



**NATIONAL BANK OF SERBIA**

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

**March 2019**

Belgrade, April 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

**In March, inflation expectations of all sectors, except households, kept moving within the NBS target tolerance band ( $3\pm1.5\%$ ).**

As in the previous month, one- and two-year ahead inflation expectations of the financial sector equalled 2.7% and 3.0% respectively.

Inflation expectations of trade unions and households remained unchanged. Households expected one-year and two-year ahead inflation to stand at 5.0%, while trade unions expected inflation to equal 3.0% in March 2020 and 4.0% in March 2021.

At the same time, one-year ahead expectations of corporates rose from 2.1% in February to 2.5% in March, their while medium-term expectations dropped mildly to 2.9%, but continued to move close to the NBS target midpoint.

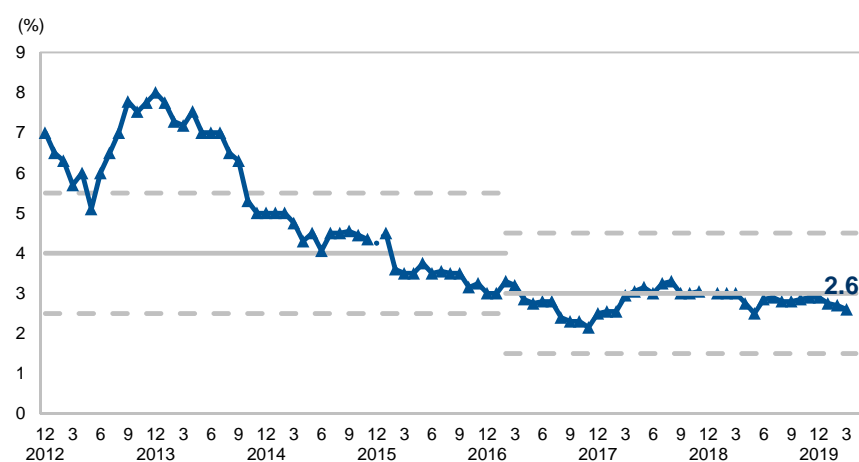
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

According to the March Ipsos survey results, one-year ahead inflation expectations of the financial sector stood at 2.7% for the third month in a row. According to the April Bloomberg survey, one-year ahead inflation expectations of the financial sector stood at 2.6%, which is slightly higher compared to 2.5% in March.

The composite measure of inflation expectations of the financial sector<sup>1</sup> was lowered to 2.6% in March relative to its February value (2.7%).

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



Sources: 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 constantly moved within the target tolerance band since their monitoring began (March 2014).

## Inflation expectations of the corporate sector

One-year ahead inflation expectations of the corporate sector edged up to 2.5% relative to its February value (2.1%), moving closer to the NBS target midpoint (3.0%). Two-year ahead inflation expectations remained close to the target midpoint, equalling 2.9%.

<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.

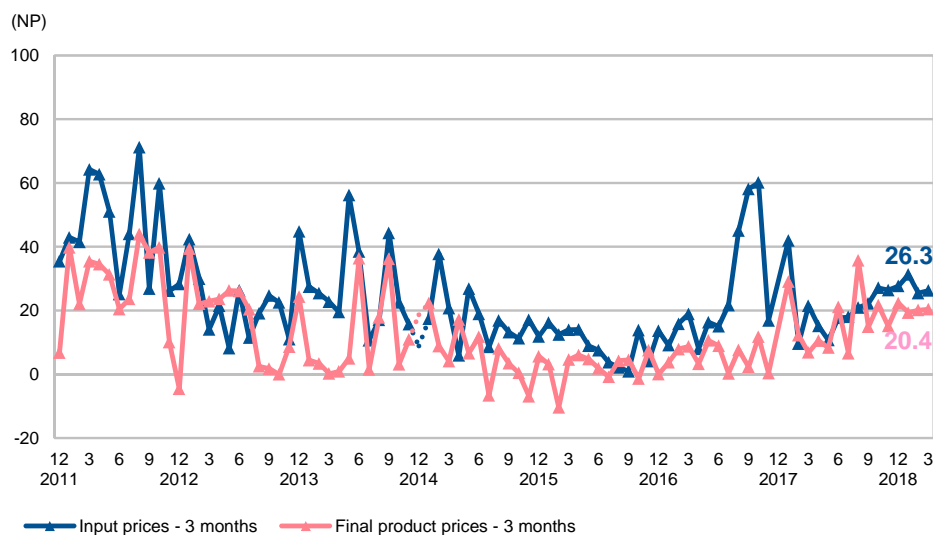
The corporates were more optimistic regarding the improvement of business conditions over the next 12 months, while they were less optimistic regarding the assessment of business conditions over the previous three months.

The majority of respondents anticipated that the input prices would not change over the next three or twelve months. According to the March survey results, the NP of corporates expecting a rise in the prices of their products/services over the next three months remained almost unchanged.

## Inflation expectations of trade unions

According to the Ipsos survey results, in March, one- and two-year ahead inflation expectations of trade unions remained unchanged relative to February, at 3.0% and 4.0%, respectively.

