CROATIA: MACRO OUTLOOK

Solid prospects amid global uncertainties

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Economy Croatia - Analyses and Forecasts | Erste Group Bank AG
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Spot Rates as of: December 11, 2025
Note: Information on past performance is not a reliable indicator for future performance.
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Economy to remain in solid shape, fiscal plans ditching any consolidation efforts

GDP growth landed at 2.3% y/y in 3Q, staying in solid gear, yet losing some momentum compared to 1H25. The composition remained familiar: domestic demand provided the backbone, consumption softened and investments added support. External trade was a drag once again, as exports reflected the weaker tourism performance and imports reflected vivid domestic demand. Following around 3% growth in 2025, for 2026, we see growth moderating to around 2.7%, with domestic demand still the main driver and net exports remaining a headwind. Risks are tilted to the downside amid constrained domestic momentum and persistent global uncertainties.

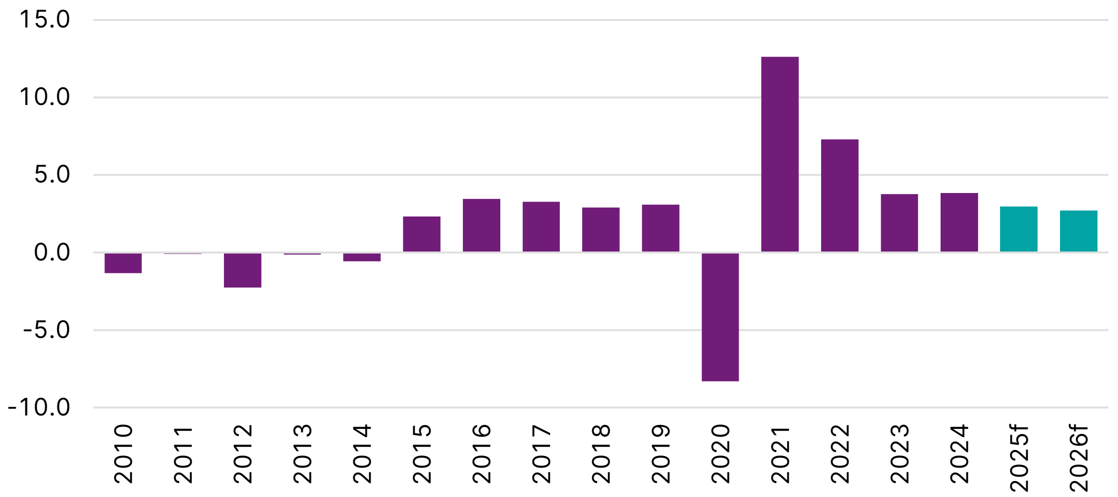
Inflation slipped again below 4% in 4Q25 as food and services became less dominant drivers, with monthly changes shaped more by energy price adjustments and seasonal factors. Demand-driven pressures should ease somewhat as growth moderates, while the rollback of anti-inflation measures will add to energy prices also in 2026. With stable global energy conditions, potentially some food price volatility, inflation is expected to move toward 3% in 2026 (after the anticipated 3.7% average in 2025), narrowing the gap with the Euro Area.

The 2024 budget deficit was revised down to 1.9% of GDP, while public debt has been affirmed at 57.4% of GDP. With the 2025 budget deficit envisaged at 2.9% of GDP, the 2026 budget framework indicates a largely unchanged fiscal stance, with deficits expected to hover around 3% of GDP through 2026–28, reflecting limited political appetite or market pressure for tighter policy. Fiscal buffers are shrinking, leaving less room for counter-cyclical action, and global uncertainties make meeting fiscal targets more challenging. No rating changes are anticipated, as agencies are likely to maintain a wait-and-see stance despite tight sovereign spreads. Yields remained stable, with the 10Y staying predominantly in the 3.0–3.1% band, while spreads continued to perform strongly, dipping as low as below 30bp, suggesting ongoing favorable investor sentiment. Looking ahead, spreads may normalize toward the 40bp region, while yields should remain predominantly shaped by benchmark moves.

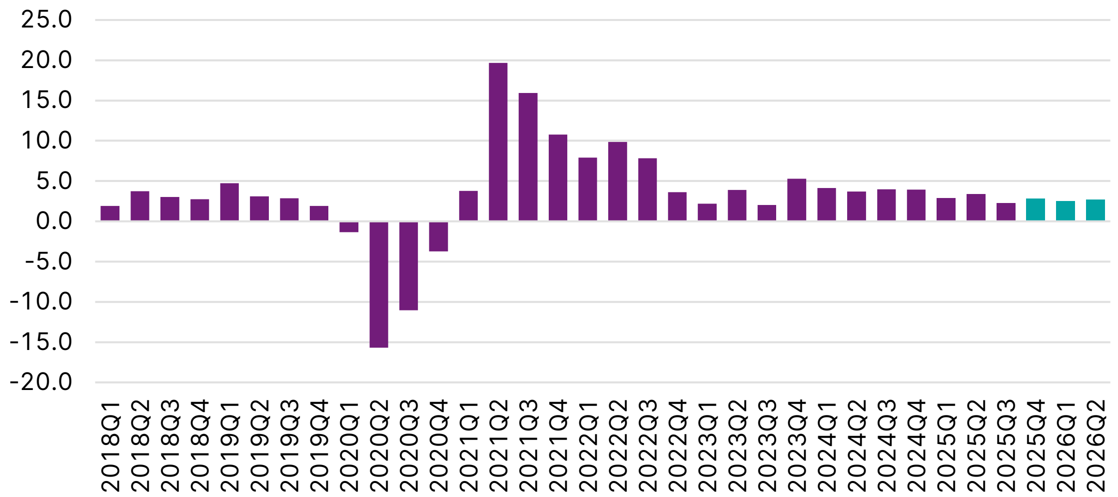
Source: Eurostat, Refinitiv, Erste Group Research

