

Serbia Watch: Key rate flat at 6.5%, no forward guidance for the next meeting

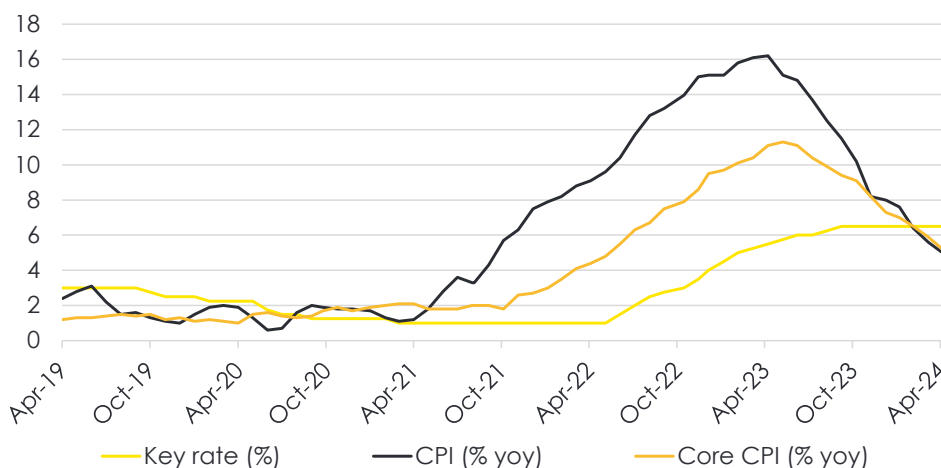
The Executive Board of the National Bank of Serbia (NBS) decided to keep the key rate at 6.5%, the tenth month in a row, amidst still elevated (though falling) global inflation risks. While a rate cut could be made as soon as in June, we also see risks of a delay until July.

Disclaimer **3**

Analyst **6**



Time to cut?



Source: NBS, Statistical office, RBI/Raiffeisen Research

The Executive Board of the National Bank of Serbia (NBS) voted for no change of the benchmark rate for the tenth month in a row, supported by still elevated (though falling) global inflation and uncertainties concerning the energy and commodity prices on the global markets. The previous monetary policy tightening had a positive impact on the pricing and lending volumes of the private sector, while supporting financial conditions stabilization. Further, NBS views that global headline inflation is losing its pace, and it would return to the inflation target in the H2. Thus, the institution expects the European Central Bank (ECB) will start cutting the key rate in June while the Federal Reserve (Fed) will postpone the decision until late 2024. ECB rate cuts will have a positive impact on the euro-indexed loans in Serbia, given still high lending euroization. NBS stresses monetary policy should maintain a cautious position due to the volatile sentiment of the oil prices driven by the geopolitical risks, less oil supply from OPEC countries and other factors.

In general, NBS is satisfied with the domestic inflation deceleration (March: 5%), both headline and core inflation, the trend is supported by the food prices deceleration and a slowdown in the one-year inflationary expectations of the financial sector and corporates.

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The institution reiterated its view on inflation entering the inflation target (3% +/-1.5 pp) already in May.

NBS, stresses that future monetary policy decisions will depend upon inflation slowdown, yet it will also take care of maintaining financial stability and a favourable economic outlook.

Although, as usual, NBS did not give clear guidance when the first-rate cuts could be expected, we give a 50% chance that the rate will be cut by 25bp at the June meeting supported by the inflation entering into the inflation target and robust GDP growth (Statistical office flash estimate) of 4.6% yoy in Q1. However, we also see high risks that the rate cut could be delayed to July, following the first ECB rate cut and thus after analyzing the impact of the ECB decision on the FX lending in Serbia. In the end, the rate cut cycle is approaching, and it is only a question of a particular month when the decision will be delivered.

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Serbia:

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
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
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
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
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