

The National Bank of Serbia introduces regular publication of analyses on savings profitability – dinar savings are more profitable than FX savings

Thanks to NBS's measures and the achieved triple stability – of inflation, the exchange rate and the financial system, citizens' trust in the domestic currency has increased. In the last six years dinar savings have tripled – from RSD 18.0 bn (August 2012) to RSD 54.4 bn (July 2018) and continue to grow. FX savings also went up in the same period – from EUR 7.9 bn (RSD 936 bn) to EUR 9.7 bn (RSD 1,147 bn). Particularly encouraging is the fact that both dinar and FX savings have grown, despite the decline in interest rates on termed household deposits, which testifies to citizens' trust in the financial system.

Chart 1 Interest rates and RSD savings
(LHS in %, p.a.; RHS in RSD bn)

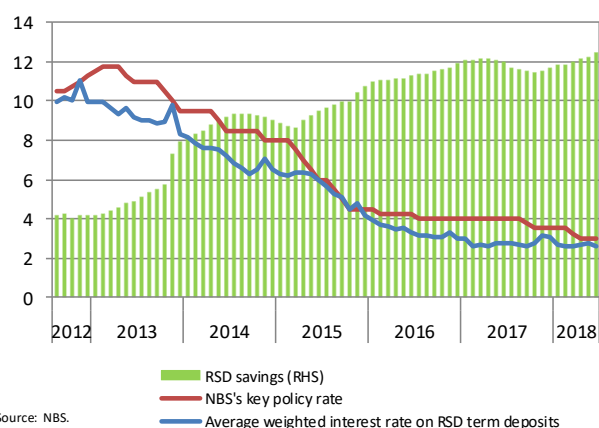
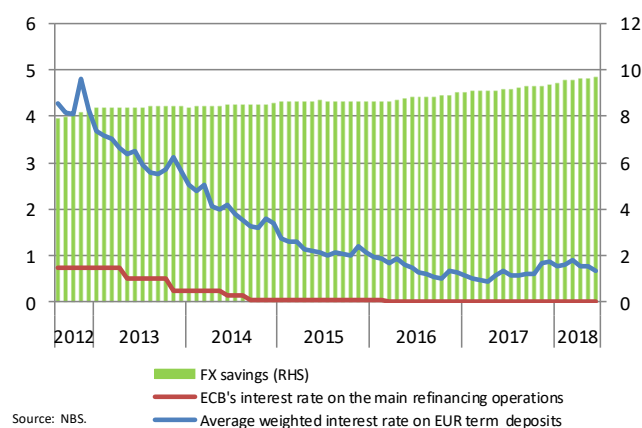


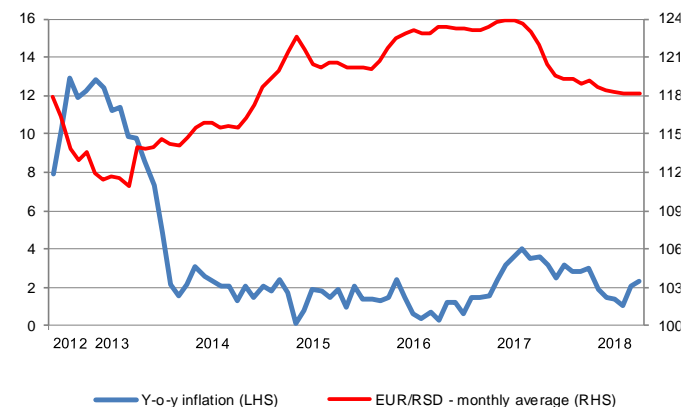
Chart 2 Interest rates and FX savings
(LHS in %, p.a.; RHS in EUR bn)



In the last six years significant results have been achieved in the creation of a favourable economic environment in Serbia. Year-on-year inflation which in October 2012 stood at 12.9% declined by the end of 2013 to 2.2% and has been successfully maintained low and stable for five years already, at rates comparable to those in advanced economies.

The relative stability of the exchange rate has been achieved and preserved. Today, the dinar stands at almost the same level relative to the euro as in August 2012, while FX reserves are at their peak, observing the period since 2000.

Chart 3 Year-on-year inflation and average RSD/EUR exchange rate
(LHS in %, RHS EUR/RSD)



In the past years, the NBS has already called attention to the higher profitability of dinar compared to FX savings. Taking into account the significance of dinar savings for the whole domestic economy, the NBS will publish these analyses twice a year – in January and July, in the form of the report Analysis of Profitability of Dinar and FX Savings, and also in the form of a text box in the quarterly Report on Dinarisation of the Serbian Financial System. This topic will also be covered in the press releases promoting the World Savings Day, in late October.

The latest Analysis of Profitability of Dinar and FX Savings, covering the period from August 2012 until July 2018, points to higher profitability of saving in domestic currency over a short- and long-term period.

On the example of savings termed for one year, with the annual roll-over increased by the interest amount (and reduced by tax in case of FX savings), it can be clearly seen that in the last six years it was more profitable to save in dinars.

Table 1 Savings profitability - rollover

	Deposit placement date	Initial deposit amount	EUR/RSD - monthly average (August 2012)	Interest rate (in %, p.a.)*	Maturity date	EUR/RSD - monthly average (July 2018)	Deposit amount at maturity	
							in RSD	in EUR**
RSD savings	August 2012	100,000	117.8899	9.95	July 2018	118.0473	141,595	1,199
EUR savings	August 2012	848	117.8899	4.28	July 2018	118.0473	109,494	928
Difference in favour of RSD savings							32,100	272

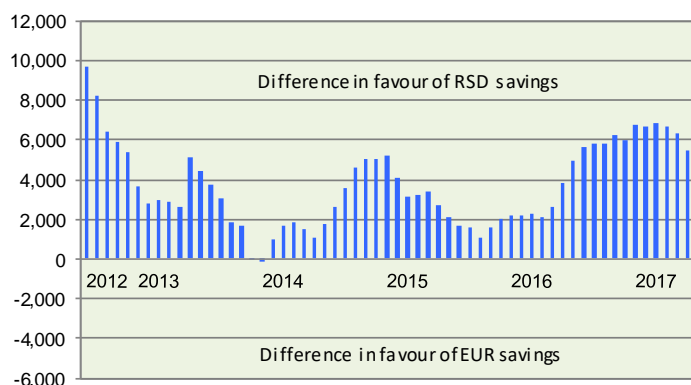
*Average weighted interest rate on new RSD and EUR deposits termed for up to one-year.

**EUR savings amount is presented after deduction of interest income tax.

A person who placed RSD 100,000 on a dinar deposit in August 2012 and renewed the contract each year would receive around RSD 32,000 (EUR 270) more in July 2018 compared to a depositor who placed RSD 100,000 in a euro equivalent on an FX deposit in the same period, under the same assumptions.

When analysing the profitability of one-year savings, without the rollover, it turns out that dinar savings were more profitable than euro savings in almost all observed sub-periods – both on longer and shorter terms.

Chart 4 **Profitability of savings termed for one year**
(in RSD)



Source: NBS.

Higher profitability of dinar savings resulted from

- low inflation and relatively stable RSD/EUR exchange rate which the NBS achieved and maintained over the last six years,
- interest rates on dinar savings being relatively higher than those on FX savings,
- the fact that interest income from dinar savings is non-taxable (while interest on FX savings is subject to 15% tax rate).

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 money and serve as the source of future consumption, the NBS will continue, in cooperation with the Government, to implement measures, activities and public communication which create a climate conducive to savings accumulation and continuous growth.