

## Summary of the Governor's Report – May 2014

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The Governor's Report for May 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 in Q1 2014 it increased by 1.7% in relation to Q1 2013. According to the Ministry of Finance 2014 estimates, the real growth will amount to 3.5%.

In May 2014, prices increased by 0.3% in relation to the previous month, while the annual inflation rate in May amounted to -1.3%.

In the first five months, the industrial output recorded a y-o-y decrease of 13.5%. The decline was recorded in the electricity, gas and steam supply sector (32.5%), while there was growth in the mining and quarrying sector (42.8%) and in the sector of manufacturing industry (7.1%). During the first five months of 2014, the number of tourist arrivals recorded a y-o-y increase of 4%, while the number of overnight stays increased by 0.1%. In Q1 2014, according to Monstat data, 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%. In Q1 2014, the road passenger transport increased by 31.2%.

During the first five months of 2014, production of wood products amounted to 50.988 m3, which is an increase of 0.2% 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 May 2014, the average number of employed persons amounted to 174,917, which is an increase of 1.6% compared to the previous month and 0.3% more in relation to May 2013. In May 2014, the number of unemployed persons amounted to 32,763, which represents a decline of 3.4% in relation to the previous month and an increase of 4.5% compared to May 2013.

Out of 58,224 legal persons and entrepreneurs, at end-May 2014, accounts of 13,632 or 23.4% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 1.2%. At end-May, total amount of debt being the basis for freezing of accounts amounted to 492.7 million euros, showing a monthly increase of 0.8%.

On 31 May 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 21.6% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 45.8% of the total debt being the basis for freezing of accounts.

At end-May 2014, total assets and liabilities increased by 0.8% compared to the previous month and amounted to 2,977.9 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.1% lower in relation to April 2013 and 1.3% lower in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 71%. In May 2014, deposits amounted to 2,114.3 million euros, which represents a monthly increase of 0.9% and an increase of 0.8% compared to end-2013. Out of the total amount of deposits, corporate deposits

accounted for 551.7 million euros or 26.1%, while household deposits accounted for 1,245.5 million euros or 58.9%. At end-May 2014, total capital of banks amounted to 427.1 million euros, which is 0.4% more in relation to the previous month and a y-o-y increase of 7.3%.

In May, past due loans (without interests and prepayments and accruals) amounted to 562.6 million euros, which is an increase of 13.9% in relation to the previous month. At end-May 2014, non-performing loans (without interests and prepayments and accruals) amounted to 417.6 million euros and made up 17.5% of total loans. In relation to the previous month, non-performing loans increased by 2.8% while they decreased by 1.3% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.51% in May 2014, which represents a monthly increase of 0.06 percentage points, while in relation to December 2013 it recorded an increase of 0.15 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.25% in May 2014, showing a decline of 0.06 percentage points in relation to the previous month, while it recorded a decline of 0.29 percentage points in relation to end-2013.

At end-May 2014, reserve requirement of banks amounted to 196.8 million euros, which represents a monthly decline of 870,854 euros or 0.4%, while in relation to end-2013, reserve requirements were approximately at the same level. In May, two 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 44.8% was allocated to the CBCG account held abroad, 31.5% in the form of T-bills, and 23.7% to the account of reserve requirement in the country. During May 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 5.9 million euros, at end-May 2014. Non-life insurance premiums still accounted for the main share in its structure with 81.9%, while invoiced life insurance premiums accounted for 18.1%.

In May 2014, Montenegro stock exchange recorded a turnover in the amount of 5.6 million euros, through 520 transactions. The turnover was three times larger in relation to the previous month, due to trade with government bonds in the amount of 3 million euros. Market capitalisation, as at 31 May 2014 amounted to 2.89 billion euros, thus recording a monthly decrease of 3.7%. The MONEX20 index, which amounted to 9,826.04 index points at end-May 2014, decreased in relation to the end of the previous month by 4.5%, while investment fund index MONEXPIF amounted to 3,032.94 and recorded a monthly increase of 4%.

In May 2014, Montenegrin fiscal deficit amounted to 0.7 million euros, while in May 2013 there was a deficit in the amount of 1.2 million euros. For the five months of 2014, budget deficit amounted to 58.4 million euros, i.e. 1.7% of estimated GDP for 2014. Current revenues of the budget of Montenegro amounted to 102.1 million euros or 2.9% of GDP, which represents an increase of 4.3% in relation to the plan for May. In relation to current revenues recorded in May 2013, there was an increase of 8.2%. Budget expenditures amounted to 101.4 million euros or 2.9% of GDP which is 9.1% less in relation to the plan for May 2014, and 6.1% more in relation to May 2013. In May 2014, capital budget amounted to 6.1 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 254.8 million euros and was approximately at the same level as in 2013. Export of goods declined by 17.2%, while import also declined by 6.2%. There was a surplus in the services account in the amount of 12.8 million euros, as well as in other sub-accounts of factor income and current transfers in the amount of 58.1 million euros (compared to 58.4 million euros in the previous year). In the period January-May 2014, as per preliminary data, net FDI inflow amounted to 124 million euros which is 6.6% more 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 was 100%.

In May, 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 in the Fifth Subcommittee Meeting for Internal Market and Competition which was held on 12 April in Brussels. When it comes to banking, participants discussed positions and open issues from the draft negotiation position for Chapter 9 for the intergovernmental conference on Montenegro's accession to the EU, as later reported at the request of the Ministry of Finance. A meeting was held with the Chief Negotiator regarding the common position of the EU for Chapter 4 and recommendations of the European Commission for opening Chapter 4. The CBCG representatives were involved in preparing Montenegro's negotiation position for Chapter 9, including the participation in the meeting of coordinators for the negotiation chapter 9. At the invitation of the Chief Negotiator, the CBCG representatives also took part in the meeting organised in the Ministry of Foreign Affairs and European Integration regarding the outstanding issues for Chapters 4, 9, 17 which fall under direct jurisdiction of the CBCG.

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.