Stopping the growth of the reference interest rate should be expected at the end of this year, when inflation would be almost halved and amount to around nine percent. People with loans, on the other hand, can expect easing and return of the war to previous levels in the second half of 2024, when, according to the NBS projection, inflation should be returned to the target range.
That is the assessment of the professor of the Belgrade Banking Academy, Dr. Zoran Grubišić. In other words, indebted **citizens** should **last another year**, after which, if they have not exhausted all their reserves, they could breathe easier.
Growth for the twelfth time in a row
In an effort to bring inflation, which was 15.8 percent year-on-year in January, on a downward path and return to the target level of three percent with a deviation of plus or minus 1.5 percentage points, the National Bank of Serbia (**NBS**) once again, **for the 12th time in a row** in almost a year, **raised the reference interest rate.**
Although slightly increased by 0.25 percentage points, to 5.75 percent, it will inevitably affect the growth of interest on installments of indebted citizens.
How long can the increase in the reference interest rate, which is practically the only mechanism of central banks to curb inflation and its decline, last?
According to Bloomberg, **these days the European Central Bank is expected to increase its reference interest rate by 0.50 percentage points.** Then it would have to do it three more times, each time by 0.25 percentage points, to reach 3.75 percent in July.
Grubišić told Sputnik that it is **important to reverse the trend** to begin with . Inflation has stopped for now, but at a high level.
Pass time
"I think that when the trend reverses and when we are already in some 'transient time', when it is seen that it is going down and when some other external factors, which the central banks cannot influence, contribute to the stabilization of the situation on the market, then to stop the further increase of the interest rate", says our interlocutor.
And that fleeting time is, judging by the words of **NBS Governor Jorgovanka Tabaković** , the end of this year when inflation should be around nine percent.
"We expect a significant drop in inflation in the second half of this year, so at the **end of the year it should be twice as low as at the beginning** of this year." We expect inflation to return to the target in mid-2024, which is also earlier than the estimate from the November projection," she said at the last **Kopaonik business forum**.
According to Grubišić, the central banks will be very careful when lowering the reference interest rates, but the growth should stop sooner.
He also explains this by the fact that **the NBS has already slowed down the growth** of the reference interest rate, which instead of half a percentage point as before, increased it by a quarter.

It will probably be like this until the end of the year, provided that something does not happen that would disrupt this trend, and it is beyond the power of the central bank's influence.

Banks are preparing for the growth of non-performing loans

When asked whether people who have loans with this 12th increase in the reference interest rate have exhausted themselves with the previous increase in interest rates and whether we can expect **an increase in the number of non-performing loans**, he **considers** it quite **certain**.

According to the data of the Association of Serbian Banks, the previous increase in interest rates did not affect the increase in the number of non-performing loans.

Those with a delay in repayment were 2.8 percent of loans, which is small and similar to the situation in 2019, before the covid pandemic. However, this ongoing situation is, according to our interlocutor, exhausting for the household budgets of indebted citizens.

"It is to be expected. Banks are already preparing for this with their capital levels, capital reserves and everything they have to do to maintain market stability. They are preparing for that slight increase in bad debts, and I would say that it is almost certain that this will happen in a short period of time", believes the professor of banking at the Belgrade Banking Academy.

Loan refinancing

He is of the opinion that a number of citizens will resort to using the facilities that the NBS recently made available to commercial banks and their clients in case of problems with loan repayment. Thus, the term for repayment of cash and consumer loans, as well as car loans, is three years longer than the previous maximum in case the client is unable to service the monthly installment. When it comes to housing loans, debtors will be able to extend the repayment term by five years this year.

Grubišić, however, believes that **the reduction of the installment based on the extension of the loan repayment** term will not significantly help those who are really at risk, especially if someone's income is falling.

He explains this by the fact that **after the refinancing, the difference in installments is not so great** that the problem could be solved, but only to make the situation a little easier. In addition, the extension of the deadline also brings greater indebtedness, so in the end the amount repaid is greater than the originally contracted amount.

Certainty is also important

Our interlocutor is convinced that we will see high interest rates throughout this year.

"This year, there may be another slight increase, but not as dynamically as last year." There is no need for further such a sharp increase, and **next year**, if things go in this direction, which again no one can guarantee, **there will be** no new **increases**," Grubišić concluded.

He has no doubts that **citizens** with credit debts will have a hard time next year as well, and

they can expect relief only when interest rates start to drop and installments return to previous levels. However, no matter how much they have to deal with new increases in the war, the certainty of a return to normal in the second half of next year is certainly important for them, so that they can plan and know what to do.