



National Bank of Serbia

Key NBS results in the past six years

Presentation of the Inflation Report - August 2018

Belgrade, 15 August 2018



Key results of the NBS in numbers 1/2

Inflation in Serbia has been low and stable for five years.

12.9% <i>October 2012</i>	2.2% <i>October 2013</i>	Inflation was reduced from two-digit levels to a level comparable with other European countries in less than a year... ...and maintained at a low level for the next five years.
2.0% <i>Average for the last five years</i>		
4±1.5% <i>Target until 2017</i>	3±1.5% <i>Target as of 2017</i>	

There is trust in the NBS that inflation will remain low in future as well.

8% <i>End-2012</i>	2.8–3.0% <i>Today</i> <i>Financial sector</i>	Inflation expectations of the financial and corporate sectors at end-2012 stood at 8% and 10%, respectively, with large oscillations... ...while as of October 2013 in case of the financial sector and as of February 2014 in case of corporates they turned low and stable and entered the NBS's target tolerance band.
10% <i>End-2012</i>	2.7% <i>Today</i> <i>Corporate sector</i>	

Relative stability of the exchange rate has been preserved and the country's FX reserves increased.

<i>6 August 2012 – 6 August 2018</i> Appreciation: 0.5% Bought: EUR 1.1 bn net	The RSD/EUR exchange rate remained almost unchanged over the last six years, despite turbulences in the international environment, and the country's FX reserves increased based on interventions in the IFEM – net purchase of EUR 1.1 bn.
<i>1 January 2008 – 6 August 2012</i> Depreciation: 33.1% Sold: EUR 5.7 bn net	
<i>July 2012 – July 2018</i> NBS FX reserves: +EUR 1.3 bn Liabilities to banks: -EUR 1.0 bn Liabilities to the IMF: -EUR 1.7 bn Net FX reserves: +EUR 4.0 bn	Net FX reserves of the NBS, that is of the Republic of Serbia, rose since the beginning of August 2012 till end-July 2018 by EUR 4.0 bn to EUR 9.5 bn, their highest level since 2000. This is an additional protection from potential external shocks.

Key results of the NBS in numbers 2/2

Interest rates fell to their lowest levels.

<p><i>Relative to May 2013</i></p> <p>– Interest rates on dinar loans fell by:</p> <p>11.4 pp 10.5 pp</p> <p><i>Corporates</i> <i>Households</i></p>	<p>Interest rates on dinar loans recorded a strong drop relative to May 2013, which contributes to higher disposable income of corporates and households and growth in credit and economic activity.</p>
<p>– Lower interest rates on government securities:</p> <p>depending on maturity, around 7 pp</p>	<p>Interest rates on government securities also dropped significantly, aiding successful fiscal consolidation. Today, interest rate on ten-year dinar government securities equals 4.8%, compared to 13% in October 2014 when they were first issued.</p>

By reducing interest expenses and exchange rate losses, the NBS gave a significant contribution to the profitability of corporates.

<p><i>Interest expenses of corporates</i></p> <p>RSD 145 bn RSD 91 bn</p> <p><i>2014</i> <i>2017</i></p> <p>-37%</p>	<p>Thanks to the NBS's monetary policy easing, lower country risk premium, increased interbank competition and the ECB's monetary policy accommodation, corporate interest expenses were reduced in the face of the rising stock of corporate loans.</p>
<p><i>Exchange rate losses of corporates</i></p> <p>RSD 246 bn RSD 98 bn</p> <p><i>2014</i> <i>2017</i></p> <p>-60%</p>	<p>At the same time, relative stability of the dinar exchange rate, resulting from successful implementation of monetary and fiscal policies, pushed down exchange rate losses of corporates.</p> <p>In other words, both corporates and entrepreneurs feel the benefits of the achieved stability, as evidenced by their financial reports, especially taking into account that around 35% of profitability improvement in the period since 2015 stemmed from two positions that were significantly influenced by the central bank.</p>

