CROATIAN NATIONAL BANK

EUROSYSTEM

Macroeconomic developments and projections amid elevated uncertainty

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Copenhagen
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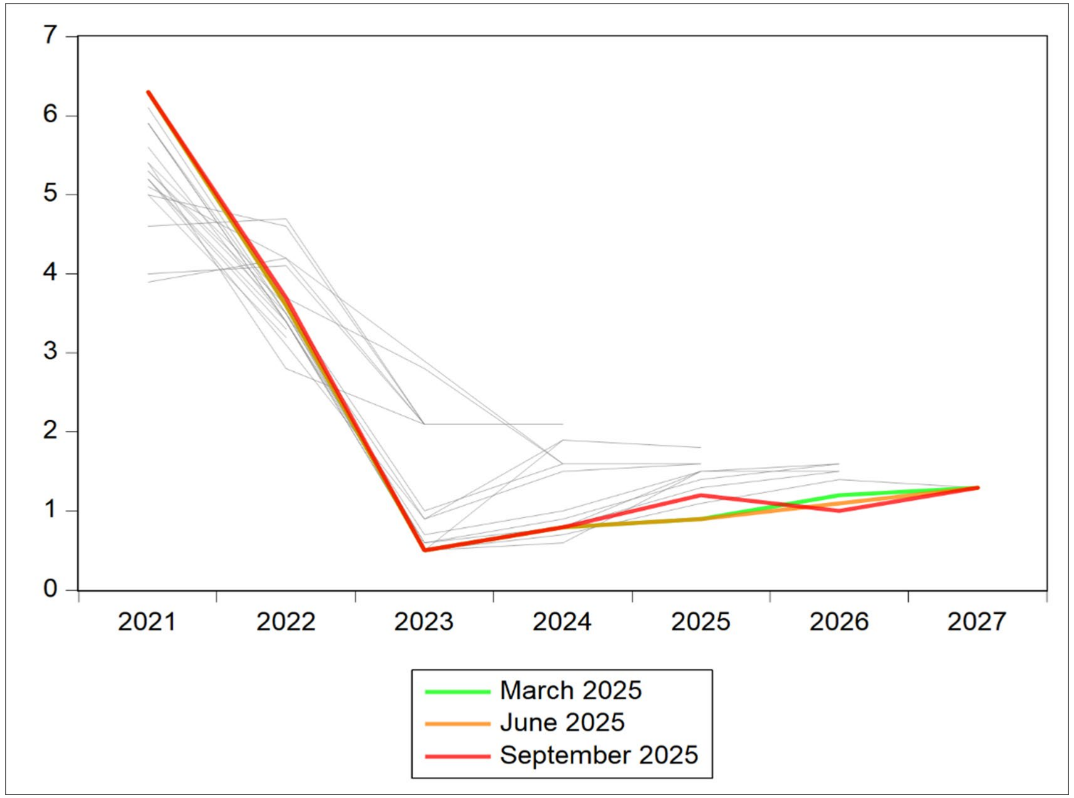
Macroeconomic developments and outlook

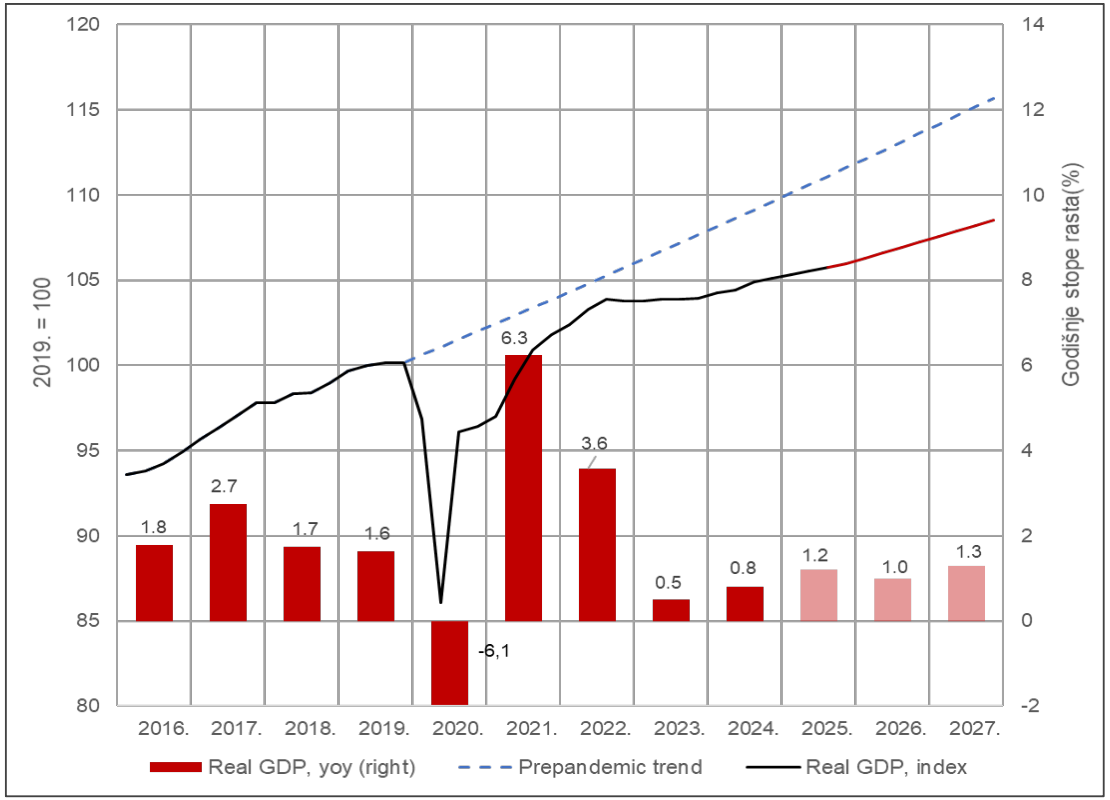
Economic activity in 2025 so far proved to be more robust than expected, although recovery is still lagging behind the pre-pandemic trend

Projections of economic growth in the Euro area



Note: Gray lines represent different ECB projection vingates.
Source: ECB

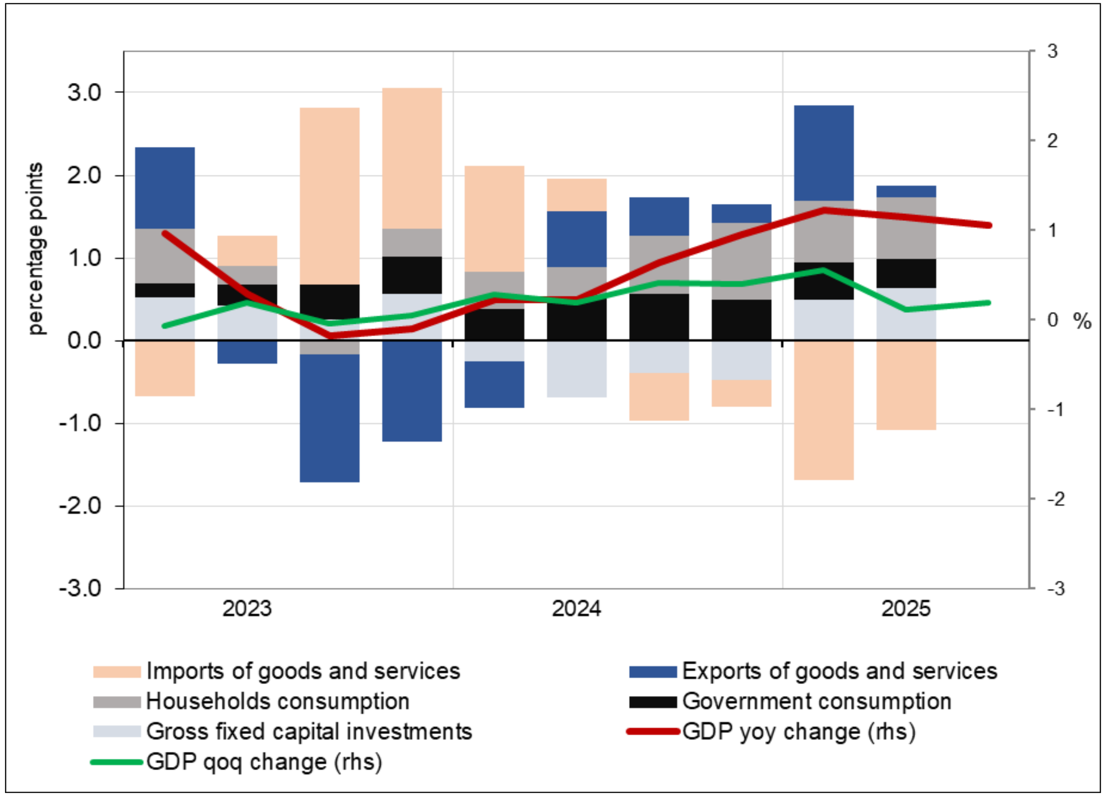
Euro area and pre-pandemic trend



Note: ECB MPE September 2025
Sources: ECB, Eurostat

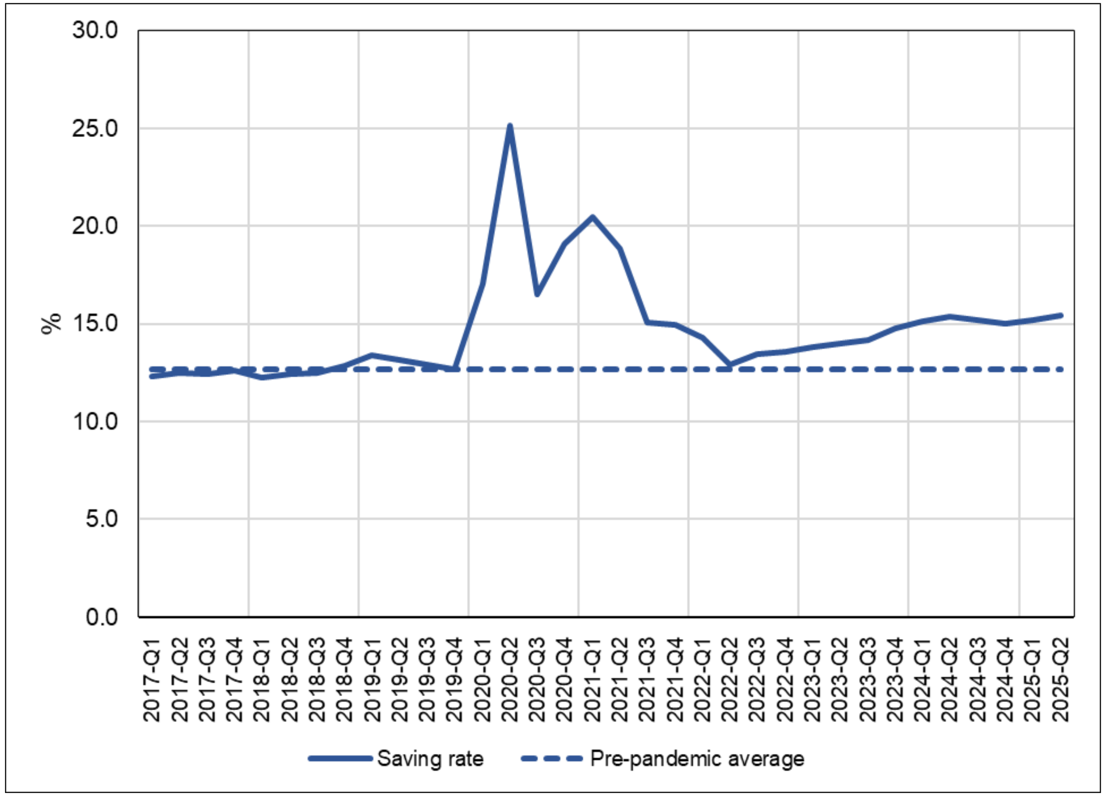
Household consumption continues to contribute modestly to GDP growth in the Euro Area, as elevated uncertainty keeps the saving rate above the pre-pandemic average

