Inflation is rising, reaching 9.6 percent year on year, and there is every chance that it is not over. The subjective feeling of rising prices is much more intense, because food often costs 30 or 50 percent more than two years ago, for example. The National Bank of Serbia (NBS) has started the fight against inflation by raising the reference interest rate. This interest rate is the basic instrument of monetary policy in the inflation targeting regime. On two occasions, in March and April, the Central Bank increased the mentioned interest rate by half a percent and now it amounts to two percent. The question arises whether all this is adequate in conditions when inflation "tramples" us. Bankers say that the increase in the reference interest rate was expected due to the growth of inflation, and that this has a counter-effect by making money more expensive, and thus the demand for loans is decreasing.
Vojislav Lazarevic, President of the Executive Board of Adiko Bank, states that one must go step by step and see the effects of the measures.
"When the National Bank lowered the reference interest rate, it did so cautiously. Now it is increasing. I think that inflation has reached a maximum, saturation, and that it will fall for the simple reason that it is compared to last year. It has started to grow since the middle of 2021, and now it will bring a decline every month. It would not be appropriate for the increase in the reference interest rate to be sudden and large, because that would have a negative impact on the economy ", notes Lazarević.
This bank approves dinar loans with a fixed interest rate, so that their clients will not be affected by the increase in the reference interest rate for already approved loans, but will probably affect the increase in future interest rates. Those who have agreed on loans with variable interest rates can expect an increase. By the way, after the reference interest rate increased by 0.5 percent in March, loans to households rose by 0.2 percent, according to NBS data.
Zoran Grubisic, a professor at the Belgrade Banking Academy, says the NBS uses the instruments it has.
"Mostly when the reference interest rate increases, it is a matter of fighting demand inflation, trying to cool the market and the economy, which has overheated in aggregate. Now, the causes of inflation are on the side of costs, because the cause of rising prices is the global energy crisis, and this is manifested through the costs that the economy has and that are growing. The question is how much the increase in the reference interest rate will contribute to the fall in inflation, but there is no other instrument. It will contribute to some extent, because it is an instrument that gives a signal that money is becoming more expensive and that borrowing is becoming more difficult, "Grubisic believes.
He predicts that the central bank will continue to increase the reference rate several times by half a percent. He thinks that at the end of the year, it will be at the level of two to 2.5 percent, which is the forecast for the United States, and we are monitoring what the big

central banks are doing. He adds that after the NBS moves, dinar loans will become slightly more expensive. How much will depend on the business policy of the bank, because they have room to not react to the full extent, to pass everything on to consumers and to reduce their margin a little. This will depend on the risks that the banks assess.
Secretary General of the Association of Serbian Banks Vladimir Vasic told Tanjug that the new increase in the reference interest rate is an adequate response of the NBS to inflation expectations and that he hopes to give results in the medium term in terms of curbing inflation and reducing inflation expectations.
“One of the ways to make inflation return to normal in the medium term is to make money“more expensive, in order to curb inflation,” he said. He added that this measure will not affect those who have cash loans with a fixed interest rate, while those who have a variable interest rate can expect in the coming period, but not automatically, that their monthly installment will be slightly adjusted. He noted that the entire banking sector is watching what the European Central Bank will do, which scheduled a meeting on June 9.
“There may be a slight correction of Euribor, which has been in the red for the last seven to ten years. The policy of cheap money is over, “he said.