National Bank of Serbia

Monetary policy challenges

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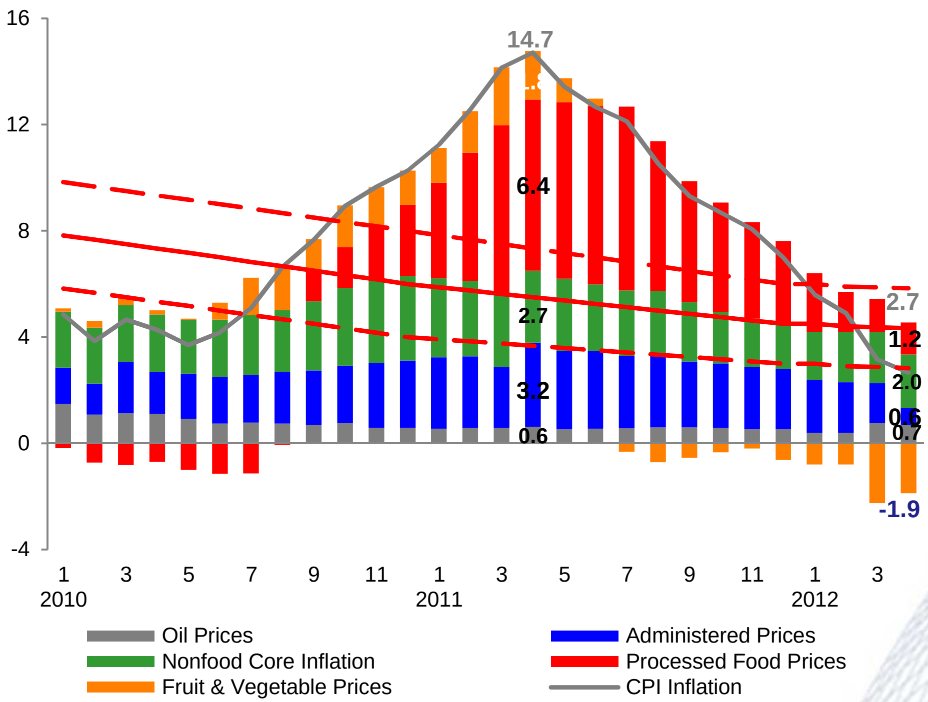
Message No 1

Monetary policy should not react on temporary inflation shocks, but should prevent their spillover to inflation expectations.

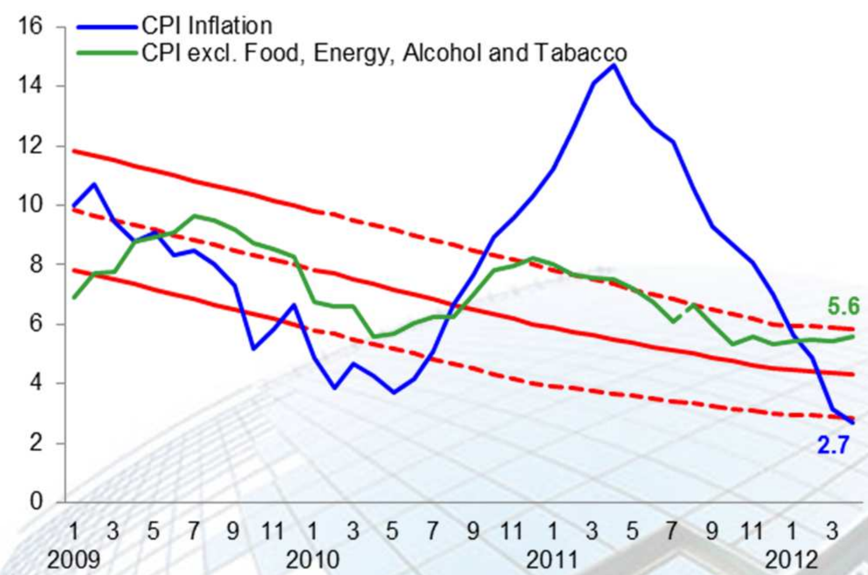
Порука бр 1

Монетарна политика не би требало да реагује на привремене инфлаторне шокове, али би требало да спречи њихово преливање на инфлациона очекивања.

