Information on economic, financial and monetary developments

April 2025

Summary

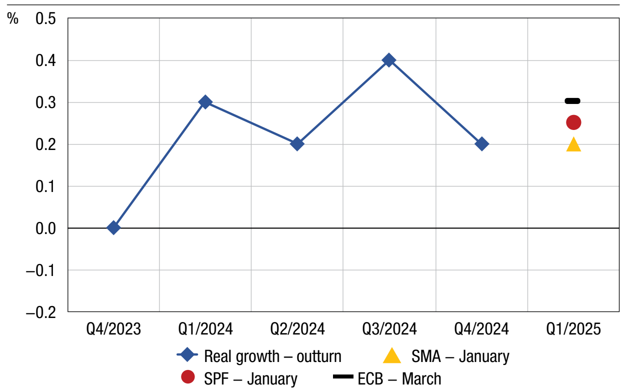
Data for the beginning of 2025, the period before the April escalation of the tariff war, which could have a strong adverse impact on economic developments in the euro area, suggest that economic activity had continued to grow at a relatively mild pace (Figure 1). As shown by seasonally and calendar adjusted data, the euro area industrial production volume grew by 0.6% in January from the fourth quarter of 2024. The recovery of construction activity continued too, with the volume of construction works up by 0.8% in January from the previous quarter. In contrast, real retail trade turnover dipped in January, but data for the major euro area economies, Germany, France and Spain, point to a strong recovery in February. In addition, according to data available for several large countries (France, Italy, Spain), activity in the services sector accelerated rather sharply at the beginning of 2025. The purchasing managers' index (PMI) for the euro area shifted to the expansion range in the first quarter of 2025 (50.3 on average), primarily as a result of the industry component growing from 45.1 in December 2024 to 48.6 in March 2025, whereas the services component stagnated on average. The industry component growth was mainly driven by expectations of the scaling up of infrastructure and defence investments, which more than counterbalanced the negative impacts of the tariffs on a limited group of products introduced by the US administration in the first quarter of 2025. The economic sentiment index (ESI) increased slightly from the previous quarter's average, but weakened in March, primarily due to a deterioration in consumer sentiment and also to rising optimism in services. However, no data are available concerning the specific consequences of the April escalation of the tariff war, which could have a strong negative impact on economic developments in this year and in those to come, nor are there any specific details about the potential introduction of countermeasures by the EU.

According to the flash estimate, overall euro area inflation continued to decelerate slightly in March 2025, falling to 2.2% from 2.3% in February. The deceleration was mainly due to services inflation decelerating further to 3.4% in March from 3.7% in February in the conditions of a gradual deceleration of wage growth, which mitigates inflationary pressures, especially in labour-intensive services sectors. Despite the deceleration, services inflation continued to make the largest individual contribution to overall inflation, 1.6 percentage points (Figure 2). Industrial goods inflation remained low at 0.6% in March. Core inflation also decelerated, as in February, down to 2.4% in March from 2.6% in February, following the slowdown in services inflation. As regards the volatile components of overall inflation, energy prices fell in March from the previous month, with the result that the annual energy inflation rate decelerated significantly to –0.7% from 0.2% in February. In contrast, food inflation continued to accelerate and reached 2.9% in March, as a result of the accelerated growth of unprocessed food products' prices.

Monthly data for the first quarter of 2025 show that economic activity in Croatia stagnated at the level of the previous quarter, which might lead to a decrease in the annual growth rate of real GDP. According to the CNB's nowcasting model of economic activity, Croatia's real GDP growth could stagnate at a quarterly level in the first quarter, following five successive periods of growth, and decelerate to about 3.0% on an annual level, from 3.7% in the fourth quarter of 2024 (Figure 3). Real retail trade turnover dropped by 0.9% in February from January, that is, by 1.2% in January and February from the previous quarter. These developments were under the strong influence of the boycotting of retail chains, which had the largest effect in late January and the first half of February. Additionally, the industrial production volume decreased by 0.4% on a monthly level in February, and by 1.0% in January and February from the fourth quarter of 2024. The decrease in industrial production from the previous quarter was relatively broadly-based, being unrecorded only in the categories of electricity, gas, steam and air conditioning supply. The volume of construction works grew by 1.9% in January 2025 from December 2024 and by 2.2% from the last quarter of 2024, with the growth mainly driven by the rising volume of civil engineering works. Favourable movements in the tourist sector recorded late in the previous year continued in the first two months of 2025, including a 4% and a 3% annual increase, respectively, in tourist arrivals and nights.

