



# Semi-annual Information

Semi-annual Information on the Financial Condition, the  
Degree of Price Stability Achieved and the Implementation  
of Monetary Policy in the Second Half of 2024

Zagreb, May 2025





HNB

EUROSYSTEM

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HRVATSKA NARODNA BANKA

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## Summary

In 2024, economic developments in Croatia were marked by continued pronounced economic growth amid relatively weak foreign demand, geopolitical tensions and the step-by-step easing of the ECB's monetary policy stance. The Croatian economy continued to grow at a noticeably faster pace than the euro area average; this was mostly a result of robust domestic demand, partly spurred by expansionary fiscal policy. Inflation continued to decline due to the easing of imported inflationary pressures resulting from the stabilisation of global supply chains, the decrease in energy prices on the global market and the still restrictive monetary policy stance. At the same time, domestic upward pressures on prices caused by growth in wages and employment continued against the backdrop of lack of labour force. Following the most substantial monetary policy tightening cycle to date, which directed euro area inflation towards its target, in the second half of 2024, the ECB began a gradual reduction of key interest rates. This was reflected in the more favourable financing conditions of domestic sectors, most notably of the corporate sector, with corporate and household loans recording relatively strong increases.

In managing financial assets, the Croatian National Bank aims to support monetary policy, financial stability and confidence in the financial system and is primarily governed by the principles of liquidity and safety of investment.

At the end of 2024, the banking system of Croatia was highly liquid, capitalised and profitable.

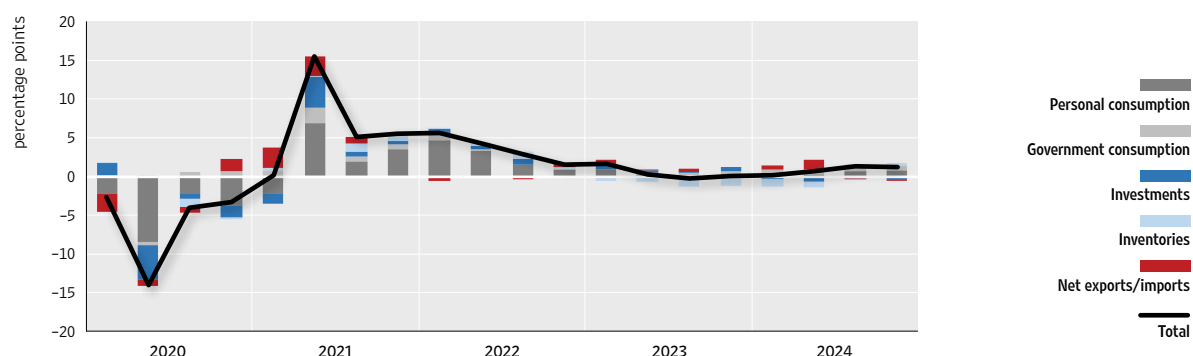
# 1 Euro area

## 1.1 Real and price movements

Euro area economic growth stood at 0.9% in 2024, following a slight growth of 0.4% in the year before. The increase was relatively evenly distributed throughout the year, with a slightly more pronounced momentum recorded in the third quarter, in part owing to large sports events that took place in that period (Summer Olympics in Paris and the European Football Championship in Germany) and stronger personal consumption. The weakening of inflationary pressures coupled with a tight labour market and the still relatively strong wage growth led to a further increase in real income and personal consumption. Government consumption also increased faster than in the preceding year and, apart from personal consumption, contributed the most to the rise in total economic activity. On the other hand, although improved financing conditions supported the gradual recovery of investments in the second half of the year, at the level of 2024 as a whole, investments fell on account of rising uncertainty and significant structural weaknesses in the largest European economies. These weaknesses were particularly pronounced in industry, with industrial production and exports of goods dropping for the second consecutive year. Unfavourable trends in industry were mostly linked to high energy prices and the relative technological lag behind the competition from China – in particular in activities in which euro area specialises, such as the manufacturing of cars and machinery. In addition, demand from China, a significant euro area trading partner, weakened further. On the other hand, exports of services increased substantially, aided by the still strong demand for services following the pandemic, particularly for tourism-related services, so that the positive contribution of exports of services to GDP surpassed the negative contribution of exports of goods. After having decreased in 2023, imports of goods and services grew slightly in 2024 owing to the gradual strengthening of domestic demand.

**Figure 1.1.1 Euro area real GDP growth**

contributions by components



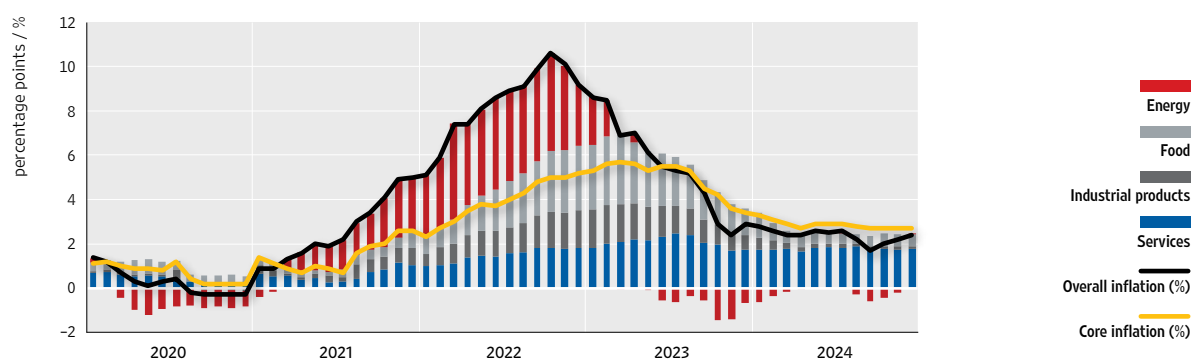
Source: Eurostat.

Euro area inflation measured by the harmonised index of consumer prices in 2024 continued to decelerate primarily due to the decrease in energy prices on the global market and the lagged effects of monetary policy tightening on the weakening of demand. Average annual inflation decelerated to 2.4% from the 5.4% recorded in 2023, which was a result of decreases in the

contributions of all main components, primarily food and non-energy industrial goods. Food price inflation slowed down significantly in 2024, reaching 2.9%, after the 10.9% seen in 2023. At the same time, energy prices dropped in spite of the discontinuance of energy subsidies to households. Inflationary pressures were mostly linked to the labour market in 2024, as nominal wage growth remained elevated in the euro area. However, the contribution of wage growth was partly mitigated by lower unit corporate profits. Against such a backdrop, core inflation (excluding energy and food prices) slowed down to 2.8% in 2024 from 5.0% in 2023, remaining above overall inflation. Services price inflation remained elevated at 4.0% in 2024 (4.9% in 2023) due to the increase in labour costs. NEIG inflation, the second main component of core inflation, slowed down considerably (to 0.8% in 2024 from 5.0% in 2023), converging to the long-term average. Among other things, this was a result of the easing of inflationary pressures in the earlier stages of the price chain, primarily reflected in the slight annual growth in producer prices and the decrease in the import prices of non-food consumer goods.

**Figure 1.1.2 Euro area inflation indicators**

contributions by components



Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.

Source: Eurostat.

## 1.2 Monetary policy and financial markets

The recent inflation episode, driven by the strong recovery from the crisis caused by the COVID-19 pandemic and Russia's aggression against Ukraine, triggered the strongest round of monetary policy tightening since the creation of the euro, with key interest rates being increased by 450 basis points<sup>1</sup>. The cycle culminated between September 2023 and June 2024. After that, from June to December 2024, the Governing Council lowered the deposit facility rate (DFR) of the central bank on four occasions, by a total of 100 basis points. Amid current high liquidity surpluses, the DFR is the best indicator of the still restrictive monetary policy stance of the ECB.

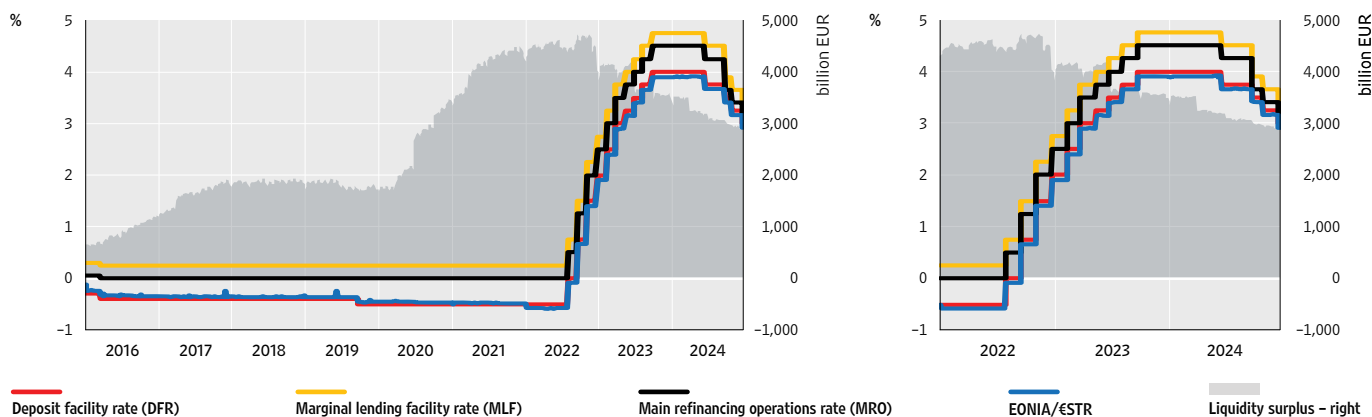
During the last reduction of interest rates in December 2024, the ECB stressed that inflation had slowed down, converging towards the 2% medium-term target, and that monetary policy decisions would continue to reflect a data-dependent approach. The Governing Council emphasised

<sup>1</sup> A basis point is one hundredth of one percentage point.



that it was not pre-committed to a particular rate path. From mid-December 2024, the deposit facility rate (DFR) was 3.00%, the main refinancing operations (MRO) rate stood at 3.15% and the marginal lending facility (MLF) rate was 3.40%.

Figure 1.2.1 Key ECB interest rates

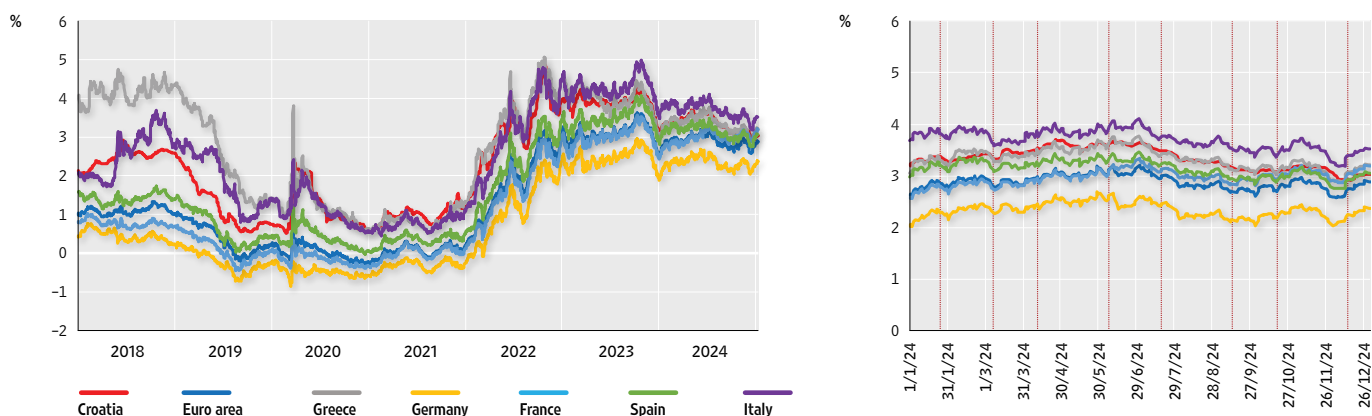


Notes: DFR (deposit facility rate); MLF (marginal lending facility); MRO (main refinancing operations). Since the beginning of 2022, EONIA has been replaced with €STR.

Source: ECB.

The lowering of key ECB interest rates rapidly caused interest rates on the money market to decrease as well. After the ECB for the fourth time lowered its key interest rates in December 2024 by 0.25 percentage points, the overnight interest rate, €STR, declined to 2.9%, a level that is around 100 basis points lower than at the end of 2023, which points to the full transmission of the key ECB interest rate reduction to the money market. Throughout the year, the EURIBOR rates, i.e. interest rates with different maturities (up to one year) used in lending between the largest banks in the euro area, were also on a declining path. For example, the three-month EURIBOR went down from 3.9% to 2.7% in the course of 2024 and ended the year at a level below the overnight €STR rate, reflecting expectations of further key ECB interest rate decreases in 2025.

Figure 1.2.2 Yields on long-term government bonds with the remaining maturity of approximately 10 years



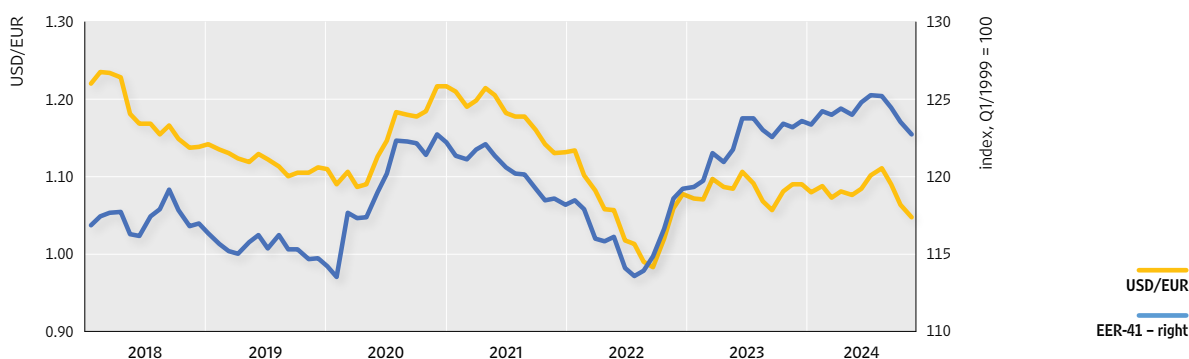
Notes: Yields for the euro area have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in 2024.

Sources: Bloomberg, Eurostat and CNB calculations.

Government bond yields were more stable in 2024 than in 2023. At the beginning of the fourth quarter, the euro area GDP-weighted average of long-term government bond yields stood at 2.6%, close to the levels seen in late 2023. By the end of December, it had increased to 2.9%, up by 27 basis points from the end of 2023, reflecting mainly the rising yields on long-term US government bonds induced by expectations of the potential inflationary effects of the steps announced by the new administration.

On the global foreign exchange market, the exchange rate of the euro against the US dollar moved within a very narrow range for the most part of the year. The most significant change occurred in the last quarter when the exchange rate of the euro against the US dollar depreciated strongly. This was mostly due to the shift in market expectations towards a smaller reduction of key interest rates in the US and a bigger reduction in key interest rates in the euro area, since the US economy proved more resilient than expected, while the economic outlook for the euro area worsened. Such divergent expectations widened further after US elections, reflecting concerns that the propensity of the new US administration for protectionist measures might increase inflationary pressures in the US and have an unfavourable impact on the euro area economy. The exchange rate of the euro for the US dollar stood at USD/EUR 1.03 at end-December, its lowest level in the last two years, having depreciated by around 6% from the end of 2023. Over the same period, the nominal effective exchange rate of the euro against a basket of currencies of the euro area main trading partners depreciated only slightly, by around 1%. The weakening of the euro against the US dollar was offset by its strengthening against the Japanese yen, the Swedish krona and the Hungarian forint.

**Figure 1.2.3 USD/EUR exchange rate and nominal effective exchange rate of the euro**



Notes: EER-41 is the nominal effective exchange rate index of the euro against 41 major trading partners of the euro area. The data refer to monthly averages. Exchange rate increase indicates euro appreciation.

Source: ECB.

**BOX 1****When did Croatian sovereign bonds enter an A-rated bond category from the perspective of investors?**

**Towards the end of 2024, all global rating agencies put Croatia in the group of countries with upper medium investment grade, its highest rating since the country first started being assigned credit ratings in 1997. This Box examines when the yields on Croatian bonds came to equal yields of countries holding an A rating, and how the markets implicitly put Croatia in that group, with the formal confirmation of such a rating by the agencies coming in the last quarter of 2024. As shown in the literature, rating agencies typically lag behind the market, i.e. by the time new ratings are published, the investors have usually already built them into bond market prices. Investors and rating agencies use the same set of information to assess sovereign credit risk, such as economic growth, fiscal position and macroeconomic imbalances, that are used in the assessment of public debt sustainability. While investors tend to respond almost immediately to changes in economic parameters by purchasing or selling bonds, rating agencies typically revise their assessments with a time lag relative to changes in market sentiment, as confirmed in different empirical surveys. The results of the analysis suggest a narrowing of yield spreads on Croatian bonds towards an implicit threshold separating A-rated from B-rated countries even before entry into the euro area, in the period marked by very favourable macroeconomic developments, much before official rating agency decisions.**

The decisions by three global rating agencies (S&P, Fitch and Moody's) to upgrade Croatian government bonds towards the end of 2024 and the inclusion of Croatia in the group of countries with upper medium rating (A rating comprises ratings A- to A+) is based on a number of favourable developments including fast economic growth, considerable improvement in fiscal position, living standard convergence with the EU average, political stability and institutional improvements in many areas. Owing to these factors, Croatia has joined the group of countries with an upper medium investment grade, implying a strong capacity to meet its financial obligations, albeit with a certain sensitivity to adverse economic conditions and changes in circumstances.<sup>2</sup> The last round of the credit rating upgrade thus builds on the improvements arising from the formal decision to introduce the euro: currency risk elimination, higher credibility of economic policies and institutional improvement following the reforms Croatia undertook to make by entering the ERM II (the so-called waiting room to join the euro) and higher financial security due to access to the European Stability Mechanism.<sup>3</sup>

Rating agencies' decisions were no surprise since yield spreads relative to the benchmark German bonds suggest that investors had for a while treated Croatian bonds as A-rated (**Figure 1**).

