Information on economic, financial and monetary developments

May 2025

Summary

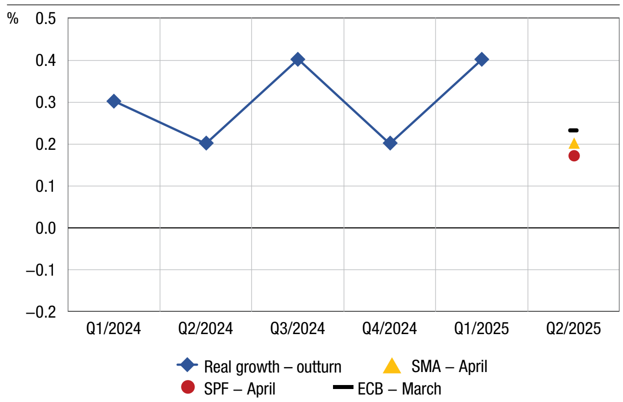
After growth in the euro area economy slowed down to 0.2% on a quarterly level towards the end of last year, the first Eurostat estimates suggest an acceleration to 0.4% in early 2025 (Figure 1). Economic developments in the first three months of this year surpassed market expectations and projections of the ECB, whose growth estimates ranged mainly between 0.2% and 0.3%. As regards the four major economies of the euro area, growth on a quarterly level was again the fastest in Spain (0.6%), followed by Italy (0.3%) while Germany and France recorded small increases in economic activity, of 0.2% and 0.1%, respectively. Ireland excluded, the euro area economy grew 0.3%. Economic activity is expected to grow further in the second quarter of the year, although at a somewhat slower pace amid growing uncertainties and trade tensions, as suggested by historically high global economic and trade uncertainty indices (Figure 2). The available survey indicators for April, such as the purchasing manager index (PMI) and the economic sentiment index (ESI) suggest a subdued economic activity. Thus the purchasing manager index in the services sector became stagnant in April, reflecting a relatively poor performance at the beginning of the second quarter. In contrast, the recovery in the purchasing manager index in industry that started in January continued into the beginning of the second quarter, which can probably to a degree be attributed to the announced increase in investments in defence and infrastructure. Nevertheless, the recovery remains at relatively low levels.

According to a flash estimate from Eurostat, overall inflation in the euro area in April remained unchanged at the level of 2.2% recorded in March. The smaller contribution of energy prices to overall inflation mostly offset the larger contribution of services prices (Figure 3); influenced by lower crude oil prices on the global market, consumer prices continued to fall in April. This resulted in a noticeable slowdown in the annual rate of inflation of energy prices to –3.5%, down from –1.0% in March. In contrast, food inflation continued to accelerate slowly to 3.0% from 2.9% in March as a result of increased inflation of the prices of unprocessed food products. Core inflation (excluding the prices of energy and food) rose in April to 2.7% from 2.4% in March as a result of an acceleration in services inflation to 3.9% from 3.5% amid relatively strong current upward pressures. Industrial products inflation held steady for the third month in a row at the level of 0.6%, reflecting further small inflationary pressures arising from developments in producer and imported prices of consumer goods (excluding food and energy).

According to high-frequency indicators for the first quarter of 2025, economic activity in Croatia might hold steady on a quarterly level, which is expected to reflect a noticeable slowdown in the annual growth rate of GDP. According to the CNB's nowcasting model of economic activity, real GDP might hold steady on a quarterly level in the first quarter, after having risen 1.5% in the previous quarter and slow down to 2.9% on an annual level, from 3.9% in the fourth quarter (Figure 4). The real retail trade turnover fell by 0.9% from the average in the last quarter of 2024, this being its first fall on a quarterly level after more than two years of steady growth. Such developments are largely due to retail-chain boycotts, the effects of which were most pronounced towards the end of January and in the first half of February. In the first quarter of 2025 the volume of industrial production rose by 2.3% from the fourth quarter of 2024, largely reflecting favourable developments at the beginning of the year, but fell visibly in February and March. If analysed by activities, the production of non-durable consumer goods and capital goods rose the most. In addition, despite a sharp fall in February, in the first two months of this year, the volume of construction works rose 1.1% from the average in the preceding quarter, largely driven by an increase in the volume of civil engineering works, which typically suggests a somewhat bigger hike in general government investments.

