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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

**BOSNIA AND HERZEGOVINA
(2026-2028)**

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

Real GDP growth decelerated to about 2% in 2025 due to weaker external demand but is projected to pick up moderately during the programme period, reaching 3.1% in 2028.¹ The main reasons for the weaker growth dynamics in 2025 were strong imports, driven by domestic demand, while external demand slowed down in the second half of the year. For 2026-2028, the programme expects solid growth in private consumption, thanks to robust wage growth, expanding investment and a rebound in export growth. Inflation accelerated in 2025 – reaching 4.1% in December – as a result of high food prices and strong wage growth, while employment growth came to a halt. For 2026-2028, the programme expects that declining import prices will help to lower inflationary pressures. Anecdotal evidence points to a continued outflow of qualified labour, which probably helps to reduce unemployment, but also leads to labour shortages and wage pressures in certain sectors, such as construction, tourism and health. Overall, the macroeconomic baseline scenario is based on outdated information and appears to be on the optimistic side, especially in view of the country's existing and upcoming challenges, such as the persistent outflow of labour, above-productivity wage increases, higher, discretionary spending and the impact of the Carbon Border Adjustment Mechanism (CBAM) on exports. Unfortunately, the programme does not address these challenges to a sufficient degree.

The programme expects an increase in the budget deficit in 2026 and a gradual fiscal consolidation in 2027 and 2028. Preliminary estimates point to a below-target deficit of 0.3% of GDP in 2025, rising to 2.1% of GDP in 2026. This is largely the result of maintaining spending levels as a percentage of GDP despite revenues being expected to fall to previous levels, as one-off effects in 2026 are unlikely to materialise again during the programme period. The headline deficit is expected to decline to 1.2% of GDP by 2028. In terms of expenditure composition, the fiscal framework envisages a further shift towards social transfers to the detriment of public consumption and investment. Interest payments are expected to remain broadly stable at 1.1% of GDP. On the revenue side, the reliance on indirect taxes is projected to increase significantly. Underlying revenue assumptions are in line with the (optimistic) baseline macro scenario. The programme does not provide concrete information on measures planned to contain expenditures, e.g. in the area of public consumption. Public investment is expected to decline as a share of GDP, which is not in line with previous recommendations or the urgent need to upgrade the capital stock. This deficit profile and the expected stock-flow adjustments result in the debt-to-GDP ratio falling from a peak of 27.7% in 2026 to 26.3% in 2028. International Financial Institutions, such as the IMF, expect higher deficits and also an increase in the debt ratio. The reliability of fiscal data is undermined by insufficient alignment with EU accounting standards.

The main challenges facing Bosnia and Herzegovina are the following:

¹ The assessment is based on the ERP submitted on 9 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

- **The country's economic governance is significantly weakened by inadequate cooperation among stakeholders and highly fragmented competences.** In combination with overly politicised decision-making, this hampers the country's capacity to establish coherent, nationwide economic and fiscal strategies. Upcoming challenges – like the introduction of carbon pricing in the EU or recent above-productivity wage increases and their effects on the country's price competitiveness – are not sufficiently addressed. Additionally, the lack of precise and timely empirical data hinders the development of economic policies and analyses.
- **Fiscal policy lacks a growth-enhancing perspective.** Public spending is largely directed towards insufficiently targeted social transfers and a large public wage bill, leaving little room for addressing investment gaps in critical sectors like education, infrastructure and the environment. The current level of public investment is inadequate relative to the country's needs and is often characterised by sluggish execution. Additionally, revenue collection is hindered by a substantial informal economy and a lack of transparency in relation to taxable income. Furthermore, numerous tax exemptions and tax reliefs reduce the potential for revenue mobilisation.
- **Other structural challenges relate to weaknesses in the rule of law and the business environment, underperforming public enterprises, delays in both the green and digital transitions and the need to develop human capital.** Those are key factors driving poor labour market outcomes, while holding back improvements in competitiveness and living standards. The country needs to implement the adopted Reform Agenda to address some of these challenges.

Implementation of the policy guidance jointly adopted at the Economic and Financial Dialogue of 13 May 2025 has been limited. Once again, the Global Fiscal Framework was not adopted in time, and no further steps were taken to clarify the constitutional competence for establishing a central (i.e. countrywide) registry of bank accounts of private individuals. The currency board arrangement continued to function well. Some steps were taken at entity level to improve public investment management. Despite some limited progress in improving the country's overall statistics, the BiH Agency for Statistics still does not publish data on the harmonised CPI or core inflation. The bank resolution framework is still not fully operational.

