

Summary of the Governor's Report – April 2015

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The Governor's Report for April 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 April, 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. The growth was recorded in all four quarters of 2014 in relation to the comparative period of 2013, amounting to 1.5%, 0.3%, 1.4% and 2.6%, respectively.

In April 2015, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in January amounted to 2.1%.

During the first four months of 2015, industrial output recorded a y-o-y increase of 8.1%. The increase was recorded in all three sectors: mining and quarrying sector (2.9%), manufacturing industry (12.7%) and in the electricity, gas and steam supply sector (3.9%). During the first four months of 2015, the number of tourist arrivals recorded a y-o-y increase of 19.7%, while overnights increased by 14.5%. In Q1 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, railway passenger transport recorded a y-o-y increase of 0.4%, and railway cargo transport decreased by 2%. During Q1 2015, the road passenger transport recorded a y-o-y increase of 4.2%.

During the first four months of 2015, production of wood products amounted to 15,748 m³, which is a decrease of 50% 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 April 2015, the average number of employed persons amounted to 174,208, which is an increase of 1.4% compared to the previous month and 1.2% more in relation to April 2014. In April 2015, the number of unemployed persons amounted to 33,975, which represents a decrease of 2.7% in relation to the previous month and an increase of 0.2% compared to April 2014.

Out of 71,524 legal persons and entrepreneurs, at end-April 2015, accounts of 14,316 or 20% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs decreased by 0.5%. At end-April 2015, total amount of debt being the basis for freezing of accounts amounted to 510.4 million euros, showing an increase of 1.8% in relation to the previous month.

On 30 April 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 36.3% of the total debt being the basis for freezing of accounts.

At end-April 2015, total assets and liabilities increased by 1.2% compared to the previous month and amounted to 3,177.6 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 insignificantly lower in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 73.6%. In April 2015, deposits in banks amounted to 2,337.5 million euros, which represents a monthly increase of 1% and an increase 1.3% compared to end-2014. Out of the total amount of deposits in banks, corporate deposits accounted for 644,1 million euros or 27.6%, while household deposits accounted for 1.36 billion euros or 58.3% of total deposits. At end-April 2015, total capital of banks amounted to 458.5 million euros, which is 2.5% more in relation to the previous month and an increase of 3.3% in relation to the end of the previous year.

In April, past due loans (without interests, and prepayments and accruals) amounted to 453.6 million euros, which is a decrease of 7.8% in relation to the previous month, while they recorded an increase of 1.9% in relation to end-2014. At end-April 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 385.5 million euros and made up 16.3% of total loans. In relation to the previous month, non-performing loans increased by 4.4%, while they recorded an increase of 2.6% in relation to the end of the previous year.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.07% at end-April 2015, which represents a monthly decrease of 0.04 percentage points, while in relation to end-December 2014 it recorded a decrease of 0.15 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 9.01% in April 2015, which represent a monthly increase of 0.07 percentage points, and a decrease of 0.01 percentage points in relation to December 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.59% in April 2015, showing a decline of 0.07 percentage points in relation to the previous month, while it recorded a decline of 0.27 percentage points in relation to December 2014.

At end-April 2015, reserve requirement of banks amounted to 217 million euros, which represents a monthly increase of 887,000 euros or 0.4%, while in relation to the end of the previous year, reserve requirements increased by 2.1 million euros or 1%. In April, 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 51.6% was allocated to the account of reserve requirement in the country, 28.7% in the form of T- bills, and 19.8% to the CBCG account held abroad. During April 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In April 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 82.2%, while invoiced life insurance premiums accounted for the remaining 17.8%.

In April 2015, Montenegro Stock Exchange recorded a turnover in the amount of 4.8 million euros, through 577 transactions. The turnover was 6.6% higher in relation to the previous month. Market capitalisation, as at 30 April 2015 amounted to 3,071 million euros, thus recording a monthly increase of 1.3%. The MONEX index, which amounted to 12,970.58 index points at end-April 2015, increased in relation to the end of the previous month by 5.9%, while investment fund index MONEXPIF amounted to 2,661.78 and recorded a monthly increase of 0.4%. The newly-formed index MNSE10 amounted to 1,059.16 index points and increased by 5.9% in relation to its initial value.

In April 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 10.3 million euros, while in April 2014 there was a deficit in the amount of 15 million euros. For four months of 2015, budget deficit amounted to 64.5 million euros, i.e. 1.8% of estimated GDP. Source revenues of the budget of Montenegro amounted to 111.5 million euros or 3.1% of GDP, which represents an increase of 0.6% in relation to the plan for April. In relation to source revenues recorded in April 2014, there was an increase of 2.2%. Budget expenditures amounted to 121.8 million euros or 3.4% of GDP which is 6.6% less in relation to the plan for April 2015, and 1.8% less in relation to April 2014. At end-March 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 a 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 or 0.7% higher in relation to the previous year. In the period January-April 2015, as per preliminary data, net FDI inflow amounted to 111.8 million euros which is 30.6% 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 April.

In April, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG's representatives participated in the 11th meeting of the European Integration Committee. First quarterly report on implementation of the Montenegro's Programme of Accession 2015–2018 was discussed during this meeting. Signed Agreement "Specific grant agreement 2015–2016" related to the BCI project was submitted to the European Commission. On 16 April, the representatives of the CBCG participated in the meeting for candidate countries titled "Spring 2015 Economic Forecast", held in Brussels. Comments to the European Commission's Report "ERP 2015" were prepared. In relation to the notification of the Ministry of Foreign Affairs and European Integration about preparation of the first annex for the European Commission's 2015 Progress Report on Montenegro, the CBCG prepared and submitted an Annex for the reporting period from 1 September 2014 until 1 April 2015, under its jurisdiction. The CBCG prepared comments to the ECB's Report - "EU candidate and potential candidate countries NERP 2015: Overview and assessment of the monetary policy and foreign exchange rate policy". A draft plan of project activities were prepared in relation to preparation of Terms of Reference (ToR) which was nominated for financing from the EU IPA funds for 2014. CBCG performed study visit to the Croatian National Bank aimed at reviewing experiences and problems in the EU negotiations, in the part referring to drafting of the Law on Croatian National Bank, Banking Law, Law on bankruptcy and liquidation of banks and establishing the manner for recovery and resolution of banks. The CBCG's representatives attended the meeting of the working group for balance of payments in Luxembourg, organised by Eurostat.

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.