Survey on Inflation and Real GDP Expectations

December 2024

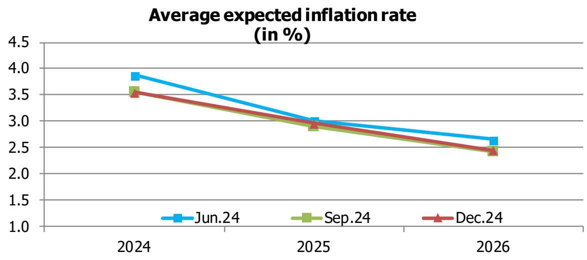
The Survey on Inflation Expectations and Expectations for the Movement of the Real GDP[1] for the period 2024 - 2026, conducted in December[2], does not suggest significant changes in the expectations for the average inflation rate, while the expectations for the GDP growth increased moderately. Economic analysts still believe that there is a high degree of uncertainty about the course of future developments, associating the biggest risks with the military conflict in Ukraine, the Middle East conflict, as well as the growing uncertainty of trade policies and the effects of climate change. However, also in this survey they emphasize that the gradual inflation slowdown, as well as the increased investment activity in the coming period, could have positive effects on the domestic economy.

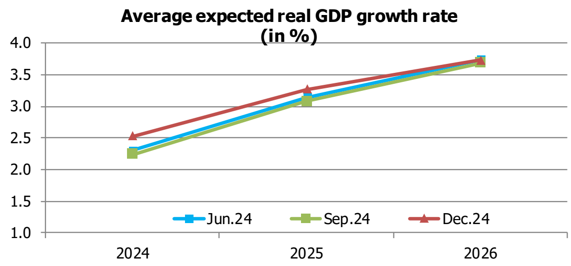
In terms of **inflation**, the respondents still expect its gradual slowdown. Thus, for 2024 a minimal downward revision (of 0.1 percentage point) has been made so they now expect an average inflation rate of 3.5%, while for 2025 and 2026 minimal upward revision has been made (of 0.1 percentage point) and respondents expect an average inflation rate of 3% for 2025 and 2.5% for 2026. Similar as before, the respondents expect more moderate pressures on inflation due to gradual stabilization of food prices, also expecting that the inflation slowdown will be driven by the measures taken by policy makers, as well as by the decelerated foreign inflation. The prolonged duration and uncertainty about the conflict resolution in Ukraine and the Middle East, as well as climate change, which affect the primary commodity prices, are still being indicated as factors that could cause upward pressures on inflation, with the increased uncertainty of trade policies, which may reflect in a further increase in trade barriers being emphasized as an additional risk in this survey. Also, the respondents consider that possible increase in wages, as well as pensions, due to the developments on the labor market, as well as possible deterioration in energy supply and increase in prices on the regulated market could lead to additional inflationary pressures.

Regarding the **economic activity**, the expected growth rate has been slightly revised upwards. Thus the respondents now expect economic growth of 2.5% (2.2% in the previous survey), 3.3% for 2025 (3.1% in the previous survey), while for 2026 they expect a growth rate of 3.7%, the same as in the previous survey. Regarding the factors that contributed to these expectations, the respondents consider that the gradual stabilization of inflation, the initiated decrease in domestic and foreign interest rates, as well as the growth of wages and pensions, could contribute to the increase in private consumption and investments, which would affect positively the economic growth. Furthermore, the respondents expect increased foreign and domestic investments, as well as faster realization of the public investment projects primarily related to road infrastructure and in energy sector, as well as private investments, that would be additionally supported by announced favorable loans for companies. On the other hand, as factors that could negatively affect future economic growth, the respondents in this survey also point to the worsened growth prospects of economies of the main trading partners, Germany especially, the uncertainty arising from the future course of the Ukraine war, the conflict in the Middle East and climate change and their impact on the supply chains, additionally indicating the increased uncertainty of the trade policies. In addition, the respondents still point to the uncertainty

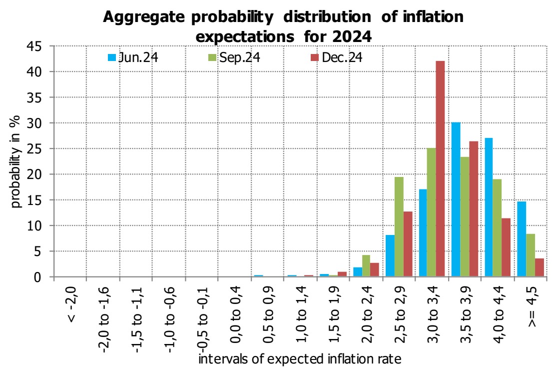
[1] In 2017, the National Bank of the Republic of North Macedonia made a change to the *Survey on Inflation Expectations* renaming it into *Survey on Inflation and Real GDP Expectations*, whose new structure follows the Quarterly Survey of Professional Forecasters, https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/index.en.html, 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 17 to 24 December 2024.

