

# THE CBN INFLATION ATTITUDES SURVEY

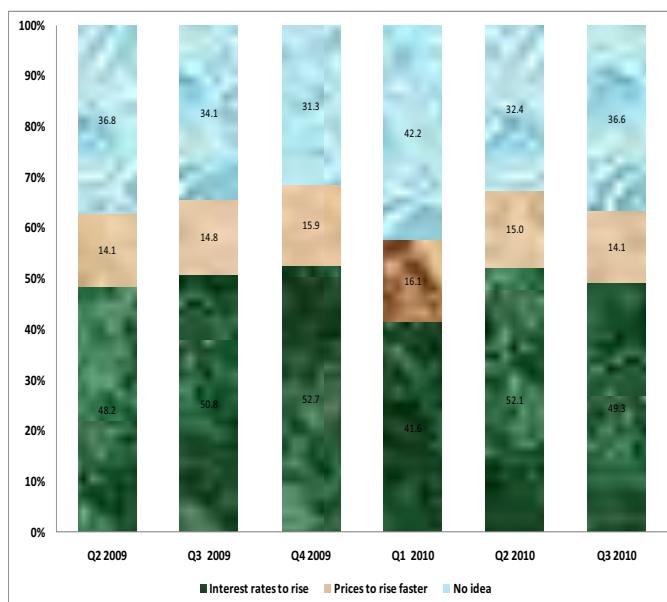
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## EXECUTIVE SUMMARY

The Statistics Department undertook a survey of public/households' attitudes to inflation and interest rates in August, for the third quarter of year 2010. This is with a view to avail the Bank with information about inflation expectations and to gauge public understanding of the policy framework.

The results show that, given a choice between higher interest rates or higher inflation (increase in prices), three times as many people would prefer interest rates to go up, rather than prices. Other results suggest that most people are aware that the Bank (CBN), rather than the Government sets interest rates. In addition, 40.0 percent of the respondents believed the Government's



inflation rates target of 11.2 per cent in this year's budget is too high, as against 17.2 per cent that considered it about right. However, not too many people, (about 24.5 per cent) expect that inflation would go down in

the year ahead. Most people; 64.6 percent (though lower than 72.7 per cent achieved in Q2 2010) are satisfied with the way the Bank is doing its job; just 9.7 per cent are dissatisfied.

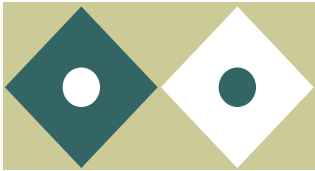
## 1.0 INTRODUCTION

It is the believe of the Central Bank of Nigeria (CBN) that its monetary policy framework would be most effective if it is accompanied by wide public support and understanding for the achievement of its price

and monetary stability mandate. The Bank, apart from achieving price stability, is equally charged with the responsibility of supporting the Government actions in its efforts towards economic

growth and development. One of the key strategic objectives of the Bank is to build public support for price stability, and public understanding of the Monetary Policy Committee's roles in achieving it.





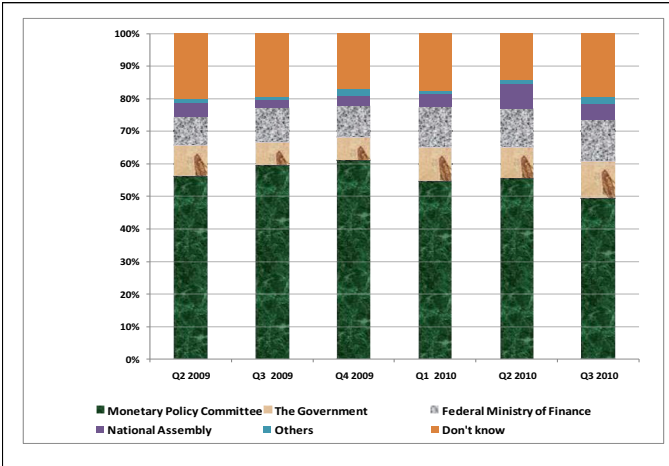
*‘Monetary Policy framework , if accompanied by wide public understanding and support, both for the objective of price stability and the methods to achieve it, will be most effective.’*

If people understand and support the objectives of price stability together with using interest to at-

tain it, macroeconomic stability which is an essential prerequisite for economic growth and

development would most likely be achieved. Usually, the level of interest rate considered suitable to achieve this, is periodically decided by the Monetary Policy Committee (MPC). Other major policy frameworks considered as catalysts in moderating price changes are equally enunciated by the Committee.

