



NATIONAL BANK OF SERBIA

**REPORT ON THE RESULTS OF THE INFLATION
EXPECTATION SURVEY
July 2017**

Belgrade, August 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 best international practice, after introducing the inflation targeting regime in January 2009, the National Bank of Serbia (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 July Ninamedia survey results, market participants expect that price stability will be preserved over both short and medium run.

Short-term inflation expectations (one-year ahead) of the financial sector, corporates and trade unions continued to move within the target tolerance band ($3\pm 1.5\%$) – in July, they equalled 3.0%, 3.5% and 3.6% respectively. Inflation expectations of households have stood at 5.0% since May 2017.

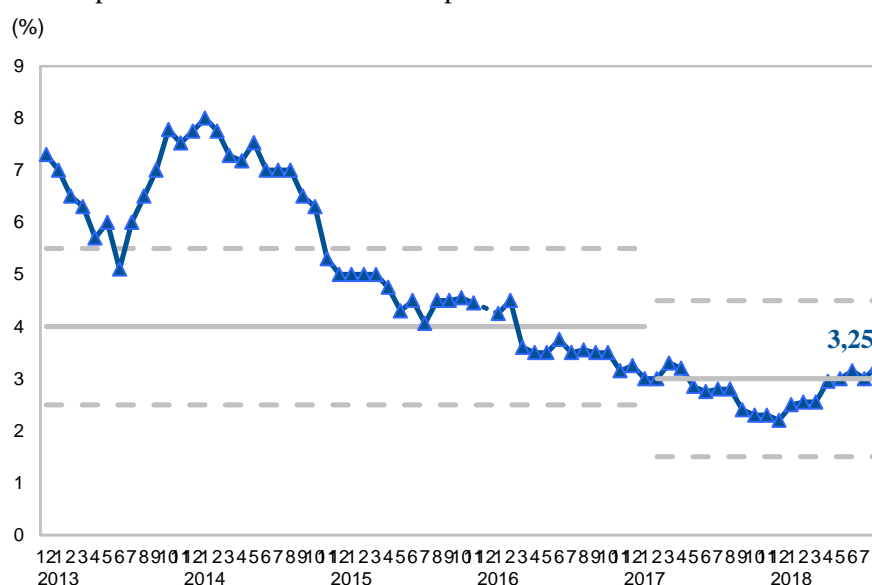
Two-year ahead (medium-term) inflation expectations of all sectors, apart from households, also continued to move within the target band.

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

The results of the Ninamedia survey show that one-year ahead inflation expectations of the financial sector continued to move within the target band. In July, they stood at the NBS target midpoint, i.e. at 3.0% (vs. 3.1% in June). According to the Bloomberg survey results, financial sector expectations also continued to move within the target band, equalling 3.3% in August 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) equalled 3.25% in July.

Two-year ahead inflation expectations of the financial sector have been within the target band since the inception of the survey (March 2014) and equalled 3.2% in July.

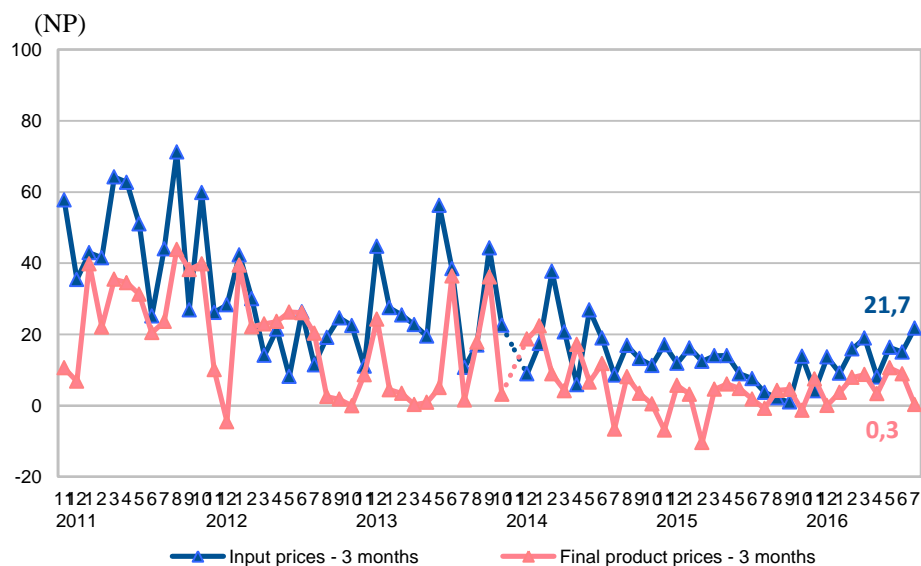
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in Ninamedia and Bloomberg surveys. Hence, banks with a larger market share have a greater influence on the aggregate result.

