

# Serbia Watch: Visible deceleration in March's monthly inflation

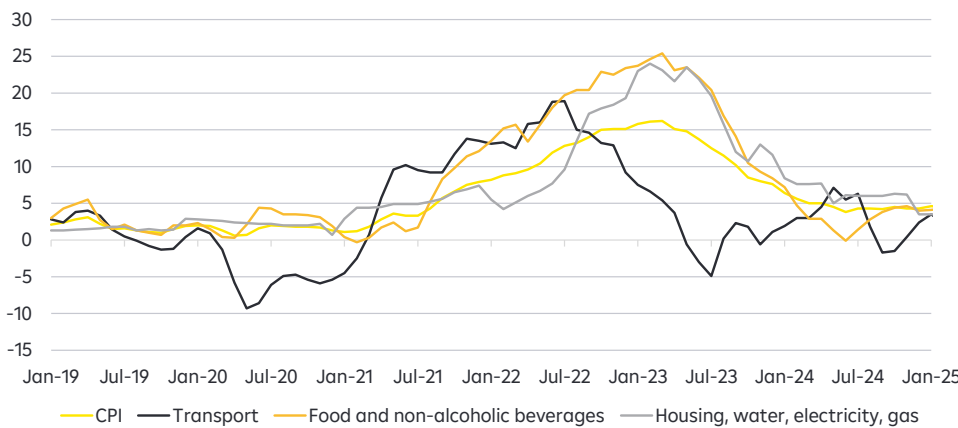
Significant slowdown in March's monthly inflation dynamics (+0.1% mom) after February's 0.5% mom increase was supported by the fall in transport prices (-0.7% mom), but also fall in services prices.

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**CPI slowing down on a monthly basis, but moving up yoy (in % yoy)**



Source: Statistical Office of the Republic of Serbia, RBI/Raiffeisen Research

Following the robust monthly prices growth in January (holidays and vacation season driven) and February (excise taxes hike driven and due to the spike in cocoa and coffee price on the global markets), monthly inflation slowed its pace in March (+0.1% mom), slowing the yoy growth to 4.4% yoy down from 4.5% in February. The major driver behind these prices developments were transport prices that fell by 0.7% mom (Feb: +0.7% mom), reflecting the global oil market development, but also a noteworthy deceleration was observed for alcoholic beverages, tobacco and narcotics prices (+0.3% mom) after soaring in February (+2.1% mom).

Food prices have kept a stable pattern this year at 0.5% mom in March, and March's growth was driven by seasonal growth in fruits and vegetable prices, as well as spikes in coffee and cocoa prices. Overall, goods prices slowed to 0.1% mom after February's 0.6% mom, whilst services prices fell by 0.1% mom (February: +0.3% mom)

The annualized print had modestly decelerated to 4.4% yoy down from 4.5% in February, being within the inflation target (3% +/- 1.5pp), thanks to the monthly prices slowdown and are below the levels seen in March 2024 print (5% yoy).

The National Bank of Serbia confirmed its inflation projections unchanged at yesterday's key rate setting meeting, expecting that inflation will be hovering around the upper band of the

**Ljiljana GRUBIC**

Analyst

+381 11 220-7178

ljiljana.grubic@raiffeisenbank.rs

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inflation target (3% +/- 1.5pp) in the coming months, while decelerating in H2 and converging to 3% later on in the projection horizon.

We assume that the inflation slowdown will gain traction in H2, largely attributed to the consumption weakening amid customers expectation on the slowdown in real wage growth as well as uncertainties regarding the local developments and geopolitics. Nonetheless, an important disinflationary factor will be: restrictive monetary policy, the assumption of an average upcoming agricultural season, expected decline in the oil derivatives prices and lower import prices. What is supportive for the inflation trending down is also the stable exchange rate (EURRSD) with temporary depreciation spikes that are offset by the NBS FX interventions. Inflationary expectations for February next year have stabilized at 3.9%, also supporting stable prices sentiment. On the other hand, expected electricity prices hikes for corporate combined with the frosts (affecting agricultural outputs), could keep inflation fixed around the upper band of the target range, throughout spring.

As far as the inflation outlook is concerned, we stick to CPI forecast at 3.5% eop, supported by the expected an average agriculture season and stable EURRSD.

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Thomas Sternbach  
Legal and Compliance  
Raiffeisen Bank International AG  
Am Stadtpark 9, 1030 Wien  
Tel: +43-1-71707-1541  
Fax: +43-1-71707-761541  
thomas.sternbach@rbinternational.com

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**FABIAN BLASCH**

📍 Austria  ,  
 ✉ [fabian.blasch@rbinternational.com](mailto:fabian.blasch@rbinternational.com)

**AMADEA HIESS**

📍 Austria  ,  
 ✉ [amadea.hiess@rbinternational.com](mailto:amadea.hiess@rbinternational.com)


**MARKUS TSCHAPECK**

📍 Austria  ,  
 ✉ [markus.tschapeck@rbinternational.com](mailto:markus.tschapeck@rbinternational.com)

**VALBONA GJEKA**

📍 Albania  ,  
 ✉ [valbona.gjeka@raiffeisen.al](mailto:valbona.gjeka@raiffeisen.al)


**ASJA GRDJO**

📍 Bosnia Herzegovina  ,  
 ✉ [asja.grdjo@raiffeisengroup.ba](mailto:asja.grdjo@raiffeisengroup.ba)

