

Serbia Watch: Cap on key food prices growth slowed inflation in December

Today's CPI release proved that gov't's decision on capping the prices of the basic foodstuff for 60 days proved to be a good choice (at least when it comes to current inflation) as the monthly inflation rate slowed the dynamics to 0.4% mom in December and 7.9% yoy.

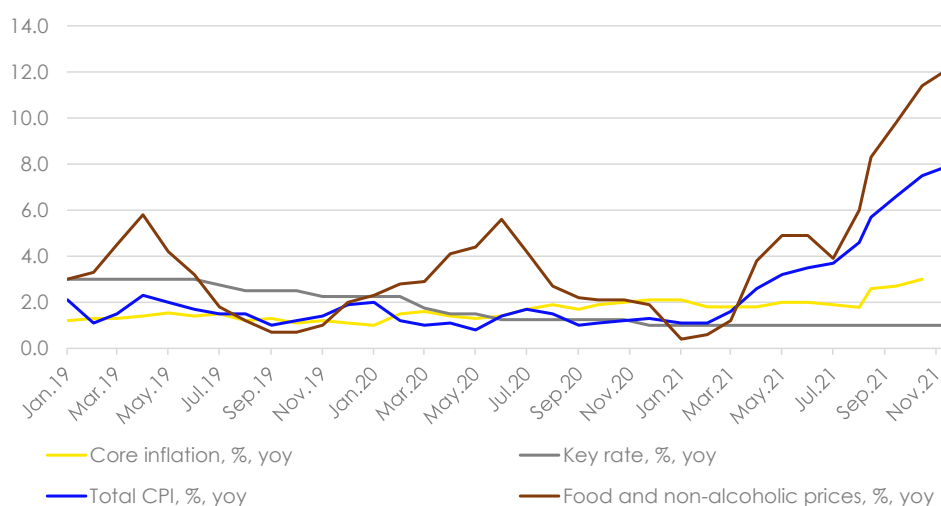
Food prices continue to lift CPI, but core inflation still low **1**

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Statistical Office, RBI/Raiffeisen Research

After the very strong inflationary pressure since September 2021 (avg monthly inflation was 0.9% in the Aug-Nov period), the **monthly data finally shows a brake, slowing the dynamics to 0.4% mom in December**, largely due to the slowdown in food and non-alcoholic beverages prices (+0.3% mom) and transport prices (+0.0% mom), the key inflation drivers in the past period. It seems that the government's decision to take action in order to calm down the inflationary pressure by capping the prices on the key food products (sugar, meat, milk bread) at the level as of the 15th November, for 60 days and capping the electricity prices for the real sector, bore the result. Though the measure will have an impact on the producers' profits, at least **it was confirmed that supply-side driven inflation is best tackled with administrative measures**. To repeat, the **highest stimulus to the country's inflation**, the biggest one since 2012, came from food prices (drought on the local market and soaring fertilizer prices on the global markets due to gas price skyrocketing) and energy prices hike (oil prices on the global market, but electric energy as well).

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Although the headline figure (7.9% yoy) is quite high, again, the slowdown in the dynamic is obvious, for the above-mentioned reasons. The tailwind was provided by the food and non-alcoholic beverages prices (+12.1% yoy), transport prices (+13.5% yoy), housing (+7.4% yoy) and beverages and tobacco (6.4% yoy).

The producer prices were also on the rise (Nov: +15.1% yoy), largely due to intensified growth in the electric energy prices on the local market (Nov: +18.5% yoy). Further, agriculture producer prices soared by 30.5% yoy in November 2021 due to drought in Serbia, fertilizer prices steeply rising globally and energy prices growth.

Although NBS expects CPI will enter the inflation target in mid-summer this year (3% +/- 1.5 pp), there are **uncertainties caused by the development of COVID-19**: a) delays in the normalization of global supply chains and spillovers (from producer prices) to consumer prices, which have been avoided until now; b) possible further rise in prices in the global agricultural commodity markets (especially present in recent months), along with crude oil prices (and the impact on fuels).

In combating the intensified inflation, NBS was favouring hiking the average repo rate, cutting the dinar liquidity to banks, providing regular and clear forward guidance to the market and frequently communicating instead of hiking the key rate, currently standing at 1%. **We see NBS will retain key rate intact on tomorrows' key rate-setting meeting, due to stable and low core inflation, stable exchange rate and obviously the government's measures having a positive impact on the inflation slowdown.** We can expect other govt's measures to follow i.e. interventions on the market from commodity reserves and/or tax cuts for certain goods, as the government has sufficient fiscal capacity.

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
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
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
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
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