



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

February 2021

Belgrade, March 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, since March 2014, their medium-term, i.e. two-year ahead expectations, and since February 2021 three-year ahead expectations for y-o-y price growth.

Overview

The February Ipsos survey was conducted in accordance with the new questionnaire, and the main novelties are questions about expected inflation for three years ahead (for all sectors), expected level of NPLs at calendar year-end (financial sector) and the degree of capacity utilisation (corporates).

Short-term inflation expectations of the financial sector remained stable at close to 2.0%, reaching 1.9% in February. Short-term inflation expectations of corporates remained unchanged at 1.5%. Typically higher than the expectations of other sectors, household expectations rose to 10.0%, while the expectations of trade unions remained unchanged at 2.5%.

The two-year ahead inflation expectation of the financial sector is at 2.2%, while corporate expectations are slightly lower, at 1.8%. Two-year ahead inflation expectations of trade unions and households equal those for one year ahead (2.5% and 10%, respectively).

As for the new question – three-year ahead inflation expectations of the financial and corporate sector are close to two-year ahead expectations (2.3% and 1.8%, respectively). For February 2024, trade unions expect that inflation will be at 4.0% and households expect it to equal 8.0%.

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

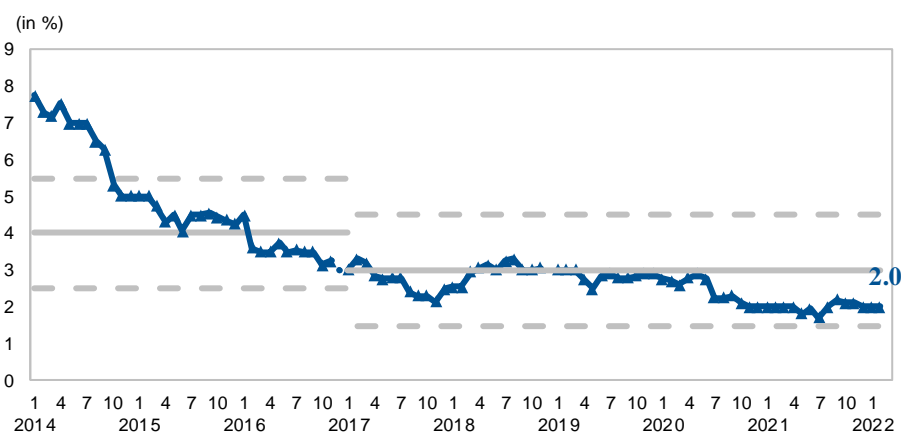
According to the Ipsos survey, short-term inflation expectations of the financial sector stood at 1.9% in February, while according to the March Bloomberg survey, they equalled 2.2%. These values are almost unchanged compared to the previous surveys by Ipsos and Bloomberg (2.0% and 2.2%, respectively).

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

Two-year ahead inflation expectations of the financial sector equalled 2.2% in February, slightly lower compared to the previous survey (2.3%). 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.

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 1 Composite measure of inflation expectations of the financial sector



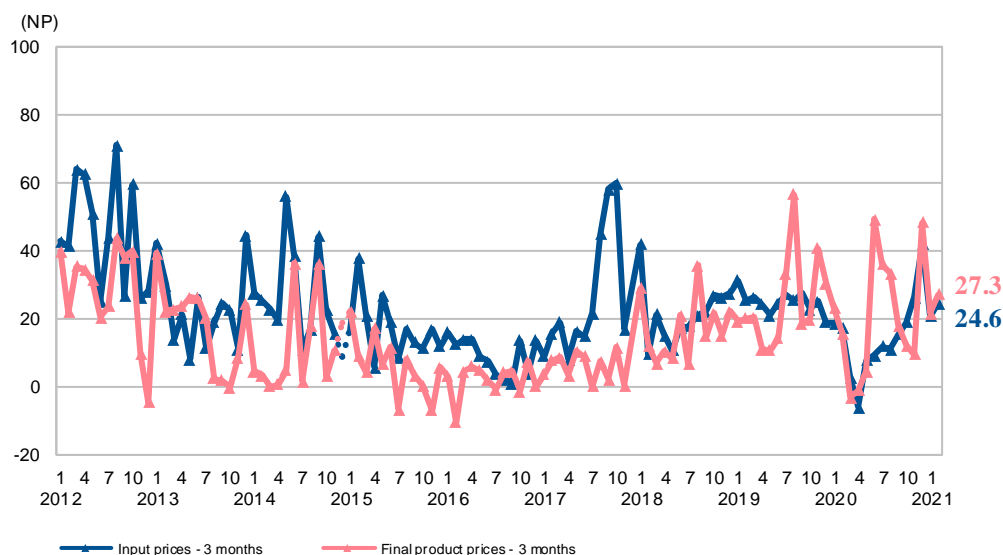
Sources: NBS, Ipsos, and Bloomberg.

Three-year ahead inflation expectations are similar to those for two years, at 2.3% (the new question introduced in this survey).

Inflation expectations of the corporate sector

Short-term corporate expectations remained stable at 1.5%. Two-year ahead inflation expectations are also stable. In February they stood at 1.8% (January 1.9%) same as three-year ahead inflation expectations.

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.

