Information on economic, financial and monetary developments

March 2025

Summary

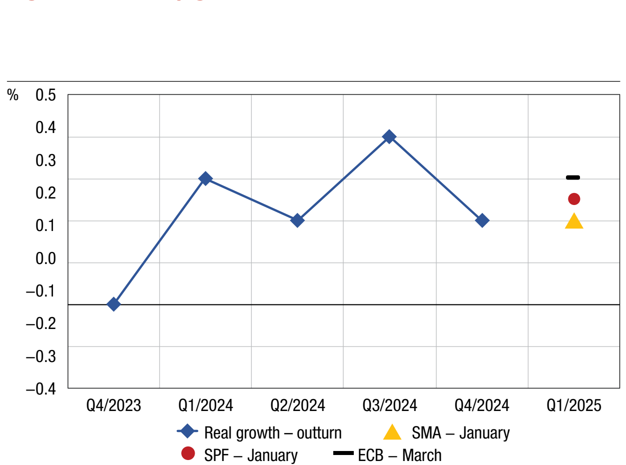
The euro area economy increased at a 0.2% quarterly rate in the last quarter of 2024, decelerating from a relatively strong mid-year growth. There are still noticeable differences among member states: economic activity is continuing to decelerate in Germany and France while rising sharply in Spain. In addition to the noticeable weakening of industrial production, modest euro area growth at the end of the year also reflects the slowdown of retail trade growth. In contrast, a mild recovery in construction and the continued growth of service activities made positive contributions to economic activity. High-frequency indicators, having deteriorated significantly late in the previous year, suggest a slight recovery in confidence in early 2025. The euro area composite purchasing managers' index (PMI) shifted to the expansion range at the beginning of the year, primarily thanks to the component of industry, which has remained in the contraction range despite the recovery. In contrast, the services sector indicator worsened, but has remained in the expansion range. The Economic Sentiment Indicator (ESI) strengthened for the second consecutive month, reaching the highest level since August 2024. This could indicate that GDP growth in the euro area accelerated only slightly in early 2025.

According to the Eurostat's flash estimate, overall euro area inflation edged down to 2.4% in February from 2.5% in January 2025. This was caused by decreases in energy and services inflation (Figure 2), primarily resulting from favourable base effects. In contrast, food inflation accelerated to 2.7%, mainly due to a very unfavourable base effect. Elevated food inflation also reflects inflationary pressures stemming from the growth of prices of food raw materials in the global and in the EU market. Core inflation (which excludes energy and food prices) decelerated slightly to 2.6% in February, having stagnated at 2.7% in the five previous months. This was due to services inflation decelerating to 3.7% under the conditions of a gradual slowdown of wage growth and the continued impact of previous monetary tightening measures. Low industrial goods inflation, which, having fluctuated around its long-term average over the past year, was 0.6% in February 2025, can be attributed to mild inflationary pressures in the supply chain, including the low growth rates of producer and import prices of non-food consumer goods.

Economic activity in Croatia strengthened markedly at the end of the previous year, mirroring the strengthening of domestic demand and goods exports. According to the first CBS estimates, real GDP increased at a quarterly rate of 1.4% in the fourth quarter of 2024, from 0.4% in the third quarter, growing at an annual rate of 3.7%. All domestic demand components grew relatively strongly at the end of the year, with the largest contribution coming from personal consumption, which continued to strengthen amid the steady growth of employment and real wages. Goods exports increased at an accelerated rate at the end of the year, with available data showing that the increase was broadly based. Total imports also accelerated sharply due to strong domestic demand, in particular services imports, which may be associated with residents' demand for tourist services abroad rising on the back of the strong growth of income. Seen from the production side, quarterly growth was primarily supported by favourable developments in construction, trade and services, while activity in manufacturing and agriculture decreased. Real GDP growth for 2024 accelerated considerably to 3.8% from 3.3.% in 2023. Domestic consumption accelerated much faster than domestic production, with the result that net imports of goods and services grew. Total exports of goods and services also grew mildly on an annual level, boosted by the growth of goods exports, while services exports dropped.

