

## Summary of the Governor's Report – December 2013

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The report of the Governor of the Central Bank of Montenegro for December presents key activities of the Central Bank of Montenegro (CBCG) in the implementation of the objectives and tasks defined by the CBCG Policy for 2013 and Guidelines for the implementation of CBCG Policy for 2013, on a monthly basis.

The CBCG activities conducted in December were in accordance with planned obligations set out in the CBCG Work Program for 2013.

In the first nine months of 2013, according to the preliminary Monstat data, GDP recorded growth of 3.1%, while in the third quarter of 2013, the growth was 4%. According to the estimates of the Ministry of Finance, expected real growth in 2013 was 2.6 %.

Prices in December 2013 did not change compared to the previous month, while the annual inflation rate in December was 0.3 %.

Compared to 2012, an increase of the total industrial output amounted to 10.6 % in 2013. The growth was recorded in the sector of electricity, gas and water supply by 38.7%, while the decline was recorded in mining and quarrying by 1.4 % and manufacturing sector by 5%.

Number of tourist arrivals in 2013 increased by 3.6% compared to the previous year, while the number of overnights increased by 2.8%. Compared to the previous year, the number of passengers in air transport increased by 14.1 %, while cargo transport increased by 0.3% . In the first nine months of 2013, compared to the same period from the previous year, the number of passengers in the railway transport increased by 10.0%, while cargo transport increased by 26.6 %. The number of passengers in road transport increased by 3.5% while cargo transport increased by 55.2 %.

In 2013, production of wood products amounted 255.6 thousand m<sup>3</sup> or 9.7 % more than in the previous year. According to preliminary Monstat data, in the first nine months of 2013, construction increased by 29.9 % in relation to the same period of the previous year, measured by the effective working hours.

The number of employees amounted to 167,173 in December 2013, which is 0.3 % lower compared to the previous month and 0.2 % compared to December 2012. The number of unemployed persons in Montenegro in December 2013 was 34,514 or 0.5 % less compared to the previous month and 10.7 % more compared to December 2012.

At end-December 2013, out of 55,132 accounts of legal entities and entrepreneurs, some 12,981 or 23.5 % were frozen. Compared to the previous month, the number of frozen accounts of legal entities and entrepreneurs has increased by 1.7 % . Total debt on the basis of which they were frozen amounted to 437 million euros at end-December and was 2.6% higher than at end-November. Debt concentration as at 31 December 2013 was relatively high because 10 largest borrowers (0.08 % of registered borrowers) accounted for 21.6% in total debt in respect of which the accounts were frozen. Also, 50 largest borrowers (0.39 % of registered borrowers) participated with 45.5 % in the total debt in respect of which the accounts were frozen.

According to preliminary data, the balance sheet of banks amounted to 2,958.9 million euros at end-December 2013 and was 5.4% higher compared to the previous year. The structure of the aggregate assets of banks' balance sheet, total loans and other receivables were dominant and compared to December 2012 they rose by 3%. It should be noted that this growth in loans was partially due to the implementation of International Accounting Standards (IAS). During 2013, the banks approved a total of 807.6 million euros of new loans.

In the liability structure, deposits recorded the dominant share of 70.9%. At end-December 2013 deposits amounted to 2,098.6 million euros or 0.7 % more compared to the previous month. Compared to end-December 2012, banks' deposits increased by 6%. Of the total amount of deposits, household deposits accounted for 1,237.7 million euros or 59%, while corporate deposits accounted for 554.8 million euros or 26.4%. At end-December 2013, total capital of banks amounted to 397.2 million euros or 37.6 % or 108.5 million euros more than at the end of previous year.

Loans and other outstanding receivables (without interests and accruals and prepayments) amounted to 468.4 million euros in December and compared to the previous month they recorded a decline of 6.8 %. Non-performing loans and other receivables (excluding interests and accruals and prepayments ) at end-December accounted for 17.5% of total loans and other receivables and in relation to the previous month they decreased by 1.4%.

Weighted average effective interest rate on total loans approved in December 2013 amounted to 9.36% or 0.03 percentage points higher than in the previous month, while compared to December 2012 it decreased by 0.11 percentage points. Weighted average deposit interest rate was 2.55 % in December 2013, recording monthly decline of 0.06 percentage points, while compared to December 2012 it decreased by 0.69 percentage points.

