

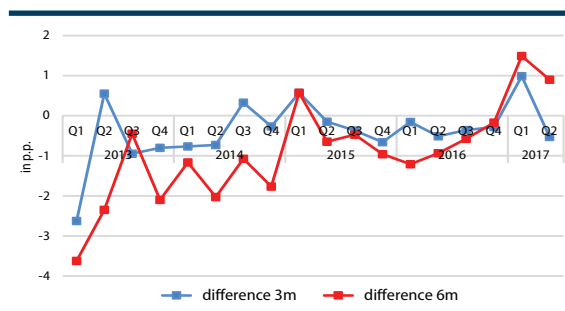
7. Monetary Trends and Policy

The stabilization of inflations at about the target level with a pronounced strengthening of appreciation pressure marked Q2 but had no effect on Serbian National Bank (NBS) monetary policy. After the y.o.y. inflation rate dropped in August below the target level to 2.5%, the NBS decided in September to lower the key policy rate to 3.75% which was its first correction after a period of 14 months. Appreciation pressure, which grew stronger in Q2, caused the NBS to intervene by buying a total of 505 million Euro in foreign currency to ease the Dinar strengthening trend which then continued in July and August. The pressure to strengthen the Dinar in the previous period was generated by a combination of effects from international capital trends which caused an increased inflow of foreign currency and a lower offer of the Dinar because of a growing budget surplus and increased investments by domestic banks into REPO bonds. The y.o.y. growth of the M2 money mass slowed down to 7.4% nominally while the growth in real terms was almost halved from the 3.8% y.o.y. compared to the previous quarter. Positive changes are evident in the real growth rate of loans to the non-state sector which was increased to 3.1% y.o.y. but still only on the basis of a rise in loans to private individuals. Business banks recorded a significant growth in net placements in Q2 which was done by increases in the segment of net credit to the enterprises and households and the growth of placements in REPO with an added increase in banks' own capital and reserves. The trend of the enterprises repaying loans stopped in Q2 when a rise in net loans was recorded in this segment of 83 million Euro with another 135 million Euro in July. The increase in credit activity among the households continued in the same period with a growth in net loans recorded of 330 million Euro. The participation of NPLs was reduced by the end of Q2 by an additional 0.8 percentage points as the consequence of the growth of credit activity and a combination of write-offs and sales of NPLs to persons outside the banking sector. Data from July and August show that the participation of NPLs showed a slight increase despite the growth in credit activity which suggests that the state and the NBS would have to step up their efforts to speed up the cutting down of NPL participation as has been done by other neighboring countries.

Central Bank: Balances and monetary policy

The y.o.y. inflation rate drew back to the target framework from 3.6% by the end of Q2 following a fast growth in April and in August it dropped to 2.5% y.o.y. which is below the target level ($3 \pm 1.5\%$). In the same period, deflation was recorded at monthly level in May of -0.5% and then again in July from -0.4% which was one of the elements that caused an increased interest by business banks for placements of surplus liquidity into REPO bonds. Another favorable element which made placement in REPO significantly more interesting was the nominal and real appreciation of the Dinar which was recorded in the same period (Table T7-2). Even though

Graph T7-1. Deviations from the predicted inflation 3 and 6 months in advance from the real rate 2013-2017



Source: NBS

Stabilization of inflation makes room to relax monetary policy

...

... which only came in September

the NBS reacted on the Inter-banking foreign exchange (FX) market to prevent greater daily oscillations in the Dinar exchange rate, the achieved appreciation of the Dinar can hardly be justified with real trends in the domestic enterprises bearing in mind the level of the foreign trade deficit and the difference in inflation and economic growth in Serbia compared to the region and the Euro zone. The NBS did not change its monetary policy in Q2 in terms of the key policy rate which remained at the level of 4% up to the first half of September when it was adjusted to

3.75%. Given the current situation in which the offer of hard currency on the FX market and the stabilization of inflation at about the target level, room was created for the NBS to conduct a more determined exchange rate policy in the coming period. A further strengthening of the Dinar exchange rate which is not the consequence of real improvements in the domestic enterprises will very quickly have a negative effect on the international competitiveness of exports and labor costs expressed in Euro.

