

Serbia Watch: Food prices supporting inflation growing to 16.1% yoy in February

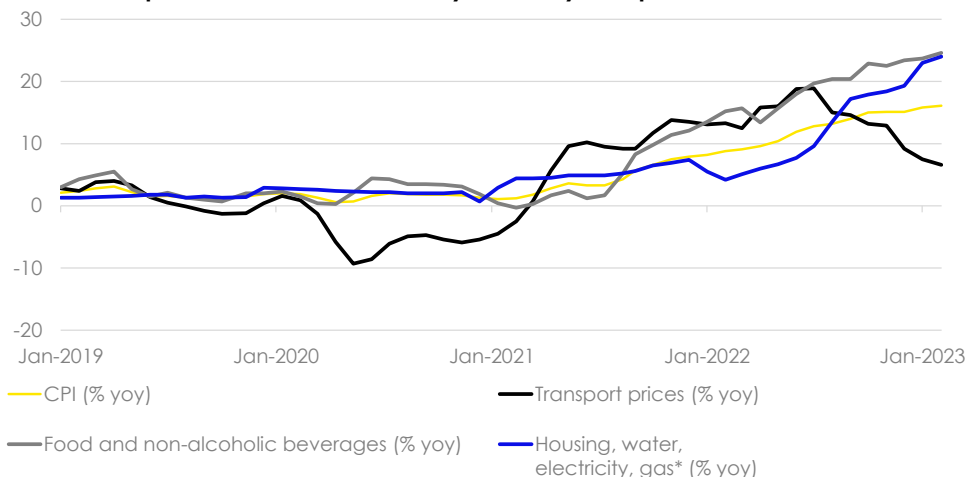
The monthly dynamics in retail prices repeated in February (+1.4% mom) just like it was in January, supported by the ongoing growth in food prices (+2.7% mom). However, the annualized print went to 16.1% yoy after 15.8% in January 2023.

Disclaimer 3

Analyst 6



CPI continues upward momentum in February, driven by food prices



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

Contrary to the eurozone inflation, which is stabilizing since the end of 2022, **retail prices in Serbia are still moving upwards in February** (+1.4% mom), this time from **food prices (+2.7% mom)**. Actually, vegetable prices (+8.3% mom) and bread and wheat (+4.5% mom), played a significant role to the inflation surging in February. At the annualized level, inflation went to 16.1% yoy after 15.8% yoy in the month before supported by the prices for food and non-alcoholic beverages (+24.6% yoy), housing, water, electricity, gas and other fuels (+24.0% yoy) and furnishings, household equipment and routine household maintenance (+18.9% yoy). Transport prices have slowed their dynamics further (+6.6% yoy). **Goods prices went up by 18.0% yoy, while services prices grew by 10.1% yoy.**

Interestingly, **import prices have significantly cut their pace** in February (+6.0% yoy), down from double-digit territory in December 2022 (+14.6% yoy), obviously from **the decelerating eurozone inflation**. Furthermore, manufacturing prices fell down to 9% yoy in February, from 12.6% in December 2022. **Thus, energy is no longer the key contributor to the high CPI readings amid broad government interventions and the decline in the energy prices on the global markets.** Now, the food prices became an important inflation factor in the country due to two consecutive years with droughts, high fertilizer prices and high food prices on the global markets. The FAO food price index has stabilized at 129.8 in February from its peak of 159.7 in March 2022, yet it is still far above

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the lows before denoted before 2021. Given the **expected gas price hike in May** and arrival of the new agricultural season, **we expect inflation to remain elevated until late spring** and to slow down from summer onwards, also being supported by the high base effect. That said, this points again to the possibility that the **key rate could surpass our current forecast of 6%**. Thus, **we put the forecast under revision**, waiting also for the ECB meeting this Thursday and then will decide whether there a change in the forecast is warranted.

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