

Review paper

DYNAMICS OF INTEREST MARGINS IN TRANSITION ENVIRONMENT OF SERBIA

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Abstract. *High interest rates through which banking sector realizes high margins are only one of the characteristics of the banking sector of Serbia in the transition period. In its methodological approach the paper represents an empirical investigation of the amount of lending and deposit interest rates of the banking sector in Serbia in the last few years, with a special analytical reference to the interest margin indicator. For these reasons the paper is divided into two logically connected sections: in the first section, the focus of investigation is the adjustment of maturity structure of lending and deposit interest rates, and the analysis of interest margin is performed in the second section. The qualitative analysis of the results and the implementation of conclusion result was carried out by comparative analysis of interest margin in Serbia and the selected countries in the region.*

Key Words: *lending interest rates, deposit interest rates, interest margin, key policy rate, inflation rate.*

INTRODUCTORY NOTES

The interest rate policy is a barometer of economic trends. As a driving and economic category, it influences the economic trends, by accelerating them or by slowing them down. In many countries, including Serbia, through analysis and regulation of interest rates, regarding their level, it is possible to produce the desired effects for the practical economic policy of each country. In the financial market, by changing the interest rate level, we can cause the rise or the decrease in the demand for loans, since high interest policy raises the loan costs, which has a negative influence on the country's economic development rate. Bearing in mind that the bank sector of Serbia has had numerous issues in the past, the banks served as a service provider to non-efficient companies, so there were no attempts to make the interest rate the instrument of realistic valuation of financial

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assets. The dominant role in the financial intermediation belongs to the monetary institutions sector, which again confirms the unsatisfactory development of the national economy's financial system. Many factors of the ideological nature have also contributed to the insufficient development of the financial market. In their operations, the banks did not adhere to the basic principles of the banking business (Božović, J. 2009. p. 44). Since the financial system is the most sensitive segment of the economic system, these issues were the most noticeable. Therefore, in this dimension, the interest rate is only an indicator of the conditions in which the market relations are determined and shaped.

The collected funds are placed by the banks to clients through loans and other investments, at a rate which is determined based on the cost of paid deposit rate, increased by estimated client risk, by the cost of the deposit insurance premium and the cost of minimum reserves. The interest rate is a dual category for the bank, because it occurs both as an expense and as pricing, i.e. revenue financial flow within the business politics. The level of total interest rate revenue accrued by a bank depends on the volume and structure of the bank's productive assets and on the level of the lending interest rates, while the total interest rate expenses of the bank depend on its level of deposit rates. The lending rate is how banks create revenue from all their assets, i.e. credit operations, and it consists of the refinancing expenses, risk premium and revenue contribution. It is calculated using the determined rates, on top of the principal amount, in proportion with the length of given loans use. The lending rate is usually higher than the deposit rate (the rate which the bank has to pay to clients for funds received, or deposits and other investments), and is also higher for long-term loans.

THE MATCHING OF THE MATURITY STRUCTURE OF THE LENDING AND DEPOSIT RATES

It is essential for a bank to match the maturity structure of the lending and deposit rate. Permanent matching of the lending (*pricing*) and deposit (*expense*) rates implies that the increase of interest rate expenses (*deposit rates*) for a mobilization of the financial resources is covered by an appropriate increase in the lending interest rates from the bank's investments. Accordingly, a bank can accept only those increased interest rate expenses which can be covered from the increased lending interest rates, based on additional investments, resulting in a symmetrical interest rate structuring of the lending and deposit rates, depending on the market trends.

Depending on the interest rates in the market, banks increase or decrease their own interest rates in terms of lending and deposit rates, which means that the costs of the bank investments are directly related to the expenses in providing new sources of funds. When the level of interest rates falls in the market, banks perform the symmetrical interest rate matching, in order to provide a stable proportion of interest rates. This matching of interest rates in regards to the interest rates of additional resources (*markup*) can be applied in two ways, as:

- an exact matching of prices and expenses within a group of resources and investments or as
- reducing of costs for collection of all sources and incorporation of new investments with an average net interest rate margin in the price.