Contributions of CPI components to y-o-y Inflation
(y-o-y rates, pp)



CPI Developments
(y-o-y rates, in %)



Temporary inflation shocks include food price shock or VAT hike.

Message No 2

It is better to have lower but sustainable, than higher and unsustainable GDP growth.

Порука бр 2

Боље је имати нижи и одржив раст БДП-а него виши али неодржив раст.

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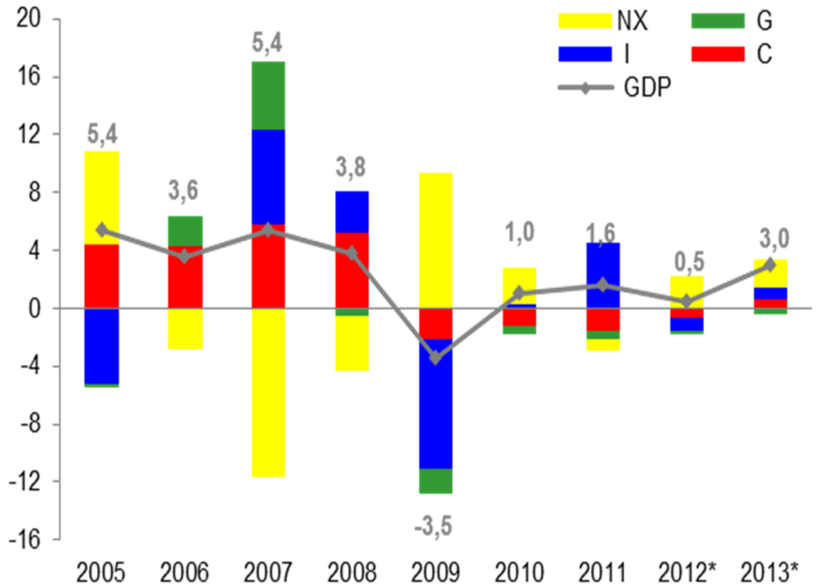
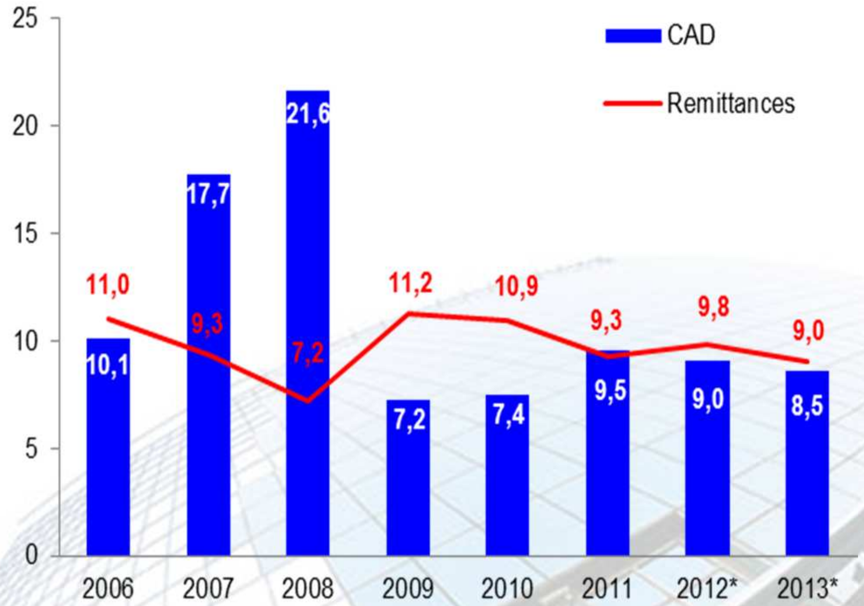
Contributions to real GDP Growth
(y-o-y rates, pp)



* NBS forecast

Contributions to real GDP Growth
(% share in GDP)



* NBS forecast

Investment and net-exports oriented growth is necessary to reduce current account deficit.

Message No 3

Recent dinar pressures will prove temporary if a valid fiscal consolidation is put in place fast.

Порука бр 3

Тренутни притисци на курс динара ће се показати привременим уколико се брзо спроведе свеобухватна фискална консолидација.

