

# WHAT DOES “IMPORTED INFLATION” MEAN?

- **Growth in the prices of products which we directly (dominantly) import**
- **Growth in the prices of stock exchange commodities (wheat, corn, soybean, sunflower, etc.) and all tradable commodities due to market connectedness and the fact that Serbia is a small economy and an economy with no (or very few) trade barriers**
- **Growth in the prices of, for example, energy which reflects directly or indirectly on the cost price of several thousand different products and services**

# IMPORTED INFLATION – PRODUCTS WHICH WE (DOMINANTLY) IMPORT

**Prices of dominantly imported products recorded in the domestic market (y-o-y growth in April):**

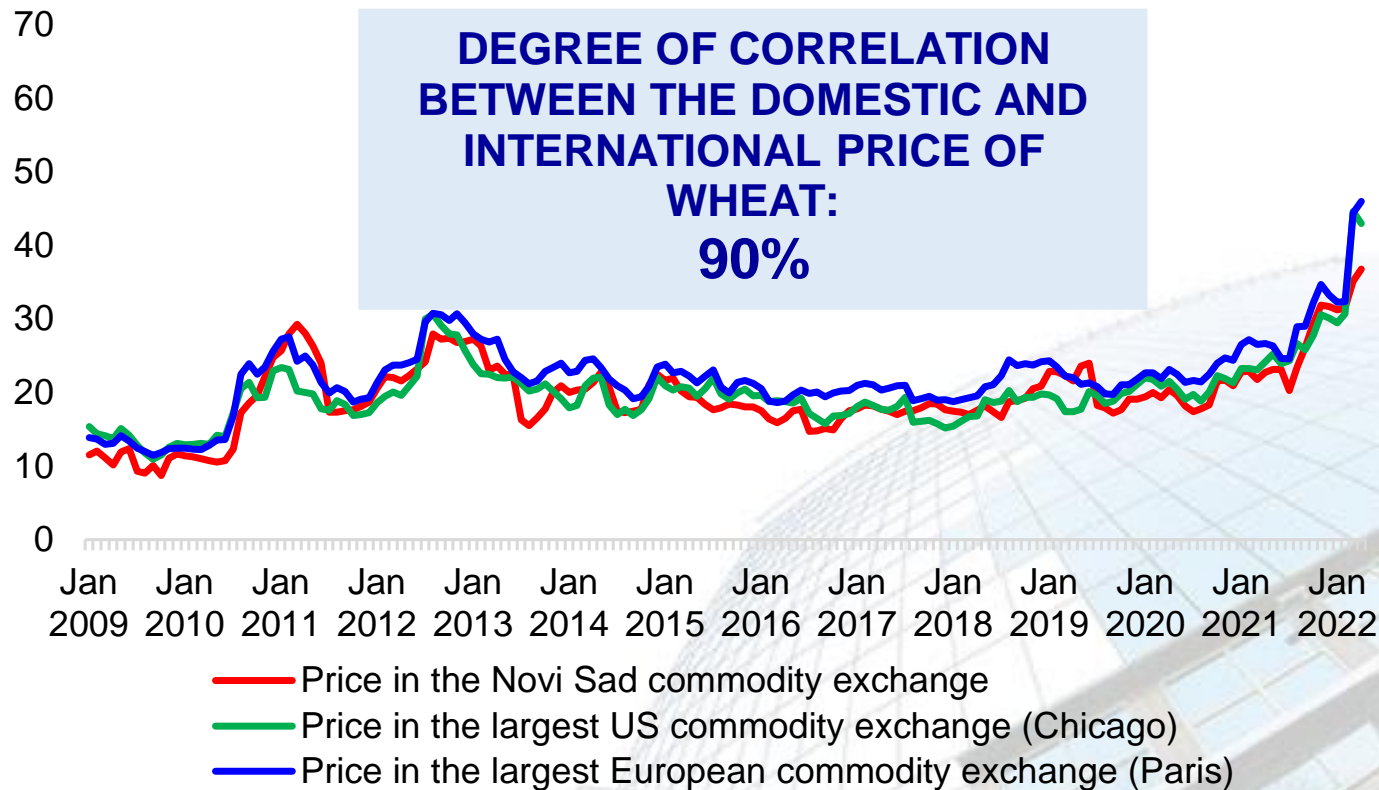
- Coffee: 25.2%
- Citrus fruits: 4% - 15%
- Furniture: 12.8%
- Paper and office materials: 12.3%
- Cosmetics and personal care products: 9.3%
- Large home appliances: 9.0%
- Automobiles: 6.9%
- Small electrical home appliances: 6.3%
- Mobile telephones and equipment: 3.9%

**Global energy prices:**

- Gas: 250% - 500% y-o-y in March and April (average monthly price)
  - March/April 2021: USD 200 to 300 per 1,000 m<sup>3</sup>
  - March/April 2022: USD 700 to 1,800 per 1,000 m<sup>3</sup>
- Crude oil: 70% y-o-y in March and April
  - March/April 2021: USD 65 per barrel on average
  - March/April 2022: USD 111 per barrel on average

# IMPORTED INFLATION – CONNECTEDNESS OF THE DOMESTIC AND INTERNATIONAL COMMODITY MARKETS

Chart. Wheat price – domestic and international (in RSD per kilogram)

