INSTITUTIONAL REGULATION OF SAVINGS IN THE BANKING SECTOR OF SERBIA

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Abstract

Effects of the financial crisis initiated by crash of the real property market in the United States of America have been transferred at the global level, due to inherited issues and structural and functional defects of the financial systems. The first impact of the crisis on the banking sector happened in October 2008 in the form of temporary aggravation of the liquidity and net savings outflow. Owing to restrictive monetary policy prior to the crisis and prudential supervision of the financial sector, the first impacts of the crisis were amortized and the savers’ confidence in banking system and cumulative increase of saving followed. The purpose of the present paper is to indicate further protection of the banking system in Serbia from the destabilization through the institutional alignment with the European Union regulations and establishment of discipline with respect to application of systemic laws.

Ključne reči: Institutional regulations, Saving, interest rate, Banking sector, Global economic crisis.

1 Kontakt autora: jelena.bozovic@pr.ac.rs. Autori izjavljuju da nemaju značajne materijalne ili finansijske interese koji se odnose na istraživanje opisano u ovom radu. Takođe, autori izjavljuju da je podneti članak njihov originalan rad i da nakon izdavanja ništa od sadržine neće predstavljati povredu autorskog prava. Rad primljen 09.02.2014. godine. Odobren za objavljivanje 20.03.2014. godine. The authors declare that they have no relevant or material financial interests that relate to the research described in this paper. Also, the authors declare that the submitted paper is their original work and that, upon publication, nothing contained in it will not constitute an infringement of any copyright. Paper received 09.02.2014. Approved 20.03.2014.
1. Introduction

In the traditional sense savings represent giving for safekeeping or depositing money into the bank account for an agreed period of time, during which time the bank has the right to dispose of the money, and for such right it pays to the user a certain fee – interest on savings, which can be variable or invariable. The basic types of savings are:

- A vista savings is a mode of depositing funds into bank account in which the user has at his disposal all his money at all times. With this type of savings there are neither interest maturity dates nor any limitation on disposal of the funds in one’s bank account. The only disadvantage is interest, which is calculated at the end of the calendar year.
- Fixed-term savings, as the most frequent form of savings, imply clearly defined period of time for which the funds are deposited. With this type of savings, in case of need, it is possible to make early termination of contract, provided that at the moment of such early termination the interest is calculated as for a vista savings, which is always lower than the interest for fixed-term savings. The longer the term the better the yield on the money is the advantage of fixed-term savings.

In their offer the banks also have special savings models:
- Step by step savings, i.e. making a fixed-term deposit for the period of 12 months with fixed interest rate (interest rate is calculated at annual level and increases after each quarter).
- Gradual savings, i.e. making a fixed-term deposit for the period of 36 months, where the interest rate follows movement of reference interest rate of the National Bank of Serbia (client chooses the amount of monthly deposit, and after expiry of 12-month period fixed-term depositing can be terminated).

The most convenient form of savings depends on the yield-related conditions, but also on different types of savings. All the banks licensed by the National Bank of Serbia are obliged to insure deposits of physical persons, entrepreneurs, small and medium-sized legal entities, what represents one of the most important factors of restoring savers’ confidence into the bank system of the country.

2. Institutional regulations governing savings in Serbia

The Serbian financial system is dominated by bank-centric financial system. Institutional regulations of the banking system were introduced very quickly and effectively by the National Bank of Serbia, which is in charge of regulations of financial operation of banks. Bank regulations were efficiently implemented in the case of the banks founded in the form of foreign direct investments. The European banks founded in the form of acquisition or Greenfield investments have the greatest share in the banking sector at the moment.

Contrary to “straw mattress savings”, which bear no yield, i.e. do not increase savings amount, but carry the risk of theft, inflation, fire and other risks, savings in the bank enable safekeeping of money and gaining certain yield. To minimize distrust in the financial markets, governments in all countries takeover risky assets of the financial sector and provide adequate system of guarantees, including insurance of savings deposits.
Security of the funds deposited with a Serbian bank is assured by the very operation of the bank, whereas the amounts up to EUR 50,000 per bank and per client can be insured with the Deposit Insurance Agency with the guarantee of the Republic of Serbia (hereinafter referred to as: the Agency). Insurance of deposits of the business banks’ clients was established in 2005 by the Law on Deposit Insurance and the amendments to the same law from 2008. The insured deposit is RSD or foreign currency financial claim of the depositor towards the bank (savings deposit, current account or other account), insured by the Agency in accordance with the effective legal regulations. This Law regulates the statutory insurance of deposits of natural persons, entrepreneurs and small and medium-sized companies in banks for the purpose of protecting these persons’ deposits and maintaining financial stability in the Republic of Serbia. In the event of bankruptcy or liquidation of a bank, the Agency responsible for deposit insurance, established by a separate law (hereinafter referred to as: the Agency), shall pay the deposits of the persons up to the insured amount, in accordance with this Law.

