

**IMMEDIATE
ATTENTION**

EBD/07/25

March 9, 2007

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Montenegro—Representative Rate for the Euro**

Attached for consideration by the Executive Directors is a paper on the representative rate for the currency of the Republic of Montenegro.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **the close of business on Thursday, March 22, 2007**. In the absence of such a request, the draft decision that appears on page 3 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter. It is not intended to post this paper on the Fund's external website.

Questions may be referred to Mr. Hatch (ext. 37552) and Mr. De Luca (ext. 38258) in FIN.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Republic of Montenegro—Representative Rate for the Euro

Prepared by the Finance Department

In consultation with the European, Legal, and Monetary and Capital Markets Departments

Approved by Michael G. Kuhn

March 8, 2007

1. The Republic of Montenegro became a member of the Fund on January 18, 2007. As a new member, the Republic of Montenegro will need to establish procedures with the Fund for determining a representative exchange rate for its currency, in accordance with Rule O-2(b)(i) of the Fund's Rules and Regulations, as proposed in this paper for Board consideration.
2. Pursuant to its national legislation, the Republic of Montenegro does not issue a currency of its own but uses the euro as legal means of payment, which for the purposes of the Articles of Agreement of the Fund is deemed to be the currency of the Republic of Montenegro.¹ In 1999, the Montenegrin government introduced the German mark as parallel tender (along with the dinar). In 2001, the German mark became the sole legal means of payment in Montenegro until it was replaced by the euro in 2002.
3. In December 1998, the Fund determined the procedures for the representative exchange rate for the euro under Rule O-2(b)(i) of the Fund's Rules and Regulations after consultation with the 11 members that subsequently adopted the euro when it was introduced on January 1, 1999.² These procedures provide that (i) the representative exchange rate for the euro under Rule O-2(b)(i) of the Fund's Rules and Regulations is the rate against the U.S.

¹ See *Membership for the Republic of Montenegro—Report by the Executive Board to the Board of Governors* (EBD/06/130, Supplement 1, 11/17/06).

² See *The EMU and the Fund—Operational Issues* (EBS/98/21, 12/11/98) and Executive Board Decision No. 11858-(98/130) G/S, adopted December 17, 1998.

dollar as published daily by the European Central Bank, and (ii) the European Central Bank will promptly inform the Fund of any changes in the exchange arrangements which may affect the determination of the representative exchange rate. These same procedures were later applied to Greece and to Slovenia, after they became new members of the euro area on January 1, 2001 and January 1, 2007, respectively.³ These procedures were also extended to San Marino, a non-euro area member, after the euro replaced the Italian lira as San Marino's legal means of payment at the time.⁴

4. Consultations have taken place with the Montenegrin authorities concerning the Fund's determination of a representative rate for the currency of the Republic of Montenegro (see attached communication). As the Republic of Montenegro does not issue a currency of its own but uses the euro as legal means of payment, it is proposed that the approach used to determine the representative exchange rate for the euro-area members be similarly extended to the Republic of Montenegro. Accordingly, the following draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

Attachment

³ See *Greece—Representative Rate for the Euro* (EBD/01/1, 01/02/01) and *Slovenia—Representative Rate for the Euro* (EBD/06/153, 12/27/06).

⁴ See *San Marino—Representative Rate for the Euro* (EBD/99/68, 06/10/99).

Proposed Decision

After consultation with the authorities of the Republic of Montenegro, the Fund determines that the representative exchange rate for the euro specified in Decision No. 11858-(98/130) G/S, adopted December 17, 1998, shall apply to the Republic of Montenegro.

ATTACHMENT

Inbound authenticated SWIFT message
Received from the Central Bank of Montenegro
February 13, 2007.

ATTN.IMF FINANCE DEPARTMENT

REFERENCE: YOUR SWIFT MESSAGE DATED FEB 8 2007

THE CURRENCY USED IN THE REPUBLIC OF MONTENEGRO IS THE EURO. THE CENTRAL BANK OF MONTENEGRO ACCEPTS THE FUNDS' PROPOSAL THAT THE SAME PROCEDURE USED TO DETERMINE THE REPRESENTATIVE RATE FOR EURO AREA MEMBERS WILL ALSO APPLY TO THE REPUBLIC OF MONTENEGRO. WE UNDERSTAND THAT UNDER THESE PROCEDURES, THE REPRESENTATIVE RATE FOR THE EURO UNDER RULE O-2(B) (I) OF THE FUNDS' RULES AND REGULATIONS IS THE RATE AGAINST U.S.DOLLAR AS PUBLISHED DAILY BY THE EUROPEAN CENTRAL BANK.

SNEZANA MILIC
CENTRAL BANK OF MONTENEGRO