



HNB

EUROSYSTEM

# Semi-annual Information

Semi-annual Information on the Financial Condition,  
the Degree of Price Stability Achieved and the Implementation  
of Monetary Policy in the First Half of 2025

Zagreb, November 2025





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HRVATSKA NARODNA BANKA

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## Summary

The Croatian economy continued to grow strongly in the first six months of 2025, while inflation, after picking up in late 2024 and early 2025, gradually slowed down towards the end of the first half of the year, reaching levels in June that were close to those recorded in late 2024. Real GDP growth was mainly supported by robust domestic demand, primarily by personal consumption. Although personal consumption weakened due to a short-lived retail chain boycott at the beginning of the year, in the second quarter, it once again became the main generator of growth and more than offset the drop recorded in the preceding quarter. Such developments reflect the still strong labour market characterised by continued growth in employment and a still significant, albeit slower, increase in wages from the preceding year. The growth in investment activity was also strong, while the exports of goods and services dropped slightly below the levels seen at the end of 2024 following a strong increase at the beginning of the year. The contribution of net exports to growth was slightly positive but accompanied by a noticeable increase in the imports of services, which may be linked to the increased foreign travelling of residents. At the same time, imports of goods were, on average, somewhat lower in the first half of 2025 than at the end of 2024. Against the backdrop of robust domestic demand and strong wage increases coupled with the effects of the withdrawal of the energy subsidies, which took place later than in other EU member states, inflation measured by the harmonised index of consumer prices (HICP) remained above the euro area average, but decelerated towards the end of the first half of the year to 4.4%, owing to favourable base effects and relatively moderate current pressures in most main categories. Notable upward pressures were seen in food prices, which was partly attributable to external factors, because prices of food increased in other EU member states as well. The dynamics of inflation measured by the national consumer price index (CPI), which reflects the increase in price levels for Croatian citizens, was similar to that measured by the HICP, but its level throughout the observed period was lower, standing at 3.7% in June.

In the first half of 2025, the Governing Council of the ECB further lowered key interest rates as inflation gradually decreased to its target of 2% and economic expansion continued. At the same time, euro area inflation decelerated considerably, reaching the 2% target level in June, relative to 2.4% in December 2024. The euro area economy proved to be quite resilient to the increase in US tariffs and to the heightened uncertainty of the first half of the year. The Governing Council of the ECB thus continued the gradual easing of its restrictive monetary policy stance, which began in June 2024, so that by June 2025, the deposit facility rate of the central bank had been lowered by a total of 200 basis points to a level of 2.0%. Against such a backdrop, corporate and household financing conditions continued to improve in the first half of 2025 and interest rates on corporate and household time deposits shrank. Loans to corporations and households increased sharply in early 2025, with household borrowing being particularly pronounced during the period of promotional interest rates offered ahead of new CNB macroprudential measures aimed at tightening consumer lending criteria.

As at 30 June 2025, financial assets stood at EUR 24,625.7m, of which euro assets amounted to EUR 22,164.8m (90%) and foreign currency assets to EUR 2,461.0m (10%). In that period, the annual rate of return on the entire euro portfolio of financial assets was 1.73%, while the annual rate of return on the US dollar portfolio totalled 4.16%.

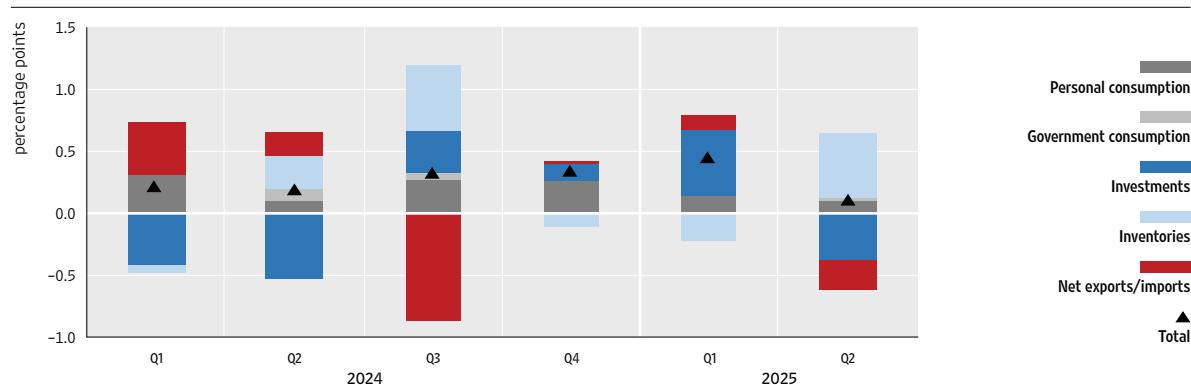
Amid stable structural conditions of the banking system in the Republic of Croatia in the first half of 2025, asset growth of credit institutions and their restructuring continued. An increase in the sources of financing and a decrease in highly liquid assets enabled new investments in debt securities and a continuation of credit activity, which contributed to the improvement in indicators of credit quality. The profit of credit institutions was smaller than in the same period last year, mostly due to the decrease in interest income. The Croatian banking system remains highly liquid and highly capitalised.

# 1 Euro area

## 1.1 Real and price movements

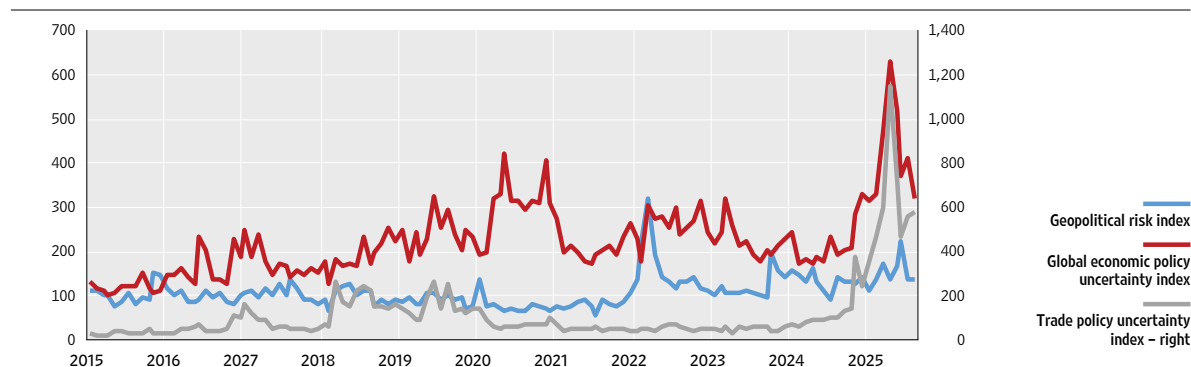
The euro area economy has thus far proven quite resilient to the increase in US tariffs and heightened uncertainty. Real GDP increased by 0.7% in cumulative terms in the first half of 2025, primarily due to the relatively strong domestic demand. However, the quarterly pattern of growth was primarily determined by the developments in the flows of net exports following the announcements of the tariffs. Due to frontloading effects, the first quarter saw a strong quarterly increase in net exports, of 2.6%. In the second quarter, the trend reversed as net exports decreased by 4.7% on a quarterly basis. The growth in the euro area economy accelerated strongly to 0.6% on a quarterly level at the beginning of the year and economic expansion continued into the second quarter, although at the much slower pace of 0.1% (Figure 1.1.1). If the volatility caused by considerable fluctuations in Irish data is excluded, economic growth in the rest of the euro area was more stable, standing at 0.3% and 0.2% in the first and the second quarter, respectively. 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. While the US-EU trade deal implies somewhat higher tariffs on European exports to the USA than before, it nevertheless contributed to the easing of uncertainty (Figure 1.1.2).

Figure 1.1.1 Quarterly growth rates of real GDP, contributions by components



Source: Eurostat.

Figure 1.1.2 Uncertainty indices

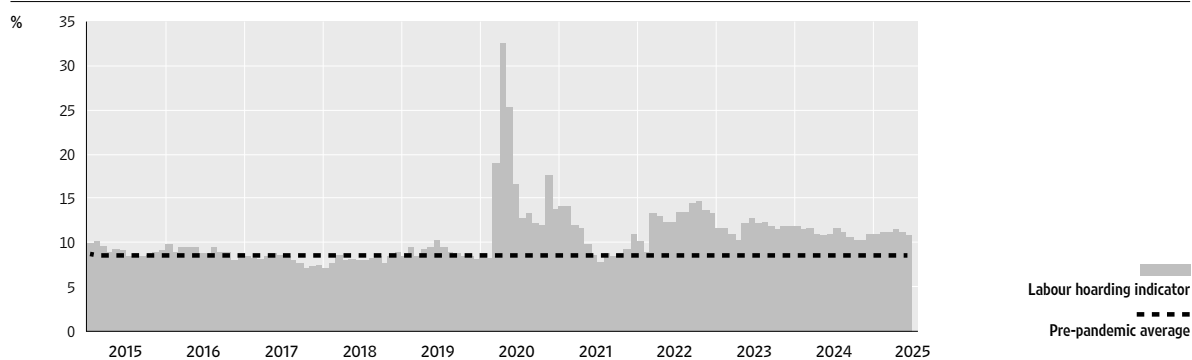


Sources: Bloomberg; Caldara and Iacoviello (2022); Goldman Sachs research.



The euro area labour market remained robust in the first half of the year, but with noticeable signs of further weakening of demand for labour. Unemployment remained at a historical low with the unemployment rate at 6.4% in the first two quarters, while employment growth slowed down slightly from 2024. At the same time, the number of firms citing labour shortage as the main impediment to business continued to decline, primarily in the services sector, which also exhibited a noticeable worsening of sentiment (Figure 1.1.4). Nominal wage growth remained above historical levels, so that the average compensation per employee in the first half of 2025 grew by 4.00% from the same period in 2024. However, this growth continued to moderate noticeably (from 4.5% in 2024 to 3.9% in the second quarter of 2025), and signs of further slowdown in wage growth are visible in the ECB wage tracker.

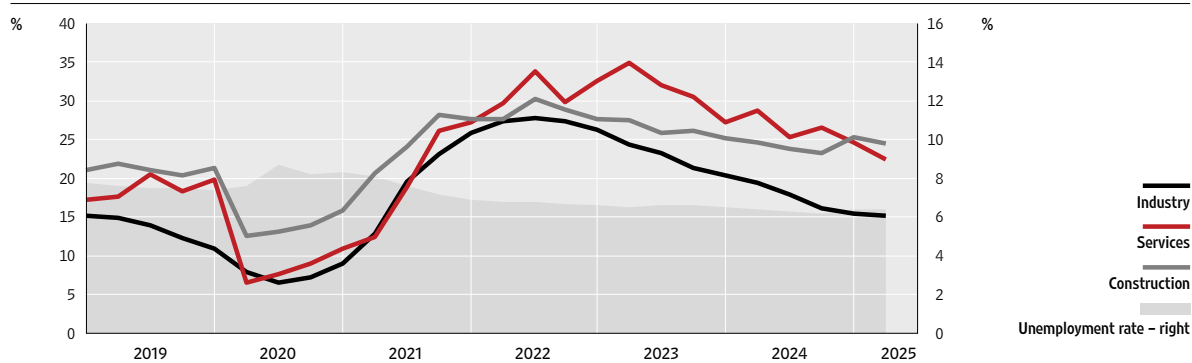
Figure 1.1.3 Labour hoarding indicator in the euro area



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

Source: European Commission.

Figure 1.1.4 Labour shortage and unemployment rate in the euro area



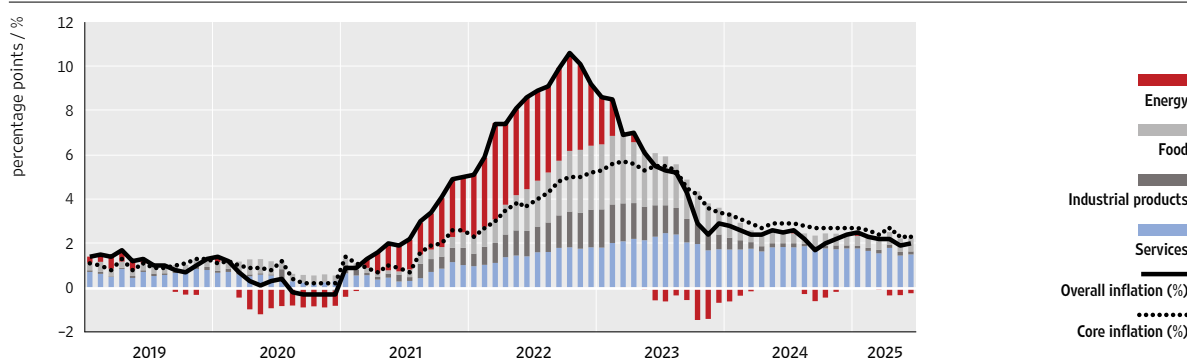
Note: Labour shortage is measured by a quarterly survey and indicates the percentage of firms reporting a labour shortage as the main obstacle to business activity.

Sources: European Commission and Eurostat.

In the first six months of 2025, euro area inflation slowed down. Inflation measured by the harmonised index of consumer prices (HICP) reached the target level of 2% in June after the 2.4% seen in December 2024 (Figure 1.1.5). The slowdown in overall inflation reflected the deceleration in the services inflation (from 4.0% to 3.3%) and the decline in the annual rate of change in energy prices (from 0.1% to -2.6%). In contrast, food price inflation increased from 2.6% in December to 3.1%, which is entirely the result of a higher contribution of prices of unprocessed food products. This acceleration of unprocessed food inflation partly reflects unfavourable base effects, i.e. the

gradual exclusion of uncommonly low monthly inflation rates seen in the same period in 2024 from the calculation of the annual inflation rate.

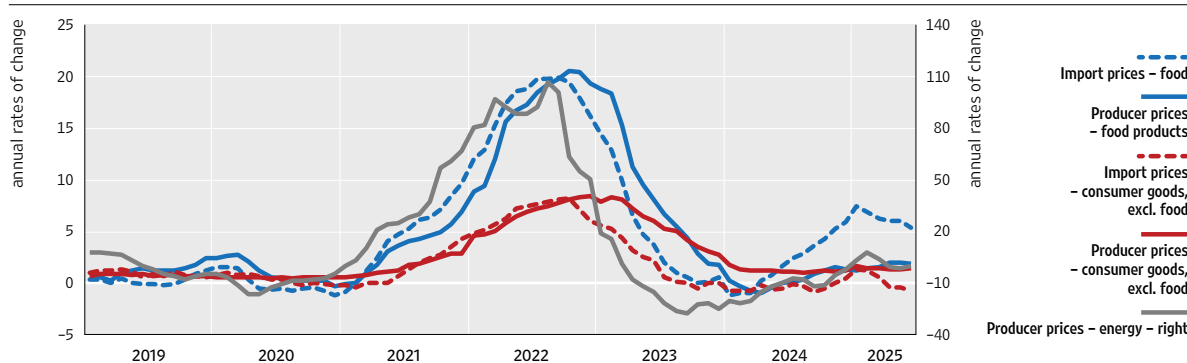
Figure 1.1.5 Euro area inflation indicators



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

Sources: Eurostat and CNB calculations.

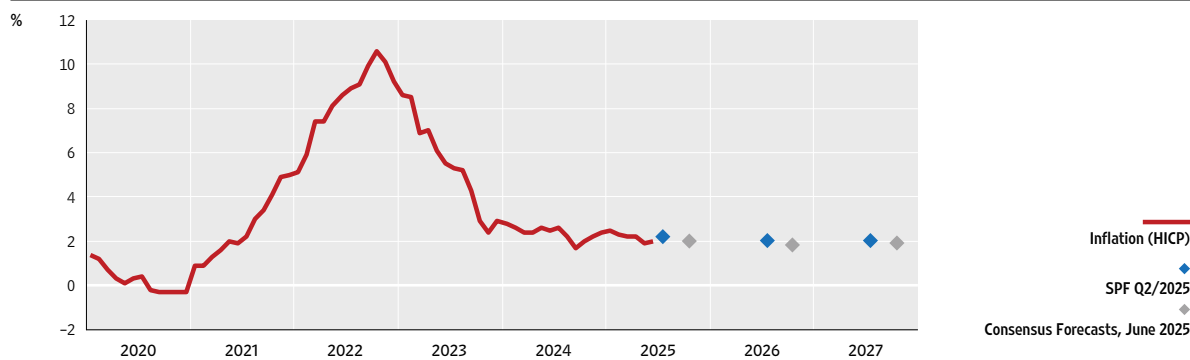
Figure 1.1.6 Indicators of price pressures along the euro area pricing chain



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

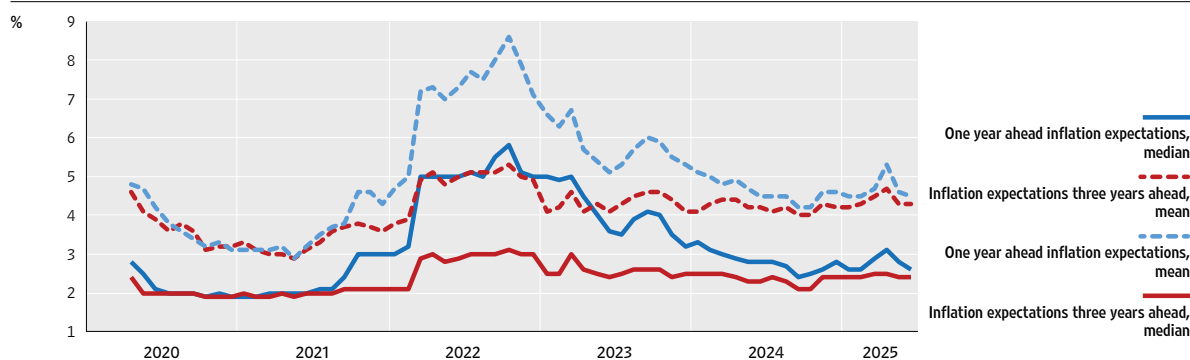
Source: Eurostat.

Euro area core inflation (energy and food prices excluded) slowed down from 2.7% in December 2024 to 2.3% under the influence of developments in services price inflation in the first six months of 2025. Services inflation slowed down in the first half of 2025 amid a gradual deceleration of wage growth, which eased inflationary pressures, particularly in labour-intensive service activities. A temporary increase in services inflation to 4.0% in April relative to the end of 2024 was linked to a significant acceleration of the inflation rate in the prices of travel-related services during the Easter period (passenger transport by air and package holidays). In June, services inflation stood at 3.3%. In contrast, the inflation of industrial goods was low and stable in the first half of 2025, hovering around its long-term pre-pandemic level of 0.6%. The low inflation of industrial goods is supported by mild inflationary pressures in the supply chain (Figure 1.1.6), reflected in declining import prices and low rates of growth of producer prices of consumer goods on the domestic market.

**Figure 1.1.7 Short-term and mid-term inflationary expectations of professional forecasters in the euro area**

Note: SPF Q2/2025 (Survey of Professional Forecasters) refers to the results of the ECB survey of professional forecasters conducted from 1 to 4 April 2025.

Sources: Survey of professional forecasters, ECB and Consensus Forecasts.

**Figure 1.1.8 Short-term and mid-term consumer inflationary expectations in the euro area**

Source: ECB Consumer Expectations Survey (CES) – June 2025, 29 July 2025

ECB survey results for the second quarter of 2025 suggest that professional forecasters expect euro area inflation to slow down to 2.2% in 2025 and 2.0% in 2026 and 2027 (Figure 1.1.7). Forecasters are of the opinion that the increase in US tariffs could have a moderate upward effect on euro area inflation in the short term, with pronounced risks related to the intensity of that effect arising from its dependence on the extent and intensity of possible EU countermeasures. In addition, the planned increase in defence spending could push inflation slightly upwards in the medium term. As for inflationary expectations of consumers, the ECB survey (Figure 1.1.8) shows that euro area short-term expectations (for a year in advance, median) stood at 2.6% in June, while medium-term expectations (for three years in advance, median) stood at 2.4%, with short-term expectations below and medium-term expectations at the same level as at the end of 2024.

## 1.2 Monetary policy and financial markets

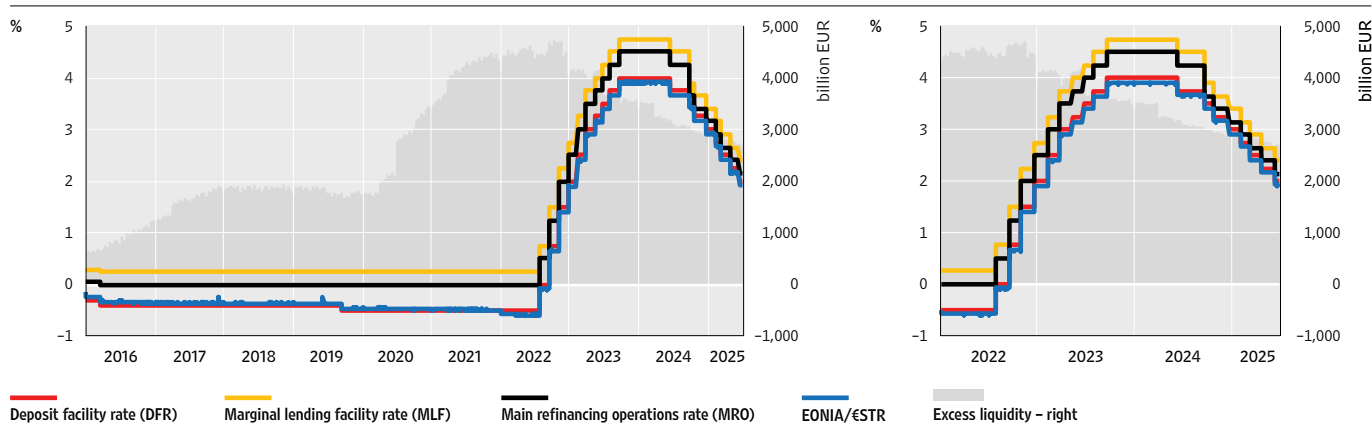
The ongoing decline in key interest rates continued amid mitigated inflationary pressures in the euro area. The Governing Council of the ECB lowered the deposit facility rate (DFR) of the central bank on eight occasions, by a total of 200 basis points<sup>1</sup>, after having kept key interest rates steady since September 2023, which is, amid the current high liquidity surplus, a good indicator of the

<sup>1</sup> A basis point is one hundredth of one percentage point.

ECB monetary policy. The decision to moderate the degree of monetary policy restriction followed the most rigorous cycle of tightening since the introduction of the euro, during which cycle key interest rates rose by 450 basis points from July 2022 to September 2023.

During the latest reduction of interest rates in June 2025, 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. Monetary policy decisions will continue to be based on a data-dependent and meeting-by-meeting approach, with the Governing Council not precommitting to a particular rate path. From mid-June 2025, the deposit facility rate (DFR) was 2.00%, the main refinancing operations (MRO) rate stood at 2.15% and the marginal lending facility (MLF) rate was 2.40%.

Slika 1.2.1. 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.

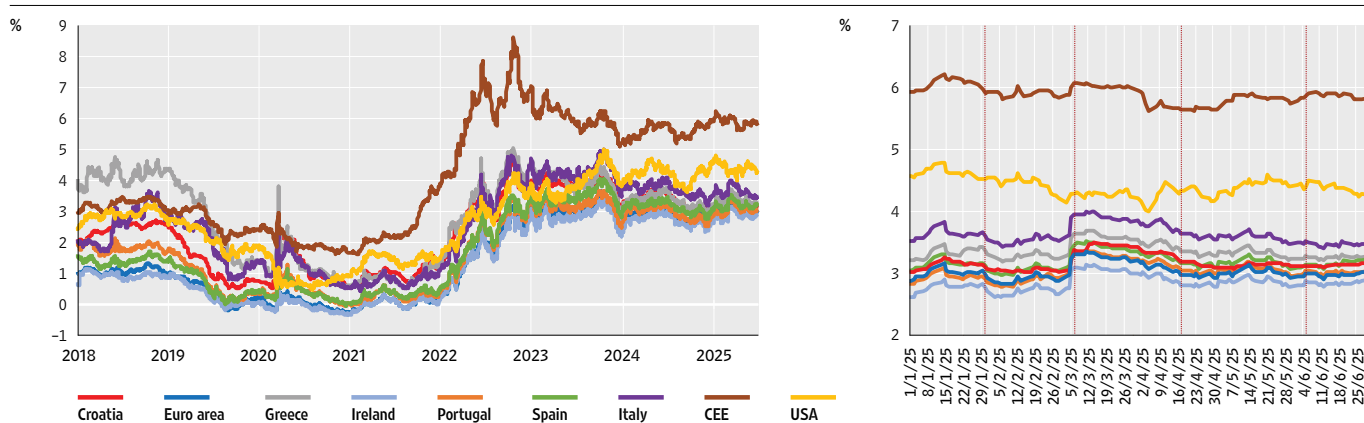
Money market interest rates, having been on a downward trajectory since the beginning of this year, fully reflected the multiple lowering of key ECB interest rates. After the ECB cut its key interest rate by 25 basis points in June for the fourth time in succession, the €STR, the benchmark money market interest rate, fell to 1.9% at which it stayed until the end of the month. At the end of last year the €STR reached 2.9%, indicating full transmission of the key ECB interest rate.

