

**Serbia and Montenegro: Quantitative Performance Criteria and Indicative Limits for 2002 Under
the 2002-2005 Extended Arrangement 1/
(In millions of dinars, unless otherwise noted; end of period)**

| | 2001 | 2002 | | | | | | | | | |
|---|--------|---------|--------|--------|--------|-----------|---------------------|--------|-------------|----------------------------|------|
| | | Mar. | | June | | Sep. | | | Dec. | | |
| | | Actual | Act. | Act. | Act. | Ori. Tar. | Tar. w/ Adjustor | Act. | Ori. Target | Ori. Target w/ Adjustor | Act. |
| A. Quantitative performance criteria | | | | | | | | | | | |
| Floor on the net foreign assets of the NBS 2/ | 583 | 712 | 727 | 699 | 699 | 886 | 736 | 736 | 938 | | |
| Ceiling on net domestic assets of the NBS 3/ | 1,864 | -1,296 | 2,936 | 6,178 | 6,178 | -924 | 7,666 | 3,961 | 116 | | |
| Ceiling on net credit of the banking system to the consolidated general government 4/ 5/ | 1,880 | -13,569 | -4,218 | 4,650 | 3,574 | -7,662 | 7,850 | 1,791 | -3,486 | | |
| Ceiling on contracting or guaranteeing by the public sector of new nonconcessional external debt with original maturity of more than one year 2/ 6/ | ... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Ceiling on new external debt contracted or guaranteed by the public sector with an original maturity of up to and including one year 2/ 7/ | ... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Ceiling on new guarantees and the assumption of enterprise debt to banks by the public sector 8/ | ... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Ceiling on outstanding external debt service arrears 2/ 9/ | ... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| B. Indicative targets | | | | | | | | | | | |
| Ceiling on net credit of the banking system to consolidated general government of Serbia 4/ 10/ | 1,258 | -13,889 | -4,518 | 3,301 | 3,301 | -7,910 | 6,730 | 3,025 | -1,466 | | |
| consolidated general government of Montenegro 4/ 10/ | 621 | 320 | 300 | -172 | 273 | 248 | -401 | -1,234 | -2,020 | | |
| Ceiling on net domestic assets of the banking system 11/ | 14,646 | 6,304 | 26,048 | 35,616 | 35,616 | 41,479 | 32,155 | 32,155 | 53,213 | | |
| Ceiling on change in the arrears of the federal government | ... | ... | ... | 0 | 0 | ... | 0 | 0 | ... | | |
| the consolidated general government in Serbia | ... | -11 | -12 | 0 | 0 | -12 | 0 | 0 | -8.9 | | |
| the consolidated general government in Montenegro | ... | ... | ... | 0 | 0 | ... | 0 | 0 | ... | | |
| Ceiling on the wage bill of the 8 largest public enterprises, cumulative from beginning of year 12/ | 18,310 | 5,485 | 11,171 | 17,021 | 17,021 | 17,049 | 23,070 | 23,070 | 23,306 | | |

1/ Quantitative performance criteria and indicative targets are defined in annex F.

2/ In millions of U.S. dollars.

3/ Monitored on the basis of monthly averages as defined in Annex F. For Dec. 2002, subject to the same adjustment as for external financing of the Serbian government defined in 4/.

4/ For program purposes, the ceilings on net credit of the banking system to the consolidated general government will be adjusted downward by the cumulative increase in the stock of government debt held by the nonbank domestic public, starting from January 1, 2002, and upward for any decrease. The ceilings will also be adjusted fully to the revision of end-2001 figures. In addition, in the event of a budgetary foreign financing shortfall (excess), which is not offset by higher (lower) than budgeted privatization revenue, of up to YUD 5 billion, the ceilings for Serbia will be adjusted upward (downward) by 50 percent of the amount of the shortfall (excess). For Montenegro, in the case of a budgetary foreign financing shortfall (excess), which is not offset by higher (lower) than budgeted privatization revenue, of up to US\$10 million, the ceilings for Montenegro will be adjusted upward (downward) by 50 percent of the amount of the shortfall (excess).

5/ The consolidated general government comprises the federal, the Serbian republican and local governments, the Montenegrin republican government, the Serbian and Montenegrin social security funds, and the Serbian special extrabudgetary programs.

