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Macroeconomic developments and projections amid elevated uncertainty

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New York
August 26, 2025

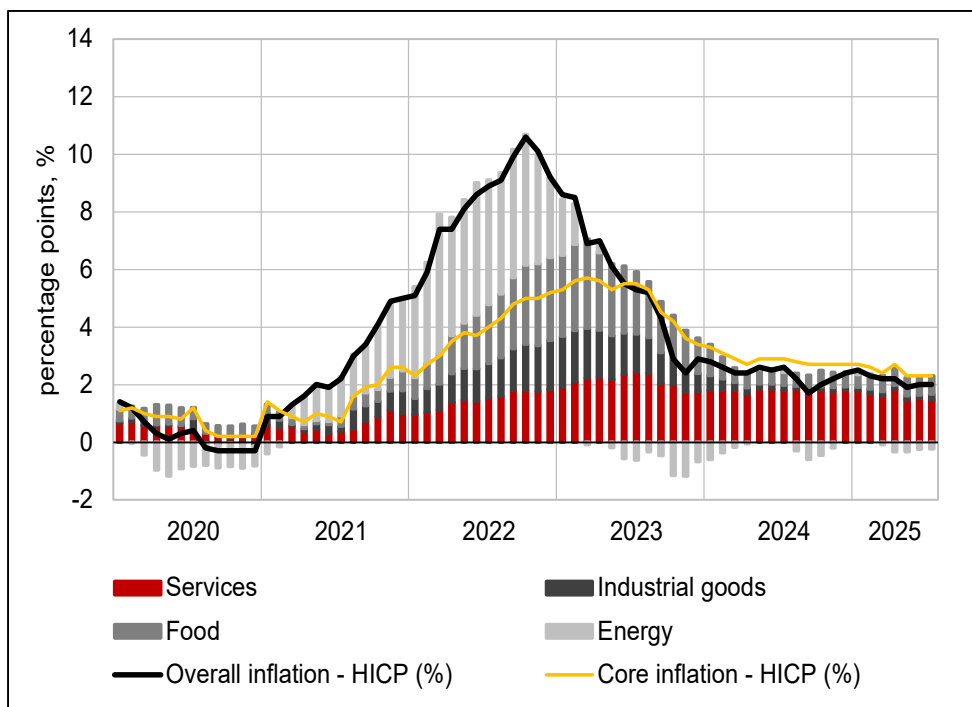


Macroeconomic developments and projections – overview and forecast

Inflation in the euro area is currently at the 2% medium-term target, amid easing wage pressures

3

Annual inflation rate in the euro area and the contributions of main components

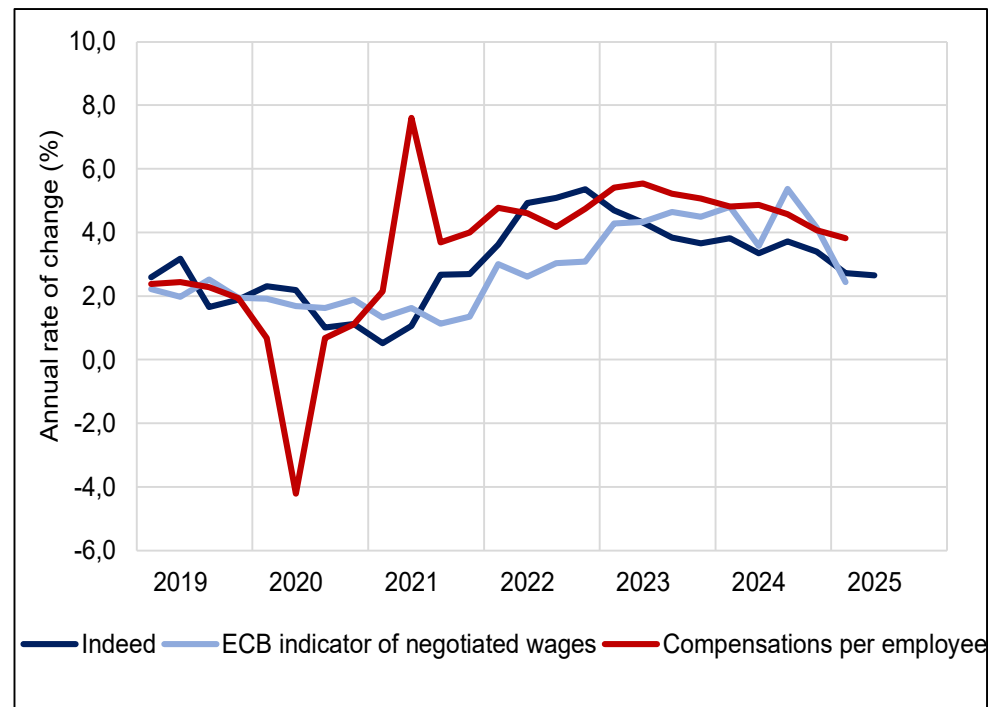


Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.

Sources: Eurostat, CNB calculations

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Wage indicators in the euro area

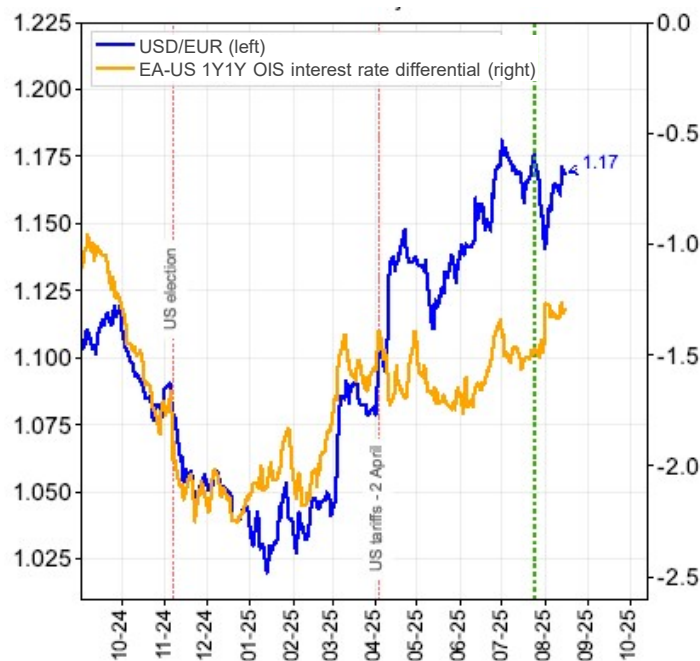


Note: The range covers all EU27 member countries.

Source: ECB

Despite stronger euro, inflation expectations recently increased towards target level, as oil prices recover and economic data exceeds forecasts

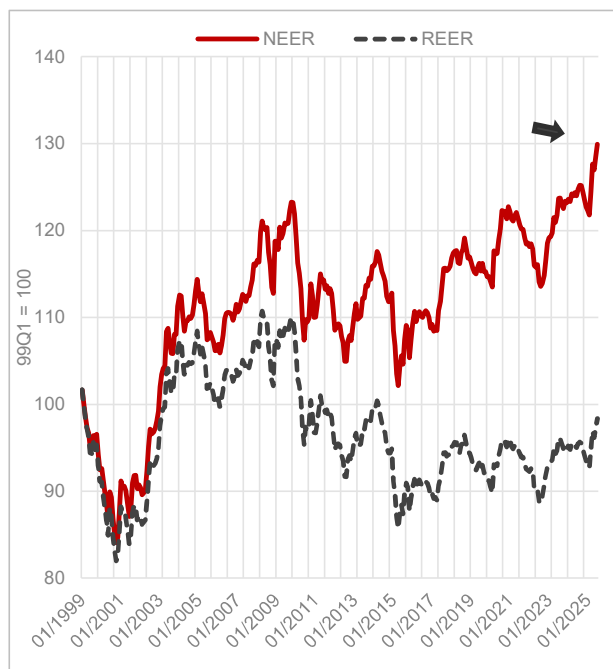
EUR strongest against USD since 2021



Notes: The green line indicates the last GovC meeting. The latest data is for August 15, 2025.

Sources: Bloomberg

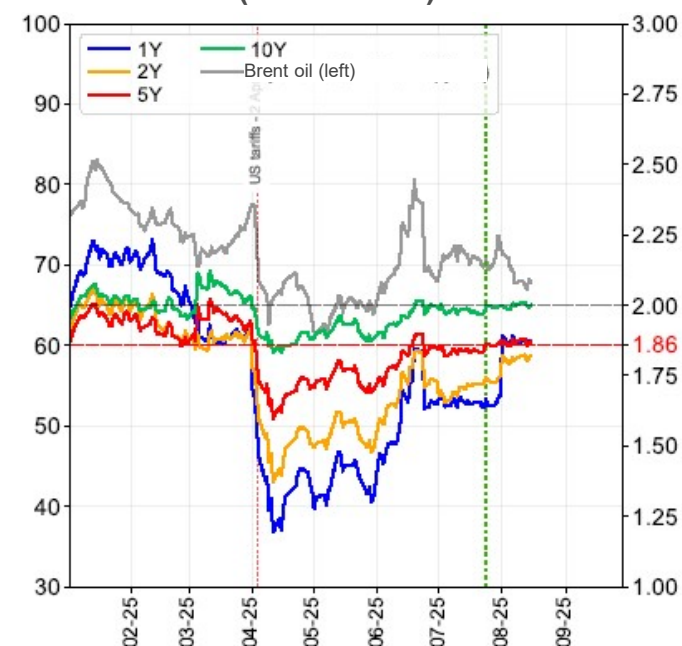
Euro NEER strongest ever



Notes: The data are monthly. The last monthly data is for July 2025. The real effective exchange rate is deflated by consumer prices.

