

Standard Summary Project Fiche – IPA centralised programmes

Project number 1: Strengthening of the institutional capacities of the National Bank of Serbia (NBS)

1. Basic Information

- 1.1. **CRIS number:** 2008/020-406
- 1.2. **Title:** Strengthening of the institutional capacities of the National Bank of Serbia (NBS)
- 1.3. **ELARG statistical code:** 01.09
- 1.4. **Location:** Republic of Serbia

Implementing arrangements:

- 1.5. **Contracting Authority:** EC Delegation to the Republic of Serbia
- 1.6. **Implementing Agency:** EC Delegation to the Republic of Serbia
- 1.7. **Beneficiary** (including details of project manager):
National Bank of Serbia, Nemanjina 17, 11000 Belgrade, Republic of Serbia

The **Project Manager** is Ms. Slavica Radojevic, General Manager, International Relations Department, National Bank of Serbia, Nemanjina 17, 11000 Belgrade, Republic of Serbia.

A **Project Management Unit (PMU)** will be based in the International Organizations and EU Division, International Relations Department, National Bank of Serbia. The PMU will be responsible for the day-to-day management of the project. They will provide a secretariat for the Project Steering Committee (see below) and they will work closely with the selected technical assistance in order to achieve the project results. Specifically, they will be responsible for commenting on draft reports, liaising with stakeholders and ensuring project results are disseminated to participating institutions.

A project **Steering Committee** will be established prior to the initiation of the technical assistance contract. The role of the Steering Committee is to provide strategic guidance and direction regarding the technical issues on the project. The Committee will meet every 6 months during the implementation of the project to discuss and endorse the 6-monthly progress reports. The Steering Committee will include representatives of all key stakeholders, including representatives of the National Bank of Serbia and the Ministry of Finance. It will be chaired by the Project Manager.

Financing:

- 1.8. **Overall cost (VAT excluded):** 2,500,000 EUR
- 1.9. **EU contribution:** 2,500,000 EUR
- 1.10. **Final date for contracting:** 3 years after the signature of the Financing Agreement
- 1.11. **Final date for execution of contracts:** 5 years after the signature of the Financing Agreement

1.12. Final date for disbursements:

6 year after the signature of the Financing Agreement

2. Objectives

2.1. Overall Objective(s):

To contribute to sustainable macroeconomic and financial system stability by supporting the National Bank of Serbia in fulfilling in the most efficient and effective way its mandate and align its activities with best international practice.

2.2. Project purpose:

Strengthening of institutional capacities, activities and efficiency of the NBS with a view to implementing the NBS' core functions and achieving harmonization with EC internal market regulations and internationally accepted standards on regulation and supervision of financial services.

2.3. Link with EP/SAA:

The European Partnership, in its section on economic criteria, defines the following short-term and medium-term priorities being in whole or partly under the competence of the National Bank of Serbia:

- Sustain macroeconomic stability;
- Maintain a prudent monetary policy stance, backed by an appropriate exchange rate policy;
- Monitor rapid credit expansion and adjust prudential rules;
- Restructuring of the insurance sector;
- Liberalization of short-term capital movements.

The document also includes as a short-term key priority, the strengthening of European integration structures at all levels.

The Stabilization and Association Agreement (SAA) in Chapter IV on Current Payments and movements of capital in Articles 62 through 64 stipulates that during the first four years following the date of entry into force of the SAA, the Republic of Serbia shall take measures permitting the creation of the necessary conditions for free movement of capital.

Strengthening of institutional capacities and activities of the NBS and aligning its main responsibilities such as the protection of price stability and maintenance of financial stability with best international practice will significantly contribute to maintaining overall macroeconomic and financial system stability in the Republic of Serbia.

In addition to being a traditional supervisor of the banking sector, the NBS has also been entrusted with the supervision of insurance and leasing companies and voluntary pension funds. Adopted legislation has been based on EU legislation, but it is necessary to further improve and harmonize domestic regulations with European regulations and standards in the area of supervision of financial services (such as Basel II and Solvency II). The harmonization of legislation represents priorities in the process of European integration and the project would contribute to increasing the level of capability and competence of the NBS staff with regard to the harmonization.

In the context of meeting the criteria for accession to the EU, full liberalization of capital movements is of utmost significance and the project would help in assuring effective and quick implementation and enforcement of the *acquis* on capital movements, drafting the

strategy for the liberalization of capital movements, and in sequencing and pacing the liberalization of capital flows which would not undermine overall macroeconomic stability.

2.4. Link with MIPD:

The Multi-annual Indicative Planning Document (MIPD) for the Republic of Serbia 2007–2009 sets down that the improvement of the socio-economic situation of the country and approximation to European standards shall be a major area of intervention. Socio-economic requirements are related, among other components, to the strengthening of the capacity of the Republic of Serbia to manage its macroeconomic and strategic economic planning and forecasting. The process of approximation to European standards assumes the introduction and implementation of legal *acquis* in all areas, setting the priorities as follows:

- Supporting the development and implementation of sectoral strategy and policy compatible with EC internal market legislation and best practices in area of financial services;
- Supporting the development and implementation of other strategies and policies in order to establish sectoral policies and a regulatory framework compatible with European standards.

The project will contribute to increasing the level of expertise and efficiency of NBS staff with a view to achieving compatibility with EC internal market regulation and best practices in area of financial services. It will also help increase the expertise and capacity in terms of macroeconomic and strategic economic planning. As regards development and implementation of strategies and policies such as strategy for liberalization of capital movements and strategy for more efficient long-term execution of inter-bank transactions on domestic and FX money market, the project will contribute to assuring their compatibility with European standards. Finally, the project will help promote the preparation of the entire financial and banking sector for integration in the financial system of the EU.

2.5. Link with National Development Plan (where applicable): Not applicable

2.6. Link with national/sectoral investment plan (where applicable):

Accession to the European Union represents the strategic goal of the Republic of Serbia, as defined in the “National strategy of the Government of the Republic of Serbia on the accession to the European Union”. The national strategy defines the following priorities under the competence of the National Bank of Serbia:

- strengthening the market instruments of monetary policy (open market operation);
- developing the control function of the central bank;
- liberalization of capital movements;
- strengthening of administrative capacities
- protection of consumers of financial services

The project will focus on each aforementioned priority by increasing the level of expertise and efficiency of NBS staff in the two core fields of central banking – monetary policy and foreign exchange transactions. The strategy for liberalization of capital movements and strategy for more efficient long-term execution of inter-bank transactions on domestic and FX money market as well as increase in staff expertise will facilitate the conduct of monetary policy and liberalization of capital flows. The harmonization with EU legislation will strengthen the control function of the NBS and protection of consumers of financial services as well as financial education for citizens.

