Survey on Inflation and Real GDP Expectations

- September 2022 -

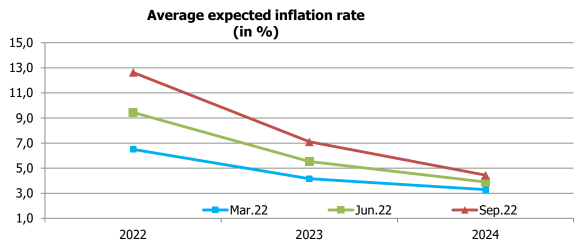
The Survey on Inflation and Real GDP Expectations[1] for the period 2022 - 2024, conducted in September[2], shows an upward revision of the expectations for the average inflation rate, as well as a small upward revision in relation to the expected GDP growth. Also in this survey, economic analysts associate such expectations primarily with the effects and the duration of the military conflict in Ukraine, as well as with the development of the circumstances and the consequences of the COVID-19 pandemic, both in the country and abroad, emphasizing that there is still high uncertainty about the course of the future developments.

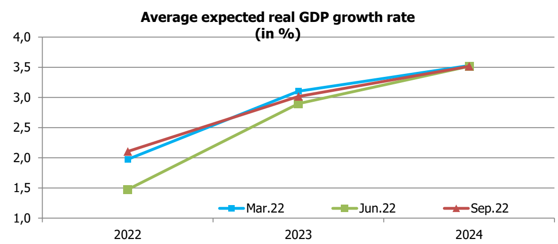
Regarding the **inflation**, the expectations for 2022 point to an average rate of 12.6% and are higher compared to the previous survey (9.5%). A more moderate upward revision was registered also with the expectations for 2023 and 2024, so that the respondents expect that the inflation rate will equal 7.1% in 2023 (5.5% in the previous survey), i.e. 4.4% in 2024 (3.9% in the previous survey). Similar to the previous survey, these expectations largely reflect the current developments in the primary commodity markets due to the disturbances related to the war in Ukraine, i.e. the higher prices of imported goods, such as the prices of food and energy, the disturbed global supply chains, the transmission effects of the already started trends of growth of the inflation, as well as the uncertainty about the resolution of the war conflict and continuation of the imposed sanctions and trade restrictions. The respondents also consider that the announced increase in wages and pensions, as well as the intensification of the crisis in the energy supply could lead to possible additional inflationary pressures. On the other hand, the measures taken by monetary and fiscal policy makers could mitigate the price growth. The respondents still mostly consider that such movements in inflation are predominantly on the supply side and that they would have some effect also in the following year, with gradual stabilization in 2024.

Regarding the **economic activity**, the respondents' expectations in this survey are more favorable and point to growth in 2022 of 2.1% (1.5% in the previous survey) and growth of 3.0% (2.9% in the previous survey) in 2023. For 2024, the respondents also in this survey expect growth of 3.5%. Moreover, most of the respondents expect that the growth in 2022 will slow down compared to the previous year, with moderate recovery in the next two years. Regarding the factors, similar to the previous survey, the respondents still associate such growth expectations primarily with the military conflict in Ukraine and the imposed sanctions, which causes growth in the energy and food prices in world markets and problems in the supply chains. According to some of the surveyed economic analysts, the reduced domestic and foreign demand, the restraint of domestic and foreign investors, the reduced public consumption and capital investments, but also the increase in the policy rate by the National Bank, would slow down the economic activity. Also, the respondents still point to the

[1] In 2017, the National Bank of the Republic of North Macedonia made a change to the *Survey on Inflation Expectations* renaming it into *Survey on Inflation and Real GDP Expectations*, whose new structure follows the Quarterly Survey of Professional Forecasters, https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/index.en.html, conducted by the European Central Bank (ECB), and changed the structure of the sample, which is now composed only of economic experts.
[2] The survey was conducted in the period from 12 to 19 September 2022.

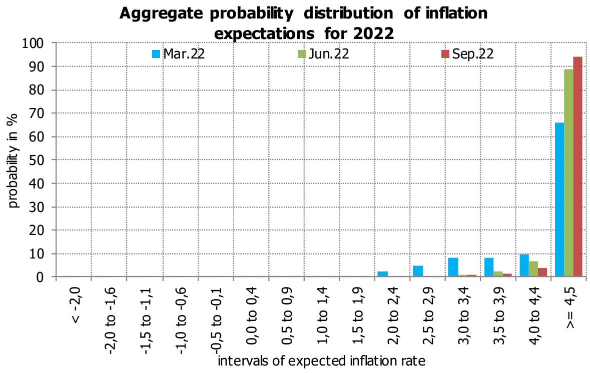
uncertainty associated with the future developments with the pandemic, with the domestic political environment, as well as with the possibility for a further blockade on the negotiations with the EU as factors that could adversely affect the economic growth in the period ahead. On the other hand, the respondents consider that the measures taken by the National Bank through the change in the reserve requirement, as well as the economic measures taken to mitigate the price growth and manage the energy crisis, could influence the growth of investments, primarily in alternative energy sources, as well as the further solid growth of consumption and exports, which would positively affect the economic growth. In addition, the possible progress of the negotiations for integration into the EU, the return of optimism among economic agents (among consumers and investors) and the increased implementation of capital projects, as well as the implementation of rehabilitation and rapid economic growth plans, could have a positive influence on growth and contribute to a faster post-crisis recovery of the economy, in the medium run.

