

## Summary of the Governor's Report – June-July 2014

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The Governor's Report for June and July 2014 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 2014 and Guidelines for Implementation of the Central Bank of Montenegro Policy for 2014, on a monthly basis.

In June and July, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2014.

In 2013, according to preliminary Monstat data, gross domestic product of Montenegro increased by 3.5%, while in Q1 2014 it increased by 1.7% in relation to Q1 2013. According to the Ministry of Finance 2014 estimates, the real growth will amount to 3.5%.

In July 2014, prices decreased by 0.4% in relation to the previous month, while the annual inflation rate in July amounted to -1.2%.

In the first seven months, the industrial output recorded a y-o-y decrease of 15.5%. The decline was recorded in the electricity, gas and steam supply sector (32.2%), and in the sector of manufacturing industry (0.7%), while there was growth in the mining and quarrying sector (22.4%). During the first seven months of 2014, the number of tourist arrivals recorded a y-o-y increase of 0.1%, while the number of overnight stays increased by 0.2%. During the first six months of 2014, according to Monstat data, the air passenger transport recorded a y-o-y increase of 5.6% and the air cargo transport increased by 8.1%. During this period, railway passenger transport recorded a y-o-y increase of 41.6%, and railway cargo transport increased by 16.5%. During the first six months of 2014, the road passenger transport recorded a y-o-y increase of 21.2%.

During the first seven months of 2014, production of wood products amounted to 113.410 m<sup>3</sup>, which is an increase of 4.8% in relation to the same period of 2013. In Q2 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 2.5%, measured by effective working hours.

In July 2014, the average number of employed persons amounted to 181,408, which is an increase of 0.9% compared to the previous month and 1.5% more in relation to July 2013. In July 2014, the number of unemployed persons amounted to 31.115, which represents a decline of 1.4% in relation to the previous month and an increase of 3.4% compared to July 2013.

Out of 59,620 legal persons and entrepreneurs, at end-July 2014, accounts of 13,653 or 22.9% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.7%. At end-July, total amount of debt being the basis for freezing of accounts amounted to 445.7 million euros, showing a decrease of 8.7% in relation to end-June.

On 31 July 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 14.2% of the total debt being the basis for freezing of accounts. Moreover, the top 50 debtors (0.4% of total recorded debtors) accounted for 39.5% of the total debt being the basis for freezing of accounts.

At end-July 2014, total assets and liabilities increased by 1.3% compared to the previous month and amounted to 3,045.4 million euros. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 1.1% higher in relation to the previous month and 0.5% lower in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 71.9%. In July 2014, deposits amounted to 2,188.2 million euros, which represents a monthly increase of 1.9% and an

increase 4.3% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for 596.1 million euros or 27.2%, while household deposits accounted for 1,270.1 million euros or 58%. At end-July 2014, total capital of banks amounted to 430.4 million euros, which is 0.5% more in relation to the previous month and a y-o-y increase of 8.2%.

At end-July, past due loans (without interests and prepayments and accruals) amounted to 533.1 million euros, which is an increase of 4.1% in relation to the previous month, while they recorded an increase of 11.4% in relation to the end of the previous year. At end-July 2014, non-performing loans (without interests and prepayments and accruals) amounted to 417.2 million euros and made up 17.4% of total loans. In relation to the previous month, non-performing loans increased by 3.6% while they decreased by 1.4% in relation to end-2013.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.55% at end-July 2014, which represents a monthly increase of 0.01 percentage points, while in relation to December 2013 it recorded an increase of 0.19 percentage points. The weighted average effective interest rate (WAEIR) on new loans approved amounted to 10.18% in July 2014, which represents a monthly increase of 0.13 percentage points, while in relation to December 2013 it recorded an increase of 0.76 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.08% at end-July 2014, showing a decline of 0.01 percentage points in relation to the previous month, while it recorded a decline of 0.46 percentage points in relation to end-2013.

At end-July 2014, reserve requirement of banks amounted to 203.1 million euros, which represents a monthly decline of 5.3 million euros or 2.7%, while in relation to end-2013, reserve requirements increased by 6.2 million euros or 3.2%. In July, two banks did not use the possibility to allocate a part of their reserve requirements in the form of T-bills. Of the total amount of allocated reserve requirements, some 43.3% was allocated to the CBCG account held abroad, 36.1% to the account of reserve requirement in the country, and 20.6% in the form of T-bills. During July 2014, all banks allocated and maintained reserve requirements within prescribed limits.

