

Summary of the Governor's Report – September 2014

Updated: 03.02.2015

The Governor's Report for September 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 September, 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 September 2014, prices increased by 0.5% in relation to the previous month, while the annual inflation rate in September amounted to -0.7%.

In the first nine months, the industrial output recorded a y-o-y decrease of 12.9%. The decline was recorded in the electricity, gas and steam supply sector (24.9%), and in the sector of manufacturing industry (3.7%), while there was growth in the mining and quarrying sector (6.6%). During the first nine months of 2014, the number of tourist arrivals recorded a y-o-y increase of 1.3%. 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 nine months of 2014, production of wood products amounted to 191.289 m³, which is at the same level as in 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 September 2014, the average number of employed persons amounted to 173,942, which is a decrease of 2.6% compared to the previous month and 1.5% more in relation to September 2013. In September 2014, the number of unemployed persons amounted to 31,584, which represents an increase of 1.4% in relation to the previous month and an increase of 2.2% compared to September 2013.

Out of 61,312 legal persons and entrepreneurs, at end-September 2014, accounts of 13,540 or 22.1% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs decreased by 1.7%. At end-September, total amount of debt being the basis for freezing of accounts amounted to 474 million euros, showing an increase of 2.5% in relation to end-August.

On 30 September 2014, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 14.1% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 39.5% of the total debt being the basis for freezing of accounts.

At end-September 2014, total assets and liabilities decreased by 0.4% compared to the previous month and amounted to 3,112.2 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.4% lower in relation to August 2014 and 1.2% higher in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 72.9%. In September 2014, deposits in banks amounted to 2,268 million euros, which represents a monthly increase of 0.6%

and an increase 8.1% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for 633.5 million euros or 27.9%, while household deposits accounted for 1,300 million euros or 57.3% of total deposits. At end-September 2014, total capital of banks amounted to 442 million euros, which is 0.4% more in relation to the previous month and a y-o-y increase of 11.1%.

In September, past due loans (without interests and prepayments and accruals) amounted to 469.1 million euros, which is a decrease of 10.6% in relation to the previous month. At end-September 2014, non-performing loans (without interests and prepayments and accruals) amounted to 400.2 million euros and made up 16.4% of total loans. In relation to the previous month, non-performing loans decreased by 5.3% while they decreased by 5.4% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.57% at end-September 2014, which represents a monthly increase of 0.26 percentage points, while in relation to end-December 2013 it recorded an increase of 0.21 percentage points. The weighted average depositing interest rate (WADIR) amounted to 1.96% at end-September 2014, showing a decline of 0.05 percentage points in relation to the previous month, while it recorded a decline of 0.57 percentage points in relation to end-2013.

At end-September 2014, reserve requirement of banks amounted to 211.5 million euros, which represents a monthly increase of 3.3 million euros or 1.6%, while in relation to end-2013, reserve requirements increased by 14.6 million euros or 7.4%. In September, 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 45.6% was allocated to the CBCG account held abroad, 22.6% in the form of T- bills, and 31.8% to the account of reserve requirement in the country. During September 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 6.1 million euros, in September 2014. Non-life insurance premiums still accounted for the main share in its structure with 82.9%, while invoiced life insurance premiums accounted for the remaining 17.1%.

In September 2014, Montenegro stock exchange recorded a turnover in the amount of 2.3 million euros, through 490 transactions. The turnover was 38.5% lower in relation to the previous month. Market capitalisation, as at 30 September 2014 amounted to 3 billion euros, thus recording a monthly decrease of 2.3%. The MONEX20 index, which amounted to 11,394.23 index points at end-September 2014, increased in relation to the end of the previous month by 2.7%, while investment fund index MONEXPIF amounted to 3,684.40 and recorded a monthly increase of 25.9%.

In September 2014, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 1.1 million euros, while in September 2013 there was a deficit in the amount of 1.9 million euros. For nine months of 2014, budget deficit amounted to 23.3 million euros, i.e. 0.7% of estimated annual GDP for 2014. Current revenues of the budget of Montenegro amounted to 117.8 million euros or 3.5% of estimated annual GDP, which represents a decrease of 3.2% in relation to the plan for September. In relation to current revenues recorded in September 2013, there was an increase of 0.6%. Budget expenditures amounted to 118.9 million euros or 3.5% of estimated annual GDP which is 6.7% more in relation to the plan for September 2014, and 0.1% less in relation to September 2013. In September 2014, capital budget amounted to 4.7 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-

September 2014, as per preliminary data, net FDI inflow amounted to 256.4 million euros which is 7% 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 99.86% in September 2014.

In September, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. CBCG Needs Assessment Project was officially initiated and it is implemented by the ECB together with 10 national ESCB banks, with the help from the EU Delegation to Montenegro. A meeting was held with experts from Eurosystem national banks, aimed at establishing benchmarks. In relation to revision of planned activities and deadlines in the Montenegro's programme of accession to the EU 2014-2018, CBCG representatives participated in the 5th meeting of the Committee for European Integration. Final draft of the Negotiation position for Chapter 9 – Financial Services was revised and harmonised together with the EU experts. The CBCG representatives participated in the workshop Preparation for revision of the Montenegro's programme of accession to the EU 2014-2018, held in Budva from, 26th to 27th of September 2014.

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.