In the case of complete harmony of investment terms and liabilities, the interest rate mismatch between the bank's lending and deposit rates could occur. For instance, at a

three month loan with a floating interest rate, based on a three month deposit with a fixed interest rate, and as a result of an interest rate fall, the bank will operate at a loss.

In this present dynamic market situation, a bank is not always in a position to match the receivables and liabilities entirely, because it is involved in different operations. To wholly understand the grouping of the assets and liabilities according to their maturity, banks can offer additional information on the probability of payment in the remaining period. It is most commonly included in the comments related to the accounting statements on the maturity and interest rates.

The interest rate policy is based on a realistic prediction of movements in short-term interest rates, which will serve as a basis for a prediction of long-term interest rates. Each variation in interest rates, going up or down, is determined on a daily basis, thus indicating to the bank to increase or decrease the bank expenses for mobilizing the resources, as well as to adequately structure the assets and liabilities of commercial banks. When a rise in the future interest rates is anticipated, banks can mobilize a relatively larger volume of resources. On the other hand, when a respective fall is expected, the bank will give priority to the short-term mobilization of instruments.

In October 2000, numerous weaknesses were found inside the economy, caused by a destabilization within the macrosystem and issues in the debtor-creditor relations between the economy and the banks. The unresolved debtor-creditor relations between companies were reflected in the inability of the banks to collect their financial receivables from the companies, which was a major restraint on output growth. The weighted average interest rate on loans issued by banks since 2000 has a tendency to move evenly, except for the growth in 2008 (see Fig. 1).

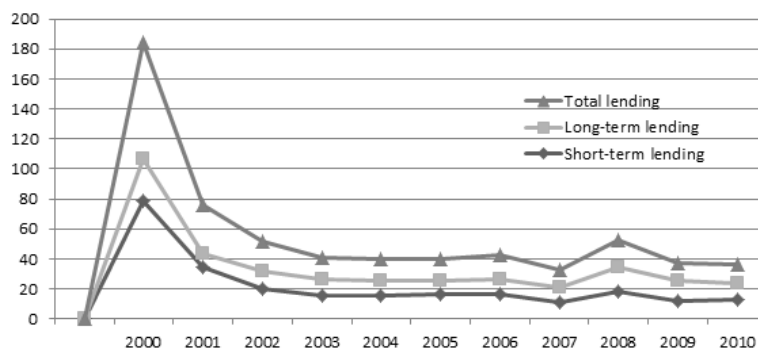


Fig. 1 Dynamics of weighted average interest rate on banks' investments (in % on a yearly level)

Source: National Bank of Serbia, Annual Report, Financial Stability Report, Statistical Bulletin, various issues, and Decision on Interest Rates which the National Bank applies in the process of monetary policy implementation, 2010

Note: Based on the official data on July 30th, 2011

According to the official data from 2012 on the average lending interest rate in the region, in Serbia it is on average 10.27%, about 9% in Montenegro, 8.1% in Macedonia, and in Croatia 9.65% of the loans in the national currency. The funds collected banks qualify customers in the short or long term at a rate that is determined by the cost of paying interest payable plus the estimated risk rating, then the cost of deposit insurance pre-

miums and the cost of required reserves. As a result of inadequate ratio of deposits and loans Serbia imports capital and is increasingly dependent on deposits. The price at which banks borrow funds from other banks in the international market is formed on the basis of the relevant interbank base rate, plus the estimated risk of a country (usually measured motion parameters credit default swaps) and risks specific banks that borrow funds.

The negative repercussions of this crisis on the Serbian financial sector are manifested through the following: first, a jump in lending interest rates. This is the result of a sudden increase in the policy rate, where a 2 week repo of the National Bank of Serbia (NBS) increased from 15.75% to 17.75% in October 2008 as opposed to the targeted further dinar depreciation against the euro. The second effect is the impossibility of the corporate sector to use cheap cross-border loans (Djukić, Dj., Djukić, M. 2009. p. 500).

