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Spring round of macroeconomic projections for the period 2025 – 2027

Sarajevo, April 17, 2025



In the spring round of macroeconomic projections for the period 2025 – 2027, economic activity and inflation for 2025 have been revised, compared to the autumn round of projections

Key messages:

- *The projection of economic activity growth in BH in 2025 has been revised downwards, to the level of 2.4%, mainly due to the external demand weakening, which will be reflected in exports and investments, which are affected, among other things, by the base effect from 2024. The most significant contribution to economic growth in short term is expected from personal spending, due to the nominal wage growth and the expected inflow of remittances from abroad.*
- *We are currently expecting the growth dynamics to gradually intensify by the end of the projection horizon, but we stress significant risks of downward revision as early as in the next round of medium-term macroeconomic projections. In addition, the projected economic growth rates are not yet at levels that would result in faster progress in transition process.*
- *Domestic inflation pressures have increased significantly since the beginning of the year. In 2025, we project inflation of 3.5% (+1.7 percentage points compared to the previous round of medium-term macroeconomic projections). Domestic inflation pressures are expected to gradually weaken in the projection horizon, but revisions are possible due to a stronger than calibrated spillover effect of minimum wage growth to other activities, and further adjustments of average wages to inflation, in the environment of current labour market frictions.*
- *The estimated values of real GDP, its components and other macroeconomic variables are exposed to an exceptionally high degree of uncertainty regarding economic activities in the main trading partners' countries, political circumstances at the global and local level, but also possible considerable effects of changes in the domestic labour market on the price competitiveness of domestic products and services.*

The Central Bank of Bosnia and Herzegovina (CBBH) publishes the projections of key macroeconomic variables for the period 2025-2027 (Table 1). The previously published medium-term projections (November 2024) for 2024 were 2.4% for real economic activity and 1.8% for inflation, which is almost identical to the subsequently published official data (the real GDP growth of 2.5% and inflation of 1.7%). Between the two rounds of the CBBH medium-term macroeconomic projections, a number of unforeseen circumstances occurred in the domestic and international environment, resulting in the revision of projections for all the key macroeconomic variables for 2025 and 2026. The changes with expected particularly strong effects on the projections include a strong increase of the minimum wage in BH in December (in the Federation of BH) and January (in Republika Srpska), continuing growth of electric energy prices in the domestic market, and an increasingly certain global trade war after the introduction of tariffs by the USA to almost all the countries in the world. In the spring round of projections, the projection horizon has been expanded until 2027.

Table 1. Selected macroeconomic indicators

	The first round of projections in 2025; April						The second round of projections in 2024;				
	Official data at the moment of preparing projections			Projections			Official data at the moment of preparing		Projections		
	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026
Changes at the annual level, %											
Real GDP	3,7	1,9	2,5	2,4	3,3	3,8	3,7	1,9	2,4	2,6	2,8
Inflation (Consumer price index)	14,0	6,1	1,7	3,5	2,4	1,9	14,0	6,1	1,8	1,9	2,0
Personal spending	1,9	1,1	2,1	3,3	2,6	1,2	1,9	1,1	2,7	1,8	2,0
Government spending	1,3	2,1	2,2	1,6	1,7	1,4	1,3	2,1	1,8	1,4	0,8
Investments	2,4	2,1	13,6	0,8	6,2	7,4	2,4	2,1	9,0	0,6	4,3
Exports	11,8	-1,2	-3,1	3,7	4,6	5,3	11,8	-1,2	-0,4	4,3	4,5
Imports	6,2	-1,3	2,8	3,6	4,6	3,1	6,2	-1,3	3,3	1,5	3,3
u % BDP-a											
Personal spending	65,3	64,7	64,5	65,1	64,7	63,0	65,9	65,1	65,3	64,7	64,2
Government spending	18,5	18,5	18,5	18,4	18,1	17,7	18,6	18,6	18,5	18,3	17,9
Investments	25,1	25,1	27,9	28,0	28,8	29,8	24,6	25,0	26,6	26,0	26,4
Net exports	-8,8	-8,6	-11,1	-11,2	-11,3	-10,4	-9,0	-8,7	-10,3	-9,1	-8,6

Note: The official data used at the moment of preparing the projections are the data as of 01 April 2025, while the data used for the previous autumn round are as of 10 November 2024. The component shares in GDP are calculated on the basis of the model estimate.