2 For more information on individual ratings, see Standard&Poors (2024): *Guide to Credit Rating Essentials What are credit ratings and how do they work?*, available at: [https://www.spglobal.com/\\_assets/documents/guide-to-credit-rating-essentials\\_2024.pdf](https://www.spglobal.com/_assets/documents/guide-to-credit-rating-essentials_2024.pdf)

3 The European Stability Mechanism is a part of an EU strategy to ensure financial stability in the euro area. It provides financial support to euro area countries in or facing financial difficulties. For more information, see <https://www.consilium.europa.eu/en/policies/financial-assistance-eurozone-members/>

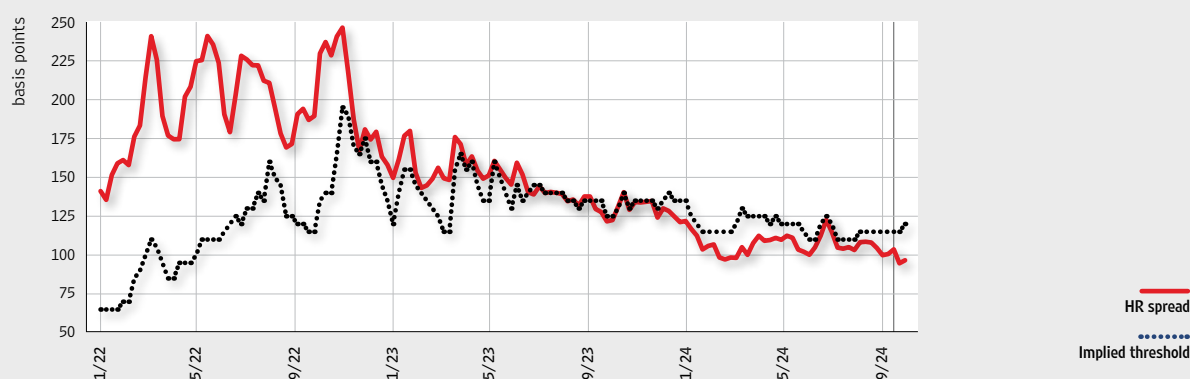
Financial markets typically respond quickly to information they find might affect the ability to service a debt, which includes reaction to cyclical factors. In contrast, rating agencies base their decisions on longer-term trends, change their ratings less often and make decisions on rating changes with a time lag, when a range of indicators has become available to support an individual rating. In technical terms, one could say that market risk assessments are based on a point-in-time (PIT) approach, while rating agencies tend to make decisions using a through-the-cycle approach (TTC).<sup>4</sup> So markets often change a country's solvency rating much before rating agencies, and such market implied ratings may very often differ from those of rating agencies.

To capture the precise moment when the markets started rating Croatian bonds as those issued by A-rated bond issuers, an implied yield spread has been identified separating A-rated from B-rated country groups by minimising the difference between rating agency ratings and actual market spread (for more information, see the paper by Kunovac and Ravnik (2017)), which is based on the approach of Berger et al. and of Kou and Varotto, 2005).<sup>5</sup> In other words, the method examines different values of yield spreads representing the threshold between these two credit rating categories and checks for each potential threshold the measure to which it adjusts credit rating with market perception of the observed countries' solvency.<sup>6</sup>

4 Complementing Agency Credit Ratings with MIR (Market Implied Ratings), Moody's Analytics. Available at: [https://www.moodys.com/sites/products/ProductAttachments/Complementing\\_Ratings\\_with\\_MIR.pdf](https://www.moodys.com/sites/products/ProductAttachments/Complementing_Ratings_with_MIR.pdf)

5 Kunovac, D. and R. Ravnik (2017): *Are sovereign credit ratings overrated?* Comparative Economic Studies, 59(2), 210-242; Breger, L. L., Goldberg, L. R. and O. Cheyette (2003): *Market implied ratings*, Risk Magazine; Kou, J. and S. Varotto (2004): *Predicting agency rating migrations with spread implied ratings*.

6 The following function is minimised:  $P(g) = \frac{1}{m} \sum_{i=1}^m \max(S_{i,R1} - g, 0) + \frac{1}{n} \sum_{j=1}^n \max(g - S_{j,R2}, 0)$  where  $g$  represents the implied threshold,  $S_{i,R1}$  the spread of  $i$ -th country with rating R1 (upper rating),  $S_{j,R2}$  represents the spread of the  $j$ -th country with rating R2 (i.e. one category below R1),  $m$  is the number of countries which had rating R1 in the observed period, while  $n$  is the number of countries that had rating R2 in the observed period. The equation clearly shows that the value of the function will increase due to an increase in the first term, when the selected  $g$  is below the optimum level, while total value of the function will increase due to an increase in the second term when the selected  $g$  is above the optimum level. In this way, the method comes to a threshold between two credit rating categories, adjusting them with market data.

**Figure 1 Market implied threshold between lower medium credit rating and the actual spread on Croatian ten-year bond**

Notes: The black dotted line represents the implied threshold between yield spreads of countries with lower medium rating (BBB-, BBB, BBB+) and those with upper medium ratings (-A, A, A+). The vertical line represents the moment in which the first rating agency classified Croatia in the A- category (16 September 2024). The yield spread is calculated as the yield spread on a ten-year government bond of an individual country denominated in euro relative to the yield on a ten-year German government bond. A country is classified as investment grade if it has been rated in this grade by at least two of the three rating agencies (S&P, Moody's, Fitch). According to this criterion, countries with an upper medium credit rating since November 2023 include Slovakia, Lithuania, Spain and Portugal and countries with lower medium rating include Romania, Hungary, Italy, Cyprus and Portugal until November 2023. The analysis was made on a sample of European countries only.

Sources: CNB calculations and Bloomberg.

**Figure 1** shows how the yield spreads between Croatia and the implied threshold narrowed considerably already in the period leading to entry in the euro area, which activated the effect of the so-called 'europremium'<sup>7</sup> when the markets placed Croatia right on the threshold between A and B categories. The convergence in yield spreads to levels observed by bonds of A-rated countries suggests that it is possible that financial markets already at that time implicitly considered Croatia as a member of the A-group, with the continuity of favourable macroeconomic, fiscal and institutional developments soon supporting such a rating. It is interesting to note that this year's developments, including the official upgrade to A category by all rating agencies, have not had any significant impact on Croatia's implied position.

It can be concluded that although rating agencies play an important role in the financial market, it is worth noting that fundamentals ultimately more closely and actively monitored by investors than rating agencies are crucial for developments in borrowing costs and risk perception of investments. Thus, in the eyes of investors, the entry in the euro area and favourable developments had already put Croatia in an A category towards the end of 2022, much before its official assignment to that category by the rating agencies.

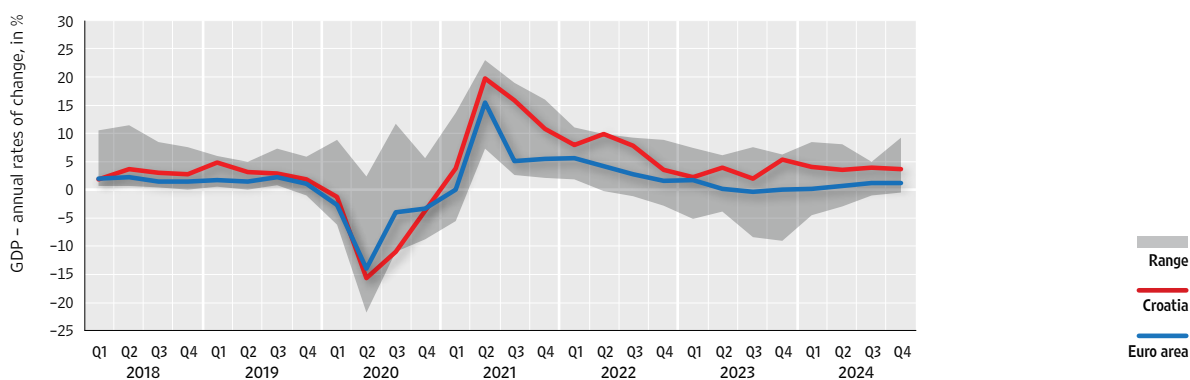
<sup>7</sup> For more information, see Zrnc, J. (2022): Skorašnje usvajanje eura već je povoljno utjecalo na troškove zaduživanja Hrvatske, available at: <https://www.hnb.hr/-/skorasnje-usvajanje-eura-vec-je-povoljno-utjecalo-na-troskove-zaduzivanja-hrvatske>

## 2 Croatia

### 2.1 Real developments

Vigorous economic expansion continued in Croatia in 2024, with growth being stronger than in 2023, despite the still relatively weak foreign demand, delayed effects of monetary policy tightening on financing conditions and pronounced geopolitical tensions. The growth of the Croatian economy continued to significantly exceed the euro area and the EU average in 2024, with the GDP per capita (in terms of purchasing power standard) increasing to 77% of the EU average from 76% in 2023. Economic activity growth this year, similarly to that seen in 2023, primarily reflects strong domestic demand, which accelerated the growth in employment and real wages. Increased need for labour was partly met by the import of foreign labour and the activation of some pensioners on the labour market. The continued increase in domestic demand was supported by a very expansionary fiscal policy and vigorous investment activity in the private sector. The first half of the year was marked by relatively strong economic growth; however, the somewhat less favourable tourism performance during peak tourist season and the slowdown in investment growth contributed to slower growth during the summer months. Nevertheless, as 2024 drew to a close, economic activity picked up again, primarily under the influence of an increase in domestic demand, as well as in the exports of goods, so that real GDP surged by 3.9% in 2024 as a whole.

**Figure 2.1.1 Trends in economic activity in Croatia and the euro area**



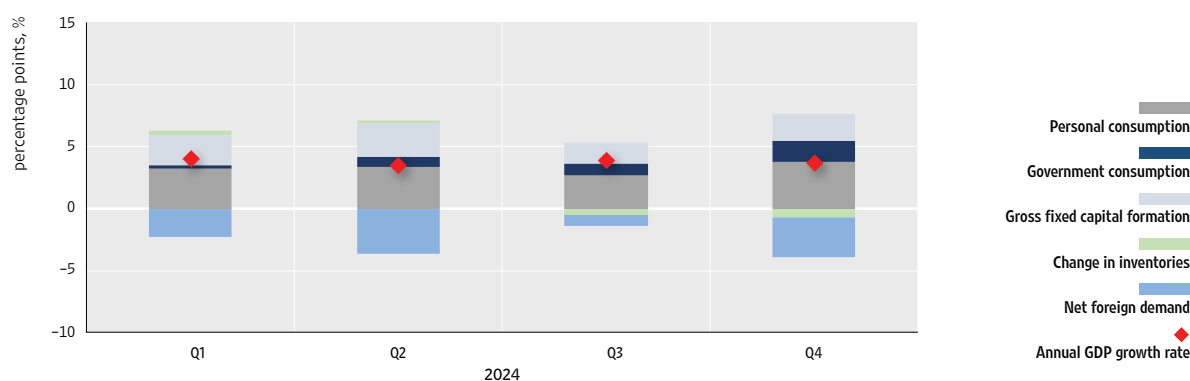
Note: The figure shows the range of values of real GDP growth of individual euro area member states.

Sources: CBS and Eurostat.

The growth in real GDP in 2024 was primarily driven by personal consumption fuelled by the growth in real disposable income of households and strong consumer optimism. Employment picked up, as did real wage growth, largely due to wage increases in the public sector. In addition, government consumption and gross fixed capital formation also contributed greatly to growth. Investments continued to increase at an almost two-digit rate for the third consecutive year, particularly under the influence of the investment activity of the private sector. Not only was there higher domestic demand, but exports of goods also grew, in contrast to the drop seen in the year before; however, this positive contribution was largely offset by the decline in the exports of services. A decrease in the exports of services was mainly a result of a drop in real tourism revenues, which may be linked to the worsened price competitiveness of Croatian tourism in the past two

years amid the relatively weak economic activity in the main outbound markets. Furthermore, it may also partly be attributed to large sports events taking place elsewhere in Europe during peak tourist season, namely the Olympics in Paris and the European Football Championship in Germany. The consumption of residents on services abroad rose, which, coupled with higher imports of goods, led to a high negative contribution of net exports to the growth in real GDP.

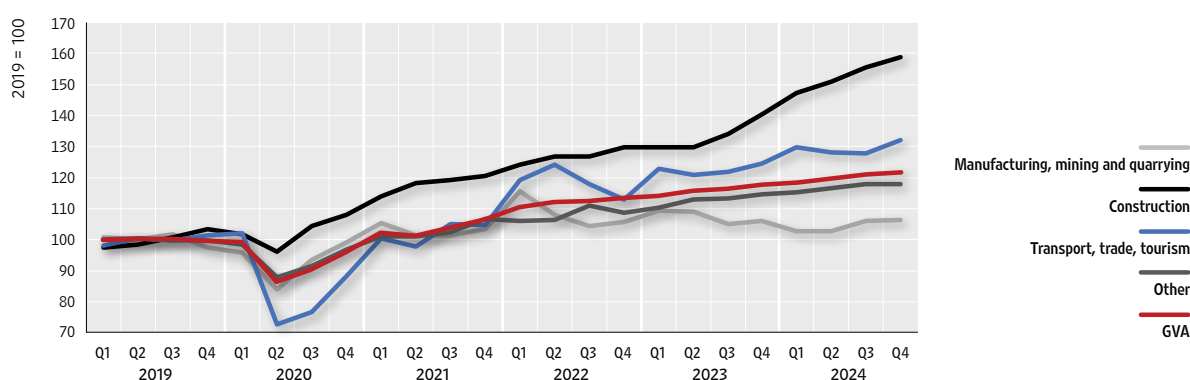
**Figure 2.1.2 Contributions to the change in real economic activity**



Source: CBS.

If developments in economic activity are broken down according to main activities, growth is noticeable in construction and services, but also in activities related to trade, the real estate market and information and communication activities. Expansionary fiscal policy influenced the growth in the contribution of public services. Agricultural production also increased slightly, while manufacturing continued to decline.

**Figure 2.1.3 Gross value added by activity in Croatia**



Source: CBS.

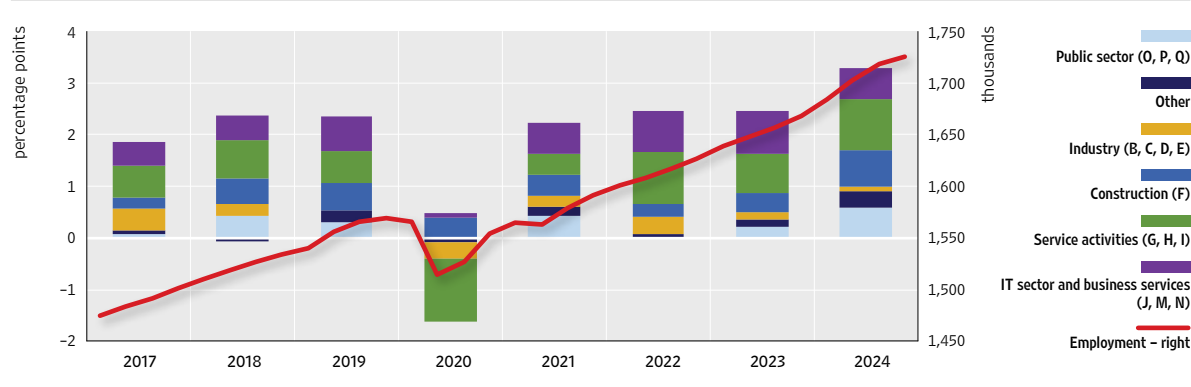
## 2.2 Labour market

In 2024, the labour market was characterised by a pronounced increase in employment and wages and a drop in unemployment. According to CPII data, employment increased by 3.3% in 2024, versus 2.5% in 2022, mainly as a result of the most new hirings being seen in services and



construction. In services, the growth was relatively broadly based, including the general government, while employment dropped only in financial and insurance activities. Unemployment continued its downward path in 2024 as well as the average registered unemployment rate, which fell to 5.3% of the labour force (from 6.1% in 2023). At the same time, the average ILO unemployment rate was 5.1%, or down by one percentage point from 2023. Employer needs for recruiting were largely met by the increased recruitment of workers from third countries (outside the EU) and pensioners. Pronounced demand for labour amid low unemployment affected the continued growth in wages in 2024, which was significantly impacted by wage increase in the public sector following the reform in the remuneration policy system. Wage growth in 2024 also reflected the rise in minimum wages. As a result, the average nominal gross and net wages again rose by some 15% in 2024, with wage growth in the public sector being more pronounced than that in the rest of the economy. At the same time, the growth in real net wages picked up, from 4% to more than 11%, as a result of a drop in inflation.

**Figure 2.2.1 Employment by NCA, seasonally adjusted data, contributions to the annual rate of change and total employment**



Note: NCA means the National Classification of Activities.  
Source: CPII (seasonally adjusted by the CNB).