One way to quantify the impact of the Bank’s efforts to build general public support for price stability is to use sample surveys of public opinion and awareness. To this effect,



**Who sets the Direction of Interest Rates?**

the Statistics Department on behalf of the Bank has been using opinion poll to explore the progression of public views and general understanding of monetary policy matters. For this purpose, opinion questions were devised and the testing

ensures that the questions are well understood. This is the sixth in the series, in assessing the general public’s perceptions of inflation, views on interest rates and knowledge of the monetary policy framework. Most of the answers from the past results do not significantly

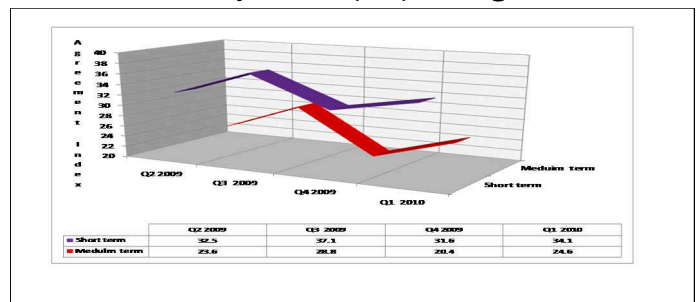
vary from quarter to quarter. The results of the current opinion survey of the public on price changes and interest rates are described in subsequent sections.

## 2.0 THE INFLATION ATTITUDES SURVEY

The Statistics Department had since June 2009, on quarterly basis gone out to sample households on how they observe the price changes of goods and services in the last twelve months, and their expectations of price changes in the shops

over the next twelve months. Q3 2010 is the last in the series of Inflation Attitude Survey, and

was conducted between August 23 and 27, 2010. A quota sample of 6,150 people, aged 15 and



Would a rise in interest rate make prices in the street to rise?

above in 350 randomly selected enumeration areas in the six geopolitical zones of the country were interviewed. The raw data were weighted to match the demographic profile of Nigeria as a whole (attached table shows the summary of results of the six surveys conducted up to Q3 2010).

The survey involved in-house face-to-face interviews of members of selected households. The selection entailed 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). Due to differences in individual perceptions on prices of goods and services, the questionnaire captures information as age, sex, income, employment status etc. Questions were asked about the evolution of prices of 'goods and services' rather than about the respondent's views on a specific measure of inflation. This is designed to reflect a con-

cept of inflation the general public are most likely to be familiar with, as against specific measures of inflation, like the CPI inflation rate. The questionnaire was therefore couched in a manner to capture the expectations of respondents. The options for questions asked were in ranges of price change, of which respondents 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".

A total of 14 questions which includes; the respondent's thought on how prices had changed in the last twelve months and how they expect prices to change over the next twelve months, were designed for them to provide answers. The range of questions, as well as


seeking information on public knowledge, understanding and attitudes towards the MPC process, also covers expectations of interest rates. Other questions cover perceptions of the relationship between interest rates and inflation, and knowledge of who sets interest rates.

Furthermore, questions were asked on the satisfaction/dissatisfaction with the way the Central Bank of Nigeria is doing its job of setting interest rates in order to control inflation. It should be noted that there could be inherent risks in drawing conclusions from these opinion polls about public perceptions of monetary


policy over short time. This is because public reactions to interest rate movements is likely to be influenced by other factors in the national mood, because rises are often seen as bad omen and falls as good news. For instance the result on the question of how the Bank is doing its job to set interest rates for inflation control,

dropped to 64.6 per cent in Q3 2010 from 72.7 per cent in Q2 2010, possibly driven by the rise in inflation rates. Furthermore, households focus on particular types of goods and services when thinking about inflation. Noticeable variation in the answers may therefore be because respondents are thinking about infla-

tion as it relates to their own patterns of spending in addition to media reports about price trends. Their understanding of the transmission mechanism of monetary policy may also be another factor to be considered in their opinion about inflation.



