



HNB

EUROSYSTEM

Information on economic, financial and monetary developments

October 2025

Summary

The expansion in euro area economic activity might remain subdued in the third quarter, following a growth of 0.1% of GDP in the second quarter (Figure 1). The latest monthly indicators, however, show somewhat mixed signals, but confirm the fact that US tariffs have so far had a very limited effect on the growth of the European economy. The composite Purchasing Managers' Index (PMI) for the euro area edged up in September and is currently at its highest level in the past 16 months, suggesting a positive growth momentum. Nevertheless, this improvement was driven solely by the services sector, as the PMI in the industry recorded a sharp decline and returned to the contraction zone, with the new orders index falling to its lowest level in seven months. This reflects continued challenges in the industrial sector, partly associated with the dissipation of the effects of the previous build-up of exports to the USA, as well as structural problems relating to the competitiveness of European industry. In addition, it seems that consumers are still very cautious, largely due to the still high uncertainty (Figure 2), reflected in a decline in the real trade turnover in July of 0.5% on a monthly basis as well as in consumer confidence, which in September remained much below its long-term average.

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

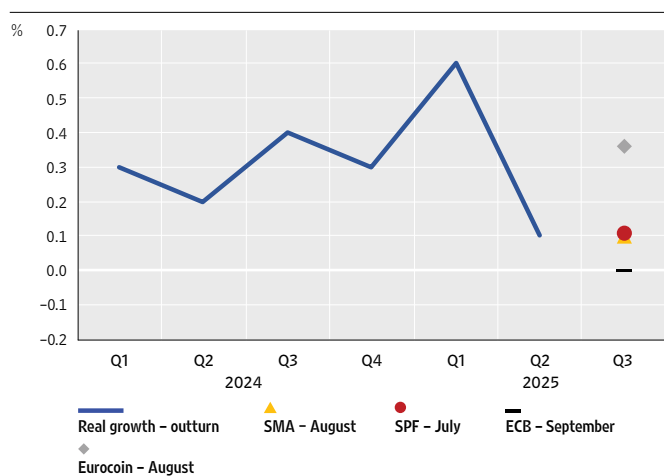
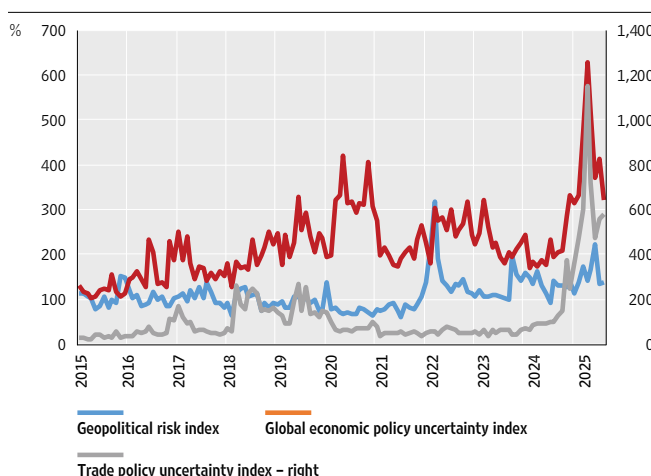


Figure 2 Uncertainty indices



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 and August 2025.

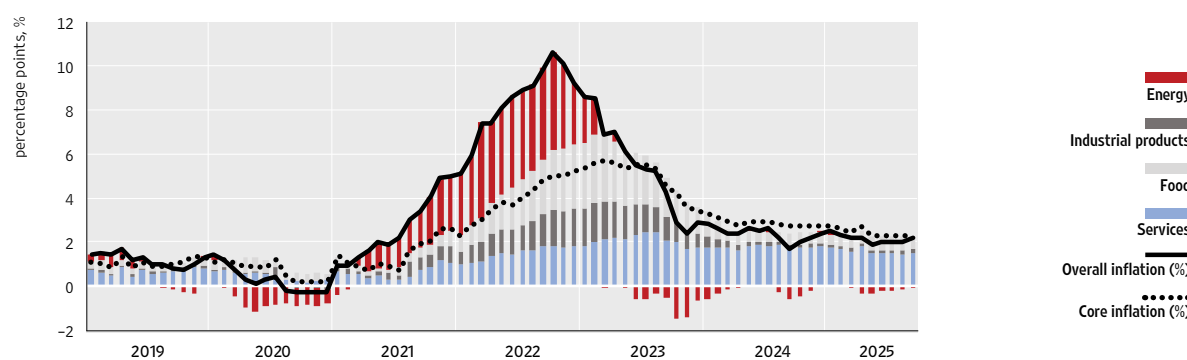
Sources: Eurostat and ECB.

