



Centralna banka
BOSNE I HERCEGOVINE
Централна банка
БОСНЕ И ХЕРЦЕГОВИНЕ

Report on Macroeconomic Imbalances for 2025



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ABBREVIATIONS

AL	Albania
BA/BH	Bosnia and Herzegovina
bp	basic point
BG	Bulgaria
CBBH	Central Bank of Bosnia and Herzegovina
CPI	Consumer price index
CF	Consensus Forecast
EA	euro area
EC	European Commission
ECB	European Central Bank
EU	European Union
EUR	Euro
FBH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investments
GDP	gross domestic product
GVA	gross value added
HR	Croatia
IIP	International investment position
KM	convertible mark
ME	Montenegro
NEER	Nominal effective exchange rate
NM	North Macedonia
OPEC	Organization of the Petroleum Exporting Countries
PPI	Producer Price Indeks
REER	Real effective exchange rate
RO	Romania
RS	Entitety of Republika Srpska
RS	Republic of Serbia
SI	Slovenia
USA	United States of America

1. SUMMARY

The period since the beginning of the last decade has been characterised by insufficient economic activity needed for faster convergence towards more developed countries. BH will reach only 37% of the average EU development level at the end of 2024, with the slowest reduction of the economic gap behind more developed countries. The modest growth in real economic activity from the previous year continued in 2025 and is being achieved with deteriorating investment opportunities, high inflationary pressures on average consumer prices and labour costs, and continued double-digit growth in real estate prices, which reinforces macroeconomic imbalances.

Judging by the set of quantitative indicators of macroeconomic imbalances, in 2024, a continuous internal imbalance was recorded in the form of a high unemployment rate, an imbalance related to further growth in unit labour costs, which will further increase during 2025, and an imbalance in the form of a continuously high growth in residential real estate prices. Bearing in mind that, according to the spring round of CBBH projections, an insufficient decrease in unemployment to get out of the imbalance and a further increase in the price of labour and real estate in 2025 are expected, a strengthening of internal imbalances can be expected in the coming period. A particularly emphasised factor that contributes to imbalances is the strong pressure on basic prices, which are under increasing pressure from rising labour costs and rising electricity prices. The loss of competitiveness of the domestic economy, which, in addition to low labour costs, rested for decades on low input costs of electricity, is largely determined by the unfavourable structure of production, which increasingly leads to the growth of electricity imports, which creates additional inflationary pressure on producer and consumer prices.

The high share of public sector employees, coupled with increasingly pronounced negative demographic changes, which include dramatically negative natural population growth, the outflow of the working-age population, and a much faster growth in the number of pensioners than employees, make an important source of macroeconomic imbalances in the medium and long term. A further negative contribution of labour to potential economic growth is expected, which will further complicate the reduction of the economic gap with developed countries, and complicate the functioning of the education, pension and health systems.

Considering that in recent years inflationary pressures and the weak supply of most professions on the labour market have become increasingly pronounced, with the growth of pensioners twice as fast as the growth of employees, structural reforms in the segments of social and development policies are urgently needed. Furthermore, projections of future trends in the labour market point to a much-needed demographic development strategy and its implementation, with the aim of increasing the active population and reducing the share of the dependent population.

Private sector debt increased compared to the previous year, but is still significantly below the level designated as macroeconomic imbalance. The decomposition of private debt reveals that its changes were conditioned, for the most part, by the achieved high credit growth. During 2024, increased demand, stable nominal interest rates, relatively low real interest rates, slowing inflation, and growth in real wages contributed to stronger credit dynamics compared to 2023. If this type of credit dynamics continues during 2025, along with the revised slowdown in the growth of economic activity, it can potentially lead to a relative, but again insignificant, increase in the ratio of private debt to GDP.

Indicators of external imbalances in Bosnia and Herzegovina do not indicate macroeconomic risks, since the average three-year current account deficit, viewed relatively in relation to the size of the economy, has remained within acceptable limits for several years. Although in 2024 there was a noticeable increase, it is still outside the zone that would signal a potential threat to the macroeconomic balance. Also, the international investment position in the same period was not a source of imbalances. After a multi-year trend of gradual improvement, in the observed year there was a slight deterioration of the net international investment position, but the total exposure to foreign countries is still far from the level that would represent a source of macroeconomic imbalances.

The fiscal position of Bosnia and Herzegovina weakened in 2024 due to the more intensive growth of expenditures compared to revenues. Increased expenditure on salaries, pensions and social benefits outpaced the growth of tax revenues. The slowdown in economic activity further limited budgetary possibilities, which led to the widening of the deficit. The overall level of public indebtedness remained relatively stable, without a significant increase compared to the previous period.

2. Macroeconomic imbalance procedure

In order to strengthen the resilience of the EU economy, macroeconomic imbalance procedures (MIP) have been established, according to which fourteen indicators grouped as indicators of external imbalances and competitiveness, internal imbalance indicators and the labour market, i.e. employment indicators are monitored. The macroeconomic position of individual countries does not depend only on fiscal and monetary policy, but on a wider set of economic relations in the segment of competitiveness, labour market and financial stability.

The development of macroeconomic imbalance indicators is particularly important after a significant change in economic conditions caused by geopolitical turmoil, inflationary pressures and a decrease in external demand. In assessing the consequences of internal and external indicators on macroeconomic stability and the development of macroeconomic imbalances, more than in previous years, forecasts and high-frequency data are used to obtain the first projections of macroeconomic imbalance trends in 2025. Projections of economic activity are particularly important in periods of strong macroeconomic shocks, as a significant number of macroeconomic imbalance indicators are expressed in percentages of GDP. As in 2023, some macroeconomic imbalance indicators in 2024 recorded a deterioration or stagnation in values following negligible GDP growth, as 2024 was marked by weak economic conditions in the countries of the most important foreign trade partners.

Due to the strengthening of inflationary pressures in the country, in 2024, a series of existing macroeconomic vulnerabilities (Table 2.1) will further worsen, which is particularly related to the high growth of real estate prices, and the increase in unit labour costs, which leads to further weakening of competitiveness. Bearing in mind that in 2025 the unit cost of labour increased significantly due to the increase in gross expenses after the increase in minimum and other wages, this imbalance is expected to significantly worsen in the current year, which, according to the first estimates, is twice as pronounced compared to 2024. The continuation of the record rise in real estate prices, along with the deterioration of affordability, indicates signs of overheating and is one of the key macroeconomic imbalances, which, according to the assessment, needs to be systematically monitored in the coming period.

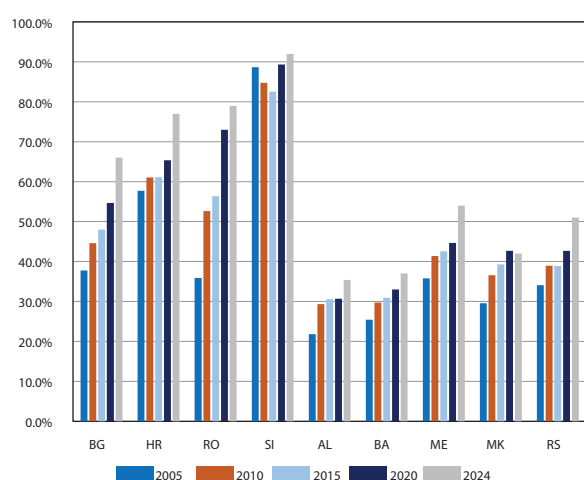
Table 2.1: Macroeconomic Imbalance Indicators in 2024

2024	External imbalances and competitiveness indicators					Internal imbalance indicators					Employment indicators			
	Balance of payments current account - three year average (GDP%)	Net balance of foreign investment (GDP %)	Real effective exchange rate - three year change (%)	Share in global exports of goods and services - five year change (global export %)	Nominal index of unit labour cost - three year change (%)	Residential property deflated price index - one year change (%)	Private sector credit flow, consolidated - GDP %	Private sector debt, consolidated - GDP %	Gross debt of general government - GDP %	"Unemployment rate - three year average (%)"	"Financial sector total liabilities, unconsolidated - one-year change (%)"	Activity rate - three year change (pp)	Long-lasting unemployment - three year change (pp)	Youth unemployment rate - three year change (pp)
Reference value	From -4 % to 6 %	-35%	"±5 % (euro area) ±11 % (outside euro area)"	-6%	"9 % (euro area) 12 % (outside euro area)"	6%	14%	133%	60%	10.0%	16.50%	(-0.2 pp)	0.5 pp	2.0 pp
Bosnia and Herzegovina	-3.6%	-22.7%	2.5%	13.6%	12.0%	10.1%	4.4%	51.4%	26.3%	13.8%	8.3%	5.6%	-4.4%	-5.2%
European Union			3.7%		15.9%	0.5%	1.3%	121.6%	81.0%	6.1%	5.3%	1.7%	-0.9%	-1.8%
Euro area			1.7%		14.9%	-0.5%	1.0%	124.3%	87.4%	6.6%	5.3%	1.7%	-1.1%	-2.4%
Belgium	-1.0%	60.2%	1.6%	-7.2%	15.8%	1.6%	0.4%	150.0%	104.7%	5.6%	7.9%	1.1%	-0.6%	-0.8%
Bulgaria	-1.8%	-3.7%	7.3%	11.8%	33.8%	11.0%	7.4%	72.3%	24.1%	4.2%		1.7%	-0.4%	-3.5%
Czech Republic	-1.0%	-7.2%	14.4%	0.6%	20.3%	1.9%	5.2%	78.3%	43.6%	2.5%	7.8%	0.9%	0.0%	0.9%
Denmark	11.5%	67.3%	-0.9%	16.5%	11.6%	1.9%	6.9%	198.2%	31.1%	5.3%	4.0%	2.8%	-0.2%	3.8%
Germany	5.0%	81.0%	1.6%	-9.2%	17.9%	-4.2%	1.3%	108.5%	62.5%	3.2%	3.3%	1.5%	-0.3%	-0.5%
Estonia	-2.3%	-9.8%	16.0%	11.8%	40.4%	2.8%	7.8%	96.9%	23.6%	6.5%		3.1%	0.2%	2.4%
Ireland	11.3%	-80.7%	-1.8%	28.9%	20.6%	4.1%	-4.1%	118.5%	40.9%	4.4%	17.4%	3.3%	-0.8%	-4.0%
Greece	-7.6%	-130.4%	0.8%	4.8%	4.9%	5.1%	5.1%	94.1%	153.6%	11.2%	1.9%	3.2%	-3.8%	-13.0%
Spain	2.0%	-43.5%	-0.7%	3.9%	12.8%	4.3%	1.9%	107.4%	101.8%	12.2%	3.1%	0.9%	-2.4%	-8.5%
France	-0.6%	-20.3%	-1.1%	-4.9%	11.4%	-5.8%	1.1%	151.4%	113.0%	7.3%		1.5%	-0.6%	-0.2%
Croatia	-1.2%	-27.1%	5.4%	15.9%	40.0%	7.0%	5.1%	72.3%	57.6%	6.0%		2.9%	-0.9%	-4.7%
Italy	-0.2%	15.3%	0.0%	-2.1%	8.9%	1.7%	-0.6%	92.0%	135.3%	7.4%		2.1%	-2.1%	-9.4%
Cyprus	-8.9%	-86.9%	1.0%	39.2%	11.2%	0.3%	1.9%	180.2%	65.0%	5.7%		1.8%	-1.2%	-4.3%
Latvia	-3.8%	-20.5%	9.6%	6.8%	36.2%	0.7%	3.0%	55.7%	46.8%	6.8%		0.9%	-0.1%	-1.2%
Lithuania	-0.8%	0.5%	9.2%	16.8%	39.5%	8.8%	4.8%	52.7%	38.2%	6.7%		1.3%	-0.3%	1.9%
Luxembourg	6.3%	35.1%	-2.4%	10.5%	24.2%	-8.2%	17.5%	339.2%	26.3%	5.4%		1.3%	-0.2%	4.7%
Hungary	-2.0%	-37.3%	7.3%	-2.0%	47.7%	7.6%	3.6%	72.8%	73.5%	4.1%		2.3%	0.2%	1.6%
Malta	3.8%	82.1%	1.5%	7.8%	13.6%	3.4%	7.8%	114.4%	47.4%	3.4%		5.0%	-0.3%	-0.8%
Netherlands	8.4%	62.1%	3.3%	-0.6%	18.3%	5.5%	0.7%	201.9%	43.3%	3.6%	3.0%	1.8%	-0.3%	-0.6%
Austria	1.0%	24.1%	2.4%	-4.8%	21.8%	-3.5%	0.8%	115.3%	81.8%	5.0%		1.0%	-0.9%	-0.7%
Poland	-0.2%	-28.6%	17.5%	18.8%	33.1%	11.2%	1.9%	53.9%	55.3%	2.9%	9.6%	1.8%	-0.1%	-1.1%
Portugal	0.2%	-58.3%	0.6%	7.6%	17.0%	6.4%	2.2%	120.0%	94.9%	6.4%	3.2%	3.2%	-0.5%	-1.8%
Romania	-8.2%	-42.5%	9.7%	6.3%	47.6%	-1.1%	3.2%	40.1%	54.8%	5.5%		1.8%	-0.2%	2.9%
Slovenia	2.6%	8.2%	1.1%	2.2%	20.4%	5.3%	1.0%	56.9%	67.0%	3.8%		0.9%	-0.8%	-1.9%
Slovakia	-4.4%	-51.0%	8.3%	-2.5%	22.8%	0.3%	2.1%	82.7%	59.3%	5.7%		2.0%	-0.4%	-1.4%
Finland	-1.1%	26.3%	-1.9%	-9.3%	11.3%	-4.1%	0.3%	140.7%	82.1%	7.5%		0.6%	0.0%	1.7%
Sweden	5.2%	67.7%	-9.7%	0.6%	15.6%	-2.6%	0.4%	198.9%	33.5%	7.9%		1.2%	-0.1%	-0.4%

3. Economy performance and outlook

The period since the beginning of the decade has been marked by a level of economic activity insufficient for faster convergence towards more developed countries. In 2024, BH reached only 37% of the EU average level of development. Back in 2010, BH and Albania reached 30% and 29% of EU development respectively, and still record almost unchanged levels of development after fifteen years (Graph 3.1). Significant economic benefits of EU accession are visible in the example of Croatia (77% of the EU level of development) which reduced the gap by 16 percentage points in a ten-year period, Slovenia which reached 92% of the EU average level of development, or Romania which recorded convergence to the EU standard by over 20 percentage points in a ten-year period.

Graph 3.1: GDP per Purchasing Power Standard, (EU 27=100)

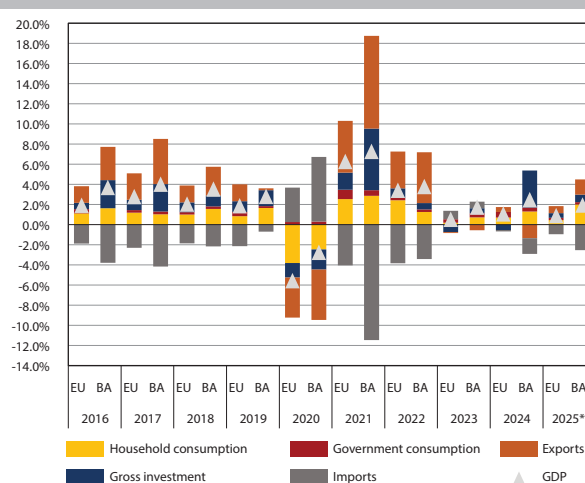


Source: EUROSTAT, BHAS

The structure of economic activity in BH, compared to the structure in the EU, has changed since 2023 by reducing the share of exports and increasing the influence of household consumption, which is, among other things, caused by a significant increase in real wages. Real exports, especially goods, have decreased below the multi-year average, with goods exports recovering slightly in the first half of 2025 due to a rather low base. The weakening of exports and investments is the result of a decrease in external demand, due to the impact of uncertainty. Tariffs on products exported by the EU to the US, the effects of which are still uncertain, may further worsen the domestic foreign trade balance. In addition, the high uncertainty surrounding the domestic political situation, which is particularly pronounced in 2025, does not inspire optimism for attracting new investments.

The structure of GDP growth in the country and the EU in the current year shows, on average, similar contributions of the main components (Graph 3.2), with a more significant impact on economic activity in BH expected from household consumption following the high growth of minimum wages, which led, among other things, to the growth of real wages. In the first half of 2025, real wages grew by 9.3%, strengthening inflationary pressure, which was almost twice as pronounced in the first seven months on the domestic market compared to the euro area.¹

Graph 3.2: Contributions of GDP Components, Expenditure Approach



Source: EUROSTAT, BHAS

Note: The contribution of the components in 2025 is the annual change in value added in the first quarter for the EU. The estimate of GDP trends in BH for 2025 is based on the autumn round of macroeconomic projections of the CBBH.

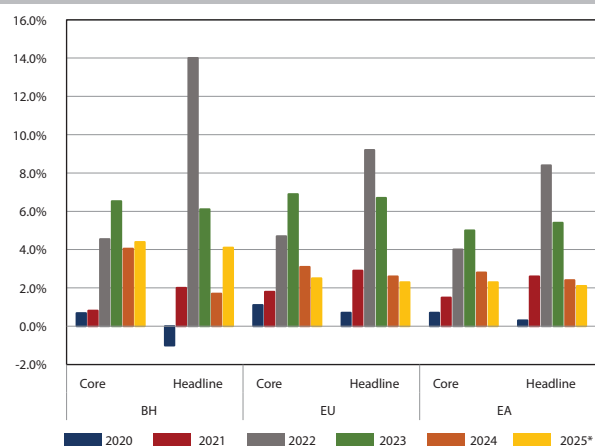
The economic stagnation in recent years is largely the result of high inflationary pressures, primarily due to rising core inflation. During 2022 and 2023, record domestic inflation rates were recorded, following the effects of numerous factors, in particular the strong growth in food and energy prices, and the effects of the ECB's expansionary unconventional monetary policy, as well as the fiscal policies of most countries during the pandemic period. The increase in profit margins² also contributed to record inflation. Bearing in mind that high inflation rates reduce the real standard of living of the population, there were increasingly frequent union pressures to increase nominal wages in order to ultimately harmonise the real incomes of the population with strong price growth. After the inflation rate in 2024 significantly slowed down (1.7%) at the beginning of the current year, the inflationary pressure increased strongly again, which later increased further, as a result of a record increase in minimum wages, which led to almost twice the inflation rate in BH compared to the euro area.

¹ In the first seven months, inflation in the EA was 2.2%, while inflation in the domestic market was 3.8%.

² See the previous Report on macroeconomic imbalances for 2024 (<https://cbbh.ba/Content/Archive/1260>), p. 19, Graph 5.6.

The aforementioned pressure, and the increasingly pronounced problem of the lack of qualified labour force, led to a faster growth of core inflation, which in recent years has been more pronounced than the overall inflation rate on the domestic market and the EU market as well. If we compare the expected total and core inflation on the domestic and foreign markets for the year 2025 (Graph 3.3), it is evident that core inflation is expected to continue to grow faster than overall inflation, due to the increasingly pronounced influence of domestic prices, which may lead to a deepening of the inflationary spiral.

Graph 3.3: Annual Change of Core and Headline Inflation



Source: EUROSTAT, BHAS, CBBH, CF

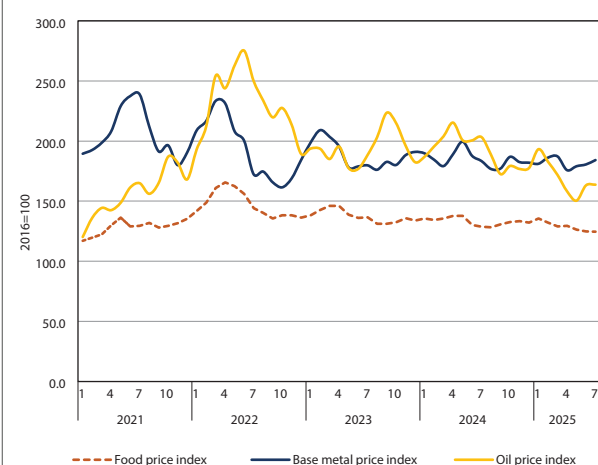
Note: * The forecast for core inflation for BH is in line with the latest flash estimate from the end of September, while the forecast for total inflation is according to the autumn round of macroeconomic projections from October. The EA projection is based on the CF estimate from July, while the forecast for total and core inflation for the EU is the EC estimate from May of the current year.

