

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2022

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. The monetary policy objective of the National Bank of Serbia is defined numerically as the annual percentage change in the consumer price index and was lowered to 3.0% at the beginning of 2017. It is set at that level until the end of 2024¹, which indicates 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 of 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. The inflation target set at 3% also enables continuation of the process of nominal and real convergence of the Republic of Serbia to the European Union.
3. The National Bank of Serbia will strive to achieve the defined inflation target by using the instruments available to it within the inflation targeting regime, as the monetary strategy it applies since the beginning of 2009. The main monetary policy instrument remains the key policy rate applied in the main open market operations – reverse repo operations absorbing excess dinar liquidity of the banking sector. Owing to the conduct of repo auctions under the variable multiple interest rate method, the National Bank of Serbia, by determining the amount of liquidity it wishes to withdraw and by changing the weighted average repo rate, can adjust monetary conditions even between meetings of the Executive Board of the National Bank of Serbia, without changing the main interest rates – which enables flexibility in the conduct of monetary policy.
4. During 2022, the National Bank of Serbia will continue to make monetary policy decisions in a consistent and timely way, taking into account the inflation projection and the expected movement of its key factors from the domestic and international environment, aware of the impact of these factors on financial stability. The National Bank of Serbia will maintain the necessary flexibility of monetary policy in terms of the scope of the response and use of instruments, in order to ensure price stability in the medium run and continue to support sustainable economic growth.
5. The National Bank of Serbia will implement a reserve requirement policy in a way that contributes to stable liquidity in the banking sector. 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.
6. 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.
7. Owing to the implementation of large-scale and timely programmes of monetary and fiscal stimuli, since the declaration of the COVID-19 pandemic, consumer and investment confidence has been preserved, and production capacities and employment increased, without jeopardizing price and financial stability and the sustainability of the country's fiscal position. Monetary and fiscal policies will remain coordinated – both mutually and with structural policies – in order to

¹ Memorandum of the National Bank of Serbia on Inflation Targets until 2024, adopted at the meeting of the Executive Board of the National Bank of Serbia of 9 December 2021.

ensure sustainable economic growth in the long run and further strengthen the resilience to potential negative effects of factors from the international environment.

8. The country's foreign exchange reserves which increased to a record level in 2021 are another important element of the resilience of the domestic economy to external uncertainties. In 2022, 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.
9. The National Bank of Serbia will implement microprudential and macroprudential policy activities in order to maintain financial system stability and reduce the systemic risk, making sure to implement them transparently and without reducing the efficiency of the main monetary policy instrument. In this regard, the National Bank of Serbia will regularly implement regulatory measures and activities aimed at identifying potential risks – both external and internal, and test the resilience of the financial system against macroeconomic risks. Looking ahead, the maintained financial stability will support the strong positive feedback loop between the financial and the real sector.
10. 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). Their low and sustainable level contributes to monetary policy efficiency and creation of sound sources for a further rise in lending activity.
11. In an environment of ensured and sustained macroeconomic stability, strengthened financial stability and a relatively stable exchange rate, the activities of the National Bank of Serbia will be aimed at the further development of the domestic financial market and greater use of FX hedging instruments in accordance with the Memorandum on the Dinarisation Strategy². The development of the financial market should be supported by the Strategy for Capital Market Development for the period from 2021 until 2026, in whose drafting the National Bank of Serbia also participated. In addition to using the reserve requirement policy, the National Bank of Serbia encourages dinarisation with other prudential measures and by promoting savings in the domestic currency.
12. By launching the NBS IPS payment system, conditions were created for the further development of digital services based on instant payments, increasing total cashless payments, and accelerating money flows in the market, which contributes to monetary policy efficiency. In addition to enabling the payment of bills/invoices by scanning the NBS IPS QR code, the National Bank of Serbia continued to further develop instant payments at merchants' points-of-sale (brick-and-mortar and online shops), and enabled the instant transfer of money by using the number of payee's mobile phone through the new Transfer service.
13. 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.

² The Dinarisation Strategy was adopted in March 2012 and was upgraded with the Memorandum on the Dinarisation Strategy, signed by the National Bank of Serbia and the Government of the Republic of Serbia in December 2018.