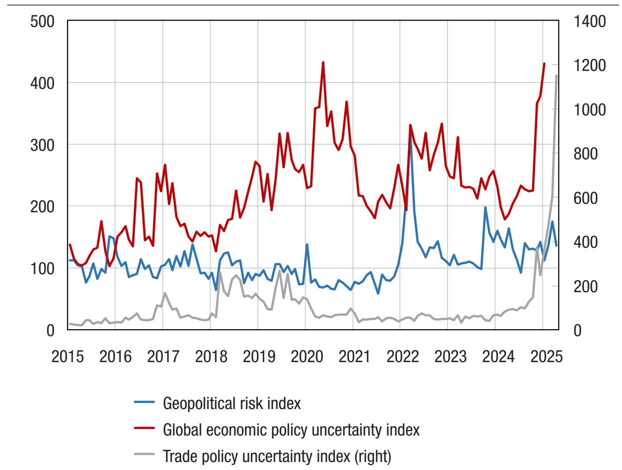
Survey indicators for the beginning of the second quarter suggest divergent developments among sectors, with optimism in all activities continuing to hover above long-term averages. Business expectations in industry continued to recover for the second month in a row, after having fallen relatively steeply in February. Optimism also continued to grow in construction, coming close to record levels. Optimism in the services sector held steady in April, after business optimism fell sharply in March to levels not recorded since 2021. In contrast, optimism in trade fell markedly in April, with the confidence in this activity being only slightly above its long-term average. The key reason for this fall is the perception of smaller sales in the last three

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



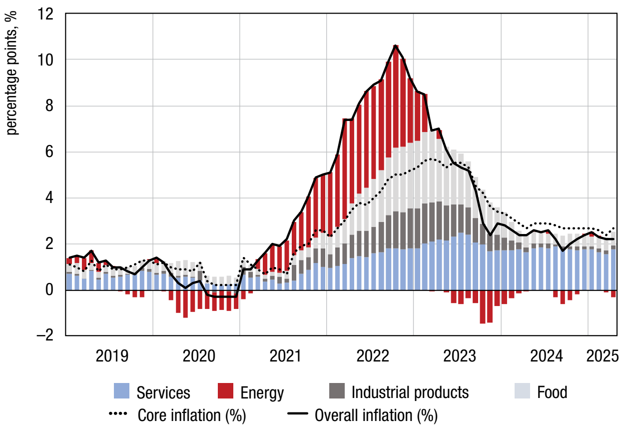
Notes: Abbreviation ECB – March refers to ECB March 2025 projections of real growth in the euro area (Macroeconomic Projection Exercise, MPE). Abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the April 2025 ECB survey of market participants.
Sources: Eurostat and ECB.

Figure 2 Uncertainty indices



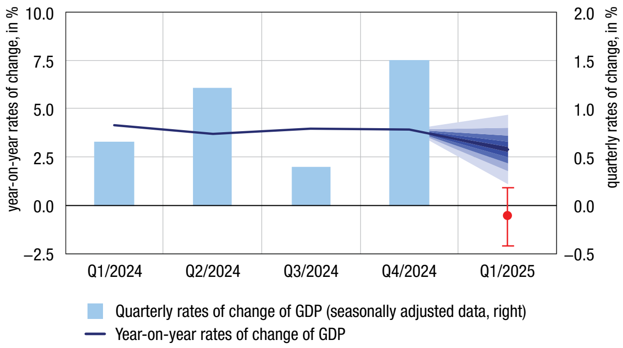
Sources: Bloomberg; Caldara and Iacoviello (2022), Goldman Sachs research.

Figure 3 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 4 Quarterly gross domestic product



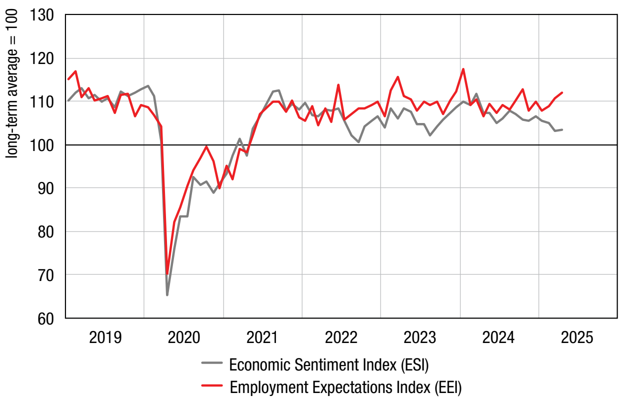
Notes: The estimate for the first quarter of 2025 refers to the Monthly indicator of real economic activity of the CNB (for more details on the calculation of the MRGA indicator, see CNB survey Kunovac, D., and B. Špalat: "Nowcasting GDP Using Available Monthly Indicators"). The models are estimated on the basis of data published up to 30 April 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.

months in the surveyed companies in trade activity coupled with lower expectations related sales in the following three months. Poorer sales expectations signal an expected fall in domestic consumption driven by fears of consumer restraint, which may partly be attributed to increased uncertainty in international trade. Household optimism held steady in April from the previous month, after having fallen noticeably at the beginning of the year and having recovered slightly in March (Figure 5).

