INTERNATIONAL MONETARY FUND

The Real Estate Market in Bosnia and Herzegovina

Carolina Lopez-Quiles and Adrian Music

SIP/2025/123

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on July 29, 2025. This paper is also published separately as IMF Country Report No 25/253

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IMF Selected Issues Paper
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The Real Estate Market in Bosnia and Herzegovina
Prepared by Carolina Lopez-Quiles and Adrian Music

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ABSTRACT: This Selected Issues Paper (SIP) analyzes recent developments in the real estate market in Bosnia and Herzegovina, focusing on housing price dynamics, financial stability implications, and policy responses. Housing prices in Bosnia and Herzegovina have increased sharply in recent years, mirroring trends across the region. Despite significant increases in the House Price Index and strong private credit growth, systemic risks remain contained due to the relatively low share of mortgages in banks' portfolios and modest household indebtedness. The SIP highlights that systematic monitoring of housing market and credit indicators is necessary to detect vulnerabilities early and ensure a timely and effective policy response to potential real estate market shocks.

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SELECTED ISSUES PAPERS

The Real Estate Market in BiH

Bosnia and Herzegovina

Prepared by Carolina Lopez-Quiles and Adrian Music [1]

[1] The authors would like to thank the Bosnia and Herzegovina authorities for their constructive discussions, insights, and comments, in particular the Central Bank of Bosnia and Herzegovina, and geodetic administrations and banking agencies in the Republika Srpska and the Federation of Bosnia and Herzegovina.

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BOSNIA AND HERZEGOVINA

SELECTED ISSUES

July 29, 2025

Approved By
European Department

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CONTENTS

THE REAL ESTATE MARKET IN BOSNIA AND HERZEGOVINA[1]

Housing prices in Bosnia and Herzegovina (BiH) have been rising rapidly in recent years, mirroring trends in the broader region. While the House Price Index (HPI) and private credit growth have increased significantly, financial stability risks remain contained due to the relatively low share of mortgage lending in banks' portfolios and modest levels of household indebtedness. Nonetheless, authorities should remain vigilant and systematically monitor a broad set of housing market and credit indicators to detect potential vulnerabilities early. The authorities should accelerate the implementation of borrower- and capital-based tools—such as loan-to-value (LTV) and debt-service-to-income (DSTI) limits, and the countercyclical capital buffer (CCyB)—and improve coordination among financial stability institutions to ensure a timely and effective policy response.

A. The Role of the Real Estate Market in Financial Stability

1. Residential real estate plays a key role in financial stability due to its importance for household finances. Housing is typically the largest asset for most households, while mortgages represent their most significant liability. Changes in house prices directly influence household wealth, shaping consumption and investment decisions. When property values rise, households experience a wealth effect, increasing spending and supporting economic growth. Conversely, declining house prices can erode household balance sheets, reducing consumer confidence and leading to lower spending, which can amplify economic downturns. Moreover, the housing market's performance is closely tied to the banking sector, given that mortgage lending constitutes a substantial portion of financial institutions' loan portfolios. A downturn in the real estate sector can lead to higher default rates, weakening bank balance sheets and restricting credit availability, thereby exacerbating financial instability. As a case in point, the 2008 Global Financial Crisis (GFC) was largely triggered by excessive mortgage lending, particularly in the subprime segment, which led to a housing bubble. When house prices collapsed, widespread mortgage defaults resulted in severe losses for financial institutions, triggering a banking crisis and a deep global recession.

2. Real estate is closely monitored by the authorities responsible for financial stability, using a wide range of indicators and policy tools. Key indicators include house prices, household indebtedness, mortgage credit growth, and financial conditions. To mitigate risks, authorities employ macroprudential tools such as loan-to-value (LTV) and debt-service-to-income (DSTI) limits to curb excessive borrowing, countercyclical capital buffers to strengthen bank resilience, and sectoral risk weights to control credit expansion in real estate. Stress tests and scenario analyses allow regulators to assess the potential impact of adverse market shocks on banks, households, and the broader economy. Effective policy responses require timely adjustments based on evolving

[1] Prepared By Carolina Lopez-Quiles and Adrian Music

market conditions, close coordination among regulatory bodies, and proactive intervention to prevent real estate cycles from fueling systemic financial instability.

B. Macroprudential Policy and the Real Estate Market

3. **Macroprudential policy plays a key role in managing housing sector risks.** The strategic implementation of sector-specific macroprudential instruments plays a crucial role in mitigating the accumulation of systemic risks that arise from overheating in the housing market. Macroprudential tools can be broadly categorized into two groups: those that aim to contain the build-up of risk (such as borrower-based measures) and those that enhance resilience (such as capital buffers).

