



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

July 2021

Belgrade, August 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. 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, 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 y-o-y price growth.

Overview

According to the Ipsos July survey, short-term inflation expectations of the financial sector stood at the NBS target midpoint (3.0%), unchanged from the previous survey. Inflation expectations of corporates were somewhat lower, equalling 2.4% in July (vs. 2.0% in June). Inflation expectations of households, which are usually higher than those of other sectors, remained unchanged at 10.0%.

Medium-term expectations (two and three years ahead) of all institutional sectors remained unchanged from June: financial sector - 3.0%, corporates - 2.0% and households - 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.

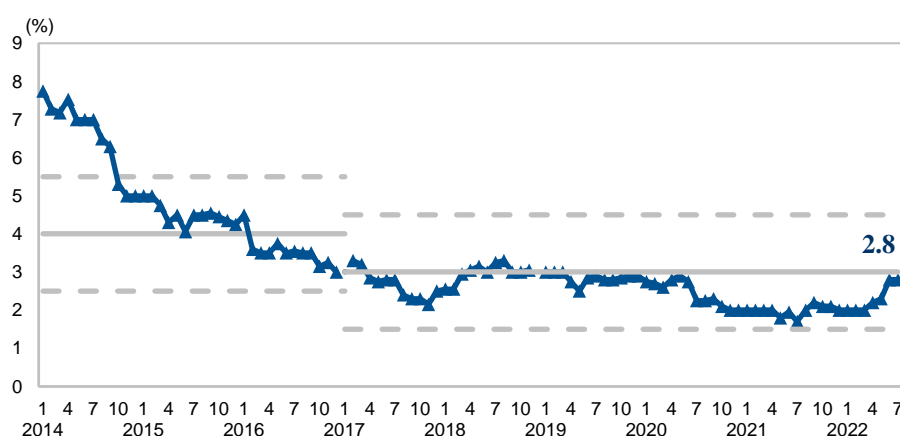
Inflation expectations of the financial sector

According to Ipsos, short-term inflation expectations of the financial sector stood at 3.0% in July, unchanged from the previous survey.

One year-ahead inflation expectations were at a similar level, i.e. close to the midpoint, according to the Bloomberg August survey (2.8%).

The composite measure of inflation expectations of the financial sector¹ stood at 2.8% (unchanged from June).

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



Sources: NBS, Ipsos, and Bloomberg.

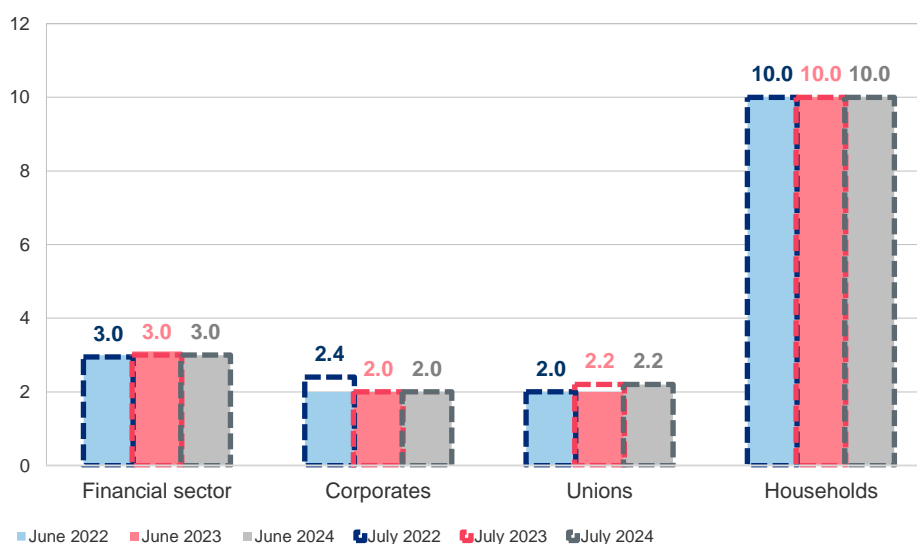
As short-term, medium-term expectations of the financial sector stood at the NBS target midpoint (3.0%). Medium-term inflation expectations of the financial sector have moved within the target tolerance band since the introduction of this survey question in March 2014.

Inflation expectations of the corporate sector

One-year ahead expectations of corporates edged up slightly relative to the previous survey (2.4% compared to the June 2.0%). Medium-term (two- and three-year ahead) expectations remained at 2%.

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.

