



NATIONAL BANK OF SERBIA

**REPORT ON THE RESULTS OF THE INFLATION
EXPECTATION SURVEY**
April 2017

Belgrade, May 2017

CONTENTS

Introductory note	3
Summary	Error! Bookmark not defined.
Inflation expectations of the financial sector	4
Inflation expectations of the corporate sector	5
Inflation expectations of trade unions	7
Inflation expectations of the household sector	7
Quantitative inflation expectations	7
Qualitative inflation expectations	Error! Bookmark not defined.

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 April survey results, market participants expect that inflation will remain within the target band, over both short and medium run.

According to the results of the Ninamedia survey, short-term inflation expectations of the financial sector continued moving within the target band ($3\pm 1.5\%$), and equalled 3.0% in April.

At the same time, corporates expect that inflation will be 3.0% in April 2018, while trade unions and households expect inflation at 3.5% and 7.0% respectively.

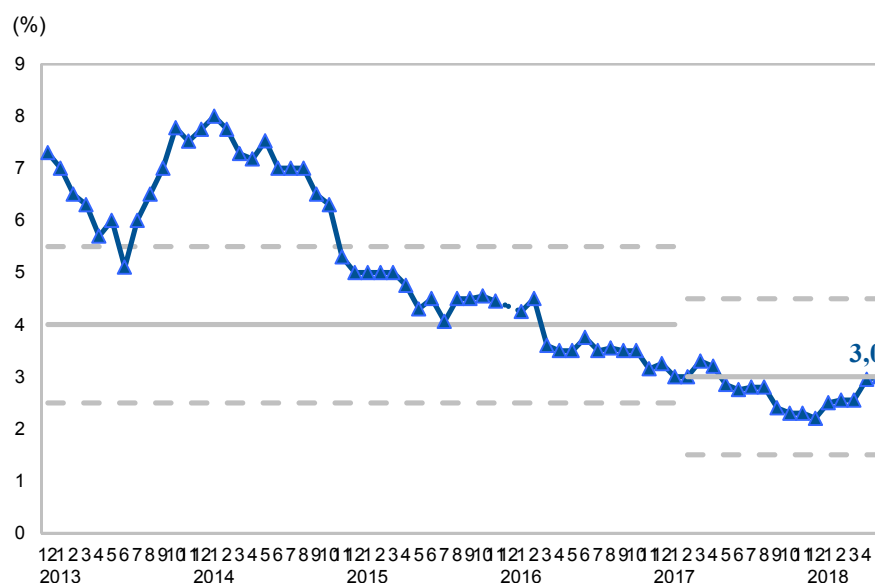
Two-year ahead (medium-term) inflation expectations of all sectors, apart from households, also continued to be within the target band.

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 one-year ahead inflation expectations of the financial sector in April were kept at the March level of 3.0%. According to the Bloomberg survey results, financial sector expectations have continued to move within the target band, equalling 3.2% in May 2018.

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 sector¹ (comprising the results of Ninamedia and Bloomberg surveys) remained almost unchanged in April, at 3.0%, compared to March (2.95%).

Medium-term inflation expectations of the financial sector have been within the target band since the inception of the survey (March 2014) and equalled 3.5% in April (vs. 3.0% in March).

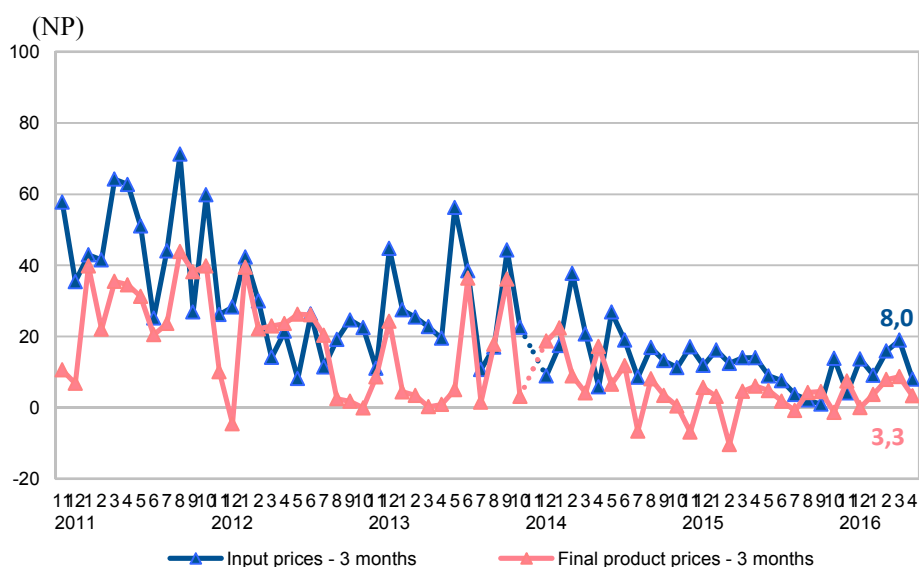
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater influence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

