

## Summary of the Governor's Report – March 2015

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The Governor's Report for March 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 March, 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 March 2015, prices increased by 1.1% in relation to the previous month, while the annual inflation rate in March amounted to 1.6%.

During the first three months of 2015, industrial output recorded a y-o-y increase of 7%. The increase was recorded in all three sectors: mining and quarrying sector (16.2%), manufacturing industry (3.5%) and in the electricity, gas and steam supply sector (19.7%). During the first three months of 2015, the number of tourist arrivals recorded a y-o-y increase of 19.3%, while overnights increased by 16.6%. In 2014, according to Monstat data, the air passenger transport recorded a y-o-y increase of 3.4% while the air cargo transport increased by 12.2%. During this period, railway passenger transport recorded a y-o-y increase of 21.7%, and railway cargo transport decreased by 13.9%. In 2014, the road passenger transport recorded a y-o-y increase of 10.8%.

During the first three months of 2015, production of wood products amounted to 9,247 m<sup>3</sup>, which is a decrease of 56.4% 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 by effective working hours.

In March 2015, the average number of employed persons amounted to 171,855, which is an increase of 0.8% compared to the previous month and 1% more in relation to March 2014. In March 2015, the number of unemployed persons amounted to 34,903, which represents a decrease of 0.8% in relation to the previous month and an increase of 0.7% compared to March 2014.

Out of 69,774 legal persons and entrepreneurs, at end-March 2015, accounts of 14,381 or 20.6% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.1%. At end-March 2015, total amount of debt being the basis for freezing of accounts amounted to 501.2 million euros, showing a decrease of 2.3% in relation to the previous month.

On 31 March 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 36.1% of the total debt being the basis for freezing of accounts.

At end-March 2015, total assets and liabilities increased by 0.7% compared to the previous month and amounted to 3,138.6 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 1.5% lower in relation to the previous month and 1.1% lower in relation to the end of the previous year.

In terms of the structure of liabilities, deposits make up the dominate share of 73.7%. In March 2015, deposits in banks amounted to 2,314.6 million euros, which represents a monthly increase of 0.8% and an increase of 0.3% compared to end-2014. Out of the total amount of deposits, corporate deposits accounted for 635.1 million euros or 27.4%, while household deposits accounted for 1,352.7 million euros or 58.4% of total deposits. At end-March 2015, total capital of banks amounted to 447.1 million euros, which is 0.2% less in relation to the previous month and an increase of 0.7% in relation to the end of the previous year.

In March, past due loans (without interests, and prepayments and accruals) amounted to 492.2 million euros, which is an increase of 7.4% in relation to the previous month, while they recorded an increase of 10.6% in relation to end-2014. At end-March 2015, non-performing loans (without interests, and prepayments and accruals) amounted to 369.4 million euros and made up 15.8% of total loans. In relation to the previous month, non-performing loans decreased by 4.9%, while they recorded a decrease of 1.7% in relation to the end of the previous year.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.11% at end-March 2015, which represents a monthly decrease of 0.06%, while in relation to end-December 2014 it recorded a decrease of 0.11 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 8.94% in March 2015, which represents a monthly decline of 0.80 percentage points, and a decrease of 0.08 percentage points in relation to December 2014. The weighted average effective depositing interest rate (WAEDIR) amounted to 1.66% at end-March 2015, showing a decline of 0.07 percentage points in relation to the previous month, while it recorded a decline of 0.18 percentage points in relation to end-December 2014.

At end-March 2015, reserve requirement of banks amounted to 216.1 million euros, which represents a monthly increase of 2.4 million euros or 1.1%, while in relation to the end of the previous year, reserve requirements increased by 1.2 million euros or 0.6%. In March, 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 47.4% was allocated to the account of reserve requirement in the country, 26.6% in the form of T- bills, and 26% was allocated to the CBCG account held abroad. During March 2015, all banks allocated and maintained reserve requirements within prescribed limits.

The gross insurance premium amounted to 7 million euros at end March-2015. Non-life insurance premiums still accounted for the main share in its structure with 84.7%, while invoiced life insurance premiums accounted for the remaining 15.3%.

In March 2015, Montenegro Stock Exchange recorded a turnover in the amount of 4.5 million euros, through 401 transactions. The turnover was 28.9% lower in relation to the previous month. Market capitalisation, as at 31 March 2015 amounted to 3 billion euros, thus recording a monthly increase of 1.9%. The MONEX index, which amounted to 12,247.14 index points at end-March 2015, increased in relation to the end of the previous month by 2.4%, while investment fund index MONEXPIF amounted to 2,651.01 and recorded a monthly increase of 1.8%.

In March 2015, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 8.4 million euros, while in March 2014 there was a deficit in the amount of 17 million euros. For three months of 2015, budget deficit amounted to 51.6 million euros, i.e. 1.5% of estimated GDP. Source revenues of the budget of Montenegro amounted to 100.3 million euros or 2.8% of GDP, which represents a decrease of 0.8% in relation to the plan for March. In relation to source revenues recorded in March 2014, there was a decrease of 0.4%. Budget expenditures amounted to 108.7 million euros or 3.1% of GDP which is 16.7% less in relation to the plan for March 2015, and 7.7% less in relation to March 2014. At end-December 2014, public debt (gross) of Montenegro amounted to 2,071.7 million euros. Out of that figure, a total of 381.2 million euros referred to internal debt, external debt amounted to 1,561.7 million euros, while local self-governments debt accounted for 128.8 million euros.

During 2014, the deficit of the balance of payments current account increased by 6.9% in relation to the previous year. According to preliminary data, current account deficit amounted to 520.4 million euros or 15.3% of GDP. The increase of current account deficit came as a result of the increase of foreign trade deficit as well lower surplus in the primary and secondary income accounts. Current account deficit was significantly financed by net inflow of foreign direct investments that amounted to

10.4% of GDP. In the period January-March 2015, as per preliminary data, net FDI inflow amounted to 86.2 million euros which is 9.3% more in relation to the corresponding period of the previous year.

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 March.

In March, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The European Central Bank and the Central Bank of Montenegro completed cooperation programme that provided support to CBCG in its preparations to join European System of Central Banks (ESCB), once the country is eligible for the EU membership. CBCG representatives participated in meetings related to technical mission of Eurostat in the field of Excessive Deficit Procedures (EDP). In addition to the CBCG, these meetings were attended by the Ministry of Finance and Monstat. At the request of EU Delegation to Montenegro, meetings were held between the CBCG's representatives and the analyst for Montenegro in the the European Commission's Directorate General for Economic and Financial Affairs, as well as with the representative of the EU Delegation to Montenegro. In the premises of Monstat, the CBCG representatives participated in the meeting of the Subgroup for domain 2 within the Negotiation Chapter 18. CBCG submitted draft version of cost plan for BCI project for the period May 2015 – April 2016.

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 the National Payment System.