



NATIONAL BANK OF SERBIA

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

**April 2020**

Belgrade, May 2020

**Contents:**

Introductory note.....	2
Overview.....	3
Inflation expectations of the financial sector.....	3
Inflation expectations of the corporate sector.....	4
Inflation expectations of trade unions.....	5
Inflation expectations of the household sector .....	6
Quantitative and qualitative inflation expectations .....	6

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

**The April Ipsos survey results indicate that both short-term and medium-term inflation expectations of all sectors except for households kept moving in the lower part of the target band ( $3\pm1.5\%$ ).**

According to the results of the April Ipsos survey, short-term inflation expectations of the financial sector and trade unions were unchanged at 2.0%. One-year ahead inflation expectations of the corporate sector were lowered slightly – from 2.0% to 1.8%. Usually higher than those of other sectors, inflation expectations of households returned to 5.0% in April, after a temporary rise in March (8.0%).

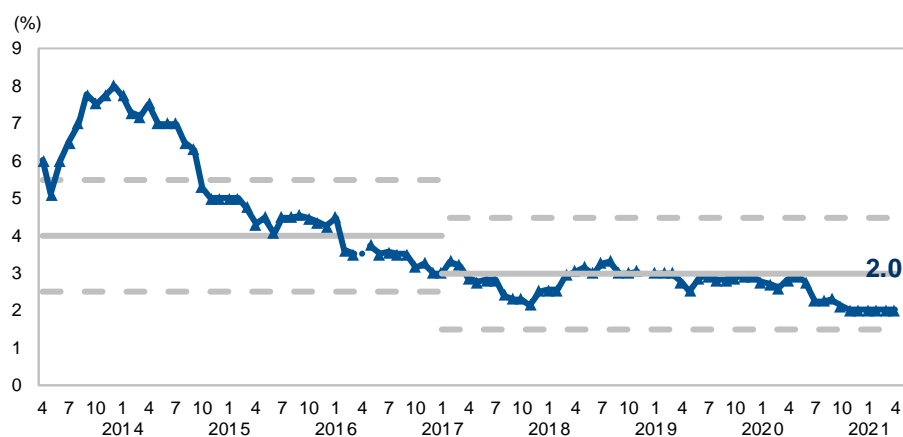
Medium-term inflation expectations of the financial and corporate sectors remained unchanged from the March survey, at 2.5% and 2.0%, respectively. Representatives of trade unions expect inflation to be at 2.5% for two years ahead (3.0% in March) and households at 5.0% (unchanged from the beginning of the year).

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 April Ipsos survey, short-term inflation expectations of the financial sector stood at 2.0%, staying unchanged for eight consecutive months. According to Bloomberg's May survey, one-year ahead inflation expectations of the financial sector are at 2.2%, which is slightly lower compared to the previous survey (2.3%).

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



Sources: NBS, Ipsos, and Bloomberg.

Judging by April surveys, the composite measure of inflation expectations of the financial sector<sup>1</sup> remained stable at 2.0%.

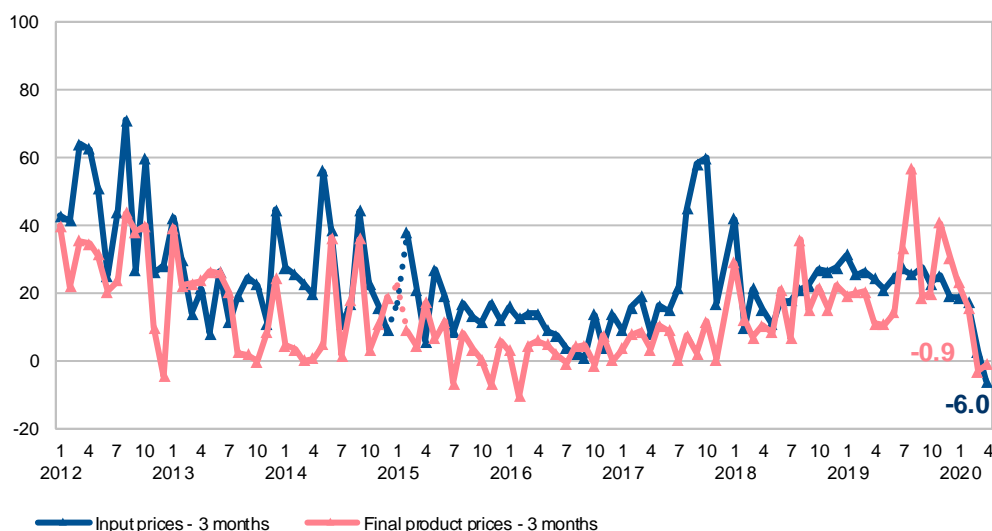
The financial sector medium-term inflation expectations (for April 2022) also remained unchanged, at 2.5%. Medium-term inflation expectations of the financial sector have moved within the target tolerance band since the introduction of this survey question in March 2014.

## Inflation expectations of the corporate sector

After equalling 2.0% for three months, one-year ahead inflation expectations of the corporate sector decreased slightly in April (1.8%). Medium-term inflation expectations were unchanged in April as well, at 2.0% (unchanged from December 2019).

<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.

**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.

Sources: Ipsos/Ninamedia.