Sources: ECB

EA inflation linked swaps (%) and Brent oil (USD/barrel)



Note: ILS are linked to the HICP excluding tobacco. The black (red) dashed line refers to the ECB's inflation target of 2%, or 1.86% after adjusting the target inflation rate for the average contribution of the tobacco category to the total annual inflation. The latest data is for August 15, 2025

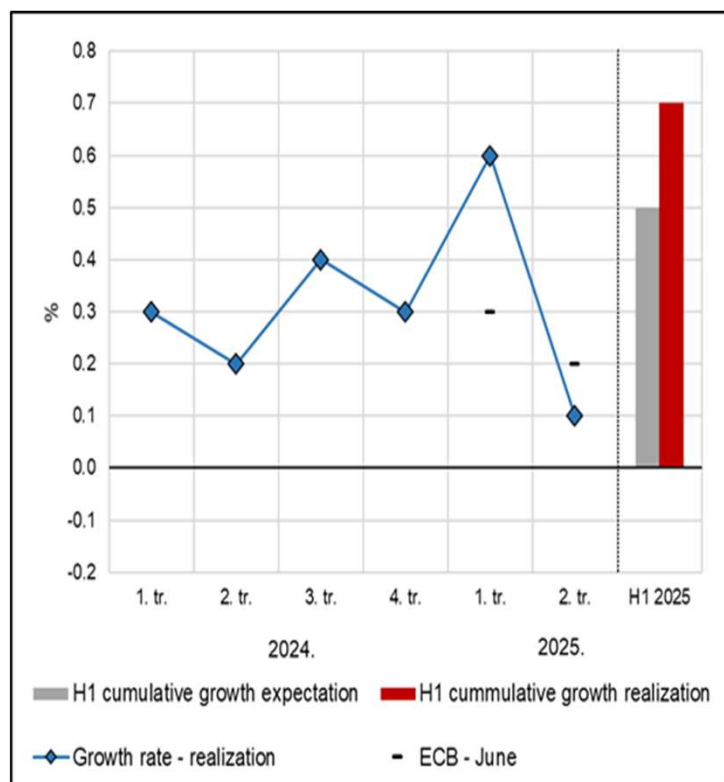
Sources: Bloomberg

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Economic activity in 2025 so far proved to be more robust than expected, while uncertainty declined but remains relatively elevated

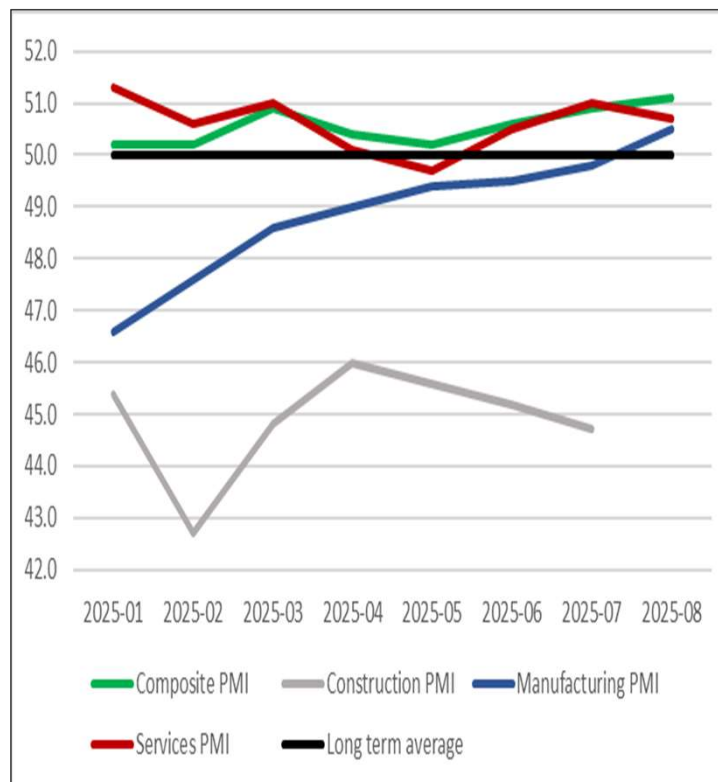
Projection of economic growth in the euro area



Source: ECB, June 2025 BMPE

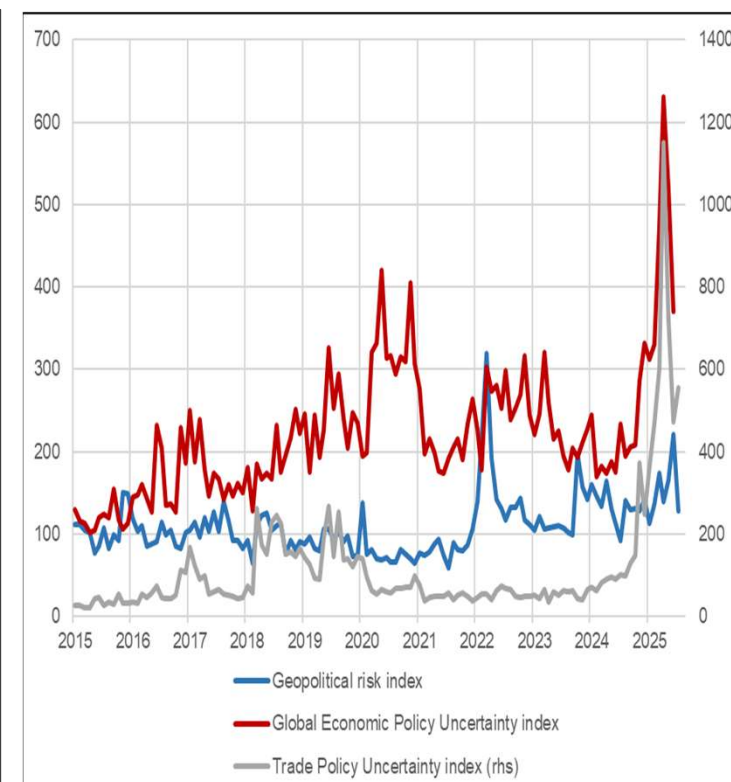
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PMI indicators in 2025



Source : S&P Global Market Intelligence

Economic uncertainty indicators



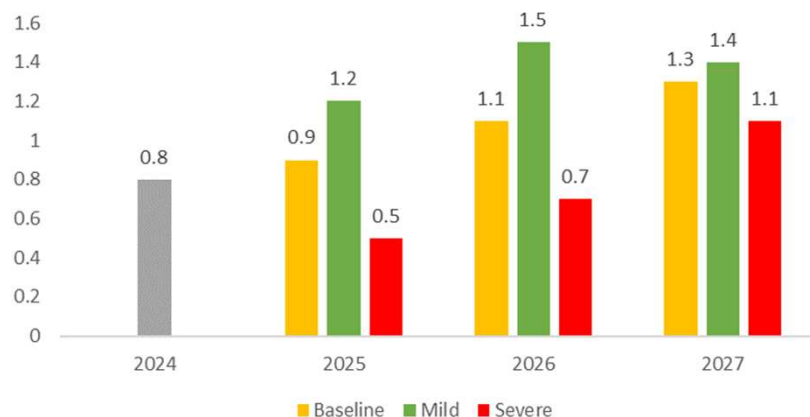
Sources: Bloomberg, Caldara and Iacoviello (2022) and Goldman Sachs research

June Baseline Projections: Gradual EA recovery amid moderate reciprocal tariffs at 10% and with HICP anchored near 2%

ECB scenario analyses in June 2025 BMPE

Baseline scenario	US tariffs for goods imports would increase from almost zero by 10 percentage points for all countries – except China, for which these would increase by about 20 percentage points to an effective tariff rate of approximately 40% (when measured for both goods and services). Additionally, it is assumed that the EU does not retaliate, while China retaliates symmetrically.
Mild scenario	Removal of bilateral tariffs between the United States and the EU (i.e. “zero-for-zero” tariffs) and a rapid reduction in trade policy uncertainty to pre-2018 levels.
Severe scenario	Further increase in US tariffs across the board (in line with the announcement of so-called “reciprocal” tariffs in the United States), symmetric retaliation by the EU and persistently higher trade policy uncertainty.

Real GDP projection



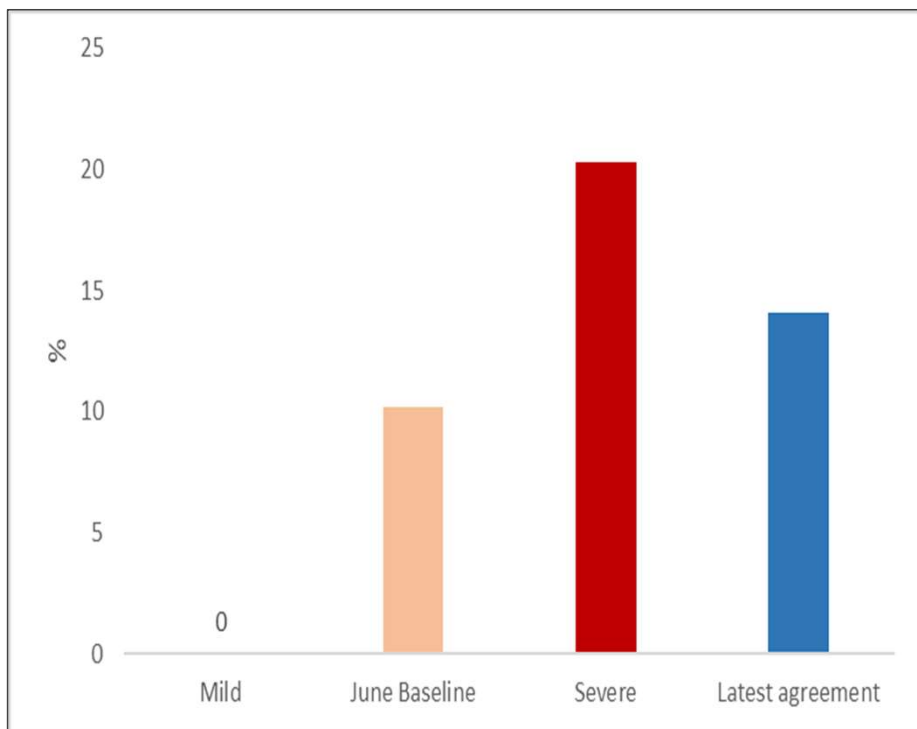
HICP projection



Source: ECB, June 2025 BMPE

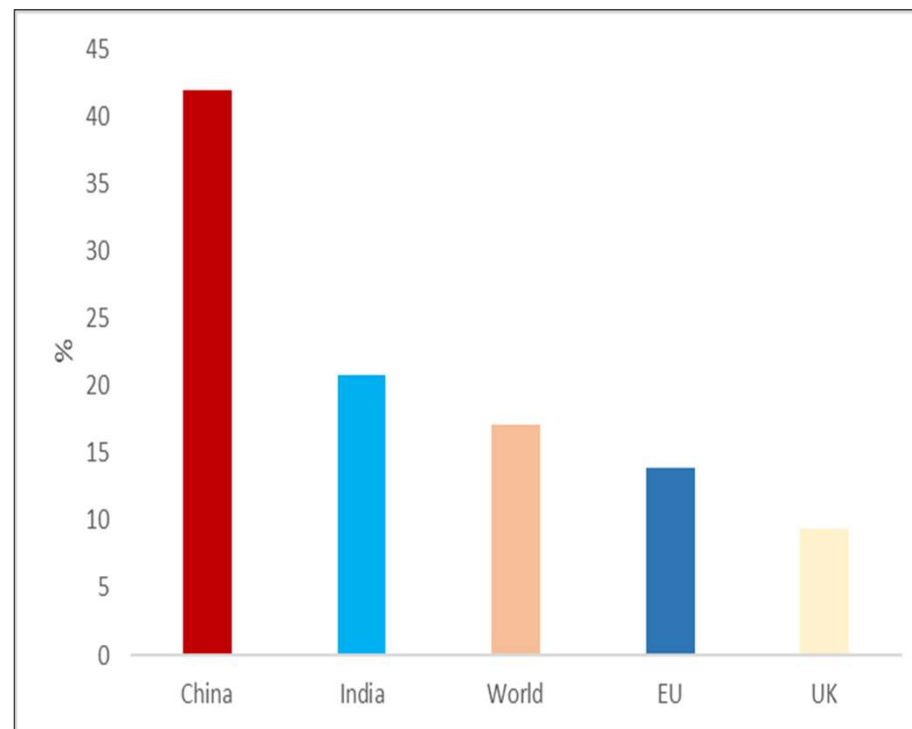
While reciprocal rates are set to be higher compared to baseline assumptions overall developments fall closer to baseline scenario than the severe one

