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Macroeconomic Developments and Outlook

Year X · Number 19 · December 2025

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Contents

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Summary

Global economic developments in 2025 have proven resilient to trade tensions and heightened trade policy uncertainty. Consequently, projections of global economic growth have been revised upwards from previous expectations. As protectionist trade policy measures had a relatively limited effect on global economic growth, the global economic expansion decelerated only slightly from 2024. This was supported by the decline in uncertainty about the trade policy of the US administration following a series of trade agreements reached in the second half of the year. However, global trade growth has been slowing down as tariffs increased and the favourable effects of the surge in trade and inventories from before they took effect dissipated. Global growth projections have been revised upwards due to the relatively robust economic developments, with a corresponding increase in the expected growth in global trade. However, this growth is expected to decrease in the year to come. Inflation on a global scale continued to slow down, also aided by the decline in commodity prices. The global disinflation trend reflected the decline in inflation in developing countries, while inflation developments in advanced economies are becoming increasingly more heterogeneous, due, among other things, to various labour market developments. Under these circumstances central banks mostly persisted with monetary policy easing.

Expectations with regard to economic developments in the euro are also slightly more favourable but growth remains relatively subdued, and inflation remains close to the target. Real GDP growth in the third quarter 2025 totalled 0.2% (after having registered 0.1% in the second quarter) and similar developments could continue at the end of 2025. Recent indicators show that the services sector continues to be the main growth generator, while industrial production remains subdued. The resilience of the euro area economy to the mounting global challenges, stronger external demand and reduced trade uncertainty was also reflected in slightly improved growth projections, with expansion expected to be largely supported by domestic demand, which reflects a robust labour market, the delayed effect of the cuts in key interest rates in the period until June 2025 and the announced growth of defence and infrastructure investments. The euro area labour market remains robust, with signs of labour demand slowing down and unemployment still at its historical low. Employment growth is largely more in sync with the historical connection between employment and economic activity than in the last two years which has led to a partial recovery in productivity growth. After the temporary acceleration late in 2024 and at the beginning of 2025, inflation in the euro area stabilised at around the 2% target and ranged between 1.9% and 2.2% from March to November. The greatest contribution to the slowdown in inflation from the end of 2024 came from the decrease in service price inflation, which, continues to be above the long-term average and has regained strength in the period from September to November. Total inflation in the euro area could still, temporarily, decrease below the target level amid the decline in the prices of energy, slowdown in the growth of food prices and wage growth, with the appreciation of the euro also contributing to the expected slowdown.

The ECB key interest rates remained unchanged in the second half 2025 with euro area inflation ranging around the mid-term target of 2%. The Governing Council of the ECB lowered the deposit facility rate (DFR) of the central bank on eight occasions in the period from June 2024 to June 2025, by a total of 200 basis points, after having kept key interest rates steady since

September 2023, which is, amid the current high liquidity surplus, a good indicator of the ECB monetary policy. The DFR of the central bank has thus remained at the 2% level since June 2025. The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target and it will continue to base its decisions on a meeting-by-meeting and data-dependent approach. In doing so, the Governing Council is not pre-committing to a particular rate path.

The yields on European government bonds were relatively stable, while equity indices mostly rose, reaching historical highs in some European countries. The euro exchange rate appreciated slightly against the US dollar in the period from the end of the first half of 2025 until the end of November. Despite frequent shifts in news with significant potential effects on the euro area economy (such as tariff negotiations and talks on ending the conflict in Ukraine) the yields on European bonds fluctuated within a narrow range from the end of June to the end of November. The euro area GDP-weighted long-term government bond yields stood at 3.1% at the end of November, only several basis points higher than at the end of June. The spreads between government bonds of euro area countries and benchmark German bonds continued their downward trend. Particularly noteworthy is the narrowing of the yield spread between Italian long-term government bonds and German bonds. In addition to Italian, there was a visible reduction in the yield spread between Croatian long-term foreign government bonds and German bonds, which narrowed towards the level of 30 basis points. This is the narrowest yield spread recorded since Croatia's first issue of regular long-term bonds on the international market. The exception to the general trend of decreasing yield spreads was provided by French bonds due to rising political uncertainty.

The costs of financing of corporate and household sectors in Croatia mostly decreased in the second half of 2025 and loan growth slowed down. Interest rates on pure new corporate loans were lower in October than in June, as were interest rates on general-purpose cash loans to households, while interest rates on housing loans did not change much. Interest rates on corporate time deposits also remained at lower levels attained in the middle of the year, while those on household time deposits shrank slightly. The increase in corporate loans slowed down from July to October, as did the increase in household loans, which has been under the influence of macroprudential measures adopted in July. General-purpose cash loans decelerated more sharply, while the slowdown in the growth of housing loans was milder partly due to the lagged disbursement of loans contracted before July. Total deposits increased, reflecting the rise in overnight deposits, especially of households, and also to a lesser extent in household time deposits.

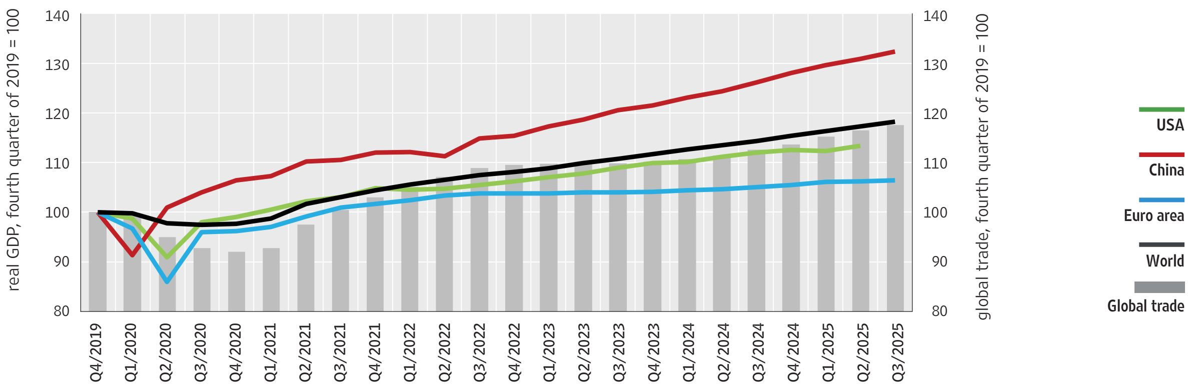
The expansion of economic activity in Croatia might continue to slow down gradually. The real GDP growth in the euro area in the third quarter slowed down noticeably due to the weakening of personal consumption and the visible decline in the exports of services, while the growth of investments and exports of goods increased. The decline in the exports of services is predominantly connected with developments in tourism and the decline in real spending of non-residents. According to the latest available data for the fourth quarter, economic activity could gain strength at the end of the year pushing real GDP growth up to 3% on an annual level in 2025, after the 3.8% registered in 2024, which is slightly below previous expectations. Growth is predicted to slow down slightly next year, to 2.8%, reflecting the expected slowdown in the growth of real income and less stimulative fiscal policy. Wage and employment growth slowed down in 2025 with such trends expected to continue over the remainder of the projection horizon. In 2026, however, domestic demand could continue to be the main growth generator, since due to the tightness in the market, employee compensations could grow relatively sharply. The use of EU funds is also expected to strengthen, thus supporting investment activity. At the same time, the growth in external demand could favourably affect developments in the exports of goods, while the exports of services are likely to remain relatively stagnant due to the deterioration in the price competitiveness of Croatian tourism. Real GDP growth in 2027 could continue to slow down slightly predominantly owing to the weakening of the growth of investments after the commencement of programmes financed from the Recovery and Resilience Facility, while the use of structural and cohesion funds from the EU's current multiannual financial framework could gradually intensify. Assuming that global and geopolitical tensions do not escalate, the growth of Croatia's main trading partners is expected to continue which could also have a stimulative effect on Croatia's exports.

After the temporary acceleration of total inflation at the end of last year and the beginning of 2025 resulting from the rise in the prices of food and energy, current upward price pressures were mostly weaker than in 2024 and in the upcoming two years inflation is expected to slow down. The average annual inflation rate measured by the harmonised index of consumer prices (HICP) could increase from 4.0% in 2024 to 4.4% in 2025 and inflation measured by the consumer price index (CPI) from 3.0% to 3.7%. The increase in the average annual inflation rate largely reflects the acceleration in inflation at the end of last year and at the beginning of 2025, primarily under the influence of the prices of energy and food prices. Despite the continued slowdown in core inflation, it remains elevated, in particular in the segment of services price inflation. Total inflation is expected to slow down (to 3.4% by HICP and 3.1% by CPI) in 2026 due to the expected continuation in the slowdown of core inflation and the deceleration of the annual growth in food prices. In contrast, energy inflation could increase further in 2026 on the back of the gradual rise in administrative energy prices for households. The projected deceleration of overall inflation to 2.4% in 2027 by HICP and 2.3% by CPI reflects an annual price growth of all main components (energy, food and core inflation) slower than in the previous year. The deceleration of inflationary pressures in Croatia along the projection horizon should be influenced by a slowdown in the growth of economic activity and unit labour costs (due to a slowdown in wage growth and accelerating productivity growth), subdued growth in foreign demand for tourism services, as well as a decrease in the prices of energy products and food raw materials on the global market and a slowdown in inflation in the main trading partners. In addition, the CNB's macroprudential measures aimed at restricting credit-financed household consumption, introduced in July 2025 to preserve financial stability, are also expected to alleviate domestic inflationary pressures.

1 Global economy

Global economic activity has proved to be relatively resilient to trade tensions and increased trade policy uncertainty. In consequence, growth has decelerated less than expected. As protectionist trade measures had a limited effect on global economic growth in the first nine months of 2025, the global economic expansion decelerated only slightly from 2024 (Figure 1.1). However, the US annual economic growth is expected to slow down substantially, due to tariff increases, rising trade uncertainty and a prolonged government shut-down. China's growth will run slightly below the 5% target as a result of a strong economic performance driven by fiscal stimuli and an uptick in exports early in the year and to an economic slowdown in the second half of the year caused by weakening domestic demand and global trade conditions.

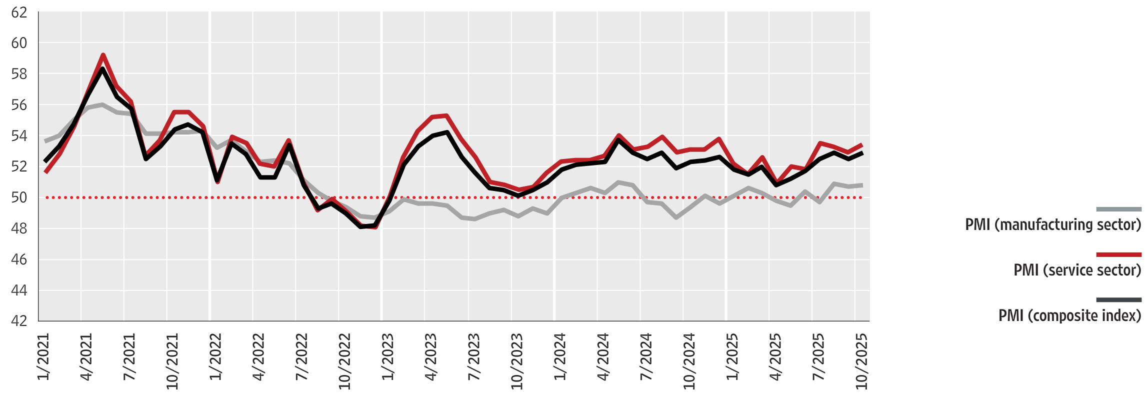
Figure 1.1 Economic activity in major markets and global trade



Sources: Eurostat, BEA and NBS.

Survey indicators point to more favourable global economic developments in the second half of 2025 after a slowdown in the first half of the year. The global composite purchasing managers' index (PMI), which fell to its lowest level since 2023 in April due to the introduction of tariffs in the US and strong trade uncertainties, gradually recovered in the remainder of the year, including a brief decrease in September (Figure 1.2). The services PMI has been constantly elevated, while the manufacturing PMI, usually slightly more volatile, was in contraction territory in April, May and July. Manufacturing activity proved resilient in the second half of the year, due among other things to the inventories accumulated right before tariffs were raised, which gave a boost to the services sector in general and transport services in particular, while global demand supported the growth of software services.

Figure 1.2 Confidence indicators for the global economy



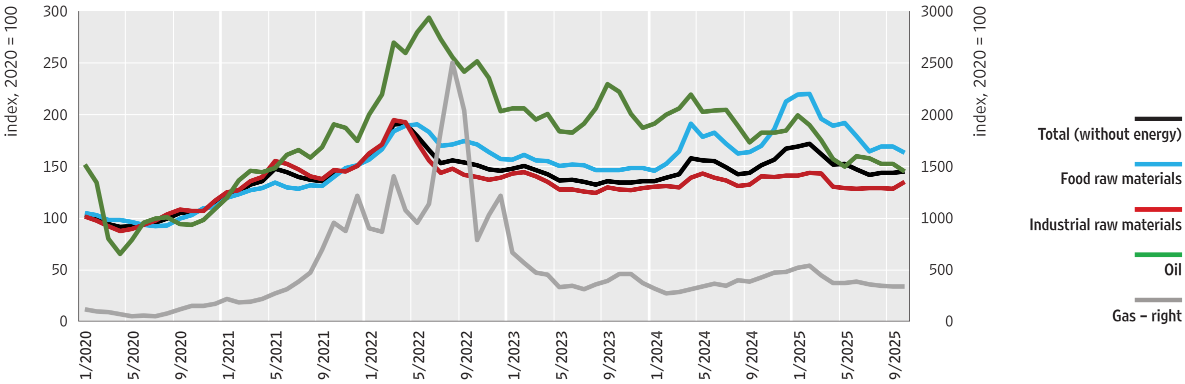
Note: Index value above 50 indicates expansion, while index value below 50 indicates contraction of economic activity.
Source: S&P Global.

However, global trade growth has subsequently decelerated as the favourable effects produced by increases in trade and inventories before the announced tariffs took effect have disappeared. The growth of non-euro area imports slowed down from 1.7% in the first quarter to 0.9% in the second quarter of 2025. Global trade activity is supported by the favourable results of trade with a small number of growing emerging economies, including India, Egypt and Turkey, which are, however, subject to subsequent revisions. While downside risks to trade posed by the introduction of trade barriers have so far not fully materialised, a negative impact is expected from the fading effects of increases in inventories, and increased tariff rates are expected to make a stronger impact than in the period before the onset of trade tensions. This is also indicated by the weakening of global goods exports, which declined from March to August, while the PMI new export orders index in the manufacturing sector remained in contraction territory despite a recovery. In contrast, the resilience of global trade activity could be supported by the November agreement between China and the US that reduced tariffs on imports from China and by the growth of exports from South East Asian countries in the context of a potential reorientation of global value chains and trade in technological products driven by AI investments.

Energy product prices in the global market have been falling in 2025 due to an oil supply surplus and a lower gas demand. After a temporary growth in January, driven by optimism surrounding global growth and demand from China, oil prices started to fall (Figure 1.3). Decreasing oil demand amid trade tensions, coupled with excess supply shown by higher reserves in OECD countries and China, has led to a supply-demand imbalance in the oil market. The growth of supply in the market reflects an increase in oil output in the US, Brazil and Canada and the agreed increase in OPEC+ countries' output in the period from April to October. Downward price pressures stemming from the supply-demand imbalance have been mitigated by the new US sanctions on Russian oil exporters. Price pressures on the gas market also strengthened at the beginning of the year due to the colder winter in North West Europe, only to be followed by a drop in prices immediately in the first half of the year, caused by high oil reserves and the expected expansion of the LNG capacity in the EU. On an annual basis, the fall in gas prices reflects the impact of demand-side factors, including historically low gas consumption in Europe and a lower demand for liquefied gas in Asian markets, with potentially more favourable weather conditions affecting prices in Europe in the second half of the year.

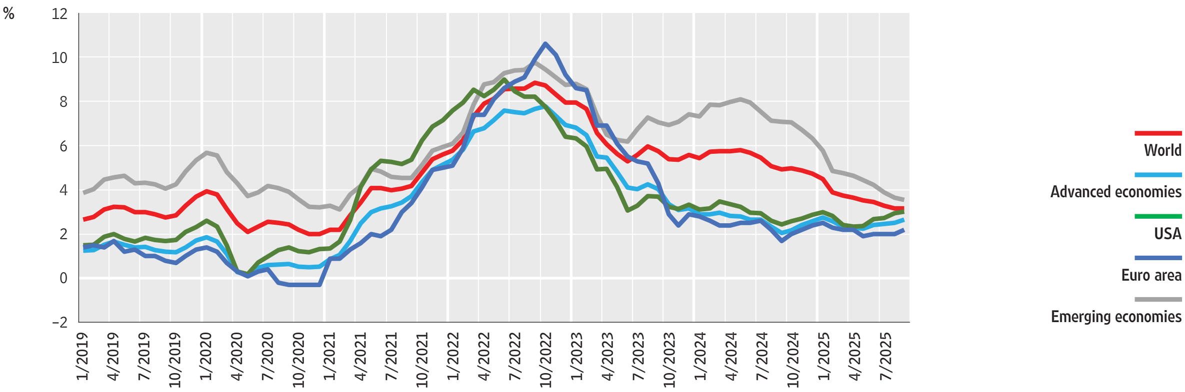
Having surged at the end of the previous year, non-energy commodity prices have been decreasing in 2025. Food prices, whose growth intensified in the previous year as a result of poor weather conditions, have been dropping further in 2025. Metal prices have been rising, especially aluminium prices, which, after a short-term fall following the introduction of tariffs in April, rebounded and continued to grow, exceeding the values from the same period in the previous year in October. The rise in metal prices is also due to a surge in copper prices caused by production breakdowns at the world's second-largest mine in Indonesia.

Figure 1.3 Prices of energy and other raw materials



Source: HWWI (Euroland, EUR).

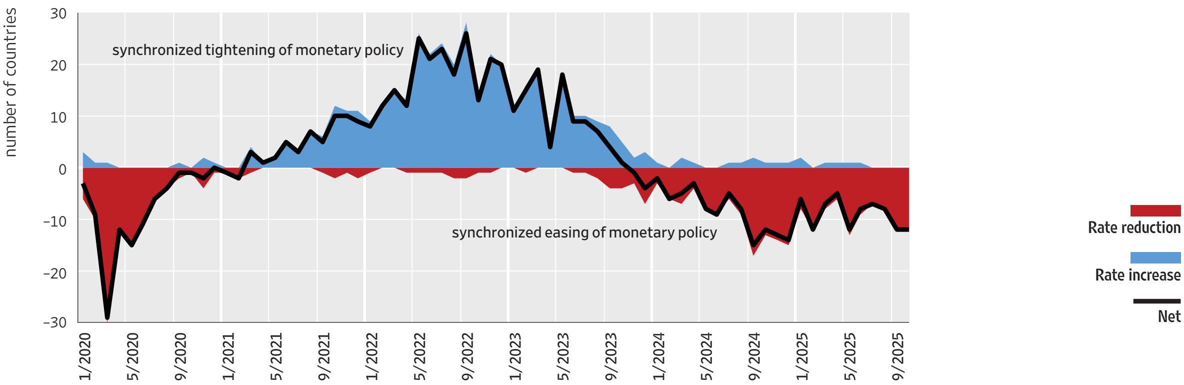
Figure 1.4 Global inflation



Sources: Federal Reserve Bank of Dallas and Eurostat.

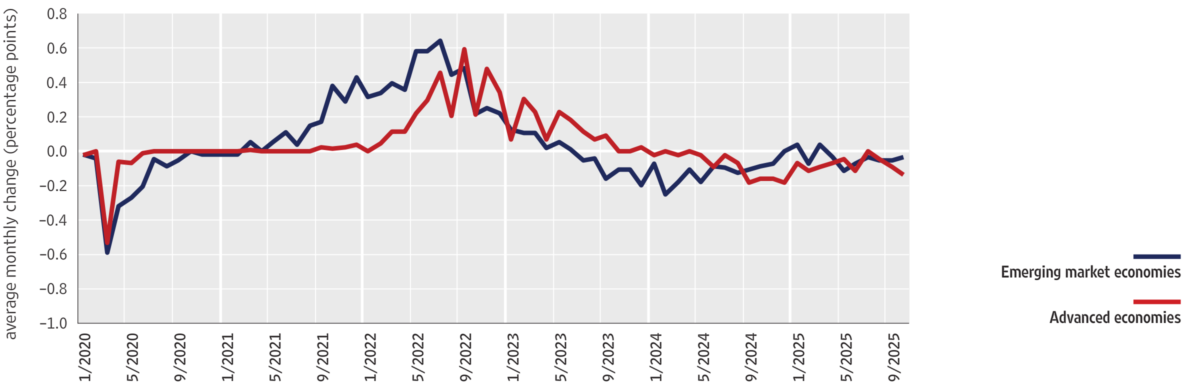
The global disinflation trend has continued in 2025, and is especially strong in developing countries, while inflation developments in advanced economies are becoming increasingly heterogeneous. A slower rise in inflation in developing countries is due to a more moderate increase in food prices and a fall in energy prices in most of the economies, accompanied by a drop in the US dollar exchange rate (Figure 1.4). A slowdown in the prices of services and a decrease in the prices of energy in advanced economies, coupled with a stronger growth of food and basic goods prices, has resulted in the mild growth of the inflation rate in this group of countries, with significant regional differences. Stronger inflationary pressures have been observed in recent months in the United Kingdom, Japan and the US (with the materialisation of the effect of tariffs) and inflationary divergence in developed countries is also due to different labour market developments. Under such circumstances central banks have continued to lower key interest rates (Figure 1.5), with the intensity of easing being slightly higher in developed countries (Figure 1.6).

Figure 1.5 Shifts in the course of monetary policies of selected central banks



Note: Data show the average monthly change in key interest rates of 38 central banks.
Source: BIS.

Figure 1.6 Changes in central bank key rates by country groups



Note: Data show the average monthly change in key interest rates of 38 central banks.
Source: BIS.

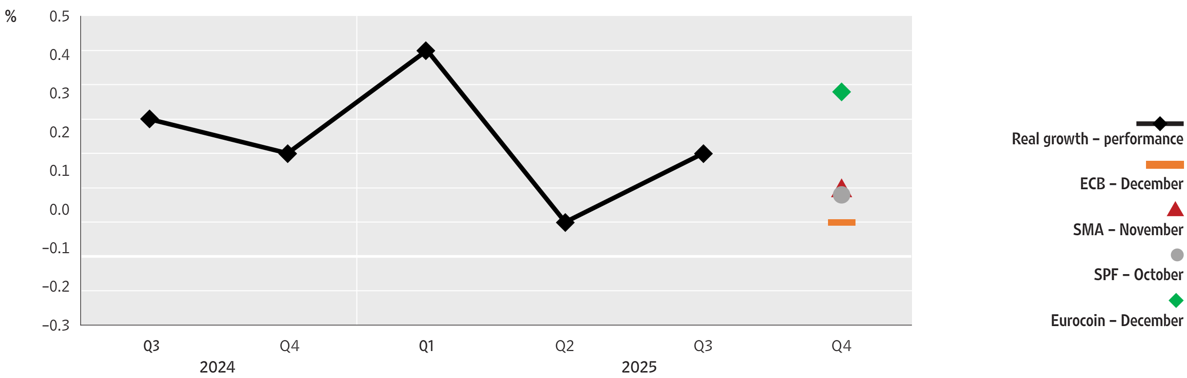
2 Euro area

2.1 Real developments

Economic growth in the euro area accelerated in the third quarter this year but remained relatively subdued. The real GDP growth in the euro area in the third quarter 2025 was 0.3% after slowing down to 0.1% in the second quarter (Figure 2.1.1). The growth recorded in the third quarter slightly exceeded market expectations and the ECB's projection, confirming the resilience of the euro area economy to the effects of US tariffs. As regards the four largest economies, growth in the third quarter was again the fastest in Spain (0.6%) and France (0.5%), while in Italy and Germany economic activity stagnated. Due to the strong growth at the beginning of the year, spurred by accelerated imports ahead of the announced introduction of US tariffs and the positive carryover effect from 2024, the euro area economy grew by 1.4% in the third quarter of this year from the same period last year, while in the first nine months this growth totalled 1.5%.

