Serbia marches ahead and cuts rates by another 25bps

The decision was in line with our call but against the consensus. After today's inflation data we think there are more cuts on the way

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Lower key rate but steady market rates

In our National Bank of Serbia preview, we called for another rate cut mainly based on the inflation outlook and strength of the Serbian dinar, though we acknowledged there were serious uncertainties to our call. Only four out of 24 Bloomberg respondents shared our view.

To some extent, the NBS managed to address both the weaker than expected inflation by lowering the key rate but also worries related to the international context by unexpectedly narrowing the interest rate corridor from ±1.5 to ±1.25 percentage points. The latter decision partially offsets the impact of a lower key rate, given the unsterilised liquidity surplus in the interbank market.

In our view, the communique which followed the decision sounds rather dovish underscoring that core inflation slowed down to 0.8% in March, it's lowest level since inflation has been measured by the consumer price index and that inflation will stay around the current level in the coming months.

Where from here?

We had a forecast for the easing cycle to reach a terminal rate of 3% this year. Nevertheless, after today's inflation data we acknowledge there is still room for rate cuts in the months to come.

Accompanying them with further narrowing of the interest corridor will likely be considered as caution is still mandated amid global uncertainties.

Author

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

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