Numerous risks drivers weighing on growth

While only limited data is available due to ongoing statistical revision, it is still clear growth has slowed in 2025. Domestic demand, notably household consumption after strong wage bump and investment in public infrastructure projects are the key factors driving growth. Such a setup is likely to continue over the medium term as exports could be negatively affected by the start of EU's carbon border adjustment mechanism from 2026. After slowing in 2024, inflation has risen again, averaging almost 4% after 9M25. Budget gap is likely to remain contained this year, but we see risks of slippages ahead of the 2026 general elections. Functioning of state-level policymaking remains hampered.

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Economy	2025f	2026f
Real GDP growth (%)	1.8	2.5
Unemployment (%)	12.7	12.3
CPI (%), average	4.0	3.3
Budget balance (% GDP)	-2.5	-3.0
Public debt (% of GDP)	26.6	28.2
Current account (% GDP)	-3.7	-4.6

Source: Erste Group Research

Ratings	Current	Outlook
Moody's	B3	stable
S&P	B+	stable

Source: Erste Group Research

General	2025f
Population (in mn)	3.4
GDP/Capita EUR	8,781

Source: Erste Group Research

Note:
**Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.*

- Growth slowed to 1.8% y/y on average after 1H25. Due to ongoing major statistical revision, we only have the detailed expenditure structure available for Q1, while detailed figures for Q2 and Q3 won't be available before the end of the year. Available data suggest growth is domestically driven, notably from the investment side. We expect growth was on similar level in 2H25.
- Looking ahead, we expect a pick-up in growth over the forecasted period, although risks are to the downside. Domestic demand should still account for the biggest part of growth, owing to robust wage and credit growth, expected easing of inflation pressure, decreasing global geopolitical tensions and accelerated investments once the country manages to unlock WB growth funding. Risks are still plentiful, while the expected start of EU's carbon border tax in 2026 adds another topic to the list. In 2026 and 2027, we expect real GDP growth to average 2.5% y/y and 2.8% y/y respectively.
- Inflation accelerated from just 1.7% y/y in 2024 to an average 3.9% y/y after 9M25. Most of the spike owes to higher food prices, although in September inflation has remained above 4% despite clearly easing food contribution, suggesting broader spilovers in the aftermath of strong wage growth. We expect average CPI in 2025 to rise to 4% y/y, and ease to 3.1% y/y and 2.8% y/y in 2026 and 2027 respectively.
- Somewhat surprisingly, goods trade figures held up reasonably well over the course of 1H25, with the goods trade gap largely stagnating compared to 2024. However, an 8% y/y weaker net result on the service side suggests modest deterioration of the C/A gap at the end of the year. FDI has expectedly slowed, amid generally elevated local and global trade uncertainty.
- General government budget gap rose from 1.2% of GDP to 1.8% of GDP in 2024. In 2025, despite solid revenue growth in early year, notably higher wage and social transfer bill is expected to push the gap towards 2.5% of GDP. We expect the gap to remain relatively elevated next year given the usual pre-election spending cycle.
- Already complex political situation has been further affected by political developments in 2025. Following the initial sentencing of President Dodik of Republika Srpska by the Court of BiH—the highest state-level administrative, criminal, and appellate court— for defying the decisions of the High Representative, the RS passed laws restricting jurisdiction of state-level judicial and law-enforcement institutions and advanced a draft constitution asserting the right to self-determination which the State Constitutional court of BH has suspended. In addition, policymaking has been hampered by disagreements and a lack of progress by the state-level governing coalition.

Real economy

Growth slowed in 2025

Real GDP growth in 1H25 averaged 1.8% y/y, hence slowing compared to 2024 pace. Growth was underpinned from the domestic side. Household consumption in 1Q25 rose 1.7% y/y, while investments recorded 5.5% y/y growth. Combined they account for basically entire headline growth as on the external side imports outpaced export growth. Unfortunately, due to ongoing statistical revision we don't have detailed data for 2Q25, or even the headline figure for 3Q25.

