BCC 13th Annual Conference: Challenges from Higher Uncertainty

Policy Panel 1: Changing fundamentals and uncertainty: where do we stand?

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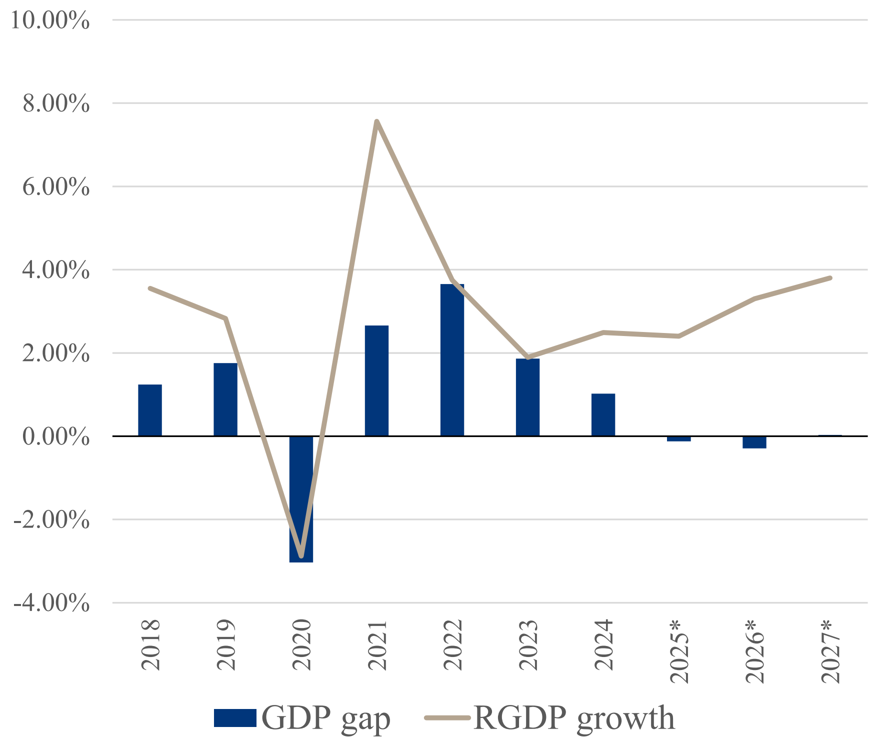
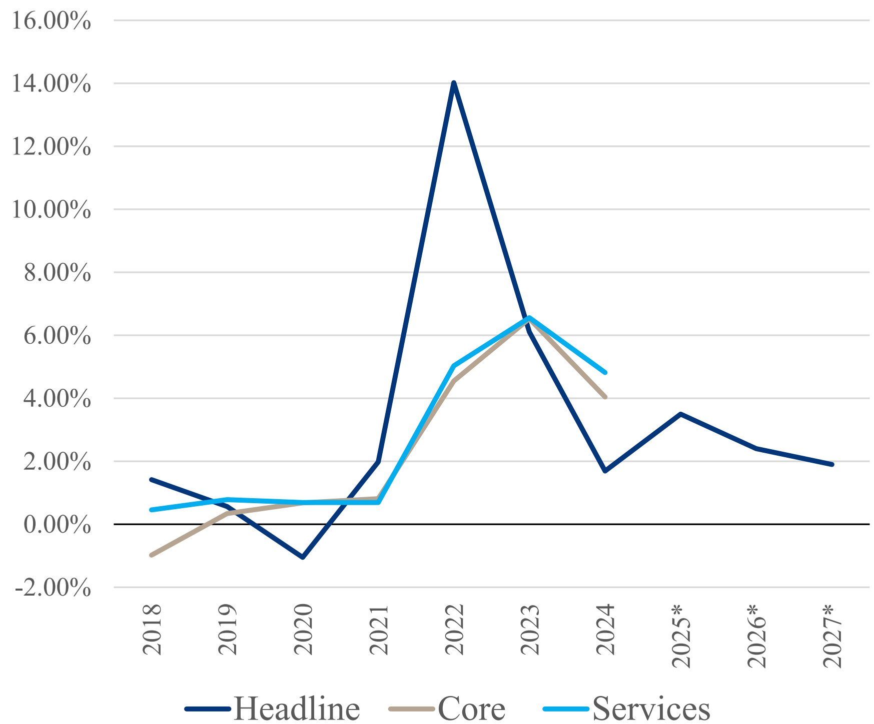
The views expressed during the panel are the personal views of the presenter and do not necessarily reflect those of the Central bank of Bosnia and Herzegovina

