INTERNATIONAL ECONOMY

08

8.1. Global economic and financial trends

The IMF's October forecast of the global economic growth in 2024 remained the same (3.2%), while the 2025 growth forecast was revised slightly downward to 3.2% (table 8.1).

The IMF expects advanced economies to reach a 1.8% growth in 2024. As for the euro area and the USA, this institution expects growths of 0.8% and 2.8%, respectively, which is generally in line with the last year's estimate of economic growth. Emerging market and developing economies are expected to grow at a rate of 4.2%. The IMF also revised downward China's growth forecasts by 0.2 pp for 2024 to 4.8%. The group of emerging and developing Europe (Montenegro included) is expected to grow by 3.2% in 2024, same as in the previous forecast and as estimated for last year.

Table 8.1

Overview of selected global indicators, in %

Indicator	2023 estimate	Forecasts		Difference relative to July 2024 projections, pp	
		2024	2025	2023	2024
Real GDP growth					
World	3.3	3.2	3.2	0.0	-0.1
Advanced economies	1.7	1.8	1.8	0.1	0.0
USA	2.9	2.8	2.2	0.2	0.3
Euro area	0.4	0.8	1.2	-0.1	-0.3
Japan	1.7	0.3	1.1	-0.4	0.1
Emerging Market and Developing Economies	4.4	4.2	4.2	0.0	-0.1
China	5.2	4.8	4.5	-0.2	0.0
India	8.2	7.0	6.5	0.0	0.0
Russia	3.6	3.6	1.3	0.4	-0.2
Emerging and Developing European Economies	3.3	3.2	2.2	0.0	-0.3
Prices of stock exchange goods, average rate					
Oil	-16.4	0.9	-10.4	0.1	-4.4
Non-energy producing products	-5.7	2.9	-0.2	-2.1	1.8
Consumer prices, average rate					
Advanced economies	4.6	2.6	2.0	-0.1	-0.1
Emerging Market and Developing Economies	8.1	7.9	5.9	-0.1	0.0

Source: IMF, October 2024

In Q3 2024, the economic activity in the euro area recorded a growth of 0.4%. Germany, France, Italy, and Spain, as the largest euro area economies, recorded the following rates of growth: 0.1%, 0.4%, 0.0%, and 0.8%, respectively. Compared year-over-year, economic activity in the euro area increased by 0.9% in the reporting quarter.

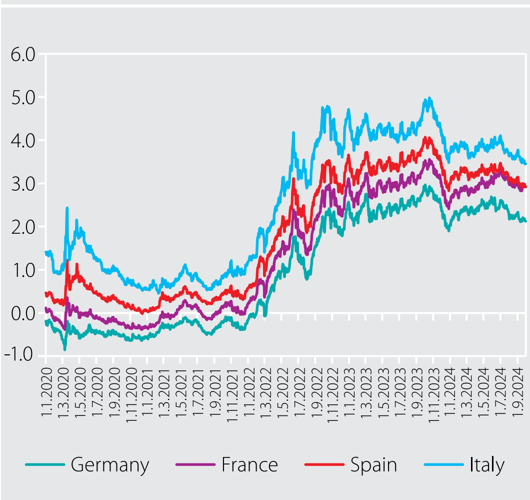
The U.S. economy grew at a more accelerated pace than expected so GDP recorded a 2.8% growth compared to the previous quarter[72]. China's economy recorded a 0.9% growth in the third quarter of 2024.

The ECB once again cut its key interest rate (deposit facility rate) by 0.25 pp to 3.5%. Also, in October (after the reporting period) a decision was made to reduce the rate by additional 0.25 pp to 3.25%. The ECB considered that there was an appropriate moment to ease the monetary policy, based on updated inflation dynamics and outlook, as well as the effectiveness of monetary policy transmission. Domestic price pressures remain strong as the wage growth is elevated, and the ECB expects inflation to rise in the coming months, before gradually falling to its 2% target over the course of the next year. The ECB's monetary policy statement of June 2024 goes on to say that the ECB will keep policy rates sufficiently restrictive for as long as necessary to achieve this target, without pre-committing to a particular rate path.

