

# Macedonia Business Forecast Report Q1 2015

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## Abstracts

### Core Views

A weakened policy-making process in Macedonia will increasingly invite criticism from EU observers, while declining economic activity in Europe will make the benefits of stricter adherence to accession criteria less appealing. This raises uncertainty over policy direction in Macedonia in the medium term and could derail the long-standing convergence process. Economic growth in Macedonia will continue to rise in the near future as domestic demand continues to strengthen. Nevertheless, beyond 2015, real GDP growth will gradually decelerate as the impact of weaker external demand on exports and fixed investment catches up with an otherwise robust economic recovery.

As regional economic weakness is beginning to take its toll on an otherwise resilient German economy, so the outlook for Macedonia's trade account will continue to notably deteriorate over the coming years.

### Major Forecast Changes

We have revised up our real GDP growth forecast for 2014 and 2015 to 3.3% (from 2.7%) and 3.5% (from 2.5%) respectively. We have changed our outlook for Macedonia's current account, now expecting a widening of the shortfall to 2.2% of GDP in 2014 (from 1.9% in 2013), and 3.5% of GDP in 2015. We previously expected a narrowing of the deficit to 1.3% of GDP by 2015.

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A weakened policy-making process in Macedonia will increasingly invite criticism from EU observers, while declining economic activity in Europe will make the benefits of stricter adherence to accession criteria less appealing.

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Unresolved Name Dispute And Ethnic Tensions Pose Long-Term Risks

Stalled progress on Macedonia's EU accession hopes and lingering ethnic tensions remain major challenges to the country's long-term stability. Moreover, we note that a deteriorating demographic picture could pose severe economic challenges and exacerbate ethnic tensions as Macedonian society grows more heterogeneous over the coming decades.

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Economic growth in Macedonia will continue to rise in the near future as domestic demand continues to strengthen. Nevertheless, beyond 2015, real GDP growth will gradually decelerate as the impact of weaker external demand on exports and fixed investment catches up with an otherwise robust economic recovery.

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As regional economic weakness is beginning to take its toll on an otherwise resilient German economy, so the outlook for Macedonia's trade account will continue to notably deteriorate over the coming years. In addition to a weaker export performance, we also see a less positive picture for private transfers into Macedonia, which will lead to further widening of the current account deficit through to 2016.

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Germany's current account peaked at 6.8% of GDP in 2013, but domestic demand will not be strong enough in the coming years to support eurozone rebalancing or a stronger regional recovery. By perpetuating eurozone savings imbalances, impeding a more robust recovery and encouraging investment into low yielding assets,

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