This forces the bank to the customer loans with longer repayment term borrowing in the interbank market through loans with shorter maturities. This kind of maturity mismatches funds and loans caused banks loaned money markets its customers with a variable interest rate. The movement of the interbank interest rate depends on the movement of the reference interest rate, whose value is determined by the central bank, as well as the amount of money and the level of trust among the participants in the financial market. When inflationary pressures are the key problem in the economy, the central bank conducts monetary tightening high reference interest rates to influence the spending cuts. In the case of economic downturns, the benchmark rate is low; it would be way cheaper borrowing boosted consumption. The interest rates on the international interbank market are low, but very high risk premium, in the case of Serbia, significantly more expensive cost of borrowing for local banks to foreign markets. That is why at present the interest rate on foreign currency loans to businesses and households to a greater extent influenced the development of country risk premium, and to a less extent was influenced by the movement of international interbank rate.

Banks seek for higher interest rates to compensate for the losses due to bad loans, but they forget the fact that high interest rates increase the risk of bad debts. Such a policy leads in the long run to financial problems. Logical and expected reactions of the banking sector should be aimed at lowering interest rates and the expansion of the banking market. The population is the target group for banks that actually leads to further growth of their indebtedness. When it comes to long-term loans to households, particularly home loans, there are two important parameters: the low level of credit worthiness and low benchmark interest rate – Euribor. In 2007 and 2008 banks had a problem to place their agents. Now the situation is reversed. The banks offer housing loans with a currency clause -indexed in euros, according to a formula that includes a fixed margin and the value of the variable Euribor. Variation in interest rates is certain as long as high eurisation affects the high interest rates, poor perception of country risk that adversely affects the cost of financing.

Each period of our economy was burdened by inflation. The inflation has been present in our country since 1965, and the link between the growing rate of inflation and the interest rate was particularly manifested in 1993. During this period, the interest rate had a limited role in the regulation of the supply and demand of funds. Since the interest rate remained lower than the inflation rate for years (until the year 2000), it did not have a significant influence on the supply and demand of loans. In these circumstances, credit relations are jeopardized, because a borrower appropriates a part of the lender's capital by actual non payment of debt. The way out of this situation was sought by means of revalu-

ation of loans, just the principal, according to the inflation rate, valorization of annuity with interest according to the inflation rate, and so-called direct valorization by increasing the interest rate according to the inflation rate. The inflation played a role in "accumulating", while the loan existed in its negative form, as an untimely payment for goods. In these circumstances, the real interest rate was a burden of unrealistic balances.

Economy does not respond to enormous interest rates flexibly. Since the economy does not create new investments to cover the expenses of business operations and allocations of income, this is achieved by new price increase. Consequently, there is a constant competition between interest rates and prices. The interest rates growth on corporate and retail loans was noted also due to risk premium increase (see fig. 2), fueled by the Eurozone crisis (14.2% in April 2010).

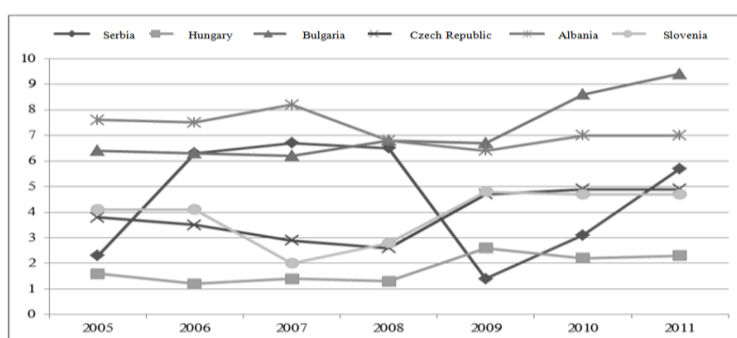


Fig. 2 The indicator of risk premium by chosen countries (Monthly average, in basis points)

Source: National Bank of Serbia, Annual Report, Financial Stability Report, Statistical Bulletin, various issues, and Decision on Interest Rates which the National Bank applies in the process of monetary policy implementation, 2010. Note: Based on the official data on July 30th, 2011