Around 3% GDP growth confirmed for 2025
Next year still above EU average, yet bringing some moderation

Annual GDP growth percent

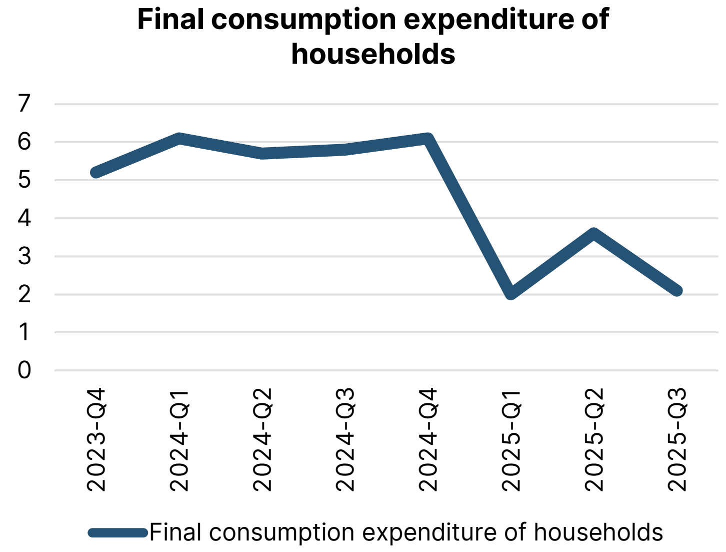


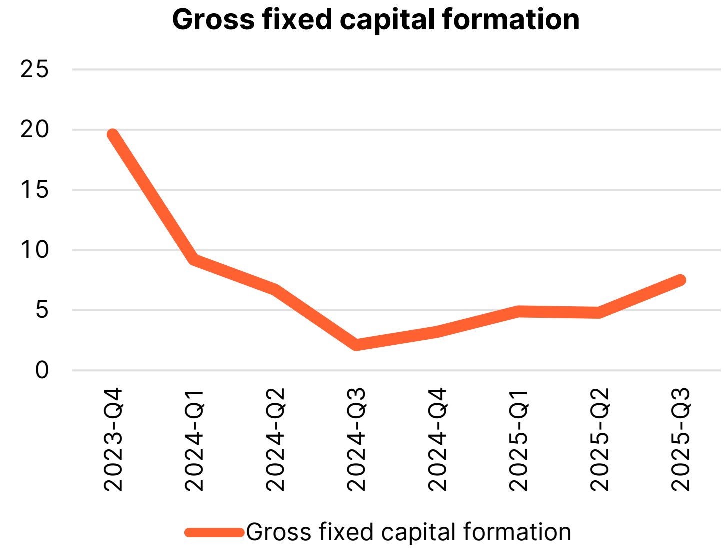
Quarterly GDP growth, y/y percent

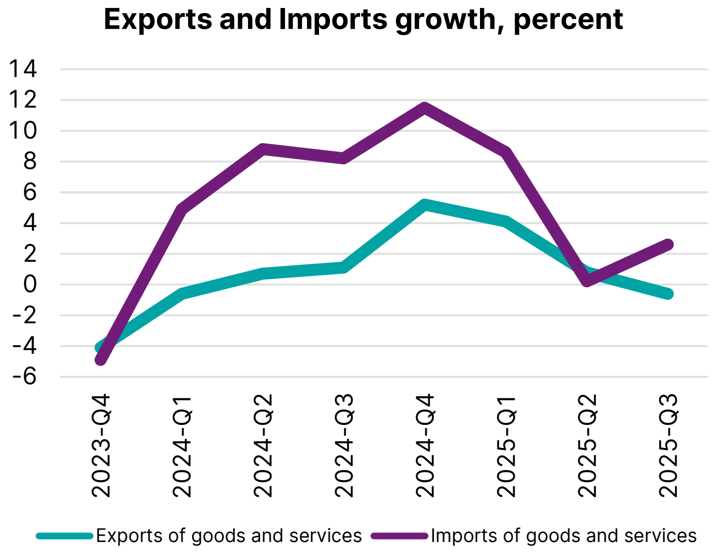


With growth likely to remain in a similar gear in the last quarter, FY25 growth should wrap up close to 3%. Turning the focus towards 2026, we continue to see growth decelerating to 2.7%, while resembling a similar growth pattern. Namely, domestic demand should remain the growth backbone, while net exports should remain a drag. Private consumption, after some "normalization" (following a strong 2024) in 2025, should stabilize close to the 3% region, amid a supportive labor market and consumer credit, while moderating inflation should support real disposable income to an extent. On the investment side, we see further expansion, as EU money flows should remain supportive, the interest rate outlook looks steady, and global uncertainties will hopefully become less pronounced. On the export side, the key trading partners' outlook remains timid, thus weighing on exports. Tourism is again unlikely to generate a positive contribution to the headline figure, with the overnights outlook pointing to more or less stagnation, while real revenues are likely to be in the red. Risks to the forecast are more skewed to the downside, as domestic demand is facing constraints in providing more backing, while global uncertainties remain elevated.

