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**COMPARATIVE ANALYSIS OF THE MONETARY
POLICY OF THE EUROPEAN CENTRAL BANK AND
THE NATIONAL BANK OF SERBIA**

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Abstract: The paper analyzes the extent to which the monetary policy implemented by the National Bank of Serbia is in line with the monetary policy of the European Central Bank and the European Monetary Union. In the process of joining the European Union, our country will have to implement numerous changes in the economic system, to harmonize monetary policy, the banking system, and legal regulations with EU standards. The paper also specifically analyzes Serbia's experience in implementing monetary policy, which is compared with the experience of the European Union. The scientific goal of this research is to examine the characteristics and role of the central bank in today's world, with a focus on the National Bank of Serbia and the European Central Bank. The social goal of this research refers to the analysis of the National Bank of Serbia and the European Central Bank through their comparison, which will determine the monetary policy of these banks and the method of its implementation, the way they operate and how they are organized.

Keywords: monetary policy, National bank of Serbia, European central bank.

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KOMPARATIVNA ANALIZA MONETARNE POLITIKE EVROPSKE CENTRALNE BANKE I NARODNE BANKE SRBIJE

Sažetak: Rad analizira u kojoj meri je monetarna politika koju sprovodi Narodna banka Srbije usaglašena sa monetarnom politikom Evropske centralne banke i Evropske monetarne unije. U procesu pridruživanja Evropskoj uniji naša zemlja će morati da sprovede brojne promene u privrednom sistemu, da izvrši harmonizaciju monetarne politike, bankarskog sistema, pravne regulative sa standardima EU. U radu se posebno analizira i iskustvo Srbije u primeni monetarne politike koje se upoređuje sa iskustvom Evropske unije. Naučni cilj ovog istraživanja je sagledavanje karakteristika i uloge centralne banke u današnjem svetu, s osvrtnom na Narodnu banku Srbije i Evropsku centralnu banku. Društveni cilj ovog istraživanja se odnosi na analizu Narodne banke Srbije i Evropske centralne banke kroz njihovu komparaciju čime će se utvrditi monetarna politika ovih banaka i način njenog sprovođenja, način na koji posluju i kako su organizovane.

Ključne reči: monetarna politika, Narodna banka Srbije, Evropska centralna banka.

1. INTRODUCTION

The strategic priority of the Republic of Serbia is to join the European Union, as well as the European Monetary Union, of course, when the conditions are right. However, on that path it must meet the formal conditions defined by the Maastricht convergence criteria. To achieve this, it is necessary to complete the process of essential reforms that will ensure sustainable macroeconomic stability, because long-term macroeconomic stabilization affects the growth of monetary sovereignty and increased credibility in the implementation of monetary policy and its instruments. This process will not be easy at all, given that Serbia, like other countries in Central and Eastern Europe, has had serious problems with large macroeconomic imbalances, such as high and variable inflation, unemployment, unstable exchange rates, and low economic growth rates. On this path, Serbia can certainly be guided by the experiences of other member states, which will somewhat facilitate the decision-making process regarding the reforms to be implemented, can point to problems that may arise and how to avoid them, as well as what is the easiest and fastest way to avoid the mistakes of previous countries, how to lead the country on the path to EMU.

In this paper, the subject of research refers to the European Central Bank and the National Bank of Serbia, more precisely to the level of harmonisation of the monetary policies they implement. In order to carry out a comparative analysis of the European Central Bank and the National Bank of Serbia, it is necessary to

start from the very development of banking and the emergence of central banks, from their role and tasks of central banks in general. The paper will analyze the ECB and the NBS from their establishment to the present day, with an emphasis on monetary policy in order to determine the extent to which the monetary policy of the European Central Bank is compatible with the monetary policy of the National Bank of Serbia, as well as the measures that our bank should take for further harmonisation with the EU and EMU. Due to the importance of the central bank for overall economic development, each country strictly defines the position, functions and responsibilities of the supreme monetary authority by law. How the central bank should be organized depends on the development and structure of the economic system of which it is a part and on the political factors in the country in which it was established, so that in addition to common characteristics, certain differences in their functioning can be observed. Therefore, if it wants to join the European Monetary Union, Serbia will have to go through the process of harmonizing key economic parameters before accession, because it is necessary to determine to what extent the monetary policy of the National Bank of Serbia is consistent with or deviates from the monetary policy of the European Central Bank. This is precisely where the importance of this research comes to the fore, because through it we will gain insight into the measures that Serbia has already implemented to approach the EU and EMU, but also what still awaits it on that path. In the meantime, Serbia has done a lot to harmonize its legislative regulations with the legislation of the European Union, which will facilitate legal communication between our companies and banks and companies and banks from the European Union.

2. COMPARATIVE ANALYSIS OF THE EUROPEAN CENTRAL BANK AND THE NATIONAL BANK OF SERBIA

Joining the European Union, as the most important European integration with a single market for goods, capital, services and people, is a strategic priority for the Republic of Serbia. A step on this path was the signing of the Stabilization and Association Agreement, which is concluded between the EU and potential candidates, which begins the institutionalization of relations with the EU. It should enable the implementation of reforms and harmonisation with all EU standards. On 29 April 2008, the Republic of Serbia signed the Stabilization and Association Agreement with the European Union and the Interim Trade Agreement, as its integral part, and thus completed the first stage of this process, committing itself to gradually fulfilling all obligations under the Agreement within six years of its entry into force and obtaining the status of an "associated country of the European Union", with a clear perspective of EU membership. The Stabilization and Association Agreement was ratified by the

Republic of Serbia on 9 September 2008, and the Interim Agreement, as its integral part, entered into force on 1 February 2010. After a two-and-a-half-year delay in ratification due to insufficient cooperation with the Hague Tribunal, the EU member states have begun ratifying the Stabilisation and Association Agreement. Spain was the first country to ratify the Agreement with Serbia on 21 June 2010, and Lithuania completed the process on 18 June 2013, after which the Agreement entered into force on 1 September 2013 (Gojković et al., 2023).