4. External sector

Global economic activity in 2024 was moderate, with a pronounced impact of geopolitical tensions, primarily related to the war in Ukraine, as well as conflicts in the Middle East, which was also reflected in indicators of external imbalances in BH. Despite the pronounced challenges in global supply chains, energy prices in 2024 did not record significant disturbances (Graph 4.1). Price movements on international markets remained under the strong influence of weak global demand, especially in the world's leading economies, while relatively high supply outside OPEC+ countries eased price pressures. After moderate growth in the first half of 2024, Brent oil prices recorded a decline in the second half and moved in a relatively narrow range, despite pronounced geopolitical tensions in the Middle East and occasional transport interruptions in the Red Sea. In contrast, natural gas prices had a slight upward trajectory due to pronounced supply uncertainty and a lower level of occupancy of European warehouses.

The more stable movement of energy prices, especially the moderate drop in oil prices in the second half of the year, had a favourable effect on the terms of exchange for energy importing countries such as Bosnia and Herzegovina, mitigating import costs thus reducing the pressure on the deterioration of the commodity balance. In this way, the absence of stronger price shocks on the energy market contributed to limiting the growth of the three-year current account deficit expressed as a percentage of GDP, preventing the emergence of external macroeconomic imbalances that would result from deteriorating energy trade conditions.

Graph 4.1: Index of Stock Exchange Commodity Prices

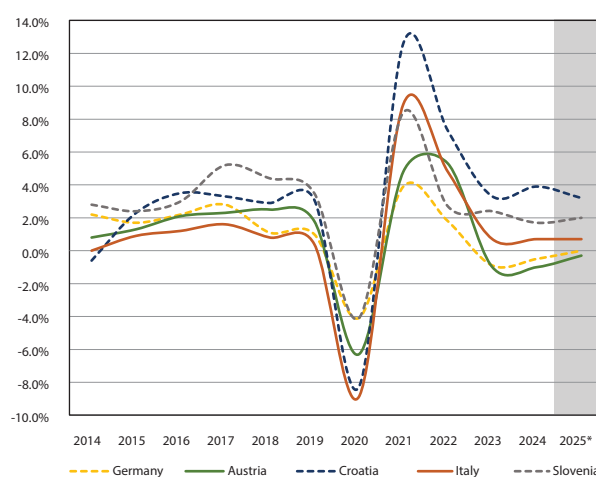


Source: IMF database

Global economic activity in 2024 recorded moderate growth, with a gradual reduction in inflationary pressures. The most significant influence on BH comes from the European Union, its key trade partner and primary export market. Economic activity in the EU in 2024 remained weak (1.0%)³, due to slowed industrial production, weak investment activity and still present price pressures in the service sector (Graph 4.2). Nevertheless, the labour market remained relatively stable, with a slight increase in employment.

Due to strong trade connections, economic trends in BH have largely followed the economic cycle of the EU. The weaker foreign demand from the euro area countries had a negative impact on the export industry of BH, especially in the metal, wood processing industry and electrical equipment sectors. This limited the positive effects of more favourable conditions on energy markets and lower import prices, which partially mitigated, but did not eliminate, the vulnerability of the external sector.

Graph 4.2: Real Growth of Main Trade Partners' GDPs



Source: EUROSTAT

Note: *2025 European Commission Projection, Spring Forecast

In 2025, a slight strengthening of economic growth in the EU is expected (1.1%)⁴, with a gradual recovery of investments and private consumption. However, the slow recovery of industrial production and still present trade risks could keep BH's external sector under pressure. In such conditions, there is a risk that the sluggish foreign demand, combined with the import dependence of the domestic economy, could lead to the expansion of the trade deficit and thereby increase the potential external imbalances, which are reflected in the three-year current account deficit expressed as a percentage of GDP.

³ Source: EUROSTAT

⁴ Source: European Commission, „Spring 2025 Economic Forecast: Moderate growth amid global economic uncertainty“, 19 May 2025

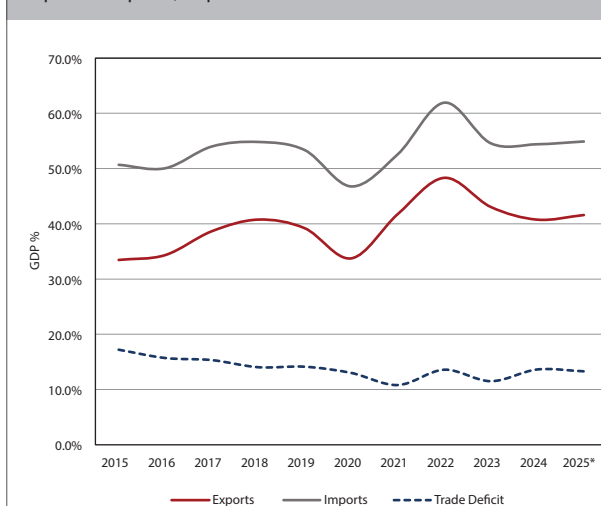
The external imbalances of the EU did not change significantly in 2024, compared to 2023, from the aspect of the international investment position. Most of the European countries that record a net inflow of foreign direct investments have recorded a moderate improvement, but they still remain in the zone of pronounced macroeconomic risk when it comes to this indicator. Looking at the current account balance expressed as a percentage of GDP, as many as three countries (Latvia, Hungary and Sweden) have left the zone of macroeconomic imbalance (-4% to 6% of GDP). In terms of the three-year change in the real effective exchange rate, Croatia and Poland entered the zone of macroeconomic imbalance, with values of 5.4% and 17.5%, respectively, while Lithuania exited the zone of imbalance (reference values for this indicator are $\pm 5\%$ for euro area countries and $\pm 11\%$ for other countries). Despite the growth of global trade in goods and services (3.7%)⁵, EU countries recorded growth that was below the global average, so that from the aspect of the share of exports in the world export of goods and services, Belgium and Finland entered the zone of macroeconomic imbalance, considering that the five-year change in the participation of the mentioned countries in world exports is above the reference -6%.

Indicators for BH do not indicate potential external imbalances, given that the three-year average of the current account deficit, expressed as a percentage of GDP, does not exceed the reference value for six years in a row. The three-year average current account deficit expressed as a percentage of GDP recorded a significant growth in 2024 to the level of 3.6% (Statistical Appendix 1), but still remained outside the zone of macroeconomic imbalance (-4% to 6%). In 2024, the current account deficit recorded a growth of 84.0% compared to 2023, so that the three-year average was above the level of the previous five years. As in previous years, the basic generator of the current account deficit is the trade deficit, as a consequence of the deficit on the goods account.

In 2024, an increase in the value of foreign trade commodity exchange of 0.6% was recorded, primarily as a result of an increase in the value of imports of 3.2%, against a decrease in the value of exports of 3.7% (Graph 4.3). The decline in the value of exports of goods, especially in the first half of the previous year, was primarily caused by the decline in demand on the markets of BH's main trading partners. Some of the most exportable product groups were affected by the drop in demand: products of mineral origin (25.4% drop compared to 2023, the largest part of which relates to electricity with the present price effect), furniture (9.3%) and base metals (6.3%). The decline in the value of exports of goods, followed by the growth of the value of imports, along with BH's position as a net importer on the international goods market, resulted in a record foreign trade commodity deficit in 2024 of KM 12.58 billion.

Despite weak economic indicators in the countries of the main trade partners, in the first seven months of 2025, the export of goods from Bosnia and Herzegovina recorded a growth of 5.7%. The main limiting factors for the growth of exports of goods from BH in 2025 could be persistently weak demand in the main EU markets due to slow economic growth, geopolitical instability and trade barriers. The European market, as one of the most important American trade partners, could face a drop in exports and a decrease in investments, primarily in sectors strongly dependent on the American market, which can reduce the demand for BH products and worsen the trade balance of our country (Text box 1). Despite the pronounced macroeconomic risks, the foreign trade commodity deficit, as the most significant generator of the current account deficit, recorded an annual growth of 2.8% in the first seven months of 2025. Taking into account weak foreign demand for the second year in a row, as well as BH's position as a net importer on the international goods market, the aforementioned increase in the deficit on the goods account should not cause a significant worsening of the current account deficit in 2025. In addition to the above, according to the spring round of macroeconomic projections of the CBBH, remittances from abroad in 2025 are projected at the level of 10.3% of GDP, which is above the five-year average (9.9% average in the period 2020-2024), which should significantly reduce the current account deficit. As a result, the three-year average of the current account deficit expressed as a percentage of GDP in 2025 should not threaten the macroeconomic balance on this basis.

Graph 4.3: Exports, Imports and Trade Deficit



Source: BHAS

Note: The data for the year 2024 are the sum of the quarterly GDP according to the expenditure approach, while the data for the year 2025 are the projections of the CBBH.

⁵ Source: UNCTAD, „Global Trade Update (March 2025): The role of tariffs in international trade“, 14 March 2025,

Text box 1: Indirect impact of new customs tariffs on EU goods by the USA on the exports of goods from BH

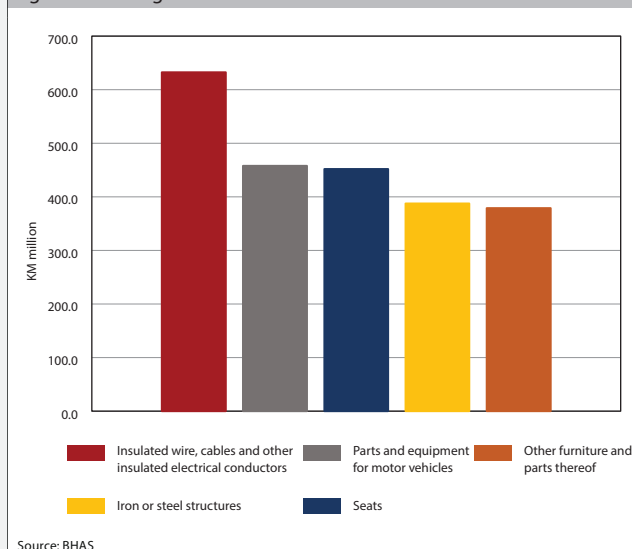
Although the value of exports of goods from Bosnia and Herzegovina to the USA shows a growing trend, with less oscillation, the introduction of customs tariffs of 35% on the imports of goods from Bosnia and Herzegovina to the USA should not have a significant direct impact on the total exports of goods, given that exports to the USA record a relatively small share in total exports. The share of exports from BH to the USA in total exports ranged from 0.3% in 2010 to 1.5% in 2024. The introduction of higher tariffs will have the greatest impact on the exports of the armaments industry, which accounts for about half of the total export to the USA, followed by the chemical, metal and electrical industries.

Much more significant could be the indirect impact, as a result of the introduction of higher customs rates on the imports of goods from the EU to the USA, considering that the EU market is the most important export market for BH goods. In the first seven months of 2025, 73.8% of the value of total exports was placed on the EU market. Although we do not have accurate data on the degree of processing of exported goods, it can be assumed that a significant part of exports to the EU consists of raw materials and semi-finished products, which after processing are exported to the US market. According to the agreement between the USA and the EU from July 2025, instead of the previous 2-4% (the most widely applied customs rate depending on the type of goods), a single rate of 15% was introduced, except for base metals, which will be subject to a rate of 50% (instead of the previous differentiated rate depending on the type of metal, e.g. steel 25% and aluminium 10%).

The introduction of higher customs tariffs on the imports of goods from the EU to the USA could have a negative impact on the exports of the metal, electrical and automotive industries in BH (Graph 4.4). Observed by the most significant sections of the HS classification, the most significant export groups of products in trade with the EU are insulated wire, which in 2024 was exported in the value of KM 632.7 million, parts and accessories for motor vehicles (KM 458.0 million) and seats (KM 452.0 million), the largest part of which refers to car seats and upholstery. Most of these products are exported to the EU, where they are further installed in cars that are exported to a significant extent to the US market. Next to the pharmaceutical industry, it is believed that the EU automotive industry will be the most exposed to the newly introduced tariffs. The US is a key export market for German and Italian manufacturers, so the price increase makes their models less competitive compared to domestic and Asian brands. In addition to tariffs, the EU automotive industry has been facing strong competition from China for several years. Chinese manufacturers of electric vehicles are aggressively entering the European market with cheaper models, supported by government subsidies. The EU reacted by introducing additional anti-dumping duties on Chinese electric vehicles (from July

2024), but it is feared that Chinese manufacturers will still remain price dominant. EU manufacturers are investing heavily in the transition from internal combustion engines to electric vehicles. However, the high costs of battery production, slow infrastructure development and insufficient demand in the EU slow down the return on investment, which further complicates the position of the EU automotive industry.

Graph 4.4: Export of Commodities to the EU in 2024 by the Most Significant Categories of HS Codes



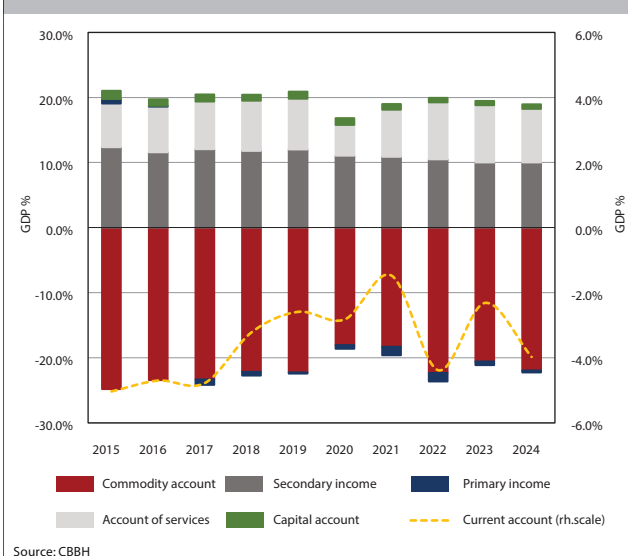
In addition to the above, significant exports to the EU were also recorded in the exports of iron and steel structures (KM 387.5 million in 2024), which are mostly intended for the construction sector of the EU, as well as other furniture and parts (KM 379.2 million). Metals (steel, aluminium, iron products) could be doubly affected by tariffs because the USA introduced increased tariffs of 50% on EU metals, so the EU reduces production and thus the demand for semi-finished products from BH.

With the introduction of tariffs, EU companies will be less competitive on the US market, which could mean the loss of a significant part of revenues, a decrease in production and a drop in demand for production inputs. Given that Bosnia and Herzegovina is strongly integrated into the European value chain, especially in the automotive industry and the metal sector, a potential drop in orders could significantly affect the domestic industry, which would ultimately worsen the trade gap between Bosnia and Herzegovina and abroad.

In 2024, record net inflows were recorded on the services account in the amount of KM 4.40 billion, primarily as a result of good indicators in the tourism sector (Graph 4.5). Inflows based on the consumption of foreign tourists were achieved at a record level, with the fact that the net effect was significantly reduced by the growth of outflows based on the consumption of domestic tourists abroad, to a level slightly below 2023. Despite the fall in the volume of industrial production in trade partner countries, net inflows based on the processing and finishing of goods (so-called Lohn jobs) recorded

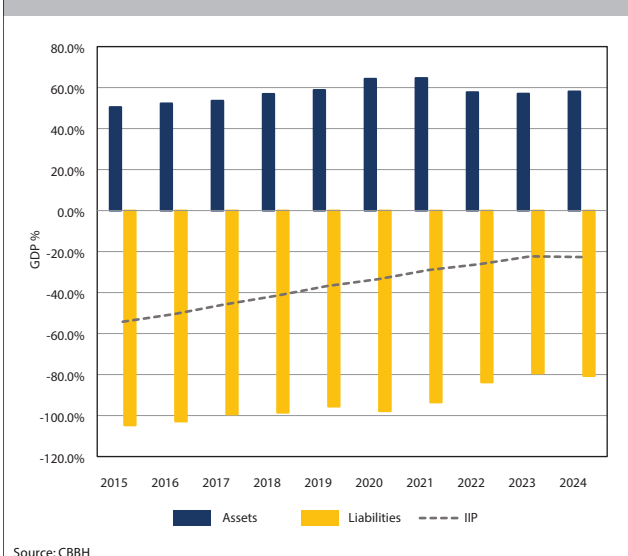
a growth of 8.0%. More modest, compared to earlier periods, indicators related to the exports of goods from BH contributed to a decrease in net inflows based on transport services of 9.1%. Despite the modest volume of economic activity in the EU, net inflows based on workers' remittances recorded a growth of 9.2%, primarily as a result of continued strong demand on the labour market, as well as nominal wage adjustment. According to the spring projections of the CBBH, in 2025 the growth of remittances is expected to be 8.9%.

Graph 4.5: Current and Capital Accounts



In 2024, the international investment position (IIP) was not a source of imbalances. In the reporting year, IIP, expressed as a percentage of GDP, after nine years of continuous reduction, recorded moderate growth to the level of 22.7%, which is still well below the macroeconomic imbalance zone (Graph 4.6 and Table 2.1).

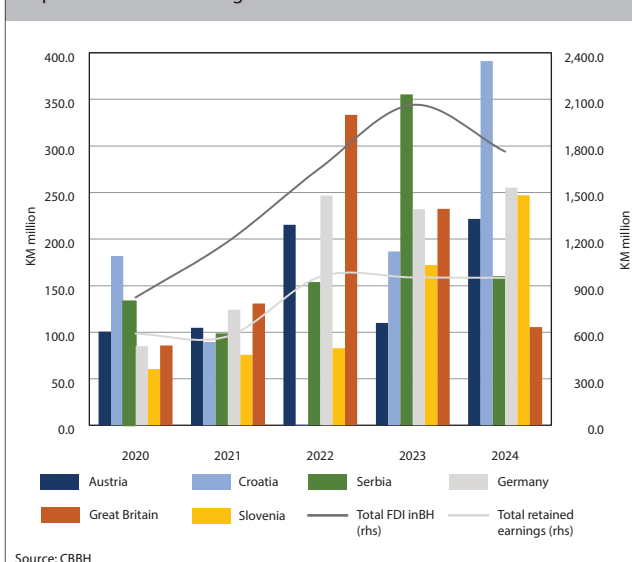
Graph 4.6: International Investment Position



The international investment position, expressed as a percentage of GDP, recorded a slight deterioration of 40 bp in 2024. Despite the fact that both assets and liabilities, viewed in absolute terms, recorded an almost identical growth of 9.2% and 9.1%, respectively, the slightly higher absolute value of liabilities influenced the increase in the ratio of IIP to GDP. The increase in assets is the result of an increase in the categories of currencies and deposits (KM 435.2 million) as well as investments in debt securities (KM 395.2 million). The increase in liabilities is mostly the result of inflows based on foreign direct investments, but also borrowing by the private and government sectors. Borrowing of the private enterprise sector was realized for the most part through trade credits and advances due to the increase in the value of foreign trade, while the net indebtedness of the government sector was realised through loans from international creditors, despite the significant amount of loan repayments to the IMF. According to the data for the first quarter of 2025, the investment position further worsened, with the growth of direct foreign investments and the increase in borrowing by both the corporate sector through trade loans and the government sector through loans. In mid-2025, the Federation of Bosnia and Herzegovina (FBH) issued bonds worth 350 million euros on the London Stock Exchange, almost half of which was owned by resident banks by the end of July. Simplification of administrative procedures, investments in transport and energy infrastructure, and digitization of public services are measures that would contribute to the growth of competitiveness and the attraction of foreign investments in BH. Additionally, a predictable domestic regulatory environment, strengthening the rule of law and the fight against corruption would increase investor confidence and make the country more attractive for new projects in the long term.