The Action Plan of the Government of the Republic of Serbia for strengthening institutional capacity for undertaking obligations in the process of European integration states that is

necessary to strengthen units for European integration in line ministries, agencies and administrations of the government through providing needed equipment for efficient functioning of the European integration units and training of employees. Furthermore, it is necessary to strengthen cooperation between structures for EU integration.

The increase in level of expertise and efficiency of NBS staff involved in the process of European integration would ensure successful, timely and efficient implementation of the process of European integration within the NBS.

Article 3 of the Law on National Bank of Serbia stipulates:

“The primary objective of the NBS shall be achieving and maintaining price stability. In addition to its primary objective, the NBS shall also strive for maintaining financial stability. Without prejudice to its primary objective, the NBS shall support the pursuance of economic policy of the Government of the Republic of Serbia operating in accordance with the principles of market economy.”

Memorandum of the NBS on the principles of the new monetary policy framework has been introduced to as regard the following objectives:

- build an environment characterized by a low and stable rate of inflation compatible with EU accession criteria;
- strengthen the use and regain confidence of the domestic currency;
- increase the flexibility and adjustability of the NBS against temporary domestic and external shocks, as well as the readiness of the NBS to respond to changes in economic fundamentals that are expected as the Republic of Serbia approaches the EU and improves its income level.

3. Description

3.1. Background and justification:

The strategic commitment of the Republic of Serbia toward European integration entails transition from a centralized state economy to a functional market economy. The keystone of every market economy is sound and developed banking and financial sector. The restructuring of the financial sector and its role in sustaining macroeconomic stability represents one of the priorities of successful integration of the Republic of Serbia in the EU. In such environment, a reliable and functionally efficient central bank, as one of the pillars of macroeconomic stability of a country, plays a key role in the process of country's accession to the European Union.

The National Bank of Serbia (NBS) is the central bank of the Republic of Serbia. The primary objective of the NBS is achieving and maintaining price stability, and in addition to that, maintaining financial stability. Without prejudice to its primary objective, the NBS shall support the pursuance of economic policy of the Government of the Republic of Serbia, operating in accordance with the principles of a market economy.

This project proposal covers the main areas under the competence of NBS, identified as strategic priorities that need to be fulfilled towards the maintenance of a stable and sustainable financial sector. Exact fields envisaged by the project are:

- consolidated supervision
- legislation
- liberalization of capital movements
- FX reserve management (foreign exchange transactions area),
- inter-bank transactions on domestic and FX money markets (monetary policy area),

- financial services consumer protection; and
- EU accession support.

Through the institutional building activities, NBS would strengthen the efficacy and effectiveness of its activities with a view to the successful harmonization of NBS operations with European standards and requirements of the European System of Central Banks. The project should enable the full integration of the entire financial and banking sector of the Republic of Serbia in the financial system of the EU.

Consolidated supervision

In addition to its traditional role of supervisor of the banking sector, pursuant to the **Law on Supplementing the Law on the National Bank of Serbia** the ("Official Gazette of the RS", No. 55/2004), the NBS has become responsible institution for the supervision of insurance and financial leasing companies and voluntary pension funds. One of the key elements of economic strategy of NBS regarding the implementation of priorities defined in the document of European Partnership is the reform of the whole financial sector through improving supervision in the area of banking, insurance, voluntary pension funds and financial leasing. Adopted legislation in the areas of supervision is based on EU Directives, but it requires further harmonization in order to fully comply with the regulations based on the best international practices and standards (Basel II and Solvency II).

As an authorised supervisor in the banking sector, in 2005, the NBS was involved in drafting and adopting of new Law on Banks ("RS Official Gazette", No. 107/2005), that came into force in 2006, together with accompanying secondary legislation (Decisions and Guidelines), defining in general Basel II principles in terms of risk-based supervision. A number of innovations in recognizing new types of risks have been introduced. In accordance with that, banks should implement consistent and meaningful risk management. In the course of 2007, through intensive cooperation with commercial banks and Association of Serbian Banks, a new package of secondary regulation for further improvement of the risk management process and implementation of Basel Committee recommendations has been adopted. In this moment, NBS is in the process of drafting Securitization Law that will, in the most adequate manner, regulate the securitization process for the first time.

With the purpose of maintaining stability of the financial system, the key role is given to the consolidated supervision which is based on the continued risk management, as well as adjustment to EU trends. One of the necessary activities that should be undertaken in this accession stage is harmonization with the EU Directives. Considering the fact that in the Serbian banking system most banks are in majority ownership of foreign shareholders, with the headquarters on the EU territory and consequently, obliged to respect and implement those EU Directives based on Basel II standards, banks in majority ownership of domestic entities are indirectly obliged to follow the same standards. In order to implement flexible and efficient banking supervision, the supervisor (NBS) is required to undertake the active role in the process of further implementation of Basel II. During this process, the positive effects will be visible widely - from the performance of supervision function, via banking system, to the each commercial bank in Serbia, regardless of their ownership structure and previous experience.

The realization of this project should create conditions for easier transition to new reporting system, considering that the existing one, although MRS-based, do not possess adequate level of aggregation. That would allow creation of adequate database, as a precondition for implementing models for monitoring, assessing and managing risks.

Meanwhile, NBS will, in cooperation with commercial banks and Serbian Bank Association, create interim transition matrix that would contain phases for transition to full implementation of Basel II standards, as well as deadlines and transition periods for each phase. According

to the Basel II framework, financial stability is based on the three, mutually reinforcing complementary pillars: Pillar I, Minimum Capital Requirements, representing rather new, risk-adequate calculation of capital requirements reflecting credit, market, and operational risk; Pillar II, Supervisory Review Process, meaning establishment of adequate risk management systems in banks and investment firms and their review by supervisors; and Pillar III, Market Discipline, representing increase in market transparency due to increased disclosure requirements for institutions. The Pillars are meant to ensure a capital base which corresponds to the overall risk profile of each bank in question. Considering the fact that some progress has been achieved in the implementation of Pillar II and partially Pillar III, the majority of time and resources will be directed to the implementation of Pillar I, as well as improvement of consolidated supervision (home-host supervision).

However, in order to push for further development of the market, NBS should continue with the launched activities through improvement of permanent surveillance based on risk assessment, insistence on strengthening corporate management and transparency of work of insurance companies. The practice showed that existing regulation in the field of obligatory transportation insurance has turned to be inadequate, due to which in the previous period the stability of the insurance sector has been jeopardized and the public trust in insurance lost. Therefore, it is necessary to adopt new reform-oriented law in this field that would complete appropriate regulatory framework.