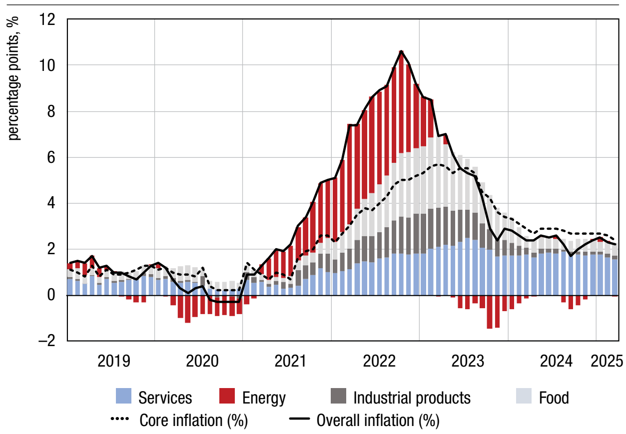
Although weakening in the first quarter of 2025, consumer and business optimism in Croatia have remained relatively high. The observed decrease in business optimism, the sharpest in trade and services, to some extent reflects the emerging

Figure 1 Quarterly growth rates of real GDP in the euro area



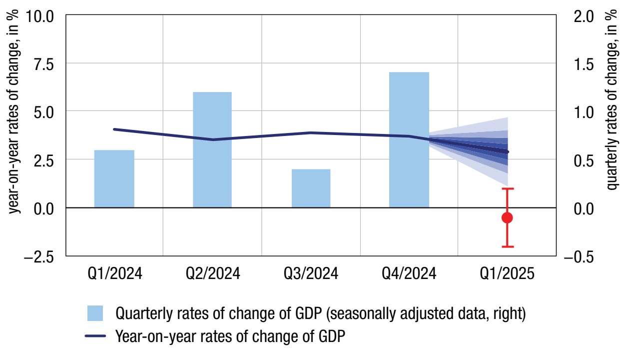
Note: The abbreviation ECB – March refers to the ECB's March 2025 projections of real growth in the euro area (Broad Macroeconomic Projection Exercise, BMPE). The abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the ECB's January 2025 survey of market participants.
Sources: Eurostat and ECB.

Figure 2 Euro area inflation indicators



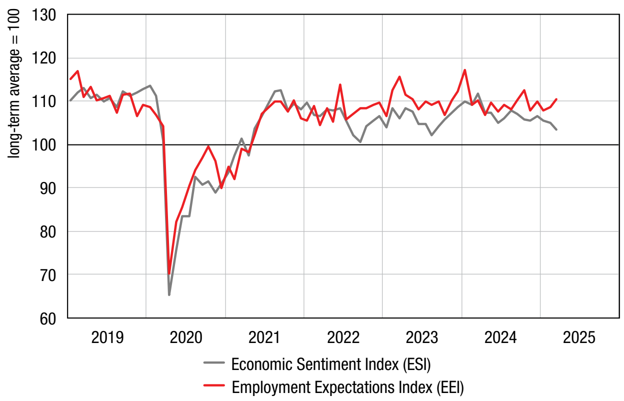
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat and CNB calculations.

Figure 3 Quarterly gross domestic product



Note: The estimate for the first quarter of 2025 refers to the CNB's monthly indicator of real economic activity (for more details on the calculation of the MRGA indicator, see Kunovac, D., and Špalat, B.: Nowcasting GDP Using Available Monthly Indicators, CNB Working Papers, W-39). The models are estimated on the basis of data published up to 31 March 2025. The red dot denotes an estimate of the quarterly change in real GDP, with historical errors of estimates within ±1 standard deviation.
Sources: CBS (seasonally adjusted by the CNB) and CNB calculations.

Figure 4 Monthly indicators of economic activity in Croatia



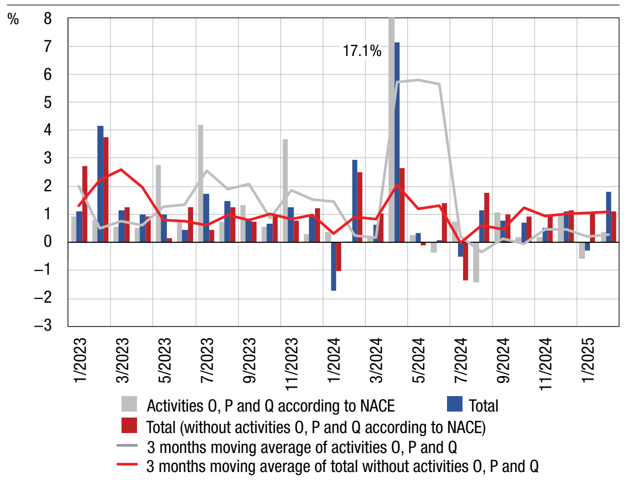
Notes: The economic sentiment index (ESI), and the employment expectation index (EEI) are calculated according to data from business and consumer confidence surveys. For more information, see the methodological guidelines of the European Commission.
Source: EC.