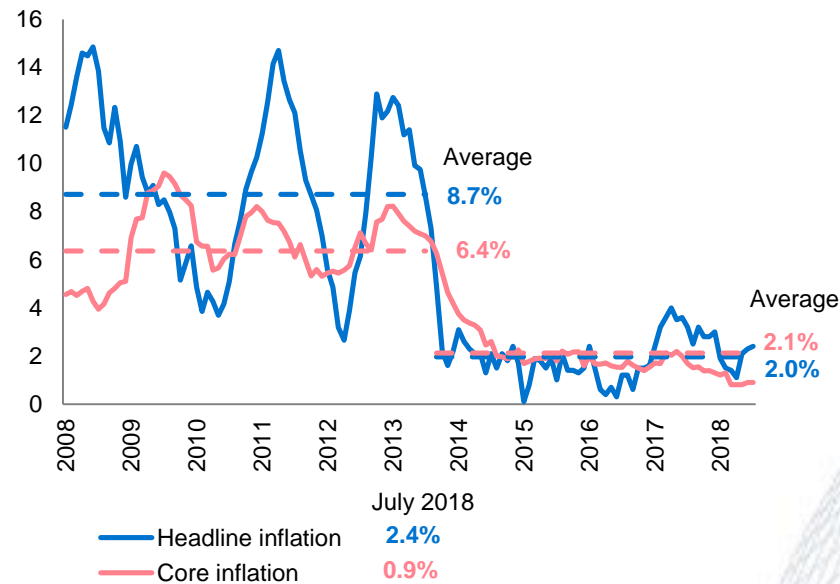
Financial stability has been preserved, the share of NPLs reduced significantly and the regulatory framework improved.

<p><i>NPL share in bank loans</i></p> <p>22.4% 7.8%</p> <p><i>July 2015</i> <i>June 2018</i></p>	<p>As a result of a systemic approach, in the course of three-years, NPL share in total bank loans fell to its lowest level since this indicator was introduced, i.e. since end-2008. The stock of these loans dropped by over 60% over the last three years since the Strategy was adopted.</p>
<p><i>Capital adequacy ratio</i></p> <p>22.9% (<i>regulatory minimum 8%</i>)</p> <p><i>Liquidity ratio</i></p> <p>2.1 (<i>regulatory minimum 1.0</i>)</p>	<p>The banking system is stable, adequately capitalised and liquid. Owing to the continuous improvement of the regulatory framework governing operation of the financial sector, banks got the opportunity to align their business with the best international practice and standards, which resulted in the preservation and further strengthening of financial stability.</p>

Inflation has been low, predictable and comparable with European countries for five years straight. There is trust in NBS to maintain low inflation in future as well

Chart 1 Low and stable inflation

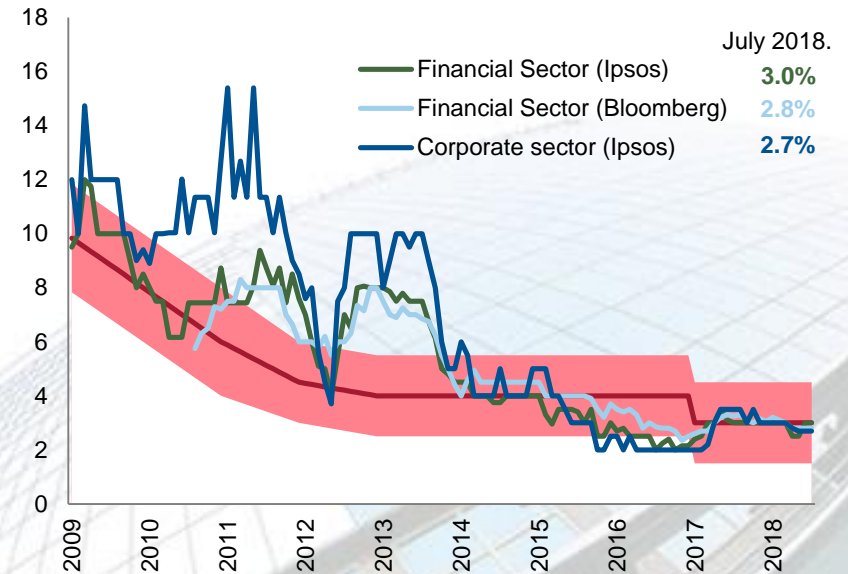
(y-o-y rates, in %)



Sources: SORS and NBS calculation.