In the first half of 2025, bond prices of European countries were especially volatile in March and April. The announced increase in fiscal expenditures at the beginning of March spurred a strong growth in yields on bonds of euro area countries. However, already at the beginning of April the situation turned and European yields that had held steady for years started decreasing in reaction to the announcement of the US president that he would introduce reciprocal tariffs, higher than expected by market participants. The suspension of the implementation of the US reciprocal tariffs for 90 days and the commencement of bilateral negotiations, including the talks with China, which resulted in an agreement on a considerable lowering of tariffs relative to those initially planned, eased the tension on the markets so in May and June yields fluctuated around levels from the end of April, ending the first half of the year at levels similar to those at the end of the preceding year. The euro area GDP-weighted average of long-term government bond yields stood at 3.0% at the end of June as against the 2.9% at the end of last year, while the yield on Croatian

long-term bonds totalled 3.2% at the end of June, slightly down from the 3.0% at the end of last year (**Figure 1.2.2**).

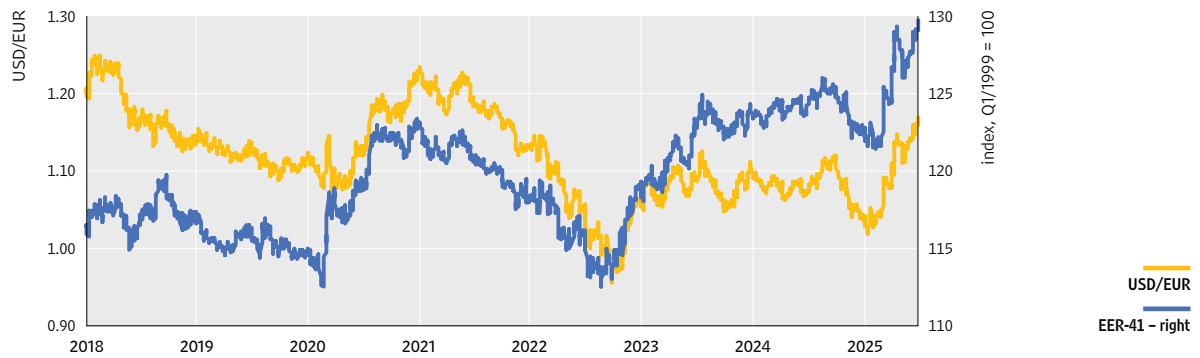
The exchange rate of the euro for the US dollar strongly appreciated in the first half of this year. The euro appreciated particularly strongly at the beginning of March following the announced increase in defence spending in Germany and, potentially, in other European countries since early in March the European Commission unveiled a plan to streamline budgetary rules and boost defence spending. The next strengthening of the euro followed immediately after the US president announced the introduction of reciprocal tariffs despite the growth of US yields. It is possible that this was, among other things, a result of investors demanding higher risk premiums due to the unpredictability of US policy and therefore turning more towards European assets. In June, additional appreciation of the euro exchange rate against the US dollar, was, among other things, spurred by market expectations of a reduction in key Fed interest rates sharper than previously expected. The exchange rate of the euro for the US dollar stood at USD/EUR 1.17 at end-June, depreciating by almost 13% from the end of last year, which was at the same time its highest level in almost the last four years. Observed for a long period of time, however, this is a level close to the long-term average. Over the same period, the nominal effective exchange rate of the euro against a basket of currencies of the euro area's main trading partners appreciated by around 6% (**Figure 1.2.3**). In addition to appreciating against the US dollar, the euro appreciated against most other currencies of euro area major trading partners, whereby the strengthening of the nominal effective exchange rate was mitigated primarily by the weakening of the euro against the Hungarian forint and the Swedish krona and the Czech koruna.

**Slika 1.2.2. Yields on long-term government bonds with the remaining maturity of approximately 10 years**



Notes: Yields for the euro area have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the period of time shown.

Sources: Bloomberg, Eurostat and CNB calculations.

**Figure 1.2.3 USD/EUR exchange rate and nominal effective exchange rate of the euro**

Notes: EER-41 is the nominal effective exchange rate index of the euro against 41 major trading partners of the euro area. An exchange rate increase indicates euro appreciation.

Source: ECB.

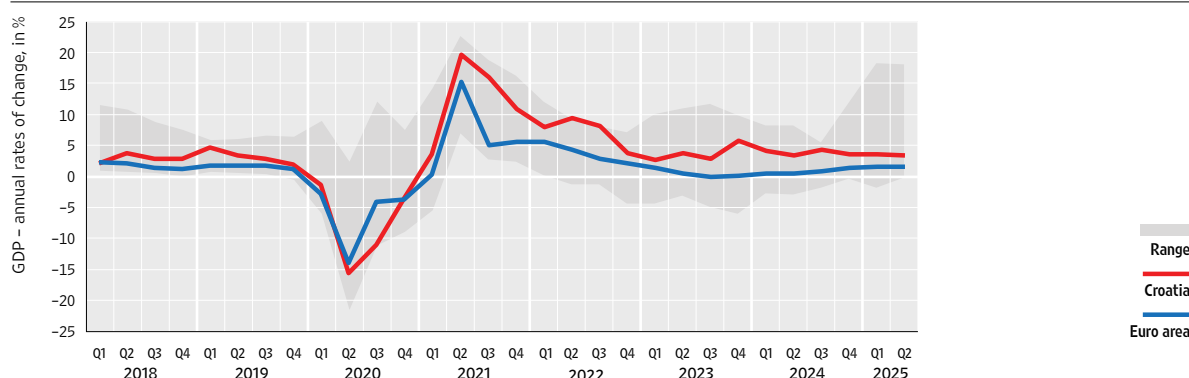
## 2 Croatian economy

### 2.1 Real developments

Although 2024 registered a relatively strong growth of real GDP at an annual level (3.8%), in the first half of 2025 growth slowed down to an average of 3.5%. Despite the slowdown, the growth of the Croatian economy continues to be one of the strongest in the euro area and much more rapid than the average growth in both the euro area and the European union, where economic activity picked up in the first half of 2025 due to accelerated exports amid announcements of the impending US tariffs (Figure 2.1.1).

In the first six months of 2025, domestic demand contributed the most to Croatia's GDP growth. This is a continuation of developments that started last year. However, at the beginning of the year this growth slowed down to 0.4% at the quarterly level, that is 3.3%, relative to the same period last year. The slowdown in growth might be attributed to temporary factors associated with the boycott of retail chains, which resulted in the decrease of personal consumption from the previous quarter, despite the continuation of the strong growth of the real disposable income of households. This is also corroborated by the positive contribution of inventories to the growth of economic activity, with this component including statistical discrepancies which might also reflect the consequences of the mentioned temporary factors. Nevertheless, in the second quarter, the growth in economic activity noticeably intensified, reaching 1.1% on the quarterly and 3.6% on an annual basis. Such developments are mostly the result of the recovery in personal consumption fuelled by a further relatively strong growth in the real disposable income of households and gross fixed capital formation. Personal consumption thus grew in the second quarter, by 2.4% on a quarterly and 4.1% on an annual basis. At the same time, the quarterly growth in gross fixed capital formation went up considerably from the 2024 average. By contrast, after having grown sharply at the beginning of the year, the exports of goods and services went down in the second quarter, but due to a stronger decline in imports the contribution of net imports to growth was positive.

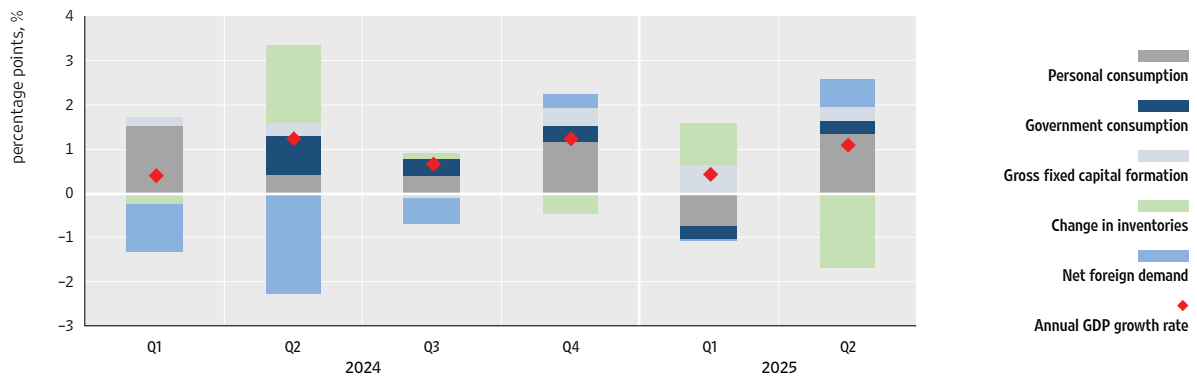
Figure 2.1.1 Trends in economic activity in Croatia and the euro area



Note: The figure shows the range of values of real GDP growth of individual euro area member states.

Source: Eurostat.

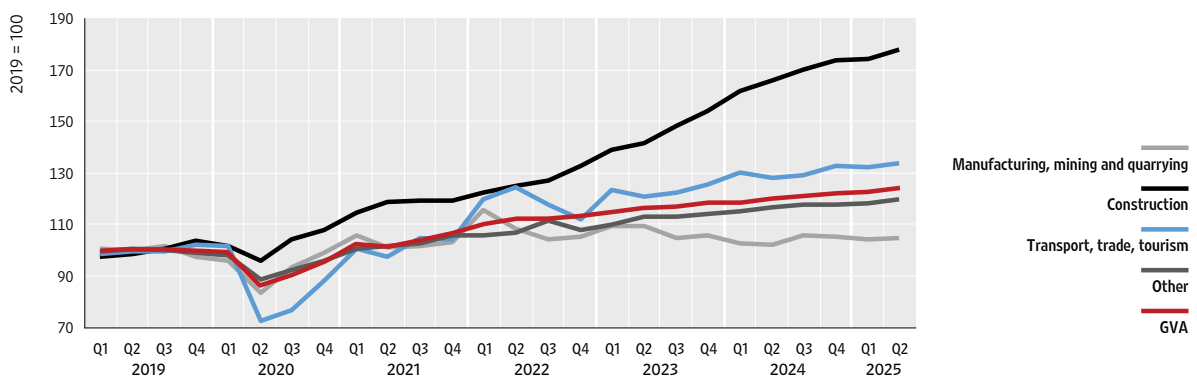
Figure 2.1.2 Contributions to the change in real economic activity



Source: Eurostat.

If developments in gross value added are broken down according to main activities, growth in the first half of the year was supported by strong growth in the construction sector, with a visible strengthening in the growth in manufacturing. Particularly noticeable was the continued growth in construction, which in the first six months of 2025 was 7% higher than in the same period of the previous year, with construction activity in mid-2025 being cumulatively more than 70% higher than in the pre-pandemic period. Tourism-related service activities, and transport and trade grew noticeably as well, although it seems that these developments are mainly a consequence of the growth in domestic demand, given the weaker exports of services in the first half of the year relative to last year, which also went down. In addition, there is also a noticeable increase in the growth of manufacturing in the first half of the year, which was, to a degree, a result of the increased exports of goods amid announcements of the introduction of tariffs, given the strong growth in the exports of goods on annual basis in the first half of 2025, in particular in the first three months. Despite this, gross value added in manufacturing, mining and quarrying continues to hold only slightly above the pre-pandemic level, indicating certain structural weaknesses in industry, as in the rest of the euro area.

Figure 2.1.3 Gross value added in Croatia by activities



Note: "Tourism" refers to accommodation and hospitality activities.

Source: CBS.



**BOX 1****EU defence spending and potential macroeconomic impacts of increased defence spending**

In the light of heightened geopolitical tensions and aiming to reduce dependence on defence capacities, the European Commission proposed a series of measures to spur investments in the defence capacities of member states. The proposed measures are primarily aimed at addressing the shortfall in defence capacities, supporting joint procurement simplifying regulations and strengthening the defence industry, innovations and partnerships. In order to enable higher national defence investments, member states will be granted the option to activate the fiscal escape clause, amounting to 1.5% of GDP. The empirical literature does not arrive at any clear conclusions on the macroeconomic impacts of increased defence spending. The impacts of higher spending on economic activities are highly uncertain and depend on a series of factors, including the volume and structure of spending, the degree of import dependence, how the spending is to be financed and the utilisation of production capacities. Higher investments in defence may have favourable long-term impacts on economic growth through spillovers to other sectors and growth of total factor productivity.

In mid-March this year, the European Commission presented the White Paper for European Defence – Readiness 2030<sup>2</sup> outlining the new approach to defence and identifying key needs for investments and the ReArm Europe plan, which proposes financial instruments for member states of the European Union to boost investments in defence capabilities. These initiatives aim to ensure substantial additional defence financing at by 2030, primarily from national sources but partly also from financing at EU level. The EUR 650bn of additional defence spending are planned to be achieved by incentivising higher national spending, and the additional EUR 150bn by lending to member states' joint procurement in the defence sector, through the new Security Action for Europe (SAFE). In order to enable countries with budget deficits and debt above reference levels to increase their defence investment, it will be provided for the activation of derogation provisions from the SGP fiscal rules, with each member state being able to increase defence spending by up to 1.5% of GDP over the four-year period of the activation of the clause. The derogation from fiscal rules would be monitored in the statistical "defence" category under the Classification of the Functions of Government (COFOG), registered in compliance with ESA 2010 standards. Funds under the SAFE instrument are planned to be ensured by the issue of EU bonds with guarantees from the EU budget. In addition, in the current multiannual EU budget period (2021–2027), some additional support is available to boost research and development in the defence industry through the European Defence Fund. The estimates of some analysts about the necessary investments in EU defence are in sync with recommendations of the European Commission. According to the Burilkov and Wolf report, the possible reduction in military support to Europe from the US would require Europe to mobilise 300,000 soldiers and would necessitate at least EUR 250bn

2 White Paper for European Defence – Readiness 2030, European Commission (2025). Available at: [https://defence-industry-space.ec.europa.eu/eu-defence-industry/introducing-white-paper-european-defence-and-rearm-europe-plan-readiness-2030\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/introducing-white-paper-european-defence-and-rearm-europe-plan-readiness-2030_en)

additional investments in defence per year to make up for lost capability, which would almost double defence spending from 2% to 3.5% of GDP.

Although NATO's expenditure threshold of 2% of GDP is usually used as a reference level in international comparisons there are different methods of measuring defence spending. When it comes to the current level of national defence spending, it needs to be stressed first that there is no single approach to its measurement. The NATO definition of defence spending casts a somewhat wider net than the COFOG definition used by Eurostat, partly because it includes pensions for retired military and civil personnel of military branches. In addition, under certain conditions, NATO's definition may include operations of other forces, such as forces in the realm of ministries of the interior, national police forces or coast guards, while it excludes spending on civil defence, which is included in the calculation under the COFOG classification. Additional differences arise from the different time frame for recording expenses, especially when military equipment is involved, since NATO reports do not apply the national accounts rules about time of recording expenses, that is, NATO data are based on the "monetary principle", while COFOG data are recorded according to the accrual principle<sup>3</sup>. Further analysis is based on NATO data because they are more detailed in terms of the structure of expenditures and more up to date (NATO data are available for 2024, while the most recent Eurostat data available are for 2023) and more common in international comparisons which include non-EU NATO members.

The defence expenditures of EU member states have risen considerably in the past years, measured as a share of GDP. In 2024, the total defence expenditure of EU member states, according to NATO indicators<sup>4,5</sup>, was on average slightly above 2% of GDP, with differences among countries reaching almost three percentage points of GDP (Figure 1), given that defence funding falls within the competence of member states themselves. Defence spending in Poland exceeded 4% of GDP, while the lowest defence spending was recorded in Spain and Slovenia. Croatia spent slightly below the EU average in 2024, namely 1.8% of GDP. The increase in defence spending in EU members, particularly noticeable in the last two years is more geographically concentrated on countries bordering or close to the Russian Federation (Figure 2). The increase in spending was predominantly carried out through investments in equipment (Figure 3), which together with spending on personnel, on average, accounts for slightly over two thirds of total defence spending (Figure 4). As a rule, Croatia invests slightly below the EU average in all major categories (Figure 5). It increased its investments in equipment and infrastructure, measured as a share in GDP, from the pre-pandemic average, while investments in personnel visibly decreased (Figure 6). However, it seems that such developments are a consequence of the fall in expenses on military pensions since, according to Eurostat data, Croatia in 2023 registered a very mild decline in expenses on employee compensations within its defence spending, measured as a share in GDP, while 2024 data, once they become available, could reflect a substantial increase in spending, considering

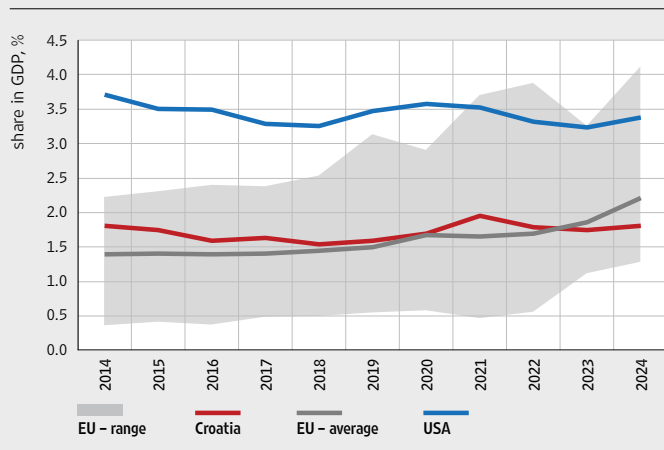
3 NATO data are based on a monetary principle, which takes into account the time period when the monetary transaction of a business activity was carried out (e.g. the date of the paid invoice for the military equipment), while COFOG data are based on an accrual principle, which means that the occurrence of the business activity (e.g. the date of delivery of military equipment) is relevant.

4 Data for non-NATO EU member states (Austria, Cyprus, Ireland, and Malta).

5 Eurostat data thus indicate EU-wide defence spending of 1.26% of GDP in 2022 or 0.4% of GDP less than NATO data for the same year.

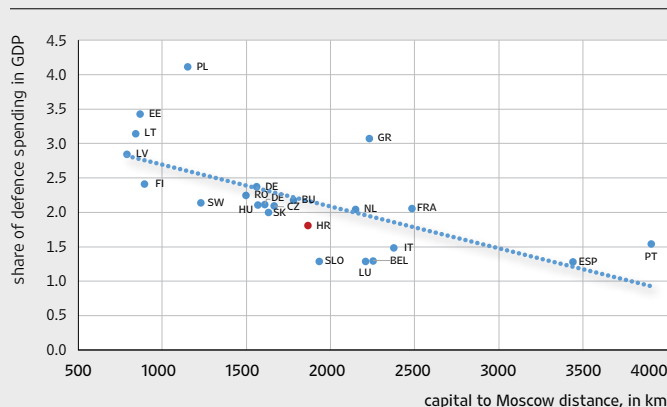
the strong growth of wages in the public sector. It is worth mentioning that the Government estimated total defence spending in 2024 at 1.5% of GDP, slightly below NATO data, while the state budget for 2025 envisages some 1.6% of GDP<sup>6</sup>.

Figure 1 Defence spending, as % of GDP



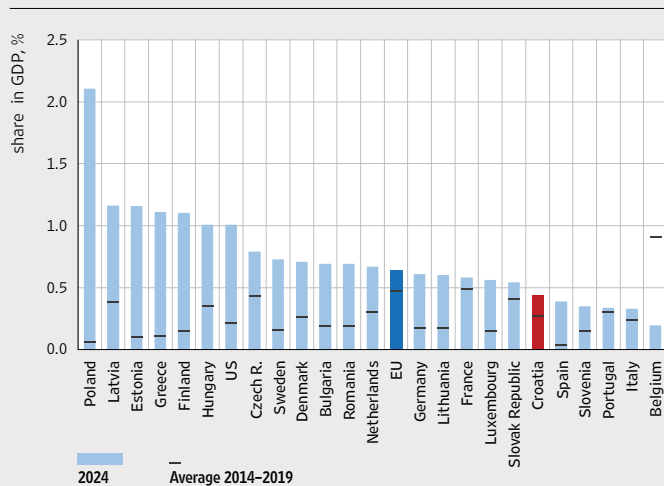
Sources: Eurostat, SIPRI and NATO.

Figure 2 Share of other defence spending in 2024, as % of GDP



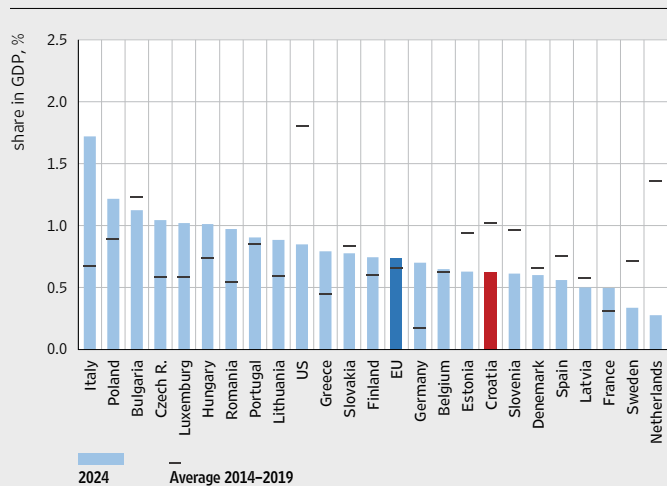
Source: NATO.

Figure 3 Share of spending on equipment, as % of GDP



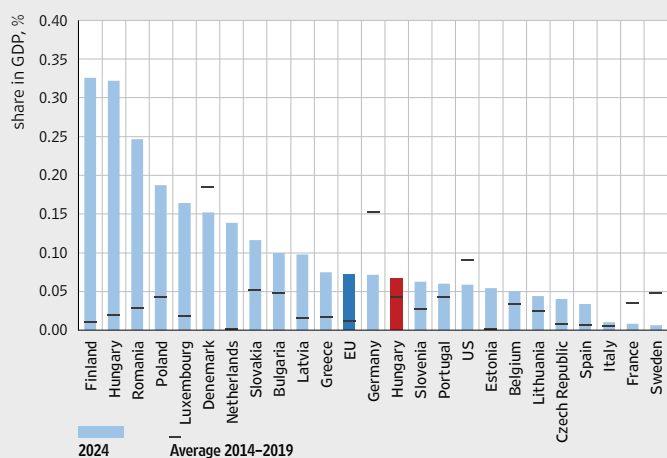
Sources: NATO and the European Commission.

Figure 4 Share of personnel expenses, as % of GDP



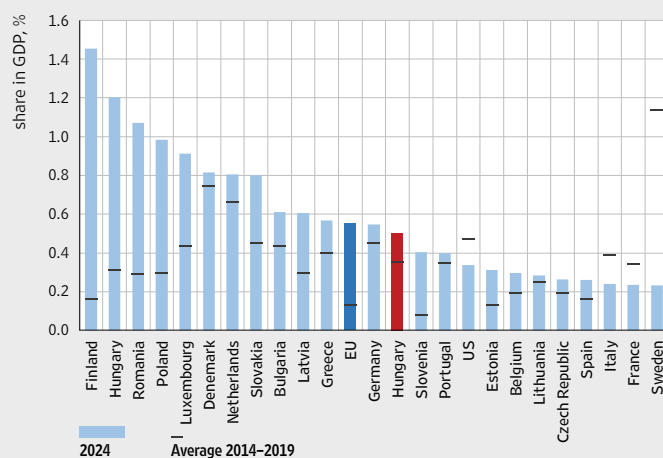
Sources: NATO and the European Commission.

Figure 5 Share of investments in infrastructure, as % of GDP



Sources: NATO and the European Commission.

Figure 6 Share of other defence spending, as % of GDP



Sources: NATO and the European Commission.

The macroeconomic effects of increased defence spending will depend on a series of factors. In addition to the amount and time frame for the increase in expenditures the structure of the spending also plays a key role, particularly the share of spending on imported products. The manner in which they are financed also plays a role, for example, whether through borrowing or by the adjustment of taxes and other expenditures, as well as the utilisation of production capacities that determine to what extent increased demand will have an inflationary or crowding-in effect on the economy. The empirical literature does not provide clear conclusions on the potential multiplicative effects of increased defence spending on the economy. The range of estimated multipliers is very wide, starting from a very low 0.1% to above 1%. Stamegna et al. (2024)<sup>7</sup> thus point to a significant variation of multipliers among EU countries although the research was confined to the period from 2013 to 2023 (Figure 9). The authors presented relatively high multiplicative effects on aggregate demand for Germany and Spain, with values of 1.23 and 1.28, respectively, while for Italy they estimated a lower multiplier of 0.74, explaining it by high import dependence. The Kiel<sup>8</sup> Institute for the World Economy estimates relatively high multipliers at EU level, with estimated impacts ranging from 0.6 to 1.0, depending on assumptions related to the way expenditure is financed and monetary policy assumptions. On the other hand, Alptekin and Levine (2012)<sup>9</sup> conducted a meta-analysis of a larger number of papers based on the periods during which they were published and concluded that multipliers can also be negative. Namely, the redirection of resources into the defence sector may not only reduce the productivity of other sectors but also result in tax increases, which can offset the impact of the growth in aggregate demand and positive impacts arising from technological innovation and infrastructure development.

