

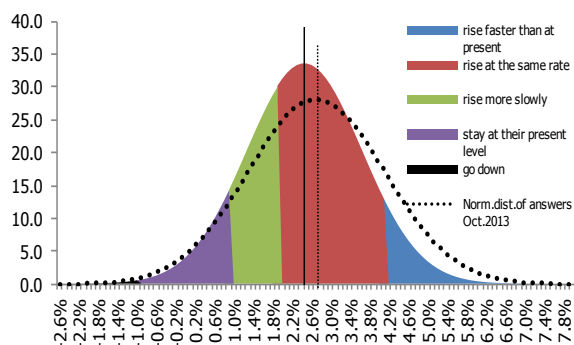
## Survey on Inflation Expectations

In order to improve the survey-based measuring of the inflation expectations, in 2013 the Monetary Policy and Research Department of the National Bank of the Republic of Macedonia took activities for a more detailed analysis of the experience of other central banks in conducting surveys. Accordingly, the current survey was redesigned, in order to bring it closer to the European practice.

The newly designed questionnaire contains two questions, one is qualitative and the other one, quantitative. The first question about the inflation expectations is designed in a qualitative way, i.e. the respondents do not give a quantitative response, but indicate the direction and the extent of price changes in comparison with the previous 12 months. The procedure for measuring qualitative responses is based on the Carlson and Parkin (1975) probability approach, which assumes that in case of a sufficiently large number of respondents, the expected price change is normally distributed within the population. The quantitative question requires from the respondent to determine accurately the expected average rate of price change in 2014 and 2015.

As previously, the Survey on Inflation Expectations covers three groups of respondents: economic analysts, companies and financial institutions. The qualitative question on the expectations states: 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", while the quantitative question is: What are your expectations/forecasts for the average inflation in 2014 and 2015?"

**Chart 1. Normal distribution of answers of the respondents**



Source: NBRM, Inflation Expectations Survey.

The Survey on Inflation Expectations was conducted in December 2013<sup>1</sup>. The Survey on Inflation Expectations was conducted in December 2013<sup>23</sup>. The results of the Survey show the largest concentration of the respondents' answers in the segment of expectations for unchanged inflation dynamics. Thus, 57.6% of the respondents expect price growth with the current pace in the following 12 months. In addition, 23.9% of the respondents expect inflation growth deceleration, 9.8% expect unchanged prices, while only 7.6% expect faster inflation growth in the following 12 months. In conditions of average inflation in the previous 12 months (of 3.1%), the expectations of the respondents indicate inflation deceleration of 0.6 percentage points, on average, in the following 12 months, **i.e. they expect average inflation of 2.5%**. From the aspect of the individual surveyed groups, the largest deceleration is expected by the surveyed **financial institutions** (expecting an inflation of 2.1%), followed by enterprises (of 2.2%), while the **economic analysts** expect inflation of 2.6%.

<sup>1</sup> The percentage of responsiveness of the Survey, conducted in December, equaled 49.2%. By groups of respondents, the financial institutions' responsiveness is 77.8%, followed by the economic analysts with 71.2% and enterprises with 30.1%.

The respondents explain these expectations with the assumptions for stabilization of the world oil prices and the domestic food and energy prices, in an absence of significant demand pressures. The respondents expect average inflation rate in 2014 and 2015 of 2.5% and 3.3%, respectively. In comparison with the previous survey, these expectations are lower (3.3% and 3.4%, anticipated inflation in 2014 and 2015, respectively) and they reflect the expected downward trend of the world oil and consumer prices in the Euro area.