Lexicon of terms

Annuity instalment - An annuity is a series of payments at equal intervals. The most common monthly instalments consist of the debt principal and the part that refers to due interest. In addition to the monthly instalment, it can also be quarterly, semi-annual, and annual, depending on how it is agreed. The annuity, i.e. the instalment, consists of the debt principal and the part related to due interest. When concluding a loan agreement, the bank needs to make and provide the client with an overview of the essential elements of loan repayment, a form in which you can find, among other things, information on the amount of the monthly loan obligation. The best way to find out the basic information about the loan, but also to see your possibilities, is to ask the bank employees for a form with basic information for the desired type of loan, before applying for a loan. You can also use calculators on the websites of banks and the National Bank of Serbia.

An advance of money - a sum of money or other substitutable item, which one party hands over to the other at the moment of concluding the contract, as a partial fulfilment of the obligation from the contract in advance, before the maturity of that contractual obligation. In everyday life, the advance is usually given by the client, who can thus cover part of the costs that will occur during the performance of work. Otherwise, an advance is not a means of securing the fulfilment of an obligation. The advance is only an anticipation of fulfilment - partial fulfilment. In the event that the contracting party that has deposited the advance does not fulfil its obligations and does not pay its debt, the advance will not be lost, but the party has the right to claim it back.

Cash Flow - display of cash inflows and outflows in a certain period. In essence, cash flow deals with the flows that bring money into a company and flows that bring money from the company. In our country, the terms “cash flows”, “cash flows”, “cash inflows and outflows” are sometimes used as synonyms for the term “Cash Flow”. There are two methods for compiling Cash Flow reports: direct and indirect. The direct method is prescribed by law and companies in Serbia that have the obligation to submit a Cash Flow report within the Final Statement, must use the direct method. The indirect method is most often used in practice, because it is fast and simple.

Denomination - An operation to reduce the face value of money, when a certain percentage of the previous face value is deducted from the banknotes. In other words, denomination is a change in the nominal value of a monetary unit that is carried out by exchanging money with money of lesser or greater value. Thus, e.g. the 1000 banknote is replaced by the 100 banknote, where the currency becomes 10 times larger. This procedure is carried out during monetary reform or due to high inflation, when the currency is rapidly depreciating.

Deposit - A client's monetary claim against a bank arising from the deposit of a cash deposit, savings deposit, or other cash account. There are two types of deposits - sight deposits and term deposits. In case of term deposits, the client undertakes to keep the funds with the bank for a longer period of time, often for six months or more, and thus acquires the right to higher interest rates. In case of revocation of funds before the agreed deadline, the bank pays the customer a lower interest rate than agreed. In the case of sight deposits, the client has the right to request a return on investment at any time, but the interest rate is much lower. In a broader sense, a deposit is an insurance for the delivery of goods. For example, during the purchase of an apartment, as a rule, a down payment is given in advance in order to immediately reserve the apartment for the buyer.

Overdraft (allowed minus) - The overdraft ("allowed minus") is one of the most commonly used banking products. Why is it so? Because it is the easiest way for clients to get the necessary money quickly and easily, especially if it is an amount of one monthly salary. Also, the procedure for obtaining this product is fast, and does not fully encumber the indebtedness recorded in the Credit Bureau. However, as with any type of borrowing, you should pay atten-tion to certain facts, and experts advise you to use this banking product only in case of an urgent need for cash and in exceptional situations. If the current account overdraft is used for a longer peri-od of time, you should seek advice from the bank on which other financial product (cash loan, payment card, etc.) would be more favourable instead of the overdraft.

Devaluation - A decrease in the exchange rate of money, given the value of gold and foreign currencies, which is a type of monetary reform carried out by the state (e.g. due to inflation). Devaluation occurs when a country's costs grow faster than those of its competitors and when its exports are no longer price competitive. Devaluations can lead to large relative changes in the value of a particular currency (for example, the value of a currency can drop by as much as 10 percent).

Currency - Currency is a means of international payments. Thus, foreign exchange in the narrower sense is most often defined as a short-term receivable (bill of exchange or cheque) that is denominated in a foreign currency. In a broader sense, the concept of foreign exchange in the international economy, in addition to short-term claims denominated in foreign currency, includes effective foreign currency, which performs the function of world money. Foreign exchange as receivables in foreign currency are specific goods that are bought and sold on the foreign xchange market.

