

Jorgovanka Tabaković: Continuous improvement of the business environment

Speech by Dr Jorgovanka Tabaković, Governor of the National Bank of Serbia, at the meeting with the representatives of the French-Serbian Chamber of Commerce, Belgrade, 15 March 2016.

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Your Excellency Ms. Moro,

Ladies and Gentlemen,

It is a pleasure to speak here today. First of all, I wish to thank you for organizing this event. As the Governor of the National Bank of Serbia, I am here with my associates to share with you the experience of our past cooperation with entities founded by investors from the French Republic, and to ensure this cooperation grows further in the period ahead. As the central bank of this country, we have had the opportunity to influence not only financial and banking cooperation, but also, indirectly, economic cooperation with the French Republic, and we will be glad to do so in the future as well.

France has traditionally been a friend of Serbia, and that is something our people, with a history riddled with tremendous challenges, will never forget. Not far away from here stands the impressive monument of our gratitude to France. Our future cooperation, in the spirit of modern times, will definitely focus on the economy, especially as France is a respectable member of the European Union, to which we also aspire. For that reason in particular, we are happy to see every French investment in Serbia and each type of economic association, such as this joint chamber of commerce.

Data collected and published by the French-Serbian Chamber of Commerce reveal a very positive trend in the field of economic cooperation, especially during the last couple of years. There is, however, room for further growth, and that is, among other things, why we are here today. As you well know, the National Bank of Serbia is an institution with broad powers, each of which we seek to exercise with a maximum degree of professionalism and coordination, in order to achieve the best results.

Speaking of French investment in the services sector, I must definitely single out financial services which are the subject of direct supervision of the National Bank of Serbia and include, in particular, commercial banking, insurance, financial leasing, and voluntary pension funds. I am happy to say that Serbia saw direct investments in each of the above areas through the establishment of companies with majority French capital.

French investors were among the first to enter Serbia's commercial banking sector and have so far achieved stable performances and an excellent reputation. With us here today are the representatives of "Credit Agricole", "Societe Generale Srbija" and "Findomestic BNP Paribas" and I would like to use this opportunity to greet them. French entities are relatively new to the Serbian insurance sector. We expect much of them, especially as the local insurance market has great potential and needs drivers to kick off development. To bring this industry closer to contemporary international standards, the National Bank of Serbia has drafted and adopted new, modern regulations. I would also like to welcome the representatives of "Societe Generale Osiguranje" and "AXA Osiguranje", while recalling that the first greenfield license issued by the National Bank of Serbia in the insurance sector was granted to a French investor – "Credit Agricole". Today, French capital is present in the agent and broker network of the insurance industry as well, through "Gras Savoye". In the field of financial leasing, we have "Sogelease" and "CA Leasing". As a result of market consolidation in our voluntary pension funds sector, "Societe Generale" is no longer engaged directly in the provision of these services, but remains present in this segment, providing custody services to all voluntary pension fund management companies through its commercial bank.

I believe that each of the above names is in itself a guarantee that the National Bank of Serbia has created a good investment environment in all financial services coming under its remit, by generating legal certainty for setting up and doing business and by contributing, through its supervisory activities, to the strengthening of the market and ensuring better protection of all participants, consumers and investors alike. As most of the representatives of these financial institutions are also active in the Foreign Investors Council, they can confirm that we were most cooperative in drafting current regulations to our mutual satisfaction. This is the standard of work I set out to achieve when I became Governor of the National Bank of Serbia, and it is the standard to which I will adhere in the future. I believe the best results can only be achieved through coordinated efforts, which will be continuously adjusted and enriched by our mutual practical experience.

On the other hand, I feel quite certain that, when in the role of consumers of banking, insurance, leasing or voluntary pension funds services, members of the French-Serbian Chamber of Commerce who are active in the area of industry and agriculture fully appreciate the work and the results of the National Bank of Serbia with regard to regulating and ensuring the stability of that part of our financial system.

In addition, the National Bank of Serbia keeps making efforts to influence the business and investment environment in Serbia in order for it to remain stimulative for maintaining current and attracting new foreign investment. According to the law that regulates the activities of the National Bank of Serbia, it is responsible for achieving and maintaining price stability, contributes to maintaining and strengthening the stability of the financial system and supports the pursuance of economic policy of the Serbian Government.

