic and monetary policy (Chapter 17), and participated in the meeting of coordinators of the working group for negotiation chapter 17. Representatives of the CBCG participated in the meeting with representatives of the ECB in relation to the assessment of the Economic Reforms Programme 2017–2019. As per request of the Ministry of European Affairs, the CBCG prepared compliance tables of the Draft Law Amending the Law on Foreign Current and Capital

Transactions with Directive no. 88/361/EEC and Regulation no. 549/2013 of the European Parliament and Council. The CBCG's representatives participated in the meeting with the representative of Eurostat where they discussed recorded and planned activities in the process of European integration related to negotiation chapter 18 - Statistics, in the part referring to official statistics produced by the CBCG. There was a meeting of the Committee for implementation of the Agreement on Cooperation in the area of national accounts of the general government sector and related statistics. The CBCG filled a questionnaire as per request of the *DG ECFIN* and *Economisti Associati*, which conduct medium term evaluation of the programme *Pericles 2020*.

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.

**** It should be considered that this number also includes the following persons: legal persons and entrepreneurs that were deleted from the CRPS but the accounts of which have not yet been deleted from the Central Registry of Transaction Accounts; legal persons that fail to submit annual financial statements although they are legally obligated to, and legal persons and entrepreneurs that have made no tax obligations or payments in the previous year.***