

## MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2011

1. The primary monetary policy objective 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 2011, monetary policy of the National Bank of Serbia will be based on the *Memorandum of the National Bank of Serbia on Monetary Strategy*<sup>1</sup> and the *Memorandum of the National Bank of Serbia on Setting Inflation Targets for the Period 2010–2012*<sup>2</sup>.

3. Expressed numerically – in terms of the **annual percentage change in the consumer price index**, the monetary policy objective for 2011 is to gradually lower the beginning-of-year inflation of 6%±2 percentage points to 4.5%±1.5 percentage points by the year-end. The inflation target is defined as a continuously 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.

4. Monetary policy decisions of the Executive Board of the National Bank of Serbia in the course of 2011 will be designed to facilitate the achievement of its medium-term inflation target. The objective is to gradually lower the beginning of 2012 inflation of 4.5%±1.5 percentage points down to 4.0%±1.5 percentage points by the end of 2012. The inflation target path set for the period until 2012 is consistent with the achievement of medium-term price stability and reflects the intention of the National Bank of Serbia to achieve price stability through gradual lowering of inflation without causing macroeconomic disturbances.

5. 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. In addition, the National Bank of Serbia will use all available instruments under its remit to achieve its medium-term inflation target.

6. Committed to transparent and accountable communication with the public, the National Bank of Serbia will a) issue press releases, b) hold press conferences, c) publish the Inflation Report, and d) issue other publications.

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<sup>1</sup> *The Memorandum of the National Bank of Serbia on Monetary Strategy* was adopted at the meeting of the Monetary Policy Committee of the National Bank of Serbia of 22 December 2008.

<sup>2</sup> *The Memorandum of the National Bank of Serbia on Setting Inflation Targets for the Period 2010–2012* was adopted at the meeting of the Monetary Policy Committee of the National Bank of Serbia of 14 December 2009.

7. The National Bank of Serbia will continue to implement the managed floating exchange rate regime. The high level of foreign exchange reserves of the National Bank of Serbia will ensure the stability of the foreign exchange market. The National Bank of Serbia will intervene in the foreign exchange market to mitigate excessive daily volatility of the exchange rate and/or to encourage trading volumes, as well as to contain threats to financial and price stability.

8. In 2011, the National Bank of Serbia will continue to develop and strengthen market-based monetary instruments and to create conditions in cooperation with banks for the further upgrade of the interbank money market.

9. Given the still very high level of euroisation in Serbia, the National Bank of Serbia will continue to implement the dinarisation process. Dinarisation will be based on three pillars: the preservation of macroeconomic stability, development of the dinar money and capital markets and development of hedging instruments. Reducing euroisation will contribute to monetary policy efficiency and reduced vulnerability of the public and private sectors to exchange rate volatility.

10. A stable and competitive financial system is the precondition for an effective transmission mechanism of monetary policy. The National Bank of Serbia will continue to take all necessary measures to ensure the existence of sound and stable financial institutions and maintain trust in the overall financial system, so as to enable efficient mobilisation of savings and allocation of investment. This will contribute to stronger resilience to external disturbances and risks inherent to financial operation.

11. The coordination between monetary and fiscal policies is important in an inflation targeting regime. In 2011, the National Bank of Serbia will continue to cooperate with the Government of the Republic of Serbia. *The Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting*<sup>3</sup> commits the Government to pursue sustainable and predictable fiscal policy in line with the inflation target.

12. Should the actual inflation rate depart from its target for longer than six consecutive months, the National Bank of Serbia will notify the Government in writing about the reasons for such departure, propose policy action to be taken to deal with it and give an estimate of the period within which inflation can be expected to return within the target band.

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<sup>3</sup> *The Agreement between the National Bank of Serbia and the Government of the Republic of Serbia on Inflation Targeting* was adopted at the Government's meeting of 19 December 2008.