Strong wage growth didn't spilover to higher retail trade

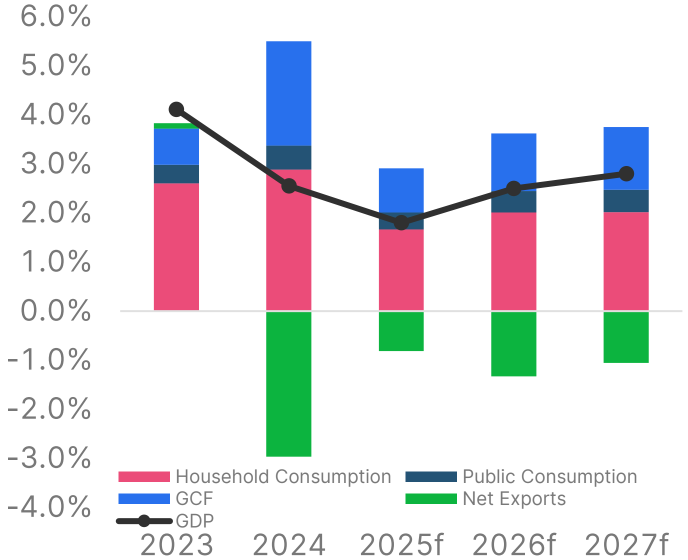
When assessing the outlook, we first look at available high frequency indicators. On the domestic side, despite still robust both nominal and real net wage growth of 13.6% y/y and 9.4% y/y respectively after 9M25, real retail trade stagnated on average (0.3% y/y) in the same period. Industrial production is still under pressure with just one positive reading in the first nine months. A quick glance through categories revealed the biggest decline is coming from consumer durable goods production implying uncertainty is affecting longer term purchases and consequently, production. To our surprise, goods trade figure showed resilience, despite widespread geopolitical conflicts. Namely, exports of goods rose 6% YTD after 9M25 while imports rose 4.3% y/y in the same period. On the export side, gains mostly stem from increased exports of extracted minerals and metals. Tourism numbers largely stagnated in 2025 thus leading to underwhelming net result on the service side. Ultimately, we expect growth will average 1.8% y/y in 2025, thus well below our expectations of 2.5% y/y growth we had mid-year.

Risks are to the downside

Over the projection horizon, overall economic expansion is expected to accelerate mildly. Household spending is likely to hold steady, supported by four consecutive years of double-digit wage growth. Investments should benefit from expected unlocking of funds from the Western Balkan growth initiative, after the country managed to finally send the reform agenda. In contrast, foreign demand is anticipated to remain subdued, given expected timid growth in the country's trading partners and a decline in competitiveness stemming from fast-rising labour costs. With the CBAM's full regime (Carbon Border Adjustment Mechanism) taking effect in January 2026, the cost of exporting carbon-intensive goods will rise, affecting a substantial share of the nation's exports, especially the electricity sector. Bottom line, growth should accelerate towards 2.5% y/y and 2.8% y/y in 2026 and 2027.

Growth slowed in 2025

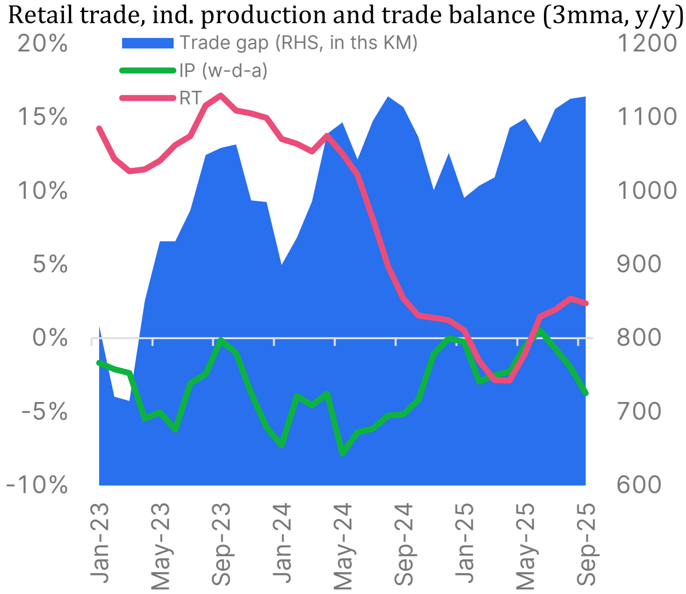
Real GDP, contributions (y/y)



Source: BHAS, Erste Group Research

Industry slowed in 2025

Retail trade, ind. production and trade balance (3mma, y/y)

