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## GDP and the Inflation Nowcasts in the Second Half of 2023

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Sarajevo, 15 December 2023



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### *Key notes:*

- 1. The estimates on economic activity have not changed significantly since September round of GDP nowcast. The annual real GDP growth rate for the third quarter was revised upwards by 0.6 percentage points to 1.5%, partly due to correction in official historical data.*
- 2. Our preliminary estimate of the economic activity strength in the last quarter is 1.4% on an annual basis.*
- 3. According to the medium-term projection of the macroeconomic model in BH from November, the expected growth of real GDP in 2023 is 1.6%, which is very much in line with the current results of the nowcast model for current economic activity.*
- 4. We expect annual inflation to slow down significantly by the end of the year. We estimate that headline inflation could amount to 2.1%, and core inflation to 4.6% in the last quarter of 2023.*
- 5. The preliminary estimate of the headline inflation for the first quarter of 2024 is 2.0%, and of core inflation is 4.4%.*
- 6. Slightly lower currently estimated rate of headline inflation for 2023 (6.1%), compared to those published with the autumn round of medium-term macroeconomic projections (6.3%), is largely a consequence of continued trend of unexpectedly rapid inflation slowdown in relation to previous months.*

On the basis of the available official statistics, and information from international markets published by 08 December 2023, the Central Bank of Bosnia and Herzegovina (CBBH) estimates the annual growth of real economic activity in the third quarter of 2023 at 1.5%. The upward revision of real GDP growth rate by 0.6 percentage points, compared to the preliminary one from the previous round of nowcasting, has been mainly brought about by the revision of official data for the first quarter. Real GDP growth rate for the first quarter has been revised upwards, from 1.1% to 1.7%, with the announcement of official data for the second quarter (in September 2023; see Table 1).

Decline of activities in the manufacturing sector was partly compensated by the growth of activities in the service sector from the third quarter of this year, which is indicated by high frequency data on the basis of which we prepare nowcasts of economic activities. Downward trend of industrial production and exports, at the annual level, continued in October. Activities in the area of tourism were particularly strong in the third quarter, when the number of foreign tourists' overnight stays increased by 22% at the annual level, and by 24.7% in October. Consequently, our preliminary projection is that the real GDP growth could amount to 1.4% at the annual level in the last quarter of the current year.

Table 1: Annual Change of Real GDP in BH

		September round of nowcast	December round of nowcast
Official data in the time of this Report drafting	Q1 2022	5,9%	5,7%
	Q2 2022	5,8%	5,6%
	Q3 2022	2,6%	2,9%
	Q4 2022	1,7%	2,5%
	Q1 2023	1,1%	1,7%
	Q2 2023	n/a	1,2%
		Main projection from September	Main projection form December
CBBH nowcast	Q2 2023	0,8%	
	Q3 2023	0,9%	1,5%
	Q4 2023*		1,4%

Source: BHAS, CBBH projections. \* First preliminary projection.

We currently estimate that headline inflation will amount to 2.1% in the last quarter of 2023, while core inflation will amount to 4.6%. Inflation in BH, currently, is mainly impacted by the changes

in the level of core inflation, excluding the prices of food, alcohol beverages and tobacco, as well as energy sources.

In October, official inflation was 2.1%, representing unexpectedly strong slowdown compared to previous months. The average price growth is significantly different by the Entities. According to the Entities' Statistics Agencies' October data, the annual inflation in Republika Srpska was 3.8%, while price stagnation of 0.1% was recorded in the Federation of BH, this inflation rate thus being by far the lowest one in the region. Despite the high base from the previous year, the key reason for a decline of prices in FBH is due to the sub-category of utility costs, where the prices of electricity, gas and other energy sources, according to official data, declined by 14.5% at the annual level. At the same time, this sub-category recorded a price growth of 4.5% in RS.

Our earlier expectations did not indicate such a strong slowdown of inflation. The average prices did not record a similar decline in international surrounding. In October, the annual inflation rate in the euro area, measured by harmonised index of consumer prices (HICP), decreased, amounting to 2.9%.

Table 2: Annual Inflation in BH, for the period

		Headline inflation	Core inflation	
Official data / projections of core inflation according to official historical data	Q1 2022	8,4%	2,4%	
	Q2 2022	14,5%	4,1%	
	CBBH Q3 2022	16,9%	5,7%	
	Q4 2022	16,1%	6,0%	
	Q1 2023	12,4%	6,1%	
	Q2 2023	6,4%	6,9%	
	Q3 2023	4,3%	6,1%	
	January-October 2023	7,0%	6,2%	
	CBBH nowcast	Q3 2023	4,0%	6,0%
		September 2023	Q4 2023	3,5%
Second half of 2023			3,7%	5,8%
2023			6,4%	6,1%
December 2023		Q4 2023	2,1%	4,6%
		Q1 2024*	2,0%	4,4%
		Second half of 2023	3,2%	5,3%
		2023	6,1%	5,9%

Source: BHAS, CBBH projections. \* First preliminary projection