



NATIONAL BANK OF SERBIA

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

**July 2020**

Belgrade, August 2020

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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. Stable and well-anchored inflation expectations contribute to the greater credibility of the monetary policy framework.

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, and since March 2014, their medium-term, i.e. two-year ahead expectations for y-o-y price growth.

## **Overview**

According to the Ipsos survey, short-term inflation expectations of the financial sector continued moving close to 2.0% and equalled 1.85% in July. After a fall recorded in three consecutive months, one-year ahead inflation expectations of the corporate sector rose to 1.5% in July, returning within the target band. Short-term inflation expectations of trade unions and households were slightly higher in July (2.8% vs. 2.5% in June, and 7.0% vs. 5.0% in June, respectively).

As for medium-term inflation expectations, corporates expect inflation to be at the level of 2.2% in July 2022, while financial sector expectations are slightly lower, at 1.5%. Trade unions expect that in two years inflation will be at 3.0% and households expect it to equal 5.0%.

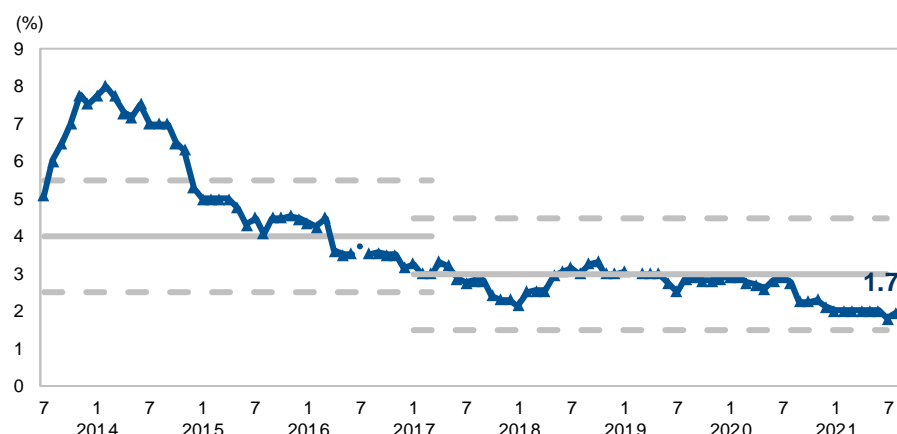
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well-anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

Short-term inflation expectations of the financial sector were negligibly lower in July (1.85%) compared to the previous survey (2.0% in June). According to the Bloomberg's August survey, one-year ahead inflation expectations of the financial sector measured 2.0%, higher compared to the previous survey (1.7%) and at the same level as the current inflation.

The composite measure of inflation expectations of the financial sector<sup>1</sup> declined to 1.7% (1.95% in June).

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



Sources: NBS, Ipsos, and Bloomberg.

**Medium-term inflation expectations of the financial sector remained unchanged - at 2.2% for July 2022.** 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

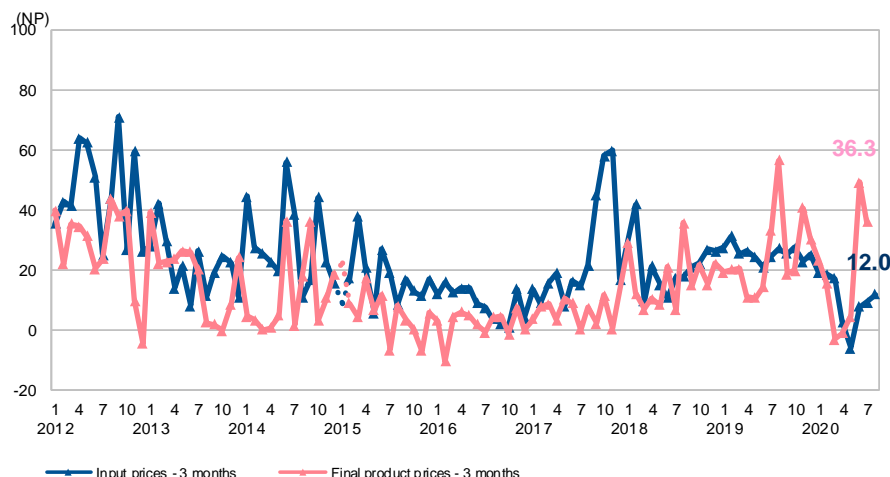
One-year ahead inflation expectations of the corporate sector increased to 1.5% in July from the minimum 1.0% in June. Since the beginning of the year medium-term inflation expectations were stable at the level of 2.0%, only to fall to 1.5% in July - coming to the level of short-term inflation expectations.

<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.

The July survey recorded a drop in the NP of corporates expecting an improvement in business conditions over the next twelve months, though the number of corporates expecting an improvement again exceeded the number of those expecting deterioration. There were no significant changes in corporate expectations concerning other business segments relative to the previous survey. Accordingly, the optimistic attitudes regarding output/turnover, investments and employment were retained.