## 2.3 Price developments

Inflation in Croatia continued to slow down noticeably in 2024. The average annual rate of inflation as measured by the harmonised index of consumer prices (HICP) more than halved from 2023 (from 8.4% to 4.0%), and according to the national inflation indicator (CPI), the decrease was even more pronounced (from 8.0% in 2023 to 3.0% in 2024). Inflation is higher when measured by the harmonised indicator in relation to the national indicator due to the wider scope of consumers included in the calculation of the harmonised indicator, which encompasses the consumption of foreign tourists, while CPI covers only the consumption of domestic households and thus better reflects the increase in prices for Croatian residents. Prices of services contribute the most to the difference in inflation as measured by the HICP and ICP respectively, particularly the prices of tourism-related services, which account for a larger share in the consumer basket used to calculate the HICP<sup>8</sup>. The slowdown of inflation in 2024 was also affected by the still restrictive monetary

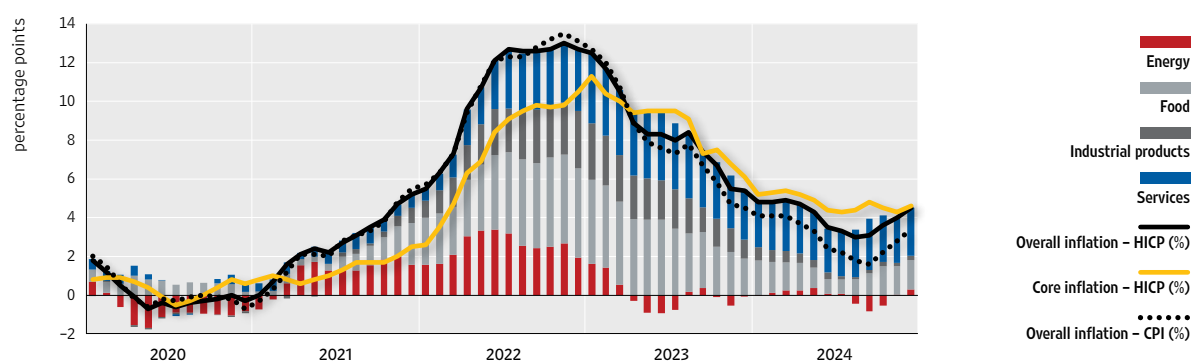
<sup>8</sup> For more information on the methodological differences between the calculations of the harmonised and the national consumer indices, see Box 2 Comparison of the national and harmonised index of consumer prices in Croatia, *Macroeconomic Developments and Outlook No 12, Croatian National Bank, July 2022*



policy stance as well as by the weakening of imported inflationary pressures resulting from the stabilisation of global supply chains and the decrease in the prices of energy on the global market. In contrast, domestic inflationary pressures remained pronounced due to robust economic growth in Croatia, labour shortages and strong wage growth. Hence, despite the slowdown, inflation remained elevated compared with the euro area, where economic developments were relatively weak. Unfavourable base effects coupled with stronger current pressures (including the increase in the prices of refined petroleum products on the domestic market and the lifting of caps on administered prices of electricity, gas and heat energy) caused inflation to pick up again towards the end of the year.

**Figure 2.3.1 Inflation indicators in Croatia**

contributions by components



Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.  
Sources: Eurostat, CBS and CNB calculations.

As regards the developments in the prices of the main inflation components, lower core inflation contributed the most to the slowdown of overall inflation in 2024. Core inflation (measured by the HICP which excludes food and energy prices) decelerated from 8.8% in 2023 to 4.8% in 2024, with industrial prices exhibiting a particularly pronounced slowdown (from 7.2% to 1.3%). Inflation of industrial prices dropped below its pre-pandemic long-term average in the second half of 2024 due to the easing of imported inflationary pressures and a noticeable slowdown in the growth of producer prices. In contrast, the slowdown in services inflation was considerably less pronounced (from 10.1% in 2023 to 7.6% in 2024), for several reasons. Strong growth in demand, supported by expansionary fiscal policy, and labour shortages combined with high nominal wage growth created upward pressures on the prices of services, where costs of labour constitute a significant part of total costs. Elevated services price inflation greatly reflects the growth in the prices of catering and accommodation services, which have been growing faster in Croatia than in competitive countries for several years now. This growth in prices has had an unfavourable effect on the price competitiveness of the tourist sector, and, in turn, on the demand for tourist services. Inflation of prices of services, particularly of those related to tourism, remained elevated against such a backdrop and contributed the most to overall inflation.

The further slowdown in food price inflation from 11.5% in 2023 to 4.4% in 2024 also contributed to the deceleration of overall inflation, albeit to a somewhat lesser extent than core inflation. Food

price inflation slowed down considerably in the second half of 2023 and the first half of 2024. This was a result of a drop in the prices of energy, food and other raw materials on the global market from the peaks seen in 2022. This decrease in prices spilled over to the slowdown in the growth of producer prices in the food industry with a delay, contributing to the decrease of food price inflation for consumers. However, food inflation speeded up in the second half of 2024, partly as a result of unfavourable base effects (sharp monthly decreases in food prices in September and October 2023) and partly due to mounting current inflationary pressures brought about by the dry summer season and recent increases in the prices of some food raw materials in the world market, in particular of coffee, sugar and cocoa. The average annual energy price inflation rate remained at a very low level in 2024 (having dropped from 0% in 2023 to -0.3% in 2024). However, energy price inflation picked up significantly towards the end of the year due to the increase in the prices of refined petroleum products and the initial part of the rise in the administered prices of electricity, gas and heat energy. Nevertheless, the pick-up in inflation at the end of 2024 was only temporary, and in the months that followed, inflation continued to slow down.

Overall, in 2024, inflation in Croatia was higher than the euro area average, which primarily reflects stronger economic growth than in other euro area member states and price convergence.

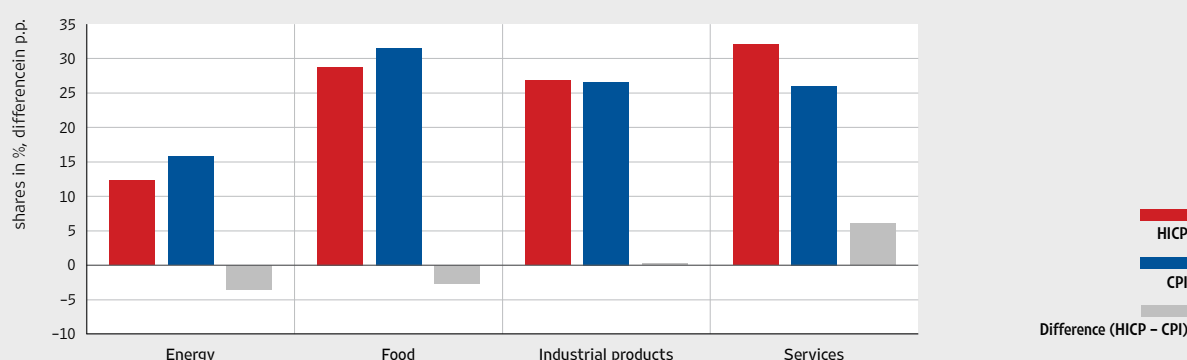
**BOX 2****Why has the difference between the harmonised and the national inflation indicators increased?**

**Two official inflation indicators are regularly calculated and released for the Republic of Croatia – the national consumer price index (CPI) and the harmonised index of consumer prices (HICP). Their calculation is based on an almost identical methodology, and differences between the indices take into account the needs of different groups of users and different purposes of inflation measure application. The CPI reflects price movements faced by domestic residents in Croatia, while the HICP, in addition to price trends experienced by domestic residents, also takes account those faced by foreign consumers in Croatia. While usually relatively small, the differences between the harmonised and the national indicators increased considerably from mid-2023 until September 2024, when they reached their peak. The main reason why inflation measured by the harmonised indicator is higher than the one measured by the national indicator is the strong growth of services prices, and in particular of hotel and restaurant and accommodation services prices, which account for a much larger share in the consumer basket used for the calculation of the harmonised indicator, as it includes consumption by foreign tourists. The difference between the harmonised and the national inflation indicators may gradually decrease due to the expected slowdown in services prices.**

Two official inflation indicators are regularly calculated and released for the Republic of Croatia – the national consumer price index (CPI) and the harmonised index of consumer prices (HICP). Their calculation is based on an almost identical methodology, and differences between the indices take into account the needs of different groups of users and different purposes of inflation measure application. The CPI reflects price movements faced by domestic residents in Croatia, while the HICP, in addition to price trends experienced by domestic residents in, also takes account those faced by foreign consumers in Croatia. The HICP is a key inflation rate targeted by the ECB, which is used to define price stability in the euro area and compare EU member states' inflation rates. In advance of Croatia's entry to the euro area, the focus of CNB analyses and projections shifted to the harmonised index of consumer prices (HICP). The CNB's HICP projections for Croatia are thus an integral element of the Eurosystem's projections for the euro area as a whole. On the other hand, the CPI is important to the central bank in the context of monitoring inflationary pressures faced by Croatian residents. In addition, the CPI still continues to be used for specific purposes, such as the indexation of pensions and the adjustment of prices of some goods and services, such as telecommunications services, with the annual inflation rate. The CNB also continues to use the CPI to deflate particular statistical series, for example to calculate real wages or deflate particular national account categories, such as household disposable income. The calculations of both the HICP and the CPI are based on the same basket of goods and services and their calculation methodologies are very similar, as the CBS calculates the CPI following the Eurostat guidelines for the compilation of the HICP. The main difference is in the coverage of the population used to calculate the consumer basket structure and the share of specific components.

The CPI covers the consumption of domestic private households, while the HICP also covers the consumption of non-residents (mostly foreign tourists) and institutional households (including persons provided with accommodation and food by an institution, such as a retirement home, etc.). This results in the individual components of the HICP and CPI baskets having different shares, which sometimes leads to differences between these two inflation measures. For example, the share of services, featuring heavily in tourist spending, is as a rule much higher in the HICP basket than the share of services in the CPI basket, while the share of food and energy in the HICP basket is lower than the equivalent in the CPI basket. The shares of industrial goods in the baskets of both indices are the same (Figure 1).

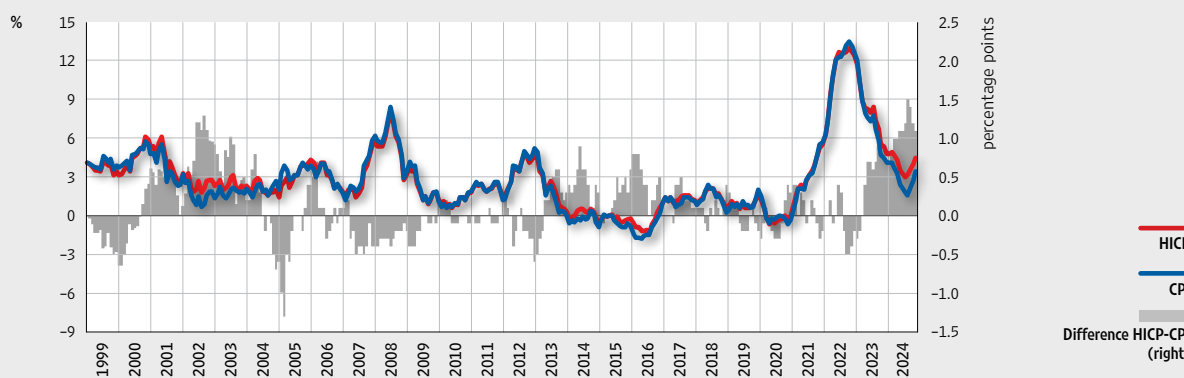
**Figure 1 Structure of the basket of goods and services in the harmonised and the national inflation indicators in 2024**



Notes: The figure shows the shares of the main components in the overall harmonised and the national indices of consumer prices. Food includes beverages and tobacco, while industrial goods exclude energy.

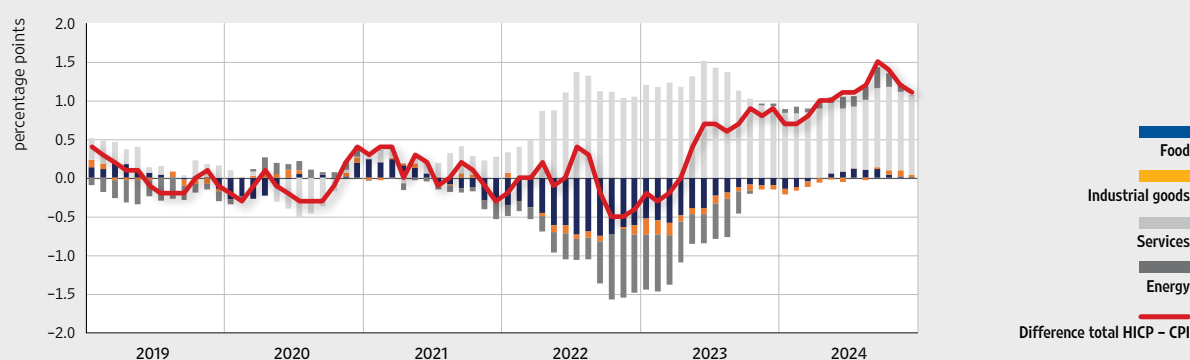
Sources: CBS, Eurostat and CNB calculations.

Although usually relatively small, especially if observed on an annual level, the differences between the harmonised and the national indicators have increased considerably since mid-2023. In the period from January 1999 to December 2023, the difference between the harmonised and the national indicators of overall inflation ranged between -1.3 and +1.3 percentage points. The average (absolute) difference was 0.3 percentage points, while the largest positive differences were observed in 2002. The harmonised indicator exceeded the national indicator by 1.5 percentage points in September 2024, accounting for the largest difference so far (Figure 2). By the end of the year, this difference narrowed (to 1.1 percentage point), with HICP inflation standing at 4.5% and CPI inflation at 3.4%. The differences between the harmonised and the national inflation indicators are somewhat smaller if data are observed on an annual level. In the period from 1999 to 2023, the difference between the average annual inflation rate measured by the harmonised indicator and the one measured by the national indicator ranged between -0.3 and +0.8 percentage points. There were slightly more years in which the harmonised indicator exceeded the national indicator. The average (absolute) difference between the harmonised and the national inflation indicators was 0.2 percentage points. In 2024, the average annual rate of inflation measured by the HICP stood at 4.0%, while that measured by the CPI was 3.0%, and the difference between the rates was the largest thus far.

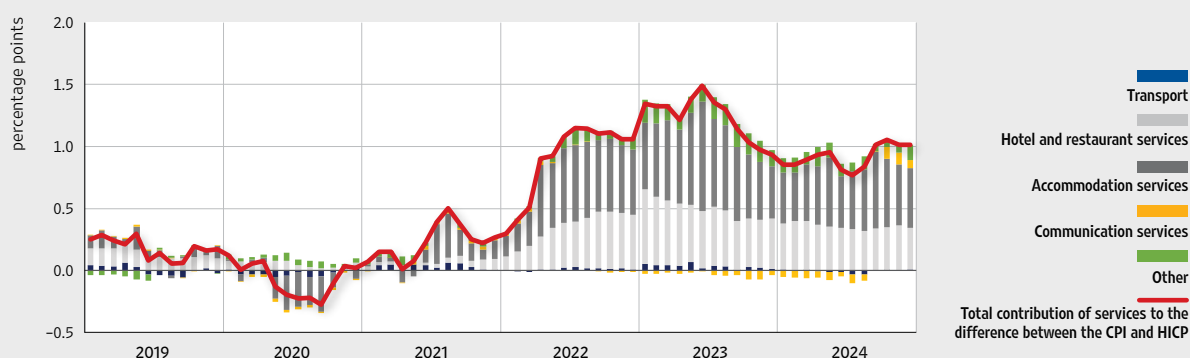
**Figure 2 Annual inflation rate according to the harmonised and the national indicator**

Sources: CBS, Eurostat and CNB calculations.

The uncommonly large difference between the harmonised and the national indicators reflects the increasingly large weight of services in the HICP basket, in particular of tourism-related services (**Figure 4**), whose prices have grown much faster than the prices of other components of the basket. The share of services, with an accent on accommodation and hotel and restaurant services, in the total HICP, is significantly higher than their share in the CPI because it also includes non-residents' consumption of these services in Croatia. Accordingly, services inflation amounted to 7.7% in December 2024 as measured by the harmonised indicator, while it was considerably lower (5.6%) according to the national indicator, with the result that the contribution of services prices to overall HICP inflation was one percentage point higher than their contribution to the CPI (2.5 percentage points compared with 1.5 percentage points). In contrast to services, in December 2024, the contribution of prices of energy, food and industrial products to the HICP was equal to their contribution to the CPI (**Figure 3**). Services prices have been growing strongly ever since the second quarter of 2022 on the back of the recovery of domestic and foreign demand for tourist services following the lifting of containment measures and a sharp increase in wages. The increasing contribution of services prices to the difference between the overall HICP and CPI was until mid-2023 strongly offset by the negative contribution of energy and food prices, so that the difference between the HICP and the CPI started to exceed 0.5 percentage points as late as in June 2023.

**Figure 3 Difference between the contributions of the main components to the overall HICP and CPI**

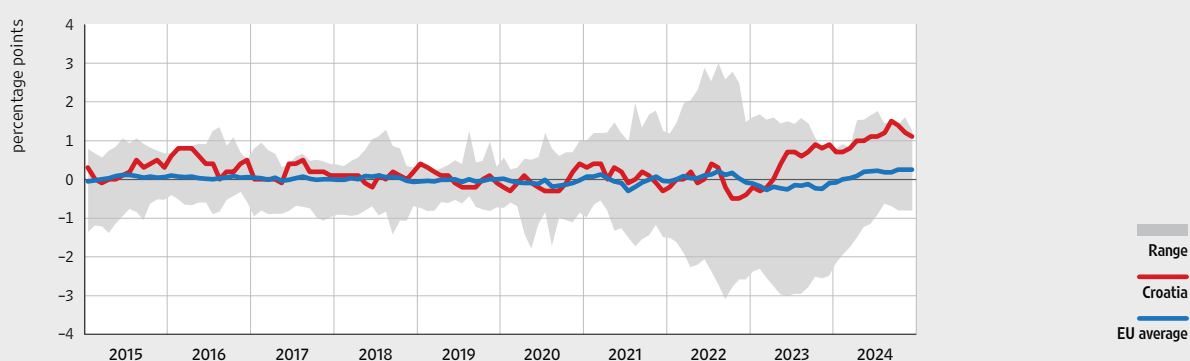
Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific component to overall HICP inflation than to CPI inflation.  
Sources: CBS, Eurostat and CNB calculations.

