



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

January 2022

Belgrade, February 2022

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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, classified into four sectors (the financial sector, corporate sector, trade unions and households) are asked to state their one-year ahead expectations, since March 2014 their two-year ahead expectations and since February 2021 their three-year ahead expectations for y-o-y price growth.

Overview

According to both surveys, inflation expectations of the financial sector continued moving around 4.0%. According to the Ipsos January survey, short-term inflation expectations of the financial sector decreased from 4.5% to 4.2%. On the other hand, according to the Bloomberg survey, the inflation expectations of the financial sector for February next year increased from 3.5% to 4.0%, having approached the Ipsos survey value.

Corporate inflation expectations stated in the Ipsos survey remained unchanged at 6.0%. However, corporate estimate of cost-push pressures, both in terms of the prices of inputs and prices of their own final products/services, is lower compared to the previous survey.

Traditionally higher than those of other sectors, household expectations stayed unchanged (10.0%). The range of the perceived and expected inflation indices still suggests that households expect inflation in the coming twelve months to be lower than in the previous year.

Medium-term expectations (two- and three-years ahead) have been affected less by the higher current inflation and are lower than short-term expectations. According to the January survey, medium-term inflation expectations of the financial sector ranged between 3.0% and 3.5%, corporate expectations between 4.5% and 5.0%, while household expectations did not change from November (10.0%).

Such survey results indicate that the financial and corporate sectors perceive the current higher inflation as temporary, which is also an assessment shared by the NBS, as well as most leading central banks.

Firmly anchored inflation expectations, based, among other things, on exchange rate stability, 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.

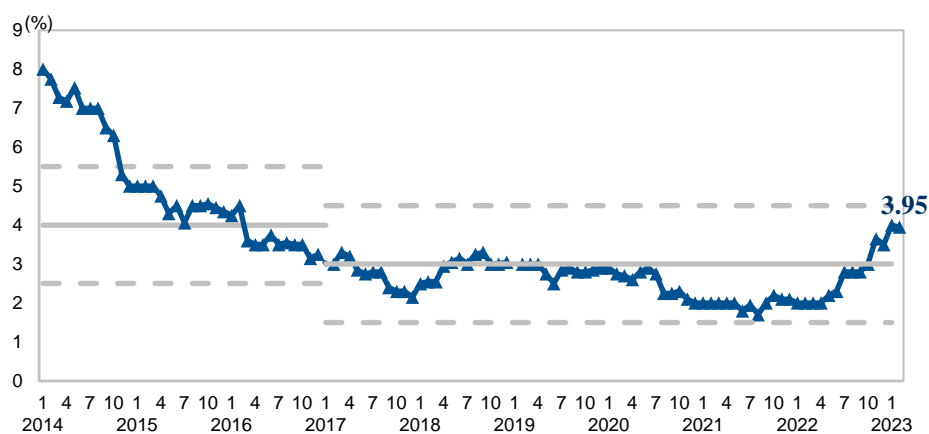
Inflation expectations of the financial sector

Short-term inflation expectations of the financial sector measured 4.2%, according to the Ipsos survey, which is somewhat lower relative to December (4.5%). According to the Bloomberg February survey, inflation expectations equalled 4.0%.

January value of the composite measure of inflation expectations of the financial sector¹ continued moving within NBS target tolerance band, amounting to 3.95%.

As regards medium-term financial sector expectations, those for two years ahead measured 3.5% (unchanged from December), while those for three years ahead expectations have been unchanged, at the NBS target midpoint (3.0%), since June 2021. 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.

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

The stable movement of medium-term inflation expectations of financial sector representatives amid rising current inflation indicates that they assess that the ongoing inflationary pressures are temporary.

