



NATIONAL BANK OF SERBIA

Governor's introductory address at the presentation of the Inflation Report – November 2013

Dr Jorgovanka Tabaković, Governor

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Ladies and gentlemen, esteemed members of the press and fellow economists,

Allow me to use this opportunity to thank you for the attention you are giving to the *Inflation Report* and our assessments of current economic developments and their prospects for the coming period.

Let us first go back to what we had announced last year and discuss what happened in the meantime. A year ago the National Bank of Serbia said that inflation would return within the target tolerance band in the second half of 2013 and that the economic recovery would be accompanied by a decrease in external imbalance. In contrast, some analysts at the time were anticipating two-digit inflation by the end of 2013, as well as significant weakening of the dinar, excessive spending of foreign exchange reserves and continuing recession. Actual economic developments have clearly proved them wrong.

But first things first, measuring 4.9% in September, year-on-year inflation has returned within the target tolerance band of $4\pm 1.5\%$. This shows that the National Bank of Serbia has not only been right in its assessment of the nature of inflationary pressures, but that it also weighed policy action carefully and has ultimately taken measures that helped maintain price and financial stability, without any detriment to the nascent economic recovery. Inflation declined further in October. It now measures 2.2% and is temporarily below the lower bound of the target tolerance band. Given that inflation is already low, future monetary policy measures will be aimed at keeping it within the target.

Consistency in monetary policy implementation and the results achieved so far have been acknowledged by the financial sector, businesses and households alike. This is illustrated by the fact that their one-year ahead inflation expectations have fallen considerably and trended closer to the target. We expect that our perseverance in maintaining low inflation will anchor inflation expectations to the target which has been set until the end of 2016 at 4%.

Thanks to significantly improved foreign trade trends, the current account deficit has been more than halved relative to the previous year. This means that external imbalance is decreasing even faster than expected.

It was owing to positive trends in external economic relations that the dinar has remained stable, despite changeable conditions in the international financial market and the perception of sustainability of domestic public finance. The National Bank of Serbia intervened in the interbank foreign exchange market in order to prevent both excessive daily strengthening and excessive daily weakening of the dinar.

Economic growth, set in train in late 2012, continued this year. However, the recovery of our economy, and almost all other economies, is slower than expected. It was only this summer, nearly five years after the collapse of Lehman Brothers and the start of the global economic crisis of enormous magnitude, that developed countries showed signs of a possibly sustainable economic recovery. This is encouraging, but it also means that the time is drawing near when central banks of developed countries will start exiting the quantitative easing program, confronting Serbia and other emerging economies with new economic challenges.

Still, I believe we can overcome these challenges and, through coordination of monetary and fiscal policies, ensure higher economic growth rates and lower unemployment. Higher productivity will trigger a rise in real incomes and purchasing power, leading to the recovery of domestic demand, i.e. real improvement of living conditions of our citizens. This is the result that we are striving for. At the same time, remaining committed to price and financial stability, we support the Government in the pursuit of its economic policy.

Let me also comment on the results achieved during the recent "Savings Week". I was very pleased to see that banks were complying with the National Bank of Serbia's recommendation on the level of interest rates. Also, the practice of attracting savings deposits with high interest rates was almost fully abandoned. We are also satisfied with the fact that over the past year our citizens have been increasingly turning to saving in dinars and recognising its greater profitability compared to saving in foreign exchange.

Finally, my hope and expectation is that low and stable inflation, as well as stable exchange rate, will make it possible for all of us to direct our attention to saving and the efficiency of investments which are of paramount importance for the sustainability of economic growth in future.

Thank you for your attention.