



**NATIONAL BANK OF SERBIA**

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

**August 2015**

**Belgrade, September 2015**

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## **Introductory note**

Indicators of inflation expectations of economic agents are an important factor to be relied on in the process of decision-making on monetary policy measures in an inflation targeting regime. The effectiveness of the inflation targeting strategy is measured by the degree of stability of inflation expectations and the extent to which such expectations are anchored within the target tolerance band. Stable and well-anchored inflation expectations contribute to greater credibility of the monetary policy framework. Consistent with the best international practice, after introducing the inflation targeting regime in January 2009, the NBS began monitoring and analysing inflation expectations of economic agents. The source of data drawn on for these purposes is the inflation expectations survey, conducted for the NBS by Ninamedia since December 2014. Survey participants are classified into four institutional sectors (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 the y-o-y price growth.

## Overview

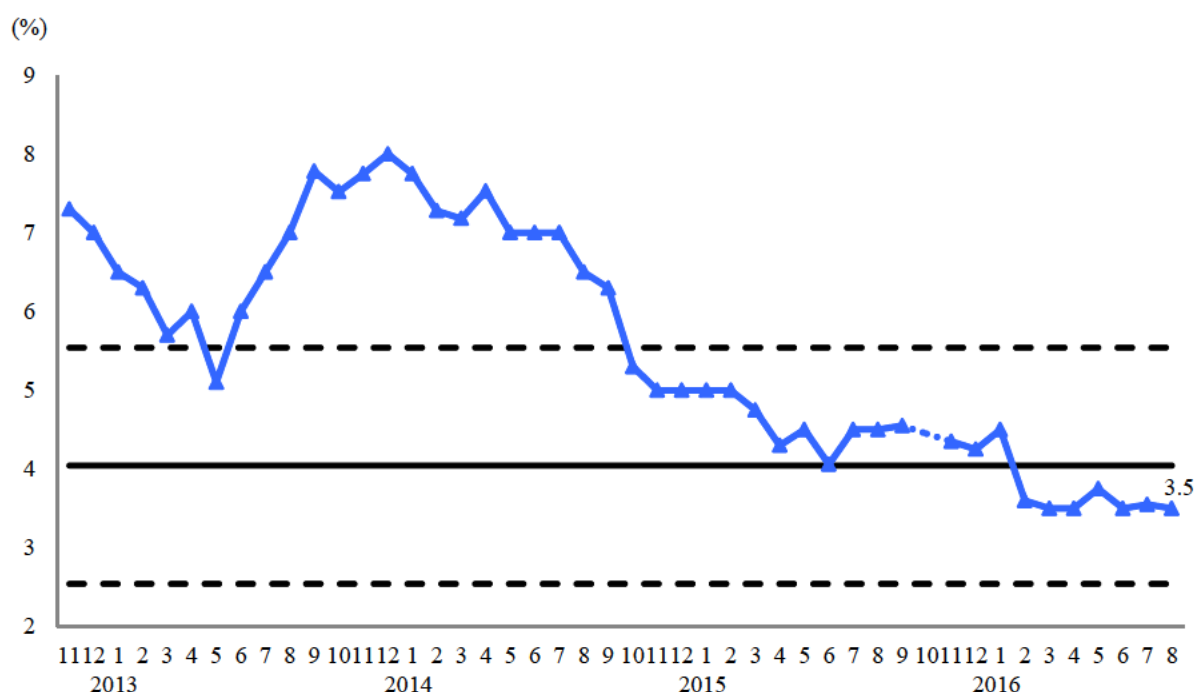
One-year ahead inflation expectations of the financial sector, corporates and trade unions remained within the NBS target tolerance band ( $4\pm1.5\%$ ) in August as well, while those of households dipped to 7%. One-year ahead inflation expectations of the financial sector have been well anchored for two years now and those of corporates for a year and a half. Inflation expectations of trade unions have been within the target tolerance band since May 2015, while household expectations are still above the upper end, most likely due to the August rise in electricity prices and news of a possible rise in prices of some food products. Medium-term inflation expectations of all institutional sectors have stayed within the target tolerance band for six months. Stable inflation expectations are a key prerequisite to inflation stabilisation and increased effectiveness of the monetary policy measures. Well-anchored inflation expectations, particularly in the medium run, are a measure of the monetary policy credibility and indicate the absence of inflationary and disinflationary pressures.

## Inflation expectations of the financial sector

After coming at 3.4% in July, one-year ahead inflation expectations of the financial sector fell further to 3.0% in August, returning to their all-time low recorded in March. They have stayed within the target tolerance band for nearly two years (twenty-three consecutive months). Based on the September Bloomberg survey, after staying on target for seven months (4%), one-year ahead inflation expectations of the financial sector fell slightly, coming at 3.9%, while staying within the target tolerance band for two years now (since October 2013).

