7. Monetary Trends and Policy

Inflation slowed down even more in Q3 and, along with the expansive monetary policy on the global capital marked, it caused the National Bank of Serbia (NBS) to lower its key policy rate by 0.25 percentage points in Q3 and again in November. Bearing in mind that these trends will remain relatively unchanged to the end of the year we expect inflation to probably stand below the lower limit of the target framework. The appreciation pressure in the previous quarter peaked in Q3 which led to a series of interventions on the FX of a record 1.2 billion in net foreign currency purchases. Despite the creating of liquidity through interventions on the FX, the growth of state deposits in NBS accounts and increased investments by business banks in REPO bonds significantly neutralized this channel of creating money. The level of primary money was increased by 155 million Euro in Q3. In the same period, the nominal and real y.o.y. growth rate of the M2 are characterized by the continuing high y.o.y. growth rates with the increase in credit activity in the economy compared to households have a relatively greater effect. The overall net placements by business banks in Q3 rose significantly because of the combined effect of increased placements on those grounds. The net placements to the economy and households recorded a growth compared to the previous quarters while the overall growth of credit activity was reinforced additionally by the increase in net cross-border placements which the economy took abroad in Q3. Together with the growth of credit activity, a record rise was reported in sources for new placements. The growth of credit potential in Q3 was guided by growth in domestic deposits by the economy and households and through loans taken by domestic banks abroad and the increase in capital and reserves accounts. The writing off of NPLs and sale to persons outside the banking sector directly from bank balances continued in Q3 but a greater effect on the drop in NPLs came from the growth of overall credit activity. The higher offer of capital on the domestic market and the drop in inflation caused a drop in interest rates on indexed loans and loans in Dinars which will remain on similar levels in the coming period.

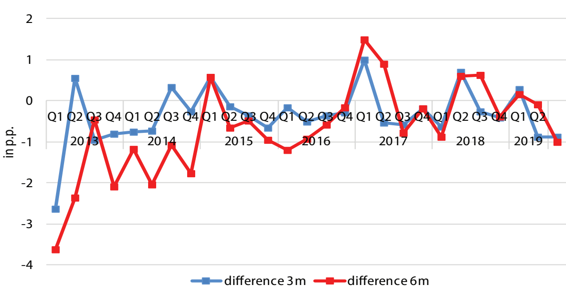
Central bank: balance and monteray policy

The NBS lowered its key policy rate twice …

…because inflation weakened despite the securing of liquidity through the FX

Inflation started weakening in the previous quarter and that continued in Q3 with indications that the trend would continue to the end of the year. Deflation at monthly level was recorded in July and September while the average level of prices in August was unchanged with a minimum growth of 0% in October. The drop in the y.o.y. inflation rate which has been present since July along with deflation at monthly level caused inflation to remain below the target framework of 3±1.5 percentage points with data on planned inflation indicating that it is around 1 percentage point below NBS expectations in its projections three and six months ago (Graph T7-1). Given those conditions and despite the interventions on the FX which created more than 1.2 billion in added liquidity in Q3, the NBS corrected its key policy rate twice. In July and August, the key policy rate was lowered by 0.25 percentage points to stand at 2.5 percent before the latest session of the NBS Executive Board in mid-November when a second drop was put in place bringing it to 2.25 percent. Although the reduction of the key policy rate should indirectly ease the pressure on the FX and at least partly take the level of inflation back closer to the lower level of the targe framework. NBS interventions are in line with current trends on the domestic money market bearing in mind that the inflow of foreign capital because of the

Graph T7-1. Changes in planned inflation three and six months in advance of the real situation 2013-2019



Source: NBS

relaxed monetary policy among leading global players generates pressure to strengthen the Dinar exchange rate. Since the FED started injecting liquidity into the domestic capital market along with a similar practice by the European Central Bank (ECB) for the first time since the financial crisis began, the inflow of cheap capital from the international market is expected to continue in the coming period at least to in the first half of next year. Although the greater interest among business banks for investments in REPO placements is having an effect on the reduction of the money mass, Dinar liquidity in Q3 was evidently generated by NBS interventions and the recovery of credit activities in the economy (Table T7-2).

