

Inflation Attitudes Survey Report

A Quarterly Publication

First Quarter, 2017



**Statistics Department
Central Bank of Nigeria**

EXECUTIVE SUMMARY

The survey of households' attitudes to inflation and interest rates for Q1 2017 was conducted during the period January 23rd to February 3rd, 2017. This is in a bid to assess the public perceptions about inflation and interest rates, which would help the Bank fine-tune its monetary policy formulation and management.

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

- Respondent households believe that the economy would end up weaker if prices start to rise faster than they do now.
- Given a trade-off between inflation and interest rates, more respondents would prefer higher interest rates to higher inflation.
- Majority of the respondents are of the view that it would be best for the Nigerian economy if interest rates went down.
- Majority of the respondents are aware that the CBN influences the direction of interest rates to control inflation.

Inflation Attitudes Survey Report Q1 2017

1.0 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. The understanding and support by the public towards attaining the objectives of price stability would provide a more conducive environment for achieving macro-economic stability. The Monetary Policy Committee (MPC) formulates and implements policies conducive to economic growth, and monitors inflationary developments and other policy frameworks that are considered effective in moderating price changes.

Inflation expectations do vary amongst households due to the differences in the choice of goods and services, which often lead to differences in the prices consumers are willing to pay for goods and services. Respondents' opinions were used to explore the general public's understanding of monetary policy framework. This is because inflation expectations and public understanding of what influences them are important parameters for successful monetary policy formulation. Good estimates of inflation expectations and the level of public understanding of the underlying factors would assist the Bank to assess the impact of its efforts in maintaining price stability 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 last twelve months, and their expectations of price changes over the next twelve months. The Department also samples respondents' views on interest rates

2.0 About the Survey

The Q1, 2017 Inflation Attitudes Survey was conducted from January 23rd to February 3rd, 2017 with a sample size of 1950 households in 350 randomly selected Enumeration Areas (EAs) across the country. The raw data were then weighted to match the demographic profile of Nigeria as a whole.

Monetary policy will be most effective if the objectives are understood and supported by the public

The survey involves in-house face-to-face interviews of randomly selected households in some replicates of the National Integrated Survey of Households (NISH) master sample 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 that the general public are most likely to be familiar with, instead of any specific measures of inflation.

The questionnaire was therefore couched in a manner that would capture the expectations of respondents, along with information on age, sex, income, employment status of the head of the household, among others. 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 processes and expectations of interest rates were also asked.

*Survey involves
face-to-face
interviews of
randomly
selected
respondents*

The respondents were also requested to state whether or not they were satisfied with the way the Central Bank of Nigeria is doing its job of setting interest rates in order to control inflation. Furthermore, households focus on particular types of goods and services when thinking about inflation. Therefore, their responses may vary because respondents are thinking about inflation as it relates to their own patterns of spending in addition to media reports about price trends. The household understanding of the transmission mechanism of monetary policy may also be another factor to be considered in their opinion about inflation.

3.0 Inflation

The respondents were asked what would become of the Nigerian economy if prices started to rise faster than they do now. The survey result showed that 50.4 per cent of the respondents believed that the economy would end up weaker, while 13.5 per cent stated that it would be stronger. Also, 18.6 per cent of the respondents believed it would make a little difference. The responses suggest considerable support for price stability, as more respondents were of the view that inflation is inimical to economic growth (Table 1, Question 3).

When asked to say how prices have changed over the past 12 months, respondents gave a median answer of 6.8 per cent, which is higher than the previous quarters. (Table 1, Question 1). Of the total respondents, 9.2 per cent thought prices had gone down or not changed, while 62.1 per cent felt that prices had risen by at least 3.0 per cent and 11.1 per cent felt that prices inched up by more than 1.0 per cent

Majority of respondents believed that the economy would end up weaker if prices start to rise faster than they do now

