



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

July 2023

Belgrade, August 2023

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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.

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 conducted by the Ipsos agency 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, since March 2014, their medium-term, i.e. two-year ahead expectations, and since February 2021 three-year ahead expectations for y-o-y price growth.

Overview

According to the July Ipsos survey **short-term inflation expectations of the financial sector declined from 8.0% in June to the current 7.0%**. The latest, August Bloomberg survey recorded a similar value of inflation expectations (6.9%) while the **composite measure of inflation expectations**¹ further dropped, to 6.5%, indicating that our largest financial institutions expect somewhat lower inflation than the rest of the financial sector.

Short-term corporate expectations (one-year ahead) continued decreasing for the second consecutive survey to 9.2% in July (9.8% in June), this time with somewhat greater intensity.

Medium-term inflation expectations of the financial sector did not change significantly, bearing in mind that inflation expectations for **two years ahead** were the same (5.0%) and were at that same level almost throughout the year, while **three-year ahead** expectations ranged between 3.6% and 4.0% with mild oscillations since the beginning of the year. Corporate medium-term expectations were reduced, for two years ahead from 6.8% in June to 6.2% in July, and for three years from 5.0% to 4.8%.

Usually higher than those of other sectors, **short-term household inflation expectations were unchanged** from the June survey, at 15.0%.

Two- and three-year ahead household inflation expectations stood at 10.0%, also unchanged from June. A wide gap between expected and perceived inflation indices **indicates that a bulk of surveyed households anticipate lower inflation in the coming twelve months compared to the previous year**.

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.

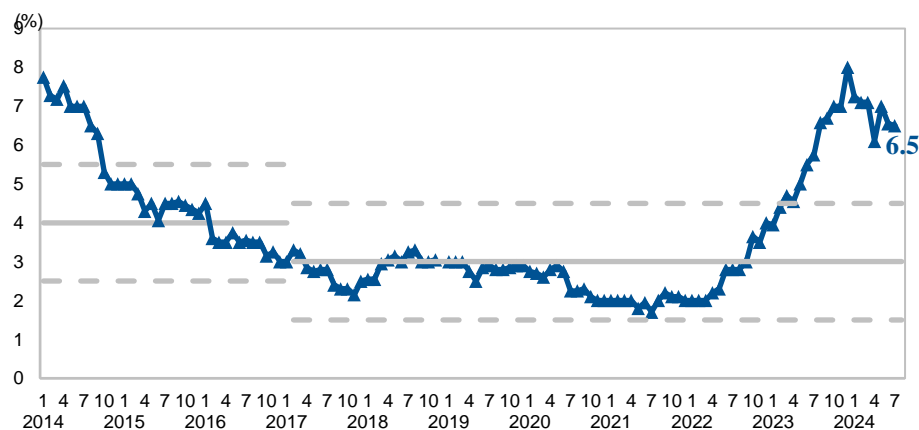
Inflation expectations of the financial sector

According to the **July Ipsos survey**, **short-term inflation expectations of the financial sector declined from 8.0% in June, to 7.0% in July**. A more detailed analysis of the structure of individual responses also indicates that expectations of the largest banks are below the median value of 7.0%. Such structure of responses contributed to the lower **composite measure of financial sector expectations (6.5%)** (Chart 1) compared to the Ipsos survey.

The latest, August **Bloomberg** survey reported expectations at the level of 6.9% confirming that they trended at around 7% for the third month in a row.

Medium-term financial sector expectations did not change in **July** from the previous survey, at 5%, while three-year ahead expectations were within **NBS target tolerance band**, at 3.8% (3.7% in June).

