

Summary of the papers

Igor Lukšić
Milorad Katnić

On implications of EURO to fiscal policy in Montenegro

Abstract

Introduction of the euro as legal tender in the Montenegrin economy has made the public expenditure policy an axis instrument of the economic transition. At the same time it has imposed the need for the fiscal stabilisation as well as for the consolidation of the public finances. It is interesting to explore where Montenegro stands today in relation to the euro zone countries, which had to comply with certain fiscal rules in order to implement the common currency policy. Also, there are still a lot of challenges to face on the road of creating favourable climate for the sustainable growth and development of the Montenegrin economy. The major are to decrease the public expenditure-to-GDP ratio as well as to conduct further structural reforms.

Key words: *Euro, Fiscal policy, Government spending, Rules, Consolidation*

Slobodan Lakić

Positioning of the hedge funds in finance industry

Abstract

Hedge funds are large funds which use supposedly sophisticated financial techniques to speculate in the financial markets. They are not particularly accessible to smaller investors. Hedge funds share several characteristics that distinguish them from traditional asset managers. A number of different investment strategies are employed by hedge funds. Potentially high fees attract quality managers to the sector who align their interests with those of investors. Leverage can be in the form of bank debt or buying on margin. Funds of hedge funds provide exposure to hedge funds through a relatively low minimum investments and can provide higher levels of disclosure. The first hedge fund was established 56 years ago by Alfred Jones. One of the biggest and most prestigious hedge funds was New York based Long-Term Capital Management. The Federal Reserve played a key role in organizing and hosting

meetings between LTCM and the institutions that would ultimately rescue the troubled hedge funds.

Key words: *hedge, hedge funds, speculation, leverage, hedge funds strategies, risk management, funds of hedge funds, Long-Term Capital Management, currency crises*

Vladimir Kaščelan

Place and Role of custody banks in capital market

Abstract

Custody banks keep securities portfolio for their clients. The possibility to offer this kind of services lies on unique accounts structure within CSD (Central Securities Depositories). When performing trade a client will deposit his securities with a custodian and use a broker to conduct trade. A broker must inform the custody bank to transfer the securities to the broker's account for that client, in order to trade with them. This paper deals with the role of the custody banks on the capital market rather than with their role in the back-office services which they render to the institutional investors.

Key words: *Custody bank, CSD, securities accounts, capital market, broker, clearing and settlement of trades, Global Depositary Receipts.*

Dragan Lajović

Adequacy of information as precondition for growth and development of funds industry in Montenegro

Abstract

This work is about information on investment funds, relevant for both their stakeholders and regulatory bodies as well as the potential investors. Informational base especially highlights the prospect of the fund through the following: transaction costs in companies, operational costs and effects of provision on earnings in long-term period. In addition to profile and content of the prospect, not less important for the investor are additional information and periodical reports. This work analyses the information offered by the funds' industry in Montenegro, as the youngest part of financial market which started to operate in spite of negative circumstances.

Key words: investment funds, prospect, provision, costs, portfolio.

Marijana Mitrović

Potential weaknesses of financial system which may lead to financial instabilities and / or potential crisis

Abstract

Financial system around the globe in recent history has become increasingly integrated. Policy makers in different parts of the world responded by liberalization of their markets to this new developments. Openness of the borders for free flows of capital, goods and people (with less degree and more constraints on this market) has brought a new pattern in financial flows between developed and developing world countries. These inflows are not just simple macroeconomic shocks for developing countries to handle but they also manifested as structural change that they have to undertake in order to escape the negative effects that may occur as a result of liberalization process. There has been a positive effects as well, seen as a facilitating a very rapid growth on the one hand but on the other large capital reversals can occur very quickly leading to the financial turbulence and distress of the economy. Being integrated in financial market implies facing the world competitiveness and

instability with which it can be associated. It becomes very clear that financial flows and new architecture in connection with it is very complex to manage. This paper will discuss this issue and try to identify if there are any warning signals that helps anticipating potential problems, with the focus on emerging markets. Observing weaknesses and identifying some possible precursors measures may be used as a tool for minimizing the risk of financial crisis.