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

According to the first estimate, overall inflation in the euro area, measured by the harmonised index of consumer prices, picked up to 2.2% in September 2025, from 2.0% in August (Figure 3), driven by base effects stemming from energy prices. The annual rate of change of energy prices rose to -0.4% in September from -2.0% in August, due to an unfavourable base effect stemming from the sharp monthly decline in energy prices in September last year, while in September 2025 energy prices fell only slightly from the previous month. In contrast to energy inflation, food inflation edged downwards, to 3.0% in September from 3.2% in August, driven by a slower growth in the prices of unprocessed food products. Core

inflation (excluding energy and food prices) remained unchanged and in September stood at 2.3% for the fifth month in a row. Services inflation edged up (to 3.2% in September from 3.1% in August), while the inflation of industrial goods held steady in September at the levels recorded in July and August (0.8%), amid mild inflationary pressures stemming from low growth rates of producer prices and the decline in the annual rates of change of import prices of consumer goods.

Figure 3 Euro area inflation indicators



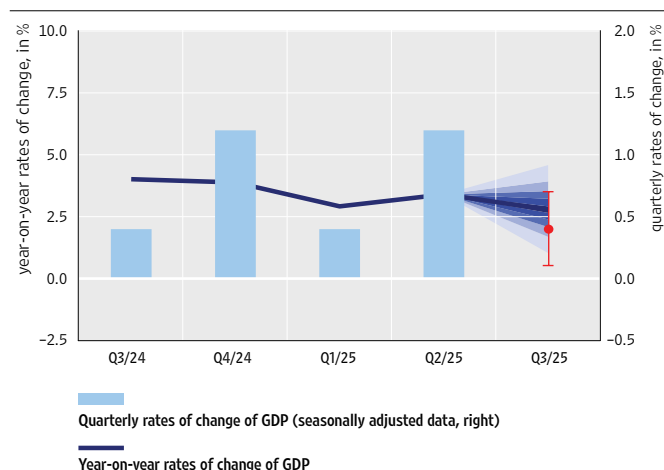
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat and CNB calculations.

Monthly data for the Croatian economy for the third quarter of 2025 suggest a slower growth of economic activity. According to the CNB's nowcasting model of economic activity, after growing by 1.2% in the second quarter of this year, Croatia's real GDP might increase by 0.4% on a quarterly level in the third quarter, while on an annual level its growth might decelerate to 2.8%, from 3.4% in the second quarter (**Figure 3**). Real retail trade turnover grew by 0.3% in August on a monthly basis, but this was insufficient to offset the decline recorded in July. Thus, retail trade turnover was 0.7% lower in the first two months of the third quarter than the previous quarter average (**Figure 4**). This was partly due to a somewhat weaker tourist activity, given that the number of nights stayed by foreign tourists declined in July and August from the levels recorded in the same months of the previous year, by 0.8% in July and by 1.9% in August. However, the unfavourable developments in July and August were neutralised by the considerably more favourable volume indicators in September, and thus the third quarter was marked by a stagnation in the number of nights stayed and a slight increase in arrivals on an annual basis. Industrial production continued to stagnate in August, with a rise in the production of intermediate goods, energy and durable and non-durable consumer goods, but this was almost completely offset by the decline in the production of capital goods and a reduced production in mining and quarrying as well as manufacturing. In contrast, the volume of construction works rose by 3.5% in July from the month before, due to intensified investments in both buildings and other civil engineering works.

Survey indicators of business and consumer optimism for the period up to the end of September are still relatively favourable, with a sharp rise in consumer optimism in the third quarter, well above its long-term average, as well as a strong upswing in optimism in trade and industry, with both of them recording an increase from the second quarter average. On

the other hand, business optimism in services remained unchanged from the second quarter, while optimism in construction edged downwards, even though in both activities optimism remained at high levels.

