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The GDP nowcast in the first quarter of 2024 and the short term inflation

Sarajevo, 17. June 2024



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Key notes

- *The CBBH estimates the annual growth of real economic activity in the first quarter of 2024 at 1.8%, which is almost identical to the estimate from March (1.7%).*
- *The preliminary estimates of real GDP trends for the second quarter of 2024 indicates a slightly faster growth of 2.4% on an annual basis.*
- *We estimate that headline inflation could amount to 2.6%, and core inflation to 4.2% in the second quarter of 2024. We expect that the annual inflation in the second quarter will be slightly higher in May and June as a result of primarily the low base in the previous year, primarily in the sections of transportation and utilities' costs.*
- *Current estimates of quarterly economic activity and the short term inflation are consistent with previously published mid-term annual macroeconomic projections.*

Based on available official statistical data and information from international markets published until June 5, 2024, the Central Bank of Bosnia and Herzegovina (CBBH) estimates the annual growth of real GDP at 1.8%, in the first quarter of 2024, which is almost identical to the estimate from March (1.7%). We expect a continuation of the slight growth of economic activity from the previous year in the first quarter, due to the continuation of growth in the activities of the service sector and the reduction of inflationary pressure. The growth of activity in the service sector partially compensated for the decline in activity in the manufacturing sector, which was partly a consequence of reduced demand in the markets of the main trading partners. Bearing in mind that industrial production recorded a slightly weaker decline in activity, and exports slightly increased on an annual basis in April 2024, our first preliminary estimate is that economic activity could be somewhat stronger in the second quarter, around 2.4%. Consequently, our preliminary estimate of the intensity of real GDP growth amounts to 2.1% for the first half of 2024.

Table 1 : Annual Change of the Real GDP in BH

		March nowcast round	June nowcast round	
Official data in the time of the Report preparation	Q1 2022.	5,8%	5,8%	
	Q2 2022.	5,7%	5,7%	
	Q3 2022.	3,0%	3,0%	
	Q4 2022.	2,6%	2,6%	
	Q1 2023.	1,8%	1,8%	
	Q2 2023.	1,2%	1,2%	
	Q3 2023.	1,9%	1,9%	
	Q4 2023.		1,7%	
		Central estimate from March, 2024	Central estimate from June, 2024	
CBBH nowcast	March 2024	Q4 2023.	1,7%	
		Q1 2024.	1,7%	
	June 2024	Q1 2024.		1,8%
		Q2 2024.*		2,4%
		First half year of 2024		2,1%

Source: BHAS, the CBBH estimates * First preliminary estimate.

We currently estimate that headline inflation to be 2.6% in the second quarter of 2024, and core inflation at 4.2%. The unexpected rapid slowdown of inflation in the second half of 2023 will have a significant basic impact on the trends of the consumer price index. We expect that the increase in transport prices due to the base effect, but also the increase in utilities' costs, which, in addition

to the base effect, are under pressure of the announced increase in electricity prices, and the effects of insufficient labor supply, will have a particularly significant impact on the inflation increase. The expected prices of other sections in the coming period will follow the trend that has been present since the beginning of the year. Our preliminary estimate of inflation in the third quarter indicates a slight strengthening of inflationary pressures compared to the previous quarter, but the projections are still in line with those from the medium-term macroeconomic model for 2024.

Inflation in BH is primarily influenced by changes in the level of core inflation, which excludes the prices of food, alcoholic beverages and tobacco, as well as, energy, which indicates an increase in domestic prices. The estimated inflation in the euro area for the second quarter of 2024 is almost identical to the domestic inflation and amounts to 2.5%. The ECB's latest projections from June 2024 for the headlines and core inflations in the euro area have been corrected upwards for 2024 and 2025 compared to the projections from March. The current estimate of headline inflation in the euro area is 2.5% in 2024 and 2.2% in 2025.

Table: Annual Inflation in BH, for the period

		Headline inflation	Core inflation	
Official data/CBBH estimate for the core inflation	Q1 2023	12,4%	6,7%	
	Q2 2023	6,4%	7,5%	
	Q3 2023	4,3%	6,8%	
	Q4 2023	2,0%	5,2%	
	2023	6,1%	6,5%	
	Q1 2024	2,0%	4,7%	
	apr.24	2,0%	4,1%	
CBBH nowcast	Q1 2024.	2,4%	4,7%	
	Q2 2024.	2,7%	4,6%	
	March 2024	First half year of 2024	2,6%	4,6%
	June 2024	Q2 2024.	2,6%	4,2%
		Q3 2024.	2,9%	4,4%
		First half year of 2024	2,3%	4,4%

Source: BHAS, CBBH estimates

We plan to publish the next round of nowcasts of GDP and the headline and core inflations in September 2024.