

Radovan Jelašić: Global Compact, social responsibility and global financial crisis

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the regional conference on social responsibility in the Chamber of Commerce of Serbia, Belgrade, 4 November 2008.

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The overwhelming interconnectedness of modern economy on the global scale has been positively confirmed over the last several weeks when the whole world was shaken by turbulences in international capital markets. Their effects are evident across all continents and the bout of instability which ensued has again brought to the fore issues like confidence, transparency in private sector operations, the role of the state, profits and bonus payments, as well as the responsibility to educate financial services consumers. I am addressing you here today not only as the Governor of the National Bank, but also as a representative and a participant in the UN Global Compact, an important initiative launched in Serbia with the support of the UNDP almost a year to date. As you are certainly aware, this initiative promotes socially responsible behaviour, a notion of mounting significance in turbulent times such as these, the role of which shall no doubt grow in future.

Today, I wish to discuss briefly the effects of the events on the world financial market on Serbia and the role of social responsibility within that context. Confidence in the financial sector is particularly significant in Serbia in view of its turbulent political and economic history. Decline in economic activity in developed countries has three main features:

1. In general, people in the West tend to save more, and they save with banks. In Serbia, however, there is a saying “he who is bitten by a snake fears a lizard” and, unfortunately, the volume of savings in Serbia declined in October. However, by withdrawing their savings deposits from bank accounts citizens manage only to multiply the negative effects coming from abroad, and everybody involved stands to lose: citizens lose out on interest earnings, those needing money get smaller and more expensive loans and the state gets less in tax revenues as GDP declines!
2. Decline in economic growth in Western countries induces decline in inflation due to weaker demand. But in Serbia we have often had stagflation, which means minimum/negative economic growth at increased growth in inflation, primarily induced by insufficiently developed market mechanisms, i.e. monopolies and oligopolies.
3. Western governments offer sizeable amounts of money, i.e. implement expansionary fiscal policy. But in Serbia, we implement expansionary fiscal policy even when it is not called for, and when such policy stance is required – the money is simply not there!

Now, let us see what can be achieved in this context by implementing the concept of corporate social responsibility:

1. In times like these, banks should positively increase their activities at strengthening the confidence of users of banking services. In addition to ensuring greater transparency of services they offer, they should also take on the responsibility for educating their clients to gain better understanding of the terms and conditions of the services they are getting. The National Bank has assumed the responsibility for educating financial services users and has prepared seven additional guide booklets linked to key life-changing events, from setting up a family, embarking on university education, to retirement. In addition to the above, the NBS also prepared another booklet which is highly topical right now and deals with saving and profit, i.e. income

from saving! This is in addition to numerous other steps already taken, like, setting up a call centre, printing leaflets in almost 2 million copies, conducting educational campaign aimed for children “Win by Saving”, etc. As regards our region, it is important to raise the question of how consistent it is with socially responsible behavior to offer credits denominated in Swiss francs or Japanese yens (the latter, fortunately, never a practice in Serbia) when no bank would willingly assume such a risk! Perhaps because bankers are very well aware of what the exchange rate risk implies.

In addition to all of the above, the NBS is now prescribing tighter conditions relating to the very contents of loan contracts to make sure that clients are not placed into an inferior position by signing clauses such as “the spread shall vary in compliance with business policy of the bank”, etc.

2. Current turmoil in global financial markets shall definitely induce a change not only with respect to the role of the state as a regulatory authority, but also with respect to all other aspects of supervision – from supervisory boards, auditors to credit rating agencies. Everybody seems to be more than aware that a free market could do with slightly tighter supervision (which does not necessarily mean stricter control). Text book examples of the lack of corporate social responsibility are the events of past few weeks where a profit is treated as a private matter, but losses become a burden on the society. Many more morals can be drawn from recent events.

The NBS, however, took a few steps even before the recent events took place: a) as of the next year financial institutions will have to disclose earnings of all members of their management and executive boards in their annual reports, b) when the NBS provides financial support to such institutions, this will not only result in cutting wages of members of management boards (German example), but will also set the scene for their dismissal, and c) we have strengthened significantly the role of internal audit in all financial institutions within the remit of the NBS.

All of the above topics, such as transparency, responsible operations, provision of information and education, can be grouped under one common heading “socially responsible behaviour” and will be of key importance for the recovery of financial markets both in the West and in Serbia. Banks and financial institutions will have to take full responsibility for their products and services because I feel quite certain that the generous financial packages now offered by governments and central banks will undeniably cease in the near future. And they ought to cease. Otherwise, it will be clear that we have learnt nothing from the past few weeks and that we lack social responsibility.