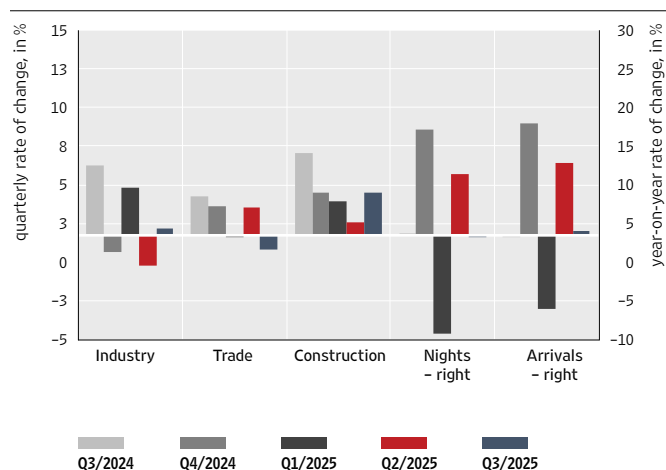
Figure 4 Quarterly gross domestic product



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 30 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 Monthly indicators of economic activity in Croatia



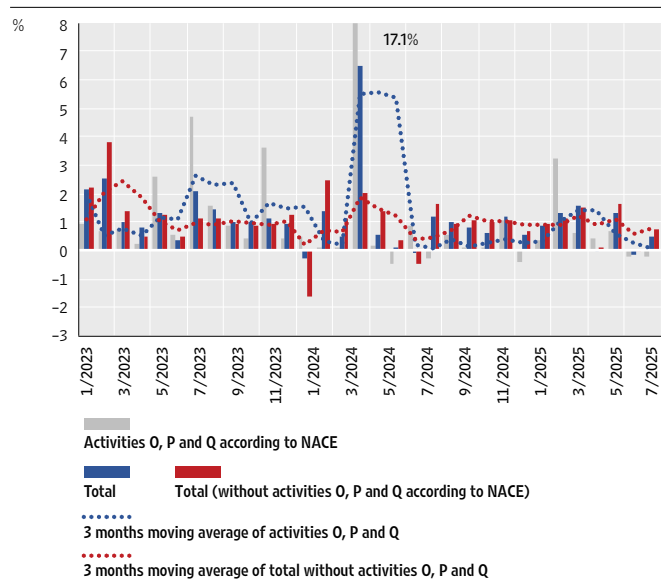
Note: Data for the third quarter of 2025 for industry and trade refer to July and August and for construction to July 2025.

Sources: CBS and eVisitor.

The number of employed persons edged up in the third quarter, while wage growth decelerated significantly, partly due to base effects.

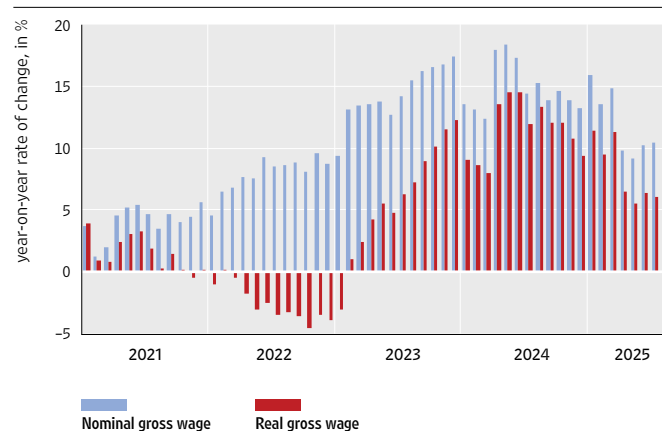
The number of employed persons remained almost unchanged in August (0.1%) for the second consecutive month, even though it went up by 0.5% from the average levels recorded in April and May. Employment growth was still mostly concentrated in public administration, education, healthcare and social work activities (activities O, P and Q, hereinafter referred to as the public sector), while employment in other activities remained unchanged. The slowdown in employment might partly be due to employers adjusting to stricter employment standards for foreign workers following the amendments to the Foreigners Act. The fall in unemployment continued its downward trend, with the registered unemployment rate standing at 4.3% in August. After nominal wages remained almost unchanged in July (-0.1%), their upward path continued in August (0.5%); considering somewhat lower public sector wages, this reflects their increase in the rest of the economy (Figure 6). The growth in the average nominal gross wages in July and August from the levels recorded in the previous quarter slowed down significantly, from 3.2% to 0.9% (by 1.5% from April and May), reflecting the stagnation of public sector wages between the two rounds of increase in the wage-calculation base and a noticeable slowdown in the rest of the economy, partly due to base effects stemming from the strong wage growth in April (one-off payments in the broadcasting sector). On an annual level, the growth in the average nominal gross wages and real wages in August slowed down to 9.8% and 5.4%, respectively (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