Domestic demand holding ground, as net exports weigh on headline







As anticipated, GDP growth maintained a solid trajectory, albeit losing some steam vs. the 1H25 performance, as the headline figure landed at 2.3% y/y in 3Q25, thus falling short of our expectations. Seasonally-adjusted data for 3Q showed that the economy expanded by 0.3% q/q, translating into a 2.6% y/y increase. A detailed look revealed a largely expected structure, with steady domestic demand support remaining in place. Private consumption growth, as suggested by the monthly-frequency data, shifted into lower gear (1.9% y/y), while investment activity picked up the pace with a 7.5% y/y increase. On the other hand, external trade had a less favorable impact as exports dipped into a mild negative area (-1.1% y/y), mostly reflecting negative developments on the services side, with tourism likely being a stronger drag than anticipated. With imports delivering a 2.4% y/y increase, the negative net export contribution was once again a drag on the overall 3Q25 GDP performance.

Source: Eurostat, Refinitiv, Erste Group Research
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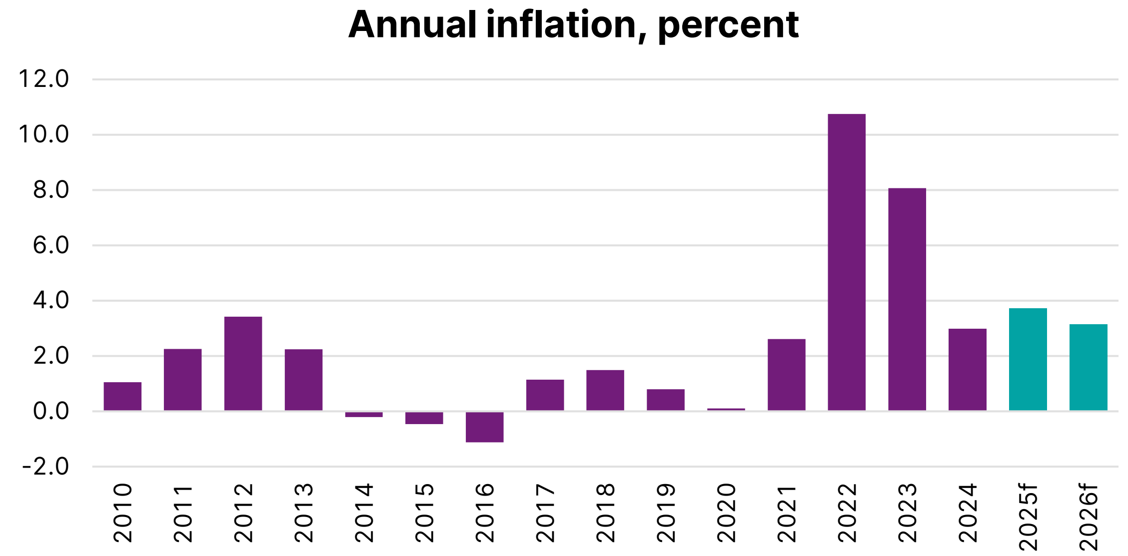
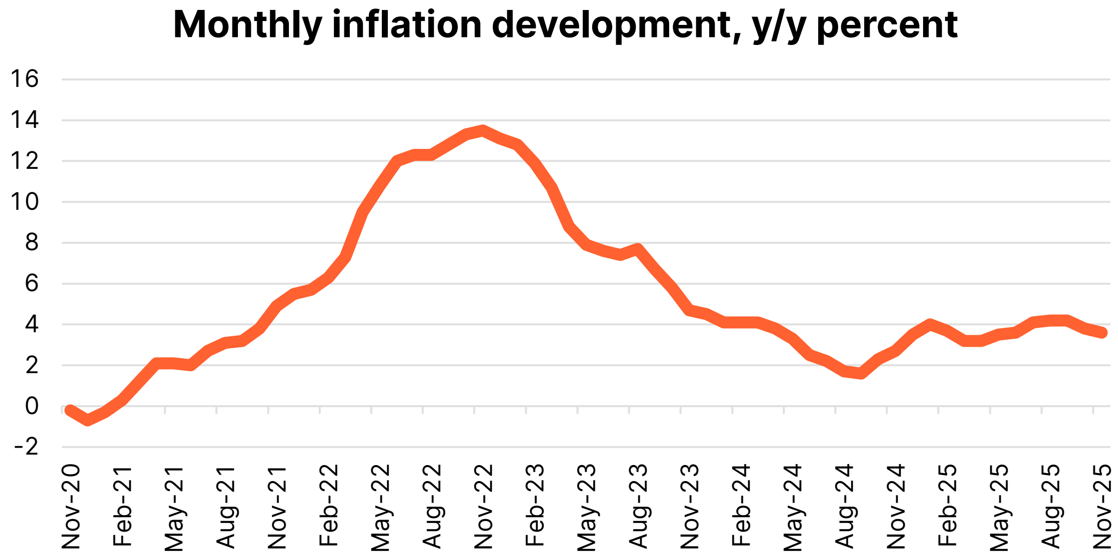
Demand-driven inflation stickiness





