



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

May 2017

Belgrade, June 2017

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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 the 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 May survey results, market participants expect that price stability will be maintained over both short and medium run.

According to the results of the Ninamedia survey, one-year ahead inflation expectations of the financial and corporate sectors continued moving within the target tolerance band ($3\pm 1.5\%$) and equalled 3.5% in May.

In May, short-term inflation expectations of trade unions dropped to 2.85%, and of households to 5.0%.

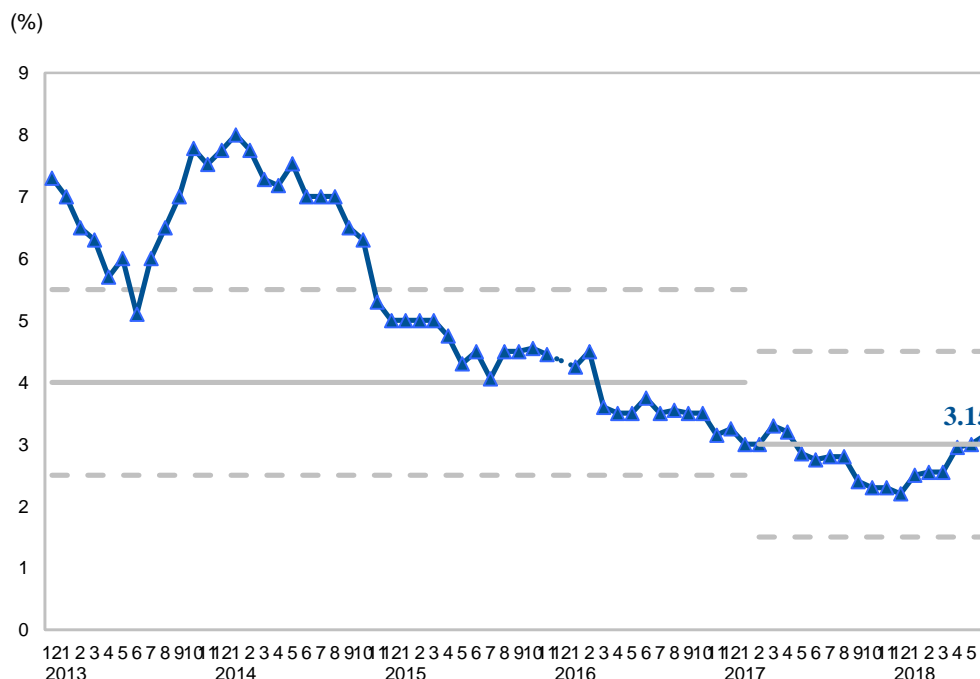
Medium-term (two-year ahead) inflation expectations of all sectors, except for households, continued to move within the target tolerance band.

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

According to the results of the Ninamedia survey, short-term inflation expectations of the financial sector continued moving within the target band and equalled 3.5% in May. Bloomberg survey results also show that financial sector expectations are within the target tolerance band. Inflation is expected to stand at 3.3% in June 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) came at 3.15% in May.

Medium-term inflation expectations of the financial sector have been within the target band since this question was included in the survey (March 2014) and equalled 3.5% in May, same as in April.

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.

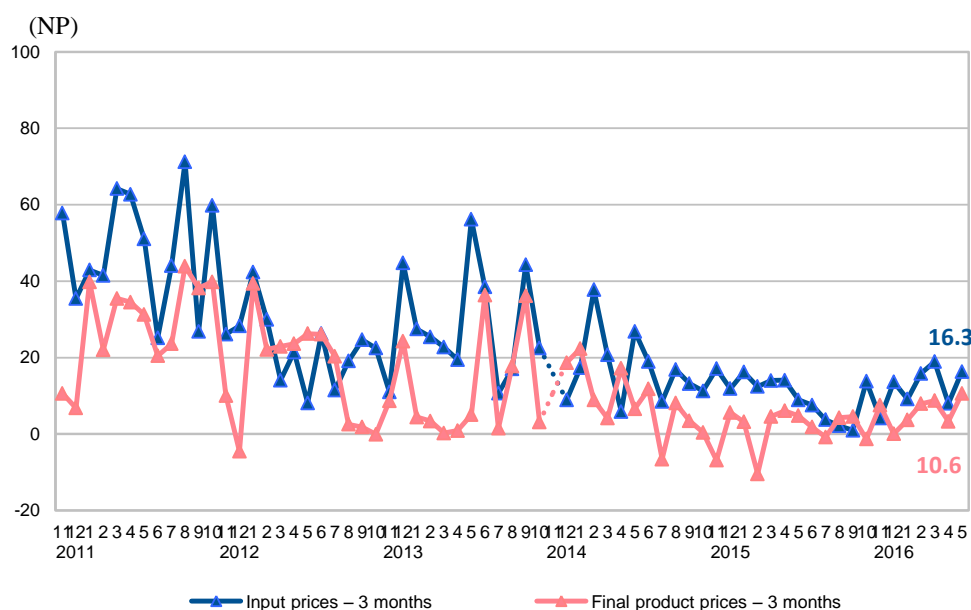
Inflation expectations of the corporate sector

Short-term and medium-term inflation expectations of corporates stood at 3.5% in May. According to their responses, a slight increase in inflation expectations is primarily the consequence of oil price growth. Their moving within the target band confirms the sector is confident that the achieved price stability will be maintained over both short and medium run.

Similar to the previous months, the majority of corporates anticipated that the prices of both inputs (79.9%) and final products (85.6%) would remain unchanged in the next three months.

