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EUROSYSTEM

Macroeconomic Developments and Outlook

Year XI · Number 20 · June 2026







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Zagreb, June 2026
Year XI, Number 20



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Summary

The global economy continues to be under the strong impact of the war in the Middle East, which is primarily reflected in relatively high levels of energy prices and elevated levels of geopolitical and economic uncertainty. Energy prices continued to oscillate in the period from March to May 2026 at relatively high levels, exceeding earlier market expectations, which in the projection of March this year represented the assumed trajectory. Therefore, according to current market expectations, the current projection revised the prices of crude oil noticeably upward throughout the entire projection horizon. Expected electricity prices increased mildly as well, while expectations of gas prices remained mostly unchanged. The projected prices of other raw materials also increased, especially food raw materials, which reflected more pronounced cost pressures in the global economy. Considering the growth in the prices of raw materials and the still high uncertainty regarding the intensity and the duration of the conflict, the projections for global economic growth in 2026 and 2027 is revised downwards from the previous projection. At the same time, international trade proved to be more resilient than previously expected, so thanks to stronger results at the beginning of the year, expected growth of global trade is revised upwards. Despite this, it is expected that foreign demand for Croatian exports will be weaker than previously projected, especially from euro area markets, reflecting the slightly less favourable economic outlook of our most important trade partners.

Slightly slower growth and higher inflation in the euro area are expected over the projection horizon than in earlier expectations. The real gross domestic product in the euro area decreased by 0.2% at the beginning of 2026 after having increased by 0.3% at the end of 2025. However, the decline primarily reflects the exceptionally sizeable contraction of economic activity in Ireland, where GDP results are very volatile due to the activities of multinational companies. Excluding Ireland, real GDP in the first quarter increased by 0.2%. High-frequency indicators point to a continuation of moderate growth in economic activity in the second quarter of 2026. Considering the still elevated uncertainty regarding the outcome of peace negotiations and the stronger growth of energy prices than previously expected, the projected growth in the euro area has been revised mildly downwards. The euro area labour market remains relatively robust and unemployment is still at historical lows, although labour demand continues to slow down gradually. The growth of labour costs in the euro area has thus continued to slow down and current expectations point to further easing of wage related cost pressures. Euro area inflation noticeably increased after the outbreak of the war in the Middle East, which was predominantly reflected in the spillover of the growth in energy prices on global markets onto retail energy prices, especially petroleum prices. Core inflation also noticeably accelerated in May, especially services inflation, which probably partly reflects the beginning of the spillover of indirect impacts of the growth in energy prices onto other inflation components. In view of the higher expected energy prices, the projected annual euro area inflation rate has been revised upwards and is expected to reach 3.0% at the level of the whole of 2026. After that, in line with the expected decline in the prices of energy, it is expected to slow down considerably, reaching the target level of 2.0% in 2028.

Against the backdrop of elevated inflation, the ECB's Governing Council increased key interest rates by 25 basis points in June, the first change since June 2025. As the reason for increasing key interest rates the ECB cited inflationary risks largely caused by the war in the Middle East. The Governing Council of the ECB lowered the deposit facility rate (DFR) of the central bank on eight occasions in the period from June 2024 to June 2025, by a total of 200 basis points, after having kept key interest rates steady since September 2023, which is, amid the current high liquidity surplus, a good indicator of the ECB's monetary policy. The DFR of the central bank has thus stood at 2.25% since June 2026. The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target and it will continue to base its decisions on a meeting-by-meeting and data-dependent approach. In doing so, the Governing Council is not pre-committing to a particular rate path.

After the outbreak of the war between the USA and Iran triggered a significant drop and increased volatility in euro area bond and equity prices, the announcement of a ceasefire in April spurred a strong rebound in stock prices. The exchange rate of the euro against the US dollar depreciated. The initial reaction of the financial markets to the outbreak of the war in Iran was relatively moderate, but increased gradually in March as expectations of a longer and more intensive conflict emerged. Particularly significant was the sharp rise in energy prices due to increased risks associated with supply disruptions. While in the first two months of this year market participants estimated that the likelihood of change in the ECB's key interest rates during the year was relatively low, soon after the outbreak of the war their expectations shifted towards multiple rises in interest rates. Long-term bond yields increased amid the growth in inflationary expectations and higher expected real interest rates. The average GDP-weighted average yield on long-term government bonds of euro area member states exceeded 3.5% on several occasions, a level previously observed in October 2023, immediately after the conclusion of the cycle of increases in the key ECB rates. By the end of May, the GDP-weighted average yield on long-term euro area government bonds had declined to around 3.3%, as market participants began to view an agreement on ending the war more probable. This represents an increase of some 10 basis points from the end of the year. Equity indices showed marked resilience over the observed period, rebounding relatively quickly after a sharper decline in March, supported by the announcement of a two-week ceasefire between the United States and Iran in April and continuation of negotiations. In this context, the US S&P 500 index rose by around 11% from the beginning of the year, reaching new all-time highs, additionally supported by the favourable data on US companies' earnings in the first quarter of the year, while the European Eurostoxx 50 equity index increased by around 5% over the same period. The exchange rate of the euro against the US dollar stood at around USD/EUR 1.16 at the end of May, having depreciated slightly less than 1% from the end of December. Over the same period, the nominal effective exchange rate of the euro against a basket of currencies of the euro area main trading partners depreciated significantly, by around 1.3%.

