

Inflation Attitudes Survey

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**Survey Management Division
Statistics Department
Central Bank of Nigeria**

Executive Summary	3
Introduction	4
Survey Methodology	4
Inflation	6
Interest Rate	7
Interest Rate - Inflation Nexus	8
Opinions on the Central Bank of Nigeria	9
Table 1 Summary of Results	11

EXECUTIVE SUMMARY

The Q4, 2015 survey of households' attitudes to inflation and interest rates was conducted by the Statistics Department of the Central Bank of Nigeria during the period October 26 - November 7, 2015. This is in a bid to assess the general public perceptions of inflation, which will help gauge the Bank's macroeconomic policy formulation and management.

The highlights of the Inflation Attitude Survey report are as follows:

- Respondent households believed that the economy would end up weaker rather than stronger, if prices start to rise faster than they do now.
- Given a trade-off between inflation and interest rate, more respondents would prefer higher interest rates to higher inflation, with a ratio of 2.7:1.
- Majority of the respondents are of the view that price increase is inimical to economic growth.
- Majority of the respondents are satisfied with the way CBN is influencing the direction of interest rates to control inflation.

1. Introduction

The Central Bank of Nigeria (CBN), aside from its price and monetary stability mandate, is also tasked with supporting the Government's policies on economic growth and unemployment reduction. One of the objectives of the Bank is to build public confidence and support for sustainable economic development, price stability, and public understanding of the Monetary Policy Committee's roles. If people understand and support the objective of price stability as well as understand how the interest rate is used to achieve it, macroeconomic stability which is an essential prerequisite for economic growth and development would be attained. The level of interest rates deemed appropriate to achieve this, is decided by the Monetary Policy Committee (MPC) on periodic basis. The Committee equally articulates other policy frameworks, which are considered effective in moderating price changes and economic stability.

Respondents' opinions were used to progressively explore the general public's understanding of monetary policy matters. This is because good estimates of inflation expectations and public understanding of what influences them are important parameters for successful monetary policy. In this way, the Bank will be in a position to quantify the impact of its efforts in stabilizing and sustaining prices in the Nigerian economy.

The Statistics Department, on a quarterly basis since June 2009, conducts the inflation attitudes survey to sample the views of households on how they view the price changes of goods and services in the shops in the last twelve months, and their expectations of price changes over the next twelve months. The Department also samples respondents' views on interest rate and knowledge of the monetary policy framework. Results of the Q4, 2015 Inflation Attitudes survey are discussed below.

2.0 Survey Methodology

The Q4, 2015 Inflation Attitudes Survey was conducted from October 26 to November 7, 2015 with a sample size of 1900 households in 350 randomly selected Enumeration Areas (EAs) across the six geopolitical zones

Monetary Policy framework will be most effective, if accompanied by wide public understanding and support.

Table 1: Distribution of sample size and response rate**About
the
Survey**

ZONE	SAMPLE STATE	Q2 2015 SAMPLE SIZE	Q2 2015 RESPONSES	RESPONSE RATE (%)
North Central	Niger, Kwara, Abuja, Benue, Kogi, Nasarawa and Plateau	350	337	96.3
North East	Bauchi, Adamawa, Gombe, and Taraba	250	250	100.0
North West	Kaduna, Katsina, Kano, Zamfara, Jigawa, Sokoto and Kebbi	350	350	100.0
South East	Enugu, Imo, Ebonyi, Anambra and Abia	250	250	100.0
South South	Edo, Delta, Rivers, Bayelsa, Cross River and Akwa-Ibom	300	293	97.7
South West	Lagos, Oyo, Ekiti, Ogun, Osun and Ondo	400	400	100.0
TOTAL		1900	1880	98.9

Inflation expectations do vary amongst households due to the differences in the goods and services bought, which often lead to differences in the prices of the goods and services. Thus, the designed questionnaire captures information on age, sex, income, employment status of the head of the household, among others.