Table T7-2. NBS interventions and foreign currency reserves 2015-2017

	2015				2016				2017	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Repo stock (in millions of euros)	2.85	168.72	508.19	253.24	246.50	239.12	325.82	279.23	480.53	572.42
NBS interest rate	7.50	6.00	5.00	4.50	4.25	4.25	4.00	4.00	4.00	4.00
NBS interest rate	-1.13	3.08	5.00	6.66	2.60	1.78	3.17	1.94	-5.11	1.94
NBS interest rate	11.33	5.70	6.29	-0.76	-0.34	3.35	4.57	3.37	4.48	15.71
NBS interventions on FX market (in millions of euros)	170.00	290.00	730.00	520.00	-555.00	-820.00	-345.00	-160.00	-345.00	160.00
INCREASE	in millions of euros, cumulative from the beginning of the year									
NBS own reserves ²⁾	607.7	638.6	1022.9	1163.0	-469.43	-785.86	-346.46	-163.03	-269.73	-265.22
NDA	-515.6	-460.4	-956.2	-783.4	45.62	395.60	-99.67	94.92	-171.42	-248.75
Government, dinar deposits ³⁾	-151.9	-13.7	-308.7	-217.4	41.52	275.36	35.00	195.73	-41.59	-358.48
Repo transactions ⁴⁾	68.0	-97.4	-413.3	-166.4	5.09	19.53	-279.20	-25.66	-207.38	-285.41
Other items, net ⁵⁾	-431.8	-349.3	-234.1	-399.5	-0.99	100.71	144.53	-75.15	77.56	395.14
H	92.1	178.3	66.7	379.6	-423.81	-390.27	-446.13	-68.11	-441.15	-513.96
o/w: currency in circulation	-133.7	-95.5	-39.9	76.8	-68.06	-20.21	40.74	157.26	-104.02	-114.39
o/w: excess liquidity	210.3	229.5	104.1	408.0	-284.91	-319.01	-465.39	-241.74	-351.17	-422.08
	in millions of euros, cumulative from the beginning of the year									
NBS, net	676.36	561.44	762.45	667.97	-865.84	-1061.63	-784.51	-137.62	-464.59	-618.87
Gross foreign reserves	638.67	440.86	613.29	508.46	-880.04	-1080.32	-807.49	-153.76	-469.25	-632.21
Foreign liabilities	37.69	120.58	149.16	159.52	14.21	18.69	22.97	16.14	4.66	13.34
IMF	39.37	106.55	129.87	141.97	8.10	15.09	16.00	14.12	-0.04	5.81
Other liabilities	-1.67	14.04	19.29	17.54	6.10	3.59	6.98	2.02	4.69	7.53
NBS, NET RESERVES-STRUCTURE										
1. NBS, net	676.36	561.44	762.45	667.97	-865.84	-1061.63	-784.51	-137.62	-464.59	-618.87
1.1 Commercial banks deposits	-20.68	-29.93	65.59	100.98	331.11	302.75	339.40	90.80	144.67	156.34
1.2 Government deposits	-47.99	107.13	194.81	393.89	65.30	-26.98	98.65	-116.22	50.18	197.32
1.3 NBS own reserves	607.70	638.64	1022.85	1162.84	-469.43	-785.86	-346.46	-163.03	-269.73	-265.22
	(1.3 = 1 - 1.1 - 1.2)									

Source: NBS.

1) "Initial M2" designated the state of primary money at the start of the current and end of previous year.

2) The definition of NBS net own reserves is given in section 8, "Monetary trends and policy", Frame 4, QM no. 5.

3) State includes all levels of government: republic and local administration level.