The practice so far has also shown that insurance companies do not possess sufficient knowledge and expertise regarding identification systems, risk assessment and risk management, as well as corporate system management. Thus, NBS is responsible to take all necessary and urgent measures with the aim of improving situation in these critical fields, for the purpose of proper functioning of the whole financial system.

Pursuant to the Law on Amendments and Supplements to the Law on Financial Leasing ("RS Official Gazette" No. 61/2005), supervision of financial leasing companies has been added to NBS scope of responsibilities, as well as supervision of voluntary pension fund management companies, supplementing its general function of establishing a creditable financial system. The function of the NBS in this segment of financial services is the provision of stability and market discipline of leasing companies and voluntary pension funds through the transparency of work, adequacy of risk management systems and responsibility for the operations of pension fund management companies, as well as confidence in supervision. These represent quite new and undeveloped, though fast growing segment of a financial system. NBS aspires to establish real transparency of operations, through adequate transparency in the creation of normative conditions and the supervision. As regards financial leasing supervision, the NBS issues licenses for performing financial leasing operations, grant consent regarding the appointment of the members of management bodies and undertakes corrective measures where irregularities and illegalities are found.

The main objectives of NBS supervision are to boost public confidence in the overall financial sector including insurance companies, commercial banks, voluntary pension funds and financial leasing companies, ensure transparency of the financial market, urge development of financial market based on fair competition, customer protection and education, and provide efficient implementation of consolidated supervision of the financial sector participants. The role of the NBS as a supervisor and regulator is very important and demanding, and requires constant capacity building and improvement of expertise, harmonization of the existing domestic legislation and drafting appropriate new one in accordance with the best international practice and exchange of know-how and expertise with the experts from the countries with more developed financial markets and valuable previous experience in this segment.

Legislation

The SAA in Article 72 stipulates that Serbia shall endeavour to ensure that its existing laws and future legislation will be gradually made compatible with the Community *acquis* by the end of the transitional period of a maximum of six years. Approximation among others will, at an early stage, focus on fundamental elements of the Internal Market *acquis*, as well as on other trade-related areas.

The NBS directly participate in preparation and passing of enactments that fall within the scope of authority of a central bank. In the process of harmonization of the national legislation with *acquis*, a complete review of the legislation falling within the competence of the NBS should be undertaken and incompatibilities with relevant EU directives should be identified. Accordingly, a schedule for the preparation of a new regulation and/or amendments to the existing regulation should be prepared followed by its implementation.

The review and further approximation of the legislation should be focused on the following laws: Law on the National Bank of Serbia, Law on Banks, Law on Foreign Exchange Operations, Financial Leasing Law, Insurance law, Law on Voluntary Pension Funds and Pension Schemes, Law on Payment Operations, Law on the Market of Securities and other Financial Instruments, Law on Deposit Insurance and etc.

Also, the NBS passes an opinion on the certain enactments related to the budgetary, economic and fiscal policy issues, as well as on the draft laws and other legal regulations within its competency. Therefore, the following regulations should be considered as well: Law on prevention of Money Laundering, Law on Foreign Investments, Law on Official Statistics, Law on Public Procurement.

The harmonization of the national legislation with *acquis* will enable successful and smooth integration of the entire financial and banking sector in the financial system of EU. This is long and demanding process that will require readiness of all relevant stakeholders in the Republic of Serbia. The project will contribute to further strengthening of the banking and financial sector which is of key prerequisite for financial stability, successful development of healthy financial markets and real economy. Thus, the project will affect the stakeholders such as commercial banks, pension fund, leasing companies, insurance companies and other participants on financial markets as well as the other financial market regulators such as the Ministry of Finance.

Liberalization of Capital Movements

In the context of meeting criteria for accession to the EU, one of the key medium-term priorities of the Republic of Serbia is full liberalization of capital movements. These activities come both under the remit of the Ministry of Finance and the NBS, and represent very significant segment in terms of the future integration of the Republic of Serbia into the Single Market of the European Union, based on four pillars – free movement of capital, services, people and goods.

In 2006, the Law on Foreign Exchange Operations (RS Official Gazette 62/2006) liberalized investments in long-term securities abroad for residents - legal entities, entrepreneurs and for natural persons. However, the Law on Foreign Exchange Operations limits the movement of short-term capital because it stipulates that investment in the short-term securities abroad can only be effected by the National Bank of Serbia and banks under conditions prescribed by the NBS. Also the investments of non-residents in domestic short-term securities are forbidden.

Recently initialled Stabilization and Association Agreement between the European Communities and Republic of Serbia, prescribes the legal base for regulation of the capital movements and current payments, with the four-year period deadline starting from the date of the effectiveness of this Agreement. Full liberalization of capital movement is a very

sensitive issue, which requires the meeting of certain preconditions in order to neutralize potential negative effects that could emerge on the short-term capital market.

In the upcoming period NBS, will be responsible for the process of approximation of legislation with the obligations that will be undertaken in the SAA and efficient and sustainable functioning of healthy, developed and strong financial and banking system, with gradual removal of remaining limitations regarding short-term movement of capital. In this context, NBS will also be responsible for implementing further liberalization of foreign credit operations, with the purpose of continued harmonization with EU Directives.

The experience of all EU members, especially those that recently joined the EU, with the completed preparations for the joining the Single EU Market, can be an example how full liberalization of capital flows is best performed without endangering the financial stability of the country. In this sense, the project focuses on training component.

FX Reserve Management

Foreign exchange reserves of the NBS are at the same time state property and an important monetary policy and dinar exchange rate policy instrument. FX reserves that NBS manages are important for the strengthening of the public confidence in national currency; NBS interventions on FX market when balancing supply and demand for FX currencies and curbing excessive oscillations of the dinar exchange rate and NBS servicing public external obligations.

Pursuant to the Law on the NBS, NBS is the only institution responsible to decide on the manner of forming, managing, utilizing and disposing of FX reserves, in the way most adequate to monetary and FX policies, contributing to the unimpeded settlement of the external debt obligations of the RS. In performing this function, NBS fulfils internationally recognized standards for FX reserve management - stability, liquidity and income.

Continual growth of foreign exchange reserves is, viewed from long-term perspective, one of the indicators showing that external debt obligations would be serviced, that quality of economic policy and investment climate is maintained as well as possible changes in the foreign exchange rate policy projecting the, thus contributing to the maintenance of the international public confidence.