In our country’s market conditions the savings in the bank, in RSDs or in foreign currency, are the safest investment, particularly after the Law on Deposit Insurance [Porter 1998] was adopted. In order to maintain financial stability in Serbia and to protect deposits of natural persons, entrepreneurs and small and medium-sized companies with the banks, this Law regulates the statutory insurance of deposits of such persons. [Aghion et al. 2001]. The Agency is obliged to pay deposits to such persons up to the insured amount in case of liquidation of a bank, in accordance with this Law. The Agency is obliged to keep the assets of the deposit insurance fund in a special deposit account opened with the National Bank of Serbia. [Bayoumi 1993]. The amount which will be paid to an individual depositor of the bank is determined after setting-off of the claim and total due financial obligations of the depositor and the bank (so called, depositor’s net claim) and it is calculated as follows (See Figure -1.):

**Figure – 1. Form to calculate depositor's net claim**

![](http://www.aod.rs/)

The bank is obliged pay the deposit insurance premium to the Agency, in accordance with the total risk balance in the bank, in the manner and within the time frames prescribed by the Agency from the date of its inscription into the Register of Business Entities until the day the competent court renders the decision on instituting bankruptcy proceedings [Braun & Di Tella 2004]. For RSD deposits the Agency will pay the insured deposit in RSDs (in RSD equivalent at the official middle exchange rate on the day the competent court renders the decision on instituting bankruptcy or liquidation proceedings), and for foreign currency deposits in EUR (at the exchange rate of EUR to certain currency calculated at the official middle exchange rate of RSD to EUR at the official middle exchange rate of RSD to that currency on the day the
competent court renders the decision on instituting bankruptcy or liquidation proceedings).

Increase in insured deposits, structure of insured deposits in favour of the short-term and foreign currency deposits, as well as increase in deposit insurance premium is noticeable in Serbia (See Table-1.). According to the official data of the Deposit Insurance Agency in the observed period all banks regularly pay deposit insurance premium.

**Table – 1. Status of insured deposits, insurance structure and premium**

<table>
<thead>
<tr>
<th>Date</th>
<th>Status of insured deposits (in billions of Euros)</th>
<th>Share of insured short-term deposits in total deposits (in %)</th>
<th>Share of insured foreign currency deposits in total deposits (in %)</th>
<th>Deposit insurance premium (in millions of Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2010</td>
<td>9.59</td>
<td>56.26</td>
<td>82.73</td>
<td>7.27</td>
</tr>
<tr>
<td>31.03.2011</td>
<td>9.70</td>
<td>56.31</td>
<td>83.16</td>
<td>9.60</td>
</tr>
<tr>
<td>30.06.2011</td>
<td>10.05</td>
<td>88.70</td>
<td>82.64</td>
<td>9.91</td>
</tr>
<tr>
<td>30.09.2011</td>
<td>10.36</td>
<td>88.18</td>
<td>82.04</td>
<td>10.32</td>
</tr>
<tr>
<td>31.03.2012</td>
<td>10.42</td>
<td>80.77</td>
<td>82.45</td>
<td>10.39</td>
</tr>
</tbody>
</table>

Source: Authors' calculations based on data from the Deposit Insurance Agency, website http://www.aod.rs/

From 2005 onwards there have been no examples of banking operation termination due to bankruptcy or liquidation, and therefore institutional framework for payout of the insured sum has not been applied. Additional reason for this is a series of precaution measures undertaken by the National Bank of Serbia in supervision control over business banks’ operation in order for the basic principles of banking operation to be applied and to prevent problems from arising. Application of the new Law on Deposit Insurance provides more efficient compensation for damage to the creditors compared to the period before the Law on Deposit Insurance entered into force, when the Republic of Serbia undertook to compensate damages to all savers of the banks undergoing bankruptcy or liquidation in the period up to 2002. This compensation is paid in regular annual instalments and it is not connected with the presently applicable law.