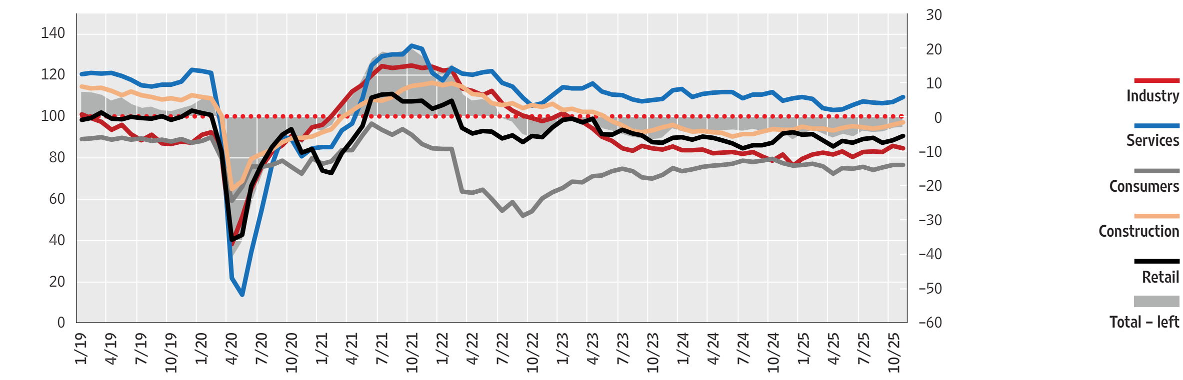
Most estimates for the fourth quarter this year suggest continued growth of economic activity although the signals on its dynamics relative to the third quarter are mixed. Survey data point to continued moderate increase in euro area GDP at the end of the year, with the service sector remaining the main growth generator. The purchasing manager index (PMI) increased noticeably in October and November from the third quarter which primarily reflects a strong growth of the service component. On the other hand, the industrial component, after having strongly increased at the beginning of the year partially due to announcements of stronger investments in defence and infrastructure, went down slightly from the third quarter and entered contractionary territory. The Economic Sentiment Indicator grew as well thanks to the improvement in the service sector, reaching its highest level since the beginning of 2023 but still below the long-term average (Figure 2.1.2).

Figure 2.1.1 Economic activity in the euro area



Notes: Abbreviation ECB – December refers to ECB – December 2025 projection. Abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the ECB survey of market participants in November and October. The Eurocoin indicator, developed by Banca d'Italia, refers to the model for nowcasting the quarterly rate of change in the real GDP of the euro area derived from the available high-frequency data (November estimate).
Source: Eurostat.

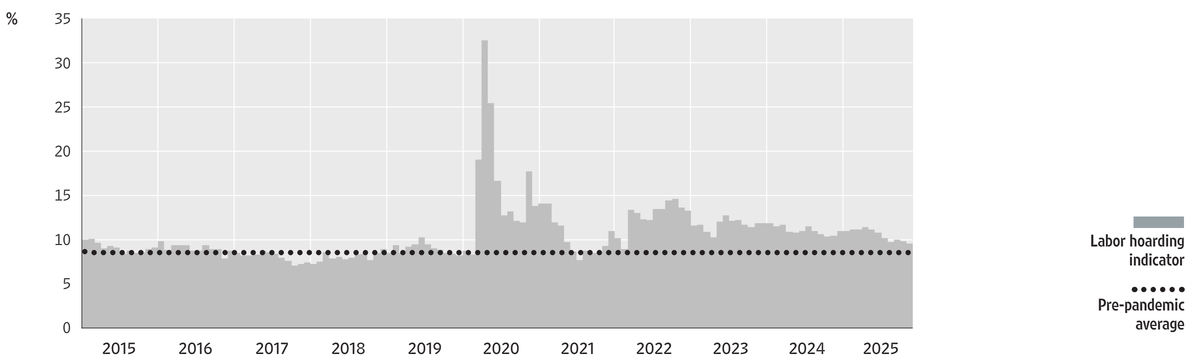
Figure 2.1.2 Euro area economic sentiment indicators



Note: Total index value above (below) 100 refers to values higher (lower) than the long-term average.
Source: Eurostat.

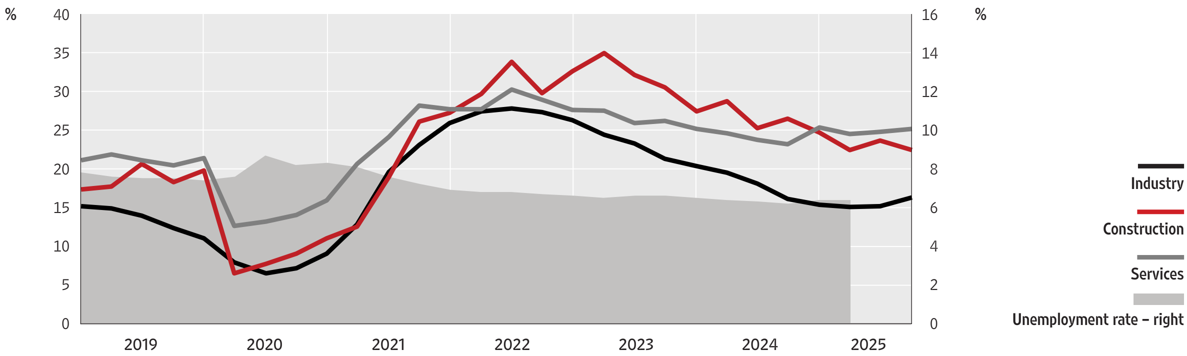
The euro area labour market remains robust, with signs of labour demand stabilising at a slightly increased level. Employment grew only slightly in the third quarter (0.2%) with developments in employment now being more in sync with the historical connection between employment and economic activity (Figure 2.1.3) which has also led to a partial recovery in productivity growth. Accordingly, unemployment in the euro area is still at its historical low with the unemployment rate coming to 6.4% in October. Survey data suggest that a mild employment growth could continue at the end of the year, with the perception of companies regarding labour shortages mostly stabilising and economic agents in the last two year not listing the labour force as a limiting factor in their operations as often (Figure 2.1.4). In the first nine months of 2025 compensation per employee grew at a relatively stable pace, the average quarterly rate of 1.0% with the annual growth slowing down to 3.9% from the average 4.6% in the same period last year. The available data on advertised and contracted wages for the euro area suggest that the slowdown in the wage growth might also continue throughout the second half of 2025.

Figure 2.1.3 Labour hoarding indicator in the euro area



Notes: Labour hoarding indicator is based on a business survey (expectations regarding the domestic product and employment). The pre-pandemic average relates to the average indicator in the period from 2015 to 2019.
Source: European Commission.

Figure 2.1.4 Labour shortage and unemployment rate in the euro area

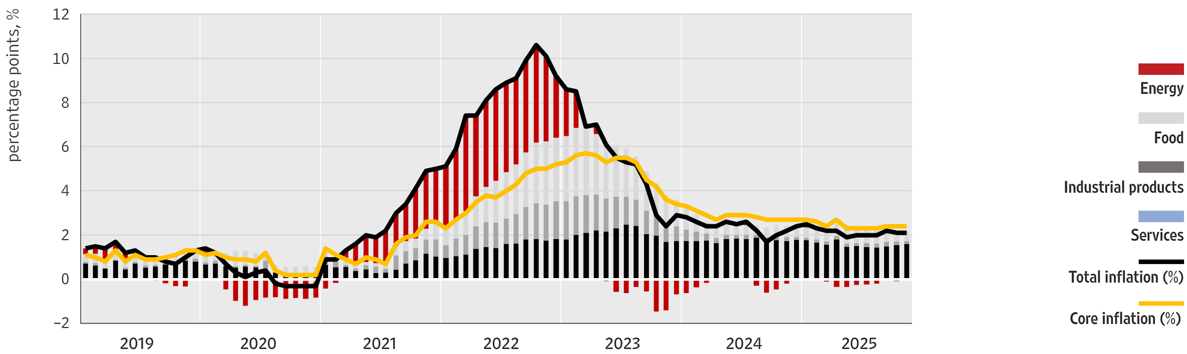


Note: Labour shortage is measured by a quarterly survey and indicates the percentage of firms reporting a labour shortage as the main obstacle to business activity.
Sources: European Commission and Eurostat.

2.2 Price developments

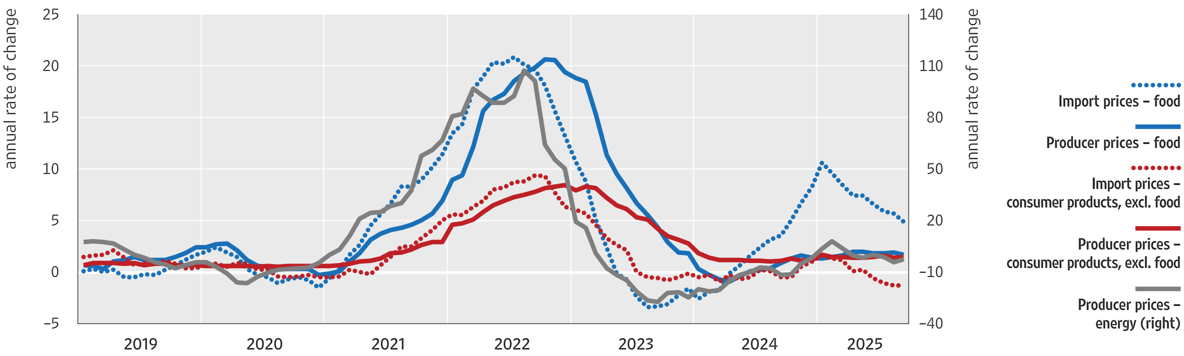
After the temporary acceleration of inflation in the euro area late in 2024 and at the beginning of 2025 it stabilised at around the 2% target and ranged between 1.9% and 2.2% from March to November. The greatest contribution to the slowdown in the overall inflation to 2.2% in November from 2.4% in December 2024 came from the decrease in services inflation (Figure 2.2.1). Amid the conditions of declining prices of electricity and natural gas, energy price inflation slowed down to –0.5% in November from 0.1% in December 2024. Food price inflation increased by mid-2025, primarily as a result of the spillover of the increase in the prices of food raw materials (especially coffee, cocoa and beef) to retail food prices in the euro area. The trend as reversed in August, so food price inflation in November went down to 2.4%, slightly below the 2.6% recorded in December 2024.

Figure 2.2.1 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.

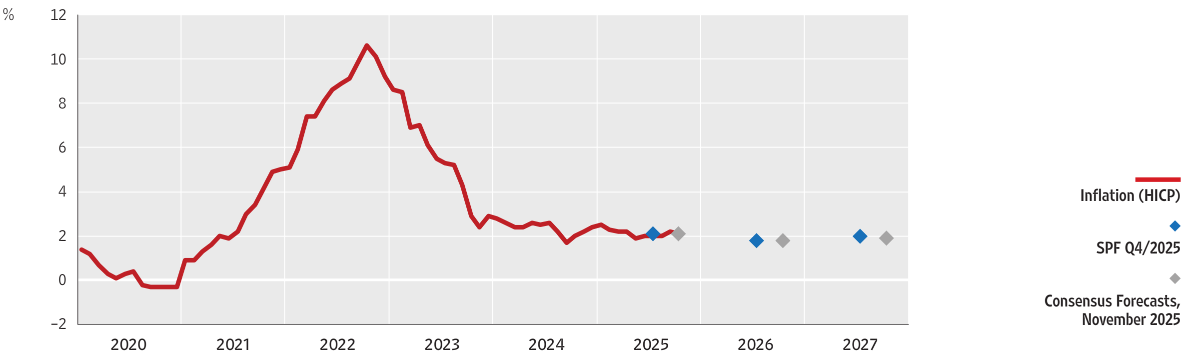
Figure 2.2.2 Indicators of price pressures along the euro area pricing chain



Notes: Producer prices refer to the domestic market. Food prices include alcoholic beverages and tobacco.
Source: Eurostat.

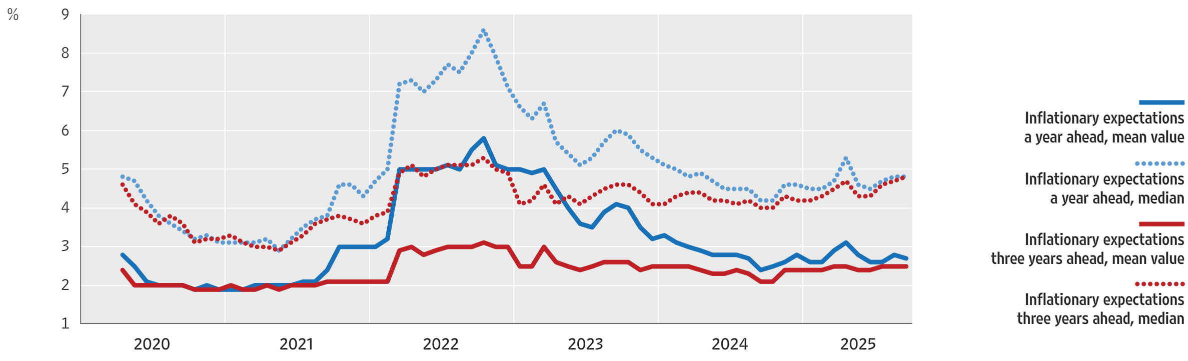
The core inflation in the euro area, which excludes energy and food prices, slowed down to 2.4% in November from 2.7% in December 2024. This decrease fully reflects the slowdown in the services inflation (to 3.5% in November from 4.0% in December 2024). The greatest contribution to the slowdown came from travel-related services (passenger transport by air, package holidays and accommodation services) and motor vehicle insurance. An important factor contributing to the easing of inflationary pressures in the services sector during 2025 has been the gradual slowdown in the growth of wages in the euro area. The inflation of the prices of industrial goods, the second main core inflation component was low in the first eleven months of 2025, moving around an average level of 0.6%. The low inflation of industrial goods is supported by mild inflationary pressures in supply chains (Figure 2.2.2), reflected in declining and stable annual growth rates of producer prices of consumer goods (excluding food) and declining import prices, partially spurred by the appreciation of the euro.

Figure 2.2.3 Short-term and mid-term inflationary expectations of professional forecasters in the euro area



Note: SPF Q2/2025 (Survey of Professional Forecasters) refers to the results of the ECB survey of professional forecasters conducted from 1 to 7 October 2025.
Sources: Survey of professional Forecasters, ECB and Consensus Forecasts.

Figure 2.2.4 Short-term and mid-term consumer inflationary expectations in the euro area



Source: Consumer Expectations Survey (CES) – October 2025, ECB, 28 November 2025.

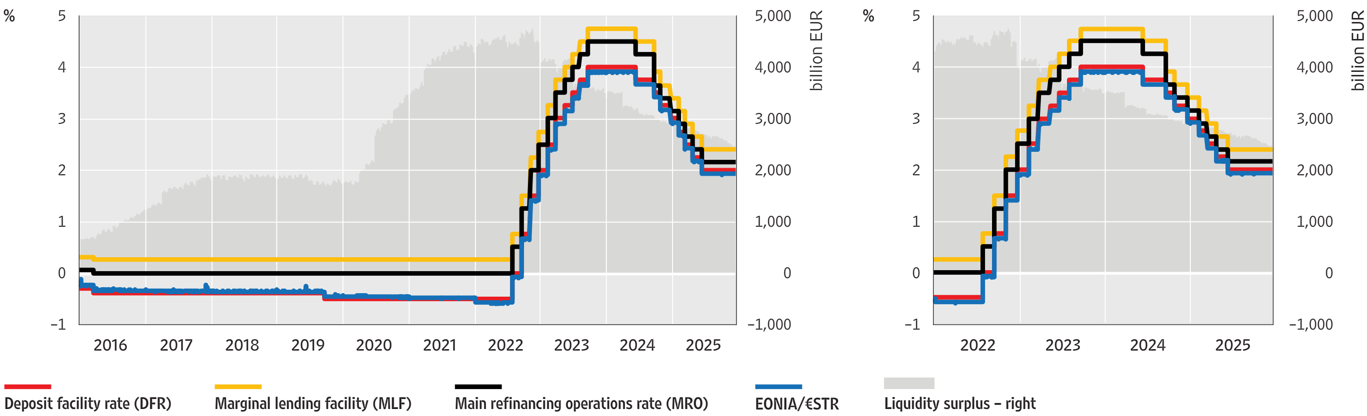
The inflationary expectations of professional forecasters ranged around the 2% target, while inflationary expectations of consumers remained elevated. According to the results of the ECB survey for the fourth quarter of 2025 conducted at the beginning of October, professional forecasters expect euro area inflation to slow down from 2.4% in 2024 to 2.1% in 2025 and 1.8% in 2026, and then return to the 2.0% target in 2027 (Figure 2.2.3). Survey respondents agreed that the easing of inflationary pressures over the projection horizon will mainly be driven by the developments in crude oil and natural gas prices, as well as by the appreciation of the euro. According to the survey, the estimated impact of tariffs on short-term inflationary expectations was slightly negative. As for the inflation expectations of consumers, the results of the ECB survey (Figure 2.2.4) indicate that short-term expectations in the euro area (for a year in advance, median) in October stood at 2.8%, while medium-term expectations (for three years in advance, median) stood at 2.5%, equal to the level registered over the previous three months.

2.3 Monetary policy

The ECB key interest rates remained unchanged in the second half 2025 with euro area inflation ranging around the mid-term target of 2%. The Governing Council of the ECB had lowered the deposit facility rate (DFR) of the central bank on eight occasions, by a total of 200 basis points, after having kept key interest rates steady since September 2023, which is, amid the current high liquidity surplus, a good indicator of the ECB's monetary policy. From June 2025, the DFR of the central bank was 2.00%, the main refinancing operations (MRO) rate stood at 2.15% and the marginal lending facility (MLF) rate was 2.40%. The Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term. Decisions on the appropriate level of interest rates will continue to be based on a data-dependent and meeting-by-meeting approach. In doing so, the Governing Council is not precommitting to a particular rate path.

In the explanation to its decision, the Governing Council stressed that inflation is currently at levels close to the medium-term target of 2%, that it should stabilise at these levels and that economic recovery should continue. Indicators of underlying inflation remain consistent with the two per cent medium-term target. Inflation is expected to remain below 2% in the next two years, with energy price inflation expected to be negative for the most part of this period, while inflation excluding energy should abate gradually. Economic activity continued to expand primarily in the services sector with information and communication contributing the most, while activity in industry and construction stagnated. Over the coming years economic activity should primarily be favourably affected by domestic demand. The unemployment rate remains close to its historical low, despite a more moderate labour demand so real income growth could continue. The households saving ratio should scale back from the elevated level, thus enabling additional increase in demand. Substantial government expenditure on infrastructure and defence should also support economic activity. On the other hand, the volatile global trade environment will probably continue to affect growth unfavourably. The negative contribution of foreign demand to growth should decrease with time.

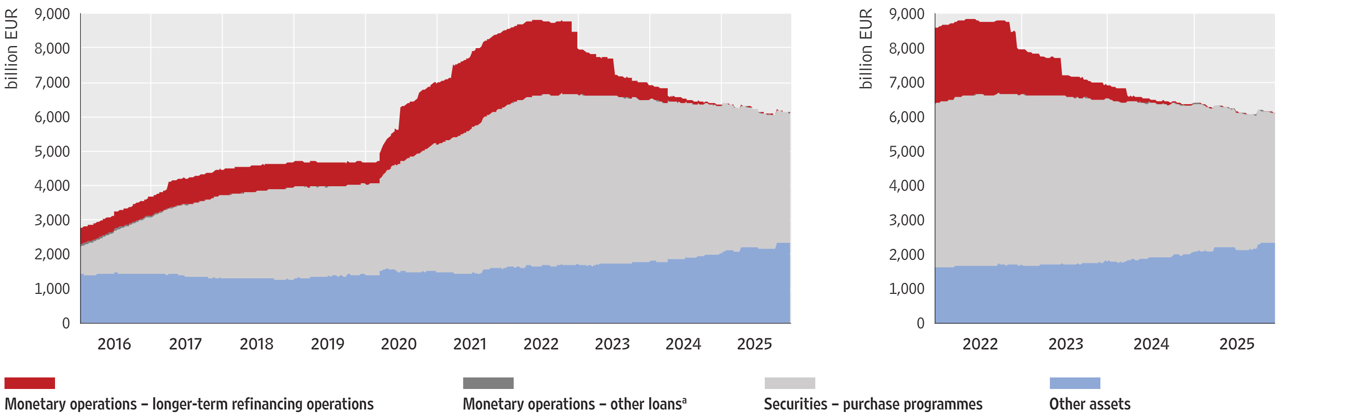
Figure 2.3.1 Key ECB interest rates



Source: ECB.

The Eurosystem's balance sheet has continued its gradual decrease. The portfolio of securities purchased within the asset purchase programme (APP) and the portfolio of the 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 the PEPP portfolio having been brought to a halt at the end of 2024. Also, in mid-December 2024 the banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations, completing that part of balance sheet normalisation. On the other hand, the decrease in the balance sheet offsets the growth of other assets, which is not linked to the conduct of the monetary policy. The rise in non-monetary assets was marked especially by gold, the value of which on the Eurosystem's balance sheet has increased pronouncedly since the beginning of 2024 due to the rise in gold prices in financial markets.