In 2007 foreign reserves of National Bank of Serbia have continued to grow strong and now amount to over USD 14.5 billion. These reserves are invested and interest is earned through their careful management. Some small amounts are held in gold, effective foreign currency and SDR account while most of it is invested in foreign securities and held on the accounts abroad.

Inter-bank transactions on domestic and foreign exchange money markets

The core purpose of the NBS is to provide monetary and financial stability - a low, stable and predictable inflation and confidence in the currency, and a sound financial system in which banks and other financial organizations function well and responsibly safeguard their clients' money. In pursuit of both purposes, NBS determines and implements appropriate monetary policy and instruments. The monetary instruments that NBS uses at the time being are required reserves, open market operations, depositing of banks' excess liquidity with the NBS, interest rates of the NBS, collateralised liquidity loans, minimum credit rating requirements for banks and reconciliation of household lending and share capital of banks.

Open market operations represent an indirect, market monetary policy instrument, based on transactions involving the purchase and sale of securities by the central bank, with a view to regulating, i.e. fine tuning, the liquidity of the banking system. In addition to regulating the

level of banking sector liquidity, open market operations are also an instrument affecting the level and structure of money market interest rates.

Subject to regulations governing the implementation of open market operations by the National Bank of Serbia, the National Bank of Serbia performs two types of purchase and sale of securities: outright and repo transactions.

For open market operations NBS currently uses electronic auction platform for organization and conducting of securities auctions (repo and outright transactions). The auction platform is based on the exchange of own-format electronic messages under SWIFT standard between NBS and commercial banks. Procedures of organizing and conducting of auctions, clearing and settlement transactions as well as reporting and delivery of data related to auctions, are based on ORACLE database. Regarding foreign exchange market, NBS operations are performed via electronic information system Reuters.

Financial Services Consumer Protection

National Bank of Serbia, in addition to performing supervision activities aimed at establishing and maintaining of stable financial system, has also taken over the activities related to the regaining public confidence in financial system, particularly those related to the protection of rights and interests of financial services' consumers.

Unfortunately, current state of affairs is such that these consumers are not sufficiently familiar either with specificities of the financial services and products or with their rights and obligations. Also, it is noticed that conditions under which financial institutions offer their services to the citizens are not sufficiently transparent and in that sense can be misleading. Any neglecting of the needs, interests and rights of financial services consumers reduces their confidence in the financial institutions and the sector in general, which could unfavourably affect stability of financial system and further slow down its development.

Realization of the project will help define research methodology that would, above all, serve as a basis for assessment of the current state of affairs, and determination of the starting level of financial literacy of beneficiaries of financial services and transparency of conditions under which financial services are offered, followed by an analyses of the efficiency and efficacy of the program for education of financial services consumers.

Having assessed the existing level of public financial awareness, project will help define strategy for financial education of financial services consumers, as well as accompanying activities for its implementation, taking into consideration specificity of the financial market in the Republic of Serbia.

Beside that, realization of the project will help define standards for functioning of financial institutions and their monitoring, which will ensure promotion of consumer-oriented functioning of financial institutions, that is, strong respecting interests, needs and wishes of the beneficiaries.

Additionally, technical assistance, in terms of setting and monitoring standards for financial services providers in dealing with their customers (drafting minimum competency requirements and developing codes of conduct for the staff of financial institutions), would help in ensuring that financial service providers fulfil their role in acting in the best interest of their consumers by operating in a competent, diligent and honest manner, encourage financial institution to check that clients read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences.

EU Accession Support

European Union accession has been a strategic goal of the Government of Republic of Serbia since the year 2000. In the changing environment of ongoing social and economic reforms, one of the mid-term priorities is capacity building of all institutions involved in the process of preparation of the country for EU accession, particularly the units in charge of coordination of EU integration issues in those institutions.

Good preparation of the country and appropriate adjustments of the institutions during EU accession period means successful integration. Being supportive to the pursuit of overall strategic priority of the country, NBS has adapted its organization structure and has established, within International Relations Department, a special unit called International Organizations and EU Division. With time, the Division has developed its competences and is gradually transforming the activities related to cooperation with international organizations to those activities connected with European integration issues.

In the context of Republic of Serbia's EU accession, the NBS does, and will face numerous challenges such as integration into appropriate European bodies; participation in the Expert Subgroups of Coordinating Body for the Integration of the Republic of Serbia into the EU that fall within the competence of NBS (financial surveillance, economic and monetary issues, financial services, consumer protection, statistics, freedom of capital movements, competition and financial and budgetary issues); carrying out convergence within its competences in economic and legal terms; institutional adjustments; participation in negotiations and adequate preparation to join EMU at later stages. In that sense, it is highly necessary to build capacities of employees that will directly be in charge of both inner coordination, within NBS, and outer, with relevant republic institutions, which will ensure smooth, efficient and timely preparation. What is needed is strengthening of analytical skills, better knowledge of the state of affairs in the countries of the region and EU and the phases that have marked preparation and accession period, comparative review of accession processes of the neighboring countries and accompanying preparation of research papers and analyses, exchange of experiences and know-how and building of institutional links with central banks, both in the region and those belonging to the ESCB.

3.2. Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable):

Prepared strategies, acquired expertise and skills of the staff and increased capability will be continued to be used for further alignment with European standards and best international practice after the project has finished. Therefore, activities resulting from this project will have catalytic effect as regard the narrowing the gap with the EU central banks.

The project will accelerate the NBS's advancement towards fully meeting EU central banks standards, and will be sustainable in the long run due to its compliance with EU standards and will be in line with sector policy *acquis*. The project also includes significant training elements, either through formal activities such as study visits and workshops or through working alongside counterparts from EU member states. The development and practical use of these skills during the project will also ensure sustainability in the future operations of the NBS.

Finally, it is anticipated that the project will serve as a significant opportunity to develop strong partnerships with counterpart EU institutions which will also be used actively in the future towards closer alignment with EU operating standards and practice.

3.3. Results and verifiable indicators:

Supervision

Result 1: Improved consolidated supervision of financial services, fully based on the enhanced risk assessment and risk management.

Verifiable indicator:

- EU practices in the area of financial supervision adopted and implemented by 2012.

Legislation

Result 2: Selected and identified legislation under the competence of the NBS harmonized and implemented with *acquis communautaire*.

Verifiable indicator:

- Relevant EU *acquis communautaire* adopted and implemented by 2012.

Liberalization of capital movements

Result 3: Fully defined medium-term strategy for full liberalization of capital movements.

Verifiable indicators:

- Strategy on liberalization of capital flows prepared and approved by the NBS by 2012.
- Fully liberalized flows of capital four years after the SAA comes into force.

