



Centralna banka  
BOSNE I HERCEGOVINE  
Централна банка  
БОСНЕ И ХЕРЦЕГОВИНЕ



## Fall Round of the CBBH Mid-term Macroeconomic Projections

Sarajevo, November 20th 2023



## Fall Round of the CBBH Mid-term Macroeconomic Projections

The Central Bank kept the projection of economic activity in 2023 unchanged, at the level of 1.6%, while the projection of inflation was corrected downwards, to the level of 6.3%. In the next two years, we expect the recovery of economic activity, and further weakening of inflationary pressures.

### Key notes:

- *In the autumn round of medium-term macroeconomic projections, we publish projections of key macroeconomic variables for the 2023-2025 horizon. In the projection period, we expect mild to moderate growth in economic activity and further weakening of inflationary pressures.*
- *Compared to the May round of medium-term macroeconomic projections (for the period 2023-2024), the expected growth of real GDP is unchanged, and amounts to 1.6%. In 2024, as a result of new information on the weakening of external demand, but also persistent inflation that reduces real household consumption, a slightly lower real economic growth is projected, compared to the May round of projections, to the level of 2.1%. According to the first estimates, the growth of economic activity could be intensified in 2025, at a rate of 3.5%.*
- *In 2023, we project inflation of 6.3%, which is 1.4 percentage points lower than the round of medium-term projections from May 2023, and consistent with the latest nowcasts on the inflation in the short term. We expect a gradual weakening of inflationary pressures until the end of the projection period.*
- *We continue to emphasize that the economy is not in a classic business cycle, and that the estimated values of real GDP, its components, and other macroeconomic variables are exposed to an extremely high degree of uncertainty.*
- *We assess that the risks for inflation above the projected are higher compared to the first round of projections in 2023. Global geopolitical risks put pressure on the prices of energy and other raw materials on the global market. Also, the most of the inflationary pressures are, at the moment, the consequence of the rise in domestic prices, and a further rise in energy and labor prices on the domestic market is also possible.*

The Central Bank of Bosnia and Herzegovina (CBBH) publishes the second round of medium-term projections in 2023. Compared to May 2023, the projections of GDP components have been slightly corrected in the projection horizon, with the fact that in this round we are publishing the first projections for 2025. The previously published spring projections of the CBBH for 2023 amounted to 1.6% for real economic activity, and were unchanged in the autumn round of projections (Table 1 below). We expect that economic activity in Bosnia and Herzegovina could begin to slowly recover in the next two years, with a gradual weakening of inflation.

Tabela 1: Projekcije ključnih makroekonomskih agregata i inflacije

	The second round of projections in 2023; November						The first round of projections in 2023; May				
	Official data in the time of preparation			Projections			Official data in the time of preparation			Projections	
	2020	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024
	Changes at annual level, %										
Real GDP	-2,9	7,3	3,8	1,6	2,1	3,5	-3,3	7,1	4,0	1,6	3,2
Inflation (consumer price index)	-1,1	2,0	14,0	6,3	2,9	2,3	-1,0	2,0	14,0	7,7	2,6
Personal consumption	-3,5	4,2	1,9	1,8	1,7	2,3	-3,5	4,0	4,9	2,5	2,6
Government spending	1,5	2,9	1,3	1,4	1,5	1,0	1,5	2,9	1,5	1,9	1,6
Investment	-8,4	22,7	2,4	7,7	4,6	4,5	-8,5	22,4	12,7	6,9	4,3
Exports	-14,8	24,6	12,0	-2,5	2,7	5,9	-15,8	24,6	23,9	2,7	4,1
Imports	-13,4	20,6	6,2	1,5	3,1	3,6	-13,4	20,5	24,0	5,8	3,1
	GDP%										
Personal consumption	70,9	68,8	67,5	68,5	68,2	67,5	71,2	69,1	69,7	71,2	70,8
Government spending	19,8	18,9	18,5	18,6	18,5	18,1	19,8	19,1	18,6	18,9	18,6
Investment	23,6	27,0	26,6	27,5	28,2	28,5	23,7	27,1	29,3	30,3	30,6
Net export	-14,1	-14,6	-12,8	-14,7	-15,0	-14,1	-14,6	-15,1	-18,1	-20,5	-20,0

Source: BHAS and CBBH (\*Projection of the Office of the Chief Economist). When making the second round of projections in 2023, available official statistical data and information from international markets were used, as of November 3, 2023. When creating the first round of projections, available official statistical data as of the end of 2022, as well as available high-frequency information and data until March 2023, were used.