Figure 2.3.2 Eurosystem balance sheet



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

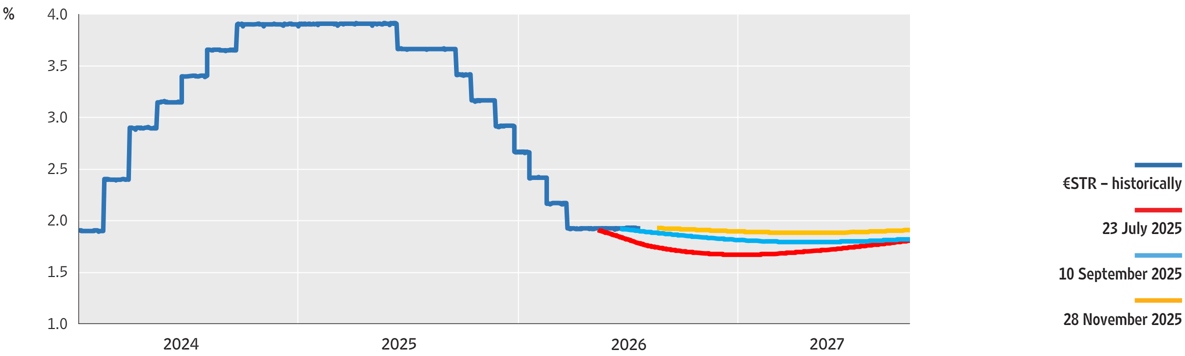
2.4 Financial markets and the banking system

Money market interest rates were relatively stable in the period from the first half of 2025 until the end of November. With the euro area inflation rate approaching the 2% medium-term target, in June the Governing Council of the ECB for the eighth time in succession lowered key interest rates by 25 basis points, reducing the deposit facility rate to 2%, while in the second half of 2025 they remained unchanged. The €STR rate, which is the reference rate for the money market, fell to 1.9% in July, keeping at this level until the end of November. In the same period, the three-month EURIBOR increased slightly from 1.9% in June to 2.1% at the end of November, reflecting the expectations of market participants, which were more pronounced than at the end of June, when the Governing Council of the ECB had completed its cycle of interest rate cuts. The €STR forward curve thus moved towards higher values by the end of November (a shift to the yellow line, Figure 2.4.1). This change was most likely impacted by a better than expected macroeconomic outlook for the euro area economy relative to the expectations of the middle of the year, when uncertainty was heightened ahead of the US-EU trade deal in July.

The yields on European government bonds were relatively stable despite the heightened economic uncertainty during the summer months, as was the euro exchange rate, while equity indices mostly rose reaching historical highs in some European countries. Despite frequent political developments with significant potential effects on the euro area economy (such as tariff negotiations and talks on ending the conflict in Ukraine), yields on European bonds fluctuated within a narrow range from the end of June to the end of November. Euro area GDP-weighted long-term government bond yields stood at 3.1% at the end of November, only several basis points higher than at the end of June. The spreads between government bonds of euro area countries and benchmark German bonds continued their downward trend. Particularly noteworthy is the narrowing of the yield spread between Italian long-term government bonds and German bonds, which at the end of November neared 70 basis points. Those levels were last recorded in 2008. There was also a visible reduction in the yield spread between Croatian long-term foreign government bonds and German bonds, which narrowed towards the level of 30 basis points. This is the narrowest yield spread recorded since Croatia's first issue of regular long-term bonds on the international market (Croatia has been regularly issuing long-term bonds on the international market since 2015, while previous issues were only sporadic). Also, this was the first time that the yield on Croatian long-term government bonds fell below the average yield on the long-term bonds of euro area member states weighted by GDP (**Figure 2.4.3**). The exception to the general trend of decreasing yield spreads was provided by French bonds. Elevated political uncertainty in France resulted in an increase in the spread between French and German long-term government bonds to around 86 basis points in the first week of October, the highest level since the end of last year. By the end of November the spread lowered to 72 basis points, several basis points higher than at the end of June.

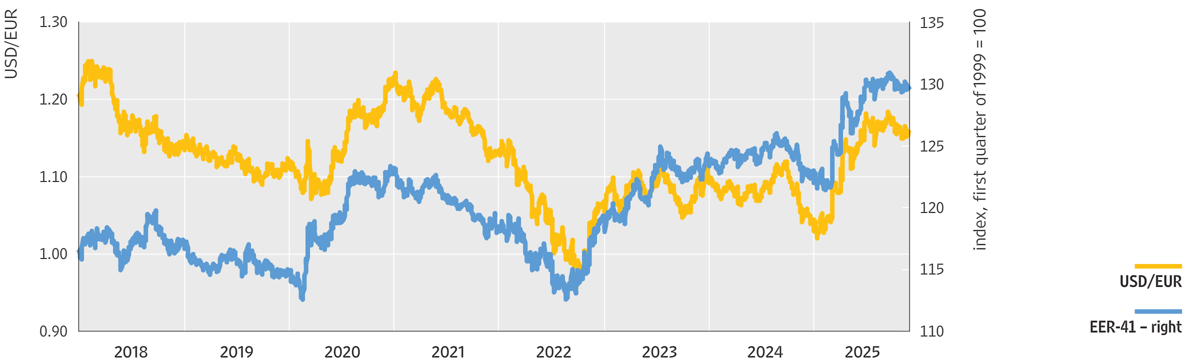
After appreciating strongly against the US dollar in the middle of 2025 the euro exchange rate slightly depreciated in the period from September to the end of November. However, it remained relatively stable in nominal effective data. After June, the prevailing opinion on financial markets was that key ECB interest rates would not go down any more due to a macro-economic outlook for the euro area better than previously expected. At the same time, markets began to expect the Fed to make a number of key interest rate cuts in the coming quarters, especially after data from the US labour market for August that were significantly worse than expected. In this regard, at one point in mid-September, the exchange rate of the euro against the dollar exceeded the level of EUR/USD 1.19, reaching its highest level in the last four years. However, the US dollar managed to gain against the euro on the release of a series of better than expected US macroeconomic data, while a further contribution to its appreciation came from the rising political uncertainty in France and heightened trade tensions between the USA and China, which increased risk aversion and boosted demand for the US dollar as a safe haven. The exchange rate of the euro for the US dollar stood at around USD/EUR 1.16 at end-November, having depreciated slightly more than 1% from the end of June. Over the same period, the nominal effective exchange rate of the euro against a basket of currencies of the euro area main trading partners remained almost unchanged (**Figure 2.4.2**). The strengthening of the nominal effective exchange rate of the euro against the Japanese yen, Turkish lira and pound sterling was already offset by the mentioned weakening against the US dollar as well as against the Hungarian forint, yuan renminbi and the Czech koruna.

Figure 2.4.1 €STR forward curve



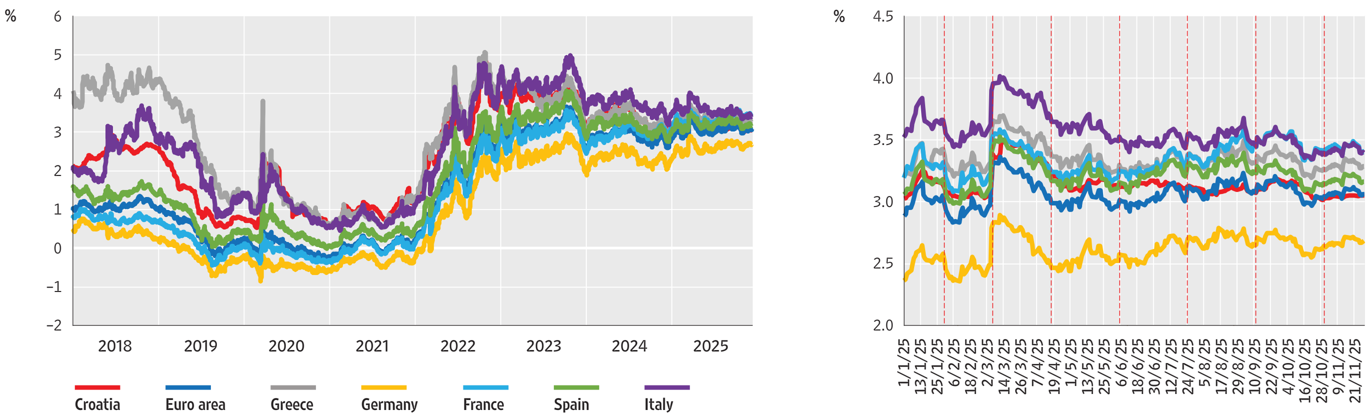
Notes: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves indicate selected forward curves formed on the day before the meeting of the Governing Council of the ECB and on the last observed date (28 November 2025).
Sources: Bloomberg and CNB calculations.

Figure 2.4.2 Exchange rates of selected currencies against the euro and the nominal effective exchange rate of the euro



Notes: EER-41 is the nominal effective exchange rate index of the euro against the 41 major trading partners of the euro area. Exchange rate increase indicates euro appreciation. Last data are for 28 November 2025.
Source: ECB.

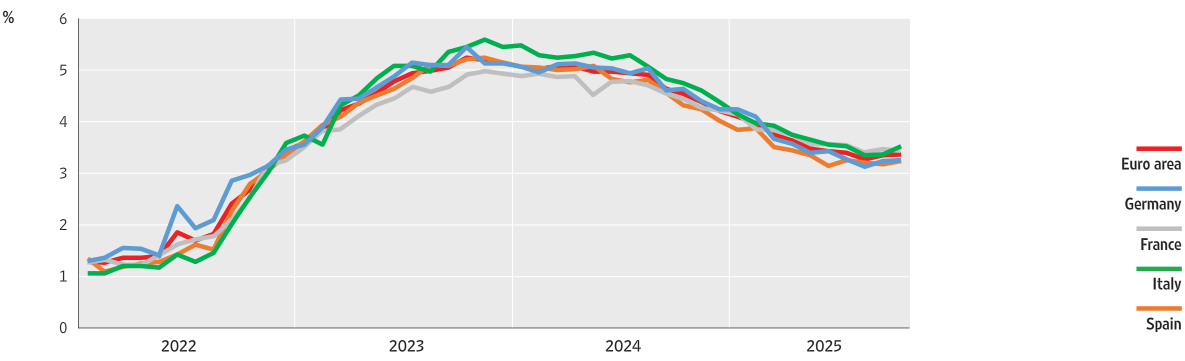
Figure 2.4.3 Yields on long-term government bonds with the remaining maturity of approximately 10 years



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 dotted red lines denote ECB Governing Council meetings in the period of time shown.
Sources: Bloomberg, Eurostat and CNB calculations.

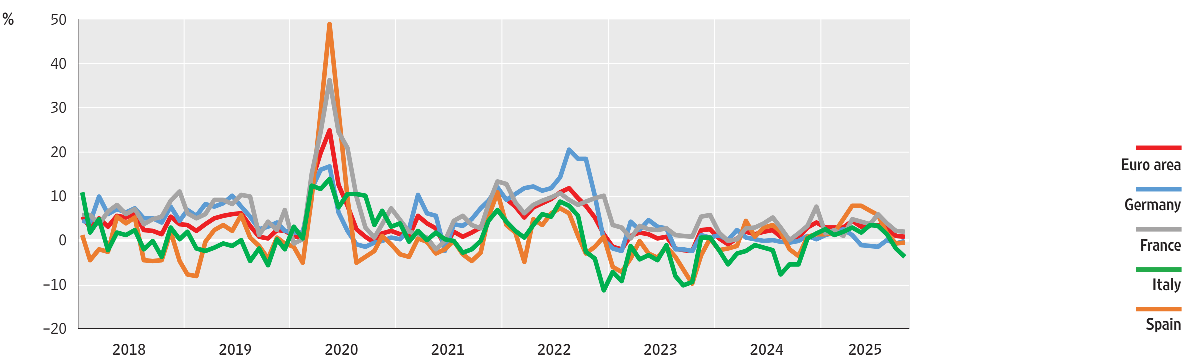
The interest rates of banks on corporate loans in the euro area continued to fall while household lending remained unchanged. At euro area level, the average interest rate on pure new loans granted to non-financial corporations in October was 3.4% (Figure 2.4.4), down by 84 basis points from December of 2024. As regards households, the average interest rate on pure new housing loans granted to households in October was 3.3% (Figure 2.4.6), the same as at the end of 2024. The increase in long-term interest rates on the financial markets in the first half of the year mitigated the transmission of the decrease in key ECB interest rates on the costs of housing financing relative to corporate loans as housing loans have a longer average maturity and predominantly carry fixed interest rates, which normally do not respond quickly to changes in key interest rates. Corporate lending continued increasing but the quarterly annualised rate of growth in loans to non-financial corporations (Figure 2.4.5) in October was below the average for the first half of the year. The gradual recovery in housing lending continued the second half of 2025 (Figure 2.4.7).

Figure 2.4.4 Interest rates on pure new corporate loans



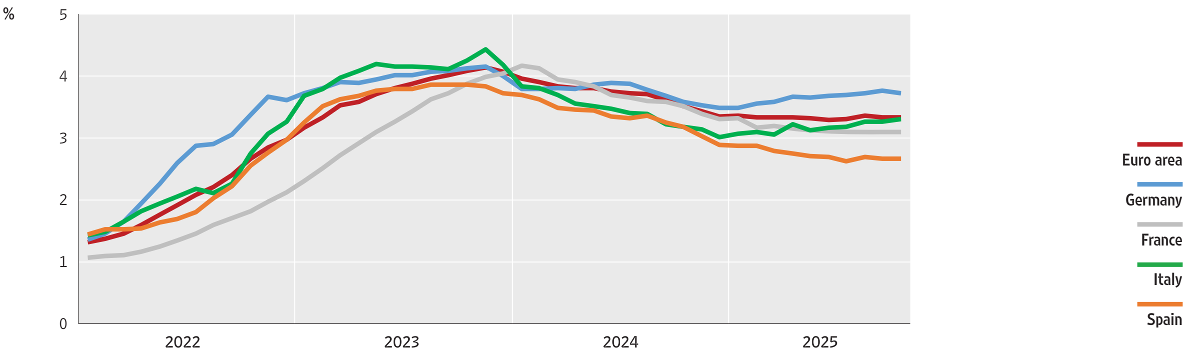
Source: ECB.

Figure 2.4.5 Lending momentum in the euro area (corporations)



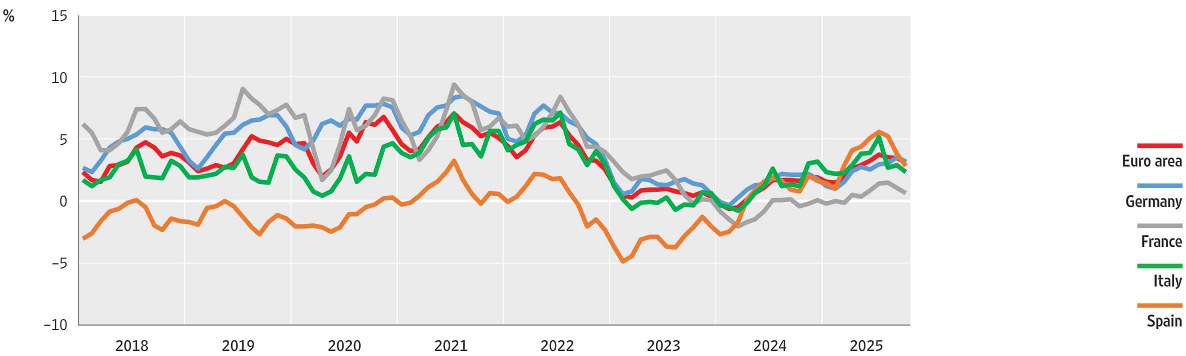
Sources: ECB and CNB calculations.

Figure 2.4.6 Interest rates on pure new housing loans to households



Source: ECB.

Figure 2.4.7 Lending momentum in the euro area (housing loans to households)



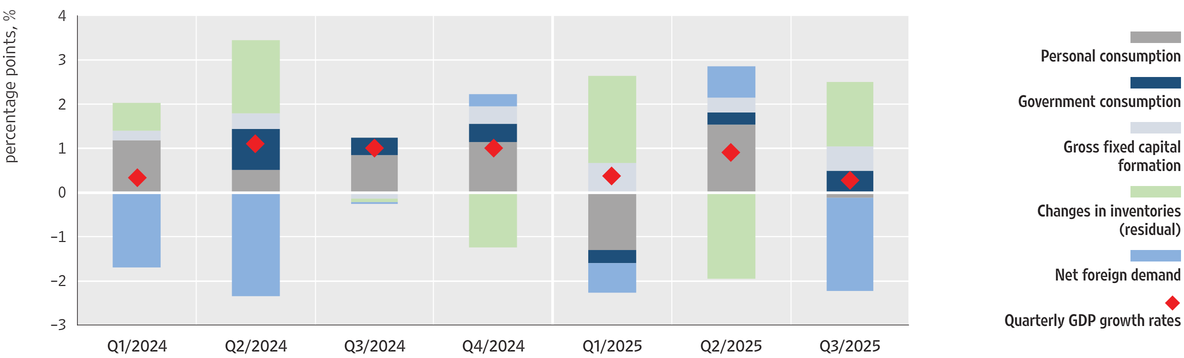
Sources: ECB and CNB calculations.

3 Croatian economy

3.1 Real developments

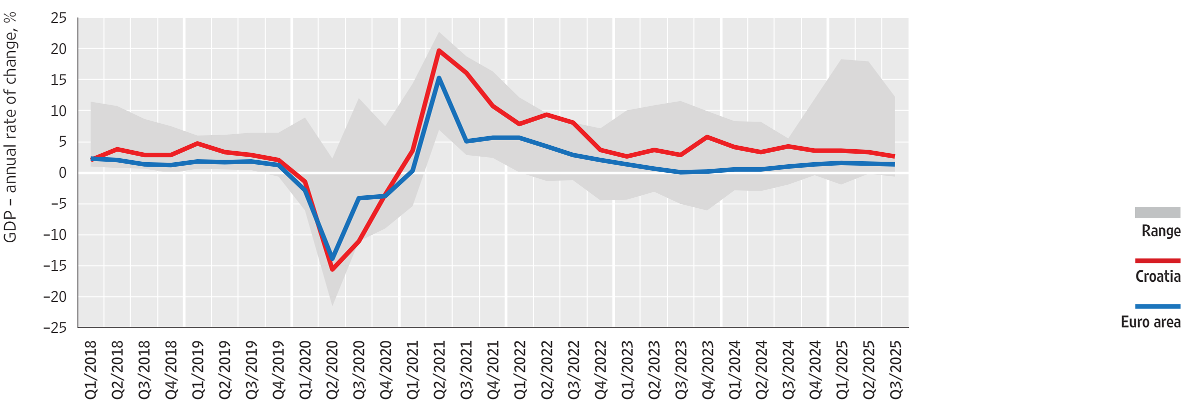
Real GDP growth slowed down considerably in the third quarter 2025 but high-frequency indicators suggest it might regain its strength at the end of the year. Croatia's real GDP rose by 0.3% during the summer months on a quarterly level, which was half as strong as the average in the first half of the year, while the annual growth rate of 2.3% represents the weakest annual growth since the end of 2020. The slight deceleration of economic activity was a result of the slight fall in private consumption and the exceptionally strong fall in the real export of services, which most likely largely reflects the decrease in real consumption by foreign tourists on an annual level. On the other hand, investments, government consumption and goods exports, noticeably increased. Since the imports of goods and services increased at the same time, net exports provided a strong contribution to economic growth (Figure 3.1.1). Data available for the beginning of the fourth quarter suggest a possible resurgence of real activity at the end of the year, so at the level of the whole of 2025 economic growth might come in at 3.0%, slightly lower than previously expected.

Figure 3.1.1 Contributions to the quarter-on-quarter change in real economic activity



Source: Eurostat.

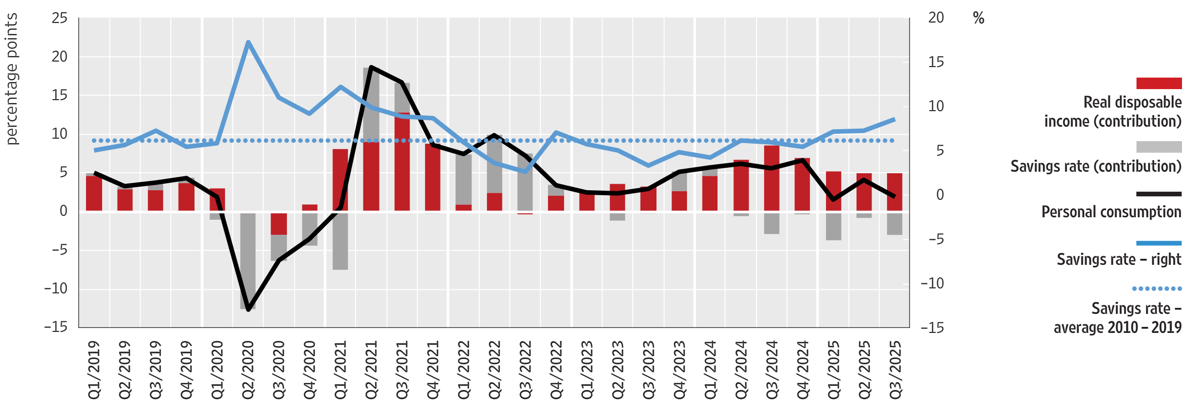
Figure 3.1.2 Trends in economic activity in Croatia and the euro area



Note: The figure shows the range of values of real GDP growth of individual euro area member states, excluding Ireland.
Source: Eurostat.

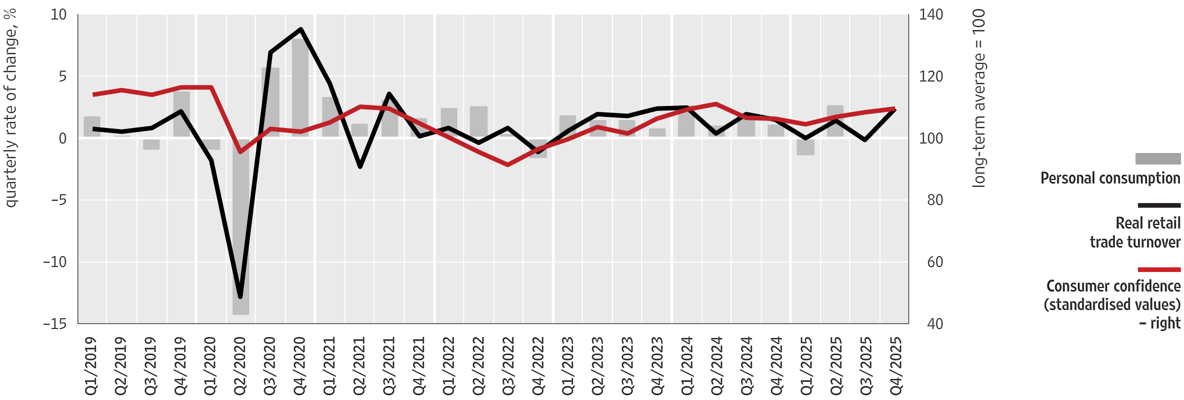
Private consumption went down slightly in the third quarter despite the continued growth in real income, resulting in a further increase in the household saving rate. Weak developments in private consumption are underlined by the data on retail trade, with retail trade turnover decreasing quarter-on-quarter for the first time since late 2022 (Figure 3.1.4), although unfavourable trends in trade partially resulted from a less favourable tourism performance. The subdued developments in private consumption might only be temporary since real retail trade turnover increased strongly in October from the previous quarter. Real disposable income growth slowed down in the third quarter, although it remained relatively strong. However, since it did not spill over to greater spending, the savings rate increased well above the pre-pandemic level. Such developments might suggest heightened consumer caution which is in line with the deteriorating sentiment reflected in respondents' answers to questions from the Consumer Confidence Survey. Although overall consumer optimism continued to grow in the third quarter, reaching levels visibly above the long-term average, some components of the consumer confidence index signal the growing impact of uncertainty on household consumption. This goes primarily for deteriorating expectations about the general economic situation in the next 12 months, with parallel strengthening of expectations about future savings accumulation. The CNB's measures imposing limits on consumer lending, which entered into force on 1 July this year have probably also contributed to the weakening of private consumption in the third quarter, considering the slowdown in the growth of non-housing loans.

Figure 3.1.3 Contribution of disposable income and savings rate to the annual change in personal consumption



Notes: Quarterly disposable income values have been estimated using the Chow-Lin method and a series of employee compensation and gross operating surplus and mixed income as indicators. The savings rate is calculated as the ratio of the estimated nominal amount of savings and estimated disposable income and excludes adjustments for changes in pension rights.
Sources: Eurostat and CNB calculations.

