

Summary of the Governor's Report – January 2012

Updated: 20.03.2012

The Governor's Report for January 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. GDP growth rate was estimated at 3% in 2011, still indicating the presence of some risks in the system.

In relation to December 2011, prices increased by 0.8% in January 2012, while the annual inflation rate was 2.7%. The annual growth was recorded in the prices under "alcoholic beverages and tobacco" of 21.1% due to the introduction of excise duties on some products, followed by the prices under "health" (8.3%), due to the 8.7% growth in pharmaceutical products and 7.6% increase in the prices under "transport" induced by higher prices of fuels and lubricants by 7.7%.

Total industrial output decreased in relation to December 2011 and in relation to January 2011 by 4.6% and 24.5%, respectively. The y-o-y decline was the result of lower output in electricity, gas and water supply sector, while the mining and quarrying sector and manufacturing industry recorded output increase.

The number of tourist arrivals in 2011 increased by 8.7%, as well as the number of overnight stays recorded annual increase by 10.2%. In relation to 2010, according to Monstat data, many types of transport recorded a decline in relation to 2010. Railway, air and road cargo transport recorded declines. Air passenger transport increased, while road and railway passengers transport reported a decline. According to preliminary Monstat data, construction, as 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 annual increase of 20.5% in 2011. Due to bad weather conditions and the impossibility of cutting state woods, forestry recorded y-o-y decline of 92% in January 2012.

The number of employees amounted to 162,450 in December 2011 and it was 3% higher than in December 2010, yet it recorded monthly decline of 0.2%. The number of unemployed persons amounted to 31,339 in January 2012 or 2.6% more than in December 2011, yet 4.5% less than in January 2011.

Of 57,669 legal and natural persons performing activity at end-January 2012, accounts of some 15,352 or 26.6% of them were frozen. In relation to December 2011, the number of frozen accounts of legal and natural persons increased by 1.1%. The total amount of debt being the basis for the accounts freezing was EUR 380.5 million or 0.8% more than in December 2011. Debt concentration was relatively high, considering that the top 10 debtors or 0.07% of total recorded debtors accounted for 21.86% of the total debt. Moreover, the top 50 debtors (0.33% of total recorded debtors) accounted for 43.36% of the total debt.

At end-January 2012, total capital of banks was 2.3% lower in relation to December 2011. Liquid assets amounted to EUR 527.3 million, being 5.8% lower in relation to December 2011. In relation to the previous year-end, total assets and liabilities of banks decreased by 1.3%. Deposits with banks and loans granted by banks recorded monthly declines of 1.8% and 0.5%, respectively. In January 2012, past due loans increased by 31.3% in relation to December 2011. Non-performing loans recorded insignificant monthly decline of 0.01%.

The weighted average deposit interest rate (WADIR) amounted to 3.09% in January 2012, showing monthly growth by 0.06 percentage points.

At end-January 2012, reserve requirement of banks amounted to EUR 169.1 million, which is EUR 1.7 million or 1% less in relation to December 2011. Of the total amount of reserve requirements, some 65.4% was allocated to the account of reserve requirement in the country, 24.5% in the form of T-bills, and 10.1% to the CBCG account held abroad. In January 2012, all banks used the possibility to allocate a portion of their reserve requirement for 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 main share in its structures with 76.9%, while invoiced life insurance premiums accounted for the remaining 23.1%.

Turnover in Montenegrin capital market was the lowest ever to be recorded as of March 2004. The Monex 20 index recorded an insignificant monthly growth.

Total Montenegrin fiscal deficit in December 2011, according to the Ministry of Finance estimate, amounted to EUR 61.4 million or at the rate of 1.9%, while y-o-y deficit amounted to EUR 51.7 million. In 2011, the Montenegrin budget ran a deficit of EUR 136.9 million (4.2% of GDP). Source income of the Montenegrin Budget amounted to EUR 112.6 million or 3.4% of GDP, being 15.3% lower than planned for December 2011. Source income showed a decline of 9.3%. Total budget expenditures in December 2011 amounted to EUR 174 million (5.3% of estimated GDP), showing the y-o-y decrease of 1.1%. Capital budget amounted to EUR 21.9 million.

At end-December 2011, the Montenegrin public debt amounted to EUR 1,483.5 million or 45.3% of estimated GDP. Of that amount, domestic debt accounted for EUR 419.8 million or 12.8% of GDP, while foreign debt accounted for the remaining EUR 1,063.7 million or 32.5% of GDP.

The current account deficit, according to preliminary data, amounted to EUR 633.8 million in 2011 or 17% less than in 2010. The share of the current account deficit in GDP was 19.4%, pointing to a significant decline considering the values recorded in the pre-crisis period (50.6% in 2008) and the post-crisis crisis (29.6% in 2009 and 24.6% in 2010). According to preliminary data, net FDI inflow amounted to EUR 389 million in 2011, being 29.5% lower than a year ago. Total FDI inflow amounted to EUR 494.7 million, of which EUR 342 million was in equity investments, while intercompany debt amounted to some EUR 132.6 million, showing the y-o-y decrease of 23.3%. In the structure of equity investments, investments into banks and companies made up 31.9%, while investments into real estates accounted for 37.3%. Inflow from withdrawal of cash which residents invested abroad amounted to EUR 20.1 million.

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

With a view to promoting and preserving 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 January, and lower allocation of reserve requirements was recorded with two banks (by 1 day). The availability of RTGS and DNS systems was 100% in January 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 preparatory meeting of the Sub-Committee for Internal Market and Competition, regarding the Third Meeting of the EC Sub-Committee for Internal Market and Competition to be held in February. Therefore, necessary documents referring to "Banking - progress in the financial sector regulation and supervision" were prepared and submitted to the Ministry of Foreign Affairs and European Integration;
- With a view to drafting the Fifth Report on the Realization of Obligations from the Stabilization and Association Agreement (SAA Agreement) in the period 1 October – 31 December 2011, the report on legal acts passed in this period was prepared upon the request of the Ministry of Foreign Affairs and European Integration;
- 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 second working meeting organized by the ECB as regards the Financial Stability challenges in EU candidate countries.
- Comments to the first draft of the report "Financial stability challenges – Montenegro" were submitted to the ECB, as well as the completed questionnaire on the current supervisory, regulatory and macro-prudential practice in the EU candidate and acceding countries.
- CBCG delegation attended the Second International Conference on the Protection of Euro against Counterfeiting held in The Hague, organized by the OLAF, Europol and ECB.

As regards the activities on international cooperation, the Governor met with representatives of the World Bank mission and held a meeting with Mr. Aleksandar Pejović, Montenegro's Chief Negotiator with the EU.