NATIONAL BANK OF SERBIA

# Opening remarks at the presentation of the Inflation Report – February 2019

Dr Željko Jović, Vice Governor

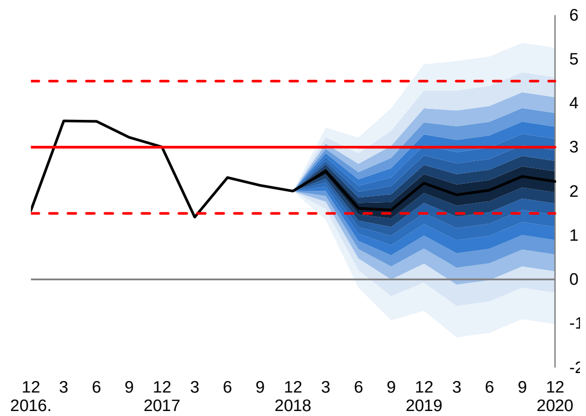
Belgrade, 13 February 2019

*Ladies and gentlemen, esteemed members of the press, dear colleagues,*

Welcome to the presentation of the February *Inflation Report.* We will give you an overview of the current macroeconomic developments, our new inflation and economic activity projections, as well as monetary policy decisions in the period since the previous *Report*.

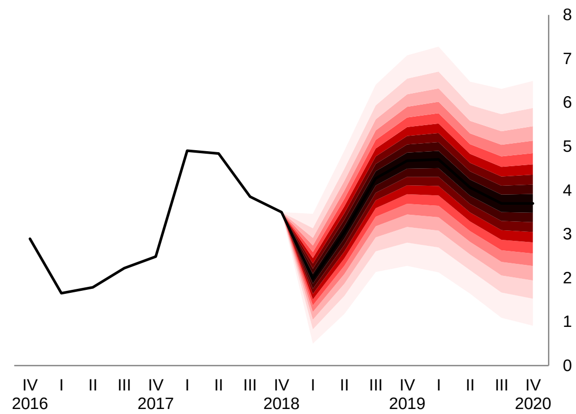
**To begin with, I would like to stress that the year 2018 was marked by positive economic trends.** According to the preliminary data of the Serbian Statistical Office, **GDP growth equalled 4.4%, which is its highest increase in ten years. Though the second half of the year saw a slowdown in external demand growth, domestic factors are to be credited for the high growth rate.** Here I primarily have in mind the improvement of the business climate, favourable financial conditions, positive labour market trends, as well as the accelerated implementation of infrastructure projects. Growth forecast for this year has been kept at 3.5%, while in the following years we expect growth to pick up further to around 4%, resting on sustainable grounds.

Chart 1 **Inflation projection**
(y-o-y rates, in %)




Source: NBS.

Chart 2 **GDP growth projection**
(y-o-y rates, in %)




Source: NBS.

Even in conditions of strong economic growth, inflation continued to move within the target tolerance band (3.0±1.5%), in accordance with our expectations. **It has been low and stable for more than five years straight – in December it measured 2.0% y-o-y, which is its average value for the whole of 2018 as well. For the following two years, i.e. until the end of the projection horizon, we expect stable inflation movements within the target band.**

Serbia's economic programme continues to yield strong results, as was recently noted by the International Monetary Fund. **Favourable fiscal trends continue – in 2018, for the second year in a row, the budget posted a surplus and the central government public debt decreased to 53.6% of GDP at the end of the year. In January it was somewhere around 50% of GDP.** The fiscal policy, in full coordination with the monetary policy, is providing an impetus to economic growth, without giving rise to inflationary pressures – the government's rising capital expenditures contribute to the rise in investment, while higher pensions and wages in the public sector are conducive to sustainable growth in consumption.

**In accordance with our projections, the current account deficit in 2018 maintained its share in GDP at the level from 2017 (5.2%),** although imports increased on the back of higher investment and global oil price hike, and external demand slowed down. At the same time, for the fourth year in a row, the high **net inflow of FDI, equalling EUR 3.2 bn, was more than sufficient to cover the current account deficit (143.4% coverage).**

The path to achieving the above results was paved by the adopted economic policy measures that were appropriate and timely. Their integral part is the monetary policy which maintained the price and financial stability and thereby contributed significantly to a considerable acceleration of economic growth and improved outlook for the coming period. It is particularly important to note that stability was ensured amid growing uncertainty in the international environment, which attests to the efficiency of monetary policy and measures undertaken by the National Bank of Serbia. Another important result of these measures is the share of non-performing loans in total loans that was reduced to 5.7% at end-2018, its new lowest level, thus confirming the further strengthening of banking sector stability.

***Ladies and gentlemen, dear colleagues,***

Since we last met at the presentation of the November *Inflation Report*, the NBS Executive Board has kept **the key policy rate at 3.0%, its lowest level in the inflation targeting regime yet.** In making such decision, the Executive Board has been guided by the assessment that inflation would continue to move within the target band over the projection horizon, thanks to, among other things, the effects of past monetary policy easing. **Caution is warranted by uncertainties in the international environment,** notably movements in primary commodity prices, pace of monetary policy normalisation by leading central banks, and possible further rise in protectionism in international trade.

Having in mind that the key risks in the conduct of monetary policy stem from the international environment, the NBS will continue to carefully monitor and analyse trends in the international financial and commodity markets, and to assess their impact on economic developments in Serbia.

**In the coming period too monetary policy will be predictable and consistent in delivering low and stable inflation in the medium term,** which, along with preserved financial stability, will contribute to sustainable economic growth and stronger resilience to external uncertainties.

I would like to use this opportunity to underscore that it was **the strong economic growth and the results of the National Bank of Serbia in terms of maintaining price and financial stability** that were cited as the reasons behind Standard & Poor’s decision to upgrade Serbia’s outlook from stable to positive in late 2018.

At the end of my address, I would like to say that low and predictable inflation and a stable financial system, the achieved economic growth rates, balanced public finances and the established downward trajectory of public and external debt testify to our commitment and readiness to respond timely and adequately to volatile external conditions. Allow me to conclude that **this is an environment conducive to further growth in investment and competitiveness, and hence, further rise in living standards on sustainable grounds.**

Having said this, I give the floor to my colleagues from the Economic Research and Statistics Department to give you a more detailed analysis of current developments and to present our new macroeconomic projections.