

Bosnia a. H. Watch: The lowest level of inflation in Western Balkan region

Thanks to the moderate level of key headline inflation segments, (Food, Transport and Housing) which were driving inflationary peaks in previous years, B&H has now taken the first place in the WB region in CPI deceleration trend with an average of 1.9% yoy in Jan-Aug 2024.



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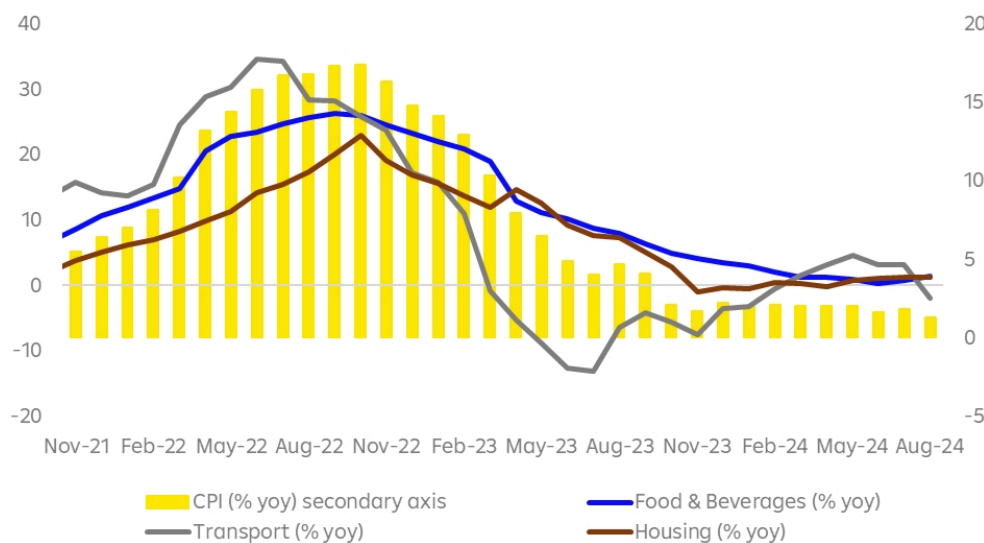
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Key reasons for deceleration - Global market trends and base effect

Examining the Western Balkans inflation dynamics, many of the countries reported inflation rate over >2% yoy on average in 2024 YTD (i.e. avg inflation rate for period Jan - Aug 2024): With Serbia denoting +4.9% yoy, Montenegro +4.3% yoy, North Macedonia +3.4% yoy, Albania +2.4% and Kosovo +2.1%. Compared to its peers, B&H reported the lowest inflation rate (+1.9% yoy), which is a notable achievement but just at a first glance. Behind this result do not stand any comprehensive state measures with an anti-inflationary character, rather, the result is primarily driven by the base effect and beneficial global market trends, especially in Food and Energy markets.

Development of inflationary rates since Nov-21



Source: BHAS, RBI/Raiffeisen Research

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More precisely, the deceleration in the inflation trend in B&H was the result of a moderate inflation in basic headline segments, which were the drivers behind inflationary peaks in previous years (Food +1.4% yoy avg Transport +1.2% yoy avg and Housing +0.5% yoy avg) and the continuous negative inflation rate in the Clothing & Footwear segment (-7.5% yoy avg).

On the other side, some price segments are still on an upward trajectory, especially in the area of core inflation, the most prominent being the services sector. Here, the strongest growth was denoted in the following subsegments: Restaurants and Hotels +7.6% yoy avg, Recreation and Culture +4.0% yoy avg, and Healthcare +3.3% yoy avg. Some inflationary aspects were anticipated with the electricity price hikes in August 2024 for Households (+10%) and in September 2024 for SME companies (+12.5%) in the Federation of B&H, but for the time being there is no significant inflationary spill-over effect, as the decelerating trend is prolonged even after mentioned price hikes.

The latest inflation reading (August 2024) reveals the lowest annual inflation rate in the last three years (+1.3% yoy), despite the visible increase in monthly prices after the electricity price hike. In annual terms, inflation slowed down significantly, with the biggest contribution to growth still coming from the services segment. Thus, the highest growth in Jan-Aug 2024 was recorded within the prices of Restaurants and Hotels (+7.1% yoy), Alcoholic Beverages and Tobacco (+4.5% yoy) and Healthcare (3.6% yoy) while the largest decline was recorded in Clothing and Footwear prices (-7.6% yoy). Contrary to annual figures, CPI recorded an increase by 0.5% in August compared to July, after three months of negative readings or stagnation, mainly driven by the increase in electricity prices for Households. Hence, the Housing segment increased the most by +1.4% mom, followed by Food & Non-Alcoholic beverages (+1.1% mom), while the strongest monthly decline was experienced by the prices of Furniture and Household appliances (-0.1% mom), Transport (-1.4% mom) and Education (-0.4% mom).

Inflation below 2% yoy is expected in 2024/25

Taking into account steady disinflation trend in annual terms coupled with minor monthly pressure, average inflation settled at 1.9% yoy on average as of August, 10bp below our 2024 target. Considering the aforementioned disinflation trend and only slight uptick visible after the introduction of the electricity price hike for Households, we revise our YE target downward to 1.8% yoy in 2024 and 1.8% yoy in 2025.

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
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
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
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
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