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Nowcast of real GDP annual change for the fourth quarter of 2022, and inflation in short-term

Inflation will be gradually decreasing throughout 2023

Sarajevo, 21 March 2023



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Key points

- *The CBBH nowcasts annual growth of real economic activity in the fourth quarter of 2022 at 1.7%, expecting the slowdown of the country's economic activity growth from the fourth quarter of 2022.*
- *According to official statistics, consumer price inflation in January 2023 was 14.1%.*
- *Inflation is expected to be increased in the first half of the current year, and gradually decrease throughout 2023. Core inflation estimates indicate that current headline inflation in BH is not high.*
- *Current estimates of quarterly economic activity and inflation in short-term are consistent with the earlier published medium-term annual macroeconomic projections, and the earlier rounds of nowcasts.*

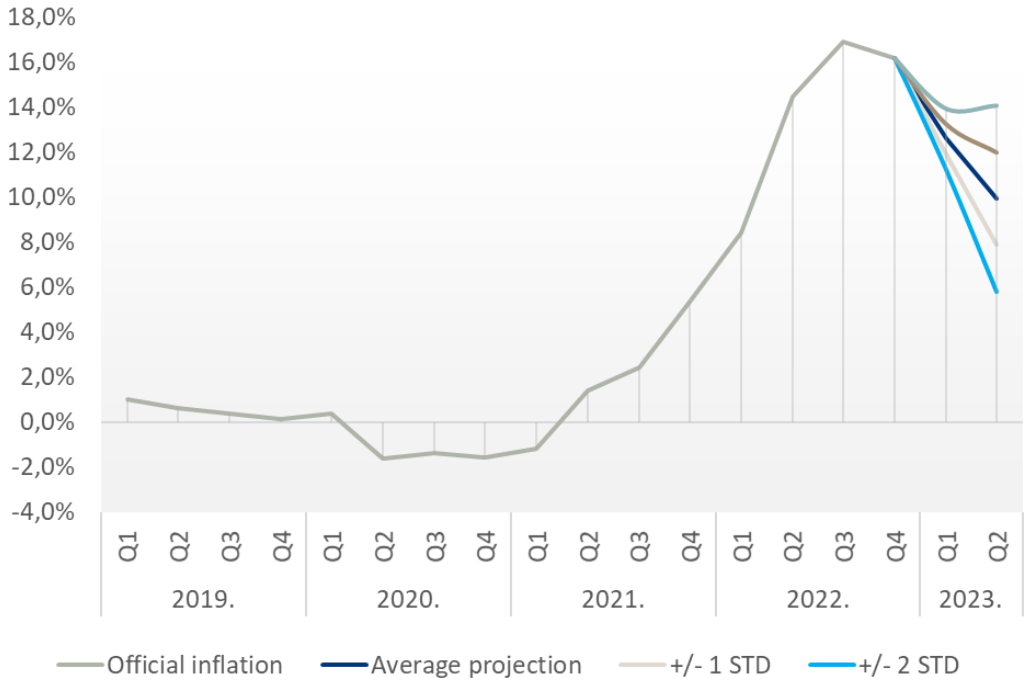
On the basis of available official statistics, and information from international markets published until 10 March 2023, the Central Bank of Bosnia and Herzegovina (the CBBH) estimates the annual growth of real economic activity in the fourth quarter of 2022 at 1.7%. Slowdown of economic activity growth is mainly expected due to the weakening of foreign demand, shown through a decreased number of orders from foreign countries, which is also indicated by industrial production decline, and the continuing high inflation pressures. Such estimate of economic activity in the last quarter results in the expected growth of economic activity in BH of 3.9% in 2022, which is quite harmonised with the GDP projection according to the medium-term macroeconomic model from November 2022 (4.1%).

Our estimates indicate high inflation rates in the first half of the current year. On the basis of the official data from January 2023, and the data on the expected trends of exogenous variables such as oil and food prices, and local and foreign economic activities in the period ahead, we expect annual inflation in the first quarter to be around 12.6%. According to official statistics, consumer price inflation was 14.1% in January 2023. As early as in the following quarter, inflation is expected to slow down, partly also because of the increasing base effect from the previous year. In the period ahead, inflation trend can also be significantly impacted by electric energy price changes in the country.

Estimated core inflation in BH, excluding the prices of food, alcohol beverages and tobacco, and also energy, is also high. In January, the growth of core inflation in BH, at the annual level, was estimated at 9.8%. In the first half of 2023, we expect annual growth of core inflation of 8.6%, implying that headline inflation in BH is not high, only, because of the growth of commodity prices in international markets.

In the period of permanent shocks, estimating trends of economic activity and inflation is quite uncertain, which is shown by each new announcement on macroeconomic projections by the most important international institutions.

Graph 1: Nowcast of inflation in BH



Source: BHAS, CBBiH