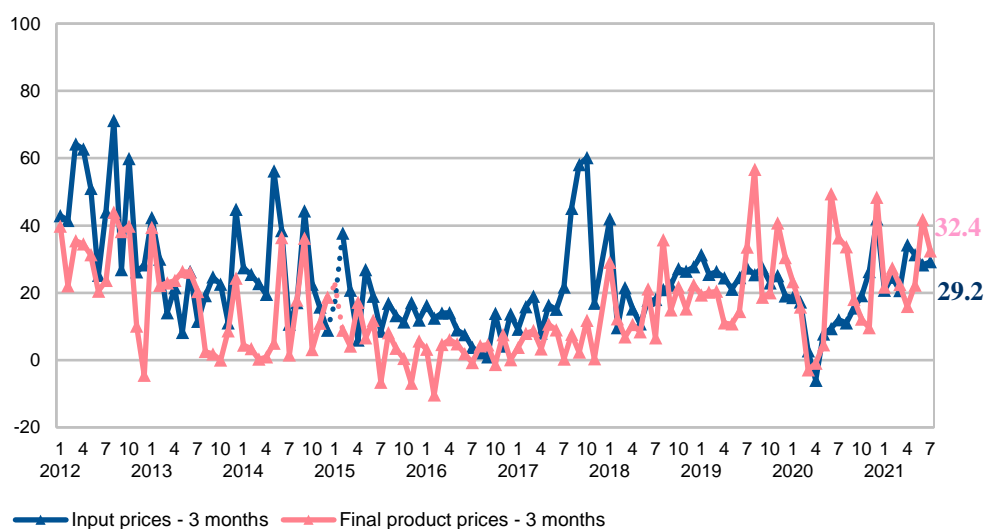
Chart 2 Expected inflation for one, two and three years ahead



Source: Ipsos/

Corporate perception of business conditions in the past three months, as well as their expectation for the next 12 months, was less optimistic in July than in the last survey. However, the perception of output/turnover in the past three months and the expectation for the next 12 months recorded somewhat higher NP compared to the previous survey.

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.

The July survey recorded almost unchanged composition of corporate responses concerning the prices of inputs in the coming three months, which might be indicative of the stabilisation of cost-push pressures. Around 70% of respondents do not expect a change in the price of inputs over the next three months. On the other hand, after three months, a decline was recorded in the share of respondents expecting the prices of their own final products and services to rise over the next three and twelve months.

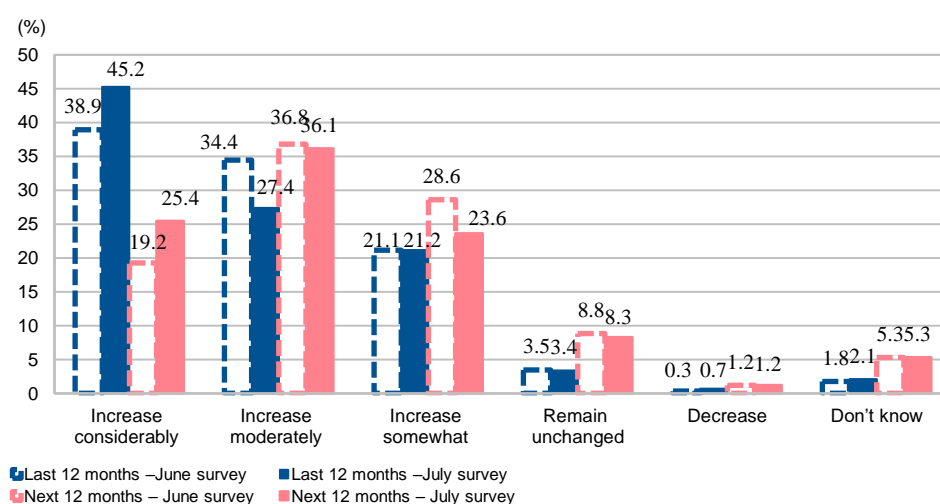
Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

Short-term inflation expectations of the household sector remained unchanged relative to a month earlier (at 10%), as did the medium-term expectations.

Most respondents (around 60%) continue to expect the prices to rise moderately or slightly over the next twelve months.

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

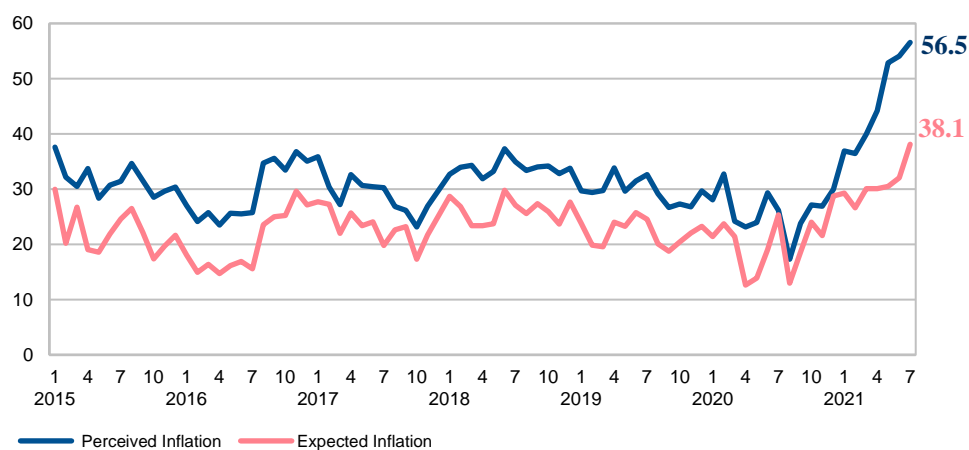


Such trends, i.e. the majority of respondents expecting prices to increase moderately and somewhat over the next twelve months – reflect a predictable and stable economic environment, which facilitates the achievement of the main medium-term goal of monetary policy.

The perceived inflation index was higher than the expected inflation index, 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, indicating that the household sector, too, assesses the current rise in inflation as temporary.²

Chart 5 Perceived and expected inflation of households
(in index points)



Sources: Ipsos and NBS calculation.

² 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).