



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

August 2019

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

According to the results of the August Ipsos survey, both short-term and medium-term inflation expectations of the financial and corporate sectors recorded a fall.

Short-term inflation expectations of the financial and corporate sectors amounted to 2.3% and 2.0%, respectively (2.5% in July). A drop in inflation expectations corresponds to the y-o-y inflation slowdown. Short-term inflation expectations of trade unions returned to 3.0% (3.5% in July), while the expectations of households remained at 5.0%.

Two-year ahead inflation expectations of the financial sector were lowered to 2.5% in August (2.8% in July). The corporate sector expects two-year ahead inflation to be at 2.4% (2.5% in July), trade unions at 4.0% (3.75% in July), and households at 5.0% (unchanged from the beginning of the year).

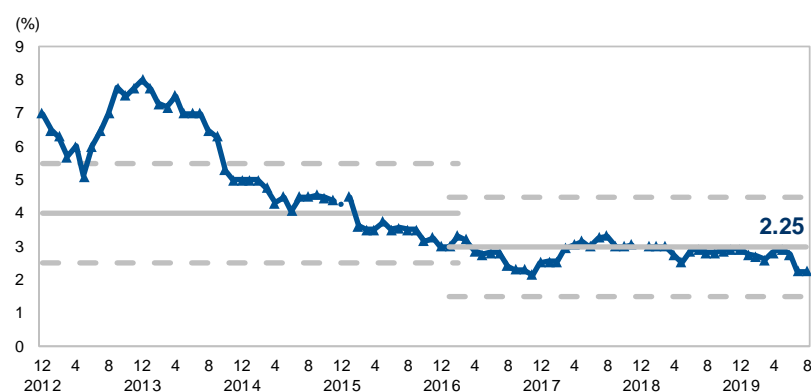
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

One year-ahead inflation expectations of the financial sector recorded a fall for the third consecutive month, reaching 2.3% in August, according to Ipsos. This has been the lowest level of financial sector expectations since December 2016. According to Bloomberg survey results for September, inflation expectations of the financial sector for one year ahead stood at 2.2%. Lower inflation expectations in the previous few months can most probably be partly attributed to the y-o-y inflation deceleration in that period.

The composite measure of inflation expectations of the financial sector¹ remained

Chart 1 Composite measure of inflation expectations of the financial sector



Sources: NBS, Ipsos, and Bloomberg.

the same in August as in July (2.25%).

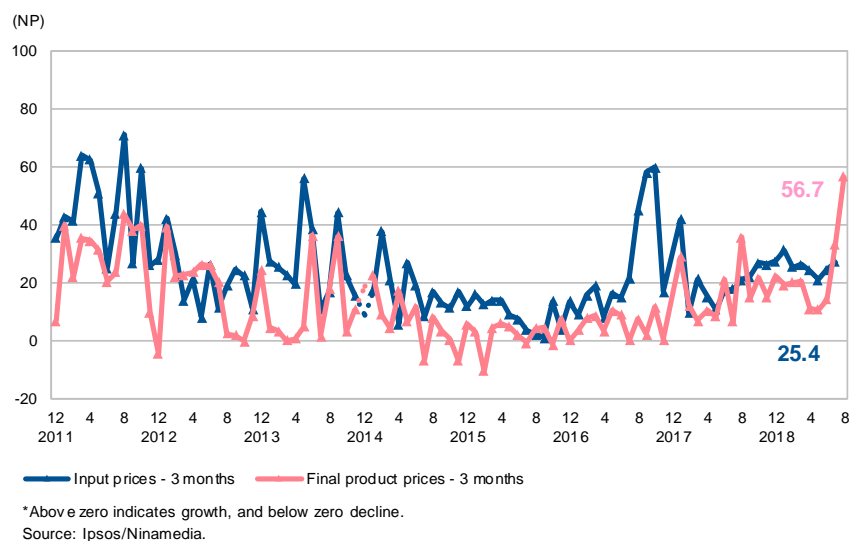
Medium-term inflation expectations of the financial sector also recorded a fall. In August they stood at 2.5%, lowered from 2.8% in the previous month. Medium-term inflation expectations of the financial sector move within the target tolerance band since the introduction of this survey question in March 2014.

Inflation expectations of the corporate sector

One-year ahead inflation expectations of corporates were lowered from 2.5% in July to 2% in August, which is their lowest level since the introduction of these surveys (beginning of 2009).

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 corporate sector expects that in the medium-term (August 2021) inflation will be at the level of 2.4%, negligibly lower than according to the last survey (July 2.5%).

The majority of corporates do not expect changes in input prices in the next three months, or one year ahead. At the same time, there was an increase in the share of corporates expecting a rise in the prices of their own products/services over the next three and twelve months.

According to the results of the August Ipsos survey, a higher percentage of corporates expect a rise in output/trade in the coming three and twelve months.

