Jorgovanka Tabaković: The best investment in the future is investment in people, cooperation, and diversification

Speech by Dr Jorgovanka Tabaković, Governor of the National Bank of Serbia, at the second Banking Summit, Belgrade, 5 December 2024.

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Esteemed ladies and gentlemen, dear hosts, dear colleagues and most of all – dear friends,

This gathering is a meeting and conversation between friends, and I always follow the basic idea to "be a friend to a friend." And what I can wish for the banking systems and sectors of the countries in the region is that they cooperate with their regulator and supervisor – in our case the two are under one roof, but elsewhere they are separated – and have the kind of cooperation that we have in Serbia, and which resulted in the fact that we are organising this summit for the second year, and I truly expect it to become a tradition. That we do not see it only as a duty to meet, but to truly rejoice at seeing each other and that our meetings bring an even greater closeness which implies an open discussion about problems and solving them together, because as one of the members of the board of directors, when preparing this summit, modestly said: "Yes, the banking sector is the most orderly system in Serbia." Some of the journalists say provocatively: "And how do you protect the banking sector by favouring it?" My answer was that from 2012 until recently, banks returned more than EUR 120 million directly to clients on account of the inherited rules of applying different exchange rates to loan approval and repayment, unilateral collection of certain charges... so you can see how favourably the Governor of the National Bank of Serbia behaves towards the banks and how much this costs them.

Since October, I have been in the habit of opening addresses such as this one with a congratulatory message to Serbian citizens on the investment grade credit rating, which our country deserved a long time ago! And everything we will talk about today is a part of our historic success!

At the first Banking Summit, I wished that this gathering of ours would become a tradition! Two years does not make a tradition yet – but it is a step in that direction. However, 103 years is a tradition and I congratulate the Association of Serbian Banks on the 103rd anniversary, which you marked yesterday.

Where are we compared to the period a year ago? Inflation has been significantly reduced, both globally and in our region, with lower key policy rates. Now the focus has shifted to public debt and its sustainability, as well as potential growth. To the divisions into trading blocs. To the tariff war. And all of this has the potential to reignite the inflation debate, which is why a cautious approach remains imperative!

The year behind us was also an election year, when the will of the people was tested. In many countries, regardless of income level, divisions between people are becoming more and more pronounced. The world is changing rapidly, and with it the conditions in which we work and make decisions.

Dear friends,

My colleagues will confirm that at the 34th Banking Congress, the highest-level meeting recently held in Frankfurt, we discussed the future of Europe in the new world order and numerous areas where changes in policies and decision-making methods are necessary.

It is a fact the technological gap between Europe and America is not narrowing. On the contrary – it is widening. It is also growing in other important areas such as productivity and income levels, which we will discuss tomorrow at the presentation of the International Monetary Fund's Regional Economic Outlook in our Slavija building. The IMF points to the risk of volatile share prices of large companies in advanced economies!

All these risks affect both the real and financial sectors in our region.

That is why today we will talk about the current trends and challenges in the banking sector, from the perspective of the regulator and banks. We will talk about the future of banking and I will quote the organisers of this summit – the Association of Serbian Banks: "Serbia's banking sector is undergoing a phase of dynamic changes, concurrently serving as a pillar of stability both for households and corporates." End of quote. I would just like to add that one does not exclude the other! Only in healthy synergy can they last.

That is why I will proceed with:

1. the assessment of Serbia's banking sector,
2. current macroeconomic trends in Serbia,
3. opportunities and challenges in the banking sector in the region and beyond.

Instead of banking sector data, as I leave that for the panel, let me share my impression that banking sector assessments are sometimes overlooked. To be more precise, they are not shared, as if good news is not news. For example, hardly anyone reported the IMF's assessment that our banking sector is robust, well-capitalised, liquid, stable and resilient. Or the Standard & Poor's assessment, I quote: "We assess that financial stability risks in Serbia will remain low, supported by a well-capitalised, profitable, domestic deposits-funded and a liquid banking system- The nonperforming loan ratio remained at a historical low of 2.7% in August, even amid economic challenges in 2023." End of quote. nd you surely remember that even the IMF told us all, during and after the pandemic, that bank asset quality would deteriorate, while our analyses suggested the opposite. And who was right? We were! Not only did the bank asset quality not deteriorate, but the NPL share dropped to its historical low!

It seems to me that financial stability is also taken for granted, and the same holds true for the overall macroeconomic stability – but it shouldn't be so. It's easy to share advice and propose policies for whose consequences you are not accountable, and whose enactment is not within your remit in the first place. An example of this are know-it-all "experts" who, upon the publication of banks' financial statements, hurry to publish their conclusions, which are not corroborated by any kind of analysis.

On the other hand, we who are responsible and trained for detailed analysis of key performance indicators of Serbian banks, take into account the background against which those results were achieved. We have analysed the period of over 10 years which was not only a relatively long one, but pretty turbulent too. It is a period during which interest rates skyrocketed from their lowest levels, or even negative levels in some markets, at an unprecedented pace. This period also witnessed numerous shocks that have never been seen in recent economic history. What do our detailed analyses tell us?

