



NATIONAL BANK OF SERBIA

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

January 2016

Belgrade, February 2016

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Introductory note

Indicators of inflation expectations of economic agents are an important factor in the process of decision-making on monetary policy measures in an inflation targeting regime. The effectiveness of the inflation targeting strategy is measured by the degree of stability of inflation expectations and the extent to which they are anchored within the target tolerance band. Stable and well-anchored inflation expectations contribute to greater credibility of the monetary policy framework. Consistent with best international practice, after introducing the inflation targeting regime in January 2009, the NBS began monitoring and analysing inflation expectations of economic agents, drawing on the inflation expectations survey, conducted for the NBS by Ninamedia since December 2014. Survey participants are classified into four institutional sectors (the financial sector, corporate sector, trade unions and households) and asked to state their one-year ahead price growth expectations, and since March 2014, also their medium-term, i.e. two-year ahead, expectations for y-o-y price growth.

Summary

According to the January survey results, the financial sector and corporates expect price stability to be maintained both one year ahead and in the medium run. Expectations of corporate and household sectors remained at the December level, while expectations of trade unions declined. Mid-term expectations were unchanged in corporate and household sectors, increased slightly in the financial sector, and declined among trade unions.

According to the Ninamedia survey, inflation expectations of the *financial sector* edged down from 3.0% in December to 2.7% in January. One-year ahead inflation expectations of the financial sector have been moving within the target tolerance band for over two years now.

One-year ahead inflation expectations of *corporates* remained at the December level of 2.5%. *Household* inflation expectations have been stable at 5.0% since October. Inflation expectations of *trade unions* fell below the lower bound of the target tolerance band – from 3.15% in December to 2.25% in January.

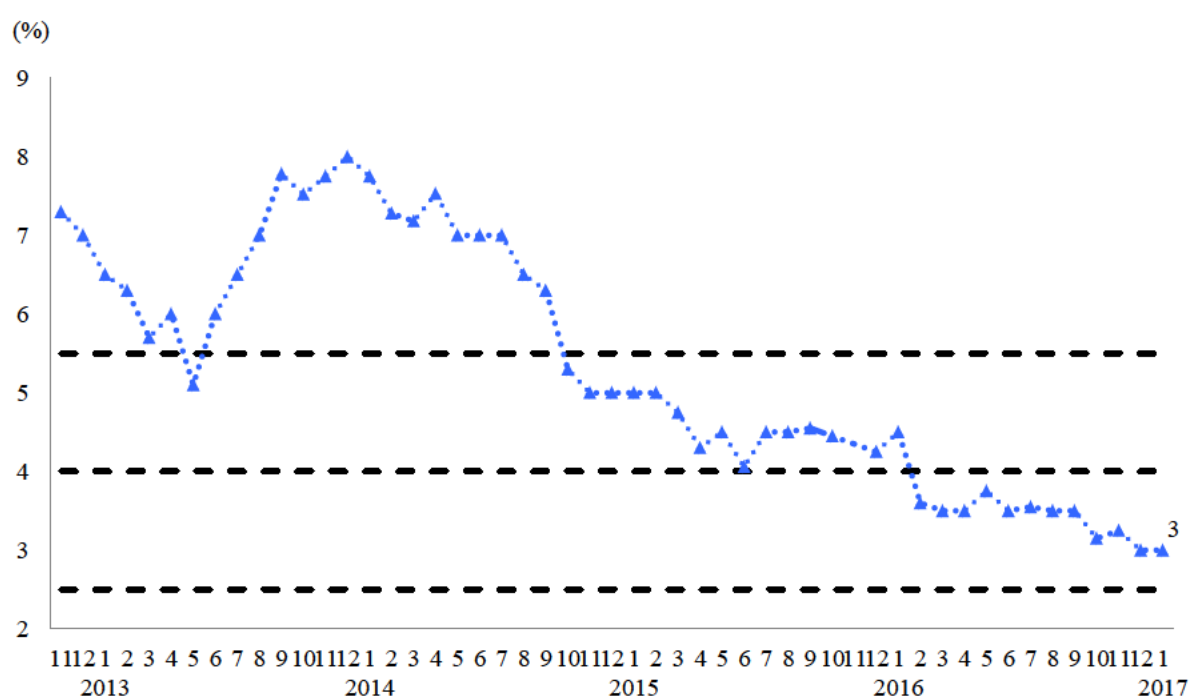
Mid-term term inflation expectations of all sectors have been within the target tolerance band for almost a year.

Well-anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are anchored confirms the credibility of the NBS inflation target and shows there are no major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the Ninamedia survey, one-year ahead inflation expectations of the financial sector have been within the target tolerance band for over two years now (since October 2013) and came at 2.7% in January. Bloomberg survey results also show that financial sector expectations have been moving within the target tolerance band since October 2013, equalling 3.4% in February 2016.

