

CROATIA: MACRO OUTLOOK

Economic outlook affirmed

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Economy Croatia - Analyses and Forecasts | Erste Group Bank AG
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Spot Rates as of: September 15, 2025
Note: Information on past performance is not a reliable indicator for future performance.
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Economy holding steady, inflation pressures sticky

2Q25 GDP growth accelerated to 3.4% y/y (vs. 2.9% in 1Q), lifting the 1H performance to 3.2% y/y and landing marginally above expectations. Domestic demand remained the backbone, with consumption (+4.0% y/y) and investments (+5.2% y/y) looking solid, while net exports weighed on the figures, as imports outpaced exports, with the tourism contribution looking flat. In 2H25, growth should moderate modestly, but remain overall sound and supported by domestic demand, while exports remain the headwind, along with a likely flat high season tourism contribution. We keep our FY25 GDP call at 2.8%, with risks more balanced after the robust 1H25.

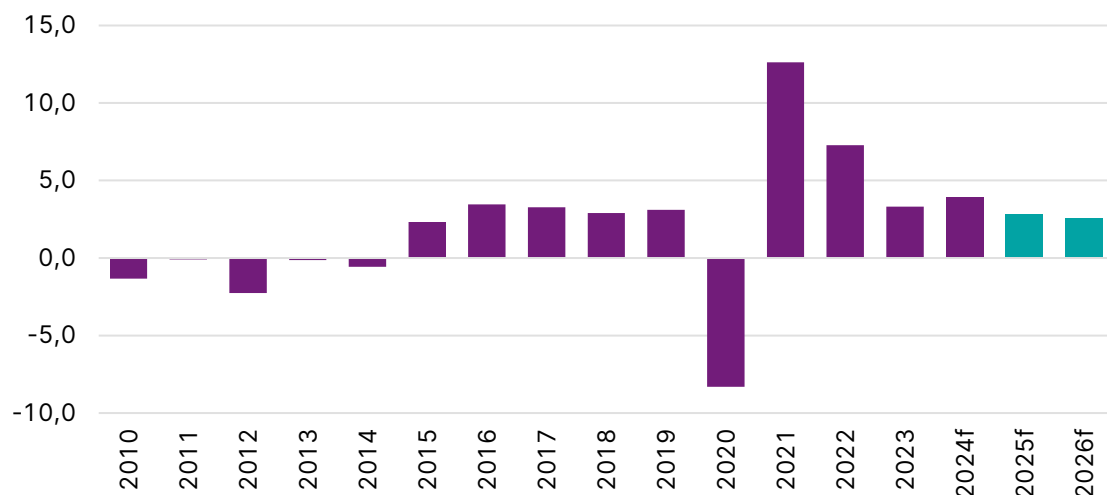
After some moderation towards mid-year, July–August inflation prints (both at 4.1% y/y) brought some deviation from the anticipated disinflation path, lifting YTD CPI to 3.7%. Pressures remained largely demand-driven, with food and services as key factors, while energy and industrial goods continued to demonstrate mostly benevolent developments on the supply side. A similar narrative is seen prevailing towards the YE25, with the headline likely remaining shaped by demand-side factors. A base effect should ease the momentum to some extent, but we now see the annual average just above 3.5% (≈0.5pp above our initial call).

YTD fiscal figures highlight risks to the official 2.3% of GDP deficit target, with VAT intake falling behind expectations and expenditures, most notably wages/pensions, at risk following the strong momentum from last year. Hence, our baseline remains some fiscal deterioration, but still with a budget gap within the Maastricht boundaries and overall more limited fiscal buffers to respond to potential shocks. Rating agencies, as in 1H25, are expected to stay on hold in 2H25. Net financing needs, after the pre-summer financing round, are largely met, leaving only T-bill rollovers. Yields remained steady just above 3%, with spreads holding strong at 40–50bp, a range likely to prevail into YE25 under the baseline of the Bund drifting towards the 2.50% zone.

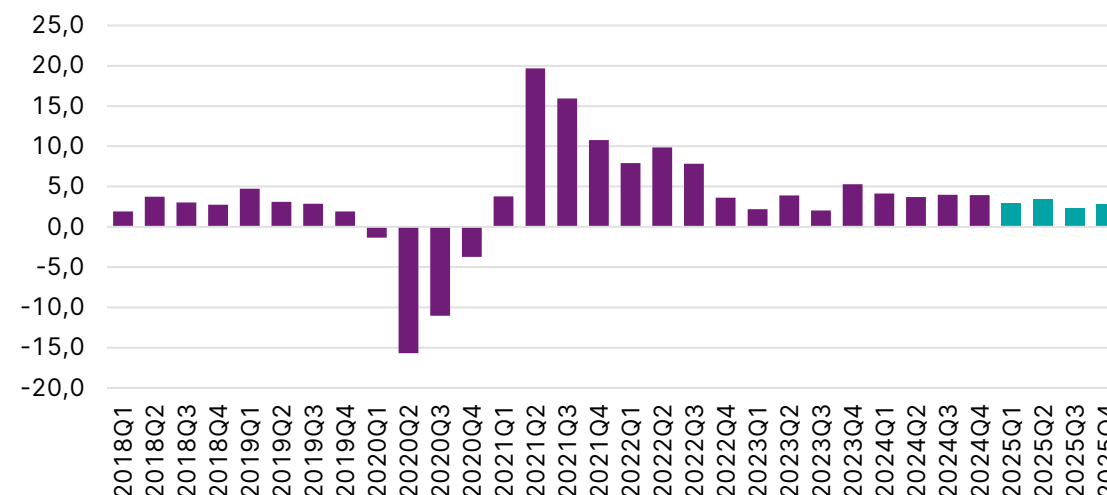
Solid 1H25 supporting GDP growth close to 3% in 2025

