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

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Key points:

- *The CBBH estimates annual real GDP growth at 2.2% in the second quarter of 2026, which represents a slight upward revision, by 0.2 pp compared to the previous round. Current estimates do not bring any significant changes in the short-term economic growth outlook, confirming expectations of relatively moderate dynamics of economic activity in Bosnia and Herzegovina.*
- *For the third quarter of 2026, the CBBH estimates annual real GDP growth at 2.3%. Available indicators indicate the continuation of relatively moderate dynamics of economic activity, with risks from the international environment still present and also uncertainty regarding the external demand trend.*
- *Inflation has been revised downwards significantly in this round. We currently estimate that headline inflation could be 3.7% and core inflation 4.2% in the third quarter of 2026. A significant downward revision of inflation compared to the previous nowcast was made primarily due to the unexpected sharp slowdown of official inflation in June and July 2026, and a weaker transmission of the initial shock of rising transport prices and utility costs to other consumer price components. At the annual level, the prices of food and non-alcohol beverages were lower in June and July, partly due to the base effect. However, the level of the prices of food and non-alcohol beverages is quite high, following a significant increase in the previous period. Also, the level of prices of basic foodstuffs in BH does not differ significantly from prices in the surrounding countries. Due to the high share of food in the household consumption, their price level has a significant impact on costs and living standards.*
- *We expect inflation pressures to remain present and considerable, especially external ones related to energy prices, and we estimate that headline and core inflation could amount to 4.1% in the last quarter of 2026. At the same time, food prices are also expected to rise in the last quarter, spilling over from foreign to the domestic market with a significant time lag.*

Based on the available official statistics and information from the international environment, published by September 10, 2026, the Central Bank of Bosnia and Herzegovina (CBBH) estimates that real economic activity in Bosnia and Herzegovina continued to grow at a moderate pace in the first nine months of 2026. The estimate of annual real GDP growth for the second quarter of 2026 is 2.2%, while based on the currently available data and model estimates, the CBBH estimates that real GDP in the third quarter of 2026 could achieve annual growth of 2.3% (Table 1).

The available high-frequency indicators indicate that domestic demand remains the main driver of economic growth, while the manufacturing industry contribution remains subdued due to weak external demand and slowed down economic activity of major trading partners. In the first seven months of 2026, a decline of industrial production was recorded (2.3%), although the annual growth rates in June and July were slightly positive. In addition, the growth of tourism activity stayed modest (only the growth of overnight stays of foreign tourists recorded a growth of 0.4% for the first seven months of the current year). At the same time, retail trade, with a real growth rate of 11.5%, contributed significantly to the real economic activity growth.

Compared to the June round of nowcast, the September round does not bring significant changes in the short-term outlook for economic activity, with risks remaining significant, primarily due to geopolitical and trade uncertainties. Changes in international energy and raw material prices may affect domestic economic activity through their impact on production costs, consumption and investment.

Table 1: Annual GDP Change in Bosnia and Herzegovina

			Nowcast round from June 2026	Nowcast round from September 2026
Official data at the moment of preparing report	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		2,2%	2,2%
	Q3 2025		2,3%	2,3%
	Q4 2025		2,1%	2,1%
		2025	2,1%	2,1%
	Q1 2026			2,2%
			Nowcast round from June 2026	Nowcast round from September 2026
Nowcast of the CBBH	Q1 2026		2,1%	
	Q2 2026*		2,0%	2,2%
	The first half of 2026*		2,0%	2,2%
	Q3 2026*			2,3%

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

At the end of the second and the beginning of the third quarter, a significant slowdown of official inflation in BH was recorded. In the previous round of nowcasts, for which data were available as of April, annual inflation of 6.8% represented the starting point for the assessment of the second and subsequent quarters. Based on the then available market data, increased inflation rates were expected to continue, given the strong transmission of previous monthly developments to subsequent observations. The new official data, however, showed a much faster slowdown of inflation. The slowdown began as early as in June, when the official annual inflation rate was 4.2%, and in July it decreased to 3.6%, which almost halved inflation in just three months and reduced it by 320 basis points. The revision primarily results from a weaker transmission of the initial shock of the increase of transport prices and utility costs to other consumer price components. Based on the currently available data and information, the CBBH estimates that the average annual headline inflation rate in the third quarter could be 3.7%, while core inflation is estimated at 4.2% (Table 2).

The slowdown of headline inflation in BH is largely related to the trend of prices in the category of food and non-alcohol beverages, which represent one of the most important categories in the consumer basket. The trend of the annual rate of food and non-alcohol beverage prices in June and July was significantly influenced by a strong base effect, the prices in this category were growing at two-digit rates in the same months of the previous year. Although food prices in June and July this year recorded a decrease at the annual level (annual change was -0.5% and -1.1% respectively), the level of prices of food and non-alcohol beverages remains high. This is especially significant in the context of the share of this category in the total household consumption. The dynamics of food price trend has a significant impact on household costs, living standards and perception of inflation. On the other hand, the comparison of international and domestic food prices shows a high correlation, with the approximate six- month time lag, which is why a part of the earlier increase of international food prices can be transmitted to domestic prices only in the final part of the year.

By contrast, prices in the transport category continued to contribute significantly to inflation pressures. Since March 2026, annual price growth rates in this category have been in double digits, indicating the continuing strong price pressures related to fuel prices and other transport costs. Given the importance of transport as an input cost for a large number of goods and services, its dynamics represent an important channel for the transmission of external price pressures to domestic inflation.

At the same time, core inflation remains relatively stable. The CBBH estimates that core inflation in the third quarter could amount to 4.2%, indicating that, despite a significant slowdown of some components of headline inflation, domestic and broader price pressures have not weakened. For the fourth quarter of 2026, we estimate average annual headline and core inflation rates of 4.1%. By the end of the year, we expect inflation trends to be significantly influenced by price developments in the international environment. According to the ECB September projections, inflation in the euro area is expected to peak at 3.6% in the fourth quarter, due to a strong increase of energy prices[1]. Risks to inflation trends in BH by the end of the year are predominantly upward-looking and related to energy price trends and inflation pressures in the international environment.

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

			Headline inflation	Core inflation
Official data/CBBH estimate for 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%
		Q2 2026	5,5%	4,6%
		July 2026	3,6%	4,2%
Nowcast of the CBBH	June 2026	Q2 2026	6,6%	4,7%
		The first half of 2026	5,3%	4,5%
		Q3 2026	6,1%	4,5%
		The first nine months of 2026	5,6%	4,5%
	September 2026	Q3 2026	3,7%	4,2%
		The first nine months of 2026	4,4%	4,3%
		Q4 2026	4,1%	4,1%
		2026	4,3%	4,3%

Source: BHAS, CBBH estimates.

We plan to publish the results of the next round of medium-term macroeconomic projections for the period 2026-2028 in November 2026. We plan to publish the next round of nowcasts of GDP, headline and core inflation in the short term at the end of 2026.

[1] https://www.ecb.europa.eu/press/projections/html/ecb.projections202609_ecbstaff~8e340fc69d.hr.html