



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

January 2021

Belgrade, February 2021

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Introductory note

Indicators of inflation expectations of economic agents are an important factor in the process of monetary policy decision-making in an inflation targeting regime. The effectiveness of the inflation targeting strategy is measured by the degree of stability of inflation expectations and by how firmly they are anchored within the target tolerance band.

In accordance with the best international practice, after introducing the inflation targeting regime in January 2009, the NBS began to monitor and analyse the inflation expectations of economic agents. To this end, the NBS draws on the inflation expectations survey, which the Ipsos agency conducts for the NBS since January 2018. Survey respondents are classified into four sectors (the financial sector, corporate sector, trade unions and households) and asked to state their one-year ahead price growth expectations, and since March 2014, their medium-term, i.e. two-year ahead expectations for y-o-y price growth.

Overview

Short-term inflation expectations of the financial sector remained stable at close to 2.0%, where they stand according to the results of the January Ipsos survey, slightly higher relative to the previous survey (1.9%). Short-term inflation expectations of corporates went down from 2.0% to 1.5%. Typically higher than those of other sectors, household expectations rose to 9.0%, while the expectations of trade unions remained unchanged at 2.5%.

As for medium-term inflation expectations, the financial sector expects inflation to be 2.3% in January 2023, while corporate expectations are slightly lower, at 1.9%. Trade unions expect that in two years inflation will be at 3.0% and households expect it to equal 7.0%.

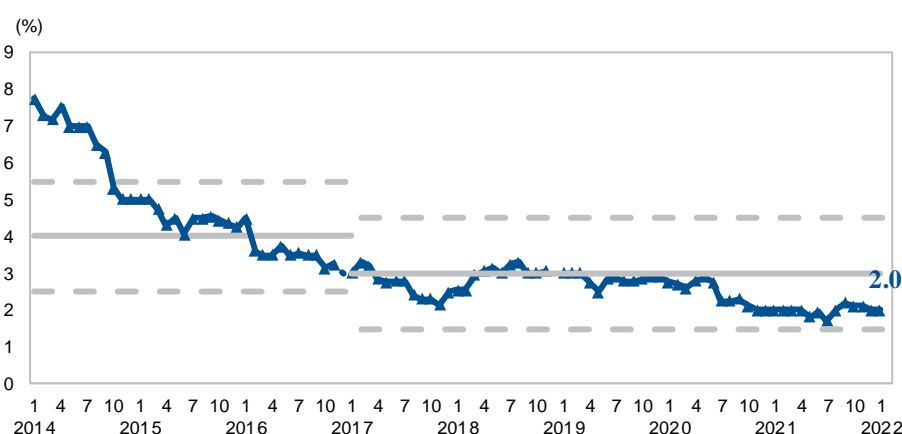
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the Ipsos survey, short-term inflation expectations of the financial sector stood at 2.0% in January, while according to the February Bloomberg survey, they equalled 2.2%. These values are almost unchanged compared to the previous surveys carried out by Ipsos and Bloomberg (1.9% and 2.2%, respectively).

The composite measure of inflation expectations of the financial sector¹ stood at 2.0% in January, unchanged from the previous month.

Chart 1 **Composite measure of inflation expectations of the financial sector**



Sources: NBS, Ipsos, and Bloomberg.

Medium-term inflation expectations of the financial sector stood at 2.3% in January, which is unchanged compared to the previous survey. Medium-term inflation expectations of the financial sector have moved within the target tolerance band since the introduction of this survey question in March 2014.