In the first quarter, employment growth on a monthly level was relatively stable, although slower on average than last year's average, while wages continued to grow strongly. Employment growth continued both in the public sector and in the rest of the economy, with employment growth intensifying in public administration, education, health care and social work activities (activities O, P and Q) towards the end of the quarter. Overall, in the first quarter of 2025, employment growth accelerated to 0.9% from 0.4%, mainly as a result of the so called carry-over effect, i.e. an unusually low level recorded in November and a steep growth in employment towards the end of last year that was largely associated with legislative changes in the tax treatment of young employees since the beginning of the year. In contrast, in March 2025, the number of unemployed persons remained unchanged, while the first quarter of the year saw a considerable slowdown in the fall in employment (1.6% from 6.2% in the fourth quarter of 2024). In the first three months of 2025, the registered unemployment rate stood at 4.6%. A relatively strong wage growth continued into March 2025 when the average nominal gross wage rose by 1.9%. Wage growth in the public sector accelerated considerably following a 3%, increase in the wage-calculation base for civil servants and government employees, but in the rest of the economy, wage growth dynamics remained unchanged (Figure 6). On a quarterly level, the average nominal gross wage was 2.5% higher, a somewhat faster growth than at the end of 2024, with wages in the public sector rising by 1.5% and those in the rest of the economy by 3.3%. Inflation slowdown was accompanied by an acceleration in the growth of the real gross wage. On an annual level, in the first quarter of 2025, the average nominal gross wage rose by 14.7%, while its real value rose by 10.7% (Figure 7).

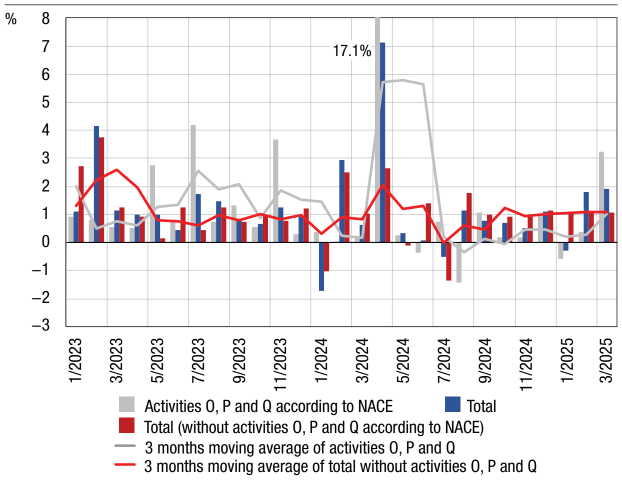
Inflation in Croatia slowed down in April 2025 as a result of low current pressures in energy and food and the favourable base effect in services, i.e. a stronger current pressure in the same period of the previous year that is no longer

Figure 5 Monthly indicators of economic activity in Croatia



Notes: The economic sentiment index (ESI), and the employment expectations 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.

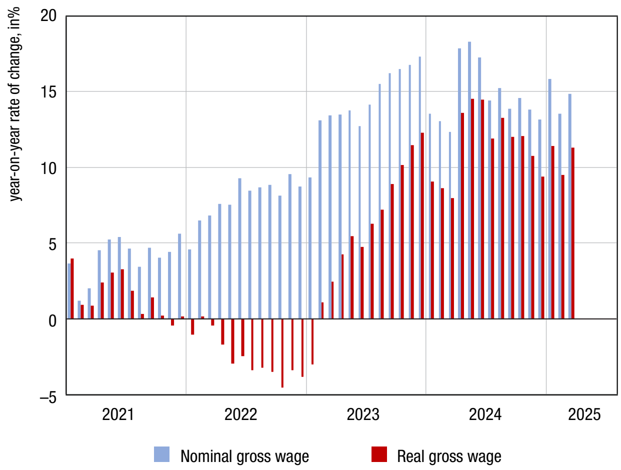
Figure 6 Nominal gross wages
monthly rate of change



