

National Bank of Serbia's Memorandum on Inflation Targets until 2016¹

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 target for the years 2015 and 2016.

In line with the *Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting*² and the *Memorandum of the National Bank of Serbia on Monetary Strategy*³, 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 target (with a tolerance band), measured as an annual percentage change in the consumer price index**, for the period December 2015–December 2016 at the level of 4% with a tolerance band of ± 1.5 percentage points.

The inflation targets are set as point targets with a tolerance band. The inflation targets for 2013 and 2014 have not been changed from the levels determined earlier⁴.

The National Bank of Serbia has set the inflation targets for 2015 and 2016 at the level of 4% with a tolerance band of ± 1.5 percentage points.

The trajectory of targeted inflation reflects the intention to achieve price stability without causing any disruptions to macroeconomic processes. The inflation targets for 2015 and 2016 are set above the quantitative definition of price stability and the inflation targets of advanced 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 2016.

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. The National Bank of Serbia will allow temporary deviations from the target if bringing inflation back to the target in the short term warrants monetary changes that would cause additional disruptions to macroeconomic processes. This applies to sudden changes in primary commodity prices or to deviations of the planned growth in product prices under the Government's direct or indirect regulation.

In cooperation with the Government, the National Bank of Serbia may 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.

¹ Adopted at the NBS Executive Board meeting of 18 October 2013.

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 2012–2014.