



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

April 2019

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

One-year ahead inflation expectations of the financial sector stood at 2.8% (slightly higher compared to 2.7% in March), while two-year ahead inflation expectations stood at 3.0% (unchanged from March).

One-year ahead expectations of corporates rose from 2.5% in March to 2.6% in April, while their medium-term expectations remained unchanged at 2.9%.

The trade unions expect inflation to be at the NBS target midpoint (3.0%) in April 2020 and in April 2021. One-year ahead inflation expectations of households, which are usually higher than those of other sectors, stood at 6.0% in April and two-year ahead inflation expectations stayed unchanged at 5.0%.

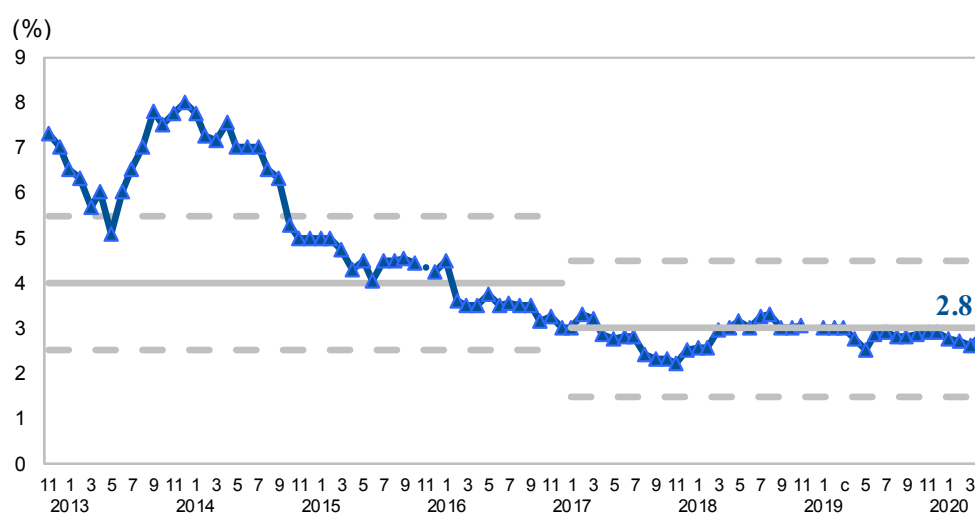
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of the **Ipsos April survey**, one-year ahead inflation expectations of the financial sector edged up slightly to 2.8% in April, after being at 2.7% for three months. The **May Bloomberg survey** results indicate that one-year ahead inflation expectations of the financial sector stood at the target midpoint of 3.0%, which is an increase from the previous survey (April 2.6%).

The composite measure of one-year ahead inflation expectations of the financial sector¹ (comprising the results of the Ipsos and Bloomberg surveys) also recorded a slight increase to 2.8% in April (2.6% in March).

Chart 1 Composite measure of inflation expectations of the financial sector



Source: NBS, Ipsos, and Bloomberg.

Since October 2018, the financial sector expects two-year ahead inflation to 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).

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.

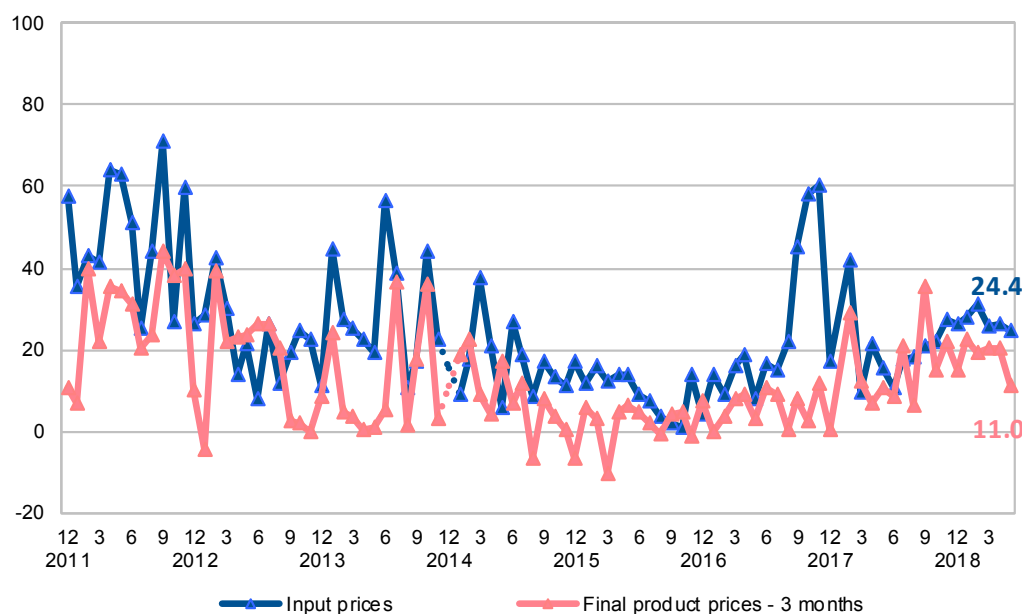
Inflation expectations of the corporate sector

