

Summary of the Governor's Report – February-March 2013

Updated: 04.09.2013

The Governor's Report for March 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.

In March 2013, prices recorded a monthly increase of 0.4%, while the annual inflation rate in March amounted to 3.3%.

In the first three months of 2013, the industrial output recorded a y-o-y increase of 3.3%. The growth was recorded in the electricity, gas and steam supply sector, while there was a decline in the mining and quarrying sector as well as in the sector of manufacturing industry.

The number of tourist arrivals in the first three months of 2013 increased by 7.3%, while the number of overnight stays recorded y-o-y decrease by 2.1%. In the same period, the air passenger transport recorded an increase of 3.1% while the air cargo transport recorded a decline of 5.4% compared to Q1 2012. In Q1 2013, railway passenger transport increased by 19.4% while railway cargo transport recorded a 7.1% increase compared to Q1 2012. During the first three months in 2013, forestry production recorded y-o-y increase of 834.9%. 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 8.8% in the first three months of 2013.

In March, the average number of employed persons amounted to 167,738, which is an increase of 0.2% on a monthly level and 3.2% on an annual level. In March 2013, the number of unemployed persons amounted to 32,986, which is 1% more compared to the previous month and 4.5% more compared to March 2012.

Out of 52,680 legal and natural persons at end-March 2013, accounts of 12,459 or 23.65% were frozen. In relation to February 2013, the number of frozen accounts of legal and natural persons increased by 0.53%. The total amount of debt being the basis for freezing of accounts was EUR 425,917,576.73 million showing a monthly decline of 2.81%. On 31 March 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 22.82% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 46.52% 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.

According to preliminary data at end-March 2013, total capital of banks amounted to EUR 396.7 million, which is EUR 108.0 million (i.e. 37.4%) more in relation to end-2012. At end-March, total assets and liabilities declined by 4.04% compared to end-2012. In terms of the structure of liabilities,

deposits make up the dominate share. The share of deposits in the structure of liabilities grew during all of the three months of 2013 and at end-March 2013 deposits accounted for 69.2% of total liabilities. At end-March 2013 deposits amounted to EUR 1,999.3 which is 0.5% more compared to the previous month and 0.9% more compared to end-December 2012. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,164.9 million or 58.3%, while corporate deposits accounted for EUR 525.4 million or 26.3%. In March, loans and other receivables increased by 6.35% relative to December. It is necessary to note that this increase was partially conditioned by the application of international accounting standards. At end-March, the share of non-performing loans and other receivables (C, D, E) in total loans amounted to 18.7%. Maturity structure of loans is dominated by long-term loans (65.8%), which is slightly larger share in relation to the end of the previous month (64.7%).

The weighted average lending effective interest rate (WALEIR) amounted to 9.44% in March 2013, showing a decline of 0.03 percentage points in relation to December 2012 and a decline of 0.01 percentage points on a monthly level. The weighted average deposit interest rate (WADIR) amounted to 3.14% in March 2013, showing a decline of 0.09 percentage points in relation to December 2012, while it recorded a decline of 0.02 percentage points on a monthly level.

At end-March 2013, reserve requirement of banks amounted to EUR 187.7 million, which is an increase of EUR 0.6 million or 0.3% in relation to December 2012. Of the total amount of reserve requirements, some 39.1% was allocated to the account of reserve requirement in the country, 33.7% in the form of T-bills, and 27.3% to the CBCG account held abroad. In March 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.

At end-March 2013, gross insurance premium amounted to EUR 5.8 million. Non-life insurance premium still accounted for the man share in its structures with 86.6%, while invoiced life insurance premiums accounted for the remaining 13.4%.

In March 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 1.2 million, through 677 transactions. The generated turnover increased by 11% compared to February 2013. The MONEX20 index, whose value at the end of March 2013 amounted to 9,693.31 index points, recorded a decline of 3.1% in relation to the previous month, while the index of investment funds MONEXPIF recorded a decline of 8.2%.

Montenegrin fiscal deficit in March 2013, according to the Ministry of Finance estimate, amounted to EUR 17.9 million, while in March 2012 the deficit amounted to EUR 5.1 million. In first three months in 2013, budget deficit amounted to EUR 59.7 million, i.e. 1.7% of the estimated GDP. Montenegro's budget current revenues amounted to EUR 88.3 million, or 2.5% of GDP, which is 6.4% higher than the plan for March. Budget expenditures amounted to EUR 106.2 million or 3% of GDP, which is 2.1% more in relation to the plan for March 2013 and a 30.5% more compared to realised expenditures in March 2012.

At end-March 2013, Montenegro's public debt amounted to EUR 1,755.7 million or 50.3% of GDP. In the public debt structure, EUR 420.3 million or 12.1% of GDP referred to internal debt, while external debt accounted for EUR 1,335.4 million or 38.2% 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%. In the services account there was a surplus in the amount of EUR 6.6 million as well as in the sub-accounts of factor income and current transfers, where the surplus amounted to EUR 59.5 million, thus recording an 11.6% y-o-y increase. According to preliminary data, net FDI inflow for Q1 2013 amounted to EUR 65.5 million, which is a y-o-y decrease of 2.2%. Total FDI inflow amounted to EUR 81.6 million, while at the same time there was an outflow in the amount of EUR 16.1 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 during the first three months 2013 was 100%.

In February and March, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegrin accession to the EU. In this respect CBCG representatives attended meetings with the representatives of the European Commission in Brussels in negotiating groups for chapters 4 – Free Movement of Capital and 17 Economy and Monetary Policy. There was also a constituent meeting of the Working Group for Chapter 9 – Financial Services. In addition to this CBCG participated in the meeting of the Working Group for Chapter 20 where the representative of the Central Bank coordinated one of the sub-groups. In addition to this, at the request of the Ministry of Foreign Affairs and European Integrations, CBCG representatives were appointed into the working groups for chapter 18 – Statistics, chapter 32 – Financial Control and Chapter 33 – Financial and Budgetary provisions.

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 the International Monetary Fund and EBRD, as well as participation in celebrating the anniversary of the Czech National Bank and the Governors' Club. In March, there was a meeting with the representatives of the EFSE fund and the ambassador of Macedonia to Montenegro.

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

** OGM, No. 55/12.

*** OGM, No. 64/12.