

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2018

1. Pursuant to the Law on the National Bank of Serbia, the primary objective of the National Bank of Serbia and its monetary policy is to achieve and maintain price stability, which contributes to the preservation of stability of the financial system and sustainable economic growth.
2. In 2018, 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 Strategy¹ and the National Bank of Serbia's Memorandum on Inflation Targets until 2020.²
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 2018. The target was lowered to 3.0% as of the beginning of 2017, which confirms the commitment of the National Bank of Serbia to preserve price stability in the medium run, together with the Government. In this way, the National Bank of Serbia contributes to 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 thus to lower costs of funding and reduced exposure to the currency risk of the corporate, household and government sectors.
4. The National Bank of Serbia will aim to achieve the defined inflation target by using the interest rate in main open market operations as its key monetary policy instrument. In 2018 as well, the National Bank of Serbia will change the level of this interest rate in a consistent and predictable manner, taking into account the inflation projection, economic developments in the domestic and international environment, and the impact of these changes on financial stability. In addition, if the need arises, the National Bank of Serbia will make use of other instruments under its remit in order to achieve the inflation target in the medium run, taking account of the stability and resilience of the financial system.
5. The National Bank of Serbia will continue to pursue 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 price and financial stability, and maintain an adequate level of foreign exchange reserves.
6. In addition to monetary policy instruments, the National Bank of Serbia has at its disposal macroprudential policy instruments, whereby, without prejudice to its primary objective, it contributes to the preservation and strengthening of stability of the financial system. The National Bank of Serbia will continue to implement regular testing of the resilience of the financial system to potential

¹ Adopted at the meeting of the NBS Monetary Policy Committee of 22 December 2008.

² Adopted at the meeting of the NBS Executive Board of 7 December 2017.

macroeconomic risks. The selection of a concrete macroprudential instrument is part of a wider process of identifying and measuring the systemic risk, which will be further improved.

7. The National Bank of Serbia will make monetary policy decisions and undertake activities in the field of microprudential and macroprudential policies in the manner which ensures the maintenance of low and stable inflation, the preservation of financial stability, and support to the implementation of economic policy of the Government.
8. The implementation of the NPL Resolution Strategy has resulted in a significant drop in the share of non-performing loans (NPLs) in total bank loans, and will continue to contribute to their further decline in 2018. This should additionally contribute to growth in lending, strengthening of the credit channel and more effective transmission of monetary policy measures to the real sector.
9. Successful implementation of fiscal consolidation and structural reforms, and full coordination of monetary and fiscal policy measures helped narrow internal and external imbalances and increase the resilience of the domestic economy to potentially adverse effects from the international environment. Having in mind uncertainties stemming from the international environment, in 2018 the National Bank of Serbia will maintain caution in making monetary policy decisions.
10. In an environment of low and predictable inflation and a relatively stable exchange rate, the National Bank of Serbia will continue to implement the dinarisation strategy in order to reduce the exposure of the corporate, household and government sectors to the currency risk, while at the same time increasing the efficiency of monetary policy instruments.
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.