- The country's macroeconomic stabilisation in the wake of 2012 had a substantial positive effect on the quality and volume of banks' assets.
- Specifically, the credit portfolio almost doubled from 2014 to 2023.
- The interest margin, i.e. net interest income to average total assets, dropped significantly in 2023 compared to 2011, despite the record-high pace of monetary tightening.
- Bank losses due to credit risk, i.e. client default risk, have declined considerably, despite the introduction of more stringent standards for the recognition of those losses. For example, if we now had the levels of credit losses from 2011, as a consequence of poor risk management and unfavourable business environment, the banking sector would have operated at a loss in 2022 and would have had a drastically lower result in 2023!
- The development of digitalisation also had a positive bearing on strong growth of the scope and quality of services.
- Net income from the purchase of foreign currency reflects the rising number and volume of transactions amid accelerated growth in foreign trade exchange, as well as the fact that Serbia is becoming an increasingly popular tourist destination!
- All of this would not have been possible had we not ensured relative stability of the dinar exchange rate, stability of the financial system, strong investment growth, improved business performance in the real sector, rising living standards, and the accelerated digitalisation of financial services! Today, Serbia has the lowest unemployment rate and the highest employment rate ever!

Because of all this, the difference between two absolute data, without considering the essence, has not made anyone an expert! Quite the opposite. Therefore, I once again ask individuals to act professionally and seriously when making evaluations that have no other purpose than to create noise and obstruct progress. This will not slow us down; on the contrary.

Today, I will repeat here again that we do not exist for ourselves, no one, not even banks, but for our clients. And only in that interaction which gathers everyone's interests, can success last. Therefore, the National Assembly will soon discuss four extremely important laws that we have proposed, and for which a public debate has been held. These laws are important for financial services consumers, the banking industry, and the entire system. They are only a part of our response to the new conditions in which we live and work, and in July, I remind you, we introduced the concept of open banking into our regulatory framework.

Regarding current macroeconomic trends, I begin with the conclusion that we have brought inflation in Serbia back within the target band, preserved the country's financial stability, as well as economic growth, which is returning to its high pre-pandemic levels!

1. Inflation entered our target band of 3+/-1.5 pp in May, has remained there ever since and will stay there going forward.
2. The inflation profile allowed us to start easing our monetary policy in June, but at a cautious pace. Since then, we have cut the key policy rate three times – each time by 25 bp, to 5.75%.
3. We have also preserved relative stability of the dinar exchange rate against the euro, as an important pillar of investment and consumer confidence.
4. Record FDI inflows have continued. I will make an exception here – this data is always first announced by the President, but since he is on the road, at a conference, I will give you the honour of announcing the latest data. Of course, he already has it, because he is the one who contributed the most to such an outcome – FDI amounted to EUR 4.467 bn as at 30 November, and we still have the whole month of December, so we expect this year to be a record year with even higher investment inflows than the previous year. Investment inflow remained diversified by project and geography.
5. Our FX reserves amounted to a record EUR 28.3 bn at end-October, which is an additional increase of 13.6% during this year.
6. We also have record dinar savings, which have increased by over 80% since the beginning of last year, reaching RSD 180 bn, which is ten times higher than in 2012.
7. In conditions of declining inflation, banks began easing credit standards by the end of last year, hence we have seen an acceleration in credit activity to 7.2% y-o-y in October, with strong growth in loans to both corporates (4.9%) and households (9.2%).
8. In the past twelve years, we have tripled our gold reserves to 48 tonnes, and increased their share in total reserves to 13%. This information becomes even more significant when we know that gold has gained almost 30% in value just this year! Gold gains in importance and value during periods of global turbulence, especially during global geopolitical conflicts and times of high inflation. Unfortunately, in recent years, we have witnessed the effects of both of these factors.
9. I will always emphasise that our gold purchases were made in consultation with President Vui, considering his strategic thinking, knowledge of global geopolitical relations, and the information he has access to.
10. All these results have officially placed us in the group of countries with an investment-grade rating!

It is difficult to prioritise when it comes to opportunities and challenges.

A year ago, I spoke here about the Green Agenda and digitalisation as opportunities and challenges.

I repeated at the time that policymaking is a particular challenge in the era of fake news, especially in circumstances where individuals believe that policies can be run through social media. Today, we are witnessing how citizens' electoral will in Europe is being influenced precisely through social media. This is a risk and a danger to democracy and society as a whole!

However, today, I would highlight the accelerated development of artificial intelligence as both an opportunity and a challenge, especially because generative artificial intelligence is bringing the greatest transformational changes to the banking industry! It offers significant savings in both time and resources, increases efficiency, and can greatly help in risk management. According to an analysis by the International Monetary Fund, artificial intelligence has the potential to contribute 0.8 pp to global economic growth, but only if used in the right way. It is up to us! It is our duty to together try to foresee what the job markets of the future will look like, and to help ensure that the transformation occurs in a way that the closing of some jobs opens the door to other jobs, jobs of higher quality. And that the numerous false content and phishing attempts do not undermine the trust that has been hard-earned, as this is an industry built on trust!

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

- that we will continue to work in the general interest, and
- that stability has no alternative!

I believe that, in these uncertain times, this is the key to survival. We will continue to support all those who are aware of the importance of stability, which is in the interest of each of us, but also to fight where cracks are created that undermine the system. I will always fight against negative phenomena, and I will fight for the people.

And finally, I want to repeat something that is often forgotten or taken for granted, but which I have been repeating for years. Stability is not a given! Peace must not be taken for granted either! We cannot influence big countries on the issue of polarisation, but we can support our development opportunities.

Our response is preparedness for different situations, caution, and proactivity – which means timely creation of reserves, a flexible monetary framework, policy coordination, and a strategy of diversification in various areas. And let us never forget – the best investment in the future is investment in people, cooperation, and diversification!

Thank you!