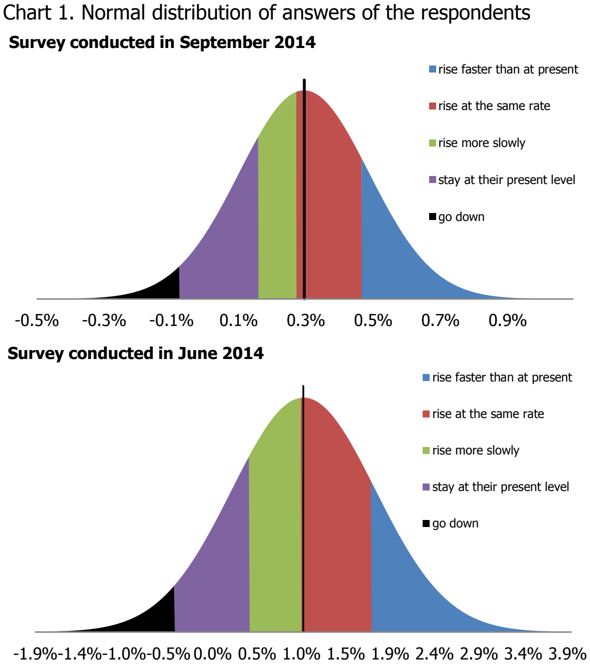
Survey on Inflation Expectations[1]

The questionnaire for measuring inflation expectations contains two questions, one qualitative and one quantitative in nature. The first question on inflation expectations is qualitative, 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 12 months. The procedure for measuring the qualitative answers is by using the probability approach of Carlson and Parkin (1975), which assumes that given a sufficiently large number of respondents, the expected change in prices is normally distributed among the population. The quantitative question requires from the respondent to determine accurately the expected average rate of change of prices in 2014 and 2015.

The Inflation Expectations Survey includes three groups of respondents: economic analysts, companies and financial institutions. The qualitative questions regarding the expectations read as follows: "Compared with the past 12 months, how do you expect consumer prices to move in the next 12 months? a) they will grow faster; b) they will grow at the current pace; c) they will grow more slowly; d) they will remain almost unchanged; e) they will decline; 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

The Inflation Expectations Survey was conducted in September 2014[2]. The survey results show the highest concentration of the respondents' answers in the segment of expectations for an unchanged inflation dynamics. So, a little more than a third (35.8%) of the respondents expect prices to rise at the current dynamics in the next 12 months. The distribution is equal (21% each) between the responses in terms of slower growth and unchanged prices, while 18.5% of the respondents expect faster price growth. Only 2.5% of the respondents expect price decline in the next 12 months. Amid average inflation of 0.3% in the previous 12-month period, the respondents expect the inflation rate to be maintained also in the next 12-month period, i.e. **they expected average inflation of 0.3%.** Analyzing individual surveyed groups, only surveyed ***economic analysts*** expect a slight slowdown (with expected inflation of 0.2%), while ***companies and financial institutions*** expect the same inflation rate (of 0.3%) to be maintained also in the next 12-month period.

According to the respondents, the main factors that would affect the formation of prices by the end of 2014 are the following: the low inflation in the Euro area, the uncertainty about the movement of energy prices due to the conflicts in Ukraine and Syria, the implications from the economic sanctions on Russia, as well as the potential growth in the food prices caused by the unfavorable weather conditions in

[1] In order to improve the survey measurement of inflation expectations, in 2013 the Monetary Policy and Research Department of the National Bank of the Republic of Macedonia started an in-depth analysis of the experiences of other central banks associated with conducting surveys. On that basis the existing survey was redesigned and starting from October 2013, data were collected in a new survey, thus ensuring greater approximation to the European practice.

[2] The percentage of responsiveness to the survey conducted in September was 42.9%, which compared to the previous quarter, represents an increase of responsiveness. Analyzed by groups of respondents, the financial institutions' responsiveness is 77.8%, followed by economic analysts with 48.5% and 33.0% of companies.

Macedonia and the region. **Respondents expect an average inflation rate in 2014 and 2015 of 1.7% and 2.3%, respectively.** Compared with the previous survey, these expectations are lower (2.2% and 2.6%, expected inflation in 2014 and 2015, respectively). Changes in the expectations are explained by the dynamics of consumer prices in the Euro area, as well as the decline in the prices in the domestic economy in the last two quarters of this year.