

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2012

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 2012, monetary policy of the National Bank of Serbia will be based on the *Memorandum of the National Bank of Serbia on Monetary Strategy*¹ and the *Memorandum of the National Bank of Serbia on Setting Inflation Targets for the 2010–2012 Period*².

3. Expressed numerically – in terms of the **annual percentage change in the consumer price index**, the monetary policy objective for 2012 is to gradually lower inflation from 4.5%±1.5 percentage points at the end of the previous year to 4.0%±1.5 percentage points at the end of 2012. 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, 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 2012 will be designed to facilitate the achievement of low and stable inflation in the medium run. The objective is to gradually lower inflation from 4.5%±1.5 percentage points to 4.0%±1.5 percentage points until 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 main open market operations as its main monetary policy instrument. This interest rate will be changed in a consistent and predictable manner, in line with economic developments and inflation projection. In addition, the National Bank of Serbia will use all other 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.

¹ *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.

² *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 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 in order to ensure the unimpeded functioning of the foreign exchange market, and to preserve the stability of the financial system and the stability of prices in the domestic market.

8. In 2012, 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. The National Bank of Serbia will continue to implement the dinarisation strategy which rests on three pillars: the preservation of macroeconomic stability, development of the dinar money and capital markets and development of hedging instruments. Increasing the degree of dinarisation will contribute to enhanced efficiency of the monetary policy transmission mechanism and reduced vulnerability of the corporate and household sectors to volatility of the dinar exchange rate.

10. When needed, the National Bank will independently or in cooperation with the Government of the Republic of Serbia, take necessary measures to preserve the stability of the financial system.

11. The coordination between monetary and fiscal policies is important in an inflation targeting regime. In 2012, 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*³ 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.

³ *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.