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THEORETICAL AND PRACTICAL FOUNDATIONS OF INFLATION TARGETING IN TRANSITION COUNTRIES WITH EMPHASIS ON SERBIA

Inflation has a very negative influence as well as many consequences for economic growth and development of every national economy. In current trading conditions, central banks of most countries have adopted inflation targeting as their new monetary policy regime, with the aim of controlling inflation, maintaining financial stability, stimulating economic growth and development and stabilizing the real sector. The basic idea behind this paper is to consider theoretical and practical foundations of inflation targeting and to search for an answer to the question whether flexible or strict inflation targeting, accepted properly, with use of all financial factors information relevant for inflation control and use of available resources in any horizon, represents the best possible monetary policy practice before, during and after a financial crisis.
Keywords: inflation; economic growth and development; national economy; monetary policy; inflation targeting.

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ТЕОРЕТИЧНІ ТА ПРАКТИЧНІ ОСНОВИ РЕЖИМУ РЕГУЛЬОВАНОЇ ІНФЛЯЦІЇ У КРАЇНАХ ПЕРЕХІДНОЇ ЕКОНОМІКИ (З АКЦЕНТОМ НА СЕРБІЇ)

У статті показано, яким чином інфляція може негативно вплинути на економічний розвиток країни. У сучасних умовах більшість центральних банків використовують регулювання інфляції як особливий режим у межах своєї монетарної політики. Центрабанки у таких випадках мають на меті: контроль інфляції; підтримку фінансової стабільності; стимулювання економічного росту; розвиток та стабілізацію реального сектору. Центральне питання даного дослідження: чи може регулювання інфляції, гнучке або суворе, за умови вірного застосування та використання всіх ресурсів, стати кращою монетарною практикою до, під час та після фінансової кризи?
Ключові слова: інфляція; економічне зростання та розвиток; національна економіка; монетарна політика; регульована інфляція.
Табл. 5. Літ. 21.

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ТЕОРЕТИЧЕСКИЕ И ПРАКТИЧЕСКИЕ ОСНОВЫ РЕЖИМА РЕГУЛИРОВАННОЙ ИНФЛЯЦИИ В СТРАНАХ ПЕРЕХОДНОЙ ЭКОНОМИКИ (С АКЦЕНТОМ НА СЕРБИИ)

В статье показано, каким образом инфляция может негативно повлиять на экономическое развитие страны. В современных условиях многие центральные банки используют регулирование инфляции как особый режим в рамках своей монетарной политики. Центрабанки в таких случаях преследуют такие цели: контроль инфляции, поддержка финансовой стабильности, стимулирование экономического роста, развитие и стабилизация реального сектора. Центральный вопрос данного исследования: может ли регулирование инфляции, гибкое или жесткое, при условии правильного применения и использовании всех ресурсов, стать лучшей монетарной практикой до, во время и после финансового кризиса?

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Introduction. The prevailing standpoint round the world at the moment is that the main objective of central banks' monetary policy should be price stability. Central banks throughout the globe are now pursuing transparent policy and openness instead of secrecy and mysticism which had been monetary policy guidelines in the previous period. Selection of the actual monetary strategy depends primarily on socioeconomic system properties and previously achieved results, and the best choice is a monetary strategy which results in low inflation, stable economic environment and reliable economy. Today's monetary policy requires "nominal anchor": strategy which, in the long run, enables optimal "trade off" between inflation and economic growth, with widely accepted notion that low and stable inflation is a compulsory property of economic environment.

The advocates of inflation targeting point out that good definition of inflation objective is of crucial importance for the selection of inflation targeting concept. Inflation targeting is a monetary policy strategy characterized by the announcement of numeric inflation target by means of monetary policy implementation. Inflation targeting concept gives great significance to inflation forecast followed by a high degree of transparency and accountability of the top monetary institution.

Basic principles and objectives of inflation targeting concept. The inflation targeting strategy is best described as a monetary policy framework, not as a rigid set of rules. Ben Bernanke and other authors define the concept of inflation targeting as a framework characterized by public announcement of numeric inflation target (or target range, zone) for one or more time horizons (Bernanke et al., 1999: 24), so that "Good, high-quality and adequate estimation is important" (Denic et al., 2013: 368). In other words, inflation targeting goes between the extremes which were the property of framework "rules vs. discretion", debate which had been typical for the monetary policy of earlier times. Alternative definitions of inflation targeting are given in Table 1.

