



NATIONAL BANK OF SERBIA

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

**May 2021**

Belgrade, June 2021

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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 the May Ipsos survey, short-term inflation expectations of the financial sector measured 2.5%, somewhat higher than 2.1% in the previous survey, which could be associated with the temporary inflation rise. Corporate inflation expectations were lower and continued moving around 2.0%, same as the May level. Inflation expectations of households, which are usually higher than those of other sectors, remained at 10.0%.

Medium-term inflation expectations (two and three years ahead) of the financial sector were stable at around 2.5%, while corporate expectations were somewhat lower (1.7%). Household medium-term expectations were the same as short-term expectations (10.0%).

Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

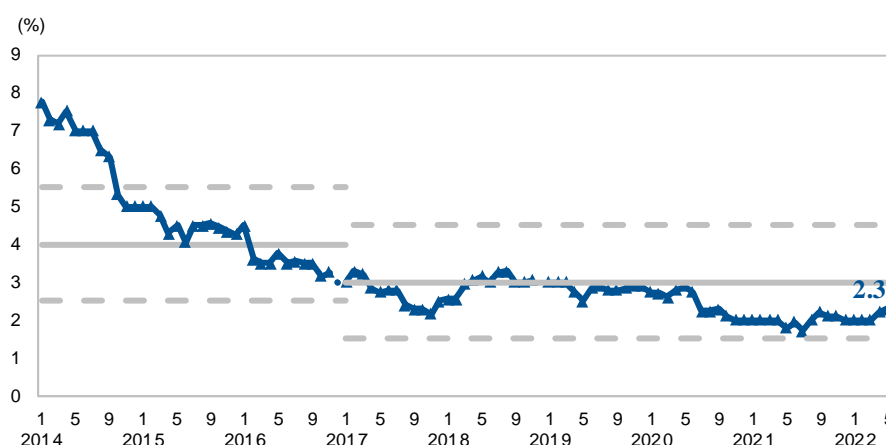
## Inflation expectations of the financial sector

Short-term inflation expectations of the financial sector grew moderately, most probably reflecting current inflation. In May, they measured 2.5% (vs. 2.1% in April), according to Ipsos.

The June Bloomberg survey shows a similar level of one-year-ahead expectations (2.6%).

The composite measure of inflation expectations of the financial sector,<sup>1</sup> stood at 2.3% in May, close to the level from the previous month (2.2%).

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



Sources: NBS, Ipsos, and Bloomberg.

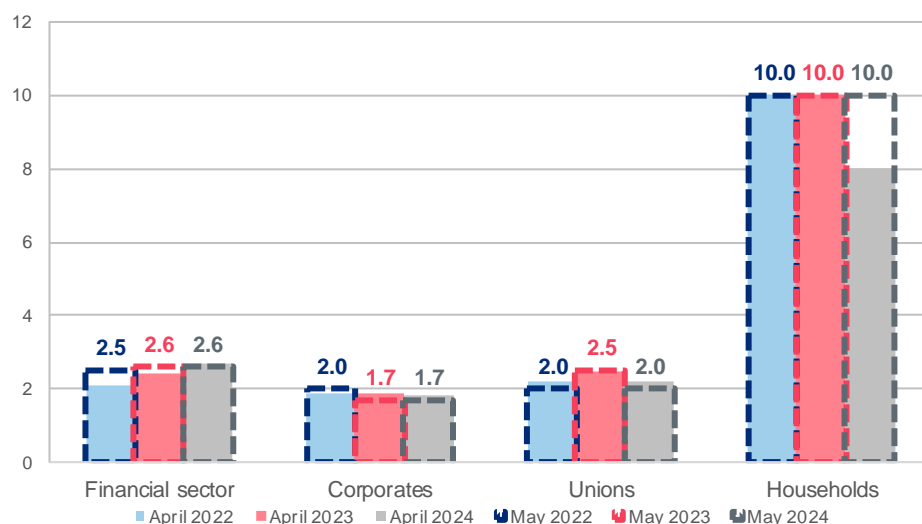
**Medium-term expectations of the financial sector were not significantly changed from the previous survey and similarly to the short-term expectations they hovered around 2.5%.** Medium-term inflation expectations of the financial sector have moved within the target tolerance band since the introduction of this survey question in March 2014.

## Inflation expectations of the corporate sector

One-year ahead corporate inflation expectations remained close to 2.0%, same as the May level. Medium-term inflation expectations (two and three years ahead) were somewhat lower, at 1.7% in May.