**Face-to-face
interviews of
randomly
selected
respondents
were
conducted.**

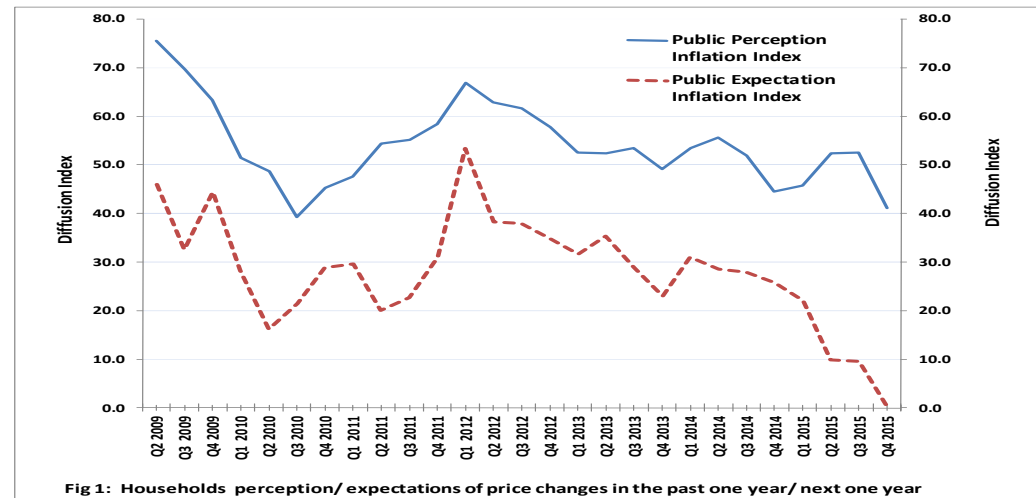
The survey involves in-house face-to-face interview of randomly selected households. The selection entails a quota sample of individuals within randomly selected Enumeration Areas (EAs). This was done using the instrumentality of the National Integrated Survey of Households (NISH) of the National Bureau of Statistics (NBS). The survey asked questions about the evolution of prices of “goods and services”, and the questions were designed to reflect the concept of inflation the general public are most likely to be familiar with, instead of any specific measures of inflation, like the Consumer Price Index.

The questionnaire was therefore couched in a manner that would capture the expectations of respondents. The options for questions asked were in ranges of price change, of which respondent households are expected to select one that best suites their expectations. The options were in the form of “Gone Down”, “Not Changed”, “Up by 1% but less than 3%”, “Up by 3% or Above” and “No Idea”. Respondents were made to answer a total of 14 questions, which include: their thought on how prices had changed in the previous twelve months, how they expect prices to change over the next twelve months, and the body that sets the interest rates. Questions seeking information on public knowledge, understanding and attitudes towards MPC process and expectations of interest rates were also asked.

The respondents were also requested to state whether they were satisfied or not with the way the Central Bank of Nigeria is doing its job of setting interest rates in order to control inflation. Furthermore, because households focus on particular types of goods and services when thinking about inflation, variation in the answers may therefore be because respondents are thinking about inflation as it relates to their own patterns of spending in addition to media reports about price trends. Respondents understanding of the transmission mechanism of monetary policy, which is the first step in understanding their inflation expectations, was also assessed.

Respondent households believed that the economy would end up weaker rather than stronger, if prices start to rise faster than they do now.

The Q4, 2015 survey result showed that 42.1 per cent of the respondents believed that the economy would end up weaker while 12.7 per cent opined that it would be stronger, if prices start to rise faster than they do now. Also, 23.8 per cent of the respondents believed it would make little difference. The responses suggest considerable support for price stability, as more respondents were of the view that inflation is inimical to economic growth (Question 3).



When asked to say how prices have changed over the past 12 months, respondents gave a median answer of 1.8 per cent, which is lower than the previous trend (Question 1). Of the total respondents, 33.4 per cent thought prices had gone down or not changed, while 30.0 per cent felt that prices had risen by at least 3.0 per cent and 21.5 per cent felt that prices inched up by 1.0 per cent but less than 3.0 per cent.