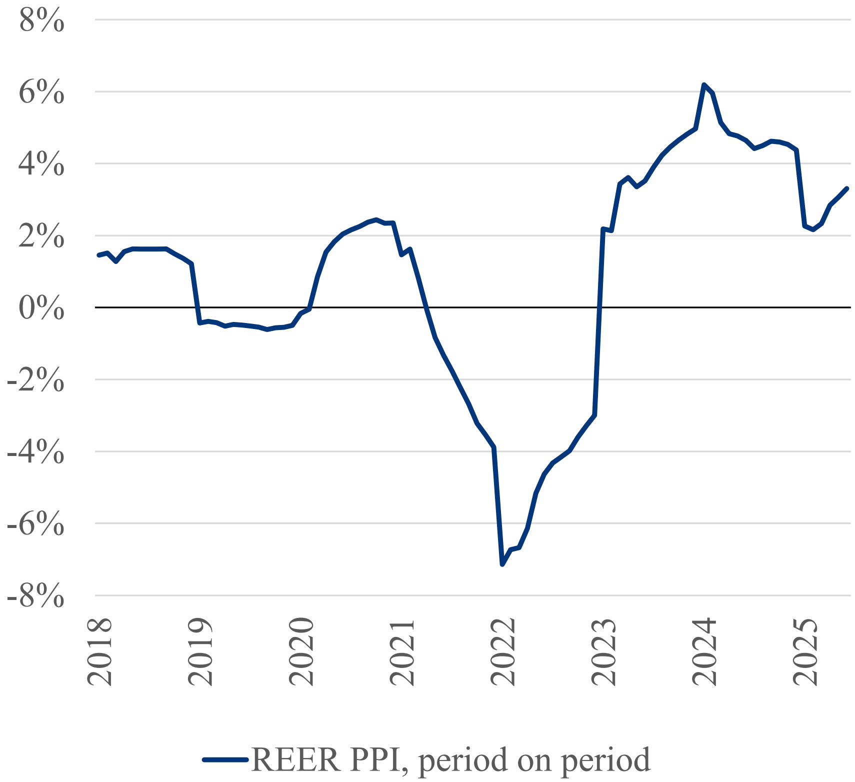
GDP growth is unimpressive, economy operates below the potential and inflationary pressures are picking up





* CBBH spring 2025 round of forecasts

The price competitiveness is deteriorating, adding additional pressure on economic growth



- Shocks to energy (but also food prices, in CPI).

- Rising import prices (especially in tradables) because of the trade war might increase rerun of capital over labor, benefiting the wealthy. Which is feeding into rising social discontent.

- Declining labor productivity and labor supply gaps.

- Shocks from the main trading partners.

Challenges ahead of the CBBH

- With rising social discontent, credible medium term fiscal consolidation goes though the window (the case of recent unprecedented rise in minimum wage).
- Further harmonization of administered electricity prices with the market prices.
- With economy operating just slightly below the potential, and facing likely inflationary pressures (including from new policies and exchange rate movements, a central bank cannot be inactive in the case of new negative supply shock. BUT, we are operating under the CBA.
- Higher nominal interest rates, because of the rising inflation, will pressure the yield on public debt, but, also, potentially encourage capital outflows (impossible trilemma) to a certain extent. However, without free capital mobility, the pressures on the fixed exchange rate will strengthen.
- Which might results in an increasing number of attempts to erode central banks independence.