CROATIAN NATIONAL BANK

EUROSYSTEM

Macroeconomic developments and projections amid elevated uncertainty

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New York
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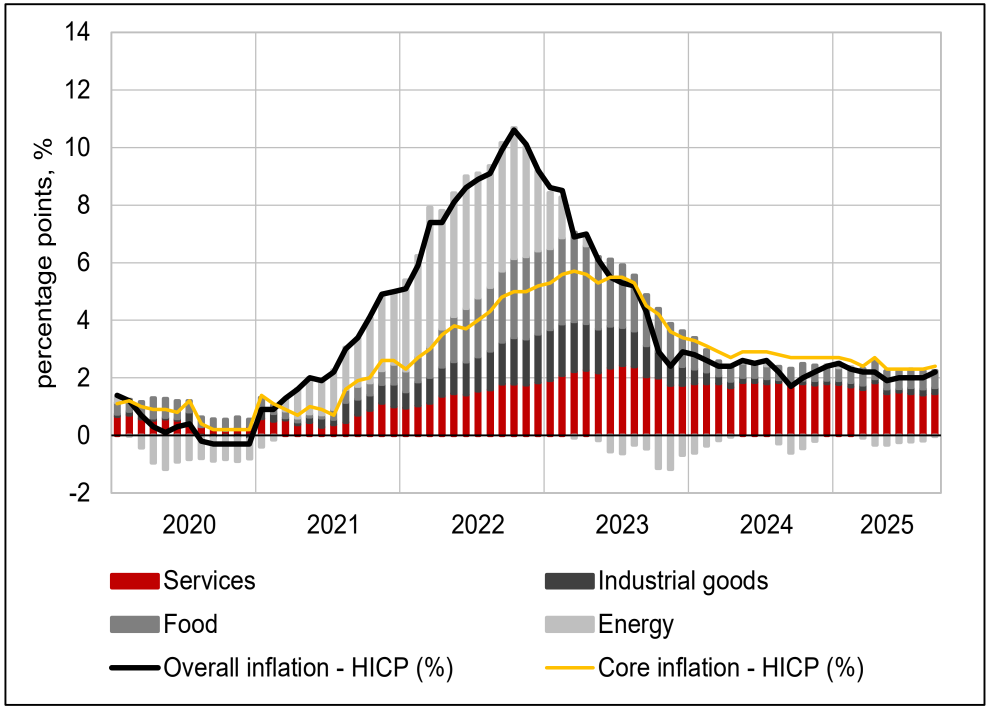
Macroeconomic developments and projections – overview and forecast

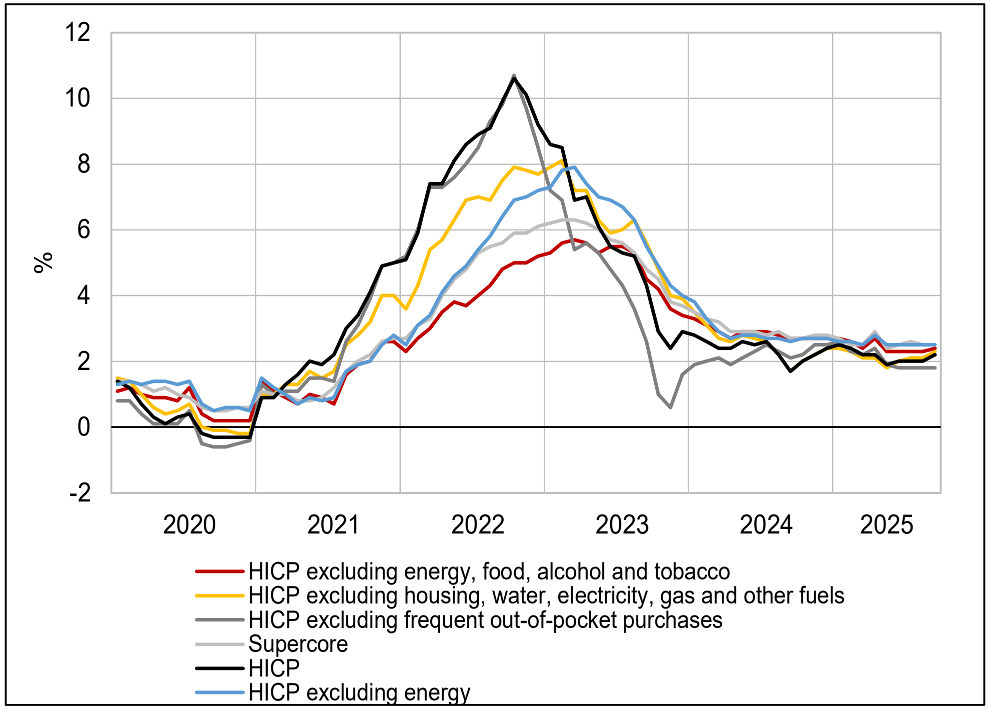
Headline inflation in the euro area accelerated to 2.2% in September following higher energy inflation, while core inflation inched-up to 2.4%

Annual inflation rate in the euro area and the contributions of main components



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

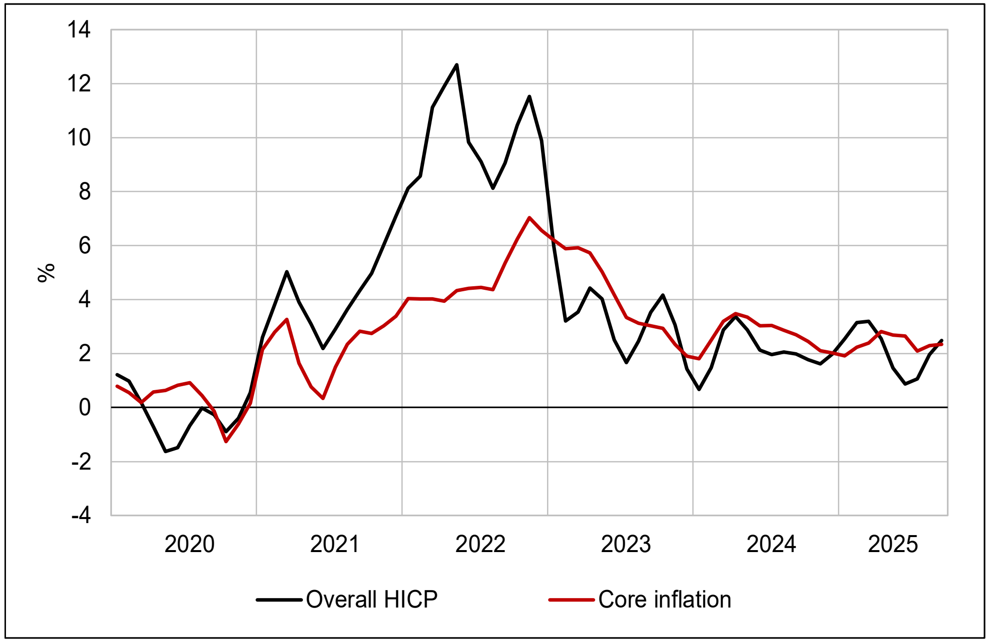
Core inflation indicators in the euro area



Sources: Eurostat, CNB calculations

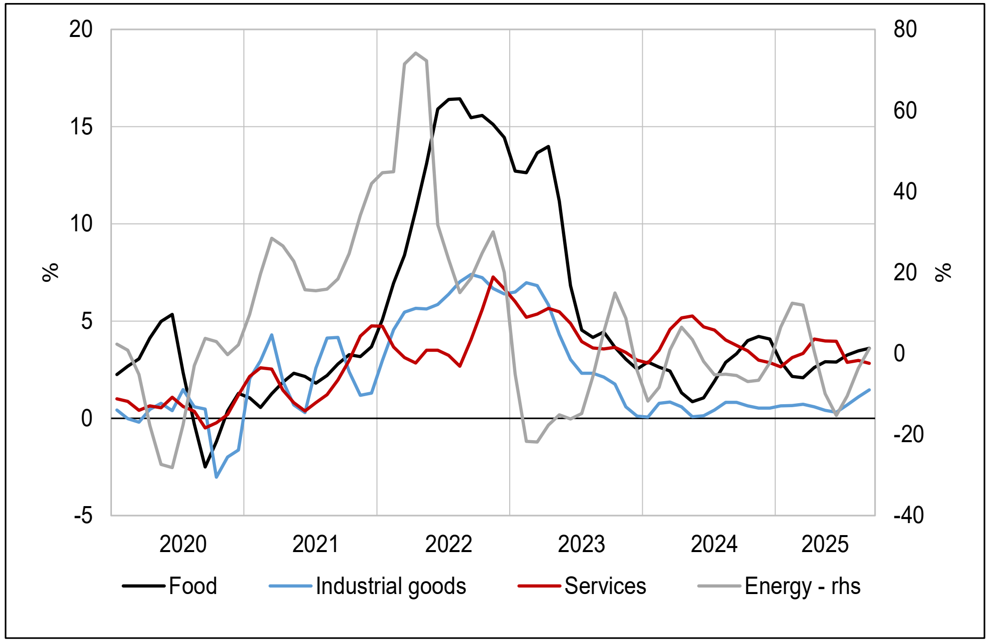
Current pressures on prices have moderated

Momentums of overall and core inflation in euro area



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

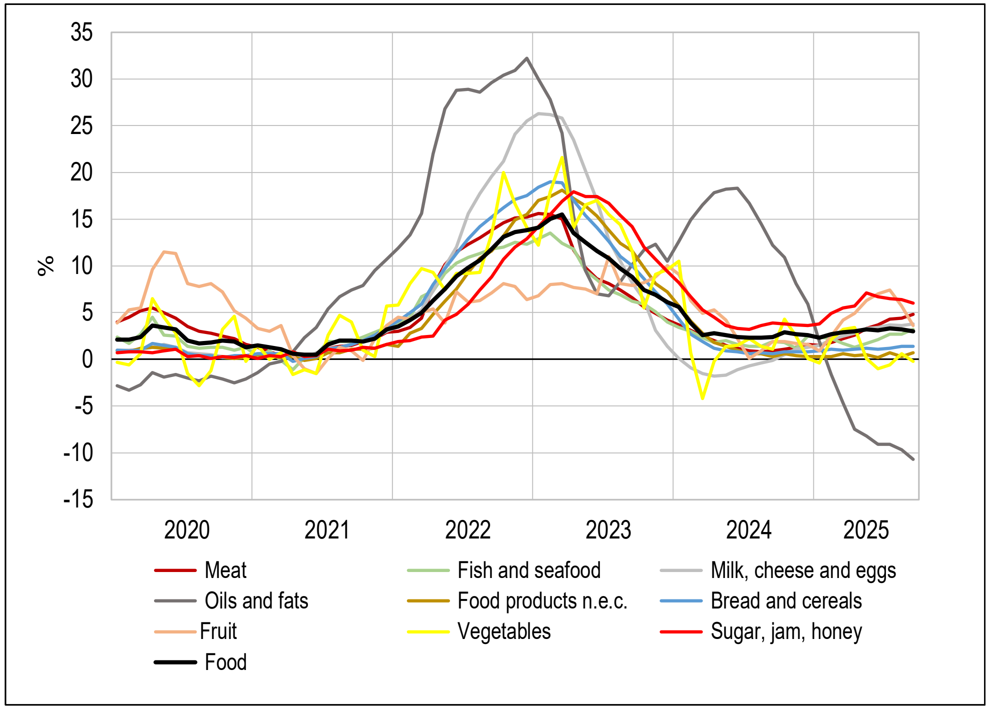
Momentums of main inflation components in euro area



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

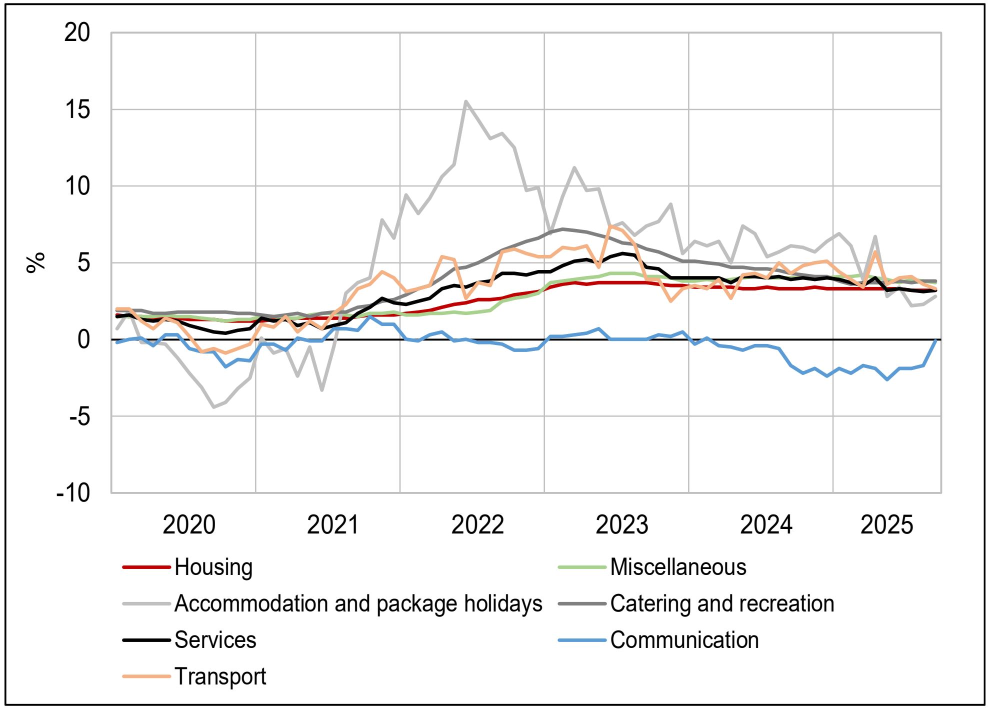
In the last five months, food inflation has risen to around 3.2%, while services inflation, though elevated, has gradually declined to an average of 3.2%

Inflation of food subcomponents in the euro area



Source: Eurostat.