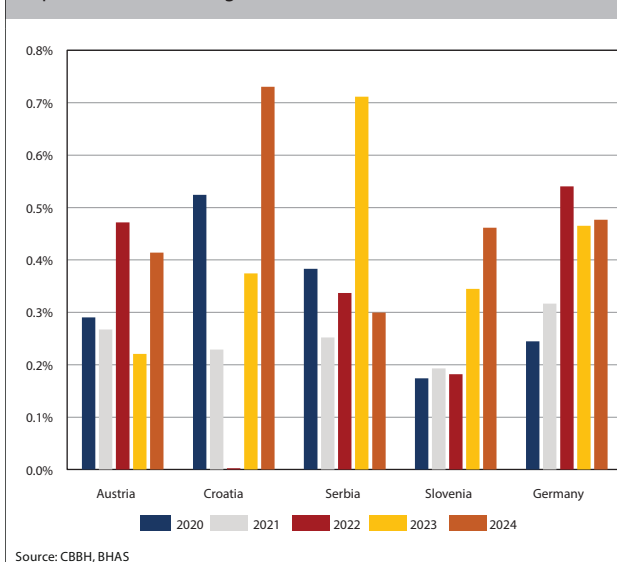
In 2024, direct foreign investments amounted to KM 1.76 billion, which makes an annual decrease of 14.6% (Graph 4.7). Of this amount, as much as 53.9% refers to retained earnings, while the rest is investments in equity shares and other capital. Observed by investor country, the largest participation in total foreign investments in 2024 was recorded by Croatia (KM 391.1 million), Germany (KM 255.3 million), Slovenia (KM 247.1 million) and Austria (KM 221.6 million). The share of retained earnings in total investments is significantly higher compared to 2023. The decline in the value of foreign investments in 2024 is partly a consequence of significant investments in 2023 by individual countries that had a base effect in the reporting year, such as Russia's investment of over KM 300 million in the form of other capital. According to balance of payments statistics, net inflows based on foreign direct investments in the first quarter of 2025 recorded an annual decline of 34.5%, while retained earnings accounted for as much as 81.3% of total foreign investments.

Graph 4.7: Inflow of Foreign Direct Investment



The projected low level of economic activity in the EU countries, BH's main trade and investment partners, the retention of restrictive monetary policy in the EU and the USA that maintains high capital costs, trade protectionism and geopolitical tensions, are basic external risks for the inflow of direct foreign investments, as well as the international investment position as a whole. Croatia, Serbia, Austria, Slovenia and Germany are the most significant investor countries in BH. The total value of the investments of the mentioned countries was as much as 72.4% of the total foreign investments in Bosnia and Herzegovina in 2024. Investments by Croatia, Germany and Austria accounted for 0.7%, 0.5% and 0.4% of GDP, respectively, in the previous year (Graph 4.8). The projected decline in real economic activity in Austria in 2025 of 0.3% could have an impact on the inflow of foreign direct investments in BH, but not to a significant extent, considering that as much as 82.2% of investments from this country in 2024 were related to retained earnings. Foreign investments from Austria are mostly related to investments in the banking sector of Bosnia and Herzegovina, so that investments in the previous year are also mostly related to retained earnings. The situation is similar with investments from Croatia, where over 93% of investments were in the form of retained earnings, wherein these investments, in addition to the financial sector, were mostly related to wholesale and retail trade. The expected stagnation of the German economy could have a special significance for the inflow of foreign direct investments in BH, given that German investments relate to a wide range of activities in the BH economy (mostly manufacturing industry) and are almost entirely in the form of ownership shares and other capital. An important challenge faced by the EU countries is the tariffs introduced by the USA and their impact on the economic activity of the member states and indirectly on BH. Special emphasis is placed on the German automotive industry, which generates a significant part of exports from BH, and could be significantly influenced by higher US customs rates.

Graph 4.8: Flows of Foreign Direct Investment in Per Cents of GDP in BH



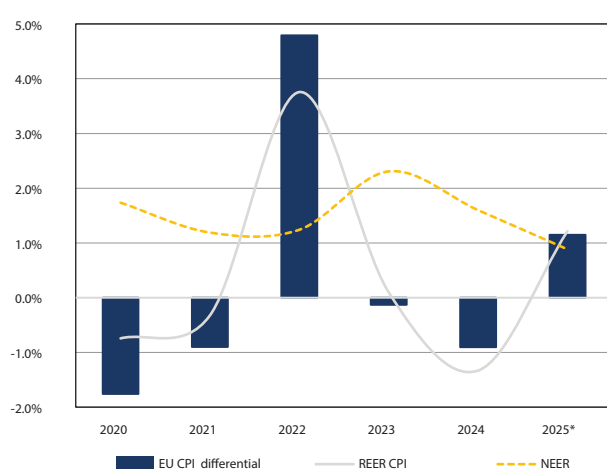
Text box 2: Competitiveness of the BH economy from the perspective of the real effective exchange rate

In conditions of pronounced geopolitical tensions, as well as a modest level of global economic activity, indicators of the competitiveness of the economy gain even more importance. The real effective exchange rate (REER) is one of the key indicators of a country's competitiveness, as it measures changes in the relative prices of the domestic economy in relation to its main trading partners. REER measures the purchasing power of the currency in international trade because it takes into account the nominal exchange rate of the domestic currency, but also the differences in inflation between BH and its partners. REER is particularly important because it shows how much domestic products become more expensive or cheaper compared to imported ones, i.e. REER reflects real purchasing power and competitiveness. If REER increases (appreciation), domestic goods lose their price competitiveness on export markets, which can reduce exports and hinder economic growth. If the REER falls (depreciation in real terms), BH goods become more competitive in exports, and exporters gain an advantage, but this can increase the prices of imported goods and cause inflationary pressures.

In the case of Bosnia and Herzegovina, where exports are one of the main drivers of economic growth, a stable and favourable REER has direct significance for maintaining the competitiveness of the manufacturing sector, attracting foreign investments and balancing the foreign trade balance. The nominal effective exchange rate of KM recorded an appreciation of 1.6% in 2024, which was mostly caused by the movement of the EUR, our anchor currency, against the currencies of the countries of BH's most important trading partners. On the other hand, REER, where the consumer price index (CPI) was used as a deflator, recorded a depreciation of 1.3% in 2024 (Graph 4.9).

REER CPI depreciation was, for the most part, caused by lower inflation rates in BH compared to the most important trade partners. A lower inflation rate (1.7%) was recorded in BH last year compared to Germany (2.5%), Austria (2.9%), Croatia (4.0%) and Serbia (4.8%). Although it is not among the most important trading partners⁶, a significant contribution to the depreciation of the REER CPI was made by the extremely high inflation rate in Turkey of 58.5%. In early 2025, inflation accelerated in BH (in the first half of the year, inflation was 3.6%), largely due to the increase in minimum wages, but also to the increase in electricity prices. In June, annual inflation was recorded at 4.6%, which is above the inflation level in most of the countries of BH's most important trading partners, which ultimately resulted in the REER CPI entering the appreciation zone (2.8% in June compared to the same month in 2024).

Graph 4.9: Real Effective Exchange Rate, REER CPI



Source: CBBH

Note: The CPI differential is the difference between the average annual CPI rates in BH and the HICP in the EU. Positive values reflect higher annual rates in BH. Data for 2025 are those for the first six months.

The real effective exchange rate, where the producer price index (PPI) of industry for the domestic market was used as a deflator, recorded an appreciation of 4.4% in 2024 (Graph 4.10). In addition to the nominal appreciation of KM, the biggest impact on the growth of REER PPI was the average higher inflation rates of industrial producer prices in BH in 2024 (2.3%) compared to the countries of the most important trade partners: Austria (-3.6%), Croatia (-2.9%), Germany (-0.9%) and Serbia (1.2%). The average PPI growth in BH in 2024 was above the average PPI growth for the EU, where due to the annual drop in energy prices and weaker industrial activity, the PPI often recorded negative annual rates. This increased the relative prices of domestic industry compared to foreign ones, which was directly reflected in the growth of REER (real appreciation). Given that PPI mainly includes input costs (raw materials, energy, labour and capital), it should be noted that BH has for years recorded a relatively high level of competitiveness when it comes to energy prices, with an emphasis on electricity prices, which were administered, and without significant increases.

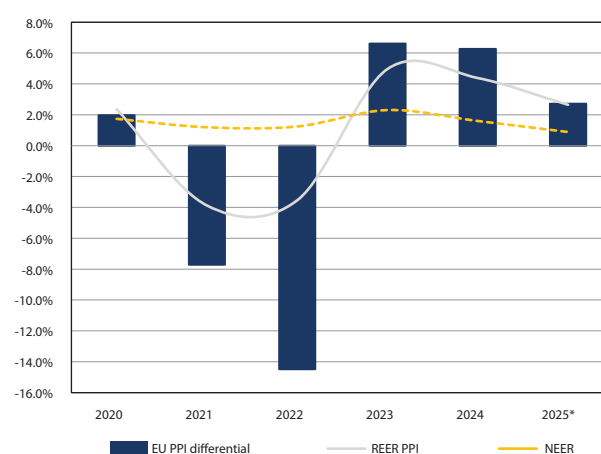
⁶ The weighting value for Turkey in the three-year period 2022-2024 for calculating the REER CPI was 4.3%, which is the relative importance of individual countries in the international trade in goods of the manufacturing industry with BiH.

The competitiveness of the BH economy, measured by the REER PPI, in 2022 was largely the result of a slightly weaker transitory mechanism of the energy crisis caused by the war in Ukraine, given that the countries that are the most important trade partners of BH were much more exposed to interruptions in the distribution of natural gas and price shocks. The significant use of natural gas in the production of electricity in the EU countries caused a significant increase in electricity prices, both for households and the economy, which affected the unit prices of production costs. The above-mentioned developments had the effect of moving a part of production from abroad to BH in 2022, which also resulted in the growth of the net inflow based on Lohn jobs (processing and finishing of goods in 2022 of 23.5%). The growth of electricity prices in Bosnia and Herzegovina, both for production and distribution, began in 2023 and continued in 2024 and 2025, so the activity *Production and supply of electricity, gas and hot water* recorded an annual price increase of 8.8% in July.

In addition to the movement of energy prices, a significant contribution to the growth of producer prices in the industry was also recorded as a result of a significant increase in the minimum wage, which was implemented at the beginning of 2024 in RS, and then in 2025 in FBH as well. In 2024, the average net wages in Bosnia and Herzegovina recorded a growth of 9.4%, of which the manufacturing industry recorded a wage growth of 11.1%, while the growth in electricity generation was 6.2%. The growth of net wages was even more pronounced in 2025 (14.3% annual growth in June) and had a double impact on the growth of inflation, directly, through the growth of unit costs of production, but also indirectly, by increasing consumption due to the growth of disposable income, given that employees who receive the minimum income have a greater tendency to spend.

Given that the nominal exchange rate of KM is fixed to EUR, the key "regulator" of competitiveness becomes domestic inflation and the movement of producer costs (e.g. unit costs of labour and energy) and the way domestic production prices affect international trade. Keeping inflation lower than the average of trading partners keeps the REER favourable for the country's trade balance.

Graph 4.10: Real Effective Exchange Rate, REER PPI



Source: CBBH

Note: PPI differential is the difference between average annual PPI rates in BH (domestic market) and PPI in the EU. Positive values reflect higher annual rates in BH. Data for 2025 are data for the first six months.

Graph 4.11 illustrates the movement of REER according to CPI and PPI, and there is a noticeable difference in the movement of REER that follows the decline in consumer prices and the one that follows producer costs. In a period when REER CPI is higher than REER PPI, this suggests that consumers have more price pressure than producers. Otherwise, if the REER according to the PPI is higher, exporters lose competitiveness and a potential weakening of the trade balance is recorded, which is a long-term trend with the exception of 2022 and 2023, when the energy crisis caused by the war in Ukraine was transferred to BH to a slightly lesser extent compared to the countries of the most important trade partners, which use natural gas to a much greater extent as a fuel in industry and electricity production. In the mentioned two-year period, electricity prices were significantly lower compared to the competition, which had a positive effect on the growth of net inflows based on the processing and finishing of goods in Bosnia and Herzegovina. Inefficient management of the energy sector, as well as the lack of coal as the primary fuel in the production of electricity, led to the loss of BH's comparative advantage in electricity prices and to the import of significant quantities from the international market. This directly increased producer prices and reduced cost competitiveness. The administrative definition of the minimum wage, as well as labour emigration and the lack of qualified labour, led to an increase in unit labour costs without an increase in productivity. Appreciation of REER PPI in Bosnia and Herzegovina indicates a deterioration in the price competitiveness of the industry, because the increase in producer prices is not a consequence of productivity growth or export sophistication, but cost pressures - primarily higher electricity prices and wage growth.

Graph 4.11: REER CPI and REER PPI



Source: CBBH

5. Competitiveness and Prices

Competitiveness in 2024, and especially in the current year, has worsened due to the slowdown in productivity, as a result of worsening foreign trade conditions, political instability, and the increasing pressure of labour cost growth. Labour costs have increased considerably in recent years (Graph 5.1), which is, among other things, a result of the increasingly pronounced shortage of working-age population on the European continent. The growth of unit labour costs in BH is particularly caused by the growth of gross wages, which is partly related to the growth of the minimum wage, but also to union pressure in all sectors. However, the still significantly lower levels of average labour costs in the country than the EU average, as well as the huge economic gap, certainly cause an increasing interest of domestic workers in going abroad (see Chapter 8). Given the significant pressure on the supply side, the increasing pressure of workers to adjust standards to price increases and to the standards of comparable countries, an even more significant growth of this indicator can be expected in the coming period⁷. The increase in operating costs is increasingly affected by the increase in electricity prices due to the slow energy transition (see Text Box 3). Faced with the enormous global challenge of climate change, where significant progress can only be achieved through international cooperation, BH is increasingly lagging behind in the energy transition, which is already reflected in lower overall electricity production and the consequent continuous increase in sales prices in the past two years.

Graph 5.1: Change of Nominal Unit Cost in Selected Countries



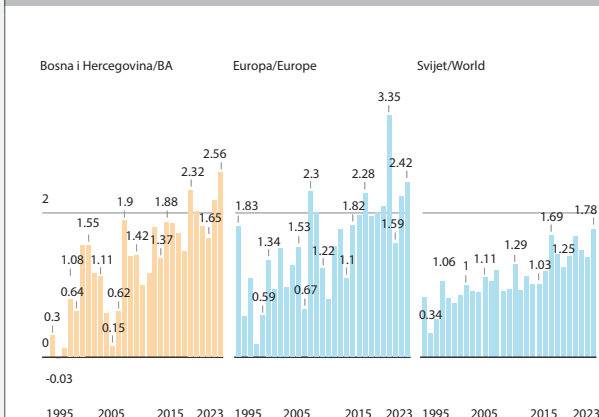
Source: EC, BHAS, CBBH

Note: * The estimate for 2024 and the forecast for 2025 refers to official data from the end of the first quarter of the same year, while for BH they include CBBH projections based on the spring round of medium-term macroeconomic forecasts.

Text box 3: Loss of competitiveness due to a slow energy transition

The goal of achieving zero carbon dioxide (CO₂) emissions by 2050, stated in the National Energy and Climate Plan, is ambitious, due to the high importance of non-renewable sources in the production of electricity. Bosnia and Herzegovina is one of the 195 countries that, according to the Paris Agreement, decided to achieve neutrality of emissions by 2050. Political decisions regarding the goals related to climate change are still insufficient to meet the goals of the Paris Agreement, given the numerous extremes and the significant increase in global temperature in recent years (Graph 5.2). Bearing in mind that CO₂ intensity in BH is among the highest in Europe according to the World Bank's Report on Climate Change and Development⁸, radical changes and decisive action are needed to accelerate the energy transition in order to achieve net zero emissions by 2050.

Graph 5.2: Change of Temperature in °C Relative to the Regural Climate Conditions of the Area



Source: FAOSTAT (available at: <https://www.fao.org/climate-change/en>)
Note: The basic climatology corresponds to the period 1951 - 1980.

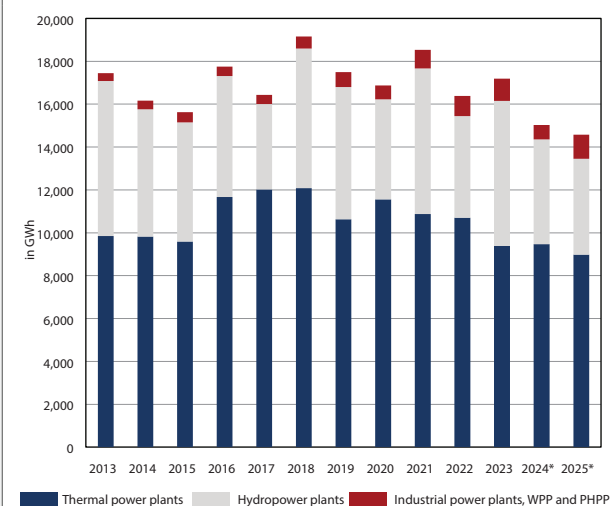
With the goal of zero net carbon emissions, thermal power plants should cease operation by 2050. On the other hand, renewable sources, namely hydroelectric power plants, photovoltaic and wind power plants, require large investments in the short term, with increasing investment in storage batteries that ensure balancing due to the volatility of renewable energy sources. At the same time, a particular problem arises in BH due to the slowness of the administration and the inability to dispose of state assets, which hinders new direct investments in electricity production. In addition, decarbonisation of the electricity sector is a challenge because the country strives to maintain revenues from electricity exports, but reliance on coal-fired electricity production is becoming increasingly problematic.

⁷ The unit labour cost index per hour worked is defined as the ratio of labour costs to labour productivity, where labour cost is the ratio of compensation of employees in constant prices to hours worked by employees.

⁸ Report for Bosnia and Herzegovina (2024), available: <https://www.worldbank.org/en/country/bosniaandherzegovina/publication/bosnia-and-herzegovina-country-climate-and-development-report>

Namely, BH has been a net exporter of electricity for the past two decades, but in recent times it has become an increasingly prominent importer⁹. Over 60% of electricity in the country is still produced in coal-fired thermal power plants, an additional 31% in hydroelectric power plants, and only 8% in other renewable sources (Graph 5.3). Compared to the previous decade, the production of electricity from thermal power plants has significantly decreased due to the lower amount of coal (more than 40% lower amount of coal generation), which is the result of the closure of certain mines and the depreciation of machines with the impossibility of replacing them because most suppliers no longer deal with the maintenance of thermal power plants due to new regulations. An additional big problem is numerous absences from work, which lead to an insufficient workforce, and thus to a smaller amount of mined coal. As a result, and with very unfavourable and above all unpredictable hydrological conditions, there is a significant need to import electricity which leads to the loss of competitiveness of the domestic economy, which for decades rested on, among other things, low input costs of electricity.

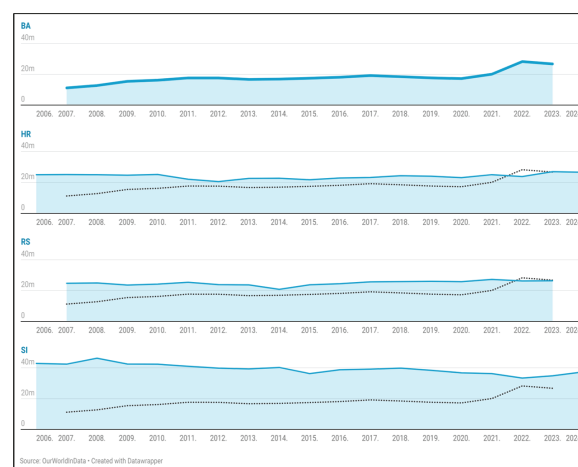
Graph 5.3: Structure of Annual Gross Production of Electricity



Taking into account the reduced use of other energy sources and the increasing climate change, which especially leads to droughts during the summer, there has been an increase in electricity consumption in recent years¹⁰. While other countries in the region are recording stagnation or a decrease in consumption (Graph 5.4)¹¹,

domestic consumption is growing strongly, which, along with decreasing production capacities, leads to a worsening of the trade balance and an inevitable increase in the price of electricity¹².

