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Information on economic, financial and monetary developments

November 2025

HRVATSKA NARODNA BANKA
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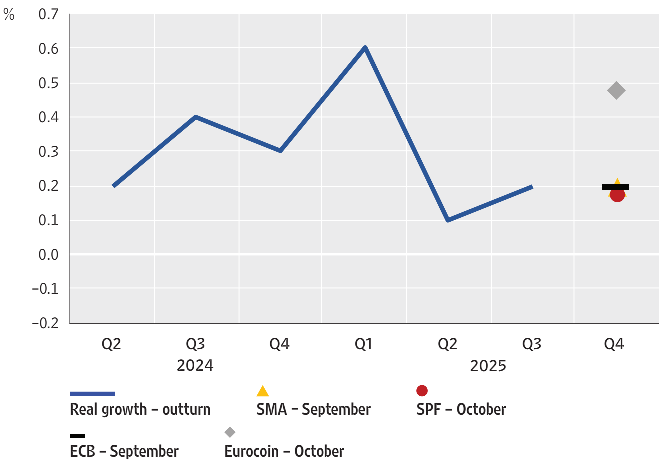
Summary

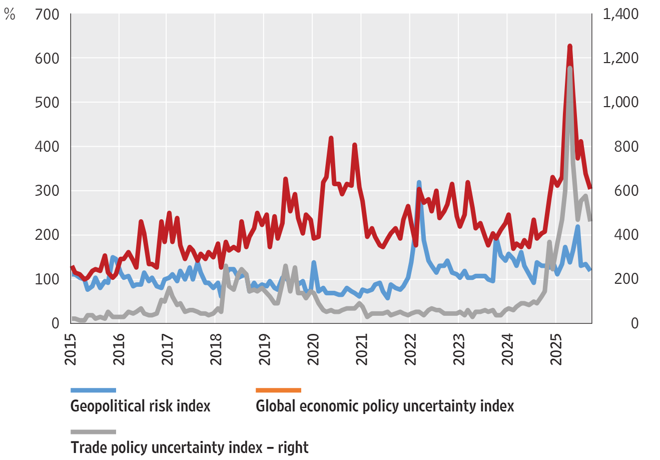
According to a flash estimate from Eurostat, the euro area economy grew by 0.2% in the third quarter (Figure 1), following a sharp slowdown in the second quarter (0.1%). Excluding Ireland, growth was steady in the second and third quarters and stood at 0.2%. The growth recorded in the third quarter slightly 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 euro area economies, growth in the third quarter was again the fastest in Spain (0.6%) and France (0.5%), while Italy and Germany recorded a stagnation in economic activity. Most projections assume a slight increase in economic activity in the fourth quarter, amid still elevated uncertainty (**Figures 1 and 2**). This is supported by high-frequency survey indicators, such as the purchasing manager index (PMI) and the economic sentiment index. To be more precise, the composite purchasing managers' index trended up sharply in October from the average level recorded in the third quarter, reaching its highest level in the last 17 months. This result reflects a strong improvement in confidence in the services sector, while the industrial component remained stagnant. The economic sentiment index also rose sharply and reached its highest level since early 2023.

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



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 September and October 2025.
Sources: Eurostat and ECB.

Figure 2 Uncertainty indices

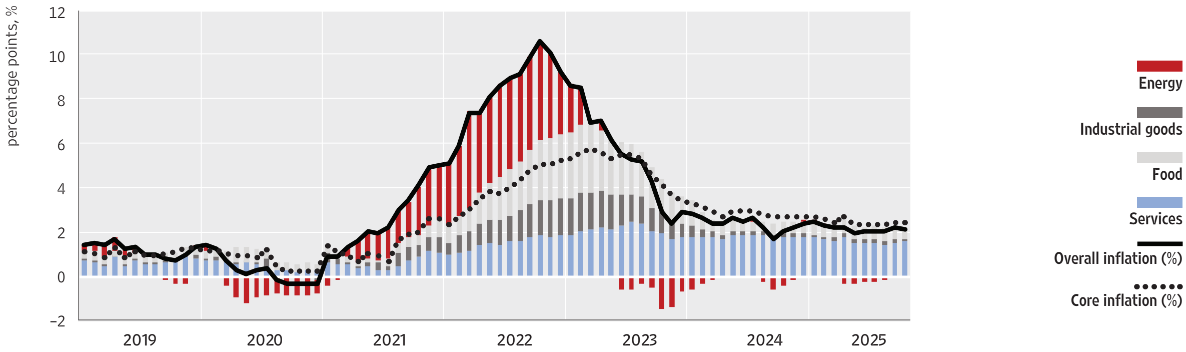


Sources: Bloomberg; Caldara and Iacoviello (2022); Goldman Sachs Research.

