Information on economic, financial and monetary developments

July 2025

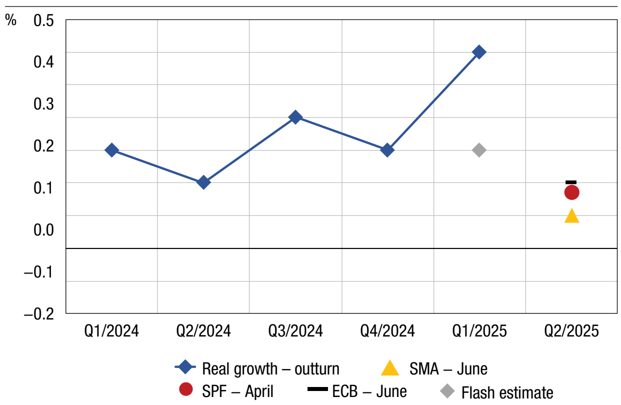
Summary

Economic activity in the euro area increased by 0.6% in the first quarter of 2025 from the previous quarter, well above the flash estimate of the European statistical office, Eurostat, and earlier expectations; however, growth is expected to slow down perceptibly in the second quarter (Figure 1). The strong growth in the early part of the year was largely driven by booming exports, most notably of pharmaceutical products from Ireland and Germany to the USA ahead of the tariff hikes. If Ireland is excluded, euro area GDP rose by 0.3% on a quarterly basis. Most estimates for the second quarter suggest that euro area growth could slow down noticeably amid elevated uncertainty, trade tensions and the waning effects of buoyant exports early in the year (Figure 2). Industrial production weakened at the beginning of the second quarter from the highs reached in the first quarter; available survey indicators also point to economic slowdown around the middle of the year. The economic sentiment index (ESI) was sharply lower in the second quarter than the average for the first three months and falling significantly below its long-term average. The purchasing manager index (PMI) remained unchanged in the second quarter from its first quarter average and is only slightly above the threshold indicating stagnation. The index stagnation reflects a deterioration in the services sector, but this was fully offset by the growth in the purchasing manager index in industry; nevertheless, the index has remained in the contraction range. In contrast, positive trends were seen in construction, which gained substantial momentum in April.

According to a flash estimate from Eurostat, overall euro area inflation accelerated marginally to 2.0% in June, up from 1.9% in May. The larger contribution of energy prices to overall inflation was partly offset by the smaller contribution of food prices (Figure 3). Under the influence of an unfavourable base effect, the annual decline in energy prices went from –3.6% in May to –2.7% in June. In contrast, food inflation edged down (from 3.2% in May to 3.1%) as a result of slower inflation of the prices of processed food products. Core inflation (excluding energy and food prices) remained at 2.3% in June, with services inflation going up slightly and goods inflation declining. Services inflation sped up from 3.2% in May to 3.3% in June, but remained markedly below that in late 2024 (4.0%), largely owing to the slowdown in wage growth. On the other hand, amid mild inflationary pressures stemming from developments in producer and imported prices of consumer goods, industrial goods inflation, the second component of core inflation, slowed to 0.5% in June (from 0.6% in May).

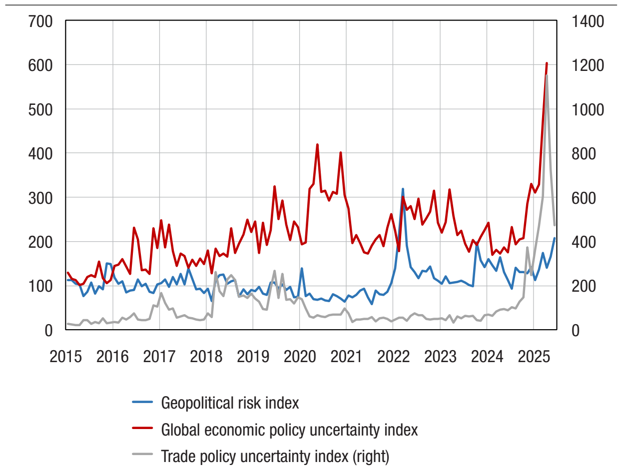
High-frequency indicators for Croatia suggest a considerable acceleration in current economic activity in the second quarter, following stagnation early in the year. Croatia's real GDP in the second quarter could rise by 1.2% from the beginning of 2025, while its annual growth might accelerate to 3.0%, from 2.9% in the first quarter (Figure 4). The volume index of construction works rose sharply in April, and was 2.2% higher than the previous quarter average. The growth in real retail trade turnover also gained momentum in the first two months of the second quarter, following the subdued performance driven by the boycotting of retail chains in the first quarter. However, retail trade trends were relatively weak in May (a decrease of –1.5% on a monthly level), probably due to a fall in tourist nights and