uncertainty over international trade relations that preceded the escalation of the tariff war in April. Optimism in industry also decreased slightly, while it stagnated in construction. In line with this, the economic sentiment index (ESI) dropped significantly in the first quarter, but all indicators have remained above their long-term averages. With business optimism remaining relatively strong, enterprises in most activities have continued to plan considerable new hiring (Figure 4). The consumer confidence index, having decreased for two months, returned to the levels of the end of the previous year in March.

Employment growth decelerated noticeably in early 2025, having increased sharply in late 2024, whereas wage growth remained relatively strong due to developments in the private sector. Employment almost stagnated on a monthly level in February 2025, having risen only slightly in January. Still, due to the carry-over effect, that is, the high employment levels reached at the end of the previous year, employment was 0.9% higher in the first two months of 2025 than in the fourth quarter of 2024. The broadly-based surge in employment in December 2024 and its slowdown early in 2025 can partly be related to the termination of fiscal relief granted for the employment of young people at the beginning of 2025. These employment developments to some extent also boosted unemployment in February (by 1.0%), which rose for the first time since June 2023, with the result that the registered unemployment rate increased slightly to 4.7%. According to the latest available data, the LFS unemployment rate was 4.8% in the fourth quarter of 2024. As regards wage developments, the nominal gross wage increased significantly on a monthly level (1.8%) in February 2025, which more than offset a slight drop in the previous month (Figure 5), so that the average nominal gross wage exceeded its average in the previous three months by 1.5%. In the public sector wages grew only slightly by 0.4% in the observed period, but went up by 2.7% in the rest of the economy. Nominal net wages grew at a somewhat higher rate because of legislative changes.

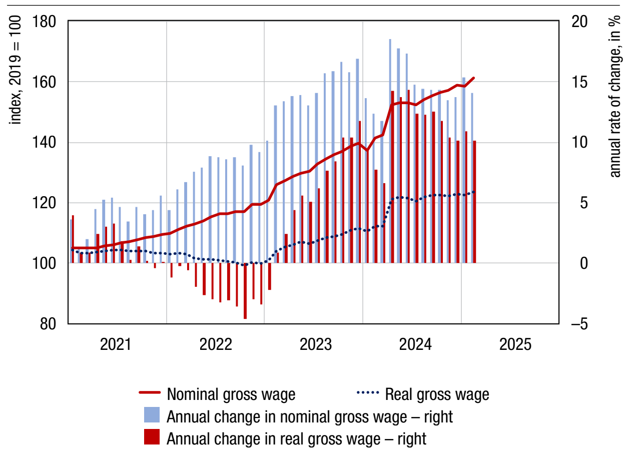
Inflation in Croatia decelerated in March 2025 as a result of low current pressures on all its components except services, accompanied by favourable base effects deriving from stronger current pressures in the same period in the previous year, which are no longer included in the calculation of the annual inflation rate. According to the flash estimate, inflation in Croatia, as measured by the harmonised index of consumer prices (HICP), decelerated to 4.3% in March from 4.8% in February

Figure 5 Nominal gross wages
monthly rate of change



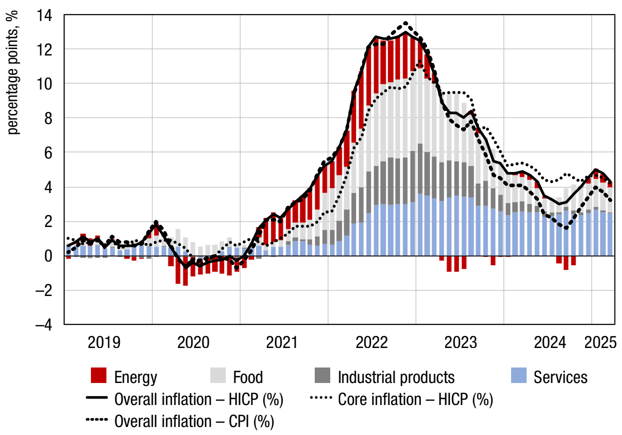
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

