

Jorgovanka Tabakovi: Full support for a stable macroeconomic environment

Address by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at the conference "Investments in focus: global trends, local responses", organised by the Foreign Investors Council and EBRD, Belgrade, 10 June 2025.

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Dear colleagues, esteemed hosts, Mr Colangeli, Mr Petrovi,

Many times in life, everything seemed almost hopeless – bombing, COVID, many smaller or more personal crises – but life has always inevitably returned to normal. Never the same, but still normal. What is destroyed is rebuilt, what is broken is fixed, but only people remain permanently damaged by the behaviours they have experienced, and they remain outside of the normality that implies living in accordance with natural laws and cycles and in accordance with divine laws. And that is the greatest loss for humanity, but also for each individual. Especially for those for whom unnatural states offer an illusion of fulfilment - an illusion, and one of a limited duration. Anyone who doesn't understand how illusory those feelings are – I reminded my fellow bankers yesterday - should read the book "The Circulation of Elites" by Vilfredo Pareto or Peter Turchin's book on the hyperproduction of elites, of which there are more and more, while the seats in parliament, leadership positions in banks, and other institutions are limited in number. There is no room for everyone who believes they deserve a place in the elite.

And now, a response to my friend and colleague, Mr Zoran Petrovi:

*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.*

We won't be able to recover what was missed in the first part of the year, but we will do our best to make up for everything that was lost.

And before I move on to the topic of the state's relationship with foreign investors – because of whom I put all other obligations aside to be here with you, just as I stand with you through every challenge you face – I would like to share some good news with you. News that illustrates how someone can always create something great from something small and leave it as a gift to the future. As of today, Serbia will have over 50 tonnes of gold in its FX reserves – and those who understand economics know that even the great Yugoslavia, since World War II, never had that much. This only illustrates what can be achieved with skill, knowledge and ability, as well as the determination not to let others do our job worse than us.

Esteemed colleagues, honoured hosts,

Let us remind ourselves of Adam Smith, and what he says in "The Wealth of Nations":

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest", said Adam Smith. Everyone has their own interest and views movements from the perspective of their own interest, while the state is the one that considers the common good and works in the interest of all. When we go to the butcher, the baker, or anywhere else, we don't address the humanity of the butcher or the baker. We don't even appeal to their vanity, and we never talk to them about our needs. Instead, we speak about their advantages. For the most sustainable form of cooperation is one in which each side sees some benefit for themselves. This is the cooperation that endures. This does not mean that altruism does not exist, but it is most important to rely on predictable interests, rather than on good will.

When we apply this in the context of investments and policies, while taking into account the specificities of the time in which we operate, contributing to investment growth requires that we first question ourselves on a personal level, and then collectively. If we simply wait for others to provide us with ideal conditions, without examining what we can do ourselves, then we are already set up for failure.

In Serbia, we have ensured a favourable business environment, and it is up to the economy to take advantage of it – which it is doing successfully. Of course, when the period of the pandemic is analysed from a certain time distance, there will be individuals who will comment on what could have been done differently. Regardless of professional integrity, when evaluating any decision each of us must consider the context of the time and circumstances in which it was made. And that means we should draw lessons from everything that has happened and is happening, and never have a one-sided perspective. If, under difficult geoeconomic conditions, you manage to resolve inflation and ensure high growth in GDP, wages, and profits, while preserving fiscal parameters and FX reserves – I'd like to see the person who would say that Serbia doesn't have good policies!

What are the conditions?

- We are working in a time of sudden and significant changes across all areas.
- We are living in a time of growing divisions in the world – not only between economies but also within national economies – with increasingly pronounced social polarisation and a deepening gap between the rich and the poor.
- We are making decisions in a period marked by forced measures, as a response to the measures of others, which were also imposed by necessity.
- We are entering a new era in which the common denominator for all developments is uncertainty, and the source of success lies in creativity of approach!

What should the responses be – global and local?

- Cooperation instead of division;
- Proactive rather than reactive policy;
- Respect for the short term, but without losing focus on the long term and on sustainable growth;
- The common good above personal interest!