The Fed continued to act towards achieving its monetary policy objectives, i.e. bringing down inflation to 2%. During the third quarter, the reference interest rate was reduced by 0.5 pp to 4.75% - 5%. Additionally, in November (after the reporting period), the Fed reduced the reference rate by 0.25 pp to the range from 4.5% to 4.75%. The situation on the US labour market, which the Fed carefully monitors when making monetary policy decisions, has generally improved regardless of the unemployment rate has somewhat increased but still remains at a low level. Current market expectations (CME FedWatch) indicate that one more interest rate cut of 0.25 pp is possible by the end of the year.

Graph 8.1

Yields on 10-year government debt in the euro area, January 2020 - September 2024, in %



Source: Bloomberg, CBCG calculations

Ten-year government bond yields of the four largest euro area economies did not experience significant fluctuations in the third quarter of 2024 (graph 8.1). Yields on German, French, Spanish and Italian ten-year government debt declined compared to Q2 and averaged at 2.30%, 3.02%, 3.11% and 3.68%, respectively. Spreads, i.e. the differences between the yields on ten-year government bonds of France, Spain, and Italy and the equivalent German debt amounted to 0.72 pp, 0.81 pp, and 1.38, respectively (graph 8.1). At the end of the reporting period, the yield on the equivalent U.S. debt was higher compared to Q2 and amounted to 3.95%.

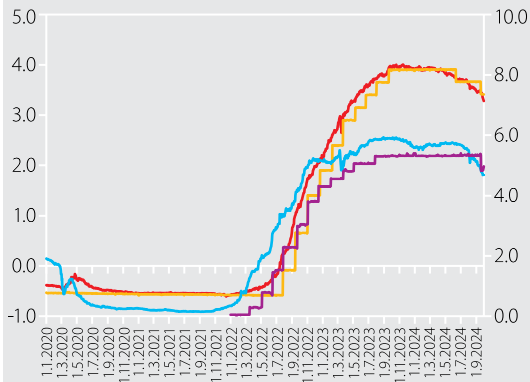
A decline in yields on the European bond market, in addition to statements by certain ECB officials and speeches by the Fed chairman, was also caused by the growing demand for safe assets due to the global decline in stock prices. Yields also fell due to increased expectations of interest rate cuts among leading economies, as well as developments in the US market and all the factors that influenced it (trade volume, stock prices, inflation).

[72] The rate at the annual level - the so-called annualized growth rate.

Short-term market reference interest rates mostly followed the suit of the reference interest rates of central banks (graph 8.2). During the third quarter of the current year, the six-month *LIBOR* ticked down by 1 pp, reaching 4.68% at end-September. The *SOFR* amounted to 4.96% and it dropped by 0.37 pp compared to the second quarter. The 3-month *EURIBOR* also declined, by 0.43 pp, and stood at 3.28% at end-September. *€STR* was slightly lower, by 0.25 pp compared to the second quarter and amounted to 3.41%.

Graph 8.2

Short-term market interest rates, January 2020 - September 2024, in %

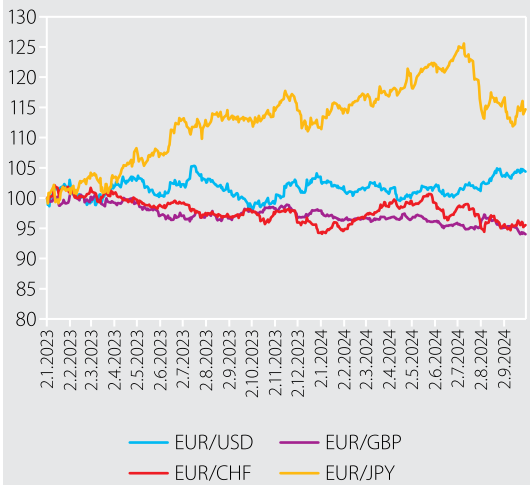


Source: Bloomberg, CBCG calculations

In nominal terms, the euro depreciated against the US dollar (-1.74%), Swiss franc (-2.21%) and Japanese yen (-7.22%), yet appreciated against the British pound (3.94%) (graph 8.3). During the reporting period, the euro moved on average at the level of 1.098 dollars per euro, and at the end of September, the exchange rate was 1.114 dollars per euro. The strengthening of the euro against the dollar during the third quarter can be largely attributed to expectations that the ECB will cut interest rates at a slower pace than the Fed. On the other hand, factors that caused the exchange rate to fall during the reporting period were a slower growth in the German economy, political events in France, and a generally growing divergence in the monetary policies pursued by the ECB and the Fed.