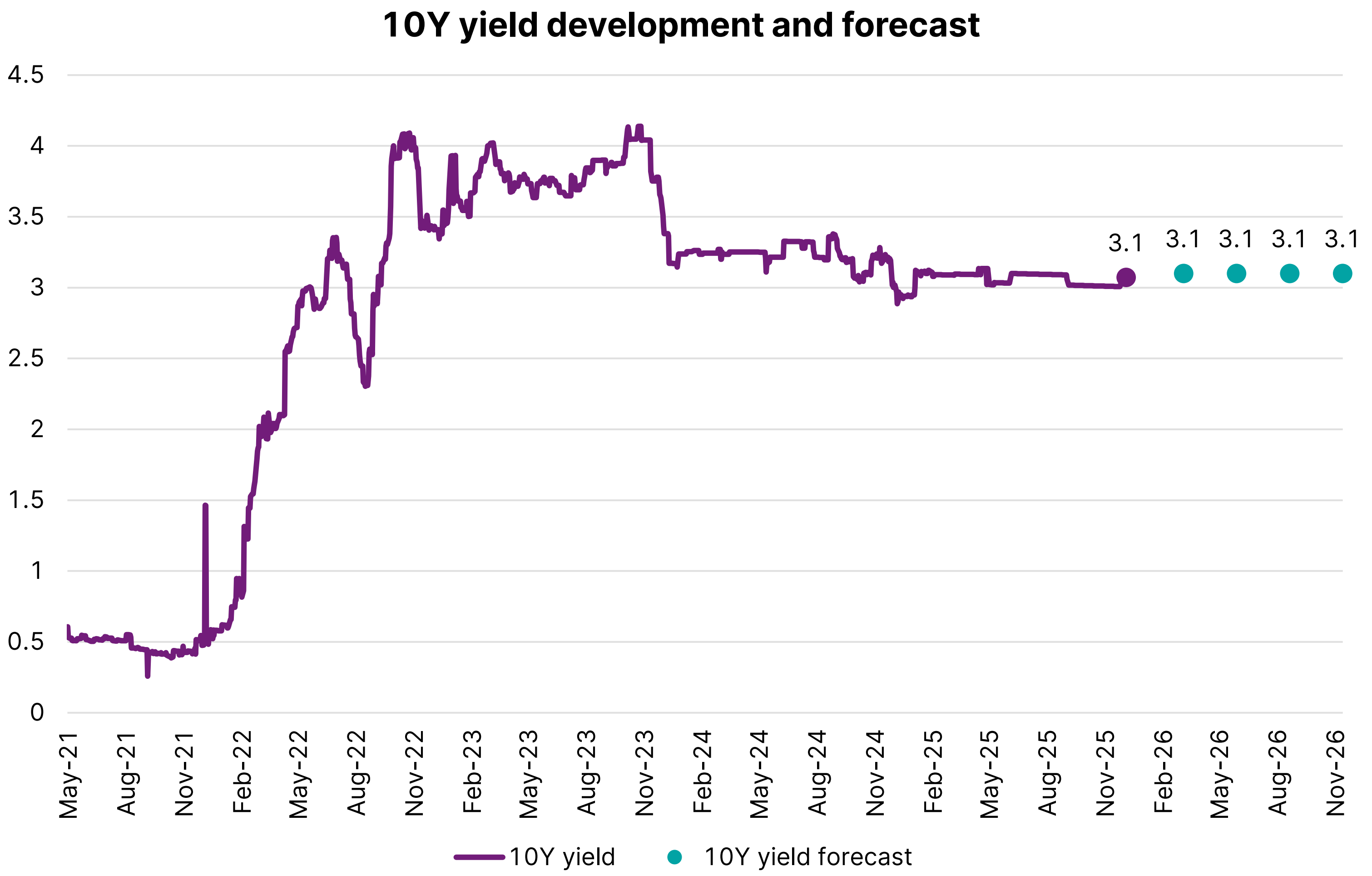
As we moved into 4Q25, headline inflation displayed some moderation and slipped back below the 4% mark. Looking at recent inflation prints, food and service prices, the strongest inflation drivers YTD, were playing a more neutral role, while m/m dynamics were shaped to a greater extent by energy prices (regulated price hike) and seasonal factors (clothing). As for the outlook, economic prospects suggest demand side pressures are likely to dominate, yet moderating growth momentum should also tone down inflation pressures. On the supply side, partial unwinding of the government's anti-inflation measures in 4Q25 should shape energy prices and average CPI well into 2026. The global energy outlook and supply chain conditions should remain benevolent, while food prices may again provide some volatility. That said, we see the 2025 average landing at 3.7%, before sliding closer to the 3% region in 2026, thus suggesting gap narrowing towards the EA average.

Source: Eurostat, Refinitiv, Erste Group Research
December 11, 2025

Spread performance still remarkable

On the financing side, business is largely as usual. We saw only regular T-bill roll-overs that confirmed largely steady demand from retail investors at current exposure levels (approx. EUR 4.5bn) and the MoF adding some institutional exposure as demand remained vivid (approx. EUR 300mn). A similar pattern is seen in the last auction of the year (3m tenor; EUR 1.6bn target issuance). Pricing conditions remained largely unchanged, with retail investors still enjoying a solid premium (55bp) vs. institutional clients.