External headwinds still downside to outlook

Annual GDP growth percent

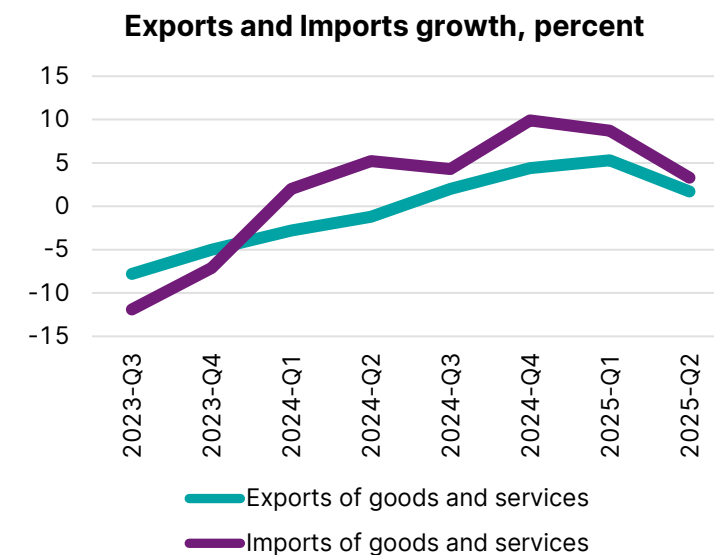
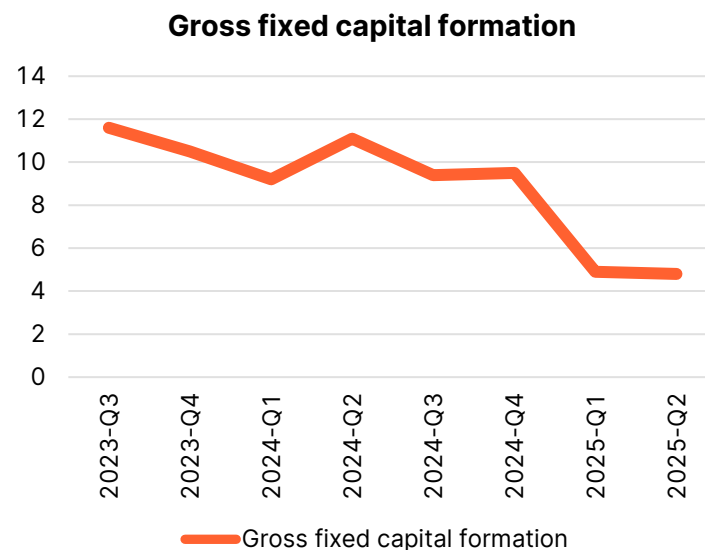
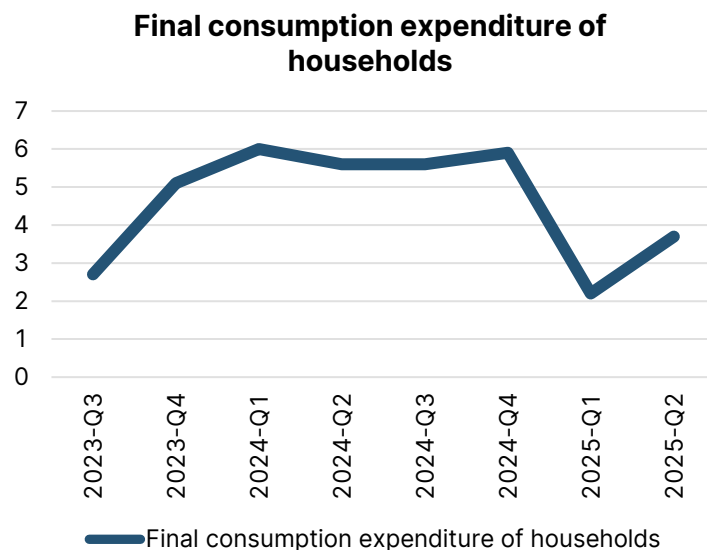


Quarterly GDP growth, y/y percent



2H25 is anticipated to deliver growth rates marginally more modest. Domestic demand should remain the solid foundation, as both private consumption and investments, while shifting into lower gear compared to 2024, provide decent backing to the headline figure. Private consumption remains supported by solid labor market fundamentals. Wage growth remained strong (in the 10% y/y neighborhood), suggesting, despite some anticipated moderation, real wages remaining in the solid mid-single-digit region in 2H25. Employment gains are likely to be more modest, as, after strong gains in the recent period, 2Q25 already saw some moderation towards a flatter performance. Consumer credit, despite some eventual moderation in 2H25 as the CNB's macroprudential regulation kicks in, is set to remain in high gear and consumer confidence is also holding steady. Investments, backed by EU fund flows, declining rates and accelerating corporate credit, should keep a decent pace as well, so far showing relative resilience to rising global uncertainties. On the export side, all eyes are on tourism, as high season is gradually passing. Early indications suggest relatively flat overnights, nominal revenue growth in mid-single digits, pointing again to at best flat tourism support of the headline GDP figure. The merchandise export outlook remains relatively bleak amid ongoing relatively weak GDP trajectories in key export markets, while tariffs and uncertainty remain the downside risk. We keep our FY25 GDP call at 2.8% with risks looking more balanced after a solid 1H25, although global uncertainties certainly remain a drag on the economic outlook down the road.

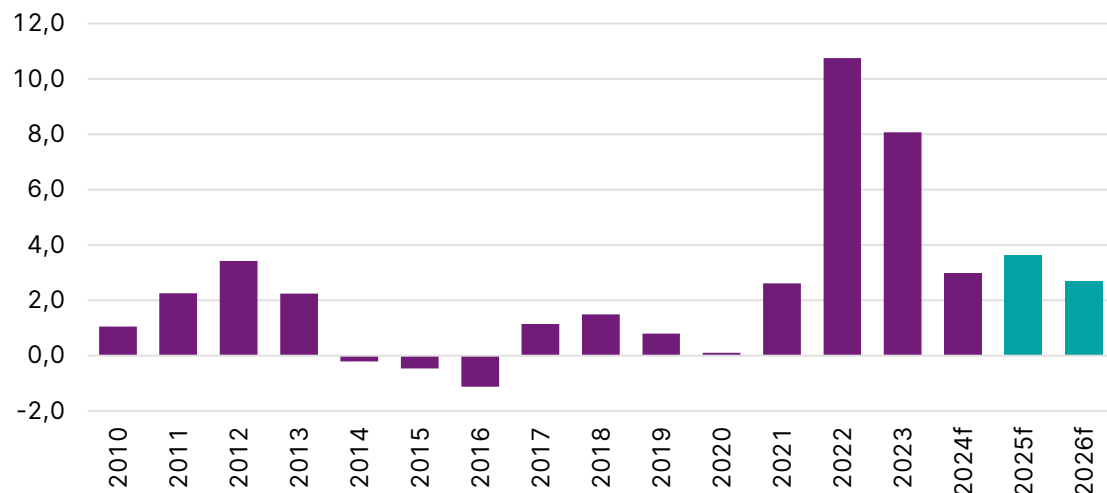
Domestic demand continued to push strongly in 2Q25