Figure 6 Nominal and real gross wages
index, 2019 = 100, annual rate of change



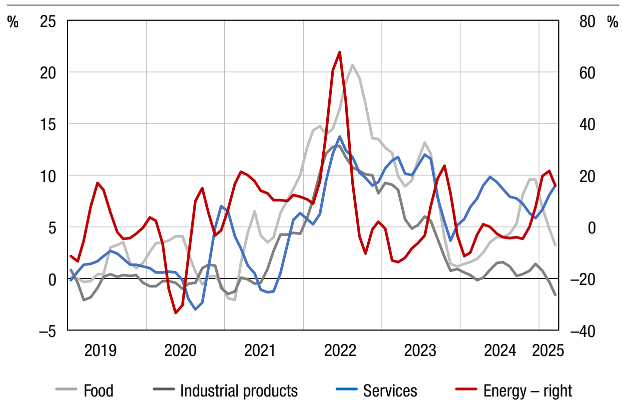
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

Figure 7 Inflation indicators in Croatia



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.

Figure 8 Momentums of the main inflation components



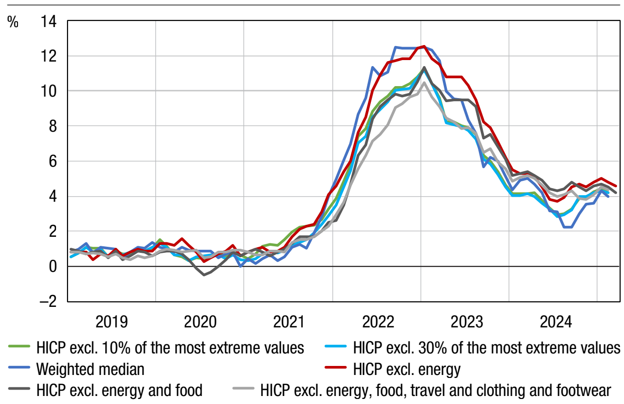
Note: The quarterly rate of change on an annual level has been calculated based on the quarterly moving average of seasonally adjusted harmonised indices of consumer prices.
Sources: Eurostat and CNB calculations.

(Figure 7). The inflation of prices of all the main inflation components decelerated due to favourable base effects recorded for all components except energy and very low current upward pressures on the prices of all components except services, as evident from the upward momentum of services prices (Figure 8). The annual energy inflation rate decelerated especially sharply, to 2.4% from 4.1% in February, as a result of a decrease in the prices of refined petroleum products, while food inflation decelerated for the second successive month, down to 5.2% from 5.6% in February. The slowdown in services inflation (to 7.6% from 7.8%) and industrial goods inflation (to 0.2% from 0.4% in February) led to a reduction in core inflation (excludes energy and food prices), which dropped from 4.5% in February to 4.2% in March (Figure 9). Despite the slowdown in services inflation, services continue to be a key component of overall inflationary developments in Croatia, contributing 2.5 percentage points to the overall consumer price inflation of 4.3%, while the contribution of food is 1.5 percentage points. The persistence of services inflation is to a large extent due to robust domestic demand and a tight labour market, coupled with a steadily high wage growth, because the cost of labour in services accounts for a large share of total costs. Overall inflation measured by the national consumer price index (CPI)[1] also decelerated from 3.7% in February to 3.2% in March (by 0.5 percentage points), with the result that the difference between the harmonised and the national indicators of overall inflation remained unchanged from the previous month. The higher inflation according to the harmonised indicator mainly results from the growing contribution of services prices (Figure 10).

Financial market volatility increased in March and early April, spurred mainly by an announced increase in defence spending in Europe and a sharp rise in uncertainty surrounding changes in the US tariff policy. In early March, Germany's parliament approved an amendment to the constitution allowing an increase in defence borrowing and providing for a EUR 500bn fund for infrastructure and climate investments. Also in early March, the European Commission unveiled a plan to streamline borrowing regulations and boost defence spending.

