

Radovan Jelašić: Price stability and state ownership in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at a Roundtable discussion with representatives of the Government of Serbia, Belgrade, 3 July 2007.

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Ladies and Gentlemen,

Let me focus on this occasion on two topics:

1. stability of prices in the light of interplay between fiscal and monetary policy, and
2. state ownership.

Few days ago I heard someone say: "It is the stable currency that everybody wants at first, and then they want as much as possible of the same currency". That is a true picture of Serbia today. And, while monetary policy sets a priority to constantly watch over the first part of this sentence, our citizens soon forget that a "surplus brings on a headache", i.e. that by increasing spending we keep going back to the first part of the sentence and demand "stable currency." It is of course unrealistic to expect citizens to gladly forsake some of their earnings in favour of the state so that the currency could remain stable. On the other hand, that is exactly why countries have or should have a responsible and professional government which takes into account medium and long run solutions to macroeconomic issues and is fully aware that the second part of the above sentence "and then they want as much as possible of the same currency", in fact means inflation.

In contrast to the NBS whose main objective "to attain and preserve price stability" is precisely defined by the law, governments are free to define their objectives and are not bound by any legal formulations. Governments often alter their objectives as they go along. They are often unwilling to remember promises made only a few days earlier, not to speak of those made before they came to power or those made in their early days in power. As the Governor, I am very pleased that the Parliament has clearly defined our objective and that the objective is very good – "to attain and preserve price stability". I am convinced, however, that that particular objective was set much more in line with the principle of "follow thy neighbour" policy than due to some deep seated conviction that price stability is key to economic development, improvement in the standard of living of all citizens, attracting foreign investment, etc. For forty years Yugoslavia and Serbia have been trying to attain "growth and development" and putting stability of prices into the second or the third line of interest. The culmination of this process is well known – the longest period of hyperinflation in the 20th century that lasted for longer than twelve months! We obviously took our time in taking the decision what to do! And recently we received a positive assessment of our decision – inflation has never been lower than recorded at end-May while economic growth has never been higher than recorded in the first quarter of 2007 when it reached as much as 8.0%. Of course, the media will not be enticed by this fact because it represents a confirmation of what we have been trying to impress on the public for years!

Prices of the NBS services have never been lower than they are today, and while everybody else is looking for ways to solve their problems almost exclusively by increasing prices, and naturally by taking advantage of their monopoly position, we in the NBS have been continually decreasing prices of our services. The NBS total wage bill recorded in 2004 at total employment of 5,500, remains adequate today and, I am convinced, will remain so over the next two to three years. The government increased the budget-financed employment last year and has done it this year again. The NBS is not the reason for the existence of the banking sector, but quite the other way around. The state should follow the same principle. I think it is absurd, not amusing, that many ministers are aware of the fact that a cut in employment would mean higher efficiency of government administration, higher quality of services and higher wages, but readily use one and the same pretext: "why should I be the one to do the dirty job when others have even bigger excess work force." The impact of such policy on inflation is obvious as growth in regulated prices contributed 3.6 percentage points to the 4.2% overall growth in prices, of which: prices of electricity by 1.08%, communal services by 0.71%, cigarettes by 0.68%, oil derivatives by 0.50% and medicaments by 0.10%. Naturally, all those adjustments in regulated prices mean higher revenue for the budget or some other indirect users of the budget revenue – and when money is more abundant, there is no reason not to spend more.

Being a keen onlooker of structural reforms, I am personally honestly fascinated by the lack of principles as well as by partiality and randomness in their implementation:

- On the one hand, some of the banks with which our citizens hold savings accounts are foreign-owned and, to tell the truth, their savings can be taken out of the country as there is no authority that would force those banks to grant credits in Serbia against such savings. On the other hand, though pension funds are long-term investments similar to those that banks engage in – it is the state which takes care of the voluntary pension funds and life insurance funds today and will continue to do so in future. The question arises as to why this is so? Does the state of Serbia have a proven track record over the last fifty years of expertise in making profitable investments or do we have some special skills which are superior to those of the top-ranking investment funds worldwide?
- We have sold our milk farms, yet agriculture, we say, matters to us, cement producers are of no interest, yet we want to increase housing construction and building in general. Citizens of Serbia have been deprived of the opportunity to smoke home-grown tobacco, yet we would not let go of the EPS, or part of it, of Telekom Srbija, one of the three operators that seems to be the state-interest, not to speak of the NIS – a veritable national treasure! Why? What is the rationale behind all of this or have I missed something over the last 2 to three years or, as it may be, have others changed?

Generally speaking, in terms of big public enterprises, the government has four functions:

- it is a majority owner,
- it manages those enterprises,
- it supervises their operations and, most importantly
- it adopts the overall legislative framework that is relevant for their operations!

The latter two functions, i.e. supervision and adoption of the legislative framework, remain within the remit of the state independently of the former two functions. To illustrate, we have retained those same functions in relation to banks as well. If the sole aim of the government is to maximize budget revenue, the whole matter seems to be rather simple – we need to sell the minority share today and commit to privatize the remaining portion in several years time. But what is more important, the state needs to surrender management of those enterprises to their majority owners! This at the same time means that somebody other than the state, i.e. the majority owner, will be making all the preparations for putting such enterprises on the market, implementing their reorganization, undertaking measures to increase their price. It is more and more often that we hear the words such as “first we shall reorganize the enterprise and then make big money by selling it.” Does the government of Serbia really have the expertise and the managers of such calibre that is rarely found among private businessmen, not to speak of the state sector? Does it have sufficient funds, experience, etc, to restructure, reorganize, instead of concerning itself with the health care, education, infrastructure and the similar? Everybody seems to be inventing some kind of a privatization model that enables you to sell and, at the same time, to keep the management share! Let me repeat, if the state wishes to make sure that 1) the service provided is high quality, there is no need for it to retain ownership or management over the enterprise, but only to implement efficient supervision of its operations, and if it wishes to 2) make money, it can always do so via taxes, excise duties, compensations, retroactive measures. But, let us not fool ourselves – at the end of the day, the government of Serbia wishes to govern. It is only the excuses which keep changing.

Life goes on and I bet that in five years time at the latest some of these “holy cows”, like EPS, NIS or Telekom Srbija will be privatized for a very simple reason – the state coffers will be empty. Following the increase in wages and salaries during the last and this year, the state will get used to a comfortable living and may even become more lavish with state pensions too. We need investments more than anything else, while on the other hand we have been decreasing taxes for state coffers though the money is melting away! I know, though, that the laws get changed by necessity, and I decide to rest my case.

However, I sincerely hope that this first roundtable discussion will bring about more than just identification of the problems at hand. Everybody knows what the problems are, even those who have not had much success. I hope that we shall do something, something concrete, and something that can lead to a success!