4. **Borrower-based measures directly target the demand for credit.** They place limits on the borrowing capacity of households, thereby reducing the risk of excessive leverage and enhancing the resilience of both borrowers and the financial system. Loan-to-Value (LTV) limits help maintain a buffer against market fluctuations and reduce the risk of default by imposing restrictions on the amount of credit that can be extended relative to the appraised value of the property. Most EU countries have some LTV limits lower than 100 percent in place, and the average LTV limit in Europe is 80 percent.[2] Similarly, Debt-Service-to-Income (DSTI) or Loan-to-Income (LTI) limits promote sustainable borrowing practices by establishing a cap on how much of a borrower's income can be dedicated to servicing debt, ensuring that borrowers do not overextend themselves financially (IMF, 2013b). In addition, DSTI or LTI limits can function as automatic stabilizers by becoming more restrictive when house prices outpace disposable income growth. This helps temper credit expansion and mitigate the procyclical feedback between credit and house prices. Although in principle these measures could be tightened and loosened cyclically, in practice many countries use them as systematic, permanent measures, often due to the lengthy legal process of implementation and the fact that they only apply to new loans (ECB, 2022).

5. **Capital-based measures can be further differentiated by their objectives, calibration, and application to specific sectors or systemic risks.** Sectoral capital requirements can target specific risk exposures – such as mortgage loans with high LTVs by increasing their risk weights (IMF, 2013b). Countercyclical capital buffers, which are activated depending on the phase of the financial cycle, would closely follow mortgage credit cycles.

6. **A comprehensive set of indicators should be employed to evaluate the necessity for policy intervention, with particular emphasis on the expansion of mortgage loans and the fluctuation of house prices.** Some key indicators like house price indices, and house price deviations from historical trends can measure house price overvaluation and underscore the risks of price corrections. Mortgage loan growth and lending conditions are good indicators of market overheating. Average LTV ratios can give a sense of loss given default (LGD) for the bank, while LTI ratios and DSTI ratios can be used to assess household over indebtedness.

[2] IMF Integrated Macroprudential Policy Database (iMaPP).

a. House price indicators. Indicators to track house price developments include the House Price Index (HPI), House Price-to-Income Ratio, or the Price-to-Rent Ratio.

b. Credit indicators. Indicators of lending activity are useful to track the financial cycle and developments in financial markets. Examples include Household Debt-to-GDP, Mortgage Debt-to-Income Ratio, average Loan-to Value Ratios, average Debt-Service-to-Income Ratio, mortgage credit growth, and lending rates. Filtering techniques can also be used to calculate the position in the financial cycle, i.e. the difference between the current credit-to-GDP ratio and its long-term trend. A common approach is the Hodrick-Prescott (HP) filter.

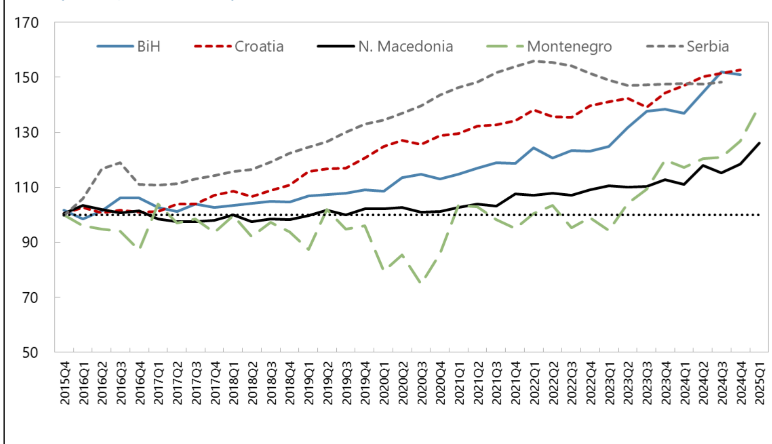
c. Banking sector exposure. Some indicators can illustrate the exposure of the banking sector to the real estate market. For instance, the share of mortgage loans to total loans in bank portfolios, the share of NPLs in mortgage loans, and the level of loan loss provisions. If banks are also invested in the real estate market, real estate assets as a percentage of total assets could also be useful.

d. Market activity indicators. These indicators can help to gauge overheating in the market. Some examples are transaction volumes (the number of sales or purchases over time), building permits and housing starts, and vacancy rates (the share of unoccupied housing units). Real estate valuation gaps, measuring the deviation of current house prices from estimated fundamentals, can help detect overheating.