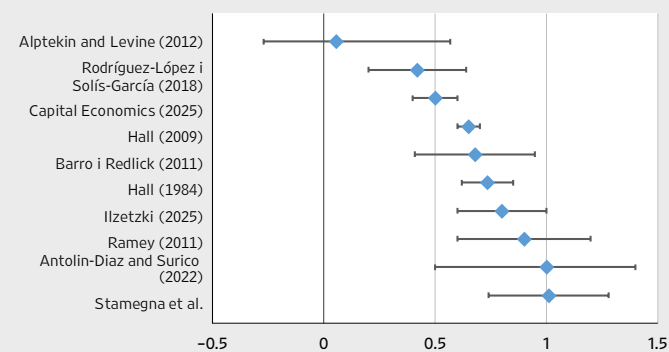
7 Stamegna, M., Bonaiuti, C., Maranzano, P., and M. Pianta (2024): The economic impact of arms spending in Germany, Italy, and Spain. *Peace Economics, Peace Science and Public Policy*, 30(4), 393–422.

8 Guns and Growth: The Economic Consequences of Surging Defense Spending, The Kiel Institute for the World Economy. Available at: <https://www.ifw-kiel.de/publications/news/guns-and-growth-the-economic-consequences-of-surging-defense-spending/> Available at: <https://www.ifw-kiel.de/publications/news/guns-and-growth-the-economic-consequences-of-surging-defense-spending/>

9 Alptekin, A., and P. Levine (2012): Military expenditure and economic growth: A meta-analysis, *European Journal of Political Economy*, 28(4), 636–650.

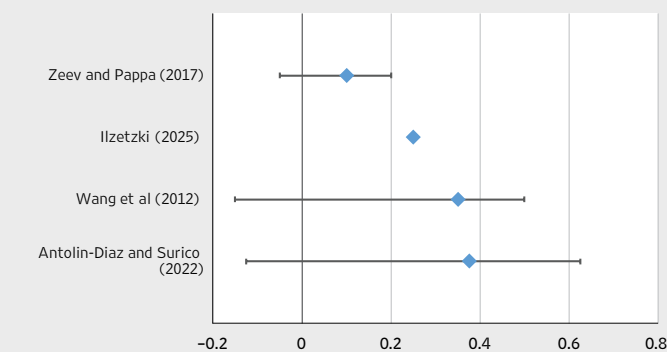
As for potential impacts on the total factor productivity growth, estimates were visibly lower (Figure 10).

Figure 7 Multiplicative effects on GDP



Source: Reference list.<sup>10</sup>

Figure 8 Multiplicative effects on total factor productivity

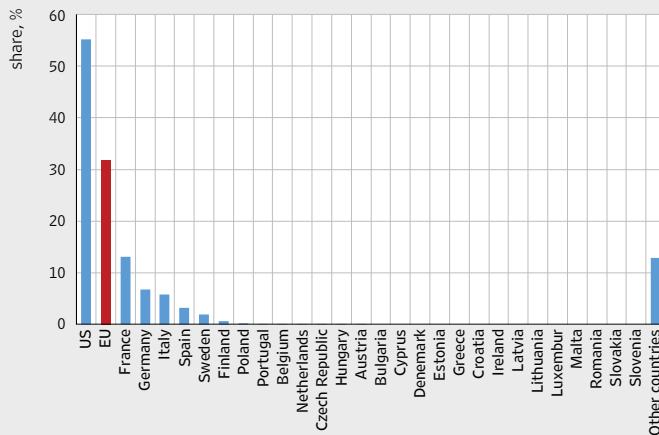


Source: Reference list.<sup>11</sup>

One of key objectives of the European Commission is to decrease the historically very high share of imported equipment in total procurements. In the past, EU member states relied heavily on imports from third countries in the procurement of their military equipment. Moreover, following Russian aggression against Ukraine, the share of imports of military equipment from third countries rose to 78% at EU level<sup>12</sup> with available data indicating the dominance of imports from the US (Figure 7). The European Defence Industrial Strategy (EDIS) proposes that by 2030 member states satisfy at least 50% of their defence needs within the EU, with a target of 60% by 2035.

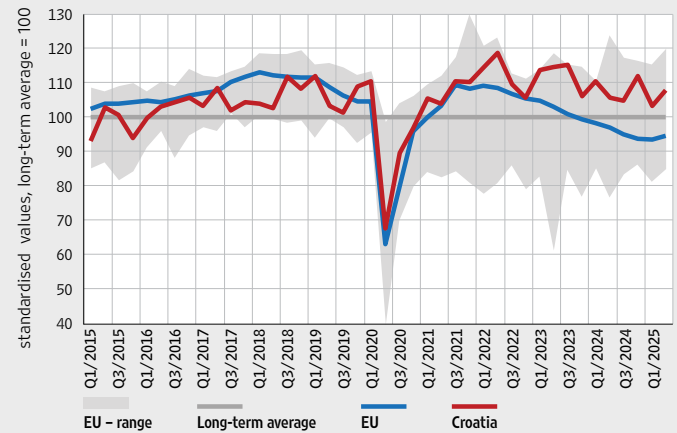
- 10 Barro, R. J. and C. J. Redlick (2011): *Macroeconomic effects from government purchases and taxes*; *The Quarterly Journal of Economics*, 126(1), 51–102.  
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Antolin-Díaz, J., and P. Surico (2022): *The long-run effects of government spending*. Centre for Economic Policy Research.  
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Ilzetzki, E. (2025): *Waffen und Wachstum: Die wirtschaftlichen Folgen steigender Militärausgaben*, Kiel Report No. 2, The Kiel Institute for the World Economy, February 2025.  
Stamegna, M., Bonaiuti, C., Maranzano, P., and M. Pianta (2024): *The economic impact of arms spending in Germany, Italy, and Spain*. *Peace Economics, Peace Science and Public Policy*, 30(4), 393–422.  
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Europe Weekly: *How big a boost from defence?*, *Capital Economics*, Available at: <https://www.capitaleconomics.com/publications/europe-economics-weekly/europe-weekly-how-big-boost-defence>
- 11 Ben Zeev, N., and E. Pappa (2017): *Chronicle of a war foretold: the macroeconomic effects of anticipated defence spending shocks*, *The Quarterly Journal*, 127(6), 1568–1597.  
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Wang, T. P., Shyu, S. H. P., and H. C. Chou (2012): *The impact of defense expenditure on economic productivity in OECD countries*. *Economic Modelling*, 29(6), 2104–2114.
- 12 European defence industrial strategy (2024)

**Figure 9 The share of imports of military equipment by country in total EU imports of military equipment, average 2021–2024**



Notes: EU refers to total import of military equipment by member states from other EU countries expressed as a share in total imports of EU member states. According to available data, SIPRI data do not include trade in all weapons so amounts by country may be underestimated.  
Source: SIPRI.

**Figure 10 Current level of industrial capacity utilisation**



Source: European Commission.

When military spending is being financed, the experience of individual countries shows that apart from borrowing, countries relied on increasing taxes and reducing other expenditures, thus mitigating the macroeconomic effects. Johannes Marzian and Christoph Trebesch from the Kiel Institute for the World Economy in Kiel<sup>13</sup> studied how military buildups have been financed over the last 150 years and concluded that the countries under review (Germany, United Kingdom, US, South Korea) usually relied on the combination of deficit financing through debt and increased revenue from taxes. However, as expenditures grew, debt financing increased proportionally.

As for capacity utilisation in the EU, it is currently below the historical average in industry, thus suggesting the possibility of production capacities being repurposed for the military industry without creating additional inflationary pressures, with considerable variations across countries. The current capacity utilisation is also one of the key factors determining the influence of additional investments in defence on economic activity and inflation. In cases of insufficient capacities these investments may lead to inflationary pressures and result in a tighter monetary policy, pushing private consumption out. According to the data of the European Commission, the capacity utilisation in the industry across EU went below the historic average in 2023 and continued decreasing until the end of 2024 when it edged up. Considerable differences are visible among member states (Figure 8), with data for Croatia indicating capacity utilisation below long-term levels. In addition, the redirection of remaining capacities requires a certain time and the labour shortage in the construction industry might constitute a considerable hurdle for the construction of military infrastructure. In general, tight labour market may intensify inflationary pressures via the cost effects, which is in line with the theoretical framework for a nonlinear Phillips curve, under which the inflationary response to the increased fiscal spending is more exacerbated when the economy is close to full employment<sup>14</sup>. An important factor that could contribute to the

<sup>13</sup> Marzian, J., and C. Trebesch: How to Finance Europe's Military Buildup? Lessons from History, Kiel Policy Brief, 184.

<sup>14</sup> Ilzetzki, E. (2025): *Waffen und Wachstum: Die wirtschaftlichen Folgen steigender Militärausgaben*, Kiel Report No. 2, The Kiel Institute for the World Economy, February 2025.

strengthening of inflationary pressures in the circumstances of increasing defence spending is related to the fragmentation of supply chains and geopolitical tensions, which affect the supply of key raw materials and semi-finished goods necessary for the military industry (MMF, 2022). If the rise of military spending leads to increased demand for strategic resources, this may spur a rise in energy prices and prices of other raw materials (primarily metals), thus additionally strengthening<sup>15</sup>.

Defence spending might also have long-term effects on economic growth. R&D might spill over from the defence industry to the rest of the economy and countries importing defence products from technologically more advanced countries may also improve their technological knowhow. On the other hand, there is the risk of the increase in R&D related to defence subduing private R&D investment, especially if there is limited and non-elastic supply of qualified workers in the area. In this context, the increase in domestic operating capacities in the defence sector and expansion of the possibility of equipment harmonisation and R&D investments should in the medium term lower dependence on imports and spur cross-country spillovers among member states, leading to higher fiscal multiplier by the end of the decade.

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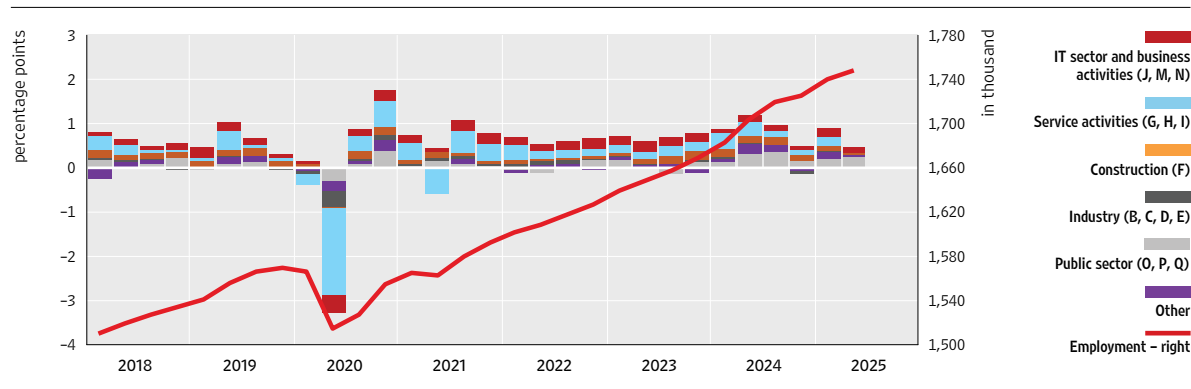
15 MMF (2022), Chapter 3. Geopolitics and Financial Fragmentation: Implications for Macroeconomic stability, Global Financial Stability Report, April.



## 2.2 Labour market

Employment growth continued into the first half of 2025, albeit at a slower pace. According to administrative data, at the beginning of the year, the average quarterly rate of growth picked up from the end of 2024. However, this was linked to the carry-over effect resulting from the sharp increase in the number of employed persons in December 2024 ahead of the termination of fiscal relief granted for the employment of young people following a temporary decline in employment in November.<sup>16</sup> In the second quarter, employment growth moderated noticeably, with the slow-down broadly based across main activities, the only exception being the developments seen in the public sector. In the first six months of 2025, employment growth was mainly concentrated in public administration, education, health and social work activities (activities O, P and Q), while in most other activities, growth moderated (most notably in construction, trade, transportation and accommodation and food services), with the exception of the IT and business services sector (Figure 2.2.1). Such developments might be due to the stricter employment standards for foreign workers in the March 2025 amendments to the Foreigners Act, which could have slowed down employment due to adjustment to the new legislative framework on the part of employers. In the first six months of 2025, an average of 35 thousand pensioners worked half time, accounting for 2.0% of total employment. This figure could grow further following the legislative changes announced.<sup>17</sup>

Figure 2.2.1 Employment by NCA, seasonally adjusted data, contributions to the quarterly rate of change



Source: CPII (seasonally adjusted by the CNB).

According to the Labour Force Survey, in the first half of 2025 the number of employed persons increased only slightly (0.4% versus 4.9% in the first half of 2024) from the same period in 2024, with moderate oscillations over the past year. Despite methodological differences, discrepancies between the Labour Force Survey rate and the registered rate may occur because foreign workers are only partly covered by the survey. According to survey data, the employment rate (ages 15 – 74) in the first two quarters of 2025 stood at 51.3%, which is the same as in the first half of 2024

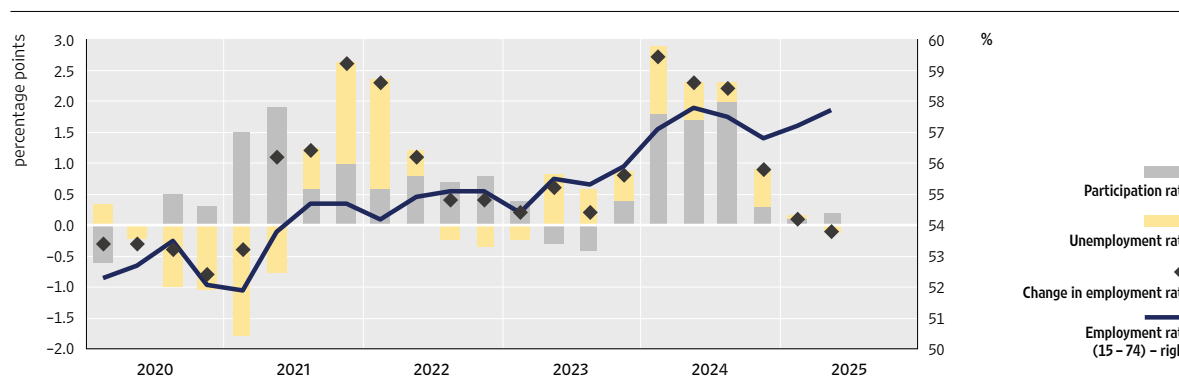
<sup>16</sup> As of January 2025, the relief exempting employers from the payment of wage contributions when employing young people (up to the age of 29) full time was abolished.

<sup>17</sup> The amendments to the Pension Insurance Act adopted in July 2025 will, as of January 2026, enable pensioners to work full time while retaining the right to receive 50% of their pension.



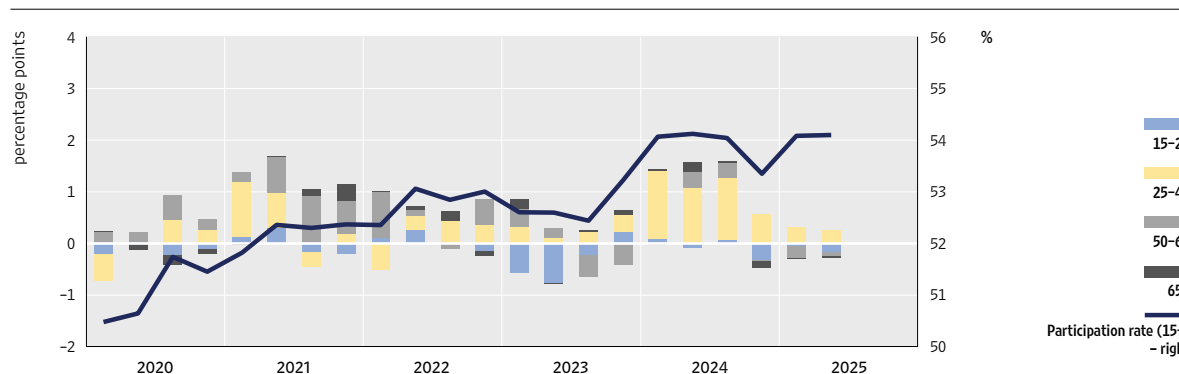
(Figure 2.2.2). At the same time, the participation rate (15+) remained at 54.1%, the same level as in 2024, reflecting the increased participation in the segment of middle working-age population (ages 25 – 49), while other age groups contributed negatively to the total labour force participation rate (Figure 2.2.3).

Figure 2.2.2 Contributions to the annual change in employment rate (ages 15 to 74)



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

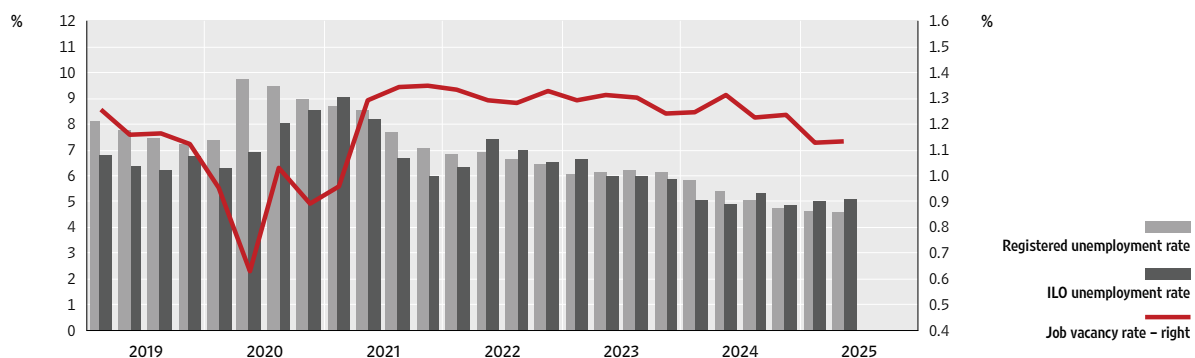
Figure 2.2.3 Participation rate (15+) and contributions to change by age groups



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

**The fall in unemployment also slowed down amid weakening demand for labour.** The weakening in the demand for labour in the first half of 2025 is noticeable in the drop in job advertisements (Figure 2.2.4). In the first three months of 2025, unemployment was down by 2.0% from the fourth quarter of 2024, when a drop of 6.2% was recorded, and similar dynamics continued in the second quarter as the unemployment rate dropped to 4.5% in June from 4.7% at the end of 2024. The end of June saw 81 thousand unemployed persons (according to seasonally adjusted data), or 17.5% fewer than in the same month in 2024. According to the latest available data for the second quarter of 2025, the internationally comparable ILO unemployment rate stood at 5.1%, having remained almost unchanged from 2024.

Figure 2.2.4 Unemployment and job vacancy rates, seasonally adjusted data



Note: The job vacancy rate is calculated as the share of total posts that are vacant in the total demand for labour (the sum of the number of persons insured with the CPII and vacant posts).

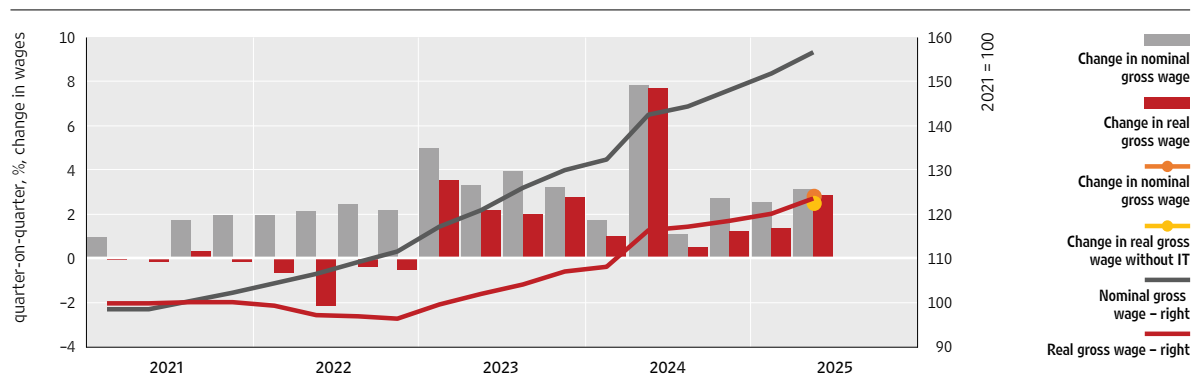
Sources: CBS, CES, Eurostat and CNB calculations (seasonally adjusted by the CNB).

In the first quarter of 2025, wages continued to grow relatively strongly, with the growth being particularly pronounced in the second quarter, partly owing to one-off payments. The average nominal gross wage continued to increase steadily at high rates in early 2025. Specifically, the average nominal gross wage grew by 2.6% in the first quarter of 2025 relative to the fourth quarter of 2024 (Figure 2.2.5). The quarterly growth in wages picked up in the public sector (from 0.7% to 1.6%) due to the increase in the wage-calculation base for civil servants and government employees of 3% for wages disbursed in March. The growth in wages in the rest of the economy also remained strong and broadly based across activities despite a slight slowdown (2.7% in the first quarter of 2025 relative to 3.3% in the last quarter of 2024). In the second quarter of 2025 the growth in the average nominal gross wage accelerated noticeably due to a sharp increase in wages in the rest of the economy, partly owing to one-off payments in the broadcasting sector.<sup>18</sup> The average nominal gross wage in the overall economy in the second quarter of 2025 was 3.2% higher than in the first quarter of 2025, while real wages also increased, by 2.9% (1.3% in the first quarter). On the other hand, the annual growth rate in the average nominal gross wage slowed down considerably in the second quarter of 2025 (from 14.7% in the first quarter to 9.7% in the second quarter) due to the waning of the base effect of the strong growth in wages in the public sector after the implementation of the wage system reform in April 2024, while in the rest of the economy, the annual increase in wages decelerated only slightly from the first quarter.

<sup>18</sup> In early 2025, Croatian Radiotelevision (HRT) was consolidated in line with the Government's Plan for the Consolidation of Work and Business Operations of HRT, and on 31 March, a significant proportion of employees accepted the agreed upon severance packages. See: <https://www.jutarnji.hr/vijesti/hrvatska/egzodus-na-prisavlju-hrt-napustilo-333-zaposlenika-od-toga-cak-123-iz-programa-15569348>

**Figure 2.2.5 Average nominal and real wage**

seasonally adjusted data



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

## 2.3 Price developments

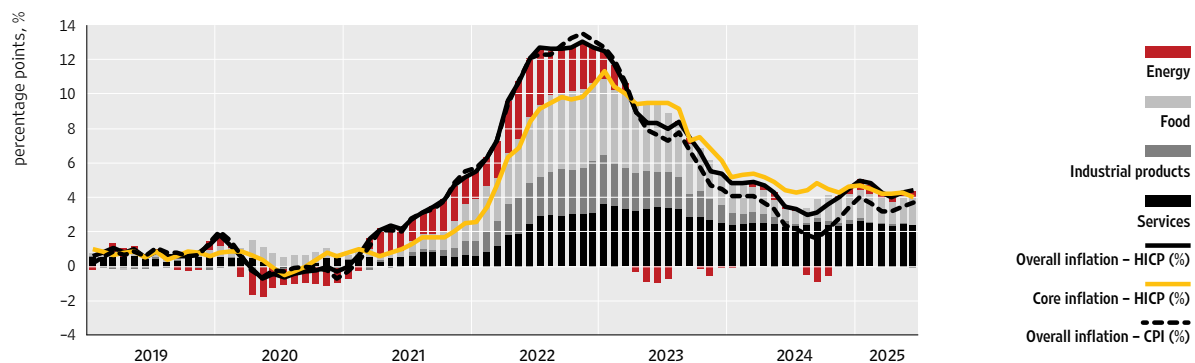
Core inflation (energy and food prices excluded) shrank in the first half of 2025, while overall inflation remained elevated under the influence of upward pressures on the prices of food and the rise in the administered prices of gas, electricity and heat energy. Consequently, in the first six months of 2025, overall inflation was higher on average than that recorded in the preceding year due to the prices of energy and food. Inflation also remained elevated as a result of the withdrawal of fiscal measures, i.e. the rise in the administered prices of gas, electricity and heat, and upward pressures on the prices of food due to the spillover of higher prices of certain food raw materials amid high wage growth rates, which raised expenses and supported strong demand. In contrast, core inflation in the first half of 2025 was lower, on average, than in the first half of 2024 and the average of 2024 thanks to the slowdown in the inflation of prices of industrial goods amid reduced imported inflation pressures, low rates of growth in the producer prices of consumer goods and exchange rate appreciation.

In June 2025, overall inflation measured by the harmonised indices of consumer prices (HICP) stood at 4.4%, while inflation measured by the national consumer price index (CPI) stood at 3.7%, a level below that recorded in early 2025 and close to levels seen in 2024. After increasing from 3.0% to 5.0% in the period between August 2024 and January 2025 (Figure 2.3.1), overall inflation measured by the HICP<sup>19</sup> dropped to 4.4% in June 2025. In the same period, inflation measured by the CPI, which reflects the structure of consumption by Croatian citizens, also slowed down, from 4.0% in January 2025 to 3.7% in June. Despite an increase in overall inflation in May and June, resulting from a rise in the annual inflation of prices of food and energy, overall inflation was lower than at the beginning of the year, i.e. close to levels recorded in late 2024 (in December, inflation measured by the HICP stood at 4.5%, while that measured by the CPI was

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

3.4%). Persistently higher inflation measured by the harmonised index versus that measured by the national index reflects differences in the structures of the baskets of goods and services used for the calculation of the harmonised and the national index, respectively (Table 2.3.1). Specifically, the share of services, particularly of hotel and restaurant and accommodation services which commonly account for a lion's share of foreign tourist spending, and whose prices have increased substantially, account for a larger share in the consumer basket used for calculating the HICP than in that used for calculating the CPI, while the share of food and energy is lower in the HICP calculation basket than in the basket used for CPI calculation. Accordingly, prices of services contribute more significantly to overall inflation measured by the harmonised index than to inflation measured by the national index (Figure 2.3.2).