One-year ahead inflation expectations of the corporate sector were slightly higher at 2.6% relative to the March survey (2.5%), moving closer to the NBS target midpoint (3.0%). Two-year ahead inflation expectations remained close to the target midpoint and equalled 2.9%.

The corporates were slightly more optimistic regarding the improvement of business conditions over the previous three months, as well as over the next twelve months.

The majority of respondents anticipated that the input prices would not change over the next three or twelve months. At the same time, there was a drop in the NP of corporates expecting that the prices of their products/services would rise over the next three months, while the NP of those expecting a rise in the prices of their products over the next twelve months remained almost unchanged relative to the previous survey.

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.

Inflation expectations of trade unions

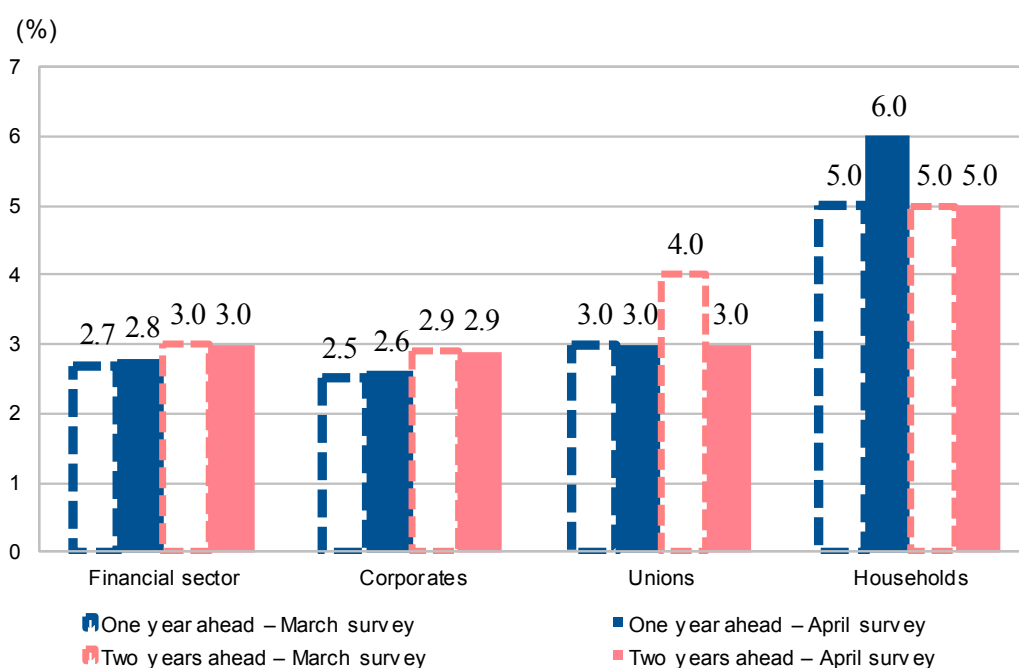
According to the Ipsos survey results, in April, one-year and two-year ahead inflation expectations of trade unions were at the 3.0% target.

Inflation expectations of the household sector

Quantitative inflation expectations

According to the results of the April Ipsos survey, one-year ahead inflation expectations of households rose by 1.0 pp relative to the previous survey and equalled 6.0%. Two-year ahead inflation expectations have stood at 5.0% since December 2018.

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



Source: Ipsos.