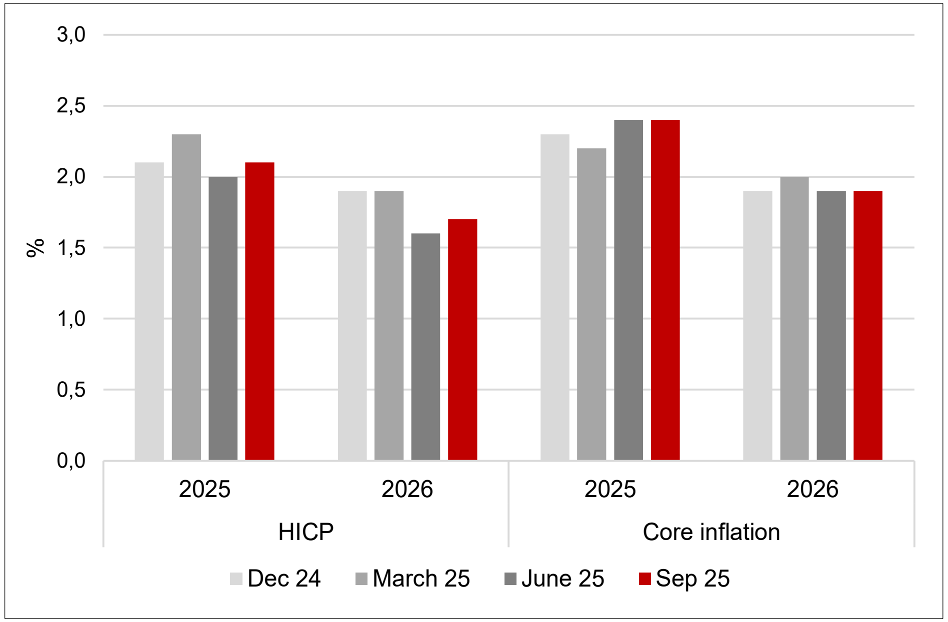
Inflation of services subcomponents in the euro area



Source: Eurostat.

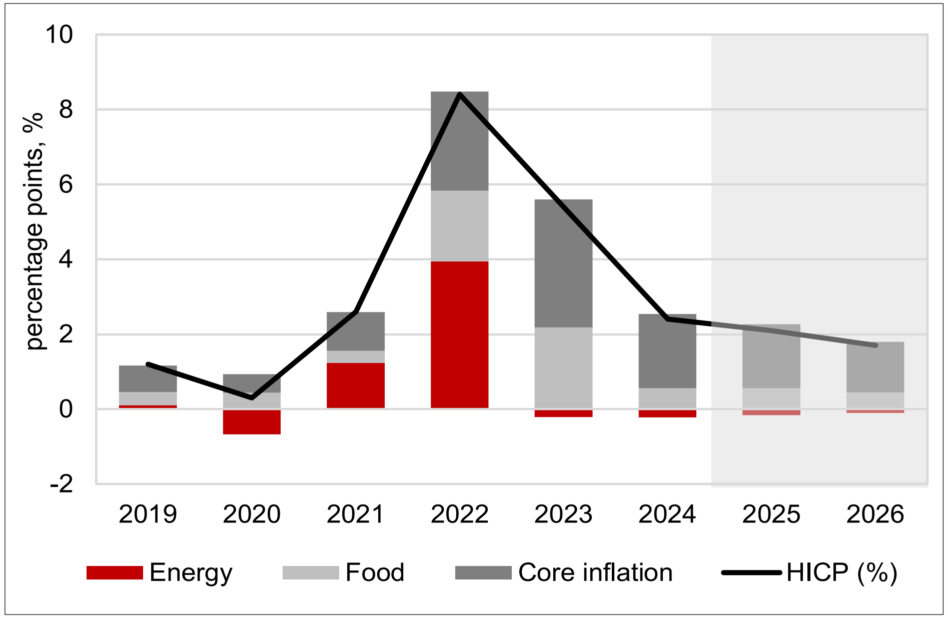
Inflation is set to temporarily undershoot the target in 2026 while magnitude of revisions to the forecast narrowed considerably

Inflation forecast in EA



Sources: Eurostat; ECB forecast

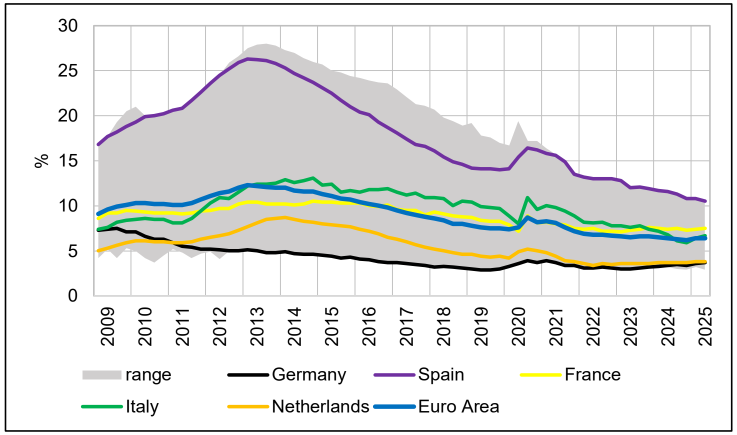
Inflation forecast in EA



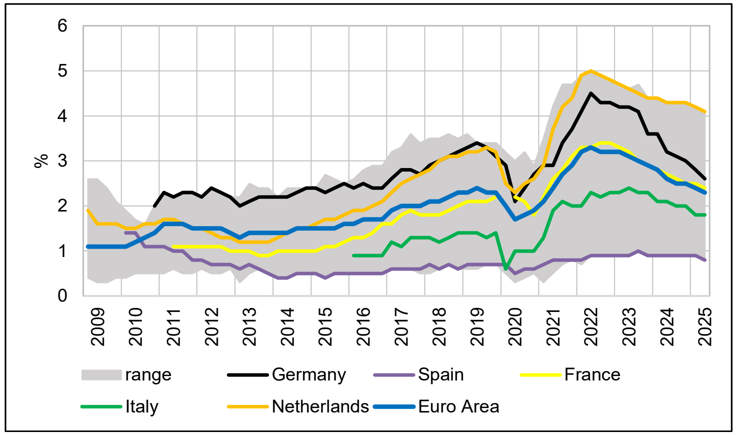
Sources: Eurostat; ECB forecast

Wage pressures in the euro area expected to stabilise in 2025 amid a still resilient labour market

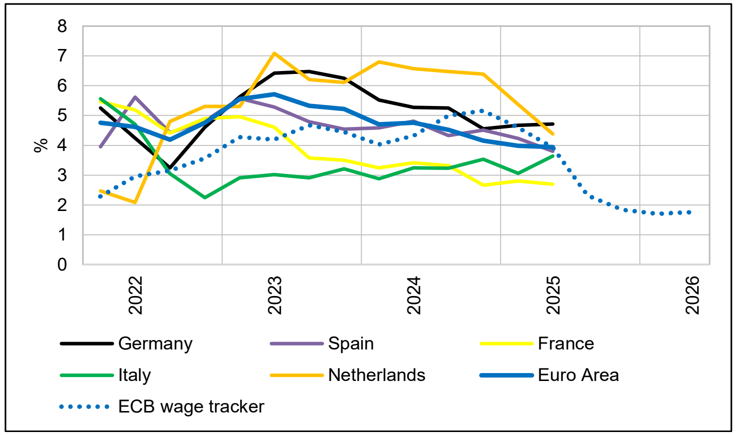
Unemployment rate



Job vacancy rate



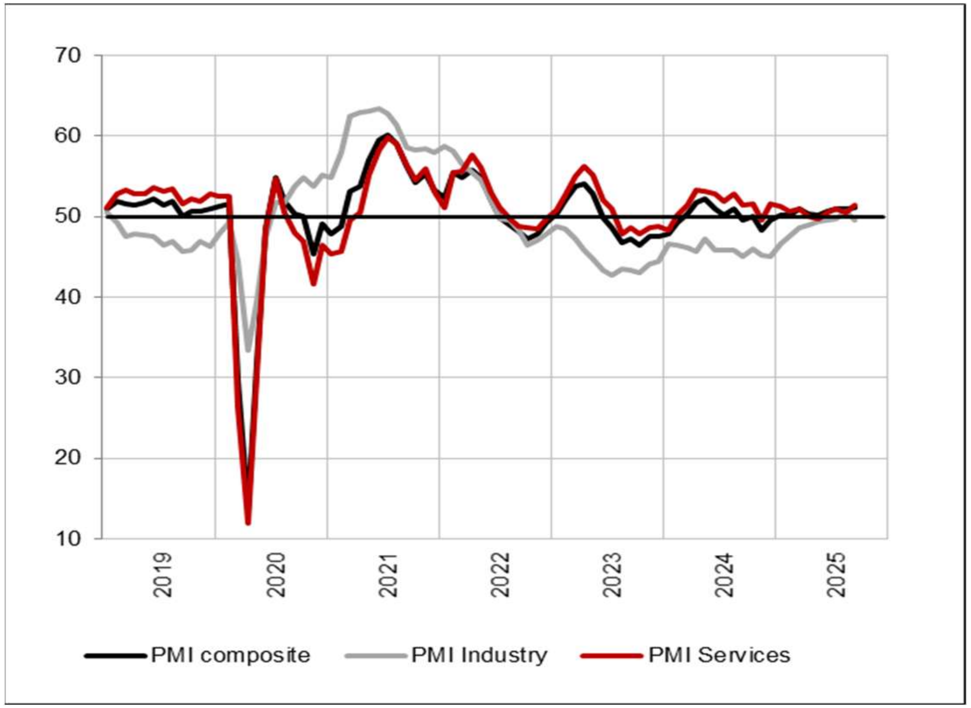
Compensation per employee



Sources: Eurostat and ECB

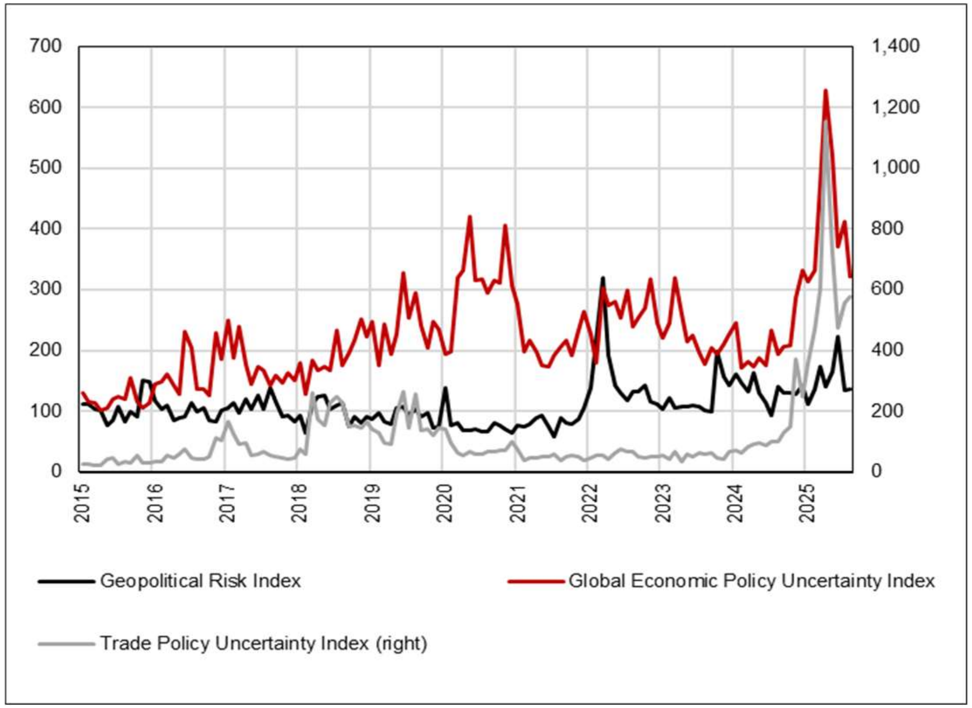
High-frequency sentiment indicators remain stagnant, while uncertainty declined but remains relatively elevated