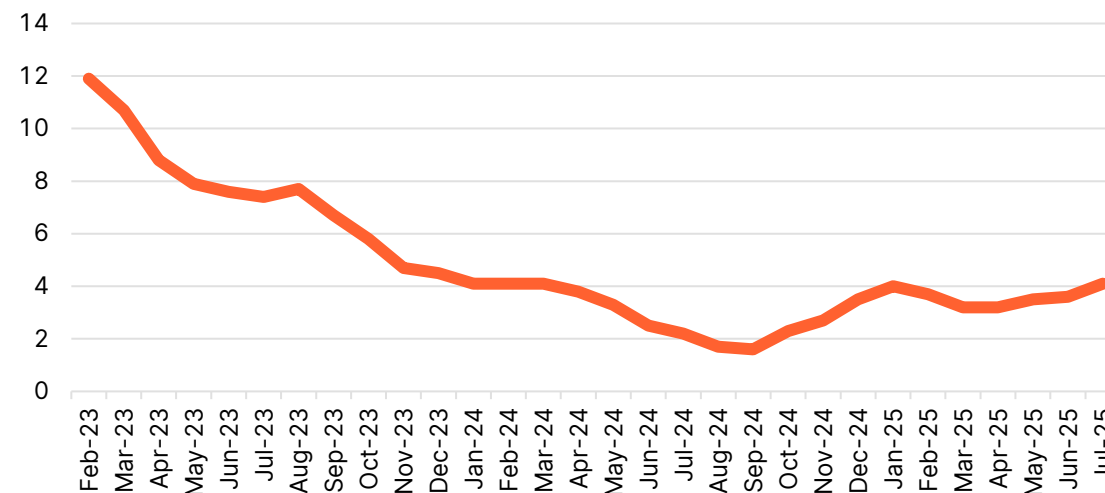
The 2Q GDP release confirmed that the economy remained in solid shape, as the headline figure growth accelerated to 3.4% y/y in 2Q25, thus landing slightly above both our and market expectations, while wrapping up the average 1H25 performance at 3.2% y/y. Seasonally-adjusted data for 2Q showed that the economy expanded by 1.2% q/q, translating into a 3.2% y/y increase. The detailed structure confirmed the largely expected growth drivers, as domestic demand remained the growth backbone, where private consumption, as suggested by monthly-frequency data, shifted into higher gear (+4.0% y/y), while investment activity remained strong (+5.2% y/y), backed by the construction sector cycle. On the other hand, external trade maintained a less favorable role, as export growth was outpaced by an import increase (1.6% y/y vs. 3.3% y/y), implying a negative net export contribution, mostly reflecting developments on the services side, as exports of services (largely affected by tourism) were flat, while on the import side, we saw ongoing double-digit growth.

Demand-driven inflation stickiness

Annual inflation, percent



Monthly inflation development, y/y percent



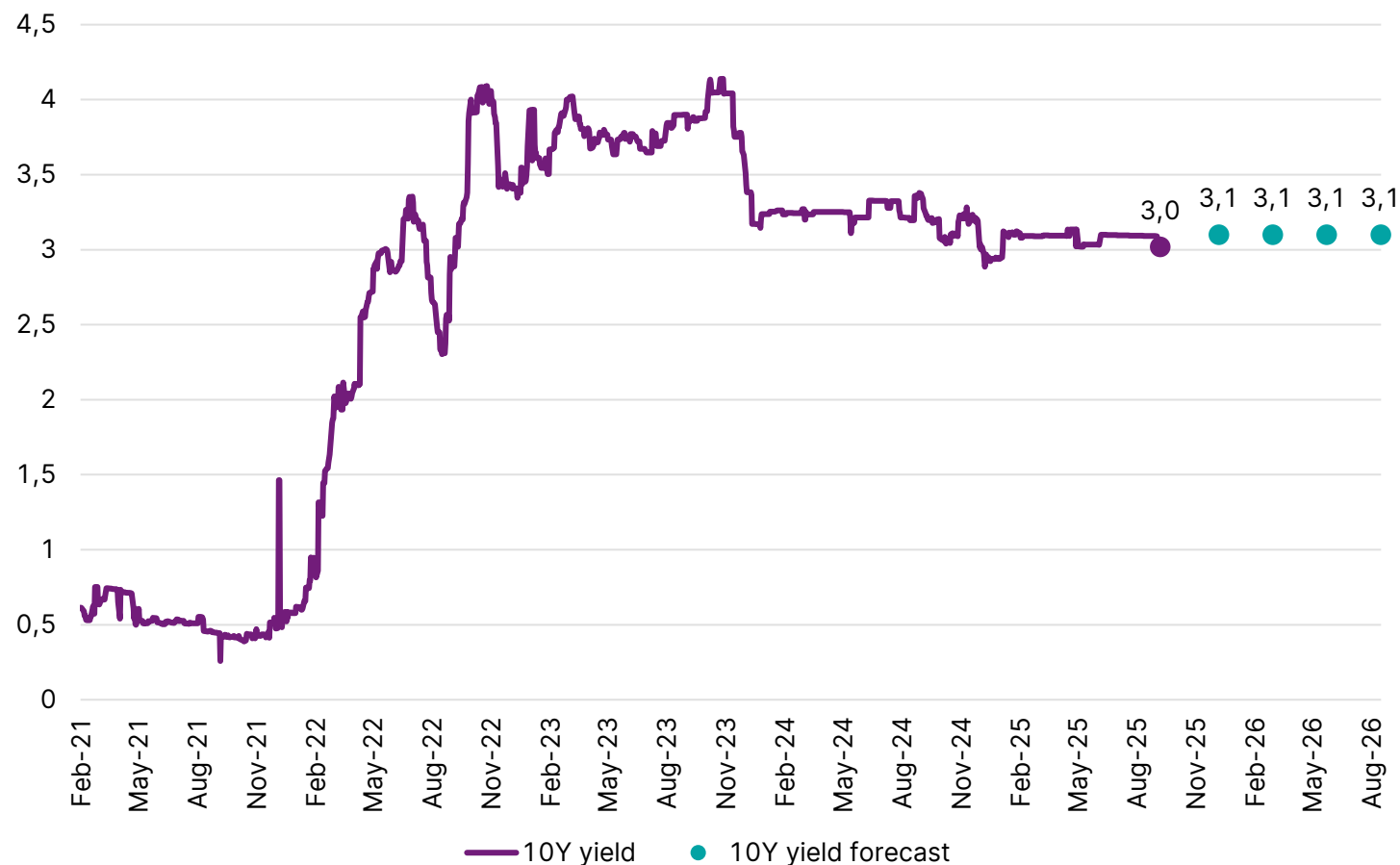
After some moderation towards mid-year, more recent inflation prints (both July and August at 4.1% y/y; YTD 3.7%) signaled some deviation from the anticipated disinflation path. Such persistence remains driven by food inflation, gaining some additional traction, along with ongoing pressures from the services side, underscoring the demand-side dynamics. Industrial goods and energy prices continued to play a more benevolent role. The outlook remains set to be shaped by demand-side factors, as domestic demand, despite some cooling-off, remains in decent gear. Similarly on the supply side, food prices remain a potential upside risk, while spill-over effects from trade wars should remain largely contained. On that note, some base effect unwinding suggests annual inflation trending gradually down towards the YE25, while the 2025 average is anticipated just above the 3.5% mark, i.e. some 0.4-0.5pp up from our original forecast.