Euro area real GDP growth



Source : Eurostat

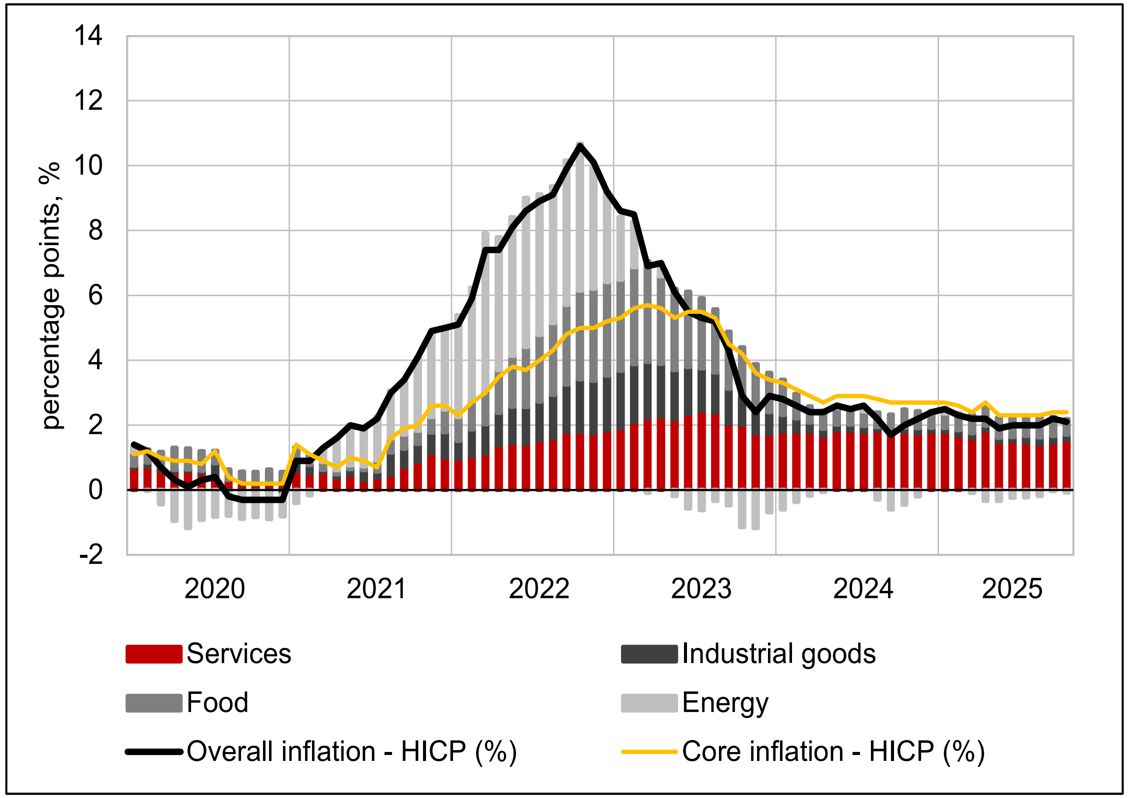
Euro area saving rate



Source: Eurostat

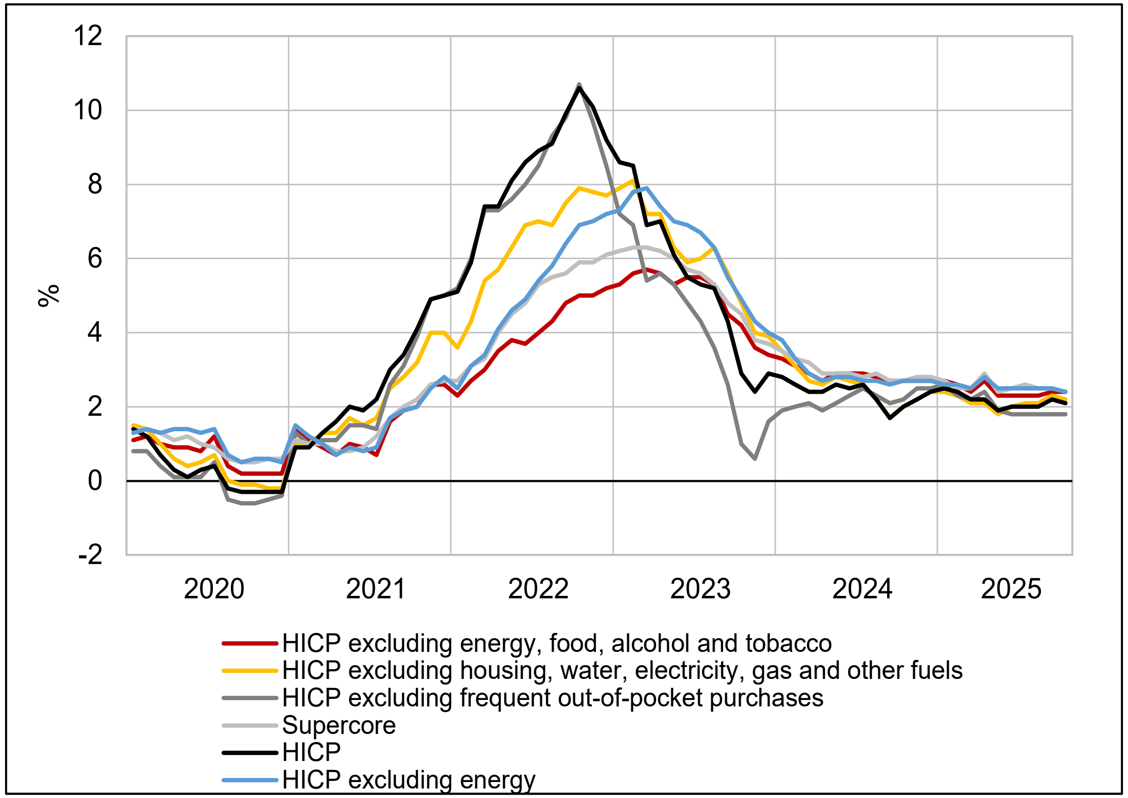
Headline inflation in the euro area has been hovering around 2% target, with core inflation indicators relatively stable slightly above the target

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

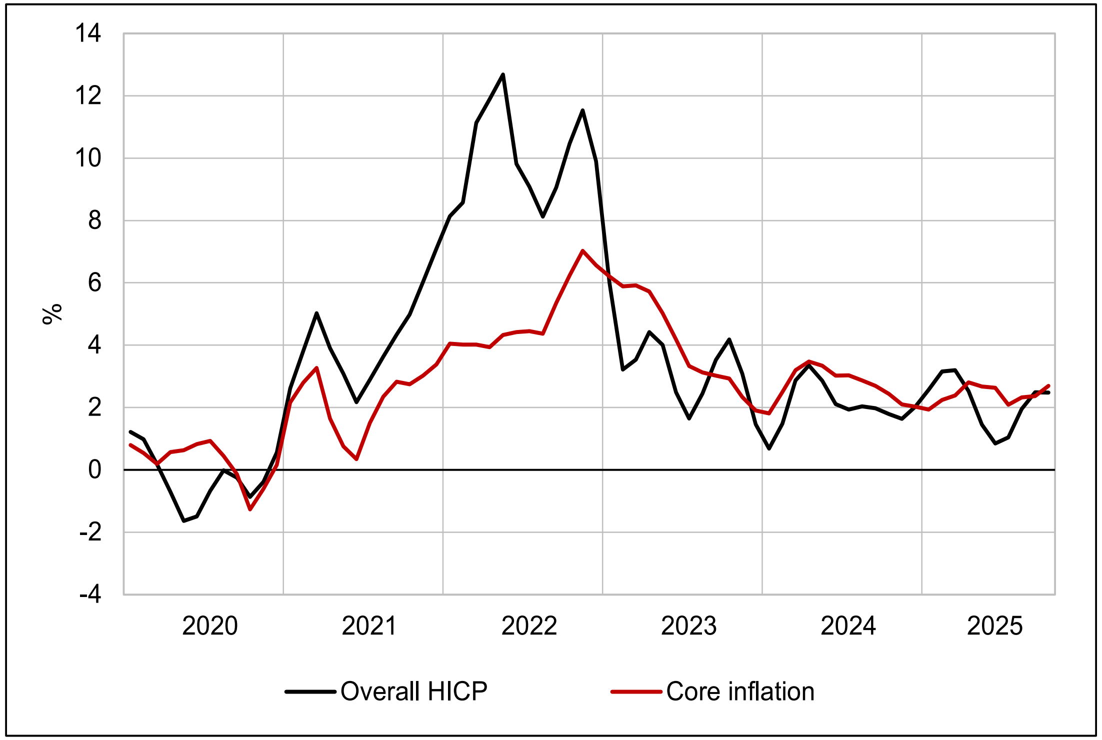
Core inflation indicators in the euro area



