



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

June 2019

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

Short-term inflation expectations of the financial and corporate sectors were lowered from May – 2.8% and 2.5% in June, respectively. Short-term inflation expectations of trade unions were kept at 3.0%, while the expectations of households rose to 6.0%.

Medium-term inflation expectations of most of the sectors remained unchanged relative to a month earlier. The financial sector and trade unions expect that in June 2021 inflation will be at 3.0%, while households expect it will stand at 5.0%. On the other hand, medium-term inflation expectations of corporates edged down slightly to 2.8%.

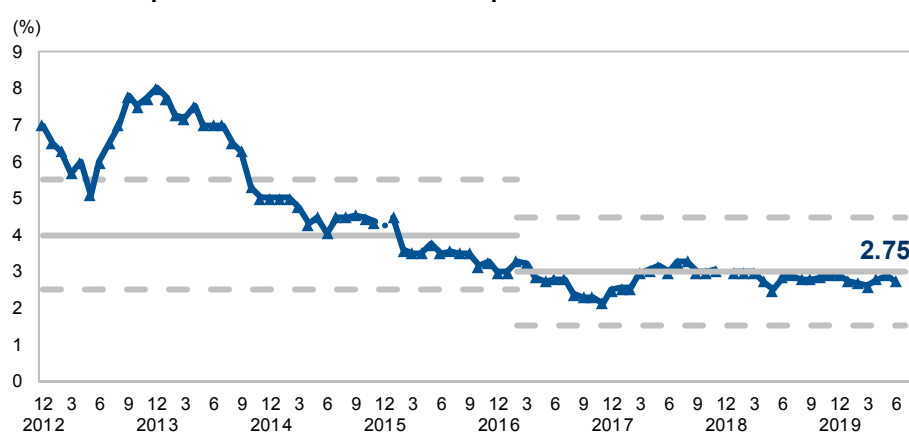
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of both surveys (the Ipsos June and Bloomberg July), short-term inflation expectations of the financial sector recorded a mild fall and measured 2.8% and 2.9%, respectively. A fall in inflation expectations was partially expected after y-o-y inflation decreased in May (to 2.2%).

The composite measure of inflation expectations of the financial sector¹ stood at 2.75% in June, which is, also, lower than its May value (2.9%).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

Since October 2018, the financial sector has expected 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).

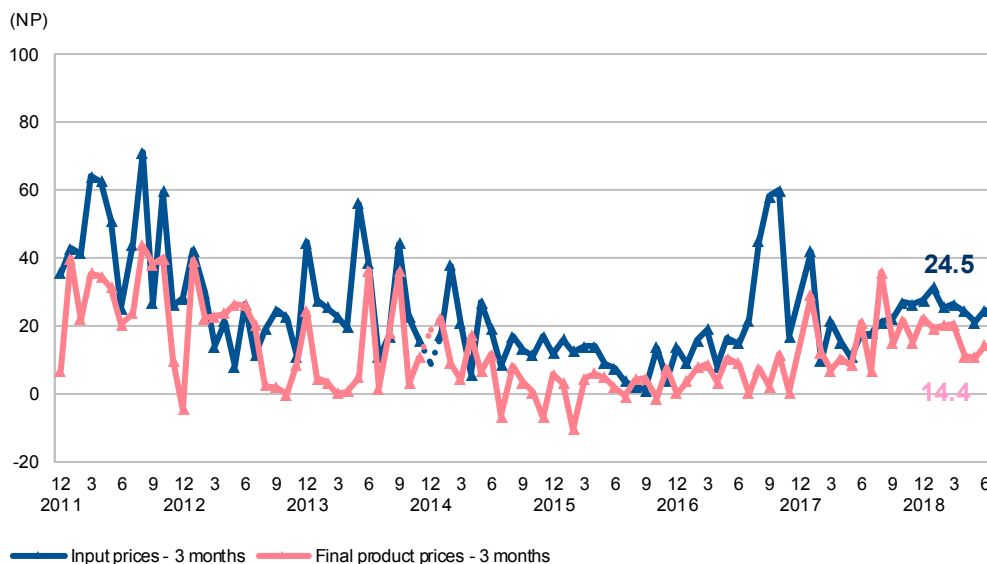
Inflation expectations of the corporate sector

One-year ahead inflation expectations of corporates remained broadly stable, measuring 2.5% in June compared to 2.6% in May.

Since early 2019, medium-term inflation expectations of the financial sector moved close to the target midpoint (3.0%) and stood at 2.8% in June.

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



*Above zero indicates growth, and below zero decline.

Source: Ipsos/Ninamedia.

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.

