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EUROSYSTEM

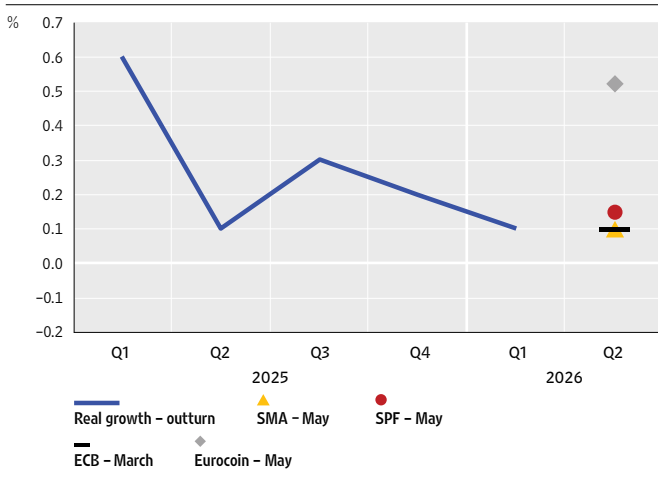
Information on economic, financial and monetary developments

May 2026

Summary

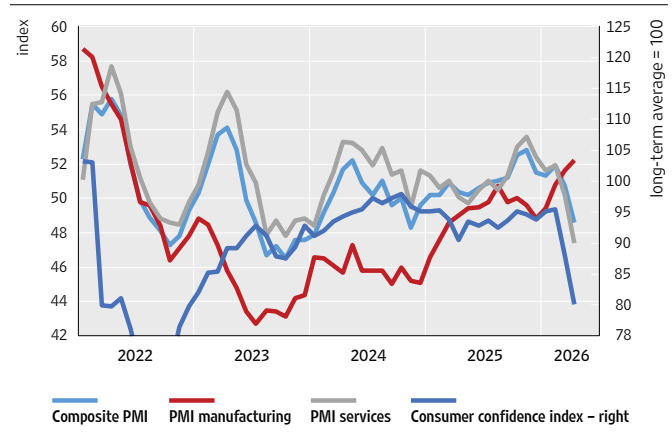
Economic activity in the euro area slowed down in early 2026 and was somewhat weaker than expected. Following a quarterly growth of 0.3% in gross domestic product at the end of last year, preliminary Eurostat estimates for the first quarter of 2026 point to an increase of only 0.1%. Economic developments in the first three months of the current year were weaker than market expectations and the projections of the ECB, whose growth estimates mostly ranged between 0.2% and 0.3%. As regards the four largest economies, growth was again the fastest in Spain (0.6%), followed by Germany (0.3%), and Italy (0.3%). France experienced a stagnation in economic activity, partly reflecting the impact of delayed deliveries in the shipbuilding sector. Ireland excluded, the euro area economy grew 0.2%. Most of the available estimates for the second quarter point to a continued subdued economic growth amid heightened uncertainty about further developments in the Middle East (Figure 1). This is also confirmed by survey data for April. Thus, the composite purchasing managers index (PMI) moved into contractionary territory, recording the lowest level in the last eighteen months (Figure 2). The PMI manufacturing component increased for the second month in a row, which primarily reflects a marked prolongation of delivery times and an increase in inventories, while the service component recorded a sharp decline, falling to its lowest level in the post-pandemic period. The economic sentiment index weakened further, driven by a sharp deterioration in consumer confidence caused by the energy shock.

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



Notes: The abbreviation ECB - March refers to the ECB March 2026 short-term projection of real growth in the euro area (Macroeconomic Projection Exercise, MPE). The abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the May 2026 ECB survey of market participants.
Sources: Eurostat and ECB.

Figure 2 Survey indicators for the euro area

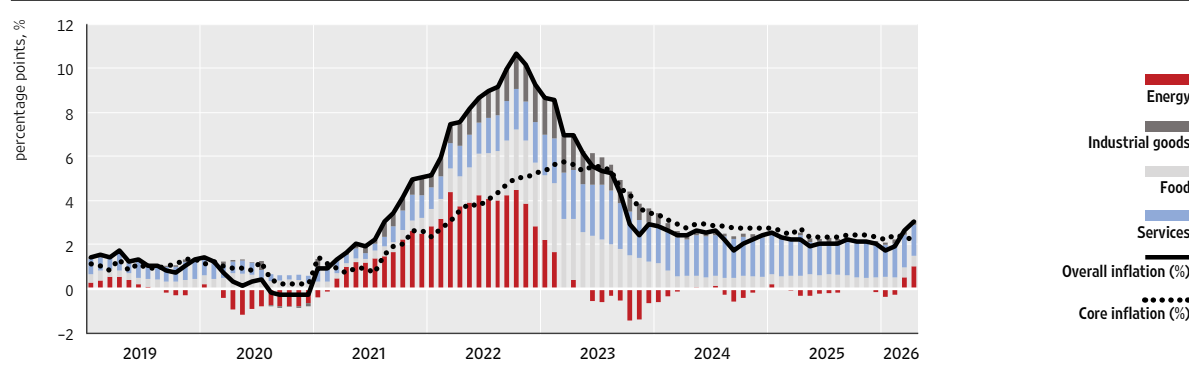


Sources: S&P Global and European Commission.