Exchange rate - Represents the rate at which one currency changes to another currency. The exchange rate is also considered to be the value of the currency of one country in relation to the currency of another country. There are several types of exchange rates: fixed, flexible, guided, crawling and multiple. Exchange rates are determined in the foreign exchange market, which is open to a wide range of different types of buyers and sellers.

Dividend - Income earned by the owners of ordinary (voting shares) and preferred shares (non-voting shares), which remains with the joint stock company after the settlement of obligations. In ordinary shares, the value of the dividend depends on the operations of the joint stock company: if the joint stock company is at a profit, the dividend increases, and if it is at a loss, the dividend decreases or is not paid. Dividend is actually a part of the profit that the shareholder collects on the basis of its share, and the amount of which is determined by the shareholders' assembly depending on the results of the company and in accordance with the rules of the joint stock company.

Effective interest rate (EIR) - The effective interest rate is the real price of a loan. In addition to the nominal interest rate, it includes fees and commissions that the client pays to the bank for loan approval. The effective interest rate also includes the cost of processing the application, the cost of disbursing the loan, the annual fee for the administration of the loan, the amount of the insurance premium, if insurance is a condition for using the loan, the costs of opening and maintaining accounts which are a condition for loan disbursement, and other costs related to ancillary services that are a condition for the use of loan and borne by the user (e.g. fixed fee for insurance processing fees, costs of issuing excerpts from the register of real estate, costs of assessing the value of real estate and movables, costs of certifying the pledge, costs of registration of lien - mortgages, costs of insight into the database on user indebtedness and etc.)

Grace period - The grace period is the period in which the loan is made available to the user, but the loan repayment has not yet begun. If you use a grace period, you need to find out whether interest is paid or not during that period. It should be borne in mind that if you were charged with interest on the entire loan amount during that period, you would in fact pay a higher total interest rate than you would pay if you did not use the grace period. We recommend that you check the effective interest rate and instalment amount for loans granted with a grace period and compare them with the effective interest rate and instalment amount for loans granted without a grace period.

Loan indexation - Loan indexation is the binding of liabilities on the basis of loans for the growth of retail prices or the exchange rate of a foreign currency. A loan indexed to the growth rate of retail prices is a loan with a clause by which the loan repayment is linked to the movement of retail prices. With the increase in the growth rate of retail prices, there is an increase in interest and loan principal. A loan indexed by a currency clause is a loan denominated in a certain foreign currency and contains a clause by which the loan repayment is linked to the movement of the exchange rate of that currency. For users of this type of loan, there is a possibility of changing the exchange rate, and thus changing the total amount of the loan taken. You can only hedge against this type of risk if your regular monthly net income, from which you repay the loan (e.g. earnings), is linked to the same currency.

Hedge fund - A fund that invests one part of money in shares, while the other part invests in futures markets. The essence of these funds is a limit on losses at a time when the stock market is falling. In case the stock market grows these funds usually have lower profits from asset growth funds. It is actually a type of riskier investment funds, which use the hedging technique (buying and selling in the future at defined prices) to reduce risks.

Hyperinflation - A drastic decline in the value of money followed by high price increases, most often as a consequence of high budget spending financed by printing money without coverage. It is actually a situation during which prices rise very quickly while the currency loses its value. So, the essence is that hyperinflation is uncontrolled inflation (which is, by definition, an increase in the general or broad price level), but what percentage of inflation is exactly considered hyperinflation, is still not precisely determined today.

Interest - Interest, most broadly speaking, is a fee for the use of someone else's exchangeable, movable items, most often money. Its level is measured according to the level of principal and duration of use. Interest is often called civil or civil-legal fruits (as opposed to natural fruits), because they are acquired on the basis of the existence of a civil-legal relationship. On the basis of origin, broadly speaking, interest is divided into legal (usurae legales) and contractual (usurae conventionalis). Interest is primarily and most often a banking category, it is the price of money.

Loan - Major life changes sometimes require additional financial resources. If you decide to take a loan, regardless of the type and amount of loan, keep in mind that there are different options in banks' offers, which is why you should think carefully and ask what is offered to you and what best suits your needs.

