



HNB

EUROSYSTEM

Information on economic, financial and monetary developments

September 2025



Summary

The euro area economy has thus far proven relatively resilient to the increase in US tariffs and the heightened uncertainty. After the growth in the euro area economy had accelerated strongly to 0.6% on a quarterly level at the beginning of the year, economic expansion continued into the second quarter, although at a much slower pace, of 0.1% (Figure 1). Ireland excluded, the euro area economy grew 0.3% in the first and 0.2% in the second quarter. As regards the four major economies of the euro area, growth in the second quarter was again the fastest in Spain (0.7%), followed by France (0.3%) while Italy and Germany each recorded a small decline in economic activity, of –0.1% and –0.3%, respectively. Most of the recent estimates for the third quarter suggest the continuation of a relatively subdued growth (Figure 2). The purchasing manager index (PMI) continued to grow in the third quarter, reaching a clear expansion range and indicating a strengthening of economic activity. Index growth continued to be supported by the industrial component, which, having achieved strong growth since the beginning of the year, reached the highest level since August 2022, while the services component rose only slightly from the second quarter average.

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

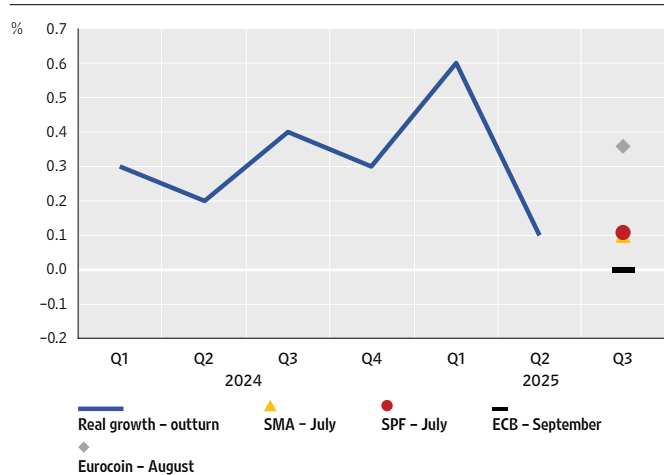
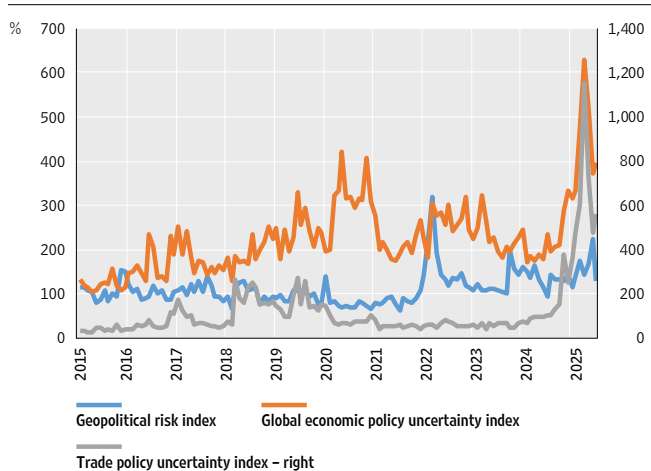


Figure 2 Uncertainty indices



Notes: Abbreviation ECB - September refers to ECB September 2025 short-term 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 July 2025.

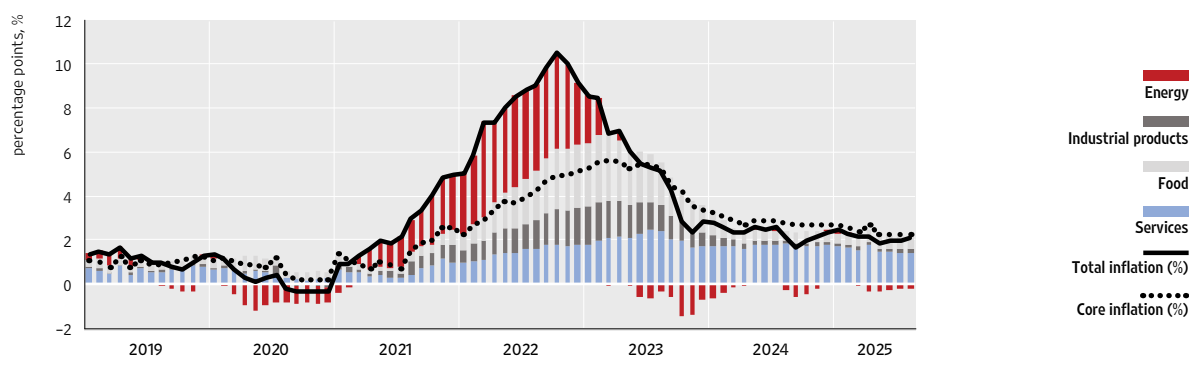
Sources: Eurostat and ECB.