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



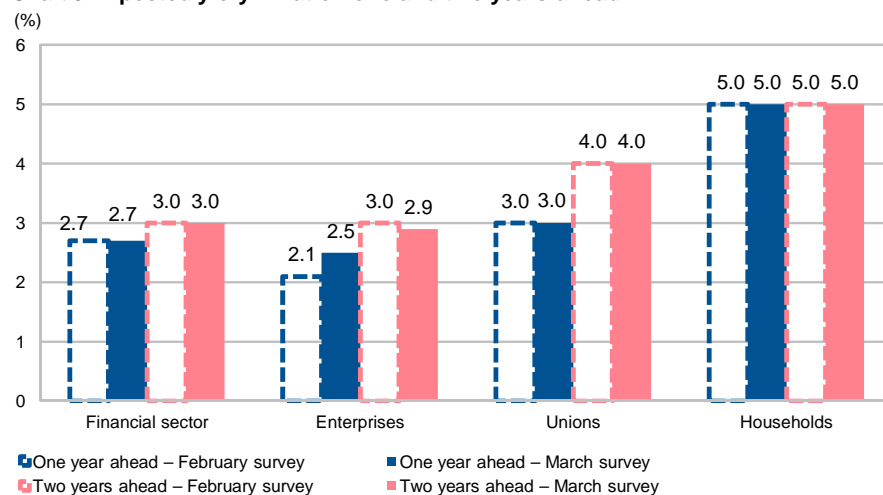
\*Above zero indicates growth, and below zero decline.

Source: Ipsos/Ninamedia.

## Inflation expectations of the household sector

### Quantitative inflation expectations

The March Ipsos survey results indicate that both short- 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.

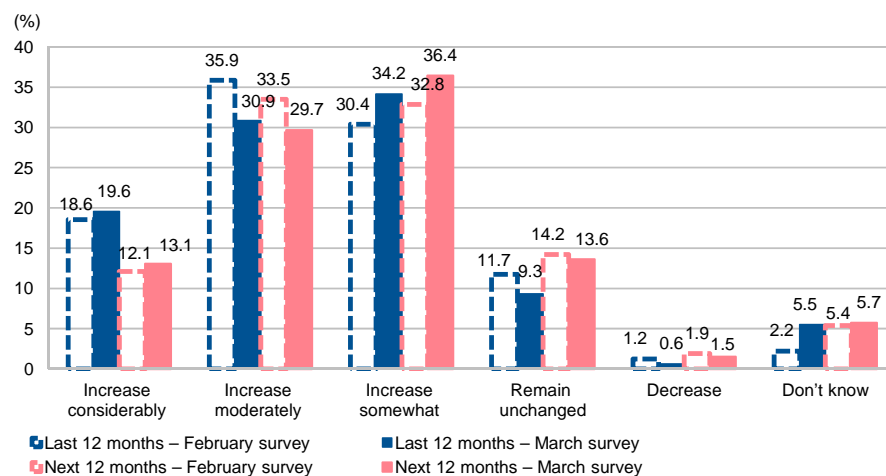
## Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (66.1%) still expect prices to rise moderately or somewhat over the next twelve months. The share of respondents expecting prices to increase somewhat over the next twelve months went up (by around 4 pp), while at the same time the share of respondents anticipating prices to increase moderately declined (by around 4 pp).

Relative to the previous survey, the NP of respondents expecting an increase in the monthly bills and in the prices of oil, alcohol beverages and cigarettes recorded a fall. In contrast, the NP of respondents expecting an increase in food prices remained almost unchanged.

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

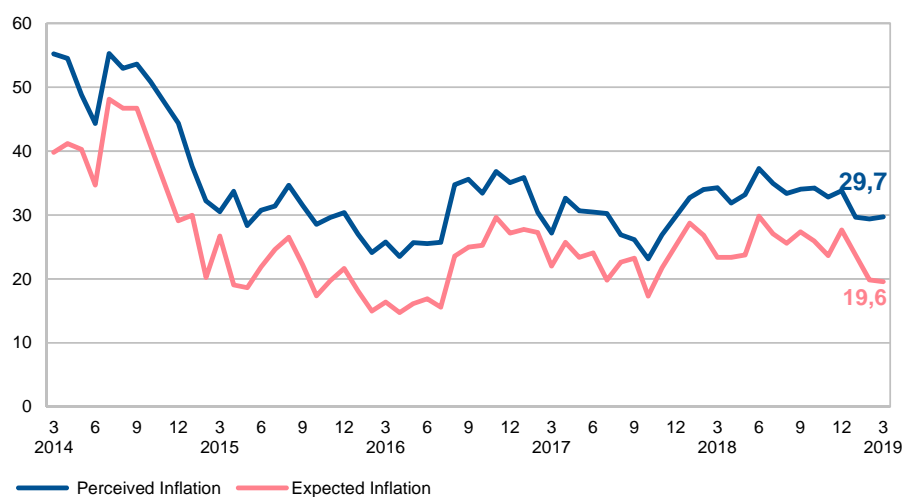


Source: Ipsos.

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

(in index points)



Sources: 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*.

[http://www.nbs.rs/system/galleries/download/pdf\\_ioi/ioi\\_02\\_2016.pdf](http://www.nbs.rs/system/galleries/download/pdf_ioi/ioi_02_2016.pdf)