6/ Excluding loans from the IMF, EBRD, EIB, EU, IBRD, or IFC as well as debt contracted in the context of restructuring agreements. The public sector comprises the consolidated general government, the National Bank of Serbia and the Central Bank of Montenegro.

7/ Excluding normal import-related credits.

8/ Excluded is indebtedness arising from the fulfillment of existing guarantees.

9/ Excludes debts subject to restructuring/negotiations. The nonaccumulation of new external arrears is also a continuous performance criterion.

10/ Consolidated Montenegrin government includes all entities in Montenegro defined under 5/; the rest of entities under 5/ is included in the consolidated Serbian government.

11/ Foreign currency denominated loans and deposits at program exchange rates. Excludes Montenegro.

12/ JP Elektroprivreda Srbije, JP Nafna Industrija Srbije, JP PTT Srbije, JP Jugoslovenski Aerotransport, JP Zelenicko Transportno Preduzece Srbije,

JP Radio Televizija Srbije, JP Srbija Sume, and JP Srbija Vode.

**Serbia and Montenegro: Quantitative Performance Criteria and Indicative Limits for 2003 Under
the 2002-2005 Extended Arrangement 1/
(In millions of dinars, unless otherwise noted; end of period)**

| | 2002 | | 2003 | | |
|---|----------|-----------|--------|--------|-----------|
| | December | Est. | April | June | September |
| | end-02 | Ex. Rates | | | December |
| A. Quantitative performance criteria | | | | | |
| Floor on the net foreign assets of the NBS 2/ 3/ | 1,069 | 885 | 1,004 | 1,099 | 1,161 |
| Ceiling on net domestic assets of the NBS 2/ 4/ | 1,185 | 9,744 | 5,885 | 3,885 | 1,185 |
| Ceiling on net credit of the banking system to the consolidated general government 2/ 5/ 6/ | -12,253 | -762 | 1,702 | -4,752 | -11,707 |
| Ceiling on contracting or guaranteeing by the public sector of new nonconcessional external debt with original maturity of more than one year 3/ 7/ | 0 | 0 | 0 | 0 | 0 |
| Ceiling on new external debt contracted or guaranteed by the public sector with an original maturity of up to and including one year 3/ 8/ | 0 | 0 | 0 | 0 | 0 |
| Ceiling on new guarantees and the assumption of bank or enterprise debt by the public sector 9/ | 0 | 0 | 0 | 0 | 0 |
| Ceiling on outstanding external debt service arrears 3/ 10/ | 0 | 0 | 0 | 0 | 0 |
| B. Indicative targets | | | | | |
| Ceiling on net credit of the banking system to consolidated general government of Serbia 2/ 5/ 11/ | -10,172 | 858 | 3,628 | -2,472 | -10,172 |
| consolidated general government of Montenegro 2/ 5/ 11/ | -2,081 | -1,620 | -1,926 | -2,280 | -1,535 |
| Ceiling on net domestic assets of the banking system 2/ 12/ | 53,468 | 61,482 | 63,233 | 62,231 | 64,332 |
| Ceiling on change in the arrears of the federal government | 0 | 0 | 0 | 0 | 0 |
| the consolidated general government in Serbia | 0 | 0 | 0 | 0 | 0 |
| the consolidated general government in Montenegro | 0 | 0 | 0 | 0 | 0 |
| Ceiling on the wage bill of the 7 largest public enterprises, cumulative from beginning of year 13/ | 22,398 | 8,030 | 12,261 | 18,684 | 25,399 |

1/ Quantitative performance criteria and indicative targets are defined in Annex F and evaluated at end-December 2002 exchange rates for program purposes.

2/ These performance criteria will be adjusted by the amount that revised estimates differ from the preliminary estimates of the end-2002 outcome.

3/ In millions of U.S. dollars.

4/ Monitored on the basis of monthly averages as defined in Annex F. Subject to the same adjustment for excess or shortfall in combined budgetary external financing and privatization proceeds for the consolidated Serbian government as defined in 5/ except that the limit for upward adjustment is dinar 2500 million.