The interest rates on corporate loans rose slightly in the first four months of 2026, while those on household loans fell slightly. Interest rates on newly-granted loans to non-financial corporations were slightly higher in April 2026 than in November 2025 but still remained

within a relatively narrow range at approximately the levels reached in mid-2025. The growth in interest rates on newly-granted loans to non-financial corporations partially reflected developments in the EURIBOR, which rose markedly in the first four months of 2026 amid rising expectations from market participants of a more restrictive ECB monetary policy stance. At the same time, interest rates on general-purpose cash loans and housing loans to households decreased, driven, among other things, by the promotional interest rates offered by banks. As regards deposits, interest rates on pure new corporate time deposits stagnated at the lower level attained in mid-2025 after having been on a downward trend since mid-2024. At the same time, interest rates on household time deposits were volatile, moving around the average levels from 2025. The growth in corporate loans held at relatively high levels in the first four months of 2026, as did the growth of household loans, which was aided by the decline in bank interest rates. However, in annual terms, loan growth slowed down as a reflection of base effects associated with the exceptionally strong growth in the same period of last year. Total deposits decreased, primarily due to the fall in overnight deposits, especially of corporates, and to a lesser extent in time deposits.

Real GDP in Croatia might exhibit robust growth again this year, though at a noticeably slower pace than over the preceding year, with the conflict in the Middle East making economic developments still quite uncertain. The beginning of the year was marked by stagnation of real GDP at the quarterly level, with main aggregate demand components contracting. Additional data for the second quarter indicate a resurgence in economic activity despite the growth of energy prices and elevated uncertainty due to the conflict in the Middle East. Relative to the March projection, growth projections have been revised slightly downward due to market expectations of higher energy prices that might negatively impact real income and weaker foreign demand. It is thus expected that growth in 2026 might slow down to 2.4%, from 3.4% in 2025, with it continuing to be supported predominantly by domestic demand, given the robust labour market, the still solid real income growth and more intensive use of EU funds. The contribution of the exports of goods and services is expected to strengthen towards the end of the projection horizon due to the accelerated growth in foreign demand, assuming that the conflict in the Middle East will be relatively short lived and that energy prices, in line with market expectations, will start normalising as soon as at the beginning of the second half of this year. However, the growth in domestic demand might continue to decline considering expectations of continued slowdown in the growth of real income, gradual tightening of fiscal policy and smaller use of EU funds. Consequently, real GDP growth could slow down slightly in 2027 with similar developments being expected at the end of the projection horizon.

The labour market in Croatia might remain relatively strong. However, it is expected that the growth in employment and wages will slow down. Employment growth in the first four months of 2026 gained little strength but the annual growth in employment slowed down in the first four months to 0.9% due to base effects, after having registered 1.7% in the fourth quarter of 2025. At the same time, the fall in the number of unemployed persons continued at the beginning of the year but there is a noticeable further decrease in the number of job vacancies which indicates a moderation in labour demand. The growth in labour costs

continues to be pronounced, although slightly decelerating. It is expected that the weakening of the growth in wages will continue over the entire projection horizon and that, following an exceptionally strong growth over the last three years the dynamics of real wages will gradually converge with productivity growth. This should also reduce the pressure of unit labour cost on inflation.

In 2026, inflation in Croatia could accelerate for the second year in succession due to the growth of energy prices. After that, it is expected to slow down gradually in the remainder of the projection horizon, with the inflation differential between Croatia and the euro area average decreasing. The growth in energy prices on global markets after the outbreak of the war in the Middle East has visibly accelerated inflation, which, as measured by the Harmonised Index of Consumer Prices (HICP) reached 5.4% in April, while in February it amounted to 3.9%. In May, inflation slowed down again, primarily under the influence of food price paths. Thus far higher prices of energy have not resulted in more significant indirect impacts on other components of inflation so food price inflation and core inflation (which excludes energy and food prices) were lower in May this year than in the period before the outbreak of the war in the Middle East. Due to the acceleration in the growth of energy prices inflation could go up from 4.4% in 2025 to 4.9% in 2026, while core inflation is expected to remain unchanged at 4.1%. In the remainder of the projection horizon, inflationary pressures are expected to ease as a result of a slowdown in the growth of wages and personal consumption, subdued growth in foreign demand for tourist services, more restrictive fiscal policy and a fall in energy prices in the global market. Overall inflation could thus slow down to 3.1% in 2027 and 2.7% in 2028, with the slowdown of core inflation to 3.4% and 2.8% respectively, Total inflation measured by the national consumer price index (CPI), which reflects the structure of consumption of Croatia's consumers could accelerate from 3.7% in 2025 to 5.0% in 2026 and then slow down to 3.0% in 2027 and 2.6% in 2028.

