

Summary of the Governor's Report – January 2014

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The Governor's Report for January 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.

During the first nine months of 2013, according to preliminary Monstat data, gross domestic product of Montenegro increased by 3.1%, while it increased by 4% in Q3 2013. According to the estimates of the Ministry of Finance for 2013, it is expected that the real growth will amount to 2.6%.

In January 2014, prices recorded a decline of 0.8% in relation to the previous month, while the annual inflation rate in January was negative and amounted to -0.4%. In January 2014, according to harmonised index of consumer prices, the annual inflation amounted to 0.1%, while the prices declined by 0.4% on a monthly level.

In January 2014, the total industrial output recorded a y-o-y increase of 7.4%. The growth was recorded in the mining and quarrying sector (13.8%) and in the sector of manufacturing industry (39.8%), while there was a decline in the electricity, gas and steam supply sector (12.2%). During 2013, the number of tourists recorded a y-o-y increase of 3.6%, while the number of overnight stays increased by 2.8%. 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 January 2014, production of wood products amounted to 3,599 m³, which is an increase of 111.1% in relation to January 2013. During 2013, according to preliminary Monstat data, construction recorded a y-o-y increase of 31.5%, measured by effective working hours.

In January 2014, the number of employed persons amounted to 167,616, which is an increase of 0.3% compared to the previous month and 0.1% more in relation to January 2013. In January 2014, the number of unemployed persons amounted to 34,804, which represents an increase of 0.8% compared to the previous month and 9.1% more compared to January 2013.

Out of 55,633 legal persons and entrepreneurs, at end-January 2014, accounts of 13,150 or 23.6% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 1.3%. At end-January, total amount of debt being the basis for freezing of accounts amounted to EUR 448 million, showing a monthly increase of 2.5%. On 31 January 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 21.2% of the total debt. Moreover, the top 50 debtors (0.38% of total recorded debtors) accounted for 45.1% of the total debt being the basis for freezing of accounts.

At end-January 2014, total assets and liabilities decreased by 0.1% compared to the previous month and amounted to EUR 2,957.5 million, while they increased by 2.9% on an annual level. In terms of the structure of aggregate balance sheet assets of banks, total loans and other receivables make up the dominate share, and were 0.3% lower in relation to December 2013, and 3% lower in relation to January 2013.

In terms of the structure of liabilities, deposits make up the dominate share of 70.9%. At end-January 2014, deposits amounted to EUR 2,096.7 million, which represents a slight decline of 0.05% in relation

to the previous month. Deposits in banks increased by 6.4% compared to end-January 2013. Out of the total amount of deposits, household deposits accounted for EUR 1,235.1 million or 58.9%, while corporate deposits accounted for EUR 554 million or 26.4%. At end-January 2014, total capital of banks amounted to EUR 415.3 million, which is EUR 4.4% more in relation to the previous month and 6.5% more in relation to January 2013.

In January, past due loans and other receivables (without interests and payments and accruals) amounted to EUR 540.1 million, which is an increase of 12.9% in relation to the previous month, while they declined by 7.3% in relation to January 2013. At end-January 2014, non-performing loans and other receivables (without interests and payments and accruals) made up 17.7% of total loans and other receivables. At end-January, non-performing loans and other receivables (without interests and payments and accruals) amounted to EUR 425.6 million, and recorded an increase of 0.6% in relation to the previous month, while they declined by 6.9% in relation to January 2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.40% in January 2014, or 0.04 percentage points more in relation to the previous month, while in relation to January 2013 it recorded a decline of 0.04 percentage points. At the same time, the weighted average effective interest rate (WAEIR) on new loans amounted to 9.88% in January 2014, or 0.5 percentage points more in relation to the previous month, while in relation to January 2013 it recorded a decline of 1.5 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.41% in January 2014, showing a decline of 0.13 percentage points on a monthly level, while it recorded a decline of 0.79 percentage points in relation to January 2013.

At end-January 2014, reserve requirement of banks amounted to EUR 196 million, which is 0.5% lower compared to December 2013, while in relation to January 2013, reserve requirements increased by 5.5%. In January, ten banks used the possibility to allocate a part of their reserve requirements in the form of T-bills (in the total amount of EUR 46.8 million). Of the total amount of allocated reserve requirements, some 39.3% was allocated to the CBCG account held abroad, 36.8% to the account of reserve requirement in the country, and 23.9% in the form of T-bills. During January 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 EUR 4.7 million, at end-January 2014. Non-life insurance premiums still accounted for the main share in its structure with 85.7%, while invoiced life insurance premiums accounted for the remaining 14.3%.

In January 2014, Montenegro stock exchange recorded a turnover in the amount of EUR 5.3 million, which is 18.5% more in relation to the previous month. The total trade was realised through 419 transactions. Market capitalisation, as at 31 January 2014 amounted to EUR 2.9 billion, thus recording a monthly increase of 1.6%. The MONEX20 index, whose value at end-January 2014 amounted to 10,123.88 index points, increased in relation to the end of the previous month by 2.8%, while investment fund index MONEXPIF declined by 5.3% and amounted to 3,232.51.

In January 2014, Montenegrin fiscal deficit amounted to EUR 23.5 million, while in January 2013 there was a deficit in the amount of EUR 26 million. Current revenues of the budget of Montenegro amounted to EUR 70.6 million, or 2% of the estimated GDP, which is 13% higher than the plan for January 2014. In relation to current revenues recorded in January 2013, there was an increase of 29%. Budget expenditures amounted to EUR 94.1 million or 2.7% of the GDP, which represents a decline of 15.5% in relation to the plan for January 2014, and 16.5% more in relation to January 2013.

As per preliminary data, the current account deficit amounted to EUR 486.9 million or 14.7%, which represents a decline of 17% in relation to 2012. The decline of deficit came as a result of foreign trade deficit and positive trends in other sub-accounts of the current account. In January 2014, net FDI inflow amounted to EUR 17 million or nearly 2.5 times more in relation to January 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 January, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Activities on development of the draft document of Montenegro's Negotiation Position for the Chapter 9 – Financial Services were initiated, as well activities on development of the draft document of the Negotiation Position for Chapter 18 – Statistics. Comments on the draft of a part of EC Screening Report for Chapter 17- Economy and Monetary Policy were prepared and submitted, on the request of the European Commission. Representatives of the CBCG participated in the public debate of the Committee on European integrations of the Parliament of Montenegro on the topic "Montenegro and European Union – Free Movement of Capital". Also, the CBCG representatives participated in the meeting of the Committee on European Integration of the Parliament of Montenegro where they discussed negotiation position of Montenegro for Chapter 4 – Free Movement of Capital.

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.