Inflation expectations of the corporate sector

Short-term and medium-term inflation expectations of corporates stood at 3.0% in April. According to their responses, a slight increase in inflation expectations is the consequence of oil price growth in the world market with expected acceleration of economic activity. Their moving within the target band indicates that corporates are confident that the achieved price stability will be maintained over both short and medium run.

At the same time, **in April, as in the preceding months, the majority of corporates anticipated price stability of both inputs (87.6%) and final products (82.9%) in the next three months.** Moreover, the net percentage² (NP) of enterprises expecting an increase in the prices of inputs decreased to 8.0% (vs. 18.9% in March) and the NP of enterprises expecting an increase in the prices of final products decreased to 3.3% (vs. 8.7% in March). Additionally, April survey results show that the NP of enterprises expecting an increase in the prices of *inputs over the next twelve months* was 16.3% (vs. 28.6% in March), while the NP of enterprises anticipating an increase in the prices of *final products* over the same period was 13.6% (vs. 21.2% in March).

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.

² 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 corporates expecting an increase over the next three months was 36.9% in April (vs. 31.7% in March). At the same time, the NP of respondents anticipating an increase in production/trade over the next twelve months was 33.7% in April.

Inflation expectations of trade unions

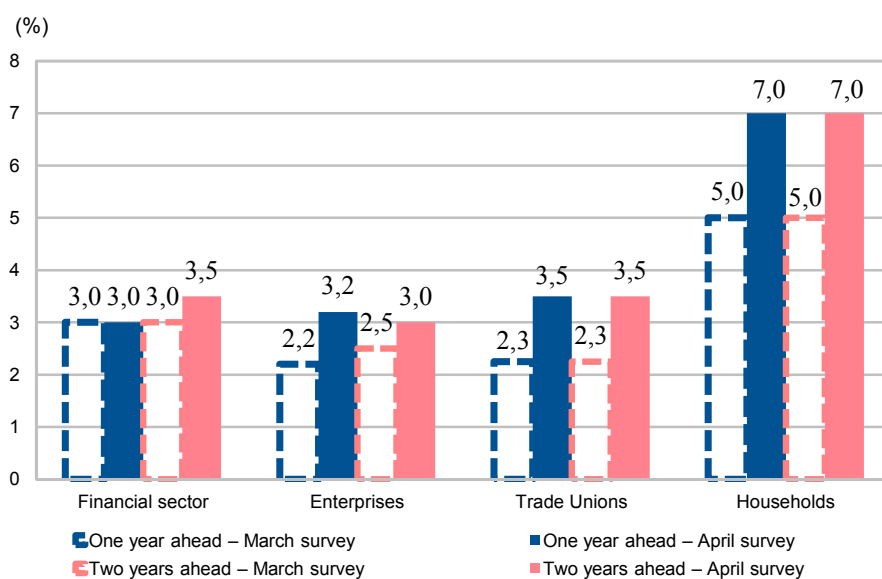
Based on the results of the Ninamedia survey, short-term and medium-term inflation expectations of trade unions are within the target band, coming at 3.5% in April (vs. 2.25% in March). Trade unions expect an increase in wages in the forthcoming period, which should positively affect consumption, living standard, and contribute to further expansion of economic activity.

Inflation expectations of the household sector

Quantitative inflation expectations

One-year ahead inflation expectations of the household sector have been moving between 5% and 7% for almost two years now. Results of the Ninamedia survey show that one-year ahead inflation expectations of households were at the level of 7.0% in April (vs. 5.0% in March).

