

## **4.** **BANKING AND FINANCIAL** **OPERATIONS**

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Activities of the Central Bank in financial and banking operations were primarily directed towards making basic assumptions for safe investment of FX reserves and providing the necessary amount of effective euros for the conversion of DEM to EUR. Due to the undefined national-legal status of Montenegro, recognition and acceptance of the Central Bank by foreign banks encountered difficulties with substantial resistance and obstacles.

On the basis of the concluded Contract with the Ministry of Finance and as a fiscal agent of the Republic auction sales of treasury bills was made, all foreign credit operations were paid, and suitable expert help was given to the state Vault and other Republic bodies and institutions.

During the year control of accounting and appropriation of mandatory reserves of commercial banks with the Central Bank was permanent.

Assets were provided and conditions were made for banks to, when necessary, use loans with the Central Bank for maintaining current liquidity.

Records of old loans by foreign creditors and end users were updated.

All foreign and frozen FX savings liabilities from the balance sheet of Montenegrobank ad – Podgorica were transferred to a special balance sheet.

Previous and subsequent control of foreign trade activities of economic subjects from Montenegro was successfully carried out from the aspects of: reporting concluded business deals with abroad, realization of export and import of goods and services, and monitoring of payments and collections.

#### **4.1.**

### **Foreign exchange reserves management**

The necessary conditions and assumptions were made in 2002 for safe investments of FX reserves and efficient foreign payment operations activities. For that purpose the following activities were: foreign exchange accounts were open with numerous prime banks in the world, and correspondent and business relations were established with the biggest banks, all necessary activities were taken for joining the SWIFT association, young and competent staff were employed and their training in their country and abroad was provided, and so on.

Due to engaged FX reserves assets for the conversion process of DEM to EUR in the first half of year 2002 those assets could not be invested to bear interest with foreign banks. However, at the end of July 2002 we started making short-term time deposits abroad and thus significant income was obtained. In accordance with the established policy investment of assets was made with banks with the highest rating. In order to decrease the investment risk we made the investment plan and took measures for their diversification, i.e. in accordance with the adopted criteria we invested assets with numerous prime banks.

#### **4.2.**

### **Fiscal agent and adviser**

On the basis of the concluded Contract with the Minister of Finance the Central Bank provided banking and other services on behalf of and for the account of bodies and organizations of the Republic as a fiscal agent. Those services were:

- opening of new and termination of old accounts with the Payment Operations Department;
- giving advice and recommendations concerning financing the budgetary deficit;
- conducting foreign payment operations and regular servicing of credit operations towards foreign creditors and
- issuing of treasury bills.

Sales of treasury bills were made according to a special Decision of the Government of the republic of Montenegro. Treasury bills are sold by auction with 28-day and 56-day maturity. In 2002 Xi auctions of 28-day and 56-day treasury bills

auctions were organized and their buyers were banks and enterprises. Commercial banks were specially encouraged to invest their assets in treasury bills with the opportunity to hold 10% of their mandatory reserves as treasury bills.

**Table 29.**  
**Treasury bills auctions–**  
**28-day treasury bills**

Number of auction	Date	Issued	Sold	Average rate
VI AUCTION	23.01.2002.	2.500.000,00	2.500.000,00	7,05
VII AUCTION	20.02.2002.	2.500.000,00	2.500.000,00	7,05
VIII AUCTION	20.03.2002.	2.500.000,00	2.500.000,00	7,02
IX AUCTION	17.04.2002.	2.500.000,00	2.500.000,00	7,02
X AUCTION	15.05.2002.	2.500.000,00	2.500.000,00	6,99
XI AUCTION	12.06.2002.	2.500.000,00	2.500.000,00	6,92
XII AUCTION	10.07.2002.	3.000.000,00	2.869.500,00	7,13
XIII AUCTION	07.08.2002.	3.500.000,00	2.904.500,00	7,37
XIV AUCTION	04.09.2002.	3.500.000,00	3.492.000,00	7,53
XV AUCTION	02.10.2002.	4.000.000,00	2.792.000,00	7,36
XVI AUCTION	30.10.2002.	6.000.000,00	4.467.000,00	7,41
XVII AUCTION	27.11.2002.	6.000.000,00	5.077.000,00	7,79
XVIII AUCTION	25.12.2002.	6.600.000,00	5.774.000,00	8,14
<b>TOTAL:</b>		<b>47.600.000,00</b>	<b>42.376.000,00</b>	

