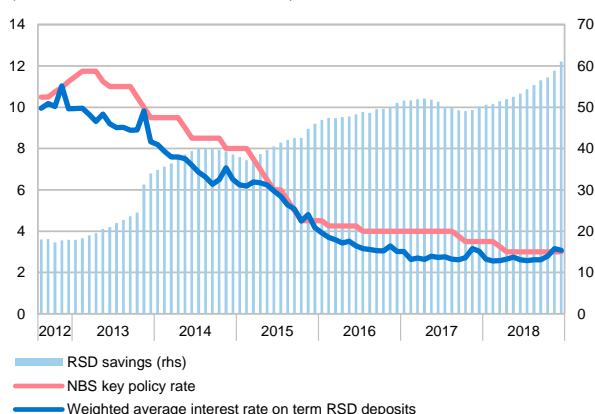


NBS Reiterates – Dinar Savings More Profitable than FX

Having in mind how important domestic currency deposits are for the stability of the financial system as a whole, through its measures, actions and communication with the public the NBS, together with the Government, seeks to highlight the advantages of dinar savings and bolster their growth, this being a significant aspect of the dinarisation of the Serbian financial system.

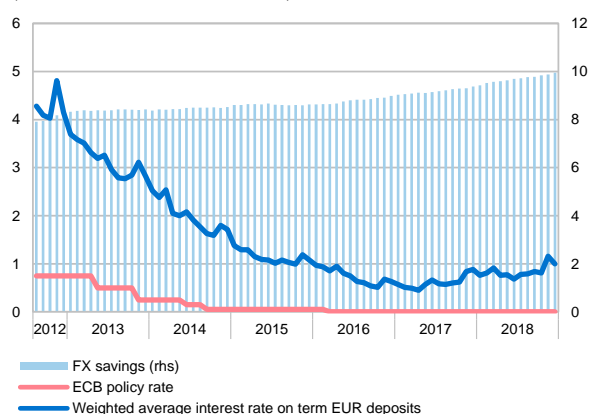
Over the past six years the NBS, in cooperation with the Government, achieved significant results in terms of establishing and preserving macroeconomic stability, reducing fiscal and external imbalances, delivering low and stable inflation, strengthening financial stability and maintaining relative stability of the exchange rate. During that period y-o-y inflation was reduced by more than six times (from 12.9% in October 2012 to 2.0% in December 2018) and has been moving at a low and stable level for five years already. At the same time, relative stability of the RSD/EUR exchange rate has been maintained, which contributed not only to the process of disinflation, but also to successful fiscal consolidation, opening up the scope for NPL resolution, increasing the certainty of doing business and raising the profits of domestic corporates.

Chart 1 Interest rates and dinar savings
(lhs in %, annualised ; rhs in RSD bn)



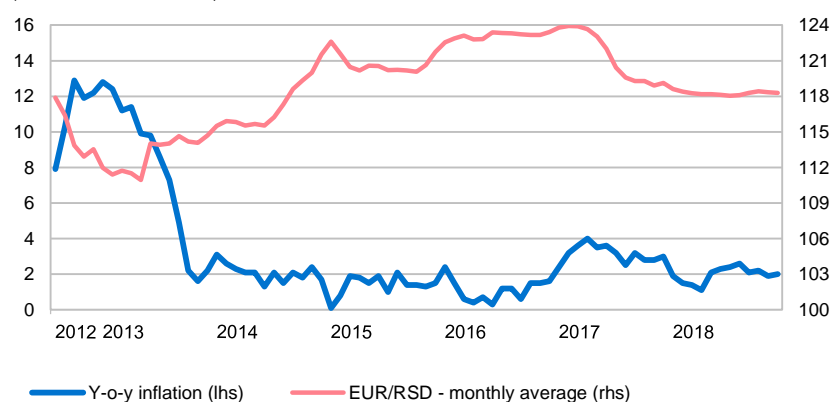
Source: NBS.

Chart 2 Interest rates and FX savings
(lhs in %, annualised ; rhs in EUR bn)



Source: NBS.

Chart 3 Y-o-y inflation and average dinar exchange rate
(lhs in %, rhs EUR/RSD)



Source: NBS.

