Radovan Jelašić: National Bank of Serbia – European integration challenges

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the promotion of the 4th issue of the regional magazine for EU integration and transition processes “European Integration Challenges”, Belgrade, 13 May 2009.

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Ladies and gentlemen,

Allow me to welcome you on behalf of the National Bank of Serbia, and to extend my appreciation for the magazine “European Integration Challenges” whose very title points to the key challenges we shall be facing in the near future.

Today I would like to touch on three key issues: first, what does integration to the EU mean for the National Bank from the point of view of concrete steps we have been taking so far; second, what is an “expensive” credit in Serbia versus Europe, and finally, what measures has the NBS taken so far to lessen the effects of the crisis by drawing on the ample experience of EU countries.

In drafting the Law on the NBS, Law on Banks and many other legal regulations special attention is paid to their harmonization with EU regulations so as to create necessary preconditions for the integration of our country into the family of 27 EU member countries. To illustrate, we in Serbia did not engage in long debates on why “maintaining price stability” should be the primary objective of the NBS instead of, for example, stability of the exchange rate which is so high on our everyday agenda and which, by the way, means „fixed rate” for many in Serbia, or the maintenance of the stability in wages, GDP growth or some such other thing. The answer to this question is obvious enough. There is no alternative as that objective is stipulated by the Acquis Communautaire. The same applies to numerous other points of law relating to NBS operations which incorporate experiences gained in more advanced phases of development and which guarantees that our legislation will precede practice and enable us to learn from the experiences of others because many countries have been through these phases long before us. Whether we shall actually join the EU does not depend on us, because adoption of the so called “European legislation” represents a necessary condition but in itself is not sufficient to guarantee our integration into the EU. Allow me to illustrate this point by the following example: Constitution of the Republic of Serbia and the Law on the National Bank of Serbia do specify that the NBS is an independent institution. But here comes the main difference between theory and practice and the question arises whether we are going to apply our own measure to define “independence”, the term we adopted as the European norm and which is applied by their institutions, or we shall go on to make up our own definition of “independence” and use it. It is only if we decide to use their definition of “autonomy” and “independence” of the central bank, which is the only right way to take and which reflects the meaning of the term, that we can say that we have adopted the law not for the sake of “adopting a law” but for the sake of getting closer to the European values and the best European practices.

And “independence” of central banks has often and in many ways been already tested in almost all EU countries. By definition, there are five types of independence: legal, personal, functional, financial and organizational. All these facets of independence should preclude exertion of influence on the performance of NBS tasks and the achievement of its primary objective under the Law on the NBS. To impinge on the effectiveness of any of these postulates means to impinge on the principles of autonomy and independence of the central bank. Just as the English would put it “you cannot be a little pregnant, either you are or you are not”. I would also like to use this opportunity to thank the GTZ who has for years been trying to make sure that nobody goes about “inventing hot water” especially now that a good part of legal regulations in Serbia have been adjusted, not only in spirit but also in practice, to the EU norms.

Despite global economic crisis which shall obviously have much more severe consequences on the countries in transition than on the developed economies, our banking system is not only solvent (capital adequacy ratio of 21%) but is also liquid as around RSD 120 billion is still invested in short-term securities of the NBS and RS. This means that money is plentiful but is more expensive now than it was a year ago.

But what does "expensive money" means today? Allow me to give some examples and then judge for yourselves whether money in Serbia is "expensive" or not. The most recent issue of securities by the Republic of Greece, an EU member state, with euro as its legal tender, has the maturity of five years and pays interest of 5.5% p.a., and Greece has an A- credit rating. Poland, which also has an A- credit rating, pays 5.87% interest on its securities. Siemens has AA- credit rating and has issued securities with coupons at 5.13% interest, while Turkey, a G-20 member state with BB- credit rating, has issued securities at 7.6% interest per annum. The fact that Serbia's credit rating is just BB- and our country is neither an EU member nor a candidate for EU membership or a G-20 member state, must reflect in the conditions on the local market. Plus, it would not be bad at all if only the loans in Serbia were more expensive today than they were a year ago. The worst part is that the Serbian economy has to go through a painful period of adjustment which was obvious enough even before the global economic crisis broke out!

As part of its measures to alleviate the effects of the global economic crisis, and based on the best European practices, the NBS is in the process of introducing important innovations into almost all aspects of its operations:

1. Discounting of a) securities, b) government receivables c) mortgage loans to secure additional liquidity to the banking sector. If banks pledge a part of their assets as collateral, the NBS could extend around RSD 70 billion in short-term loans to banks at an interest of at least 15.5% (key policy rate plus 1.5%) at a time when the rate of RPI inflation is around 10% April-to-April.

2. The NBS could provide up to EUR 1 billion in swap transactions.

3. Relaxation of policy with regard to capital requirements, loan loss provisioning, etc.

All of the above measures will help maintain stability of the banking sector, but the greatest challenge facing Serbia and the region as a whole over the next several months will be finding ways to persuade banks to extend more credit. Europe is also facing the same problem because the ECB can lend money to banks, but it is only the banks that can extend them further to their end beneficiaries.

Challenges we shall be facing on our way to Europe will be as many as we create them! But one thing is for sure, the NBS will be facing the fewest as can be proved by the following facts:

- Today we are holding a meeting with the representatives of the ECB and 17 EU member states that have been working in the NBS for more than nine months in six different areas of NBS operations in order to eliminate any "challenges".

- Besides, Serbia is the first country in the region in which the "Vienna Initiative" has been successfully implemented.

- We have received today a communication from the IMF informing us that the so called "safeguard assessment" of our country has been successfully completed.

- The NBS has initiated a number of regional initiatives relating to the financial sector: last week we received the President of the German BAFIN, an institution in charge of supervision of the German financial sector, while Bank of England and Banque de France have been holding a number of regional seminars, etc.

And finally, allow me to remind you once again that Europe will certainly give Serbia a chance. I have never doubted that, but when it comes to the European integration processes, nobody will nor anybody should do our job for us. How many challenges on that road will be created by us depends only on us and nobody else!