

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2013

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

2. In 2013, 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 Inflation Targets until 2014*².

3. Monetary policy objective for 2013 is expressed numerically as the **annual percentage change in the consumer price index**. The inflation target is set at 4.0%±1.5 percentage points, which is above the quantitative definition of price stability and the inflation targets of advanced economies (2.0% or 2.5%). The inflation target is based on the assessment that the process of structural reforms and price liberalisation, i.e. nominal, real and structural convergence towards the European Union, will not be completed during this period.

4. Monetary policy decisions of the Executive Board of the National Bank of Serbia will be designed to facilitate the achievement of low and stable inflation in the medium run.

5. To pursue its inflation target, the National Bank of Serbia will use the interest rate on main open market operations as its key 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 the 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, d) publish the Financial Stability Report and d) issue other publications.

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 unimpeded functioning of the foreign exchange market, as well as to preserve the stability of the financial system and the stability of prices in the domestic market.

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 Inflation Targets until 2014* was adopted at the meeting of the Executive Board of the National Bank of Serbia of 10 May 2012.

8. The National Bank of Serbia will continue to develop and strengthen market-based monetary instruments and, in cooperation with banks, to create conditions for further upgrading 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 FX 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. If the effects of the global crisis continue to spill over to the domestic banking system and the economy, the National Bank of Serbia 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 of monetary and fiscal policies is essential in an inflation targeting regime. *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 the target for longer than six consecutive months, the National Bank of Serbia will notify the Government in writing about the reasons for such departure and propose the measures and time needed to bring inflation back to the target.

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.