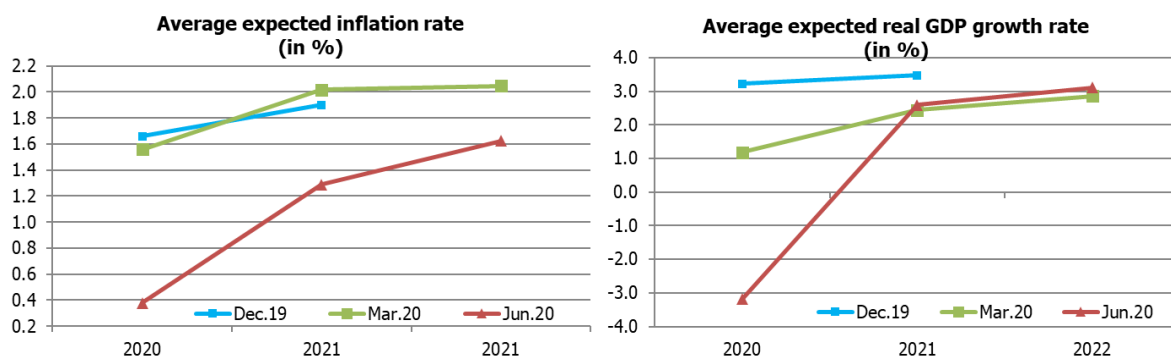


## Survey on Inflation and Real GDP Expectations

- June 2020 -

The Survey on inflation and real GDP<sup>1</sup> expectations for the period 2020-2022, conducted in June<sup>2</sup>, indicates downward revision of expectations compared to the average inflation rate and the expected GDP growth, an adjustment that economic analysts mainly explain by protraction of the effects of the global COVID-19 crisis.

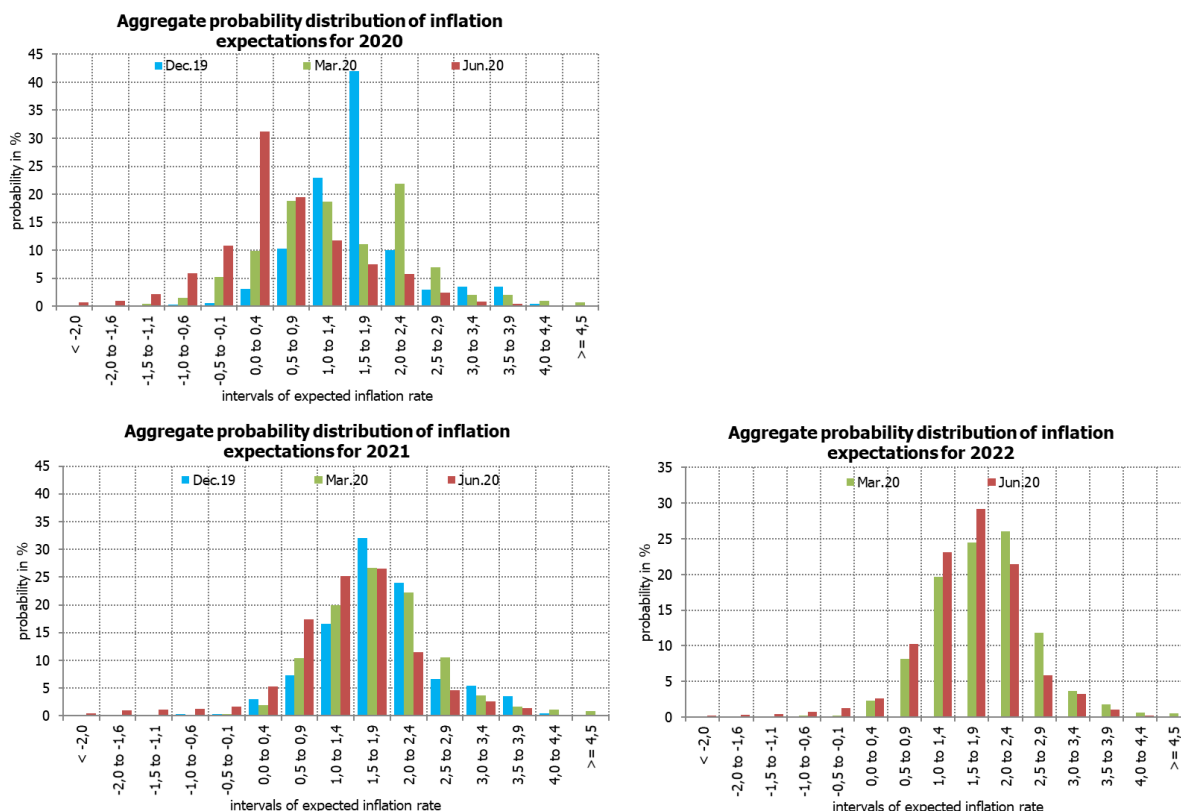
Analyzing **inflation**, the average expectations for 2020, 2021 and 2022 are considerably lower compared to the previous survey and indicate an average rate of 0.4% in 2020, 1.3% for 2021, and 1.6% for 2022 (instead of 1.6% in 2020, 2% for 2021 and 2022). Respondents point to uncertainty and downward risks from the corona crisis protraction, contracted domestic and global economy, low domestic demand and lower import prices of energy and food as inflation reduction factors. In the next two years, respondents expect the gradual overcoming of the crisis and the economic recovery to accelerate inflation. This survey also shows changes in expectations regarding **economic activity**, compared to the previous survey. Thus, instead of growth, the surveyed analysts expect contraction of the domestic economy in 2020, followed by a gradual recovery in the next two years, at a pace similar to the previous survey. Namely, the analysts surveyed expect real GDP decline of 3.2% in 2020 (downward revision of 4.4 percentage points), growth of 2.6% in 2021 (small upward revision of 0.2 percentage points), as well as accelerating growth to 3.1% in 2022 (small upward revision of 0.2 percentage points). Respondents associate such expectations with the uncertainty from the global COVID-19 crisis, uncertain foreign demand and its impact on the domestic economy, declining domestic demand, and uncertainty about this year's parliamentary elections that would shy away domestic investors and decrease lending. On the other hand, analysts expect that the monetary and fiscal measures, political stabilization after the parliamentary elections, the NATO accession, the start of EU accession negotiations, and the resumption of capital road and rail infrastructure projects will have a positive effect in the coming period, contributing to post-crisis acceleration of the economic growth.



