

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2016

1. Pursuant to the Law on the National Bank of Serbia, the primary objective of monetary policy is to achieve and maintain medium-term price stability, which contributes to maintaining financial stability and achieving sustainable economic growth.

2. In 2016, the National Bank of Serbia will conduct monetary policy within the inflation targeting framework based on the key principles which are defined in the *Memorandum of the National Bank of Serbia on Inflation Targeting as Monetary Strategy*¹ and the *Agreement on Inflation Targeting between the National Bank of Serbia and the Government of the Republic of Serbia*².

3. The monetary policy objective of the National Bank of Serbia is expressed numerically in terms of the **annual percentage change in the consumer price index** and is set at 4.0%±1.5 percentage points for 2016³. The inflation target remains above the quantitative definition of price stability and inflation targets of developed economies (2.0% or 2.5%) since it is based on the assessment that the process of structural reforms and price liberalisation, i.e. nominal, real and structural convergence towards the European Union, will not be completed during this period.

4. In pursuing the inflation target, the National Bank of Serbia will use the interest rate on the main open market operations as its key monetary policy instrument. The interest rate will be changed in a consistent and predictable manner, in line with economic developments and inflation projection, also taking into account the impact on financial stability. The National Bank of Serbia will also make use of other monetary policy instruments, particularly the reserve requirement policy. Relying on macroprudential tools, the National Bank of Serbia will continue to contribute to maintaining the stability and strengthening the resilience of the financial system.

5. The National Bank of Serbia will continue to implement the managed floating exchange rate regime. It will intervene in the foreign exchange market to ease excessive short-term volatility of the exchange rate, preserve financial system stability, and maintain an adequate level of foreign exchange reserves.

¹ Adopted at the meeting of the NBS Monetary Policy Committee of 22 December 2008.

² Concluded on 24 December 2008.

³ The *Memorandum of the National Bank of Serbia on Inflation Targets until 2018* was adopted at the meeting of the NBS Executive Board of 13 August 2015.

6. As the projections for 2016 indicate that inflationary pressures will stay subdued and GDP growth below its potential, the monetary policy will continue to be expansionary and supportive of the nascent economic recovery. The easing of monetary policy will follow the pace of fiscal adjustment and will be subject to current macroeconomic indicators and the balance of economic risks, domestic as well as external. The lowering of the reserve requirement ratio for banks and the expected positive effects of the implementation of the NPL Resolution Strategy should contribute to better functioning of the credit channel and to a more efficient transmission of monetary policy measures to the real sector.

7. The coordination of monetary and fiscal policies is essential in an inflation targeting regime. By signing the Agreement on Inflation Targeting, the Government has committed to pursuing a sustainable and predictable fiscal policy. The National Bank of Serbia expects that fiscal consolidation measures and structural reforms implemented so far and announced for 2016, as well as continued cooperation with the International Monetary Fund, will help reduce the exposure of the domestic economy to external risks and thus help keep inflation stable and low.

8. In an environment of low and predictable inflation and a stable exchange rate, the National Bank of Serbia will continue to implement the dinarisation strategy in order to increase the efficiency of monetary policy and reduce the vulnerability of corporate and household sectors to adverse changes in the dinar exchange rate.

9. Should inflation depart from the target for longer than six consecutive months, the National Bank of Serbia will notify the Government in writing about the reasons for such departure, as well as about the policy action and the time needed to bring inflation back within the target tolerance band.

10. In accordance with the principles of transparency and accountability and with a view to anchoring inflation expectations around the target, the National Bank of Serbia will communicate with the public through a) press releases; b) press conferences; c) the Inflation Report; d) the Financial Stability Report, and e) other publications.