

## **MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2017**

1. Pursuant to the Law on the National Bank of Serbia, the primary objective of the monetary policy is to achieve and maintain price stability, which contributes to maintaining financial stability and achieving sustainable economic growth.
2. In 2017, the National Bank of Serbia will conduct its monetary policy pursuant to the Memorandum of the National Bank of Serbia on Inflation Targeting as Monetary Strategy<sup>1</sup> and the National Bank of Serbia's Memorandum on Inflation Targets until 2018.<sup>2</sup>
3. The monetary policy objective of the National Bank of Serbia is expressed numerically as the **annual percentage change in the consumer price index** and is set at 3.0%±1.5 percentage points for 2017. The lowering of the target from 4.0% to 3.0% attests to the commitment of the National Bank of Serbia and the Government of the Republic of Serbia to keep inflation low, stable and predictable over the medium run. This will contribute to further improvement in the business and investment climate, a reduction in long-term dinar interest rates and a greater use of the dinar in financial transactions, and by extension, to lower costs and a reduced currency risk for the corporate and household sectors and the government.
4. In pursuing its inflation target, the National Bank of Serbia will use the interest rate in the main open market operations as its key monetary policy instrument. In 2017 as well, the National Bank of Serbia will change the level of this interest rate in a consistent and predictable manner, closely monitoring the developments at home and abroad, both in the international financial market and the primary commodities market. The National Bank of Serbia will also make use of other monetary policy instruments in order to support the interest rate transmission to the real economy.
5. The National Bank of Serbia will continue to pursue its monetary policy under 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 and price stability, and maintain an adequate level of foreign exchange reserves.
6. Without prejudice to its primary objective, the National Bank of Serbia will use macroprudential instruments to act pre-emptively towards maintaining and strengthening the stability of the overall financial system. The selection of an actual macroprudential instrument is part of a wider process of identifying and measuring the systemic risk that will be further improved.

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<sup>1</sup> Adopted at the meeting of the NBS Monetary Policy Committee of 22 December 2008.

<sup>2</sup> Adopted at the meeting of the NBS Executive Board of 13 August 2015 and amended at the meeting of 10 November 2016.

7. Monetary policy decisions and activities of the National Bank of Serbia regarding microprudential and macroprudential policies will be calibrated so as to ensure the maintenance of low and stable inflation, the preservation of financial stability, and the support to the implementation of economic policy of the Government of the Republic of Serbia.
8. Implementation of the NPL Resolution Strategy will contribute to a further decline in the share of non-performing loans (NPLs) in total bank loans in 2017, which should result in credit growth, a stronger credit channel and greater effectiveness of the monetary transmission to the real economy.
9. Successful implementation of fiscal consolidation and structural reforms, including coordination of monetary and fiscal policy measures, helped narrow external imbalances and increase the resilience of the domestic economy to potentially adverse effects from the international environment. The National Bank of Serbia anticipates that positive effects of fiscal consolidation and structural reforms in 2017, alongside successful cooperation with the International Monetary Fund, will continue to boost the resilience of the domestic economy to external shocks, and thus further contribute to macroeconomic and price stability. Having in mind the expected effects of past monetary easing on inflation movements and considering uncertainties in the global capital market, in 2017 the National Bank of Serbia will maintain the current degree of flexibility when using monetary policy instruments.
10. A greater use of the dinar in the domestic financial system will remain one of the strategic objectives of the National Bank of Serbia. In an environment of low and stable inflation and a relatively stable exchange rate, the National Bank of Serbia will continue to implement the dinarisation strategy in order to reduce the vulnerability of the corporate and household sectors to changes in the dinar exchange rate and increase the efficiency of monetary policy.
11. In accordance with the principles of transparency and accountability, and with a view to anchoring inflation expectations within the target band, the National Bank of Serbia will communicate with the public through a) press releases, b) press conferences, c) the Inflation Report, d) the Financial Stability Report, and e) other publications.