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

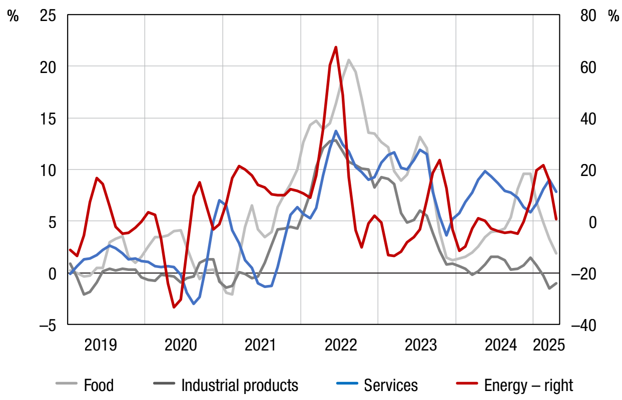
Figure 7 Nominal and real gross wages

year-on-year rate of change



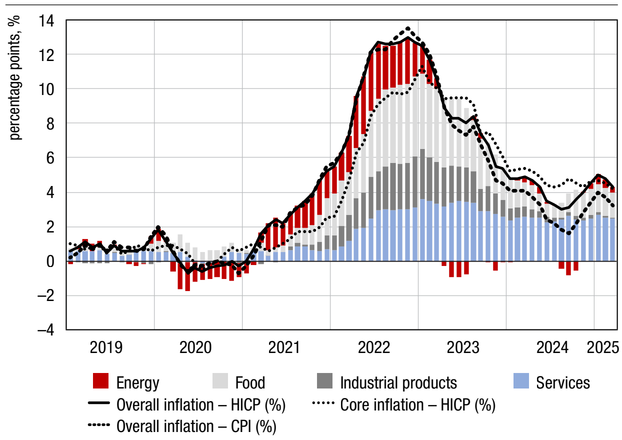
Sources: CBS and CNB calculations.

Figure 9 Momentums of the main inflation components



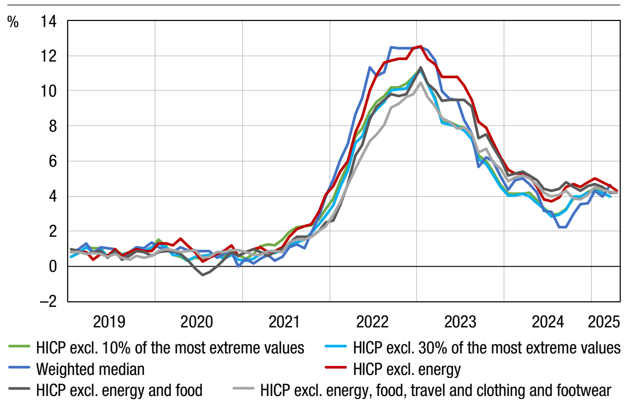
Note: The quarterly rate of change on an annual level is calculated from the quarterly moving average of seasonally adjusted harmonised consumer price indices.
Sources: Eurostat and CNB calculations.

Figure 8 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.

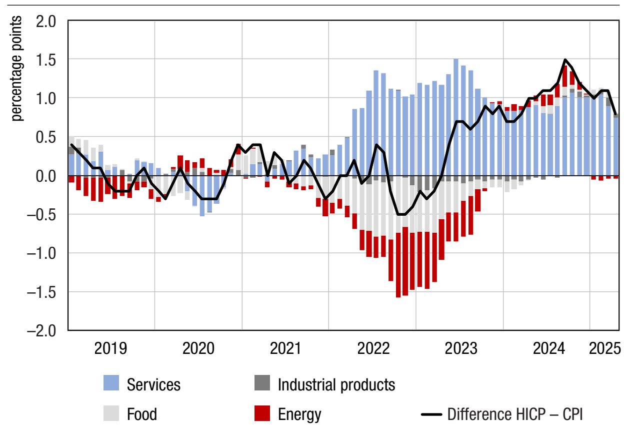
Figure 10 Core inflation indicators



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 except the weighted median of the distribution of price change.
Sources: Eurostat and CNB calculations.