Key words: *Financial system; liberalization; financial flows; signals; financial crisis*

Milan Lakićević

Applications of model of statistical compromise and Hamas's model to frame structure of capital of joint stock companies

Abstract

In the scientific sphere of economics a big number of theories explaining the structure of stock company capital has appeared so far. All the given theories are based on a primarily significant factor which significantly influences the capital structure.

The theory of economics has not yet answered the two questions. Is there an optimal capital structure? If yes, is it possible to determine it?

Empirical researches, conducted with the aim of proving the basics of capital structure have had different effects. The results of empirical researches have more or less confirmed the attitudes of theory of capital structure.

Theory of capital structure suggests that each company has an optimal capital structure which maximizes its value and minimizes its average capital price. However, empirical researches connected with the capital structure have shown that there are many contradictory questions concerning theoretical hypotheses and that one cannot precisely determine optimal structure for a company based only on theoretical model. Decisions connected with the actual capital structure of a stock company are based mostly on subjective estimations, but estimations which are supported by solid quantitative structure. In practice, nobody knows how to accurately identify a firm's optimal capital structure, or how to measure exact effects

of capital structure on the price of actions and capital. Decisions connected to the capital structure have to be made by combining of estimations and numerical analysis.

Models which are considered to be most adequate for practical purpose in the domain of shaping of structure of capital of stock companies in Montenegro are: Hamada model and The model of static compromise.

Key words: *financial structure, capital structure, the average capital price, business risk, financial risk, market line of securities, market value, financial difficulties, agency expenses.*

Gordana Radojević

Reform of banking system in Montenegro – how far we are?

Abstract

Transition toward market economy and EU membership impacted significant changes in the banking sector of Montenegro. The main goal of the financial sector reform defined within the Economic Reform Agenda is: *“Establishment of the stabile financial system, which is privately owned, completely integrated within the international structures and which offers safe and stabile return rates for deponents and real capital prices for credited”*. Further banking sector improvement as a part of entire financial sector reform is planed to be implemented by stimulation of banks privatization which would increase competitiveness as well as the quality and prices of services.

Key words: *banking system, interest rate, reform, transaction costs, liquidity, regulations*

Maja Drakić

Risk measure at financial markets using Value-at-Risk method

Abstract

The increased volatility of financial markets during the last two decades has induced researchers, practitioners and regulators to design and develop more sophisticated management tools. Value at Risk has become standard measure that financial

analysts use to quantify market risk. Value at Risk is defined as the maximum potential loss in value of portfolio due to adverse market movements, for a given probability. The great popularity this instrument has achieved is essentially due to its conceptual simplicity: VaR reduces the (market) risk associated with any portfolio to just one number, the loss to a given probability.

VaR measures can have many applications, such as in risk management, to evaluate the performance of risk takers and for regulatory requirements, and hence it is very important to develop methodologies that provide accurate estimates. Capital requirements imposed by the Basel Committee on Banking Supervision (1996) at the Bank for International Settlements to financial institutions are based on VaR estimates.

The main objective of this paper is to introduce basic principles of VaR and present methodology of VaR estimation.

Key words: *Financial Markets, Risk, Value at Risk, Risk Management*

Vladimir Kovacevic

Merger control and competition policy in Montenegro in view of EU Accession

Abstract

In the context of accession into European Union, this paper highlights the significance of the European competition policy. Furthermore, paper assesses the impact of harmonisation between the Law of European Community and laws of ex-transition countries in the field of competition policy. Considering the decisiveness of Montenegro to be the part of European integrations, we analyse the expectations of changes that must be performed during the process of integration in order to fulfil the requirements for joining the EU in the field of competition policy.

Key words: *competition policy, antitrust, merger, state aid, harmonisation*

Saša Vujošević

Security of internet banking in Montenegro

Abstract

During the end of the last year and the beginning of this year many banks in Montenegro have started with e-banking. As a part of the offer some banks support Internet banking.

