



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

October 2018

Belgrade, November 2018

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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 NBS began monitoring and analysing inflation expectations of economic agents, drawing on the inflation expectations survey, conducted for the NBS by Ipsos agency 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, also their medium-term, i.e. two-year ahead, expectations for y-o-y price growth.

Overview

According to the results of the Ipsos survey, inflation expectations of the financial and corporate sectors in October continued moving within the NBS target tolerance band ($3\pm1.5\%$).

The short-term inflation expectations of the **financial and corporate sectors** dropped mildly from the September survey, to 2.8% and 2.4%, respectively, while the inflation expectations of the trade unions and households were somewhat higher from September – 4.5% and 8.0%, respectively.

The financial sector expects inflation will be exactly at the NBS midpoint (3.0%) in October 2020, which is negligibly lower than in September (3.2%). Medium-term inflation expectations of the corporate sector were also lower (2.5% as opposed to 2.6% in September) Inflation expectations of the trade unions remained unchanged at 5.0%, while the medium-term expectations of the household sector went up to 7.0% (first increase since January this year).

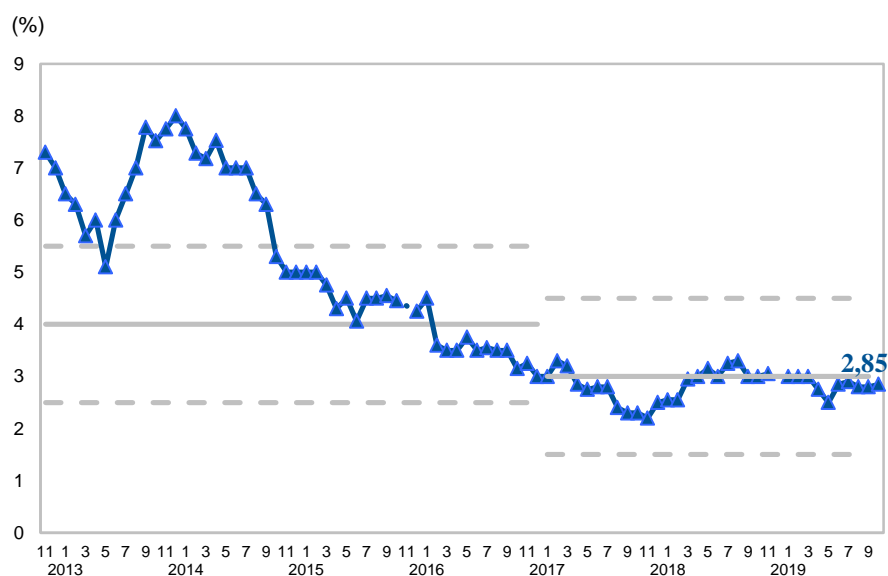
Firmly anchored inflation expectations are one of the prerequisites for achieving low, stable and predictable inflation. The fact that inflation expectations in Serbia are well anchored confirms the credibility of the NBS measures and indicates the absence of major inflationary and disinflationary pressures.

Inflation expectations of the financial sector

According to the Ipsos survey results, short-term inflation expectations of the financial sector recorded a mild fall in October, to 2.8% (September 3.0%). According to the results of the November survey of Bloomberg agency, one-year ahead inflation expectations of the financial sector are at the 3.0% target (unchanged from October).

The composite measure of one-year ahead inflation expectations of the financial sector¹ (comprising the results of Ipsos and Bloomberg surveys) was slightly higher in October compared to its September value (2.85%).

Chart 1 Composite measure of inflation expectations of the financial sector



Source: NBS, Ipsos, and Bloomberg.

Medium-term (two-year ahead) inflation expectations of the financial sector dropped in October and stood at the target midpoint of 3.0% (3.2% in September). These inflation expectations are anchored within the target tolerance band since their monitoring began (March 2014).