The Eurostat flash estimate for April points to a continued strong acceleration of inflation in the euro area (up to 3.0% from 2.6% and 1.9% in March and February, respectively), which, as in the previous month, was mainly the result of an acceleration in energy price inflation (Figure 3). The annual growth rate of energy prices jumped to 10.9% in April from 5.1% in March largely reflecting the rise in retail prices of refined petroleum products and an unfavourable base effect due to the fall in energy prices in April last year. Food price inflation slightly increased to

2.5% from 2.4% in March, with the annual growth of unprocessed food prices accelerating, while processed food inflation stagnated. By contrast, core inflation (which excludes energy and food prices) in the euro area continued to slow down slightly in April, dropping to 2.2% from 2.3% and 2.4% in March and February, respectively. The slowdown in core inflation in April was the result of a fall in service price inflation to 3.0%, from 3.2%, which reflects a favourable base effect, associated with a more pronounced monthly increase in these prices in the same month of the previous year. The slowdown in wage growth in the euro area is a factor weakening inflationary pressures in the services sector. Furthermore, industrial goods price inflation, the other main component of core inflation, accelerated to 0.8% in April from 0.5%, but remains low amid subdued import pressures, reflecting the lower prices of goods imported from China and the delayed effects of the appreciation of the euro in 2025.

Figure 3 Euro area inflation indicators



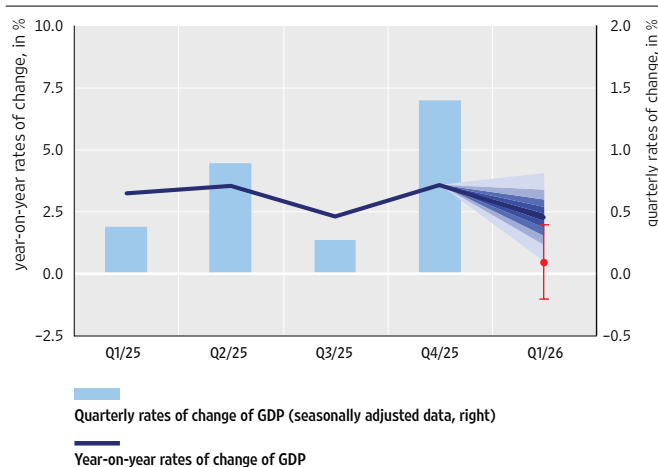
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat and CNB calculations.

Following a sharp rise at the end of 2025, monthly indicators of economic activity in Croatia point to a noticeable slowdown in growth in early 2026, which, according to available data, started even before the escalation of the conflict in the Middle East. According to the CNB's nowcasting model of economic activity, real growth could stand at only 0.1% on a quarterly level in the first quarter of 2026, following a very strong rate of 1.4%, recorded at the end of 2025. On an annual level, growth could decelerate to about 2.3%, from 3.6% in the previous quarter (Figure 4). The industrial production volume, which had already decreased in January and February, fell again in March, with the result that it was 2.7% lower in the first three months of 2026 than in the last quarter of 2025. Broken down by components of industrial production, the fall was broadly based, with a particularly sharp decrease in the production of capital goods. The volume of retail trade turnover rose sharply in March, but stagnated at the quarterly level due to a sharp fall in the first two months. Construction activity also increased in February, after falling sharply in January, but remained lower in the first two months than the average of the previous quarter.

Survey data for April indicate that the escalation of the war in the Middle East could have negative effects on economic activity in the second quarter. Consumer confidence decreased considerably from March, but the decrease was much smaller than at the beginning of the war in Ukraine and the index remained above its long-term average (Figure 5). Business optimism in services and trade in particular also decreased significantly, while confidence in construction

remained almost unchanged. By contrast, business optimism in industry picked up slightly, driven by a further strengthening of current orders.

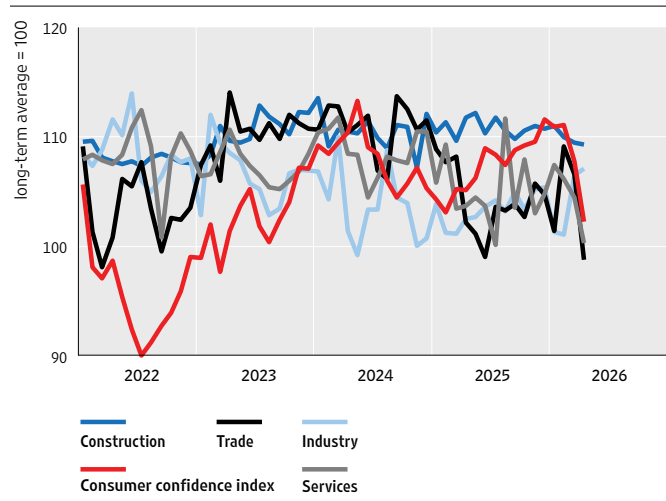
Figure 4 Quarterly gross domestic product



Notes: The estimate for the first quarter of 2026 refers to the monthly indicator of real economic activity of the CNB (for more details on the calculation of the MRGA indicator see the CNB survey, Kunovac, D. and Špalat, B., Nowcasting GDP Using Available Monthly Indicators). The models are estimated on the basis of data published up to 30 April 2026. The red dot denotes an estimate of the quarterly change in real GDP, with historical errors of estimates within ± 1 standard deviation.