*“Questions were also asked about how prices had moved in the past 12 months and expected movement in prices in the next 12 months. A total of 14 questions were asked. Some of these questions sought information on public knowledge, understanding and attitudes towards the MPC process, as well as expectations of interest rates and inflation.”*



## KNOWLEDGE AND EXPECTATIONS QUESTIONS

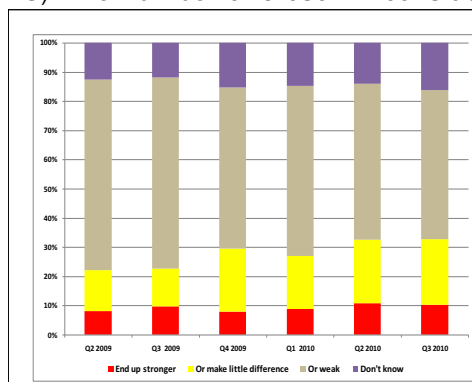
### 3.1 Inflation

In Q3 2010, by a margin of 51.1 per cent to 10.3 per cent, survey respondents believed that the economy would end up weaker rather than stronger if prices started to rise faster. This result has been in line with the responses since Q2 2009. However, 22.5 per cent of the respondents felt it would make little difference in the

economy if prices continue to rise faster than they do now. (question 3). The number of those

believing that inflation is damaging for economic performance, suggests considerable support for

price stability. Asked in question 1 to describe how prices have changed over the past 12 months, by making a choice from the five banded options on the questionnaire,



If prices start rising faster than they do now, would Nigeria's economy ...?



*“Most people are aware that inflation is high with 51.1 per cent deducing that the economy would be weakened if it persisted, whilst 22.5 percent opined that it would make little difference in the economy”*

the respondents gave a median answer of 1.8 per cent, a view consistent with the position in the last quarter. This median however conceals a wide variation, from 35.0 per cent who thought prices had gone down or not changed, to 31.7 per cent who felt

they had risen by 3 per cent or above, as well as 19.4 per cent who chose the “up by 1 per cent but less than 3 per cent” option.

The median expectations of the rate of inflation over the coming

year (Question 2) were 1.3 per cent, which is closely related to their perceptions of the preceding quarter, but fluctuated very little during the past twelve months; though, within sampling error.

In giving answer to Question 2, ‘how much would you expect prices in the shops generally to change over the next 12 months?’, 21.9 per cent of respondents were notably pessimistic, as they expect prices to rise by 3 per cent or above in the next 12 months. Equally, 39.4

per cent of the ‘inflation optimists’ (those who expect prices over the coming year to go down or not changed), felt that inflation was not too high. Few people thought that inflation was not likely to rise sharply. This pattern has been consistent through all the six surveys con-

ducted.

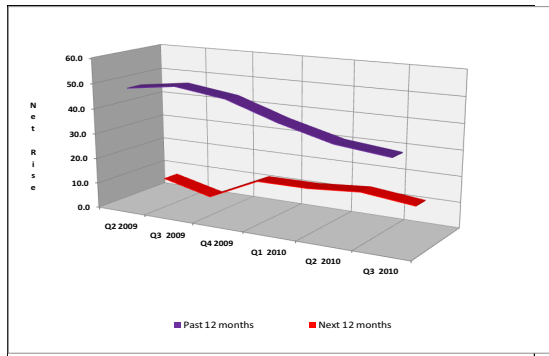
### 3.2 Interest rate

(Questions 5 and 6) The percentage of respondents who believed that interest rate has risen in the last 12 months had been on the decline, since this survey started in Q2 2010, as the current one stands at 49.9 per cent down from 52.8 percent recorded in Q2 2010. In the same vain, 16.2 per cent as against 16.9 per cent, recorded in Q2 2010 felt that interest rates had fallen, while 13.6 percent were of the opinion that the rates

stayed about the same in the last 12 months. About 20.3 per cent had no idea.

