



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

January 2020

Belgrade, February 2020

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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 the greater credibility of the monetary policy framework. 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 the Ipsos agency conducts 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, and since March 2014, their medium-term, i.e. two-year ahead expectations for y-o-y price growth.

Overview

In January, inflation expectations of the financial and corporate sectors kept moving within the NBS target tolerance band ($3\pm1.5\%$).

The results of the January Ipsos survey indicate that short-term inflation expectations of all sectors except for households reached 2.0%, which is in line with the current inflation.

According to the results of the January Ipsos survey, short-term inflation expectations of the financial sector were unchanged at 2.0%. One-year ahead inflation expectations of corporates and trade unions also touched 2.0%. Inflation expectations of households, which are usually higher than those of other sectors, remained at 5.0% in January.

Medium-term inflation expectations of the financial sector rose mildly – from 2.3% in December to 2.4% in January, while expectations of corporates remained unchanged at 2.0%. For January 2022, trade unions expect that inflation will be at 2.5% and households expect it to equal 5.0%.

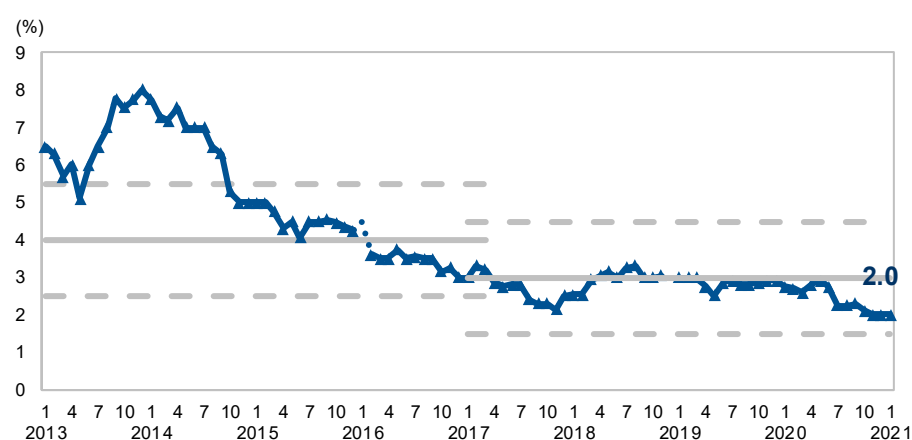
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of the January Ipsos survey, short-term inflation expectations of the financial sector stood at 2.0% unchanged from September 2019. According to February Bloomberg survey, one-year ahead inflation expectations of the financial sector are at 2.2%, slightly higher compared to the January survey (2.0%).

The composite measure of inflation expectations of the financial sector¹ in January remained unchanged at 2.0%.

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



Sources: NBS, Ipsos, and Bloomberg.

Medium-term inflation expectations of the financial sector continued to linger around 2.5%, reaching 2.4% in January. Medium-term inflation expectations of the financial sector have moved within the target tolerance band since the introduction of this survey question in March 2014.

Inflation expectations of the corporate sector

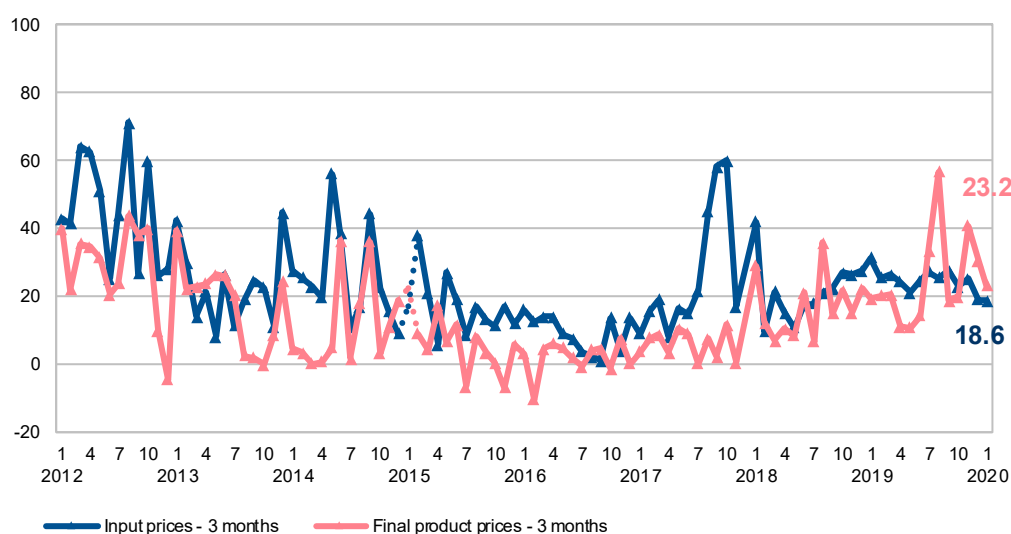
One-year ahead inflation expectations of corporates edged up slightly relative to the previous survey reaching 2.0% (1.9% in December).

For two years ahead, corporates anticipate 2.0% inflation, which is unchanged compared to the previous survey.

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.

The majority of corporates do not expect changes in input prices in the next three months (around 80% of respondents), as well as one year ahead (almost 3/4 of respondents) which is an additional indicator of expected price stability. At the same time, for the second month in a row, there was a decrease in the share of corporates expecting that the prices of their products/services would rise over the next three months.

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



Inflation expectations of trade unions

According to the January survey, inflation expectations of trade unions edged down from the previous month, practically reaching the financial and corporate sector levels.

