

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2015

1. Pursuant to the Law on the National Bank of Serbia, the primary objective of monetary policy is to achieve and maintain medium-term price stability, whereby the National Bank of Serbia will contribute to the preservation of financial stability and achievement of sustainable economic growth.

2. In 2015, 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 2016*².

3. The monetary policy objective of the National Bank of Serbia is expressed numerically in terms of the **annual percentage change in the consumer price index** and is set at 4.0%±1.5 percentage points for 2015. The inflation target is set above the quantitative definition of price stability and inflation targets of developed economies (2.0% or 2.5%) since it 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. 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. The interest rate will be changed in a consistent and predictable manner, in line with economic developments and inflation projection, also taking into account its impact on financial stability. In addition, the National Bank of Serbia will use all other instruments within its remit to achieve the medium-term inflation target.

5. The National Bank of Serbia will continue to implement the managed floating exchange rate regime. It will intervene in the foreign exchange market to ease excessive short-term volatility of the exchange rate, preserve financial stability, and maintain an adequate level of foreign exchange reserves.

6. In addition to monetary policy instruments, the National Bank of Serbia will have at its disposal macro-prudential instruments to contribute to the preservation and strengthening of financial stability. To better analyse

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 2016* was adopted at the meeting of the Executive Board of the National Bank of Serbia of 18 October 2013.

macro-financial links, the National Bank of Serbia will continue to regularly test the system resilience to potential unfavourable macroeconomic trends, which will serve as a basis for assessing banking sector stability.

7. The coordination of monetary and fiscal policies is important 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 pursuing sustainable and predictable fiscal policy. The National Bank of Serbia expects that the measures of fiscal consolidation and structural reforms implemented so far and announced for 2015, as well as further cooperation with the International Monetary Fund, will contribute to the reduction in the domestic economy's exposure to external risks and thus facilitate the preservation of low and stable inflation.

8. The National Bank of Serbia will continue to implement the dinarisation strategy in order to increase the efficiency of the monetary policy transmission mechanism and reduce the vulnerability of corporate and household sectors to changes in the dinar exchange rate.

9. Should inflation 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, measures needed to be taken and the period over which it is expected that inflation will return within the target tolerance band.

10. Committed to transparent and accountable communication with the public and aiming to anchor inflation expectations around the target, 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 e) issue other publications.

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 24 December 2008.