



Why Greek consumers are pessimistic about their inflation expectations? Evidence from the CES

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Introduction

- ❖ The ECB Consumer Expectations Survey (CES) allows for a timely measure of the perceptions and expectations about inflation for the Greek consumers.
- ❖ Since April 2022 the survey has recently expanded its country coverage adding to the six original countries, i.e., Belgium, Germany, Spain, France, Italy and the Netherlands, an additional set of five countries in January 2022, i.e., Austria, Finland, Ireland, Greece and Portugal.
- ❖ Mean and median Inflation expectations are higher in Greece than in the euro area.
- ❖ This study investigates empirically what are the key drivers of inflation expectations in Greece compared to those of the Euro area.

Methodology

- ❖ Linear regression model of inflation expectations with weights and clustered standard errors. We consider wave effects for Greece, wave plus country effects for the euro area countries.
- ❖ Independent variables: perceived inflation, gender, age groups, partner, education, low financial literacy, household size (hsize)mortgage, income quintiles, unemployed, home ownership, liquidity constraints (liq_cons), hard financial situation (hfsit) and hard credit access (hcracc).
- ❖ Estimated variables not shown in the chart are not statistically significant.

Results

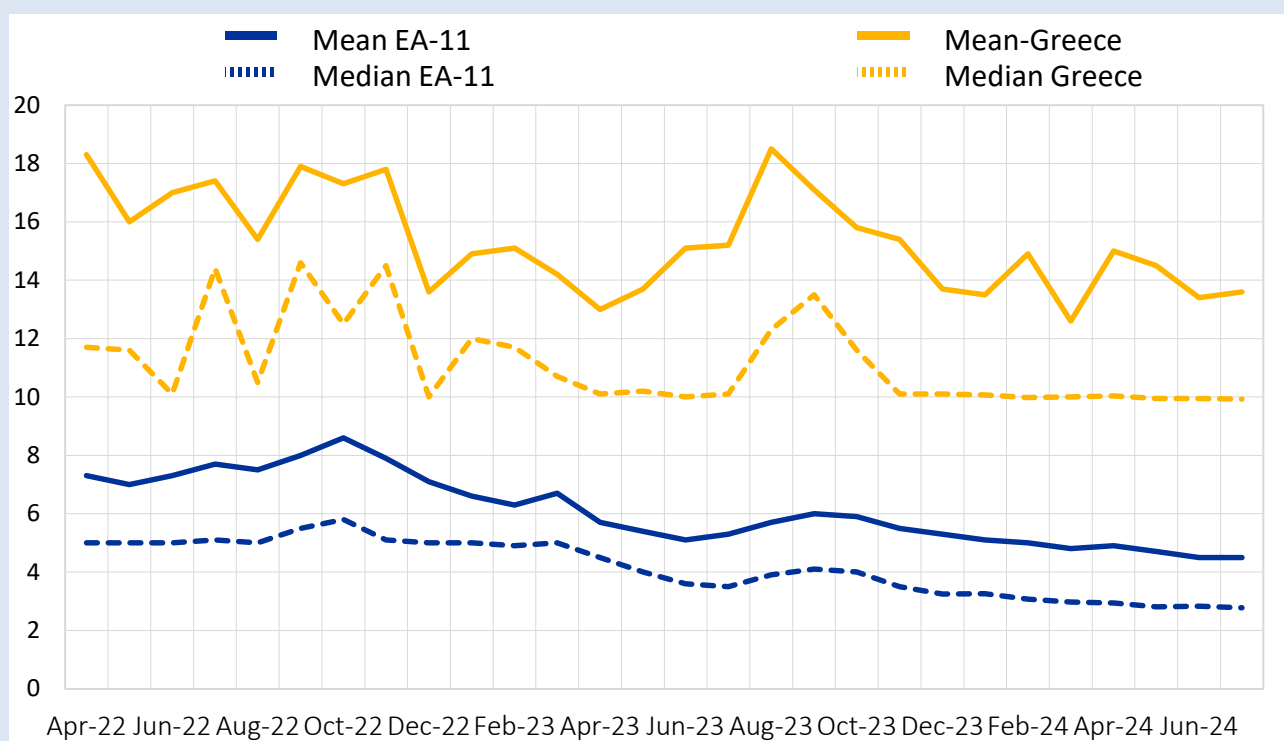


Figure 1. Inflation Expectations over the next 12 months: Greece vs EA11- CES

- ❖ CES shows that mean and median inflation expectations in Greece are higher than in the euro area.
- ❖ Mean and median inflation expectations in Greece reached at high levels over the same period, with the median inflation expectations reaching its highest level of 14.6% in September 2022. Mean and median CES inflation expectations in euro area escalated to its highest level, 8.6% and 5.8%, respectively in October 2022.
- ❖ Since September 2023 median inflation expectations declined significantly in Greece and in euro area. In particular, Greek expectations dropped from 13.5% in September to 9.9% in July 2024. Inflation expectations in the euro area declined from 4.1% to 2.8% over the same period.

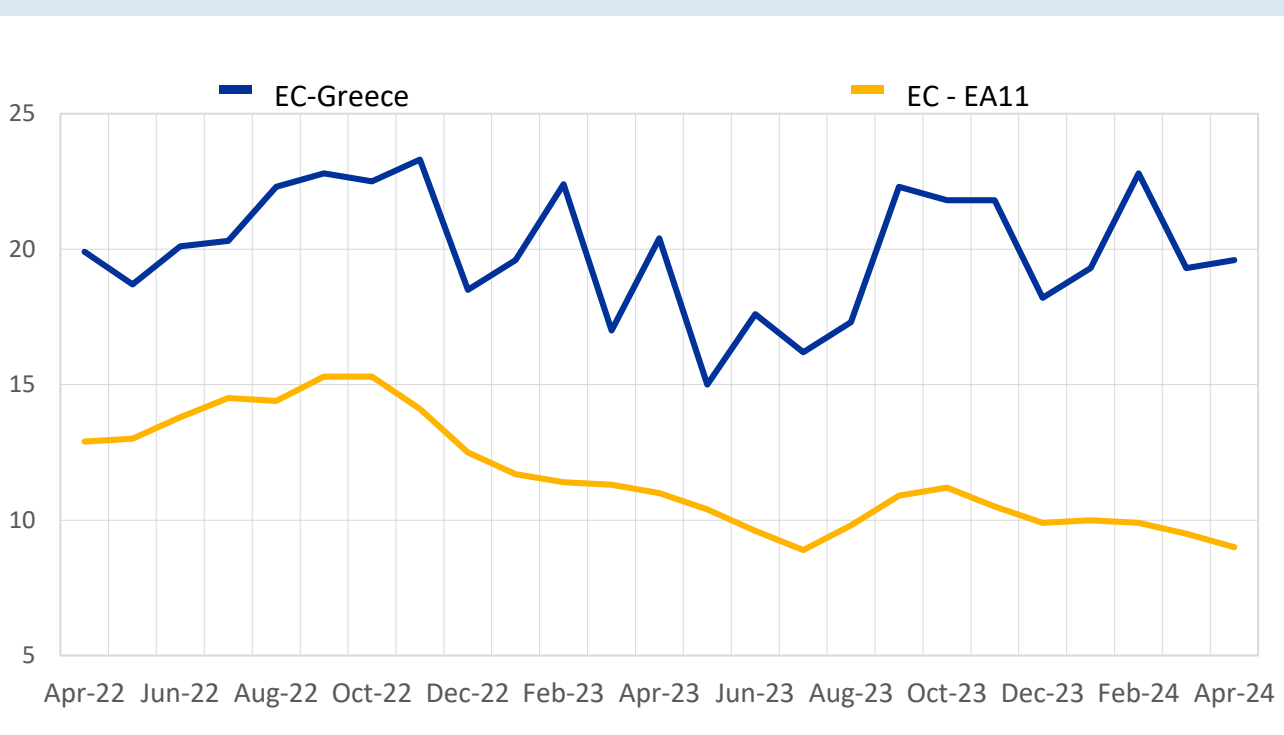


Figure 2. Inflation expectations over the next 12 months, Greece vs EA11: EC Consumer Survey

- ❖ European Commission (EC) survey data on inflation expectations for Greek and euro area consumers follow the same pattern with the CES.
- ❖ As with the CES data, mean inflation expectations for the Greek consumers in the EC survey are higher than the euro area consumers.

