

Summary of the Governor's Report – February 2014

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The Governor's Report for February 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%, while larger growth was recorded in Q3 (4%) and Q4 (4.7%) compared to the first two quarters.

In February 2014, prices remained unchanged in relation to the previous month, while the annual inflation rate in February was negative and amounted to -0.6%.

In the first two months, the industrial output recorded a y-o-y increase of 6.5%. The growth was recorded in the mining and quarrying sector (21.8%) and in the sector of manufacturing industry (29.6%), while there was a decline in the electricity, gas and steam supply sector (9.4%). During the first two months of 2014, the number of tourists recorded a y-o-y increase of 4.5%, while the number of overnight stays increased by 2.3%. In 2013, the air passenger transport recorded a y-o-y increase of 14.1% and air cargo transport increased by 0.3%, while at the same time the road passenger transport increased by 8.6% and road cargo transport increased by 71.9%. In 2013, railway passenger transport recorded a y-o-y increase of 18.1%, and railway cargo transport increased by 53.6%.

In February 2014, production of wood products amounted to 4,422 m³, which is an increase of 26.1% in relation to February 2013. During 2013, according to preliminary Monstat data, construction recorded a y-o-y increase of 31.5%, measured by effective working hours.

In February 2014, the number of employed persons amounted to 168,805, which is an increase of 0.7% compared to the previous month and 0.9% more in relation to February 2013. In February 2014, the number of unemployed persons amounted to 34,664, which represents a decline of 0.4% compared to the previous month and 6.2% more compared to February 2013.

Out of 56,173 legal persons and entrepreneurs, at end-February 2014, accounts of 13,340 or 23.75% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 1.4%. At end-February, total amount of debt being the basis for freezing of accounts amounted to EUR 462.8 million, showing a monthly increase of 3.3%. On 28 February 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 21% of the total debt. Moreover, the top 50 debtors (0.37% of total recorded debtors) accounted for 46.2% of the total debt being the basis for freezing of accounts.

At end-February 2014, total assets and liabilities increased by 0.5% compared to the previous month and amounted to EUR 2,971.2 million. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.3% higher in relation to January 2014.

In terms of the structure of liabilities, deposits make up the dominate share of 70.7%. In February 2014, deposits amounted to EUR 2,101.7 million, which represents a monthly increase of 0.2% and an increase of 5.6% compared to February 2013. Out of the total amount of deposits, corporate deposits accounted for EUR 549.6 million or 26.1%, while household deposits accounted for EUR 1,236.4 million or 58.8%. At end-February 2014, total capital of banks amounted to EUR 417.8 million, which is EUR 0.6% more in relation to the previous month and a y-o-y increase of 6.2%.

In February, past due loans (without interests and payments and accruals) amounted to EUR 517.3 million, which is a decline of 4.2% in relation to the previous month. At end-February 2014, non-performing loans (without interests and payments and accruals) amounted to EUR 426.3 million and made up 17.7% of total loans. In relation to the previous month, non-performing loans increased by 0.2%.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.42% in February 2014, or 0.02 percentage points more in relation to the previous month, while in relation to February 2013 it recorded a decline of 0.03 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.45% in February 2014, showing an increase of 0.04 percentage points on a monthly level, while it recorded a decline of 0.72 percentage points in relation to February 2013.

At end-February 2014, reserve requirement of banks amounted to EUR 197.3 million, which is 0.6% higher compared to the previous month, while in relation to February 2013, reserve requirements increased by 5.3%. In February, 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 46.9% was allocated to the CBCG account held abroad, 33.4% to the account of reserve requirement in the country, and 22.7% in the form of T-bills. During February 2014, 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.

According to the preliminary information by the Insurance Supervision Agency, the gross insurance premium amounted to EUR 4.5 million, at end-February 2014. Non-life insurance premiums still accounted for the main share in its structure with 82.5%, while invoiced life insurance premiums accounted for 17.5%.

In February 2014, Montenegro stock exchange recorded a turnover in the amount of EUR 3.8 million, which is 29.3% less in relation to the previous month. The total trade was realised through 542 transactions. Market capitalisation, as at 28 February 2014 amounted to EUR 2.95 billion, thus recording a monthly increase of 2.2%. The MONEX20 index increased in relation to the end of the previous month by 6.7%, while investment fund index MONEXPIF declined by 4%.

In February 2014, Montenegrin fiscal deficit amounted to EUR 7.6 million, while in February 2013 there was a deficit in the amount of EUR 19 million. For the first two months of 2014, budget deficit amounted to EUR 31.3 million, i.e. 0.9% of estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 81.4 million, or 2.4% of GDP, which is 2% higher than the plan for February. In relation to current revenues recorded in February 2013, there was an increase of 7.5%. Budget expenditures amounted to EUR 89 million or 2.7% of the GDP, which represents a decline of 20.2% in relation to the plan for February 2014, and 6% less in relation to February 2013. In February 2014, capital budget amounted to EUR 0.7 million.

As per preliminary data, the current account deficit amounted to EUR 486.9 million or 14.6%, which represents a decline of 17.1% in relation to 2012. The decline of deficit came as a result of a decline of foreign trade deficit and positive trends in other sub-accounts of the current account. During the first two months of 2014, as per preliminary data, net FDI inflow amounted to EUR 45.9 million which is 76.1% or EUR 19.8 million 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%.

In February, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Additional information has been prepared for development of the Negotiation Position for Chapter 32 – Financial Control, in the part referring to the protection of the euro against counterfeiting. In relation to the reporting on Chapter 32, the EU Delegation to

Montenegro was presented with information about measures that were taken by Montenegro in respect of protection against counterfeiting. Also, the EU Delegation to Montenegro was informed about the regulation, which was adopted during the period October 2013-February 2014. An appropriate analysis was performed, aimed at identifying differences between directives that were used as basis for currently applicable primary and secondary banking legislation and the solutions contained in the new legislation of the European Union (Directive 2013/36 EU and Regulation (EU) No 575/2013). As per request of the Ministry of Foreign Affairs and European Integration, a CBCG's representative was appointed to the Committee on European Integration, a professional body for horizontal coordination of activities in the process of European integrations, which gives proposals and opinions to all documents relevant to the EU accession process. Activities on preparation of an Action document for project from IPA II (2014-2020) for financial services were carried out.

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.