



NATIONAL BANK OF SERBIA

# **REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY**

**February 2022**

Belgrade, March 2022

**Contents:**

Introductory note.....	2
Overview .....	3
Inflation expectations of the financial sector .....	4
Inflation expectations of the corporate sector .....	5
Inflation expectations of the household sector .....	6
Quantitative and qualitative inflation expectations .....	6

## **Introductory note**

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 the y-o-y price growth.

## **Overview**

According to the Ipsos February survey, one-year ahead inflation expectations of the financial sector stood at 4.5%, thus continuing their movement in the 4.0–4.5% range as in previous months.

One-year ahead inflation expectations of the corporate sector stood at 7.5%, higher compared to the December and January surveys (6.0%). Rising inflation expectations could be associated with higher inflation expectations of enterprises in the energy and food sectors, which are most exposed to disturbances and mounting uncertainty in global markets.

Traditionally higher than those of other sectors, short-term household expectations measured 15.0% in February, which is an increase compared to January (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 inflation expectations of all institutional sectors stayed unchanged compared to January. Financial expectations ranged between 3.0% and 3.5%, corporate expectations between 4.5% and 5.0%, while household expectations remained unchanged at 10.0%.

Medium-term inflation expectations of the financial and corporate sectors remained stable and lower than short-term expectations. 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 by most leading central banks.

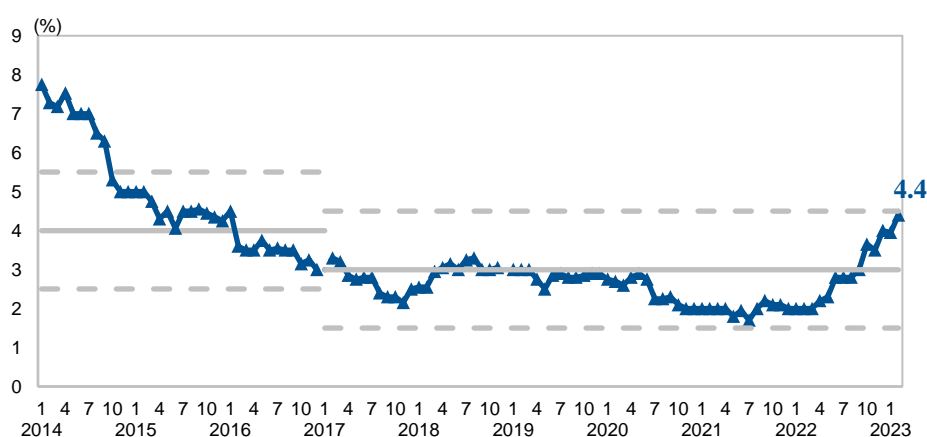
Firmly anchored medium-term inflation expectations reflect, among other things, a stable exchange rate, and are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations are well-anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

According to the February Ipsos survey, short-term inflation expectations of the financial sector measured 4.5%, which is somewhat higher relative to January (4.2%). Since October 2021, financial sector expectations ranged from 4.0% to 4.5%.

The value of the composite measure of inflation expectations of the financial sector<sup>1</sup> continued moving within the NBS target tolerance band, amounting to 4.4% in February.

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



Sources: NBS, Ipsos, and Bloomberg.

As regards medium-term financial sector expectations, those for two years ahead measured 3.5% (unchanged from January), while those for three years ahead 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.