Table T7-2. NBS interventions and foreign currency reserves 2017-2019

	2017				2018				2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Repo stock (in milions of euros)	480.53	572.42	634.74	384.53	348.00	562.51	339.53	142.95	139.16	343.76	607.44
NBS interest rate	4.00	4.00	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00	2.50
NBS interest rate	-5.11	1.94	4.17	2.68	0.40	-2.60	4.24	2.59	-2.98	2.59	5.41
NBS interest rate	4.48	15.71	7.77	3.50	4.75	3.50	1.65	3.10	3.00	3.00	2.50
NBS interventions on FX market (in milions of euros)	-345.00	160.00	765.00	680.00	400.00	1190.00	1595.00	1580.00	35.00	955.00	2105.00
INCREASE	**in millions of euros, cumulative from the beginning of the year**										
NBS own resreves[1)]	-269.73	-265.22	364.16	-4.87	-154.90	653.92	547.26	616.64	67.93	1069.09	2012.01
NDA	-171.42	-248.75	-704.00	137.47	-264.65	-845.34	-649.45	-142.59	-199.62	-1069.54	-1856.43
Government, dinar deposits[2)]	-41.59	-358.48	-755.64	-247.10	-376.19	-567.19	-612.17	-153.41	-158.73	-756.46	-1015.75
Repo transactions[3)]	-207.38	-285.41	-346.27	-95.49	43.47	-168.83	42.95	241.88	12.74	-200.34	-455.14
Other items , net[4)]	77.56	395.14	397.91	480.06	68.07	-109.33	-80.23	-231.06	-53.63	-112.74	-385.55
H	-441.15	-513.96	-339.84	132.60	-419.56	-191.42	-102.19	474.05	-131.69	-0.45	155.58
o/w: currency in circulation	-104.02	-114.39	-103.93	39.59	-102.01	-41.46	60.29	157.82	-37.81	29.95	61.86
o/w: excess liquidity	-351.17	-422.08	-269.15	22.35	-335.18	-200.87	-265.64	185.56	-143.78	-99.60	-32.80
	in millions of euros, cumulative from the beginning of the year										
NBS, net	-464.59	-618.87	452.21	-280.73	64.63	915.44	997.16	1069.34	187.71	901.78	2051.96
Gross foreign reserves	-469.25	-632.21	431.51	-302.83	36.47	894.42	977.20	1048.44	181.07	891.82	2039.45
Foreign liabilities	4.66	13.34	20.70	22.10	28.16	21.03	19.96	20.90	6.64	9.96	12.51
IMF	-0.04	5.81	7.68	8.67	9.42	1.44	1.75	0.84	-0.95	2.18	1.12
Other liabilities	4.69	7.53	13.02	13.43	18.75	19.59	18.21	20.07	7.59	7.78	11.38
NBS, NET RESERVES-STRUCTURE											
1. NBS, net	-464.59	-618.87	452.21	-280.73	64.63	915.44	997.16	1069.34	187.71	901.78	2051.96
1.1 Commercial banks deposits	144.67	156.34	123.17	159.61	47.26	38.80	-33.79	-572.93	-69.13	403.58	276.35
1.2 Government deposits	50.18	197.32	-211.22	116.25	-271.67	-305.19	-420.98	115.36	-50.65	-236.27	-316.31
1.3 **NBS own reserves**	-269.73	-265.22	364.16	-4.87	-159.78	649.05	542.39	611.77	67.93	1069.09	2012.01

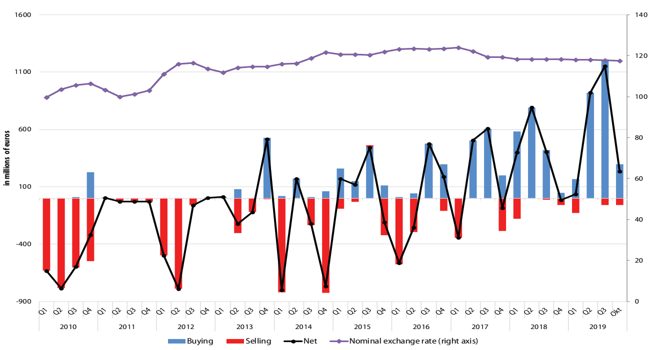
Source: NBS.
1) Definition of NBS net own reserves is given in section 8 Monetary trends and policy“, Frame 4, QM No. 5.
2) State includes all levels of government: republic and local administration.
3) This category includes NBS Treasury Bonds and repo operations.
4) Other net domestic assets include: domestic loans (net bank debts, not including Treasury Bonds and repo transactions; net economy debts) along with other assets (capital and reserves; and items on the balance: other assets) and corrected by changes to the exchange rate.

