

MONETARY POLICY PROGRAMME OF THE NATIONAL BANK OF SERBIA IN 2023

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. Without prejudice to the achievement of this objective, the National Bank of Serbia contributes to the maintaining and strengthening of financial system stability and to 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 at 3.0%, with a tolerance band of ± 1.5 pp. The target is set at that level until the end of 2025,¹ 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, and hence to employment growth, improved competitiveness of our economy and higher living standard of our citizens. Low and stable inflation in the medium term also contributes to the greater use of the dinar in financial transactions of business entities in Serbia, and hence to their 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 within the inflation targeting regime, as the monetary strategy applied since the beginning of 2009. The main monetary policy instrument remains the key policy rate, as the highest interest rate at which the National Bank of Serbia may withdraw liquidity through the main open market operations – one-week 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. 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.
5. The National Bank of Serbia will implement the reserve requirement policy in a way that contributes to regulating the level of 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. During 2023, 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 assess the nature and intensity of inflationary pressures and will,

¹Memorandum on the National Bank of Serbia's Inflation Target until 2025, adopted at the Executive Board meeting of 8 December 2022.

consistent with this, 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.

7. Adequate by all international parameters, the country's foreign exchange reserves are another important element of the resilience of the domestic economy to external uncertainties. In 2023, 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 safety and liquidity.
8. The National Bank of Serbia will implement microprudential and macroprudential policy activities in order to reduce the systemic risk and maintain and strengthen financial system stability, making sure to implement them transparently and without impairing 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 to macroeconomic risks. Looking ahead, the maintained financial stability will support the strong positive feedback loop between the financial and the real sector.
9. 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. Their low and sustainable level contributes to monetary policy efficiency and further growth in lending activity.
10. The National Bank of Serbia will continue to implement the Memorandum on the Dinarisation Strategy.² 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 also be aimed at further development of the domestic financial market and greater use of FX hedging instruments. The development of the financial market should be supported by the Strategy for Capital Market Development for the Period 2021–2026. 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.
11. By launching the NBS IPS payment system in 2018, the National Bank of Serbia ensured the most state-of-the-art payment infrastructure and created conditions for the further development of cashless payments in the Republic of Serbia, as well as for the development of innovative payment services. A continuous, stable and efficient performance of payment systems operated by the National Bank of Serbia ensures smooth functioning of payment operations in the country, helps accelerate money flows in the market, and contributes to monetary policy efficiency.
12. Without any prejudice to its own independence in the performance of its statutory tasks, the National Bank of Serbia will continue to pursue a monetary policy harmonised with fiscal policy and with the structural policies of the Government of the Republic of Serbia, so as to ensure medium-term price and financial stability and sound public finances, and thus, long-term sustainable economic growth. Such policy coordination will reinforce the

²The 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.

resilience of our economy to any negative effects from the international environment, which is of paramount importance in times of heightened global uncertainty and risks.

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.