



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

April 2022

Belgrade, May 2022

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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

According to Ipsos, in April, one-year ahead inflation expectations of the financial sector remained unchanged from March, at 5.0%. The latest (May) Bloomberg survey recorded a similar value (5.1%).

One-year ahead inflation expectations of corporates also stayed unchanged, at 5.0%, and for the second consecutive quarter they matched the inflation expectations of the financial sector.

Usually higher than those of other sectors, short-term inflation expectations of households rose from 15.0% to 20.0% (highest on record). This rise was probably driven by the rates of growth in the prices of some food staples above or around 20.0% (fresh meat 30.4%, vegetables 23.7%, petroleum products 20.3%). These are commodities that are purchased more frequently than other products and services used in the calculation of inflation and can therefore raise the subjective feeling of inflation above the level captured by the official statistics.

The range of perceived and expected inflation indices still indicates that households anticipate lower inflation in the coming twelve months than in the past year.

Medium-term inflation expectations of the financial and corporate sectors are within the NBS target band, possibly suggesting that these sectors still deem the current higher inflation as a temporary phenomenon. Medium-term inflation expectations of the financial sector range between 3.5% and 4.0%, and those of the corporate sector between 3.0% and 4.0%.

Anchored inflation expectations are, among other things, a result of preserved stability of the exchange rate and are a precondition for low, stable and predictable inflation. The achieved stability of inflation expectations confirms trust in the measures undertaken by the NBS.

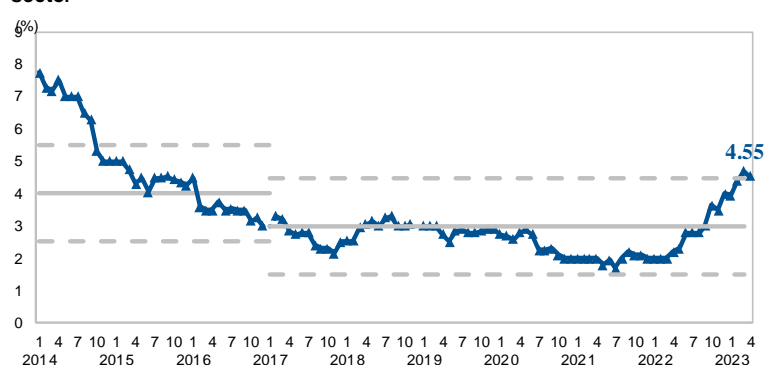
Inflation expectations of the financial sector

According to Ipsos April survey, short-term inflation expectations of the financial sector remained at 5.0%, while Bloomberg survey recorded a rise from 4.5% in April to 5.1% in May.

However, the composite measure of inflation expectations of the financial sector¹ measured 4.55% in April, which is a decrease from March when it equalled 4.7%.

Two-year ahead inflation expectations of the financial sector also remained at the March level (4.0%), while three-year ahead inflation expectations rose slightly – to 3.5% (3.0% in March).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

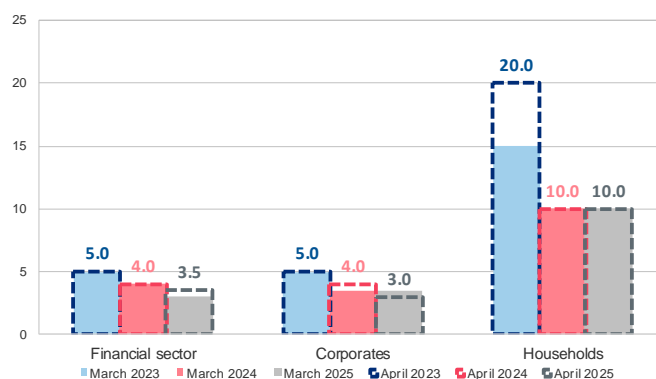
The stable movement of medium-term inflation expectations of financial sector representatives amid rising current inflation indicates that they assess the ongoing inflationary pressures as temporary.

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 corporate sector

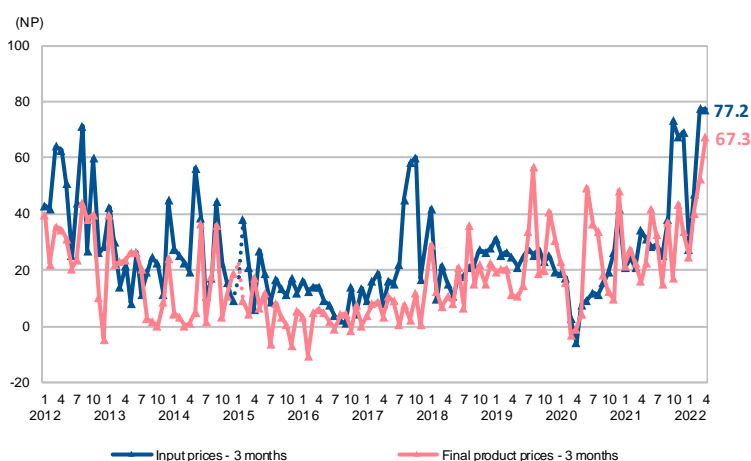
Short-term inflation expectations of corporates also did not change in April from March, staying at 5.0%. Medium-term inflation expectations (two years ahead) of corporates are at the level of 4.0% (3.5% in March), while three-year ahead inflation expectations are at the NBS target midpoint (3.0%), which is lower compared to March expectations (3.5%).

