



NATIONAL BANK OF SERBIA

**REPORT ON THE RESULTS
OF THE INFLATION EXPECTATIONS SURVEY
January 2017**

Belgrade, February 2017

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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 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 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, market participants expect that price stability will be maintained both in the short and in the medium run.

According to the results of the Ninamedia survey, one-year ahead inflation expectations of the financial sector equalled 2.4% in January, which means that January 2018 inflation is expected to move within the target tolerance band ($3\pm 1.5\%$).

One-year ahead inflation expectations of corporates have been stable at 2.0% since April 2016. Trade unions expect inflation in January 2018 also at 2.0%, while households expect that one-year ahead inflation will be at 5.0%.

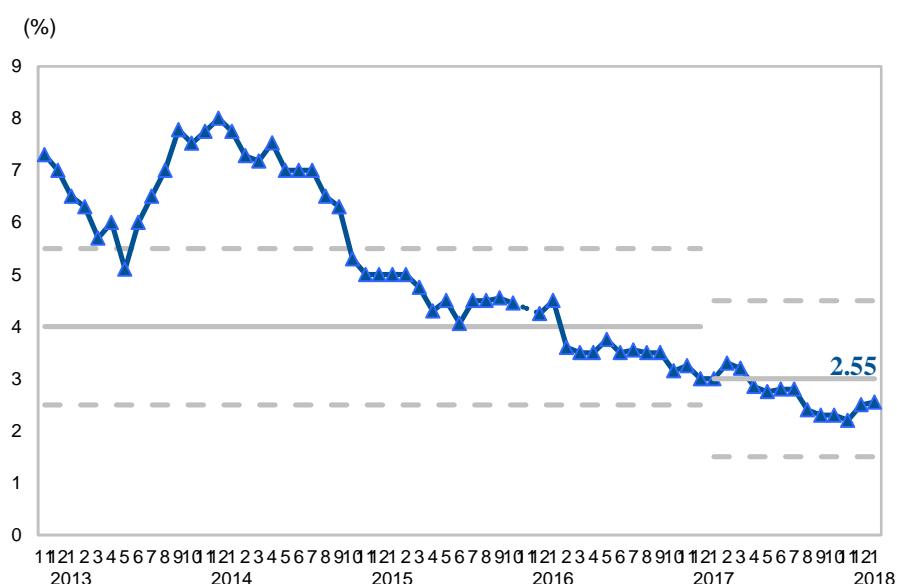
Medium-term (two-year ahead) inflation expectations of all sectors, apart from households, are within the target tolerance band.

Firmly anchored inflation expectations 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 the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the Ninamedia survey, the financial sector expects inflation in January 2018 to equal 2.4%. In November and December, one-year ahead inflation expectations of this sector stood at 2.15%. Bloomberg survey results show that financial sector expectations have continued to move within the target tolerance band since October 2013, and equalled 2.7% in February (vs. 2.6% in January).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, Ninamedia and Bloomberg.

The composite measure of one-year ahead inflation expectations of the financial sector¹ (covering the results of Ninamedia and Bloomberg surveys) barely changed from December (2.5%) and came at 2.55% in January.

Medium-term inflation expectations of the financial sector have been moving within the target tolerance band since the inception of the survey (March 2014) and equalled 2.8% in January (vs. 2.65% in December).

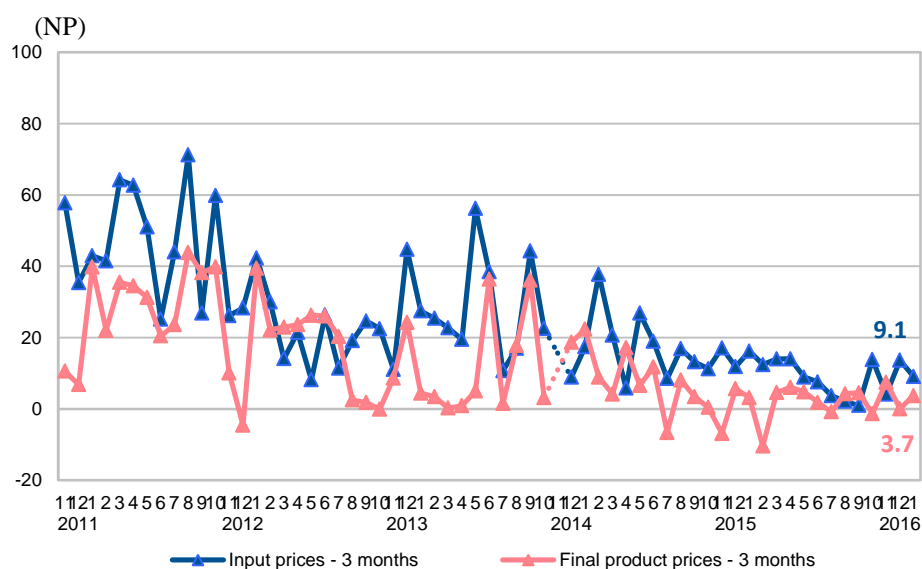
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater influence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

