NATIONAL BANK OF SERBIA

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

Dr Jorgovanka Tabaković, Governor

Belgrade, 21 November 2016

Ladies and gentlemen, dear colleagues,

Welcome to the presentation of the November *Inflation Report*. As good habits should not be broken, we will give you today, like on previous occasions, an overview of recent monetary and macroeconomic developments and set out our expectations for the period ahead. After that, we shall have a question and answer session.

Let me remind you of what we said at the last presentation of the *Inflation Report*: a **steady stream** of upward revisions of economic projections does not come so often. But, in the case of Serbia, **since the beginning of 2015** there has been a constant improvement in macroeconomic indicators and prospects. As the improvements persisted, we raised our GDP growth projection for 2016 once again and lowered our projections of the budget and current account deficits. The IMF and the European Commission did the same, acknowledging the results achieved in the year so far, and revised their expectations for Serbia upward. In addition, Serbia's public debt will record a decline this year, which is a year earlier than anticipated before. I think this is the best news for Serbia.

As regards the primary objective of the National Bank of Serbia, no one can dispute that inflation in Serbia has been low and stable for the past three years. According to the latest *Global Competitiveness Report* of the World Economic Forum, Serbia is in the group of countries with the best ranking in terms of inflation levels, and we believe the country will continue along that path. To be quite precise, we are confident it will continue on that path, and this is acknowledged in the decision we have taken in cooperation with the Government of the Republic of Serbia, i.e. the decision to lower the inflation target for 2017 and 2018 down to 3%, while keeping the target tolerance band unchanged at ±1.5 percentage points. The main reasons for lowering the inflation target are as follows:

– Over the past three years, inflation has moved at a level consistent with or, at times, even below the new target (3% ± 1.5 percentage points).

– Stability in the foreign exchange market and subdued inflationary pressures on that account are attributable to a considerable narrowing of internal and external imbalances, as well as to a decrease in the risk of investing in Serbia. These results have been achieved through successful coordination of monetary and fiscal policies and will remain an important pillar of price stability.

– Administered price growth is much slower than anticipated. And while in the period to 2013 administered prices increased at a rate of around 10%, providing a stronger contribution to inflation, their growth over the past two years has been much slower. This year, administered prices are expected to rise by around 2%, adding about 0.4 percentage points to inflation.

– The inflation expectations of the financial and corporate sectors have been moving for an extended period of time between 2 and 3%, which is close to the new target and facilitates its achievement.

All these reasons may be summed up in the fact that owing to the monetary policy measures and the invaluable contribution of fiscal consolidation implemented by the Serbian government, our country has joined in the ranks of European countries with low and stable inflation. By lowering the inflation target, based on the results and expectations described, we are re-asserting our determination to safeguard this position for Serbia.

We often point out that the relative stability of the exchange rate is one of the factors that helped keep inflation low in the previous three years. We have managed to preserve the relative stability of the exchange rate in the face of persistent uncertainties over monetary policy moves of leading central banks, which affect capital flows to emerging economies and their currencies. In the conditions of further narrowing of foreign trade and fiscal imbalances, a falling country risk premium, an upgrade in the country's credit rating and a positive assessment of the IMF regarding the overshooting of the quantitative criteria under the programme, the dinar came under appreciation pressure. Short-term appreciation pressures were moderated by interventions in the Interbank Foreign Exchange Market, which also helped increase Serbia's foreign exchange reserves since July by EUR 680.0 million.

Ladies and gentlemen, dear colleagues,

While my associates from the Directorate for Economic Research and Statistics will present in detail our latest projections, I would only like to highlight several key messages.

Based on our most recent projection, which has been revised upward for the third time this year, GDP will grow 2.7% in 2016. In 2017, GDP growth is expected to step up to 3%. For the second year in a row, Serbia has recorded excellent and well-deserved progress on the World Bank's *Ease of Doing Business* index, and this year it is one of the ten countries that have most improved the ease of doing business. That the progress is merited and that the business and investment environment in Serbia is favourable is evidenced also by the continuing high inflow of foreign direct investment, which this year again will more than suffice to cover the current account deficit. I am particularly pleased to be able to say today that as of recent there are housing loans in dinars in the Serbian market, offered at the interest rate of below 5% and a repayment term of up to 30 years. This means that there is confidence that the stable macroeconomic environment will be maintained over the long-term horizon.

The key message I would like to leave with you today is that inflation in Serbia is low and stable and that it will remain so in the period ahead. Let me remind you once again that, as of 2017, the inflation target will be one percentage point lower than the target since end-2012. This shows that convergence to the EU in the financial sector has already been fully achieved.

Thank you for your attention. I will now give the floor to my colleagues who will give a presentation of the key messages from the *Inflation Report*.