



NATIONAL BANK OF SERBIA

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

March 2016

Belgrade, April 2016

CONTENTS

Introductory note	3
Summary	4
Inflation expectations of the financial sector	5
Inflation expectations of the corporate sector	6
Inflation expectations of trade unions	7
Inflation expectations of households	7
Quantitative inflation expectations of households	7
Qualitative inflation expectations of households	8

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 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 March survey results, the financial sector and corporates expect price stability to be maintained both one year ahead and over the medium run. One-year ahead expectations of the financial sector declined from February, while rising across other sectors. Medium-term expectations stayed unchanged in the financial and household sectors, while increasing among trade unions and corporates.

According to the Ninamedia survey, inflation expectations of the *financial sector* declined from 2.8% in February to 2.5% in March. One-year ahead inflation expectations of the financial sector have been moving within the target tolerance band for over two years now.

In March, **one-year ahead** inflation expectations of *corporates* increased to 2.5%, thereby returning within the bounds of the target tolerance band. *Household* inflation expectations rose to 6.0%, while inflation expectations of *trade unions* came at 3.5%.

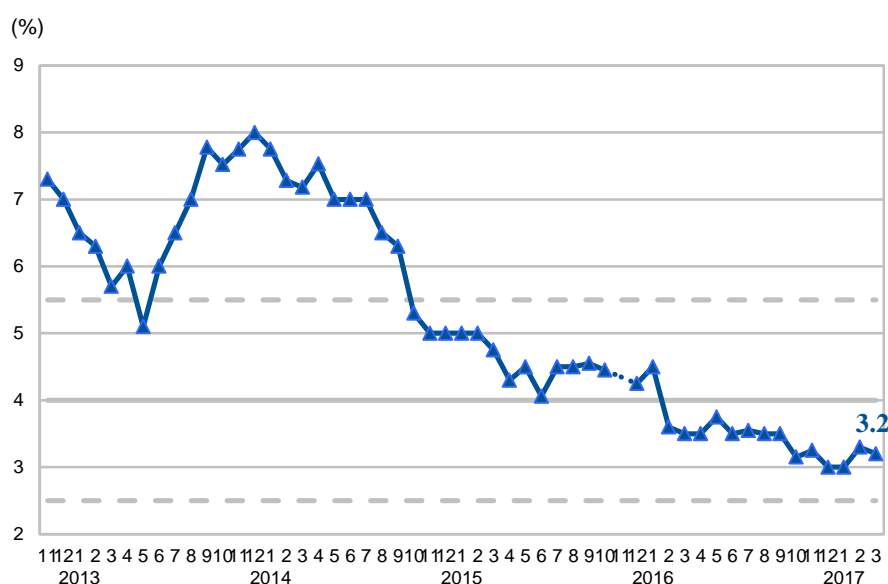
Medium-term inflation expectations of all sectors have been within the target tolerance band for over a year now (thirteenth months).

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 inflation target and indicates the absence of 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 2.5% in March. Bloomberg survey results also show that financial sector expectations have been within the target tolerance band since October 2013, equalling 3.3% in April 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 the results of Ninamedia and Bloomberg surveys) declined from 3.3% in February and reached 3.2% in March.

Medium-term (two-year ahead) inflation expectations of the financial sector have been within the target tolerance band since the inception of the survey (March 2014) and measured 3.5% in March.

¹ Calculated by weighting individual responses by the size of the 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 the aggregate result, which corresponds to the real situation, as their impact on economic flows is somewhat stronger.