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

Overall inflation in the euro area, measured by the harmonised index of consumer prices, accelerated slightly in August, to 2.1%, from 2.0% in July (Figure 3), mostly as a result of a smaller annual fall in energy prices (down to –1.9% in August from –2.4% in July) as a result of an unfavourable base effect, i.e. a more pronounced monthly fall in energy prices in August last year. In contrast, food inflation edged down slightly, from 3.3% in July to 3.2% in August, as a result of a slowdown in the growth of the prices of processed food products. Core inflation (excluding energy and food prices) remained unchanged and in August stood at 2.3% for the fourth month in a row. Services inflation continued to slow down, having fallen to 3.1% in August from 3.2% in July. The gradual fall in inflationary pressures in the services sector was mostly driven by a

slowdown in wages in the euro area. Inflation of industrial goods, the second main component of core inflation, held steady at 0.8% in August, the same as in July, remaining low in the conditions of the annual fall in import prices and the appreciation of the exchange rate of the euro.

Figure 3 Euro area inflation indicators



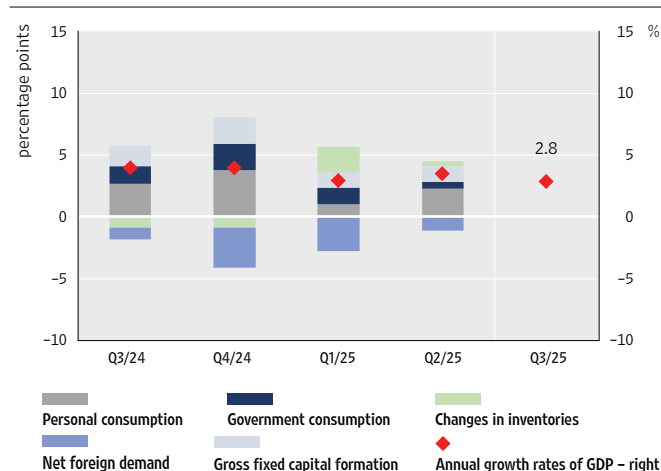
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.

Sources: Eurostat and CNB calculations.

The growth in economic activity in Croatia accelerated visibly in the second quarter of 2025, mirroring the persistently high domestic demand. According to the first CBS estimates, real GDP grew by 1.2% on a quarterly level in the second quarter, up from 0.4% in the first quarter, with its annual growth rate accelerating to 3.4% (Figure 4). Such developments are mostly the result of stronger personal consumption fuelled by a further strong growth in the real disposable income of households and gross fixed capital formation. By contrast, goods and services exports fell considerably, following their steep rise at the beginning of the year. Services exports fell from the same period of the year before despite a strong annual growth in foreign tourist nights spent, which may suggest a fall in real tourist consumption. Goods and services imports also fell from the previous quarter; however, services imports continued to rise rapidly, which may be attributed to growing spending by residents on foreign travel amid a continued pronounced growth in real income and worsening of the price competitiveness of domestic tourism. Looking at the production side, quarterly growth was broadly based amid strong growth in manufacturing, construction, tourism-related services and IT services.

Monthly indicators suggest a considerable new slowdown in growth in the third quarter of this year. According to the CNB's nowcasting model of economic activity, real GDP growth in the third quarter could stand at 0.4% on a quarterly level and slow down to 2.8% on an annual level (Figure 4). Industrial production rose sharply in July after falling for two consecutive months, thus exceeding the average in the previous quarter by 0.7%. Particularly strong was the increase in the production of capital goods, which rose for the third consecutive quarter. Real retail trade turnover dropped by 4% in July from June, a fall of 2.3% from the average in the previous quarter. Such developments in real retail trade turnover were due to poorer tourism performance in that month, with arrivals falling by 1.2% and nights spent by 0.7% on an annual level (Figure 5).

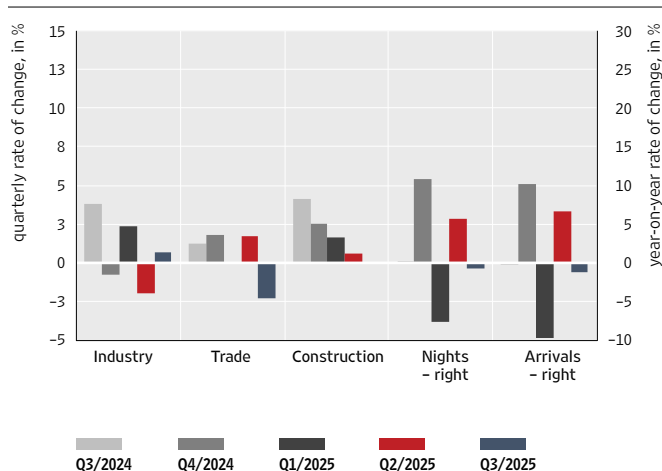
Figure 4 Quarterly gross domestic product



Notes: The estimate for the third 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 3 September 2025. The red dot denotes an estimate of the quarterly change in real GDP, with historical errors of estimates within ± 1 standard deviation.

