

Jorgovanka Tabakovi: Serbia upgraded the prudential framework for banks

Speech by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at the Annual Assembly of the Association of Serbian Banks, Belgrade, 9 June 2025.

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Ladies and gentlemen, dear Marina, esteemed fellow bankers,

The answer to the question of whether it is an advantage that we have known each other for so long and that I recognise the faces of executive board chairpersons and you recognise me from this side lies in the figures that speak to the financial system stability. I will dare to say that it is an advantage, as this continuity shows that we are doing our job well.

It is my pleasure to greet you also on behalf of the National Bank of Serbia. You have the privilege of having nearly the entire Executive Board of the National Bank of Serbia here with you. This year, I would like to use the opportunity to speak primarily about the tasks ahead of us, which have been set out in the legislation adopted by the National Assembly.

I am pleased that the Association is celebrating its centenary. This is a testament to quality. The fact that you have withstood various historical and economic turbulences and your hundred-year existence speak volumes. Anything that withstands the test of time is valuable. I wish you at least another hundred years.

It is a special pleasure to be here today at the Kolarac Endowment, a home of Serbia's cultural and intellectual tradition, symbolising enduring investment in knowledge, stability, and trust. Few can claim the virtue embodied by Mr Ilija Kolarac. His single greatest passion was trade, his only love was his wife Sinelija, and his mission was the scientific and cultural advancement of his people. May your greatest passion be banking, trust, not merely profit. Yes, profit too, but above all – trust. As for that one love only, that is a personal choice, but let our shared mission be a secure and modern banking sector.

Where do we stand globally compared to a year ago?

Inflation declined significantly, as did the policy rates, and the focus has shifted back to productivity growth. However, caution remains imperative because of the fragmentation into trade blocs and certain non-market measures!

In Serbia, we returned inflation within the target band, where it had been prior to the global escalation, and we expect it to be around the 3% target midpoint by year end.

Let me share the figure, which will be publicly released on 12 June: inflation is now at 3.8%, but even more importantly, core inflation fell from 5% to 4.6%, and we expect this downward trend to continue.

Let me point out that, for us, the relative stability of the dinar exchange rate against the euro has no alternative. I believe that this kind of predictability is extremely important both for the financial and the real sector – even in the short term, and still more so in the long term. Though relatively stable, currency alone is not enough for prosperity, while an unstable currency is enough to trigger a crisis.

Just between us, I must say – and this is not a complaint, quite the contrary, that rating agencies don't even ask us about the banking sector when we meet. Their assessment has remained unchanged for years. I quote Standard & Poor's: "We assess that risks to financial stability in Serbia will remain low, supported by a well-capitalised, profitable, and liquid banking system funded by domestic deposits. The NPL ratio remained at a historic low despite global economic challenges." End of quote. Today, this important indicator of bank asset quality stands at 2.3%!

As easy as it sounds to utter this extended sentence, only you and we at the National Bank of Serbia know how difficult it is to achieve and maintain such a result. Generally and individually, banks in Serbia are well-capitalised, profitable, and hold high levels of liquid assets:

- the capital adequacy ratio at the system level is 21%,
- the liquidity coverage ratio is 190%,
- the net stable funding ratio is 178%,
- lending growth has been driven both by household and corporate lending and is largely funded by deposits.

Deposit levels and deposit growth are indicators of confidence in the system. This is also confirmed by dinar savings, which stand at nearly RSD 194 bn, up by over 1% this year and 11 times higher than in 2012. FX household savings increased by 2% this year, reaching EUR 15.7 bn, double the 2012 level.

These achievements are shared, as we couldn't have accomplished them without the commercial banks, and you couldn't have done it without your regulatory authority. In December, at the second banking summit, I wished our fellow bankers from the region to have the kind of cooperation between the banking sector and the regulatory /supervisory authorities that we have in Serbia. In other words, we have an open dialogue on everything, on development potential and the challenges we jointly address. This model of cooperation includes argument exchange, and it can exist and endure only as such. The principle of "my way or no way", whether from individuals, industries or lobbies, cannot be a basis for durability and I am proud that we don't foster it. The National Bank of Serbia is here to ensure a sound regulatory framework and to support a stable business environment, given that the financial and real sectors can both thrive only in good synergy.