In the meantime, on 22 December 2009, the Republic of Serbia submitted its application for membership of the European Union to the Prime Minister of the EU Presidency, namely the Prime Minister of the Kingdom of Sweden. This is due to the fact that the application for membership of the EU is submitted to the Council, i.e. the Minister of Foreign Affairs of the country holding the Presidency of the European Union at that time. EU membership is conditional on fulfilling the relevant criteria defined at the Copenhagen Summit in 1993. These are the so-called accession criteria, which include political criteria (stability of institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities), economic criteria (existence of a functioning market economy and capacity to cope with competition and market forces in the Union), and the obligation to accept the EU *acquis*, i.e. the ability to assume the obligations arising from membership, while accepting the objectives of political, economic and monetary union. These criteria were confirmed at the Madrid Summit in 1995 and supplemented by the so-called administrative and institutional criteria, which emphasize the importance of having an institutional and administrative capacity for the efficient implementation and application of EU legislation. After fulfilling the criteria for entry into the EU, the obligation to fulfill the criteria for entry into the Eurozone, i.e. EMU, follows. These are convergence criteria, economic and legal, the so-called The Maastricht criteria must be met by all European Union members wishing to become part of the European Monetary Union with a common currency – the euro, because the implementation of the single monetary policy of the EMU by the ECB requires a significant degree of convergence of member states, as well as future EMU members, in order for monetary policy to be successfully implemented. Only a country that meets the following economic convergence criteria can become a member of the monetary union (Indić et al., 2023):

- 1) Price stability, i.e. sustainably low price growth and an average inflation rate that does not exceed 1.5 percentage points above the average inflation of the three most successful member countries. Inflation is measured on the basis of a comparable consumer price index,

- 2) Long-term interest rate – the average nominal long-term interest rate – must not exceed two percentage points above the average of the three most successful member countries. The interest rate is determined by the interest rates on long-term government bonds or comparable securities,
- 3) Level of the budget deficit is determined so that the rate of the planned or actual budget deficit does not exceed 3% of gross domestic product,
- 4) Public debt criterion stipulates that public debt does not exceed 60% of gross domestic product,
- 5) Exchange rate stability and participation in the Exchange Rate Mechanism (ERM II). This criterion refers to the observance of established exchange rate fluctuation margins, without significant deviations, for a period of at least two years prior to the introduction of the common European currency. It is important to note that a potential member state, during the aforementioned period, in which its currency is included in the Exchange Rate Mechanism, does not have the possibility to devalue its currency against the currency of another European Union member state on its own initiative with the aim of improving the competitiveness of its economy.

Accession to the EMU, in addition to meeting the economic convergence criteria, also requires legal convergence, i.e. harmonization of national legislation not only with primary but also with secondary EU legislation.

It is envisaged that, in exceptional cases, an EU accession country that does not meet one or two criteria may be admitted to the European Monetary Union if it is assessed that, with regard to all criteria, progress has been achieved in the previous period. It is considered that the fulfillment of the "convergence criteria" and the permanent maintenance of macroeconomic parameters at the established level are the basic prerequisites for lasting stability and balanced economic development within the euro area. As we can see, the process of Serbia's accession to the EU requires numerous changes in the economic system and in the structure and organization of our economy, given that in the process of accession to the European Union it opted for full membership, which means accession to the European Union, and then to the Economic and Monetary Union, i.e. full economic and monetary integration with the Union. In order to achieve the goals of accession to the EU, i.e. the EMU, it is necessary to harmonize monetary policy, the banking system, legal regulations and statistics with EU standards. Harmonization of monetary policies, i.e. the harmonization of their strategies, instruments and transmission mechanisms of monetary policy in the process of accession to the EU is inevitable, which is why a comparison of the monetary policy of the NBS and the monetary policy of the ECB is

necessary in order to determine the level of their compliance. This also proves the second separate hypothesis.

3. HARMONIZATION OF MONETARY POLICY

The National Bank of Serbia began intensive cooperation with the European Central Bank in 2008 through the implementation of projects financed by the European Union. In the period from 1 September 2008 to 31 May 2009, the European Central Bank Technical Assistance Project to the National Bank of Serbia was implemented under the title "Needs Analysis of the National Bank of Serbia" (NBS, 2013). As part of the project, in which 17 national central banks of the European System of Central Banks participated, the existing regulatory and operational framework of the National Bank of Serbia was analyzed in six project areas in relation to the standards of the European System of Central Banks. The final result of the project was the Report on the Assessment of the Needs of the National Bank of Serbia with recommendations from experts for improving operations in areas where certain adjustments need to be made with the aim of the operational preparations of the National Bank of Serbia for inclusion in the European System of Central Banks (NBS, 2013a).