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

Figure 5 High-frequency economic indicators for Croatia



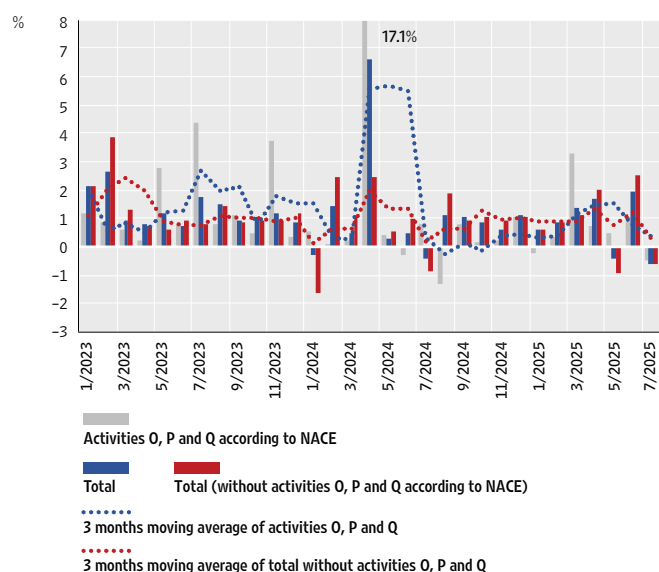
Notes: The figure shows seasonally adjusted values. The last available data on tourist arrivals and nights spent refer to August, those for industry and trade to July and those for construction to June 2025.

Sources: CBS and eVisitor.

The beginning of the third quarter saw a further slowdown in the growth of the number of employed persons and a considerable slowdown in wage growth. In July, total employment was 0.4% higher than in April but the number of employed persons remained unchanged from June. Employment growth in the past months was mostly concentrated in public administration, education and social work activities (activities O, P and Q) and rose only slightly in other activities. Such developments might be due to the stricter employment standards for foreign workers in the March 2025 amendments to the Foreigners Act, which probably slowed down employment due to adjustment to the new legislative framework on the part of employers. At the beginning of the third quarter, the registered unemployment rate continued to fall and reached 4.4%. Following a pronounced increase in the average nominal gross wage in the second quarter (up 3.3% from 2.6% in the first quarter), partly as a result of one-off payments, wage growth slowed down in July. Thus the average nominal gross wage was up 0.5% from the average in the previous three months (up 0.9% from April) but fell 0.6% from June, reflecting almost equal falls in wages in education, health care and social work activities and the rest of the economy (Figure 6). On an annual level, the growth in the average nominal gross wage in July accelerated to 10.4% while the growth in real wages slowed down to 6.0% as a result of an acceleration in the growth of the consumer price index (Figure 7).

Figure 6 Nominal gross wages

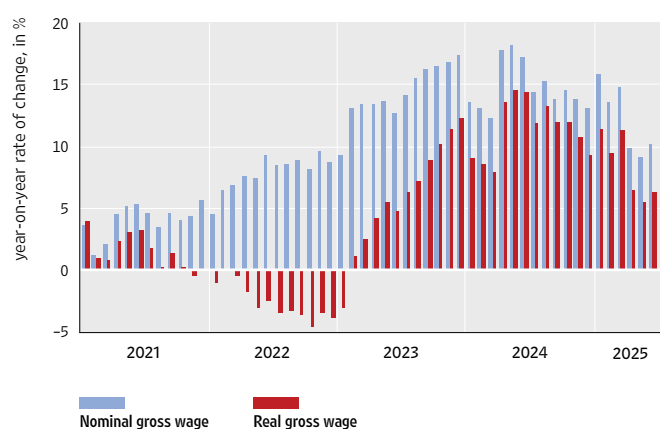
monthly rate of change



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

Figure 7 Nominal and real gross wages

year-on-year rate of change



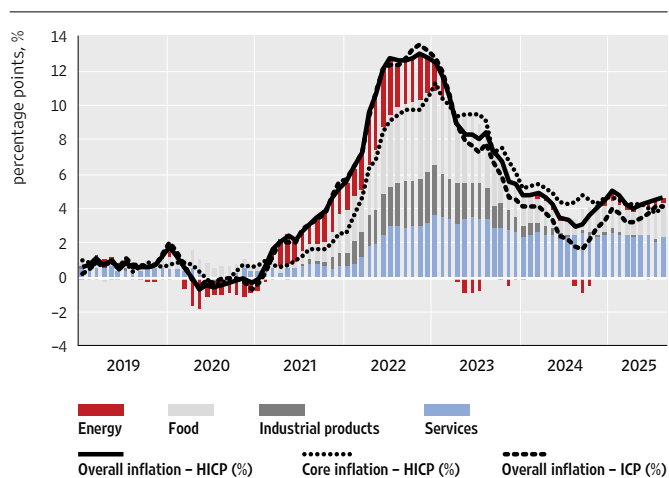
Sources: CBS and CNB calculations.

