



**NATIONAL BANK OF SERBIA**

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

**Belgrade, April 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 March survey results, market participants expect that price stability will be maintained over both short and medium run.**

According to the results of the Ninamedia survey, one-year ahead inflation expectations of the financial sector continued moving within the target tolerance band ( $3\pm1.5\%$ ) and equalled 3.0% in March.

Corporates expect that inflation will be 2.2% in March 2018, while trade unions and households expect one-year ahead inflation at 2.25% and 5.0%, respectively.

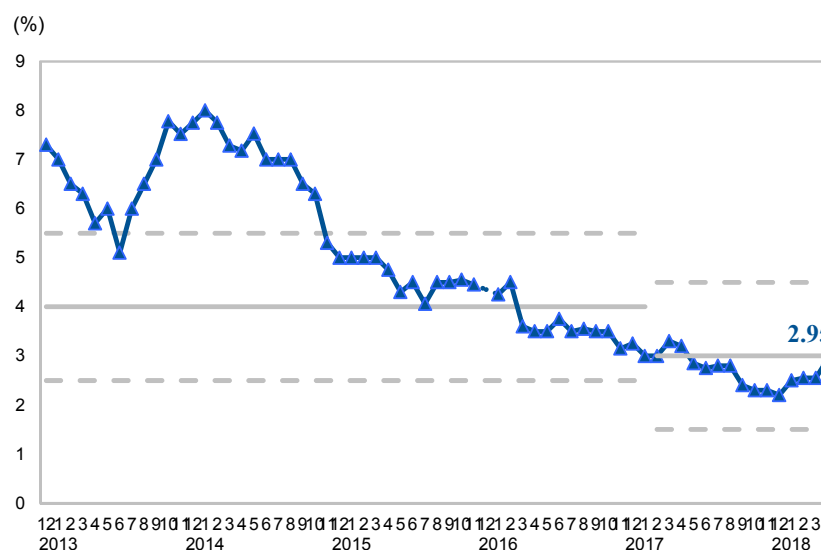
Medium-term (two-year ahead) inflation expectations of all sectors, apart from households, are within the target tolerance band.

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

The results of the Ninamedia survey show that the financial sector expects inflation in March 2018 to equal 3.0% (vs. 2.5% in February). According to the Bloomberg survey results, one-year ahead financial sector expectations have continued to move within the target tolerance band, equalling 3.0% in April (vs. 2.7% in March).

**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 sector<sup>1</sup> (comprising the results of Ninamedia and Bloomberg surveys) came at 2.95% in March, having been at 2.55% in January and February.

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 stayed at 3.0% in March 2017 – unchanged from a month before.

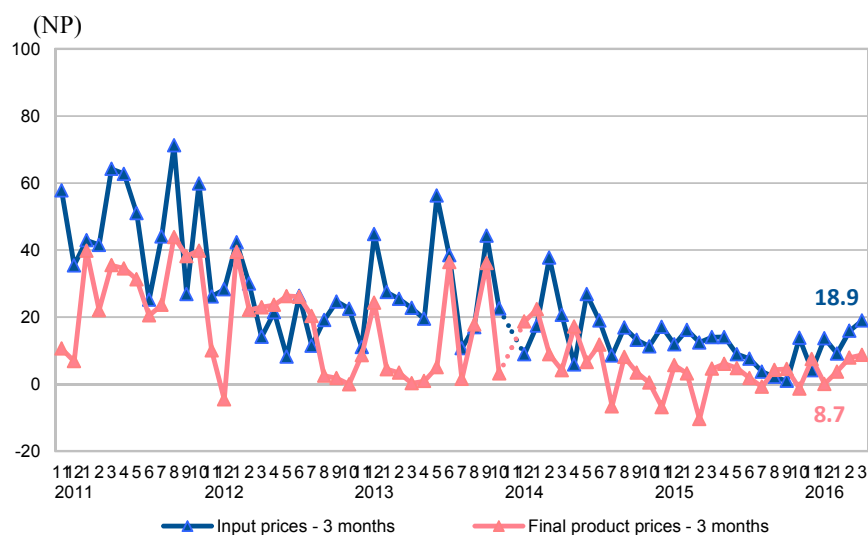
<sup>1</sup> Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater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

