NATIONAL BANK OF SERBIA

Opening remarks at the presentation of the Inflation Report – August 2019

Dr Željko Jović, Vice Governor

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

Welcome to the presentation of the August *Inflation Report*, where colleagues from the Economic Research and Statistics Department will present to you in detail the current macroeconomic trends and our latest projections.

In my introductory address I will touch on the key macroeconomic conditions in which monetary policy was implemented and on the decisions the National Bank of Serbia has made in the period since our previous *Report*. First of all, I would like to say that favourable macroeconomic trends continued into 2019 – inflation is low and stable, macroeconomic and financial stability has been preserved, and the costs of financing have stayed low, feeding through into higher economic and investment activity. Over the past six years inflation has been low and stable, at around 2%, and is expected to remain so in 2019 and 2020. Financial stability has been maintained and the issue of inherited non-performing loans resolved in a sustainable way – their level has been reduced by more than 70% over the last four years and their share in total loans cut to 5.2%. Relative to May 2013 when we embarked on the cycle of monetary easing, the interest rates on dinar loans for households are now twice lower and for corporates as many as three times lower. This served as a fillip to investments, which remain one of the key drivers of economic growth this year as well. The sustained positive fiscal trends, with a surplus of 0.7% of GDP in the first half of the year, are a reflection of the successfully implemented fiscal consolidation and full coordination of monetary and fiscal policies.

All of this has been achieved in the face of unfavourable effects of some factors from the international environment, notably the slowing of global economic growth amid announcements of additional protectionist measures and heightened geopolitical tensions. At the same time, this is a proof that by strengthening our economy, primarily through the reduction of external and internal imbalances and through favourable macroeconomic prospects, we have increased its resilience to unfavourable effects from the international environment.

Since the May *Report*, external financial conditions have been largely affected by the shift in the monetary policies of leading central banks, which are not only slowing the normalisation process, but also announcing additional monetary stimuli. Thus, the Federal Reserve System lowered its policy rate for the first time since 2008, while the European Central Bank announced it would keep its main rates at current or lower levels at least through mid-2020. This should sustain favourable financial conditions for longer than expected, as well as capital inflows to emerging markets.

As monetary easing by leading central banks appeared more certain and positive macroeconomic developments at home continued, the National Bank of Serbia decided to lower the key policy rate in two instances, July and August, by 25 bp each, to 2.5%, i.e. its lowest level in the inflation targeting regime yet. Thus, in conditions of subdued inflationary pressures, the National Bank of Serbia continued to provide additional support to economic growth and a sustainable rise in employment.

As so far, monetary policy decisions will continue to be made in consideration of the effects of past monetary easing on the future inflation profile, as well as of the effects of other domestic and external factors. Given that the key risks to the projection are still mostly associated with the international environment, the National Bank of Serbia will keep a close eye on developments in the international commodity and financial markets and assess their impact on economic movements in Serbia. As before, monetary policy will be predictable and consistent in delivering low and stable inflation in the medium term. This will at the same time help maintain macroeconomic and financial stability and contribute to sustainable economic growth. Owing to this, there is a constant rise in the number of domestic and foreign investors who are investing at a longer horizon, having recognised the stability and prospects of our economy.

Current economic trends and the results achieved thus far are a good basis for further sustainable and dynamic economic growth. This is confirmed by our latest projections and key macroeconomic developments, which will now be presented to you in detail by our colleagues from the Economic Research and Statistics Department.