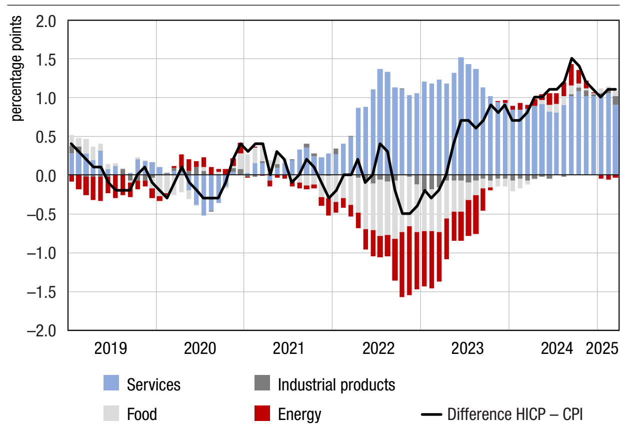
1 The CPI, in contrast with the HICP, does not cover consumption by foreign tourists and institutional households (such as educational, health and religious institutions, etc.).

Figure 9 Core inflation indicators



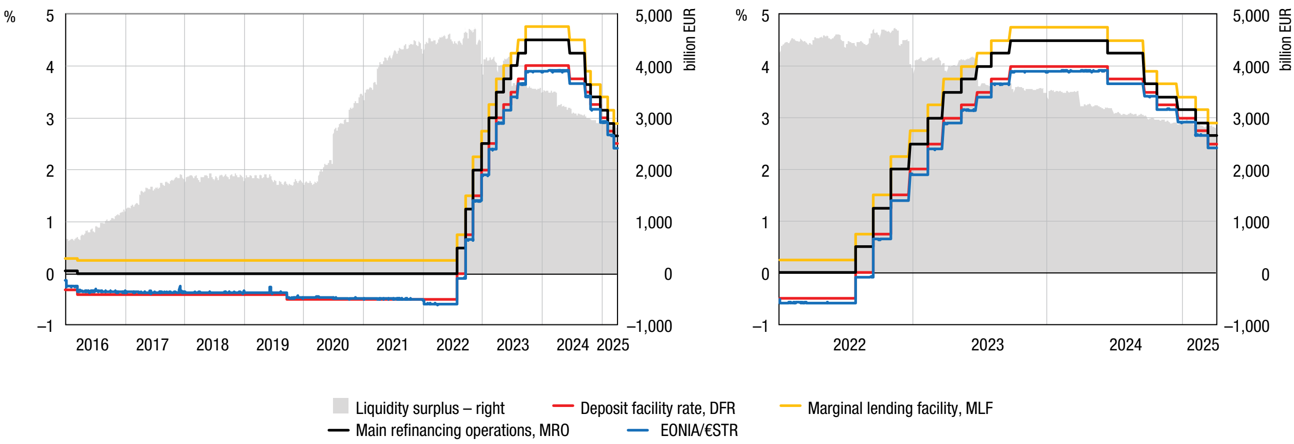
Notes: Trimmed mean eliminates 5% (15%) of subcomponents (out of a total of 87 subcomponents) with maximum and minimum annual rates of change. The weighted median excludes all values but the weighted median of the distribution of price change.
Sources: Eurostat and CNB calculations.

Figure 10 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: Eurostat, CBS and CNB calculations.

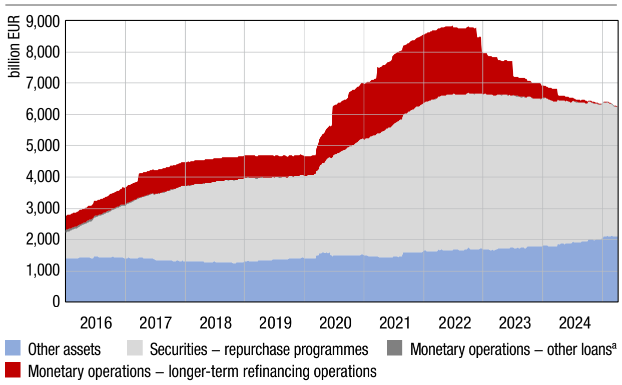
Figure 11 Key ECB interest rates



Notes: DFR (deposit facility rate); MLF (marginal lending facility); MRO (main refinancing operations). The EONIA was replaced by €STR in early 2022.
Source: ECB.

