

Survey on Inflation and Real GDP Expectations

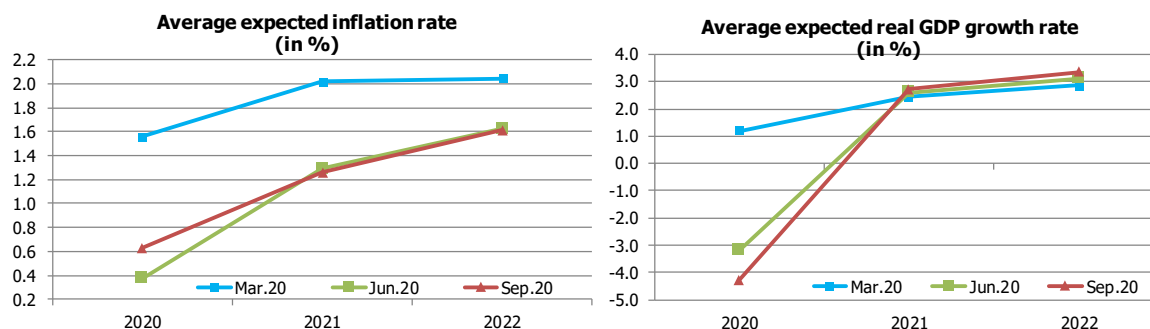
- September 2020 -

The Survey on Inflation and Real GDP Expectations¹ for the period 2020 - 2022, conducted in September², does not suggest significant changes in the expectations for the average inflation rate. Regarding the expected GDP growth, the Survey shows a downward revision for 2020, i.e. expectations for even rougher decline in the economy, an adjustment that economic analysts mainly explain by prolonging the effects of the global crisis caused by the COVID-19 pandemic, and for the coming period there are moderately higher expectations for economic growth.

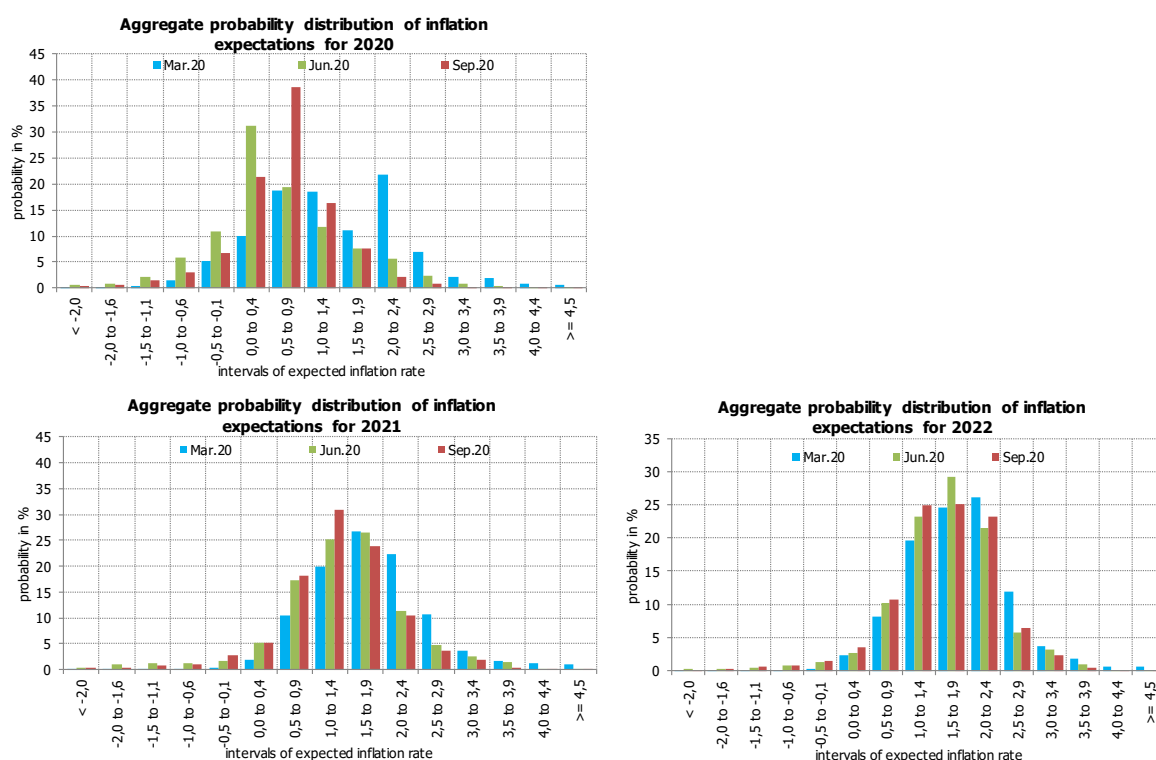
Analyzing **inflation**, the average expectations for 2020, 2021 and 2022 are almost unchanged compared to the previous survey and indicate an average rate of 0.6% in 2020 (0.4% in the previous survey), while for 2021 and 2022 they still indicate average inflation of 1.3% and 1.6%, respectively. Similar to the previous Survey, respondents point to uncertainty and downward risks from the corona crisis protraction, contracted domestic and global economy, low domestic demand and deterioration in the labor market, as well as lower import prices of energy and food as inflation reduction factors. On the other hand, the growth of the prices of apartments, as well as the temporary increase in the prices of goods for which a shortage on the market could appear as a result of the broken global value chains can contribute to increasing the inflation. In the next two years, respondents expect the gradual overcoming of the crisis and the economic recovery to accelerate inflation. In terms of **economic activity**, compared to the previous Survey, the surveyed analysts expect a rough decline in the domestic economy in 2020 of 4.3% (versus the expected fall of 3.2% in the previous survey), but also slightly higher growth in 2021 and 2022 of 2.7% (minor upward revision of 0.1 percentage point) and 3.4% (upward revision of 0.3 percentage points), respectively. Similar to the previous survey, respondents associate such expectations with: the uncertainty arising from the global crisis of the virus COVID-19 and the possibility for introducing new restrictive measures for dealing with such virus, the uncertain foreign demand and its impact on the domestic economy, the reduction of the domestic demand, as well as restraint of foreign and domestic investors and the lower lending activity. On the other hand, analysts expect that the monetary and fiscal measures, the progress in the Euro-Atlantic integrations, the optimism for finding the vaccine that would be effective for dealing with the corona virus, as well as the intensification of the implementation of capital projects in local governments 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.

