

Serbia Watch: NBS opens new year with unchanged benchmark rate

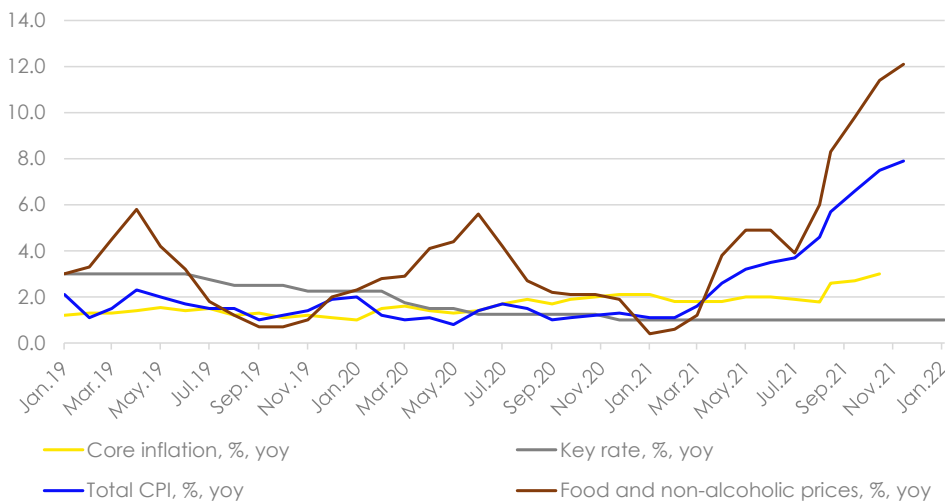
On today's key rate-setting session, unsurprisingly, the Executive Board of the NBS left the benchmark rate flat at 1%, while endorsing its decision on continued monetary conditions tightening via repo rate growth.

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No need to react with key rate hike in Serbia yet



Statistical office, RBI/Raiffeisen Research

National Bank of Serbia (NBS) starts the new year with an unchanged monetary policy, leaving the benchmark rate flat at 1%, while endorsing continuation in the monetary conditions tightening via an increase in the repo rate on the reverse repo auctions and drawing of the liquidity surplus from the banking sector. The average weighted rate on the repo auctions went from 0.11% (early October) up to 0.59% on the last auction, supported by increased cost pressure locally and on the international markets.

The institution confirmed that monetary policy has a rather limited impact on food and energy inflation, standing behind the CPI upsurge to 7.9% in December, while it has more influence on the core CPI (December 2021: 3.5% yoy) which is within the inflation target (3% +/- 1.5pp) supported by the stable exchange rate and inflation expectations. After the very strong inflationary pressure since September 2021 (avg monthly inflation was 0.9% in the Aug-Nov period), the monthly data finally showed a brake, slowing the dynamics to 0.4% mom in December, largely due to the slowdown in food and non-alcoholic beverages prices (+0.3% mom) and transport prices (+0.0% mom), the key inflation drivers in the past period. It seems that the government's decision to take action in order to calm down the inflationary pressure by capping the prices on the key food products (sugar, meat, milk

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bread) at the level as of the 15th November, for 60 days and capping the electricity prices for the real sector, bore the result.

NBS repeated its assessment of the transitory nature of currently heightened inflation, expecting inflation will start slowing the dynamics from Q2 2022, while returning to the inflation target in mid-2022, and falling in the lower part of the range until the end of 2022. Still, if some risks materialize and inflation stays above the upper range of the inflation target for some time, NBS announced it would react promptly with all available instruments. Concerning the fundamentals, NBS is satisfied with the GDP growth of 7.5% yoy in 2021 expecting the economy will deliver 4%-5% growth in the mid-term.

Low core inflation, stable exchange rate, high FX reserves (EUR 16.5 bn) and govt's measures already having a positive impact on December's inflation slowdown, favours no rate change decision on February's meeting. Nonetheless, despite widespread expectation on the energy and food prices stabilization on the global markets, NBS repeated it will remain cautious, as these categories were the main inflation drivers in 2021. Also, the timing of the first Fed key rate hike will be in the NBS's limelight.

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
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
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
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
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