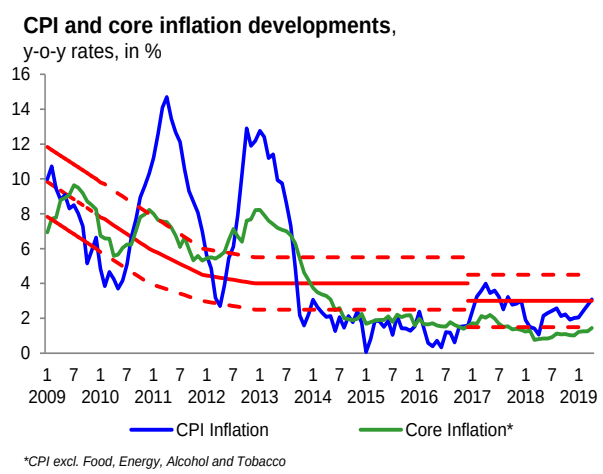
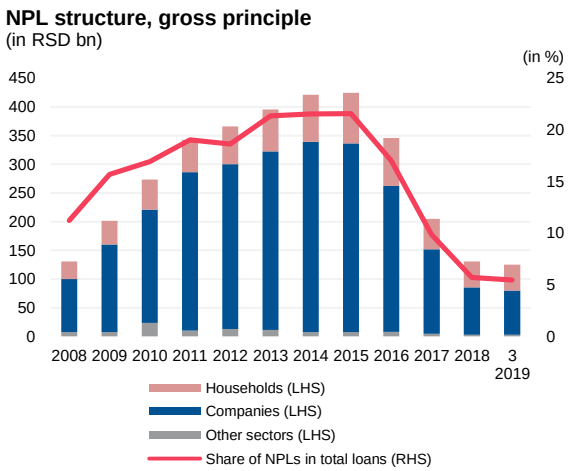
Governor's Address at the Ministerial Dialogue
Brussels, 17 May 2019

Esteemed colleagues, dear hosts,

Allow me also to extend my gratitude on behalf of the Serbian delegation for the assessments and given recommendations. I believe that we can agree with general assessment that Serbia has made huge progress since our first meetings. We can and must agree also that today our economy is stable, by all means, and that it has good growth prospects.

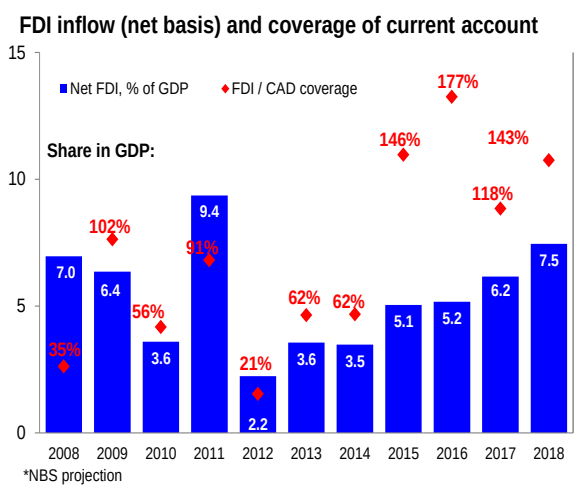
Now, on behalf of the National Bank of Serbia, I would like to emphasize that we share your view that the Serbian monetary policy was conducted consistent with the inflation targeting regime and the achievement of the targeted inflation rate. The fact is that inflation in Serbia has been preserved at a low level for longer than half a decade. The fact is, as you also pointed out, that Serbia has recorded a sharp fall in the NPL ratio. And another fact is that with our measures we have supported two-digit growth in corporate and household lending, and via this channel, we supported economic growth as well. It is not by accident that I have singled out these segments of our operations. I chose them as they are important components of the business and investment environment.