## Inflation expectations of the corporate sector

Over the last eleven months (since April 2016), short-term inflation expectations of corporates stood at 2.0%, only to move to 2.2% in March. Firmly anchored inflation expectations of corporates confirm the sector is confident that the achieved price stability will be maintained over both short and medium run.

As in the preceding months, the majority of corporates anticipate that the prices of both inputs (77.3%) and final products (88.1%) will remain unchanged in the next three months. The net percentage<sup>2</sup> (NP) of enterprises expecting an increase in the prices of inputs over the next three months came at 18.9% (vs. 15.9% in February), while the NP of enterprises expecting an increase in the prices of final products was 8.7% (vs. 7.9% in February). Survey results for March show that the NP of enterprises expecting an increase in the prices of *inputs over the next twelve months* was 28.6% (vs. 30.7% in February), and of those anticipating an increase in the prices of *final products* over the same period was 21.2% (vs. 10.6% in February).

**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.

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

As regards production/trade, the NP of respondents expecting an increase over the next three months was 31.7% in March (vs. 43.6% in February). The NP of respondents anticipating an increase in production/trade over the next twelve months equalled 46.6% (vs. 44.3% in February).

## **Inflation expectations of trade unions**

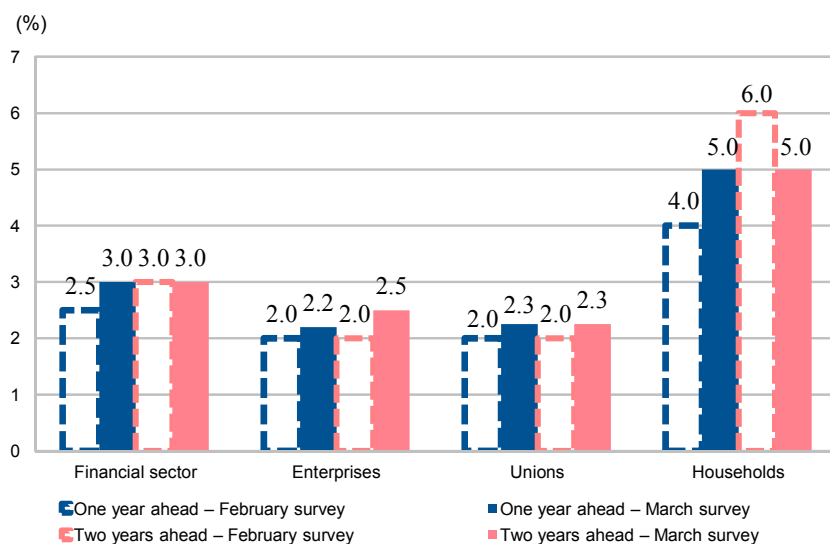
Based on the results of the Ninamedia survey, short-term inflation expectations of trade unions moved within the target band, coming at 2.25% in March (trading previously at 2.0% for three months). Medium-term inflation expectations of trade unions have been moving within the target tolerance band since March 2015 and, like short-term expectations, equalled 2.25% in March 2017 (vs. 2.0% in February).

## **Inflation expectations of the household sector**

### **Quantitative inflation expectations**

Short-term inflation expectations of households have been moving between 5% and 7% for almost two years now. According to the results of the Ninamedia survey for March, one-year ahead inflation expectations of households dropped to 5.0% (from 7.0% in February).

Medium-term (two-year ahead) inflation expectations have been somewhat more volatile over the past few months and slid to 5.0% in March (from 6.0% in February).