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

Figure 5 Consumer and business optimism indicators



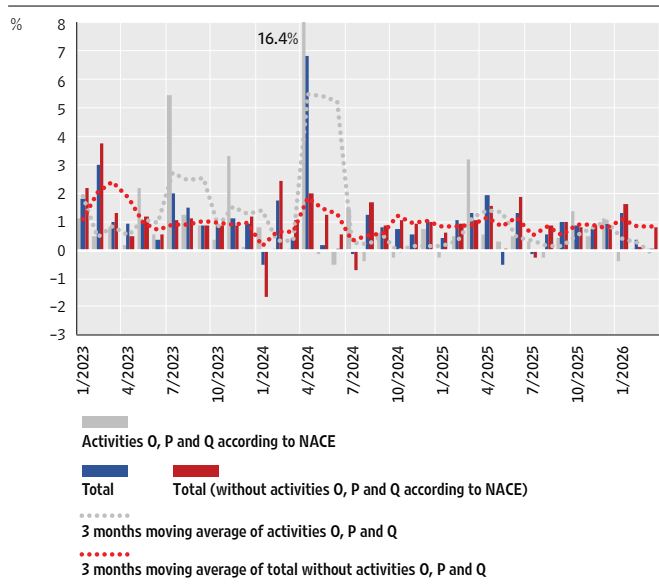
Source: Ipsos (seasonally adjusted by the CNB).

At the beginning of 2026 employment continued to grow at a slower pace, while wages rose sharply. Total employment continued to decelerate in the first quarter of 2026, remaining almost unchanged from the last quarter of 2025 (0.1%). Employment increased slightly in public administration, education, healthcare and social work (activities P, Q and R under the NCA 2025; i. e. the public sector), while in the rest of the economy it stagnated. However, at the end of the first quarter, employment growth in both the private and public sectors strengthened somewhat. Employment grew at an annual rate of 0.9% in the first quarter of 2026, following 1.7% in the fourth quarter of 2025. The decrease in unemployment intensified to 6.9% in the first quarter of 2026, compared with 3% in the previous quarter, as a result of a continued high outflow from the CES register, primarily due to reasons other than employment. In the same period, the registered unemployment rate decreased to 4%, down from 4.3% in the fourth quarter of 2025. In the first quarter of 2026, the average nominal gross wage continued to grow at a quarterly rate of 2.5%, close to the rate of 2.6% recorded at the end of 2025. Wages in the public sector¹ rose only slightly, but wage growth in the rest of the economy was stronger. The average wage grew at a robust pace at the beginning of the year, only to remain unchanged in March from the previous month (Figure 6). The average nominal gross wage rose at a high annual rate in the first quarter of 2026 (10%), but still at a slower pace than in the previous quarter (10.4%). The increase in the real gross wage decelerated considerably early in the year due to accelerating inflationary trends (Figure 7).

¹ Due to the recent transition of the methodology of the National Classification of Activities from the 2007 version to the 2025 version, historical data for wages under the new methodology are still not available, so public sector wages are calculated according to the NCA 2007 activities O, P and Q.

Figure 6 Nominal gross wages

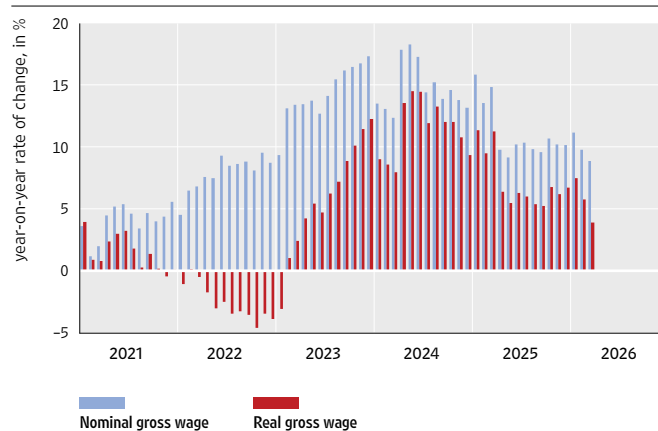
monthly rate of change



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

Figure 7 Nominal and real gross wages

year-on-year rate of change



Sources: CBS and CNB calculations.

