

## Radovan Jelasic: 121-year anniversary of the National Bank of Serbia

Speech by Mr Radovan Jelasic, Governor of the National Bank of Serbia, on the occasion of the 121-year anniversary of the National Bank of Serbia, Belgrade, 16 March 2005.

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Dear ladies and gentlemen, honoured guests,

On this day, exactly 121 years ago, the Privileged National Bank of Serbia obtained the licence to operate as Serbia's central banking institution in charge of domestic money, or, to cite the words used in the Law on its foundation, the bank has been founded "with a view to upgrading trade and economy in the Kingdom of Serbia by means of inexpensive capital and well-regulated credit."

Celebrating its anniversary, the National Bank of Serbia has enriched its museum exhibition of the numismatic collection of coins and banknotes that originated and have been in use on the territory of Serbia since the seventh century B.C. to the present day by another interesting exhibition, "Dinar – Our Money", which will be open for public as of today, here in the NBS building in the Kralja Petra Street.

In addition to banknotes and coins from our recent and remote history, we also exhibited a selection of foreign and domestic banknotes in higher denominations, showing both the original banknotes and their counterfeits. The visitors to this part of the exhibition will be afforded an opportunity to compare the former with the latter, and become acquainted with security features incorporated in banknotes, in order to reduce the risk of their ever owning counterfeits. We have thus exhibited banknotes and their respective counterfeits in denominations of 1,000 and 5,000 dinars, and foreign banknotes in denominations of 200 and 500 euros. The exhibited "super dollar", a 100-dollar banknote, produced with a high degree of success, as well as the 200-euro "super euro", another significantly "improved" counterfeit, indicate to what extent technological development has contributed to the upgrading of counterfeits, adding to the difficulty of recognizing the foregoing.

Although the share of counterfeit dinars remains low, at only 0.05 percent relative to the total number of banknotes in circulation, we, at NBS, would like to offer assistance to citizens in this respect as well, so that they should be able to protect themselves more efficiently against the reception of counterfeit money, as well as with a view to contributing to a still faster spreading of electronic forms of payment. This all the more so since counterfeiters today have no limits, while counterfeit dinar and euro banknotes may enter the country from all over the world.

By preserving the stability and the strength of the national currency, Serbia ought to prove that it can successfully go through the transition phase, however demanding and difficult it may be, and qualify in that manner for accession to the European Union and for the switch to the euro, the single currency in the EU, without taking any shortcuts. Serbia is a serious country and should not use another country's currency, especially without prior approval! However, I must point out that the stability of the dinar entails a responsible fiscal policy, a wage policy based on productivity, as well as implementation of structural reforms in practice. If the quality and speed of reforms were measured in words, in particular those said in the past several months and weeks, we would have entered the European Union a long time ago!

In September last year, when talking about the necessity of implementing structural reforms, I stated that it is high time something were done in this respect, which at first came as a surprise for some people, only to be confirmed later on, but only in words, and not by any concrete steps taken by the Government. As the time goes by, all we are left with is the hope that the reason for such state of things is lack of readiness, rather than any lack of understanding regarding what needs to be done. Dragging out "mothballed" ideas, such as the distribution of free shares to employees in public companies, pushes structural reforms more than 10 years back. The concept of "patching up" the economy and standard of living through monetary and foreign exchange policy, while sitting idly and observing the inefficiency, abuse of monopolist status, and, to be entirely honest, significant political influence in a large number of public companies, cannot and should not be allowed and is also fully unsustainable. The time has come for all of us to stop for a moment and remember pre-October 5th programmes and proclamations, and ask ourselves whether anything real is being done today or is this just a way to buy time!

I believe that personal example is the best example and that no one can give advice and lectures on reforms to others unless they are implementing these same reforms in their own house – the National Bank of Serbia. In the past year, we have reduced the number of employees by 1,500. These were mostly employees engaged for a temporary period of time. Owing to that, today, the number of people working in NBS has declined 28.9 percent relative to end-2003. At the same time, the least cost efficient branches have been closed. The wage fund this year has remained unchanged at the level from the year before, whereas any salary increases in 2005 will occur only with respect to a corresponding reduction in the number of employees! The objective of the National Bank of Serbia is to continue increasing in efficiency and I am sure that we can do this still more and still better in order to create an elite institution, on a par with European and world standards. We try to talk less but to do far more.