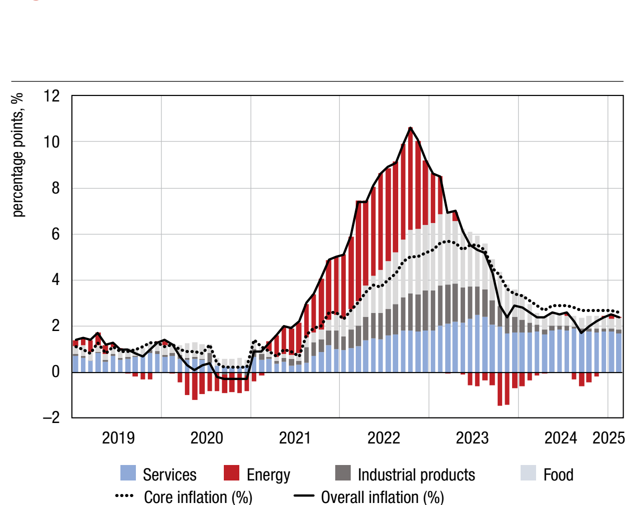
Consumer and business optimism surveys suggest that growth could decelerate in early 2025. The consumer confidence index decreased in January and February, dropping to the lowest level since September 2023, but still remaining above its long-term average. The perception of the current financial situation in households deteriorated the most from the previous year, coupled with lower expectations about the economic situation in Croatia in the following 12 months. Confidence in trade, very high throughout 2024, also fell sharply, which could to a large extent be linked to the adverse impact of the January and February boycotts of retail chains on these chains' turnover. Confidence in industry, which rose in January, again dropped sharply in February, falling to its long-term average. In contrast, business optimism in construction and services improved in February and still considerably exceeds its long-term average.

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



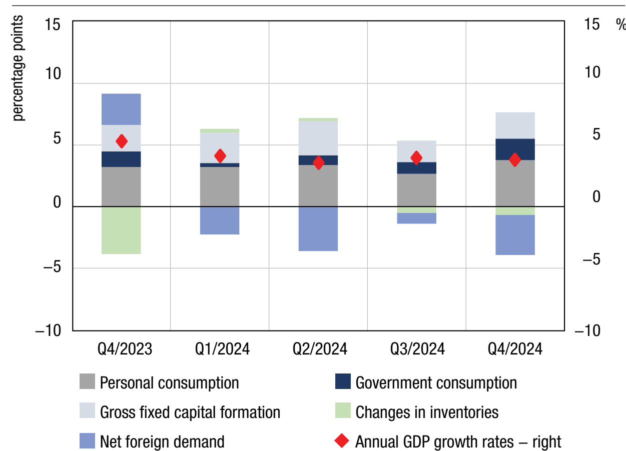
Notes: Abbreviation ECB – March refers to the ECB's March 2025 projections of real growth in the euro area (Broad Macroeconomic Projection Exercise, BMPE). The abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the ECB's January 2025 survey of market participants.
Sources: Eurostat and ECB.

Figure 2 Euro area inflation indicators



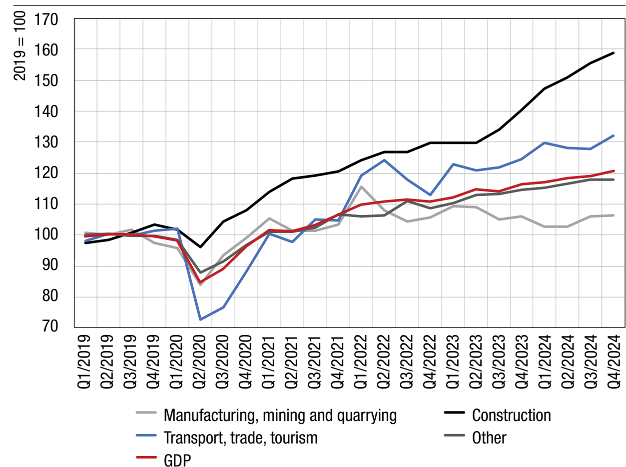
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat and CNB calculations.

Figure 3 Contributions to the annual growth of GDP in Croatia



Source: CBS.

Figure 4 Gross value added by activity in Croatia

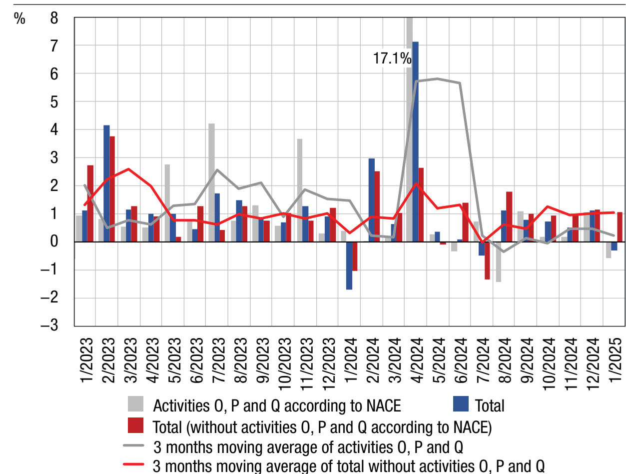


Sources: CBS.