Financial and economic crisis 2009, besides all measures related to the banking sector, required adjustment and a specific approach to managing the shares in the banks in which the Republic of Serbia is a shareholder. By its Conclusion dated 07.05.2009 the Government adopted the Strategy on Managing the Shares of the Banks Owned by the Republic of Serbia for the Period 2009-2012. In the first stage of implementation of the Strategy it is planned to continue with the activities such as: preparation and implementation of the institutional building plans, analysis of economic justification of mergers of certain banks and share-capital increase. The Law on Deposit Insurance Agency prescribes that the Agency shall participate in the management of the banks in which the Republic of Serbia is a shareholder by monitoring the operations of those banks and their bodies, organizing and conducting the sale of such shares on behalf and for the account of the Republic of Serbia and conducting other activities on behalf and for the account of the Republic of Serbia. Sale of shares is conducted in two phases: pre-privatization restructuring and sale of shares by way of international public tender. The phase preceding the sale of shares is restructuring, which is performed only if it is
necessary. In this phase only the most necessary measures are undertaken in order to preserve the value of the banks (solving the issues of unrecoverable claims, sale of fixed assets which are not required for conducting the core activity, operational and organizational improvement, introduction of corporate governance, etc.). In the second phase the procedure of share sale is conducted. This procedure commences when adequate decision is issued by the Finance Minister. The method of sale of the state’s controlling participation in the banks is international public tender. During implementation of such tender the National Bank of Serbia checks whether criteria for participation of the tenderers in the procedure are fulfilled. The tender is organized and monitored by the Agency, which selects and appoints the financial adviser who provides assistance in preparation of the tender and its implementation. In the cases when state-owned capital is minority capital in the structure of the banks’ share capital, the tendency is to form a controlling package with other shareholders.

The banks where the Republic of Serbia holds a share in capital can be divided into three groups:
- banks with a majority government’s share;
- banks where the government together with professional investors holds a majority share;
- banks with government’s minority share.

The Republic of Serbia is a majority shareholder in two banks, a majority shareholder along with the European Bank for Reconstruction and Development in two banks, and holds a minority ownership in four banks: (Table – 2.)

**Table – 2. Capital structure of banking sector, 2010.**

<table>
<thead>
<tr>
<th>Situation as at 31 December 2010</th>
<th>Participation RS (in %)</th>
<th>AOD (bankruptcies) (in %)</th>
<th>Total participation (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks where the government is a majority shareholder</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Banka Poštanska štedionica a.d. Beograd</td>
<td>69,56%*</td>
<td>0,59%</td>
<td>96,90%</td>
</tr>
<tr>
<td>2. Srpska banka a.d. Beograd</td>
<td>96,52%</td>
<td>-</td>
<td>96,52%</td>
</tr>
<tr>
<td><strong>Banks where the government is together with EBRD a majority shareholder</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Komercijalna banka a.d. Beograd</td>
<td>42,60%</td>
<td>6,56%</td>
<td>49,16%</td>
</tr>
<tr>
<td>2. Cačanska banka a.d. Cačak</td>
<td>38,84%</td>
<td>4,46%</td>
<td>43,30%</td>
</tr>
<tr>
<td><strong>Banks where the state is a minority shareholder</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. JUBMES banka a.d. Beograd</td>
<td>19,78%</td>
<td>8,33%</td>
<td>28,11%</td>
</tr>
<tr>
<td>2. PB Agrobanka a.d. Beograd</td>
<td>20,07%</td>
<td>0,55%</td>
<td>20,62%</td>
</tr>
<tr>
<td>3. Privredna banka Beograd a.d. Beograd</td>
<td>19,41%</td>
<td>-</td>
<td>19,41%</td>
</tr>
<tr>
<td>4. Credy banka a.d. Kragujevac</td>
<td>15,24%</td>
<td>2,98%</td>
<td>18,22%</td>
</tr>
</tbody>
</table>

**Source:** Authors' calculations based on data from the Deposit Insurance Agency website [http://www.aod.rs/](http://www.aod.rs/)