When asked about the future path of interest rates, 39.0 per cent expected rates to rise in the next 12 months, compared with 41.3 percent in Q2 2010. 28.2 per cent of respondents

(same as in Q2 2010) expected interest rates to fall in the next 12 months, thus, giving a 'net rise' value of 10.8 per cent, relative to Q2 2010 figure of 13.1 per cent.



Net rise in interest on bank loans and savings

## 4.0 THE CENTRAL BANK OF NIGERIA

### Questions 11 & 12

These questions are designed to assess people's awareness of the way monetary policy works in Nigeria. Question 11 asks whether they know the

group of people that meet to set Nigeria's basic interest rate level. Responding, 49.6 per cent opined it is Monetary Policy Committee, in contrast to 12.5 per cent for Federal Ministry of Finance and 11.4 per cent for the Govern-

ment, while 4.9 per cent felt it is the National Assembly. These figures have fluctuated little over the six surveys.

Respondents were then prompted in Question 12 with a show card containing five options, and asked

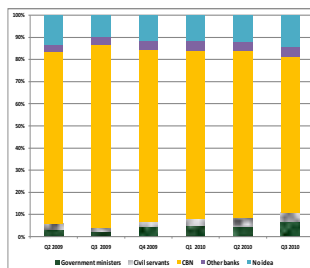
again which group sets the interest rates. With this question most people were aware that Central Bank of Nigeria rather than the Government now sets interest rates. The proportion saying CBN stood at 70.4 per cent while 6.8 per cent opted for 'government ministers'; 4.6 per cent for other banks; civil servants 4.1 percent and 14.2 per-

cent had no idea. Again these figures have remained fairly steady throughout the series.

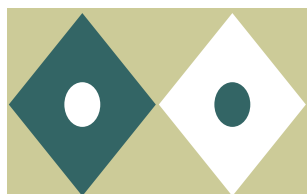
In response to Question 13 about the nature of the MPC, 20.5 per cent believed that the Committee is an independent body; partly ap-

pointed by the Government and 8.0 percent who think that it is completely independent, implying, no government role in appointments. In any case 25.3 per cent regard the MPC as 'part of the Government'.

Respondents were asked in Question 14 to assess the



**“Asked, who set Nigeria’s ‘basic interest rate level’? The result reveals Monetary Policy Committee (49.6 percent), the Government (11.4 percent) and Federal Ministry of Finance (12.5 percent); 19.4 percent said ‘don’t know, whereas 4.9 percent said it is the National Assembly that sets the Interest rate”**

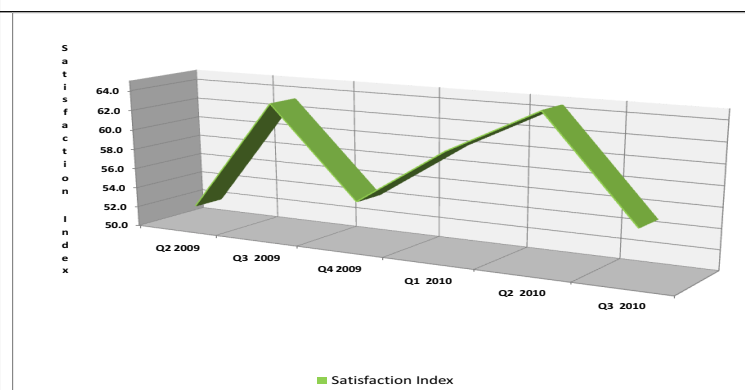


*Respondents were equally asked to state their satisfaction/dissatisfaction on the way that CBN is ‘doing its job to set interest rates to control inflation’ (Question 14). 64.6 per cent were ‘totally satisfied’ whilst 9.7 per cent were ‘totally*

way CBN is ‘doing its job to set interest rates to control inflation’. The net satisfaction index—the proportion satisfied minus the proportion dissatis-

fied—was +54.9 per cent compared with +64.7 per cent in Q2 2010. This was the lowest net satisfaction index since the first quarter of 2010. In other words, most people (64.6 per cent) were satisfied with the Bank, though this was lower than 72.7 per cent recorded in the preceding quarter, whilst 9.7 per cent

were dissatisfied. Among the satisfied group, 26.0 per cent were ‘very satisfied’ while 38.6 were ‘fairly satisfied’. However, 14.5 per cent were ‘neither satisfied nor dissatisfied’ whereas 11.3 per cent had no idea.



