



National Bank of Serbia

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

July 2024

Belgrade, August 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, which is conducted for the NBS since April 2024 by the Ninamedia agency. 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

Short-term inflation expectations of the financial sector **continued receding and converging to the NBS target midpoint (3.0%)**.

According to the **Ninamedia survey, inflation expectations of the financial sector for one year ahead** declined from 3.7% in June to 3.2% in July. According to the **composite measure of inflation expectations**,¹ expected inflation measured also 3.2% in July, while the latest, **August Bloomberg survey reports inflation expectations of 3.1%**.

Short-term inflation expectations of the corporate sector came at 4.0% in July, having decreased from the previous month (5.0%) and **returned within the NBS target band after more than two and a half years**.

The financial sector's expectations for **two and three years ahead** remained unchanged at 3.0%, suggesting that the financial sector **expects inflation to stabilise in the medium term at the NBS target midpoint**. Medium-term inflation expectations of the corporate sector for both periods are at 5.0%, higher than short-term expectations.

Typically higher than those of other sectors, **inflation expectations of the household sector** increased for **one year ahead** (from 10.0% in June to 11.0% in July), while those for **two and three years** stayed unchanged at 10.0%.

Despite the higher level of expected than actual inflation, the results of the qualitative survey suggest that most households expect inflation to be lower in the coming twelve months than the inflation perceived in the previous twelve months.

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 Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater influence on the aggregate result.

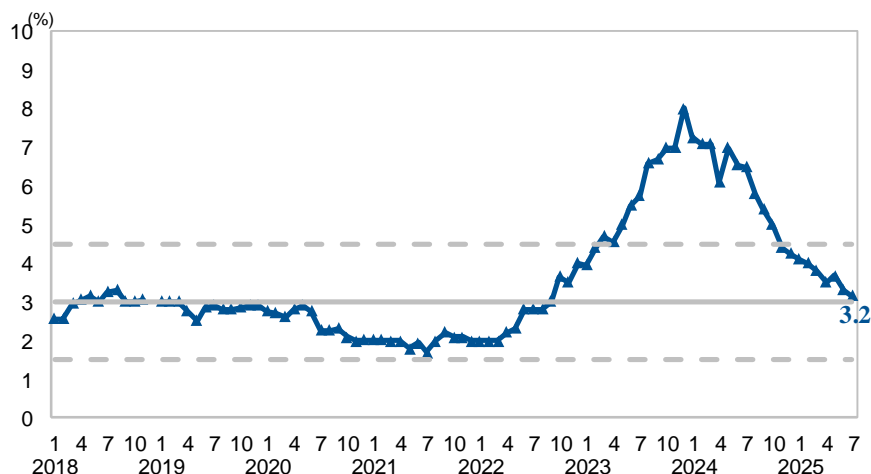
Inflation expectations of the financial sector

According to the **Ninamedia survey results**, **short-term inflation expectations of the financial sector** declined from 3.7% in June to 3.2% in July, continuing to move **within the NBS target tolerance band and converge to the target midpoint**. A closer look at the structure of individual responses shows that almost all surveyed financial institutions expect one-year ahead inflation to be within the NBS target tolerance band.

The composite measure of financial sector expectations, calculated by combining the responses of financial institutions that participate in the Bloomberg and Ninamedia surveys in the same month, also equalled 3.2% compared to the 3.3% in June (Chart 1).

According to the **Bloomberg** survey, inflation expectations are even lower, measuring 3.1% in **August**.

Chart 1 Composite measure of inflation expectations of the financial sector



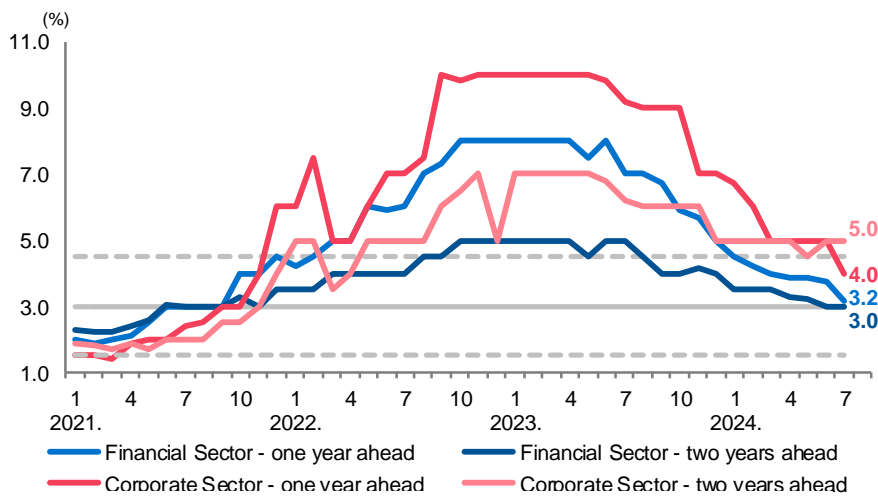
Sources: NBS, Ninamedia, and Bloomberg.

Medium-term inflation expectations of the financial sector stayed unchanged in July, at 3.0% for both two and three years ahead, i.e. at **the NBS target midpoint, indicating high credibility** of the NBS monetary policy.

Inflation expectations of the corporate sector

After standing at 5.0% for four months, **one-year ahead inflation expectations** of the corporate sector decreased to 4.0% and **returned within the NBS target band**. Corporate expectations for **two years ahead** stayed unchanged at 5.0% and those for **three years ahead** reached the same level, having risen from the June 4.5% (Chart 2).