Figure 3.1.4 Personal consumption, retail trade and consumer confidence



Sources: CBS and Ipsos.

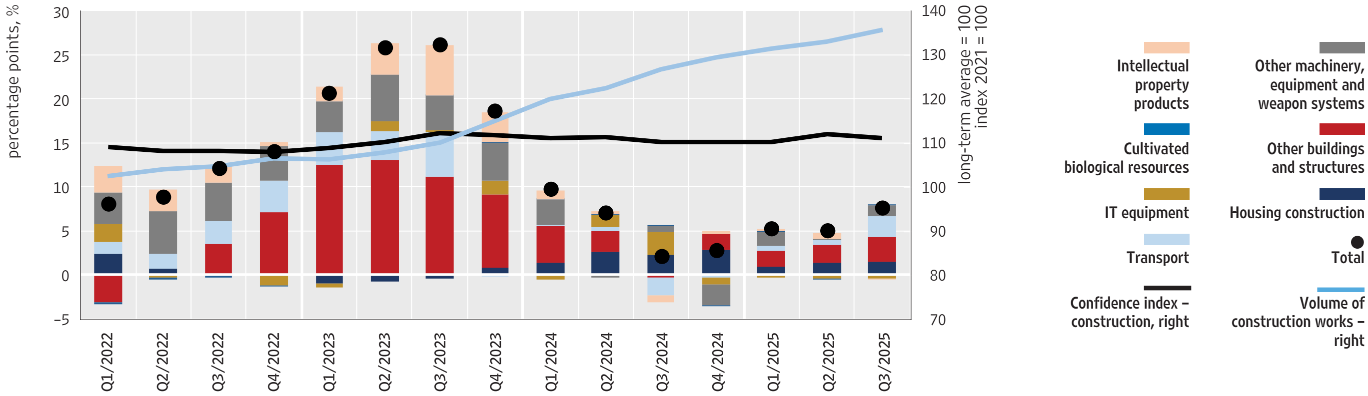
Investment activity maintained its strong momentum in the third quarter. After surging in the first half of the year, gross fixed capital formation in the third quarter increased by 2.0% on a quarterly and 7.5% on an annual level. The rise is broadly based with the greatest contribution still coming from the construction sector where infrastructure investment and sustained residential construction lead the way. In addition, the third quarter also registered stronger investment in machinery and equipment, with a particularly noticeable acceleration of investment in transport equipment. These developments suggest that elevated economic uncertainty did not significantly affect capital investment in Croatia (detailed assessments are shown in Box 1 Impact of uncertainty on private gross fixed capital formation in Croatia). Favourable developments are confirmed by the data on nominal imports of capital goods and the high confidence in construction, which remained close to their record highs.

Total exports decreased in the third quarter with divergent developments in the exports of goods and services. After surging in the first and declining in the second quarter, real exports of goods gained considerable strength again in the third quarter. However, detailed data on trade in goods for July and August suggest that such developments might be temporary since they primarily reflect stronger exports of ships in August, while at the same time the exports of other products decreased. In contrast, real exports of services significantly decreased, probably reflecting unfavourable developments in tourism. The annual decline in the number of foreign tourist nights in July and August was partly mitigated by a recovery in September. However, the available financial indicators such as spending on foreign-issued credit cards suggest that the fall in real income in tourism might be more pronounced than the decrease in physical indicators, which indicates that the average real consumption per tourist deceased. These developments may be attributed to the deterioration of the price competitiveness of Croatian tourism due to the continuation of the growth in hotel and restaurant and accommodation services prices in 2025 that was much stronger than in Mediterranean competitors.[1] In addition, it seems that higher prices of tourist services in the domestic market, amid the strong growth in real income, already

1 For more details, see: Box 5 Price competitiveness of the Croatian tourist sector in the Mediterranean market, Macroeconomic Developments and Outlook No. 17, December 2024

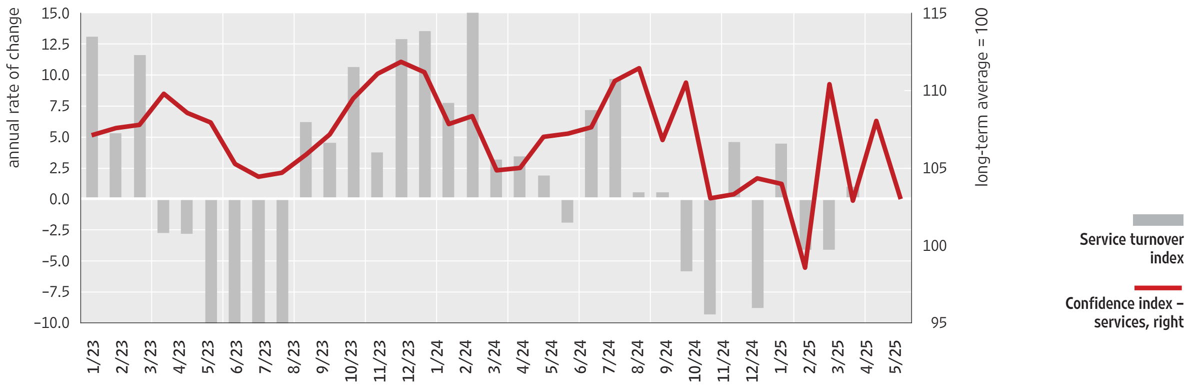
largely prompted domestic tourists to take vacations abroad, as indicated by the continued strong growth in the export of services.

Figure 3.1.5 Investment activity indicators and confidence in the construction sector



Note: Data on confidence in the construction sector for the second quarter of 2025 refer to October and November.
Sources: CBS, Ipsos and CNB.

Figure 3.1.6 Developments in turnover volume of service activities and confidence in the services sector

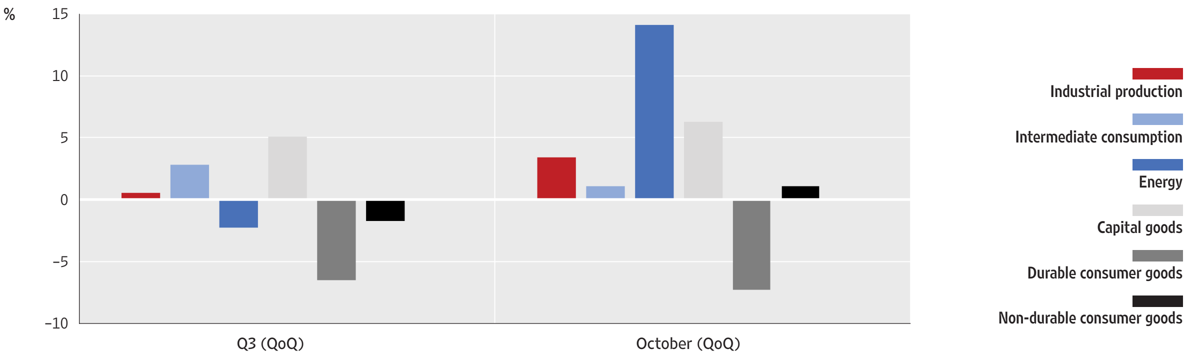


Note: Services include sectors H, I, J, L, M and N.
Sources: CBS, Ipsos and CNB.

Broken down according to main activities, the growth of gross value added in the third quarter predominantly reflects the strong growth in the manufacturing industry and the construction sector, and a visible rise in agriculture. The strengthening of value added growth in industry in the third quarter thus fully made up for the losses of last year and detailed data from industrial production suggest that this growth was broadly based with the production of capital and intermediate goods increasing the most. The strong growth in industrial production in October, accompanied by a strong rise in confidence in industry suggest that such favourable developments will continue at the end of the year. With developments in construction activity continuing to be exceptionally favourable, growth, already relatively strong, again accelerated on a quarterly level in the third quarter. This can be attributed to the earlier mentioned strong investment activity in residential real estate and other civil engineering works. Confidence in the construction sector remained exceptionally high in the fourth quarter. As regards services, the developments in most activities were generally more unfavourable than in the first half of the year. In particular, tourism-related activities registered a decline from the previous quarter.

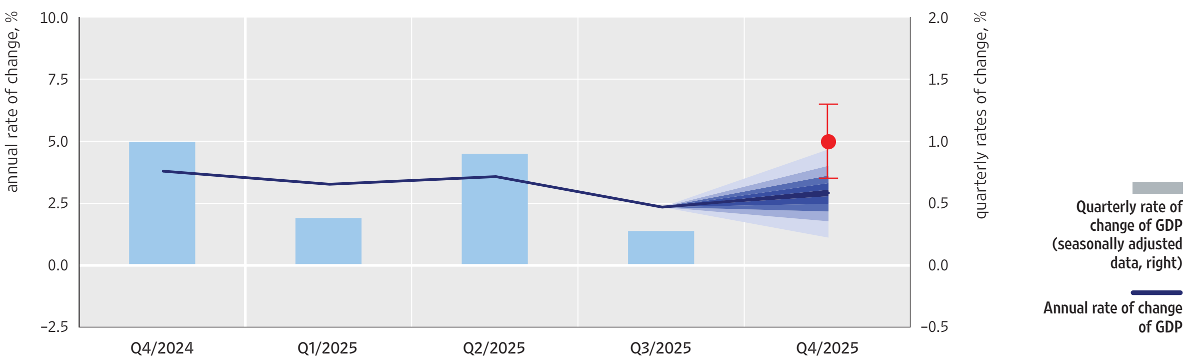
The nowcasting of GDP for the fourth quarter of 2025 using the standard model based on monthly indicators (MRGA) suggests the strengthening of economic activity at the end of 2025. According to the CNB's nowcasting model of economic activity, real GDP growth in the fourth quarter could stand at 1.0% on a quarterly level (after 0.3% in the second quarter), while, observed on an annual basis, it could pick up to 3.0% from the 2.3% of the second quarter (Figure 3.1.7). Real retail trade turnover dropped by 1.4% in October from September, or by 2.4% from the previous quarter. The physical indicators of tourist activity in October point to the continuation of satisfactory results after the peak season, with tourist arrivals growing by 2.3% and tourist nights by 2.2%. After the monthly growth of 0.5% in September, industrial production accelerated considerably in October, increasing by 3.1% from September, that is, 3.4% from the third quarter, with all the main categories rising except for the production of durable consumer goods.

Figure 3.1.7 Industrial production



Note: (QoQ) signifies growth relative to the average of the preceding quarter.
Source: CBS.

Figure 3.1.8 Quarterly GDP, seasonally adjusted real values



Notes: The estimate for the fourth quarter of 2024 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 29 November 2024. The red dot denotes an estimate of the quarterly change in real GDP, with historical errors of estimates within ±1 standard deviation.
Sources: Eurostat, CBS and CNB.

Box 1 Impact of uncertainty on private gross fixed capital formation in Croatia

Periods of heightened uncertainty, regardless of whether they are a result of economic policy or of exogenous events, may have an unfavourable impact on economic activity, particularly by influencing the deferral of private investments. The impact of structural shocks caused by uncertainty on private investment activity in Croatia, particularly in the context of recent changes in the trade policies of the US Administration, has been estimated using the Bayesian vector autoregression (BVAR) model with block exogeneity and sign restrictions. Model results suggest that changes in economic and trade uncertainty have a rapid and statistically significant negative effect on private investments. The increase in trade tensions in early 2025 thus had an unfavourable impact on capital investments in Croatia in the first half of the year. However, these effects were relatively limited and may account for only a smaller share of the slowdown in investment activity. The trade deals reached in the third and fourth quarter partly reduced tensions, but the level of uncertainty has remained elevated and could have a negative effect on the investment decisions of the private sector.

In early 2025, the global economic environment was characterised by a rapid increase in uncertainty. The change in the course of the US Administration's trade policy in early 2025 significantly exacerbated global trade tensions and created marked uncertainty in the global economic environment. The trade policy uncertainty index[2], which measures the frequency of articles covering uncertainty in trade policy as a share in the total number of articles in leading US newspapers, surged after tariff hike announcements and the escalation of trade conflicts with China (Figure 1). At the same time, geopolitical tensions measured by the geopolitical risk index on a global scale[3] also became more pronounced. As a result of the simultaneous amplification of trade and geopolitical tensions, the economic policy uncertainty index for Europe[4] rose sharply, as these forms of uncertainty constitute its key components and simultaneously spill over into other areas of economic policy. Following the alleviation of trade tensions and the gradual conclusion of agreements, uncertainty began to ease, but remained elevated.

Periods of heightened uncertainty, regardless of whether they are a result of economic policy or exogenous events, have an unfavourable impact on economic activity. The strongest effects of uncertainty are noticeable in the corporate sector, which reacts to elevated uncertainty by a rational deferral of investment decisions until clearer signals of future conditions appear. Such behaviour is in line with the real options approach and the "wait and see" concept, according to which companies assign additional benefit value to delaying investment decisions in an

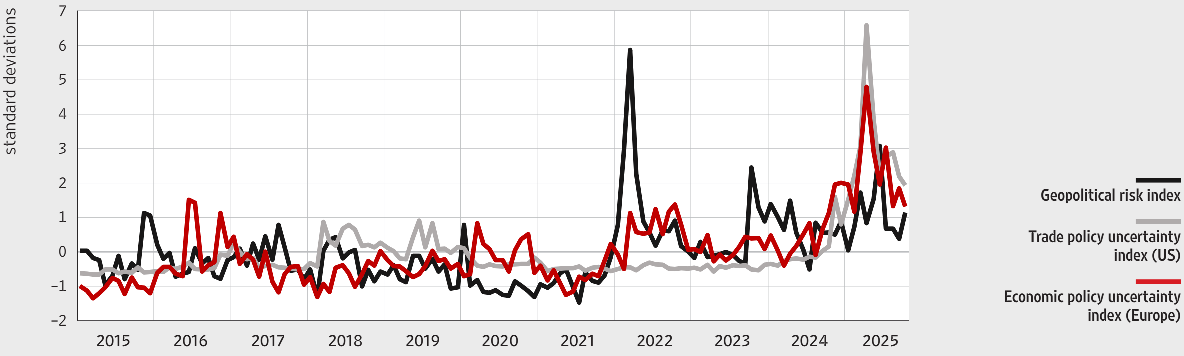
2 Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A., and A. Raffo (2020): *The economic effects of trade policy uncertainty*, Journal of Monetary Economics, Vol. 109, pp. 38–59.

3 Caldara, D., and M. Iacoviello (2022): *Measuring Geopolitical Risk*, American Economic Review, April, 112(4), pp. 1194–1225.

4 Baker, S. R., Bloom, N., and S. J. Davis (2016): *Measuring Economic Policy Uncertainty*, The Quarterly Journal of Economics, Vol. 131, No 4, November, pp. 1593-1636.

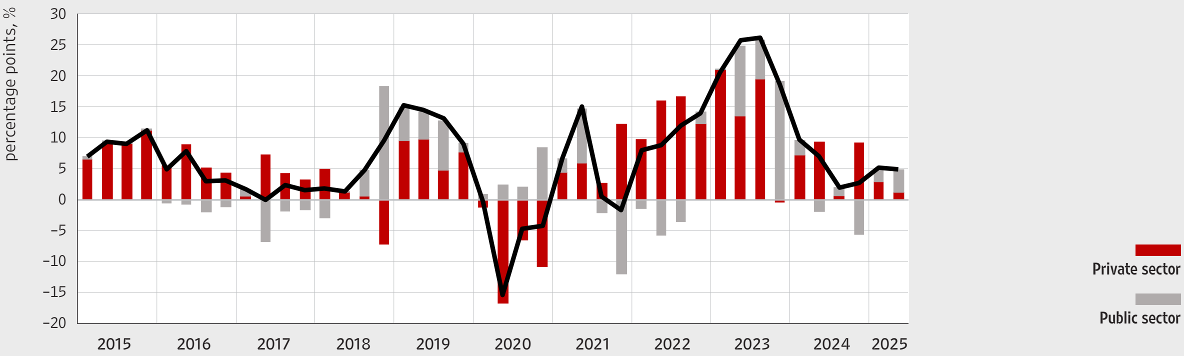
environment of heightened risk. Since investments projects are often costly and difficult to reverse, deferral enables companies to avoid potential losses if unfavourable scenarios materialise[5]. The increased caution of banks in granting loans, stemming from their focus on managing their own potential risks in such circumstances, may constitute an additional constraint on private investment activity (Correa et al., 2023)[6].

Figure 1 Uncertainty indices



Sources: Caldara et al. (2020), Caldara et al. (2022), Ahir et al. (2022), Jurado et al. (2015) and Baker et al. (2016).

Figure 2 Annual rate of growth in gross fixed capital formation in Croatia



Source: Eurostat.

Gross fixed capital formation growth in Croatia slowed down substantially in the recent period after exhibiting exceptionally high rates in the post-pandemic period, greatly spurred by private investment. In 2022 and 2023, investment growth in the private sector increased considerably, and was additionally supported by an increase in public investments in the course of 2023 (Figure 2). Over the past two years, the growth in private investments moderated gradually, with the slowdown being particularly evident in early 2025. Public investments continued to increase relatively strongly, but total investments decelerated substantially because of the predominance of private investments.

5 Dixit, A. K., and R. S. Pindyck (1994): *Investment under Uncertainty*, Princeton University Press.

6 Correa, R., Di Giovanni, J., Goldberg, L. S., and C. Minoiu (2023): *Trade Uncertainty and US Bank Lending*, National Bureau of Economic Research, Vol. 31860.

In this box, the Bayesian vector autoregression model with block exogeneity is applied to estimate the significance of uncertainty shocks on the developments in private investment activity in Croatia. It is necessary to note that uncertainty is not directly observable and that its quantification may be difficult[7]; in addition, effects of uncertainty on private investments may vary depending on the nature of the shock or event causing it. Considering the above, the box estimates the broader effects of uncertainty using the economic policy uncertainty index for Europe which combines various risk sources, including the macroeconomic, financial, trade and security-related uncertainty, as well as uncertainty related solely to trade policies based on the trade policy uncertainty index. By applying block exogeneity, in line with the assumption of a small open economy, the feedback effect of domestic shocks on external indicators was disabled and two domestic and three external structural shocks were identified[8]. Shocks of aggregate supply and demand were defined using sign restrictions based on relevant empirical literature[9], while uncertainty shocks were defined as exogeneous[10].

An increase in macroeconomic uncertainty has a statistically significant negative effect on private investment activity immediately after the shock occurs. Model results are primarily shown by impulse response functions which represent the dynamics of the reaction of private investments in Croatia to a one-off shock of one standard deviation in a given uncertainty indicator. Among those, the broader economic policy uncertainty indicator (**Figure 3**) shows a stronger effect, reducing private investments by 0.6 standard deviations following the occurrence of the shock. On the other hand, the effects of shocks linked to trade policy uncertainty (**Figure 4**), which encompasses a specific and limited set of risks, amount to 0.5 standard deviations, but it is necessary to note that historically this uncertainty was relatively low, which may lead to errors in the model due to excessive adjustment to historical data. The results are in line with the literature for the euro area, US and UK[11] and Slovenia which points to a significant, but short-lived, effect of uncertainty shocks on investments and economic activity. Still, it is necessary to note that the effects in question are of somewhat lower intensity.

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7 Black, J., Hashimzade, N., and G. Myles (2016): *The impact of uncertainty on activity in the euro area*, ECB Economic Bulletin 8.

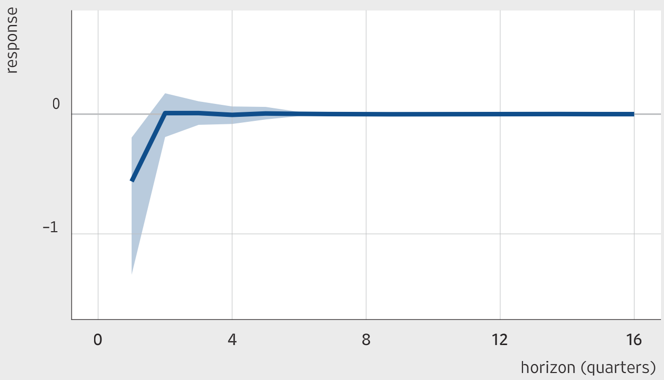
8 Aggregate demand shocks are defined as those that move economic activity and inflation in the same direction, while aggregate supply shocks are defined as those that affect economic activity and inflation in opposite directions. External shocks affect both external and domestic indicators, while domestic shocks affect only domestic indicators. The uncertainty shock is defined as exogenous, exerting a negative impact on both external and domestic indicators of economic activity.

9 Team on Investment of the Working Group on Econometric Modelling (WGEM) (2018): *Business Investment in EU countries*, ECB Occasional Paper, No 215;
Gambetti, L., and A. Musso (2017): *Loan supply shocks and the business cycle*, Journal of Applied Econometrics, 32(4), 764-782;
Jovičić, G., and D. Kunovac (2017): *What is Driving Inflation and GDP in a Small European Economy: The Case of Croatia*, Croatian National Bank, Working Papers W-49.

10 Banka Slovenije (2025): *Review of macroeconomic developments and projections*, June 2025.

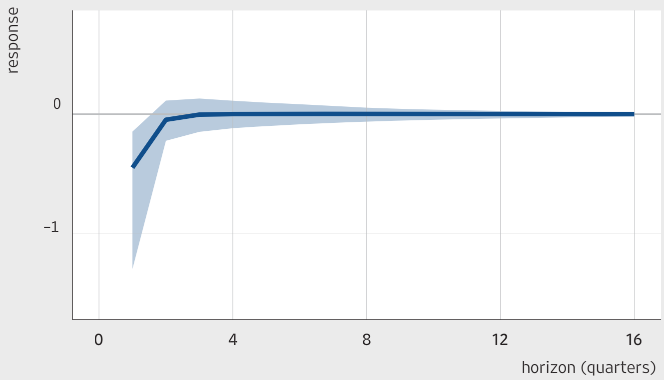
11 Boer, L., and M. Rieth (2024): *The Macroeconomic Consequences of Import Tariffs and Trade Policy Uncertainty*, International Monetary Fund.

Figure 3 Economic policy uncertainty



Source: CNB calculations.

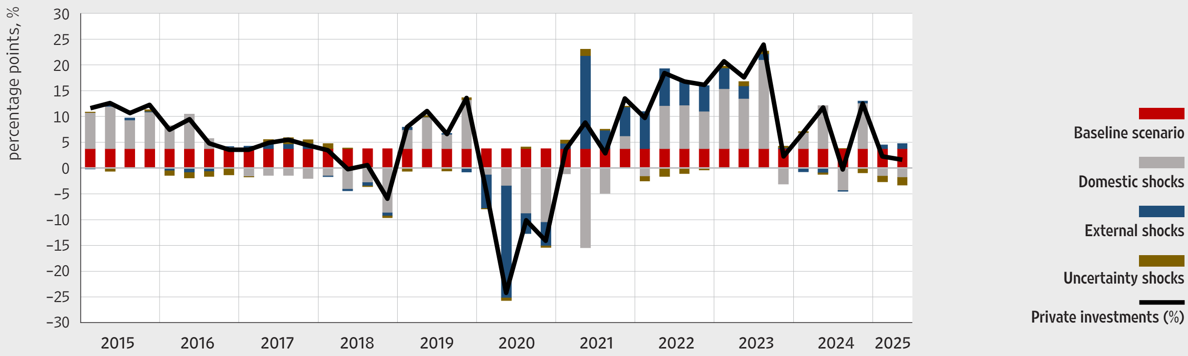
Figure 4 Trade policy uncertainty



Source: CNB calculations.