US effective tariffs on euro area goods exports across scenarios



Sources: WITS, Trade Data Monitor, ECB staff calculations and Capital Economics

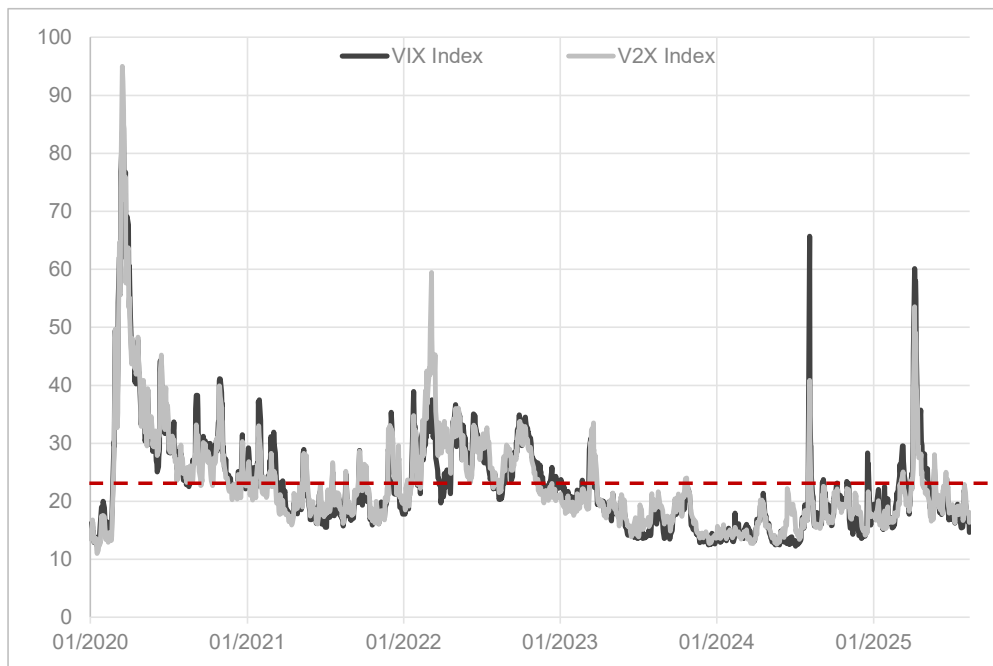
US Effective Tariff Rate by Partner



Sources: Capital Economics

Financial markets have shown little concern in response to the tariff deal, which can however abruptly change

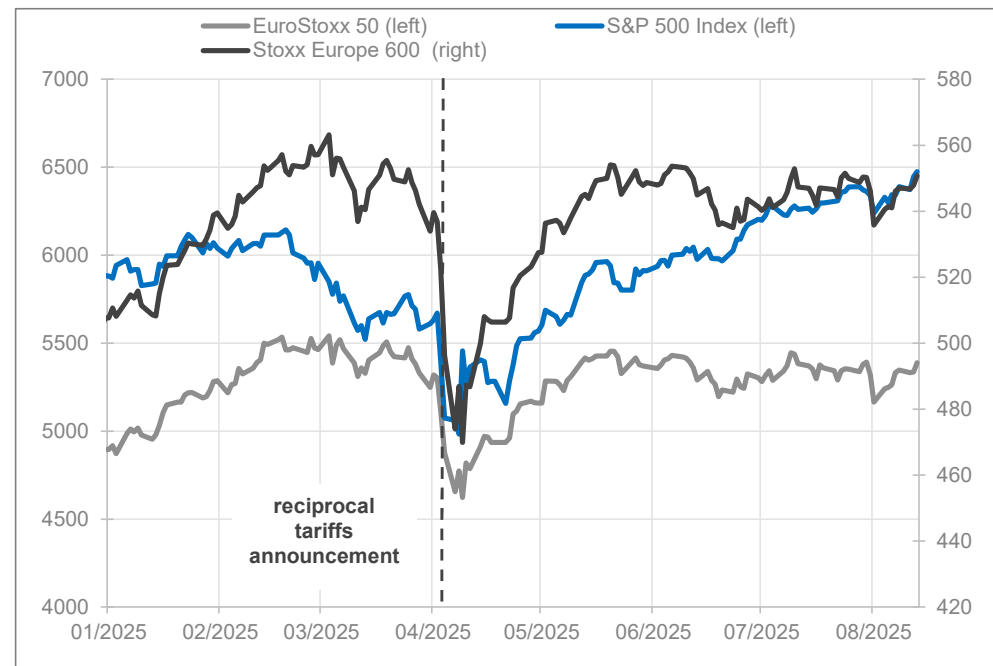
After April events, volatility quickly decreased back below 5y average



Notes: The VIX index reflects the expected future volatility of the market based on S&P 500 index options, while the V2X index represents the same for the Euro Stoxx 50 index. The red dashed line indicates the average value over the observed period.

Sources: Bloomberg

Equity indices erased April declines



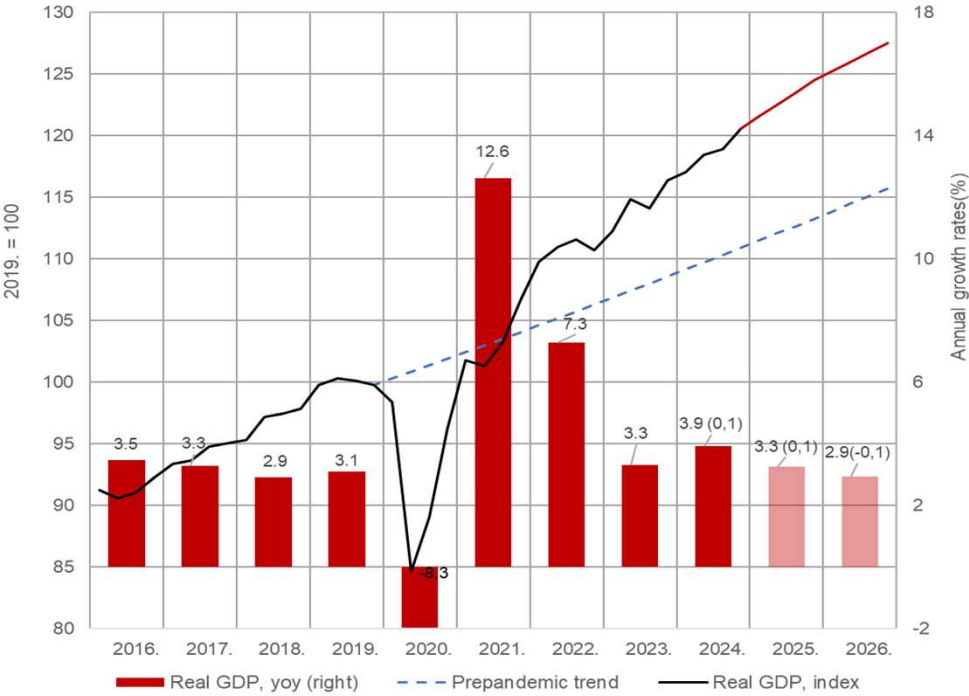
Sources: Bloomberg

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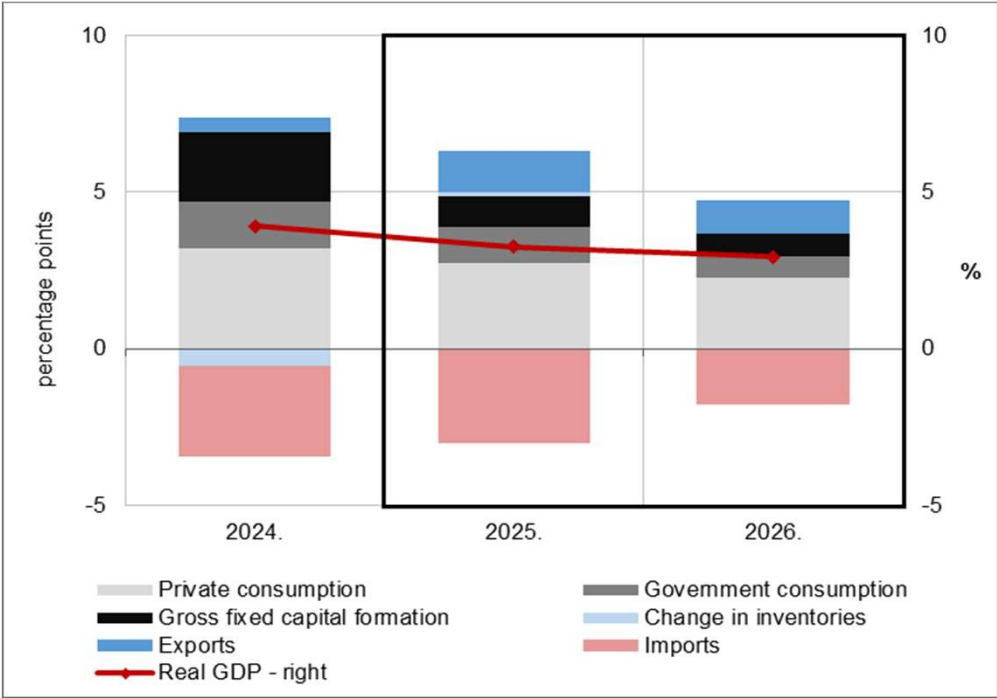
Croatia's GDP is expected to continue increasing at an average rate of close to 3%

