

## Jorgovanka Tabakovi: Navigating industrial policy

Opening speech by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at the presentation of the European Bank for Reconstruction and Development's Transition Report, Belgrade, 26 March 2025.

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Good day to you all!

Before we entered the conference room, we had a brief meeting, where we arrived at a general conclusion that we want to share with you: all the traditions that mark institutions and nations carry a special message. Our new friend Mr Cevat Aksoy, and my Jelena, who is in the audience and is from Kosovo and Metohija, particularly motivated us to talk about the customs from our regions. We connected this with the tradition of presenting the Transition Report at the National Bank of Serbia, which has continued since 2007, just as we continue all good traditions. Here, I see many dear faces that remind me that good people endure and that good customs should endure, and I am very happy that these good old customs are enriching people. Our cooperation with the European Bank for Reconstruction and Development continues as well.

You all know that the National Bank of Serbia is not the organiser of this event. It is the European Bank for Reconstruction and Development, which has been working on this Report for decades, and we are the hosts.

I would like to welcome the attending EBRD representatives – Mr Colangeli whom you all know very well and who will speak about the EBRD's activities in Serbia. I also welcome Mr Sanfey who is in charge of economic strategy and policies and will give us an overview of economic developments. With us here today is also Mr Aksoy, my dear Cevat, to whom I said that I decode people by their smile, and he has passed all qualifications and filters not only because of the exceptional biography he has managed to build in such a short time and at such a young age, but also because of the smile he has. A smile that speaks of knowledge and of a person, and I believe you will see this for yourselves too. He will present the findings of the Transition Report 2024–2025 themed: "Navigating industrial policy".

Dear colleagues,

First, I will give you the conclusion:

- industrial policies can be a powerful tool for navigating economic growth and development,
- which is why they must be carefully designed and implemented.

Once present in large and developed economies, industrial policies are today increasingly present in emerging economies as well. They change to reflect global challenges, such as the green and technological transition, and also to align with risks

associated with mounting geopolitical tensions, rising protectionism in the world and global market fragmentation. These are challenges that require a strategic restructuring of economies.

It is a fact that since the coronavirus pandemic, governments have actively intervened in economic flows. Many instruments are used, such as subsidies, tax breaks and public investments, focused on strategically important sectors, including renewable energy sources, digital technology and artificial intelligence.

Today, I will not talk about the fact that the so-called great powers are using a number of other instruments in their quest for technological and economic dominance. Instead, I shall present several facts about where Serbia is against the backdrop of new industrial policy and structural reforms.

I shall begin by acknowledging that Serbia's new industrial policy aims to encourage structural changes in industry, with an emphasis on the production of goods and services with added value, modernisation, integration into global value chains and developing a knowledge-based economy.

The policies pursued and implemented are in the function of that objective.

Serbia pays special attention to digitalisation and automatization, as well as investment in technological development, factors that are indeed important for increasing the productivity and competitiveness of our economy.

These objectives are part of the investment programme "Leap into the Future – Serbia Expo 2027", therefore we always underline this, and I shall say it here again, that the entire programme goes much beyond the scope of the international exhibition. Infrastructure projects within the programme will have direct and indirect positive effects on economic growth in the long term as well.

As one of its priorities, the government has set the construction of technological parks and start-up centres in all big regional centres, as well as business incubators connecting the academic and business communities, as an example of developing a knowledge-based economy.

Next, growing demand for energy implies an increase in production capacity and energy sector reform. Adjustments are also required in the domain of energy transition to climate neutrality and decarbonisation, which Serbia has already begun by adopting an integrated national energy and climate plan.

One of the topics in the Transition Report is regional inequalities and the importance of mitigating them. For Serbia, the report underlines that free economic zones are concentrated in less developed areas precisely with the aim of mitigating regional inequalities. By building good infrastructure, such as roads, railways, powerlines and internet, we made it possible to more easily channel investments and open factories in underdeveloped regions of Serbia. Such policy has helped reduce regional inequalities in income, as confirmed by data. For instance, in the last ten years, the number of employed persons in the regions of South and Eastern Serbia increased by 50,000, and in Central and Western Serbia by around 66,000.