The projections of economic growth and inflation are subject to significant levels of uncertainty, dominated by risks of lower growth and higher than projected inflation. As for economic growth, negative risks arise primarily from higher energy prices, which might additionally reduce the real disposable income of households, and weaker than expected foreign demand. A longer-term conflict could prolong the period of heightened uncertainty, delaying investments and consumption of durable goods. In addition to more pronounced growth of energy prices, higher inflation could be spurred also by strong indirect and secondary impacts in the form of rising inflationary expectations and employee wage demands. The risks for higher inflation also come from possible extreme weather, the materialisation of which would result in a stronger than expected growth of food prices. On the other hand, growth might be higher and inflation lower than expected in the event of earlier de-escalation of the situation in the Middle East and faster normalisation of energy prices than embedded in market expectations.

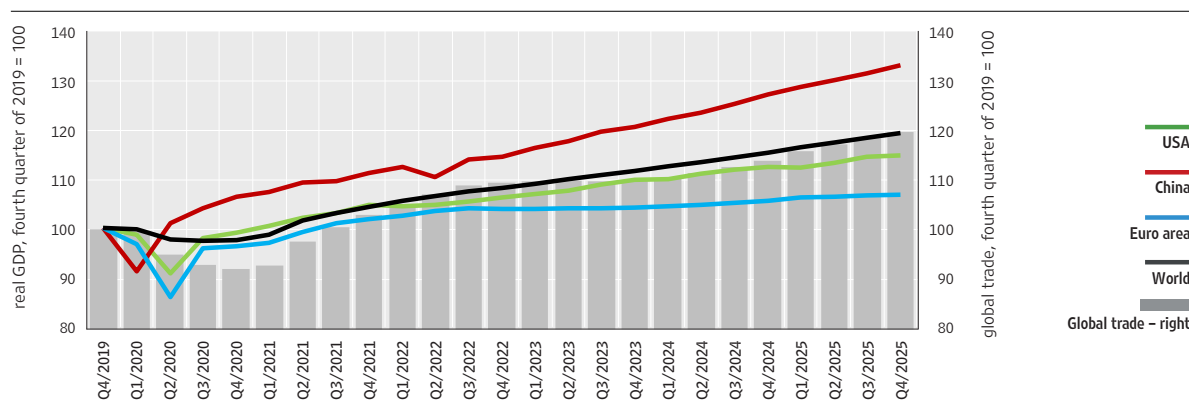
Considering the still high uncertainty regarding the duration and intensity of the conflict in the Middle East, in addition to the baseline projections (as was the case in March), alternative and hypothetical scenarios were made, including not only unfavourable scenarios

but a milder scenario as well. Current scenarios are calibrated according to market-implied distributions of the probability of developments in energy prices, while the CNB's March projections were based on its assumptions on the duration and intensity of the conflict. This, combined with higher market expectations of energy prices compared with March, additionally stressed the intensity of adverse scenarios, which becomes especially visible in the later years of the projection horizon. Alternative scenarios point to a more significant slowdown in GDP growth and much stronger inflationary pressures than in the baseline scenario, driven by stronger and more persistent disturbances in the energy market with the negative effects through the decline in real purchasing power, a weakening of foreign demand and elevated uncertainty. Unfavourable scenarios result in initially slightly milder but longer lasting price pressures compared with alternative scenarios from March, with inflation under the severe scenarios peaking in 2027. Conversely, under the milder scenario, inflation could be lower and GDP growth slightly faster than under the baseline projection. The calculations do not take into account any additional fiscal and monetary policy response relative to the baseline assumptions.

1 Global economy

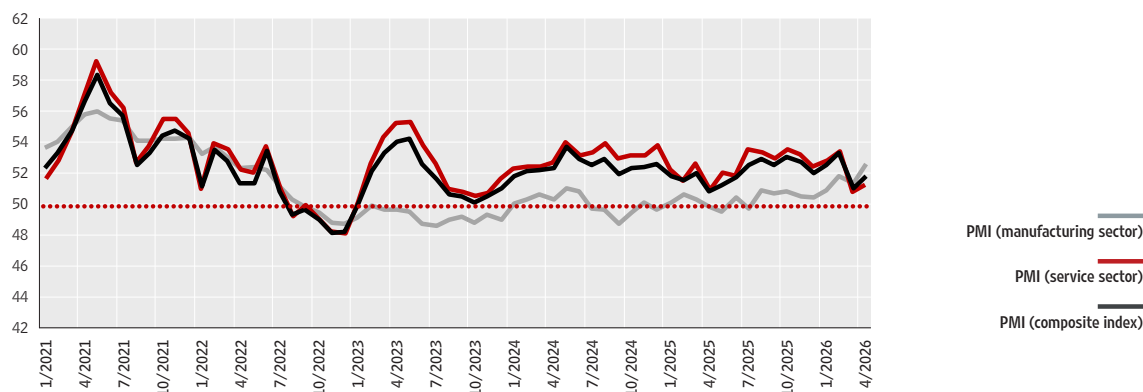
The war in the Middle East and the closure of the Strait of Hormuz have put strong pressure on global energy markets and the global economy. Failed peace negotiations following the escalation of the conflict towards the end of February this year continued to fuel energy prices and their volatility, particularly oil prices. Such price shocks were accompanied by disruptions in maritime transport and industrial raw materials supply chains, tighter financial conditions and heightened geopolitical uncertainty, which had a negative impact on the outlook for global economic growth. However, better results of economic activity in late 2025 and early 2026 provided a good starting point for dealing with the negative impacts of the energy shock (Figure 1.1). As a net exporter of oil and natural gas, the United States of America was less exposed to the negative consequences of the global disruption in energy supplies. The strengthening of government consumption, following the end of the temporary cessation of government services at the end of 2025, strengthened exports, while increased investment in infrastructure for the development of artificial intelligence (AI) made a key contribution to the strengthening of US economic activity in the first quarter of 2026. In contrast, the Asian economies were more exposed to the effects of the global shock because of their relatively high reliance on energy imports from the Middle East, with the exception of China, which was in a somewhat better position due to its ample strategic oil reserves. In the first quarter of 2026, the Chinese economy, despite a relatively lower domestic consumption and growing energy costs, recorded a strong growth of 5%, driven by fiscal expansion and rising exports.

