



NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE INFLATION EXPECTATIONS SURVEY

December 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 December survey, inflation expectations of the financial and corporate sectors remained anchored and continued moving within the NBS target tolerance band ($3\pm1.5\%$).

The financial sector expects that inflation will stand at 2.5% at end-2019, lower than in November (2.6%), while two-year ahead inflation expectations remained unchanged at the NBS target (3.0%). Inflation expectations of corporates are somewhat lower relative to the financial sector equalling 2.2% in the short run and 2.3% in the medium run.

Compared to the previous survey, short-term expectations of trade unions edged up slightly (4.5%), while medium-term inflation expectations, after three months, returned within the target band and stood at 4.5%. According to the results of the December survey, the inflation expectations of households edged down. Thus, households expect that inflation will stand at 6.0% at end-2019 and at 5.0% at end-2020.

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 results of the December Ipsos survey, one-year ahead inflation expectations of the financial sector fell for the third month in a row, touching 2.5%, i.e. their 2018 low. According to the results of the January Bloomberg survey, inflation expectations dropped to 2.7%, after being at the NBS target midpoint for three months.

The composite measure of one-year ahead inflation expectations of the financial sector¹ (comprising the results of Ipsos and Bloomberg surveys) remained unchanged in December relative to its November value (2.9%).

Chart 1 Composite measure of inflation expectations of the financial sector



Source: NBS, Ipsos, and Bloomberg.

As in the previous month, the financial sector expects two-year ahead inflation will be exactly at the target midpoint of 3.0%. Medium-term inflation expectations are anchored within the target tolerance band since their monitoring began (March 2014).

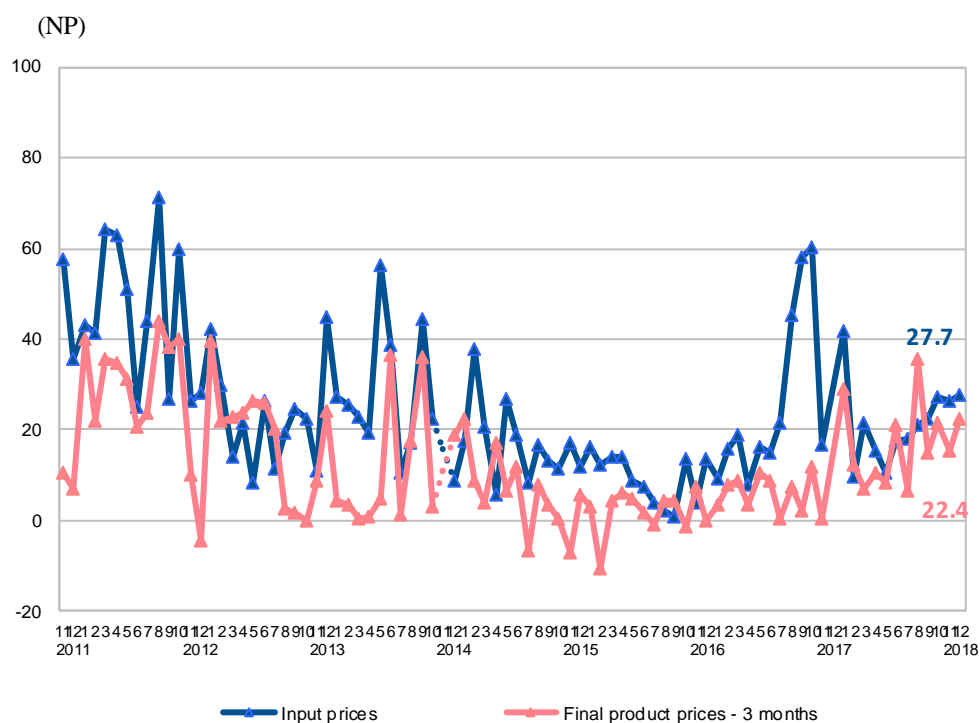
¹ Weighted by the individual respondent's share in total assets of the surveyed financial institutions. Institutions participating in both surveys are assigned the arithmetic mean of the responses provided in the Ipsos and Bloomberg surveys. Hence, banks with a larger market share have a greater influence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

Inflation expectations of the corporate sector

Compared to the previous month, both short-term and medium-term inflation expectations of corporates are lower. The corporates expect inflation will stand at 2.2% at end-2019 and at 2.3% at end-2020. These are the lowest levels of inflation expectations since February 2017.