Note: * The Republic of Serbia share is 69.56%, the share of PTT "Serbia" is 24.27%, and that the PIO fund is 96.31%

Serbia’s banking sector at the end of 2010 was exceptionally liquid, despite the highly negative impact of the financial crisis on the corporate and retail sectors. The obligation assumed by foreign parent banks so as to maintain their exposure to Serbia, in conformance with the agreement reached in Vienna in March 2009, and adequate incentives provided to participating banks expired at the close of 2010. The fact that almost all banks have fulfilled their obligations is the key element of the successful financial sector stabilization after the spillover of the world financial crisis effects to Serbia.
3. Effects of the world economic crisis on savings in the Serbian banking sector

Transition of commercial banking has led to enlargement of the banking sector through the process of acquisition, merger, fusion absorption and share-capital increase, together with arrival of foreign banks as investors. Modern banking operations are mainly based on foreign direct investments or takeover of the domestic banks without contaminated assets. Reputation of greenfield banks and domestic banks with majority ownership of foreign capital contributed to the improvement of retail saving.

Savings rate in Serbia in the period after the global financial crisis was extremely low, lower than regional average. From the early 1990s savings rates were stable in the countries. With the great recession 2007 - 2008 this trend reversed, so that the savings rate is decreasing. Relaxation of savings rate and its positive trend are noticeable from 2010 onwards. The banks with majority share of foreign capital succeeded to attract considerable portion of household savings, owing to reputation of such banks, because they were not present at the time of foreign currency saving scandal in 1990. Such position of foreign banks achieved to attract savings as the basic source of creation of credit potential for financial mediation. In the last decade average amounts were 40% a year. Household savings rate in the entire EU in 2011 was 12.6% in the second quarter, what represents an increase by 0.7% percentage points compared to the first three months this year. [EC 2012] Savings rate is an indication of the level of available income not going into direct consumption. Average value of savings per savings deposit in September 2011 was EUR 1,362, whereas in 2005 it was EUR 844. In the Global Competitiveness Report of the Economic Forum for 2010-2011 Serbia is on the 131st place based on the national savings rate criteria. On this same basis Slovenia is on 54th place and Croatia is on 65th place. National savings rate, besides retail savings, includes also state savings, meaning that the budget and state funds deficit lowers the total level of savings in the country.

The following table (Table – 3.) presents national savings rate in Serbia compared to the selected countries in the region. Judging from the data presented in the table it is evident that savings rates in the selected countries of the region, Serbia among them, are mainly low, below 20%, such as Romania, Albania, Bosnia & Herzegovina and Bulgaria. Other countries, such as Slovenia and Croatia, record growth of savings rates as much as at the rate exceeding 20%. Generally viewed, position of Serbia is even more unfavourable if the data on average savings rate is compared to the average savings in the selected developed countries of the region. This analysis confirms the regularity that average savings rate in the selected countries of the region are not failing to keep up, and that intensive growth of savings rate in the selected countries was evident until outbreak of the global economic crisis (2008), when after the crisis outbreak the achieved level of savings was maintained at a constant level.
Table – 3. National Savings Rate (as a percentage of GDP): calculation and comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>17.8</td>
<td>18.7</td>
<td>16.1</td>
<td>15.3</td>
<td>14.7</td>
<td>16.1</td>
<td>17.6</td>
<td>19.7</td>
<td>21.2</td>
<td>20.4</td>
</tr>
<tr>
<td>Albania</td>
<td>25.5</td>
<td>20.8</td>
<td>20.5</td>
<td>22.3</td>
<td>22.8</td>
<td>23.6</td>
<td>19.1</td>
<td>17.3</td>
<td>15.5</td>
<td>14.3</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>13.1</td>
<td>10.5</td>
<td>9.2</td>
<td>10.4</td>
<td>9.2</td>
<td>12.6</td>
<td>15.7</td>
<td>14.2</td>
<td>14.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Croatia</td>
<td>18.5</td>
<td>18.1</td>
<td>21.3</td>
<td>22.6</td>
<td>22</td>
<td>22.8</td>
<td>22.2</td>
<td>21.8</td>
<td>22</td>
<td>22.4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>25.2</td>
<td>25</td>
<td>24.6</td>
<td>24.8</td>
<td>25.4</td>
<td>26.4</td>
<td>27.2</td>
<td>25</td>
<td>21.2</td>
<td>21.8</td>
</tr>
<tr>
<td>Republic of Macedonia</td>
<td>11.9</td>
<td>11.3</td>
<td>18.1</td>
<td>13.8</td>
<td>18.8</td>
<td>21.1</td>
<td>17.6</td>
<td>14</td>
<td>19.1</td>
<td>21.5</td>
</tr>
<tr>
<td>Serbia</td>
<td>11.4</td>
<td>2.8</td>
<td>7.2</td>
<td>16.1</td>
<td>15</td>
<td>13.9</td>
<td>12.8</td>
<td>8.2</td>
<td>15.7</td>
<td>15.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>14.7</td>
<td>17.3</td>
<td>15.8</td>
<td>16.3</td>
<td>15.9</td>
<td>14.6</td>
<td>8.9</td>
<td>14.5</td>
<td>20.4</td>
<td>21.6</td>
</tr>
<tr>
<td>Rank Serbia (out of 8 selected countries)</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>The average savings rate for selected countries</td>
<td>17.3</td>
<td>15.5</td>
<td>16.6</td>
<td>17.7</td>
<td>17.9</td>
<td>18.9</td>
<td>17.6</td>
<td>16.8</td>
<td>18.7</td>
<td>18.8</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data from the OECD, Economic Outlook n.91, June 2012