The acceleration in the growth of services prices led to a small increase in inflation in Croatia in August 2025 from the previous month if the harmonised indicator is observed, while inflation measured by the national indicator, in which services account for a smaller share, remained unchanged. The inflation measured by the harmonised index of consumer prices (HICP) accelerated slightly in August to 4.6% from 4.5% in July (Figure 8), largely as a result of a marked pick-up in services inflation. Services inflation rose from 6.6% in July to 7.1% in August due to pronounced current pressures amid robust domestic demand, a tight labour market and further pronounced wage growth. The growth in the prices of industrial goods also picked up, albeit to a lesser extent (from 0.3% to 0.4%). The acceleration in the growth of services prices and industrial goods prices was followed by a pick-up in core inflation (excluding the volatile components of energy and food) from 3.8% in July to 4.1% in August (Figure 10). The growth of energy prices also accelerated slightly from 2.6% to 2.7% owing to an unfavourable base effect, i.e. a more pronounced monthly decrease in the prices of refined petroleum products in August last year. A monthly drop in energy prices in August this year reflects a fall in crude oil prices on the global market, driven by a larger supply, particularly that from the OPEC+ countries, amid mounting concerns regarding growth in global demand. Concerns prompted by the surplus supply were further intensified by OPEC+ countries' announcements on raising production quotas from September. By contrast, food inflation, after accelerating strongly in the previous three months, slowed down from 7.0% in July to 6.6% in August. As a result of the slowdown in the growth of food prices their contribution to overall consumer price inflation in August fell to 1.9 percentage points, while the contribution of services prices rose to 2.3 percentage points. Overall inflation measured by the national consumer price index (CPI)¹ remained unchanged in August and stood at 4.1%. The fact that inflation

1 The national CPI, unlike the HICP, does not comprise consumption by foreign tourists and institutional households (such as educational, health care and religious institutions etc.).

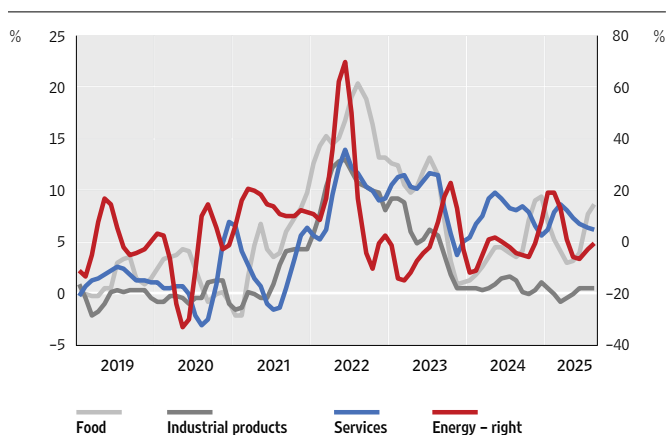
remained at the previous month's level reflects the acceleration in the growth of services prices to 6.4% in August from 5.7% in July and to a lesser extent the increase in energy prices from 2.4% to 2.5% and the prices of industrial goods from 0.4% to 0.5%, which fully offset the slowdown in food inflation from 6.6% to 6.2%. Despite a slowdown in food inflation in August, food prices continue to make the biggest contribution to overall inflation measured by the national indicator. Food contributes 2.0 percentage points and services 1.7 percentage points to the overall consumer price inflation of 4.1%. The difference between the harmonised and national indicator of overall inflation rose slightly to 0.5 percentage points in August from the month before, a big drop from the preceding year, when it stood at 1.2 percentage points (Figure 11).

Figure 8 Inflation indicators in Croatia



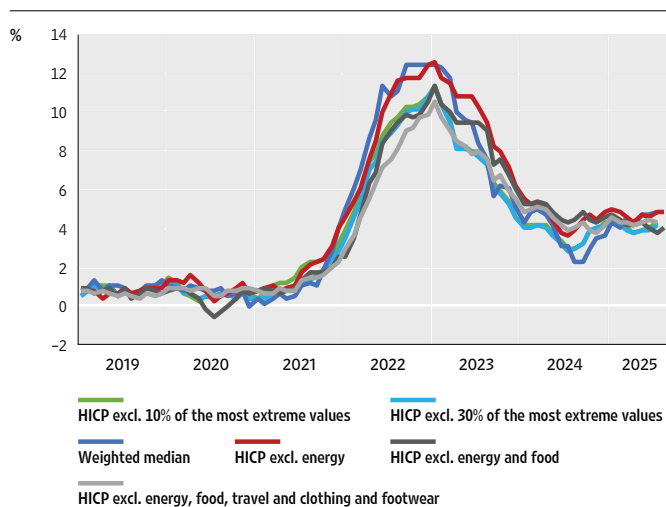
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat, CBS and CNB calculations.

Figure 9 Momentums of the main inflation components



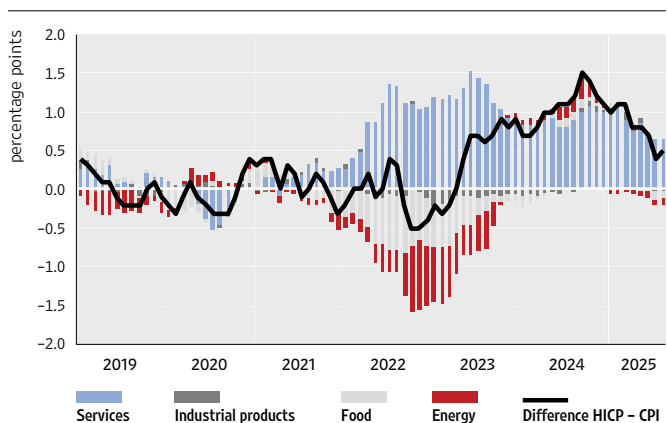
Note: The quarterly rate of change on an annual level has been calculated according to the quarterly moving average of seasonally adjusted harmonised indices of consumer prices.
Sources: Eurostat and CNB calculations.