Figure 2.3.1 Inflation indicators in Croatia



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

Table 2.3.1. Structure of the harmonised index of consumer prices and of the national consumer price index, 2025

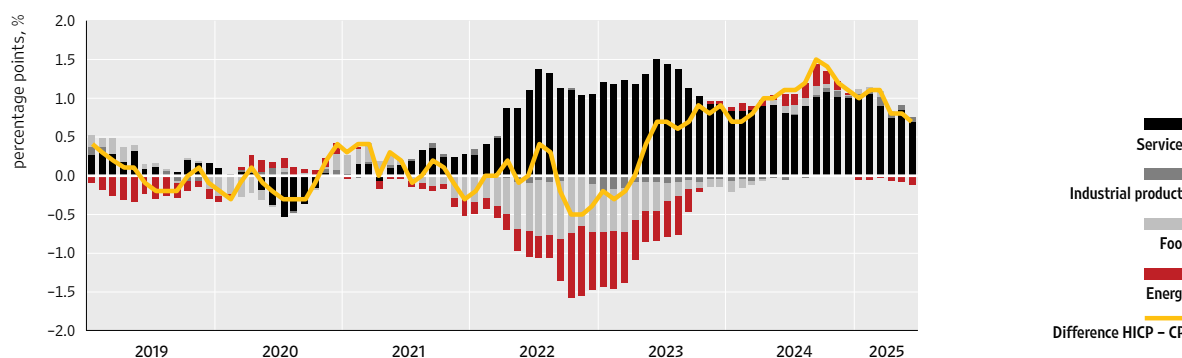
in %	HICP	CPI
Energy	12.3	15.8
Food	28.4	31.6
Processed food	22.2	23.0
Non-processed food	6.2	8.6
Core inflation	59.3	52.5
Industrial goods	26.8	26.5
Services	32.5	26.0
Catering services	8.1	4.4
Accommodation services	4.1	0.7
Other services	20.3	20.9

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

**Inflation of prices of energy and food increased in the first half of 2025.** After accelerating significantly in late 2024, in January 2025, energy price inflation reached an almost two-year high, having increased on account of a rise in the prices of refined petroleum products and administered prices of gas, electricity and heat energy under the influence of the partial withdrawal of fiscal support. However, in the months that followed, it slowed down thanks to the spillover

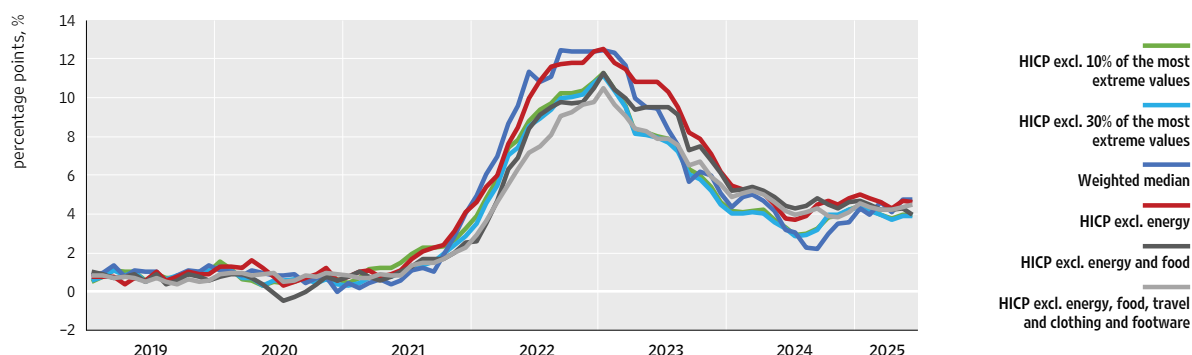
of the decrease in the prices of crude oil on the global market to the prices of refined petroleum products on the domestic market. Still, energy price inflation was, on average, above last year's levels in the first half of 2025, as was food price inflation, the acceleration of which reflected the spillover of elevated prices of certain food raw materials in an environment of high wage growth rates.

**Figure 2.3.2 Difference between the contributions of the main components to the overall HICP and CPI**



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

**Figure 2.3.3 Core inflation indicators in Croatia**

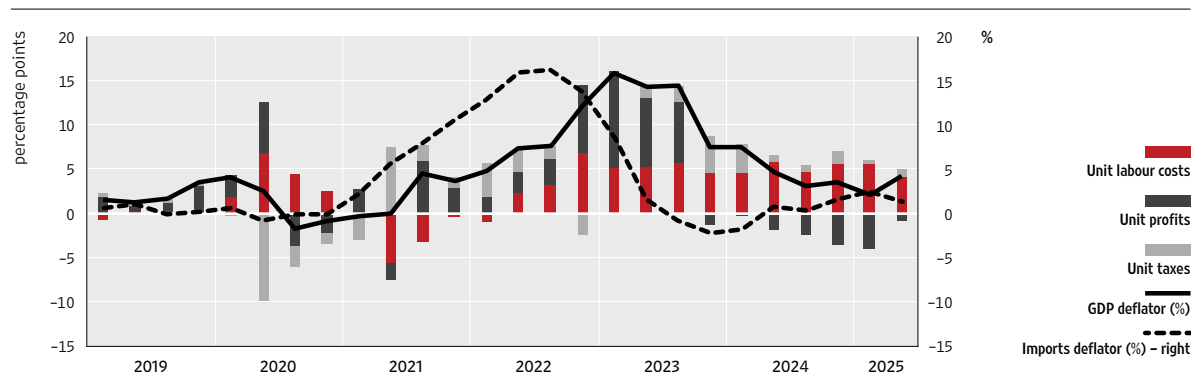


Notes: Trimmed mean eliminates 5% (15%) of components (out of a total of 87 components) with maximum and minimum annual rates of change. The weighted median excludes all values except the weighted median of the distribution of price change.  
Sources: Eurostat and CNB calculations.

**Core inflation (excluding energy and food prices) slowed down in the first part of 2025, but remained high, particularly in the segment of services price inflation.** In the first half of 2025, core inflation was lower than in the first half of 2024 as well as than the average of 2024 as a whole. The slowdown in core inflation reflected the deceleration in the inflation of industrial goods prices amid reduced imported inflation pressures, low rates of growth in the producer prices of consumer goods and exchange rate appreciation. In contrast, services inflation, the second component of core inflation, remained high and was the most persistent inflation component. This largely mirrors robust domestic demand and a tight labour market coupled with continued rapid wage growth. Unit labour costs were the main driver of GDP deflator growth, while the contribution of unit profits remained negative (Figure 2.3.4). Alternative indicators of core inflation that exclude certain volatile components stood at levels mostly above those recorded in the

second half of 2024, although most of these indicators decreased slightly from the very end of 2024 (Figure 2.3.3).

Figure 2.3.4 Decomposition of GDP deflator growth

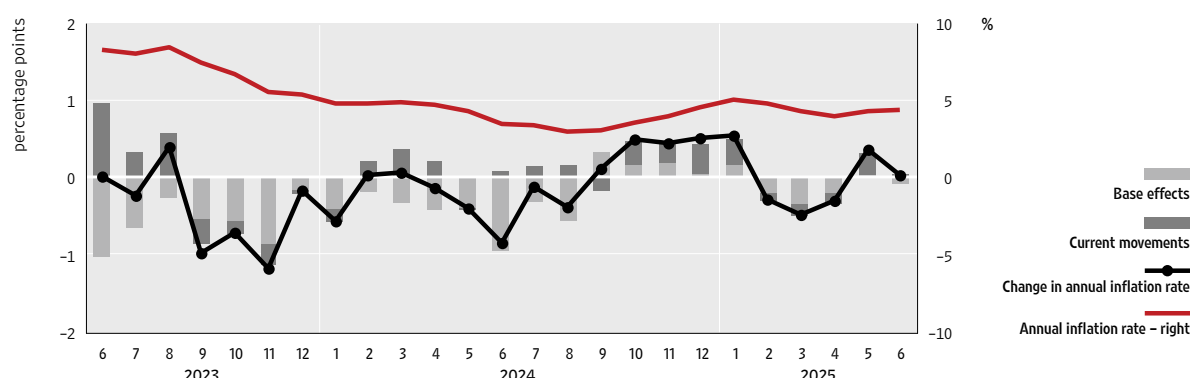


Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific component to overall HICP inflation than to CPI inflation.  
Sources: Eurostat, CBS and CNB calculations.

The cumulative slowdown in the annual rate of overall inflation in the period from February to June 2025 reflected favourable base effects, i.e. the exclusion of high monthly growth rates recorded in the first half of 2024 from the calculation of the annual rate. The change in the annual rate of inflation month-on-month depends on the change in retail prices from the month before (current inflation) and the monthly rate of change in prices in the same month of the year before (base effects).<sup>19</sup> In the period from September 2024 to January 2025 the annual rate of overall inflation (measured by the HICP) increased due to intensifying current inflationary pressures and unfavourable base effects (Figure 2.3.5). In contrast, the decline in the annual rate of overall inflation in the period between February and April 2025 reflected a favourable base effect due to a high monthly price increase in the same period in 2024, particularly in services, and low current pressures on energy and food prices. Inflation increases seen in May and June resulted from stronger current pressures in the services and food components. The short-term indicator of overall inflation (Figure 2.3.6), the momentum (quarterly rate of change calculated from seasonally adjusted data and expressed on an annual level), points to decreasing current inflationary pressures over recent months.

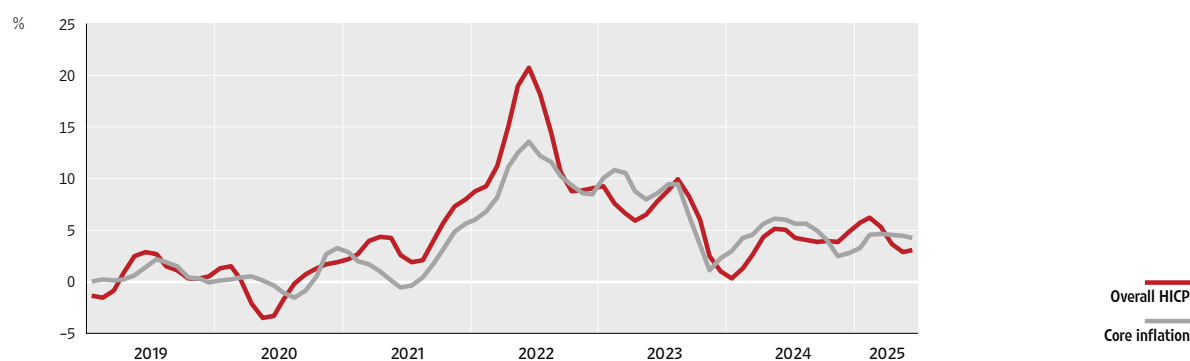
<sup>19</sup> For more information see HNBlog by D. Kunovac and M. Luketina "The role of base effects in the slowdown of consumer inflation".

Figure 2.3.5 Contributions of base effects and current developments to a change in annual inflation



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

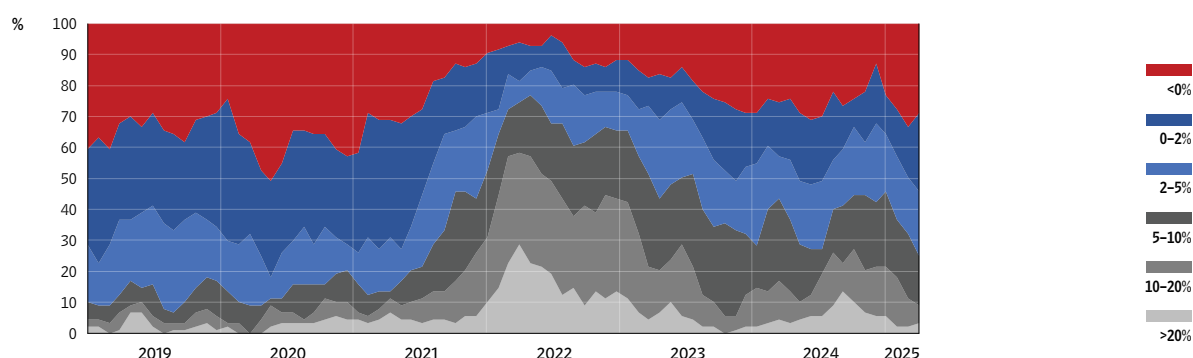
Figure 2.3.6 Momentums of overall and core inflation



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.

Following an increase in early 2025, in the second quarter of 2025, inflation diffusion decreased (Figure 2.3.7) so that the share of CPI sub-components whose quarterly rate of change stood above 2% in annual terms hovered around 51%. For the sake of comparison, that share averaged 55% in 2024 and 85% in mid-2022. Short-term consumer and corporate inflationary expectations (Figure 2.3.8) declined in the first six months of 2025 from the end of 2024, but remain elevated relative to the pre-pandemic period, which mainly refers to corporations from the services sector.

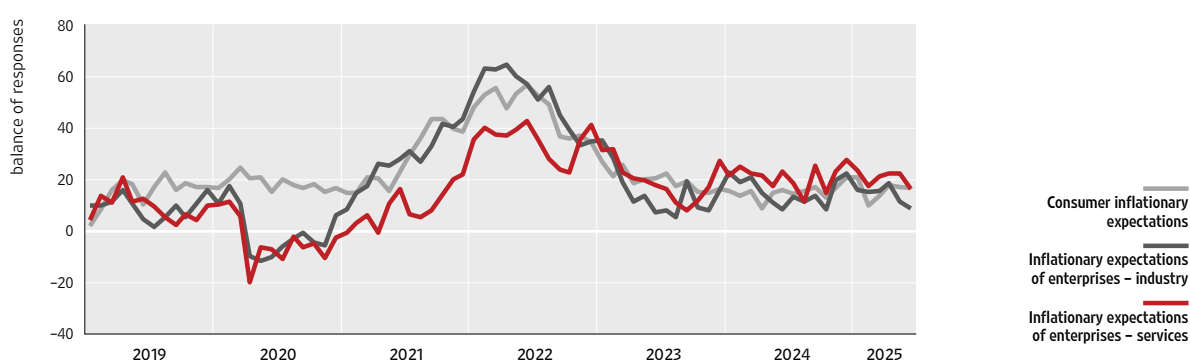
Figure 2.3.7 Diffusion of consumer price inflation



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

Sources: Eurostat and CNB calculations.

Figure 2.3.8 Short-term inflationary expectations of consumers and corporates

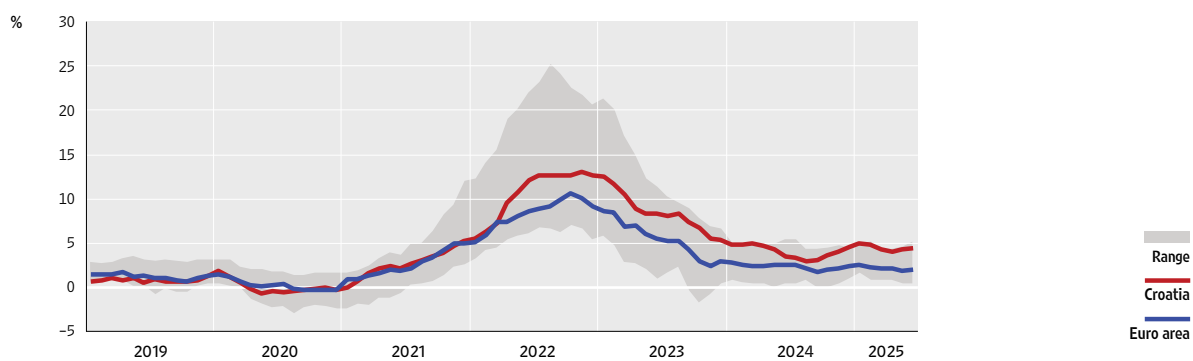


Note: Consumer expectations refer to a twelve-month period ahead and corporate expectations refer to a three-month period ahead.

Source: Ipsos.

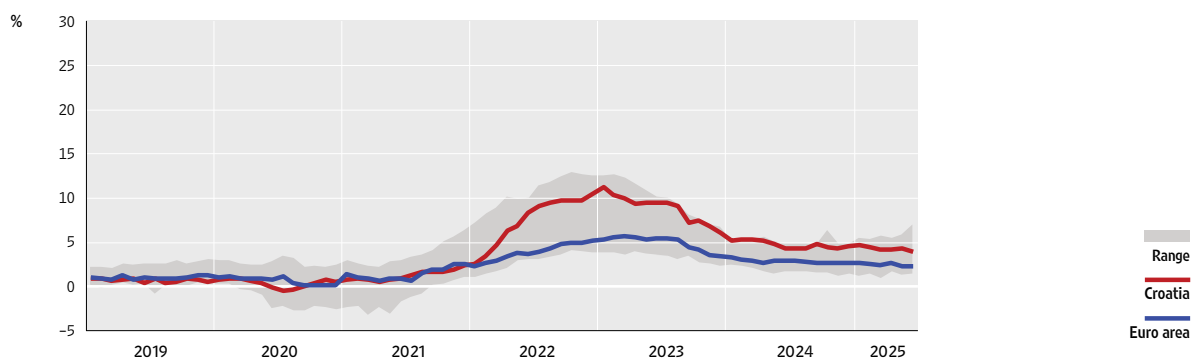
The gap between overall inflation in Croatia and the entire euro area widened in the first half of 2025 in comparison to 2024, even though in June 2025, the gap was narrower than at the beginning of the year. After increasing in the second half of 2024 and in early 2025, the difference between overall inflation in Croatia and that in the entire euro area was narrower, on average, in the period between March and June 2025 than at the very beginning of 2025 (for more information, see Box 2 Inflation differential between Croatia and the euro area average). In June 2025, overall inflation in Croatia was 2.4 percentage points above the euro area average (Figure 2.3.9), or 0.1 percentage point less than in January 2025 and 1.4 percentage points less than in June 2024. Core inflation in Croatia exceeded the euro area average by 1.7 percentage points in June 2025 (Figure 2.3.10), having gone down by 0.3 percentage points from January 2025 and up by 0.2 percentage points from June 2024.



**Figure 2.3.9 Synchronisation of overall inflation in Croatia and the euro area**

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

Source: Eurostat.

**Figure 2.3.10 Synchronisation of core inflation in Croatia and the euro area**

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

Source: Eurostat.

**BOX 2****Inflation differential between Croatia and the euro area average**

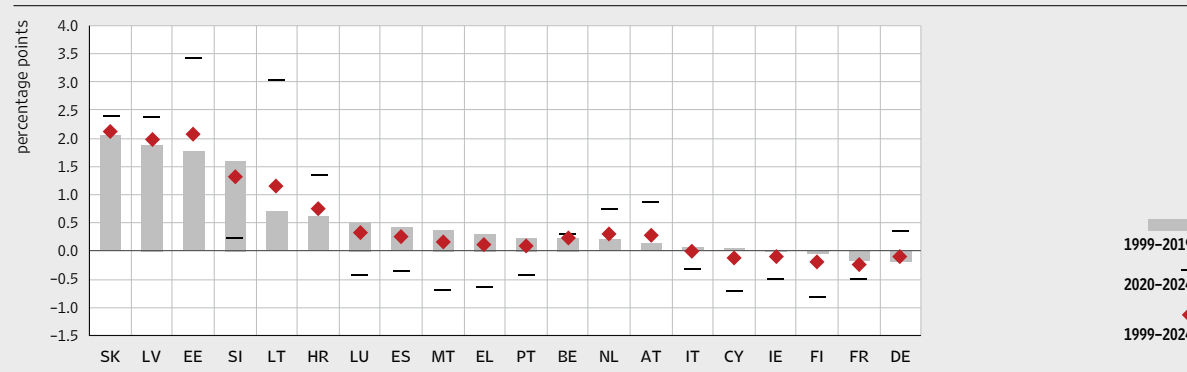
Inflation in Croatia remains noticeably higher than the average inflation in the euro area, but the inflation differential both in Croatia and at the EU level decreased from the second half of 2022 and 2023. The still elevated inflation differential reflects the large contribution of food, services and energy prices in Croatia as compared to the average of the euro area. Part of the inflation differential stems from the process of price convergence in Croatia to the euro area average associated with the gradual convergence of per capita income to EU levels. Croatia's above-average inflation within the euro area can also be attributed to some other factors such as faster economic growth, faster wage and personal consumption growth, a supportive fiscal stance, inflows from the EU funds and a withdrawal of energy support to households slower than in the other observed countries. However, in 2026 we expect to see a faster slowdown in inflation in Croatia relative to the euro area average, and a decrease in the inflation differential.

The heterogeneity in inflation rates across euro area member states is a result of different factors. The economic literature lists many factors that may lead to differences in inflation rates among the countries in the monetary union. Inflation differentials in the monetary union typically occur with real convergence, i.e. the gradual convergence of per capita income to the average union level. Thus inflationary pressures associated with price and income convergence to the higher average level within the EU may be present for a while in lower-income countries that have joined the monetary union. The process of catching up with developed economies is a structural process of adjustment within the economic area and, to the extent it is associated with this process, should not be a cause for concern among economic policy makers. However, differences in inflation rates may also arise from different economic structures that may lead to higher exposure to asymmetric shocks and differences in responses to common shocks, such as changes in the prices of energy or the nominal exchange rate of the euro. Countries with energy intensive production are more sensitive to changes in energy prices while economies that rely more on trade outside the union are more sensitive to changes in the nominal exchange rate of the common currency. Differences in labour market institutions among countries (for instance, the degree of centralisation of the system of collective wage bargaining) may also have a different inflation outcome. Differences in inflation among countries may also stem from a different consumption structure, as seen in different shares of individual goods and services in the consumer basket of individual countries.

Although inflation differentials are a normal and preferable element of the overall process of catching up with developed countries, excessive differentials are usually considered undesirable. The cyclical position of the economy is one of the major factors influencing inflationary trends. Different cyclical developments in monetary union members may cause different rates of inflation. Cyclical overheating of the economy typically leads to faster wage growth and higher cost

pressures that can easily be shifted to prices amid high demand for goods and services. The differences in the development of the nominal unit labour costs, i.e. average wages adjusted for productivity growth, among countries are an important indicator of cost pressures and a key source of inflation differentials. Also, countries pursuing a more expansive fiscal policy (in relation to other member states) and thus fuelling demand, may expect a faster price growth and a positive inflation differential. The short-term factors that lead to differences in inflation include changes in administered prices and indirect taxes (e.g. changes in the VAT). As mentioned earlier, some of the inflation differences among countries stem from the equilibrium adjustments of relative prices, which are a part of the convergence processes within the monetary union. However, a positive difference in inflation rates arising from excessive wage and/or loan growth and structural problems as reflected in a rigid labour and product market or inappropriate fiscal policy is considered undesirable, as it may distort an economy's competitiveness over the long term. As shown in **Figure 1**, even in the pre-pandemic period, the inflation rates in euro area countries differed greatly, with inflation in Croatia for a long time, between 1999 and 2019, exceeding the average in the euro area by 0.6 percentage points. The Baltic countries, Slovakia and Slovenia had an even bigger inflation differential during that period.

**Figure 1 The average difference between the annual rate of inflation in individual euro area member states and the average rate of inflation in the euro area**

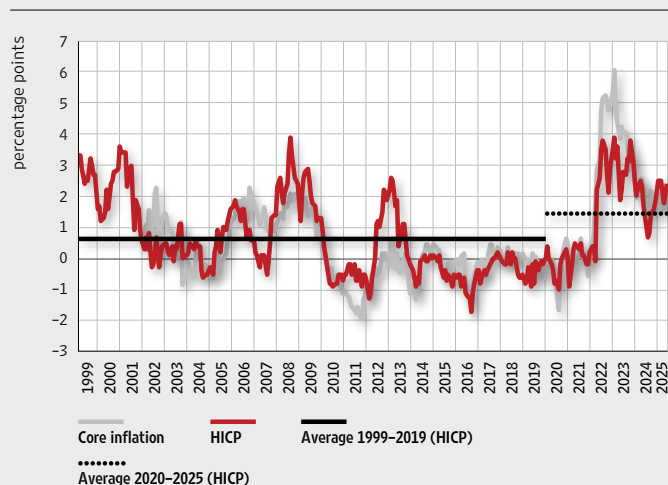


Sources: Eurostat and CNB calculations.

The inflation differential has increased since April 2022. In the first seven months of 2024, overall inflation (measured by the harmonised index of consumer prices, HICP) slowed down faster in Croatia than in the euro area, primarily due to a more pronounced fall in the inflation of energy prices. As a result, in July 2024, the inflation differential, after over two years, again came close to the pre-pandemic long-term average (**Figure 2**).<sup>20</sup> However, after that the inflation differential increased since total inflation in Croatia accelerated in the period from July 2024 to June 2025, while at the same time inflation at the level of the EU average slowed down.

<sup>20</sup> For more details on the inflation differential in 2022, see Box 3 Why is inflation higher in Croatia than in the euro area?, Macroeconomic Developments and Outlook No. 13, December 2022. For more information on the inflation differential in 2023, see Box 4 Inflation differential between Croatia and the euro area average, Semi-annual Information about the second half of 2023, May 2024.