Inflation expectations of the corporate sector

Short-term and medium-term inflation expectations of corporates stayed unchanged in July – in the last three months they have stood at 3.5%. Corporates explain the stability of their expectations by successful NBS monetary policy measures.

As in the preceding months, in July the majority of corporates anticipated the stability of prices of both inputs (73.9%) and final products (96.5%) in the next three months. The net percentage² (NP) of enterprises expecting an increase in the prices of inputs equalled 21.7% in July (vs. 15.0% in June) and the NP of enterprises expecting an increase in the prices of final products decreased to 0.3% (vs. 8.9% in June). The NP of enterprises expecting an increase in the prices of *inputs over the next twelve months* was 28.7%, while the NP of enterprises anticipating an increase in the prices of *final products* over the same period was 11.2%.

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.

As regards production/trade, the NP of corporates expecting an increase over the next three months and over the next twelve months was 17.3% and 41.3% in July, respectively.

Inflation expectations of trade unions

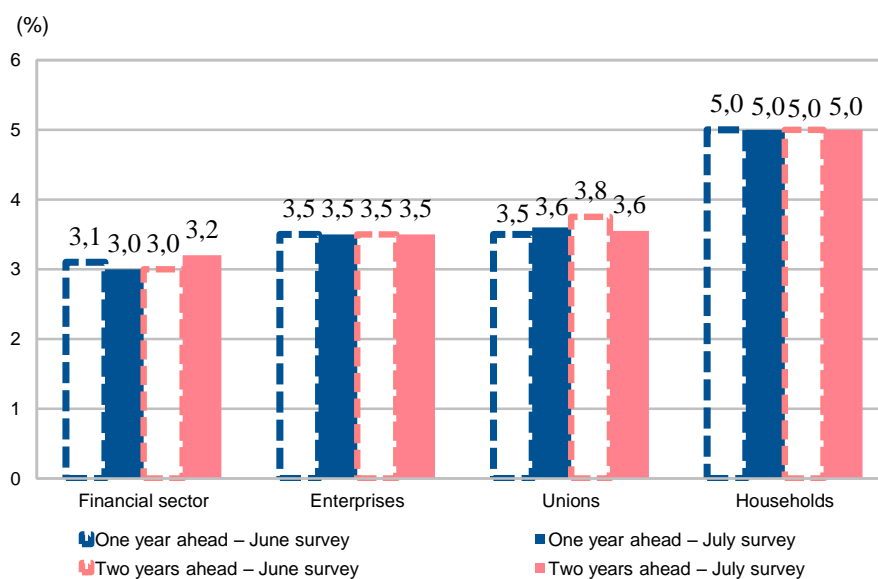
Based on the results of the Ninamedia survey, short-term inflation expectations of trade unions came at 3.6% in July (vs. 3.5% in June). Medium-term expectations were lowered to 3.55% (from 3.75% in June). Trade unions expect economic growth in the coming period and the consequent increase in employment.

Inflation expectations of the household sector

Quantitative inflation expectations

One-year ahead inflation expectations of the household sector have been moving between 5% and 7% for almost two years now. Results of the Ninamedia survey show that one-year ahead inflation expectations of households were stable in the last three months, measuring 5.0%.