NBS bought 1.2 billion Euro on FX in Q3 …

… to prevent faster strengthening of Dinar exchange rate

Appreciation pressure has been present since the start of the year and they peaked in Q3 causing the NBS to constantly intervene to buy foreign currency on the FX. In Q3, the overall amount of foreign currency bought on the FX stood at 1.21 billion Euro with the NBS intervening again in October with a net purchase of 235 million Euro (Graph T7-3). That means that the NBS bought a total of more than 2.4 billion Euro on the FX since the start of the year (in all of 2018, the NBS was a net buyer of foreign currency on the FX to the value of 1.58 billion Euro). That significant level of interventions was aimed at preventing the strengthening of the Dinar and it came as the consequence of a visibly greater inflow of capital from abroad in the form of foreign direct investments, portfolio investments and cross-border credit activities by banks and the economy. The direction of interventions affect the level of NBS net own reserves which rose in Q3 by 943 million Euro (in Q2 those net own reserves increased by 1 billion Euro, Table T7-2). Unlike the net own reserves which rose in Q3, net domestic assets (NDA) recorded a drop of 787 million Euro. The drop in NDA is the consequence of the combined effect of increased state deposits with

Graph T7-3. NBS interventions on FX 2010-2019



Source: NBS

the NBS by 259 million Euro, return of business banks to placements in REPO of 255 million Euro and an increase of 273 million Euro of other net domestic assets. The drop in NDA was not sufficient to neutralize the effects of increased NBS net own reserves and an increase in primary money of 155 million Euro was recorded in Q3.

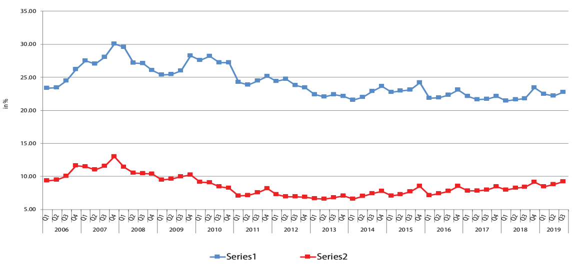
Monetary system: money mass structure and trends

M2 y.o.y. growth rates still high …

.. aided by increased credit activity in the economy sector

The M2[1] nominal growth rate in Q3 of 13.1% y.o.y. continued the trend of high quarterly growth noted in mid-2018 (in Q2 the M2 nominal growth rate stood at 11.2% y.o.y., Table T7-5). A faster growth of the money mass was noted at quarterly level when an increase of 3.5 percent was registered compared to the value at the end of June. The quarterly growth of the money mass is the consequence of the rise in net assets which explains the 2.4 percentage point quarterly increase and the growth of NDA which contributes 1.1 percentage points to the overall rate. Real indicators which take into consideration the level of y.o.y. inflation rates show that the growth of M2 in Q3 stood at 12% which is one of the greatest quarterly rates of real growth. The speeding up of the real growth rate of the M2 is the result of the recovery of credit activity in the households and enterprises sector which is reflected in the record y.o.y. real growth rate of 8.6 percent. The greatest change was noted in the real growth rate of loans to the economy which in Q3 stood at 9.6 percent y.o.y. and is the greatest growth recorded in the past few years.

