# Summary of the Governor's Report – February 2012

***Updated: 19.04.2012***

The Governor's Report for February 2012 indicated that activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2012. It was stated that there were still no official data on GDP growth in 2011, but CBCG, in compliance with the Ministry of Finance, estimated it to amount between 2.5% and 3%.

In February 2012, prices recorded a monthly increase of 1%, while annual inflation rate was 4.2%. Average price growth (in the first two months of 2012 compared to the same period of 2011) was 4.2%.

In the first two months of 2012, total industrial output recorded a y-o-y decrease of 19.7%, as the result of lower output in electricity, gas and steam supply sector. Mining and quarrying sector and manufacturing industry recorded output increase.

The number of tourist arrivals in the first two months of 2012 decreased by 10.2%, while the number of overnight stays recorded y-o-y increase by 2%. In relation to the same period of 2011, according to Monstat data, many types of transport recorded a decline in the first two months of 2012. Railway, air and road cargo transport recorded declines. Road passenger transport increased, while air and railway passengers transport reported decline. In 2011, according to preliminary Monstat data, construction, measured by effective working hours, rose 19.4% in relation to 2010. According to Monstat data, turnover in retail trade (at current prices) recorded the y-o-y increase of 18.8% in the first two months of 2012. Due to bad weather conditions and the impossibility of cutting state woods, forestry recorded y-o-y decline of 98.3% in the first two months of 2012.

The number of employees amounted to 162,035 in February 2012 and it showed y-o-y and monthly growths of 2.5% and 0.7%, respectively. The number of unemployed persons amounted to 31,495 in February 2012 or 0.5% more than in January 2012, yet showing y-o-y decline of 4.7%.

Of 57,916 legal and natural persons performing activity at end-February 2012, accounts of some 15.492 or 26.7% were frozen. In relation to January 2012, the number of frozen accounts of legal and natural persons increased by 0.9%, as well as in relation to December 2011 by 2%. The total amount of debt being the basis for the accounts freezing was EUR 384.9 million showing a monthly increase of 1.2%, as well as by 1.9% in relation to December 2011. Debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 21.69% of the total debt. Moreover, the top 50 debtors (0.33% of total recorded debtors) accounted for 43.16% of the total debt.

At end-February 2012, total capital of banks showed a 1.1% increase in relation to December 2011. In February 2012, liquid assets amounted to EUR 537.6 million, being 4.0% lower in relation to December 2011. In relation to 2011-end, total assets and liabilities of banks decreased by 1.1%. In relation to December 2011, deposits with banks and loans granted by banks recorded declines in February 2012 of 1.2% and 0.7%, respectively. In January 2012, past due loans increased by 14.4% in relation to December 2011. In February 2012, non-performing loans increased by 1.7% in relation to December 2011.

The weighted average lending interest rate (WALIR) amounted to 9.65% in February 2012, showing decline by 0.08 percentage points in relation to December 2011. The weighted average deposit interest rate (WADIR) amounted to 3.08% in February 2012, showing growth by 0.05 percentage points in relation to December 2011.

At end-February 2012, reserve requirement of banks amounted to EUR 169.5 million, showing monthly increase of EUR 0.3 million or 0.2%. Of the total amount of reserve requirements, some 69.7% was allocated to the account of reserve requirement in the country, 23.7% in the form of T-bills, and 6.6% to the CBCG account held abroad. In February 2012, all banks used the possibility to allocate a portion of their reserve requirement in T-bills.

As per preliminary data, gross insurance premium amounted to EUR 5.8 million at end-December 2011. Non-life insurance premium still accounted for the man share in its structures with 76.9%, while invoiced life insurance premiums accounted for the remaining 23.1%.

Monthly decline of turnover in Montenegrin capital market continued in February 2012. The Monex20 index recorded an insignificant monthly growth.

