

## Summary of the Governor's Report – November-December 2014

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The Governor's Report for November and December 2014 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 2014 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2014, on a monthly basis.

In November and December, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2014.

In 2013, according to final Monstat data, gross domestic product of Montenegro increased by 3.3%, while during the first three quarters of 2014 it increased y-o-y by 1.5% and 0.3%, and 1.3% respectively.

In December 2014, prices decreased by 0.4% in relation to the previous month, while the annual inflation rate in December amounted to -0.3%.

In 2014, the industrial output recorded a y-o-y decrease of 11.4%. The decline was recorded in the electricity, gas and steam supply sector (19.6%), and in the sector of manufacturing industry (6.7%), while there was growth in the mining and quarrying sector (14.4%). In 2014, the number of tourist arrivals recorded a y-o-y increase of 1.7%, while overnights increased by 1.5%. During the first nine months of 2014, according to Monstat data, the air passenger transport recorded a y-o-y decrease of 0.9% while the air cargo transport increased by 4.1%. During this period, railway passenger transport recorded a y-o-y increase of 27.4%, and railway cargo transport increased by 1.2%. During the first nine months of 2014, the road passenger transport recorded a y-o-y increase of 14.7%.

In 2014, production of wood products amounted to 308,345 m<sup>3</sup>, which is an increase of 17.9% in relation to the previous year. During the first nine months of 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 5.4%, measured by effective working hours.

In December 2014, the average number of employed persons amounted to 171,158, which is a decrease of 0.6 % compared to the previous month and 2.4% more in relation to December 2013. In December 2014, the number of unemployed persons amounted to 34,687, which represents a decrease of 0.1% in relation to the previous month and an increase of 0.5% compared to December 2013.

Out of 65,035 legal persons and entrepreneurs, at end-December 2014, accounts of 14,160 or 21.8% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 1.5%. At end-December, total amount of debt being the basis for freezing of accounts amounted to 496.1 million euros, showing an increase of 1.9% in relation to end-November.

On 31 December 2014, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 13.5% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 37.7% of the total debt being the basis for freezing of accounts.

At end-December 2014, total assets and liabilities increased by 0.9% compared to the previous month and amounted to 3,134.4 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 2.4% lower in relation to the previous month and 1.9% lower in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 73.6%. At end-December 2014, deposits in banks amounted to 2,308.1 million euros, which represents a monthly increase of 1.5% and an increase 10% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for 640.7 million euros or 27.8%, while household deposits accounted for 1,331.7 million euros or 57.7% of total deposits. At end-December 2014, total capital of banks amounted to 443.6 million euros, which is 0.2% less in relation to the previous month and a y-o-y increase of 11.5%.

In December, past due loans (without interests, and prepayments and accruals) amounted to 448.7 million euros, which is a decrease of 3.4% in relation to the previous month. At end-December 2014, non-performing loans (without interests, and prepayments and accruals) amounted to 375.6 million euros and made up 15.87% of total loans. In relation to the previous month, non-performing loans decreased by 4.1%, while they decreased by 11.2% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.22% at end-December 2014, which represents a monthly decrease of 0.06 percentage points, while in relation to end-December 2013 it recorded a decrease of 0.14 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 9.02% in December 2014, which represent a monthly decline of 0.87 percentage points, and a decrease of 0.40 percentage points in relation to December 2013. The weighted average depositing interest rate (WADIR) amounted to 1.83% in December 2014, showing a decline of 0.06 percentage points in relation to the previous month, while it recorded a decline of 0.71 percentage points in relation to December 2013.

At end-December 2014, reserve requirement of banks amounted to 214.9 million euros, which represents a monthly increase of 4.1 million euros or 1.9%, while in relation to end-2013, reserve requirements increased by 18 million euros or 9.2%. In December, two banks did not use the possibility to allocate a part of their reserve requirements in the form of T-bills. Of the total amount of allocated reserve requirements, some 51.6% was allocated to the CBCG account held abroad, 27.8% to the account of reserve requirement in the country, and 20.6% in the form of T- bills. During December 2014, all banks allocated and maintained reserve requirements within prescribed limits.

The gross insurance premium amounted to 6 million euros, in November 2014. Non-life insurance premiums still accounted for the main share in its structure with 82.5%, while invoiced life insurance premiums accounted for the remaining 17.5%.

