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Macroeconomic Projections

2022 - 2024

BH economic activity projection in 2022 has been revised upwards,
to the level of 4.1%

Sarajevo, 23 November 2022



Macroeconomic projections 2022 – 2024, November 2022

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Key indicators:

- *In 2022, a 4.1% growth of real economic activity is expected, which is higher by even 1.34 percentage points compared to the projection from May. This is the second round of projections in 2022, so there is a difference compared to the projection from May.*
- *In 2023, a 0.9% real growth rate of GDP is projected, while in 2024, assuming weakening but not complete disappearance of the existing inflationary shocks, the projection of the real GDP growth is at 1.0%.*
- *Inflation is projected at 14.4% in the current year, as well as its slowdown in the following two years. However, we do not expect inflation to return to the several year long average level, recorded prior to 2022, in medium term.*
- *In this round of projections, we stress that economy is not in the standard business cycle, so the estimated values of real GDP, its components, and other macroeconomic variables, are exposed to an exceptionally high degree of*

The Central Bank of Bosnia and Herzegovina (CBBH) publishes the second round of projections of key macroeconomic variables for the period 2022-2024. Compared to the spring round, the projections of the values of all key macroeconomic variables, in this round, have been significantly revised (Table 1 below). Currently, our projection includes a much higher level of economic activity but also that of inflation in 2022.

Tabela 1. Srednjoročne projekcije ključnih makroekonomskih varijabli

	The second round of projections in 2022;					The first round of projections in 2022; May				
	Official data in the moment of preparation		Projections*			Official data in the moment of preparation		Projections*		
	2020.	2021.	2022.	2023.	2024.	2020.	2021.	2022.	2023.	2024.
Changes at annual level, %										
Real GDP	-3,2	7,6	4,1	0,9	1,0	-3,2	7,1	2,8	1,5	2,1
Inflation (Consumer Price Index)	-1,0	2,0	14,4	6,1	3,0	-1,0	2,1	7,7	3,9	2,9
Personal consumption	-3,2	4,6	4,0	-0,5	2,2	-3,2	6,1	0,6	-0,4	-0,1
Government spending	1,4	3,1	4,0	2,0	1,5	1,3	1,2	2,3	0,7	0,6
Investments	-8,5	22,4	14,9	6,9	8,6	-8,4	4,4	7,0	2,5	2,8
Exports	-15,8	24,6	20,7	1,5	5,9	-16,1	42,3	17,1	2,1	6,2
Imports	-13,4	20,5	21,1	2,9	9,4	-13,6	27,0	12,8	0,0	2,9
u % BDP-a										
Personal consumption	71,3	69,3	69,6	68,7	69,7	71,3	70,6	69,2	68,0	66,5
Government spending	19,7	18,8	18,9	19,1	19,1	19,7	18,6	18,5	18,4	18,1
Investments	23,8	27,1	29,3	31,0	33,1	23,9	23,2	24,2	24,4	24,6
Net exports	-14,7	-15,1	-17,8	-18,8	-21,9	-14,7	-12,6	-12,0	-10,8	-9,2

Izvor: BHAS i CBBiH (* Projekcija Ureda vodećeg ekonomiste).

Note: When making the second round of projections in 2022, available official statistical data as of the second quarter of 2022 and available high-frequency information and data until October 2022 were used. When creating the first round of projections in 2022, available official statistical data as of the fourth quarter of 2021, and available information and high-frequency data until mid-April 2022 were used.

Real economic activity growth

According to the current projection (Table 1), a 4.1% growth of real economic activity is expected in 2022, which is higher by even 1.34 percentage points compared to the projection from May. The revision has been mainly based on the already realised economic activity for the first half of the year (a 5.9% growth at the annual level). Official statistics for the first half of the year point out a record high growth of exports in the first half of 2022, investment growth of 24% at the annual level in the same period and the growth of personal spending, despite high inflation. All these factors have resulted in upward revision of the previous projection.

There is a similar economic activity trend with our main trade partners in medium term, which significantly affects some of the main components of national accounts in BH, mainly net exports. In the European Union, a significant slowdown of economic activity is expected in 2023. Consequently, the projection of economic activity in BH in 2023, due to the expected decline of foreign demand, has also been revised downwards to the level of 0.9%. Assuming weakening but not complete disappearance of inflationary pressures in the country, growth of real GDP in 2024 is projected at 1.0%.

Inflation of 14.4% is projected for the current year is projected

The negative risks of an increase in inflation that we indicated in the first round of projections in 2022 have materialized, which we reported in each round of the nowcast on inflation. In the medium term, we expect more persistent inflationary pressures. Inflation of 14.4% in the current year, and the slowdown in the next two years, are projected. However, we do not expect inflation to return to the multi-year average recorded before 2022 in the medium term (Table 1).

Due to inflationary pressure, we expect a significant slowdown in the growth of personal consumption in the coming projection period. Judging by the official data for the first half of the year, the factors that suppress personal consumption, such as the generally low average salary and pension, as well as the unfavorable age structure of the population and demographic trends, have not yet had a dominant impact on personal consumption.

And in this round of projections, we 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. The most significant sources of uncertainty are related to external influences such as the war in Ukraine, which continues to cause strong turbulence in the international energy and food markets. If energy costs decline or demand-side factors weaken in the medium term, this could reduce price pressures.

The publication of the results of the next round of medium-term macroeconomic projections, for the period 2023-2025, with a possible revision of the annual projections of key macroeconomic variables for 2023 and 2024, is planned for May 2023. We will publish the nowcast on economic

activity and inflation, which may indicate the direction and intensity of corrections to medium-term projections of real GDP and inflation, at the end of the quarter.