**Figure 4 Difference between the contributions of the main sub-components of services to the overall HICP and CPI**

Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific services sub-component to overall HICP inflation than to CPI inflation.

Sources: CBS, Eurostat and CNB calculations.

Finally, differences between the harmonised and the national inflation indicators are common in other EU countries too, Croatia being no exception. In addition to the (non) inclusion of the consumption of non-residents and institutional households, much of the difference between the harmonised and the national inflation indicators can be attributed to the treatment of expenditures related to the acquisition and ownership of residential real estate. The harmonised inflation indicator, for example, still does not include all households' housing expenditures, that is, all owner-occupied housing expenditures<sup>9</sup>, while these expenditures are included in the national inflation indicators of some EU countries. The differences between the harmonised and the national indicators have increased in most EU member states in the last three years, so that some EU member states have even recorded a higher difference, positive or negative, than that currently observed in Croatia (Figure 5). The easing of current inflationary pressures in the service sector and the expected slowdown in services price inflation should bring this difference in Croatia back to the historical averages.

**Figure 5 Difference between the harmonised and the national inflation indicator**

Sources: OECD and national statistical offices (for national indicators), Eurostat (for harmonised indicators) and CNB calculations.

9 The HICP so far includes owner occupier's expenditures pertaining to maintenance and minor repairs as well as other current expenditures (water supply, electricity, gas and home insurance) and does not include expenditures paid for the purchases of houses and flats or all expenditures related to the consumption of housing services (for example, large construction works or imputed rent, that is, the estimated rent owner-occupiers would be paying to rent their homes). For more details, see: Eiglsperger et al. (2024), *Owner-occupied housing and inflation measurement*, ECB Statistics Paper Series, No. 47, revised June 2024

**BOX 3****Price levels and entry to the euro area: lessons from an analysis of the prices of a retail chain**

Both the expert and the general public in Croatia take a strong interest in developments in the levels of prices in Croatia as compared with those in other European countries and in the question of whether Croatia's entry to the euro area has influenced the relative price level. This analysis aims to shed more light on this topic by comparing the prices of several thousand products offered by DM (Drogerie Markt) in Croatia, Austria, Italy and Slovenia, observed at three points of time: in September 2022, September 2023 and October 2024. The results show that the differences between the prices of identical products in DM stores in Croatia and those abroad are decreasing, while the share of products with identical prices, albeit still low, is gradually rising. For example, DM in Croatia was on average 4.4% more expensive in 2022 than DM in Austria, while in 2024 it was 1.6% cheaper. DM in Croatia was also 8.4% and 7% cheaper in 2022 and 2024, respectively, than DM in Italy. In comparison with DM in Slovenia, DM in Croatia was 4.3% cheaper in 2022 and 2.4% in 2024. Such price adjustments are not typical only of Croatia. Similar trends are evident among the countries that were part of the euro area throughout the observed period, which shows that there are pressures towards price adjustment in the euro area. However, the analysis has some limitations. The results can neither be generally applied to the whole economy nor provide a comprehensive insight into a broader convergence of price levels during Croatia's entry to the euro area because the analysis is focused on a small portion of the consumer basket, limited to a certain number of countries and based on data collected at three points of time. Future analyses could include a wider range of products and additional factors that affect price adjustment in order to provide a more comprehensive view of this process.

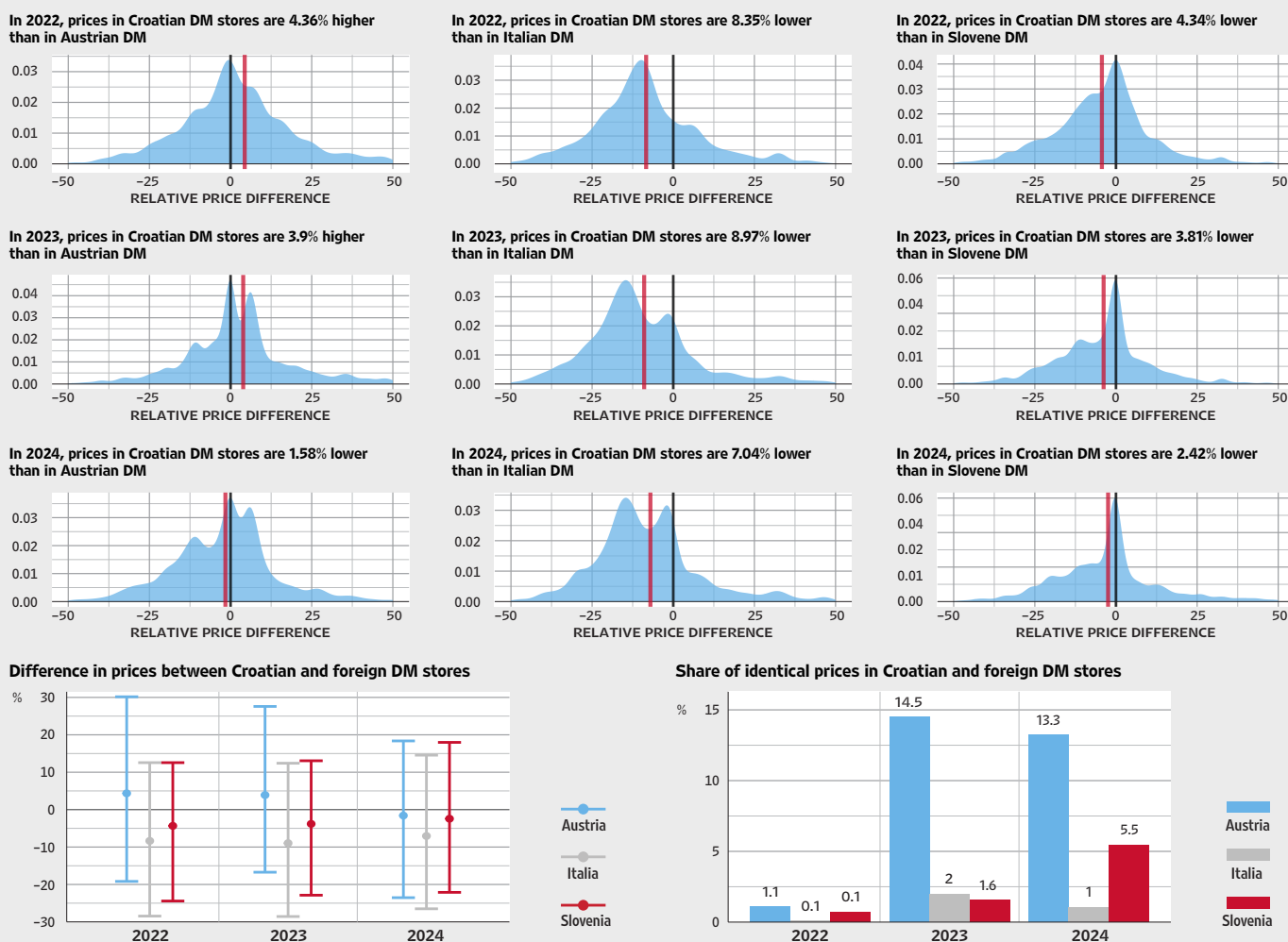
There have been increasingly more comparisons in the Croatian public sphere between domestic price levels and price levels in other European countries, especially after Croatia's entry to the euro area. These comparisons are made possible primarily due to the direct comparability of prices of identical products. In mid-November 2024, the CNB's weblog, HNBlog, published the analysis *Are prices in Croatia really higher than in more developed countries?*<sup>10</sup> A detailed glance at prices in a retail chain. The analysis concludes that at the end of November 2024, the prices of selected DM products in Croatia were 16% higher than the prices of identical DM products in Germany, but 7%, 1.6% and 2.4% cheaper than in Italy, Austria and Slovenia respectively. However, this analysis comprises the comparison of prices at only one point of time. The question left unanswered is how Croatia's entry to the euro area has influenced price trends.

10 Mužić, I. and I. Žilić (2024): Jesu li cijene u Hrvatskoj zaista više nego u razvijenijim zemljama? Detaljniji pogled na cijene u maloprodajnom lancu, HNBlog, Croatian National Bank: <https://www.hnb.hr/-/jesu-li-cijene-u-hrvatskoj-zaista-vise-nego-u-razvijenijim-zemljama-detaljniji-pogled-na-cijene-u-maloprodajnom-lancu>

In this analysis, the existing comparison of DM prices is extended over a period of three years. To this end, on 26 September 2022, 29 September 2023 and 31 October 2024, the prices of all products were collected from DM's internet shops in Croatia and other European countries. As the coverage of countries changed over time, the analysis is based on the comparison of prices in DM stores in Croatia, Austria, Italy and Slovenia for which data were available for all three years. Prices in DM stores in Germany, which were part of a previous analysis published at HNBLog, were not available for 2022 and 2023, because the CNB, in order to monitor the impacts of Croatia's entry to the euro area on price developments, started to collect prices from internet shops in mid-2022. Prices were collected for Croatia and several European countries, so that any potential differences in the dynamics of price changes could be compared. As the analysis focused on geographically closer countries, the original group of countries for which data were collected excluded Germany, whose DM prices were on average 16% lower than DM prices in Croatia in 2024. Since part of the product range is identical in all countries, global product identifiers were used to identify products available both in Croatia and in other markets and compare their prices. The total number of DM products in Croatia was 13,430 in 2022, 14,683 in 2023 and 15,560 in 2024. The largest number of identical products was found in Slovenia: 5,350 in 2022, 5,616 in 2023 and 6,389 in 2024. In Austria, 4,153 matches were found in 2022, 4,464 in 2023 and 4,801 in 2024, while the number of matches made in Italy was 1,300, 2,984 and 3,308 respectively. The increase in the number of identical products points to the harmonisation of the range of products offered among the countries.



Figure 1 Comparison of prices of identical DM products in Croatia, Austria, Italy and Slovenia in 2022, 2023 and 2024



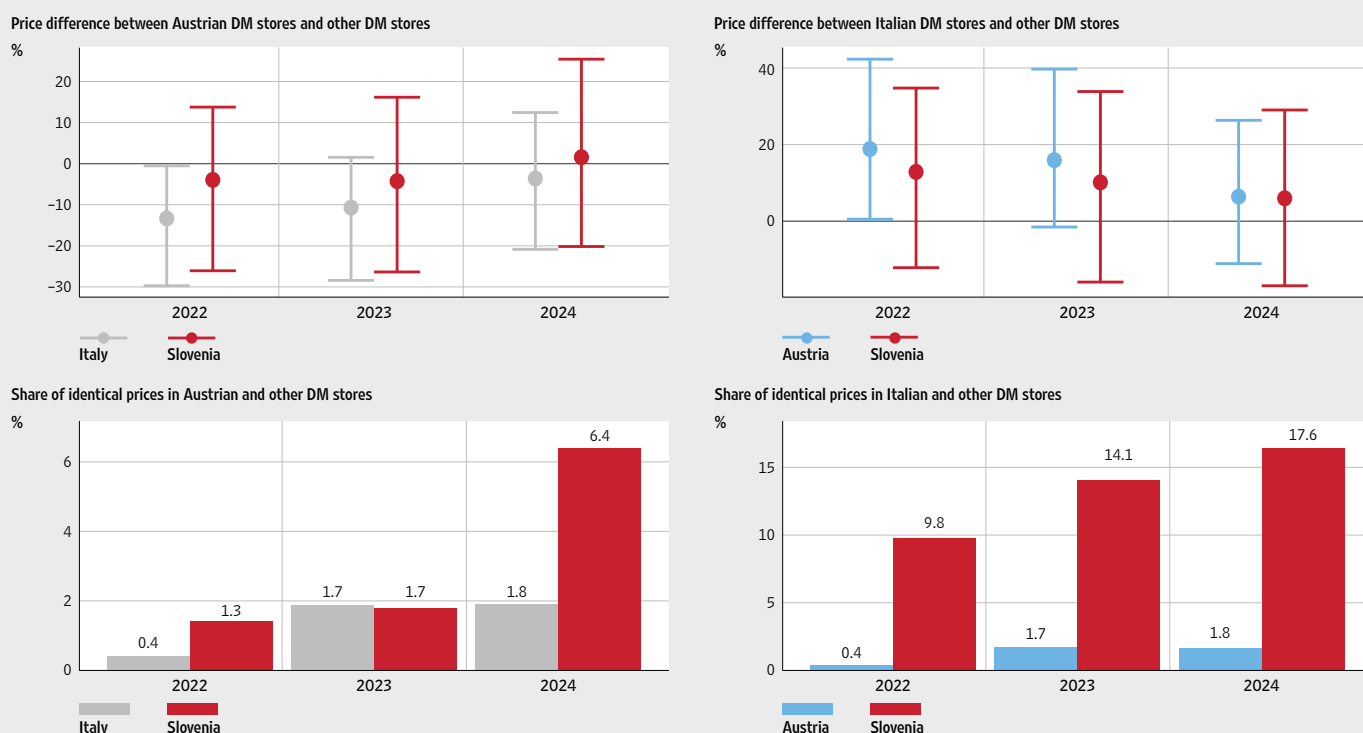
Notes: The histograms (first nine figures) show relative differences between the prices of identical products in DM stores in Croatia and other countries on 26 September 2022, 29 September 2023 and 31 October 2024. Average differences (red line) and zero (black line) are shown. The lower left figure shows the average difference between the prices of identical products in Croatian and foreign DM stores (points) and the 10th and 90th percentile of the difference (columns), while the lower right figure shows the share of products that have the same prices in Croatian and foreign DM stores in the total number of products matched.

Sources: DM and CNB calculations.

The differences between the prices of identical products in DM stores in Croatia and those abroad are decreasing, while the share of products with identical prices, albeit still low, is rising. Prices in DM stores in Croatia have become more equal to prices in foreign DM stores. For example, DM in Croatia was 4.4% more expensive in 2022 than DM in Austria, while in 2024 it became 1.6% cheaper (Figure 1). Comparisons with DM stores in Italy and Slovenia reveal similar trends. DM in Croatia was 8.4% cheaper than DM in Italy in 2022 and 7% in 2024. In comparison with DM stores in Slovenia, the average price differential decreased from -4.3% in 2022 to -2.4% in 2024, which means that DM in Croatia has become relatively less cheap. The histograms in Figure 1 show that, despite a significant heterogeneity of in the prices of identical products among countries, the price differential has become more and more concentrated around zero. This points to the growing uniformity of prices, with increases in the share of products in Croatian DM stores that have prices the same as those products in foreign stores (lower left panel in Figure 1). For example, in 2022, the share of products with identical prices was 1.1%, 0.1% and 0.7%, compared with Austria,

Italy and Slovenia respectively. Only a year later, following Croatia's entry to the euro area, the share of identical prices increased considerably: reaching 14.5% in comparison with Austria and growing to 2% and 1.6% in comparison with Italy and Slovenia respectively.

**Figure 2 Differences between prices of identical DM products and the share of identical prices in Austria, Italy and Slovenia in 2022, 2023 and 2024**



Notes: The upper panels show the average difference between the prices of identical products in Austrian and Italian DM stores in comparison with other DM stores (points) and the 10th and 90th percentile of the difference (columns), while the lower ones show the share of products having the same prices in Austrian and Italian DM stores in comparison with other DM stores. The average price differentials Austria-Italy and Italy-Austria are not identical because different bases were used. The analysis used DM data as at 29 September 2022, 26 September 2023 and 31 October 2024

Sources: DM and CNB calculations.

The prices of identical products in the euro area countries were also adjusted in the observed period. The prices of identical products in DM stores in Austria have converged towards those in Italy and Slovenia (left panel in Figure 2): DM in Austria has become increasingly less cheap than DM in Italy and Slovenia and the share of identical prices has risen. Specifically, the share of products with the same prices in Austrian and Slovene DM stores increased from 1.3% in 2022 to 6.4% in 2024. At the same time, DM in Italy has become increasingly less expensive than DM in Austria and Slovenia (right panel in Figure 2) and the share of identical prices has grown too. The share of products with the same prices in Italian and Slovene DM stores increased from 9.8% in 2022 to 17.6% in 2024. Such adjustment of the prices of identical products within the euro area is already known in the literature. Although the prices of identical products are not the same among countries (for example, Gopinath et al. (2005)<sup>11</sup> and Messner et al. (2024)<sup>12</sup>) and the law of one

11 Gopinath, G., Gourinchas, P. O., Hsieh, C. T., and N. Li (2011): *International prices, costs, and markup differences*, American Economic Review, 101(6), 2450-2486

12 Messner, T., Rumler, F. and G. Strasser (2024): *Cross-country price dispersion: Retail network or national border?*, Journal of International Economics, 152, 103996

price often does not apply, the use of a common currency creates pressures to adjust the prices of identical products. Cavallo et al. (2014)<sup>13</sup> analysed the prices of more than 10,000 Apple, Ikea, Zara and H&M products sold in several dozens of countries before concluding that the prices of identical products are in general more uniform among euro area countries than among countries with different currencies. In addition, Cavallo et al. (2015)<sup>14</sup> analysed the impact of Latvia's entry to the euro area in 2014 to the adjustment of prices of identical products. Having compared prices from Zara in Latvia and in Germany, they established that the share of identical prices grew from 6% before Latvia's entry to the euro area to 89% after the entry.

The final results of the analysis show that the differences between the prices of identical products in DM stores in Croatia and those abroad are decreasing, while the share of products with identical prices, albeit still low, is rising. Prices in DM stores in Croatia are converging towards prices in other countries' DM stores. The share of products with identical prices grew after Croatia's entry to the euro area. The adjustment of prices and product ranges can also be observed in the countries already using the euro, which is an indication that there are pressures to equalise the prices of identical products in the euro area. Although informative, this analysis is not representative, and its results must not be broadly applied to the overall economy. The results of the analysis of price differences are not representative because the analysis compares only the products offered in a foreign retail chain from a relatively narrow consumption segment, mainly including cosmetics and hygiene products, which account for a relatively small part of the total consumer basket (less than 5%). In addition, prices were compared only at three points of time, which is why some factors, such as time limited discounts, can result in divergences from the main findings. In order to obtain a more comprehensive documentation of the impact of the euro area entry on the price level adjustment other factors that may influence price convergence should also be included in the analysis.