According to a flash estimate from Eurostat, overall inflation in the euro area, measured by the harmonised index of consumer prices, edged down to 2.1% in October, from 2.2% in September (Figure 3). This was mostly due to the decrease in food inflation (from 3.0% in September to 2.5% in October), which largely reflects the slowdown in inflation of the prices of unprocessed food products as a result of a favourable base effect associated with the strong monthly increase in these prices in October last year. In addition, the annual rate of change in energy prices also decreased (to –1.0%, from –0.4% in September). Core inflation, which excludes energy and food prices, hovered around 2.4% in October. Services inflation accelerated (to 3.4%, from 3.2%

in September), while industrial goods inflation slowed down (to 0.6%, from 0.8% in September). Low industrial goods inflation was driven by mild inflationary pressures in the supply chain, reflected in the low and stable growth rates of producer prices of consumer goods, a decrease in import prices (also driven by euro exchange rate appreciation) and a slowdown in the growth of labour costs.

Figure 3 Inflation indicators in the euro area

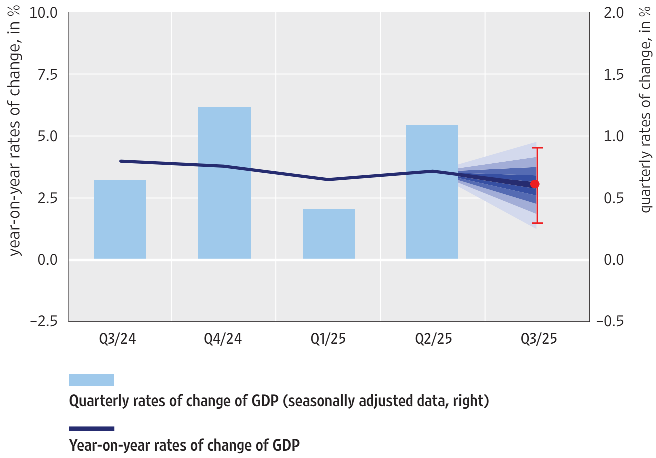


Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat and CNB calculations.

Monthly data for the Croatian economy point to a slowdown in the growth of economic activity in the third quarter, following a strong intensification in the previous quarter. According to the CNB's nowcasting model of economic activity, high-frequency indicators for the third quarter of 2025 point to a growth in economic activity at a quarterly level of 0.6%, after the 1.1% recorded in the previous quarter. On an annual level, growth could decelerate to 3.0%, from 3.6% in the second quarter (Figure 4). After growing sharply on a quarterly basis in the second quarter, real retail trade turnover edged down in the third quarter, primarily due to weaker performance in July and August, while it rose sharply again in September. This is also somewhat related to the annual increase in physical indicators of tourist activity in September, which neutralised a slight annual decrease in arrivals and overnight stays in July and August, so that the number of arrivals rose by 0.8% and the number of overnight stays stagnated in the third quarter from the levels recorded in the third quarter of the previous year. Industrial production also recorded a somewhat stronger increase from the quarter before, largely owing to an increase in the production of intermediate and capital goods. The volume of construction works also went up, reflecting a sharp increase in July, which was partly offset by a fall in construction activity in August (Figure 5).

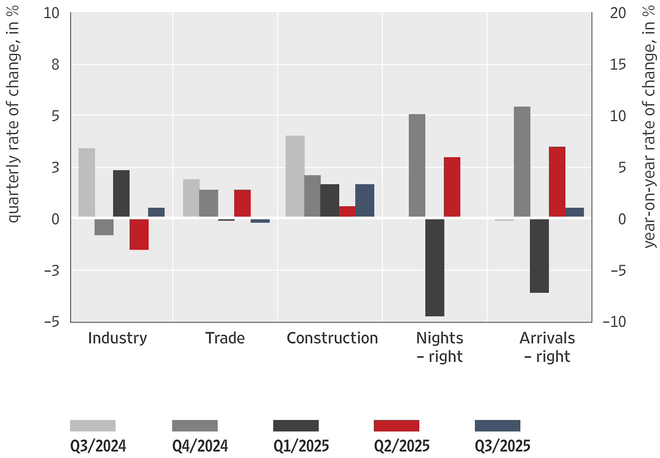
Survey indicators of business and consumer optimism point to favourable developments at the end of the year. The consumer confidence index increased in October from the third quarter and stands at its highest level in the last 17 months. Furthermore, business confidence indicators point to a significant increase in optimism in service activities, while industry also recorded a slight growth from the third quarter. On the other hand, trade recorded a relatively slight deterioration in confidence, and construction saw an even milder fall. Nevertheless, confidence in all observed activities remains above the long-term average.