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

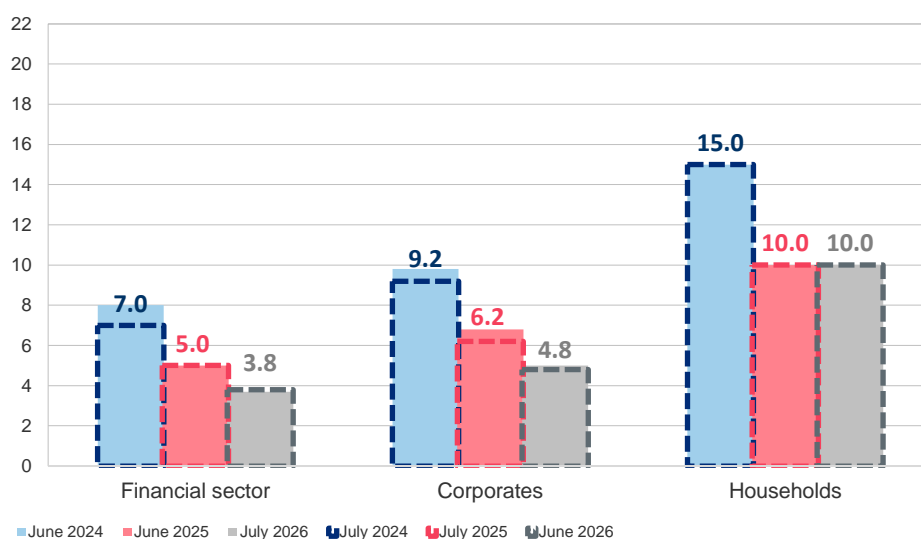


Sources: NBS, Ipsos, and Bloomberg.

Inflation expectations of the corporate sector

In the July survey **one-year ahead** expectations dropped from 9.8% in June to 9.2% and **two-year ahead** expectations from 6.8% in June to 6.2%, while **three-year** ahead expectations also declined after eight months, from 5.0% in June to 4.8% in July (Chart 2).

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



Source: Ipsos.

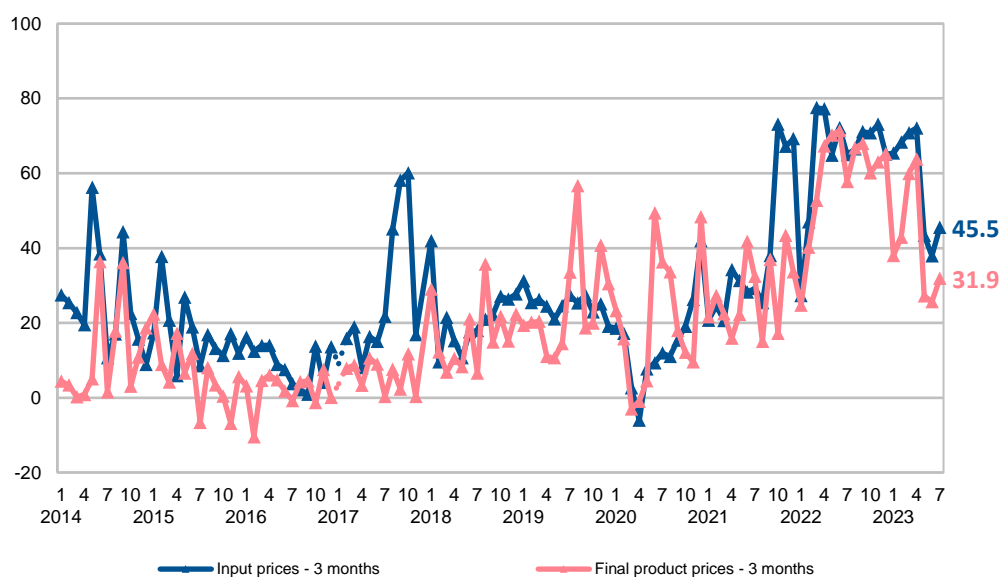
The July survey saw a rise in the share of those expecting the **prices of their inputs to increase over the short run** from 47% in June to around 58% (Chart 3). What needs to be stressed, though, is that in the May-July period, this share (around 55%) was, on average, considerably below the average recorded in the first four months of 2023 (around 70%). On the other hand, in the **long run** (next twelve months), the share of those anticipating a rise in their input prices **continued to go down** from 49% to 45%.

The percentage of corporates expecting an increase in the **prices of their own products/services for both periods did not change significantly in the previous three months**, with around a third of respondents expecting a rise in the prices of their products/services in the **coming three months** and around 70% of those who expect the rise in the **next twelve months**.

The dominant **corporate perception of business conditions** is that they did not change in the previous three months (86% of respondent are of this opinion), which is valid also for **expectation of future conditions** (63% of respondents are of this opinion), with a recorded decline in the percentage of those with negative expectations concerning the future business conditions from around 20% in June to 11% in July.

