



NATIONAL BANK OF SERBIA

Governor's introductory address at the presentation of the Inflation Report – May 2014

Dr Jorgovanka Tabaković, Governor

Belgrade, 14 May 2014

Ladies and gentlemen,

Despite challenges created by the global economic crisis, last year the Serbian economy made a significant progress in macroeconomic adjustment and continues along the same path this year as well.

Inflation has been moving around the lower bound of the target tolerance band since October. In view of the weakening of inflationary pressures, as confirmed by stabilisation of inflation expectations close to the target, it is likely that we will maintain price stability at the target level of 4% in the medium run.

Though interest costs on external debt have increased, the current account deficit was halved in the first three months of 2014 from the same period last year, owing to the continued positive tendencies in foreign trade. Based on our estimate, the recovery of external demand and low domestic demand will lead to further narrowing of external imbalance in the course of this year, which creates a more solid foothold for the sustainability of the external position of the Serbian economy and the stability of the dinar exchange rate.

The recovery of economic activity continues due to increased external demand. Let us recall that Serbia's GDP growth measured 2.5% last year and was almost the highest in the region. Yet, despite the expected recovery in the euro area, our major foreign trade partner, we expect the pace of GDP growth to slow down to around 1%, on account of the exhaustion of effects of increased capacities in oil and automobile industries and excellent last year's agricultural performance. In addition, negative effects of fiscal consolidation and structural reforms on economic activity will inevitably be felt in the near term. However, fiscal consolidation measures and structural reforms are a must if we are to have sustainable economic growth.

The new government is facing all but an easy task which is to implement tough and swift fiscal consolidation measures and reform the public sector, while at the same time employing its rather scarce resources to underpin economic activity and ensure growth in employment. Let me underline that economic policy measures announced by the new government show its commitment to fiscal consolidation and the implementation of long-delayed structural reforms, which has been recognised by both the domestic financial market and foreign investors. We expect these efforts to lead to the conclusion of an arrangement with the IMF as an additional guarantee to investors that Serbia is implementing a responsible and sustainable economic policy. This would help Serbia to adjust to changes in the international environment at the lowest cost and to become more resistant to potential external shocks.

The NBS is cautious in monetary policy easing, aware of the risks emanating from the international environment – the weakening of global liquidity brought about by the abandonment of unconventional monetary policy measures by central banks of developed countries and the tightening of geopolitical tensions. As negative effects of the above risks on the country's risk premium and foreign trade flows have failed to materialise and the financial market has responded positively to the announced economic policy measures of the new government, the NBS cut the key policy rate to 9.0% at the May meeting with the aim of stabilising inflation at a low level.

Finally, allow me to emphasise that we are obliged to take responsible measures and implement reforms in order to resolve the problems that we face. This is the only way in which we can create a healthy and prosperous economy that we aspire to – an economy characterised by low inflation, a stable financial system and high employment.

Thank you for your attention.