Inflation targeting can be described as a form of "constrained discretion". "By imposing a conceptual structure and its inherent discipline on a central bank, but without eliminating all flexibility, inflation targeting combines some of the advantages traditionally ascribed to rules with those ascribed to discretion" (Sherwin, 2000: 4). Even in inflation targeting regimes, countries can choose the character or extent of discretion. Such flexibility is one of the main appeals of inflation targeting approach. Inflation targeting concept is expressed by explicit acknowledgment that price stability, reflected in low and steady inflation, is a primary long-term objective of the monetary policy creator (Fabris, 2006: 390).

M. Goodfriend discusses the concept of inflation targeting application in the United States of America. He claims that the Federal Reserves are already practising "implicit inflation targeting" (Goodfriend, 2007: 52). The priority is to maintain low and stable inflation rate. The result of that is FED credibility accomplished through flexibility in economy stabilization without loss of control over inflation. M. King (2004) points out that inflation targeting concept should be regarded as "a way of thinking about politics". On the other hand, L. Svensson and M. Woodford (2003: 26)

conclude that the concept of inflation targeting is an optimal monetary policy; therefore, this monetary policy rule has been interpreted broadly as a "prescribed guide for monetary policy conduct". This usually implies presentation of objectives of the central bank dealing with flexible inflation targeting.

Table 1. **Alternative definitions of inflation targeting**

Criterion	ECB (2001)	Svensson (1997; 2002)	Bofinger (2001)	Bernanke et al. (1999)	Marvin King (2004)
Price stability is the main objective of monetary policy	Yes	Yes	Yes	Yes	Yes
Numeric announcement	Yes	Yes	Yes	Yes	Yes
Medium-term objective	Yes	Yes	Yes	Unclear, maybe more than one horizon	Yes
Intense communication with public	Yes – simple	Yes	Yes, but difficult	Yes	Yes
Specific monetary policy rules	Inflation forecast targeting	Inflation forecast targeting	Explicit + implicit inflation	Unclear	Targeted inflation rate + response to shocks
Announced forecasts	Inflation	Assume inflation	Inflation and, potentially, production	Not needed	Unclear
Dependence	Yes	Not needed	Not desirable	Desirable	Not needed
Independence instrument	Yes	Yes	Yes	Yes	Yes
Rule or discretion	Mechanic rule	Rule	Seems simple but is close to discretion	Constrained discretion	Constrained discretion

Source: (Bofinger, 2001: 259).

Basic principles of inflation targeting imply a greater focus on domestic aggregate demand dynamics (in relation to money supply restrictions) and emphasis on national inflation rate forecast in relation to adaptive expectations. Inflation targeting concept implies high levels of transparency and credibility because, according to B. Freedman (2003: 120), inflation targeting is a way of manipulating expectations about future inflation.

Nevertheless, there is a certain number of elements on which the objectives of inflation targeting concept are based; these are:

a) institutional commitment to price stability, explicitly recognized as the main objective of monetary policy;

b) public announcing of medium-term quantitative inflation objective;

c) instituting of monetary policy based on comprehensive information, not only on monetary aggregates and foreign currency exchange rate, but also on inflation forecast;

d) transparency of monetary policy objectives of the central bank with rationale for its decisions;

e) existence of mechanism of accountability for accomplishment of monetary policy objectives, especially for achievement of the targeted inflation.

Finally, the objectives on which inflation targeting is based imply that the central bank must announce publicly the inflation target that it promises to achieve in a particular period of time. Then the central bank compares real inflation with inflation forecast for a given period of time and gives public estimates on expected inflation amount in the following year. If inflation exceeds the objective, the central bank will normally raise interest rates with the aim of "cooling off" the economy and in that way reducing inflation. In case inflation is too low, the bank will give advantage to lower interest rates with the aim of increasing inflation to the targeted level (Todorovic Durovic et al., 2008: 39).

Strategic selection of the monetary policy of inflation targeting. In inflation targeting concept, there are two options. On the one hand, there is the so-called flexible inflation targeting, applied in a large number of countries, which aims at stabilizing inflation around the targeted inflation rate and real economy. On the other hand, a category of strict inflation targeting aims at stabilizing inflation itself, regardless the stability of real economy. Due to time lags and delays between monetary measures and their influence on inflation and real economy, flexible inflation targeting is more efficient, because it relies on inflation forecast. Consequently, flexible inflation targeting is best defined as forecast targeting with the central bank selecting the course policy. Nowadays, generally speaking, central banks are inclined to flexible form of targeted inflation. In any case, the actual events during the crisis after 2008 in developed economies and the fact that "economic crisis affected the entire world economy" (Stojadinovic Jovanovic, 2012: 493) have shown that the selection of flexible inflation targeting is an adaptable framework in variable circumstances (Sarwat, 2012).