2. ECONOMIC OUTLOOK AND RISKS

Real GDP growth decelerated from 2.6% in 2024 to 2.0% in the first three quarters of 2025.² This is significantly weaker than the 2.8% growth rate projected for 2025 in the previous ERP and also below the country's historic growth performance. The main growth drivers on the production side were trade, health, education, transport and accommodation and food services. On the expenditure side, the main sources of growth were private consumption, which increased by 2.2% y-o-y and contributed 1.9 pps to overall growth, and gross capital formation, which expanded by 6.3% y-o-y and contributed 1.6 pps to GDP growth. Domestic demand led to robust import growth (4.8%), while export growth was weak (0.9%). Employment growth came to a halt in 2025 (-0.1% y-o-y). The number of registered unemployed dropped by 2.9% in 2025, which

² Macroeconomic and fiscal estimates and forecasts covering the period 2025-2028 have been taken from the ERP; if available, preliminary macroeconomic and fiscal out-turn data for 2025 have been taken from the relevant national sources (Statistical Office, Ministry of Finance, Central Bank).

might also reflect the continued outflow of labour. This is causing labour shortages in some sectors, such as in construction and health services, and contributing to further wage rises above productivity growth. Overall, in 2025, contract wages rose by 14% y-o-y in nominal terms and by some 10% in real terms. In the accommodation and construction sectors, nominal contract wages rose by around 27% and 22%, respectively. The labour force survey unemployment rate remained constant at 12.6% on average, both in 2024 and the first three quarters of 2025. As a result, the size of the labour force has been declining.

Table 1:

Bosnia and Herzegovina - comparison of macroeconomic developments and forecasts

	2024		2025		2026		2027		2028	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	2.5	2.6	1.8	2.3	2.2	2.6	2.5	3.0	n.a.	3.1
<i>Contributions:</i>										
- final domestic demand	2.3	5.8	:	2.9	:	2.6	:	2.9	n.a.	2.8
- change in inventories	2.9	-0.1	:	0.3	:	0.4	:	0.1	n.a.	0.4
- external balance of goods and services	-2.8	-3.2	-0.9	-0.9	-0.8	-0.4	-0.6	0.0	n.a.	-0.1
Employment (% change)	0.4	3.2	0.3	-1.4	0.5	0.5	0.7	0.9	n.a.	1.2
Unemployment rate (%)	13.2	12.6	12.9	13.3	12.5	12.9	12.0	12.4	n.a.	11.9
GDP deflator (% change)	3.1	3.4	3.8	2.9	2.8	2.5	2.1	1.9	n.a.	1.8
CPI inflation (%)	1.7	1.7	4.0	3.9	3.3	2.8	3.0	2.0	n.a.	1.9
Current account balance (% of GDP)	-4.3	-3.9	-3.9	-4.4	-4.1	-4.2	-4.2	-4.0	n.a.	-3.8
General government balance (% of GDP)	-1.9	-0.4	-2.5	-0.3	-3.0	-2.1	-2.7	-1.6	n.a.	-1.2
Government gross debt (% of GDP)	26.4	25.0	27.5	26.9	29.0	27.7	30.5	27.4	n.a.	26.3

Sources: Economic Reform Programme (ERP) 2026, Commission Autumn 2025 forecast.

The programme expects GDP growth to accelerate from 2.3% in 2025 to 3.1% in 2028, based on stable growth in domestic demand and an improving contribution from external demand. On the domestic side, private consumption and gross investment are the two biggest sources of growth, with each contributing 1.2 pps on average to annual economic expansion. Private consumption is set to benefit from strong wage growth, while investment growth is projected to reflect an expected increase in spending on transport infrastructure and energy projects. An expected stronger external demand should lead to an accelerating increase in exports, from 2.6% in 2026 to 5.2% in 2028. As a result of increased domestic and external demand, import growth is also projected to accelerate, from 2.6% in 2026 to 4.1% in 2028. Net exports' contribution to GDP growth is expected to improve from -0.9 pps. in 2025 to broadly neutral in 2027-2028. The macroeconomic scenario expects a fairly significant growth contribution from inventories (0.3 pps of GDP on average), which merited a more detailed explanation. Potential growth is projected to decelerate from 3.1% in 2025 to 2.8% in 2028, in line with a shrinking labour force. The ERP projects slightly negative output gaps in 2026 and 2027, and a positive output gap of 0.1% in 2028. Employment growth is projected to increase annually by 0.3% on average. The ERP also presents an alternative scenario, listing a series of risks, of which only two are quantified. According to the programme, the impact of the application of the CBAM could reduce annual growth by 0.3 pps on average, while implementation of the EU-financed Reform Agenda would lead to higher investment, although this would largely be offset by higher imports. The ERP also refers to risks related to weaker than expected growth in the EU, delays in domestic reforms, higher energy prices and persistent labour outflow. The individual impact of these risks is not quantified, but - overall - the alternative scenario expects somewhat weaker GDP growth (about ¼ pps annually on average), with slightly higher investment growth (+1 pp.). However, this was more than compensated by somewhat higher imports (+¼ pps). In such a scenario, the current account deficit would be slightly higher (+½ pps of GDP).