FX reserve management

Result 4: Enhanced FX reserves management in the field of FX reserve investment, risk management and risk control process.

Verifiable indicators:

- Fulfilled principles of FX reserve management: stability, liquidity and income.
- Calculation of the market value of the portfolio, duration, value at risk, performance and deviation from defined benchmarks such as fixed income indices.

Inter-bank transactions on domestic and FX markets

Result 5: Prepared strategy for more efficient long-term execution of inter-bank transactions on domestic and FX money market and reduced operational and financial risks.

Verifiable indicator:

- Strategy on increasing the efficiency of money market transactions prepared by 2012.

Financial services consumer protection

Result 6: Prepared strategy for increasing the awareness of beneficiaries of financial services and strengthened transparency of financial services conditions.

Verifiable indicators:

- Strategy on education of financial services beneficiaries prepared by 2012.
- Number of unfounded complaints reduced by 30% by the year 2012.
- Improved quality of financial services related queries made by the consumers.

EU Accession support

Result 7: Developed expertise in the area of EU accession issues, strengthened institutional links with CBs in region and EU.

Verifiable indicators:

- Established linkages both with central banks in the region and those who are members of the European System of Central Banks.
- Institutional preparation of NBS for EU accession performed by 2012.

3.4. Activities:

Consolidated supervision

The main areas to be covered by the training courses , distance consulting with relevant foreign expert(s), and study visits:

1.1. Harmonization of regulatory framework with *acquis communautaire*, Basel II and Solvency II standards (mostly focused on banking and insurance). Harmonization should include:

- a. Update of the assessment of existing (at that point of time) regulatory framework
- b. policy recommendation
- c. proposition for implementation (dynamics etc.)
- d. education for successful implementation

1.2. Harmonization of local practice and standards with standards and practices within the EU (include modern risk based supervisory practice, stress testing, use of models, reporting, data collection etc).

1.3. Capacity building (improving supervisory skills, developing risk based supervision).

Legislation

2.1. The organization of training courses, study visits, short-term visits of EU foreign experts, as well as the placement of one mid-term (6-month period) Pre-Accession Advisor are aimed at strengthening capacities in the following field:

2.2. Harmonization and implementation of the legislation within the competence of the NBS, envisaging legislation on banking, insurance, financial leasing, voluntary pension funds, foreign exchange operations, laws defining the position of the National Bank of Serbia and other laws regulating the exercise of NBS functions, with the relevant *acquis communautaire*.

Liberalization of capital movements

The organization of short-term visits and consultations with foreign experts, study visits and trainings courses, are necessary tool for capacity building as regards the following issues:

3.1. Sharing experiences and introducing the NBS employees with the practice from other transition countries that have dealt with the same stage in the liberalization of capital movements.

3.2. Deepening of the employees' understanding of the point of free movement of capital flows in the context of Single European Market development.

3.3. Assisting the employees in drafting the most adequate medium–term strategy for full liberalization of capital movements, with all specificities and particularities of the environment included.

FX reserve management

he enhanced FX reserves management in the field of FX reserve investment, risk management and risk control process, ensuring integration of front, middle and back office that would lead to increased efficacy and reliability of the monitoring and recording of the FX reserve management effects in accounting terms. Therefore, the activities should cover:

4.1. Organization of short-term visits of foreign experts with consultations and on job training and advice,;

4.2. Organization of study visits for the employees directly responsible for performing in FX reserve management activities, experts in information technologies as well as experts for accounting and finances area.

4.3. Training courses given by the foreign experts, for the purpose of implementing new financial instruments (primarily futures) and strengthening of the analytical skills in the field of FX reserve investment, risk management and risk control process.

Inter-bank transactions on domestic and FX markets

5.1. Short-term visits of foreign experts who would perform integration of the data on interbank transactions in the system.

5.2. Short-term visits of foreign experts and work with NBS employees on the drafting of the strategy for further improvement in this field respond to the needs of the NBS for more versatile and overwhelming reporting;

5.3. Study visits and training abroad for the improvement of analytical skills, knowledge of financial market, financial system and financial derivatives development, and implementation of experiences of other countries.

Financial services consumer protection

Financially educated citizens can help ensure that the financial sector makes an effective contribution to real economic growth. Higher level of awareness will urge them to save more and challenge financial service providers to develop products that respond to their needs, which will then leave positive effects on both investment levels and economic growth.

With the purpose of increasing awareness of the consumers of financial services and transparency of condition under which financial products and services are sold, it is necessary to do the following:

6.1. Carry out research on efficiency and efficacy of the education program and market behaviour of financial institutions;

6.2. Design the programme for education of beneficiaries;

6.3. Draft the strategy for the education of the beneficiaries and dynamic plan of activities;

6.4. Define standards of financial institutions functioning;

In the context of achieving these activities, organization of trainings, consultations and study visits would introduce NBS employees with the practical knowledge in drafting mid-term financial literacy programmes, help them exchange experiences with the regulatory bodies that are dealing with consumer protection, and build their capacities in the field of financial services consumer protection as an important aspect of emerging economies.

EU Accession support

For the purpose of improving expertise of NBS employees in the area of EU financial and monetary accession issues and strengthening institutional links with CBs in region and EU member states, the following activities should be included:

7.1. Study visits to regional and ESCB central banks, trainings, short-term expert visits, that would provide NBS employees with the practical knowledge of tackling relevant EU issues, deepen their knowledge of the monetary and financial issues regarding the EU accession, provide assistance in improving the organization of activities and institutional changes related to EU accession and drafting comparative analyses and reviews regarding the EU integration.

Contracting Arrangement:

All activities will be delivered through a twinning contract.

3.5. Conditionality and sequencing:

The smooth and successful realization of the project will assume that certain conditions be fulfilled:

- Close cooperation between the NBS and commercial banks, voluntary pension funds, insurance and leasing companies as relevant stakeholders in financial system, represent an essential element for the implementation of consolidated supervision, and gradual transition to and incorporation of Basel II and Solvency II standards and measures in the performance of financial institutions.
- For the harmonization, adjustment and amendments of the existing (and at the time relevant) legislation within the NBS competence with the EU *acquis communautaire*, it is important to have in consideration that according to the current Law on Ministries, NBS is not eligible to propose legislation in the National Assembly (instead proposals are put forward by the Ministry of Finance to the Government of the Republic of Serbia), and therefore, it depends both on the Ministry of Finance and National Assembly cooperation, readiness and speed to pass certain laws and secondary legislation.

NBS should make effort to start using to the full system delivered through CARDS.

