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БОСНЕ И ХЕРЦЕГОВИНЕ



Spring round of macroeconomic projections for the period 2024-2026

Sarajevo, 8. May 2024.



The Central Bank expects moderate growth in economic activity in the medium term, and further weakening of inflationary pressures

Key notes

- In the projection period 2024 – 2026, we expect moderate growth in economic activity, and further weakening of inflationary pressures.
- In relation to the autumn round of projections from 2023, the projection of the growth of economic activity in 2024 has been corrected upwards, to the level of 2.6%. We currently project real economic growth at the end of the projection horizon at 3.3%. The most significant contribution to economic growth is expected from personal consumption due to the growth of nominal wages and the inflow of remittances from abroad.
- In 2024, we project inflation of 2.6%, which is 0.3 percentage points lower than the round of medium-term projections from November 2023, and is consistent with the latest nowcast on inflation in the short term. We expect a gradual weakening of inflationary pressures until the end of the projection horizon.
- We continue to emphasize that the assessed and estimated values of GDP and its components, as well as inflation, are exposed to a high degree of uncertainty.

The Central Bank of Bosnia and Herzegovina (CBBH) publishes the spring round of macroeconomic projections for the period 2024-2026. The previously published mid-term projections of key macroeconomic variables of the CBBH (November 2023) for 2023 amounted to 1.6% for real economic activity, which is identical to the later published official data (beginning of April 2024). Compared to the previous round of projections, we expect somewhat stronger growth in economic activity in the medium term. According to current projections, in 2024 we expect real GDP growth of 2.6%, and growth dynamics will intensify to a level of 3.3% at the end of the projection horizon. In the next three years, we expect a gradual weakening of the inflationary pressures. We still estimate that the biggest contribution to inflation, measured by the consumer price index, comes from price growth on the domestic market. Compared to the previous round of projections, the values of all key macroeconomic variables have been slightly corrected for 2024 and 2025 Table (1).

Table 1. Projections of key macroeconomic aggregates and inflation

	First round of projections in 2024; April						Second round of projections in 2023; November				
	Official data in the time of preparation			Projections			Official data in the time of preparation		Projections		
	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
	Changes at annual level, %										
Real GDP	7,3	3,8	1,6	2,6	2,9	3,3	7,3	3,8	1,6	2,1	3,5
Inflation (CPI)	2,0	14,0	6,1	2,6	2,0	1,7	2,0	14,0	6,3	2,9	2,3
Personal consumption	4,2	1,9	1,6	2,6	4,5	3,9	4,2	1,9	1,8	1,7	2,3
Government spending	2,9	1,3	1,7	1,5	1,0	0,7	2,9	1,3	1,4	1,5	1,0
Investments	22,7	2,4	1,2	0,6	1,5	3,2	22,7	2,4	7,7	4,6	4,5
Exports	24,6	12,0	-3,2	1,1	6,2	6,9	24,6	12,0	-2,5	2,7	5,9
Imports	20,6	6,2	-2,4	0,2	6,2	5,8	20,6	6,2	1,5	3,1	3,6
	GDP%										
Personal consumption	68,8	67,5	67,5	67,9	68,9	69,3	68,8	67,5	68,5	68,2	67,5
Government spending	18,9	18,5	18,5	18,4	18,0	17,6	18,9	18,5	18,6	18,5	18,1
Investments	27,0	26,6	26,5	25,8	25,5	25,4	27,0	26,6	27,5	28,2	28,5
Net exports	-14,6	-12,8	-12,6	-12,1	-12,4	-12,3	-14,6	-12,8	-14,7	-15,0	-14,1

Source: BHAS (official statistical data) and CBBH (Projection of the Office of the Chief Economist). When creating the first round of projections in 2024, available official statistical data and relevant information up to the end of March 2024 were used, and when creating the second round of projections in 2023, available official statistical data and relevant information up to the end of October 2023 were used.

Expected economic activity in the medium term is stronger compared to projections from 2023, but still modest for the current level of development

Projected real annual growth of economic activity of 2.6%. In 2024, it is still below the long-term average. Following the weakening of inflationary pressure, a slight increase in the rate of real GDP growth is certain until the end of the projection period, although the projected rates can be evaluated as quite weak considering the level of development of the country. Trends in key macroeconomic variables are unchanged compared to last year's autumn projections, with the exception of exports.

The short-term outlook for foreign trade is quite weak, and we can expect a gradual recovery from the second half of 2024. Such developments in foreign trade exchange are the reflection of the tightening of financing terms and conditions and the dynamics of economic trends in the main trade partners. It is estimated that personal consumption, which is the largest macroeconomic aggregate, will be the main driver of economic growth. Its share in the total GDP in 2024 is estimated at 67.9% and has a slight growth trend in the projection horizon caused by the decrease in the share of net exports due to lower competitiveness and a weaker contribution of investments. In this round of projections, the effect of the revision of official data on investments in the national accounts is particularly strong. In the previous round of projections, real investments in the first half of the year recorded an annual growth of 12.6%, and with the new press release (beginning of April 2024), real investments in the first half of the previous year recorded a growth of 4.8%, and further slowed down in the second semester. And in this round of projections, we emphasize that there are highlighted risks from the international environment that primarily relate to the reduction of the competitiveness of the European economy, long-term inflation and geopolitical instability related to the wars in the Middle East and Ukraine.

Inflation for 2024 has been revised downwards, to the level of 2.6%, and its further slowdown is projected over the projection horizon.

After 6.1% achieved last year, we estimate a slowdown of inflation to the level of 2.6% in 2024. In the next two years of the projection horizon, we expect further weakening of inflation, to the level of 2.0% in 2025, and 1.7% in 2026.

In the coming period, the most significant contribution to price growth is expected from utilities prices, primarily electricity, food and transportation sections, and other domestic prices. Headline inflation is expected to remain lower than core inflation, excluding the food and energy prices. A slightly higher rate of core inflation than headline inflation implies that domestic prices affect inflation in BH significantly more than the prices of goods on the international market. Although inflation is slowing down, in the coming period it will be increasingly influenced by the increase in real wages (7.9% is annual growth for the first two months of 2024), due to the increase in the minimum wage (increased by 3.9% in the FBH at the beginning of the current year, and in RS by 28.6%), and the growth of profit margins in numerous industries, which causes an inflationary spiral and the continuation of a more pronounced increase in the unit cost of labour.

We continue to emphasize that the assessed and estimated values of GDP and its components, as well as other macroeconomic variables, are exposed to a significant probability of revision. The risks largely relate to further escalation in the Middle East and Ukraine, as well as traffic disruptions on key trade routes in the Red Sea, which could trigger a new rise in the prices of energy and other raw materials. Frictions on the labour supply side, the effect of the introduction of fees by the EU on production using non-renewable energy sources from 2026, the rise in electricity prices on the domestic market, along with the present increase in the prices of oil and oil derivatives, may further increase inflationary pressure in the projection horizon.

Publication of the results of the next round of medium-term macroeconomic projections, with a possible revision of annual projections of key macroeconomic variables for the period 2024-2026 is planned for November 2024. We will publish the nowcast on economic activity and inflation, which may indicate the direction and intensity of corrections of the medium-term projections on the real GDP and inflation, at the end of each quarter. The next planned publication of the nowcast is already planned for June 2024.