5/ For program purposes, the ceilings on net credit of the banking system to the consolidated general government will be adjusted downward by the cumulative increase in the stock of government debt held by the nonbank public (other than that related to the frozen currency deposits), starting from January 1, 2003, and upward for any decrease. In addition, in the event of a shortfall in the sum of net foreign budgetary financing and privatization proceeds, the ceilings will be adjusted upward by 75 percent of the shortfall subject to the total adjustment limit of 5 billion dinar for Serbia and €10 million for Montenegro's consolidated government. The ceilings will be adjusted downward for the excess of combined net external budgetary financing and privatization proceeds relative to budgeted levels that are not used (1) to reduce the government external indebtedness by more than envisaged under the program, or (2) to cover investment and restructuring costs in consultation with the Fund in the context of program reviews.

6/ The consolidated general government comprises the Serbian republican and local governments, union level operations, the Montenegrin republican government, the Serbian and Montenegrin social security funds, and the Serbian special extrabudgetary programs.

7/ Excluding loans from the IMF, EBRD, EIB, EU, IBRD, or IFC as well as debt contracted in the context of debt restructuring agreements in the framework of the Paris Club and London Club. The public sector comprises the consolidated general government, the National Bank of Serbia, and the Central Bank of Montenegro.

8/ Excludes normal import-related credits.

9/ Excludes indebtedness arising from the fulfillment of existing government guarantees.

10/ Excludes debts subject to restructuring/negotiations. The nonaccumulation of new external arrears is also a continuous performance criterion.

11/ Consolidated Montenegrin government includes all entities in Montenegro defined under 6/; the rest of entities under 6/ is included in the consolidated Serbian government.

12/ Foreign currency-denominated loans and deposits at program exchange rates. Excludes Montenegro.

13/ JP Elektroprivreda Srbije, JP Nafna Industrija Srbije, JP PTT Srbije, JP Jugoslovenski Aerotransport, JP Zelenicko Transportno Preduzece Srbije, JP Srbija Sume, and JP Srbija Vode. The ceiling will be adjusted downwards to prorate for spin-offs from these companies of activities through the creation of new companies.

**Serbia and Montenegro: Extended Arrangement, March 2002-March 2005 Prior Actions,
Structural Performance Criteria, and Structural Benchmarks, March 2002-December 2002**

| | Proposed implementation date EBS/02/73, April 26/2002 | Status/ revised implementation date reported in EBS/02/139, August 2002 | Current status |
|---|--|--|---|
| I. Prior Action for Board Consideration | | | |
| 1. Federation: Submission to federal Parliament of proposed new Foreign Exchange Law and completion of draft implementing regulations consistent with the key principles described in the MEFP of April 26, 2002 | ... | Implemented | Implemented |
| II. Structural Performance Criteria | | | |
| 1. Serbia: Increase electricity prices by 50 percent on average. | end-June 2002 | Implemented | Implemented |
| 2. Federation or Serbia: Effective January 1, 2003, permit commercial banks to initiate and settle payments among themselves on behalf of enterprises and individuals without the mandatory intermedium of ZOP. | end-December 2002 | ... | Implemented |
| III. Structural Benchmarks | | | |
| A. Fiscal Sector | | | |
| 1. Serbia: Establish a Large Taxpayers Unit in the Belgrade office. | end-June 2002 | beginning-October 2002 | Implemented |
| 2. Serbia: Adopt the Law on Tax Administration Organization and the Law on Identification, Control and Payment of Public Revenue. | end-June 2002 | end-September 2002 (Law on Tax Administration Organization yet to be adopted) | Implemented (Law on Tax Administration Organization, covering both areas, was adopted in November 2002; delay was caused by hiatus in Parliament's work). |
| 3. Serbia: Establish a Treasury in the Ministry of Finance with basic core functions in cash and debt management. | end-September 2002 | ... | Implemented |
| 4. Serbia: Create a unified taxpayer identification number. | end-December 2002 | ... | Implemented |
| 5. Montenegro: Adopt a pension law that shifts pension indexation to the Swiss formula (arithmetic average of wage and price increases) and raises the minimum retirement age by 3 to 5 years in a phased manner. | end-December 2002 | ... | Adoption delayed, expected to occur by end-April 2003. |
| B. Financial Sector | | | |
| 1. Montenegro: Adopt legislation to empower CBM to supervise the existing offshore banks in line with the rules and regulations applicable to onshore banks. | end-April 2002 | Expected to be implemented in August 2002 | Implemented in December 2002 |
| 2. Montenegro: Adopt final decision on the resolution of Montenegro Banka and Jugobanka ad Podgorica, as well as Beranska Banka that is yet to be re-licensed without direct or indirect fiscal resources except for appropriate social programs. | end-May 2002 | Implemented | Implemented |
| 3. Federation: Adopt a new Law on the National Bank of Yugoslavia to provide for a NBY Supervisory Board and amend the Law on Banks and Other Financial Institutions to establish a regulatory framework in line with international standards. | end-June 2002 | Law on banks was amended; Law on NBY remains to be adopted | Expected to be adopted by the the Serbian parliament (under the new Constitution). |
| 4. Federation: Publish IAS-based financial statements of the NBY. | end-June 2002 | Implemented | Implemented |
| 5. Federation: Submit draft Law on Securities Market to Parliament. | end-June 2002 | Implemented | Implemented |
| 6. Federation: Decide on (a) privatization plans for banks under NBY enhanced supervision and administration and (b) resolution plans for banks under control of the BRA. | end-June 2002 | Implemented, except that a decision remains to be taken for Borska Banka | Mostly implemented |
| 7. Federation: Amend the Accounting Law to adopt IAS as the permanent accounting framework of all financial institutions, including the NBY. | end-September 2002 | ... | Implemented in December 2002 |

