

Survey on Inflation and Real GDP Expectations

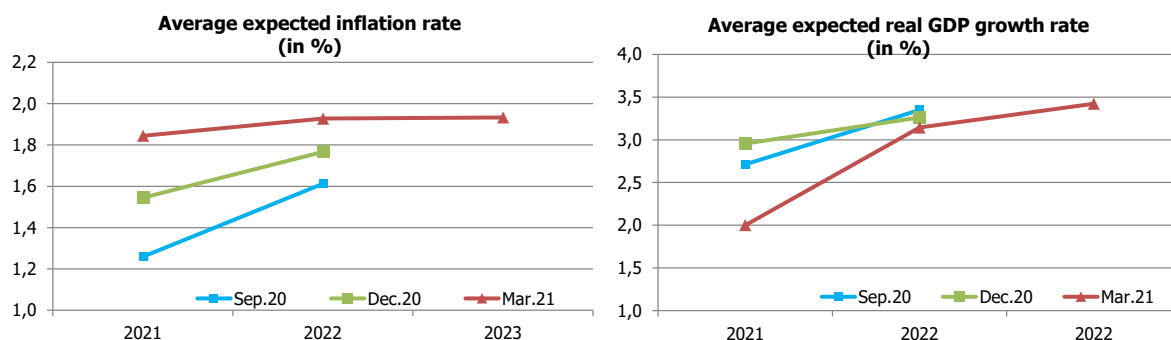
- March 2021 -

The Survey on Inflation and Real GDP Expectations¹ for the period 2021 - 2023, conducted in March², suggests a minor upward revision of the expectations for the average inflation rate, while in terms of the expected GDP growth, it shows a downward revision of the expectations. Thus, as before, economic analysts mainly explain such movements in both the inflation and the GDP, by the developments and effects of the global crisis caused by the COVID-19 pandemic and the measures for dealing with it.

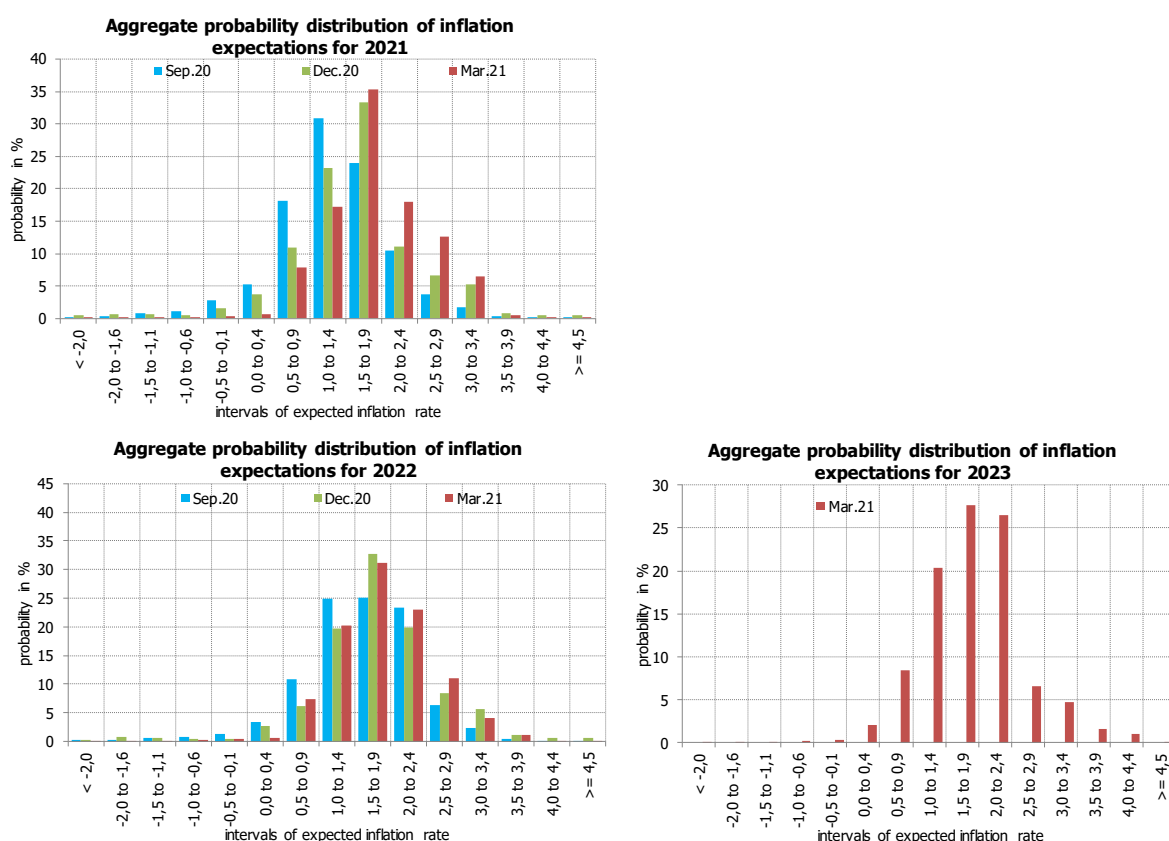
Regarding the **inflation**, the expectations for 2021 and 2022 are minimally higher compared to the previous survey and suggest an average rate in 2021 of 1.8% (1.5% in the previous survey) and 1.9% in 2022 (1.8% in the previous survey), and an inflation rate of 1.9% is also expected in 2023. Respondents explain their inflation expectations by the following factors: the previous performances of the inflation rate, the uncertainty caused by the COVID-19 pandemic, the higher prices of food and energy, as well as the prices of imported goods. In addition, respondents consider that the gradual overcoming of the crisis, the monetary and fiscal stimuluses, the growth of domestic demand, as well as the recovery of the economy, would contribute to a higher inflation growth. On the other hand, the prolongation of the crisis and the reintroduction of restrictive measures for dealing with the virus, and thus increasing the uncertainty and decelerating the recovery of the domestic economy, as well as the possibly lower import prices could lead to a lower inflation rate. Regarding the **economic activity**, the respondents' expectations point to a lower growth in 2021 which will range around 2.0% (as opposed to the growth of 3.0% in the previous survey), for 2022 the expectations are basically similar, at a growth rate of 3.1% (3.3% in the previous survey), while for 2023 the respondents expect a growth rate of 3.3%. Respondents point to the following factors that affect their expectations: the continuation of the negative effects of the COVID-19 pandemic and additional introduction of tougher restrictive measures, the reduction of domestic demand due to the uncertainty arising from the pandemic, the restraint of domestic and foreign investors, as well as the reduced foreign demand for domestic products. On the other hand, analysts expect that the commencement of the vaccination in the country and abroad, as well as faster possible response to the coronavirus globally, monetary and fiscal measures, commencement of the negotiations for integration into the EU and the return of optimism among economic agents (among consumers and investors), as well as the increased implementation of capital projects, will have a positive impact on growth in the coming period and will contribute to faster post-crisis recovery of the economy.