At the same time, the net percentage² (NP) of corporates expecting an increase in the prices of inputs in the next three months inched up to 16.3%, and in the prices of final products to 10.6%. Also, survey results for May show that the NP of enterprises expecting an increase in the prices of *inputs* over the next twelve months was 32.0%, and of those anticipating an increase in the prices of *final products* over the same period was 14.1%.

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.

The NP of corporates expecting an increase in production/trade over the next three months was 37.5% in May. The NP of corporates anticipating an increase in production/trade over the next twelve months increased to 46.1%.

Inflation expectations of trade unions

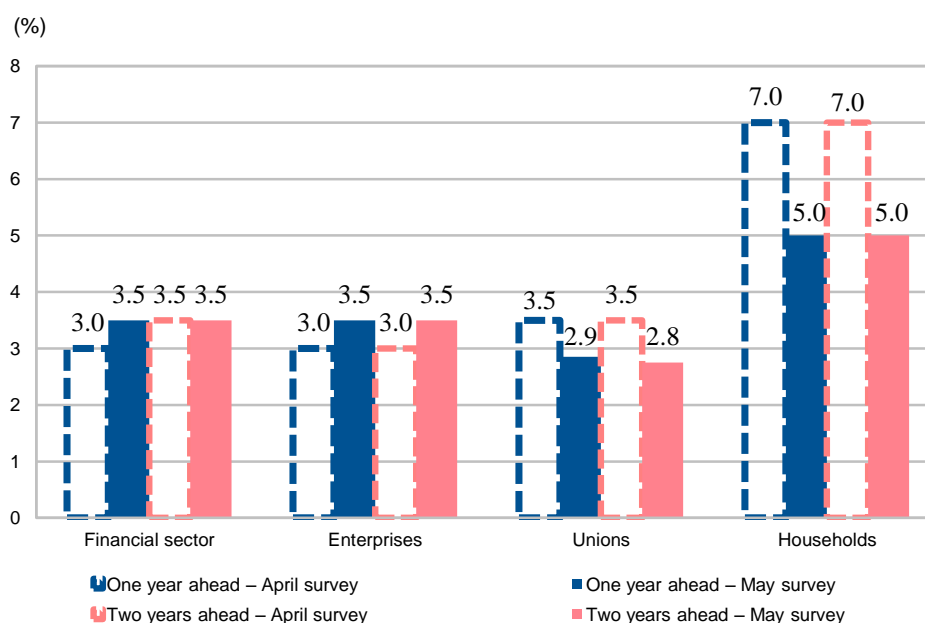
Based on the results of the May Ninamedia survey, one-year ahead inflation expectations of trade unions declined to 2.85% and medium-term inflation expectations to 2.75%. In the period ahead, trade unions expect price stability and an increase in production, which will positively affect the standard of living.

Inflation expectations of the household sector

Quantitative inflation expectations

One-year ahead inflation expectations of households have been moving between 5.0% and 7.0% for almost two years now. According to the results of the Ninamedia survey for May, one-year ahead inflation expectations of households dropped to 5.0%.

Medium-term (two-year ahead) inflation expectations of households are, as usual, more volatile and higher than those of other sectors – the household sector expects inflation to stand at 5.0% in May 2019 as well.

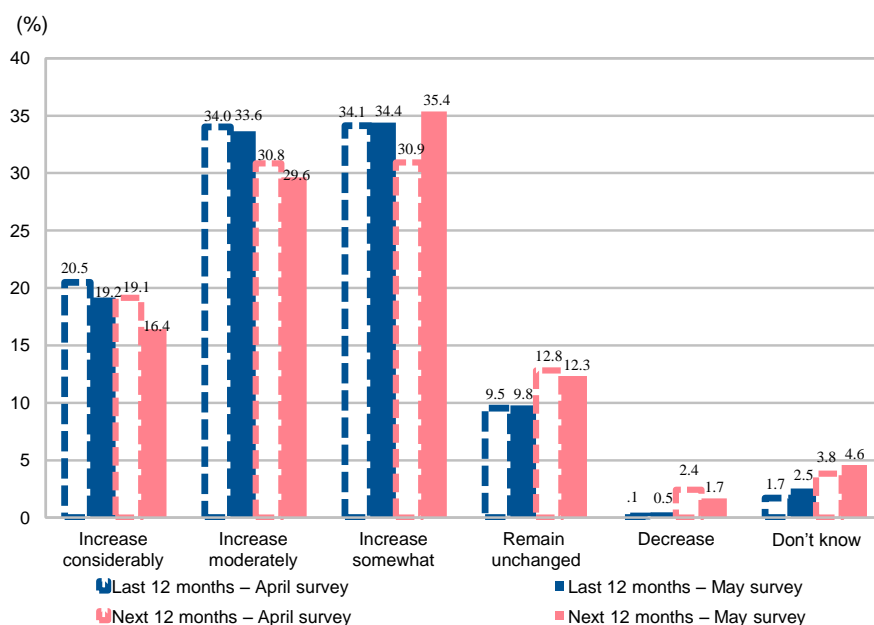
Chart 3 Expected y-o-y inflation one and two years ahead

Source: Ninamedia.

Qualitative inflation expectations

As in previous months, descriptive (qualitative) expectations of households are in line with quantitative inflation expectations, indicating that the majority of respondents expect **prices to rise somewhat or moderately** (65.0%) in the next twelve months. The share of respondents anticipating prices to increase considerably in the coming twelve months declined to 16.4%. The share of respondents anticipating no change in prices was 12.3%, while 1.7% anticipate a decline. Of the total, 4.6% of respondents said they did not know.

Such trends, i.e. the majority of respondents expecting prices to increase somewhat or 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, which indicates that households expect inflation in the coming twelve 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.