Serbia and Montenegro: Extended Arrangement, March 2002-March 2005
 Prior Actions, Structural Performance Criteria, and Structural Benchmarks, January-December 2003

| | Implementation |
|---|--------------------|
| I. Prior Actions for Board Consideration | |
| 1. Serbia, Montenegro: Parliamentary approval of Serbian and Montenegrin budgets (including provisions for Union-level expenditures) for 2003, consistent with policy understandings in MEFP of April 1, 2003. | ... |
| II. Structural Performance Criteria | |
| 1. Serbia: Effective July 1, 2003, increase weighted average electricity price for sales to end-users by at least 20 percent in dinar terms from the level prevailing at end-2002. | end-June 2003 |
| III. Structural Benchmarks | |
| A. Fiscal Sector | |
| 1. Montenegro: Adopt a pension law that shifts the indexation of pensions to a weighted average of changes in wages and prices (with the weight of wages not to exceed 50 percent) and raises the minimum retirement age by 5 years in a phased manner. | end-April 2003 |
| 2. Serbia, Montenegro: Reach agreement on timetable for harmonizing at the latest by end-2005 trade, customs, and indirect tax regimes. | end-April 2003 |
| 3. Montenegro: Begin reporting quarterly budgetary arrears data | end-May 2003 |
| 4. Serbia: Bring all line ministries and other direct budget users under the treasury single account. | end-June 2003 |
| 5. Serbia: Establish Large Taxpayers Units (LTUs) for Nis, Novi Sad and Kragujevac. | end-September 2003 |
| 6. Serbia: Establish and implement a centralized payroll system under the Central Accounting Division of the Treasury. | end-December 2003 |
| B. Financial Sector | |
| 1. Serbia: Adopt new National Bank of Serbia law to provide for a National Bank Supervisory Board. | end-December 2003 |
| 2. Serbia: Offer majority or controlling stakes to strategic investors in at least 3 of the banks affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency deposits. | end-December 2003 |
| C. Foreign trade | |
| 1. Montenegro: Eliminate all export quotas | end-April 2003 |
| D. Enterprise restructuring and privatization | |
| 1. Serbia: Government to approve restructuring strategies for the 7 large state enterprises consistent with a significant improvement in their profitability through streamlining of operations and cost-cutting. | end-April 2003 |

Annex E. Serbia and Montenegro: Summary and Timetable for Potential Structural Measures
Under the Extended Arrangement-Supported Program, 2002–2005¹

