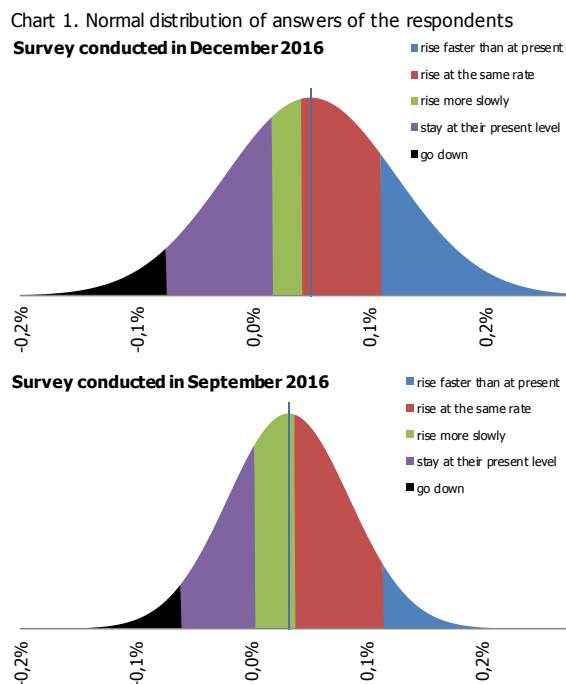


Survey on Inflation Expectations



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 months¹. Carlson and Parkin (1975) probability approach has been used for quantification of qualitative answers, which assumes that amid a 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 years². 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.

The Inflation Expectations Survey was conducted in December 2016³. Same as in the previous survey cycle, **the average inflation rate for the previous 12-month period⁴ remained in the negative zone⁵. The results of the survey indicate unchanged inflation expectations relative to the previous survey**, i.e. as in September, respondents expect inflation to be around 0% in the next 12-month period. Expectations for the inflation rate of around 0% are common for all three groups of respondents (economic analysts, companies, and financial institutions).

In terms of the quantitative question on the expected rate of inflation for 2017 and 2018, the respondents' inflation expectations for 2017 are by 0.2 percentage points lower compared to the previous survey. Respondents expect the inflation to accelerate in 2018 compared to 2017.

¹ 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"

² The quantitative question reads as follows: "What are your expectations/forecasts for the average inflation rate for 2017 and 2018?"

³ The percentage of responsiveness to the Survey conducted in June was 29.2%, which compared to the previous quarter, represents an increase of responsiveness. Analyzed by group of respondents, the financial institutions' responsiveness is 55.6%, followed by companies with 27.2% and economic analysts with 25.4%.

⁴ Refers to the period December 2015 to November 2016.

⁵ In conditions 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.