Figure 10 Core inflation indicators



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

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

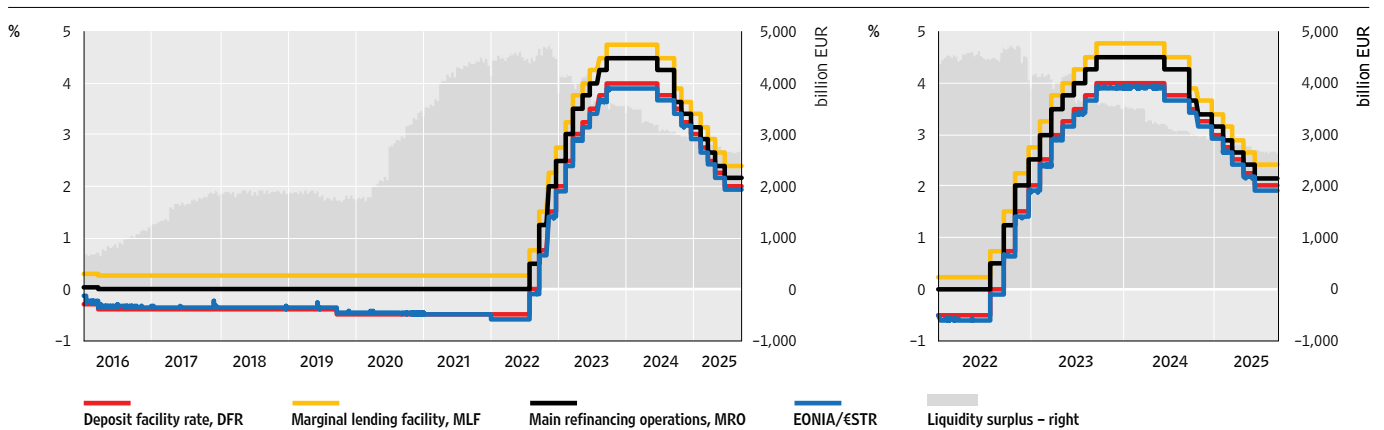


Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific component to overall HICP inflation than to CPI inflation.
Sources: Eurostat, CBS and CNB calculations.

At its meeting on 11 September the Governing Council of the ECB decided to keep key ECB interest rates unchanged (Figure 12). The deposit facility rate, a relevant indicator of the ECB's monetary policy will remain unchanged at 2.00%. The Governing Council has noted that inflation is currently at around the 2% medium-term target and that the incoming economic and financial data broadly confirm its assessment of the inflation outlook. 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. The Governing Council is not pre-committing to a particular rate path.

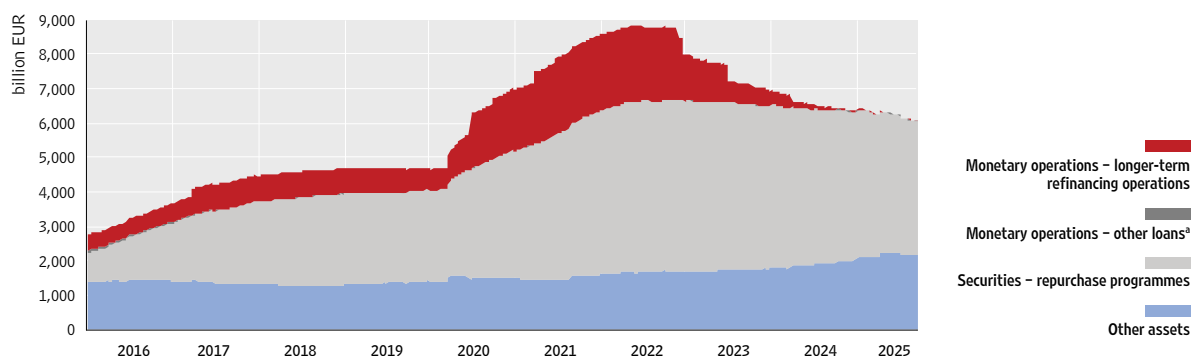
The size of the Eurosystem's balance sheet has continued to decrease gradually (Figure 13). In mid-December 2024, the banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations, completing that part of balance sheet normalisation. The portfolio of securities purchased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

Figure 12 Key ECB interest rates



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

Source: ECB.