Graph T7-4. Money mass trends as percentage of GDP, 2005-2019



Source: *QM* calculation

Table T7-5. Growth of money and accompanying aggregates, 2017–2019

	2017				2018				2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
					y-o-y, in %						
M2[1)]	10.3	7.4	5.6	3.6	3.3	7.9	8.2	14.5	14.8	11.2	13.1
Credit to the non-government sector[2)]	4.1	2.0	0.7	1.8	1.9	4.0	5.9	9.4	9.7	9.1	9.8
Credit to the non-government sector[2)],	3.5	3.5	2.9	4.7	5.1	5.6	6.5	9.6	10.0	9.2	10.4
Households	11.0	11.8	10.8	10.9	10.2	10.6	12.3	12.7	12.4	9.3	8.9
Enterprises	-1.3	-2.1	-2.4	0.4	1.3	1.8	2.0	7.2	8.0	9.1	11.6
M2[1)]	6.4	3.8	2.3	0.6	2.0	5.6	7.2	12.3	11.8	9.7	12.0
Credit to the non-government sector[2)],	2.1	2.7	2.4	4.0	4.6	4.7	5.5	7.8	8.0	7.5	8.6
Households	8.6	9.7	9.0	9.2	8.9	8.8	10.0	10.4	10.0	7.6	7.4
Enterprises	-1.7	-2.0	-2.1	0.4	1.5	1.5	1.9	5.8	6.3	7.4	9.6
					in bilions of dinars, end of period						
M2[1)]	2,182.7	2,173.3	2,204.5	2275.5	2255.1	2345.7	2424.3	2605.3	2588.9	2609.1	2699.4
M2[1)] dinars	772.7	785.2	808.3	872.1	838.6	893.1	924.3	1017.3	974.8	1031.0	1093.0
Fx deposits (enterprise and housholds)	1,410.0	1,388.1	1,396.2	1403.4	1416.5	1452.6	1500.0	1588.0	1614.0	1578.1	1606.4
					quarterly growth M2[4)] and shares						
M2[1)]	-0.6	-0.4	1.4	3.2	-0.9	4.0	3.3	9.2	-0.7	1.3	3.5
NFA, dinar increase	-1.6	0.6	1.1	2.9	-1.5	6.5	1.2	4.2	-1.6	2.2	2.4
NDA	1.0	-1.0	0.4	0.3	0.6	2.5	1.8	5.0	1.0	-1.4	1.1

Source: NBS
1) Money mass: components – see Analytical and Notation Conventions QM.
2) Loans to non-state sector – loans to the economy (including local administration) and households.
3) Trends are corrected by changes to exchange rate. Corrections are done under the assumption that 70% of loans to non-state sector (enterprises and households) are indexed in Euro.
4) Trends are corrected by changes to exchange rate and inflation. Corrections are done under the assumption that 70% of loans to non-state sector (enterprises and households) are indexed in Euro.

Increase in foreign currency deposits mainly affects nominal growth of M2…

Within the structure of the y.o.y. nominal growth rate of the M2, the biggest contribution came from foreign currency deposits whose increase explains the 5.76 percentage point overall growth of the M2 at y.o.y. level. The lesser monetary aggregate M1, which typically has the greatest

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

…while other monetary aggregates record positive contributions

effect on the growth of M2, contributed with 5.76 percentage points to the overall increase in primary money of 13 percent compared to the previous year. The remaining growth came from increased savings and timed deposits which contributed 1.75 percentage points.

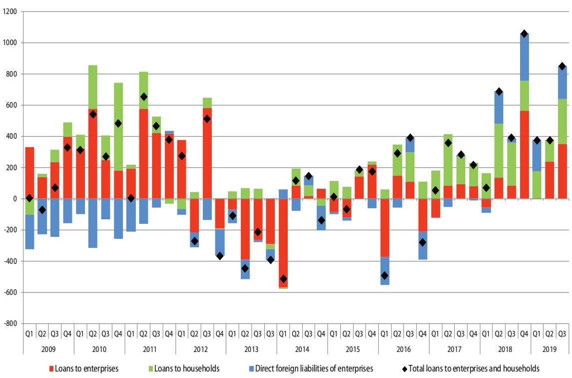
Banking sector: placements and sources of financing

Credit activity speeds up in Q3 …

… thanks to a rise in net placements to enterprises and households

The net placements by banks in Q3 recorded a significant rise compared to the previous quarter. The overall net placements by business banks rose by somewhat less than 1.1 billion Euro but the real state is slightly above that (Table T7-7) taking into consideration the amount of NPLs deleted from the banking system balances in Q3. The recorded increase is mainly the result of the growth of net placements to enterprises and households which increased by 638 million Euro or slightly less than the record increase at the end of 2018 and almost at the level of the overall increase over the previous two quarters. The encouraging thing is that most of the growth of credit placements was on the basis of a higher growth of net new placements to the economy of 352 million Euro while households continued to increase their debts to business banks by 286 million Euro. Current asset loans accounted for 44.7 percent of the newly-approved loans while 58.7 percent of loans to households were cash loans. The higher amount of new loans taken by the state compared to the growth of deposits which the state holds with business banks had a positive effect on the overall placements by business banks. On that basis, net loans to the state increased in Q3 by 191 million Euro. Finally, the continued investments by business banks in REPO placements increased the overall growth of net placements by the domestic banking sector in Q3. Business banks placed 262 million Euro into the purchase of NBS REPO bonds despite the lowering of the key policy rate.

