



НАРОДНА БАНКА СРБИЈЕ

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

May 2019

Belgrade, June 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.

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

Both one-year and two-year ahead inflation expectations of the financial sector are at the NBS midpoint (3.0%), which is also the opinion shared by trade unions.

At the same time, one- and two-year ahead expectations of corporates in terms of consumer price growth equal 2.6% and 2.9% respectively, unchanged relative to the previous survey. Households expect inflation to be 5.0% over both the short and the medium term.

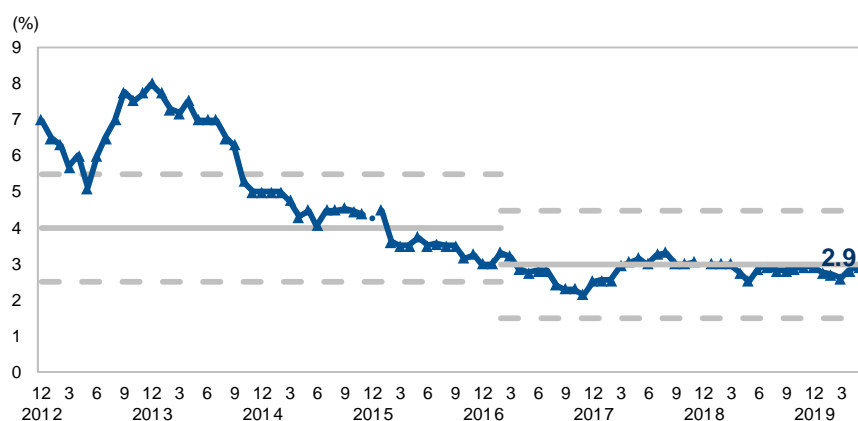
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of the Ipsos survey, short-term inflation expectations of the financial sector were at the targeted 3.0% in May (2.8% in April). Bloomberg survey results in June show that one-year ahead financial sector expectations were also at the target, the same as in May.

The composite measure of one-year ahead inflation expectations of the financial sector¹ came close to the target midpoint in May and measured 2.9% (2.8% in April).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: 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).

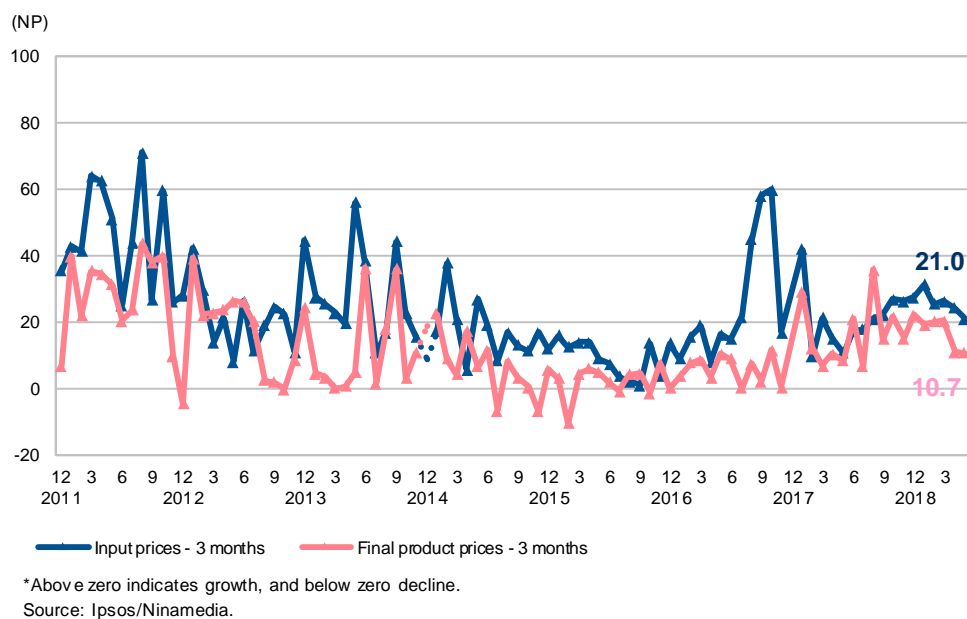
Inflation expectations of the corporate sector

Corporate inflation expectations remained close to the target midpoint and measured 2.6% and 2.9% for one and two years ahead, respectively.

Price stability is further indicated by the fact that the majority of corporates still expect stable movements in input prices in the next three months, as well as one-year ahead.

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.

