



NATIONAL BANK OF SERBIA

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

**January 2019**

Belgrade, March 2019

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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 Ipsos agency 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, and since March 2014, also their medium-term, i.e. two-year ahead, expectations for y-o-y price growth.

## Overview

**Inflation expectations remained anchored within the NBS target tolerance band in early 2019. According to the results of the Ipsos January survey, short-term and medium-term inflation expectations of all sectors, except households, continued to move within the NBS target tolerance band ( $3\pm1.5\%$ ).**

One-year ahead inflation expectations of the financial sector edged up in January to 2.65% (2.5% in December), while the expectations of the corporates and trade unions recorded a drop to 2.1% and 3.75%, respectively. Short-term expectations of households stayed unchanged at 6.0%.

Two-year ahead inflation expectations of the financial and corporate sectors stood exactly at the NBS target midpoint of 3.0% in January. Medium-term inflation expectations of trade unions and households remained unchanged from the previous survey, at 4.5% and 5.0%, respectively.

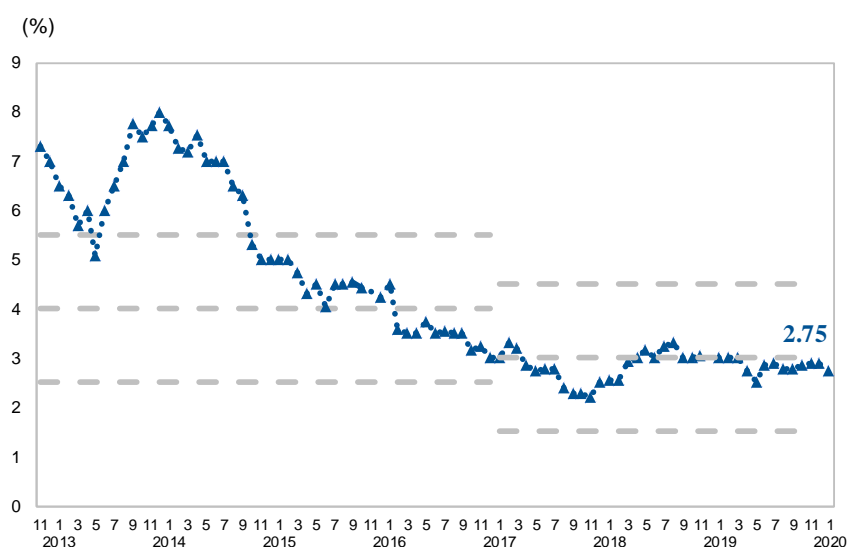
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

According to the results of both surveys (Ipsos January and Bloomberg February surveys), short-term inflation expectations of the financial sector were almost equal (at 2.65%, according to Ipsos and at 2.7%, according to Bloomberg).

The composite measure of one-year ahead inflation expectations of the financial sector<sup>1</sup> (comprising the results of Ipsos and Bloomberg surveys) was somewhat lower in January relative to its December value (2.75%).

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



Source: NBS, Ipsos, and Bloomberg.

**For the fourth month in a row, the financial sector expects two-year ahead inflation will be exactly at the target midpoint of 3.0%.** These inflation expectations constantly move within the target tolerance band since their monitoring began (March 2014).

