

## Summary of the Governor's Report - May 2016

**Updated: 05 September 2016**

The Governor's Report for May 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 May, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2016.

According to preliminary Monstat data, real GDP growth of Montenegro amounted to 3.2%, based on quarterly estimates. In Q1 2016, there was a real growth of 1.1% in relation to Q1 2015.

In May 2016, prices increased by 0.2% in relation to the previous month, while the annual inflation rate in May amounted to -1%.

During the first five months of 2016, industrial output recorded a y-o-y decrease of 7.3%. There was a decrease in all three sectors: mining and quarrying sector (-36.2%), manufacturing industry (-7.9%) and in the electricity, gas and steam supply sector (-2.8%). During the first five months of 2016, the number of tourist arrivals recorded a y-o-y increase of 7.6%, while overnights increased by 7.1%. During the first three months of 2016, according to Monstat data, the air passenger transport recorded a y-o-y increase of 5.1% while the air cargo transport remained unchanged. During Q1 2016, the road passenger transport recorded a y-o-y increase of 15.4%, while road cargo transport increased by 14.2%. During Q1 2016, railway passenger transport recorded a y-o-y increase of 12.9%, and railway cargo transport decreased by 13.3%.

During the first five months of 2016, production of wood products amounted to 60,379 m<sup>3</sup>, which is an increase of 19.6% in relation to the corresponding period of the previous year. During the first quarter of 2016, according to preliminary Monstat data, construction recorded a y-o-y increase of 12.3%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 1.5%.

In May 2016, the average number of employed persons amounted to 178,660, which is an increase of 2.3% compared to the previous month and 0.4% more in relation to May 2015. In May 2016, the number of unemployed persons amounted to 40,242 which represents a decrease of 3% in relation to the previous month and an increase of 24.4% compared to May 2015.

Out of 78,864 legal persons and entrepreneurs, at end-May 2016, accounts of 15,223 or 19.3% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.4%. At end-May 2016, total amount of debt being the basis for freezing of accounts amounted to 571.2 million euros, showing an increase of 0.8% in relation to the previous month as well as an annual increase of 10.6%.

On 31 May 2016, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 12.4% 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-May 2016, total assets and liabilities increased by 0.8% compared to the previous month and amounted to 3,474.7 million euros. In terms of the structure of aggregate balance sheet of banks, total loans of banks make up the dominate share. At end-May 2016, total loans amounted to 2,372.8 million euros, which is 0.5% higher in relation to the previous month while they 1.5% lower in relation to May of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.5%. In May 2016, deposits in banks amounted to 2,623.3 million euros, which represents a monthly increase of 0.5% and an increase of 10.4% compared to May 2015. Out of the total amount of deposits in banks, corporate deposits accounted for 834.7 million euros or 31.8%, while household deposits accounted for 1,446.5 million euros or 55.1% of total deposits. At end-May 2016, total capital of banks amounted to 476.8 million euros, which is 0.5% more in relation to the previous month and an increase of 4.5% in relation to the corresponding period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 394.7 million euros, which is an increase of 15.9% in relation to the previous month, while they recorded a decline of 25.7% in relation to May-2015. At end-May 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 289.3 million euros and made up 12.2% of total loans. In relation to the previous month, non-performing loans decreased by 1.1%, while they recorded an annual decrease of 25.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.16% at end-May 2016, which represents a monthly decrease of 0.08 percentage points, while in relation to May 2015 it recorded a decrease of 0.83 percentage points.

The weighted average effective interest rate (WAEIR) on new loans amounted to 7.75% in May 2016, which represent a monthly increase of 0.10 percentage points, and a decrease of 1.39 percentage points in relation to May 2015.

The weighted average effective deposit interest rate (WAEDIR) amounted to 1.12% at end-May 2015, showing a decline of 0.02 percentage points in relation to the previous month, while it recorded a decline of 0.37 percentage points in relation to May 2015.

At end-May 2016, reserve requirement of banks amounted to 243.6 million euros, which represents a monthly decline of 260,364 euros or 0.1%, while in relation to the corresponding period of the previous year, reserve requirements increased by 24.1 million euros or 11%. During May 2016, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 49.6% was allocated to the account of reserve requirement in the country, 30.9% to the CBCG account held abroad, and 19.6% in the form of T- bills. In May, five banks did not use the possibility to allocate a part of their reserve requirements in the form of T-bills.

In May 2016, the gross insurance premium amounted to 7.5 million euros. Non-life insurance premiums still accounted for the main share in its structure with 85.8%, while invoiced life insurance premiums accounted for the remaining 14.2%.

In May 2016, Montenegro Stock Exchange recorded a turnover in the amount of 861,092 euros, through 315 transactions. The turnover was 8.6 times lower in relation to the previous month. Market capitalisation, as at 31 May 2015 amounted to 2,819.2 million euros, thus recording a monthly decrease of 0.6%. The MONEX index, which amounted to 10,711.18 index points at end-May 2016, decreased by 4.9% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,631.34 and recorded a monthly increase of 2.5%. The MNSE10 index amounted to 905,34 index points and decreased by 7.8% in relation to the previous month.

In April 2016, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 19 million euros or 0.5% of GDP, while during the four months of 2016 there was a deficit in the amount of 87.6 million euros or 2.3% of GDP. Source revenues of the budget of Montenegro amounted to 114.1 million euros or 3% of GDP, which represents a decrease of 4.7% in relation to the plan for April. In relation to source revenues recorded in April 2015, there was an increase of 2.3%. Budget expenditures amounted to 133.1 million euros or 3.5% of GDP which is 7.8% less in relation to the plan for April 2016, and 36.9% less in relation to April 2015. At end-March 2016, according to the Ministry of Finance estimates, public debt (gross) amounted to 2,544.1 million euros. Out of that figure, a total of 320.5 million euros or 8.5% of GDP referred to internal debt, while external debt accounted for 2,223.6 million euros or 58.7% of GDP. Net public debt amounted to 59.3% of GDP.

In the period January-March 2016, according to preliminary data, current account deficit of the balance of payments amounted to 283.9 million euros, which represents a y-o-y increase of 45.6%. The increase of the current account deficit comes as a result of increased good account deficit, services account deficit and significant surplus in the primary income account in relation to the previous year. In the period January-March 2016, as per preliminary data, foreign trade deficit amounted to 36.1 million euros, which represents an increase of 13.2% in relation to the corresponding period of 2015. In Q1 2016, there was a decline in the value of exported goods by 24.9%, while the import recorded slower growth of 4.8%. Negative developments were also recorded in the services account, which resulted in a deficit in the amount of 9.9 million. During the period January-May 2016, as per preliminary data, net FDI inflow amounted to 51.4 million euros which is 63.5% less in relation to the corresponding period of the previous year.

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 May.

In May, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Under its competence and for the reporting period from 1 September 2015 to 1 May 2016, the CBCG prepared Annex I for the EC's 2016 Progress Report on Montenegro. The CBCG submitted this Annex to the Ministry of Foreign Affairs and European Integration. In relation to the announcement of the Ministry of Finance in relation to the meeting of the Subcommittee for Internal Market and Competition scheduled for 22 June 2016 in Brussels, the CBCG prepared a material under its competence and submitted it to the Ministry of Finance, as well as names of CBCG representatives for the above-mentioned Subcommittee. In relation to the planned Twinning Project IPA 2014 titled "Support to Regulation of Financial Services", following the meeting in the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU), the CBCG submitted to the Ministry of Finance revised twinning fiche in line with suggestions from the meeting and information available to the CBCG.

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.