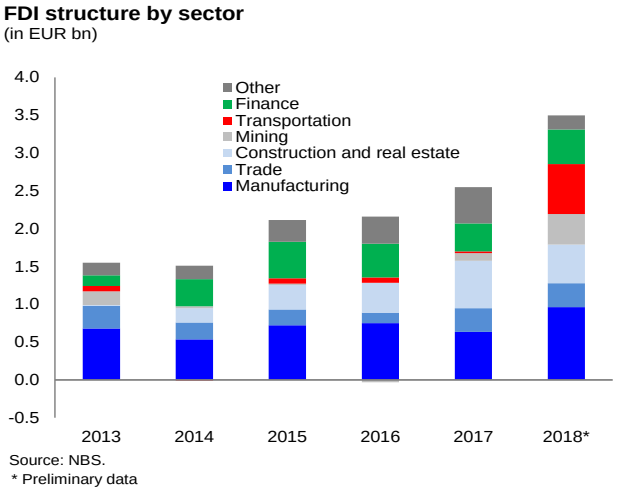




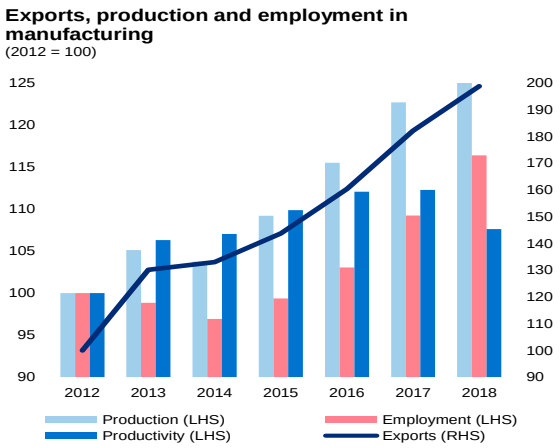
This is why, in line with the topic of today's dialogue – *Structural reforms to attract foreign direct investment and increase resilience*, I will briefly inform you about the composition of foreign direct investment in Serbia. I will also provide a general assessment of their benefits and what attracts investment to Serbia. I will also share with you our opinion on what we can do through concerted efforts.

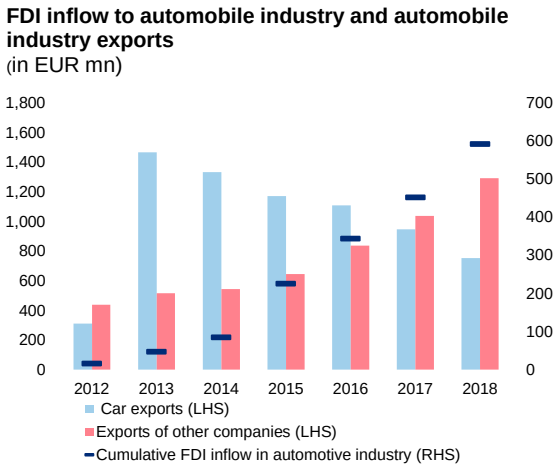
I will start with the figures. During the last four years FDI inflows in Serbia stood at around 6% of GDP on average, while last year they reached 8.2% of GDP. By this percent they provided full coverage of CAD, making financing risk much lower. We also have strong project diversification of FDIs, which is, as quite important, recognised and by the ECB, in order to reduce risks of sudden stops. More than half of investments in Serbia are channelled to tradable sectors, with one third of the total going to the manufacturing industry through many small projects to export-oriented sectors. Being so, the FDIs were one of important drivers of the two-digit export growth rates of our manufacturing industry during the last four years. Plus, we also have constant growth in geographical diversification of FDIs, also recognised as important.





High and diversified FDI inflows have been quite supportive for our growth fundamentals. One reflection of their benefits is a rise in production and employment, and improvement of the structure of our economy. We expect that FDI will be one of the push up factors for our economy to growth at rates of at least 4% in the medium term. Another benefit is that they are facilitating the access to global value chains. Let me give an example. Additional benefit of FDIs, as recognised and said already, is export diversification. According to the IMF's Export Diversification Index, Serbia ranks 12th out of 186 countries, and this is quite good result. With this I would like to end this part regarding the level, structure and importance of FDIs.





And what is driving investors to invest in Serbia? Importance of structural reforms is clearly confirmed through reforms we imposed. From the central bank perspective, the most important and hardest was to provide price stability and regain trust in monetary policy, due to hyperinflation in the past. And during the last half a decade inflation in Serbia has been kept under control. According to the Global Competitiveness Index, inflation in Serbia is no longer a limiting factor for doing business; as was the case for example back in 2010. On the contrary, a low inflation environment is perceived as one of the key factors of a stable business environment in our country. Further, relative stability of the exchange rate, the mentioned results on the fiscal front, as well as in many other areas as part of stabilisation agenda, are perceived as vital for FDI attraction.

This is all confirmed by many studies, such as World Bank study from 2018 showing that countries with lower exchange rate and inflation volatility had higher FDIs in terms of GDP. Not to forget, in terms of FDIs attraction, of outmost importance is also political stability. The same is assessed by Moody's rating agency in their latest yearly report, stating that Serbia clearly ranks above the countries with the same rating, when it comes to political stability and government effectiveness. In such environment foreign investors are rather reinvesting their profit in Serbia, than sending it back. On average – around 60% of profit is being reinvested.

What is ahead of us? I believe that the integration in infrastructure flows, the latest technological projects and innovations, in line with our potentials, are the basis for Serbia's growth. At the same time, this is the basis for investment. And our potentials are geographic position and work force. Anyone offering a partnership in this context is welcome. It is up to us to provide macroeconomic stability and equal treatment for **all** investors. We do not have the privilege or the reason to measure this by any other criterion, but the interest of our citizens in better living standards and sustainable growth. And investments diversified by country and branch, are the guarantee to the achievement of our goals which are written in all the preambles of the most reputable and the most significant international institutions.

Of course, we can always do more. Each one of us present here. Therefore, allow me to quote a message stated in the Joint Conclusions: "Across the region, further efforts are needed to tackle corruption, improve the rule of law and strengthen institutions in order to promote competitiveness". I strongly believe that this goes beyond candidate countries and refers to all.

Thank you.