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



Source: Ipsos.

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.

Corporates expect higher cost-push pressures in their operations over the short run (three months ahead) while anticipating their alleviation in the coming twelve-month period. April survey recorded an insignificant change in the share of corporates expecting a rise in the prices of inputs in their production in the following three months

(around 80%), while expectations regarding the prices of their own final products/services grew significantly and now 68% of respondents expect a rise in prices (53% in May). The number of respondents anticipating a rise in the prices of inputs and final products/services over the next twelve months fell from 58% to 48% and from 77% to around 70%, respectively.

The assessment of business conditions recorded similar tendencies. Amid rising uncertainty, corporate perception of business was again less optimistic, as evidenced by 63% of respondents in the April survey who assess that business conditions deteriorated over the previous three months (54.5% in March). At the same time, the share of those expecting worsening in the next twelve months dropped from around 40% in the previous survey to around 30% in April.

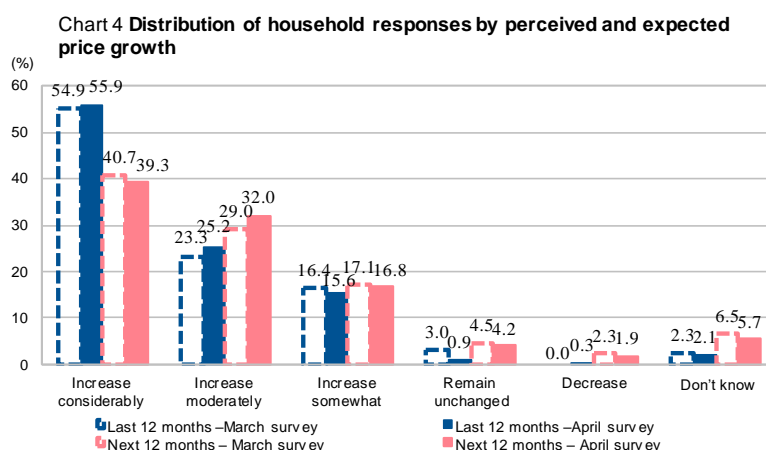
More optimistic expectations for business conditions are also confirmed by the rise in positive responses to the question regarding expected output/turnover (from around 54% in March to around 64% in April), as well as regarding new investments and employment.

Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

One-year ahead inflation expectations of the household sector rose from 15.0% in March to 20.0% in April, while two- and three-year ahead inflation expectations remained the same (10.0%).

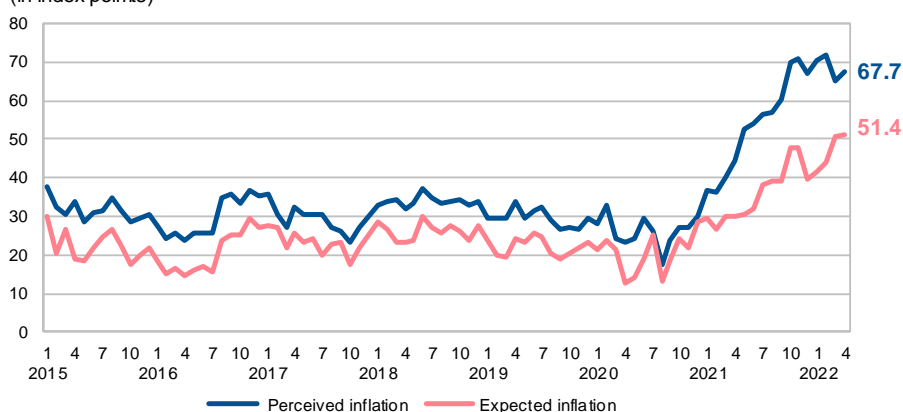
Distribution of household responses did not change significantly from the previous survey. The percentage of respondents expecting a moderate or slight increase in prices in the coming year remained a little below 50.0%, while the share of those expecting a considerable increase is still around 40.0%.



The range of the perceived and expected inflation indices suggests that households still expect lower inflation in the coming twelve months relative to the previous year. Such trend implies that **a part of the population that feels that prices have increased over the past twelve months do 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.** 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 **Perceived and expected inflation of households**

(in index points)



Sources: Ipsos and NBS calculation.