In many developed countries, central banks were working on affirmation of inflation targeting concept. Prior to the financial crisis of 2008, developed countries had reached the consensus supported by numerous theoretical studies and practical experience in lots of countries. At that moment the rule had been established that monetary policy will be most useful if focused on steady and negligible growth of consumer prices. The creators of the monetary policy of inflation targeting must accept the idea that the accomplishment of low inflation is a primary objective of monetary policy (with minimizing motion variability in real economy in course of achievement and maintenance of targeted inflation rate).

For E. Truman (2005: 428), strategic selection of inflation targeting as a monetary policy framework is neither a "panacea", nor a "poison pill". This monetary policy strategy goes hand in hand with today's worldwide trend, which has shifted from inflation targeting to price targeting. So, central banks nowadays should continue mandate through high degree of operative autonomy and with price stability as a primary objective of monetary policy. Also, central banks are responsible for performance regarding achievement of targeted inflation, mainly via high transparency.

During the last couple of years, central banks round the world have been facing new challenges which have raised the question of the future of the inflation targeting strategy. In that sense, C. Walsh (2011: 23) proposes changes in monetary policy which integrates additional goals among central bank's existing objectives and is characterized by raising the average inflation targeting level and switching to price targeting. L. Svensson (2010: 58) actually requires longer forecast horizons with inflation targeting on the higher level. This proposal is supported by R. Scott (2010: 49) who

points out that it is a way to provide central banks, which nowadays give advantage to lower interest rates, with more room for acting. In any case, constraint brought by zero nominal interest rate has led to the proposal according to which the level of average targeted inflation should be raised. All of this suggests the need for a major reform of the current monetary strategy of flexible inflation targeting in developed economies (Walsh, 2011: 34).

The conclusion reached on the basis of the financial crisis of 2008−2009, which is still ongoing, is that in addition to accountability for price stability, as a primary objective, central banks must undertake responsibility for financial stability. Flexible inflation targeting concept, which had been valid until the moment of the global financial crisis, was some kind of consensus. In fact, according to that consensus, that mandate led automatically to financial stability. Global financial crisis has shown that this consensus is now frequently regarded as inadequate and insufficient. At present, interest rates policy is no longer a "perfect" instrument for maintaining financial stability. The main task of monetary authorities is maintaining financial stability (Marinkovic et al., 2009: 249). In addition to that, in many open economies which have adopted a flexible inflation targeting concept there is a question of proper role of exchange rate in inflation targeting. For example, in economies with major foreign debt, exchange rate fluctuations will strongly affect the debtor's financial position. Therefore, it is a great challenge for monetary policy creators to provide the exchange rate that would remain subordinate to inflation targeting (Eduardo et al., 2005: 26). Our position is that, after the latest economic crisis, inflation targeting concept would rather be modified than abandoned.

Analysis of experience in application of inflation targeting in the selected transition countries. Over two decades ago, some emerging and transition markets initiated the strategy which involved the elements of inflation targeting. Table 2 shows the years in which the selected transition countries started the application of this concept. Empiric research has discovered that the optimal inflation of specified transition economies is between 1% and 8%. If we take a close look at the international experience of these transition economies until 2012, we see that their inflation target was somewhat higher than the one of developed economies − between 2.0% and 4.5%. Only Turkey, Ghana and Moldova had inflation target higher than 4.5%. Experience has shown that there is smaller risk in choosing too low inflation target than choosing too high inflation target. In any case, international experience has revealed that the minimal ± range of 1.00% is used by majority of countries, including Czech Republic, Poland and Romania. Medium range (± 1.5%), is used by Armenia, Serbia and Thailand, while Brazil, Ghana and Turkey use maximal range in inflation targeting of ± 2.0%.

There are 3 ways to define inflation objective in transition economies: a) point target; b) range target; c) central point with targeted range.