According to the results of the December survey, the majority of corporates (77.4%) anticipates that the prices of their products will remain stable in the next three months. The net percentage (NP) of corporates expecting an increase in the prices of final products in the next three months equals 22.4%. The NP of corporates expecting an increase in the input prices in the next three months remained relatively unchanged compared to the two previous surveys (27.7%). In terms of expectations for the next twelve months, the NP of corporates who expect an increase in the prices of inputs dropped from 35.8% to 31.3 and the NP of corporates expecting an increase in the prices of final products edged up from 55.4% to 59.0%.

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.

According to the results of the December survey, the majority of corporate respondents considers that business conditions remained unchanged over the previous three months. Also, the majority of corporate respondents anticipates that business conditions will remain unchanged over the next twelve months.

Inflation expectations of trade unions

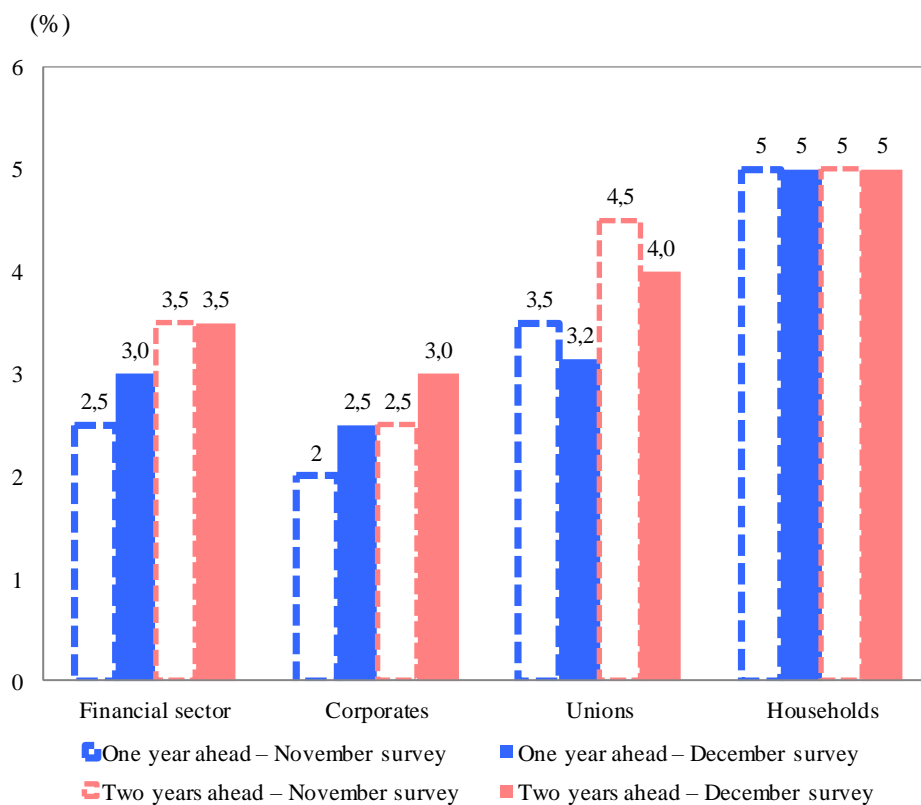
According to the results of the December survey, short-term inflation expectations of trade unions edged up slightly, reaching the upper bound of the target band (4.5%). Medium-term inflation expectations of trade unions are at the same level, having returned within the target band after a decline from the November results.

Inflation expectations of the household sector

Quantitative inflation expectations

Inflation expectations of households continued to fall in December, equalling 6.0% for one-year ahead and 5.0% for two-year ahead expectations, by 1.0 pp lower than in November.

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



Source: Ipsos.

