Inflation Expectations and Firms' Decisions in High Inflation: Evidence from an RCT

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April 2025

Summary

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...expect lower prices, wages, and unit costs

...reduce credit demand, but at increased average rates

...shift from long- to short-term loans

...reduce FX purchases, increase FX credit

...increase employment and sales

Praise

Combination of several (including administrative) data sets gives very detailed firm-level observations

Comprehensive investigation of alternative treatments with several outcome variables (expectations and realizations)

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Comprehensive investigation of alternative treatments with several outcome variables (expectations and realizations)

High-inflation environment different to previous studies

Authors very precise and careful in their analysis

Discussion

Cross-learning

Literature uses ‘causal’ often in a misleading way

Several effects of treatment on outcomes, IV doesn’t help
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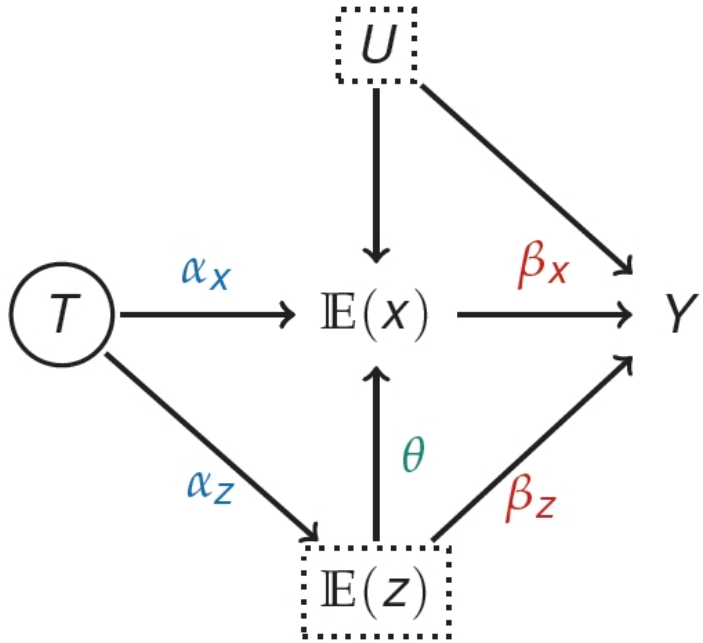

Source: Bulutay (2025)

Authors document that treatments affect whole range of expectations

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$E_t\pi_{t+1}$ only one of many channels (Baek and Yaremko, 2024)

$\rightarrow$ Treatments induce a new scenario for respondents

- ‘Pure’ effect of $\Delta\ E_t\pi_{t+1}$ not identified
- Expected effects of scenario depend on experience, institutions, and specific situation (s. next slides)

Cross-learning

First analysis in high-inflation period. However, period quite special:

CPI inflation excl. food and energy

Cross-learning: uncertainty and energy prices

Situation special because:

a) High inflation uncertainty (disagreement 4x higher than in 2020)

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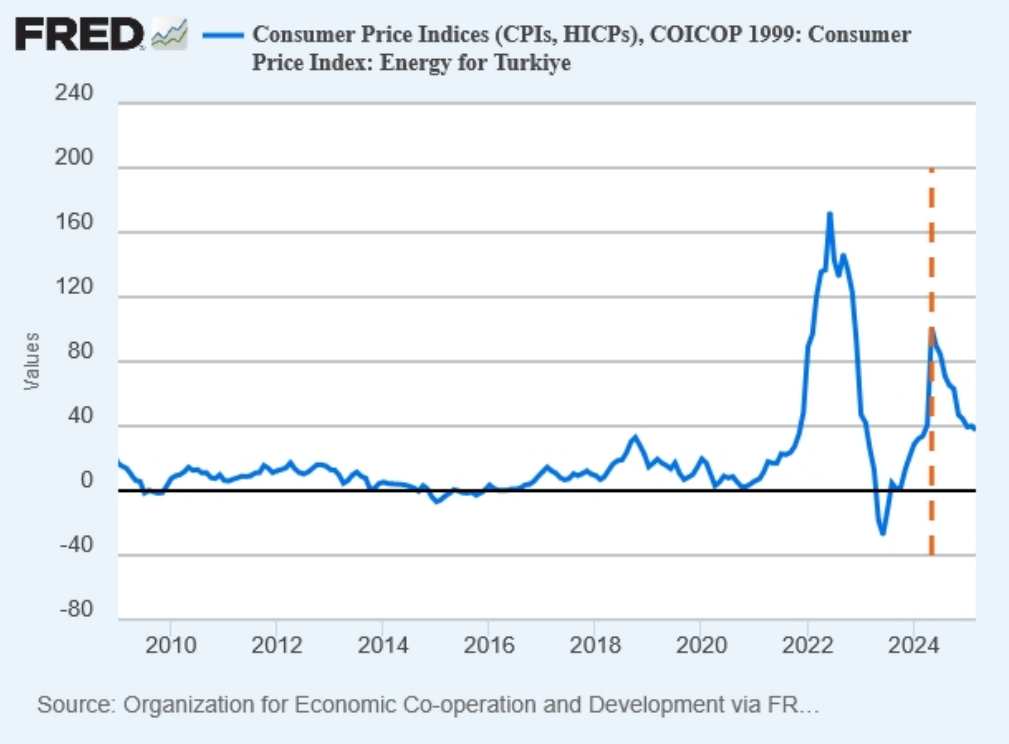
- Possible to shift expectations despite high attention