The expected intensity of real economic activity in 2025 is relatively modest, with a tendency of gradual increase in the projection horizon.

The CBBH expects the real GDP growth could slow down to around 2.4% in 2025, with a gradual increase tendency in the next two years. However, growth rates remain low, taking into account the country's level of development and the pace of convergence towards the EU. The weaker outlooks for 2025 compared to the previous round of projections, mainly result from declining exports and investments due to the effect of uncertainty, and also decreasing external demand. In the spring round of projections, the growth projections for the main trading partner countries, published by the ECB in early March, were used. At that time, tariffs on products exported by the EU to the USA were not yet introduced, so foreign demand, as well as investments, may be overestimated at the moment. In addition, the unprecedented increase of the minimum wage in BH, and the likely pressure for adjustments of other wages, could result in changes of price competitiveness, and also those in the labour market, which are significantly stronger than the calibrated initial effects.

Domestic demand could continue to support the real GDP growth with a slightly higher contribution than in 2024. The personal spending growth in 2025 was revised upwards (3.3%), mainly due to the increases of wages and disposable household income. The minimum wage increase, both in the FBH and in the RS since the beginning of the year, has brought about an increase of the average nominal net wage, which in January increased by 13.5% at the annual level. The highest growth of average wages was seen in catering industry, trade, construction and manufacturing industry, with wage adjustments in other activities expected in short term. Continued wage growth can also be expected in sectors with a large shortage of skilled workers. Demographic changes and a shortage of skilled workers are the challenges which the domestic labour market has already been facing. Therefore, structural reforms in the labour market are necessary to make possible the sustainable development of the country.

No significant deviations of the projected real growth rates compared to the previous round of projections have been seen in other domestic factors determining the economic activity intensity. On the other hand, the real foreign trade deficit in goods and services is expected to deepen in the projection horizon, neutralising the effect of private spending growth on economic activity.

Inflation for 2025 has been revised upwards to 3.5%

Since the beginning of 2025, inflationary pressures have begun to rise due to rising food prices, an increase in the share of food in the overall domestic consumption structure, and rising prices of electricity and services. The increase in the minimum wage, as of January 2025, has further intensified inflationary pressures, as a result of which the inflation rate has been significantly revised for 2025, compared to the autumn round of medium-term macroeconomic projections. Inflation measured by the consumer price index has been revised upwards by 1.7 percentage points, to 3.5% in 2025. Based on current expert assessments, and on a very small number of official data, we expect headline inflation to weaken over the projection horizon.

At this moment, we do not have model or expert assessments on the effects of increasing the minimum wage, or all other wages, on consumer prices or the price competitiveness of our products. The increase in the minimum wage in both Entities resulted in an increase of average wages. Due to increased inflation, wages also increase, in part, due to adjustment to price changes, in order to compensate for the accumulated loss of purchasing power. As inflation stimulates demands for wage growth, wage growth can also have a feedback effect on inflation. This two-way connection leads to the so-called price-wage spiral, i.e., the process of mutual stimulation of price and wage growth, the intensity of which is not constant over time, but also depends on other market factors.

The spillover effect of wage growth to other sectors of the economy can have a significant impact on headline inflation and the dynamics of the domestic labour market, but, indirectly, on future economic activity. A noticeable increase in minimum wages in 2025 may cause further wage increases in other sectors in order to maintain competitiveness and attract qualified workers. On the other hand, it is not realistic to expect that employment will grow at the current rates, given the increase in the average wage. Currently, there is a particularly noticeable link between changes in the nominal wage in sectors with the lowest average net wage and service prices, which significantly affect core inflation. For the first two months of 2025, the CBBH estimates core inflation at 4.34%, and inflation in services at 4.85%.

Our projections so far have proven to be very reliable, even in extraordinary circumstances such as the pandemic, the subsequent extraordinary inflationary shock and floods, and are harmonized

with trends in the projections of other relevant institutions. We plan to publish the results of the next round of medium-term macroeconomic projections, with a possible revision of the annual projections of key macroeconomic variables for the period 2025 - 2027, for November 2025. We will publish nowcast of economic activity and inflation, which may indicate the direction and intensity of corrections to the medium-term projections of real GDP and inflation, at the end of each quarter. The first subsequent publication of the nowcast is planned for June 2025.