Expectations of **trends in output/turnover** in the coming period show a mild increase in those anticipating the **growth in output/turnover in the next three months**, from 38% in June to 43%, with a half of respondents expecting no changes in this period. The share of those anticipating the growth in output/turnover in the **next twelve months** continued trending at around 50% while around 10% of respondents expected a decline.

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



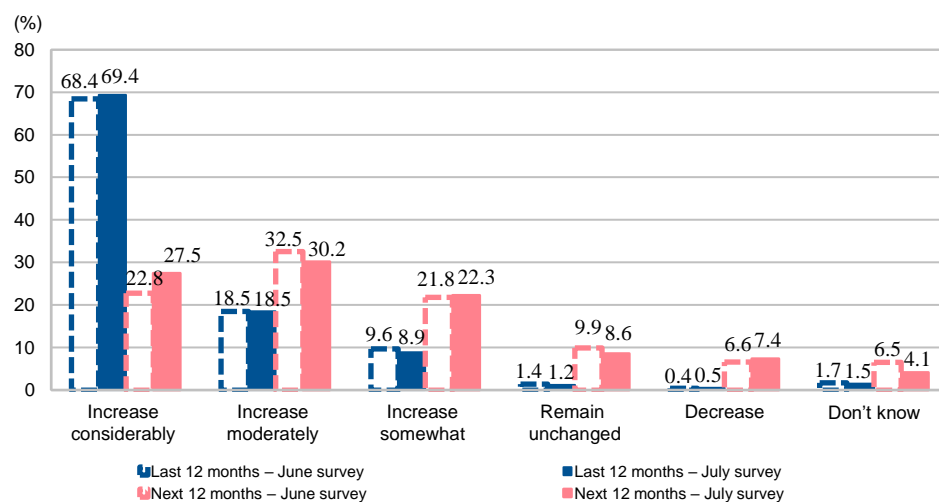
*Above zero indicates growth, and below zero decline.

Source: Ipsos/Ninamedia.

Inflation expectations of the household sector

Short-term household inflation expectations stayed unchanged in July from the June 15.0%. **Medium-term household expectations** stood at 10.0% for both periods (**two and three years ahead**) and did not change from the June survey.

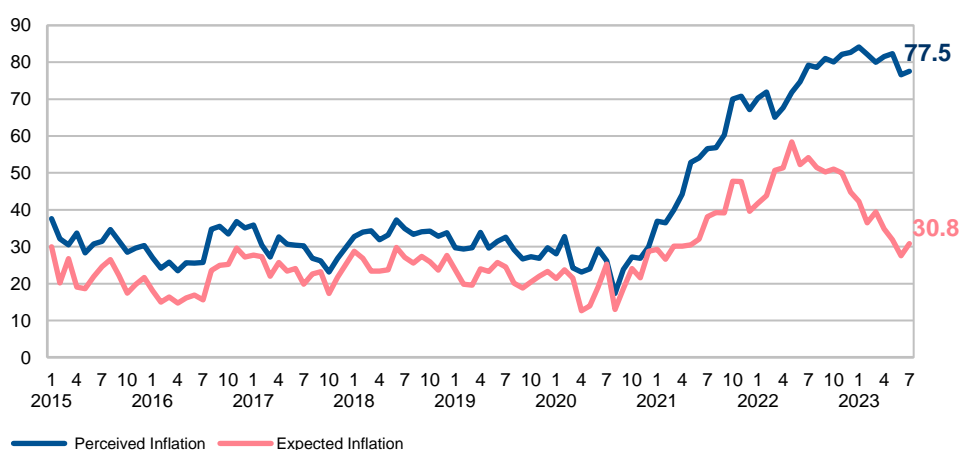
Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

The analysis of **qualitative responses** did not reveal any major changes from June and close to 70% of respondents still **perceive** that prices **rose considerably** in the past year, while the share of those expecting a **considerable price rise** in the coming year increased mildly, from around 23% in June to around 27% in July, but still **more than a half of respondents anticipate their moderate or mild growth** (Chart 4).

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



Sources: Ipsos and NBS calculation.

A wide gap between expected and perceived inflation indices (Chart 5) indicates that **a bulk of surveyed households anticipate lower inflation in the coming twelve months compared to the previous year.**²

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-eng/publikacije/loi/izvestaji/inflation_report_02_2016.pdf