

Summary of the Governor's Report – June-July 2015

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The Governor's Report for June and July 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 June and July, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2015.

In 2014, according to final Monstat data, there was a real growth of GDP of Montenegro of 1.8%, while based on preliminary estimates for Q2 2015, there was a real growth of 3.4% in relation to Q2 2014.

In July 2015, prices decreased by 0.5% in relation to the previous month, while the annual inflation rate in July amounted to 1.9%.

During the first seven months of 2015, industrial output recorded a y-o-y increase of 12.9%. The increase was recorded in all three sectors: manufacturing industry (20.1%), electricity, gas and steam supply sector (4.8%), and in the mining and quarrying sector (2.5%). During the first seven months of 2015, the number of tourist arrivals recorded a y-o-y increase of 21.3%, while overnights increased by 28.6%. During the first six months of 2015, according to Monstat data, the air passenger transport recorded a y-o-y decrease of 1% while the air cargo transport increased by 9.3%. During this period, the road passenger transport increased by 3.1%, while road cargo transport increased by 14.7%. The railway passenger transport recorded a y-o-y increase of 7.7%, and railway cargo transport grew by 20.9% over the reporting period.

During the first seven months of 2015, production of wood products amounted to 149,249 m³, which is an increase of 27.7% in relation to the corresponding period of the previous year. During the first six months of 2015, according to preliminary Monstat data, construction recorded a y-o-y increase of 9.7%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 5.3%.

In July 2015, the average number of employed persons amounted to 182,444, which is an increase of 0.9% compared to the previous month and 0.6% more in relation to July 2014. In July 2015, the number of unemployed persons amounted to 31,277, which represents an increase of 0.6% in relation to the previous month and an increase of 0.5% compared to July 2014.

Out of 75,324 legal persons and entrepreneurs, at end-July 2015, accounts of 14,297 or 19% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs decreased by 0.2%. At end-July 2015, total amount of debt being the basis for freezing of accounts amounted to 528.1 million euros, showing an increase of 0.5% in relation to the previous month.

On 31 July 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12.4% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 35.5% of the total debt being the basis for freezing of accounts.

At end-July 2015, total assets and liabilities increased by 2.8% compared to the previous month and amounted to 3,327.5 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 1.1% higher in relation to the previous month and 1.7% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 74.5%. In July 2015, deposits in banks amounted to 2,477.8 million euros, which represents a monthly increase of 3.1% and an increase 7.3% compared to end-2014. Out of the total amount of deposits, corporate deposits accounted for 699.4 million euros or 28.2%, while household deposits accounted for 1,410.8 million euros or 56.9% of total deposits. At end-July 2015, total capital of banks amounted to 470.1 million euros, which is 3.2% more in relation to the previous month and an increase of 5.9% in relation to the end of the previous year.

In July, past due loans (without interests, and prepayments and accruals) amounted to 479.9 million euros, which is an increase of 5.6% in relation to the previous month, while they recorded an increase of 7.8% in relation to end-2014. At end-July 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 373.1 million euros and made up 15.5% of total loans. In relation to the previous month, non-performing loans increased by 0.5%, while they recorded a decrease of 0.7% in relation to the end of the previous year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.93% at end-July 2015, which represents a monthly decrease of 0.08 percentage points, while in relation to end-December 2014 it recorded a decrease of 0.29 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 8.82% in July 2015, which represent a monthly decline of 0.03 percentage points, and a decrease of 0.20 percentage points in relation to December 2014. The weighted average effective deposit interest rate (WAEDIR) amounted to 1.4% at end-July 2015, showing a decline of 0.09 percentage points in relation to the previous month, while it recorded a decline of 0.45 percentage points in relation to end-December 2014.

At end-July 2015, reserve requirement of banks amounted to 228.8 million euros, which represents a monthly increase of 8.5 million euros or 3.9%, while in relation to the end of the previous year, reserve requirements increased by 13.8 million euros or 6.4%. In July, three 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 48.8% was allocated to the account of reserve requirement in the country, 27.9% to the CBCG account held abroad, and 23.3% in the form of T- bills. During July 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In July 2015, the gross insurance premium amounted to 7.9 million euros. Non-life insurance premiums still accounted for the main share in its structure with 89.6%, while invoiced life insurance premiums accounted for the remaining 10.4%.

