



NATIONAL BANK OF SERBIA

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

**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.

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

Short-term inflation expectations of the financial sector continued to hover around the present level, i.e. close to 2.0%. According to the results of the Ipsos survey, they edged up slightly in August relative to the previous survey, and stood at 2.1%. One-year ahead inflation expectations of corporates and trade unions remained unchanged (1.5% and 2.8% respectively), while those of households returned to 5.0%, after a temporary rise in July.

In August 2022, the financial sector expects medium-term inflation to be 2.4% and corporates expect it at a slightly lower level of 1.5%. Representatives of trade unions expect inflation to be at 3.25% for two year ahead and households at 4.0%. For the first time since November 2016, households expect inflation to be within the target band for two years ahead.

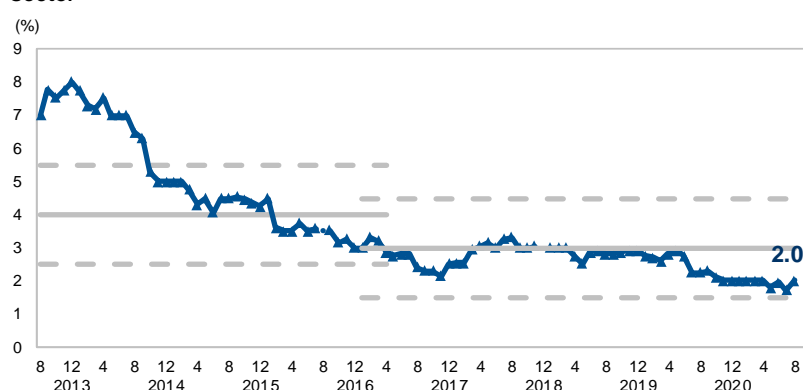
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

The results of both Ipsos August and Bloomberg September surveys indicate a mild rise in short-term inflation expectations of the financial sector. According to the results of the Ipsos survey, short-term inflation expectations of the financial sector stood at 2.1% in August (1.85% in July). According to the results of the Bloomberg's September survey, one-year ahead inflation expectations of the financial sector measured 2.3% (2.0% in August).

The composite measure of inflation expectations of the financial sector<sup>1</sup> returned to 2.0% (1.7% in July).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

**Medium-term inflation expectations of the financial sector edged up negligibly. In August 2022, the financial sector expects inflation to be at 2.4% (2.2% in July).** 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

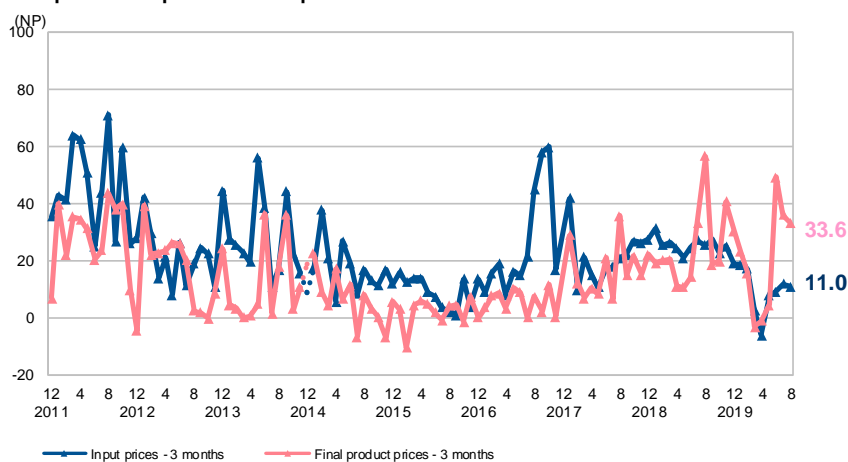
One-year and two-year ahead inflation expectations of the corporates measured 1.5%, unchanged relative to the July survey.

One-year ahead inflation expectations of the corporates were more optimistic relative to the previous survey, judging by all key business parameters – improvement in business conditions, an increase in production/trade, higher employment and greater fixed investments.

<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.

Almost 85% of corporates did not expect changes in the input prices over the next three months, while 2/3 of surveyed corporates did not expect an increase in the prices of their products/services over the same observed period.

