# Survey on Inflation Expectations and Expectations for the Movement of the Real GDP

- March 2018 -

The Survey on Inflation Expectations and Expectations for the Movement of the Real GDP[1] conducted in March indicates no significant changes in the average expected inflation rate. In terms of the expected GDP growth for 2018 and 2019, the current survey shows minor downward revisions of the expectations, an adjustment that economic analysts mainly explain by the stagnation of economic activity in the previous year.

As in the previous survey, economic analysts expect a gradual acceleration in inflation and economic growth in the period 2018 - 2020. Thus, for 2018 and 2019 they expect that the **average inflation rate** will be 1.9%, and then that it will minimally accelerate reaching 2.0% in 2020. Respondents explain the upward path of inflation for the next years by multiple factors such as higher minimum wage, higher excise duty on diesel fuels, increase in the excise duty on cigarettes, liberalization of the electricity market for households, indirect effects of the announced changes in personal income tax and expected growth in the price of oil on the world market. Compared with the previous survey, expectations were almost unchanged. Observing the economic activity, the average expectations for the **real GDP growth** amount to 2.2%, 2.8% and 3.1% for 2018, 2019 and 2020, respectively. Respondents associate the recovery of the activity with the stabilization of the political situation in the country in the second half of 2017, the continuation of the projects related to road infrastructure, the higher growth of private consumption associated with the higher minimum wage and lending, as well as with the expected growth of the confidence of domestic and foreign investors. In terms of the December survey, respondents have slightly weaker expectations for the growth in 2018 and 2019 (by 0.3 and 0.2 percentage points, respectively).


Average expected inflation rate (in %)

Average expected real GDP growth rate (in %)

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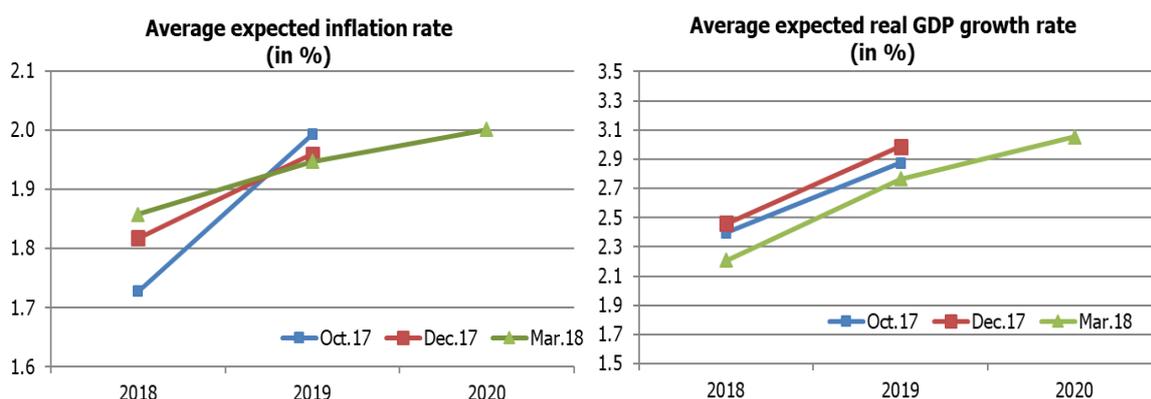
[1] In 2017, the National Bank of the Republic of Macedonia made a change to the "Survey on Inflation Expectations", which is renamed into "Survey on Inflation Expectations and Expectations for the Movement of the Real GDP" and whose new structure follows the Quarterly Survey of Professional Forecasters, https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/index.en.html, conducted by the European Central Bank (ECB), and also changed the structure of the sample, which is now composed only of economic experts.

Besides the expected inflation rate and the GDP growth rate, within the Survey, respondents also give their own view on the **distribution of the likelihood of achieving certain rates in a given interval**. These assessments are used to make the aggregate distribution of the likelihood[2]. The aggregate distribution of the likelihood of achieving the given rates of inflation and GDP in fifteen intervals are shown on the following charts, and the results are mainly in line with the rates expected by the respondents.

