



NATIONAL BANK OF SERBIA

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

May 2015

Belgrade, June 2015

CONTENTS

Overview	3
Introductory note	4
Inflation expectations of the financial sector	5
Inflation expectations of the corporate sector	6
Inflation expectations of trade unions	7
Inflation expectations of households	8
Quantitative inflation expectations of households.....	8
Qualitative inflation expectations of households	9

Overview

Based on the survey statistics for May, both one-year ahead and medium-term inflation expectations of all institutional sectors are stable and within the NBS target tolerance band ($4\pm 1.5\%$). One-year ahead inflation expectations of the financial sector have been within the target tolerance band for more than a year and a half and those of the corporate sector for more than a year. As of recent, inflation expectations of trade unions and households are also moving within the bounds of the target band. Stable and anchored inflation expectations, especially those medium-term, confirm the credibility of the monetary policy and indicate the absence of either inflationary or disinflationary pressures.

Introductory note

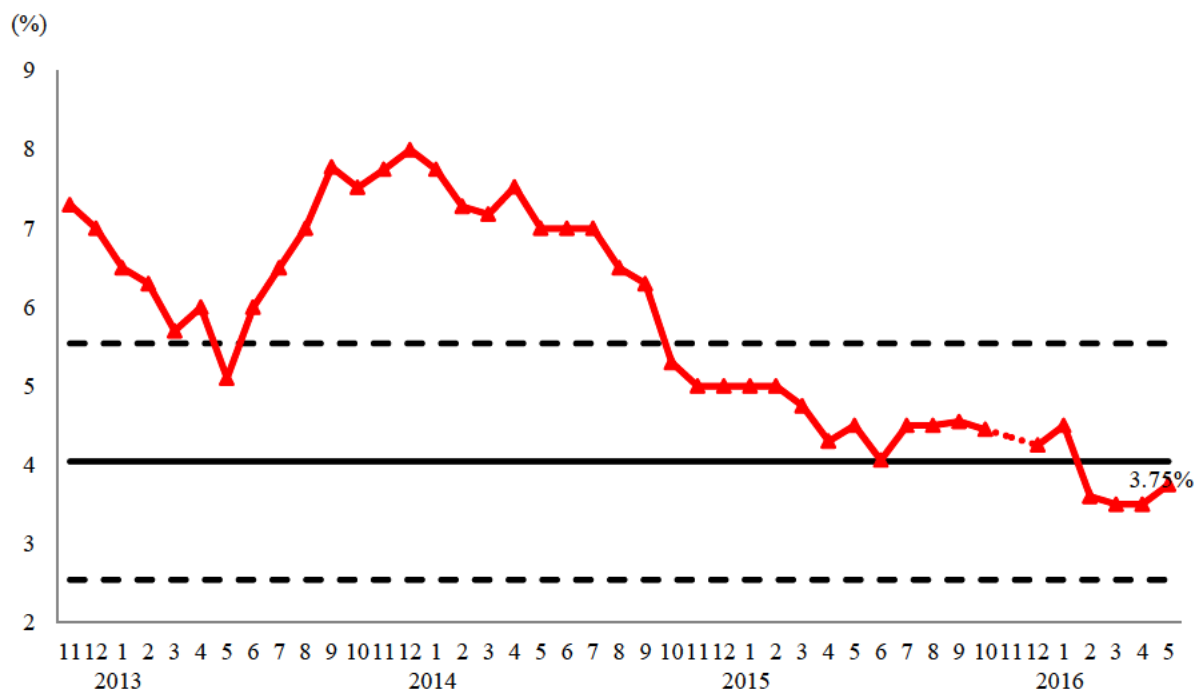
Inflation expectations of economic agents are an important indicator to be relied on in the process of decision-making on monetary policy measures in an inflation targeting regime. The effectiveness of the inflation targeting strategy is measured by the degree of stability of inflation expectations and their anchoring within the target tolerance band. Stable and anchored inflation expectations contribute to greater credibility of monetary policy. Consistent with the best international practice, after introducing the inflation targeting regime in January 2009, the NBS began monitoring and analysing on inflation expectations of economic agents. The source of data for these purposes is the inflation expectations survey, conducted for the NBS by Ninamedia since December 2014. . Survey participants are classified into four institutional sectors (financial sector, corporate sector, trade unions and households) and asked to state their expectations for the y-o-y price growth one-year ahead , and as of March 2014, also in the medium-term, i.e. two-year ahead.

Inflation expectations of the financial sector

According to the Ninamedia survey conducted in May, one-year ahead inflation expectations of the financial sector are unchanged from April (3.5%). They have been moving within the target tolerance band for more than a year and a half (20 months). Under the June Bloomberg survey, one-year ahead inflation expectations of the financial sector are on the target for the fifth consecutive month (4%) and within the target tolerance band for more than a year and a half (21 months).