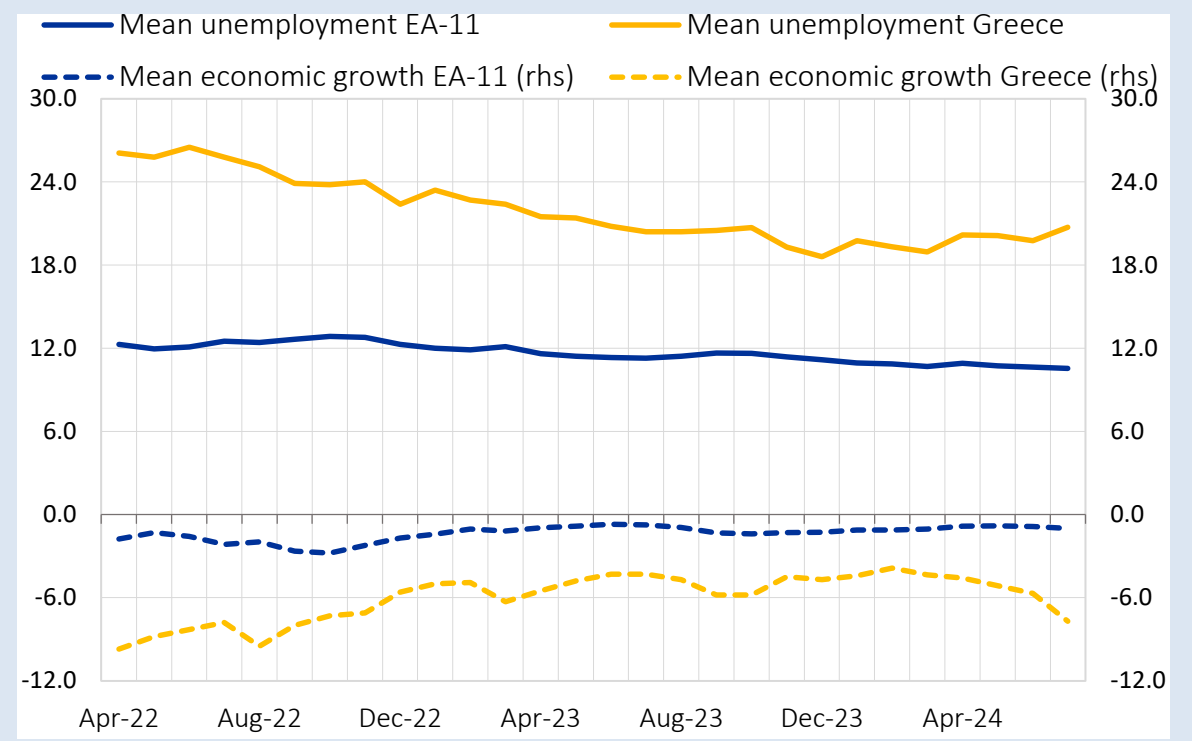


Figure 3. Consumer expectations for unemployment and economic growth over the next 12 months, Greece vs EA11: CES

- ❖ Greek consumers are pessimistic about expectations for unemployment and economic growth.
- ❖ Mean expectations for unemployment is higher for Greek consumers than for EA-11 consumers whereas expectations for economic growth are on average more negative for Greek compared to EA-11 consumers.
- ❖ However, Greek consumer expectations about unemployment rate and economic growth substantially improved from April 2022 to July 2024. In particular, the expectations for the unemployment rate fell from 26.1% to 20.7% and expectations for economic growth became less negative from -9.7% to -7.7%.