Electronic banking systems provide us with easy access to banking services. The interaction between user and bank has been substantially improved by deploying phone banking, Internet banking, and more recently, mobile banking. This paper discusses the security of Internet banking in Montenegro.

There have been described some protection techniques of unsafe channels and their appliance in Internet banking. Also, there has been analyzed Internet banking in Montenegro, with specific retrospective view on authentication certificates and certificates authority (CA).

Key words: *E-banking, Internet banking, security, cryptography, SSL, CA*

Jelena Janjušević

Capital market in Montenegro – example of successful reforms

Abstract

Since 2001, Montenegrin capital market is developing as a result of the privatization process, especially Mass Voucher Privatization, which influenced on the transition reference, as well as on the development of the market economy, with capital market in its heart. Capital market becoming very important part of the whole Montenegrin economy. In relatively short time period Montenegrin capital market became competitive to the capital markets in the region.

Number of domestic and foreign investor is increasing, as well as the number of the citizens, which are interested to find their chance in the Stock exchange trade.

Although inflow of the foreign capital is continuously growing, domestic investments also increase. There are lots of people that borrow credits in banks in order to invest that money on the capital market. People make decisions on they own and they are ready to face with the consequences of these decisions. Finally, the stock exchange in Montenegro is realized as any other market with securities as an instrument for trade, which is traded in order to earn money in the same way as any other good.

Key words: *capital market, stock exchanges, information, risk, decision, investments, and reforms*

Zoran Mihailović

Basic participants and their roles in system of voluntary pension insurance

Abstract

While the international organizations like The World Bank, ILO, OECD offered the world recognized classifications of pension pillars, not much attention was devoted to the explanation of the key players and their roles in the voluntary pension insurance. There are several choices about the institutions that might be the carriers of the System's processes, depending on a number of country specifics. As to the experiences of its neighbors, Montenegro is expected, at least, to follow the positive examples of Croatia, Slovenia and recently Serbia. This paper in further gives the basic explanations of the main institutions that should be involved in the system's creations and briefs their main assignments. It concludes with a quick recap, stressing the importance of the synergy of the institutions and organizations involved.

Key words: *Logic, Pillar, Voluntary Pension Insurance, Pension fund, Management Company, Insurance Company, Custody, State, Synergy*

*Jelena Pavićević
Stanko Mugoša*

Banking insurance

Abstract

Many countries, especially developing countries, have been reforming their financial systems over the past two decades. These reforms have involved the removal of barriers to entry, the reduction of portfolio restrictions and lowering of directed lending requirements, and the general removal of many product limits. One of the most significant changes in the financial services sector over the past few years has been the appearance and development of bankinsurance, banking institutions and the insurance companies have found bankinsurance to be an attractive and often profitable complement to their existing activities. The successes demonstrated by various bankinsurance operations, although not all of them have been successful, have attracted the attention of the financial services sector, and the further new operations continue to be set up regularly.

Bankinsurance means the offering of banking and insurance products from one single provider. Banking and insurance were for a long time two strictly segregated areas of activity. Bankinsurance is a concept that has rewritten the way in which insurance products are distributed in many parts of the world and has the potential to do the same in many other markets. By offering a holistic financial services package, encompassing banking, insurance, lending and investment products and banks can maximise distribution of products to a captive customer base.

Key words: *Bankinsurance, Insurance, Banking, Financial Services, Distribution models, Regulation.*

Srdan Janković

Problems of micro crediting in Montenegro

Abstract

Microcrediting means provision of micro loans and other financial services (for example, micro savings and micro insurance, worldwide) to marginalized people with low incomes, for the purpose of selfemployment, or start up of own businesses, thus enabling them and their families to be economically independant.

Growth of microfinancing directly influence growth of entrepreneurship and role of market, it decreases unemployment and poverty which represent significant part of transition process in which Montenegrin society is currently in.