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



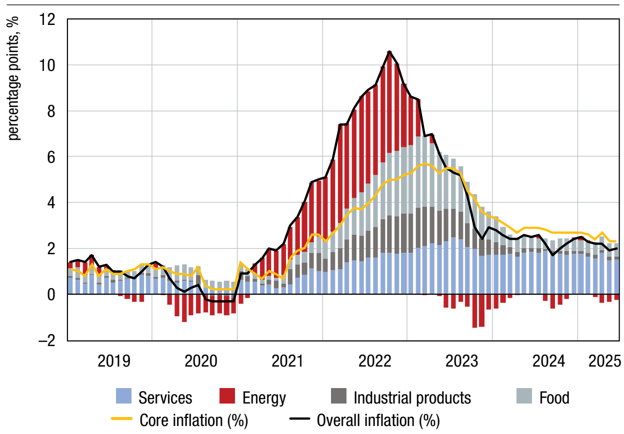
Notes: Abbreviation ECB – June refers to ECB June 2025 projections of real growth in the euro area (Macroeconomic Projection Exercise, MPE). Abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the ECB survey of market participants in June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

Figure 2 Uncertainty indices



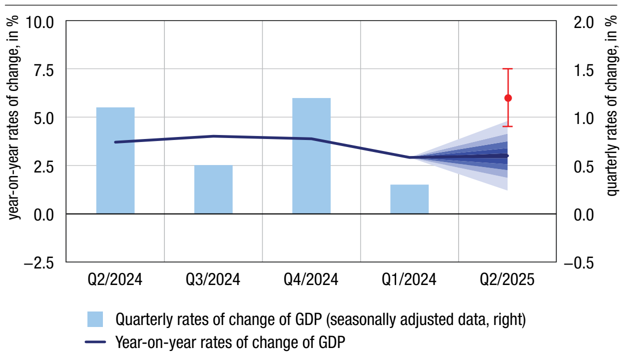
Sources: Bloomberg; Caldara and Iacoviello (2022), Goldman Sachs research.

Figure 3 Inflation indicators in the euro area



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

Figure 4 Quarterly gross domestic product



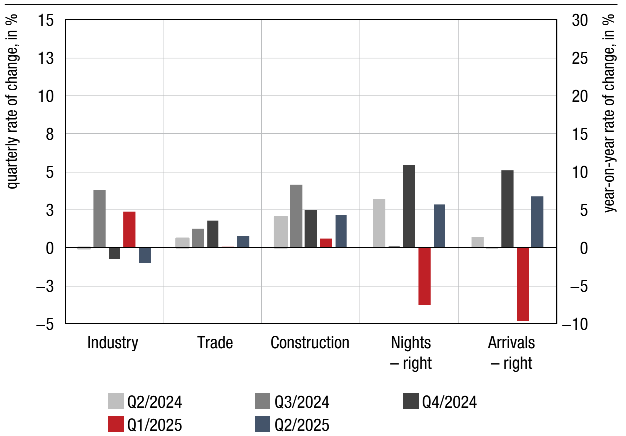
Notes: The estimate for the second quarter of 2025 refers to the Monthly indicator of real economic activity of the CNB (for more details on the calculation of the MRGA indicator, see CNB survey Kunovac, D., and B. Špalat: "Nowcasting GDP Using Available Monthly Indicators"). The models are estimated on the basis of data published up to 30 June 2025. The red dot denotes an estimate of the quarterly change in real GDP, with historical errors of estimates within ±1 standard deviation.
Sources: CBS (seasonally adjusted by the CNB) and CNB calculations.

arrivals on an annual level, while the continued strong growth of real compensation to employees and the high level of the consumer confidence index point to robust personal consumption. The relatively weak volume indicators in tourism in May can largely be attributed to the later holiday dates this year; this is corroborated by developments in June, when the number of foreign tourist arrivals rose by 11.4% and the number of nights increased by 13.9% from the same period in the previous year. From the beginning of the year to the end of June, the number of tourist nights rose by 4.0% and by 5.7% in the second quarter relative to the same period in the previous year (Figure 5). On the other hand, the volume of industrial production decreased by 2.9% in May on a monthly basis, after shrinking by 1.0% in April and May from the first quarter of this year. However, this decrease was entirely due to the fall in the segment of electricity, gas, steam and air conditioning production and supply, which are very volatile components. In contrast, manufacturing output saw broad-based growth of 1.3% relative to the preceding quarter.

