

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 8/15/2012

GAIN Report Number: RB1209

Serbia

Post: Belgrade

Drought Driven Declines in Serbian Crops Increased Food Prices

Report Categories:

Agricultural Situation

Approved By:

Christine Sloop

Prepared By:

Tatjana Maslac

Report Highlights:

Persistent drought since June is affecting most of the spring crops, mainly corn, soya and sunflower. Crop yields are forecast to decline by up to 50 percent with total losses potentially reaching USD 2 billion. Drought will also drive food prices up, pushing the average Serbian consumer to spend over 50 percent of his/her monthly income on food and will reduce agriculture export revenue which accounts for over 20 percent of total Serbian exports.

General Information:

This summer Serbia has been hit by an extreme drought with record dry weather and high temperature conditions exceeding even the previous drought years of 2001, 2004, and 2008. The Serbian Chamber of Commerce estimates that total losses in agriculture production will be around USD 2 billion. Estimated losses by major crops are: corn (USD 1 billion), sugar (130 million), soybeans (USD 117 million), fruits and vegetables (USD 100 million), sunflowers (USD 55 million), and other agriculture crops (USD 600 million). Agriculture in Serbia is the economic and development engine for rural areas. Agriculture is also the only sector in the Serbian economy with a positive foreign trade balance - contributing about 10 percent to the country's GDP.

Crops hit by drought:

Corn was planted this spring on some 1.3 million HA and production was expected to reach 7 million MT (based on an average yield of 5.4 MT/HA). However, lack of precipitation in June and July together with very high temperatures over an extended period of time, have stressed the corn plants extremely. The dry period has coincided with the critical corn pollination period thus increasing the risk for poor kernel development. According to the Serbian Farmers Association, average corn yields will decline by up to 50 percent in many areas of the country. Post estimates that current corn production will only reach about 3.5-4 million MT (compared to 6.3 million MT in 2011). The magnitude of the drought varies depending on the region of the country and farmers are seeking government assistance to address the current situation. Corn price at Novi Sad Commodity Exchange increased 18 percent in one month from 22 dinars/kg (USD232/MT) in the beginning of July to 26 dinars/kg (USD274/MT) by the beginning of August, with this trend expected to continue in the following weeks.

Soybeans and sunflowers were also affected by adverse weather conditions in June and July. Average soybean yields are expected to decline by 50-70 percent, while sunflower yields will likely decline by 30 percent. The current price of soybeans at Novi Sad Commodity Exchange is a record high of 73 dinars/kg (USD730/MT) and for sunflowers it is 55 dinars/kg (USD 550/MT). Other major agriculture export commodities from Serbia where production has been affected by drought are: raspberries (down 40 percent), sugar (down 30 percent), fruits and vegetables (down 30 percent). Agricultural commodity export revenues are expected to decline by at least 30 percent compared to last year. Only about 4 percent of all farms in Serbia are insured, even with a Serbian Government program since 2004 to subsidize 40 percent of the insurance premium for registered farmers. Serbia also is in last place within Europe in terms of irrigated area with less than 5 percent of agricultural land covered by an irrigation system.

The Serbian Chamber of Commerce is estimating that Serbia will have enough food for domestic supply, but much smaller quantities will be available for export. The price of Serbian grains and oilseeds will be high and not export competitive compared to Russia and the Ukraine (Serbia's main competitors in grains). Serbian Commodity Reserves currently are: wheat (300,000MT), refined sugar (100,000MT), and edible oil (60,000MT). Corn ending stocks for MY2011/2012 (which include the reduced MY2012/2013 production) and are mostly kept on private farms or silos of export companies are estimated at approximately 1 million MT instead of 1.8 million MT.

There is some speculation that the new Minister of Agriculture may impose a ban on corn exports in

order to keep enough quantities for domestic needs. Some agricultural experts are suggesting corn export quotas be established to protect the domestic market; while others are suggesting corn trade should be totally liberalized by reducing import taxes (current import taxes on corn are 30 percent).

Food Price Increase:

Commodity prices have risen based on two reasons:

1. The declines in production due to the extreme drought this summer; and,
2. A 20% depreciation in the value of the local currency (dinar) vis a vis the euro over the last year (1 EUR = 100 dinars in August 2011 and 1 EUR = 120 dinars in August 2012) which has adversely affected the price of imported raw materials and inputs such as fuels, seeds, and fertilizers/pesticides;

Over the past few weeks, most agricultural product prices have already increased significantly and it is expected that this trend will continue in the following months. Recent price increases include: meat and meat products (20 percent increase), edible sunflower oil (20 percent increase), some types of bread (11 percent increase), wheat flour (10 percent increase), and dairy products (5 percent increase).

On average the Serbian consumer spends over 40 percent of his/her monthly income on food. With the current food price increases, the average consumer will spend over 50 percent. Serbian consumer spending is focused on basic food stuffs. Thus when food prices rose 30 percent, retail turnover declined almost 30 percent. Agrofood imports are forecast to fall, as they are usually more expensive than locally produced products. The depreciation of the dinar vis a vis the EUR and the related decline in purchasing power of the average consumer will intensify this trend. In 2011, Serbian agrofood imports were valued at USD 1.6 billion (mostly high-value food items from EU countries).

In 2012, Serbia agrofood exports will definitely be below the 2011 record levels of USD 2.8 billion. Serbia's agricultural exports consist mostly of grains, sugar, fruits and vegetables (fresh and frozen), confectionary products and beverages. The biggest trade surpluses were for grain and grain products (USD 666 million), processed fruit and vegetables (USD 450 million) and refined sugar (USD 200 million). Since drought is affecting Serbia's leading export commodities (i.e. corn, raspberries, sugar, soybeans, sunflower oil, fruits and vegetables), export revenues are expected to be 30 percent lower than the previous year. This will have significant negative impact on the overall Serbian economy, since agrofood sector accounts for 23 percent of Serbia's total exports and 10 percent of GDP.