

Serbia Watch: Drought keeps prices elevated in October, CPI at 15.0%

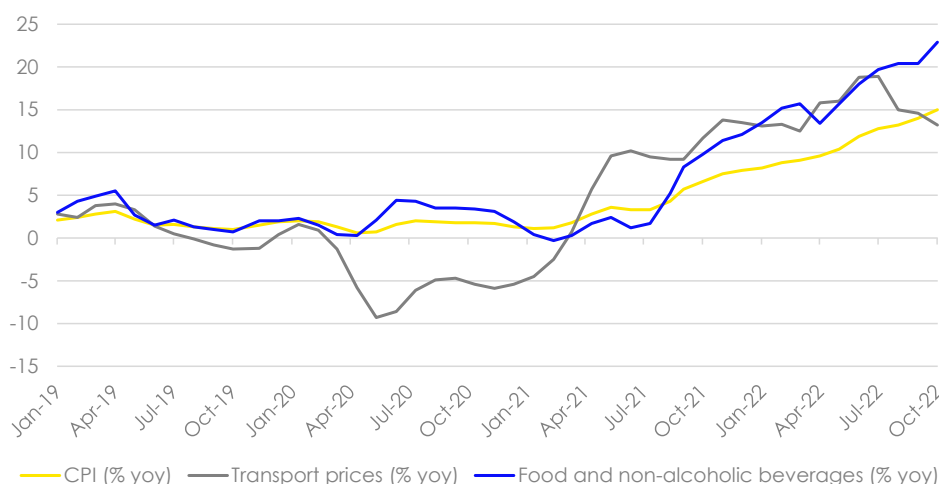
Retail prices accelerated further in October (+1.9% mom) after September's already steep increase (+1.5% mom), supported by the food spike (+3.5% mom). The annualized print jumped to 15.0%, after 14.0% in the month before.

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CPI accelerating further in Oct, driven by food and non-alcoholic beverages



Source: Statistical Office of the Republic of Serbia, RBI/Raiffeisen Research

Despite continuous extensions in the decision on the price freeze on key staples (the most recent one valid until end of November), monthly inflation dynamics (+1.9% mom) are accelerating mainly due to the **food and non-alcoholic beverages prices (+3.5% mom)**, i.e. in October this was mainly due to vegetables prices. This is the highest monthly growth rate in food prices this year and is driven by the products not being covered by the decision on food prices cap. Actually, the drought that hit the agriculture for a second year in a row was to be blamed, besides other reasons (high energy and fertilizers costs). Note that **Food has the highest share in the CPI basket (31.3%)**. Further, clothes (+2.2% mom), then housing, water, electricity, gas and other fuels prices (+1.5% mom) and furniture, household equipment, routine maintenance (+1.7% mom) supported the retail prices increase. Transport prices recovered in October (+0.6% mom) after falling two months in a row. As a result, goods prices went up by 2.1% mom (September: +1.9% mom), but service price accelerated even more (+1.4% mom) after September's 0.1% mom.

The annualized figure reached 15.0% yoy, after 14.0% yoy in September, supported by the **food and non-alcoholic beverages prices (+22.9% yoy)**, **transport (+13.2% yoy)**,

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housing, water, electricity, gas and other fuels (+17.9% yoy), **apartment equipment and current maintenance** (+15.7% yoy) and **alcoholic beverages and tobacco** (+7.1% yoy). However, the growth is also observed across many other product and services. Industrial producers' prices slowed down the pace in October (+14.9% yoy vs September's +15.3% yoy). Import prices also lost breath in October (+15.3% yoy) after 16% in the month before as well as agricultural producer prices, (+21.8% yoy) vs September's +35.3% yoy.

The National Bank of Serbia (NBS) hiked the key rate by 50bp to 4.5% last week now expecting that inflation will remain elevated until early 2023. Afterwards price increases should slowly lose dynamics in H1, while more rapidly falling in H2 2023 and returning to the inflation target in 2024. Moreover, the NBS now expects that after the economic slowdown in Q4 and Q1 2023, GDP will accelerate supported by the infrastructural investments and recovery in external demand. Given such an environment, we could expect bold rate hiking to continue in the coming months. Thus, instead of our current forecast of 4.75% eop in 2022, **we now view +50bp to 5.0% on the December key rate setting meeting and expect bold dynamics hiking to continue in Q1**. Thus, we put our 5% eop **key rate projection for 2023 under review**.

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