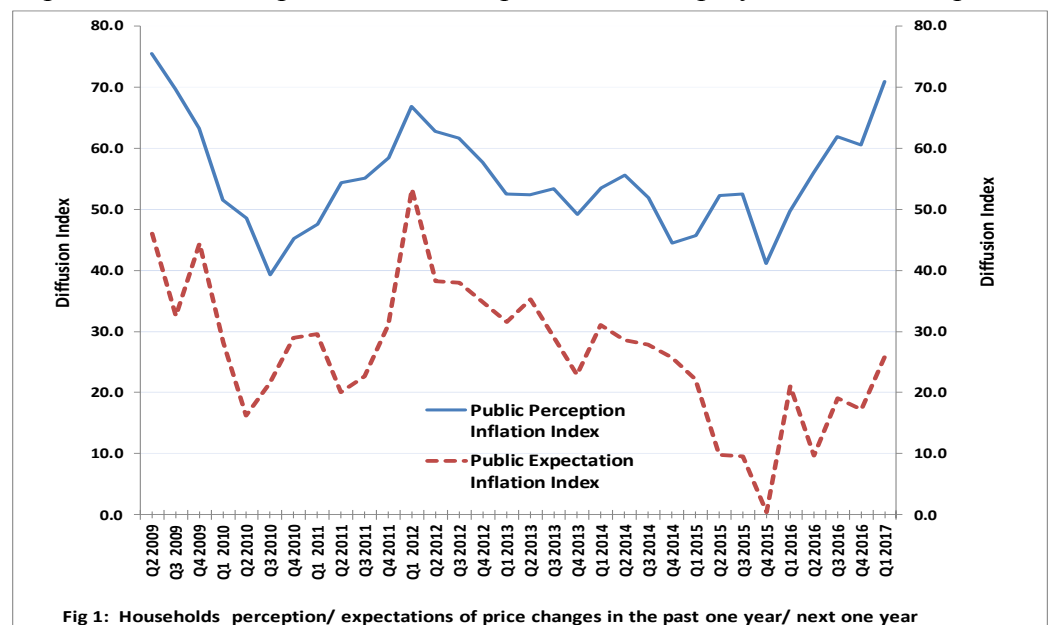


Fig 1: Households perception/ expectations of price changes in the past one year/ next one year

but less than 3.0 per cent. Those that had no idea were 17.6 per cent.

Respondents' median expectations of the price changes over the next 12 months (Table 1, Question 2) was that prices would inch up by 1.8 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 30.6 per cent expect prices to rise by at least 3 per cent in the next 12 months; compared with the 16.6 per cent of respondents that expect prices to rise by more than 1 per cent but less than 3 per cent in the next 12 months. Similarly, 33.3 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 a third of the respondents thought that prices were not likely to rise.

Informed in Question 4 that the Government had anticipated a moderation of inflation rate to about 9.4 per cent by end December 2017, 20.9 per cent of the respondents thought that the target was about right, 39.9 per cent believed it was too high, 17.2 per cent said it was too low while the rest 22.0 per cent had no idea.

Majority of respondents were of the view that the government-anticipated moderation of inflation rate to about 9.4 per cent by end December 2017 was too high

4.0 Interest Rates

The percentage of respondent households (Table 1, Question 5) who felt that interest rates had risen in the last 12 months rose by 7.2 percentage points to 54.6 in the current quarter, compared to 47.4 attained in Q1, 2016. On the other hand, 13.0 per cent of respondents believed that interest rates had fallen, while 16.0 per cent of the respondents were of the opinion that the rates stayed about the same in the last 12 months. Also 16.4 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.

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

On whether interest rates on bank loans and savings would rise or fall over the next 12 months (Table 1, Question 6), 38.3 per cent of the respondents were of the view that the rates will rise, while 29.3 per cent believed that the rates will fall. The net rise value of 9.0 per cent was achieved compared to -0.5 per cent attained in the corresponding quarter of 2016. A little less 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 has been consistently lower than their