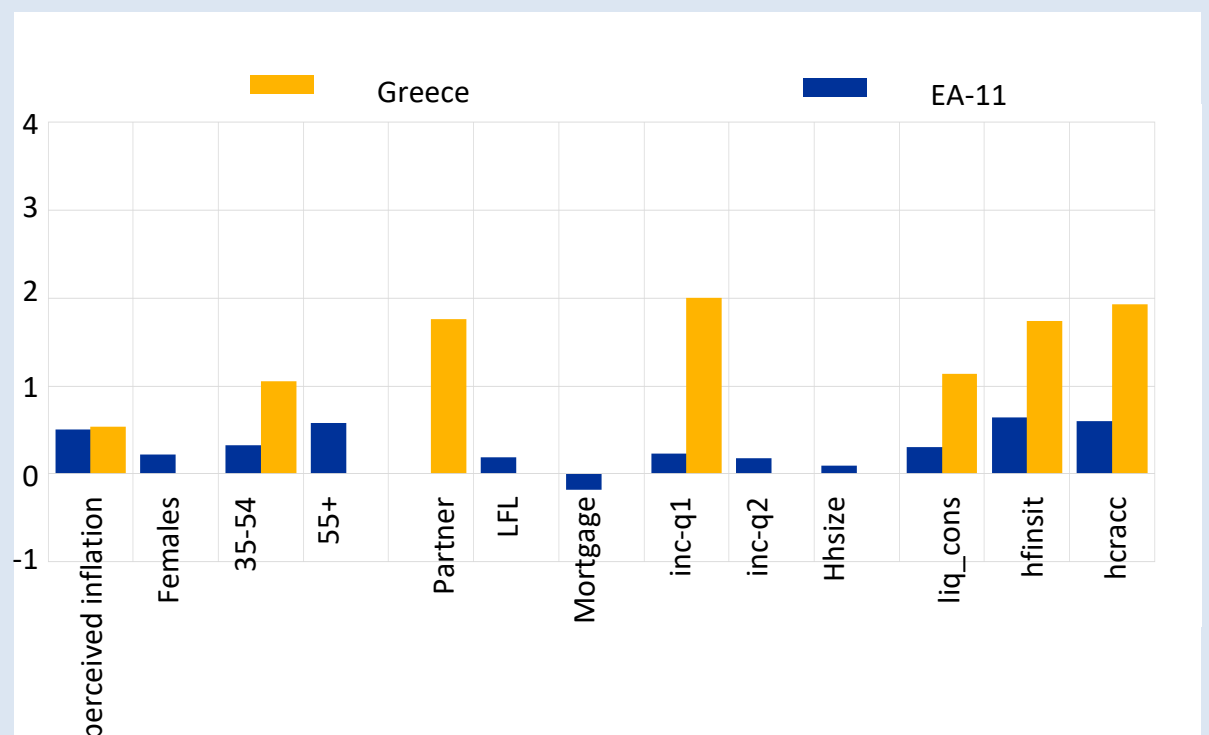


Figure 4. Estimated regression coefficients from a linear regression model of inflation expectations

- ❖ Consumers' inflation expectations in Greece are positively associated with low levels of income, liquidity constraints, worse financial situation and hard credit access.
- ❖ Consumers aged 35-54 have high expectations about inflation.

Concluding Remarks

- ❖ The effect of inflation perceptions on inflation expectations for Greek and euro area consumers is positive and significant. The degree of the pass-through from inflation perceptions to inflation expectations is the same for Greece and euro area countries.
- ❖ Higher inflation expectations in Greece vs euro area are associated with a more pessimistic view about their income, own financial situation, adequacy of liquidity, access to credit.
- ❖ In line with Coibion et al. (2023) evidence suggests a “supply-side narrative”, whereby higher inflation expectations are associated with bad news and a more pessimistic outlook about their own financial situation and the economy.
- ❖ In addition, Greek consumers aged 35-54 have high inflation expectations are the ones that suffered most from the Greek sovereign debt crisis with respect to their lifetime income.