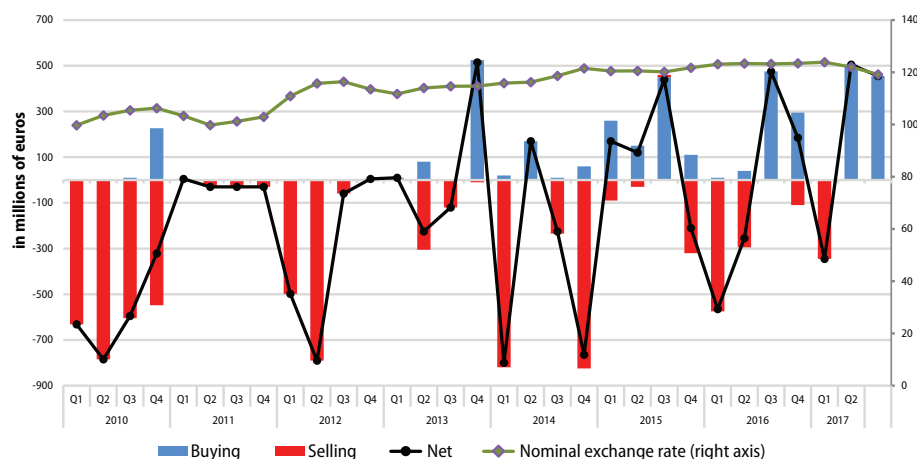
4) This category includes NBS Treasury Bonds and repo operations.

5) Other domestic assets includes: domestic loans (net bank debts, not including treasury bonds and repo transactions; net enterprises debts) along with other assets (capital and reserves; and items in the balance: other assets) and corrected by changes to the exchange rate.

NBS intervened in Q2 to buy foreign currency ...

... in order to ease the appreciation trend in the Dinar exchange rate

Q2 saw a change in the direction of pressure on the FX market and the NBS had to intervene by buying foreign currency in order to ease the trend to strengthen the Dinar. That brought the NBS into the position of becoming a net buyer of foreign currency to the amount of 505 million Euro with another 455 million realized in July and August (Graph T7-3). The greatest pressure on the strengthening of the exchange rate was in June when the NBS intervened with 345 million Euro but despite that the highest nominal exchange rate appreciation was recorded in that

Graph T7-3. NBS interventions on Inter-banking foreign exchange (FX) market 2010-2017


Source: NBS

month. The strengthening of the Dinar exchange rate is typical for that period when remittances from outside the country are higher and the duration and intensity is stepped up by capital offer in Europe and domestic fiscal policy. The expansive nature of European Central Bank (ECB) monetary policy, which is still in place, caused a higher inflow of foreign currency into Serbia on the basis of the purchase of state bonds while the budget surplus generated in H1/Q1 was reflected in a decrease of the amount of Dinars in circulation. The purchase of foreign currency by the NBS did not have an effect on the level of net own reserves which grew in Q2 by just 4 million Euro while a more pronounced growth of 217 million Euro was recorded in July (in Q1, the net own reserves dropped by 270 million Euro, Table T7-2). The primary money was reduced additionally in Q2 by 72 million Euro following a reduction of 441 million Euro in the previous quarter. Net domestic assets (NDA) viewed in comparison to the previous quarter were also reduced by 77 million Euro which is the consequence of the combined effect of increases in state Dinar deposits of 317 million Euro and increased placements by banks in REPO bonds of 78 million Euro. Those effects were partly neutralized by an increase in other net assets of 318 million Euro which stopped a greater drop in NDA at quarterly level.

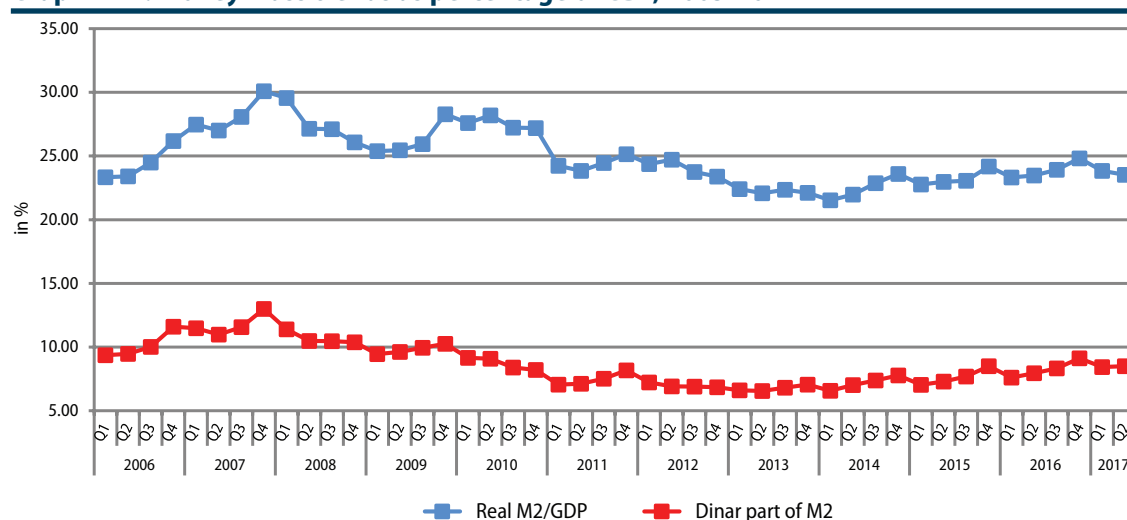
Monetary system: money mass structure and trends

