



**NATIONAL BANK OF SERBIA**

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

**December 2021**

Belgrade, January 2022

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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 December Ipsos survey, under the impact of higher current inflation, short-term inflation expectations of financial sector representatives increased from 4.0% in October and November to 4.5% in December. Based on the Bloomberg survey, financial sector expectations for January next year are lower and equal 3.5%.

As suggested by the Ipsos survey, having risen to 6.0%, corporate expectations are under the impact of uncertainty concerning electricity prices, which prevailed at the time of the survey. The increase in quantitative expectations of the corporate sector may be associated with estimates that price pressures will increase, both in terms of the prices of inputs and prices of own final products/services.

In contrast, after a one-off rise to 15.0% in November, household expectations returned to 10.0% in December, probably under the influence of the Decision on Capping the Prices of Basic Foods. The range of the perceived and expected inflation indices still suggests that households expect one-year ahead inflation to trend lower than inflation in the past year.

Medium-term (two and three years ahead) expectations responded to a lesser extent to the current inflation hike and are lower than short-term expectations. According to the December survey, medium-term financial and corporate sector expectations moved between 3.0% and 4.0%, while household expectations remained unchanged from November and equalled 10.0%.

Such survey results suggest that both the financial and corporate sectors perceive currently higher inflation as temporary, which is also the estimate of the NBS and most leading central banks in the world.

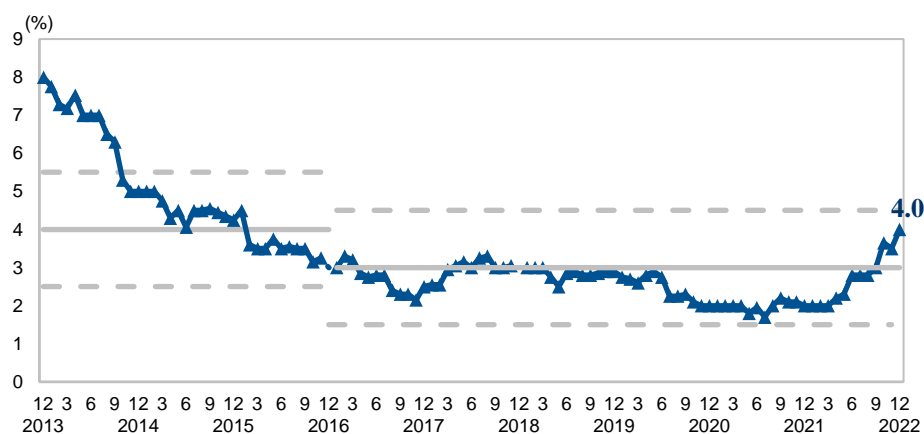
Firmly anchored inflation expectations reflecting, among other things, exchange rate stability, are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well-anchored confirms the credibility of NBS measures and indicates the absence of any major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

According to the December Ipsos survey, short-term financial sector expectations stand at 4.5% and are somewhat higher compared to November and October, when they equalled 4.0%. Under the Bloomberg survey, inflation expectations are lower, ranging between 3.5% and 3.8% in the last three surveys. They equalled 3.5% in the January survey.

The December value of the composite measure of financial sector expectations<sup>1</sup> continued to move within the NBS target tolerance band, measuring 4.0%.

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

**Medium-term financial sector expectations equal 3.5% – two-year ahead, and 3.0% – three-year ahead. The latter are at the NBS target midpoint and are unchanged from June.** Since this question was introduced into the survey (March 2014), medium-term financial sector expectations have been moving within the target band.

