Radovan Jelašić: New economic challenges in 2009 in view of the global financial crisis

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the General Meeting of the Serbian Chamber of Commerce Dedicated to Considering New Economic Challenges in 2009 in view of the Global Financial Crisis, Belgrade, 23 December 2008.

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Ladies and gentlemen,

Allow me to thank the Serbian Chamber of Commerce for inviting me here today. I hope that my short speech will, if not help resolve numerous issues our economy is currently facing, than at least point to the challenges that lie ahead.

Looking at the macro level, we can see that after pursuing restrictive fiscal and monetary policies over the past few decades, all developed economies have recently opted for unprecedented relaxation of their policy stance (the US budget deficit, for instance, will be around 15% in the current fiscal year). Like many other countries of the region, however, Serbia cannot resort to similar measures for several key reasons:

- Even in the best of times, Serbia ran a high fiscal deficit and the money, primarily from privatization, was spent rather than set aside into reserves for the present challenging times;
- Extra money paid into the budget over the past several years was used for wages, pensions or material costs, etc. rather than for investment purposes.
- Serbia is not an EU member and has no access to substantial additional sources of finance (e.g. EU loan to Hungary equalled EUR 6.5 billion and to Latvia – EUR 3.1 billion).

This is a consequence of a slow and inefficient transition process, but also of a populist response to spending demands.

It is, however, important to note that, by agreeing on an arrangement with the IMF, Serbia has made a significant step in the right direction. In these turbulent times, this will provide not only a firm macroeconomic anchor, but will also enable the conduct of a coherent and transparent macroeconomic policy.

Like all other countries of the world, Serbia has to adjust to the new global economic circumstances which will reflect on all aspects of business activity: from the number of employees to the volume of operations, from market analysis to, perhaps even undesired, selling off parts of businesses. This reminds me of a story about two men in the woods who suddenly notice a bear standing only a couple of meters away. And the moral of the story is: any danger could also be seen as an opportunity – most of all for the one who can run faster!

In addition to measures relating to price stability, exchange rate and the financial sector, other measures enacted by the NBS relate to:

- Natural persons – no change in the classification of receivables, even if:
    - o Loan repayment period is extended for one year;
    - o Foreign currency-indexed loans are converted into dinar loans, and CHF-indexed loans are converted into EUR-indexed loans;
    - o Indexed financial lease receivables exceed the 30/50% ratio due to depreciation of the dinar.
- Banks:

- Reserve requirements on foreign credit, subordinated credit and financial leasing are abolished (until June 2010);
- Reserves for general banking risks are abolished in the event of expansive growth;
- Gross household lending/share capital = 150% – no penalty in the event of non-compliance caused by the depreciation of the dinar.

- Legal entities:
  - Loans for agriculture and loans to entrepreneurs for other activities are exempted from the gross household lending to share capital ratio (150%)
  - Negotiations with the EIB on a loan of EUR 250 million to SMEs, and negotiations with other international financial institutions (e.g. EBRD, KfW) and governments (e.g. Italy).

True, the list of measures relating to legal entities is the shortest, but we are making intensive efforts to lengthen it.

But, what have other countries done so far? The governments have a) greatly improved the deposit insurance scheme, b) promised notable support to the financial sector in order to strengthen the capital base, c) announced substantial public works, primarily in infrastructure. From their part, central banks a) provided substantial additional liquidity, and b) cut the key policy rate in order to lower the cost of credit. In terms of specific activities, however, central banks have done their part, but the measures announced by governments (excluding deposit insurance) are still being elaborated. For example, not a single euro has yet been approved to Austrian banks simply because the authorities waited for an approval of terms from Brussels.

The 21st century and market economy call for different models and methods than a decade or two ago. But before we go into details, it is important to pay attention to the following facts:

- The ownership structure of both enterprises and banks has changed significantly, and this will have a major impact on the way we confront the current challenges;
- Problem resolution in the EU will affect Serbia as much as the turbulences have (the example of the car industry);
- Some problems cannot be resolved in Serbia before they are resolved in Vienna, Frankfurt, Milan or Paris.

"Helicopter Ben" is currently a popular nickname of the Chairman of the US Federal Reserve, Ben Bernanke. Mr. Krugman, this year's Nobel laureate, recently stated that it was time to "shovel money into the economy". The question, however, is: in what way, to whom and how much?

But let us turn back to the case of Serbia. For instance, if you were to offer an interest-free loan to US Steel in order for it to maintain the present volume of operations and keep all its employees, they would decline it as that would mean producing goods not for sale but for replenishing stocks(!). The same is true for Tigar – Michelin. What these companies need are buyers, i.e. a car industry that can produce and sell cars. Sometimes, it is more profitable to halt production altogether, than to take out a loan, even if it is interest-free! The problem therefore lies in the market, i.e. in the lack of buyers!

And finally, what is to be done:

- We should significantly increase budgetary investments, primarily for financing the Corridor 10 highway, building additional energy producing capacities, implementing infrastructural projects from irrigation to railway lines, i.e. creating additional jobs where demand for products/services is guaranteed! But the share of investment can only increase if spending goes down!

- Serbia has many institutions that ought to intensify their activities in the period ahead: SMECA, AOFI, Development Fund and various other guarantee funds providing start-up credits as well as loans for small and medium-sized enterprises. We have the framework set up, but much needs to be done in terms of effort, people and money!
- In Serbia, if inflation goes down, so will the key policy rate and, consequently, the cost of borrowing. This, however, will not resolve our problems but will only moderate their impact to a certain extent.

Thank you for your attention!