

Summary of the Governor's Report – August 2013

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The Governor's Report for August 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 preliminary data provided by Monstat, GDP in Q1 and Q2 2013 recorded a y-o-y real growth of 1.1% and 3.4%, respectively. The growth came as a result of positive activities in most economic sectors, and was partly influenced by a low base from 2012, especially by low economic activity in Q1 2012 which was caused by bad weather.

In August 2013, prices recorded a monthly decline of 0.1%, while the annual inflation rate amounted to 2.2%.

In the first eight months of 2013, the industrial output recorded a y-o-y increase of 9.5%. The growth was recorded in the electricity, gas and steam supply sector (63.8%), and in the mining and quarrying sector (7.7%), while there was a decline in the sector of manufacturing industry (17.4%).

The number of tourist arrivals in the first eight months of 2013 increased by 2.9%, while the number of overnight stays recorded y-o-y increase of 1.8%. According to Monstat data, the air passenger transport recorded a y-o-y increase of 15.5% during the first eight months of 2013, while the air cargo transport recorded a decline of 2.3%. In Q2 2013, railway passenger transport increased by 10.8% while railway cargo transport recorded a 33% increase compared to Q2 2012. In Q2 2013, road passenger transport recorded a y-o-y increase of 6% while road cargo transport increased by 83.3%. During the first eight months in 2013, forestry production recorded y-o-y increase of 21.6%. In Q2 2013, according to preliminary Monstat data, construction recorded y-o-y increase of 29.9%. Turnover in retail trade (at current prices) recorded the y-o-y increase of 9.4% in the first seven months of 2013.

In August, the average number of employed persons amounted to 176,588, which is a decline of 1.2% on a monthly level and an increase of 2.1% on an annual level. In August 2013, the number of unemployed persons amounted to 30,947, which is 2.8% more compared to the previous month and 8.4% more compared to August 2012.

Out of 54,840 legal persons and entrepreneurs, at end-August 2013, accounts of 12,594 or 23% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased slightly by 0.8%. The total amount of debt being the basis for freezing of accounts was EUR 438.2 million showing a monthly increase of 0.3%. On 31 August 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 23.5% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 48% 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 (OGM, No. 22/12, 55/12) new decisions have been adopted, including Decision on Chart of Accounts for Banks (OGM, No. 55/12) and Decision of Reports to be Submitted to the Central Bank of Montenegro (OGM, No. 64/12).

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-August, total assets and liabilities increased by 8.6% 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 8.4% higher at end-August 2013 in relation to December. It is necessary to note that this increase was partially conditioned by the application of international accounting standards. In terms of the structure of liabilities, deposits make up the dominate share of 70.3%. At end-August 2013, deposits amounted to EUR 2,144.3 million, which is 3.3% more in relation to the previous month and 8.3% more compared to end-December. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,218.1 million or 56.8%, while corporate deposits accounted for EUR 612.3 million or 28.6%. At end-August 2013, total capital of banks amounted to EUR 414 million, which is EUR 125.3 million (i.e. 43.4%) more in relation to end-2012.

In August, past due loans and other receivables* amounted to EUR 561 million and declined by 2.3% in relation to the previous month. In August, non-performing loans and other receivables* declined by 1.1% in relation to the previous month, which made up 17.4% of total loans and other receivables.

The weighted average lending effective interest rate (WALEIR) on new loans amounted to 9.33% in August 2013, showing a decrease of 0.05 percentage points on a monthly level and a decrease of 0.14 percentage points in relation to December 2012. The weighted average depositing interest rate (WADIR) amounted to 2.83% in August 2013, showing a decline of 0.40 percentage points in relation to December 2012, while it recorded a decline of 0.09 percentage points on a monthly level.

Total amount of new loans in the banking sector, for the first eight months of 2013, amounted to EUR 484.9 million.

At end- August 2013, reserve requirement of banks amounted to EUR 199.4 million, which is 6.6% more compared to December 2012. In relation to July, reserve requirements increased by 3.5%. Of the total amount of allocated reserve requirements, some 37.1% was allocated to the CBCG account held abroad, 35.3% to the account of reserve requirement in the country, and 27.6% in the form of T-bills. In August 2013, all banks allocated and maintained reserve requirements within prescribed limits, and did not exploited the option to use up to 50% of reserve requirements in order to maintain liquidity.

Gross insurance premium amounted to EUR 5.8 million, at end-August 2013. Non-life insurance premiums still accounted for the main share in its structure with 85.3%, while invoiced life insurance premiums accounted for the remaining 14.7%.

In August 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 4.6 million, through 543 transactions. The generated turnover was 3 times higher in relation to July 2013. The MONEX20 index, whose value at end-August 2013 amounted to 9,377.04 index points, recorded an increase in relation to the end of the previous month by 0.3%, while investment fund index MONEXPIF increased by 20.5% and amounted to 2,816.69. Market capitalisation, as at 31 August 2013 amounted to EUR 2.8 billion.

Montenegrin fiscal deficit in August 2013, according to the Ministry of Finance estimate, amounted to EUR 17.2 million, while in August 2012 there was a surplus in the amount of EUR 10.7 million. In the first eight months in 2013, budget deficit amounted to EUR 137.4 million, i.e. 3.9% of the estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 124.9 million, or 3.6% of GDP, which is 8.7% higher than the plan for August. Budget expenditures amounted to EUR 142.2 million or 4% of GDP, which is 35.4% more in relation to the plan for August 2013 and 45.3% more compared to realised expenditures in August 2012.

At end-August 2013, Montenegro's public debt amounted to EUR 1,844.9 million or 52.4% of GDP. In the public debt structure, EUR 433.8 million or 12.3% of GDP referred to internal debt, while external debt accounted for EUR 1,411.1 million or 40.1% of GDP.

As per preliminary data, in the period January-August 2013, the current account deficit recorded a 14.2% y-o-y decrease, amounting to EUR 420.3 million. The goods account recorded a decline of visible foreign trade due to a decline of import by 4.5%, along with an increase of export of goods by 7.9%, which resulted in a y-o-y decline of foreign trade deficit by 8%. According to preliminary data, net FDI inflow for the period January-August 2013 amounted to EUR 213.1 million, which is a y-o-y decrease of 7.6%.

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 August, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegrin accession to the EU. Draft Report on Negotiation Chapter 9 – Financial services was prepared, and representatives of the CBCG participated in preparing a part of the Accession Programme of Montenegro within WG 4.

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.

In August, Governor's engagement in the international cooperation included a meeting with the President of the Bundesbank.

* Without interests and payments and accruals.