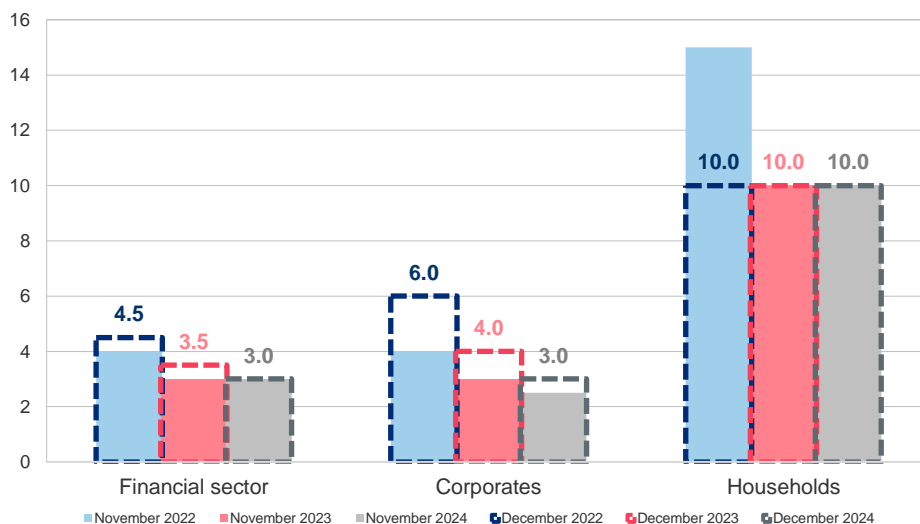
**Stable movement of medium-term inflation expectations of financial sector representatives against the background of rising current inflation suggests they assess the character of current inflationary pressures as temporary.**

<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.

## Inflation expectations of the corporate sector

Short- and medium-term corporate expectations increased compared to the previous survey. Short-term expectations stand at 6.0%, while two- and three-year ahead expectations are lower – they remain within the target band, ranging between 3.0% and 4.0%. Elevated expectations can be associated with uncertainty surrounding energy prices (electricity, natural gas) and estimates that price pressures will increase – both the prices of inputs and prices of own final products and services.

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

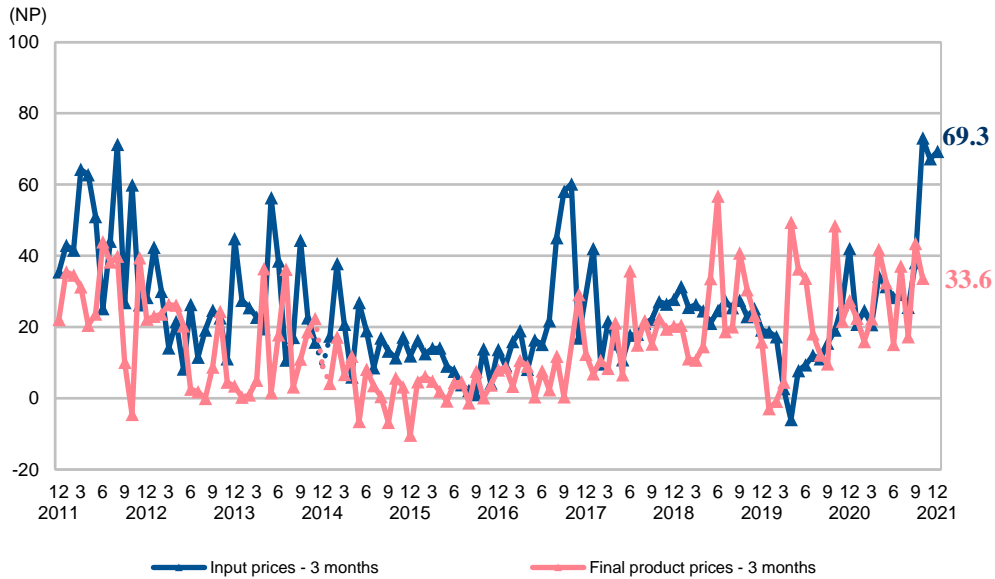


Source: Ipsos/

The December survey shows a mild increase in the share of corporates expecting a rise in the prices of their inputs in production in the next three and twelve months. In both these periods, the range is between 70% and 75%. In terms of the expected movement of prices of own finished products/services in the next year, the December survey records similar values as in the case of the expected movement of input prices of around 75%.

Corporate perception of business conditions is more optimistic than in the previous survey – in terms of expected business conditions in the next twelve months and the expected movement of production/turnover in both observed periods (three and twelve months ahead). The estimate of business conditions in the past three months slightly improved as a smaller number of respondents believe that the conditions deteriorated, compared to the previous survey.

