



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

December 2023

Belgrade, January 2024

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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 their three-year ahead expectations for the y-o-y price growth.

Overview

According to the December **Ipsos** survey, **short-term inflation expectations of the financial sector measured 5.0%**, which is a decrease from a month earlier **but also a significant fall from H1 2023 when expectations trended at around 8.0%**.

The latest, January **Bloomberg** survey also recorded a lower value of one-year ahead inflation expectations of the financial sector. **It measured 4.3% and with that, short-term expectations continued moving within the NBS target tolerance band.** The **composite measure of inflation expectations**¹ produced the same value of expected inflation for December 2024, indicating that the largest financial institutions anticipate lower inflation than the rest of the financial sector.

Having declined in the November survey to 9.0% from 7.0%, one-year ahead corporate expectations did not change in December.

Medium-term inflation expectations of the financial sector kept moving **within the NBS target tolerance band**, as in December two-year ahead expectations stood at 4.0% (November 4.2%), while **three-year ahead** inflation measured 3.4% (November 3.5%). Corporates anticipate lower inflation for **two years ahead** relative to the previous survey – a decline from 6.0% in November to 5.0% in December, this being also the value of expectations for **three years ahead** which stayed unchanged.

Usually higher than those of other sectors, **short-term household inflation expectations** bounced back to 15.0% (following a temporary drop to 12.0% in November). These expectations trended at 15% for the most part of 2023.

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

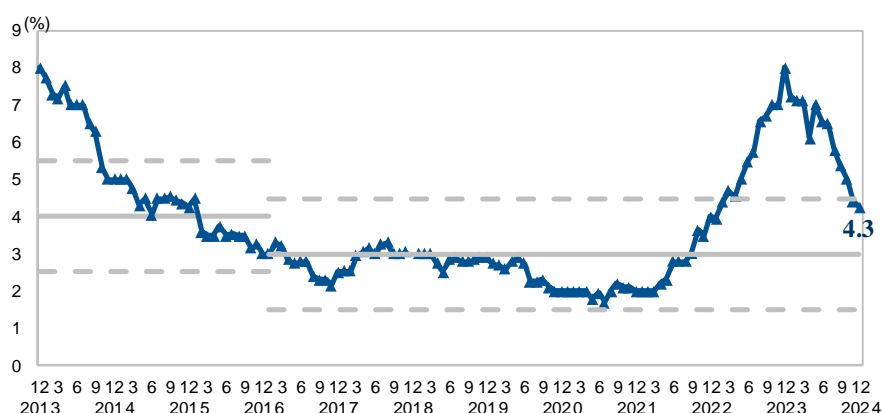
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater influence on the aggregate result.

Inflation expectations of the financial sector

According to the **December Ipsos survey**, **short-term inflation expectations of the financial sector came at 5.0%**, lower than the November 5.7%. A more detailed analysis of the structure of individual responses shows that the expectations of the largest financial institutions were below the median value, which pushed down **the composite measure of expectations of the financial sector** (Chart 1) relative to the Ipsos survey (4.3% in December). **The composite measure is calculated by combining the responses of financial institutions that participate in the Bloomberg and Ipsos surveys.**

According to the latest, January **Bloomberg** survey, short-term expectations also came at 4.3%, a decrease from the December 4.5%.

