

Radovan Jelašić: The development of small and medium size enterprises in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, during his visit to the enterprise "DOO PAVLE" PANCEVO, user of a loan under the credit line granted by the Italian government, Pančevo, 24 November 2006.

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Ladies and Gentlemen,

The outstanding performance of this enterprise is the best example of what can be achieved when a powerful private business initiative is given adequate bank credit support. It is one of 36 enterprises that were granted such support on exceptionally favourable terms under credit line in the total amount of EUR 33.25 million granted to Serbia by the Italian government in mid-2005. So far, over EUR 13.2 million have been disbursed and 200 new jobs created. We expect that disbursement of the second and the third tranche in the amount of EUR 10 million each will also result in the creation of a notable number of new jobs. The results achieved by this enterprise are yet another proof of our ability to compete in business if the state secures a stable macroeconomic environment, the NBS provides for stable prices and the banking sector grants adequate credit support.

Since the beginning of transition in Serbia, the NBS has acted as agent for disbursement of funds under another two credit lines:

- 1) When in 2001 we began disbursing funds under European Agency for Reconstruction donations for small and medium size enterprises it took us almost two years to disburse RSD 1.2 billion via credits granted through domestic banks. Now we need much less time. Due to regular servicing of debt under these loans, a revolving fund was created and additional RSD 1.1 billion was granted to private enterprises. In late 2005 funds under this credit line became property of the Republic of Serbia and shall be disbursed over the next 10 years under the same terms and conditions (EUR 200,000 loans with five year maturity and one year grace period and annual interest rate down to 8.08%) and for the same purpose – development of small and medium size enterprises. On the overall, so far 303 enterprises were granted RSD 2.3 billion from this credit line, which provided for the creation of 2,486 new jobs.
- 2) First long term loans to finance domestic small and medium size enterprises and local government infrastructure projects were granted in 2002 from the first Financial Agreement on APEX Global Loan in the amount of RSD 1.6 billion granted by the European Investment Bank (EIB). All of the funds under this agreement were disbursed through a selection of domestic banks by 25 enterprises and one municipality over the period of two years only and another 550 new jobs were created. The loans granted to small and medium size enterprises had the maturity of up to 12 years and a 3 year grace period and those granted for the development of the infrastructure projects had the maturity of 15 years and a five year grace period. Fixed interest rate is 7.8% and the variable rate 6.93%. Signing of the second APEX Global Loan provided for additional RSD 3.6 billion of which 28 loans have so far been granted in the amount of over RSD 1.1 billion and 287 new jobs have been created. In the meantime, EIB has expressed its willingness to provide additional credit lines to small and medium size enterprises directly, via commercial banks, without the backing of the government guarantee which is a proof enough of the superfluosity of the state, and it should be so!

I am pointing out these facts because the NBS is of the opinion that the development of small and medium size enterprises is not achievable by either political declarations or strong or weak political stance or by "giving a cut" of state funds through budgetary support under any name. That is the task to be performed by commercial banks and all these loans that have been granted under much more favourable terms than those prevailing in the market as regards interest rates and maturity, represent a real trigger for the development of small and medium size enterprises which are normally a driving force behind development of any economy and a means for resolving employment issues.

With the aim of encouraging banks to increase lending to small and medium size enterprises, in October, the NBS abolished the obligation of banks to engage their own funds in arranging two credit

lines – European Investment Bank and the Revolving Fund – which shall make such loans even more attractive to their end users. Bearing this aim in mind and owing to a further decline in inflation and interest rates in Serbia, NBS feels confident that a further decline in interest rates on these loans is soon to follow.

One of the major problems which cannot be solved without a strong government backing remains unfinished business with respect to a bulk of property that has not yet been entered into the Land Registry and could otherwise be used as security in arranging mortgage loans. Finding a solution to this problem will not be helpful for small and medium size enterprises only.

During our visit today we have found yet another evidence that there are successful entrepreneurs in our country. The good news is that banks are willing to grant loans and the “bad” news is reserved for the Italian government: Stand ready and start arranging yet another credit line!