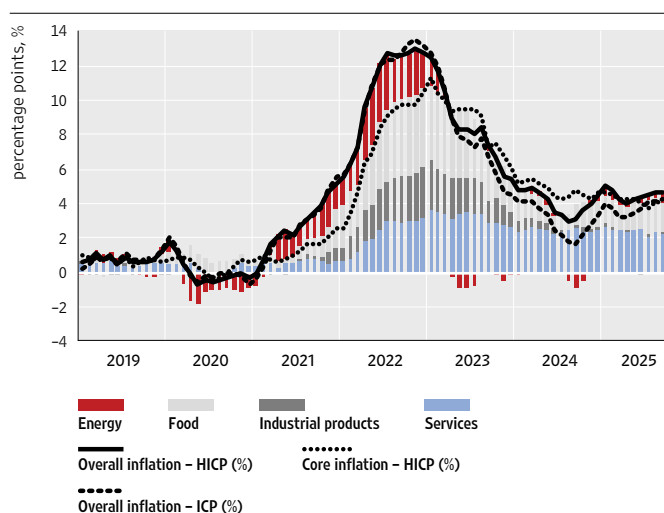


Sources: CBS and CNB calculations.

Overall inflation in Croatia remained unchanged in September 2025 if the harmonised indicator is observed, while inflation measured by the national indicator accelerated slightly. According to the first estimate, inflation measured by the harmonised index of consumer prices (HICP) remained unchanged in September from the level recorded in the previous month and stood at 4.6% (Figure 8). The annual growth in energy prices accelerated significantly (to 4.7% in September from 2.8% in August), partly reflecting the unfavourable base effect stemming from an unusually strong fall in energy prices last year, and partly reflecting a slight increase in energy prices in September 2025 from the month before. The impact of the accelerated growth in energy prices on overall inflation was offset by a slowdown in food price growth. Food inflation edged downwards, to 5.9% in September from 6.6% in August. This was the second month of a slowdown in food inflation, following a marked acceleration in the previous three months. Accordingly, the contribution of food prices to overall inflation edged down and stood at 1.7 percentage points in September. Services prices continued to contribute the most to overall inflation and stood at 2.3 percentage points, despite the slowdown in services inflation in September. The annual growth in services prices slowed to 7.0% in September from 7.1% in August. Restaurant and hotel services contributed the most to the relatively high annual services inflation rate, although it was also impacted by the sharp rise in rents in August. However, the current pressures on services prices are gradually abating, as reflected in the services inflation momentum (Figure 9), which was lower than in the first half of the year. Owing to the slowdown in services inflation, core inflation (excluding the volatile components of energy and food) also slowed down, from 4.1% in August to 4.0% in September (Figure 10). Over the last four months, core inflation has been moving around an average of 4.0%, the lowest level since the beginning of 2022. Inflation of industrial goods, the

second main component of core inflation, remained unchanged at 0.8% in September. Overall inflation measured by the national consumer price index (CPI)¹ accelerated slightly, from 4.1% in August to 4.2% in September, due to the acceleration in the growth of energy prices, from 2.5% to 4.5%. In contrast, the growth in food and services prices decelerated (from 6.2% and 6.4% to 5.6% and 6.0%, respectively), while the inflation of industrial goods held steady at 0.5%. Food prices made the biggest contribution, of 1.8 percentage points, to the overall inflation measured by the national indicator, despite a slowdown in growth in September, while the contribution of services amounted to 1.6 percentage points. The difference between the harmonised and the national indicator of overall inflation decreased slightly to 0.4 percentage points in September from the month before, a big drop from the preceding year, when it stood at 1.5 percentage points (Figure 11).

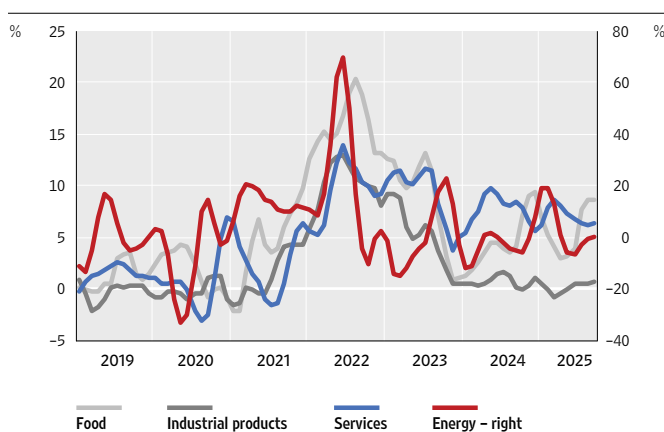
Figure 8 Inflation indicators in Croatia