For Serbia, the growth of the risk premium is the result of an unstable macroeconomic situation, the deficit in the state budget, the growth of public debt, the agreement with the international community, as well as the deterioration of the economic situation globally, which reflects the cost of lending and borrowing. Each increase in the risk premium will be charged at an interest rate at which loans are sold to enterprises and the population. As is evident in Figure 2, an increase in the risk premium was recorded in 2008 and 2009, as the global financial crisis increases the risk premium to the EU, the region, including Serbia. In our country, the risk premium escalated at the end of the year 2008, and then its fall followed in 2009 and later re-growth. Risk is a major factor explaining the difference in interest rate outlook. Based on the chart, it is evident that the crisis in the periphery Eurozone raises the risk and the countries that are closer to the European Union. On the other hand, their own sources of funding become more expensive in the European Union, more expensive for the bank branches in Serbia. Increased risks of investing in emerging market countries, as well as a shortage of capital, have limited access to finance and increase their price. The high variation of the risk premium with respect to selected coun-

tries only point to fiscal and political weaknesses of our reform that our citizens will pay the price of capital.

Through surveys of commercial banks (National Bank of Serbia, 2012), it was established that in determining the level of deposit rates they are guided by trends in the retail price rates for the previous month. The results of the survey show that the banks are tied to the inflation rate in the short term, while they secure their loans through a currency clause for longer term. The movement of deposit rate in the banking sector, or the interest rate on total dinar deposits can be seen in fig. 3.

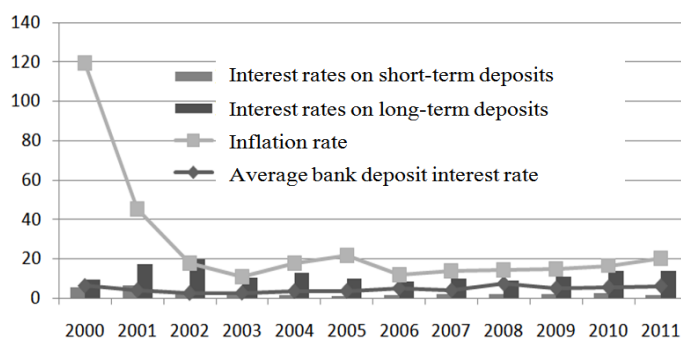


Fig. 3 Dynamics of deposit rate and inflation (*in %, on a yearly level*)

Source: National Bank of Serbia, Annual Report, Financial Stability Report, Statistical Bulletin, various issues, and Decision on Interest Rates which the National Bank applies in the process of monetary policy implementation, 2010
Note: Based on the official data on July 30th, 2011.

Figure 3 shows a declining tendency of the weighted-average interest rate on loans to banks for the period from 2000 to 2011. In the period weighted average interest rate on borrowings was in line with movements in the inflation rate. Weighted average deposit rate of banks in 2000 ranged from 0.93 % per month, or 11.55 % annually in January to 2.55 per month, or 34.62 % per year in December. If the weighted average deposit rate compared with the rate of inflation, it can be concluded that throughout the year it was actually negative. Downward trend in the weighted average monthly interest rate on bank loans continued in the following year, 2002, we get a more realistic picture of loan approval, if the interest rate added to the rate of reimbursement. Thus, the monthly gross weighted-average interest rate on loans ranged from 2.78 % 2.78 % (38.11 % per year in December 2001 to 1.77%, 22.95% per year in December 2002 to 1.54%, 20.43 % per year, in November 2003, etc) In December 2004, the interest rate was 1.18% (14.81%). Deposit interest rates were very low in the first half of 2005, amounting to an average of 3.3 - 3.7 % annually.

For evaluation of policy interest rates in the past, it can be concluded that the real interest rate does not meet the prescribed rates. Positive real interest rates should be maintained between the equilibrium interest rate determined by the long-term performance of the economy and the supply and demand in the financial market. Maintenance of stable interest rates in the period after 2003 resulted in prevention of large fluctuations in interest rates for several reasons: the financial markets work more efficiently with stable inter-

est rates, higher growth rates can cause problems depository institutions that have provided loans at lower interest rates and volatile interest rates encouraged fluctuations in foreign exchange markets. Bearing in mind the domestic economy, which is dominated by low interest earning power invested funds, it is a commitment to a policy of real interest rates based on market criteria.

Savings in dinars proved to be a far more cost effective option for investment as compared to foreign exchange savings. It is in terms of interest income may be less profitable, but the security of payments is a more important motive which determines the citizens to save in banks. The National Bank of Serbia, responsible for financial stability, has repeatedly pointed to the need for banks to have a policy of real interest rates on savings that will not destabilize the financial system. It turned out to be justified if we consider examples from the recent past when some banks pursued a policy of unfair competition and attracted customers with high interest rates on savings, and eventually the state as guarantor, settled its liabilities at their savings and other deposits.