Due to the announced increase in defence spending, yields on ten-year German bonds rose sharply by about 30 basis points to 2.8% on 5 March, the biggest daily rise since the unification of Germany in 1990. Euro area GDP-weighted long-term government bond yields increased only slightly less on the same day, 27 basis points, and reached 3.3%, reflecting relatively stable spreads of euro area countries relative to German yields. Following this initial reaction, yields on euro area long-term government bonds continued to grow to 3.4%, the highest level since November 2023. Yields started to trend downwards in the second half of March, to some extent due to market participants' rising concerns about the US economic outlook due to changes in the US tariff policy. In contrast, the improvement of the euro area economic outlook amid expected fiscal incentives gave a boost to European equity indices, many of which hit record highs in March, recording a much better performance than American indices, a rarity in recent years. However, as a result of the US president's tariff announcement in early April, both American and European long-term yields decreased further and equity indices plunged. Yields on ten-year Croatian bonds surged in early March, rising to 3.5% in mid-March before dropping to 3.3% at the beginning of April. The Ministry of Finance launched several bond issues in the local bond market in March: EUR 1.75bn of two-year euro bonds with a yield of 2.7%, EUR 1.25bn of five-year euro bonds with a yield of 3% and a new tranche of treasury bills totalling EUR 850m, with the bulk of the issue subscribed by citizens at 2.6%.

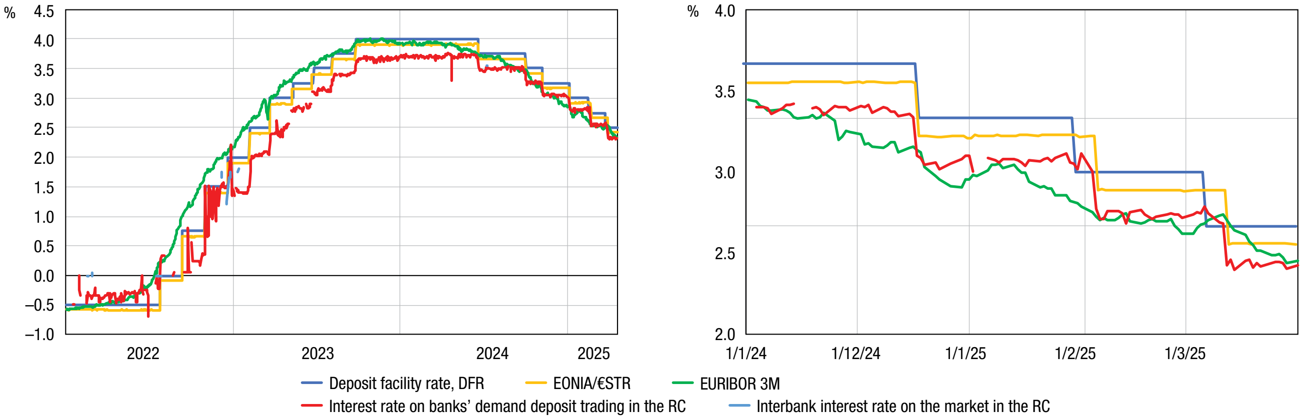
Figure 12 Eurosystem balance sheet



[a] Other loans include main refinancing operations, fine-tuning reverse operations, structural reverse operations, marginal lending facility and credits related to margin calls.
Note: The Eurosystem monetary balance sheet asset items are shown in grey and red and non-monetary in blue.
Source: ECB.

Average interest rates on pure new corporate and household loans were lower in February 2025 than in the previous month. The average interest rate on pure new corporate loans was 4.02% in February, a decrease of 28 basis points from January, while households borrowed at an average interest rate of 3.20%, 50 basis points lower than in January, as regards housing loans, and at 5.91%, 2 basis points higher, where general-purpose cash loans are concerned (Figure 16). All systemically important banks reduced interest rates on housing loans, while the volume of new loans remained relatively stable. Still, the bank that was the first to cut interest rates as early as in mid-January increased its market share in pure new housing loans, while the market shares of other banks, which lowered interest rates at a later date, decreased. The easing of the ECB's restrictive monetary policy had a strong impact on corporate financing conditions by February, with corporates borrowing at an interest rate that was 141 basis point lower than the highest level recorded in the last period of rising interest rates. As regards households, interest rates on general-purpose cash loans were 37 basis points lower than at the beginning of 2024 and those on housing loans were 68 basis points lower than in April 2024. The interest rate on existing corporate loans continued to drop, standing at 4.10% in February this year, a fall of 7 basis points from January. Interest rates on existing general-purpose cash loans fell by 1 basis point (5.97%) while interest rates on existing housing loans grew by 1 basis point (3.16%). Changes in these interest rates reflect trends in reference parameters to which interest rates are periodically adjusted. For example, the EURIBOR, one of these reference parameters, has declined in line with the gradual easing of monetary policy, while the six-month NRR continued to grow in the third quarter of the previous year, although reaching its peak at an increasingly slow pace. However, the intensity of the spillover depends on the statutory cap on interest rates on household loans, which in the period of monetary policy tightening prevented the full spillover of the EURIBOR growth to interest rates on general-purpose cash loans, keeping them at levels lower than those at which they would have been had the