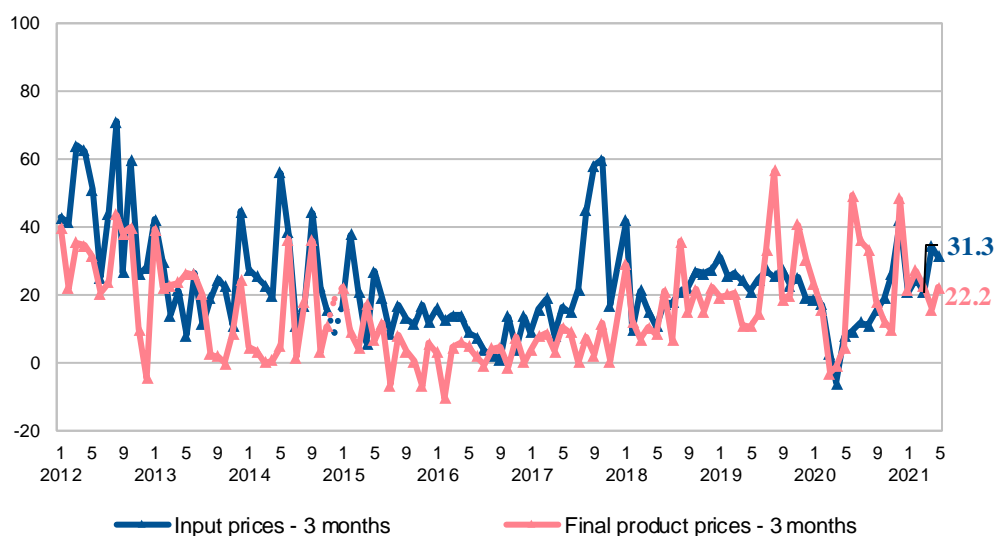
<sup>1</sup> Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater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

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



Corporate perception of expected business conditions over the next 12 months and in the past three months was more optimistic than in the previous survey (higher NP). For the first time since last October, the share of corporates believing that business conditions improved in the past three months exceeded the share of those who viewed the same period as the time of deterioration, which may be associated with the relaxation of measures and vaccination.

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.

Around 70% of corporates did not expect the prices of their own products/services to change over the next three months, somewhat less than in April. Similarly, the percentage of corporates not expecting changes in the prices of inputs dropped from 65% in April to 60% in May.

## Inflation expectations of the household sector

### Quantitative and qualitative inflation expectations

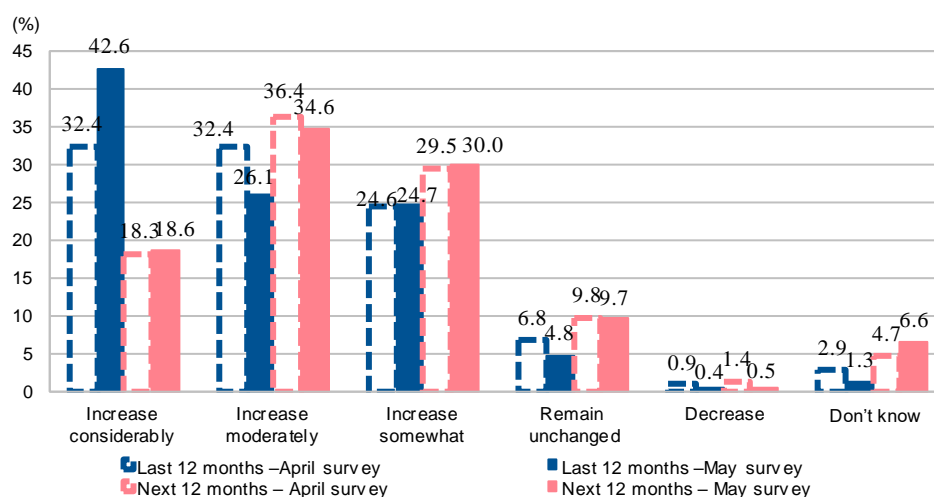
Short-term inflation expectations of households remained unchanged from April, at 10.0%.

The majority of respondents (around 65%) still expected the prices to rise moderately or somewhat over the next twelve months.

Such trends, i.e. the majority of respondents expecting prices to increase moderately and somewhat over the next twelve months – reflect a predictable and stable economic environment, which facilitates the achievement of the main medium-term goal of monetary policy.

Medium-term household expectations also stood at 10.0%.

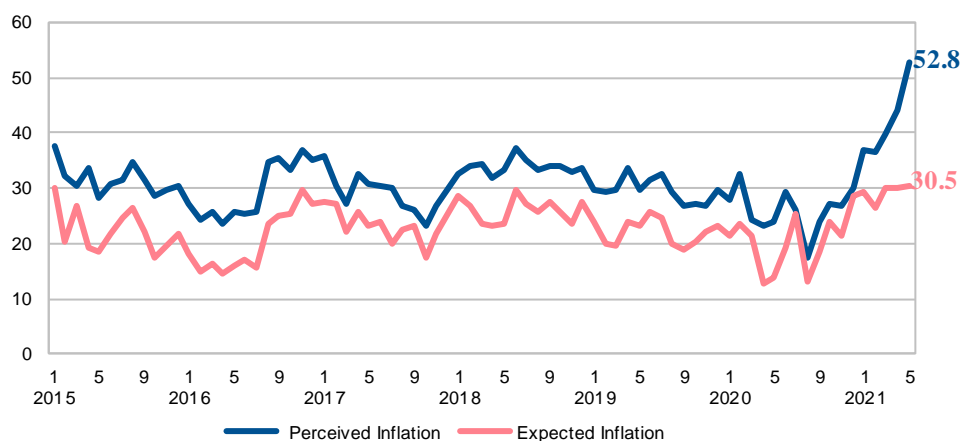
**Chart 4 Distribution of household responses by perceived and expected inflation**



Source: Ipsos.

The perceived inflation index was higher than the expected inflation index, indicating 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.**<sup>2</sup>

Chart 5 **Perceived and expected inflation of households**  
(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. ([http://www.nbs.rs/system/galleries/download/pdf\\_ioi/ioi\\_02\\_2016.pdf](http://www.nbs.rs/system/galleries/download/pdf_ioi/ioi_02_2016.pdf)).