Inflation expectations of the corporate sector

Over the last ten months (since April 2016), expected y-o-y inflation of this sector has stood at 2.0%. Low, stable and firmly anchored inflation expectations of corporates come as a result of the expected stabilisation of energy prices in the global market, low inflation at home and abroad, and the NBS measures taken with a view to creating a stable economic environment.

As in the preceding months, the majority of respondents anticipated that prices of both inputs (89.5%) and final products (93.1%) will not change in the next three months. The net percentage² (NP) of enterprises expecting an increase in prices of inputs over the next three months came at 9.1% in January (vs. 13.6% in December), while the NP of enterprises expecting an increase in prices of final products was 3.7% (in December, the number of respondents expecting prices of final products to rise was the same as the number of those anticipating their decline). In terms of expectations for the next twelve months, the NP of enterprises expecting an increase in prices of *inputs* was 11.8% in January (vs. 20.6% in December), and of those anticipating an increase in prices of *final products* 13.8% (vs. 17.5% in December).

Chart 2 Expectations of the corporate sector regarding movements in prices of inputs and final products in the next three months



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

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

As regards production/trade, the NP of respondents expecting an increase in the next three months was 24.4% in January (vs. 13.6% in December). The NP of respondents anticipating an increase in production/trade in the next twelve months equalled 44.1% (vs. 29.7% in December).

Inflation expectations of trade unions

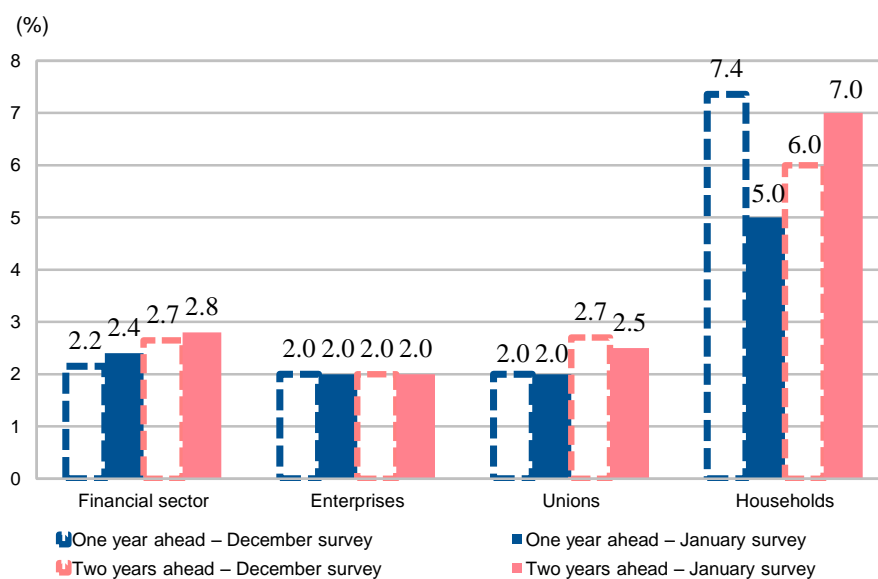
According to the Ninamedia survey results, one-year ahead inflation expectations of trade unions moved within the target band, staying at 2.0% in January, unchanged from the December survey. Medium-term inflation expectations of trade unions have been moving within the target tolerance band since March 2015 and equalled 2.5% in January (vs. 2.7% in December).

Inflation expectations of the household sector

Quantitative inflation expectations

One-year ahead inflation expectations of households have, as a rule, been moving between 5.0% and 7.0% for a year and a half. According to the latest Ninamedia survey, households expect inflation at 5.0% in January 2018.

Medium term (two-year ahead) inflation expectations have been somewhat more volatile over the past few months and reached 7.0% in January (vs. 6.0% in December).