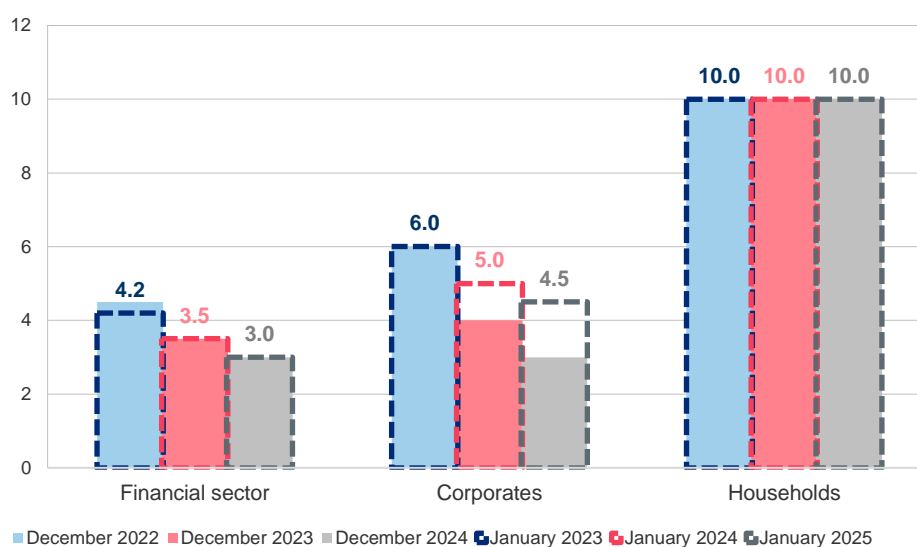
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater influence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

Inflation expectations of the corporate sector

Short-term expectations of the corporate sector measure 6.0%, unchanged from the December survey, while two- and three-year ahead expectations went up, ranging between 4.5% and 5.0%, but still stayed lower than short-term.

The January survey recorded a decrease in the share of corporates expecting the prices of inputs to rise over the next three and twelve months. The percentage of corporates not expecting changes in prices of either inputs or their own final products/services for the three-month ahead period is 70-75%, which is higher compared to the previous survey and might point to a slight easing of cost-push pressures.

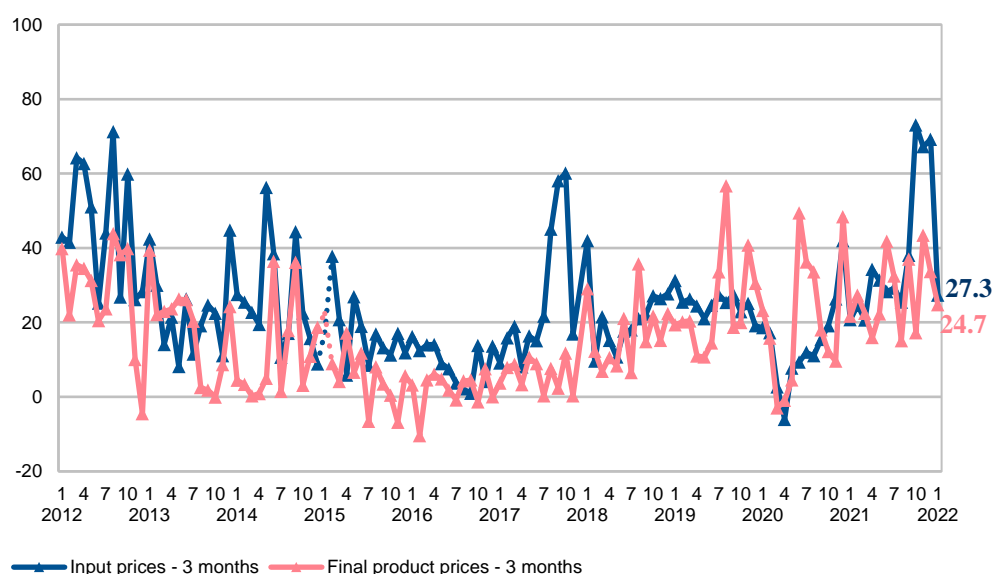
Chart 2 Expected inflation for one, two and three years ahead



Source: Ipsos.

