Survey on Inflation and Real GDP Expectations

- December 2022 -

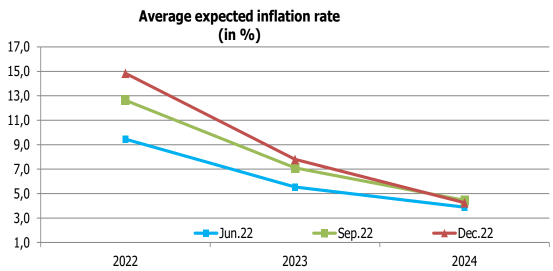
The Survey on Inflation and Real GDP Expectations[1] for the period 2022 - 2024, conducted in December[2], shows a moderate upward revision of the expectations for the average inflation rate for the current and the following year, while in terms of the expectations for the GDP growth, they are mainly similar as in the previous survey. Also in this survey, economic analysts associate such expectations primarily with the effects and the duration of the military conflict in Ukraine and the measures taken to deal with such conflict, and to a lesser extent 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.

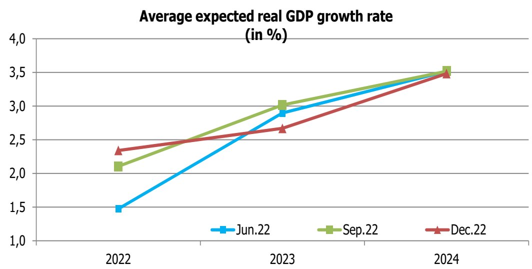
Regarding the **inflation**, the expectations for 2022 point to an average rate of 14.8% and are higher compared to the previous survey (12.6%). For 2023, the respondents expect that the inflation rate will equal 7.8% which is similar to the previous survey (7.1%), while for 2024 the expectations are almost unchanged, i.e. the respondents expect an inflation rate of 4.3% (4.4% 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 prolonged duration of 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 military conflict and the continuation of the imposed sanctions and trade restrictions. The respondents also consider that the return of the functioning to more normal conditions, the recovery from the pandemic and the effects on the consumption, the announced increase in wages and pensions, as well as possible deterioration in the supply of energy and increase in its price in the regulated market, could lead to possible additional inflationary pressures. On the other hand, the measures taken by monetary and fiscal policy makers are expected to partially mitigate the price growth. The respondents still mostly consider that the pressures on inflation are predominantly on the supply side and that they would have some effect also in the following year (especially in the first half of the year), with gradual stabilization and return of the inflation rate close to levels before the pandemic in 2024.

In terms of **economic activity**, this survey does not show any major changes in terms of the expected growth rate, compared to the previous survey. Thus, for the current year, a minor upward revision has been made, whereby the respondents expect economic growth of 2.3%, compared with the growth of 2.1% in the previous survey. For 2023, a small downward revision of the expectations has been made, whereby the respondents expect growth of 2.7% (3% in the previous survey). For 2024, the respondents also in this survey expect growth of 3.5%. Moreover, most of the respondents still expect that the growth in

[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 December 2022.

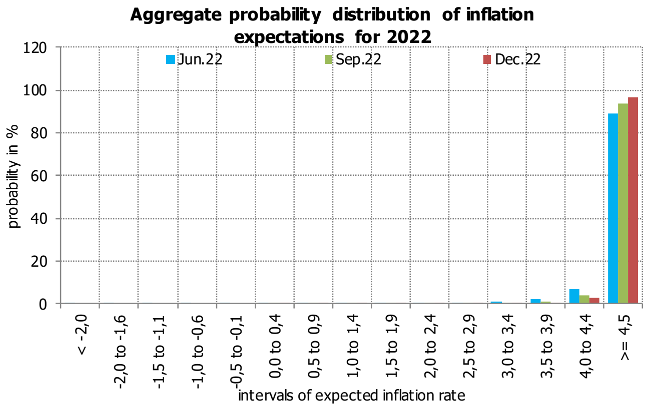
2022 will slow down compared to the previous year, whereby some of the effects will be felt also during 2023, while the reduction in the uncertainty is expected to accelerate the growth in 2024. Regarding the factors, similar to the previous survey, the respondents still associate the growth expectations primarily with the military conflict in Ukraine and the sanctions imposed on Russia, 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, capital and foreign direct investments, given the tightening of the monetary policy globally in order to deal with inflation, would slow down the economic activity. Also, the respondents still point to the uncertainty associated with the future developments with the pandemic, with the domestic political environment, as well as with the course of 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 some of the measures taken by the National Bank through the change in the reserve requirement, as well as the economic measures taken to manage the energy crisis, could contribute to growth of investments in alternative energy sources, which would positively affect the economic growth. In addition, the faster progress of the negotiations for integration into the EU, the return of optimism among economic agents (among consumers and investors), the more efficient implementation of capital projects, as well as the implementation of rehabilitation and rapid economic growth plans and the reforms in the fiscal policy, could have a positive influence on growth and contribute to a faster post-crisis recovery of the economy, in the medium run.