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

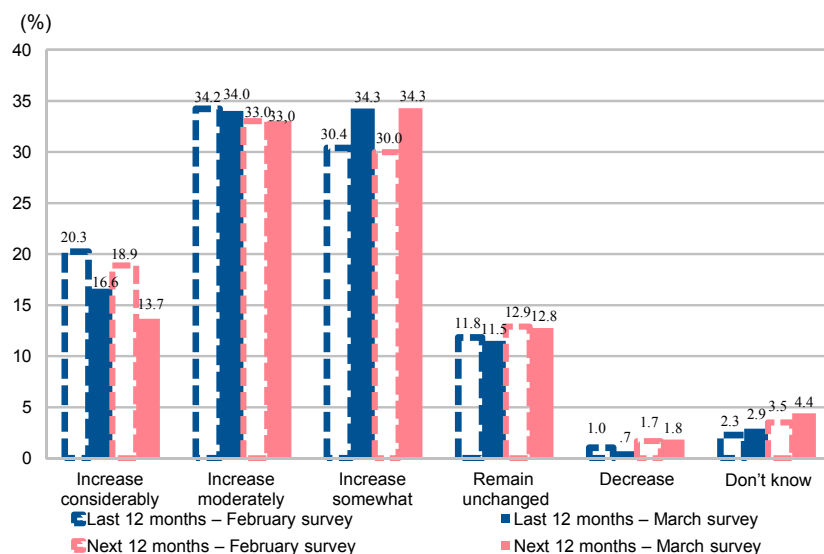
Source: Ninamedia.

### Qualitative inflation expectations

As in previous months, descriptive (qualitative) expectations of households indicate that the majority of respondents (67.3%) expect **prices to rise somewhat or moderately** in the next twelve months. The share of respondents anticipating prices to increase considerably in the coming twelve months declined to 13.7% in March (from 18.9% in February), while 12.8% expect no change in prices and 1.8% anticipate a decline. Of the total, 4.4% of respondents said they did not know.

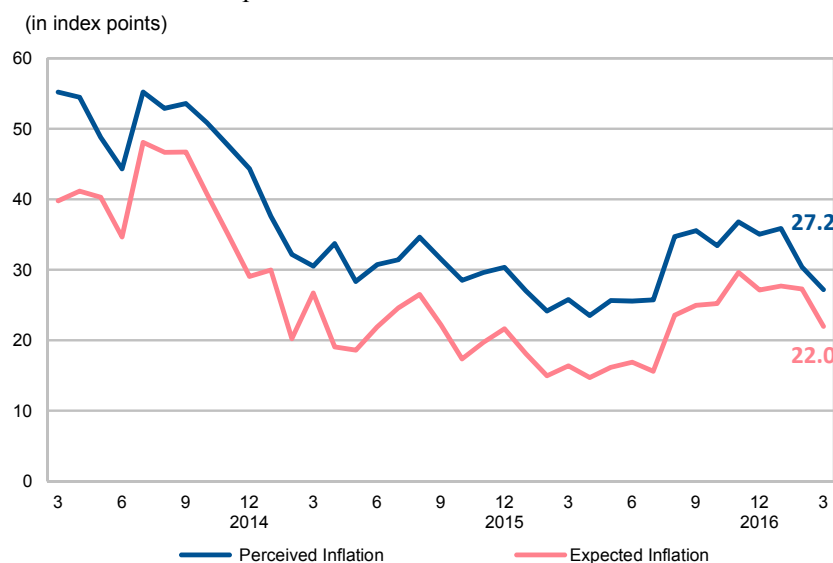
Such trends i.e. majority of respondents expecting prices to increase somewhat or moderately over the next twelve months – reflect a predictable and stable economic environment which facilitates the achievement of the main medium-term goal of the monetary policy.



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

Source: Ninamedia.

The perceived inflation index stayed higher than the expected inflation index, which indicates that households expect inflation in the coming twelve months to be lower than in the year before. 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.**<sup>3</sup>

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

Source: Ninamedia.

<sup>3</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.