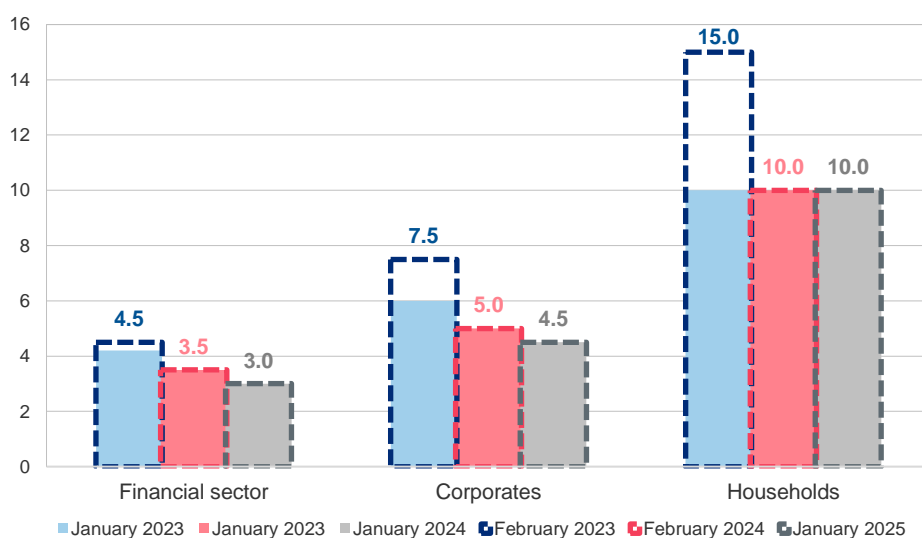
The stable movement of medium-term inflation expectations of financial sector representatives amid rising current inflation indicates that they assess that the ongoing inflationary pressures are temporary.

<sup>1</sup> 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

One-year ahead inflation expectations of the corporate sector recorded an increase in the February survey, amounting to 7.5% (6% in December–January). The increase in inflation expectations could be attributed to greater uncertainty and disturbances in global markets, which are felt the most by companies operating in the energy and food sectors.

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

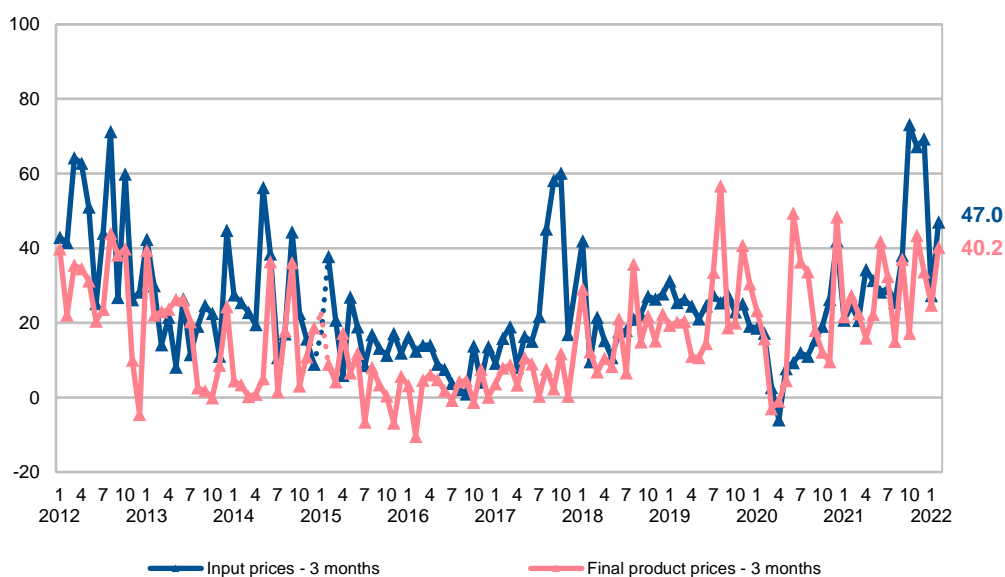


Source: Ipsos/

The February survey recorded an increase in the share of corporates expecting the prices of inputs to rise over the next three months (from around 30% to almost 50%), but this is still lower compared to the average value from Q4 2021. Similarly, the share of respondents expecting a rise in the prices of their own final products/services for the three-month ahead period went up from 25% in January to around 40% in February.