Spreads continued to display strong performance

On the financing side, the MoF completed another domestic financing round with two T-bill tenors sized at EUR 2.5bn (3M&12M tenors), plus EUR 1bn in 10Y tenor (matching approx. EUR 800mn maturing). Thus, with net financing needs virtually met, until the year end, the focus should remain only on T-bill roll-over (EUR 2.5bn ballpark), mainly retail demand, suggesting ongoing limited supply-side pressure. Pre-financing actions for 2026, judging from experience, seem unlikely, especially with 2026 financing needs looking more comfortable.

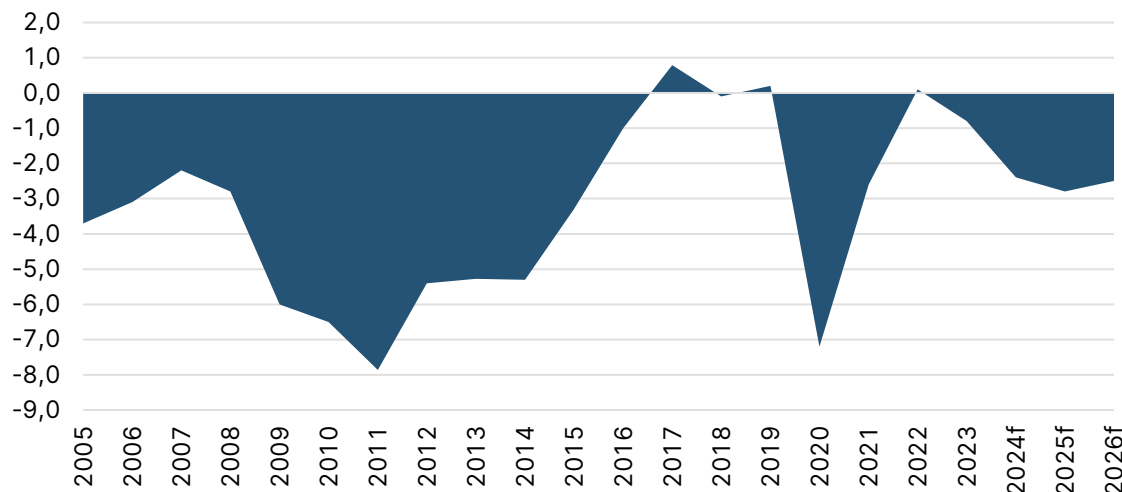
By today's standards, yields have held steady. The 10Y remained just north of the 3% mark, showing some resilience to benchmark volatility. The reason is likely to be investors favoring a mix of fundamental and technical factors, such as limited supply, lack of QT pressures and investors not jumping due to every benchmark swing courtesy of liquidity limitations. Consequently, 10Y spreads dipped below 50bp, moving largely within 40-50bp throughout 3Q25. We see similar factors and narratives prevailing towards the YE25 both in terms of yields and spread levels, based also on the baseline of DE yields moving closer to the 2.50% region.

