NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

February 2024

Belgrade, March 2024

Contents:

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 conducted by the Ipsos agency 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 two-year ahead expectations, and since February 2021 their three-year ahead expectations for y-o-y price growth.

Overview

According to the results of the February **Ipsos** survey, **one-year ahead inflation expectations of the financial sector went down** from 4.5% in January to **4.2%** in February, continuing to move **within the NBS target tolerance band**.

The latest, February **Bloomberg** survey showed the same value of short-term inflation expectations of the financial sector. The calculated **composite measure of inflation expectations**[1] declined from January to 4.0% in February, indicating that the largest financial institutions anticipate lower inflation than the rest of the financial sector and further deceleration of inflation.

One-year ahead inflation expectations of corporates edged down from 6.7% in January to 6.0% in February.

Two-year ahead inflation expectations of the corporate sector stood at 5.0% and did not change compared to the previous survey. **Three-year ahead expectations declined from 5.0% in January to 4.0% in February**, returning within the **NBS target tolerance band** (the last time expectations were within the target band was in October 2022). Medium-term inflation expectations of the financial sector have moved **within the NBS target tolerance band** since August, equalling 3.5% in February for **two years ahead** and 3.0% for **three years ahead** (3.3% in January).

Traditionally higher than those of other sectors, **short-term household inflation expectations** stood at 15.0% in February, unchanged from the previous survey.

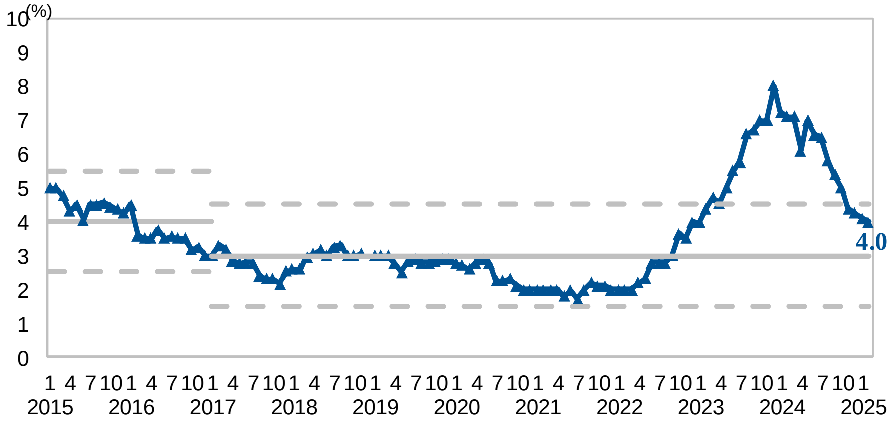
Two-year ahead **household inflation expectations also stood at 15.0%** vs. 10.0% in January. **Three-year ahead** expectations stayed at 10.0%. **Despite the higher level of expected than current inflation, the qualitative survey results show that a bulk of the surveyed households anticipate lower inflation in the coming than in the past twelve months.**

[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 financial sector

According to the **February Ipsos survey, short-term inflation expectations of the financial sector were within the NBS target tolerance band, equalling 4.2%** (down from 4.5% in January). A more detailed analysis of the structure of individual responses shows that the expectations of more than a half of the surveyed financial institutions were within the NBS target tolerance band, with the expectations of the largest banks being among the lowest and on a downward trajectory. Such structure of responses pushed down **the composite measure of expectations of the financial sector, calculated by combining the responses of financial institutions that participate in the Bloomberg and Ipsos surveys** (Chart 1), relative to the Ipsos survey – to 4.0% in February.

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



Sources: NBS, Ipsos, and Bloomberg.