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 from 9 to 16 March 2021, i.e. the respondents' expectations were formed in times of COVID-19 pandemic, as well as monetary and fiscal measures to combat the pandemic and reduce the adverse effects.

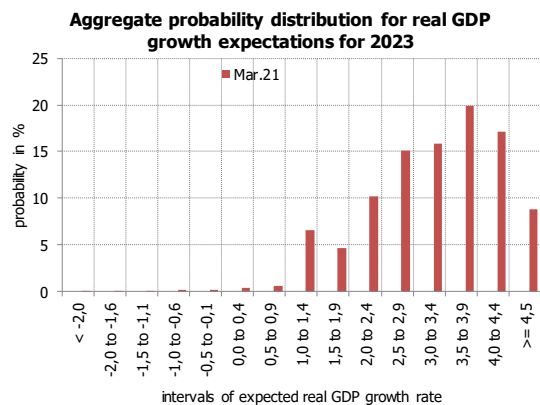
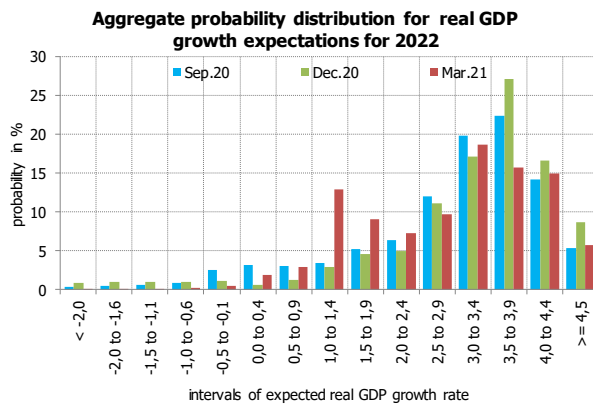
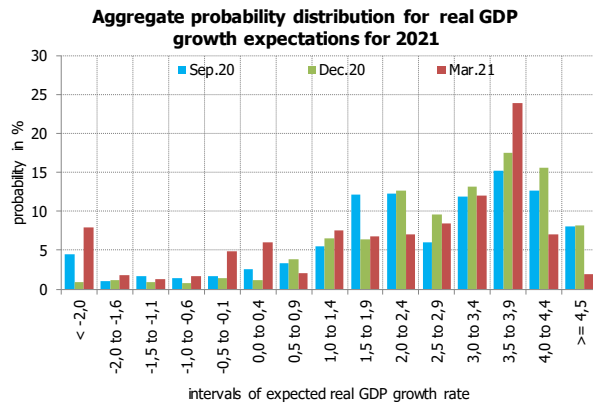


Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates within a given interval**. These assessments are used to make an aggregate probability distribution³. The aggregate distribution of probabilities of achieving the given rates of 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.



In line with **inflation expectations**, as well as the uncertainty of the impact of the global pandemic, compared to the previous survey, the probability distribution for 2021 and 2022 points to small movements to higher ranges, while for all three years, it also points to concentration of probabilities within the range of the expected average inflation rate for each year, respectively.

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 conditions of downward movement relative to the expected **GDP growth rate** for 2021, the shifts in the probability distribution are generally downward, but a higher concentration in the interval from 3.5% to 3.9% is also registered. For 2022, the shifts of the probability distribution are also downward, amid a higher concentration in the interval of the expected GDP growth rate, from 3.0% to 3.4%.