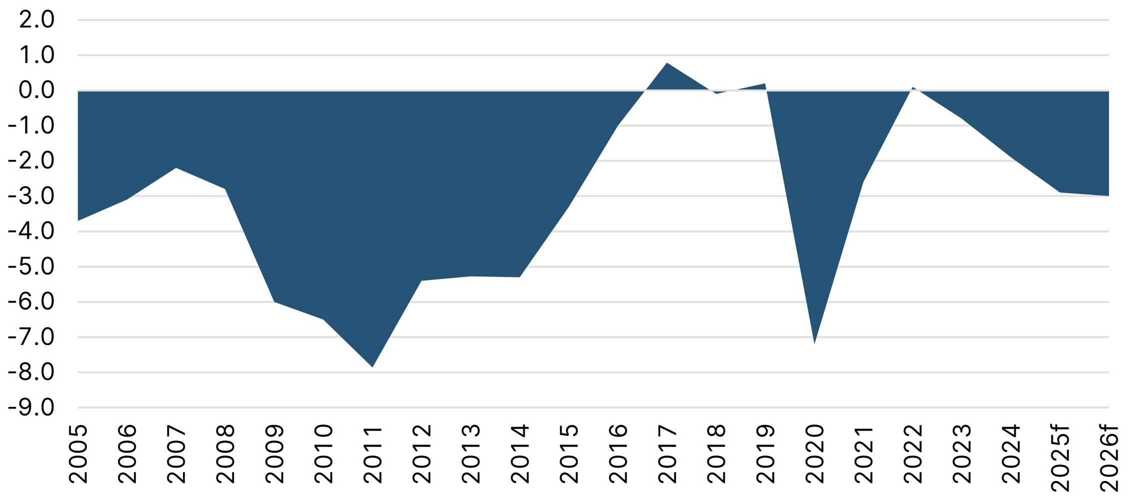
Heading into 4Q25, the yield profile remained remarkably steady, as the 10Y rate continued to move in a narrow 3.0-3.1% band, continuing to demonstrate limited sensitivity to benchmark moves. In our view, investors saw comparatively favorable fundamental factors (mostly a solid GDP outlook and acceptable fiscal outlook); on the technical side, limited supply, lack of QT related pressure and liquidity constraints explain why investors are passive. Consequently, 10Y spreads dipped as low as below 30bp, continuing to clearly suggest that markets are pricing Croatia above its rating grade. A similar narrative is likely to prevail in the period ahead, with space for further narrowing greatly reduced. We would expect some normalization and spreads moving closer to 40bp, with an ongoing relatively stable yield pattern around the 3% mark.



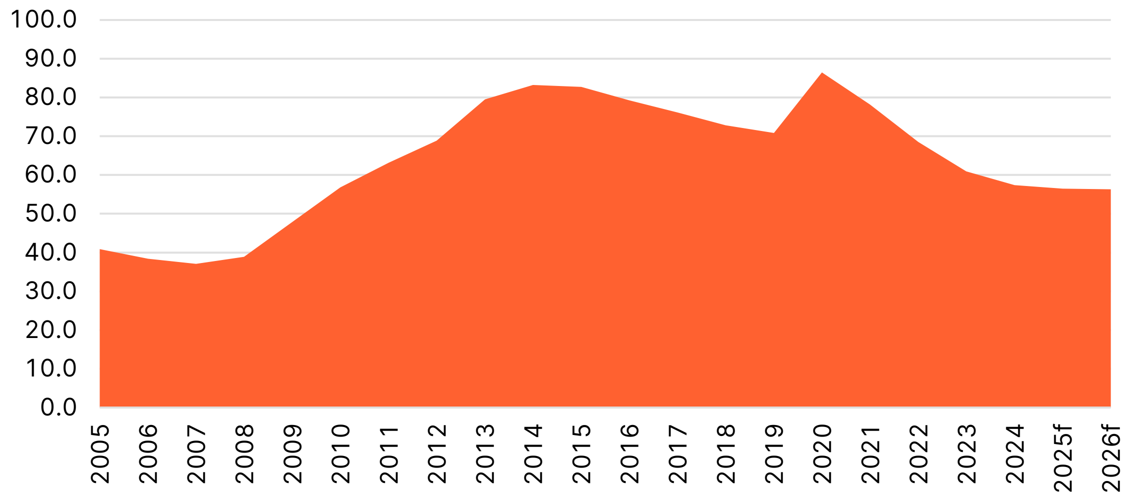
Source: Eurostat, Refinitiv, Erste Group Research