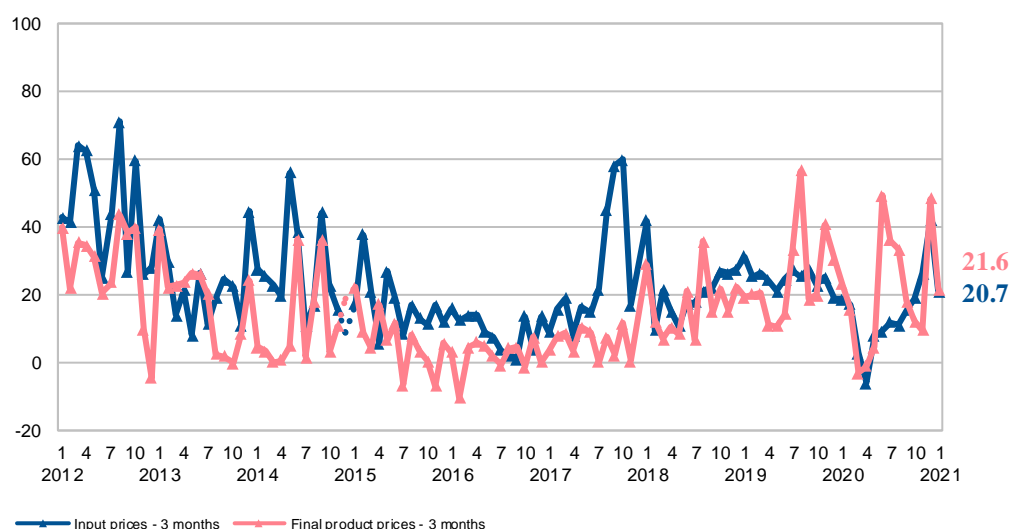
Inflation expectations of the corporate sector

Short-term corporate expectations dropped from 2.0% in December to 1.5% in January, their lowest level since August 2020. Medium-term corporate expectations remained stable around 2.0%, measuring 1.9% in January.

Corporate perception of some of the key business parameters (primarily, business conditions) was more optimistic in January than in December, which could be related to the positive news regarding the vaccination, the expected relaxation of the restrictive measures, etc.

¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater influence on the aggregate result.

Chart 2 Expectations of the corporate sector regarding movements in the prices of inputs and final products in the next three months



*Above zero indicates growth, and below zero decline.

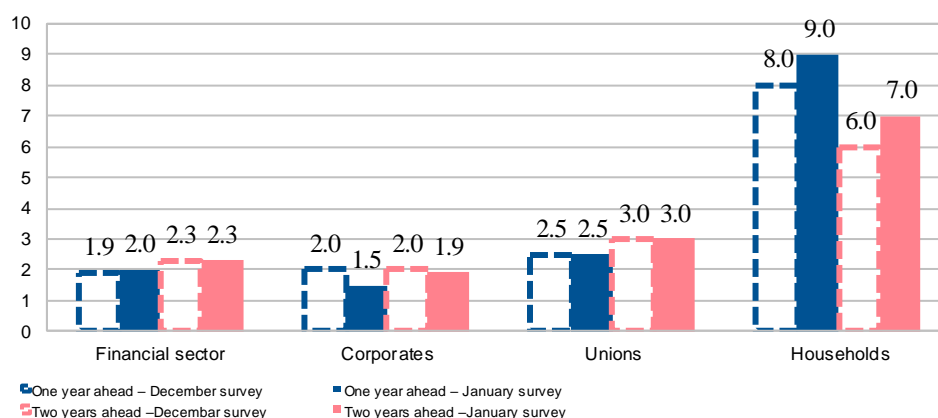
Source: Ipsos/Ninamedia.

Almost 80% of corporates does not expect changes in the prices of inputs or in the prices of their own products/services over the next three months. However, there was an increase in the share of corporates expecting that the prices of inputs and their own products would rise over the next twelve months.