Graph 8.3

Nominal euro exchange rate, January 2023 – September 2024, 1 January 2023 = 100



Source: Bloomberg, CBCG calculations

At the end of the third quarter 2024, the prices of stock commodities were 3.16% lower compared to June this year. The prices of fuel recorded the aggregate decline of 8.38%. Here, the price of oil declined by 14%, while the prices of natural gas and coal increased by 2.86% and 1.73%, respectively. The nonfuel prices rose by 1.21%, whereby food and beverages prices fell by 0.49%, and metal prices rose by 1.98%.

During the reporting period, oil prices generally fell, with minor fluctuations in the middle of the quarter. The downward trend was present throughout most of July, with concerns about Chinese demand being one of the main factors. Increased tensions in the Middle East in mid-August fuelled the price of this energy source. In the remainder of the quarter, although OPEC+ postponed its production increase, the market was dominated by concerns about the global decline in oil demand, which led to a further decline in prices, which reached the lowest level since June last year.

Looking at the VIX[73] index, instability on the financial markets was mildly higher than in the previous quarter, primarily due to greater volatility in early August. The average value of the index in the third quarter was 17.06 points, ranging from 12.03 to as much as 38.57 points, which is also the largest recorded one-day jump in history, exceeding even those from the 2008 financial crisis and the beginning of the COVID-19 pandemic. The main reasons cited are the sudden increase in interest rates by the Bank of Japan and the positioning of exchange-traded funds (ETFs). From the second half of August, the index value quickly returned to the level it had in the previous reporting period and maintained this trend until the end of the third quarter.

The price of gold, as a specific indicator of stress and risks in the global economy and financial markets, was on an upward trend during the reporting quarter, with mild oscillations, reaching new record highs during the time. One of the main reasons for the price increase was the Fed's reduction of the reference interest rate. Also, a decline in the US government bond yields during the third quarter and geopolitical circumstances influenced the growth of demand for safe assets. At the end of the third quarter, the gold price reached $2,634.58/oz.

The global cumulative indices recorded growth during the third quarter, so the New York's *SPX* and London's *FTSE* 100 were at higher levels than they were at the end of the second quarter, by 5.53% and 0.89% respectively. In the same period, the Frankfurt's *DAX* and the pan-European *STOXX* index recorded declines of 5.97% and 2.24% respectively.

8.2. Euro area

In the third quarter of 2024, the economic activity in the euro area recorded a growth of 0.9%. According to the European Commission's[74] forecast, the growth rate will be 0.8% in 2024 and 1.3% in 2025. The four largest economies of the euro area, Germany, France, Italy and Spain recorded the growth rates of -0.3%, 1.2%, 0.4% and 3.4%, respectively. The highest growth in economic activity was recorded in Malta (5.4%), Croatia (4.1%) and Cyprus (3.8%).

In the third quarter of 2024, industrial production and construction activity in the euro area both fell by 0.3%, while retail trade rose by 1% compared to the previous quarter.

The unemployment rate was 6.3% as at end-Q3 2024. In the euro area, the unemployment rate was the lowest in Malta (3%), Germany (3.4%), and the Netherlands (3.7%), while the highest were in Spain (11.2%), Greece (9.4%) and Finland (8.6%).

A downward inflation trend during 2023 continued in 2024, so the inflation rate at the end of the third quarter decreased to 1.7%. Observed by the country, at the end of the second quarter of 2024, inflation was the highest in Belgium (4.3%), the Netherlands (3.3%), and Estonia (3.2%), while the lowest was in Ireland (0.0%), Lithuania (0.4%) and Slovenia and Italy (0.7%). According to the main components of the Harmonized Index of Consumer Prices (HICP), the prices of food, alcohol and tobacco recorded a growth rate of 2.4%, fuel prices rose -6.1%, industrial products (nonfuel) increased by 0.4%, and the prices of services increased 3.9%, while their contributions to total inflation rate amounted to 0.47 pp, 0.60 pp, 0.12 pp, and 1.76 pp, respectively.