Croatia and preandemic trend



Note: CNB projections from June 2025
Sources: CBS; CNB

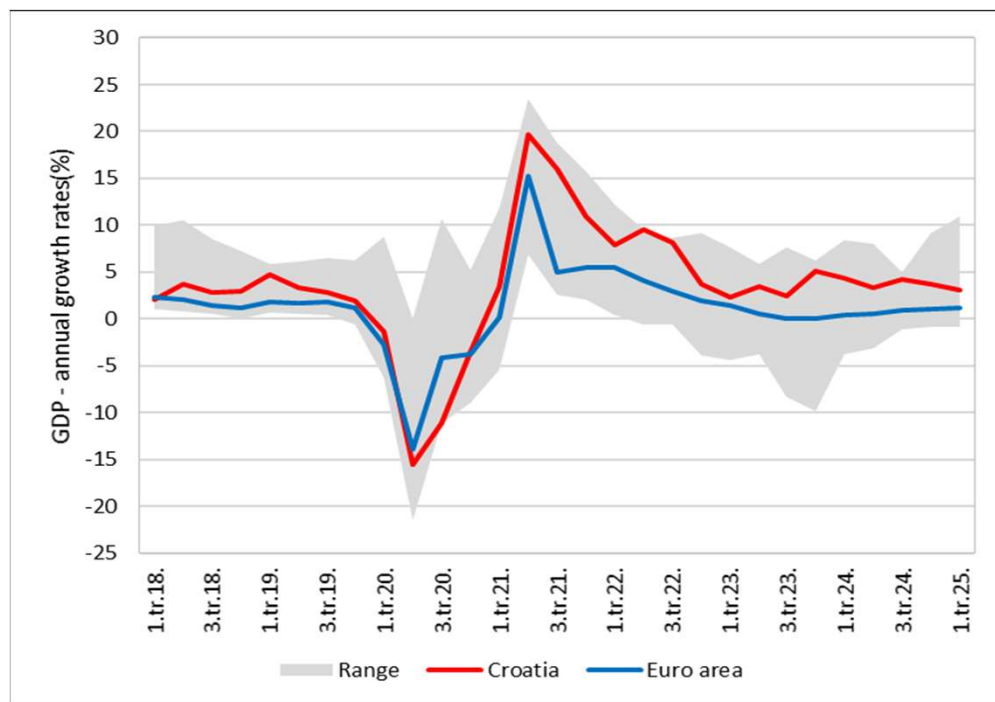
Contributions to GDP growth



Note: CNB projections from June 2025
Sources: CBS; CNB

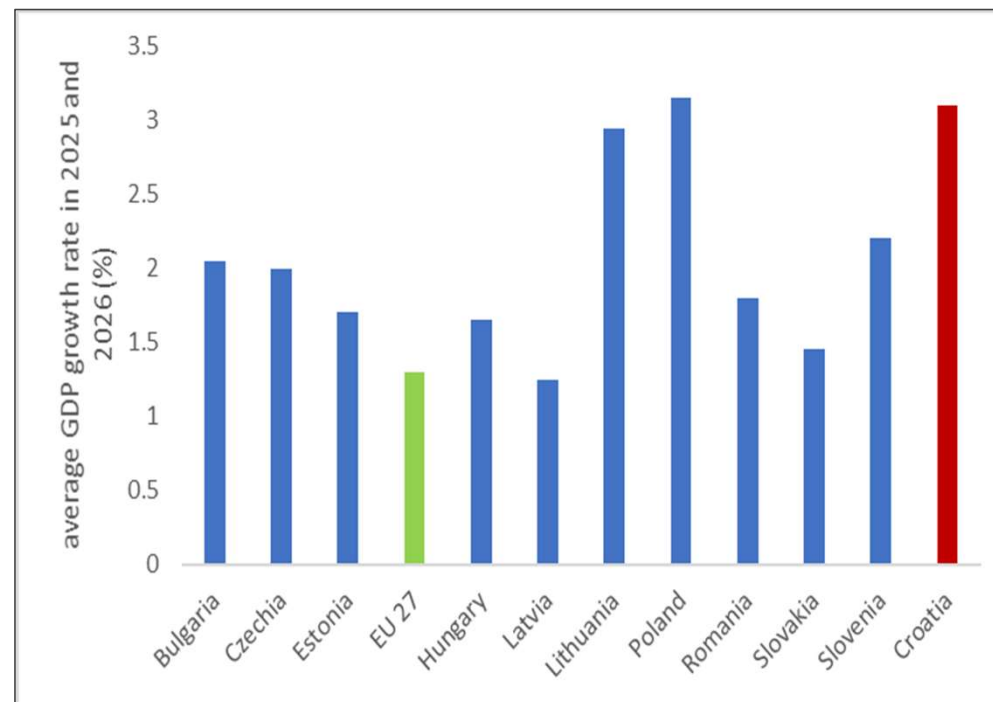
Significantly surpassing growth observed in most EU countries

Economic activity in the EA



Source: Eurostat

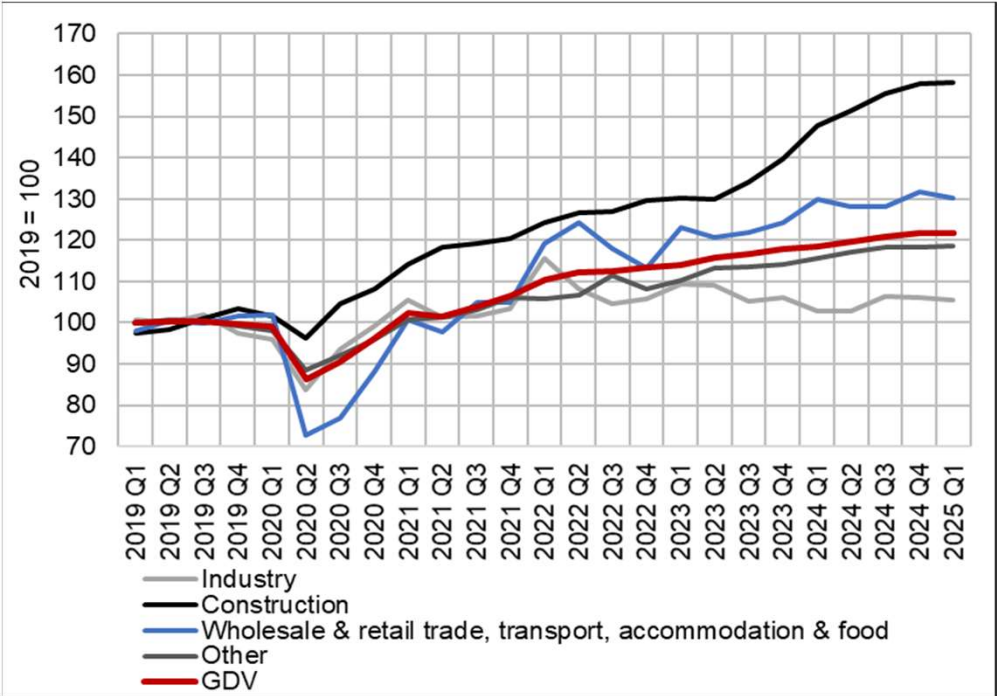
GDP growth rate (average 2025-2026)



Source: Ameco and CNB

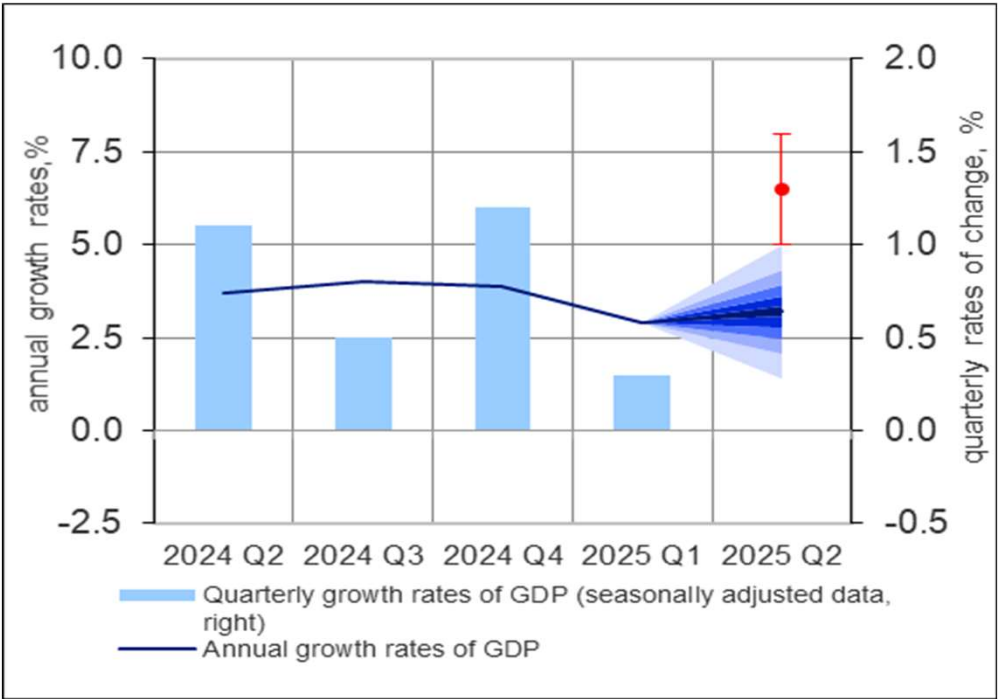
The strong performance was largely driven by growth in construction and services sector

