



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

July 2019

Belgrade, August 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. Stable and well-anchored inflation expectations contribute to 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

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

According to the July survey, short-term inflation expectations of the financial and corporate sectors stood at 2.5%. For the second month in row, expectations of the financial sector recorded a fall, coinciding with the slowdown in y-o-y inflation. Short-term inflation expectations of trade unions rose to 3.5% (3.0% in June), while the expectations of households returned to 5.0% (6.0% in June).

Two-year ahead inflation expectations of the financial sector dropped to 2.8% in July, after being anchored at the NBS target midpoint (3.0%) for nine months. The corporate sector expects two-year ahead inflation to be at 2.5% (2.8% in June), trade unions at 3.75% (3.0% in June), and households at 5.0% (unchanged relative to June).

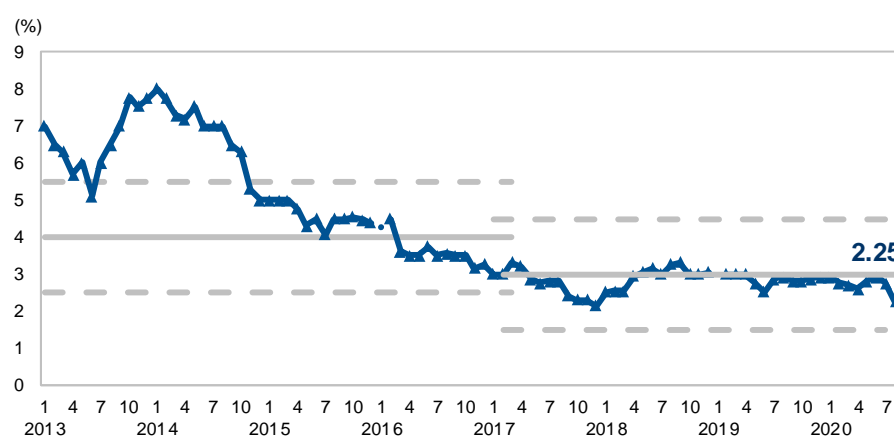
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the results of both surveys (the July Ipsos and August Bloomberg), short-term inflation expectations of the financial sector recorded a fall to 2.5%, which is their lowest level this year.

The composite measure of inflation expectations of the financial sector¹ stood at 2.25% in July, which is also lower than in June (2.75%).

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

Two-year ahead inflation expectations of the financial sector stood at 2.8% in July, a fall from 3.0% where they had stood since October 2018. These inflation expectations have moved within the target tolerance band since their monitoring began (March 2014).

In July 2019, for the third month in row, the net percentage (NP) of financial institutions considering that business conditions improved over the previous three months recorded an increase.

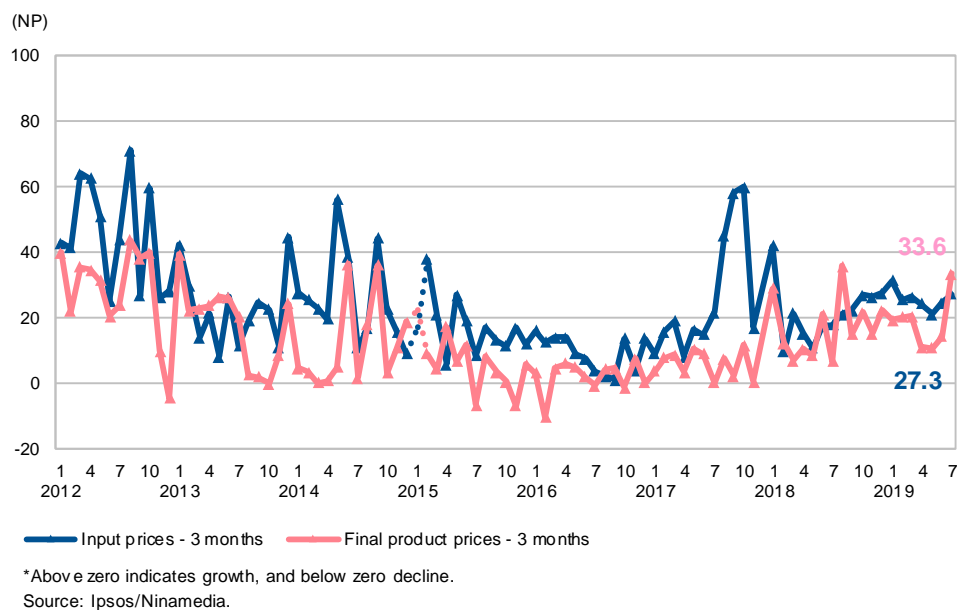
Inflation expectations of the corporate sector

One-year ahead inflation expectations of corporates remained unchanged compared to June, measuring 2.5% in July.

Medium-term inflation expectations also measured 2.5% in July, which is lower compared to the June survey (2.8%). At the same time, this is their lowest value in 2019.

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



The majority of corporates expect stable movements in input prices in the next three months, as well as one year ahead. At the same time, there was an increase in the share of corporates expecting that the prices of their products/services would rise over the next three months.

The results of the July survey also indicate an increase in the share of corporates considering that business conditions improved over the previous three months.