Graph T7-6. Growth of new loans to enterprises and households, 2005-2019



Source: *QM* calculation
See footnote 1 in Table T7-5

Net cross-border loans rise in Q3…

…raising level of net placed loans.

The growth of net loan placements in Q3 was the result of the recovery of the credit activity in the economy and was additionally stimulated by the growth of net cross-border loans taken by domestic companies in this quarter. Domestic companies took 211 million Euro in new loans in Q3, more than was repaid to foreign banks on previous transactions (Graph T7-6). Based on the growth of credit activity from domestic and cross-border sources, the overall placements to enterprises and households in Q3 stood at 849 million Euro, including a 563 million Euro growth of net placements to the economy. Taking into account the amount written off and the sale of NPLs which were on bank balances, this amount confirms that it is closer to 600 million Euro at Q3 level (Graph T7-6). If we take into account the fact that the economy was very cautious in the 2009-2017 period in regard to increasing net debts, this data could represent a signal of positive expectation by business people in terms of economic activity trends in the future. In Serbia, loans to enterprises and households from domestic sources are currently at the level of around 69% of the GDP which is about 10-15 percentage points below the level of recorded in similar economies in the region and that means that there is room for an additional growth of credit activity by banks.

Visible increase of bank credit potential in Q3…

Sources for new placements were significantly increased following a slight growth in the previous quarter (in Q2 the increase stood at 177 million Euro, Table T7-7). The credit potential saw a visible increase of almost 1.5 billion Euro in Q3. Sources for new placements were mostly increased due to the growth of domestic deposits by 794 million Euro, with the largest part being an increase in deposits by enterprises. In Q3, the economy increased the amount of net deposits by 439 million Euro while the net deposits of households increased by 335 million

Table T7-7. Bank operations – sources and structure of placements, corrected[1)] trends, 2017-2019

	2017				2018				2019		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
	in millions of euros, cumulative from the beginning of the year										
Funding(-, increase in liabilities)	354	-252	-1,138	-2,185	286	-727	-1,388	-3,641	573	396	-1,077
Domestic deposits	107	-104	-426	-1,032	65	-664	-854	-2,694	80	0	-794
Households deposits	-69	-164	-258	-517	-166	-411	-646	-1,016	-292	-611	-966
dinar deposits	27	-7	25	-121	15	-110	-250	-442	-35	-193	-333
fx deposits	-96	-157	-283	-395	-181	-301	-396	-574	-256	-418	-633
Enterprise deposits	175	60	-167	-515	231	-253	-208	-1,677	372	611	172
dinar deposits	207	142	-30	-307	170	-95	-44	-657	358	140	-228
fx deposits	-31	-82	-137	-208	61	-158	-164	-1,021	14	471	401
Foreign liabilities	218	49	-317	-546	-169	-217	-531	-821	136	101	-264
Capital and reserves	29	-198	-395	-607	390	154	-3	-126	357	295	-20
Gross foreign reserves(-,decline in assets)	-35	-153	-286	-261	215	-75	138	625	-54	-113	80
Credits and Investment[1)]	255	856	1,162	1,237	219	978	1,227	1,548	-89	369	1,460
Credit to the non-government sector, total	61	474	740	972	105	582	941	1,695	174	544	1,182
Enterprises	-119	-36	58	138	-58	75	159	723	-2	238	590
Households	180	510	682	833	162	507	781	972	176	306	592
Placements with NBS (Repo transactions and treasury bills)	202	289	341	90	-39	175	-48	-244	-4	200	462
Government, net[2)]	-8	93	82	176	154	221	334	96	-259	-376	-185
MEMORANDUM ITEMS											
Required reserves and deposits	-161	-94	-83	-30	120	213	287	1,130	1	-147	-44
Other net claims on NBS[3)]	-324	-401	-220	62	-338	-249	-262	-80	-31	-284	-134
o/w: Excess reserves	-326	-415	-223	42	-339	-254	-280	-197	40	-254	-139
Other items[4)]	-79	18	545	1,176	-514	-152	-8	428	-400	-220	-274
Effective required reserves (in %)[5)]	16	15	15	15	15	15	15	17	17	17	16

