



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

July 2022

Belgrade, August 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 July Ipsos and August Bloomberg surveys, one-year ahead inflation expectations of financial sector representatives equalled 6.0%. They remained stable, moving around 6.0% for the third month in a row.

One-year ahead inflation expectations of the corporate sector stayed unchanged relative to June, and measured 7.0%, which is lower than the result recorded by the February survey (7.5%), when expectations were the highest in 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 some basic foodstuffs that play an important role in the creation of household expectations** (meat 25.6%, milk, cheese and eggs 21.7%, bread and cereals 20.5%, oils and fats 20.4%, vegetables 18.8%). **Medium-term expectations of the household sector did not record any changes from the previous survey and equalled 10.0% for both two and three years ahead.** The range of the perceived and expected inflation indices still suggests that households expect inflation in the coming twelve months to be lower than in the previous year.

In addition to households, the financial sector kept their medium-term expectations unchanged relative to June, at 4.0% for two years and 3.5% for three years ahead. On the other hand, three-year ahead inflation expectations of corporates increased from 4.0% in June to 5.0% in July. They are now identical with the two-year ahead expectations.

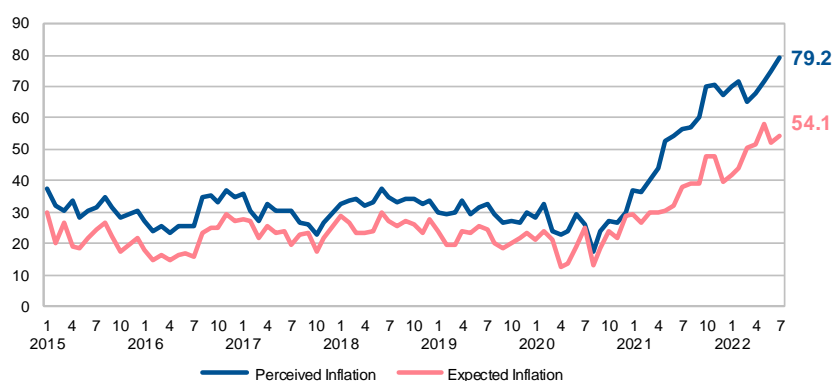
Firmly anchored medium-term inflation expectations of the financial sector are, among other things, a result of exchange rate stability, and one of the prerequisites for achieving low, stable and predictable inflation. The achieved stability of inflation expectations confirms trust in NBS measures.

Inflation expectations of the financial sector

According to the Ipsos July survey results, short-term inflation expectations of the financial sector increased mildly, and instead of 5.9% in June, they now stand at 6.0%. Observing several past surveys— Ipsos from March and Bloomberg from May –short-term inflation expectations range between 5.0% and 6.0%.

The July value of the composite measure of inflation expectations of the financial sector¹ is also within the above range, measuring 5.75% (Chart 1).

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



Sources: Ipsos and NBS calculation.

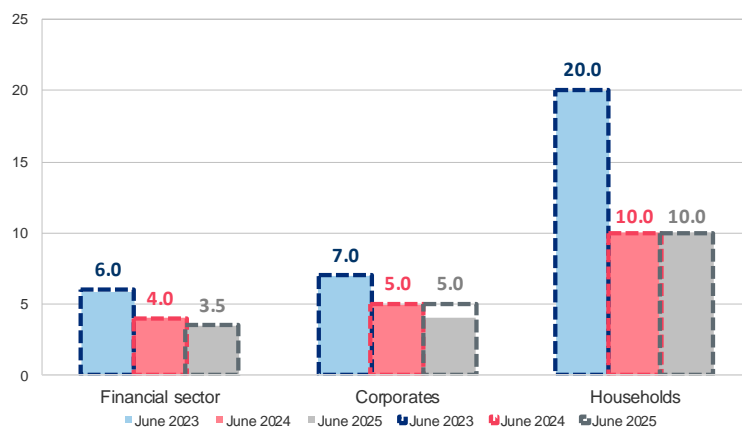
Medium-term inflation expectations of the financial sector stayed at the June levels – at 4.0% for two and 3.5% for three years ahead. These results indicate that **medium-term inflation expectations of the financial sector continued to move within the NBS target tolerance band.**

Inflation expectations of the corporate sector

Short-term inflation expectations of corporate representatives did not change in July relative to the June results, when they stood at 7.0%. Over the medium run, corporates expect inflation at 5.0% for both two and three years ahead (Chart 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.

