



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

October 2021

Belgrade, November 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 October survey, short-term inflation expectations of the financial sector increased from 3.0% in June to 4.0% in September. This increase is somewhat expected, given the rising current inflation, with anchored inflation expectations for two and three years ahead indicating that the financial sector still perceives the current higher inflation as temporary. Inflation expectations of corporates were unchanged from September and stood at the NBS target midpoint.

Inflation expectations of households, which are usually higher than those of other sectors, remained unchanged at 10.0%. 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.

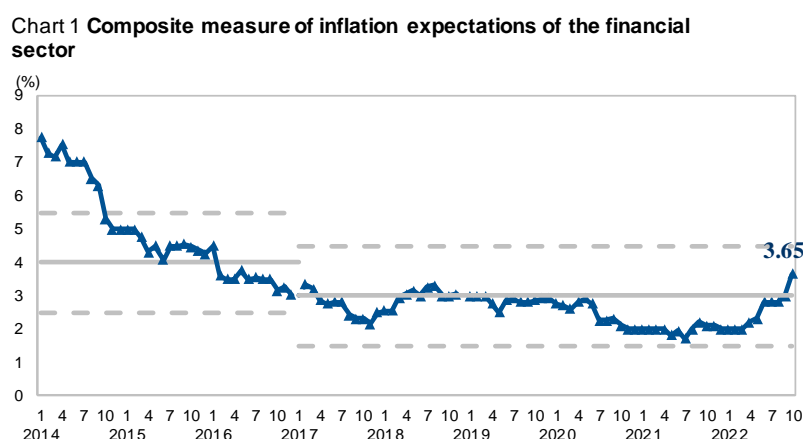
Medium-term expectations (two and three years ahead) of the financial sector continued to linger around 3.0%. Corporates expect two-year ahead inflation to be 2.5% and three-year ahead inflation to be somewhat lower at 2.0%, unchanged relative to the previous survey. Medium-term inflation expectations of households also stayed unchanged at 10.0% in October.

Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations 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 the October Ipsos and November Bloomberg surveys, short-term inflation expectations of the financial sector increased relative to the previous surveys and stood at 4.0% (Ipsos) and 3.5% (Bloomberg).

The composite measure of inflation expectations of the financial sector¹ stood at 3.65% in October, which is also higher compared to September (3.0%).



Medium-term expectations of the financial sector continued to hover around the 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.

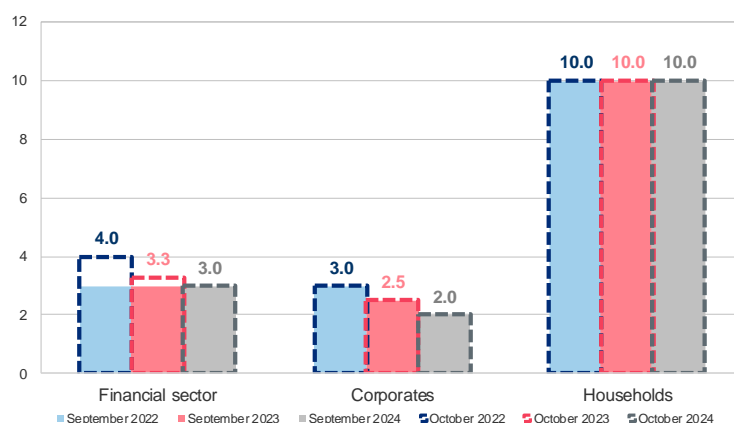
The stable movement of medium-term inflation expectations of the financial sector amid rising current inflation might indicate that they assess that the ongoing inflationary pressures are temporary.

Inflation expectations of the corporate sector

Short- and medium-term expectations of corporates remained unchanged relative to the previous survey. Corporates expect that inflation will be at the target midpoint of 3.0% next October, while medium-term expectations, for two and three years ahead, were lower at 2.5% and 2.0%, respectively.