*The expected growth of real economic activity for 2023 has remained the same*

The projection of growth of economic activity for 2023, at the level of 1.6% is estimated quite modest, having in mind the level of the country's development. A gradual recovery of economic activities is expected during the next two years, with the projected real annual growth rates of 2.1% in 2024 and 3.5% in 2025.

The trends of key macroeconomic variables are the same compared to the spring projections, except for exports. The trend of economic activities of our main trade partners is similar in medium term period, which significantly affects some of the main components of our national accounts, mainly net exports. Short term outlooks for foreign trade are quite weak, and the recovery can be expected from the second half of 2024. The growth of real personal spending, which is the largest macroeconomic aggregate, has been revised downwards from 2.5% to 1.8% for 2023, due to the still high inflation rate, decreased domestic demand, and downward revision of short-term outlooks. Continuing growth of average wages, at a somewhat lower intensity, and decrease of unemployment, is also expected in the projection period, which would support the growth of personal spending, although unfavourable age structure of population and demographic trends are the factors continuously driving back personal spending. Investments have been revised slightly upwards, mainly due to a very high growth rate of investments in the first half of the current year (according to the official data at the moment of preparing the projection, real growth amounted to around 12%). It is expected that real growth of GDP will be increasing from 2024, due to the recovery of domestic and external demand. A moderate growth of real income, in circumstances of continued decrease of inflation, would increase personal spending, while a stronger dynamics of external demand from the next year would strengthen commodity exports. Risks for economic growth are still strong, and they are partly related to dynamics of economic activity trend in the surrounding area.

Inflation for 2023 has been revised downwards, to the level of 6.3%, and it is projected to further slow down within the projection horizon

Inflation measured by consumer price index should continue to slow down, so, after 14% recorded in the previous year, it could slow down to estimated 6,3% in 2023. In the next two years of the projection horizon, we expect further weakening of inflation, to the level of 2.9% in 2024, and

2.3% in 2025. Such expectations show that inflation in short-term period will still be much higher than the average for the period for which the data on consumer prices in BH have been officially compiled. The official inflation in the first nine months of 2023 amounted to 7.6%. Decline of energy prices mainly contributed to the slowdown of headline inflation, according to the trends in the global markets, while the food price growth is still quite strong and contributes significantly to the trend of the headline inflation. A large part of inflation pressures, currently, is a consequence of the growth of local prices, which are not impacted by the growth of prices of food and energy in foreign markets. The category of utility costs has an increasing effect on the local inflation, mainly due to the growth of prices of gas, renting fees and utility costs. Besides, electric energy prices, as the most important sub-category of the overall utility costs in the first nine months of the current year recorded a significant growth (11,7%), while their impact on inflation in the last year was negligible. The growth of electric energy prices, with the present increase of prices of oil and oil derivatives, can additionally increase inflation pressure in the period ahead. Further significant growth of nominal wages could additionally strengthen inflation pressures, but the effect depends on the capacity of profit margins of companies to absorb a possible growth of labour price.

The announcement of the results of the next round of medium term macroeconomic projections, with a possible revision of annual projections of key macroeconomic variables for 2024 and 2025 is planned for May 2024. Nowcasts of economic activities and inflation, which may indicate the direction and intensity of revisions of medium term projections of real GDP and inflation will be announced at the end of each quarter. The first following announcement of nowcasts is planned as early as for December 2023.