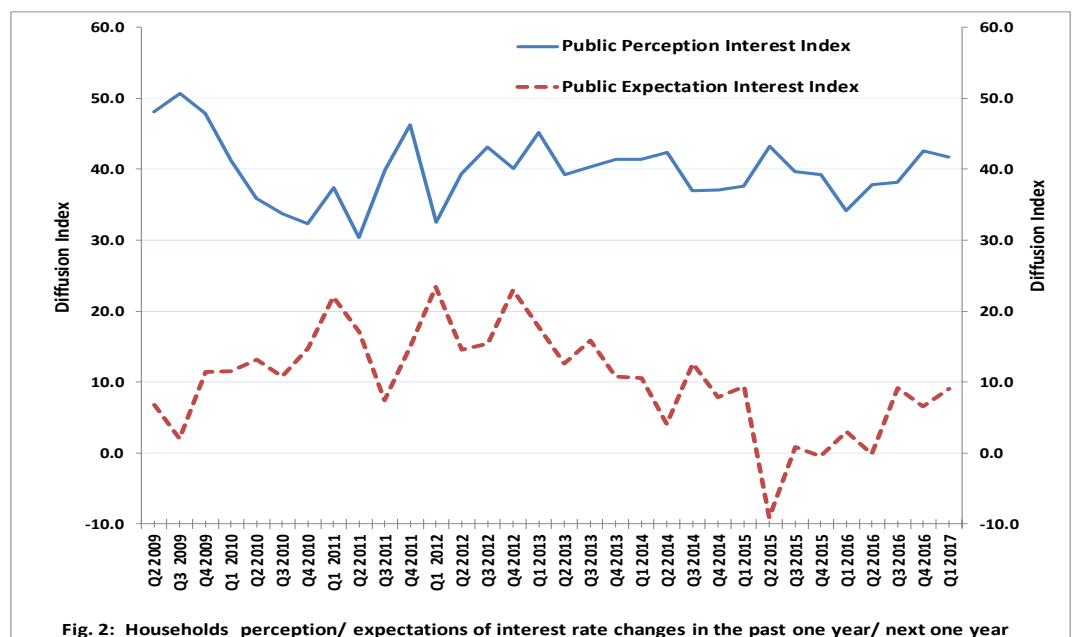


Fig. 2: Households perception/ expectations of interest rate changes in the past one year/ next one year

More than one-third of the respondents expect interest rates to rise over the next 12 months

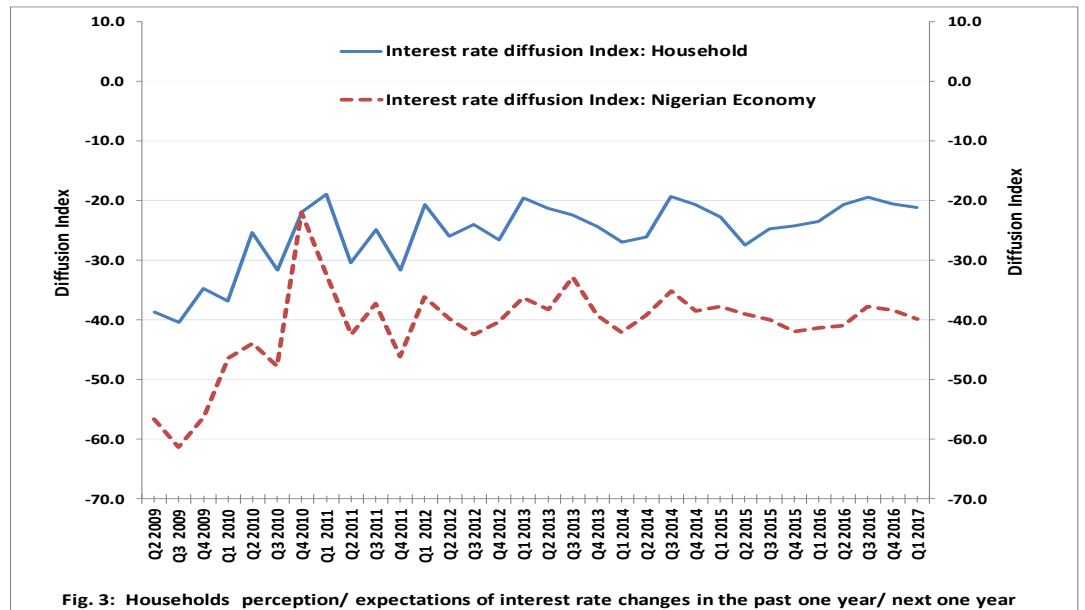
perception, indicating that the public has greater confidence in the ability of the monetary authority to control inflation.