Composite measure of inflation expectations of the financial sector¹ shows a slight increase in May relative to April. Namely, inflation expectations of the financial sector edged up from 3.5% in April 2016 to 3.75% in May 2016.

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



Source: NBS, Ipsos, Ninamedia and Bloomberg

¹ Calculated by weighting responses by size of the respondent's share in total assets. The institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the surveys. This gives a greater influence on the aggregate result to banks with a larger market share, which corresponds to the real situation, given that they have a somewhat stronger impact on overall economic flows.

Medium-term, i.e. two-year ahead inflation expectations of the financial sector are within the target tolerance band. In fact, they have been close to the target midpoint since records began (March 2014). The expectations reported in May are unchanged from the month before (4%).

Inflation expectations of the corporate sector

One-year ahead inflation expectations of the corporate sector fell from 4% in April to 3.5% in May, their lowest level on record. Inflation expectations of the corporate sector are within the target tolerance band since February 2014.

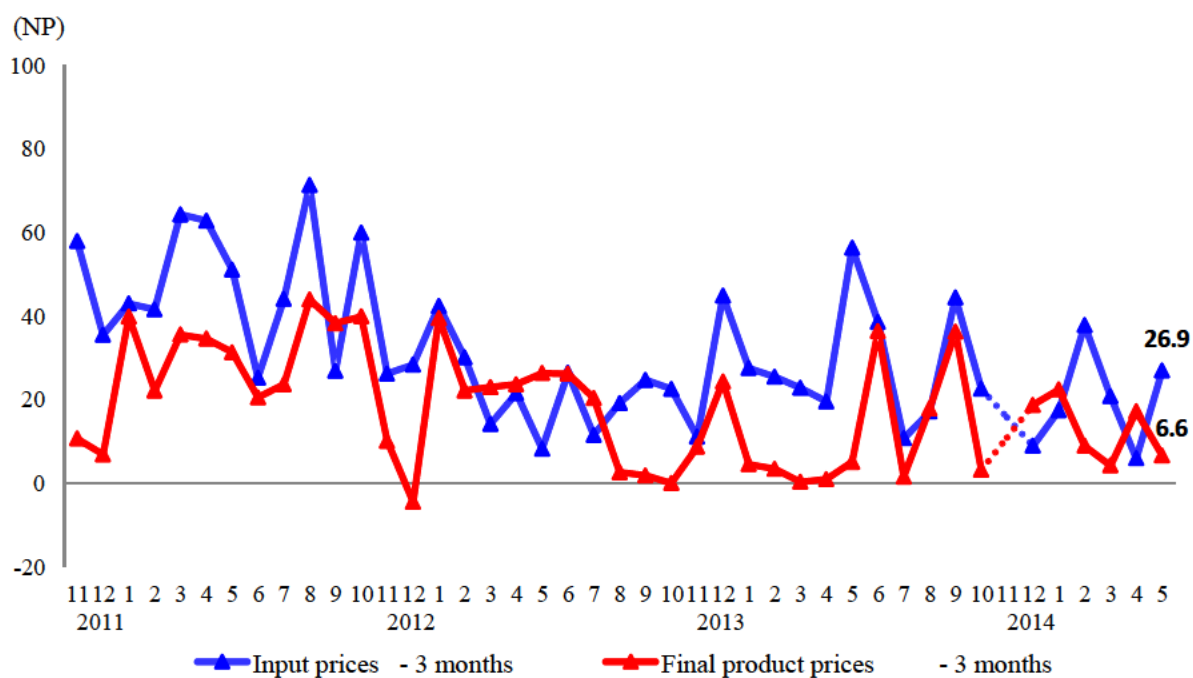
Medium-term, i.e. two-year ahead inflation expectations of the corporate sector, in all but one month, were within the target tolerance band since launching of the survey. Like in April, their expectations expressed in May were at the level of 4%.

In May 2016, large enterprises expect y-o-y inflation of 4%, small enterprises 3.5% and medium enterprises 3%. In the medium term, i.e. in May 2017, large enterprises expect y-o-y inflation to be 5%, small enterprises 4% and medium enterprises 3.5%.

The NP² of enterprises expecting an increase in prices of their inputs in the coming three months jumped relative to the previous survey from 5.9 pp to 26.9 pp, probably driven by the announced raising of electricity prices and the May oil price growth. At the same time, the NP of enterprises expecting a rise in prices of final products in the next three months declined from 17.2 pp to 6.6 pp. The NP of enterprises expecting an increase in prices of their inputs in the coming year also went up (from 18.5 pp to 24 pp) and is now almost equal to the NP of enterprises expecting a rise in prices of own products over the same period (down from 38.9 pp in April to 28.3 pp in May). This suggests that enterprises are at the moment postponing the transfer of the cost pressure onto consumers, but are hoping to pass the increased production costs onto consumers in full over a twelve-month horizon. As in April, the NP of respondents expecting a rise in production/turnover in the next three months remains high at 42 pp, while the NP of enterprises with the same expectation over a twelve-month horizon is somewhat lower (36.2 pp in May vs. 48.7 pp in April).