Aggregate probability distribution of inflation expectations for 2018

Aggregate probability distribution of inflation expectations for 2019

Aggregate probability distribution of inflation expectations for 2020
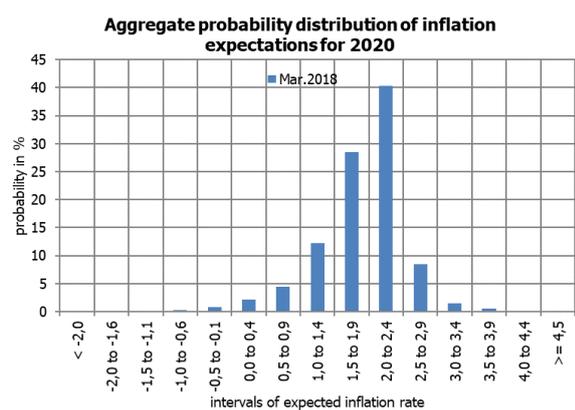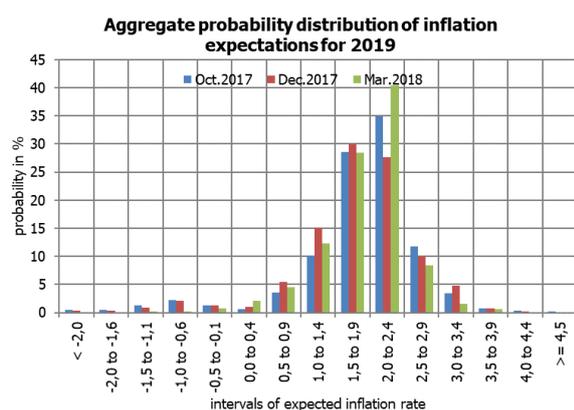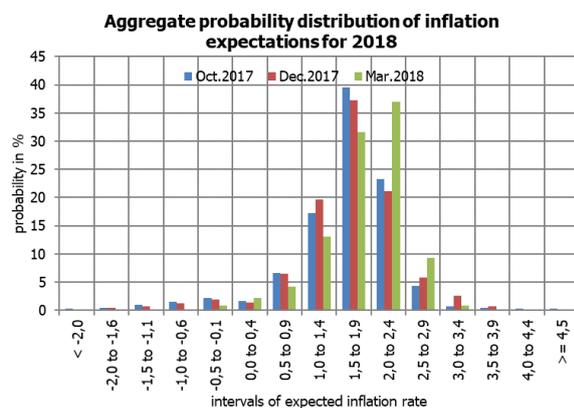
Although the average **expected inflation rate** for 2018 and 2019 does not vary compared to the previous survey, the overview of the distribution, in terms of the average expected rate, suggest a shift in the likelihood to the intervals with higher values. Namely, for 2018 the cumulative likelihood[3] of achieving inflation rate higher than 1.4%, increased (from 68% to 79%, compared to the previous survey), while the likelihood of inflation over 1.9% in 2019 equals 51%, compared to 43% in the previous survey.

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[2] The aggregate distribution of the likelihood represents an average of the estimated likelihood by respondents for each interval of expected inflation rate and GDP growth rate.

[3] The cumulative likelihood is the sum of the average likelihoods by interval, which includes the average likelihood of the analyzed interval and all intervals that follow/precede.

Aggregate probability distribution for real GDP growth expectations for 2018

Aggregate probability distribution for real GDP growth expectations for 2019

Aggregate probability distribution for real GDP growth expectations for 2020
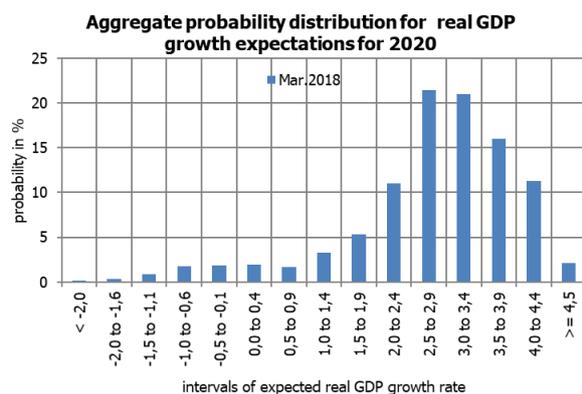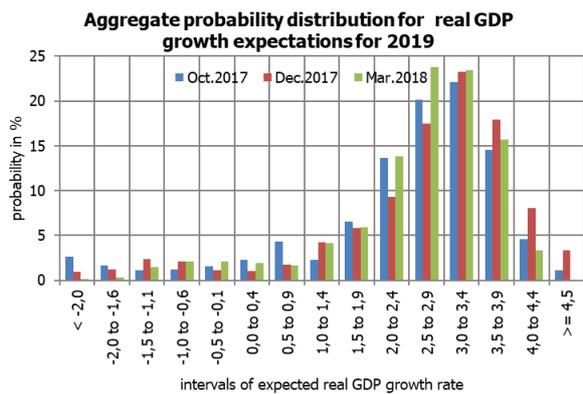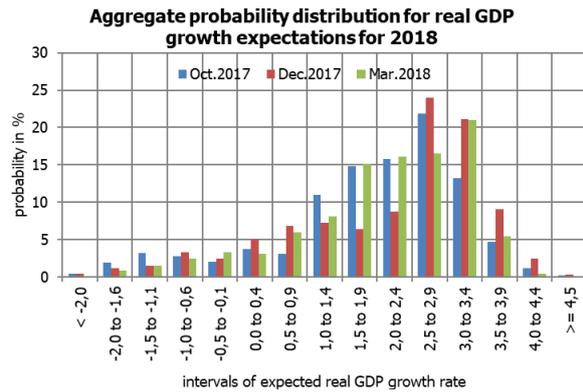
The comparison of the **expected GDP growth rate** with the distribution of the likelihood indicates shifts in a downward direction, which is also consistent with the lower average expected growth rate for 2018 and 2019. Namely, for 2018, the cumulative likelihood of achieving growth higher than 1.9%, reduced (from 66% to 60%, compared to the previous survey), while the likelihood of growth over 2.4% for 2019 equals 66%, compared to 70% in the previous survey.