Many factors affect household savings (Figure – 2.). In view of the fact that the direction of the effects of these factors in many cases is theoretically ambivalent, based on some exogenous variables it is not possible to give theoretically unambiguous prognosis whether some change will lead to increase or decrease in savings in the private sector.

Figure – 2. Selected macroeconomic indicators for Serbia, 2002-2012
(In percentage)

Source: Authors' calculations based on data from the National Bank of Serbia website http://www.nbs.rs/
Note: left side - real GDP growth and the average annual earnings, right side - growth rate of gross domestic savings and consumer prices

It is known that inflation raises nominal interest rates, influences growth of household savings and income and that it very unfavourably affects uncertainty. Since inflation increases uncertainty about future income growth, the role of uncertainty about household savings is measured by inflation rate. In the conditions of permanent income
hypothesis income growth can cause increase or decrease in savings rate, and the
direction of the effects of real interest rates depends on behaviour of lenders and
borrowers. Financial reforms increase yields on savings and credit availability, but net
effect on savings cannot be foreseen. The strength and direction of the effects of these
variables to the greatest extent remain an empirical issue.

Analysis of savings proves that there is a very strong connection between
income level and household savings. In Serbia there is marginal tendency towards
savings, because low level of per capita income results in low level and savings rate,
what impacts low investment rate leading to low rates of economic growth and low
level of future per capita income. The only way out in this macroeconomic situation
should be searched for in import of savings from abroad, by attracting foreign direct
investments.

Analysis of savings cannot be conducted on the basis of funds or based on the
total saved amount of financial assets available to the retail sector. However, it is clear
that we cannot establish all financial assets at citizens’ disposal, so that the focus of
investigation is on the long-term retail deposits, as the most important form of
safekeeping of financial assets in the household sector.

Total retail savings are dominated by foreign currency savings (98.1%) and
savings over one year period (51.4%). Despite deposit growth there are problems with
maturity and currency structure of deposits. Deposits include RSD and foreign currency
(including foreign currency indexed) deposits. (Figure – 3.)

Figure – 3. Composition of Household Savings with Banks
(In million dinars, end of period, data for January 2013)

Source: Authors’ calculations based on data from the National Bank of Serbia website http://www.nbs.rs/

A vista deposits, as well as short-term fixed deposits, continue to be the
prevailing mode of depositing funds with the banks. Currency structure is dominated by
foreign currency deposits with 76.9% participation in the total deposits. The greatest
part of foreign currency savings is in Euros 91.4% of the total foreign currency deposits
(June 2011; 2009:65.3%; 2010: 69.6%), in dollars it is 2.6% of savings, in Swiss Francs
2.1% and in other currencies 0.5% of savings. The highest percentage of the total deposits is retail deposits with participation of 55.7% (June 2011; 2009:47.2%; 2010:51.8%). Retail deposits are increased by RSD 6.3 billion or 0.8%, followed by deposits of public and other enterprises with participation of 24.5%, (June 2011; 2009:26.6%; 2010:23.6%) foreign persons’ deposits 7.4% (June 2011; 2009:14.3%; 2010:12.4%).