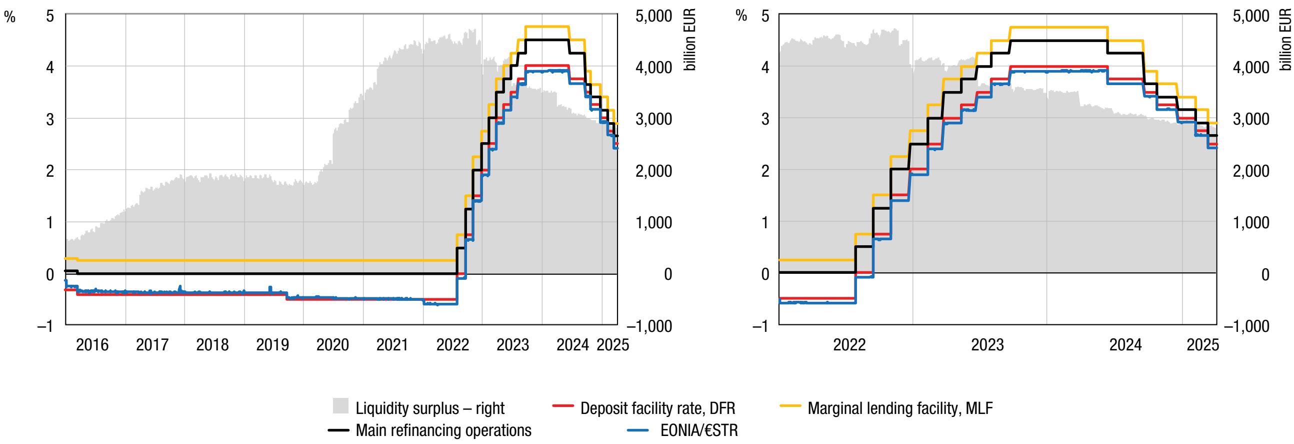
included in the calculation of the annual rate of inflation. According to the first estimate, the inflation measured by the harmonised index of consumer prices (HICP) slowed down in April to 3.9% from 4.3% in March (Figure 8) as a result of a slowdown in the inflation of the prices of all its main components, except industrial products. The annual growth rate of inflation of energy prices continued to slow down (to 1.1% in April from 2.2% in March) as a result of a monthly decrease in the price of refined petroleum products and a further slowdown in the inflation of food prices (to 4.6% from 5.2% in March). Services inflation slowed down further to 7.2% from 7.6% and industrial products inflation accelerated to 0.5% from 0.2% with the core inflation (excluding energy and food prices) remaining unchanged and standing at 4.2% in April (Figure 10). Despite its slowdown, services inflation continues to be the component with the biggest influence on overall inflation developments in Croatia, contributing 2.3 percentage points to the overall inflation of 3.9% while the contribution of food is 1.3 percentage points. High services inflation largely mirrors robust domestic demand and a tight labour market coupled with large wage growth. Overall inflation measured by the national

Figure 11 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 12 Key ECB interest rates



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

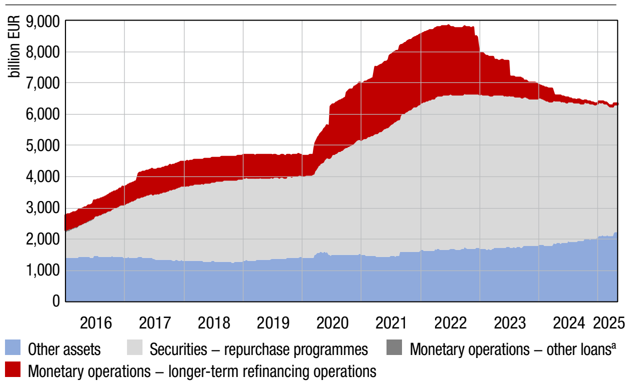
consumer price index (CPI)[1] slowed down only slightly, from 3.2% in March to 3.1% in April, with the difference between the harmonised and the national inflation indicators falling from the month before and standing at 0.8 percentage points in April. Higher inflation according to the harmonised indicator arises from a higher contribution of services prices (Figure 11).

At its meeting on 17 April, the Governing Council of the ECB continued to gradually lower key interest rates (Figure 12). The deposit facility rate, a relevant indicator of the ECB's monetary policy, was set at 2.25% starting from 23 April, a reduction of 25 basis points. In explaining its decision, the Governing Council has stressed that disinflation is well on track and that most of the measures of underlying inflation suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. Both headline and core inflation declined in March and services inflation has also eased markedly over recent months. Wage growth is moderating, and profits are partially buffering the impact of still elevated wage growth on inflation. The euro area economy has been building up some resilience against global shocks, but the outlook for growth has deteriorated owing to rising trade tensions. Increased uncertainty is likely to reduce confidence among households and firms, and the adverse and volatile market response to the trade tensions is likely to have a tightening impact on financing conditions. These factors may further weigh on the economic outlook for the euro area. The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. Especially in current conditions of exceptional uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. The Governing Council is not pre-committing to a particular rate path.

