



NATIONAL BANK OF SERBIA

Vice-Governor's opening remarks at the presentation  
of the Inflation Report – November 2018

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Dr Željko Jović, Vice-Governor

Belgrade, 16 November 2018

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

Welcome to the presentation of the November *Inflation Report*. We will give you an overview of monetary and macroeconomic trends since the previous *Report* and set out our expectations for the period ahead.

At the very beginning I would like to stress that since the August *Report* macroeconomic indicators have remained favourable, while macroeconomic outlook marked an additional improvement. Economic growth has accelerated, inflation is at a low and stable level, relative exchange rate stability has been preserved and inflationary pressures have remained low in the face of strong economic growth. This is primarily a result of joint efforts of all economic policy makers aimed at laying the groundwork for sound and sustainable economic progress.

Of particular importance is the fact that our country is recording good results even though the international environment continues to be plagued by a high degree of uncertainty. Volatility in the commodity markets persists due to volatile prices of oil and other primary commodities, as well as in the financial market amid different dynamics of monetary policy normalisation of the Fed and the ECB. Geopolitical tensions and rising protectionism in the relations between leading economic powers are an additional source of instability. Such global market developments also reflect on the slower than expected growth of the euro area, our most significant economic partner.

However, since policies in Serbia are fully coordinated, internal and external imbalances narrowed down and macroeconomic prospects improved, strengthening the resilience of our economy to external uncertainties. The importance of increased resilience is practically visible. Namely, this year Serbia recorded the fastest growth in the last ten years despite adverse external conditions. In the past three quarters GDP growth reached 4.5% y-o-y. Acknowledging this fact and a faster than expected rise in investment, we revised the GDP growth projection for this year upward from 4% to 4.2%. Serbia's growth projections were upgraded by all relevant international financial institutions, too – the International Monetary Fund, the European Commission, some rating agencies and many economic analysts who monitor developments in our country.

Based on the results of the achieved macroeconomic stability and implemented structural reforms, we expect similar growth dynamics in the medium term, as well. The benefits of this economic progress are also felt more by our citizens. Wages and pensions are rising on sustainable grounds and unemployment is at the lowest level in the last quarter of a century.

*Ladies and gentlemen, dear colleagues,*

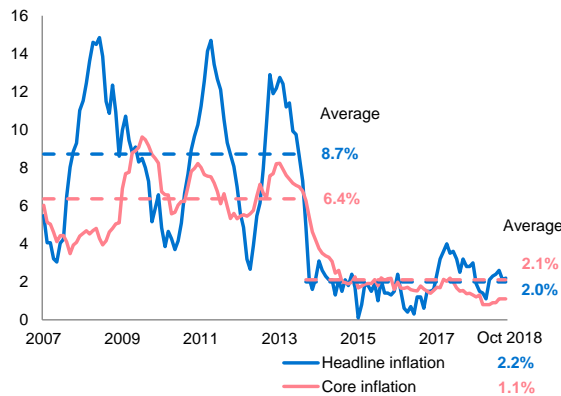
By maintaining price and financial stability and relative stability of the exchange rate, the NBS has greatly contributed to the creation of a predictable environment for doing business and for financing production, investment and consumption.

► **Inflation is low and stable and is expected to remain so in the period ahead.**

Y-o-y inflation is within the target tolerance band. It measured 2.2% in October. That inflationary pressures are still low is indicated by the fact that more than half of the contribution to y-o-y inflation stems from the hike in the prices of petroleum products and fruit and vegetables. This is also corroborated by the low and stable core inflation which moved around 1% y-o-y in the past months. According to our latest medium-term projection, which is almost unchanged from August, inflation will be moving within the target tolerance band of  $3.0 \pm 1.5\%$  until the end of the projection