Sources: Eurostat, CNB calculations

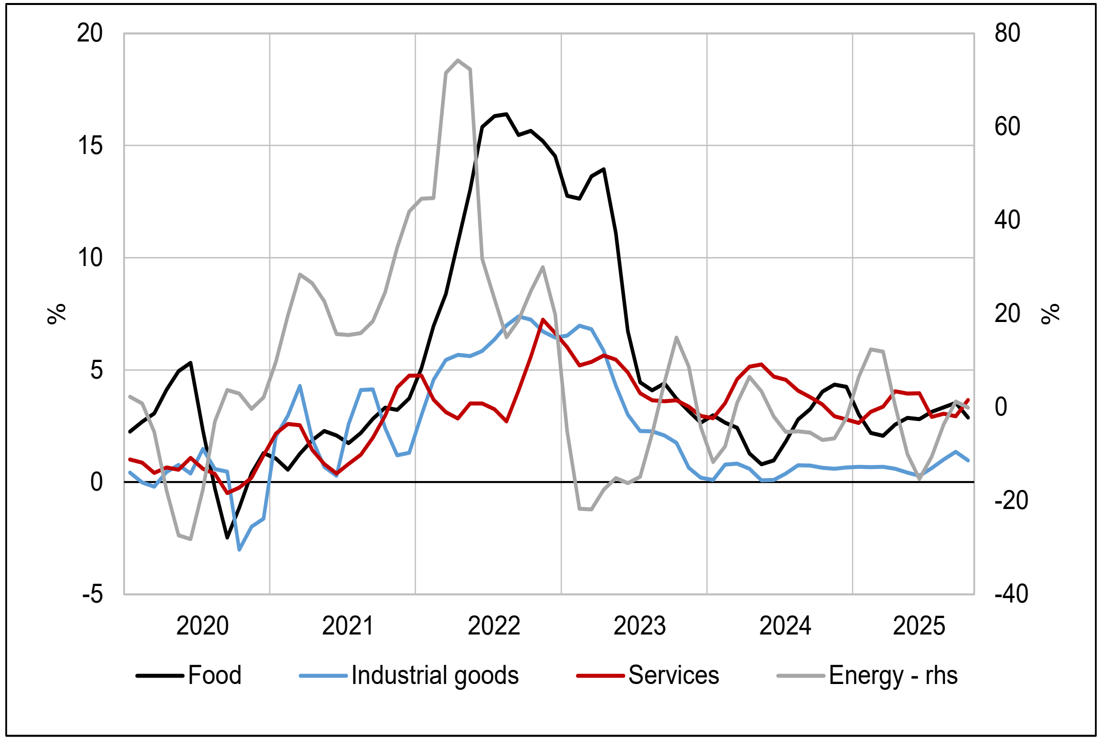
Current inflationary pressures still slightly elevated, with food inflation momentum receding

Momentums of overall and core inflation in euro area



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

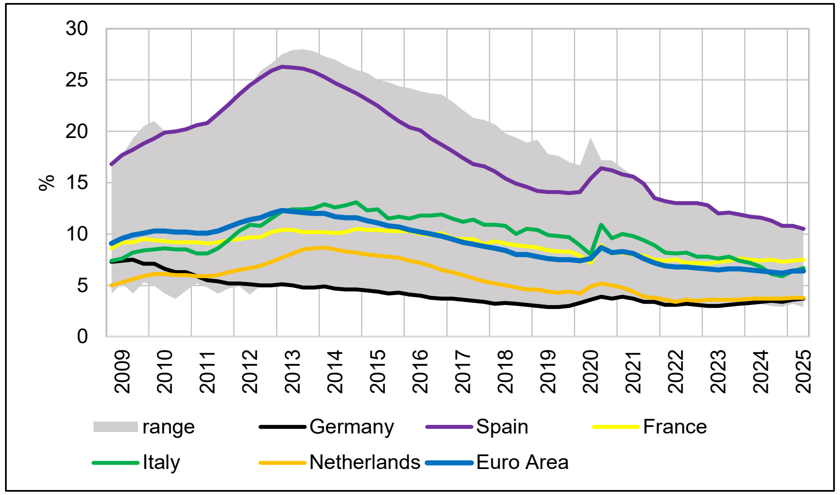
Momentums of main inflation components in euro area



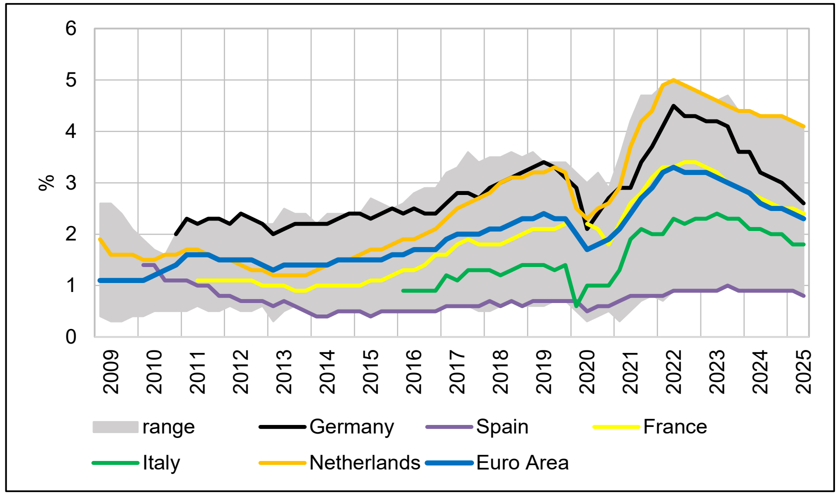
Note: The quarterly rate of change on an annual level is calculated from the quarterly moving average of seasonally adjusted harmonised consumer price indices.
Sources: ECB and CNB calculations

Labour market is less tight

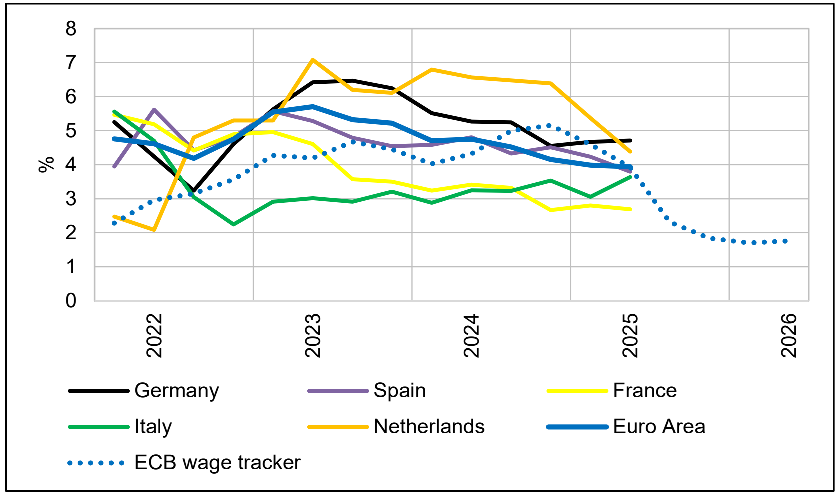
Unemployment rate



Job vacancy rate



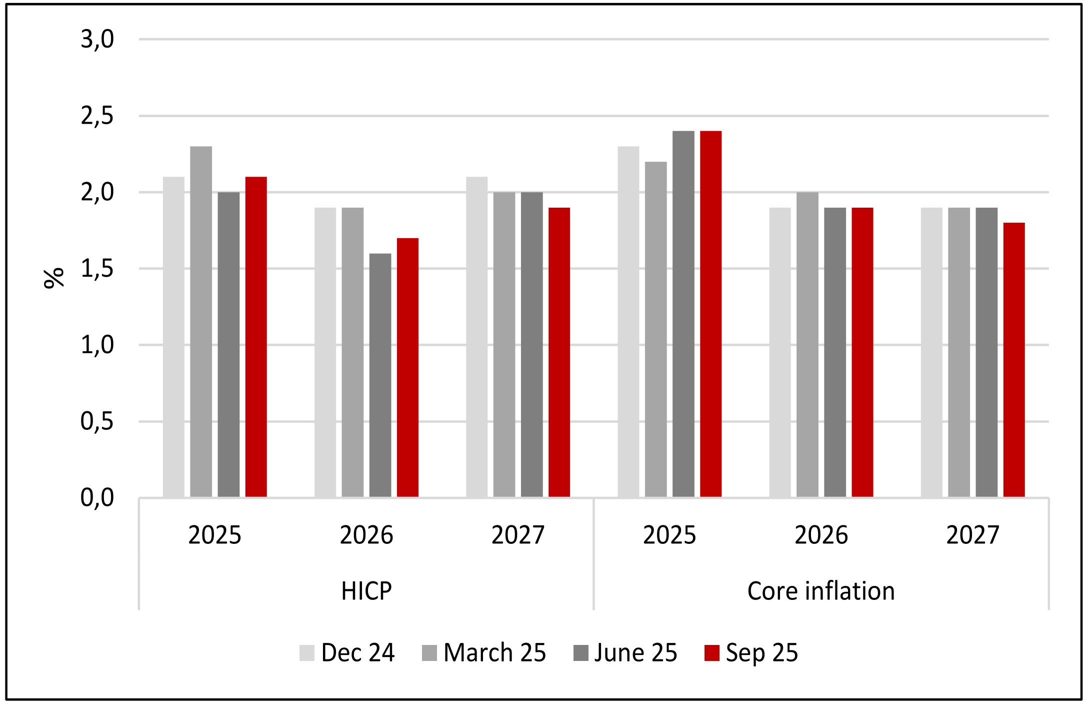
Compensation per employee



Sources: Eurostat and ECB

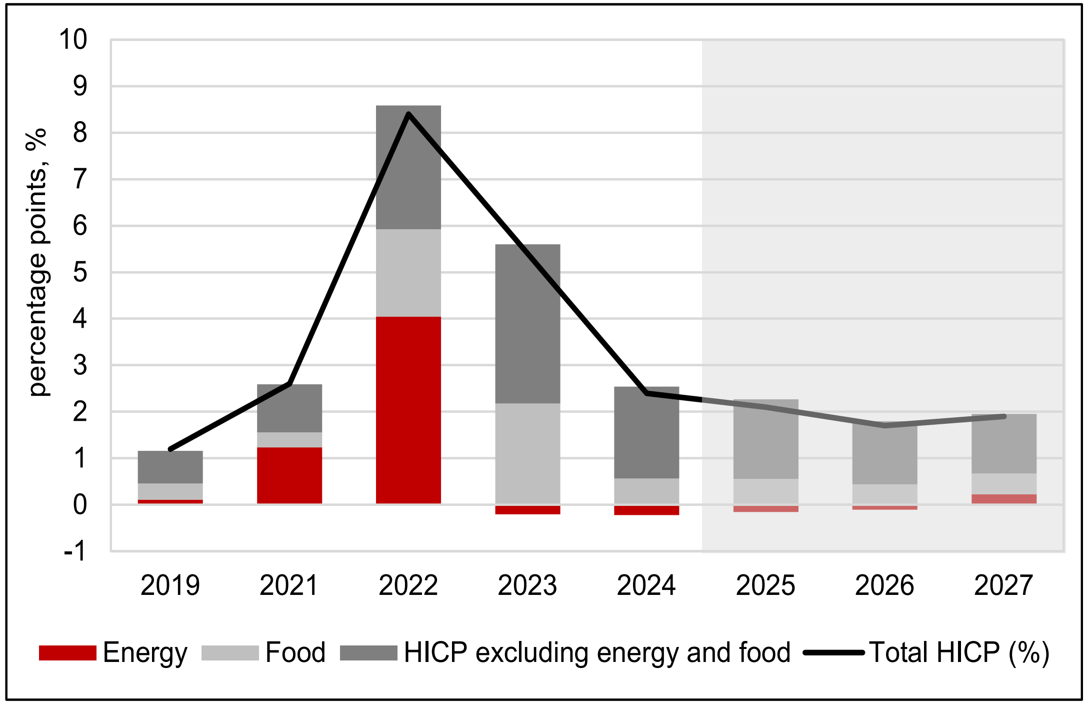
Inflation forecast slightly below the target in 2026 and 2027, with forecast revisions becoming less pronounced

