

Summary of the Governor's Report – May 2015

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The Governor's Report for May 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 May, 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 preliminary Monstat data, GDP of Montenegro amounted to 1.5%, based on quarterly estimates. In Q1 2015, there was a real growth of 3.2% in relation to Q1 2014.

In May 2015, prices increased by 0.6% in relation to the previous month, while the annual inflation rate in May amounted to 2.3%.

During the first five months of 2015, industrial output recorded a y-o-y increase of 6.7%. The growth was recorded in the sector of manufacturing industry (13.5%), while there was a decline in the mining and quarrying sector (1.5%) and in the electricity, gas and steam supply sector (0.3%). During the first five months of 2015, the number of tourist arrivals recorded a y-o-y increase of 14.6%, while overnights increased by 11.1%. During the first three months of 2015, according to Monstat data, the air passenger transport recorded a y-o-y increase of 10.6% while the air cargo transport increased by 12.7%. During Q1 2015, the road passenger transport recorded a y-o-y increase of 4.2%. During Q1 2015, railway passenger transport recorded a y-o-y increase of 0.4%, and railway cargo transport decreased by 2%.

During the first five months of 2015, production of wood products amounted to 49,510 m³, which is a decrease of 6.8% in relation to the corresponding period of the previous year. In Q1 2015, according to preliminary Monstat data, construction recorded a y-o-y increase of 7.6%, measured in effective working hours.

In May 2015, the average number of employed persons amounted to 177,865, which is an increase of 2.1% compared to the previous month and 1.7% more in relation to May 2014. In May 2015, the number of unemployed persons amounted to 32,347, which represents a decrease of 4.8% in relation to the previous month and a decrease of 1.3% compared to May 2014.

Out of 73,157 legal persons and entrepreneurs, at end-May 2015, accounts of 14,435 or 19.7% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.8%. At end-May 2015, total amount of debt being the basis for freezing of accounts amounted to 516.4 million euros, showing an increase of 1.2% in relation to the previous month.

On 31 May 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 13.3% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 35.9% of the total debt being the basis for freezing of accounts.

At end-May 2015, total assets and liabilities increased by 1.4% compared to the previous month and amounted to 3,221.5 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 1.7% 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 73.8%. In May 2015, deposits in banks amounted to 2,376.6 million euros, which represents a monthly increase of 1.7% and an increase 3% compared to end-2014. Out of the total amount of deposits, corporate deposits accounted for 667.8 million euros or 28.1%, while household deposits accounted for 1,36 billion euros or 57.3% of total deposits. At end-May 2015, total capital of banks amounted to 456.3 million euros, which is 0.5% less in relation to the previous month and an increase of 2.8% in relation to the end of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 530.9 million euros, which is an increase of 17% in relation to the previous month, while they recorded an increase of 19.3% in relation to end-2014. At end-May 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 389.6 million euros and made up 16.2% of total loans. In relation to the previous month, non-performing loans increased by 1.1%, while they recorded an increase of 3.7% in relation to the end of the previous year.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 8.99% at end-May 2015, which represents a monthly decrease of 0.08 percentage points, while in relation to end-December 2014 it recorded a decrease of 0.23 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 9.14% in May 2015, which represent a monthly increase of 0.13 percentage points, and an increase of 0.12 percentage points in relation to December 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.50% in May 2015, showing a decline of 0.09 percentage points in relation to the previous month, while it recorded a decline of 0.36 percentage points in relation to December 2014.

At end-May 2015, reserve requirement of banks amounted to 219.5 million euros, which represents a monthly increase of 2.5 million euros or 1.1%, while in relation to the end of the previous year, reserve requirements increased by 4.6 million euros or 2.1%. In May, 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 52.2% was allocated to the account of reserve requirement in the country, 28.8% in the form of T- bills, and 19% to the CBCG account held abroad. During May 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In May 2015, the gross insurance premium amounted to 6 million euros. Non-life insurance premiums still accounted for the main share in its structure with 82.9%, while invoiced life insurance premiums accounted for the remaining 17.1%.

In May 2015, Montenegro Stock Exchange recorded a turnover in the amount of 1.3 million euros, through 425 transactions. In relation to the previous month, the turnover decreased by 74%. Market capitalisation, as at 31 May 2015 amounted to 3,015.2 million euros, thus recording a monthly decrease of 1.8%. The MONEX index, which amounted to 12,744.63 index points at end-May 2015, decreased in relation to the end of the previous month by 1.7%, while investment fund index MONEXPIF amounted to 2,726.60 and recorded a monthly increase of 2.4%. The newly-formed index MNSE10 amounted to 1,025.51 index points and decreased by 3.2% in relation to the previous month.

In May 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 13.4 million euros, while in May 2014 there was a deficit in the amount of 5.5 million euros. For five months of 2015, budget deficit amounted to 96.8 million euros, i.e. 2.7% of estimated GDP. Source revenues of the budget of Montenegro amounted to 99.8 million euros or 2.8% of GDP, which represents a decrease of 4% in relation to the plan for May. In relation to source revenues recorded in May 2014, there was a decrease of 2.2%. Budget expenditures amounted to 113.2 million euros or 3.2% of GDP which is 13.2% less in relation to the plan for May 2015, and 5.3% more in relation to expenditures in May 2014. At end-May 2015, public debt (gross) of Montenegro amounted to 2,443.6 million euros. Out of that figure, a total of 395.9 million euros or 11.1% of GDP referred to internal debt, while external debt accounted for 2,047.7 million euros or 57.2% of GDP.

In the period January-March 2015, according to preliminary data, current account deficit increased by 6.7% in relation to the corresponding period of 2014, and amounted to 197 million euros. In Q1 2015, goods account deficit amounted to 270.1 million euros and was 4.8% higher in relation to the previous year. The export of goods increased by 3% with an increase of import by 4.4%. Services account recorded a surplus in the amount of 11.9 million euros, which is approximately at the same level as in

2014. In the period January-May 2015, as per preliminary data, net FDI inflow amounted to 142.5 million euros which is 23.5% 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 May.

In May, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Representatives of the CBCG participated in the work of the 12th meeting of the European Integration Committee where they discussed fulfilment of remaining obligations for Q1 2015 from Montenegro's Programme of Accession. As per request of the Ministry of Foreign Affairs and European Integration, CBCG's representatives participated in activities related to Chapter 20 - Enterprise and industrial policy. The representatives of the CBCG participated in the conference titled "Economic Governance in Europe and EU Accession Process: What is the Role of Central Banks", which was organised in Belgrade. Also, the CBCG representatives participated in the meeting of the Subcommittee for internal market and competition which was held in Podgorica.

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 National Payment Operations.