The continuation of cooperation was achieved through the project "Strengthening the Institutional Capacities of the National Bank of Serbia" in the period February 2011 - December 2013. In the implementation of the project financed from the European Union's IPA funds (Instrument for Pre-Accession Assistance), in addition to the European Central Bank, experts from 21 central banks of the European Union countries participated. The project covered 13 areas of operation of the National Bank of Serbia. The successful implementation of the project enables the National Bank of Serbia to be more prepared for joining the European System of Central Banks at the moment when the Republic of Serbia meets the conditions for membership in the European Union (ECB - 2014).

After obtaining candidate status on 1 March 2012, the National Programme for the Adoption of the Acquis acquis (NPAA) for the period 2013-2016 was adopted, thus ensuring continuity in the harmonisation process. The structure of the NPAA follows the structure of all three criteria for EU membership, which provides a clear insight into the degree of harmonisation of domestic and European legislation.

4. HARMONIZATION OF MONETARY STRATEGY

The process of monetary policy harmonization was particularly intensified by the choice of an inflation targeting regime as a monetary strategy. In order to

ensure a stable inflation rate, encourage the use of and confidence in the domestic currency, and increase flexibility and adaptability to internal and external shocks, the NBS adopted new measures and new principles for implementing monetary policy on 30 August 2006, aimed at achieving inflation targets. It was initially defined that the NBS would publish short-term inflation targets for the end of 2006 and 2007, defined in the form of core inflation, which do not represent the result of corrections to regulated prices and tariffs. With the transition to a new monetary policy regime, there were also changes in the selection of monetary regulation instruments, it was defined that the target inflation rate would be achieved by adjustments to the reference interest rate, which is now the main instrument and is applied to two-week repo operations, while other monetary policy instruments would have a supporting role, as with the ECB (European Commission, 2014).

At the very beginning, the National Bank of Serbia defined its core inflation targets in the form of a range that was later reduced with the aim of a more effective impact on inflationary expectations. The calculation of core inflation was entrusted to the Statistical Office, and the NBS consulted with the Government in order to publish targets for regulated inflation, which is the result of corrections to regulated prices or prices of agricultural products, after which a unified target for overall inflation was published as a result of retail price growth. The announced inflation targets remained unchanged, while the targets for the end of 2008 and 2009 were to be announced in 2007. With the adoption of the new monetary concept, with the aim of further harmonization with the ECB, which controls prices in the medium term, it was envisaged that this time horizon would later be extended and that the NBS and the Government would set medium-term inflation targets. On 1 January 2009, the Memorandum on Inflation Targeting was adopted, defining the formal implementation of the new monetary regime with a medium-term strategy. The main difference compared to the previous monetary framework is in the way the target inflation rate is displayed and presented, while the characteristics regarding the reference interest rate, the managed-floating exchange rate regime and transparency were retained. Unlike the inflation target from the 2006 monetary framework, where the rate was defined in the form of core inflation, the new monetary regime from 2009 presented the inflation target as an annual percentage change in the consumer price index, which also includes prices in healthcare, education, financial services, etc. The consumer price index more fully reflects price movements, allows for a clearer demarcation of the responsibilities of the Government and the NBS, can be explained more easily to the public and should thus have a greater impact on inflationary expectations. The transition to the consumer price index, which is also used by the ECB, is another step

towards harmonisation with European standards (Office for European Integration, 2014). Inflation targets are also set in the form of a range of overall inflation, with a central value, measured by the annual percentage change in the consumer price index for several years in advance. The National Bank of Serbia cooperates with the Government in determining the overall inflation targets, which are then published by the NBS in the form of a memorandum on determining the medium-term inflation targets.

The National Bank of Serbia, like any other central bank, uses three monetary aggregates in the process of forming the money supply. These are (Krstić, 2003):

- 1) Money supply – M1 - a narrower aggregate of the money supply, which includes currency in circulation and transaction deposits,
- 2) Quasi money – M2 - a broader aggregate of the money supply, which, in addition to M1, also includes other dinar demand deposits and dinar time deposits, short-term and long-term,
- 3) Other liquid assets – M3 - the broadest aggregate of the money supply, which, in addition to M2, also includes foreign currency deposits.

As with the ECB, the broadest coverage of the money supply M3 is of crucial importance for decision-making. The entire strategy of the NBS, apart from inflation targeting, is aimed at achieving the ECB standards. The differences in the NBS inflation targeting strategy and the ECB strategy, which is based on medium-term economic analysis and long-term monetary analysis, are the result of the high inflationary expectations that exist in our country, which have their roots in the inflation of the 1990s.

5. HARMONIZATION OF MONETARY POLICY TRANSMISSION

Monetary policy instruments can affect the economy in different ways, they have different effects on prices and production. Therefore, it is of great importance to precisely define and determine the transmission mechanism of monetary policy, which represents a combination of all economic channels through which, over a certain period, monetary policy affects the economy.

The European Monetary Union has decided that the interest rate channel will be the dominant channel in the transmission of its monetary policy. Changes in interest rates have a direct impact on market interest rates and on the prices of financial assets, such as bonds, shares and the exchange rate. Changes in nominal interest rates affect real interest rates and asset prices. By affecting consumption and the imbalance between supply and demand, changes in

interest rates affect wages and prices with a certain delay, where the time lag also depends on inflation expectations.

