

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA FOR YEAR 2005

1. The principal objective of the monetary policy for 2005 is the reduction of the inflation rate and its maintenance at the level between 9% and 10% (December 2004 to December 2005). Further monetary policy objectives include the preservation of the financial system stability and increase of net foreign exchange reserves.

2. It is estimated that core inflation will account for 30% of total inflation, whereas the remaining part will represent the result of one-off factors such as introduction of the value added tax, or adjustment of administered prices.

3. The exchange rate of the dinar shall be formed freely on the basis of supply and demand in the foreign exchange market. Through its interventions in the foreign exchange market and other instruments at its disposal, the National Bank of Serbia shall direct the exchange rate so as to make it consistent with the country's balance of payments position sustainable in the medium term, at all times minding its primary objective – the reduction of the inflation rate.

4. The National Bank of Serbia shall further liberalize the foreign exchange market through deregulation of the said market, with the aim of increasing its competitiveness, so that the flow of foreign exchange is directed towards commercial channels and direct interventions of the National Bank of Serbia in this market are scaled down.

5. The National Bank of Serbia shall monitor the movement of foreign financial loans, as well as of total indebtedness of the country, and pass measures within its competence for ensuring that foreign indebtedness of the country remain within sustainable limits.

6. Projections of monetary aggregates are based on economic policy objectives and relevant assumptions on macroeconomic environment in 2005, contained in the Memorandum of Budget, Economic and Fiscal Policy for 2005, with projections for 2006 and 2007. It has accordingly been assumed that the real GDP growth in 2005 will amount to 4.5%, while that of net foreign assets in the banking sector will amount to USD 395 million.

7. The National Bank of Serbia estimates that under the above assumptions on economic policy and macroeconomic environment, monetary policy objectives for 2005 will be accomplished with an approximately 6.5% rise in reserve money. The growth of dinar money supply M2 is estimated at about 12%, whereas the broadly defined money supply M3, with foreign exchange components calculated applying the constant exchange rate, is expected to increase by about 15%. The faster growth of broad monetary aggregates is based on the expected faster growth of savings and time deposits, as well as foreign exchange deposits, in respect of transaction deposits. The increase in lending by banks is estimated at some 16.5%, with loans to economy and households increasing by approximately 20%.

8. Projections of monetary aggregates are based on the assumption of a mild reduction in the current balance of payments deficit and increase in the share of non-credit financing. If net foreign exchange inflow were higher than projected, monetary policy would adjust by a higher accumulation of foreign exchange reserves and a higher growth of monetary aggregates. The growth of monetary aggregates, created through autonomous growth of net domestic assets, would be neutralized through adequate monetary policy measures.

9. In 2005, the National Bank of Serbia shall continue to develop and strengthen indirect monetary instruments. The National Bank of Serbia plans to introduce repo operations in the course of 2005 and provide institutional preconditions necessary for the development of the repo market and interbank money market, so as to ensure a more efficient management of the banking sector liquidity. In implementing its monetary policy, the National Bank plans to rely on market interest rates to a greater extent.

10. With a view to regulating banking sector liquidity, the National Bank of Serbia shall enable the banks to use standing facilities, namely, credit and deposit facilities in 2005. In the event of banks' temporary non-liquidity, the National Bank of Serbia could also allow for the use of Lombard and collateralized liquidity loans by the banks.

11. In 2005, the National Bank of Serbia may grant a short-term loan for the financing of temporary budget insolvency to the Republic of Serbia in compliance with the legally prescribed framework, at all times minding monetary movements and net government position in the banking sector.

12. The National Bank of Serbia shall endeavor to maintain monetary movements and banking sector liquidity within the projected limits, using indirect monetary instruments. Required reserve rate shall decrease if monetary developments allow for such reduction, whereas it will increase only in case of substantial structural distortions.

13. If the movements of monetary aggregates and foreign exchange reserves are favorable, the National Bank of Serbia shall review the possibility of a further percentual reduction of the banks' obligation to keep their foreign exchange savings deposits in foreign exchange accounts with the National Bank of Serbia.

14. In the course of 2005, the National Bank of Serbia shall continue to upgrade the supervision of banks and other financial organizations. Its main objective in this field of activity is to continue to provide a financially sound and stable banking system, capable of safeguarding the interests of banks' depositors, to satisfy the demand of both citizens and the economy for the banking services and provide incentive for economic growth. Supervision of solvency and control of legality of operations of banks and other financial organizations shall be performed in line with international standards and principles of efficient banking supervision.

15. In the course of 2005, the National Bank of Serbia shall continue to upgrade its insurance supervision capacity, in compliance with international standards and principles. Its principal aim is to create a safe and stable insurance sector, so as to secure insurance holders' funds.

16. The National Bank of Serbia shall continue to regulate, improve, supervise and control dinar payment transactions in banks, as well as to establish, maintain and administer IT infrastructure for the execution of payment transactions in the Republic of Serbia. It is the intention of the National Bank of Serbia that payment transactions be effected in an efficient and secure manner, in line with principles and standards of the European Union.