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



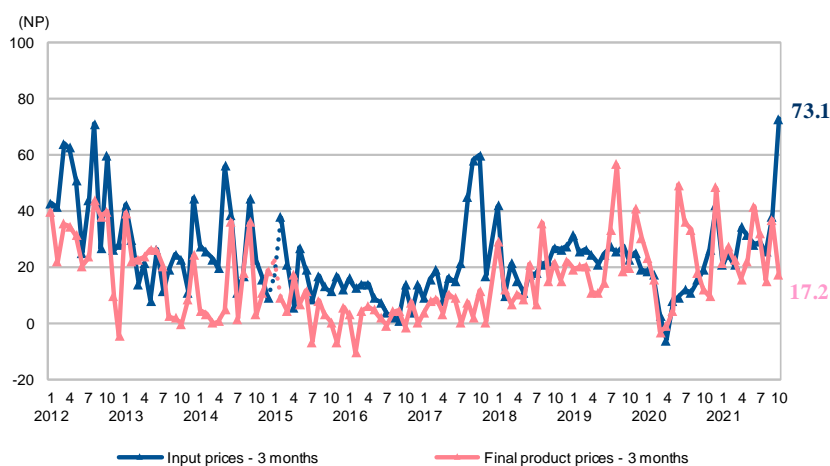
Source: Ipsos/

The corporate perception of business conditions in the past three months, as well as their expectation for the next twelve months, was less optimistic than in the last survey. On the other hand, more optimistic was the perception of output/turnover in the next three and twelve months.

Diverging trends are also recorded when it comes to price expectations.

The October survey recorded a further increase in the share of corporates expecting the prices of inputs to rise over the next three months (73%), and over the next twelve months (82%). In contrast, the survey recorded a decrease in the share of corporates expecting the prices of their own final products and services to rise over the next three, as well as over the next twelve months.

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



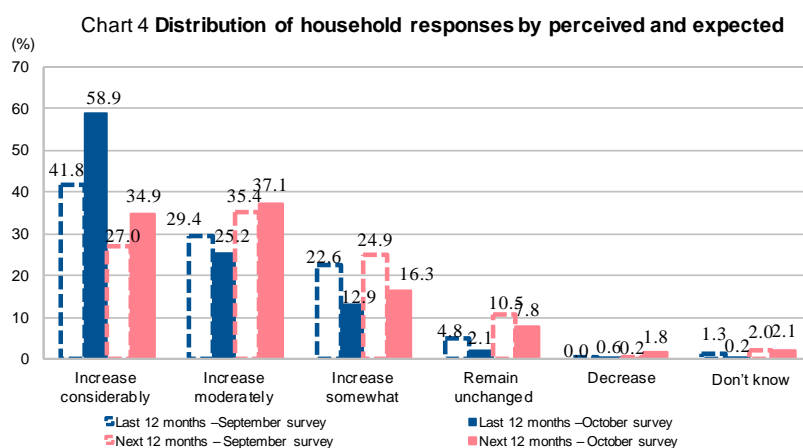
*Above zero indicates growth, and below zero decline.

Source: Ipsos/Ninamedia.

Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

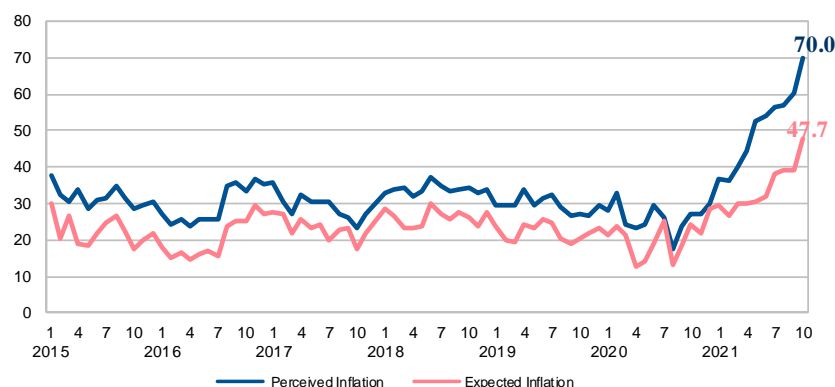
Short-term inflation expectations of the household sector remained unchanged relative to a month earlier (10.0%), as did the medium-term expectations.



Most respondents (around 53%) continue to expect the prices to rise moderately or somewhat over the next twelve months.

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.

Chart 5 Perceived and expected inflation of households



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 households also assess the current rise in inflation as temporary.**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://nbs.rs/export/sites/NBS_site/documents-eng/publikacije/loi/izvestaji/inflation_report_02_2016.pdf).