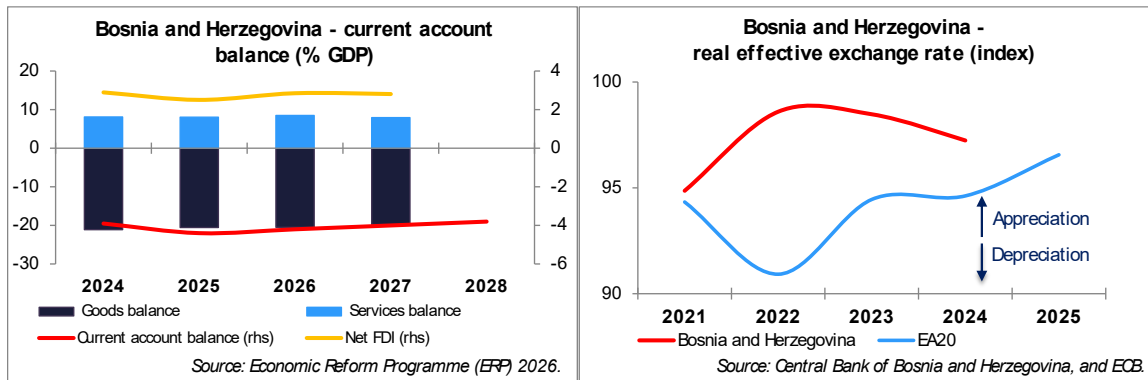
The programme's macro scenario is on the optimistic side. The ERP's growth scenario strongly relies on domestic demand, which is in line with the country's historic growth dynamics. However,

the projections are not based on the latest available information and do not sufficiently analyse some of the most burning issues, such as the persistent outflow of qualified labour, the recent above-productivity wage increases or the impact of the EU's CBAM regime, which due to the country's strong reliance on aging and high-energy consuming production facilities will probably be highly significant. All those factors might have a significant negative impact on the country's price dynamics and competitiveness. The programme assumes a very limited impact of recent wage increases on employment, inflation and competitiveness, which appears very optimistic. Furthermore, as in previous years, the macroeconomic framework is not fully consistent with the fiscal plans presented. In 2027-2028, these plans aim to contain spending on investment and public consumption to make room for increases in social transfers. General elections, scheduled for early October, could lead to a further increase in permanent and discretionary public spending. The notorious delays in overdue structural reforms might also prevent the expected acceleration of investment. Against this background, the EU's autumn forecast expects significantly lower growth of 1.8% in 2025, increasing gradually to 2.2% in 2026 and 2.5% in 2027. The alternative scenario might be plausible for the short-term impact of the Reform Agenda. However, with respect to the impact of applying the CBAM or of wage increases on employment and competitiveness, the estimates appear to be on the optimistic side.

Inflation might remain higher than projected in the ERP. The programme expects a decline in inflation from 4% in 2025 to 1.9% by 2028. A key driver of this reduction is expected to be import prices, but net wages are still projected to increase by more than 5% during 2026-2028. In view of this, such a swift drop in inflation appears to be somewhat optimistic. A likely pass-through of recent high wage growth might keep up inflationary pressures and would have deserved a more detailed analysis. The Commission's autumn 2025 forecast projected a slower decline in inflation to 3% by 2027. Bosnia and Herzegovina's currency board arrangement, anchored to the euro, has served the country well, but also limits the central bank's ability to influence price developments. The late publication of the CPI weights and the continued delays in aligning inflation measurement with EU standards is a major impediment to assessing the country's price dynamics. However, the Central Bank has started to publish its own estimates on core inflation.

The current account deficit is expected to improve slightly, mainly reflecting an expected strengthening of external demand. The ERP expects the current account deficit to decrease slightly from 4.4% of GDP in 2025 to 3.8% in 2028. This improvement is mainly driven by a reduction in the goods trade deficit (by 0.9 pps), reflecting a fairly stable share of imports (-0.1 pps of GDP) in combination with an improvement in the export-to-GDP ratio (by 0.8 pps). As in previous years, the programme expects a stable inflow of net current transfers of slightly above 9% of GDP on average, primarily consisting of remittances. Foreign direct investment inflows are expected to remain stable, at around 2.7% of GDP. This is in line with the country's track record and would significantly contribute to financing the expected current account deficit. However, the largest part of those FDI inflows is retained earnings, while greenfield investment is low. FDI inflows are hampered by a cumbersome business environment, a fragmented internal market and political uncertainty.

External competitiveness and current account



The banking sector remained resilient, but longstanding structural institutional issues persist. The banking sector continues to be endowed with robust capital and liquidity buffers. Profitability remained stable during 2025. The non-performing loans (NPL) ratio decreased further to 2.7% at the end of the third quarter of 2025, while the ratio of foreign-currency-denominated loans to total loans also continued to decline, reaching 28.3% in December 2025. The country's two supervisory agencies maintained good cooperation and continued to perform regular stress tests. The country struggles to effectively mitigate the risks of money laundering and terrorist financing. Supervisory agencies extended measures to contain the increase in domestic lending rates until end-June 2026, to preserve households' repayment capacity. Such measures might have been justified at times of high uncertainty but could distort market pricing and credit allocation. Furthermore, poor coordination among state authorities and data gaps, e.g. on the real estate sector and private-sector indebtedness, impede the ability to conduct thorough risk assessments, ultimately weakening the overall surveillance framework. The country's fragmented financial supervision, lack of transparency and data gaps limit the sector's overall strength and resilience, requiring higher risk buffers, which is a costly and thus sub-optimal solution. The sector's shock resilience might suffer from a recent decision to reduce the required regulatory capital ratio from 12% to 10% by end-2026. In this respect, improving the framework for resolving non-performing loans, enhancing out-of-court settlements and creating a countrywide financial safety net, such as a single banking resolution fund, would help strengthen the financial sector's shock resilience.