The y.o.y. real growth of M2 slowed in Q2 ...

... but the real growth of credit to the non-state sector speeded up

Following a high growth in the previous quarter, the money mass M2¹ slowed down its growth in Q1 to 7.4% y.o.y. (in Q1 the money mass was increased by 10.3% y.o.y., Table T7-5). Compared to the value at the end of March, the money mass was reduced by 0.4% as the consequence of the combined effect of the increase of net foreign assets (NFA) and a drop in the NDA. The contribution of the NFA to the growth of the M2 compared to the previous quarter stood at 0.6 percentage points but at the same time there was a drop in the NDA of 1 percentage point which caused a drop in M2 compared to the values at the end of March. When viewing the y.o.y. growth rates corrected by inflation, we also see a slowing down of the M2 growth to 3.8% (in Q1 the real y.o.y. growth rate stood at 6.4%). A somewhat better situation was recorded with loans to the non-state sector whose growth in Q2 speeded up to 2.7% y.o.y. This is completely thanks to a real growth in loans to households which stood at 9.7% y.o.y. Despite a significant quarterly increase in net placements in the enterprises because of repayments over the previous three quarters, the enterprises continues to recorded a negative real y.o.y. growth rate which stood at -2% in Q2.

Graph T7-4. Money mass trends as percentage of GDP, 2005-2017



Source: QM calculation

¹ The M2 money aggregate in the section Monetary Trends and Policy includes the lesser aggregate M1, savings and timed deposits as well as deposits in business banks. The M2 aggregate which we observe is equal to the monetary aggregate M3 in NBS reports because of that.

Table T7-5. Growth of money and contributing aggregates, 2015–2017

	2015				2016				2017	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
	y-o-y, in %									
M2 ¹⁾	8.5	7.8	4.1	7.2	7.9	7.8	10.2	9.9	10.3	7.4
Credit to the non-government sector ²⁾	5.8	4.2	2.2	2.8	2.2	4.7	5.9	2.6	4.1	2.0
Credit to the non-government sector ²⁾ , adjusted ³⁾	2.8	1.2	1.7	2.5	0.6	3.1	3.9	1.5	3.5	3.5
Households	5.5	4.9	3.8	4.3	3.8	5.8	8.4	9.4	11.0	11.8
Enterprises	1.2	-1.0	0.3	1.3	-1.4	1.4	1.0	-3.3	-1.3	-2.1
	real y-o-y, in %									
M2 ¹⁾	6.4	5.8	2.6	5.5	7.2	7.3	9.4	8.0	6.4	3.8
Credit to the non-government sector ²⁾ , adjusted ³⁾	1.6	0.3	1.1	1.8	0.2	2.3	2.8	0.9	2.1	2.7
Households	3.9	3.4	2.9	3.4	2.9	4.6	6.6	7.5	8.6	9.7
Enterprises	0.3	-1.5	0.0	0.8	-1.5	0.9	0.4	-3.2	-1.7	-2.0
	in billions of dinars, end of period									
M2 ¹⁾	1,835.4	1,876.1	1,893.8	1,999.7	1,979.6	2,023.2	2,087.0	2,196.8	2,182.7	2,173.3
M2 ¹⁾ dinars	567.8	595.3	632.4	702.6	645.5	685.0	727.1	808.0	772.7	785.2
Fx deposits (enterprise and households)	1,267.7	1,280.8	1,261.4	1,297.0	1,334.1	1,338.2	1,359.9	1,388.7	1,410.0	1,388.1
	quarterly growth M2⁴⁾ and shares									
M2 ¹⁾	-1.6	2.2	0.9	5.6	-1.0	2.2	3.2	5.3	-0.6	-0.4
NFA, dinar increase	-2.5	1.5	2.0	3.7	-2.9	2.0	2.1	3.9	-1.6	0.6
NDA	0.9	0.7	-1.0	1.9	1.9	0.2	1.1	1.4	1.0	-1.0