PMI indicators in 2025



Source : S&P Global Market Intelligence

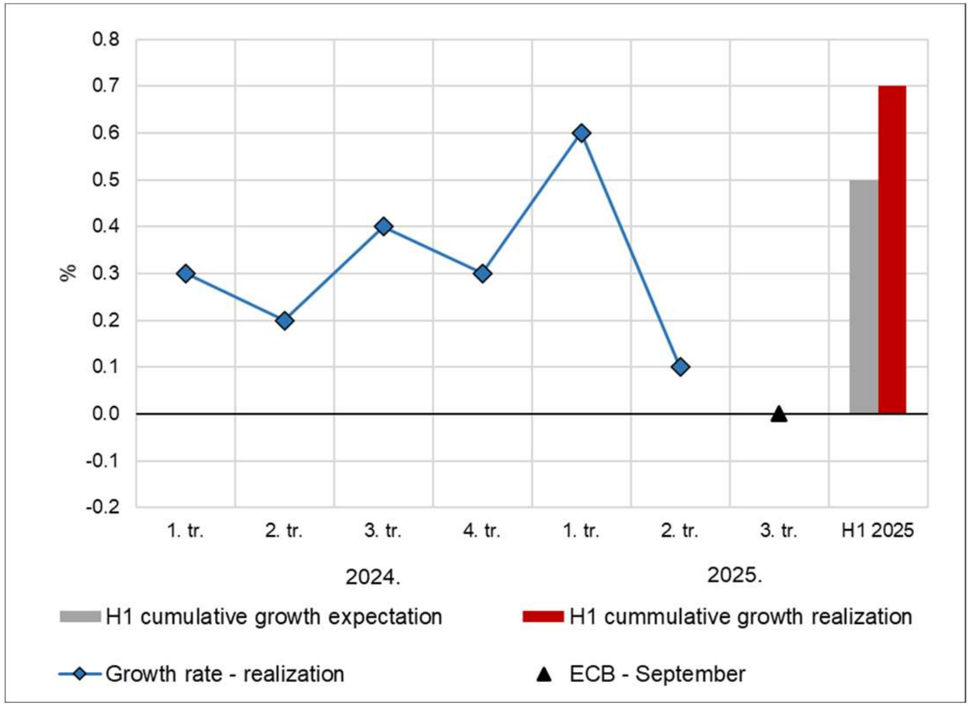
Economic uncertainty indicators



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

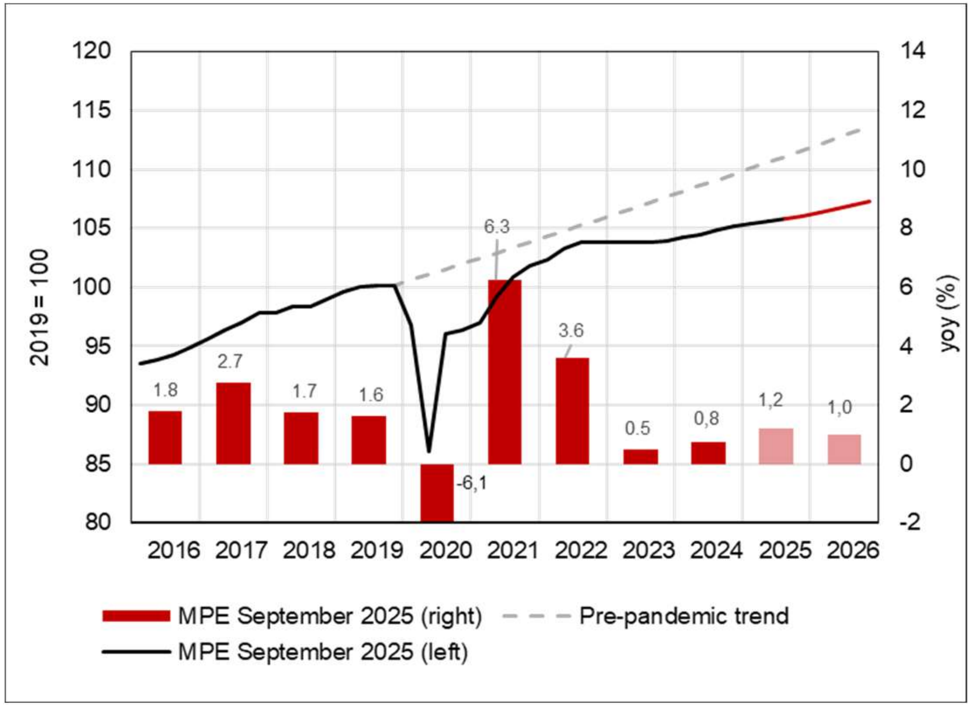
Economic activity in 2025 so far proved to be more robust than expected, although recovery is still lagging behind the pre-pandemic trend

Projection of economic growth in the euro area



Source: ECB, September 2025 MPE

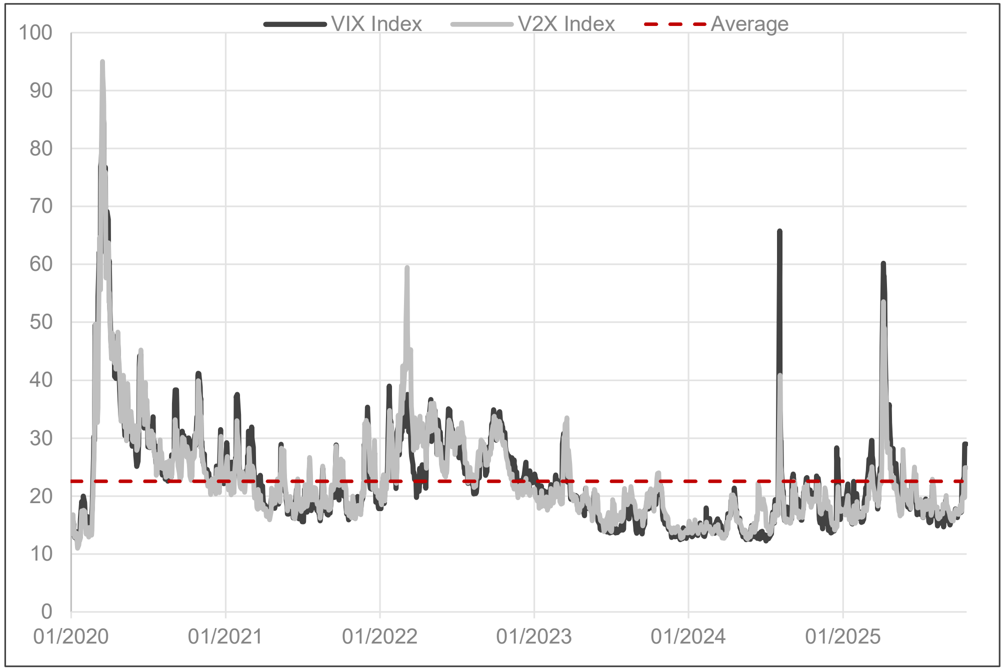
Euro area and prepandemic trend



Note: ECB MPE September 2025
Sources: ECB, Eurostat

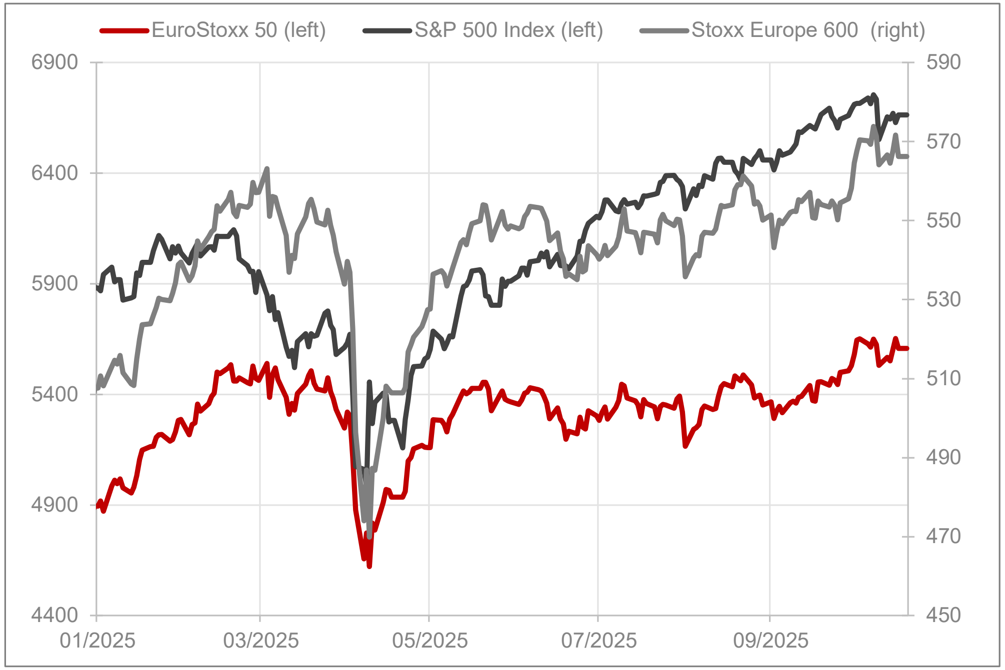
Financial markets have remained largely unfazed despite trade tensions, the US government shutdown, French political gridlock, and other significant geopolitical and economic factors

Implied volatility was this year mostly below 5y average



Notes: The VIX index reflects the expected future volatility of the market based on S&P 500 index options, while the V2X index represents the same for the Euro Stoxx 50 index. The red dashed line indicates the average value over the observed period.
Sources: Bloomberg

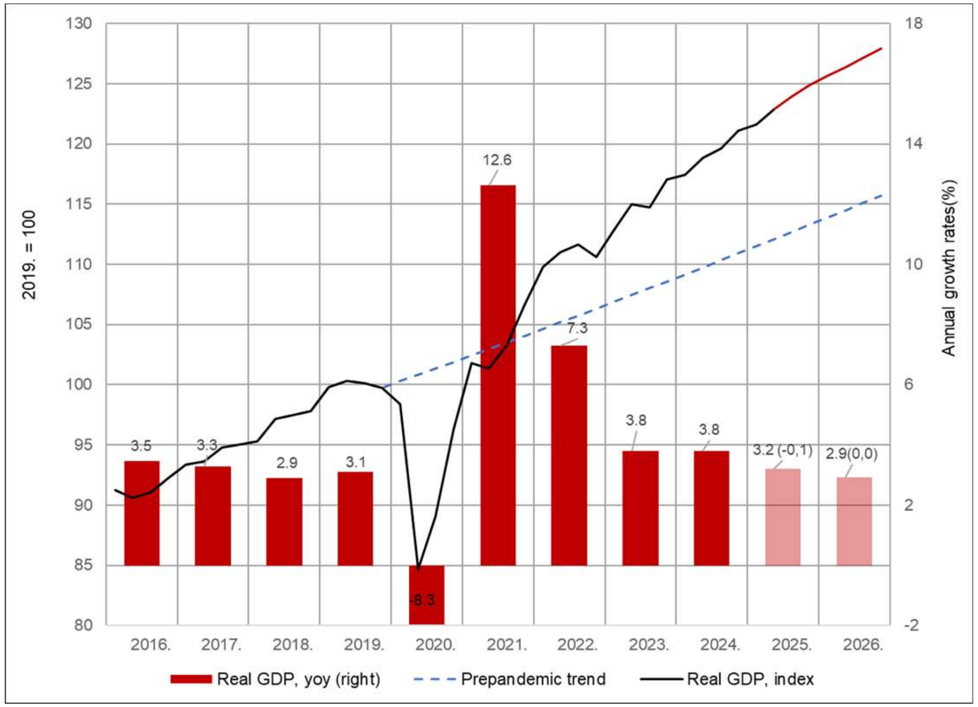
Equity indices reaching all time highs in October



