

Summary of the Governor's Report – March 2014

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The Governor's Report for March 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.

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%. According to the Ministry of Finance 2014 estimates, the real growth will amount to 3.6%.

In March 2014, prices increased by 0.1% in relation to the previous month, while the annual inflation rate in March was negative and amounted to -0.9%.

In the first three months, the industrial output recorded a y-o-y decrease of 3.9%. The decline was recorded in the electricity, gas and steam supply sector (24.3%), while there was growth in the mining and quarrying sector (16.1%) and in the sector of manufacturing industry (25.2%). According to preliminary Monstat data, during the first three months of 2014, the number of tourist arrivals recorded a y-o-y increase of 2.2%, while the number of overnight stays increased by 8.2%. In Q1 2014, the air passenger transport recorded a y-o-y increase of 5.1% and the air cargo transport also increased by 5.1%. During this period, railway passenger transport recorded a y-o-y increase of 49.4%, and railway cargo transport increased by 49.1%, while the road passenger transport increased by 31.2%.

During the first three months of 2014, production of wood products amounted to 19,381 m³, which is an increase of 86.2% in relation to the same period of 2013. In Q1 2014, according to preliminary Monstat data, construction recorded a y-o-y decrease of 13.2%, measured by effective working hours.

In March 2014, the number of employed persons amounted to 170,177, which is an increase of 0.8% compared to the previous month and 1.5% more in relation to March 2013. In March 2014, the number of unemployed persons amounted to 34,671, which represents an increase of 0.02% in relation to the previous month and an increase of 5.1% compared to March 2013.

Out of 56,823 legal persons and entrepreneurs, at end-March 2014, accounts of 13,456 or 23.75% were frozen. In relation to the previous month, the number of frozen accounts of legal persons and entrepreneurs increased by 0.9%. At end-March, total amount of debt being the basis for freezing of accounts amounted to EUR 481.8 million, showing a monthly increase of 4.1%.

On 31 March 2014, the debt concentration was relatively high, considering that the top 10 debtors (0.07% of total recorded debtors) accounted for 21.8% of the total debt. Moreover, the top 50 debtors (0.37% of total recorded debtors) accounted for 46.8% of the total debt being the basis for freezing of accounts.

At end-March 2014, total assets and liabilities decreased by 0.1% compared to the previous month and amounted to EUR 2,969.7 million. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share, and were 0.4% lower in relation to end-2013 as well as in relation to end-2013.

In terms of the structure of liabilities, deposits make up the dominate share of 70.9%. In March 2014, deposits amounted to EUR 2,104.3 million, which represents a monthly increase of 0.1% and an increase of 0.3% compared to end-2013. Out of the total amount of deposits, corporate deposits accounted for EUR 542.8 million or 25.8%, while household deposits accounted for EUR 1,239.2

million or 58.9%. At end-March 2014, total capital of banks amounted to EUR 421.8 million, which is EUR 1% more in relation to the previous month and a y-o-y increase of 6%.

In March, past due loans (without interests and prepayments and accruals) amounted to EUR 556.7 million, which is an increase of 7.6% in relation to the previous month. At end-March 2014, non-performing loans (without interests and prepayments and accruals) amounted to EUR 393.9 million and made up 16.4% of total loans. In relation to the previous month, non-performing loans decreased by 7.6%.

The weighted average effective interest rate (WAEIR) on total loans approved amounted to 9.42% in March 2014, which is the same as in the previous month, while in relation to December 2013 it recorded an increase of 0.06 percentage points. The weighted average depositing interest rate (WADIR) amounted to 2.34% in March 2014, showing a decline of 0.11 percentage points on a monthly level, while it recorded a decline of 0.20 percentage points in relation to end-2013.

At end-March 2014, reserve requirement of banks amounted to EUR 196.3 million, which is 0.5% less compared to the previous month, while in relation to end-2013, reserve requirements decreased by 0.3%. In March, nine banks used 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 44.8% was allocated to the CBCG account held abroad, 30.4% in the form of T-bills, and 24.9% to the account of reserve requirement in the country. During March 2014, 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.

According to the preliminary information by the Insurance Supervision Agency, the gross insurance premium amounted to EUR 6.4 million, at end-March 2014. Non-life insurance premiums still accounted for the main share in its structure with 81.9%, while invoiced life insurance premiums accounted for 18.1%.

In March 2014, Montenegro stock exchange recorded a turnover in the amount of EUR 45.1 million, which is 12 times more in relation to end of the previous month. The total trade was realised through 582 transactions. Market capitalisation, as at 31 March 2014 amounted to EUR 2.9 billion, thus recording a monthly decline of 0.5%. The MONEX20 index decreased in relation to the end of the previous month by 3.8%, while investment fund index MONEXPIF increased by 2.5%.

In March 2014, Montenegrin fiscal deficit amounted to EUR 17.9 million, while in March 2013 there was a deficit in the amount of EUR 15.5 million. For the first three months of 2014, budget deficit amounted to EUR 49.2 million, i.e. 1.4% of estimated GDP. Current revenues of the budget of Montenegro amounted to EUR 100.5 million, or 2.9% of GDP, which is 12.5% higher than the plan for March. In relation to current revenues recorded in March 2013, there was an increase of 13.8%. Budget expenditures amounted to EUR 118.4 million or 3.4% of the GDP, which represents an increase of 6.2% in relation to the plan for March 2014, and 14.1% more in relation to March 2013. In March 2014, capital budget amounted to EUR 6.2 million.

As per preliminary data, the current account deficit amounted to EUR 487 million or 14.6% of GDP, which represents a decline of 17.1% in relation to 2012. The decline of deficit came as a result of a decline of foreign trade deficit and positive trends in other sub-accounts of the current account. During Q1 2014, as per preliminary data, net FDI inflow amounted to EUR 78 million which is 19% more in relation to the same 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 was 100%.

During this period, the following reports were prepared: the Central Bank of Montenegro Annual Report 2013, the Price Stability Report 2013, and Annual Financial Stability Report 2013.

In March, the Central Bank carried out significant activities aimed at meeting obligations on the road towards Montenegro's accession to the EU. The first Draft of Negotiation Position for Chapter 9 – Financial Services was submitted to the European Commission. The representatives of the CBCG participated at the meeting of the working group for Chapter 18 - Statistics, on the occasion of presenting the EC report for this chapter, and the Draft Negotiation position. CBCG representatives also participated in meeting for negotiation Chapter 24. The delegation participated in the meeting held at the premises of the Ministry of Foreign Affairs and European Integration with the Programming mission of the B1 Unit of the DG ELARG who visited Montenegro to continue working on the development of action documents for projects planned for 2014.

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.