

Radovan Jelašić: Development of the municipal bond market in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at NALED – National Alliance for Local Economic Development, Belgrade, 13 May 2009.

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It gives me great pleasure to welcome you all on behalf of the National Bank of Serbia.

We in the National Bank have long been advocating the development of bond markets by not only the government and local government bodies, but by other issuers as well. It is the crisis period that shows best that bankcentric systems – elsewhere and in Europe, but more poignantly in Serbia where banks account for over 90% of the financial sector – face significant challenges, such as: a) how to refinance loans due for repayment, b) how to obtain fresh capital in the market, and c) how to preserve public trust in the banking system. Of course, one should also think in terms of catering for the needs of our clients since a bank is not an end in itself but represents a transmission mechanism between those who save and those who need the money.

Inefficacy of the banking sector necessarily affects the overall economy, and bank debtors are no exception. Allow me to illustrate this idea by the following example: Even if the European Central Bank cuts its policy rate (which, at the moment, measures 1.0% only), that does not necessarily mean that banks will automatically have access to cheaper funding especially if the risk premium for banks is increased. Bank clients would in such a situation have two options: a) to take more expensive loans from banks, or b) to bypass banks altogether and borrow directly in the capital market by issuing own securities.

As the NBS is also entrusted with the supervision of insurance companies and voluntary pension funds, urgent development of the securities market, including securities issued by local government bodies, is of our utmost interest. Such development is also in the interest of commercial banks since securities operations are a typical segment of investment banking operations – issuing securities without undertaking credit risk. For that particular reason, the NBS is of the opinion that amid numerous projects and proposals relating to the development of the capital market, it is high time a concrete project was finally undertaken.

Some of the major prerequisites for the successful implementation of such a project are as follows:

1. Local government bodies should have their own sources of income instead of relying on the “transfer of funds” which can be received exclusively from state bodies; the laws need to be amended as “states will be states” and our government can easily change its stance at one time or another, i.e. the amount of money it decides to transfer to local government bodies;
2. Local government bodies should have stable sources of income and not depend on the current supply-demand situation. However, the sources of income are specified by the state and governed by its legislation. For example: “remuneration for building plot development” would bring RSD 13.8 billion versus “income tax” which would bring RSD 2.7 billion into the state coffers so the state needs to amend its laws and local government bodies to specify a different source of income as their main source of revenue;
3. Audited annual financial reports – transparency of operations – within the sole authority of the city;
4. Efficient market of government securities should be within the sole authority of the state.

But let me to prove to you that this issue is equally important to the NBS as it is to the local government bodies by saying that the NBS shall take all necessary measures within its sphere of competence to achieve maximum results to this effect. Potential investors in these securities, i.e. voluntary pension funds and insurance companies have been eagerly awaiting the placement of such securities on the market.

And money is plentiful! RSD 91 billion has been invested by banks in NBS securities and RSD 22.4 billion in government bonds. Hence, it is not always necessary to think in terms of borrowing in foreign financial markets as we are awash with dinar liquidity which could be invested in high quality dinar securities at market interest rates. But before we can set up and develop the market and begin investing in securities, everybody concerned needs to do their homework and do it well.

Thank you for your attention!