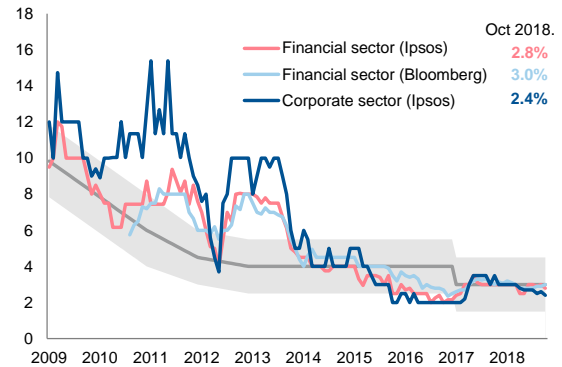
horizon, that is, over the next two years. Inflation movements in the medium term will be determined by the rise in aggregate demand. Also, disinflationary pressures on account of the past appreciation of the dinar will gradually wane in the coming period. In the short term, low costs of food production will work in the opposite direction. Financial and corporate sectors also expect inflation to be within the target band both for one and two years ahead. Their anchored expectations are the best evidence of market participants' confidence in the measures taken by the NBS and an indicator of the rising monetary policy credibility.

**Chart 1 Low and stable inflation**  
(y-o-y rates, in %)



Sources: SORS and NBS calculation.

**Chart 2 Anchored one-year ahead inflation expectations**  
(y-o-y rates, in %)

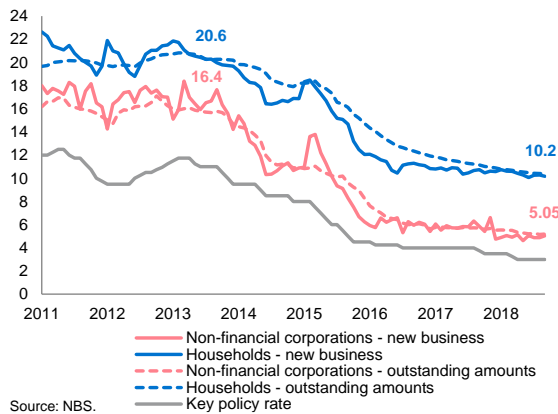


Sources: Gallup, Ipsos/Ninamedia, Bloomberg and NBS.

► **Private sector and government financing conditions are much more favourable and lending activity is on the rise.**

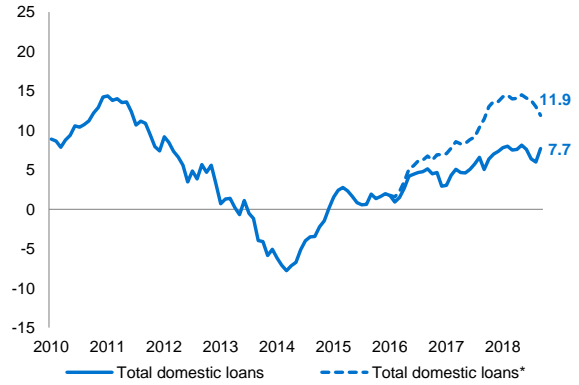
Much more favourable financing conditions for the private sector and government are indicated by the interest rates on new corporate and household loans, which in Q3 moved close to the lowest levels recorded in the past months. Better financing conditions are a result of monetary policy easing, lower country risk premium, increased competition and persistently low interest rates in the international money market. In nearly all of these segments we can recognise the importance of domestic factors – primarily of macroeconomic stability, which reflects well-coordinated monetary and fiscal policies. In such conditions, economic growth, accompanied with labour market recovery, contributes to the further increase in lending activity. In September, the y-o-y growth in total domestic loans accelerated to 7.7% excluding the effect of exchange rate changes. This credit growth was recorded against the background of continued efforts to resolve NPLs which led to their significant write-off and sale to non-banking sector entities, supporting the investment upswing and the acceleration of economic growth.

**Chart 3 Interest rates on dinar loans are close to minimum**  
(annual level, in %)



Source: NBS.