10Y yield development and forecast

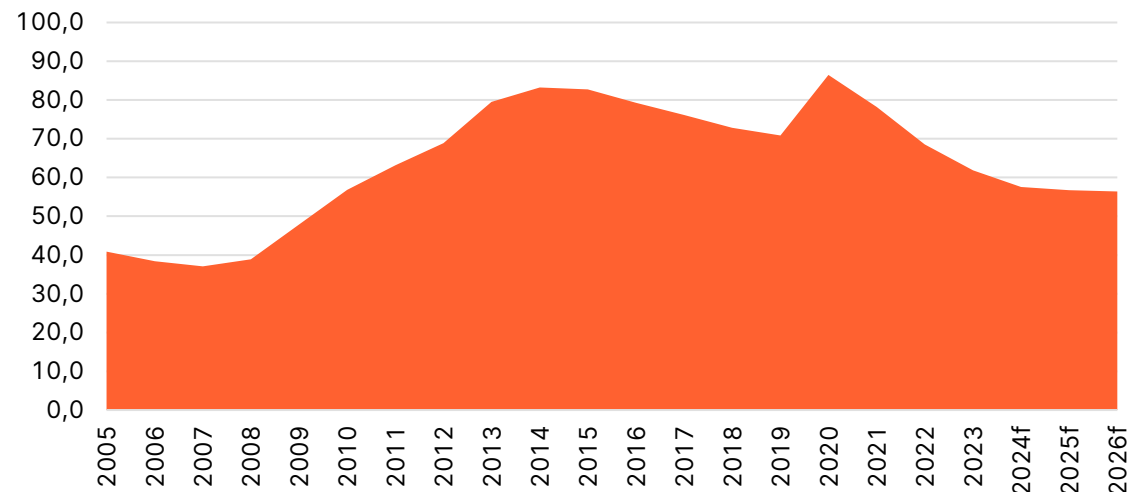


Budget gap remains below 3% of GDP

Budget balance, percent of GDP



Public debt, percent of GDP



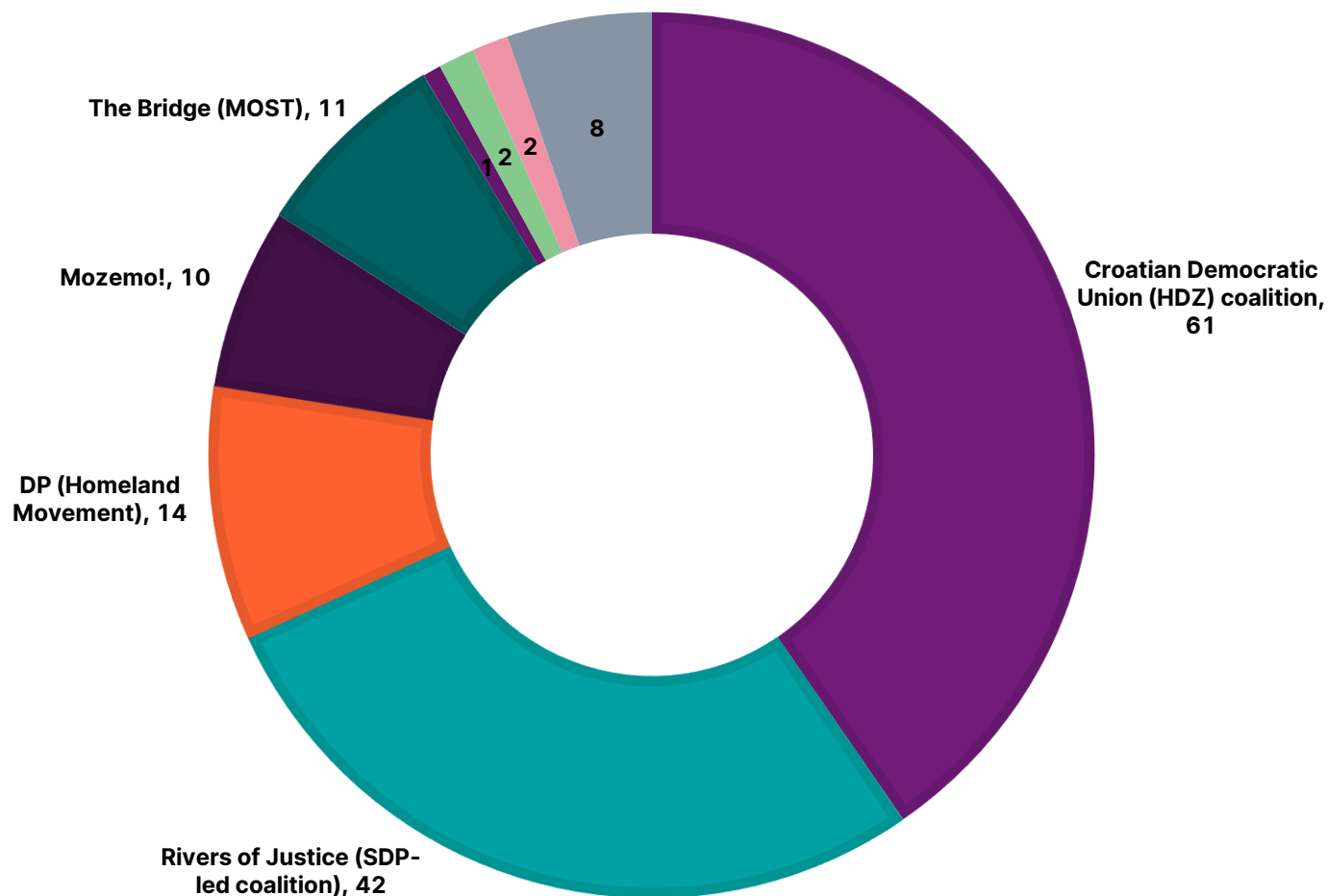
YTD fiscal figures (Jan-May) largely confirmed the narrative that fulfilling 2025 fiscal goals (2.3% of GDP) could prove to be a bit more challenging of a task. Namely, VAT intake is lagging expectations (with tax authorities' data suggesting the trend continuing into 3Q), while the expenditure side, after gathering traction in 2024, brings risks of overshooting, especially on the wage/pensions front. On the positive side, with the thus far limited trade war impact, the economy and labor market are poised to remain overall supportive (social contributions looking strong YTD). Rounding it up, we see prevailing downside risks and more limited maneuvering space to tackle shocks, thus likely suggesting again some fiscal deterioration this year, yet with the budget gap remaining within the Maastricht boundaries. After 1H25 brought no rating actions, we see a similar outcome as the baseline for 2H25, as rating agencies are likely in no rush to act after a round of substantial hikes in recent years.