Sources: Bloomberg

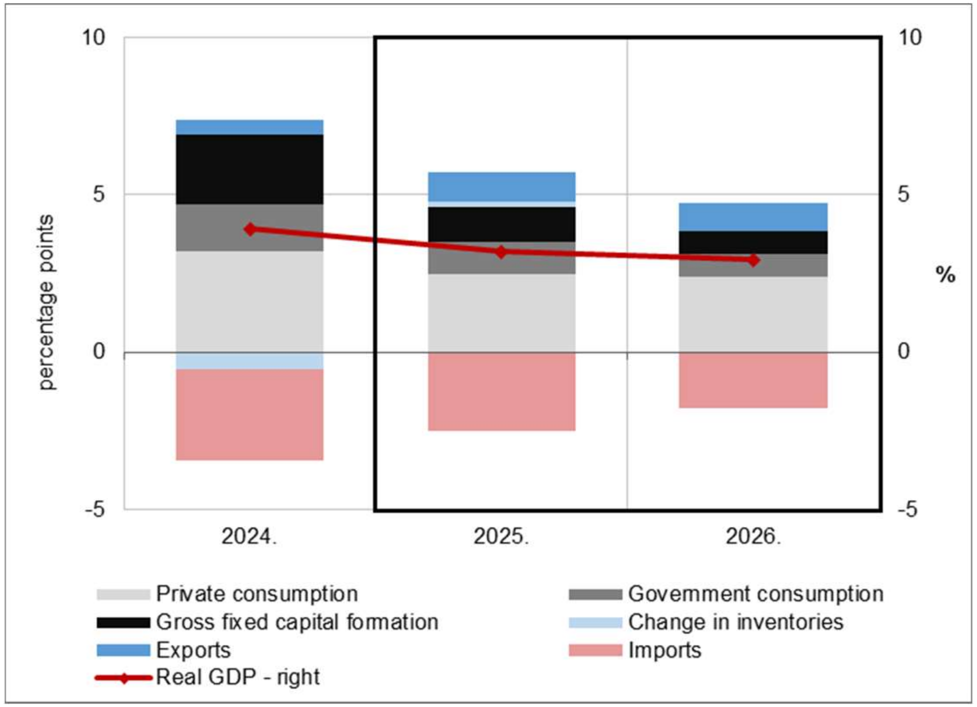
Croatia's GDP is expected to continue increasing at an average rate of close to 3%, with activity significantly above the pre-pandemic trend

Croatia and prepandemic trend



Note: CNB projections from September 2025
Sources: CBS; CNB

Contributions to GDP growth



Note: CNB projections from September 2025
Sources: CBS; CNB

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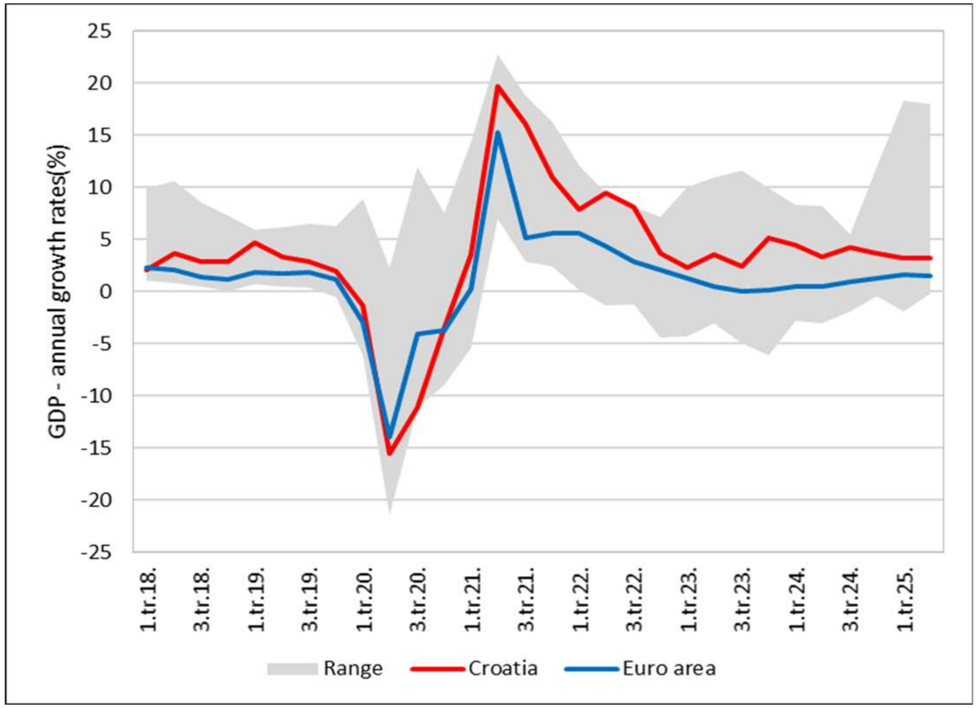
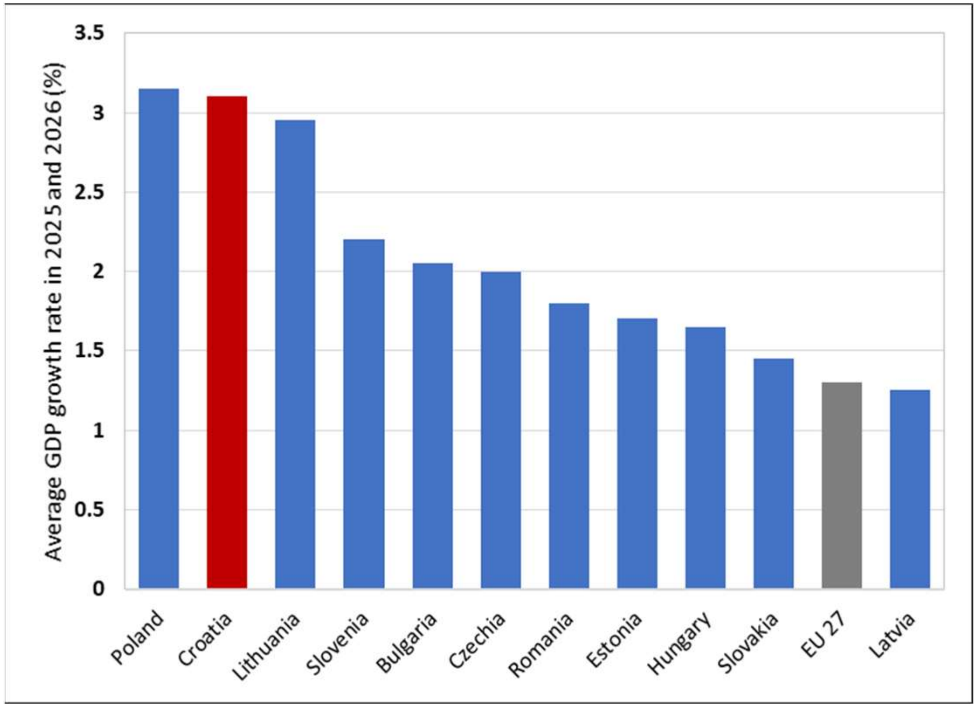
Significantly surpassing growth observed in most EU countries

Economic activity in the EA



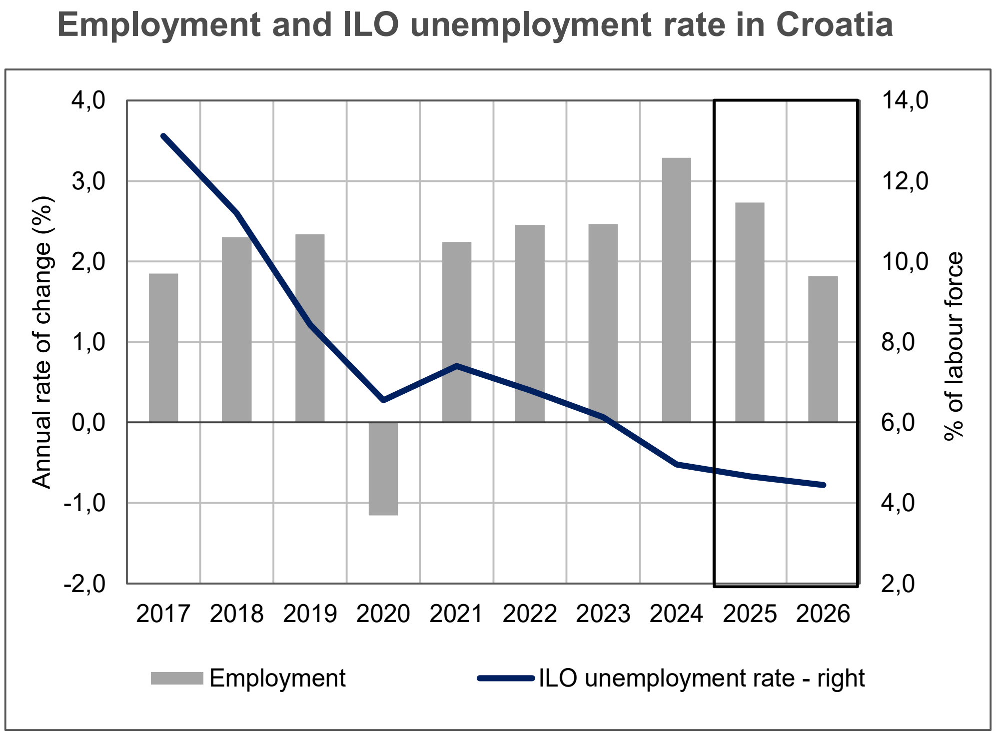
Source: Eurostat

GDP growth rate (average 2025-2026)

