



NATIONAL BANK OF SERBIA

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

February 2019

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

According to the results of the Ipsos February survey, 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 and corporate sectors stayed unchanged in February at 2.7% and 2.1%, respectively. Short-term expectations of trade unions edged down to 3.75% relative to the January survey, reaching the target midpoint of 3.0%. Inflation expectations of households recorded a drop from 6.0% in January to 5.0% in February.

Mid-term inflation expectations of the financial and corporate sectors have stood exactly at the NBS target midpoint of 3.0% since early 2019. Compared to the January survey, medium-term inflation expectations of trade unions dropped to 4.0%, while the expectations of households stayed unchanged at 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 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 February and Bloomberg March surveys), one-year ahead inflation expectations of the financial sector moved close to the target midpoint. According to Ipsos, the expectations are unchanged from January at 2.7%, while according to Bloomberg, the expectations edged down slightly to 2.5%.

The composite measure of one-year ahead inflation expectations of the financial sector¹ (comprising the results of Ipsos and Bloomberg surveys) remained almost unchanged in February relative to a month earlier (2.7%).

Chart 1 Composite measure of inflation expectations of the financial sector



Source: NBS, Ipsos, and Bloomberg.

Since October 2018, the financial sector expects two-year ahead inflation will be exactly at the target midpoint of 3.0%. These inflation expectations have moved within the target tolerance band since their monitoring began (March 2014).

In February 2019, for the second month in a row, the net percentage (NP) of financial institutions considering that business conditions improved over the previous three months recorded an increase, as did the NP of the financial sector expecting an improvement in business and working conditions over the next 12 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 Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater influence on the aggregate result.

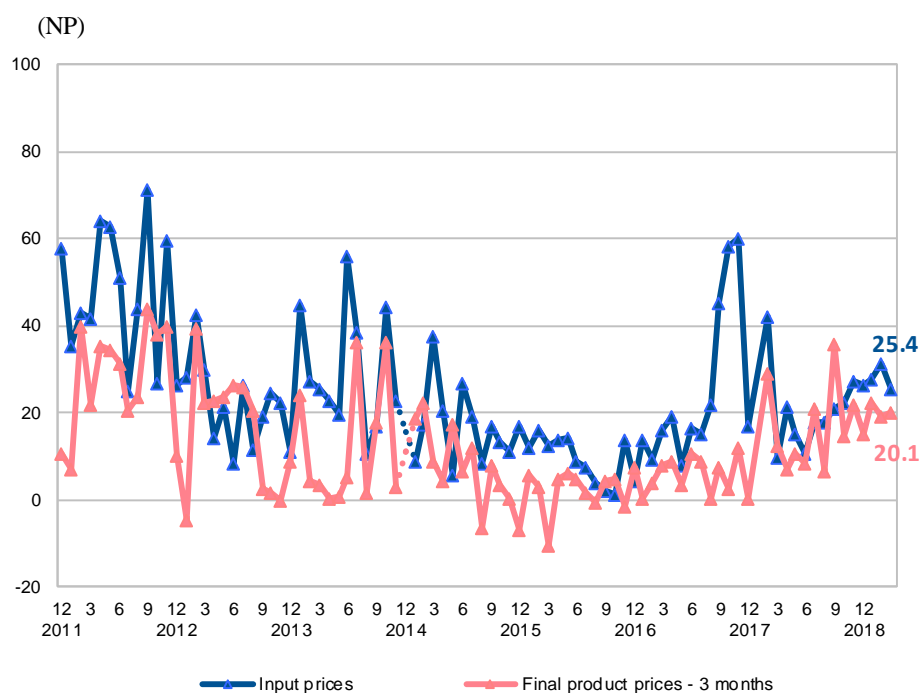
Inflation expectations of the corporate sector

One-year and two-year ahead inflation expectations of the corporate sector stayed unchanged from February. Short-term inflation expectations of the corporate sector stood at 2.3%, while two-year ahead inflation expectations remained at the target midpoint of 3.0%.