In July 2015, Montenegro stock exchange recorded a turnover in the amount of 2.4 million euros, through 337 transactions. In relation to the previous month, the turnover was lower by 17.7%. Market capitalisation, as at 31 July 2015 amounted to 2,977.7 million euros, thus recording a monthly decrease of 2.2%. The MONEX index, which amounted to 12,045.85 index points at end-July 2015, decreased in relation to the end of the previous month by 2.5%, while investment fund index MONEXPIF amounted to 2,784.96 and recorded a monthly decrease of 3.2%. The newly-formed index MNSE10 amounted to 969.55 index points and decreased by 3.2% in relation to the previous month.

In July 2015, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 2.4 million euros, while in July 2014 there was a surplus in the amount of 2.5 million euros. For seven months of 2015, fiscal deficit amounted to 115.5 million euros, i.e. 3.2% of estimated GDP. Source revenues of the budget of Montenegro amounted to 127.5 million euros or 3.6% of estimated GDP, which represents an increase of 2.2% in relation to the plan for July. In relation to source revenues recorded in July 2014, there was an increase of 5.6%. Budget expenditures amounted to 125.1 million euros or 3.5% of estimated GDP which is 4.1% less in relation to the plan for July 2015, and 5.8% more in relation to expenditures in July 2014.

At end-June 2015, public debt (gross) of Montenegro amounted to 2,532.4 million euros. Out of that figure, a total of 372.2 million euros or 10.4% of GDP referred to internal debt, while external debt accounted for 2,160.2 million euros or 60.3% of GDP.

In the period January-June 2015, according to preliminary data, current account deficit increased by 9.6% in relation to the corresponding period of 2014, and amounted to 490.4 million euros. During the

reporting period, the export of goods decreased while the import recorded growth, which resulted in a higher deficit in the goods account. According to preliminary data, goods account deficit amounted to 686.7 million euros and was 5.7% higher in relation to the corresponding period of the previous year. The export of goods decreased by 5.7% with a y-o-y increase of import of 3.5%. Services account recorded a surplus in the amount of 121 million euros, which is approximately at the same level as in 2014. In the period January-July 2015, as per preliminary data, net FDI inflow amounted to 220.7 million euros which is 20.5% more in relation to the corresponding period of 2014.

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 June and July.

In June and July, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. On 3rd and 4th of June 2015, representatives of the CBCG participated in the two-day workshop in Podgorica, following the opening of negotiations on Chapter 33 - Financial and Budgetary Provisions, aimed at providing support to Montenegro by the European Commission in the area of administration preparation, as well as the method for monitoring the progress. The Chapter 9 - Financial services, managed by the CBCG, was opened at the Intergovernmental conference, held on 22 June 2015 in Luxembourg. The CBCG submitted draft version of recorded costs for BCI project for the period May 2014 – April 2015. Three-day mission of the Eurostat in the area of International trade in services was carried out as part of the IPA 2012 - Multi-beneficiary Statistical Cooperation Programme. Representatives of the CBCG took part in the video conference with Eurostat in relation to benchmarks for closing of the Chapter 18 - Statistics. Also, the CBCG representatives participated in the work of the European Integration Committee, which was held on 2 July in Podgorica. The CBCG took part in the meeting of the Working Group for Chapter 9 - Financial Services, held on 21 July 2015 in Podgorica, where participants presented final benchmarks for the given Chapter as well as changes in the composition of the Working Group. Representatives of the CBCG participated in the meeting of the European Integration Committee in relation to the adoption of the Report on Negotiation Chapter 4 - Free Movement of Capital. By using eDamis, the CBCG submitted preliminary quarterly BoP data for the period 2014–Q1 2015 to Eurostat. Representatives of the CBCG participated in meeting of the Working Group for Foreign Direct Investments, organised by Eurostat in Luxembourg. The CBCG representatives participated in the meeting of the Sub-committee on industry, trade, customs and taxes. Also, representatives of the CBCG participated in the first meeting of the working group for coordination of activities aimed at implementing ESA 2010 standards. The CBCG representatives participated in the meeting with Mary O'Mahony, representative of CEP (the Centre for European Perspective) consultant team, on the topic "Promotion of EU integration through regional cooperation".

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. 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 National Payment Operations.