



NATIONAL BANK OF SERBIA

Speech at the presentation of the
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Ladies and gentlemen, esteemed members of the press, dear colleagues,

The NBS succeeded in maintaining stability in the domestic financial market in the face of heightened uncertainty in the international environment, which was particularly pronounced at the turn of the year.

We are keeping a close eye on global developments and strive to assess the potential effects on our economy at all times. A dedicated and proactive approach, exercised by the NBS in the last six years, plus increased resilience to potential external shocks, has proved to be effective in maintaining the balance in the domestic market.

Overall in 2018, the FX market was broadly stable. This stability was largely underpinned by the central bank's timely reactions, above all to appreciation pressures that prevailed for the greater part of the year. Upward pressures on the dinar are structural and represent a continuation of the appreciation trend in place since April 2017.

The strengthening of the domestic currency during the two previous years is a result of good macroeconomic fundamentals and positive prospects for the future growth and development of our economy. Greater inflow of foreign exchange came from different sources – such as FDI and non-residents' investment in Serbian government long-term dinar bonds. Appreciation pressures were also sustained by the rise in remittances from abroad, as well as by increased inflows from tourism.

Supported with data, the situation is as follows – in 2018, net demand of domestic enterprises for foreign exchange was nearly 13% lower than in 2017, net demand of non-residents was cut by a third (34%), while increased supply was seen in the segment of foreign currency cash (up by 13.6%) and card use by foreign tourists in Serbia (+7.5%) – both of these factors indicating increased inflow of foreign exchange from tourism. As a result of all of this, FX supply in the domestic market exceeded demand by more than EUR 1.5 bn.

Responding to stronger appreciation pressures in 2018, the NBS bought EUR 1,580 mn net. From April 2017 until end-2018, with its interventions, the NBS contributed to the increase in FX reserves by EUR 2.7 bn, thus strengthening the resilience of our economy to potential shocks from the international environment.

The start of a year is already traditionally volatile in international markets. The major global economies and international organisations are considering downward revisions of growth projections, which is particularly evident in the euro area. Trade tensions still remain, though over the recent days there are indications that an agreement between the USA and China could be reached. Uncertainties are also associated with the Brexit. Already now it is certain that the normalisation of the Fed and ECB's monetary policies will be slower than announced.

Uncertainties from the international environment have not reflected on the domestic market, which signals investors' long-term interest in Serbian dinar bonds and their confidence that the good results of the Serbian economy will be sustained. **This is also confirmed by yesterday's report of the renowned financial institution JP Morgan, which highlighted long-term dinar bonds as a very favourable investment alternative and gave investment recommendations.**

In January 2019, occasional depreciation pressures emerged, customary for that part of the year. The dinar weakened 0.2% against the euro, and the NBS intervened by selling EUR 130 mn in order to ease excessive short-term volatility of the exchange rate. This pattern is customary and can be seen at

the start of every year. It reflects the seasonally higher demand of domestic companies for foreign currency, in an environment of the seasonally weaker supply of foreign cash. The obvious seasonality of depreciation pressures in January is also supported by data from earlier years. For instance, in January 2017, the dinar lost 0.4% and the NBS sold EUR 225 mn, while in January 2018 depreciation equalled 0.2% and interventions on the sale side EUR 180 mn.

Already over the past several days, the matched foreign currency supply and demand, and non-resident investment in dinar bonds of the Republic of Serbia led to the renewal of appreciation pressures, i.e. dinar's appreciation in the domestic FX market.

We expect the positive tendencies, which impacted on relatively stable trends in the FX market, to continue in the coming period.

The fact that we act proactively in all segments of the domestic financial market has also been confirmed by two additional FX swap auctions, held by the NBS late last month and in the first half of the current month.

In conditions of temporarily reduced surpluses of dinar liquidity, the Governor made a decision to organise on Monday, 28 January 2018, the first additional FX swap auction in order to ensure smooth functioning of the money market. In this swap auction, the NBS supplied banks with the necessary dinar liquidity, for a period of two weeks, while taking from banks foreign exchange as "collateral".

In doing so, the central bank used one of the standard instruments for regulating dinar and foreign exchange liquidity of the banking sector. The use of this instrument is optimal in situations of a temporary fall in dinar liquidity surpluses.

This helped prevent segmentation of the money market, where potential concentration of excess liquidity with no more than few banks could have led to a more significant rise in market interest rates.

The first additional swap auction has already served its purpose. Liquidity of the banking sector improved and the interbank money market continued operating smoothly. This, we may freely say, "historical" activity of the NBS in the money market was recognised, properly understood and very positively assessed by all stakeholders who follow market developments – from banks and key investors, to renowned analysts.

To enable the banking sector to gradually adjust to improved liquidity in the money market, and having in mind the maturing of prior additional swap auction, two days ago the NBS organised another additional FX swap auction, with lower realisation than in the first.

In an environment of persistent structural dinar liquidity surpluses in the banking sector, reverse repo operations remain the main instrument for regulating bank liquidity, as well as for signalling the monetary policy stance and movement in short-term interest rates in the market.

As so far, the NBS will keep a close eye on movements in the domestic financial market and react when necessary with available instruments in order to ensure its smooth functioning.

Thank you for your attention. I will be happy to take your questions now!