

Radovan Jelašić: Strengthening integration and cooperation in Southeast Europe

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the Press Conference of the European Fund for Southeast Europe (EFSE), Belgrade, 26 May 2009.

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Dear Ladies and Gentlemen,

It is a pleasure to be here today with Dr. Klaus Gläubitt and Ms. Sylvia Wisniwski from the European Fund for Southeast Europe – EFSE. Before they start their presentation on EFSE, I would like to depict the current economic situation and describe EFSE's role in stabilising the economies in Serbia and Southeast Europe as well as in promoting economic and financial sector development in the region.

The financial crisis has been a huge liquidity shock. This means that investors, financial institutions as well as businesses and households around the world have been scrambling for liquidity. As we are all facing the effects of this "sudden stop", we have to undertake bold measures, almost as bold as those which were taken at the fall of the iron curtain, however, with one difference – this time it would be purely for the maintenance of stability and standards of living, and not for their substantial increase.

The National Bank of Serbia – NBS – was relatively well prepared for the initial effects of the crisis. As of today, the NBS has undertaken several measures in order to limit the impact of the crisis on the banking sector, which include securing additional support from the international finance institutions such as KfW, the European Investment Bank – EIB and the European Bank for Reconstruction and Development – EBRD.

Time is critical for all parties and help from international finance institutions including from vehicles such as EFSE is needed more than ever to: mitigate the impact of the crisis in the region, resolve the prevailing credit crunch and, more importantly, to secure the stability of the financial sector.

The stability of the financial sector remains the key pillar of a functioning market economy a precondition of general stability. The services it provides like payments, deposits and loans are fundamental for the entire economy, especially for micro and small enterprises. The microfinance sector has been hit hard by the financial crisis, not only due to higher interest rates but even more significantly due to the lack of availability of funds for such purposes.

In this respect, EFSE plays a key role in providing a stable funding source for development finance and the micro and small enterprise sector. In times of economic crisis, continued access to finance for small businesses is essential. They are at the heart of the economy. Development finance must operate counter cyclically, which means fighting the credit crunch around the globe, in particular in emerging Europe including Southeast Europe, and that is exactly what EFSE does.

But apart from this financial dimension, EFSE is still taking on other roles in contributing to financial sector development in Southeast Europe:

We appreciate EFSE's role as a responsible investor. As such, EFSE promotes responsible lending practices in the region, refraining from promoting consumer lending or speculative activities. Why is this crucial for financial sector development? The financial crisis was in part caused by irresponsible lending practices, in particular by credit technologies employed in the subprime market, the very origin of the current crisis. Against this background, there is indeed the valuable lesson to be learnt that responsible finance is a must to ensure a sound financial system.

Last but not least, I am proud to say that I, as well as my other colleagues from the Central Banks of the EFSE partner countries, are all members of the EFSE Advisory Group. As such, we are involved in EFSE's work. But it is more than a sole advisory board, serving EFSE as an information source to stay abreast of financial sector developments in the region from a policy maker's perspective. It provides a platform for regional exchange on financial sector issues. Thus, it is a crucial vehicle to strengthen integration and cooperation in Southeast Europe, which in these current times of turmoil has never been so important. No Southeast European country has the resources or the means to make it out for the current crisis alone.

Thank you for your attention.