Table 2:

Bosnia and Herzegovina - financial sector indicators

	2021	2022	2023	2024	2025
Total assets of the banking system (EURmillion)	18 358	19 138	20 236	22 220	23 739
Foreign ownership of banking system (%)	82.2	74.2	74.1	74.6	74.1***
Credit growth (average)	1.7	4.2	5.5	9.6	10.2***
Deposit growth * (average)	10.1	5.9	5.3	8.9	10.4***
Loan-to-deposit ratio ** (end of period)	78	77	76.3	76.9	78.6***
Financial soundness indicators (% end of period)					
- non-performing loans to total loans	5.8	4.5	3.8	3.2	2.7***
- regulatory capital to risk-weighted assets	19.6	19.6	19.7	19.8	19.9***
- liquid assets to total assets	30.7	30.5	29.0	28.2	27.2***
- return on equity	9.6	12.0	15.0	16.0	15.9***
- foreign exchange loans to total loans	50.2	43.3	37.6	31.9	28.3

* Total deposit growth.

** Non-interbank loans to customer deposits.

*** Q3-2025.

Sources: Central Bank of Bosnia and Herzegovina, Supervisory banking agencies, CBBH calculation.

3. PUBLIC FINANCE

Preliminary estimates of the country-level (BiH) Ministry of Finance point to a country-level budget deficit of 0.3% of GDP in 2025, lower than the initial target of 0.7%. Ministry of Finance data suggest a rather low deficit in 2024 as well, at 0.4% of GDP, compared to 1.3% of GDP expected in the previous programme (official data from the Central Bank and IMF estimates point to higher deficits in 2024 and 2025). According to the ERP, the main reason for the better-than-expected results in 2025 was markedly higher revenue growth (11.3% y-o-y instead of the 4.1% projected in the 2025 programme), which was partly offset by higher expenditure (11% instead of the projected 2.6%). On the revenue side, the main factors were higher tax revenues (up by 7.7% instead of the expected 3.6%) and social contributions (12.2% vs 7.3%), mainly because of the continued high wage growth in 2025 (14% in 2025 after 9.8% in 2024). A strong increase in minimum wages due to a government decision contributed to the strong rise in contract wages. One-off effects, such as the disbursement of accumulated budgetary reserves to cover a contingent liability becoming due, also contributed to the strong revenue increase. Public expenditure increases were mainly driven by public consumption (rising by 10.4% instead of 3.8%) and social transfers (9.2% instead of 3.7%). Gross fixed capital formation is estimated to have increased by 15.8% in 2025, instead of an initially expected reduction of 0.4%. This probably reflects increased, largely EU-financed, road construction, e.g. on Corridor Vc. No discretionary fiscal measures have been reported for the programme period.

The programme's fiscal strategy for 2026-2028 envisages a significant worsening of the budget balance in 2026 and a gradual fiscal consolidation in 2027 and 2028. When looking at the revenue and spending composition, a key objective appears to be to increase social transfers and subsidies (by 1.1 pps of GDP during 2026-2028), while reducing the share of public consumption, 'other spending' and investment (by 1.2, 0.9 and 0.3 pps of GDP, respectively). Overall, total expenditure as a share of GDP is projected to decline by 1.4 pps. At the same time, revenues are expected to drop by 2.3 pps of GDP, returning to their level before the revenue peak in 2025. The main reasons for this are a drop in the share of social contributions (by 0.7 pps of GDP) and of property income (by 0.5 pps of GDP). The fiscal balance is projected to deteriorate by 0.9 pps of GDP during 2026-2028, leading to a deficit of 1.2% of GDP in 2028. Interest payments are expected to remain broadly stable at 1.1% of GDP, resulting in a deterioration of the primary balance from a surplus of 0.8% of GDP in 2025 to a deficit of 0.1% of GDP in 2028. The projected change in the budget balance, coupled with average nominal GDP growth of 5.1%, would cause the debt-to-GDP ratio to rise to 27.7% in 2026 and fall to 26.3% in 2028. Compared to last year, the 2026 programme envisages markedly higher deficits in 2026 and 2027 (by 2¼ pps). This difference is mainly the result of a more cautious revenue side estimate, especially for social contributions. Spending assumptions are also more cautious, except for social transfers. However, no concrete measures are mentioned in the programme justifying the assumed growth dynamics of the various spending categories (public consumption, other spending, subsidies and capital formation).