Gross value added by sector



Source: CBS, calculations of CNB

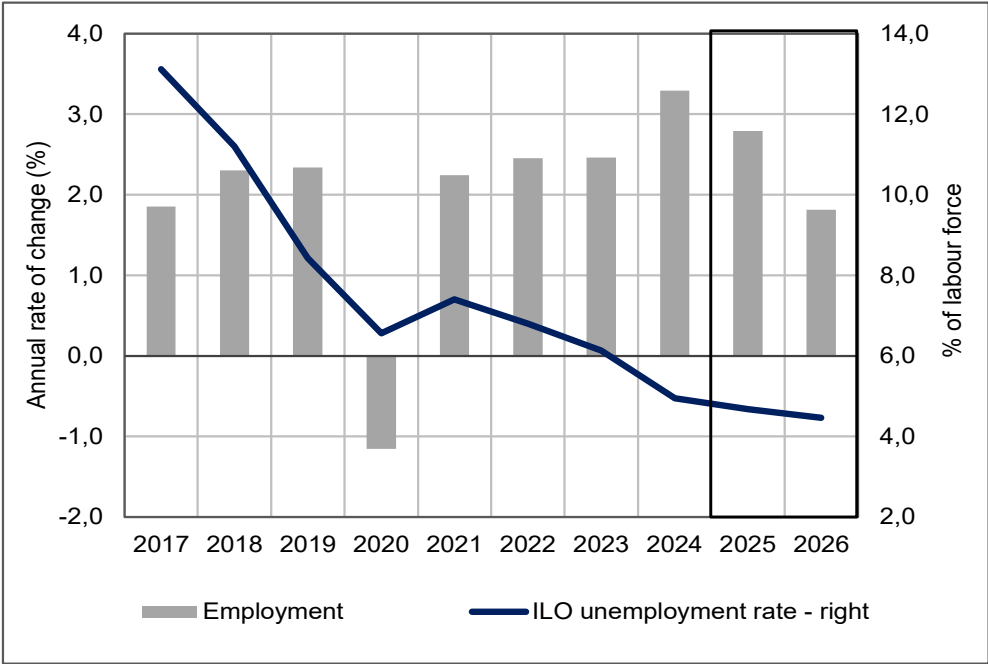
Quarterly gross domestic product



Source: CBS, calculations of CNB

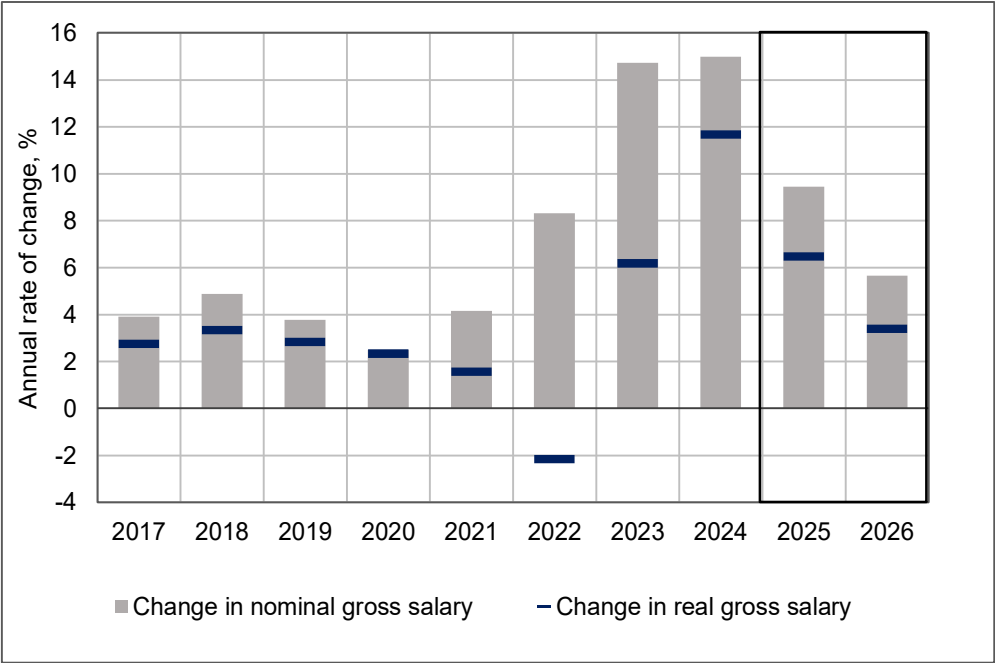
The labour market remains strong

Employment and ILO unemployment rate



Sources: CPII, CBS, CNB projection

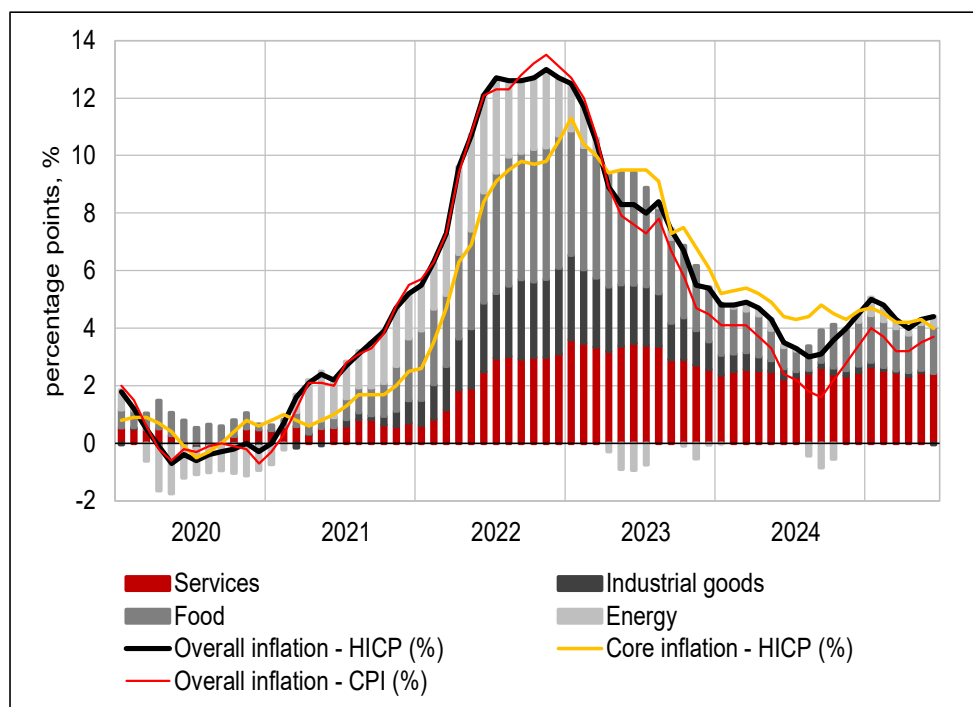
Nominal and real gross wages



Sources: CBS, CNB calculations and projection

Although inflation in Croatia has recently accelerated, it is projected to revert to a downward trajectory

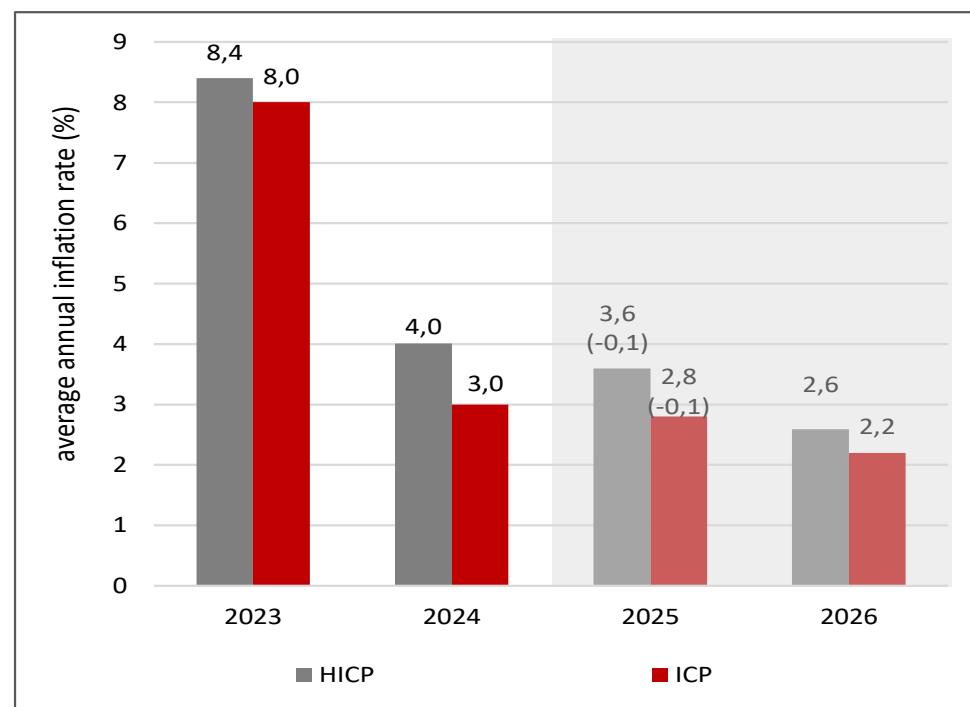
Annual inflation rate in Croatia
and the contributions of main components



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

Sources: Eurostat, CBS, CNB calculations

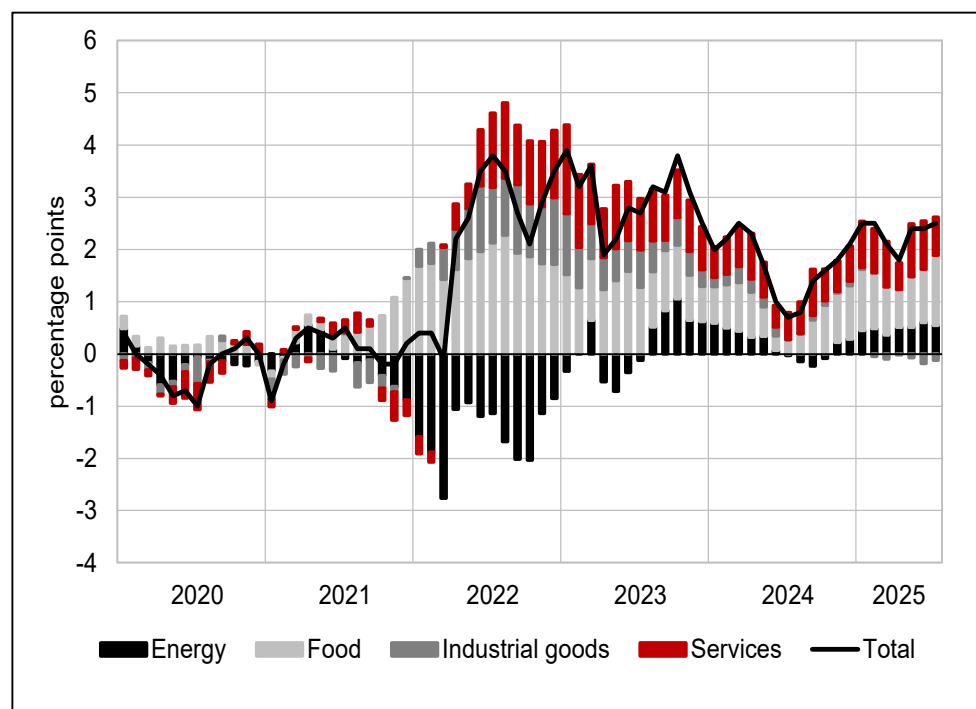
Inflation forecast for Croatia



Sources: Eurostat, CBS, CNB forecast

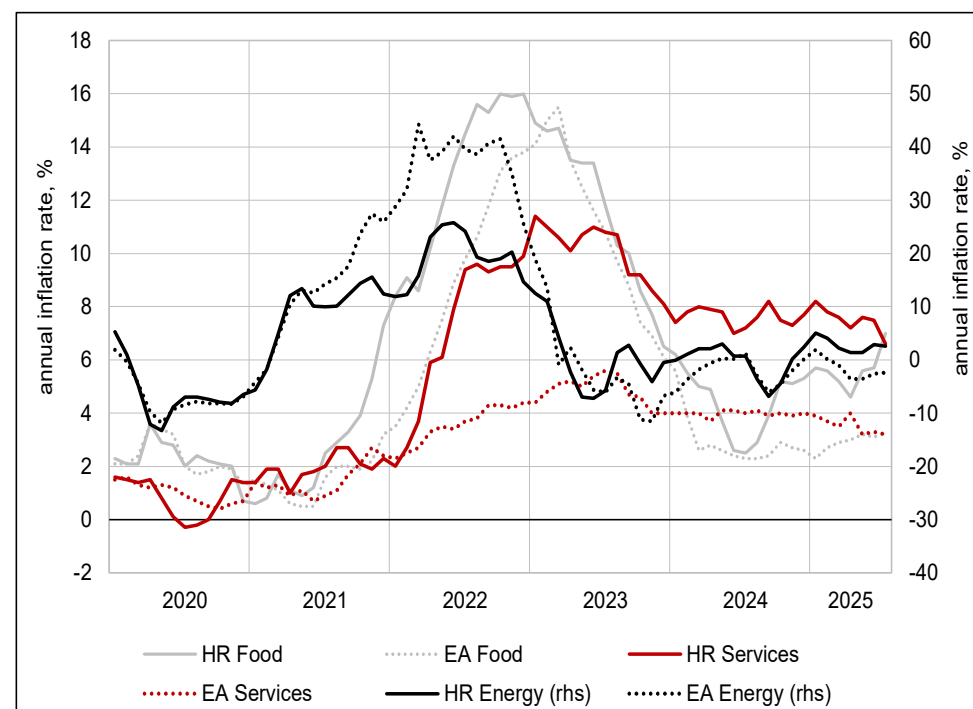
Inflation differential relative to euro area average stems mainly from food, but to smaller extent also from services and energy

Difference between HICP inflation rates and contributions of main components in Croatia and euro area