Fiscal strategy – keeping budget gap just below 3% of GDP

Budget balance, percent of GDP



Public debt, percent of GDP



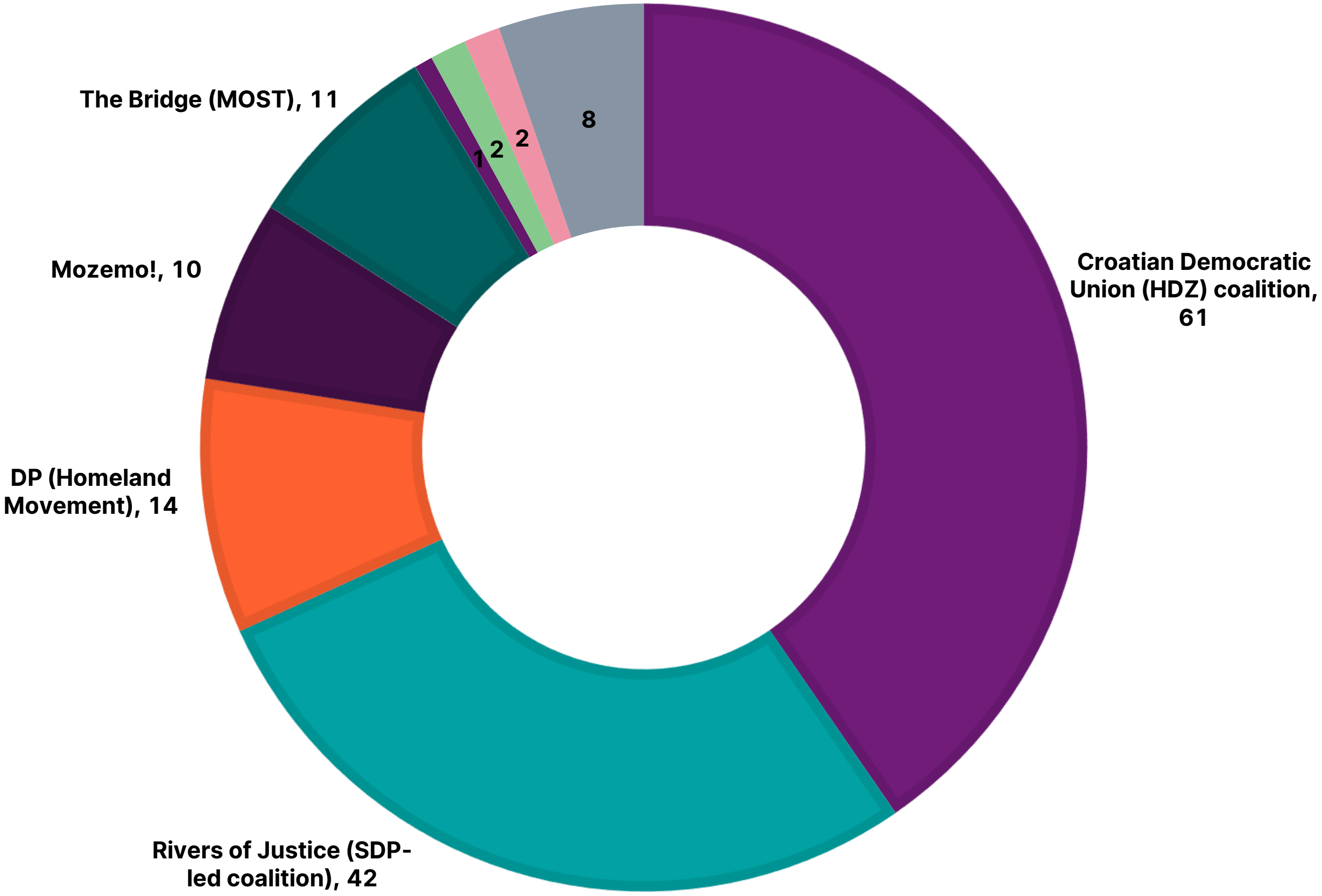
On a positive note, the recent EDP data release saw the 2024 budget gap trimmed to 1.9% of GDP, down 0.5pp from initial reporting, while public debt has been affirmed at 57.4% of GDP. As the year-end nears, the focus shifted to the 2026 budget framework, which brought a pretty much unchanged fiscal policy course. Namely, after nearing 3% of GDP in 2025 (approx. 1pp deterioration vs. 2024), the budget gap is envisaged to remain in a similar area in the 2026-28 period. This is a rather unsurprising outcome, given the absent political appetite (or any pressure from markets and rating agencies) for a tighter fiscal policy stance. Hence, the fiscal strategy boils down to balancing on the verge of the 3% of GDP budget limit, relying on tighter expenditure discipline in the period ahead and avoidance of negative shocks to economic dynamics, i.e. the revenue profile. Fiscal buffers are getting thinner, suggesting more limited potential to provide counter-cyclical support if deemed necessary, while global uncertainties would make sticking to fiscal targets more of a challenging feat. The public debt trajectory is seen largely leveling off in the coming period. On the rating front, no changes, which remains the baseline for 2026, as we still do not see rating agencies pressured to deliver another rating upgrade (despite spread levels clearly suggesting that space exists), as mounting fiscal and global uncertainties are likely to favor a wait-and-see approach.

Mostly business as usual

After four elections in just over a year and with the next regular elections scheduled for 2028, the political arena should offer calm. Meanwhile, political discourse recently shifted more towards populist and nationalist antagonism and more pronounced right-left antagonism. However, despite more traditional topics, such as geopolitics, defense spending, tourism and the affordability crisis, chances of a shake-up and early elections remain slim.