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|--------------------------------|---|---|--|---|---|
| 1. Fiscal Sector | | | | | |
| 1.1 Fiscal transparency | (a) Broaden the coverage of government | (1) (S, M) Bring all extrabudgetary funds—notably the social funds—into the annual budgetary preparation and approval process. | 2003–04 | IMF/World Bank (S) EAR, USAID (M) | Serbian and Montenegrin MoF |
| | (b) Strengthen internal audit of budget | (1) (S, M) Set up an internal audit office and prepare a plan for annual audits. (2) (S, M) Issue internal audit manuals and standards and complete internal audit. | 2003 2004 | IMF/World Bank/ Bilateral Donors | Serbian and Montenegrin MoF |
| | (c) Improve fiscal reporting | (1) (S, M) Establish a GFS-consistent fiscal reporting system from all levels of general government: • Social funds • Local governments (2) Begin reporting from local governments to the Treasury. | 2002–2004 2003 (September) 2003 (December) 2004 | | Serbian and Montenegrin MoF |
| 1.2 Tax policy | (a) Improve the efficiency of the tax system by broadening the tax base and, as appropriate, reducing tax rates | (1) (S) Further reduce the financial transactions tax. (2) (M) Eliminate most of the exemptions introduced in the six laws on direct and indirect taxes adopted in 2002. (3) (S) Convert the schedular personal income tax to a global tax and reform corporate income tax. | 2003 2003–2005 2005 | | Serbian MoF Montenegrin MoF Serbian MoF |

¹ Please note that *italicized* measures are proposed to be designated as structural performance criteria or structural benchmarks under the Extended Arrangement.

**Annex E. Serbia and Montenegro: Summary and Timetable for Potential Structural Measures
Under the Extended Arrangement-Supported Program, 2002–2005¹**

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|-------------------------------|--|--|---|---|--|
| | | <p>(4) (S, M) Introduce a VAT.</p> <ul style="list-style-type: none"> • Montenegro • Serbia <p>(5) (S, M) <i>Reach agreement on a timetable for harmonizing at the latest by end-2005 the trade, customs, and indirect tax regimes.</i></p> | 2003 (April) 2005 (January) 2003 (April) | | Montenegrin MoF Serbian MoF Montenegrin and Serbian governments |
| 1.3 Tax administration | (a) Modernize tax administration to improve collection and compliance while reducing compliance costs | <p>(S) Establish LTUs outside Belgrade for</p> <ul style="list-style-type: none"> • <i>Novi Sad, Nis, Kragujevac</i> | <i>2003 (September)</i> | | Serbian PRA |
| 1.4 Public expenditure | (a) Strengthen government financial management and capacity for budget planning, preparation and execution | <p>(1) (S, M) Reorganize MoF and strengthen capacity along functional lines corresponding to its mandate and responsibilities.</p> <p>(2) (S, M) Develop fiscal and budget planning functions and build capacity for policy analysis.</p> <p>(3) Establish (M) and strengthen (S) debt management capacity.</p> <p>(4) (M) <i>Begin reporting quarterly budgetary arrears data.</i></p> <p>(5) (S) <i>Bring all line ministries and other direct budget users under the treasury single account.</i></p> <p>(6) (S, M) Establish a system of commitment control, unify system of making payments, and strengthen control processes and procedures.</p> | 2002–2004 2003 –2004 2003 (April) 2003 (May) 2003 (June) 2003 (June) | | Serbian and Montenegrin MoF Serbian and Montenegrin MoF Serbian and Montenegrin MoF Montenegrin MoF Serbian and MoF Serbian and Montenegrin MoF |

**Annex E. Serbia and Montenegro: Summary and Timetable for Potential Structural Measures
Under the Extended Arrangement-Supported Program, 2002–2005¹**

