INTERNATIONAL ECONOMY

09

9.1. Global economic and financial trends

According to the latest IMF estimates (April 2022), the global economy recorded growth of 3.4% in 2022. Advanced economies grew 2.7%, while the growth of developing countries and emerging markets reached 4%. Among advanced economies, growth in the euro area reached 3.5%, that in the USA was 2.1%, and growth of 1% was recorded in Japan. China's slower economic growth of 3% had a significant impact on growth decline in the group of developing economies and emerging markets, and on global growth as well. The growth of economic activity was 2.1% in Russia. It is estimated that the group of European developing countries and emerging markets[92], which includes Montenegro, recorded a growth of 0.8%, against 6.9% in the previous year (table 9.1).

Table 9.1

Overview of selected global indicators, in %

Indicator	2022 estimate	Forecasts		Difference relative to October 2022 projections, percentage points	
		2023	2024	2023	2024
Real GDP growth					
World	3.4	2.8	3.0	0.1	-0.2
Advanced economies	2.7	1.3	1.4	0.2	-0.2
USA	2.1	1.6	1.1	0.6	-0.1
Euro area	3.5	0.8	1.4	0.3	-0.4
Japan	1.1	1.3	1.0	-0.3	-0.3
Developing countries and emerging markets	4.0	3.9	4.2	0.2	-0.1
China	3.0	5.2	4.5	0.8	0.0
India	6.8	5.9	6.3	-0.2	-0.5
Russia	-2.1	0.7	1.3	3.0	-0.2
European developing countries and emerging markets	0.8	1.2	2.5	0.6	0.0
Prices of stock exchange goods, average rate					
Oil	39.2	-24,1	-5.8	-11.2	0.4
Non-energy producing products	7.4	-2.8	-1.0	3.4	-0.3
Consumer prices, average rate					
Advanced economies	7.3	4.7	2.6	0.3	0.2
Developing countries and emerging markets	9,8	8.6	6.5	0.5	1.2

Source: IMF, April 2023

[92] Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Montenegro, Croatia, Kosovo, Hungary, Moldova, Poland, Romania, Russia, North Macedonia, Serbia, Turkey and Ukraine.

In January 2022, the IMF published a global growth forecast for 2023 of 3.8%, but it revised it downwards several times, so the latest growth forecast is 2.8%. The IMF has forecast lower growth in advanced economies in 2023 (1.3%) compared to 2022 (2.7%). At the same time, the growth rate forecast for the euro area economy in 2023 is 0.8%, while it predicts a less pronounced slowdown in the US economy growth (1.6%). According to the same forecasts, the economies of developing and emerging countries will achieve a slightly lower growth rate in 2023 of 3.9%.

These forecasts are based on the assumptions that energy and non-energy prices will be lower in 2023 and that global interest rates will increase further, as announced by the largest central banks. In support of this, the IMF has forecast an average annual drop in oil prices by 24.1% and non-energy prices by 2.8% in 2023. In advanced economies, according to these forecasts, the consumer price growth rate in 2023 will be significantly lower (4.7% compared to 7.3% in 2022), although the inflation rate reduction to the target range is expected only in 2024. In developing and emerging economies, the inflation rate decline is projected to be less pronounced, from 9.8% in 2022 to 8.6% in 2023. The same forecasts show a more significant reduction to 6.5% is expected in 2024 (Table 9.1).

The three key factors that characterised the global economy in 2022 were the activities of most central banks aimed at curbing inflation, the economic consequences related to the situation in Ukraine, and the new wave of the COVID-19 pandemic in China. The IMF lowered its economic growth forecasts in the H1 to raise them for the rest of the year. In 2022, specific problems carried over from the previous period, such as disruptions in supply chains, were partially resolved, which reduced input costs and stimulated growth in many economic sectors. The general price increase was already evident in many countries in early 2022, and the consequences of the situation in Ukraine further increased prices. The most significant impact on the inflation growth was a sharp rise in the prices of energy products, which, however, recorded a substantial drop in H2. China again introduced restrictive measures related to the COVID-19 pandemic spread, which also affected global trade and commodity prices.

Global growth and financial stability outlook in 2023 could be exposed to conflicting factors and risks. On the one hand, higher demand can be established under rising wages, a stable labour market, savings and a more substantial recovery of China's economy. However, these factors may encourage inflation, which may be followed by further monetary policy tightening, which could result in an economic activity decline later.