Figure 4 Quarterly gross domestic product



Note: 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 October 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.

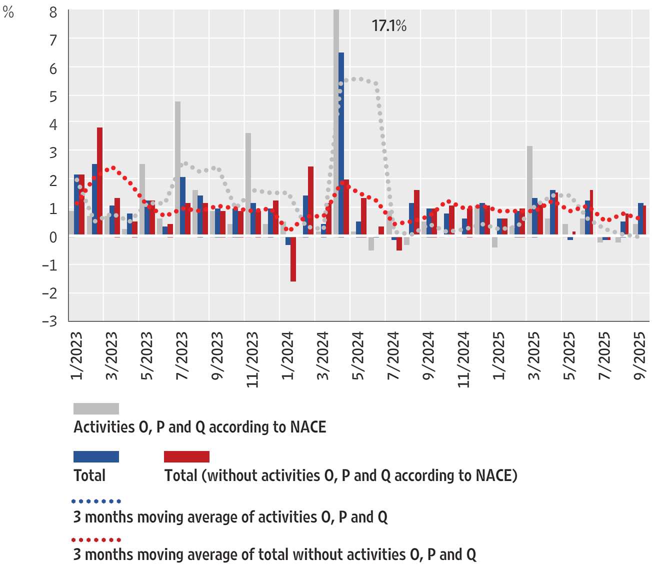
Figure 5 Monthly indicators of economic activity in Croatia



Note: Data for the third quarter of 2025 for construction refer to July and August 2025.
Sources: CBS and eVisitor.

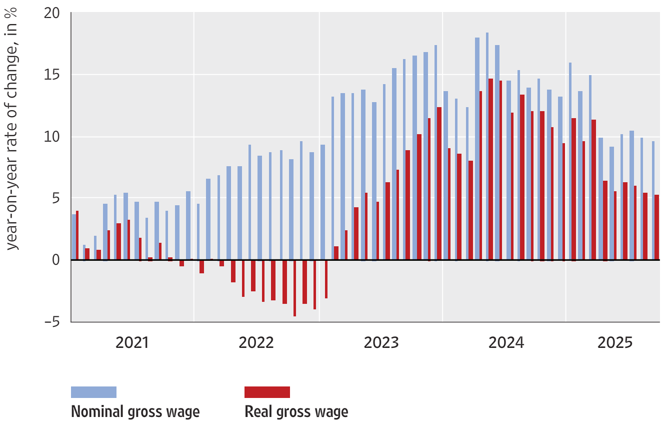
Employment continued to edge upwards in the third quarter, while wage growth slowed down from the second quarter, partly also due to base effects associated with strong wage growth in April (one-off payments in the broadcasting sector). The number of employed persons in September was unchanged from the previous month. However, employment rose slightly at the level of the third quarter as a whole, but at somewhat lower rates than in the previous quarter (0.3%, versus 0.4% in the second quarter). Employment grew the most in public administration, education, healthcare and social work activities (activities O, P and Q, hereinafter referred to as the public sector), while in other activities employment growth remained subdued. The slowdown in employment growth could be linked to the amendments of the Foreigners Act, which further regulates the employment standards, while at the same time the number of pensioners working part-time continued to increase. In the third quarter, employment growth in the public sector was 3.8% on an annual level, while in the rest of the economy it was 1.6%. The number of unemployed persons continued to fall in the third quarter, bringing the registered unemployment rate down to 4.4%, from 4.6% in the previous quarter. The growth of the average nominal gross wage accelerated in September from the previous month, with wages in the public sector rising only slightly due to the period between the two rounds of increase in the wage-calculation base (the gross wage-calculation base for civil servants and government employees rose by 3% in March for the February salary, while an additional 3% was paid in October as part of the September salary), while wage growth also accelerated in the rest of the economy (Figure 6). At the level of the entire quarter, wage growth slowed down noticeably, to 1.4% (from 3.2% in the second quarter), partly also due to base effects following the strong rise in wages in April associated with one-off payments in the broadcasting sector. On an annual level, however, the growth of the average nominal and real gross wage continued to slow down gradually (9.6% and 5.2%, 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.

