

## Summary of the Governor's Report – January 2015

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The Governor's Report for January 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 January, 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 January 2015, prices decreased by 0.2% in relation to the previous month, while the annual inflation rate in January amounted to 0.2%.

In January 2015, the industrial output recorded a y-o-y decrease of 3.4%. The decline was recorded in the sector of manufacturing industry (13.2%) and in the mining and quarrying sector (2.9%), while there was growth in the electricity, gas and steam supply sector (5.8%). 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 2015, production of wood products amounted to 5,351 m<sup>3</sup>, which is an increase of 33.2% in relation to the corresponding month 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 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 January 2015, the number of unemployed persons amounted to 35,152, which represents an increase of 1.3% in relation to the previous month and an increase of 1% compared to January 2014.

Out of 66,542 legal persons and entrepreneurs, at end-January 2015, accounts of 14,263 or 21.4% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.7%. At end-January, total amount of debt being the basis for freezing of accounts amounted to 503.4 million euros, showing an increase of 1.5% in relation to end-December.

On 31 January 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 13.4% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 37.4% of the total debt being the basis for freezing of accounts.

At end-January 2015, total assets and liabilities increased by 0.02% compared to the previous month and amounted to 3,134.9 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.5% lower in relation to the previous month and 2.2% lower in relation to the corresponding period of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 73.8%. In January 2015, deposits in banks amounted to 2,311.3 million euros, which represents a monthly increase of 0.1% and an increase 10.2% compared to January 2014. Out of the total amount of deposits, corporate deposits

accounted for 635 million euros or 27.5%, while household deposits accounted for 1,334.5 million euros or 57.7% of total deposits. At end-January 2015, total capital of banks amounted to 444.9 million euros, which is 0.3% more in relation to the previous month and a y-o-y increase of 7.1%.

In January, past due loans (without interests, and prepayments and accruals) amounted to 481.1 million euros, which is an increase of 8.1% in relation to the previous month. At end-January 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 389.7 million euros and made up 16.55% of total loans. In relation to the previous month, non-performing loans increased by 3.7%, while they recorded an annual decrease of 8.4%.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.20% at end-January 2015, which represents a monthly decrease of 0.02 percentage points, while in relation to end-January 2014 it recorded a decrease of 0.20 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 9.79% in January 2015, which represent a monthly decline of 0.77 percentage points, and a decrease of 0.09 percentage points in relation to January 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.77% at end-January 2015, showing a decline of 0.06 percentage points in relation to the previous month, while it recorded a decline of 0.64 percentage points in relation to January 2014.

At end-January 2015, reserve requirement of banks amounted to 214.7 million euros, which represents a decline of 0.2 million euros or 0.1%, while in relation to the corresponding period of the previous year, reserve requirements increased by 18.7 million euros or 9.6%. In January, 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 47.7% was allocated to the CBCG account held abroad, 25.4% to the account of reserve requirement in the country, and 26.9% in the form of T- bills. During January 2015, all banks allocated and maintained reserve requirements within prescribed limits.

The gross insurance premium amounted to 72.4 million euros, and it was 0.5% lower in relation to 2013. 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 January 2015, Montenegro stock exchange recorded a turnover in the amount of 1.4 million euros, through 316 transactions, which represents a turnover which is 10.2% lower in relation to the previous month. Market capitalisation, as at 31 January 2015 amounted to 3 billion euros, thus recording a monthly decrease of 0.3%. The MONEX20 index, which amounted to 11,305.83 index points at end-January 2015, decreased in relation to the end of the previous month by 0.4%, while investment fund index MONEXPIF amounted to 2,745.15 and recorded a monthly decrease of 9.6%.

In January 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 21.8 million euros, while in January 2014 there was a deficit in the amount of 27.1 million euros. For twelve months of 2014, budget deficit amounted to 103.5 million euros, i.e. 3% of estimated GDP. Source revenues of the budget of Montenegro amounted to 71.2 million euros or 2% of GDP, which represents an increase of 2.1% in relation to the plan for January. In relation to source revenues recorded in January 2014, there was an increase of 0.6%. Budget expenditures amounted to 93 million euros or 2.7% of GDP which is 28.7% less in relation to the plan for January 2015, and 5% less in relation to January 2014. 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 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 15.3% of GDP, and amounted to 520.4 million euros. 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. In 2014, as per preliminary data, net FDI inflow amounted to 353.9 million euros which is 9.3% more in relation to 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. RTGS and DNS systems availability amounted to 100% in January.

In January, 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 meeting of the Committee on monetary, financial and balance of payments statistics, organised by Eurostat and the European Central Bank. Information on fulfilment of benchmarks for negotiation chapter 17 – Economy and monetary policy was prepared for the Government of Montenegro. Based on conclusions from the video conference between the European Commission and representatives of the Working Group 17, Information on certain legal issues related to independence of the CBCG as well as the Decision on medals and tokens similar to euro coins were submitted to the European Commission. Revised Programme of accession of Montenegro to the EU 2014-2018 was prepared, in the area referring to jurisdiction of the CBCG. Information on key conclusions of quarterly DG ECFIN Report for the EU candidate and potential candidate countries was prepared, for the part referring to Montenegro.

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..