

Serbia Watch: Drought keeps prices elevated in August at 13.2%

Retail prices kept upward dynamics during summer due to drought and high production costs. In August, CPI grew by 1.2% mom after July's 1.0% mom growth supported by the food spike. Annualized print jumped to 13.2% after 12.8% in July.

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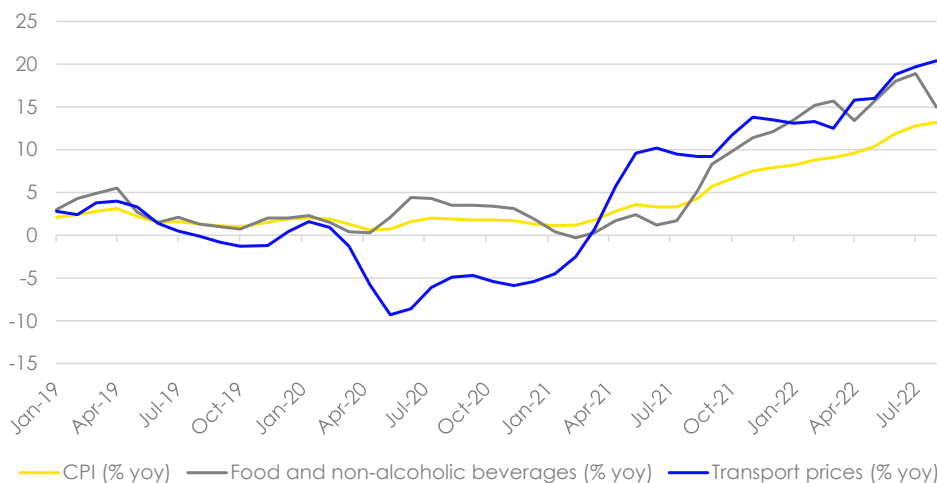
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Monthly inflation dynamics (+1.2%) was driven by **food and non-alcoholic beverages prices driven (+2.5% mom) i.e. fruit, bread and cereals prices, having a 31.3% share in the CPI basket**. Further, housing, water, electricity, gas and other fuels prices went up by 3.9% mom (**having a 13.56% share in the CPI basket**). As a result, goods prices went up by 1.5% mom (July: +0.9% mom), while prices in services calmed the pace to 0.4% mom (July: +1.5% mom).

The annualized figure reached 13.2% yoy after 12.8% yoy in July, supported by the food and non-alcoholic beverages prices (+20.4% yoy), transport (+15.0% yoy), housing, water, electricity, gas and other fuels (+13.5% yoy), apartment equipment and current maintenance (+12.7% yoy) an alcoholic beverages and tobacco (+7.1% yoy). Industrial producers' prices slowed the pace in August (+15.3% yoy) after July's 17.7%. Import prices dynamics edged lower as well, to 16.9% yoy after 18.4% in July. In contrast, agriculture producer prices skyrocketed by 45.1% yoy in August after 37.0% in July.

CPI slowing down on a monthly basis, but moving up yoy



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

The government extended the price limit for basic foodstuffs until September 30. The decision refers to the prices of white crystal sugar, UHT milk, meat and chicken, flour,

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and edible sunflower oil. Also, the limitation of the price of oil derivatives is extended until September 30 i.e. the government will continue setting the maximum prices of Euro premium 95 diesel and gasoline, that is adjusted every Friday. Further, Ministry of Mining and Energy issued recommendations for reducing electricity and heat consumption for the state authorities, local self-government units, state-owned enterprises, the economy, and households. Institutions and companies were recommended to use public and decorative lighting more rationally, replace carpentry, switch from electric heating to another type and other measures that could reduce the energy consumption by 15% in comparison to the year 2021. Concerning households, reduction in consumption of electricity and heat was recommended, and possible measures are being discussed.

Though NBS expects that the inflation will peak in Q3 and then will start decelerating, we assume there are high risks that inflation will continue to grow despite expected demand drop, over high uncertainty of the energy and food prices on the global markets and thus, uncertainty regarding the import prices. **Since NBS expect the economy will be starting to slow down in H2, we expect a 50bp hike at the October meeting and then the rate hiking to slow down.**

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