Respondents were asked whether it would be best for them personally for interest rates to rise or fall (Table 1, Question 8). Their answers showed that 55.7 per cent indicated that it would be best for them personally if interest rates goes down, 17.4 per cent indicated it would make no difference, while 15.8 per cent of the respondents opted for higher interest rates. The results further revealed that 11.1 per cent had no idea.

Similarly, the respondents were asked whether it would be best for the Nigerian economy for interest rates to rise or fall (Table 1, Question 7). Their answers showed that 40.3 per cent indicated that it would be best for the Nigerian economy if interest rates fall, while 19.1 per cent of the respondents opted for higher interest

The responses to questions 7 and 8 revealed that many people favored lower interest rates for the Nigerian economy. The high lending rates by commercial banks, which discourage borrowing that serves as a catalyst for industrial and economic

40.3 per cent of respondents reported that it would be best for the Nigerian economy if interest rates fell



5.0 Interest Rate-Inflation Nexus

development, could be responsible for the respondents holding such views. Question 9 (Table 1) was designed to measure people’s understanding of how interest rates would affect changes in prices. On what impact a rise in interest rates in the short and medium terms would have on prices, over half of the respondents (51.9 per cent) agreed that a rise in interest rates would make prices in the street rise more slowly in the short term, as against 17.8 per cent that disagreed. While in the medium term, 46.7 per cent agreed that a rise in interest rates would make prices in the street rise more slowly, and 20.9 per cent disagreed (See Fig. 4).

Question 10 asked respondents to choose between raising interest rates to keep inflation down, and keeping interest rates down and allowing prices to rise faster. Responding, 44.7

Given a trade-off between inflation and interest rate, majority of respondents (51.9 per cent) would prefer higher interest rates to higher inflation

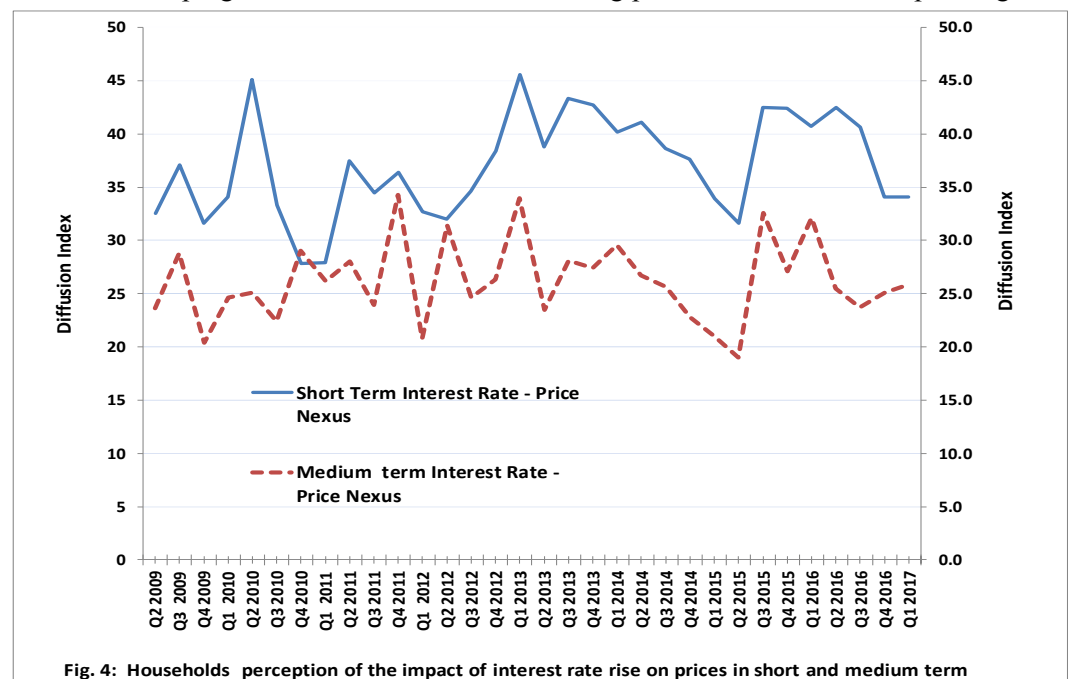


Fig. 4: Households perception of the impact of interest rate rise on prices in short and medium term