Table 3:
Bosnia and Herzegovina - composition of the budgetary adjustment (% of GDP)

	2024	2025	2026	2027	2028	Change: 2025-28
Revenues	40.6	43.0	41.3	41.0	40.7	-2.3
- Taxes and social security contributions	36.9	38.4	37.6	37.7	37.5	-1.0
- Other (residual)	3.7	4.5	3.7	3.3	3.2	-1.3
Expenditure	41.0	43.3	43.4	42.6	41.9	-1.4
- Primary expenditure	40.0	42.1	42.3	41.5	40.8	-1.3
<i>of which:</i>						
Gross fixed capital formation	4.0	4.4	4.6	4.3	4.1	-0.3
Consumption	15.3	16.0	16.0	15.4	14.8	-1.2
Transfers & subsidies	17.8	18.5	19.1	19.2	19.6	1.1
Other (residual)	2.9	3.2	2.8	2.6	2.3	-0.9
- Interest payments	1.0	1.1	1.1	1.1	1.1	0.0
Budget balance	-0.4	-0.3	-2.1	-1.6	-1.2	-0.9
- Cyclically adjusted	-0.6	-0.3	-2.0	-1.5	-1.2	-1.0
Primary balance	0.7	0.8	-1.0	-0.5	-0.1	-0.9
- Cyclically adjusted	0.4	0.9	-0.9	-0.4	-0.2	-1.0
Gross debt level	25.0	26.9	27.7	27.4	26.3	-0.5

Sources: Economic Reform Programme (ERP) 2026, Commission calculations.

The programme expects the 2026 budget deficit to rise by 1.8 pps to 2.1% of GDP in 2026.

Total expenditure is expected to increase by 5.6%, leading to a largely stable share as a percentage of GDP (+0.1 pps). Revenues are projected to increase less than nominal GDP, by 1.2% only, leading to a drop in the revenue-to-GDP ratio of 1.7 pps. The main reason for this slow revenue growth in 2026 is a 13% drop in 'other revenues', resulting from a base effect, as the use of accumulated fiscal reserves to finance the materialisation of a contingent liability had led to a sharp increase in this revenue category in 2025. Furthermore, social contributions are expected to increase by 1.1% only, partly because of the rate of social contributions paid by employees being lowered in the Federation entity to partially compensate for higher wage costs. Revenues from direct and indirect taxes are projected to increase by 4.1%, which is relatively cautious, given an expected nominal GDP growth of some 5%.

The country benefits from a relatively low debt ratio and favourable financing costs thanks to a high share of concessional lending.

Nearly 70% of public debt is financed externally, with a strong reliance on funding from international financial institutions. In the third quarter of 2025, loans from the European Investment Bank, the World Bank and the European Bank for Reconstruction and Development accounted for 28.5%, 24.5% and 11.6%, respectively, of total external public debt. Debt sustainability analyses and stress tests point to an overall sustainable public debt position. The level of non-domestically financed and foreign-currency-denominated debt remains high at about 76% of the total stock. However, the exchange rate risk is contained by the currency board arrangement pegged to the euro and the high share of the euro in foreign debt (74% of all foreign-denominated debt). At the same time, strong reliance on a limited number of official foreign creditors could pose risks to the country's debt management. Debt management is carried out both at country level (by the Ministry of Finance and Treasury of Bosnia-Herzegovina) and at entity and district level (by the Federation Ministry of Finance, the Ministry of Finance of the Republika Srpska and the Finance Directorate of the Brcko District), based on the medium-term debt management strategies of these institutions.

BOX: DEBT DYNAMICS

Bosnia and Herzegovina					
Composition of changes in the debt ratio (% of GDP)					
	2024	2025	2026	2027	2028
Gross debt ratio [1]	25.0	26.9	27.7	27.4	26.3
Change in the ratio	0.1	1.9	0.8	-0.3	-1.0
Contributions [2]:					
1. Primary balance	-0.7	-0.8	1.0	0.5	0.1
2. 'Snowball effect'	-0.4	-0.1	-0.2	-0.2	-0.2
<i>Of which:</i>					
Interest expenditure	1.0	1.1	1.1	1.1	1.1
Growth effect	-0.6	-0.5	-0.7	-0.8	-0.8
Inflation effect	-0.8	-0.7	-0.6	-0.5	-0.5
3. Stock-flow adjustment	1.1	2.9	0.0	-0.6	-1.0

[1] End of period.

[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).

The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

Source: Economic Reform Programme (ERP) 2026, Commission calculations.

After marked debt increases in 2025 and 2026, the debt-to-GDP ratio is projected to decline gradually in the remaining programme period.

The public debt-to-GDP ratio rose significantly, from 25.0% in 2024 to 26.9% in 2025, mainly due to increased debt issuance by the Federation entity, which for the first time in its history issued a five-year EUR 350 million Eurobond at a rate of 5.5%. For 2026, another increase to 27.7% of GDP is expected, followed by a 1.4 pps reduction in 2027-2028.

