



NATIONAL BANK OF SERBIA

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

**June 2022**

Belgrade, July 2022

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## **Introductory note**

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, classified into four sectors (the financial sector, corporate sector, trade unions and households) are asked to state their one-year ahead expectations, since March 2014 their two-year ahead expectations and since February 2021 their three-year ahead expectations for the y-o-y price growth.

## Overview

According to the results of the June Ipsos survey, one-year ahead inflation expectations of financial sector representatives declined slightly, equalling **5.9% (vs. 6.0% in May)**. A similar value was recorded in the July Bloomberg survey (6.0%).

Amid rising uncertainty and elevated current inflation, **one-year ahead expectations of the corporate sector increased to 7.0%**. This result is still lower than recorded by the February survey (7.5%), when expectations were the highest over the past several years.

Usually higher than those of other sectors, short-term inflation expectations of the household sector **remained unchanged from the previous survey, at 20.0%, which is in line with the rate of growth in the prices of energy and some basic foodstuffs that play an important role in the creation of household expectations** (petroleum products 27.8%, meat 23.8%, vegetables 19.9%, oils and fats 19.4%, milk, cheese and eggs 19.0%, bread and cereals 18.9%). **Two-year ahead expectations returned to the level of 10.0% (vs. 12.0% in May), thus almost equalising again with three-year ahead expectations, which have not changed since May 2021.** The range of the perceived and expected inflation indices continues to suggest that households expect inflation in the coming twelve months to be lower than in the previous year.

**In addition to households, other institutional sectors kept their medium-term expectations relative to May. The financial sector did not change its two-year (3.5%) and three-year (4.0%) ahead expectations, and they continued to move within the NBS target tolerance band. Two- and three-year ahead inflation expectations of the corporate sector equalled 5.0% and 4.0%.**

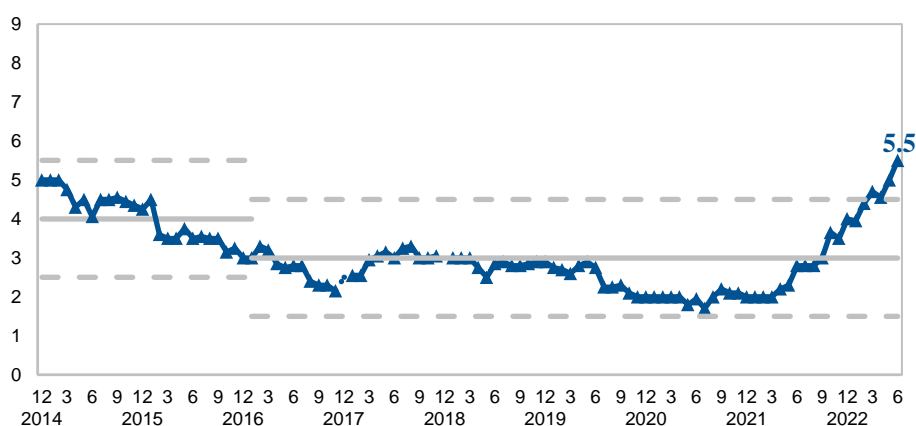
Firmly anchored medium-term inflation expectations of the financial sector are, among other things, a result of exchange rate stability, and one of the prerequisites for achieving low, stable and predictable inflation. The achieved stability of inflation expectations confirms trust in NBS measures.

## Inflation expectations of the financial sector

According to the Ipsos June survey, short-term inflation expectations of the financial sector declined somewhat, from 6.0% in May to 5.9%. The Bloomberg July survey reported a similar level (6.0%). Observing several past surveys – Ipsos from March, Bloomberg from May – we can see that short-term inflation expectations move between 5.0% and 6.0%.

**The June value of the composite measure of inflation expectations of the financial sector<sup>1</sup> is also within the above range, measuring 5.5% (Chart 1).**

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



Sources: NBS, Ipsos, and Bloomberg.