All mentioned forms of Technical Assistance should be provided through a Twinning with a relevant central bank whose performance and scope of activities is the most appropriate to fulfill the identified needs and requirements for the capacity building of the National Bank of Serbia.

3.6. Linked activities:

Supervision

Bearing Point, a global management and technology consulting company – has provided assistance in creating new pieces of legislation. National Bank of Serbia (Bank Supervision Department) uses continuously USAID/BP technical assistance over the last 6 years with a goal to develop overall banking supervision function. Besides having in-house consultants in the Bank Supervision Department, NBS is currently using assistance of Bearing Point consulting company regarding the market risks without any plans to expand this cooperation to other areas in the nearby future.

The European Central Bank and its partner national central banks will provide technical assistance to the National Bank of Serbia by carrying out a need analysis of the current regulatory and operational framework of the NBS, as well as of its policies and practices. The ECB and IPA projects represent the readiness of the National Bank of Serbia to strategically and continuously work on the improvement of its own capacity and performance in the light of overall European integrations of the Republic of Serbia in the period of its accession to the European Union. In this context, ECB and IPA are complementary projects, whose implementation should cover the upcoming period – starting from August 2008 with ECB project, up to 2012, when the realization of IPA project is planned to be finished.

ECB project is regarded as the first phase, during which ECB (ESCB) experts will analyze and assess the current regulatory and operational framework as well policies and practices of the NBS against the precisely agreed and defined ESCB benchmarks and standards. IPA project is regarded as the second, follow-up phase, during which active and concrete actions will be implemented with the aim of strengthening institutional capacities of the NBS and harmonizing its activities and operations with the EU standards.

3.7. Lessons learned:

Supervision

In the previous experience regarding performance of supervision activity, some of the problems that NBS identified are human resources deficiency in terms of insufficient number of qualified employees with relevant experience in this field and insufficient funding for study visits and expert training that would enhance the current capacities and expertise.

Inter-bank transactions on domestic and FX markets

In September 2003, at end-May and beginning of June 2004, the NBS has been visited by the consultants from the Policy and Legal Advice Centre, established by the European Agency for Reconstruction, with the aim of providing technical assistance to the NBS. The program has covered four aspects: (1) organization of new auction system of NBS (transition of the auctions from the Belgrade Stock Exchange to the NBS), (2) introduction of repo transactions, (3) development of new system of credit facilities based on the securities pledge at NBS, (3) organization of interbank money market. It is necessary to emphasize that NBS, during experts' visit, and relying on its own capacities, had finished the projects related to the introduction of new system of organizing auctions over electronic platform as well organization and conducting of repo transactions.

As regards interbank money market, the consultants' proposal was to, specially for Republic of Serbia, develop new platform for trading that will be compatible with the best practices in the EU. In the conducting of transactions of securities through its own electronic platform, NBS has not encountered problems so far. However, NBS faces growing problems in terms of better information connection of transactions on domestic and FX markets, as well more efficient access to information on interbank transaction on these markets.

4. Indicative Budget (amounts in EUR)

			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
contract 1.1	x		2.500.000	2.500.000	100							-
.....												
TOTAL IB			2.500.000	2.500.000	100							
TOTAL INV												
TOTAL PROJECT			2.500.000	2.500.000	100							

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1 (twinning)	T+1Q	T+4Q	T+12Q

6. Cross cutting issues

6.1 Equal Opportunity

The project will be implemented in a way which provides equal opportunities for participation for those within the National Bank of Serbia. No discrimination will be made on the basis of gender and activities such as training will be organized in a way which makes them accessible for both men and women. The number of men and women participating in training events will be monitored during the project and this information will be used to identify any potential discrimination.

6.2 Environment

The project has no negative impact on the environment and no significant positive impact either. The project will be implemented in a way which is as environmentally friendly as possible and this includes the use of re-cycled paper and the advanced use of electronic filing rather than paper based systems.

6.3 Minority and vulnerable groups

The project will be implemented in a way which does not discriminate against any individual on the grounds of their gender, ethnic origin, race or religion. Training will be organized in a way which makes events accessible for all potential participants. Information on the individuals receiving support under the project will be monitored during the project and this information will be used to identify any potential discrimination.

ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3 - Institutional Framework – legal responsibilities and statutes
- 4 - Reference to laws, regulations and strategic documents:
Reference list of relevant laws and regulations
Reference to EP / SAA
Reference to MIPD
Reference to National Development Plan
Reference to national / sector investment plans
- 5 - Details per EU funded contract (*) where applicable:
For *TA contracts*: account of tasks expected from the contractor
For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts
For *grants schemes*: account of components of the schemes
For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (**)
For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (**); account of services to be carried out for the *service part* of the contract

(*) non standard aspects (in case of derogation to PRAG) also to be specified

(**) section on investment criteria (applicable to all infrastructure contracts and constructing works):

Rate of return

Co financing

compliance with state aids provisions

Ownership of assets (current and after project completion)

ANNEX I: Logical framework matrix		Strengthening of the institutional capacities of the National Bank of Serbia (NBS)	
		Contracting period expires 3 years after the signature of the Financing Agreement	Disbursement period expires 6 years after the signature of the Financing Agreement
		Total budget :	IPA budget:
		2,500,000EUR	2,500,000EUR
Overall objective	Objectively verifiable indicators	Sources of Verification	
<ul style="list-style-type: none"> ▪ Maintenance of sustainable macroeconomic and financial system stability by bringing the National Bank of Serbia core functions and activities in line with best international practice. 	<ul style="list-style-type: none"> ▪ Macro-economic indicators (projections) <ul style="list-style-type: none"> ▪ Inflation rate decreased to 4% in 2011 (inflation rate maintained in accordance with the Program of Monetary policy of the NBS) ▪ Level of FX reserves reaches EUR 16,7 billion by 2011 ▪ Stability of financial system ▪ Ability to repay the country's external debt 	<ul style="list-style-type: none"> ▪ European Commission Candidate and Pre-Accession Countries' Economic Quarterly Report ▪ IMF and World Bank reports ▪ NBS quarterly Inflation Report ▪ NBS monthly Statistical Bulletin 	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions

