

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

*Updated: 16 November 2017*

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

Preliminary Monstat data show that in 2016 Montenegro's real GDP growth rate amounted to 2.5%, based on quarterly estimates. In Q1 2017, the real growth amounted to 3.2% y-o-y.

In May 2017, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in May amounted to 2.3%.

During the first five months of 2017, industrial output recorded a y-o-y decrease of 8.7%. The decline was recorded in the sector of manufacturing industry (-5%), and in the electricity, gas and steam supply sector (-31.2%), while there was an increase in the mining and quarrying sector (140.2%). During the first five months of 2017, the number of tourist arrivals in collective accommodation establishments recorded a y-o-y increase of 18%, while overnights increased by 15%.

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 five months of 2017, some 74.648 m<sup>3</sup> of wood products were produced, which was 22.2% more 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 May 2017, the average number of employed persons amounted to 185,886, which is an increase of 2.3% compared to the previous month and 4% more in relation to May 2016. In May 2017, the number of unemployed persons amounted to 51,258 which represents a decrease of 3% in relation to the previous month and an increase of 27.4% compared to May 2016.

Out of 83,462 legal persons and entrepreneurs\*, at end-May 2017, accounts of 15,953 or 19.1% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 2.4%, while it recorded an annual growth of 4.8%. At end-May 2017, total amount of debt being the basis for freezing of accounts amounted to 627.4 million euros, showing an increase of 0.8% in relation to the previous month as well as an annual increase of 9.8%.

On 31 May 2017, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 13% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.8% of the total debt being the basis for freezing of accounts.

At end-May 2017, total assets and liabilities increased by 1.5% compared to the previous month and amounted to 3,898.7 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-May 2017, total loans amounted to 2,626.8 million euros, which is 2.3% more in relation to the previous month and 10.7% higher in relation to May 10.7% 2016.

In terms of the structure of liabilities, deposits make up the dominate share of 74.6%. In May 2017, deposits in banks amounted to 2,909.2 million euros, which represents a monthly increase of 1.5% and an increase of 10.9% compared to May 2016. Total capital of banks at end-May 2017 amounted to 498.9 million euros, which is a decrease of 0.4% in relation to the previous month, while there was an increase of 4.6% in relation to the corresponding period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 302.8 million euros, which is an increase of 4.5% in relation to the previous month, while they recorded a decline of 23.3% in relation to May-2016. At end-May 2017, non-performing loans (without interests, and prepayments and accruals) amounted to 243.6 million euros and made up 9.3% of total loans. In relation to the previous month, non-performing loans of banks recorded slight growth, while they recorded an annual decrease of 15.8%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 7.09% at end-May 2017, which represents a monthly decrease of 0.03 percentage points, while in relation to end-May 2016 it recorded a decrease of 1.07 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 7.62% in May 2017, which represent a monthly increase of 1.09 percentage points, and a decrease of 0.13 percentage points in relation to May 2016. The weighted average effective deposit interest rate (WAEDIR) amounted to 0.84% at end-May 2017 which represents a monthly decrease of 0.03 percentage points, while it recorded a decline of 0.28 percentage points in relation to May 2016.

At end-May 2017, reserve requirement of banks amounted to 209.3 million euros, which represents a monthly decrease of 13.2 million euros or 5.9%, while in relation to the corresponding period of the previous year reserve requirements decreased by 34.2 million euros or 14.1%. During May 2017, all banks allocated and maintained reserve requirements within prescribed limits. In the total allocated reserve requirement, 54.1% was allocated to the reserve requirement account abroad, while 45.9% was at the CBCG account in the country.

In May 2017, the gross insurance premium amounted to 8.3 million euros. Non-life insurance premiums still accounted for the main share in its structure with 86.1%, while invoiced life insurance premiums accounted for the remaining 13.9%.

In May 2017, Montenegro Stock Exchange recorded a turnover in the amount of 2.6 million euros and 635 transactions. The turnover was 10.2% lower in relation to the previous month. As at 31 May 2017, market capitalization amounted to 2,819.1 million euros, recording 1.7% decrease in relation to the previous month.

The MONEX index, which stood at 11,014.06 index points at end-May 2017, declined by 2% in relation to the previous month. Index MNSE10 stood at 857.69 index points recording a monthly decline of 4.3%.

In May 2017, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 10.8 million euros or 0.3% of estimated annual GDP. Source revenues of the budget of Montenegro amounted to 125.3 million euros or 3.2% of estimated annual GDP, which represents an increase of 5% in relation to the plan for May. In relation to source revenues recorded in May 2016, there was an increase of 14%. Budget expenditures amounted to 114.5 million euros or 2.9% of estimated GDP which is 20.7% less in relation to the plan for May 2017, and 15.1 million euros lower in relation to expenditures in May 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. Net government debt amounted to 61.6% 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 May, RTGS and DNS systems availability amounted to 100%.

In May, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG representatives participated in the working meeting with an expert from the Croatian National Bank, as part of the third regular mission of IPA national project, aimed at harmonising public finances statistics with ESA 2010 methodology. As per request of the Ministry of Foreign Affairs, the CBCG submitted the balance of payments data for 2016 for the material for the Stabilisation and Association Council. The representatives of the CBCG participated in the panel discussion related to the negotiation chapter 16 - Taxes. As part of the IPA 2014 twinning project titled "Support to regulation of financial services", the representatives of the CBCG held a meeting with the representatives of the consortium of the Deutsche Bundesbank, Croatian National Bank and De Nederlandsche Bank. With a view to strengthening the capacities of the CBCG in the process of developing banking regulation in the area of recovery and resolution of banks, TAIEX expert mission was implemented. The CBCG took part in the

extraordinary meeting of the Board for the implementation of the Cooperation Agreement in the Field of Statistics of National Accounts of General Government Sector and Associated Statistics.

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.***