When comparing one-year time savings in dinars against the same maturity FX savings with a per annum interest of 5.0%, dinar savings turn out to be more profitable in 77 out of 118 periods. Saving in dinars paid off more in a larger number of periods even at 7.0 and 7.5% interest on FX savings – in 70 periods in case of the former and in 68 periods in case of the latter. Greater profitability of one year dinar savings relative to the same maturity FX savings is further confirmed by the average difference in favors of dinar savings, which equaled RSD 6,554 throughout the period under review (Figure – 4.).

Figure – 4. Profitability of one-year savings by period
(in RSD, 7.0% rate on FX savings)


Figure – 5. The dynamics and structure of saving dinars of population, 2008 - 2013.

Source: Authors’ calculations based on data from the National Bank of Serbia website http://www.nbs.rs/
The reason for such increase in RSD savings with the banks are higher interest rates on RSD savings than interest rates on foreign currency savings (Figure – 6.). Higher interest rates on RSD savings are the consequence of higher reference interest rate by which the National Bank of Serbia responded to decrease in inflation rate (with inflation fall reference interest rate decreased by 0.25 p.p. or to 9.75% in December 2011, so that the next period of inflation decrease is favourable for citizens who already have RSD fixed-term savings for a longer period), but also because of the fact that the banks set aside considerably lower mandatory reserve on RSD funds than on foreign currency sources.

**Figure – 6.** Weighted Interest Rates on Dinar Deposits, 2010-2011.  
*(Annual rates, in percentages)*

![Weighted Interest Rates on Dinar Deposits, 2010-2011](image)

*Source: Authors' calculations based on data* from the National Bank of Serbia website [http://www.nbs.rs/](http://www.nbs.rs/)

**Figure – 7.** Comparative review of interest rates on deposits of Serbia and selected countries in the region

![Comparative review of interest rates on deposits of Serbia and selected countries in the region](image)

Interests on fixed-term deposits in Euros in Serbia several times exceed those in the Eurozone, and they are considerably higher than the rates in the region (Figure 7). The rate in the Eurozone is about 1 percent and in the region it is very difficult to find a bank offering 4 percent profit for fixed-term savings. Rather high interests in Serbia attract savers from the region, but the greatest part of the deposits comes from England, the Netherlands and Germany. These savers are mainly physical persons connected with Serbia by business relations.

When offering interest rates business banks point out to, so called, gross interest rates on RDS and foreign currency savings. Gross interest rate is the sum of net interest rate, earned by the depositor, and percentage of tax on realized yield. With RSD savings gross interest rate equals net interest rate because the depositor does not pay tax on the realized yield, whereas with the foreign currency savings net interest rate is by 10% lower than gross interest rate, less tax amount.

Favourable tax treatment of RSD savings compared to foreign currency savings contributes to attractiveness of RSD savings. Tax rate on interest income from foreign currency savings was increased in October 2012 from 10% to 15%. Taking into account that no tax is to be paid on interest income from RSD savings, RSD savings now have even more favourable tax treatment compared to the foreign currency savings. Many other countries try to stimulate certain forms of savings and reduce the need to import foreign capital by tax advantages. (Figure – 8.).

*Figure 8. Tax rates in Republic of Serbia and selected countries, 2012.*

In Serbia, the directive on interest income on savings deposits was adopted in 2003 and it entered into force in 2005. The Law on Temporary Exemption of Certain Kinds of Income from Individual Income Tax (*the Official Gazette of RS*, no. 5/09, hereinafter referred to as: the Law on Temporary Exemption), which entered into force on 30 January 2009, regulates temporary exemption from personal income tax of certain kinds of income of physical persons, *inter alia*, revenue from yield on capital from...
Cumulative growth of savings is endangered by consequences of the world economic crisis 2008, and in the last 12 months by the debt crisis, which started in Greece and is threatening to spread towards central countries of the Eurozone, such as Italy and Spain. Development of the banking sector in institutional sense mainly depends on strong political decisions, as a result of which Serbia achieved to get a modern banking institutional framework in the early phase of transition. In the financial crisis 2008 the Serbian banking sector proved that it was adequately capitalized. Banks in Serbia are adequately capitalized, so that despite the risk present in the country, the state guarantees for the savings deposits up to EUR 50,000, what inspires certain confidence to savers. First of all owing to cost-efficiency of RSD savings in the following period it is completely logical to expect further growth of RSD savings. Taking into account current offer of RSD savings, new forms of mobilization of atomized RSD savings should be introduced. An important lesson learned from the global economic crisis is that the model of economic growth cannot be based on expectations of continuous inflow of foreign capital, because at the time of crisis foreign banks reduce loans, foreign investors reduce investments and foreign consumers reduce purchases. The key message for Serbia is strengthening of financial supervision over the financial system in order for financial stability to be secured and confidence of savers into banking system to be restored, what would contribute to creation of stimulating ambience for cumulative growth of savings and improvement of its structure. Reforms of financial system generated positive impact on the retail savings. At the same time, financial insecurity and presence of global risk affect the problems of retail savings. In order to improve savings institutional regulations should be applied and the efforts towards improvement of capacities for application of regulations should be continued.