At the end-December 2013, banks' reserve requirement amounted to 196.9 million euros or 0.3 % more than in the previous month, while compared to December 2012 it increased by 5.2%. In December, ten banks used the possibility of allocating part of the reserve requirement in the form of T-bills in the amount of 47 million euros . Of the total amount of allocated reserve requirement, 39.6 % was allocated at the CBCG accounts abroad, reserve requirement in the country amounted to 36.6 % while 23.8% referred to T-bills. In December 2013, all banks allocated and held reserve requirement in the prescribed amount, and they did not use the opportunity to use up to 50% of reserve requirement to maintain liquidity.

According to preliminary data of the Insurance Supervision Agency, gross premium amounted to 8.1 million euros at the end-December 2013. Its structure is still dominated by non-life insurance premiums with 79.5 %, while 20.5 % were life insurance written premiums.

In December 2013, Montenegro Stock Exchange turnover was 4.5 million euros, which was 21% more than in the previous month . Overall trade was achieved through 652 transactions . Market capitalization as at 31 December 2013 amounted to 2.8 billion euros recording minor monthly growth of 0.4%. Stock exchange index MONEX 20 amounted to 9,850.18 index points at end-December 2013, which was 8.8 % more compared to the end of the previous month, while the investment fund index MONEX PIF amounted to 3,412.24, recording a monthly increase of 16.3%.

The budget deficit in Montenegro amounted to 7.7 million euros in December 2013, while for the twelve months of 2013th it totalled 128.3 million euros or 3.9 % of estimated GDP. The original budget revenues amounted to EUR 142.4 million euros or 4.3% of estimated GDP, which is 17.2 % higher compared to the plan for December 2013, and 12.2% more in relation to December 2012. Budget expenditures of Montenegro amounted to EUR 150.1 million euros or 4.5% of GDP, which is 41.6% more than planned for December 2013 and by 11.8 % compared to December 2012.

According to preliminary data, in the period January - September 2013, the current account deficit was 29.1% lower compared to the same period of 2012 amounting to 231.7 million euros. Reduction of the current account deficit is a result of the decrease of external trade deficit, as well as an increase in the surplus at the services and income account. In 2013, net FDI inflow amounted to EUR 323.9 million or 29.8% less compared to the same period of the previous year.

In order to encourage and preserve safe and sound banking system, the situation in the banking system of Montenegro is continuously monitored and analysed.

International reserves management was conducted on the principles of liquidity and safety, except that the domain of these activities suffers a powerful negative impact of the crisis development at the international market recorded in declining prices of the market material. Activities related to the role of

the CBCG as a fiscal agent have been successfully implemented. In December, availability of the RTGS and DNS systems was 100 %.

In December, significant activities of the Central Bank regarding the fulfilment of the obligations on the way of accession to the European Union were implemented. Referring to the Central Bank' obligations referring to the negotiation Chapter 9 - Financial Services, transposition table for the Directive 86/635 on the annual and consolidated accounts of banks, as well as comments on the draft EC report on screening for the Chapter 9 - Financial Services for Montenegro, have been prepared and forwarded to the European Commission. In addition, activities on the development of negotiating positions for the Chapter 32 were carried out, in the part relating to the protection of the euro against counterfeiting ; participation in the development of the Program of Montenegro's accession to the European Union in the framework of the working groups activities for negotiating Chapters 9, 17, 18 and 32; participation in the round table on "Program of Montenegro's accession to the European Union 2014-2018 – Cooperation towards results", organized by the Ministry of Foreign Affairs and European Integration and the European Movement in Montenegro; participation at the meeting of the Stabilization and Association Process; comments on the draft of the notes from the meeting of the Subcommittee on Economic and Financial Affairs and Statistics have been prepared and submitted.

In accordance with the highest standards of transparency, the public was timely informed about the activities, objectives and results of the CBCG issuing press releases and publications , on the website and media presentations. 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.

Within the Governor's activities in the field of international cooperation, a meeting with the delegation from the International Monetary Fund and the President of the Deutsche Bundesbank in Frankfurt was held in December. In addition, he participated at the high level conference of the European Central Bank on " International cooperation of central banks before, during and after the crisis," held in Frankfurt.