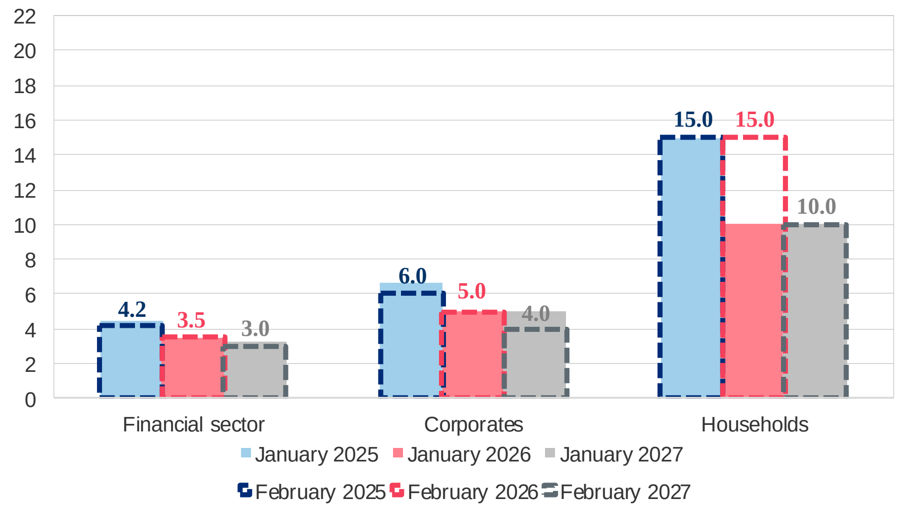
According to the latest, February, **Bloomberg** survey, short-term expectations were also at the level recorded in the Ipsos survey: 4.2% (4.3% in January).

Medium-term expectations of the financial sector measured 3.5% **in February** for two years ahead (unchanged from January) and 3.0% for three years ahead (3.3% in January), continuing to move within the NBS target tolerance band and indicating the high credibility of the NBS's monetary policy.

Inflation expectations of the corporate sector

Corporate **short-term expectations** declined – from 6.7% in January to 6.0% in February. **Two-year ahead** expectations remained unchanged from the previous survey and stood at 5.0%, while three-year ahead expectations declined from 5.0% in January to 4.0% in February (Chart 2).

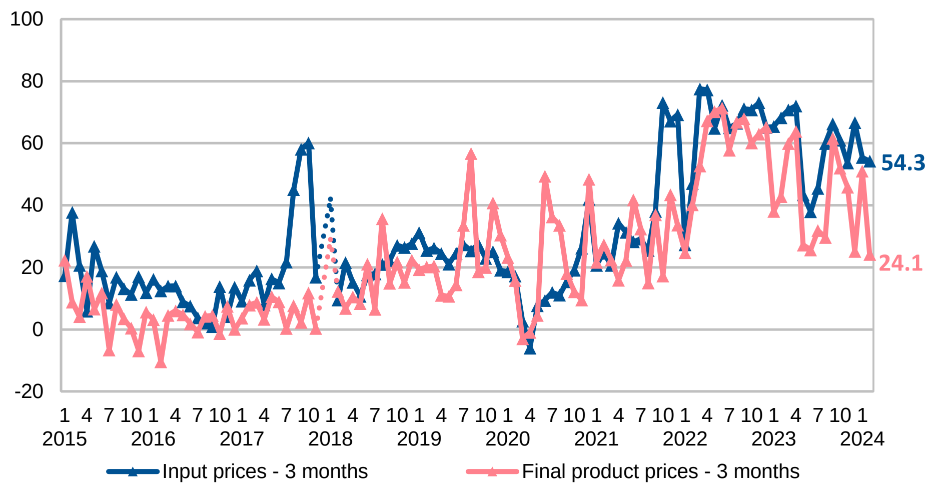
Chart 2 **Expected inflation for one, two and three years ahead**



Source: Ipsos.

The survey results indicate that the share of corporates expecting a rise in input prices did not change significantly compared to the previous survey A rise in input prices in the **next three months** is expected by close to 55% respondents (Chart 3), and by 43% when it comes to the **long run** (next twelve months).

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.

The share of those anticipating no change in the **prices of their own outputs** in the **next three months** increased significantly, from 47% in January to 74%. The majority of corporates (almost two thirds, up from 47% in January) expect **a rise in own prices of products/services** in the next twelve months.