Figure 1.1 Economic activity in major markets and global trade



Sources: Eurostat, BEA and NBS.

Figure 1.2 Confidence indicators for the global economy



Notes: Index value above 50 indicates expansion, while index value below 50 indicates contraction of economic activity. Data are up to March.

Source: S&P Global.

Following a sharp fall in March, survey-based indicators of global economic developments in April 2026 show a certain recovery, but the developments across sectors remain relatively heterogeneous. The March fall in the services sector reflects primarily the fall in tourist activity due to higher transport costs and heightened war-related uncertainty. The recovery seen in April remained modest and largely relied on growth in health services. Manufacturing has thus far shown to be relatively resilient: the April indicator showed a pronounced increase, fuelled by the increase in the volume of orders, partly reflecting increased demand for equipment and infrastructure for the development of artificial intelligence and partly reflecting building of inventories. The growth is mostly the result of higher demand for transport equipment, machinery and computer, electronic and chemical products. Geopolitical uncertainty thus became in a short period of time the dominant driver of global business sentiment dynamics.

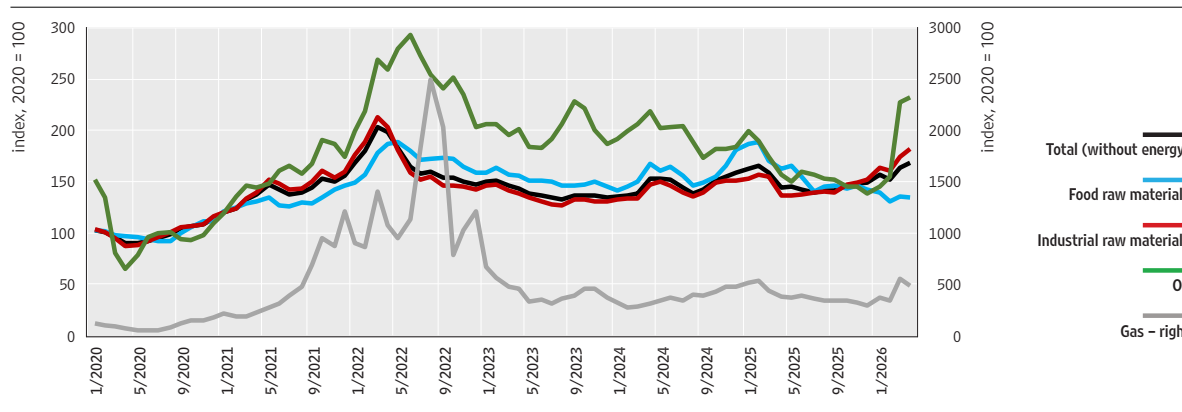
Global trade outside the euro area in the last quarter of 2025 and in early 2026 recorded growth, mostly on the back of strong demand for high-tech goods. Demand for semiconductors, computing and telecommunications equipment has increased in particular, partly reflecting intensive global investment in AI development infrastructure. The US Supreme Court ruling to overturn a large number of tariff measures has provided some support. These measures were replaced by lighter and temporary restrictions, drastically reducing the burden on imports from countries such as China, India, Brazil and Vietnam. However, the announcements by the US Government of the re-introduction of the tariffs by means of alternative legal instruments keep the uncertainty high, which is why the potential trade-increasing effects are assessed as short-term and limited. In contrast, the end of the first quarter of 2026 was marked by a slowdown in trade activity growth, primarily as a result of the closing of the Persian Gulf and security risks that had a negative impact on maritime trade in the region.

