

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Voluntary Public

Date: 3/21/2011

GAIN Report Number: RB1105

Serbia

Post: Belgrade

Increase of the Food Prices in Serbia

Report Categories:

Agricultural Situation

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Report Highlights:

For the entire 2010 year food prices in Serbia are in the upward trend causing many debates at the general public and political level. Food prices in Serbia rise at the fastest level in the region and for one year increased for over 10 percent. Sugar, sunflower oil, wheat, potato and apples had the largest increase among agriculture products. The general public is often blaming food price increase on existing monopolies in agriculture, lack of competition in trade sector and high retail margins.

General Information:

Food prices continue to grow

For the entire 2010 year food prices in Serbia are in the upward trend causing many debates at the general public and political level. Newspapers publish regularly articles about the growing world food demand and increase in the food prices all over the world, which also affects Serbian consumers. Beside the general increase in food prices over the world, the general public in Serbia is often blaming food price increase on existing monopolies in agriculture and especially in food production business, lack of competition in trade sector and high retail margins. According to economic experts, high growth in food prices is also a result of increased exports of food and agriculture products from Serbia, which occurred due to the food price increase around the world and reduced supply of food products at the local market.

Explanations of food manufacturers in recent months on the subject of food price increases was a decrease of RSD (Serbian dinar), the increase of prices of energy, packaging, pesticides and animal feed, lack of livestock, high raw material prices and a jump in food prices on the world stock market. Even though Serbia is known as a country of agriculture and food production and that Serbia's agricultural sector, including hunting and forestry, contributed about 11% percent to gross domestic product (GDP) in 2010, and agricultural exports contributed about 22.4% of total Serbian exports, reaching record surplus of about one billion USD in 2010, Serbian consumers witnessed increase in prices for number of food and agriculture products either produced locally or imported over the last year. Food prices in Serbia rise at the fastest level in the region and for one year increased for over 10 percent. Sugar, sunflower oil, wheat, potato and apples had the largest increase among products.

Price of potatoes for the past year went up by as much as 97 percent; sunflower edible oil raises to 76, refined sugar for 84 percent, and apples for even 73 percent. Serbian Chamber of Commerce believes that the major reason for food price increase in the recent months, especially from July last year was the unprecedented rise in the price of basic agricultural food products worldwide. In July last year in Serbia 1 kg of wheat cost 10 dinars/kg (USD135/MT) and today is 30 dinars/kg (USD405/MT). MT of refined sugar in July 2010 was USD500 and today is USD900.

Increase of agriculture commodities prices from February 2010 to February 2011

No.	Name of good	% of price increase
1.	Potato	97%
2.	Sugar	84%
3.	Sunflower oil	76%
4.	Apples	73%
5.	Pasta	41%
6.	Bananas	40%
7.	Poultry meat	33%
8.	Wheat flour	32%
9.	Eggs	24%
10.	Chocolate	22%
11.	Milk	19%

12.	Beef meat	17%
13.	Bread	15%
14.	Candies	14%
15.	White cheese	10.9%
16.	Rice	10.79%
17.	Pork meat	9.25%

Source: Serbian Statistical Office

Level of food prices is a very important topic for an average Serbian citizen, since the percentage of income that is spent reaches more than 40 percent. Average monthly income in Serbia is about 34,000 dinars (USD 460). For low-level income families amount they spent on food is even much higher (about 60 percent).

State Commodity Reserves

In 2010, because of the reduced supply of staple food products and under public pressure, Government allowed intervention from the State Commodity Reserves of edible sunflower oil and sugar. In order to improve supply and to reduce the market price, State Commodity Reserves released to the market about 5,000 liters of sunflower edible oil for price of 119 dinars/liter (USD1.6/liter) and some 3,000 MT of refined sugar for price of 98 dinars/kg (USD1.32/kg). Both interventions were very limited and did not have longer time effects to the market. After consumption of quantities delivered from Commodity Reserves prices of both sunflower oil and sugar went up to 145 dinars/liter (USD1.96/liter) and 125 dinars/kg (USD1.7/kg) respectively. Serbian State Commodity Reserves is an institution under Ministry of Trade and should only play a role as a war-time buffer for different commodities and not for intervention on the market. In the past State Reserves were playing a role of state company with number of market interventions locally and internationally (including importing and exporting grains). According to the law, prescribed quantities of food that must be stored at the State Commodity Reserves in order to feed Serbian citizen for two months are: 250,000 MT of wheat, 400,000 MT of corn, 2,500 MT of milk powder, 15,000 MT of edible oil, 20,000 MT of refined sugar and 10,000 MT of pork meat. For the past months, Ministry of Agriculture is working on a new law in order to create an EU model of Agency for intervention with agriculture and food commodities, but this law is not yet adopted.