These dynamics are projected to be driven by changes in the

primary balance, which is set to deteriorate sharply in 2026 before improving gradually in the following two years. The snowball effect, capturing the overall impact of real growth, inflation and interest costs on the debt ratio, is forecast to remain stable at around -0.2 pps, contributing marginally to debt reduction. The implicit interest rate on debt is expected to decline, from 4.7% in 2025 to 4.1% in 2028. There are significant differences in refinancing costs between the two entities, reflecting their different level of indebtedness and financing sources. The programme also expects a significant debt-reducing contribution from stock-flow adjustments (by 1.6 pps of GDP in 2027-2028). However, these adjustments are not sufficiently explained in the programme.

Risks to the programme's fiscal scenario are largely on the downside. Besides the possibility of adverse external developments, the country faces a series of significant challenges, such as the deterioration in price competitiveness due to above-productivity wage growth and additional costs because of the EU's new CBAM regime. This could lead to lower-than-projected economic growth and revenues. On the spending side, recent increases in permanent spending, e.g. on wages and pensions, reduced the room for discretionary fiscal policy. Furthermore, additional spending pressures might re-emerge in the run-up to the general elections in October 2026, especially for public consumption and social transfers. On the other hand, as in previous years, weak implementation capacities could lead to capital spending targets being missed. Materialising contingent liabilities, such as in the recent Viaduct case,³ could also lead to substantial unexpected public spending obligations. Despite these risks, no fiscal fall-back positions are explained in the programme. The monitoring of contingent fiscal risks is

³ The Viaduct case was a significant international arbitration dispute, in which Bosnia and Herzegovina (BiH) was sued for over EUR 56 million (0.2% of GDP) after a hydroelectric project in the Republika Srpska (RS) entity failed. As the RS entity refused to cover the costs from its own budget and no agreement could be reached among the country's authorities on the financing, the High Representative had to intervene and order financing of this payment through reserves from road toll revenues.

underdeveloped and progress in monitoring and assessing those risks, both at country and entity level, has remained limited.

The quality of public finances remains low. As in previous years, the programme does not present any plans to improve the spending structure. Instead, it continues to focus on further increasing social transfers and lacks a sustained pro-growth focus. This approach is not in line with the jointly adopted policy guidance,⁴ which suggests, among other things, increasing public investment to raise the country's growth potential and convergence speed. Transparency of the fiscal situation in publicly owned enterprises is still weak. The potential for revenue collection is impeded by numerous tax exemptions and tax reliefs.

BOX: SENSITIVITY ANALYSIS

The programme includes a short sensitivity analysis, looking at the impact of the programme's alternative scenario and of a change in the borrowing interest rate (+3 pps) on the debt ratio. The results point to fairly low sensitivity of the debt ratio with respect to lower growth or an increase in borrowing costs, leading to an increase in the deficit and the debt ratio by 0.2 pps per year. In view of a high share of foreign currency-denominated debt of about 76%, an analysis of exchange rate fluctuations on the debt ratio would have been useful. The programme does not provide information on the long-term sustainability of public finances, despite the obvious risks that the country's unfavourable demographic structure and the persistent outflow of young and qualified workers pose to the country's social security system.

The country's fiscal framework continues to suffer from weak coordination in a highly fragmented fiscal setting, lengthy decision-making and delayed and low-quality fiscal data. There is no effective countrywide coordination of lower-level fiscal policies, and public finances continue to be plagued by a lack of medium-term planning. There is no countrywide fiscal rule or independent fiscal council in the sense of the EU *acquis* and there is no plan to implement reforms in this area. Compliance with entity-level fiscal rules is mixed and inconsistent. In contrast to existing legislation, a countrywide fiscal framework is only adopted once the main fiscal entities have adopted their own (uncoordinated) budgets. Budget planning is often based on outdated information. Due to frequent delays in the adoption of the Global Fiscal Framework, the state-level budget is adopted with a substantial delay. As a result, the budget of the state institutions is often based on nominal spending levels of the previous year or even on the budget from two years before, if the previous year's budget was not adopted in time. This creates substantial problems for countrywide institutions in recruitment and planning, especially in times of relatively high inflation. The availability, quality and timeliness of fiscal data is rather poor, because of a highly fragmented fiscal set-up and regulations, weak compliance with existing standards and insufficient cooperation among the numerous stakeholders. There is a low degree of alignment with EU public-sector accounting standards, particularly for publicly owned enterprises, which seriously impedes the assessment of the country's actual fiscal position. Both the deficit and debt ratio could therefore be markedly different than reported.

⁴ The respective 2025 Policy Guidance recommended increasing 'the share of government capital spending in GDP by adopting measures improving public investment management and allowing for an accelerated implementation of those investment projects that have been subject to a clear positive cost-benefit assessment'.