Employment growth continued to slow down in the second quarter, as did the decrease in unemployment, while wage growth picked up slightly from the first quarter. Employment in Croatia held steady in May 2025, with employment growth slowing down to 0.4% in April and May from January and February (from the average of 0.9% in the first quarter). Employment growth in public administration, education, healthcare and social work activities (activities O, P and Q) decelerated only marginally from a very high level (from 1.0% in the first to 0.7% in the second quarter), while employment growth in the rest of the economy slowed down much more (to 0.2%, from 0.9% in the first quarter). The slower increase in total employment in the second quarter partly reflects lower employment in industry, transport services and accommodation and food service activities. The lower monthly pace of employment growth was also reflected in a slightly slower decline in unemployment. In May, the number of unemployed persons was 0.1% down from April, when it decreased by 1.9% on a monthly level. The registered unemployment rate was 4.6% in April and May, while the average number of unemployed persons was 83,138 (seasonally adjusted data). After a strong rebound in April, which partly reflected one-off payments in the broadcasting sector,[1] wages decreased marginally in May. However, in the first two months of the second quarter, the growth in average wages was slightly faster than in the first quarter (an increase of 2.7% from 2.6% in the first quarter). The growth of wages in activities loosely comprising the public sector (O, P and Q) picked up pace (3.3%), while wage growth in the rest of the economy remained strong albeit marginally slower (2.6%) (Figure 6). On an annual level, in the second quarter of 2025, the average nominal gross wage rose by 9.5%, while its real value rose by 6.0% (Figure 7).

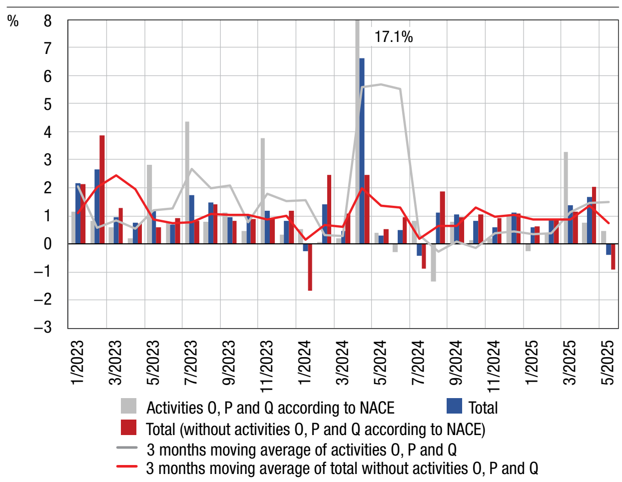
Inflation in Croatia accelerated slightly in June 2025 from the previous month, mainly as a result of stronger unfavourable base effects and mounting current pressures in energy prices, which were associated with the increase in crude oil prices on the global market. According to the first estimate, the inflation measured by the harmonised index of consumer prices (HICP) edged up in June to 4.4% from 4.3% in May (Figure 8), largely as a result of a marked pick-up in energy inflation. After reaching 1.4% in the previous two months, energy inflation

Figure 5 High-frequency economic indicators for Croatia



Note: Data on industry and trade in the second quarter of 2025 refer to April and May, while data on construction refer to April 2025.
Sources: CBS and eVisitor.

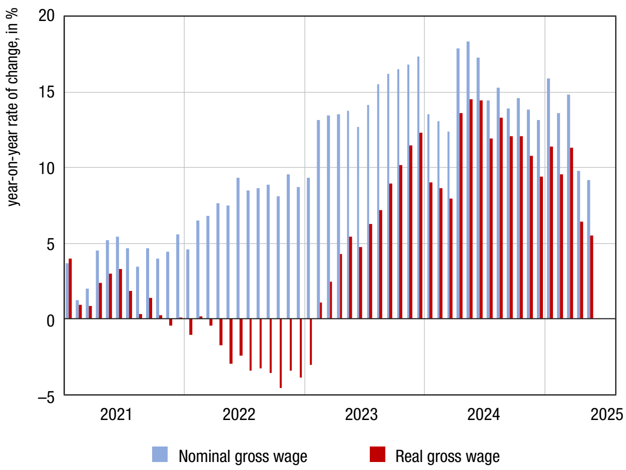
Figure 6 Nominal gross wages
monthly rate of change