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 15 to 22 September 2020, 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.

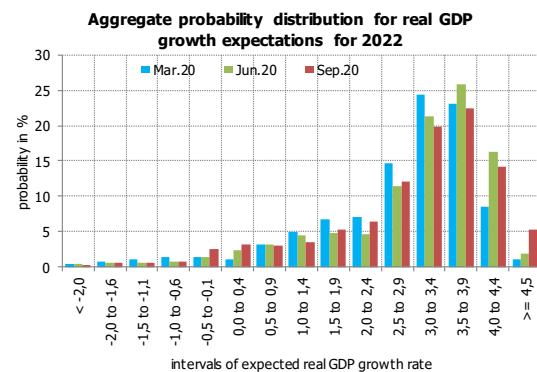
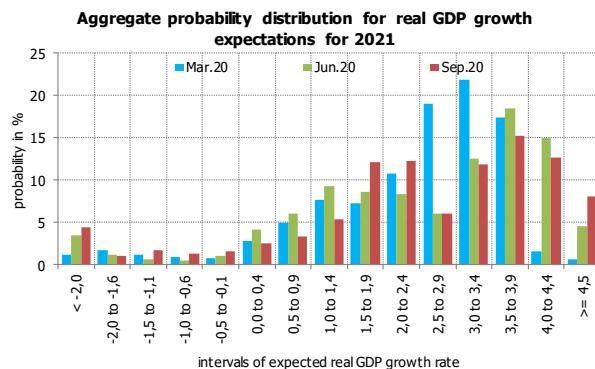
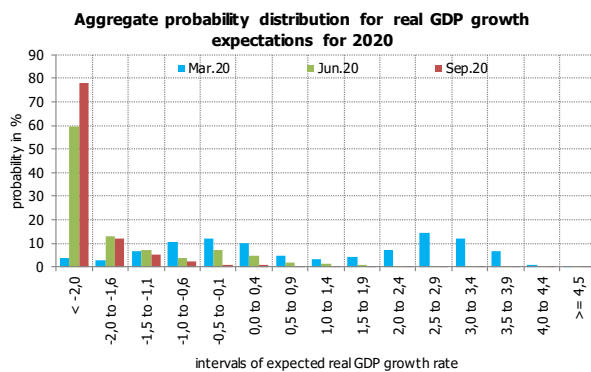


Within the Survey, respondents also give their own view on the **distribution of the probability of achieving certain rates within a given interval**. These assessments are used to make an aggregate probability distribution³. The aggregate distribution of probabilities of achieving the given rates of 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 2020 points to movements and concentration of probabilities within the expected average inflation rate. Amid unchanged expectations with respect to the average inflation rate, for 2021 there is higher concentration of probabilities in the interval of the expected rate compared to the previous survey, while for 2022 the probability distribution registers a slight movement in both directions, and their concentration in and around the interval of expected inflation rate.

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.



The shifts in the probability distribution toward the more negative intervals are also in line with the downward movements in the expected **GDP growth rate** for 2020. For 2021 and 2022, the probability distribution is mainly similar to the previous survey.