Although uncertainty linked to trade policies had an unfavourable effect on private gross fixed capital formation, the effect was relatively limited. The historical decomposition of the model including the economic policy uncertainty indicator is shown in Figure 5. In the absence of structural shocks, developments in private investments are shown in the baseline scenario, while other shocks, apart from the uncertainty shocks, are divided into domestic and external shocks. Results show that large uncertainty shocks had an unfavourable effect on investments, but the effect was relatively small compared with oscillations in investments under the influence of other external shocks and, particularly, domestic shocks. The unfavourable effect of uncertainty on private investment activity was particularly evident in the second half of 2016 after the unexpected decision of the United Kingdom to leave the European Union (Brexit), as well as during the trade war between China and the US during the mandate of the first Trump Administration, in early 2020 at the onset of the Covid-19 pandemic and in 2022, in the aftermath of the beginning of the war in Ukraine and the subsequent energy crisis. The initial uncertainty surrounding the direction of US trade policy in 2024, which intensified further in 2025 first by the announcement, and then by the imposition of tariffs, also negatively affected the trends in capital investments. Results show that the strong exacerbation of uncertainty in the first half of 2025 reduced the increase in private investments by one percentage point, on average, from the fourth quarter of 2024, when uncertainty began to increase noticeably, to the second quarter of 2025, which is approximately at the level of the greatest shocks in the observed period.

Figure 5 Historical decomposition of developments in private gross fixed capital formation



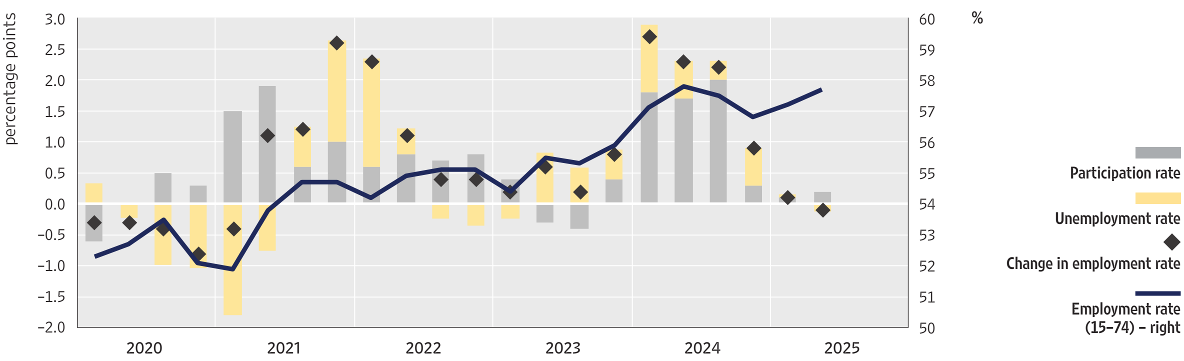
Source: CNB calculations.

Despite the recent abatement, the level of uncertainty is still elevated and could continue to negatively affect the investment decisions of the private sector. Trade deals reached in the third and the fourth quarter have partly eased tensions, but the level of uncertainty remains high. The unfavourable effect on private investment is therefore expected to continue, although it should be moderate. Conversely, a possible alleviation of uncertainty could have a favourable impact on private investment activity in the upcoming year.

3.2 Labour market

Employment growth continued into the first half of 2025 albeit at a slower pace than in the previous year. According to administrative data, the number of employed persons was up 2.6% from the same period in the year before, but the monthly dynamics of growth slowed down, probably in part attributable to faster employment towards the end of last year ahead of the termination of the fiscal relief granted for the employment of young people and amendments to the Foreigners Act.[12] Broken down by sectors, the growth in the number of employed persons in the public sector was relatively strong in the first six months of 2025, largely exceeding growth in the rest of the economy According to survey data, in the first two quarters of 2025, the employment rate (15 – 74) held steady from the same period of the year before (57.5%), reflecting almost unchanged unemployment and participation rates (Figure 3.2.1). The participation rate increased in the segment of the middle working-age population (25 – 49) while the other age groups contributed negatively to the overall labour force participation rate (Figure 3.2.2). It should be mentioned, however, that the estimates of developments in the number of employed persons provided in the Labour Force Survey may depart considerably from administrative data, given that the estimate of the Labour Force Survey is based on a sample of randomly selected households and periodically updated demographic statistics and that it does not take foreign workers in Croatia fully into account.

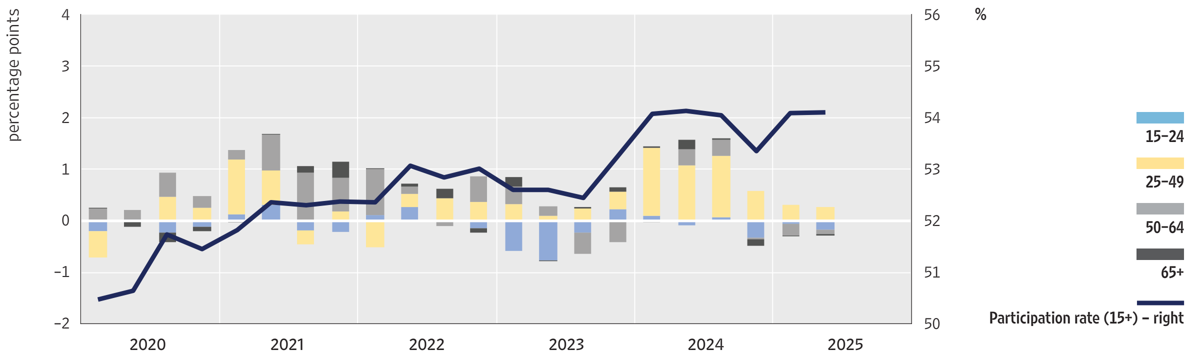
Figure 3.2.1 Contributions to the rate of year-on-year change in employment (15–74)



Notes: The employment rate is calculated for the population aged 15–74. Data shown are based on the 2021 census data.
Sources: CBS and CNB calculations.

12 The number of employed persons rose sharply in December 2024 ahead of the termination of fiscal relief for the employment of young people. With the planned abolition of the five-year relief exempting employers from the payment of wage contributions when employing young people (up to the age of 29) full time in January 2025, the number of employed persons rose steeply in December 2024. The March 2025 amendments to the Foreigners Act laid down additional regulation of the terms of employment, which may have slowed down the existing dynamics of employment of foreign workers.

Figure 3.2.2 Participation rate (15+) and contributions to change by age groups

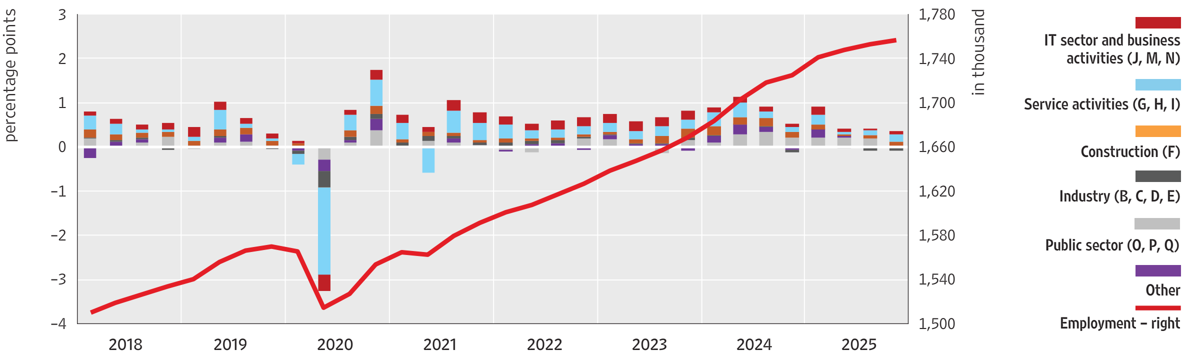


Notes: The participation rate is calculated for the population aged 15+. Data shown are based on the 2021 census data.
Sources: CBS and CNB calculations.

After having grown sharply in the first half of the year, the number of employed persons in the public sector stagnated on average in the next four months from June, while employment in the rest of the economy accelerated. The number of employed persons in the third quarter was up by 0.3% from the previous three months (0.4% in the second and 0.9% in the first quarter). Employment growth in the rest of the economy strengthened in the third quarter, however, its average quarterly growth rate continued to slow down as a result of a fall in employment towards the end of the second quarter. Employment in the public sector fell slightly from the end of the second quarter; however, after having grown sharply in June, the cumulative current growth in the public sector in the first nine months was still considerably faster than at end 2024 in the rest of the economy. The number of pensioners working half time continued to grow, with the expectation that legislative changes introduced in July this year might further boost such developments next year.[13] In the early fourth quarter of 2025, the number of employed persons rose only slightly from the previous month, again with strong employment growth in the public sector and a slowdown in its growth in the rest of the economy. The number of employed persons rose by 0.3% from July (first month of the second quarter), mainly as a result of developments in the rest of the economy in the third quarter, while the number of employed persons in the public sector held steady. This reflects a small seasonal decline in employment in education during the summer months, followed by a modest seasonal increase in September and October (Figure 3.2.3).

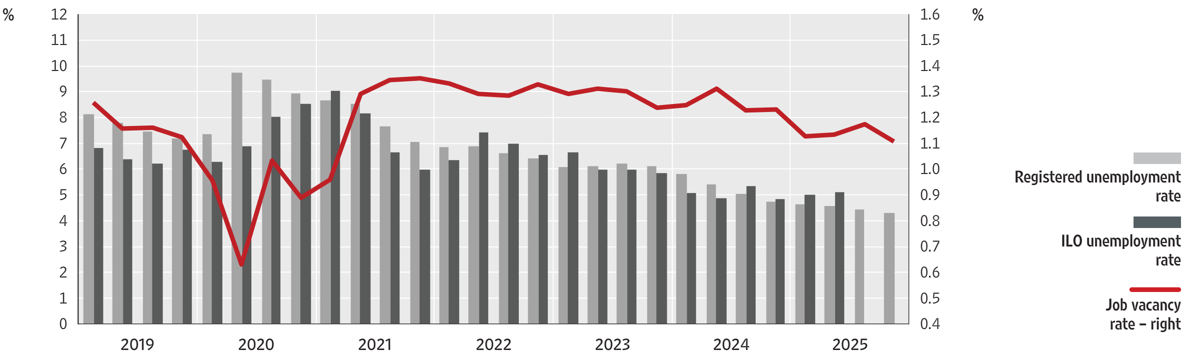
13 The July 2025 amendments to the Pension Insurance Act will, as of January 2026, enable pensioners to work full time while retaining the right to receive 50% of their pension.

Figure 3.2.3 Employment by NCA, seasonally adjusted data, contributions to the quarterly rate of change



Note: Data for the fourth quarter of 2025 refer to October and show contributions to the rate of change relative to July of the same year.
Source: CPII (seasonally adjusted by the CNB).

Figure 3.2.4 Unemployment and job vacancy rates, seasonally adjusted data

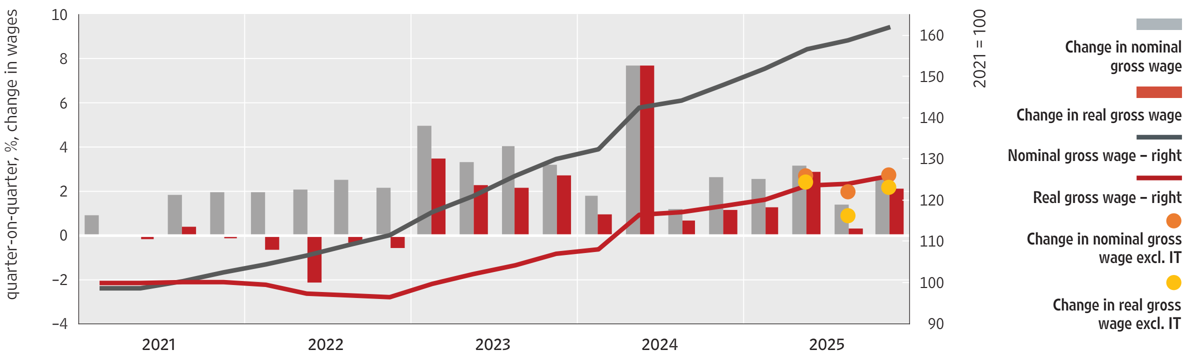


Notes: Data for the fourth quarter of 2025 refer to October. The job vacancy rate is calculated as the share of total posts that are vacant in the total demand for labour (the sum of the number of persons insured with the CPII and vacant posts).
Sources: CBS, CES, Eurostat and CNB calculations (seasonally adjusted by the CNB).

The fall in unemployment accelerated in the third quarter reflecting increased demand for labour in the rest of the economy, and continued to trend downwards in October. After having slowed down strongly at the beginning of the year, the fall in unemployment picked up in the second and third quarter, with the number of job advertisements also rising. In the third quarter, the number of unemployed was down 2.9% from the previous three months (a fall of 2.4% in the second quarter and 2.0% in the first quarter), while the job vacancy rate increased from 1.1% to 1.2%. Unemployment continued to decline in October, having fallen 3% from the previous month, or 0.8% from July. However, compared with the previous year, the fall in unemployment slowed down noticeably and was accompanied by a lower demand for labour (Figure 3.2.4). In the third quarter, the registered unemployment rate fell to 4.4% from 4.6% in the second quarter and further to 4.3% in October. According to survey data, the seasonally adjusted unemployment rate stood at 5.1% in the second quarter, a slight increase from the first quarter (5.0%) and the second quarter of last year (4.9%).

Current wage growth slowed down considerably in the third quarter, partly as a result of the base effects associated with one-off payments in the second quarter, but picked up again in October. The growth in the average nominal gross wage slowed down markedly in the third quarter to 1.4% from 3.2% in the second quarter, with wages in the public sector rising only slightly between the two rounds of the calculation base increase (0.3%), but slowed down in the rest of the economy to 1.9% from 3.2% in the previous quarter. The slowdown in the rest of the economy can partly be explained by base effects following a sharp increase in wages in April associated with one-off payments in the broadcasting sector.[14] Broken down by the NCA, wage growth in the third quarter was broadly based, with the exception of a fall in the IT sector including broadcasting and a stagnation in accommodation and food service activities and finances. October witnessed a growth in the average nominal gross wage, which was up 2.7% from July (first month of the third quarter) with a faster wage growth in activities primarily associated with the private sector (Figure 3.2.5). Wage growth in the public sector also accelerated noticeably as a result of a 3% increase in the calculation base for civil servants and government employees. The annual growth rate of wages slowed down considerably from the second quarter of this year once the base effects of a sharp rise in public sector wages following the last year's reform in the remuneration policy had waned in April, but continued to fluctuate around a two digit level. In the third quarter, the average nominal gross wage was up 9.9% and 10.1% in the third quarter and October, respectively, from the same period of the year before, while the real gross wage was up 5.6% and 6.2%, respectively.

Figure 3.2.5 Average nominal and real wage, seasonally adjusted data



Note: Data for the fourth quarter of 2025 refer to October, while the rate of change was calculated relative to July.
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

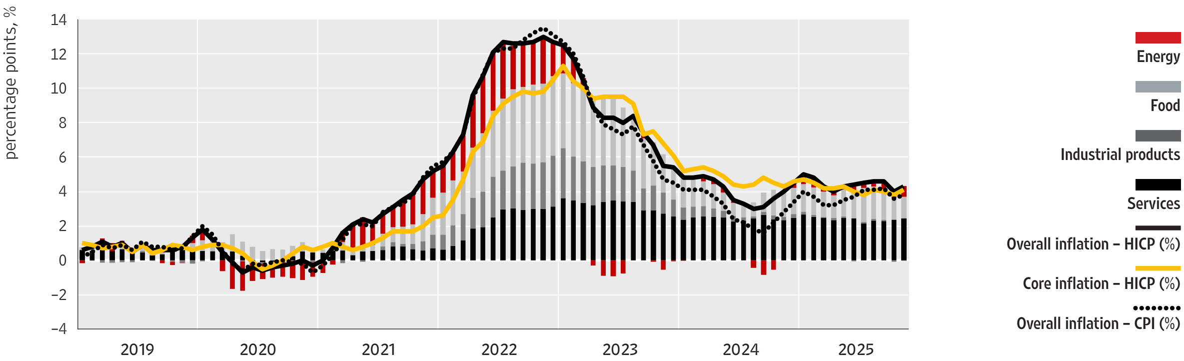
3.3 Price developments

After reaching a three-year record low in the third quarter of 2024, overall inflation accelerated until January 2025, fuelled by energy and food prices but with a gradual easing of price pressures, inflation in November was below that at the beginning of the year. The developments in inflation diverged over the year with marked short-term fluctuations. Nevertheless, as suggested by the first estimate, overall inflation measured by the harmonised indicator (HICP) fell from 5.0% in January to 4.3% in November 2025 (Figure 3.3.1). Meanwhile, overall inflation

14 In early 2025, Croatian Radiotelevision (HRT) was consolidated in line with the Government's Plan for the Consolidation of Work and Business Operations of HRT, and on 31 March, a significant proportion of employees accepted the agreed upon severance packages. See: https://www.jutarnji.hr/vijesti/hrvatska/egzodus-na-prisavlju-hrt-napustilo-333-zaposlenika-od-toga-cak-123-iz-programa-15569348

measured by the national indicator (CPI), which reflects the structure of consumption by Croatian residents, fell from 4.0% to 3.8%. Despite a slowdown in overall inflation from the beginning of the year, the pass-through of the elevated inflation seen at the end of last year and a further acceleration of inflation early this year led to an increase in the average annual rate of inflation in the first eleven months of 2025 from the same period of the year before. In 2025, energy price inflation was largely influenced by the rise in the administered prices of gas, electricity and district heating, although these pressures were cushioned by the spillover of the fall in crude oil prices in the global market to refined petroleum products on the domestic market. The pressures on food prices resulting from the spillover of higher prices of individual food raw materials amid higher wage growth rates, which fuelled costs, and high demand eased in the second part of the year. Low import pressures, the appreciation of the euro and low growth rates of producer prices of consumer goods kept the inflation of the prices of industrial goods low in 2025, while services price inflation remained elevated amid increased consumer preference for service activities, tight labour market, the still large wage growth, solid domestic demand, and higher individual administered prices (rent).

Figure 3.3.1 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.

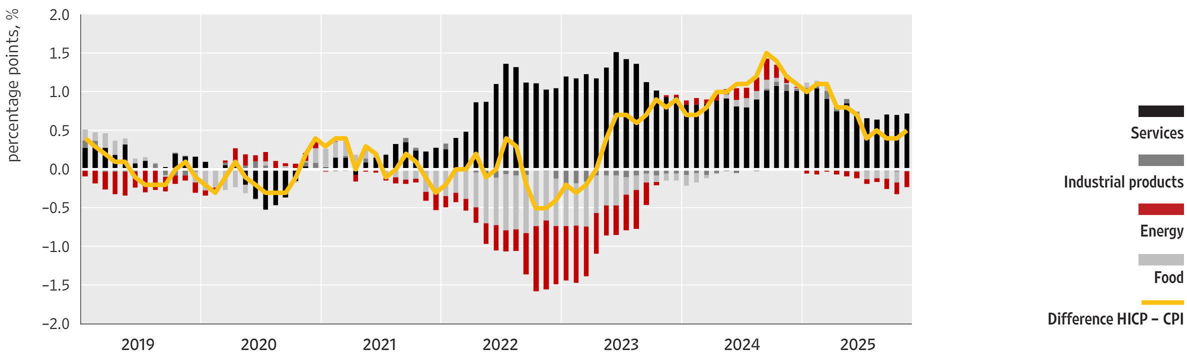
Table 3.3.1. Structure of the harmonised and the national consumer indices, 2025

in %	HICP	CPI
Energy	12.3	15.8
Food	28.4	31.6
Processed food	22.2	23.0
Unprocessed food	6.2	8.6
Core inflation	59.3	52.5
Industrial products	26.8	26.5
Services	32.5	26.0
Catering services	8.1	4.4
Accommodation services	4.1	0.7
Other services	20.3	20.9

Notes: Food includes beverages and tobacco, while industrial goods exclude energy. Core inflation excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat and CBS.

The difference between the harmonised (HICP) and the national (CPI) indicators of overall inflation narrowed in 2025.[15] In November 2025, inflation measured by the harmonised indicator was 0.5 percentage points higher than inflation measured by the national indicator. The harmonised indicator has shown higher inflation than the national indicator. This reflects the difference in the structure of the basket of goods and services used for the calculation of each of the indicators (Table 3.3.1). The consumer basket for calculating HICP has a much higher share of services than the CPI basket, particularly hotel, restaurant, and accommodation services. These services, the prices of which have been growing relatively strongly, account for much of foreign tourist spending. The HICP basket, however, is less weighted toward food and energy than the CPI basket. Accordingly, service prices contribute much more to overall inflation measured by the harmonised indicator than that measured by the national indicator (Figure 3.3.2). However, the difference between the harmonised and the national indicators of overall inflation is much smaller than in the year before when it stood at 1.2 percentage points, reflecting a fall in the difference between the contributions of prices of services and energy to overall inflation measured by the harmonised and the national indicators.

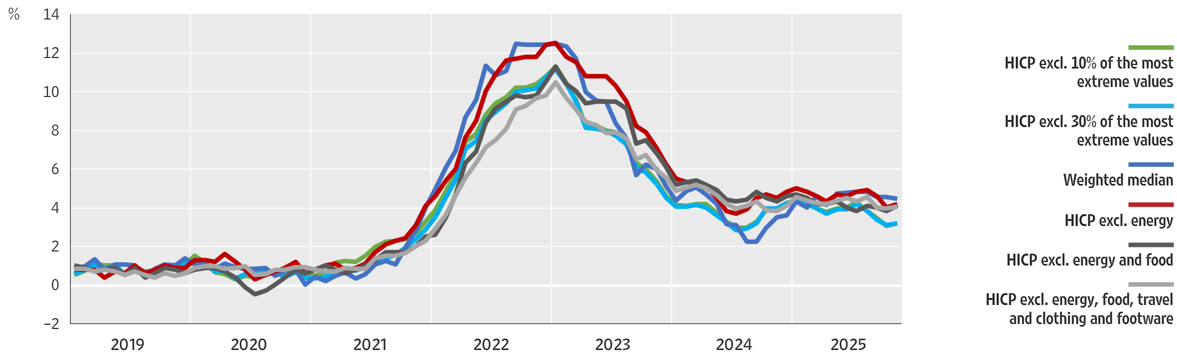
Figure 3.3.2 Difference between the contributions of the main components to the overall HICP and CPI



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.

15 In contrast to the CPI, the HICP covers the consumption of foreign tourists and institutionalised households (such as educational, health and religious institutions, etc.).

Figure 3.3.3 Core inflation indicators in Croatia



Notes: Trimmed mean eliminates 5% (15%) of components (out of a total of 87 components) 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.