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

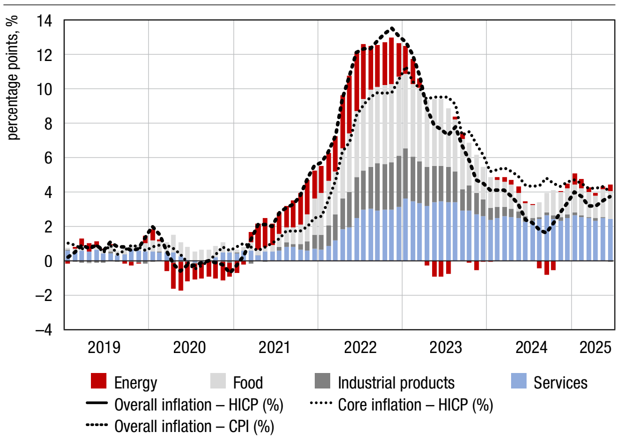
1 In early 2025, Croatian Radiotelevision (HRT) was consolidated in line with the Government's Plan for the Consolidation of Work and Business Operations of HRT, and on 31 March, a significant proportion of employees accepted the agreed upon severance packages.

Figure 7 Nominal and real gross wages
year-on-year rate of change



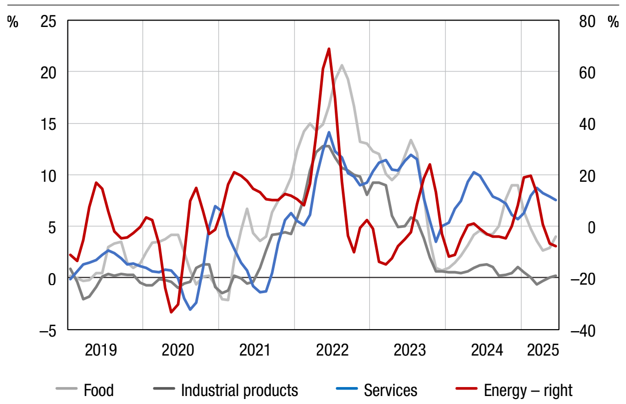
Sources: CBS and CNB calculations.

Figure 8 Inflation indicators in Croatia



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

Figure 9 Momentums of the main inflation components

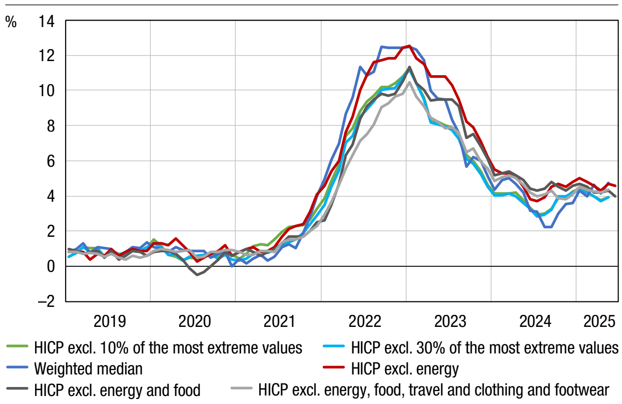


Note: The quarterly rate of change on an annual level is calculated from the quarterly moving average of seasonally adjusted harmonised consumer price indices.
Sources: Eurostat and CNB calculations.

accelerated to 3.0% in June as a result of rising current pressures caused by a sharp increase in global crude oil prices that spilled over to retail prices of refined petroleum products, as well as by unfavourable base effects stemming from a sharp decrease in prices in June last year, which is no longer included in the calculation of the annual inflation rate. In the same period, food inflation picked up only slightly, to 5.7%, after growing by a high 5.6% in May. In contrast to energy and food inflation, core inflation (which excludes the prices of energy and food) slackened from 4.3% in May to 4.0% in June (Figure 10), its lowest level in a little more than three years. The annual rate of change in services prices decelerated from 7.6% to 7.5%, while that of industrial products slowed from 0.3% to –0.2%. Despite the slowdown, services remain the component with the largest contribution to Croatia's overall inflation trends. Services and food contribute 2.4 and 1.6 percentage points, respectively, to the overall consumer price inflation of 4.4%. High services inflation largely mirrors robust domestic demand and a tight labour market coupled with continued rapid wage growth. Overall inflation measured by the national consumer price index (CPI)[2] accelerated from 3.5% in May to 3.7% in June, mainly driven by the acceleration of energy inflation (to 3.0% from 1.5%) and, to a lesser extent, services price inflation (to 6.7% from 6.2%), whereas food inflation picked up only slightly (to 5.2% from 5.1%). In contrast, the annual rate of change in the prices of industrial products decreased (to –0.4% from 0.1%). The difference between the harmonised and the national inflation indicators diminished slightly in June from the month before and stood at 0.7 percentage points. Higher inflation according to the harmonised indicator still arises from a larger contribution of services prices (Figure 11).

