

## MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2014

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, whereby the National Bank of Serbia will contribute to financial stability and sustainable economic growth.

2. In 2014, monetary policy of the National Bank of Serbia will be based on the *Memorandum of the National Bank of Serbia on Monetary Strategy*<sup>1</sup> and the *Memorandum of the National Bank of Serbia on Inflation Targets until 2016*<sup>2</sup>.

3. The monetary policy objective for 2014 is expressed numerically as the **annual percentage change in the consumer price index**. The inflation target is set at 4.0%±1.5 percentage points, which is above the quantitative definition of price stability and inflation targets of advanced economies (2.0% or 2.5%). The inflation target 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. To pursue its inflation target, the National Bank of Serbia will use the interest rate on main open market operations as its key monetary policy instrument. This interest rate will be changed in a consistent and predictable manner, in line with economic developments and inflation projection, also taking into account its impact on financial stability. In addition, the National Bank of Serbia will use all other instruments under its remit to achieve the medium-term inflation target.

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 mitigate excessive short-term volatility of the exchange rate, preserve price and financial stability, and maintain the adequate level of foreign exchange reserves.

6. To better monitor macro-financial links, the National Bank of Serbia will implement regular stress tests which will serve as one of the factors for assessing the impact of the interest rate on banking sector stability.

7. Monetary policy in 2014 will maintain the degree of flexibility achieved so far and the readiness to respond rapidly with its available instruments to changes in circumstances abroad and at home, including changes in the consistency of implementation of fiscal consolidation and structural reforms, with

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<sup>1</sup> *The Memorandum of the National Bank of Serbia on Monetary Strategy* was adopted at the meeting of the Monetary Policy Committee of the National Bank of Serbia of 22 December 2008.

<sup>2</sup> *The Memorandum of the National Bank of Serbia on Inflation Targets until 2016* was adopted at the meeting of the Executive Board of the National Bank of Serbia of 18 October 2013.

the aim to prevent any major deviation of inflation from the target. In the event of significant volatility of short-term capital flows and negative effects on the financial system, the National Bank of Serbia will have at its disposal, in addition to monetary policy instruments, macro-prudential instruments, to be used for preservation of financial stability, as well as instruments controlling balance of payments developments.

8. In 2014, the National Bank of Serbia will continue to develop the domestic financial market, in order to increase the efficiency of the monetary policy transmission mechanism and contribute to financial stability. It will also continue to implement the dinarisation strategy in order to increase the efficiency of the monetary policy transmission mechanism and reduce the vulnerability of corporate and household sectors to changes in the dinar exchange rate.

9. The coordination of monetary and fiscal policies is important in an inflation targeting regime. *The Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting*<sup>3</sup> commits the Government to pursue sustainable and predictable fiscal policy in line with the inflation target.

10. Should the actual inflation rate 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 and propose the measures and time needed to bring inflation back to the target.

11. Committed to transparent and accountable communication with the public and aiming to anchor inflation expectations around the target, the National Bank of Serbia will a) publish the Inflation Report, b) publish the Financial Stability Report, c) hold press conferences, d) issue press releases, and e) issue other publications.

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<sup>3</sup> *The Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting* was adopted at the Government's meeting of 19 December 2008.