

Summary of the Governor's Report – April 2014

Updated: 01.09.2014

The Governor's Report for April 2014 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 2014 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2014, 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 2014.

In 2013, according to preliminary Monstat data, gross domestic product of Montenegro increased by 3.5%. According to the Ministry of Finance 2014 estimates, the real growth will amount to 3.5%.

In April 2014, prices declined by 0.2% in relation to the previous month, while the annual inflation rate in April was negative and amounted to -1.4%.

In the first four months, the industrial output recorded a y-o-y decrease of 11.1%. The decline was recorded in the electricity, gas and steam supply sector (30.4%), while there was growth in the mining and quarrying sector (32.5%) and in the sector of manufacturing industry (13.3%). According to preliminary Monstat data, during the first four months of 2014, the number of tourist arrivals recorded a y-o-y increase of 5.6%, while the number of overnight stays increased by 5.8%. In Q1 2014, the air passenger transport recorded a y-o-y increase of 5.1% and the air cargo transport also increased by 5.1%. During this period, railway passenger transport recorded a y-o-y increase of 49.4%, and railway cargo transport increased by 49.1%, while the road passenger transport increased by 31.2%.

During the first four months of 2014, production of wood products amounted to 29.756 m3, which is a decrease of 2.4% in relation to the same period of 2013. In Q1 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 13.2%, measured by effective working hours.

In April 2014, the number of employed persons amounted to 172,202, which is an increase of 1.2% compared to the previous month and 1.1% more in relation to April 2013. In April 2014, the number of unemployed persons amounted to 33,906, which represents a decline of 2.2% in relation to the previous month and an increase of 3.9% compared to April 2013.

Out of 57,533 legal persons and entrepreneurs, at end-April 2014, accounts of 13,473 or 23.4% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.1%. At end-April, total amount of debt being the basis for freezing of accounts amounted to 488.9 million euros, showing a monthly increase of 1.5%.

On 30 April 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 21.7% of the total debt. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 46.9% of the total debt being the basis for freezing of accounts.

At end-April 2014, total assets and liabilities decreased by 0.5% compared to the previous month and amounted to 2,954 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.8% lower in relation to March 2013 and 1.1% lower in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 70.9%. In April 2014, deposits amounted to 2,094.8 million euros, which represents a monthly decrease of 0.4% and a decrease of 0.1% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for 533 million euros or 25.4%, while household deposits accounted for 1,247.8 million

euros or 59.6%. At end-April 2014, total capital of banks amounted to 425.4 million euros, which is 0.9% more in relation to the previous month and a y-o-y increase of 6.9%.

In April, past due loans (without interests and prepayments and accruals) amounted to 494.1 million euros, which is a decrease of 11.2% in relation to the previous month. At end-April 2014, non-performing loans (without interests and prepayments and accruals) amounted to 406.1 million euros and made up 17% of total loans. In relation to the previous month, non-performing loans increased by 3.1% while they increased by 4% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.45% in April 2014, which represents a monthly increase of 0.03 percentage points, while in relation to December 2013 it recorded an increase of 0.09 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.31% in April 2014, showing a decline of 0.03 percentage points on a monthly level, while it recorded a decline of 0.23 percentage points in relation to end-2013.

At end-April 2014, reserve requirement of banks amounted to 195.9 million euros, which is 0.2% less compared to the previous month, while in relation to end-2013, reserve requirements decreased by 0.5%. In April, nine banks used the possibility to allocate a part of their reserve requirements in the form of T-bills. Of the total amount of allocated reserve requirements, some 45.3% was allocated to the CBCG account held abroad, 30.8% in the form of T-bills, and 23.9% to the account of reserve requirement in the country. During April 2014, all banks allocated and maintained reserve requirements within prescribed limits, and did not exploit the option to use up to 50% of reserve requirements in order to maintain liquidity.

According to the preliminary information by the Insurance Supervision Agency, the gross insurance premium amounted to 6.1 million euros, at end-April 2014. Non-life insurance premiums still accounted for the main share in its structure with 83.5%, while invoiced life insurance premiums accounted for 16.5%.

In April 2014, Montenegro stock exchange recorded a turnover in the amount of 1.9 million euros, which is several times less in relation to the previous month, when turnover was unusually large due to the issuance of government bonds. The total trade was realised through 542 transactions. Market capitalisation, as at 30 April 2014 amounted to EUR 3 billion, thus recording a monthly increase of 2.4%. The MONEX20 index decreased in relation to the end of the previous month by 0.9%, while investment fund index MONEXPIF decreased by 8.4%.

In April 2014, Montenegrin fiscal deficit amounted to 13.6 million euros, while in April 2013 there was a deficit in the amount of 15.7 million euros. For the four months of 2014, budget deficit amounted to 59.1 million euros, i.e. 1.7% of estimated GDP. Current revenues of the budget of Montenegro amounted to 108.7 million euros, which represents an increase of 1.6% in relation to the plan for April. In relation to current revenues recorded in April 2013, there was an increase of 4.4%. Budget expenditures amounted to 122.3 million euros or 9.7% more in relation to the plan for April 2014, and 2% more in relation to April 2013. In April 2014, capital budget amounted to 3.1 million euros.

As per preliminary data, the current account deficit amounted to 184 million euros which represents a y-o-y decline of 4.7%. In Q1 2014, deficit in the goods account amounted to 258 million euros and was approximately at the same level as in 2013. There was a surplus in the services account in the amount of 13.8 million euros, as well as in other sub-accounts of factor income and current transfers in the amount of 60.1 million euros (compared to 59.9 million euros in the previous year). In the period January-April 2014, as per preliminary data, net FDI inflow amounted to 94.5 million euros which is 14.4% more in relation to the same period of 2013.

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. The activities regarding the Central Bank's role as a fiscal agent were performed successfully. RTGS and DNS systems availability was 100%.

Macroeconomic report of the CBCG for 2013 was prepared.

In April, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The CBCG representatives participated at the meeting of the Committee for European Integrations, where they discussed the implementation of the planned activities for Chapters 4, 9 and 17 in line with the Montenegro's Accession Programme 2014-2018. The CBCG representatives also took part at the preparatory meeting for Ministerial Meetings where participants revised draft of the conclusions for the upcoming ministerial dialogue attended by the ministers of economy and finance in the EU and candidate countries, held in Brussels. Within the working group for Negotiation Chapter 9 – Financial Services, the fifth and sixth meeting of the coordinators of working teams were held, where participants discussed the European Commission experts' comments to the first draft of the negotiation position for Chapter 9 in the part referring to rejection of transition period for implementation of the Solvency II Directive and the Directive 2003/41/EC, as well as requests for implementation of directives that are expected to be adopted in June 2014, at the EU level. The CBCG representatives participated in the meeting of the working group for Chapter 20 – Enterprise and Industrial policy, related to the screening report and preparation for negotiation position for Chapter 20. Meeting of the working group for Chapter 4 – Free Movement of Capital was organised, and the final draft of the report for this chapter was prepared. The representatives of the CBCG took part at the fifth meeting of the working group for Chapter 32, aimed at presentation of the screening report, the negotiation position that was submitted to the EC, as well as further activities in the negotiation process for this chapter.

The general public was informed timely and 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. The Central Bank has continued to publish information on its website on legal entities and entrepreneurs whose accounts are frozen in the amount exceeding 10,000 euros for a continuous period exceeding 30 days, in line with the Law on Amendments to the Law on the National Payment System.