



NATIONAL BANK OF SERBIA

**Speech at the presentation of
the Annual Financial Stability Report for 2014**

dr Jorgovanka Tabaković, Governor

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Ladies and gentlemen, esteemed members of the press and fellow economists,

I would like to welcome you all to the **first** presentation of the Annual Financial Stability Report. At the very beginning, allow me to say how pleased I am to be a member of the team that will give an official presentation of the key recommendations from this Report, the first ever such account by our institution. In addition to the already familiar Inflation Report, we now present this report as a new channel of communication of the National Bank of Serbia with the public and participants in the global financial market.

It is my privilege to share with you the impression that our Report compares to the reports of central banks of developed economies. This is not our subjective impression, but the judgement of those who have been carefully reading every issue of this Report for the last five years.

As my colleagues will inform you today, the Report highlights key risks to our financial system stemming from the domestic environment. At the same time we are exposed to risks coming from the international environment which are carefully monitored and analysed. The extent of consequences imposed on our system by these risks will largely depend on our ability to respond with well-timed and carefully calibrated measures. I am pleased to say that so far we have been successful in doing so. The Report also presents the results of macroprudential stress tests for the overall banking sector, which further confirms our commitment to transparent reporting. The Report analyses trends in the bank and non-bank financial sectors, as well as trends in the domestic and international environment and in the most important segments of the financial market. In an effort to bring them closer to the wider public, global and domestic topical issues in the area of financial stability are covered in separate text boxes.

The latest financial crisis reminded us of the importance of financial stability and of the devastating consequences of financial instability. A new global financial architecture is being shaped in order to prevent future crises of similar scope and this process is not yet complete. The central bank's role in maintaining and strengthening financial stability is very important, but other institutions and stakeholders in the financial market must also get involved. The key prerequisite for being effective in this respect is to ensure on-going development of analytical skills for early detection of risks to financial system stability. Given the interconnectedness of financial markets, risks tend to be interconnected as well, or even shared. The better we understand the nature of the risk, the better we can prescribe the measures to alleviate it. And this is exactly one of the key tasks of the Financial Stability Department which, similarly to the newly emerging financial architecture, will have to constantly develop under the watchful eye of the public. Therefore, besides myself, your hosts today will be Vice-Governor Diana Dragutinović and representatives of the Financial Stability Department. As you will hear later on, apart from producing the Financial Stability Report, they also conduct macroprudential stress tests, develop tools for monitoring risks in the financial system and work intensively on setting up a macroprudential policy framework.

Again, it is my pleasure to note that we are not lagging behind developed economies in this respect either, but are keeping up with them. We want and need to develop macroprudential policy and its tools, not because other countries are developing them rapidly, but because we are responsible and aware that the risks heightened by the crisis call for new, more complex measures. The importance of these measures has been recognised and incorporated within the Memorandum on Economic and Financial Policies that Serbia concluded with the International Monetary Fund. So far, we have applied numerous measures and instruments with a view to preserving financial system stability, though they have not been officially named macroprudential policy tools. Future development of this policy will be transparent, just like the introduction and development of the inflation targeting regime. We will speak openly and frankly about the risks in the financial system, as well as about the measures planned to mitigate these risks. We will also inform the public about the measures other countries implement or plan to introduce in a bid to preserve financial stability.

This is exactly why you – esteemed members of the press and fellow economists – are so important to us. Financial stability is largely based on trust. We have all been witnesses to how misinterpreted information can trigger a chain of adverse events through the increasingly prominent psychological channel. Within this segment your role is almost equally important as ours. We do not ask that you embellish the reality or diminish the seriousness of the situation, but to be professional and objective in your reporting. We expect that our open communication, including today's presentation, will contribute to the betterment of understanding and, therefore, of your reporting on the trends that have a bearing on the Serbian financial system.

Finally, once again I would like to welcome you to the presentation of our Annual Financial Stability Report for 2014. Allow me to end my introductory speech with the key message from the Report.

Six years into the crisis, our financial system continues to be stable. The banking sector remains solvent and liquid, while the stress test results confirm its resilience to large shocks. There are risks in the system, but also measures that can mitigate them. With the assistance of international financial institutions, but primarily by relying on our own strengths, we will work on macroprudential policy development and improvement of the financial stability function.

Thank you for your attention. I now give the floor to Vice-Governor Diana Dragutinović.