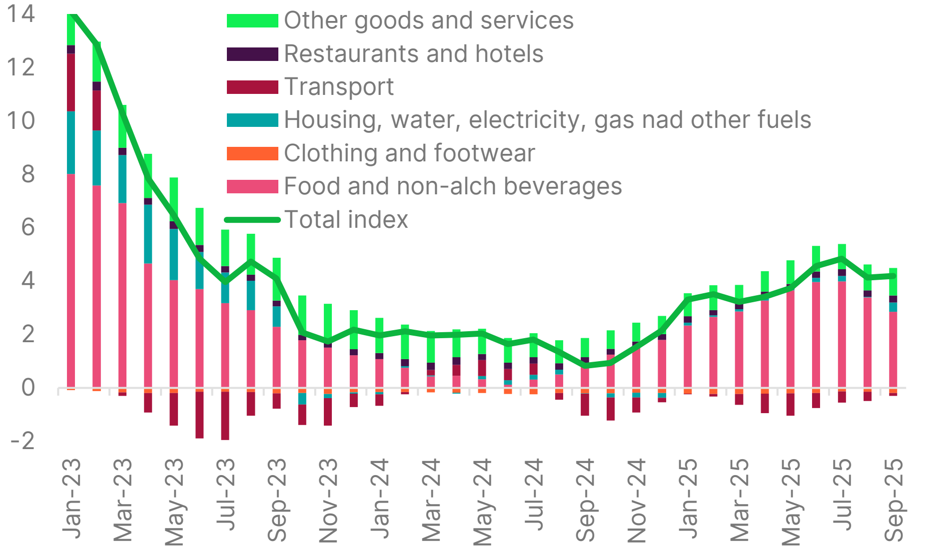


Source: BHAS, Erste Group Research

Inflation resurfaced in 2025

Inflation has been low and stable in 2024, averaging 1.7% y/y, while peaking at just 2.2% y/y in December. In 2025, inflationary pressures have strengthened as food, electricity, and service prices have continued to climb. The increase in the minimum wage implemented in January 2025 has added further momentum to rising prices. Easing global inflation is helping to limit increases in import prices, though certain risks persist, particularly those linked to geopolitical instability and trade barriers.

Food prices on the rise again
CPI and key categories (y/y)

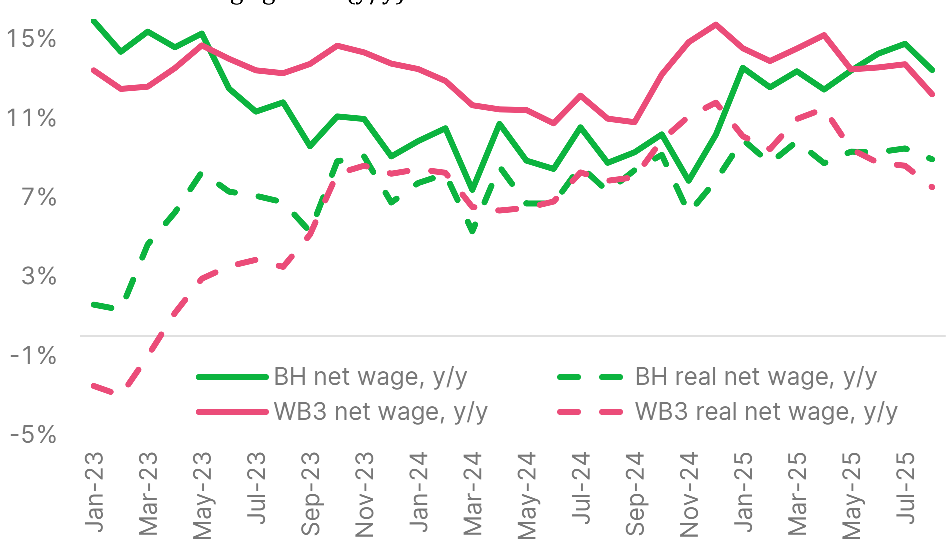


Source: BHAS, Erste Group Research

Another year of double-digit wage growth

Nominal net wage growth stands 13.6% y/y after 9M24 (9.4% in real terms) and it is projected to remain high relative to historical figures. Wage hikes are also partly driven by labour shortages in certain areas, such as in construction and health services, as the labor force shrank by roughly 20.000 people in 1H25. On average food and non-alcoholic beverages have contributed around 83% of headline CPI in 9M25, compared to 'just' 53% in 2024. Overall, we expect average CPI in 2025 at 4% y/y, before gradually weakening to 3.3% y/y and 2.8% y/y in the following two years respectively.

