

Radovan Jelašić: Provision of credits to small and medium sized enterprises in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the Roundtable organized by "Ekonomist" Magazine on Provision of Credits to Small and Medium Sized Enterprises in Serbia, held at the National Bank of Serbia, Belgrade, 13 June 2007.

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Ladies and gentlemen,

Allow me to welcome you on behalf of the National Bank of Serbia on the occasion of conference on medium and small size enterprise crediting in Serbia. I would like to discuss two related subjects – stability of prices, i.e. inflation, and the role of the NBS in providing credits to finance small and medium sized enterprises.

Stability of prices and business environment represent one of the key conditions for the success of economy as a whole and particularly so for the success of small and medium-sized enterprises. In contrast to large enterprises that have "connections", access to insider information and are more than aware of their economic and political power, medium and small sized enterprises are usually treated as an ornament, more as a social than economic category – and that serves them no purpose.

As for stability in prices, it is currently at the level most people do not remember ever having seen before because, back then, they were either not yet born or were not really very much interested in such matters at all. Inflation today, after 44 years to the day, matches the level recorded in 1963. In May this year, year-on-year, the rate of headline inflation equalled 4.4% and core inflation reached 3.0%. At the same time, our economy has been growing at the rate of around 7% (first quarter 2007 over the same period a year earlier) and displaying a greater abundance and variety of cheap credits than seen in Serbia in a long time, the exchange rate for the dinar has been floating freely for over three months now without any interventions from the NBS, and our foreign exchange reserves have grown in excess of US\$ 12.2 billion.

Stability seems to have brought about a number of unexpected effects of "operating in a normal business environment", which almost whole of our economy has kind of grown unaccustomed to in the course of these last 44 years, such as the facts that:

- Market implies competition, glorifies success and puts a persistent pressure on increase in productivity. One can no longer get by with phrases like: "Here I am, a smart lad, successful, good lookinglook at me... it is the exchange rate....it is unrealistic, interest rates are sky high, they have put up all these administrative barriers and.....what happens.... it is my product that flops in the market." Of course, it is much easier to build castles in the air and to think that we would have been successful if only somebody else, most likely the state, were to provide the "right" conditions for us, than to face all the harshness of reality!
- What matters in a market determined environment is not only to offer high quality goods and services. You also need to have a good banker, to be aware of all the risks and to hedge against them. To keep making progress in your profession, you also need to be kind of a visionary!

Reality is often harsh and life seems much easier and prettier when engulfed in the haze of inflation and instability to which, to tell the truth, majority of us had to get used during the last several decades. Such environment was created by the state, and exclusively so, and I am amazed to see that citizens and businessmen are still appealing to that very state expecting it to resolve their problems, and not only the general operating conditions, but to provide them with incentives, subsidies, price regressing, new loans, etc. as well.

Bearing in mind that the country is undergoing transition, we should be satisfied with the current rate of inflation in Serbia. I wish to point out that the NBS has won its first "battle" against inflation, and that it shall win all the rest of them. However, the "war" has only begun, and both sides are, to speak figuratively, currently mobilizing their forces. The key question is which side shall the budget take in this battle – not in declarative terms, but in terms of numbers! Defences put up by the NBS to maintain stability in prices managed to hold against a wave of consumption growth in late last and early this year pending parliamentary elections. Let me remind you of the fact that when we were setting

inflation targets we could not have predicted new elections, which always imply increase in expenditures. Now, when the elections are over, both Serbia and the NBS deserve to have a reform-oriented and restrictive budget and a chance to take a deep breath in terms of monetary policy, to think of what next to do.

The difference between a successful man and a failure is not in the fact that one knows and the other one does not know what it is he should do, but in the fact that one works and the other one just keeps talking. There is hardly another issue in Serbia today on which more people agree than the fact that public sector wages have been growing way too much and way too fast and that they should be cut back to a lower level. Let me point out that if anybody thinks that this cut should be made at the expense of the National Bank of Serbia, that is, inflation, he is very much in the wrong. Such calculations are totally misplaced. The NBS shall do all it can to prevent such outcome and, let me remind you that we have already shown how successful we can be in that respect! Each day that is lost in terms of not decreasing the wage bill in the public sector and public enterprises – and I repeat, wage bill not individual wages – is a lost day. I guarantee that you are not going to see the return to the monetary fairy tale that has lasted for the last four decades and, even if Serbia does not get the budget it deserves, there is not going to be an increase in inflation. You may ask, how so? And I say, in the following way. As has so far been the case, the NBS will be forced to increase the level of restrictiveness of the monetary policy (which means higher repo rate, higher reserve requirement, etc.) to compensate for the insufficiently tight fiscal policy. The NBS has a clear task – “to achieve and maintain price stability”. That task is in compliance with the law, and we shall certainly do our best to achieve it.

As far back as in 2001, the NBS gave strong support to provision of credits to small and medium sized enterprises in Serbia by acting as an agent for extension of credit lines of the European Agency for Reconstruction, European Investment Bank and the Government of Italy. Through these credit lines, end-beneficiaries have so far been granted credits in the total amount of almost RSD 7 billion. In addition, the Governor is a member of the advisory body of the European Fund for South East Europe, the largest fund set up for exclusive use by the countries of the Central and East Europe, which has almost half a billion euros in its coffers from private investors and the EU tax payers.

However, in Serbia today, the banking sector is developing so swiftly that the question arises as to the competitiveness of the above credit lines from the point of view of their terms and conditions, though such terms have been improved several times. We shall continue our efforts to improve terms of these credit lines in agreement with the Government of the Republic of Serbia and the donors but, on the longer run, our banks should also be finding greater interest in extending credits to small and medium sized enterprises. They shall certainly be forced to do so by the competition and long-term business interest.

If small and medium-sized enterprises are important to the state, then they should be given its support, and not by political declarations, but by taking concrete steps. Is the general economic environment in Serbia today conducive to development of small and medium-sized enterprises? To illustrate, is the restructuring and privatization of large public enterprises going at the right speed to enable setting up and development of small and medium-sized enterprises around those privatized and their integration into successful broader business programs? We can hardly give an affirmative reply to this question. It shall take time.

Special credit lines and funds do represent a welcome initial trigger for the development of small and medium-sized enterprises, but they can neither be a permanent nor a systemic solution. It is not the role of the state to pick and choose from various funds and grant funds selectively to help resolve problems of certain categories of employees who were made redundant. The role of the state is to create a macroeconomic environment that shall be conducive to the development of small and medium-sized enterprises as an economic, not a social category. The real alternative for the future with respect to provision of credits to small and medium-sized enterprises namely, new business and new jobs, is to include banks on a broad scale in the process of market evaluation of projects and their financing at market determined terms. For its part, the NBS shall continue to create necessary conditions, primarily by securing stability in prices and low inflation, liberalization of the foreign exchange market and by further strengthening confidence in the dinar. The NBS shall secure conditions to enable everybody to plan their financial needs and business steps on a medium and long run without fear of drowning in the inflationary mud.