



National Bank of Serbia

**ANALYSIS OF PROFITABILITY OF DINAR AND FX
SAVINGS – H1 2024**

Belgrade, August 2024

CURRENT DEVELOPMENTS

The role and importance of household savings as the safest way of preserving value were particularly visible in the past several years, when Serbia, just like the rest of the world, was under the impact of several global crises. Preserved financial stability and relative stability of the dinar exchange rate against the euro enabled a further rise in dinar household savings in H1 2024 – by RSD 23.1 bn (16.8%) to RSD 161.0 bn at end-June. In the past year, dinar savings expanded by RSD 52.3 bn (48.1%).

In the past six months, FX savings also grew, by EUR 557.8 mn (3.9%) to EUR 15.0 bn in June 2024. Both dinar and FX savings touched their new record highs.

Monetary and fiscal policy measures adopted in the past several years have been efficient and optimal, helping inflation strike a downward trajectory. In July, y-o-y inflation measured 4.3%, moving within the target tolerance band ($3 \pm 1.5\%$) for the third month in a row.

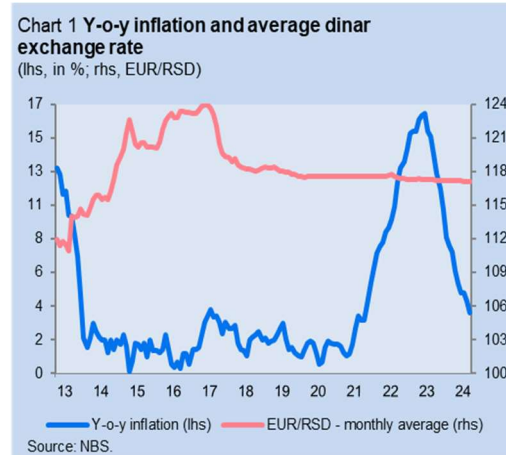
Since October 2021, the NBS was gradually and continuously tightening monetary conditions, first by raising the repo and subsequently also the key policy rate – from 1% in April 2022 to 6.5% in August 2023. Further restrictiveness was also achieved by means of reserve requirements, when a part of excess dinar liquidity was permanently withdrawn in September 2023.

By bringing inflation back within the target band, conditions were created for the NBS to start with monetary policy easing by trimming the key policy rate. In June and July 2024, the key policy rate was cut by 25 bp in each month, to 6.0%. The deposit facilities rate was also reduced – to 4.75%, as well as the lending facilities rate – to 7.25%. The NBS eased monetary conditions also by reducing the volume of liquidity it withdraws at repo auctions.

Relative exchange rate stability was maintained in the first seven months of 2024 as well, amid prevailing appreciation pressures. The NBS intervened by buying EUR 1.6 bn net, boosting FX reserves to EUR 28.1 bn at end-July, which was the highest end-of-month level of FX reserves on record (since 2000). Such level of FX reserves covers over 7.4 months' worth of goods and services, which is much above the minimum envisaged by international standards.

Serbia's resilience amid multi-year crises was also confirmed by a reduction of public debt in projected GDP for 2024 to 50.0% in June (52.3% at end-2023).

Household savings are at a new historical high.



Inflation was within the target band in July.

FX reserves are at their record high.

Since the start of implementation of the NPL Resolution Strategy (since August 2015), the NPL share in total loans declined significantly – by 19.5 pp to 2.9% in June 2024.

In April, Standard & Poor's upgraded Serbia's outlook from stable to positive, affirming credit rating at BB+. The agency stated robust macroeconomic indicators achieved in 2023, the economy's resilience in the past turbulent years at the global level, and the improvement of fiscal performances and the country's external position. It also highlighted the expected economic acceleration in the current year and beyond, sustainable growth and the reserves built up in the prior period.

In August, Fitch also upgraded Serbia's outlook from stable to positive, affirming credit rating at BB+. The agency underlined the economy's resilience in the crisis period over the past years, during which a robust external position and a downward public debt trajectory were maintained. It particularly emphasised the expected economic acceleration in the current year and beyond, inflation's return within the target band and its expected further decline, further strengthening of the country's external position and a continued downward trajectory of the public debt share in GDP, along with preserved financial stability.

Foreign investors' confidence in Serbia's sound and sustainable economic indicators and credit rating was also confirmed by our country's successful, first issue of ten-year dollar sustainability eurobonds in the international capital market in June (the proceeds will be used for sustainable, green agenda and social responsibility projects). Securities worth USD 1.5 bn were sold at the coupon rate of 6.0%, with total investor demand exceeding USD 6.5 bn.

In late June, the IMF made the decision on the successful completion of the third review of Serbia's economic programme, supported by the stand-by arrangement. Owing to the good results achieved, the arrangement will be further treated as a precautionary arrangement (funds will not be used unless in case of balance of payments needs).

In late June, Serbia's risk premium on euro debt measured by EURO EMBIG equalled 214 bp, while the risk premium on dollar debt measured by EMBI equalled 168 bp, down by 33 bp and 20 bp, respectively, relative to end-2023.