It is important to check:

- The level of effective interest rate - EIR;
- Fees included in the calculation of EIR;
- Is the nominal interest rate fixed or variable;
- Does the bank charge intercalary interest and in what percentage;
- What is the total amount of interest and fees you will pay to the bank;
- Whether and in what currency the loan is indexed;
- Which exchange rates the bank uses when approving loans, and which when repaying loans, i.e. annuity payments (instalments);
- What collateral (mortgage, pledge, bill of exchange, etc.) are needed to obtain a loan and what are the costs of obtaining the necessary documentation, such as costs: estimates of real estate and movable items, insurance premiums or other fees related to loan collateral, registration with the competent authority, obtaining excerpts from land registers, obtaining certificates, permits and decisions of the competent authorities, the Credit Bureau, etc.;
- Whether the loan is with a down payment or a deposit;
- Does the bank reserve the right to change certain loan conditions regardless of the client's will, as well as which conditions can be change and in which situations;
- Does the contract provide for early repayment of the loan, i.e. reduction of the principal and what are the conditions in those cases (when it can be done, whether the regular interest is recalculated due to the change of the loan repayment period and whether and in what percentage the fee for early loan repayment is charged.

Exchange rate difference - The difference arising from the presentation of a given number of units of one currency in another currency at different exchange rates. In practice, the exchange rate difference can be applied between the buying or selling rates of banks or between the same type of exchange rate of different banks (selling rate in two different banks).

Limit - The amount of the maximum allowed overdraft (negative balance) on the account, i.e. the amount of the largest possible indebtedness on the approved loan or on the credit card.

Bill of exchange - Obligation-legal security whose content is a monetary claim. It is an unconditional written order of the issuer of the bill of exchange sent to another person to, at a certain time and in a certain place, pay a certain amount of money to the person indicated in the bill of exchange (remitter) or another person at his/her order. In modern trade, the bill of exchange has a triple role. It is a means of payment, a means of securing payment and a means of credit. If the seller and the buyer agree on payment by a bill of exchange, the buyer issues a bill of exchange on the amount of the purchase price in which the seller is indicated as the user, and the commercial bank as the entity who has to pay according to the bill. The seller submits the bill of exchange to the buyer's bank to determine whether it agrees to pay the bill of exchange. If the bank accepts this obligation by confirming on the bill of exchange itself, the seller can be sure that the purchase price will be collected when the goods to the buyer are delivered.

Nominal effective exchange rate - Change in the value index of the domestic currency in relation to the value of the bucket of foreign currencies of the countries of the most important economic partners of the national economy.

Nominal interest rate (NIR) - Represents the amount paid for the use of bank funds. Interest rate levels depend on the type of loan, the term for which the funds are transferred, the means of securing the collection of receivables, market conditions, competition, inflation rates, the country's credit rating. Nominal interest rate (NIR) is the basic interest rate that represents the price of the loan. It defines how much you have to pay for the loan service. It is an interest rate that represents a relative number - a percentage, which determines how many monetary units are paid per unit of credit and is used to calculate regular interest on a given loan. It can be fixed or variable.

Money market fund -A type of investment fund that invests in money market instruments that carry minimal risk (e.g. deposits, treasury bills). A money market fund is an open-end investment fund for preserving value of assets, which invests at least 75 percent of its assets in short-term debt securities and cash deposits. A money market fund is usually called a CASH fund, since the investment is mostly made in money. Simply put, the money market fund invests in debt securities and deposits.

Money Market - Means the money market and the market for short-term debt instruments. The basic task of this market is a permanent and daily supply of banks with money as a means of transport and payment, in order for them to achieve liquidity which enables current payments of their clients. The money market includes the total supply and demand of funds, financial instruments, as well as financial transactions that are performed between legal and natural persons, companies, financial organizations and individuals, as well as between all of them and the state and the central bank on the other hand.

Loan security - This is a guarantee that the money will be returned. The bank wants to ensure in every way that the borrowed funds will be repaid. If this does not happen, security will be activated. It can be an administrative ban on salary, as well as other types of security, guarantor, insurance, mortgage.