Total HICP and core inflation forecast in the euro area



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

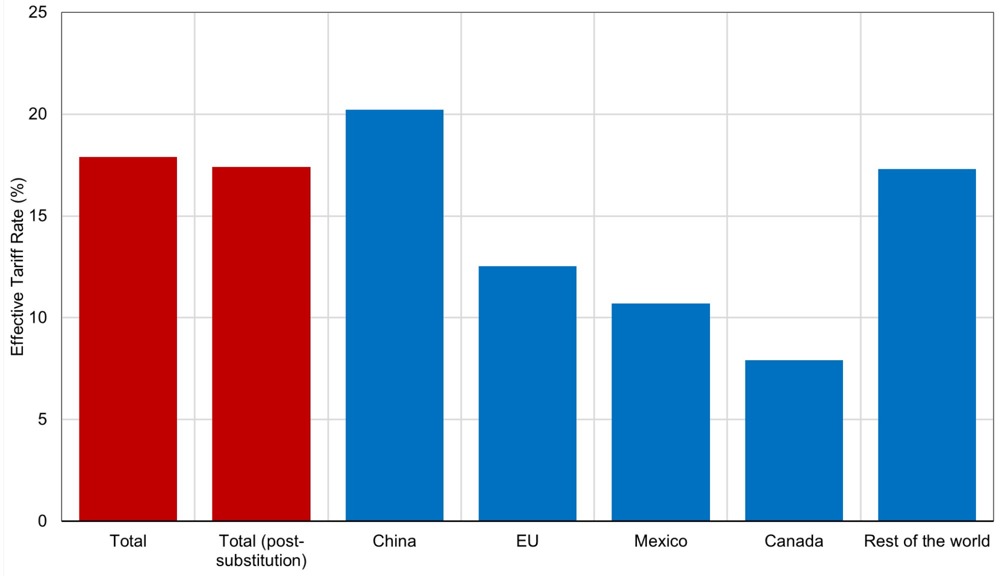
Contributions of main components to total HICP in the euro area



Sources: Eurostat; ECB forecast

Uncertainty around US tariff policy and potential ramifications for economic outlook and inflation remain high, albeit decreasing; average EU tariff rates below those for most countries

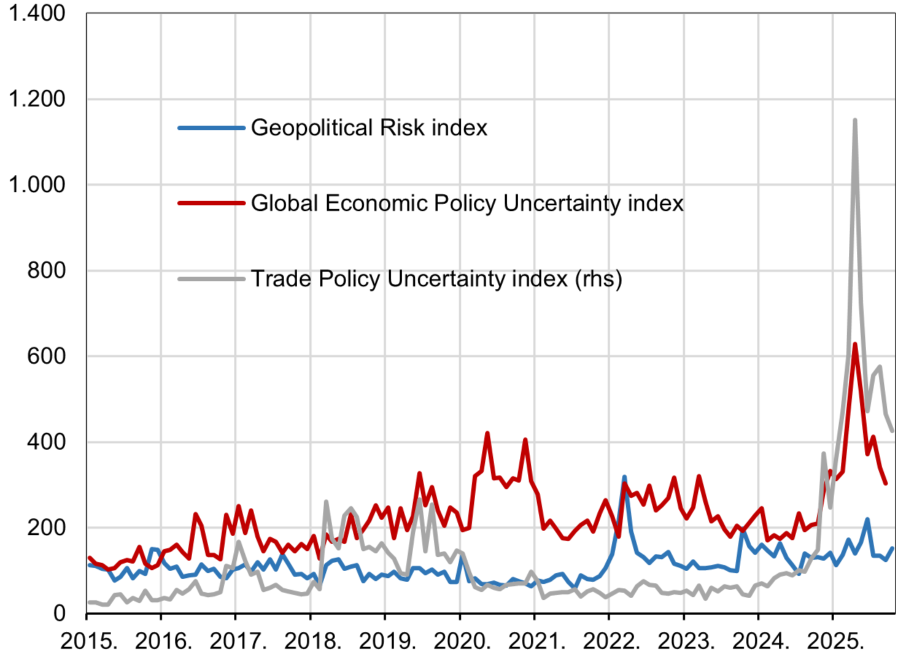
Effective Tariff Rates for Selected Countries as of October 30th 2025



Note: The overall effective tariff rate is calculated as a weighted average of the tariff rates 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.

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

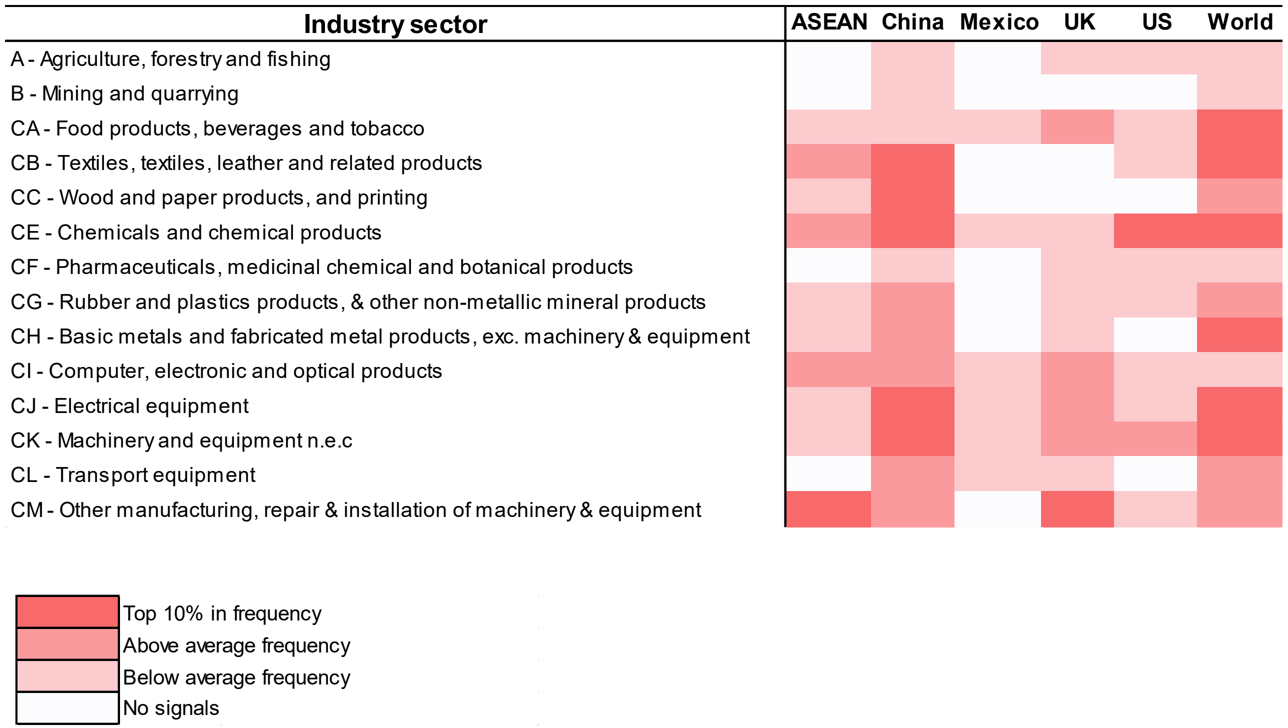
Risk and uncertainty indices remain elevated



Source: Caldara and Iacoviello, Baker et al.

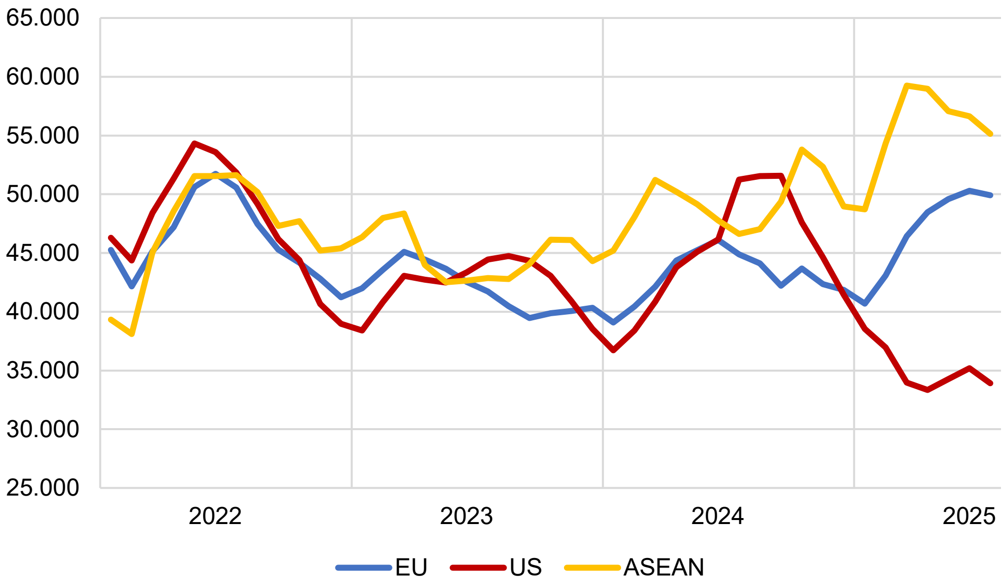
There are some signs of potential China trade diversion from US to EU in response to higher tariffs but majority of exports is directed to other countries...

Detection of harmful increase of imports to the EU (Jan-Aug 2025)



Source: European Commission.

Chinese exports to selected partners (USD mil.)

