

Summary of the Governor's Report – June 2013

Updated: 08.11.2013

The Governor's Report for June 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 recorded a y-o-y 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 June 2013, prices recorded a monthly increase of 0.6%, while the annual inflation rate in June amounted to 2.2%.

In H1 2013, the industrial output recorded a y-o-y increase of 10.4%. The growth was recorded in the electricity, gas and steam supply sector (84.1%), and in the mining and quarrying sector (9.7%), while there was a decline in the sector of manufacturing industry (25.6%).

The number of tourist arrivals in the first six months of 2013 increased by 6%, while the number of overnight stays recorded y-o-y increase by 4.2%. The air passenger transport recorded a y-o-y increase of 9.4% during the first six months of 2013, while the air cargo transport recorded a decline of 1.7%. 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 of 6 % while road cargo transport increased by 83.3%. During the first six months in 2013, forestry production recorded y-o-y increase of 57.3%. In Q2 2013, according to preliminary Monstat data, construction recorded y-o-y increase of 26.8%. Turnover in retail trade (at current prices) recorded the y-o-y increase of 8.9% in the first six months of 2013.

In May, the average number of employed persons amounted to 179,861, which is an increase of 3.2% on a monthly level and an increase of 10.6% on an annual level. In June 2013, the number of unemployed persons amounted to 30,337, which is 3.3% less compared to the previous month and 3.1% more compared to June 2012.

Out of 54,077 legal persons and entrepreneurs, at end-June 2013, accounts of 12,480 or 23.1% were frozen. In relation to the previous month, there is a slight positive tendency. The total amount of debt being the basis for freezing of accounts was EUR 432.7 million showing a monthly decline of 1.5%. On 30 June 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 23.6% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 47.51% 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 (OGM, No. 22/12, 55/12) new decisions have been adopted, including Decision on Chart of Accounts for Banks (OGM, No. 55/12) and Decision of Reports to be Submitted to the Central Bank of Montenegro (OGM, No. 64/12).

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-June, total assets and liabilities increased by 3.8% 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 4.9% higher at end-June 2013 in relation to December 2012. 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 (68.9%). At end-June 2013 deposits amounted to EUR 2,009.7 million which is 1.8% more compared to the previous month and 1.5% more compared to end-December 2012. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,164.7 million or 58%, while corporate deposits accounted for EUR 539.3 million or 26.8%. At end-June 2013, total capital of banks amounted to EUR 405.9 million, which is EUR 117.2 million (i.e. 40.6%) more in relation to end-2012.

In June, past due loans and other receivables* amounted to EUR 581 million and declined by 8.8% in relation to the previous month. In June, non-performing loans and other receivables* declined by 10.5% in relation to the previous month, which made up 18% of total loans and other receivables.

The weighted average lending effective interest rate (WALEIR) on new loans amounted to 9.43% in June 2013, showing a decline of 0.01 percentage points on a monthly level and a decline of 0.04 percentage points in relation to end-2012. The weighted average depositing interest rate (WADIR) amounted to 2.99% in June 2013, showing a decline of 0.24 percentage points in relation to December 2012, while it recorded a decline of 0.07 percentage points on a monthly level.

Total amount of new loans in the banking sector, for the first six months of 2013, amounted to EUR 343 million.

At end- June 2013, reserve requirement of banks amounted to EUR 187.1 million, which is approximately at the same level as in December 2012. In relation to May 2013, reserve requirements increased by EUR 2.5 million, i.e. 1.3%. Of the total amount of allocated reserve requirements, some 35.8% was allocated to the account of reserve requirement in the country, 33.9% in the form of T-bills, and 30.3% to the CBCG account held abroad. In June 2013, all banks allocated and maintained reserve requirements within prescribed limits, and did not exploited the option to use up to 50% of reserve requirements in order to maintain liquidity.

Gross insurance premium amounted to EUR 7.2 million, at end-June 2013. Non-life insurance premiums still accounted for the main share in its structures with 86.3%, while invoiced life insurance premiums accounted for the remaining 13.7%.

In June 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 2.4 million, through 446 transactions. The generated turnover was 2.3 times higher in relation to May 2013. The reason for the large monthly increase was the trade of shares of Crnogorski telekom, with a total value of EUR 1.5 million. The MONEX20 index, whose value at end-June 2013 amounted to 9,847.43 index points, recorded an increase in relation to the end of the previous month by 5.3%, while investment fund index MONEXPIF increased by 18.5%. Market capitalisation, as at 30 June 2013 amounted to EUR 2.8 billion.

Montenegrin fiscal deficit in June 2013, according to the Ministry of Finance estimate, amounted to EUR 1 million, while in June 2012 there was a deficit in the amount of EUR 3.8 million. In the first six months in 2013, budget deficit amounted to EUR 79.6 million, i.e. 2.3% of the estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 99.5 million, or 2.8% of GDP, which is 1.5% lower than the plan for June. Budget expenditures amounted to EUR 100.5 million or 2.9% of GDP, which is 3.3% less in relation to the plan for June 2012 and 0.7% more compared to realised expenditures in June 2012.

At end- June 2013, Montenegro's public debt amounted to EUR 1,760.9 million or 50.1% of GDP. In the public debt structure, EUR 442.7 million or 12.6% of GDP referred to internal debt, while external debt accounted for EUR 1,318.2 million or 37.5% of GDP.

As per preliminary data, during the period January-June 2013, the current account deficit recorded a 14.2% y-o-y decrease, amounting to EUR 420.3 million. In Q2 2013, goods account deficit amounted to EUR 618.3 million, or 8.1% less in relation to 2012, which comes as a result of increased export of goods by 7.9% with a decline of import by 4.5%. According to preliminary data, net FDI inflow for the period January-June 2013 amounted to EUR 150.9 million, which is a y-o-y decrease of 1.5%. Total FDI inflow amounted to EUR 195.7 million, while at the same time there was an outflow in the amount of EUR 44.7 million.

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 100%.

In June, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegrin accession to the EU. In this respect, the representatives of the Central Bank in negotiating groups for Chapter 18 – Statistics, attended explanatory and bilateral meetings with the representatives of the European Commission in Brussels. Also, the representatives of the Central Bank in negotiating groups for Chapter 9 – Financial services, attended bilateral meetings with the representatives of the European Commission in Brussels. For the purpose of bilateral screening for Chapter 9 – Financial services, the following documents have been prepared and submitted to the European Commission: transposition tables for directives 2006/48EC, 2006/49EC and 2001/24, part of the answers to European Commission's Questionnaire, presentation of compliance of legislation with the Directive 2001/24. Information necessary for preparing Annexes of CBCG for European Commission's Progress Report for chapters 17 and 18, for the period up to May 2013, was submitted. Also CBCG representatives participated in the first meeting of the working group on drafting Montenegro's accession programme to European Union.

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 June, Governor's engagement in the international cooperation included attending 83rd Annual General Meeting of the Bank for International Settlement in Basel, Switzerland. In addition to this, there was a meeting with the Governor of the National Bank of the Republic of Macedonia, where a Protocol on cooperation between the two central banks was signed, as well as a meeting with the Deputy Director of the Bundesbank's Technical Central Bank Cooperation.

* Position reported without interests and prepayments and accruals