During 2022, growth forecasts for the euro area for 2022–2023 significantly changed, both those of the IMF and the European Commission. The latest forecasts of the European Commission are somewhat more optimistic, and the growth rate of economic activity in the euro area for 2022 is estimated at 3.5%. During the first three quarters, the economic activity of the euro area recorded positive growth rates, narrowly avoiding the expected contraction in Q4 with a growth rate of 0%. The euro area economy faced aggravating factors in 2022, such as high energy prices for households and the economy, rising base inflation and the consequent monetary policy tightening, i.e. difficult investment and lower consumption given the slower nominal wages growth compared to inflation. The forecasted growth rates of the euro area for 2023 and 2024 are 0.9% and 1.5%, respectively.

After a long series of years of low inflation rates, expansionary monetary policy and low volatility, the global economy faced a turnaround in 2022. The jump in commodity prices further increased the existing inflationary pressure, due to which central banks were faced with the challenge of fighting inflation and ensuring economic recovery amid the pandemic that was still ongoing. Most of the central banks of developed countries have begun to tighten monetary policy, which will continue in 2023, according to the latest expectations. Some monetary authorities tightened their policies significantly more often and to a greater extent than market expectations, which is particularly true of monetary authorities in the USA and the euro area. Inflation peaked in H1 2022, but the full impact of monetary policy on inflation is expected only in 2024. Nevertheless, core inflation in most economies is still rising and is significantly above the pre-pandemic level.

As a result of significant inflationary pressures in late 2021 and early 2022, especially in the largest euro area economies, the implicit direction of the ECB reference rate indicated that financial markets expect it to increase in 2022, which the ECB did in July when it increased all three interest rates by 0.5 pp each, regardless of the previously announced increase of 0.25 pp. This was the first interest rate increase after eleven years. Early this year, the ECB reduced, and later ended the Pandemic Emergency Purchase Programme (PEPP). Rising energy and food prices, recovery of supply chains and demand in general led to price pressures and rising inflation, which the European Central Bank deemed would remain "too high" for a longer period of time. By the end of the year, there were three more interest rate increases, so the interest rate on the main refinancing operations amounted to 2.5% at the year-end. Given that inflation in the euro area was two-digit in October and November, the ECB announced further significant monetary policy tightening in December in order to reduce inflation to 2% in the medium term.

The FED started 2022 with the announced tightening of monetary policy, which significantly intensified over time and resulted in four consecutive increases in the reference interest rate of 0.75 pp on each occasion. At the end of the year, the reference rate ranged between 4.25% and 4.5%, well above the Federal Open Market Committee's initial expectations ranging from 0.75% to 1.0%. The new increases will take into account, among other things, the lag with which monetary policy affects economic activity and inflation, economic and financial trends. In addition, the Fed will continue to reduce its securities holdings according to the adopted balance sheet reduction plan.

As of December 2021, the Bank of England started to increase the reference interest rate. Market expectations in early 2022 indicated that the rate will reach 1.1% by end-2022. However, there were eight interest rate increases during the year, and the rate stood at 3.5% at the year-end, with new increases announced. Moreover, in September, the Bank of England announced temporary and targeted measures for purchasing long-term government bonds due to disruptions in the bond market that threatened to lead to significant consequences for financial stability (a sharp depreciation of the pound and bond prices drop).

Despite the relatively low inflationary pressure compared to other countries, and in order to prevent it, the Swiss National Bank raised its reference rate three times during 2022 to 1%. The Bank of Japan was one of the rare monetary institutions among developed countries whose policy went in the opposite direction, i.e. it continued its expansionary policy of maintaining a low reference interest rate and a target yield range on government debt.

