# Serbia: NBS rates on hold

The decision was in line with our call and the broad consensus. We do not expect any rate changes at least for this year as inflation and inflation expectations are well anchored within the target band


Source: Shutterstock

**3.5%** Key policy rate (%)

As expected

The communique which followed the decision underscored that inflation is projected to move within the target band for the entire projection horizon of two years. Moreover, the Board underlined that “policy caution was still mandated by developments in the international commodity and financial markets”, which might suggest that the NBS is looking for another window of opportunity to cut rates again once the international environment allows it. Though this would be somehow contrary to the overall less dovish regional mood, it would reflect the latest price action on local debt yields and the real stance of monetary policy, which is more accommodative than apparent in the key rate level, since unsterilized surplus liquidity is keeping the relevant interest rate indices well below the key rate level.

Among risks, the Board mentioned the uncertainty in commodity prices and international financial markets which are viewed as broadly contained due to “the resilience of our economy to potential negative impacts from the international environment” and “the strengthening of domestic macroeconomic fundamentals and a more favourable outlook for the period ahead.”

The NBS has many possibilities if tightening would be needed in case of an exogenous risk, including steering interest rates by firmer liquidity management or narrowing the standing facilities corridor ahead of rate hikes. The next move is likely to be in the tightening direction, in our view. A window of opportunity to ease is unlikely to show up especially if global risk premia increases, which would be unfavuorable for an economy still dependent on external financing.