Sources: Eurostat, CNB calculations

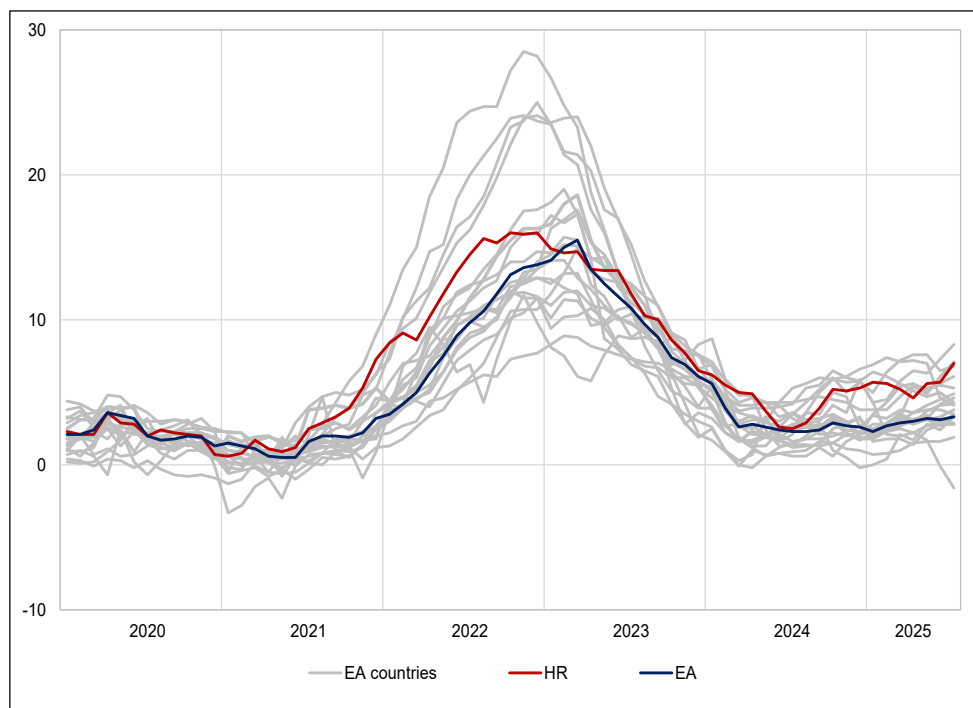
Inflation rates in Croatia and euro area



Source: Eurostat

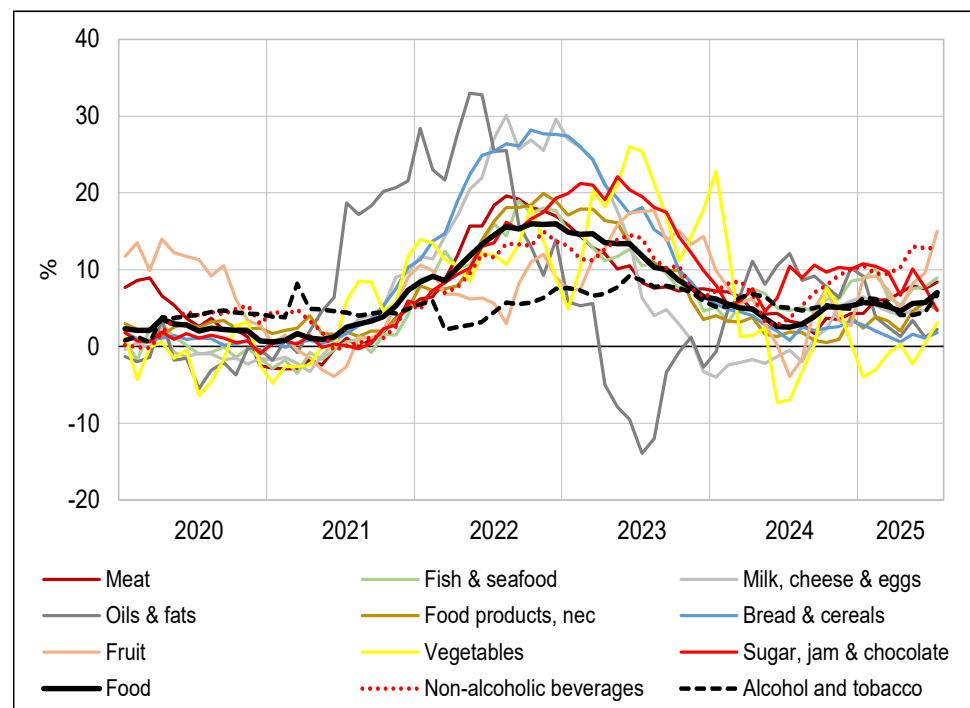
Food inflation in Croatia accelerated significantly in the last few months

Food inflation in euro area countries



Source: Eurostat

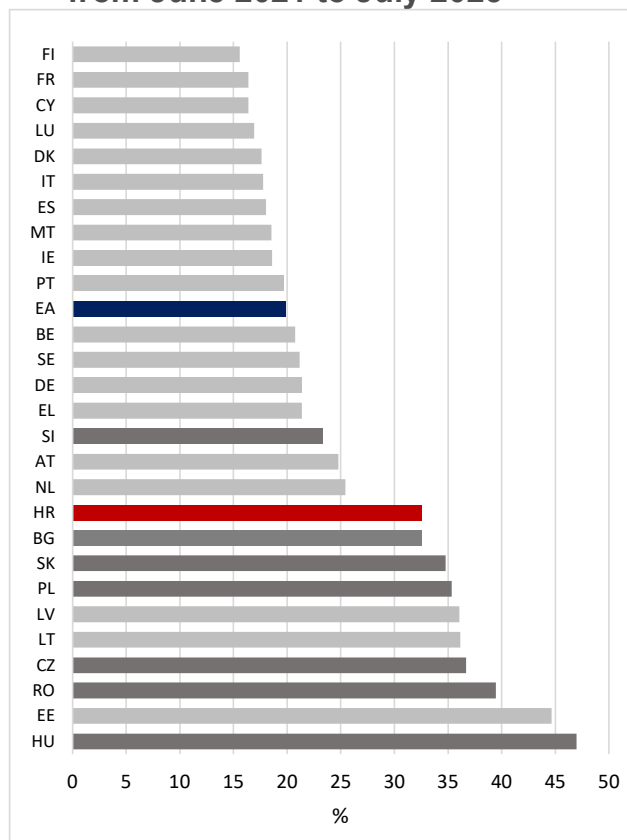
Inflation rates of food subcomponents in Croatia



Notes: Non-alcoholic beverages include „Coffee, tea and cocoa“. Food includes beverages and tobacco.
Source: Eurostat

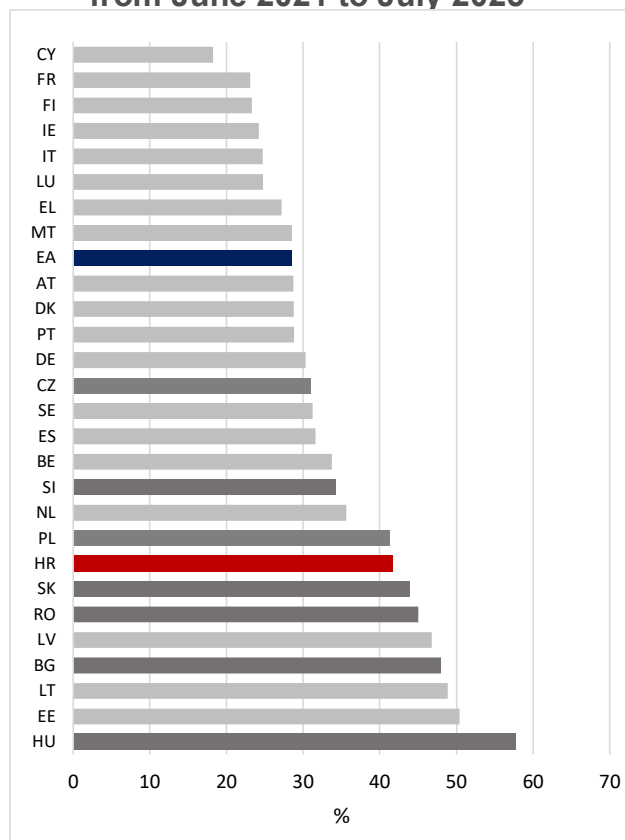
Since mid-2021, cumulative increase in general price level in Croatia has been lower compared to other CEE countries (except Slovenia)

