

Summary of the Governor's Report – August 2014

Updated: 28.10.2014

The Governor's Report for August 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.

In August, 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 final Monstat data, gross domestic product of Montenegro increased by 3.3%, while in Q1 and Q2 2014 it increased y-o-y by 1.5% and 0.3%, respectively.

In August 2014, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in August amounted to -1.1%.

In the first eight months, the industrial output recorded a y-o-y decrease of 15.1%. The decline was recorded in the electricity, gas and steam supply sector (29.8%), and in the sector of manufacturing industry (3.8%), while there was growth in the mining and quarrying sector (20.6%). During the first eight months of 2014, the number of tourist arrivals recorded a y-o-y increase of 1.1%, while the number of overnight stays increased by 1.2%. During the first six months of 2014, according to Monstat data, the air passenger transport recorded a y-o-y increase of 5.6% and the air cargo transport increased by 8.1%. During this period, railway passenger transport recorded a y-o-y increase of 41.6%, and railway cargo transport increased by 16.5%. During the first six months of 2014, the road passenger transport recorded a y-o-y increase of 21.2%.

During the first eight months of 2014, production of wood products amounted to 151.739 m³, which is an increase of 4.6% in relation to the corresponding period of 2013. During the first six months of 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 7.9%, measured by effective working hours.

In August 2014, the average number of employed persons amounted to 178,558, which is a decrease of 1.6% compared to the previous month and 1.1% more in relation to August 2013. In August 2014, the number of unemployed persons amounted to 31,163, which represents an increase of 0.2% in relation to the previous month and an increase of 0.7% compared to August 2013.

Out of 60,390 legal persons and entrepreneurs, at end-August 2014, accounts of 13,774 or 22.8% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.9%. At end-August, total amount of debt being the basis for freezing of accounts amounted to 462.5 million euros, showing an increase of 3.8% in relation to end-June.

On 31 August 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 14% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 39.3% of the total debt being the basis for freezing of accounts.

At end-August 2014, total assets and liabilities increased by 2.6% compared to the previous month and amounted to 3,124.1 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 2.1% higher in relation to July 2014 and 1.6% higher in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 72.2%. In August 2014, deposits in banks amounted to 2,254.5 million euros, which represents a monthly increase of 3% and

an increase 7.5% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for 639.4 million euros or 28.4%, while household deposits accounted for 1,288.5 million euros or 57.2% of total deposits. At end-August 2014, total capital of banks amounted to 440.3 million euros, which is 2.3% more in relation to the previous month and a y-o-y increase of 10.7%.

In August, past due loans (without interests and prepayments and accruals) amounted to 524.8 million euros, which is a decrease of 1.6% in relation to the previous month. At end-August 2014, non-performing loans (without interests and prepayments and accruals) amounted to 422.4 million euros and made up 17.2% of total loans. In relation to the previous month, non-performing loans increased by 1.2% while they decreased by 0.2% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.31% at end-August 2014, which represents a monthly decrease of 0.24 percentage points, while in relation to December 2013 it recorded a decline of 0.05 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.01% at end-August 2014, showing a decline of 0.07 percentage points in relation to the previous month, while it recorded a decline of 0.53 percentage points in relation to end-2013.

At end-August 2014, reserve requirement of banks amounted to 208.3 million euros, which represents a monthly decline of 5.1 million euros or 2.5%, while in relation to end-2013, reserve requirements increased by 11.4 million euros or 5.8%. In August, three banks did not use 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 44.3% was allocated to the CBCG account held abroad, 21.4% in the form of T-bills, and 34.3% to the account of reserve requirement in the country. During August 2014, all banks allocated and maintained reserve requirements within prescribed limits.

According to the preliminary information by the Insurance Supervision Agency, the gross insurance premium amounted to 5.9 million euros, in August 2014. Non-life insurance premiums still accounted for the main share in its structure with 84.7%, while invoiced life insurance premiums accounted for the remaining 15.3%.

In August 2014, Montenegro stock exchange recorded a turnover in the amount of 3.7 million euros, through 490 transactions. The turnover was 80.8% higher in relation to the previous month. Market capitalisation, as at 31 August 2014 amounted to 3.1 billion euros, thus recording a monthly increase of 4.3%. The MONEX20 index, which amounted to 11,097.93 index points at end-August 2014, increased in relation to the end of the previous month by 8.2%, while investment fund index MONEXPIF amounted to 2,926.69 and recorded a monthly increase of 8.2%.

In August 2014, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 18.5 million euros, while in August 2013 there was a deficit in the amount of 16 million euros. For eight months of 2014, budget deficit amounted to 29.5 million euros, i.e. 0.9% of estimated annual GDP for 2014. Current revenues of the budget of Montenegro amounted to 126.6 million euros or 3.7% of estimated annual GDP, which represents an increase of 0.2% in relation to the plan for August. In relation to current revenues recorded in August 2013, there was an increase of 1%. Budget expenditures amounted to 108.1 million euros or 3.2% of estimated annual GDP which is 3.1% less in relation to the plan for August 2014, and 23.5% less in relation to August 2013. In August 2014, capital budget amounted to 7.5 million euros.

In the first six months of 2014, according to preliminary data, the current account deficit recorded a y-o-y increase of 5.6%, and amounted to 441.8 million euros. In the reporting period, deficit in the goods account increased by 3.5%, which came as a result of decreased export of goods by 20%. These trends were mostly contributed by the decrease of export of electricity and metal industry products. There was a surplus in the services account in the amount of 121.3 million euros or 11.6% more in relation to the corresponding period of 2013. In the primary and secondary income accounts, surplus amounted to 80.4 million euros. In the period January-August 2014, as per preliminary data, net FDI inflow amounted to 205.7 million euros which is 5.8% less in relation to the comparative 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 amounted to 100% in August 2014.

In August, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. As per request of the EU Delegation to Montenegro, the CBCG submitted requested information concerning Negotiation Chapters 4 and 9 about new developments in cooperation of Montenegro's institutions in the area of money laundering, as well as adoption of the Law on voluntary financial restructuring.

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.