Chart 1 Composite measure of inflation expectations of the financial sector



Source: NBS, Ipsos, Ninamedia and Bloomberg.

The composite measure of one-year ahead inflation expectations of the financial sector¹ (covering results of Ninamedia and Bloomberg surveys) remained unchanged from December and reached 3.0% in January.

Mid-term (two-year ahead) inflation expectations of the financial sector have been within the target tolerance band since the first survey (March 2014), measuring 3.55% in January.

¹ Calculated by weighting individual responses by the size of the respondent's share in total assets of surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater influence on the aggregate result, which corresponds to the real situation, as their impact on economic flows is somewhat stronger.

Inflation expectations of the corporate sector

One-year ahead inflation expectations of the corporate sector stood at the lower bound of the target tolerance band – at 2.5%. Low inflation expectations of the corporate sector reflect muted demand, but also weaker cost pressures due to low oil prices.

The net percentage² (NP) of enterprises expecting an increase in prices of their *inputs* in the next three months came at 16.2 pp in January (vs. 11.9 pp in December), while the NP of respondents expecting an increase in prices of *final products* was 3.2 pp (5.6 pp in December). **The majority of respondents anticipated prices of both inputs (80.5%) and final products (90.4%) to stagnate in the next three months.** This means that enterprises do not expect to be able to pass the cost increase onto final consumers. In terms of expectations for the next twelve months, results in January are as follows: the NP of enterprises expecting an increase in prices of *inputs* was 21.0 pp (vs. 17.3 pp in December), and of those anticipating an increase in prices of *final products* also 21.0 pp (1.8 pp in December).

As regards production/trade, the NP of respondents expecting an increase in the next three months rose to 17.5 pp in January (from 10.3 pp in December), while the **NP of respondents anticipating an increase in production/trade in the next twelve months was 47.9% (vs. 20.8 pp in December).**

² Calculated as the difference between the share of enterprises expecting prices to increase and enterprises expecting prices to decrease, weighted by operating income.