Broj aukcija	Date	Issued	Sold	Average rate
I AUCTION	06.02.2002.	2.000.000,00	0,00	-
II AUCTION	06.03.2002.	3.000.000,00	1.085.000,00	7,50
III AUCTION	30.04.2002.	2.000.000,00	800.000,00	6,88
IV AUCTION	29.05.2002.	2.000.000,00	1.500.000,00	7,00
V AUCTION	26.06.2002.	1.000.000,00	560.000,00	6,61
VI AUCTION	24.07.2002.	2.000.000,00	2.000.000,00	7,72
VII AUCTION	21.08.2002.	2.500.000,00	1.560.000,00	7,80
VIII AUCTION	18.09.2002.	3.000.000,00	1.386.500,00	7,82
IX AUCTION	16.10.2002.	3.000.000,00	1.750.000,00	7,96
X AUCTION	13.11.2002.	3.000.000,00	1.670.000,00	8,04
XI AUCTION	11.12.2002.	3.500.000,00	2.350.000,00	8,13
<b>TOTAL:</b>		<b>30.000.000,00</b>	<b>16.331.500,00</b>	

The total of treasury bills in 2002 were in the amount of EUR 58.7 million, where EUR 42.4 million were 28-day treasury bills (or 72%) and EUR 16.3 million were 56-day treasury bills (or 28%) of total issued amount.

**Table 30.**  
**Treasury bills auctions -**  
**56-day treasury bills**

EUR 42.4 million (or 89%) of total issued EUR 47.6 million worth 28-day treasury bills were sold, while from the issued EUR 30 million worth 56-day treasury bills EUR 16.3 million (or 54%) were sold. The average annual interest rate was 7.26%. With 28-day treasury bills annual interest rate was 7.4%, and with 56-day treasury bills it was 6.9%.

During 2002 all money transfers to the amount of EUR 11.7 million for foreign credit payments (IBRD and Paris club) were made on time.

During the year the Ministry of Finance was continuously provided with suitable expert help and advice when deciding upon the annual budget and providing certain data and making actual foreign payments.

### **4.3. Control of accounted and appropriated mandatory reserves**

Control of reports for mandatory reserves for 25 accounting periods was conducted in the year 2002. The average state of appropriated mandatory reserves was around EUR 45 million, where EUR 42.9 million referred to appropriated assets in the account with CBM – Payment Operations, and EUR 2.1 million referred to treasury bills reserves. The mandatory reserves ratio changed four times - from 80% to 50%, while the basis for its appropriation stayed the same. Commercial banks did not use much of their mandatory reserves – 32 days for all banks.

Irregular accounting of mandatory reserves was determined in November with four banks, so corrections of the accounts were made for all periods, and charged interest for unfulfilled mandatory reserves was to the amount of EUR 675.176 thousand.

In the period the banks did not use credits with the Central Bank of Montenegro for the purpose of maintaining current liquidity (intra-daily and overnight credits).

### **4.4. Monitoring and registration of foreign credits**

In accordance with legal regulations, control and registration of concluded foreign credit activities were made as well as the recording of interest and principal payments of all credits.

Representatives of expert agencies took part in bilateral negotiations on foreign debt rescheduling with some of the member countries of the Paris club (Germany, France, Austria, the Netherlands, and Sweden). However, despite difficulties in the cooperation with representatives from the National Bank of Yugoslavia on coordination of data and negotiations as a whole, overall files of all pre-sanctions credits were provided, which are the subject of the consolidation and

rescheduling of debts.

Final records and allocation of old credit commitments will be made after reaching an agreement between the Republic of Montenegro and the Republic of Serbia on the division of foreign debt.

#### **4.5.**

### **Meeting liabilities as a part of special balance**

On the basis of Decision of the Government of the Republic of Montenegro all liabilities of Montenegrobank ad Podgorica balance sheets of frozen FX savings and foreign debts were transferred to a special balance sheet, which for now belongs to the Central Bank, and accompanying documentation was also prepared. When bankruptcy proceedings against Jugobank ad Podgorica was initiated, payment of frozen FX savings was provided for depositors of these banks.

According to the Conclusion of the Government of RMN from October 22, 2002 payment of frozen FX savings was organized for depositors of Montenegrobank and Jugobank – EUR 500 individually for savings deposits more than DEM 10.000, i.e. EUR 300 for retired persons older than 65 whose deposits were up to DEM 10.000. During 2002 payments to the amount of EUR 1.7 million were made, where EUR 0.7 million was for Montenegrobank ad Podgorica, and EUR 1.1 million for Jugobank ad Podgorica.

#### **4.6.**

### **Foreign exchange and documentary control of foreign trade**

In the proceeding of immediate enforcement of foreign trade and customs regulations, foreign exchange-documentary control (previous and subsequent) was conducted of legal persons and entrepreneurs from the Republic, who are the bearers of foreign trade activities. Namely, in direct communication with foreign trade companies continuous control was provided as well as monitoring of foreign trade activities from the aspects of: reporting concluding contracts, physical volume of imports and exports of goods and services, and making payments and collections for every report, i.e. concluded business deals individually.