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



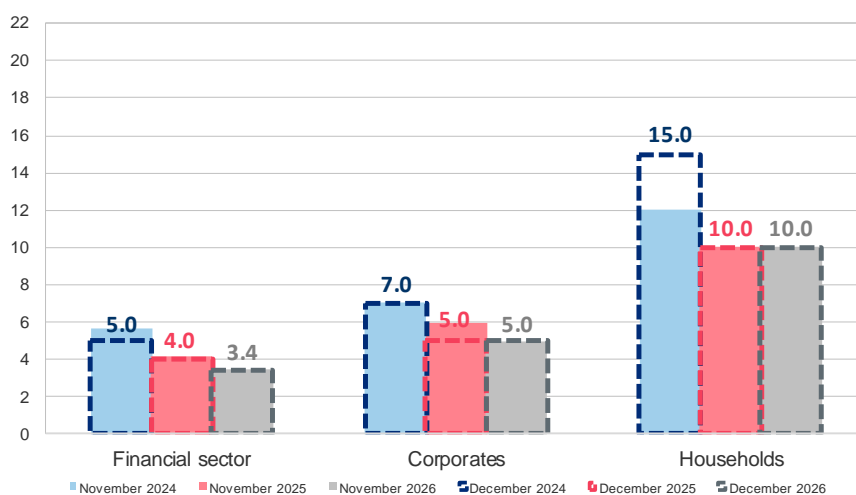
Sources: NBS, Ipsos, and Bloomberg.

Medium-term expectations of the financial sector in December measured 4.0% for two years ahead (November 4.2%) and 3.4% for three years ahead (November 3.5%), continuing to move within the NBS target tolerance band and indicating high credibility of the NBS monetary policy.

Inflation expectations of the corporate sector

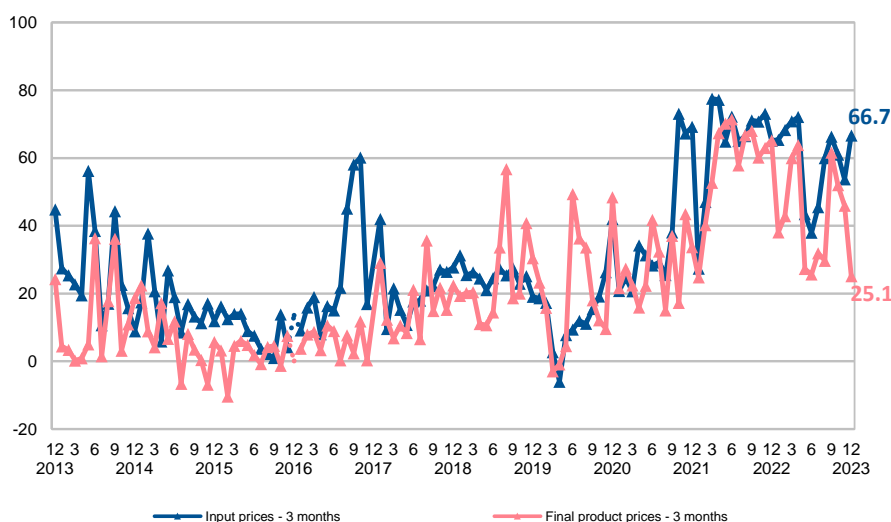
One-year ahead corporate inflation expectations remained the same as in the previous survey (7.0%). Inflation expectations for **two years ahead** fell from 6.0% in November to 5.0% in December, while expectations for **three years ahead** stayed unchanged, also at 5.0% (Chart 2).

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



Source: Ipsos.

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.

The analysis of input and output prices in the **short run** (Chart 3) shows that in the next three months more corporates expect a rise in the prices of inputs (around 67%) than in the previous survey (54%), but also a **lower share** of those who expect the **prices of final products/services to grow** (32%, down from the November 48%).

The December survey indicates that **for the first time in 2023 less than a half of respondents expect input and output prices to rise** in the **long run** (next twelve months), while the share of those who anticipate an increase in the **prices of final products/services** in that period **is significantly lower**, down from 66% in November to 49% in December. The share of respondents expecting a rise in the **prices of inputs** in the next twelve months did not fluctuate significantly in H2 2023, moving around 45% on average as currently.

Corporate perception is still dominated by the opinion that business conditions remained the same in the past three months (around 85% of respondents). The same holds true when it comes to the **outlook for business conditions** as around 68% of respondents anticipate no change in conditions in the next twelve months, while around 27% expect an improvement.