Chart 2 Anchored one-year ahead inflation expectations

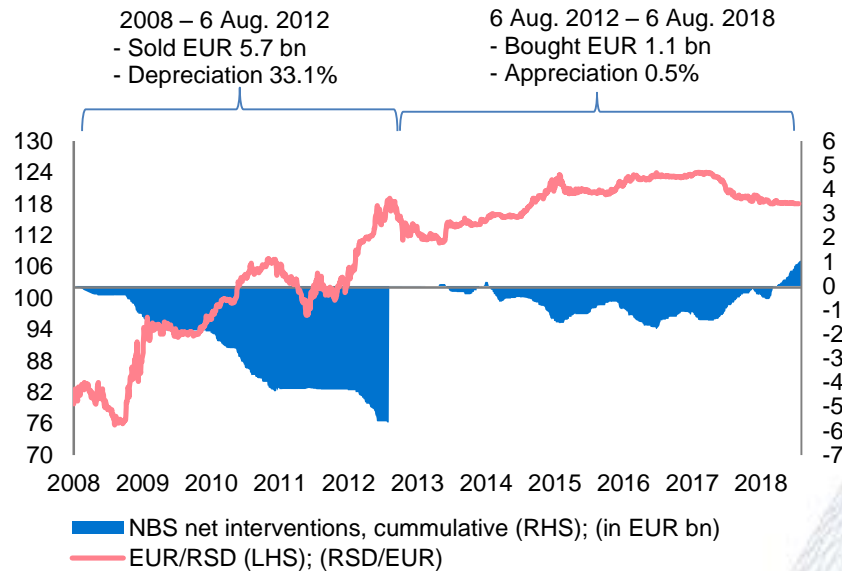
(y-o-y rates, in %)



Sources: Gallup, Ipsos/Ninamedia, Bloomberg and NBS.

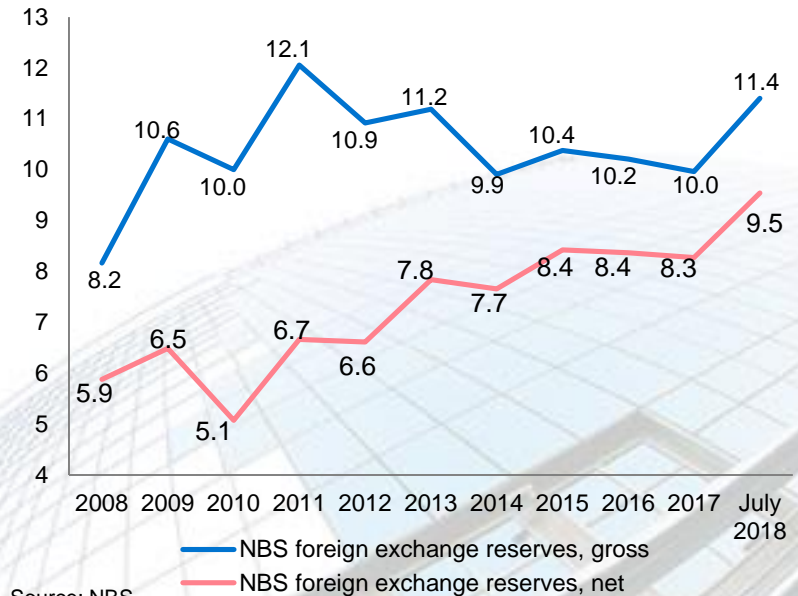
Relative stability of the exchange rate has been preserved and the country's FX reserves increased

Chart 3 Relative stability of the exchange rate in the past six years



Source: NBS.

