

The National Bank of Serbia (NBS) announced today that three quarters of year-on-year inflation, which amounted to 7.9 percent in December last year, was still determined by the movement of food and energy prices, ie those categories that monetary policy cannot directly affect.

In December, the prices of unprocessed food increased by 20.9 percent compared to the same month last year, while the prices of processed food increased by eight percent year-on-year, the NBS said.

As explained, the high year-on-year growth in food prices is due to several factors - rising world food prices, drought, higher production costs, as well as extremely low levels of these prices in 2020 due to the lack of significant demand.

According to the data of the Republic Bureau of Statistics, inflation slowed down in December and amounted to 0.4 percent on a monthly basis, while the average annual inflation in 2021 amounted to four percent.

The slowdown in overall inflation on a monthly basis, as pointed out by the NBS, is the result of a fall in unprocessed food prices of 1.1 percent, while on a monthly basis reduced prices of all categories of unprocessed food - fresh fruit by 4.8 percent, fresh meat by 0, 7 percent and fresh vegetables by 0.5 percent.

“The prices of processed food continued to grow, but at a slower pace compared to previous months, which was also contributed by the measures of the Government of Serbia regarding the limitation of the prices of basic foodstuffs,” the NBS stated.

It is added that the prices of energy on a monthly basis stagnated in December, while compared to December 2020, they were higher by 13.4 percent. Their movement was largely determined by global factors, primarily the growth of world oil prices, which spilled over into the growth of prices of petroleum products on the domestic market (23.5 percent year on year in December).

Year-on-year core inflation (consumer price index excluding food, energy, alcohol and cigarettes), which may be affected by monetary policy measures, was significantly lower than headline inflation in December, at 3.5 percent.

During 2021, year-on-year core inflation averaged 2.3 percent.

According to the NBS, the long-term relative stability of the exchange rate, “which represents the anchor of price stability and which will be preserved in the future,” contributes to keeping core inflation at a low and stable level.

According to the central bank, an important factor in low and stable core inflation is the inflation expectations of the financial sector, which have been moving within the target for a long time, and the Serbian government’s decision to enable companies to buy electricity by the end of June 2022 will further reduce inflationary pressures.

According to the NBS projection, year-on-year inflation will most likely continue to move around the level from December 2021 during the first quarter of this year. A gradual decline

in year-on-year inflation is expected from the second quarter, while it should return to the target during the third quarter.

“At the end of the year we expect year-on-year inflation around the central value of the three percent target, and given the high base of 2021, there is a possibility that at the end of the year total inflation will be in the lower half of the target range of three percent, with a deviation of plus or minus 1.5 percent,” the NBS said in a statement.

It was pointed out that the risks in terms of inflation in the coming period relate primarily to the movement of prices of primary agricultural products, world energy prices, the speed of global economic recovery and the duration of problems in global supply chains.

“When it comes to domestic risks, inflation will largely depend on the outcome of the next agricultural season, which for the needs of projections is assumed at the average level. This means a slight increase in agricultural production compared to 2021, which was weaker than average,” pointed out the NBS, Beta reports.