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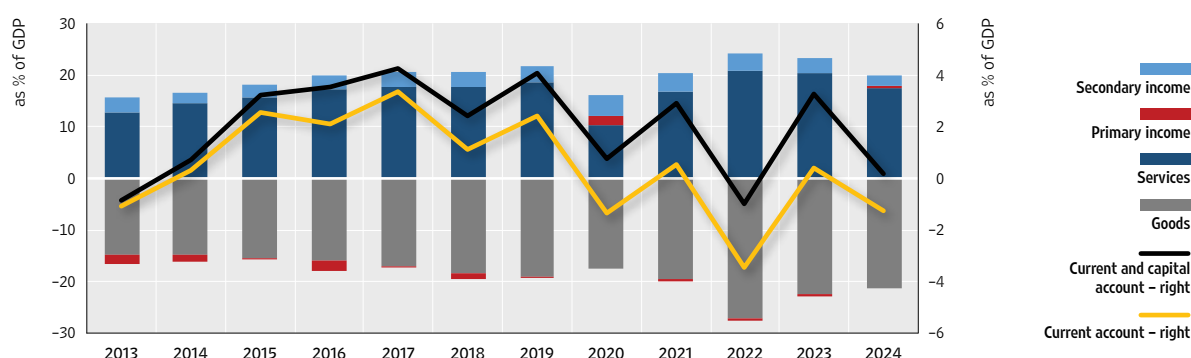
13 Cavallo, A., Neiman, B. and R. Rigobon (2014): *Currency unions, product introductions, and the real exchange rate*, The Quarterly Journal of Economics, 129(2), 529-595

14 Cavallo, A., Neiman, B. and R. Rigobon (2015): *The Price Impact of Joining a Currency Union: Evidence from Latvia*, IMF Economic Review, 63(2), 281-297

## 2.4 Economic relations with foreign countries

The current and capital account surplus dropped from 3.3% of GDP in 2023 to 0.2% of GDP in 2024. The decrease in the surplus was primarily brought about by the deterioration of the balance of trade in services, and, to a slightly smaller extent, by the deterioration of the trade balance. In addition, inflows from EU funds also dropped. The weakening of the services balance reflects a modest annual increase in tourism revenues (2.7%) paired with a noticeably faster growth in the tourist consumption of residents abroad (32.9%). Furthermore, due to robust domestic demand, the favourable export performance was more than offset by the increase in goods imports. Still, Croatian exporters improved their relative position on the European market, having succeeded in increasing their market share. As regards the use of EU funds, the drop in disbursements from 2023 resulted from the completed utilisation of funds allocated under the earlier financial envelope (for the period from 2014 to 2020) and of funds related to the post-earthquake reconstruction. Therefore, in 2024, end users received almost a billion euro less than in 2023, so that net inflows from EU funds dropped from the record level of 3.9% of GDP in 2023 to 2.1% of GDP. On the other hand, the income account balance increased noticeably in 2024, under the influence of, among other things, the growth in interest income of the CNB stemming from investments of foreign assets. Expenditures on foreign investments also increased, albeit to a lesser extent, primarily owing to the rise in the profits of foreign-owned banks. Furthermore, even though the revenues from Croatian residents temporarily employed the large number of foreign workers temporarily employed in Croatia. In 2024, net revenues from personal remittances from abroad increased by EUR 200m from 2023, but due to the stronger GDP growth, their share dropped from 5.4% of GDP in 2023 to 5.2% of GDP in 2024.

Figure 2.4.1 Current and capital accounts of the balance of payments



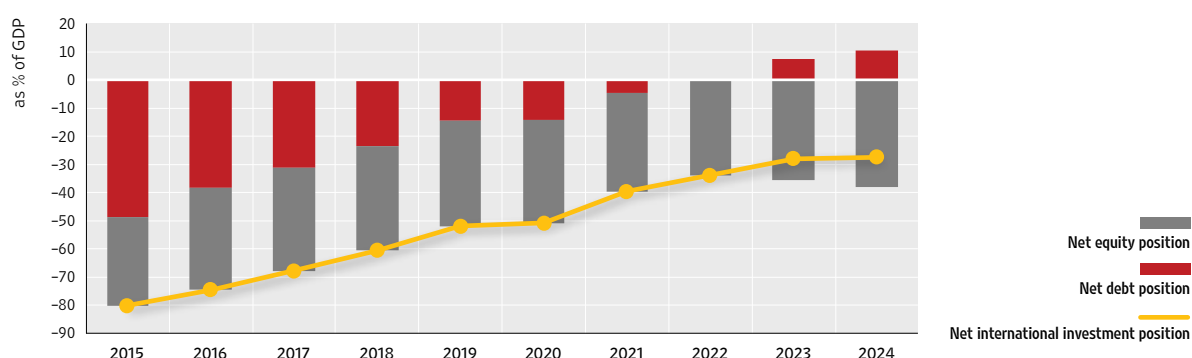
Sources: CNB and CBS.

In line with the decrease in the current and capital account surplus in 2024, the financial account of the balance of payments saw a smaller net outflow of capital than in 2023. In 2024, net capital outflow was EUR 0.8bn or 0.9% of GDP, while in 2023, it stood at EUR 3.8bn or almost 5% of GDP. Net debt position continued to improve, reflecting the decline in net foreign liabilities of all domestic sectors apart from the central government. The inflow of direct investments in Croatia in 2024 was around a billion euro higher than in 2023, reaching 5% of GDP. However, the largest part of the inflow was accounted for by borrowing from affiliated enterprises abroad. At the same

time, direct equity investments remained relatively modest, and predominantly included investments in real estate, pharmaceutical industry, consulting activities and trade.

The gross external debt position stood at EUR 56.2bn or 65.7% of GDP at the end of 2024, having gone down by EUR 4.7bn or 12.4 percentage points from the end of 2023. The decrease in gross external debt was mainly driven by the decrease in central bank liabilities following their strong increase in 2023 due to the application of accounting rules related to the recording of receivables and liabilities for euro banknotes issued within the Eurosystem. On the other hand, other domestic sectors increased their gross external debt. The net external debt of Croatia, which also takes into account the changes in foreign assets of domestic sectors, dropped by EUR 3.6bn to 10.8% of GDP at the end of 2024. Although net external debt liabilities continued to decline, the net equity position worsened, so that the total net international investment position of Croatia ultimately remained relatively stable, standing at -27.3% of GDP at the end of 2024.

**Figure 2.4.2 International investment position**



Sources: CNB and CBS.

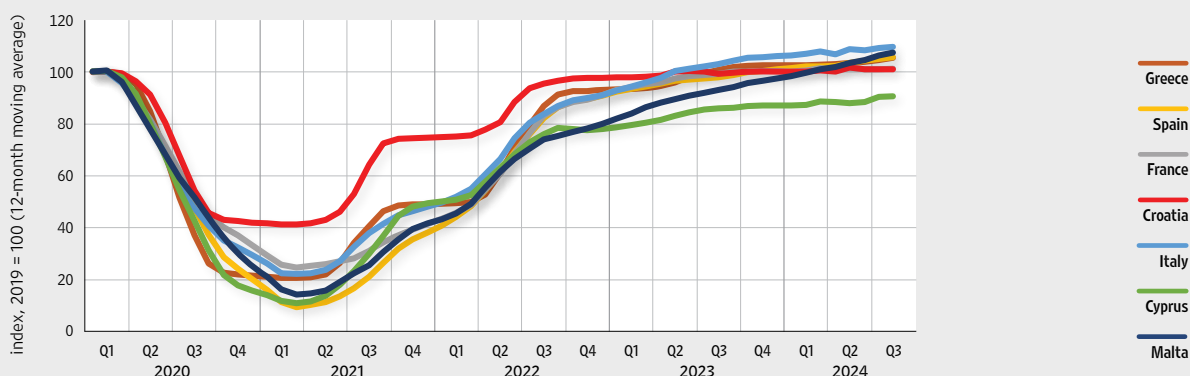
## BOX 4

## Price competitiveness of the Croatian tourist sector in the Mediterranean market

Some of the key determinants of the speed of recovery of the domestic economy include a relatively mild decrease in tourism revenues in the pandemic and their strong growth afterwards. However, this year the volume indicators of tourist turnover in Croatia started to fall behind trends in other Mediterranean countries at peak season and financial results were relatively weak. The prices of accommodation and hotel and restaurant services increased considerably amid growing labour costs, while productivity in these activities rose very little compared with competitor countries. Should price competitiveness continue to deteriorate, this could restrict the future contribution of tourism to Croatia's economic growth and foreign trade balance.

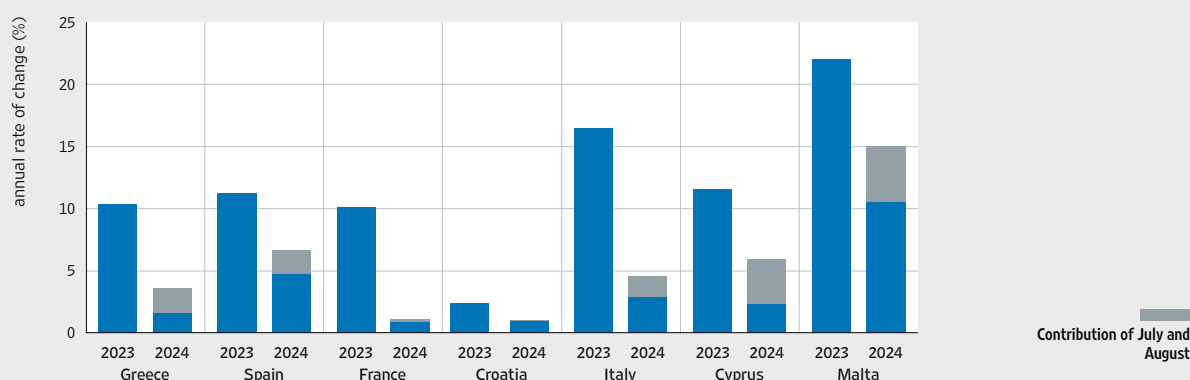
This summer tourist season in Croatia recorded an annual decrease in foreign tourist nights, for the first time since the pandemic. Following a very good pre-season, the number of foreign tourist nights dropped in the peak tourist season (third quarter of 2024) by 0.6% from the same period in the previous year and revenues are likely to have decreased slightly in the summer months. The number of nights stayed by tourists from some important outbound markets, such as Germany and Italy, fell significantly. This is partly related to strong consumer pessimism resulting from growing insecurity in these markets and to the fact that some tourists attended the European Football Championship and the Olympics and stayed at other destinations. However, the prices of tourist services increased sharply in the same period, which could have also dissuaded some tourists from visiting Croatia.

Figure 1 Foreign tourist nights in selected countries



Note: Data up to August 2024.

Source: Eurostat.

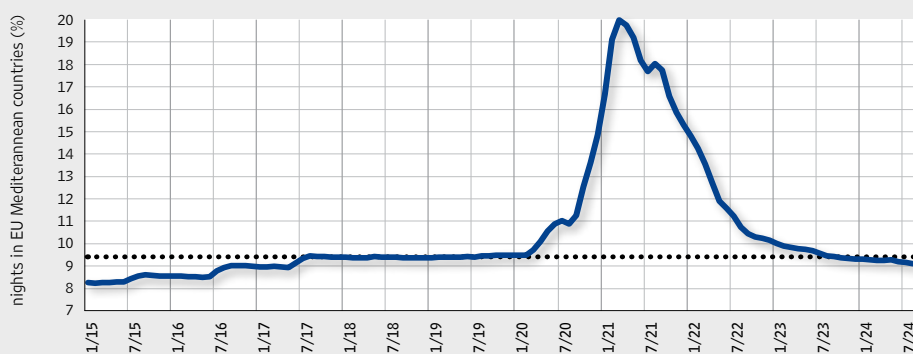
**Figure 2 Annual rate of change in the number of foreign tourist nights**

Note: Data up to August 2024.

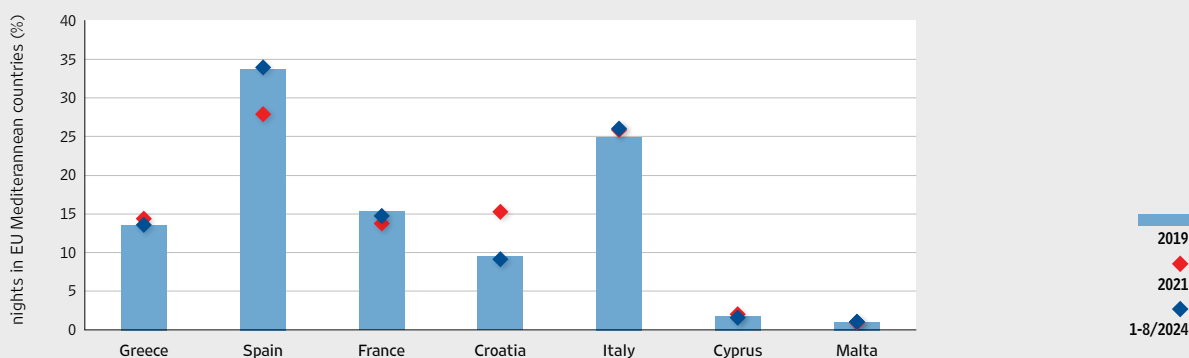
Source: Eurostat.

While Croatia's share in the Mediterranean tourist market considerably exceeded its pre-pandemic level in the last few years, this year it fell below this level. In the group of peer Mediterranean countries, the decrease in tourism volume indicators during the pandemic in Croatia was the least pronounced and the recovery was much faster than in other countries (**Figure 1**). Consequently, Croatia's market share surged in the pandemic period, reflecting more lenient containment measures, marked seasonality, the accommodation structure and the fact that for many tourists Croatia is a destination that can be reached by car<sup>15</sup>. However, volume indicators decreased last year, while in most other Mediterranean countries the number of foreign tourist nights continued to grow, albeit at a considerably slower pace (**Figure 2**). France is the only other country besides Croatia that recorded a stagnation in tourist nights in the summer months, despite hosting the Olympics. Malta and Cyprus, on the other hand, the countries that reached the pre-pandemic levels relatively late or are still to reach them, boasted a strong growth in tourist nights this year. Consequently, Croatia's share in the Mediterranean tourist market fell slightly below the pre-pandemic level of about 9% (**Figure 3**). Italy's market share increased moderately relative to that in the pre-pandemic period, while France's share decreased slightly (**Figure 4**).

15 For more details, **Box 4 What is behind the surprising recovery of Croatian tourism**, Macroeconomic developments and Outlook No 11, December 2022, Croatian National Bank

**Figure 3 Croatia's share in the Mediterranean tourist market**

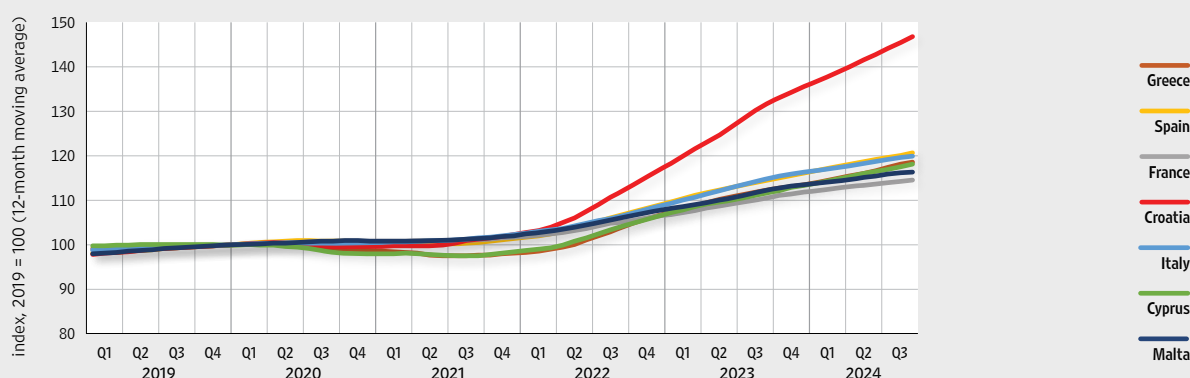
Notes: The dotted line refers to the average share in the period from 2017 to 2019. Data up to August 2024.  
Source: Eurostat.

**Figure 4 Shares of selected countries in the Mediterranean tourist market**

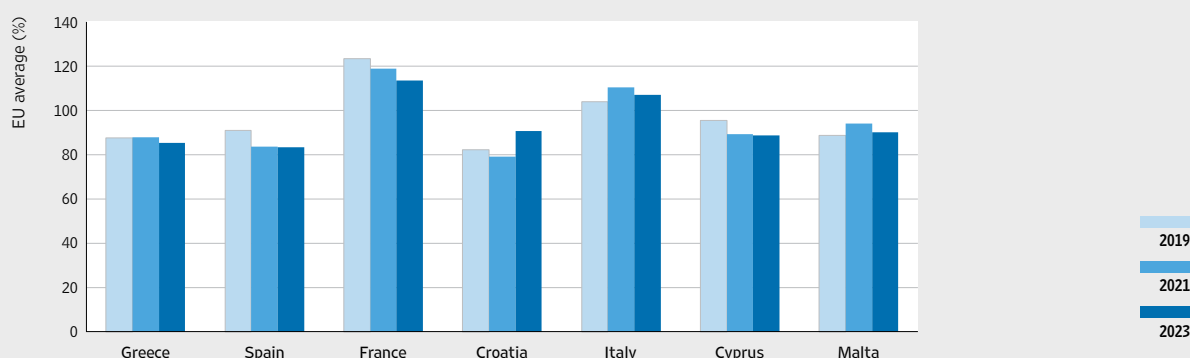
Source: Eurostat.