<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

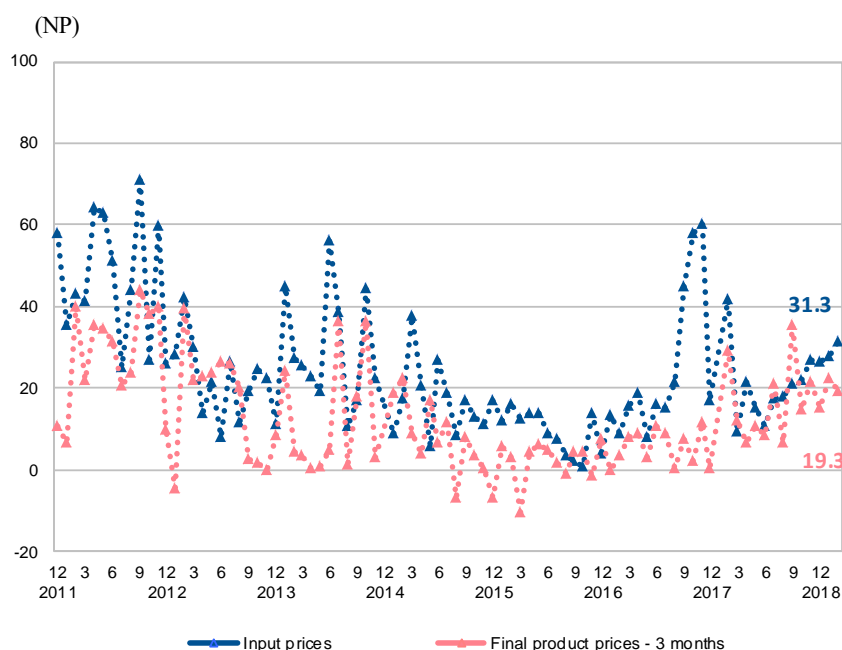
Inflation expectations of the corporate sector edged down to 2.1% in January, the lowest level since February 2017. On the other hand, two-year ahead inflation expectations rose in January relative to December 2018 and stood at 3.0% – the NBS target midpoint.

The net percentage (NP) of corporates expecting an improvement in business conditions over the next 12 months stood at 40.8% in January, significantly higher than 25.7% in December. The NP of corporates considering that business conditions improved over the previous three months stood at an almost unchanged level relative to the December survey – 8.8% (8.0% in December).

According to the results of the January survey, the majority of corporates (76.9%) anticipates that the prices of their products will remain stable in the next three months. The NP of corporates expecting an increase in the prices of final products over the next three months equals 19.3%, somewhat lower than in December (22.4%).

The NP of corporates expecting an increase in the input prices over the next three months is somewhat higher relative to the values from previous surveys (31.3%). The increase was also recorded in terms of expected prices of inputs over the next twelve months (from 31.3% to 38.0%).

**Chart 2** 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 trade unions

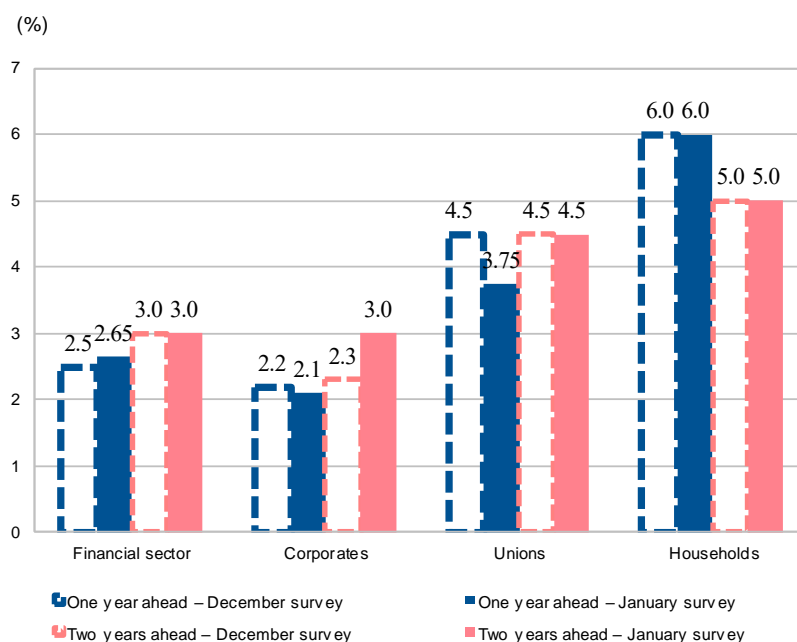
According to the results of the Ipsos survey, inflation expectations of the trade unions continued moving within the NBS target tolerance band in January 2019. One-year ahead inflation expectations stood at 3.75% in January, lower compared to December 2018 (4.5%), while two-year ahead inflation expectations remained unchanged at 4.5%.

## Inflation expectations of the household sector

### Quantitative inflation expectations

The January Ipsos survey results indicate that short-term and medium-term inflation expectations of households remained unchanged relative to December 2018 at 6.0% and 5.0%, respectively.

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



Source: Ipsos.