For inflation, a point target is usually a long-term objective. In general, this allows flexibility in dependence on central bank's credibility. With point inflation targeting, inflation expectations can be stabilized better and more efficiently than with range target and central point with targeted range. The international experience was used in case of Hungary as a transition economy with this form of targeting. When there is a range for inflation targeting, the optimal inflation rate cannot be defined

with certainty. The range for inflation targeting is usually a long-term objective. In the end, this makes room for flexibility (adjustment above or below the targeted range), in dependence on central bank's credibility. Columbia serves as the example of international experience for transition economies, since this economy is highly sensitive to external shocks. Monetary authorities in Columbia are still worried about the influence of external shocks, as there are economic, fiscal and financial problems taking place in the European Union.

Table 2. **Targeted inflation rates some countries**

Economy	Start IT	Set objective	Target	Target 2012	Target horizon
Armenia	2006	Government and CB	CPI	4±1.5%.	Medium-term
Brazil	1999	Government and CB	CPI	2−3	Annual target
Chile	1999 (1991)	CB	CPI	3±2%	About two years
Czech Republic	1998	CB	CPI	2±1%	Medium-term of 12−18 months
Ghana	2007 (2002)	Government and CB	CPI	8.7±1%	18−24 months
Hungary	2001	CB	CPI	3%	Medium-term
Columbia	1999 (1991)	CB	CPI	2±4%	Medium-term
Israel	1992	Government and CB	CPI	1−3%	Within two years
Moldova	2009	Government and CB	CPI	5±1.5%	To be achieved in a longer period
Poland	1998	CB	CPI	2.5±1%	Medium-term
Romania	2005	Government and CB	CPI	3±1%	Medium-term target from 2013
Serbia	2009 (2006)	Government and CB	CPI	4±1.5%	Medium-term
Turkey	2006	Government and CB	CPI	5±2%	A few years (three years)

Source: (Giucci et al., 2012: 24).

Range target does not go well with the needs of developing economies. Since the optimal inflation rate is a moving target in these economies overwhelmed by deflation, it requires regular adjustment of inflation targets. Some economies, e.g. Brazil, have shown that such process would contribute to deflation; therefore, due to such circumstances, in targeted horizon we have annual inflation target.

Central point with targeted range for inflation rate is necessary, since there are usually a lot of factors beyond control, such as supply shocks and tax changes, which could lead to deviation from the objective. There is actually a general uncertainty about economic forecast if inflation is getting close to the upper range limit. Most economies have decided on combined central point with target range for inflation rate, e.g.: Poland, Serbia, Romania and Brazil (Table 2).

Monetary challenges and inflation targeting in Serbia. One of better or, more precisely, the least bad alternatives for the multi-decade "euroisation" in Serbian economy that was available to the National Bank of Serbia (NBS) was the strategy of inflation targeting, the aim of which was providing low and steady inflation. Therefore, the new monetary framework selected through the inflation targeting concept in Serbia was established by NBS in September 2006 with the aim of achieving sustainable, low and predictable inflation.

The current "euroisation" level in Serbia represents a serious challenge to the inflation targeting alternative as a selected active concept of monetary policy and here is the reason why. The selected exchange rate with controlled fluctuation is under a

risk such as it is, which represents a limiting factor of the selected monetary strategy. Since credits depend on base rate of the European Central Bank and Swiss Central Bank with obvious small percentage of credit in dinars, every change of basic interest rate of NBS has limited effects on inflation targeting strategy. It is logical that the main transmission channel in Serbia should be the exchange rate channel. However, NBS is trying to act by using differentiated interest rates on dinar and foreign exchange currency deposits, in the sense of increasing dinar share against euro, and then directing them towards its goal, low and steady inflation. Anyway, such a ratio between dinar and euro should be the main lever, which means that the interest rate should reconfigure property portfolios from euro to dinar. However, such ratio is weak, because the ratio of dinar and euro share did not change significantly and, on the other hand, credits approved by bank sector in Serbia were particularly reduced after the global economic crisis instead of being more intensive in dinars. In any case, in spite of favourable conditions for dinar credits in Serbia in the sense of lower inflation, lower interest rates for dinar credits etc., the share of dinar credits was not increased. Such a negative status of property portfolio in the sense of euro share increase and dinar share decrease additionally augmented the risk for Serbian economy; in addition, commercial banks are usually unwilling to give medium and long-tem credits in dinars, due to the tendency of constant fall of dinar exchange rate, which leads to reduction of capital inflow. That is why the monetary policy efficiency via traditional transmission channel of monetary policy should be the interest rates channel with the tendency to promote "dinarisation" through the improvement of monetary market functioning in Serbia. This implies issuing government bonds denominated in dinars. Unfortunately, on 9th February 2011 the Government of the Republic of Serbia set a precedent and for the first time in the last 15 years issued government bonds denominated in euro and treasury bills, also in euro. The collected resources were used for financing budget deficit and refinancing accrued liabilities.

