

Serbia central bank cuts rate by 25bps to 3.25%

The decision was in line with our call but somewhat against the consensus view. However, we think we'll see another rate cut this year with the timing depending on the FX markets and international backdrop



Source: Shutterstock

3.25% Key policy rate

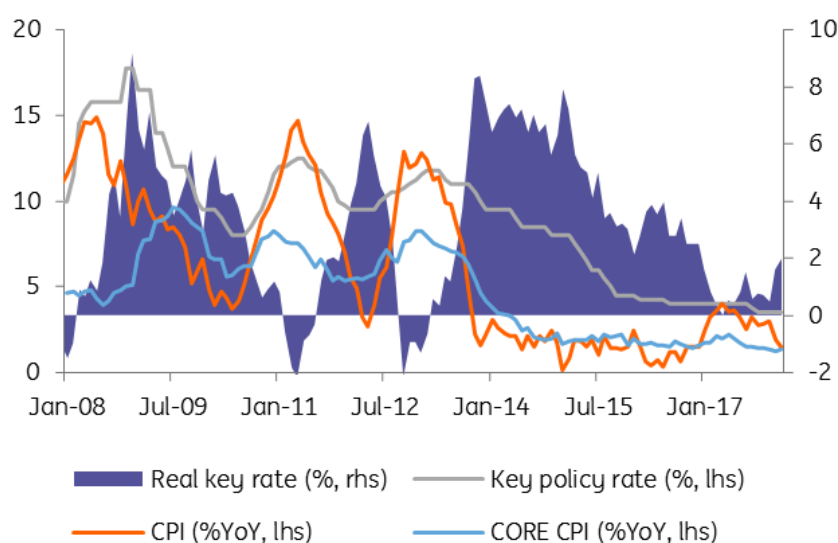
Lower than consensus

The communication which followed the National Bank of Serbia's (NBS) decision underscored that "inflation pressures remained subdued".

Projections for the coming period point to a slowdown in inflation due to important base effects as the one-off hikes from early 2017 start to drop off the statistical base. Annual CPI fell to 1.5% in February 2018, from 1.9% in January 2018 with core inflation coming in at 1.3% year on year,

confirming expectations.

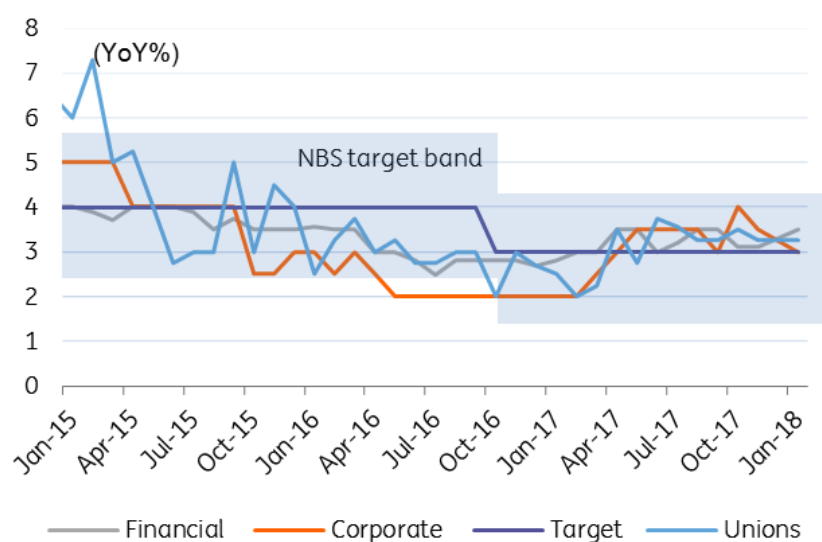
Core inflation remains below the target band



Source: NBS, ING

The inflation rate is expected to stay near the lower end of the target band this year and only to reach the mid-point of the 1.5% - 4.5% target band towards the end of 2019, helped by increasing domestic demand.

Contained inflation expectations



Source: NBS, ING

The main risks stem from the external environment, NBS's Executive Board mentioning the uncertainty in commodity prices which the Board don't expect to rise significantly and

international financial markets which are dependent on the FED and ECB policies.

Nevertheless, these risks are viewed as broadly contained, with the Board citing that “the resilience of the Serbian economy to potential adverse effects from the international environment has increased” due to the “strengthening of domestic macroeconomic fundamentals and a more favourable outlook for the period ahead”.

All in all, today’s decision should be favourable for Dinar denominated debt, and the RSD weakness should be short-lived. We think that the NBS will cut rates once more this year with the timing depending on the currency market and international backdrop.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.