Figure 13 Key ECB interest rate and overnight market interest rates in the euro area and Croatia



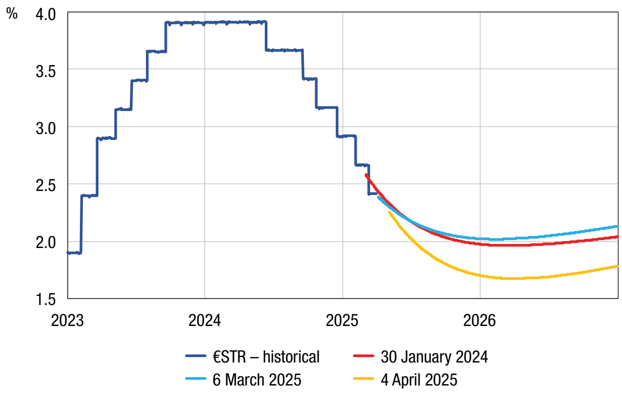
Note: DFR (deposit facility rate). The EONIA was replaced by €STR in early 2022. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data are for 31 March 2025.
Sources: ECB and CNB.

statutory cap not been applied.

Interest rates on pure new time deposits and existing deposits of corporates and households edged further down in February 2025, continuing the gradual slowdown started at the end of the previous year. The interest rate on pure new corporate time deposits went down by 10 basis points in February from January, standing at 2.28%, while the interest rate on household deposits dropped by 8 basis points to 1.84% (Figure 16). The decrease was primarily caused by the lower interest rate on time deposits maturing in two to three months and their higher volume. The interest rate on total existing corporate deposits dropped to 0.58% in February, with interest rates on existing time deposits falling by 6 basis points (2.40%) and interest rates on overnight deposits by 3 basis points (0.11%). As regards the household sector, the interest rate on total existing household deposits decreased by 2 basis points from the previous month (0.45%). The interest rate on existing household time deposits dropped by 4 basis points (1.63%) and the interest rate on household overnight deposits held steady at 0.02%.

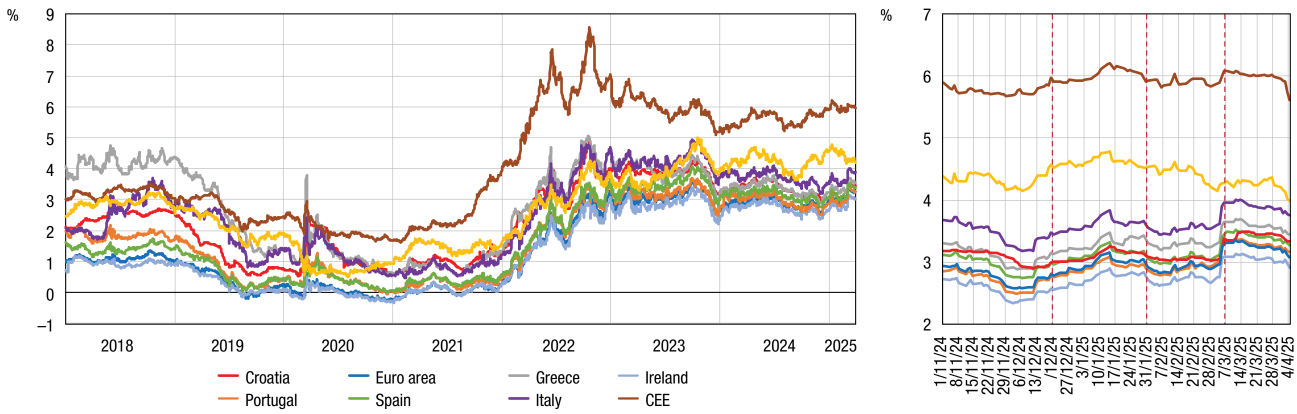
Domestic deposits decreased for the second successive month in February 2025, mainly because of the growth of

Figure 14 €STR forward curve



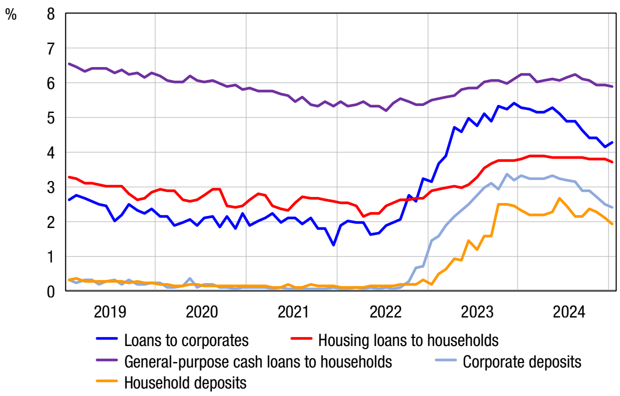
Note: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves show the selected forward curves formed on the day of the ECB Governing Council meeting in January 2025 and March 2025 and on the day of the last available data on 31 March 2025.
Sources: Bloomberg and CNB calculations.