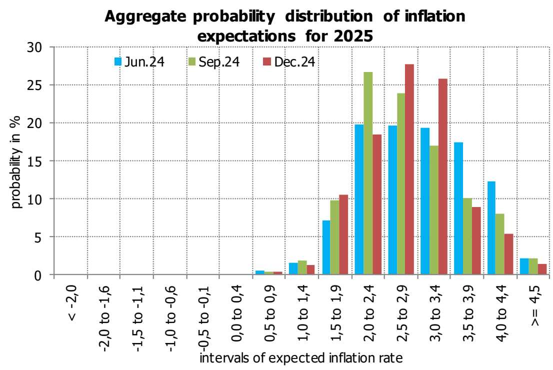
associated with the course of the negotiations with the EU, as a potential limiting factor for the economic growth in the period ahead.

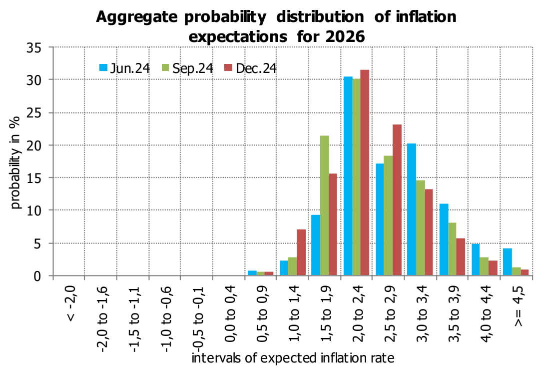




Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates within a given interval**. These assessments are used to make an aggregate probability distribution[3]. The aggregate distribution of probabilities of achieving the given rates 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.

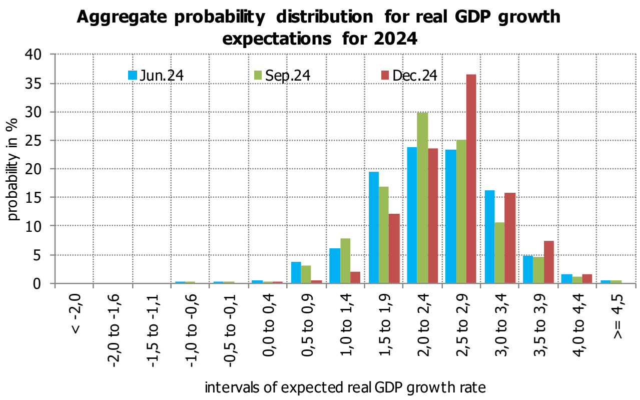


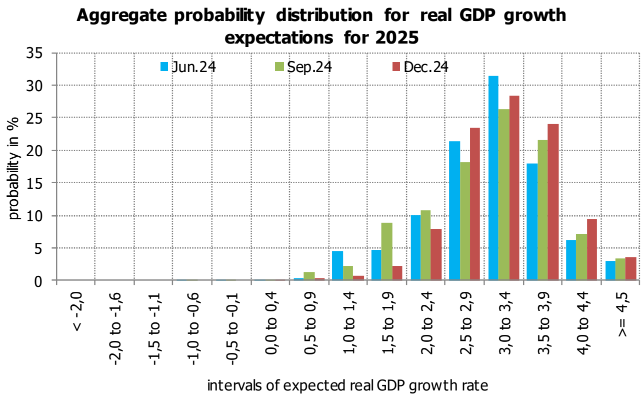


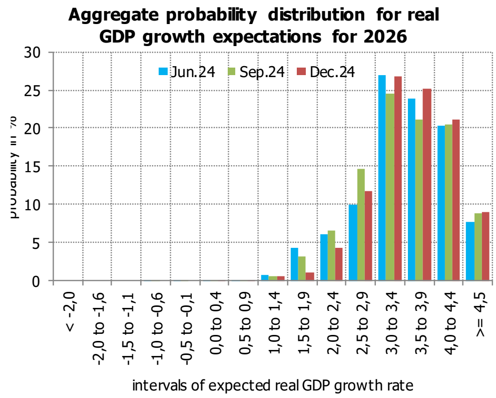


Regarding the expectations for the **inflation rates**, the probability distribution for this and the next two years indicates shifts towards lower intervals and higher concentration in and around the intervals of the expected average rate.

[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.







Regarding the expectations for the **GDP growth rates**, the probability distribution for this and the next two years indicates shifts towards higher intervals and higher concentration in and around the intervals of the expected average rate.