Source: NBS

1) Calculating growth is done under the assumption that 70% of all placements are indexed in Euro. Growth for originally Dinar values of deposits are calculated using the average exchange rate for the period. For foreign currency deposits – as the difference calculated on the basis of the exchange rate at the ends of the period. Capital and reserves are calculated based on the Euro exchange rate at the ends of period and do not include the effects of changes to the exchange rate in calculating the remainder of the balance.

2) NBS bonds include state and NBS treasury bonds solda at repo rate and at rates set on the market for permanent auction sale with a due date longer than 14 days.

3) Net loans to the state: loans approved to the state are reduced by the state deposits with business banks; a 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 dues to the NBS.

5) Items on the bank balances: other assets, deposits by companies in bankruptcy, inter-banking relations (net) and other assets including capital and reserves.

6) Effective mandatory reserve is the share of mandatory reserves and deposits in the overall amount of deposits (households and enterprises) and bank debts abroad. The basis to calculate mandatory reserves does not include subordinate debt because that data is not available

… mainly due to increase in domestic deposits and cross-border debt as well as growth of capital and reserves

Euro. Despite the significantly higher profitability of Dinar savings, the growth of deposits by households in Q3 was mainly in foreign currency while Dinar deposits recorded a rise of 140 million Euro. The growth of deposits by enterprises was traditionally predominantly in Dinars while the increase in foreign currency deposits by the economy stood at 70 million Euro. Sources for new placements in Q3 increased additionally because of the increase in capital and reserves by domestic banks which totaled 315 million Euro and that meant even faster growth than the previous quarter at a similar level. Business banks continued their practice of taking loans abroad in Q3 and increased the credit potential of the banking sector by 365 million Euro.

Table T7-8. Share of NPL by debtor type, 2008-2019

	2009	2010	2011	2012	2013	2014	2015	2016				2017				2018				2019		
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	balance at the end of period																					
Corporate	12.14	14.02	17.07	19.06	27.76	25.5	24.40	26.89	26.26	23.56	19.48	19.92	19.24	16.86	13.83	12.51	12.51	10.37	9.63	9.57	9.07	8.35
Entrepreneurs	11.21	15.8	17.07	15.92	20.82	43.29	29.92	33.03	30.12	28.44	27.42	26.49	25.02	23.90	16.96	12.60	12.16	9.98	9.07	8.82	8.57	8.67
Individuals	6.69	6.71	7.24	8.32	8.59	9.97	10.53	10.95	10.63	10.36	9.66	9.21	8.35	7.56	6.43	5.84	5.71	5.15	4.72	4.66	4.62	4.46
Ammount of dept by NPL (in bilions of euros)	1.58	1.94	2.63	3.19	4.09	3.70	3.52	3.76	3.75	3.45	2.83	2.83	2.77	2.63	2.16	9.93	9.80	1.59	1.52	1.51	1.46	1.43

Source: *QM* calculation

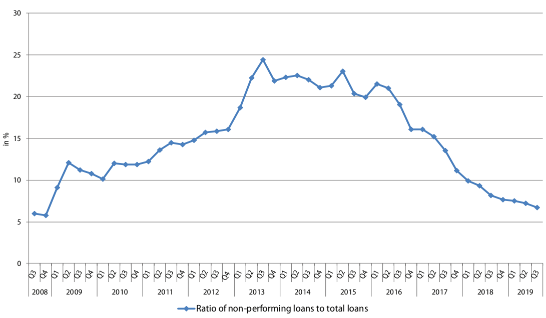
Share of NPLs continues to drope …

… and draw closer to pre-crisis level

The trend of a slight drop in the share of NPLs in overall placements continued in Q3 mostly because, as in previous quarters, of the effects of the growth of credit activity. According to Credit Bureau data and methodology used by QM[2] the share of NPLs in overall placements dropped to 6.74 percent at the end of September which is about equal to the share of NPLs in Serbia before the financial crisis broke out at the end of 2008 (Graph T7-10). The 0.72 percentage point drop in the share of NPLs among companies compared to the end of June (Table T7-9) was almost the only