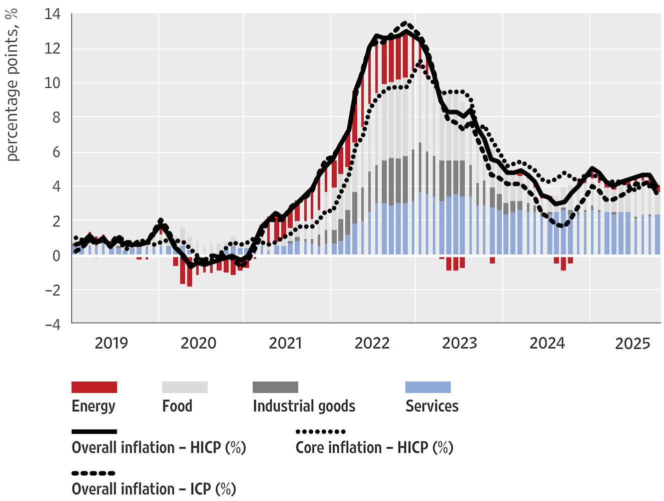
Inflation in Croatia slowed down noticeably in October 2025, primarily due to a strong deceleration in the growth of food prices, while services prices continued to rise considerably. According to the first estimate, inflation measured by the Harmonised Index of Consumer Prices (HICP)[1] stood at 4.0% in October (Figure 8), which is a significant decrease from the levels recorded in September (4.6%). Food prices, the annual growth of which slowed down from 5.9% in September to 4.4% in October, contributed the most to the noticeable slowdown in overall inflation in October. Food inflation trended down for the third consecutive month and in October fell to its lowest level over the past year. The slowdown in food inflation in the last three months reflects favourable base effects due to a sharp increase in prices in the same period of the previous year, as well as weaker current pressures. The easing of current pressures on food prices is also evident in the momentum[2] of food inflation, which decreased significantly in October (Figure 9), but is still considerably above its long-term pre-pandemic average. Although to a lesser extent than food prices, the growth in energy prices also slowed down, from 4.7% in September to 3.7% in October, driven by the spillover of lower crude oil prices in the global market to retail refined petroleum prices. In addition, core inflation (excluding the volatile components of energy and food) decelerated from 4.0% in September to 3.8% in October (Figure 10) as a result of a decrease in the annual rate of change in industrial goods prices (from 0.4% to –0.3%) amid low import pressures, exchange rate appreciation and low growth rates of producer prices for consumer goods. In contrast to industrial goods inflation, services inflation, the other main component of core inflation, accelerated from 7.0% in September to 7.3% in October. Accordingly, the contribution

1 HICP, unlike CPI, includes consumption by foreign tourists and institutional households (such as educational, health care and religious institutions, etc.).

2 Momentum is a short-term inflation indicator which shows annualised three months-on-three months rates of price change, seasonally adjusted.

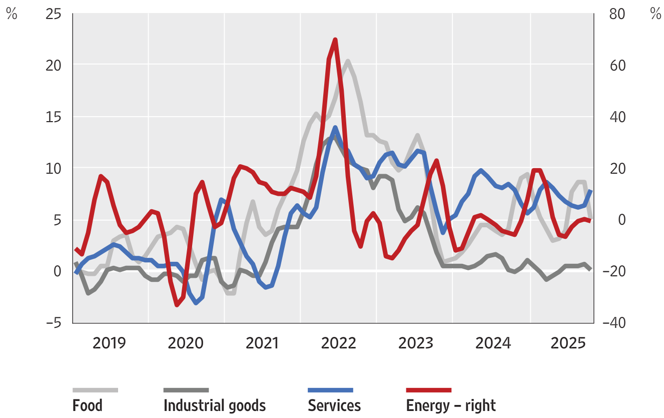
of services prices to overall consumer price inflation of 4.0% increased to 2.4 percentage points in October, while the contribution of food prices decreased to 1.2 percentage points. Persistent services inflation largely mirrors robust domestic demand and a tight labour market coupled with continued rapid wage growth. Overall inflation measured by the national consumer price index (CPI), which reflects the structure of consumption of Croatian citizens, also decelerated noticeably, from 4.2% in September to 3.6% in October. On an annual level, prices of food, energy and industrial goods decelerated (from 5.6%, 4.5% and 0.5% to 4.4%, 3.9% and –0.2%, respectively), while services inflation accelerated (from 6.0% to 6.4%) and made the largest contribution to overall inflation. Services made a contribution of 1.7 percentage points to the overall inflation measured by the national indicator in October, while the contribution of food prices declined to 1.4 percentage points. The difference between the harmonised and national indicator of overall inflation held steady at 0.4 percentage points in October, the same as in September and a big drop from the preceding year, when it stood at 1.4 percentage points (Figure 11).

