

Serbia Watch: Energy spikes & food, drive CPI up to 4.5% in October

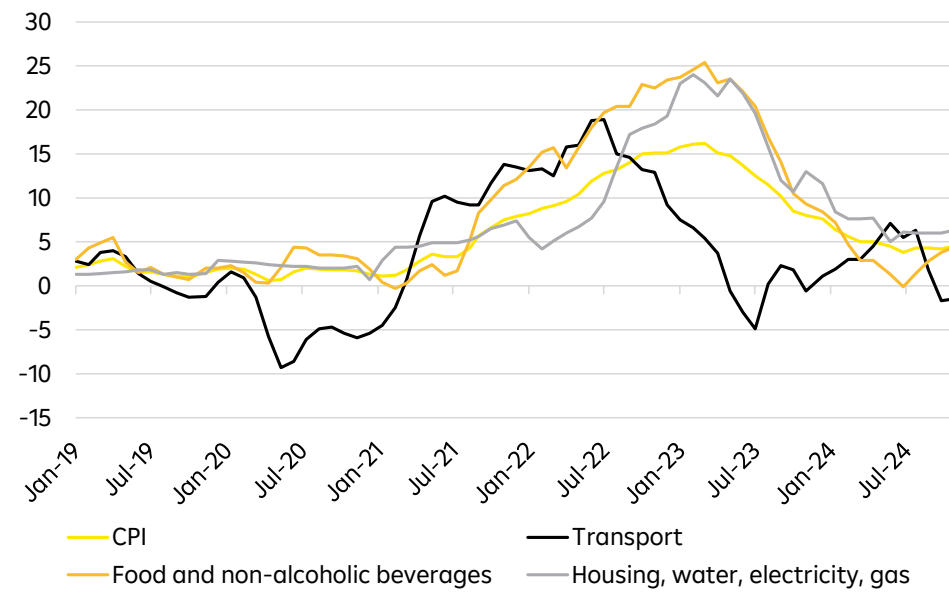
The monthly dynamics in retail prices resurged again in October (+0.6% mom) after 0.1% mom in September. The headline print increased only moderately to 4.5% yoy after 4.3% yoy in September, still it is now approaching the upper band of the inflation target (3% +/-1.5pp).

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Driven by Food and Energy, CPI nears upper band of inflation target (in % yoy)



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

Inflation dynamics increased again in October (+0.6% mom) after the only moderate 0.1% mom growth in September. This was the result of both a services price recovery (+0.8% mom), following the 0.2% mom fall in September, and an increase in the dynamics of goods prices (+0.5% mom), after 0.3% mom in the month before. Volatile energy prices on the global markets have added to the transport price increase (+0.3% mom) vs. the 1.6% mom decrease in the month before. Further, food and non-alcoholic beverages prices continued growing, albeit whilst moderately slowing the pace (+0.6% mom) in comparison to the 1.2% mom increase in September.

In annual terms, headline inflation is now edging the upper band of the inflation target (3% +/-1.5pp) coming to 4.5% yoy (September: 4.2% yoy), with the food and non-alcoholic beverages (having 31.4% share in the CPI basket) prices posting 4.4% yoy growth. There are also other items that had achieved strong growth, such as clothing (+1.9% yoy), housing, water, electricity, gas and other fuels (+6.3% yoy), alcoholic, tobacco and

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narcotics prices (+8.8% yoy), household equipment and routine maintenance (+5.2% yoy) etc.

As oil price volatility dwindled in the second part of October, while new spikes (though at a lower price level) followed in November, we could expect energy prices to remain also volatile on the upside in the remainder of the year. Hence, energy prices and elevated food prices, both domestically (drought driven) and globally (the latest FAO index data shows food prices increase globally), will put pressure on the inflation staying with the target range this year. Consequently, we are revising our key rate forecasts, and now we expect no rate change this year (the current forecast is one more rate cut by 25bp to 5.5%). We also put under the revision the 2025 key rate forecast (4.5%), expecting now more gradual dynamics in the interest rate cutting next year.

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
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
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
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
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
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
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
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