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# Spring round of macroeconomic projections for 2023 - 2024

The CBBH expects significantly stronger economic activity in the medium term, compared to the previous round of projections, but also stronger inflationary pressures in 2023

Sarajevo, 31 May 2023



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*Key indicators*

- *In this round of projections, the trends in key macroeconomic variables are unchanged compared to the projections from November 2022.*
- *The projection of the growth of economic activity in BH in 2023 has been corrected slightly upwards, to the level of 1.6%, although it still indicates a significant slowdown in growth, compared to the multi-year average. We currently project real economic growth in 2024 at 3.2%.*
- *In 2023, we project inflation of 7.7%, which is 1.6 percentage points higher than the projection from November 2022. A key reason for the upward revision is the continued rise in food prices and core inflation. Already from the second quarter, 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.*

The Central Bank of Bosnia and Herzegovina (CBBH) publishes projections of key macroeconomic variables for 2023 and 2024. The previously published mid-term projections of the CBBH of key macroeconomic variables (November 2022), for 2022, amounted to 4.1% for real economic activity, and inflation of 14.4% for 2022, were almost equal to the later published official data (real GDP growth of 4%, and inflation of 14%). Compared to the previous round of projections, the values of all key macroeconomic variables have been slightly corrected for 2023 and 2024. We are currently projecting a higher level of economic activity, and the inflation, too, in 2023.

Tabela 1: Projekcije ključnih makroekonomskih agregata i inflacije

	The first round of projections in 2023, May					The second round of projections in 2022; November				
	Official data in time of preparation			Projections*		Official data in time of preparation			Projections*	
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
	Annual level change, %									
Real GDP	-3,3	7,1	4,0	1,6	3,2	-3,2	7,6	4,1	0,9	1,0
Inflation (Consumer Price Index)	-1,0	2,0	14,0	7,7	2,6	-1,0	2,0	14,4	6,1	3,0
Personal consumption	-3,5	4,0	4,9	2,5	2,6	-3,2	4,6	4,0	-0,5	2,2
Government spending	1,5	2,9	1,5	1,9	1,6	1,4	3,1	4,0	2,0	1,5
Investments	-8,5	22,4	12,7	6,9	4,3	-8,5	22,4	14,9	6,9	8,6
Exports	-15,8	24,6	23,9	2,7	4,1	-15,8	24,6	20,7	1,5	5,9
Imports	-13,4	20,5	24,0	5,8	3,1	-13,4	20,5	21,1	2,9	9,4
	u % BDP-a									
Personal consumption	71,2	69,1	69,7	71,2	70,8	71,3	69,3	69,6	68,7	69,7
Government spending	19,8	19,1	18,6	18,9	18,6	19,7	18,8	18,9	19,1	19,1
Investments	23,7	27,1	29,3	30,3	30,6	23,8	27,1	29,3	31,0	33,1
Net exports	-14,6	-15,1	-18,1	-20,5	-20,0	-14,7	-15,1	-17,8	-18,8	-21,9

Source: BHAS and CBBH (\* Projection of the Chief Economist Office). When creating the first round of projections in 2023, available official statistics as of the end of 2022, and available information and high-frequency data until March 2023 were used. When preparing the second round of projections in 2022, available official statistics as of the second quarter of 2022, and available information and high-frequency data until mid-October 2022 were used.

### Projected economic activity is stronger compared to projections from 2022, but still modest for the current level of development

The projection of growth in economic activity has been slightly corrected upwards from 0.9% to 1.6%, although the projected value still indicates a significant slowdown in growth (Table 1). The projection of economic activity in 2024, which has been revised upwards by as much as 2.2 percentage points, to the level of 3.2%, is still estimated as modest, taking into account the

country's level of development. Trends in key macroeconomic variables are unchanged compared to the November 2022 projections. The economic activity trend of our main trade partners is similar, affecting significantly some of the main components of our national accounts, primarily net exports, where the slowdown of trade growth is projected. The projected higher rate of personal spending growth in 2023, compared to the previous projection, results partly from official data revision. Personal spending, being the largest macroeconomic aggregate, is projected at 2.5% in the current year. Expected moderate growth of personal spending is a consequence of high inflation, and the nominal wage growth lagging behind inflation, although growth was recorded in most activities since the beginning of 2022. Continuing growth of average wages, and decreased unemployment, are expected in projection period, although adverse age structure of population and demographic trends are factors which continually drive back personal spending.

Significant slowdown of economic activity is still expected in the European Union in 2023, although lower energy prices, decreased restrictions in supply, and strong labour market contributed to moderate growth in the first quarter of 2023. Compared to the available information during the preparation of autumn round of macroeconomic projections in the CBBH, recession is not expected in the EU, and its largest members, while real GDP growth is revised upwards for 2023. Consequently, expected stronger foreign demand had a positive effect on BH economic activity projections. Risks for economic growth in the EU are still strong, taking into account uncertainties related to development of geopolitical instability, increasing risks of vulnerabilities in financial system, and persistent inflation, which might incite further growth of interest rates and have a negative impact on the trend of available income and spending.

### Inflation for 2023 revised upwards, to the level of 7.7%

After reaching its peak of 14% in 2022, inflation measured by consumer price index is projected at 7.7% in 2023, which is higher by 1.6 percentage points than the value from the previous projection. Official inflation in the first quarter of 2023 amounted to 12.4%, and is expected to decrease gradually during the projection horizon. Increase of inflation rate compared to the previous round of projections is based on continuing growth of food prices, which are expected to be higher by 12.0% at the annual level in 2023, and growth of core inflation. Projected growth of energy prices in the current year amounts to 1.7%. In the period when a decline of energy prices is

seen, inflation pressures remain significant due to a very strong growth of core inflation. A considerable increase of core inflation indicates that headline inflation in BH is not high only due to the shocks in commodity prices which are traded in international markets.

The publishing of the results of the next round of medium term macroeconomic projections, for the period 2023 – 2025, with a possible revision of annual projections of key macroeconomic variables for 2023 and 2024, is scheduled for November 2023. Nowcasts of economic activity and inflation, which may indicate the direction and intensity of changes of medium term projections of real GDP and inflation, will be published in the end of the quarter.