C. (Residential) Real Estate Developments in BiH and the Region

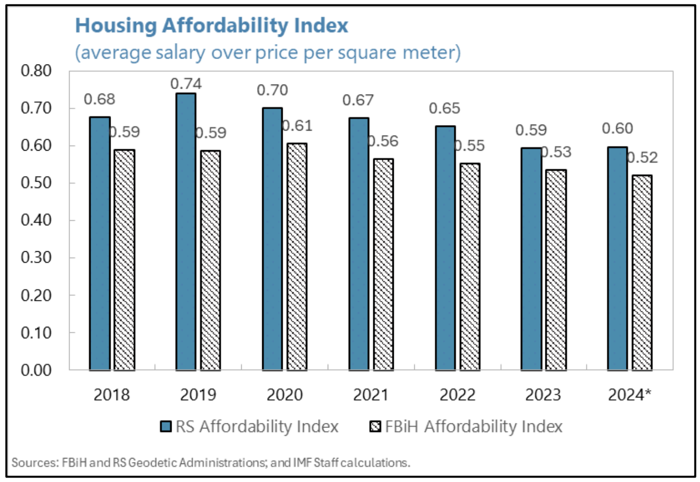
7. **Housing prices in BiH have soared in recent years, in line with those in the region and the EU.** House prices have been on an upward path in real terms since 2018 after a period of flat house prices that followed the GFC. This pattern is common across countries in the region such as Croatia, Montenegro, North Macedonia, and Serbia. A similar pattern emerged in the EU, however EU house prices seem to have stabilized since 2022. Year-on-year real house price growth in BiH was over 13 percent at the end of 2023, the highest price growth peak since the onset of the GFC, when house price growth reached 38 percent y-o-y at end 2007.

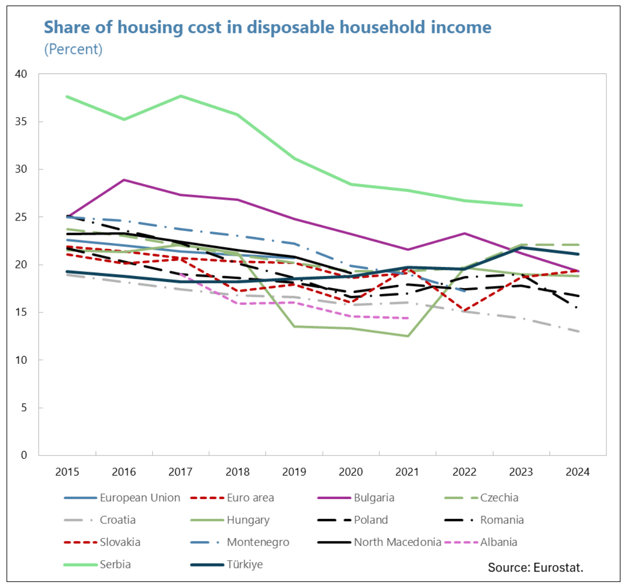
Real House Prices
(Index; 2015=100)



Source: Haver Analytics and staff calculations.

8. Housing has become less affordable in BiH. On average, housing has become less affordable than before the pandemic, as indicated by the declining housing affordability index.[3] The faster increase in housing prices compared to the rise in average net wages has made apartments [flats] less affordable. This trend has been consistent in both Republika Srpska (RS) and the Federation of BiH (FBiH). With an average monthly net wage, a person in 2024 could afford 0.6 and 0.5 square meters of an apartment in RS and FBiH respectively, 13 percent less than in 2018. As a measure to ease affordability pressures on young prospective homeowners, the authorities have amended the VAT law to allow VAT refunds on home purchases of newly built units for first-time homebuyers. The amendment has been in force since mid-April. However, there has been no impact on increasing home purchases so far, as the implementing bylaws are still under discussion. This measure is not expected to have a major impact on VAT revenues as the stock of eligible housing and the age caps limit the number of cases where this would be implemented. Considering total housing costs as a share of disposable income, housing affordability has improved recently in the EU, the euro area, and several CESEE countries.

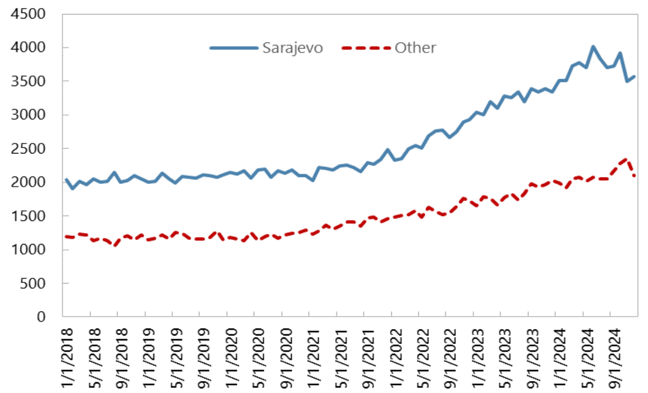




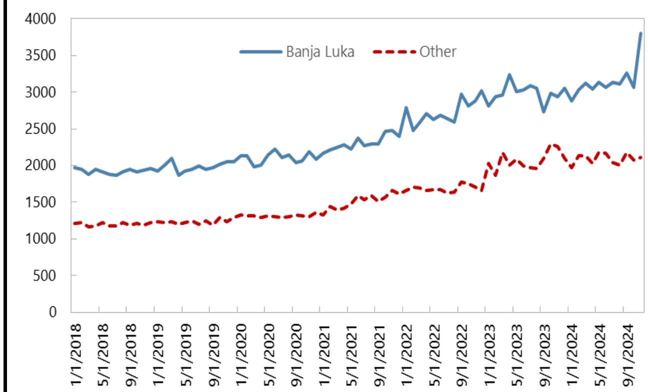
9. In terms of regional and demographic trends, prices indicate some movement to the capital in FBiH, less in RS (Figure 1). Apartment prices have experienced more upward pressure in Sarajevo than other areas of FBiH since 2022. This could be due partly to demographic movements from rural areas, or to increased investment in Sarajevo. In RS, prices in Banja Luka and other areas have co-moved, suggesting less evidence of an exodus from rural areas to the capital. These trends are harder to identify in house prices, as they appear much more volatile than apartment prices.