Inflation expectations of the corporate sector

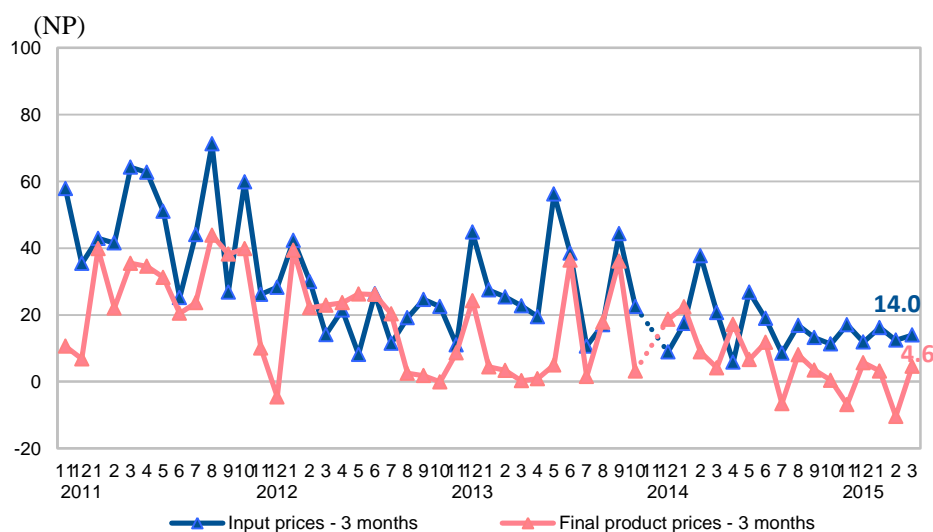
One-year ahead inflation expectations of the corporate sector returned within the bounds of the target tolerance band – coming at 2.5% in March. Low inflation expectations of the corporate sector stem from weaker cost pressures due to low prices of oil and other primary products.

The net percentage² (NP) of enterprises expecting an increase in prices of their *inputs* over the next three months came at 14.0 pp in March (vs. 12.4 pp in February). The NP of respondents expecting an increase in prices of *final products* in the same period was 4.6 pp (vs. the January NP figure of 10.4 pp of respondents expecting a drop in prices of final products). **The majority of respondents anticipated that prices of both inputs (80.4%) and final products (89.7%) would stagnate in the next three months.** In terms of expectations for the next twelve months, results in March are as follows: the NP of enterprises expecting an increase in prices of *inputs* was 29.9 pp (vs. 24.3 pp in February), and of those anticipating an increase in prices of *final products* 16.8 pp (vs. 7.7 pp in February). The March increase in the said indicators from the month before is one of the factors that helped corporates' one-year ahead expectations climb back within the bounds of the target tolerance band.

As regards production/trade, the NP of respondents expecting an increase in the next three months rose to 24.2 pp (from 11.2 pp in February), while the **NP of respondents anticipating an increase in production/trade in the next twelve months was 31.0 pp (vs. 27.6 pp in February).**

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

Chart 2 Expectations of the corporate sector regarding movements in input and final product prices



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

Inflation expectations of trade unions

In March, one-year ahead inflation expectations of trade unions came at 3.5%, rising from 3.0% in February. After posting 3.25% in February, medium-term inflation expectations of trade unions rose to 3.75% in March. They have been within the target tolerance band since March 2015.

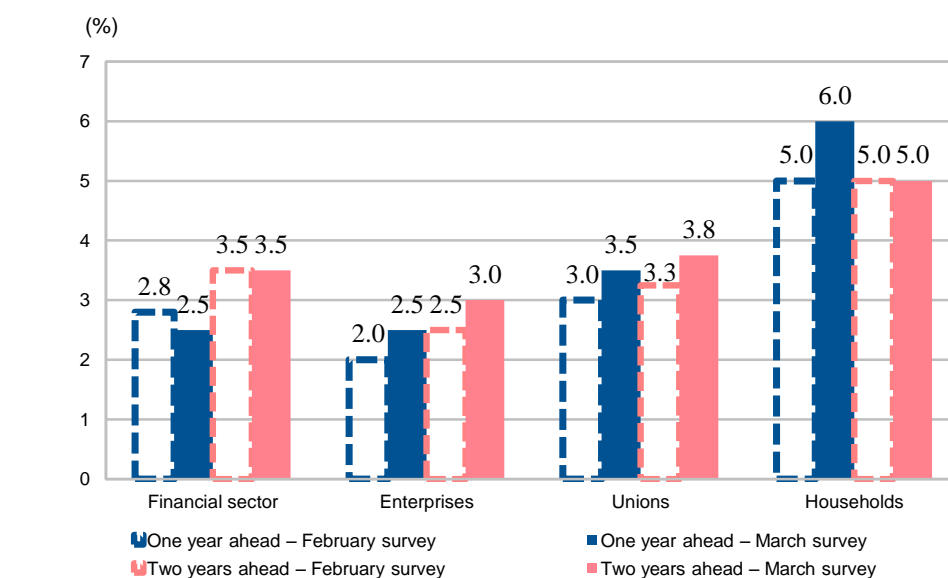
Inflation expectations of households

Quantitative inflation expectations of households

Since October, inflation expectations of households stayed stable at 5.0%, and then rose to 6.0% in March.