And let us not forget that, as important as it is to make a good decision, it is equally important to avoid making a bad one! And it is well known that investments are never bad; only our decisions can be such.

Therefore, I will now talk about the investment environment in Serbia, global trends in investing, and our responses.

Ladies and gentlemen,

I assume that the first thing that comes to mind when someone mentions the National Bank of Serbia is not investment, although there is a direct and strong connection and interdependence. If we consider that a stable and predictable economic environment is the first pillar of sustainable investment, then the association is clear!

Similarly, I believe that the relatively stable exchange rate of the dinar to the euro is the first association with the National Bank of Serbia, both for citizens and for the economy! And that stability, which makes decision-making and long-term project planning easier, is an important pillar of the investment environment.

I also believe that the best answer to the question of whether we have created a favourable investment environment is provided by the data.

- Fixed investment made up around 16% of GDP in 2014, while government investment stood at 2.2% of GDP. After ten years, fixed investment came to account for over 24% of GDP, and government investment exceeded 7.3% of GDP.
- The implementation of investment projects has not only significantly improved the overall infrastructure, it has also had a multiplier effect on new investments.
- The number of formally employed persons increased by almost 400 thousand and it is much easier to get a job today.

- The unemployment rate, which used to exceed 20%, dropped to 8.6%, and youth unemployment rate was cut by more than a half.
- The average GDP growth rate of Serbia over the past seven years of nearly 4%, and we are talking about real growth, speaks volumes about the environment we have created.
- Even under the conditions of extremely challenging global circumstances and the slow recovery of external demand, our growth of 3.9% last year was one of the highest in Europe.

A job well done is always the best marketing, and so Serbia's image in the world has changed significantly.

- Crucially, last year we obtained the status of an investment-grade country, a status we have long deserved.
- And the fact that investors have long rated us as an investment-grade country is evident from the data, which shows that over the past seven years, an average of around EUR 4 bn in foreign direct investments have been invested in Serbia annually, or 6.8% of GDP on average. A record was set last year with EUR 5.2 bn.
- Around 55% of these inflows go to export-oriented sectors, thus contributing to their growth even under conditions of anaemic external demand.
- The fact that around 80% of foreign direct investments consist of investments in equity capital and reinvested earnings shows that investors in Serbia are expanding existing projects and launching new ones, despite the challenges in their home markets. These investments simultaneously bring new technology and more modern equipment, as well as new knowledge, which has also enabled the growth of overall factor productivity.

And when individuals – because they truly are few – ask us whether we are able to maintain stability without depleting FX reserves, and how long we can defend the exchange rate, I respond with a question: And did anyone believe that Serbia, during fiscal consolidation, when everyone predicted a decline in GDP, would achieve growth? We achieved growth, just as during the pandemic we experienced the smallest decline in GDP compared to all other economies. These are the results of well-calibrated policies and the recognition of opportunities, which are based on the diversification of markets, sources of financing, and projects.

Moreover, it is a fact that no one can dispute, that our FX reserves are at an exceptionally high level, measured by all criteria, and they cover nearly seven months of goods and services imports! In the reports of all rating agencies, one of the key elements that positively distinguishes us from countries with comparable credit ratings is precisely the high level of FX reserves, which we have built over the past more than ten years.

No less important – we have become part of SEPA, for which we have long been prepared, but now we have the opportunity to make payment transactions with EU countries as well more efficient and cheaper. I say payment transactions with EU as well because we have long introduced in the domestic payments, which account for the majority of daily payments by citizens and businesses, the most modern services based on transactions that are completed in just 1.2 seconds. We have also developed a modern DOMESTIC payment card, taking care about the independence and reliability

of the national payment system. And what is the EU doing now? It is developing its own card system, not wanting to depend on other systems and their operational stability.

For our DinaCard, we have carefully selected partners, guided by the goal of international functionality, but also full security and independence of our system. We have achieved this through a partnership with Discover, which will positively impact the economy of Serbia, primarily merchants, who will now be able to accept payments by these cards, issued anywhere in the world.

