

Summary of the Governor's Report – October 2015

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The Governor's Report for October 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 October, 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 the final Monstat data, gross domestic product of Montenegro increased by 1.8%, while during the first and second quarter of 2015 it increased y-o-y by 3.2% and 3.4%, respectively.

In October 2015, prices decreased by 0.1% in relation to the previous month, while the annual inflation rate in October amounted to 1.5%.

During the first ten months of 2015, industrial output recorded a y-o-y increase of 9.6%. The growth was recorded in the sector of manufacturing industry (19.5%), while there was a decline in the electricity, gas and steam supply sector (2%) and in the mining and quarrying sector (3.4%). During the first ten months of 2015, the number of tourist arrivals recorded a y-o-y increase of 12.8%, while overnights increased by 15.6%. During the first nine months of 2015, according to Monstat data, the air passenger transport recorded a y-o-y increase of 1.6% while the air cargo transport increased by 5.1%. During this period, the road passenger transport increased by 1.9%, while road cargo transport increased by 16.3%. The railway passenger transport recorded a y-o-y increase of 11.1%, and railway cargo transport grew by 22.6% over the reporting period.

During the first ten months of 2015, production of wood products amounted to 293,008 m³, which is an increase of 17% in relation to the corresponding period of the previous year. During the first nine months of 2015, according to preliminary Monstat data, construction recorded a y-o-y increase of 7%, measured in terms of executed construction works, as well as a y-o-y increase of effective working hours of 4.8%.

In October 2015, the average number of employed persons amounted to 174,761, which is a decrease of 1.3% compared to the previous month and 1.4% more in relation to October 2014. In October 2015, the number of unemployed persons amounted to 36,363, which represents an increase of 7.7% in relation to the previous month and an increase of 7.8% compared to October 2014.

Out of 76,251 legal persons and entrepreneurs, at end-October 2015, accounts of 14,718 or 19.3% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 1.4%. At end-October 2015, total amount of debt being the basis for freezing of accounts amounted to 545.2 million euros, showing an increase of 0.8% in relation to the previous month.

On 31 October 2015, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 12.3% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.3% of total recorded debtors) accounted for 35.4% of the total debt being the basis for freezing of accounts.

At end-October 2015, total assets and liabilities increased by 1% compared to the previous month and amounted to 3,521 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-October, total loans amounted to 2,539.5 million euros,

which is 0.2% lower in relation to the previous month and 7.3% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.5%. In October 2015, deposits in banks amounted to 2,658.3 million euros, which represents a monthly increase of 1.3% and an increase 15.2% compared to end-2014. Out of the total amount of deposits in banks, corporate deposits accounted for 851.7 million euros or 32%, while household deposits accounted for 1,417.4 million euros or 53.3% of total deposits. At end-October 2015, total capital of banks amounted to 468.4 million euros, which is 0.6% more in relation to the previous month and an increase of 5.5% in relation to the end of the previous year.

In October, past due loans (without interests, and prepayments and accruals) amounted to 446 million euros, which is an increase of 5.3% in relation to the previous month, while they recorded an increase of 0.2% in relation to end-2014. At end-October 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 353.9 million euros and made up 13.9% of total loans. In relation to the previous month, non-performing loans increased by 3.1%, while they recorded a decrease of 5.8% in relation to the end of the previous year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.79% at end-October 2015, which represents a monthly decrease of 0.10%, while in relation to end-December 2014 it recorded a decrease of 0.43 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 7.76% in October 2015, which represent a monthly decline of 1.87 percentage points, and a decrease of 1.26 percentage points in relation to December 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.27% in October 2015, showing a decline of 0.01 percentage points in relation to the previous month, while it recorded a decline of 0.56 percentage points in relation to December 2014.

At end-October 2015, reserve requirements of banks amounted to 244.8 million euros, which represents a monthly increase of 2.9 million euros or 1.2%, while in relation to the end of the previous year reserve requirements increased by 29.9 million euros or 13.9%. In October, five 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 50.5% was allocated to the CBCG account held abroad, 27.8% to the account of reserve requirement in the country, and 21.7% in the form of T- bills. During October 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In October 2015, the gross insurance premium amounted to 6.2 million euros. Non-life insurance premiums still accounted for the main share in its structure with 81.3%, while invoiced life insurance premiums accounted for the remaining 18.7%.

