

## Survey on Inflation and Real GDP Expectations

- December 2020 -

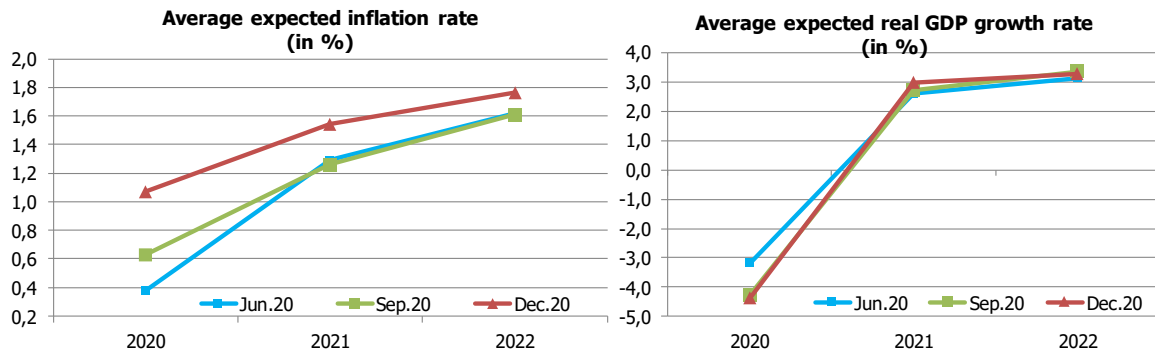
The Survey on Inflation and Real GDP Expectations<sup>1</sup> for the period 2020 - 2022, from December<sup>2</sup>, indicates upward revision of the expectations for the average inflation rate and does not suggest significant changes in the expected GDP growth. Thus, as in previous surveys this year, economic analysts mainly explain these inflation and GDP developments with the developments and effects of the global COVID-19 crisis and the containment measures.

The average **inflation** expectations for 2020 are higher than in the previous survey and point to an average rate of 1.1% (0.6% in the previous survey). Expectations for 2021 and 2022 are slightly higher, with the respondents now expecting inflation of 1.5% in 2021 (1.3% in the previous survey) and 1.8% in 2022 (1.6% in the previous survey). The respondents consider that the following factors would increase inflation rate: current inflation rate, uncertainty caused by the COVID-19 pandemic and current and any future containment measures that could lead to repeated restrictions in the production and supply chains, and thus higher prices of food, energy and imported goods. The respondents expect that in the coming period the inflation will rise with the gradual overcoming of the crisis and recovery of consumption, additionally supported by economic measures. On the other hand, any crisis protraction and slower global economic recovery, and thus lower demand for primary commodities would result in lower import prices and could decrease inflation rates. In terms of **economic activity**, this survey does not show major changes in analysts' expectations compared to the previous survey. Thus, the surveyed analysts still expect similar contraction of the domestic economy in 2020 of 4.4% (4.3% in the previous survey). Gradual stabilization is expected for the next two years, with a slightly higher growth rate of 3.0% for 2021 (upward revision of 0.3 percentage points) and growth of 3.3% for 2022 (minimum downward revision of 0.1 percentage point). Respondents point to the following factors that affect their expectations: uncertainty and adverse COVID-19 effects and reintroduction of restrictive measures to deal with the second wave of COVID-19, uncertainty about the demand for our export products and impact on domestic economy, decline in domestic demand primarily due to greater households restraint from consumption given the reduced income and private transfers from abroad, restraint of foreign and domestic investors, lower lending activity, as well as the public debt that would have a negative impact on capital investments. On the other hand, analysts point out that the approval of the vaccine, faster response to COVID-19 globally, monetary and fiscal measures, progress in Euro-Atlantic integration processes, and return of optimism among economic agents (both consumers and in businesses) and the increased implementation of capital projects, can have a positive impact on growth in the coming period and contribute to post-crisis acceleration of economic growth.