Inflation expectations of trade unions

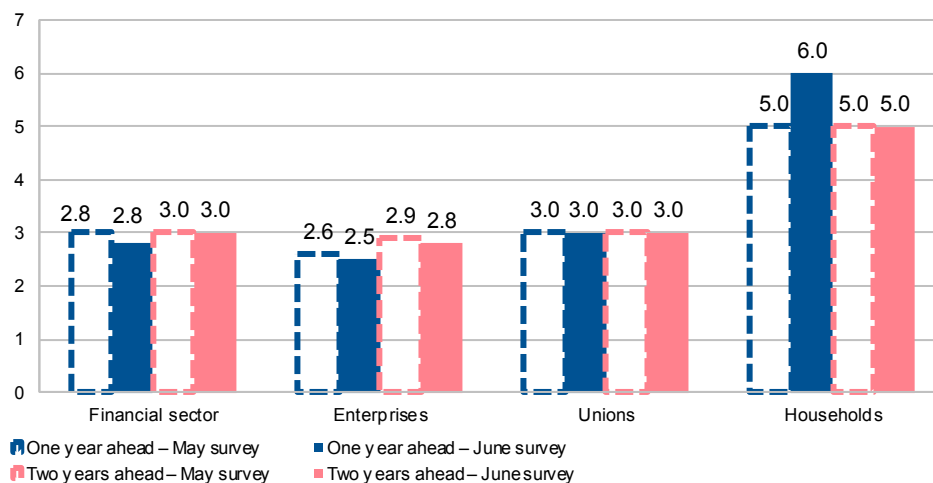
According to the Ipsos survey results, one and two-year ahead inflation expectations of trade unions have stood exactly at the NBS target midpoint (3.0%) since April.

Inflation expectations of the household sector

Quantitative inflation expectations

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

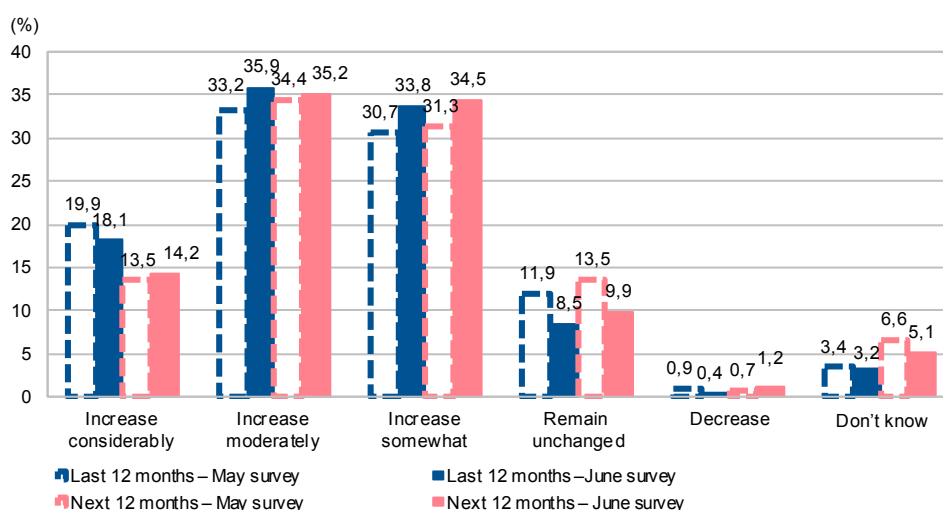
Chart 3 Expected y-o-y inflation one and two years ahead



Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (69.7%) 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 decreased (by around 4 pp), while at the same time the share of respondents anticipating prices to increase moderately or somewhat went up.

Chart 4 Distribution of household responses by perceived and expected inflation



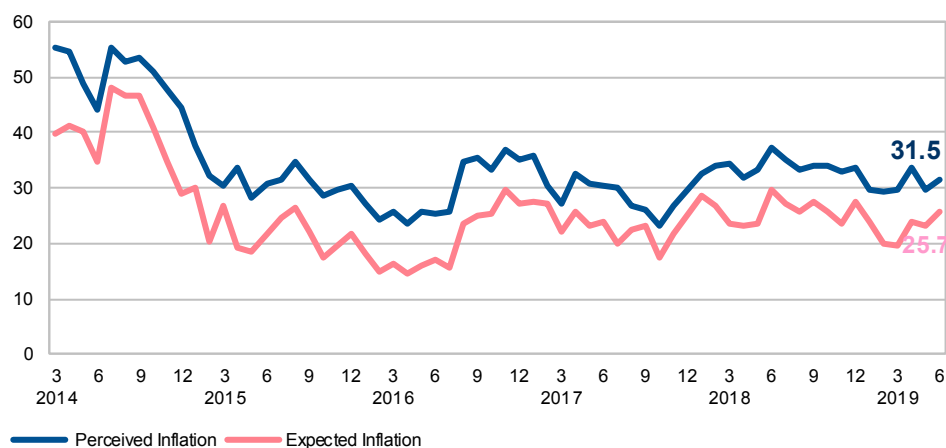
Source: Ipsos.

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

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**
(in index points)



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).