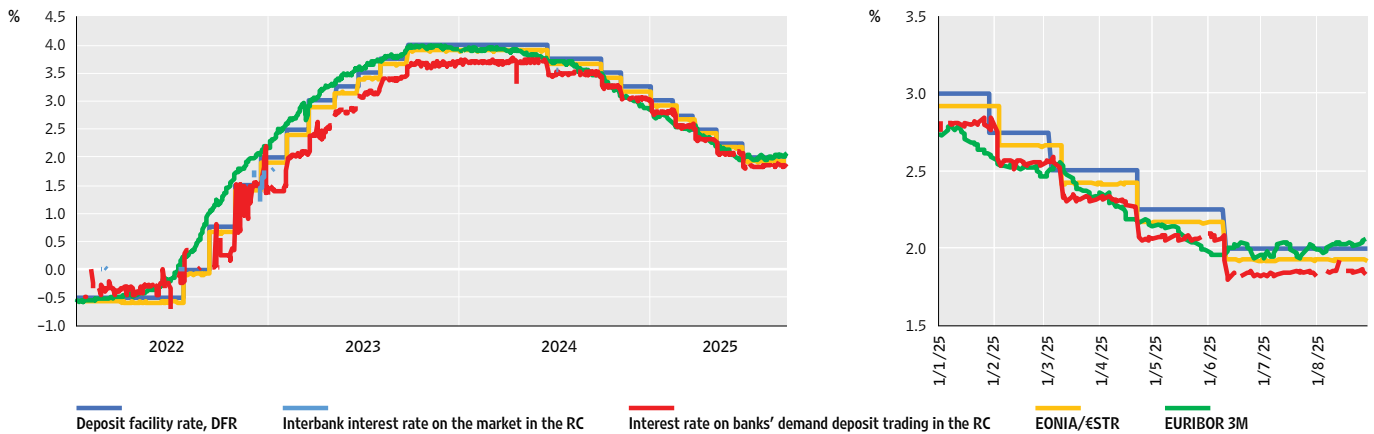
Figure 13 Eurosystem balance sheet

* 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.

Despite heightened economic uncertainty, the yields on European government bonds were relatively stable during the summer months, as was the euro exchange rate, while equity indices mostly rose reaching historical highs in some European countries. Negotiations on tariffs held in July and August resulted in an agreement between the EU and the US on a tariff rate of 15% on European exports and during that period the negotiations on ending the conflict in Ukraine also intensified. Despite frequent shifts in the news with significant potential effect on euro area economy, the nominal effective exchange rate of the euro against the basket of currencies of the euro area's main trading partners held steady at levels similar to those seen at the end of June, while the exchange rate of the euro against the dollar weakened by a little less than 1% following a strong strengthening since the beginning of the year. At the same time, the yields on European bonds fluctuated within a narrow range. The yields on euro area long-term government bonds weighted by GDP rose slightly from 3% at the end of June to 3.1% at the end of July and then to 3.2% at the end of August (Figure 16). Apart from improved macroeconomic data, such as the better than expected GDP growth of the euro area for the second quarter of this year and PMI indices, the growth in European yields was supported by the expectations of a slower pace of interest rate reductions by the European Central Bank than anticipated at the end of June (Figure 15) and the ensuing growth in a three month EURIBOR to above 2% (Figure 14). The yield spreads between government bonds of euro area countries and benchmark German bonds were relatively stable at low levels. Particularly noteworthy is the narrowing of the yield spread between Italian long-term government bonds and German bonds, which fell below 80 basis points on some days in August. Such levels were last recorded in early 2010, prior to the outbreak of the European debt crisis. A similar development can be seen 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 in 2015. Previous issues were only sporadic. Also, this was the first time that the yield on Croatian long-term government bonds (3.1% at end-August) fell below the yield on the long-term bonds of euro area member states weighted by GDP (3.2% at end-August). French bonds deviated from the general trend of yield spread narrowing, with the country's long-term yields rising and the yield spread between them and German bonds widening by over 80 basis

points, the highest recorded level since January. Such developments reflect a market perception of heightened risk associated with the government confidence vote and uncertainty regarding the direction of economic and fiscal policy, which could adversely affect fiscal sustainability.

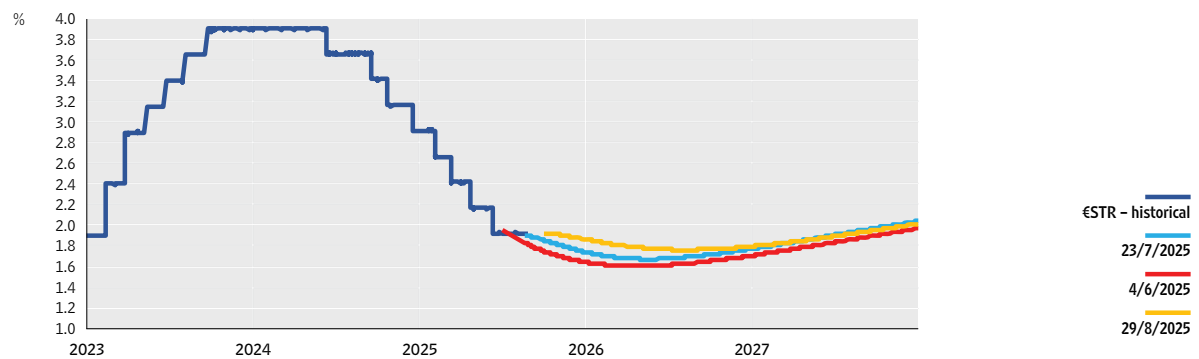
Figure 14 Key ECB interest rate and overnight market interest rates in the euro area and Croatia



Notes: DFR (deposit facility rate). The EONIA was replaced by €STR in early 2022. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data is for 25 August 2025.