Expectations regarding output/turnover in the next three months show that almost 2/3 of corporates expect no change in this regard and around 1/3 expect a rise. In the next twelve months, around 48% of respondents expect a rise in their own output/turnover, with a similar share of those expecting no changes.

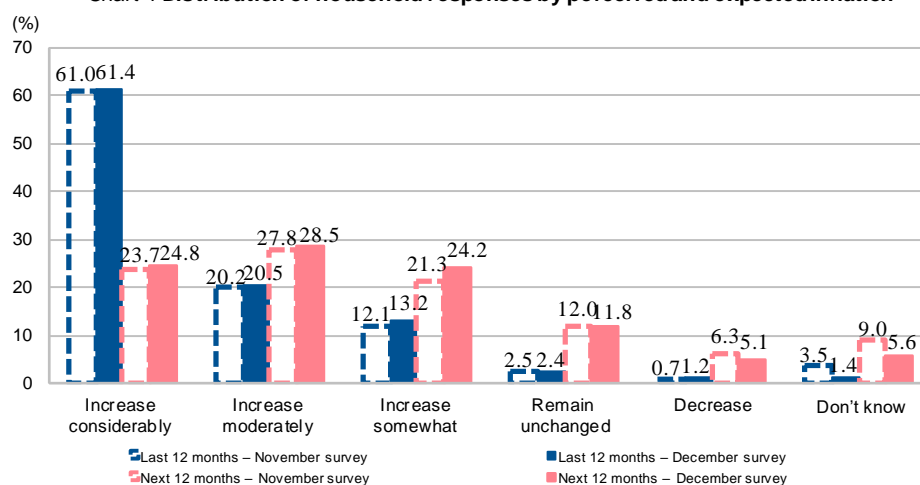
Inflation expectations of the household sector

According to the Ipsos survey, **short-term household expectations** amounted to 15.0% in the December survey (12.0% in November). **Medium-term household expectations** stood at 10.0% for both periods (**two and three years ahead**), unchanged from the previous survey. **Qualitative survey** shows no significant changes. The share of respondents who perceive a considerable rise in prices in the previous twelve months is around 61%. The share of those expecting a considerable increase in the next twelve months as well is around 25%, while somewhat more than a half of respondents anticipate a moderate or mild price increase (Chart 4).

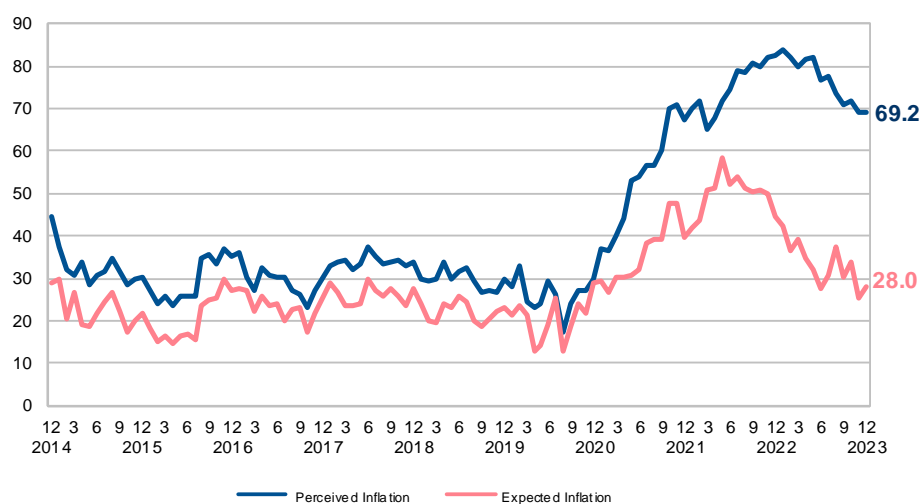
A wide gap between the expected and perceived inflation indices (Chart 5) suggests that **a bulk of surveyed households anticipate lower inflation in the coming twelve months than in the previous year.**²

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

Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

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

Sources: Ipsos and NBS calculation.