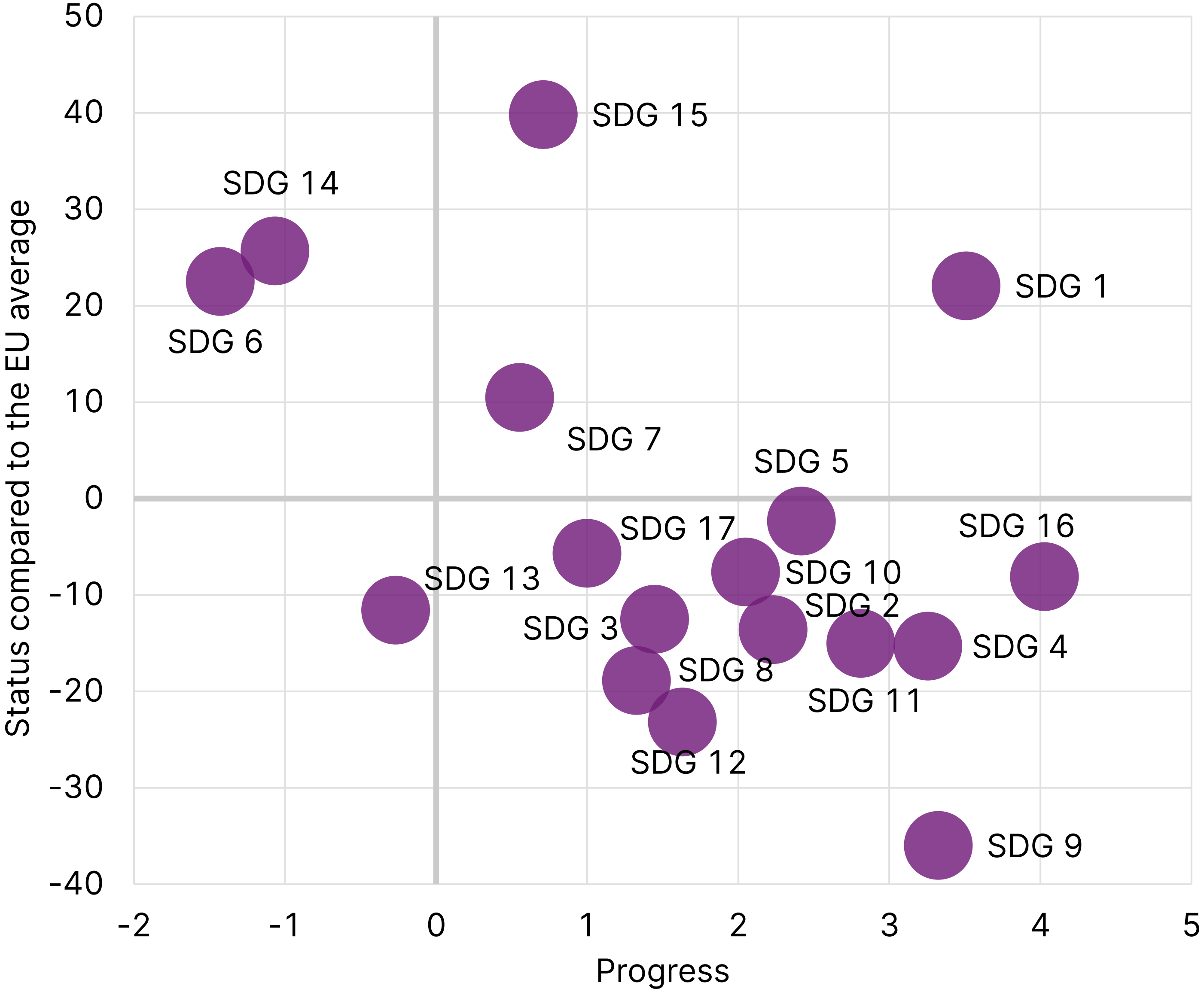
Polls suggesting that the ruling HDZ enjoys steady support of 27-28%, while on the left side of the spectrum SDP scores 22-23% support, along with the more far-left Mozemo! moving in the 10-12% band. Back to the right side of the spectrum, Most remains the only party relatively close to the pre-election support level with around 6%, while the Homeland Movement, as the junior coalition partner, is currently polling 2-3%, a massive drop of support since the elections. With Mozemo! having a focus on local level politics and running Zagreb, SDP remaining focused on internal issues and polls not favoring the odds of the remining rightist parties, the status quo and steady support for the current cabinet remain the baseline.

Parliamentary seats



Source: Eurostat, Refinitiv, Erste Group Research

Social Development Goals



Regarding SDGs, Croatia is showing an improving trend for the vast majority of them (14 out of 17). Croatia scores above-average in 5 out of 17 SDGs and, with SDG 14 (Life below water) and SDG 6 (Clean water and sanitation)showing lacking progress, while another 3 are showing further progress, especially in SDG 1 (No Poverty). Out of 12 SDGs that are ranked below the EU average, significant progress is being made in 4 of them - Quality education (SDG 4), Industry, innovation and infrastructure (SDG 9), Sustainable cities and communities (SDG 11) and Peace, justice and strong institutions (SDG 16). Regarding other below-average SDGs, Climate action (SDG 13) is showing no progress currently, while remaining SDGs are showing gradual improvement. Looking at the gap to the EU average, Industry, innovation and infrastructure (SDG 9), Responsible consumption and production (SDG 12) and Decent work and economic growth (SDG 8) should remain in focus.

Croatia : Forecasts

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Percent					**Annual average**				
Real GDP growth	3.1	-8.3	12.6	7.3	3.8	3.8	3.0	2.7	2.6
Private consumption growth	4.0	-5.2	10.9	6.9	3.2	5.9	2.5	3.0	3.0
Fixed capital formation growth	12.8	-6.3	4.9	10.7	22.7	5.3	6.1	3.8	3.0
Inflation	0.8	0.1	2.6	10.8	8.1	3.0	3.7	3.2	2.6
Unemployment rate	6.6	7.5	7.6	7.0	6.1	5.0	4.9	4.8	4.7
Percent of GDP									
Budget balance	0.2	-7.2	-2.6	0.1	-0.8	-1.9	-2.9	-3.0	-3.0
Public debt	70.9	86.5	78.2	68.5	60.9	57.4	56.5	56.3	56.5
Current account balance	2.1	-1.9	0.3	-3.6	0.1	-2.2	-4.3	-4.7	-4.7
					End of year				
10Y Yield	0.62	0.66	0.56	3.77	3.17	2.96	3.10	3.10	3.10
Spreads vs. German Bunds (bps)								40	40

ERSTE Group

Source: Eurostat, Refinitiv, Erste Group Research
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Croatia: Country overview

