

## Summary of the Governor's Report – January 2017

*Updated: 30 March 2017*

The Governor's Report for January 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 January, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2017.

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%, 2.7%, and 2.4%, respectively.

In January 2017, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in January amounted to 0.2%.

In January 2017, industrial output recorded y-o-y decrease of 19.5%. The decline was recorded in the sector of manufacturing industry (-21.6%) and in the electricity, gas and steam supply sector (-26.3%), while there was an increase in the mining and quarrying sector (53.3%). In 2016, the number of tourist arrivals recorded a y-o-y increase of 5.9%, while overnights increased by 1.8%. 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%. The railway passenger transport recorded a y-o-y increase of 3.9%, and railway cargo transport grew by 41.2% over the reporting period.

In 2016, production of wood products amounted to 293,594 m<sup>3</sup>, which is a decrease of 22.4% in relation to 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 December 2016, the average number of employed persons amounted to 177,473, which is a decrease of 0.5% compared to the previous month and 2.9% more in relation to December 2015. In January 2017, the number of unemployed persons amounted to 51,148, which represents an increase of 3.4% in relation to the previous month and an increase of 24.2% compared to January 2016.

Out of 81,671 legal persons and entrepreneurs, at end-January 2017, accounts of 15,531 or 19% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.7%, while it recorded an annual growth of 3.6%. At end-January 2017, total amount of debt being the basis for freezing of accounts amounted to 623.7 million euros, showing a decrease of 0.7% in relation to the previous month and an annual increase of 12.6%.

On 31 January 2017, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13.8% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 36.8% of the total debt being the basis for freezing of accounts.

At end-January 2017, total assets and liabilities decreased by 0.6% compared to the previous month and amounted to 3,767.8 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-January 2017, total loans amounted to 2,417 million euros, which is slightly higher in relation to the previous month and 1.5% higher in relation to January of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.7%. In January 2017, deposits in banks amounted to 2,851.5 million euros, which represents a monthly decrease of 0.7% and an increase of 9.4% compared to January 2016. Out of the total amount of deposits, corporate deposits accounted for 944.3 million euros or 33.1%. Household deposits accounted for 1,533.7 million euros or 53.8% of total deposits. Total capital of banks at end-January 2017 amounted to 493.6 million euros, which is an increase of 1.1% in relation to the previous month as well as an increase of 5.5% in relation to the corresponding period of the previous year.

In January, past due loans (without interests, and prepayments and accruals) amounted to 304.7 million euros, which is an increase of 12.4% in relation to the previous month, while they recorded a decrease of 22.7% in relation to January 2016. At end-January 2017, non-performing loans (without interests, and prepayments and accruals) amounted to 251.2 million euros and made up 10.4% of total loans. In relation to the previous month, non-performing loans increased by 0.09%, while they recorded an annual decrease of 17.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.40% at end-January 2017, which represents a monthly decrease of 0.05 percentage points, while in relation to end of the previous month it recorded a decrease of 1.07 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 7.25% in January 2017, which represent a monthly increase of 0.98 percentage points, and a decrease of 0.51 percentage points in relation to January 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.92% at end-January 2017, showing a decline of 0.01 percentage point in relation to the previous month, while it recorded a decline of 0.30 percentage points in relation to end-January 2016.

At end-January 2017, reserve requirement of banks amounted to 265.9 million euros, which represents an increase of 182,307 euros or 0.1% on a monthly basis, while in relation to the corresponding period of the previous year, reserve requirements increased by 23.4 million euros or 9.6%. During January 2017, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 47.8% was allocated to the CBCG account held abroad, 38.8% to the account of reserve requirement in the country, and 13.4% in the form of 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 84.3%, while invoiced life insurance premiums accounted for the remaining 15.7%.

In January 2017, Montenegro stock exchange recorded a turnover in the amount of 2.9 million euros, through 279 transactions. The turnover was 57.3% higher in relation to the previous month. Market capitalisation, as at 31 January 2017 amounted to 2,902.9 million euros, thus recording a monthly increase of 0.9%. The MONEX index, which amounted to 11,336.99 index points at end-January 2017, decreased by 1.5% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,711.91 and recorded a monthly increase of 1.4%. The MNSE10 index amounted to 934.79 index points and increased by 0.7% in relation to the previous month.

In December 2016, according to the estimates of the Ministry of Finance, fiscal deficit of Montenegro amounted to 82.4 million euros, while in 2016 the deficit amounted to 129.4 million euros or 3.5% of GDP. In December, source revenues amounted to 170 million euros or 4.6% of GDP, which is an increase of 1.2% in relation to the plan for December. In relation to source revenues recorded in December 2015, there was an increase of 8.7%. In December, budget expenditures amounted to 252.4 million euros or 6.8% of GDP, which is 74.8% more in relation to the plan for December 2016, and 43.6% more in relation to expenditures in December 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 1,995.2 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 January.

In January, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. At the invitation of the Ministry of Finance, representatives of the CBCG participated in the meeting with the representative of TAIEX expert mission for preparation of Economic Reform Programme 2017-2019. At the invitation of the Government of Montenegro, representatives of the CBCG participated in the public debate within consultative process on the Draft Economic Reform Programme 2017-2019. As per request of the EU Delegation to Montenegro, the CBCG submitted data on the level of non-performing loans in the Montenegrin banking sector. The CBCG submitted to the Ministry of Finance comments to the Draft minutes from the meeting of the Subcommittee for economic and financial issues and statistics, held on 22 November 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.