Employment growth continued to decelerate at the beginning of 2025, accompanied by dips in the unemployment rate and in nominal and real gross wages. The total number of employed persons in Croatia grew by 0.2% in January 2025 from December 2024, the outcome of stagnation in employment in public administration, education, health care and social services (O, P and Q activities) and a slightly more pronounced increase in employment in the rest of the economy. Employment was 0.7% higher than in October 2024 (the first month of the fourth quarter). The monthly decrease in unemployment decelerated sharply early in the year (0.3% in January 2025 compared with 1.5% in December 2024), while the seasonally adjusted registered unemployment rate dropped to 4.6% of the labour force. The average gross wage edged down at the beginning of 2025, while the average net wage increased due to tax changes. The average nominal gross wage dropped by 0.3% on a monthly level in January 2025, whereas the nominal net wage went up by 0.6%, primarily as a result of an increase in the basic personal tax exemption. Real net wages remained unchanged and real gross wages decreased by 0.4%. Wage growth speeded up early in the year: the average nominal gross wage grew at an annual rate of 15.9% in January 2025, mainly due to base effects.

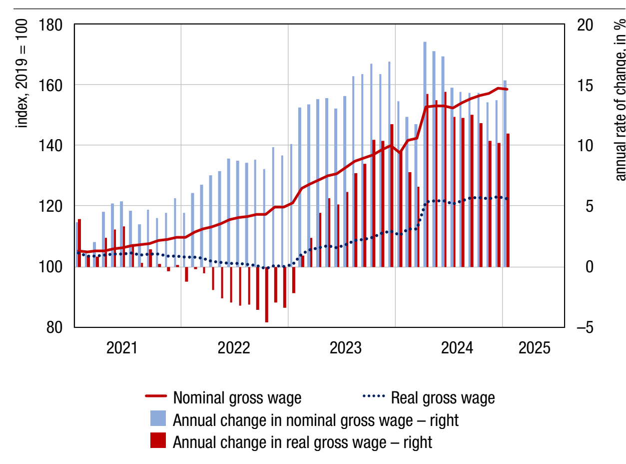
Inflation in Croatia decelerated in February 2025 thanks to the absence of current upward pressures on prices and, to a smaller extent, to favourable base effects. The inflation of the prices of all major components slowed down. According to the Eurostat flash estimate, inflation in Croatia, as measured by the harmonised index of consumer prices (HICP), decelerated to 4.7% in February 2025 from 5.0% in January (Figure 7). This was due to a monthly change in prices in February that was weaker than historically common trends and concerned all inflation components except services. In addition, after having contributed to the acceleration of inflation over the previous five months, base effects (related to energy and services) arising from the strong growth of prices in February 2024, started to decelerate the annual inflation rate again. The inflation of all major components slowed down, especially energy inflation (to 3.9% from 5.1% in January) and services inflation (to 7.8% from 8.2% in January). The slowdown in services inflation and industrial goods inflation led to a slowdown in core inflation (which excludes energy and food prices), which dropped from 4.7% in January to 4.5% in February (Figure 9). Despite the slowdown, services inflation continues to be the key component

Figure 5 Nominal gross wages
monthly rate of change



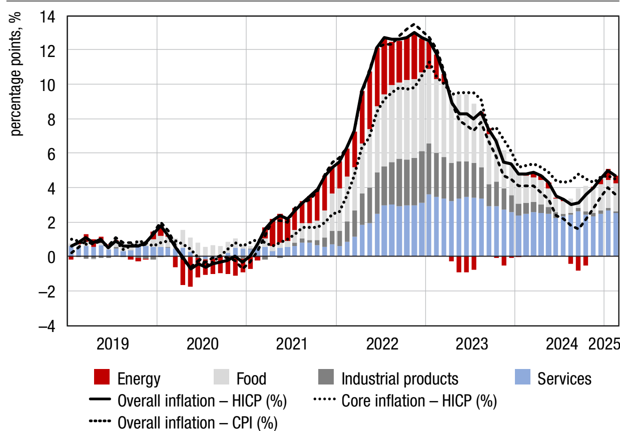
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

Figure 6 Nominal and real gross wages
index, 2019 = 100, annual rate of change



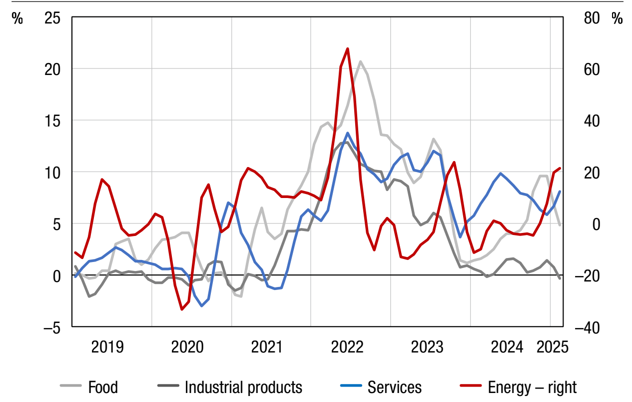
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