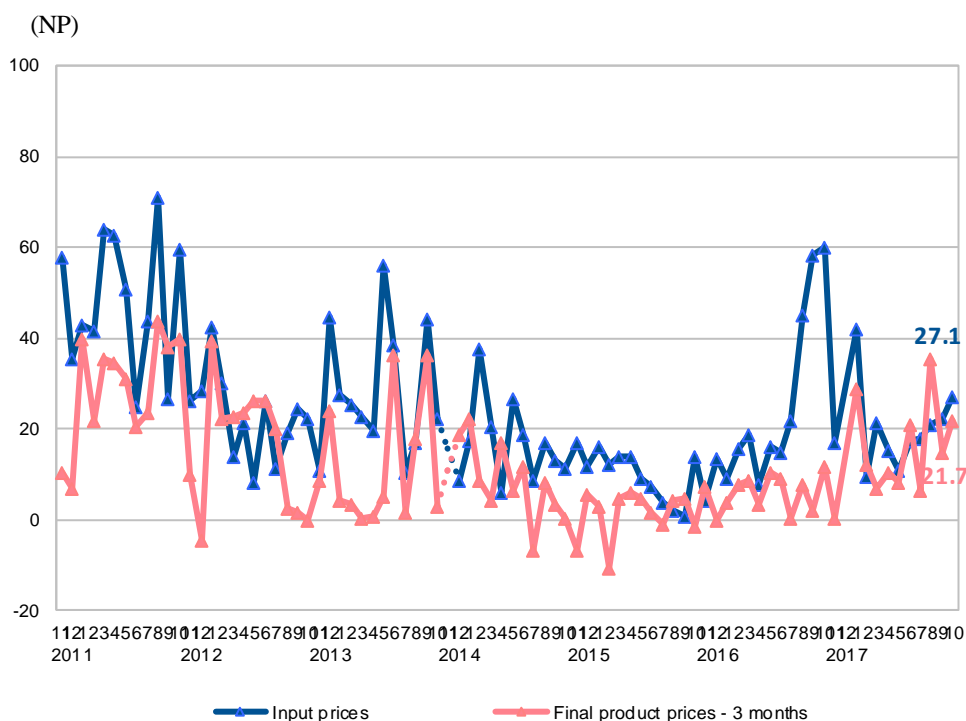
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater influence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

Inflation expectations of the corporate sector

Short-term inflation expectations of the corporate sector dropped to 2.4% in October (from 2.6% in September), and medium-term expectations are at a similar level (2.5%), also lowered from September (2.6%).

According to the Ipsos survey results, the net percentage (NP) of corporates expecting an increase in input prices over the next three and twelve months went further up. Also, compared to the previous survey, there was an increase in the NP of corporates expecting a rise in the prices of their products over the next three months, from 14.9% in September to 21.7% in October.

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

The NP of corporates considering that business conditions improved over the previous three months went up – from 11.2% in September to 16.7% in October, which is the highest value since this question was introduced into the survey. The NP of corporates expecting an improvement in business conditions over the next 12 months remained almost unchanged from September.

Inflation expectations of trade unions

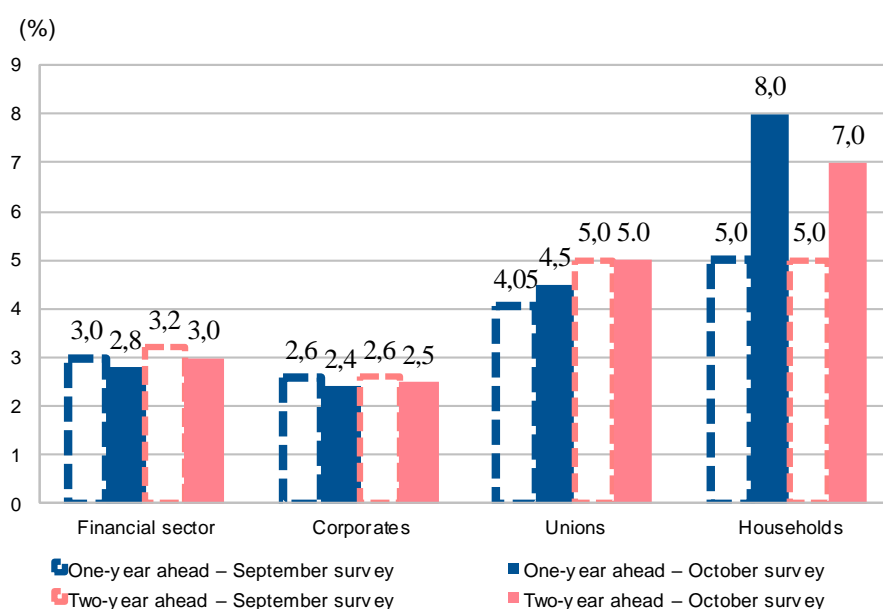
According to the Ipsos survey results, short-term inflation expectations of trade unions rose to 4.5% (4.05% in September), while medium-term inflation expectations remained unchanged (5.0%).

Inflation expectations of the household sector

Quantitative inflation expectations

According to the results of the October Ipsos survey, the inflation expectations of households edged up and measure 8.0% for one year ahead and 7.0% for two years ahead.

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



Source: Ipsos.

