



NATIONAL BANK OF SERBIA

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

**June 2020**

Belgrade, July 2020

**Contents:**

Introductory note.....	2
Overview.....	3
Inflation expectations of the financial sector.....	4
Inflation expectations of the corporate sector.....	4
Inflation expectations of trade unions.....	5
Inflation expectations of the household sector .....	6
Quantitative and qualitative inflation expectations .....	6

## **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.

Stable and well-anchored inflation expectations contribute to the greater credibility of the monetary policy framework. 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, and since March 2014, their medium-term, i.e. two-year ahead expectations for y-o-y price growth.

## **Overview**

After a temporary drop to 1.6% in May, short-term inflation expectations of the financial sector returned to 2.0% in June, according to Ipsos. One-year ahead inflation expectations of the corporate sector declined further, from 1.2% to 1.0%. Inflation expectations of trade unions went up from the May 2.3% to 2.5% and those of households remained at 5.0%.

Medium-term expectations of corporates, i.e. for June 2022, stood at 2.0%, while inflation expectations of the financial sector were somewhat higher (2.2%). For two years ahead, representatives of trade unions expect inflation to be at 2.7% and households at 5.0%.

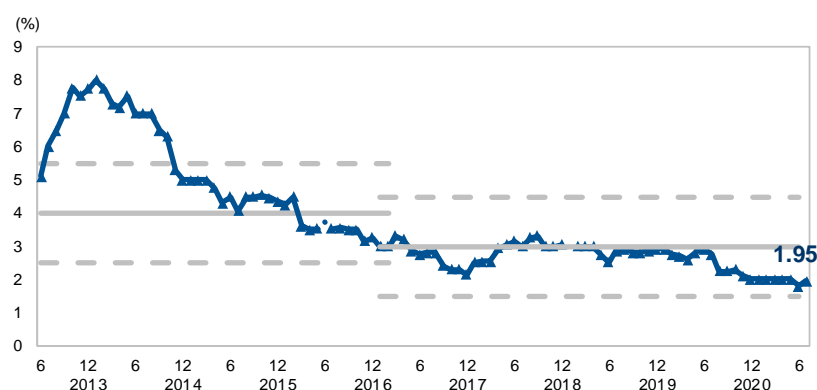
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

After a temporary drop to 1.6% in May (probably as a result of inflation fall), one-year ahead inflation expectations of the financial sector returned to 2.0% in June, according to Ipsos. According to Bloomberg's July survey, one-year ahead inflation expectations of the financial sector stood at 1.7%, which is lower compared to the previous survey (2.0%).

In June, the composite measure of inflation expectations of the financial sector<sup>1</sup> returned to the level close to the previous outcomes (1.95%).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

**Medium-term inflation expectations of the financial sector (for June 2022) also rose – to 2.2% (2.0% in May).** 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 inflation expectations of the corporate sector were additionally lowered to 1.0% in June (1.2% in May) which is their lowest level since the introduction of the survey. Lower corporate expectations can be attributed to the anticipated contraction in demand due to the pandemic. Medium-term inflation

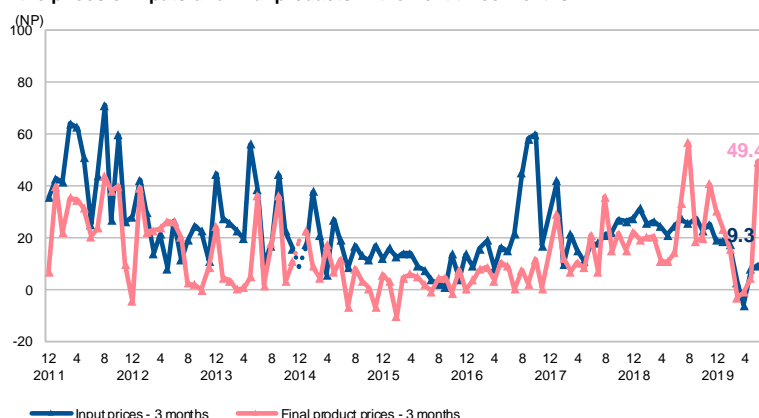
<sup>1</sup> Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater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

expectations of the corporate sector stayed unchanged in June as well, at 2.0% (same as in December 2019).

Corporate expectations of business conditions in the coming twelve months additionally improved compared to previous surveys. Corporate expectations for output/trade in the coming three and twelve months, as well as for fixed investments in the coming twelve months are also more optimistic. Similar to the May survey, the sole parameter exhibiting unfavourable results compared to the previous survey is the expected availability of loans in the coming twelve months.

Around 80% of respondents are not expecting the prices of input to change over the next three months. At the same time, slightly more than half of corporate respondents are expecting that the prices of their products/services will rise over the next three months.

