Jorgovanka Tabaković: Significant potential for mutual benefits

Introductory speech by Dr Jorgovanka Tabaković, Governor of the National Bank of Serbia, at the International Monetary Fund's presentation of the Regional Economic Outlook (REO) for Europe, Belgrade, 6 December 2024.

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Ladies and gentlemen, esteemed representatives of the IMF, dear colleagues,

I am pleased that today's presentation of the IMF's report is again taking place at the National Bank of Serbia. I say this because the Fund's analyses are, rightfully, highly valued in the public. This is the trust you have earned, even when we agree to disagree on certain assessments, because one medicine cannot cure all diseases, nor does everyone respond the same way to the same medicine. Solutions and answers depend on the condition of the body as well as the environment, and the global economy is now at a kind of crossroads.

Today, I would like to extend a special welcome to Serbia and the National Bank of Serbia to Mr Weber, who will present the findings from the latest, October, Regional Economic Outlook for Europe. I also greet Mr Ratnovski – today in his role as moderator and also as the IMF's resident representative for Serbia.

Given that European countries are Serbia's key economic partners, the IMF's assessments regarding economic developments in Europe and the outlook for the upcoming period are particularly important to us.

If we look at the past two years, the topics have presented themselves naturally. As expected, we discussed inflation. Specifically, last year we had a discussion on the topic "Managing Expectations: Inflation and Monetary Policy," and the year before that, the topic was "Wage Dynamics Post-COVID-19 and Wage-Price Spiral Risks." The focus of this year's report, also predictably, has shifted to productivity, which is crucial for the economic growth and development of every country, including Serbia.

Yesterday, at the second Banking Summit, I announced today's presentation with the conclusion that it addresses a topic of strategic importance, one where the results could shape the future of Europe and its place in the emerging new world order.

Of course, the topic is not new. To the contrary. The issue of productivity has occupied the minds of the founders of modern economics as far back as in the 18th century – Adam Smith and David Ricardo, who recognised and highlighted the advantages of specialisation and international trade.

Today, we know for certain that the growth of GDP per capita is highly correlated with productivity growth, and that without an increase in productivity, there can be no further progress or growth in living standards.

What is happening in Europe regarding economic growth and productivity? The good news is certainly that the IMF expects a gradual acceleration of economic growth and a slowdown in inflation in the euro area, as well as in other EU countries with which we have strong trade and financial ties. Such developments should positively affect Serbia's growth prospects and lead to lower inflation.

However, there is always a "but..." Although economic growth in Europe is on an upward trajectory, the report that the colleagues will present today highlights that it is still below its potential, and that the rate of growth of potential output is low. Specifically, per capita income is 30% lower in Europe compared to the United States. The income gap reflects the declining productivity growth in Europe, which extends to individual companies, as well as to the breakthroughs in information and communication technology and research and development, which are better utilised by American companies. This report by the IMF serves as a kind of alarm to take appropriate steps as soon as possible to boost productivity growth and stimulate the European economy more strongly.

And not only that. The report outlines economic policies that should improve growth prospects and the reforms that need to be implemented across Europe to create conditions in which European companies can continue to grow, develop, and leverage economies of scale and advanced technology.

In this regard, I find particularly important what is highlighted in the Report, and it is here that I see opportunities and potential benefits for Serbia as well, namely:

1. the fact that a deeper and larger single European market would enable productivity growth;
2. that European integration in the two previous waves of EU enlargement (1995 and 2004) brought tangible benefits; and
3. that further accession process could have a similar effect.

The Fund's analysis indicates that income gains after 15 years of enlargement amount to about 30% in the new EU member state and about 10% in the EU countries that have been members since its founding. So, we are talking about significant mutual benefits.

Serbia is a candidate country for EU membership, and we have clear goals. Through responsible economic policies, the implementation of structural reforms focused on productivity growth, and diversification in every sense, we are accelerating the process of convergence to the developed market economies of Europe.

The best confirmation of the correctness of our approach is the results achieved – the demonstrated resilience to external shocks unprecedented in recent history and favourable macroeconomic prospects for our economy. This is also recognised by relevant international institutions, including the IMF, which assesses that we are recording impressive results and that we have earned trust.

- Inflation in Serbia returned within the 3±1.5% target band without any major trade-offs in terms of economic activity. This is indicated by economic growth that will, in cumulative terms, exceed the pre-crisis level by more than 18%. In addition, this year again, and probably in the medium run too, Serbia's economic growth will be one of the strongest in Europe.

- Financial sector stability has been preserved and the NPL ratio now stands at the lowest level on record (2.7%).
- Public finances are sustainable, and the country's external position strengthened.
- The country's FX reserves are at record levels both in terms of their volume and structure. At over EUR 28 bn, they cover more than 7 months' worth of the country's imports of goods and services.
- FDI inflow is also record high. It reached EUR 4.6 bn last year and is forecast to reach a similar level this year as well.

For all these reasons, for the first time in its history Serbia has been assigned investment grade rating by Standard & Poor's, which brings us closer to developed economies.

Another confirmation of the growth and development of our economy is the new three-year Policy Coordination Instrument, which I expect the IMF will approve to Serbia in the coming several days. This instrument is granted exclusively to countries with sound economic policies and good prospects, which is the IMF's assessment of Serbia.

his is also in line with our expectations for the future period. More specifically:

- Inflation will continue to move within the target band.
- We expect economic growth to accelerate additionally to the range of 4–5%, with the central projection of 4.5% and a good structure of growth.
- Owing to the maintained investment confidence and favourable financing conditions, fixed fund investment will continue to provide significant support to economic growth. The investment potential comes from corporate profitability in the previous years, as well as from FDIs, which represent an important source of transfer of new technologies and productivity growth.
- An additional impetus will come from the implementation of government capital investments planned by the "Leap into the Future – Serbia Expo 2027" programme. As a result, in the next two years total investment should exceed 25% of GDP.

Favourable and predictable business conditions, the quality of the workforce in Serbia, as well as good digital and transport connectivity, provide the conditions for further integration of Serbia into value chains with EU countries and for productivity growth.

In a world of geopolitical tensions and market fragmentation, Serbia is a small economy that can attract investments from all corners of the world, which will also have positive effects on our further growth and development.

In conclusion, but no less important, our further progress in the process of European integration, in line with the findings of the IMF's analysis, should result in mutual benefits in the form of income growth. The benefit for Serbia comes from advancing the structural reform agenda, further strengthening of institutions, and the transfer of knowledge and technologies, while the EU benefits through the additional opening of the single market for goods, capital, and labour.

So, let me repeat, we are talking about significant potential for mutual benefits.

Thank you for your attention. I now give the floor to Mr Ratnovski to guide us through today's event.