Jorgovanka Tabakovi: Speech - IMF's presentation of the Regional Economic Outlook for Europe

Speech by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at the IMF's presentation of the Regional Economic Outlook for Europe, Belgrade, 6 November 2025.

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A warm welcome to you, Stefan. As for Lev, I can't really say "welcome," since he is one of our own here – it's rather we who should feel welcomed at this presentation.

But before addressing you, I must say there's an old saying: *"Fortune favours the bold."* Isn't that right? Even the IMF deals with the question of whether good luck or good policies lie behind success in difficult circumstances. And I will say this – we are fortunate, but we have earned that fortune through courage – the courage to persevere in the most challenging times, supported by the IMF, represented in Serbia by Mr Lev Ratnovski and Ms Annette Kyobe, Head of Mission, with her team.

Had we chosen them ourselves, we could not have selected more dedicated, open and well-intentioned partners than the ones we have found in them.

It is with special pleasure that I first greet, of course, those who are always here – my colleagues and associates, our bankers, whose supervisors we are – though I always prefer to say *partners*, just as the IMF is our partner – and all others who have deemed it important to be here with us today.

Exactly eleven months ago, Mr Weber presented the findings of last year's IMF's Regional Economic Outlook for Europe at the National Bank of Serbia.

Today, I would like to extend a special welcome to Mr Stephan Danninger, Assistant Director of the European Department at the International Monetary Fund, to Serbia and the National Bank of Serbia. I would also like to greet and thank Mr Lev Ratnovski, who is once again serving as a moderator today, but whose much more important role for us is that of the Resident Representative of the International Monetary Fund in Serbia.

In this year's Report, the focus is on the challenges and growth prospects in Europe amid rising trade tensions, protectionism and increased government spending. In an environment marked by geopolitical tensions, fiscal risks, and unfavourable demographic trends, trade policies and structural reforms stand out as key instruments for accelerating recovery and fostering long-term growth.

The Reports also offers possible courses of action for policymakers, providing a response to the strategic question: how to find a sustainable policy mix that will curb inflation, preserve financial stability, and open new opportunities for international trade and development?

The good news is that analyses by the International Monetary Fund show that growth prospects in the European Union countries are favourable. HOWEVER, there are also important preconditions that must be met in order to turn this potential into concrete results.

For these favourable prospects to be properly utilised, policymakers must be committed to a strategic approach based on at least three pillars - more efficient use of resources, deepening of the single market, and alignment of national and European reforms.

What is one of the recommendations for policymakers? The continuation of an open trade policy, accompanied by the strengthening of trade agreements and the deepening of the single market, along with support measures that should be temporary and targeted.

- In that sense, the IMF's analysis is important, as it shows that reducing internal trade barriers by 1.25 percentage points or external trade barriers by 3.5 percentage points could fully offset the effect of US tariffs on European Union exports.

One of the recommendations is also the necessity of creating fiscal and external buffers, thereby strengthening the resilience of economies. For that reason, I will refer to your findings presented in the October 2025 World Economic Outlook, in the chapter titled – Emerging Market Resilience: Good Luck or Good Policies? The conclusion is as expected. Good policies, strengthened monetary, fiscal and macroprudential frameworks in emerging markets have played a key role during periods of global shocks, contributing to higher growth and lower inflation. Compared to the period before the global financial crisis, progress in these areas has contributed on average to 0.5 percentage points higher economic growth and 0.6 percentage points lower inflation during recent global shocks.

The analysis also includes Serbia, for which the same assessment applies, as recently concluded by the IMF team for Serbia. I quote.

"Serbia's macroeconomic resilience positions the economy well for a rebound of growth once temporary shocks subside. The external and internal risks are cushioned by significant fiscal and external buffers, including high FX reserves and government deposits, a resilient banking sector, and moderate public debt. Monetary policy is appropriate and continues to support Serbia's macroeconomic stability." I have nothing to add to that. In Serbia, FX reserves have been on an upward trajectory even since the pandemic period, while public debt has been on a downward path.

Likewise, one of the results of the IMF's analyses indicates that, without structural reforms, fiscal consolidation and sustainable growth, Europe faces a rising public debt which could, on average, approach 130% of GDP by 2040, and in some countries even significantly exceed that level. Therefore, in the next few minutes I will highlight the importance of fiscal consolidation and of coordination between fiscal and monetary policies, using Serbia as an example.

- The starting point for sound public finances and a sustainable level and trajectory of public debt was the fiscal consolidation carried out between 2015 and 2017 – a painful and unpopular, but necessary reform to address previously accumulated structural imbalances.

- Although it is uncommon for a country undergoing fiscal consolidation to record positive growth rates, Serbia achieved cumulative real GDP growth of 7% over that period, with positive growth rates in each year, which is not customary.
- Monetary policy made a significant contribution to that outcome, as we had previously resolved the issue of inherited volatile and high inflation and a high key policy rate, which in some months reached even 18%.
- Specifically, we reduced inflation in Serbia from 12.2% at the end of 2012 to 2.2% in October 2013 - in less than a year.
- While in the period 2009–2013 average inflation in Serbia was 4.9 pp higher than in Central European countries, since the end of 2013 average inflation in Serbia and Central Europe has been at almost the same level.
- Before the start of consolidation, we lowered the key policy rate by 325 bp, and during the consolidation period by a further 450 bp – a total reduction of 775 bp.
- We also ensured and maintained a relatively stable dinar-euro exchange rate, as well as record-high FX reserves. We significantly increased our gold holdings, which now account for around 20% of total FX reserves. The banking sector is stable and well-capitalised, with NPLs at a historic low.
- All of this enabled us to face the crisis caused by the COVID-19 pandemic in a much stronger macroeconomic position than during the previous global economic crisis of 2008. Within the region of Central and South-Eastern Europe, Serbia recorded one of the most favourable public debt trajectories, reducing it to below 43.2% of GDP. The structure of debt has improved significantly in all segments – from currency composition and interest rate structure to more favourable financing conditions and the maturity structure of liabilities. Equally important is the medium-term fiscal framework, which ensures the continued decline of the public debt-to-GDP ratio, while allowing the government to maintain a relatively high level of capital investment that enhances the potential output of Serbia's economy.
- The domestic economy has demonstrated strong resilience, particularly in the sector connected with the automobile industry, while goods exports have grown thanks to production and geographical diversification and export-oriented investments. Alongside rising corporate profitability, the labour market has also improved.

Ladies and gentlemen,

Whether certain events are truly coincidences – I do not know. But I do know that we have learned a difficult lesson: we have a duty to defend ourselves against all "coincidences" by building buffers and maintaining a long-term perspective.

Good policy coordination is a key pillar of sustainable results. Therefore, it is essential that we continue to assess our decisions through the lens of their impact on every segment of the economic ecosystem and mosaic, i.e. the impact on economic growth, employment, wages, inflation, and citizens' purchasing power.

Thank you for your attention, and I now give the floor to Mr Danninger.