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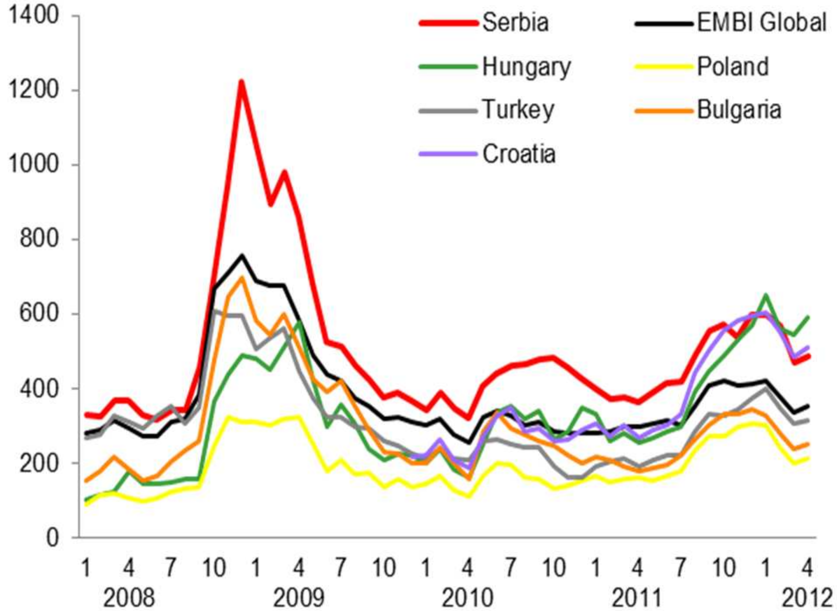
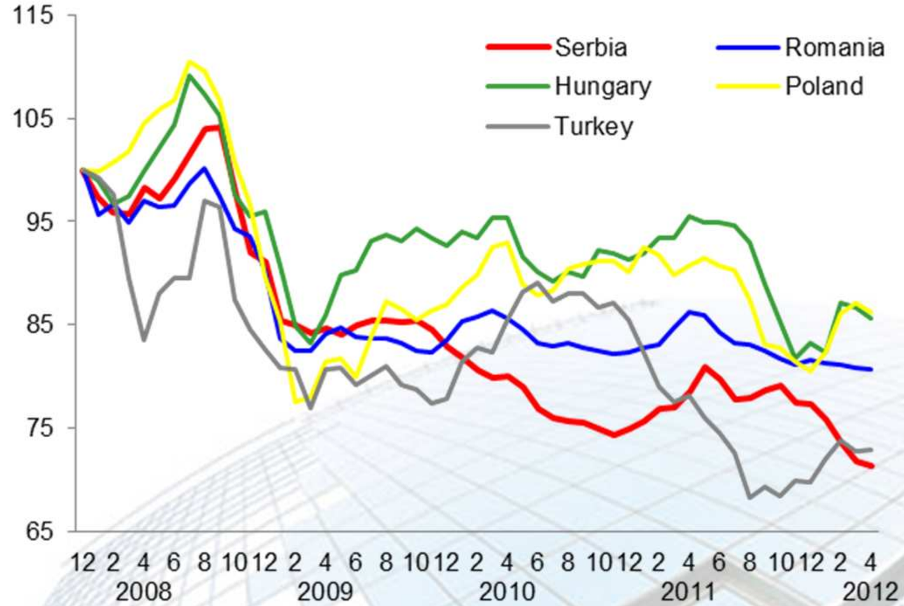
EMBI Risk Premium
(monthly average, in bp)



Exchange Rate Developments
(Dec 2007=100)



3 mechanisms to reduce current account deficit:

- structural policies,
- fiscal composition,
- depreciation.

Fiscal sustainability nowadays has a direct impact on risk premium.