CBN Customer Satisfaction Index

## 5.0 ATTITUDE QUESTIONS

### 5.1 Inflation

Question 3 helps to gauge public support to maintain low and stable inflation. Asked whether Nigeria’s economy would be stronger, weaker or make little

difference by faster inflation; 51.1 per cent believed Nigeria’s economy would end up weaker if prices started to rise faster than they do now. About 10.3 per cent thought it would end up stronger, 22.5

per cent felt it would make little difference, and 16.1 per cent had no idea. This proportion has over the past six series remained fairly steady. By this result, the number of those believing that inflation is

damaging for economic performance suggests considerable support for price stability. It should be noted that public attitudes to this issue was tested during periods of high inflation, consistent rise in unemployment, and uncertain political climate, as such these answers may not be a guide to how the public might react if economic

circumstances were different.

Told that the Government has set an inflation target of 11.2 per cent in this year’s budget (Question 4), 17.2 per cent of respondents (which was lower than 20.2 per cent achieved in the preceding quarter) thought that

the target was ‘about right’, while ‘too high’ or ‘too low’ were 40.0 per cent and 17.9 per cent, respectively. 24.9 per cent of the respondents, relative to 20.1 per cent recorded in the second quarter of 2010 had no opinion. This outturns are broadly in line with those of the previous quarters.

### 5.2 Interest rates

Public opinion continues to be divided over what should happen to interest rates over the next few months (Questions 7 and 8). Asked what would be 'best for the Nigerian economy' - higher interest rates, lower rates or no change; - 49.3 per cent thought the rates should 'go down' compared with 47.5 per cent in the last quarter. 17.7 per cent of respondents felt that interest rates should 'go up' compared

with 20.0 per cent in Q2 2010. The remaining 33.0 per cent (15.2 and 17.8 per cent), did not know or did not think it would make any difference, respectively.

When asked in Question 8 what would be 'best for you personally' for interest rates to go up or go down, 64.8 per cent opted for lower interest rates, 17.0 per cent for higher interest rates, and 16.9 per cent said 'make no difference'. The responses to questions 7 and 8 reveals that many people fa-

voured lower interest rates for themselves rather than for the Nigerian economy as a whole over the next few months. This view has remained consistent in the six series. The high level of lending rates by Deposit Money Banks which discourages borrowing that could serve as catalyst for industrial growth could have been responsible in forming this opinion by respondents.

*“Monetary Policy framework , if accompanied by wide public understanding and support, both for the objective of price stability and the methods to achieve it, will be most effective.”*

## 6.0 INFLATION VERSUS INTEREST RATE

Gauging people’s understanding of how rise in interest rates would affect inflation (changes in prices) is what Question 9 is designed to capture. Responding to what the impact would be, of a rise in interest rates for,

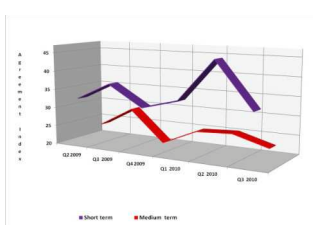
(a) in the short term and (b) in the medium term, just a little over half the respondents (54.7 percent) agreed that ‘a rise in interest rates would make prices in the street rise more slowly in short term’,

whereas 21.4 per cent disagreed. With respect to the medium term, 48.4 per cent of the respondents agreed, as opposed to 26.0 percent that disagreed. However, an interesting picture was observed in

Question 10 when asked ‘if a choice had to be made, either to raise interest rates to keep inflation down, or keep interest rates down and allow prices in the shops to rise faster; which would you prefer?’ When a trade-off is suggested, most people would accept higher interest rates rather than higher inflation. The margin is

more than three to one: that is, 49.3 per cent compared with 14.1 per cent. In other words, most people in every region and demographic group share the Bank’s (and Government) priorities, though

there is much less clarity about the link between the rates and prices that underpins its decisions. However, 36.6 per cent had no idea. These proportions have not significantly changed over the past six series.