Figure 7 Inflation indicators in Croatia



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

Figure 8 Momentums of the main inflation components



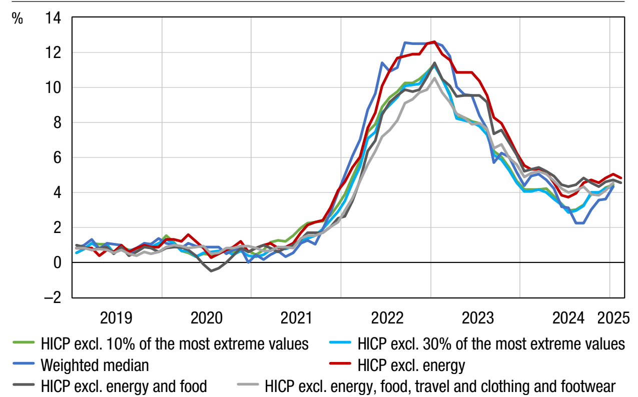
Note: The quarterly rate of change on an annual level has been calculated based on the quarterly moving average of seasonally adjusted harmonised indices of consumer prices.
Sources: Eurostat and CNB calculations.

of Croatia's overall inflation trends. Services and food contribute 2.5 and 1.6 percentage points, respectively, to the overall consumer price inflation of 4.7%. Overall inflation measured by the national consumer price index (CPI)[1] decelerated slightly more, from 4.0% in January to 3.6% in February, with the result that the difference between the harmonised and national indicators of overall inflation increased slightly. The higher inflation according to the harmonised indicator mainly results from the growing contribution of services prices (Figure 10). Specifically, the HICP and CPI are calculated using different shares of goods and services in the consumer basket and the HICP share of services is larger because it includes the consumption of foreign tourists.

At its meeting on 6 October, the Governing Council of the ECB decided to further gradually moderate the degree of monetary policy restriction (Figure 11). The deposit facility rate, a relevant indicator of the ECB's monetary policy, was set at 2.50% starting from 12 March, a reduction of 25 basis points. The Governing Council noted that the disinflationary process was well on track. However, domestic inflation has remained high, mostly because wages and prices in certain sectors are still adjusting, with a substantial delay, to the past surge in inflation. Still, wage growth has decelerated in line with expectations, and corporate profits have offset the impact of the robust growth of labour costs on inflation. Monetary policy is becoming significantly less restrictive, as the interest rate cuts are making new borrowing less expensive for firms and households and loan growth is picking up. The continued transmission of the previous tightening of monetary policy to existing loans lessens the intensity of the loosening of financing conditions, while lending remains subdued. The economy is still affected by headwinds, but the growth of real income and the gradually fading effects of the previous increases in key interest rates should spur demand. The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. In current conditions of rising uncertainty, interest rate decisions will continue to be based on a data-dependent and meeting-by-meeting

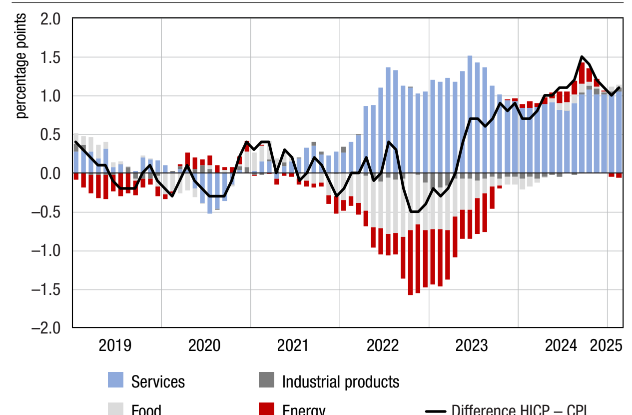
1 The CPI, in contrast with HICP, does not cover consumption by foreign tourists and institutional households (such as educational, health and religious institutions, etc.). The February decrease in CPI inflation was primarily caused by services inflation decelerating to 5.7% from 6.3% and, to a smaller extent, by the slowdown of energy inflation and industrial goods inflation. Food inflation remained at 4.9%.

Figure 9 Core inflation indicators



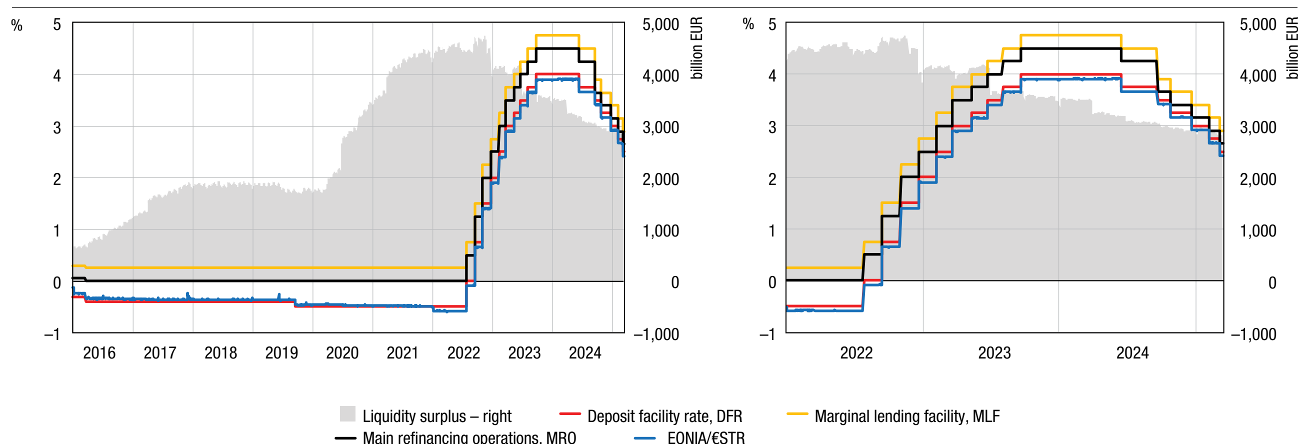
Notes: Trimmed mean eliminates 5% (15%) of subcomponents (out of a total of 87 subcomponents) with maximum and minimum annual rates of change. The weighted median excludes all values but the weighted median of the distribution of price change.
Sources: Eurostat and CNB calculations.

