

Summary of the Governor's Report – September 2013

Updated: 31.01.2014

The Governor's Report for September 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 data provided by Monstat, positive activities were recorded by almost all economic sectors which resulted in real growth of GDP in both quarters. However, it should be noted that the growth was partly influenced by a low base from 2012, especially by low economic activity in Q1 2012, which was caused by bad weather.

In September 2013, prices recorded a monthly increase of 0.1%, while the annual inflation rate amounted to 1.8%.

In the first nine months of 2013, the industrial output recorded a y-o-y increase of 8.8%. The growth was recorded in the electricity, gas and steam supply sector (58.5%), and in the mining and quarrying sector (1.1%), while there was a decline in the sector of manufacturing industry (14.9%).

The number of tourist arrivals in the first nine months of 2013 increased by 3%, while the number of overnight stays recorded a y-o-y increase of 2.3%. During this period, the air passenger transport recorded a y-o-y increase of 15.6%, while the air cargo transport recorded a decline of 3.3%. During the first nine months (three quarters) of 2013, railway passenger transport increased by 10% while railway cargo transport recorded a 26.6% increase compared to the same period of 2012. During the first nine months of 2013, road passenger transport recorded a y-o-y increase of 3.5% while road cargo transport increased by 55.2%.

During the first nine months of 2013, production of wood products amounted to 188.326m³, which represents a y-o-y increase of 19.5%. This is partly a result of extremely low base from the first two months of 2012. During the first nine 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 10.3% in the first nine months of 2013.

In September, the average number of employed persons amounted to 171.440, which is a decline of 2.9% on a monthly level and an increase of 0.9% on an annual level. In September 2013, the number of unemployed persons amounted to 30,919, which is 0.1% less compared to the previous month and 9.4% more compared to September 2012.

Out of 54,119 legal persons and entrepreneurs, at end-September 2013, accounts of 12,449 or 23% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs declined by 1.2%. Positive tendency was recorded by the total amount of debt being the basis for freezing of accounts which amounted to EUR 421 million, showing a monthly decrease of 3.9%. On 30 September 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 22.1% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 46.5% of the total debt being the basis for freezing of accounts.

At end-September, total assets and liabilities increased by 9.3% 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 8.3% higher at end-September 2013 in relation to December 2012. It is

necessary to note that this increase of loans was partially conditioned by the application of international accounting standards. Total amount of new loans in the banking sector for the first nine months of 2013 amounted to EUR 563.7 million.

In terms of the structure of liabilities, deposits make up the dominate share of 70.8%. At end-September 2013, deposits amounted to EUR 2,172.9 million, which is 1.3% more in relation to the previous month. Deposits in banks increased by 9.7% compared to end-December 2012. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,222.9 million or 56.3%, while corporate deposits accounted for EUR 630.3 million or 29%. At end-September 2013, total capital of banks amounted to EUR 426.5 million, which is EUR 137.8 million (i.e. 47.7%) more in relation to end-2012.

In September, past due loans and other receivables (without interests and payments and accruals) amounted to EUR 524.5 million and declined by 6.5% in relation to the previous month. At end-September 2013, non-performing loans and other receivables (without interests and payments and accruals) declined by 0.1% in relation to the previous month, which made up 17.4% of total loans and other receivables.

The weighted average lending effective interest rate (WALEIR) on total approved loans amounted to 9.31% in September 2013, showing a decrease of 0.02 percentage points on a monthly level and a decrease of 0.16 percentage points in relation to December 2012. The weighted average depositing interest rate (WADIR) amounted to 2.73% in September 2013, showing a decline of 0.10 percentage points on a monthly level, while it recorded a decline of 0.50 percentage points in relation to December 2012.

At end-September 2013, reserve requirement of banks amounted to EUR 201.9 million, which is 1.2% more compared to August 2012. In relation to December 2012, reserve requirements increased by 7.9%. Of the total amount of allocated reserve requirements, some 45.6% was allocated to the CBCG account held abroad, 27.2% to the account of reserve requirement in the country, and 27.2% in the form of T-bills. In September 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 5.6 million, at end-September 2013. Non-life insurance premiums still accounted for the main share in its structure with 85.2%, while invoiced life insurance premiums accounted for the remaining 14.8%.

In September 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 4 million, through 577 transactions. Market capitalisation, as at 30 September 2013 amounted to EUR 2.8 billion, thus recording a monthly increase of 1.7%. The MONEX20 index, whose value at end-September 2013 amounted to 9,084.84 index points, recorded an increase in relation to the end of the previous month by 3.1%, while investment fund index MONEXPIF increased by 0.6% and amounted to 2,832.94.

Montenegrin fiscal deficit in September 2013, according to the Ministry of Finance estimate, amounted to EUR 0.9 million, while in September 2012 there was a deficit in the amount of EUR 21.9 million. In the nine months in 2013, budget deficit amounted to EUR 138.2 million, i.e. 3.9% of the estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 116.4 million, or 3.3% of GDP, which is 17.3% higher than the plan for September. Budget expenditures amounted to EUR 117.3 million or 3.3% of GDP, which is 11.7% more in relation to the plan for September 2013 and 0.4% lower compared to realised expenditures in September 2012.

At end-September 2013, Montenegro's public debt amounted to EUR 1,844.8 million. In the public debt structure, EUR 480.9 million referred to internal debt, while external debt accounted for EUR 1,363.9.

As per preliminary data, in the period January-September 2013, the current account deficit recorded a 29.1% y-o-y decrease, amounting to EUR 231.7 million. The goods account recorded a decline of visible foreign trade due to a decline of import by 4.1%, along with an increase of export of goods by

3.8%, which resulted in a y-o-y decline of foreign trade deficit by 6.3%. According to preliminary data, net FDI inflow for the period January-September 2013 amounted to EUR 275.6 million, which is a y-o-y decrease of 14.8%.

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 September, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Draft Report on Negotiation Chapter 17 – Economy and Monetary Policy Financial services was prepared. Also, additional questions under the jurisdiction of the WG 9 - Financial Services were prepared and forwarded to EC, and representatives of the CBCG participated in preparing a part of the Montenegro's EU Accession Programme within WG 9, 17 and 18.

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 September, Governor's engagement in the international cooperation included participation at the meeting of the Central Bank Governor's Club of the Central Asia, Black Sea Region and Balkan Countries, held in Yerevan, as well as participation at the high-level Conference on current economic developments in South-East Europe, regional cooperation and reforms necessary for European integrations, held in Tirana. Also, the Governor was present at the ceremony of signing of the Agreement on Establishing the Centre of Excellence in Finance (CEF) as an international organisation in Bled, Slovenia.