<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.

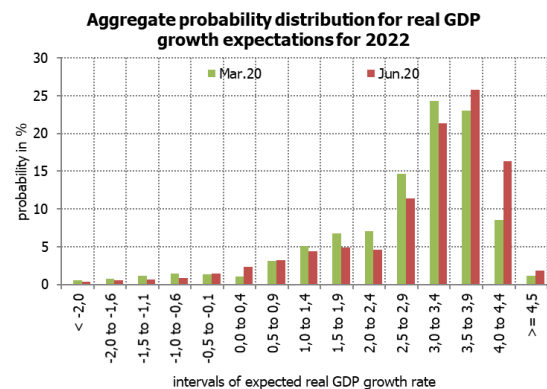
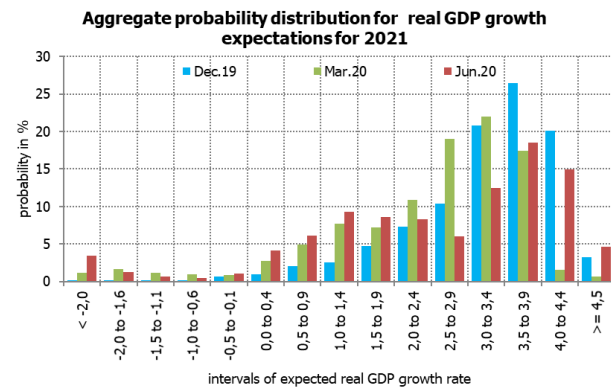
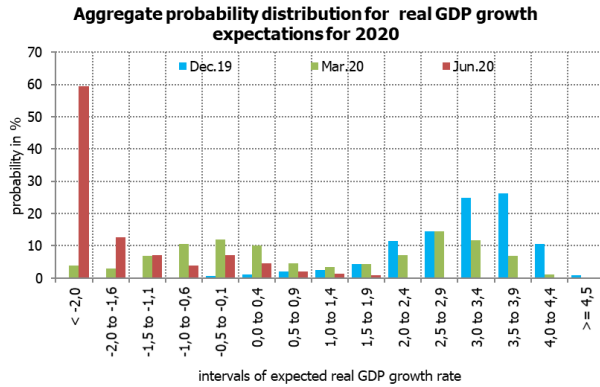
<sup>2</sup> The survey was conducted from 10 to 25 March 2020, i.e. the respondents' expectations were formed in times of COVID-19 pandemic, state of emergency, as well as monetary and fiscal measures to combat the pandemic and reduce the adverse effects.

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 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 2020 points to downward movements and concentration of probabilities within the expected average inflation rate. Furthermore, for 2021 and 2022, the probability distribution is moving downwards and registers increase in probabilities within the average expected rate.

<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.



The comparison of the expectations for the **GDP growth rate** for 2020 with the probability distribution points to more pronounced downward shifts of probabilities in the zone of negative intervals. These shifts are in line with the average expectations for contracted domestic economy of 3.2% in 2020. For 2021 and 2022, amid small upward revision of the expected economic growth, the probabilities distribution indicates some shifts to higher value intervals.