

EconWorld2015@Torino

Inflationary Expectations vs. Actual Inflation: A Reality Check for Turkey

Sadullah Çelik¹, Erol Gürçan²¹Marmara University, Turkey²Gedik YMD, Turkey

ABSTRACT

Central bank communication has gained importance after the last global financial crisis. Because the success of the monetary policy is highly dependent to management of expectations; the importance of the data obtained from expectation surveys has risen, as never before. The changes in expectations are so crucial on monetary policy decisions of the central banks whose primary aim is the price stability, like Central Bank of the Republic of Turkey (CBRT). Although, the effects of the inflation are better known by householders; most of the expectation surveys are reflecting the predictions of the market experts. So, this paper examines whether the inflation expectations of the householders are consistent with the actual inflation in Turkey. In order to find that, we use the data from CNBC-e's monthly inflation expectation survey which shows the expectations of the householders and Consumer Price Index which is announced officially by Turkish Statistical Institute. Because expectation surveys give qualitative data, we use the Carlson-Parkin method which is one of the most well-known probability method that quantifies the qualitative survey data. Moreover, we check the causal relationships between the actual and expected inflation by using the Geweke's Measure of Linear Feedback, Frequency Domain Causality and Wavelet Comovement methods. We expect to find out that to what extent the CBRT takes into account of householders' expectations on its policy decisions.

KEYWORDS Monetary Policy; Inflation Expectations; Survey Data; Quantification Methods; Carlson-Parkin Method; Geweke's Measure Of Linear Feedback; Frequency Domain Causality; Wavelet Comovement

JEL C53, C54, C83, D84, E31, E52, E58, E61