At the beginning of the year, the Minister of Finance, Siniša Mali, announced that the state will not borrow on the foreign market in 2022, but only on the domestic market. This can be in domestic currency, by issuing dinar securities, but also in euros. If the Ministry of Finance persists, it will have to radically change the plan. Because, the issues of dinar and euro bonds have been extremely unsuccessful in recent months.

A few days ago, the Public Debt Administration offered for sale a two-year bond, worth 51 million euros, at an annual interest rate of 2.75 percent. Only one sixth was sold, that is, investors “gave” 85 million euros, which means that the percentage of realization is only 16.54 percent, it is written on the website of the administration.

The issue of five-year bonds at the beginning of December last year was even more unsuccessful. Securities worth 1.2 billion euros were offered for sale, with an interest rate of 2.5 percent, and the percentage of realization was 0.08 percent. Investors gave the state just over 365 thousand euros. The auction of dinar debt securities with similar parameters was held in October, and the percentage of realization was 8.11.

What does such a low percentage of bond sales show?

At the end of November, the state also issued securities in euros on the domestic market. These are twelve-year bonds, worth 100 million euros, with an interest rate of 1.6 percent per year, while the percentage of realization was 23.23 percent.

What does such a low percentage of bond sales show? That the interest rates are low and that investing in them, with an annual interest rate of 7.9 percent, is unprofitable. And that investors do not believe that interest rates will remain so low and that they are waiting for the state to increase them.

For the sake of the truth, the state was not in a hurry to obtain money in this way in the previous months, because it had two billion euros in its accounts, as the Minister of Finance announced after the accident at the Obrenovac thermal power plant.

Milojko Arsić, a professor at the Faculty of Economics in Belgrade, says that the offered rates are lower than the average expected inflation in the next two years and that the state will have to increase interest rates.

And are we now in a strange situation where inflation is, conditionally speaking, high and interest rates low?

“This is not the case only in our country, but also in the world, and it is probably a consequence of the delay in adjusting interest rates to inflation. They are not adjusting so quickly, among other things, because until recently there was a widespread belief that inflation is short-lived and temporary. On the other hand, such a policy is facilitated by cheap sources of financing. Banks approve loans at real negative interest rates, but the savings rates and interest rates of the central banks at which they borrow are even lower. That is why those banks that have cheap sources of borrowing invest money in government securities. It is quite certain that interest rates will increase this year,” notes Arsić.

As for the plan not to enter the international debt market in 2022, he believes that if the planned fiscal deficit of three percent of GDP is maintained, then the state does not have to borrow "abroad", bearing in mind that a lot of funds have been transferred from the previous year to this one. And that can cover part of the minus or debt. However, it is not certain that the deficit in the state treasury will remain so much, because the payments of additional programs that are not foreseen in the initial budget, such as one hundred euros for young people, are announced, and it is possible that there will be something else.

Several billion euros of debt are due

"If the deficit is higher than planned, then it would be justified for the state to borrow on the international market for two reasons. Interest rates are still low and we can still borrow relatively cheaply. The second reason is that when banks buy bonds, they squeeze out the private sector, and instead of approving loans to the economy and citizens, they finance the state," states Arsić.

This year, several billion euros of debt are due for collection, and we already know that the state has money from the IMF at its disposal as an option for that repayment. The Ministry of Finance has already announced that it will use 759.71 million euros that the IMF Board of Directors awarded to Serbia in August, ie 627.6 million special drawing rights for that purpose, in the first quarter when they are due.

By the way, on the world market, the dollar is stronger in relation to the euro, so the question arises how it will affect us. Less than before because the share of public debt in the American currency was reduced from over 30 percent to only ten percent.

"The strengthening of the dollar has to do with the faster recovery of the American economy compared to the European one, but also with the announced growth of interest rates. When interest rates rise in the United States, the dollar strengthens and it pays to invest in that currency. Europe has not yet announced an increase in interest rates, and the problem for it is that a large number of countries in the eurozone decide on that. This way of decision-making in the European Central Bank slows down the way of decision-making. This was seen in the global economic crisis of 2008-2009 when it took them several years to implement an expansive monetary policy. So it is now. Some countries have recovered and have low inflation, while others have the opposite. Strengthening the dollar is important for us because it affects the growth of energy import costs, because their world prices are in dollars," says Arsić, BiF reports.