

Summary of the Governor's Report – November 2016

Updated: 26 January 2017

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

In 2015, according to the final Monstat data, gross domestic product of Montenegro increased by 3.4%, while according to preliminary data, during the first, second and third quarter of 2016 it increased y-o-y by 1.1%, 2.7% and 2.4%, respectively.

In November 2016, prices remained unchanged in relation to the previous month, while the annual inflation rate in November amounted to 0.4%.

During the first eleven months of 2016, industrial output recorded a y-o-y decrease of 5.6%. The decline was recorded in the mining and quarrying sector (-20.5%) and in the sector of manufacturing industry (-8.7%), while there was growth in the electricity, gas and steam supply sector (2%). During the first eleven months of 2016, the number of tourist arrivals recorded a y-o-y increase of 5.8%, while overnights increased by 1.6%. During the first nine months of 2016, according to Monstat data, the air passenger transport recorded a y-o-y increase of 12.3% while the air cargo transport increased by 3.2%. During this period, railway passenger transport recorded a y-o-y increase of 6.7%, and railway cargo transport increased by 1.2%. During the first nine months of 2016, the road passenger transport recorded a y-o-y increase of 10.7%, while road cargo transport increased by 1%.

During the first eleven months of 2016, production of wood products amounted to 257,792 m³, which is a decrease of 24.1% in relation to the corresponding period of the previous year. During the first nine months of 2016, according to preliminary Monstat data, construction recorded a y-o-y increase of 27.8%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 14.4%.

In November 2016, the average number of employed persons amounted to 178,278 which is a decrease of 0.2% compared to the previous month and 2.2% more in relation to November 2015. In November 2016, the number of unemployed persons amounted to 47,757 which represents an increase of 5.5% in relation to the previous month and an increase of 25.9% compared to November 2015.

Out of 81,054 legal persons and entrepreneurs, at end-November 2016, accounts of 15,369 or 19% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.4%, while it recorded an annual growth of 3.3%. At end-November 2016, total amount of debt being the basis for freezing of accounts amounted to 623.4 million euros, showing an increase of 0.9% in relation to the previous month as well as an annual increase of 11.7%.

On 30 November 2016, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13.3% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 36.1% of the total debt being the basis for freezing of accounts.

At end-November 2016, total assets and liabilities increased by 0.6% compared to the previous month and amounted to 3,753.3 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 2445.3 million

euros, which is 2.2% lower in relation to the previous month and 2.7% lower in relation to November of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 76%. In November 2016, deposits in banks amounted to 2,852.2 million euros, which represents a monthly increase of 0.4% and an increase of 7.3% compared to November 2015. Out of the total amount of deposits, corporate deposits accounted for 983.1 million euros or 34.5%. Household deposits accounted for 1,505.2 million euros or 52.8% of total deposits. At end-November 2016, total capital of banks amounted to 499.4 million euros, which is 0.5% less in relation to the previous month and an increase of 5.6% in relation to the corresponding period of the previous year.

In November, past due loans (without interests and accruals) amounted to 307.2 million euros, which is a decrease of 7.8% in relation to November 2015, while they recorded a decrease of 25% in relation to November 2015. At end-November 2016, non-performing loans (without interests, and prepayments and accruals) amounted to 259 million euros and made up 10.6% of total loans. In relation to the previous month, non-performing loans decreased by 1.2%, while they recorded an annual decrease of 22.3%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.55% at end-November 2016, which represents a monthly decrease of 0.10 percentage points, while in relation to end November of the previous month it recorded a decrease of 1.10 percentage points.

The weighted average effective lending interest rate (WALEIR) on new loans amounted to 6.98% in November 2016, which represent a monthly decline of 0.25 percentage points, and a decrease of 0.38 percentage points in relation to November 2015.

The weighted average effective depositing interest rate (WAEDIR) amounted to 0.94% at end-November 2016, showing a decline of 0.04 percentage points in relation to the previous month, while it recorded a decline of 0.30 percentage points in relation to end-November 2015.

At end-November 2016, reserve requirement of banks amounted to 264.6 million euros, which represents a decline of 0.3 million euros or 0.1%, while in relation to the corresponding period of the previous year, reserve requirements increased by 19.3 million euros or 7.8%. During November 2016, all banks allocated and maintained reserve requirements within prescribed limits. Of the total amount of allocated reserve requirements, some 50.3% was allocated to the CBCG account held abroad, 34.6% to the account of reserve requirement in the country, and 15.1% in the form of T- bills.

In October 2016, the gross insurance premium amounted to 6.3 million euros. Non-life insurance premiums still accounted for the main share in its structure with 81,7%, while invoiced life insurance premiums accounted to 18,3%.

In November 2016, Montenegro Stock Exchange recorded a turnover in the amount of 83.8 million euros, through 83.8 transactions. The turnover was 25.8 times higher in relation to the previous month. Market capitalisation, as at 30 November 2016 amounted to 2,855.2 million euros, thus recording a monthly increase of 1.5%. The MONEX index, which amounted to 10,908,95 index points at end-November 2016, decreased by 1.2% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,624.52 and recorded a monthly increase of 3.9%. The MNSE10 index amounted to 921.79 index points and decreased by 0.4% in relation to the previous month.

In October 2016, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 6 million euros, while during ten months of 2016, there was a deficit in the amount of 18.2 million euros or 0.5% of the estimated annual GDP. In October, source revenues of the budget of Montenegro amounted to 120.5 million euros or 3.2% of estimated annual GDP, which represents a decrease of 15.8% in relation to the plan for October. In relation to source revenues recorded in October 2016, there was an increase of 8.9%. Budget expenditure amounted to 114.5 million euros or 3.1% of GDP which is 20.6% less in relation to the plan for October 2016, and 0.1% less in relation to expenditures in October 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. In November, RTGS and DNS systems availability amounted to 100%.

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 meeting in the Ministry of Finance, in relation to the meeting of the Subcommittee for economic and financial issues and statistics, and as per request of the Ministry of Finance the CBCG submitted annex from the area of balance of payments for the meeting of this Subcommittee. This was followed by a meeting of the Subcommittee for economic and financial issues and statistics, held in Brussels. The CBCG revised the Programme of Accession of Montenegro to the EU, in the part under its competence. The representatives of the CBCG participated in the meeting of the Committee in accordance with the Cooperation agreement between the CBCG, Monstat and the Ministry of Finance in the area of statistics of national accounts of the general government and its related statistics. The CBCG also prepared an annex for the Committee for stabilisation and association to be held in Brussels. The CBCG's representatives participated in the meetings of the Working Group for implementation of the ESA 2010 methodology - the meetings were held with the expert of the Croatian National Bank in the premises of the Ministry of Finance.

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 Payment System Law.