Figure 10 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 11 Key ECB interest rates



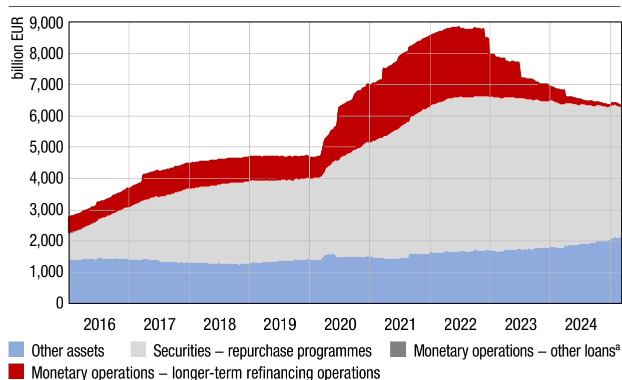
Notes: DFR (deposit facility rate); MLF (marginal lending facility); MRO (main refinancing operations). The EONIA was replaced by €STR in early 2022.
Source: ECB.

approach. The Governing Council is not pre-committing to a particular rate path.

The size of the Eurosystem's balance sheet has continued to decrease gradually (Figure 12). On 18 December 2024, banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations, which concluded this part of the balance sheet normalisation process. The portfolio of securities purchased within the asset purchase programme (APP) and the portfolio of the pandemic emergency purchase programme (PEPP) of the Eurosystem are declining steadily at a measured and predictable pace; the principal payments from maturing securities under the APP have not been reinvested since July 2023 while the reinvestment of the PEPP portfolio was completed at the end of the previous year.

Immediately before the meeting of the Governing Council in March, financial market participants expected key ECB interest rates to continue to be reduced at a somewhat stronger intensity than at the time of the December meeting, which was most of all due to the worsening of the economic outlook and the fall in inflation expectations for the euro area. The overnight interest rate on the European money market, €STR, stood at 2.7% immediately before the Governing Council meeting in March, unchanged from ECB key interest rate cuts in January (Figure 13). The Croatian money market also witnessed no major changes. The overnight interest rate on banks' demand deposit trading moved within a narrow range around 2.6% in early March. As regards market expectations, immediately before the meeting of the Governing Council in March, the €STR forward curve was at levels lower than prior to the January meeting; this indicates that market participants expect key ECB interest rates to continue to be reduced at a slightly faster rate (Figure 14). This mainly resulted from weaker than projected data on euro area economic growth in the fourth quarter of 2024, published in late January, and somewhat worse than expected results of the purchasing managers' index (PMI), published in the second half of February. The downward shift in the €STR forward curve was also caused by rising uncertainty surrounding potentially adverse effects of US economic policy on the euro area economy and a decrease in inflationary expectations, caused, among other things, by a fall in crude oil prices.

