

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2019

1. Pursuant to the Law on the National Bank of Serbia, the primary objective of the National Bank of Serbia is to achieve and maintain price stability, which contributes to the preservation of stability of the financial system and sustainable economic growth.
2. In 2019, 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 2021.²
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% with the tolerance band of ± 1.5 percentage points for 2019. 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 of the Republic of Serbia. In this way, the National Bank of Serbia contributes to the 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 a reduced exposure to the currency risk and a decline in the costs of funding of the household, corporate and government sectors and the strengthening of competitiveness of the domestic economy.
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 2019 as well, the National Bank of Serbia will determine the level of this interest rate in a consistent manner, taking into account the inflation projection, economic developments in the domestic and international environment, and the impact on financial stability. In addition, 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. Within monetary policy instruments, the National Bank of Serbia will continue to implement the policy of differentiated reserve requirement ratios on the dinar and foreign currency base in order to encourage greater use of dinar and long-term sources of funding.
6. 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 of the dinar against the euro, preserve price and financial stability, and maintain an adequate level of foreign exchange reserves.
7. The National Bank of Serbia will adopt monetary policy decisions and undertake activities in the field of microprudential and macroprudential policy in the manner ensuring the achievement of the objectives of this programme. To support bank lending growth on sound foundations, the National Bank of Serbia will continue to regularly identify potential, external and internal risks, conduct regular testing of the resilience of the financial system to macroeconomic risks, identify and measure the systemic risk in the financial system, and undertake regulatory measures for the purpose of preservation and strengthening of stability of the financial system.
8. The National Bank of Serbia will maintain a systemic approach and continue with consistent implementation of the NPL Resolution Strategy, which has in the past three years resulted in a

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 6 December 2018.

significant drop in the share of non-performing loans (NPLs) in total bank loans. The lowering of NPLs to a low and sustainable level makes monetary policy more efficient and contributes to the creation of sound sources for a further rise in lending activity and increasing support of the financial sector to economic growth.

9. Taking into account positive results in the field of macroeconomic and financial stability – in an environment of low, stable and predictable inflation and a relatively stable exchange rate, the National Bank of Serbia will continue to implement the dinarisation strategy, thereby continuing to give a long-term contribution to reducing the exposure of the corporate, household and government sectors to the currency risk. Further development of the dinar securities market and foreign currency hedging instruments will contribute to higher efficiency of the monetary policy transmission mechanism, primarily through the interest rate channel.
10. The adoption of laws in the field of the payment system at the proposal of the National Bank of Serbia and the launching of the instant payments system created the conditions for the continued development of the current and creation of new means of carrying out payment transactions. This is expected to contribute to an increase in cashless payments and greater efficiency of monetary policy, while enabling users to better manage liquidity at lower costs.
11. The vigorous fiscal adjustment, implementation of structural reforms and full coordination of monetary and fiscal policy measures helped strengthen macroeconomic stability and increase the resilience of the domestic economy to potentially adverse effects from the international environment, making the economic outlook more favourable. In 2019, the National Bank of Serbia will maintain the necessary caution in the conduct of monetary policy, in order to timely respond to potential uncertainties from the international environment.
12. Acting in a manner that is transparent and accountable to the public, which helps keep inflation expectations anchored 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.