Graph 5.4: Energy Consumption, in KWh per capita



The operations of the electricity production and supply sector in 2024 were also marked by a decline in profitability, i.e. nominal gross operating surplus per employee, which is 32% lower than in 2023, while at the same time the profitability of the overall economy is stagnating (0.5%). On the other hand, the funds of employees¹³ per employee recorded double-digit growth rates for the overall economy, while the costs for the energy sector increased by 6.3%. The ratio of productivity to labour costs per employee (Graph 5.5) illustrates how other public sector activities, which have a significant number of employees in the overall structure (see Graphs 8.1 and 8.2), also record high labour costs per employee, with the lowest productivity rates. The lowest profitability rates, besides public sector activities, were recorded in water supply and mining activities, which are also majority publicly owned, which confirms that activities from the majority public sector record significantly weaker results than activities from the private sector. Considering that in 2024 there was a significant decline in the profitability of the electricity generation sector (Table 5.1), which in the previous decade was considered an activity with above-average profitability, and the increasingly certain continuation of the decline in profitability in 2025, as well as the very uncertain upcoming period, policymakers must recognise as soon as possible the possible consequences that these trends may have on the entire economy due to the high share of electricity costs in total production.

⁹ At the end of 2024, the value of nominal exports decreased by 37%, while imports increased by 45% year-on-year. Exports are still twice as large as imports in absolute terms, having been almost four times as large in 2021.

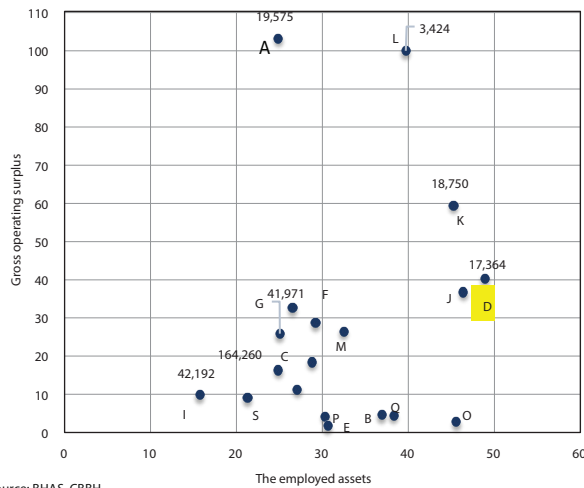
¹⁰ In the last three years, the consumption of electricity has recorded a growth of 3 to 5%, while only in the first quarter of 2025, according to EPBH data, the consumption is 11% higher on an annual basis.

¹¹ Energy refers to primary energy that is available as a resource before it has been transformed by the method of substitution (including coal before it is burned, uranium, or barrels of oil). Primary energy includes the energy that the end user needs, in the form of electricity, transportation, and heating, and the energy that is lost when raw materials are transformed into a usable form.

¹² According to the latest available BHAS data for household consumers (defined as medium-sized consumers with annual consumption in the range of 2,500 kWh < consumption < 5,000 kWh), electricity prices during the first half of 2025 were 9.5% higher than in the same half of the previous year.

¹³ According to the income calculation of GDP, employees' resources include all incomes in money and in kind, which employees received as compensation for their work and all payments on behalf of social insurance.

Graph 5.5: Profitability and Labour Costs per Employee in 2024



Activities: A - Agriculture; B - Mining; C - Manufacturing industry; D - Production and supply of electricity and gas; E - Water supply; F - Construction; G - Wholesale and retail trade; H - Transportation and storage; I - Hotel and catering industry; J - Information and communications; K - Financial activities; L - Real estate business; M - Professional and technical activities; N - Administrative activities; O - Public administration and defence; P - Education; Q - Healthcare; R - Art and entertainment; S - Other service activities.

Table 5.1: Analysis of Financial Reports in 2024 in the Electricity Production Industry

Categories	2022	2023	2024
Bosnia and Herzegovina			
Bussiness assets total	10,729,897,448	10,961,421,720	11,124,353,959
Capital and reserves	5,548,386,243	5,602,752,144	5,367,479,960
Long term liabilities	1,022,783,638	996,613,465	1,180,470,804
Total income	3,087,651,191	2,786,888,293	2,644,983,968
Net operating result	50,991,328	128,342,368	-9,774,159
Number of the employed	18,350	18,771	18,837
Number of included entities	240	288	297
Slovenia			
Bussiness assets total	5,311,462,905	5,441,359,547	5,508,458,442
Capital and reserves	3,466,022,081	3,557,410,310	3,650,204,559
Long term liabilities	810,389,702	822,181,302	886,198,350
Total income	7,684,302,725	5,899,574,099	4,370,449,317
Net operating result	95,703,697	122,728,248	105,227,195
Number of the employed	6,223	6,406	6,533
Number of included entities	176	183	185
Serbia			
Bussiness assets total	14,196,120,468	15,203,791,312	15,768,529,632
Capital and reserves	7,844,059,685	8,962,575,228	9,121,350,384
Long term liabilities	1,973,237,327	2,216,377,284	2,442,785,415
Total income	6,094,171,658	7,039,141,050	6,270,039,194
Net operating result	-408,032,451	1,113,116,281	206,525,476
Number of the employed	32,282	31,875	31,540
Number of included entities	268	309	322
Croatia			
Bussiness assets total	13,009,535,404	13,945,202,879	13,477,423,168
Capital and reserves	4,202,112,509	4,343,468,930	4,666,763,119
Long term liabilities	2,145,240,268	2,849,294,456	2,055,512,554
Total income	7,136,876,952	8,470,363,453	6,924,447,269
Net operating result	-582,227,977	177,488,348	370,775,485
Number of the employed	11,344	11,589	11,685
Number of included entities	319	357	375

Source: Dun&Bradstreet

Note: Amounts are presented in EUR.

Given that the price of electricity has increased in the past two years, and that consumption-based tariffs have been introduced that complicate cost monitoring, there is increasing public interest in the operations of the electricity generation sector. Taking into account the separate operations in the aforementioned sector, in BH, the profit of this sector was negative in 2024, while in all other countries it was positive, regardless of the total business assets and the number of employees, which, except in Serbia, are significantly higher in Croatia and Slovenia (Table 5.1). According to the same source, in 2024 all indicators, such as stress tests, financial assessment, and payment index, were significantly impaired. Compared to neighbouring countries, the stress test for BH indicates below-average operations, with an increased probability of bankruptcy and a high probability of blocking accounts in the future. Average operations in other countries are characterised by similar risks, with neighbouring countries recording better indicators, primarily due to greater market liberalisation of this sector and consequently higher revenues of the producers themselves.

Bearing in mind the increasing importance of import prices, which are very volatile and difficult to predict due to numerous geopolitical factors, on the total costs in the energy system, inflationary pressures on households and companies are very likely in the coming period. The reduction of public consumption (which includes household consumption) in the last period is characterised by a higher input price of electricity production than the selling price itself¹⁴, which certainly contributes to the negative business result. Given the huge share of thermal power plants in the production structure, in the next year, on the basis of the introduction of the Carbon Border Adjustment Mechanism (CBAM)¹⁵ alone, electricity sales prices will certainly continue to rise. Due to the lack of a domestic Emissions Trading System (ETS), the budget will only be filled by countries where our producers export their products, which will further damage the integrity of the economy, especially the sectors that are mainly export-oriented.

The multiplicative effect of rising electricity prices on the growth of costs in all sectors increases the likelihood of risk realisation in the form of a significant increase in producer and average consumer prices. In any case, the conclusion is that there are numerous challenges ahead of us in terms of energy transition, due to the very structure of production that relies on "dirty" sources and the slowness of the administration, which also implies insufficient investment in the transmission network.

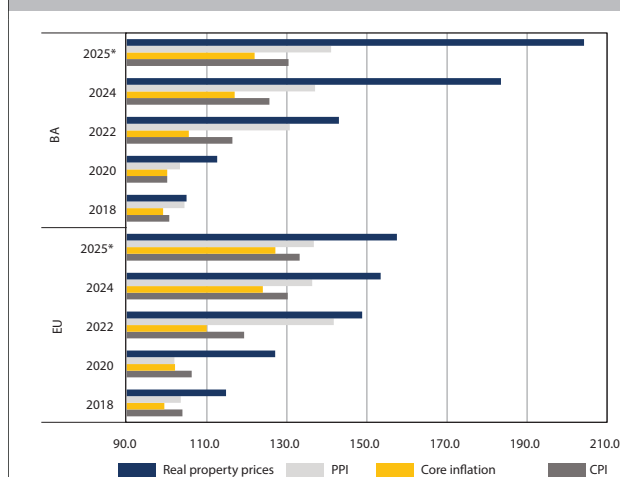
¹⁴ According to EPBH data, the latest approval of the Regulatory Commission for Energy in the Federation of Bosnia and Herzegovina (FERK) from July 2025, which allows for the introduction of a new pricing model for the household consumption category from September of the same year, as well as an increase in electricity prices for the household, other consumption and public lighting categories, the new selling price within the public supply service is still 11% lower than the average price of the most favourable purchase price of electricity.

¹⁵ The calculation of embedded carbon and the administration of CBAM itself is complex due to the need to establish and verify embedded carbon, which will certainly cause additional costs for producers.

Furthermore, this sector has an increasingly difficult perspective due to the large number of employees and sales prices that are not aligned with production costs, and whose possible significant increase could lead to social unrest, resulting in a very low standard of living for the population. Coal-based electricity producers additionally face the problem of finding financing, because no credit institution will significantly finance further production from thermal power plants in the coming period, which largely meant energy independence in previous decades. Considering the potential reduction in the banking system's exposure to the carbon-based energy production market, as well as the very unpopular further increase in sales prices that is reflected in all sectors of society, in the coming period a large burden will most likely be borne by the budgets of various levels of government in the country, but also by entrepreneurs through reduced competitiveness, and citizens through further inflationary pressure.

Along with the strong growth in average consumer prices, due to the increasing pressure of core inflation, in recent years the prices of other assets have also achieved record growth, with the continued growth of real estate prices standing out. In 2025, a significant increase in prices is visible compared to the base year (Graph 5.6), resulting in an average price of real estate on the domestic market that is twice as high as ten years ago. Given the strong impact of high profit margins from previous years and the increase in labour costs on the growth of overall prices and real estate prices, it is possible to expect an increase in macroeconomic imbalances, primarily in the segments of competitiveness and affordability of residential real estate. Regardless of the significant increase in incomes of employees in recent years, average housing affordability has deteriorated in the last decade (Graph 5.7), with a projected ratio below three in 2025. At this ratio, the annual income¹⁶ of one employee in the current year cannot cover even three-square meters in accordance with average real estate prices in BH.

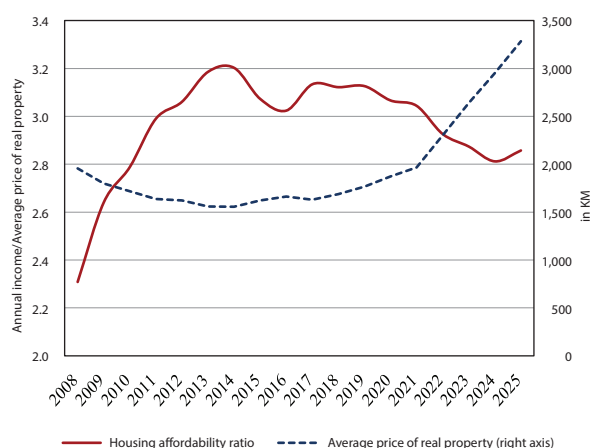
Graph 5.6: Average Prices Trends, 2015=100



Source: EUROSTAT, BHAS, CBBH
 Note: Average consumer and producer prices in 2025 refer to the first half of the year, while EU real estate prices in the current year are at the end of the first quarter according to the latest official data, and domestic real estate prices are the estimate of the CBBH for 2025.

¹⁶ Less subsistence needs (see note below graph 5.6).

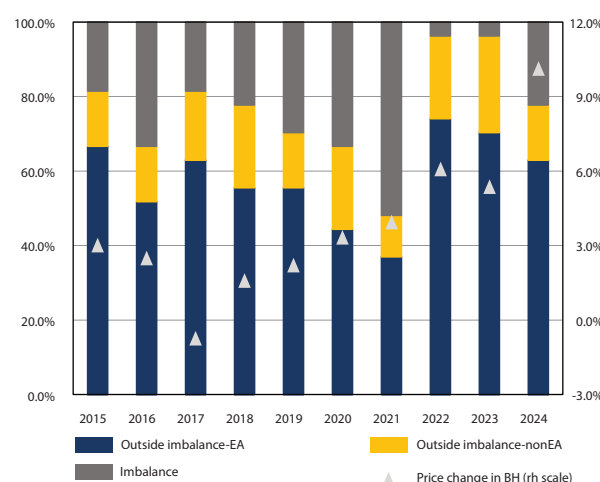
Graph 5.7: Housing Affordability and Average Prices of Real Property in BH



Source: BHAS, CBBH

Note: The housing affordability ratio is calculated based on estimated housing expenses and annual income, or net salary, reduced by half that is used for other existential payments and as such is taken into account in the practice of calculating the creditworthiness of clients in commercial banks (with possible slight deviations).

Graph 5.8: Annual Change of Deflated Prices of Real Properties in Selected Countries



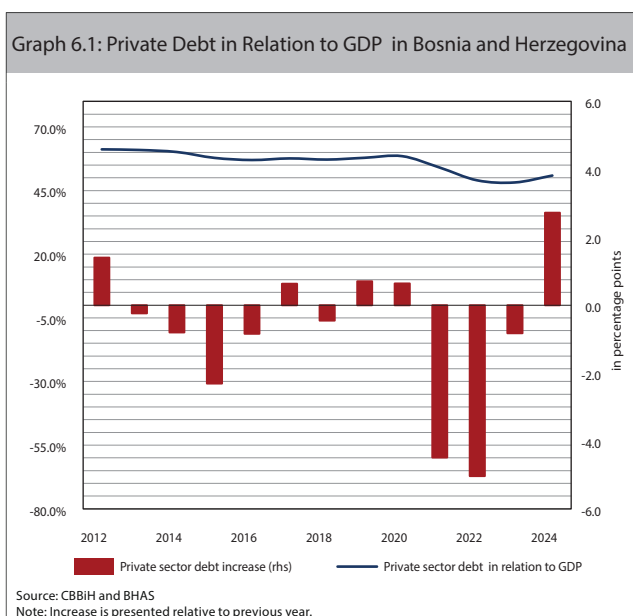
Source: EUROSTAT, BHAS, CBBH

Note: Euro area countries recording imbalances include Croatia, Lithuania and Portugal, while imbalances for non-EA EU countries refer to Bulgaria, Hungary and Poland.

Although real estate prices on the foreign market have slowed significantly or even fallen in the last two years, primarily as a result of the restrictive monetary policy measures implemented, on the domestic market, still insufficient supply, as well as weak availability of other financial instruments and demand from the diaspora and non-residents, cause continued strong growth. In the last three years, real estate prices in the EU have been under pressure from higher interest rates and weaker purchasing power of the population, which caused a decline in real estate prices in 2023 in the EU, which was particularly pronounced in the euro area countries. In 2024, a slight increase in real estate prices was recorded in the EU, although it was significantly lower than in the period of expansive monetary policy (ECB). On the domestic market, this indicator has recorded strong nominal and even real growth in recent years, which is expected to continue in 2025, following the weaker transmission of interest rate increases from the euro area to domestic interest rates, and weaker real estate supply on the domestic market. In 2024, most EU countries recorded below the reference value for imbalances (suggested by a growth in deflated real estate prices of more than 6.0%, Graph 5.8). On the domestic market, an imbalance was recorded.

6. Private sector debt

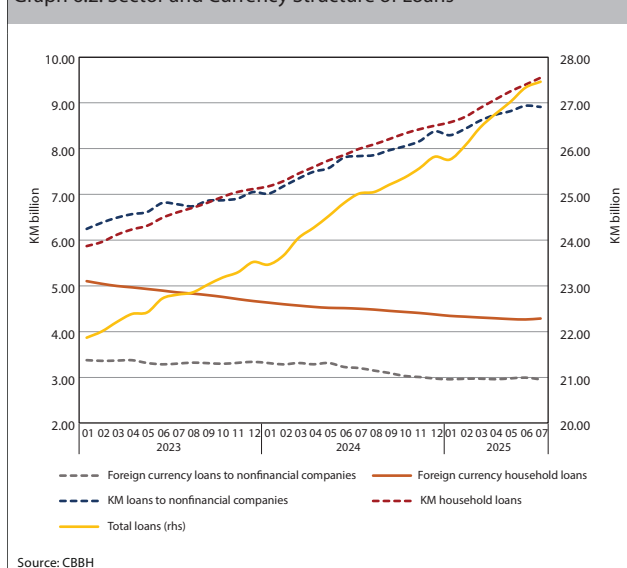
Private debt in Bosnia and Herzegovina¹⁷, in 2024, is slightly higher than the previous year, but it is still far below the level that, according to the methodology of the European Commission, is marked as an imbalance from a macroeconomic point of view. In 2024, a strong growth in lending to the private sector was recorded, which led to a decrease in the ratio of loans to GDP (Graph 6.1). The achieved credit growth rate was the highest since the period of the global financial crisis (2007-2009). The banking system, which is dominated by foreign-owned banks, remained well capitalised, recorded growth in domestic financing sources, as well as record profits in 2024. Thus, the stability and liquidity of the banking sector remained preserved. This was influenced, among other things, by the low costs of domestic sources of financing, the growth of foreign assets and the further decline in the share of non-performing loans in bank assets.



Recorded credit growth was almost entirely achieved in the two largest sectors, the household sector and non-financial enterprises. In the first eight months of 2025, the significant growth of loans to households continued, primarily related to the segment of general consumption.¹⁸ The increase in real wages mitigated the credit risk of the population (see Chapter 8 Labour market).

Growth of loans was predominantly realised through placements with a fixed interest rate, with a simultaneous decrease in the share of loans in KM with a currency clause and loans in foreign currency in both the most important sectors. Such trends indicate that, despite the significant growth of total loans, there are currently no clear indications of an increase in exposure to foreign exchange and interest rate risk (Graph 6.2).¹⁹

Graph 6.2: Sector and Currency Structure of Loans



During 2024, increased demand, stable nominal interest rates, relatively low real interest rates, slowing inflation, and growth in real wages contributed to stronger credit dynamics compared to 2023. Despite the tightening of credit standards, and in conditions of uncertainty, credit growth in Bosnia and Herzegovina exceeded expectations. By the end of 2024, the ratio of loans to GDP in the sectors of households and non-financial private enterprises has slightly increased by an average of about 1.5 p.p. (Graph 6.3). The largest contribution to the growth of loans to non-financial companies in 2024 was made by the trade and manufacturing sectors.²⁰ These sectors were responsible for 19.8% and 15.9% of the total growth of credit activity among non-financial private enterprises, respectively. In the population segment, a high growth of general-purpose consumer loans was registered. High housing prices, the growth of net wages, and the tendency to invest in real estate, mostly of diaspora and non-residents, are the main drivers of the growth of housing lending (for more information see Chapter 5 Competitiveness and Prices). The structure of loans to households remained almost unchanged compared to the previous year. Although interest rates on loans were on a slight rise in the previous period, they remained relatively affordable during 2024 compared to the historical average.