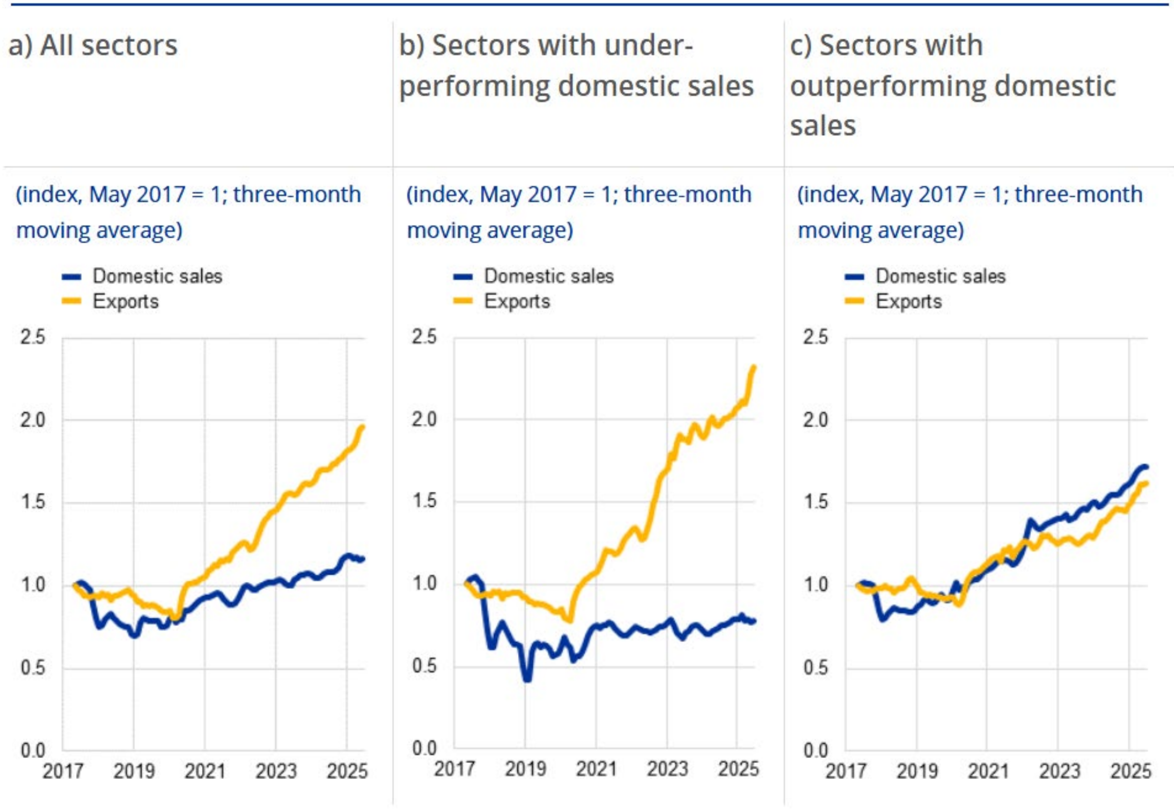


Note: Values are 3-month moving averages.

Sources: Customs authority of the PRC.

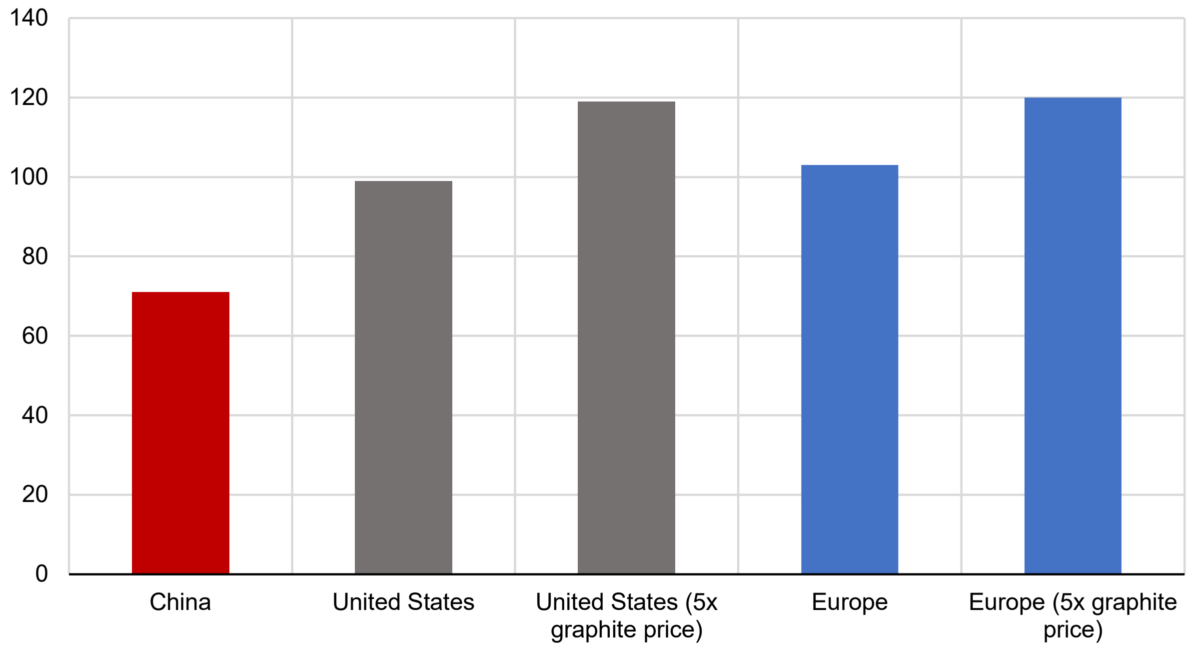
While weak Chinese domestic demand and growing price competitiveness in some technologies continue to support China's export orientation

Real domestic sales and exports in China



Source: Al-Haschimi et al. "China's growing trade surplus: why exports are surging as imports stall", ECB Economic Bulletin, Issue 7/2025.

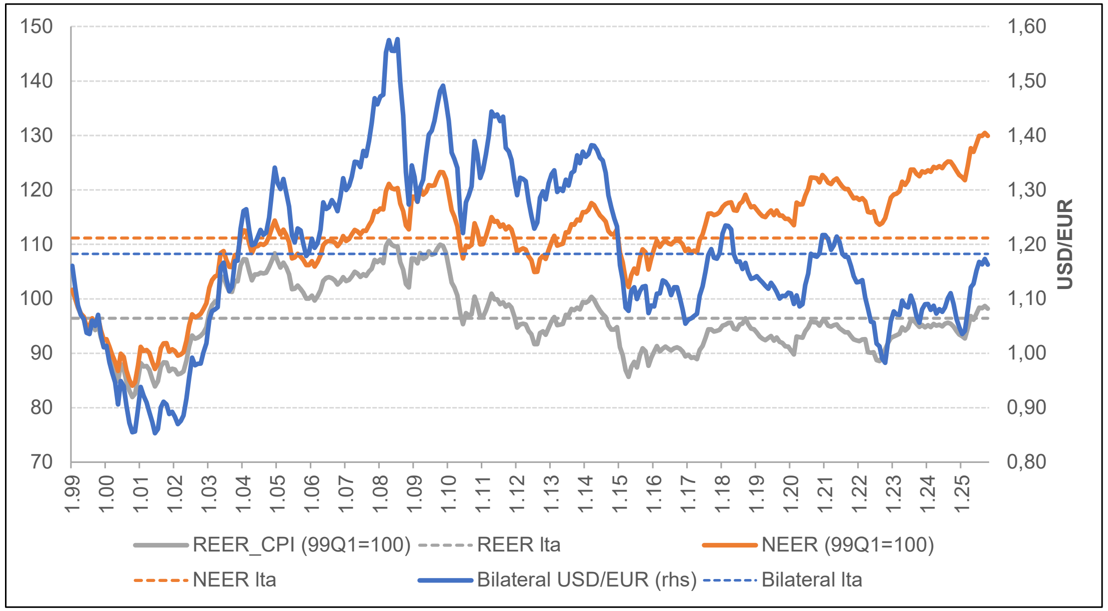
Battery cell levelised cost of production (USD/kWh)



Source: IEA, Global Critical Minerals Outlook, May 2025.

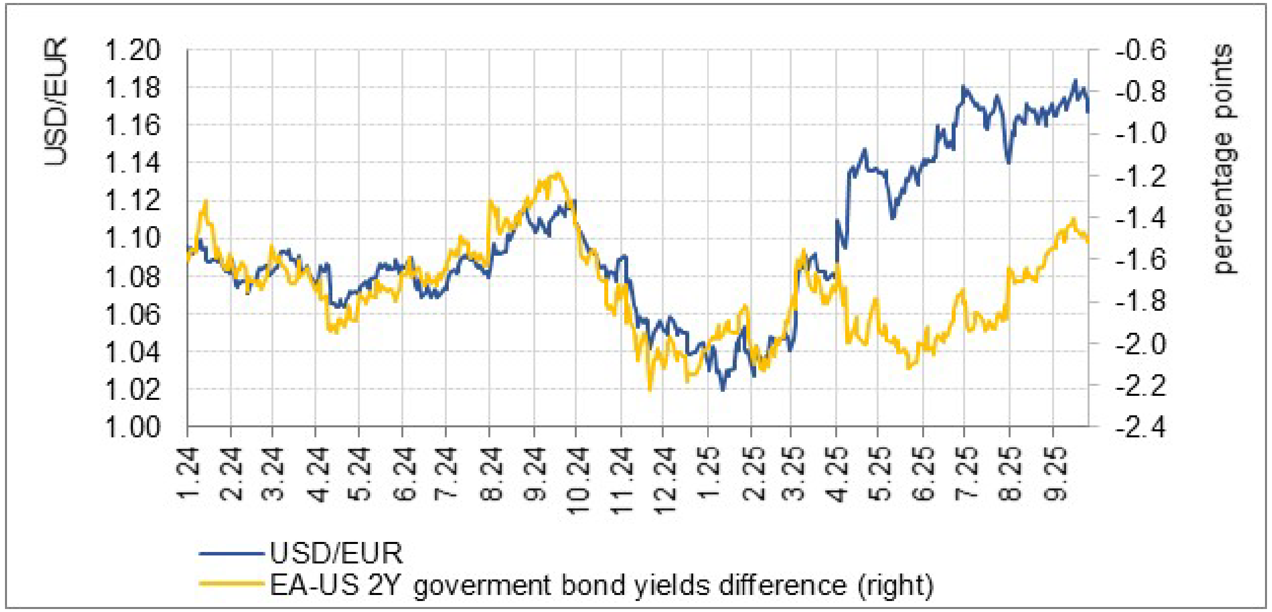
Impact of tariffs is augmented by recent EUR appreciation, however, current levels are not exceptional and ERPT to inflation is time-varying and dependent on the nature of underlying economic shock

Real and nominal EUR effective and USD/EUR bilateral exchange rate



Source: ECB.