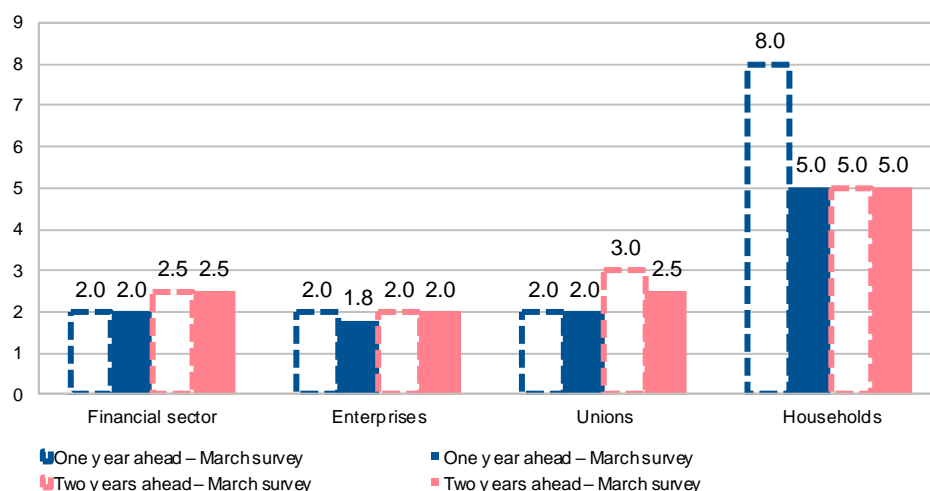
From the last survey, a decline was recorded in the percentage of corporates expecting worsening of business conditions in the coming twelve months. There is optimism in relation to the availability of loans as well, and the increase in the number of employees in the coming twelve months. At the same time, the percentage of corporates expecting a rise in manufacturing/turnover both over the next three and twelve months dropped.

More than 3/4 of respondents do not expect the prices of input and final products to change over the next three months.

## **Inflation expectations of trade unions**

According to the results of the April survey, one-year ahead inflation expectations of trade unions did not change from the previous survey (2.0%), while medium-term inflation expectations dropped from 3.0% in March, to 2.5% in April.

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



## Inflation expectations of the household sector

### Quantitative and qualitative inflation expectations

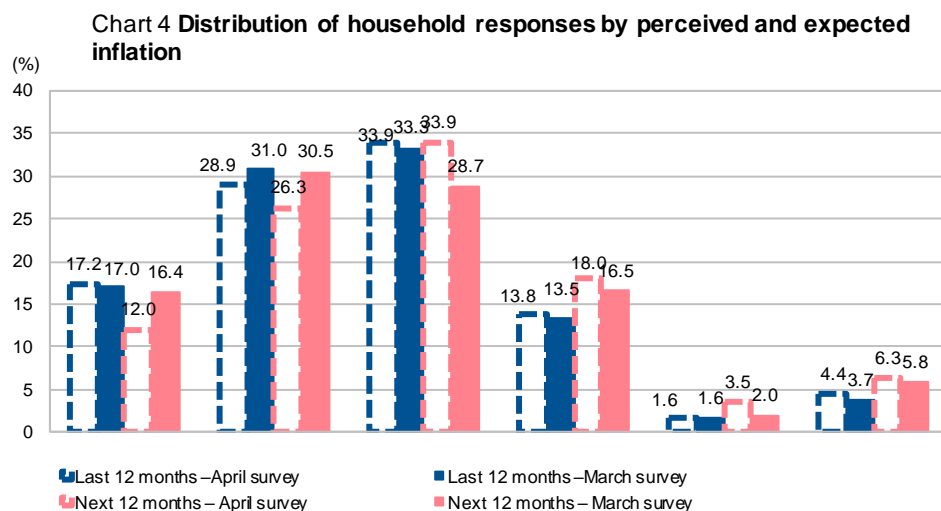
After a one-off rise, caused by the coronavirus and increased demand for some products, short-term inflation expectations of households returned to 5.0% (March 8.0%). Medium-term inflation expectations did not change from early 2019 (5.0%).

Household responses about expectations of a rise in the prices of food products and monthly bills did not significantly change from the previous survey. At the same time, the NP of respondents expecting a fuel price hike is negative, consistent with the current movement in prices of petroleum products.

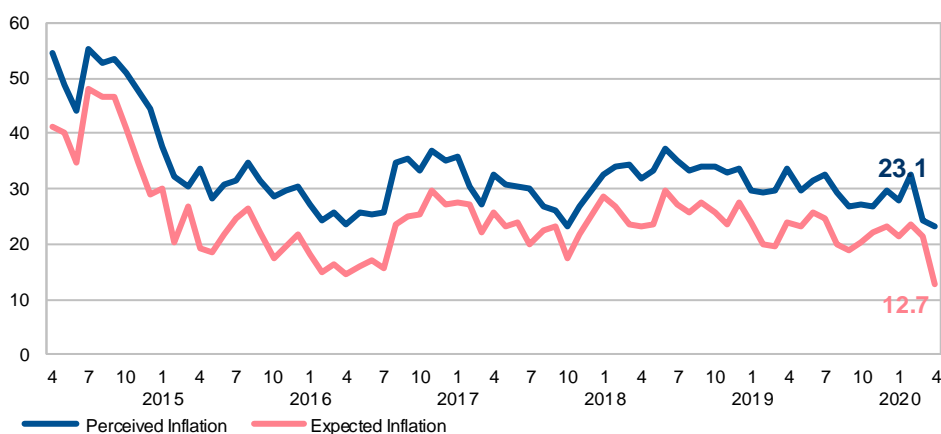
The share of respondents anticipating prices to increase considerably over the next twelve months went down to 12.0% in April from 16.4% in March. The share of respondents anticipating prices to increase moderately was also lowered by 4 pp, while the share of those expecting a slight increase in prices went up by 5 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.

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.**<sup>2</sup>



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



<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)).