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|----------------------------------|---|--|--|--|--|
| | | <i>(8) (S) Establish and implement a centralized payroll system under the Central Accounting Division of the Treasury.</i> | 2003 (December) | | Serbian MoF |
| | (b) Civil service reform | (S, M, U) Downsize public sector employment and streamline personnel costs. | 2003 (December) | World Bank | Serbian and Montenegrin |
| 2. Social Security | | | | | |
| 2.1 Social Security Funds | (a) Improve expenditure management | Bring social funds' budget execution under the Treasury. | 2003 (December) | | Serbian MoF and Social Funds |
| 2.2 Pensions | (a) Reform the pension system to improve long-term financial viability and facilitate a lowering of payroll taxes | <p>(1) (S, M) Modify the benefit formula to improve the link between contributions and benefits, and make redistribution more transparent and consistent with available resources. (Specifically, benefits will be based on lifetime wage history instead of the best 10 years.)</p> <p>(2) (S, M) Redesign and tighten eligibility requirements for disability pensions.</p> <p><i>(3) (M) Adopt a Pension Law that increases the minimum retirement age in a phased manner by 5 years, and shifts the indexation of pensions to a weighted average of changes in wages and prices (with the weight of wages not to exceed 50 percent).</i></p> <p>(4) (S) Assess the need for further measures to strengthen the financial position of the pension fund.</p> <p>(5) (S) Merge the three pension funds into a single fund with an account under the Single Treasury</p> | 2003 (April) 2003 (April) 2003 (April) 2003–2004 2003 (June) | World Bank World Bank World Bank World Bank | Serbian and Montenegrin governments, and Ministry of Social Affairs in Serbia. Serbian and Montenegrin govts. and Ministry of Social Affairs Montenegrin government Serbian MoF World Bank |

**Annex E. Serbia and Montenegro: Summary and Timetable for Potential Structural Measures
Under the Extended Arrangement-Supported Program, 2002–2005¹**

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|---------------------------------|---|---|---|---|--|
| | | Account in line with the timetable under the World Bank's SOSAC. | | | Affairs |
| 2.3 Health | (a) Rationalize and provide cost-effective public health services | <p>(1) (S, M) Improve spending control and encourage efficiency in healthcare delivery by refining contracts for medical services to reduce spending on cost-ineffective treatments and create incentives for providers to reduce costs and improve collection of co-payments.</p> <p>(2) (S, M) Draft new law on pharmaceuticals to reduce overlap, clarify roles of the public health institutions, and to set the framework for a more efficient public health system.</p> <p>(3) (S, M) Prepare draft of new laws on health insurance and healthcare provision that provide for enhanced accountability and governance in consultation with the World Bank.</p> <p>(4) (S) Develop guidelines for more efficient levels of capacity and clear definitions of the roles of different levels in the healthcare delivery system.</p> <p>(5) (S) Develop master plan for implementing these guidelines.</p> | <p>2003</p> <p>(S) 2003 (April) (M) 2003</p> <p>2003</p> <p>2003 (September)</p> <p>2003 (December)</p> | <p>World Bank</p> <p>World Bank</p> <p>World Bank</p> <p>Serbian Ministry of Health & Health Fund</p> <p>Serbian Ministry of Health & Health Fund</p> | <p>Serbian and Montenegrin Health Fund</p> <p>Ministries of Health and Health Funds in Serbia and Montenegro</p> <p>Ministries of Health and Health Funds in Serbia and Montenegro</p> <p>Serbian Ministry of Health & Health Fund</p> <p>Serbian Ministry of Health & Health Fund</p> |
| 3. Financial Sector | | | | | |
| 3.1 Monetary instruments | (a) Improve monetary policymaking | <p>(1) (M) Compile and begin publishing a consistent monetary survey table.</p> <p>(2) (S) Facilitate interbank market development by automating settlement, deepening market liquidity, increasing transparency, and building an Electronic</p> | <p>2003 (April)</p> <p>2003 (June)</p> | <p>IMF</p> <p>IMF</p> | <p>CBM</p> <p>NBS</p> |

**Annex E. Serbia and Montenegro: Summary and Timetable for Potential Structural Measures
Under the Extended Arrangement-Supported Program, 2002–2005¹**