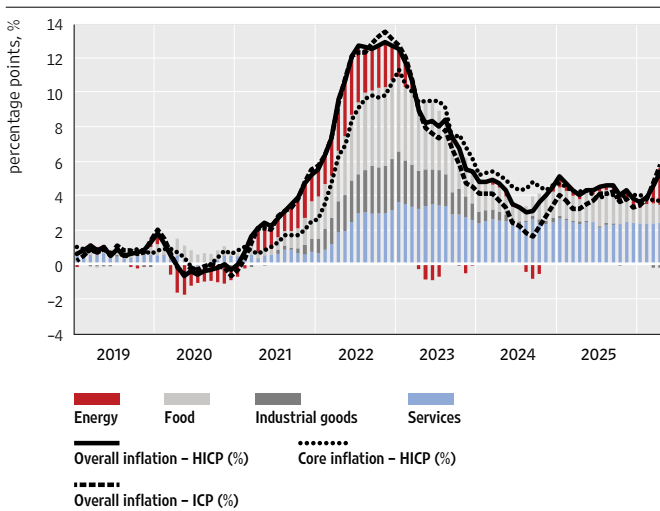
Overall inflation in Croatia continued to accelerate strongly in April 2026 due to the further escalation of energy price inflation, while core inflation held steady. According to a flash estimate, inflation measured by the harmonised index of consumer prices (HICP)² increased to 5.4% in April from 4.6% and 3.9% in March and February, respectively (Figure 8). Accelerating energy price inflation reflects the spillover of higher global energy prices, linked to the conflict in the Middle East, to domestic retail energy prices, partially alleviated by Government measures. The annual growth rate of energy prices thus increased to 17.3% in April from 10.8% and 3.9% in March and February, respectively, mostly as a result of mounting upward pressures on the prices of refined petroleum products. These developments are also reflected in the continued increase in the momentum³ of energy price inflation (Figure 9). The contribution of energy to overall inflation increased to 2.1 percentage points, which is its largest contribution since the end of 2022. In contrast to energy inflation, food inflation edged downwards, to 3.7% in April from 4.0% in March, mostly due to a slower growth in the prices of unprocessed food products. Core inflation (which excludes energy and food prices) remained unchanged at 3.7% (Figure 10). The annual rate of change in the prices of industrial products held steady at -0.7% in April, while services price inflation ticked up to 7.3% from 7.2% in the first three months of this year. Services price inflation again made the largest individual contribution to overall inflation, 2.4 percentage points. Such a high services price inflation rate largely reflects domestic demand, which has remained robust amid continued disposable income growth, and an earlier increase in certain administered prices (rents, road tolls, dental and health services, refuse and sanitation services). Inflation of administered services prices is more elevated than inflation of market-determined services prices,

2 In contrast to the CPI, the HICP covers the consumption of foreign tourists and institutionalised households (such as educational, healthcare and religious institutions, etc.).

3 Momentum is a short-term inflation indicator that shows annualised three month-on-three-month rates of price change, seasonally adjusted.

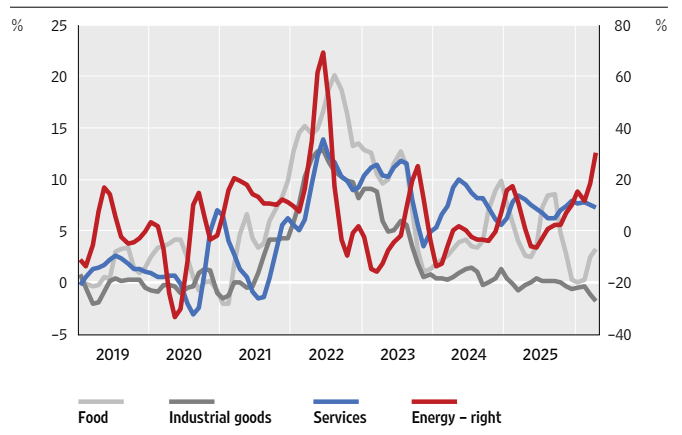
with the annual growth of market-based prices decelerating. Inflation measured by the national consumer price index (CPI), which reflects the structure of consumption of Croatian citizens, accelerated to 5.8% in April from 4.8% and 3.8% in March and February, respectively, according to a flash estimate, mainly as a result of the acceleration of energy price inflation. Services prices also grew at a higher annual rate in April than in March, while the annual growth of food prices decelerated and the growth of industrial goods prices held steady. The harmonised indicator of overall inflation was in April again lower than the national indicator: the difference was 0.4 percentage points (Figure 11).

Figure 8 Inflation indicators in Croatia



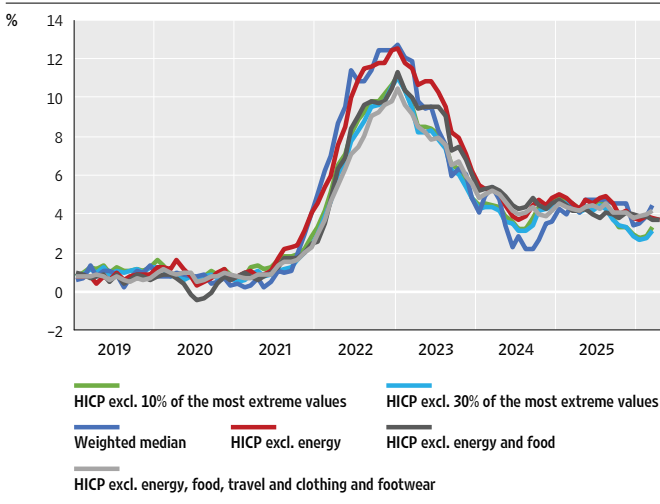
Note: Core inflation is measured by the harmonised index of consumer prices, which excludes energy, food, alcoholic beverages and tobacco prices.
Sources: Eurostat, CBS and CNB calculations