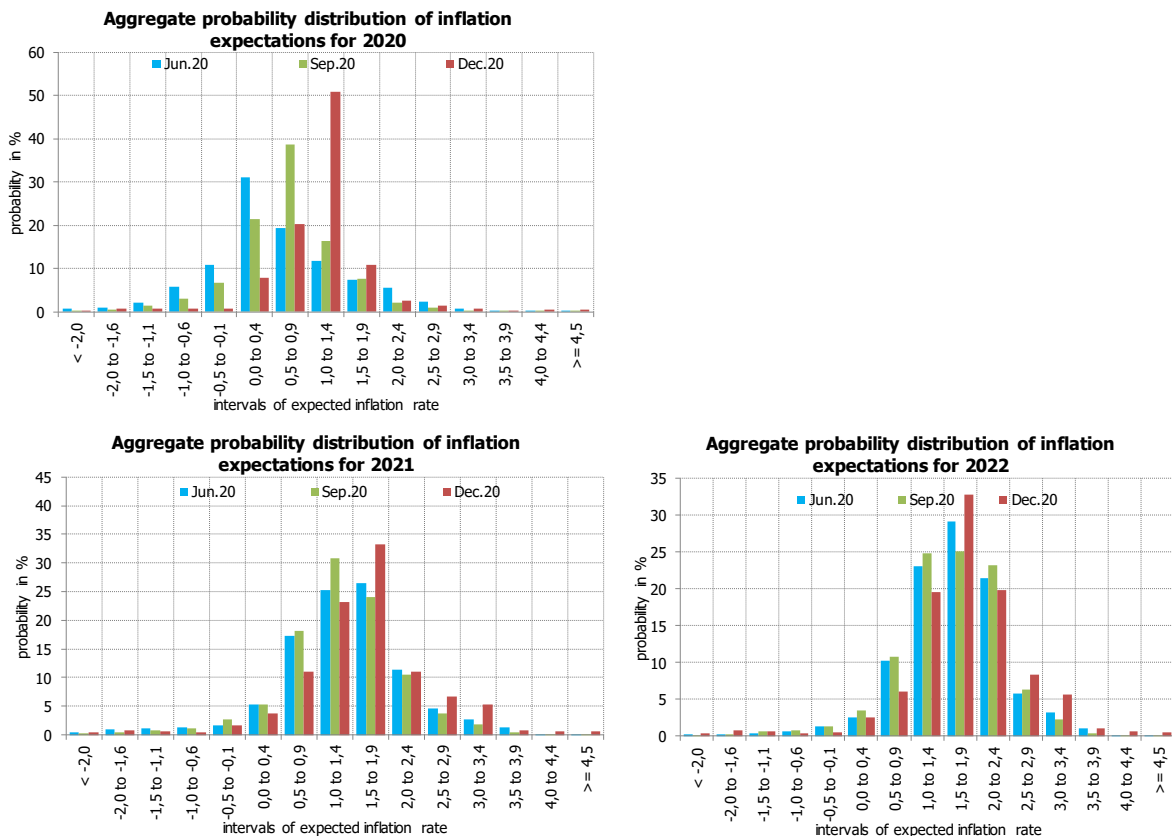
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<sup>1</sup> In 2017, the National Bank of the Republic of North Macedonia made a change to the *Survey on Inflation Expectations* renaming it into *Survey on Inflation and Real GDP Expectations*, whose new structure follows the Quarterly Survey of Professional Forecasters, [https://www.ecb.europa.eu/stats/ecb\\_surveys/survey\\_of\\_professional\\_forecasters/html/index.en.html](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.

<sup>2</sup> The survey was conducted from 15 to 22 December 2020, i.e. the respondents' expectations were formed in times of the second wave of the COVID-19 pandemic, as well as monetary and fiscal measures to combat the pandemic and reduce the adverse effects.

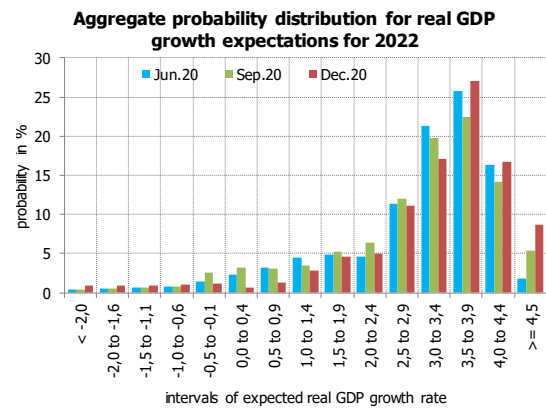
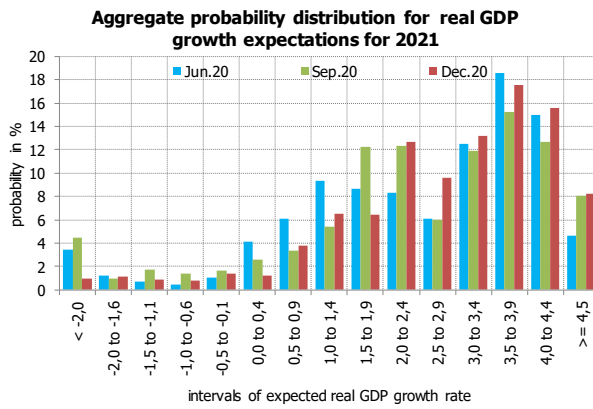
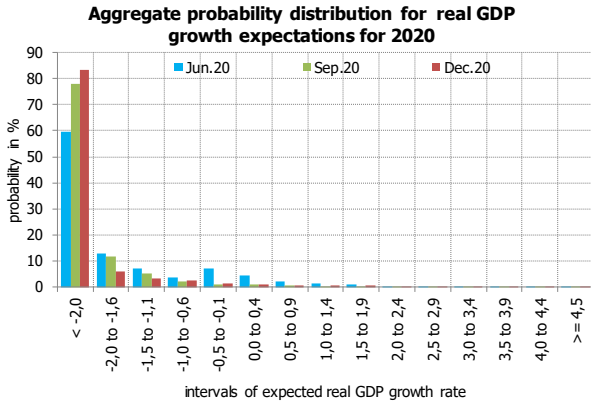


Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates within a given interval**. These assessments are used to make an aggregate probability distribution<sup>3</sup>. The aggregate probability distribution of achieving the given rates of inflation and GDP in fifteen intervals is shown on the charts below, 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 global pandemic effect compared to the previous survey, the probability distribution for this and the next two years points to movement to higher ranges and concentration of probabilities within the range of expected average inflation rate for each year, respectively.

<sup>3</sup> 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 minor change in the expected **GDP growth rate** for 2020, the shifts in the probability distribution are similar to the previous survey with a slightly higher concentration in the intervals of the expected average rate. For 2021 and 2022, the probability distribution is similar to the previous survey, with slightly greater shifts to higher value intervals.