

## **MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2008**

1. The principal monetary policy objective in 2008 is to achieve and maintain price stability, as well as to maintain the stability of the financial system. By ensuring price stability, the National Bank of Serbia will contribute indirectly to achieving sustainable economic growth.

2. The monetary policy of the National Bank of Serbia in 2008 will be based on the ***Memorandum of the National Bank of Serbia on the Principles of the New Monetary Policy Framework Aiming at Low Inflation Objectives***, adopted by the Monetary Policy Committee of the National Bank of Serbia on 30 August 2006, and the ***Memorandum of the National Bank of Serbia on Setting the 2008 Inflation Objective***, adopted by the Monetary Policy Committee on 29 May 2007. The above memoranda set out that inflation will be maintained “within a defined inflation corridor, with the key policy rate as the main instrument and other monetary policy measures as supporting instruments“.

3. The core inflation corridor, which should help ensure the stability of the general level of prices in 2008, has been set between 3% and 6% p.a. (December-on-December).

4. To meet its objectives as defined herein, the National Bank of Serbia will use all available information on economic developments that affect the achievement of the set inflation objective.

5. Depending on economic developments and the projected dynamics of inflation, the National Bank of Serbia will change the key policy rate and adjust it to a level conducive to keeping the level of core inflation within the projected range. All other monetary regulation instruments, including the reserve requirement and interventions in the foreign exchange market, will be used as supporting tools.

6. The exchange rate of the dinar will be formed freely, with reference to supply and demand in the foreign exchange market.

7. The National Bank of Serbia will influence foreign exchange supply and demand in the foreign exchange market, primarily via its interest rate policy, and will indirectly guide the dinar exchange rate towards a path sustainable over the longer term. By way of exception, the National Bank of

Serbia will intervene in the foreign exchange market with the following key aims: (1) to limit daily oscillations, but without resisting cumulative pressure over a longer period, (2) to ensure stable functioning and operation of the foreign exchange market and offset potential threats to financial and price stability, and (3) to safeguard an adequate level of foreign exchange reserves.

8. By transferring the execution of exchange transactions to banks, the National Bank of Serbia will continue to develop an integrated, flexible and efficient foreign exchange market. Until this process is completed, the National Bank of Serbia will keep returning the foreign exchange purchased in respect of exchange transactions to the interbank foreign exchange market, thereby contributing to its further integration.

9. In 2008, the National Bank of Serbia will continue to develop and strengthen market instruments of monetary regulation and, in cooperation with banks, create conditions for further advancement of the interbank money market.

10. In 2008, the National Bank of Serbia will enable banks to resort more efficiently to its lending and deposit facilities, while using its interest rate corridor as a mechanism for managing money market interest rates.

11. The National Bank of Serbia will use the reserve requirement as a supporting instrument only once the effects produced by other market instruments of monetary regulation are exhausted.

12. The National Bank of Serbia will monitor the lending activity of banks and take adequate prudential and other measures of money regulation within its remit to prevent any threat to the achievement of the principal monetary policy objective.

13. The National Bank of Serbia will take measures coming under its remit in order to build up an efficient and stable banking system, thereby contributing to restoration of trust in the dinar and a decline in the level of euroization.