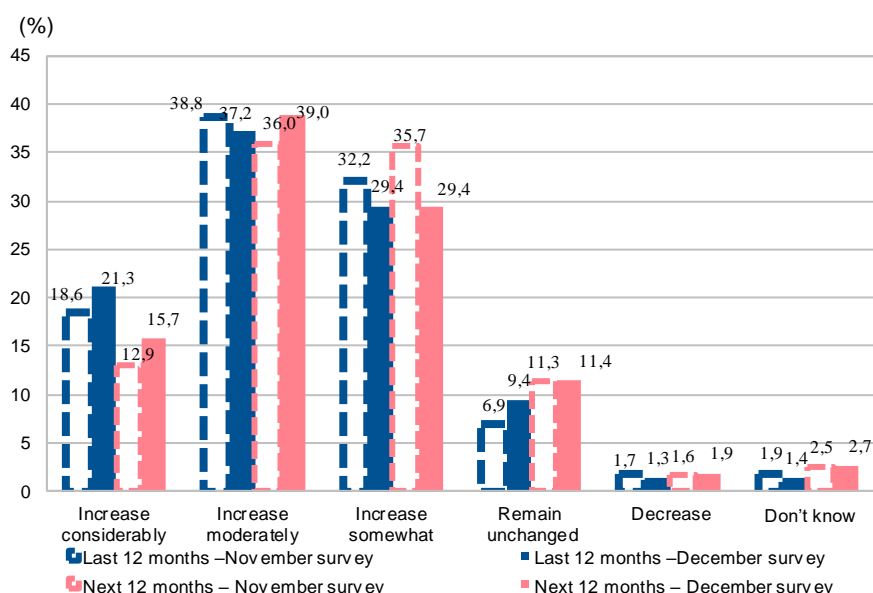
Qualitative inflation expectations

According to the results of the qualitative survey, the majority of respondents (68.4%) expect prices to rise moderately or somewhat over the next twelve months, which is a slightly lower value compared to the previous survey. At the same time, the share of respondents anticipating prices to increase considerably in the coming twelve months equalled 15.7% in December. The share of respondents anticipating no change in prices or their decline was 11.4% and 1.9%, respectively.

Compared to the previous survey, the number of respondents expecting an increase in the monthly bills went up (NP of 4.3% relative to 3.1% in November), as did the NP of respondents expecting an increase in food prices (NP of 3.3% relative to 1.8% in November). At the same time, more respondents expect a decrease in oil and transport prices, as well as in prices of coffee, alcohol beverages and cigarettes.

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

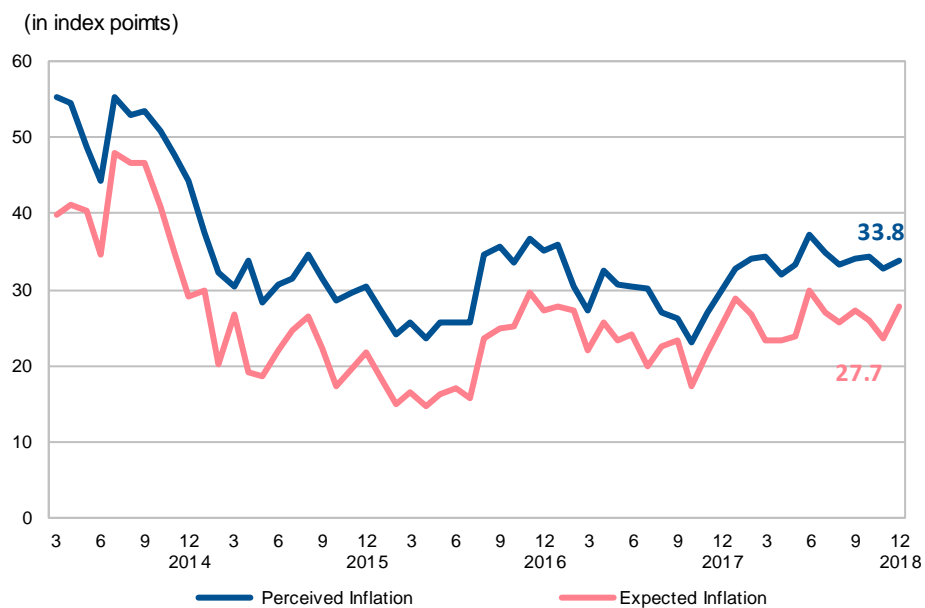


Source: Ipsos.

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

Chart 5 Perceived and expected inflation of households



Source: 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.