Food price inflation accelerated strongly in the second half of 2024 and the first seven months of 2025 but pressures on food prices eased in the period that followed. The inflation of food prices measured by the HICP accelerated from 2.5% in July 2024 to 7.0% in July 2025, largely mirroring the strengthening of current pressures on food prices, i.e. a faster than usual monthly growth in food prices in individual components (particularly in September and October 2024 and in May and July 2025). The contribution of unprocessed food products rose the most, particularly that of fresh fruit and meat (especially beef and veal). The contribution of coffee and milk and dairy products also rose sharply. In contrast, the prices of cereals, cocoa and sugar in the global market and of olive oil in the European market fell, which relieved the inflationary pressures. The easing of inflationary pressures on food prices was also supported by new government measures aimed at limiting retail prices of certain products (mostly food), which came into effect in February 2025.[16] Food price inflation slowed down in November to 4.5% from 7.0% in July, mostly as a result of a fall in the annual rate of change in the prices of fresh food and vegetables.

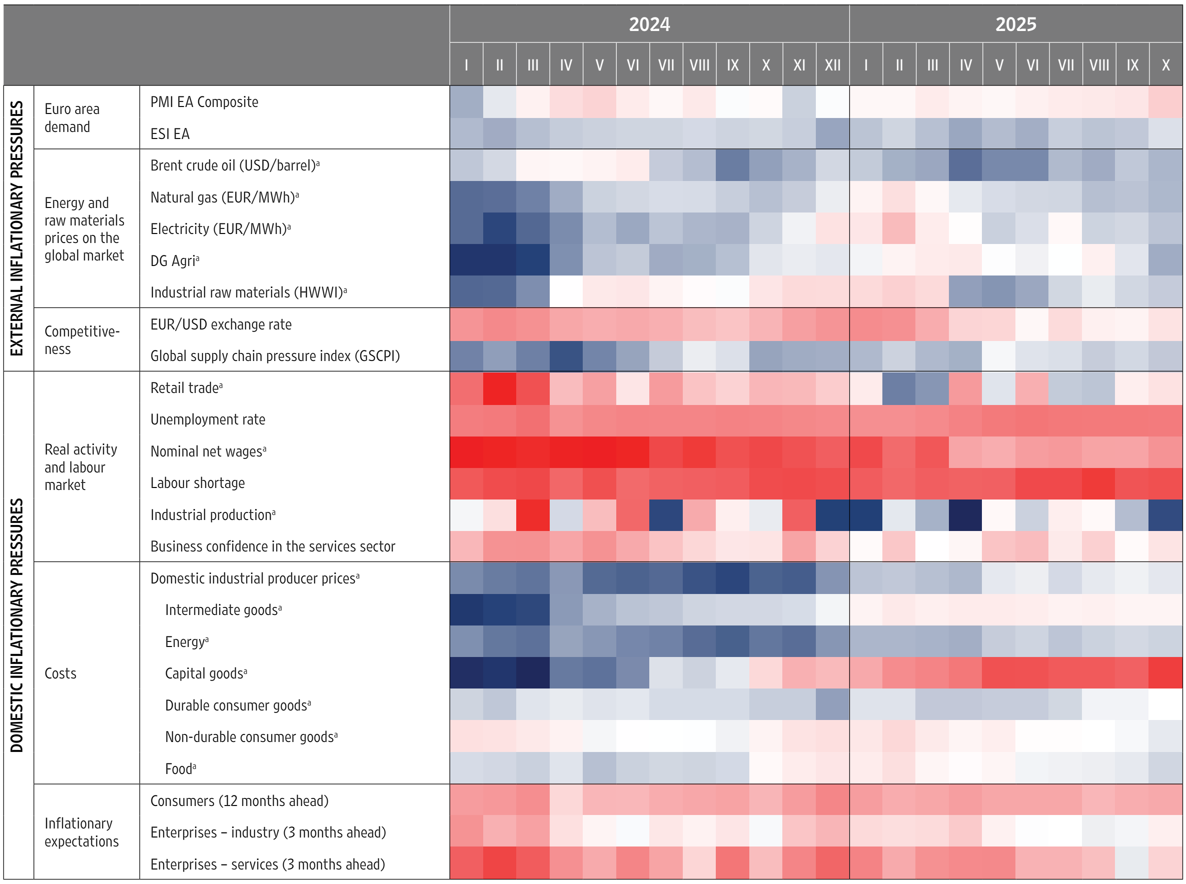
Core inflation (excluding energy and food prices) slowed down in 2025, but remained elevated, particularly in the segment of services price inflation. Core inflation measured by the HICP slowed down from 4.7% in January to 4.1% in November owing to a slowdown in both its components. The inflation of the prices of industrial goods was lower throughout the year than its long-term pre-pandemic average of 1.0%. Services inflation slowed down from 8.2% in January to 7.5% in November[17], largely as a result of a fall in the contribution of prices of hotels and restaurants and travel-related services (accommodation, air transport, package holidays). This fall helped mitigate primarily the increase in the contribution of housing services (rent) and telecommunication services. Notwithstanding the decline, services price inflation remained elevated amid increased consumer preference for service activities, the tight labour market, the persistently strong wage growth, solid domestic demand and the increase in individual administered prices (rent). Thus, services remain the component that made the highest individual contribution to overall inflation. They accounted for approximately 57% of overall inflation in November

16 In December 2025 a decision entered into force setting the maximum prices of individual products and product categories to directly control retail prices, expanding the list of products included.

17 The services price inflation measured by the CPI was higher in November than in January (6.6% relative to 6.3%).

2025 and proved to be its most persistent component. The persistence of services inflation largely mirrors robust domestic demand and a tight labour market coupled with continued rapid wage growth (Figure 3.3.4). Alternative indicators of core inflation that exclude certain volatile components mostly fell from the end of 2024 and early 2025 (Figure 3.3.3).

Figure 3.3.4 Indicators of external and domestic price pressures

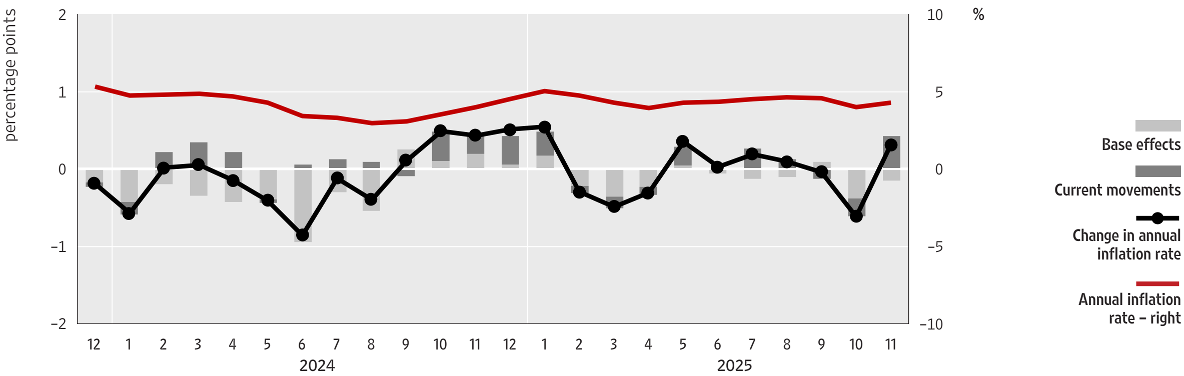


[a] Annual rate of change.
Notes: Labour shortage is the ratio between the vacancy rate and the registered unemployment rate. The PMI EA Composite and ESI EA series have been corrected after standardisation so as to show the neutral value in white. Red (blue) indicates a positive (negative) deviation in the value in a given month relative to the 2010 – 2024 average (expressed by the number of standard deviations), where the intensity of the shade of the colour indicates the size of an upward (downward) deviation from the average.
Sources: ECB, Eurostat, Bloomberg, NY Fed, HWWI, CBS and Ipsos.

The slowdown in the annual rate of overall inflation from February to November 2025 reflects the favourable base effects[18], with evident easing of current pressures also being present. The favourable base effects are the result of the exclusion of high monthly growth rates in 2024 from the calculation of the annual rate of change in prices, particularly food and services prices. Current pressures on prices were smaller than in the previous year (Figure 3.3.5). The short-term indicator of overall and core inflation (Figure 3.3.6) or momentum (the quarterly rate of change calculated from seasonally adjusted data and expressed on an annual level), points to a downward trend in current inflationary pressures from the beginning of 2025.

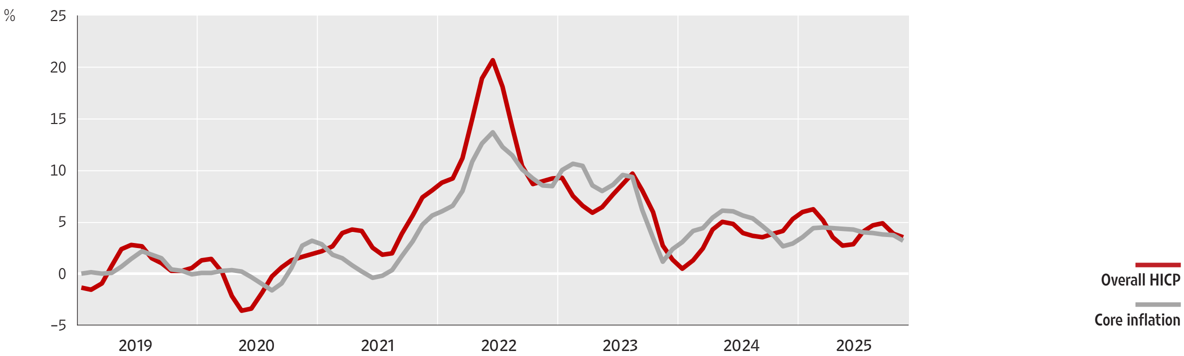
18 The change in the annual rate of inflation month-on-month depends on the change in retail prices from the month before ("current inflation") and the monthly rate of change in prices in the same month of the year before ("base effects"). For more details, see HNBlog by D. Kunovac and M. Luketina, On the way down – the role of base effects in the slowdown of consumer inflation.

Figure 3.3.5 Contributions of base effects and current developments to a change in annual inflation



Note: The base effects and current developments were adjusted for the usual developments that are relatively stable and do not affect annual inflation considerably.
Sources: Eurostat and CNB calculations.

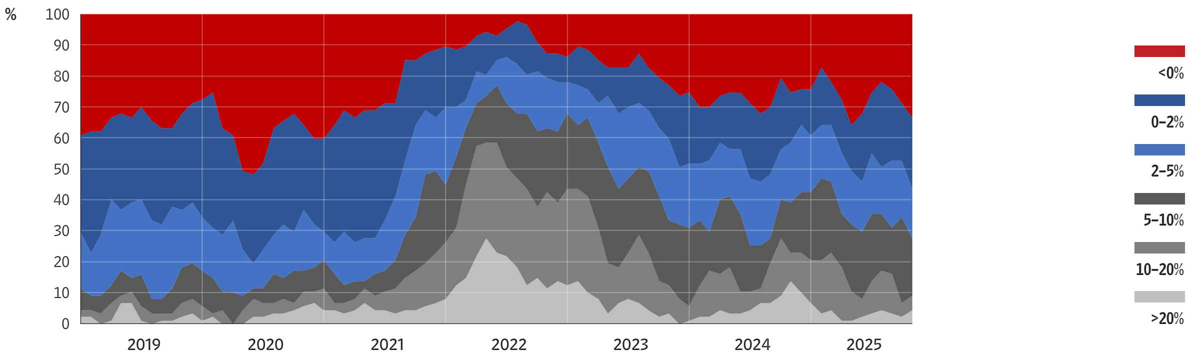
Figure 3.3.6 Momentums of overall and core inflation



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.

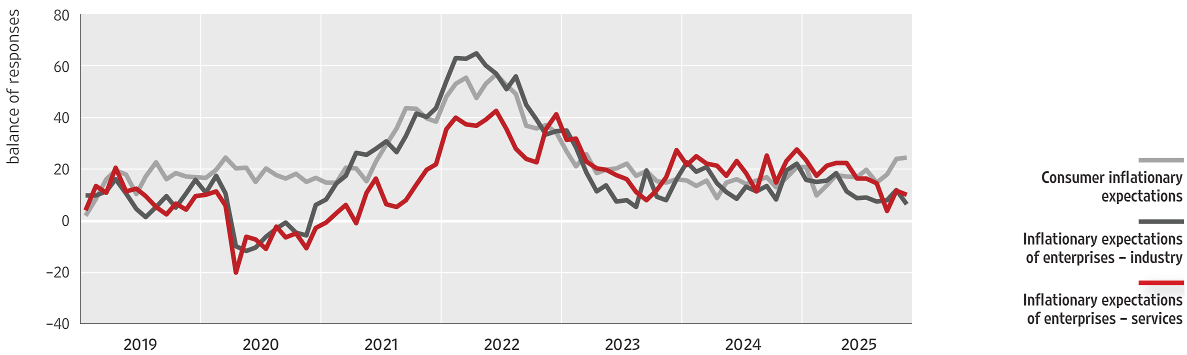
The easing of current pressures is also seen in a fall in inflation diffusion and a reduction in short-term inflationary expectations of corporates. The share of subcomponents in the consumer price index whose quarterly rate of change, expressed on an annual level, was above 2% in the second half of 2025 (from July to November) was slightly above 50%, down from over 60% at the end of 2024 and in early 2025 (Figure 3.3.7). Short-term inflationary expectations of corporates in industry and the services sector diminished in 2025 (Figure 3.3.8).

Figure 3.3.7 Diffusion of consumer price inflation



Note: The figure shows the share of the number of products whose prices changed within a defined range in the total number of products according to annualised quarterly rates of change of seasonally adjusted price indices of 87 components of the harmonised consumer price index.
Sources: Eurostat and CNB calculations.

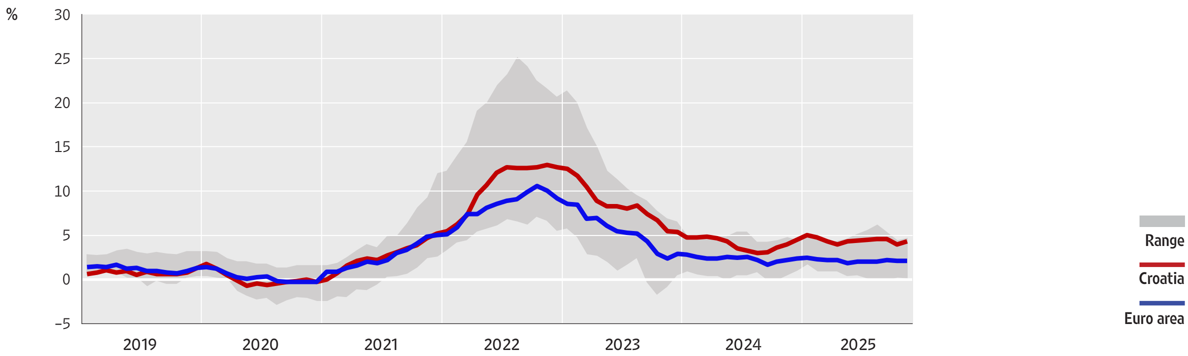
Figure 3.3.8 Short-term inflationary expectations of consumers and corporates



Note: Consumer expectations refer to a twelve-month period ahead and corporate expectations refer to a three-month period ahead.
Source: Ipsos.

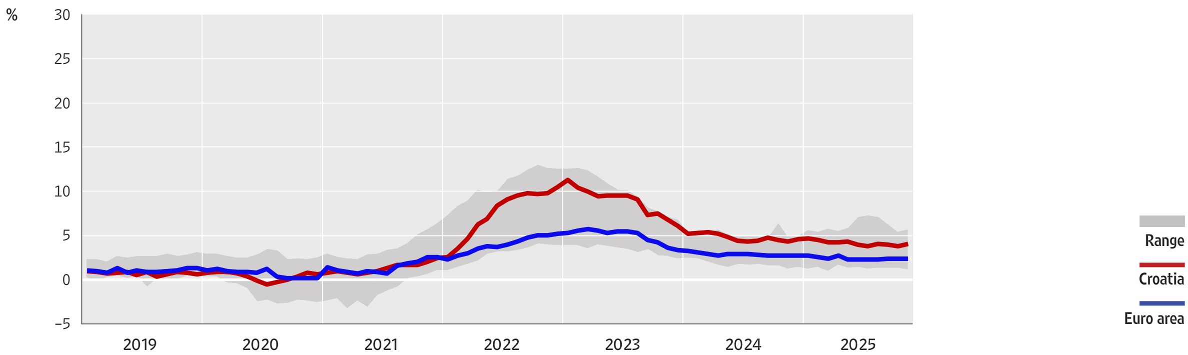
The difference between overall inflation in Croatia and in the euro area as a whole was slightly smaller at the end than at the beginning of the year. Thus, in November 2025, overall inflation in Croatia outstripped the euro area average by 2.2 percentage points (Figure 3.3.9), down 0.3 percentage points from January 2025. Core inflation in Croatia in November 2025 exceeded the euro area average by 1.7 percentage points (Figure 3.3.10), down 0.3 percentage points from January 2025. However, in the first eleven months of 2025 the average difference between inflation in Croatia and the euro area was bigger than in the same period of the year before. The inflation differential in November 2025 reflects the large contribution of food, services and energy prices in Croatia as compared to the average of the euro area. Croatia's inflation rate has been higher than the average in the euro area. This can be attributed to several factors including faster economic growth, faster wage and personal consumption growth, later withdrawal of energy support to households relative to other countries, a supportive fiscal stance, inflow of EU funds and the process of price convergence in Croatia towards a higher average level in the euro area associated with the gradual convergence of per capita income to EU average.

Figure 3.3.9 Synchronisation of overall inflation in Croatia and the euro area



Note: Grey areas show the range of values of individual member states of the euro area.
Source: Eurostat.

Figure 3.3.10 Synchronisation of core inflation in Croatia and the euro area

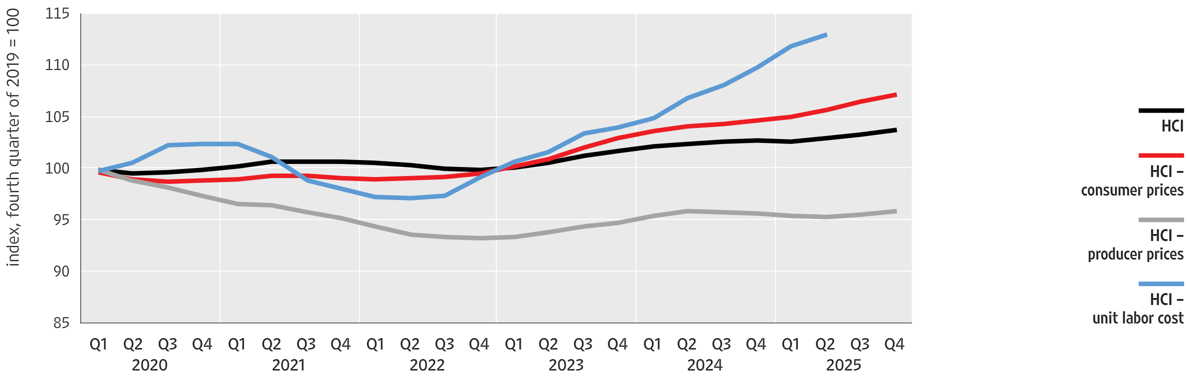


Note: Grey areas show the range of values of individual member states of the euro area.
Source: Eurostat.

3.4 Economic relations with foreign countries

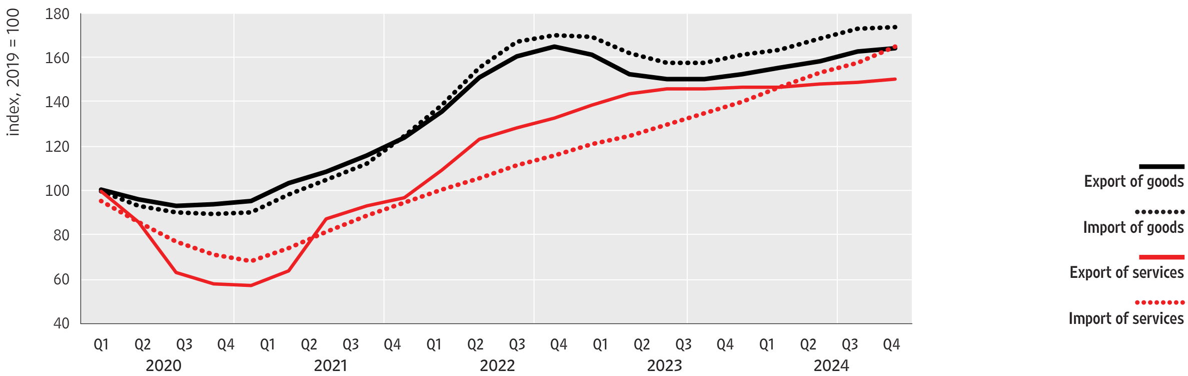
Most indicators suggest a further gradual worsening of the competitiveness of the Croatian economy relative to the main trading partners in 2025. The cost competitiveness indicator which takes into account the changes of unit labour costs in Croatia relative to its trade partners (HCI-ULC) continued to deteriorate noticeably, reflecting the continued strong wage growth that has significantly outstripped productivity growth, thus continuing the trend that began in mid-2022 (Figure 3.4.1). The pronounced wage growth resulted in this cost competitiveness indicator exceeding its long-term average at the beginning of this year, ending the long-standing trend of slow growth in labour costs relative to that seen in competitors, which began in the domestic economy after the onset of the global financial crisis. Compounding the decline in the cost competitiveness of the Croatian economy, negative developments also continued in terms of the price competitiveness indicator deflated by relative consumer prices (HCI-CPI), which has been above its long-term average since mid-2023, the deterioration gathering pace to a certain extent in the second part of 2025. At the same time, the indicator deflated by producer prices (HCI-PPI), which are more influenced by the trends in prices on external markets, stabilised below pre-pandemic levels and is still at a level below its long-term average.

Figure 3.4.1 Harmonised competitiveness indicators



Notes: The increase in indicators denotes appreciation. Series are shown as the moving average of four quarters. Data for the fourth quarter of 2025 refer to October.
Source: CNB.

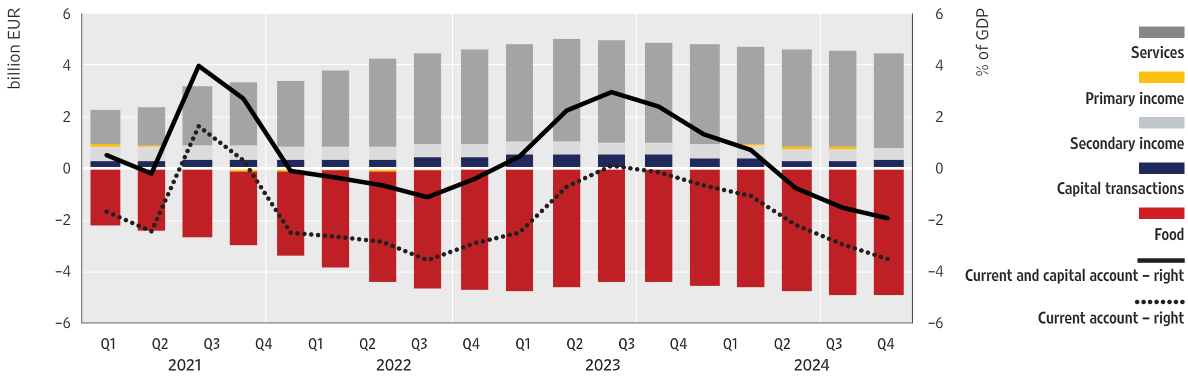
Figure 3.4.2 Exports and imports of goods and services



Note: Series are shown as the moving average of four quarters.
Source: CNB.