Back to business as usual

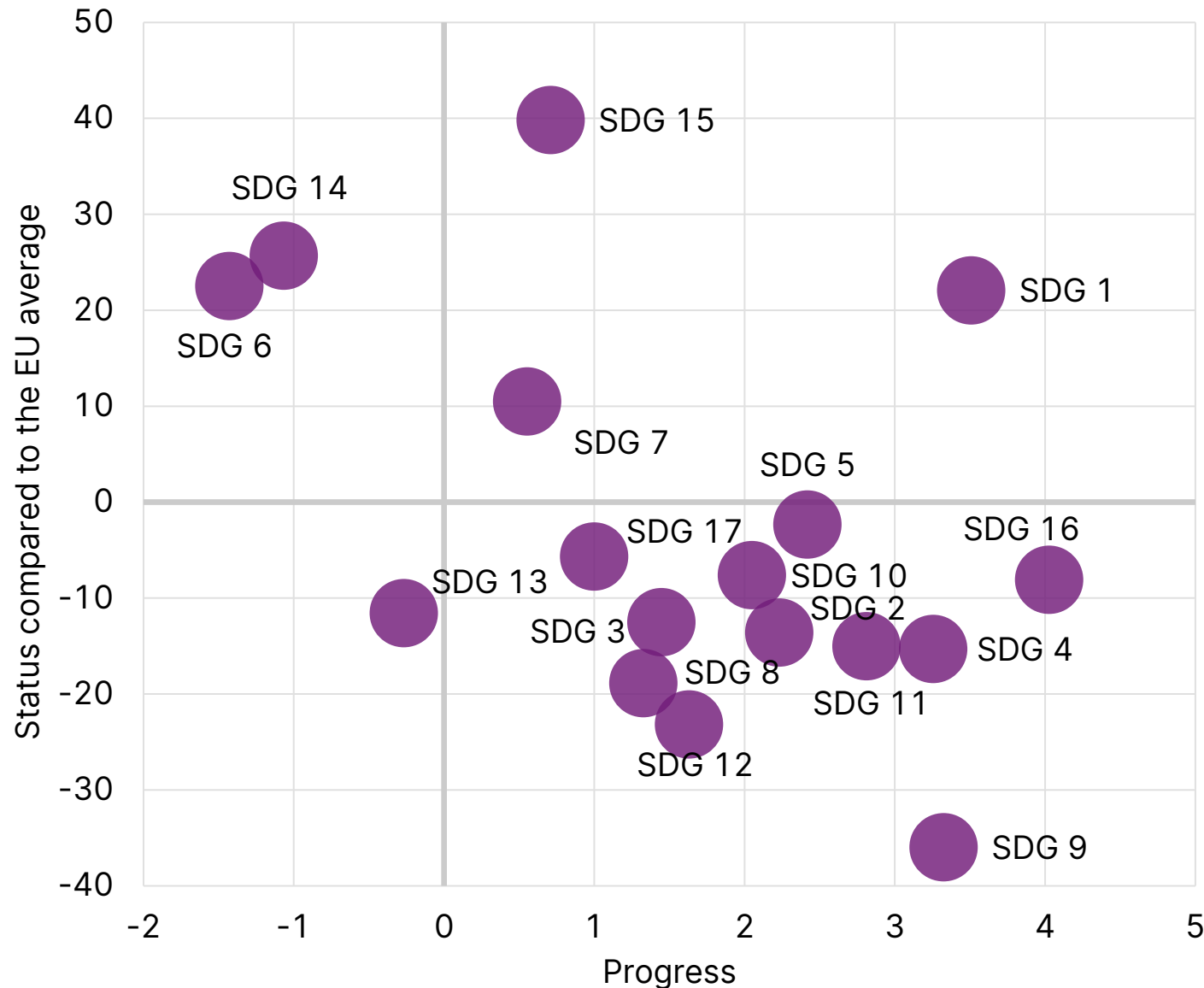
After the local election in May rounded up the super-electoral cycle (four elections in just over a year), the political arena got quieter, as both politicians and the electorate focused more on the holiday season. As autumn arrives, the political narrative is mostly digesting familiar topics – geopolitics, defense spending, the recap of yet another tourist season, still stubborn inflation trajectory, all spiced up with the traditional animosity between PM Plenkovic and President Milanovic. On that note, we recently saw positive news flow concerning the prospects of OECD membership, suggesting that the finish line might be within striking distance in the next 1-2 years.

Post-election polls have been relatively consistent, with the center-right HDZ in front and polling at 28-29%, 5-6pp above the center-left SDP, which has consistent support of 22-24% of the electorate. Leftist Mozemo! also managed to stabilize back in the double-digit zone, reflecting a likely overall solid local election result. On the more right side of the spectrum, Most bounced back to 6% support, while junior coalition partner Homeland Movement further deteriorated and is currently at a very humble below-2% support. Consequently, the current balance of power suggests very limited risk of an early election scenario, as the status quo seems most likely.

Parliamentary seats



Social Development Goals



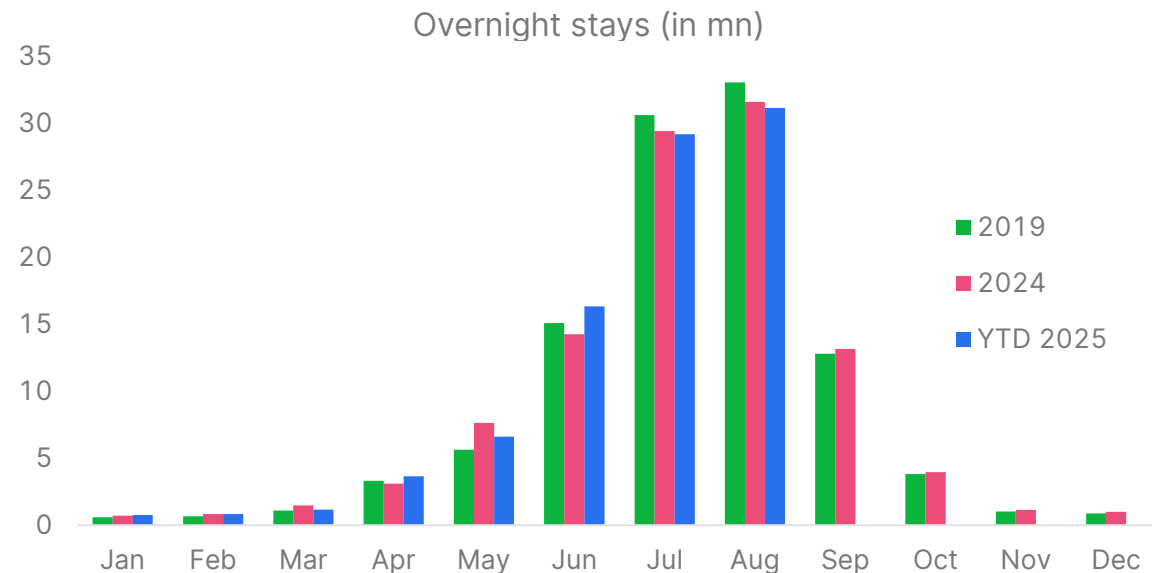
Regarding SDGs, Croatia is showing an improving trend for the vast majority of them (14 out of 17). Croatia scores above average in 5 out of 17 SDGs and, with SDG 14 (Life below water) and SDG 6 (Clean water and sanitation) showing lacking progress, while another 3 are showing further progress, especially 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.