This year we further improved the regulatory framework. By adopting the Law on Amendments and Supplements to the Law on Banks, as the umbrella law for bank operations, we enhanced the effectiveness and efficiency of the operational, supervisory and bank resolution frameworks. We designed legislative arrangements and novel solutions:

- drawing on the experience gained from the control of the implementation of the law, as well as the legal interpretation needs identified so far, and
- using information obtained from monitoring domestic financial sector trends, as well as international standards and trends.
- Thus, we further aligned our regulatory and supervisory framework for banks with EU regulations.

We improved the bank resolution framework, including by establishing the Bank Resolution Fund, which will be managed by the National Bank of Serbia. By doing so, we ensured further harmonisation with the relevant directive on bank recovery and resolution.

By legally recognising the key functions and their holders in banks, we underscored the significance of corporate governance in banks.

- There is greater focus on internal controls system.
- This also includes the introduction of an additional requirement for members of bank managing boards, whereby the ability of each member to dedicate sufficient time to performing those duties is taken into account during the appointment process.
- In addition, we have further specified the requirements for membership in the management bodies, as well as the scope of responsibilities of those bodies.

Based on the needs identified in practice and taking into account the solutions of the key EU regulations, we upgraded the prudential framework for banks. We have prescribed additional obligations for banks and expanded the supervisory powers and responsibilities of the National Bank of Serbia. We have also defined the supervisory review process, carried out by the National Bank, in principle, both substantively and procedurally, in line with existing practices and the fundamental principles of European guidelines and regulations.

We also made important changes regarding AML/CFT risk management, thereby increasing legal certainty in executing transactions. This further contributes to the positive assessment of the Serbian AML/CFT system in the sixth round of evaluation conducted by the Council of Europe's Committee - MONEYVAL.

Another key piece of legislation we adopted is the Law on the Protection of Financial Service Consumers. Based on experience and practice, the drafting began in April last year, and the entire legislative process was fully transparent and open to both banks and citizens. However, public attention largely focused on interest rate caps. Although the products that prompted the introduction of interest rate caps in the new EU Consumer Credit Directive were not widespread in Serbia, our goal is clear – to prevent a sharp increase in market interest rates and to promote fixed-rate loans, thereby protecting the system from systemic risks.

- In April, the weighted average interest rate on FX-indexed housing loans stood at 4.73%, 27 bp below the cap, while the weighted average rate on existing loans was 4.92%.

- Of all newly approved housing loans between the introduction of the cap in 2023 and end-December 2024, as much as 45.24% were contracted at a fixed rate, which is a huge improvement.
- These data show that we achieved our objectives.

However, this law should not be reduced solely to interest rate caps. It is much more than that.

The purpose of the Law is to ensure that the interest of financial service consumers is fully respected from the very start – not only during the contracting of services, including advertising and pre-contractual information, but also in the design of such products and throughout contract performance.

To that end, we introduced new obligations and instruments, among which I point out the following:

1. Responsible lending implies that a bank assesses the consumer's creditworthiness with a focus on the consumer and their ability to repay the loan without significant difficulty, rather than solely assessing the credit risk in terms of prudential regulations. In cases where, due to objective reasons, the consumer experiences difficulty, it is the bank's responsibility to attempt to restore regular payment by offering appropriate relief measures, which is also in the bank's long-term interest.
2. I also believe that practice will fully confirm the soundness of our decision regarding the obligation of banks to offer consumers the option to either sell the property themselves or to transfer ownership to the bank, following the termination of a housing loan agreement and prior to the sale of the property.
3. I would also highlight the introduction of the advisory services framework and the regulation on how such services are to be provided, which should help consumers select the service that best suits their needs and offers value for money. At the same time, we took care to prevent conflicts of interest between incentives to sell banking services and more or less "independent advisory service" that serves the consumer's best interest. This requires that bank branches employ staff with appropriate expertise and professional integrity to carry out these tasks.
4. Digitalisation is necessary, but personal contact and advice are irreplaceable, and I am sure that cost rationalisation in this area will not deliver the desired results. Based on experiences most of us had, I publicly state this opinion – not just as an opinion, but as a shared responsibility. Call centres, machines, and unresolved problems – I wish you could be on the other side and feel what that means.

Finally, we will now be able to oversee the application of all this much more effectively through covert supervision or mystery shopping, which I believe will help banks identify their deficiencies more clearly and address them more efficiently.