At its meeting on 5 June the Governing Council of the ECB lowered key interest rates further (Figure 12). The deposit facility rate, a relevant indicator of the ECB's monetary policy, was set at 2.00% starting from 11 June, a reduction of 25 basis points. The Governing Council noted that inflation is currently at levels close to the medium-term target of 2% and that most measures of core inflation suggest that it will stabilise at these levels. Wage growth has been declining perceptibly, but

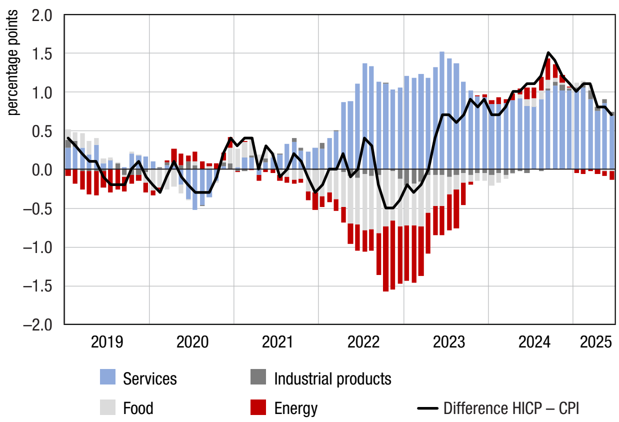
Figure 10 Core inflation indicators



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

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

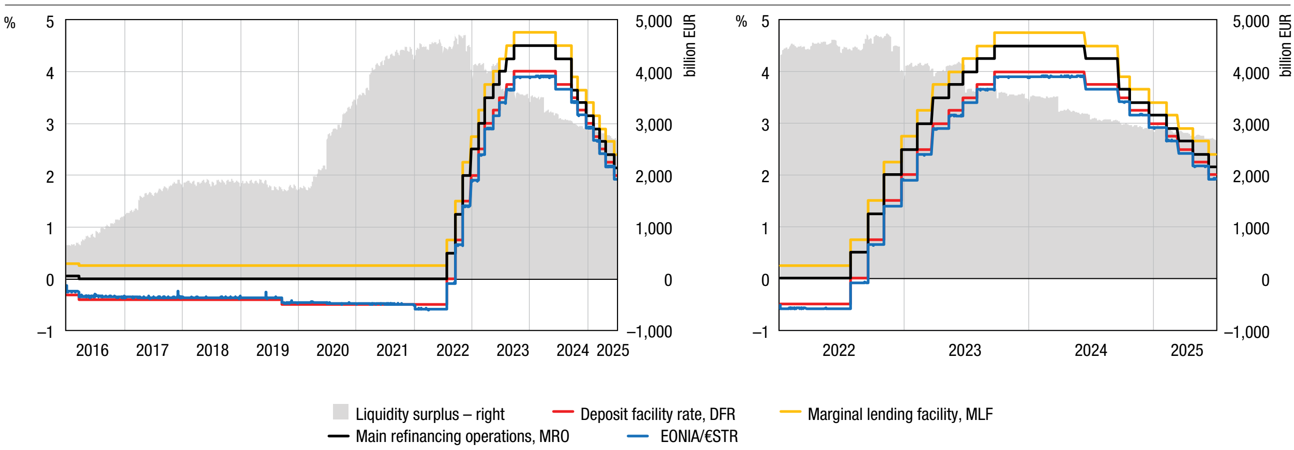
Figure 11 Difference between the contributions of the main components to the overall HICP and CPI