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



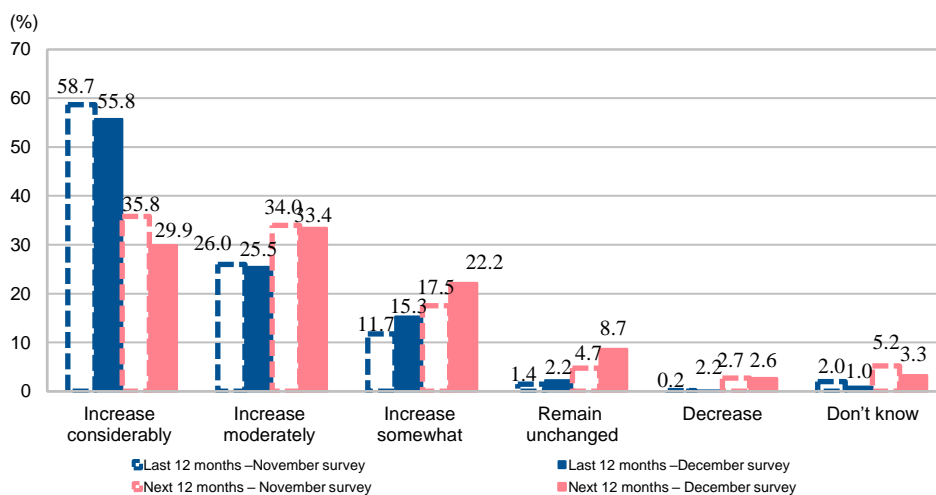
\*Above zero indicates growth, and below zero decline.  
Source: Ipsos/Ninamedia.

## Inflation expectations of the household sector

### Quantitative and qualitative inflation expectations

After their one-off rise to 15.0% in November, short-term household expectations returned to 10.0%, where they remained in the major part of 2021. Quantitative expectations declined, as did the perceived and expected inflation indices.

**Chart 4 Distribution of household responses by perceived and expected inflation**



Source: Ipsos.

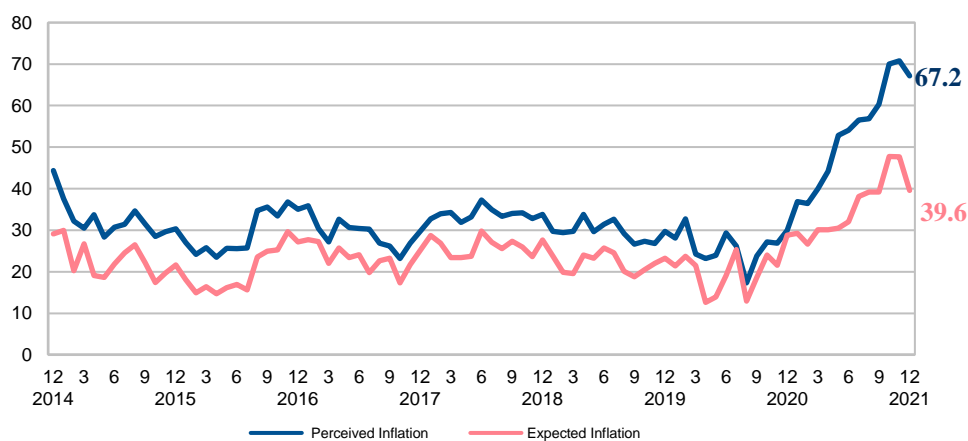
Most of the households surveyed (around 56%) still believe that prices will increase moderately or somewhat in the next year.

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, meaning that the household sector also assesses the current rise in inflation as temporary.**<sup>2</sup>

Chart 5 Perceived and expected inflation of households

(in index points)



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 ([https://www.nbs.rs/export/sites/NBS\\_site/documents-eng/publikacije/loi/izvestaji/inflation\\_report\\_02\\_2016.pdf](https://www.nbs.rs/export/sites/NBS_site/documents-eng/publikacije/loi/izvestaji/inflation_report_02_2016.pdf)).