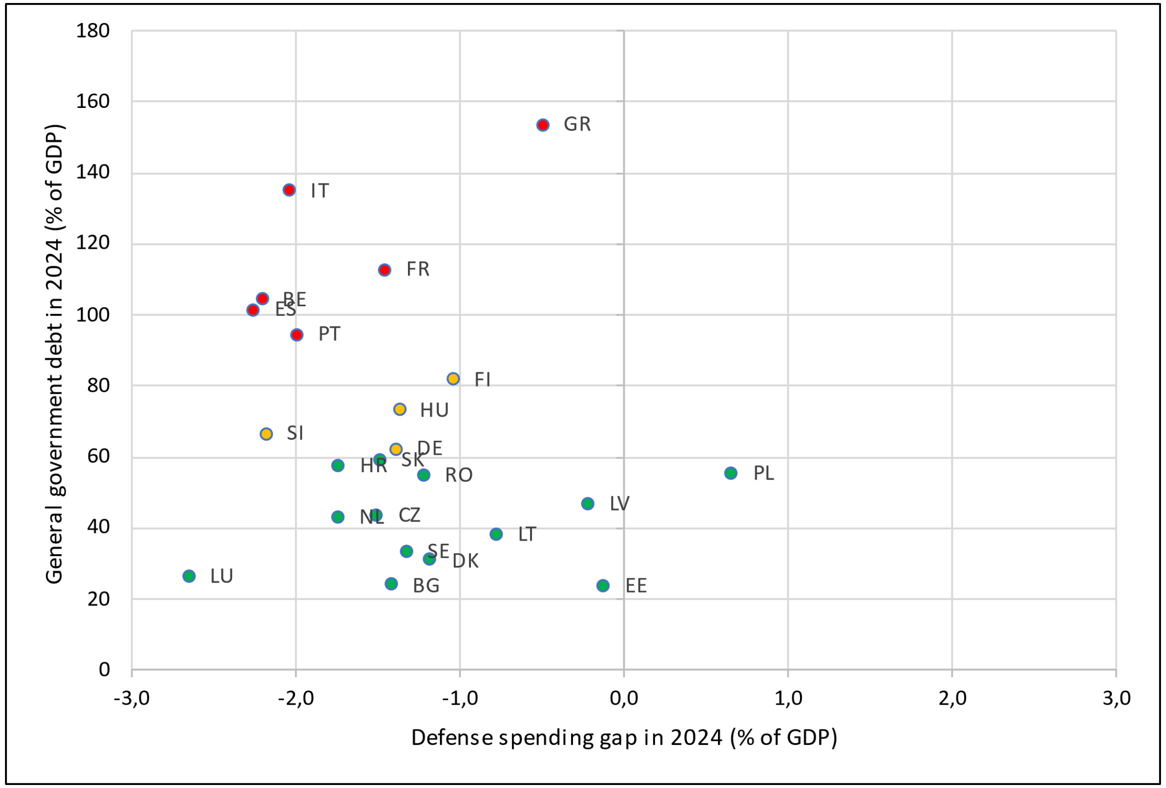
USD/EUR bilateral exchange rate vs. US dollar and interest rate differential



Source: Bloomberg.

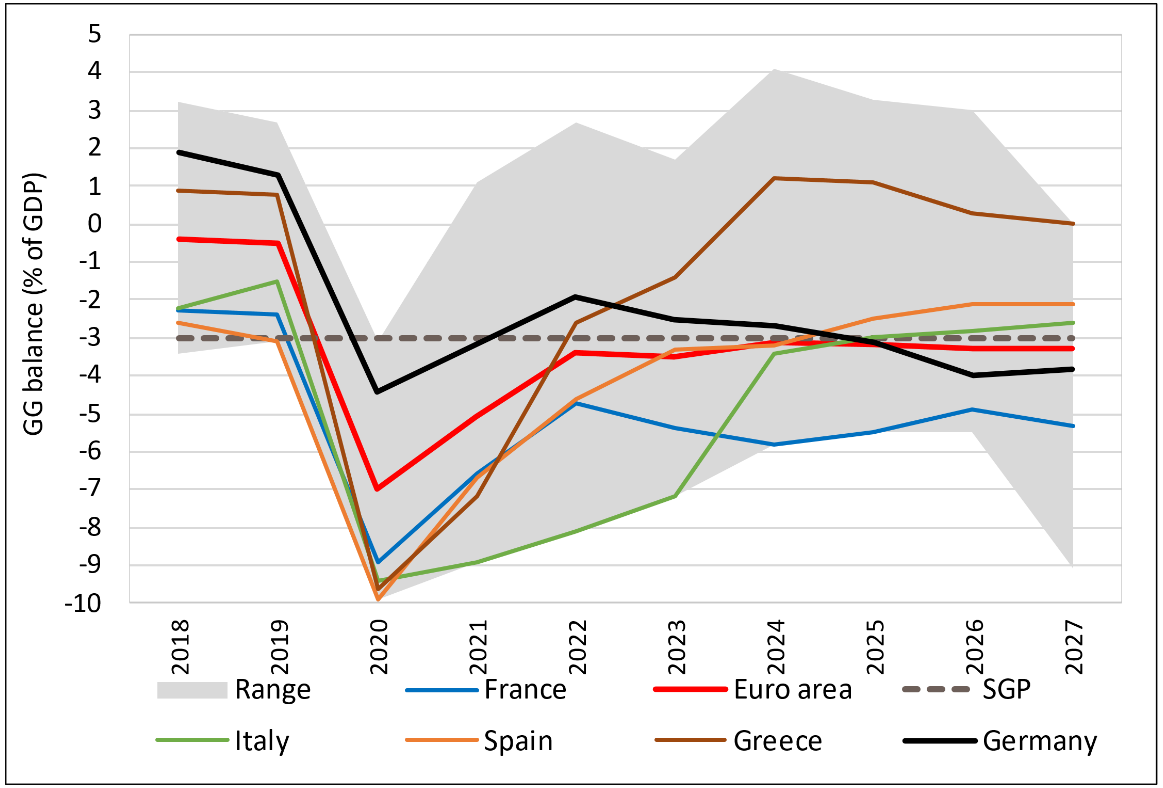
Fiscal expansion should provide support to growth, in part due to increased defence spending, but fiscal space varies significantly across countries

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

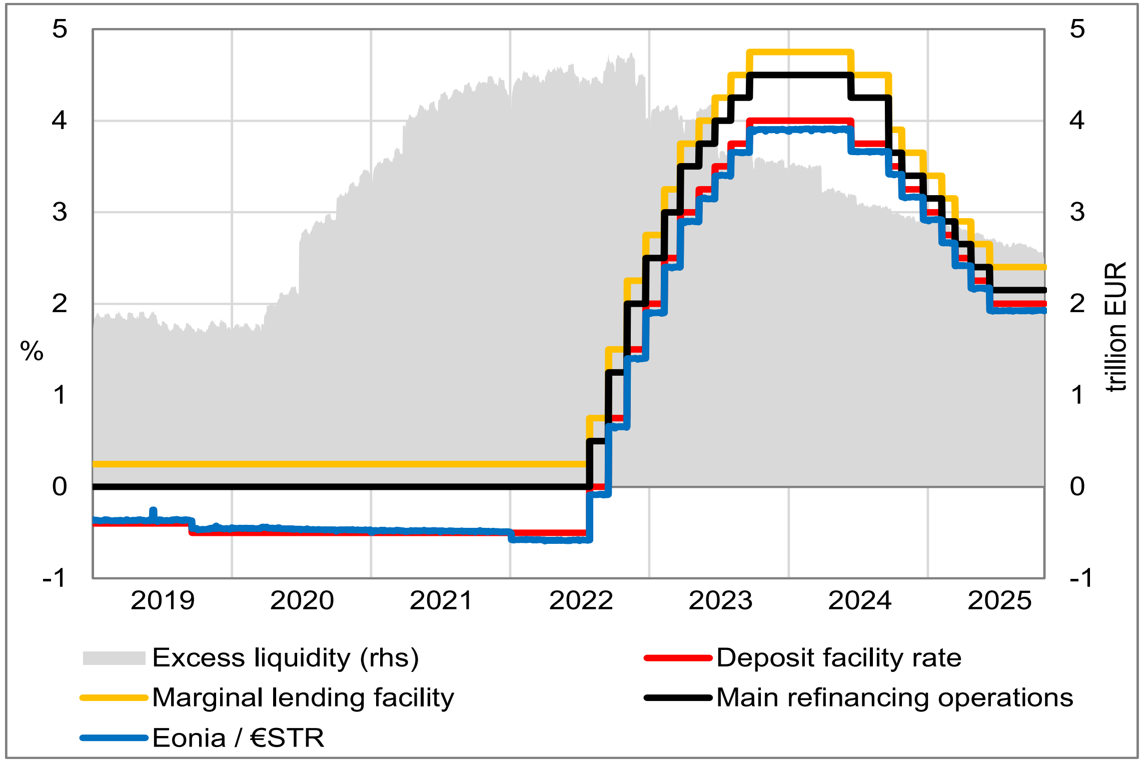


Note: The red rectangle represents the projection period
SGP represents the Stability and Growth Pact criterion, which sets a limit of -3% for the government deficit as a percentage of GDP.
Source: EC Autumn 2025 Economic Forecast

Monetary policy and interest rates

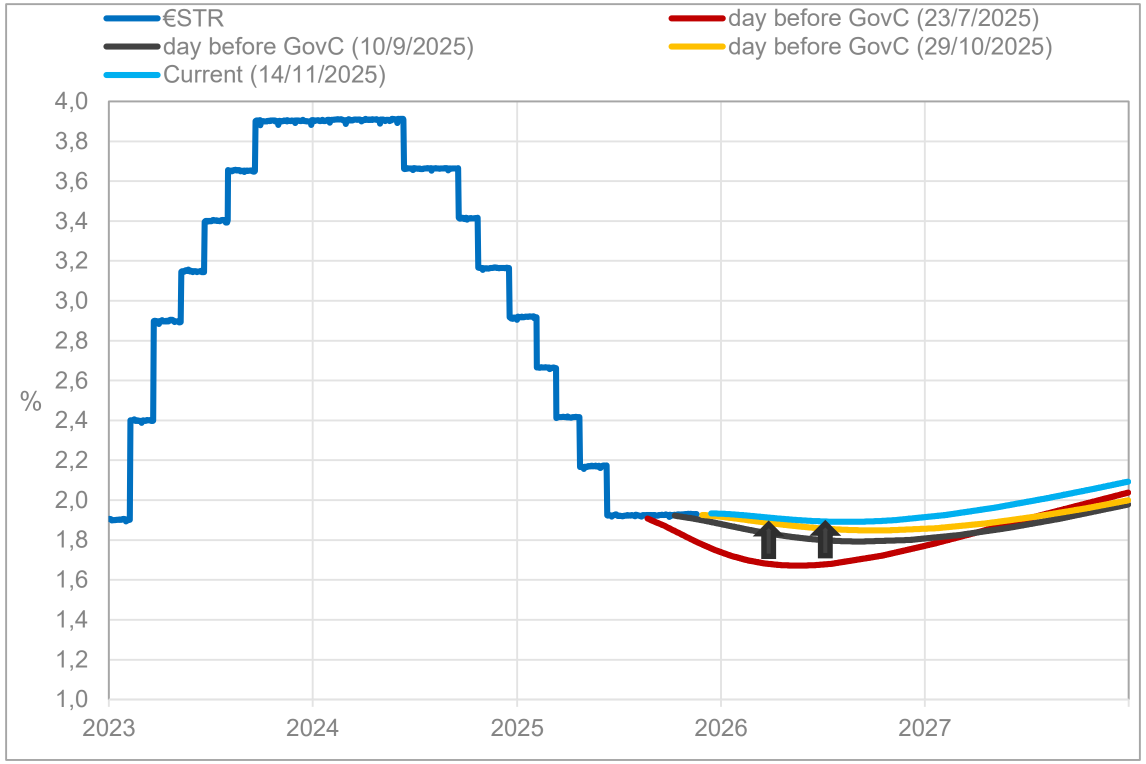
Market expectations for the ECB's policy rate path shifted higher