Furthermore, research showed that in the observed period it is more cost-effective to save in RSDs than in foreign currency, and particularly when long-term savings are in question, first of all because of higher interest rates on RSD savings than on foreign currency savings, but also because of more favourable tax treatment of RSD savings, in view of the fact that from 2005 onwards no tax is paid for the revenue from yield on capital on RSD savings. It should be noted that no significant changes can be expected regarding savings expansion in Serbia because such decision is taken by individuals, households and companies individually, but under influence of many factors, such as: available income, interest on savings. Taking into account positive effects on savings growth the following rule applies – the higher income the higher savings. Neutralizing effect was proved in the conditions of crisis also, when retail savings rate did not fall as much as growth of wages lagged behind. From the paper it is evident that higher interest rates stimulate savings. However, even with this factor, neutralizing effect can arise, when rise in interest rate increases present value of the existing household debt, what decreases available income.

It is impossible to assert with certainty what type of savings will be more cost-effective in the future. Analysis of the past decade proved with certainty that it is more
cost-effective to save in RSDs. However, due to unstable political situation (always adversely affects domestic and international savings, but it can also affect growth of savings out of precaution) and long period of macroeconomic instability, majority of citizens chooses to save in foreign currency. Citizens’ preferences to save in RSDs depend on the total macroeconomic stability, inflation rate, level of interest rate on savings and tax treatment of savings.

Comparative analyses of the profitability of dinar and FX savings from January 2001 to October 2011 have shown that:

− one-year and three-month dinar savings paid off better than FX savings of the same maturities in a larger number of periods observed,
− dinar savings deposited on the occasion of the World Savings Day 2010 and termed for a period of one year were more profitable than FX savings of the same maturity even when dinar savings are calculated at the lowest and FX savings at the highest interest rate offered at the time.

Though one can never tell with certainty whether it will be more profitable to save in dinars or in FX in the coming period, this analysis clearly shows that in the last 11 years, as well as in the last year it was more profitable to save in dinars. However, despite greater profitability of dinar savings, the majority of citizens continue to save in FX.

The first step of Serbian economic policy should be oriented towards creation of such business ambience which can attract FDI, speed up economic growth and enable growth of per capita income. With the decrease in credit limitations for financial lending the retail sector loosees motivation to save. Other segments of financial market, i.e. of non-banking part, should be developed in this sense in order for the retail sector to get an incentive to increase its savings.

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**Apstrakt**

Efekti finansijske krize inicirani kolapsom tržišta nekretnina u SAD, preneli su se na globalni nivo, usled nasledjenih problema i strukturnih i funkcionalnih nedostataka finansijskih sistema. Prvi udar krize na bankarski sektor Srbije dogodio se u oktobru 2008. godine u vidu privremenog pogoršanja likvidnosti i neto odliva štednje. Zahvaljujući restriktivnoj monetarnoj politici pre krize i prudencionalnom nadzoru finansijskog sektora amortizovani su prvi udari krize i usledilo je vraćanje poverenja štediša u bankarski sistem i kumulativni porast štednje. Osnova za dalju zaštitu bankarskog sistema od destabilizacije je institucionalo prilagođavanje propisima EU i uspostavljanje discipline u pogledu primene sistemskih zakona.

**Keywords:** institucionalna regulacija, štednja, kamatna stopa, bankarski sektor, svetska ekonomska kriza
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