The NP of corporates considering that business conditions improved over the previous three months stood at an almost unchanged level relative to the previous survey – 8.3% (8.0% in January). As for the expectations regarding business conditions over the next 12 months, the majority of corporate respondents expect them to stay unchanged.

In percentage terms, the majority of respondents anticipates that the input prices will not change over the next three or twelve months. The NP of corporates expecting an increase in the input prices over the next three and twelve months is lower from the previous survey. The NP of corporates expecting an increase in the prices of final products over the next three months equals 20.1%, almost unchanged relative to the January survey (19.3%).

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

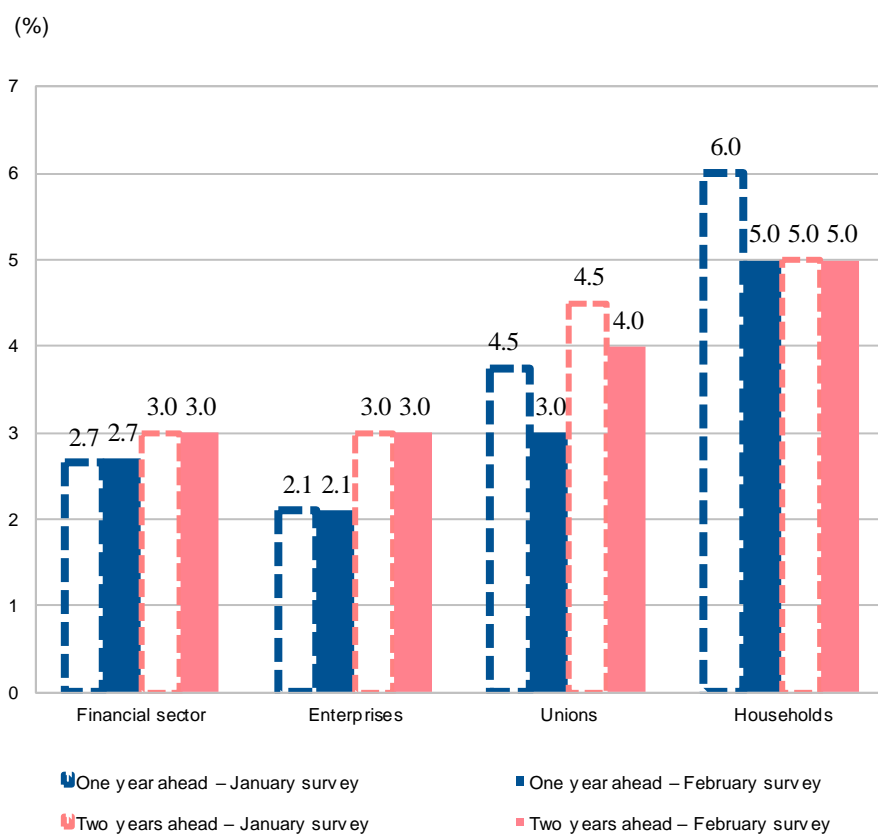
One-year ahead inflation expectations of the trade unions recorded a fall of 0.75 pp in the previous two months, falling from the upper bound of the target tolerance band (4.5% in December 2018) to the target midpoint (3.0% in February). Two-year ahead inflation expectations were also lowered from 4.5% in January to 4.0% in February.

Inflation expectations of the household sector

Quantitative inflation expectations

The February Ipsos survey results indicate that both short-term and medium-term inflation expectations of households stood at 5.0%.

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



Source: Ipsos.