Composite measure of inflation expectations of the financial sector<sup>1</sup> remained practically unchanged since February, coming at 3.5% in August.

**Chart 1.** Composite measure of inflation expectations of the financial sector



Source: NBS, Ipsos, Ninamedia and Bloomberg.

<sup>1</sup> Calculated by weighting responses by the size of the respondent's share in total assets. The institutions participating in both surveys are assigned the arithmetic mean of the responses provided in each of the surveys. Hence banks with a larger market share are given greater scope of influence on the aggregate result, which corresponds to the real situation, given that they do have a somewhat stronger impact on the flow of economic activity.

Two-year ahead inflation expectations of the financial sector fell from 3.9% in July to 3.5% in August, while moving within the target tolerance band since the beginning of the monitoring i.e. since March 2014.

## **Inflation expectations of the corporate sector**

One-year ahead inflation expectations of the corporate sector headed down since the beginning of 2015 – staying in August at their all-time low (3%) for the third consecutive month. They have remained within the target tolerance band for over a year and a half (since February 2014).

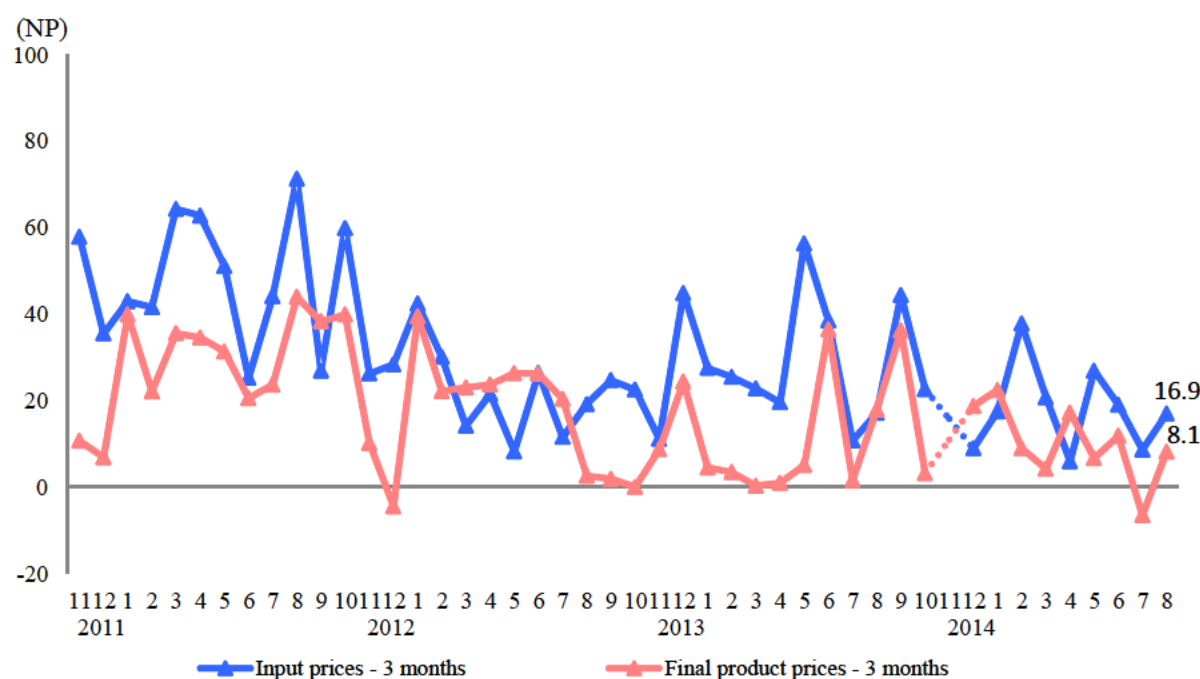
Medium-term i.e. two-year ahead inflation expectations of the corporate sector have been well anchored since launching of the survey, remaining firmly within the target tolerance band in all but one month. Since April, they have stood at 4%.

Relative to the previous survey, the NP<sup>2</sup> of enterprises expecting an increase in prices of their inputs in the coming three months improved from 8.5 pp in July to 16.9 pp in August. Consequently, yet less strongly, rose the NP of enterprises expecting an increase in prices of final products in the next three months (NP of 8.1 pp) after posting negative results in July, when the share of enterprises expecting a fall in prices of their products exceeded that of enterprises expecting prices to increase (NP of -6.6 pp). The share of enterprises expecting an increase in input prices in the coming twelve months keeps rising (from NP of 21 pp to NP of 28.1 pp), as does the NP of enterprises expecting an increase in the prices of own products in the same period (from NP 7.7 in July to NP of 13.4 pp in August). The NP of enterprises expecting an increase in production/trade in the next three months has more than doubled, coming at 47.1 pp (vs 21.2 pp in July). The NP of enterprises expecting an increase in production/trade in the next twelve months equalled 26.5 pp in August (vs 27.9 pp in July).