According to the preliminary information by the Insurance Supervision Agency, the gross insurance premium amounted to 6.6 million euros, in July 2014. Non-life insurance premiums still accounted for the main share in its structure with 88.1%, while invoiced life insurance premiums accounted for the remaining 11.9%.

In July 2014, Montenegro stock exchange recorded a turnover in the amount of 2 million euros, through 390 transactions. The turnover was 38.2% lower in relation to the previous month. Market capitalisation, as at 31 July 2014 amounted to 2.9 billion euros, thus recording a monthly increase of 2.2%. The MONEX20 index, which amounted to 10,255.55 index points at end-July 2014, increased in relation to the end of the previous month by 5.5%, while investment fund index MONEXPIF amounted to 2,705.95 and recorded a monthly increase of 4.4%.

In July 2014, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 13.4 million euros, while in July 2013 there was a deficit in the amount of 37.8 million euros. For the seven months of 2014, budget deficit amounted to 50.5 million euros, i.e. 1.4% of estimated GDP for 2014. Current revenues of the budget of Montenegro amounted to 120.7 million euros or 3.4% of GDP, which represents a decrease of 2.6% in relation to the plan for July. In relation to current revenues recorded in July 2013, there was a decrease of 1.5%. Budget expenditures amounted to 107.2 million euros or 3% of GDP which is 3.8% less in relation to the plan for July 2014, and 33.1% less in relation to July 2013. At end-July 2014, public debt of Montenegro amounted to 2,022.1 million euros or 57.5% of GDP. Out of that, domestic debt accounted for 438.3 million euros or 12.5% of GDP, while external debt accounted for 1,583.8 million euros or 45% of GDP.

In the first six months of 2014, current account deficit recorded an increase, which mostly came as a result of negative trends in the goods account. As per preliminary data, the current account deficit amounted to 441.8 million euros which represents a y-o-y increase of 5.6%. In the reporting period, deficit in the goods account increased by 3.5%, which came as a result of decreased export of goods by 20%. These trends were mostly contributed by the decrease of export of electricity and metal industry products. There was a surplus in the services account in the amount of 121.3 million euros or 11.6% more in relation to the corresponding period of 2013. In the primary and secondary income accounts, surplus amounted to 80.4 million euros. In the period January-July 2014, as per preliminary

data, net FDI inflow amounted to 189.8 million euros which is 1.2% more in relation to the comparative period of 2013.

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. The activities regarding the Central Bank's role as a fiscal agent were performed successfully. RTGS and DNS systems availability amounted to 99.71% in June and 100% in July.

In June and July, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. In the context of European Commissions' screening report for Chapter 17, development of the action plan for harmonisation with the EU acquis was initiated. With support of the Ministry of Foreign Affairs in Ljubljana, within bilateral technical assistance for negotiations with the EU, advisory meetings were held with the Slovenian expert from the Ministry of Finance, Mr Stane Venecelj, regarding the development of the action plan in the field of public finances, i.e. implementation of the ESA 2010. The CBCG prepared and submitted to the Ministry of Foreign Affairs and European Integration the relevant annex to the annual EC progress report for the reporting period 1 April – 1 September 2014. In line with the request of this Ministry, the CBCG communicated updated information for the second report on implementation of obligations under the Stabilisation and Association Agreement for the reporting period September 2013-July 2014. Comments to the draft of the common position of the European Union for Chapter 4 - Free movement of Capital were prepared and submitted for the purpose of visit of the Minister of Finance to Brussels. Chapter 4- Free Movement of Capital was opened at the meeting of the Intergovernmental conference on accession to the EU, held on 24 July. The CBCG representatives took part in the XI meeting of the Committee on banking, other financial organisations and insurance, where participants presented a screening report of Montenegro's legislation for Chapter 9 – Financial Services, held on 3 July in the premises of the Chamber of Commerce of Montenegro. On 10 July, at invitation, the CBCG representatives participated in the meeting of the Committee for European integration of the Parliament of Montenegro, where a Draft Negotiation Position for Chapter 9 – Financial services was discussed. The CBCG representatives were also involved in the IV meeting of the Commission for European Integration held on 16 July where participants discussed the Second quarterly report on the implementation of obligations from the Montenegro's EU accession programme for the period 2014-2018. At the invitation of the Ministry of Finance, the CBCG representatives attended the meeting of the Sub-committee for industry, trade, customs, taxation and cooperation with other candidate countries.

The general public was informed timely and 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. 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.