

Jorgovanka Tabakovi: The importance of the financial industry

Speech by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at Bloomberg Adria's conference "Finance & Insurance Industries Trends 2024", Belgrade, 28 March 2024.

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Firstly, I would like to greet you all and introduce myself to those of you who do not know me. I am Jorgovanka Tabakovi, born on 21 March 1960, and since 6 August 2012 the Governor of the National Bank of Serbia. Before that my political background included being a member of the parliament several times, but always in the areas of economy, banking, industry; I am also someone who wrote, amended and implemented laws. Naturally, the purpose of this introduction is to explain my approach so that it does not come as a surprise to you.

Before that, I must say that I am here to prove something that I always claim – that everything we do, we do for the people and with the people. As for the former, I am here at the invitation of Vesna Damjani, and I am here to show due respect which Bloomberg Adria has earned over the past two years – and I can attest to that because my team and I have to respond to their queries almost on a daily basis. If Branislav Uroševi is here too, I would like to greet him as well, Vesna has a wonderful associate in him.

In these two years, they have shown that they are an institution that understands the power of the publicly spoken word. And that this is always a double-edged sword that can turn against you if you are unaware of the importance of the power that you have. I am here because Vesna invited me, but I am also here in a specific way, quite different than usual, speaking about an issue which you present to the public in the form of the conference for the second year, hoping that this will become a tradition and that it will indeed be a gathering place for the entire financial industry – for starters, banks, insurance undertakings, but also representatives of leasing companies, VPFs, payment institutions and everyone associated with finance.

Why do I think that I need an unusual introduction? Everything we have achieved in these 12 years, all of our mistakes and achievements, they belong to all of us. I see three bankers here, whom I deeply respect, and with whom we have straightforward and direct cooperation – Darko Popovi, Zoran Petrovi, Nikola Vuleti, from three large banks. Without any false appreciation, I must say that everything we have achieved – we have achieved together. And the story of any individual service provided by any individual bank or an insurance undertaking, the story of any decision made by the regulator – the National Bank of Serbia, of any supervision or a report can easily and elegantly be translated into figures, and that is what I wanted to do because he who does good is expected to do even more good. We as the central bank are not much loved in the society, and neither are we as bankers and the banking industry. However, I would like to remind people about the importance of the financial industry and I will use numbers to prove how much good we have achieved together. This should be the message – the trend for 2024, that we are expected to do even more good.

Since Vesna and her team chose this topic for the conference, I would first like to commend the way in which Bloomberg reports – it is very easy to make a judgement and turn facts into interpretation. You do not have to agree with me, but I have grounds to claim that Bloomberg speaks about facts and leaves interpretation to others. It is vital for those who wield the sword of the publicly spoken word in their hand to realise that the publicly spoken word should inspire all members of society to do their best, to inform, as well as to educate. It is not up to us to cater to the demands of the audience at any level, but we are representatives of the audience that has to bear the ultimate responsibility. In this sense I would like you to continue with the work that you do – to inform, to educate, to inspire, and when needed – to challenge us all for discussion.

I will now remark on the 12 years in several verses, and then move on to numbers:

They said – they'll wear you down,

They warned – they'll break you,

Threatened me – they'll deceive you,

Advised me – be careful.

They told me – they'll lie to you.

They're not worthy of you, they flattered me.

How come you're among them – they feigned surprise.

There's no eternal flame, they kept telling me.

There's no inexhaustible strength, slow down – they pleaded.

And yet I still persist,

I am still here because I have faith.

And all the battles, hidden and public,

All the battles with others and myself,

Are now a triumph of faith in myself and in people

Who were not consumed by selfishness,

Faith in people driven by the common good!

In the past 12 years Serbia has transformed from a country of monetary and fiscal instability and uncertainty into a country whose inflation is comparable to those of advanced countries, and which has a stable currency, a record high level of FX reserves and a stable financial system.

Exchange rate stability has become a new reality in Serbia. We have changed the approach to implementing the exchange rate policy of the dinar against the euro. Instead of allowing significant oscillations which boost inflationary pressures and result in business uncertainty, high exchange rate differences in the local economy and a rise in NPLs, which were the characteristics of the local market before August 2012, one of the main features of the NBS and the overall financial system since then and all the way until today is – the relative stability of the exchange rate.