Wages accelerated further in 2025
Nominal and real wage growth(y/y)



Source: BHAS, Erste Group Research

External sector

Modest external deterioration expected in 2025

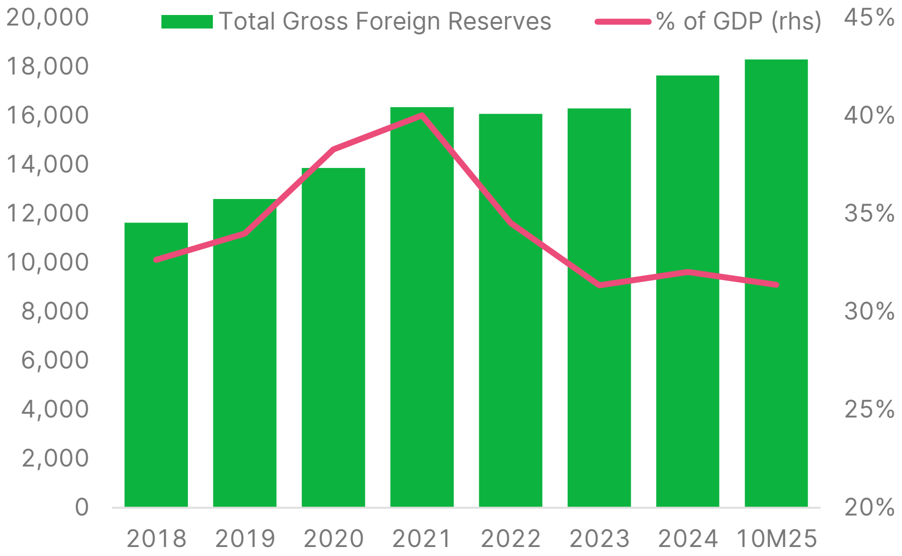
External imbalances widened in 2024 due to trade balance pressures. After 1H25, the stock of the C/A gap is broadly unchanged. We expect modest deterioration in 2H25 due to weaker tourism activity, a drought-induced decline in electricity exports, and higher imports associated with strong domestic consumption demand. Overall, we expect the C/A gap will widen by 0.3pp of GDP and amount 3.7% of GDP at YE25.

CBAM implementation is a risk for exporters

We expect pressures will intensify in 2026 due to the mentioned implementation of CBAM regime in the EU. BH has asked for an extension period but to our knowledge and publicly available data no positive decision has been made. To mitigate CBAM impacts, BH needs to align its climate and energy regulation, introduce domestic carbon pricing, reform electricity markets, and ultimately decarbonize production. As BH exports products such as electricity, aluminum, iron, steel and cement into the EU, and these are among the sectors covered by CBAM, exports could decline or become more expensive, thus reducing foreign exchange earnings and possibly slowing growth in those sectors and ultimately weighing on external balance. Hence, we expect the C/A gap could widen towards 4.6% of GDP in 2026 and improve again in 2027 as the country slowly adjusts its regulation and production processes.

As previously, debt financing will likely account for only a small portion of current account funding, with most financing representing net foreign direct investment inflows and a steady capital account surplus (including European pre-accession funds), with the latter possibly improving once WB growth funding is unlocked. The Currency Board Arrangement remains a policy anchor, serving the country well amid heightened global uncertainty. The latest available data for October indicates that total net foreign reserves are record high, standing at KM 18.3bn or 31% of expected nominal GDP in 2025 hence assuring currency stability.

Stock of foreign reserves remained stable
Total gross foreign reserves (in KM mn)



Source: CBBH, Erste Group Research

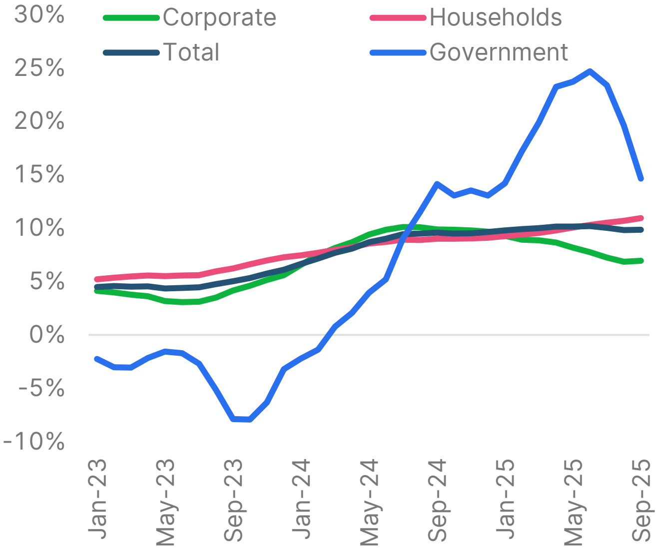
Monetary and fiscal developments

Strong credit expansion, especially on the retail side

Strong credit expansion in BH continued in 2025, showing 7.6% YTD growth after 9M25. Biggest impulse came from 9.3% YTD growth in retail segment, while corporate loans are up 6.1% YTD. Entity government and public enterprises also showed solid appetite, with loans rising 15.2% YTD and 4.1% YTD.

