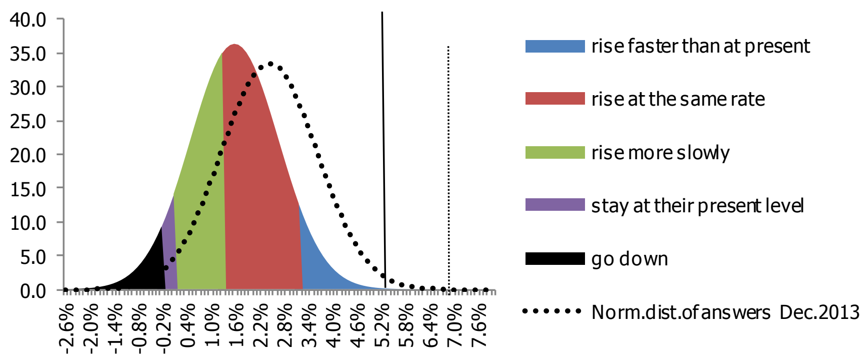
Survey on Inflation Expectations

In order to improve the survey measure of inflation expectations, in 2013, the National Bank of the Republic of Macedonia made a more detailed analysis of the other central banks' experiences in conducting surveys. On this basis, the existing survey was redesigned and converged to the European practice.

The new format of questionnaire contains two questions, qualitative and quantitative. The first question of inflation expectations is of qualitative nature, i.e. respondents do not provide a quantitative answer, but indicate the direction and extent of changes in prices compared with the change in the previous 12 months. The procedure for measuring qualitative responses uses the probability approach of Carlson and Parkin (1975), which assumes that at a sufficiently large number of participants, the expected price change is normally distributed in the population. The quantitative question requires from the respondent to state accurately the expected average rate of change of prices in 2014 and 2015.

As always, the Inflation Expectations Survey covers three groups of respondents: economic analysts, companies and financial institutions. The qualitative question of expectations reads: "What change do you expect in consumer prices over the next 12 months compared with the past 12 months? a) they will have a faster increase; b) they will increase at the current pace; c) they will increase more slowly; d) they will remain almost the same; d) they will decrease; f) it is difficult to determine", while the quantitative question reads: "What are your expectations/forecasts for the average inflation rate in 2014 and 2015?".

Chart 1. Normal distribution of answers of the respondents



Source: NBRM, Inflation Expectations Survey.

Inflation Expectations Survey was conducted in March 2014[1]. The results of the survey show that most respondents expect unchanged pace of inflation. Thus, 50.6% of respondents expect that prices will rise at the current pace in the next 12 months. Moreover, 31.8% of respondents expect slowdown of the inflation, 7.1% expect it to grow faster, while the same percentage of respondents, i.e. 4.7% for each, expected unchanged prices and reduced prices for the next 12 months. In conditions of average inflation in the previous 12-month period (2.3%), respondents' expectations indicate deceleration of inflation by 0.7 percentage points on average in the next 12-month period, i.e. **expect an average inflation of 1.6%.** Observing the individual surveyed groups, ***companies*** expect the fastest slowdown (with expected inflation of 1.5%), followed by ***economic analysts*** (1.6%), while financial institutions expect that inflation will slow down to 1.8%.

[1] The total number of respondents is 188. Proportion of responsiveness to the survey conducted in March was 45.2%. Analyzing by group of respondents, the responsiveness of financial institutions is 83.3%, followed by economic analysts with 55.2% and companies with 32.0%.

Respondents explain these expectations with the downward pressures of the low international inflation on domestic consumer prices, the decline in producer prices, and the favorable performance of agriculture, both domestically and globally, in the absence of significant pressures from the demand side. Respondents expect the average inflation rate of 2.7% and 2.9% in 2014 and 2015, respectively. Compared with the previous survey, those expectations are slightly higher for 2014 and lower for 2015 (expected inflation of 2.5% and 3.3% in 2014 and 2015, respectively) and reflect upward inflation risks from the crisis in Ukraine on world prices of food and oil.