The size of the Eurosystem's balance sheet has continued to decrease gradually (Figure 13). In mid-December 2024, the banks paid off the remaining amounts borrowed under the targeted longer term refinancing operations, completing that part of balance sheet normalisation. The portfolio of securities purchased within the asset purchase programme (APP) and the portfolio of pandemic emergency purchase programme (PEPP) of the Eurosystem are declining steadily at a measured and predictable pace, with the principal payments from maturing securities purchased under the APP not being reinvested since July 2023 and the reinvestment of PEPP portfolio being brought to a halt at the end of last year.

The reciprocal tariffs announced by the US President in early April wreaked havoc on the markets and led to the recording of large daily and weekly shifts in various sectors. Even though the decision on reciprocal tariffs had been signalled in early April, the actual tariffs proposed exceeded market expectations, causing almost unparalleled damage inn diverse markets on both daily and weekly levels. The VIX index, which is a measure of the implied volatility of S&P500 index option prices, rose to 60. If a short-lived jump in August 2024 is excluded, in recent history such high levels were recorded only during the pandemic and the financial crisis of 2007/2008. The V2X index, the European counterpart of the VIX index based on Euro Stoxx 50 index, reached over 50, the highest level since the Russian invasion of Ukraine. Investor anxiety was also seen in a greater allocation of funds into asset classes traditionally perceived as safe havens. Accordingly, the 10-year German bond yield fell from

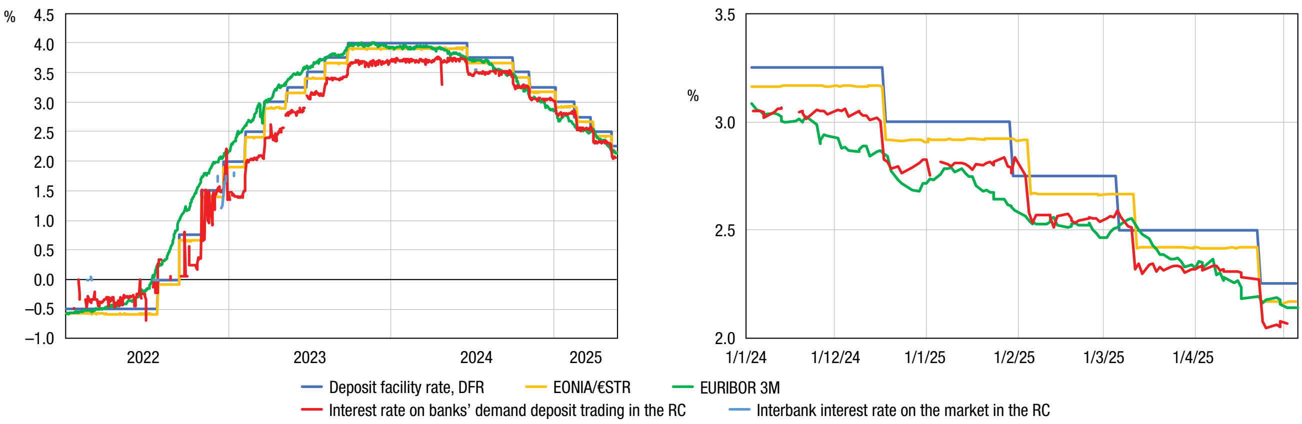
Figure 13 Eurosystem balance sheet



[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.

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



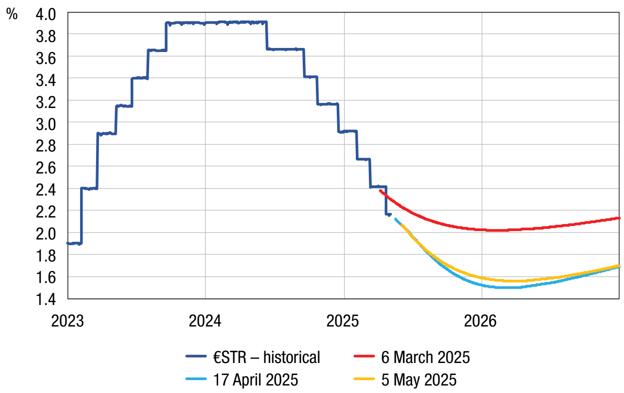
Notes: DFR (deposit facility rate). The EONIA was replaced by the €STR in early 2022. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data is for 5 May 2025.
Sources: ECB and CNB.