Chart 2. Expectations of enterprises regarding input and final product prices

² NP – net percentage calculated as the difference in the share of enterprises expecting price growth and the share of those expecting a fall, weighted by operating income.



* Above zero indicates growth, and below zero decline.

Source: Ipsos / Ninamedia

Inflation expectations of trade unions

One-year ahead inflation expectations of trade unions fell from 5.75% in April to 3.5% in May – their lowest level on record. As trade union expectations returned within the target tolerance band, one-year ahead inflation expectations of all sectors are now within the target bounds.

Medium-term, i.e. two-year ahead inflation expectations of trade unions declined from 5.25% in April to 4% in May.

Inflation expectations of trade unions are considerably lower than recorded in the prior period. There is no doubt that the signing of an arrangement with the IMF and the successfully concluded first review, in conjunction with the fiscal consolidation measures taken so far, serve as a positive signal to all institutional sectors in regard to the authorities' commitment to structural reforms.

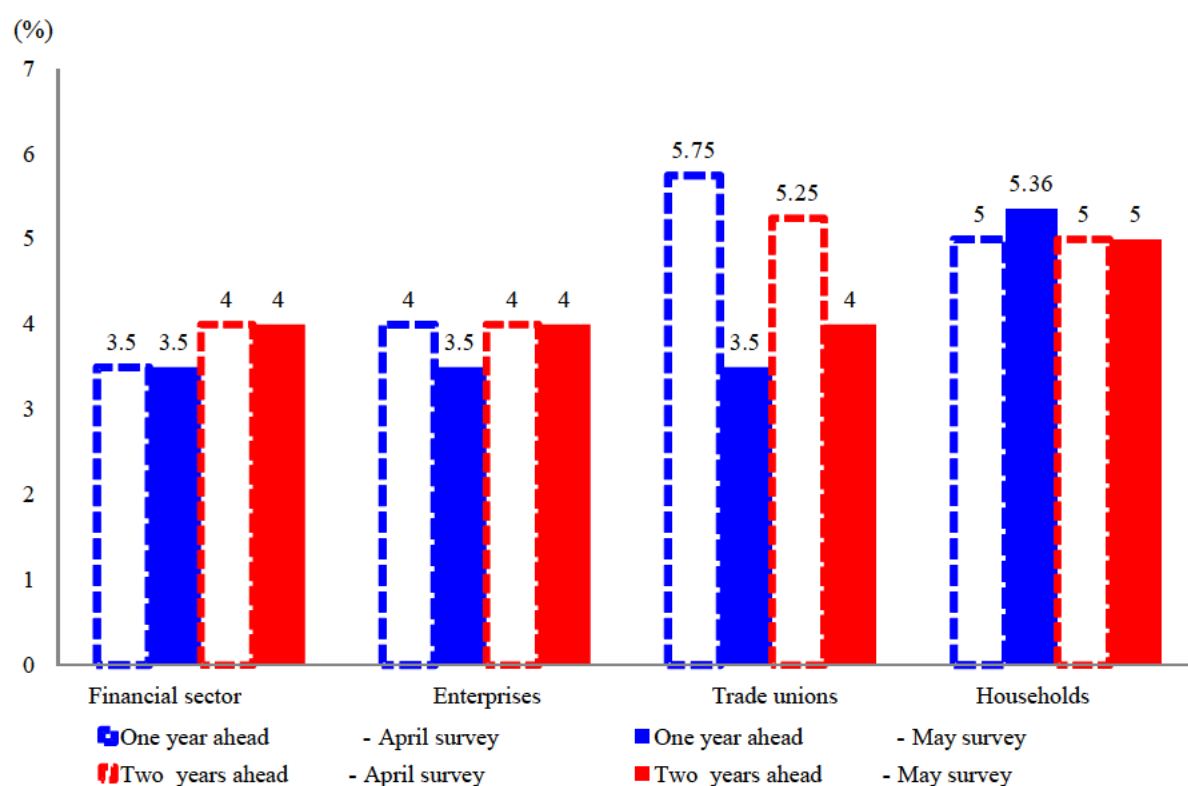
Inflation expectations of households

Quantitative inflation expectations of households

One-year ahead inflation expectations of households edged up from 5% in April to 5.36% in May. For the fourth consecutive month, households reported that they expect one-year ahead inflation to be within the target tolerance band, which is a significant improvement from the prior period, considering that households, like trade unions, tend to expect higher rates of inflation.