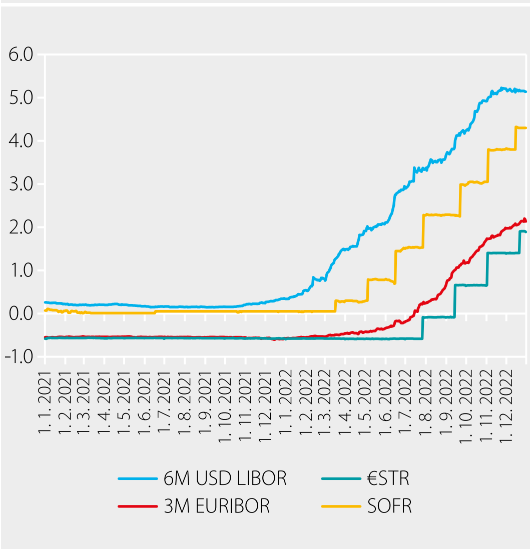
Global financial conditions deteriorated in 2022. Certain developing countries with worse macroeconomic parameters also faced capital outflows. Higher yields and spreads on benchmark bonds made external financing more difficult. Bond markets provided worse financing conditions for many issues than in the pre-pandemic period. Market liquidity deteriorated for many instruments, including some highly liquid, standardised exchange-traded products (lower trading volume, higher bid-ask spreads and higher liquidity premiums). In the coming period, many real estate markets could suffer unfavourable consequences from a more aggressive tightening of monetary policies, higher borrowing costs and tighter credit standards, especially given the long-term rise in real estate prices.

In 2022, short-term market reference interest rates increased several times following the normalisation of monetary policy (graph 9.1). At the end of 2022, the three-month EURIBOR and €STR amounted to 2.13% and 1.89%, respectively, and were 5.7 and 5.2 times higher annually. At the end of the year, SOFR and six-month USD LIBOR were 4.3% and 5.14%, respectively, and were also several times higher annually.

During 2022, the euro nominally depreciated against the US Dollar (-5.9%) and the Swiss Franc (-4.9%), while it appreciated against the Japanese Yen (7.3%) and the British Pound (5.2%) (Graph 9.2). The highest exchange rate fluctuation of the EUR, measured by the variance ratio, was in relation to the USD, YEN and the CHF, while the mildest fluctuation was in relation to the GBP. The euro depreciated against the US dollar from 1.137 to 1.1071, averaging at 1.053 US dollar for 1 euro.

Graph 9.1

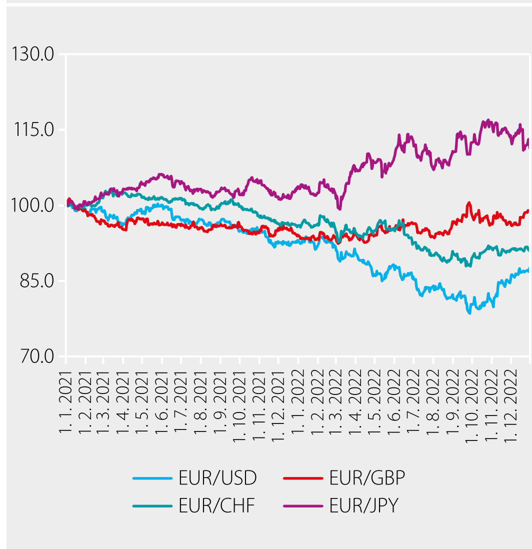
Short-term market interest rates, 2021–2022, in %



Source: Bloomberg

Graph 9.2

Nominal euro exchange rate, 2021–2022, 1 Jan 2021 = 100



Source: Bloomberg, CBCG calculations

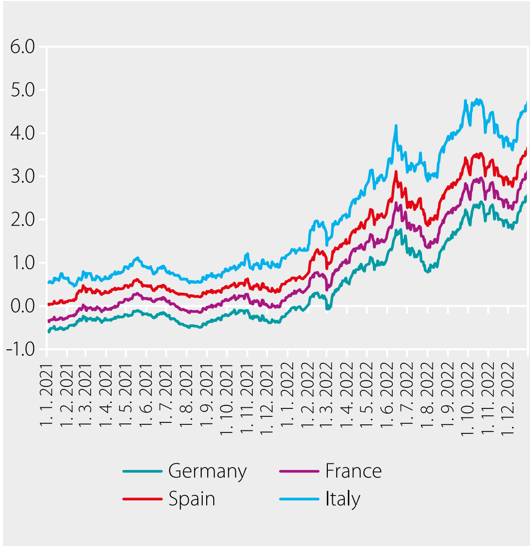
In the multi-year period before 2022, the yields on the debt of many countries were at the lowest levels, not sufficiently reflecting the vulnerability of economies and state finances, as the specificity of monetary policy shaped the yields significantly. With the change in monetary policy, the yields on those countries' bonds achieved significant growth. The average yields on a ten-year debt in 2022 and their annual change for the following selected countries were: France (1.71%, 1.70 pp), Italy (3.13%, 2.34 pp), Germany (1.2%, 1.5 pp) and Spain (2.23%, 1.88 pp). The average yields on British (2.39%) and American (2.95%) government securities trended upwards, recording annual growths of 1.65 pp and 1.52 pp, respectively. Since there were no changes in Japan's monetary policy, yields on public debt did not record major changes (averaging to 0.23% compared to 0.07% in 2021).