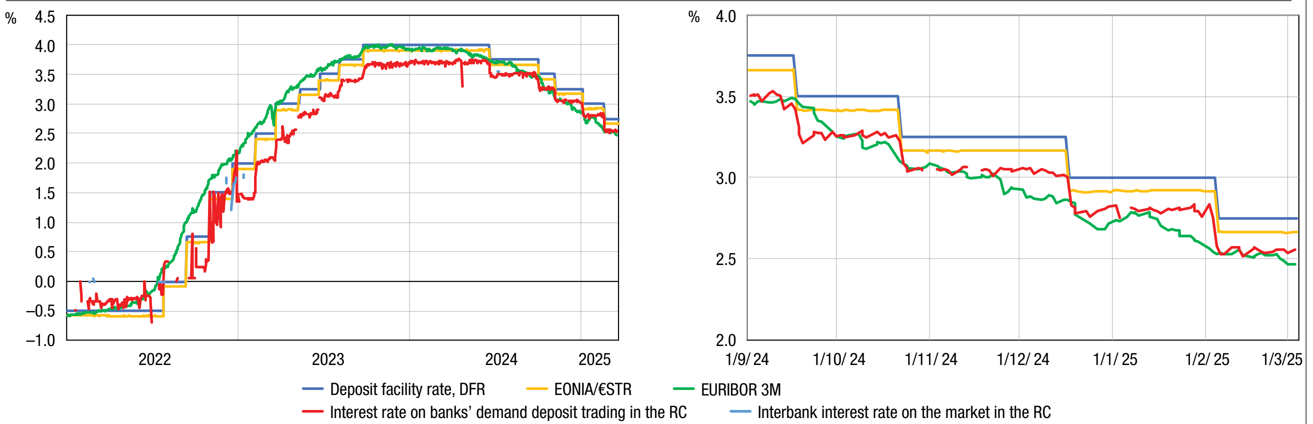
Figure 12 Eurosystem balance sheet



[a] Other loans include main refinancing operations, fine-tuning reverse operations, structural reverse operations, marginal lending facility and credits related to margin calls.
Note: The Eurosystem monetary balance sheet asset items are shown in grey and red and non-monetary in blue.
Source: ECB.

In the period preceding the Governing Council meeting in March, euro area long-term government bond yields were at levels similar to those that prevailed at the time of the January meeting. The yields narrowed in early and late February because of the worsening economic outlook and a fall in inflation expectations for the euro area, but they started to widen again immediately before the ECB Governing Council meeting in March. Euro area long-term government bond yields averaged 2.9% in the period preceding the Governing Council meeting in March and were only 6 basis points lower than at the time of the January meeting (Figure15). Long-term euro yields declined in early and late February, which was mostly the effect of the weak euro area economic indicators released in late January and the second half of February as well as a decrease in inflationary expectations for the euro area. The decline in long-term euro yields in that period partly reflected a decrease in US long-term government bond yields, primarily due to weaker than expected US economic indicators published in the second half of February and at the beginning of March. However, long-term euro yields started to grow at the beginning of March due to the strengthening of market expectations that the announced increase in military spending would boost the borrowing of euro area countries. Immediately before the Governing Council meeting in March, average yields on euro area long-term government

Figure 13 Key ECB interest rate and overnight market interest rates in the euro area and Croatia



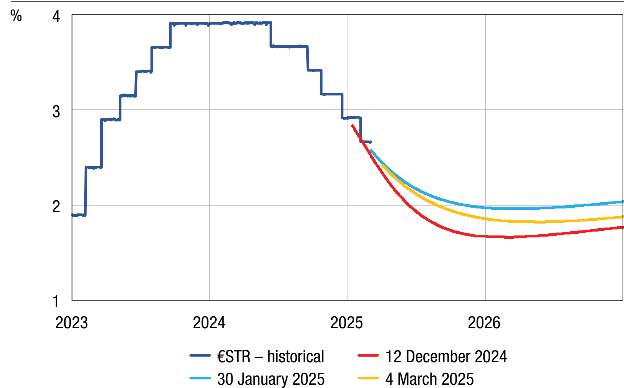
Notes: DFR (deposit facility rate). The EONIA was replaced by the €STR in early 2022. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data are for 4 March 2025

Sources: ECB and CNB.

bonds returned close to their predominant level at the time of the January meeting. Croatia's long-term government bond yields followed trends in euro area long-term government bond yields, standing at 3.0% at the beginning of March 2025, 11 basis points lower than on the day of the ECB Governing Council meeting in January 2025.

Average interest rates on pure new corporate loans increased very mildly in January from the previous month, while the costs of household financing by credit institutions fell. The average interest rate on pure new corporate loans was 4.30% in January, an increase of 16 basis points from December, while households borrowed at an average rate of 5.89%, 6 basis points lower than in December, as regards general-purpose cash loans, and at 3.70%, 11 basis points lower, when it came to housing loans (Figure 16). Interest rates on housing loans were lower because a systemically important bank offered housing loans at an interest rate of 2.89% in mid-January, much lower than those offered by other banks. Nevertheless, the volume of new loans did not change much in January, which can be attributed to the complexity of the loan granting process, the bank's capacities for the processing of loan applications and the late

