

Serbia Watch: Energy prices driving the elevated inflation in May at 10.4%

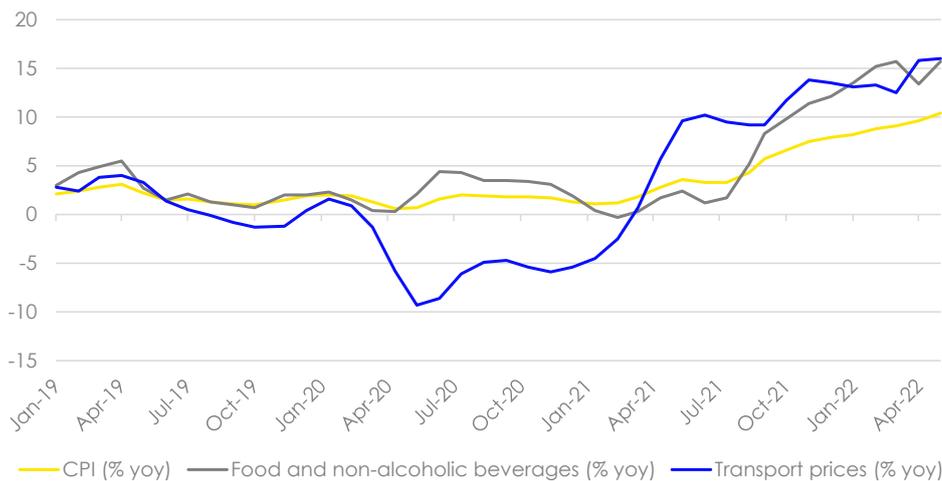
Retail prices slightly lost their dynamics in May (+1.2% mom) compared with the 1.5% mom increase in April, due to a seasonal decline in vegetable prices. Nonetheless, transport prices (+2.5% mom) are still supporting high inflation.

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



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

Though **the monthly inflation slowed a bit (+1.2% mom)** after 1.5% mom growth in April, supported by the **seasonal decline in vegetable prices**, the level is still high largely because of the transport price augmentation (+2.5% mom). Obviously, the govt's decision on capping the prices on the key food products (sugar, meat, milk, bread, digestive oil) is dampening the growth of food and non-alcoholic beverages category, yet the seasonal impact could not be avoided when it comes to the food prices growth. As a result, goods prices went up by 1.3% mom (April: +1.8% mom), while service prices grew by 0.9% mom (April: +0.6% mom).

The annualized figure is quite high (+10.4% yoy) after 9.6% yoy in April, supported by the food and non-alcoholic beverages prices (+16.0% yoy), transport (+15.7% yoy), alcoholic beverages and tobacco (+7.1% yoy), housing, water, electricity, gas and other fuels (+6.7% yoy) and apartment equipment and current maintenance (+10.1% yoy).

The government introduced different measures to help citizens and companies deal with the growing energy and food prices including the extension of the decision on capping

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the prices on the key food products until the end of June and the extension of the price cap of petroleum products Euro diesel and Euro Premium BMB 95. However, industrial producers' prices remain on the growth path coming at 16.4% in May after 15.9% yoy in April. Imports prices went up by 19.2% in May after 16.2% yoy in April, while agriculture producer prices skyrocketed by 30.5% in April amid the sowing season.

Given that NBS now expects inflation to peak in June and July (between 10%-11%) and with the looming, long-awaited ECB rate hike, **we change our expectation concerning the July key rate-setting meeting of NBS and now expect the institution will strike a 50bp key rate hike to 3%**. NBS confirmed its expectation that the new agriculture season will have a dis-inflationary impact on the inflation in H2, which could signal less aggressive rate hikes in H2. **Consequently, we put our 3.5% key rate forecast for 2022 on hold and will reassess again the likely interest rate path in H2 also given the new ECB key rate forecast for 2022 (1.25% eop).**

A high base from the last year and likely good agriculture season will add to inflation slowdown in H2, yet we see no relaxation in terms of the inflation level in autumn/winter (i.e. the growth will be restrained, but the level will be far beyond the last year's values). This is due to high inflation in the euro-zone, expected dinar depreciation vs euro from autumn (i.e. due to high coal and electric energy imports) and still uncertain sentiment concerning the energy and food prices on the global markets.

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Imprint

Creation time of this publication: 13/06/2022 15:07 P.M. (CEST);

First Dissemination of this publication: 13/06/2022 15:07 P.M. (CEST)

Imprint

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