Spreads, that is the differences between the yields on the bonds of the largest euro area economies and the yields on the German bonds (Graph 9.3) were "compressed" in 2021, to increase significantly in 2022. Observing the ten-year government bonds, spreads on French, Spanish and Italian debt averaged only 0.51 pp, 1.04 pp and 1.93 pp, respectively (they amounted to 0.32 pp, 0.67 pp and 1.09 pp, respectively).

The volatility and growth of the VIX[93] index reflected the instability in the financial markets, primarily due to geopolitical risks. The average value of the index was 25.8 points, or about a third more than the previous year. Nevertheless, the index ended the year at a lower level, indicating a lower instability in the financial markets at the end of the year. The price of gold, as a specific indicator of stress and risks in the global economy and financial markets, fluctuated significantly during 2022. In Q1, it reached a maximum value of 2,050 USD/oz to fall since then to 1,622 USD/oz.

Graph 9.3

Yields on 10-year government debt in the euro area, 2021-2022, in %



Source: Bloomberg

Stock markets in developed countries were generally down, especially in the first three quarters, when most market indices were at annual lows. Financial markets showed high sensitivity to inflation news. In this regard, the stock markets reacted positively to the data on reducing inflation rates. They anticipated that the central banks would start reducing the reference interest rates earlier despite many of them clearly announcing new increases. In Q4, the key European indices rose in particular. Nevertheless, most indices in the world ended 2022 at a lower value than the year before. The stock market index MSCI for developing and emerging markets fell by 22.4% during the year.

9.2. Euro area

The economic activity in the euro area recorded a 3.5% increase in 2022 following a decline of 5.4% in 2021. According to the European Commission's[94] forecast, the GDP growth rate will be 0.8% in 2023 and 1.6% in 2024 (Table 9.2). All euro area economies (except Estonia) recorded significantly high growth rates, and preliminary data indicate that the four largest economies, Germany, France, Italy and Spain recorded growths in economic activity of 1.8%, 2.6%, 3.7%, and 5.5%, respectively. The highest growth in economic activity was recorded in Ireland (12.05%), Malta (6.9%) and Portugal (6.7%). If the economic growth of the euro area is observed on a quarterly basis, quarterly growth rates during this year were 0.6%, 0.9%, 0.4%, and 0.0%, respectively.

[93] A measure of the expected volatility of the US stock prices.

[94] *European Economic Forecast, Winter 2023, European Commission.*

Industrial output in the euro area increased by 2.3% in 2022, while it recorded an increase of 8.9% in the previous year. Retail trade turnover, measured at the annual rate, recorded a strong recovery in all months of 2022. Construction activity, which recorded growth rate of 5.9% in 2022, increased 2.4% in 2022.

The unemployment rate has been declining since August 2020, when it amounted to 8.6%. In 2021, it fell to 7.0% at the year-end, and additionally to 6.7% in 2022. According to the latest data, the unemployment rate fell to a record 6.5% in March 2023. In the euro area, the unemployment rate was the lowest in Malta (2.9%), Germany (3.0%) and Slovenia (3.4%), and the highest in Spain (13.0%), Greece (11.8%), and Italy (7.9%).

In 2022, the annual inflation rate continued rising sharply. At end-2021, it accelerated to 5.0%, while it reached 9.2% at end-2022. It reached two-digit figures in October and November 2022 of 10.6% and 10.1%, respectively. Observed by countries, the highest inflation was registered in Latvia (20.7%), Lithuania (20.0%), and Estonia (17.5%), and the lowest in Spain (5.5%), Luxembourg (6.2%) and France (6.7%). Observed in terms of the main HICP components, an increase of 13.8% was recorded in the prices of food, alcohol and tobacco, energy generating products` prices rose 25.4%, the prices of industrial products (non-energy producing products) grew 443%; while their respective contributions to total inflation were 2.88, 2.79, 1.70, and 1.83 pp, respectively.