Respondents' median expectations of the price changes over the next 12 months (Question 2) was that prices would inch up by 0.2 per cent. The views of the respondents on Question 2, on 'how much they expect prices in the shops generally to change over the next 12 months?', showed that 15.0 per cent of the respondent households expect prices to rise by at least 3 per cent in the next 12 months; compared with the 19.1 per cent of respondents that expect prices to rise by 1 per cent but less than 3 per cent in the next 12 months. Similarly, 49.9 per cent of the respondents were optimistic that prices over the next 12 months would either go down or remain the same. This shows that about half of the people thought that prices were not likely to rise. This pattern has been maintained since Q2 2009 (see Fig. 1).

More respondents were of the view that price increase is inimical to economic growth.

Informed in Question 4 that the Government has anticipated an inflation rate of 6 - 9 per cent in this year's budget, 20.9 per cent of the respondents thought that



Majority of households perceived that interest on bank loans and savings rose over the past 12 months

The public have greater confidence in the ability of the monetary authority to control inflation.

The percentage of respondent households (Question 5) who felt that interest rate has risen in the last 12 months decreased by 0.4 percentage points to 49.0 per cent in the current quarter, compared to 49.4 per cent attained in Q4, 2014. On the other hand, 9.8 per cent of respondents believed that interest rates will fall, while 19.6 per cent of the respondents were of the opinion that the rates stayed about the same in the last 12 months. Also 21.6 per cent of the households had no idea. The result revealed that majority of households perceived that interest on bank loans and savings rose over the past 12 months, and this is consistent with the trend observed

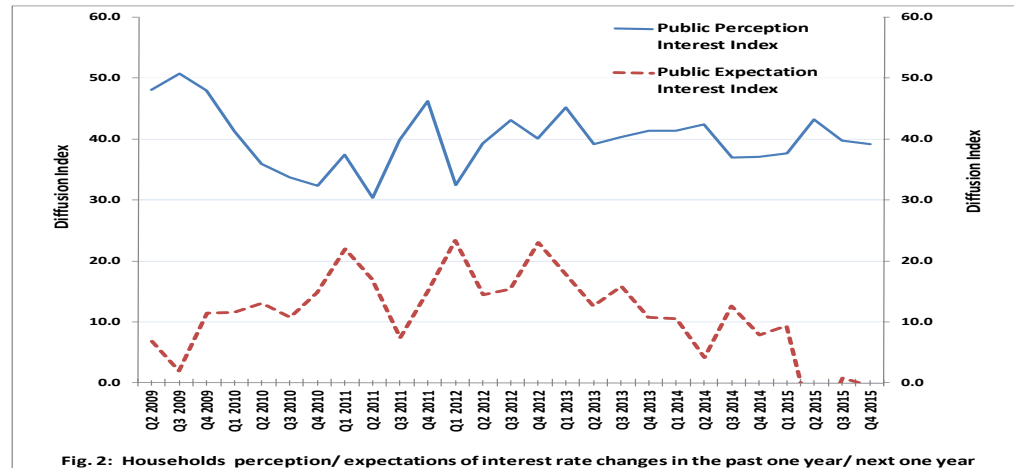


Fig. 2: Households perception/expectations of interest rate changes in the past one year/ next one year

since Q2 2009 (see Fig. 2).

Respondents views differed on whether the interest rate on bank loans and savings will rise or fall over the next 12 months. While 49.0 per cent of the respondents were of the view that the rates will rise, 9.8 per cent believed that the rates will fall. The ‘net rise’ value of 39.2 per cent was achieved compared to 37.1 per cent attained in the corresponding quarter a year ago. More than one-third of the respondents either expected no change or had no idea. As illustrated in Fig. 2, the public expectation on interest rate index was consistently lower than their perception, indicating that the public has greater confidence in the ability of the monetary authority to control inflation.

Respondents were in Question 8 asked what would be ‘best for you personally, for interest rates to go up or go down’. Respondents answers showed that 56.8 per cent reported that it would be best for them personally if interest rates go down, 17.6 per cent reported it would ‘make no difference’, while 14.8 per cent of the respondents opted for higher interest rates. The results further revealed that 10.7 per cent expressed ‘no idea’.