The number of foreign tourist nights held steady in Croatia in the last tourist season against a background of a strong growth of prices of tourism-related services. Although the inflation of other goods and services prices has also been somewhat higher in Croatia than in other Mediterranean countries in the last two years, the largest difference in the inflation rate has been observed when it comes to tourist services prices. In the period from early 2022 to late September 2024, Croatia's cumulative growth of tourism-related prices (restaurants and hotels) amounted to almost 50% and was twice as high as in most other countries, with accommodation and hotel and restaurant services prices rising at equally high rates (Figure 5). Italy and Spain also recorded a somewhat stronger growth in accommodation prices (about 30%), which has, however, decelerated visibly in the last few months, in contrast with the growth in Croatia. Croatian hotel and restaurant services prices followed similar trends, growing at a cumulative rate of about 45%, considerably higher than the same rates in peer countries. Malta is the only other country besides Croatia where hotel and restaurant services prices increased at such high rates. Consequently, the level of tourism-related services prices in Croatia rose markedly and came close to the average in EU member states, exceeding the price levels in Spain and Greece and equalling those in Malta and Cyprus (Figure 6).



**Figure 5 Developments in tourism-related services prices**

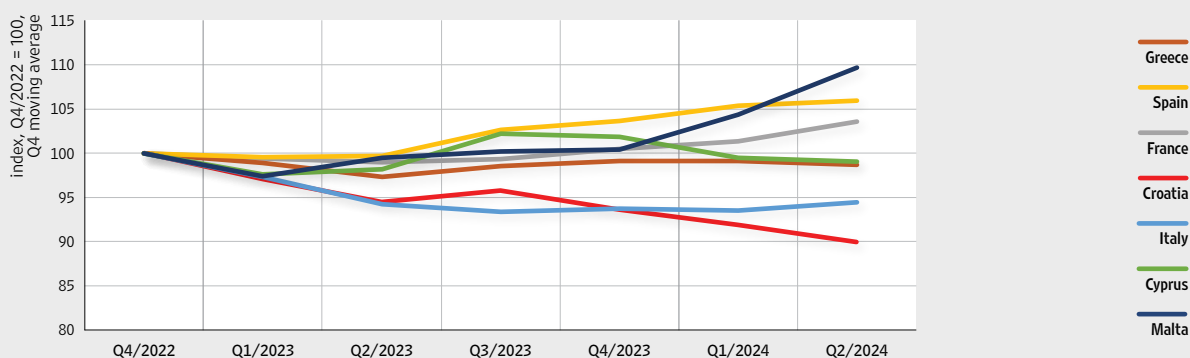
Notes: Data refer to prices in hotels and restaurants. Data are up to September 2024.  
Source: Eurostat.

**Figure 6 Level of tourism-related services prices**

Note: Data refer to prices in hotels and restaurants.  
Source: Eurostat.

Under such circumstances, consumption by foreign tourists in Croatia has decreased for the second consecutive year, unlike consumption in other Mediterranean destinations (**Figure 7**). Croatia's real foreign tourist consumption per night has declined by approximately 10% in the previous two years. Italy is the only other country recording a decrease in real consumption, a considerably smaller one, in addition. Real foreign tourist consumption per night in other countries has held steady or even increased considerably (Malta, Spain and France). The decrease in real consumption has offset the positive price effect and contributed to the deceleration of growth of nominal tourism revenues in Croatia (**Figure 8**). Any further deterioration in the price competitiveness of Croatian tourism could result in an additional decrease in average consumption by foreign tourists and/or a decrease in their arrivals, which could have a significant effect on future tourism revenues and cause the market share to drop even more.

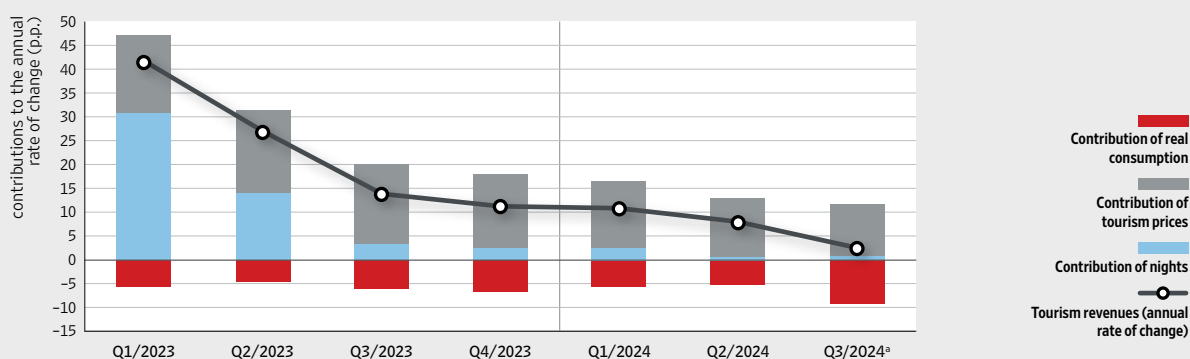
Figure 7 Real consumption per night



Note: Real consumption per night is calculated as a ratio of tourism revenues in the balance of payments to foreign tourist nights, deflated by the prices of hotel and restaurant services.

Source: Eurostat.

Figure 8 Tourism revenues in Croatia



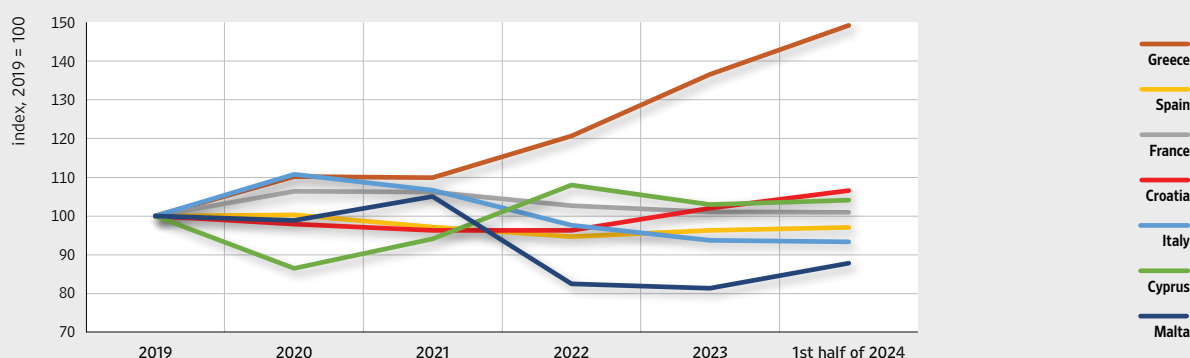
<sup>a</sup> CNB preliminary assessment

Notes: Real consumption per night is calculated as a ratio of tourism revenues in the balance of payments to foreign tourist nights, deflated by the prices of hotel and restaurant services. Series are shown as the moving average of four quarters.

Source: Eurostat.

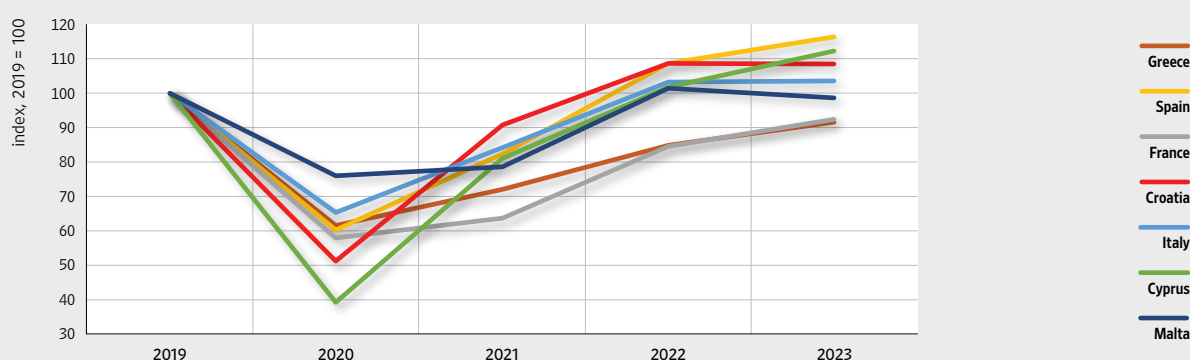
In contrast with price competitiveness indicators, cost competitiveness indicators do not point to any visible deterioration in the competitive position of the Croatian tourism when compared with other European Mediterranean countries. Specifically, while Croatia's nominal and real wages in tourism-related activities have grown strongly in the last two years (Figure 9), with Greece recording the same trends, this growth has been coupled with a sharp increase in labour productivity (Figure 10). In addition to nominal wages recording two-digit growth rates since the beginning of 2022, real wages in accommodation and food and beverage service activities in Croatia exceeded the pre-pandemic level by about 3% up to the end of 2023, growing at the same rate in the first half of 2024. Real labour productivity per employee in these activities was 8% higher at the end of 2023 than in the pandemic period, which is the largest productivity growth rate after those of Spain and Cyprus. Real labour productivity in tourism-related activities in France and Greece is still below the pre-pandemic levels.

Figure 9 Real wages in tourism-related activities



Notes: Real wages in accommodation and food and beverage service activities deflated by the overall HICP. Data represent the annual average.  
Source: Eurostat.

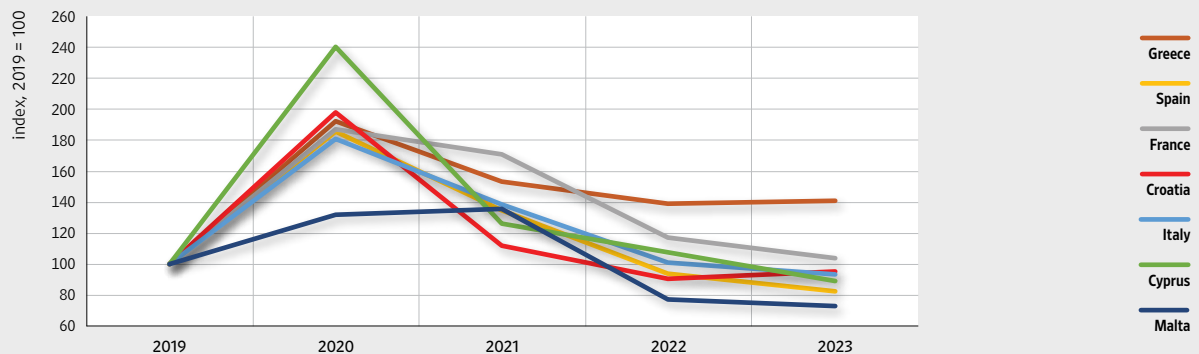
Figure 10 Labour productivity in tourism-related activities



Note: Real labour productivity in accommodation and food and beverage service activities.  
Source: Eurostat.

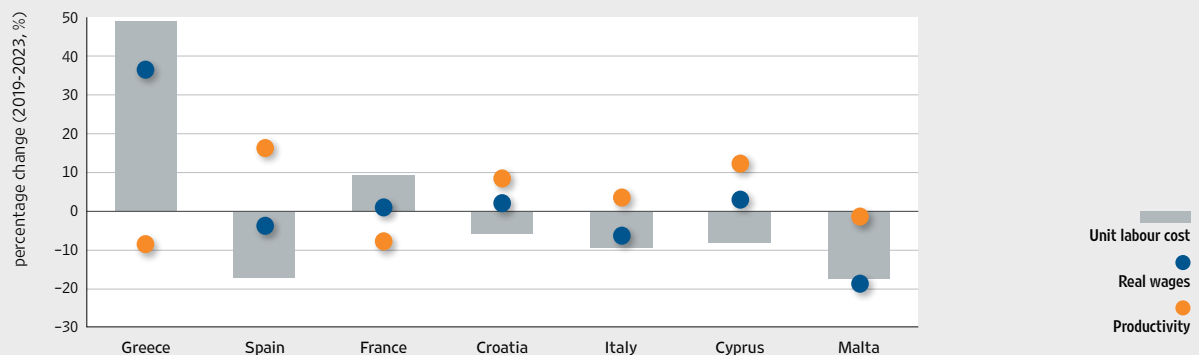
Having increased sharply due to a productivity decrease at the peak of the 2020 pandemic crisis, unit labour costs in accommodation and food and beverage service activities dropped in the following years, falling somewhat below the pre-pandemic levels by 2022 (Figure 11) and indicating a slight improvement in cost competitiveness. While unit labour costs are still below the pre-pandemic level, the positive gap between productivity growth and real wage growth started narrowing in 2023. Such trends, should they continue, could result in a deterioration of the cost competitiveness of the domestic tourist sector. For the sake of comparison, Malta recorded the highest increase in cost competitiveness among Mediterranean countries, due to a sharp decrease in real wages, and cost competitiveness in Spain and Cyprus has improved considerably, primarily as a result of real productivity growth. In contrast, unit labour costs grew at very high rates in Greece, where the strong nominal and real wage growth was coupled with a drop in labour productivity (Figure 12). The divergent trends between the indicators of price and cost competitiveness in accommodation and hotels and restaurants, in other words, a growth of tourist services prices considerably stronger than that of unit labour costs, lead to the conclusion that inflationary pressures in these activities in 2022 and 2023 did not stem from the growth of unit labour costs, but rather reflected the growth of other operating costs, such as the costs of energy and other inputs, or of profit margins, driven by strong demand for tourist services.

Figure 11 Unit labour costs in tourism-related activities



Note: Unit labour costs relate to accommodation and food and beverage service activities.  
Source: Eurostat.

Figure 12 Cost competitiveness of tourism-related activities

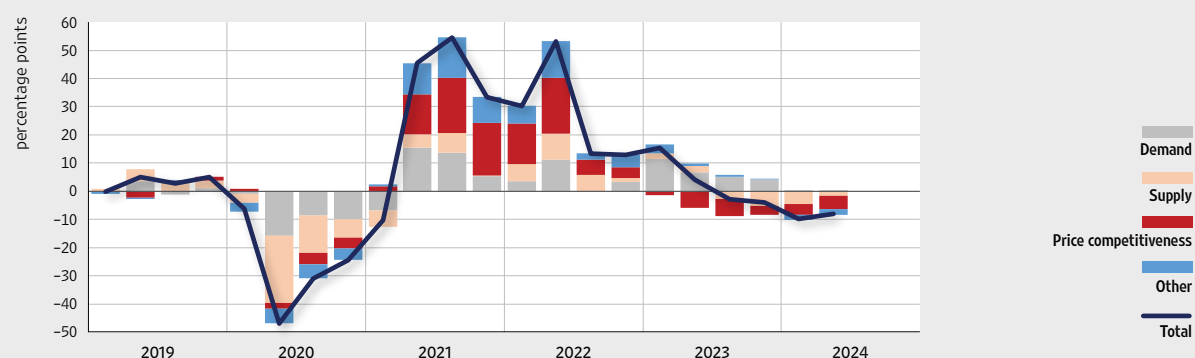


Notes: Indicators relate to accommodation and food and beverage service activities. An increase (decrease) in unit labour costs indicates the improvement (deterioration) of cost competitiveness.  
Source: Eurostat.

An econometric analysis of the impact of various shocks confirms the significance of the decrease of price competitiveness for the weakening of real services exports. In order to clarify the factors influencing trends in real services exports in Croatia, predominantly generated through tourism, an analysis according to the structural vector autoregressive model (SVAR) has been conducted. The results of a historical shock decomposition shown in Figure 13 confirm that during and immediately after the pandemic the supply-side shock caused by the restrictions imposed by containment measures in the country and abroad, which also partly reflects the effects of the weakening of demand under such conditions, was the key determinant of trends in real services exports. The strong post-pandemic demand for tourist services, driven by the accumulated savings and changed consumer preferences, contributed to the improvement of terms of trade and supported the growth of Croatian exports until the end of 2023, when the positive effect started to wane amid growing uncertainty and foreign tourists' reduced propensity to spend. Price competitiveness, which had provided a positive contribution until the end of 2022, became the main limiting factor for the growth of services exports following the sudden increase in the relative prices of services in Croatia in comparison with other Mediterranean destinations. In addition, the positive contribution of other factors that may be associated with the structural advantages

of Croatian tourism, such as the geographical vicinity to outbound markets, which were very important in the pandemic period, has disappeared in the last two years. These trends indicate that the normalisation of global tourist flows is increasingly less beneficial to Croatia as a tourist destination, emphasising the need to preserve the price competitiveness of the tourist sector as an important precondition for the growth of tourist revenues and their contribution to economic growth and the foreign trade balance.

**Figure 13 Historical decomposition of the change in Croatian services exports**



Notes: The SVAR model is based on quarterly data for the period from the first quarter of 1999 to the second quarter of 2024 and includes the following variables: real exports of services of Croatia, real imports of services of the euro area, relative prices of tourist services (accommodation and hotels and restaurants) in Croatia and the euro area and the indicator of disruptions in global trade (GSCPI) as a proxy variable for pandemic restrictions. The assumed sign limitation includes: *demand shock* implies higher Croatian services exports (+), higher euro area imports (+), the growth of relative prices of tourism services in Croatia (+) and the existence of trade disruptions; *supply shock* implies lower Croatian services exports (-), lower euro area services imports (-), the growth of relative prices of tourism services in Croatia in comparison with those of the euro area (+) and the existence of pandemic restrictions (+); *price competitiveness shock* implies a decline in the prices of tourist services in Croatia relative to those in the euro area (-) and higher Croatian services exports (+). The results show the contribution of specific shocks to the annual rate of change in Croatia's real services exports.

Sources: Eurostat, CBS and CNB calculations.

## 2.5 Banking system

The easing of the restrictive ECB monetary policy in the second half of 2024 was reflected in the more favourable financing conditions of credit institutions, while the cost of household borrowing saw no significant changes during that period. At the same time, interest rates on corporate time deposits fell, while those on household deposits hovered around levels seen in the first half of the year.