At that time, by pursuing an appropriate monetary policy we reduced inflation by 10 pp in a year – from 12.2% at end-2012 to 2.2% at end-2013. Inflation was kept continuously low from end-2013 until end-2021 (around eight years), when global inflationary pressures escalated. Thanks to the achieved and preserved price stability, we had several years of low interest rates on dinar loans (the key policy rate was lowered from the inherited 11.75% in 2012 to 1% at end-2020), resulting in lower costs of borrowing for households and corporates.

Since December 2012, the NBS has conducted its main open market operations – reverse repo operations (repo sale of treasury bills) through which it mops up excess dinar liquidity on a weekly basis – according to the system of multiple variable rates. This system has allowed the NBS greater flexibility and efficiency in monetary policy implementation over 12 years.

As a result of multiple global crises, inflation has been imported into Serbia over the past few years in the wake of the pandemic and several global conflicts, and its different nature called for a different response of the Government and the NBS – a continuous, but gradual response. In cooperation with other government institutions, the NBS did everything in its power to protect households' living standards without compromising economic growth. Thanks to this, inflation has been on a stable downward path since April 2023 and has been more than halved (it will soon be three times below its peak of March 2023), which we have consistently projected. It is expected to retreat within the target band of $3\pm 1.5\%$ around mid-year and approach the target midpoint of 3% at end-2024.

Over the past 12 years, the dinar gained 1.2% against the euro. The NBS has taken constant care to use FX reserves cautiously in periods of heightened depreciation pressures – by investing in exchange rate stability, and to build up FX reserves at times of prevailing appreciation pressures, creating an additional buffer for the entire domestic financial system. Since 6 August 2012 to date, the NBS has bought EUR 8.3 bn net in the FX market. In this way, as the most important individual factor, it contributed to a more than twofold increase in the country's FX reserves which topped EUR 25 bn at end-February 2024. This is EUR 15 bn (almost 150%) more than at end-July 2012 when they measured EUR 10.1 bn, while net FX reserves more than tripled in the same period (rose by 276%) – from EUR 5.5 bn to EUR 20.8 bn. FX reserves not only increased, but their structure improved as well – the quantity, value and share of gold went up notably. Since August 2012, the quantity of gold holdings increased 2.5 times, from 14.8 tonnes in late July 2012 to the current level of 40.6 tonnes of gold kept in the NBS's vaults. We purchased some of this in the international market (a total of 12 tonnes in 2019 and 2020), while a portion was bought from domestic producers. This is gold of the highest quality and purity (over 99.5%). The share of gold holdings in FX

reserves climbed from 6.2% to around 10%, and its value increased more than fourfold (from EUR 0.6 bn to EUR 2.5 bn). Since July 2021, after the NBS imported 13 tonnes of gold from abroad (1 tonne remaining from succession and 12 tonnes purchased abroad), all gold reserve holdings have been kept in Serbia.

In the past 12 years, together with the Serbian banks, the NBS has created all necessary conditions for a stable and sound banking sector which finances economic activity at home and provides state-of-the-art financial services.

Thanks to institutional efforts to resolve the issue of NPLs, their share in total banking sector loans shrank to an all-time low of around 3%, from the inherited level of over 20%.

Due to problems in operations caused by inadequate management and supervision before 2012, in the 2012–2014 period the NBS was forced to close four banks – Nova Agrobanka, Razvojna banka Vojvodine, Privredna banka Beograd and Univerzal banka Beograd. This has enabled the restoration of full confidence in the banking system, and all relevant banking indicators are now well above the regulatory requirements of the NBS.

The NBS's responsible approach was also confirmed in 2022 when it resolved the issue of Sberbank following the escalation of the Ukraine crisis. The NBS responded quickly and efficiently and, without spending a single dinar of public funds, managed to preserve confidence in the Republic of Serbia's banking sector.

This confidence is clearly reflected in the rise in both dinar and FX savings to their record-high levels – from below RSD 18 bn at end-2012 to over RSD 147 bn at present (dinar savings), and from EUR 8.3 bn to EUR 14.7 bn (FX savings).