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

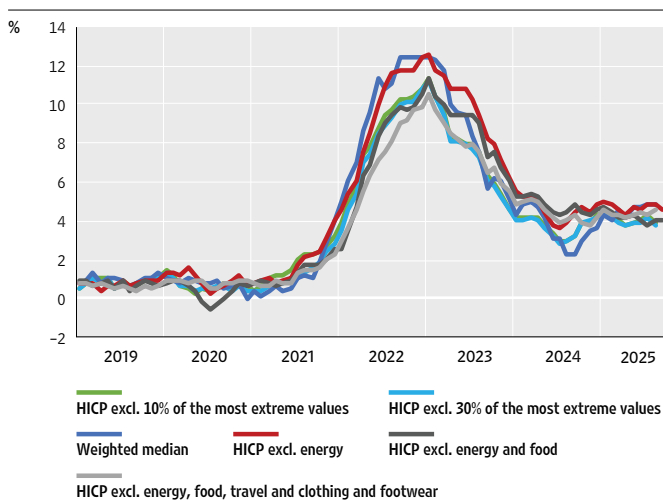


Note: The quarterly rate of change on an annual level has been calculated according to the quarterly moving average of seasonally adjusted harmonised indices of consumer prices.

Sources: Eurostat and CNB calculations.

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

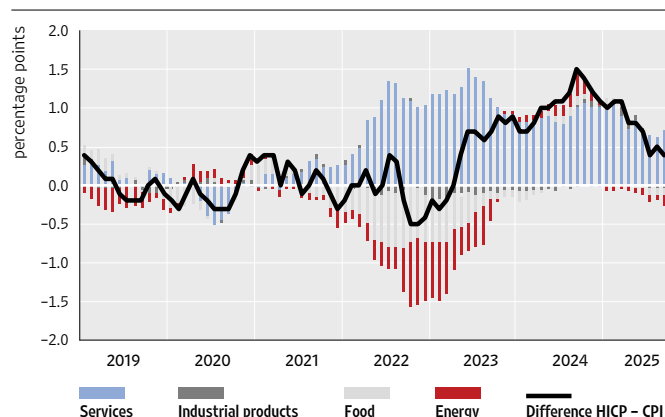
Figure 10 Core inflation indicators



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.

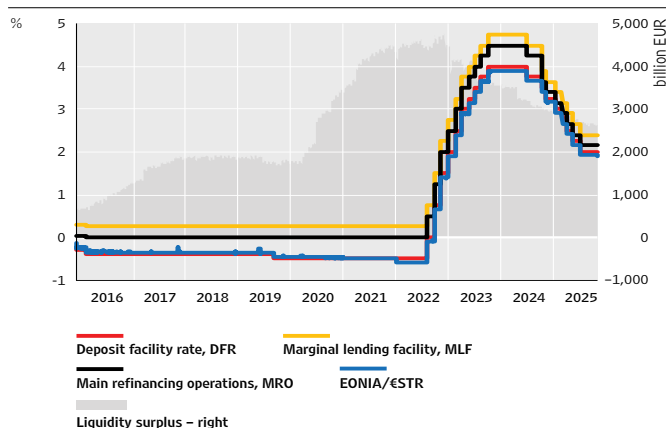
Figure 11 Difference between the contributions of the main components to the overall HICP and CPI



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.

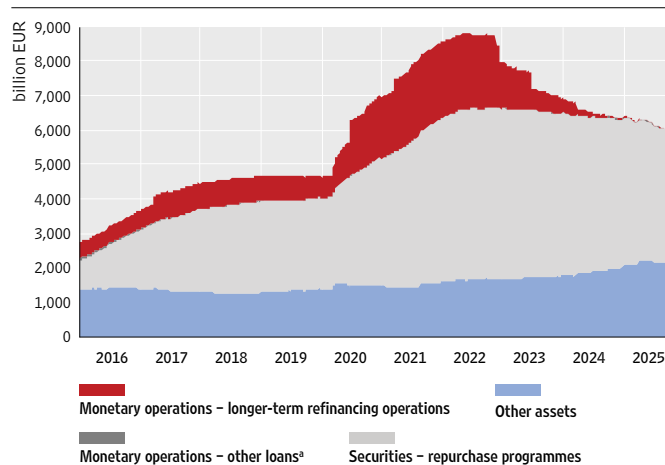
Figure 12 Key ECB interest rates



Notes: DFR (deposit facility rate); MLF (marginal lending facility); MRO (main refinancing operations). Since the beginning of 2022, EONIA has been replaced by €STR.