The risk of sudden currency devaluation and depreciation in Serbia is increased, because obligations to foreign creditors are denominated in foreign currency. At any rate, currencies of South-Eastern Europe economies, including Serbia, depreciated between 2007 and 2010 for about 3–15%. Accordingly, depreciation of national currency exchange rate in Serbia affected the increase of debt in credits, which made additional pressure to increase informal "euroisation". If we include government debt share as an additional indicator for monitoring the level of "dinarisation" in financing, the Government debt of the Republic of Serbia would be very unfavourable from the aspect of currency structure. In fact, the dominant share in government debt is given in EUR (57%) and USD (18.8%), which actually means that each decrease of dinar exchange rate increases the level of indebtedness of Serbia.

On the other hand, there is an informal domination of euro in Serbia which is the consequence of multi-decade loss of trust in the national currency. The latest data collected by the Central Bank of Austria show that Serbia has the highest level of "euroisation" of all the Eastern Europe countries, but also the most extensive level regarding the share of foreign deposits (88%) and residents' cash (75%) in the banking sector. A share of corporations' and companies' dinar credits is rather small. Opposite of that, total credits approved for companies in Serbia with even 77% are either in euro or dinar indexed or recorded directly in euro (Ostojic, 2013: 58).

The research conducted by I. Rajkovic et al. (2013: 37) confirms a high level of "euroisation" of Serbian economy by the fact that the approved credits are mainly indexed in foreign currency where euro dominates again (Table 3).

Table 3. **Euroisation in deposits and credits in Serbia and other Central & Eastern Europe economies, 2012**

Country	Euroisation in deposits	Euroisation in credits
Poland	8.0	34.0
Czech Republic	5.4	8.3
Serbia	88.7	72.4
Croatia	85.3	70.0
Romania	36.5	64.0
Bulgaria	52.7	63.9
Albania	45.0	64.9

Source: (Rajkovic et al., 2013: 37).

From the contemporary macroeconomic perspective of our economy, the selection of the inflation targeting strategy with controlled flexible exchange rate is still the most adequate solution. According to the conditions, we need to carry out structural changes in our economy which imply tax reform, rigorous financial discipline, consumption reduction at all levels, foreign trade and fiscal deficit and inflation. All this needs to be followed by the increase of domestic, currently uncompetitive and insufficiently capable economy, serious public sector reform and, naturally, increased inflow of foreign investments. From the aspect of NBS, inflation targeting strategy has be selected so far as the best solution for Serbia, combined with controlled exchange rate regime with regular adjustments according to foreign exchange market movements.

Former experience in implementation of the selected monetary strategy of NBS. Reforms in Serbia after 2000 have resulted in stabilization of economic circumstances, the consequence of which was that the banking sector of Serbia regained the trust of citizens and economy. The national currency of Serbia regained trust as well. In such circumstances, our top monetary institution tried to use the positive tendencies in the financial sector of Serbia with the aim of creating low and steady inflation. That is why the inflation targeting concept was selected as the adequate monetary strategy.

The initial experience of NBS at the moment of implementation of the new monetary policy framework in 2006 was such that our top monetary institution was responsible for basic inflation simply because the regulated prices, of agricultural products primarily, were more influenced by administrative and season factors than by the market. Therefore, the monetary authorities of Serbia were accountable for market-defined prices. At the very beginning, the monetary authorities defined their objectives for basic inflation in the form of range for the end of the year. By the new monetary policy framework from 30th August 2006, the role of interest rates as monetary policy instrument was intensified. Flexible exchange rate was selected as the actual exchange rate of NBS, even though many factors were in favour of the fixed exchange rate.

The period from 2006 to 2009 was the so-called transition period which lasted until the official introduction of inflation targeting in Serbia. The main task of monetary strategy in 2006 was to stop the inflation that had been out of control in 2005.