2.7% at the end of March to a little below 2.50%, despite the German fiscal plan announced only a month earlier envisaging increased borrowing for defence and investment in infrastructure and climate. Changes to the Constitution needed to implement such a plan were adopted by the German parliament in March. Yield spreads of most euro area countries in relation to Germany rose initially in April, in response to the announced tariffs, but by the end of the month they mostly returned the levels recorded prior to that announcement. This was also probably influenced by the decision of the US President on the suspension of the implementation of reciprocal tariffs for 90 days, which eased the tension on the markets. The yield on long-term government bonds of the euro area weighted by GDP thus fell relatively sharply in April, from 3.2% at the end of March to 2.9% at the end of April. The Croatian ten-year yield moved at a similar pace, falling from 3.4% at the end of March to 3.1% at the end of the month (Figure 16). At the same time, the US ten-year yield held steady at 4.2% on a monthly level, while the euro strengthened against the dollar, potentially suggesting greater investor orientation towards safer European havens. The fall in European yields was driven also by the expectations of a faster reduction in the interest rates of the European Central Bank than in early March (a shift from the red line to the blue and yellow line in Figure 15). Thus in April, the three month EURIBOR fell from 2.3% to 2.1% (Figure 14).

The fall in interest rates on corporate and household loans and deposits continued into March. In March, the average interest rate on pure new corporate loans fell by 35 basis points from February and stood at 3.68%, 175 basis points below its record level in December 2023 at the time of the last period of an increase in key ECB interest rates (Figure 17). In March, households also borrowed at a lower average interest rate than in February, i.e. at a rate that was 4 basis points lower for general purpose cash loans (5.86%) and 28 basis points lower for housing loans (2.92%). The interest rates on housing loans fell considerably for the second month in a row in all systemically important banks. The amounts of new loans rose considerably, particularly in banks that had lowered their interest rates back in January. The amount of renegotiated loans also rose markedly as a result of more favourable financing terms. If compared to its highest level in April 2024, the average interest rate on pure new housing loans in March this year was 96 basis points lower and that on general purpose cash loans was 40 basis points lower than the highest rate recorded in January 2024. The interest rates on the existing corporate loans and general-purpose cash loans to households also continued to fall steadily, reaching 4.04% and 5.96%, respectively. The interest rates on the existing housing loans also fell, after having risen steadily since mid-2023. As regards deposits, the interest rate on pure new corporate time deposits fell in March by 12 basis points from February and stood at 2.16% while that on household deposits fell by 2 basis points to 1.82% (Figure 17). The interest rates on total existing corporate and household deposits also fell slightly (to 0.57% and 0.44%, respectively), with the interest rates on time deposits falling slightly and those on overnight deposits remained unchanged.

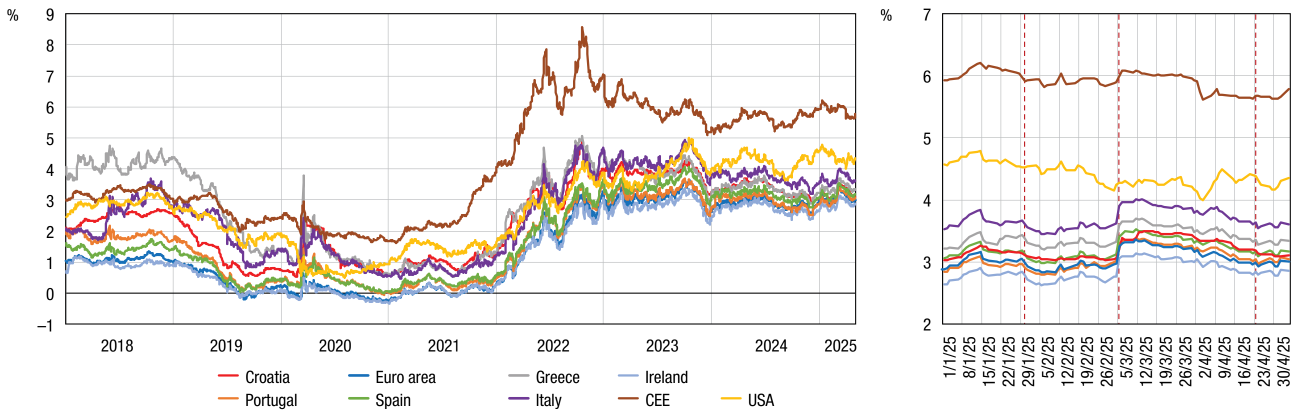
Household lending strengthened in March, while corporate lending slowed down slightly. The growth in household loans reflects the increase in general-purpose cash loans, which was considerably faster than in the preceding month (EUR 136m or 1.5%), while the growth in housing loans, fuelled by a considerable reduction in interest rates, reached its highest level since the last round of the government housing loans subsidy programme (EUR 116m or 1.0%). On an annual level, the growth in total

