



National Bank of Serbia

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

March 2024

Belgrade, April 2024

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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 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 March Ipsos survey, **one-year ahead inflation expectations of the financial sector went down** from 4.2% in February to **4.0%** in March, continuing to move **within the NBS target tolerance band**.

The calculated **composite measure of inflation expectations**¹ declined from February (4.0%) to 3.8% in March, indicating that the largest financial institutions anticipate lower inflation than the rest of the financial sector, as well as a further inflation slowdown. The latest, **April Bloomberg survey** shows that short-term expectations stand at 3.1%, which is **close to the NBS target midpoint**.

One-year ahead inflation expectations of corporates edged down from 6.0% in February to 5.0% in March. There is a noticeable trend of the increasingly lesser dispersion of responses in the previous months, which indicates **smaller uncertainty** among corporates when it comes to the formation of inflation expectations, with the share of corporates whose expectations are at a lower level going up.

Medium-term inflation expectations of the financial sector have moved **within the NBS target tolerance band** since August, equalling 3.5% in March for **two years ahead** and 3.2% for **three years ahead**. **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 4.0% in February to 3.5% in March.

One-year ahead **household inflation expectations** receded to 11.0% in March (from 15.0% in February), **which is their lowest level since January 2022**.

Two-year ahead household inflation expectations also declined, from 15.0% in February to 10.0% in March. Three-year ahead expectations also stood 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.**

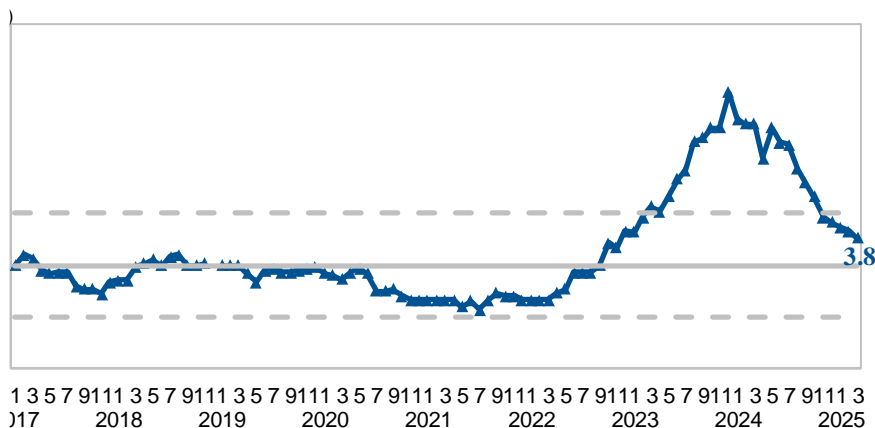
Inflation expectations of the financial sector

According to the March Ipsos survey, **short-term inflation expectations of the financial sector were within the NBS target tolerance band, equalling 4.0%** (down from 4.2% in February). A more detailed analysis of the structure of individual responses shows that one-year ahead expectations of most 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**

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.

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 3.8% in March.

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

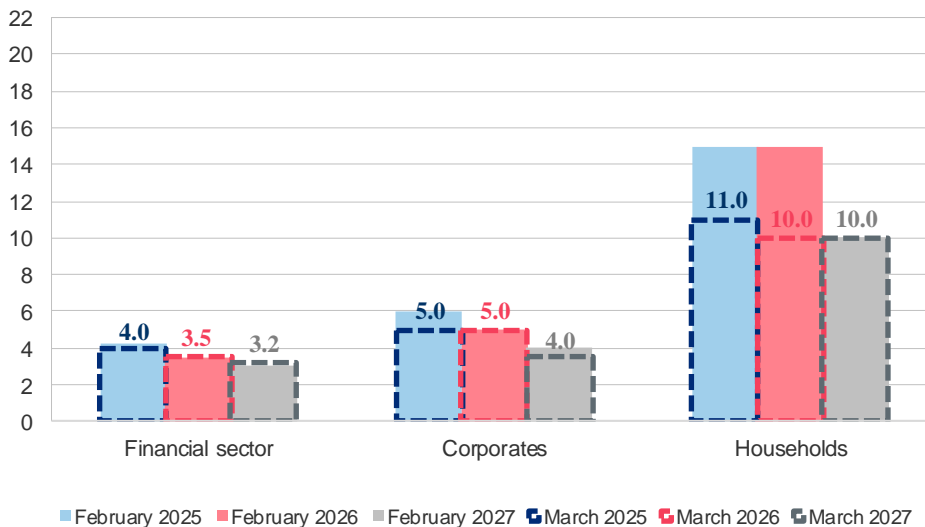
According to the latest, April **Bloomberg** survey, short-term expectations stood at 3.1%, the lowest level on record.