The fiscal deficit was lower in 2022 (3.6% of GDP) compared to the previous year (5.3% of GDP) and observed by quarters it amounted to 4.0%, 2.3%, 4.1% and 4.1%. Five euro area countries recorded fiscal surplus, the highest recorded in Cyprus (2.1%), Ireland (1.6%), and Croatia (0.4%). The largest deficits were recorded in Italy (8.0%), Latvia (7.3%), Malta (5.8%) and Spain (4.8%). Total budget revenues in 2022 decreased by 0.2 pp to 47.1% of GDP, while budget expenditures reduced significantly by 1.9 pp to 50.7% of GDP.

The public debt of the euro area countries decreased from 95.5% of GDP in the previous year to 91.5% of GDP (12.3 thousand billion euros). Greece ran the highest public debt of 171.3%, followed by Italy with 144.4%, and Portugal with 113.9% of GDP. Besides the aforementioned countries, the public debts of Spain, France and Belgium exceeded 100% of GDP. On the other hand, the lowest levels of public debt were recorded by Estonia and Luxembourg of 18.4% and 24.6% of GDP, respectively. The public debts of Latvia, Lithuania, Malta, the Netherlands and Ireland were also below the Maastricht criterion of 60% of GDP. Looking at the financial instruments, the main share of the debt or as much as 81.9% referred to debt securities, followed by loans with 15.1%, while 2.9% were cash and deposits.

Table 9.2

ECB`s macroeconomic projections for the euro area, 2022–2025, in %				
	2022	2023	2024	2025
Real GDP	3.6	1.0	1.6	1.6
Private consumption	4.3	0.7	1.3	1.4
Government spending	1.4	-0.2	1.4	1.4
Gross fixed capital formation	3.7	0.3	1.4	1.8
Exports	7.5	3.4	3.5	3.3
Imports	8.3	3.0	3.0	3.2
Employment	2.2	0.8	0.4	0.3
Unemployment rate, % of labour force	6.7	6.6	6.6	6.6
HICP	8.4	5.3	2.9	2.1
HICP, excluding energy	5.1	5.8	2.7	2.3
HICP, excluding energy and food	3.9	4.6	2.5	2.2
HICP, excluding energy, food, and changes in indirect taxes	3.9	4.6	2.5	2.2
Unit labour costs	3.2	5.1	3.2	2.3
Earnings per employee	4.6	5.3	4.4	3.6
Labour productivity	1.3	0.2	1.2	1.3
General government budget balance, % of GDP	-3.7	-3.4	-2.4	-2.4
Structural fiscal balance, % of GDP	-3.3	-3.3	-2.3	-2.5
Public debt, % of GDP	91.0	89,4	87.7	86.8
Current account balance, % of GDP	-0.8	1.3	2.0	2.5

Source: ECB, March 2023

9.3. Region

According to the Statistical Office of the Republic of **Serbia** data, economic activity in Serbia recorded the year-on-year growth of 2.3%. In Q4 2022, the gross domestic product of Serbia rose 0.4%. Real growth was recorded in the wholesale and retail trade sector[95] (2.8%) and the information and communication sector (7.7%), while a 12.4% decline was recorded in the construction sector. Observed by GDP aggregates as per the expenditure approach of calculation, the final household spending increased by 1.5%, gross fixed capital formation by 2.7%, while visible and invisible exports and imports increased by 12.9% and 6.6%, respectively.

Annual inflation in 2022 trended upwards, amounting to 15.1% in December. Core inflation in December 2022 was 10.1% y-o-y. The reference interest rate increased by 50 bp in October, November and December each, and amounted to 5% at the end-December.

The unemployment rate in 2022 reached 9.4% and it decreased by 1.6 pp year-on-year. The employment rate was 50.3% or 1.7 pp higher than in the same period of the previous year. The average net salary from January to December 2022 achieved a nominal growth of 13.8% and a real growth of 1.7% year-on-year.

[95] Wholesale and retail trade sector and motor vehicles repair, transport and warehousing, and accommodation and food service activities.