Support for the operations of micro-, small and medium-sized enterprises remains a priority. In Serbia, the Ministry of Economy has numerous programmes aimed at fostering entrepreneurship, promoting innovation, and supporting exports. Also, the digitalisation of public administration is a significant step towards saving time and enhancing operational efficiency for enterprises.

However, I would like to reiterate that for the sustained growth and development of any economy and society, including ours, stability and predictability of doing business are crucial. A favourable business climate, alongside political, macroeconomic and financial stability, is an essential prerequisite for further investment growth and, consequently, the creation of new jobs.

In Serbia, we have created such an environment, as evidenced by the fact that in October last year, we officially gained an investment-grade credit rating! Congratulations to all!

This historic achievement is the result of the collaborative efforts of the President, the Government of the Republic of Serbia and the National Bank of Serbia, and it belongs to all our citizens. I will take this opportunity to share with you the information that J.P. Morgan has announced a rebalancing of the portfolio of bonds that make up their indices, which will be implemented on 31 March. It has been announced that our new 10.5Y dinar bonds will be included in the J.P. Morgan index from that date on, making them the fifth dinar-denominated security to be included in the index. We are proud of this because it means we haven't stopped and continue to move forward.

I would like to highlight that our GDP growth of 3.9% in 2024 was among the highest in Europe, driven by fixed investments and private consumption. The investment growth was supported by record corporate profitability, robust FDI inflows and government capital investment. The rise in private consumption was fuelled by further increases in employment and real disposable income of the population.

In 2024, the unemployment rate dropped to a historic low of 8.6%, accompanied by real wage growth of around 9%.

Year after year, Serbia has attracted increasing levels of FDI, primarily in the manufacturing sector, with a record inflow of EUR 5.2 billion last year.

Despite the challenging environment, we have maintained the relative stability of the exchange rate of the dinar against the euro, which remains one of the key pillars of overall stability in the country.

We have also ensured a record-high level of FX reserves, exceeding EUR 29 billion at the end of last year, which is 120% higher than pre-pandemic levels.

Our gold reserves have also reached record-high levels, with their value now more than seven times higher than in July 2012. This confirms the soundness of our decision to invest in gold, which traditionally serves as a safe-haven asset, particularly in times of uncertainty.

These are just some of the results we have achieved in an exceptionally challenging environment, demonstrating that Serbia has built strong buffers to defend against numerous external shocks, which are anything but few. While we cannot influence the policies and decisions of major global powers that affect us all, either directly or indirectly, we must collectively support and create opportunities for our development.

Ladies and gentlemen, esteemed colleagues,

Reducing inequality is not and cannot be merely a phrase that sounds good. Instead of the principle of we said, I advocate for and implement the principle of we did. Even when it is not our legal obligation, it is our moral duty. Personally, I believe that the best way to contribute to reducing all forms of inequality is by maintaining the stability of the country, which is not only a prerequisite for reducing inequality, but also for growth in general. Every potentially lost opportunity for growth means additional time to return to the growth trajectory we have established, with rates above 4%, and it also means moving further away from reducing regional inequalities, which is an important goal for policymakers.

Let us not forget that obtaining an investment-grade credit rating, which is an important element for further growth, is the result of sound political and economic decisions in the country, as the two are inseparable. The continuity of political stability is an essential prerequisite for the substantial and far-from-easy structural reforms that develop the society of which we are a part.

We must preserve stability in a competitive global environment rife with challenges, where changes in all areas of life and work are occurring faster than ever. Without stability, even the best industrial policy will not yield sustainable results!

Thank you for your attention and I apologise for speaking for so long. I rarely appear in public, but I never miss the Kopaonik Business Forum because of my friend Mr Vlahovi. I also rarely attend conferences, guided by relationships built over decades, just as I am here today thanks to the good relationships, though often challenging, with the European Bank for Reconstruction and Development. But in the end, we are always together and always victorious. Today, I shared the good news with Mr Colangeli that we gave a positive opinion yesterday for a joint project that will be implemented in Serbia.

Mr Colangeli, the floor is yours.