Medium-term expectations of the financial sector measured 3.5% **in March** for two years ahead (unchanged from February) and 3.2% for three years ahead (3.0% in February), continuing to move within the NBS target tolerance band and indicating high credibility of the NBS’s monetary policy.

Inflation expectations of the corporate sector

Corporate **short-term expectations** declined – from 6.0% in February to 5.0% in March. **Two-year ahead** expectations remained unchanged from the previous survey and stood at 5.0%, while **three-year ahead** expectations fell from 4.0% in February to 3.5% in March (Chart 2).

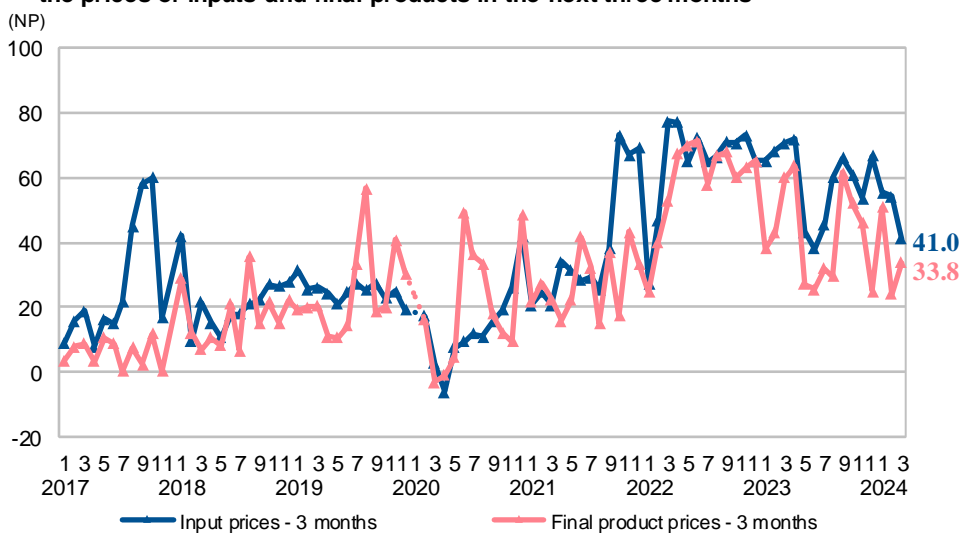
Chart 2 Expected inflation for one, two and three years ahead



Source: Ipsos.

The survey results indicate that **the share of corporates expecting a rise in input prices** (inputs in production) **declined** compared to the previous survey. The share of respondents expecting a rise in input prices in the **next three months** decreased from 54% in February to 46% in March (Chart 3), and to 39% (vs. 43% in February) in 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 a decline.

Source: Ipsos/Ninamedia.

In the **next three months**, most respondents (60%) do not expect changes in **output prices**, although this share is lower compared to the month before (74%). On the other hand, most corporates (around 70%) expect a rise in own output prices in the **next twelve months**.

