National Bank of Serbia

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

February 2025

Belgrade, March 2025

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 Ninamedia agency for the NBS since April 2024. 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 their three-year ahead expectations for the y-o-y price growth.

Overview

Short-term inflation expectations of the financial sector remained at 3.9% in the February survey, continuing to move **within the NBS target tolerance band.**

According to the **March Bloomberg survey, inflation expectations stayed unchanged for the fifth consecutive month, at 3.5%.** Expected inflation calculated through the **inflation expectations composite measure**[1] **was almost unchanged for the third consecutive month at 3.5% in February.**

Corporate one-year ahead inflation expectations stayed unchanged from January, at 5.0% in February. This is also the average value registered at the level of last year.

Two- and three-year ahead expectations of the financial sector measured 3.5% in the February survey, continuing to range between 3.0% and 3.5% in the past year. **Two-year ahead** corporate expectations went up from 4.0% in January to 5.0% in February, while **three-year ahead** expectations preserved the same value as in the prior month, at 4.0%.

Traditionally higher than those of other sectors, **household inflation expectations for all three periods** stayed unchanged from the January survey, at 15.0% for **one year ahead and 10.0%** for **two and three years ahead**.

The results of the qualitative survey suggest that households anticipate inflation to be lower in the coming twelve months than the inflation perceived in the previous twelve months.

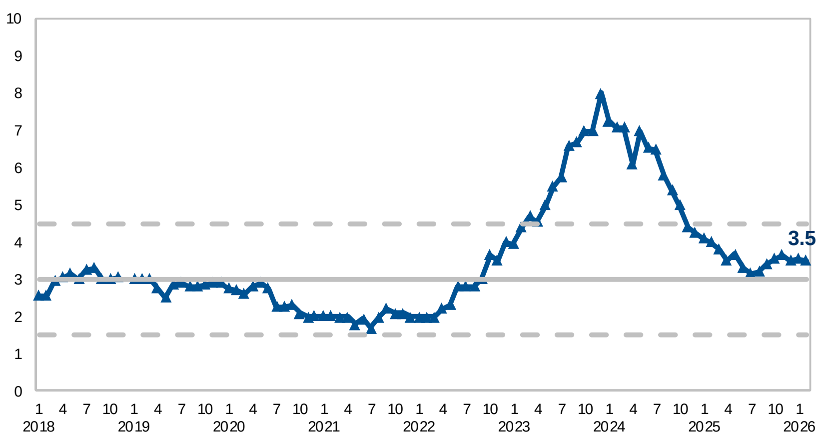
[1] Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater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

Inflation expectations of the financial sector

According to the **Ninamedia survey results, one-year ahead inflation expectations of the financial sector** stayed unchanged at 3.9% in February. According to the **Bloomberg survey, they stood at 3.5% in March, for the fifth consecutive month.** A closer analysis of the structure of individual responses shows that almost every surveyed financial institution (22 out of 23 respondents) expects one-year ahead inflation to be within the NBS target tolerance band.

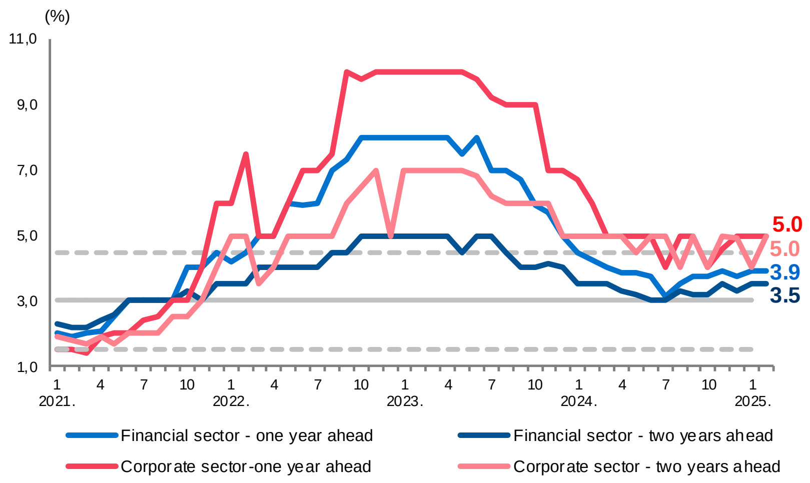
The composite measure of February expectations, calculated by combining the responses of financial institutions that participate in the Bloomberg and Ninamedia surveys, came at 3.5% (Chart 1), almost unchanged for the third month in a row.

Chart 1 **Composite measure of inflation expectations of the financial sector (in %)**



Sources: NBS, Ninamedia, and Bloomberg.

Chart 2 **Expected inflation of financial and corporate sector for one and two years ahead**



Medium term expectations of the financial sector measured 3.5% in the February survey, continuing to range between 3.0% and 3.5% in the past year.

