

Macedonia Business Forecast Report Q3 2014

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Abstracts

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Core Views

Heightened political tensions between the government and the centreleft opposition could once again paralyse Macedonia's policy-making process and hurt the country's chances of continued EU integration.

Weak domestic demand, heightened political uncertainty and an increased dependence on core eurozone economic growth will cap the performance of Macedonia's economy over the coming years. Macedonia's economic competitiveness and resurgent European demand will continue to see the current account deficit shrink in the coming years.

Improving economic conditions and a political commitment to fiscal restraint will see Macedonia's budget deficit shrink over the coming years.

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Post-Election Standoff: Another Crisis In The Making

Heightened political tensions between the government and the centre-left opposition could once again paralyse Macedonia's policymaking process and hurt the country's chances of continued EU integration. While a parliamentary walkout by some opposition lawmakers is more likely to hurt the opposition itself, the latest developments have prompted us to lower Macedonia's Short-Term Political Risk Rating to 54.6 from 56.3.

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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 county'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. A lot will depend on whether the government will remain committed to economic and political integration with Europe, which has already driven much of the country's reform progress in recent years.

CHAPTER 2: ECONOMIC OUTLOOK

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Economy Facing Renewed Headwinds Amid Ongoing Recovery

Macedonian economic growth will remain above 2.0% over the coming years as stronger external demand and a gradual recovery in

household spending remain important drivers of growth. However, low confidence and a looming political crisis threaten to derail further EU integration and withhold major foreign direct investment, capping growth potential.

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Macedonia's economic competitiveness and resurgent European demand will continue to see the current account deficit shrink in the coming years. That said, a gradual domestic recovery, which will see imports pick up, and the fragile state of the eurozone economy, mean that the bulk of the economic rebalancing has already occurred, and further current account deficit narrowing will proceed only moderately going forward.

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Improving economic conditions and a political commitment to fiscal restraint will see Macedonia's budget deficit shrink over the coming years. The threat of legislative deadlock poses a risk, but for now we believe that a strengthened mandate for the ruling coalition will ensure policy continuity.

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Assessing The Aftermath Of ECB Policy Action

The European Central Bank (ECB) has delivered on nearly all of the policy options that we were expecting for the June 5 meeting.

This is a step in the right direction for warding off the risk of deflation and will be positive for European equities and sovereign bonds.

However, we warn - as we have done countless times during previous easing rounds - that the efficacy of ECB policy action will be limited absent structural reforms in the eurozone at the national and federal level.

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The Macedonian Economy To 2023

Pursuit Of Continued Reforms Will Support Steady Return To Growth

Macedonia's reformist trajectory looks set to generate solid GDP growth through to 2023 amid steady convergence to EU political and economic standards. Nevertheless, we caution that political uncertainties could yet pose

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