As for the assessment of the business conditions in the previous three months and expectations over the next twelve months, after a temporary rise in optimism in January, the February survey recorded similar values as in Q4 2021 amid rising uncertainty.

**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

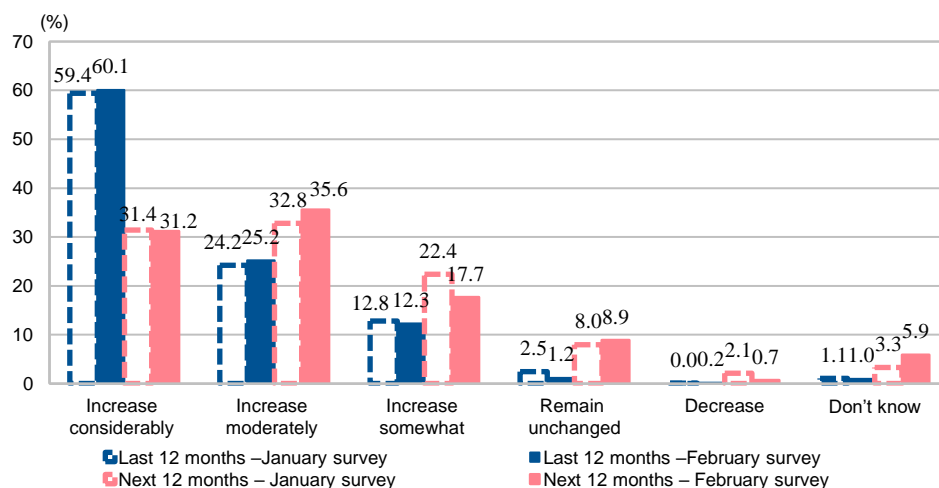
### Quantitative and qualitative inflation expectations

Short-term household inflation expectations rose from the January survey to 15.0%, while medium-term expectations stayed stable at 10.0%.

Most respondents (over 50%) continue to expect the prices to rise moderately or somewhat over the next twelve months.

In February, indices of perceived and expected inflation were slightly higher than in January. Around 60% of respondents believed that a significant rise in the prices occurred in the previous twelve months, while around 30% of them expect a considerable hike in prices over the next twelve months.

Chart 4 Distribution of household responses by perceived and expected inflation

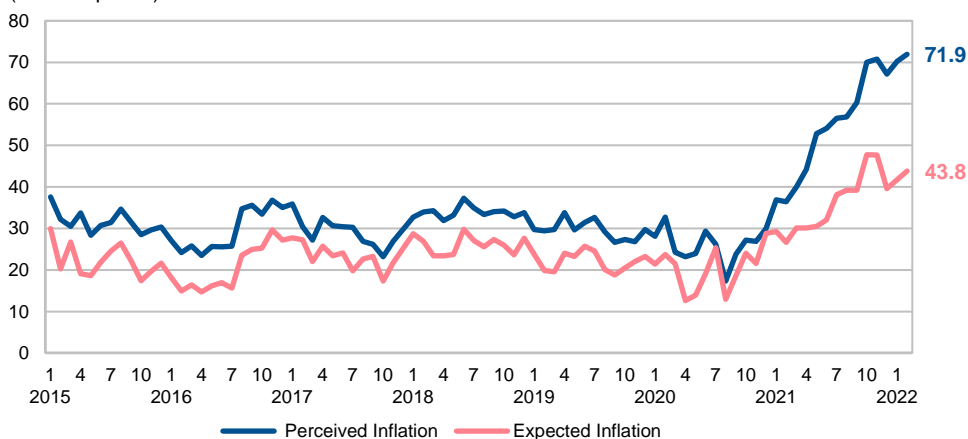


Source: Ipsos.

The range of the perceived and expected inflation indices 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.**<sup>2</sup> 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.

<sup>2</sup> 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](https://www.nbs.rs/export/sites/NBS_site/documents/publikacije/loi/izvestaji/loi_02_2016.pdf)).