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.

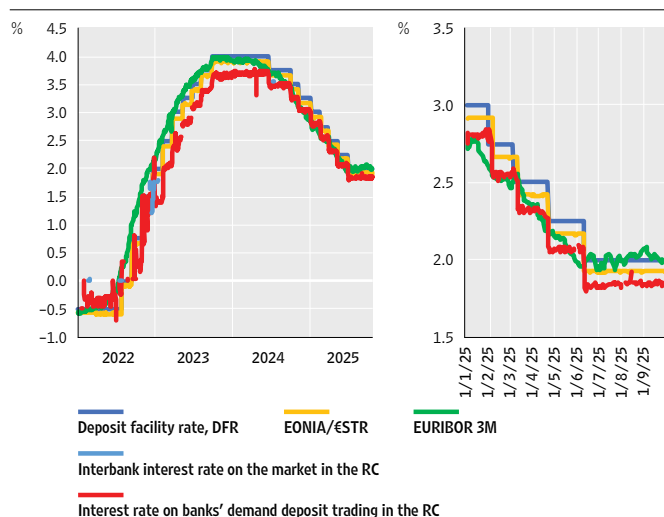
Note: The Eurosystem monetary balance sheet asset items are shown in grey and red and non-monetary in blue.

Source: ECB.

In September, financial markets began to consider it increasingly likely that the ECB would not further reduce interest rates, while at the same time key Fed rates are expected to decline strongly, which has affected the performance of some financial instruments, such as the appreciation of the euro against the dollar. Euro area bond yields remained broadly unchanged. After the Governing Council of the ECB kept interest rates unchanged for the second time in a row at its September meeting, the better than previously expected macroeconomic outlook for the euro area economy led markets to consider it increasingly likely that the key ECB interest rates would no longer decline. At end-September,

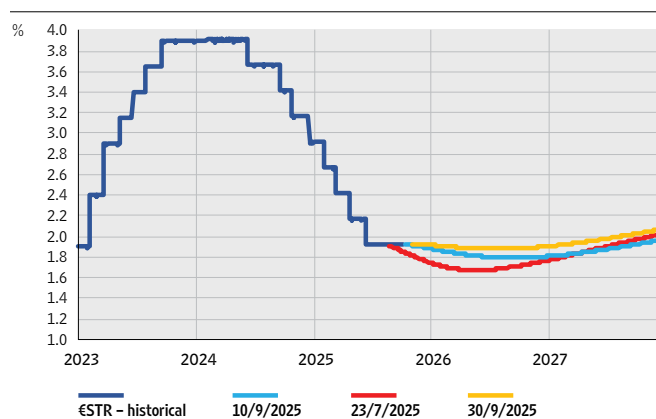
the €STR forward curve went up across the maturities spectrum from the levels recorded on the days before the ECB Governing Council meetings in July and September (**Figure 15**). At the same time, due to significantly worse than expected data from the US labour market for August, markets began to expect a larger number of Fed's key interest rate cuts in the coming quarters. 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 and reached its new highest level in the last four years. However, towards the end of the month, the dollar strengthened somewhat against the euro with the release of a series of better than expected US macroeconomic data. On a monthly level, the exchange rate of the euro against the dollar strengthened only slightly in September (by 0.7%). The yield on euro area long-term government bonds weighted by GDP stood at 3.1% at the end of September, almost the same as at the end of August, while over the same period, the US ten-year government bond yield decreased by 8 basis points, to 4.15% at end-September (**Figure 16**). The spreads between government bonds of euro area countries and benchmark German bonds mostly continued their slight downward trend. French bonds again deviated from this trend, and the spread between them and German bonds continued to hold steady above 80 basis points, a level last seen in January this year, which was due to the deepening of political crisis in the country. Sébastien Lecornu was appointed France's new prime minister in September, but he resigned as early as at the beginning of October. He was the fifth prime minister to step down in the last three years of President Emmanuel Macron's term. In mid-September, Fitch downgraded France's credit rating from AA- to A+, due to increased political fragmentation and the consequent weakened capacity to reduce the budget deficit.