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73 A measure of the expected volatility of the US stock prices.

74 *European Economic Forecast, Autumn 2024, European Commission.*

Fiscal deficit amounted to 3%[75] of GDP in Q2 2024. Cyprus, Ireland and Portugal were the only euro area countries that recorded fiscal surpluses of 4.6%, 3.1%, and 2.6% of GDP, respectively. The largest deficits were recorded in Italy (7.2%), France and Belgium (5.1%). Total budget revenues of the euro area declined by 0.6 pp to 45.9% of GDP in 2023, while budget expenses were reduced by 0.5 pp, to 49.5% of GDP.

The public debt of the euro area countries at the end of Q2 2024 reduced to 88.1% of GDP (13.10 trillion euros) from 88.8% of GDP at the end of Q2 2023. Greece ran the highest public debt of 163.6%, followed by Italy with 137%, and France with 112.2% of GDP. Besides the aforementioned countries, the public debts of Belgium, Spain and Portugal exceeded 100% of GDP. On the other hand, the lowest levels of public debt were recorded by Estonia and Luxembourg of 23.8% and 26.8% of GDP, respectively. The public debts of Lithuania, Ireland, the Netherlands, Latvia, and Malta 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 84% referred to debt securities, 13.4% referred to loans, while 2.5% were cash and deposits.

Table 8.2

ECB`s macroeconomic projections for the euro area, 2023–2026, in %

	2023	2024	2025	2026
Real GDP	0.5	0.8	1.3	1.5
Private spending	0.7	0.8	1.4	1.5
Government spending	1.0	1.2	1.1	1.1
Gross fixed capital formation	1.2	-0.5	1.2	2.1
Exports	-0.3	1.2	2.6	3.0
Imports	-1.1	0.0	2.8	3.3
Employment	1.4	0.8	0.4	0.4
Unemployment rate, % of labour force	6.5	6.5	6.5	6.5
HICP	5.4	2.5	2.2	1.9
HICP, excluding energy	6.3	2.9	2.4	2.0
HICP, excluding energy and food	4.9	2.9	2.3	2.0
HICP, excluding energy, food, and changes in indirect taxes	5.0	2.8	2.3	2.0
Unit labour costs	6.2	4.5	2.6	2.1
Earnings per employee	5.3	4.5	3.6	3.2
Labour productivity	-0.9	0.0	0.9	1.1
Government budget balance, % of GDP	-3.6	-3.3	-3.2	-3.0
Structural government budget balance, % of GDP	-3.7	-3.2	-3.2	-3.0
Public debt, % of GDP	88.2	88.5	89.3	89.8
Current account balance, % of GDP	1.5	2.6	2.7	2.7

Source: ECB, September 2024

[75] The latest available data were seasonally and calendar adjusted.

8.3. Region

According to the estimate of the Statistical Office of the Republic of **Serbia**, the economic activity of that country recorded a growth of 3.1% in the third quarter of 2024. Growth in the third quarter was driven by growth in industry and the water supply and wastewater management sector of 3.6% and the information and communication sector of 7.8%. Observed by GDP aggregates as per the expenditure approach of calculation, gross fixed capital formation increased by 9.1%, the final household spending rose 3.9%, government spending increased by 2.6%, while visible and invisible trade increased by 3.2% and 14.4%, respectively.

The annual inflation ricked down in September to 4.2% from 4.3% registered in July and August. The reference interest rate declined in July and September by 25 bp and it amounted to 5.75% at the end of the third quarter of 2024.

The unemployment rate amounted to 8.1% in Q3 2024, being 0.9 pp lower year-on-year. The employment rate was 51.9% or 1.4 pp higher than in the same period in the previous year. The average net earnings in the period January-September 2024 achieved a nominal growth of 14.5% and a real growth of 9.3% year-on-year.