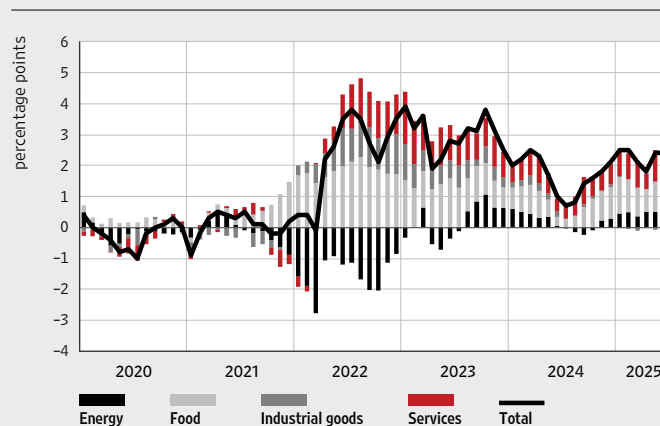
Figure 2 Inflation differential between Croatia and the euro area



Note: Core inflation excludes prices of energy, food, alcohol and tobacco.

Sources: Eurostat and CNB calculations.

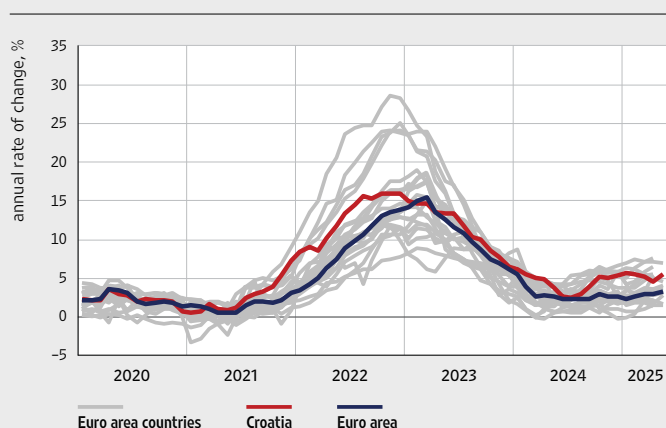
Figure 3 Difference between overall inflation and the contributions of the main components to overall inflation in Croatia and the euro area



Sources: Eurostat and CNB calculations.

The increase in the inflation differential between Croatia and the euro area average in the second half of 2024 and in the first half of 2025 stemmed to the greatest extent from difference in contributions of food (including alcohol and tobacco) and energy and to a lesser extent of service prices (Figure 3). The increase in the difference in the contributions of the prices of food to total inflation in Croatia and at the level of the euro area average reflects a more pronounced acceleration in food prices (Figure 4), as well as the greater share of food in the consumer basket in Croatia than at the level of the euro area average (Table 1). The annual food price inflation in Croatia went up from 2.5% in July 2024 to 5.7% in June 2025. The acceleration in food prices was impacted by higher input costs due to wage growth, the growth in energy and food raw materials prices in the global market (most notably cocoa and coffee) and to adverse weather conditions, particularly drought during the summer months. The inflationary pressures on the prices of food in Croatia were mitigated by new government measures aimed at limiting retail prices of certain products (mostly food), which came into effect in February 2025. In June 2025, the overall inflation in Croatia outstripped the euro area average by 2.4 percentage points, of which the prices of food accounted for 1.0 percentage point. The differences in the contributions to overall inflation of the individual subcomponents of food in Croatia and the euro area were mostly concentrated in a group of only some ten of the total of about seventy groups of products (Figure 7), mostly wine, beef and veal, coffee, chocolate and beer.

Figure 4 Food price inflation in Croatia and in the euro area countries



Source: Eurostat.

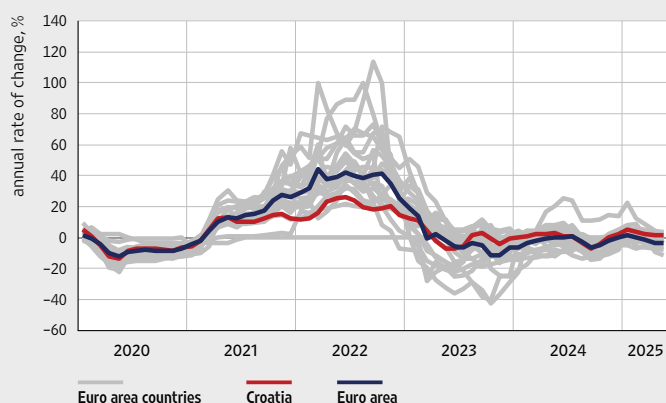
Table 1 Structure of Consumer Price Index in Croatia and in the euro area in 2025

in %	Croatia	Euro area
Energy	12.3	9.4
Food	28.4	19.3
Processed food products	22.2	15.1
Unprocessed food products	6.2	4.3
Core inflation	59.3	71.3
Industrial goods	26.8	25.6
Services	32.5	45.6
Food service activities	8.1	9.0
Accommodation services	4.1	2.4
Housing services	2.4	9.7
Other services	17.8	24.6

Source: Eurostat.

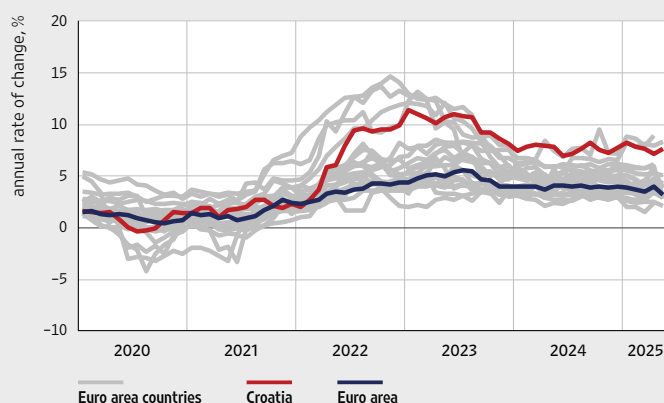
In addition to prices of food, energy and services prices contributed the most to the increase in the inflation differential in the first half of 2024 and in the first half of 2025. The increase in the administrative prices of gas, electricity and heat in October and November 2024 and in January 2025 contributed to the noticeable increase in energy inflation in Croatia in comparison to the euro area (Figure 5). In addition, the difference in the inflation of services prices also widened in Croatia relative to the euro area (Figure 6), particularly in the prices in accommodation and food service activities (Figure 8). The factors fuelling growth in the prices of these services include primarily a marked wage growth and the spillover of the previous growth in input costs caused by the increase in energy and food prices amid strong domestic demand and steady demand from foreign visitors for catering services and accommodation services. In contrast to services, the inflation of industrial goods, which are international tradables that are greatly traded amid the circumstances of stronger competitions, was at an equally low level both in Croatia and in the euro area during the period in question.

Figure 5 Energy price inflation in Croatia and in the euro area countries



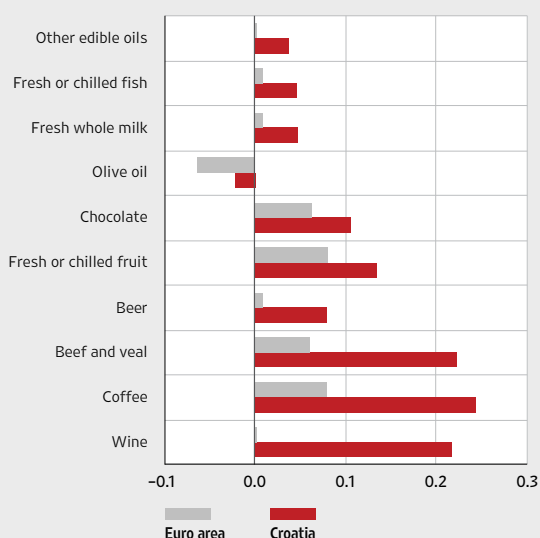
Source: Eurostat.

Figure 6 Services price inflation in Croatia and in the euro area countries



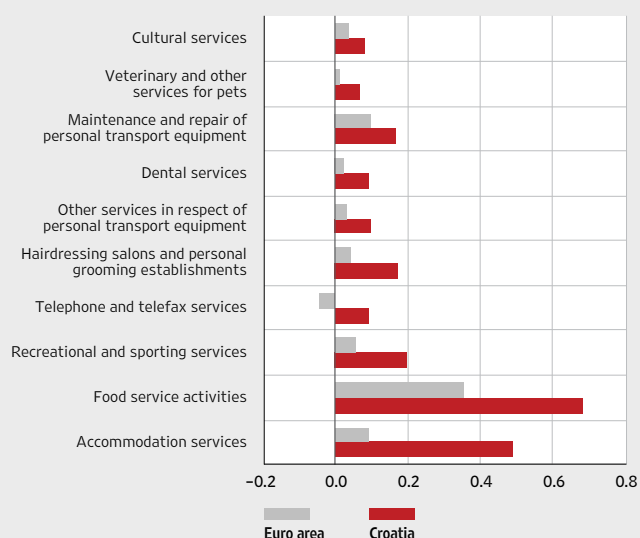
Source: Eurostat.

**Figure 7 Contributions of subcomponents of food price inflation to overall inflation in Croatia and in the euro area in June 2025**



Note: Shown are subcomponents with the biggest positive difference in contributions.  
Sources: Eurostat and CNB calculations.

**Figure 8 Contributions of subcomponents of services price inflation to overall inflation in Croatia and in the euro area in June 2025**



Note: Shown are subcomponents with the biggest positive difference in contributions.  
Sources: Eurostat and CNB calculations.

Overall, inflation differentials are influenced by various structural and cyclical factors, with the higher level of inflation in Croatia than the euro area average largely being the result of a faster economic growth in Croatia, attributable mainly to a more pronounced increase in domestic demand coupled with a strong wage growth. Croatia is one of the countries with the highest rate of wage growth, and this development continues to be under the influence of pronounced demand for labour amid historically low unemployment and unfavourable demographic developments. A strong growth in real disposable income resulted in a marked increase in personal consumption in Croatia, which outpaced the euro area average. The demand in Croatia was also propelled by an expansive fiscal policy and a marked increase in public sector wages and an inflow of EU funds. Against the backdrop of a relatively strong demand, companies tended to pass on some of the increase in labour costs to end consumers through higher prices of goods and services.<sup>21</sup> A larger contribution of food prices to inflation in Croatia reflects a higher growth in food prices as well as a higher share of that component in the consumer basket in Croatia relative to the euro area average. By contrast, the share of services in the consumer basket is smaller in Croatia and diminishes the contribution of a stronger growth in services prices to overall inflation. However, within the scope of services there are individual subcomponents whose share is higher in Croatia than in the euro area. Thus, the higher weight of accommodation services in Croatia due to large consumption of foreign tourists amplifies the contribution of a sharp increase in their prices to the inflation differential. Also, the withdrawal of energy support to households in Croatia took place later than in other countries. With Croatia approaching the euro area average in terms of economic development, higher inflation is also the result of the accompanying price convergence.

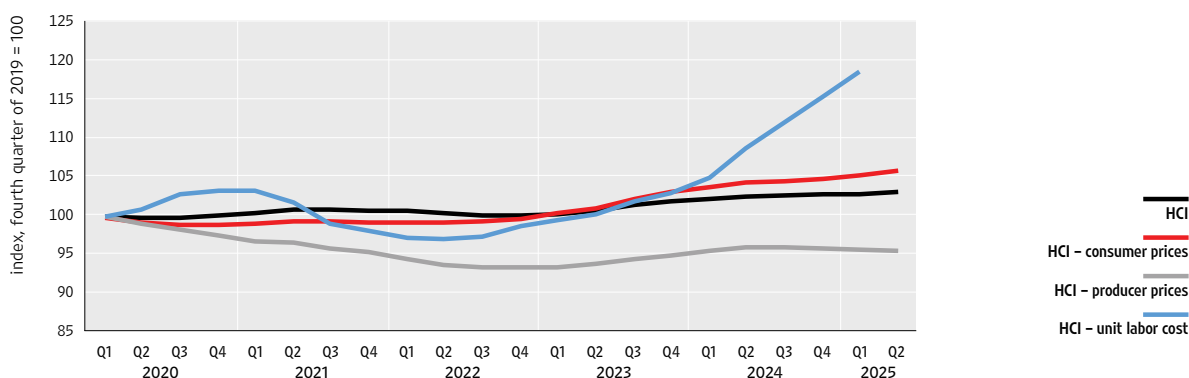
<sup>21</sup> For more information on how wage growth can lead to higher rates of inflation in an environment dominated by demand shocks, see CNBlog: Ivanac, F., Kunovac, D. and O. Nadoveza (2024), *How does wage increase affect inflation?*, 29 August.

According to the latest forecasts of the Croatian National Bank and the European Central Bank of September 2025, the difference between the average annual rate of inflation in Croatia and the euro area average might increase from the previous year and stand at 2.1 percentage points. However, the inflation differential is expected to decrease to 1.1 percentage point, slightly above the long-term average level, including in the period before the pandemic.

## 2.4 Economic relations with foreign countries

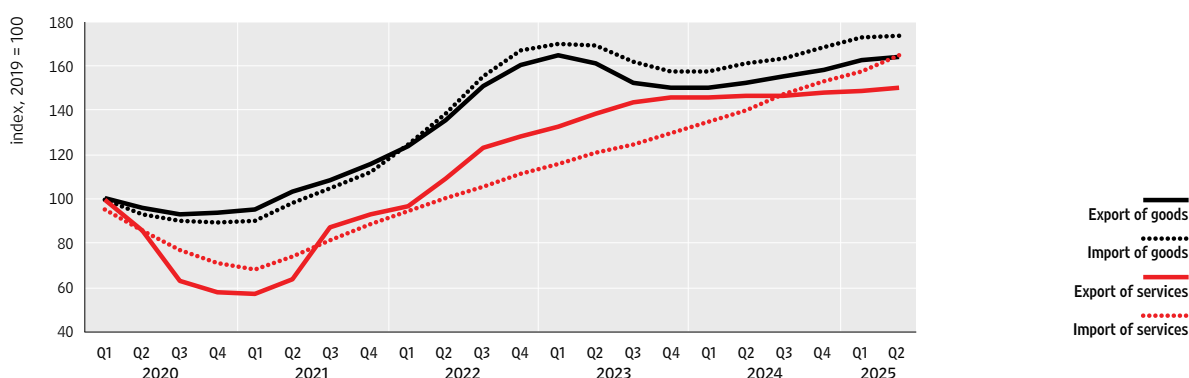
Most indicators point to a continued deterioration in the competitiveness of the Croatian economy in the first half of 2025 relative to its main trading partners. The cost competitiveness indicator which takes into account the relative changes of unit labour costs in Croatia relative to its trade partners (HCI-ULC) suggest a continuation of the strong deterioration that started in the middle of 2022 (Figure 2.4.1). A relatively strong growth in wages, primarily in the public sector, which outstripped labour productivity, played a significant role. In addition to cost competitiveness of the Croatian economy, unfavourable developments also continued in terms of the price competitiveness indicator deflated by producer prices (HCI-PPI), although the intensity of its deterioration was offset by the relatively stable inflation in the first half of 2025. At the same time, the indicator deflated by producer prices (HCI-PPI) stabilised at below pre-pandemic level.

Figure 2.4.1 Harmonised competitiveness indicators



Notes: The increase in indicators denotes appreciation. Series are shown as the moving average of four quarters.  
Source: CNB.

Figure 2.4.2 Exports of goods and services



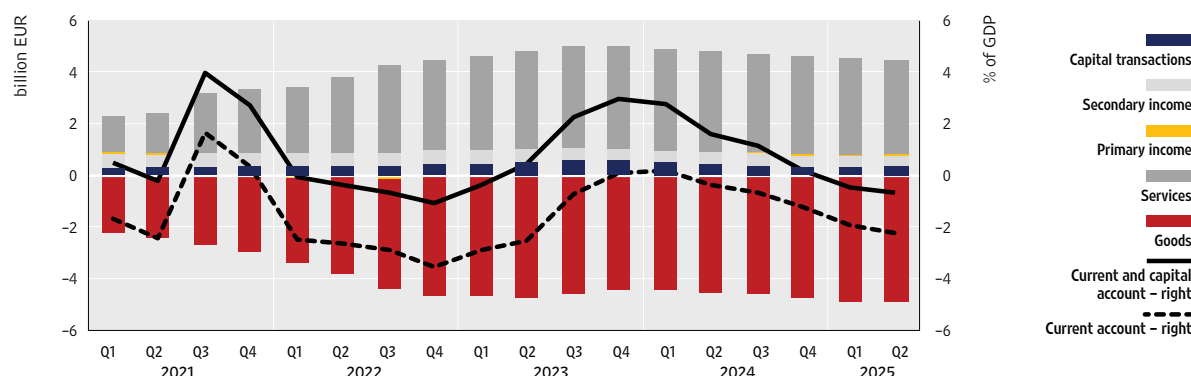
Note: Series are shown as the moving average of four quarters.  
Source: CNB.

The deterioration in the competitiveness of the domestic economy has had an effect on foreign trade, the services segment in particular. The annual growth of goods exports gradually accelerated throughout 2024, reaching 7.9% in the last quarter of the year, followed by an exceptionally strong result of 11.5% in the first quarter of 2025, only to decelerate noticeably to 3.1% in



the second quarter of this year from the same period last year. Goods imports reflected a similar dynamics, with their growth accelerating to 12.6% by the end of the year to reach 11.4% in the first quarter of 2025 and stagnate in the second quarter of the year from the same period last year. Consequently, the trade deficit widened by 5.6% in the first half of 2025 but due to slightly faster growth of the gross domestic product its share in GDP fell to 24.7%. According to the balance of payments data, services exports registered an annual growth of only 3.2% in the first half of 2025, which, together with the subdued growth of tourist services (5.9%), was determined by the fall in the exports of manufacturing services on physical inputs and exports of transport-related services. At the same time, the import of services grew by 17.2%, primarily tourist consumption of residents abroad, followed by expenditures on other services, which resulted in a noticeable deterioration in the services balance. As a percentage of GDP, the positive balance of services decreased from 10.8% of GDP in the first half of 2024 to 9.3% of GDP in the first half of 2025. While in the previous years the improvement in the balance of services exports strongly offset the deterioration of the goods balance, in the first two quarters of 2025, as throughout 2024, the service trade surplus continued to register lower results than in the preceding year. An analysis of the first half of 2025 shows that the positive balance in the services account was thus 8.2% lower than in the same period of the preceding year. (Figure 3.4.2).

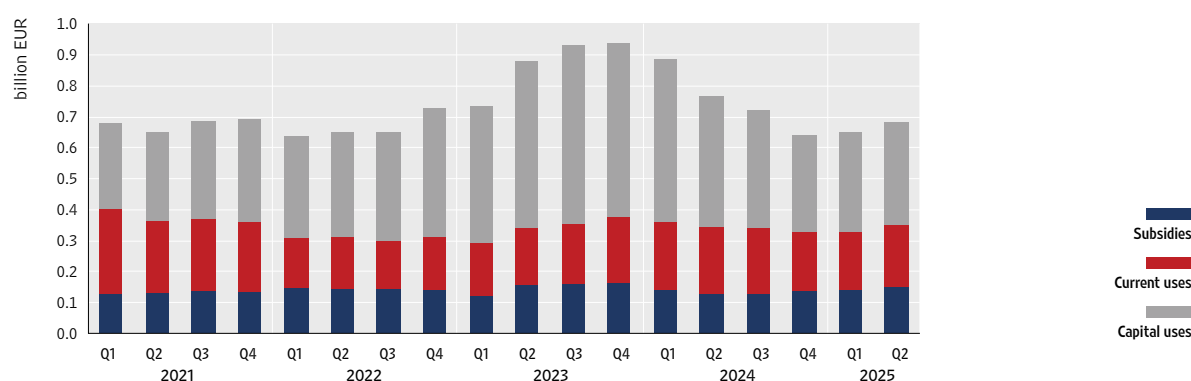
Figure 2.4.3 Balance of payments



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

Source: CNB.

Figure 2.4.4 Utilisation of EU funds



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

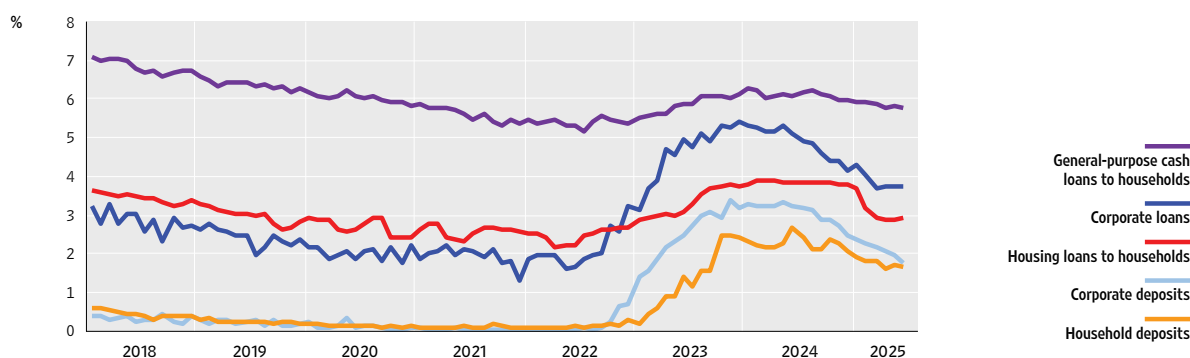
Source: MoF.

**The described developments in foreign trade in goods and services resulted in the deterioration in the total current and capital account balance in the first half of 2025.** After the current and capital account surplus declined from 3.3% of GDP at the end of 2023 to 0.2% of GDP for the whole of 2024, the first half of 2025 registered a deficit of 0.7% of GDP (**Figure 2.4.3**). In addition to the mentioned trends in foreign trade in goods and services, the unfavourable developments were exacerbated by the still low utilisation of EU funds since the utilisation of funds allocated under the previous financial allocation (for the period from 2014 to 2020) and of funds from the EU Solidarity Fund for the reconstruction of earthquake-hit areas ended in 2023 (**Figure 2.4.4**).

**In line with the current and capital account deficit, the financial account of the balance of payments of the Republic of Croatia saw a net capital inflow in the first half of 2025.** The balance in the financial account of the balance of payments (the difference between total assets acquired and total liabilities assumed) stood at EUR –5bn in the first quarter of 2025. This was primarily the result of new net liabilities from direct and other investments of EUR 1bn and EUR 6.2bn, respectively. While developments in the direct investment account were to the greatest extent impacted by decisions to pay out dividends, followed by the payments, the developments in other investments were predominantly determined by the balance of different inflows in the TARGET 2 system. At the same time, transactions in the portfolio investment sub-account positively impacted the financial account, with domestic net assets going up by EUR 2.2bn, reflecting the increase in investments of the domestic financial system in foreign debt securities.

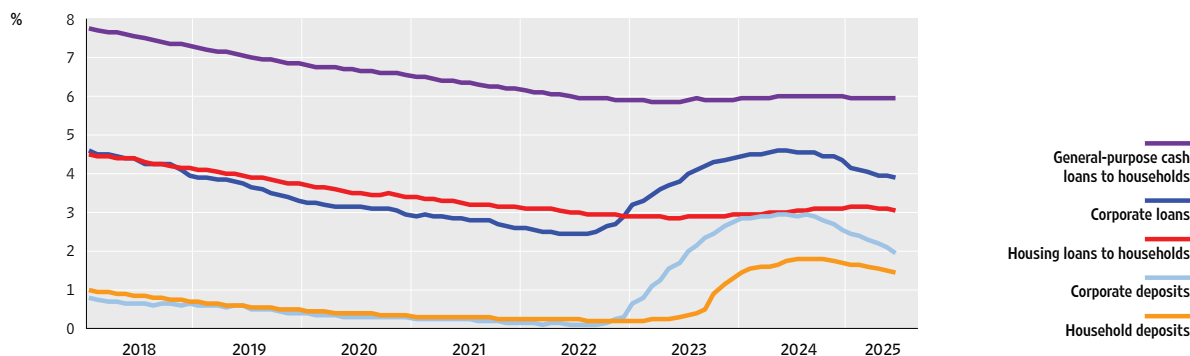
## 2.5 Banking system

**Interest rates on loans to corporates and households continued to decrease in the first six months of 2025.** The average interest rate on new loans to non-financial corporations continued to decline, a trend that started early in 2024, going down to 3.8% in June 2025, 38 basis points lower than at the end of last year and 166 basis points lower than at the end of 2023 when they registered their highest level during the latest cycle of increases in the ECB's key interest rates (**Figure 2.5.1**). The decline in interest rates on corporate loans mirrors EURIBOR movements, since approximately a half of newly granted corporate loans are tied to the EURIBOR, which serves as the benchmark. To a smaller degree the fall also reflects a reduction in the average fixed interest rate applied to more than a half of new corporate loans. The fall in market interest rates also spilled over to a gradual and slight reduction in the average interest rate on existing corporate loans, which came to 3.9% in June (**Figure 2.5.2**). The cost of household borrowing had remained relatively unchanged since 2024, but in June this year households borrowed at a much lower average interest rate than at the end of 2024, as much as 19 basis points lower for newly granted general-purpose cash loans (5.8%) and 88 basis points down for housing loans. This was because a systemically important bank lowered its interest rates on housing loans, and was followed by other systemically important banks in February and March, with interest rates stabilising at the new level in the following period. The average interest rate on pure new housing loans in June this year was 95 basis points lower than the April 2024 peak, while that on general-purpose cash loans was 51 basis points lower than its peak, recorded in January 2024.