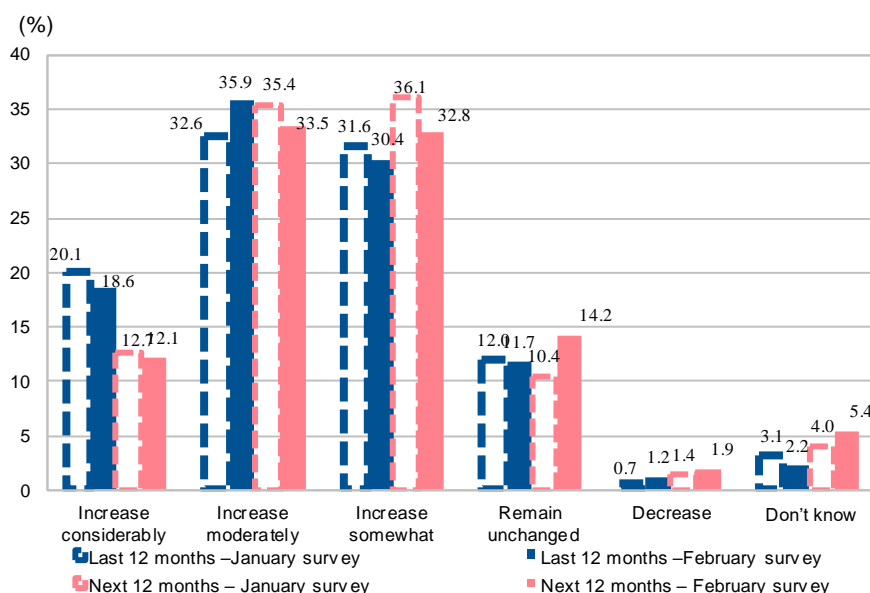
Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (66.4%) still expect prices to rise moderately or somewhat over the next twelve months, which is a lower value compared to the previous survey. The share of respondents expecting prices to remain unchanged over the next twelve months went up (by around 4 pp), while at the same time the share of respondents anticipating prices to increase declined (by around 3 pp).

Relative to the previous survey, the NP of respondents expecting an increase in the monthly bills and food prices recorded a fall. In contrast, the NP of respondents expecting an increase in the prices of oil, alcohol beverages and cigarettes went up, which could be related to higher prices of petroleum products and cigarette price adjustment in February.

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

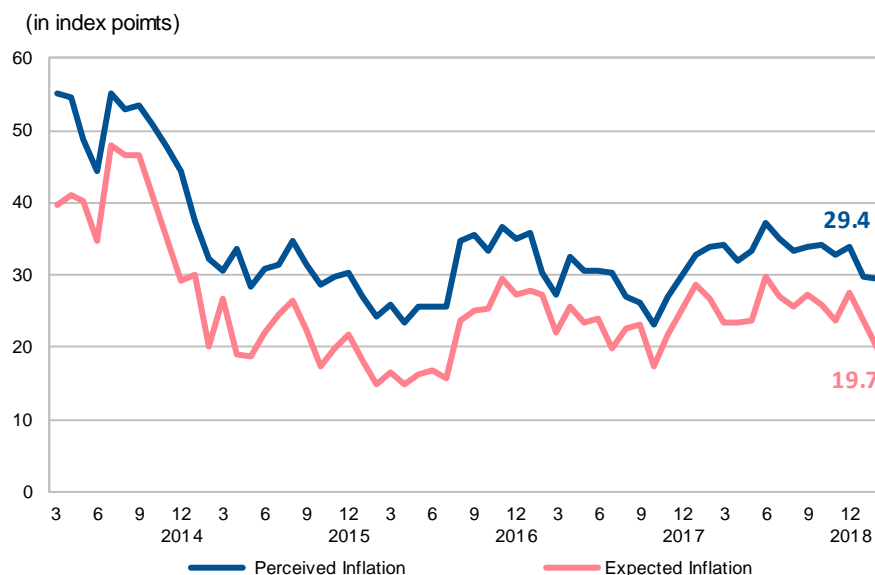


Source: Ipsos.

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.**²

Chart 5 Perceived and expected inflation of households



Source: Ipsos and NBS calculation.

According to the results of the February survey, households have a more optimistic perception of the living standards. In February, the NP of respondents expecting higher living standards over the next twelve months stood at 19.9%, the highest indicator value since March 2018.

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