As indicated by their medium-term expectations, households anticipate that inflation will stabilise within the target tolerance band. For the fourth straight month, medium-term, i.e. two-year ahead inflation expectations of households stand at 5%. As a result, medium-term inflation expectations of all sectors are within the target tolerance band for three months in a row.

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

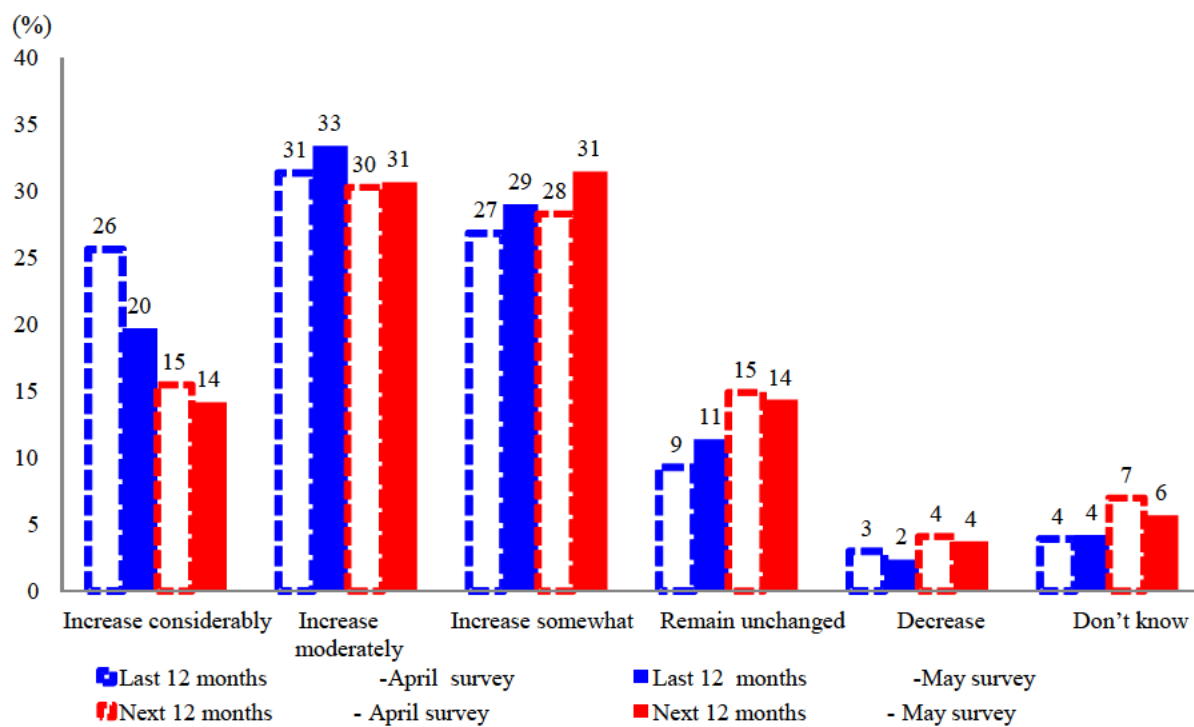


Source: Ninamedia

Qualitative inflation expectations of households

Descriptive (qualitative) statistics for inflation expectations of households³ indicate a downward trend in the number of respondents anticipating a considerable increase in prices over the next twelve months and a rise in the number of respondents predicting prices will increase moderately, increase somewhat or remain unchanged. This trend has been evident for a year. No major changes were recorded in May relative to the April survey. To illustrate, the share of respondents expecting prices to increase in the next twelve months edged up to 76% from 74% in April. Within this group, the share of respondents expecting prices to increase considerably came at 14%, which is the lowest level since March 2014, i.e. since qualitative inflation expectations are examined (15% in April). A moderate increase in prices is expected by 31% of respondents. The percentage of those expecting prices will increase somewhat is the same (31%). No change in prices is expected by 14% of respondents, 4% expect a decrease, while 6% said they did not know.

³ Consistent with the practice of other central banks, from March 2014 onwards no information on current inflation is presented to respondents. A qualitative question has been introduced instead and respondents are asked whether they think prices in the last 12 months: 1) increased considerably; 2) increased moderately; 3) increased somewhat; 4) remained unchanged; or 5) decreased. In addition, respondents are required to give their assessment whether prices in the next 12 months are likely to: 1) increase considerably; 2) increase moderately; 3) increase somewhat; 4) remain unchanged; or 5) decrease.

Chart 4. Distribution of household responses by perceived and expected inflation

Source: Ninamedia