Chart 2 Expectations of the corporate sector regarding movements in the prices of inputs and final products in the next three months



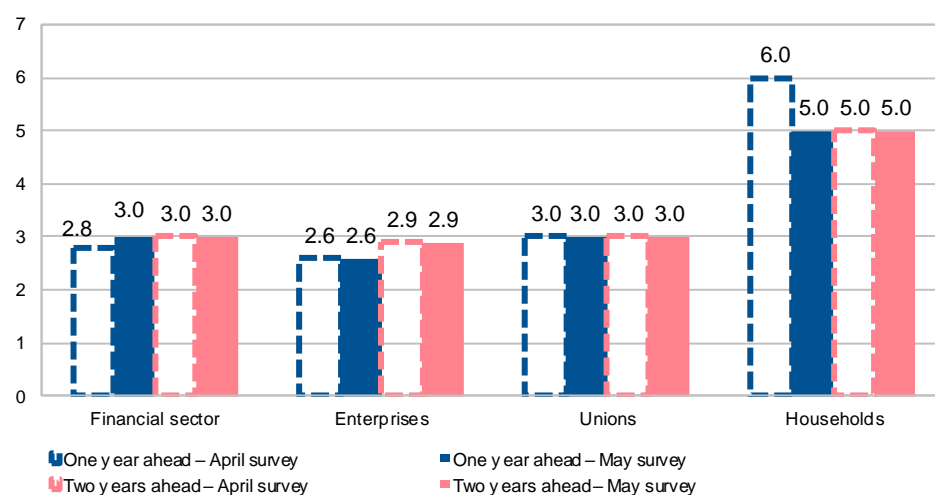
Inflation expectations of trade unions

According to the Ipsos survey results, one and two-year ahead inflation expectations of trade unions remained unchanged in May and continued to move exactly on the NBS target midpoint (3.0%).

Inflation expectations of the household sector

Quantitative inflation expectations

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

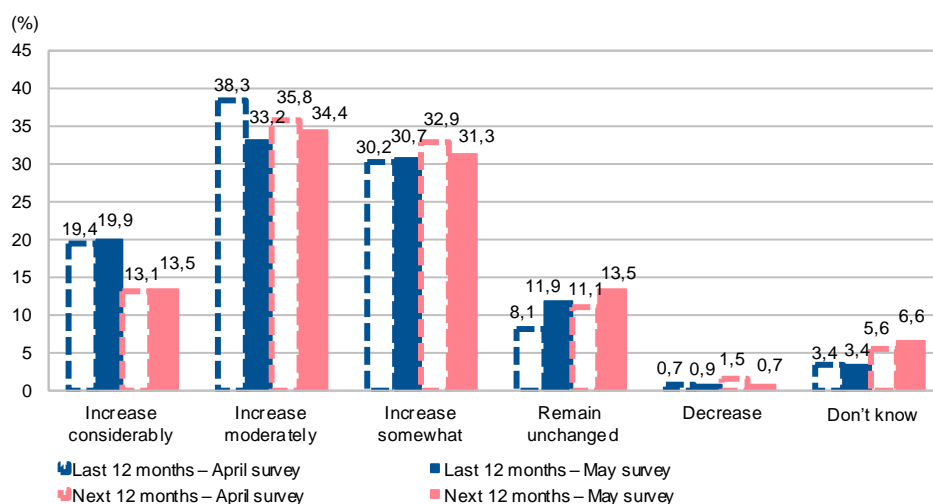


The results of the May Ipsos survey indicate that short-term inflation expectations of households were lowered relative to April (6.0%) and equalled 5.0% in May. Medium-term inflation expectations remained unchanged at 5.0%.

Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (65.7%) still expect prices to rise moderately or somewhat over the next twelve months. The share of respondents expecting prices to remain unchanged over the next twelve months went up (by around 2 pp), while at the same time there was a decrease in the share of respondents anticipating prices to increase moderately or somewhat.

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



Source: Ipsos.

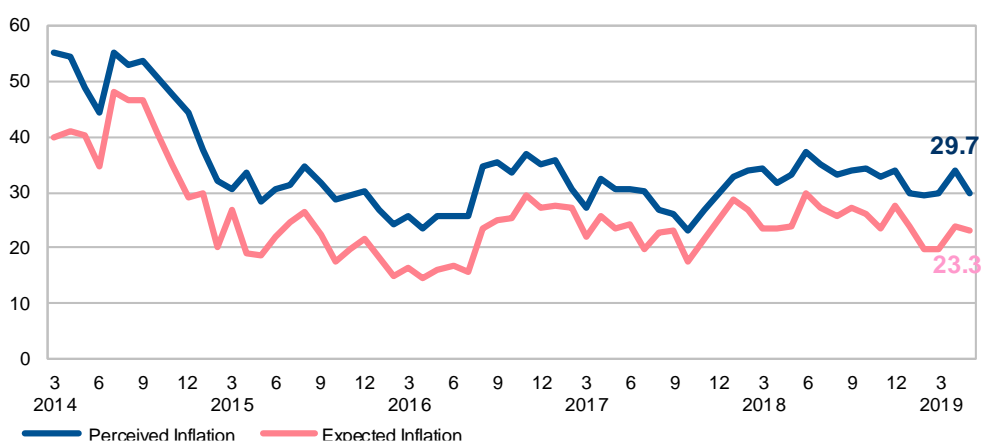
Relative to the previous survey, the NP of respondents expecting an increase in the prices of oil, household cleaning products and monthly bills also edged up slightly. At the same time, there were fewer respondents anticipating an increase in food prices.

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 the 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.²

Chart 5 Perceived and expected inflation of households



Sources: Ipsos and NBS calculation.

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/inflation_report_02_2016.pdf).