Key ECB interest rates



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

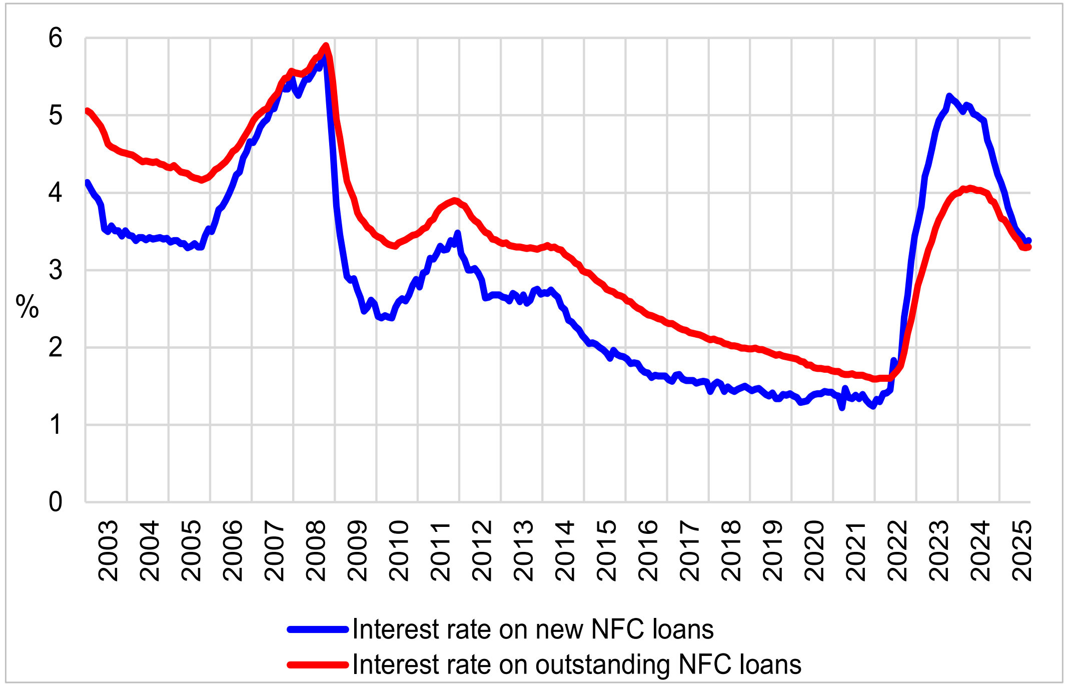
ESTR forward curve



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 (November 29th, 2025).
Sources: Bloomberg, HNB

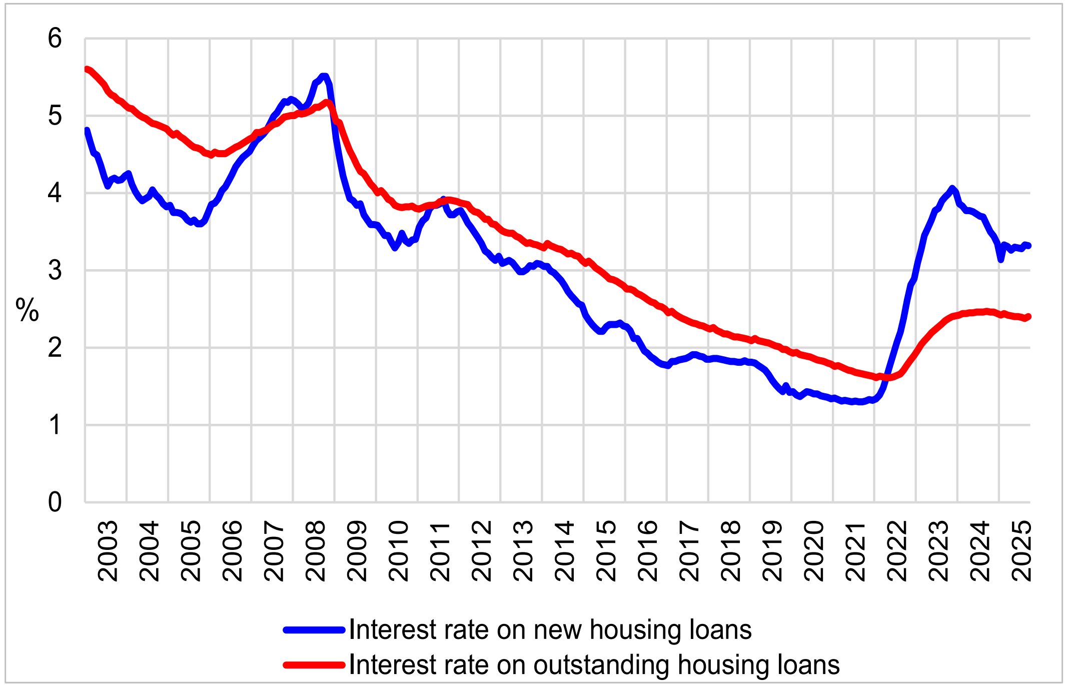
Some tightening still in the pipeline for housing loans, but none for corporate loans

Interest rates on loans to NFCs



Source: ECB.

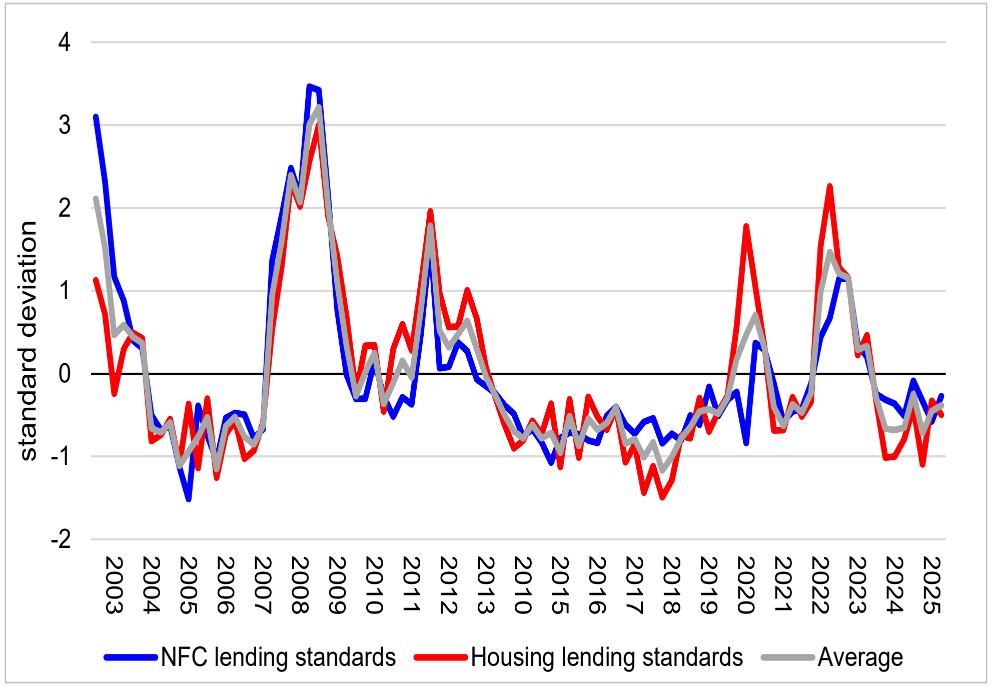
Interest rates on housing loans



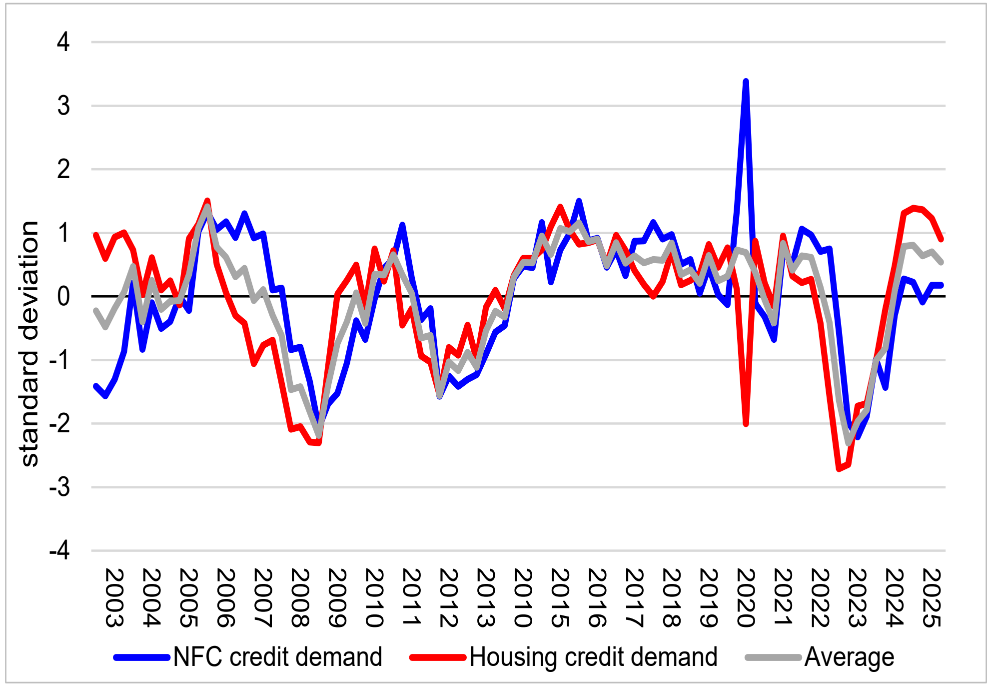
Source: ECB.

No signs that trade and geopolitical tensions are contributing to tightening lending standards with strong growth of demand for housing loans

Standardized credit standards



Standardized credit demand

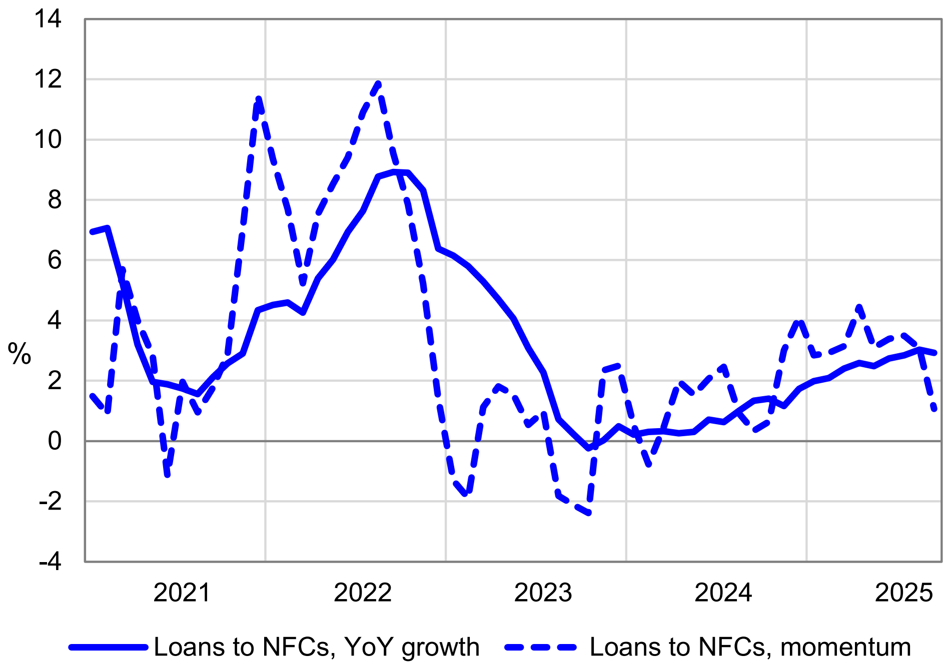


Note: Original values are demeaned and divided by the standard deviation. Positive values of credit standards denote tightening and vice-versa.