→ But: treatment likely to have effects via reduced uncertainty (Georgarakos et al. 2024)

Cross-learning: uncertainty and energy prices

Situation special because:

b) Preceded by period of negative supply shocks



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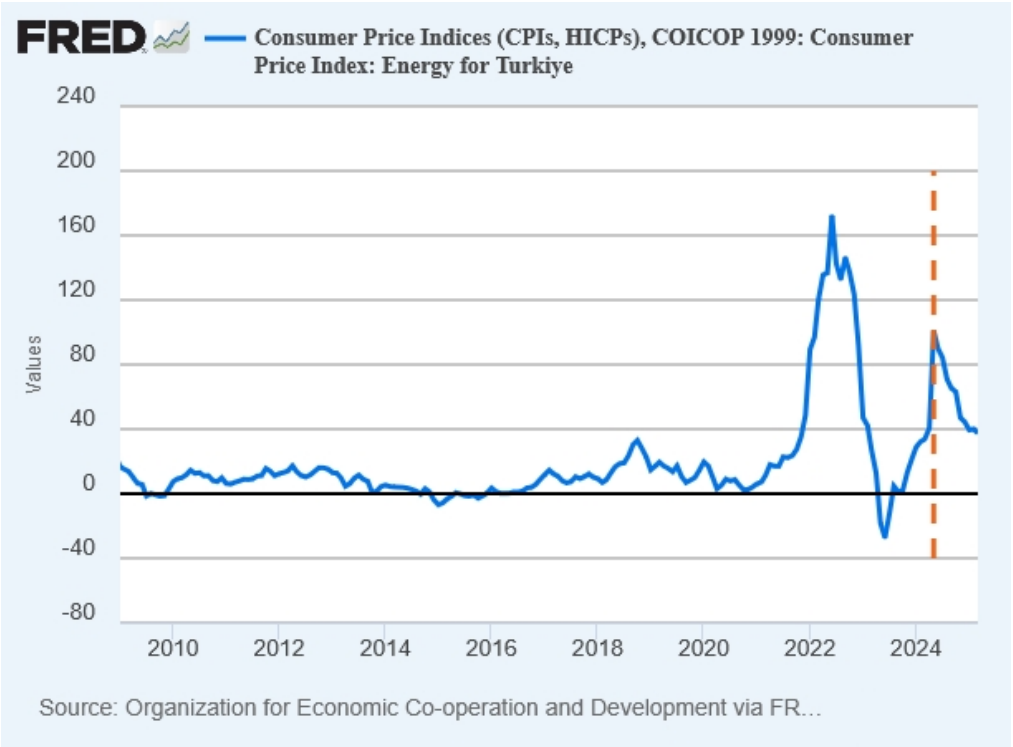

- Firms hold 'supply-side view' (e.g., $Corr(E_t\pi_{t+1}; E_tMU_{t+1}) < 0$)

$\rightarrow$ Often found, but here severe: treatment likely to drive optimism

Cross-learning: summary

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However, there is probably nothing like a 'pure' shift in inflation expectations, in particular for firms (Do costs move more than competitor's prices? How does the CB react?)