Observed at the Eurozone level, it can be concluded that the monetary transmission mechanism through the interest rate channel operates in a similar way in all Eurozone countries. Banks play a key role in the interest rate channel, transmitting the effects of the reference interest rate to active and passive interest rates, given the great influence of banks on the financing of companies and households. Differences in the transmission mechanism of monetary policy in individual countries in the EMU are the result of new participants, new financial products, changing competitiveness between banks and different degrees of financial market integration in individual Eurozone countries (Savić & Bonić, 2022).

When it comes to the transmission mechanism of the monetary policy of the NBS, before the adoption of the new monetary policy strategy in 2006, the exchange rate channel was dominant. The reason for this was the great influence of the euro and the ECB on our economy. In the first years of transition, the transmission mechanism of monetary policy in Serbia was carried out mainly through the exchange rate channel, while the interest rate channel functioned poorly. The exchange rate was a successful nominal anchor in the disinflation process, however, on the other hand, an unfavorable situation was created in the balance of payments, because, as has been shown in practice, the exchange rate has a limited lifespan in anchoring inflationary expectations and after a certain period of time has negative consequences for the economy. The appreciation of the exchange rate had a negative effect on the current account balance and caused a high inflow of capital from abroad. The negative balance of the current account balance influenced the growing import dependence of the Serbian economy, which only strengthened the influence of the exchange rate on economic developments. It was clear to the monetary authorities that the previous conduct of monetary policy would not be sufficient to maintain macroeconomic stability. By introducing a new framework for inflation targeting, the National Bank of Serbia based monetary policy on new principles, where the main instrument of monetary policy is the reference interest rate, and the goal was to strengthen the credit and interest rate channel. In a 2009 memorandum, the National Bank of Serbia expressed its determination to ensure harmonisation with the ECB by orienting its monetary policy strategy to the medium term.

Price stability is the ultimate objective of the monetary policy transmission mechanism of both the NBS and the ECB. The Maastricht Treaty, which established the EU, established price stability as the primary objective of the

ECB. In October 1998, a definition was adopted according to which price stability is the growth, year after year, of the harmonised consumer price index for the euro area at a level below 2% in the medium term, thus confirming that monetary policy cannot control price movements in the short term.

Achieving and maintaining price stability is defined as the primary objective of the NBS monetary policy in Article 3 of the Law on the National Bank of Serbia. The Memorandum on Inflation Targeting as a Monetary Strategy, dated 1 January 2009, defined the application of a monetary regime with a medium-term strategy.

6. HARMONIZATION OF MONETARY REGULATION INSTRUMENTS

With the new monetary framework, the NBS adopted new measures and principles for implementing monetary policy in 2006, aimed at achieving inflation targets. At the ECB, interest rates represent an interim target for monetary policy, while in Serbia, monetary aggregates play this role. Unlike interim targets that are difficult to control but are closer to the targets, there are also operational targets that are easy to control but are further away from the targets. The operational target at the ECB is the reference interest rate, while the NBS used unborrowed reserves and reserve money as operational targets. The National Bank of Serbia took a new step towards harmonizing its monetary policy with the ECB's monetary policy by adopting the NBS Memorandum on Inflation Targeting as a Monetary Strategy in 2009. At that time, some of the determinants of the monetary framework from 2006 were abandoned and the following characteristics were adopted, aiming for harmonisation with the ECB (Mihajlović & Savić, 2024):

- Reference interest rate was set as the operational target.
- Medium-term approach was adopted.
- NBS instruments were identical to the ECB instruments.
- NBS monetary policy strategy was even more assimilated to the ECB strategy.

In the 2009 memorandum, the NBS emphasized that it would achieve inflation targets in a sustainable, consistent and predictable manner by selecting monetary policy instruments, with the selection of instruments being based on an analysis of the current economic situation, an assessment of future trends and a medium-term inflation projection. To achieve monetary policy objectives, the NBS uses the same set of instruments as the ECB, namely open market operations, reserve requirements, credit and deposit facilities (standing

facilities), but, unlike the ECB, the National Bank of Serbia also uses interventions in the foreign exchange market as a secondary instrument.

The main instrument of the monetary policy of the National Bank of Serbia is the reference interest rate, while other monetary policy instruments of the National Bank of Serbia have a supporting role, they should contribute to the smooth transmission of the impact of the reference interest rate on the market, as well as to the development of financial markets. In the inflation targeting regime, foreign exchange interventions are used after the potential for the effective impact of the reference interest rate on inflation has been exhausted. When assessing the impact of the reference interest rate, it is important to monitor developments in the foreign exchange market, because the exchange rate channel in our country represents the strongest channel through which inflation is influenced.

After September 2006, the new monetary framework intensified the role of open market operations as an auxiliary instrument of monetary regulation. The similarity with the ECB's open market operations is reflected in the auction procedure for the sale of securities used by the ECB when approving funds for main refinancing operations. In Serbia, when it comes to open market operations, auction trading in securities between the NBS and banks can be carried out at a fixed or a variable interest rate. As for the ECB, until October 15, 2008, the main form of lending for refinancing in the Eurosystem was carried out only at variable interest rates, and after that at fixed interest rates. When it comes to the frequency of main refinancing operations, at the ECB, it is once a week with a maturity of 7 days, long-term refinancing operations once a month, with a maturity of three months. As for the NBS, until 2010, open market operations were carried out through regular auctions, on Wednesdays and Fridays, and extraordinary ones, and since 2010, as with the ECB, auctions have been carried out once a week, on Wednesdays, with a maturity of 12-16 days at first, but since December 2012, it has been changed to a maturity of one week, or 5-9 days. In addition to the great similarities, there are also differences in variable interest rate auctions that relate to the number of bids that banks can submit, i.e. at the ECB, banks can submit a maximum of 10 bids with different interest rates, while in Serbia they can submit a maximum of five bids. Like the ECB, the NBS can also use both the Dutch and American auction procedures during auctions (Hemed, 2022).