**Chart 2 Expectations of the corporate sector regarding movements in the prices of inputs and final products in the next three months**

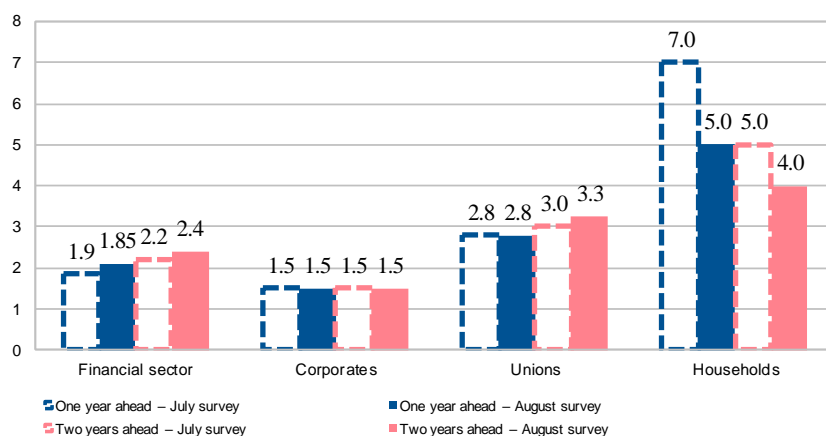


\*Above zero indicates growth, and below zero decline.  
Source: Ipsos/Ninamedia.

## Inflation expectations of trade unions

According to the results of the August survey, one-year ahead inflation expectations of trade unions remained unchanged at 2.8%, while medium-term expectations rose from 3.0% in July to 3.25% in August.

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



## Inflation expectations of the household sector

### Quantitative and qualitative inflation expectations

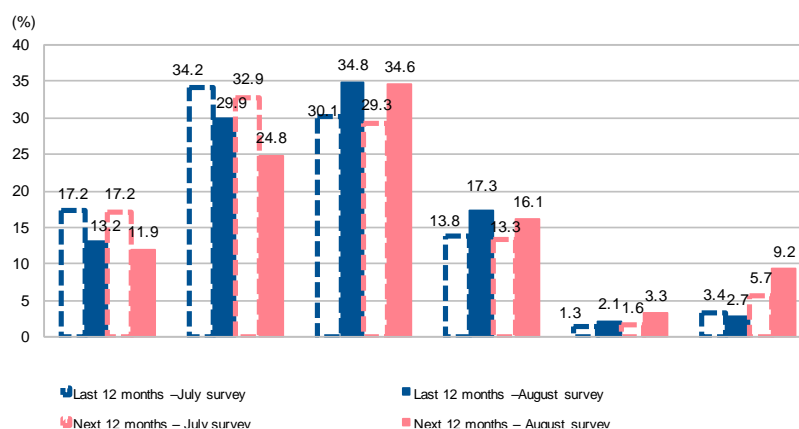
After a temporary rise in July (7.0%), the August survey recorded a return of household inflation expectations to 5.0%. For the first time since November 2016, two-year ahead inflation expectations stood within the target band at 4% (they measured 5.0% continuously since December 2018).

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

Nevertheless, most respondents (around 60%) 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 12.0% in August, down from the July survey (17.1%).

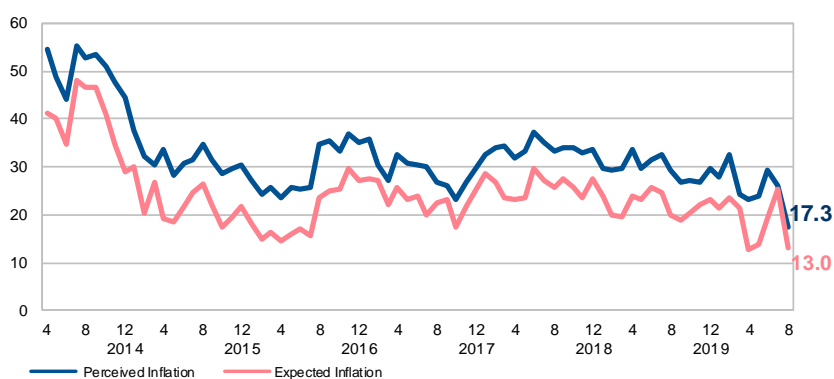
Chart 4 Distribution of household responses by perceived and expected inflation



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 expect 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 details, 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)).