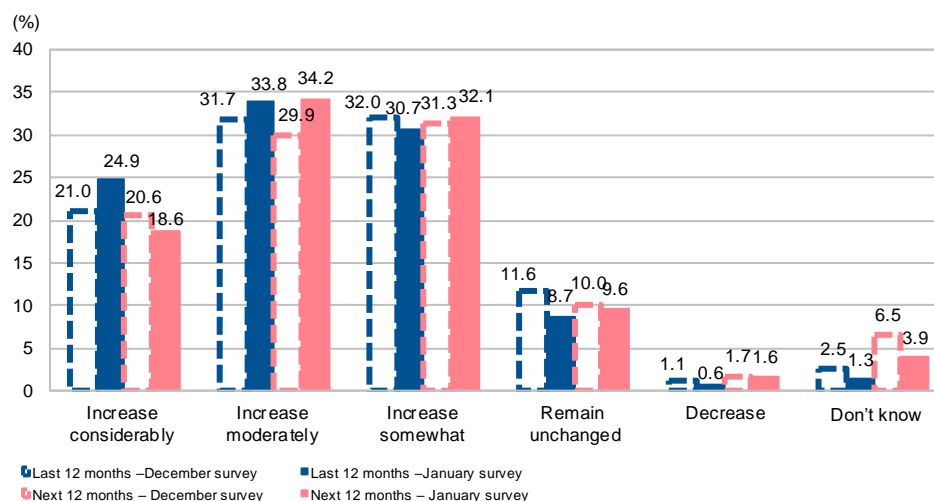
Inflation expectations of trade unions

Short- and medium-term inflation expectations of trade unions stayed unchanged from the previous survey (2.5% and 3.0%, respectively).

Chart 3 Expected y-o-y inflation one and two years ahead



Source: Ipsos.

Chart 4 Distribution of household responses by perceived and expected inflation

Source: Ipsos.

Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

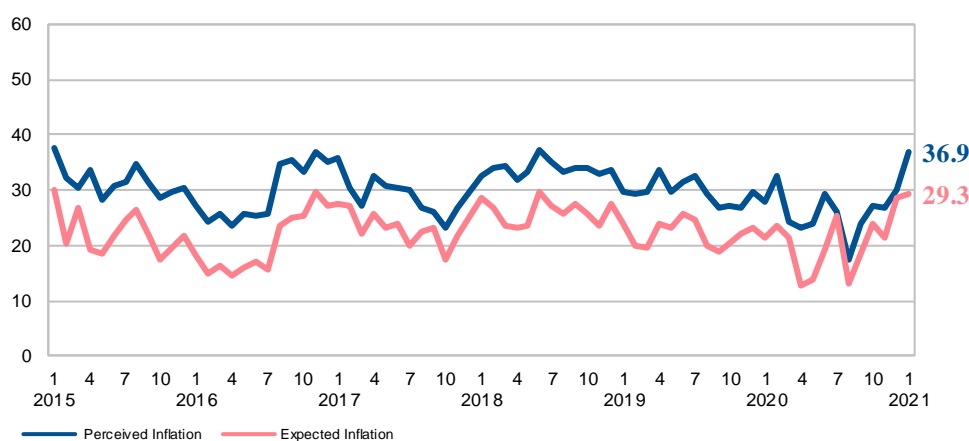
The January survey recorded an increase in both short- and medium-term inflation expectations of the household sector, which reached 9.0% and 7.0% respectively, the highest values since end-2014. Rising household inflation expectations could be attributed to the increase in the prices of electricity, utility services, cigarettes, petroleum products, etc.

Still, the results of the qualitative survey do not indicate a significant rise in the NP of respondents expecting an increase in the prices of monthly bills, fuel, cigarettes and food products. Also, the majority of respondents (around two thirds) expect the prices to rise moderately or somewhat over the next twelve months. These facts could indicate that this is a temporary increase in household expectations.

Such inflation expectations trends, i.e. the majority of respondents expecting prices to increase moderately and somewhat over the next twelve months, reflect a predictable and stable economic environment and facilitate the achievement of the main medium-term goal of monetary policy.

The perceived inflation index was higher than the expected inflation index, indicating that households expect inflation in the coming twelve months to be lower than in the previous year. Such trend stems from the fact that **a part of the population that feels that prices have increased in the past twelve months does not expect the trend to continue over the next twelve months.**²

Chart 5 **Perceived and expected inflation of households**
(in index points)



Sources: Ipsos and NBS calculation.

² The index represents the difference between the weighted share of respondents who assess that prices increased more than somewhat and those assessing that prices remained unchanged or decreased. For details, see Text box 2 of the *Inflation Report* – February 2016. (http://www.nbs.rs/system/galleries/download/pdf_ioi/ioi_02_2016.pdf).