Similarly, the respondents were also asked in Question 7 what would be ‘best for the Nigerian economy, for interest rates to go up or go down’. Respondents

42.2 per cent of respondents reported that it would be best for the Nigerian economy if interest rates go down.

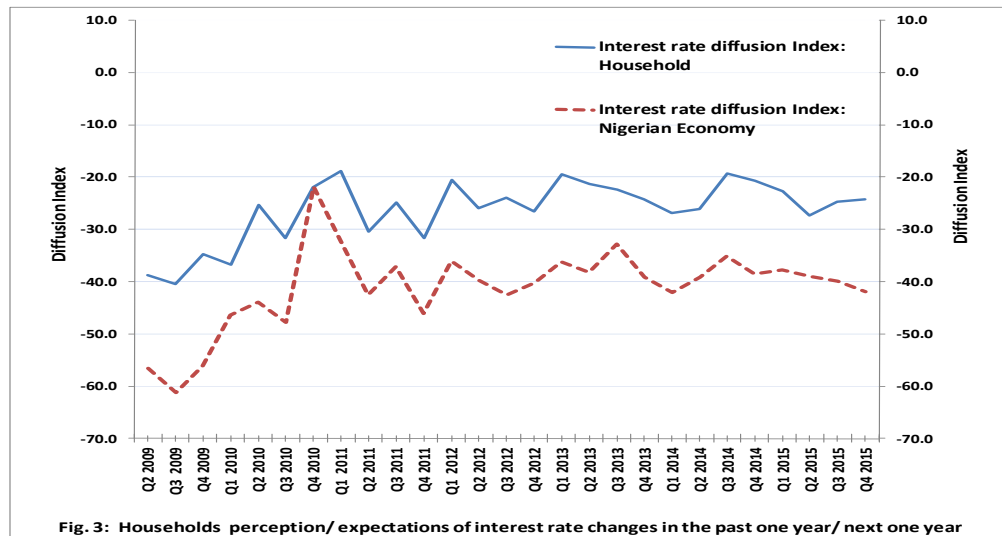


Fig. 3: Households perception/expectations of interest rate changes in the past one year/ next one year

5.0 Interest Rate—Inflation Nexus

views.

Question 9 was designed to measure peoples’ understanding of how interest rates would affect changes in prices. On what the impact would be on prices if there is a rise in interest rates in the short and medium terms over half of the respondents (57.2 per cent) agreed that ‘a rise in interest rates would make prices in the street rise more slowly in short term’,

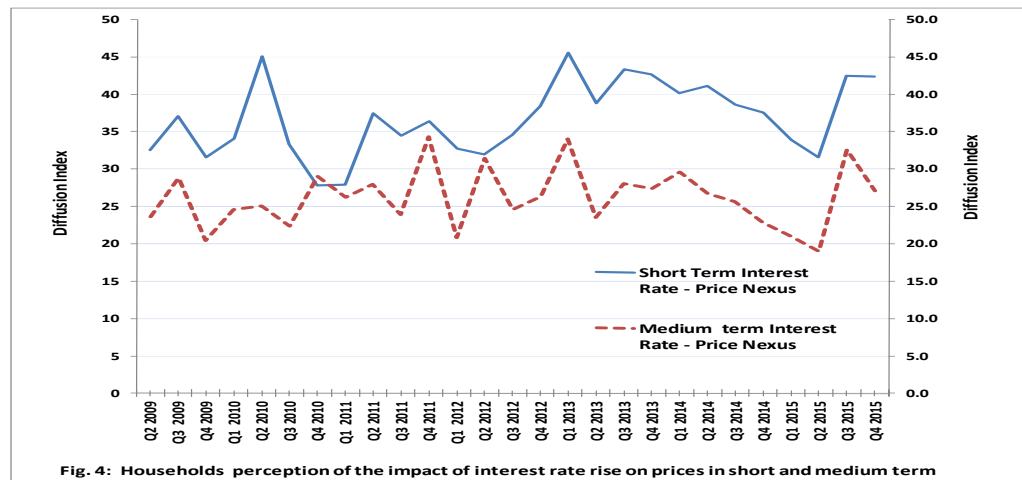


Fig. 4: Households perception of the impact of interest rate rise on prices in short and medium term

Given a trade-off between inflation and interest rate, majority of respondents would prefer higher interest rates to higher inflation.

against 14.8 per cent that disagreed. While in the medium term, 48.3 per cent agreed that ‘a rise in interest rates would make prices in the street rise more slowly’, while 21.2 per cent ‘disagreed’ (See Fig. 4).