Foreign investors also trust
Serbia's sound and sustainable
economic indicators.

SAVINGS TRENDS¹

The year 2024 saw a further rise in household savings, confirming citizens' confidence in the domestic financial system, despite the polycrisis global environment.

Local currency savings rose more than ninefold in the past twelve years to a record high of RSD 161.0 bn at end-H1 2024. Positive changes were also seen in the composition of dinar savings and are reflected in a rise in long-term deposits – from RSD 2.0 bn in June 2012 to RSD 36.6 bn in June 2024.

FX savings almost doubled in the same period, from EUR 7.9 bn in June 2012 to EUR 15.0 bn in June 2024.

Given that dinar savings rose faster than FX savings, their share in total savings rose from 1.89% in June 2012 to 8.41% in June 2024.

The decline in interest rates in the domestic and international money markets reflected on a reduction in interest rates on term household deposits in 2024 (since late 2023, the weighted average rates on dinar and euro savings fell by 0.9 pp and 1.0 pp, respectively). However, although interest rates declined, savings went up.

In H1, dinar savings grew by RSD 23.1 bn (16.8%), rising at a faster pace than last year (12.9%).

In terms of the structure of dinar savings this year, the growth was the most pronounced for six-to-12-month deposits (RSD 19.4 bn), which were a dominant form of savings (49.8%). More moderate growth was seen for demand savings (RSD 6.2 bn) and over two-year savings (RSD 1.0 bn), while one-to-two-year savings declined (RSD 4.2 bn – partly due to the effect of the leap 2024 year). The average amount of dinar savings per lot equalled RSD 165,000.0 at end-June.

In the same period, FX savings increased by EUR 557.8 mn or 3.87%, largely owing to more intensive placing of six to 12-month FX deposits (EUR 698.9 mn). A rise was also recorded for demand savings (EUR 196.3 mn). FX savings termed one to two years declined (EUR 218.4 mn – partly due to the effect of the leap 2024 year). The average amount of FX savings per lot equalled EUR 3,162 at end-June.

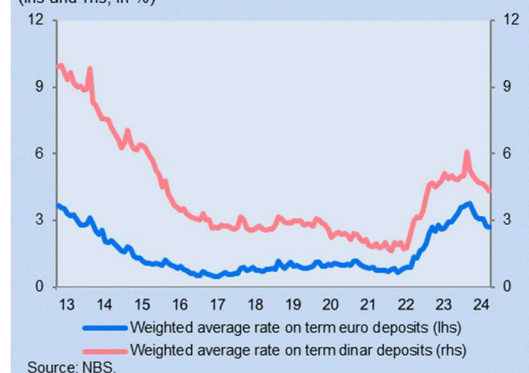
Chart 2 Interest rates and dinar savings
(lhs, in %, p.a; rhs, in RSD bn)



Chart 3 Interest rates and FX savings
(lhs, in %, p.a; rhs, in EUR bn)



Chart 4 Weighted average rate on term dinar and euro deposits
(lhs and rhs, in %)



¹ Including residents and non-residents.

PAST ANALYSES

The NBS has been publishing regular semi-annual analyses of the profitability of dinar and FX savings since June 2018. The analyses of profitability of savings are also published in quarterly reports on the dinarisation of the Serbian financial system and on the eve of the World Savings Day.

ANALYSIS OF SAVINGS PROFITABILITY

This semi-annual *Analysis of Profitability of Dinar and FX Savings* was prepared for the period from June 2012 until June 2024.

The profitability of savings was analysed considering two segments: the rollover of savings and profitability by sub-periods, for three-month, one-year and two-year maturity.

Interest was calculated based on weighted average interest rates on new deposits termed for up to one year and one-to-two years, while the income at maturity of FX savings was reduced by the tax on interest income, which since October 2012 equals 15%.²

Profitability of savings – rollover

The analysis of profitability of savings termed for one year, with rollover during 12 years (since June 2012), confirmed that a depositor who saved in dinars, placing an RSD 100,000 deposit, would receive, at the end of the savings term in June 2024, almost RSD 53,500 (EUR 460) more than a depositor who deposited the equivalent amount in euros during the same period (calculated using the average RSD/EUR exchange rate in the month of depositing).

At end-June 2024, a depositor who saved in dinars would have RSD 171,275 or EUR 1,463 and a depositor saving in euros would have RSD 117,820 or EUR 1,006.

² Interest income tax for savings in dinars is not payable since 2005.

Table 1 Profitability of savings - rollover in the past twelve years

| Type of savings | Termed | Initial deposit | Dinar exchange rate* | Maturing | Dinar exchange rate* | Deposit at the end of term period | |
|--|-----------|-----------------|----------------------|-----------|----------------------|-----------------------------------|------------|
| | | | | | | in RSD | in EUR** |
| Savings in RSD | June 2012 | 100,000 | 115.7713 | June 2024 | 117.0715 | 171,275 | 1,463 |
| Savings in EUR | June 2012 | 864 | 115.7713 | June 2024 | 117.0715 | 117,820 | 1,006 |
| Difference in favour of dinar savings | | | | | | 53,454 | 457 |
| RSD (EUR) | | | | | | | |

* Average monthly middle exchange rate of the dinar against the euro.

