

## Summary of the Governor's Report – November 2015

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The Governor's Report for November 2015 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 2015 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2015, 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 2015.

In 2014, according to the Monstat data, real growth of Montenegro amounted to 1.8%, while during the first, second, and third quarter of 2015 it increased y-o-y by 3%, 3.7% and 4.2%, respectively.

In November 2015, prices decreased by 0.2% in relation to the previous month, while the annual inflation rate in November amounted to 1.4%.

During the first eleven months of 2015, industrial output recorded a y-o-y increase of 10.9%. The growth was recorded in the sector of manufacturing industry (22.1%), while there was a decline in the electricity, gas and steam supply sector (2.1%) and in the mining and quarrying sector (5.4%). During the first eleven months of 2015, the number of tourist arrivals recorded a y-o-y increase of 12.8%, while overnights increased by 15.6%. During the first nine months of 2015, according to Monstat data, the air passenger transport recorded a y-o-y increase of 1.6% while the air cargo transport increased by 5.1%. During this period, the road passenger transport increased by 1.9%, while road cargo transport increased by 16.3%. The railway passenger transport recorded a y-o-y increase of 11.1%, and railway cargo transport grew by 22.6% over the reporting period.

During the first eleven months of 2015, production of wood products amounted to 340,017 m<sup>3</sup>, which is an increase of 18% in relation to the corresponding period of the previous year. During the first nine months of 2015, according to preliminary Monstat data, construction recorded a y-o-y increase of 7%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 4.8%.

In November 2015, the average number of employed persons amounted to 174,402, which is a decrease of 0.2% compared to the previous month and 1.2% more in relation to November 2014. In November 2015, the number of unemployed persons amounted to 37,930, which represents an increase of 4.3% in relation to the previous month and an increase of 9.2% compared to November 2014.

Out of 76,597 legal persons and entrepreneurs, at end-November 2015, accounts of 14,897 or 19.4% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 1.2%. At end-November 2015, total amount of debt being the basis for freezing of accounts amounted to 558.1 million euros, showing an increase of 2.4% in relation to the previous month as well as an increase of 12.5% in relation to end-2014.

On 30 November 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.4% of the total debt being the basis for freezing of accounts.

At end-November 2015, total assets and liabilities increased by 0.1% compared to the previous month and amounted to 3,524 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-November, total loans amounted to 2,512.2 million

euros, which is 1.1% lower in relation to the previous month and 6.1% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.4%. In November 2015, deposits in banks amounted to 2,658.9 million euros, which represents a slight monthly increase and an increase of 15.2% compared to end-2014. Out of the total amount of deposits in banks, corporate deposits accounted for 839.4 million euros or 31.6%, while household deposits accounted for 1,420.2 million euros or 53.4% of total deposits. At end-November 2015, total capital of banks amounted to 473.1 million euros, which is 1% more in relation to the previous month and an increase of 6.5% in relation to the end of the previous year.

In November, past due loans (without interests and accruals) amounted to 409.7 million euros, which is a decrease of 8.1% in relation to the previous month, while they recorded a decrease of 7.9% in relation to end-2014. At end-November 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 333.5 million euros and made up 13.3% of total loans. In relation to the previous month, non-performing loans decreased by 5.8%, while they recorded a decrease of 11.2% in relation to the end of the previous year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.65% at end-November 2015, which represents a monthly decrease of 0.14%, while in relation to end-December 2014 it recorded a decrease of 0.57 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 7.36% in November 2015, which represent a monthly decline of 0.40 percentage points, and a decrease of 1.66 percentage points in relation to December 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.24% at end-November 2015, showing a decline of 0.03 percentage points in relation to the previous month, while it recorded a decline of 0.61 percentage points in relation to end-December 2014.

At end-November 2015, reserve requirement of banks amounted to 245.4 million euros, which represents a monthly increase of 556,593 euros or 0.2%, while in relation to the end of the previous year, reserve requirements increased by 30.4 million euros or 14.2%. In November, five banks did not use the possibility to allocate a part of their reserve requirements in the form of T-bills. Of the total amount of allocated reserve requirements, some 48% was allocated to the CBCG account held abroad, 30.2% to the account of reserve requirement in the country, and 21.8% in the form of T- bills. During November 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In November 2015, the gross insurance premium amounted to 6.3 million euros. Non-life insurance premiums still accounted for the main share in its structure with 83.8%, while invoiced life insurance premiums accounted for the remaining 16.2%. In November 2015, Montenegro Stock Exchange recorded a turnover in the amount of 10 million euros, through 377 transactions. The turnover was 8.4 times higher in relation to the previous month. Market capitalisation, as at 30 November 2015 amounted to 2,882.7 million euros, thus recording a monthly decrease of 1%. The MONEX index, which amounted to 11,286.53 index points at end-November 2015, decreased in relation to the end of the previous month by 4.7%, while investment fund index MONEXPIF amounted to 2,627.07 and recorded a monthly decrease of 11.9%. The MNSE10 index amounted to 935.89 index points and decreased by 0.7% in relation to the previous month.

In November 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 13.9 million euros, while in November 2014 there was a deficit in the amount of 12.9 million euros. For eleven months of 2015, budget deficit amounted to 266 million euros, i.e. 7.3% of estimated GDP. Source revenues of the budget of Montenegro amounted to 95.9 million euros or 2.6% of GDP, which represents a decrease of 4.9% in relation to the plan for November. In relation to source revenues recorded in November 2014, there was a decrease of 2.6%. Budget expenditures amounted to 109.8 million euros or 3% of GDP which is 15.8% less in relation to November 2015, and 1.4% less in relation to November 2014.

At end-September 2015, according to the Ministry of Finance estimates, public debt (gross) amounted to 2,304.3 million euros. Out of that figure, a total of 329.2 million euros or 9% of GDP referred to

internal debt, while external debt accounted for 1,975.1 million euros or 54% of GDP. Net public debt amounted to 58.8% of GDP.

In the period January-September 2015, according to preliminary data, current account deficit decreased by 26.6% in relation to the corresponding period of 2014, and amounted to 208.5 million euros. Decline of the current account deficit came as a result of increased surplus in the services and primary income account. During the reporting period, the export of goods decreased (12.1%) while the import of goods increased (3.7%), which resulted in higher deficit in the goods account which amounted to 1.1 billion euros or 7.5% more in relation to the corresponding period of the previous year. Services account recorded a surplus in the amount of 777.7 million euros, which represents a y-o-y increase of 17.2%. In the period January-November 2015, as per preliminary data, net FDI inflow amounted to 573.4 million euros which is 79.7% more in relation to the corresponding period of 2014.

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 November.

In November, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The representatives of the Central Bank participated in the work of the 16th meeting of the Commission for European Integration, held in Podgorica on 3 November. Participants at the meeting discussed the possibility to implement outstanding obligations from the first three quarters and preparation of the 4th quarterly report on the implementation of obligations under the Montenegro's Programme of Accession to the European Union (2015–2018). As per request of the Ministry of Finance and the Ministry of Foreign Affairs and European Integration, the CBCG submitted an annex from the area of balance of payments for the meeting of the Subcommittee for Economic and Financial Issues and Statistics. Representatives of the CBCG participated in the regular meeting of the Subcommittee for Economic and Financial Issues and Statistics, held in Podgorica on 17 November.

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 Law on National Payment Operations.