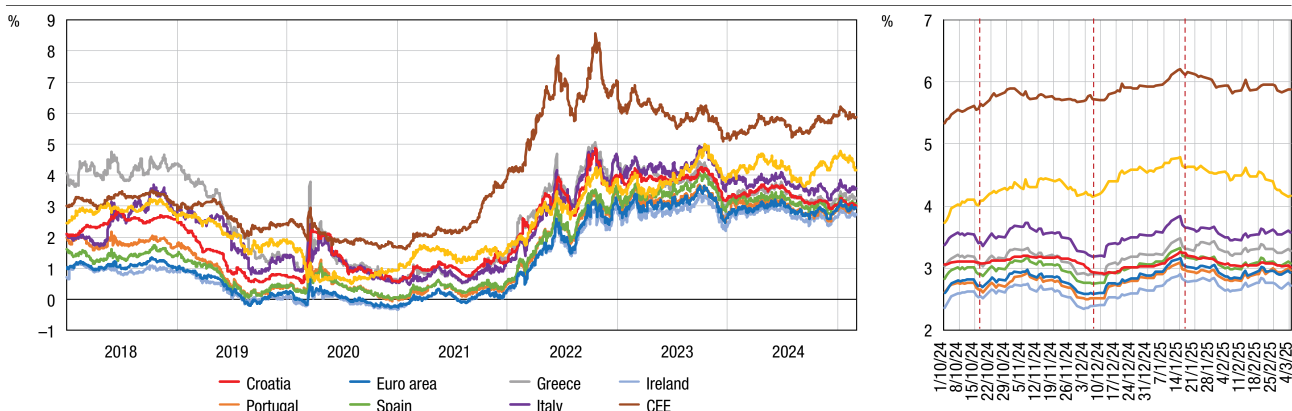
Figure 14 €STR forward curve



Notes: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves show the selected forward curves formed on the day of the ECB Governing Council meeting in December 2024 and January 2025 and on the day of the last available data on 4 March 2025. .

Sources: Bloomberg and CNB calculations.

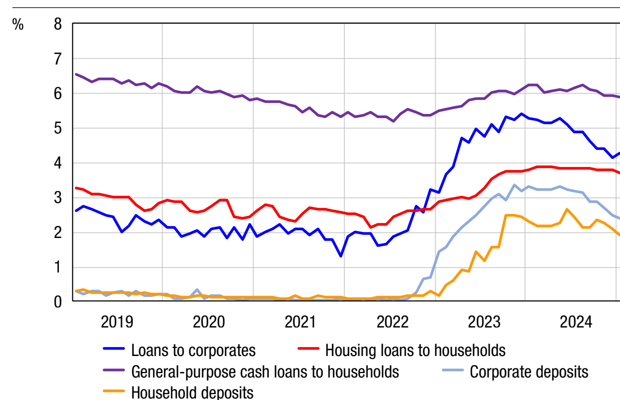
Figure 15 Yields on long-term government bonds with the remaining maturity of approximately 10 years



Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Estonia, Latvia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the period of time shown. Last data are for 4 March 2025.

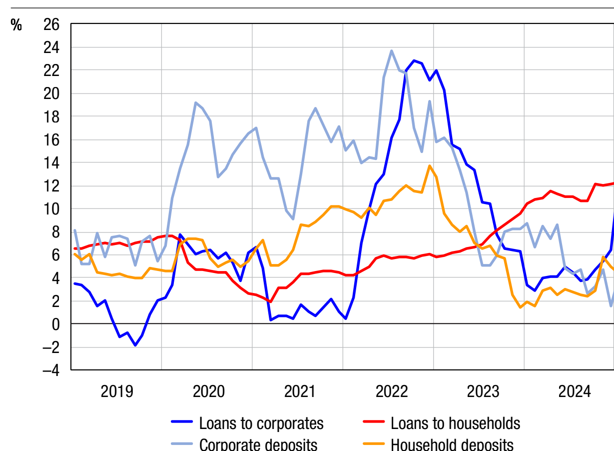
Sources: Bloomberg, Eurostat and CNB calculations.

Figure 16 Interest rates on pure new loans and time deposits of corporates and households



Notes: Data up to December 2022 refer to loans and deposits in kuna and currencies indexed to the kuna and in euros, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of up to 1 month have been excluded.
Source: CNB.

Figure 17 Corporate and household loans and deposits
year-on-year rates of change, transaction-based



Source: CNB.

presentation of the offer (in mid-January), which is why stronger effects are to be expected in the following months. Other systemically important banks reduced their interest rates on housing loans in February and March. The easing of the restrictive ECB monetary policy had a strong impact on corporate financing conditions by January. Despite an increase, the average interest rate on new corporate loans decreased by 113 basis points in January 2025 from its highest level recorded during the last cycle of monetary tightening (December 2023). The transmission to interest rates on household loans continued to be much weaker: interest rates on general-purpose cash loans were only 37 basis points lower than at the beginning of 2024 and interest rates on housing loans were 18 basis points lower than their highest level reached in April 2024. Still, as indicated by banks' current offers, the transmission should strengthen considerably. The interest rate on existing corporate loans continued to drop, standing at 4.17% in January this year, a fall of 17 basis points from December 2024, caused by the repayment of loans with higher interest rates. Interest rates on existing general-purpose cash loans fell by 3 basis points (6.01%) and interest rates on existing housing loans grew by the same amount (3.15%). These changes reflect trends in reference parameters to which interest rates are periodically adjusted. A decrease in the EURIBOR, amounting to about 110 basis points, in the second half of the previous year, thus spilled over to variable interest rates linked to the EURIBOR, especially to interest rates on general-purpose cash loans, which dropped by 39 basis points in January. The decrease in the EURIBOR only partially spilled over to these interest rates, as in the period of monetary policy tightening the statutory cap on interest rates on household loans prevented the full spillover of the EURIBOR growth to interest rates on general-purpose cash loans, keeping them at levels lower than those at which they would have been had the statutory cap not been applied. In addition, the intensity of the spillover of changes in reference parameters to linked interest rates is also affected by the date of interest rate adjustment, which most banks usually implement twice a year (in January and July). However, some banks had adjusted interest rates already in December last year, so that the reduction of reference parameters mostly spilled over to interest rates in the last two months. In contrast, the 6-month NRR (6m NRR1) rose by 16 basis points in the third quarter of 2024 from the first quarter of the same year, probably reaching its peak in this monetary tightening cycle. This influenced interest rates on existing housing and non-housing loans linked to the NRR, which increased by 11 and 10 basis points, respectively, in January (they are mostly adjusted twice a year, in January and July).

