

Snap | 11 April 2018

# Serbia: Another non-consensus rate cut?

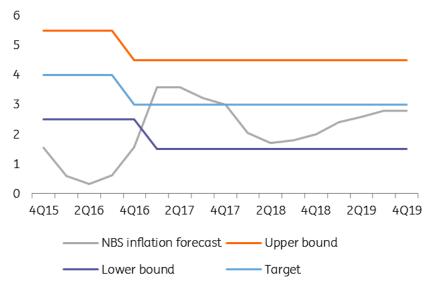
We expect the central bank to cut rates by 25bp to 3% after it surprised the market last month by lowering rates as both inflation and FX are well behaved



Source: Shutterstock

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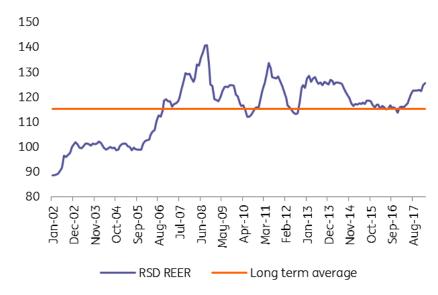
### NBS forecast: a window of opportunity to cut rates



Source: NBS

We had the same non-consensus view for the previous meeting and we got it right. Still, this time, we acknowledge that risks to our call are higher as global and country-specific geopolitical risks have increased. So far, the Dinar has shrugged-off the uncertainties. On the contrary, the FX interventions continued to be one sided: to curb RSD strengthening pressures as the real effective exchange rate (REER) shows some overshooting.

### **RSD REER**



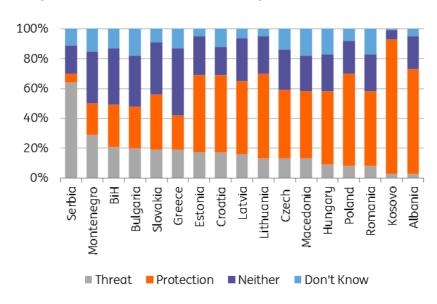
Source: NBS

Nevertheless, the ongoing developments might call for some prudence, but the inflation outlook has not changed at all. Hence, provided the geopolitical noise is considered as transitory by the

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NBS policymakers, another rate cut is likely in our view.

## Geopolitics: NATO threat or protection?



Source: Gallup

To sum-up, we hold on to our call for a rate cut in Serbia, but acknowledge that uncertainties might lead policymakers to a comfortable "on hold" decision, while citing the need for further assessment of the recent policy easing on the inflation outlook.

#### **Author**

### Ciprian Dascalu

Chief Economist, Romania +40 31 406 8990

ciprian.dascalu@ing.com

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