With the new monetary framework of 2006, the ECB's standing facilities, or the credit and deposit facilities that comprise them, were almost identical to the NBS's Lombard loans and its deposit facilities. The difference lies precisely in the Lombard loans, which were approved for a maximum of 45 days

continuously or 60 days with interruptions within 120 days, unlike the ECB's credit facilities, which have an overnight maturity. However, with the 2009 Memorandum, the functions of the NBS credit and deposit facilities instrument became identical to those of the ECB, with the same name, the only difference being the interest rate corridor (Savić et al., 2024). The ECB's interest rate corridor has changed several times over time. It is determined according to the level of the reference interest rate and, since 16 March 2016, it has been in the range of the reference interest rate +0.25 p.p. for credit facilities and the reference interest rate -0.40 p.p. for deposit facilities. The maturity of loans in the NBS is harmonized with the ECB, whereby the NBS, in addition to the overnight loan for maintaining liquidity, also has a daily loan for maintaining liquidity.

When it comes to the reserve requirement as an instrument of monetary regulation, there is a difference between the NBS and the ECB, starting with the reserve requirement rate, which at the ECB was 2% until January 18, 2012, when it was reduced to 1%, while in our country it was higher and, after certain changes, amounts to 5% on a dinar basis since 2012 and 20% on a foreign exchange basis since 2016. The basis for calculating the reserve requirement is also different, as is the interest rate, which at the NBS has a fixed amount of 1.25% since 2016, unlike the ECB where it depends on the average weekly interest rate of the ECB on main refinancing operations.

The role of the central bank in the negotiation process is very important; for certain areas of the *acquis*, such as economic and monetary issues and financial services, the National Bank of Serbia is the presiding institution within the negotiation process. In order to bring Serbia closer to the EU, the National Bank of Serbia, as a central financial institution, must make adjustments with the ECB. The organization, role and principles of the NBS, as well as the objectives of monetary policy and monetary regulation instruments, should be harmonized with the ECB in order to minimize deviations. The National Bank of Serbia also actively participates in the development and preparation of materials for the National Program for the Adoption of the *Acquis*, the Annual Report on the Progress of the Republic of Serbia in the Process of European Integration and the Pre-Accession Economic Program. The National Bank of Serbia also faces significant activities in terms of fulfilling the Maastricht criteria, as a condition for all potential members of the European Union that wish to become part of the European Monetary Union.

As we can see, the National Bank of Serbia has already taken a lot of steps in this regard, so that, based on the recommendation and opinion of the European Commission of 12 October 2011, it was assessed that Serbia meets the prescribed criteria for full membership in the European Union, i.e. that it

accepts its basic objectives, as a result of which the European Council, after receiving the consent of the European Parliament, adopted the Decision on the approval of candidate status on 1 March 2012.

At its meeting on 25 June, the Council recommended, and the European Council, at its meeting on 28 June 2013, accepted the recommendation and decided to open accession negotiations with Serbia, instructing the European Commission to initiate the procedure for drafting a Negotiating Framework for negotiations with Serbia, which would set out the methodology, principles and structure of the negotiations. After the formal opening of negotiations, the phase of analytical review of legislation, i.e. screening, began (Mitrović et al., 2024). At the same time, the Council determined that an Intergovernmental Conference between representatives of the EU Member States and the Republic of Serbia would be held no later than January of the following year, which took place on 21 January 2014 in Brussels. Before convening the conference, the Council adopted a Negotiating Framework for negotiations with Serbia, which was supported by the European Council.

Based on the screening, the European Commission prepares a report that provides an analysis of the gap between the two systems and makes recommendations on what to do next, whether additional harmonisation is needed before opening the chapter and states what the benchmarks are that need to be met in order to open the chapter (Ilić & Tasić, 2021). After opening the chapter, Serbia begins to reform its legislation in order to fill the gaps that exist between the two systems and meet the criteria set for closing the specific chapter. Chapter 17 – Economic and Monetary Policy is important for the area of monetary policy. An explanatory screening for Chapter 17 was held in Brussels on 2 and 3 December 2014, while a bilateral screening for Chapter 17 was held in Brussels on 12 March 2015. Based on these, the Screening Report was published on 5 February 2016, which concluded that Serbia was sufficiently prepared for negotiations on this chapter, which is why the Commission recommended opening accession negotiations with Serbia in relation to Chapter 17 - Economic and Monetary Policy.

Once a year, the European Commission publishes reports in which it presents a detailed assessment of the current situation in each candidate and potential candidate country, the results achieved in the previous year and guidelines for priorities in the reform process. The last report on Serbia from 2018, when it comes to Chapter 17, stated that Serbia was moderately prepared, that it had established a good institutional and administrative framework in the area of economic and monetary policy. Some progress has been made in terms of alignment with the *acquis*, and as regards monetary policy, the legal framework

for the central bank guarantees its independence, however, further efforts are needed to ensure the comprehensive functional and institutional independence of the NBS in line with the acquis. It was found that monetary policy is gradually being further relaxed, that the exchange rate has remained stable, and that the NBS has reduced the scope of its interventions in the foreign exchange market, while foreign exchange reserves are kept at an appropriate level. As a result of all the above, Serbia has submitted its negotiating positions in Chapter 17, with between four and five months from the receipt of the negotiating position for Member States to complete the technical procedures for opening the chapter.

