



NATIONAL BANK OF SERBIA

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

May 2020

June 2020

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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 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

Inflation expectations of the financial and corporate sectors dropped in May, most probably under the impact of lower current inflation.

According to the results of the Ipsos May survey, after being stable for eight months (2.0%), short-term inflation expectations of the financial sector stood at 1.6%. One-year ahead inflation expectations of the corporate sector also declined slightly, from 1.8% to 1.2%. Expectations of trade unions went up to 2.3% (from 2.0% in April), while household expectations remained at 5.0%.

Medium-term expectations of the financial and corporate sectors for May 2022 stand at 2.0%. Representatives of trade unions expect inflation to be at 3.0% and households at 5.0% for two years ahead.

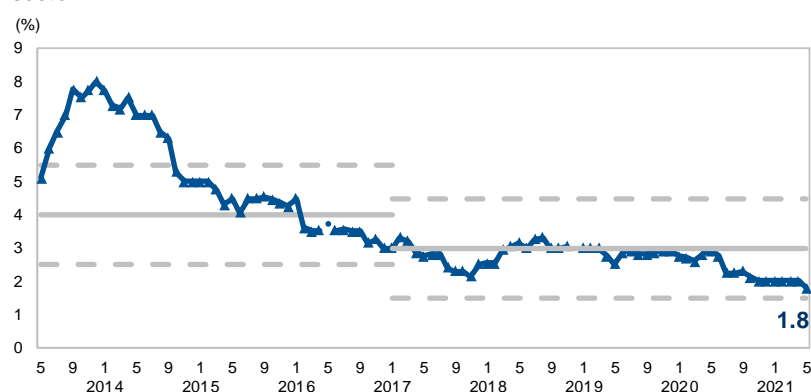
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of the survey of the Ipsos agency, short-term inflation expectations of the financial sector in May went down to 1.6% (April 2.0%), which is their lowest value since the introduction of the surveys (early 2009). According to Bloomberg's June survey, one-year ahead inflation expectations of the financial sector stood at 2.0%, which is lower compared to the previous survey (2.2%).

The May value of the composite measure of inflation expectations of the financial sector¹ went down from the previous survey, reaching 1.8% (since November 2019 the composite measure of inflation expectations was stable at the level of 2.0%).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

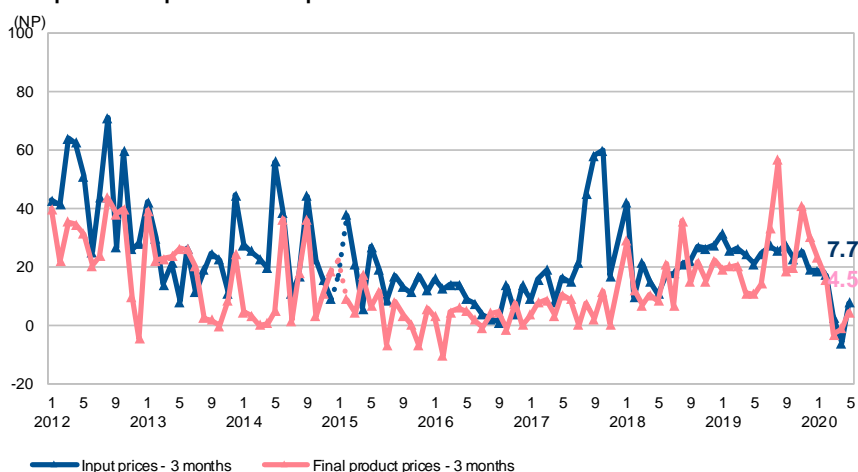
The financial sector medium-term inflation expectations were lowered – the financial sector expected inflation to be at the level of 2.0% in May 2022 (the April survey: 2.5%). Medium-term inflation expectations of the financial sector have moved within the target tolerance band since the introduction of this survey question in March 2014.

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 lower in May (1.2% vs 1.8% in April) – which is the lowest value since the introduction of the survey, as in the case of the financial sector. Medium-term inflation expectations were unchanged in May as well, at 2.0% (unchanged from December 2019).

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.

From the last survey, corporate expectations of business conditions in the coming twelve months further improved. Corporates expressed more optimistic attitudes concerning output/turnover both for the coming three and twelve months, as well as fixed investments for the coming 12 months. As opposed to that, the only parameter recording negative results compared to the previous survey is the expected access to loans in the coming 12 months.