When the pressure of inflation is a key issue in the economy, the central bank implements a restrictive monetary policy through a reference rate, to cause a reduction in consumption. If the economic activity declines, the base interest rate will be low, in order to encourage consumption by means of cheap borrowing. A high base interest rate points to a fundamental imbalance in the particular economy and the risks it is facing, and it further discourages the investors from investing in such risk areas in times of global financial crisis.

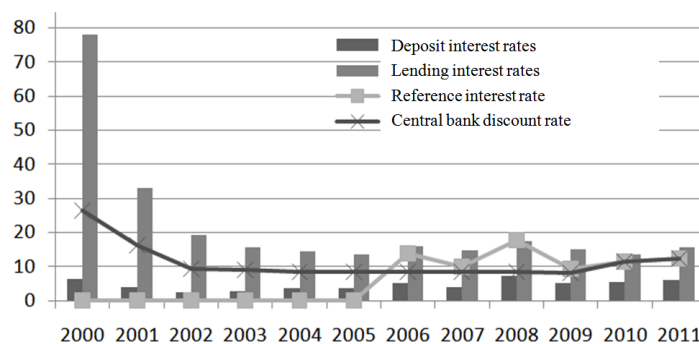


Fig. 4 Dynamics of interest rates and inflation (*in %*, on a yearly level)

Source: National Bank of Serbia, Annual Report, Financial Stability Report, Statistical Bulletin, various issues, and Decision on Interest Rates which the National Bank applies in the process of monetary policy implementation, 2010
 Note: Since September 2006, the lending and deposit rates of NBS are kept close to the level of the reference rate, which is increased or decreased by a certain number of percentage points, in accordance with Decision on Interest Rates which the National Bank applies in the procedure of implementing the monetary policy

The movement of base interest rate is consistent with the basic vocation of the central bank to deal with inflation. According to Figure 4, it is evident that lending interest rates of banks follow the movement of reference rate. Based on Figure 4, it is evident in the same direction the movement lending and deposit interest rates for the reference period. In 2000 due to unresolved debtor-creditor relationship between the economy and the

banking sector, it should be borne in mind that the actual interest paid was much lower than agreed (accrued), therefore there was a smaller the difference between the lending rate of commercial banks in relation to the benchmark size, ie. discount rate of the National Bank. Another reason preventing the bank's high interest rates provide income, which is the load of irrationalities in their own business (oversized employment). Starting from 1st September 2006, deposit interest rate of the National Bank of Serbia (and lending rates) have been determined including the amount of the reference interest rate plus or minus a number of percentage points, in accordance with the decision that established including interest rates by the National Bank of Serbia in the conduct of monetary policy (Božović, J. 2009, 106).

Since the interest rates on the interbank money market specific movement of the reference interest rate of the central bank and that they are considered a measure of the opportunity cost of lending to the economy and the population. In a relatively closed economy, changes in the reference interest rate of the central bank lead to changes in interest rates on the interbank market, which in turn affect the short-and long-term changes in the market (lending rate and deposit rate) interest rates of commercial banks. Investment activity affects the level of overall economic activity and indirectly inflation. At the same time, the increase in benchmark interest rates leads to an increase in bank interest rates, increase borrowing costs and reduce investment activity. Further, households react to rising interest rates reduced purchasing housing and durable consumer goods, which causes a drop in consumption. The decline in investment and consumption (aggregate demand) reduces pressure on production capacity and price. Transmission of changes in interest rates to reduce the pressure on prices, means a major shift of policy changes to the final effect (although the actions of monetary policy by changing expectations about future inflation may shorten this period) (Dragutinović, D. 2008. p. 4).