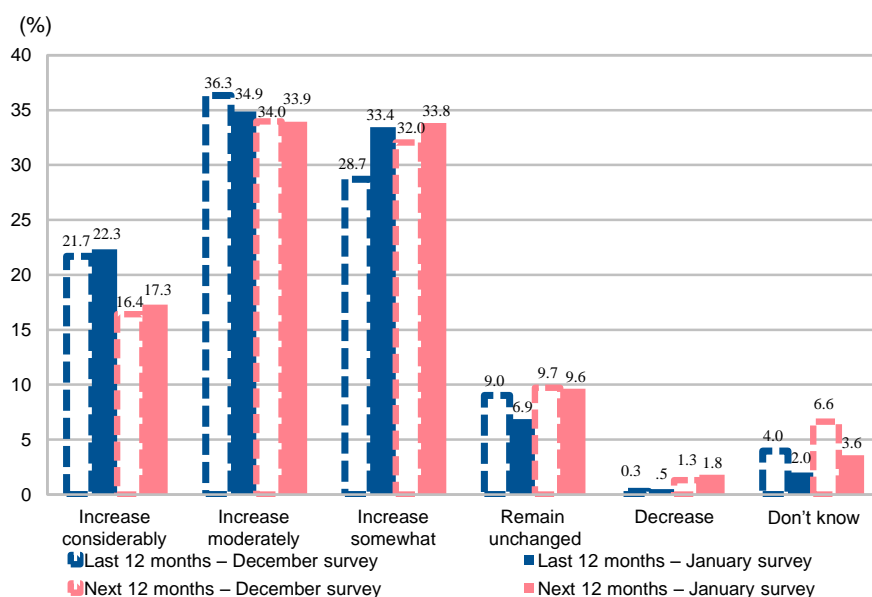
Chart 3 Expected y-o-y inflation one and two years ahead

Source: Ninamedia.

Qualitative inflation expectations

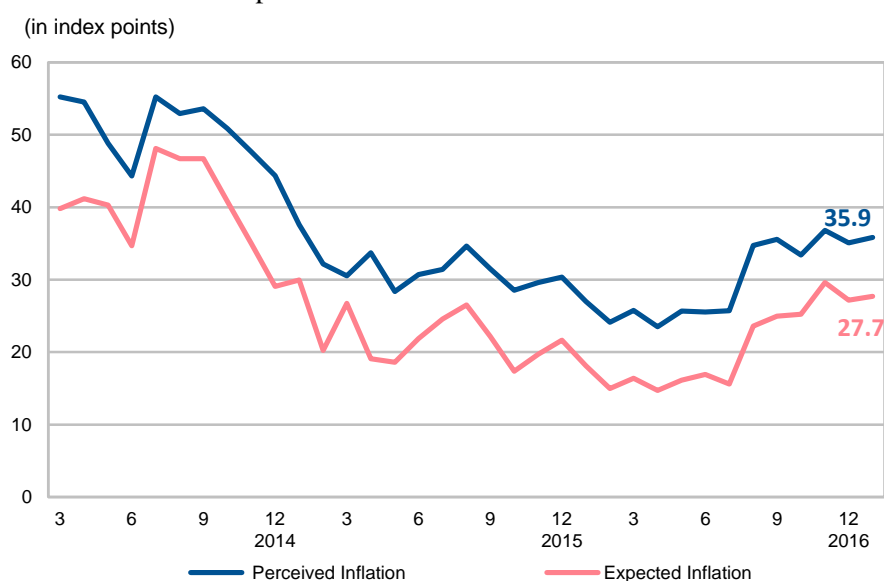
The share of respondents anticipating prices to increase considerably in the coming twelve months equalled 17.3% in January (vs. 16.4% in December). Descriptive (qualitative) expectations of households regarding the rise in prices indicate that the majority of respondents (67.8%) expect prices to rise moderately or somewhat in the next twelve months, while 9.6% expect no change in prices and 1.8% anticipate a fall. Of the total, 3.6% of respondents said they did not know.

As in the prior period, the majority of respondents anticipate prices to rise moderately and somewhat over the next year. Such trends confirm a predictable and stable economic environment which facilitates the achievement of the main goal of monetary policy in the medium run.

Chart 4 Distribution of household responses by perceived and expected inflation

Source: Ninamedia.

The perceived (current) inflation index was higher than the expected inflation index, which indicates that households expect inflation in the coming twelve months to be lower than in the previous year. Such trend stems from the fact that **one part of the population who feel that prices increased in the past twelve months do not expect the trend to continue over the next twelve months.**³

Chart 5 Perceived and expected inflation of households

Source: Ninamedia.

³ 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.