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# Nowcast of GDP in the last quarter of 2023 and the inflation in the short term

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Sarajevo, 25. March 2024.



## Nowcast of GDP in the last quarter of 2023 and the inflation in the short term

### *Key notes:*

- *CBBH projects the annual growth of real economic activity in the fourth quarter of 2023 at 1.7%, which is 0.3 basis points higher than the December projection. The correction is, in part, a consequence of the revision of official historical data, but also of the growth of activities in the service sector.*
- *We expect stagnation of economic activity in the first quarter of the current year, as well.*
- *We estimate an annual inflation rate of 2.4% in the first quarter of 2024. According to preliminary estimates, we expect a slight strengthening of inflationary pressures by the end of the first half of the year.*
- *We estimate that core inflation could amount to 4.7% in the first quarter of 2024. The availability of official price weights for 2023 resulted in the revision of core inflation in 2023 to the level of 6.5% (5.9% in the previous press release).*

Based on available official statistical data and information from international markets published until March 14, 2024, the Central Bank of Bosnia and Herzegovina (CBBH) estimates the annual growth of real GDP in the fourth quarter of 2023 at 1.7%. As for the December round of nowcast on the economic activity in the country, we corrected the growth rate upwards by 0.3 percentage points, partly due to the revision of official data, but also due to the growth of activity in the service sector.

Growth of activities in the service sector partially offset the decline in activity in the manufacturing sector in the fourth quarter of last year and in January 2024. Subdued activities in the processing sector are still a consequence of reduced demand in the markets of the countries - our main trading partners. Bearing in mind that in January 2024, industrial production and exports continued with a significant decline in activity on an annual basis, the continuation of modest economic activity in BH is certain in the first quarter. In January, industrial production fell by 6.4% on an annual basis, while the export of goods decreased by around 16%. Consequently, our preliminary estimate is that real GDP growth could remain at the level of 1.7% on an annual basis and in the first quarter of the current year.

Table 1 : Annual Change of the Real GDP in BH

		December nowcast round	March nowcast round
Official data in the time of the Report preparation	Q1 2022	5,7%	5,8%
	Q2 2022	5,6%	5,7%
	Q3 2022	2,9%	3,0%
	Q4 2022	2,5%	2,6%
	Q1 2023	1,7%	1,8%
	Q2 2023	1,2%	1,2%
	Q3 2023		1,9%
		Point estimation from Decembre, 2023.	Point estimation from March, 2023.
CBBH nowcast	Q3 2023	1,5%	
	Q4 2023	1,4%	1,7%
	Q1 2024*		1,7%

Source: BHAS, the CBBH estimates \* First preliminary estimate.

Price pressures began to weaken at the global level already at the end of last year, and in many countries in the EU, inflation projections from the beginning of the year were revised slightly downwards due to the weakening of the pressures of production costs and energy prices. Primarily, the prices of electricity and gas were revised, where the decrease in uncertainty about the supply of these energy sources contributed a lot to their decline, as well as the lower prices during the above-average warm winter. The annual inflation rate in the euro area, measured by the harmonized index of consumer prices (HICP), decreased and amounted to 2.6% in February 2024. The March inflation projection for the euro area has been revised to 2.3%, compared to last year's December projection of 2.7%. However, the risks to inflationary pressures still remain very high, and are related to the war in the Middle East and Ukraine, as well as disruptions in traffic on key trade routes in the Red Sea.

Official inflation in Bosnia and Herzegovina amounted to 2.0% in January. The CBBH estimate of inflation for the first quarter of the current year is 2.4%, and has been revised upwards by 0.4 percentage point compared to last year's December nowcast. In the previous, December inflation projection round, in the short term, we indicated an unexpected slowdown in inflation according to official data, i.e., inflation stagnation in FBH from October 2023. According to official data, a significant price decline was recorded in FBH in the subsection of the utility costs, which includes the prices of electricity, gas and other energy sources. However, already at the beginning of the year, official data indicate a strengthening of inflationary pressures in FBH, compared to the last quarter of the previous year. Average price growth still significantly differs per the Entity. According to data for January of the Entity Agencies of Statistics, the annual inflation of 3.0% was recorded in the Republika Srpska, while price growth of 0.7% was recorded in the Federation of Bosnia and Herzegovina, according to which this inflation rate is still the lowest in the region.

The effect of rising labour costs on inflation is also present, and we expect the effects of a significant increase in the minimum wage in the Republika Srpska on the general price level from the end of the first quarter. Consequently, inflation is still persistent in the services segment. Our estimate is that the core inflation, from which the prices of food, alcoholic beverages and tobacco, and energy products are excluded, will remain at the level of 4.6% in the second quarter of the current year. Persistently high core inflation implies that, currently, domestic prices affect inflation in BH significantly more than the prices of goods on the international market.

Table 2: Annual Inflation in BH for the period

		Headline inflation	Core inflation		
		Point estimation	Previous estimate*	Estimate with new weights*	
Official data/CBBH estimate for the core inflation	Q1 2022.	8,4%	2,4%	2,4%	
	Q2 2022.	14,5%	4,1%	4,1%	
	Q3 2022.	16,9%	5,7%	5,7%	
	Q4 2022.	16,1%	6,0%	6,0%	
	Q1 2023.	12,4%	6,1%	6,7%	
	Q2 2023.	6,4%	6,9%	7,5%	
	Q3 2023.	4,3%	6,1%	6,8%	
	Q4 2023.	2,0%	4,5%	5,2%	
	2023.	6,1%	5,9%	6,5%	
	January 2024.	2,0%		4,8%	
CBBH nowcast	December 2023	Q4 2023.	2,1%	4,6%	
		Q1 2024.	2,0%	4,4%	
		Second half year of 2023	3,2%	5,3%	
	March 2024	Q1 2024.	2,4%		4,7%
		Q2 2024.	2,7%		4,6%
		First half year of 2024	2,6%		4,6%

Source: BHAS, CBBH estimate,

Note: \* The previous estimate is based on price weights from 2022. The weights for 2023 became available in March 2024, and were updated retroactively in the nowcast models.

We plan to publish the next round of the GDP nowcast and headline and core inflations in June 2024. In May, we plan to publish the spring round of medium-term macroeconomic projections. In the meantime, revisions of official statistical data are possible, given that the next publication of official GDP data will include the entire year of 2023. Revisions of official statistics for average consumer price indices are not common.