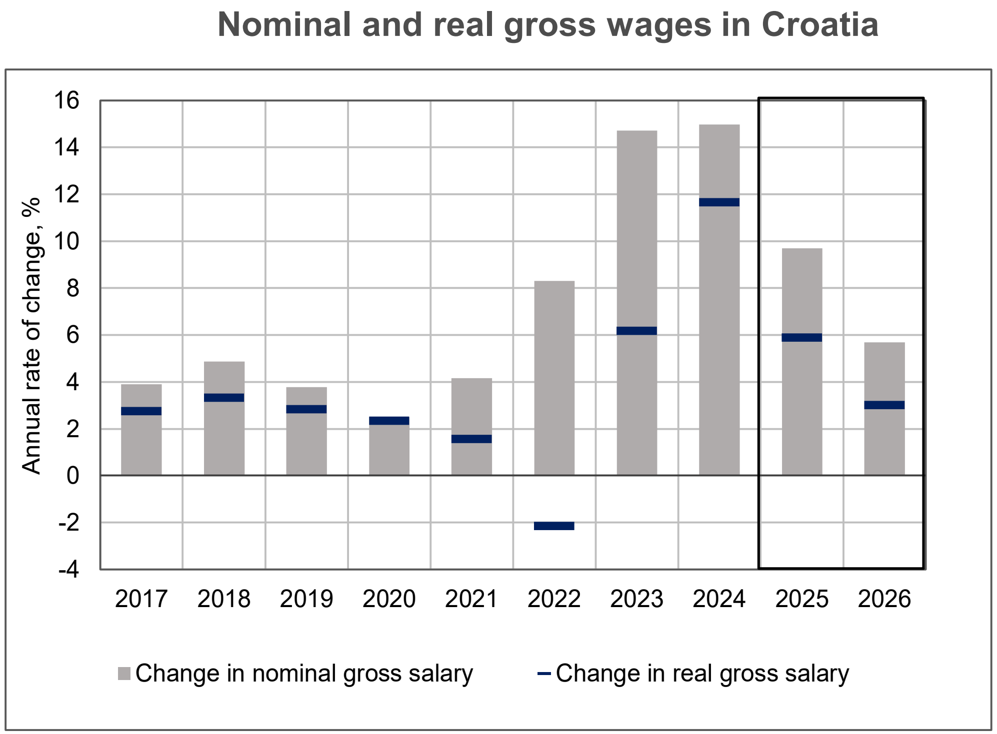


Source: Ameco and CNB

The labour market remains strong, while wage pressures are gradually easing



Sources: CPII, CBS, CNB projection



Sources: CBS, CNB calculations and projection

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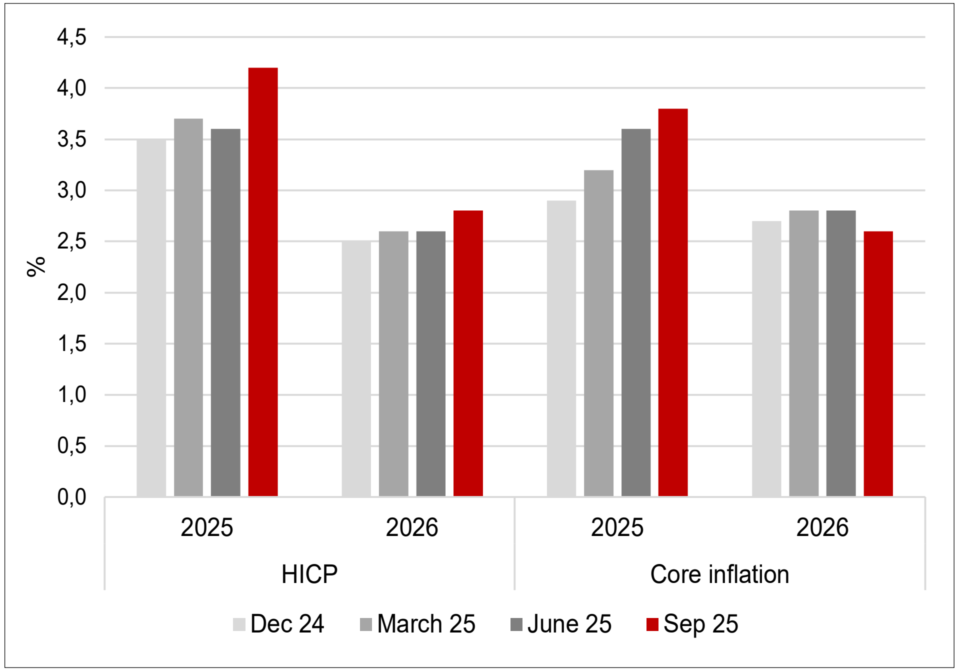
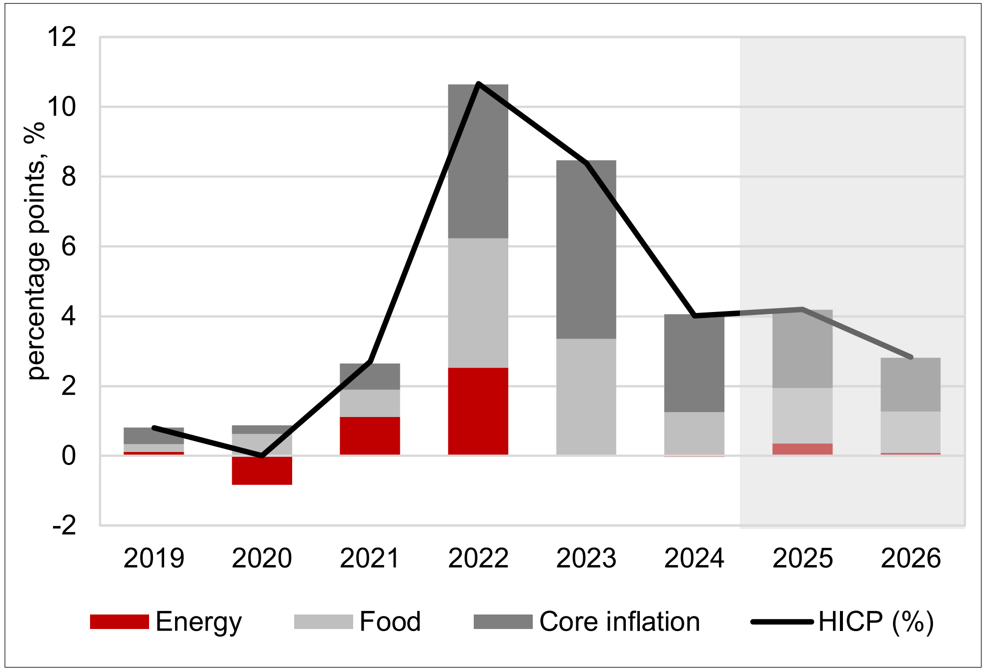
After increasing in 2025, headline HICP inflation in Croatia is expected to decline to 2.8% in 2026

HICP inflation forecast in Croatia



Sources: Eurostat; CNB forecast

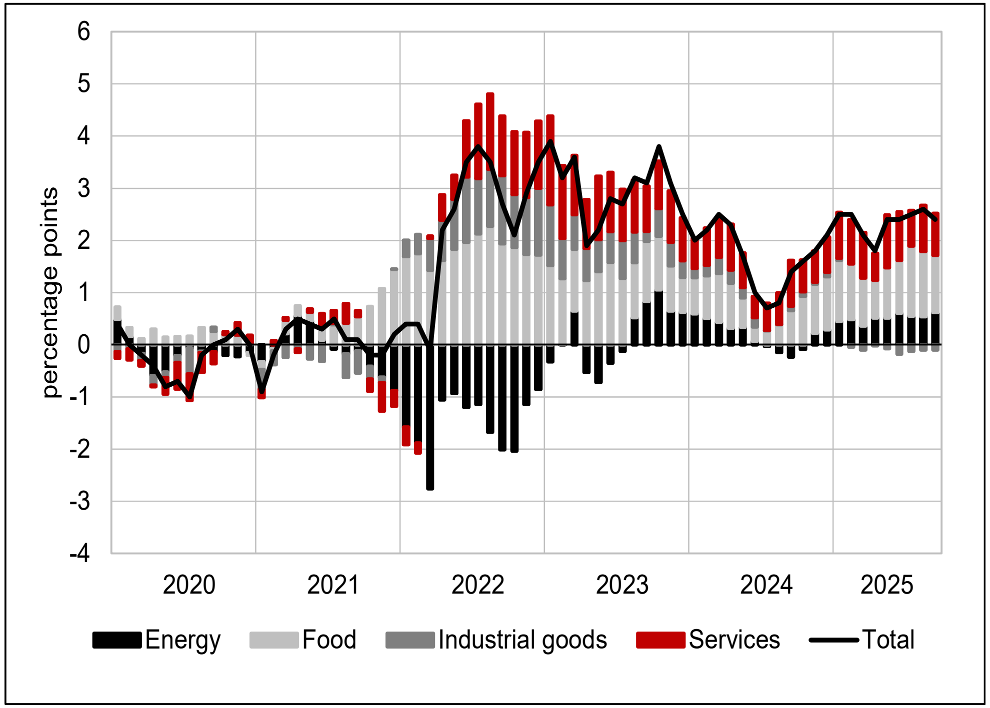
HICP inflation forecast in Croatia



Sources: Eurostat; CNB forecast

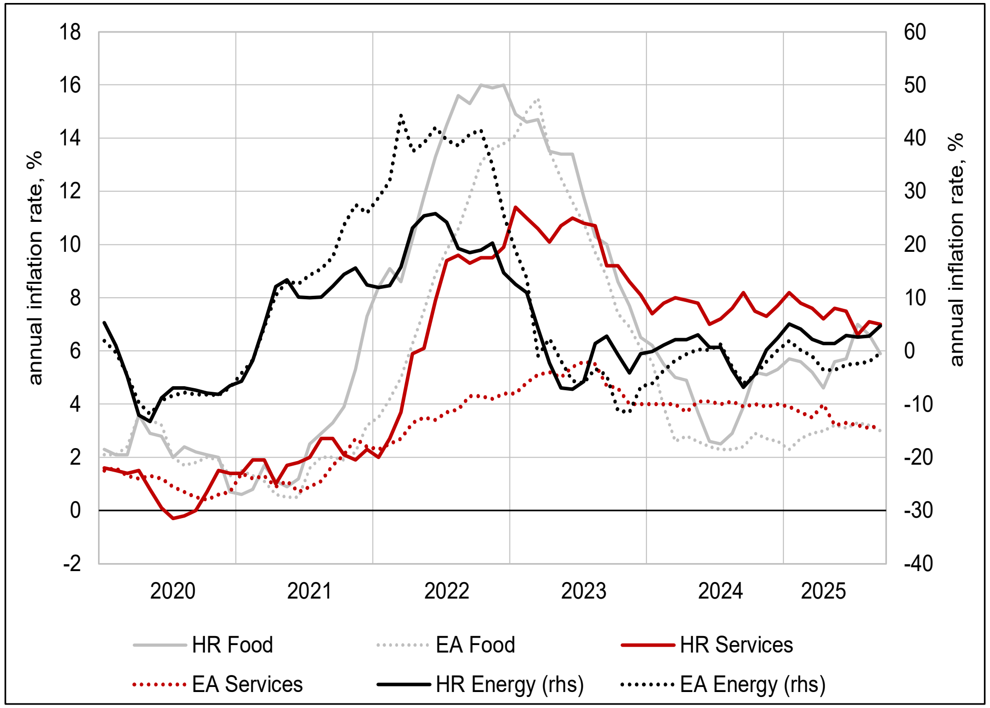
Inflation differential relative to euro area average stems mainly from food, followed by services and energy

Difference between HICP inflation rates and contributions of main components in Croatia and euro area



Sources: Eurostat, CNB calculations

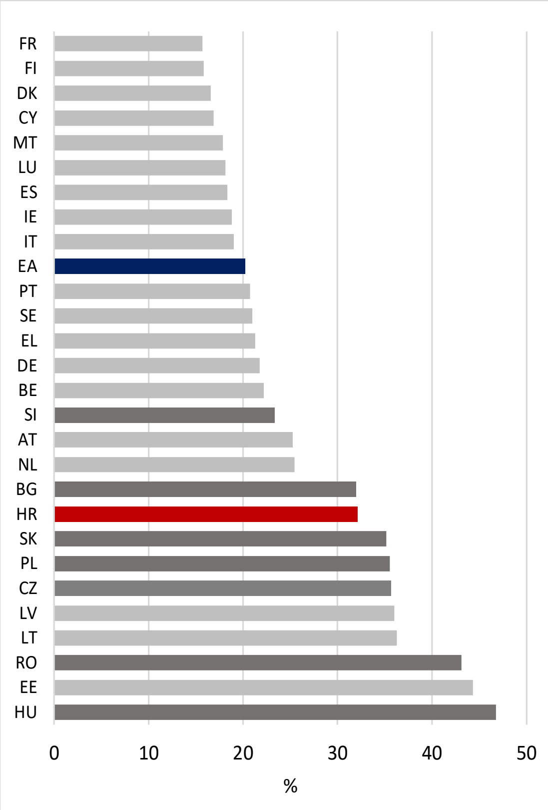
Inflation rates in Croatia and euro area



Source: Eurostat

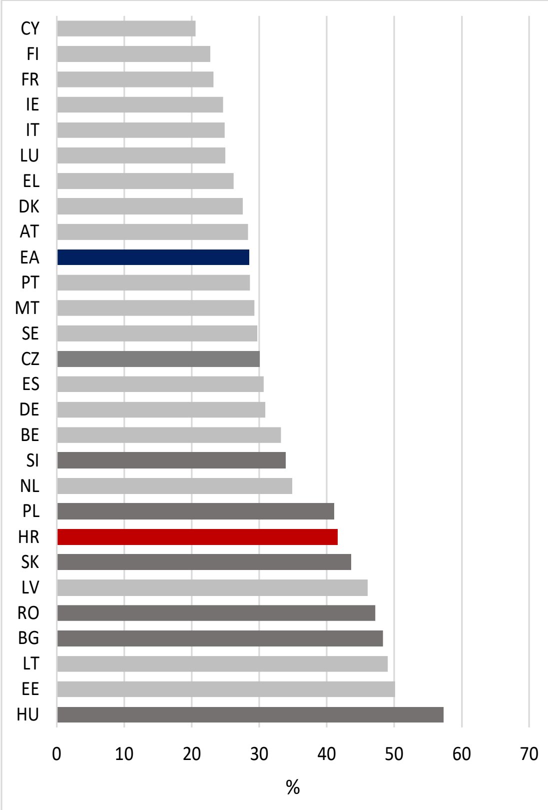
Since mid-2021, cumulative increase in general price level in Croatia has been lower compared to other CEE countries (except Slovenia)

