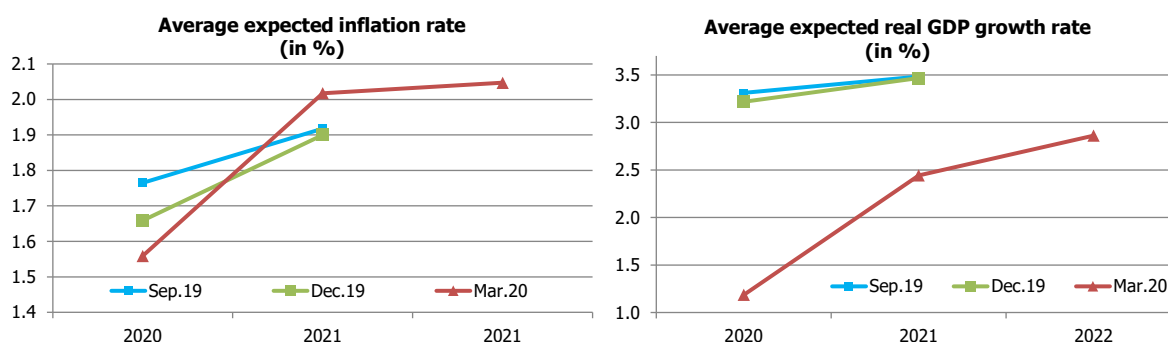


Survey on Inflation Expectations and Expectations for the Real GDP Movement

- March 2020 -

The Survey on inflation expectations and expectations for real GDP¹ movement for the period 2020-2022, conducted in March², does not indicate significant changes in expectations for the average inflation rate, while compared to the expected GDP growth, the Survey shows downward revisions of expectations, an adjustment that economic analysts mainly explain by the effects of the global crisis caused by the COVID-19 pandemic.

Analyzing **inflation**, the average expectations for 2020 and 2021 are basically the same as in the previous survey and indicate an average rate of 1.6% in 2020, 2% for 2021, and about 2.0% for 2022. In terms of **economic activity**, compared to the previous survey, surveyed analysts expect lower real GDP growth in the survey period. Currently, analysts expect growth of 1.2% in 2020 (downward revision of 2.0 percentage points) and growth of 2.4% in 2021 (downward revision of 1.1 percentage point), with expectations for moderate acceleration of the growth rate of 2.9% for 2022. Respondents associate such expectations with the global COVID-19 crisis, uncertain foreign demand and its impact on the domestic economy, declining domestic demand and uncertainty over this year's parliamentary elections that would shy away domestic investors and decrease lending. On the other hand, analysts expect the monetary and fiscal measures, NATO accession, the start of EU accession negotiations and the resumption of capital projects in road and rail infrastructure to have a positive impact on growth in the coming period.

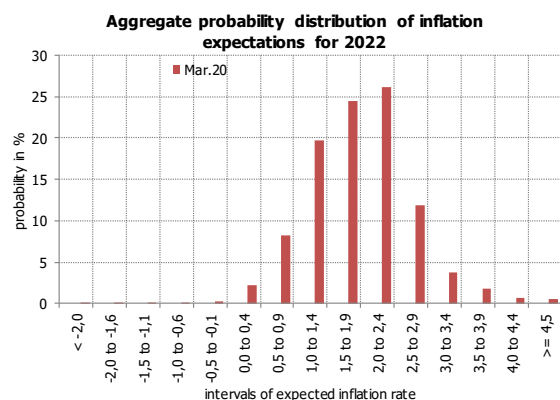
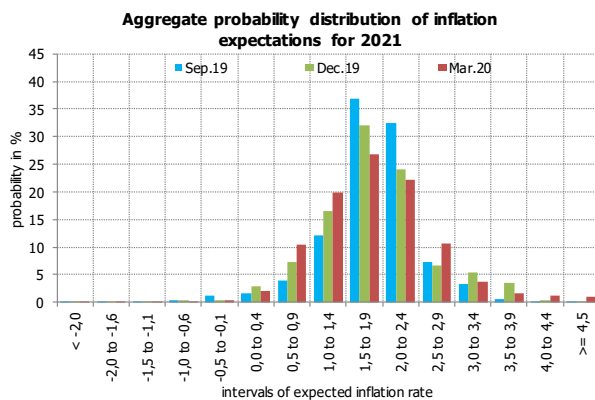
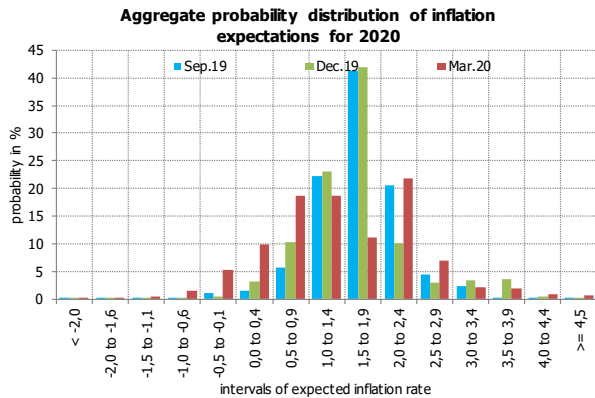


Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates in a given interval**. These assessments are used to make an aggregate probability distribution³. The aggregate distribution of probabilities of achieving the given rates of inflation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

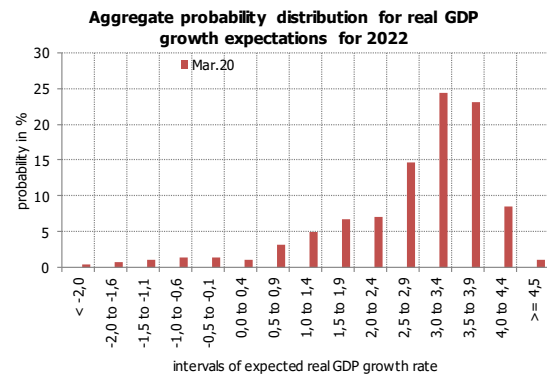
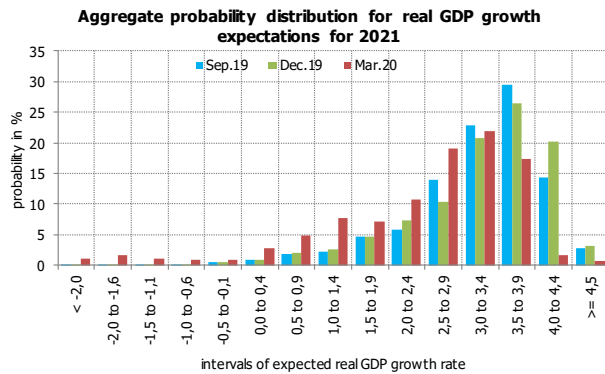
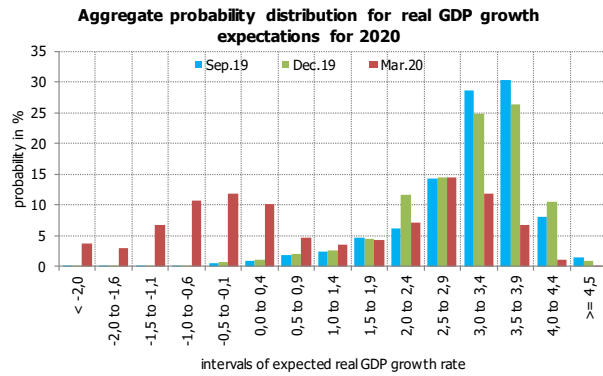
¹ In 2017, the National Bank of the Republic of North Macedonia made changes to the Survey on Inflation Expectations and renamed it into Survey on Inflation Expectations and Expectations for the Real GDP Movement whose new structure follows the Quarterly Survey of Professional Forecasters https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/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.

² 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 in the country, as well as monetary and fiscal measures to combat the pandemic and reduce the adverse effects.

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 **inflation** expectations as well as the uncertainty about the impact of the global pandemic, compared to the previous survey, probability distribution indicates shifts against the central value in both directions, i.e. to higher and lower interval values from the average expected rate for 2020. Respondents pointed to uncertainty and downward risks from the coronavirus crisis, falling oil prices on world stock markets and lower domestic consumption as factors that would help reduce inflation. On the other hand, they support their expectations for high inflationary pressures with the shocks caused by demand and supply, as well as the disrupted trade channels. For 2021, the probability distribution also records a slight shift in both directions relative to the interval of the expected average rate.



The comparison of the expectations for the **GDP growth rate** for 2020 and the probability distribution points to more pronounced shifts of probabilities in a downward direction and even to the zone of negative intervals unlike before. These shifts are in line with the lower average growth expectations for the domestic economy of 1.2% in 2020. For 2021, similar to the downward expectations, probability distribution also indicates shifts to lower value intervals.