



NATIONAL BANK OF SERBIA

Governor's introductory speech at the presentation
of the *Inflation Report – May 2016*

Dr Jorgovanka Tabaković, Governor

Belgrade, 24 May 2016

Ladies and gentlemen,

Welcome to the presentation of the *May Inflation Report*. As always, we will give you an overview of recent monetary and macroeconomic trends and our expectations for the period ahead.

Let me start and conclude my speech by discussing the same topical news! We have revised our GDP growth projection for 2016 from 1.8% upwards. We now expect that the Serbian economy will end this year with a growth between 2.3% and 2.5%. Allow me to underline that, given the current movements, it is far more likely that the year-end GDP growth rate will be at the upper bound of the projection range, i.e. at 2.5%. And it is not that we are being overly optimistic; this projection is based on models, mathematics and indicators.

If we compare the latest macroeconomic data with those presented in the *February Report*, it is evident that the economic recovery of the Republic of Serbia has continued, and more importantly, that the growth is based on long-term sustainable foundations. And that is why the macroeconomic outlook for the period ahead has been revised upwards relative to the previous *Report*.

In the first three months of the year, fiscal deficit contracted by a quarter from the same period last year and equalled 1.7% of the estimated GDP, as compared to 2.4% in the same period a year earlier.

The current account deficit of the balance of payments has more than halved compared to the corresponding period in 2015 – it equals 3.3% of the estimated GDP and remains fully covered by foreign direct investments.

Our fiscal outlook has improved in response to a sustainable rise in tax revenue, while the narrowing of the current account deficit has been driven by more favourable trends in external trade.

Last time we met at the presentation of the *February Report*, we expressed no doubts as to the continuation of growth in exports and economic activity in the coming years. Indeed, the growth has continued up, and has done so at an even faster pace than expected. Export growth, measured in euro terms, was exceptionally strong – it came at 13.4% year-on-year in the first quarter, and is without any doubt attributable to both high growth and favourable structure of foreign direct investment. Consumption is recovering faster than anticipated. Owing to the favourable results achieved in the first quarter, we have revised our growth projection for this year from 1.8% to 2.3–2.5%. Let me say it again, considering the current movements, GDP growth in 2016 will most likely be at the upper bound of the projection range. As so far, we expect that growth will be increasingly driven by investment into export-oriented sectors, as this guarantees its sustainability.

The National Bank of Serbia has continued safeguarding macroeconomic stability and strengthening macroeconomic fundamentals. We are all witnessing the upheavals originating in the international environment, different risks spreading from across markets and continents. In such circumstances,

we have succeeded in maintaining the stability of prices, relative stability of the exchange rate and financial system stability. Since supporting the economic policy of the Government of the Republic of Serbia is one of the statutory objectives of the National Bank of Serbia, we find it exceptionally important that expansionary monetary policy and macroeconomic stability have also led to a reduction in the cost of financing for both the government and the private sector, whereby a significant contribution has been made to the creation of a better business and investment environment.

Inflation in Serbia has remained relatively low and equalled 0.4% year-on-year in April. As expected, disinflationary pressures prevailed on account of domestic factors, though they were unexpectedly strong from price movements in the international environment. The lower inflation projection of our main foreign trade partners, notably of the euro area, and the continuing decline in the prices of primary agricultural commodities in the global market at the turn of the year have led us to lower our February inflation projection for this year. According to our most recent projection, year-on-year inflation should start rising gradually as of May and return within the target tolerance band early next year, stabilising thereafter at slightly above 3%.

In an environment of low inflationary pressures and aiming to bring inflation back within the target tolerance band in a sustainable manner, which is over the medium term, and not in the short run or at any cost, we have continuously eased our monetary policy stance over the past three years. Monetary policy easing was particularly intensive last year, when the key policy rate was cut by 350 basis points, which among others was facilitated by consistent implementation of fiscal consolidation and structural reforms. Even though inflationary pressures are low and macroeconomic fundamentals continue to improve, we have decided to keep the key policy rate unchanged at 4.25% for the time being because of persistent uncertainties in the international commodity and financial markets. On the other hand, movements in the domestic market – most notably the continuing and significant narrowing of internal and external imbalances, are cushioning the effects of external risks. What is certain in this time of uncertainties seeping in from the international environment is that the National Bank of Serbia shall, as so far, rise to all the challenges and that Serbia will record higher and sustainable economic growth rates led by export-oriented investment.

The improved macroeconomic indicators and a brighter outlook for the period ahead have also been recognised and acknowledged by the European Commission, which revised up the economic growth projection for Serbia, and by rating agencies, which raised Serbia's credit rating outlook. I now give the floor to Ana Ivković who will present to you in more detail our view of Serbia's macroeconomic prospects in the period ahead.

Thank you for your attention.