The National Bank of Serbia has achieved the objective of price stability. Inflation averaged at 1.9% in 2015 and we expect it to stay low in 2016. Low and stable inflation, enjoyed by Serbia today and for close to three years already, is imperative for preserving the real value of wages and pensions but also for creating a predictable business environment. Because Serbia is a small, open end euroised economy, the exchange rate represents an important factor of financial stability and certainty of doing business. Larger oscillations of the exchange rate substantially hinder the maintenance of price and financial stability. All of us living and working in Serbia, corporates and households with loans to repay, are well aware of this fact. Hence, maintaining relative stability of the exchange rate is one of the important factors for strengthening the business and investment environment, contributing to higher investment and lower country risk premium. We have no dilemma over this and remain unwavering in our commitment to achieving stability in all respects – price stability, financial stability, and relative stability of the exchange rate. With regard to the exchange rate, we achieve stability by preventing excessive short-term oscillations in the foreign exchange market. Foreign investors in particular have been highly appreciative of our results in this respect, pointing out that this parameter is of great significance for their business. And that is why I am proudly emphasizing this particular aspect today.

Also, by continuously trimming the key policy rate from May 2013 onwards, we have created room for a recovery in lending and further economic growth. The fall in interest rates was indeed one of the factors behind acceleration of economic growth. Today, interest rates on dinar loans of corporates, households and the government are at their all-time lows since the adoption of the inflation targeting regime. Interest rates declined by as much as up to 5 percentage points in 2015 relative to the previous year. The numbers speak for themselves – we have achieved a huge reduction in costs for corporates, households and the government. Economic growth in Serbia is also supported by net foreign direct investments which came at EUR 1.8 billion, rising by 45.6% from a year earlier. The fact that, today, investments in Serbia are channeled into a large number of projects, and that they originate from a larger number of countries, indicates that companies which decided to invest in Serbia are sure that they have made a good business move. And here, we must not forget to mention domestic investors which we consider equally important and valuable.

By achieving successful coordination of monetary and fiscal policies, while ensuring a clear division of powers among different institutions, we have strengthened our credibility with all relevant entities considering the prospect of investing in Serbia. If I were to summarize the results achieved by our institution with regard to the overall investment climate in just one sentence, I would point out: low inflation rate, record low interest rates, anchored inflation expectations, relatively stable exchange rate, stable and resilient financial system, higher investment loans, increased confidence in the dinar coupled with higher household borrowing and savings in the local currency. That we are not the only ones who say this is confirmed by data and the assessment of credit agencies and relevant international institutions. We have also enjoyed excellent cooperation with the International Monetary Fund, providing maximum contribution to positive signals coming from that important institution, the arrangements with which lend major support to our economic stability.

In particular, the National Bank of Serbia strongly supports the commitment of the Serbian Government to European integrations and has taken direct part in this process, not only through negotiations, but also through a series of other activities aimed at harmonizing regulations and creating a better and safer investment environment, following the lead of countries such as France. We are proud to say that all of the above has been achieved by relying on our own resources, bravely facing all challenges coming from the international environment and global financial flows. I therefore hope we will continue to enjoy your understanding and support, and will fully reciprocate it, to our mutual satisfaction.

Finally, allow me to add a few facts regarding French-Serbian economic and cultural cooperation. The National Bank of Serbia has had intense cooperation with the Bank of France, but also with the French agency for prudential supervision of financial institutions. The Bank of France took part in the technical assistance project for strengthening the institutional capacities of the National Bank of Serbia, thereby continuing, in the best possible way, the cooperation begun in late 19th and early 20th century when the French central bank was printing Serbian banknotes. In honour of this fact, an exhibition dedicated to the cooperation of the two central banks was organized in the Banque de France a few years ago, while the International Day of Francophonie is celebrated in the National Bank of Serbia each year. With regard to financial indicators, the Republic of Serbia regularly services its debt obligations to the French Republic, while the French Republic has donated over EUR 16 million to the public sector of the Republic of Serbia over the past eight years. The value of French direct investment in Serbia has so far exceeded EUR 800 million. This is an honour for us, but also an obligation, and the National Bank of Serbia will continue to be one of the pillars of French-Serbian cooperation.

Thank you.