

Radovan Jelašić: Issues of key importance for the National Bank of Serbia and also for the country

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the Serbian Economic Summit, Belgrade, 4 November 2008.

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Ladies and Gentlemen,

Regardless of all political and economic challenges during the last two years, Serbia managed to maintain its economic stability. And the challenges have been quite a few, what with things like adoption of the new Constitution, early elections, presidential elections, Kosovo issue and again early elections, oil and agricultural shocks, etc. However, the challenge we are currently facing comes from abroad and forces upon us a new set of rules, puts things into a different context and requires a different perspective – if not to adopt a completely new pattern of thinking and working criteria then at least to think and work faster and more efficiently. And though I am convinced that Serbia will again be successful in fighting these difficulties, allow me to point out today some issues of key importance, not only for the NBS, but for the country as a whole. These are as follows:

1. Market has grown less tolerant now of eventual mistakes in macroeconomic policy as we are still paying for the mistakes made in earlier years. The speed and intensity of change in the course of the last several days is unprecedented in modern history: spreads double overnight, first rate institutions lose their hard earned reputation, state ownership is not only commended but positively reflected in prices of shares, while valuation of balance sheet items at market prices – one of the key pillars of market economy – is suddenly put aside for better times. But what are the implications for Serbia? The spreads are changing now, even the exchange rate, and we are receiving bills for all that we have not, or have only partially done. However, it is solely up to us how we shall proceed, whether we are ready for a complete overhaul or shall try to muddle through for some time yet. Serbia still has two choices: a) not to change anything of consequence or to make only slight changes which would contribute to further growth in consumption and increase the current account deficit, hence necessarily leading to a change in the exchange rate, problems in budget execution and higher inflation, or b) to make a turnaround in its economic policy, freeze consumption and allow only for the increase in capital investment. Fare meter is ticking and each day lost is a loss for Serbia. I am convinced, however, that we not only want, but also can change the economic policy in our favour. This shall not be popular, but shall certainly be useful for us.
2. Psychological reactions should not be countered by pragmatic measures, but rather by those inducing psychological effects regardless of the consequences that may logically ensue. When Germany decided to promptly take a decision to guarantee all deposits in order to strengthen confidence of the public, everybody was thinking what the Chancellor Angela Merkel actually had in mind when she said that “all citizens’ deposits are safe”. When countries decide to increase the volume of insured deposits, nobody should calculate the impact such measure would have on the budget, since in case of some countries that could be as high as the country’s GDP. Quite frankly, I underrated the significance of the psychological effect! Still, the NBS was quick and efficient enough in its response to all the challenges during several recent weeks. Banks have managed to withstand the pressure without resorting to either tax payer’s money or decreasing the volume of insured deposits as the level of reserve requirements have remained unchanged.

3. All countries tend to overreact instead of taking moderate measures. Financial package assembled by the IMF, EU and World Bank for Hungary is the best illustration. I am convinced that the response in case of Serbia will be decisive, not in the sense of taking additional funds, but additional measures to maintain and strengthen macroeconomic stability, which is much more efficient. All of that has already been incorporated into the Budget for 2009 and will soon be made public.
4. Not even a political defence mechanism, such as membership in the EU, will now do to defend a country from a potential crisis situation. No more muddling through, it is only hard work that counts now. Spreads are again more under the influence of macroeconomic data than membership in certain political organizations. This is a confirmation for Serbia that entering into force of the Agreement on Stabilization and Association with the EU does not mean that we will be able to relax because the Agreement represents only a chance, and not a guarantee of a better life.
5. Each country is primarily concerned with taking decisions and passing measures which are in its own best interest, and only then looks at the broader picture. This is best illustrated by the national system of deposit insurance. No matter how many memoranda of understanding in respect of supervision are signed, if things go wrong, everybody will almost exclusively tend to its own interests. Recent events confirm that it pays off to be restrictive if you are a financial sector supervisor like the NBS is, but I would be much happier had we not been in the right when we tightened the reins. Our banking sector has proved in practice that it is solvent and liquid and can withstand the pressure. Moreover, when push came to shove, foreign majority investors were ready to support their institutions in Serbia.

Serbia shall, I am convinced, be successful in fighting yet another challenge like it always has. And if not sooner, I intend to give you a detailed report on our performance at the next summit.