4. ADDRESSING STRUCTURAL CHALLENGES - THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK

The Reform Agenda is a key instrument meant to address structural challenges to foster faster convergence of Bosnia-Herzegovina's economy with the EU. As a result of a delay in submission of the Reform Agenda for approval by the Commission, the initial indicative allocation to Bosnia and Herzegovina was reduced by 10% in July 2025. In November 2025, the Commission approved the Reform Agenda submitted by Bosnia and Herzegovina in September 2025.

As of March 2026, the legal framework required to start implementing the Reform and Growth Facility is not yet in place in the country. The Commission remains actively engaged with the authorities of Bosnia and Herzegovina to support the country in finalising the legal procedures to sign and ratify the facility and loan agreements. Once the underlying legal bases have been ratified, funds from the EU's Reform and Growth Facility will be available over 2026-28 to support numerous measures to accelerate the green and digital transitions, boost private-sector development, retain talent and strengthen fundamental rights and the rule of law.⁵

The country faces a series of key economic reform challenges. However, due to frequent political stalemate and the fragmented distribution of competences, these challenges are not addressed with the necessary urgency. The main reasons are a lack of political commitment and insufficient cooperation among key stakeholders, especially on countrywide measures. Implementation of the policy guidance jointly adopted each year at the Economic and Financial Dialogue remains limited and lags behind peers.

Widespread corruption is a crucial issue that political leaders and judicial institutions fail to address sufficiently. According to Transparency International's 2025 Corruption Perception Index, the country is among the four worst performing countries in Europe and the second worst performer in the Western Balkans. Key issues are a lack of robust anti-corruption institutions, insufficient anti-corruption strategies and action plans for all levels of government, and insufficient alignment of the country's legislation with international standards, for example on the registration and disclosure of the beneficial ownership of legal entities and natural persons as prescribed in the current anti-money laundering legislation (AML/CFT).

A difficult business environment and insufficient intra-country economic integration, as well as an insufficient alignment between labour market needs and available education and training systems are key factors driving poor labour market outcomes, which are also holding back improvements in competitiveness. For example, businesses that wish to operate across the entire economy still face technical and administrative obstacles and frequently need to obtain the same licences or permits in each entity or local government area and pay a range of different taxes and fees. This hinders the operation of an effective single economic space and also increases the costs of setting up a company, protects incumbent companies from competition and deters investors. The lack of a fully digitalised process for licence applications and approvals is another major obstacle (Balkan Business Barometer 2025). Public sector spending is not coordinated on a country level and is routinely driven by short-term considerations, such as focusing on upcoming elections.

⁵ <https://eur-lex.europa.eu/eli/reg/2024/1449/oj/eng>. Subject to the implementation of these reforms, the allocation for Bosnia-Herzegovina amounts to EUR 977 million, with EUR 280 million in grants planned and EUR 697 million in concessional loans.

The education system fails to provide Bosnia and Herzegovina's labour force with the skills and knowledge necessary for smooth integration into the labour market. Inadequate education is a major factor behind the particularly high youth unemployment rate (34.2% in the first three quarters of 2025), which is more than twice the country's overall unemployment rate. Insufficient coordination among the numerous stakeholders results in a lack of common standards for various levels of education and differences in the quality of teacher training and performance evaluation. Insufficient coordination is a problem that exists not only between the entities but also within the Federation entity among the various cantons. Teaching curricula continue to be outdated and are still not sufficiently aligned with the country's needs. Bosnia and Herzegovina's irregular and inconsistent participation in international assessments, such as the Programme for International Student Assessment (PISA), prevents the country from better understanding educational trends and challenges.

Bosnia and Herzegovina is lagging in the digital transition. Economy-wide implementation of service digitalisation is still hampered by the lack of political ownership and coordination between the different levels of government. The lack of interoperable information systems across entities and different levels of government is a major obstacle to developing economy-wide digital government services. Countrywide harmonisation of e-signature and the related coordination, cooperation and data exchange between different administrations is still insufficient.

Bosnia and Herzegovina's energy sector is inefficient and remains heavily reliant on lignite coal. The high level of emissions from coal-fired power plants has a clear negative impact on health. A reliable and secure energy supply is still impeded by the lack of a single regulatory framework to attract investment in a low-carbon energy sector. Preparations for the planned phased implementation of the EU CBAM are still at an early stage, which could delay necessary measures to prevent negative effects of this new regime on the country's competitiveness for products with a high CO₂ content.