These responses suggest that given a trade-off, majority of the people would accept higher interest rates rather than higher inflation with a ratio of more than two to one; which is suggestive of the respondent households' support for the

Most respondents are aware that the Monetary Policy Committee is responsible for setting interest rate levels

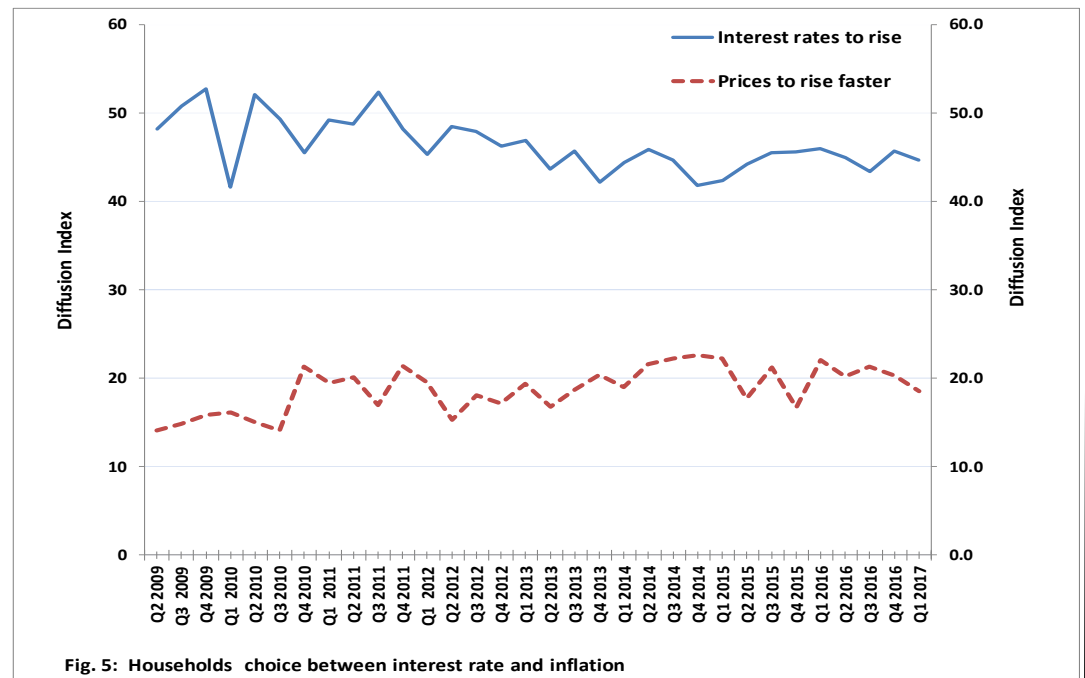


Fig. 5: Households choice between interest rate and inflation

6.0 Opinions on the Central Bank of Nigeria

Bank's price stability objective (see Fig. 5).

Questions 11 and 12 (Table 1) 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, 52.7 per cent felt it was the Monetary Policy Committee, as against 15.6 per cent for Federal Ministry of Finance, 10.1 per cent who believed it was the Government, 5.9 per cent felt it was the National Assembly, 2.8 and 13.0 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 (73.8 per cent) were aware that the Central Bank of Nigeria influences the direction of interest rates. Other respondents stated that the Government (6.4 per cent) influences interest rates, 7.2 and 3.2 per cent of the respondents were of the opinion that civil servants and other banks influence the rates, respectively, while 9.4 per cent had no idea. These proportions have not significantly changed in the series since the commencement of the survey in 2009.

Responding to Question 13 (Table 1) about the nature of the Monetary Policy Committee, 29.5 per cent felt that the Committee was a body wholly owned and appointed by the Government, 26.2 per cent believed that it was an independent body partly appointed by the Government, while 8.7 per cent thought that it was completely independent.