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|--|--|--|--|---|---|
| | | <p>Interbank System (ESYSTEM) to integrate the functions of (i) carrying out monetary policy operations, (ii) registering interbank money market operations, and (iii) deposit and settlement accounts management.</p> <p>(3) (S) Issue regulations governing interbank money market transactions, auction of treasury bills, and ESYSTEM operations.</p> | 2003 | IMF | NBS |
| 3.2 Central bank structure and organization | (a) Strengthen internal audit and accounting | (M) Prepare a consistent consolidated Central Bank of Montenegro balance sheet based on IAS incorporating all ZOP (internal and external) and Central Bank accounts. | 2003 (April) | USAID | CBM |
| 3.3 Banking supervision | (a) Ensure soundness of banking system | <p>(1) (M) Transfer the database on existing offshore banks from MoF to CBM to enable effective monitoring and elimination of remaining offshore banking activities.</p> <p>(2) (M) Adopt the Law on Anti Money-Laundering and issue supporting regulations.</p> <p>(3) (S) Implement a comprehensive Supervisory Development Plan outlining medium- to long-term objectives, and legislative and institutional changes necessary to achieve these objectives.</p> <p>(4) (S) Develop consistent operational indicators on credit to the non-government sector, and a consistent consolidated banking system balance sheet.</p> <p>(5) (S) Adopt the new Law on the National Bank of Serbia to provide for a National Bank Supervisory</p> | 2003 (April) 2003 (April) 2003 (May) 2003 (June) 2003 (December) | IMF/USAID World Bank, USAID | CBM/Montenegrin MoF CBM/Montenegrin MoF NBS NBS banking supervision, research, and monetary depts. NBS |

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| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|--------------------------------------|--|---|---|--|---|
| | | <i>Board.</i> | | | |
| 3.4 Bank restructuring | (a) Establish a competitive banking system | <p>(1) (S) The NBS and Government to put in place effective monitoring and control mechanisms to preserve the value of state-owned banks prior to their privatization.</p> <p>(2) (M) Adopt Public Debt Law to pave the way for banking nonperforming assets resolution.</p> <p>(3) (S) Appoint privatization advisors for three banks affected by the July 2002 PLC Law and FFDC Law.</p> <p>(4) (S) <i>Offer for sale three banks affected by the July 2002 PLC Law and FFCD Law.</i></p> | <p>2003 (March)</p> <p>2003 (April)</p> <p>2003 (June)</p> <p>2003 (December)</p> | <p>IMF/WB</p> <p>IMF/USAID</p> <p>IMF/WB</p> <p>IMF/WB</p> | <p>NBS/BRA</p> <p>CBM/Montenegrin MoF</p> <p>BRA/Serbian MoF</p> <p>BRA/Serbian MoF</p> |
| 3.5 Non-bank financial sector | (a) Developing financial markets | <p>(1) (S) Adopt a Law on Secured Transactions and regulations on a Pledge Registry.</p> <p>(2) (S) Adopt legislation to eliminate restrictions on leasing operations.</p> <p>(3) (S) Develop a Central Registry to centralize registration of traded securities.</p> | <p>2003 (April)</p> <p>2003 (April)</p> <p>2003 (April)</p> | <p>World Bank, EBRD, USAID</p> <p>World Bank</p> <p></p> | <p>Serbian MIER</p> <p>Serbian MIER</p> <p>NBS/Serbian MoF</p> |
| 4. Private Sector Development | | | | | |
| 4.1 Enterprise privatization | (a) Expedite privatization through tenders, auctions and sales of minority stakes of the state | <p>(1) (S) Offer for sale 260 large and 2,700 small socially-owned companies and further reduce the state's existing minority share in enterprises.</p> <ul style="list-style-type: none"> • Launch competitive investment tenders for the remaining groups of the World Bank pools. • Offer for sale a further 20 viable large socially-owned enterprises through international tenders. | <p>2002-2006</p> <p>2003 (April)</p> <p>2003 (December)</p> | World Bank | Serbian Ministry of Privatization/ Privatization Agency |

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Under the Extended Arrangement-Supported Program, 2002–2005¹**