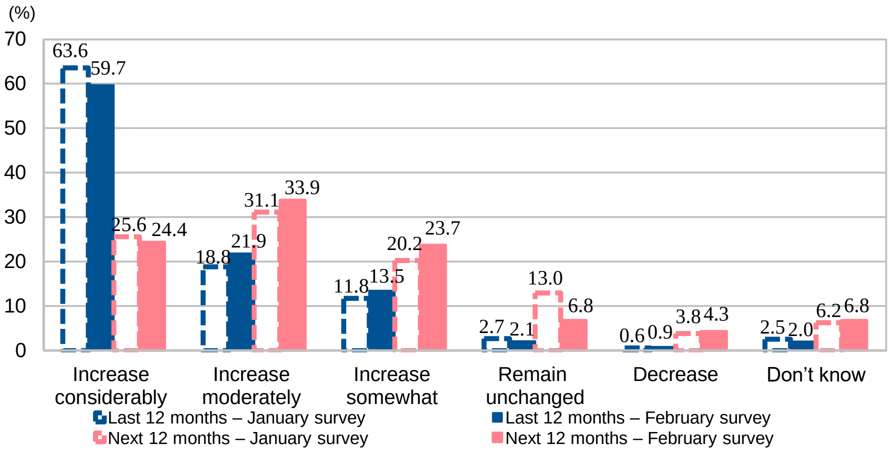
Corporate perception is still dominated by the opinion that **business conditions** remained unchanged in the **past three months** (around 90% of corporates are of this opinion). The same holds true when it comes to the **outlook for business conditions** as around 2/3 of respondents anticipate no change in conditions in the next twelve months, while somewhat more than one quarter expect an **improvement**.

Corporates are **more optimistic** when it comes to **own output/turnover** as the share of those expecting growth is higher both in the short and long run compared to the previous survey. In the **next three months**, around 43% of respondents expect a rise in output/turnover (39% in January), while the share of corporates expecting a rise in output/turnover in the **next twelve months** rose from 55% in January to 61% in February.

Inflation expectations of the household sector

According to the Ipsos survey, short-term household expectations were unchanged in February, at 15.0%. **Two-year ahead household expectations were at the same level** (up from 10.0% in the previous survey), while three-year ahead expectations remained at the same level as in the previous survey – at 10.0%.

Chart 4 **Distribution of household responses by perceived and**

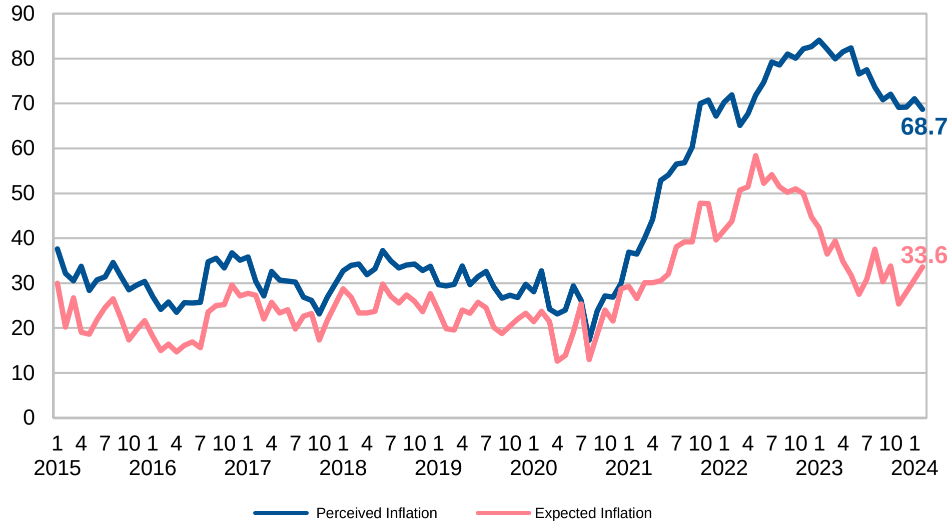


Source: Ipsos.

The **qualitative survey shows a slight improvement of household perception** – the share of respondents who perceive a **significant price rise** in the past twelve months **declined** (from 64% to 60%) in favour of those who estimate the rise as

moderate or mild. Around 1/4 of respondents still **expect** a significant price rise in the next year, while the share of those expecting a price rise at a **lower intensity** (a moderate or mild rise) increased from 51% in January to 58% in February (Chart 4).

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



Sources: Ipsos and NBS calculation.

A wide gap between expected and perceived inflation indices (Chart 5) suggests that **a bulk of surveyed households anticipate lower inflation in the coming than in the past 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 (https://www.nbs.rs/export/sites/NBS_site/documents-eng/publikacije/ioi/izvestaji/inflation_report_02_2016.pdf).

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