Interest rates on pure new time deposits of corporates and households were lower in January than in the previous month and interest rates on existing deposits held steady. The interest rate on pure new corporate time deposits went down by 12 basis points, to 2.38%, in January 2025 from December 2024, while the interest rate on household deposits dropped by 16 basis points (1.92%, Figure 16), which was primarily due to a decrease in 3 to 6 month deposits and 2 to 3 month deposits. The interest rate on total existing corporate deposits held steady in January at 0.62%, with a decrease in interest rates on existing time deposits of 10 basis points (2.46%) from December and in interest rates on overnight deposits of 2 basis points (0.14%) making a negative contribution to the change in the interest rate on total existing corporate deposits, while the contribution of a change in the deposit structure was positive.[2] As regards the household sector, the interest rate on total existing deposits edged down from the previous month (0.47%). The interest rate on existing time deposits fell by 6 basis points (1.67%), while the interest rate on overnight deposits remained unchanged (0.02%).

Domestic deposits decreased in January, the main driver of the decrease being the seasonal growth of foreign payments. Total domestic deposits (excluding general government deposits) went down by EUR 0.7bn in January 2025 (or 1.2%, transaction based) compared with December 2024, following an increase in the last quarter of the year. Overnight deposits decreased by EUR 0.9bn, almost completely due to a drop in overnight corporate deposits. Time deposits grew by EUR 0.1bn due to the growth of corporate time deposits (EUR 0.2bn), while time deposits of households and other financial institutions diminished slightly (EUR 0.1bn). Total corporate deposits went down by EUR 0.7bn and those of other financial institutions by EUR 0.1bn. Household deposits remained almost unchanged. The annual growth of total deposits, standing at

2 The share of overnight deposits in total deposits decreased and the share of time deposits whose interest rate is higher than that on overnight deposits increased (calculated on the basis of the Bennet index, which divides the overall contribution to the interest rate effect and the weight effect).

4.5% in December 2024, accelerated slightly to 4.8% in January 2025 due to the base effect arising from a sharper decrease in corporate deposits in January 2024 than in January this year. The share of time deposits in total corporate deposits, having dropped to 25.6% in December 2024, rose to 27.8% in January 2025, but remained below the peak of 29.6% from May 2024. The share of household deposits continued to drop gradually, from 27.4% to 27.3%.

Corporate loans recorded stronger growth in January than in the previous months, whereas household loans grew at relatively stable rates. Loans to domestic sectors (excluding those to general government) rose by EUR 0.6bn in January 2025 (transaction based) because of an increase of EUR 0.4bn in corporate lending from the previous months. Household loans continued their relatively stable growth, rising by EUR 0.2bn. The bulk of the loan growth in January was accounted for by a syndicated loan to a large enterprise amounting to EUR 0.3bn. Except in manufacturing, loans grew at higher rates than in the previous months in agriculture, real estate activities and trade. The annual growth rate of corporate loans accelerated from 6.4% in December 2024 to 11.6% in January 2025. If the effect of the syndicated loans is excluded, the growth rate was 9.7% (Figure 17). The growth of household loans in January was also driven by housing loans, which grew by EUR 103m,but general-purpose cash loans also continued to rise (EUR 86m). The annual growth of household loans accelerated slightly, from 12.1% in December 2024 to 12.3% in January 2025, or from 11.1% to 11.3%, excluding the effect of the acquisition of the ECC in October 2024. The annual growth of housing loans accelerated from 9.1% to 9.4% reflecting the contribution of current trends, while the growth of general-purpose cash loans remained at 15.9% for the second consecutive month. The momentum [3] of corporate loans strengthened further in January, reaching a high of 22.0%, up from 14.1% in December. The momentum of housing loans was at the same level in January as in December 2024 (10.2%) and the momentum of general-purpose cash loans continued to weaken, falling below 10%.

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