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|-------------------------------------|--|---|--|---|--|
| | | <ul style="list-style-type: none"> • Offer for sale a further 800 small socially-owned enterprises through auctions. • Offer for sale a further 70 large and 1,000 small socially owned enterprises through tenders and auctions, respectively. • Offer for sale the remaining 70 large and 500 small socially owned enterprises through tenders and auctions, respectively. <p>(2) (M) Offer for sale majority shares in companies to strategic investors through international tenders</p> <ul style="list-style-type: none"> • Offer for sale shares in selected companies including the tobacco company and hotels. | 2003 (December) 2004 2005-2006 2002-2005 2003 | USAID | Montenegrin Privatization Council |
| 4.2 Enterprise restructuring | (a) Create viable companies that can be privatized | <p>(1) (S) Restructure 49 conglomerates (of which 40 are in the PA portfolio) prior to privatization under tender or auction procedures:</p> <ul style="list-style-type: none"> • Sign contracts with financial advisors for 8 socially-owned conglomerates in the PA portfolio to design programs for restructuring and privatization. • Government adopts these restructuring/privatization programs, and their implementation begins. • Following the reduction by 40,000 in employment supported by social programs in 2002, reduce employment in conglomerates under restructuring by a further 40,000. | 2002–2006 2003 (May) 2003-04 2003 (December) <i>2003 (April)</i> | World Bank, EAR | Serbian Ministry of Privatization/ Privatization Agency |

**Annex E. Serbia and Montenegro: Summary and Timetable for Potential Structural Measures
Under the Extended Arrangement-Supported Program, 2002–2005¹**

| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|---|-----------------------------------|---|---|---|--|
| | | <ul style="list-style-type: none"> • <i>(S) Government to approve restructuring strategies for the 7 large state enterprises consistent with a significant improvement in their profitability through streamlining of operations and cost-cutting.</i> • (S) Government will begin implementing the restructuring strategies for the 7 large state enterprises. | 2003 (June) | | |
| 4.3 Legal and regulatory framework | (a) Strengthen creditor rights | (1) (S) Implement new bankruptcy law: <ul style="list-style-type: none"> • Adopt new law; • Establish Bankruptcy Agency to license individual administrators; • Establish agency to serve as trustee for socially owned enterprises under bankruptcy. | 2003 2003 (April) 2003 (April) 2003 (May) | World Bank | Federal Ministry of Justice/ Serbian Ministry of Privatization |
| 5. Sectoral Policies | | | | | |
| 5.1 Energy sector | (a) Establish financial viability | <i>(1) (S) Increase weighted average electricity price for sale to end-users to cost recovery levels by the middle of 2004:</i> <ul style="list-style-type: none"> • <i>increase the price by at least 20 percent in dinar terms;</i> • increase it further to a cost-recovery level in consultation with the World Bank. | 2002-2004 2003 (June) 2004 (June) | World Bank | Ministry of Energy and EPS |
| | (b) EPS restructuring | (1) Complete the accounting separation of key profit centers in EPS. (2) Strengthen management control over core activities to achieve effective cost control. (3) Spin off non-core activities in EPS. | 2003 (June) 2003 (June) 2003 (December) | | |

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| Policy Area | Objectives and Targets | Selected Strategies and Measures | Implementation | Lead Agency/ Technical Assistance | National Agency Responsible |
|--|--|---|---|---|--|
| | (c) Create market-conforming regulatory framework | (S, M) Design and introduce a legal and institutional framework for an independent energy regulator. | 2002–2003 | World Bank | Serbian and Montenegrin Ministries of Energy |
| 6. Trade Policy | | | | | |
| 6.1 Merchandise trade | (a) Further liberalize foreign trade regime | (1) (S) Remove import quotas for steel products and export quotas on agricultural products, wood and raw hides: <ul style="list-style-type: none"> • Eliminate all import quotas. (2) (M) Remove import quotas and contingency licenses for agricultural products, iron, and selected household appliances, and export quotas for agricultural products, wood and hides: <ul style="list-style-type: none"> • <i>Eliminate all export quotas</i> • Eliminate all import quotas | 2002–2004 2004 (December) 2002–2004 <i>2003 (April)</i> 2004 (December) | World Bank | Serbian Ministry of Trade Montenegrin Ministry of Trade |
| 7. Statistical issues | | | | | |
| 7.1 Collections of statistics | Improve the statistical base for macroeconomic decision-making | (1) (S, M) Statistics will be reviewed in the context of IMF TA missions. | 2002–2005 | IMF | Federal, Serbian, and Montenegrin Statistical Offices |
| Notes: S – Serbia; M – Montenegro; U - Union; CBM – Central Bank of Montenegro; EPS – Electricity company of Serbia; IAS – International Accounting Standards; LTU – Large Taxpayer Unit; MoF – Ministry of Finance; NBS – National Bank of Serbia; PRA – Public Revenue Agency. | | | | | |