After being relatively low in 2025, energy prices surged following the escalation of the war in the Middle East and the resulting closure of the Strait of Hormuz, key transit point for one fifth of global maritime oil and liquefied natural gas trade. Oil prices reached a five-year low towards the end of 2025, largely as a result of factors on the supply side: OPEC+ has

increased production quotas on several occasions during the year and US and Brazil production reached record highs. Similar developments were seen in the prices of natural gas, which fell slightly in the second half of 2025, partly due to growth in LNG export capacity in the US, contributing to the increase in global supply. However, this trend reversed in early 2026, mirroring primarily rising concerns with respect to supply security as peace negotiations between Russia and Ukraine failed to result in progress, while growing signs of the upcoming military intervention in Iran further increased uncertainty in energy markets. The outbreak of the war and closing of the Strait of Hormuz triggered a sharp increase in energy prices, with the price of crude oil rising by more than 65% (to USD 117 per barrel in April) from pre-conflict levels, while LNG prices increased by around 50% (to EUR 45 per megawatt hour, [Figure 1.3](#)). The increase in oil prices was partly mitigated by a coordinated release of reserves by the member states of the International Energy Agency, jointly placing on the market 400 million barrels of oil to stabilise supply. The failure of peace negotiations continued to fuel high oil prices, with the price per barrel in April and most of May averaging USD 115. However, with the indications of peace negotiations towards the end of May, the price of oil per barrel fell below 100 USD, while a megawatt hour of natural gas remained at around EUR 45. Although the impact of the energy shock is expected to be relatively short-lived, further developments in the conflict and supply disruptions remain marked by high uncertainty.

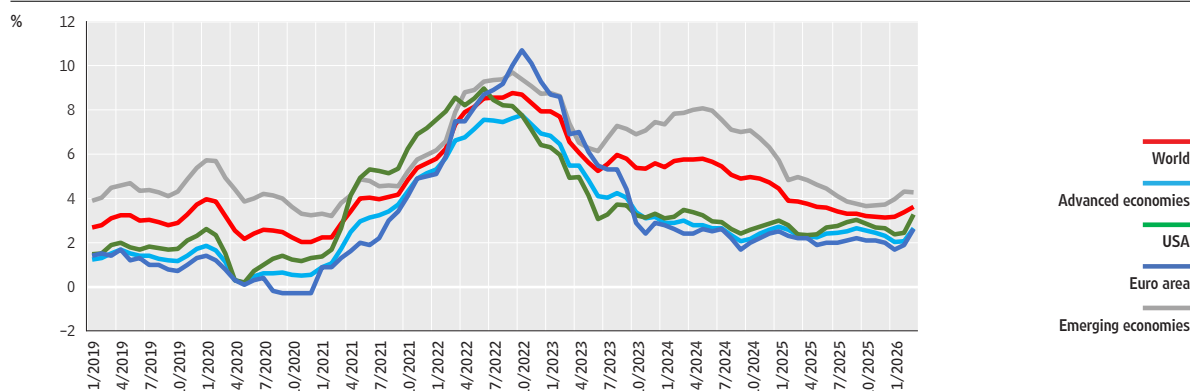
Industrial raw material prices rose in the fourth quarter of 2025 and in the first quarter of 2026, while the prices of food raw materials fell during the same period. The increase in the prices of industrial metals is primarily a reflection of the building of strategic inventories amid heightened trade uncertainty as well as disruptions on the supply side, such as those in aluminium production affected by the Persian Gulf blockade. The blockade has also limited the global supply of urea, a by-product of the petrochemical industry crucial for the production of mineral fertilisers. Developments in the food raw materials market were largely marked by recovery in the production of coffee and cocoa, whose normalisation largely contributed to the fall in the total food raw materials index. A fall in the prices of dairy products and sugar also reflected increased supply. In contrast, the prices of key agricultural goods rose slightly. The prices of cereals increased as a result of drought in the main growing regions and higher fertiliser costs, while the prolonged fall in the global livestock numbers coupled with rising demand continue to exert pressure on beef prices. The prices of edible oils rose as a result of growing demand for biodiesel, in the production of which vegetable oils are being used increasingly.

Figure 1.3 Prices of energy and other raw materials



Note: Data are up to April.
Source: HWWI (Euroland, EUR).

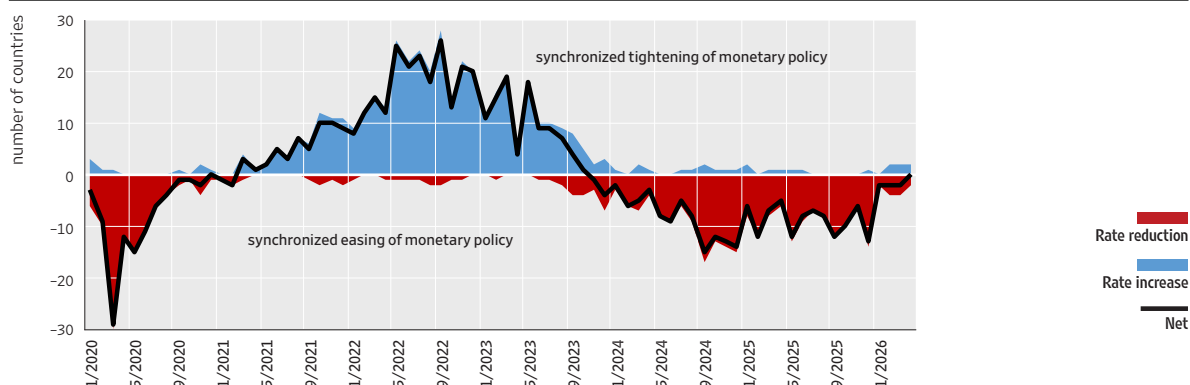
Figure 1.4 Global inflation



Note: Data are up to March.
Sources: Federal Reserve Bank of Dallas and Eurostat.