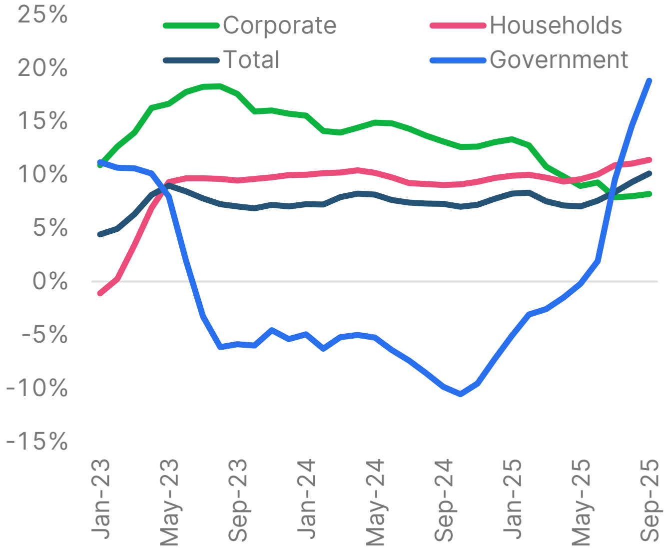
On the deposit side, we can see similar developments as far as the overall performance goes. Total deposits rose 7% YTD in 9M25. Sector-wise, the biggest influence on overall performance came from the household segment where deposits grew also 7% YTD, followed by 4.7% YTD growth on the corporate side. Government deposits, after contracting since 2023, have again started to rise. Loan to deposit ratio is relatively unchanged compared to YE24, at 76.7%.

Loan appetite remained stable
Loans to corporate, household and government (y/y)



Source: CBBH, Erste Group Research

Deposits rising as government deposits picked up
Corporate, household and government deposits (y/y)



Source: CBBH, Erste Group Research

Budget pressure is rising

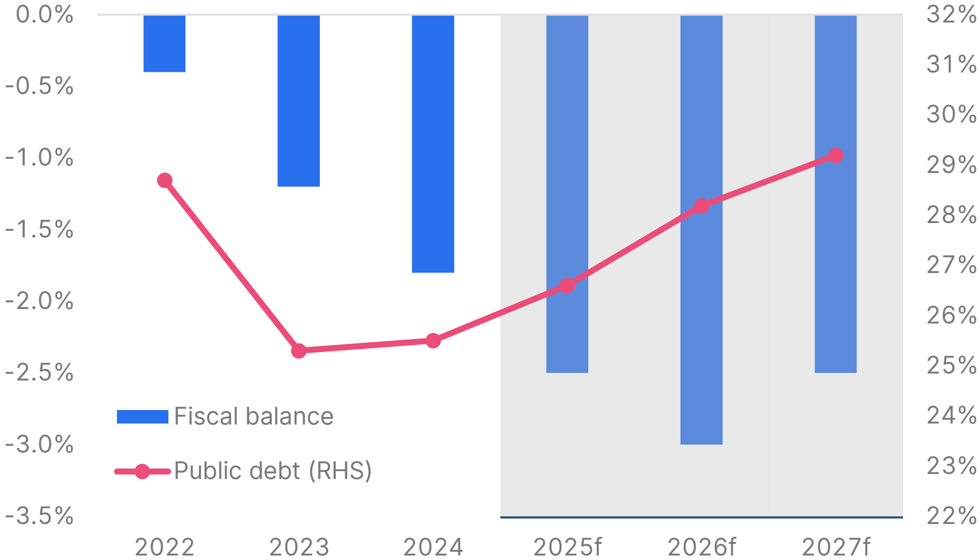
The overall general government deficit widened to 1.8% of GDP in 2024, with trends differing across the two entities. In the Federation of Bosnia and Herzegovina, the deficit rose to 2.7% of GDP, driven by higher spending on wages, pensions, social benefits, and capital projects. In contrast, Republika Srpska's deficit fell by 1 percentage point to 1.3% of GDP, supported by stronger revenues and lower-than-planned capital spending. In 2024 the Federation largely relied on domestic financing, while Republika Srpska turned to external borrowing.