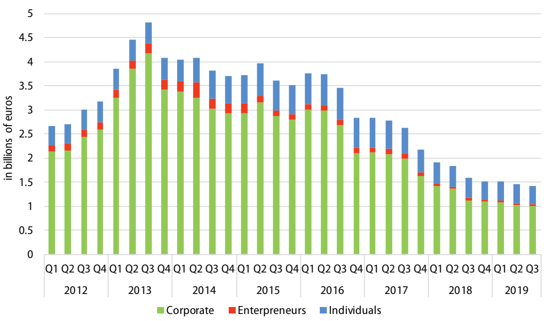
2 For details on the manner of calculating the share of NPLs see QM 6 - Spotlight On 1: NPLs in Serbia – what is the true measure?

Graph T7-9. Share of NPLs in overall placements, 2008-2019



Source: *QM* calculation

Graph T7-10. Remaining debt in loans fallen late, 2012-2019



Source: *QM* calculation

Monetary easing by FED and ECB…

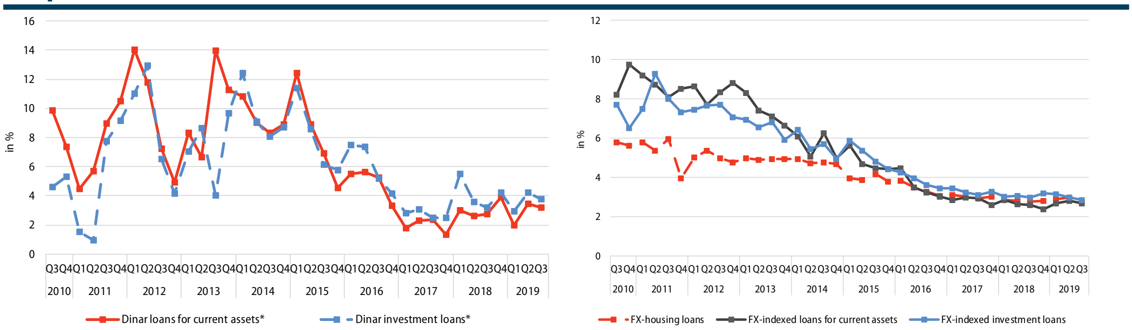
… made room to reduce interest rates even more

cause of the drop in overall placements. NPLs placed to households recorded a drop of 0.16 percentage points in the overall placements in this segment while on the other hand Q3 saw a slight increase in the share of NPLs in the entrepreneur segment of 0.1 percentage point. Viewed in absolute amounts, NPLs in Q3 were reduced by some 36 million Euro compared to the previous quarter. That drop was caused by the further writing off of NPLs and sale to persons outside the banking sector directly from bank balances (Graph T7-11).

Interest rates: state and trends

Changes in monetary policy direction by the ECB and FED meant that cheap capital continued to be available on international markets. In September, the ECB launched its third re-financing program which is planned to last to March 2021 in order to maintain favorable credit conditions along with an injection of 20 billion Euro a month through purchase of bonds. At the same time, the FED started injecting liquidity into the system after more than 10 years to maintain interest rates for overnight loans (which are the dominant instrument for banks to secure liquidity) with the planned range for this year. The period of monetary policy expansion at global level had an effect on interest rates on the money market in Serbia. Interest rates for basic credit groups in Q3 recorded an evident drop following growth in the previous quarter. A somewhat more evident change was in average weighted interest rates on indexed housing loans which was lower by 0.25 percentage points compared to the end of June. The average weighted interest rates on indexed current asset loans were 0.12 percentage points lower compared to the previous quarter while a drop of 0.13 percentage points was recorded in average weighted interest rates on indexed investment loans (Graph T7-12b). A more pronounced drop was recorded in real interest rates on Dinar loans because inflation slowed down additionally (Graph T7-12a). The average weighted interest rate on Dinar investment loans recorded a drop in real terms of 0.47 percentage points following a sudden rise in Q2. A somewhate lower drop was recorded in the average real weighted interest rate on current asset funds which stood at 0.23 percentage points of the value at the end of June.

Graph T7-11. Interest rates on Dinar and indexed loans, 2010–2019



Source: *QM* calculation
* real interest rates