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Authors discuss effect of higher inflation expectations

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$\rightarrow$ in line with actual realizations

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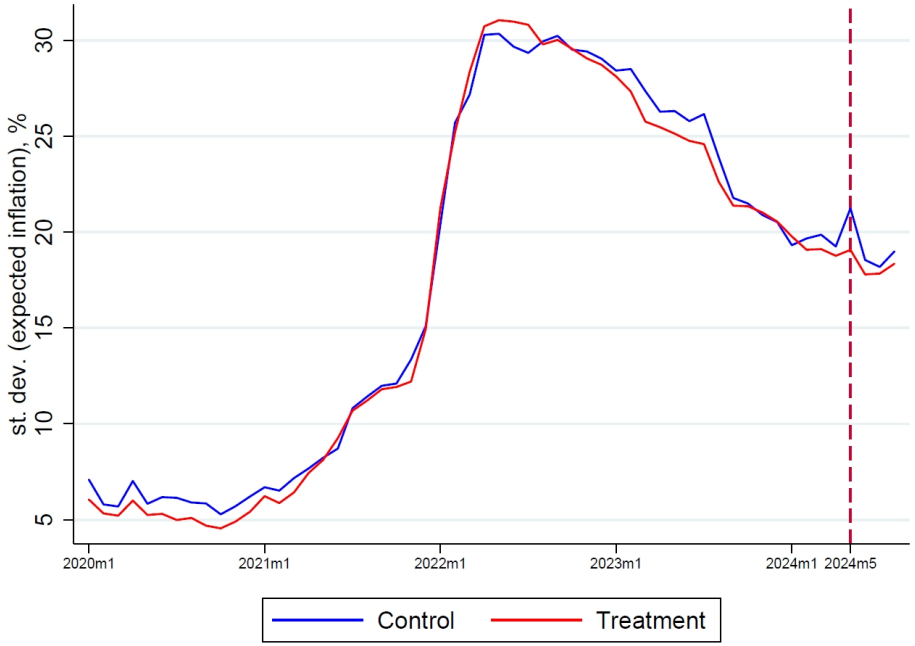
Do we expect symmetric effects?

- Around 40% of workers at minimum wage
- Why shift to short-term loans if firms can refinance later on?

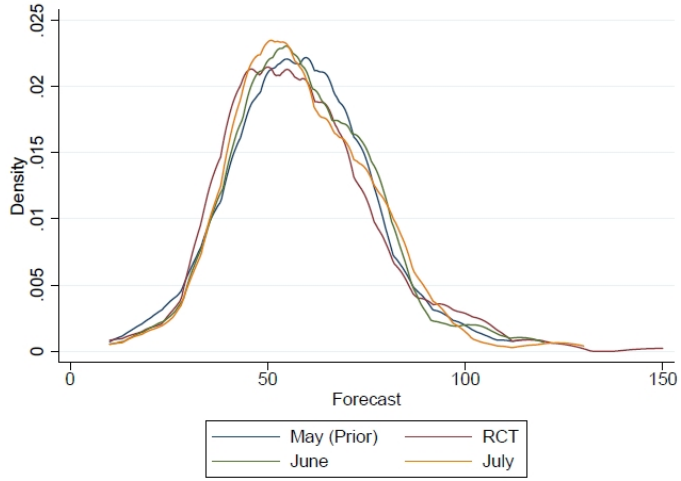
Anomaly

Treatment/control groups look different in terms of prior expectations

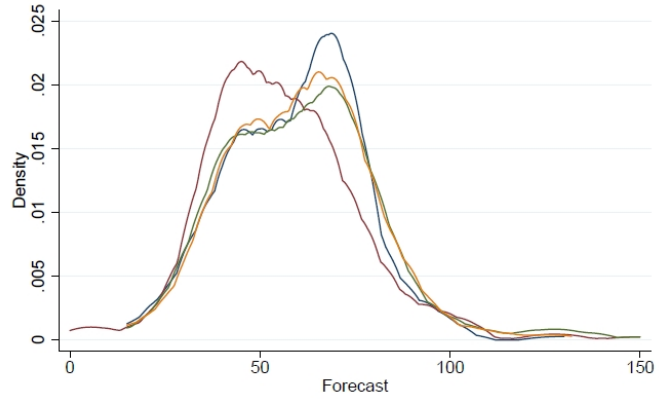
Expectation dispersion



Control group



Treatment #4



Conclusion

Great data and state-of-the-art empirical work

Suggestion: consider further realizations (even if only qualitative data): production, inventories, average unit costs, domestic orders, capacity utilization, NPLs...

Profession should maybe move away from estimating effects of endogenous variables towards...

- ...effects of exogenous shocks (De Fiore et al., 2025)
- ...effects of clearer concepts (costs, competitors' prices)