Fiscal discipline is expected to weaken in 2025 due to rising current expenditures. While we acknowledge it is already close to YE25, data availability is very limited at this point. At the entity central-government level, adopted budgets and accompanying measures foresee sizable increases in wages (13% in FBiH and 10% in RS) and pensions (7.2% in FBiH and 9% in RS). According to the IMF, the resulting wage hikes at both central and subnational levels will raise the wage bill by 0.5% of entity GDP in FBiH and by 0.9% in RS. Republika Srpska also implemented an additional 30% pay increase for police officers. The FBiH budget includes higher subsidies to help firms absorb the impact of the increased minimum wage, amounting to 0.3% of FBiH GDP. Although the budget initially anticipated extra revenues from the higher minimum wage, those gains will be offset by a recent 5.5pp cut in social security contribution rates. Bosnia and Herzegovina's overall fiscal deficit is projected to widen to 2.5% of GDP. The fiscal stance is expected to stay expansionary in 2026—an election year—with deficits remaining broadly unchanged over the medium term.

Federation entity issued its debut Eurobond

In 2025, the Federation issued its debut Eurobond of EUR 350mn (1.9% of FBiH GDP). Republika Srpska will continue to rely on bilateral lenders and domestic banks and faces a EUR 300mn Eurobond maturity in 2026 (3% of RS GDP). Public debt is expected to rise in 2025 and continue increasing gradually over the medium term.

Fiscal discipline deteriorating ahead of elections
Fiscal balance, public debt (% of GDP)



Source: CBBH, Global Fiscal Framework, EU Commission, Erste Group Research

Politics

Mr. Dodik's successor wins in snap elections, but with a tight margin

Political uncertainty has increased following confirmation of the initial sentencing of President Dodik of Republika Srpska. On August 1, the Appeals Chamber of the Court of Bosnia and Herzegovina upheld President Dodik's one year prison sentence and six-year ban from public office, though it converted the jail term into a monetary fine. In response, the Central Election Commission of BiH revoked his mandate and announced the need for snap elections for the RS presidency. Elections were held recently in late November where Milorad Dodik's chosen candidate, Mr. Karan, claimed victory, although with a tight margin of roughly 8000 votes. Republika Srpska opposition parties announced that they would complain to the election commission and demand new elections in at least three municipalities where, according to them, election fraud was reported.

These elections only set the stage for next year's general elections. While the results suggest the SNSD is slowly losing power, they also send an important message to opposition. Namely, two main opposition parties have been going through major internal reorganizations over the past few years, and in most cases have acted individually, not as a unified opposition block which will need to change if they want a better result on the upcoming elections. On the EU front, deadlock was broken in September when Bosnia Herzegovina submitted its updated Reform agenda to the European Commission for approval.

Forecasts

Annual	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Nominal GDP (BAM mn)	37,076	36,235	40,862	46,544	51,973	55,091	58,286	61,550	64,997
Population (mn)	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4
GDP per capita (EUR)	5,430	5,331	6,056	6,930	7,765	8,272	8,781	9,308	9,829
Real GDP (growth y/y %)	2.3	-2.5	7.4	6.2	4.1	2.6	1.8	2.5	2.8
Nominal gross wages (EUR)	726	756	788	880	995	1093	1246	1336	1409
Gross wages growth (%)	2.5	4.1	4.3	11.7	13.0	9.9	14.0	7.2	5.5
CPI (y/y, average %)	0.6	-1.1	2.0	14.0	6.3	1.7	4.0	3.3	2.8
CPI (y/y, year end %)	0.3	-1.6	6.3	14.7	2.2	2.2	3.7	3.8	2.1
Unemployment (%)	15.7	15.9	17.4	15.4	13.2	12.6	12.7	12.3	12.2
Trade balance (% of GDP)	-13.9	-12.8	-10.6	-13.3	-11.3	-13.0	-13.1	-13.4	-12.7
Current account balance (% of GDP)	-2.5	-2.7	-1.4	-4.3	-2.1	-3.4	-3.7	-4.6	-3.9
FDI inflow (% of GDP)	2.0	1.9	2.7	3.4	3.5	2.9	2.4	2.3	2.2
General government budget balance (% of GDP)	1.9	-5.3	-0.3	-0.4	-1.2	-1.8	-2.5	-3.0	-2.5
Public debt (% of GDP)	31.2	34.6	32.5	28.7	25.3	25.5	26.6	28.2	29.2
EUR/BAM	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96

Source: Erste Group Research

Note:
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