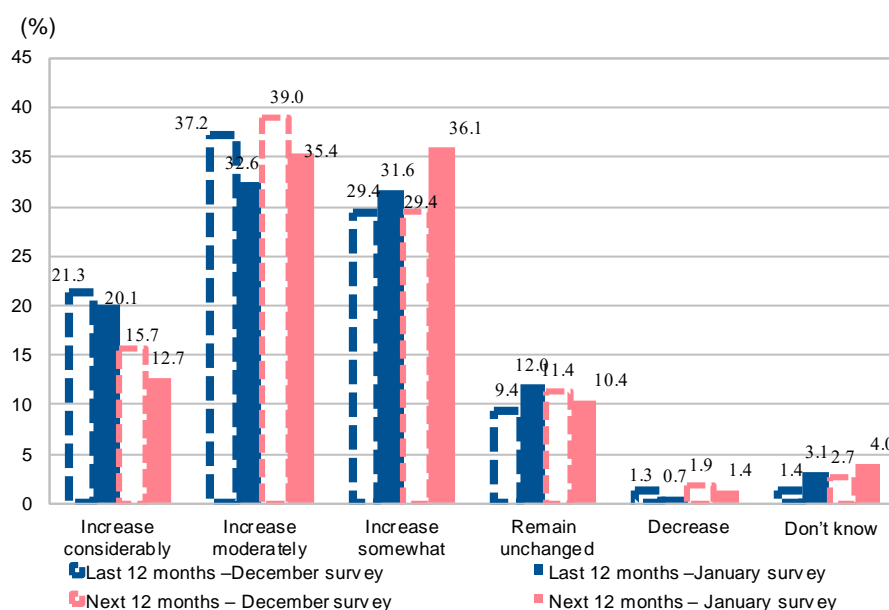
## Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (71.5%) expect prices to rise moderately or somewhat over the next twelve months, which is a higher value compared to the previous survey. The share of respondents anticipating prices to increase considerably and moderately over the next twelve months declined to a lesser degree (by 3 pp each), while at the same time there was a rise in the share of respondents anticipating prices to increase somewhat (by 6 pp).

The number of respondents expecting an increase in the monthly bills went up in January (NP of 7.8% relative to 4.3% in December), which could be related to the increase in the cable and TV subscription, as did the NP of respondents expecting an increase in food prices (NP of 5.2% relative to 3.3% in December). On the other hand, more respondents expect a decrease in oil and transport prices, as well as in prices of household cleaning products.

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.

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



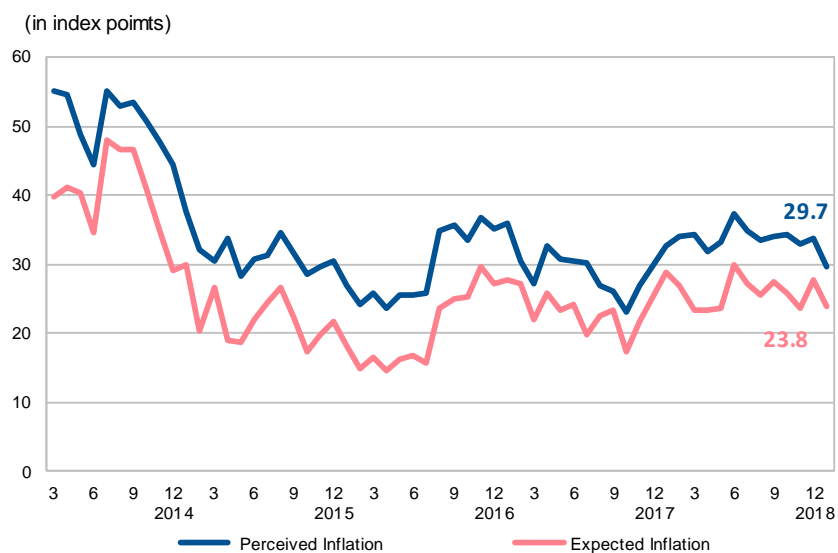
Source: Ipsos.

The perceived 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 felt that prices increased in the past twelve months, do not expect the trend to continue over the next twelve months.**<sup>2</sup>

**Chart 5** Perceived and expected inflation of households



Source: 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.