The trend of global disinflation came to a halt in early 2026, primarily as a result of the growth in energy and industrial raw materials prices. Inflation acceleration was more pronounced in emerging market economies than in developed countries, mainly reflecting bigger reliance on energy imports from the Middle East (Figure 1.4). As regards developed economies, inflationary pressures were somewhat more pronounced in the US than in the euro area due to stronger economic activity and the negative consequences of the tariff measures introduced. Amid high geopolitical uncertainty, the unpredictable duration of the conflict in the Middle East and the blockade of the Strait of Hormuz, the central banks have kept interest rates broadly unchanged, despite rising inflation (Figure 1.5). Although the central banks tend to show restraint in conditions of short-term supply shocks (Figure 1.6), in the forthcoming period the markets expect to see a hike in key interest rates, with the possibility of further tightening if the risks of secondary effects of higher energy prices materialise.

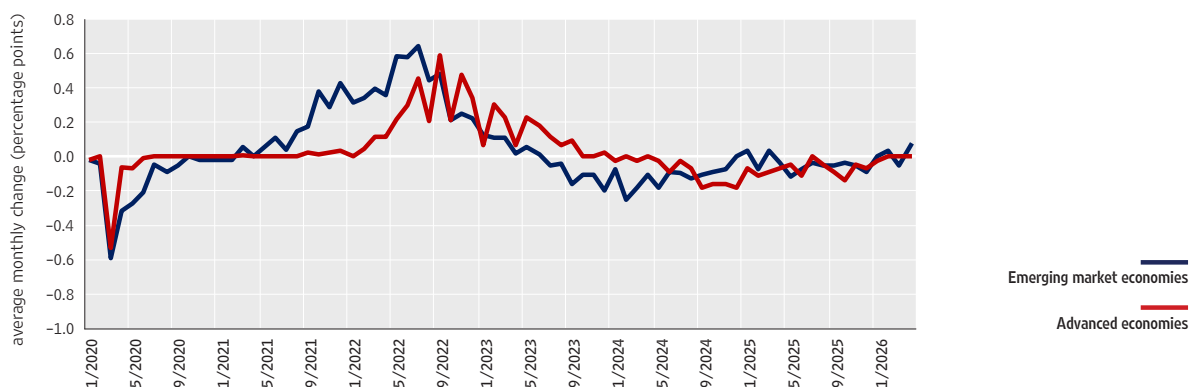
Figure 1.5 Shifts in the course of monetary policies of selected central banks



Notes: Data show the average monthly change in key interest rates of 38 central banks. Data are up to April.

Source: BIS.

Figure 1.6 Changes in central bank key rates by country groups



Notes: Data show the average monthly change in key interest rates of 38 central banks. Data are up to April.

Source: BIS.

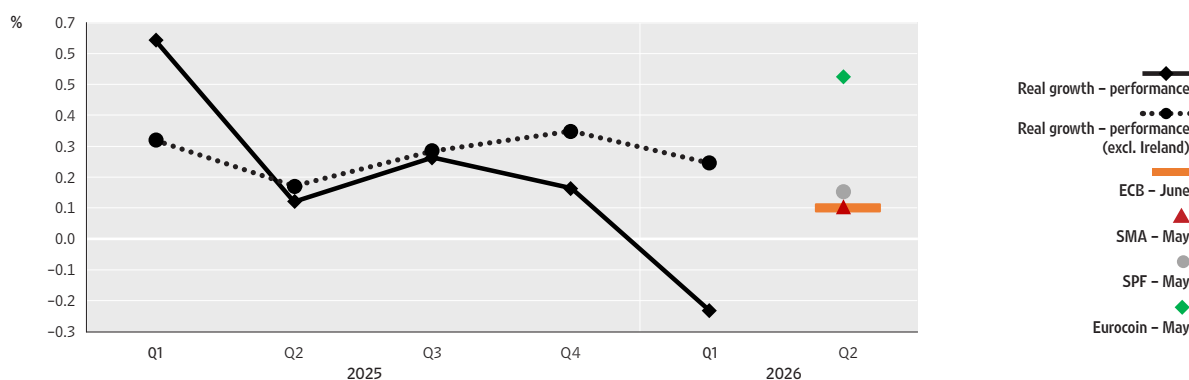
2 Euro area

2.1 Real developments

At the beginning of 2026, economic activity in the euro area declined, contrary to previous expectations, which had predominantly envisaged mild growth. Following a quarterly growth of 0.2% in gross domestic product at the end of last year, Eurostat estimates for the first quarter of 2026 point to a decrease in activity of 0.2% (Figure 2.1.1). Economic developments in the first three months of the current year were thus much weaker than expected by the market and the ECB (whose growth projections predominantly ranged between 0.2% and 0.3%), a result, however, driven exclusively by the contraction in Ireland, where GDP trends are relatively volatile due to the activity of multinational enterprises. Excluding Ireland, economic growth in the euro area totalled 0.2%, and was even more pronounced in the last quarter of 2025 when it totalled 0.3%. As regards the four largest economies, growth in the first three months of 2026 was again spearheaded by Spain (0.6%), followed by Germany, and Italy (0.3%). France experienced a mild fall in economic activity (0.1%), partly reflecting the impact of delayed deliveries in the shipbuilding sector. Viewed on an annual basis, economic growth in the first quarter amounted to a mere 0.3%, or 1.1% excluding Ireland.