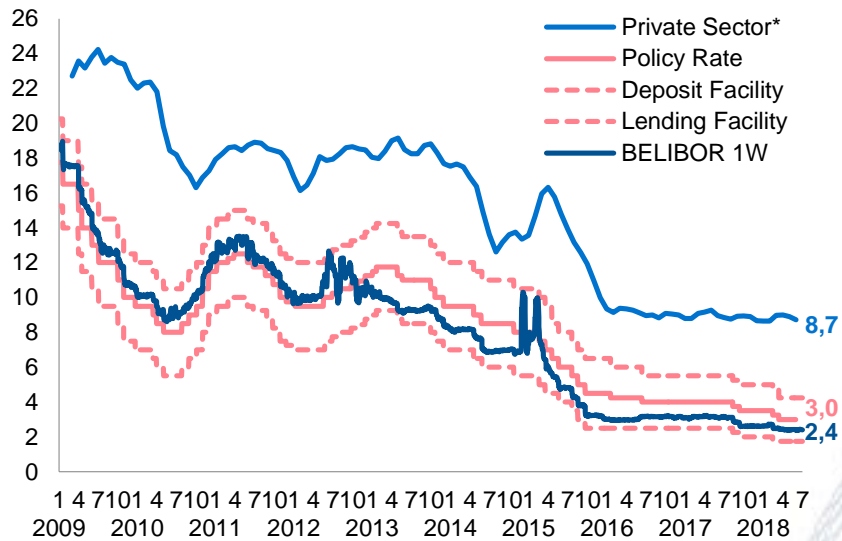
Chart 4 Increased level of FX reserves (in EUR bn)



Source: NBS.

Owing to monetary policy easing...

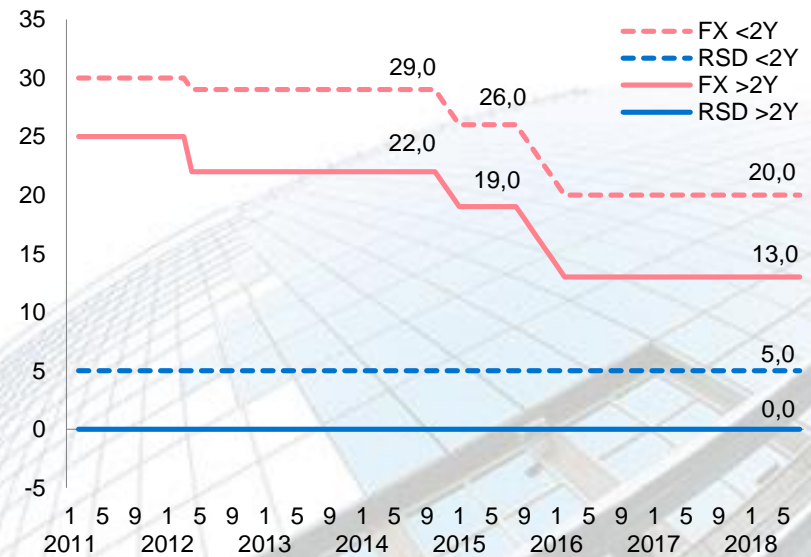
Chart 5 **Key policy rate at a minimum**
(annual level, in %)



Sources: Thomson Reuters and NBS.

* Weighted average interest rate on RSD loans, 3-month moving average (up to September 2010, the date were exclusively used for research purposes of the NBS).

Chart 6 **Monetary policy accommodation was also carried out through reduction in FX required reserves**
(in %)