Interest rates Vs Inflation

## SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

PER CENT	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
<b>Q.1 Which of these options best describes how prices have changed over the last 12 months?</b>						
Gone down	4.0	5.1	6.5	7.7	11.0	11.8
Not changed	6.2	12.5	8.8	14.2	15.9	23.2
Up by 1% but less than 3%	4.7	21.5	29.0	18.4	26.2	19.4
Up by 3% or above	74.8	53.3	40.8	40.8	33.4	31.7
No idea	10.1	7.6	14.8	11.3	12.1	13.8
Median (%)	3.0	3.0	2.9	3.0	2.3	1.8

### Q. 2 How much would you expect prices in the shops generally to change over the next 12 months

Would Go down	15.7	22.6	16.5	21.1	27.2	24.5
Not changed	8.7	10.2	8.0	13.8	16.1	14.9
Up by 1% but less than 3%	6.9	20.5	28.3	21.2	22.0	24.1
Up by 3% or above	54.8	34.6	32.6	28.1	21.4	21.9
No idea	13.6	12.1	14.6	12.2	11.8	14.5
Median (%)	3.0	2.1	2.3	1.9	1.1	1.3

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

End up stronger	8.0	9.7	7.9	8.8	10.8	10.3
Or make little difference	14.0	13.0	21.5	18.1	21.8	22.5
Or weak	65.1	65.4	55.2	58.4	53.4	51.1
Don't know	12.5	11.9	15.3	14.7	14.1	16.1

### Q. 4 The Government in this years budget anticipated an inflation rate of 11.2%. What do you think of this rate ?

Too high	45.7	45.8	45.3	46.2	44.7	40
Or too low	20.5	17.7	21.4	14.7	14.8	17.9
Or about right	13.9	16.2	12.6	18.2	20.2	17.2
No idea	19.2	20.0	20.7	20.9	20.1	24.9



## SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

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

Risen a lot	36.2	34.3	29.4	33	25.6	31.1
Risen a little	24.0	25.5	28.5	22.1	27.2	18.8
Stayed about the same	10.2	13.5	14.3	14.8	14.3	13.6
Fallen a little	6.0	6.1	5.4	11.0	10.4	9.6
Fallen a lot	6.1	3.0	4.6	2.9	6.5	6.6
No idea	17.1	17.5	17.7	16.1	16.0	20.3
Total saying 'rise'	60.2	59.8	57.9	55.1	52.8	49.9
Total saying 'fall'	12.1	9.1	10.0	13.9	16.9	16.2
Net rise	48.1	50.7	47.9	41.2	35.9	33.7

### Q. 6 How would you expect interest rates to change over the next 12 months?

Rise a lot	15	13.8	16.0	14.1	15.0	16.4
Rise a little	23.8	22.2	23.3	24.3	26.3	22.6
Stay about the same	15.0	16.0	17.1	19.0	16.0	14.6
Fall a little	21.2	24.8	18.1	18.9	18.5	17.4
Fall a lot	10.8	9.2	9.8	8.0	9.7	10.8
No idea	13.8	13.8	15.7	15.7	14.6	18.3
Total saying 'rise'	38.8	36.0	39.3	38.4	41.3	39.0
Total saying 'fall'	32.0	34.0	27.9	26.9	28.2	28.2
Net rise	6.8	2.0	11.4	11.5	13.1	10.8

### 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	13.7	14.1	16.3	15.1	22.1	17.7
Go down	52.4	54.5	51.0	51.9	47.5	49.3
Make no difference	12.7	17.5	15.4	19.6	29.0	17.8
No idea	13.1	13.8	17.3	12.5	1.2	15.2