Figure 8 Inflation indicators in Croatia



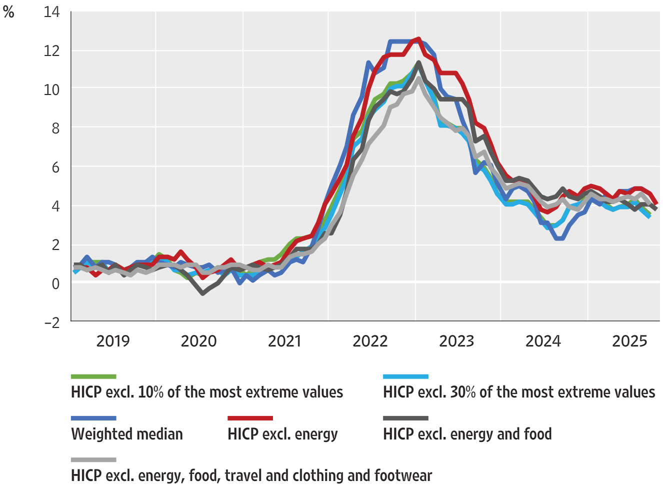
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat, CBS and CNB calculations.

Figure 9 Momentums of the main inflation components



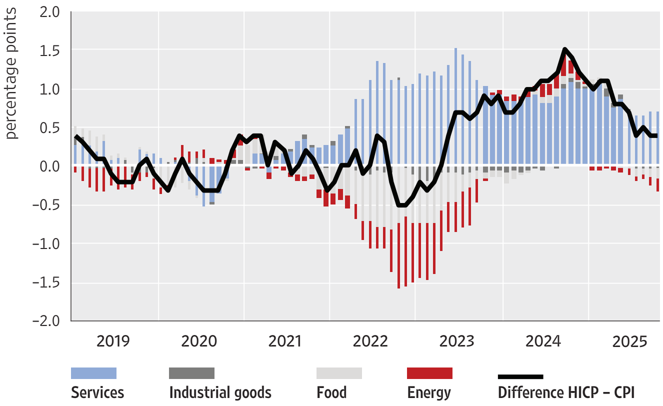
Note: The quarterly rate of change on an annual level has been calculated according to the quarterly moving average of seasonally adjusted harmonised indices of consumer prices.
Sources: Eurostat and CNB calculations.

Figure 10 Core inflation indicators



Notes: Trimmed mean eliminates 5% (15%) of components (out of a total of 87 components) with maximum and minimum annual rates of change. The weighted median excludes all values but 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

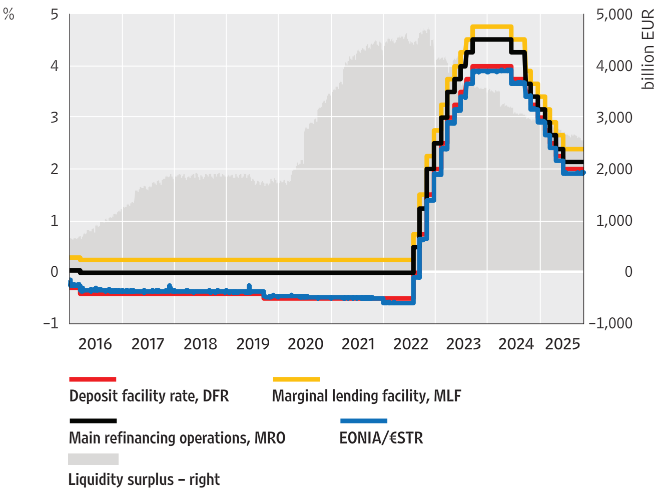


Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific component to overall HICP inflation than to CPI inflation.
Sources: Eurostat, CBS and CNB calculations.

At its meeting on 30 October 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, thus remained at 2.00%, unchanged from its last decrease in June. The Governing Council noted that inflation remained close to the 2% medium-term target and that the latest information broadly confirmed the previous assessment of the inflation outlook, which expected inflation to remain close to its target over the projection horizon. The economy continued to grow despite the challenging global environment. The robust labour market, solid private sector balance sheets and the past key interest rate cuts remained important sources of economic resilience. However, the outlook is still uncertain, owing particularly to ongoing global trade disputes and geopolitical tensions. 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.