Figure 15 €STR forward curve



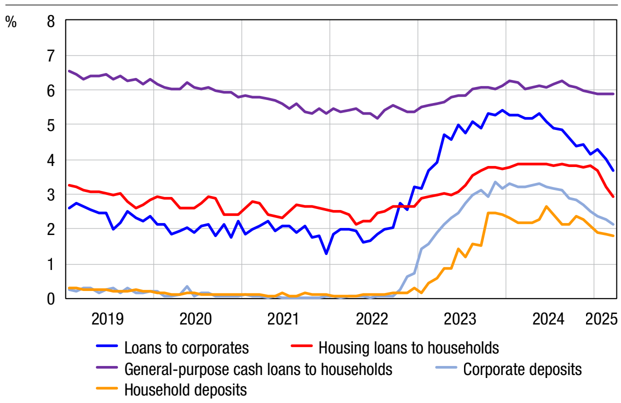
Notes: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves show the selected forward curves formed on the day of the ECB Governing Council meeting in March 2025 and April 2025 and on 5 May 2025, the day of the last available data.
Sources: Bloomberg and CNB calculations.

Figure 16 Yields on long-term government bonds with the remaining maturity of approximately 10 years



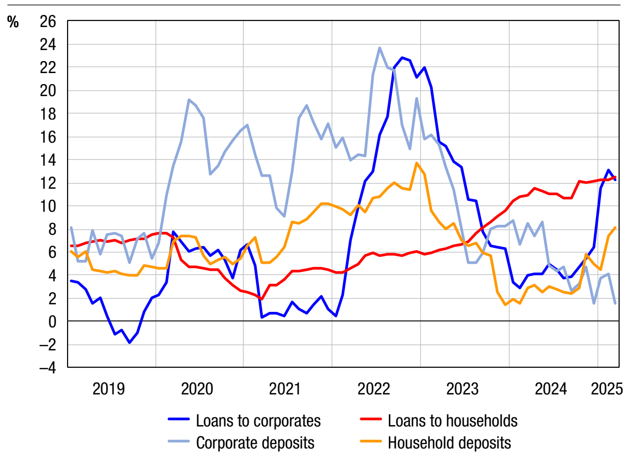
Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the period of time shown. Last data are for 5 May 2025.
Sources: Bloomberg, Eurostat and CNB calculations.

Figure 17 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, 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 18 Corporate and household loans and deposits
year-on-year rates of change, transaction-based



Source: CNB.

household loans accelerated slightly from 12.3% in February to 12.5% in March (Figure 18). In March, the annual growth rate of housing loans reached 10.0% (up from 9.6% in February), while the growth of general-purpose cash loans slowed down slightly from 15.8% to 15.6% due to the effect of the base period, i.e. a somewhat faster monthly increase in March of the previous year. A smaller increase in corporate loans in March from the same month of the year before led to a slowdown in the annual growth rate of corporate loans from 13.1% in February to 12.2% in March.

Domestic sectors' deposits with credit institutions (excluding the general government) also rose in March by EUR 0.2bn or 0.3%). Apart from the growth in household and corporate loans, the increase in deposits was also due to the growth in net claims on the central government, which almost fully offset the decrease in the net foreign assets of monetary institutions. As regards the structure of domestic deposits, overnight deposits rose by EUR 0.4bn, mostly those of households, while the sector of non-financial corporations fully accounted for the fall in time deposits of EUR 0.2bn. The monthly increase in total domestic deposits resulted in a further acceleration in the annual growth rate, which reached 7.4% in March. The share of time deposits in total corporate deposits (27.9%) fluctuated around last year's levels and in the household sector, after peaking in mid-last year (29.2%), this share has been falling steadily, reaching 26.7% in March.