Inflation expectations of the corporate sector

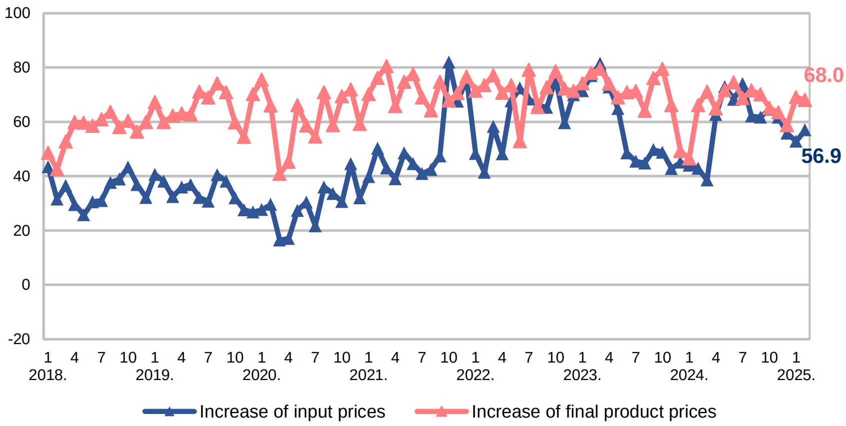
Short-term corporate inflation expectations stayed unchanged from January, at 5.0%, which is the average for the last year. **Corporate inflation expectations for two years ahead** went up from 4.0% in January to 5.0% in February, while expectations for three years ahead stayed unchanged, at 4.0%.

Chart 3 **Expectations of the corporate sector regarding movements in the prices of inputs and final products in the next three months (in %)**

Source: Ipsos, Ninamedia.

The analysis of input and output prices over the next three months (Chart 3) suggests a decrease in the share of corporates expecting a rise in these prices (from 41% to around 36%).

Chart 4 **Expectations of the corporate sector regarding movements in the prices of inputs and final products in the next twelve months (in %)**



Source:Ipsos, Ninamedia.

Over the long run (next twelve months), corporates increased their expectations in regard to input prices, with 57% of them expecting an increase in input prices (53% in January), while, on the other hand, the share of those anticipating a hike in the prices of final products and services dropped from 69% in January to 68% in the February survey (Chart 4).

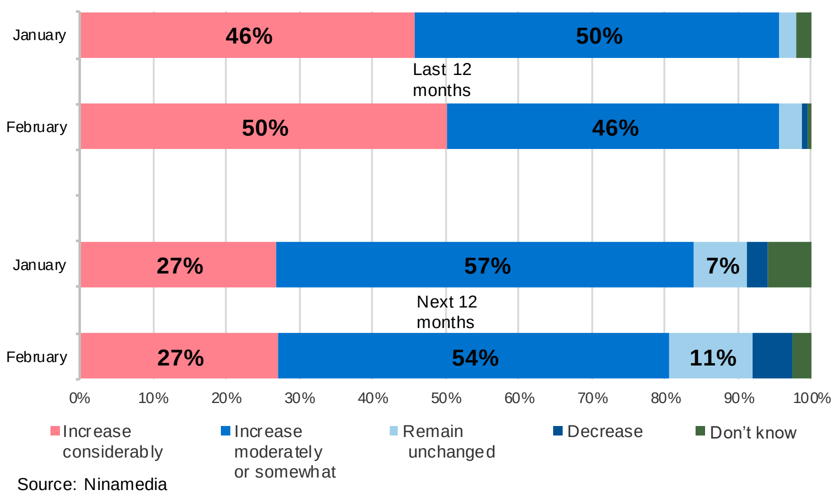
The dominant view among corporates was that **business conditions in the last three months** did not change (66% of corporates), and most of them (around 58%) believed that changes will not occur in the next twelve months either.

The share of corporates expecting an increase in their own production/turnover in the next three months was almost unchanged from the previous survey, and equals 45%. Their share also rose for the next twelve months, from 63% in January to 67% in February.

Inflation expectations of the household sector

According to the Ninamedia survey, quantitative inflation expectations of households for all three periods stayed unchanged in the February survey in comparison to the last month. Short-term expectations stood at 15.0% for the seventh month in a row, while medium-term expectations equalled 10.0% in February.

Chart 5 **Distribution of household responses by perceived and expected inflation**

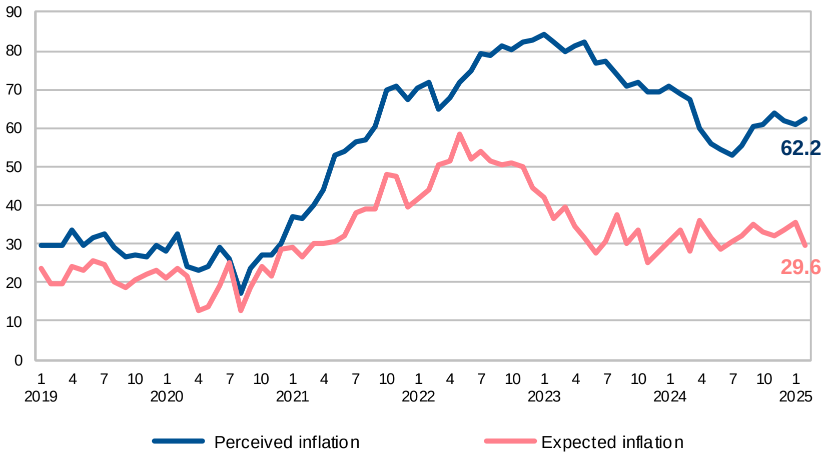


Source: Ninamedia

According to the qualitative survey results (Chart 5), the share of respondents who believe that prices rose considerably **in the past year** stood at 50%, slightly above the last year's average of 46%, with 46% of those who believe that the prices increased moderately or somewhat in the previous period. There were no significant changes in **household expectations for the next twelve months** – the share of those expecting a considerable increase in prices stood at 27% in February, unchanged from the previous month, **while the majority of households expect the prices to increase moderately or somewhat (54% in February)**.

Continuously higher perceived than expected inflation index (Chart 6) implies that **households anticipate lower inflation in the coming twelve months than in the previous year**.[2]

Chart 6 **Perceived and expected inflation of households**
(in index points)



Sources: Ninamedia and NBS calculation.

[2] The index is 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