# Petar Goshev: Problems in measuring inflation

Opening speech by Mr Petar Goshev, Governor of the National Bank of the Republic of Macedonia, at the workshop "Problems in measuring inflation" organized by the National Bank of the Republic of Macedonia, Skopje, 22 May 2007.

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Ladies and gentlemen, dear friends,

Please allow me to welcome you on behalf of the Central Bank, to thank you for your participation in today's workshop, and to wish a fruitful day for all of us present here today.

This is the third workshop in the past two years, organized, or as it is now the case, co-organized by the Central Bank, which along with the international conferences and seminars on expert level, which increase in number, have been our new component of activities aimed at: increasing our own professional capacity, opening of the National Bank to the domestic and international expert community for the purpose of mutual improvement of the abilities to identify and solve the problems in the area of macroeconomics and for increasing the transparency in our communication with the public.

Today's workshop has been organized in cooperation with the State Statistical Office, and the topic of discussion are the problems related to measuring of inflation. I do not think it is necessary to explain why the State Statistical Office: the State Statistical Office produces the data on inflation, while the National Bank is one of the main users of those data.

Why this subject – problems in measuring inflation? Because inflation remains to be one of the most exciting, most important macro-economic phenomena, tackling the life of the communities and of the separate entities and individuals in the most concrete way. We all find it important to know what are the real values that are at our disposal. What are the real values that we produce. What is the real progress of the economy, what is the real growth or decline in our income, what is the real growth or decline in our living standard and well-being. Inflation is one of the obstacles on the way to those real values, important from several viewpoints of our life and our behavior. Therefore, macroeconomic analyses are commonly based on values in real terms, i.e. values adjusted by the increase in the prices with the single objective – to obtain realistic picture of the macro-economic developments. Therefore good investment and business plans of companies, inter alia, do not miss the opportunity to grasp and incorporate the expectations about the future movement of the inflation, as they are aware that it will have an effect on their profit in the future. Therefore, labor unions are interested in inflation when they negotiate wages, therefore each of us is interested in the information about the current and future inflation, i.e. increase in the prices, when we consider what to do with our savings.

Why is the Central Bank preoccupied with the inflation and its accurate measurement, perception of inflation and expectations about its movement in the future? It is because the main objective of the monetary policy is to maintain price stability in the economy, which is considered to be the main prerequisite for acceleration of the economic activity and for accomplishing sustainable economic growth. Hence, the adequate measurement of inflation, which is an issue that has been interesting for the central banks for years, and which is even more important when inflation rates are low, is so challenging and crucial for the central banks, i.e. for the monetary policy decisions.

Non-expert public listens to the information about the inflation indicators. It neither wants nor it is able to go into the numerous statistical problems when measuring inflation. However, it senses the possible discrepancies between the officially announced indicators and the real ones since that public confronts its nominal and real purchasing power on a daily basis. On the basis of that confrontation and daily market-based check-up of the official statistical information, confidence or lack of confidence in the authorized institutions is created, influencing positively or negatively the behavior of all market participants. The authorized institutions are responsible for making precise the differences between the nominal and the real aggregates, for selection of more precise statistical methods and techniques for measuring inflation, simultaneously as transparent and as understandable as possible for all market participants. The participation of representatives of the two most relevant institutions in the country for this issue and the participation of the distinguished domestic experts and experts of the relevant international institutions, Eurostat and BIS, ensure that today we will enjoy an exciting intellectual debate on the topic we selected, i.e. which inflation indices are the most persuasive, which structure and which compilation methods could give us the best picture of the basic components and

their contribution to the movement of the inflation; how much is the so-called core inflation relevant for us and in what is the best way to determine it, is the inflation index appropriate with respect to the scope and the structure, does it represent the consumer basket realistically, does it change along with the changes in the consumption, does it overestimate, underestimate or realistically show the actual inflation. Furthermore, do we move along with the international experience, here I refer to the best practices, where do we lag behind, what and how long does it take to narrow or eliminate the lag. The responses and measures for better solutions are not given to us indefinitely. The current lags affect our current decisions. Now, they affect the quality of comparability of our conditions with those of the countries we seek to integrate with.

Ladies and gentlemen,

On the 8th of May this year, only 15 days ago, Macedonia had the honor to represent its first pre-accession economic program at the ministerial dialog between the ministries of economy and finance of the EU and the candidate countries in Brussels. The adopted conclusions that refer to our country, amongst other things, state that "generally, the document suffers from a lack of reliable statistics, impeding the analyses of the position of the country regarding the growth cycle...", which, you would all agree, has to do with the reliability, in such situation, with inflation calculations, particularly of the expected one. Furthermore, page 4 says that "in the area of economic statistics, top priority for Macedonia is to establish a capacity for regular production and submission of annual and sub-annual statistics", but, also, not failing to notice that "a certain progress has been made in the annual national accounts, following the ESA 95 concepts", and that we should move on in that area. Page 5 says that Croatia and Macedonia have been invited to intensify their efforts to conform with HICP (harmonized index of consumer prices), and that with respect to the monetary and financial statistics, the central banks of the candidate countries (and therefore our central bank), will be legally bound to start with the harmonization, which is necessary to bring the statistics in compliance with those of the ECB, as a legal requirement, once they are admitted to the ECB, and that it is desirable to start earlier to prepare for the membership in the European System of Central Banks. And finally, that the candidate countries have been invited to intensify urgently their efforts in this respect and that the EFC (Economic-Financial Committee) should keep on directly monitoring the progress on the basis of the annual Progress Report on the Action Plan".

Consequently, we and those we want to be with are aware that we should strengthen our endeavors to make our statistics better, and hence, I consider that this workshop will make a positive contribution from this aspect, as well.

Thank you for your attention, and once again I wish you a nice day on the premises of the Central Bank.

I would conclude here and I would kindly invite Ms. Blagica Novkovska, Manager of the State Statistical Office, to give her address.