Chart 2 Expectations of the corporate sector regarding movements in the prices of inputs and final products in the next three months

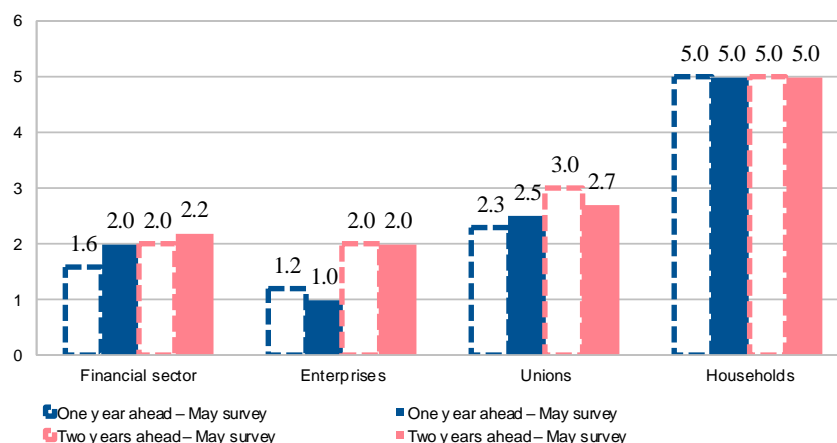


\*Above zero indicates growth, and below zero decline.  
Source: Ipsos/Ninamedia.

## Inflation expectations of trade unions

According to the June survey, one-year ahead inflation expectations of trade unions went up from the previous survey (2.5% vs 2.3% in May), while medium-term inflation expectations dropped from 3.0% to 2.7%.

Chart 3 Expected y-o-y inflation one and two years ahead



## Inflation expectations of the household sector

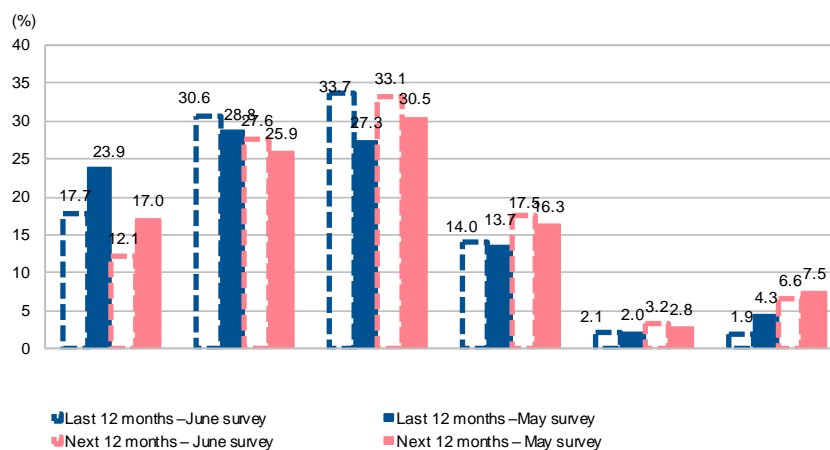
### Quantitative and qualitative inflation expectations

The June Ipsos survey results indicate that both short- and medium-term inflation expectations of households stood at 5.0%, the same as in the past three surveys.

The NP of respondents rose slightly from the previous survey when it comes to expectations of a rise in the prices of food products and monthly bills.

The share of respondents anticipating prices to increase considerably over the next twelve months equalled 17.1% in June compared to 12.0% in May. Nevertheless, the majority of respondents (56.4%) still expect prices to rise moderately or somewhat over the next twelve months.

Chart 4 Distribution of household responses by perceived and expected inflation

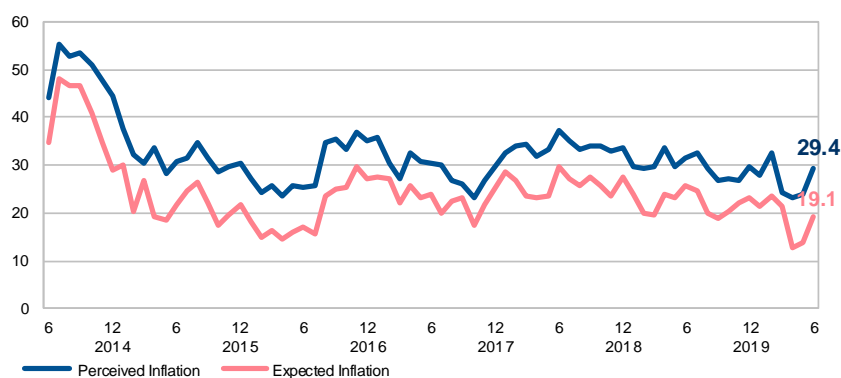


Source: Ipsos.

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.

The perceived inflation index was higher than the expected inflation index, which indicates 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



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)).