

Summary of the Governor's Report – April-May 2013

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The Governor's Report for May 2013 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 2013 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2013, 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 2013.

According to the available data provided by Monstat, GDP in Q1 2013 recorded a significant y-o-y real growth in the amount of 4.3%. Such a high growth rate represents a result of positive activity in almost all economic sectors, but it is also influenced by a low base from the previous year. Low economic activity in Q1 2012, caused by bad weather, led to a high statistical growth in 2013.

In spite of positive growth tendencies in Q1, it is not appropriate to draw any conclusions about the pace of the recovery for the entire year, at least until Q2 is statistically processed.

In May 2013, prices recorded a monthly increase of 0.2%, while the annual inflation rate in May amounted to 3%.

In the first five months of 2013, the industrial output recorded a y-o-y increase of 9.1%. The growth was recorded in the electricity, gas and steam supply sector (82%), while there was a decline in the mining and quarrying sector (4.3%) as well as in the sector of manufacturing industry (28.3%).

The number of tourist arrivals in the first five months of 2013 increased by 7.6%, while the number of overnight stays recorded y-o-y increase of 3.8%. According to Monstat data, the air passenger transport recorded a y-o-y increase of 3.4% during the first five months of 2013, while the air cargo transport recorded a decline of 0.3%. In Q1 2013, railway passenger transport increased by 19.4% while railway cargo transport recorded a 7.1% increase compared to Q1 2012. In Q1 2013, road passenger transport recorded a y-o-y decrease of 4.1% while road cargo transport declined by 10.1%. During the first five months in 2013, forestry production recorded y-o-y increase of 93.9%. In Q1 2013, according to preliminary Monstat data, construction recorded y-o-y increase of 33%. Turnover in retail trade (at current prices) recorded the y-o-y increase of 8.6% in the first four months of 2013.

In May, the average number of employed persons amounted to 174,369, which is an increase of 2.4% on a monthly level and 5.2% on an annual level. In May 2013, the number of unemployed persons amounted to 31,363, which is 3.9% less compared to the previous month and 4.1% more compared to May 2012.

Out of 53,490 legal persons and entrepreneurs, at end-May 2013, accounts of 12,516 or 23.40% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.27%. The total amount of debt being the basis for freezing of accounts was EUR 439,179,094.38 million showing a monthly increase of 1.97%. On 31 May 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 23.07% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 47.07% of the total debt being the basis for freezing of accounts.

In line with the new Decision on Minimum Standards for Credit Risk Management in Banks* new decisions have been adopted, including Decision on Chart of Accounts for Banks** and Decision of Reports to be Submitted to the Central Bank of Montenegro***.

The most significant change, caused by the application of International Accounting Standards, refers to the introduction of accounts for recording value impairments of balance assets items, new definitions of financial instruments and reclassification of balance positions in line with International Accounting Standards.

The data for 2009-2012 was revised in accordance with the abovementioned changes.

At end-May, total assets and liabilities increased by 2.8% compared to end-2012. In terms of the structure of aggregate balance assets of banks, total loans and other receivables make up the dominate share, which were 5.8% higher at end-May 2013 in relation to December. It is necessary to note that this increase was partially conditioned by the application of international accounting standards. At end-May, the share of non-performing loans and other receivables (C, D, E) in total loans amounted to 19.9%. Maturity structure of loans is dominated by long-term loans (66.9%), which is slightly smaller share in relation to the end of the previous month (67%). In terms of the structure of liabilities, deposits make up the dominate share. The share of deposits in the structure of liabilities did not change in relation to the previous month, and accounted for 68.4% of total liabilities. At end-May 2013 deposits amounted to EUR 1,974.4 million which is 1.2% more compared to the previous month and 0.3% less compared to end-December 2012. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,162.4 million or 58.9%, while corporate deposits accounted for EUR 509.8 million or 25.8%. At end-May 2013, total capital of banks amounted to EUR 404.6 million, which is EUR 115.9 million (i.e. 40.2%) more in relation to end-2012.

In April, past due loans and other receivables**** amounted to EUR 679.3 million and increased by 19.4% in relation to the previous month. In May, non-performing loans***** and other receivables increased by 2.5% in relation to the previous month, which made up 19.89% of total loans and other receivables.

The weighted average lending effective interest rate (WALEIR) on new loans amounted to 10.60% in May 2013, showing a decline of 0.44 percentage points on a monthly level and an increase of 1.22 percentage points in relation to end-2012. The weighted average depositing interest rate (WADIR) amounted to 3.06% in May 2013, showing a decline of 0.17 percentage points in relation to December 2012, while it recorded a decline of 0.06 percentage points on a monthly level.