Source: NBS

1) Money mass: components – see Analytical and Notation Conventions QM.

2) Loans to non-state sector – loans to the enterprises (including local administration) and households.

3) Trends are corrected by exchange rate changes. Corrections are done with the assumption that 70% of loans to the non-state sector (both households and the enterprises) are indexed against the Euro.

4) Trends are corrected by changes to the exchange rate and inflation. Corrections are done with the assumption that 70% of loans to the non-state sector (both households and the enterprises) are indexed against the Euro.

Structure of contribution to the nominal growth of M2 unchanged compared to previous quarters

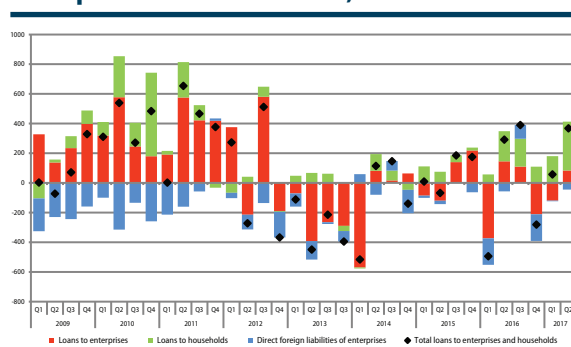
An analysis of individual contributions to the nominal y.o.y. growth of M2 shows a similar structure to that of the previous quarter. The greatest contribution to the nominal growth of 7.4% y.o.y. came from the lesser monetary aggregate M1 with 3.4 percentage points which is a continuing of the trend from mid-2015 up to which time foreign currency deposits were the main generator of growth. Their contribution now stands at 2.5 percentage points while savings and timed deposits recorded a positive contribution of 1.5 percentage points (in 2016, savings and timed deposits made negative contributions to the growth of M2 almost every month)

Banking sector: Placements and sources of financing

Business banks record pronounced growth of placements in Q2...

... in which net loans to economy record rise again

The net placements of banks which represent the difference between the values of new placements and repayments falling due on the basis of funds placed earlier in Q2 rose by 601 million Euro (Table T7-7). Business banks increased the value of placements in all three segments with the growth in net new loans to the enterprises and the households taking the lead. Net loans to the enterprises and households were increased in q2 by 413 million Euro with almost the entire growth recorded in June. Bearing in mind that the entire growth of net loans to the enterprises and the households in 2016 stood at 227 million Euro, that figure suggests that the domestic credit market is slowly seeing a revival of demand. That is shown by figure from July when an added increase in net loans to the enterprises and the households of 212 million Euro was recorded. As in previous quarters, net loans to the households recorded the highest increase which in Q2 stood at 330 million Euro and an additional 76 million Euro in July. We saw positive changes in the segment of net loans to the enterprises which, following negative values in the two previous quarters, once again registered an increase of 83 million Euro at the level of Q2 and additionally 135 million Euro in July.

Graph T7-6. Growth of new loans to enterprises and households, 2009–2017


Source: QM calculation

See footnote 1 in Table T7-5

Enterprises continues to repay foreign debts

The rest of the growth of the net placements by domestic banks was distributed to the growth of placement in REPO bonds and net loans to the state. In Q2 REPO placements stood at 87 million Euro but in July the REPO stock dropped by 363 million Euro while net loans to the state in Q2 stood at 100 million Euro.