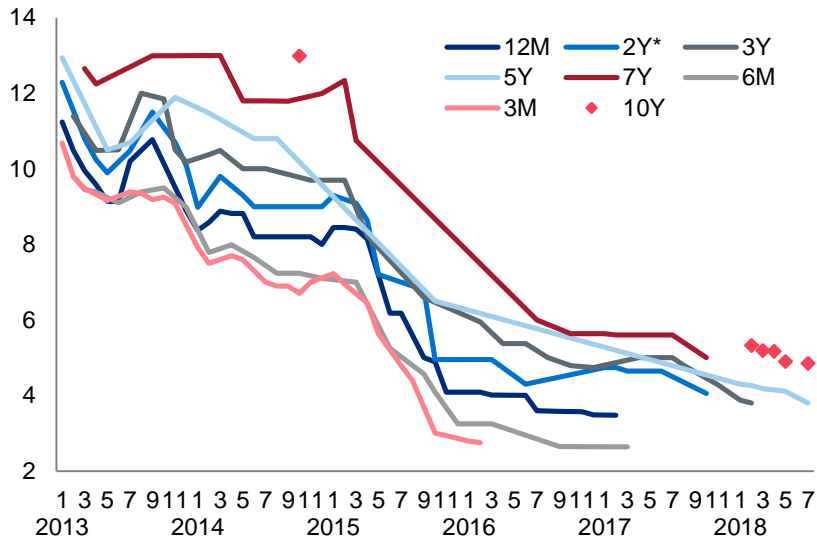


Source: NBS.



...interest rates were brought down to their lowest levels

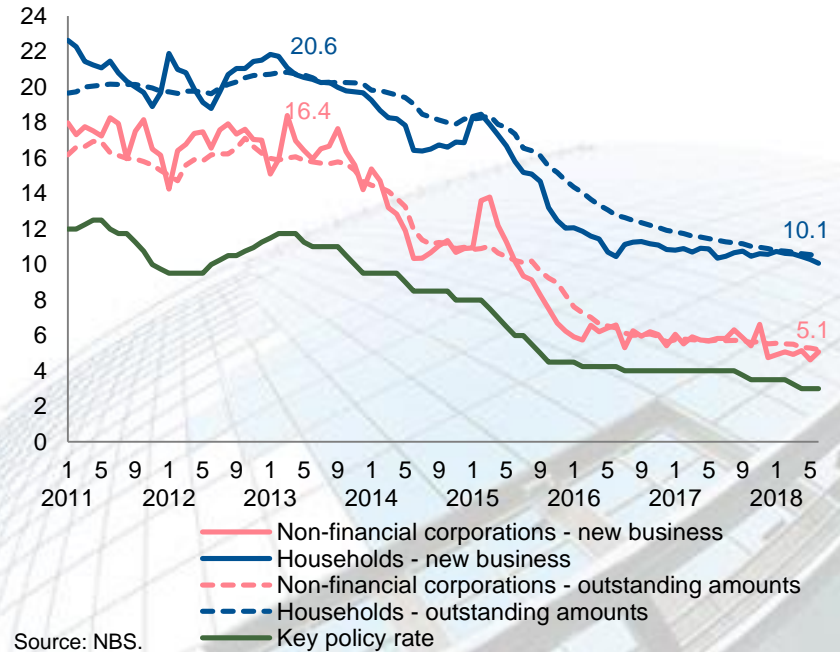
Chart 7 **Significantly reduced interest rates on dinar government bonds**
(annual level, in %)



Source: Ministry of Finance.

* Excluding coupon securities with the rate linked to the NBS key policy rate.

Chart 8 **Interest rates on dinar loans are at a minimum**
(annual level, in %)



Source: NBS.

Maintaining price and financial stability contributes to favourable investment ambience

Chart 9 **Sharp fall in Serbia's risk premium**

(daily data, in bp)

