

Summary of the Governor's Report – February 2015

Updated: 18.08.2015

The Governor's Report for February 2015 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 2015 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2015, on a monthly basis.

In February, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2015.

In 2013, according to the 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%, 0.3%, and 1.3% respectively.

In February 2015, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in January amounted to 0.6%.

During the first two months of 2015, industrial output recorded a y-o-y increase of 1.3%. The increase was recorded in all three sectors: mining and quarrying sector (6.2%), manufacturing industry (0.1%) and in the electricity, gas and steam supply sector (1.8%). During the first two months of 2015, the number of tourist arrivals recorded a y-o-y increase of 24.3%, while overnights increased by 24.4%. In 2014, according to Monstat data, the air passenger transport recorded a y-o-y increase of 3.4% while the air cargo transport increased by 12.2%. During this period, railway passenger transport recorded a y-o-y increase of 21.7%, and railway cargo transport decreased by 13.9%. In 2014, the road passenger transport recorded a y-o-y increase of 10.8%.

During the first two months of 2015, production of wood products amounted to 7,112 m³, which is a decrease of 29.9% in relation to the corresponding period of the previous year. In 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 4.6%, measured by effective working hours.

In February 2015, the average number of employed persons amounted to 170,486, which is an increase of 0.5% compared to the previous month and 1% more in relation to February 2014. In February 2015, the number of unemployed persons amounted to 35,172, which represents an increase of 0.1% in relation to the previous month and an increase of 1.5% compared to February 2014.

Out of 68,274 legal persons and entrepreneurs, at end-February 2015, accounts of 14,370 or 21.1% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.8%. At end-February 2015, total amount of debt being the basis for freezing of accounts amounted to 512.8 million euros, showing an increase of 1.9% in relation to the previous month.

On 28 February 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 13.2% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 37.1% of the total debt being the basis for freezing of accounts.

At end-February 2015, total assets and liabilities decreased by 0.6% compared to the previous month and amounted to 3,116.6 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.8% higher in relation to the previous month and 0.3% higher in relation to the corresponding period of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 73.7%. In February 2015, deposits in banks amounted to 2,295.4 million euros, which represents a monthly decrease of 0.7% and a decrease 0.6% compared to end-2014. Out of the total amount of deposits in banks, corporate deposits accounted for 624,6 million euros or 27.2%, while household deposits accounted for 1,335.9 million euros or 58% of total deposits. At end-February 2015, total capital of banks amounted to 448.1 million euros, which is 0.7% more in relation to the previous month and an increase of 0.9% in relation to the end of the previous year.

In February, past due loans (without interests, and prepayments and accruals) amounted to 458.4 million euros, which is a decrease of 4.7% in relation to the previous month, while they recorded an increase of 3% in relation to end-2014. At end-February 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 388.4 million euros and made up 16.4% of total loans. In relation to the previous month, non-performing loans decreased by 0.3%, while they recorded a decrease of 3.4% in relation to the end of the previous year.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.17% at end-February 2015, which represents a monthly decrease of 0.03 percentage points, while in relation to end-December 2014 it recorded a decrease of 0.05 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 9.74% in February 2015, which represent a monthly decline of 0.05 percentage points, and an increase of 0.72 percentage points in relation to December 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.73% at end-February 2015, showing a decline of 0.04 percentage points in relation to the previous month, while it recorded a decline of 0.10 percentage points in relation to December 2014.

At end-February 2015, reserve requirement of banks amounted to 213.7 million euros, which represents a monthly decline of 1 million euros or 0.5%, while in relation to the end of the previous year, reserve requirements increased by 1.2 million euros or 0.6%. In February, only one bank 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 27.9% was allocated to the CBCG account held abroad, 44.9% to the account of reserve requirement in the country, and 28.2% in the form of T- bills. During February 2015, all banks allocated and maintained reserve requirements within prescribed limits.

The gross insurance premium amounted to 5.1 million euros at end January-2015. Non-life insurance premiums still accounted for the main share in its structure with 86%, while invoiced life insurance premiums accounted to 14%.

In February 2015, Montenegro Stock Exchange recorded a turnover in the amount of 6.3 million euros, through 476 transactions. The turnover was almost five times higher in relation to the previous month, as a result of trade with government bonds. Market capitalisation, as at 28 February 2015 amounted to 2.97 billion euros, thus recording a monthly increase of 0.8%. The MONEX20 index, which amounted to 11,961.97 index points at end-February 2015, increased in relation to the end of the previous month by 5.8%, while investment fund index MONEXPIF amounted to 2,602.90 and recorded a monthly decrease of 5.2%.

In February 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 18.1 million euros, while in February 2014 there was a deficit in the amount of 8.4 million euros. For two months of 2015, budget deficit amounted to 40.1 million euros, i.e. 1.1% of estimated GDP. Source revenues of the budget of Montenegro amounted to 86.9 million euros or 2.5% of GDP, which represents an increase of 6.9% in relation to the plan for February. In relation to source revenues recorded in February 2014, there was an increase of 5.8%. Budget expenditures amounted to 105 million euros or 3.1% of GDP which is 19.5% less in relation to the plan for February 2015, and 16% more in relation to February 2014. At end-December 2014, public debt of Montenegro amounted to 1,941.2 million euros, or 57.2% of GDP. Out of that figure, a total of 379.5 million euros or 11.2% of GDP referred to internal debt, while external debt accounted for 1,561.7 million euros or 46% of GDP.

During 2014, the deficit of the balance of payments current account increased by 6.9% in relation to the previous year. According to preliminary data, the current account deficit amounted to 520.4 million euros or 15.3% of GDP. The increase of current account deficit came as a result of the increase of foreign trade deficit as well lower surplus in the primary and secondary income accounts. Current

account deficit was significantly financed by net inflow of foreign direct investments that amounted to 10.4% of GDP. During two months of 2015, as per preliminary data, net FDI inflow amounted to 51.8 million euros which is 11.9% more in relation to the corresponding period of the previous year.

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 February, RTGS and DNS systems availability amounted to 100%.

In February, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. At the request of the EU Delegation to Montenegro, regarding updating of the Montenegro Progress Report of the European Commission, the Central Bank submitted innovated information that are under its jurisdiction within the Chapter 4- Free Movement of Capital and Chapter 9 – Financial Services referring to adoption of new regulations or important activities in these areas that have been carried out during the previous two months. From 17th to 18th of February, the CBCG representatives participated in the meetings with representatives of the European Central Bank related to the assessment of the National Economic Reform Programme of Montenegro (NERP). Report on activities from the meeting of the Committee for monetary, financial and balance of payments statistics was submitted to Eurostat. The meeting was organised by Eurostat and the European Central Bank. There was also a meeting with Slovenian expert aimed at developing Strategy for transition to ESA 2010 in public finances. Progress report for 2014 related to IPA 2012 Multi-beneficiary Statistical Cooperation Programme in the area of international trade in services was submitted to Eurostat. The CBCG representatives participated in the work of the 10th meeting of the Committee on European Integration where they discussed implementation of the planned regulatory and strategic framework in Q4 2014 and obligations for Q1 2015, established in the Programme of accession of Montenegro to the EU 2014-2018.

The general public was informed timely and in line with the highest transparency standards, about the activities, goals and results of CBCG's operations. 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.