MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA FOR THE YEAR 2004

1. The principal aim of the Monetary Policy determined by the National Bank of Serbia for the year 2004 shall be maintenance of the inflation rate at approximately 8,5%. (December 2003 to December 2004). Additional aims of the National Bank of Serbia (further on in text: NBS) shall include maintenance of the financial system stability and increase of net foreign currency reserves.
2. It is estimated that in the course of 2004 somewhat more than a half of the inflation rate value would result from various one-off factors such as amendments to fiscal regulations and adjustments of the level of administrated prices. It is expected that the core inflation in 2004 would remain broadly unchanged as in 2003.
3. The dinar exchange rate shall be determined on the basis of supply and demand on the foreign exchange market. The National Bank of Serbia shall intervene on the foreign exchange market and also apply other instruments on its disposal to adjust the dinar exchange rate in line with the country's sustainable mid-term balance of payments position. Nevertheless, NBS shall at all times take heed of the main monetary policy aim of maintaining the inflation rate within the projected framework.
4. Projected monetary aggregates are based on the economic policy performance targets and the assumed preconditions of macroeconomic environment in 2004 contained in the *Draft Law on the Budget of the Republic of Serbia for 2004,* and also the economic policy parameters agreed with the International Monetary Fund at the end of April 2004. It is envisaged that the real gross domestic product growth in 2004 would amount to 4,5% and net decrease of foreign currency reserves in the banking sector would amount to USD 38 million. Also, money circulation shall sustain a moderate circulation velocity decrease.
5. NBS estimates that under the assumed preconditions of economic policy and macroeconomic environment, the Monetary Policy Goals for the year 2004 would be achieved with a 7.5% rise in reserve money. It is also expected that the rise of dinar money supply, M2, would reach approximately 11.5%, whereas broadly defined money supply, M3 with its foreign currency components calculated applying the constant exchange rate would increase by approximately 12%. The expected faster growth of broad monetary aggregates is based on the projected growth of dinar time deposits, as well as increase in foreign currency deposits with commercial banks compared to transactional deposits.
6. Monetary aggregates' projections are based on the assumed relatively unchanged level of balance of payments deficit and decrease of the foreign capital inflow in the course of 2004 compared to 2003. Should it occur that the net foreign currency inflow arising from these two sources should deviate from the projected level, the monetary policy would in part be adjusted to the new course of events. However, the National Bank of

Serbia would not adjust the growth of monetary aggregates to separate deviating elements constituting the net domestic assets should they chance to differ from the projected ones.

7. In the year 2004, National Bank of Serbia shall continue to develop and strengthen the indirect monetary instruments, including introduction of repo transactions in the second half of the year 2004. It is expected that used as a basis for such transactions shall be the bonds issued by the Republic of Serbia issued to settle the outstanding liabilities towards the NBS. In the year ahead NBS plans to rely to a considerable extent on the interest rates as an important instrument of monetary policy. The Reserve Requirement rate shall be decreased in line with the current monetary developments, whereas it would be increased only in case of critical structural distortions in the banking sector liquidity level. The National Bank of Serbia shall, in line with the level of liquidity of the banking sector, consider the possibility of further lowering of mandatory deposit on citizens' foreign currency savings.
8. For the purpose of regulating banking system liquidity level, NBS shall make available to banks both credit and deposit facilities. Also, in 2004 NBS may grant a short-term loan to the Republic of Serbia for the purpose of bridging a temporary budgetary gap in financing, minding at all times the banking sector liquidity level, market-set interest rates and position of the state in the banking sector, as well as the guarantee that the Government shall repay the loan in the agreed time-frame.
9. In the year ahead, NBS shall undertake measures to ensure development of financial markets and increase their safety and efficiency. In this respect, NBS shall further improve its regulations, propose amendments to the legal regulations and closely cooperate with the state authorities responsible for the preparation of regulations in the field of financial sector. NBS shall also take steps to lower its own charges and fees and in this manner contribute to the development of the domestic financial market.
10. Throughout the year 2004, NBS shall continue to improve on its banking supervision practices. The principal aim in the field of supervision over banks and other financial organizations is to secure sound and stable banking sector and protect the interests of banks' clients in order to best satisfy the demand of both public and the economy for the banking services and provide incentive for the further development of the economy. Solvency supervision and control of legality in operations of banks and other financial institutions shall be implemented in line with the international standards and principles of efficient banking supervision.
11. NBS shall continue on the path of improving, monitoring and supervising the dinar payment operations in commercial banks. It will also continue to develop, maintain and administer the IT infrastructure necessary for the unimpeded functioning of payment operations in the Republic of Serbia. It is one of the chief goals of NBS that the payment operations are effected

safely, smoothly and in line with the European Union principles and standards.