



Centralna banka
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БОСНЕ И ХЕРЦЕГОВИНЕ



Nowcast of the current economic activities and the inflation for the first half of year 2023

CBBH nowcasts the weakening of the inflation pressures in the first half of
2023

Sarajevo, 22 December 2022



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Key indicators:

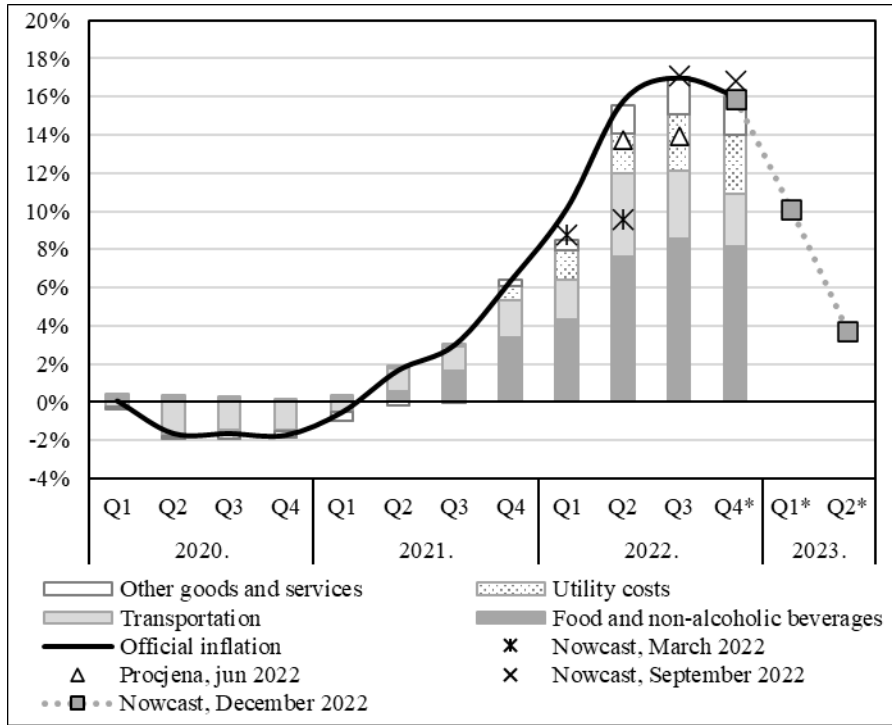
- *The signs of the inflation slow down are seen in the fourth quarter. We expect this trend to continue in the first half year.*
- *Projected annual inflation in 2022 could be around 14.0%.*
- *CBBH nowcasts the slowdown of the economic activity in the country in the last two quarters, primarily due to the slowdown of growth in the countries main trade partners, and long-time high inflation.*
- *Current nowcasts of quarter economic activity and the inflation are consistent with earlier published midterm annual macroeconomic projections.*

Based on available official statistical data and information from international markets published until December 12, 2022, the Central Bank of Bosnia and Herzegovina (CBBH) projects the annual growth of real economic activity in the third quarter of 2022 at 4.0%. Our preliminary estimate is that economic activity will slow down considerably in the last quarter of the current year, to a rate of 2.9% on an annual basis, due to the decrease in the number of orders from abroad, and high inflation. According to the projection from our medium-term macroeconomic model for Bosnia and Herzegovina from November, the projected growth of real GDP in 2022 is 4.1%, which is very much in line with the latest results of the model for nowcast of current economic activity.

Based on official data from October 2022, as well as data on expected trends of exogenous variables such as food and oil prices, as well as domestic and foreign economic activity in the coming period, annual inflation is expected to be very high in the fourth quarter as well (15.9 %), but still somewhat lower compared to the third quarter of the current year. According to the latest results of the nowcast model for current inflation, the projected annual inflation in 2022 could be around 14.0%, which is almost identical to our earlier nowcast from September, but also consistent with the inflation projection for 2022 according to the medium-term macroeconomic model from November (14.4%). A further slowdown in inflation is expected in the first half of next year, primarily due to the base effect from 2022, and the effects of the already changed and announced monetary policies of the leading central banks. Despite the expected slowdown in inflation in 2023, it will still be significantly above the multi-year average for BH.

Electricity prices on the domestic market may have a significant impact on inflation in the coming year, which, according to official data for the first ten months of 2022, even fell slightly compared to the same period in 2021 (a drop of 0.5%). In the inflation nowcast, we have, to a certain extent, calibrated the housing, water, electricity, gas and other fuels price subsection, based on the available information on the possible increase in electricity prices for domestic consumers. However, in FBH there is still no official request for price correction, therefore, the estimated direct effect is incomplete. Currently, we do not have information on the basis of which we would assess the effect of a possible increase in the domestic market electricity prices on goods and services, produced and provided in the country, which is certainly an important factor when estimating the inflation. Due to all of the above, there is a possibility that inflation will be slightly higher compared to the projections.

Graph 1: Contribution to the Annual Changes of the Domestic Consumer Prices and the Nowcast



Grafikon 1. Source: BHAS, CBBH.

* Period covered by the CBBH nowcast.