

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

*Updated: 06 November 2017*

The Governor's Report for March 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 March, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2017.

Real GDP growth rate of Montenegro, according to preliminary MONSTAT data, based on quarterly estimates in 2016 amounts to 2.5%. All four quarters in 2016 recorded a y-o-y growth: 1.1%, 2.7%, 2.4% and 3.4%, respectively.

In March 2017, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in February amounted to 2.7%.

During the first three months of 2017, industrial output recorded a y-o-y decrease of 10.9%. The decline was recorded in the sector of manufacturing industry (-25.1%), and in the electricity, gas and steam supply sector (-10.8%), while there was an increase in the mining and quarrying sector (187.4%). During the first three months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 10.3%, while overnights increased by 8.3%.

In Q1 2017, according to MONSTAT data, air passenger transport recorded a y-o-y growth of 13.5%, while air freight transport increased by 0.5%. Over the same period, road passenger transport increased by 0.7%, while road freight transport grew by 1.6%. In Q1 2017, railway passenger transport recorded a y-o-y decrease by 20.3%, while railway freight transport increased by 85.2%.

During the first three months of 2017, production of wood products amounted to 21,904 m<sup>3</sup>, which is an increase of 44.1% in relation to the corresponding period of the previous year. According to preliminary Monstat data, construction recorded y-o-y increase in the value of executed construction works by 37.5% as well as in the increase of effective working hours of 24.8% relative to the corresponding period of 2016.

In March 2017, the average number of employed persons amounted to 179,783 persons, which represents an increase of 0.9% compared to the previous month, and 4.5% compared to March 2016. In March 2017, the number of unemployed persons in Montenegro amounted to 52,905 which represents an increase of 1.3% compared to the previous month and an increase of 24.8% compared to March 2016.

Out of 82,589 legal persons and entrepreneurs\*, at end-March 2017, accounts of 15,595 or 18.9% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.3%, while it recorded an annual growth of 3.3%. At end-March 2017, total amount of debt being the basis for freezing of accounts amounted to 620.1 million euros, showing an increase of 0.5% in relation to the previous month as well as an annual increase of 13.4%.

On 31 March 2017, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 12.8% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.6% of the total debt being the basis for freezing of accounts.

At end-March 2017, total assets and liabilities increased by 0.6% compared to the previous month and amounted to 3,796.9 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-March 2017, total loans amounted to 2,506 million euros, which is 3% lower in relation to the previous month and 5.5% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.3%. In March 2017, deposits in banks amounted to 2,857.4 million euros, which represents a monthly increase of 0.7% and an increase of 9.5% compared to March 2016. Out of the total amount of deposits, corporate deposits

accounted for 926 million euros or 32.4%. Household deposits accounted for 1,561.6 million euros or 54.6% of total deposits. Total capital of banks at end-March 2017 amounted to 496.4 million euros, which is a decrease of 0.4% in relation to the previous month, while there was an increase of 5.7% in relation to the corresponding period of the previous year.

In March, past due loans (without interests, and prepayments and accruals) amounted to 294.9 million euros, which is an increase of 10.6% in relation to the previous month, while they recorded a decrease of 19.7% in relation to March 2016. At end-March 2017, non-performing loans (without interests and prepayments and accruals) amounted to 248.2 million euros and accounted for 9.9% of total loans. In relation to the previous month, non-performing loans of banks decreased by 0.5%, while they recorded an annual decrease of 12.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.21% at end-March 2017, which represents a monthly decrease of 0.09 percentage points, while in relation to end-March 2016 it recorded a decrease of 1.11 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 7.09% in March 2017, which represent a monthly increase of 0.21 percentage points, and a decrease of 0.95 percentage points in relation to March 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.89% at end-March 2017 which represents a monthly decrease of 0.02 percentage points, while it recorded a decline of 0.27 percentage points in relation to March 2016.

At end-March 2017, reserve requirement of banks amounted to 267.6 million euros, which represents a monthly decrease of 3.1 million euros or 1.2%, while in relation to the corresponding period of the previous year reserve requirements increased by 22.2 million euros or 9%. During March 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 51.8% was allocated to the Central Bank's account in the country in the country, while 48.2% was in the reserve requirement account abroad.

In March 2017, the gross insurance premium amounted to 7 million euros. Non-life insurance premiums still accounted for the main share in its structure with 82.7%, while invoiced life insurance premiums accounted for the remaining 17.3%.

In March 2017, Montenegro Stock Exchange recorded turnover in the amount of 3.6 million euros through 748 transactions. The turnover was 62.2% lower in relation to the previous month. Market capitalisation, as at 31 March 2017 amounted to 2,910.6 million euros, thus recording a monthly decrease of 1.4%. The MONEX index, which amounted to 11,942.29 index points at end-March 2017, increased by 4.8% in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,750.26 and recorded a monthly increase of 0.7%. The MNSE10 index amounted to 985.98 index points and increased by 1.7% in relation to the previous month.

In March 2017, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 31.1 million euros or 0.8% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 135.3 million euros or 3.4% of estimated annual GDP, which represents an increase of 3.5% in relation to the plan for March. In relation to source revenues recorded in March 2016, there was an increase of 11.3%. Budget expenditures amounted to 166.4 million euros or 4.2% of GDP which is 1.4% more in relation to the plan for March 2017, and 7% more in relation to expenditures in March 2016.

According to the Ministry of Finance data, at the end of March 2017, the gross government debt of Montenegro amounted to 2,483 million euros or 63.2% of GDP. Out of that figure, domestic debt accounted for 481.3 million euros or 12.3% of GDP, while external debt accounted for 2,001.7 million euros or 50.9% 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. RTGS and DNS systems availability amounted to 100% in March.

In March, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The Ministry of Finance was submitted the Action Plan for the harmonisation with the acquis in the area of chapter 17 - Economic and monetary policy, for further procedure and to be discussed at session of the Government of Montenegro. As part of the Economic Reform Programme (ERP 2017–2019), the CBCG submitted the requested data on investments in Montenegro, for the period 2011–2016. As part of the planned Twinning IPA 2014 project, titled "Support to

regulation of financial services", several meetings were held in relation to coordination, receiving of information on tender proceedings and evaluation of received bids. The representatives of the CBCG prepared draft Negotiation position of Montenegro for the intergovernmental conference on Montenegro's accession to the European Union for chapter 17 - Economic and monetary policy. The CBCG prepared specific data for the European Central Bank.

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.

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***\* It should be considered that this number also includes the following persons: legal persons and entrepreneurs that were deleted from the CRPS but the accounts of which have not yet been deleted from the Central Registry of Transaction Accounts; legal persons that fail to submit annual financial statements although they are legally obligated to, and legal persons and entrepreneurs that have made no tax obligations or payments in the previous year.***