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



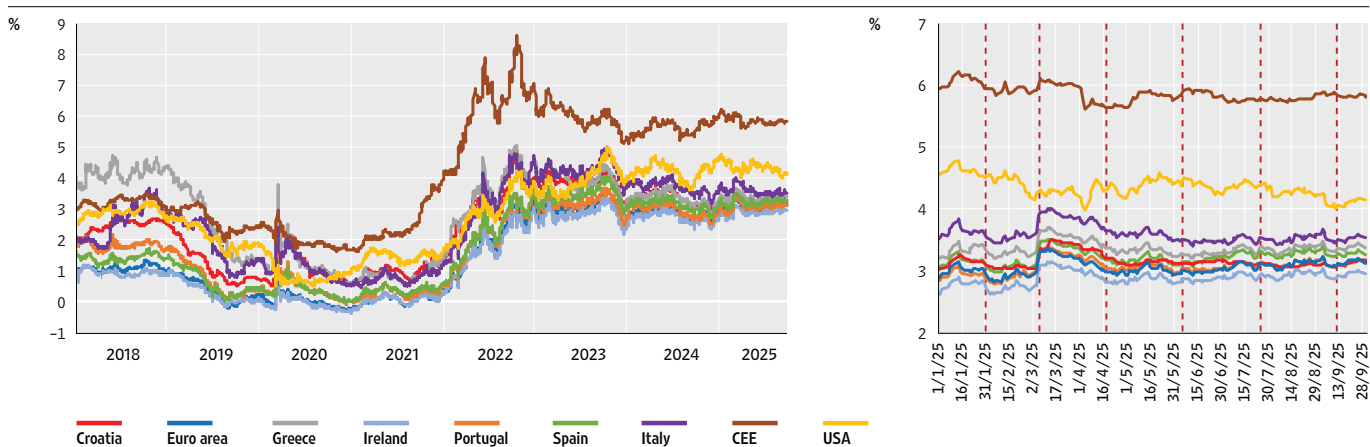
Notes: DFR (deposit facility rate). Since the beginning of 2022, EONIA has been replaced by €STR. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data are for 30 September 2025.
Sources: ECB and CNB.

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 the ECB Governing Council meeting during the observed period and on 30 September 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 are for 30 September 2025.

Sources: Bloomberg.

In August, Croatia witnessed an increase in the interest rates on pure new corporate loans, while the interest rates on housing loans and general-purpose cash loans to households remained broadly unchanged. The average interest rate on corporate loans increased by 51 basis points in August, to 3.81% (Figure 17), following a decrease of 46 basis points in July. This increase was largely due to the rise in interest rates on investment loans and syndicated loans; observed by size, medium-sized and large corporations borrowed at higher rates.

The interest rate on pure new corporate loans was 162 basis points lower in August than in December 2023, when it reached the highest level in the latest cycle of increases in key ECB interest rates. In August, the average interest rate on loans to households remained broadly unchanged from July (a decrease of a mere 1 basis point), with the interest rate on general-purpose cash loans and housing loans standing at 5.72% and 2.98%, respectively. The interest rate on general-purpose cash loans was 55 basis points lower in August than the highest level recorded in January 2024, while the interest rate on housing loans was 90 basis points lower than the highest level recorded in the latest cycle of key interest rate increases in April 2024.

Interest rates on existing loans remained almost unchanged in August. Interest rates on corporate loans stood at 3.78%, down by 1 basis point from July. Interest rates on existing general-purpose cash loans to households also went down by 1 basis point (5.88%), while interest rates on housing loans held steady at 3.05%.

The interest rate on pure new corporate time deposits edged up in August from July, while that on household deposits continued to trend down. The interest rate on pure new corporate time deposits increased in August by 3 basis points from July and stood at 1.86%, while that on household deposits fell by 8 basis points, to 1.47%. Interest rates on existing deposits mostly continued to trend downwards (0.46% on total corporate deposits and 0.35% on total household deposits). The interest rate on existing corporate time deposits fell in August by 4 basis points from July (to 1.87%), while that on overnight deposits fell by 1 basis point (to

0.10%). As regards households, the interest rate on existing time deposits fell by 3 basis points from July (to 1.37%), while that on overnight deposits remained unchanged at 0.02%.