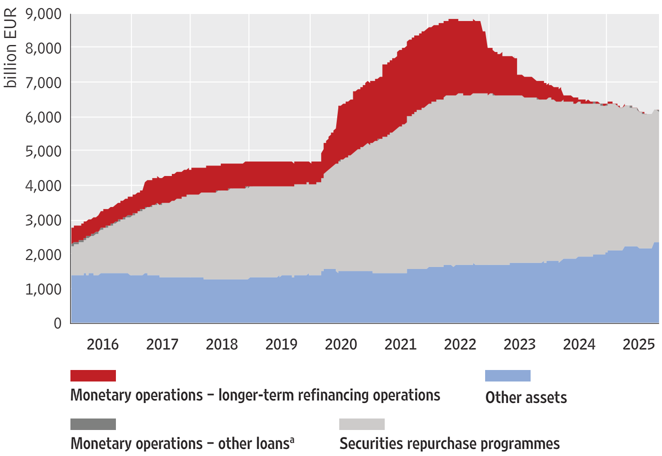
The size of the Eurosystem's balance sheet has continued to decrease gradually (Figure 13). The portfolio of securities purchased in the asset purchase programme (APP) and the portfolio of the pandemic emergency purchase programme (PEPP) of the Eurosystem are declining steadily at a measured and predictable pace, with the principal payments from maturing securities purchased under the APP not being reinvested since July 2023 and the reinvestment of PEPP portfolio being brought to a halt at the end of last year. 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 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. Although the price of gold has declined since mid-October, it remains well above the level seen at the beginning of the year.

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.

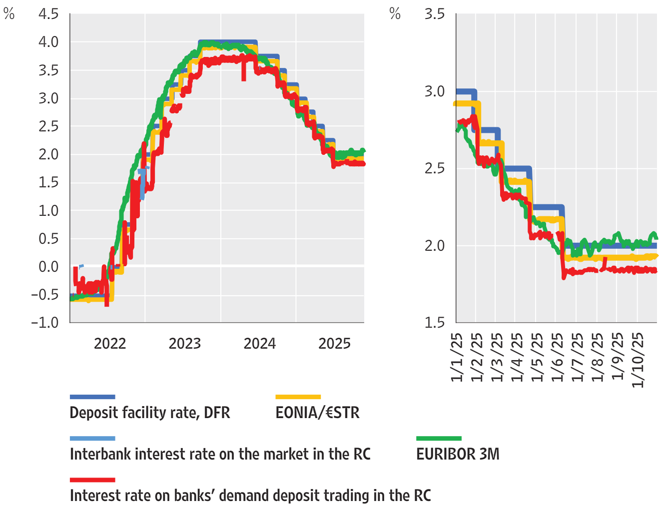
Figure 13 Eurosystem balance sheet



[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.

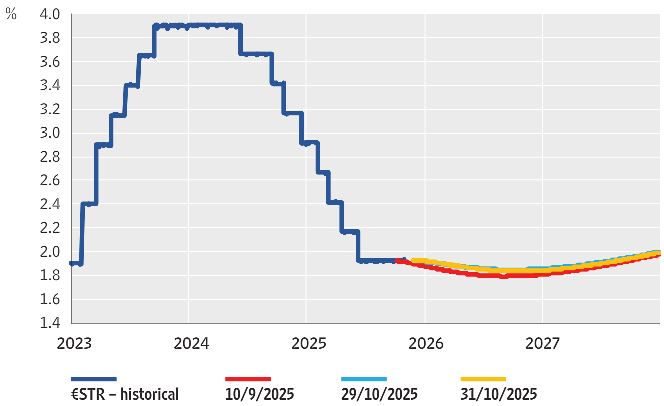
Market expectations about key ECB interest rates did not change significantly in October; the euro/US dollar exchange rate depreciated slightly following the appreciation in the previous two months, while yields on long-term European government bonds declined. Between the meetings of the ECB Governing Council in September and October 2025, the €STR forward curve edged up across the maturities spectrum, and did not change substantially immediately after the October meeting (Figure 15). Following the appreciation in the previous two months, the exchange rate of the euro against the US dollar depreciated in October and stood at USD/EUR 1.16 at the end of the month, declining to levels similar to those of July. The euro weakened against the US dollar most in the first half of October due to rising political uncertainty in France and heightened trade tensions between the USA and China, which increased risk aversion and demand for the US dollar as a safe haven. In such conditions, long-term interest rates in the USA also declined, which is partly attributed to concerns about possible problems in some regional banks in the USA. The yields on long-term euro area government bonds also declined in October (Figure 16). The euro area GDP-weighted average of long-term government bond yields declined in October by 10 basis points from end-September and stood at 3.0% at end-October. 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, although it had fallen slightly below 80 basis points by the end of October. Croatia's long-term government bond yields closely followed trends in the euro area average of long-term government bond yields and stood at 3.0% at end-October, down by 13 basis points from the levels recorded at end-September.