Total Montenegrin fiscal deficit in December 2012, according to the Ministry of Finance estimate, amounted to EUR 39.6 million, while y-o-y deficit amounted to EUR 20.4 million. In the first two months of 2012, the Montenegrin budget ran a deficit of EUR 54.9 million (1.6% of GDP), which is of significant concern. Source income of the Montenegrin Budget amounted to EUR 67.7 million or 2% of GDP, being 13.5% lower than planned for February 2012. Source income showed a y-o-y decline of 7% in February 2012. In February 2012, total budget expenditures amounted to EUR 107.4 million (3.2% of estimated GDP), or 2.5% more than planned for February 2012. Capital budget amounted to EUR 3.8 million.

At end-February 2012, the Montenegrin public debt amounted to EUR 1,540.3 million or 45.3% of estimated GDP. Of that amount, domestic debt accounted for EUR 431.3 million or 12.7% of GDP, while foreign debt accounted for EUR 1,109.0 million or 32.6% of GDP.

The current account deficit, according to preliminary data, amounted to EUR 633.8 million (19.4% of GDP) in 2011, i.e. 17.1% less than in 2010. Decline in deficit was the result of slower external trade deficit increase and increased surplus at other current account sub-accounts. Current account deficit was mostly financed by net FDI inflow that amounted to 11.9% of GDP and by net inflow of portfolio investments (5% of GDP). In the first two months of 2012, total FDI inflow amounted to EUR 52.8 million, while outflow amounted to EUR 19.5 million. The result of such trends was the recorded net FDI inflow of EUR 33.3 million, showing y-o-y decline (EUR 78.1 million in first two months of 2011). In the structure of total FDI inflow, share of inflow from investments into real estates was 53.6%, followed by banks and companies (31.9%) and inflow from intercompany debt (14.4%).

The Report gives an overview of key activities of all organizational units in the Central Bank, which were in the function of pursuing the CBCG Policy in February 2012.

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 following the principles of liquidity and safety, and activities regarding the CBCG role of the fiscal agent were successfully performed.

Banks did not use reserve requirement funds in February. The availability of RTGS and DNS systems was 100% in February 2012. Banks and other CBCG clients were regularly and timely supplied with banknotes and coins into the appropriate Euro denomination structure.

The following activities were performed aimed at meeting the obligations towards Montenegrin accession to the EU:

- CBCG representatives attended the video-conference with the European Commission under the Sub-Committee for Internal Market and Competition;
- CBCG representatives attended meetings with the ECB representatives who visited CBCG. The purpose of the visit was the analysis of the Pre-accession Economic Programme (PEP);
- CBCG representatives attended the presentation of the study “Administrative capacities and the NPI for Montenegro”, prepared by European Movement in Montenegro;
- The answers were prepared for a part of the Second 3rd Round Written Progress Report Questionnaire for Montenegro in the area of anti-money laundering and terrorism financing referring to the CBCG competence that would be submitted to the Committee of Experts on the Evaluation of Anti Money Laundering Measures and the Financing of Terrorism (MONEYVAL).
- CBCG representatives attended the meeting of the experts’ group for drafting the Report on Financial Stability Challenges in EU Candidate Countries, called “Make the Financial Systems More Resistant in Crisis Environment”. The participation in the working group was reflected through answering the questionnaire on current regulatory and supervisory practice, updating macro-economic indicators and series of data from banking system as at 31 December 2011, submitting preliminary results of stress testing of the banking system done on the basis of ECB and CBCG assumptions for 2012 and 2013, as well as through attending the third meeting held in Frankfurt organized by the ECB where the issues referring to supervisory framework, de-Euroisation, lending in foreign currency and stress testing were discussed.

As regards the activities on international cooperation, the Governor met with representatives of the World Bank mission, representatives of the International Monetary Fund mission, the Ambassador of Germany in Montenegro, and a visit to the Deutsche Bundesbank was performed, thereby discussing current economic situation and bilateral cooperation.