

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2010

1. The primary monetary policy objective in 2010 is to achieve the inflation target, whereby the National Bank of Serbia will contribute to the stability of the financial system and sustainable economic growth.

2. In 2010, monetary policy of the National Bank of Serbia will be based on the *Memorandum of the National Bank of Serbia on Monetary Strategy*, adopted by the Monetary Policy Committee of the National Bank of Serbia on 22 December 2008, and the *Memorandum of the National Bank of Serbia on Setting Inflation Targets for the Period 2010–2012*, adopted by the Monetary Policy Committee on 14 December 2009. These Memoranda envisage the achievement of inflation targets by using the key policy rate as the main monetary policy instrument.

3. Expressed numerically in terms of the **annual percentage change in the consumer price index**, the monetary policy objective for 2010 is to lower the beginning-of-year inflation of $8\% \pm 2$ percentage points to $6\% \pm 2$ at the year-end. The inflation target is defined as a linearly declining value (with a tolerance band) of annual changes in consumer prices. It is set for each month of the year, meaning that the achievement of the inflation target is watched continuously, which contributes to the accountability and credibility of monetary authorities and helps anchor inflation expectations. The set inflation targets are consistent with the need to achieve medium-term price stability and reflect the intention of the National Bank of Serbia to achieve price stability through gradual disinflation without causing any disruptions to the macroeconomic processes.

4. To pursue its inflation target, the National Bank of Serbia will use the interest rate on two-week repo operations as its main monetary policy instrument. This interest rate will be changed in a sustainable, consistent and predictable manner, in line with economic developments and inflation projections. Other monetary policy instruments, including the reserve requirement and interventions in the foreign exchange market, will have a supporting role.

5. The National Bank of Serbia will continue to implement the managed floating exchange rate regime. Interventions in the foreign exchange market will only take place to limit excessive daily oscillations in the dinar exchange rate and to contain threats to financial and price stability. Owing to the high level of foreign exchange reserves at its disposal, the National Bank of Serbia will have more scope to intervene should that prove necessary.

6. In 2010, the National Bank of Serbia will continue to develop market instruments of monetary regulation, conduct activities aimed at integration of the foreign exchange market and its complete withdrawal from exchange operations, so as to create conditions for the further upgrade of the interbank money market in cooperation with banks.

7. The stability of the financial system is a precondition for an effective transmission mechanism of monetary policy. The National Bank of Serbia will continue to take all necessary measures to enable the existence of sound and stable financial institutions, promote efficient financial intermediation and maintain trust in the overall financial system. This will contribute to stronger resilience to external disturbances and risks inherent to financial operation.

8. To ease the effects of the global financial and economic crisis and maintain the stability of the financial system, the National Bank of Serbia will continue to undertake necessary measures coming under its remit in cooperation with the Government of the Republic of Serbia. The coordination between monetary and fiscal policies is of decisive importance – the *Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting* commits the Government to pursue sustainable and predictable fiscal policy in line with the inflation target.

9. Committed to transparent and accountable communication with the public, the National Bank of Serbia: a) publishes decisions of the Monetary Policy Committee on the day the meetings are held, b) organises Governor's press conferences to explain the rationale behind decisions of the Monetary Policy Committee and answer all questions of the public, and c) publishes the quarterly *Inflation Report* – its key tool for communicating economic developments that determine the decisions of the Monetary Policy Committee and activities of the central bank.

10. Should the actual inflation rate depart from its target for more than six consecutive months, the National Bank of Serbia will notify the Government in writing about the reasons for such departure, propose measures to be taken and give an estimate of the time needed for inflation to return within the target band.