Respondents expressed support for the Bank's price stability objective

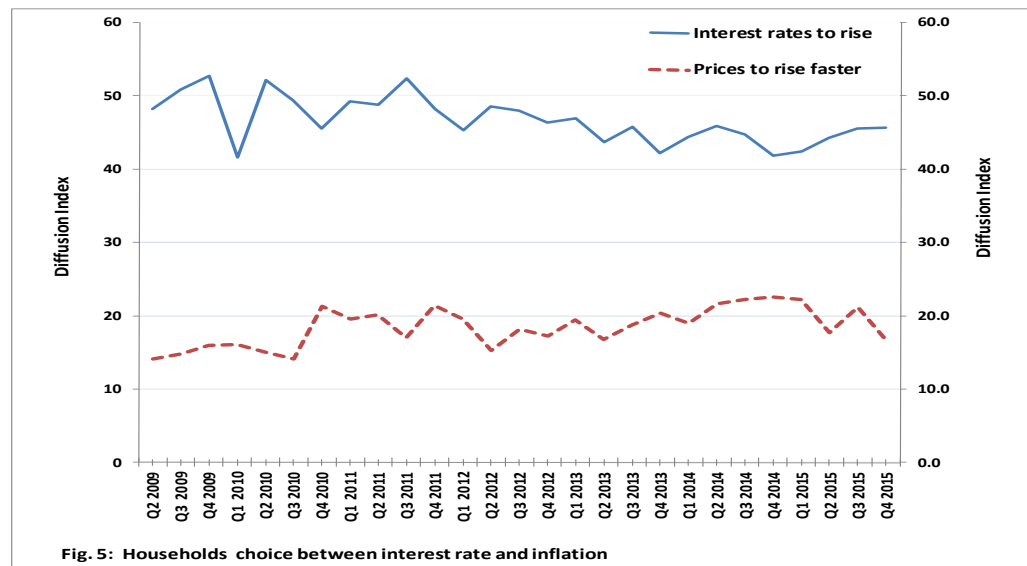


Fig. 5: Households choice between interest rate and inflation

6.0 Opinions on the Central Bank of Nigeria

price stability objective (see Fig. 5).

Questions 11 and 12 assess whether people are aware of the way monetary policy works in Nigeria. Question 11 asked respondents if they knew which group of people meet to set Nigeria's monetary policy rate. Responding, 52.0 per cent felt it was the Monetary Policy Committee, as against 15.1 per cent for Federal Ministry of Finance and 11.7 per cent who believed it was the Government, about 4.9 per cent felt it was the National Assembly, 2.0 and 14.4 per cent answered 'others' and "do not know", respectively.

Question 12 then prompted respondents to identify which group mostly influences the direction of interest rates. The result indicated that majority of the respondents (75.0 per cent) were aware that Central Bank of Nigeria influences the direction of interest rate. Other respondents opined that the Government (5.4 per cent) influences interest rates. About 5.9 and 4.5 per cent of the respondents were of the opinion that civil servants and other banks influence the rates, respectively, while 9.6 per cent had 'no idea'. These proportions have not significantly changed in all the series since the commencement of the survey (see Table 1).