Key words: *Microcredit, microfinance, adjustment methodologies, funding costs adjustment, poverty, microfinance regulation.*

Aleksandar Vujović

Budget of Montenegro with emphasis on fuel excise tax

Abstract

One of the main income sources of the Montenegrin budget are excises. This budget income source, as any other, presents at the same time direct and/or indirect expenditure for every company and individual. In addition, increased excises produce decrease of the economic freedom in one economy; as excises per product raised, the economic freedom index decrease. However, Montenegrin budget is already in deficit, which is significant burden for entire economy. The question is: are the excises to solve this problem or to even making it more difficult.

Key words: *budget, budget deficit, budget revenue and expenditure, excises, fuel price*

Borislav Uskoković

Compatibility of sport and tourism

Abstract

A high quality shaping of an integrated/destination tourist product, as a functional combination of various goods and services, especially when we speak of a tourist town, presupposes that, among other, many elements (partial products) from the sphere of possibilities of taking up sports or sport recreation are weaved into its content. Simply speaking, the offer of possibilities of taking up sport activities has to represent one of the important characteristic of tourist destinations. The values of sport in tourism should be seen in securing of higher level of meeting tourist needs, that is in stimulating tourist visits/better use of capacities, overcoming of tourist

seasoning problem, in achieving a higher level and content of tourist spending, high quality promoting of destinations through media (PR), positive effects on local inhabitants etc.

Key words: *destination tourist product, sport recreation, meeting tourist needs, economic values of sport in tourism.*

Nemanja Nikolić

Rehabilitation and problems that further development of Montenegrin tourism is facing

Abstract

Tourism can be included in growing industries of the world. We are the witnesses to enlargement of investments in this type of industry, within domestic borders and abroad. The reasons for this expansion lie in the fact that it is tourism that has potential for economic development of countries which pay special attention to this type of economic activity. Montenegro is one of the small countries with great natural potential for tourism development. In the future, tourism will have large positive effects on economic development of Montenegro and it is therefore proclaimed as one of the strategic industries which the future development should be based on.

Key words: *tourism, market, economic prosperity, development....*

Nebojša Obradović

New Tourism products in Montenegro

Abstract

Tourist supply, according previous years, was based on common types of tourism, like summer and sightseeing tourism. The most fragile point of tourism in Montenegro is shortage of season and summer-vacation characteristic of tourism. The main goal is restructuring of "tourism industry" in whole year activity through creating of supply that can attract tourists with better payment ability.

According to that, new tourism products need to be developed, with higher level of quality. Montenegro has great potential for developing of new tourism product that could have great influence on its future development. Some of them are: health

tourism, nautical tourism, rural tourism, cultural and religious tourism, congress tourism, fishing and hunting tourism, transit tourism, sport tourism and speleological tourism.

Key words: *Elite tourism, new products, potentials of Montenegro*

Mira Radunović

Tourism development in Montenegro

Abstract

Tourism is one of the most powerful world economic sector. Importance of tourism in the global, regional and national economies is growing. One of the basic precondition for tourism development is high quality of natural resources combined with adequate quality of services. Thanks to numerous positive trends of development, tourism has become one of the most dynamic branches of economy, with multiple effects.

For Montenegro, tourism is very important export product and generator of employment. Montenegro offers numerous possibilities for development of tourism, with almost 300 km long Adriatic coast with lots of beaches and bays, four national parks, rich natural heritage. Tourism is also the sector with most attractive investments possibilities in Montenegro. In privatization process in tourism focus is not only on price of privatization objects, but also on increase of volume of investments and number of employees. This paper analyzes the effect of privatization and investments in tourism.

Key words: *tourism, privatization, investments, strategic investors, development*

Jasmina Četković
Miloš Knežević

Model to manage risk in construction projects

Abstract

A Project risk is occurring from the reason of conflict of primary project goals: the quality, budget and the project deadline. Infrastructure of investment structures is followed by decision for decreasing risk level, and they are often very complex.

