

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2021

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 2021, 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 2023.²
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 2021 at 3.0%, with a tolerance band of ± 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 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 hence to a reduced exposure to the currency risk. At the same time, the inflation target set at 3% enables continuation of the process of nominal and real convergence of the Republic of Serbia to the European Union.
4. The National Bank of Serbia will strive to achieve the defined inflation target by using the main monetary policy instrument – the key policy rate applied in the main open market operations. In 2021 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.
5. 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 also care about the stability and resilience of the financial system. During 2020, a large number of instruments and measures available to the National Bank of Serbia were used to counter the negative effects of the COVID-19 pandemic. In addition to reducing its main interest rates, since the outbreak of the pandemic the National Bank of Serbia provided to banks additional dinar liquidity at favourable interest rates via auctions of repo purchase of dinar government and corporate securities and bilateral outright purchase of dinar government and corporate securities in the secondary market, by holding additional and regular swap operations of the purchase of foreign exchange and by modifying temporarily the manner of performing the auctions of FX swap purchase and sale. In 2021 the National Bank of Serbia will maintain the necessary monetary policy flexibility in terms of using instruments, in order to sustain an appropriate level of bank liquidity and efficient functioning of the monetary policy transmission mechanism, but also to support the economy's recovery from the negative impact of the pandemic. Consistent with this commitment, the National Bank will keep a close eye on developments in the domestic and international environment and will consider the effects of past measures and the need for introducing additional measures to support further economic recovery, without prejudice to price and financial stability. In July 2020, a precautionary repo line was arranged with the European Central Bank, which will be open to the National Bank of Serbia until end-June 2021, unless extended. The repo line has not been used so far, but is significant as an additional

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 10 December 2020.

option for supplying euro liquidity to the local banking sector in case of need, which serves as yet another safeguard against heightened global uncertainty due to the pandemic.

6. The National Bank of Serbia will continue to implement a reserve requirement policy in a way that contributes to interest rate stability in the interbank money market. The reserve requirements will also be used as a prudential instrument that encourages greater use of dinar and long-term sources of funding in the financial system. As of July 2020, the remuneration policy encourages stronger approval of dinar loans under the Government's Guarantee Scheme, established as a measure of support to the economy aimed at mitigating the consequences of the COVID-19 pandemic.
7. The National Bank of Serbia will continue to pursue the managed floating exchange rate regime. It will intervene in the local 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.
8. Owing to a responsible economic policy, full coordination of monetary and fiscal policies, and the structural reforms implemented in the past eight years, the Republic of Serbia entered the pandemic-induced crisis in a much better macroeconomic position than the previous global economic crisis of 2008–2009. Eliminated internal and considerably reduced external imbalances increased the resilience of the Serbian economy to the negative effects of external shocks, such as the one caused by the pandemic. This created scope for successful implementation of large monetary and fiscal stimuli, without jeopardizing price and financial stability and the sustainability of the country's external position. Full coordination of monetary and fiscal policies will be maintained going forward so as to minimise the negative effects of the pandemic and sustain the nascent economic recovery.
9. The country's foreign exchange reserves which increased to record levels over the previous years are another important element of the resilience of the domestic economy to external uncertainties. In 2021, the National Bank of Serbia will remain consistent in keeping foreign exchange reserves at an adequate level, guided in their management by the principles of security and liquidity.
10. 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. In the course of 2020, the National Bank of Serbia took measures that ensured easier access to funding for households and businesses and a sound and sustainable rise in lending activity. At the same time, the National Bank regularly analysed trends in the financial sector, implemented regulatory measures and activities aimed at identifying potential risks – both external and internal, tested the resilience of the financial system against macroeconomic risks and identified systemic risks in the financial system, which it will continue to do in the coming period as well. Looking ahead, the maintained financial stability will support the strong positive feedback loop between the financial and the real sector.
11. The National Bank of Serbia will maintain a systemic approach and continue with the implementation of the activities aimed at reducing the existing and preventing new non-performing loans (NPLs). As a result of such approach in the prior period, the share of NPLs in total bank loans fell to its lowest level on record, which makes monetary policy efficient and contributes to the creation of sound sources for a further rise in lending activity.
12. Having in mind the positive results achieved in the field of macroeconomic and financial stability, 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 pursuant

to the Memorandum on the Dinarisation Strategy³, thereby giving a contribution to reducing the exposure of the corporate, household and government sectors to the currency risk. The National Bank of Serbia also contributed to increased dinarisation and further development of the domestic financial market by expanding the list of eligible collateral in monetary operations, given that in 2020 it included on the list dinar corporate bonds. Further development of the domestic financial market 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 and strengthen their competitive position in the international market. At the same time, further development of the dinar financial market and foreign currency hedging instruments contributes to higher efficiency of the monetary policy transmission mechanism, primarily through the interest rate channel.

13. 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 (NBS IPS) created the conditions for further development of the current and creation of new methods of carrying out payment transactions. This is expected to contribute to a further increase in cashless payments and monetary policy efficiency, while enabling users to manage liquidity at lower costs in a better and easier way. Modern types of cashless payments available to citizens and promoted by the National Bank of Serbia, such as instant payments by using electronic and mobile banking, including payment of bills by scanning the NBS IPS QR code and payment at merchants' POS by scanning the IPS QR code, contribute to a greater degree of health protection, which has proved particularly important in the conditions of the COVID-19 pandemic.
14. Communication with the public is an important part of the National Bank of Serbia's monetary strategy as it contributes to greater monetary policy efficiency, inflation expectations anchored within the target band, and, by extension, to increased resilience to external uncertainties. Being accountable and transparent, 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.

³ Signed by the National Bank of Serbia and the Government of the Republic of Serbia in December 2018.