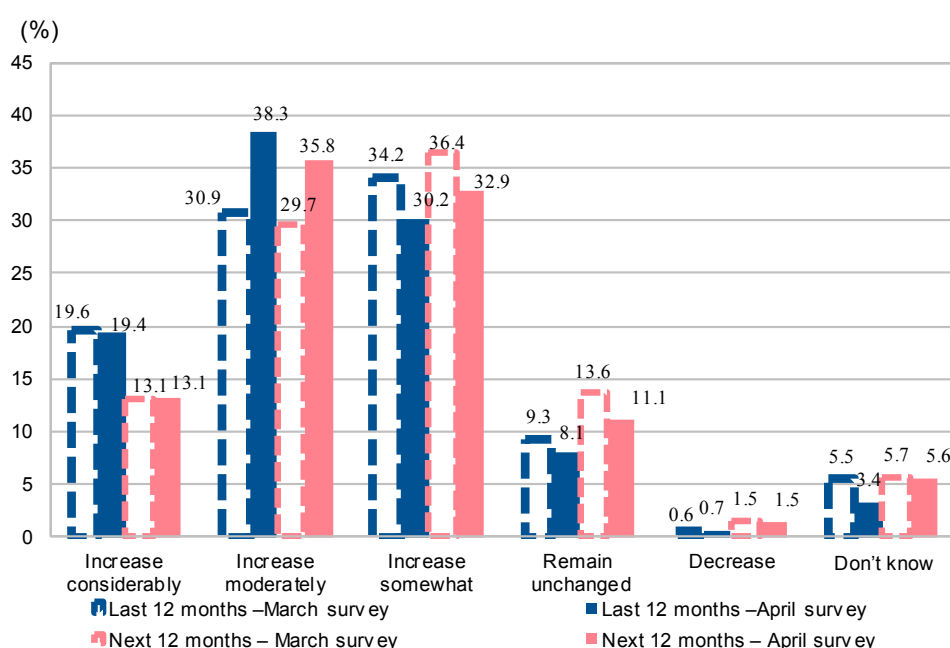
Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (68.7%) still expect prices to rise moderately or somewhat over the next twelve months. The share of respondents expecting prices to increase moderately over the next twelve months went up (by around 6 pp). At the same time, the share of respondents anticipating prices to increase somewhat declined (by around 4 pp), the same as the share of those expecting prices to stay unchanged (by around 2 pp).

Relative to the previous survey, the NP of respondents expecting an increase in the prices of food products went up, which could be related to the increase in food prices in place since the start of the year. The NP of respondents expecting an increase in the prices of household cleaning products, oil and clothes and footwear also edged up slightly.

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.

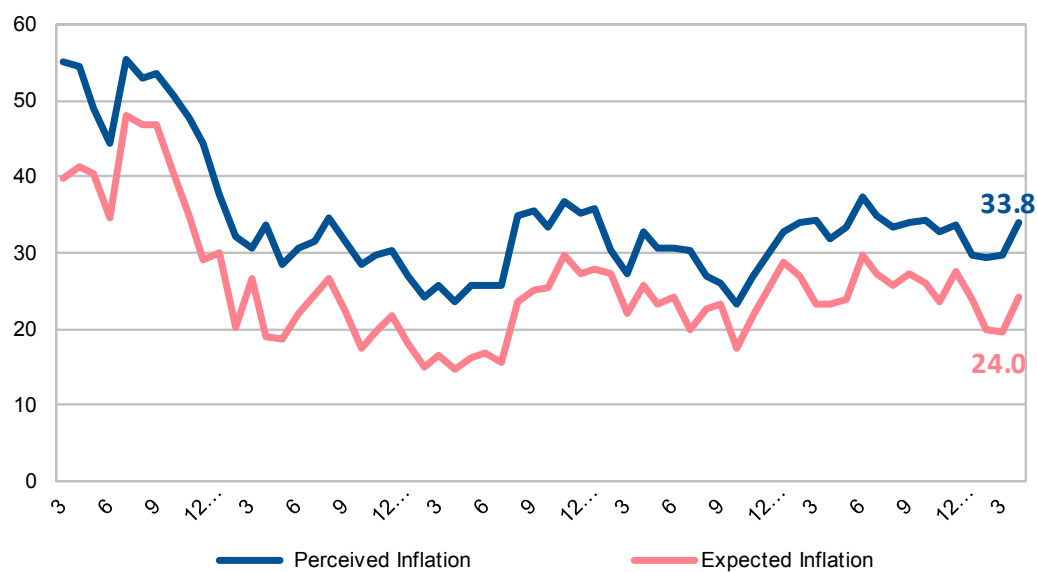
Chart 4 Distribution of household responses by perceived and expected inflation



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.**²

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

Chart 5 Perceived and expected inflation of households

Source: Ipsos and NBS calculation.