Ladies and gentlemen,

I said that we follow all relevant global trends, including global investment trends. We analyse where global capital is going today as the world rapidly changes under the influence of technological transformation, energy transition, and geopolitical tensions, because investments have never been evenly distributed across regions, sectors, or asset types. We are in a phase of structural capital reallocation on a global level.

One trend that stands out is digital transformation and the overwhelming allocation of the majority of capital towards artificial intelligence, cloud technologies, big data, cybersecurity, and fintech. These are no longer sectors of the future; they are the sectors of today, and here, funds from the United States and China dominate. In Serbia as well, the IT sector is experiencing strong growth, as seen in the export value of EUR 4.13 bn last year, which is ten times higher compared to ten years ago, when it was only around EUR 400 mn. The fact that its share in total service exports has increased from around 12% to nearly 29% confirms that this is substantial growth.

Another direction is green and sustainable investment, focusing on renewable energy sources such as solar, wind, and hydrogen, with funds also turning towards regenerative agriculture. Serbia's potential in this area is significant, and investments are increasingly following environmental, social, and governance standards.

The third trend is regionalisation, or investing closer to home markets (nearshoring), as a result of supply chain disruptions caused by the outbreak of the pandemic and the energy crisis. Shifting production closer to the European market opens up opportunities for countries like Serbia, which has an excellent geographic location, much like our DinaCard, which is expanding both East and West. Many companies are increasingly choosing Serbia as a manufacturing hub precisely for this reason, but especially because of the skilled workforce and free trade agreements with many countries, in whose conclusion a great deal of effort has been invested.

The fourth trend is infrastructure projects and the return of the state as an investor, including investments in infrastructure: roads, railway, energy, telecommunications, and digital infrastructure... Serbia stands out in this regard with strong investments in all parts of the country. I would like to remind you, Mr Colangeli, of the presentation of the EBRD's Transition Report, which dealt with navigating industrial policy, where you stated that by establishing good infrastructure, such as roads, railway, electricity, and the internet, Serbia facilitated investment and the opening of factories in its less developed regions. Such a policy has contributed to reducing regional income inequality, which is a goal as important as the quality of investments.

However, one of the important questions is: what next?

When it comes to the National Bank of Serbia, investors, as well as all agents in the country's economic system, can count on our full support for a stable macroeconomic environment.

- According to our May projection, inflation will continue to slow down and by the end of the year approach the target midpoint of 3% – the level around which it will hover until the end of the projection horizon. The data for May inflation, according to our now-cast model, support such an outcome, and I believe the data to be released on Thursday will confirm this.
- In June last year, we began to ease monetary policy at a cautious pace, assessing that it should remain restrictive for some time yet.
- Caution is important always, but even more so today when we are witnessing pronounced volatility in global commodity and financial markets. In such circumstances, it is expected that global inflation will decline somewhat more slowly, and that global economic growth will be lower due to disruptions in trade flows and production chains, as well as weaknesses in key growth drivers such as foreign trade, investments, and consumption.
- In Serbia, past monetary policy easing has fully passed through to interest rates in the money market and dinar lending market, while the easing of the European Central Bank's monetary policy has affected the price of euro borrowing. With the growth in credit demand due to the increase in disposable income, we have a y-o-y growth in credit activity of 10.5% in April, which is also one of the channels supporting investments.

Ladies and gentlemen, Mr Colangeli, Mr Petrovi,

I will reiterate that a job well-done is the best marketing, and also the best indicator as to how we will work in the future.

I will repeat today that for the continued growth and development of every economy and society, including ours, stability and business certainty are key. Therefore, we must preserve stability in a challenging and competitive global environment, where changes are happening faster than ever in all areas of life and work! Without it, even the best-designed investment policies will not yield sustainable results!

On behalf of the National Bank of Serbia, I can promise:

- that relative exchange rate stability has no alternative,
- that we will support every investment that is in the interest of Serbia and our citizens.

We carefully follow all the creativity of the new era and respond cautiously – so that no measure becomes a target for us.

And let us never forget those who laid the foundations of the market economy, as I began with Adam Smith: The baker does not bake bread because he wants to feed us, but because he wants to make a profit. May our cooperation continue as honestly and openly as that.

I thank you and wish you a successful conference!