# Radovan Jelašić: Recent economic and financial developments in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the First Presentation of Inflation Report to the Economic and Financial Community, Belgrade, 25 February 2008.

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During the past week, instead of the usual EUR 3 million purchased from exchange dealers, the National Bank of Serbia sold EUR 10 million a day in the IFEM for one reason only – to boost the forex market trading volumes. Namely, last week's trading volumes in the IFEM were five times lower than usual, despite central bank's interventions, and the market-based exchange rates were threatened by the widened spread between the quoted buying and selling exchange rates. However, I would like to point out that the aim of these interventions by the National Bank was not to defend the level of the exchange rate, because had this been the case, the NBS would have organized fixing sessions and asked banks to specify the affordable buying or selling exchange rate. Owing to the central bank's intervention, the market was revived by Friday afternoon when trading volume reached EUR 73.3 million, triple the amount recorded on Wednesday or Thursday. As foreign exchange trading by banks is performed on behalf of their clients, the decline in trading volumes confirms that all market players apprehensive of future events exercised increased caution and restraint. The National Bank of Serbia will closely monitor movements in the forex market, and will reduce the volume of its interventions to the amount of its daily purchase of foreign exchange from licensed exchange dealers once normal liquidity conditions are restored.

As regards the labeling of banks based on their ownership structure, I repeat once again that all banks operating in our banking system are Serbian banks, irrespective of the origin of their capital. Whether domestic or foreign, the capital was invested in our country, and placed at the disposal of our enterprises and households. The shareholders of parent companies of banks with majority foreign owned capital are not necessarily nationals of those countries in which parent companies are located. These misconceptions show a lack of understanding of the principles of modern financial flows which know no boundaries. To illustrate, one of the largest shareholders of Morgan Stanley holding a 9.9 percent stake is the Chinese government investment fund, and the most significant ownership stakes in Citibank belong to Middle East investors. Both Oviesse and Benetton are selling sweaters made in Albania and Turkey… Specifying ethnic background of companies in the 21st century and urging the general public to boycott them shows not only a lack of responsibility, but also a lack of taste and common sense. I feel certain that our citizens know better and will continue to buy those products and services that suit them best, guided exclusively by their economic interest. The key principle of the late 18th century economy of comparative advantage explains that international trade is beneficial to all parties involved, and I guess that Serbia of the 21st century wishes to benefit from international trade and finance, as well.

I would also like to remind you on this occasion that today's standard of living in Serbia is largely based on foreign direct investments and access to foreign borrowing. Hence, pensions are paid out regularly and on time, new jobs are created (in the banking sector alone, the number of jobs is 50% higher than at the onset of transition), our citizens can take out mortgage loans, etc. In order to finance the current account deficit measuring 16% of GDP in 2007, Serbia needs foreign direct investments and fresh money. If we were to finance growth and development exclusively from our domestic accumulation, the volume of lending in 2007 would have been 4 to 5 times lower. It is true that the National Bank of Serbia can sustain macroeconomic stability in the short run by relying on monetary policy measures and interventions in the foreign exchange market. However, in the medium and long run, you do not make something out of nothing. I feel it is my duty to warn you that the ultimate costs of a significant decline in the level of FDIs and restrictions on foreign borrowing will in the long-run be borne by our enterprises and citizens. However, I am sure it will not come to this, because it is not in Serbia's interest.