I am one of the few witnesses who knows how, despite your awareness of all the issues and operations of the banks you manage, there are still hidden, shadowed corners of business that you would surely resolve quickly and efficiently – if only you knew they existed. In many cases, as I have seen for myself, you are unaware of certain problems

until the regulatory authority -the National Bank of Serbia – quietly, discreetly, and with good intentions, brings them to your attention. We will continue that practice, but this example of covert supervision or mystery shopping will also be a novel approach.

I would like to share with you the pleasure of reaching a stage where colleagues from EU countries are asking us to provide them with some of our positions, as well as to share our experience in implementing transposed EU regulations.

I now turn to the most current topic. Let me remind you that 22 May this year is a significant date not only for the National Bank of Serbia and the financial institutions of our country, but also for all our citizens and economic entities. On that day, the Republic of Serbia became part of the Single Euro Payments Area (SEPA). Although we were officially admitted on that day, this event was preceded by numerous activities undertaken by the National Bank of Serbia, in cooperation with the Ministry of Finance and other institutions in our country, aimed at fully aligning the national legal framework and standards with those of the EU.

According to the European Payments Council calendar, payment service providers from Serbia will be able to submit documentation for joining the SEPA payment schemes starting from November this year, while May 2026 is set as the earliest operational readiness date, i.e. date from which payments within these schemes can begin to be executed.

Why is this important? Joining SEPA, as a formal legal prerequisite for further improving cross-border payments with the EU and the region, enables us to move to the second, much more significant phase of this process – the technical integration of the domestic payment infrastructure with the European one. Without this, joining SEPA would merely mean replacing one set of rules with another, without any substantial benefits.

The Republic of Serbia, as the first country in the region with a state-of-the-art instant payment system – the NBS IPS system – has a significant advantage over neighbouring countries, since we have a system that has been operating for nearly seven years using the same standards, i.e. the same message format, as the European TIPS system. Our goal is to ensure that same level of quality in payments with EU countries and the region, which is why we are working intensively with colleagues from the European Central Bank on developing a model for connecting the NBS IPS system to the TIPS. We are particularly focused on ensuring that the integration is carried out with minimal costs and only minor changes to the information systems of our payment service providers.

Although it goes without saying, I will reiterate that Serbia will do everything necessary to ensure that our citizens and businesses truly experience the real benefits of joining SEPA starting from May next year – namely, cheaper and faster international payments and easier access to the EU market.

Dear colleagues,

You list as priorities in your work for 2025 the continued positioning of the Association of Serbian Banks as an institution with a tradition worthy of respect – one that, by keeping pace with market trends, protects the interests of banks and the banking sector, but also of the broader community and all citizens.

I am not someone who divides people into winners and losers, and I believe that we can all be winners if we cooperate and always keep in mind why we work and exist – and that is for our citizens. You have put this nicely by saying the broader social community and all citizens. This 'all' is something that should guide us because we have the ability to act in the interest of all. Our legacy must be an efficient and secure banking system that serves all clients.

Our system is measured not only by indicators of stability but also by the level of trust that citizens have in our institutions. For this reason, I will conclude my welcoming address with the words of one of the founders of modern central banking: "*The core tenet of a sound monetary system is trust, not profit.*" And if you allow me to take a few more minutes to share my perspective on the times we are living in – I made a brief note on 5 June that I would like to share with you.

*These days
We owe a debt to future days
and souls unborn
Even if it means a sacrifice
that won't be recognised,
acknowledged or cared for
For it is only when good times pass
heavy days come
and people have none to blame
that they will remember that someone
once knew how to create much from little
because he respected even those
who tripped him up
and those who envied him
They will recall the one who dared to stand
to guard his roots and take the future in his hands
For he believed in humankind.
The rage will pass, the children will grow
The immature will learn what wise men know
Some will always blame others
for being somebody's pawns
for not realising in time
that they lost much and gained little
and that time – once gone – can't be reclaimed.*

From Marina's presentation, I will highlight the need to make up for what was lost in the first part of this year, and through work, as we have done so far, to recover both lost time and the funds that should have arrived as foreign direct investments, as well as growth – not only in the banking sector but also in other sectors where growth has not been satisfactory. However, I hope that together we will achieve it, because I will repeat

what I said at the GDP Council meeting – let no one say that there is a lack of liquidity, because yes, we do have a bank-centric system, but also enough liquidity and enough willingness to invest in every good project. For that, I sincerely thank you.