By analyzing the experience of defined inflation corridor of basic inflation and inflation achieved in NBS in the period 2006−2008, we can conclude that it was rather satisfactory in 2006 and 2007, because the targeted inflation corridor was achieved with sustainable one-digit level. This can be confirmed by the fact that the total inflation was reduced from 17.7% in 2005 to the level of 5.9%, and basic inflation − from 14.5% to 5.9%. In order to maintain the basic inflation in the designed framework, NBS intervened by reducing referent interest rate which was endogenous. The ultimate effect was the basic inflation under the lower limit of the targeted range.

Table 4. **Targeted and achieved inflation levels and referent interest rate in Serbia, 2006−2008,** %

End of the year	Targeted inflation level	Achieved inflation	Referent interest rate of NBS (end of the year)
2006	7−9	5.9	16.5
2007	4−8	5.4	10.0
2008	3−6	10.1	17.75

Source: (Grbic, 2012: 187).

Since 2009, the formal inflation target has been defined as a unique value with allowed divergences, for each individual month in a year, under the assumption that it is being continually achieved between December of the previous year and December of the specified year. This made possible the monitoring of the achieved targeted inflation per months, and not just at the end of the year, as it had been the case in the period before that in Serbia. This was supposed to contribute to the increase of accountability and credibility of our top monetary institution, together with stabilization of inflation expectations. NBS uses interest rate applied on two-week repo operations as a referent interest rate. In repo operations, NBS sells government bonds with the obligation to repurchase them within a specified period with the interest rate. The concept of introducing formal inflation targeting in Serbia in 2009 was affected by the global economic crisis. Table 5 presents the achieved inflation values in the framework of planned targeted range.

Table 5. **Targeted and achieved inflation in Serbia and average weighted monthly interest rate applied on two-week repo operations (referent interest rate) in the period 2009−2013,** %

End of the year	Inflation target (objective)	Achieved inflation (end of the year)	Average weighted monthly interest rate applied on two-week repo operations (end of the year)
2009	8±2	6.6	9.92
2010	6±2	10.3	11.50
2011	4.5±1.5	7.0	9.75
2012	4±1.5	12.2	10.0
2013	4±1.5	7.05	9.50

Source: (Grbic, 2012: 187).

Furthermore, the analyzed period in which inflation targeting was applied in Serbia has shown different results. Considering a very short period in which this concept was applied in Serbia, it is too early to come to a definite conclusion on the success of applying this selected monetary strategy framework. The obtained results of this analysis in Serbia indicate that the targeted value was sometimes within targeted value range, and sometimes it was not, and it was characterized by high inflation vari-

ability in the previous years, which is not good. Referent interest rate in Serbia is not a significant category as it is in other countries, since it is not the only cost of money, as we live in highly euroised economy. It is often said that the referent interest rate should be lower in order to contribute to more favourable credits. However, there is enough money in Serbia but there are not many quality credit users and that represents a problem for the banking system.

The other factors contributing to the fact that the targeted inflation value is often not archived are manly contained in the character of Serbian economy, are also the consequence of the influence of international surroundings. Here, a special emphasis should be put on the factors which did not indicate the monetary character of inflation, such as, for example, fiscal policy, budget deficit, public debt etc. It is true that reforms in Serbia have just started, so the decrease of inflation in 2013 is not the reflection of important structural changes, but the reflection of citizens' purchasing power which is the reason why prices did not increase. Anyway, Serbian economy is having problems related to structure and sustainable development, such as deindustrialization of the country. This implies putting emphasis on real economy instead of finances and services, investments instead of consumption, saving instead of borrowing and, finally, activation of domestic growth sources instead of import. However, in the selected period all these factors in our economy have not been satisfied, which was not supportive of the affirmation of the selected monetary strategy and inflation targeting.

Conclusion. The vast majority of transition countries achieved good results by using inflation targeting as a monetary policy framework. Implementation of such monetary policy reduced high inflation and stabilized it, keeping it at the low level. Although, global economic crisis has shown that inflation targeting is not sufficient for accomplishing objectives in the conditions of financial instability; therefore, in practice, there is a tendency to introduce particular improvements within inflation targeting. In addition to interest rates policy, the emphasis should be placed on supervision and regulatory rule, introduction of non-standard instruments and measures as responses to events which might endanger the accomplishment of the given objectives. It is too early to make any kind of estimation of implementation of inflation targeting regime in Serbia, considering a rather short period of application of this concept, because depending on the observed period, the targeted values showed high inflation variability.

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