

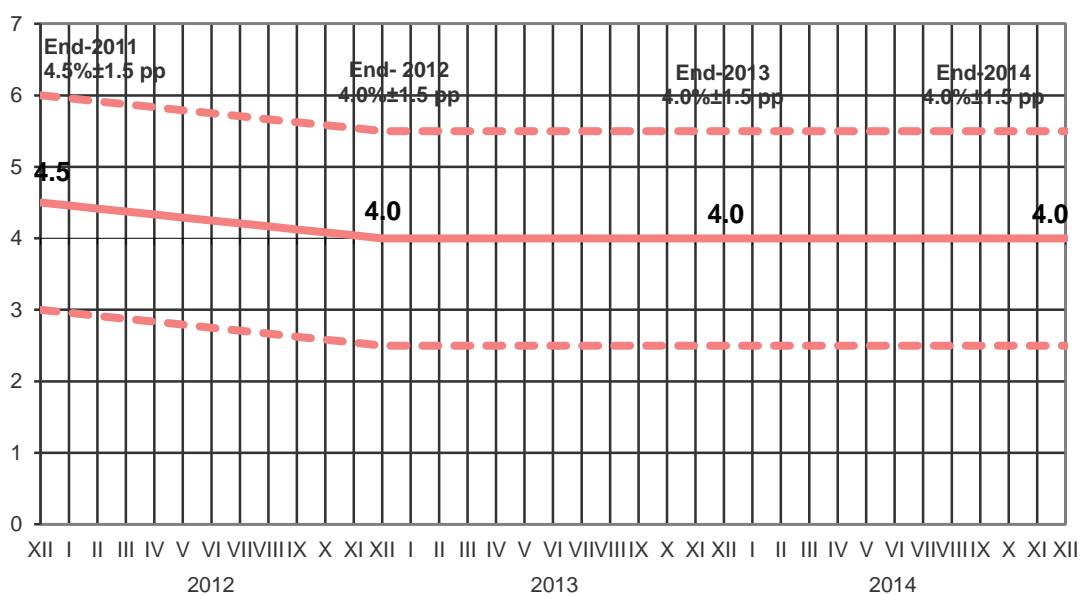
National Bank of Serbia's Memorandum on Inflation Targets until 2014¹

To define the framework for medium-term monetary policy decision-making and to anchor and stabilise inflation expectations, the Executive Board of the National Bank of Serbia hereby sets the inflation targets for the years 2013 and 2014.

In line with the Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting² and the Memorandum of the National Bank of Serbia on Monetary Strategy³, pursuant to which the National Bank of Serbia has committed to set inflation targets in cooperation with the Government, the Executive Board of the National Bank of Serbia hereby sets the **headline inflation targets (with a tolerance band), measured as an annual percentage change in the consumer price index**, for the period 2012–2014, with the inflation outturn at the end of the previous year as its starting point:

- December 2011: 4.5% with a tolerance band of ± 1.5 percentage points
- December 2012: 4% with a tolerance band of ± 1.5 percentage points
- December 2013: 4% with a tolerance band of ± 1.5 percentage points
- December 2014: 4% with a tolerance band of ± 1.5 percentage points

**Inflation targets with a tolerance band
for the period 2011-2014**



The inflation targets are set as point targets (with a tolerance band) for each month of the year (see the chart). The inflation targets for 2012 have not been changed from the levels determined earlier⁴.

Based on macroeconomic projections, the National Bank of Serbia has set the inflation targets for each month in 2013 and 2014 at the level of 4% with a tolerance band of ± 1.5 percentage points.

The trajectory of inflation targets reflects the intention to achieve price stability without causing any disruptions to macroeconomic processes. The inflation targets for 2013 and 2014 are set above the price stability level based on the quantitative definition and the inflation targets of advanced

¹ Adopted at the NBS Executive Board meeting of 10 May 2012.

² Adopted in Government session of 19 December 2008.

³ Adopted at the NBS Monetary Policy Committee meeting of 22 December 2008.

⁴ See the *National Bank of Serbia's Memorandum on Setting Inflation Targets for the Period 2010–2012*.

economies (2.0% or 2.5%) due to the assessment that the process of structural reforms and the liberalisation of prices, i.e. nominal, real and structural convergence to the European Union, will not be completed by 2014.

It should be borne in mind that the inflation target is a medium-term objective, i.e. that the actual inflation may temporarily deviate from the target due to exogenous shocks. As so far, monetary policy will not respond to first-round, but rather to second-round shock effects.

In consultation with the Government, the National Bank of Serbia may decide to change the targets set for inflation. Such changes will be made in exceptional circumstances only and will be explained by the National Bank of Serbia.