

Jorgovanka Tabakovi: Stability of the banking sector in Serbia preserved and additionally strengthened

Introductory speech by Dr Jorgovanka Tabakovi, Governor of the National Bank of Serbia, at the Annual Assembly of the Association of Serbian Banks, Belgrade, 18 June 2024.

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Ladies and gentlemen, dear Marina, esteemed fellow bankers,

It gives me great pleasure to welcome you to the annual session of the Assembly of the Association of Serbian Banks, a business association that has been contributing to the development of the banking sector and the modernisation of financial services in Serbia for more than 100 years.

Through solid partnership and cooperation, the National Bank of Serbia and the Association of Serbian Banks promote transparency in work and coordination of activities, all with a view to achieving one and the same goal – preserving the stability of the banking sector of Serbia and strengthening its resilience to challenges.

The stability of the financial system is a shield against economic disruptions and changes, as well as a vital link on the path to sustainable economic development. By strengthening the stability of the financial sector, we lay the groundwork for long-term economic growth and ensure a better standard for all our citizens. Delivering financial stability is a continuous process. We build trust, as the key ingredient in this context, through strategic risk management and a proactive regulatory approach.

For a number of years already, the National Bank of Serbia has succeeded in ensuring price and financial stability by taking well-timed and appropriate decisions. We used the period of low and stable inflation to strengthen financial stability by bringing all parameters to the levels that are well above the regulatory minimums. The stability of the financial system was also confirmed during the last four years marked by an unprecedented multidimensional crisis, which shows the importance of a coordinated monetary and macroprudential policy.

Thanks to the flexibility of our monetary framework, we tightened monetary conditions gradually and measuredly, without endangering the stability of the financial system at any point. We managed to return inflation on a downward path and in May, in accordance with our projections, it returned within the target band, to 4.5%. With this in mind, the Executive Board assessed that the conditions have been created for the start of monetary policy easing through the reduction of the key policy rate, which was trimmed after almost a year by 25 bp, to the level of 6.25%. We expect that inflation will continue to slow until the end of the year and that it will move around the target midpoint in the year that follows.

The stability of the exchange rate has become a new normal for Serbia. Before August 2012, stronger volatility was allowed, which led to the strengthening of inflationary pressures, business uncertainty, high exchange rate differences and the increase in

non-performing loans, whereas from that time on, one of the basic characteristics of the National Bank of Serbia and the overall financial system is the relative stability of the exchange rate of the dinar against the euro. Record high FX reserves of over EUR 25 bn at end-May are an important factor of our country's stronger resilience to any potential shock from the international environment.

Economic activity stepped up to 4.7% y-o-y in Q1. We expect economic growth to reach 3.5% in 2024 overall, and to accelerate to 4–5% from 2025, supported by investments within the "Leap into the future – Serbia 2027" programme, subsiding global inflationary pressures and more favourable financial conditions. Owing to the generally good economic situation in the country, a significant number of banks expect loans to the corporate and household sectors to grow by over 5% this year and next, as reported in the latest bank lending survey. The trust we have built is best confirmed by the growth in savings and their record levels. Namely, dinar savings rose from under RSD 18 bn at end-2012 to over RSD 159 bn now and FX savings from EUR 8.3 bn to EUR 14.9 bn.

All data show that we managed to preserve and additionally strengthen the stability of the banking sector despite the numerous challenges and risks which Serbia, as a small and open economy, was exposed to in the prior period. This was also recognised by international investors and rating agencies. In April 2024, Standard & Poor's upgraded Serbia's outlook from stable to positive, placing our country at a half a step away from investment grade.

The National Bank of Serbia's unwavering commitment and a proactive approach, along with the constructive cooperation of the banking sector, have created the regulatory prerequisites for the approval of numerous debt repayment facilities to businesses and households, facilitated natural persons' access to bank financing and improved the protection of the interests of financial services consumers. And why do I always say that our successes are shared – because we would not be able to do it without commercial banks.

Therefore, as a result of all the activities undertaken, the banking sector in the Republic of Serbia has remained stable, highly liquid and profitable. All relevant performance indicators are significantly above the prescribed minimum values.

The Serbian financial system is extremely bank-centric: commercial banks are the dominant market participants with a share of around 90%. Net assets of the banking sector are continuously growing and reached RSD 6,050 bn (EUR 51.7 bn), accounting for 74% of GDP in April 2024. At end-March 2024, the capital adequacy ratio at the level of the banking sector was almost 22%, with a favourable capital structure. The liquidity of the banking sector is also at a very high level, and the values of all relevant indicators are constantly considerably above the prescribed minimum values. I will also mention that from June 2024, banks in Serbia are obliged to calculate and maintain the net stable funding ratio (NSFR according to Basel 3 standards). In addition to harmonising domestic regulations with those of the EU, the goal of introducing this indicator is to strengthen the structural liquidity of banks.

However, all the while we were thinking about our citizens and the effect of higher interest rates on their living standards. We adopted the Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans. By adopting this

temporary measure, the National Bank of Serbia once again showed responsibility and acted preventively in order to maintain the stability of the financial system in the uncertain circumstances of fluctuating interest rates, instead of waiting for the materialisation of negative effects and the build-up of non-performing loans, when any response would be forced and of limited scope. The fact that the share of NPLs in the segment of housing loans did not increase, but rather decreased since the introduction of the measure, amounting to 1.6% in April, shows that the measure was more than effective.

It is important to point out in this context that thanks to the banks' active efforts to manage NPLs, strategically supported by the Serbian central bank and the government, we managed to keep the share of NPLs at a historical low.

Also, I would like to use this opportunity to emphasise that the first issue of long-term MREL bonds was realised, this being the first issue of MREL bonds in the Western Balkans. The MREL bonds were issued in dinars, which additionally contributes to the achievement of the objectives set by the Strategy of Dinarisation of the Serbian Financial System. Furthermore, these bonds will be traded on the Belgrade Stock Exchange, which will support the development of the domestic capital market.

The National Bank of Serbia keeps a close eye on developments in the local and international markets, continues to improve the regulatory framework for banks with a view to creating the most favourable conditions, and stands ready to act preventively to minimise any risks to financial stability.

Through joint efforts, we have established a regulatory framework for banks equivalent to that applied in the EU. The National Bank of Serbia, together with banks, has provided all the necessary conditions for a stable and sound banking sector, which finances domestic economic activity and provides modern financial services. The results achieved testify that we are on the right path. We will therefore remain committed to providing support to the modernisation of banking services, the application of technological innovations in business operations, the development of financial infrastructure and financial inclusion, all of which contributing to the growth of our economy and better living standards.

It goes without saying that we will continue successful and high-quality cooperation with the Association of Serbian Banks, headed by Marina Papadakis. We are confident that in cooperation with the National Bank of Serbia, the Association will contribute with its initiatives and innovative approach to the further development of the banking sector of the Republic of Serbia, the improvement of financial services for businesses and citizens, and the application of the most modern risk management methods.

I greet you all cordially and wish you a successful annual Assembly of the Association of Serbian Banks!