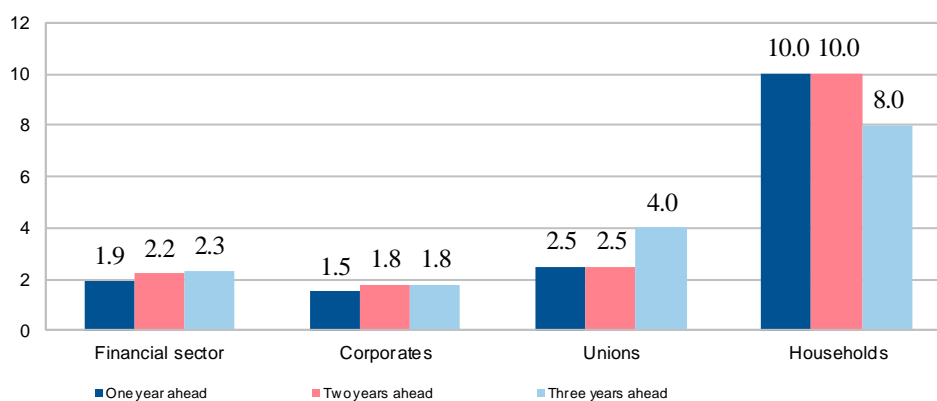
Corporate perception of some of the key business parameters (primarily, business conditions) was less optimistic in February than in January, but the number of corporates expecting improvement in business conditions remains higher than the number of those expecting worsening (positive NP).

There was an increase in the share of corporates expecting that the prices of inputs and their own products would rise over the next three and twelve months.

Inflation expectations of trade unions

Trade unions expect one-year and two-year ahead inflation to stand at 2.5%, while three-year ahead expectations are higher - at 4.0%.

Chart 3: **Expected y-o-y inflation for one, two, and three years ahead**



Inflation expectations of the household sector

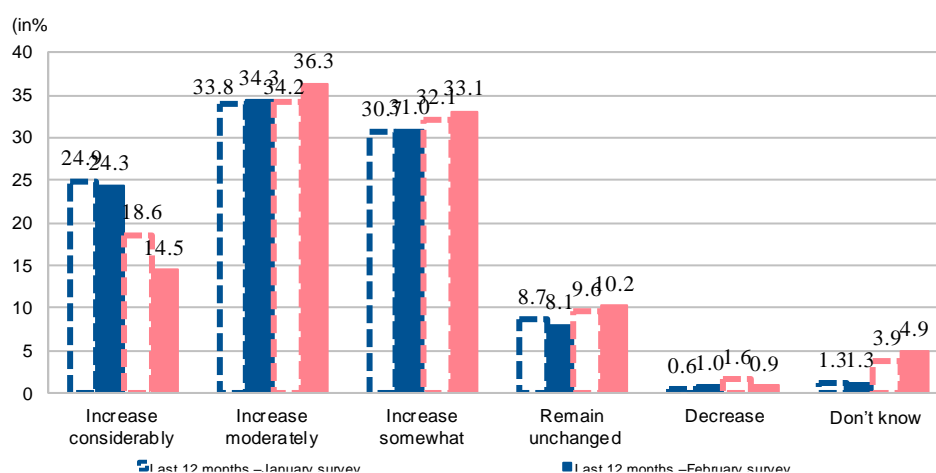
Quantitative and qualitative inflation expectations

The February survey recorded an increase in both short- and medium-term inflation expectations of the household sector, which reached 10.0%, the highest value since end-2014. Three-year ahead expectations are somewhat lower, at 8.0%.

Rising household inflation expectations could be attributed to the increase in the prices of electricity, utility services, cigarettes and petroleum products recorded since the beginning of the year.

However, the majority of respondents (around 70%) expect the prices to rise moderately or somewhat over the next twelve months. Also, the share of respondents expecting a considerable increase in prices in the next twelve months equalled around 15% in February, 4 pp lower than a month earlier. These facts could indicate that this is a temporary increase in household expectations.

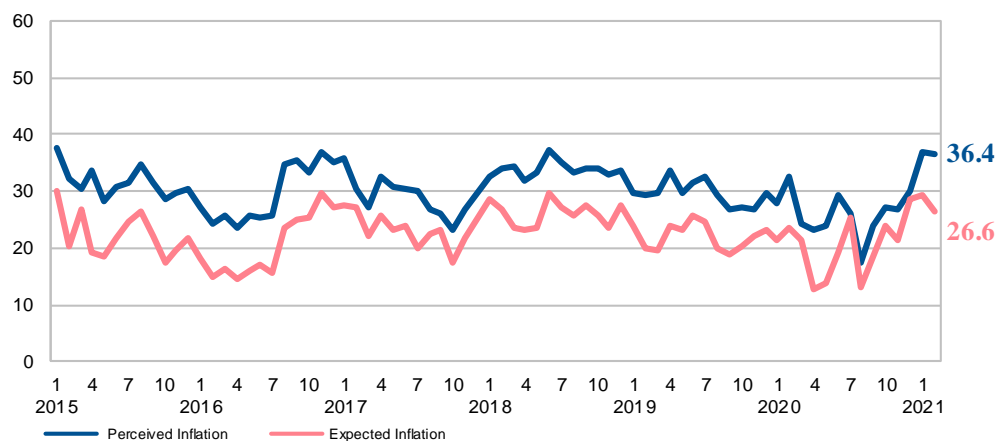
Chart 4 Distribution of household responses by perceived and expected



Source: Ipsos.

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.

Chart 5 Perceived and expected inflation of households



Sources: Ipsos and NBS calculation.

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

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).