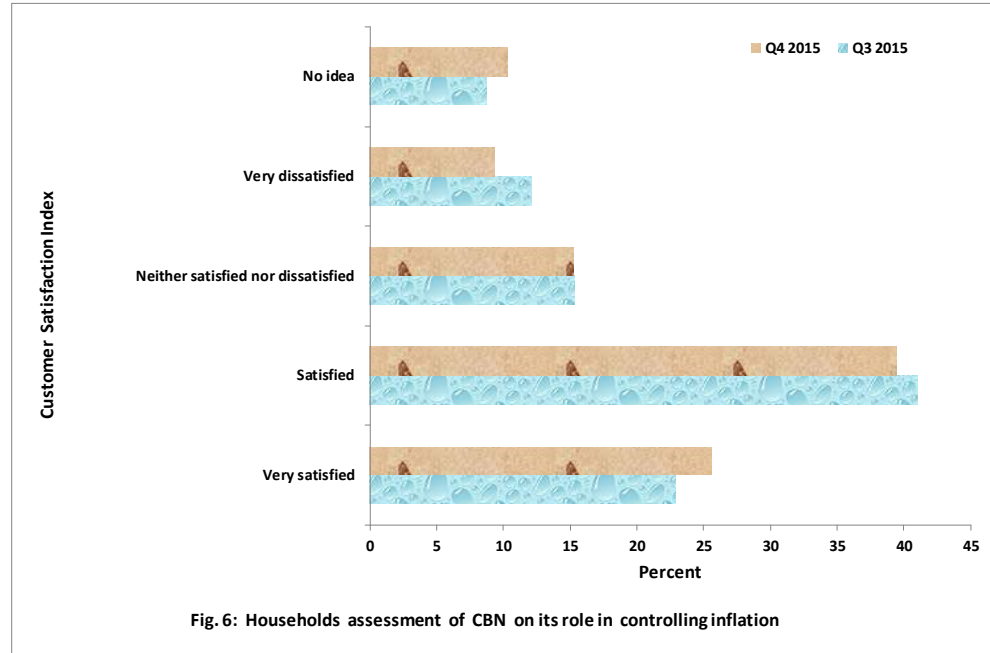
Responding to Question 13 about the nature of the MPC, 28.9 per cent felt that the Committee is a body wholly owned and appointed by the Government, while 24.7 per cent believed that it is an independent body partly appointed by the Government and 10.5 per cent believed that it is completely independent.

Majority of the respondents (75.0 per cent) were aware that CBN influences the direction of interest rate

Most of the respondents were satisfied with the way CBN is influencing the direction of interest rates to control inflation



per cent recorded in Q4, 2015. Among the satisfied group, 26.9 per cent were 'very satisfied' while 39.5 were 'fairly satisfied'. However, 15.2 per cent were 'neither satisfied nor dissatisfied', whereas 9.3 per cent were 'very dissatisfied'. Those who had 'no idea' accounted for 10.3 per cent of the respondents (see Fig. 6).



Gone down	7.4	7.6	7.6	10.4	9.5	7.0	6.9	10.4
Not changed	19.7	17.8	22.2	21.6	22.7	19.8	21.8	23.0
Up by 1% but less than 3%	24.7	31.3	29.1	27.8	24.7	24.6	24.0	21.5
Up by 3% or above	36.2	31.9	30.4	27.1	30.5	34.7	35.4	30.0
No idea	11.9	11.2	10.8	13.0	12.6	13.8	11.8	15.0
Median (%)	2.4	2.2	2.0	1.8	1.9	2.3	2.3	1.8

Q. 2 How much would you expect prices in the shops generally to change over the

Would Go down	18.4	20.2	19.6	20.6	21.4	29.3	29.3	33.7
Not changed	17.0	18.4	20.8	18.1	20.8	17.4	16.8	16.2
Up by 1% but less than 3%	26.5	28.7	28.0	28.3	23.5	21.9	21.9	19.1
Up by 3% or above	22.9	20.1	19.5	18	20	17.2	17	15
No idea	15.2	12.6	12.1	14.9	14.3	14.1	14.9	16.1
Median (%)	1.5	1.4	1.3	1.3	1.1	0.7	0.7	0.2