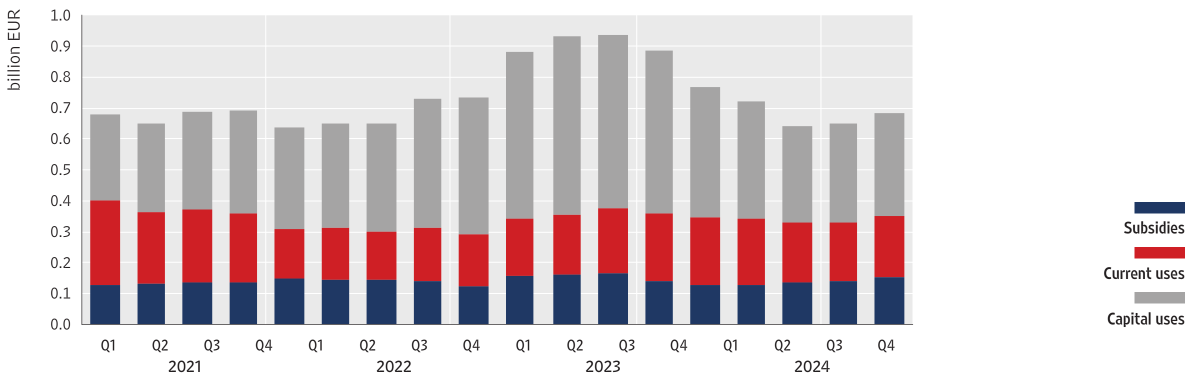
The deterioration in the price and cost competitiveness of the domestic economy has had an effect on foreign trade, the services segment in particular. According to the balance of payments data, services exports registered an annual growth of only 3.2% in the first half of 2025, which, together with the relatively subdued nominal growth of exports of tourist services (5.9%), was determined by the fall in the exports of manufacturing services on physical inputs and exports of transport-related services. At the same time, the nominal import of services grew by 17.2%, primarily on account of tourist consumption of residents abroad, followed by expenditures on other services, which resulted in a noticeable deterioration in the services balance. The positive balance of services thus decreased from 10.8% of GDP in the first half of 2024 to 9.3% of semi-annual GDP in the first half of 2025 (Figure 3.4.3), with available data from the national accounts pointing to a further worsening of the services balance in the third quarter. As regards the exports of goods, their annual growth picked up gradually in 2024, reaching 7.9% in the last quarter, but in the first half of 2025, they slowed down somewhat, standing at 7.3%. At the same time, the growth in the imports of goods decelerated from 12.6% at the end of 2024 to 6.4% in the first six months of 2025. Consequently, the trade deficit widened by 5.6% in the first half of 2025 but due to slightly faster growth of the gross domestic product its share in GDP fell slightly to 24.5%.

Figure 3.4.3 Balance of payments (b.o.p.)



Note: Series are shown as the moving average of four quarters.
Source: CNB.

Figure 3.4.4 Utilisation of EU funds



Note: Series are shown as the moving average of four quarters.
Source: MoF.

The described developments in foreign trade in goods and services resulted in the deterioration in the total current and capital account balance in the first half of 2025. After the current and capital account balance decreased from 2.9% of GDP at the end of 2023 to –0.8% of GDP for the whole of 2024, the second half of 2024 and the first half of 2025 saw a cumulative deficit of –1.9% of GDP (Figure 3.4.3). The use of EU funds in the first half of 2025 remained at levels similar to those of the same period in 2024, but still considerably below the levels recorded in 2023, the last year of the utilisation of funds allocated under the previous financial allocation (for the period from 2014 to 2020) and of funds from the EU Solidarity Fund for the reconstruction of earthquake-hit areas (Figure 3.4.4).

In line with the current and capital account deficit, the financial account of the balance of payments of the Republic of Croatia saw a capital inflow in the first half of 2025. The balance in the financial account of the balance of payments (the difference between total assets acquired and total liabilities assumed) stood at EUR –5bn in the first quarter of 2025. This was primarily the result of new net liabilities from direct and other investments of EUR 1bn and EUR 6.2bn, respectively. In contrast, the positive balance in the portfolio investment account is a result of an increase in domestic net assets of EUR 2.3bn, primarily due to a rise in investments of the domestic financial system in foreign debt securities.

3.5 Banking system

The pass-through of ECB key interest rate cuts to interest rates on corporate and household loans in Croatia gradually waned in the second half of 2025, with the intensity of the transmission varying across different types of loans. The average interest rate on newly granted loans to non-financial corporations stood at 3.5% in October 2025, having gone down by 28 basis points from June 2025 and by 195 basis points from December 2023, when the highest level was recorded during the last cycle of ECB key interest rate hikes (Figure 3.5.1). The fall in interest rates on corporate loans mirrors developments in the EURIBOR, given that around 60% of all newly granted loans to corporates are linked to this benchmark rate. To a lesser extent, the drop also reflects a reduction in the average fixed interest rate used for around 40% of new loans to corporates. Average interest rates on existing corporate loans also decreased gradually and moderately, standing at 3.8% in October (Figure 3.5.2). In the household sector, the average interest rate on newly granted general-purpose cash loans dropped by 23 basis points from June to October 2025, reaching 5.5%, while the interest rate on housing loans went up by nine basis points to 3.0%. In January, a systemically important bank cut the interest rates on housing loans and in February and March other systemically important banks followed suit. While in the second quarter interest rates on housing loans stabilised at the previously reached lower level, after June, they increased marginally. The average interest rate on pure new housing loans in October this year was 86 basis points lower than the April 2024 peak, while that on general-purpose cash loans was 74 basis points lower than its peak, recorded in January 2024.

Figure 3.5.1 Interest rates on pure new loans and corporate and household time deposits

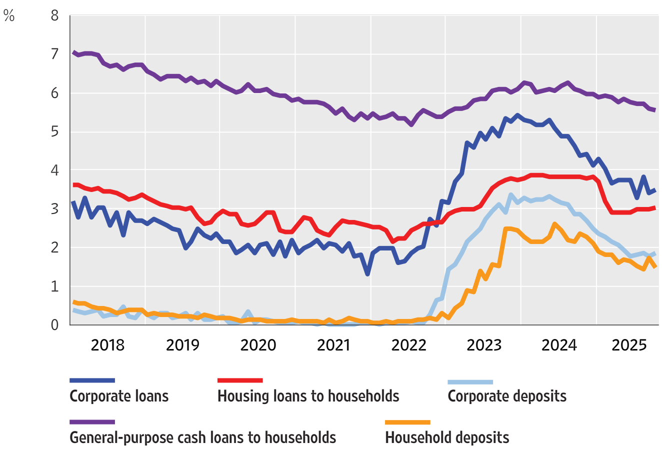
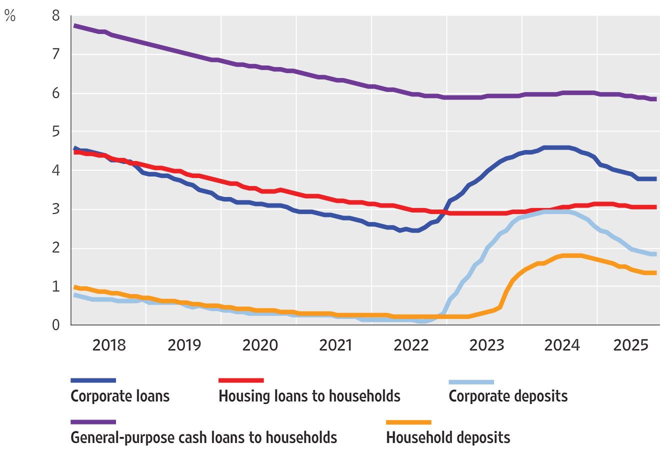


Figure 3.5.2 Interest rates on existing loans and corporate and household time deposits



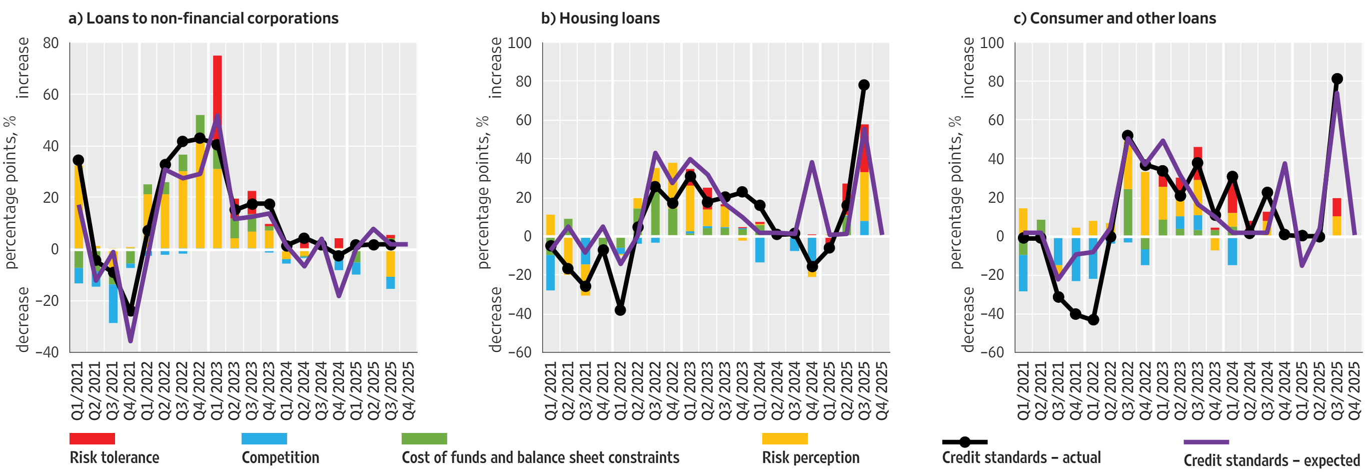
Notes: Data up to December 2022 refer to loans and deposits in kuna and currencies indexed to the kuna and in euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of less than one month have been excluded.
Source: CNB.

Interest rates on corporate time deposits did not change significantly in the second half of 2025, while those on household time deposits shrank slightly. After decreasing steadily in the second half of 2024 and the first half of 2025, interest rates on pure new corporate deposits settled at a lower level. The average interest rate on pure new corporate time deposits was 1.9% in October, up by nine basis points from June (Figure 3.5.1). Interest rates on household time deposits decreased by 18 basis points from June to October 2025, reaching 1.5%.

According to Bank Lending Survey results for the third quarter of 2025, corporate lending standards remained unchanged from the preceding quarter, while household lending standards have been considerably tightened. Corporate lending standards did not see any significant changes from early 2024 (Figure 3.5.3). On the other hand, after remaining almost unchanged throughout the first half of 2025, household lending standards were considerably tightened in the third quarter of 2025, in line with the banks' expectations from the previous survey round. As factors contributing to the tightening, the banks cited not only the introduction of macroprudential measures by the CNB, which have restricted household lending criteria since 1 July, but also the higher level of perceived risk and lower risk tolerance. Banks do not expect lending standards for housing loans, consumer and other household loans or corporate loans to change in the last quarter of 2025.

Figure 3.5.3 Bank lending survey

lending standards and factor contributions



Notes: "Risk tolerance" was introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" are the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". Competition is the unweighted average of Impact of bank competition, Impact of non-bank competition and Impact of market financing. "Risk perception" is the unweighted average of the "Impact of general economic activity", "Impact of industry or firm specific situation" and "Impact of risk on the collateral".
Source: CNB.

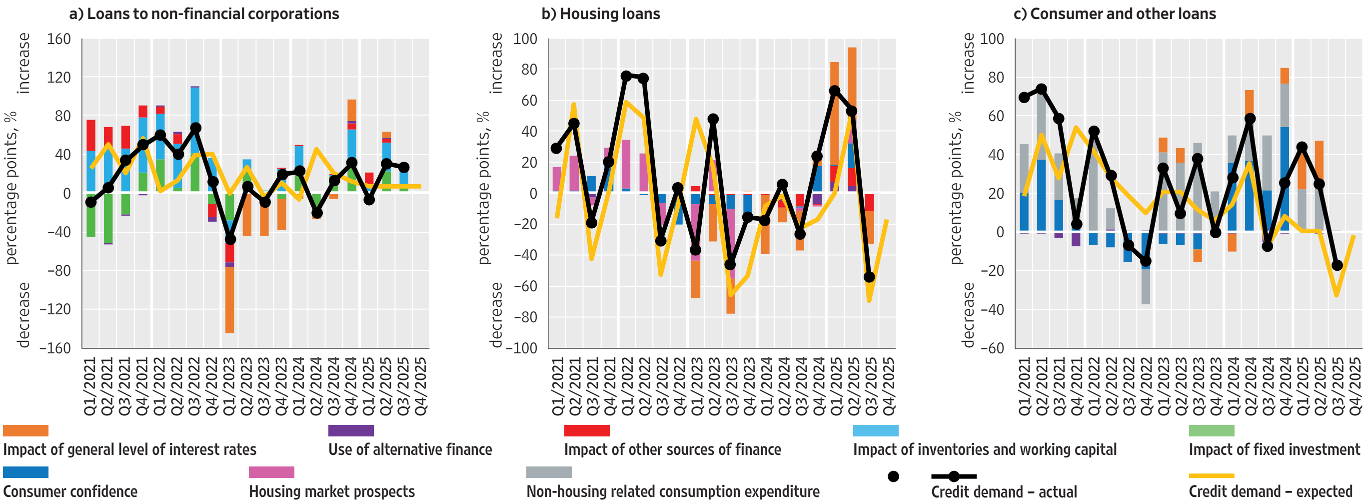
Notes: "Risk tolerance" was introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" are the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". "Competition" is the unweighted average of "Impact of bank competition" and "Impact of non-bank competition". "Risk perception" is the unweighted average of the "Impact of general economic activity", "Housing market prospects" and "Borrowers' creditworthiness".
Source: CNB.

Notes: "Risk tolerance" was introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" is the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". "Competition" is the unweighted average of "Impact of bank competition" and "Impact of non-bank competition". "Risk perception" is the unweighted average of the "Impact of general economic activity", "Borrowers' creditworthiness" and "Impact of risk on the collateral".
Source: CNB.

Corporate demand for loans continued to increase, while the demand for housing loans and consumer and other loans dropped. Corporate demand for loans continued to increase more strongly than expected, primarily due to the increased needs of corporations to finance inventories and working capital and investments (Figure 3.5.4). The upward trend in demand for household loans, noticeable from the end of 2024, ended in the third quarter of 2025, partly as a result of the end of the banks' promotional interest rate offers seen in the first half of the year. Banks also view the imposition of macroprudential measures as a factor contributing to the decline in demand. In the fourth quarter of 2025, the banks expect to see a further decrease in the demand for housing unaccompanied by any changes in the demand for consumer and other loans, while demand for corporate loans is expected to grow further.

Figure 3.5.4 Bank lending survey

demand change and factor contributions



Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Other financing needs" are the unweighted average of "Debt restructuring and refinancing" and "Impact of mergers and acquisitions and corporate restructuring". "Use of alternative finance" is the unweighted average of "Impact of internal financing", "Impact of loans from other banks", "Impact of loans from non-banks", "Impact of debt securities issuance" and "Impact of equity issuance".
Source: CNB.

Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Other financing needs" are the unweighted average of "Debt restructuring and refinancing" and "Regulatory and fiscal framework of the real estate market". "Use of alternative finance" is the unweighted average of "Household savings", "Loans from other banks" and "Impact of other sources of finance".
Source: CNB.

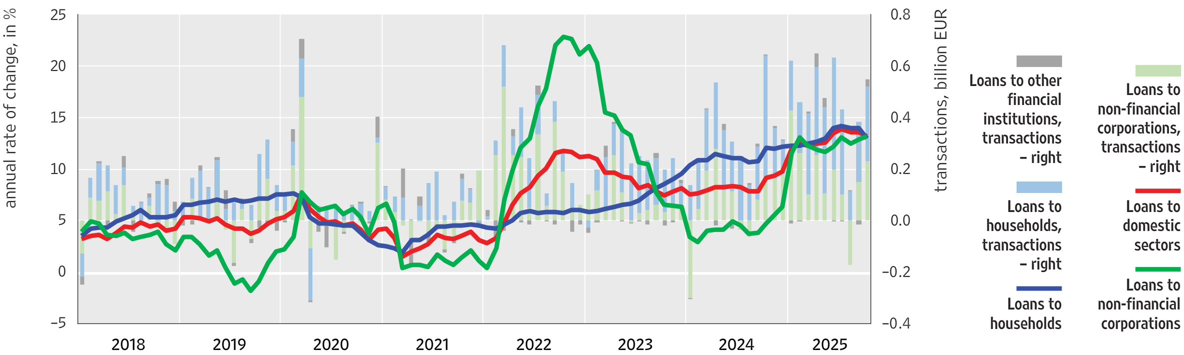
Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Use of alternative finance" is the unweighted average of "Household savings", "Loans from other banks" and "Impact of other sources of finance".
Source: CNB.

The increase in corporate loans slowed down from July to October, as did the increase in household loans, which has been under the influence of macroprudential measures adopted in July. From July to October 2025, household loans increased by EUR 1.0bn, of which EUR 0.6bn is accounted for by housing loans and EUR 0.3bn by general-purpose cash loans. The quarterly growth in housing loans slowed down from 5.2% in June to 2.7% in October, while general-purpose cash loans decelerated more sharply, from 4.0% to 2.0%. The slowdown of the growth in housing loans was more moderate partly due to the lagged disbursement of loans contracted before July. Decelerated growth gradually became evident in the annual data, with household loans slowing down from 14.0% in June to 12.9% in October, reflecting primarily the slower growth in general-purpose cash loans (15.0% versus 12.2%). In contrast, the annual growth rate of housing loans accelerated from 13.1% in June to 14.8% in October. Corporate loans increased by EUR 0.3bn in the observed period, slowing down in quarterly terms from 3.4% in June to 1.2% in October. The significantly slower growth in loans is broadly distributed across activities and purposes and is also noticeable after the effect of larger loan disbursement and repayment transactions is excluded in the past year. On an annual level, the growth in corporate loans accelerated to 13.2%

in October from 12.2% in June (Figure 3.5.5) due to the stronger increase in loans from July to October this year than in the same period in 2024, while lending momentum weakened in the corporate sector from 10.1% in June to 5.0% in October (Figure 3.5.6).

Figure 3.5.5 Loans

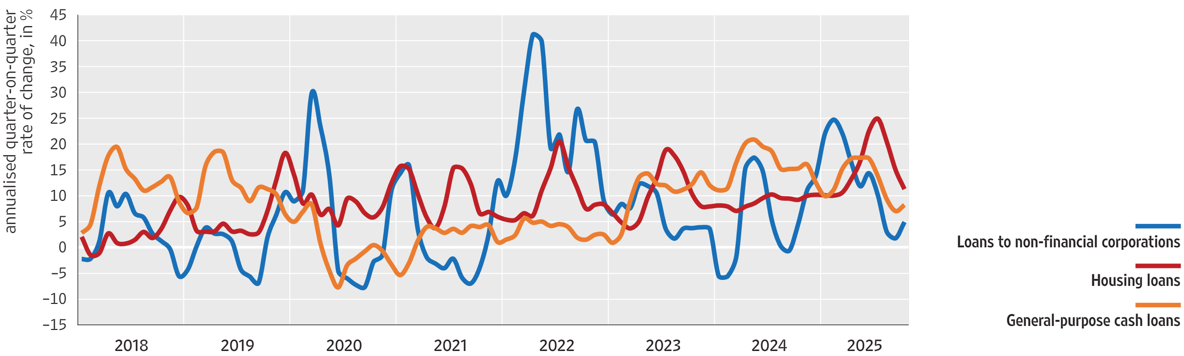
transactions and annual rates of change, transaction-based



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

Figure 3.5.6 Lending momentum, corporates and households

transaction-based

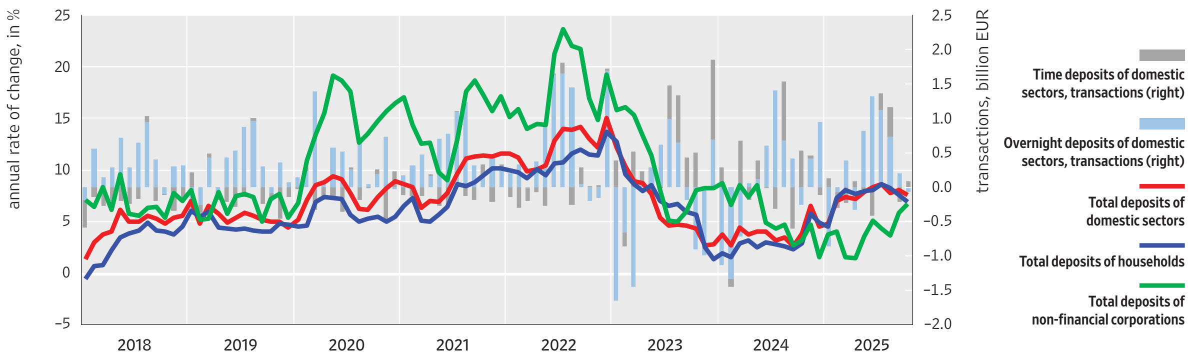


Note: Momentum is a short-term indicator of lending activity which shows annualised three-months-on-three-months rates of change in loans.
Sources: CNB and CNB calculations.

Total deposits of domestic sectors (excluding the general government) rose by EUR 2.5bn from July to October 2025, which is a slightly slower increase than in the same period in 2024. The increase in deposits was largely a result of an increase in net foreign assets of monetary institutions stemming from substantial seasonal inflows of funds to credit institutions linked with tourism revenues. Furthermore, claims on other domestic sectors also went up. Almost 80% (EUR 2.0bn) of the increase in total deposits is accounted for by overnight deposits, with households and corporations increasing the balance of their overnight deposits by EUR 1.3bn and EUR 0.6bn, respectively (Figure 3.5.7). Time deposits also grew, by EUR 0.5bn, solely as a result of an increase in corporate time deposits (EUR 0.7bn), while household time deposits decreased by EUR 0.2bn. Thus, the share of household time deposits in total deposits continued to fall steadily, while the share of corporate time deposits in total deposits remained relatively stable with minor fluctuations at levels somewhat below 30% (Figure 3.5.8).

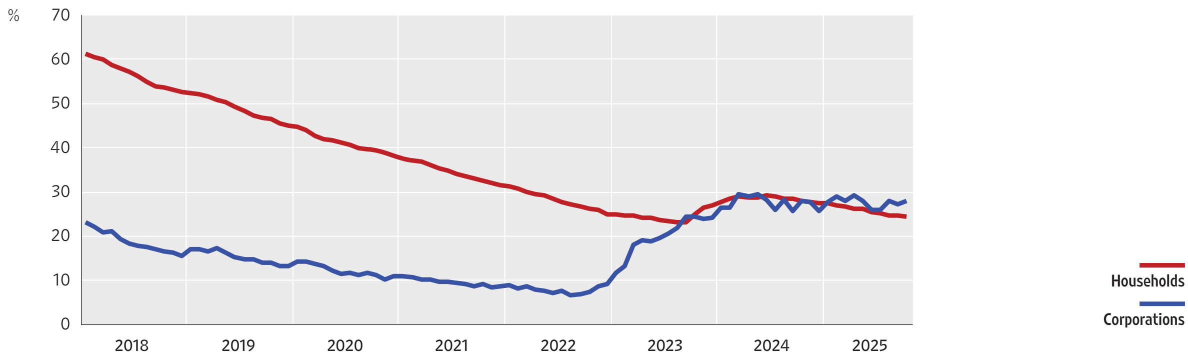
Figure 3.5.7 Deposits

transactions and annual rates of change, transaction-based



Note: Deposits of domestic sectors exclude general government deposits
Source: CNB.