**ELIZABETA SABOLEK-RESANOVIC**

📍 Croatia  ,  
 ✉ [elizabeta.sabolek-resanovic@rba.hr](mailto:elizabeta.sabolek-resanovic@rba.hr)

**LEVENTE BLAHÓ**

📍 Hungary  ,  
 ✉ [levente.blaho@raiffeisen.hu](mailto:levente.blaho@raiffeisen.hu)

**NICOLAE COVRIG**

📍 Romania  ,  
 ✉ [Nicolae.Covrig@raiffeisen.ro](mailto:Nicolae.Covrig@raiffeisen.ro)

**ANASTASIA BAYKOVA**

📍 Russia  ,  
 ✉ [ABAIKOVA@raiffeisen.ru](mailto:ABAIKOVA@raiffeisen.ru)

**TIBOR LORINCZ**

📍 Slovakia  ,  
 ✉ [tibor\\_lorincz@tatrabanka.sk](mailto:tibor_lorincz@tatrabanka.sk)

**OLEKSANDR PECHERYTSYN**

📍 Ukraine  ,  
 ✉ [oleksandr.pecherytsyn@raiffeisen.ua](mailto:oleksandr.pecherytsyn@raiffeisen.ua)

**GUNTER DEUBER**

📍 Austria  ,  
 ✉ [gunter.deuber@rbinternational.com](mailto:gunter.deuber@rbinternational.com)


**MATTHIAS REITH**

📍 Austria  ,  
 ✉ [matthias.reith@rbinternational.com](mailto:matthias.reith@rbinternational.com)


**FRANZ ZOBL**

📍 Austria  ,  
 ✉ [franz.zobl@rbinternational.com](mailto:franz.zobl@rbinternational.com)


**FJORENT RRUSHI**

📍 Albania  ,  
 ✉ [Fjorent.Rrushi@raiffeisen.al](mailto:Fjorent.Rrushi@raiffeisen.al)

**IVONA ZAMETICA**

📍 Bosnia Herzegovina  ,  
 ✉ [ivona.zametica@raiffeisengroup.ba](mailto:ivona.zametica@raiffeisengroup.ba)

**ZRINKA ZIVKOVIC-MATIJEVIC**

📍 Croatia  ,  
 ✉ [zrinka.zivkovic-matijevic@rba.hr](mailto:zrinka.zivkovic-matijevic@rba.hr)


**GERGELY PÁLFFY**

📍 Hungary  ,  
 ✉ [gergely.palfy@raiffeisen.hu](mailto:gergely.palfy@raiffeisen.hu)

**ANDREEA-ELENA DRAGHIA**

📍 Romania  ,  
 ✉ [Andreea-Elena.DRAGHIA@raiffeisen.ro](mailto:Andreea-Elena.DRAGHIA@raiffeisen.ro)

**STANISLAV MURASHOV**

📍 Russia  ,  
 ✉ [stanislav.murashov@raiffeisen.ru](mailto:stanislav.murashov@raiffeisen.ru)

**JURAJ VALACHY**

📍 Slovakia  ,  
 ✉ [juraj\\_valachy@tatrabanka.sk](mailto:juraj_valachy@tatrabanka.sk)

**CASPER ENGELEN**

📍 Austria  ,  
 ✉ [casper.engelen@rbinternational.com](mailto:casper.engelen@rbinternational.com)

**GOTTFRIED STEINDL**

📍 Austria  ,  
 ✉ [gottfried.steindl@rbinternational.com](mailto:gottfried.steindl@rbinternational.com)


**BRISIDA BUZI**

📍 Albania  ,  
 ✉ [Brisida.BUZI@raiffeisen.al](mailto:Brisida.BUZI@raiffeisen.al)


**ARISTEA VLLAHU**

📍 Albania  ,  
 ✉ [Aristea.Vllahu@raiffeisen.al](mailto:Aristea.Vllahu@raiffeisen.al)

**MIRZA ZORNIC**

📍 Bosnia Herzegovina  ,  
 ✉ [mirza.zornic@raiffeisengroup.ba](mailto:mirza.zornic@raiffeisengroup.ba)

**HELENA HORSKA**

📍 Czech Republic  ,  
 ✉ [Helena.Horska@rb.cz](mailto:Helena.Horska@rb.cz)

**ZOLTÁN TÖRÖK**

📍 Hungary  ,  
 ✉ [torok.zoltan@raiffeisen.hu](mailto:torok.zoltan@raiffeisen.hu)


**IONUT DUMITRU**

📍 Romania  ,  
 ✉ [Ionut.Dumitru@raiffeisen.ro](mailto:Ionut.Dumitru@raiffeisen.ro)

**LJILJANA GRUBIC**

📍 Serbia  ,  
 ✉ [ljliljana.grubic@raiffeisenbank.rs](mailto:ljliljana.grubic@raiffeisenbank.rs)

**SERHII KOLODII**

📍 Ukraine  ,  
 ✉ [serhii.kolodii@raiffeisen.ua](mailto:serhii.kolodii@raiffeisen.ua)

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**Raiffeisen Bank International AG**

Registered Office: Am Stadtpark 9, 1030 Vienna  
 Postal address: 1010 Vienna, Postfach 50  
 Phone: +43-1-71707-1846

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