Q. 3 If prices started to rise faster than they do now, do you think Nigeria's economy

End up stronger	11.2	12.7	11.6	14.0	12.8	10.5	12.9	12.7
Or make little difference	24.8	23.4	31.1	27.9	24.2	25.1	25.7	23.8
Or weak	42.7	44.0	39.7	38.8	44.2	46.1	42.8	42.1
Don't know	21.3	19.7	17.6	19.1	18.8	18.2	18.7	21.5

Q. 4 The Government in this years budget anticipated an inflation rate of 10.0%. What do you think of this rate ?

Too high	40.7	40.2	39.2	39.2	36.1	40.2	35.3	32.3
Or too low	16.6	15.4	18.5	16.9	19.0	15.3	17.3	17.4
Or about right	21.8	20.9	22.9	19.2	19.4	19.1	23.4	20.9
No idea	20.9	23.4	19.5	24.7	25.5	25.2	24.0	29.4

Q. 5 How would you say interest on bank loans and savings have changed over the last 12 months?

Risen a lot	29.1	27.5	23.3	25.1	26	27.2	25.1	24.7
Risen a little	23.1	25.8	26.5	24.3	24.3	26.2	24.5	24.3
Stayed about the same	20.2	20.1	22.7	20.1	17.7	16.2	21.7	19.6
Fallen a little	7.9	7.6	8.7	9.2	8.4	6.4	6.4	7.3
Fallen a lot	2.9	3.3	4.1	3.1	4.3	3.8	3.5	2.5
No idea	16.7	15.7	14.7	18.2	19.2	20.1	18.8	21.6
Total saying 'rise'	52.2	53.3	49.8	49.4	50.3	53.4	49.6	49.0
Total saying 'fall'	10.8	10.9	12.8	12.3	12.7	10.2	9.9	9.8
Net rise	41.4	42.4	37.0	37.1	37.6	43.2	39.7	39.2

Q. 6 How would you expect interest rates to

Rise a lot	14.1	14.4	17.4	16.1	15.8	10.9	12.6	11.7
Rise a little	24.8	20.3	21.7	21	21.4	18.2	20.7	20.7
Stay about the same	17.9	20.4	21.5	18.3	16.9	16.6	18.6	17.9
Fall a little	18.9	21.8	16.1	19.4	18.3	23.8	22.2	22.7
Fall a lot	9.5	8.8	10.4	9.9	9.5	14.4	10.3	10.2
No idea	14.8	14.3	12.9	15.4	18.2	16.1	15.6	16.8
Total saying 'rise'	38.9	34.7	39.1	37.1	37.2	29.1	33.3	32.4
Total saying 'fall'	28.4	30.6	26.5	29.3	27.8	38.2	32.5	32.9
Net rise	10.5	4.1	12.6	7.8	9.4	-9.1	0.8	-0.5

Q. 7 What do you think would be best for the Nigerian economy - for interest rates to go up over the next few months, or to go down, or to stay where they are now, or would it make no difference either way?

Go up	17.2	18.8	20.8	20.1	16.2	16.2	18.4	18.0
Go down	44.1	44.9	40.1	40.8	38.9	43.6	43.1	42.2
Make no difference	21.2	22.6	24.0	21.9	26.6	23.4	21.6	20.9
No idea	17.6	13.6	15.2	17.1	18.4	16.7	16.7	18.9

Q. 8 And which would be best for you personally, for interest rates to...

make prices in the street rise more slowly in the (a) short term - say a month or two.

Agree strongly	23.3	24.0	21.3	21.7	21.3	18.5	19.1	19.9
Agree	33.5	33.9	33.5	31.8	31.8	32.4	37.7	37.3
Neither agree nor disagree	15.3	16.1	19.7	19.2	16.8	16.5	18.1	16.4
Disagree	12.9	12.3	12.1	11.8	12.6	12.3	10.7	10.5
Disagree strongly	3.7	4.5	4.1	4.1	6.6	7.0	3.6	4.3
Don't know	11.2	9.1	9.3	11.4	11.0	13.1	10.7	11.6
Total agree	56.8	57.9	54.8	53.5	53.1	50.9	56.8	57.2
Total disagree	16.6	16.8	16.2	15.9	19.2	19.3	14.3	14.8
Net agree	40.2	41.1	38.6	37.6	33.9	31.6	42.5	42.4

b) A rise in interest rates would make prices in the street rise more slowly in the medium