Owing to NBS measures and achieved macroeconomic stability, citizens' trust in the domestic currency and NBS monetary policy has been rising each year. In the period from 2012, dinar savings increased almost three and a half times – from around RSD 18 bn (August 2012) to over RSD 61 bn (December 2018), while FX savings rose from almost EUR 8 bn (around RSD 935 bn) to around EUR 10 bn (around RSD 1,175 bn), in an environment of reduced interest rates on term household deposits. **In 2018 alone, dinar savings deposited with banks in Serbia increased by over 20%.**

According to the new Memorandum on the Strategy of Dinarisation of the Serbian Financial System, concluded between the Government and the NBS in December 2018, one of the tools of communication with the public is the publication of the Analysis of Profitability of Dinar and FX Savings twice a year. The [latest Analysis](#) covering the period August 2012 – December 2018, and the analyses carried out so far, suggest **greater profitability of domestic currency savings both in the long and short run.**

Table 1 Profitability of savings - rollover

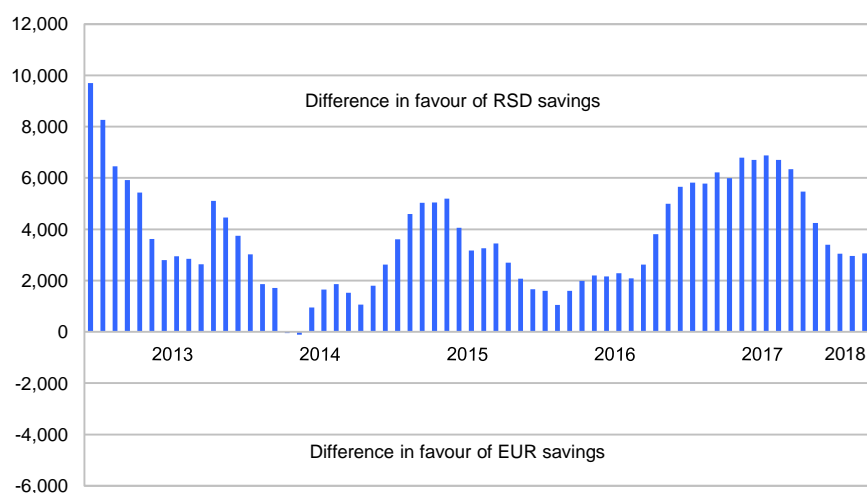
Type of savings	Deposit placement	Initial deposit	RSD exchange rate*	Maturity	RSD exchange rate*	Deposit at end of term	
						in RSD	in EUR**
RSD savings	Dec 2012	100,000	113.5413	Dec 2018	118.2772	139,673	1,181
EUR savings	Dec 2012	881	113.5413	Dec 2018	118.2772	113,183	957
Difference in favour of RSD savings						26,490	224

* Average monthly EUR/RSD exchange rate.

** For EUR savings, the amount after deduction of interest income tax.

A person who placed RSD 100,000 on a dinar deposit in December 2012 and renewed the contract each year would receive almost RSD 26,500 (EUR 225) more in December 2018 compared to a depositor who placed RSD 100,000 in the euro equivalent on an FX deposit in the same period, under the same assumptions (Table 1). Dinar savings have been more profitable in the last six years.

Chart 4 Profitability of one-year savings
(in dinars)



Source: NBS.

When analysing the profitability of one-year savings, without the rollover, it turns out that saving in dinars was more profitable than in euros in almost all subperiods observed (Chart 4). The same conclusion can be drawn for three-month savings – it paid off more to save in dinars in the short run as well.

Higher profitability of dinar than FX savings is the result of the following:

- low and stable inflation and a relatively stable dinar exchange rate against the euro,
- interest rates on dinar savings being relatively higher than those on FX savings,
- favourable tax treatment of dinar savings – no tax paid on capital gains from interest on dinar savings (vs. 15% on FX savings).

In view of the importance of both corporate and household deposits in the domestic currency for the stability of the overall financial system and the fact that household savings most safely preserve the value of the money and serve as the source of future consumption, through its measures, actions and communication with the public the NBS will continue, in cooperation with the Government, to create an environment conducive to the accumulation and continuous growth of savings.