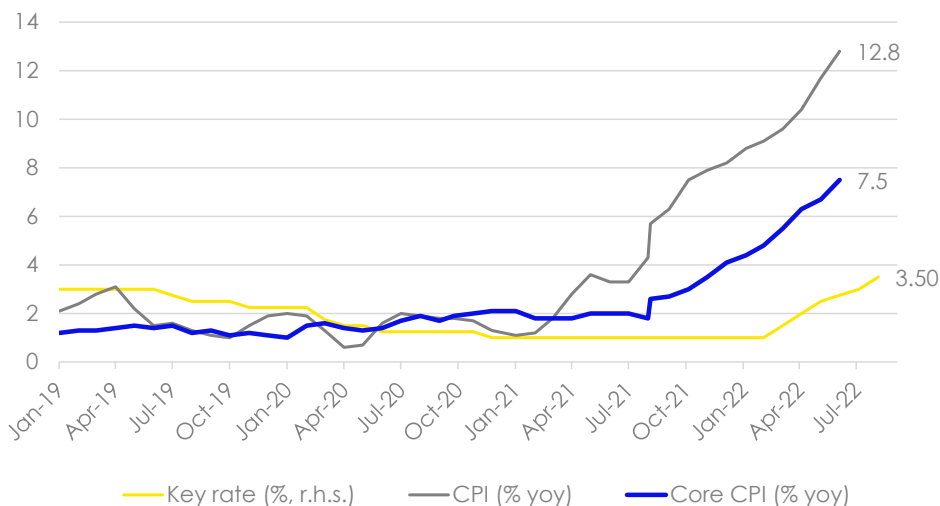


Serbia Watch: Key rate hikes accelerated again, +50bp to 3.5%

The Executive Board of the National Bank of Serbia (NBS) decided to accelerate the benchmark rate hike dynamics increasing it by 50bp to 3.5%. Interest rates on standing facilities now stand at 2.50%-4.50%. More hikes should come in the remainder of the year.

Disclaimer 3

Analyst 5



Source: Statistical office, NBS, Raiffeisen Research

Following the summer slowdown in rate hiking (July and August by 25bp each), the NBS decided to accelerate the hiking pace again at the start of the new business season. **There are several reasons supporting the decision. In the first place, this is due to the very supportive macroeconomic environment in H1** with average GDP growth of 4.1% in H1, outstanding export volumes, healthy industrial and retail sales volumes. Furthermore, with deteriorated global economic outlook in 2023, it seems better to front-load all the interest rate growth this year. The third factor is to maintain attractive interest rates differential vs euro market, given the expected acceleration in the ECB rate hiking. The fourth reason is of course high inflation (July: 12.8%) and high core inflation (July: 7.5%), supported by the energy and food prices growth and the threat that the prices of both categories will be trending upwards in the coming months. Food prices will continue to grow due to unexpected drought in Serbia, but also in the EU, while energy prices growth is supported by the ongoing geopolitical crises and change in the EU energy strategy. Though NBS expects that the inflation will peak in Q3 and then will start decelerating, we assume there are high risks that inflation will continue to grow despite expected demand drop, over high uncertainty of the energy and food prices on the global markets and thus, uncertainty regarding the import prices.

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Exchange rate strengthening continued during the summer season supported by the FX flows (remittances, touristic revenues) and less FX demand by energy importers. Though we have expected the weakening to start at the beginning of the new heating season and little FX interventions from the NBS side, given the amounts spent on the interventions in Q1, we have now changed our view. This is due to the fact that FX reserves have increased during summer, opening the room for the NBS to be active again on the FX market from October, thus implying less weakening pressure in Q4.

Concerning the GDP forecast for 2023, NBS confirmed the range of 3.5%–4.5%, though acknowledging the downside risks to the scenario, primarily due to geopolitical risks. We are currently reevaluating the new projection (current is 3%), expecting lower economic growth next year due to a likely significant slowdown in the economies of our key foreign trade partners.

Since NBS expect the economy will be starting to slow down in H2, we expect a 50bp hike at the October meeting and then the rate hiking to slow down. We will reconsider our key rate forecast for this year (4.25% eop) in order to assess whether there is potential for more rate hikes in the remainder of the year.

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