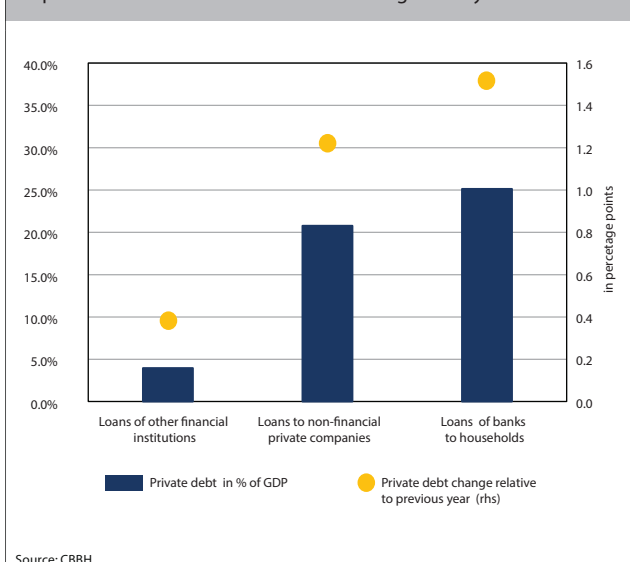
¹⁷ The private debt of Bosnia and Herzegovina includes loans from banks to the non-governmental sector and non-financial public enterprises (except for other financial institutions), debt securities of the non-governmental and non-financial sector and loans from other financial institutions (loans to public and other non-financial enterprises and loans from other non-resident sectors).

¹⁸ At the end of the first and second quarters of 2025, the annual growth of loans to households and non-financial companies was 8.66 and 8.32%, respectively, which is significantly above the historical average annual growth of 6.31% (measured from January 2007 to June 2025).

¹⁹ Although the debt growth of the private sector has accelerated, its structure and currency composition indicate that there is no accumulation of macroeconomic imbalances.

²⁰ These sectors made up the largest part of total loans to legal entities at the end of 2024 (30.5% and 21.3% respectively).

Graph 6.3: Private Debt of Bosnia and Herzegovina by Sectors in 2024



In 2024, banks' foreign assets increased significantly (15%), due to the continuing high interest rates in the euro area during the first part of 2024. The foreign assets balance at the end of 2024, compared to the same period of the previous year, was higher by KM 856 million. In the first six months of 2025, banks' foreign assets continued to grow, but at a much slower pace, in line with the changed monetary circumstances in the euro area market.

Following four consecutive years of decline, the first increase of banks' foreign liabilities was seen in 2024. Despite this, the share of foreign liabilities in the total banks' liabilities remained almost unchanged, indicating that the annual growth of foreign liabilities still does not represent a change of capital flows. The largest single contribution to the foreign liabilities growth in 2024 came from an increase of other loans from non-residents, with a 63% share in the total foreign liabilities. Additional stability of these developments is derived from the high share of funds with set maturities, which accounted for 77% of foreign liabilities at the end of 2024, which makes this source of financing relatively stable and resilient to short-term changes of market conditions. Data for the first half of 2025 confirm the end of the years long downward trend of foreign liabilities. Such trend of foreign liabilities, taking into account that non-resident loans contributed to its growth in 2025, mostly relate to special purpose funds for meeting the MREL requirements (Minimum Requirement for Own Funds and Eligible Liabilities) with certain banks.

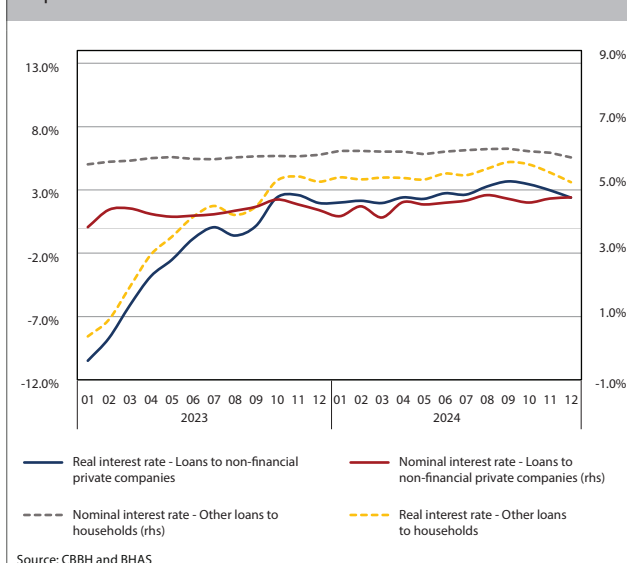
The growth of banks' net foreign assets of KM 436 million at the annual level mainly reflects the increase of foreign liabilities, and not necessarily the growth of banks' credit potential. Such trend is more indicative of changes in the balance sheet structure under the impact of regulatory requirements and liquidity management, than an increase of the domestic private sector lending capacity. In addition, the maturity mismatch between assets and liabilities limits the possibility of a direct impact on domestic lending activity.²¹

²¹ Although the growth of foreign liabilities in 2024 originates primarily from stable, sources with set maturities and special purpose funds, such a structure indicates a limited transfer of these trends to domestic lending activity.

Bank lending surveys, conducted in 2024, indicate diverse trends in lending segments. Credit conditions for households have become more favorable, especially those for housing loans. Opposite to that, credit standards to non-financial enterprises were stricter for most of 2024, reflecting an assessment of increased risk in the macroeconomic environment. However, in the last quarter of 2024, banks reported some relaxation of these standards for non-financial companies. According to banks, strong and stable demand in the household and non-financial companies sectors, as well as favourable credit conditions, remained a key driver of private debt growth. The first lending survey in 2025 indicates the continuation of these trends. Banks kept their existing credit standards in the first quarter, but announced their possible easing in the coming period in both sectors. At the same time, both current and expected demand for loans were assessed as high, indicating a continuation of private debt growth in 2025.

After the European Central Bank started a cycle of the benchmark interest rate increases in July 2022, the Entity Banking Agencies in BH adopted temporary measures with the aim of mitigating the risks arising from the interest rates growth. These measures remained in effect in 2024. Partly due to this fact, banks' nominal interest rates were not changed considerably in 2024, while real interest rates remained at the level of the second half of 2023 (Graph 6.4).

Graph 6.4: Interest Rates on Bank Loans

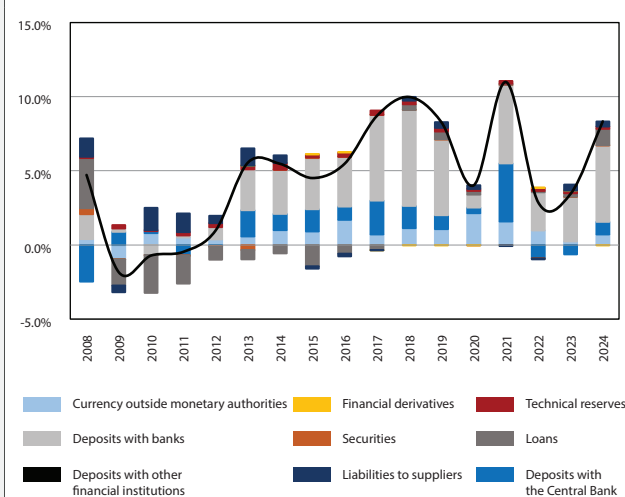


Although the floods that hit BH economy in October 2024 brought about disruptions in supply chains, especially due to damage to the railway infrastructure, they did not have a significant impact on credit growth dynamics. In addition, the Entity Banking Agencies in BH, through temporary regulatory measures, facilitated access to financing and repayment of existing loans for natural and legal persons affected by the contingency circumstances.

Text box 4: The structure of Bosnia and Herzegovina financial sector liabilities

Within the Macroeconomic Imbalances Procedure (MIP), for financial sector, Eurostat has introduced the total financial sector liabilities indicator, in addition to standard private debt indicators, with an upper growth limit of 16.5% per year, above which a potential imbalance is indicated. A more detailed analysis of the financial liabilities structure by sectors and instruments enables a better understanding of the dynamics of liabilities and bank-centricity of the system. The unification of this indicator, which makes comparative analyses impossible, is overcome by the statistical coverage of financial liabilities by sectors, as well as by the financial liabilities structuring by instruments, or more precisely by the balance sheet positions of the financial sector liabilities.

Graph 6.5: Contribution to Financial Sector Liabilities' Increase



Source: CBBH

The analysis of BH financial sector structure, according to Graph 6.5, shows that, despite a moderate growth of the activities of other financial institutions (including insurance companies and microcredit organisations), the commercial banks' liabilities remain stable. The share of banks in the total financial sector liabilities, accounting for approximately two-thirds, has not changed significantly in the last 17 years, while the relative importance of the other financial institutions' liabilities has decreased. The growth of bank deposits, currency outside the monetary authorities and deposits with the central bank, which together account for 84% of the sector's liabilities at the end of 2024, confirms the continuation of the bank-centric financing model. The absence of the financial liabilities growth and the stable structure of liabilities suggest that there are no indications of macroeconomic imbalances in this segment, according to the criteria defined in this procedure.

In early 2025, renewed inflation pressures led to a decline of real credit prices. This trend stimulated the growth of demand for higher amounts of general-purpose loans (mostly credit card debts) and contributed to the total private debt increase in the current year.

The accelerated growth of private debt, predominantly driven by intensive lending to the household sector, is one of the most distinct features of trends among domestic financial intermediaries. Nevertheless, despite the upward trend, the aggregate private debt level remains well below the reference threshold set under the macroeconomic imbalances identification procedure.

Until the end of 2025, weakening foreign demand, persistent inflation pressures remain the key challenges for the domestic market (see Chapter 5 of the Competitiveness and prices), the energy transition costs and the introduction of carbon taxes in the EU. In such conditions, credit expansion is expected to be more moderate compared to the strong growth recorded during the first half of the year, especially in the segment of loans to households. According to the CBBH spring projections, the total loans to private sector are expected to grow by the end of 2025, but at a slower pace. In the context of macroeconomic imbalances, the revised slowdown of real activity growth (to 1.9%),²² while maintaining moderate credit growth, could potentially lead to a relative, but again slight, increase of the private debt-to-GDP ratio.²³ Current credit growth continues to support spending and investment, thus contributing to economic recovery.

Text box 5: Structural changes of private debt in relation to GDP in the context of pandemic and post-pandemic recovery

According to the methodology of the European Commission (EC), private debt includes the total liabilities of households, non-profit institutions serving households and non-financial companies to banks, non-bank financial institutions and financial markets, including debt securities. As part of the analysis of private debt changes, the EC separates the contribution of bank lending and lending to other financial institutions. Changes in the relative value of private debt to GDP are influenced by economic dynamics, including inflation (GDP deflator) and changes of real GDP. Decomposed changes of private debt showed one group of features in the pre-pandemic period, and another in the pandemic and post-pandemic period.

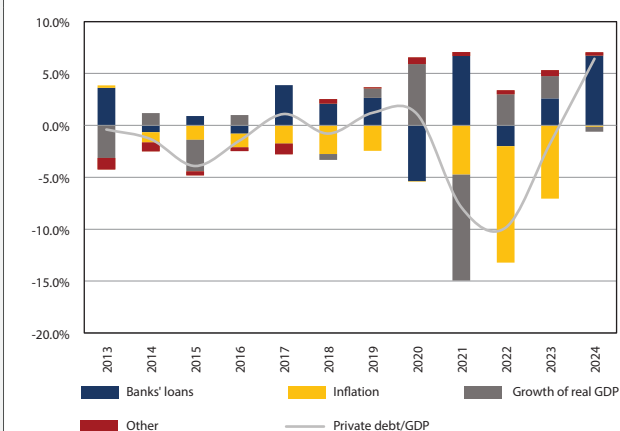
The growth of bank loans in most of the pre-pandemic period was the main driver of positive changes in private debt (Graph 6.6), and low-intensity inflation changes, as well as deflation, had a negative impact on private debt relative to GDP for most of this period. Until 2020, the growth of private debt in relation to GDP was influenced by volatile inflation and real GDP changes. Private debt in relation to GDP in this period was also strongly affected by the low activity of other financial intermediaries, as well as the underdeveloped market of debt securities of non-government and non-financial sectors.

²² Nowcast of GDP for the second and third quarters of 2025 and inflation in the short term

²³ When economic activity grows more slowly than lending, debt accumulates faster than real output, indicating a passive form of debt growth.

During this period, changes in private debt in relation to GDP were low, providing stability and predictability. With the occurrence of the pandemic and inflation pressures, the composition and dynamics of private debt in relation to GDP changed significantly.

Graph 6.6: Contributions to the annual change in the private debt-to-GDP ratio



Source: CBBH

Note: Inflation is calculated as the GDP deflator. The category "other" includes loans from other financial institutions and debt securities of the non-financial and non-government sectors. For debt securities, an estimate by the CBBH was made for the period 2021–2024 (these are not official statistical data). Contributions are measured relative to the previous year, and private debt is presented as the ratio of the absolute value of total private debt to the value of nominal GDP.²⁴

The first year of the pandemic brought significant changes of the private debt trend. A sharp decline of real GDP, coupled with a simultaneous increase of loans of other financial institutions, brought about an increase of the private debt-to-GDP ratio. At the same time, the beginning of the removal of non-performing loans from the banks' balance sheets, and the halt in lending acted in the opposite direction reducing the debt. In the second year of the pandemic, rising inflation and a strong recovery of real GDP had a strong negative impact on the debt-to-GDP ratio. In 2022, inflation, transferred from abroad through the fixed exchange rate, further stimulated by domestic factors, along with a slowdown of lending, led to a reduction of private debt below 50% of GDP. This year, real GDP growth continued to contribute positively to the decline of indicators, although to a lower extent than in the previous year. In 2023, inflation growth remained the main determinant of changes of the private debt-to-GDP ratio. After inflation pressures eased in 2024, their impact almost faded, while a strong credit growth assumed the key role in shaping private debt developments. If such credit dynamics continues in 2025, with revised slowdown of economic activity growth, it could potentially lead to a relative, but still slight, increase of the private debt-to-GDP ratio.

The trend of private debt in relation to GDP in Bosnia

and Herzegovina clearly indicate a stronger volatility during the pandemic and the years that followed. While in the pre-pandemic period the dominant factors were moderate changes of bank lending and low inflation, the pandemic and subsequent inflation pressures completely changed the structure and dynamics of private debt in relation to GDP. Various components played a decisive role in certain phases, from the real GDP decline and credit stagnation, through strong inflation shocks, to the strong credit expansion in 2024. At the end of the observed period, almost all the change of private debt in relation to GDP was due to the strong bank lending activity, which takes place in an environment of constantly high demand for loans according to banks' estimates. Such developments confirm that private debt in relation to GDP is highly vulnerable to macroeconomic shocks and institutional framework and limited capacity of the domestic capital market.

Private debt trends in the country should be viewed in the context of changes in the European financial market. During 2024 and 2025, the European Central Bank's monetary policy, marked by multiple interest rate cuts and gradual easing of restrictive measures, shaped the financing conditions in the euro area. At the same time, lending and private debt trends in the EU and regional countries provide a relevant framework for assessing BH position in terms of possible macroeconomic imbalances, taking into account differences in the debt methodologies and structure.

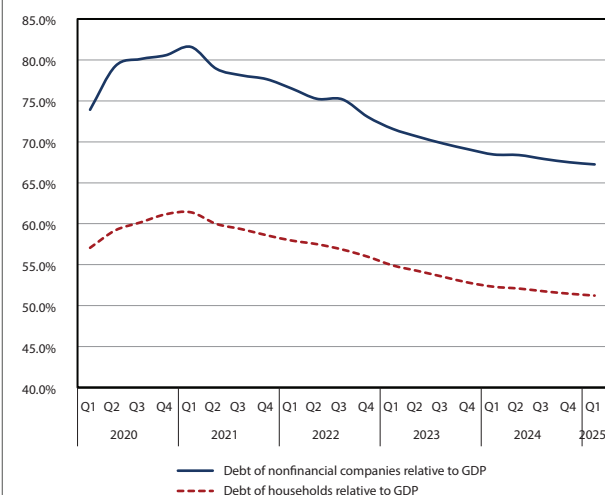
The global economy recorded moderate growth in 2024, with a gradual decrease of inflation and the labour market normalisation. However, expectations for 2025 significantly deteriorated due to trade restrictions and economic policy uncertainty. In these circumstances, the ECB focus will not only be on inflation, which is already close to its target level, but also on the monetary policy impact on financing conditions, which may further slow down economic activity. Potentially, further cuts of benchmark interest rates in the euro area could also affect the borrowing costs in Bosnia and Herzegovina, but this pressure will not be significant.²⁵

The overall credit growth in the euro area (1.9%) was driven by moderate growth of loans to non-financial companies, while the growth of household loans was very low. Weak credit dynamics contributed to a relative decline of private debt of the household and non-financial companies sectors resulting in a decline of the total private debt in relation to GDP in the euro area (see Graph 6.7).

²⁴ Indicators within the Macroeconomic Imbalance Procedure (MIP) instrument consolidated the debt of households (including non-profit institutions serving households) expressed in % of GDP and consolidated debt of non-financial companies expressed in % of GDP. Slowdown of real GDP growth, together with declining inflation, can statistically increase the private debt share in GDP, as the nominal GDP is slowing down, while the nominal debt amount is still increasing. At the same time, credit expansion additionally contributes to the total private debt growth.

²⁵ The interest rate trend in BH continues to be strongly impacted by domestic factors, such as the bank pricing policy, which is shaped by the market power of systemically important banks and a shallow financial market.

Graph 6.7: Private Debt of Euro Area Relative to GDP

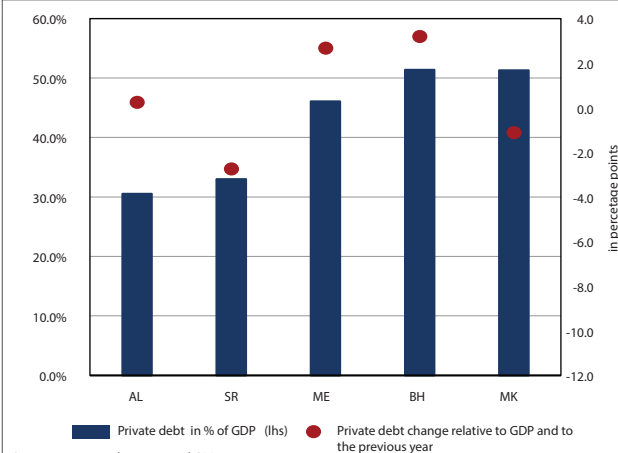


Source: ECB

In all large EU economies, private debt decreased. Bank lending and the absolute value of private sector debt in most EU countries increased at a slower pace than economic activity. In all small and open economies of the euro area, the trend of declining private debt in relation to GDP continued, having begun in 2021 with a sharp rise of inflation.

Compared to the Balkan countries, the balance of BH private debt increased compared to the last year, the private debt level staying among the highest if compared with this group of countries. With the decline of the private debt level in comparable countries (Macedonia and Serbia), and its stagnation or growth in other countries in this group, the private debt level in BH remained among the highest, but staying far below the level that could be labelled as macroeconomic imbalances (Graph 6.8).

Graph 6.8: Private Debt Relative to GDP in the Countries of Region in 2024



Source: www.ceicdata.com and CBBH

Note: Comparisons of the relative private debt of Bosnia and Herzegovina with a group of countries in the region, as well as with a group of countries from the EU and the eurozone, should always be taken with extreme caution due to the methodology for determining the absolute value of private debt. Some countries link private debt to the ownership form of enterprises. For this reason, it only includes bank loans given to private non-financial enterprises.

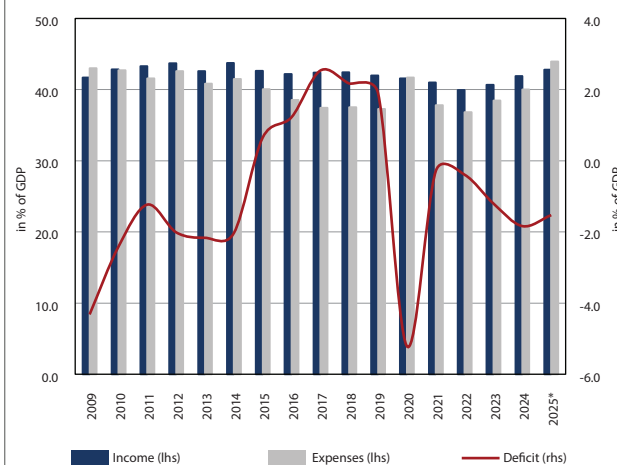
7. Public finance and debt

Bosnia and Herzegovina's fiscal position deteriorated in 2024, with the fiscal deficit growth being the main indicator of fiscal imbalance. Pressures on the expenditure side of the Entity budgets significantly intensified, primarily due to the increase of the public sector wages, the social transfers growth and increased pensions. Most of these expenditure categories have a permanent character, resulting in a significant growth of current budget expenses. This disproportionate increase of expenses in relation to revenues additionally reduced the fiscal space of governments to consolidate public finance, leading to a deterioration of the fiscal position and increased risk of fiscal imbalances.

