

Summary of the Governor's Report – October 2014

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The Governor's Report for October 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 October, 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 October 2014, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in October amounted to -0.5%.

In the first ten months, the industrial output recorded a y-o-y decrease of 11%. The decline was recorded in the electricity, gas and steam supply sector (21.6%), and in the sector of manufacturing industry (3.3%), while there was growth in the mining and quarrying sector (8.6%). During the first ten months of 2014, the number of tourist arrivals recorded a y-o-y increase of 1.4%, the same as the increase of overnights. During the first nine months of 2014, according to Monstat data, the air passenger transport recorded a y-o-y decrease of 0.9% while the air cargo transport increased by 4.1%. During this period, railway passenger transport recorded a y-o-y increase of 27.4%, and railway cargo transport increased by 1.2%. During the first nine months of 2014, the road passenger transport recorded a y-o-y increase of 14.7%.

During the first ten months of 2014, production of wood products amounted to 238.958 m³, which is an increase of 5.5% in relation to the corresponding period of 2013. During the first nine months of 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 5.4%, measured by effective working hours.

In October 2014, the average number of employed persons amounted to 172,306, which is a decrease of 0.9% compared to the previous month and 1.9% more in relation to October 2013. In October 2014, the number of unemployed persons amounted to 33,744, which represents an increase of 6.8% in relation to the previous month and an increase of 1.4% compared to October 2013.

Out of 62,419 legal persons and entrepreneurs, at end-October 2014, accounts of 13,819 or 22.1% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 2.1%. At end-October, total amount of debt being the basis for freezing of accounts amounted to 482.6 million euros, showing an increase of 1.8% in relation to end-August.

On 31 October 2014, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 13.5% 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-October 2014, total assets and liabilities decreased by 0.8% compared to the previous month and amounted to 3,088.7 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 September 2014 and 0.4% higher in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 72.9%. In October 2014, deposits in banks amounted to 2,251.5 million euros, which represents a monthly decrease of 0.7%

and an increase 8.1% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for 634.2 million euros or 28.2%, while household deposits accounted for 1,299.3 million euros or 57.7% of total deposits. At end-October 2014, total capital of banks amounted to 443.8 million euros, which is 0.4% more in relation to the previous month and a y-o-y increase of 11.6%.

In October, past due loans (without interests and prepayments and accruals) amounted to 489.2 million euros, which is an increase of 4.3% in relation to the previous month. At end-October 2014, non-performing loans (without interests and prepayments and accruals) amounted to 398.9 million euros and made up 16.46% of total loans. In relation to the previous month, non-performing loans decreased by 0.3%, while they decreased by 5.7% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.28% at end-October 2014, which represents a monthly decrease of 0.29 percentage points, while in relation to end-December 2013 it recorded a decrease of 0.08 percentage points. The weighted average effective interest rate (WAEIR) on new loans amounted to 9.71% in October 2014, which represent a monthly decline of 1.06 percentage points, and an increase of 0.29 percentage points in relation to December 2013. The weighted average depositing interest rate (WADIR) amounted to 1.93% at end-October 2014, showing a decline of 0.04 percentage points in relation to the previous month, while it recorded a decline of 0.61 percentage points in relation to end-2013.

At end-October 2014, reserve requirement of banks amounted to 209.7 million euros, which represents a monthly decrease of 1.9 million euros or 0.9%, while in relation to end-2013, reserve requirements increased by 12.8 million euros or 6.5%. In October, 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 48.6% was allocated to the CBCG account held abroad, 20.5% in the form of T-bills, and 30.9% to the account of reserve requirement in the country. During October 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 6 million euros, in October 2014. Non-life insurance premiums still accounted for the main share in its structure with 81.7%, while invoiced life insurance premiums accounted for the remaining 18.3%.

In October 2014, Montenegro stock exchange recorded a turnover in the amount of 24.8 million euros, through 780 transactions, which represents a turnover which is almost 11 times higher in relation to the previous month. Market capitalisation, as at 31 October 2014 amounted to 3 billion euros, thus recording a monthly decrease of 0.4%. The MONEX20 index, which amounted to 12,278.98 index points at end-October 2014, increased in relation to the end of the previous month by 7.8%, while investment fund index MONEXPIF amounted to 4,159.78 and recorded a monthly increase of 12.9%.

In October 2014, according to the Ministry of Finance estimates, Montenegrin fiscal surplus amounted to 0.4 million euros, while in October 2013 there was a deficit in the amount of 19.9 million euros. For ten months of 2014, budget deficit amounted to 24.6 million euros, i.e. 0.7% of estimated annual GDP for 2014. Current revenues of the budget of Montenegro amounted to 158.2 million euros or 4.7% of estimated annual GDP, which represents an increase of 37% in relation to the plan for October. In relation to current revenues recorded in October 2013, there was an increase of 33.3%. Budget expenditures amounted to 157.8 million euros or 4.7% of estimated annual GDP which is 41.8% more in relation to the plan for October 2014, and 59.7% more in relation to October 2013. In October 2014, capital budget amounted to 9.2 million euros.

In the period January-September 2014, according to preliminary data, the current account deficit recorded a y-o-y increase of 16.4%, and amounted to 267.6 million euros. The increase of foreign trade deficit, which came as a consequence of lower export of goods (by 10.3%), represents a factor that significantly influenced the increase of current account deficit, while the recorded import remained at approximately the same level as in the previous year. According to preliminary data, foreign trade deficit amounted to 1 billion euros, which is 3.2% more in relation to the previous year. There was a surplus in the services account in the amount of 666.5 million euros or 5.4% more in relation to the corresponding period of 2013, which contributed to mitigating foreign trade deficit. In the primary and secondary income accounts, surplus amounted to 93.7 million euros or 29.9% less in relation to the corresponding period of the previous year, as a result of increased outflow based on the paid

dividends and compensations to employees, as well as foreign transfers. In the period January-October 2014, as per preliminary data, net FDI inflow amounted to 287.6 million euros which is 12.4% 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 October 2014.

In October, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. As part of the Needs Assessment Project, there was a one-day meeting with the experts from Eurosystem's national central banks, aimed at establishing benchmarks. Review of the Montenegro's programme of accession to the EU 2014-2018, for chapters 4, 9 and 17 was performed. The CBCG representatives participated in the round table discussion on the review of the Montenegro's programme of accession to the EU 2014-2018. The CBCG representatives participated in the meeting of the Working Group for Chapter 11 – Agriculture and Rural Development, in which there was a discussion about the Draft Strategy for Agriculture and Rural Development 2014-2020. Representatives of the CBCG took part in the sixth meeting of the Committee for European Integration, where it was pointed out that when it comes to training lawyers and developing strategic documents in the organisation of the Human Resources Management Authority, in addition to relevant bodies, it is necessary to include financial market regulators, such as the Central Bank, Securities and Exchange Commission, Insurance Supervision Agency, as well as Deposit Protection Fund. The CBCG representatives participated at the seventh meeting of the Committee for European Integration, where participants discussed the Report on implementation of obligations under Montenegro's programme of accession to the EU 2014-2018 for the third quarter of the current year and verified revised Montenegro's programme of accession to the EU 2014-2018.

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.