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

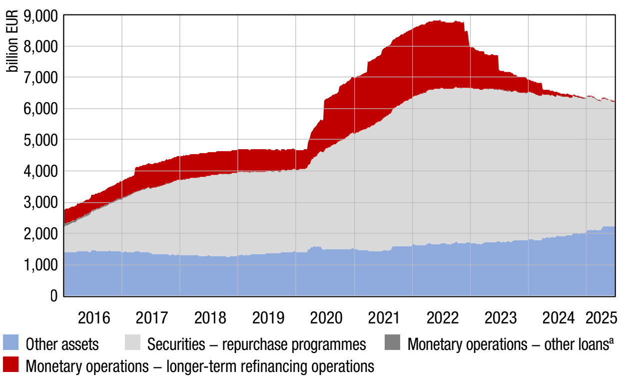
remains elevated, while companies cushion the impact of rising labour costs on inflation by lowering profits. It is expected that uncertainty surrounding the trade policy of the US administration will unfavourably affect business investments and exports, particularly in the short term. However, the recovery of security prices and compression of spreads on European sovereign bonds reduced the danger that elevated uncertainty and price volatility in financial markets would tighten financing conditions. In addition, rising government investments in defence and infrastructure will increasingly support growth over the medium term. The noticeable growth of real income in recent years and a robust labour market combined with the increased savings accumulated over the past period will enable higher household consumption, which, together with favourable financing conditions, should reinforce the economy's resilience to global shocks. The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. In the current conditions of exceptional uncertainty, decisions on the appropriate level of interest rates will continue to be based on a data-dependent and meeting-by-meeting approach. The Governing Council is not pre-committing to a particular rate path.

Figure 12 Key ECB interest rates



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

Figure 13 Eurosystem balance sheet

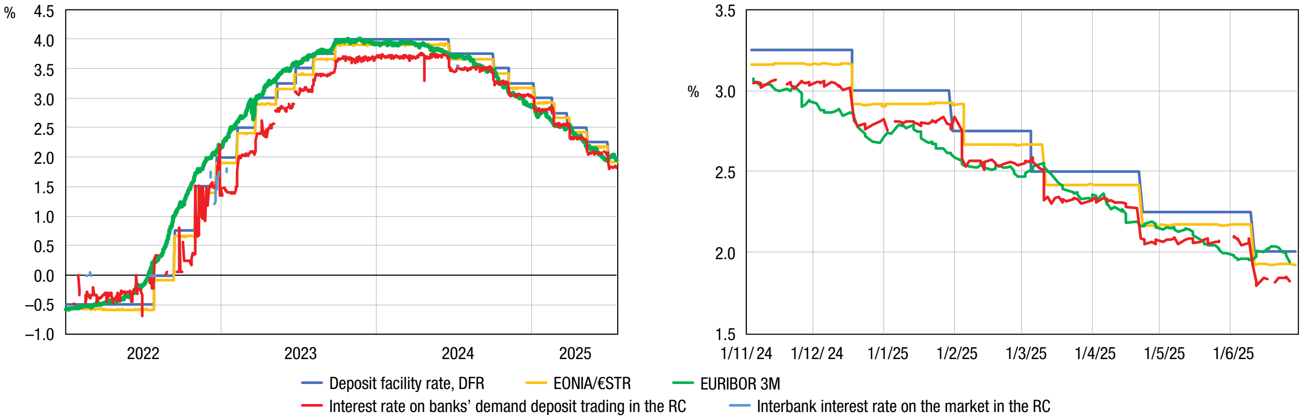


[a] Other loans include main refinancing operations, fine-tuning reverse operations, structural reverse operations, marginal lending facility and credits related to margin calls.
Note: The Eurosystem monetary balance sheet asset items are shown in grey and red and non-monetary in blue.
Source: ECB.

The size of the Eurosystem's balance sheet has continued to decrease gradually (Figure 13). 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. 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 as of July 2023 and the reinvestment of PEPP portfolio having been brought to a halt at the end of last year. On the other hand, the decrease in the balance sheet mitigates the ongoing growth of other assets not related to monetary policy. The rise in non-monetary assets was particularly marked in 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.

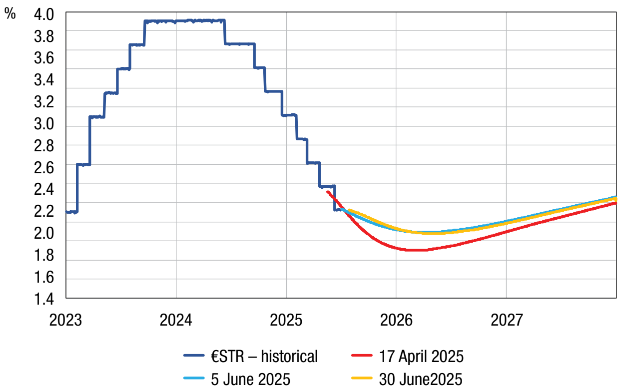
Financial markets were calmer in June than in the previous months. The €STR fell in June by the amount of reduction in key ECB interest rates (25 basis points) and amounted to

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



Notes: DFR (deposit facility rate). The EONIA was replaced by the €STR in early 2022. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data are for 30 June 2025.
Sources: ECB and CNB.