More than 80% of respondents are not expecting 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 May survey, one-year ahead inflation expectations of trade unions went up from the previous survey (2.3% vs 2.0% in April), while medium-term inflation expectations returned to the 3.0% target (2.5% in April).

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

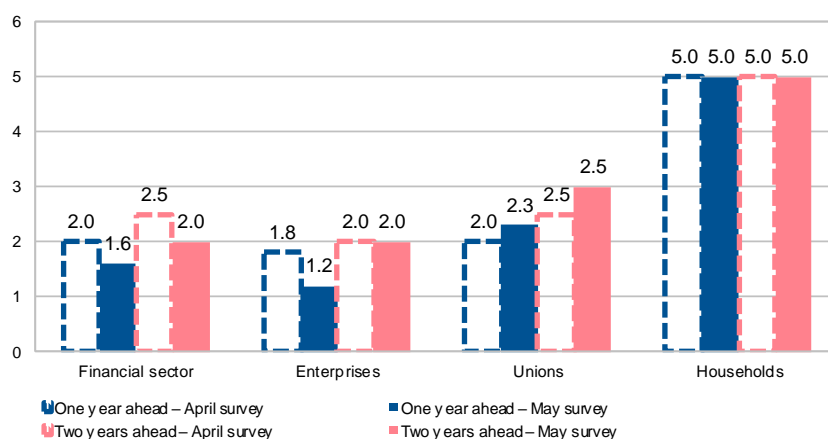
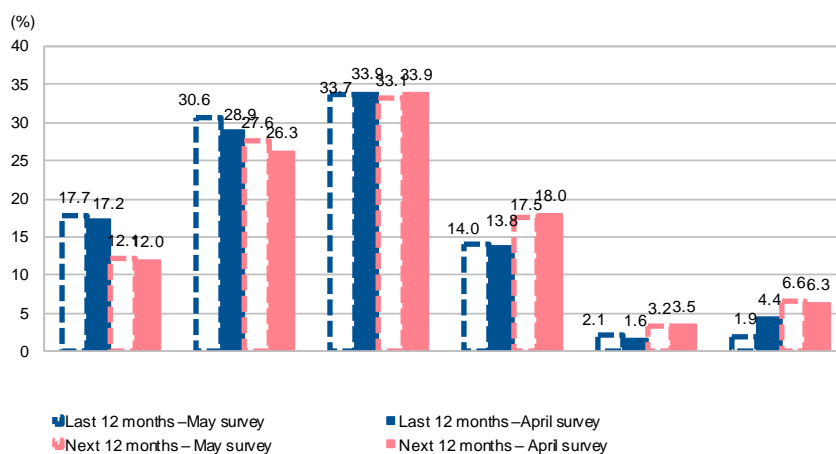


Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

Inflation expectations of the household sector

Quantitative and qualitative inflation expectations

The results of the May Ipsos survey indicate that both short- and medium-term inflation expectations of households measure 5.0%, unchanged from April.

Relative to the previous survey, there was a slight decrease in the NP of respondents expecting an increase in food prices and monthly bills. At the same time,

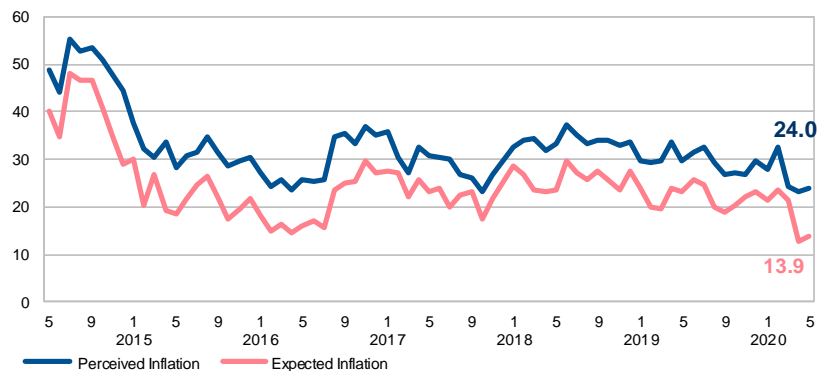
the negative value of the NP of respondents expecting an increase in petroleum prices was recorded in the April survey and after that, in May, the value of this indicator returned to the positive zone, most probably under the impact of the global oil price rise.

The share of respondents anticipating prices to increase considerably over the next twelve months equalled 12.0% in May, almost unchanged from April. The breakdown of respondents did not significantly change in any of responses.

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.**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/ioi_02_2016.pdf).