The fiscal indicators for 2024 indicate a strong growth of budget revenues and expenses, with the dynamics of public spending growth primarily dominating. The increased growth of public expenses in 2024 is largely due to increased current spending by the general government sector. This spending represents a targeted fiscal intervention aimed at mitigating the negative effects of rising costs of living on the material situation of the most vulnerable categories of the population. Expenses were primarily directed towards increased nominal allocations for pensions, public sector wages, as well as one-time financial support to socially vulnerable groups. On the other hand, investment activity did not record a significant momentum, while the withdrawal of funds from international creditors under concession conditions remained limited, similar to the previous year. The disproportionate growth of expenses in relation to revenues resulted in further narrowing of the fiscal space for the public finance consolidation, increasing fiscal risks and pointing out the presence of fiscal imbalances in Bosnia and Herzegovina.

The growth of public expenses in 2024 outpaced the growth dynamics of the total revenues, resulting in fiscal imbalances deepening. The fiscal deficit increased over the same period, reaching 1.8% of GDP. The projections for 2025 indicate a moderate deficit decline, as shown in the graph below (Graph 7.1). It is important to point out that these projections for 2025 are subject to revisions and therefore do not represent final or official fiscal results. Uncertainties related to fiscal forecasts are primarily conditioned by possible deviations in nominal GDP growth assumptions over the observed period.

Graph 7.1: General Government Budget



Source: CBBH

Note: *Data for 2025 are in line with the plan from the Global Framework of Fiscal Balance and Policies in BH, for the period 2025-2027.

Following a temporary decline of budget revenues in 2020 due to the COVID-19 pandemic, a sharp recovery took place in 2021. The trend of positive growth dynamics of the total public revenues in nominal amounts continued in the following years, reflecting the gradual strengthening of fiscal capacities. The growth of public revenues to a significant extent reflects the increase of employment, which directly contributed to the growth of revenues from social insurance contributions. The intensifying of economic activity in the tourism sector further supported the increase of revenues from services, while inflation pressures contributed to the nominal growth of tax revenues. Also, indirect tax revenues in the first six months of 2025 recorded an increase of 5.8% compared to the same period of the previous year, which confirms the continuation of favorable trends in the public revenue growth.

From a fiscal point of view, two key categories of public spending, expenses for social benefits and remunerations to employees, recorded significant nominal growth during 2024, with the total increase of KM 1.26 billion or 9.7% compared to the previous year. Projections for 2025 indicate a continuation of the upward trend of public expenses, partly driven by the already implemented and additionally planned pension adjustments. In this context, amendments to the Law on Pension and Disability Insurance were proposed in the Federation of Bosnia and Herzegovina with the aim of increasing fairness and fiscal sustainability of the pension system²⁶. At the same time, growing pressure from trade unions to increase wages, especially in the health and education sectors, represent an additional challenge to the budget spending sustainability.

²⁶ <https://fbihvlada.gov.ba/hr/ministar-delic-predlozene-izmjene-zakona-o-pio-za-pravedniji-i-stabilniji-penzij-sistem>

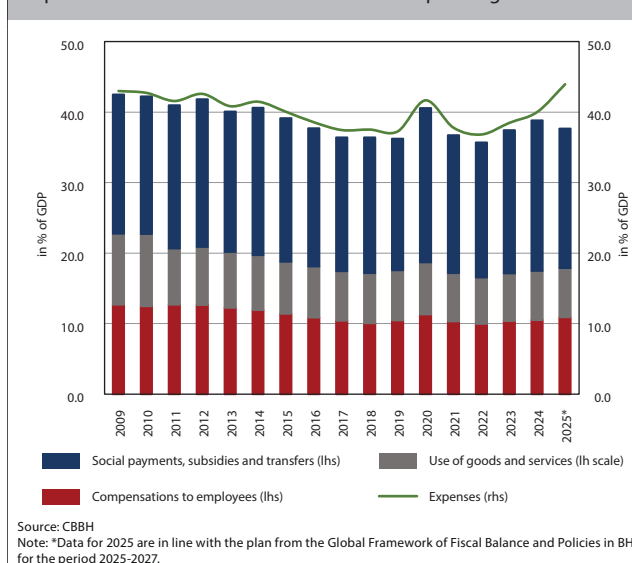
In accordance with the Global Fiscal Balance and Policy Framework for BH for the period 2025-2027, an increase of gross wages in public sector in the amount of approximately KM 400 million was planned in 2025, which will further burden the fiscal capacities.

Current spending in Bosnia and Herzegovina recorded growth during 2024, which is primarily the result of increased allocations for gross wages of the public sector employees, procurement of goods and services, and social transfers. The public sector remains a key driver of aggregate demand, not only through direct fiscal channels, but also indirectly, through wages that generate additional private spending and stimulate economic activity. Private spending accounted for around 70% of GDP in 2024, with a significant share of public administration employees, around 25% of the total number of employees earning income that exceed the average net wage in the country by 20 to 25%, additionally intensifying household spending. At the same time, while current expenses increased, capital spending, i.e. public sector investment activities, remained at a low level. In 2024, public investment was limited, partly due to internal political uncertainties, but also the failure to meet the key conditions for progress on the European path, resulting in the withholding of significant financial resources from the EU funds. These funds, planned to support development projects following the obtaining of the candidate status, were not implemented due to institutional blocking and lack of reform progress. According to the Global Fiscal Balance and Policy Framework for the period 2025-2027, public investments in the amount of KM 1.80 billion were planned in 2025. This planned investment growth reflects the efforts of fiscal authorities to change the public spending structure and ensure more sustainable economic growth through increased capital investment. Due to stronger inflation pressures during the second half of 2024, the Entity governments in Bosnia and Herzegovina allocated significant financial resources to mitigate the negative socio-economic consequences for the most vulnerable categories of the population. These measures included increased social transfers, the minimum pension adjustments and additional support for social rights beneficiaries, which required a considerable engagement of current budget funds. As a result, priority was given to current spending in relation to capital expenses, which resulted in a decrease of investments in infrastructure projects and projects in the electric energy sector envisaged by the BH Public Investment Program for the period 2024-2026.²⁷ In such circumstances, the planned investments were partially suspended or postponed in order to create the fiscal space for necessary current expenses. This public spending structure resulted in the absence of the expected positive multiple effects of public investment on economic growth and development in medium and long term.

In accordance with the above, the expected significant effects of public investments on the overall economic activity in medium and long term did not occur.

The years long fiscal consolidation and restrictive fiscal policy, conducted before the outbreak of the COVID-19 pandemic and the conflict in Ukraine, made possible the creation of fiscal space to adequately respond to the initial pressures related to increased inflation. The growth of indirect taxes revenues, as a direct consequence of price increases, further expanded this space. However, the current expansionary fiscal policy, characterised by significant growth of public expenses, in particular current spending, increases the risk to fiscal sustainability due to the rapid growth of financing needs. In 2024, the total government spending in Bosnia and Herzegovina amounted to approximately 40% of GDP, with the structure of spending still strongly oriented towards current expenses, primarily public sector wages and social benefits, which accounted for around 30% of GDP on the average in the period from 2009 to 2024 (Graph 7.2). Such fiscal structure is a source of potential imbalances and limits the fiscal space for capital investment. Additional pressure on the fiscal balance in 2025 is expected due to the planned change of tax policy in the Federation of BH, which implies a reduction of contributions for wages from July 2025, which will probably result in a decrease of the total revenues from social insurance contributions.

Graph 7.2: Structure of the Total Government Spending



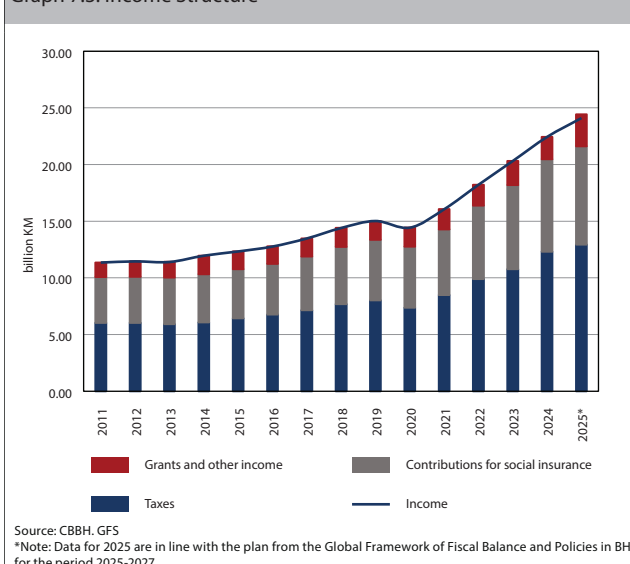
Although budget revenues in the first part of 2025 recorded a strong growth and exceeded the planned values, the future fiscal space for financing certain measures from indirect tax revenues will be significantly narrowed. Further fiscal trends will largely depend on the implementation of the proposed tax policy changes and broader fiscal reform, which could have a significant impact on the level of revenues collected. Taking into account the above mentioned vulnerable structure of government spending, there is a risk of a fiscal deficit deepening in the medium term, unless a more sustainable fiscal management model is established.

²⁷ The Public Investment Programme of the Federation of BH for the period 2024-2025 and the Public Investment Programme of Republika Srpska for the period 2024-2026

Pension funds in Bosnia and Herzegovina faced additional fiscal pressures during 2024, primarily as a result of regular and additional pension adjustments, which were necessary due to inflation pressures and rising costs of living. In addition, adverse demographic trends, including ageing population and shrinking working age population, made the pension system sustainability even less feasible. As a consequence of these factors, the projected pension fund deficit for the first half of 2025 deepened by around 0.5 percentage points compared to the same period of the previous year, reaching around 1.1% expressed as a percentage of GDP. Such trend indicates increasing fiscal challenges requiring urgent reforms in the pension insurance sector in order to ensure long-term financial stability.

In several recent years, Bosnia and Herzegovina's budget revenues stabilized in the range of 40% to 43% of GDP. After a strong recovery in 2021, continued revenue growth was recorded, including in 2024. High frequency data for 2025 indicate the continuation of positive trends, although at more moderate dynamics. According to the updated projections of the Indirect Taxation Authority from June 2025, annual growth of indirect tax revenues is expected to be around 5.0% (Graph 7.3). However, these projections remain subject to negative revisions, taking into account the announced tax policy changes that could affect the tax base and the efficiency of collection. At the same time, direct tax revenues show stable positive trends, which is associated with an increase of the employment rate and real wage increases in the public and private sectors. This dynamics is further supported by recent measures to increase minimum wages in both Entities, which has a positive impact on fiscal revenues through contributions and income taxes.

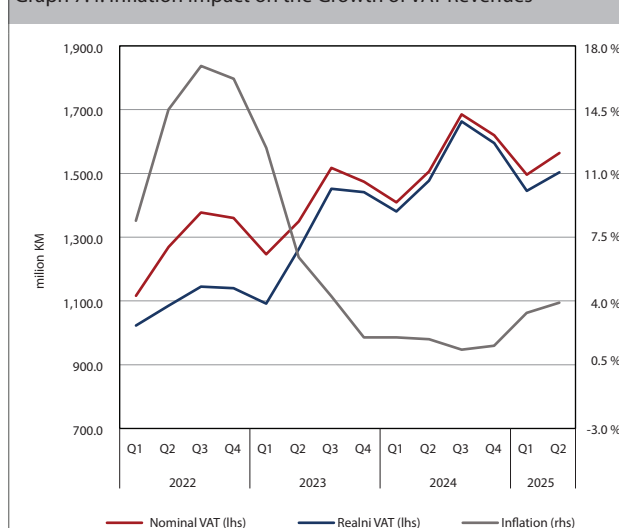
Graph 7.3: Income Structure



Value added tax (VAT) revenues recorded its historically highest amounts in recent years, after the pandemic year of 2020. Net VAT revenues in 2024 amounted to KM 6.22 billion, which represents a nominal increase of 11.3% compared to the previous year.

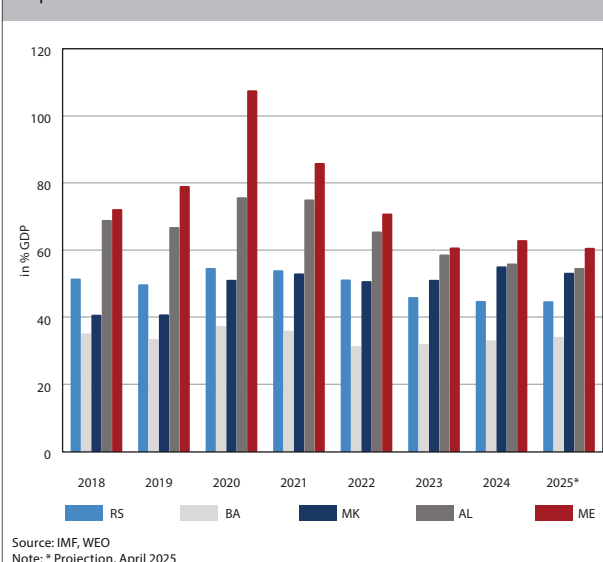
This strong growth of fiscal revenues is the result of a combination of several factors on the demand and price side, including increased private spending, growth of commodity imports, but also continued favourable developments in the services sector. In addition, one of the key determinants of VAT revenue growth was the persistence of inflation pressures, with prices remaining at a higher level during the first half of 2024, while in the second half of 2024 and early 2025 they intensified further, which had a direct impact on the tax base expansion and the increase of collected revenues (Graph 7.4).

Graph 7.4: Inflation Impact on the Growth of VAT Revenues

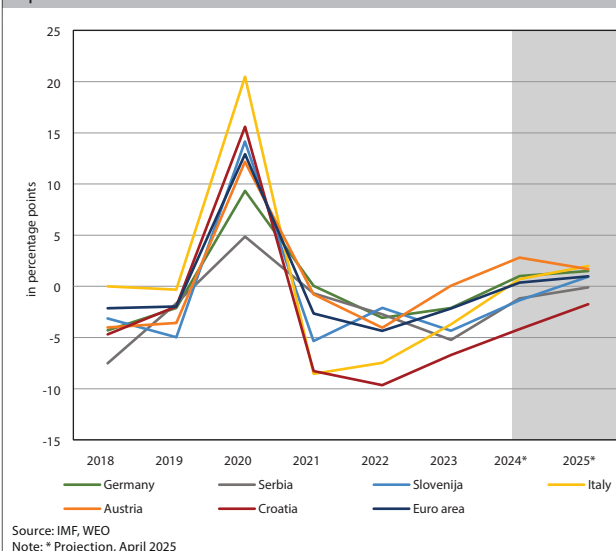


At the end of 2024, the public debt of the general government sector of BH was KM 14.06 billion (26.3% expressed as a percentage of GDP). With this debt level, BH continues to be classified as a country with a moderate debt level according to the criteria from the Maastricht Agreement (Graph 7.5), and is below the average of developing countries and most countries in the region. During the COVID-19 pandemic, as well as during the period of increased inflation pressures after the outbreak of the war in Ukraine, BH, like many other countries, implemented a set of fiscal measures aimed at protecting socially vulnerable groups of the population. Despite these measures, the public debt level remained stable and under control, while public debt in some countries of the region was rising or stagnating (Graph 7.6).

Graph 7.5: Public General Government Debt in Selected Countries



Graph 7.6: Annual Changes in Public Debt of General Government Expressed in Per Cents of GDP



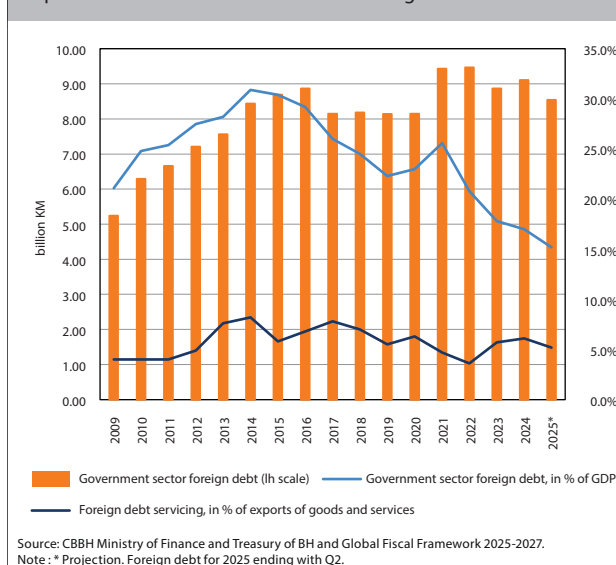
Although BH debt level is currently perceived as fiscally sustainable, it is important to emphasise that a relatively low level of public debt does not necessarily represent a macroeconomic advantage for a developing country. On the contrary, limited borrowing can indicate underinvestment in key development sectors, such as infrastructure, energy, education and digitalisation. Countries striving for accelerated economic growth and convergence with developed markets cannot rely solely on restrictive fiscal policies, but must ensure adequate sources of long-term financing, including sustainable borrowing for strategic investment projects.

In this context, although the current public debt level is considered moderate, the dynamics of future borrowing may represent a potential risk to fiscal stability, especially with regard to the existing weaknesses in access to international financial markets, institutional fragmentation and political instability. In addition, the Entity budgets show strong needs for external funding.

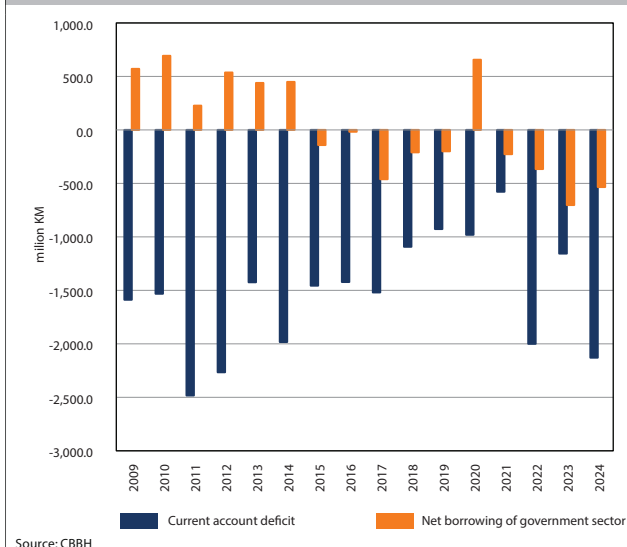
In 2024, financing needs in the Federation of BH amounted to approximately 7% of the Entity GDP, while in Republika Srpska they were even higher, at the level of around 10% of the Entity GDP.

The external debt of BH general government sector recorded a moderate increase during 2024, a nominal increase of KM 240 million, or 2.7%, reaching the total of KM 9.11 billion at the end of the year. For 2025, the external debt repayment is planned in the amount of KM 855 million, which approximately represents 10% of the total projected revenues from indirect taxes. In the period 2008–2016, increased government borrowing abroad (Graph 7.7) played a key role in covering the current account deficit and financing the government spending (Graph 7.8). On the contrary, in 2024, there was no new borrowing by the Entity governments from foreign creditors under concession terms, especially for infrastructure projects. Consequently, external debt growth remained limited, while the contribution of net public external borrowing to the financing of the current account deficit was negligible. In the last four years, there has been a continuous decrease of foreign creditors' engagement on concession basis in the capital projects financing, which indicates a decline of the general government sector investment activity. If capital investment intensifies in the coming medium term period, the withdrawal of funds from international creditors under favourable financial conditions could have a twofold effect: on one hand, it would contribute to the current account deficit reduction, and on the other hand, it would have a positive impact on the foreign exchange reserves increase. In addition, borrowing under concession terms is characterised by a lower interest rate, a longer repayment period and lower exposure to market conditions changes, thus increasing fiscal resilience and reducing the volatility of the government sector external debt repayment.