Both medium-term (two years ahead) and short-term expectations of households remained stable, equalling 5% in the past three months.

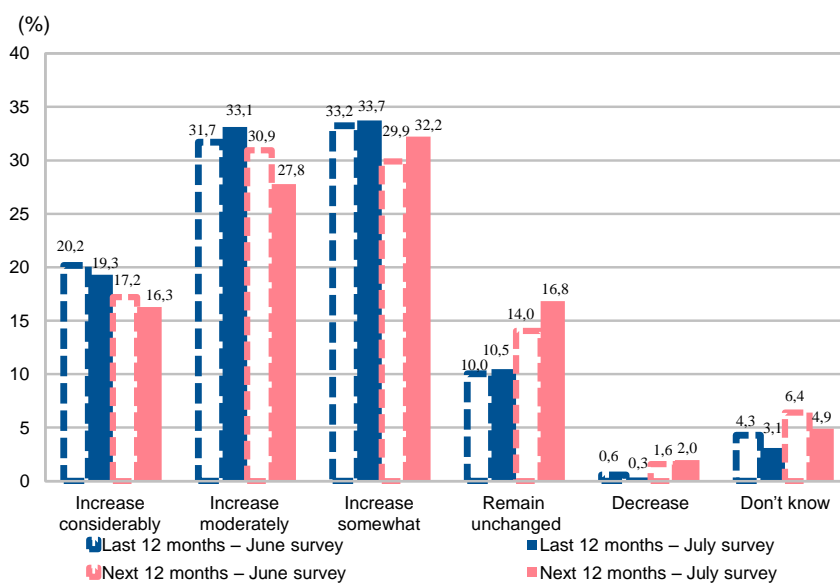
Chart 3 Expected y-o-y inflation one and two years ahead

Source: Ninamedia.

Qualitative inflation expectations

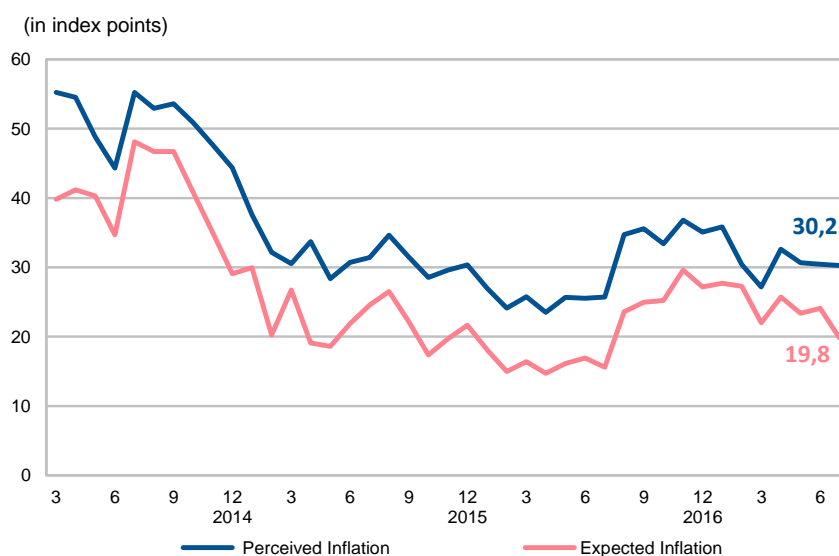
As in previous months, the results of the descriptive (qualitative) survey indicate that the majority of respondents (60.0%) expect **prices to rise somewhat or moderately** in the next twelve months. At the same time, the share of respondents anticipating prices to increase considerably in the coming twelve months fell to 16.3% in July (vs. 17.2% in June), while 16.8% expect no change in prices and 2.0% expect a decline. Of the total, 4.9% of respondents said they did not know.

Such trends, i.e. the majority of respondents expecting prices to increase somewhat and moderately 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.

Chart 4 Distribution of household responses by perceived and expected inflation

Source: Ninamedia.

The perceived inflation index stayed higher than the expected inflation index, indicating that households expect inflation in the coming 12 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.