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. Survey data for April and May point to a deterioration in the GDP growth outlook for the euro area in the middle of the year. Thus, the composite purchasing managers index (PMI) moved into contractionary territory, recording the lowest level in almost last three years. Despite the fall in May, the PMI manufacturing component continues to be elevated, which may be associated to the increase in inventories due to fears of possible disruptions in supply chains and further growth in prices. The services component decreased additionally, going down to the lowest level since the pandemic. Economic Sentiment Indicator, despite increasing mildly in May, is still far below the first quarter average (Figure 2.1.2).

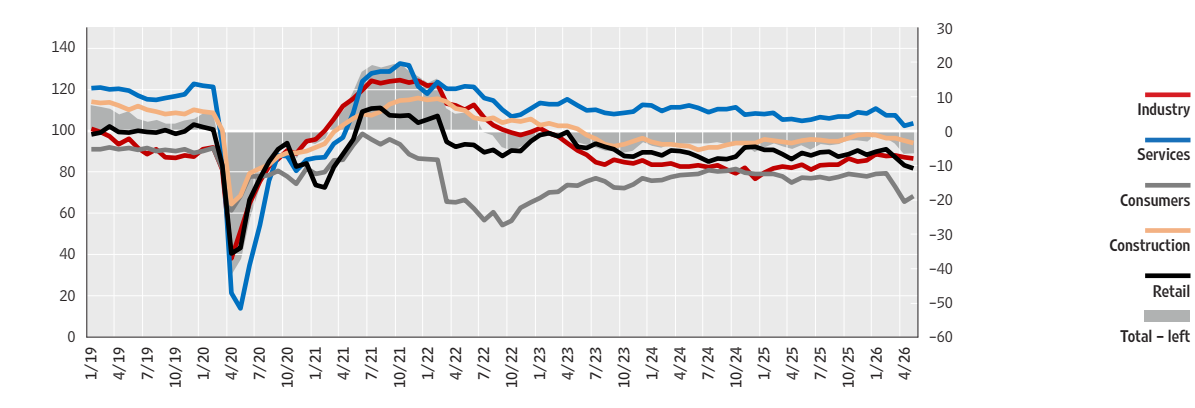
Figure 2.1.1 Economic activity in the euro area



Notes: Abbreviation ECB - June refers to ECB - June 2026 projection. Abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the ECB survey of market participants in May. The Eurocoin indicator, developed by Banca d'Italia, refers to the model for nowcasting the quarterly rate of change in the real GDP of the euro area derived from the available high-frequency data (May estimate).

Source: Eurostat.

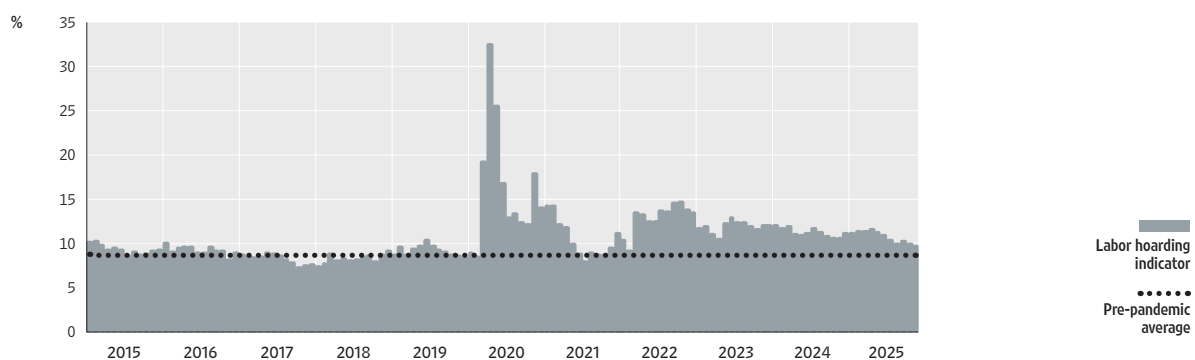
Figure 2.1.2 Euro area economic sentiment indicators



Note: Total index value above (below) 100 refers to values higher (lower) than the long-term average.
Source: Eurostat.

The euro area labour market remains robust, although labour demand continues to gradually slow down. In the first quarter of 2026, employment remained almost unchanged (0.1%) after having mildly grown by 0.2% by the end of the preceding year. The subdued employment growth thus arises from continued decline in demand for labour (Figure 2.1.3). The number of job advertisements continued to decline, while the job vacancy rate at the beginning of the year was similar to that of the preceding year, but considerably lower than in 2024. At the same time, labour shortages, seen as the limiting factor in their operations, are less and less prominent in services and industry, while in construction they stabilised, if remaining perceptibly above the pre-pandemic levels (Figure 2.1.4). Despite the gradual weakening of demand for labour, unemployment is still at its historical lows, with the unemployment rate in April totalling 6.3%. In the euro area, the rise in labour costs continued to slow down, and current expectations indicate their further decline. In the fourth quarter 2025, the annual growth in compensation per employee slowed down to 3.6%, from 4% in the third quarter (3.9% in 2025 as against the 4.5% of 2024). The latest available data on contractual wages, as well as expected wage developments suggest a further mitigation of the pressures of labour costs in 2026.