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



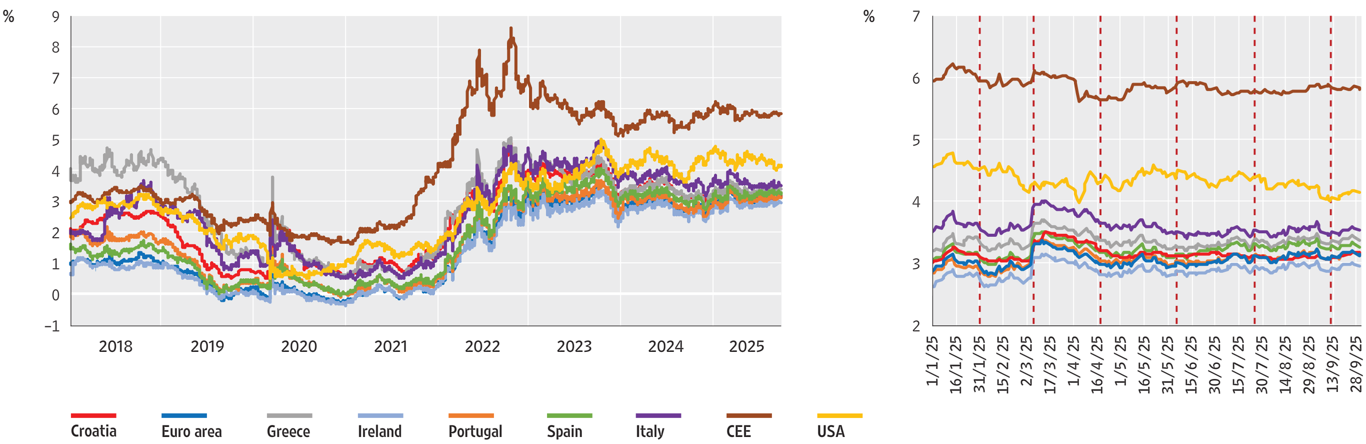
Notes: DFR (deposit facility rate). The EONIA was replaced by €STR in early 2022. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data are for 31 October 2025.
Sources: ECB and CNB.

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 31 October 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

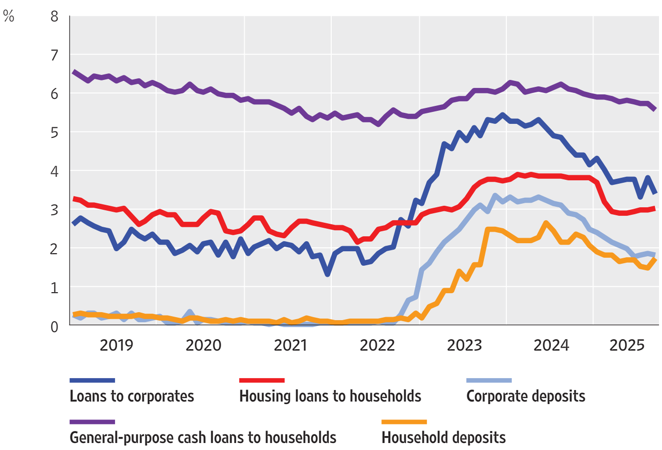


Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the observed period. Last data are for 31 October 2025.
Source: Bloomberg.

In Croatia, interest rates on pure new corporate loans decreased in September, as did interest rates on general-purpose cash loans to households, while interest rates on housing loans hovered around the levels seen in August. After decreasing by 46 basis points (b.p.) in July, the average interest rate on pure new corporate loans went up by 52 b.p. in August and decreased again in September by 43 b.p., to 3.40% (Figure 17). This decline in September was largely due to the decrease in interest rates on investment loans and syndicated loans; observed by size, medium-sized and large corporations borrowed at lower rates. The interest rate on pure new corporate loans was 203 b.p. lower in September than in December 2023, when it reached the highest level in the latest cycle of increases in key ECB interest rates. In September, households borrowed at an average interest rate of 5.57%, down 15 b.p. from August as regards general-purpose cash loans, and at an average interest rate of 3.01% or 3 b.p. more in the case of housing loans. The interest rate on general-purpose cash loans was 70 b.p. lower in September than the highest level recorded in January 2024, while the interest rate on housing loans was 87 b.p. 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 September and stood at 3.76% for corporate loans, 5.86% for existing general-purpose cash loans to households and 3.05% for housing loans.