Figure 9 Momentums of the main inflation components



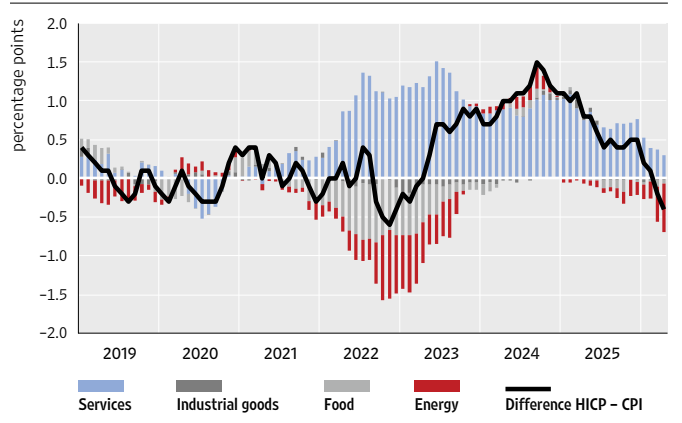
Note: The quarterly rate of change on an annual level is calculated from the quarterly moving average of seasonally adjusted harmonised consumer price indices.
Sources: Eurostat and CNB calculations.

Figure 10 Core inflation indicators



Notes: The trimmed mean eliminates 5% (15%) of subcomponents (out of a total of 107 subcomponents) with maximum and minimum annual rates of change. The weighted median excludes all values except the weighted median of the distribution of price change.
Sources: Eurostat and CNB calculations.

Figure 11 Difference between the contributions of the main components to the overall HICP and CPI

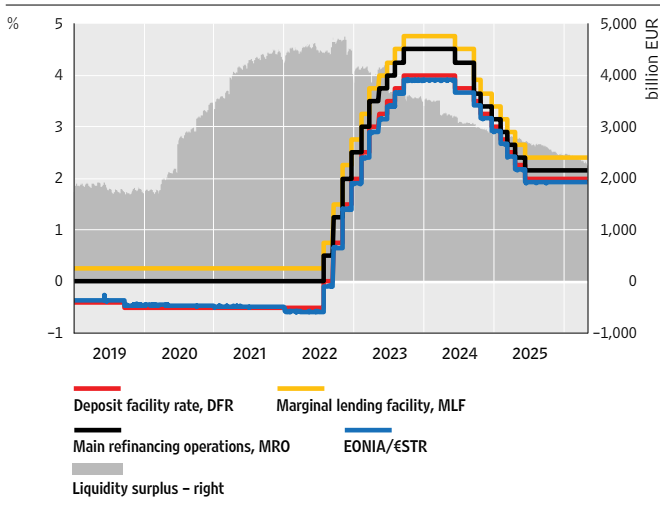


Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific component to overall HICP inflation than to CPI inflation.
Sources: Eurostat, CBS and CNB calculations.

At its meeting on 30 March the Governing Council of the ECB decided to keep the key ECB interest rates unchanged (Figure 12). The deposit facility rate, a relevant indicator of the ECB's monetary policy, thus remained at 2.00%, unchanged from its last decrease in June 2025. The incoming information has been broadly consistent with the Governing Council's previous assessment of the inflation outlook, although the upside risks to inflation and the downside risks to growth have intensified. The war in the Middle East has led to a sharp increase in energy prices, pushing up inflation and weighing on economic sentiment. The implications of the war for medium-term inflation and economic activity will depend on the intensity and duration of the energy price shock and the scale of its indirect and second-round effects. The longer the war continues and the longer energy prices remain high, the stronger the likely impact on broader inflation and the economy. Despite the unfavourable global environment, the euro area entered this period of surging energy prices with inflation at around the 2% target, and the economy has shown resilience over recent quarters. Longer-term inflation expectations remain well anchored, although inflation expectations over shorter horizons have moved up significantly. The Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term. The situation will be closely monitored going forward and decisions on the appropriate level of interest rates will continue to be based on a data-dependent and meeting-by-meeting approach. The Governing Council is not precommitting to a particular rate path.

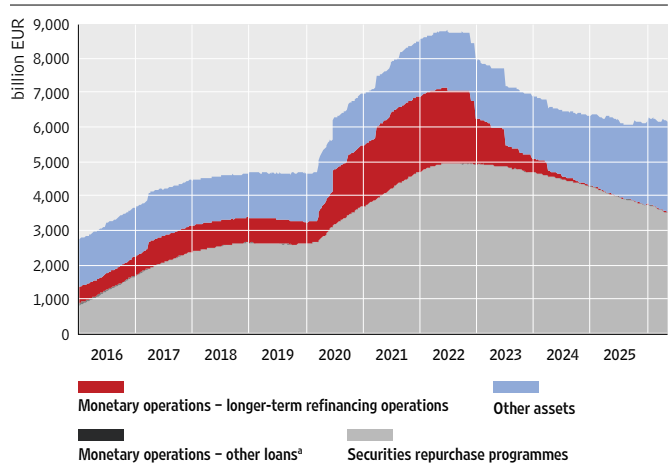
Eurosystem assets linked to the conduct of monetary policy continued to gradually decrease (Figure 13). The portfolio of securities purchased within the asset purchase programme (APP) and the portfolio of the pandemic emergency purchase programme (PEPP) of the Eurosystem are declining steadily at a measured and predictable pace, with the principal payments from maturing securities purchased under the APP not being reinvested since July 2023 and the reinvestment of the PEPP portfolio having been brought to a halt at the end of 2024. Also, in mid-December 2024 the banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations, completing that part of balance sheet normalisation. On the other hand, assets not linked to the conduct of monetary policy continued to grow. The rise in nonmonetary assets was especially marked in gold, the value of which on the Eurosystem's balance sheet has increased pronouncedly since the beginning of 2024 due to the rise in gold prices in financial markets.

