

Summary of the Governor's Report – July 2013

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The Governor's Report for July 2013 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 2013 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2013, on a monthly basis.

Activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2013.

According to preliminary data provided by Monstat, GDP in Q1 and Q2 2013 remained unchanged in relation to Q1 and Q2 2012. It recorded a real growth of 1.1% and 3.4%, respectively. The growth came as a result of positive activities in most economic sectors, but it was also influenced by a low base from Q1 2012.

In July 2013, prices recorded a monthly increase of 0.7%, while the annual inflation rate in July amounted to 2.7%.

In the first seven months of 2013, the industrial output recorded a y-o-y increase of 9.6%. The growth was recorded in the electricity, gas and steam supply sector (69.6%), and in the mining and quarrying sector (7.6%), while there was a decline in the sector of manufacturing industry (20.6%).

The number of tourist arrivals in the first seven months of 2013 increased by 1.2%, while the number of overnight stays recorded y-o-y decline by 0.4%. According to Monstat data, the air passenger transport recorded a y-o-y increase of 12.3% during the first seven months of 2013, while the air cargo transport recorded a decline of 2.5%. In Q2 2013, railway passenger transport increased by 10.8% while railway cargo transport recorded a 33% increase compared to Q2 2012. In Q2 2013, road passenger transport recorded a y-o-y increase by 6.0% while road cargo transport increased by 83.3%. During the first seven months in 2013, forestry production recorded y-o-y increase of 25.4%. During the first six months of 2013, according to preliminary Monstat data, construction recorded y-o-y increase of 29.9%. Turnover in retail trade (at current prices) recorded the y-o-y increase of 9.4% in the first seven months of 2013.

In July, the average number of employed persons amounted to 178,815, which is a decline of 0.6% on a monthly level and an increase of 3.3% on an annual level. In July 2013, the number of unemployed persons amounted to 30,102, which is 0.8% less compared to the previous month and 4.8% more compared to July 2012.

Out of 54,527 legal persons and entrepreneurs, at end-July 2013, accounts of 12,491 or 22.9% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.1%. The total amount of debt being the basis for freezing of accounts was EUR 436.8 million showing a monthly increase of 0.9%. On 31 July 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 23.5% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 47.8% of the total debt being the basis for freezing of accounts.

In line with the new Decision on Minimum Standards for Credit Risk Management in Banks* new decisions have been adopted, including Decision on Chart of Accounts for Banks** and Decision of Reports to be Submitted to the Central Bank of Montenegro***.

The most significant change, caused by the application of International Accounting Standards, refers to the introduction of accounts for recording value impairments of balance assets items, new definitions

of financial instruments and reclassification of balance positions in line with International Accounting Standards.

The data for 2009-2012 was revised in accordance with the abovementioned changes.

At end-July, total assets and liabilities increased by 6.3% compared to end-2012. In terms of the structure of aggregate balance assets of banks, total loans and other receivables make up the dominate share, which were 7% higher at end-July 2013 in relation to December. It is necessary to note that this increase was partially conditioned by the application of international accounting standards. In terms of the structure of liabilities, deposits make up the dominate share. The share of deposits in the structure of liabilities increased by 0.6% in relation to the previous month, and accounted for 69.5% of total liabilities. At end-July 2013 deposits amounted to EUR 2,075 million which is 3.3% more compared to the previous month and 4.8% more compared to end-December 2012. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,192.9 million or 57.5%, while corporate deposits accounted for EUR 576.2 million or 27.8%. At end-July 2013, total capital of banks amounted to EUR 411.1 million, which is EUR 122.4 million (i.e. 42.4%) more in relation to end-2012.

In July, past due loans and other receivables**** amounted to EUR 574.3 million and declined by 1.2% in relation to the previous month. In July, non-performing loans and other receivables**** increased by 1.3% in relation to the previous month, which made up 17.8% of total loans and other receivables.