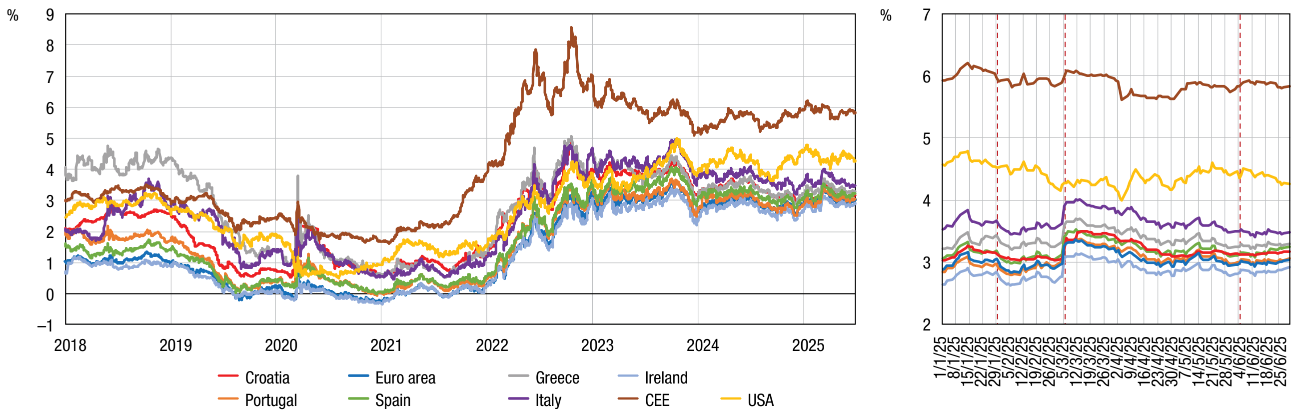
Figure 15 €STR forward curve



Notes: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves show the selected forward curves formed on the day of the ECB Governing Council meeting in April 2025 and June 2025 and on 30 June 2025, the day of the last available data.
Sources: Bloomberg and CNB calculations.

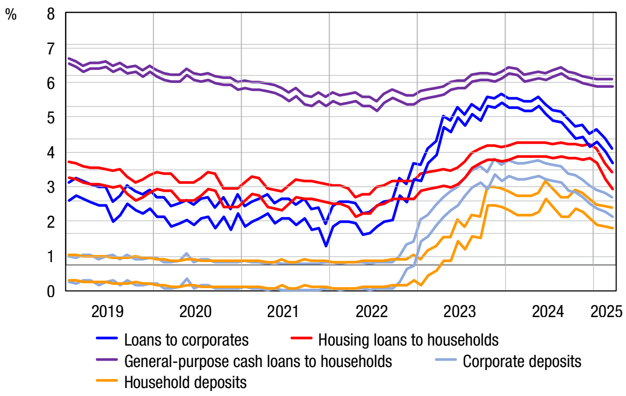
1.9% (Figure 14). Similar trends were observed in the Croatian money market, where the overnight interest rate on banks' demand deposits trading dipped to 1.8% in June. Market expectations concerning the future evolution of key ECB interest rates did not change much in June. On 5 June, the day of the ECB Governing Council meeting, the €STR forward curve edged up across the maturities spectrum from the end of May, remaining at similar levels at the end of June (Figure 15). Yields on long-term euro area government bonds were stable in June. The euro area GDP-weighted average of long-term government bond yields stood at 3.0% at end-June, the same as it was ahead of the ECB Governing Council meeting in early June (Figure 16). The yield on Croatian long-term bonds also remained almost the same, at 3.2%, at the end of June. The euro/US dollar exchange rate appreciated strongly over the past few months and this trend continued in June, when it reached USD/EUR 1.17 at the end of the month, its highest level in almost four years. The drop in the value of the US dollar against the euro in June was influenced by market expectations about a sharper reduction in key Fed interest rates, spurred, among other things, by cooler-than-expected inflation data in the US published in mid-June. At

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



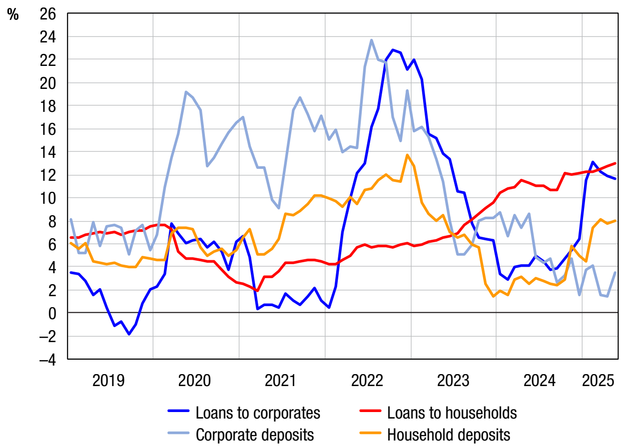
Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Estonia, Latvia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the period of time shown. Last data are for 30 June 2025.
Sources: Bloomberg, Eurostat and CNB calculations.