Graph 7.7: General Government Sector Foreign Debt



Graph 7.8: Net Borrowing of Government Sector and Current Account Deficit



Text box 6: Impact of decrease of contribution rates in FBH on fiscal sustainability

According to the available data for 2024, the total revenues from contributions in the Federation of BH for the first two months amounted to approximately KM 863 million, which is a significant increase compared to the same period in 2023, when around KM 773 million was collected. Of the total amount in 2024, contributions for pension and disability insurance (PDI) amounted to KM 484 million, while almost KM 339 million was collected for health insurance. The remaining revenues are related to unemployment insurance, which amounted to close to KM 40 million. These data indicate an increase of contribution revenues by around 12% compared to the previous year, which may be the result of an increase of the number of employees, an increase of the average gross wage or increased efficiency in collection.

Reducing the social insurance contribution rate in the FBH is one of the key fiscal policy reform measures aimed at relieving the economy, encouraging employment and reducing grey economy. As of July 1, 2025, the aggregate contribution rate in the FBH has been reduced from 41.5% to 36%. This decrease of 5.5 percentage points mostly refers to contributions paid by employers – the contribution for pension and disability insurance (PDI) was reduced from 6% to 2.5%, while the contribution for health insurance was reduced from 4% to 2%. Such measure has a direct impact on the revenues of social insurance funds, especially PDI and health funds, which are mostly financed from the contributions of employees and employers.

However, the planned reduction of the contribution rate at the expense of the employer from 10% (6% for PDI and 4% for health care) to 4.5% (2.5% + 2%) represents a reduction of 5.5 percentage points, i.e. more than half of the current burden on employers in this segment.

Assuming that the number of employees and the base do not change significantly, rough estimates show that such a reduction could cause a significant decrease of revenue. Although there is a potential to partially compensate for any losses through an increase of formal employment, a reduction of grey economy or an increase of gross wages, it is clear that without additional fiscal measures and structural reforms, such a loss can represent a serious challenge to the sustainability of the pension and health systems in the FBH.

As pension and health funds are already burdened by demographic changes (see Chapter 8 in more detail), ageing population and a relatively high number of beneficiaries in relation to the number of employees, this loss of income can be a serious risk to fiscal sustainability. The PDI Fund faces constant pressure due to the increased number of pensioners and limited inflows from contributions, while health funds have been experiencing problems in financing basic services for years.

If there is no growth of employment, an increase of the collection of contributions or an expansion of the tax base, there is an actual danger of these funds' deficits deepening and the need for additional subsidies from the budget, which may jeopardise the overall fiscal stability of the FBH.

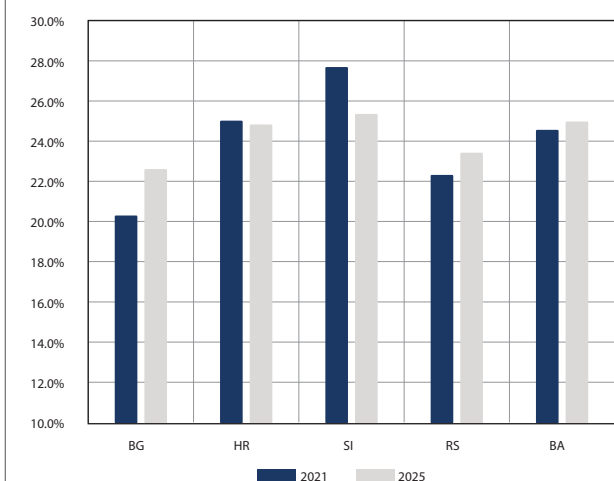
On the other hand, reforms like this have potential long-term benefits. Lower contribution rates can stimulate formal employment and reduce labour costs, which increases the competitiveness of the economy and can lead to the tax base broadening. However, these effects are not immediately realized and largely depend on the effectiveness of the reform implementation, legal framework, labour market control and measures to combat grey economy. If employers really use lower contributions to hire new workers or increase wages, losses may be compensated in the long term through a higher number of taxpayers and an increase of the total amount of payments.

So, although reducing the contribution rate can bring positive economic impulses, it brings significant challenges for BH fiscal sustainability. It is crucial that such reforms are accompanied by detailed impact analysis, scenarios and measures that will mitigate negative effects. Otherwise, there is a risk that short-term fiscal losses will outweigh the potential long-term benefits, which may further weaken the public funds stability.

8. Labour market – REFORMS PRIORITY

The significant share of employment in the public sector, especially in public administration, the dramatic decline in the birth rate, coupled with a strong increase in the number of retirees, and the general problem of population aging, represent the most important source of macroeconomic imbalances in the medium and long term. Compared to some neighboring countries, the share of employment in the public sector is relatively constant over a longer period (Graph 8.1), which indicates a greater rigidity of the domestic labor market in relation to the economic cycle. In the structure of employees in the public sector, BH records the largest share of public administration in public sector employment (Graph 8.2), while in other countries employment is more significant in health and education. Bearing in mind that in the last decade we have recorded the slowest closing of the economic gap compared to the EU average (see Chapter 3), and that there are numerous public companies in other sectors such as mining, communications, electricity and water supply, structural reforms are urgently needed to finally start reducing the aforementioned gap. Although it should be borne in mind that these activities are mostly focused on social care, it is evident that the significantly higher share of this sector in total employment than in comparable countries leads to slower economic convergence towards more developed countries.

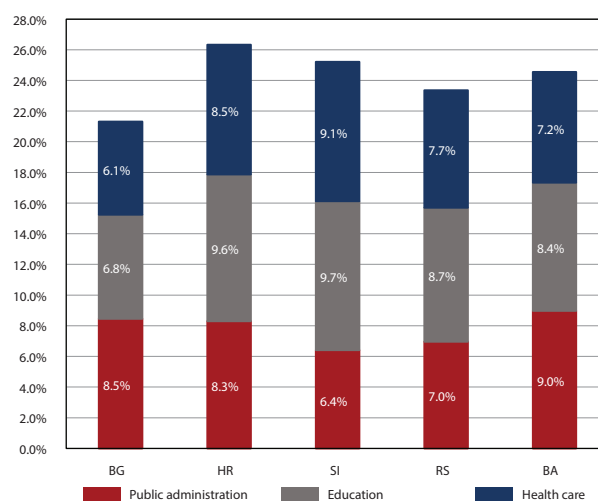
Graph 8.1: Share of Employees in Predominantly Public Sector in the Total Employment



Source: EUROSTAT, BHAS

Note: Public sector includes the following activities: O (Public administration and defence, mandatory social insurance), P (Education) and Q (Activity of health care and social help).

Graph 8.2: Structure of Employees in Predominantly Public Sector in 2024



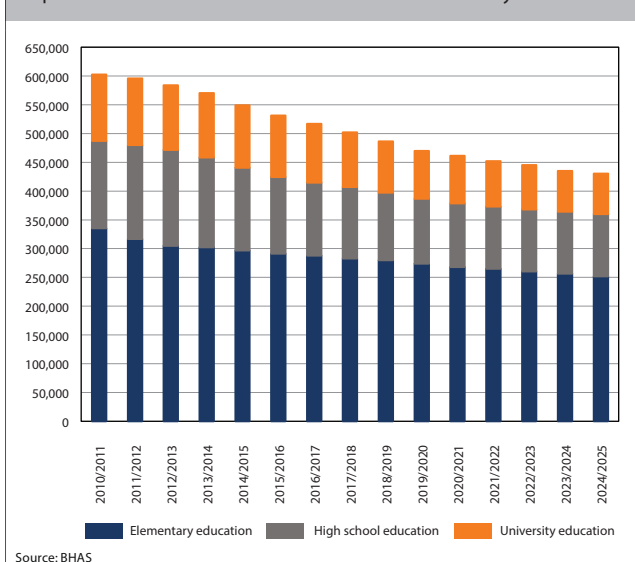
Source: EUROSTAT, BHAS

The huge economic gap behind developed countries contributes to negative natural population growth and an increasingly rapid outflow of the working-age population, which will certainly have long-term consequences on potential GDP, through a negative contribution of labor. The increasingly pronounced pressure of rising prices of goods and services, as well as real estate prices, undermines the already weak economic standard of the population, which, together with relatively high labor costs in the EU (see Chapter 5), stimulates the population to emigrate. The fact that the secondary education system records the largest number of enrollees in the part of craft occupations, where construction, healthcare and catering are particularly prominent, indicates that many students today are preparing for possible emigration in the early schooling phase. The latest change in the minimum wage, which almost equalized incomes between occupations with low and high qualifications, does not inspire optimism for long-term growth in interest in higher education. It is illustrative that in the presented period (Graph 8.3), the education system recorded a significant decrease in the number of students in all categories of education²⁸, which at the end of this period decreased by 172,162 students, with 48.6% of the total decrease coming from primary education, while 25.3% and 26.1% were from secondary and faculty education, respectively. In addition to the decrease in the number of students, the existing educational programs significantly lag behind the neighboring countries, as indicated by all conducted international tests in education.

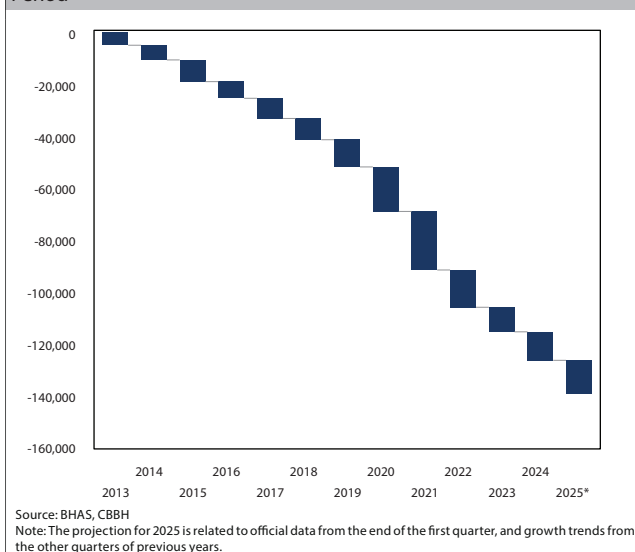
²⁸ Except for preschool age, which due to the low base is not relevant for comparison with earlier age.

The evident decrease in the number of students can be attributed to demographic changes, which are reflected in the high negative natural increase (Graph 8.4) and the lowest fertility rate in the surrounding area and the EU, population emigration, but also the lack of much-needed structural reforms, about which policy makers only speak declaratively.

Graph 8.3: Structure of Students Enrolled in Education System



Graph 8.4: Cumulative Natural Increase of Population in Ten Year Period

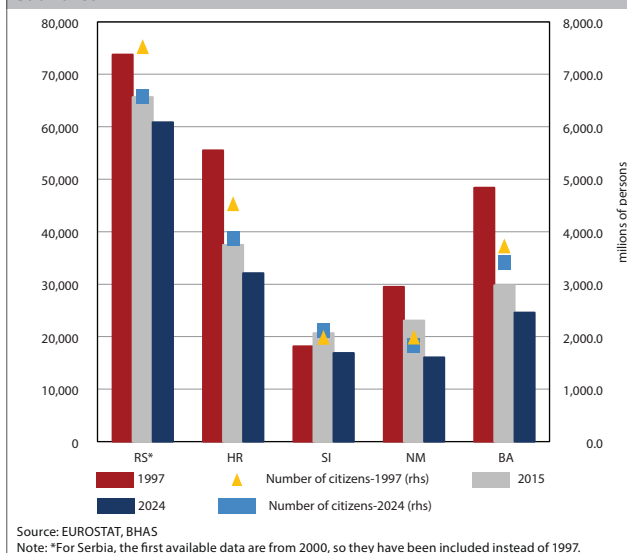


The negative natural population growth is caused by a dramatic drop in the number of births (Graph 8.5), which at the end of 2024 was more than halved compared to the first available data from 1997. Other neighboring countries mostly recorded a significant decrease in the number of births, although at a lower intensity, while on the other hand Slovenia, as the most economically developed country in the region, recorded a slight drop in births since the beginning of the observation.

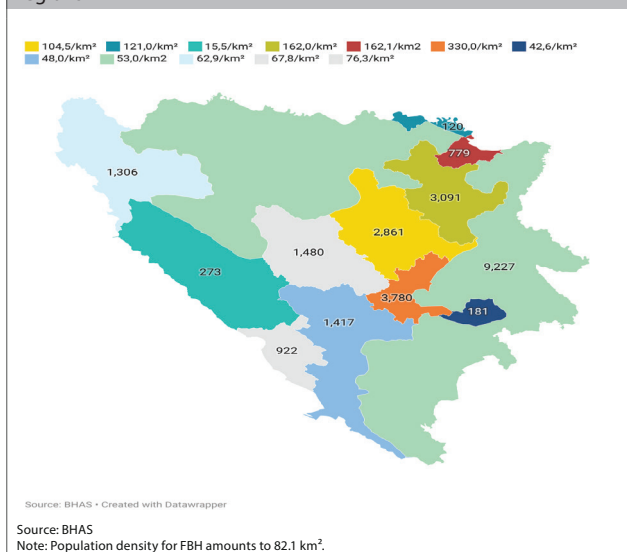
It is noted that the population number in BH has slightly decreased over a thirty-year period, which certainly casts doubt on the estimate from the last census (2013),

after which a significant number of the population permanently moved out of the country. The very fact that the population density, or the number of people per square kilometer (km^2), according to the last census was 90.2 km^2 , which is slightly lower than the EU average for the same year²⁹, points to very questionable statistics. In addition, it is very important to recognize that the population density itself, as well as the number of births within BH (Graph 8.6), varies significantly by region, and it is necessary to adjust development strategies and direct them towards the development of unused areas. Bearing in mind that it has been repeatedly reiterated that structural reforms are urgently needed, it is important to emphasize that all these reforms and strategies are unimplementable unless an adequate overview of the situation in all economic and social aspects is made, which initially implies conducting a new, real, population census.

Graph 8.5: The Number of Births and the Total Number of Citizens per Countries



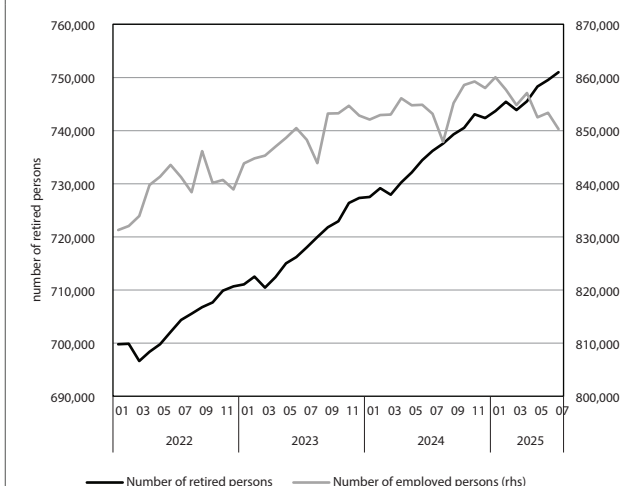
Graph 8.6: The Number of Births in 2024 and Population Density by Regions



²⁹ According to the latest data, the population density in the EU in 2023 was on average $109.3 \text{ persons per km}^2$.

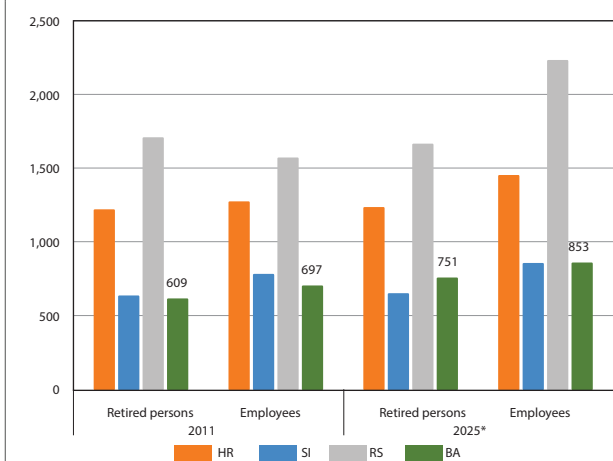
The decline in the number of births, regardless of additional emigration of the population, with twice as strong growth in the number of pensioners as the growth in the number of employees, in recent years represents a crucial challenge for the macroeconomic sustainability of pension and social funds in the coming period. The number of pensioners in the last three years has been growing 2.3 times faster than the number of employed persons (Graph 8.7), which leads to a significant increase in budgetary costs. Comparing the latest available data (beginning of the second half of 2025) with the beginning of 2022, the number of pensioners has increased by over 51 thousand, while the number of employees is only 22 thousand higher. When comparing the latest data with the end of 2011, BH records the largest increase in the number of pensioners among the selected countries (Graph 8.8), which shows that the long-term situation on the labor market is not significantly better, although it is noticeable that the situation has been significantly deteriorating in recent years.

Graph 8.7: The Number of Retired and Employed Persons in the Latest Period



Source: EUROSTAT, Federal PDI Fund, Pension-Disability Insurance Fund of RS
Note: The latest available data as of July 2025.

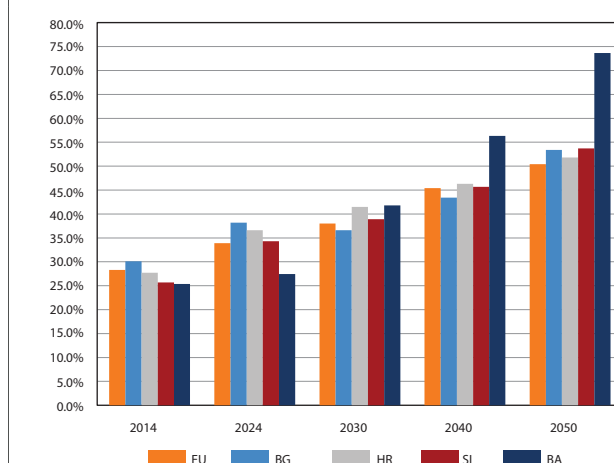
Graph 8.8: Pension fund coverage ratio across selected countries



Source: EUROSTAT, Federal PDI Fund, Pension-Disability Insurance Fund of RS
Note: *For surrounding countries, the number of employees according to Eurostat methodology is taken from the end of 2024, while the number of pensioners is from the end of the first half of 2025. Data for BiH includes the number of employees from June, while the number of pensioners is from the end of July 2025.

Negative natural growth, rapid growth in the number of pensioners, along with a continued increase in the expected life expectancy and a decrease in the share of the working-age population, will dramatically change the age structure of the population in the coming decades. The official population projection, which assumes a continuation of the negative trend of natural growth, an increase in life expectancy, and relevant migration data from Eurostat and other sources, indicate a dramatic decline in the working-age population in the coming period, which will significantly change the age structure of the population in the coming decades. As a result of the change in the overall population structure, the ratio between the economically active and inactive population in the EU (Graph 8.9) is projected to be 50.4% in 2050, while it was 28.3% at the end of the base year 2014. This implies that the EU will have two active people for every person over 65, instead of almost every four active people. Comparing the domestic ratio with EU countries, BH still records a similar or even slightly lower dependency ratio, according to estimates from the BHAS Labor Force Survey³⁰. Moreover, the situation until 2024 reflects the unreliability of the estimate of the inactive population in BH, which results in the lowest ratio, while in the projection period (the United Nations Population Fund forecast) it already reflects a population estimate that is closer to reality, which leads to a significant deterioration of the ratio. The aforementioned official data and projections of future trends in the labor market indicate the much-needed demographic development strategy and its implementation, with the aim of increasing the active population and reducing the share of the dependent population.