[3] Housing affordability index is calculated as the ratio between the average net monthly wage and the average price per square meter of an apartment.

FBiH: Price per square meter (apartments)
(KM)



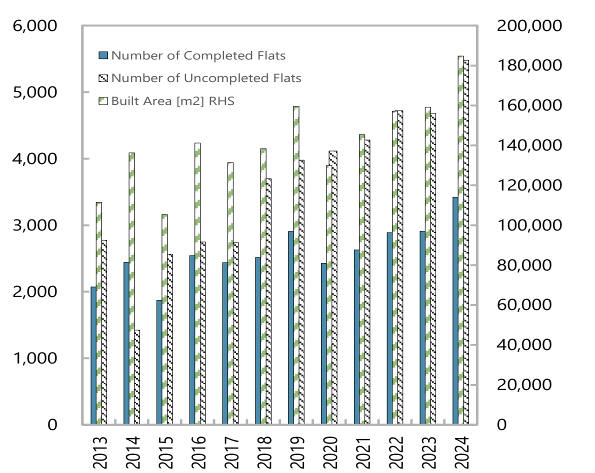
RS: Price per square meter (apartments)
(KM)



Sources: FBiH and RS Geodetic Administrations.

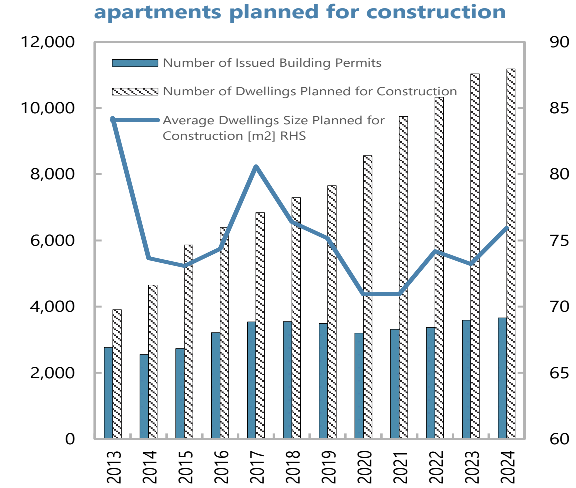
10. On the supply side, construction of new housing units has been increasing over recent years, but this trend is slowing. Over the last decade, there has been a general upward trend in the number of completed new flats, with a notable peak in 2024, indicating an increased housing supply. Additionally, the number of ongoing projects has risen significantly, likely reflecting constructors' optimism about robust developments in the housing market over the recent years. However, the increase in the number of new apartments planned for construction appears to have stabilized in 2024. With no evidence of tightened procedures for issuing permits, the dynamics in construction plans may reflect developers' perception of market saturation, particulary given the already high number of ongoing projects. Additionally, there is no evidence of changing preferences toward building apartments with more square footage, as the average size of built flats has marginally declined. . Construction costs have also increased significantly in BiH and the region. While the overall constructed area has fluctuated, it shows an overall increasing trend, with the highest value recorded in 2024. The number of buying transactions in the housing market has also decreased in recent years, primarily due to fewer transactions involving existing homes.

Supply of Housing Units



Sources: BiH Agency for Statistics.

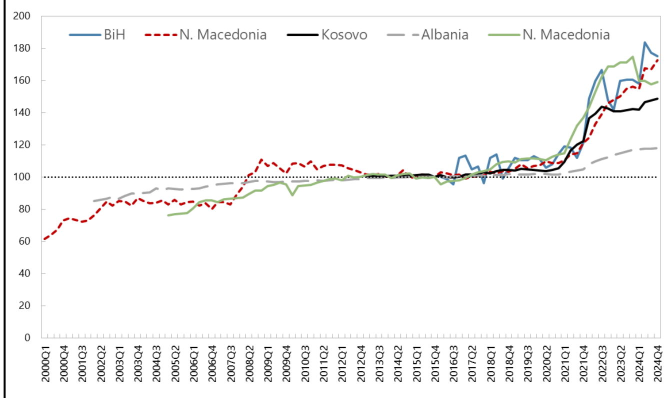
Number of issued building permits and apartments planned for construction



Sources: BiH Agency for Statistics; and IMF staff calculations.

11. BiH exhibits higher construction costs compared to some neighboring countries, which likely has impacted supply. There has been a notable upward trend since the end of 2021, reaching a peak in mid-2024. This substantial rise reflects not only inflationary pressures and supply chain disruptions but also, anecdotally, a shortage of construction labor. The burdensome regulatory framework - particularly in large urban areas - is likely affecting the dynamics of construction costs. Moreover, the significant minimum wage increase in FBiH in 2025 may put further upward pressure on the already expensive construction environment. Altogether, this affects supply of new homes negatively, which puts upward pressure on prices.