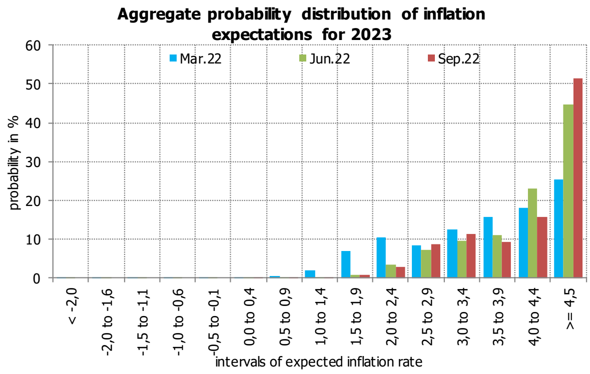


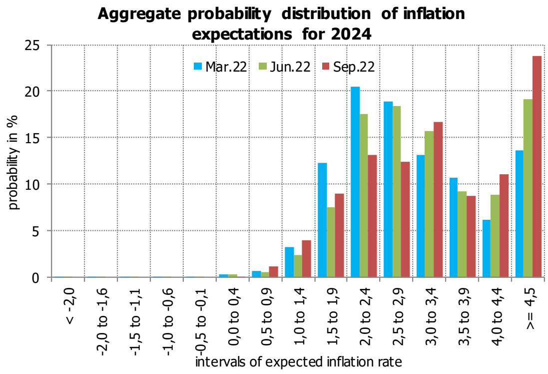


Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates within a given interval**. These assessments are used to make an aggregate probability distribution[3]. The aggregate distribution of probabilities of achieving the given rates of inflation and GDP in fifteen intervals is shown on the following charts, and the results are mainly in line with the rates expected by the respondents.

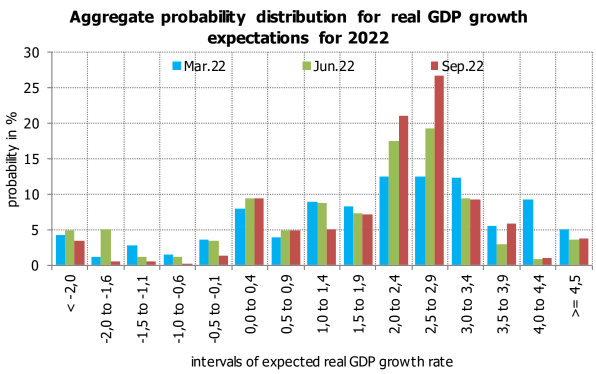
[3] The aggregate probability distribution represents an average of the probabilities assessed by the respondents for each interval of expected inflation rate and GDP growth rate.

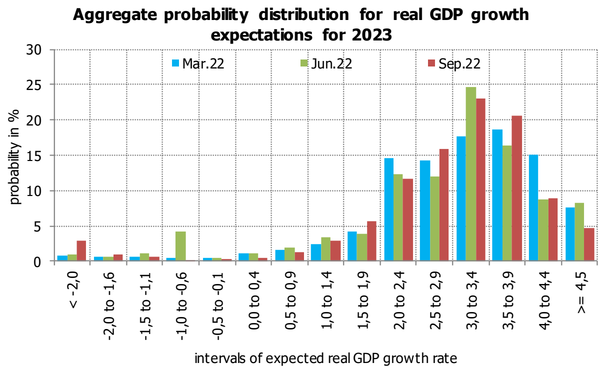


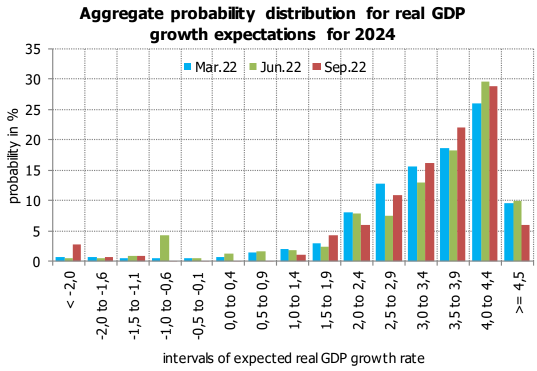




In accordance with the higher expectations for the **inflation rates,** compared to the previous survey, the probability distribution for this and for the next two years points to shifts to the intervals with higher values.







Regarding the expected **GDP growth rate**, the probability distribution registered shifts mainly in an upward direction, with a greater concentration in and around the interval of the expected average rate, in all three years.