Figure 15 Yields on long-term government bonds with the remaining maturity of approximately 10 years



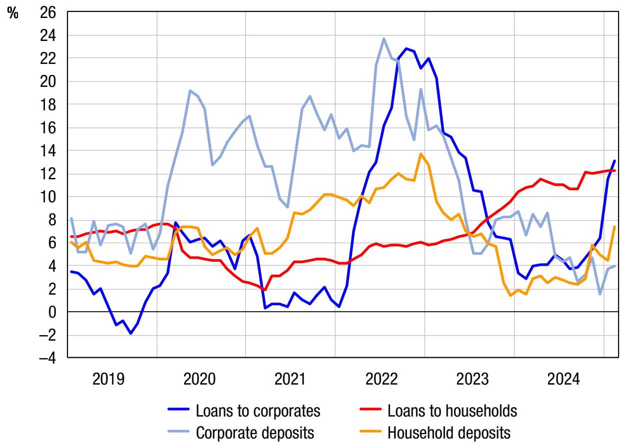
Note: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Estonia, Latvia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the shown period of time. Last data are for 31 March 2025.
Sources: Bloomberg, Eurostat and CNB calculations.

Figure 16 Interest rates on pure new loans and time deposits of corporates and households



Note: Data up to December 2022 refer to loans and deposits in kuna, in kuna with a euro currency clause and in euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of up to 1 month have been excluded.
Source: CNB.

Figure 17 Corporate and household loans and deposits
year-on-year rates of change, transaction-based



Source: CNB.

government deposits with the CNB following the issue of a twelve-year eurobond, with about EUR 0.5bn subscribed by residents. Domestic deposits dropped by EUR 0.3bn in February (0.5%, transaction based) from January; time deposits decreased by EUR 0.2bn, while overnight deposits dropped slightly less, by EUR 0.1 bn. Other financial institutions' time deposits decreased by EUR 0.2b and household time deposits were down by EUR 0.1bn, while corporate time deposits grew by EUR 0.1bn. The slight decrease in overnight deposits reflected a decrease in overnight corporate deposits (EUR 0.4bn) and the growth of overnight household deposits (EUR 0.2bn) and overnight deposits of other financial institutions (EUR 0.1 bn). Total corporate deposits went down by EUR 0.3bn and deposits of other financial institutions decreased by EUR 0.1bn, while total household deposits grew by EUR 0.1bn. The annual rise in total deposits, notwithstanding their decrease on a monthly level, accelerated to 7.0% in February from 4.8% in January due to the base effect, that is, a sharp decrease in deposits in February 2024 (Figure 17). The share of time deposits in total corporate deposits continued to rise, from 27.8% in January to 29.0% in February, while their share in total household deposits continued to decrease gradually, falling from 27.3% to 26.9%.

Loans to domestic sectors (excluding loans to the general government) continued to increase relatively sharply in February 2025. The increase of EUR 0.5bn or 1.1% (transaction based) resulted from the continuation of a relatively strong growth of corporate loans (EUR 0.3bn) and the growth of household loans (EUR 0.2%bn), which stabilised at the end of the previous year at the levels slightly lower than in a large part of the year. The growth of corporate loans in February was mostly driven by loans to manufacturing and trade enterprises, while loans to real estate enterprises also continued to grow strongly. The annual growth rate of corporate loans accelerated from 11.6% in January to 13.1% in February (Figure 17) or from 9.7% to 11.2% if the one-off effect of a syndicated loan from January is excluded. The growth of household loans was boosted by general-purpose cash loans, which grew by EUR 111m, more than in the previous three months, while housing loans continued to grow at a relatively stable pace (EUR 88m), although somewhat more weakly than in December 2024 and January 2025. The annual growth of total household loans remained the same as in January, 12.3%. The annual growth of housing loans accelerated from 9.4% in January to 9.6% in February, reflecting current trends, while the growth of general-purpose cash loans decelerated very slightly from 15.9% to 15.8% due to the base effect.