The next major challenge is certainly the issue of the share of public consumption which is not only extremely high, but continues on the increase, both at the level of the Budget of the Republic of Serbia, and at the level of practically all local governments. It is almost as if someone had started a competition to see who can take more, and then allocate the taken funds, proving thus their “efficiency”. However, a game of football should not be played by referees, but by real football players, i.e. the economy, whereas the role of the state is to set the rules of the game and manage the process, in other words, it is the state that ought to be the referee. The RS Budget and local government budgets ought not to see a rise this year in real terms, and if additional incomes do occur, these ought to be reflected through lower taxes and contributions, all with the aim of lending support to the economy!

As regards the banking system, I would like to point out that it is not only growing in terms of quantity, but is also strengthening in terms of quality. Banks’ balance sheet sum rose by 39 percent last year, banks’ lending, excluding the public sector, by over 52 percent (by CSD 100 billion), whereas aggregate citizens’ deposits increased by 48.5 percent (or EUR 348 million). Positive growth of all these indicators will continue this year as well; so, for instance, since 1 January until today, household savings rose by over EUR 100 million. With respect to the further restructuring and privatisation of the banking sector, I would like to point out that the NBS is not an owner in that process, but a supervisor, and that it is guided exclusively by the quality of banks, their manner of management, degree of risk, etc, and not by nationality of individual shareholders. My personal advice that I would like to give to those bankers who are aware that their time is ticking away is this:

- Not to waste time by arbitrarily proclaiming their own selves as national interest,
- Not to organize the purchase of their own shares at bank counters for cash,
- Not to fritter away precious time seeking political connections, even family connections in the country and abroad,

but simply to do what the Law expects them to do with a view to creating a stable and sound banking system. NBS moves on without turning back!

As regards the measures taken by NBS in the field of insurance, I may freely say that we did not “pursue” the supervisory capacity in respect of insurance companies, but rather that such capacity was entrusted to us. However, once we have been given this responsibility, we intend to perform it conscientiously, equally well as we perform control over the banking sector. NBS will take all legally envisaged measures with a view to ensuring the introduction of financial order in the insurance market and its development, as well as the protection of rights and property of policyholders. Whether it will be the citizens who, through costlier insurance policies, will bear consequences of unconscientious business practices of closed insurance companies, and to what extent, does not depend on the NBS – it is the rule of law and judiciary system that are now put to the test! If insurance companies - which “invest” up to as much as EUR 20,000 in one square meter of business space, which tie policyholders’ deposits with banks to loans to the owner, and buy nail polish using your and my insurance policy funds – do all this with impunity, and, what is more, remain in possession of the real estate acquired in that way, then it is equally justified to raise the question as to whether laws in Serbia have equal application to all citizens or the judiciary system may be influenced by money and partisan and “godfather” connections.

We all hope for the fastest practicable accession to the EU, with Feasibility Study as the road leading to that objective. That is why I would like to point out that no bypasses, no shortcuts, or “partial” transitions are possible on that way. What we have failed to do with respect to the implementation of structural reforms of the public and real sectors, with respect to privatisation or harmonisation of

consumption with real possibilities and requirements of our country's development, with respect to financial discipline at all levels, may not be compensated for by political yarns. Work on the Feasibility Study does not supplant work on structural reforms! Neither structural reforms nor the Feasibility Study "recognize" party interest, pre- or post-election times, "specific needs" of the transition in Serbia, but only the things that have actually been done.

The National Bank of Serbia does not need either IMF or the World Bank to "propel" it, as these institutions are real partners rather than ordering parties for us. We know what we ought to do and it is our hope that other economic policy actors will, if not follow our lead, then at least not try to stop us on our way.

Thank you.