Figure 12 Key ECB interest rates



Notes: DFR (deposit facility rate); MLF (marginal lending facility); MRO (main refinancing operations). Since the beginning of 2022, EONIA has been replaced by €STR.
Source: ECB.

Figure 13 Eurosystem balance sheet

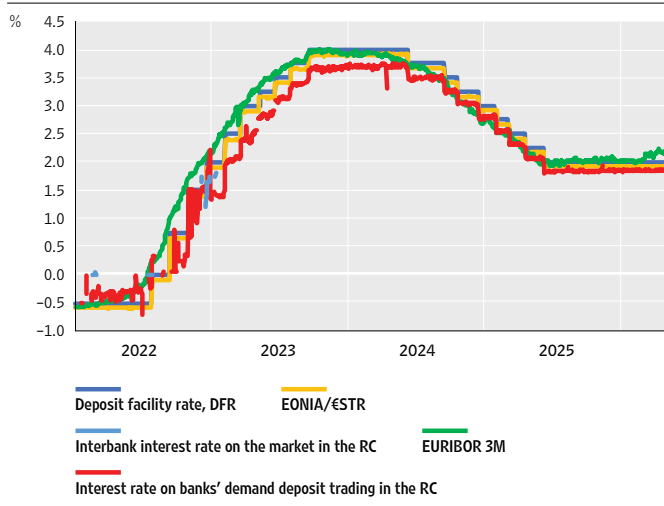


^a Other loans include main refinancing operations, fine-tuning reverse operations, structural reverse operations, marginal lending facility and credits related to margin calls.
Note: The Eurosystem monetary balance sheet asset items are shown in grey and red and non-monetary in blue.
Source: ECB.

Information about the course of the war in the Middle East was crucial to market developments in April, causing significant changes in asset prices, depending on how frequent news updates shaped expectations about the duration and intensity of the conflict. In the second week of April, a two-week truce was agreed between the US and Iran, which increased the risk appetite of investors. In Islamabad, however, no agreement was reached and the United States soon began blocking the Strait of Hormuz. In the middle of the month negotiations seemed to be progressing in the right direction, so Brent oil traded around USD 90 per barrel, the lowest level in more than a month. Afterwards, although the two-week truce was prolonged, the lack of progress in the negotiations and the inability to agree on the opening of the Strait of Hormuz led to a resurgence in oil prices, with the result that the price of Brent oil again exceeded USD 110 per barrel at the end of the month. Investors also began to price in the growing possibility of a protracted conflict, with Brent oil with 6-month delivery trading around USD 90 per barrel at the end of the month, the highest level since the start of the conflict. Elevated oil prices supported the growth of short-term inflation expectations in the euro area, with the release of data on the rise in consumer inflation in the eurozone reaching 3.0% in April, the highest level since September 2023, adding to such expectations. Under such conditions, investors continued to expect several increases in the key ECB interest rates throughout the year (Figure 15). This also affected the three-month EURIBOR rate, which was on some trading days in April higher than 2.2%, the highest rate in a year (Figure 14). Long-term government bond yields remained elevated. The euro area GDP-weighted average of long-term government bond yields of euro area members stood at 3.4% at the end of April, almost unchanged from the end of March, but still the highest since October 2023, after the end of the cycle of increases in the key ECB rates (Figure 16). Croatia's long-term government bond yields decreased by about 10 basis points to 3.6% in April. Equity indices showed marked resilience in April, the US S&P 500 index rising more than 10% and reaching new record highs, partly supported by good data on US companies' earnings in the first quarter of this year, while the European Eurostoxx 50 equity index rose more than 5%. The euro strengthened

against the dollar by about 1.5% in April, converging to a long-term average of 1.18 at the end of the month.

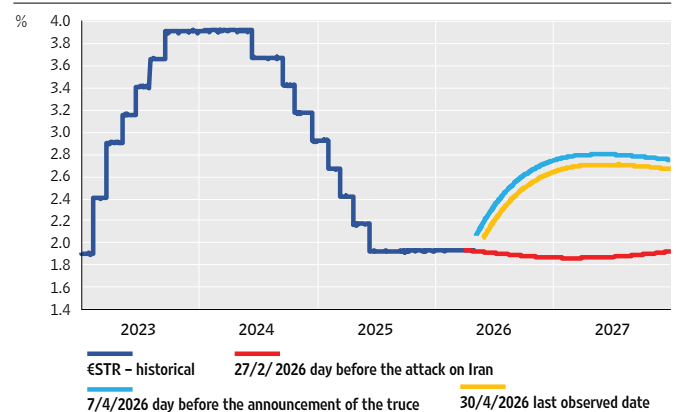
Figure 14 Key ECB interest rate and overnight market interest rates in the euro area and Croatia



Notes: DFR (deposit facility rate). Since the beginning of 2022, EONIA has been replaced by €STR. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data is for 30 April 2026.