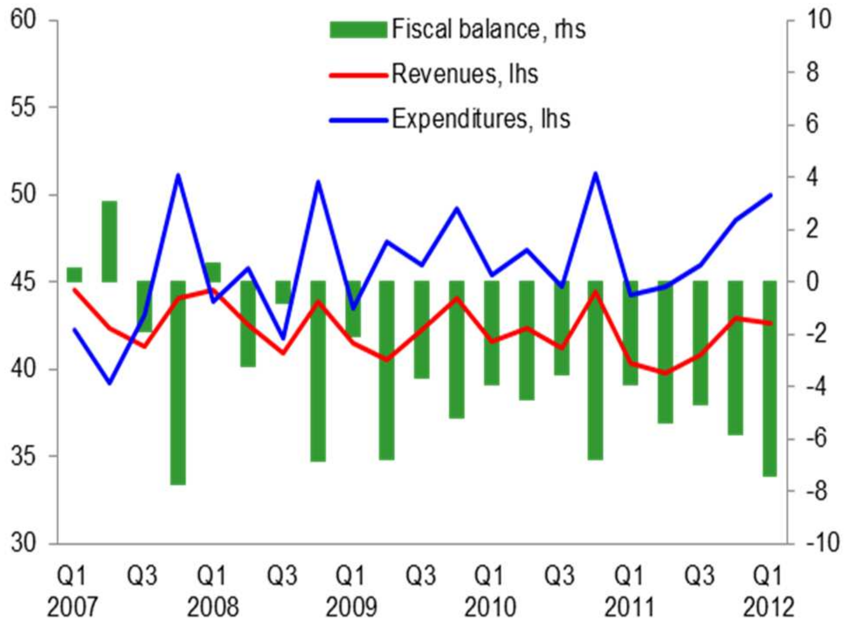
Message No 4

If a valid fiscal consolidation is not put in place fast, interest rate and required reserves will have to go up sharply and this will hurt the real sector.

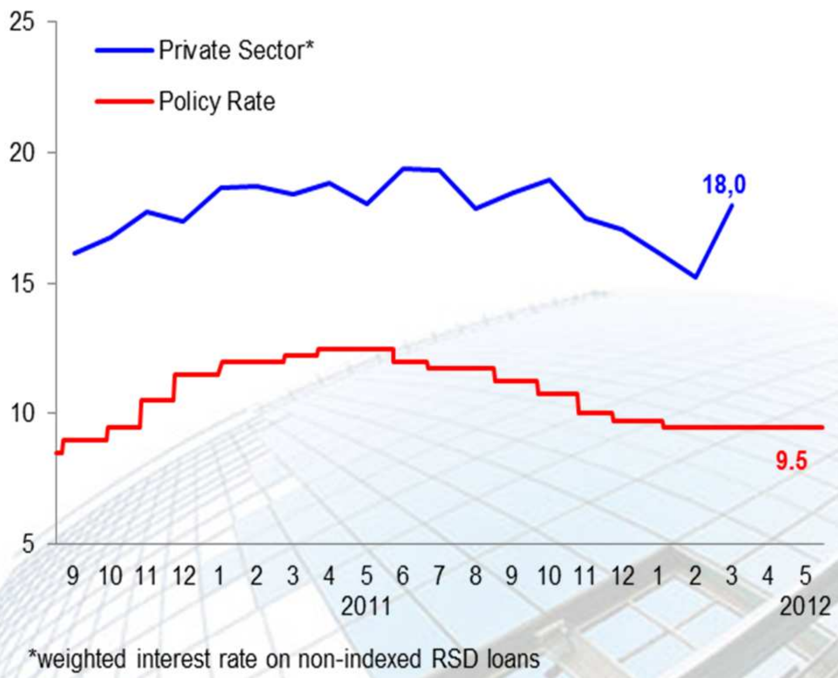
Порука бр 4

Уколико се свеобухватна фискална консолидација не спроведе брзо, каматна стопа и обавезна резерва ће морати знатно да се повећају, а то ће погодити привреду.

Fiscal Revenues, Expenditures and Results
(% share in GDP)



Interest rates
(y-o-y rates, in %)



Price and financial stability can be achieved with lower degree of monetary restrictiveness provided fiscal consolidation and structural reforms are more intensive and effective.

Message No 5

A valid fiscal consolidation is a prerequisite for successful dinarisation and permanently lower interest rate.

Порука бр 5

Свеобухватна фискална консолидација је неопходан предуслов за успешну динаризацију финансијског система и трајно ниже каматне стопе за привреду.