7. PROSPECTS OF THE NATIONAL BANK OF SERBIA'S JOINING THE EUROPEAN MONETARY UNION

The National Bank of Serbia, since the establishment of the European Central Bank and the formation of the European Monetary Union, has been striving to become part of European monetary integration. With the new monetary policy concept from 2006 and its formal implementation from 2009, the NBS has shown its readiness to harmonize with European standards. The ECB contributed to the NBS's aspiration to become part of the European monetary system, offering the National Bank of Serbia technical cooperation necessary for the development of our central bank and the harmonization of its activities with EU and ECB standards (Vuković, 2024). Through this cooperation, the National Bank will be enabled to access the resources of the ECB's technical assistance. In this way, through cooperation with the ECB, the National Bank is opening a process of harmonization with the European economic, financial and legal system on the path of approaching the EU, which other institutions in Serbia will also have to follow.

In the period from 1 September 2008 to 31 May 2009, the European Central Bank Technical Assistance Project to the National Bank of Serbia was implemented, which included an analysis of the needs of the NBS and whose final outcome was the Report on the Assessment of the Needs of the National Bank of Serbia, which contained recommendations from experts for improving the operations of the NBS in accordance with international practice and EU standards (Savić et al., 2024a). In it, the NBS was assessed as a stable, professional, strategically oriented institution. Also, in the period from February 2011 to December 2013, the project "Strengthening the Institutional Capacities of the National Bank of Serbia" was implemented, the successful implementation of which provides the National Bank of Serbia with the opportunity to be more prepared to join the European System of Central Banks when the conditions for this are met. However, despite the readiness of the NBS

to join the EMU, Serbia must first become a member of the EU, with membership in the European Union now representing a much more complex task for new members than it was for the founding countries. The reason for this is the fact that the *acquis communautaire* was still in its infancy, which made it much easier for member states to implement it within their national borders than is the case today with candidate countries. The path of European integration is not uniform, unified for all countries; the stages through which countries go through are more or less unique, but their duration has greatly varied between countries. Several years can pass from the signing of the Association Agreement to full membership, with most countries' dynamics of achieving full membership depending on the level of reforms achieved in the country (Mihajlović et al., 2024a). The possibility of using the experiences of EU member states on how to resolve certain organizational and technical problems is very important for Serbia. Currently, all attention is focused on the negotiation process and the fastest possible closure of all chapters of the negotiations on accession to the European Union, but Serbia's activities do not end there. Despite the fact that the entire pre-accession period is oriented towards harmonization of legislation and economic policies of the candidates and the Union, after gaining full membership in the European Union, there is a need for coordination of the entire national administration with other institutions and bodies of the Union.

Membership in the European Union provides a better basis for faster economic development, because the path of European integration involves strengthening national economies, establishing the rule of law, developing democracy and providing assistance to the new member by the institutions of the European Union to survive on that path. European Union assistance began in March 2001 through the CARDS program, or the Community Assistance for Reconstruction, Development and Stabilization. This program was replaced in 2006 by the Instrument for Pre-Accession Assistance (IPA), which lasted until 2013. This program was followed by IPA II, which will bring Serbia 1.5 billion euros in the period from 2014 to 2020. These funds will be directed to the most important sectors of the state and society with the aim of supporting Serbia's preparations for membership in the European Union (Golubović & Janković, 2023). The European Union is also the largest donor of grants in Serbia. Between 2001 and 2016, our country received more than three billion euros in grants from EU pre-accession funds. Financial assistance was spent on programs and projects in Serbia that stimulated development and concrete reforms and brought benefits to citizens in numerous sectors - from health, energy, environmental protection, education, social protection, culture, media and civil society, justice and home

affairs, local development, innovation and competitiveness, agriculture to assistance to flooded areas in our country (Savić et al., 2023).

An important benefit that Serbia will gain from EU accession is that achieving this goal will enable our country to participate in the development of the European and global economy, politics and culture. As a member, Serbia will gain the right to participate equally with other EU members in the adoption of European policies, and will become an integral part of the EU single market, which will contribute to the economic development of the country. The abolition of borders is particularly important for Serbian citizens, as they will be able to move freely throughout the EU. Given the delay in the transition process for the countries of Eastern and Central Europe and the difficulty of the reforms that we have to implement, the EU is not only a goal, but also a means, a partner that helps to organize our country and society on this path, i.e. a faster way to strengthen institutional capacities (Penjišević et al., 2024). It is important to emphasize that membership in the Union does not result in the loss of national identity of the members, and the Treaty on European Union itself guarantees respect for the national identity of the member states. Portugal and Greece are taken as examples as countries that are in the same rank as Serbia in terms of population, and which have preserved all the features of national identity. The official language of each member state is at the same time the official language of the Union, so that upon our country's accession to the EU, the Serbian language will also become an official language, and Cyrillic has already become an official script with the accession of Bulgaria to the EU. By joining the European Union, our country will transfer the exercise of part of its state sovereignty to the level of joint decision-making in the EU. This refers to areas that are under the exclusive jurisdiction of the Union, such as the internal market, customs tariffs, economic and monetary union, common agricultural policy, environmental protection, etc. This does not mean that Serbia renounces that sovereignty, but delegates it to the European Union, whose decisions it will influence itself. In this way, our country will coordinate its activities and decisions with other member states in order to achieve common interests. In the short term, the benefits mainly relate to the transfer of knowledge and methods, access to various funds and programs of the European Union, technical and financial assistance from the EU, the possibility of using funds intended to reduce differences between regions and member states of the Union, while in the long term, the benefits relate to the numerous positive effects expected from the implementation of European regulations, participation in a large, common market, modernization of the economy, increased foreign direct investment, creation of new jobs, protection of consumer rights, with the specific benefits of joining the Union being separately affected depending on each new member (Međak & Budimir, 2013).