Sources: ECB and CNB.

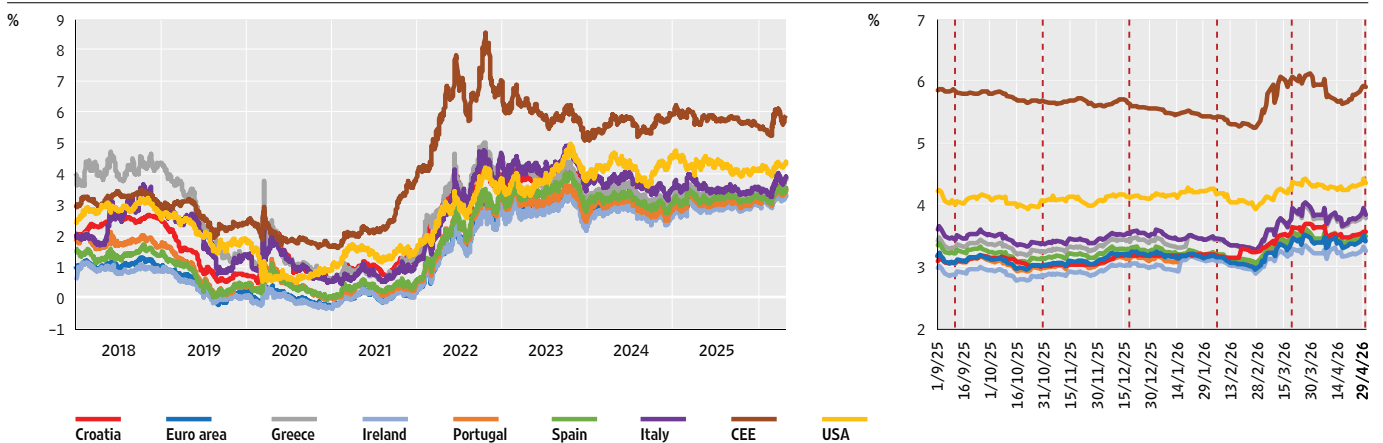
Figure 15 €STR forward curve



Notes: DFR (deposit facility rate). Since the beginning of 2022, EONIA has been replaced by €STR. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. Last data is for 30 April 2026.

Sources: Bloomberg and CNB calculations..

Figure 16 Yields on long-term government bonds with a 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 Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the observed period. Last data is for 30 April 2026.

Source: Bloomberg.

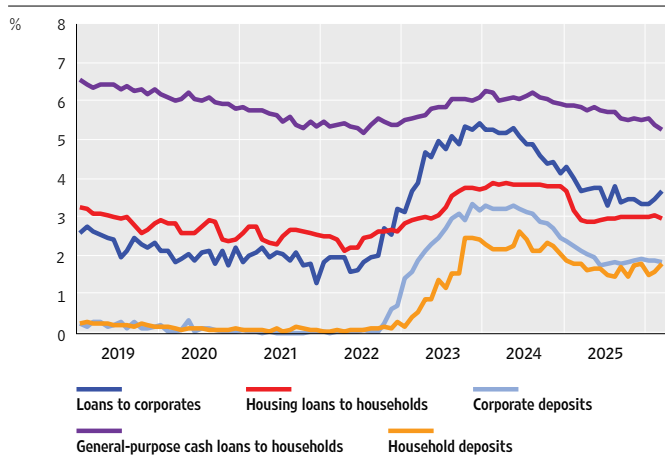
In Croatia, interest rates on pure new corporate loans increased in March from February, while interest rates on housing and general-purpose cash loans to households decreased. The average interest rate on pure new corporate loans increased by 24 basis points to 3.70% in March from February (Figure 17). Interest rates on working capital loans, investment loans and syndicated loans grew. Broken down by enterprise size, interest rates on loans to small and large enterprises increased, while interest rates on loans to micro and medium-sized enterprises decreased. As shown by the reference parameter, loan interest rates linked to the EURIBOR grew,

whereas interest rates for fixed-rate loans went down. In March, the EURIBOR rose markedly amid rising expectations from market participants of a more restrictive ECB monetary policy stance. The three-month, six-month and twelve-month EURIBOR were on average 10 basis points, 18 basis points and 34 basis points, respectively, higher than in February. As for households, the average interest rate on general-purpose cash loans went down by 12 basis points in March from February, to 5.28%, the lowest level since mid-2022. Interest rates on general-purpose cash loans decreased in March in almost all systemically important banks, in some cases due to the banks' promotional offers. The average interest rate on housing loans amounted to 2.99% in March and was 7 basis points lower than in February. The decrease was primarily due to interest rates for fixed rate loans falling from 3.08% to 3.02% and to some extent also to the change in the structure of loans, that is, an increase in the share of variable rate loans with an initial rate fixation period of five to ten years. These loans were granted at a lower interest rate than fully fixed interest rate loans in March, with the result that the increase in their share additionally contributed to the decrease in the total average interest rate, although the interest rate on these loans edged up from 2.69% in February to 2.76% in March.

