

Serbia: Central bank to stay on hold at 3.00%

With headline inflation at 2.3% in June and economic growth at 4.4% in 2Q18, Thursday's central bank meeting should be a non-event

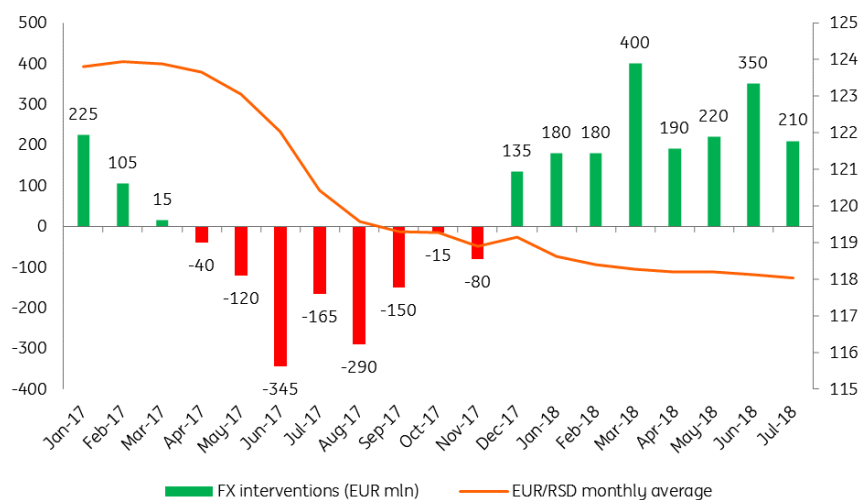


June inflation came in at 2.3% year-on-year and confirmed the gradual upward trend in consumer prices which started in April. This development has prompted the National Bank of Serbia (NBS) to end its policy of cutting interest rates. Inflation expectations seem to be well anchored in the 3%±1.5ppt inflation target band and shouldn't present a major headache for the NBS over the projection period of two years.

Along with the uptick in headline inflation, economic growth is likely to surprise quite sharply to the upside in 2018. Second quarter growth rose 4.4% year-on-year, according to a flash GDP report, and we estimate that full-year expansion is likely to come in near 4.5%- subject to detailed data yet to be released- from 1.9% YoY last year.

The Serbian dinar (RSD) continues to be under appreciation pressure. The NBS bought €350 million in June and €210 million in July to curb this appreciation and keep the EUR/RSD just above 118.

A heavy "managed float" by the NBS



Source: NBS, ING

Except for the RSD firming pressure, everything else, both domestically and internationally, is pointing to a longer pause. Given the external outlook, the next move is likely to be a rate hike, but sometime in the third quarter next year, in sync with the ECB.

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