Compared to last year, the economic and fiscal estimates of key measures under the Reform Agenda are completer and more detailed. In the context of the country's Reform Agenda, the authorities have agreed on more than 110 measures. The ERP presents an economic and fiscal assessment of the 10 most relevant measures, related to: (1) supporting digitalisation and the green economy, (2) strengthening the country's internal economic space by better aligning market entry conditions and technical standards, (3) improving transport infrastructure and (4) improving education and the availability of decent jobs for young people. The programme expects full implementation of the Reform Agenda to lead to additional spending of about EUR 2 billion during 2026-2028, of which about half would be financed via grants and loans from the EU's Reform and Growth Facility. The overall spending volume, triggered by the Reform Agenda, is thus estimated to account for nearly 7% of the country's annual GDP, spread over a period of 2½ years. As a result, in a best-case scenario, average annual GDP growth is estimated to be about ¼ pps higher compared to the baseline scenario during 2026-2028. Annual investment growth would be about 4 pps higher. However, this would also raise import growth rates by about 1.4 pps on average. Higher growth would also translate into slightly higher inflation (by 0.2 pps in 2027 and 2028). The programme provides more details on the 10 most impactful reforms but unfortunately does not aggregate their expected fiscal effects. However, from the information provided, it could be concluded that the fiscal costs of those measures would add up to 1% of the country's GDP, which would increase the annual deficits by some 0.2-0.3 pps during 2026-2028. Around 90% of this spending appears to be funded by EU financial support, including a grant component of about one third. However, most of the measures, like preparing the country for the EU's CBAM regime by reducing the CO₂ content of exports, would have to be taken in any case.

The estimated immediate impact on GDP growth is moderate and plausible, given the high import content of additional spending. Furthermore, some measures, like the restructuring or closing of publicly owned mining companies, would have a negative short-term impact on output growth and employment. The most significant and permanent effects of reform measures may only materialise and boost the country's growth potential in the medium- to long-term.

ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2025

Every year since 2015, the Economic and Financial Dialogue between the EU and regional partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and the Regional Partners at ministerial level on 13 May 2025.

Overall: limited implementation (36.1%)⁶

2025 policy guidance	Summary assessment
<p>PG 1:</p> <p>Adopt the Global Fiscal Framework in time for it to provide effective guidance for the budget preparations of all budgetary entities and ensure the timely adoption of the budgets of all entities.</p> <p>Increase the share of government capital spending in GDP by adopting measures improving public investment management and allowing for an accelerated implementation of those investment projects that have been subject to a clear positive cost-benefit assessment.</p> <p>Clarify the constitutional competence for establishing a central (i.e. countrywide) registry of bank accounts of private individuals, in line with the EU <i>acquis</i>.</p>	<p>There was limited implementation of PG 1:</p> <p>1) No implementation: The Global Fiscal Framework for the upcoming fiscal year has not been adopted.</p> <p>2) Limited implementation: Some measures have been taken to improve the preparation and monitoring of public investment implementation. Additional training has also been provided to officials dealing with investment implementation.</p> <p>3) No implementation: No steps have been made to address this recommendation.</p>
<p>PG 2:</p>	<p>There was limited implementation of PG 2:</p>

⁶ For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes. This is available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en.

<p>Include in the forthcoming ERP 2026–2028 (1) a comprehensive assessment of fiscal risks and contingent liabilities at all levels of government, including those related to publicly owned enterprises, and (2) concrete policy measures to manage such risks and contain the emergence of new contingent liabilities.</p> <p>With a view to improving the quality of data aggregation and reporting, strengthen the analytical capacities of institutions at all levels of government responsible for fiscal accounting and planning, specifically in the Ministry of Finance and Treasury of BiH, and improve the procedures for preparing the ERP in order to ensure a timely submission and compliance with the requirements.</p> <p>Continue to strengthen capacities at all levels of government in the areas of macroeconomic statistics, regional accounts, labour force survey and government finance statistics, in particular by agreeing on the national account sectorisation, and increase efforts to improve the coverage and timeliness of all statistics.</p>	<p>1) No implementation: No steps have been made to address this recommendation.</p> <p>2) Partial implementation: Some international technical assistance and internal training have taken place. The programme was submitted in time. However, compliance with the requirements has remained partial.</p> <p>3) Partial implementation: Some international technical assistance and internal training have taken place. Some progress has been achieved in improving the quality of statistics and agreeing on some areas of the national accounts sectorisation. However, one important element, the agreement on a proper sectorisation of the general government, has not yet been achieved.</p>
<p>PG 3:</p> <p>Continue to thoroughly assess price developments, and improve price statistics, including a timely publication of CPI weights and developing and publishing the official core inflation series.</p> <p>Continue to safeguard the integrity of the currency board arrangement and the independence of the central bank.</p> <p>Enhance risk-based supervision in line with best practices, including by monitoring the temporary measures affecting the setting of interest rates to ensure that they do not impede market mechanisms, by initiating the</p>	<p>There was substantial implementation of PG 3:</p> <p>1) Partial implementation: The central bank has started to regularly publish Central Bank estimates of core inflation. The 2025 CPI weights were made available with a smaller delay than previously. However, BiH Agency for Statistics has still not published the official core inflation series.</p> <p>2) Full implementation: The integrity of the currency board arrangement and the independence of the central bank have been maintained.</p> <p>3) Partial implementation: Risk-based supervision in line with best practices has been enhanced. However, no steps have been taken to set up a single resolution fund. Some limited</p>

<p>set-up of a single resolution fund, and by improving data collection, in particular as regards the real estate sector and private debt developments, to enable a comprehensive assessment of financial sector risks.</p>	<p>progress has been achieved with improving data collection, in particular as regards the real estate sector and private debt developments</p>
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