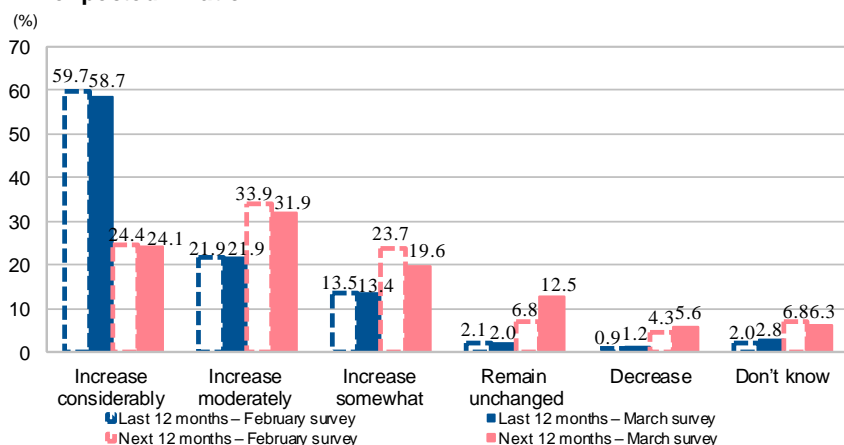
Corporate perception is still dominated by the opinion that **business conditions** remained unchanged in the **past three months** (around 92% of corporates are of this opinion). The same holds true when it comes to the **outlook for business conditions** (72% of respondents anticipate no change in conditions in the next twelve months), while the bulk of the remaining respondents expect an **improvement**.

The share of respondents expecting a rise in **own output/turnover in the next three months** remained the same as in the previous survey – around 43%. As for the next twelve months, corporates are **equally divided** into those believing there will be no changes and those expecting a rise in output/turnover.

Inflation expectations of the household sector

According to the Ipsos survey, short-term household expectations stood at **11.0% in March**, down from 15.0% in February. This was their lowest level since January 2022. **Two-year ahead** household expectations also declined – from 15.0% in February to 10.0% in March. 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 expected inflation

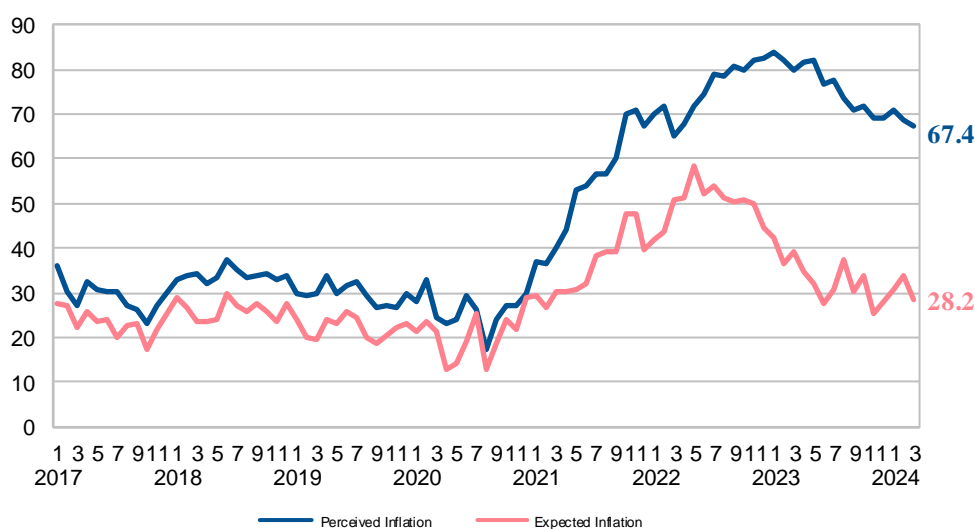


Source: Ipsos.

The **qualitative survey shows no significant change in household perception** – the share of respondents who perceive a **significant price rise** in the past twelve months was close to 60%. Around 1/4 of respondents still expect a **significant price rise** in the next year, while the share of those expecting no further changes increased from 7% in February to 13% in March (Chart 4).

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

Chart 5 **Perceived and expected inflation of households**
(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-eng/publikacije/oi/izvestaji/inflation_report_02_2016.pdf).