After joining the EU, the EMU accession phase follows. In order to join the EMU, a country must ensure a common exchange rate policy and join the Exchange Rate Mechanism ERM II, ensure coordination of economic policy with the economic policies of other member states and meet all convergence criteria.

If the criteria for introducing a common currency are met, then countries, especially small and open ones, are recommended to adopt the currency of a wider currency area, because the benefits of adopting a common currency outweigh the costs that the country must bear. These benefits are reflected in increased microeconomic efficiency, i.e. increased utility of money in economic transactions, increased price transparency and therefore investment security, as well as the absence of changes in the nominal exchange rate, which leads to a strengthening of the internal market, making it attractive for foreign investment. The benefits are also reflected in increased macroeconomic efficiency, which is the result of general price stability, the possibility of accessing a wider financial market, access to diversified sources of financing, which can achieve an optimal risk-return ratio expected from invested funds. However, on the other hand, there are also costs that a country that renounces its national currency must bear. These are reflected in the increased administrative costs of forming a common institution, the operations of exchange offices become redundant, which leads to their closure, and thus the creation of surplus labor that was engaged in these jobs. However, the greatest cost of adopting a common currency is the loss of monetary sovereignty and the possibility of using various instruments as a response to shocks that affect the economy, the causes of which can be both internal and external in nature, as well as the inability of the monetary authorities in the country to independently conduct monetary policy. This raises the question of how much of a danger this is for Serbia that could affect its possible failure to join the monetary union? According to some experts, the answer is not that great. A country's monetary sovereignty is of great importance, but only if the country is able to conduct an adequate, successful, consistent monetary policy (Zekić & Brajković, 2022). If this is not the case, the negative consequences of using such a powerful instrument by, first of all, changeable, and therefore less efficient management structures are much greater, and one of the key problems of independent monetary policy in Serbia is the inconsistency in its formulation and implementation. Another disadvantage is the fact that negative effects from one country that is a member of the monetary union are transferred to another country that uses the same currency. The different economic cycles in which individual countries find themselves prevent the unique effect of a common monetary policy, and they do not suit all countries equally. However, certain research has shown that the

effects of independent monetary policy before joining the monetary union have proven to be less successful than a rigid, but stable monetary policy implemented at the monetary union level. A large number of criticisms relate to the inability to use financial instruments that could influence aggregate demand through independent policy, or increase competitiveness through the depreciation of national currencies, while acknowledging the fact that this advantage can only be achieved in the short term. By joining the monetary union, a country renounces its monetary sovereignty, and the institution that has the role of the supreme monetary authority loses part of its functions. This primarily refers to the loss of the issuance profit function and the function of last resort. Seigniorage represents the issuance profit, i.e. the difference between the nominal value of banknotes and the costs of their production (Savić et al., 2022a). A possible compensation for the loss of issuance profit could be the sharing of the issuance profit with the EMU, because the Maastricht Treaty defined that the issuance profit, income from seigniorage, is shared among the member states, which means that the loss of the issuance function should not be understood as a major loss from the perspective of the issuance profit. At the same time, in an effort to achieve price stability and stabilize the entire financial system, Serbia has so far pursued a restrictive monetary policy, so the amounts of issuance profit were not so large as to undermine the continuation of monetary integration and the acceptance of the euro as a common currency.

Regardless of the overall engagement of the National Bank of Serbia in the process of harmonizing its monetary policy with the monetary policy of the European Central Bank and the aspirations of the NBS to become part of European monetary integration, the key prerequisite for accession to the European Central Bank depends on the state of Serbia and its fulfillment of numerous EU requirements relating to Serbia.

8. CONCLUSION

The European integration processes in all countries are causing major changes. They relate to the necessity of adjusting and harmonizing the economic policies of the EU member states. Harmonization of monetary policies has been concretized in the convergence criteria that countries must meet, which is a prerequisite for joining the EMU, because there are significant differences between countries that have political and institutional origins, and which can affect the efficiency of integration. Therefore, integration also causes changes in the organization and responsibilities of national institutions, with adequate preparation appearing as an important factor of success. All this imposes the need for a comparative analysis of the situation in which our country is in relation to the Eurozone. The process of obtaining full membership in the

European Union and the European Monetary Union is long-term, exhaustive and not time-limited, given that real activity is required after obtaining full membership.