In the year 2008 there was an increase in lending rates, as a result of the increased level of restrictiveness of the policy of the central bank and the increase in reference interest rates. A growing trend in the key policy rate directly reflected in the increase in other interest rates. Justification restrictive policy is justified in the challenges that were set in 2008 before Serbia, such as: political uncertainty, decrease of the domestic currency, the rise in risk premiums fall in domestic activities and ultimately increase inflation expectations. In circumstances where the international markets continue to be volatile and the price and maturity foreign borrowing unfavorable domestic deposits have played a role deserved. The reference interest rate in 2009 was 17.75%, gradually tapered to the level of 9.5% at the end of the year. Already in 2009, in addition to the returned confidence of the population in the banking sector, this contributed to the attractive interest rates offered by the banks during the year.

MAINTAINING A POSITIVE NET INTEREST MARGIN

A positive net interest margin serves as a comparison for banks of different sizes. The average net interest margin zone is formed between 1-2%. As a rule, smaller banks have higher net interest margins. The differences which can be observed are an influence of different markets, from which small and large banks mobilize their resources. They are also influenced by a difference in interest rates (*paid and unpaid*) and by variations in the

level and structure of lending and deposit rates. When banks lower their interest rates, they do so to protect themselves from a moral hazard with debtors. At that time, the interest spread will have a rigid response to the level of expected credit risk in the credit market (Božović, J. 2009. p. 109).

Since the year 2000, it has been observed in Serbia that the range among interest rates is decreasing (see fig. 5). The decrease of margin between lending and deposit rate points to the first positive results of banks restructuring, as well as to increased competition in the banking system, aided by the presence of foreign banks in the country.

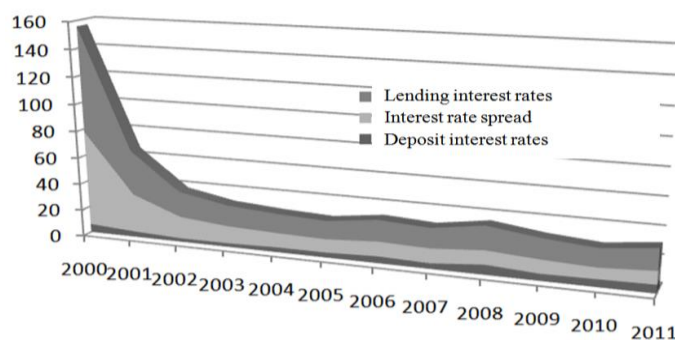


Fig. 5 Dynamics of the net interest margin in the banking sector of Serbia, 2000-2010.

Source: National Bank of Serbia, Annual Report, Financial Stability Report, Statistical Bulletin, various issues, and Decision on Interest Rates which the National Bank applies in the process of monetary policy implementation, 2010

Note: Based on the official data on July 30th, 2011

In chart 5 in the observed period, lending rates have shown a higher rate of reaction compared with passive. This is primarily explained by the fact that the population, as a holder of savings, has a relatively limited range of options and access to alternative means of allocation of resources (stock market, pension and investment funds, etc.). The largest part of savings is in the form of foreign currency, and also the competition among banks is sharper when it comes to loans. Banks in the developing countries, economies in transition are facing increasing disproportion between the low interest rates on loans and higher interest rates on deposits. The change in the amount of lending rates affects the increase or decrease in demand for loans, which affects the efficiency of the economy, a development of businesses and economic growth (Božović, J. 2008, p. 58).

Higher net interest margins usually imply lower banking sector efficiency and have a negative impact on financial developments, resulting in lower investments and slower economic activity. They might also reflect high risk premium due to an inappropriate regulatory banking environment or a significant information asymmetry. On the other hand, lower net interest margins usually mark deeper and more developed financial markets, encourage investment activities and support economic growth. From banks' perspective, the net interest margin is an important determinant of their profitability, while from the real economy point of view, combined with the country risk, macroeconomic variables, client risk, competition etc. it is one of the key factors influencing the overall level of interest rates for the private sector. In bank-centric systems dominant in

European emerging markets where bank loans are the main funding source, factors that affect loan availability also influence the stability of the whole banking sector (Dumičić, M., Rizdak, T. 2013. p. 4). Over the last few years, the banks in Serbia have come a long way from radical reforms to healing. The reform of the banking system is one of the most successful and important things in the course-work transition in Serbia. The banking sector in Serbia moves on to a more mature and more developed level, where there will be battle for market share and every client leads to cheaper services (Božović, J. 2009. p. 122).