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

Table 1a Profitability of savings by year - rollover in the past twelve years

| | 1 year | 2 years | 3 years | 4 years | 5 years | 6 years | 7 years | 8 years | 9 years | 10 years | 11 years | 12 years |
|--|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Savings in RSD | 109,930 | 120,022 | 128,615 | 136,152 | 140,550 | 144,345 | 148,083 | 152,274 | 155,807 | 158,658 | 163,243 | 171,275 |
| Savings in EUR | 894 | 918 | 934 | 941 | 946 | 950 | 955 | 959 | 967 | 973 | 984 | 1,006 |
| Difference in favour of dinar savings | 7,991 | 13,931 | 16,060 | 20,040 | 25,103 | 32,088 | 35,509 | 39,464 | 42,081 | 44,363 | 47,791 | 53,454 |
| RSD (EUR) | (70) | (121) | (133) | (162) | (206) | (272) | (301) | (336) | (358) | (378) | (408) | (457) |

Profitability of savings – by subperiods without rollover

The analysis of profitability of savings of different maturities (three months, one year and two years) by subperiods without rollover, showed that in the past 12 years dinar savings termed for a year were more lucrative than euro savings in as many as 131 out of 133 annual subperiods³ (Chart 5). A person who deposited RSD 100,000 in June 2023 would receive almost RSD 2,900 more in June 2024 compared to a depositor placing RSD 100,000 in the euro equivalent in the same period.

Dinar savings termed for three months were more lucrative than euro savings in over 90% of cases or 129 quarterly subperiods (a total of 142 subperiods were observed⁴), while savings termed for two years were more profitable in all of the 121 observed subperiods.⁵

As shown by the analyses, in the observed period of 12 years it was more profitable to save in dinars regardless of the length of the term.

Chart 5 Profitability of one-year savings (in RSD, by maturity date)



Source: NBS.

³ In case of savings with one-year maturity, the first observed subperiod is June 2012 – June 2013, the second observed subperiod is July 2012 – July 2013, etc. The last observed subperiod is June 2023 – June 2024.

⁴ In case of savings with three-month maturity, the first observed subperiod is June 2012 – September 2012, the second observed subperiod is July 2012 – October 2012, etc. The last observed subperiod is March 2024 – June 2024.

⁵ In case of savings with two-year maturity, the first observed subperiod is June 2012 – June 2014, the second observed subperiod is July 2012 – July 2014, etc. The last observed subperiod is June 2022 – June 2024.

Table 2 Profitability of savings termed for a year

| Type of savings | Termed | Initial deposit | Dinar exchange rate* | Interest rate (in %, p.a.)** | Maturing | Dinar exchange rate* | Deposit at the end of term period | |
|--|-----------|-----------------|----------------------|------------------------------|-----------|----------------------|-----------------------------------|-----------|
| | | | | | | | in RSD | in EUR*** |
| Savings in RSD | June 2023 | 100,000 | 117.2731 | 4.92 | June 2024 | 117.0715 | 104,920 | 896 |
| Savings in EUR | June 2023 | 853 | 117.2731 | 2.62 | June 2024 | 117.0715 | 102,051 | 872 |
| Difference in favour of dinar savings - one year | | | | | | | 2,869 | 25 |
| Difference in favour of dinar savings - three months | | | | | | | 568 | 5 |
| Difference in favour of dinar savings - two years | | | | | | | 2,563 | 22 |

* Average monthly middle exchange rate of the dinar against the euro.

** Weighted average rate on dinar and euro deposits termed for up to one year - new business.

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

CONCLUSION

The semi-annual analysis of profitability of dinar and FX savings for the period of 12 years, from June 2012 until June 2024 showed that it was more profitable to save in dinars both in the short and long run.

- In the last 12 years – dinar savings termed for a year and rolled over in the period of 12 years were more profitable than such savings in euros.
- In the last two years – dinar savings with two-year maturity (long term) were more profitable than savings in euros in all observed two-year subperiods.
- In the last year – dinar savings with one-year maturity were more profitable than one-year maturity savings in euros in almost all observed annual subperiods (over 98%).
- In the last three months – dinar savings with three-month maturity were more profitable than savings in euros in most observed quarterly subperiods (over 90%).

Greater profitability of dinar compared to FX savings was underpinned not only by higher interest rates on dinar than on euro savings and the tax-free status of interest on dinars savings, whilst interest on FX savings is subject to 15% tax, but also by achieved and preserved macroeconomic and financial stability in the prior years, particularly in the multi-year crisis environment, with well-calibrated and timely monetary and fiscal policy measures playing the key role.

Dinar savings of all maturities were more profitable than FX savings.