<ul style="list-style-type: none"> • Strengthening of institutional capacities, activities and efficiency of the NBS with a view to the successful harmonization of NBS operation with European standards and integration of the entire financial and banking sector in the financial system of the EU. 	<ul style="list-style-type: none"> ▪ NBS role as central bank executed in line with best international practices and EU standards in areas such as supervision of financial services, capital movements, FX management, money market operations, financial services consumer protection and EU integration by 2012 ▪ NBS achieving full independence in line with the Statute of the European System of Central Bank and of the European Central Bank by 2012 	<ul style="list-style-type: none"> ▪ NBS Annual Reports submitted to the National Assembly <ul style="list-style-type: none"> • Report on the operations of the NBS, Report on the monetary policy and Report on the conditions in the banking and overall financial system of the country ▪ EC annual Progress Report for Serbia ▪ EC European Economy, Enlargement Papers ▪ Article IV Consultation – IMF Staff Report ▪ IMF's Reports on the Observance of Standards and Codes (ROSCs) ▪ Law on the NBS ▪ Statute on the European Central Bank and the ESCB 	<ul style="list-style-type: none"> ▪ Maintenance of restrictive fiscal policy and tight monetary policy, and acceleration of structural reforms ▪ Authorities supportive to strengthening of NBS independence ▪ Fulfilment of other Copenhagen criteria by end 2012
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> ▪ Supervision. Improved consolidated supervision of financial services fully based on risk assessment and risk management. ▪ Legislation. Selected and identified legislation under the competence of the NBS harmonized and implemented with 	<ul style="list-style-type: none"> ▪ EU practices in the area of financial supervision adopted and implemented by 2012 ▪ Relevant EU <i>Acquis</i> adopted and implemented by 2012 	<ul style="list-style-type: none"> ▪ Reports of experts ▪ EC, NBS, IMF, World Bank Reports ▪ EC, NBS, IMF, World Bank Reports ▪ Official Gazette of the Republic of Serbia 	<ul style="list-style-type: none"> ▪ Close cooperation with commercial banks, pension funds, insurance and leasing companies ▪ Sufficient human and technical resources allocated ▪ The recommendations,

<p><i>Acquis Communautaire.</i></p> <ul style="list-style-type: none"> ▪ Liberalization of capital movements. Fully defined medium-term strategy for full liberalization of capital movements. ▪ FX reserve management. Enhanced FX reserves management in the field of FX reserve investment, risk management and risk control process. ▪ Inter-bank transactions on domestic and FX markets. Prepared strategy for more efficient long-term execution of inter-bank transactions on domestic and FX money market and reduced operational and financial risks. ▪ Financial services 	<ul style="list-style-type: none"> ▪ Strategy on liberalization of capital flows prepared by 2010 ▪ Fully liberalized flows of capital four years after the SAA comes into force. ▪ Fulfilled principles of FX reserve management: stability, liquidity and income ▪ Calculation of the market value of the portfolio, duration, value at risk, performance and deviation from defined benchmarks such as fixed income indices ▪ Strategy on increasing the efficiency of money market transactions prepared by 2012 ▪ Strategy on education of financial services beneficiaries by 2012 	<ul style="list-style-type: none"> ▪ NBS Reports ▪ EU, IMF and World Bank Reports ▪ NBS Annual Reports ▪ IMF, World Bank and EU Reports ▪ NBS FX reserve middle-office assessments and reports ▪ NBS Annual Reports ▪ IMF, World Bank and EU Reports and Analyses ▪ Quarterly reports of the commercial banks on the number and nature of the complaints ▪ Market research on the quality of financial services related queries 	<p>when accepted, passing in due course through either legislative or decision-making process</p> <ul style="list-style-type: none"> ▪ Measure of objectivity of the reports produced by those involved in the implementation of the project ▪ Existence of internationally recognized seminars ▪ Capacity of the NBS staff to accept new knowledge
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<p>improvement of supervisory capacities.</p> <p>1.2. Assistance of Pre-Accession Advisor, expert in the regulatory field and insurance supervision.</p> <p>2. Legislation.</p> <p>2.1 Provision of technical assistance in the country and abroad regarding harmonization and implementation of the legislation within the competence of the NBS and laws defining the position of the NBS with <i>acquis</i>.</p> <p>2.2 Assistance of Pre-Accession Advisor, expert in the central banking regulatory field.</p> <p>3. Liberalization of capital movements.</p> <ul style="list-style-type: none"> ▪ Provision of technical assistance in the country and abroad with the aim of getting different experiences, 			<p>stationed in the premises of the NBS which will provide the necessary equipment.</p> <p>-Access to adequate learning materials and internet;</p> <p>-Study visits to European central banks which have domestic regulation harmonised with EU law;</p> <p>-Experience of experts in the field of EU law is needed;</p> <p>-Advisor should be stationed in the premises of the NBS who would provide for the necessary equipment.</p> <p>-Access to adequate</p>
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<p>deepening understanding of the free movement of capital flows in the context of Single European Market development and assisting in drafting the most adequate medium-term strategy for full liberalization of capital movements.</p> <p>4. FX reserve management.</p> <p>4.1. Provision of technical assistance in the country and abroad regarding the implementation of new financial instruments and strengthening of the analytical skills in the field of FX reserve investment, risk management and risk control process.</p> <p>5. Inter-bank transactions on domestic and FX markets.</p> <p>5.1. Provision of</p>			<p>learning materials and internet;</p> <p>-Study visits central banks of EU member states who were involved in capital liberalization process in the given country;</p> <p>-Experience of experts in the field of EU law is needed.</p> <p>-Access to adequate learning materials and internet;</p> <p>-Study visits to European central banks which are successful in foreign reserves management;</p> <p>-Experience of experts in the field of foreign reserves management;</p> <p>-Access to adequate learning materials and internet;</p> <p>-Study visits to European central banks which are successful in Inter-bank transactions on domestic and FX</p>
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<p>technical assistance in the country and abroad for performing assessment of the existing state of affair and improving analytical skills, knowledge of financial market, financial system and financial derivatives development.</p> <p>6. Financial services consumer protection</p> <p>6.1 Provision of technical assistance in the country and abroad with the aim of getting practical knowledge in drafting mid-term financial literacy programs, exchange experiences with other regulatory bodies and build the capacities in the field of financial services consumer protection.</p> <p>7. EU Accession support.</p> <p>7.1. Provision of</p>			<p>markets;</p> <p>-Experience of experts in the field of inter-bank transactions on domestic and FX markets.</p> <p>-Access to adequate learning materials and internet;</p> <p>-Study visits to European central banks which are successful in financial services consumer protection.</p> <p>-Experience of experts in the field of Financial services consumer protection;</p> <p>-Access to adequate learning materials and internet;</p> <p>-Study visits to European central banks which are successful in EU accession support;</p> <p>-Experience of experts in the field EU accession support;</p>
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<p>technical assistance in the country and abroad with the aim of gaining practical knowledge of relevant EU issues, deepen the knowledge of the EU monetary and financial issues and institutional changes related to EU accession.</p>			
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ANNEX II

AMOUNTS (IN ₪) CONTRACTED AND DISBURSED BY QUARTER FOR THE PROJECT

Contracted	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	TOTAL
Contract 1.1		2,500,000											2,500,000
Cumulated		2,500,000											2,500,000
Disbursed													
Contract 1.1				500,000		750,000		750,000				500,000	2,500,000
Cumulated				500,000		1,250,000		2,000,000				2,500,000	2,500,000

ANNEX III

INSTITUTIONAL FRAMEWORK

Core functions of the National Bank of Serbia are laid down in the Constitution of Serbia and the Law on the National Bank of Serbia (Republic of Serbia Official Gazette 72/2003).