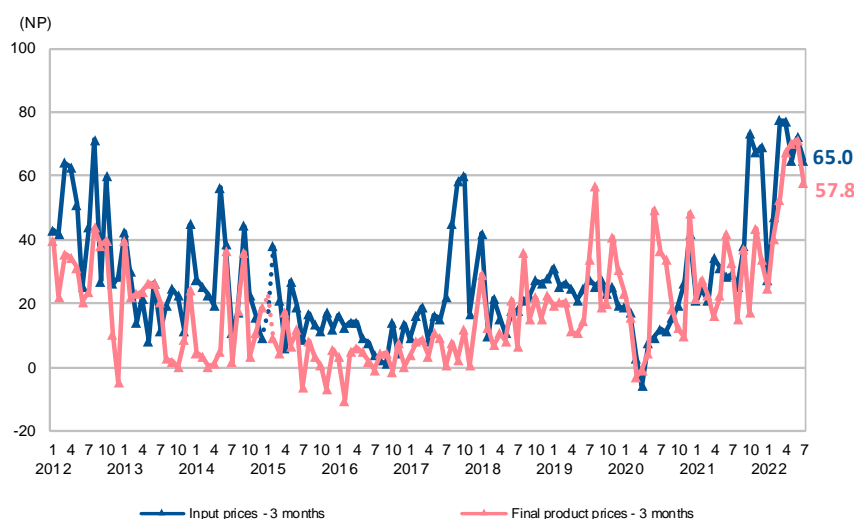
Chart 2 Expected inflation for one, two and three years ahead



Source: Ipsos/

Corporates expect some easing of the cost-push pressures on account of input prices, mainly in the short run. The share of those expecting a rise in prices declined for three months ahead – from around 75% in June to around 67% in July, while around 68% of respondents expect prices to rise over the next twelve months (around 72% in June). These results are similar to the May surveys results. As for the expected movements in the prices of final products and services, various trends have been observed. The share of corporates expecting their rise in the short run equalled around 60% (74% in the June survey), which is the lowest value from April (Chart 3). **The share of those expecting a rise in prices in the next twelve months – after dropping in June – increased from 53% to around 79%.**

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.

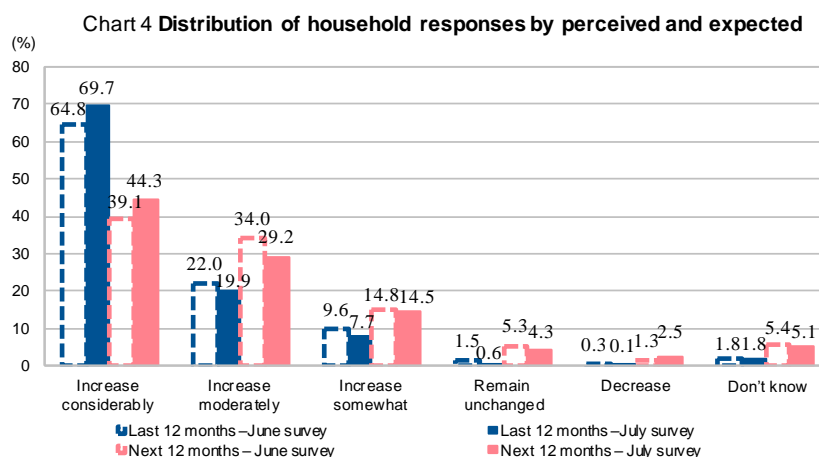
Growing uncertainty caused by the Ukraine conflict and persistent disruptions in global supply chains contributed to similar trends regarding corporate perception of business conditions. Hence, in July 60% of respondents qualified the conditions as worse in the past three months. This result is in line with the average value recorded in the period April–June.

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 continued to move within 30–40% range since February and equalled around 35%. When it comes to the twelve-month period, the share of those expecting a rise in production/turnover increased from around 61% to almost 70%.

Inflation expectations of the household sector

One-year ahead inflation expectations of households remained at 20.0%, while two- and three-year ahead expectations equalled 10.0%.

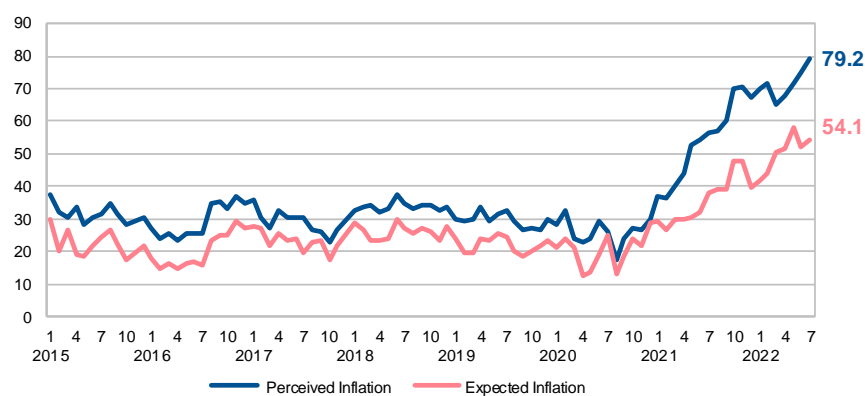
As for the distribution of household responses (Chart 4), the percentage of respondents expecting a moderate or mild increase in prices next year returned to the May level and equalled 43.7% in July (48.8% in June). At the same time, the share of those anticipating a considerable rise in prices rose from 39% in June to 44% in July.



The range of the perceived and expected inflation indices (Chart 5) 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 also expects the easing of inflationary pressures in the coming period.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.
(https://www.nbs.rs/export/sites/NBS_site/documents/publikacije/loi/izvestaji/loi_02_2016.pdf).