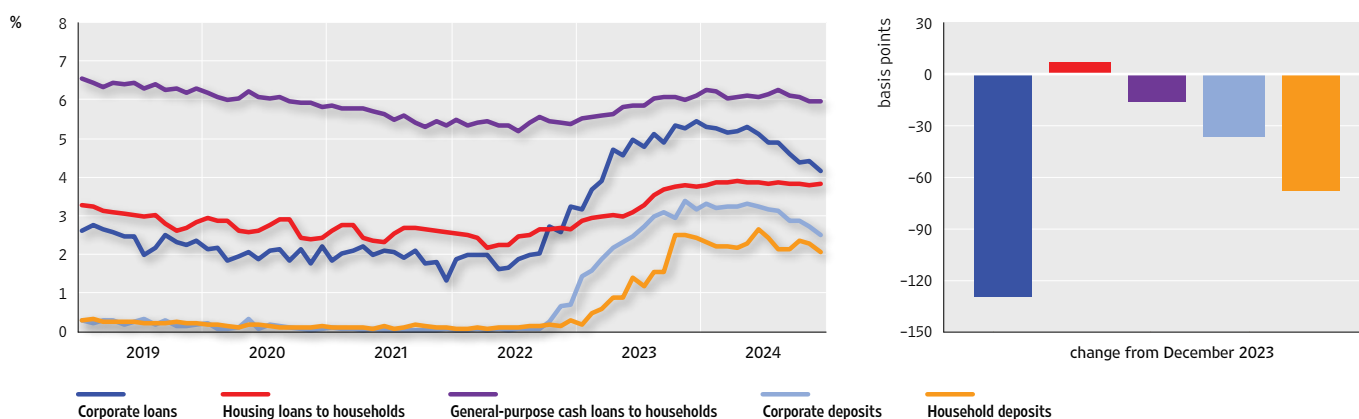
The average interest rate on pure new loans granted to non-financial corporations dropped by 129 basis points in December 2024 from the end of 2023, reaching 4.1%, its lowest level in almost two years. In the same period, the interest rate on general-purpose cash loans to households decreased by 16 basis points, to 5.9%, while the average interest rate on pure new housing loans stood at 3.8% in December 2024, having remained at approximately the same level throughout the year. The stagnation of interest rates on household loans at approximately the same level as in 2023 was largely due to the continued strong growth in lending to the sector, granted mainly at long maturities and fixed interest rates, which makes these loans less sensitive to changes in market conditions than shorter-maturity loans. At the same time, according to Bank Lending Survey results, at the end of 2024, banks reported that corporate and household lending standards had eased for the first time in almost three years, citing competition among banks and more favourable risk perception as the main reasons for this trend.

Interest rates on existing corporate loans also decreased, while interest rates on existing household loans edged up. Having increased steadily for two years, interest rates on existing corporate loans peaked in June 2024 (4.6%), before edging down gradually in the second half of the year and reaching 4.3% in December. The aforementioned decrease was due to the large share of loans granted at variable interest rates linked to the EURIBOR reference parameter, which had shrunk as a result of the lowering of key ECB interest rates. In contrast, interest rates on existing housing loans and general-purpose cash loans increased slightly, by 19 and 8 basis points respectively, reaching 3.1% and 6.0% in December. The dominant reference parameter in existing variable interest rate loans is the national reference rate (NRR), which began to move up in late 2023 due to the rise in interest rates on deposits. Since banks usually change their interest rates every six months, the growth in the NRR was reflected in the increase in interest rates on existing housing loans in July 2024. However, in August, interest rates on existing loans linked to the NRR were already stabilised. Additionally, the level of interest rates on existing household loans is also influenced by the legal cap on the level of interest rates on loans granted at variable interest rates linked to the EURIBOR. During the period of monetary policy tightening, the cap prevented the spillover of the rise in the EURIBOR to interest rates, causing them to remain at levels lower than they would have been had the legal cap not been applied, which reduced the banks' margins on such loans. Therefore, the banks, in principle, do not transfer the decrease in the EURIBOR to interest rates on existing household loans until margins reach the agreed upon level again.

The average interest rate on newly created corporate time deposits decreased in the second half of the year, reaching 2.5% at the end of 2024, which is 67 basis points down from the end of 2023. As regards households, following a considerable increase in June 2024, average interest rates on pure new household time deposits were on a downward trajectory in the second half of the year

until October, when some credit institutions offered higher interest rates. In addition, amounts of renewed time deposits increased. Despite the increase, the average interest rate on pure new household time deposits stood at 2.1% in December, down 36 basis points from the end of 2023. On the other hand, interest rates on existing total household and corporate deposits increased from the end of 2023 by around 10 basis points, reaching 0.5% and 0.6%, respectively, in December 2024.

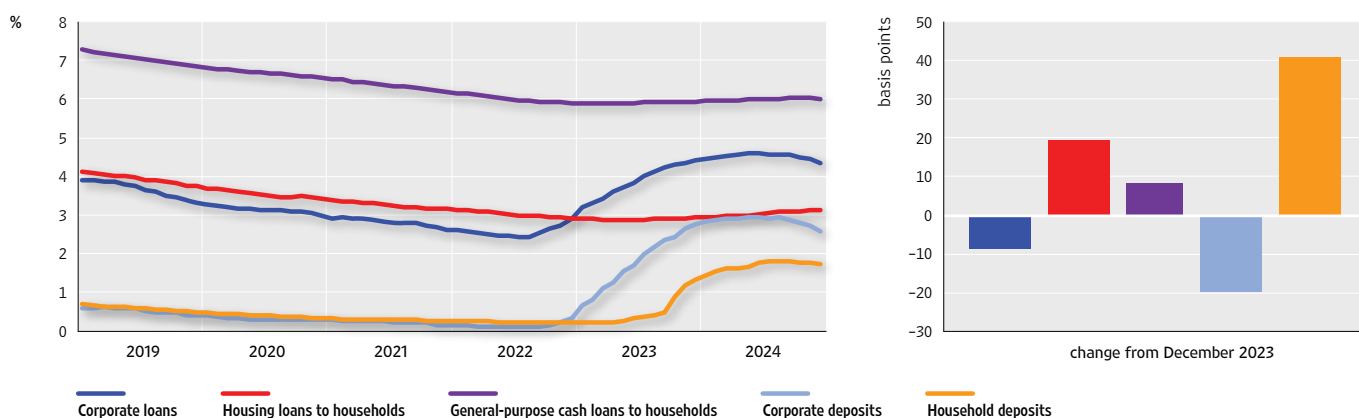
**Figure 2.5.1 Interest rates on pure new loans and time deposits of corporates and households**



Notes: Data up to December 2022 refer to loans and deposits in kuna and currencies indexed to kuna and in euro and currencies indexed to euro, and from January 2023 to loans and deposits in euro and currencies indexed to euro. Data refer to pure new loans and deposits. Deposits with a maturity of up to one month have been excluded.

Source: CNB.

**Figure 2.5.2 Interest rates on existing loans and time deposits of corporates and households**

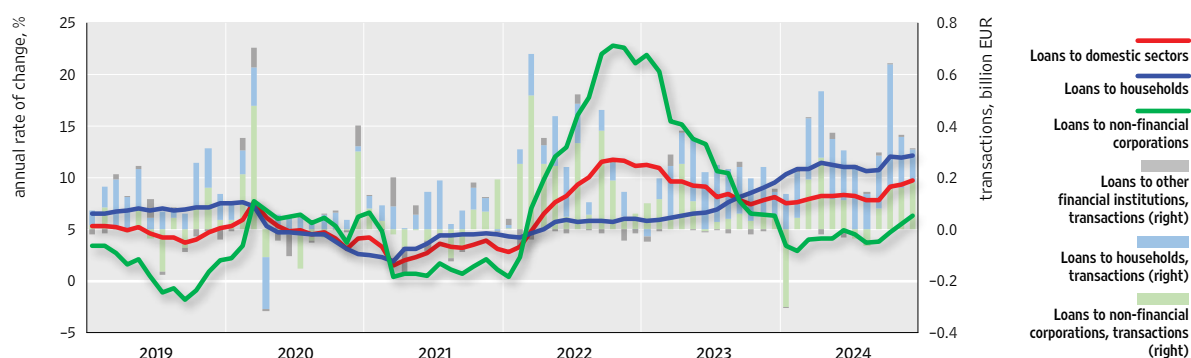


Source: CNB.

More favourable financing conditions led to a relatively strong growth in corporate and household loans. Corporate loans rose by EUR 0.9bn (based on transactions) in 2024, almost the same as in the previous year. However, if the effect of the January repayment of a syndicated loan of a large corporation is excluded (for which funds were allocated by the Government of the Republic of Croatia), the growth in corporate loans stood at EUR 1.2bn. Working capital loans to corporations engaged in trade and manufacturing and investment loans to corporations engaged in construction, real estate activities and accommodation and food service activities increased the most. Observed on an annual basis, corporate loans grew at the same pace in December 2024 as in

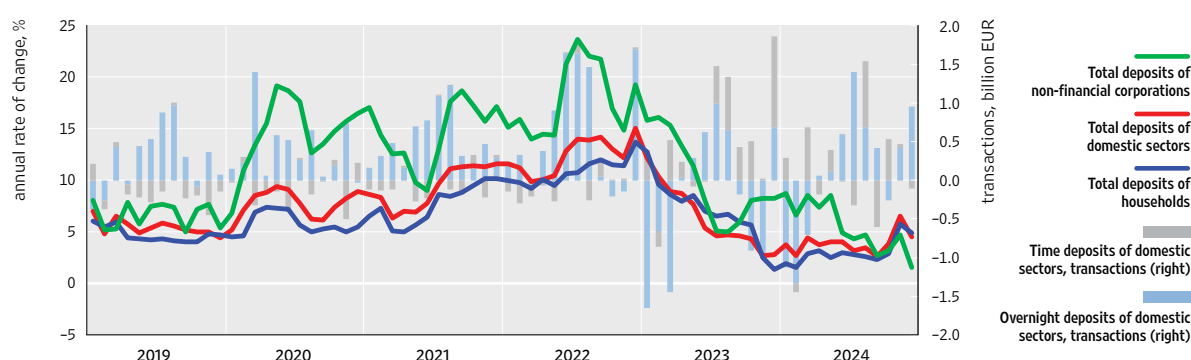
2023 (6.4%, based on transactions), while, if the aforementioned one-off effect is excluded, the rise stood at 8.2%. Household loans increased in 2024 by EUR 2.6bn, with general-purpose cash loans accounting for almost half of the growth (EUR 1.3bn). According to Bank Lending Survey results, the demand for these loans was mainly spurred by the increase in demand for durable consumer goods against the backdrop of an exceptionally strong wage increase and boosted consumer optimism. Housing loans continued to grow steadily (EUR 1.0bn) despite the end of the government housing loan subsidy programme which was implemented from 2017 to 2023. The growth in total household loans accelerated on an annual level from 9.5% in December 2023 to 12.1% (or 11.1%, if the effect of a credit institution acquiring the segment of credit card issue is excluded) in December 2024, owing to a fast acceleration in the growth of general-purpose cash loans, from 11.1% to 15.9%, while the growth in housing loans decelerated from 9.9% to 9.1%.

**Figure 2.5.3 Loans**  
transactions and annual rates of change, transaction-based



Note: Loans to domestic sectors exclude loans to the general government.  
Source: CNB.

**Figure 2.5.4 Deposits**  
transactions and annual rates of change, transaction-based



Note: Deposits of domestic sectors exclude loans to the general government.  
Source: CNB.

Total deposits of domestic sectors (excluding the general government) rose by EUR 2.6bn in 2024, or EUR 1.0bn more than in 2023. The acceleration in deposit growth was primarily brought about by stronger lending to the private sector, and, to a lesser extent, by inflows from abroad. In the structure of total deposits, time deposits grew by EUR 1.4bn, as against EUR 4.1bn in 2023, with the growth slowing down the most in the non-financial corporate sector. Overnight deposits also

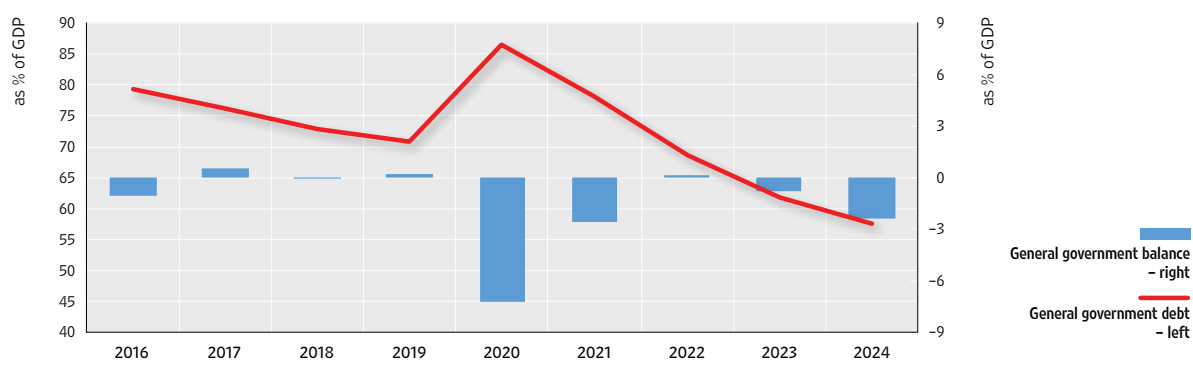


increased in 2024 (by EUR 1.2bn), following a decline of EUR 2.5bn in 2023, with the growth being almost completely attributable to household overnight deposits.

## 2.6 Fiscal indicators

According to the internationally comparable methodology of the European System of National and Regional Accounts (ESA 2010), in 2024, the general government budget ran a significant deficit, while the public debt-to-GDP ratio continued its downward trend. The general government budget deficit was 2.4% of GDP, which is a significant deterioration from the deficit seen in 2023 (0.8% of GDP). Nevertheless, the general government debt-to-GDP ratio shrank on an annual basis, reflecting robust economic growth in real terms and the still relatively strong increase in the GDP deflator.

Figure 2.6.1 Fiscal indicators



Sources: CBS and CNB.

The deterioration in the general government budget balance in 2024 reflects a stronger annual growth of budgetary expenditure (12.6%) than of revenues (8.8%). Employee compensation made a noticeable contribution to the expenditure side, reflecting the comprehensive wage increase reform in government administration and public services. Total expenditures also grew significantly on account of expenditures for social benefits, which largely reflects trends in pension expenditures (influenced by pension indexation) and the payouts of allowances to protect pensioners' standard of living. On the other hand, subsidies decreased in annual terms, reflecting, to a large extent, the termination of subsidies aimed at mitigating elevated inflation. The revenue side showed a sharp increase in revenues from indirect taxes, which was due to the strong increase in domestic demand. The growth in revenues was also attributable to revenues from direct taxes, which increased on the back of a rise in the economy's wage bill. Favourable labour market trends also contributed positively to the annual rise in social contributions.

Despite the deterioration in the general government budget balance, the increase in real economic activity and the GDP deflator resulted in a decrease in the public debt-to-GDP ratio on an annual level. The relative indicator of public debt stood at 57.6% of GDP at the end of 2024, which corresponds to an annual decrease of 4.2 percentage points (61.8% of GDP in 2023). In 2024, the government mostly borrowed on the domestic capital market, resulting in an increase in short-term debt, albeit from relatively low levels. Such developments were, by and large, linked to the issue of securities, mainly aimed at households.

## 3 Financial assets management

In managing financial assets, the Croatian National Bank aims to support monetary policy, financial stability and confidence in the financial system and is primarily governed by the principles of liquidity and safety of investment.

### 3.1 Financial assets in 2024

As at 31 December 2024, financial assets totalled EUR 24,682.1m, comprising assets denominated in euro worth EUR 21,729.1m (88.0%) and assets denominated in US dollars and other currencies amounting to EUR 2,953.0m (12.0%).

Financial assets rose by EUR 791.4m or 3.3% in 2024, primarily owing to generated earnings and unrealised exchange rate differences due to the strengthening of the US dollar.

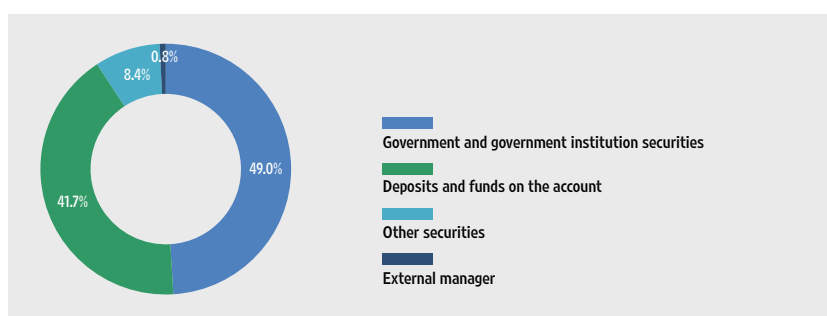
The management of financial assets took place amid highly volatile conditions on financial markets, and the investment decisions taken were aimed at increasing the expected rates of return over the medium term, taking into account the Eurosystem's overall financial asset management framework<sup>16</sup>.

### 3.2 Financial assets investment structure

At the end of 2024, the largest share in the structure of financial assets investment was accounted for by investments in government and government institution securities, followed by investments in deposits and funds in the account and other securities (Figure 3.2.1). A portion of financial assets was also made up of sustainable ESG (environmental, social, governance) investment, including investment in green bonds, social bonds and sustainability bonds. The share of ESG investments in total financial assets stood at 7.4% at the end of 2024.

**Figure 3.2.1 Investments in the safest instruments accounted for the largest share in the structure of financial assets investment**

shares in percentage, at the end of 2024



Note: The shares of instruments in the structure are rounded to the nearest whole number.

Source: CNB.