Corporate expectations in terms of business conditions over the next twelve months were more optimistic than in the last survey. Assessment of the business conditions in the previous three months also improved and for the first time since the September survey, the number of corporates assessing that business conditions improved was higher than the number of those considering that a worsening occurred.

Chart 3 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.

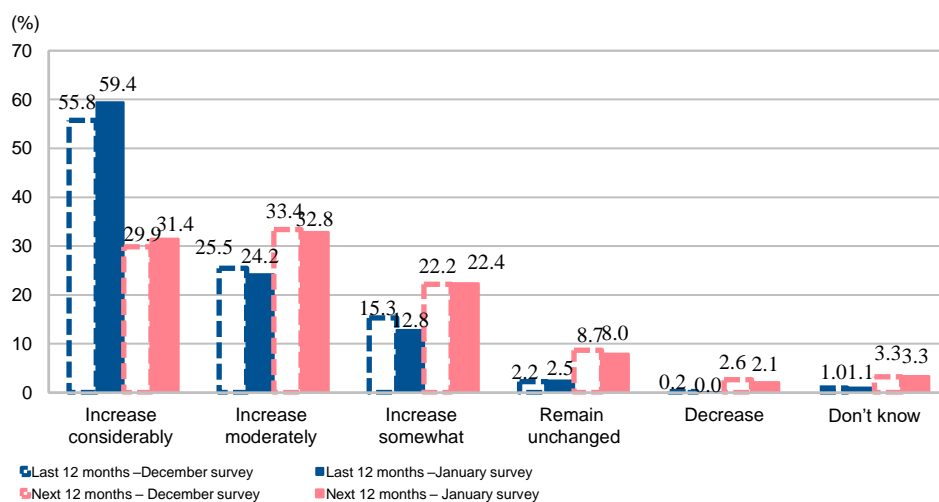
Source: Ipsos/Ninamedia.

Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

Short- and medium-term expectations of households stayed stable at 10.0%.

Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

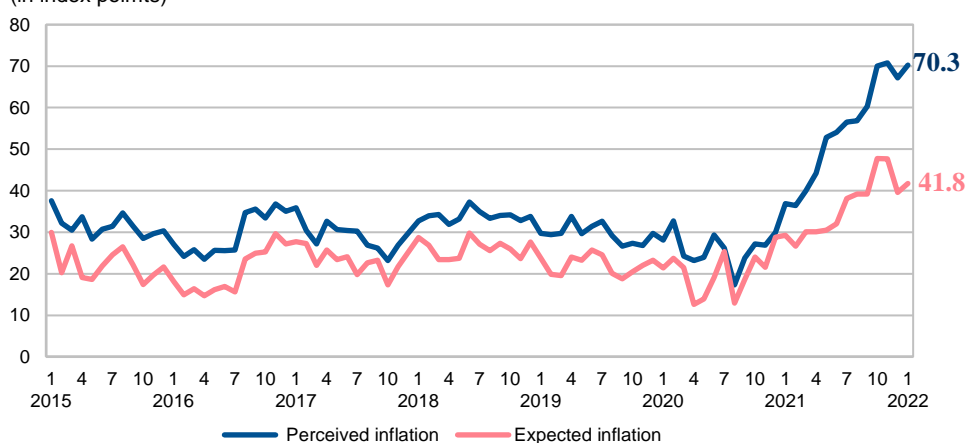
Most respondents (around 55%) continue to expect the prices to rise moderately or somewhat over the next twelve months.

In January, the index of perceived inflation was slightly higher than in December, and around 59% of respondents believed that a significant rise in the prices occurred in the previous twelve months.

The range of the perceived and expected inflation indices still suggests 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, indicating that the household sector also assesses the current rise in inflation as temporary.**² This also suggests a predictable and stable economic environment and contributes to the achievement of the primary monetary policy objective over the medium term.

Chart 5 Household perceived and expected inflation

(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*. (https://www.nbs.rs/export/sites/NBS_site/documents/publikacije/loi/izvestaji/loi_02_2016.pdf).