Inflation expectations of trade unions

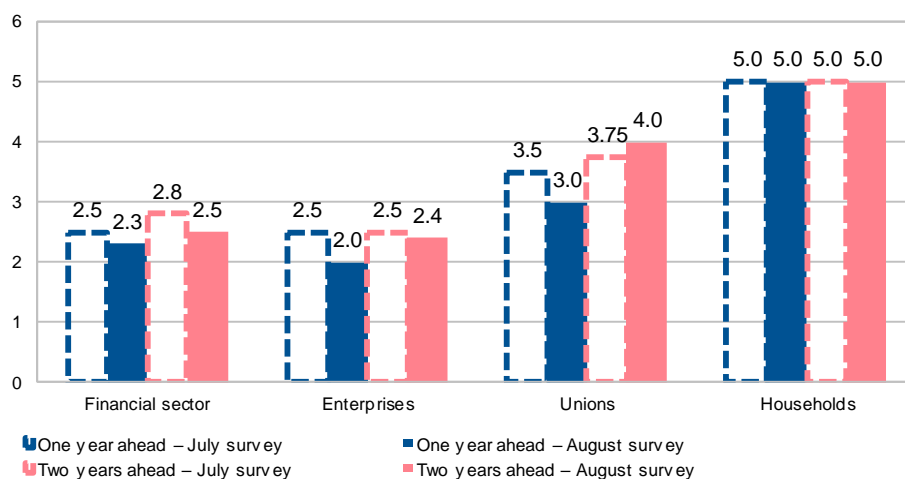
Short-term inflation expectations of trade unions returned to the targeted 3.0% (3.5% in July), while their medium-term expectations rose to 4.0% in August (from 3.75% in July), for the second month in a row.

Inflation expectations of the household sector

Quantitative inflation expectations

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

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

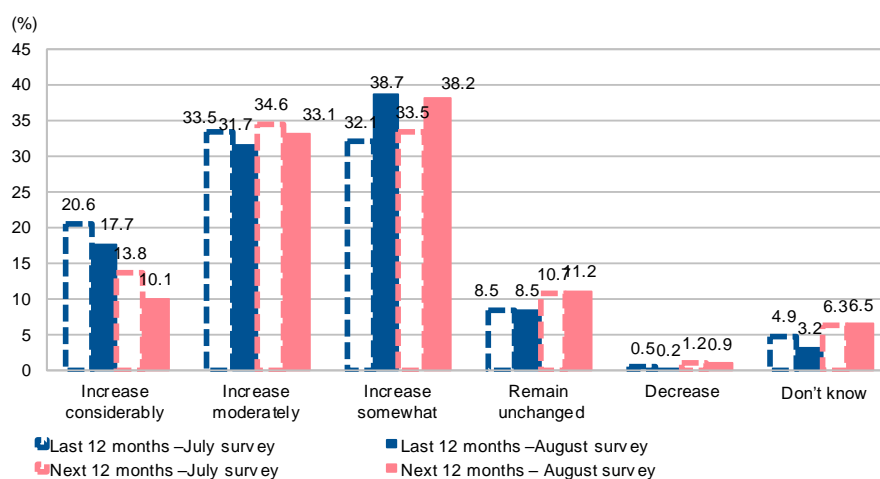


Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (71.3%) continue to expect a moderate or slight rise in prices over the next twelve months.

The share of respondents who believe that prices will go significantly up in the coming year was reduced by around 4 pp, while at the same time the share of those who believe that prices will go slightly up increased by around 5 pp.

Chart 4 Distribution of household responses by perceived and expected inflation

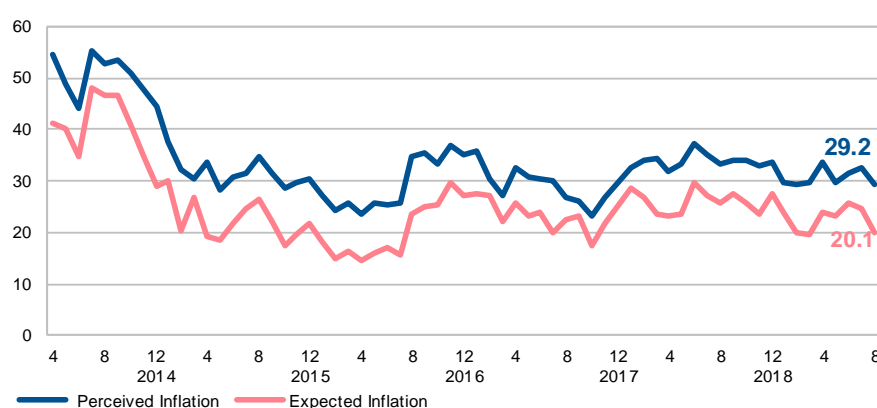


Source: Ipsos.

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 monetary policy.

August survey records an almost unchanged net percentage of respondents in the population expecting a hike in the prices of food products, as well as a rise in cost for monthly bills. Compared to the July survey, the net percentage of respondents expecting a rise in the prices of oil was reduced, which could be attributed to the current fall in the prices of petroleum products.

Chart 5 Perceived and expected inflation of households



Sources: InsoS and NBS calculation

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

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).