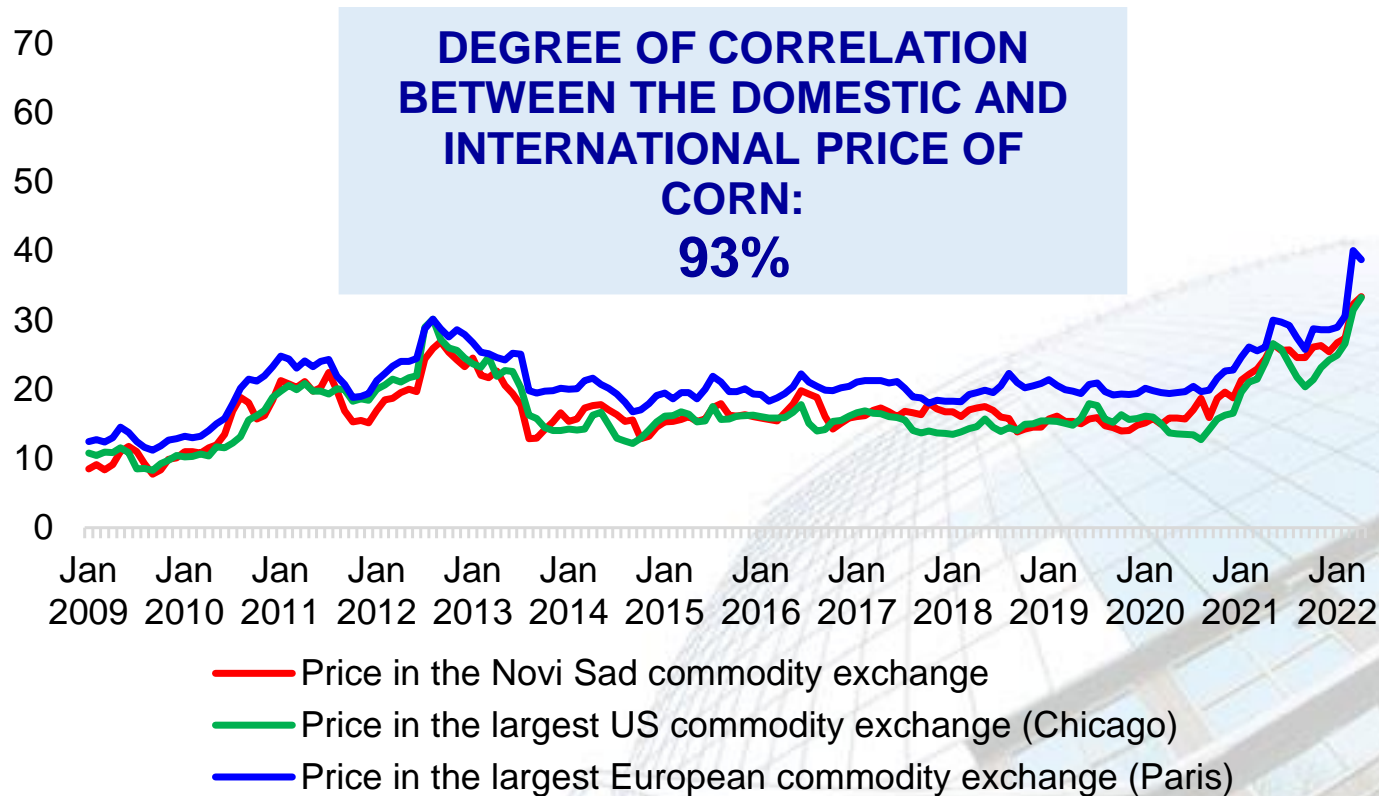


- Because Serbia is a small and open economy, each increase in the price of a stock exchange commodity triggers a corresponding rise in the price of the same commodity in Serbia – if the price of a commodity is higher abroad, the producer or trader will not sell the commodity in Serbia but abroad.
- This refers primarily to agricultural commodities where the transmission effect is almost instantaneous, but also to all other commodities which may be considered tradable.

# IMPORTED INFLATION – CONNECTEDNESS OF THE DOMESTIC AND INTERNATIONAL COMMODITY MARKETS

National Bank of Serbia

Chart. Corn price – domestic and international (in RSD per kilogram)



- The price of corn, as one of Serbia's most important individual export products, displays the highest degree of correlation
- Other than for food, corn is also used in the production of many other products (ethanol, ethylene, plastics, cosmetics, batteries, medications, textile)



# IMPORTED INFLATION – AN EXAMPLE OF THE INDIRECT IMPACT OF THE OIL PRICE ON INFLATION



- Packaging makes up most of the cost price in both the production and the retail price of bottled water.
- Production of one 1-litre plastic bottle =  $\frac{1}{4}$  litre of crude oil
- Crude oil is the key raw material used in the production of polyethylene
- 8% of total global oil is used for producing plastics
- Packaging makes up 15 – 30% of the cost price in the production of milk products
- The packaging of all food products is largely made of oil (plastic)
- Other raw materials used in the production of packaging include primarily cardboard and aluminium
- Production of 1 standard automobile tyre = 25 to 30 litres of crude oil
- Production of 1 tyre for large vehicles = 100 litres of crude oil

# HOW MUCH DOES THE PRICE OF CRUDE OIL INDIRECTLY AFFECT INFLATION?



- **2/3 of materials in clothes production are obtained by the processing of petro-chemical products (direct product of the oil industry)**
- Polyester, nylon, acrylic, elastane, and other synthetic materials are obtained through oil processing.
- 1 to 1.5% of global oil is used for the production of synthetic materials.

- **Parts of footwear (primarily sports footwear) are made of oil**
  - Rubber parts
  - Artificial leather
  - Plastic parts

- **95% of the compounds used in the production of cosmetics are produced using crude oil**
  - paraffin,
  - mineral oil,
  - toluene,
  - benzene,
  - polyethylene, polypropylene,
  - propyl alcohol, butyl alcohol