Jorgovanka Tabaković: Overview of recent monetary and macroeconomic trends in Serbia

Introductory speech by Dr Jorgovanka Tabaković, Governor of the National Bank of Serbia, at the presentation of the *Inflation Report – February 2016*, Belgrade, 19 February 2016.

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Ladies and gentlemen, dear guests,

Welcome to the presentation of the Inflation Report, where we will give an overview of recent monetary and macroeconomic trends and set out our expectations for the period ahead.

I believe that in the coming period too we all want to see Serbia as a competitive and fast-growing economy, economy driven by investment and exports. We have no doubt whatsoever that investment, exports and economic activity will continue to grow in the years to come. What gives us reason for optimism is Serbia's potential for development, our reform-minded government and the National Bank of Serbia's commitment to maintaining price and financial stability. Our optimism is also based on the results achieved thus far, including monetary and macroeconomic stability, robust fiscal adjustment, reduced external imbalances, improved business and investment environment… These results were also recognized by international institutions – the International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, rating agencies and other globally renowned institutions.

In contrast to them, some local critics ascribe the good results to a „fortunate" set of circumstances and measures taken by other central banks. Because of this I want to underline today that we have achieved the said results relying solely on our own capacities, even though we were faced with numerous challenges coming from the international environment.

No one can refute the fact that inflation in Serbia has been low and stable for more than two years. Inflation in Serbia is around 2% and hence comparable to inflation in other European countries. That this is not due to a „fortunate" set of circumstances or to globally low inflation is shown by the experience of countries where inflation is still significantly above the target. High inflation in those countries is due to macroeconomic imbalances and depreciation of national currencies in conditions of volatile capital flows. Despite challenges, we managed to deliver both price stability and relative stability of the exchange rate. We managed to deliver and to maintain them owing to our well-timed and carefully thought out measures that were coordinated with fiscal policy. As a result we have had a significant reduction in internal and external imbalances, and you will hear the figures from my colleagues later on. In a nutshell, amounting to 3.7% of GDP the budget deficit was almost halved last year, while the current account deficit was cut by one fifth and was fully covered by foreign direct investment.

In addition, the public often debates whether the noticeable fall in bank lending rates and the cost of government borrowing is attributable more to the monetary easing of the National Bank of Serbia or the European Central Bank. I will give you nothing but facts. The fall in dinar lending rates began in September 2013, after the National Bank of Serbia initiated a cycle of key policy rate cuts in May that is also their lowest level on record. And these are the facts. Lower interest rates also reflect competition among banks which increased, inter alia, as the National Bank of Serbia made sure that citizens have access to transparent information on lending terms offered by different banks. During the same period, though lesser than that for dinar loans, a decline was recorded for interest rates on euro loans (by 2.8 pp, to 4.4% in December), which is by all means due to the European Central Bank's monetary accommodation and the consequent fall in EURIBOR. There is no doubt however that this is also a result of Serbia's better macroeconomic performances and lower risk premium, and hence lower cost of borrowing for both government and private sector.

After cutting the key policy rate in its February meeting, the Executive Board particularly underlined the expectation that further monetary policy easing will be followed by a further recovery of lending activity, which will contribute to investment. The 1.8% credit growth in 2015, in the face of maturing of RSD 110 bln worth of subsidized loans, was beyond our expectations. New investment loans were 2.5 times higher than in 2014, while a significant rise was recorded also for loans that were refinanced under much more favourable terms. We expect positive tendencies in the credit market to continue in 2016.

Ladies and gentlemen, dear guests,

What is certain, despite numerous uncertainties in the international environment, is that we will maintain monetary and financial stability and thus, give a full contribution to sustainable economic recovery and prosperity of our country.

I now give the floor to Ana Ivkovid to present the key messages from the February Inflation Report.