



NATIONAL BANK OF SERBIA

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

November 2021

Belgrade, December 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 November survey, despite the higher current inflation, short-term inflation expectations of the financial sector were unchanged (4.0%) from the previous survey. Inflation expectations of corporates were at the same level (4.0%). Such survey results indicate that both the financial and the corporate sector perceive the current higher inflation as temporary, which corresponds to the assessment of the NBS, as well as of most leading central banks in the world.

After standing at 10% almost since the beginning of the year, household expectations, which are traditionally higher than those of other sectors, went up to 15.0%, probably under the impact of the current hikes in the prices of food and energy. On the other hand, the range of the perceived inflation index and the expected inflation index still indicate that households anticipate that inflation will be lower in the coming twelve months than in the previous twelve months.

Financial sector medium-term expectations (two- and three-year ahead) continue to move at around 3.0%. Two-year ahead inflation expectations of corporates stood at 3.0%, while three-year ahead expectations were somewhat lower, at 2.5%, both climbing by 0.5 pp compared to the previous survey. Medium-term inflation expectations of households remained unchanged (10.0%) in November.

Firmly anchored inflation expectations reflecting, *inter alia*, exchange rate stability 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 any major inflationary and disinflationary pressures.

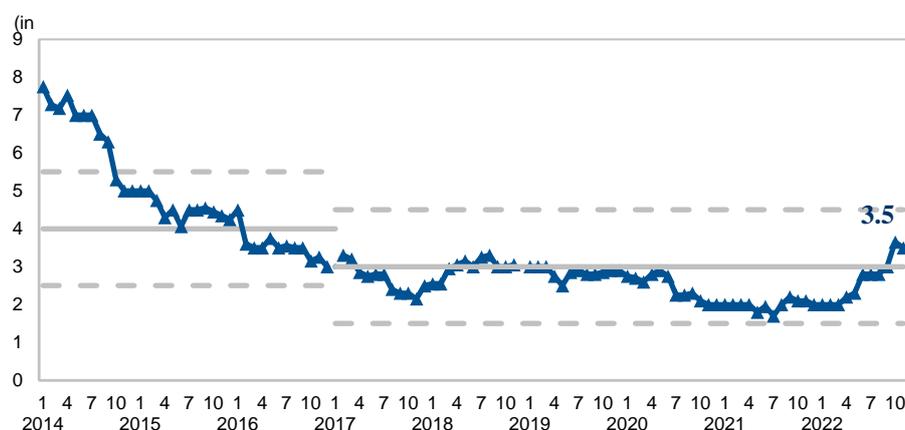
Inflation expectations of the financial sector

According to both Ipsos and Bloomberg surveys, short-term inflation expectations of the financial sector stood at around 4.0% (Ipsos November: 4%, Bloomberg December: 3.8%).

The composite measure of inflation expectations of the financial sector¹ stood at 3.5% in November (due to somewhat lower expectations stated in the Bloomberg November survey).

Medium-term expectations of the financial sector stood at 3.0%, and have been at that level since June, with minimum changes. 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.

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

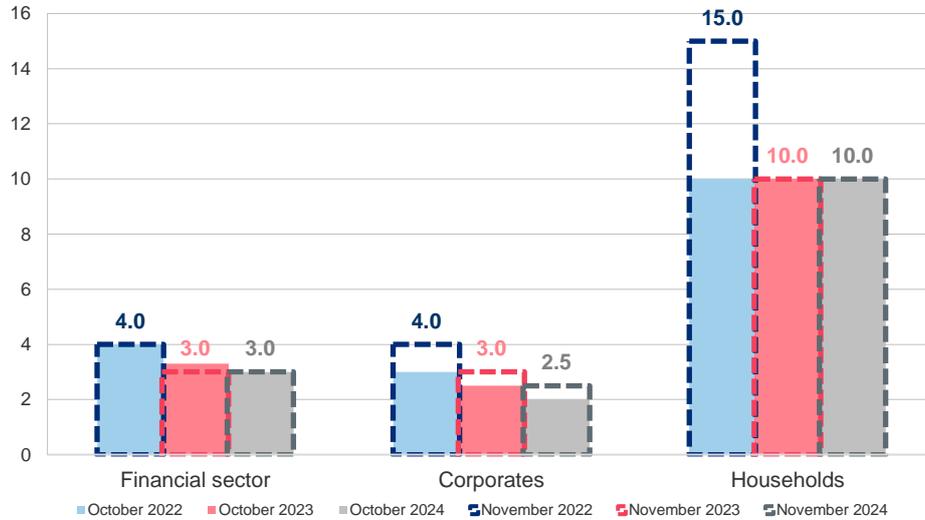
Stable medium-term expectations of financial sector representatives amid rising current inflation indicate that they perceive the ongoing inflationary pressures as temporary.

Inflation expectations of the corporate sector

Short- and medium-term inflation expectations of corporates rose from the previous survey but are still within the target tolerance band. For November next year, corporates expect 4% inflation (September–October 3.0%), while their medium-term expectations (two- and three-year ahead) range between 2.5% and 3.0%.

