

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

*Updated: 12 February 2018*

The Governor's Report for November 2017 provides an overview of key activities of the Central Bank concerning the 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 November, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2017.

According to the final Monstat data, the GDP of Montenegro recorded real growth of 2.9% in 2016. In Q1, Q2 and Q3 2017, according to the preliminary data, the real y-o-y growth amounted to 3.1%, 5.2%, and 4.7%, respectively.

In November 2017, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in November amounted to 2.4%.

The period-on-period comparison shows that industrial output decreased by 4.8% in the first eleven months of 2017. The decline was recorded in the sector of manufacturing industry (-2.2%), and in the electricity, gas and steam supply sector (-28%), while there was an increase in the mining and quarrying sector (119%). During the first eleven months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 17.7%, while overnights increased by 10.1%.

During the first nine months of 2017, according to MONSTAT data, air passenger transport recorded a y-o-y growth of 17.4%, while air freight transport decreased by 3.5%. Over the same period, road passenger transport increased by 0.5%, while road freight transport grew by 4.9%. In the first nine months of 2017, railway passenger transport recorded a y-o-y decrease of 28.5%, while railway freight transport increased by 38.4%.

During the first eleven months of 2017, some 326,491 m<sup>3</sup> of wood products were produced, which was 27.5% more in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first nine months of 2017, construction recorded y-o-y increase of 43.4% in the value of executed construction works, as well as in a 21.6% increase in effective working hours.

In November 2017, the average number of employed persons amounted to 178,078, which is an increase of 0.4% compared to the previous month and 0.1% less in relation to November 2016. In November 2017, the number of unemployed persons amounted to 52,226, which represents an increase of 2.9% in relation to the previous month and an increase of 9.4% compared to November 2016.

Out of 42,872 business entities that are registered as active in the Central Registry of Business Entities, and which have active accounts in the Central Registry of Transaction Accounts as at 30 November 2017, a total of 12,711 or 29.65% was frozen. Compared to the previous month, the number of frozen business entities increased by 0.89%. At end-November 2017, total amount of debt being the basis for freezing of accounts amounted to 608.2 million euros, showing an increase of 0.22% in relation to the previous month.

Out of the total number of frozen business entities as at 30 November 2017 (12,711), uninterrupted freezing of accounts up to 365 days was recorded by a total of 1,979 business entities with frozen funds in the amount of 19,382,421.59 euros, which accounts for 3.19% of the total amount of frozen funds. Uninterrupted freezing of accounts longer than 365 days was recorded by 10,732 business entities with an amount of frozen funds in the amount of 588,790,846.64 euros, which accounts for 96.81% of the total amount of frozen funds of business entities.

On 30 November 2017, debt concentration was relatively high, considering that top 10 debtors (0.08% of total recorded debtors) accounted for 13.52% of the total debt being the basis for freezing of accounts. Also, 50 of the frozen business entities (0.4% of total frozen legal entities) accounted for 35.74% of the total debt being the basis for freezing of accounts.

At end-November 2017, total assets and liabilities decreased by 0.3% compared to the previous month and amounted to 4,122.7 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-November 2017, total loans amounted to 2,716.8 million euros, which is 0.5% lower in relation to the previous month and 11.1% higher in relation to November of the previous year.

In the structure of liabilities, deposits made up the main share of 77.3%. Total banks' deposits amounted to 3,188.6 million euros at end-November 2017 and they recorded slight monthly decrease, and an 11.8% growth in relation to November 2016. Total capital of banks at end-November 2017 amounted to 523.9 million euros, which is an increase of 0.4% in relation to the previous month as well as an increase of 4.9% in relation to the corresponding period of the previous year.

In November, past due loans (without interests, and prepayments and accruals) amounted to 210.7 million euros, which is a decrease of 14.1% in relation to the previous month, while they recorded a decline of 31.4% in relation to November-2016. At end-November 2017, non-performing loans (without interests and prepayments and accruals) amounted to 190.1 million euros and accounted for 7% of total loans. In relation to the previous month, non-performing loans of banks decreased by 2.1%, while they recorded an annual decrease of 26.6%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 6.90% at end-November 2017, which represents a monthly decrease of 0.04 percentage points, while in relation to end-November 2016 it recorded a decrease of 0.65 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.50% in November 2017, which represent a monthly decline of 0.71 percentage points, and a decrease of 0.48 percentage points in relation to November 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.72% at end-November 2017 which represents a monthly decrease of 0.02 percentage points, while it recorded a decline of 0.22 percentage points in relation to November 2016.

At end-November 2017, reserve requirement of banks amounted to 232.6 million euros, which represents a monthly increase of 3.1 million euros or 1.3%, while in relation to the corresponding period of the previous year reserve requirements decreased by 32 million euros or 12.1%. During November 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 51.3% was allocated to the reserve requirement account in the country, while 48.7% was at the CBCG account abroad.

In November 2017, the gross insurance premium amounted to 6.9 million euros. Its structure shows the main share of non-life insurance (83.6%), while the rest referred to invoiced life insurance premiums (16.4%).

In November 2016, Montenegro Stock Exchange recorded a turnover in the amount of 1.4 million euros, through 316 transactions. The turnover was 73.9% lower in relation to the previous month. As at 30 November 2017, market capitalization amounted to 2,802.9 million euros, recording a monthly increase of 0.6%. The MONEX index, which stood at 10,211.78 index points at end-November 2017, declined by 4.8% in relation to the previous month. The MNSE10 index amounted to 797.14 index points and decreased by 3.1% in relation to the previous month.

In November 2017, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 31.9 million euros or 0.8% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 125.4 million euros or 3% of estimated annual GDP, which represents an increase of 1.8% in relation to the plan for November. In relation to source revenues recorded in November 2016, there was an increase of 11.5%. Budget expenditure amounted to 157.3 million euros or 3.7% of GDP which is slightly less in relation to the plan for November 2017, and 20 million euros or 14.5% more in relation to expenditure in November 2016.

At end-September 2017, according to the Ministry of Finance data, government debt (gross) amounted to 2,490.3 million euros or 59.3% of GDP. Out of that figure, domestic debt accounted for 431.3 million euros or 10.3% of GDP, while external debt accounted for 2,059 million euros or 49% of GDP. Net government debt amounted to 57% of GDP.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to ongoing oversight and analysis. International reserves management was performed based on the principles of liquidity and safety. The activities regarding the Central Bank's function of a fiscal agent were performed successfully. RTGS and DNS systems availability amounted to 99.79% in November.

In November, 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 fourth and fifth meeting of the Committee for European Integration, as well as in the meeting of the Sub-Committee for Economic and Financial Issues and Statistics. At the request of the Ministry of Foreign Affairs and European Integration, the CBCG submitted proposal for amendments to the Montenegro's Programme of Accession to the European Union 2018–2020, in the part referring to Chapter 4 - Free Movement of Capital. At the invitation of the Ministry of Economy and Head of the Work group for preparation of negotiations for Chapter 20 - Enterprise and Industrial Policy, representatives of the CBCG participated at a meeting in relation to the harmonisation of the national regulation with the EU acquis. At the request of the Ministry of Economy, for the purpose of drafting Montenegro's Programme of Accession to the European Union 2017–2018, the CBCG submitted comments and answers in relation to Chapter 20 - Enterprise and Industrial Policy. The CBCG met with the representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN), in relation to the prepared recommendations to the Government of Montenegro for economy policy in 2018.

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. Pursuant to the Law Supplementing the Payment System Law, the Central Bank continued to publish on its website the information on legal entities and entrepreneurs with frozen accounts in the amount over 10,000 euros for a continuous period exceeding 30 days.