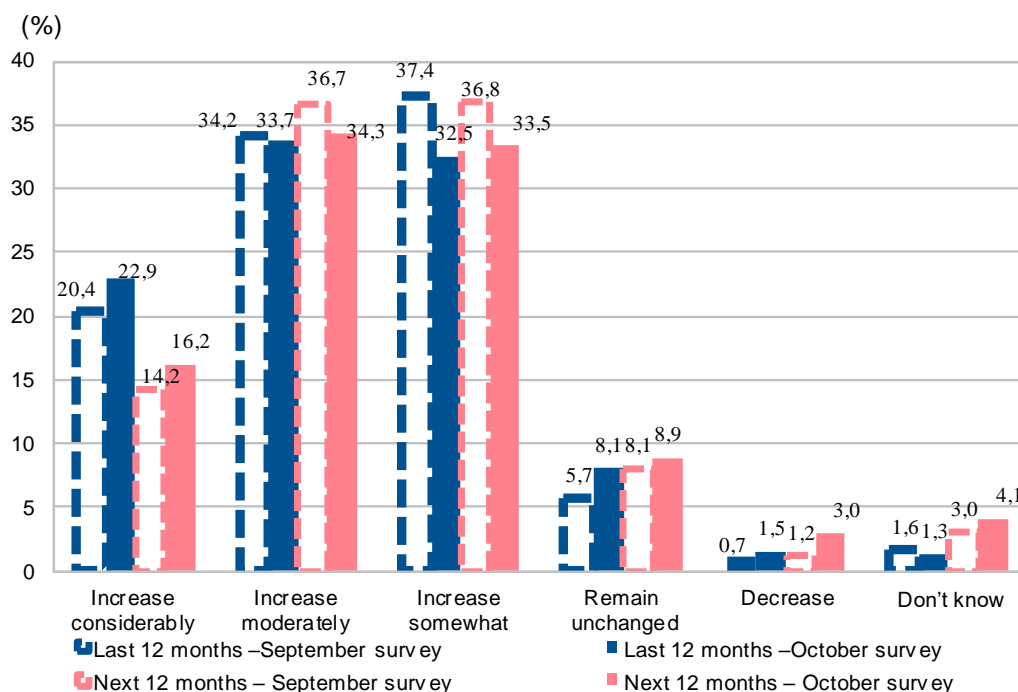
Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (67.8%) expect prices to rise **moderately or somewhat** over the next twelve months, which is a slightly lower value than in September. The October survey indicates, as in the previous months, that the respondents expect lower prices of clothes and household cleaning products. In contrast, the NP of respondents expecting an

increase in fuel prices went up, which could be related to the increase in the global oil prices in the previous period, and consequently higher prices of petroleum products at home.

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.

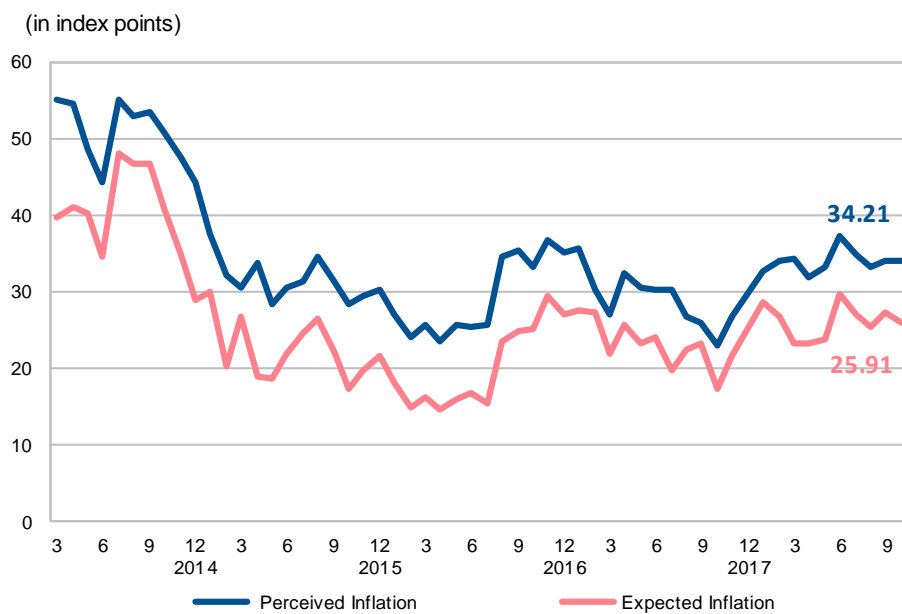
Chart 4 Distribution of household responses by perceived and expected inflation



Source: Ipsos.

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 **one part of the population, who felt that prices increased in the past twelve months, do 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.

Chart 5 Perceived and expected inflation of households

Source: Ipsos.