Inflation expectations of trade unions

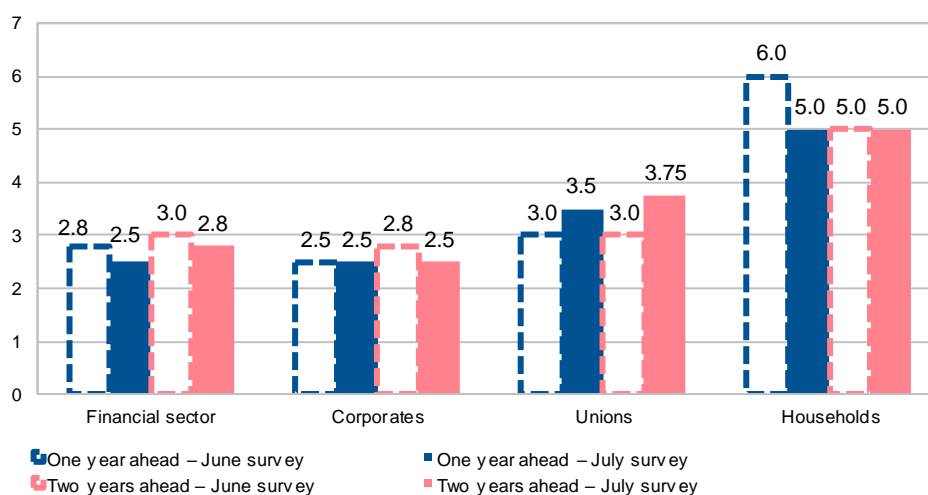
According to the July survey results, both short-term and medium-term expectations of trade unions were anchored at 3.0% from April to June, only to reach 3.5% and 3.75% in July, respectively.

Inflation expectations of the household sector

Quantitative inflation expectations

The results of the July Ipsos survey indicate that both short-term and medium-term inflation expectations of households stood at 5.0%.

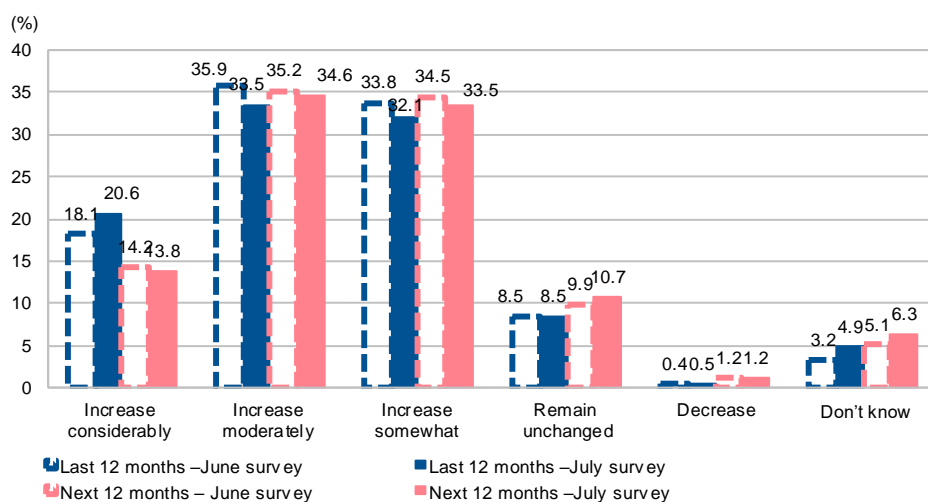
Chart 3 Expected y-o-y inflation one and two years ahead



Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (68.0%) still expect prices to rise moderately or somewhat over the next twelve months. The share of respondents anticipating prices to increase considerably, moderately and somewhat over the next twelve months decreased. At the same time, the share of respondents expecting prices to remain unchanged went up.

Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

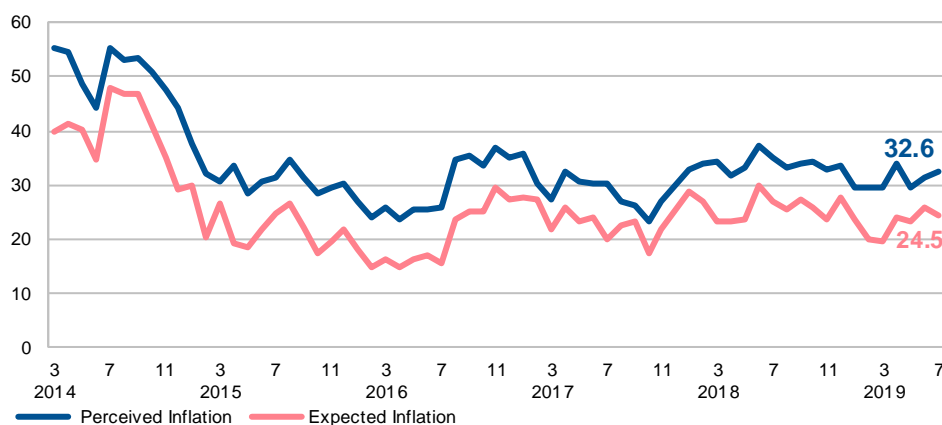
Such trends, i.e. the majority of respondents expecting prices to increase moderately and somewhat over the next twelve months – reflect a predictable and stable economic environment, which facilitates the achievement of the main medium-term goal of the monetary policy.

Relative to the previous survey, the NP of respondents expecting an increase in the prices of monthly bills edged down slightly. At the same time, there were relatively more respondents anticipating an increase in oil and cigarettes prices, while the NP of respondents expecting an increase in food prices remained almost unchanged relative to the June survey.

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

According to the results of the July survey, households have a more optimistic perception of the living standards relative to the previous survey.

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).