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БОСНЕ И ХЕРЦЕГОВИНЕ



## CBBH nowcasts for 2Q 2023

The Central Bank of Bosnia and Herzegovina estimates that inflationary pressures are weakening, but that economic activity continues to slow down the growth in the first half of 2023.

Sarajevo, 22 June 2023



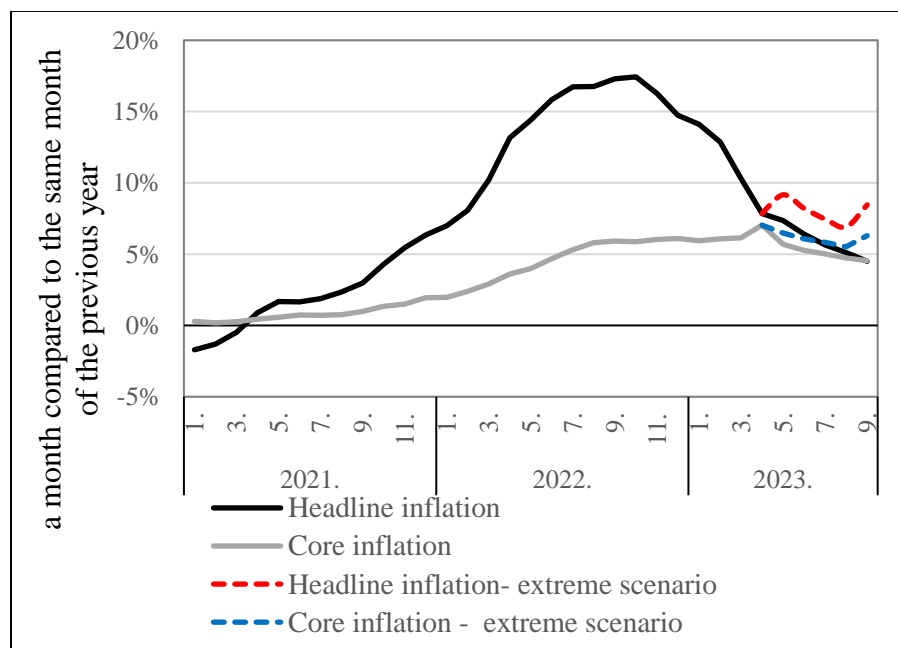
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*Key notes:*

- *The CBBH expects inflationary pressures to weaken by the end of the third quarter of 2023. Our current projection of headline inflation for the first half of the year is 9.7% and for the first nine months is 8.1%.*
- *We estimate that the core inflation reached its peak at the beginning of the second quarter, but that the most significant inflationary pressures in the projection period will come from the domestic economy. Our current projection of core inflation for the first half of the year is 6%, and for the first nine months it is 5.6%.*
- *We still expect a slowdown in real GDP growth in the first half of 2023, but not a recession. The preliminary projection of real GDP growth for the first half of the year is 1.1%.*
- *The currently prevailing, moderate risks for nowcasts are such that there is a probability of a revision of the inflation projection upwards in the coming periods, and of real GDP growth downwards.*

Based on available official statistical data (incomplete monthly data for April), as well as higher frequency data and information from international markets published until June 12, 2023, the Central Bank of Bosnia and Herzegovina (CBBH) estimates that inflationary pressures are weakening. Graph 1 below illustrates our projections that core inflation peaked at the start of the long quarter, but that domestic inflationary pressures are currently the main reason for continued high headline inflation. Uncertainties related to domestic costs, primarily the price of labor, and the prices of goods and services that are traditionally subsidized, but also shocks on the international food and energy markets, make moderate the risk of revision of the inflation nowcasts upwards in the coming periods (extreme scenarios in Graph 1).

Grafikon 1: Ukupna i temeljna inflacija u BiH



Source: BHAS, CBBH projections

*Notes: The calculation and projection of core inflation in BH is based on a methodology that excludes: 01 Food and non-alcoholic beverages, 04.05.02 (Gas), 04.05.03 (Liquid fuels), 04.05.04 (Solid fuels), 04.05.05 (Heating energy), and 07.02.02 Fuels and lubricants. Core inflation, as of April 2023, is a projection of the CBBH based on official historical data published by BHAS. The extreme scenario represents an estimate of 95% reliability or two standard deviations.*

Our nowcast of the headline inflation for the second quarter is currently at 7.2%, and that for the first half of the year is at 9.7%. Nowcasts of the headline inflation for these periods are slightly lower than our preliminary nowcasts from March 2023 which had been based on the data for January 2023, and information available until 10 March 2023. Official statistics report the headline inflation of 11.2% for the first four months of the current year. Our first preliminary nowcast of the headline inflation for the third quarter is currently 5.1%, and that for the first nine months 8.1%. Nowcasts of the headline inflation are consistent with the May round of medium –term macroeconomic projections, in which we projected headline inflation for 2023 at 7.7%.

Our nowcast of core inflation for the second quarter and the first half of 2023 is currently 6.0%. The first preliminary nowcast of core inflation for the third quarter currently amounts to 4.8%, and that for the first nine months is 5.6%.

Our nowcasts related to the strength of current economic activity indicate additional slowdown of real GDP growth in the second quarter to the level of 0.8%, compared to the same quarter of the previous year. Our nowcast of real GDP annual growth in the first quarter of 2023 was revised downwards by 30 basis points, to the level of 1.4%, compared to the nowcasts published in March. Our preliminary nowcast of real GDP growth for the first half of 2023 amounts to 1.1%.

Currently, our nowcasts of economic activity are consistent with the May round of medium-term macroeconomic projections, in which we projected the growth of real GDP for 2023 at 1.6%. Unlike inflation, there is a higher risk that we are currently slightly overestimating economic activity in the first half of the year. The latest available official statistics for GDP is for the fourth quarter of 2022, revisions of official statistics are possible, and nowcasts of current economic activities among our main trade partners are subject to frequent revisions, which is usual in the periods when economy is not in a standard business cycle.

The next round of nowcasts of economic activity strength and headline and core inflation is scheduled for the second half of September. .