

Summary of the Governor's Report – August-September 2015

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The Governor's Report for August and September 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 August and September, 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 September 2015, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in September amounted to 1.7%.

During the first nine months of 2015, industrial output recorded a y-o-y increase of 9.2%. The growth was recorded in the sector of manufacturing industry (16.1%) and in the electricity, gas and steam supply sector (1.1%), while there was a decline in the mining and quarrying sector (0.1%). During the first nine months of 2015, the number of tourist arrivals recorded a y-o-y increase of 13%, while overnights increased by 15.5%. 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 nine months of 2015, production of wood products amounted to 247,278 m³, which is an increase of 23.9% 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 September 2015, the average number of employed persons amounted to 177,027, which is a decrease of 2.3% compared to the previous month and 1.8% more in relation to September 2014. In September 2015, the number of unemployed persons amounted to 33,773, which represents an increase of 2.1% in relation to the previous month and an increase of 6.9% compared to September 2014.

Out of 75,920 legal persons and entrepreneurs, at end-September 2015, accounts of 14,516 or 19.1% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.5%. At end-September 2015, total amount of debt being the basis for freezing of accounts amounted to 541 million euros, showing an increase of 1.1% in relation to the previous month.

On 30 September 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 35.3% of the total debt being the basis for freezing of accounts.

At end-September 2015, total assets and liabilities increased by 0.8% compared to the previous month and amounted to 3,486.9 million euros. In terms of the structure of aggregate balance sheet of banks,

total loans make up the dominate share, and were 2.8% higher in relation to the previous month and 7.4% higher in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 75.3%. In September 2015, deposits in banks amounted to 2,623.9 million euros, which represents a monthly increase of 1% and an increase of 13.7% compared to end-2014. Out of the total amount of deposits in banks, corporate deposits accounted for 813.1 million euros or 31%, while household deposits accounted for 1,411.3 million euros or 53.8% of total deposits. At end-September 2015, total capital of banks amounted to 465.1 million euros, which is 2.7% less in relation to the previous month and an increase of 4.7% in relation to the end of the previous year.

In September, past due loans (without interests and accruals) amounted to 423.2 million euros, which is a decrease of 7.6% in relation to the previous month, while they recorded a decrease of 4.9% in relation to end-2014. At end-September 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 351.5 million euros and made up 13.8% of total loans. In relation to the previous month, non-performing loans decreased by 3.1%, while they recorded a decrease of 6.4% in relation to the end of the previous year.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 8.89% at end-September 2015, which represents a monthly increase of 0.03 percentage points, while in relation to end-December 2014 it recorded a decrease of 0.33 percentage points. The weighted average effective lending interest rate (WALEIR) on new loans amounted to 9.63% in September 2015, which represents a monthly increase of 0.58 percentage points, and an increase of 0.61 percentage points in relation to December 2014. The weighted average effective deposit interest rate (WAEDIR) amounted to 1.28% at end-September 2015, showing a decline of 0.06 percentage points in relation to the previous month, while it recorded a decline of 0.58 percentage points in relation to end-December 2014.

At end-September 2015, reserve requirements of banks amounted to 241.9 million euros, which represents a monthly increase of 5.8 million euros or 2.5%, while in relation to the end of the previous year, reserve requirements increased by 27 million euros or 12.6%. In September, 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 49.1% was allocated to the CBCG account held abroad, 28.8% to the account of reserve requirement in the country, and 22.1% in the form of T- bills. During September 2015, all banks allocated and maintained reserve requirements within prescribed limits.

In August 2015, the gross insurance premium amounted to 6.1 million euros. Non-life insurance premiums still accounted for the main share in its structure with 83.3%, while invoiced life insurance premiums accounted for the remaining 16.7%.

In September 2015, Montenegro stock exchange recorded a turnover in the amount of 1.6 million euros, through 389 transactions. The turnover was 20% higher in relation to the previous month. Market capitalisation, as at 30 September 2015 amounted to 2,968.1 million euros, thus recording a monthly increase of 0.6%. The MONEX index, which amounted to 11,917.69 index points at end-September 2015, decreased slightly in relation to the end of the previous month, while investment fund index MONEXPIF amounted to 2,999.42 and recorded a monthly increase of 0.9%. The MNSE10 index amounted to 946.78 index points and increased slightly 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-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-September 2015, as per preliminary data, net FDI inflow amounted to 526.4 million euros which is 101.6% 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 August and September.

In August and September, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG updated the Annex to the Progress Report of the European Commission within Chapter 2, for the reporting period from 1 April until 1 September 2015. The report was submitted to the Ministry of Foreign Affairs and European Integration. At the request of the EU Delegation to Montenegro, regarding updating of the Montenegro Progress Report of the European Commission, the Central Bank submitted innovated information that are under its jurisdiction within the Chapter 4- Free Movement of Capital and Chapter 9 – Financial services, referring to adoption of new regulations or important activities in these areas that have been carried out during the previous two months. Coordinators of task forces within Work Group for Chapter 9 - Financial services had a meeting with the negotiator for the aforementioned Chapter, regarding the date and possible topics for the upcoming video conference with the EU representatives. The CBCG participated in the meeting of the Work Group for Chapter 20 - Enterprise and Industrial Policy, held on 15 September 2015, where participants presented the improved draft of the Industrial Policy of Montenegro until 2020 and agreed on further work dynamics in terms of final benchmark for this Chapter. At the invitation of Monstat, representatives of the CBCG participated in the meeting of the Subgroup - domain 2, as part of negotiation Chapter 18 - Statistics. The CBCG had a meeting with representatives of the Directorate-General for Economic and Financial Affairs (DG ECFIN). Meetings in the CBCG were organised with a view to providing information on the latest developments in the financial sector and financial stability, and these meetings were part of the regular mission of the EC representatives to Montenegro. Material referring to the Needs Assessment project was updated. The program is implemented by the European Central Bank in cooperation with partner national banks (ESCB), in relation to preparation of the Action plan for harmonisation with the EU requirements for negotiation chapter 17 - EMU.

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. On its website, the Central Bank continued to publish information 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 Amending the National Payment Operations Law.