Official EU language: Croatian

Capital: Zagreb

Geographical size: 56 594km2

Population: 3 861 967

GDP per capita: EUR 22 200, below the EU average

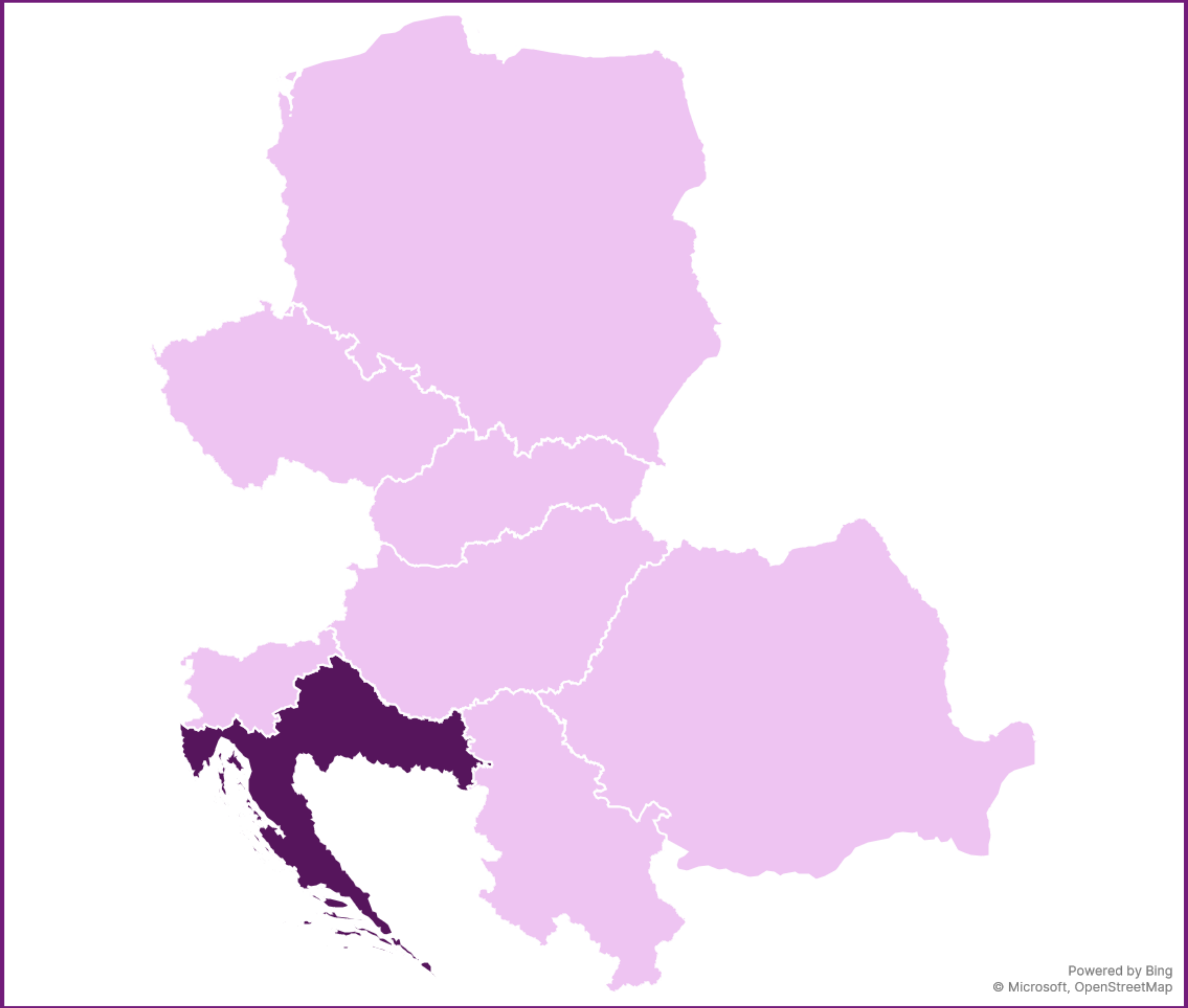
Currency: Euro EUR since January 2023

Credit Ratings:

- **Moody's: A3, outlook stable**
- **S&P: A-, outlook positive**
- **Fitch: A-, outlook stable**

EU member state: since July 1, 2013

Schengen: member since January 1, 2023



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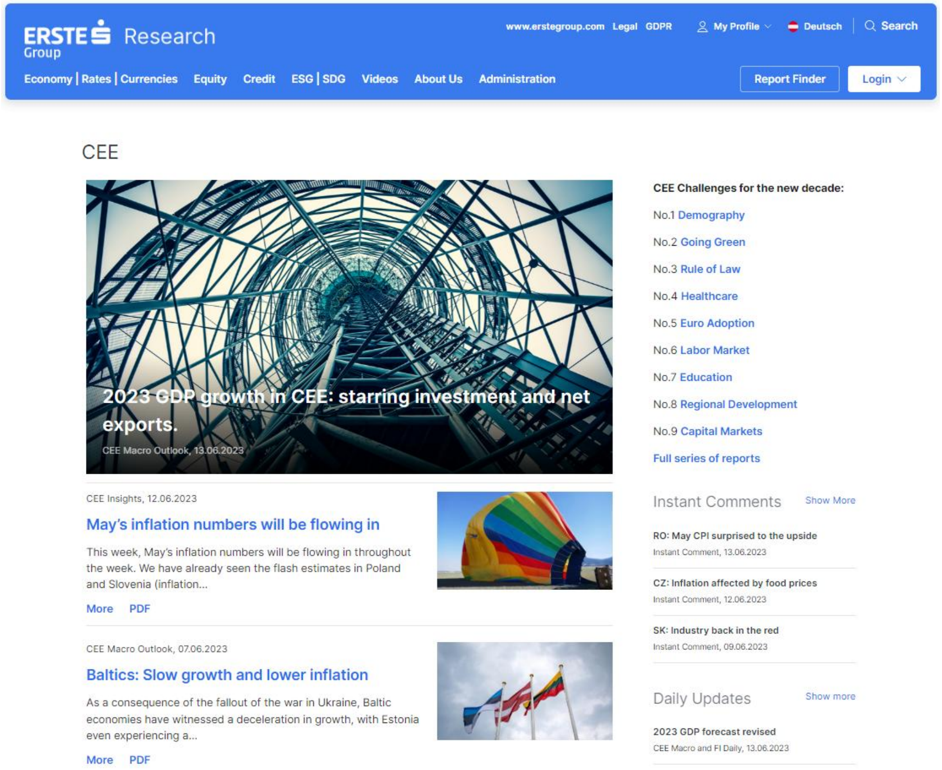

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