Key words: *civil engineering project, risk, model of risk managing.*

Nikola Perović

Industry of stimulations in USA – basic characteristics

Abstract

In this paper author tried to transfer personal working experience in incentive industry in USA. This industry covers various segments of incentive programs and corporate gift transfers. We will analyze different industry players, characteristics of buyers, different incentive needs, distribution strategies, and the most important elements to succeed in the incentive industry. Although this paper covers American economy, it is valuable for any practice in incentive industry, regardless to the country.

Key words: *incentive, stimulation, player, profile, product.*

Vladimir Vulić

USA: Protectionism ante portas

Abstract

This paper deals with the current economic relations between China and the United States. A brief recap of China's spectacular growth is given in the introduction.

Relevant economic policies and reforms undertaken by Chinese government are also discussed. Various aspects of Sino-American relations are taken into consideration. A number of common myths are debunked. Textile industry issues, which have been the focal point of negotiations in the past years, are discussed. The paper also tries to answer the question whether the US deficit is the result of China's exchange rate policy. Some political issues could not be neglected, and are also discussed. The author's view on the future of these economic relations is given in the conclusion.

Keywords: *trade, deficit, protectionism, quotas, tariffs, exchange rate, growth, unemployment*

Goran Jovetić

Free trade zones development in Montenegro – based on new Law

Abstract

Records have shown a great expansion of free zones in the world, particularly during the last two decades. Free zones are of great importance for domicile countries, and it has been indisputably proved that free zones make significant contribution to the development of domestic economy, whether through investing or co-investing with foreign partners in the free zones, or through connecting domestic economy with foreign companies operating in those areas.

This work is aimed at concise comprising and identifying the most important aspects of free zones in the world and in our country, as well as at providing conceptual model framework for the future development of free zones in Montenegro.

Key words: *Free Zones, The Law on Free Zones, Advantages of free zones*

Slavica Gajić

Forestry and wood processing industry potentials in Montenegro

Abstract

Forest of Montenegro is not only ecological Montenegrin treasure, but also present one of the most important economic potential. Good resource basis created favorable preconditions for forestry and wood processing, especially in the Northern part of the Republic. However, regardless on good conditions for this industry development, it faced many problems in the recent past. The production recorded constant fall and the local market was in deficit with this type of products and raw materials, which caused import increase, especially of the final products.

The situation is also burdened with uncompleted privatization processes in this industry, while the state owned companies had privileges over the private owned once. This was reflected on access to the raw material at the first place and all companies equally depend on it. Market and competition is to create condition for efficient resource allocation as well as to enable competitors to produce products of better quality and design.

Preserving and improving existing forests is necessary and is possible only under the good management and forests protection that should be adjusted to the international standards in order to ensure access to other markets.

Key words: *Forestry, resource, barriers, industry, concession*

Milica G. Daković

Business statistics – review of situation in Montenegro

Abstract

The transitions to democracy and market economy in the region have fundamentally changed the conditions for statistics production and needs for other statistics. Previously, statistics were primarily a tool for planning and control, on basis of produced facts but they are now required to be official statistics based on the UN's principles regarding openness, representativeness, statistical confidence and the

possibility for international comparisons. International contributions in the area of statistics are important for continued development.

Key words: *data, information, statistics, system, business register.*

Vuk Žarić

Montenegro – competitive destination for investment (SWOT analysis)

Abstract

Foreign direct investments (FDI) are very important factor of development of country, which have multiplicative effects on the whole Economy. Foreign direct investments do not represent only the new capital, also they influence at and growth and development institutions, economics freedom, animate free market, influence employees, infrastructure, and so on.

Montenegro are needed FDI, because, every bodies knows what was doing on the territory near Montenegro. From foreign direct investment, Montenegro expects to speed up process of privatization, to make missing institutions and infrastructures.

The objects of this case, is to indicate that is Montenegro competitive investment destination, and there are consist many strengths, how to foreign investors come to Montenegro.

Key words: *investments, economic development, strengths, weekness, opportunity, threats, transition.*

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