The current account recorded a deficit in 2022 of 6.9% of GDP. The fiscal deficit was 3.1% of GDP. The share of central government debt at the end of 2022 was 55.1% of GDP. In June 2022, *Standard and Poor's* changed Serbia's credit rating outlook from positive to stable, while maintaining the BB+ credit rating.

The Agency for Statistics of **Bosnia and Herzegovina** data show that the country's economy recorded a real year-on-year growth of 3.9%. The real growth in Q4 2022 was 1.7% year-on-year. Observed by the GDP components using the production method, the significant year-on-year real growth was recorded in hotel and catering industries (10.6%), and information and communication (9%).

In all Q4 months, inflation recorded positive growth rates, amounting to 14.8% in December this year. The unemployment rate in 2022 was 15.4%, and the employment rate reached 40.2%.

The average monthly net salary in the reporting quarter recorded the year-on-year nominal growth of 14.6%. The share of public debt in GDP amounted to 29.6% at the end of 2022.

Croatia`s economy recorded real annual growth of 6.3% in 2022. The GDP recorded growth in Q4 2022 of 4% year-on-year. Observed by the GDP components using the production method, growth in Q4 2022 was driven by an increase in construction of 2.9% and trade[96] of 6.3%. Observed by the GDP components using the expenditure approach, growth was driven by an increase in final consumption of 2.9%, visible and invisible exports of 14.2% and visible and invisible imports of 14.6%.

Annual inflation trended upwards in 2022, amounting to 13.1% in December. The unemployment rate in December 2022 amounted to 6.8%, being 0.5 pp lower compared year-on-year. The average net salary achieved a nominal growth of 7.4% and a real decline of 3.1 year-on-year.

The Croatian National Bank`s data showed that public debt amounted to 68.4% at end-2022, showing a year-on-year decrease of 10.00 pp.

Table 9.3 shows the key economic indicators by countries in the region for the period 2022 - 2024 presented in the relevant IMF and Eurostat data, whereby data for 2023 and 2024 referred to IMF forecasts.

[96] Trade, transport and warehousing, accommodation, food preparation and service activities.

Table 9.3

Key economic indicators by countries in the region from 2022 – 2024[97]								
		Albania	Bosnia and Herzegovina	Montenegro	Croatia	Kosovo	North Macedonia	Serbia
Real GDP growth, %	2022	3.7	3.8	6.4	6.3	2.7	2.2	2.3
	2023	2.3	2.0	3.2	1.7	3.5	1.4	2.0
	2024	3.3	3.0	3.0	2.3	3.9	3.6	3.0
Inflation, %	2022	7.4	12.6	17.2	12.7	12.2	18.7	15.1
	2023	3.9	5.4	7.0	5.0	2.3	3.9	8.1
	2024	3.0	3.0	3.2	2.5	2.5	2.5	4.0
Unemployment, %	2022	11.1	17.3	---	6.8	---	14.5	9.4
	2023	11.0	17.2	---	6.4	---	14.5	9.2
	2024	11.0	17.2	---	6.0	---	14.5	9.1
General government budget balance, % of GDP	2022	-3.8	1.8	-4.6	-0.9	-0.6	-4.4	-0.1
	2023	-2.7	0.3	-4.7	-2.3	-2.1	-4.6	-0.9
	2024	-2.5	0.2	-5.1	-1.7	-2.1	-3.4	-0.6
Current account, % of GDP	2022	-7.8	-3.9	-13.3	-1.2	-10.8	-6.0	-6.9
	2023	-7.7	-4.3	-11.2	-1.8	-8.4	-4.6	-6.1
	2024	-7.6	-3.6	-11.3	-1.8	-7.4	-3.7	-5.7
GDP per capita, EU 27 = 100	2021	32	33	47	70	---	42	44
Credit rating, S&P	rating	B+	B	B	BBB+	No rating	BB-	BB+
	Outlook	Stable	Stable	Stable	Stable		Stable	Stable

Source: IMF (WEO Database, April 2023); Eurostat; tradingeconomics.com

[97] For indicators 1-5, the data source is the IMF. Eurostat is the source of data for the indicator 6. The source of data for the indicator 7 is *tradingeconomics.com*, where the data refer to the rating assigned by Standard and Poor`s at end-December 2022.