Graph 8.9: Long-term Projection of Dependency Ratio



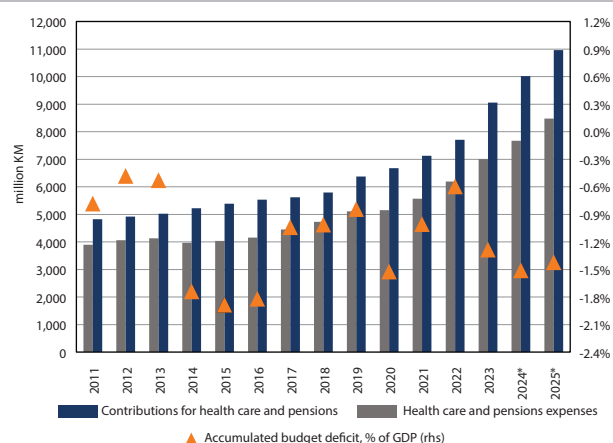
Source: EUROSTAT, BHAS, CBBH
Note: Data for the years 2014 and 2024 were taken from the Labour Force Survey, while the other years are from the Analysis of the population status and population projections for the period 2020 – 2070.

The rapid growth in the number of pensioners and the strong growth in inflation have recently caused an increase in the costs of maintaining the public pension and health sector. The estimated growth in pension and health sector expenditures at the end of 2025 is twice as high as ten years ago.

³⁰ Dependency ratio

On the other hand, the highest amount of contributions collected was recorded in nominal terms, especially after the increase in minimum wages (Graph 8.10). Taking into account that the too low levels of average pensions, and still pronounced inflation, require a further increase in the costs of financing pension and health funds, it is possible to expect pressures on further deepening of the budget deficit in the coming period. The estimated budget costs at the end of 2025, expressed as a percentage of GDP, are higher than in all the countries presented (Graph 8.11). The costs of the public health system stand out in particular, which are, on average, higher by 3% of GDP. Considering that the expenditure forecast for BH at the end of 2070 takes into account the expected growth in costs in other countries, and not the stated catastrophic demographic expectations, it is very likely that this growth in expenditure will be much higher, unless a significant turnaround is made in the near future.

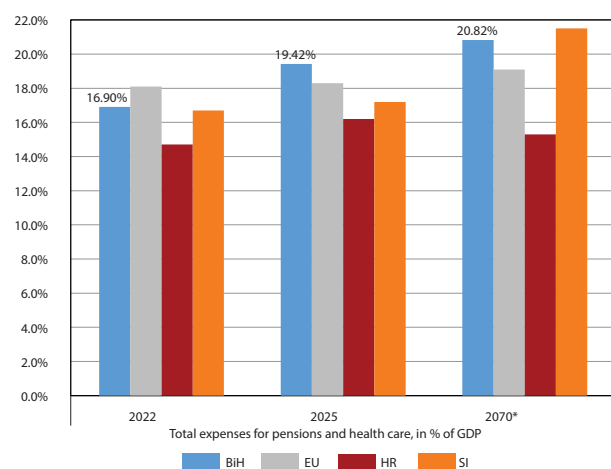
Graph 8.10: Financial Operations of Pension and Health Funds



Source: BHAS, CBBH, Federal PDI Fund, Pension-Disability Insurance Fund of RS, Health Care Funds in FBH, RS and BD

Note: Projection of spending in health sector for 2024 and 2025 is based on the linear trend from the previous period, while the projection of expenses for pensions in 2025 is based on the July end official data. Revenues from contributions for health care and pensions for 2025 are based on the official data from the end of the first half of the year, while the GDP projection is based on the official CBBH projection.

Graph 8.11: Estimated Costs of Pension and Health Care Funds in % of GDP



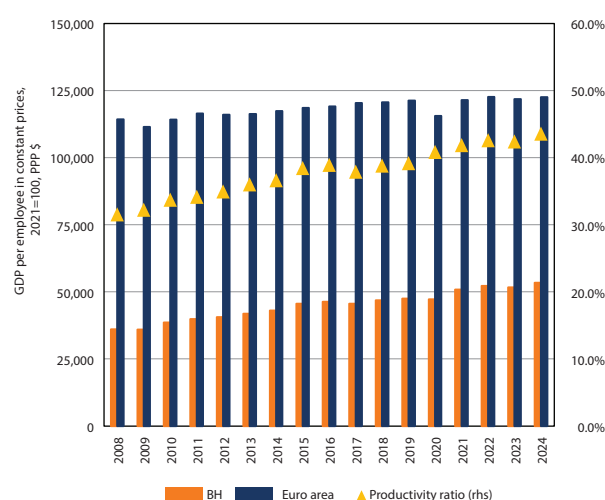
Source: EUROSTAT, CBBH, Federal PDI Fund, Fund of Pension-Disability insurance of RS, Health Care Funds in FBH, RS and BD

Note: Projection of expenses of pension and health care sectors for 2070 for BH takes into account the average growth of expenses in other presented countries.

Text box 7: Sectoral labor productivity as a prerequisite for long-term growth and competitiveness of the BH economy

Analysis of labor productivity at the sector level provides important insights into the dynamics of gross value added, structural transformations within the economy, and the competitiveness of the domestic economy. Comparative data indicate a chronically low level of aggregate labor productivity in Bosnia and Herzegovina, which reaches approximately 40% of the European Union and euro area average (Graph 8.12). In the period 2008–2024, continuous but very slow growth in labor productivity was recorded in BH, with an average annual growth rate of 3%, which is insufficient to achieve real convergence.

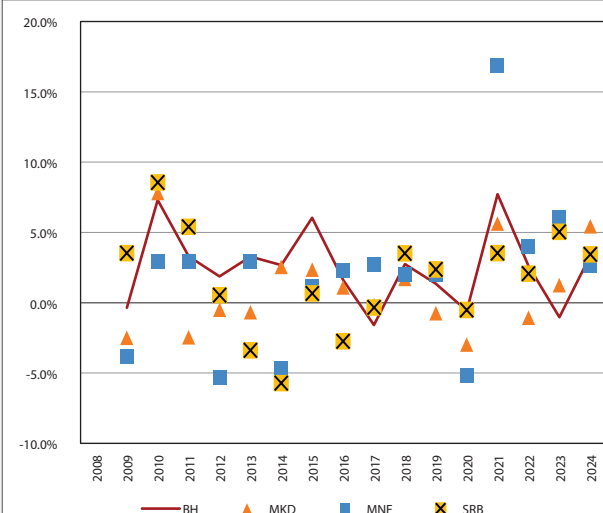
Graph 8.12: Labour Productivity in the Period 2008–2024



Source: the World Bank

A similar situation is confirmed by regional comparisons, where BH occupies the lowest position in terms of production efficiency and the contribution of the workforce to the creation of new added value. Historically, the growth of labor productivity at the level of the BH economy has been very volatile. In the last two years, the growth rate of labor productivity in BH has been lower than in the countries of the region, which implies stagnation of the economy, the need for stronger investment activity and capital investments (Graph 8.13).

Graph 8.13: The Productivity Levels in BH and Regional Countries

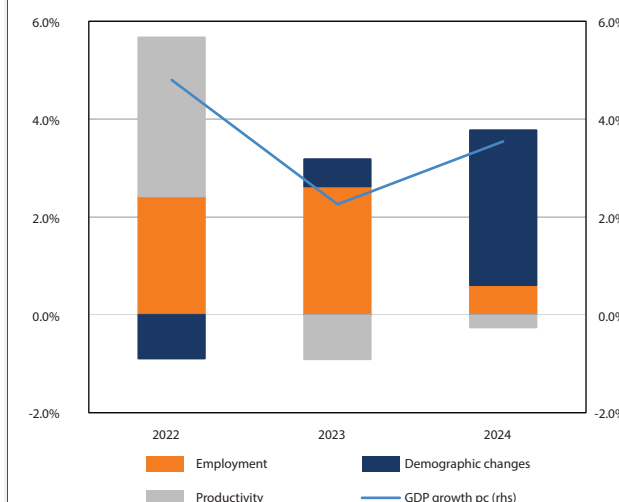


Source: The World Bank, database

The decomposition of GDP growth per capita, from the perspective of the labor market, shows that the largest part of the total growth is primarily the result of an increase in the employment rate and the share of the working-age population³¹. However, labor productivity in BH, as a cyclical and volatile component of growth, in the period 2021–2023, records a decreasing trend, which further confirms that it is a key indicator in creating policies aimed at sustainable growth.

In the period 2015–2019, productivity growth was the main generator of GDP growth per capita. GDP per capita has been slowing down in the last three years, productivity growth has not maintained the dynamics from 2022, with the growth rate in 2024 being 1.3 percentage points lower than in 2022 (Graph 8.14). This situation indicates systemic risks and structural problems in the economy, and lower efficiency of the economy, which represents a particular challenge for long-term, sustainable growth. However, the decomposition of GDP presented from the perspective of the labor market is not adequate for comparison across countries. This type of analysis does not take into account the structure of the economy in terms of the importance, role and share of individual sectors in total gross value added, total employment and productivity.

Graph 8.14: Decomposition of Growth of GDP per capita from the Labour Market View



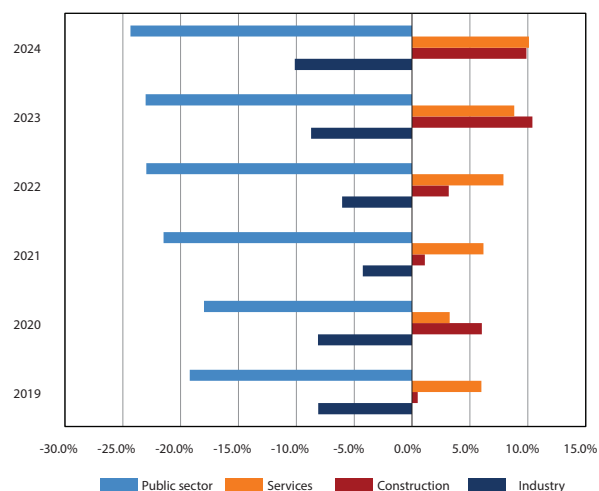
Source: CBBH

Note: Decomposition of growth is based on annual data of BHAS from the Labour Survey.

Labor productivity is a key indicator of the efficiency and competitiveness of individual sectors. Analysis of sectoral labor productivity allows the identification of areas with high or low levels of efficiency, as well as the factors that influence its growth, including technology, workforce education, and structural characteristics of the sector. In the period from 2008 to 2024, the industry, construction, and services sectors recorded average annual productivity growth rates below 1%. The services sector, which contributes 50% of gross value added (excluding public services), records productivity above the national average (10% above the aggregate average, when public services that record below-average results are excluded (Graph 8.15), thanks to higher value added, technological efficiency and a skilled workforce. The public sector, with a share of 19% in total gross value added, achieves lower productivity rates compared to the economy-wide average. The agricultural sector records a decline in average annual productivity of 1.56%, which can be partially explained by technological stagnation and lack of capital investment. Exceptionally high labor productivity is recorded in the financial, insurance and real estate sectors, although these sectors employ only 2% of the total labor force. On the other hand, the lowest productivity rates and their continuous decline are present in the hotel, catering, education and other service sectors, which recorded an increase in the number of employees. The positive effects of productivity growth in sectors with a lower share in gross value added are significantly reduced by falling productivity in industry, which accounts for about one-fifth of the total GVA structure and represents a key export base.

³¹ BHAS, according to ILO Methodology.

Graph 8.15: Trend of Productivity Indices of Selected Sectors, 2019-2024



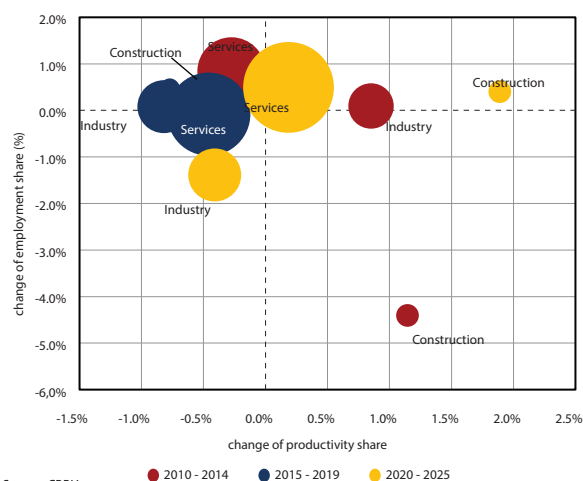
Source: CBBH

Note: Sector productivity is calculated as GVA ratio at the sector level, chain linked values in prices in 2021 and the total number of employees at the sector level (BHAS data).

Sector-level labor productivity focuses on employment in the context of assessing the efficiency of labor use and provides guidelines for targeted measures that can improve productivity and competitiveness in individual sectors. In BH, more than 60% of employees work in the public sector, manufacturing, and trade, with these sectors characterized by below-average labor productivity and higher labor intensity. From 2014 to 2024, an increase in the average number of employees was recorded, with the most significant contribution coming from the public sector, followed by the trade and other sectors (mainly service industries). Continuous employment growth was particularly pronounced in the areas of public administration, health, and education, which had a significant impact on the overall dynamics of employment and wage trends.

In the period 2020–2025, the average annual growth of employment in the services sector was 0.5%, while productivity increased by only 0.2% in the same period. In contrast, the industrial sector has seen a decline in employment and productivity, with the exception of a slight increase in the period 2010–2014. The construction sector was the only one to record stable average annual productivity growth of 1.9% and moderate employment growth of 0.4% (Graph 8.16).

Graph 8.16: Average Change of Employment Share in the Total Employment and Productivity Change

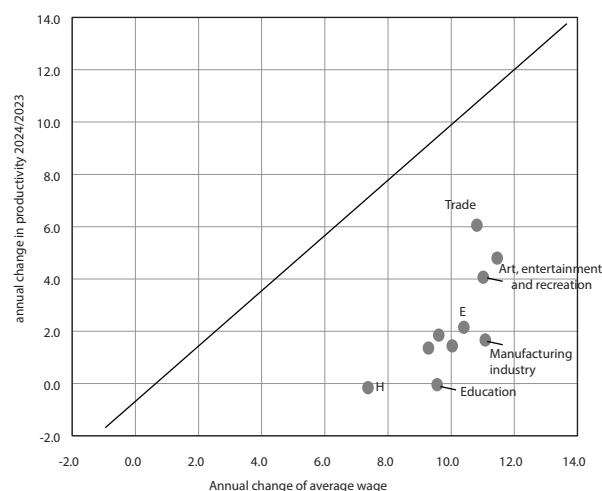


Source: CBBH

Note: Change of the share of sector productivity and employment are presented as average values for the observed periods. The activity of services includes the following sectors: E, G, H, I, J, K, L, M, N, R, S, O, P and Q, while the activity of industry includes: B, C and D.

Low labor productivity growth rates represent a constraint on sustainable wage growth. When wage growth exceeds productivity growth, unit labor costs increase, which puts pressure on prices, the real effective exchange rate, and the overall competitiveness of the economy. In this context, changes in productivity represent an important element in the analysis of the sustainability of wage growth. In 2024, real wages increased by 7.68%, while real productivity growth was close to 6%, which was not enough to fully compensate for the strong wage growth. Since 2022, wage dynamics have accelerated, with the average nominal net wage growth for the period 2022–2024 being 11.49%. Significant wage growth, above 10%, was recorded in the services, agriculture, and manufacturing sectors, where wage growth in these sectors does not rely on adequate productivity growth. It is characteristic that sectors such as manufacturing and trade, which have a large share of employment, continue to record below-average wage levels (Graph 8.17). On the other hand, public administration, healthcare, financial services, insurance, and information and communication activities generate above-average wages, which are also supported by higher productivity rates.

Graph 8.17: Annual Change of Average Wage per Activities



Source: BHAS

In the first half of 2025, sectors with below-average wages recorded an average growth of 15.7%, due to the increase in minimum wages, while wage growth in sectors with above-average wages amounted to 10.9%. This dynamics led to a strong growth in unit labor costs, which indicates that the growth of labor costs exceeds the growth of the economy's efficiency and may further deepen macroeconomic imbalances due to the decrease in competitiveness. At the same time, taking into account that a large part of the employed is concentrated in sectors with low productivity and below-average wages, it is clear that this represents a serious obstacle to improving the competitiveness of the domestic economy and the overall growth of aggregate productivity. As a result, wage growth will not be uniform across sectors, which limits the potential for increasing living standards and slows down sustainable economic development.

STATISTICAL APPENDIX

Attachment 1: Indicators of Macroeconomic Imbalances in Bosnia and Herzegovina																		
Group of indicators	Indicators	Reference value	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Indicators of external imbalances and competitiveness	Balance of payments current account balance - three year average (GDP%)	from -4 % to 6 %	-9.8%	-8.7%	-7.3%	-8.0%	-7.8%	-7.1%	-5.9%	-5.7%	-4.8%	-4.2%	-3.5%	-2.9%	-2.3%	-2.9%	-2.7%	-3.6%
	Net balance of foreign investment (GDP %)	-35%	-52.3%	-53.7%	-56.2%	-57.9%	-56.4%	-56.7%	-54.2%	-50.5%	-45.7%	-41.5%	-36.8%	-33.5%	-28.9%	-26.1%	-22.3%	-22.7%
	Real effective exchange rate - three year change (%)	±5 % (euro area), ±1 % (outside euro area)	1.0%	1.9%	-0.1%	-1.6%	-2.1%	-3.5%	-5.5%	-5.1%	-4.7%	-1.0%	-1.2%	-1.4%	-2.4%	2.6%	3.5%	2.5%
	Share in global exports of goods and services - five year change (global export %)	-6%	n/a	27.1%	17.0%	-1.1%	0.7%	-4.1%	1.1%	10.9%	31.5%	30.5%	24.9%	13.5%	21.6%	16.8%	14.0%	13.6%
Indicators of internal imbalances	Nominal index of unit labour cost - three year change (%)	9% (eurozona), 12% (izvan eurozone)	24.5%	13.3%	8.9%	4.7%	4.3%	1.7%	-1.8%	-3.7%	-6.1%	-4.8%	-1.4%	4.4%	-0.8%	-1.3%	-2.2%	12.0%
	Residential property price index, deflated - one year change (%)	6%	24.4%	-5.1%	-6.8%	-6.2%	-1.3%	-1.7%	3.0%	2.5%	-0.7%	1.6%	2.2%	3.3%	3.9%	6.1%	5.4%	10.1%
Indicators of internal imbalance	Private sector credit flow, consolidated (GDP %)	14%	-3.8%	-0.7%	1.2%	1.3%	1.0%	0.5%	1.0%	1.7%	3.4%	3.2%	3.6%	-1.1%	2.1%	2.6%	3.4%	4.4%
	Private sector debt, consolidated (GDP %)	133%	62.7%	60.7%	59.9%	61.2%	61.0%	60.2%	57.9%	57.0%	57.7%	57.2%	57.9%	58.6%	54.1%	49.0%	48.2%	51.4%
	Gross debt of general government (GDP %)	60%	n/a	n/a	32.8%	36.6%	37.6%	41.5%	41.9%	45.1%	36.0%	34.7%	32.8%	36.1%	33.9%	29.3%	26.4%	26.3%
	Unemployment rate - three year average (%)	10%	25.5%	24.9%	26.3%	27.6%	27.7%	27.7%	27.6%	26.9%	24.5%	21.4%	18.2%	16.7%	16.4%	16.3%	15.4%	13.8%
Employment indicators	Financial sector total liabilities, unconsolidated - one year change (%)	16.5%	-1.9%	-0.7%	-0.5%	1.0%	5.5%	5.5%	4.5%	5.5%	8.7%	10.0%	8.3%	4.0%	11.0%	2.9%	3.4%	8.3%
	Activity rate - three year change (pp)	(- 0.2 pp)	1.2%	1.6%	0.2%	0.9%	-2.2%	-0.7%	0.2%	-1.1%	-2.5%	-4.5%	-2.3%	12.0%	11.5%	11.8%	2.9%	5.6%
	Long-time unemployment - three year change (pp)	0.5 pp	-6.7%	-2.7%	2.1%	2.8%	0.4%	1.0%	-0.3%	-1.1%	-6.5%	-7.5%	-9.7%	-5.0%	-1.5%	-0.4%	-2.0%	-4.4%
	Youth unemployment rate - three year change (pp)	2.0 pp	-17.6%	-0.9%	10.4%	14.4%	1.6%	4.8%	-0.8%	-4.8%	-16.9%	-23.5%	-20.5%	-9.2%	-0.5%	1.3%	-6.5%	-5.2%
Source: CBBH																		

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