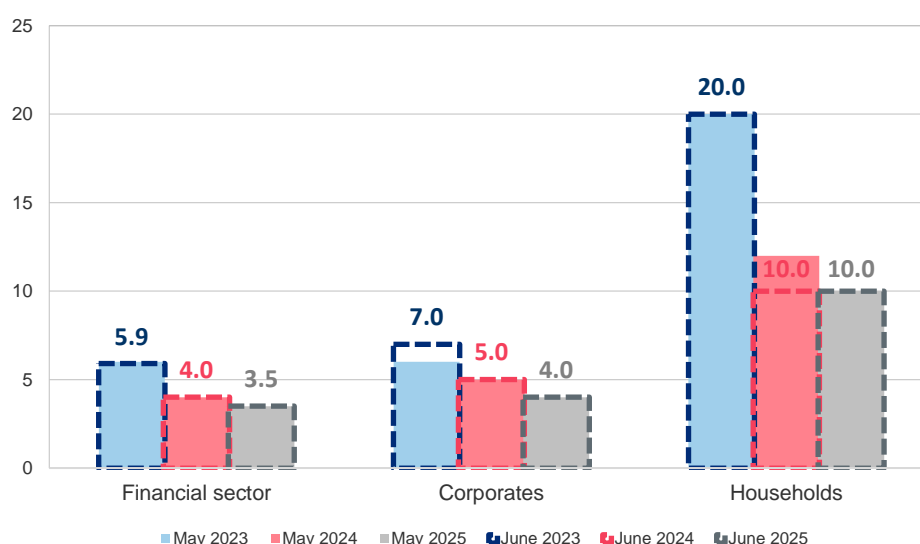
Medium-term inflation expectations of the financial sector stayed at the May levels – at 4.0% for two and 3.5% for three years ahead.

<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.

## Inflation expectations of the corporate sector

Short-term inflation expectations of corporates rose to 7.0% in June (6.0% in May). Over the medium run, corporates expect inflation at the same level as in the previous survey – 5.0% for two years ahead and at 4.0% for three years ahead (Chart 2).

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



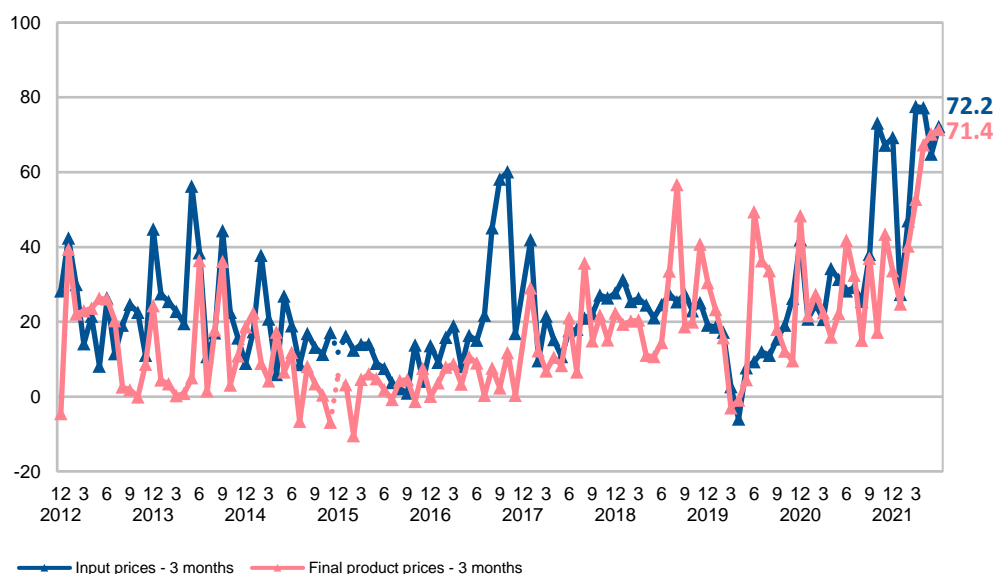
Source: Ipsos/

In case of cost-push pressures on account of input prices, the June survey reports a continued rise in the share of those who expect a rise in prices, both for three (around 75%) and twelve months ahead (around 72%). In the May survey, around 2/3 respondents expected a rise in prices in both periods observed. As for the expected movements in the prices of final products and services in the following three months, the June survey does not note any significant changes compared to May (Chart 3). **The share of those expecting a rise in prices declined significantly for twelve months ahead – from 73% to around 53%, which is the lowest value from July 2020.**

Growing uncertainty caused by the Ukraine conflict and persistent disruptions in global supply chains contributed to the negative perception of corporate business and a rise in the share of those qualifying the conditions as worse in the past three months – from around 56% in the May survey to 61.5% in June.

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

(NP)



\*Above zero indicates growth, and below zero decline.

Source: Ipsos/Ninamedia.

The share of corporates with unfavourable expectations concerning future business conditions stabilised at around 30.0%. In case of movement of own production/turnover, the share of corporates expecting growth for a three-month period – after a short-lived rise in May (39%) – returned close to the multiple-month average before May and equals around 32%. When it comes to the twelve-month period, the share of those expecting a rise in production/turnover moved at around 60% for the third month in a row.