Source: ECB Bank Lending Survey.

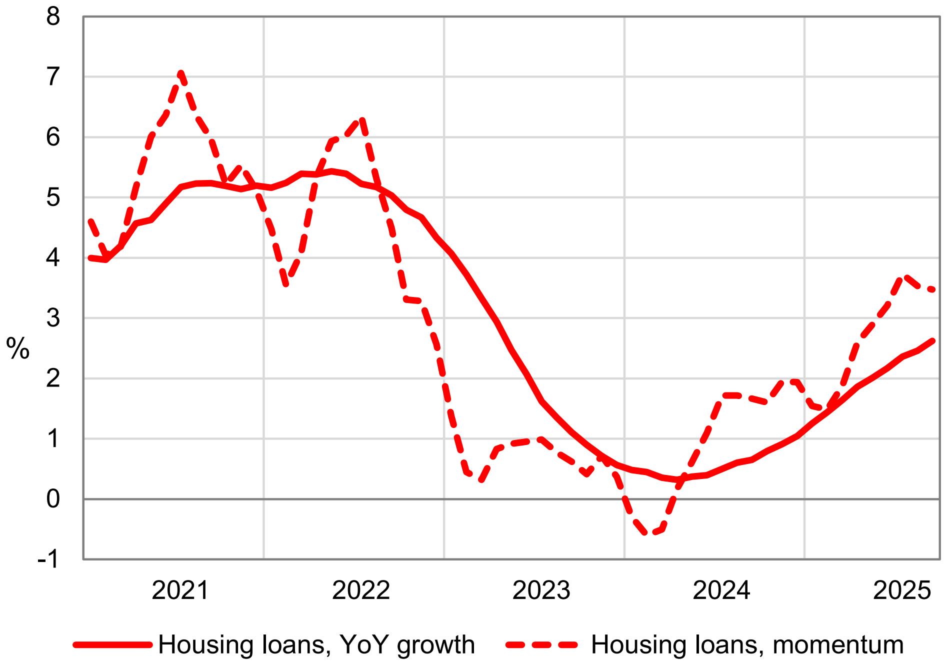
Credit activity of both corporates and households in the euro area is gradually recovering

Corporate loan growth



Source: ECB

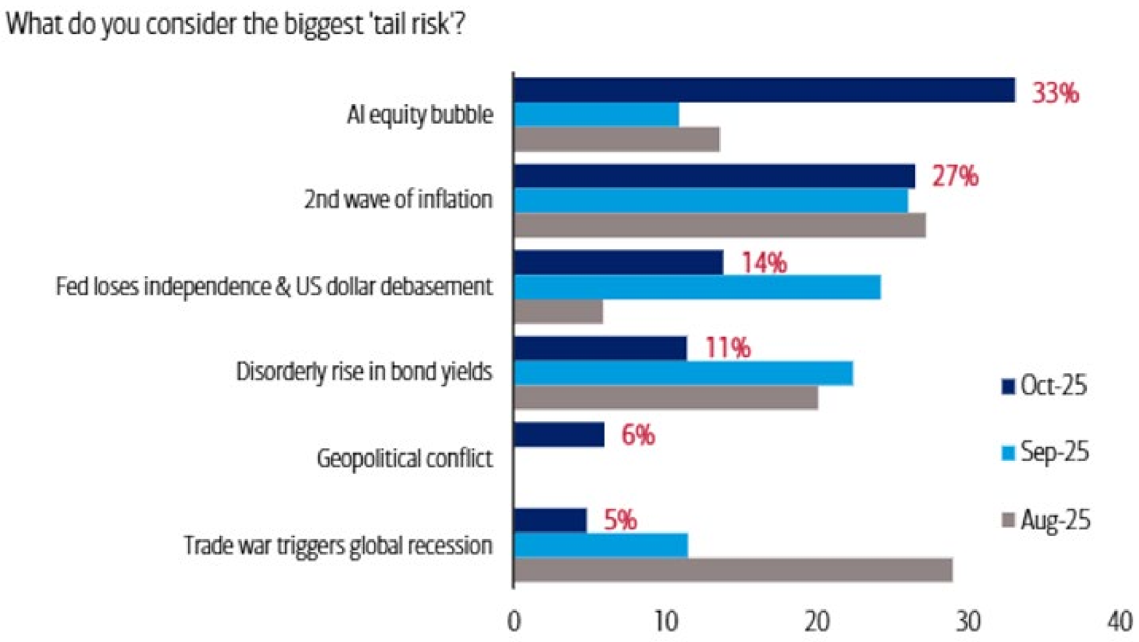
Housing loan growth



Source: ECB

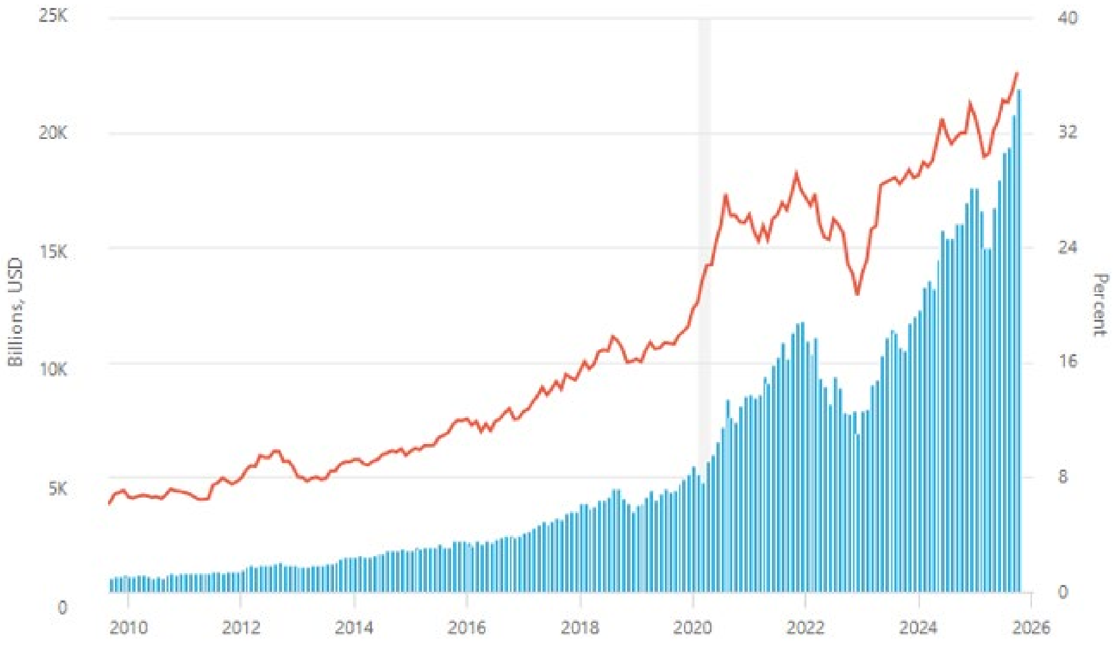
AI bubble concerns now the leading market tail risk

BofA Global Fund Manager Survey



Sources: Bank of America's October Global Fund Manager Survey

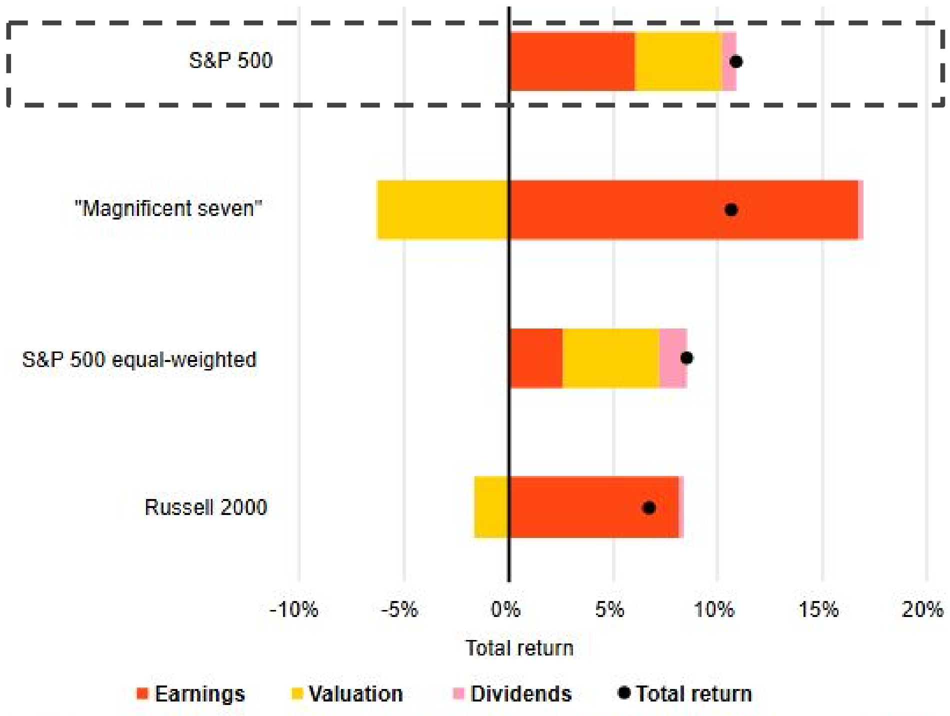
The US market is heavily concentrated: Magnificent 7 market capitalization as share of S&P 500 is 36%



Note: Total market capitalization of the Magnificent 7 (Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla) in the U.S. S&P 500 Index, along with their proportion of the overall market capitalization.
Source: macromicro

S&P 500 gains fueled by AI earnings, but valuation justification remains to be seen

US equity performance driven by AI earnings



Sources: BlackRock Investment Institute

Current CAPE valuations of S&P index are nearing the extremes of the early 2000s *dot-com* bubble

Note: Price earnings ratio is based on average inflation-adjusted earnings from the previous 10 years, known as the Cyclically Adjusted PE Ratio (CAPE Ratio), Shiller PE Ratio, or PE 10.
Source: https://www.multpl.com/shiller-pe

HNB

Thank you very much for your attention!

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