Medium-term (two-year ahead) inflation expectations of households are commonly more volatile and higher as compared to the expectations of other sectors, so households consider that inflation will reach 7.0% in April 2019 (vs. 5.0% in March).

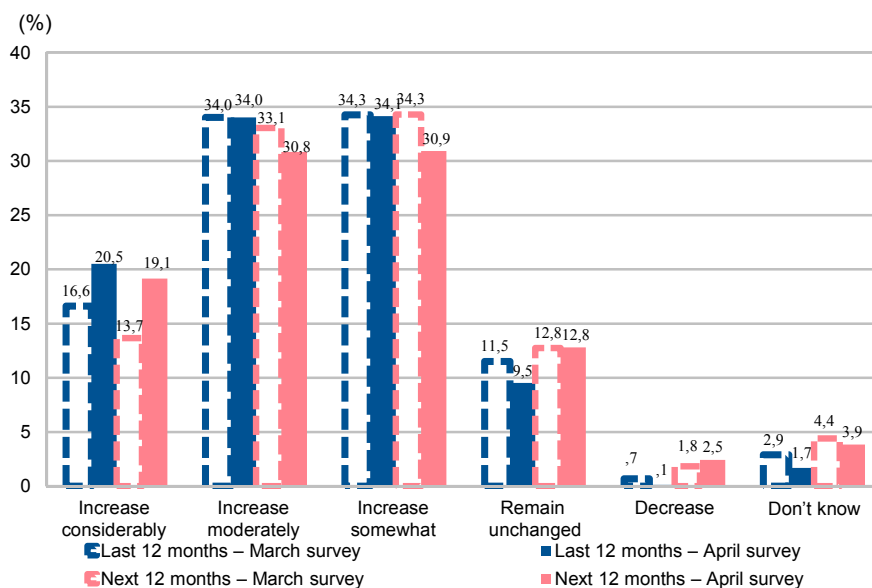
Chart 3 Expected y-o-y inflation one and two years ahead

Source: Ninamedia.

Qualitative inflation expectations

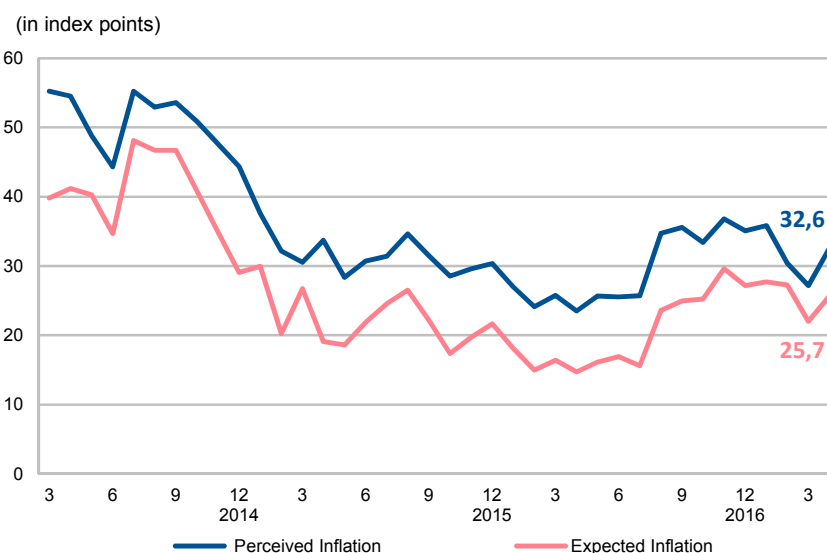
As in previous months, the results of descriptive (qualitative) expectations indicate that the majority of respondents (61.7%) expect **prices to rise somewhat or moderately** in the next twelve months. At the same time, the share of respondents anticipating prices to increase considerably in the coming twelve months was at the level of 19.1% in April (vs. 13.7% in March), while 12.8% expect no change in prices and 2.5% expect a decline. Of the total, 3.9% of respondents said they did not know.

Such trends, i.e. the majority of respondents expecting prices to increase somewhat and 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, indicating that households expect inflation in the coming 12 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**³.

Chart 5 Perceived and expected inflation of households

Source: Ninamedia.

³ 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.