**Figure 2.5.1 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 euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of less than one month have been excluded.

Source: CNB.

**Figure 2.5.2 Interest rates on existing 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 euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of less than one month have been excluded.

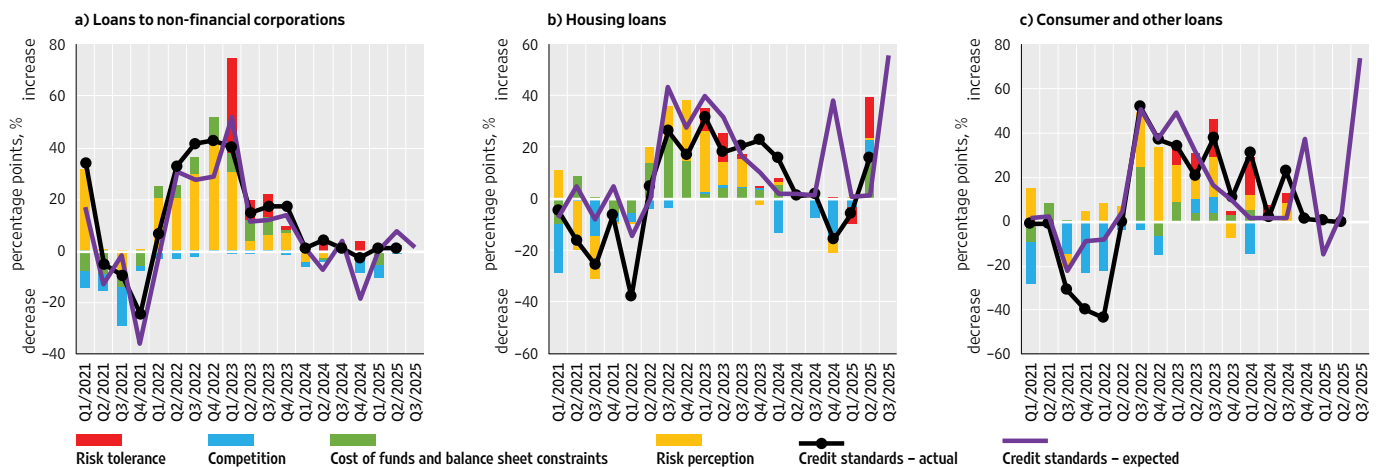
Source: CNB.

Interest rates on corporate and household time deposits also decreased in the first half of 2025. The average interest rate on pure new loans and deposits came to 1.8% in June, down 72 basis points on the previous year or 159 basis points from its November 2023 high point (Figure 2.5.1). At the same time, the interest rate on pure new household time deposits fell 1.7% in June, after fluctuating between 2.1% and 2.7% throughout almost the entire course of 2024, spurred by the predominantly higher interest rates that individual banks offered on time deposits as well as by increased amounts of renewed time deposits.

The Bank lending survey results for the first half of 2025 indicate an easing in the financing conditions for households from the preceding year and unchanged corporate financing conditions. Greater risk tolerance and increased competition among banks contributed towards the easing of lending standards for housing loans of most banks, while among the factors contributing to the easing of lending standards for consumer and other loans to households greater risk tolerance and lower risk perception led the way. In the first half of 2025, banks kept corporate lending standards unchanged after easing them in the previous year (Figure 2.5.3). In the third quarter of 2025, banks expect a strong tightening of household lending standards under the influence of CNB's macroprudential measures, in particular related to consumer and other loans and marginal changes in corporate lending standards.

### Slika 2.5.3. Bank Lending Survey

lending standards and factor contributions



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

Source: CNB.

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

Source: CNB.

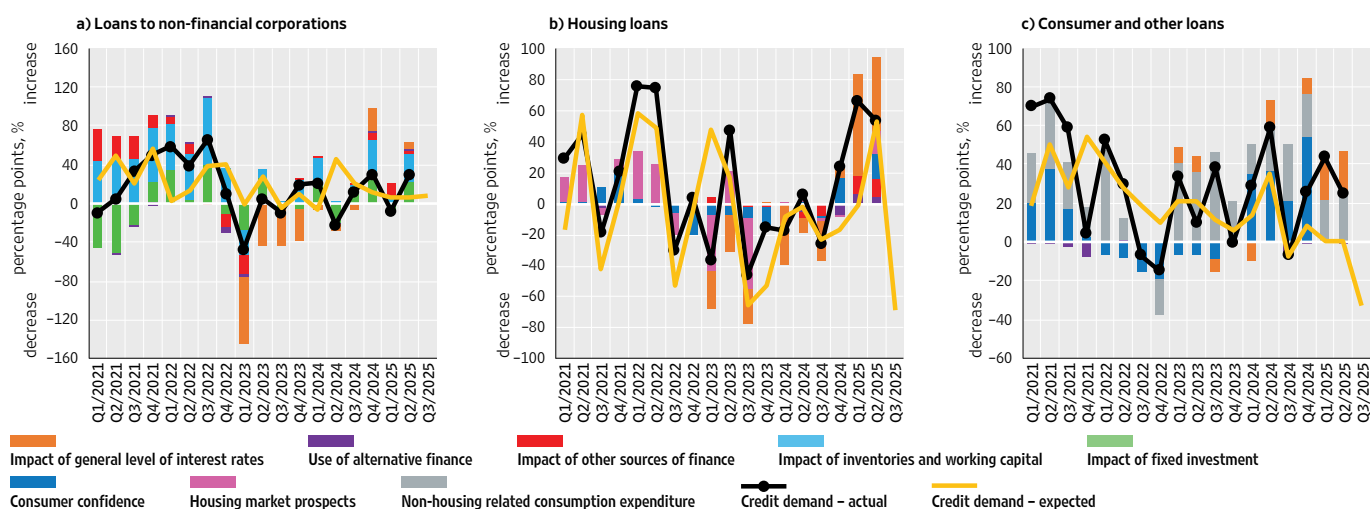
Notes: "Risk tolerance" was introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" are the unweighted average of the "Impact of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

Source: CNB.

**More favourable financing conditions contributed to stronger demand for loans, primarily for housing loans.** The Bank Lending Survey results for the first two quarters of 2025 indicate growth in demand for household loans, primarily spurred by lower interest rates (Figure 2.5.4). In addition, increased demand for consumer and other loans is a reflection of a greater propensity spending on durable goods. At the same time, greater need for financing inventories and working capital, as well as for investment financing, contributed to greater demand for corporate loans in the second quarter of 2025. The announcement of the introduction of macroprudential measures was also reflected in bank expectations of a strong fall in demand for household loans in the third quarter 2025, while on the other hand they expected demand for corporate loans to continue growing.

## Slika 2.5.4. Bank Lending Survey

demand change and factor contributions



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

Source: CNB.

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

Source: CNB.

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

Source: CNB.

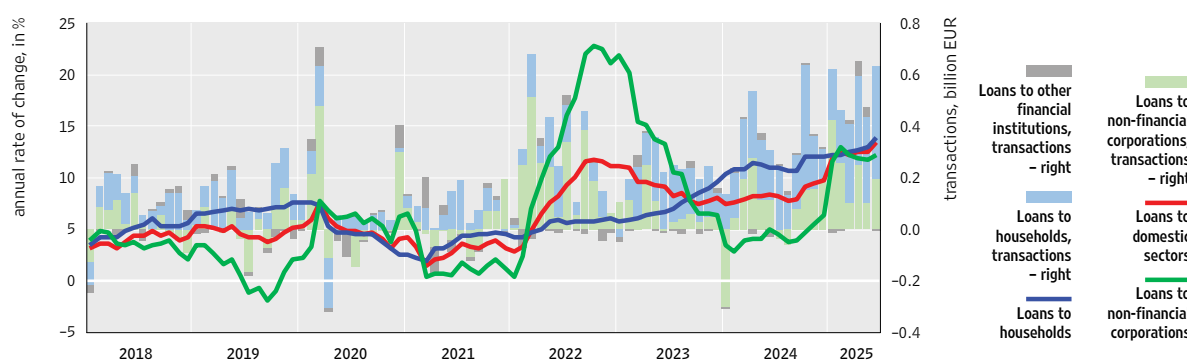
**Household and corporate loans grew strongly in the first half of 2025.** Pronounced household borrowing went on during the period of promotional interest rates offered ahead of the announcement of new CNB macroprudential measures. During this period, housing loans grew by EUR 0.9bn, while lower interest rates as part of banks' promotional offers motivated some consumers to take on new housing loans even though they had not planned to borrow in the first half of the year. Amid such conditions, the amounts of pure new loans continued to rise, as did the volume of renegotiated loans due to the possibility of more favourable refinancing, so a considerable number of consumers negotiated lower interest rates on existing housing loans. In addition, since 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. Therefore, it is possible that some of the loan growth (transaction-based) will be visible in the second half of the year since a some of these loans were agreed on at the end of the first half of the second half of the year. In the first half of 2025 general-purpose cash loans grew strongly as well, by EUR 0.7bn. The growth of household loans continued to accelerate on an annual level (from 12.1% in December 2024 to 14.0% in June 2025), owing to the acceleration in the growth of housing loans, from 9.1% to 13.1%, while the growth in general-purpose cash loans decelerated (from 15.9% to 15.0%). Corporate loans grew by EUR 1.3bn in the first half of 2025, which was EUR 0.4bn more than in the whole of 2024<sup>22</sup> (Figure 2.5.5). Excluding the one-off effects, the increase in loans in the first half of this year was almost equal to that during the entirety of 2024. More than a half of the increase

22 In January 2024, a large corporation repaid its syndicated loan of EUR 0.3bn (for which funds were allocated by the Government of the Republic of Croatia), while in January 2025 a syndicated loan was paid out to a large enterprise amounting to EUR 0.3bn.

is attributable to loans to manufacturing and trade activities, with noticeable growth being registered by accommodation and food service activities and real estate activities. With regard to loan purpose, the strongest contribution in the first half of the year was made by investment loans. On an annual level, the growth of corporate loans in June reached 12.2%, which was almost twice as strong as at the end of the previous year. The acceleration in the growth of corporate loans is indicated by the momentum<sup>23</sup> which exceeded 20% at the beginning of 2025. The momentum of housing loans maintained the level of some 10% from the middle of last year but in 2025, on the eve of the expiry of promotional conditions, it accelerated strongly to almost 23%. The short-term indicator of the growth in general-purpose cash loans increased as well (by 17.2% in June). However, it still remained lower than in 2024, when it reached 20% (Figure 2.5.6).

**Figure 2.5.5 Loans**

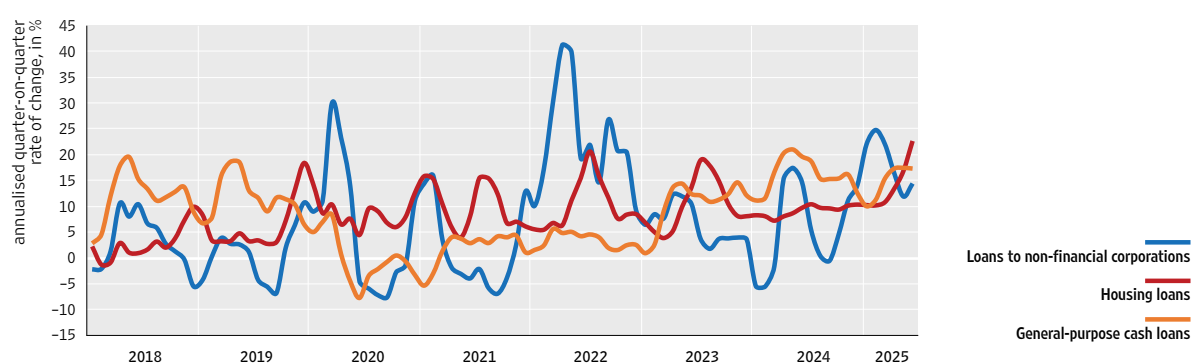
transactions and annual rates of change, transaction-based



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

**Figure 2.5.6 Lending momentum, corporates and households**

transaction-based



Sources: CNB and CNB calculations.

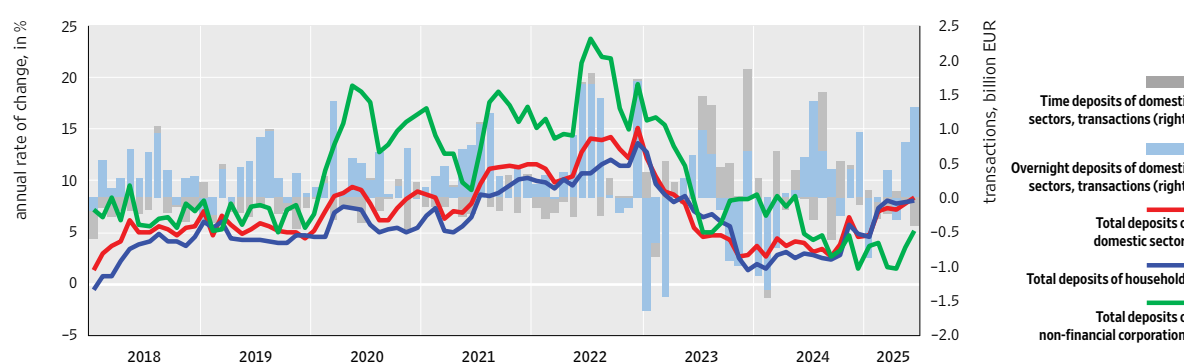
Total deposits of domestic sectors (excluding the general government) rose by EUR 0.6bn in the first half of 2025. The growth in deposits was a result of the increase in claims on domestic sectors, while the decrease in net foreign assets of monetary institutions offset this growth.

<sup>23</sup> Momentum is a short-term indicator of lending activity which shows annualised three months-on-three months rates of change in loans.

In the structure of total deposits, overnight deposits rose by EUR 1.3bn and reflected a strong growth in household deposits (EUR 1.5bn), while non-financial corporations decreased their overnight deposits by EUR 0.4bn (Figure 2.5.7). On the other hand, total time deposits went down by EUR 0.7bn amid the decline of time deposits by all sectors, primarily those of households (EUR 0.5bn). The share of household time deposits in total deposits thus continued gradually to decrease, while for corporate deposits this share remained relatively stable, within small fluctuations at levels slightly below 30% (Figure 2.5.8).

**Figure 2.5.7 Deposits**

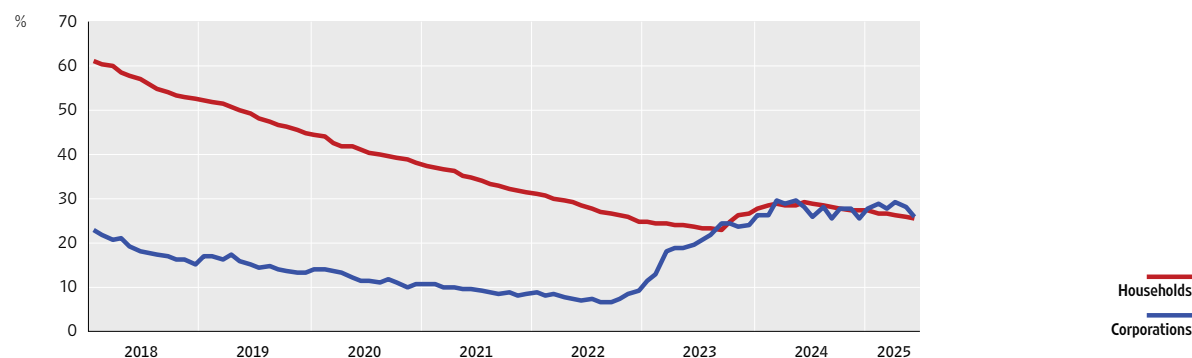
transactions and annual rates of change, transaction-based



Note: Deposits of domestic sectors exclude general government deposits.

Source: CNB.

**Figure 2.5.8 Share of time deposits in total deposits**



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

Source: CNB.



**BOX 3****Survey on the access to finance of small and medium-sized enterprises**

According to the results of the fourth round of the survey on the access to finance of small and medium-sized enterprises, regulations remain the key obstacle to doing business; however, their importance is decreasing from the previous rounds of the survey, while there has been an increase in the number of companies faced with the problems of production costs, the labour force and the availability of skilled staff or experienced managers. In contrast, companies rarely (even more rarely than in the previous survey rounds) cited access to financing as an obstacle to doing business. They continue to rely on deferred payments and leasing to finance their business with less than one third of the companies in the survey relying on bank loans, which is a small decline from the previous rounds of the survey. The companies quote sufficient own funds and the availability of other external sources of financing as the main reasons for not using loans. However, in 2024 full loan amounts were granted to companies more frequently than in the previous survey rounds. Companies stress the importance of improved business environment, tax reliefs and more flexible labour legislation for the future of their business operations. Companies expect labour costs and the costs of raw materials, materials and energy, the demand for products and services and the expected inflation to have the biggest impact on changes in their retail prices in 2025.

For some ten years, the CNB has been conducting a special survey to examine the specific challenges to doing business faced by small and medium-sized enterprises, with a special emphasis on the challenges related to financing. Small and medium-sized enterprises are an important segment of European economies (European Commission, 2023<sup>24</sup>), providing new jobs and promoting the dynamics of the economy. The same applies to Croatia where small and medium-sized enterprises account for 99% of all non-financial corporations, employing around 70% of the total number of employees in non-financial corporations<sup>25</sup> and generating around 70% of value added in the economy. These companies face specific challenges, which tend to be much more complex than those faced by large firms. For a better understanding of the conditions under which they do business, particularly the challenges in financing, since 2016 the CNB has been conducting a survey on the access to finance of small and medium-sized enterprises. In the second half of 2024<sup>26</sup>, the fourth round<sup>27</sup> of the survey was conducted on a sample of 1 775 companies, 82% small, 8% medium-sized and 10% large enterprises, serving as a control group.

24 European Commission (2023): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, SME Relief Package, Strasbourg, 12. 9. 2023, COM(2023) 535 final

25 Based on the report of the Financial Agency on the financial results of Croatian entrepreneurs in 2023 by entrepreneur size <https://www.fina.hr/ngsite/content/download/15082/238959/1>.

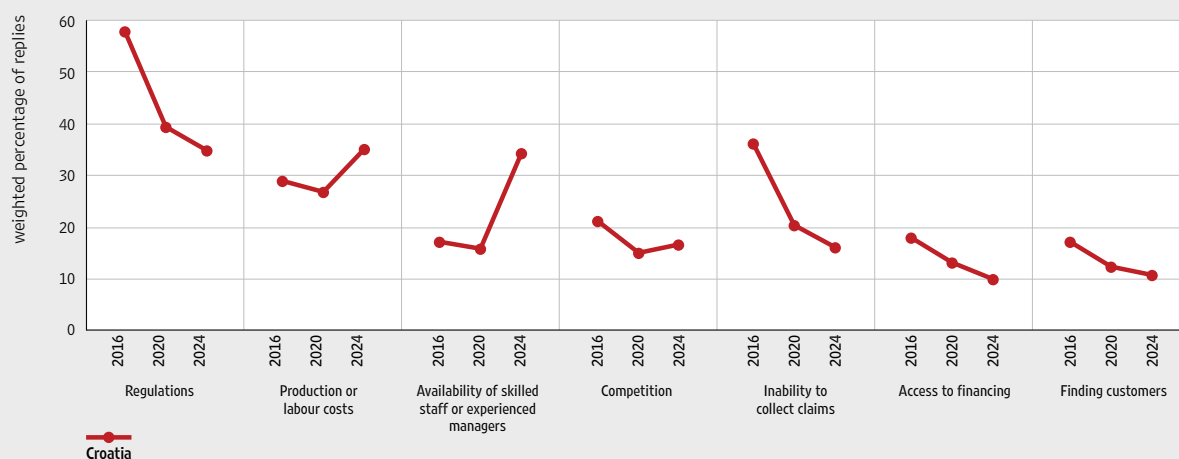
26 The survey was conducted from September to November 2024; questions on past developments refer to 2024 and those on expected developments to 2025.

27 The first round of the survey was conducted in 2015 as a pilot project, the second in 2017 (questions on past developments refer to 2016 and those on expected developments to 2017), and the third round was conducted in 2021 (questions on past developments refer to 2020 and those on expected developments to 2021).



The unfavourable institutional and business environment, in particular complex regulations and the frequent changes to them (**Figure 1**), was singled out by small and medium-sized enterprises as the biggest obstacle to doing business. However, these factors lost some of the significance they had in the last round when a considerably larger number of companies identified production or labour costs and the availability of skilled staff or experienced managers as the main obstacles hindering their business operations. In 2020, some 16% of small and medium-sized enterprises identified the absence of skilled staff or experienced managers as a large hindrance to doing business in contrast with the most recent survey round when this percentage more than doubled. In contrast, access to financing and finding customers were the least commonly listed hindrances to doing business. Only 10% of companies gave these factors as a significant obstacle, a decrease of one half from 2016. Only 10% of companies gave these factors as a significant obstacle, a decrease of one half from 2016.

**Figure 1 Obstacles largely affecting business operations of small and medium-sized enterprises in Croatia**



Note: Regulations are the average of the problems of doing business defined as “regulations – complexity and lack of mutual coordination” and “regulations – frequency of change”

Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

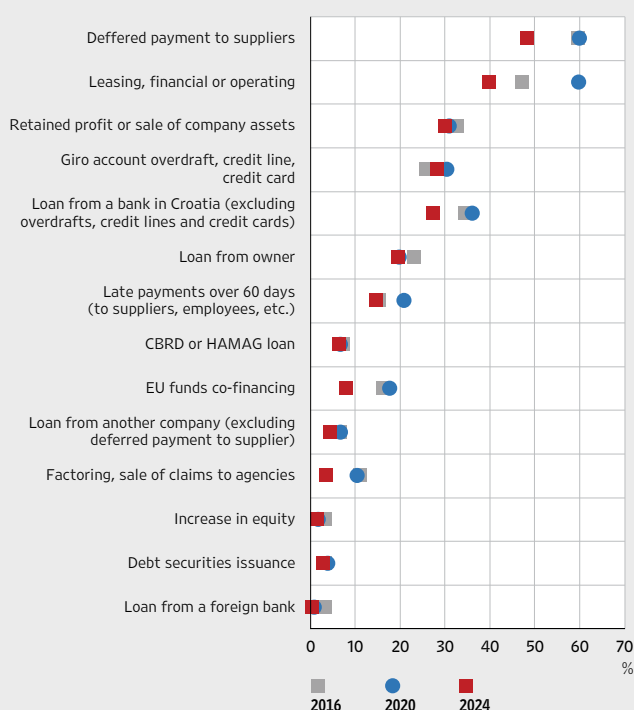
Small and medium-sized enterprises mostly continue to rely on deferred payment up to 60 days to suppliers (almost one half of them) and leasing<sup>28</sup> (around 40%), however, less than reported under previous survey rounds (**Figure 2**). Retained earnings or sale of enterprise assets were reported by some 30% of companies as the source of financing in all three survey rounds. Bank loans lost in importance in 2024, being used by 28% of small and medium-sized enterprises, down by some 10 percentage points from 2016 and 2020. In 2024, companies relied less on financing from the EU funds and factoring and sale of claims to agencies.

The enterprises that did not use domestic bank loans mostly signalled that they did not need a loan because they either had sufficient own funds or had access to other external sources of financing (**Figure 3**). Sufficient own funds thus remained the main reason for not using bank loans

<sup>28</sup> Although the share of enterprises using leasing was larger than the share of those using loans, the total amount of bank financing was considerably higher. Towards the end of 2024, the total amount of financial and operating leases extended by leasing companies to non-financial corporations stood at EUR 2.7bn and bank placements at EUR 15.9bn, with micro, small and medium-sized enterprises accounting for EUR 9.1bn.

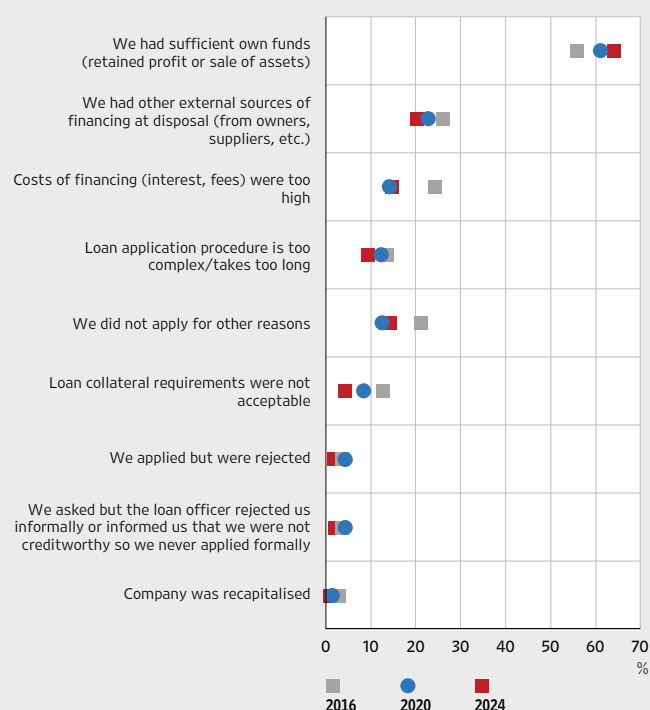
for over 60% of companies in 2024, with this percentage steadily rising since 2016. Conversely, the number of companies citing the availability of other external sources of financing as the main reason for not using loans has fallen. Moreover, in 2024, the number of companies that found loan collateral requirements unacceptable and those whose loan applications were rejected, formally or informally, decreased from the previous survey rounds.