Total amount of new loans in the banking sector, for the first five months of 2013, amounted to EUR 284.7 million.

At end-May 2013, reserve requirement of banks amounted to EUR 184.7 million, which is a decrease of EUR 2.4 million or 1.3% in relation to December 2012. Compared to the previous month, reserve requirements increased by EUR 1.1 million, i.e. 0.6%. Of the total amount of allocated reserve requirements, some 38.7% was allocated to the account of reserve requirement in the country, 33.9% in the form of T-bills, and 27.4% to the CBCG account held abroad. In May 2013, 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.

Gross insurance premium amounted to EUR 6.3 million, at end-May 2013. Non-life insurance premiums still accounted for the main share in its structures with 85.8%, while invoiced life insurance premiums accounted for the remaining 14.2%.

In May 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 1.1 million, through 456 transactions. The generated turnover was 3.7 times lower in relation to April 2013, when there was a significant increase of turnover on a monthly level due to trading of shares of the Prva banka, in the total value of EUR 1.1 million. The MONEX20 index, whose value at end-May 2013 amounted to 9,349.76 index points, recorded a decline in relation to the end of the previous month by 3.5%, while investment fund index MONEXPIF declined by 19.7%. Market capitalisation, as at 31 May 2013 amounted to EUR 2.74 billion.

Montenegrin fiscal deficit in May 2013, according to the Ministry of Finance estimate, amounted to EUR 2.0 million, while in May 2012 the deficit amounted to EUR 15.9 million. In the first five months in 2013, budget deficit amounted to EUR 78.6 million, i.e. 2.2% of the estimated GDP. Current revenues

of the budget of Montenegro amounted to EUR 93.9 million, or 2.7% of GDP, which is 2.6% lower than the plan for May. Budget expenditures amounted to EUR 95.9 million or 2.7% of GDP, which is 7.8% less in relation to the plan for May 2013 and 6.6% less compared to realised expenditures in May 2012.

At end-April 2013, Montenegro's public debt amounted to EUR 1,764.2 million or 50.2% of GDP. In the public debt structure, EUR 431.7 million or 12.3% of GDP referred to internal debt, while external debt accounted for EUR 1,332.5 million or 37.9% of GDP.

As per preliminary data, in Q1 2013, the current account deficit recorded an 18.8% y-o-y decrease, amounting to EUR 192.2 million. In Q1, the deficit in the goods account amounted to EUR 258.3 million, or 13.6% less compared to 2012. The decrease of deficit came as a result of the increase in export of goods by 6.3% and decrease of import by 9%. According to preliminary data, net FDI inflow of FDI for the period January-May 2013 amounted to EUR 112.1 million, which is a y-o-y decrease of 5.5%. Total FDI inflow amounted to EUR 153.1 million, while at the same time there was an outflow in the amount of EUR 41 million.

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, and the activities regarding the Central Bank's role as a fiscal agent were also 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 Montenegrin accession to the EU. In this respect, an explanatory screening was held for negotiation Chapter 32 – Financial Control, as well as a meeting with coordinators of the working teams within the Working Group for Chapter 9 – Financial services. Activities on preparation of bilateral analytical screening were completed, EC transposition tables with accompanying regulatory framework in line with the list of directives by the DG MARKT were submitted, 18 presentations (4 from the domain under CBCG competence), as well as information on development of all segments of the financial system during the period 2007-2012 and a questionnaire on administrative and institutional capacities of CBCG, SEC and ISA. CBCG representative was appointed to the working group for negotiation Chapter 29 – Customs Union.

Activities aimed at improving information system of the Central Bank of Montenegro were continued. General public was timely informed, 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. On its website, the Central Bank continued to publish the data on legal entities and entrepreneurs with frozen accounts in the amount above EUR 10,000 for a continuous period exceeding 30 days, in accordance with the adopted Law Amending the Law on National Payment System.

Governor's engagement in the international cooperation included meetings with the representatives of IMF's mission in Podgorica, participation in the Constituency Meeting of International Monetary Fund in Tbilisi as well as in the Governors' meeting of the central banks of Croatia, Serbia, Slovenia, Bosnia and Herzegovina, Macedonia and Montenegro, as well as representatives of leading commercial banks and other financial sector in Rovinj.

* OGM, No. 22/12, 55/12.

* OGM, No. 55/12.

* OGM, No. 64/12.

**** Without interests and time limitations

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