In October 2015, Montenegro Stock Exchange recorded a turnover in the amount of 1.2 million euros, through 276 transactions. In relation to the previous month, the turnover was lower by 25.6%. Market capitalisation, as at 31 October 2015 amounted to 2,911 million euros, thus recording a monthly decrease of 2.6%. The MONEX index, which amounted to 11,846.20 index points at end-October 2015, decreased in relation to the end of the previous month by 0.9%, while investment fund index MONEXPIF amounted to 2,981.56 and recorded a monthly increase of 0.9%. The MNSE10 index amounted to 942.50 index points and decreased by 0.9% in relation to the previous month.

In September 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 13.4 million euros, while in September 2014 there was a deficit in the amount of 4.2 million euros. For nine months of 2015, budget deficit amounted to 245.4 million euros, i.e. 6.7% of estimated GDP. Source revenues of the budget of Montenegro amounted to 123.7 million euros or 3.4% of GDP, which represents an increase of 1.7% in relation to the plan for September. In relation to source revenues recorded in September 2014, there was an increase of 4.9%. Budget expenditures amounted to 137.1 million euros or 3.7% of GDP which is 5.1% more in relation to the plan for September 2015, and 12.3% more in relation to September 2014.

At end-September 2015, according to the Ministry of Finance estimates, public debt (gross) amounted to 2,304.3 million euros. Out of that figure, a total of 329.2 million euros or 9% of GDP referred to

internal debt, while external debt accounted for 1,975.1 million euros or 54% of GDP. Net public debt amounted to 58.8% of GDP.

In the period January-September 2015, according to preliminary data, current account deficit decreased by 26.6% in relation to the corresponding period of 2014, and amounted to 208.5 million euros. Decline of the current account deficit came as a result of increased surplus in the services and primary income account. 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 1.1 billion euros and was 7.5% higher in relation to the corresponding period of the previous year. The export of goods amounted to 224.9 million euros, which represents a decrease of 12.1% with a y-o-y increase of import of 3.7%, which amounted to 1.3 billion euros. Services account recorded a surplus in the amount of 777.7 million euros, which represents a y-o-y increase of 17.2%. In the period January-October 2015, as per preliminary data, net FDI inflow amounted to 556.4 million euros which is 90.2% 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 October.

In October, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The document "Methods Handbook on International Trade of Services" was prepared and submitted in line with recommendations within the project ITS IPA 2012. As per request of the Ministry of Finance, the CBCG prepared and submitted analysis of the balance of payments for the period January-June 2015, needed for the meeting of the Subcommittee for economic and financial issues and statistics. The CBCG submitted to the European Commission the Action plan for harmonisation with the EU acquis in the area of economic and monetary policy (Chapter 17). The plan was revised in line with the conclusions from the latest video conference held on this occasion. Macroeconomic projections were presented at the expert meeting for Autumn forecasts of the European Commission, held on 15 October in Brussels. The CBCG prepared and submitted application for tender of the European Commission for the project Business and Consumer Survey. The CBCG prepared comments and suggestions to the framework perennial action plan for implementation of industrial policy of Montenegro until 2020, for the needs of the Working Group for Chapter 20 - Enterprise and industrial policy. The data for subcommittee ECFIN have been prepared. Representatives of the Directorate for international cooperation and European integration presented activities referring to the planning of the project from IPA II funds, aimed further harmonisation of legal regulations under the jurisdiction of the CBCG with the EU acquis, as part of the visit of the coordinator for technical cooperation of the National Bank of Poland. Representatives of the CBCG participated in the meeting with representatives of the Division for international cooperation of the National Bank of Serbia in relation to the idea concerning organisation of regional conference of services for international cooperation of the regional central banks, aimed at exchanging experiences and practices, especially in the segment of the EU integration. Coordinators of the Working Group 9 - Financial Services had a meeting regarding consideration of planned and realised regulatory and administrative capacities for Chapter 9 in Q3 and Q4 2015.

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.