

On the basis of Article 8 of the Law on the National Bank of Yugoslavia (Official Gazette of FRY, no. 32/93, 41/94, 61/95, 29/97, 44/99, and 73/2000), Governor of the National Bank of Yugoslavia hereby brings forth the

DECISION ON THE MONETARY POLICY GOALS IN THE YEAR 2003

1. Set as the principal monetary policy goals in the year 2003 are the following: maintenance of the stable national currency within the managed floating of exchange rate, lowering the inflation rate to 9%, taking as a point of departure December 31st 2002, and the rise in net foreign exchange reserves managed by the National Bank of Yugoslavia by an additional USD 330,000,000.
2. In order to secure the achievement of monetary policy goals in the year 2003, set in section 1 of the present Decision, the NDA target was lowered to YUD 3.5 billion.

The NDA growth ceiling set in the first paragraph of the present point is determined in line with the projected real gross domestic product growth of 5% and the rise in retail prices by 9%, as well as principle that the reserve money growth will be brought about mostly from the National Bank's NFA growth.

3. Throughout the year 2003, banks will be free to determine their own exchange rates both for foreign exchange and foreign currency cash based on the supply and demand principle with the observance of orderly crossed rates on the international money markets.
4. For the purpose of maintaining macroeconomic stability, the National Bank of Yugoslavia will intervene on the foreign exchange market i.e. purchase and sell foreign exchange and foreign currency cash throughout the year 2003.
5. It is expected that the year 2003 will see further strengthening of the confidence in the national currency, as well as enhanced fiscal system which will enable the continuation of the remonetarization process and subduing the gray economy (i.e. illegal money flow channels).
6. Throughout the year 2003, the National Bank will continue to invest further efforts in implementing measures aimed at developing and reforming market oriented monetary policy instruments and development of financial market. The monetary policy measures will include the following:

- 1) Strengthening and improving of open market operations and focusing on the role of interest rates within the monetary policy transmission mechanism;
 - 2) Adjustment of maturity and dynamics of auction sale of National Bank of Yugoslavia's bills, as well as the securities issued by the Republic of Serbia;
 - 3) Creating the conditions for establishing an organized and transparent interbank money market and enhanced application of deposit and lending facilities;
7. In line with the development of market oriented monetary instruments, and in overall monetary developments, the National Bank of Yugoslavia will reconsider the possibility of lowering the reserve requirement rate.
8. It is expected that commercial banks' lending interest rates in 2003 will continue their downward trend, which is consistent with the lowering of inflation rate and maintenance of a stable dinar rate of exchange.
9. Bank supervision and prudential analysis will be performed in line with the current international standards.
10. From the beginning of 2003, the National Bank of Yugoslavia will have created the conditions for the transfer of payment operations to commercial banks. The National Bank of Yugoslavia will also continue to regulate, monitor and supervise the dinar payment operations performed by banks and it will set up and maintain the financial system information network for the entire country, as well as perform other tasks and responsibilities envisaged by the Payment Operations Law (Official Gazette of FR Yugoslavia, no. 3/2002).
11. The present Decision will come into force on January 1st 2003.

Decision no. 133
Belgrade
Dec. 25th 2002

Mladjan Dinkic
Governor
of the National Bank of Yugoslavia