Around three quarters of corporates did not expect changes in input prices in the coming three months. At the same time, around 40% of the surveyed corporates expected that the prices of their products/services would 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 July survey, one-year ahead inflation expectations of trade unions continued to rise slightly, reaching 2.8% (2.5% in June). Their medium-term inflation expectations returned to 3.0% (2.7% in June).

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

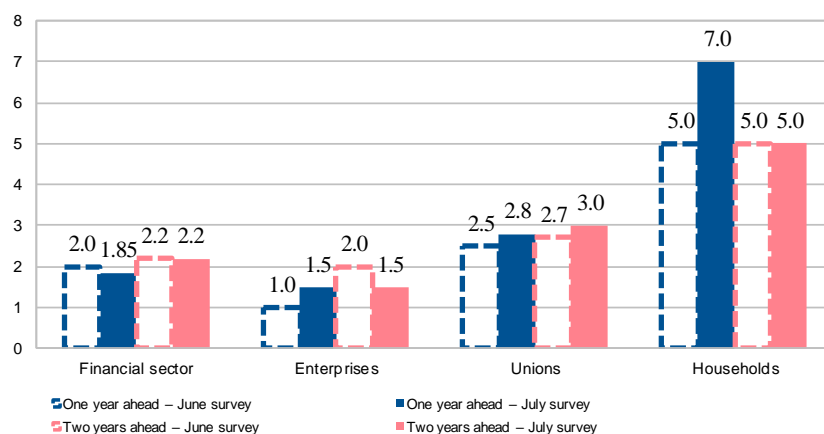
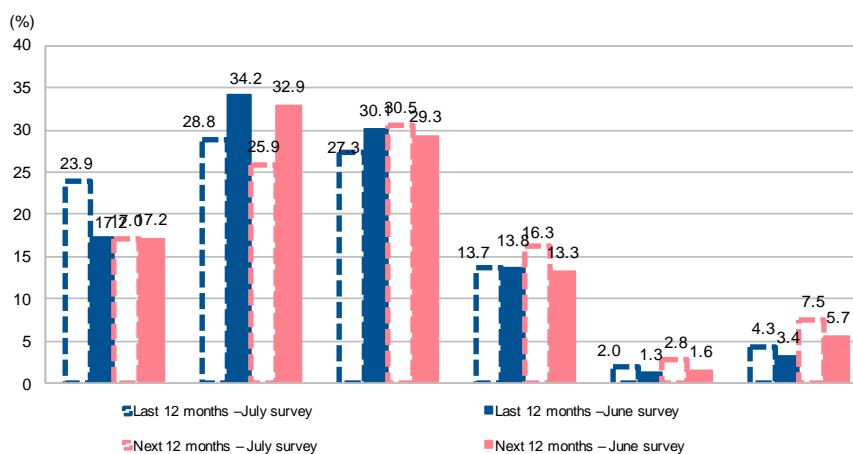


Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

## Inflation expectations of the household sector

### Quantitative and qualitative inflation expectations

According to July Ipsos survey, short-term inflation expectations of households increased to 7.0%, while medium-term inflation expectations remained stable at 5.0%.

Relative to the previous survey, there was an increase in the NP of respondents expecting an increase in food prices, monthly bills, and fuel prices, which is consistent with the quantitative rise in inflation expectations.

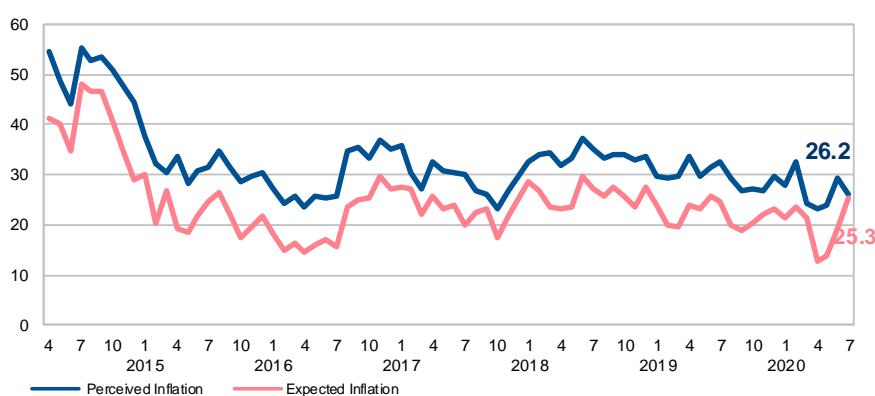
Nevertheless, most respondents (62%) continued to expect the prices to rise moderately or slightly over the next twelve months.

The share of respondents anticipating prices to increase considerably over the next twelve months equalled 17.2% in July, almost unchanged from June.

Such a trend, i.e. the bulk 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 monetary policy goal.

The perceived inflation index was higher than the expected inflation index, indicating that households expected inflation in the coming twelve months to be lower than in the previous year. Such a 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 more detail, 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)).