Cumulative headline inflation from June 2021 to September 2025



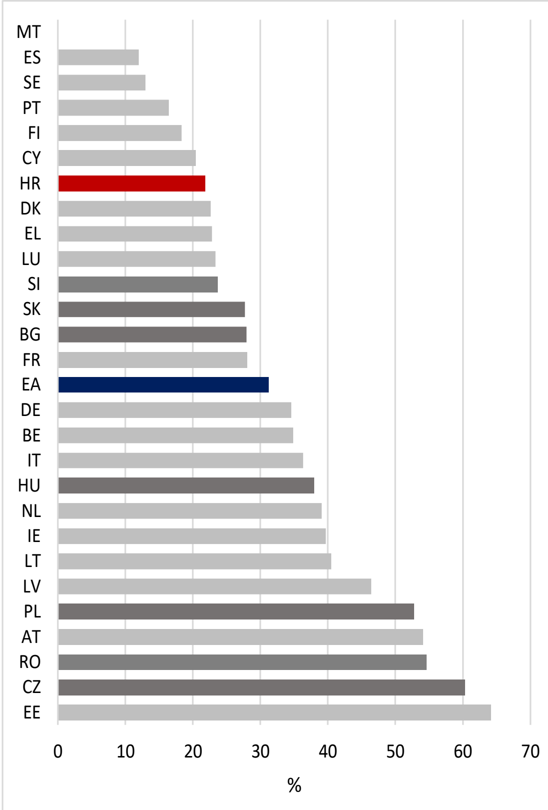
Sources: Eurostat; CNB calculations

Cumulative food inflation from June 2021 to September 2025



Sources: Eurostat; CNB calculations

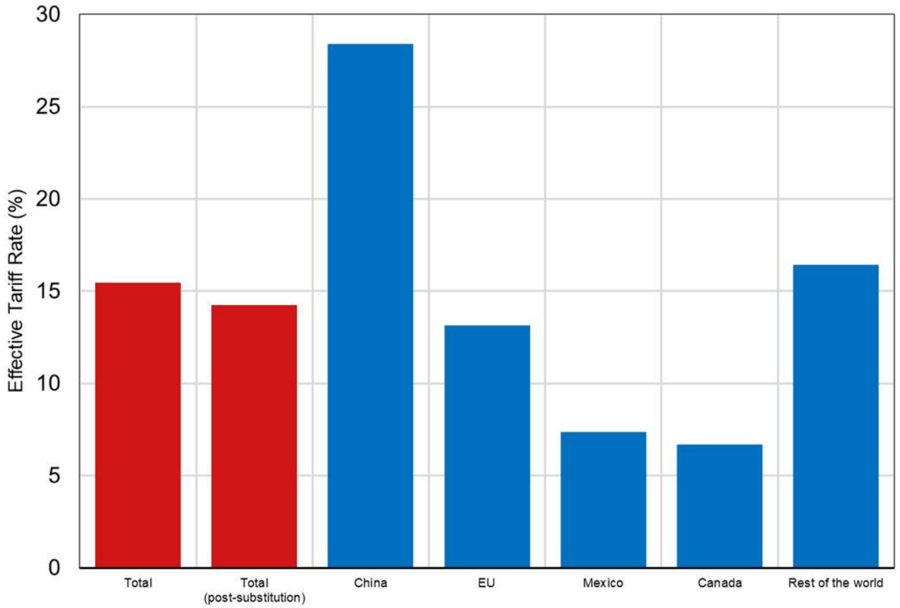
Cumulative energy inflation from June 2021 to September 2025



Sources: Eurostat; CNB calculations

Uncertainty around US tariff policy and potential ramifications for economic outlook remain high

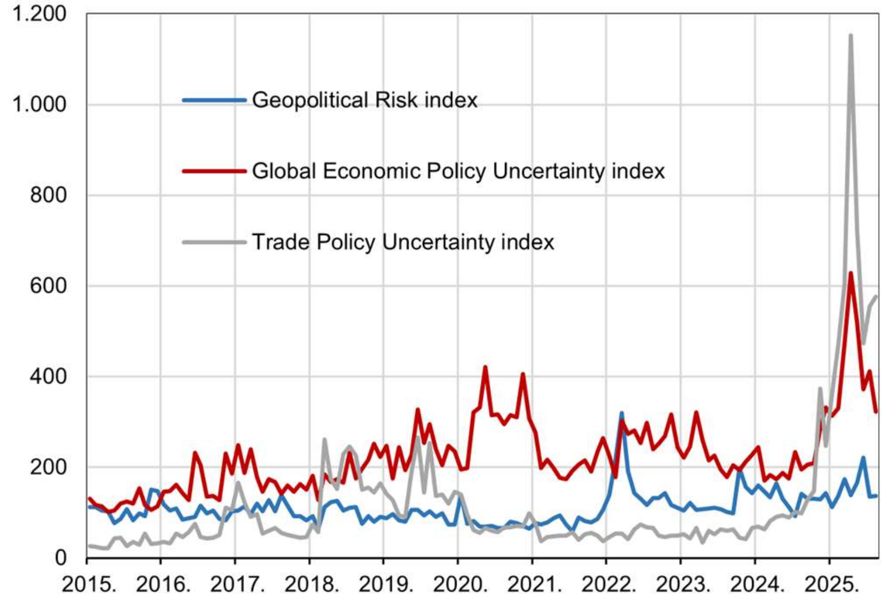
Effective Tariff Rates for Selected Countries



Source: The Budget Lab at Yale, Eurostat, The Federal Register

Note: The overall effective tariff rate is calculated as a weighted average of the tariff rates as of September 26th, 2025, assuming unchanged trade patterns. The post-substitution rate takes into account expected changes in trade structure, i.e., changes in the shares of individual countries following the implementation of tariffs.

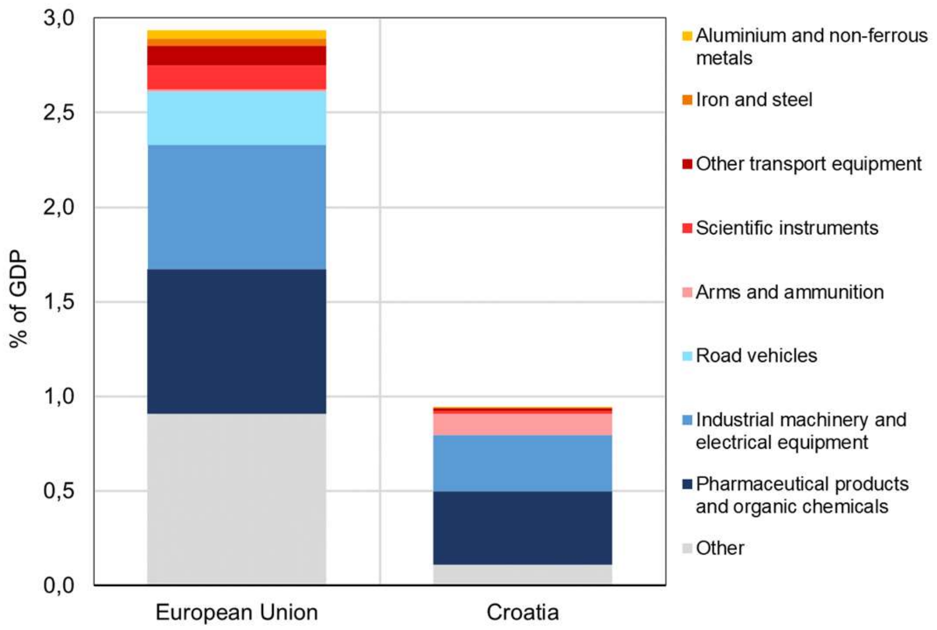
Risk and uncertainty indices remain elevated



Source: Caldara and Iacoviello, Baker et al.

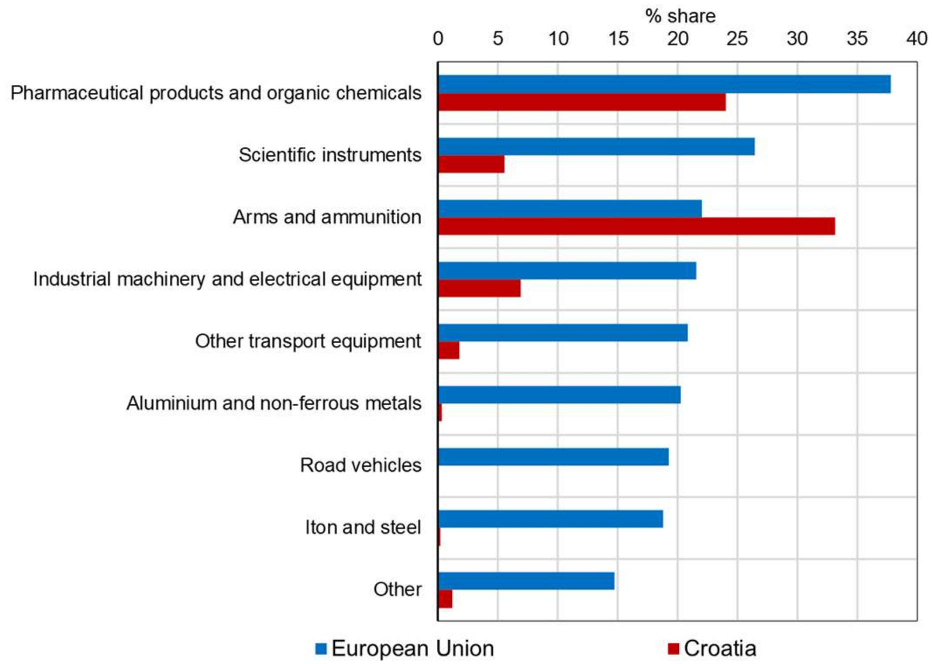
Although direct exposure of EU is relatively limited, negative effects of potential tariffs are more pronounced in certain sectors

Structure of Goods Exports to the United States, 2024



Source: Eurostat

Share of the United States in Total Exports Outside the EU, 2024



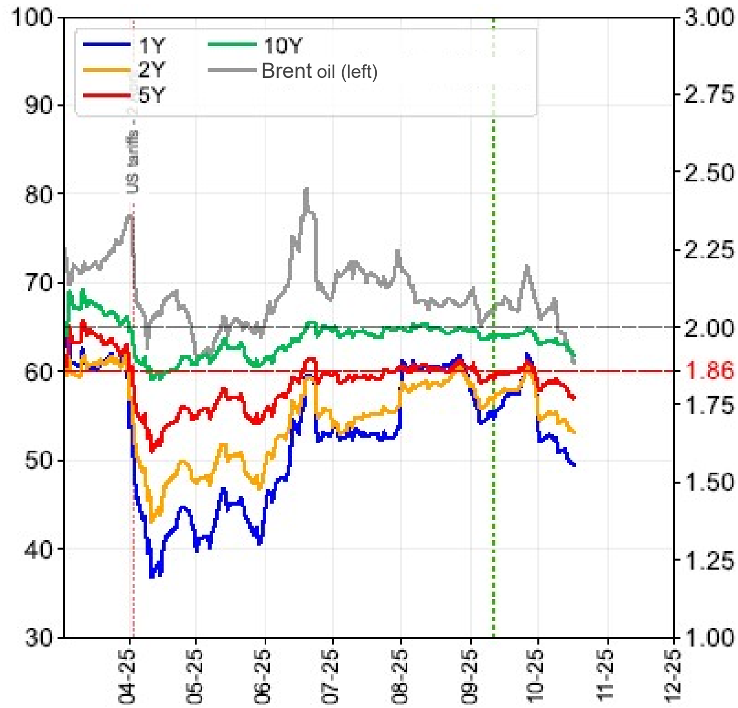
Source: Eurostat

Impact of tarrifs augmented by EUR appreciation since end-2024, however, current levels are not exceptional

Euro foreign exchange reference rate vs. US dollar

Sources: ECB; Bloomberg; HNB calculations.

