

On the basis of Article 8 of the Law on the National Bank of Yugoslavia (Official Gazette of FRY, no. 32/93, 41/94, 61/95, 29/97, 44/99, and 73/2000), Governor of the National Bank of Yugoslavia hereby brings forth the

DECISION ON THE MONETARY POLICY GOALS IN THE YEAR 2002

1. Set as the principal monetary policy goals in the year 2002 are the following: maintenance of the stable national currency within the managed floating of exchange rate, lowering the inflation rate to 20%, taking as a point of departure December 31st 2001, and the rise in net foreign exchange reserves managed by the National Bank of Yugoslavia by an additional USD 186,000,000.
2. In order to secure the achievement of monetary policy goals in the year 2002, set in article 1 of the present Decision, the NDA target was lowered to 5,450,000,000 dinars.
The NDA growth limit set in the first paragraph of the present article is determined in line with the projected real gross domestic product growth of 4% and the rise in retail prices by 20%, as well as limit on the government lending from the National Bank of Yugoslavia, which set to 0,6% of the gross domestic product value.
3. It is expected that the year 2002 will see further lowering of funds in illegal money flows (namely, in gray economy flows) and the corresponding strengthening of confidence in the national currency, which should bring about increase in the real money demand and continuation of the M1 remonetarization process, which means that the M1 money supply will not suffer any significant increase in real terms.
4. The National Bank will undertake further measures aimed at developing and reforming market oriented monetary policy instruments. The monetary policy measures will including the following:
 - 1) strengthening and improving of open market operations and focusing on the role of interest rates within the monetary policy transmission mechanism – all of which is supportive of establishing institutional framework for the development of financial market;
 - 2) continued auction sale of National Bank of Yugoslavia's bills aimed at sterilizing commercial banks' excess dinar liquidity;
 - 3) reform of reserve requirement instruments through spreading the requirement base for calculation of required reserve (the base will include both dinar and foreign exchange deposits), simultaneous lowering of rate and introduction of a unified system of monthly averaging of reserve requirements:

- 4) new decisions will be brought in the domain of National Bank of Yugoslavia's interest rates as well as those pertaining to commercial banks' lending facilities and liquidity management needs;
- 5) lowering liquidity requirements of the commercial banks and abolishing liquidity requirements on dinar deposits;
Commercial banks' lending interest rates will continue their downward trend, which is consistent with the lowering of inflation rate and maintenance of a stable dinar rate of exchange.
- 6) further foreign exchange market liberalization measures will be introduced, meaning that commercial banks will be allowed to transact outside the interbank market applying the exchange rate band widened to 2.5% of the rate officially determined on the latest market session;
- 7) Throughout the year 2002, the National Bank of Yugoslavia will continue to monitor and stand ready to intervene on the foreign exchange market both in cases when the rate reached the floor or ceiling value mentioned in article 6 of the present Decision, and on occasions when the need to streamline exchange rate developments requires such an action although the rate remained within the band.
- 8) The year 2002 will also see the finalization of the bank restructuring process and also adjustments implemented in the domain of bank supervision and prudential analysis to bring them in line with the international standards.
- 9) The National Bank of Yugoslavia will also undertake to conclude the process of transformation of the Clearing and Settlement Bureau (ZOP), reform the relevant legal regulations, as well as to provide technical and technological conditions for the transfer of payment operations to commercial banks.
- 10) The present Decision will come into force on January 1st 2002.

Decision no. 84
Belgrade
Dec. 28th 2001

Mladjan Dinkic
Governor
of the National Bank of Yugoslavia