However, we can get a more realistic picture by comparing the net interest rate margins in Serbia and other countries. Based on the data in Table 1, it is evident that the level of net interest margin in Serbia is enhanced when compared to the average in the countries in EU and some countries of the region.

Table 1 Dynamics of the net interest margin in Serbia and chosen countries from the region, for the period between 2000 and 2012

Year	Bosnia and Herzegovina	Bulgaria	Croatia	Czech Republic	Hungary	FYR Macedonia	Romania	Serbia	Slovenia
2000	15.8	8.2	8.3	3.7	3.1	7.7	20.7	72.4	5.7
2001	-	8.1	6.3	4.3	3.7	9.3	18.5	30.4	5.2
2002	8.1	6.4	10.9	4.7	2.7	8.8	16.1	17.0	4.9
2003	6.8	5.6	10.0	4.6	-1.3	8.0	14.4	12.7	4.8
2004	6.6	5.8	9.8	4.7	3.7	5.9	14.0	11.9	4.8
2005	6.0	5.5	9.4	4.6	3.3	6.9	13.1	13.1	4.6
2006	4.3	5.7	8.2	4.4	0.6	6.6	9.2	11.5	4.6
2007	3.6	6.3	6.9	4.4	2.2	5.3	6.6	7.0	2.3
2008	3.5	6.4	7.2	4.6	0.2	3.7	5.4	8.8	2.6
2009	4.3	5.2	8.3	4.7	5.2	3.0	5.2	6.7	4.5
2010	4.7	7.1	8.6	4.8	2.7	2.4	6.8	6.0	4.5
2011	4.6	7.3	8.0	4.7	2.1	3.0	5.8	7.4	-
2012	3.9	6.6	7.6	4.4	3.7	3.4	5.8	6.8	-

Source: World bank, <http://www.worldbank.org/>, EBRD, Transition Report, [http://www.ebrd.com/\(20, 03. 2013\)](http://www.ebrd.com/(20, 03. 2013))

Based on the data in Table 5, it is possible to draw parallels between different systems, since even the neighboring countries have lower interest margins than Serbia. We should not lose sight of the fact that the local institutional regulations related to percentage of the mandatory provisions also differs. Out of the countries in the region, our country realized the maximum interest rate margin, followed by Croatia with 7.6%, Bulgaria 6.6%, Romania with 5.8%, and the lowest margin of the selected countries was achieved by FYR of Macedonia with 3.4%, followed by Hungary with 3.7%, Bosnia and Herzegovina with 3.9% and the Czech Republic with 4.4%. Despite the fact that interest margin is the highest in Serbia, the other countries recorded an upward trend in interest rates as well. In 2008, the largest increase in the active or passive interest rate was recorded in Hungary (1.34%). On the other side, the Macedonian Bank recorded the greatest decrease in average lending rates (20 basis points), so that in June it was 9.7% per year. Out of these countries, Croatia had the largest reduction in deposit interest rates (15 basis points) and annually stood at 2.52% (EBRD, Transition Report & National Bank of Serbia, Annual Report, various issues).

The example of net interest margins on housing loans is sufficiently illustrative. In the period between 2000 and 2012 the net interest margins had a tendency to fall. The situation has changed drastically since September 2008, when the interest rates on all types of loans increased, and later the subsidized housing loans were suspended. When it comes to average interest rates on housing loans, Serbia belongs to the group of countries with more expensive housing loans (Estonia 4.4%; Romania 6.1%; Croatia 6.1%; Hungary 6.3%; Slovenia 6.8%; Bulgaria 8.2%; Serbia 8.3%; the EU average 4.8%) (EBRD, Transition Report, 2013).

For the same period the interest rate trend is opposite in the European Union countries, which follows interest rates average growth of 22% in the last four years. It is quite interesting that in the group of observed countries, the ones that entered the EU in 2004 had a faster GDP growth, faster growth of bank's assets and foreign direct investments. This statistical support is a probable reason why the foreign owners took positions in banking groups in Central and Eastern European countries which are candidates for the EU through the activities in the market of corporate control. On the other side, high prices realized in mergers and acquisitions in Central and Eastern Europe may be provoked by positive learning curves. Because of the higher and higher market capitalization required, the bank owners from domestic markets sought higher earnings or asset proportions in process of gaining the banking market by foreign bank groups from the developed capital markets (Orsag, S., et all. 2011. p. 17).

