

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

*Updated: 8 February 2018*

The Governor's Report for August 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 August, 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 2.9%, while during the first and second quarter of 2017 it increased y-o-y by 3.2%, 5.1% respectively.

In August 2017, prices increased by 0.5% in relation to the previous month, while the annual inflation rate in August amounted to 2.8%.

During the first eight months of 2017, industrial output recorded a y-o-y decrease of 6.7%. The decline was recorded in the sector of manufacturing industry (-4.7%), and in the electricity, gas and steam supply sector (-28.5%), while there was an increase in the mining and quarrying sector (124.7%). During the first eight months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 17.3%, while overnights increased by 10.5%.

During the first six months of 2017, according to MONSTAT data, air passenger transport recorded a y-o-y growth of 23%, while air freight transport decreased by 2.6%. Over the same period, road passenger transport increased by 0.7%, while road freight transport grew by 8.9%. In H1 2017, railway passenger transport recorded a y-o-y decline of 20.3%, while railway cargo transport increased by 59.4%.

During the first eight months of 2017, some 192,701 m<sup>3</sup> of wood products were produced, which was 18.4% more in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first six months of 2017, construction recorded y-o-y increase of 45.3% in the value of executed construction works, as well as in a 22.6% increase in effective working hours.

In August 2017, the average number of employed persons amounted to 188,161, which is a decrease of 1.9% compared to the previous month and 2.1% more in relation to August 2016. In August 2017, the number of unemployed persons amounted to 49,058, which represents an increase of 4.7% in relation to the previous month and an increase of 19.4% compared to August 2016.

Out of 42,575 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, a total of 12,350 had frozen accounts. Compared to the situation as at 31 July 2017, when there was a total of 12,372 business entities with frozen accounts, this represents a decline of 0.18%. Out of the total amount of debt, business entities accounted for 603,741,495.46 euros which represents an increase of 0.87% compared to 31 July 2017 when the debt amounted to 0.87%.

As at 31 August 2017, uninterrupted freezing of accounts up to 365 days was recorded by a total of 1,714 business entities with frozen funds in the amount of 24,787,491.21 euros, which accounts for 4.10% of the total amount of frozen funds, while uninterrupted freezing of accounts longer than 365 days was recorded by 10,636 business entities with an amount of frozen funds in the amount of 578,954,004.49 euros, which accounts for 95.89% of the total amount of frozen funds of business entities.

It is important to point out that as at 31 August 2017, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13.19% of the total debt being the basis for freezing of accounts, which means that the amount of their frozen funds amounted to 82,536,317.53 euros. Also, 50 of the largest frozen business entities (0.32% of total frozen legal entities) accounted for 36.01% of the total debt being the basis for freezing of accounts, which means that the amount of their frozen funds amounted to 225,279,821.95 euros.

At end-August 2017, total assets and liabilities increased by 2.1% compared to the previous month and amounted to 4,071.2 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-August, total loans amounted to 2,681.9 million euros, which is 1.8% higher in relation to the previous month and 7.7% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 76.3%. In August 2017, deposits in banks amounted to 3,107.3 million euros, which represents a monthly increase of 2.7% and an increase 10.9% compared to August 2016. Total capital of banks at end-August 2017 amounted to 517.2 million euros, which is an increase of 2.6% in relation to the previous month as well as an increase of 4.2% in relation to the corresponding period of the previous year.

In August, past due loans (without interests, and prepayments and accruals) amounted to 243 million euros, which is a decrease of 8.7% in relation to the previous month, while they recorded a decline of 34% in relation to July-2016. At end-August 2017, non-performing loans (without interests, and prepayments and accruals) amounted to 209.6 million euros and made up 7.8% of total loans. In relation to the previous month, non-performing loans of banks decreased by 2.7%, while they recorded an annual decrease of 26%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.00% at end-August 2017, which represents a monthly decrease of 0.03 percentage points, while in relation to end-August 2016 it recorded a decrease of 0.81 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 7.87% in August 2017, which represent a monthly increase of 0.25 percentage points, and a decrease of 0.39 percentage points in relation to August 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.76% at end-August 2016, showing a decline of 0.02 percentage points in relation to the previous month, while it recorded a decline of 0.25 percentage points in relation to end-August 2016.

At end-August 2017, reserve requirement of banks amounted to 217.4 million euros, which represents a monthly increase of 3.6 million euros or 1.7%, while in relation to the corresponding period of the previous year reserve requirements decreased by 45.3 million euros or 17.2%. During August 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 47.9% was allocated to the reserve requirement account in the country, while 52.1% was at the CBCG account abroad.

In August 2017, the gross insurance premium amounted to 6.8 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 August 2017, Montenegro Stock Exchange recorded turnover in amount of 2.5 million euros and 390 transactions. The turnover was 21.9% lower than at the end of the previous month but 17.9% lower than in August of the previous year. As at 31 August 2017, market capitalization amounted to 2,858.1 million euros, recording 0.5% decrease in relation to the previous month. The MONEX index, which stood at 10,821.95 index points at end-August 2017, increased by 1.5% in relation to the previous month. The MNSE10 index amounted to 824.91 index points and increased by 0.4% in relation to the previous month.

The Ministry of Finance estimated that Montenegro's fiscal surplus amounted to 1.2 million euros in August 2017. Source revenues of the budget of Montenegro amounted to 149.4 million euros or 3.8% of estimated annual GDP, which represents a decrease of 1.2% in relation to the plan for August. In relation to source revenues recorded in August 2017, there was a decrease of 21.8%. Budget expenditure amounted to 148.2 million euros or 3.7% of estimated annual GDP, which is 4.3% less in relation to the plan for August 2017, and 32.3% more in relation to expenditure in August 2016.

At end-June 2017, according to the Ministry of Finance data, the gross government debt of Montenegro amounted to 2,483 million euros or 62.8% of GDP. Out of that figure, domestic debt accounted for 474.1 million euros or 12% of GDP, while external debt accounted for 2,008.9 million euros or 50.8% of GDP. Net government debt amounted to 61.3% 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 100% in August.

In August, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. For the needs of the XX session of the Negotiating Group, information on the course of meeting obligations and open issues in Chapter 9 - Financial Services has

been prepared. Representatives of the CBCG prepared the information on the fulfilment of obligations under the competence of the Central Bank of Montenegro for the purpose of preparing a semi-annual report on the implementation of the Economic Reforms Program for the period 2017-2019.

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.