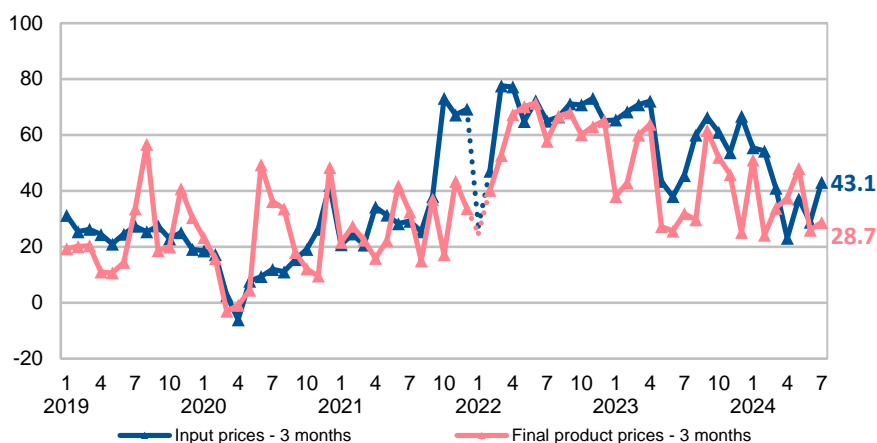
Chart 2 Expected inflation of financial and corporate sector for one and two years ahead



Sources: NBS, Ninamedia.

The analysis of input and output prices in the next three months (Chart 3) shows that **since April the majority of respondents expect no change in the prices of inputs and their final products/services**. And yet, the share of those anticipating a rise in **input prices** in the next three months went up from 30% in June to 43% in July, while the share of those expecting a rise in the **prices of final products** stayed at a similar level, of around 30%.

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: Ninamedia.

Most corporates expect their input and output prices to increase in the long run (over next twelve months). The percentage of those expecting a **rise in input prices** in this period equals 74% (68% in June), while around 69% of respondents expect the **prices of their products/services to increase** (75% in June).

The dominant view among corporates is that there was no change in **business conditions in the last three months** (86% of corporates), and most of them (around 62%) think that there will be no change in the next twelve months either.

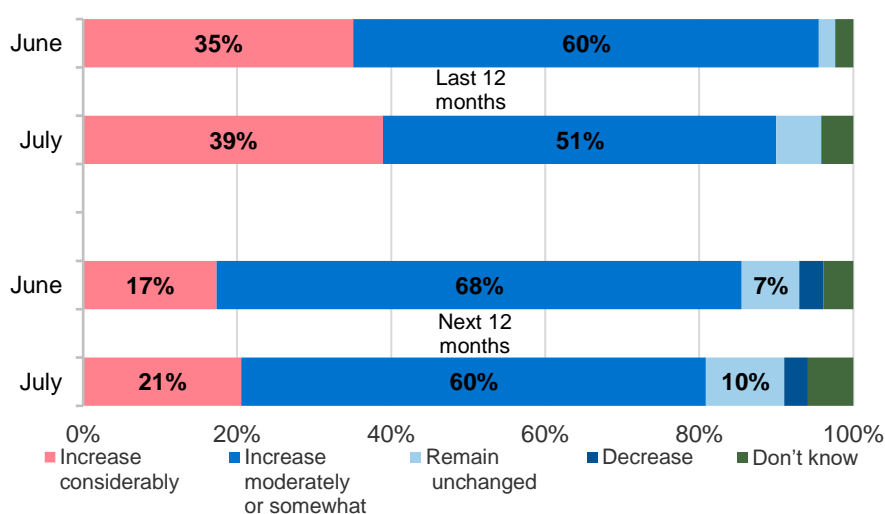
The share of respondents expecting an **increase in production/turnover in the next three months** went up to 44% (40% in June). The percentage of respondents expecting such increase in the next twelve months is much higher – around 64%.

Inflation expectations of the household sector

According to the results of the Ninamedia survey, **short-term inflation expectations of households measured 11.0% in July**, marking an increase from June (10.0%). Medium-term expectations remained unchanged at 10% for both **two and three years ahead**.

The share of respondents who believe that prices rose considerably in the past year **went up from 35% in June to 39% in July**. The share of those anticipating a **considerable rise in prices** in the next twelve months also increased mildly, while the majority of respondents (60%) still expects prices to **increase moderately or somewhat** (Chart 4).

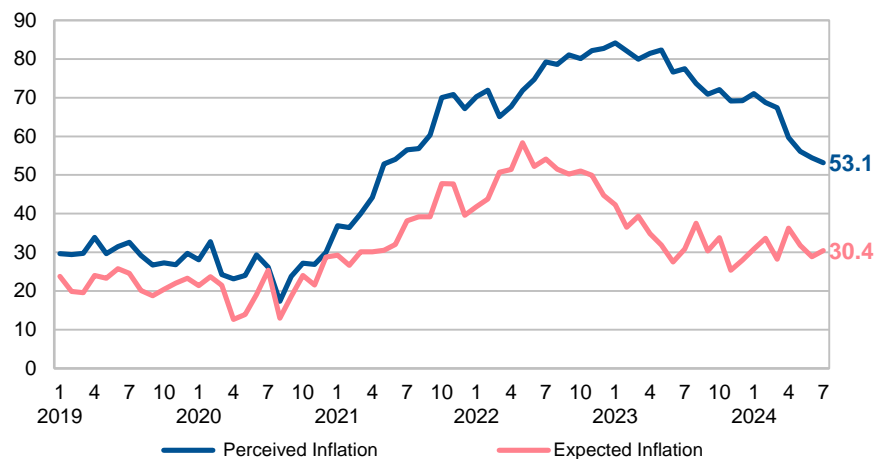
Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ninamedia.

Continuously higher perceived than expected inflation index (Chart 5) implies that the **majority of surveyed households anticipates lower inflation in the coming twelve months than in the previous year.**²

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



Sources: Ninamedia 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.