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<sup>2</sup> NP – net percentage calculated as the difference in the share of enterprises expecting price growth and those expecting a fall, weighted by operating income.

**Chart 2.** Expectations of the corporate sector regarding the change in input and final product prices



\*Above zero indicates growth, and below zero decline.

Source: Ipsos / Ninamedia.

## Inflation expectations of trade unions

Both short- and medium-term inflation expectations of trade unions continued within the bounds of the target tolerance band in August. After staying at their all-time low of 2.5% in June and July, they pushed up in August – trade unions now expect August 2016 inflation to come at 3%. Medium-term, i.e. two-year ahead inflation expectations of trade unions repeated their June and July results, measuring 3% for August 2017.

Inflation expectations of trade unions, just as those of the household sector, take longer to adapt to changes than “business” sectors which are inevitably better informed of macroeconomic developments. Still, one-year ahead inflation expectations of trade unions have been falling significantly since the beginning of the year, entering the target tolerance band in May, while mid-term inflation expectations of trade unions have been within its bounds since March 2015, due to restrictive fiscal policy and positive feedback that followed the second review of the arrangement with the IMF.

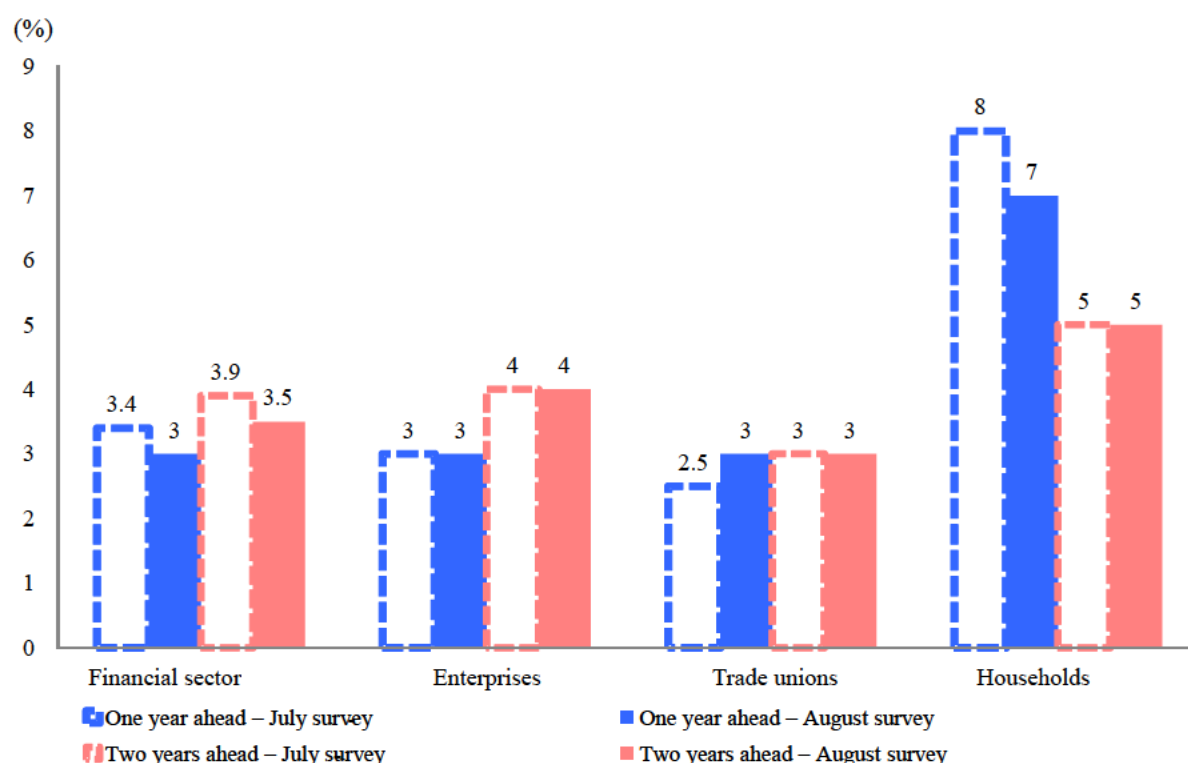
## Inflation expectations of households

### Quantitative inflation expectations of households

After staying at around 5% for five months and surging to 8% in July, one-year ahead inflation expectations of the household sector fell to 7% in August. Despite this fall, they are still above the target tolerance band, most likely due to the August rise in electricity prices and announced rise in prices of some food products. Adjustment of this sector to lower inflation rates is a significant move forward, as is the rising confidence in the stability of inflation in the coming period.