Thanks to a responsible approach of the NBS, banking sector consolidation was successful and stability was preserved even in the conditions of changes in the operations of some parent banks (e.g. during the "Greek" crisis of 2015 or the coronavirus pandemic). That the local banking market is attractive is also reflected in the fact that the NBS issued 31 prior consents for the acquisition of ownership in banks and 10 consents for mergers during this period. The number of banks decreased from 33 to 20, with constant enhancement of the quality and scope of services provided to households and corporates.

Against the backdrop of the pandemic and the pronounced negative effects of global shocks, the NBS also adopted measures facilitating loan repayment. And this is why I keep saying that this is a joint success which we would not have been able to achieve without commercial banks:

In order to preserve financial system stability and protect financial service consumers, in September 2023 we adopted measures temporarily capping interest rates on housing loans. These measures include a temporary freeze and/or reduction of the contractual variable nominal interest rate, capping of interest rates on housing loans approved in the period of application of the measures and the possibility of early repayment of housing loans free of charge.

Two days after the declaration of the state of emergency in the country, in March 2020,

regulations were adopted which enabled a 90-day moratorium for households and corporates in repaying liabilities under loans and financial leasing, and in July 2020, an additional moratorium from two to three months.

In December 2020, the NBS prescribed additional measures of rescheduling and refinancing the liabilities of debtors of banks and lessors who were particularly affected by the pandemic. Facilities were used by over 50,000 debtors, in the total amount of RSD 111 bn. Paradoxically, those very banks are disdained by some in Serbia. Starting from the economic situation in which some agricultural producers found themselves, as well as the strategic importance of agricultural production for citizens and businesses, in October 2022, farmers were enabled to reschedule their obligations with banks and lessors.

Support was provided to citizens in financial distress, so that banks can extend the term for the repayment of cash, consumer and similar loans and thus help them settle their debts more easily and overcome the challenges they face. Measures were adopted to ease the conditions for the repayment of housing loans to citizens, encouraging banks to extend the repayment term by an additional five years compared to the initially contracted term.

In the past 11 years, a positive trend has been recorded in all parameters of the insurance market, whereby capital, total assets, technical provisions, life and non-life insurance premiums have more than doubled, which also contributed to the generally positive trend of the premium per capita and its share in GDP.

Many activities were undertaken within the new function of protecting financial service consumers, which led to significant, direct positive material effects for users:

The process of pre-contractual informing of clients about financial services has been improved, with the aim of protecting them from risks that may arise due to higher interest rates and the exchange rate.

Based on the NBS decision from 2015, banks returned about RSD 6 bn to users in respect of interest they had charged through unilateral interest rate changes, the amount being equivalent to the annual profit of the banking sector – let me remind those who have forgotten.

Based on the NBS's opinion, starting from 2020/2021, at early loan repayment, banks are making a refund to consumers (reducing the debt balance for repayment), and this amounted to about EUR 5 mn per year.

The NBS actively monitored banks' behaviour in the market, so due to unfair practices, i. e. because of actions contrary to regulations, it prohibited some banks from charging a certain fee, which saved their consumers about EUR 1.8 mn per year.

In addition to all of the above, in the last four years the direct positive effect for consumers whose complaints were founded amounted to around RSD 105 mn, while the direct material effect for consumers arising from supervisory procedures came at RSD 247.4 mn.

The long-standing issue of charging for tourist arrangements according to banks' selling rates for foreign currency or foreign cash has also been resolved. From the end of July 2019, when advertising the price and charging for travel arrangements abroad, the official middle exchange rate of the dinar is applied.

The lowest buying rate, i.e. the highest selling rate that authorised exchange dealers and the public postal operator can apply when buying or selling foreign cash – euros, is limited to $\pm 1.25\%$ relative to the official middle exchange rate of the dinar against the euro that is valid on that day, and the exchange commission is limited to 1%.

The NBS takes into account, monitors and promotes the safe and stable operation of

six payment systems. Through our activities, we have ensured the reliability of the operation of all payment systems, as well as the security and efficiency of execution of payment transactions in those systems.

Over 386 million payments were made in payment systems operated by the NBS in 2023, which represents a 76% increase compared to the total number of transactions made in payment systems in 2013.

