

DECISION ON THE MONETARY POLICY IN 2001

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*This Decision was adopted on the basis of Article 114, para. 2 of the FRY Constitution
and Article 8 of the Law on the National Bank of Yugoslavia,
and entered into force on 1 January 2001*

1. Basic goals of the monetary policy in 2001 are the reduction of the retail price increase rate to below 1 pc a month by the middle of the year and the stabilization of price trends over the coming period at the above or lower level. In that context, the current annual rise in retail prices, without effects arising out of the liberalization of prices, will be below 10 pc against last December. As of 1 January 2001, the regime of managed dirty float will be implemented.

2. In order to accomplish the goals of the monetary policy referred to in item 1 of this Decision, the National Bank of Yugoslavia will control the trends in fundamental monetary aggregates through changes in NDA of the National Bank of Yugoslavia, to be established quarterly.

3. In 2001, base money will be created only on the basis of a rise in foreign exchange reserves managed by the National Bank of Yugoslavia and on the basis of operations on the open market, within the limits of permitted growth in NDA of the National Bank of Yugoslavia as determined by quarterly projections of the monetary policy.

4. If the rise in foreign exchange reserves managed by the National Bank of Yugoslavia exceeds the expected one and results in an increase in base money and bank liquidity, as well as if the enhanced credit activity of banks led to an increase in money supply that would exceed the planned one – the National Bank of Yugoslavia will take steps for bringing base money into the planned limits. For that purpose, the National Bank of Yugoslavia will:

- 1) sell to the banks, on the money market, its own securities, as well as other securities in its portfolio;
- 2) charge banks and other clients with fees for its credits and other lending and additionally reduce the balance of those credits, i.e. other lending.
- 3) take other steps

5. The National Bank of Yugoslavia will use and, as appropriate, re-examine the existing system of required reserves of the banks and adjust it to the needs of a more efficient management of credit potential and credit activity of the banks.

6. The National Bank of Yugoslavia will take measures for interest rates in 2001 to be used to a greater extent as an instrument of the pursuance of the monetary policy. The interest rates will be formed on a market basis, and are expected to drop gradually, in line with the lowering of the inflation rate. By means of interest rates of the National Bank of Yugoslavia one will influence both demand for credits and total supply of financial resources. The National Bank of Yugoslavia's discount rate will be adjusted to the movements of the general level of interest rates.

7. The National Bank of Yugoslavia, together with the competent ministries, will prepare a bank rehabilitation program and, within it, a special revitalization and rehabilitation program for those bank in which the state has strong interest. That will gradually create conditions for transferring payment operations into the banks and encourage saving in banks by households. In addition, appropriate solutions for the inclusion of foreign banks with high reputation in the banking and financial system of the Federal Republic of Yugoslavia.

8. This Decision shall come into force on 1 January 2001.