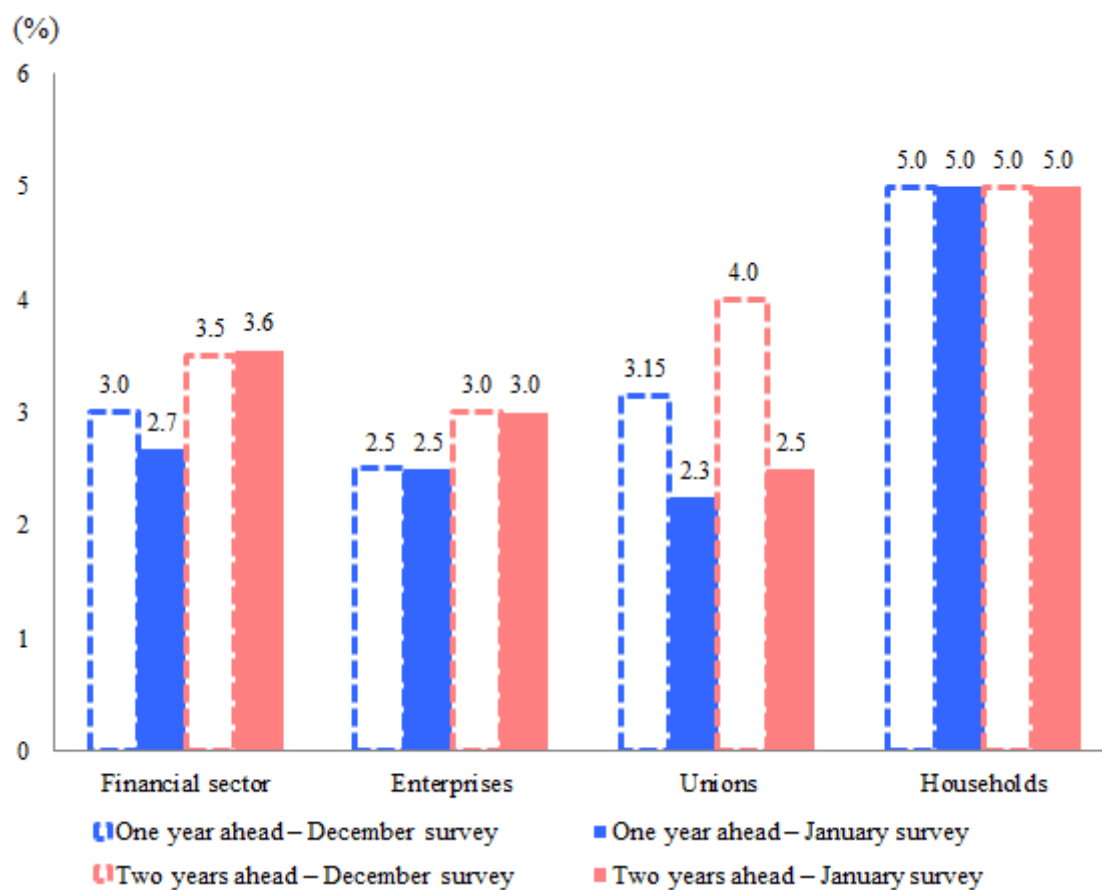
Inflation expectations of households

Quantitative inflation expectations of households

In January, inflation expectations of households stayed unchanged from the prior three months, i.e. within the NBS target tolerance band ($4.0 \pm 1.5\%$). From July to September, household inflation expectations moved above the upper bound of the target tolerance band, only to return within the band in October and stabilise at 5.0%.

Household mid-term inflation expectations remained unchanged. For the twelfth consecutive month, two-year ahead inflation expectations measured 5%. This indicates that households expect inflation to stabilise within the target tolerance band in the medium run.

Chart 3 Expected y-o-y inflation one and two years ahead



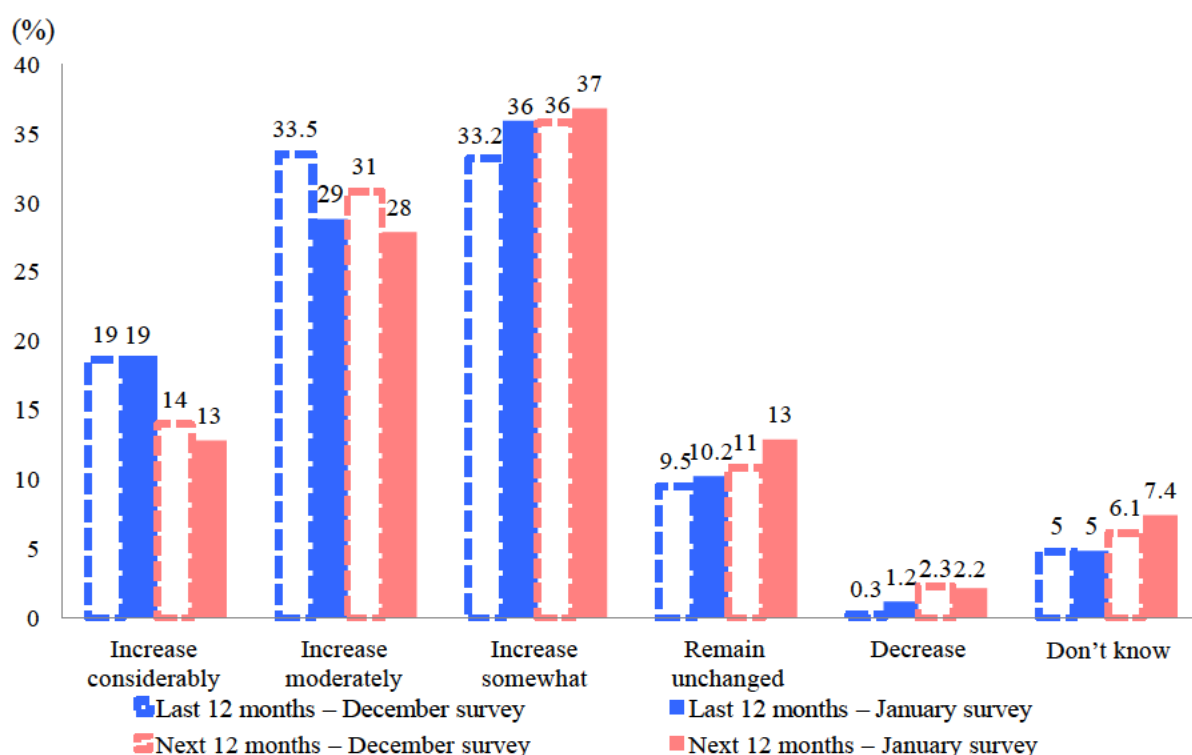
Source: Ninamedia.

Qualitative inflation expectations of households

Descriptive (qualitative) expectations of households regarding a rise in prices indicate that the majority of respondents (64.7%) expect a moderate or mild increase in prices in the next twelve months, 12.9% of respondents expect no change in prices, 2.2% anticipate a fall, while 7.4% of respondents said they did not know. The share of respondents anticipating prices to increase considerably in the coming twelve months touched a new low of 12.8% in January.

In the prior period, the number of respondents anticipating a considerable increase in prices trended down in favour of respondents anticipating prices to rise moderately, increase somewhat or remain unchanged. Such trend is favourable because low and stable inflation is the main goal of monetary policy, which contributes to the creation of a predictable and stable economic environment.

Chart 4 Distribution of household responses by perceived (recorded) and expected inflation



Source: Ninamedia.