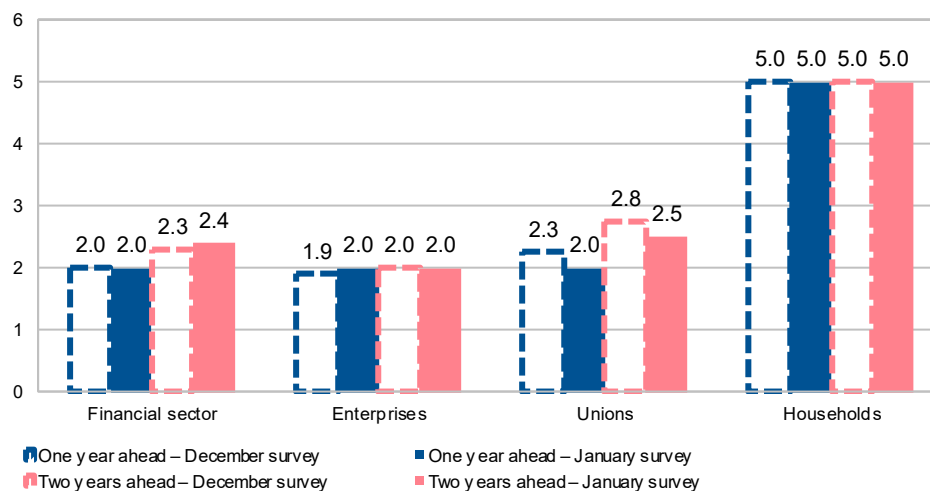
Short-term expectations were lower by 0.25 pp in January amounting to 2.0%. Medium-term inflation expectations decreased by the same amount, touching 2.5% in January.

Inflation expectations of the household sector

Quantitative inflation expectations

The January Ipsos survey indicates that both short- and medium-term inflation expectations of households stood at 5.0%, the same as in July 2019.

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



Qualitative inflation expectations

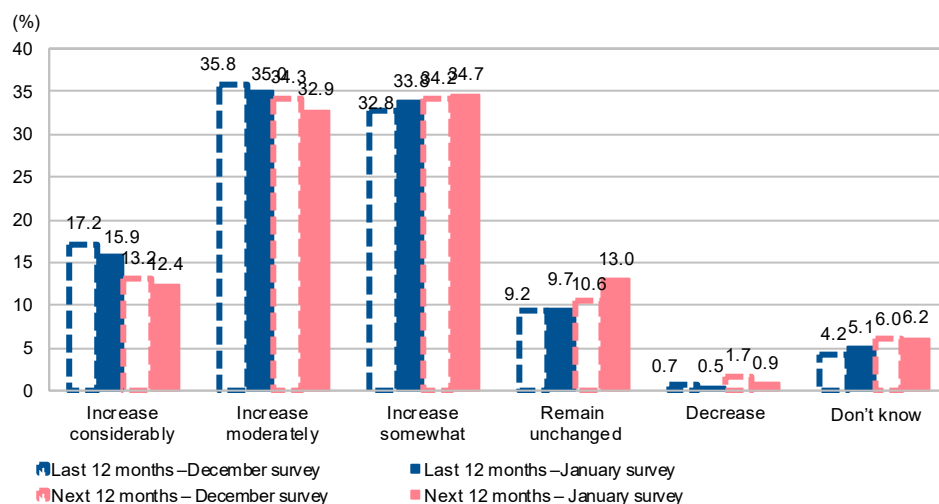
According to the results of the qualitative survey, around two thirds of respondents (67.6%) still expect prices to rise moderately or slightly over the next twelve months.

The share of respondents anticipating prices to increase considerably over the next twelve months equalled 12.4% in January (13.2% in December). At the same time, the share of respondents anticipating no change in prices rose by around 3 pp, to 13.0%.

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.

Relative to the previous survey, there was a slight increase in the NP of household respondents expecting an increase in monthly bills, while the NP of respondents expecting an increase in food prices dropped slightly.

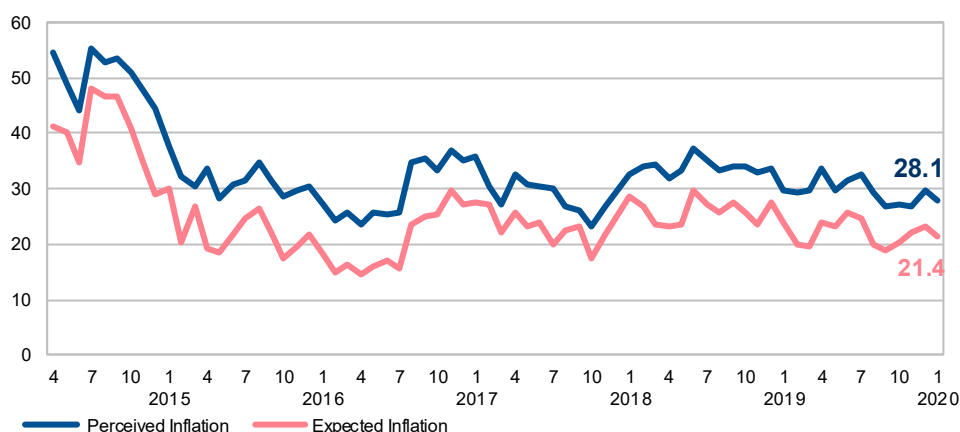
Chart 4 Distribution of household responses by perceived and expected inflation



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 **a part of the population that feels that prices have increased in the past twelve months does not expect the trend to continue over the next twelve months.**³

Chart 5 Perceived and expected inflation of households



Sources: Ipsos and NBS calculation.

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. (http://www.nbs.rs/system/galleries/download/pdf_ioi/ioi_02_2016.pdf).