Medium-term i.e. two-year ahead inflation expectations of the household sector have stayed at the level of 5% for the seventh consecutive month, which indicates that the household sector expects inflation to stabilise within the target tolerance band in the medium run.

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



Source: Ninamedia.

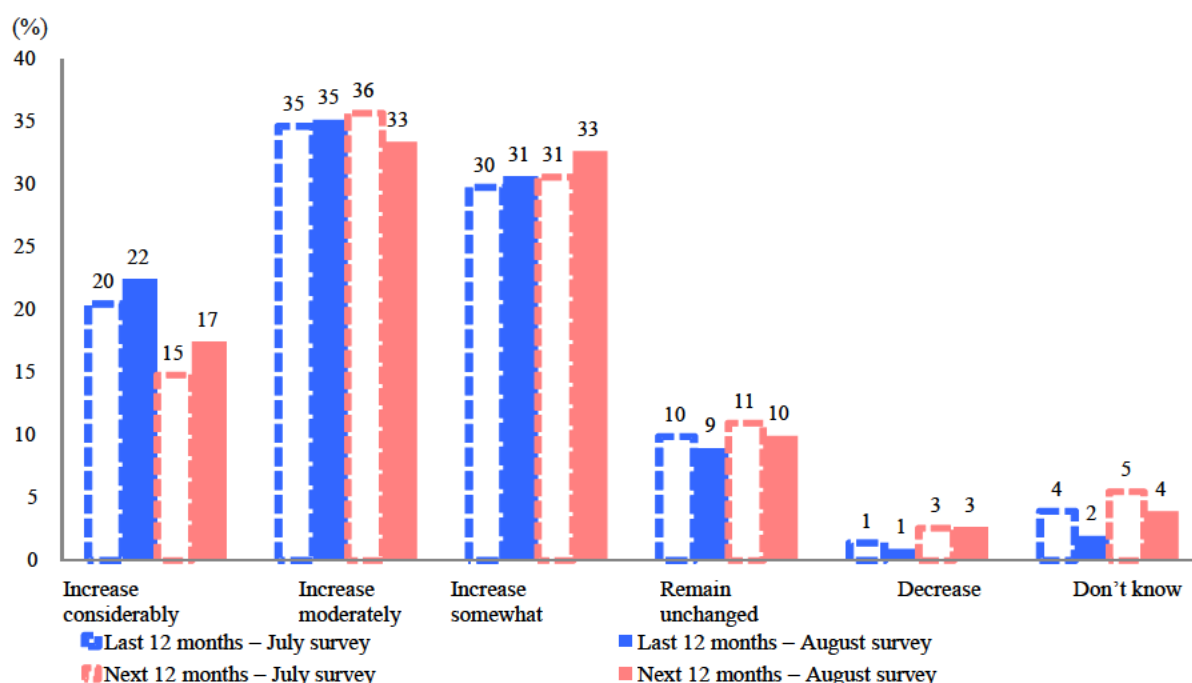


## Qualitative inflation expectations of households

Descriptive (qualitative) expectations of households regarding the rise in prices<sup>3</sup> indicate that two thirds of respondents anticipate prices to increase in the year ahead, either moderately or somewhat. The number of respondents expecting a considerable increase in prices rose mildly from the previous survey (from 15% to 17%), 10% of respondents expect no change in prices, 3% anticipate a fall, while 4% of the respondents said they did not know.

Over the previous year, the number of respondents anticipating considerable increase in prices has declined, while the number of those anticipating prices to either rise moderately, increase somewhat or remain unchanged, has picked up. Such trends are favourable as one of the main goals of the monetary authorities is to create a predictable and stable economic environment, which entails stable and low inflation.

**Chart 4.** Distribution of household responses by perceived (recorded) and expected inflation



Source: Ninamedia.

<sup>3</sup> Consistent with the practice of other central banks, from March 2014 onwards no information is presented to respondents regarding current inflation. A qualitative question has been introduced instead, and respondents are asked whether they think prices in the last 12 months: 1) increased considerably; 2) increased moderately; 3) increased somewhat; 4) remained unchanged; or 5) decreased. In addition, respondents are required to give their assessment whether prices in the next 12 months are likely to: 1) increase considerably; 2) increase moderately; 3) increase somewhat; 4) remain unchanged; or 5) decrease.