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

Go up	11.0	13.9	12.2	16.4	20.0	17
Go down	67.6	75.2	68.4	62.8	63.9	64.8
Make no difference	9.1	10.4	17.3	18.9	22.6	16.9
No idea	8.9	0.0	2.1	1.5	0.5	1.4

## SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
<b>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,</b>						
Agree strongly	21.3	23.8	18.8	25.2	30.1	27.8
Agree	32.2	33.6	32.5	27.8	31.0	26.9
Neither agree nor disagree	12.8	11.7	15.3	13.6	14.0	11.9
Disagree	13.8	14.1	14.5	12.1	10.9	17.0
Disagree strongly	7.2	6.2	5.2	6.8	5.1	4.4
Don't know	12.1	10.5	13.8	14.5	8.6	12.0
Total agree	53.5	57.4	51.3	53.0	61.1	54.7
Total disagree	21.0	20.3	19.7	18.9	16.0	21.4
Net agree	32.5	37.1	31.6	34.1	45.1	33.3

### **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	14.8	17.1	11.7	18.1	18.6	20.1
Agree	32.5	34.8	32.9	27.8	29.3	28.3
Neither agree nor disagree	14.1	12.3	16.4	16.3	14.8	11.3
Disagree	15.2	17.8	15.8	14.5	17.6	19.6
Disagree strongly	8.5	5.3	8.4	6.8	5.2	6.4
Don't know	6.7	12.4	14.9	15.6	12.4	14.3
Total agree	47.3	51.9	44.6	45.9	47.9	48.4
Total disagree	23.7	23.1	24.2	21.3	22.8	26.0
Net agree	23.6	28.8	20.4	24.6	25.1	22.4

### **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	48.2	50.8	52.7	41.6	52.1	49.3
Prices to rise faster	14.1	14.8	15.9	16.1	15.0	14.1
No idea	36.8	34.1	31.3	42.2	32.4	36.6

## SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
<b>Q. 11 Every other month, a group of people meet to set Nigeria's basic interest rate level.</b>						
<b>Do you know what this group is?</b>						
Monetary Policy Committee	55.9	59.5	61.2	54.7	55.6	49.6
The Government	9.4	7.0	7.0	10.4	9.7	11.4
Federal Ministry of Finance	8.7	10.5	9.5	12.5	11.6	12.5
National Assembly	4.0	2.4	3.2	3.9	7.8	4.9
Others	1.2	1.0	2.0	0.9	1.1	2.2
Don't know	20.0	19.2	17.0	17.6	14.2	19.4

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

Government ministers	3.1	2.4	4.3	4.9	4.7	6.8
Civil servants	2.8	1.8	2.4	3.2	3.6	4.1
CBN	76.9	82.3	77.5	75.9	75.7	70.4
Other banks	3.4	3.5	4.5	4.4	4.1	4.6
No idea	13.1	9.8	11.2	11.6	11.8	14.2

### 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	26.3	22.3	16.9	27.5	23.0	25.3
A Body wholly owned appointed by the Government	27.2	33.6	42.4	26.5	32.9	28.9
An independent body, partly appointed by the Governr	20.0	19.8	21.3	20.2	24.1	20.5
A completely independent body partly appointed by the	6.8	6.2	5.2	11.5	6.5	8.0
No idea	18.3	17.5	14.2	14.4	13.3	17.2

### 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	20.2	27.1	21.4	30.8	27.5	26.0
Fairly satisfied	44.6	44.6	41.6	36.7	45.2	38.6
Neither satisfied nor dissatisfied	12.4	12	17.6	16	11.0	14.5
Very dissatisfied	12.8	8.4	8.6	7.3	8.0	9.7
No idea	9.2	7.1	8.7	9.5	8.3	11.3
Total satisfied	64.8	71.7	63.0	67.5	72.7	64.6
Total dissatisfied	12.8	8.4	8.6	7.3	8.0	9.7
Net satisfied	52.0	63.3	54.4	60.2	64.7	54.9