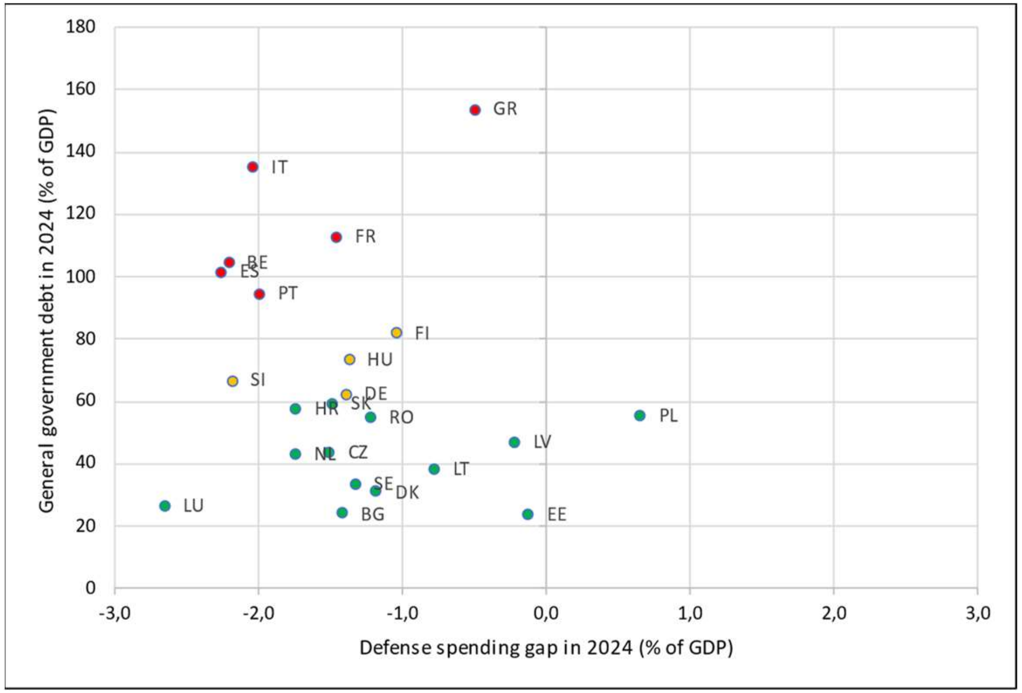
EA inflation linked swaps (%) and Brent oil (USD/barrel)



Note: ILS are linked to the HICP excluding tobacco. The black (red) dashed line refers to the ECB's inflation target of 2%, or 1.86% after adjusting the target inflation rate for the average contribution of the tobacco category to the total annual inflation. The latest data is for October 17, 2025.
Sources: Bloomberg

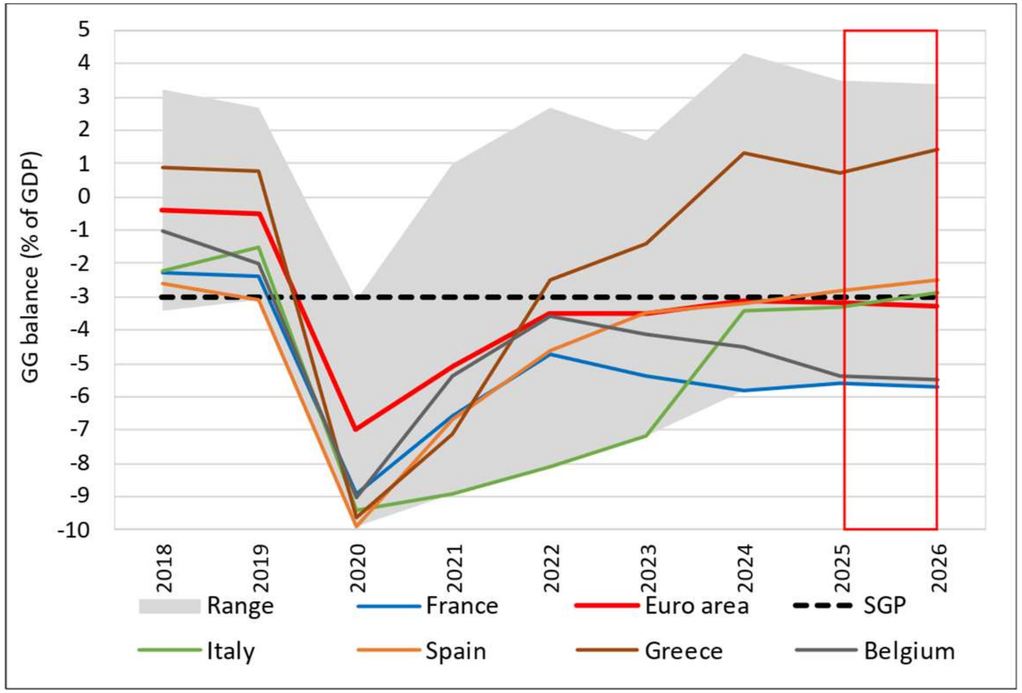
Funding the future of EU defense: The challenge of limited fiscal space

General government debt and the defense expenditure gap



Note: The defense spending gap is calculated as the difference between current defense spending and the newly set NATO target of 3,5%. Colors indicate different levels of debt under the new fiscal rules: green (lowest risk, < 60%), orange (medium risk, 60%-90%) and red (high risk, > 90%).
Source: Eurostat

General government balance

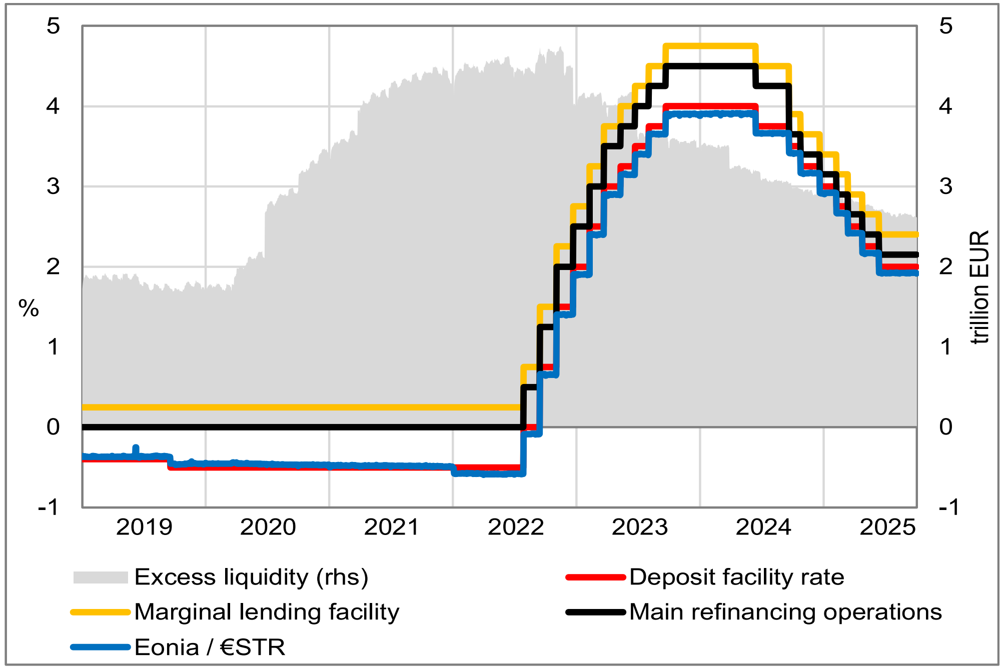


Note: The red rectangle represents the projection period
SGP represents the Stability and Growth Pact criterion, which sets a limit of -3% for the government deficit as a percentage of GDP.
Source: EC, AMECO

Monetary policy, interest rates and business financing

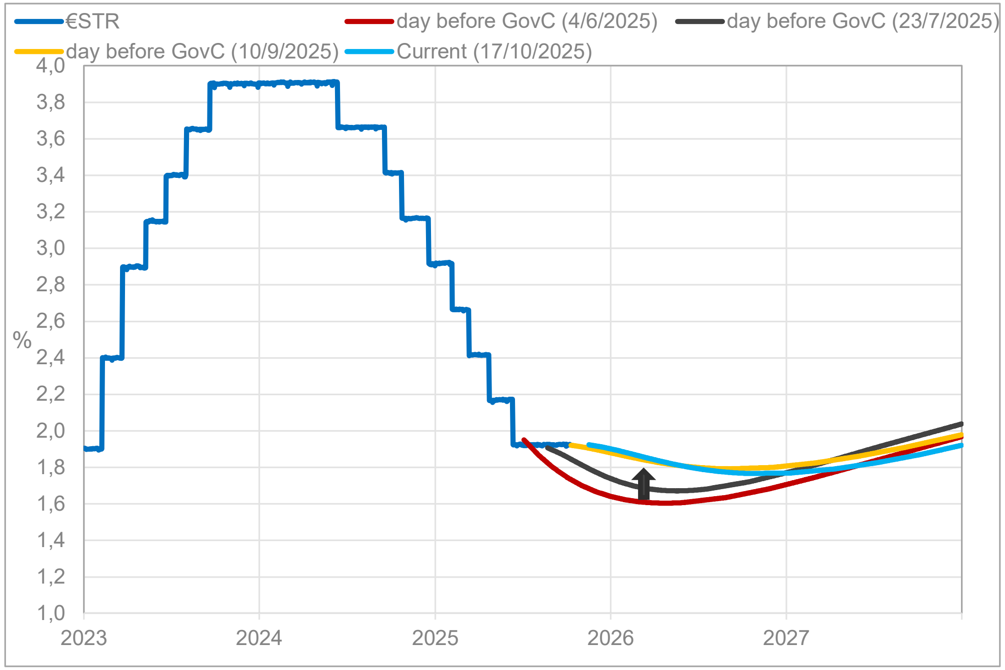
Market expectations for the ECB's policy rate path shifted higher

Key ECB interest rates



Note: The EONIA was replaced by €STR in early 2022.
Source: ECB.

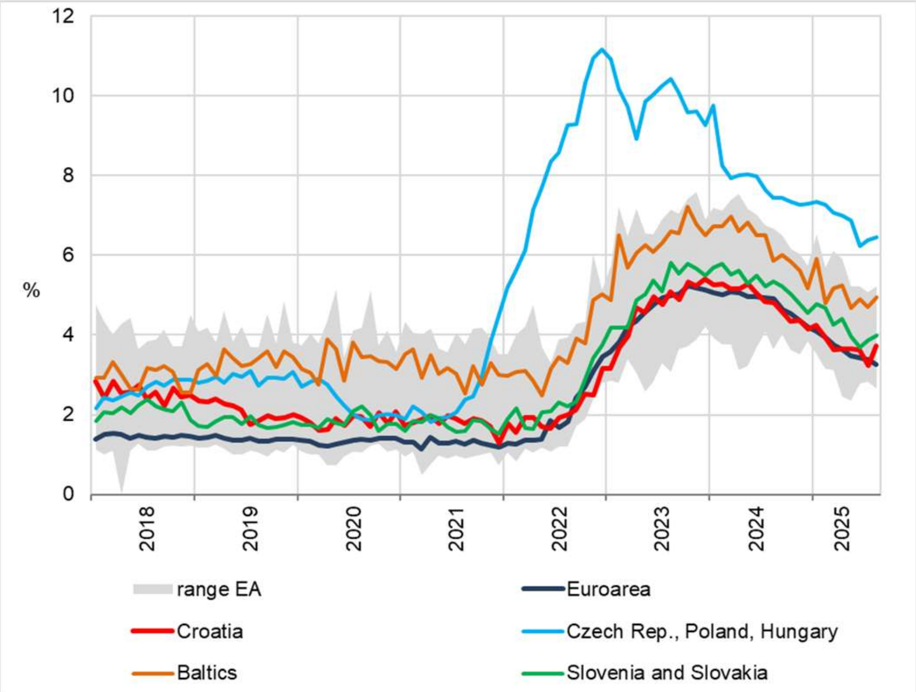
ESTR forward curve



Note: The picture shows forward curve estimated using the overnight indexed swap rate (OIS). The curves represent forward curves formed at the selected dates and on the last observation date (October 17th, 2025).
Sources: Bloomberg, HNB

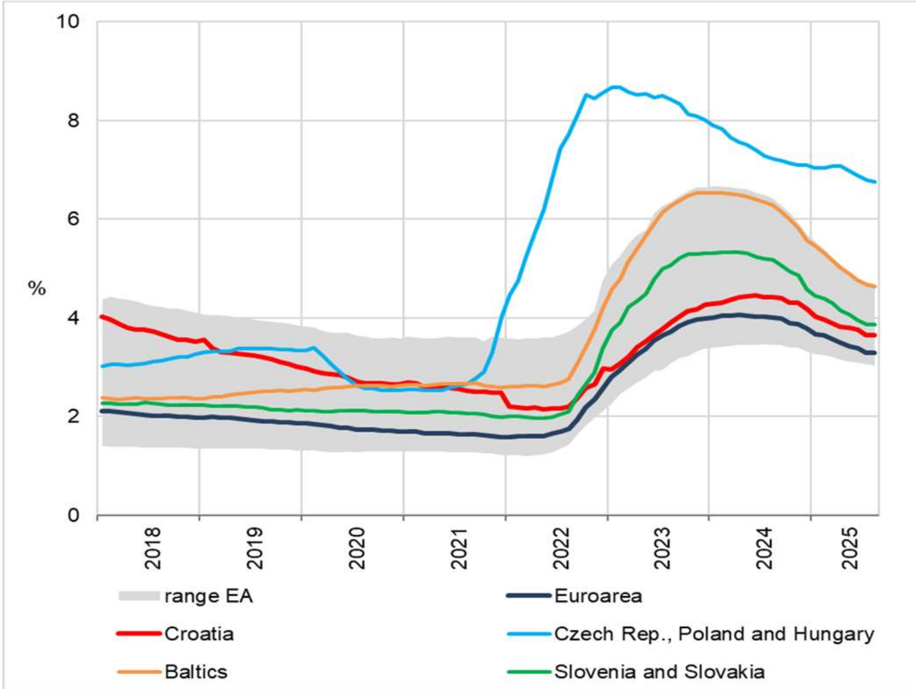
Interest rates on loans to corporates are generally declining in the euro area, ...