Pursuant to Article 2 of the Law on the National Bank of Serbia, the National Bank of Serbia is the central bank of the Republic of Serbia and as such its main responsibilities are the protection of price stability and maintenance of financial stability.

Core functions of the National Bank of Serbia include determining and implementation of the monetary policy, as well as that of the dinar exchange rate policy, management of the foreign currency reserves, issue of banknotes and coins, and maintenance of efficient payment and financial systems.

Subject to the Law on the Supplement to the Law on the National Bank of Serbia (RS Official Gazette 55/2004), the scope of competence of the National Bank of Serbia has been expanded so as to include insurance supervision (issuing of insurance, reinsurance, and brokerage licenses).

The Law on the National Bank of Serbia further stipulates that in carrying out its responsibilities the National Bank of Serbia acts an autonomous and independent institution. It is obliged neither to request nor to take instructions from the government institutions or other bodies. That is to say, on the basis of the determined economic policy targets and key macroeconomic indicators adopted by the Parliament, the National Bank then independently sets forth its projections of monetary and credit aggregates growth relative to the set targets and develops the monetary and credit policy measures that are to be implemented. The National Bank Governor attends the Government sessions on occasions when the proposed agenda includes issues related to the work of National Bank of Serbia. Also, the National Bank of Serbia passes an opinion on the certain enactments related to the budgetary, economic and fiscal policy issues, as well as on the draft laws and other legal regulations within its scope of authority. The National Bank of Serbia determines the dinar exchange rate regime, given the Government approval, whereas in administering the determined dinar exchange rate policy it assumes independent authority.

The National Bank of Serbia also prepares and submits to the Serbian Parliament the annual report on its operations and business results, as well as a report on monetary policy, annual report on the state of affairs in the banking sector and overall financial sector in the country with the accompanying monetary policy program for the following year.

The real estate and other facilities used by the National Bank of Serbia are the property of the Republic of Serbia. In the same line, it is the Republic of Serbia that provides guarantees for all of the National Bank of Serbia's liabilities.

The fundamental issues pertaining to the organization of NBS operations are provided for by the NBS By-Law, the adoption of which is confirmed by the Serbian Parliament.

The National Bank of Serbia managing powers include: the Monetary Board, Governor and the Council. The Monetary Board, a body responsible for the monetary policy, comprises the NBS Governor and Vice governors. The Governor is appointed by the Parliament for the period of five years. Some of the Governor's responsibilities include: implementation of decisions reached by the Monetary Board and the Council, internal organization and efficient functioning of the Bank, as well as preparation and passing of enactments that fall within the

scope of authority of a central bank. A Council Chairman heads the Council, and four members appointed by the Parliament for the period of five years. Among other duties, the Council, on Governor's proposal, adopts the Financial Plan and Annual Statement of the National Bank of Serbia.

ANNEX IV

REFERENCE TO LAWS, REGULATIONS AND STRATEGIC DOCUMENTS

The Law on the National Bank of Serbia (Republic of Serbia Official Gazette 72/2003) and the Law on the Supplement to the Law on the National Bank of Serbia (Republic of Serbia Official Gazette 55/2004) stipulates the status, organization, remit and functions of the National Bank of Serbia and its relationship to other bodies of the Republic of Serbia and international organizations and institutions.

In addition to the above scope of remit and other responsibilities defined in the Law on the National Bank of Serbia, the laws listed below also prescribe the remit and responsibilities of the National Bank of Serbia:

- Law on Banks (RS Official Gazette 107/2005);
- Law on Foreign Exchange Operations (RS Official Gazette 62/2006);
- Insurance Law (RS Official Gazette 55/2004 and 61/2005);
- Law on Bankruptcy and Liquidation of Banks and Insurance Companies (RS Official Gazette 61/2005);
- Law on Payment Operations (FRY Official Gazette 3/2002 and 5/2003, and RS Official Gazette 43/2004 and 62/2006);
- Law on Commemorative Coins (RS Official Gazette 46/96);
- Law on Regulation of the Public Debt of the Federal Republic of Yugoslavia in Respect of Household Frozen Foreign Currency Savings Deposits (FRY Official Gazette 36/2002);
- Law on Regulation of the Public Debt of the Federal Republic of Yugoslavia Under Agreements on Household Foreign Currency Deposits Termed with Dafiment Bank, a.d. Belgrade in Liquidation and Under Household Foreign Currency Deposits with Banka privatne privrede Crne Gore, d.d. Podgorica (FRY Official Gazette 36/2002);
- Law on Public Debt (RS Official Gazette 61/2005);
- Law on Deposit Insurance Agency (RS Official Gazette 61/2005)
- Law on Accounting and Auditing (RS Official Gazette 46/2006);
- Law on the Market of Securities and Other Financial Instruments (FRY Official Gazette 65/2002 and RS Official Gazette 57/2003, 55/2004 and 45/2005);
- Financial Leasing Law (RS Official Gazette 55/2003 and 61/2005);
- Law on Deposit Insurance (RS Official Gazette 61/2005);
- Law on Voluntary Pension Funds and Pension Schemes (RS Official Gazette 85/2005).

ANNEX V

Details per EU funded contract

Contract 1 – Twinning contract

The following services will be designed and delivered under Contract 1:

Capacity building

Completion of training need analyses

Design, delivery and evaluation of training activities – including seminars, workshops and mentoring

Curriculum development

Organisation and management of study visits

Development of organizational standards of performance

Development of staff procedures

Preparation of strategic and legislative documentation

Support in the preparation of draft legislation and regulations

Development of policy

Development of strategy and associated action plans

Carrying out surveys and other research – including market analysis

Financial planning and budget development

Communication and dissemination

Development of EU networks

Development and implementation of marketing strategies

Design and organization of information campaigns

Preparation of marketing and dissemination materials – this might include project brochures, development of signage, preparation of press releases, final brochures

Organising conferences and/or exhibitions