**Cumulative headline inflation
from June 2021 to July 2025**



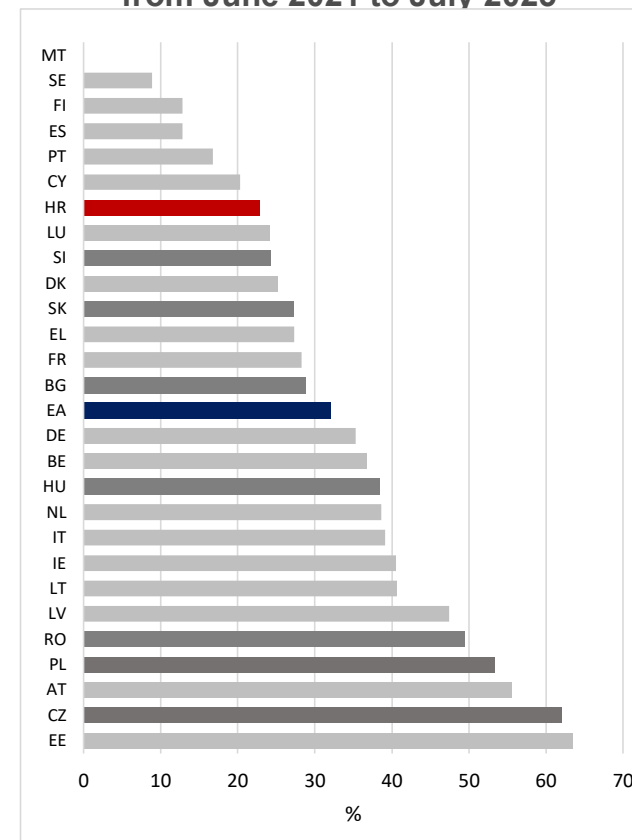
Sources: Eurostat; CNB calculations

**Cumulative food inflation
from June 2021 to July 2025**



Sources: Eurostat; CNB calculations

**Cumulative energy inflation
from June 2021 to July 2025**

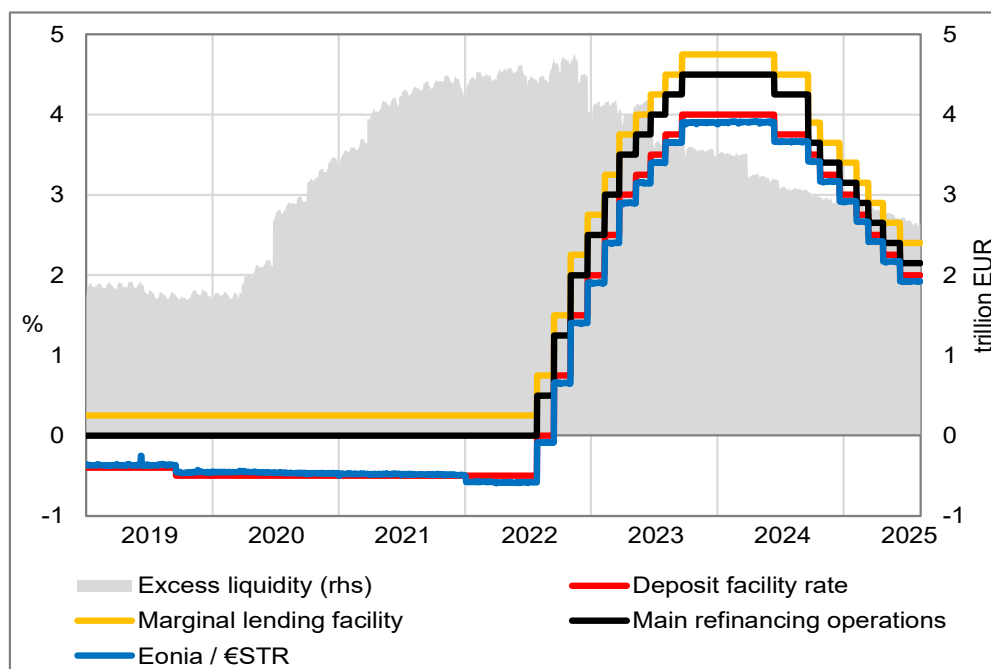


Sources: Eurostat; CNB calculations

Monetary policy, interest rates and business financing

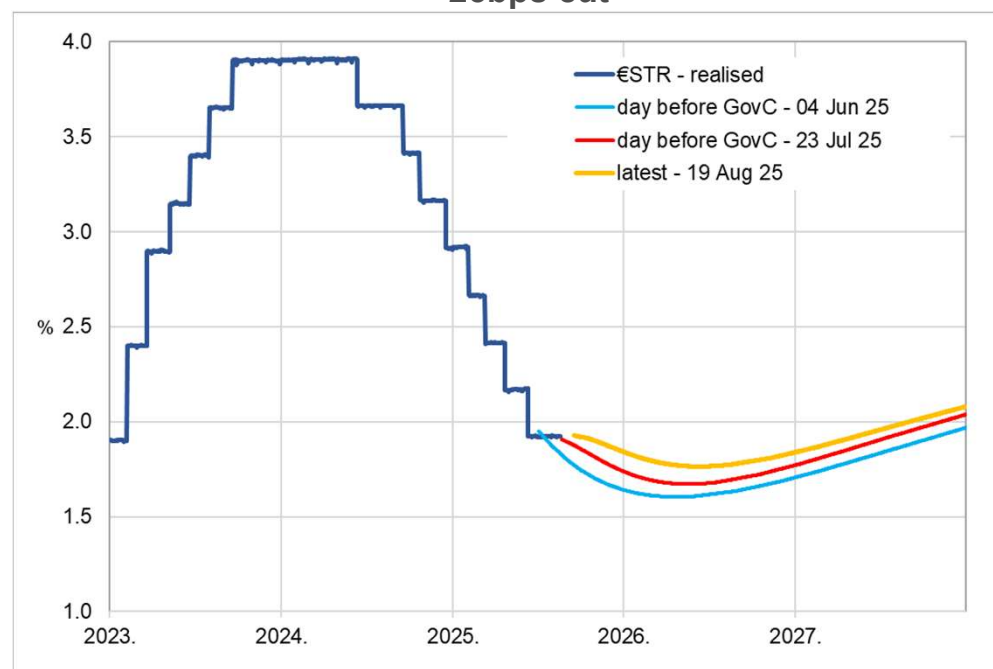
Market expectations for the ECB's policy rate path shifted higher recently

Key ECB interest rates



Note: The EONIA was replaced by €STR in early 2022.
Source: ECB.

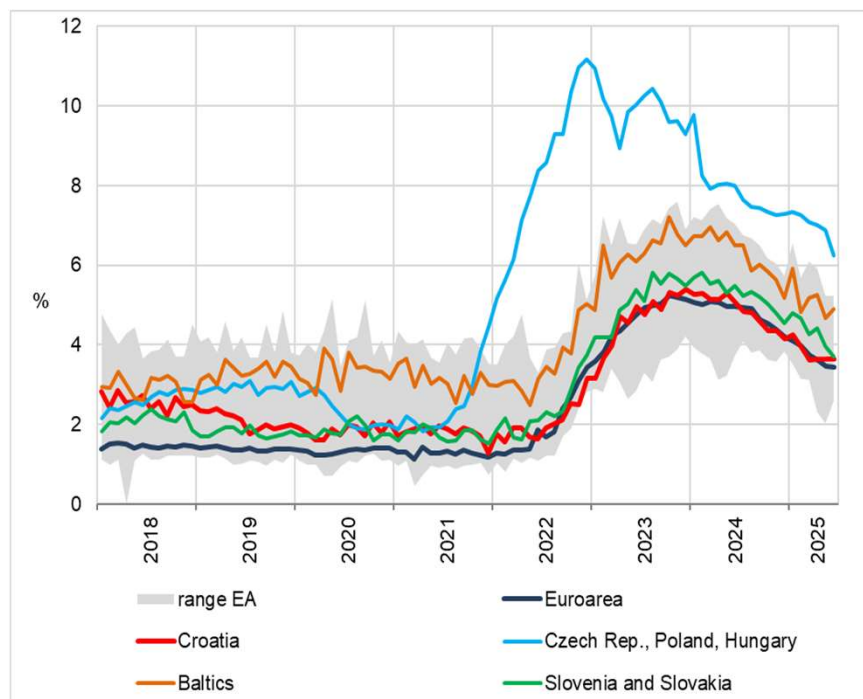
ESTR forward curves: markets expect one more 25bps cut



Note: The picture shows forward curve estimated using the overnight indexed swap rate (OIS). The curves represent forward curves formed at the selected dates and on the last observation date (19 August 2025).
Sources: Bloomberg, HNB

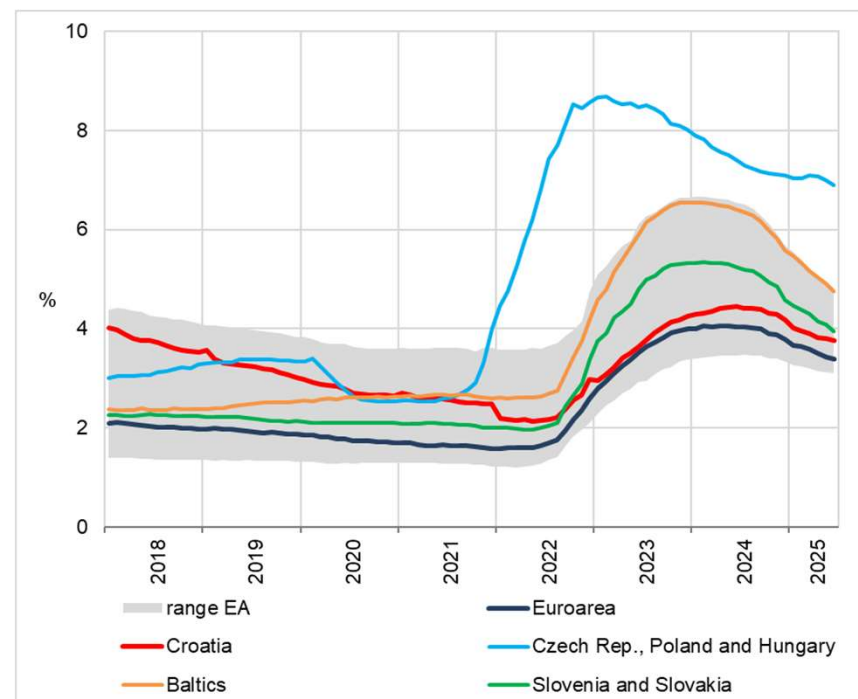
The interest rates on new and existing loans to NFC's in EA still slowly decreasing

Interest rates on new loans to NFC's



Source: ECB.

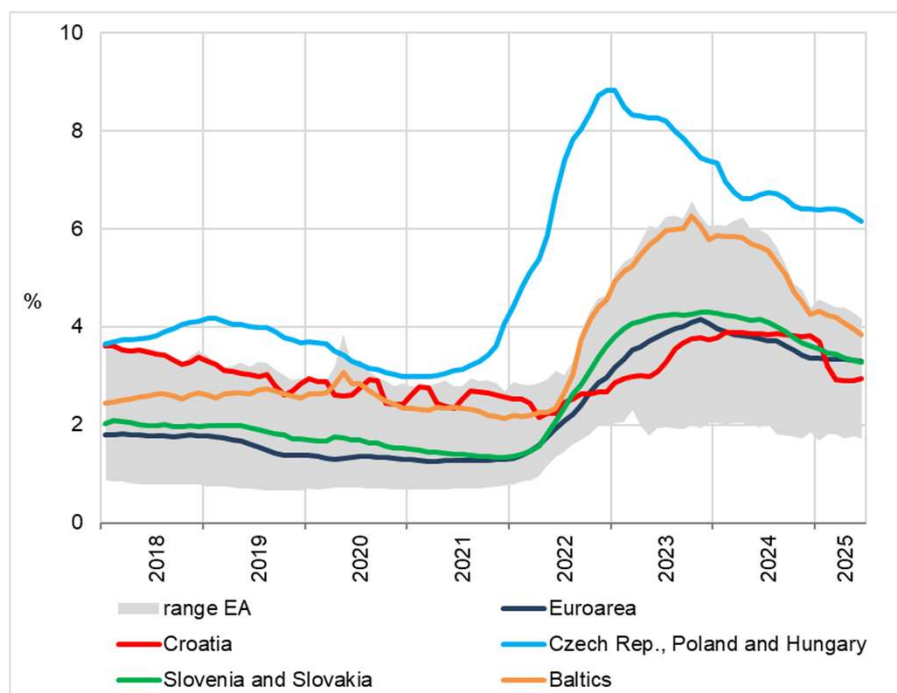
Interest rates on existing loans to NFC's



Source: ECB.

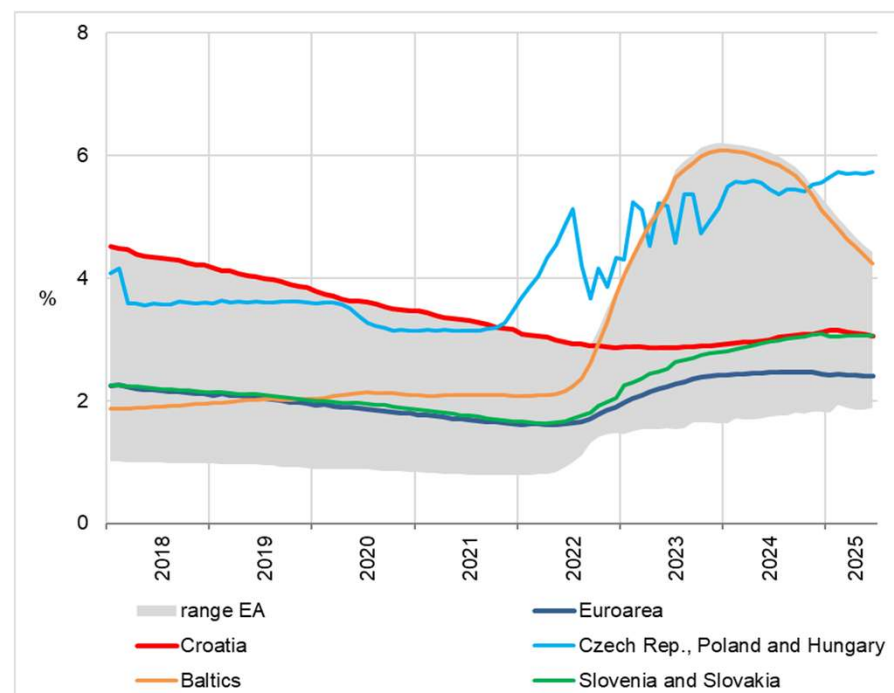
Interest rates on new loans to households in EA are stable around levels reached in Q1 2025

Interest rates on new loans to HH's



Source: ECB.