CONCLUSION

It may be noted that the present situation in the banking sector is fundamentally different from the one in the previous period. The transient environment which the banking sector functions in is much more favorable in regard to the beginning of reforms. The National Bank of Serbia has implemented a radical reform of the banking sector, as evidenced by EBRD's transition indicator of the reforms within the banking sector of Serbia and the liberalization of interest rates (in 2000 – 1%; from 2001 to 2004 – 2.33%; from 2005 to 2007 – 2.67%; from 2008 to 2010 – 3%). The highest goal of the reform process in the banking sector is banking according to modern standards.

Having in mind that the average net interest margin in developed market economies is formed between 1-2% (which is considered sufficient to cover the expense, motivational and risk moments in banking), we can conclude that the interest margin in Serbia is high, placed at 10% and higher, on a yearly level (significantly higher than the net interest margin in the EU countries and other countries in transition). Unlike the Eurozone countries, where the interest rates are falling, thanks to the EURIBOR fall in Serbia the interest rates are climbing.

A high interest rate in domestic banking is a result of high risk of liquidity, caused by maturity characteristics of deposit potential. A high net interest margin is not simply a result of high lending interest rates, but also of low depressed interest rates. It is influenced by a lot of factors, primarily by: operating costs, non-repayment of loans and non-payment of interest, limited accumulation from abroad, inflation expectations, system regulations and underdeveloped primary and secondary financial market. The net interest margins in Serbia are at a higher level than in countries in transition and the European Union countries, because they reflect high premiums on credit and interest rate risks, a

higher degree of risk aversion and higher operating costs. These are only some of the important factors for high net interest margins.

A rapid reduction of NBS base interest rate could bring about more negative effects than positive. Due to independent movement of the lending interest rates in relation to the movement of reference rate, which is falling, the bank loans will not become cheaper as a result of its further reduction, which would lead to a stimulation of economic activity. In order to lower the interest rates, it is necessary to reduce the required reserve ratio for banks (a reduction in the required foreign exchange reserves for banks would make it possible to lower the cost of credit). Another condition is a decline in inflation (lower inflation rates reduce the interest rates) and a reduction in country risk and investments (data on non-performing loans structure in total loans show: for Serbia 17.8%; Montenegro 17.2%; Bulgaria 12.6%; Albania 12%; Romania 11.6%, Macedonia 9.9%; Croatia 9.5%; Bosnia and Herzegovina 8.7% and Hungary 7.5%) (World bank, 2013).

Finally, the banking sector in Serbia needs to promote its interest rate policy based on market economy, and contribute to a further tendency to succeed, appreciating the inevitable transition processes in our economic reality. As this can not be accomplished in short term, we need a new set of measures for a systematic problem solving of an untimely settlement of liabilities, in order to stop the growth of non-performing loans. Also, new NBS measures are required, which will limit lending, in case of increased pressures on economy and a repeated inflation growth.

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DINAMIKA KAMATNIH MARŽI U TRANZITORNOM AMBIJENTU SRBIJE

Visoke kamatne stope na kojima bankarski sektor ostvaruje velike marže samo su jedna od karakteristika bankarskog sektora Srbije u tranzitornom periodu. Rad u svom metodološkom pristupu predstavlja empirijsko istraživanje visine aktivnih i pasivnih kamatnih stopa bankarskog sektora u Srbiji u poslednjih nekoliko godina, sa posebnim analitičkim osvrtom na indikator kamatne margine. Iz tih razloga rad je podeljen na dva logično povezana dela: u prvom delu u fokusu istraživanja je uskladenost ročne strukture aktivne i pasivne kamatne stope, a u drugom delu izvršena je analiza kamatne margine. Kvalitativnu analizu rezultata i sprovođenje rezultata zaključka sproveli smo komparativnom analizom kamatne margine u Srbiji sa izabranim zemljama regiona.

Ključne reči: aktivna kamatna stopa, pasivna kamatna stopa, kamatna margina, referentna kamatna stopa, stopa inflacije.