

## Radovan Jelašić: The development of payment cards in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, in the Serbian Chamber of Commerce on the occasion of the annual meeting dedicated to payment cards, Belgrade, 8 June 2007.

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Ladies and Gentlemen,

It is a pleasure for me to greet you on behalf of the National Bank of Serbia on the occasion of annual meeting of the Chamber of Commerce of Serbia dedicated to the development of payment cards business.

Before discussing the topic of the meeting itself, allow me to point out three details related to the general economic situation in the country which very much affect the progress of card business in Serbia.

- Very many people, I may even say, most people, including myself, do not and can not remember the times when inflation in Serbia was lower than it is today. The reason is very simple, they were not born yet! The rate of inflation which is lower than the currently prevailing 4.4 per cent, and 3 per cent for core inflation, was last recorded, would you believe it, 44 years ago, that is in 1963. I am convinced that the current low inflation rate will help the development of card business and make it cheaper and more attractive because expansion of the network actually represents the highest fixed cost element.
- I am honoured to be the first governor in a number of decades who can spend his day in office without even having to mention the word “exchange rate”. Since Monday this week when regular daily exchange rate fixing was abolished, the NBS dived with full force into the waters of managed floating exchange rate with the emphasis on “floating” rather than on “managed”. Those not happy with the exchange rate for the dinar will have to submit their complaints to the market and not to the NBS, and the other way around, those happy with the exchange rate will have to give their thanks to the market.
- As negotiations related to stabilization and association with the EU continue, in addition to the money from Brussels, numerous foreign investments, and hopefully a better credit rating, Serbia will get one more thing, which I think is the most important one, and that is a CHANCE to show and prove who and what it really is and what it has done so far in terms of attempts at reform. If the politics represent a stumbling block, you are never given a chance to present or prove for what you are worth!

The results achieved in the domain of development of card business in Serbia in the course of the last four years are really imposing as is proved by the following:

- Number of cards issued has reached 5.6 million and was increased by as much as 2.2 million in the course of the last four years alone;
- Half of the above number of issued cards are DinaCards;
- Almost 70 million transactions in Serbia were performed via payment cards in the course of the last 12 months, of which 6.5 million in May alone;
- There are over 50,000 POS terminals, and
- almost 1800 ATMs in Serbia today.

The time has come for us to make another step – a step towards improving the quality of payment cards business in Serbia. This step shall certainly take place in the course of this year by way of improving quality of service and increasing the number of options on offer, like payment via mobile telephone or on-line, which has recently been enabled through the DinaCard system.

One of the major issues thrust upon us by the standards achieved so far in respect of card business in Serbia, are the costs of payment system and the so called trade fees. In view of the fact that the level of guaranteed fee, interchange rate, to be retained by the card issuer in international card systems is disproportional to the level of fees in the EU member countries and that the gap will only widen further

after a new set of rates is becomes applicable from 1 January 2008, the NBS has, following into the footsteps of the European Central Bank, decided to actively engage in improving efficiency of card payments and the resulting relationship between banks and trades people.

I wish to inform you of the steps we intend to take to remove this anomaly, such as:

- Introduce a system of interchange rates from 2 September 2007 instead of applying fixed trade fees, that is a system in which banks and trades people will be free to regulate their mutual relations on their own.
- Make a comprehensive analysis of costs of payment systems as well as relations between banks and trades people in the course of next three months so as to be able to make an informed conclusion on the optimum level of interchange rate to be applied on the use of cards issued in Serbia.

On this occasion, however, the NBS invites banks to reach an agreement among themselves in the near future as to the applicable level of interchange rate that would provide for a more efficient payments system and to attempt to substitute NBS regulations by introducing self-regulating measures in this area. The interchange rate to be applied in the DinaCard system will be 0.7 per cent of the purchase value for majority of trades people (and 0.25% for petrol) which shall be a temporary measure pending comprehensive agreement among banks to apply to all bank cards issued in Serbia.

I wish to conclude by reminding you that the NBS has recently, through the National Centre for Payment Cards, also become a member of the Berlin Group, one of the initiatives for linking national card systems in Europe in line with the SEPA initiative. This was a necessary step to prepare us for joining European integrations in the area of card business for which purpose the NBS shall continue to monitor closely the development of regulatory bodies worldwide and shall undertake all measures needed.