Tourism meeting muted expectations

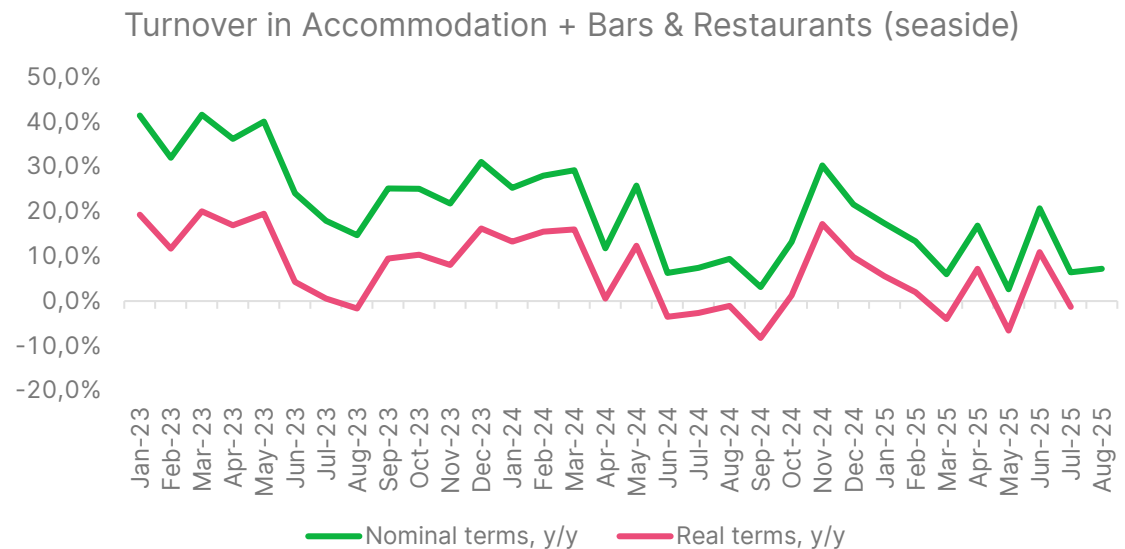
Special topic



Both overnights and real turnover imply another flat contribution to GDP growth

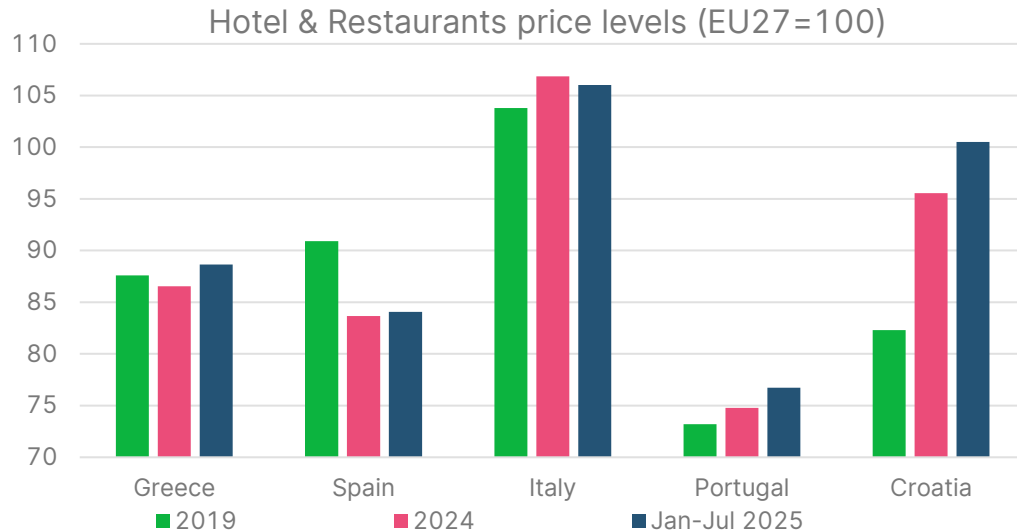


With high season getting behind us, the timing seems adequate to provide a first assessment of the tourism performance. On that note, overnight figures have confirmed the struggle to surpass the pre-pandemic levels. This especially holds true for peak high season months (July-August), while pre-season and likely post-season are supporting the narrative of extending the season, yet at a rather modest pace.

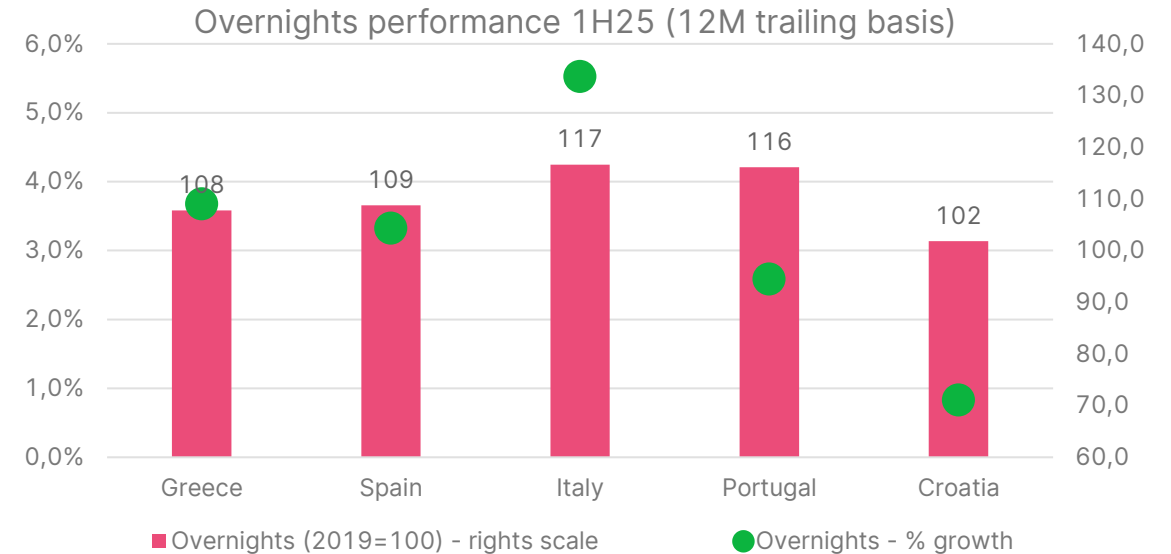


Before getting more detailed data from Balance of Payments statistics, we use tax authorities' data on turnover in Accommodation + Bars & Restaurants in the coastal region as the best proxy for financial intake. The storyline here has also been largely expected, with nominal growth rates remaining decent, yet persistent inflation in the tourism sector weighs on the real growth rates.

Cross-country comparison continued to point to relative deterioration vs. competition



Post-pandemic price competitiveness deterioration has continued in 2025, as price dynamics in the sector continued to outpace both the EU27 average and key competitors in the Mediterranean pool. Available data for 2025 suggests price levels converged to the EU27 average and overall confirmed the narrative of a delicate pricing proposition going forward, as price convergence has been strong.



Amid pricing headwinds, on the overnight front, 2025 brought mostly trend extension from 2024, as growth rates continued to lag the key peers and consequently driving further divergence in post-pandemic trajectories. The trend is likely to remain present in the near future, due not only to pricing elements, but also economic fragility in some of the key markets.

