



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

March 2020

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

The results of the March Ipsos survey indicate that both short-term and medium-term inflation expectations of all sectors, except households, ranged from 2.0% to 3.0%.

According to the results of the Ipsos March survey, short-term inflation expectations of the financial and corporate sectors were unchanged at 2.0%. One-year ahead inflation expectations of trade unions edged down from 2.2% to 2.0%. Inflation expectations of households, which are usually higher than those of other sectors, picked up to 8.0% (5.0% in February).

Medium-term inflation expectations of the financial sector stood at 2.5% in March, which is slightly higher compared to the previous survey (2.3%), while those of corporates, trade unions and households equalled 2.0%, 3.0% and 5.0% respectively, according to March Ipsos survey.

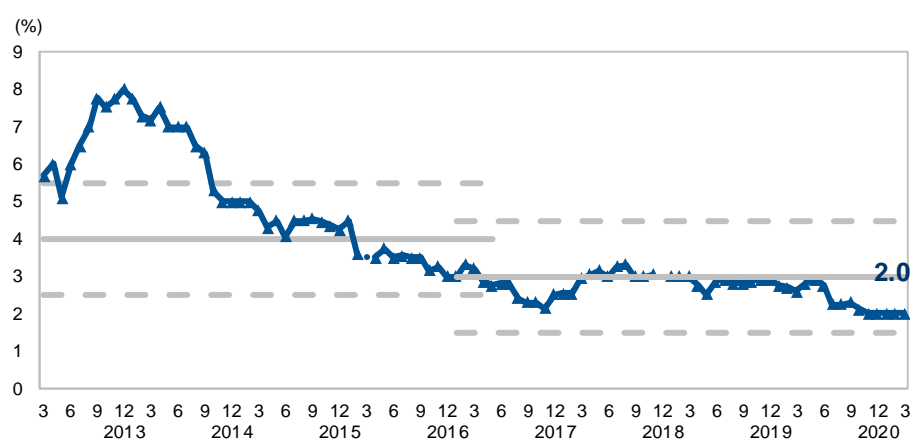
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of the Ipsos survey, short-term inflation expectations of the financial sector stood at 2.0% in March as well, unchanged from September 2019. According to Bloomberg's April survey, one-year ahead inflation expectations of the financial sector are at 2.3%, slightly higher compared to the previous survey (2.2%).

Based on the responses from the March survey, the composite measure of inflation expectations of the financial sector¹ remained stable 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 stood at 2.5% in March, which is slightly higher compared to the previous survey (2.3%). 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

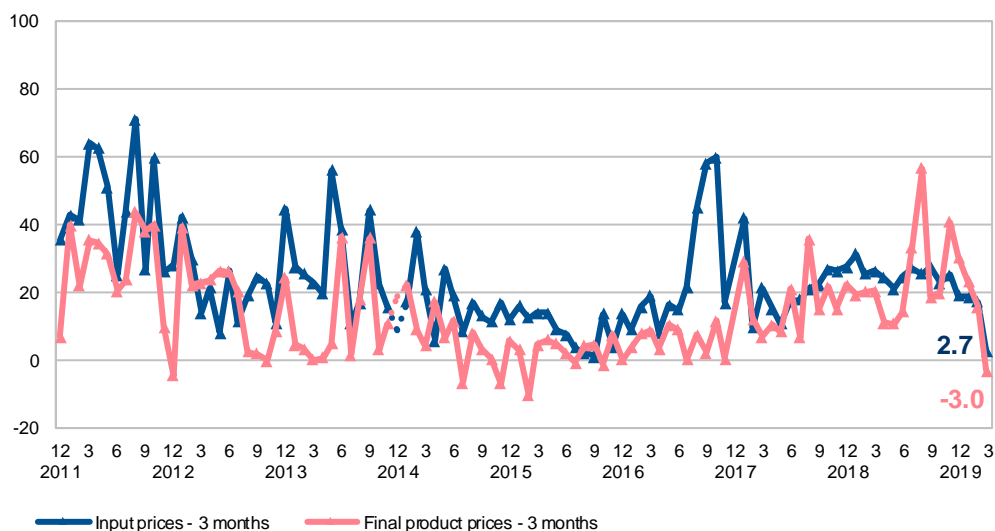
One-year and two-year ahead inflation expectations of the corporate sector stayed unchanged at 2.0% since early 2020.

Due to the current crisis and uncertainty about the effects it will have on the overall economic activity, there was a significant increase in the share of corporates expecting deterioration in business conditions and a decline in trading

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.

volumes/production over the next three months, as well as over the next twelve months.

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.

