

Serbia Watch: No surprise in the key rate meeting, +25bp to 5.75%

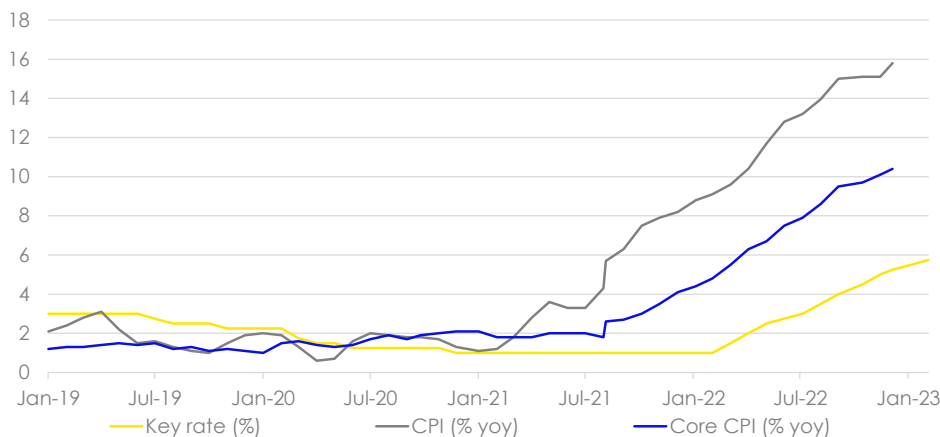
The Executive Board of the National Bank of Serbia (NBS) continued at an unchanged pace, lifting the benchmark rate by another 25bp to 5.75%.

Disclaimer 3

Analyst 6



Gradual rate hikes continue as inflation accelerates in January



Source: National Statistical Office, NBS, RBI/Raiffeisen Research

On the third key-rate-setting meeting this year, as was expected, NBS raised the benchmark rate by 25bp to 5.75%. This denotes the third 25bp hike this year. According to the institution, the decision on the rate hike was made as to avoid local price growth amid the global cost pressure and imported inflation. The stable exchange rate remains an important anchor for the price sentiment. The NBS is aware that decline in energy prices on the global markets and eased global supply chains problems support the global inflation slowdown, yet the faster than expected re-opening of the Chinese economy could support more dynamic global economy growth and add to the increase of energy prices on the global markets.

Following the CPI stabilization in November and December 2022 at 15.1%, inflation accelerated again in January 2023 to 15.8% supported by the seasonal growth in vegetable

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prices pushing the food and non-alcoholic beverages prices by 23.7%, housing, water, electricity, gas and other fuels (+23.0% yoy) due to the hike in electric energy and gas prices agreed under the IMF SBA deal. According to the NBS, inflation will peak in Q1, despite the fact that there will be another gas and electric energy price hike in May. We assume that an average agricultural season (after two consecutive years of drought) and reduced local demand (both personal consumption and investment demand) together with lower external demand, will have more anti-inflationary impact vs. the increase in production costs. The NBS expects a more pronounced slowdown dynamics in H2 2023 and inflation ending at 8%, whereas we still maintain 8.5% (eop) projection.

Given still elevated inflation we expect another 25bp hike in April's monetary policy meeting — to 6%. Yet, given that the ECB has not ended their hiking agenda yet (due to core inflation stickiness) and that the interest rate differential is also important given the rejuvenated foreign investors' appetite for the local debt market, we could imagine the local key rate going slightly beyond 6%. For the time being we keep 6% forecast, but will assess whether the circumstances warrant a new scenario.

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