The role of national central banks after joining the monetary union is defined by the Statute of the European System of Central Banks and the European Central Bank. Accession to the Union itself changes the competences of the National Bank of Serbia, but this will not mean the loss of the ability to manage monetary policy in Serbia. By acquiring membership in the monetary union, part of the responsibility for formulating monetary policy is transferred to the institutions of the Union, primarily the European Central Bank, but the implementation of the monetary policy formulated in this way will be the responsibility of the National Bank of Serbia. In this way, assistance is obtained in formulating monetary policy, which now applies not only to Serbia, but also to other members of the monetary union. In this case, the National Bank of Serbia does not lose its competence, but rather improves it, given that the monetary policy it has implemented so far, which was based exclusively on the conditions and needs of Serbia's economic development, has not yielded satisfactory results. That is why membership in the European Union has been defined as a strategic goal, and the task of the National Bank of Serbia in this process is to harmonize monetary policy with the monetary policy of the European Central Bank, of course, while respecting the specifics of the economic environment in Serbia. In this way, the importance of the National Bank of Serbia is emphasized, as a monetary institution that, regardless of the functions and competencies defined by the Statute, is responsible for the implementation of monetary policy in Serbia.

In the implementation of structural reforms and the transition process, Serbia lags far behind the countries of the region. It is most burdened by macroeconomic imbalances, which is why the process of accession to the EU, and later to the European Monetary Union, can be used as a way to more quickly encourage the necessary reforms. In this process, it can use the experiences of more successful countries.

The National Bank of Serbia should implement monetary policy in a way that will bring inflation within the planned framework and make the exchange rate more stable. Despite the efforts made and the alignment of objectives, with the primary objective, price stability, defined in accordance with the monetary policy of the Union, and the target value and the range of deviations gradually reduced, the results so far have not been so successful, however, it is considered that in the current circumstances the chosen strategy is still the best solution. Therefore, it is necessary to ensure a stable exchange rate, low inflation and the

amount of money that will contribute to the launch of economic activity, because ensuring economic growth and development is possible only in such conditions, when the value of real goods becomes greater than the value of money. In this way, through active monetary policy, while taking into account the expert, technical, organizational and financial assistance of the European Union, the Serbian economy should be strengthened and made an equal partner to other European Union members.

When implementing inflation targeting, the dominant channel should be the interest rate channel, which is not the case in Serbia due to the presence of a high degree of euroization. The reference interest rate, as the main instrument of the monetary policy of the National Bank of Serbia, has an impact on 30% of dinar placements in total placements of the corporate and household sectors and about 20% of dinar deposits in total deposits of the corporate and household sectors. The remaining amount of deposit and credit activity is dominated by interest rates, such as Euribor and Libor, which the National Bank of Serbia cannot influence. This directly reflects the limitations of the application of monetary policy in Serbia, as well as the predominant influence of the exchange rate channel in relation to the interest rate channel. The achieved results of inflation targeting are not satisfactory, because the achieved rate was often outside the target, and the change in the reference rate did not follow the development of inflation and inflation expectations. The National Bank of Serbia does not apply pure inflation targeting, but in addition to caring about the movement of the inflation rate, it also takes into account the level of the exchange rate and applies foreign exchange interventions in order to mitigate short-term exchange rate fluctuations. These foreign exchange interventions have been used extensively to preserve the exchange rate and have a significant percentage share in the gross and net amount of foreign exchange reserves. It is necessary to increase confidence in the domestic currency, which would potentially increase the level of dinar savings and dinar lending. In order to increase the credibility of monetary policy and increase the effect of the interest rate channel, the National Bank of Serbia should continue to work on increasing the degree of dinarization. In addition to the National Bank of Serbia, the Government of the Republic of Serbia should also contribute to increasing the degree of dinarization by implementing measures within its jurisdiction. Only through greater diversification of dinar sources and placements can the efficiency of monetary policy be increased, but also through greater use of the dinar in the financial system, a higher level of financial stability of the country can be raised, the risk of exchange rate changes can be reduced, and thus help create the preconditions for sustainable and stronger economic development.

In the coming period, it will be necessary to work on increasing the credibility of monetary policy and the National Bank of Serbia. It is considered that it is not sufficiently transparent, that communication with the public is poor, that there is not enough responsibility for the implementation of the goals and that the chosen inflation target is not realistically set. The insufficient degree of independence of the NBS and low credibility prevent the success of the inflation targeting strategy and make it difficult to restore confidence in the domestic currency. Of course, monetary policy alone is not enough to ensure long-term price stability, for this a strong real sector is necessary, because the exchange rate of a currency is only a mirror of the strength of a given economy. Therefore, essential, structural reforms are necessary that will eliminate macroeconomic imbalances, stimulate production growth, especially the part intended for export, and enable employment growth. Based on all of the above, we can see that the analysis of monetary policy is certainly a challenging area, both for practitioners and theorists. The challenges are multiple.

At the very beginning, it is necessary to review the results achieved in the implementation of the existing monetary framework, then to see the justification of the previous monetary policy measures, but also the shortcomings of the existing monetary framework and to provide a proposal for their improvement, which would improve the implementation of monetary policy, without jeopardizing price and financial stability. In this regard, each new shock, whether external or internal, represents a new test for the sustainability of monetary policy and its measures, but also an additional incentive to maintain stability and improve the level of supervision and control of the entire financial system by implementing new measures. The challenge of the analysis is also that the topic of monetary policy is always current and present, and that this provides the opportunity to improve existing knowledge, but also to acquire some new ones. The aim of the work was to better understand all the specificities of the implementation of monetary policy, all the problems and limitations that may arise, but also all the open difficulties, the resolution of which will achieve the improvement of the monetary framework, while achieving price and financial stability.

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