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

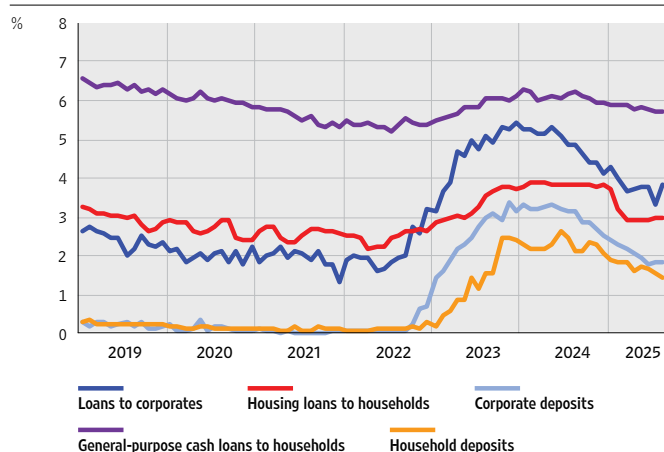
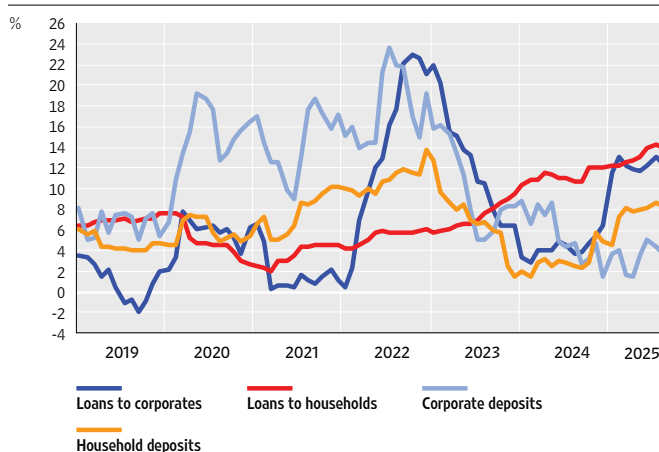


Figure 18 Corporate and household loans and deposits, year-on-year rates of change, transaction-based



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.

Source: CNB.

Loans to domestic sectors (excluding the general government) declined in August, reflecting the effect of the repayment of a loan made to a large corporation. Loans to households continued to increase, albeit at a slower pace than in the previous few months when households increasingly borrowed during the period of promotional interest rates offered ahead of the announcement of macroprudential measures. The growth in household loans (EUR 114m or 0.4%) reflected increases in housing loans (EUR 76m), other household loans (EUR 46m) and almost unchanged general-purpose cash loans (–EUR 1m). In addition, a systemically important bank reclassified EUR 23.5m worth of general-purpose cash loans to other loans. Excluding the mentioned reclassification effect, general-purpose cash loans continued to increase in August (EUR 23m), albeit still at a considerably slower pace than in the previous months. The annual growth rate of housing loans remained at the July level in August (14.2%), while the growth of general-purpose cash loans slowed down, from 14.0% in July to 13.1% in August, that is to 13.4%, if the mentioned one-off reclassification effect is excluded. Thus the annual growth in total household loans decelerated from 14.2% to 14.0% (Figure 18). The momentum² of housing loans slowed slightly, if remaining strong (20.5%), while the momentum of general-purpose cash loans weakened further, from 13.8% to 8.3%, or, 9.4% if the reclassification effect is excluded. The fall in corporate loans in August (EUR 172m or 1.0%) largely reflects the repayment of a working capital loan (EUR 102m) and a syndicated loan (EUR 24m) by a large corporation in the manufacturing sector. On an annual basis, the growth in corporate loans slowed down from 13.1% in July to 12.4% in August. The momentum of corporate loans moderated from 10.1% to 3.1%.

2 Momentum is a short-term indicator of lending activity which shows annualised three months-on-three months rates of change in loans.

On the other hand, domestic sectors' deposits with credit institutions (excluding the general government) rose by EUR 1.2bn or 1.9%, an increase that is common during the tourist season. The growth of deposits in August was the result of a strong rise in the net foreign assets of monetary institutions, which was largely spurred by the inflow of cash during the peak tourist season (to the extent that banks surrendered the deposited part of this inflow to the CNB) and payments from abroad to clients of domestic banks. The mentioned decline in loans to domestic sectors and the fall in net claims on the central government slowed the growth in deposits. Looking at the structure of domestic deposits, a little over 60% of the total increase in August can be attributed to overnight deposits, while the remaining part can be attributed to time deposits. In August, the share of time deposits in total corporate deposits continued to increase (to 28.0% in August, from 26.0% in July), and still fluctuates 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 gradually, reaching 24.7% in August. Despite the strong growth of total deposits in August, the annual growth rate slowed down to 7.8% in August from 8.7% in July due to the base effect, that is, a sharper rise in total deposits in August last year.