In the third quarter of 2024, the current account recorded a deficit of 10.5% of GDP. The fiscal deficit was 0.2% of GDP. The share of central government debt at the end of Q3 2024 was 46.5% of GDP. In October 2024, *Standard & Poor's* upgraded Serbia's credit rating to investment grade BBB-, with a stable outlook.

According to the data of the Agency for Statistics of **Bosnia and Herzegovina**, the economy of that country achieved a growth of 2.2%[76] in the second quarter of 2024. Observed by the GDP components using the production method, the significant year-on-year real growth was recorded in construction, 8.9%. Observed by GDP categories according to the expenditure approach, household consumption increased by 1.8%, government consumption by 1.9%, gross investment by 9.6%, exports of goods and services by 1.8% and imports of goods and services by 5.2%.

At end-Q3 2024, the annual inflation rate amounted to 0.8%. The unemployment rate in Q2 2024 stood at 13.3% and the employment rate reached 42.5%.

The average monthly net salary in the third quarter of 2024 recorded a nominal growth of 9.5% compared to the same period of the previous year. The share of public debt in GDP amounted to 25.2% at the end of the second quarter of 2024.

Croatia's economy recorded a real annual growth of 3.9% in the third quarter of 2024. Observed according to GDP components as per the production method, growth in the third quarter of 2024 was driven by the growth of construction of 15.9% and agriculture, forestry and fishing of 6.8%. Observed by GDP components using the expenditure approach, growth was driven by an increase in household final consumption of 5.5% and gross fixed capital formation of 9.2%.

Annual inflation during Q3 2024 continued to trend downwards, amounting to 1.6% in September. The unemployment rate amounted to 4.6% in September this year, being 1.2 pp lower year-over-year.

[76] Latest available data.

The average net earnings from January to September 2024 achieved a nominal growth of 15.2% and a real growth of 11.8% year-on-year.

According to data from the Croatian National Bank, at the end of 2023, the general government debt amounted to 61.8% and it declined by 6.7 pp compared to the previous year.

Table 9.3 shows the key economic indicators by the country in the region for the period 2023 - 2025, presented in the relevant documents of the Eurostat (2023) and the IMF (forecasts for 2024 and 2025).

Table 8.3

Key economic indicators by countries in the region from 2023 - 2025[77]

		Albania	Bosnia and Herzegovina	Montenegro	Croatia	Kosovo	North Macedonia	Serbia
Real GDP-growth, %	2023	3.5	1.7	6.0	3.1	3.3	1.0	2.5
	2024	3.3	2.5	3.7	3.4	3.8	2.2	3.9
	2025	3.4	3.0	3.7	2.9	4.0	3.6	4.1
Inflation, %	2023	4.0	2.2	4.3	5.4	2.3	3.6	7.6
	2024	2.1	2.9	4.1	3.3	1.9	3.0	3.9
	2025	2.6	1.6	4.1	2.2	1.9	2.0	3.4
Unemployment, %	2023	10.7	13.2	---	6.2	10.9	13.1	9.4
	2024	10.7	13.2	---	5.6	---	13.0	9.1
	2025	10.7	13.2	---	5.5	---	12.8	9.0
General government budget balance, % of GDP	2023	-1.4	-1.7	0.8	-0.8	-0.2	-4.9	-1.3
	2024	-2.2	-2.5	-3.1	-2.5	-1.3	-5.0	-2.6
	2025	-2.6	-2.5	-4.5	-1.9	-2.1	-4.5	-2.3
Current account, % of GDP	2023	-1.2	-2.8	-11.6	1.1	-7.7	0.7	-2.6
	2024	-0.8	-4.8	-14.5	1.5	-10.0	-2.1	-4.2
	2025	-1.0	-4.9	-14.0	0.9	-9.1	-2.5	-4.8
GDP per capita, EU27 2020 = 100	2023	35	35	52	76	---	41	46
Credit rating, S&P	rating	BB-	B+	B+	A-	no rating	BB-	BB+
	Outlook	Stable	Stable	Stable	Positive		Stable	Positive

Source: IMF (WEO Database, October 2024); Eurostat; tradingeconomics.com

[77] 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 credit ratings assigned by *Standard and Poor`s* at end-September 2024.