Unlike the partial recovery of credit activity in the enterprises in terms of domestic banks, Q2 figures showed that repayment of debts to foreign banks is continuing. The enterprises has continued its trend of negative cross-border loans which in Q2 stood at -45 million Euro. On the basis of repayment of foreign loans and a growth in credit activity in the domestic banking system to the enterprises and the households a growth was recorded in net placements totaling 329 million Euro which is one of the biggest quarterly growth of placements in the past five years (Graph T7-6). Unlike the period prior to the financial crisis when new placements to the enterprises from domestic banks and on the basis of cross-border loans were the main mover of credit activity, now the households is the main element in increasing the net placements by banks. The largest part of newly-approved loans to the enterprises in this quarter was also in loans for current assets (60%), while the participation of investment loans stood at 22% and was slightly lower than in Q1. The demand by the households was directed, as in the previous period, towards Dinar cash loans and re-financing loans (59%), while the participation of newly-approved housing loans was at a similar level (18.2%) as in the previous quarter.

Table T7-7. Bank operations – sources and structure of placements, corrected¹⁾ trends, 2015-2017

	2015				2016				2017	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
	in millions of euros, cumulative from the beginning of the year									
Funding(-, increase in liabilities)	241	33	-368	-513	377	168	-363	-1,130	354	-252
Domestic deposits	47	-118	-324	-918	223	-235	-708	-1,425	107	-104
Households deposits	-11	-104	-114	-282	-16	-235	-362	-625	-69	-164
dinar deposits	96	19	-57	-196	3	-75	-154	-290	27	-7
fx deposits	-107	-123	-57	-86	-19	-161	-208	-334	-96	-157
Enterprise deposits	58	-14	-211	-635	239	0	-346	-800	175	60
dinar deposits	168	112	-75	-455	385	222	5	-352	207	142
fx deposits	-110	-126	-136	-181	-146	-222	-351	-448	-31	-82
Foreign liabilities	36	150	58	225	181	397	427	335	218	49
Capital and reserves	158	1	-101	179	-27	6	-82	-40	29	-198
Gross foreign reserves(-, decline in assets)	-150	-115	-262	-497	214	337	284	244	-35	-153
Credits and Investment¹⁾	-20	149	928	1,252	128	426	1,129	997	255	856
Credit to the non-government sector, total	24	-21	165	407	-316	32	329	186	61	474
Enterprises	-86	-207	-67	158	-374	-228	-118	-372	-119	-36
Households	111	186	231	248	57	260	447	559	180	510
Placements with NBS (Repo transactions and treasury bills)	-66	100	439	192	-7	-14	276	27	202	289
Government, net ²⁾	22	69	324	653	452	408	525	784	-8	93
MEMORANDUM ITEMS										
Required reserves and deposits	444	605	288	311	-598	-864	-859	-565	-161	-94
Other net claims on NBS ³⁾	-182	-309	-209	-100	-107	160	6	201	-324	-401
o/w: Excess reserves	-204	-317	-225	-134	-102	160	3	187	-326	-415
Other items ⁴⁾	-352	-379	-404	-343	0	-204	-175	253	-79	18
Effective required reserves (in %) ⁵⁾	22	23	20	20	17	16	15	16	16	15

Source: NBS

1) Calculating growth is done with the assumption that 70% of overall placements are indexed against the Euro. Growth for originally Dinar values of deposits is calculated under the average exchange rate for the period. For foreign currency deposits – as the difference in state calculated by the exchange rate at the ends of the period. Capital and reserves are calculated by the Euro exchange rate at the ends of the period and do not include the effects of changes to the exchange rate from the calculation of the remainder of the balance.

2) NBS bonds include state and NBS treasury bonds which are sold at repo rate and at rates set on the market for permanent auction sales with a due date greater than 14 days.

3) Net loans to the state: loans approved to the state are decreased by the state deposits in business banks; the negative prefix designates a higher growth of deposits than of loans. State includes all levels of government: republic and local administration.

4) Other NBS debts (net): the difference between what the NBS owes banks on the basis of cash and free reserves and debts to the NBS.

5) Items in bank balance: other assets, deposits by companies in receivership, inter-banking relations (net) and other assets not including capital and reserves.