Croatia : Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f
Percent	Annual average								
Real GDP growth	2,9	3,1	-8,3	12,6	7,3	3,3	3,9	2,8	2,6
Private consumption growth	3,3	4,0	-5,2	10,9	6,9	3,2	5,8	3,1	3,0
Fixed capital formation growth	4,4	12,8	-6,3	4,8	10,4	10,1	9,9	4,3	4,0
Inflation	1,5	0,8	0,1	2,6	10,8	8,1	3,0	3,6	2,7
Unemployment rate	8,4	6,6	7,5	7,6	7,0	6,1	5,0	4,7	4,5
Percent of GDP									
Budget balance	-0,1	0,2	-7,2	-2,6	0,1	-0,8	-2,4	-2,8	-2,5
Public debt	72,8	70,9	86,5	78,2	68,5	61,8	57,6	56,8	56,4
Current account balance	1,1	2,5	-1,3	0,5	-3,5	0,4	-1,2	-2,4	-2,8
	End of year								
10Y Yield	2,04	0,62	0,66	0,56	3,77	3,17	2,96	3,10	3,10
Spreads vs. German Bunds (bps)								50	50

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:

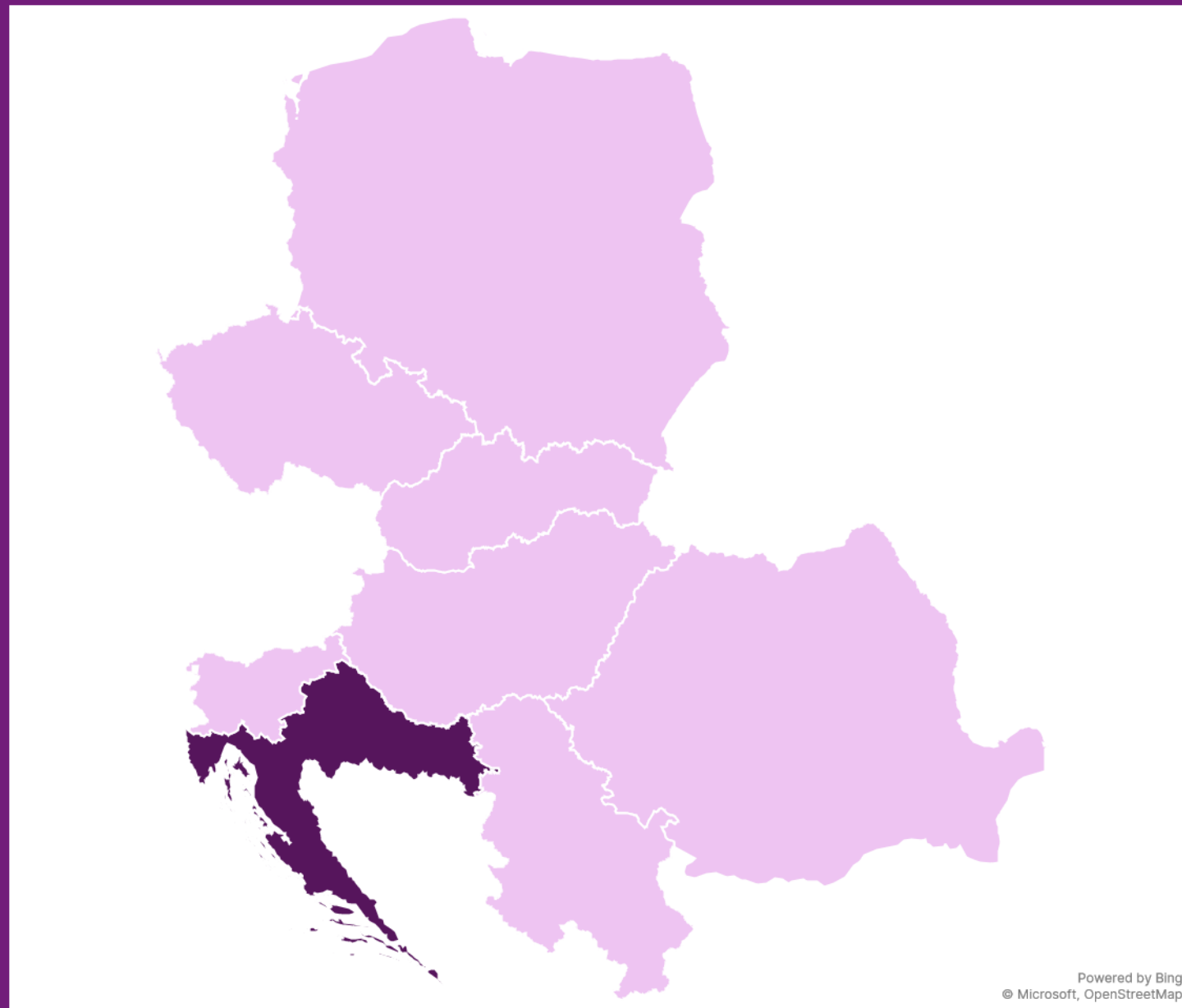
Moody's: A3, outlook stable

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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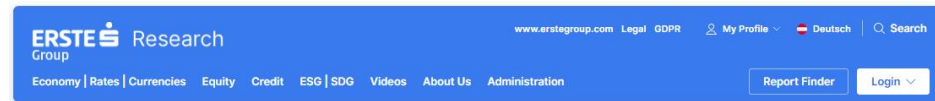


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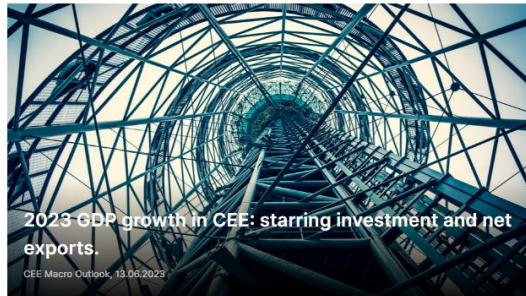


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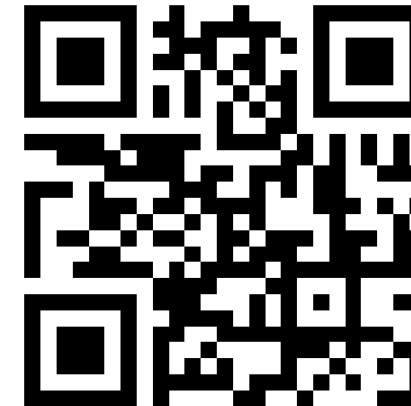
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