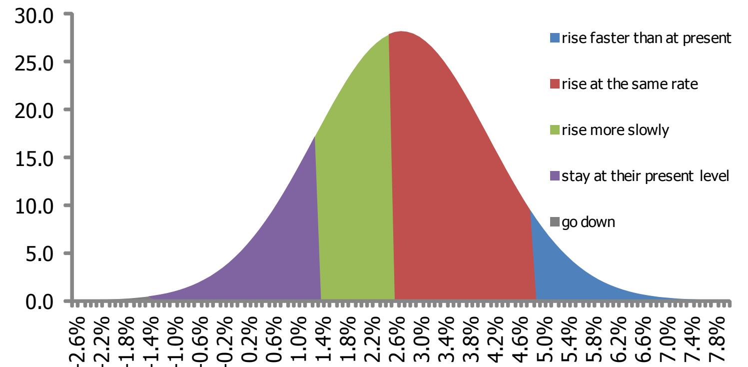
Survey on Inflation Expectations

In order to improve the survey measure of inflation expectations, in 2013, the NBRM Monetary Policy and Research Department carried out an in-depth analysis of the central banks' experience in conducting surveys. On this basis, they redesigned the existing survey so as to bring it closer to the European practice.

The newly designed questionnaire contains two questions: qualitative and quantitative. The first question of inflation expectations is designed in a qualitative way, i.e. the respondents do not provide a quantitative answer, but indicate the direction and extent of price changes compared with the change in the previous twelve months. The procedure for measuring qualitative responses uses the probability approach of Carlson and Parkin (1975), which assumes that when there is sufficiently large number of participants, the expected price change is normally distributed. The quantitative question requires the respondent to determine accurately the expected average rate of change of prices in 2014 and 2015.

As before, the Survey on Inflation Expectations covers three groups of respondents: economic analysts, companies and financial institutions. The qualitative question about the expectations is: Compared with the last twelve months, what are your expectations about the consumer prices in the next twelve months? a) they will increase more rapidly, b) they will increase at the current rate, c) they will increase at a slower rate d) they will stay about the current level e) they will fall f) difficult to determine. The quantitative question states: What are your expectations/forecasts for the average inflation in 2014 and 2015?

Chart 1. Normal distribution of answers of the respondents



Source: NBRM, Survey on Inflation Expectations.

The survey conducted in October 2013 shows that 48.4% of respondents expect prices to rise at the current pace in the next 12 months, 28.0% expect a slowdown of inflation, 16.1% expect prices to remain unchanged, while only 6.5% expect higher inflation. Against the backdrop of higher average inflation in the previous twelve-month period (3.7%), respondents indicate a slowdown of inflation by 1 percentage point, on average, in the next twelve-month period, or average inflation of 2.7%. Observing by group, the strongest deceleration is expected by ***companies*** (2.4%), followed by ***economic analysts*** (2.7%), while ***financial institutions*** expect that inflation will slow down to 3.0%. Respondents explain these expectations are based on the expectations for slower growth of international food and energy prices, in the absence of pressure from the demand side. Respondents expect the average inflation of 3.3% and 3.4%, respectively, in 2014 and 2015.