Majority of the respondents (73.8 per cent) were aware that CBN influences the direction of interest rate

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

Question 14 (Table 1) asks if respondents were satisfied with the CBN’s approach in setting interest rates in order to control inflation. The net satisfaction index, which is the proportion satisfied minus the proportion dissatisfied, was 32.7 per cent compared with 49.1 per cent recorded in Q1 2016. Among the satisfied group, 18.6 per cent were ‘very satisfied’ while 30.1 were ‘fairly satisfied’. However, 17.9 per cent were ‘neither satisfied nor dissatisfied’, whereas 15.9 per cent were ‘very dissatisfied’. Those who had no idea accounted for 11.4 per cent of the respondents (see Fig. 6).

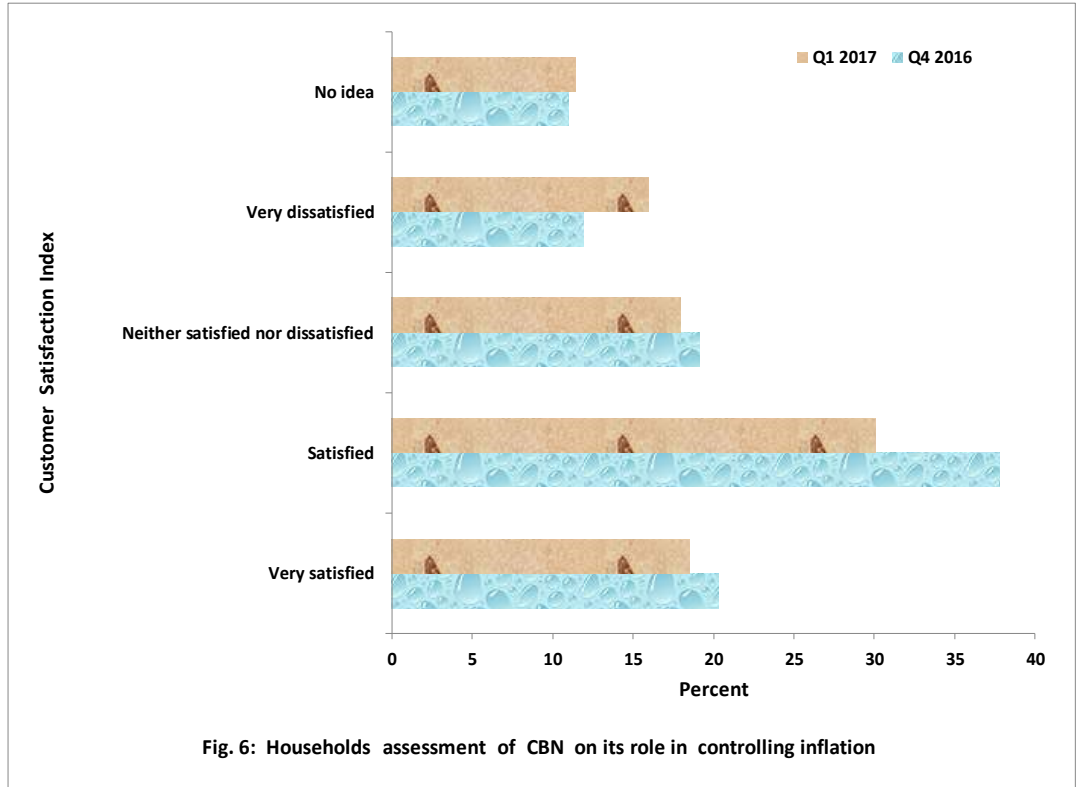


TABLE 1

SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Q.1 Which of these options best describes how prices have changed over the last 12 months?							
Gone down	6.9	10.4	9.6	8.8	7.4	6.9	2.3
Not changed	21.8	23.0	17.9	13.5	13.7	13.7	6.9
Up by 1% but less than 3%	24.0	21.5	23.4	14.7	16.0	12.6	11.1
Up by 3% or above	35.4	30.0	35.9	50.1	53.3	54.8	62.1
No idea	11.8	15.0	13.2	12.9	9.6	12.0	17.6
Median (%)	2.3	1.8	2.4	3.9	4.0	4.7	6.8
Q. 2 How much would you expect prices in the shops generally to change over the next 12 months							
Would Go down	29.3	33.7	24.2	30.1	26.4	26.9	21.2
Not changed	16.8	16.2	15.8	15.4	12.9	13.1	12.1
Up by 1% but less than 3%	21.9	19.1	22.9	17.9	18.9	19.4	16.6
Up by 3% or above	17	15	22.3	21.9	26.6	24.7	30.6
No idea	14.9	16.1	14.8	14.8	15.2	15.9	19.5
Median (%)	0.7	0.2	1.2	0.7	1.3	1.2	1.8
Q. 3 If prices started to rise faster than they do now, do you think Nigeria's economy would...?							
End up stronger	12.9	12.7	13.2	11.8	10.9	10.4	13.5
Or make little difference	25.7	23.8	25.5	23.9	22	20.4	18.6
Or weak	42.8	42.1	45.1	46.4	50.4	48.4	50.4