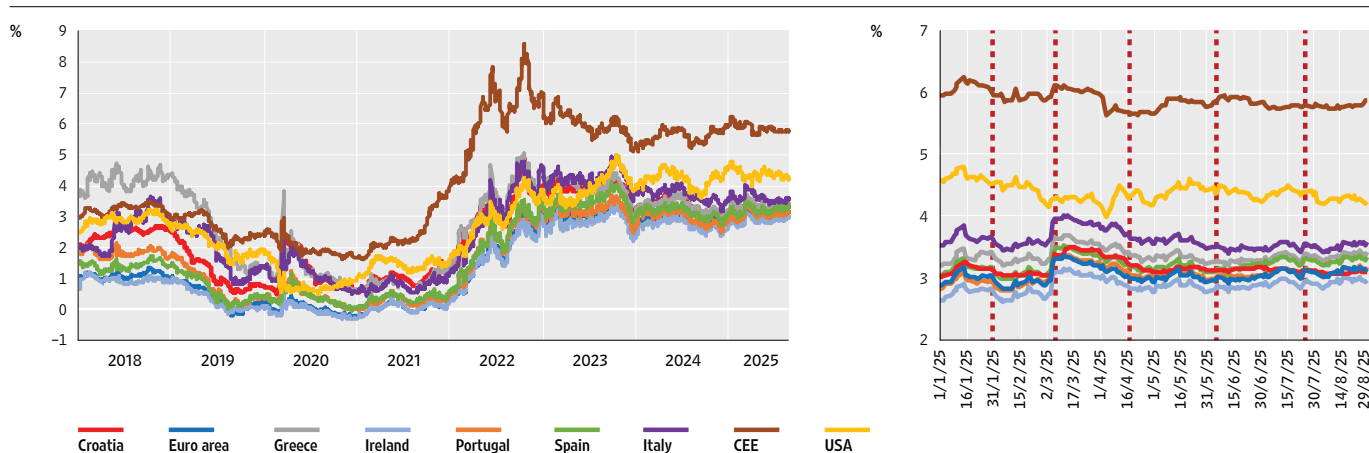
Sources: ECB and CNB.

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 one day before ECB Governing Council meeting during the observed period and on 27 August 2025, the day of the last available data.

Sources: Bloomberg and CNB calculations.

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

Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the observed period. Last data is for 25 August 2025.

Source: Bloomberg.

The interest rates on new corporate loans in Croatia fell in July and so did the interest rates on general-purpose cash loans, albeit at a lower pace, while the interest rates on housing loans rose slightly. In July, the average interest rate on pure new corporate loans dropped by 53 basis points from June and stood at 3.23%, a decrease of 220 basis points from December 2023, when interest rates peaked in the latest cycle of the ECB's monetary policy tightening (**Figure 17**). In July, households borrowed at an average interest rate of 5.73%, down 3 basis points from June, as regards general-purpose cash loans and at 3.00% or 6 basis points more in the case of housing loans. These levels are still much below the highest recorded levels in the latest cycle of increases in key ECB interest rates; the average interest rate on pure new housing loans in July this year was 89 basis points lower and that on general-purpose cash loans was 54 basis points lower than the highest rate recorded in April 2024.

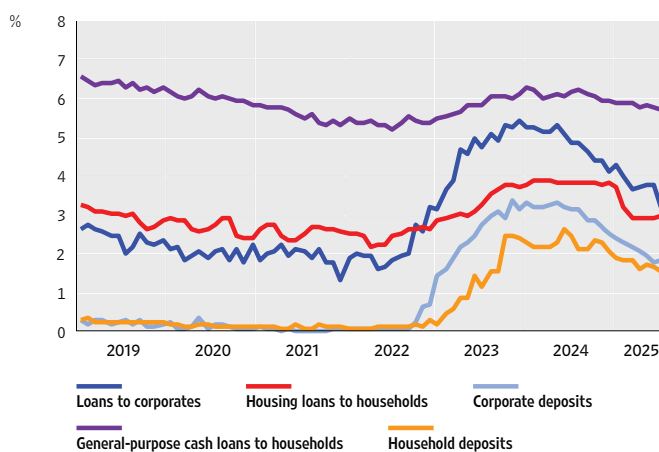
Interest rates on the existing loans continued to decline slowly in July. The interest rates on corporate loans fell to 3.79%, those on household general purpose cash loans to 5.88% and those on housing loans to 3.05%. The changes in interest rates on the existing loans typically reflect the developments in benchmark parameters with which they are periodically adjusted, such as the EURIBOR or the NRR. The EURIBOR fell considerably amid moderation of ECB monetary policy restriction. In July this year, the six-month EURIBOR was down 58 basis points on average from December 2024. As a result, the interest rates on non-housing loans to households linked to the EURIBOR have been falling steadily since the end of 2023 and were down in July by 38 basis points from June. By contrast, the interest rates on the existing housing loans linked to the EURIBOR remained broadly unchanged². As regards the NRR as the reference parameter, the six-month NRR (6m NRR1) remained almost unchanged in the first quarter of 2025 (down 1 basis point) from the

² During the period of monetary policy tightening, the statutory cap on the level of interest rates on loans granted at variable interest rates linked to the EURIBOR prevented the spillover of EURIBOR growth to interest rates, causing them to remain at levels lower than they would have been had the legal cap not been applied, which reduced the banks' margins on such loans. Therefore, the banks, in principle, do not transfer the decrease in the EURIBOR to interest rates on existing household loans until margins reach the agreed upon level again.

third quarter of 2024³. Thus, in July, the interest rates on the existing housing loans linked to the NRR remained almost unchanged from June.

