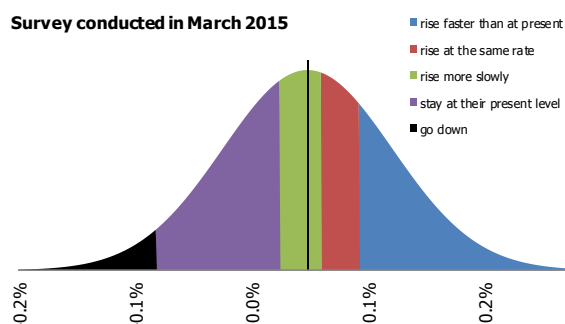
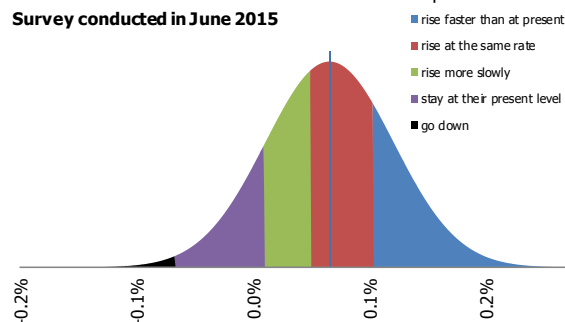


Survey on Inflation Expectations¹

Inflation Expectations Survey includes three groups of respondents: economic analysts, companies and financial institutions. The questionnaire contains two questions to measure inflation expectations, one qualitative and one quantitative in nature. For the first question on inflation expectations, the respondents indicate the direction and extent of price changes compared with the change in the previous 12 months². Carlson and Parkin (1975) probability approach has been used for quantification of qualitative answers, which assumes that amid sufficiently large number of respondents, the expected change in prices is normally distributed among the population. The second question requires from the respondent to quantify precisely the expected average rate of change of prices in the next two years³. The overall expected rate is calculated as a simple average of the responses of all participants. The resulting indicator is useful for obtaining indications for the direction of the respondents' expectations.

Chart 1. Normal distribution of answers of the respondents
Survey conducted in June 2015



The Inflation Expectations Survey was conducted in June 2015⁴. As in the previous survey round, also in June **the negative average inflation rate for the previous 12-month period remained⁵ and the results of the June survey suggest unchanged inflation expectations compared to the March survey.** Thus, in the next 12-month period, respondents expect inflation to be around 0%, and the same are the expectations analyzed in terms of individual groups of respondents (economic analysts, companies and financial institutions) who expect the inflation rate in the next 12-month period (until May 2016) to average around 0%.

In terms of the quantitative question on the expected rate of inflation for 2015 and 2016, minor changes compared to the expectations in the previous survey round are registered.

Namely, in the period between the two surveys, the respondents' expectations for inflation in 2015 decreased by 0.1 percentage points, on average, while for 2016 they increased by 0.1 percentage points, on average. According to respondents,

¹ In order to improve the survey measure 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 for the new survey, thus ensuring greater approximation to the European practice.

² The qualitative question of expectations reads as follows: "Compared with the past 12 months, how do you expect consumer prices to change in the next 12 months? a) will have a faster growth; b) will grow at the current pace; c) will grow at a slower pace; d) will remain almost unchanged; e) will decrease; f) it is difficult to determine"

³ The quantitative question reads as follows: "What are your expectations/forecasts for the average inflation rate for 2015 and 2016?"

⁴ Refers to the period June 2014 to May 2015. The percentage of responsiveness to the Survey conducted in June was 26.3%, which compared to the previous quarter, represents a decrease of responsiveness. Analyzed by groups of respondents, the financial institutions' responsiveness is 44.4%, followed by economic analysts with 29.0% and companies with 21.4%.

⁵ In circumstances of a negative price growth, the interpretation of the results of the survey can be blurred, and therefore, it is necessary to change the method of calculation of the indicator for inflation expectations. Thus, in the procedure for quantification, the negative rate is replaced with the last positive growth rate. This is the way to avoid the contradictory responses from the survey that assume a positive price growth. Taking into account that changes in the method are of a purely technical nature, the quantification of qualitative answers for the expected rate of inflation in periods of negative inflation should be taken with caution, while the indicator for inflation expectations as approximate.

factors with which they explain the inflation expectations in June include the movement of domestic consumer prices in the past period and the exhaustion of the downward pressures in the energy component, amid still unstable geopolitical environment.