Summary of the Governor's Report – October 2013

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The Governor's Report for October 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.

During the fist six months of 2013, positive activities were recorded in almost all economic sectors which resulted in real GDP growth in both quarters, However, it should be noted that the growth was partly influenced by a low base from 2012, especially by low economic activity in Q1 2012, which was caused by bad weather. According to the available data for nine, i.e. ten months, positive trends were recorded in most sectors.

In October 2013, prices recorded a monthly decline of 0.2%, while the annual inflation rate amounted to 0.5%.

In the first ten months of 2013, the industrial output recorded a y-o-y increase of 9%. The growth was recorded in the electricity, gas and steam supply sector (51.9%), while there was a decline in the mining and quarrying sector (2.2%) and in the sector of manufacturing industry (12.3%).

The number of tourist arrivals in the first ten months of 2013 increased by 3.5%, while the number of overnight stays recorded a y-o-y increase of 2.8%. During this period, the air passenger transport recorded a y-o-y increase of 15.2%, while the air cargo transport recorded a decline of 2.6%. During the first nine months (three quarters) of 2013, railway passenger transport increased by 10% while railway cargo transport recorded a 26.6% increase compared to the same period of 2012. During the first nine months of 2013, road passenger transport recorded a y-o-y increase of 3.5% while road cargo transport increased by 55.2%.

During the first nine months of 2013, production of wood products amounted to 188.326m3, which represents a y-o-y increase of 19.5%. This is partly a result of extremely low base from 2012. During the first nine months of 2013, according to preliminary Monstat data, construction recorded y-o-y increase of 29.9%, measured by effective working hours.

In October, the average number of employed persons amounted to 169,044, which is a decline of 1.4% on a monthly level and an increase of 0.2% on an annual level. In October 2013, the number of unemployed persons amounted to 33,271, which is 7.6% more compared to the previous month and 12.6% more compared to October 2012.

Out of 54,482 legal persons and entrepreneurs, at end-October 2013, accounts of 12,561 or 23.1% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.9%. At end-October, total amount of debt being the basis for freezing of accounts amounted to EUR 432.9 million, showing a monthly increase of 2.8%. On 31 October 2013, the debt concentration was relatively high, considering that the top 10 debtors (0.08% of total recorded debtors) accounted for 21.7% of the total debt. Moreover, the top 50 debtors (0.40% of total recorded debtors) accounted for 46.6% of the total debt being the basis for freezing of accounts.

At end-October, total assets and liabilities increased by 6.6% 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 5.7% higher at end-October 2013 in relation to December 2012. It is necessary to note that this increase of loans was partially conditioned by the application of

International Accounting Standards. Total amount of new loans in the banking sector for the first ten months of 2013 amounted to EUR 623 million.

In terms of the structure of liabilities, deposits make up the dominate share of 70.3%. At end-October 2013, deposits amounted to EUR 2,104.3 million, which is 3.2% less in relation to the previous month, which comes after a five-month growth period. Deposits in banks increased by 6.2% compared to end-December 2012. Out of the total amount of deposits with banks, household deposits accounted for EUR 1,218.1 million or 56.3%, while corporate deposits accounted for EUR 572.8 million or 27.2%. At end-October 2013, total capital of banks amounted to EUR 428.8 million, which is EUR 140.1 million (i.e. 48.5%) more in relation to end-2012.

In October, past due loans and other receivables (without interests and payments and accruals) amounted to EUR 557.9 million and increased by 6.4% in relation to the previous month. At end-October 2013, non-performing loans and other receivables (without interests and payments and accruals) declined by 0.6% in relation to the previous month, which made up 17.7% of total loans and other receivables.

The weighted average lending effective interest rate (WALEIR) on total approved loans amounted to 9.33% in October 2013, showing an increase of 0.02 percentage points in relation to end-September and a decrease of 0.14 percentage points in relation to December 2012. The weighted average depositing interest rate (WADIR) amounted to 2.67% in October 2013, showing a decline of 0.07 percentage points on a monthly level, while it recorded a decline of 0.57 percentage points in relation to December 2012.

At end-October 2013, reserve requirement of banks amounted to EUR 200.5 million, which is 0.7% lower compared to September 2013. In relation to December 2012, reserve requirements increased by 7.1%. In October, all banks, except one, used the possibility to allocate a part of their reserve requirements in the form of T-bills (in the total amount of EUR 54.3 million). Of the total amount of allocated reserve requirements, some 42.3% was allocated to the CBCG account held abroad, 30.6% to the account of reserve requirement in the country, and 27.1% in the form of T-bills. In October 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 5.7 million, at end-October 2013. Non-life insurance premiums still accounted for the main share in its structure with 83.3%, while invoiced life insurance premiums accounted for the remaining 16.7%.

In October 2013, Montenegro stock exchange recorded a turnover in the amount of EUR 1.4 million, which is 64% lower in relation to the previous month. The total trade was realised through 488 transactions. Market capitalisation, as at 31 October 2013 amounted to EUR 2.8 billion, thus recording a monthly increase of 0.7%. The MONEX20 index, whose value at end-October 2013 amounted to 8,999.40 index points, recorded a decline in relation to the end of the previous month by 0.9%, while investment fund index MONEXPIF declined by 1.3% and amounted to 2,794.45.

Montenegrin fiscal surplus in October 2013, according to the Ministry of Finance estimate, amounted to EUR 20.1 million, while in October 2012 there was a deficit in the amount of EUR 5 million. In the first ten months in 2013, budget deficit amounted to EUR 115.5 million, i.e. 3.5% of the estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 117.3 million, or 3.5% of GDP, which is 11.8% higher than the plan for October. Budget expenditures amounted to EUR 97.2 million or 2.9% of GDP, which is 7.4% lower in relation to the plan for October 2013 and 6.6% lower compared to realised expenditures in October 2012.

As per preliminary data, in the period January-September 2013, the current account deficit recorded a 29.1% y-o-y decrease, amounting to EUR 231.7 million. The goods account recorded a decline of visible foreign trade due to a decline of import by 4.1%, along with an increase of export of goods by 3.8%, which resulted in a y-o-y decline of foreign trade deficit by 6.3%. According to preliminary data, net FDI inflow for the period January-October 2013 amounted to EUR 255.9 million, which is a y-o-y decrease of 25.7%.

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 October, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. Negotiation position for the Chapter 4 – Free Movement of Capital was prepared. A comment to the European Commission's report for the negotiation Chapter 18 was prepared and forwarded to Monstat. Also, as per request of the European Commission, additional information for the Chapter 9 – Financial Services was prepared and forwarded. CBCG's representatives participated in preparing a part of the Montenegro's EU Accession Programme within WG 9, 17, 18 and 32. The members of the working groups for negotiation chapters attended the Second Seminar on Developing the Montenegro's EU Accession Programme for the period 2014-2018 as well as the seminar "Development of the Financial Part of the Montenegro's EU Accession Programme" organised by the Ministry of Foreign Affairs and European Integration.

Activities aimed at improving the 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 October, Governor's engagement in the international cooperation included participation at the annual meetings of the International Monetary Fund and the World Bank in Washington, D.C.