Bonds - Long-term debt securities with a maturity of over one year. The buyer of the bond borrows the amount of the bond to its issuer, and the issuer of the bond guarantees that during the specified period of time it will pay the determined amount of interest to the bondholder annually, and that upon maturity of the bond it will pay the amount. Unlike a classic loan, a debt financial instrument can be bought or sold on the secondary market.

Term deposits - A term deposit means that the owner cannot dispose of the invested money for a certain period of time. The deadline can be set in advance or with a different notice period.

Parity - The ratio of the exchange of one currency to gold or some currency.

Deposit interest rate - The interest rate at which the debtor pays interest on the funds received. Deposit interest rates are those that the bank pays for the money invested in it.

Payment cards - Payment cards are used for non-cash payment for goods and services in retail outlets and on the Internet, and for cash withdrawals at ATMs, in the country and abroad. Depending on the type of card, the payment requires identification of the user through a PIN code or signing a "slip" account. An increasing number of payment cards also support contactless functionality, which allows cardholders to make payments up to a certain amount without entering a PIN, just by bringing the card to the POS terminal / ATM device. By 2022, the number of non-cash transactions is expected to exceed cash payments. According to the data of the National Bank of Serbia, there are 6.1 million card users in our country, with slightly more than 8 million cards in their possession, but every other one is inactive. In the world, Sweden is a pioneer in this segment and is on the way to completely abolish cash as an insecure and expensive way of payment.

There are debit and credit cards, and the benefits of using them are numerous:

- Enable easier use and disposal of funds at any time, regardless of a bank's business hours;
- Are safer than carrying cash;
- There is a large number of outlets worldwide that offer the possibility of payment by payment cards, as well as a number of ATMs for cash withdrawals
- An increasing number of retail outlets that offer special benefits when paying with payment cards.

Insurance premium - The amount of money determined by the insurance contract, which the client should pay as compensation for providing insurance protection in cases defined by the contract. The insurance premium is the obligation of the policyholder. In the case of insurance for someone else's account, the insurance policyholder owes the premium to the insurer. Premium rates are prescribed by the insurer. When determining the insurance premium, it is necessary that the insurer is first informed of the likelihood and potential consequences of the damage. If there is an increase in risk, and the insurer proposes to the insured a new (higher) premium rate, the contract is terminated by law if the policyholder does not agree to a new premium rate within fourteen days of receiving a proposal for a new rate. If there is an increase in risk to the extent that the insurer would not have concluded the contract if such a situation had existed at the time of its conclusion, the insurer may terminate the contract.

Primary money - Includes cash in circulation and bank deposits and reserves. Primary money or monetary base represents the total amount of liquid liabilities of the NBS to the commercial banking sector, the retail sector and other non-banking sectors that have demand deposits with the NBS. The reserve money includes deposits of commercial banks and immediate customers with the central bank and cash.poslovnih banaka i neposrednih komitenata kod centralne banke i gotov novac.

Rent - A monetary amount that is paid regularly, at certain intervals, on the basis of some legally based receivables. The rent represents the income from capital, property or land property, as well as everything that contributes to the owner on a regular basis, without any work or effort.

Revolving loan - Short-term loan, which is renewed according to a certain time dynamics. Revolving means financial assets that can be transferred from one monthly cycle to another. It is a loan that is renewed: everything that you returned, i.e. paid on the credit card in the previous period, you can use again without going through the loan approval procedure.

Default interest - Default interest is interest that is calculated and charged if the client has not settled the obligations on time in accordance with the provisions of the concluded contract. Default interest is the most well-known legal interest, which is charge to the debtor who is late in fulfilling the monetary obligation. The level of the default interest rate is usually determined by a special law or other regulations and very often changes depending on inflation and economic policy of a country. In theory, it is said that the functions of default interest can be punitive (punishment for the debtor for his delay), incentive (incentive for the debtor to make payment on time), as well as protective (ensuring the creditor to be realistically compensated).

Giro money - Funds deposited in an account with a bank that depositors can dispose of on demand, i.e. without any restriction, at any time and without prior cancellation. By performing passive operations, the bank takes out a loan in the form of various demand deposits. Thus formed cash deposits comprise all receivables on giro accounts, current accounts and other accounts of their holders. The receivables of the owners of these accounts represent deposit money. This money, although it has no physical dimensions, participates in all payment transactions and together with cash represents the money supply.