The weighted average lending effective interest rate (WALEIR) on new loans amounted to 10.33% in July 2013, showing an increase of 0.03 percentage points on a monthly level and an increase of 0.95 percentage points in relation to end-2012. The weighted average depositing interest rate (WADIR) amounted to 2.93% in July 2013, showing a decline of 0.30 percentage points in relation to December 2012, while it recorded a decline of 0.06 percentage points on a monthly level.

Total amount of new loans in the banking sector, for the first seven months of 2013, amounted to EUR 400.2 million.

At end- July 2013, reserve requirement of banks amounted to EUR 192.8 million, which is an increase of EUR 5.8 million or 3% in relation to December 2012 as well as in relation to June 2013. Of the total amount of allocated reserve requirements, some 30.2% was allocated to the account of reserve requirement in the country, 33.9% in the form of T-bills, and 35.9% to the CBCG account held abroad. In July 2013, all banks allocated and maintained reserve requirements within prescribed limits, except for one bank that allocated lower level of reserve requirements by EUR 8 thousand. None of the banks exploited the option to use up to 50% of reserve requirements in order to maintain liquidity.

Gross insurance premium amounted to EUR 6.6 million, at end- July 2013. Non-life insurance premiums still accounted for the main share in its structures with 88.7%, while invoiced life insurance premiums accounted for the remaining 11.3%.

In July 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 1.6 million, through 436 transactions. The generated turnover was 34.7 times lower in relation to June 2013. The MONEX20 index, whose value at end- July 2013 amounted to 9,334.97 index points, recorded a decline in relation to the end of the previous month by 5.1%, while investment fund index MONEXPIF declined by 9.3% and amounted to 2.336.71. Market capitalisation, as at 31 July 2013 amounted to EUR 2.8 billion.

Montenegrin fiscal deficit in July 2013, according to the Ministry of Finance estimate, amounted to EUR 37.6 million, while in July 2012 there was a surplus in the amount of EUR 26.5 million. In the first seven months in 2013, budget deficit amounted to EUR 119.6 million, i.e. 3.4% of the estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 122 million, or 3.5% of GDP, which is 5.6% higher than the plan for July. Budget expenditures amounted to EUR 159.6 million or 4.5% of GDP, which is 52.4% more in relation to the plan for July 2013 and 52.9% more compared to realised expenditures in July 2012.

At end-July 2013, Montenegro's public debt amounted to EUR 1,810.4 million or 51.5% of GDP. In the public debt structure, EUR 442.8 million or 12.6% of GDP referred to internal debt, while external debt accounted for EUR 1,367.6 million or 38.9% of GDP.

As per preliminary data, in H1 2013, the current account deficit recorded a 14.2% y-o-y decrease, amounting to EUR 420.3 million. The goods account recorded a decline of visible foreign trade due to a decline of import by 4.5%, along with an increase of export of goods by 7.9%, which resulted in a y-o-y decline of foreign trade deficit by 8%. According to preliminary data, net FDI inflow for the period January-July 2013 amounted to EUR 183.4 million, which is a y-o-y decrease of 13.5%.

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, and the activities regarding the Central Bank's role as a fiscal agent were also performed successfully. RTGS and DNS systems availability was 99.66%.

In July, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegrin accession to the EU. Activities aimed at improving information system of the Central Bank of Montenegro were continued. General public was timely informed, in line with the highest transparency standards, about the activities, goals and results of CBCG's operations. This was done by means of press releases and publications, web presentations and media appearances. On its website, the Central Bank continued to publish the data on legal entities and entrepreneurs with frozen accounts in the amount above EUR 10,000 for a continuous period exceeding 30 days, in accordance with the adopted Law Amending the Law on National Payment System.

In July, Governor's engagement in the international cooperation included a meeting with the executive director of Dutch Constituency in the World Bank, as well with the president of EBRD and other senior officials of this institution.

* OGM, No. 22/12, 55/12.

** OGM, No. 55/12.

*** OGM, No. 64/12.

**** Without interests and payments and accruals.