

Serbia Watch: Monthly inflation accelerated its pace again in May

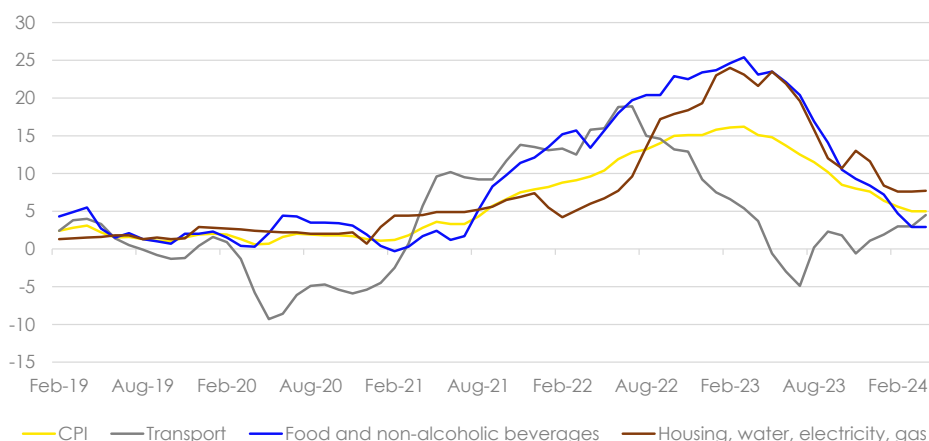
The monthly dynamics in retail prices accelerated again in April (+0.7% mom), after the 0.3% mom increase in March, due to increase in the food and non-alcoholic beverages (+0.8% mom) and transport prices (+1.7% mom). The annualized print remained unchanged at 5% yoy.

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Annualized CPI unchanged as monthly dynamics accelerate again



in % yoy

Source: Serbian National Statistical Office, RBI/Raiffeisen Research

Monthly inflation dynamics accelerated further, to 0.7% mom in April (from 0.3% mom growth in March). This was mainly due to a seasonal uptick in vegetable prices (+3.0% mom) and increasing transport prices (+1.7% mom) on the back of oil price dynamics. The latter affected by both the volatility in global oil prices and the overhaul of the Pancevo refinery, despite it having secured sufficient supply according to the owner. Further, clothing and footwear prices also recorded a growth of 2.1% mom.

The slightly accelerated monthly inflation dynamics supported annualized inflation staying unchanged at 5% in April (after 5% yoy in March). Nevertheless, the high base effect (April 2023: 15.1% yoy) is having a disinflationary impact, and it will remain to have this impact until the middle of the year. Furthermore, the strong dinar (vs. euro), falling inflationary expectations and still restrictive monetary policy are providing an important impulse to the disinflation. Yet there are still inflationary factors that can not be neglected, namely the recovery in the personal consumption dynamics, volatile oil prices sentiment

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and robust GDP growth (Q1: +4.6% yoy, although largely state consumption driven, with the private sector contributing to a lesser extent).

All in all, we stick to the opinion that inflation will enter the inflation target (+3% +/-1.5pp) by mid-2024, supported by the average agricultural season, strong local currency, subdued industrial sentiment due to the ambiguous economic performance of the eurozone, weak lending and restrictive monetary policy.

Given the volatility in oil prices and seeing that the National Bank of Serbia (NBS) repeated its position on maintaining a cautious monetary policy framework, the likelihood of a key rate cut in June has diminished (to around 25%). Consequently, we now expect the key rate to be cut in July's rate setting meeting. Furthermore, we anticipate the NBS might be waiting to see the impact of the first rate cut by the ECB on the FX lending in Serbia. In the end, the rate cut cycle is approaching, and it is only a question of which particular month the decision will be delivered.

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