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EC: Macedonia among top five in Europe with largest economic growth

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Macedonian GDF will rise by 3.5 percent in 2016 and 2017, putting the country among the top five in Europe with the largest economic growth, shows the European Commission's Spring Economic Forecast released on Tuesday, MIA reports from Brussels.

Only Ireland (4.9%), Romania (4.2%), Malta (4.1%) and Poland (3.7%) are expected to post a higher growth rate than Macedonia in 2016.

However, the EC cautions thats investment prospects are subject to important downside risks stemming from delayed implementation of public infrastructure projects, and from a continuation of political uncertainty.

Unemployment is expected to drop to 24.7 percent in 2016 and 23.5 percent in 2017.

The EC expects the government debt to rise from 37.9 percent last year to 39.6 percent in 2016, reaching 40.6 percent of the GDF in 2017.

Titled “Risks to domestic demand-led growth are increasing”, the section on Macedonia reads that the economic expansion picked up pace in 2015, supported by household spending, exports, and a sizeable public stimulus. Fiscal discipline disappointed again, even though the government managed to reduce the deficit markedly. The outlook remains optimistic, with domestic demand becoming the sole growth driver over the the forecast horizon, but downside risks have increased.

According to the Commission, GDP growth accelerated in 2015 on better balanced grounds.

“Carried by solid increases in household consumption, a surge in government spending, and a positive contribution from net exports, output growth accelerated to an estimated 3.7% (y-o-y) in 2015, after 3.5% in 2014, according to State Statistical Office. While industrial production, including manufacturing, disappointed, the construction sector continued its robust performance, supported by demand from the government’s public works agenda. Still, gross capital formation remained flat”, reads the forecast.

The EC notes that domestic demand as sole future growth driver is subject to important downside risks.

“The expansion is expected to continue at a slower pace and on a narrower base. Domestic demand is likely to be the sole course of growth, with private consumption providing the biggest contribution in both years, as it benefits from positive wage and employment trends, a benign price environment, and further increases in social transfers and pensions. Yet. consumer spending may be stunted by a slowdown in credit growth to households, in response to central bank prudential measures to curb the increase in consumer loans. Moreover, the growth of net real wages, which have been rising for 20 months in a row, was more subdued recently, as nominal wages increases more slowly. Their dynamic might weaken further on account of the projected increase in inflation”, says the EC.

Private investment spending is expected to pick up on the back of strengthening investor confidence, as the political crisis would abate. Government investment expenditure is likely to increase slightly as a share of GDP in 2016, and to remain at about that level in 2017.

“Investment prospects are, however, subject to important downside risks stemming from delayed implementation of public infrastructure projects, and from a continuation of political uncertainty,” says the EC.

The forecast also says that renewed surge in imports is likely to turn net exports into a drag on growth.

“Short-term external vulnerabilities remained contained in 2015. Weathering a difficult external environment, net exports contributed positively to GDP growth. The trade balance improved on account of slower import growth, supported by lower oil prices, and strong export growth. The current account deficit widened, as the primary balance worsened, but at 1.4% of GDF it remained moderate. Going forward, external balances are projected to deteriorate somewhat, with a negative contribution from net exports to growth in both forecast years. Stronger export growth is likely to be overcompensated by an imports surge, as a large share of inputs for production by foreign companies, accounting for two thirds of the economy’s exports, and for public infrastructure works comes from abroad. In spite of a further increase in the service surplus, the current account deficit would widen, as the goods trade balance deteriorates and transfer inflows drop”, notes the EC>

In addition, the document says employment growth continues, and inflation is set to remain low.

“Employment growth accelerated in 2015 with job creation increasing by 2.3% annual terms - a large share of it taking place in the FDI manufacturing sector and as a result of government-subsidized employment schemes. Employment growth is likely to continue at solid rates, averaging 2.1% over the forecast horizon, yet with little improvement in the structure of new jobs. In spite of further declining labour force, the unemployment rate would continue to drop. Consumer prices decreased again towards the end of the year and beyond, after a temporary rise over the summer. Annual deflation in 2015 amounted to 0.3%, the same as in 2014, mainly on account of a decline in energy-intensive transport services, and in food prices (41% of the index). The price environment is expected to stay benign. Moderate pressures are likely to arise from an unexpected increase in the price of oil and other imported commodities, as well as in food prices, with no pressures expected from the further strengthening of domestic demand", reads he forecast.

According to the EC, fiscal consolidation remains a challenge.

"Budget execution slipped again in 2015, with the general government deficit revised upwards in the summer, by 0.3 pps. This came in spite of marked revenue over-performance in the first half of the year, on account of a surge in profit tax collection after the government reduced exemptions. The 2015 fiscal outcome 3.5% of estimated GDP overshot the original target by 0.2 pps., but was lower by 0.7 ops. compared to the 2014 out-turn. Public finances are likely to further support the economic expansion, with a planned rise in public investment and entitlement spending. It retained the deficit targets for 2016 and 2017, anticipating a drop to 2.9%, but has not specified concrete consolidation measures. The government debt ratio remained stable in 2015, driven by IMF loan repayment and Eurobond issuance. Sustainable stabilisation remains a challenge, as deviations from the fiscal path, or disappointing GDF growth would markedly derail the debt trajectory", concludes the EC in its Spring Economic Forecast for Macedonia.