Don't know	18.7	21.5	16.2	18.0	16.7	20.9	17.4
Q. 4 The Government in this years budget anticipated an inflation rate of 6-9%. What do you think of this rate ?							
Too high	35.3	32.3	37.9	35.8	40.8	40.8	39.9
Or too low	17.3	17.4	15.5	16.6	15.7	17.3	17.2
Or about right	23.4	20.9	23.8	24.0	21.8	18.9	20.9
No idea	24.0	29.4	22.6	23.6	21.7	22.9	22.0
Q. 5 How would you say interest on bank loans and savings have changed over the last 12 months?							
Risen a lot	25.1	24.7	23.9	28.8	26.6	31.5	30.0
Risen a little	24.5	24.3	23.5	21.7	23.6	23.3	24.6
Stayed about the same	21.7	19.6	19.8	16.3	18.1	15.4	16.0
Fallen a little	6.4	7.3	9.0	8.9	7.7	7.3	8.2
Fallen a lot	3.5	2.5	4.3	3.8	4.4	4.9	4.8
No idea	18.8	21.6	19.4	20.5	19.6	17.6	16.4
Total saying 'rise'	49.6	49.0	47.4	50.5	50.2	54.8	54.6
Total saying 'fall'	9.9	9.8	13.3	12.7	12.1	12.2	13.0
Net rise	39.7	39.2	34.1	37.8	38.1	42.6	41.7
Q. 6 How would you expect interest rates to change over the next 12 months?							
Rise a lot	12.6	11.7	13.3	13.2	17.5	17.9	16.4
Rise a little	20.7	20.7	22.2	19	19.3	19.5	21.9
Stay about the same	18.6	17.9	17.6	18.4	18.7	16.9	17.4
Fall a little	22.2	22.7	21.5	21.2	18.4	19.2	18.7
Fall a lot	10.3	10.2	11.0	11.1	9.2	11.6	10.5
No idea	15.6	16.8	14.3	17.1	16.9	14.9	15.1
Total saying 'rise'	33.3	32.4	35.5	32.2	36.8	37.4	38.3
Total saying 'fall'	32.5	32.9	32.5	32.3	27.6	30.8	29.3
Net rise	0.8	-0.5	3.0	-0.1	9.2	6.6	9.0
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	18.4	18.0	17.4	18.7	21.7	20.4	19.1
Go down	43.1	42.2	40.9	39.4	41.1	40.9	40.3
Make no difference	21.6	20.9	26.1	22.7	19.5	20.6	23.2
No idea	16.7	18.9	15.5	19.1	17.7	18.1	17.3
Q. 8 And which would be best for you personally, for interest rates to...							
Go up	16.3	14.8	16.5	15.0	18.0	18.6	15.8
Go down	56.3	56.8	57.8	55.9	55.7	57	55.7
Make no difference	16.9	17.6	17.0	19.2	16.3	14.8	17.4
No idea	10.4	10.7	8.8	9.9	10.0	9.6	11.1

TABLE 1 (Continued)

SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Q. 9 How strongly do you agree with the following statements? A rise in interest rates would make prices in the street rise more slowly in the (a) short term - say a month or two,							
Agree strongly	19.1	19.9	20.1	22.9	22.4	24.0	22.1
Agree	37.7	37.3	35.1	34.4	33.8	28.4	29.8
Neither agree nor disagree	18.1	16.4	19.7	17.4	17.4	18.6	18.6
Disagree	10.7	10.5	12.0	10.6	11.7	13.2	13.8
Disagree strongly	3.6	4.3	2.5	4.2	3.9	5.1	4.0
Don't know	10.7	11.6	10.5	10.5	10.7	10.7	11.7
Total agree	56.8	57.2	55.2	57.3	56.2	52.4	51.9
Total disagree	14.3	14.8	14.5	14.8	15.6	18.3	17.8
Net agree	42.5	42.4	40.7	42.5	40.6	34.1	34.0
b) A rise in interest rates would make prices in the street rise more slowly in the medium term - say a year or two							
Agree strongly	15.5	15.7	17.3	15.6	15.9	17.2	17.7
Agree	35.5	32.6	33.4	31.7	30.4	28.9	29.0
Neither agree nor disagree	17.1	16.6	19.4	16.7	18.6	19.5	18.4
Disagree	13.2	15.3	14.0	16.0	16.0	16.3	14.8
Disagree strongly	5.2	5.9	4.6	5.8	6.6	4.7	6.07
Don't know	13.5	13.8	11.3	14.2	12.6	13.3	14.0
Total agree	51.0	48.3	50.7	47.3	46.3	46.1	46.7
Total disagree	18.4	21.2	18.6	21.8	22.6	21.0	20.9
Net agree	32.6	27.1	32.1	25.5	23.7	25.1	25.9
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	45.5	45.6	46.0	45.0	43.4	45.7	44.7
Prices to rise faster	21.2	16.7	22.1	20.2	21.3	20.3	18.6
No idea	33.0	37.5	31.7	34.8	35.2	33.9	36.5
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	48.4	52.0	53.0	52.0	50.4	53.0	52.7
The Government	14.8	11.7	10.0	11.8	12.0	9.6	10.1
Federal Ministry of Finance	15.1	15.1	16.2	13.6	15.4	16.2	15.6
National Assembly	5.9	4.9	5.7	6.0	6.6	5.7	5.9
Others	2.2	2.0	1.9	1.9	2.1	1.9	2.8
Don't know	13.6	14.4	13.2	14.7	13.5	13.6	13.0
Q. 12 Which of these groups do you think sets the interest rates?							
Government ministers	5.4	4.9	5.2	7.1	7.6	8.1	6.4
Civil servants	7.2	5.9	5.3	7.0	7.3	5.4	7.2
CBN	73.7	75.0	78.6	72.3	71.8	73.4	73.8
Other banks	4.8	4.5	2.8	3.0	3.6	3.8	3.2
No idea	8.8	9.6	8.1	10.5	9.7	9.4	9.4
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	23.4	23.0	20.5	25.1	24.9	22.1	20.6
A Body wholly owned appointed by the Govern	29.6	28.9	29.3	27.7	25.8	30.4	29.5
An independent body, partly appointed by the	25.3	24.7	28.6	24.4	24.7	25.0	26.2
A completely independent body partly appointe	10.7	10.5	9.7	10.8	10.1	10.0	8.7
No idea	10.9	13.0	11.9	12.0	14.4	12.5	15.0
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	22.9	25.6	21.0	23.8	24.9	20.3	18.6
Fairly satisfied	41.0	39.5	39.8	38.7	25.8	37.8	30.1
Neither satisfied nor dissatisfied	15.3	15.2	16.9	17.5	24.7	19.1	17.9
Very dissatisfied	12.1	9.3	11.7	11.5	10.1	11.9	15.9
No idea	8.7	10.3	10.6	8.5	14.4	11	11.4
Total satisfied	63.9	65.1	60.8	62.5	50.7	58.1	48.7
Total dissatisfied	12.1	9.3	11.7	11.5	10.1	11.9	15.9
Net satisfied	51.8	55.8	49.1	51.0	40.6	46.2	32.7