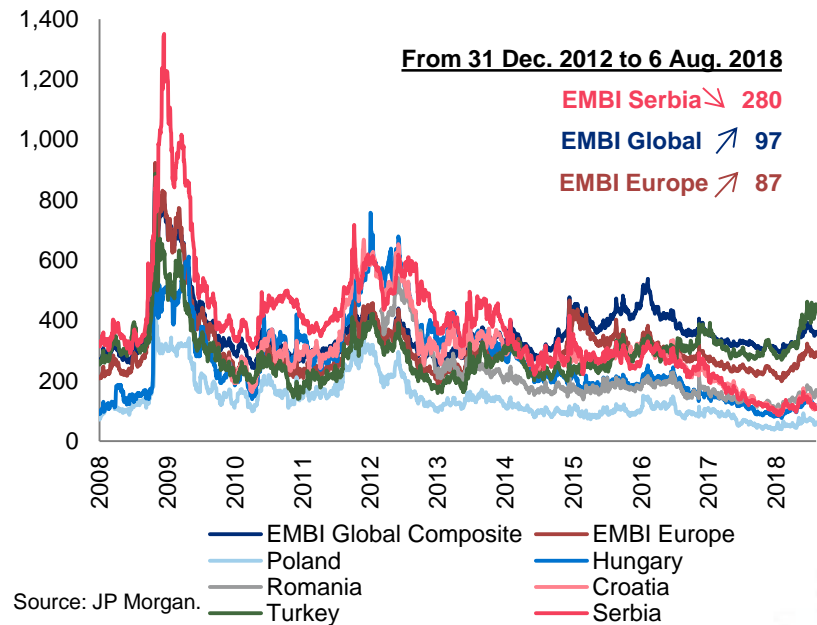
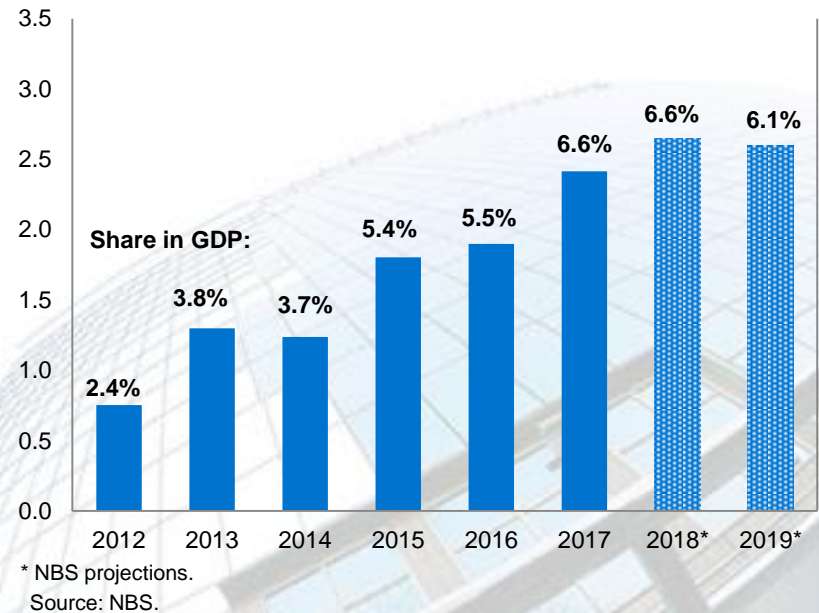


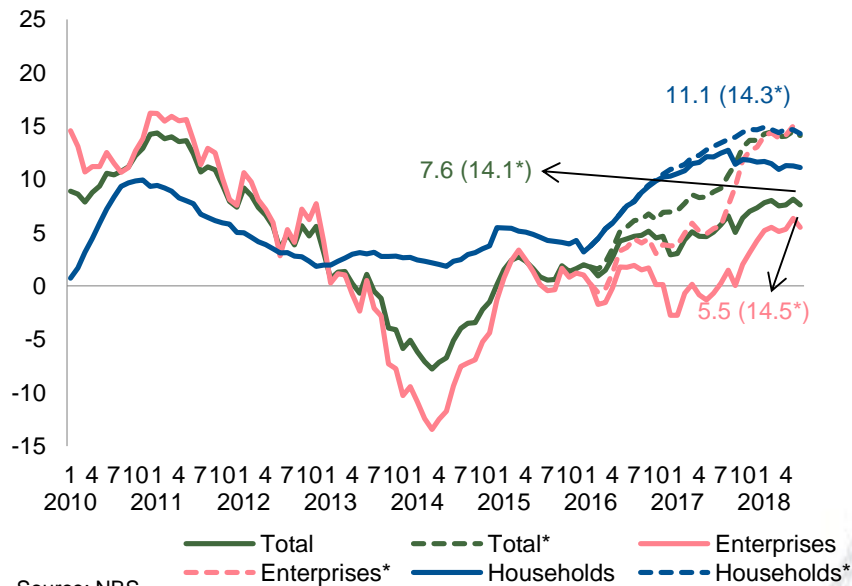
Chart 10 **Relatively high FDI inflow, which is also expected in the coming period**

(in RSD bn)