**Figure 2 Which of the following sources have you used for financing your operations?**



Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

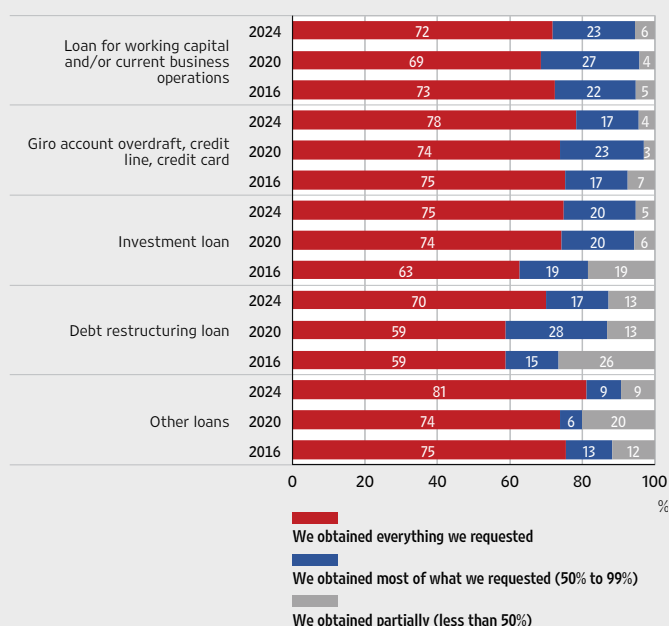
**Figure 3 Reasons for not using domestic bank loans**



Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

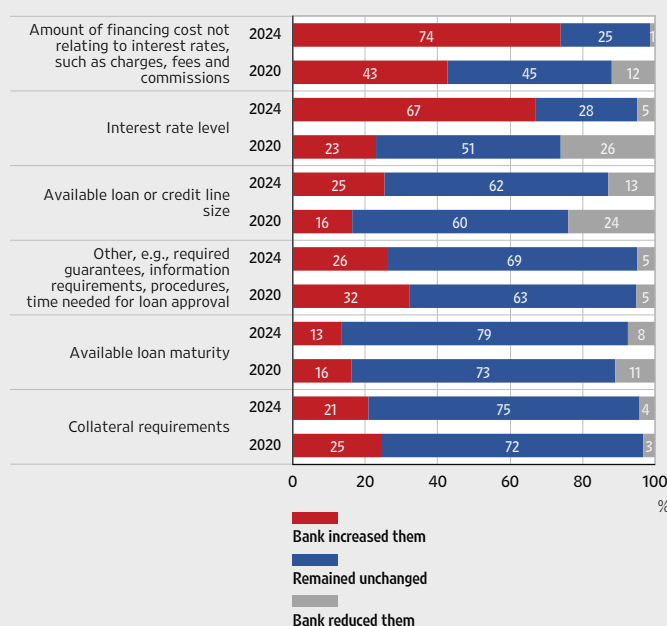
Although the companies surveyed reported a worsening of financing conditions, there was an increase in the number of companies that had been granted loans in the amounts requested from the previous survey rounds, with the number of companies that received the full amount requested increasing and the number of companies that received most of the amount requested decreasing (Figure 4). Small and medium-sized enterprises reported a worsening of the conditions of bank financing, almost equally as regards the interest rate level and the cost of financing relating to charges, fees and commissions (Figure 5). Compared with the previous survey round, there was a visible difference in responses by companies on changes in financing costs. The improvement in the amounts of loans granted in full in 2024 from 2020 and 2016 involved debt restructuring loans, particularly in small enterprises.

**Figure 4 Can you provide an estimate as to how much of the requested funds you actually obtained in 2024?**



Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

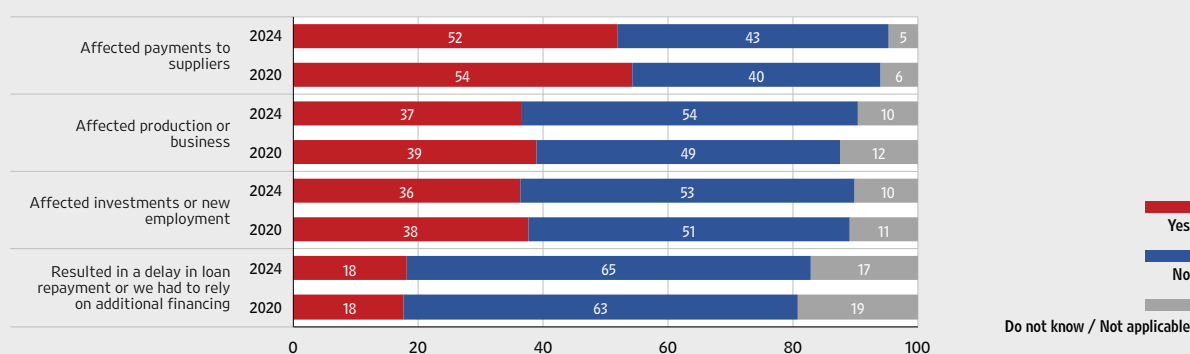
**Figure 5 How did the terms and conditions of bank financing change in 2024?**



Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

Late payments continue to be a relatively common problem for companies although their frequency decreased slightly from the previous survey rounds. Around 30% of companies have listed late payments by public entities as troublesome, with the percentage increasing to approximately 50% in respect of late payments by private companies. Late payments affect the business operations of companies; the most frequently reported problem stemming from late payments was that of their effect on payments to suppliers (Figure 6). Small enterprises found it harder to deal with the effects of late payments as they affect their production and operations, investment and new employment more than they affect medium-sized enterprises. However, in 2024, the share of companies faced with problems due to late payments was slightly smaller than in 2020.

**Figure 6 What were the consequences of late payments?**

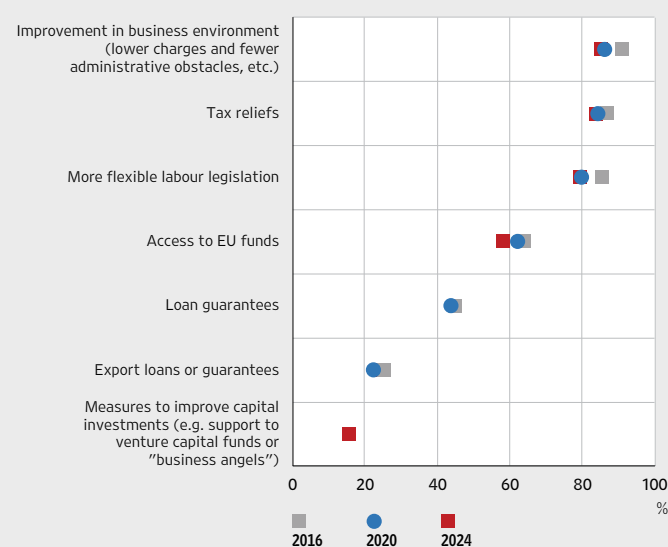


Note: This question was first introduced in the 2021 survey questionnaire.

Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

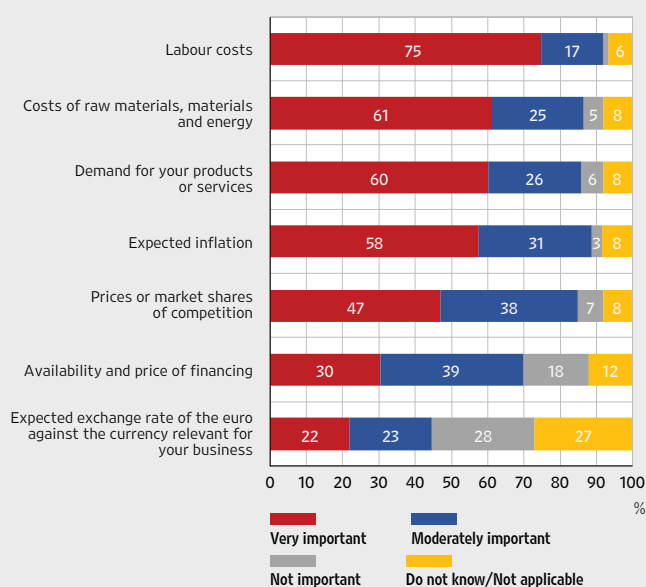
More than 80% of small and medium-sized enterprises still considered the improvement of business environment, tax reliefs and a more flexible labour legislation important for doing business in the future (**Figure 7**). There were generally no changes in what small and medium-sized enterprises perceived to be important for future operations from the previous survey round. The importance of access to EU funds was found to be slightly less important for both small and medium-sized enterprises, while the share of medium-sized enterprises that find bank guarantees important rose from the previous survey round.

**Figure 7 Factors important for future business operations**



Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

**Figure 8 How do you estimate the importance of the following factors for the determination of your retail prices or their change in 2025?**



Note: This question was first introduced in the 2024 survey questionnaire.

Source: Survey on the access to finance of small and medium-sized enterprises, CNB and Ipsos.

The companies surveyed stressed the importance of labour costs for their price policy. The question about the importance of the factors that will determine or affect the changes in their retail prices in 2025 was introduced in the last round of the survey. Small and medium-sized enterprises found these factors equally important, but gave the highest ranking to labour costs and the costs of raw materials, materials and energy, followed by the demand for products/services and the expected inflation. Ranked as least important were the expected exchange rate of the euro and the availability and price of financing (**Figure 8**).

Lack of qualified labour was reported as a major challenge for companies across the euro area<sup>29</sup> with around one third of companies stating the lack of skilled staff or experienced managers as the biggest obstacle to doing business in 2024. The number of companies affected by this challenge rose in 2024 from 2020 and 2016 when finding customers was reported as the biggest obstacle. In contrast, access to finance remains the least common obstacle. As regards the sources of

<sup>29</sup> Based on the results of the survey conducted twice a year by the European Central Bank and the European Commission. More precisely, the survey is conducted once a year by the ECB covering euro area countries, and once in cooperation with the European Commission covering all EU countries plus some neighbouring countries.

financing, companies in the euro area most often relied on giro account overdrafts, credit lines or credit cards, leasing or hire purchase and own funds from retained earnings or sale of assets. The most frequent reply provided by companies to the question of why they did not use bank loans in the past and were not planning to use them in the future was that they did not need this type of financing. A little over two thirds of companies that applied for a bank loan were granted either the full or most of the amount requested. Late payments were less frequent than in Croatia so there were also fewer consequences. In about one third of companies, late payments impacted payments to suppliers and in about one fifth of companies they affected investments or new employment and production or business activities.

**BOX 4****Macroprudential measures affecting consumer lending criteria**

As a result of an increase in risks associated with strong lending to households, some of these loans having been granted under relatively lenient criteria, in 2025, the Croatian National Bank introduced macroprudential measures directly imposing limits on consumer lending criteria for the first time.

The measures are primarily preventive and aimed at mitigating risks to financial stability by preventing the easing of lending criteria and imposing limits on those household lending segments that entail the greatest level of risk. The surge in household lending had led to a reversal in the long-term downward trend in relative household debt, which increased slightly in 2024. This exacerbated the vulnerability of households to possible negative macroeconomic and financial shocks which could result in indebted households having to face difficulties in loan repayment or being forced to reduce their consumption considerably. This, in turn, would have unfavourable consequences for the economy and the stability of the financial system. In addition, it was observed that some loans had been granted under relatively lenient terms and that households, in an environment of sharply increasing real estate prices and growing interest rates, were borrowing progressively larger amounts with longer repayment periods, placing a growing burden on income arising from debt service expenses, which additionally highlighted risks associated with orderly debt repayment in potentially stressful conditions.

Limits on lending criteria were imposed in March 2025 and entered into force on 1 July 2025. They refer to new consumer loans and cover: 1) the maximum allowed debt service to income ratio, hereinafter: DSTI ratio); 2) the maximum allowed loan to value ratio, hereinafter: LTV ratio) and 3) the maximum allowed loan maturity. Limits vary for housing and non-housing loans, reflecting the higher level of risk in non-housing loans that are, by and large, unsecured and whose orderly repayment is called into question more rapidly and severely in periods of crisis than that of housing loans. When a new loan is granted, the DSTI ratio for housing loans is capped at 45% and for non-housing loans at 40%, whereas the LTV ratio is capped at 90%. As regards limits on maturity, that of housing loans and loans secured by immovable property is limited to thirty years, while that of other non-housing loans is limited to ten years (**Table 1**).

The measures provide for exemptions, so that banks will still be allowed to grant 20% of the amount of housing loans and 10% of the amount of non-housing loans to consumers without applying caps on DSTI ratios as well as 20% of loans to consumers without applying caps on LTV ratios based on their own assessment. To alleviate the possible adverse impact of the measures on consumers acquiring their first home or a home more appropriate to their family circumstances, when granting housing loans, banks are primarily (75%) allowed to apply exemptions on consumers using loans to meet their housing needs.

**Table 1 New macroprudential limits on consumer lending criteria**

When a new housing loan is granted:	When a new non-housing loan is granted:
<ul style="list-style-type: none"> <li>• <b>monthly debt repayment burden may not exceed 45% of consumer monthly income</b> <ul style="list-style-type: none"> <li>– 20% of the amount of new loans may be granted above the cap, of which at least three quarters must go to consumers using the loan to meet their housing needs</li> </ul> </li> <li>• <b>housing loan amount may not exceed 90% of the value of the pledged real estate</b> <ul style="list-style-type: none"> <li>– 20% of the amount of loans may be granted above the cap, of which at least three quarters must go to consumers using the loan to meet their housing needs</li> </ul> </li> <li>• <b>loan repayment period may not be longer than 30 years</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>monthly debt repayment burden may not exceed 40% of consumer monthly income</b> <ul style="list-style-type: none"> <li>– 10% of the amount of new loans may be granted above the cap</li> </ul> </li> <li>• <b>loan repayment period may not be longer than ten years</b></li> </ul>

The application of limits on consumer lending criteria is expected to slow down the increase in household debt, more so in the segment of non-housing loans, while the effect on consumer lending should be moderate. At the same time, the share of loans granted under relatively lenient criteria should be reduced. Against the backdrop of a sharp increase in household consumption, the new measures will contribute to its gradual slowdown and to a decrease in inflationary pressures arising from increased demand.

Limits on lending criteria, which constitute an integral part of the macroprudential toolbox in almost all EU member states, are a new permanent structural element of the CNB's macroprudential policy. Their impact will be continuously monitored in the context of a comprehensive set of macroprudential measures as well as of their contribution to the safeguarding of the financial system and sustainable economic growth in the long run and will, where necessary, be adapted to the development of systemic risks and general macrofinancial circumstances.

As at 30 June 2025, financial assets stood at EUR 24,625.7m, of which euro assets amounted to EUR 22,164.8m (90%) and foreign currency assets to EUR 2,461.0m (10%). In that period, the annual rate of return on the entire euro portfolio of financial assets was 1.73%, while the annual rate of return on the US dollar portfolio totalled 4.16%.

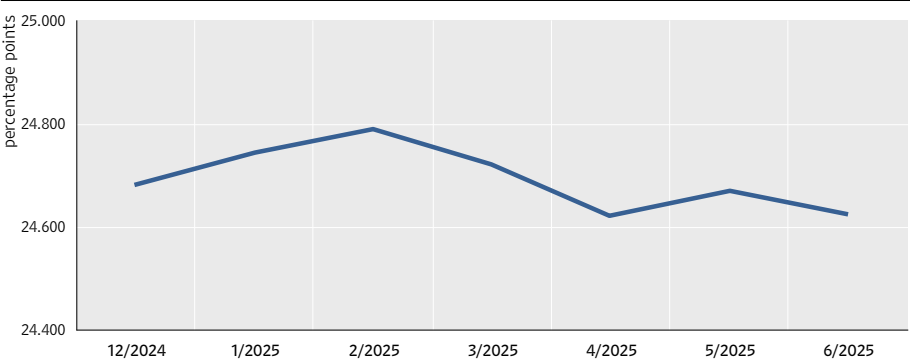
### 3 Financial asset management

Pursuant to the Act on the Croatian National Bank (Article 100), the Croatian National Bank (CNB) manages the foreign reserves of the Republic of Croatia that have not been transferred to the ECB, as well as other financial assets in the CNB balance sheet as at the date of the introduction of the euro as the official currency in the Republic of Croatia. Without interfering with the common monetary policy of the Eurosystem, in managing financial assets, the CNB supports financial stability and confidence in the financial system and is governed primarily by the principles of liquidity and safety of investment. Financial assets consist of the foreign currency assets that have not been transferred to the European Central Bank according to Articles 30.1 and 48.1 of the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB) and euro-denominated domestic assets not related to monetary policy.

As at 30 June 2025, financial assets totalled EUR 24,625.7m, comprising assets denominated in euro worth EUR 22,164.8m (90%) and assets denominated in US dollars and other currencies amounting to EUR 2,461.0m (10%).

Figure 3.1 Monthly changes in CNB financial assets

end of period



Source: CNB.

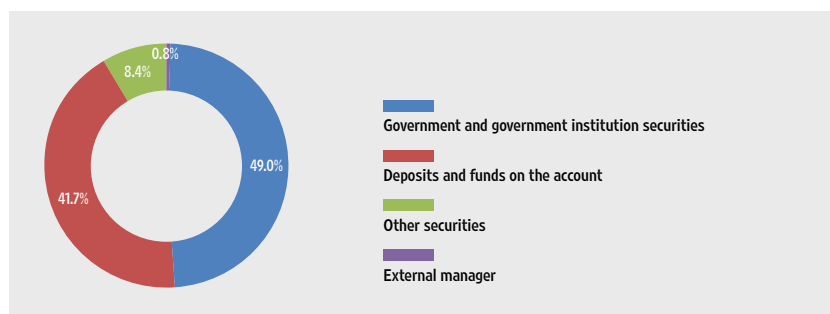
In the first half of 2025, financial assets decreased slightly by EUR 56.4m or 0.2%. The decrease was caused by the decline in the value of dollar assets reported in euro, that is, the negative impact of the change in the EUR/USD exchange rate. The US dollar weakened 13.8% against the euro in the observed period. Management of financial assets took place amid highly volatile conditions in the financial markets. Investment decisions were aimed at increasing the expected medium term rate of return, while adhering to the Eurosystem’s financial asset management framework and its rules, obligations and guidelines that determine the profitability and room for investment.

Securities of governments and government institutions accounted for the largest share in the structure of investment in financial assets at the end of the first half of 2025, followed by investments in deposits and funds in the account and other securities (of international financial institutions, development banks of German federal states and covered bonds). A portion of



financial assets invested in ESG<sup>30</sup> investment stood at 7.9% at the end of June 2025, up from the 7.4% of the end of 2024.

**Figure 3.2 Structure of investments in financial assets as at 30 June 2025**



Source: CNB.

The CNB invests funds in instruments with an investment grade rating; the assessment of creditworthiness is based on ratings issued by internationally recognised rating agencies (Moody's, Standard & Poor's and Fitch Ratings) and on an internally developed creditworthiness assessment model. At the end of the first half of 2025, approximately 68% of financial assets were invested in instruments within the two highest credit rating categories, funds in the account and BIS instruments.

The annual rate of return on the entire euro portfolio of financial assets was 1.73%, while the annual rate of return on the US dollar portfolio amounted to 4.16% in the first half of 2025.

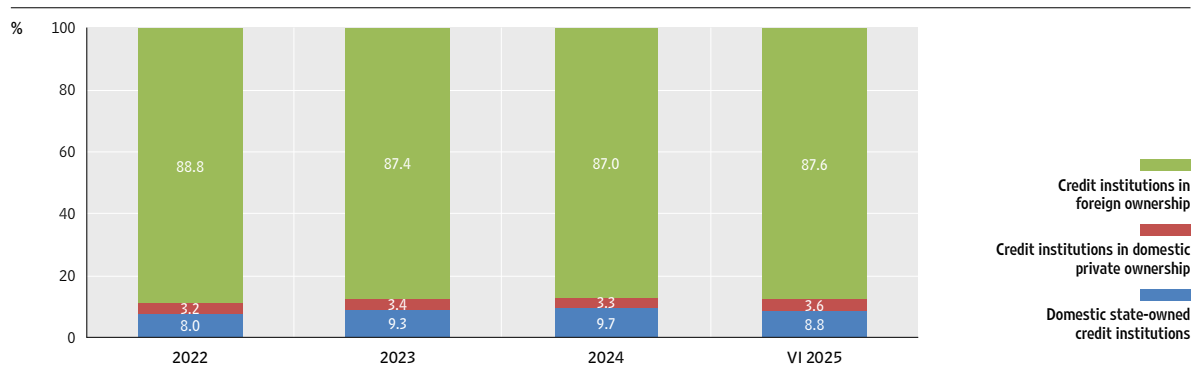
<sup>30</sup> Environment, social, governance. ESG investment refers to green, social and sustainable bonds.

## 4 Business operations of credit institutions

At the end of the first half of 2025, the structure of the banking system in the Republic of Croatia was stable. As at the end of 2024, 20 credit institutions were operating in the RC, 19 banks and three housing savings banks.<sup>31</sup> In addition, there was one branch of an EU credit institution, while more than 250 institutions from the EU and the EEA enjoyed the benefits provided by the application of the single passport, providing for the preconditions for direct provision of mutually recognised services in the Republic of Croatia.<sup>32</sup>

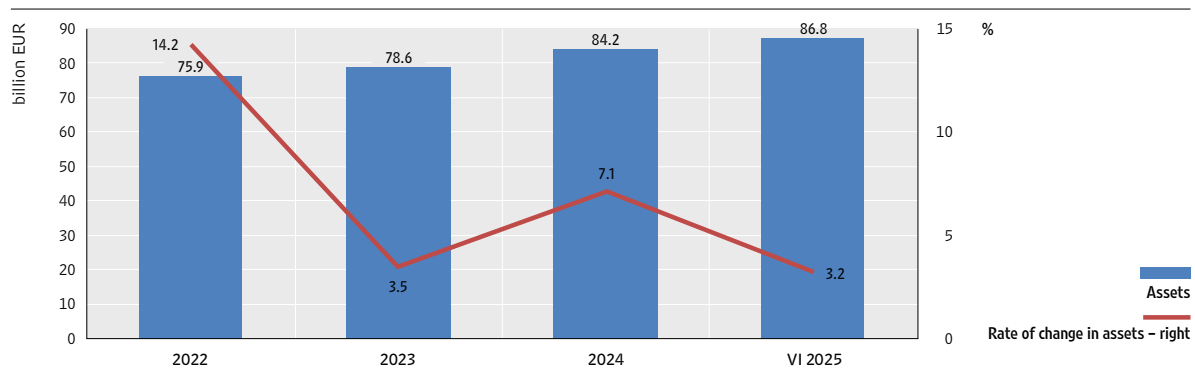
Ten credit institutions were in the majority ownership of foreign shareholders and their assets continued to dominate the total assets of the banking system (87.6%). Most credit institutions in majority foreign ownership are owned by shareholders from the European Union.

**Figure 4.1 Ownership structure of credit institutions and their share in total assets of credit institutions**



Source: CNB.

**Figure 4.2 Assets of credit institutions**



Source: CNB.

The assets of credit institutions, which increased by EUR 2.7bn (3.2%) in the first half of 2025, amounted to EUR 86.8bn. The increase in assets was predominantly based on the inflow of deposits, with a smaller contribution also coming from new issues of debt securities of credit

<sup>31</sup> Updated information on credit institutions operating in the territory of the Republic of Croatia may be found [here](#).

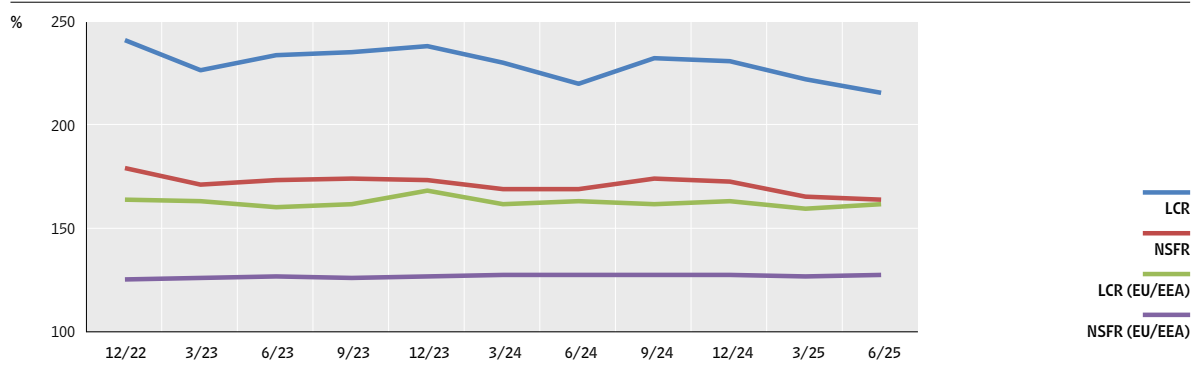
<sup>32</sup> A list of institutions exercising the right of establishment and freedom to provide services in the territory of the Republic of Croatia may be found [here](#).

institutions. Received deposits went up by EUR 2.0bn (2.9%), primarily household deposits and deposits of foreign credit institutions. Households increased their deposits exclusively on current accounts, while the amount of deposits with agreed maturities decreased, which may be attributed to the decrease in interest rates and a decline in interest in this type of savings.