The NBS has introduced a modern legal framework for payment services that encourages innovation and is in line with the best European and global practice. Among the first in the world, the NBS instant payments system (IPS) was launched, enabling citizens and businesses to pay anywhere and anytime, transferring money to the recipient's account within just a few seconds:

Citizens and businesses are provided with an extremely simple model for paying monthly bills – in their mobile banking applications, they just need to scan the NBS IPS QR code (without entering data) on bills issued by utility and other service providers. It is possible to make instant payments at points-of-sale using different methods (IPS Show, IPS Scan).

Citizens are provided with the opportunity to simply, via mobile banking applications, make instant payments by entering only the mobile phone number of the registered payee or selecting it from the directory, without the need to remember templates, write down or enter the payee's account number.

In order to ensure financial stability in terms of the independence of its payment system, cost reduction and modernisation of the domestic payment card, the NBS worked strategically on developing its national card system – DinaCard.

With the introduction of numerous new services as competition to expensive foreign brands, the turnover with DinaCard cards is growing, and the average merchant fee was halved from 2.10% to only 1.05%. Based on that alone, over a period of four years only (from 2019 to 2023), savings of close to EUR 300 mn were recorded in the trade system, and this is also the cost that would have been passed on to customers through goods and services prices.

The project of introducing electronic bills of exchange was stepped up, so it is certain that they will be fully introduced in everyday business this year, significantly reducing the costs for citizens and businesses.

Numerous regulatory activities led to:

changing the bank resolution framework, which ensures the continuity of the bank's critical functions with full protection of depositors and the lowest cost for the government, which was demonstrated in practice in the case of Sberbank (based on the law that we passed in cooperation with the IMF in 2015);

creation of an ecosystem for innovative solutions in the digital assets market and its proper development (the Law on Digital Assets and the accompanying by-laws), with the appearance of the first entities licensed by the NBS to operate with virtual currencies in the domestic market in accordance with international standards;

modernisation of the provision of payment services in the country and abroad and greater competition in the payment services market (through the Law on Payment

Services, remote client identification via video calls); equalisation, reduction and greater transparency of costs in relation to household and corporate payments (the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions, Decision on the Payment Account with Basic Features); a certificate of regulatory equivalence with EU regulations in the field of banking. For those who do not know, since the formation of the Public Oversight Board, which is in charge of overseeing audit firms in Serbia, the NBS has made a key contribution to the development of this type of supervision through its participation, first as a member of the Board, and later by chairing it, bringing its experience as a supervisor of financial institutions.

What is particularly important for our meeting today is the fact that communication has become one of the important instruments of the NBS monetary policy, in the form of truthful, timely and transparent dissemination of information to the broader and expert public. Such manner of communication also significantly contributed to the anchoring of inflation expectations, and thus to the easing of inflationary pressures. One of the most important channels of communication between the NBS and the public is its website, which contains numerous services and daily information important for the economy and citizens in the fields of all the numerous competences of the NBS. The section "It's good to know" was added to the NBS website, where comprehensive responses to the media are published, which has significantly improved the accurate and complete transmission of information. In addition, as one of the producers of official statistics, the NBS significantly contributes to the further development of the work of the professional public and the improvement of standards through the publication of professional reports and analyses.

This is part of what we have worked on together – the NBS, banks, insurance companies in Serbia... You will speak on the panels about the balance sheet amounts, other indicators, such as capital adequacy, and you can also obtain information on our website. I felt the need to present these results as the ones we achieved together because I really feel uncomfortable when in front of foreign guests I need to encapsulate in one sentence that "the banking sector in Serbia is highly liquid, capitalised and stable". Behind that one sentence there is so much effort, so much daily work, and I can say without modesty that the NBS is not encouraged by others to lead development in the field of financial services, but it does so on its own, and in many segments ahead of the ECB practice. But I must say that our commercial banks, all twenty of them, are keeping up with our joint efforts to make the life of citizens in Serbia easier, better, more certain and as safe as possible.

And to conclude with that opening sentence – he who does good is expected to do even more good, and we will prove to you in 2024 that what we have done is a good basis for doing even better.

And finally, one nice exclusive piece of news – as the NBS has already been developing its nowcast model based on artificial intelligence for two years already, we have an inflation projection for March that shows that we will enter the target tolerance band even before envisaged. We said that it would be in the middle of the year, but I

expect that in May we will already be in the corridor of $3\pm 1.5\%$, which will enable all of us to have our results and our work truly valued and not be "taxed" by inflation, to which we did not contribute in any way.

Thank you all for your attention!