In July, the interest rates on corporate time deposits rose slightly from June, while those on household time deposits declined. The interest rate on pure new corporate time deposits rose in July by 5 basis points from June and stood at 1.83% while that on household deposits fell by 13 basis points to 1.54% (**Figure 17**). The interest rates on existing household and corporate deposits mostly continued to trend downwards, reaching 0.36% and 0.48%, respectively, with the interest rates on existing time deposits falling slightly and those on overnight deposits remaining almost unchanged.

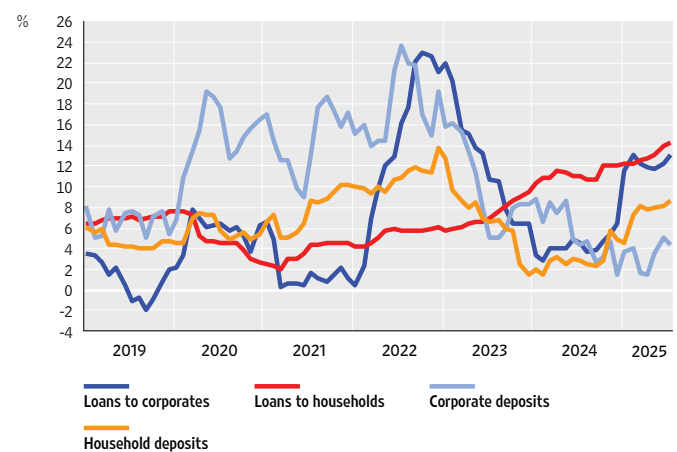
Figure 17 Interest rates on pure new loans and time deposits of corporates and households



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

Source: CNB.

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



Source: CNB.

Household loans continued to grow in July, mirroring a relatively strong growth in housing loans, while the growth in general purpose cash loans slowed down and that in corporate loans accelerated. Housing loans to households continued to grow relatively strongly in July (EUR 218m or 1.7% transaction-based), albeit at a slower pace than in June but still faster than in the preceding months. The July growth in transactions⁴ can probably largely be attributed to loans disbursed in July and agreed in June i.e. before the entry into force of the CNB's macroprudential measures. As banks report transaction data at the time of loan disbursement they can report data on loan transactions with a certain time lag in relation to the time when the loan is agreed. By contrast, the amounts of pure new housing loans, after having grown sharply in

3 The July adjustment of variable interest rates on loans linked to the NRR with developments in the NRR used the NRR data released in the second quarter of this year (last available data) for the first quarter relative to the NRR data released in the last quarter of the previous year for the third quarter of that year.

4 Transactions refer to the amount of newly originated loans (pure new loans) less the amount of repayments of existing loans and partly the sale of loans. Loan sales up to the amount of their value adjustment are recorded as write-offs and excluded from transactions, while loan sales above their value adjustment are recorded as transactions. In addition to write-offs, transactions also exclude the effects of exchange rate and price adjustments and loan reclassification.

the preceding several months, fell in July to the levels similar to those seen at the beginning of the year, ahead of the announcement of the new macroprudential measures of the CNB. Given households' increased borrowing during the period of promotional interest rates offered prior to the introduction of these measures, diminished interest in new loans was to be expected in July. However, lending remained within the usual range, which can partly be explained by the limited capacity of banks to process loan applications amid a very high demand. This led to a postponement of completion of the processing of some loans until July (with a possible further postponement for the coming months). General-purpose cash loans also rose in July, albeit at the slowest rate since the beginning of the year (EUR 59m or 0.6%). The annual growth rate of housing loans accelerated strongly from 13.1% in June to 14.0% in July, while the growth of general-purpose cash loans slowed down from 15.0% to 14.0%, due to the effect of the base period, i.e. a faster growth of these loans in July last year. Thus the annual growth in total household loans accelerated slightly from 14.0% to 14.2% (**Figure 18**). In July, loans to corporates accelerated on an annual level to 13.1% from 12.2% in June, with manufacturing, trade and accommodation and food service activities providing the biggest contribution to the annual growth rate.

Domestic sectors' deposits with credit institutions (excluding the general government) also rose in July by EUR 1.4bn or 2.3%, which is a common increase during the tourist season. Ample seasonal, tourism-related inflows of funds to credit institutions in July fuelled domestic deposits, which led to a sharp increase in net foreign assets of monetary institutions. The mentioned loan growth also added to the growth in deposits, as did the increase in net claims on the central government. Looking at the structure of domestic deposits, a little over 80% of the total increase in July can be attributed to overnight deposits, followed by a small increase in time deposits. The sharp increase in total deposits in July resulted in an acceleration in their annual growth rate, from 8.3% in June to 8.7% in July. In July, the share of time deposits in total corporate deposits rose slightly to 26.0% from 25.9% in June, continuing to fluctuate around last year's levels while the share of time deposits in total household deposits, after peaking in the middle of last year (29.2%), has been falling steadily, reaching 25.2% in July.