Construction Costs
(Index, 2015=100)

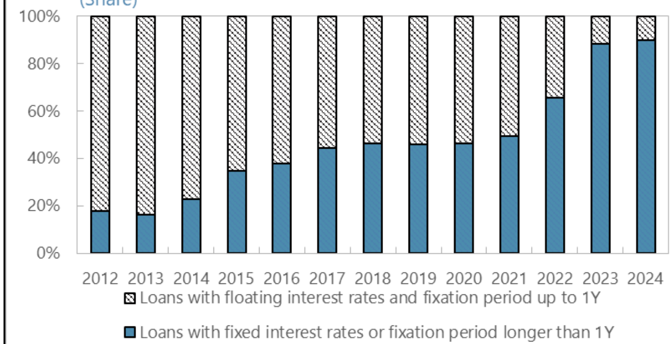


Source: Haver Analytics and staff calculations.

12. On the demand side, credit growth in the mortgage segment has increased in recent years, but it is still a small part of the total loan portfolio of banks, so risks appear to be contained. Rapid credit growth in this segment can lead to upward pressure on prices and pose financial stability risks if households are too leveraged and financing conditions are too loose. This could eventually lead to a deterioration of asset quality for banks and subsequent financial stability issues. At the moment, however, the lion's share of BiH's banks' loan portfolio is consumer general purpose loans, so risks from the housing market specifically appear limited (Figure 1). However, a share of general-purpose loans may also be linked to housing, as it is not uncommon to "top up" mortgage loans with additional consumer loans to cover renovation costs or to increase the effective LTV amount. To limit risks from this practice, the banking agencies in both entities established a limit of KM 50,000 and 10 year maturity for general purpose consumer loans, while introducing higher risk weights for general purpose loans with remaining maturity above 5 years. The banking agencies have started an initiative to make reporting of LTV and DSTI ratios mandatory. Although the share of total home purchase transaction volumes financed by mortgages decreased after 2018, they picked up from 36.5 percent in 2022 to 53.8 percent in 2024 (Figure 1). The drop in the share of volumes purchased with mortgages in 2021 and 2022 can be partly attributed to increased interest from the diaspora in using savings to invest in BiH's housing market outright. Banks generally finance around 80 percent of the home value when granting mortgages, so a share of volumes financed with mortgages below 60 percent suggests that a significant proportion of transactions were conducted in cash. The authorities should continue to monitor developments in this segment insofar as it affects household finances and can have effects on consumption, savings, and investment.

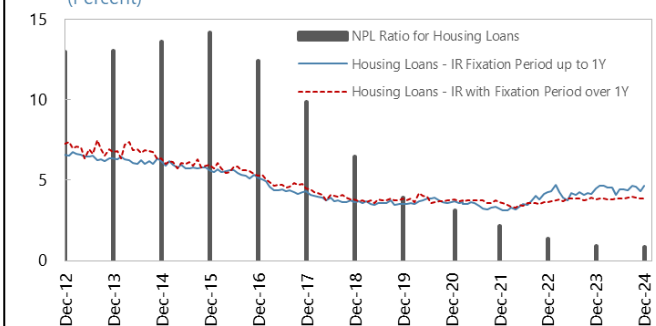
13. **Interest rates in BiH have not co-moved with those in the euro area, even under a currency board arrangement (CBA) pegged to the euro, and the share of fixed-rate loans has been increasing.** While the recent tightening cycle of the ECB has led to increased deposit and lending rates in the euro area, this has not passed through to BiH (Figure 1). Deposit rates close to zero, together with limited financial markets, leave housing as the main option for investment. This, paired with historically low mortgage borrowing costs, could incentivize investment in this sector and leverage. In addition, fixed-rate loans are becoming more predominant, increasing from less than 20 percent of loans in 2012 to over 90 percent in 2024 for overall household loans. Specifically, for housing loans, the share increased from 35 percent to 87 percent. Although fixed-rate mortgages are not uncommon in many countries, the fact that interest rate fixing is happening in BiH at close to historically low rates may pose future risk for lenders. Moreover, interest rates on loans with a longer period of interest rate fixation have been lower than those on loans with an interest rate fixation of less than one year.

New Loans to HHs: Floating vs. Fixed Interest Rates
(Share)



Source: CBBH; and IMF Staff calculations.

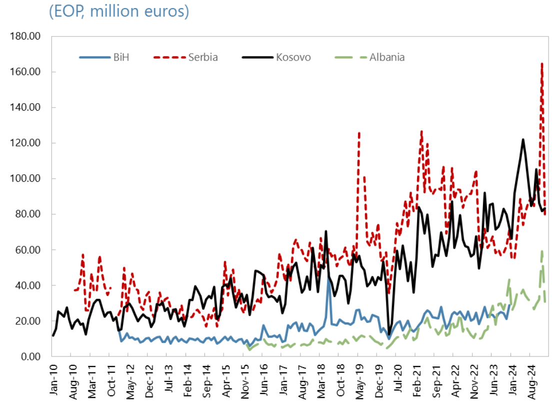
Housing Loans - Interest Rates and NPL Ratio
(Percent)



Sources: CBBH; and IMF Staff calculations.