6) Mandatory money reserves is the mandatory reserve and deposits in the sum total of overall deposits (households and enterprises) and bank debts abroad. The basis to calculate the mandatory reserve does not include subordinate debts because that data is not available

Besides the growth in credit placements in Q2, business banks also saw an increase in sources for new placements of 606 million Euro (in Q1 sources for new placements dropped by 354 million Euro, Table T7-7). The increase was almost equally distributed between all three channels of the growth of credit potential in the banking sector with an especially interesting increase in foreign

Significant increase in bank credit potential registered in Q2 ...

... similarly distributed in all three segments

debts by domestic banks. Domestic banks repaid debts to their head offices for funds taken earlier which means that the net increase of foreign debts by 199 million Euro could suggest that banks expect a further recovery of domestic credit activity. Domestic deposits recorded a rise in Q2 of 211 million Euro with 115 million being growth in deposits by the enterprises while the rest is in increases of deposits by the households. The foreign currency structure of the deposits shows a somewhat higher participation of foreign currency deposits by 111 million Euro against 99 million Euro in Dinar deposits which is owed to the higher growth of foreign currency deposits by the households against Dinar deposits. The increase in the credit potential was also thanks to a growth in capital and reserves in domestic banks of 227 million Euro which is the highest quarterly increase in the past few years. According to date from July it continued with an additional 58 million Euro.

Table T7-8. Participation of NPLs by type of debtor, 2008-2017

	2009	2010	2011	2012	2013	2014	2015				2016				2017		
	Dec	Dec	Dec	Dec	Dec	Dec	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Avg.
	balance at the end of period																
Corporate	12.14	14.02	17.07	19.06	27.76	25.5	25.85	28.63	25.52	24.40	26.89	26.26	23.56	19.48	19.92	19.24	19.70
Entrepreneurs	11.21	15.8	17.07	15.92	20.82	43.29	45.19	34.91	32.03	29.92	33.03	30.12	28.44	27.42	26.49	25.02	26.71
Individuals	6.69	6.71	7.24	8.32	8.59	9.97	10.16	11.60	10.68	10.53	10.95	10.63	10.36	9.66	9.21	8.35	8.68
Amount of debt by NPL (in billions of euros)	1.58	1.94	2.63	3.19	4.09	3.70	3.72	3.96	3.61	3.52	3.76	3.75	3.45	2.83	2.83	2.77	3.04

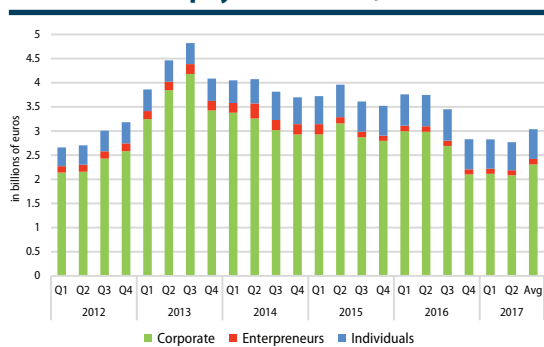
Source: QM calculation

The participation of NPLs dropped additionally in Q2 ...