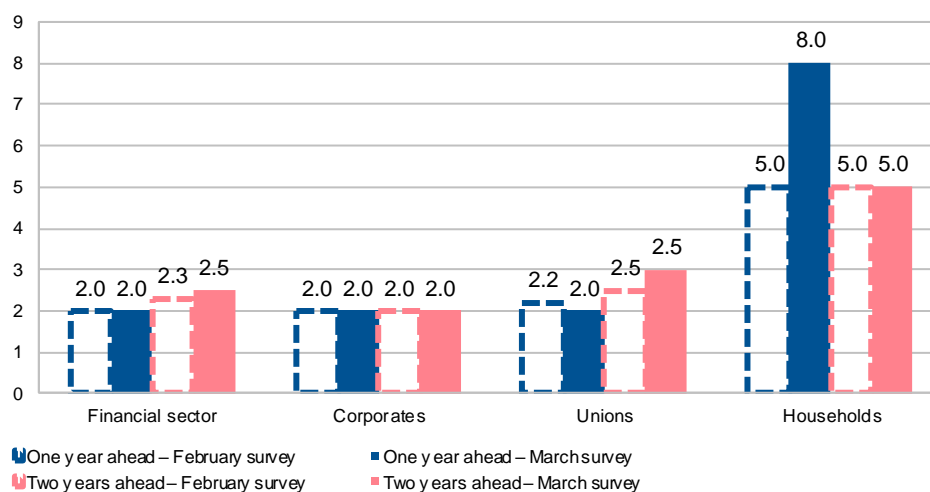
Source: Ipsos/Ninamedia.

Almost 90% of respondents anticipated no changes in the expected prices of inputs and final products over the next three months.

Inflation expectations of trade unions

According to the March survey results, one-year ahead inflation expectations of trade unions declined to 2.0% (2.2% in February), while medium-term inflation expectations edged up from 2.5% to 3.0%.

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



Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

Short-term inflation expectations of households picked up to 8% in March, after being stable at 5% for eight months (the highest since July 2015).

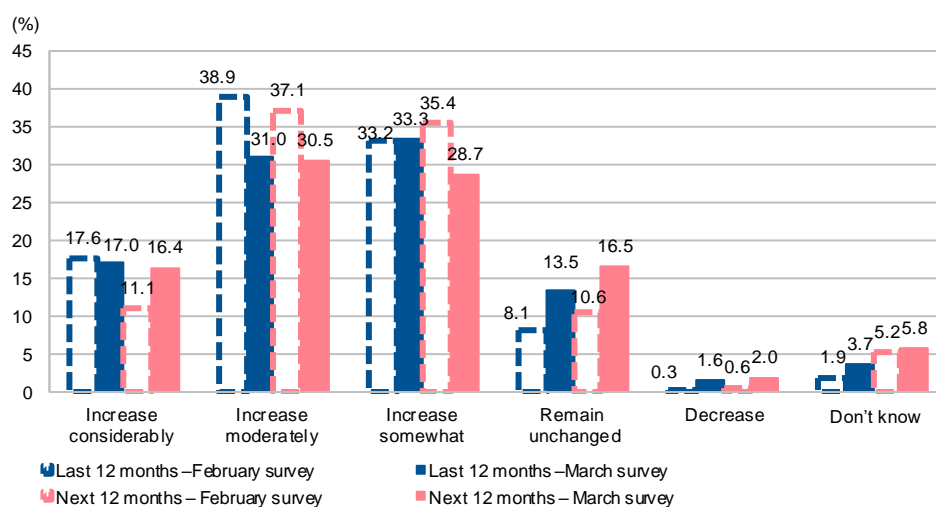
We assume that this is a temporary increase in inflation expectations of households caused by the current situation with the coronavirus contagion, as the results of the qualitative survey indicate that the largest share of households (around 60%) still expect prices to increase moderately or somewhat over the next twelve months.

The share of respondents anticipating prices to increase considerably over the next twelve months equalled 16.4% in March (11.1% in February). The share of respondents anticipating prices to increase moderately and somewhat decreased by 0.7 pp.

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.

Compared to the previous survey, there was a slight increase in the NP of respondents expecting an increase in monthly bills and food prices.

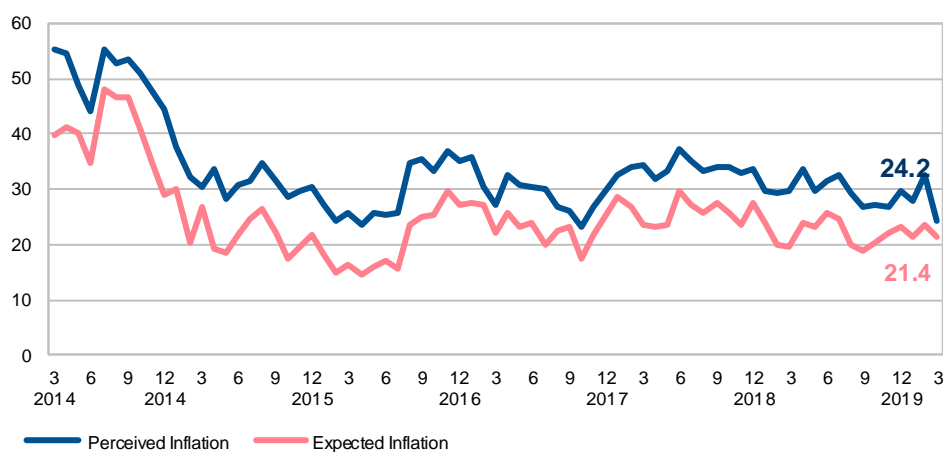
Chart 4 Distribution of household responses by perceived and expected inflation



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.**²

Chart 5 **Perceived and expected inflation of households**
(in index points)



Sources: Ipsos and NBS calculation.

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).