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Nowcast of GDP for the First and Second Quarters of 2026 and Inflation in Short-term Period

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Key points:

- *The CBBH estimates the annual growth of real economic activity in the first quarter of 2026 at 2.1%, which is identical to nowcast from March 2026. Compared to the March round of estimates, current estimates do not imply significant changes to the short-term economic growth, confirming the expectations of relatively moderate pace of economic activity in Bosnia and Herzegovina.*
- *The preliminary estimate of the annual real GDP growth rate for the second quarter of 2026 is 2.0%, with a dominant contribution from the services sector, while the contribution from the manufacturing industry is negative due to weak external demand and increased production costs.*
- *Inflation has been significantly revised upward in this round. Compared to the March round of nowcast, the inflation pressures are increased due to the rise in energy prices on global markets and their spillover to the domestic prices. We currently estimate headline inflation in the first half of 2026 at 5.3% and core inflation at 4.5%.*
- *We expect inflation pressures to persist in the third quarter, therefore we estimate headline inflation at 6.1% and core inflation at 4.5%.*
- *To date, within the June round of projections, we have typically communicated preliminary estimates for the fourth quarter. However, the dispersion of risks around the estimates, even over such a relatively short horizon, is markedly asymmetric due to considerable uncertainties in the international and domestic environment, implying a significant risk to the inflation estimate for the final quarter of the current year.*

On the basis of the available official statistical data, and information from international markets, published by 15 June 2026, the Central Bank of Bosnia and Herzegovina (CBBH) estimates the real economic activity continued to grow at a relatively modest pace. Following the growth of real GDP of 2.1% in 2025, preliminary projection for the first quarter of 2026 is 2.1%, which is identical to the March first preliminary estimate (Table 1). The available high-frequency indicators suggest that domestic demand continues to be the primary driver of economic growth, whereas the contribution of the manufacturing industry remains negative, reflecting weak external demand and slower economic activity in the country's main trading partner economies. During the first four months in 2026 a decline in industrial production was recorded (4.5%), while tourism activity recorded only modest growth (2.2%). At the same time, retail trade with a real growth rate of 12.8% significantly contributed to the growth of real economic activity. Our preliminary estimate on the real GDP growth intensity for the second quarter of 2026 is 2.0% and is based on high-frequency data, mostly available only for April 2026.

Compared to the March round of nowcast, the June round does not imply any significant changes to the short-term outlook for economic activity. However, the outlook remains subject to risks, mainly to those originating from the international environment, and a revision of the economic activity projections for the second quarter is possible already in the next nowcast round.

Table 1: Annual GDP Change in Bosnia and Herzegovina

		Nowcast round from March 2026	Nowcast round from June 2026
Official data in the time of report preparation	Q1 2024	3,1%	3,1%
	Q2 2024	3,4%	3,4%
	Q3 2024	3,6%	3,6%
	Q4 2024	2,8%	2,8%
	2024	3,2%	3,2%
	Q1 2025	1,9%	1,9%
	Q2 2025	2,0%	2,2%
	Q3 2025	2,1%	2,3%
	Q4 2025 2025		2,1%
		Nowcast round from March 2026	Nowcast round from June 2026
CBBH nowcast	Q4 2025	2,1%	
	2025	2,0%	
	Q1 2026*	2,1%	
	Q1 2026		2,1%
	Q2 2026*		2,0%
	The first half of the year 2026*		2,0%

Source: BHAS, CBBH estimates. * The first preliminary estimates.

Inflation trends are considerably less favourable than anticipated in the previous round of estimates, when only incomplete January data and information from international markets available up to mid-March were at our disposal. Inflationary pressures in BH have strengthened significantly since March 2026. Compared to the round nowcast from March 2026, the inflation rate has been revised upward, pointing to stronger and more persistent price pressures than previously expected. The estimate for headline inflation in the second quarter of 2026 has been increased from 3.9% to 6.6%, while core inflation has been revised upward from 4.2% to 4.7%. In light of the latest official April releases showing a sharp year-on-year increase in transportation prices (25.9%) and utility costs (11.0%), it is evident why the headline inflation estimate has been revised significantly compared to the previous round. Accordingly, we estimate headline inflation

at 5.3% and core inflation at 4.5% in the first half of the year, with a tendency towards a slight moderation in the third quarter (Table 2).

The current projected inflation values in Bosnia and Herzegovina reflect the simultaneous impact of both external and domestic factors. The main channel of inflationary pressure in the second quarter was the spillover of rising energy prices from international markets. In this regard, an acceleration of inflation was also recorded in the euro area, where the annual inflation rate reached a level of 3.2% in May, which is its highest level since September 2023. According to the latest ECB macroeconomic projections (June 2026¹), inflation in the euro area is expected to average around 3.0% in 2026 (in the baseline scenario), with a gradual convergence towards the target rate of 2% only during 2027.

External inflationary pressures are most clearly reflected in the domestic economy through categories directly linked to energy products and international raw materials prices. During the first four months, the largest individual contribution to inflation in BH came from the Transport category, which recorded growth of around 7.7% in the first four months of 2026, primarily driven by trends in fuel prices and associated transportation costs. This category has a strong impact on the overall price level, as increases in logistics costs are passed through to virtually all goods and services in the economy, further reinforcing inflationary momentum. In addition to transport, a significant contribution to inflationary pressures came from the Utilities category, namely housing, water, electricity, gas and other energy supplies, which in the first four months of 2026 recorded growth of around 8.9%. By contrast, the Food and non-alcoholic beverages category, one of the most important components of the consumer basket, shows signs of a gradual slowdown in price growth in comparison to the previous period, partly due to base effects, but having in mind that, due to the high weight, this category still had the significant total contribution to the inflation.

¹ <https://www.ecb.europa.eu/press/projections/html/index.en.html>

Table 2: Annual Inflation in Bosnia and Herzegovina, for the period

		Headline inflation	Core inflation	
Official data/CBBH estimate on core inflation	Q1 2025	3,3%	4,2%	
	Q2 2025	3,9%	4,3%	
	Q3 2025	4,4%	4,5%	
	Q4 2025	4,3%	4,4%	
	2025	4,0%	4,3%	
	Q1 2026	4,0%	4,3%	
	Travanj 2026.	6,8%	4,8%	
CBBH nowcast	March 2026	Q1 2026	3,5%	4,2%
		Q2 2026	3,9%	4,2%
		The first half of the year 2026	3,7%	4,2%
	June 2026	Q2 2026	6,6%	4,7%
		The first half of the year 2026	5,3%	4,5%
		Q3 2026	6,1%	4,5%
		First nine months 2026	5,6%	4,5%

Source: BHAS, CBBH estimates.

Inflation risks are expected to remain relatively strong in the period ahead, primarily those stemming from the international environment which are linked to raw materials prices on global markets. Additionally, the rigidity of domestic prices and the limited flexibility of the markets in BH may contribute to a slower downward adjustment of inflation, thereby increasing the risk that relatively strong inflationary pressures will persist for an extended period.

Within the June round of the macroeconomic estimates, we have communicated preliminary inflation estimates for the fourth quarter of the current year. However, the estimate remains subject to a high degree of uncertainty, reflecting both international and domestic factors. Risks surrounding the baseline scenario remain predominantly tilted to the upside, pointing to the possibility that inflationary pressures may prove stronger than currently estimated. Consequently, there is considerable uncertainty surrounding the inflation projections for the fourth quarter, because of the high volatility of exogenous prices, therefore the first estimates of inflation for the

final quarter of the current year will be available in the next round. The release of the results of the next round of nowcast of GDP, together with headline and core inflation in the short term, is planned for release in September.