Staying at 5.0%, two-year ahead inflation expectations of households remained unchanged for the fourteenth consecutive month, which indicates that households expect inflation to stabilise within the target tolerance band over the medium run.

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

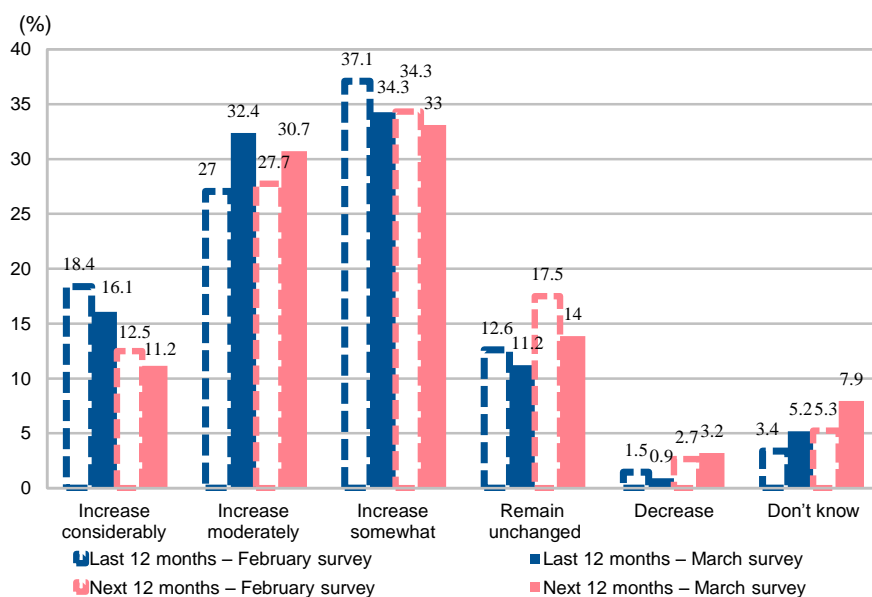


Source: Ninamedia.

Qualitative inflation expectations of households

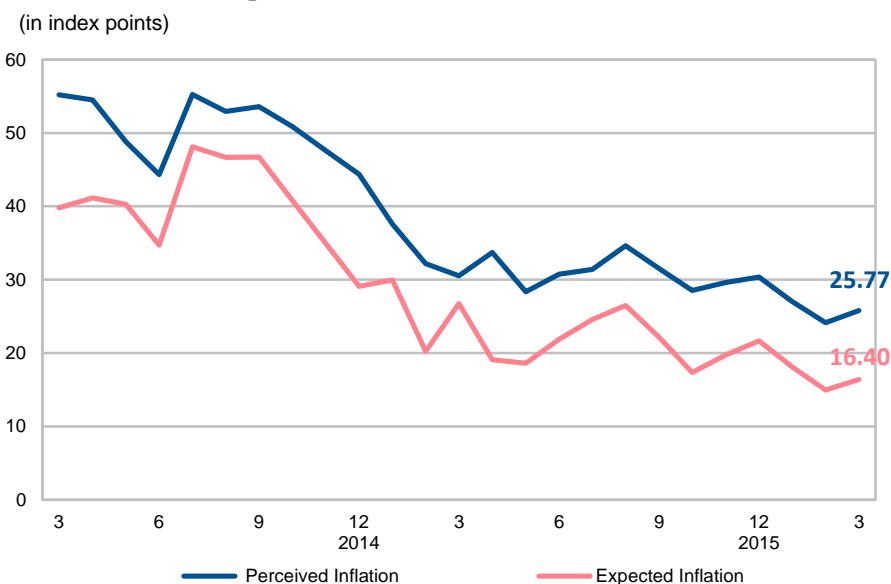
Descriptive (qualitative) expectations of households regarding a rise in prices indicate that the majority of respondents (63.8%) expect a moderate or mild increase in prices in the next twelve months, 13.9% of respondents expect no change in prices, and 3.2% anticipate a fall, while 7.9% of respondents said they did not know. The share of respondents anticipating prices to increase considerably in the coming twelve months touched a new low of 11.2% in March.

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 contributes to the creation of a predictable and stable economic environment, and facilitates the achievement of the main goal of the monetary policy in the mid run.

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

Source: Ninamedia.

In March, the perceived inflation index continued trending above the expected inflation index, **which signals 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 12 months.** Both indicators declined from mid-2014 to mid-2015.

Chart 5 Perceived and expected inflation of households

Source: Ninamedia.