NPLs were reduced considerably and financial stability was preserved

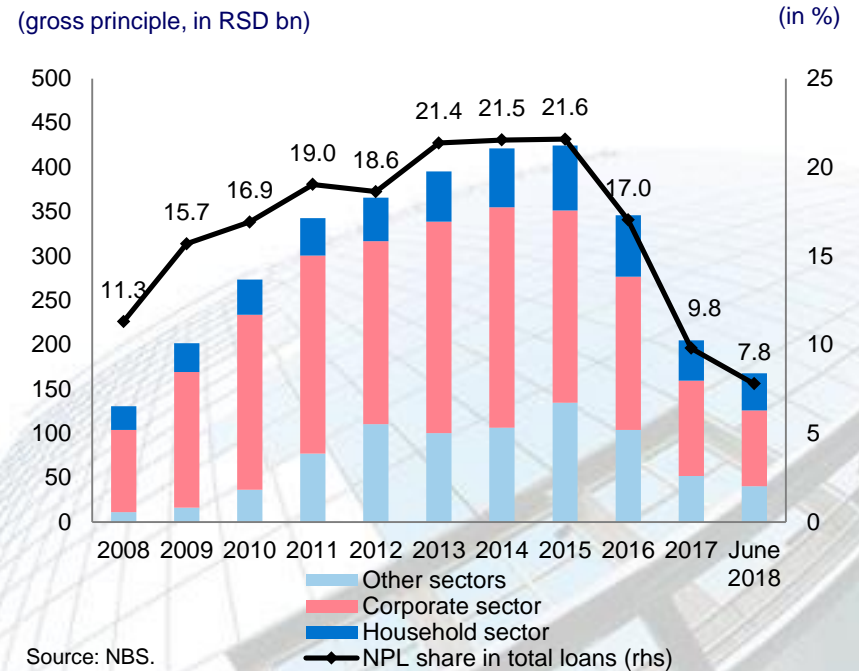
Chart 11 **Fall in borrowing costs encouraged lending activity**
(at constant exchange rate as at 30 Sept. 2014, y-o-y rates, in %)



Source: NBS.

* Excluding the effect of NPL write-off and sale since early 2016.

Chart 12 **Share of NPLs fell to its lowest level**



Source: NBS.

By reducing interest expenses and exchange rate losses, the NBS gave a significant contribution to the profitability of corporates and economic growth

Chart 13 **Better financial result of the corporate sector**
(in RSD bn)

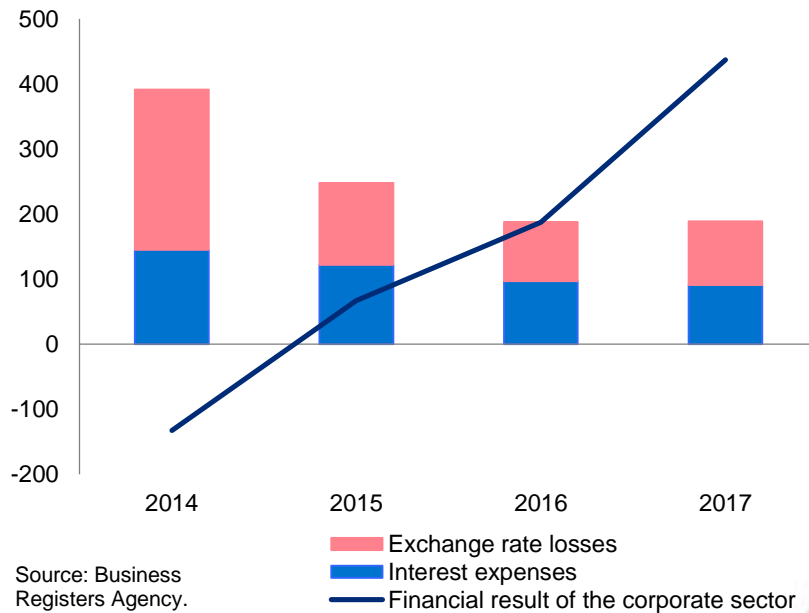


Chart 14 **Investments supported by a rise in profitability, lending and FDI gave a considerable contribution to GDP growth**
(in pp)