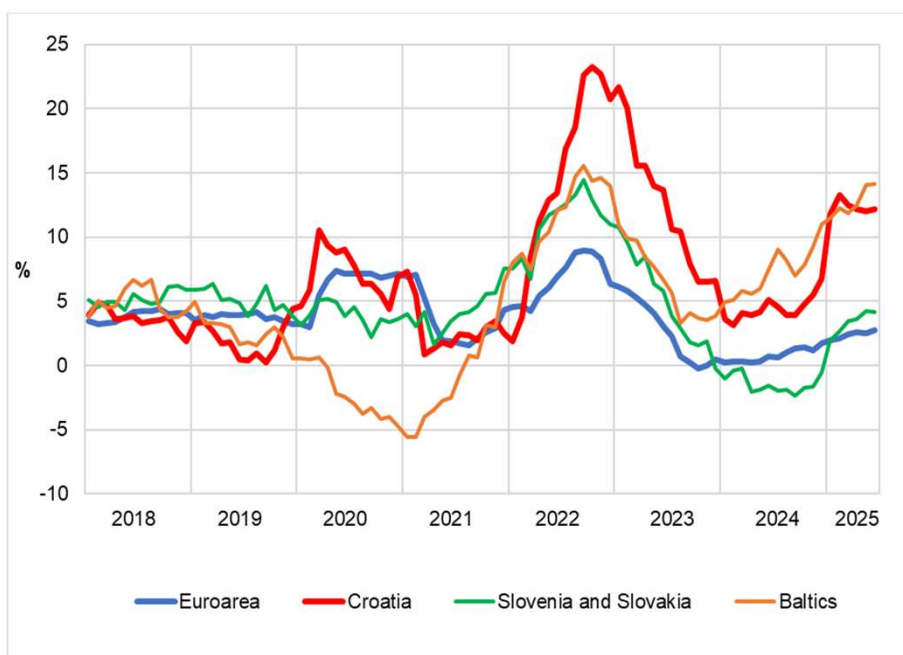
Interest rates on existing loans to HH's



Source: ECB.

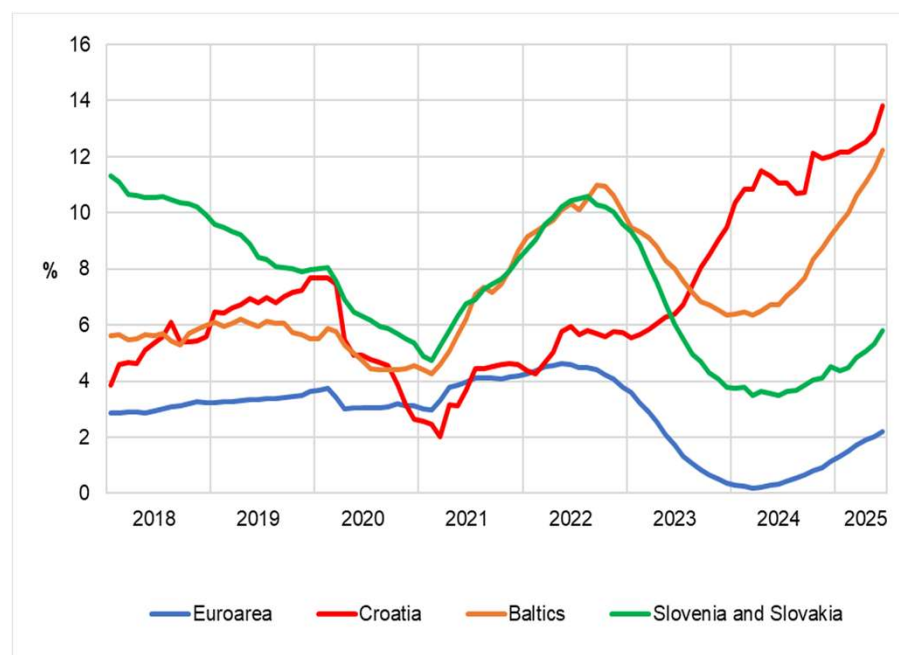
The credit activity in EA is slowly recovering, while loan growth in Croatia still strong

Loans to NFC's
annual rate of change



Source: ECB.

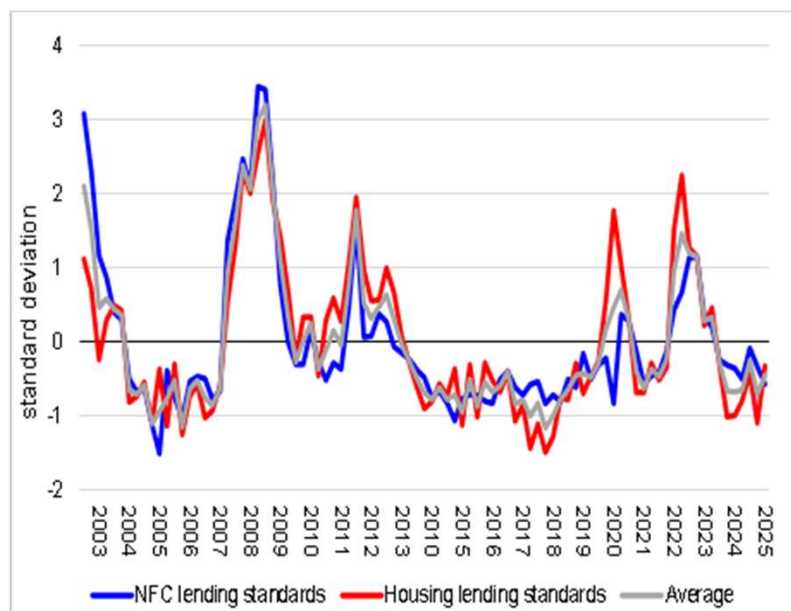
Loans to HH's
annual rate of change



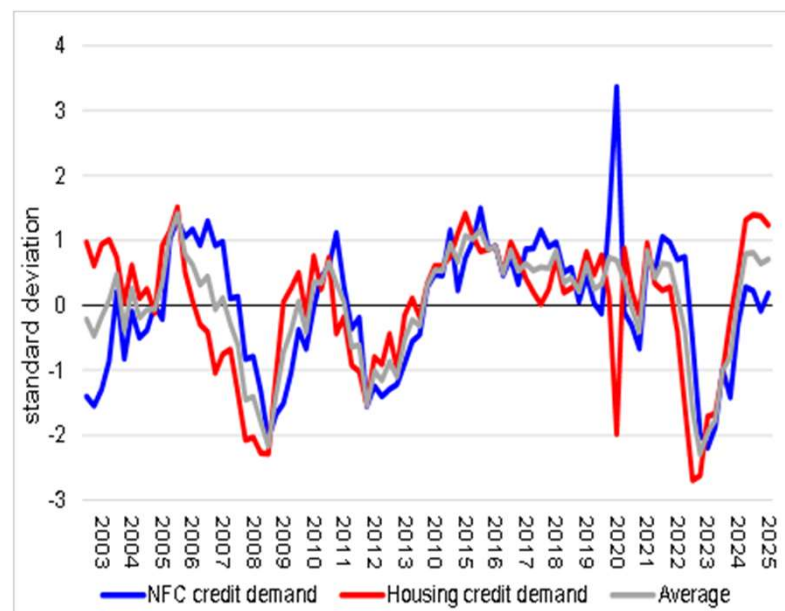
Source: ECB.

Lending standards in EA not restrictive with historic high housing loan demand

Standardized credit standards



Standardized credit demand

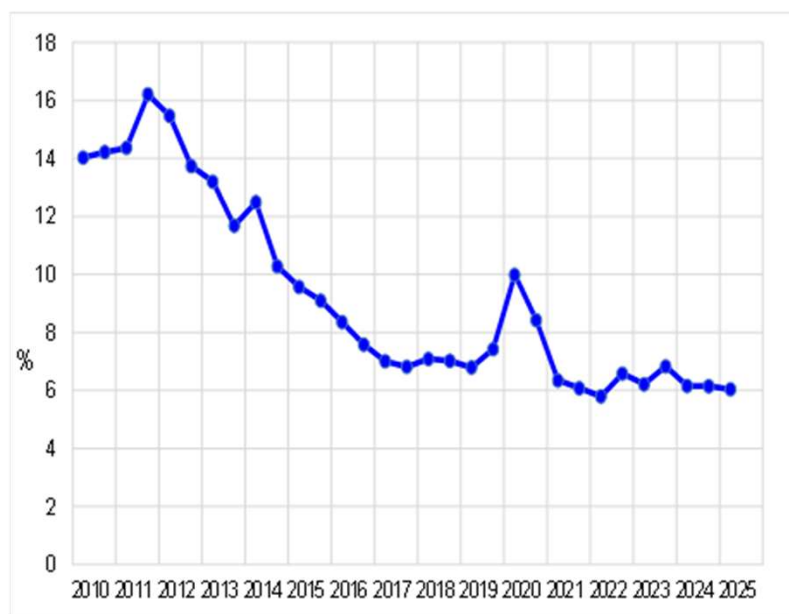


Note: Original values are demeaned and divided by the standard deviation. Positive values of credit standards denote tightening and vice-versa.

Source: ECB Bank Lending Survey

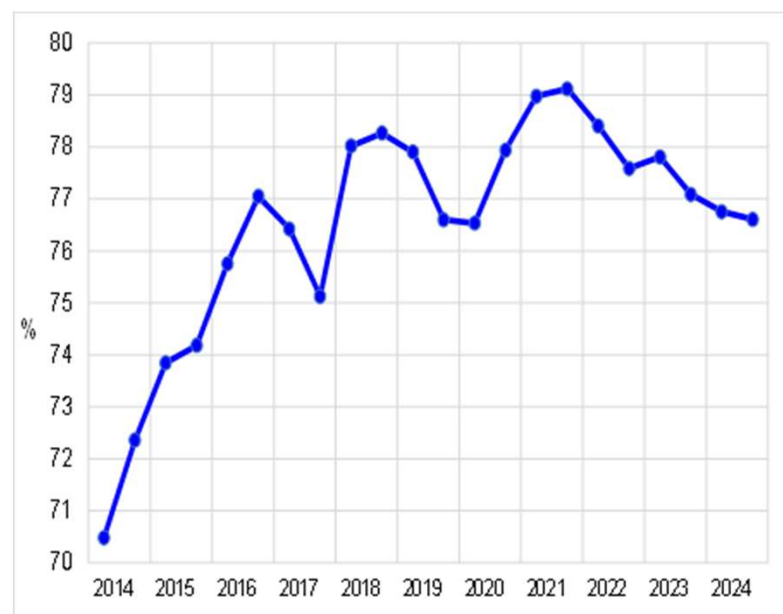
SAFE results also point that financing conditions are not an obstacle for obtaining funds

Access to finance as most pressing problem



Source: ECB SAFE

No need for bank loan financing



Source: ECB SAFE



Thank you very much for your attention!