In December 2014, Montenegro stock exchange recorded a turnover in the amount of 1.5 million euros, through 501 transactions, which represents a turnover which is 82.9% lower in relation to the previous month. Market capitalisation, as at 31 December 2014 amounted to 3 billion euros, thus recording a monthly increase of 0.1%. The MONEX20 index, which amounted to 11,356.11 index points at end-December 2014, decreased in relation to the end of the previous month by 2.8%, while investment fund index MONEXPIF amounted to 3,037.38 and recorded a monthly decrease of 10.3%.

In December 2014, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 18.7 million euros, while in December 2013 there was a deficit in the amount of 29.7 million euros. For twelve months of 2014, budget deficit amounted to 102.6 million euros, i.e. 3% of estimated GDP. Current revenues of the budget of Montenegro amounted to 155.2 million euros or 4.6% of estimated annual GDP, which represents an increase of 6.6% in relation to the plan for December. In relation to current revenues recorded in December 2013, there was an increase of 7%. Budget expenditures amounted to 173.9 million euros or 5.1% of GDP which is 57.2% more in relation to the plan for December 2014, and 8.4% more in relation to December 2013. At end-November 2014, public debt of Montenegro amounted to 1,961.9 million euros, or 57.8% of GDP. Out of that figure, a total of 389.8 million euros or 11.5% of GDP referred to internal debt, while external debt accounted for 1,572.1 million euros or 46.3% of GDP.

During the first nine months of 2014, according to preliminary data, the current account deficit recorded a y-o-y increase of 16.4%, and amounted to 267.6 million euros. The increase of foreign trade deficit by 3.2%, which came as a consequence of lower export of goods (by 10.3%), represents a factor that significantly influenced the increase of current account deficit, while the recorded import remained at approximately the same level as in the previous year. In 2014, as per preliminary data, net FDI inflow amounted to 353.9 million euros which is 9.3% more in relation to 2013.

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 November and December 2014.

In November and December, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The second phase of the CBCG's Needs Assessment Project was completed, including expert missions that took place in the period from October until December. The CBCG representatives participated in the meeting of the Working Group for Chapter 17 – Economic and Monetary Policy where Screening Report was presented. The Action Plan for implementation of the second benchmark for opening of the Chapter 17 was submitted to the European Commission and the Working Group for that chapter. Representatives of the CBCG also took part in the video conference with representatives of the European Commission regarding final benchmarks for closing the Chapter 4 – Free Movement of Capital, and in line with the conclusions from the video conference, an Action plan for harmonisation with the acquis for this chapter was prepared. The CBCG representatives participated in the video conference of the European Commission in relation to final benchmarks for the Chapter 32, in the part referring to protection of euro against counterfeiting. Representatives of the CBCG took part at the Session 4 of the Working Group VI titled "Distance selling", which was organised by the National Convention on European Integration of Montenegro. Also, CBCG representatives participated in the meeting of the Subcommittee on Economic and Financial Affairs and Statistics, held in Brussels. Representatives of the CBCG participated in the IX meeting of the Committee for European Integration, where they discussed the issue concerning administrative capacities for the implementation of Montenegro's programme of accession to the EU during the period 2015-2018. In relation to the mission on National Economic Reform Programme (NERP) Alexandra Cas Granje, Director of Directorate B (Montenegro, Iceland, the former Yugoslav Republic of Macedonia and Turkey) in General Enlargement Directorate of the European Commission, visited Montenegro. In addition to the representatives of the EU Delegation to Montenegro, the meeting was also attended by Antonio Sanchez Pareja from DG ECFIN, Alexander Fricke and Andreas Papadopoulos from DG ELARG. The CBCG representatives participated in the meeting of the Working Group for the Chapter 9 – Financial Services, in which negotiation position for this chapter was presented. Representatives of the CBCG also took part in the meeting of the subgroup – DOMAIN 2 "Macroeconomic statistics, national accounts and structural business statistics", where negotiation position-benchmarks for closing the Chapter 18 were presented. The CBCG representatives participated in the IV meeting of the Stabilisation and Association Council.

The general public was informed timely and in line with the highest transparency standards, about the activities, goals and results of CBCG's operations. This was done by means of press releases and 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 Law on the National Payment System.