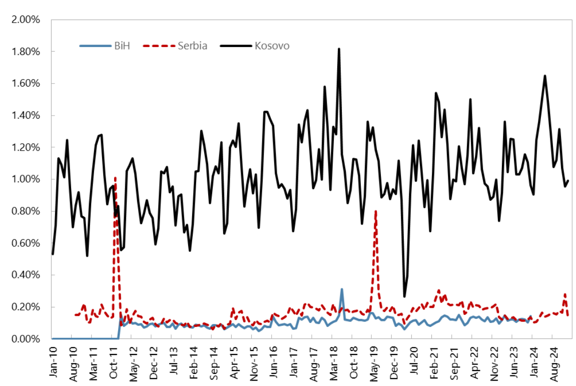
Figure 1. Bosnia and Herzegovina: Developments in the Mortgage Segment

New Housing Loans
(EOP, million euros)



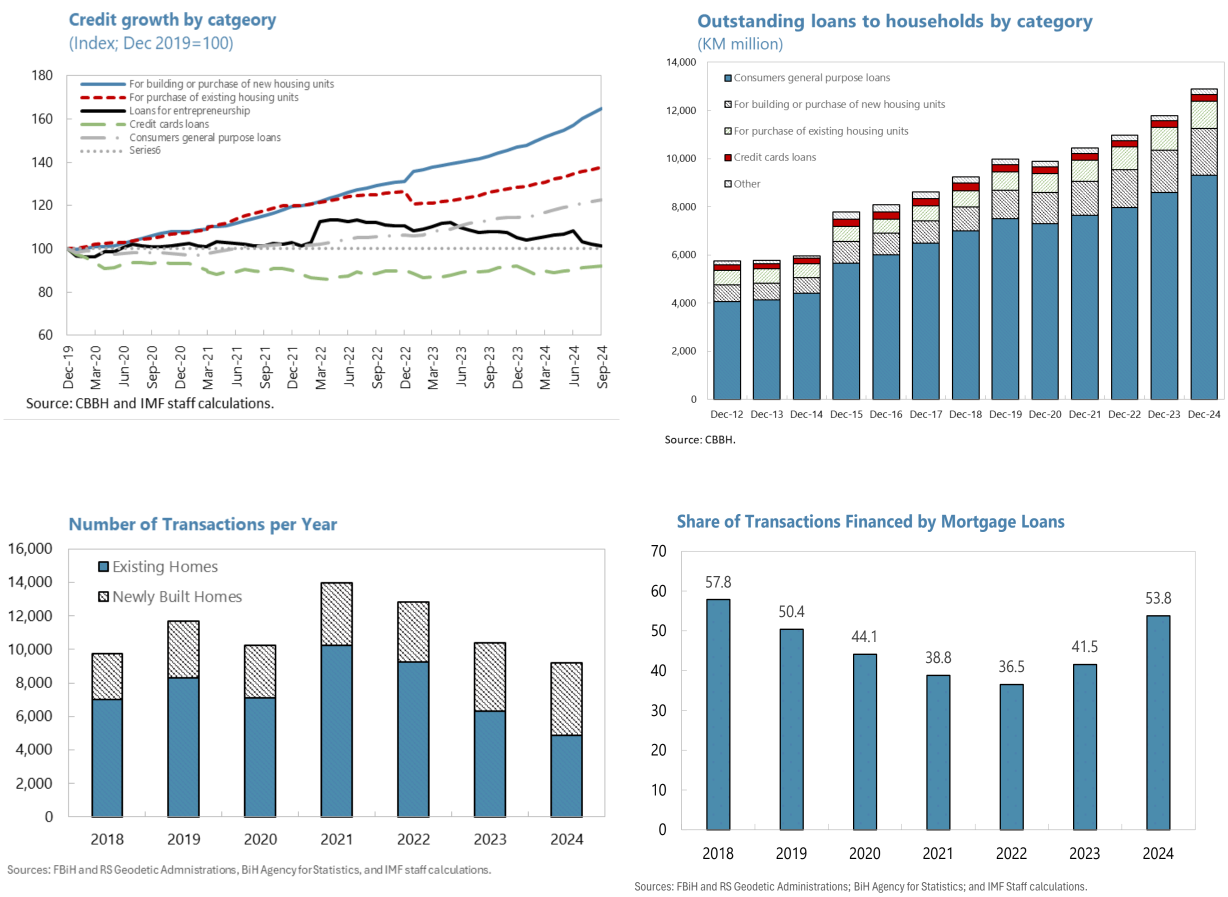
Source: Haver Analytics.