... but the level continues to be high compared to the region

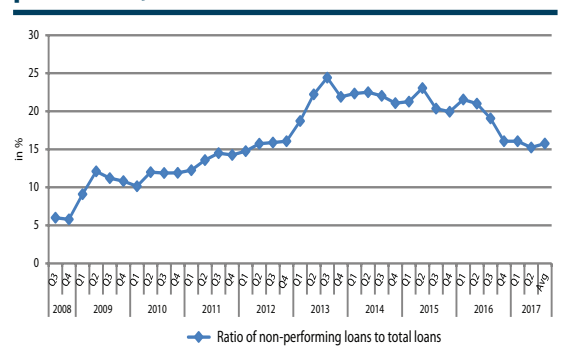
As in previous quarter, the end of Q2 saw a drop in the participation of NPLs in the overall placement both in the overall and in all individual categories of debtor. At the end of Q2, the participation of NPLs was lowered by 0.83 percentage points to 15.2% (Graph T7-10) with the greatest drop in the segment of private individuals by 0.86 percentage points (Table T7-8). Although a relatively somewhat lower drop was recorded with corporate sector by 0.68 percentage points, this had the greatest effect in the absolute amount because the NPLs to corporate segment account for 76% of the total sum of NPLs in the domestic banking sector. Placements to entrepreneurs in the NPL segment also registered a drop of 0.47 percentage points but since they represent just about 4% of the total of NPLs, these changes had no great effect on their overall participation. The drop in the participation of NPLs is the consequence of increased credit activity in Q2 and also the increased write-off and sale of NPLs to persons outside the banking system which is shown by figures on the absolute amount of NPLs at the end of June. The overall value of the remaining debt from loans whose repayments are falling late by more than 90 days dropped in Q2 by 58 million Euro compared to the previous quarter with a part owed to the changes in the exchange rate which were significant between quarters. What could be a cause for concern are the figures from July which show another increase in NPLs despite the recorded increase in credit activities which, along with other unchanged elements, should cause a drop in the participation of NPLs. That is confirmed by figures on an absolute increase in the value of the remaining debt on loans whose repayments are more than 90 days late which showed a growth of 270 million Euro.

Graph T7-9. Amount of remaining debt on loans whose repayment is late, 2012-2017



Source: QM calculation

Graph T7-10. Participation of NPLs in overall placement, 2008-2017



Source: QM calculation

Also, we should note that the pace at which the participation of NPLs is dropping has also slowed down significantly following a pronounced drop in Q4 2016 and that from the start of the year to August they remained at the level of 15-16%, which is among the highest participation levels compared to neighboring countries.

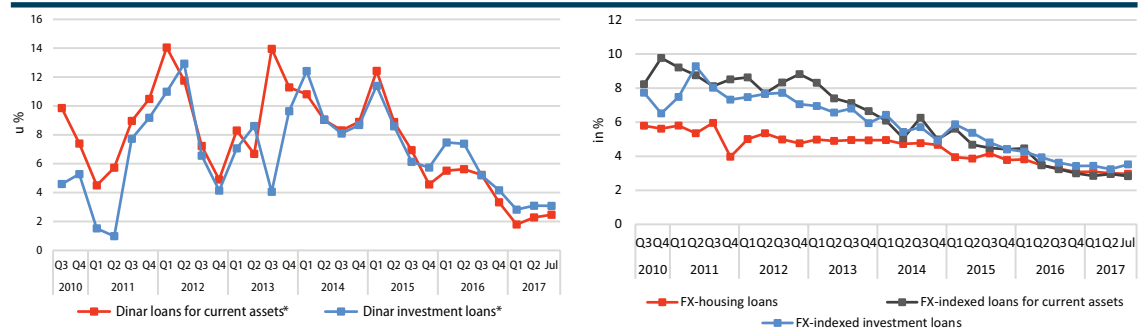
Interest rates: state and trends

Trend of lower interest rates stopped in Q2 ...

... which suggests that most rates are close to potential minimum

Despite the fact that the y.o.y. inflation rate remained unchanged in Q2 interest rates on Dinar loans recorded an increase compared to the starting quarter of 2017. Interest rates on Dinar loans for current assets increased by 0.5 percentage points nominally and in real terms while Dinar loans for investment credit recorded a rise of 0.27 percentage points compared to Q1 (Graph T7-11b). In terms of interest rates on indexed loans a deterioration was recorded in some credit categories. At the end of Q2, interest rates on indexed loans for current assets saw a rise of 0.11 percentage points compared to the previous quarter, but according to data from July there was a drop to the level from the end of Q1 (Graph T7-11a). In the segment of interest rates on indexed loans for investments, a different trend was noted. First, at the end of Q2 a drop was registered of 0.2 percentage points and then in July an increase was recorded of 0.3 percentage points which means that the interest rate level for those loans was above that at the end of Q1. The drop in interest rates both at the end of Q2 and at the end of July was recorded in indexed housing loans. The interest rate on those loans was lowered first by 0.09 percentage points at quarterly level and then in July by another 0.03 percentage points which brought the interest rate on indexed housing loans to below 3% for the first time.

Graph T7-11. Interest rates on Dinar and indexed rates, 2010–2017



Source: QM calculation
Real interest rates