Interest rates on existing corporate and household loans changed only slightly in March from February. Interest rates on existing corporate loans totalled 3.74%, up 1 basis point from February. Interest rates on existing general-purpose cash loans to households continued to fall gradually, standing at 5.70% in March, a decrease of 3 basis points from February. Interest rates on existing housing loans held steady at 3.04%.

Interest rates on pure new corporate time deposits dropped by 2 basis points in March from February, down to 1.87%. Interest rates on pure new **household time deposits** increased by 22 basis points, to 1.82%. **Interest rates on existing deposits did not change much in March from February.** Interest rates on total corporate deposits were 0.50% and those on total household deposits amounted to 0.33%. The interest rate on existing corporate time deposits remained at 1.86%, while the rate on overnight corporate deposits increased by 1 basis point, reaching 0.14%. As regards households, interest rates on existing time and overnight deposits remained unchanged at 1.37% and 0.02%, respectively.

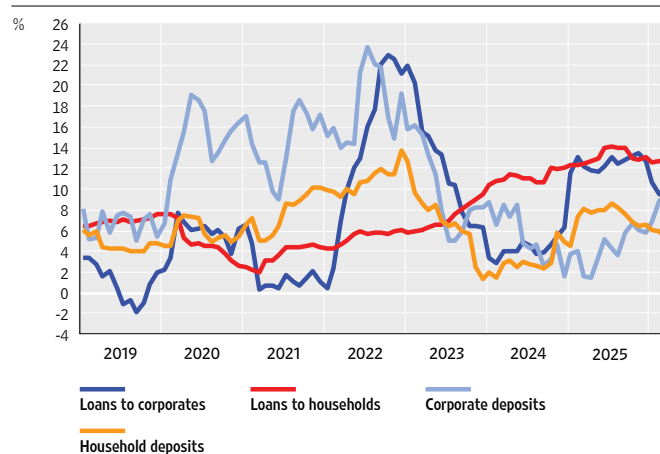
Figure 17 Interest rates on pure new loans and corporate and household time deposits



Notes: Data up to December 2022 refer to loans and deposits in kuna, in kuna with a euro currency clause and in euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of less than one month have been excluded.

Source: CNB

Figure 18 Corporate and household loans and deposits, year-on-year rates of change, transaction-based



Source: CNB

Loans to domestic sectors (excluding general government) grew at a higher rate in March than in the previous months, reflecting stronger growth of household and corporate loans. Household loans accelerated further in March amid stronger growth of general-purpose cash loans (EUR 139m or 1.3%), while housing loans continued to grow at stable rates (EUR 143m or 1.0%). Stronger household lending was also due to a fall in interest rates, partly caused by the banks' special offers. The annual growth rate of housing loans accelerated slightly from 15.4% in February to 15.5% in March, while the growth of general-purpose cash loans slowed down slightly (from 10.5% to 10.4%) due to the base effect related to a faster increase in these loans in the same month of the previous year. As a result, the annual growth of total household loans held steady at the level recorded in February (12.7%) (Figure 18). The momentum⁴ of housing loans weakened from 11.8% in February to 10.7% in March, while the momentum of general-purpose cash loans strengthened from 7.1% to 11.3%. Corporate loans grew by EUR 189m (1.1%) in March, accelerating from 9.5% to 10.0% on an annual level. The short-term indicator of lending activity (momentum), which strengthened from 8.4% to 10.5%, also reflects the accelerated growth of these loans. Accommodation and food service activities contributed the most to the annual growth rate.

Domestic sectors' deposits with credit institutions (excluding general government) decreased by EUR 0.2bn in March from February The fall in deposits in March reflected a decrease in net foreign assets of monetary institutions, while the growth of net claims on central government and the positive contribution of credit activity mitigated this effect. As regards the structure of domestic deposits, a decrease was recorded in deposits of other non-bank financial institutions (EUR 0.4bn) and corporates (EUR 0.2bn), with other non-bank financial institutions transferring half of their time deposits to overnight deposits. Overnight corporate deposits grew by EUR 0.1bn. The fall in total deposits in March thus reflects an equal fall in deposits of other non-bank

⁴ Momentum is a short-term indicator of lending activity that shows annualised three months-on-three months rates of change in loans.

financial institutions and corporates, while household deposits rose only slightly. The share of time deposits in total corporate deposits dropped to 27.5% in March from 28.7% in February, before fluctuating within a relatively narrow range around the levels reached in 2024. The share of time deposits in total household deposits remained at the February level of 24.4%, a noticeably lower level than the peak (29.2%) recorded in mid-2024. The growth of total deposits decelerated annually to 6.1% in March from 6.8% in February, with the slowdown being the most pronounced in the segment of overnight deposits of households.