Figure 3.5.8 Share of time deposits in total deposits



Note: Total deposits include overnight and time deposits, deposits redeemable at notice and repurchase agreements.
Source: CNB.

4 Projections for Croatia

4.1 Baseline assumptions

The CNB December projection is premised on slightly improved expectations for the global economy due to a weaker than expected impact of geopolitical instability and to alleviation of the uncertainty surrounding trade policy[19]. In addition to a stronger expected growth in the US and China, global growth expectations in 2025 reflect the resilience of economic activity in the first half of the year and better than expected outturns, especially in some major developing countries such as India, Egypt and Turkey. As a result, global trade growth has been revised upwards in 2025 and 2026 from the previous projection, but is still expected to weaken in 2026 as the favourable effects of the increase in trade and inventories fade away following the rise of trade uncertainties and the full materialisation of the unfavourable effects of increased tariffs.

Expected energy product prices have been revised downwards. While lower oil prices reflect the recent excess supply in the market, the prices of other energy products reveal the anticipated impact of demand-side factors, including historically low gas consumption in Europe and lower demand in the third markets. According to market expectations, crude oil prices could range around USD 62.5 per barrel in 2026, which is a decrease of USD 2.7 per barrel (around 4%) from the September projection and considerably lower than the average level of USD 69.2 per barrel in 2025. Electricity and natural gas prices are projected to be lower in 2026 than anticipated in the previous projection, about 3.7% and 10% respectively. As shown by forward agreements, the prices are anticipated to continue the downward trend until the end of the projection horizon. On the other hand, other raw material prices are expected to fall slightly less in the projection period, in line with a stronger expected global activity growth.

Expectations for euro area economic growth have been revised slightly upwards from the September projection, while expected inflation in 2025 remains unchanged. Euro area economic growth is estimated to come to 1.4% in 2025, which is 0.2 percentage points more than envisaged in the previous projection, while the 2026 growth estimate has been revised up by 0.2 percentage points. The revision of the 2025 projection is attributable to the resilience of the euro area economy against growing global challenges. Euro area growth continues to be driven by domestic demand, coupled with labour market resilience, and is expected to be supported by more favourable financing conditions over the projection horizon, resulting from the delayed effects of the cut in key interest rates in the period until June 2025 and the announced growth of defence and infrastructure investments. Inflation could temporarily fall below the target in the following two years amid a decrease in energy product prices, slowdown in the growth of food prices, the easing of pressures in the labour market and the appreciation of the euro exchange rate. Risks to economic growth and inflation primarily stem from uncertainties surrounding the effects of tariffs and the geopolitical environment.

19 The external and technical assumptions of the projection were adopted from the ECB and finalised on 28 November 2025.

Table 4.1.1 Projection assumptions regarding the international environment and prices of raw materials

		Current projection			Deviations from the previous projection		
		2025	2026	2027	2025	2026	2027
International environment							
Global economic growth (excl. EA)		3.5	3.3	3.3	0.1	0.2	0.1
USA		1.9	2.0	2.0	0.3	0.3	–0.2
China		5.0	4.6	4.2	0.2	0.6	0.4
Global trade		4.4	2.0	3.1	1.5	0.4	0.0
Foreign demand (EA)		3.8	1.9	3.1	1.0	0.4	0.0
Foreign demand (HR)		3.0	2.8	3.3	0.7	0.4	0.1
Prices of raw materials							
Prices of oil	USD	69.2	62.5	62.6	–0.5	–2.7	–2.5
Prices of electricity	EUR/MWh	83.9	75.0	73.7	–0.7	–2.8	0.5
Prices of gas	EUR/MWh	36.5	29.6	27.5	–0.8	–3.2	–2.2
Prices of raw materials (excl. energy) % of change	USD	5.7	0.1	0.5	0.9	1.1	–0.4
prices of food raw materials	USD	9.9	–6.5	–2.2	0.6	0.2	0.1
prices of other raw materials	USD	2.7	5.2	2.5	1.1	1.7	–0.8
Euro area							
Economic growth		1.4	1.2	1.4	0.2	0.2	0.1
Inflation		2.1	1.9	1.8	0.0	0.2	–0.1

Note: Projection assumptions refer to the ECB December projection cycle (December 2025 BMPE) as at 28 November 2025.
Source: ECB.

4.2 Macroeconomic variable projections

Real GDP growth could remain relatively strong, but its dynamics is likely to decelerate gradually. Domestic demand could remain the main driver of growth, but due to the expected slowdown in real income growth and tighter fiscal policy the contributions of personal and government consumption and investments could drop from the high levels reached in the previous two years. On the other hand, given that the negative effects of geopolitical tensions and the increase in US tariffs on EU products have not had a significant impact on global and euro area economic developments, foreign demand could still strengthen, which should benefit Croatian goods exports. However, services exports could remain relatively subdued due to the already high price levels and weakened price competitiveness of Croatian tourism.

Although real activity will slow down in 2025, it will still grow at the relatively strong rate of 3.0%. Real activity continues to be supported by strong domestic demand. However, consumers appear to be increasingly cautious, with the result that the growth of personal consumption has weakened considerably from 2024, falling short of expectations from the September projection, while the savings rate has increased sharply. The weakening of personal consumption has partly been due to CNB measures imposing limits on consumer lending criteria, which entered into force in July. In contrast, after having decelerated in the previous year, investment growth will regain its momentum in 2025. Private investments, which have proven to be relatively resilient to elevated levels of uncertainty, are also expected to grow strongly, as are private investments.

Total exports have remained subdued due to poor tourism performance, whereas goods exports should continue to grow. With imports expected to grow much more robustly than exports due to relatively buoyant domestic demand, net exports could once again make a negative contribution to growth in 2025.

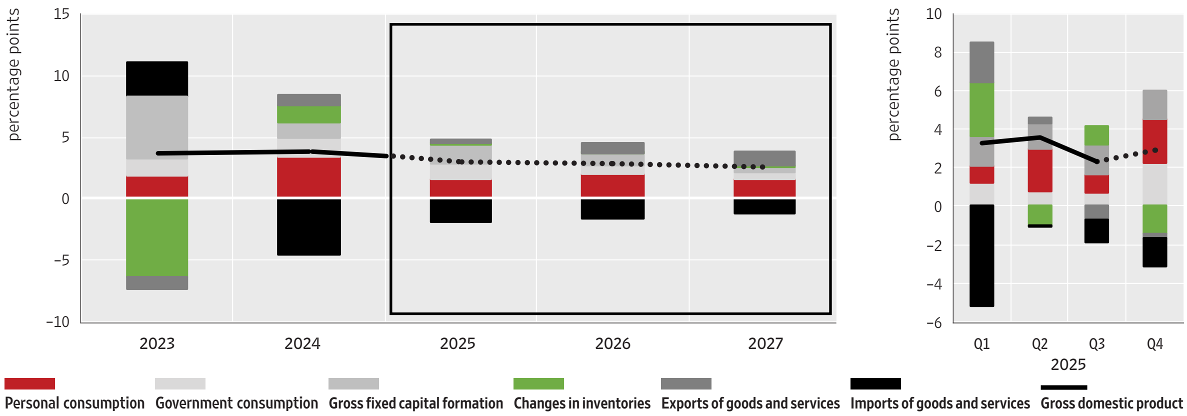
Table 4.2.1 Key macroeconomic variable projections

annual growth rates

	2024	2025	2026	2027
Real GDP	**3.8**	**3.0**	**2.8**	**2.6**
Personal consumption	5.9	2.8	3.6	2.8
Government consumption	7.3	5.3	2.7	2.4
Capital investments	5.3	5.9	3.9	1.7
Exports of goods and services	1.6	0.5	1.5	2.3
Imports of goods and services	8.4	3.4	3.1	2.3
Contributions to GDP growth[1]				
Domestic demand	6.3	4.3	3.7	2.6
Exports of goods and services	0.8	0.3	0.7	1.1
Imports of goods and services	–4.6	–1.8	–1.7	–1.2
Inventories	1.3	–0.3	0.1	0.0
Labour market				
Change in employment	3.3	2.6	1.8	1.4
Unemployment rate (ILO)[2]	5.0	4.8	4.6	4.4
Nominal gross wage	15.0	10.0	6.0	4.5
Real gross wage	11.7	6.0	2.8	2.1
Inflation (HICP)				
Total	**4.0**	**4.4**	**3.4**	**2.4**
HICP excl. energy and food	4.8	4.1	3.2	2.5
Food	4.4	5.4	3.4	2.7
Energy	–0.3	3.4	4.6	1.0
Inflation (CPI)	3.0	3.7	3.1	2.3

[1] In percentage points.
[2] As % of labour force.
Note: Table 4.2.1 sums up the estimated and projected values of key variables for Croatia resulting from the inclusion of baseline assumptions and historical results in the short-term and medium-term macroeconomic models used by the Croatian National Bank, subject to corrections of model estimations based on the judgement of experts for individual economic areas.
Sources: CBS, Eurostat and CNB estimations and projections.

Figure 4.2.1 GDP and GDP components, contributions



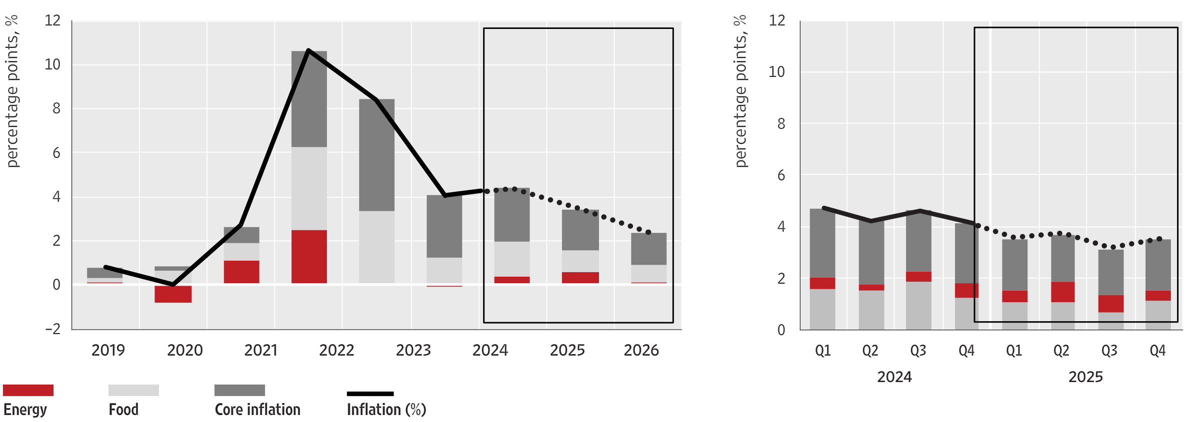
Sources: CBS and CNB estimations and projections.

The current slowdown of the Croatian economy is expected to persist in 2026 and 2027. Economic activity is still expected to grow relatively strongly in 2026, approximately by 2.8%. Growth is likely to continue to be backed by relatively robust domestic demand, boosted by the anticipated high amounts of EU funds, and foreign demand is expected to strengthen gradually. Such expectations imply an economic slowdown, owing to the anticipated tightening of fiscal policy and a slower real income growth, which reflects a gradual deceleration of employment and wage growth. Despite the weaker real income growth, the annual personal consumption growth rate could pick up as a result of base effects due to personal consumption having been subdued in a part of 2025, in particular during the retail chains boycott organised early in the year and in the summer months. The year 2027 is expected to witness growth slowing down further to 2.6%, mainly due to the end of the use of funds from the Recovery and Resilience Facility, which is active until the end of 2026, while the use of funds from the current financial envelope should increase only gradually. This could result in a sharp deceleration of total investments in 2027, primarily caused by the shrinking of public sector investments. The contribution of net exports to real growth could become almost neutral towards the end of the projection horizon, after having been markedly negative in the past three years.

Risks to the central projection of Croatia's real growth seem to be balanced. Due to ongoing and potentially escalating geopolitical tensions, global economic developments and trends in the prices of raw materials and energy products have remained highly uncertain. This also refers to the potential introduction of some new types of protectionist measures, which could jeopardise Croatian goods exports primarily due to diminishing demand from Croatia's main trading partners. An additional downside risk stems from tourism services prices, which could exceed those envisaged in the baseline scenario, additionally undermining price competitiveness vis-à-vis Croatia's Mediterranean competitors and dampening foreign demand and net services exports. In addition, the projected investment growth will largely depend on the successful absorption of EU funds, primarily by the public, but also by the private sector. However, should geopolitical tensions de-escalate, foreign demand trends could outstrip expectations and favourably affect goods exports. Consumer confidence could also improve, bringing down the household savings rate, currently projected to slightly exceed the pre-pandemic levels, and additionally propelling personal consumption growth.

The average annual overall inflation rate, which decreased temporarily in 2025 due to energy and food prices, is expected to slow down again over the following two years, while core inflation could continue to decrease steadily over the entire projection horizon. The estimated increase in the average annual overall inflation rate (measured by the harmonised index of consumer prices) from 4.0% in 2024 to 4.4% in 2025 (Figure 4.2.2) has resulted from the termination of fiscal measures, that is, the growth of administered gas, electricity and heat energy prices and the accelerated growth of food prices, which has been partly mitigated by a further slowdown in core inflation. However, the intra-year inflation dynamics suggests that inflation should be lower at the end of 2025 than at the beginning of the year. In 2026, the expected continued deceleration of core inflation and the slowdown of the annual growth of food prices should cause overall inflation to decelerate to 3.4%. In contrast, energy inflation could increase further in 2026 on the back of the growing administered prices of gas, electricity and heat energy. The projected deceleration of overall inflation to 2.4% in 2027 reflects an annual price growth of all the main inflation components (energy, food and core inflation) slower than in the previous year. The alleviation of inflationary pressures in Croatia along the projection horizon is predicated on a slowdown in the growth of economic activity and unit labour costs (caused by decelerating wage growth and accelerating productivity growth), a subdued growth in foreign demand for tourism services, a decrease in the global prices of energy products and food raw materials and a slowdown in inflation in the main trading partners. In addition, the CNB's new macroprudential measures aimed at restricting credit-financed household consumption, introduced in July 2025 to preserve financial stability, are also expected to alleviate domestic inflationary pressures.

Figure 4.2.2 Projection of harmonised index of consumer prices



Sources: Eurostat and CNB estimations and projections.

Core inflation (which excludes energy and food prices), standing at 4.8% in 2024 and amounting to an estimated 4.1% in 2025, could decelerate to 3.2% in 2026. The 2025 core inflation slowdown mainly reflects the decelerated annual growth of industrial goods prices in conditions of low import pressures, the appreciation of the euro and the low growth rate of producer prices of consumer goods, while the growth of services prices, the second main component of core inflation, slowed down only slightly. In 2026, however, core inflation is expected to continue moderating due to the projected significant slowdown in service inflation. This trend is driven by several factors including the slackening of pressures such as the excessive growth of wages (a major cost for service activities) and high hotel and restaurant prices, which erode the competitiveness of the domestic tourist sector and tend to stifle further growth by depressing foreign demand for tourism services. Also expected to play a role are favourable base effects resulting from the elimination of the high monthly growth rates of the previous year from the calculation of the annual rate. On the other hand, industrial goods prices are expected to increase at a steeper rate than in the previous year, although the average annual inflation rate could remain lower than the long-term pre-pandemic average.

In contrast to core inflation, energy inflation, which accelerated in 2025, could accelerate further in the following year. The average annual energy inflation rate, amounting to –0.3% in 2024 and estimated at 3.4% in 2025, could stand at 4.6% in 2026. The acceleration of energy inflation reflects the increase in administered gas, electricity and heat energy prices. The increases in these energy products in late 2024 and early 2025 have had the dominant influence on the average annual inflation rate in 2025, whereas a new price increase introduced in late 2025 and planned for early 2026 will mostly affect the average annual energy inflation rate in 2026. In contrast, the fall in refined petroleum product prices in the domestic market, associated with a significant drop in crude oil prices in the world market and the strengthening of the euro against the US dollar, mitigates the intensity of the increase in energy inflation.

The overall inflation acceleration in 2025 is also caused by food prices, but they could grow at a slower pace in 2026. Food inflation could accelerate from 4.4% in 2024 to 5.4% in 2025, for the most part due to unprocessed food prices, although processed food prices have accelerated too. The faster growth of food prices in 2025 than in 2024 was due to increases in some food raw material prices, which spilled over with a time lag to domestic retail prices amid steadily high wage growth rates, elevating costs and supporting strong demand. However, current pressures on food prices started to ease towards the end of 2025. Consequently, due to an assumed decrease in food raw material prices in the global and European markets and a continued wage growth slowdown, the average annual food inflation rate is expected to decelerate to 3.4% in 2026.

The expected slowdown of overall inflation to 2.4% in 2027 reflects the deceleration of price inflation in all its main components. Core inflation is expected to decrease further as domestic inflationary pressures continue to ease, as suggested by the projected slowdown in personal consumption and wage growth, accompanied by alleviated fiscal pressures. In addition, the growth of energy prices, after having accelerated in the previous two years, is expected to slow down in 2027 based on current assumptions regarding global crude oil price trends. Food prices could grow at a slower pace than in the previous two years.

The inflation differential between Croatia and the euro area average should decrease gradually. According to the latest forecasts of the Croatian National Bank and the European Central Bank of December 2025, the difference between the average annual inflation rate in Croatia and the euro area average rate could increase in 2025 from the previous year and stand at 2.3

percentage points. However, over the remainder of the projection horizon the inflation differential could decline, dropping to 1.5 percentage points in 2026 and 0.6 percentage points in 2027, which equals the average long-term differential in the pre-pandemic period.

The average annual inflation rate measured by the national consumer price index (CPI) could accelerate to 3.7% in 2025 from 3.0% in 2024, before decelerating again over the reminder of the projection horizon, to 3.1% in 2026 and 2.3% in 2027. The acceleration of the CPI in 2025 indicates that energy and food prices grew at a faster rate than in the previous year. In 2026, energy inflation will continue to be driven by rising administered gas, electricity and heat energy prices, but food price growth and core inflation could slow down, bringing down overall inflation. The continued overall inflation slowdown in 2027 will be due to the expected decrease in the annual price growth of all the main inflation components. The difference between the harmonised and the national inflation indicators, which increased sharply in 2024, is expected to decrease steadily over the projection horizon, which should result in the realignment of the overall inflation rates measured by the harmonised and national indicators, in line with the small historical differences between the two indicators.

Risks to the realisation of the inflation projection have remained balanced. Inflation could be lower than projected if the economic growth is weaker than expected due to the escalation of trade tensions and the related weakening of foreign demand. Additional downside risks stem from the lower prices of crude oil and other raw materials in the world market resulting from the slower than expected global economic growth and the potential re-routing of Chinese goods exports to the European market. In addition, a sharper appreciation of the euro or a stronger pass-through to inflation could further mitigate imported inflationary pressures. On the other hand, inflation could be higher than expected in the event of a stronger than expected wage growth, especially amid a robust and tight labour market. Such developments could result in stronger and more persistent upward pressures on prices, primarily in the services sector where labour costs account for the bulk of total expenses. Additional inflationary risks stem from increased geopolitical tensions, which could disrupt the supply of energy products and other raw materials in the global market, as well as from adverse weather conditions that pose a risk to higher food price inflation. Inflation could also rise due to expansionary fiscal policy, with defence spending exceeding the expected levels.

Croatia's real GDP growth for 2025 has been revised downwards by 0.2 percentage points from the previous CNB projection (Table 4.2.2), mainly due to a much-weaker-than-expected performance in the third quarter. This mainly refers to real services exports, which are linked to weaker results in tourism, and poorer personal consumption results that point to the increased caution of households despite real income growth. This was partly offset by more favourable expectations regarding investments and a drop in exports resulting from weakening aggregate demand. Growth for 2026 has been revised slightly downwards (by 0.1 percentage point), which also reflects somewhat more unfavourable expectations related to foreign demand for tourist services and personal consumption.

Table 4.2.2 Deviations from the CNB projection of March 2025

	2024	2025	2026	2027
Real GDP				
December 2025	3.8	3.0	2.8	2.3
September 2025	3.9	3.2	2.9	
Difference (p. p.)	–0.1	–0.2	–0.1	–
Inflation (HICP)				
December 2025	4.0	4.4	3.4	2.4
September 2025	4.0	4.2	2.8	
Difference (p. p.)		0.2	0.6	
Inflation (CPI)				
December 2025	3.0	3.7	3.1	2.3
September 2025	3.0	3.6	2.6	
Difference (p. p.)		0.2	0.5	–

Sources: CBS, Eurostat and CNB estimations and projections.

In comparison to the previous projection of September 2025, the average annual overall inflation rate (HICP) could be 0.2 and 0.6 percentage points higher in 2025 and 2026 respectively. The upward revision of the overall inflation projection in 2025 demonstrates higher than expected core inflation values, with services inflation increasing contrary to expectations. Due to higher than expected inflation in the second half of 2025, which affects projected developments in the following year, inflation projection for 2026 has been revised upwards. In addition, the correction of inflation in 2026 is additionally supported by administered gas, electricity and heat energy prices rising by higher rates than projected in September. In contrast, the annual growth of food prices could be lower than expected.

Abbreviations and Symbols

Abbreviations

€STR	euro short-term rate
APN	Agency for Transactions and Mediation in Immovable Properties
BEA	U. S. Bureau of Economic Analysis
bn	billion
CBS	Central Bureau of Statistics
CEA	Croatian Employment Agency
CNB	Croatian National Bank
CPF	Croatian Pension Fund
CPI	consumer price index
EA	euro area
ECB	European Central Bank
ESI	Economic Sentiment Indicator
EU ETS2	Emissions Trading Scheme
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Fed	Federal Reserve System
GDP	gross domestic product
GSCPI	Global Supply Chain Pressure Index
HICP	harmonised index of consumer prices
HWWI	Institute for International Economics in Hamburg (Hamburgisches Weltwirtschaftsinstitut)
ILO	International Labour Organization
IMF	International Monetary Fund
MoF	Ministry of Finance
m	million
MLF	marginal lending facility
MWh	megawatts per hour
NACE	national classification of activities
OECD	Organisation for Economic Co-operation and Development
OOH	owner-occupied housing
PMI	Purchasing Manager's Index
p. p.	percentage points
Q	quarter
SMA	Survey of Monetary Analysts
SPF	Survey of Professional Forecasters
SVAR	structural vector autoregressive model
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
VAT	value added tax

Three-letter currency codes

CHF	Swiss franc
CNY	Yuan Renminbi
EUR	euro
GBP	pound sterling
JPY	yen
USD	US dollar
XDR	special drawing rights

Two-letter country codes

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GB	Great Britain
GR	Greece
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LV	Latvia
MT	Malta
NL	The Netherlands
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
UK	United Kingdom

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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