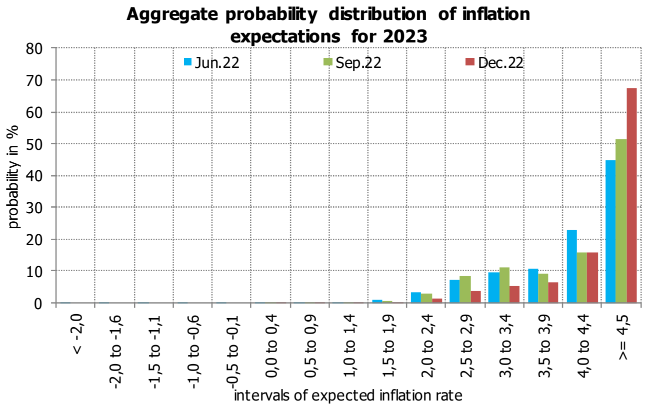


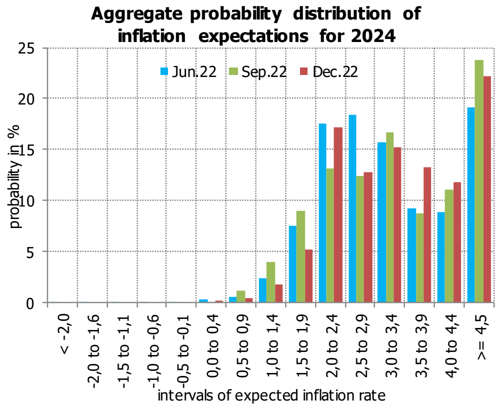


Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates within a given interval**. These assessments are used to make an aggregate probability distribution[3]. The aggregate distribution of probabilities of achieving the given rates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

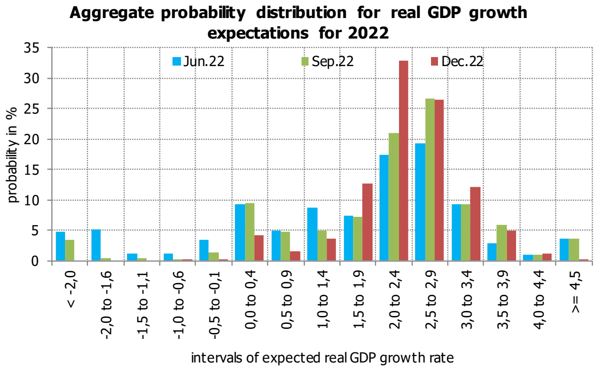
[3] The aggregate probability distribution represents an average of the probabilities assessed by the respondents for each interval of expected inflation rate and GDP growth rate.

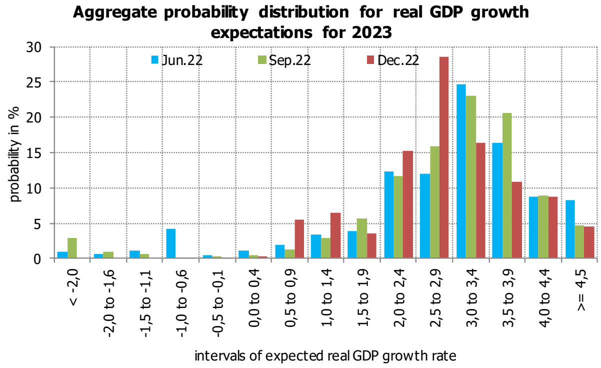


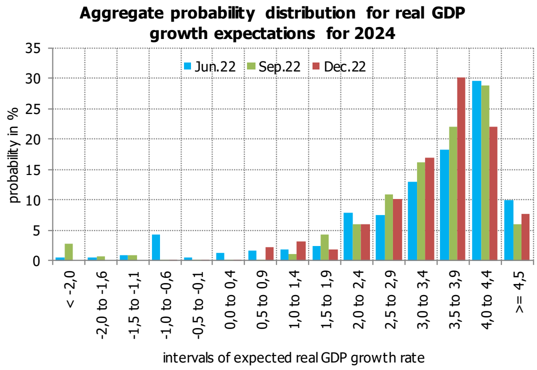




In accordance with the expectations for higher **inflation rates,** compared to the previous survey, the probability distribution for this and for the next two years points to shifts to the intervals with higher values, but also increased concentration in the interval from 2% to 2.4% for 2024.







Regarding the expected **GDP growth rate**, the probability distribution registered increased concentration in the interval of the expected average rate, in all three years.