Figure 17 Interest rates on pure new loans and time deposits of corporates and households



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

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



Source: CNB.

the same time, yields on long-term US government bonds fell by 13 basis points in June.

In May, interest rates on new corporate loans edged up, as did interest rates on general-purpose cash loans to households, while interest rates on housing loans remained unchanged. The average interest rate on pure new corporate loans grew by 2 basis points from April to May and stood at 3.76%, a decrease of 167 basis points from December 2023, when interest rates peaked in the latest cycle of the ECB's monetary policy tightening (Figure 17). In May, households borrowed at a higher average interest rate than in April as regards general-purpose cash loans (5.83%, an increase of 6 basis points from April), while interest rates on housing loans held steady at 2.90%. Interest rates on housing loans stabilised at a lower level in April and May, after a considerable reduction in financing costs in the first quarter of this year. Amid lower interest rates, the amount of new loans continued to rise and the volume of renegotiated loans was higher in April and May than at the beginning of the year due to the possibility of more favourable refinancing. If compared with the highest level during the latest cycle of increases in key ECB interest rates in April 2024, the average interest rate on pure new housing loans in May this year was 98 basis points lower and that on general-purpose cash loans was 44 basis points lower than the highest rate recorded in January 2024. The interest rates on existing corporate loans and general-purpose cash loans to households also continued to fall steadily, reaching 3.94% and 5.94%, respectively. The interest rates on existing housing loans also decreased (to 3.09%). As regards deposits, the interest rate on pure new corporate time deposits fell in May by 11 basis points from April and stood at 1.96% while that on household deposits rose by 7 basis points to 1.70% (Figure 17). The interest rates on total existing corporate and household deposits also dropped slightly (to 0.52% and 0.40%, respectively), with the interest rates on time deposits falling slightly and those on overnight deposits remained unchanged.

Household loans grew strongly in May, at a pace similar to that in the previous two months, while the growth of corporate loans continued to slow down. The growth in household loans reflected the continued strong increase in housing loans (EUR 184m or 1.5%), spurred by more favourable financing conditions, while general-purpose cash loans grew at a slightly slower pace than in the previous two months (EUR 118m or 1.2%). On an annual level, the growth of total loans to households reached 13.0% in May, after the 12.7% of April (Figure 18), aided by the acceleration in the annual growth of housing loans from 10.7% to 11.6%. At the same time the growth in general-purpose cash loans slowed down slightly from 15.2% to 14.9% due to the base period effect, i.e. a slightly stronger increase in these loans in the same month of the previous year. A smaller increase in corporate loans in May, evident in most activities, contributed to a slowdown in the annual growth rate from 11.9% to 11.7%.

Domestic sectors' deposits with credit institutions (excluding the general government) also rose in May, by EUR 0.8bn or 1.3%. The increase in deposits was driven not only by the growth of loans to domestic sectors but also by the growth in net claims on the central government, mostly due to a decrease in government deposits with the CNB. In contrast, a decrease in net foreign assets of monetary institutions had a downward effect on the growth in deposits. As regards the structure of domestic deposits, the May increase was entirely due to a rise in overnight deposits, primarily corporate deposits, while time deposits edged down. The increase in total domestic deposits resulted in an acceleration in the annual growth rate, from 7.2% in April to 7.8% in May. The share of time deposits in total corporate deposits continued to fluctuate around last year's levels, standing at 28.1% in May; in the household sector, after peaking in the middle of last year (29.2%), this share has been falling steadily, reaching 26.1% in May. In addition, in late May and in June, individuals invested EUR 0.8bn and EUR 1.0bn in government T-bills maturing in one year and three months, respectively. As a result, the government refinanced EUR 0.6bn worth of due one-year T-bills and EUR 0.8bn worth of T-bills issued this March. The stock of "national" securities grew by EUR 0.4bn from April to May, to EUR 3.9bn, and further to around EUR 4.0bn at the end of June.