Serbian consumers that have lowest purchasing power in the region and spend above 40 percent of their income on food are very sensitive, especially when prices of bread, number one staple, escalate. Bread is still priority in Serbian consumer diet. Production and trade of wheat and wheat flour is always very important for political stability. Food inflation has been considered as a major driving force behind inflation of 10.3 percent that was recorded in 2010, due to the high percentage of food expenses in the consumer basket.

Wheat – market situation

Final official estimates of the MY2010/11 wheat crop put total wheat area harvested at about 488,000 HA, total wheat production estimated at about 1.65 million MT and estimated an average wheat yield at 3.4 MT/HA, having in mind that the MY 2010/11 wheat area planted was the lowest area planted for wheat in Serbia for the last ten years. Low production of wheat in MY10/11 was a result of large wheat stocks of low quality from MY09/10, inability to export wheat

due to low quality (except as a cattle feed) and extremely low prices during MY09/10. The lowest prices of the MY2010/11 wheat has been between 8 to 11.50 din/kg (USD 108-155/MT), while current wheat price at the Novi Sad Commodity Exchange during the week of March 7th was reported to be between 29 dinars/kg (USD 391/MT) and 32 dinars/kg (USD 432/MT). At the present time, bakers are paying for flower-Type 500, between 38 and 45 din/kg (USD 514-608/MT) while a 500 g loaf of bread in retail stores costs above 55 dinars (USD 0.74). Due to the wheat shortage at the world market and high export prices Serbian traders exported record high quantities of wheat, flour and flour products of over 600,000 MT for period July 1st, 2010 to February 28th, 2011.

Wheat, area and production, Serbia 2007-2011

Wheat	2007	2008	2009	2010	2011
Area (HA)	619,000	488,000	570,000	488,000	480,000
Production (MT)	2,170,000	2,119,000	2,130,000	1,650,000	1,776,000

Source: Ministry of Agriculture, Forestry and Water Management

Due to limited domestic supply and high prices of wheat, on March 17th, Serbian Government imposed a ban on wheat, flour and flour products exports. Ban is imposed for the next three months (June 2011), in order to reduce exports and stabilize the wheat market in Serbia. Serbian Grain Fund was suggesting to the government to liberalize wheat market by eliminating high import customs of 20 percent (for the EU) to 30 percent (for all other countries) for wheat and with importing wheat to improve supply on the local market and bring prices of wheat, flour and bread down, but their suggestion was not accepted. Last fall Serbia planted record small area with wheat of only 480,000 HA for MY11/12.

In February 2011, Serbian Government decided to extent for another six months a current decree on the mandatory production and trade in the cheapest white bread in order to keep price of bread at 44 dinars by releasing some of the wheat from State Commodity Reserves. Those quantities for cheep bread are very limited and only for the low-income consumers. The price of a loaf of bread made of the flour type 500, which was increased in February from 44 dinars (USD 0.59) to 55 dinars (USD 0.74), could remain unchanged even until end of the year if the state meet the demands of the Serbian Baking Firms Association. Previously this week, Baking Firms Associations announced that bread prices will go up to 70 dinars per loaf of bread (USD 0.95) in April. Bakers Association put several demands in front of the Ministry of Agriculture and Trade: government should ban wheat and flour exports, it should scraps import duty on wheat and flour, extend a decree on mandatory production of and trade in the cheapest white bread and to lend enough wheat from the commodity reserves to baking companies.

Retailers - possible effects on food price increase

Number of large foreign food retail companies present at the Serbian market is very limited. Before recent purchasing of the leading retail company Delta Maxi Group by Belgium retail company Delhaize Group, only six companies were present in retail business in Serbia: "Idea" from Croatia, "Mercator" and "Tuch" from Slovenia, "Metro" from Germany, "Interex" from France and "Super Vero" from Greece. According to recent news, German retail company "Lidl" is investigating opportunities of opening food retail shops in Serbia.

This lack of competition in food retail sector is very often to blame on high retail margins from 23 percent to even 42 percent. "Delta Maxi" (now sold to "Delhaize Group") has majority of the retail

business in Serbia of almost 40 percent, Slovenian “Mercator” has 17 percent of the market, Croatian retail chain “Idea” has about 14 percent and rest of retail shops (small and large) account about 29 percent of the market.

Serbian food producers and suppliers are welcoming sale of “Delta Maxi” to Belgium owned “Delhaize Group” in March 2011, expecting that food sales will improve their liquidity, which has been a problem that most of food suppliers faced with “Delta Maxi” over the past years. Serbian consumers are expecting from “Delhaize Group” as the second largest foreign investor in Serbia, to bring some new competition between domestic and imported food products, which might bring food prices down.