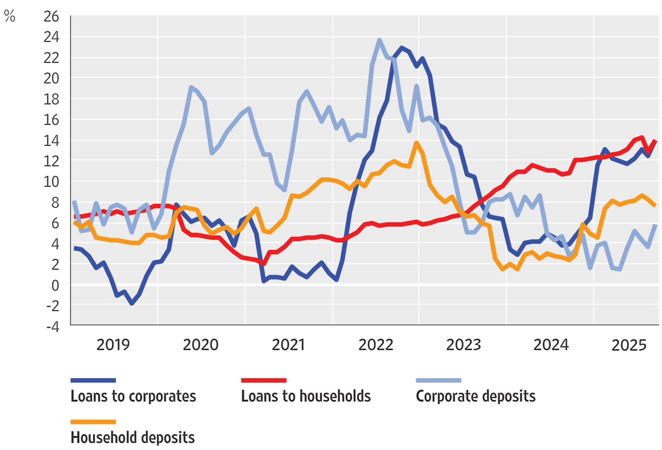
The interest rate on pure new corporate time deposits declined in September from August, while that on household deposits increased. The interest rate on pure new corporate time deposits decreased by 6 b.p. in September from August and stood at 1.80%, while the interest rate on household time deposits trended up by 28 b.p. and amounted to 1.74%. Higher interest rates offered by individual banks within the scope of promotions and, to a lesser extent, higher amounts of time deposits contributed to the increase in interest rates on new household time deposits. Interest rates on existing deposits remained almost unchanged in September (0.47% on total corporate deposits and 0.35% on total household deposits). The interest rate on existing corporate time deposits went down by 1 b.p. (to 1.86%), while the interest rate on overnight deposits increased by 2 b.p. (to 0.12%). As regards households, interest rates on existing time and overnight deposits remained unchanged in September and stood at 1.37% and 0.02%, respectively.

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 and currencies indexed to the kuna and in euros, 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.

Loans to domestic sectors (excluding the general government) surged in September, reflecting the relatively strong growth of household loans and the growth of loans to corporates. The growth dynamics of household loans was weaker than in the 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 235m or 0.9%) largely reflected increases in housing loans (EUR 134m), while general-purpose cash loans also trended up (EUR 88m). The annual growth rate of housing loans accelerated to 14.5% in September, from 14.2% in August, while the growth in general-purpose cash loans continued to slow down (from 13.4% in August to 12.9% in September) due to the base effect, that is, a stronger growth in September of the previous year. The annual growth in total household loans thus held steady at the level recorded in August (14.0%) (**Figure 18**). In the corporate sector, loans rose by EUR 148m (0.9%) in September, with more than half of this growth reflecting the disbursement of a working capital loan to a large company in the manufacturing industry. On an annual basis, the growth in corporate loans accelerated from 12.4% in August to 12.8% in September. The momentum of housing loans, general-purpose cash loans and corporate loans slowed from 20.5%, 9.3% and 3.1% to 15.0%, 7.0% and 1.9%, respectively.

Deposits of domestic sectors with credit institutions (excluding the general government) remained almost unchanged in September from August. Although the growth in net foreign assets of monetary institutions and the growth of loans to domestic sectors contributed to the increase in M3 deposits, this effect was offset by the decrease in net claims on the central government and the issue of bonds by a bank[3]. In the structure of domestic deposits, overnight deposits rose by EUR 0.2bn, while time deposits decreased by about the same amount. The share of time deposits in total deposits fell to 27.1% in September for corporates (from 28.0% in August) and continued to fluctuate within last year's range, while it edged up for households, from 24.7% to 24.8%, after steadily and gradually decreasing from its peak level (29.2%) in mid-2024. Despite the stagnation in total domestic deposits in September, the annual growth rate of total deposits accelerated from 7.8% in August to 8.1% in September due to the base effect, i.e. the decrease in total deposits in September of the previous year.

3 Bonds with a maturity of more than two years are not part of M3.