**Chart 4 Falling borrowing costs supported lending activity**  
(at constant exchange rate as at 30 Sept. 2014, y-o-y rates, in %)



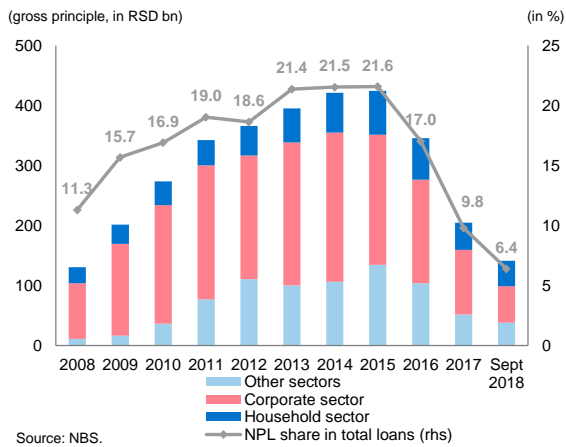
Source: NBS.

\* Excluding the effect of NPL write-off and sale since early 2016.

► **Implementation of the NPL Resolution Strategy continues to yield excellent results.**

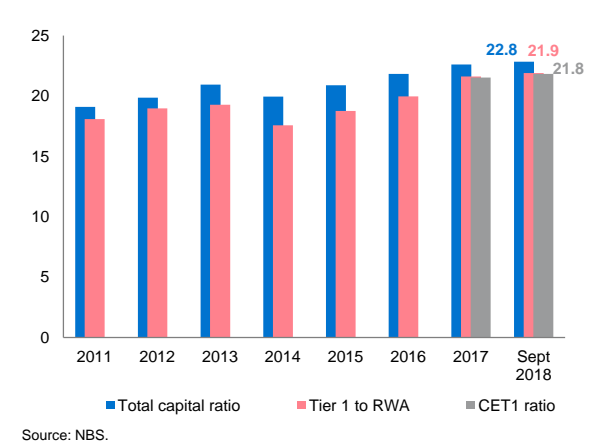
In slightly more than three years since the adoption of the NPL Resolution Strategy the amount of NPLs was slashed by over 67%. At the same time, their share in total loans was cut by close to 16 pp, to 6.4% in September which is their lowest level since 2008 when the monitoring of this indicator of bank asset quality began. Owing to the considerable drop in the NPL ratio, high capital adequacy of banks and better access to SMEs financing, Serbia made a significant progress in the international competitiveness list of the World Economic Forum for 2018, as judged by the financial system indicators.

**Chart 5 NPL share fell to its lowest level**



Source: NBS.

**Chart 6 High capitalisation of the banking sector**  
(in %)



Source: NBS.

*Ladies and gentlemen, dear colleagues,*

With low and stable inflation, relative exchange rate stability, favourable financing conditions and maintained financial stability, we have contributed to keeping the economic environment stable and conducive to doing business. By implementing consistent monetary policy and coordinating it successfully with fiscal policy, together with the Government we have achieved the results which additionally inspire market participants' confidence in economic policy makers and make growth sustainable in the years to come. Positive economic outlook for Serbia was recognised by a great number of investors that are increasingly deciding to make long-term investments in our country. Owing to this, net FDI inflow, as in the previous three years, will be more than sufficient to fully cover the current account deficit – in the first nine months of the year this coverage was over 122%. In the

medium term, the activity of domestic and foreign investors will result in capacity building, primarily in tradeable sectors, and will thus underpin growth acceleration in the longer term. Thanks to excellent results of fiscal consolidation in the past several years, investment growth is now increasingly supported by the government too. The achieved fiscal balance and the reduction in the share of the central government public debt to a sustainable level (55.9% of GDP in September) contribute to favourable prospects for a further credit rating upgrade and to lower country risk premium, making external finance more accessible and cheaper.

The pick-up in economic growth and improvement in the standards of living are a proof that we have worked to the benefit of all, strengthening the economy's resilience to external shocks and taking great care that the solutions implemented are sustainable in the long run. The NBS will continue to closely monitor and analyse the international markets and to assess their impact on economic developments in Serbia. Looking ahead, price and financial stability, as well as continued support to the economic policy of the Government, remain our priorities. We believe that by contributing to favourable business conditions and hence competitiveness of the overall economy, we have proved that we are a reliable partner to everyone doing business in Serbia and will continue to be so in the future.

Thank you for your attention. I will now give the floor to my colleagues. After that we will be happy to take your questions.