New Housing Loans
(percent of total bank assets)

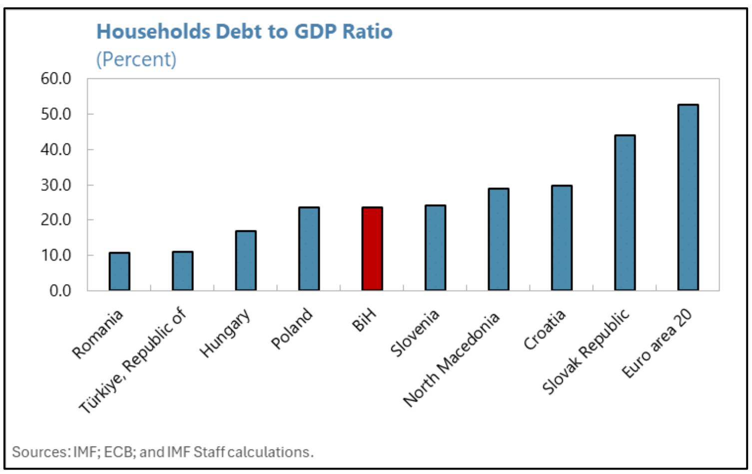


Source: Haver Analytics.

Figure 1. Bosnia and Herzegovina: Developments in the Mortgage Segment (Concluded)



14. Households in BiH do not appear to be overindebted, and NPLs in the mortgage segment are low. The household-debt-to-GDP ratio in BiH stood at 23.7 percent in 2023, among the lowest in Europe. For comparison, euro area household debt represented 52.8 percent of its GDP. As shown earlier, it appears that many households in BiH purchase their home without a mortgage, explaining the low indebtedness. NPLs in the mortgage segment are the lowest among all household segments and are at a historical low of 0.7 percent as of end 2024.



15. Low interest rates, together with limited alternative investment options, make real estate an attractive investment. BiH capital markets are underdeveloped, leaving real estate and savings deposits as the only investment options for households. In addition, there are regulatory limits on residents' placements of deposits abroad which restrict the available options to invest. Only recently, the RS issued retail government bonds with a yield of 4.38 percent at issuance. However, the total amount issued was small (KM 5 million). Deposit rates at banks are very low, below 1 percent. At the same time, interest rates on mortgages are low, at around 4 percent on average as of December 2024. If the population expects continued increases in housing prices, this makes real estate an attractive option for investments, whether using existing savings or financing through loans. The rental market is relatively small, and the price to rent ratio is 15 percent - usually a price to rent ratio at or below 15 indicates that buying is more favorable than renting – which suggests most real estate investments are buy-to-live rather than buy-to-let. However, there is insufficient data to assert what fraction of transactions is for primary residence or secondary residence, which would bring more light to the investment side of the market.

16. Overall, even though supply has increased, it has not been enough to catch up to strong demand, resulting in price pressures. High demand from locals, diaspora and investors - likely the result of low mortgage rates and limited alternative investment options- have contributed to buoyant demand, while high construction costs and market saturation have likely held back supply. As a result, prices have increased significantly.