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

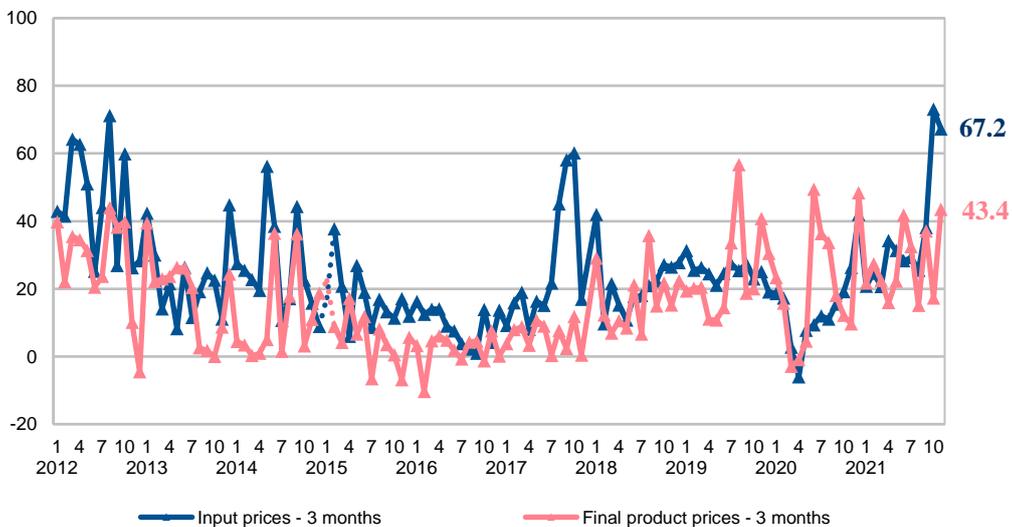


Source: Ipsos.

Corporate perception of business conditions in the past three months as well as of the expected production/turnover for both observed periods (three and twelve months ahead) was somewhat less optimistic compared to the last survey. On the other hand, a slight rise in optimism was recorded for expected business conditions in the coming twelve months.

Around 2/3 of respondents anticipated a rise in the prices of inputs in their production both for three and twelve months ahead.

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.
Sources: Ipsos/Ninamedia.

On the other hand, an increase in the share of respondents expecting the prices of their products/services to go up both for three and twelve months ahead was recorded.

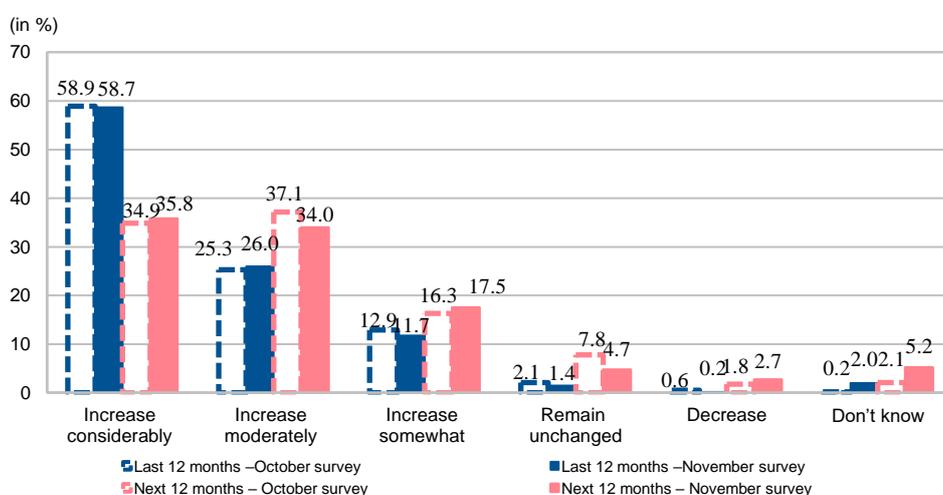
Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

Having stood at 10.0% since February, short-term inflation expectations of households went up to 15.0% in November, most probably under the influence of the current hikes in the prices of food and energy.

Most respondents (around 52%) continue to expect the prices to rise moderately or somewhat over the next twelve months.

Chart 4 Distribution of household responses by perceived and expected inflation

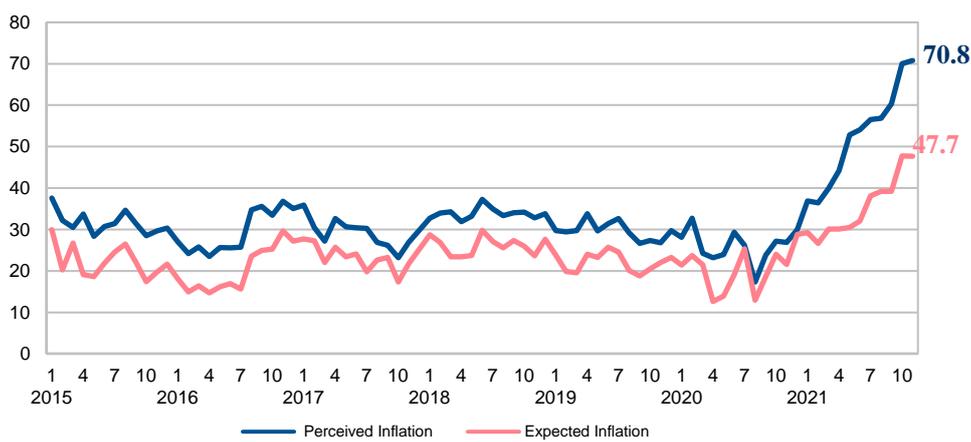


Source: Ipsos.

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*. (https://www.nbs.rs/export/sites/NBS_site/documents-eng/publikacije/loi/izvestaji/inflation_report_02_2016.pdf).