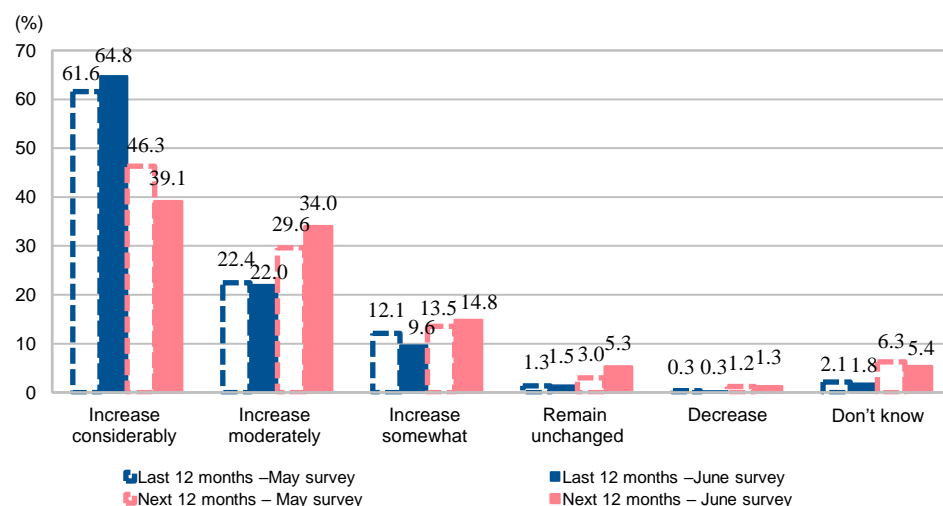
## Inflation expectations of the household sector

### Quantitative and qualitative inflation expectations

One-year ahead inflation expectations of households remained at 20.0%, three-year ahead expectations measured 10.0%, while two-year ahead expectations also equalled 10.0%, after the decline relative to May (12.0%).

As for the distribution of household responses (Chart 4), the percentage of respondents expecting a moderate or mild increase in prices next year rose in the June survey to 49.0% (43.0% in May), thus again getting close to the half of the total number of respondents. At the same time, the share of those anticipating a considerable rise in prices in the following year came close to but below 40%.

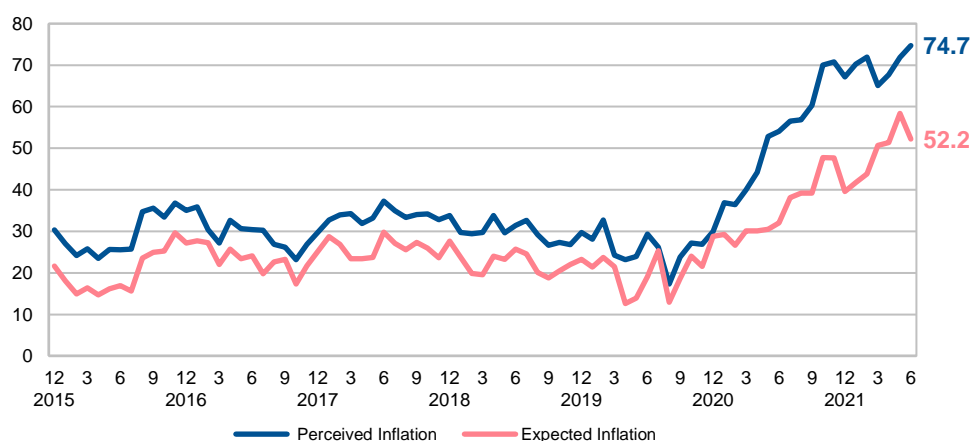
Chart 4 **Distribution of household responses by perceived and expected inflation**



Source: Ipsos.

The range of the perceived and expected inflation indices suggests that households still expect lower inflation in the coming twelve months than in the previous year. Such trend implies that **a part of households perceiving an increase in prices over the past twelve months do not expect the trend to continue over the next twelve months, which means that the household sector expects the easing of inflationary pressures in the coming period.**<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 ([https://www.nbs.rs/export/sites/NBS\\_site/documents-eng/publikacije/oi/izvestaji/inflation\\_report\\_02\\_2022.pdf](https://www.nbs.rs/export/sites/NBS_site/documents-eng/publikacije/oi/izvestaji/inflation_report_02_2022.pdf)).