<sup>16</sup> After joining the euro area, the CNB started implementing the Eurosystem's framework for financial assets management, which primarily entailed the performance of the Agreement on Net Financial Assets (ANFA). ANFA sets out the ceiling for net financial assets that a central bank is entitled to manage without interfering with the monetary policy implementation. In addition, the CNB is also obligated to take account of the ECB Guideline on domestic asset and liability management operations (DALM), while the prohibition of monetary financing laid down by Article 123 of the Treaty on the Functioning of the European Union, which is supervised by the ECB, has been in force since Croatia's accession to the EU.

CNB financial assets are invested in instruments with an investment grade rating, with investments in individual financial institutions and countries or in individual financial instruments being limited, which diversifies credit risk. At the end of 2024, about 69% of financial assets was invested in the safest investments – instruments by issuers within the two highest credit rating categories, BIS instruments or funds in the account.

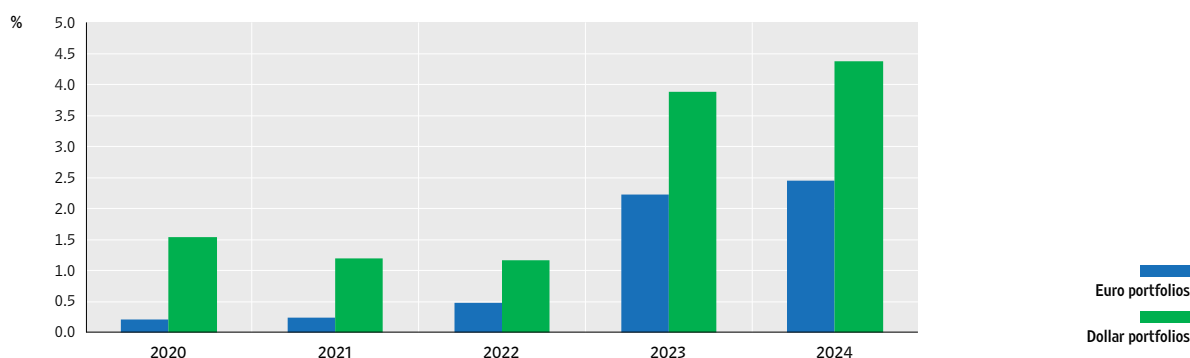
### 3.3 Financial markets and financial assets management results in 2024

Financial markets in 2024 were impacted by the lowering of the key interest rates of leading central banks, which put an end to a two-year round of sharp increases aimed at containing high inflation. Against the backdrop of shifts in monetary policy, markets recorded high volatility as investors' expectations and their understanding of the circumstances determining the dynamics of interest rate lowering changed. The turmoil was enhanced by geopolitical events, particularly continued wars, national political changes, protectionist measures and announcements of their escalation. A decrease in yields was recorded for government bonds, solely on the shorter end of the curve, which was in line with the changes in key interest rates, while yields increased for longer maturities in 2024. The past year also saw the strengthening of the US dollar exchange rate and a noticeable increase in the price of gold. The unstable environment did not have negative consequences for the equity market, which performed exceptionally well.

Income generated from the management of financial assets, even amid great financial market volatility, totalled EUR 639.0m in 2024. In that period, the rate of return on the entire euro portfolio of financial assets was 2.45%, while the rate of return on the US dollar portfolio totalled 4.38% (Figure 3.3.1).

**Figure 3.3.1 Financial asset portfolios had adequate rates of return**

year-on-year rates of return, in percentage



Source: CNB.

## 4 Business operations of credit institutions

At the end of 2024, the banking system of Croatia was highly liquid, capitalised and profitable.

### 4.1 System structure

The downward trend in the number of credit institutions stopped in 2024. As was the case at the end of 2023, there were 20 credit institutions, or 19 banks and one housing savings bank, operating in the country at the end of 2024. In addition, there was one branch of an EU credit institution operating in the country, of BKS Bank AG, Main Branch Croatia, while more than 260 institutions from the EU and the European Economic Area had notified the CNB of their intentions regarding the direct provision of mutually recognised services in the territory of the Republic of Croatia.

The ownership structure of the banking system remained almost unchanged. Assets of 11 banks majority-owned by foreign shareholders constituted 87% of the total banking system assets. Assets of two banks in majority state ownership accounted for 9.7% of total assets, while assets of seven banks in majority domestic private ownership constituted the remaining 3.3% of total banking system assets.

### 4.2 Performance indicators of credit institutions

Total banking system assets increased by EUR 5.6bn in 2024 (7.1%) to a record total of EUR 84.2bn in 2024.

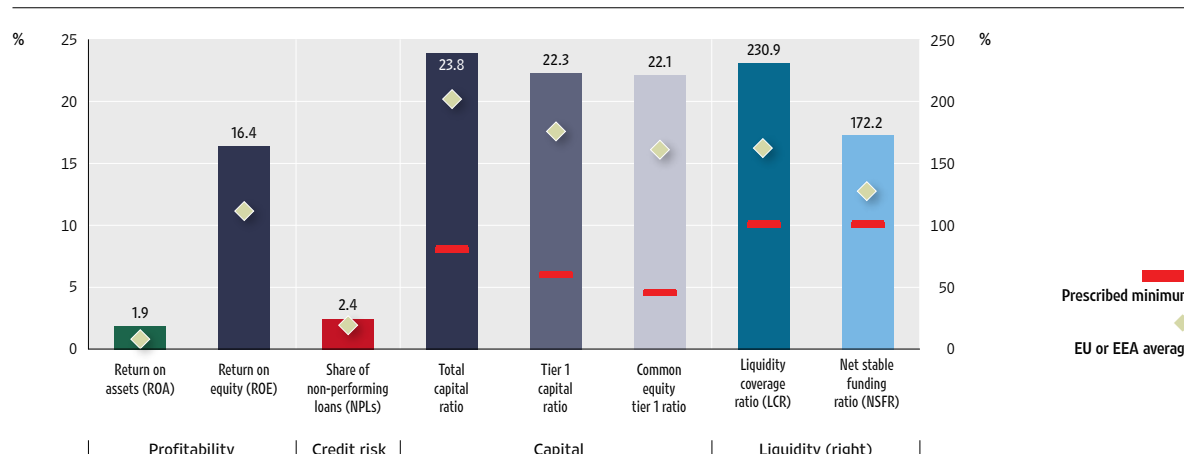
The increase in funding sources was achieved by deposit inflows and new issues of debt securities. Own funds of credit institutions increased as well. Received deposits increased across all sectors by a total of EUR 4.2bn (6.4%). The largest share of the increase was accounted for by household deposits, which rose the most on current accounts. Households also mainly accounted for the increase in deposits with agreed maturities, which may be attributed to the rise in interest rates on time deposits and, consequently, to increased motivation of clients to opt for fixed-term depositing. New issues of debt securities of credit institutions were mainly intended for meeting the minimum requirement for own funds and eligible liabilities (MREL).

On the assets side, the largest increase was seen in loans (EUR 5.7bn or 12.7%) and investment in debt securities (EUR 1.8bn or 16.4%), which resulted in a decrease in the cash of credit institutions. The largest share of credit activity was directed at financial sectors and households. Household general-purpose cash loans increased noticeably again, while housing loans slowed down. The moderate rise in loans to non-financial corporations continued, while the decrease in loans to the domestic government was offset by larger investments in government bonds.

The aforementioned decline in cash was primarily brought about by the decrease in funds in settlement accounts with the CNB. However, owing to increased investment in other highly liquid forms of assets, such as government bonds mentioned above, the total effect on liquidity indicators was almost neutral. The liquidity coverage ratio (LCR) was therefore at a very high level, of 230.9%, much above the prescribed minimum of 100%. Structural liquidity measured by the Net Stable Funding Ratio (NSFR) was also at a very high level, of 172.2%. The slight change in the

value of that indicator suggests that the aforementioned increase in deposits facilitated the stable funding of lending activity.

**Figure 4.2.1 Key banking system indicators, as at 31 December 2024**



Sources: CNB and EBA.

The asset quality of credit institutions continued to improve. This is evident in the decrease in loans that exhibit a significant increase in credit risk, but are still not in default (stage 2<sup>17</sup> loans) and in the decrease in non-performing loans (NPLs). These developments, coupled with an increase in total loans, led to a drop in the share of stage 2 loans in total loans to 11.7% and a decline in the share of non-performing loans to 2.4% of total loans. The values of both indicators, although lower than before, are still less favourable than their averages in the EU banking system (9.2% and 1.9%, respectively)<sup>18</sup>. The decrease in NPLs is mainly a result of repayments and reclassifications to performing loans, with a slight contribution of sale of claims. Continued improvement in asset quality was mostly driven by developments in the portfolio of loans to non-financial corporations, in which the share of NPLs shrank to 4.5%. The share of NPLs also decreased in the portfolio of household loans, to 3.7%, but the dynamics of addressing NPLs slowed down, so that household loans remained the largest source of non-performing loans in the banking system.

In 2024, credit institutions generated a record EUR 1.5bn in profits, which is an annual increase of 13.0%. Profitability indicators are at very high levels – the return on assets (ROA) totalled 1.9% and the return on equity (ROE) was 16.4%. The largest individual contribution to the increase in total operating income came from net interest income.

Banks generated higher interest income across all sectors (18.3%), particularly owing to the increase in the volume of household loans. However, the rise in the deposit interest rates and the

<sup>17</sup> Each instrument that is subject to the calculation of expected credit loss, which includes all debt instruments measured at amortised cost and at fair value through other comprehensive income, is classified in one of the three stages of value impairment. An instrument is classified in stage 2 if there is a significant increase in credit risk (stopping short of default), where the expected loss is calculated for the entire lifetime of the instrument.

<sup>18</sup> The data on indicator values for the EU banking system refer to 30 September 2024 and are available [here](#).

attraction of time deposits led to a rise in interest expenses (68.6%), which ultimately resulted in an increase in net interest income of 6.5%.

As for income generated from sources other than interest, the increase in dividend income of 73.7% stood out. A considerably lower increase was recorded in net fee and commission income (9.0%) and other (net) non-interest income. General operating expenses increased as well, but at a much slower rate than total operating income, consequently improving the cost efficiency of the banking system. The aforementioned improvement in asset quality provided a positive contribution to profit, leading to generated income from reversal of impairments for credit exposures.

Banking system capitalisation is high, although the total capital ratio went down slightly to 23.8%. However, total capital ratio remained higher than the EU average (20.1%) and most credit institutions had a ratio higher than 20%.

The decrease in the total capital ratio is still influenced by total risk exposure growth (10%) being higher than the increase in own funds (9.0%). The increase in total risk exposure was mainly brought about by the aforementioned lending activity, while the increase in own funds was equally influenced by the rise in retained earnings and the increased inclusion of subordinated instruments in additional own funds. Despite the rise in own funds, their level available for covering unexpected losses decreased on account of increased risk exposure and the fact that, in the course of 2024, certain prescribed and imposed capital requirements changed. The most significant change was related to the increase in the countercyclical capital buffer rate for Croatia.<sup>19</sup>

### 4.3 Business operations of credit unions

The number of credit unions remained the same in 2024, so that at the end of the year, 16 credit unions were in operation in Croatia. Their assets totalled EUR 89.1m, having increased by 3.3% from 2023. Total assets of credit unions are equivalent to 0.1% of the assets of all credit institutions.

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<sup>19</sup> From 31 December 2023 to 29 June 2024 the countercyclical capital rate for Croatia was 1%, while as of 30 June 2024 it increased to 1.5%.

## Abbreviations and symbols

### ABBREVIATIONS

<b>ANFA</b>	Agreement on Net Financial Assets
<b>APP</b>	asset purchase programme
<b>BLS</b>	Bank lending survey
<b>bn</b>	billion
<b>CBRD</b>	Croatian Bank for Reconstruction and Development
<b>CBS</b>	Central Bureau of Statistics
<b>CEE</b>	countries of Central and Eastern Europe (Czech Republic, Hungary, Poland and Romania)
<b>CES</b>	Croatian Employment Service
<b>CHF</b>	Swiss franc
<b>CHIF</b>	Croatian Health Insurance Fund
<b>CIR</b>	cost-to-income ratio
<b>CPI</b>	consumer price index
<b>CPII</b>	Croatian Pension Insurance Institute
<b>CNB</b>	Croatian National Bank
<b>DFR</b>	deposit facility rate
<b>EBA</b>	European Banking Authority
<b>ECB</b>	European Central Bank
<b>EEA</b>	European Economic Area
<b>EER</b>	effective exchange rate
<b>EONIA</b>	euro overnight index average
<b>ESG</b>	environment, social, governance
<b>ESM</b>	European Stability Mechanism
<b>EU</b>	European Union
<b>EUR</b>	euro
<b>EURIBOR</b>	euro interbank offered rate
<b>€STR</b>	euro short-term rate
<b>Fed</b>	Federal Reserve System
<b>FRFA</b>	fixed rate full allotment
<b>GDP</b>	gross domestic product
<b>GVA</b>	gross value added
<b>HANFA</b>	Croatian Financial Services Supervisory Agency
<b>HICP</b>	harmonised index of consumer prices
<b>JPY</b>	Japanese yen
<b>LCR</b>	liquidity coverage ratio
<b>m</b>	million
<b>MLF</b>	marginal lending facility
<b>MRO</b>	main refinancing operations
<b>NCA</b>	National Classification of Activities

<b>NPL</b>	non-performing loans
<b>NRR</b>	national reference rate
<b>NSFR</b>	net stable funding ratio
<b>OG</b>	Official Gazette
<b>OMT</b>	outright monetary transactions
<b>PEPP</b>	pandemic emergency purchase programme
<b>RC</b>	Republic of Croatia
<b>ROA</b>	return on assets
<b>ROE</b>	return on equity
<b>Q</b>	quarter
<b>SDR</b>	special drawing rights
<b>SITC</b>	Standard International Trade Classification
<b>TLTRO</b>	targeted longer-term refinancing operations
<b>TPI</b>	transmission protection instrument
<b>US</b>	United States
<b>USD</b>	US dollar

## SYMBOLS

–	no entry
....	data not available
0	value is less than 0.5 of the unit of measure being used
Ø	average
a, b, c,...	indicates a note beneath the table and figure
*	corrected data
()	incomplete or insufficiently verified data



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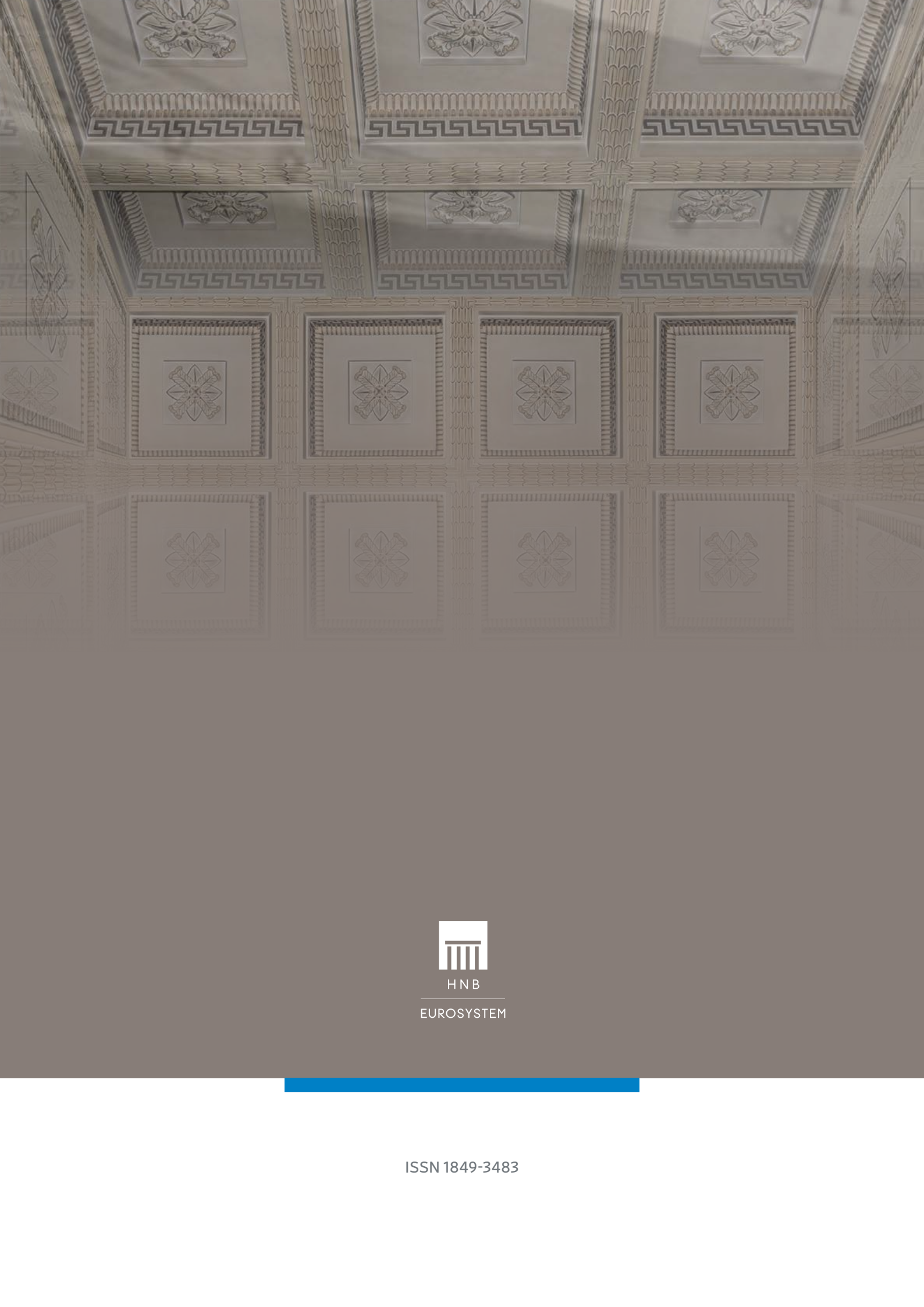
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