Agree strongly	17.7	18.1	15.7	15.8	15.2	13.7	15.5	15.7
Agree	32.0	31.1	31.2	28.8	30.7	29.7	35.5	32.6
Neither agree nor disagree	17.2	17.0	18.8	18.4	16.7	16.5	17.1	16.6
Disagree	13.7	15.2	15.6	15.7	16.0	17.4	13.2	15.3
Disagree strongly	6.4	7.3	5.7	6.1	8.9	7.0	5.2	5.9
Don't know	13.2	11.3	12.9	15.3	12.5	15.8	13.5	13.8
Total agree	49.7	49.2	46.9	44.6	45.9	43.4	51.0	48.3
Total disagree	20.1	22.5	21.3	21.8	24.9	24.4	18.4	21.2
Net agree	29.6	26.7	25.6	22.8	21.0	19.0	32.6	27.1

Q. 10 If a choice had to be made, either to raise interest rates to try to keep inflation down; or keep interest rates down and allow prices in the shops to rise faster, which would you prefer?

Interest rates to rise	44.4	45.9	44.7	41.8	42.4	44.2	45.5	45.6
Prices to rise faster	19.0	21.6	22.2	22.6	22.2	17.7	21.2	16.7
No idea	36.5	32.3	32.9	35.5	35.4	38.1	33.0	37.5

Q. 11 Every other month, a group of people meet to set Nigeria's basic interest rate level. Do you know what this group is?

Monetary Policy Committee	52.6	54.4	50.2	48.4	53.3	51.7	48.4	52.0
The Government	9.6	8.4	13.6	11.6	12.8	13.7	14.8	11.7
Federal Ministry of Finance	15.0	15.2	15.7	15.7	14.9	12.8	15.1	15.1
National Assembly	6.3	6.0	6.4	7.5	4.7	5.6	5.9	4.9
Others	2.0	2.1	2.0	2.9	2.0	2.1	2.2	2.0
Don't know	14.6	13.9	12.1	13.8	12.2	14.1	13.6	14.4

Q. 12 Which of these groups do you think sets the interest rates?

Government ministers	4.8	5.0	7.0	4.8	4.1	5.3	5.4	4.9
Civil servants	6.2	6.2	7.6	8.0	7.7	5.5	7.2	5.9
CBN	74.1	75.8	71.8	72.7	75.2	76.0	73.7	75.0
Other banks	5.3	3.5	4.6	4.6	4.4	2.9	4.8	4.5
No idea	9.6	9.3	9.0	10.0	8.6	10.2	8.8	9.6

Q. 13 In fact, the decisions are taken by the Monetary Policy Committee of the Central Bank of Nigeria. Which of these do you think best describes the Monetary Policy Committee?

Part of the Government	20.4	19.3	21.9	19.2	19.3	18.0	23.4	23.0
A Body wholly owned appoi	27.7	29.2	31.9	29.7	30.2	32.1	29.6	28.9
An independent body, partly	28.9	27.5	25.2	26.0	26.9	24.2	25.3	24.7
A completely independent b	10.1	10.7	10.5	10.2	10.5	10.5	10.7	10.5
No idea	12.9	13.2	10.5	14.9	13.1	15.3	10.9	13.0

Q. 14 Overall, how satisfied or dissatisfied are you with the way the Central Bank of Nigeria is doing its job to set interest rates in order to control inflation?

Very satisfied	23.7	24.3	25.5	21.2	20.3	19.3	22.9	25.6
Fairly satisfied	39.9	39.3	38.3	38.0	37.8	36.1	41.0	39.5
Neither satisfied nor dissatis	14.8	16.3	16.7	16.4	18.2	18.6	15.3	15.2
Very dissatisfied	12.4	10.7	11.4	12.6	14.7	13.8	12.1	9.3
No idea	9.2	9.2	9.1	11.9	9.1	13.2	8.7	10.2