

## **MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2020**

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 2020, 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 2022.<sup>2</sup>
3. The monetary policy objective of the National Bank of Serbia is expressed as the annual percentage change in the consumer price index and is set for 2020 at 3.0%, with a tolerance band of  $\pm 1.5$  percentage points. The lowering of the target to 3.0% beginning from 2017, as a result of the country's improved macroeconomic position and outlook, confirms the commitment of the National Bank of Serbia to preserving 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 hence to a reduced exposure to the currency risk, lower costs of funding for the household, corporate and government sectors and stronger competitiveness of the domestic economy.
4. The National Bank of Serbia will strive to achieve the defined inflation target by using the interest rate in the main open market operations as its key monetary policy instrument. In 2020 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 and the outlook for key inflation factors in the domestic and international environment and their impact on financial stability. The National Bank of Serbia will also 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 implement a reserve requirement policy that encourages greater use of dinar and long-term sources of funding in the financial system.
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 take microprudential and macroprudential policy measures in order to maintain financial system stability, making sure to use them transparently and without reducing the efficiency of the main monetary policy instrument. To support sound bank lending growth and maintain financial stability, the National Bank of Serbia will continue to identify potential external and internal risks, test the resilience of the financial system to macroeconomic risks, identify and measure the systemic risk in the financial system, and undertake appropriate regulatory measures.
8. The National Bank of Serbia will maintain a systemic approach and continue with consistent implementation of the activities aimed at reducing the existing and preventing new non-performing loans (NPLs), which has in the past resulted in a significant drop in the share of NPLs in total bank loans. The lowering of NPLs to a low and sustainable level makes monetary

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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 12 December 2019.

policy more efficient and contributes to the creation of sound sources for a further rise in lending activity and the financial sector's stronger support to economic growth.

9. Having in mind the positive results achieved 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 pursuant to the Memorandum on the Dinarisation Strategy<sup>3</sup>, thereby giving an additional contribution to reducing the exposure of the corporate, household and government sectors to the currency risk. Further development of the domestic financial market will boost the dinarisation level as this creates additional opportunities for savings and investments in dinars, thereby ensuring long-term and stable dinar sources of funding for the government, financial and corporate sectors. Greater use of hedging instruments reduces the currency risk in the financial system, increasing the certainty and security of doing business and contributing to the ability of companies to preserve their competitive position in the international market. At the same time, further development of the dinar financial 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 in 2018 and the launching of the instant payments system created the conditions for further 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. The domestic foreign currency reserves at an adequate level and of adequate composition are also an important element of the domestic economy's resilience to external uncertainties. In 2020, 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.

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<sup>3</sup> Signed by the National Bank of Serbia and the Government of the Republic of Serbia in December 2018.