Figure 2. Bosnia and Herzegovina: Deposit and Lending Interest Rate Dynamics

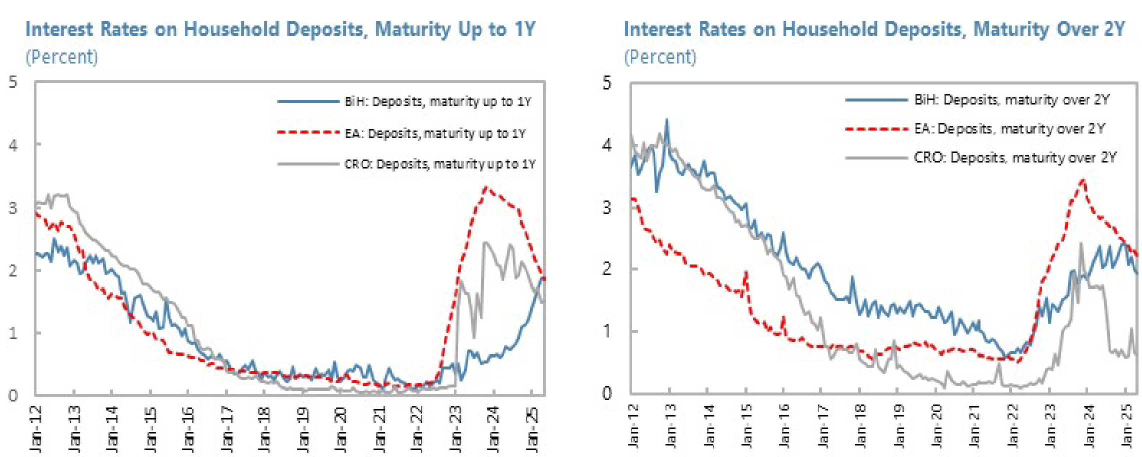
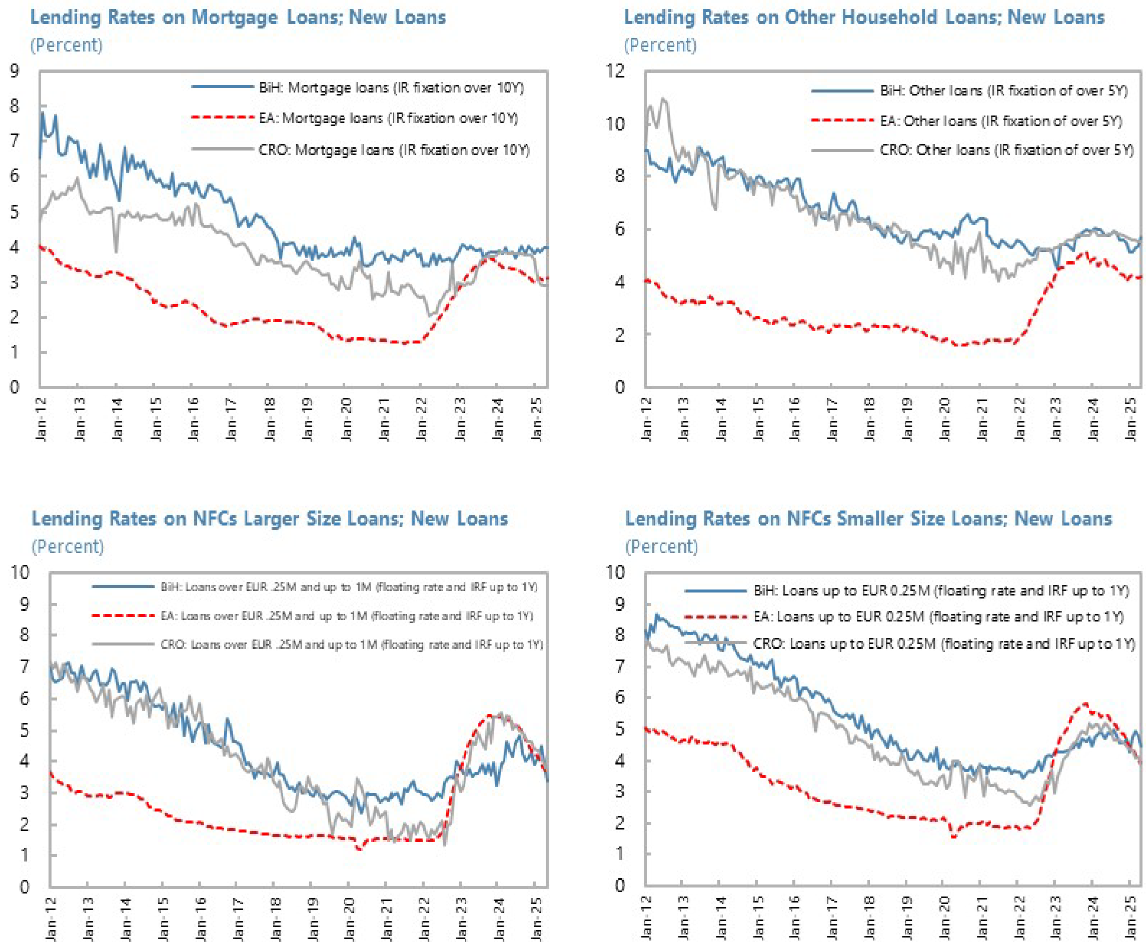


Figure 2. Bosnia and Herzegovina: Deposit and Lending Interest Rate Dynamics (Concluded)



Source: European Central Bank, Central Bank of Bosnia and Herzegovina

D. Conclusion

17. Housing prices have been rising rapidly in BiH, but so far risks remain contained. The HPI has picked up significantly in recent years, with house prices increasing by 55 percent between 2019 and 2023. Private credit growth has also been high, 9.3 percent yoy at end 2024, and credit for home purchase grew by 7.6 percent in the same period. However, mortgage lending represented only 24 percent of bank loans to households as of end-2024. In addition, household indebtedness is low.

18. Nevertheless, the authorities should remain vigilant and systematically collect and analyze housing market indicators. Key indicators include the HPI, the price-to-income ratio, the price-to-rent ratio, household debt as a share of GDP, loan-to-value and debt-service-to-income ratios. Tracking mortgage growth, lending rates, and applying filtering and other tools can help identify cyclical risks. Data on purchase purpose (e.g., primary residence vs. investment) and bank real estate exposures—through mortgage shares, NPLs, and direct holdings—are also critical. Lastly, market activity indicators—such as the number of transactions, building permits, housing starts, and vacancy rates—can help flag signs of overheating, especially when current prices start to drift away from underlying fundamentals. Further work can shed light on data gaps.

19. The authorities should speed up the implementation of borrower- and capital- based measures and enhance coordination among the Central Bank and financial stability agencies. The authorities have plans to collect data on LTV and DSTI for monitoring, although there are no plans yet to impose limits on these ratios. The authorities are also considering implementing CCyB, but challenges remain related to the coordination among the different agencies. For a well-functioning macroprudential framework, coordination and cooperation among the different agencies in charge of financial stability are essential.

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