**In addition to increasing, assets continued restructuring, with highly liquid assets being redirected to other forms of investments.** The decrease in key ECB interest rates<sup>33</sup> is associated with weaker motivation for overnight deposits with the CNB<sup>34</sup> so total monetary assets fell by EUR 4.7bn (25.6%). In the search for higher yields a portion of these assets was invested in debt securities, with investments in domestic central government securities rising the most.

**Despite the decrease in total monetary assets, their share in total assets of the banking system is still considerable (16%).** These assets, together with other highly liquid assets, provided for sufficient short-term liquidity of credit institutions. The average value of the liquidity coverage ratio (LCR) stood at 215.6%, more than two times the prescribed minimum of 100%.<sup>35</sup> Credit institutions secured their long-term liquidity – the value of the net stable funding ratio (NSFR) stood at 164.2%, also much above the prescribed minimum of 100%. The greatest contribution came from household deposits, providing for the largest share of the available sources of financing. All credit institutions met the prescribed minimum liquidity requirements.

**Figure 4.3 Liquidity indicators of credit institutions**



Sources: CNB and EBA.

**Loans and advances (net) rose by EUR 3.0bn (5.9%), with the bulk of this increase being channelled to key non-financial sectors – households and loans to non-financial corporations.** Household loans increased by EUR 1.8bn (7.7%), with housing loans accounting for the largest share of the growth. General-purpose cash loans continued to increase at a growth dynamic similar to last year's. Loans to non-financial corporations increased by EUR 1.5bn (9.6%),

<sup>33</sup> ECB interest rate on overnight deposits decreased on four occasions in the first half of 2025. At the beginning of the year the rate applied was 3.00%, while at the end of the first half of the year the rate applied was 2.00%. An overview of ECB key interest rates for the euro area may be found [here](#).

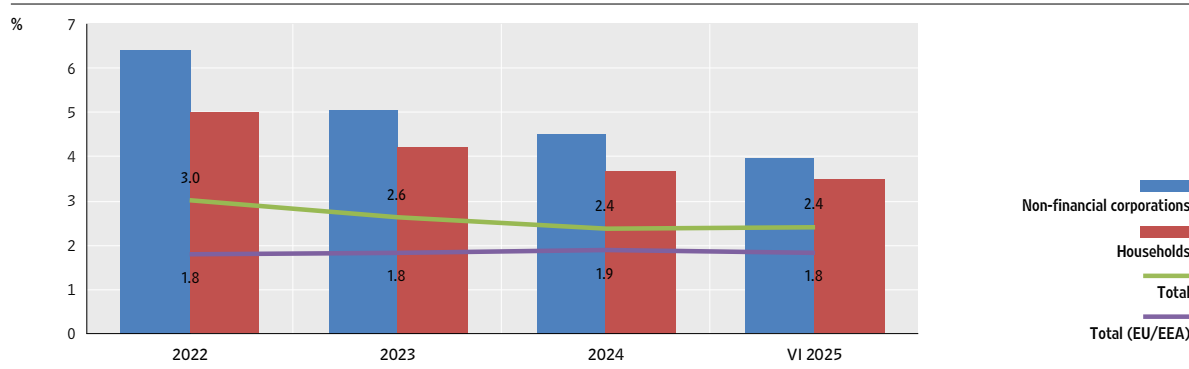
<sup>34</sup> Overnight deposit is a category of standing facility offered within the scope of Eurosystem monetary policy operations, the access to which is enabled by the CNB in line with the objectives and the general stance of the ECB's monetary policy. The overnight deposit is subject to a previously set interest rate regularly determined by the Governing Council of the ECB.

<sup>35</sup> Data on the values of key performance indicators of the RC banking system may be found [here](#).

primarily to debtors from the manufacturing sector, trade sector and accommodation and food service activities.

The volume of NPLs continued to reduce, with the rate of this decrease slowing down to 0.7%. Thus, the share of non-performing loans (NPLs) in total loans held steady at the previous year's level (2.4%). The quality of loans in the banking system of Croatia measured by this indicator remained below the EU average (1.8%),<sup>36</sup> although the number of credit institutions facing high NPL ratios decreased.

**Figure 4.4 Share of non-performing loans in total credit institution loans**



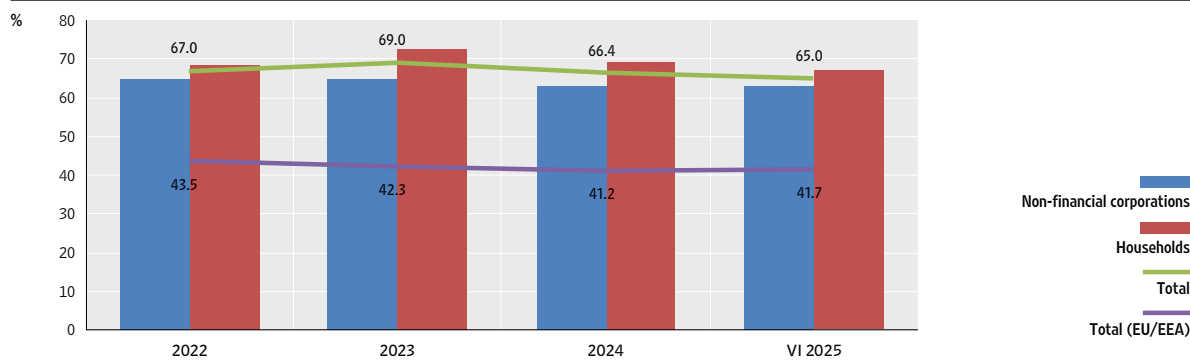
Sources: CNB and EBA.

The decrease in NPLs continued under the influence of the recovery in the portfolio of loans to non-financial corporations. The amount of NPLs in this portfolio continued to decrease, primarily due to repayments and reclassifications to performing status. This resulted in the decrease of the share of NPLs in non-financial corporations, from 4.5% at the end of 2024 to 4.0% at the end of the review period. The share of NPLs also decreased in the household sector, from 3.7% to 3.5%, due entirely to new credit activity. That is, after years of almost continued decline and despite further sales of non-performing loans, the first half of 2025 registered a small rise in the amount of NPLs in this sector (1.8%), due to the increased risk associated with general-purpose cash loans. Household loans are still the largest source of total NPLs in the banking system, accounting for 56%.

Credit institutions continued to maintain the coverage of NPLs by impairment at a very high level (65.0%) and much above the average NPL coverage within the EU banking system (41.7%).

<sup>36</sup> Data on the values of key performance indicators of the EU banking system may be found [here](#).

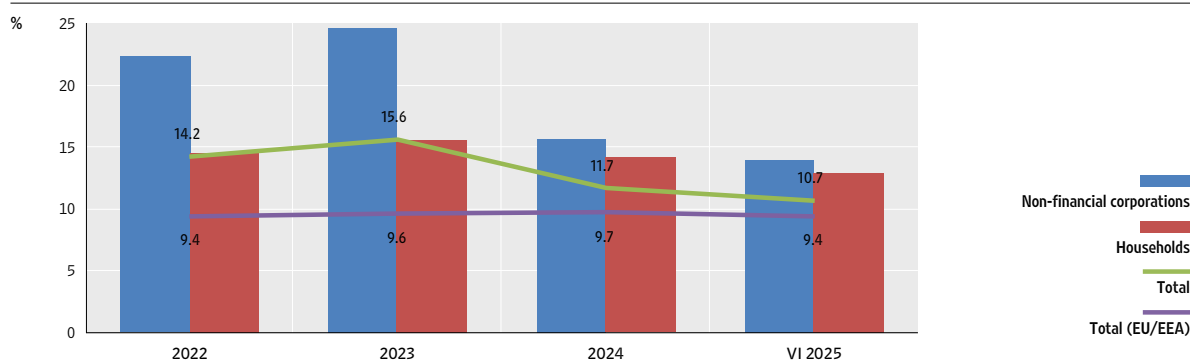
Figure 4.5 Coverage ratio of non-performing loans



Sources: CNB and EBA.

The improvement in the loan portfolio quality is also visible in relation to performing loans. Namely, the share of loans in value impairment stage 2 continued decreasing, from 11.7% to 10.7% of total loans.<sup>37</sup> However, this is still an increased level of credit risk, both in comparison to the pre-pandemic period and in comparison to the EU banking system average (9.4%).

Figure 4.6 Share of loans in value impairment stage 2 in total credit institution loans



Sources: CNB and EBA.

The operation of credit institutions in the first half of 2025 generated EUR 0.80bn in profit, down 1.4% from the same period last year. Therefore, the value of profitability indicators decreased as well – the return on assets (ROA) totalled 1.9% and the return on equity (ROE) was 16.7%.

The decrease in profitability was under the predominant impact of the fall in net interest income (EUR 49m or 4.3%) and to a lesser extent of the changes in other key items of the statement of profit and loss. The decrease in net interest income is a consequence of the fall in interest income (EUR 82m or 5.2%), primarily under the influence of the described reduction in funds deposited overnight with the CNB. Operations with other credit institutions also generated smaller interest income. Interest income from other sectors increased, predominantly the income from loans to households (EUR 73m or 15.6%). The increase in interest income was also

<sup>37</sup> Each instrument that is subject to the calculation of expected credit loss, which includes all debt instruments measured at amortised cost and at fair value through other comprehensive income, is classified in one of the three stages of value impairment. An instrument is classified in stage 2 if there is a significant increase in credit risk (stopping short of default), where the expected loss is calculated for the entire lifetime of the instrument.

realised in the general government sector (EUR 24 or 10.1%), almost entirely from investments in securities. Interest income from loans to non-financial corporations stagnated. The described developments ultimately changed the structure of total interest income broken down by sector, which reflects renewed strengthening of the share of households, which over the previous two years had been stifled by the high share of interest income from central banks.

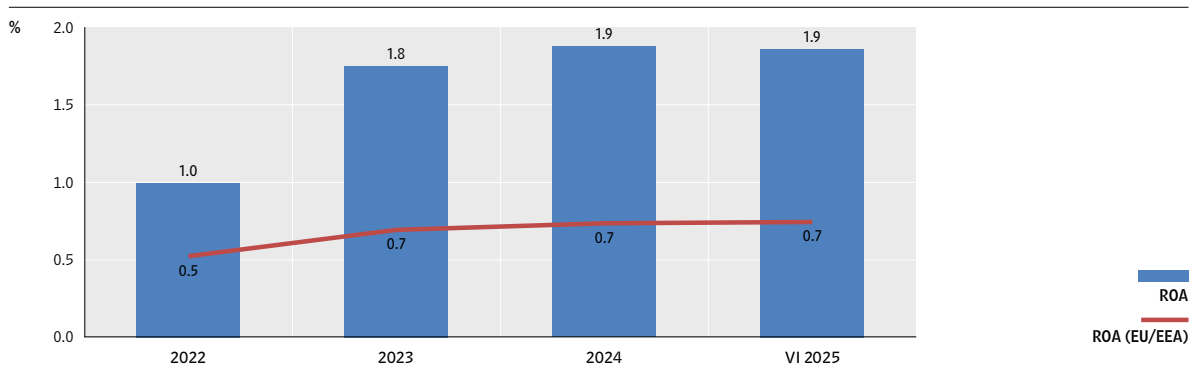
**Interest expenses went down by EUR 32m (7.8%) after four years of strong growth.** Among the factors affecting these developments was the decline in interest rates on deposits with agreed maturity, which was stronger than the effect of growth in these deposits.<sup>38</sup>

**Amid the increase in interest-bearing assets these developments in interest income and expenses resulted in the reduction in the net interest margin to 2.6%.** However, the level of this indicator continues to exceed the EU banking system average (1.6%).

**Nevertheless, net operating income realised a small growth (2.6%), thanks to the growth of non-interest income.** This was primarily due to the increase in dividend income and fee and commission income from most services. General operating expenses rose more than total net income (6.0%) thus slightly decreasing cost efficiency. The cost-to-income ratio (CIR) of credit institutions was 40.7%.

**The reversal of impairment expenses and income generated on this basis reflect positive developments in quality indicators.** However, the amount of this income almost halved compared with the same period last year, which pushed down profit.

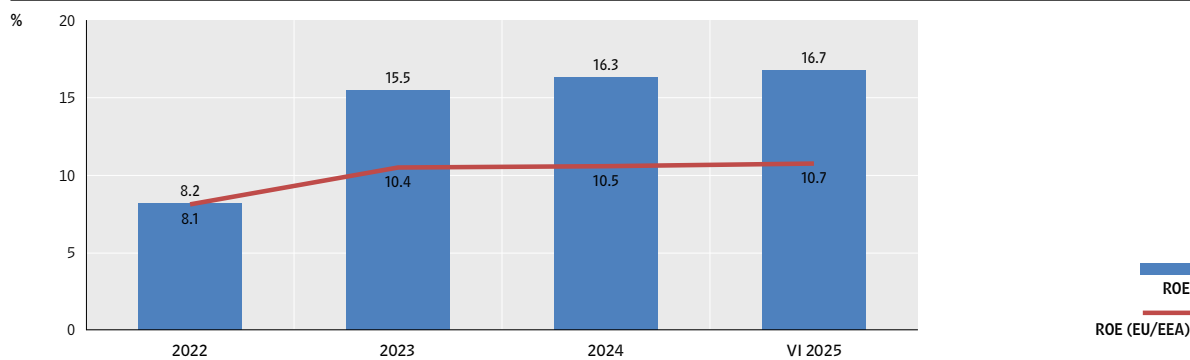
**Figure 4.7 Return on assets (ROA) of credit institutions**



Sources: CNB and EBA.

<sup>38</sup> Data on the level of interest rates may be found here.

Figure 4.8 Return on equity (ROE) of credit institutions



Sources: CNB and EBA.

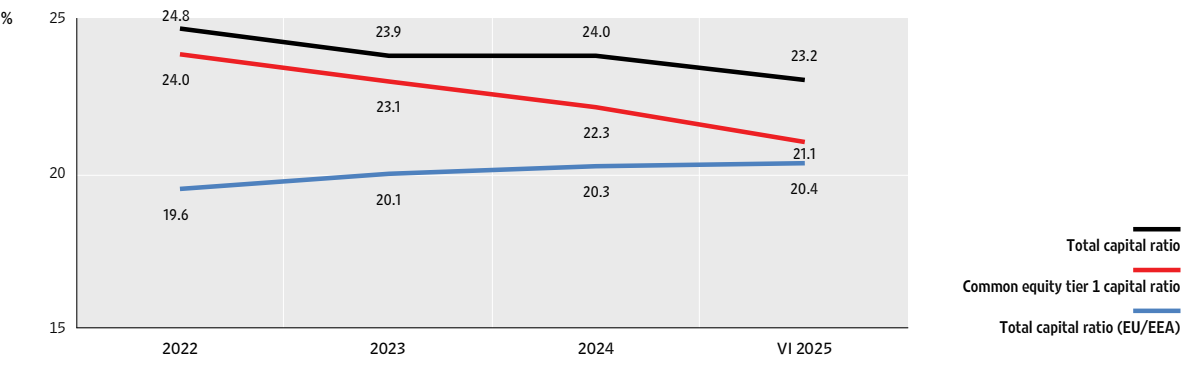
The values of key indicators of banking system capitalisation decreased at the end of the first half of 2025 but remained high. The total capital ratio dropped from 24.0% at the end of 2024 to 23.2% at the end of the first half of 2025, due to the difference in the rate of growth of own funds (0.4%) and the growth in risk exposure. The high level of capitalisation of the Croatian banking system, sufficient to cover unexpected losses, is also reflected in the leverage ratio. This ratio stood at 9.0% at the end of the first half of 2025, which is much above the EU average and more than three times above the regulatory minimum (3%).

The increase in total risk exposure continued with further credit activity but also under the influence of the start of implementation of CRR3, in particular in the part relating to exposures to credit and operational risk.<sup>39</sup> The greatest impact of regulatory novelties brought by the CRR3 to the measurement of credit risk exposure is visible in the decrease of the part measured by internal rating systems (the so-called IRB approach). However, as credit activity continued and exposures measured using the standardised approach increased, the overall exposure to credit risk ultimately increased (2.4%). The structure of credit risk exposure measured by the standardised approach continues to be dominated by items that are assigned a risk weight of 0%, accounting for 45% of the exposures measured by this approach. Changes in the share of items weighted by higher risk weights mainly reflect regulatory changes in the treatment of exposures secured by mortgages on real estate property. With a share of 88%, credit risk continued to dominate the structure of total risk exposures.

**Regulatory changes contributed the most to the increase in operational risk (15.3%).** This is a consequence of the introduction of the single standardised approach to measuring this risk, replacing all previously applied approaches.

<sup>39</sup> Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor entered into force on 1 January 2025, except in the part relating to market risks and transitional provisions.

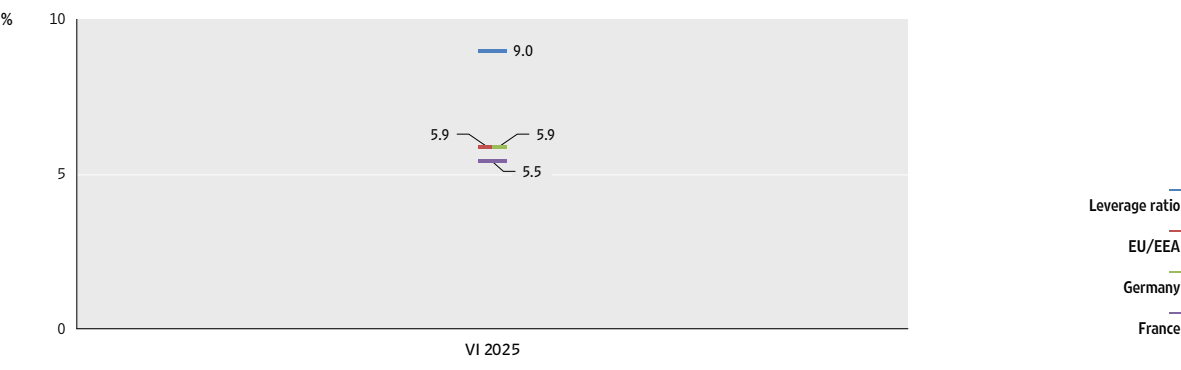
Figure 4.9 Key indicators of credit institution capitalisation



Sources: CNB and EBA.

All credit institutions reported a total capital ratio above the prescribed minimum of 8%, while 16 of them, accounting for almost 91% of the total system assets, boasted a total capital ratio of above 20%. Although showing a slight downward trend, the average total capital ratio in the Croatian banking system is still above the EU average (20.4%).

Figure 4.10 Leverage ratio of credit institutions



Sources: CNB and EBA.



## Abbreviations and symbols

### Abbreviations

<b>ANFA</b>	Agreement on Net Financial Assets
<b>APP</b>	asset purchase programme
<b>BLS</b>	Bank lending survey
<b>bn</b>	billion
<b>CBRD</b>	Croatian Bank for Reconstruction and Development
<b>CBS</b>	Central Bureau of Statistics
<b>CEE</b>	countries of Central and Eastern Europe (Czech Republic, Hungary, Poland and Romania)
<b>CES</b>	Croatian Employment Service
<b>CHF</b>	Swiss franc
<b>CHIF</b>	Croatian Health Insurance Fund
<b>CIR</b>	cost-to-income ratio
<b>CPI</b>	consumer price index
<b>CPII</b>	Croatian Pension Insurance Institute
<b>CNB</b>	Croatian National Bank
<b>DFR</b>	deposit facility rate
<b>EBA</b>	European Banking Authority
<b>ECB</b>	European Central Bank
<b>EEA</b>	European Economic Area
<b>EER</b>	effective exchange rate
<b>EONIA</b>	euro overnight index average
<b>ESG</b>	environment, social, governance
<b>ESM</b>	European Stability Mechanism
<b>EU</b>	European Union
<b>EUR</b>	euro
<b>EURIBOR</b>	euro interbank offered rate
<b>€STR</b>	euro short-term rate
<b>Fed</b>	Federal Reserve System
<b>FRFA</b>	fixed rate full allotment
<b>GDP</b>	gross domestic product
<b>GVA</b>	gross value added
<b>HANFA</b>	Croatian Financial Services Supervisory Agency
<b>HICP</b>	harmonised index of consumer prices
<b>JPY</b>	Japanese yen
<b>LCR</b>	liquidity coverage ratio
<b>m</b>	million
<b>MLF</b>	marginal lending facility
<b>MRO</b>	main refinancing operations
<b>NCA</b>	National Classification of Activities
<b>NPL</b>	non-performing loans

<b>NRR</b>	national reference rate
<b>NSFR</b>	net stable funding ratio
<b>OG</b>	Official Gazette
<b>OMT</b>	outright monetary transactions
<b>PEPP</b>	pandemic emergency purchase programme
<b>RC</b>	Republic of Croatia
<b>ROA</b>	return on assets
<b>ROE</b>	return on equity
<b>Q</b>	quarter
<b>SDR</b>	special drawing rights
<b>SITC</b>	Standard International Trade Classification
<b>TLTRO</b>	targeted longer-term refinancing operations
<b>TPI</b>	transmission protection instrument
<b>US</b>	United States
<b>USD</b>	US dollar

## Symbols

<b>–</b>	no entry
<b>....</b>	data not available
<b>0</b>	value is less than 0.5 of the unit of measure being used
<b>Ø</b>	average
<b>a, b, c,...</b>	indicates a note beneath the table and figure
<b>*</b>	corrected data
<b>()</b>	incomplete or insufficiently verified data

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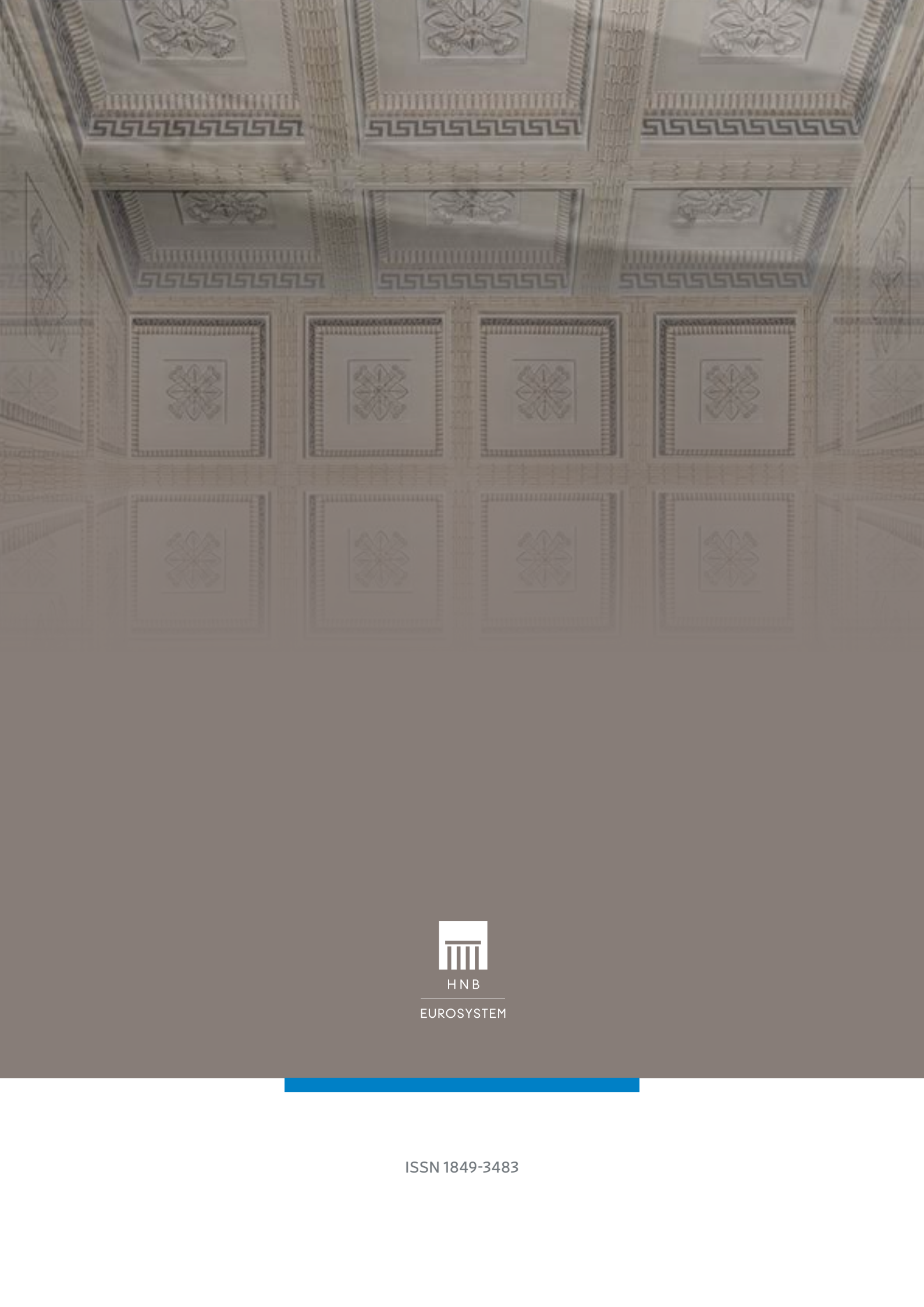
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**ISSN 1849-3483 (online)**



HNB

EUROSYSTEM

ISSN 1849-3483