Interest rates on new loans to NFC´s



Source: ECB.

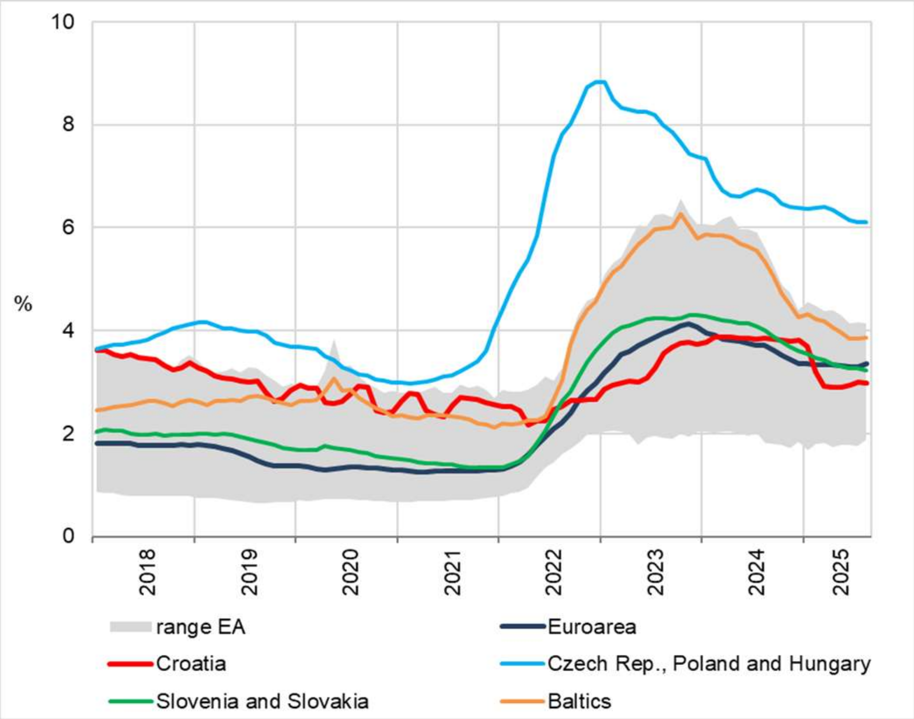
Interest rates on existing loans to NFC`s



Source: ECB.

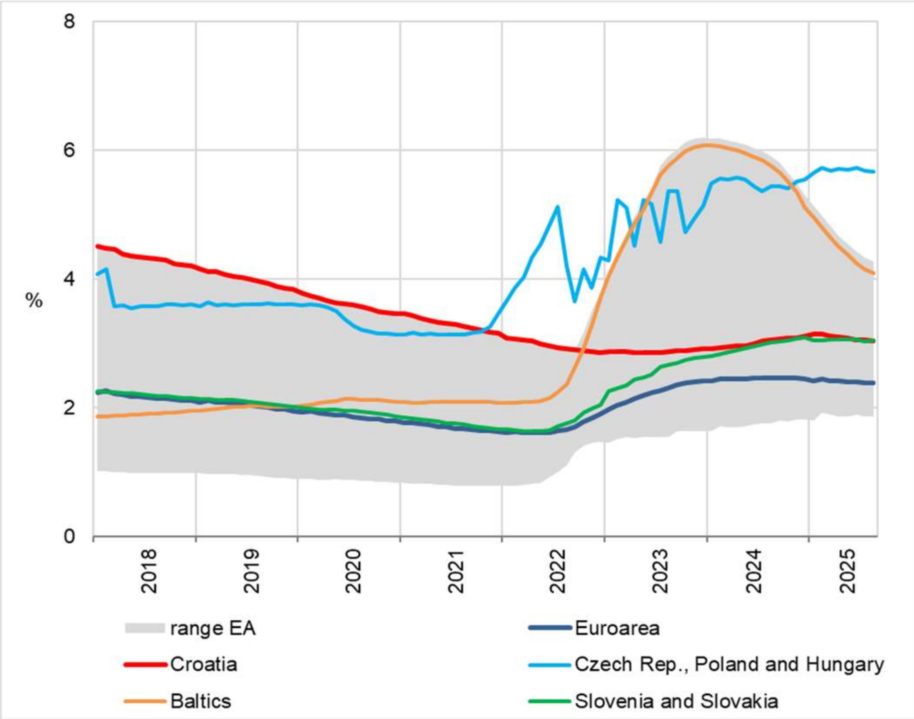
... while rates for households have mostly remained stable at the levels reached in the first half of the year

Interest rates on new loans to HH´s



Source: ECB.

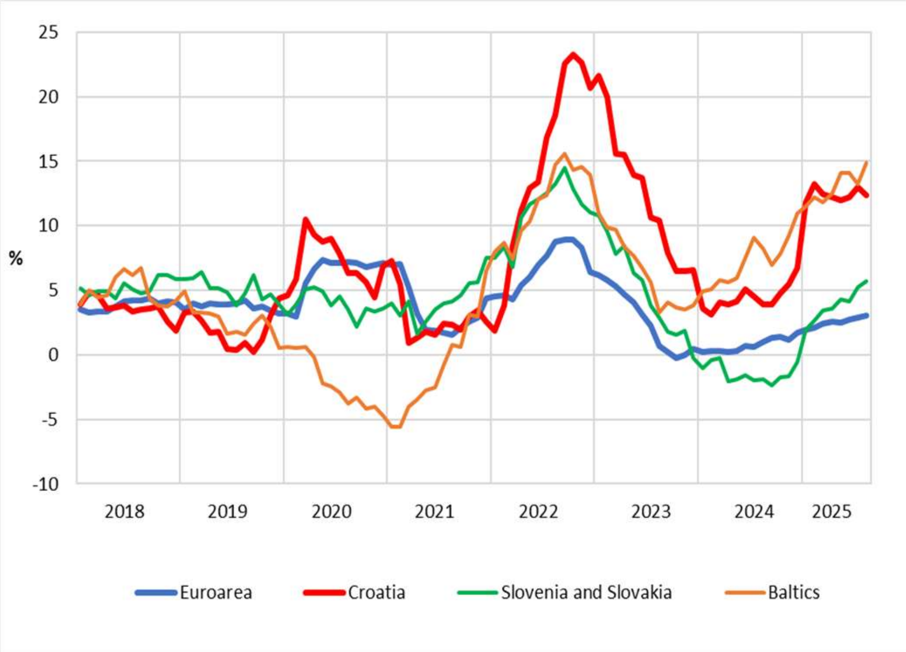
Interest rates on existing loans to HH`s



Source: ECB.

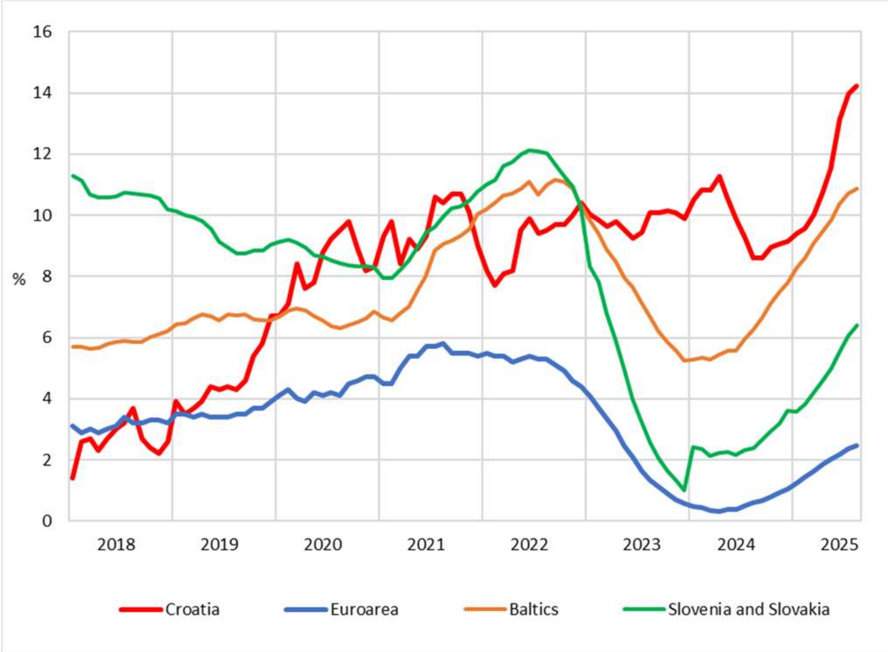
The credit activity in EA is slowly recovering, while loan growth in Croatia still strong

Loans to NFC´s
annual rate of change



Source: ECB.

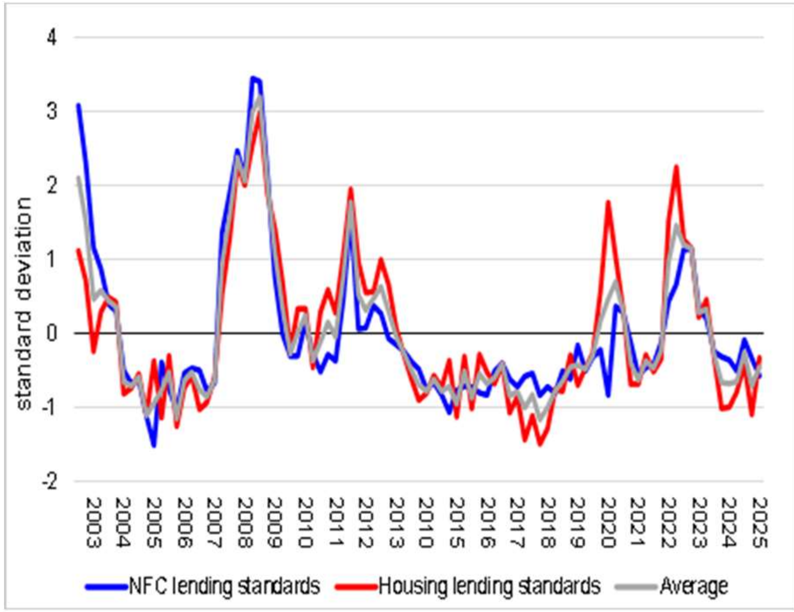
Loans to HH´s
annual rate of change



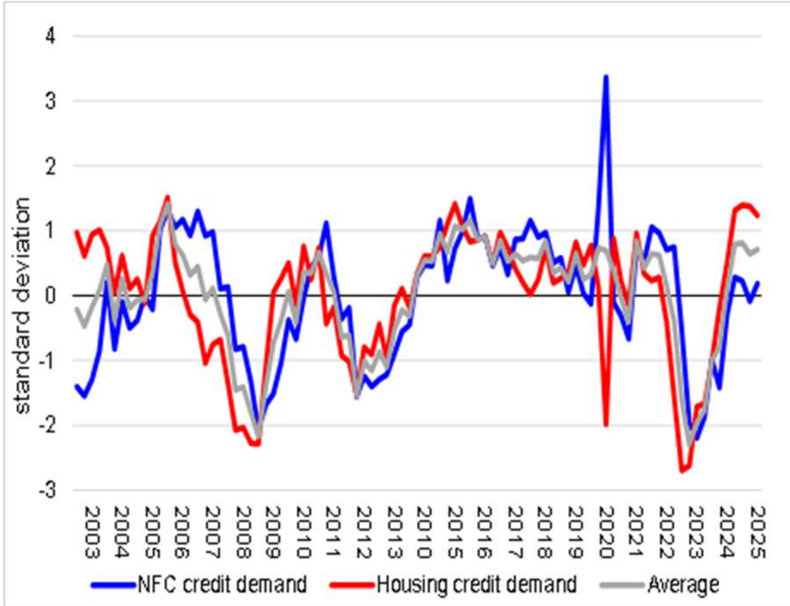
Source: ECB.

Lending standards in EA not restrictive with historic high housing loan demand growth

Standardized credit standards



Standardized credit demand



Note: Original values are demeaned and divided by the standard deviation. Positive values of credit standards denote tightening and vice-versa.

Source: ECB Bank Lending Survey

HNB

Thank you very much for your attention!