Annex 4.  
**Policy of The Central Bank in 2003**

According to the Article 17, item 1, point 1 of the Law on the Central Bank (“Off. Gazette RMN”, No. 52/00 and No 47/01), at the meeting of the Council of the Central Bank, held on 29th November and 2nd December  2002, established the following:

1. **The policy of the Central Bank in 2003**

Aims of the policy of the Central Bank of Montenegro (hereinafter: the Central Bank) for 2003 are the following:

1. increasing the efficiency of the banking system, strengthening of the financial market, and regaining confidence in the banking system through the improvement of regulations and control framework;

2. intensifying and completion of payment operations reform in the Republic through its demonopolization for the purpose of establishing and maintaining efficient payment operations;

3. improvement of financial system liquidity management and foreign currency reserves management in the Republic of Montenegro (hereinafter: the Republic);

4. more efficient operations of bankers, consultants and fiscal agents of bodies and organizations of the Republic;

5. improvement of cooperation with international financial institutions, central banks, and other relevant institutions;

6. improvement of organization, human resources skills and motivation, for the purpose of increasing the efficiency of the Central Bank’s operations.

1. For the purpose of increasing the efficiency of the banking system, strengthening the financial market, and regaining confidence in the banking system through the improvement of regulations and control framework, the Central Bank will work on:

   a. the completion of banking operations regulations in accordance
with international standards, especially in the field of bank control;

b. improvement of on-site and off-site control of banks and monitoring of the harmonization of banking operations and the established standards;

c. carrying out efficient measures towards banks that break the established standards, including the actions of the interim management, bankruptcy and liquidation of banks, in order to protect creditors and depositors, that is, to prevent negative effects on the banking system;

d. the policy of licensing of new banks and other financial institutions, thus offering the highest degree of prevention and the bases for the realization of the goals set;

e. the improvement of the presentation and the structure of banks balances, with special emphasis on the elimination of the inherited bookkeeping positions set by inefficient regulations and banking business operations;

f. initiating bank privatization procedures or their privatization through interim management;

g. completion of existing bankruptcy procedures and the liquidation of banks;

h. preparation and implementation of the deposit protection system, after the adoption of the proposed Law on Guaranteed Deposits;

i. the intensification of cooperation with other regulative bodies, for the purpose of exchanging data and experience, and improvement of cooperation with international financial institutions and organizations in the area of reform presentation in the banking sector and control of foreign business operations;

j. prevention of operations of banks and financial institutions that were not licensed by the Central Bank;

k. intensifying training auditors at all levels and education within the banking sector, with special emphasis on the aspects of money Annex
laundering prevention, the recognition of suspicious transactions, and issues regarding the implementation of international accounting standards and practice.

2. The Central Bank shall intensify and complete the payment operations' reform in the Republic through its demonopolization, for the purpose of establishing and maintaining efficient payment operations, by the means of:

   a. transferring services of noncash and cash payment operations services from the Payment Operations Services Department to banks, by the end of 2003;

   b. development of modern RTGS system on the basis of previously developed feasibility study;

   c. performing the function of money distribution via a reduced network which will consist of regional centers;

   d. transferring non-payment functions (admission, control, sorting, processing and informing according to annual financial reports) to other authorized institutions;

   e. licensing of banks for conducting the payment operations activities;

   f. performing the control of legality and regularity in conducting payment operation activities in banks, in accordance with the audit plan and methodology.

3. The Central Bank will improve the financial system liquidity management and foreign currency reserves management in the Republic, by the means of:

   a. usage of the instruments of mandatory reserves of banks with the Central Bank;

   b. approving the usage of mandatory reserves to licensed banks, approving intra-daily loans from own funds or approving loans with daily maturity;

   c. open market operations with short-term securities;

   d. managing of FX reserves of the Republic for the purpose of: (i) maintaining general liquidity in international payments, (ii) risk
minimization, (iii) benefit maximization;

e. activities on the development of the short-term securities market;

f. providing necessary the quantities and denomination structure of EUR as a legal tender, and performing adequate distribution of banknotes and coins for the purpose of satisfying the financial transactions needs.

4. For the purpose of more efficient operations of bankers, consultants and fiscal agents of bodies and organizations of the Republic, the Central Bank will:

a. render services to the Government of the Republic of Montenegro, regarding short-term security issuance;

b. at least once a year or more often if necessary advise the Government of the Republic of Montenegro in the area of economic policy, including advice on financing the budgetary deficit and contraction of debts limits;

c. perform payment operations in the Republic and abroad for bodies and organization of the Republic;

5. The Central Bank will improve cooperation with international financial institutions, central banks, and other relevant institutions by the means of:

a. cooperation with international financial institutions and international creditors;

b. cooperation with the European Central Bank and other central banks;

c. cooperation and improvement of correspondence with other banks and banking institutions;

d. monitoring of inflow dynamics and the use of financial resources assigned to the Republic at donation conferences, as well as the use of other resources from abroad, and within its authority making the necessary preparations for the donation conference in 2003;

e. active participation, within its authority, in the process of joining the European Union.
Apart from the activities listed above, The Central Bank will continue the negotiations with the Yugoslav National Bank regarding the division of property and liabilities, the division of public debt and the definition of the model for establishing payment operations between the Republics.

6. The Central Bank will improve organization, human resources skills and motivation, for the purpose of increasing its efficiency, by the means of:

   a. completion of internal regulations;
   b. development of motivation mechanisms;
   c. development of human resources management system;
   d. education of personnel;
   e. improvement of technological equipment;
   f. development of the information system;
   g. development of the public relations strategy.