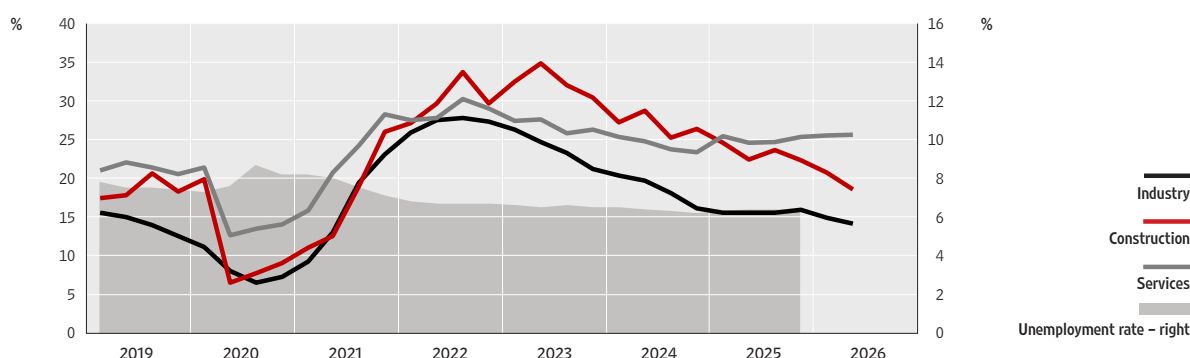
Figure 2.1.3 Labour hoarding indicator in the euro area



Notes: Labour hoarding indicator is based on a business survey (expectations for domestic product and employment). The pre-pandemic average relates to the average indicator in the period from 2015 to 2019.

Source: European Commission

Figure 2.1.4 Labour shortage and unemployment rate in the euro area

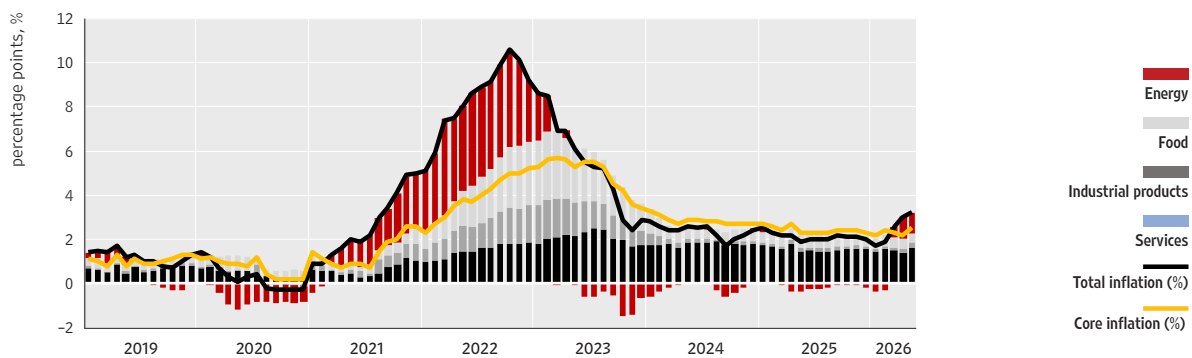


Note: Labour shortage is measured by a quarterly survey and indicates the percentage of firms reporting a labour shortage as the main obstacle to business activity.
Sources: European Commission and Eurostat.

2.2 Price developments

The acceleration of the inflation rate in March and April of this year reflected the increase in energy price inflation, while in May the inflation rate continued to accelerate due to the increase in services price inflation. The slowdown of the total euro area inflation measured by the HICP, to 1.7% at the beginning of 2026 and its considerable acceleration in March and April, when it increased to 2.6% or 3.0%, were primarily a result of the developments in the prices of energy (Figure 2.2.1). Thus, the negative annual rate of change in energy prices grew at the beginning of the year, under the influence of a favourable base effect associated with a more pronounced monthly energy price in the same period of the previous year. By contrast, strong acceleration in energy price inflation, which grew to 5.1% and 10.8% respectively in March and April, largely reflected the spillover of the increase in energy prices on the global market, spurred by the war in the Middle East, onto retail energy prices, especially petroleum products. In May the energy price inflation edged up to 10.9%. In the first five months of 2026, food price inflation slowed down to 2.0%, from 2.5% in December 2025. The price inflation of processed foods slowed down, while the price inflation of unprocessed foods, which is more affected by weather conditions, accelerated. The weakening of inflationary pressures on the prices of processed foods may partly be associated with low import pressures, with import prices of food being in negative territory (Figure 2.2.2) and the growth in labour costs slowing down, which was reflected in the developments in producer prices.

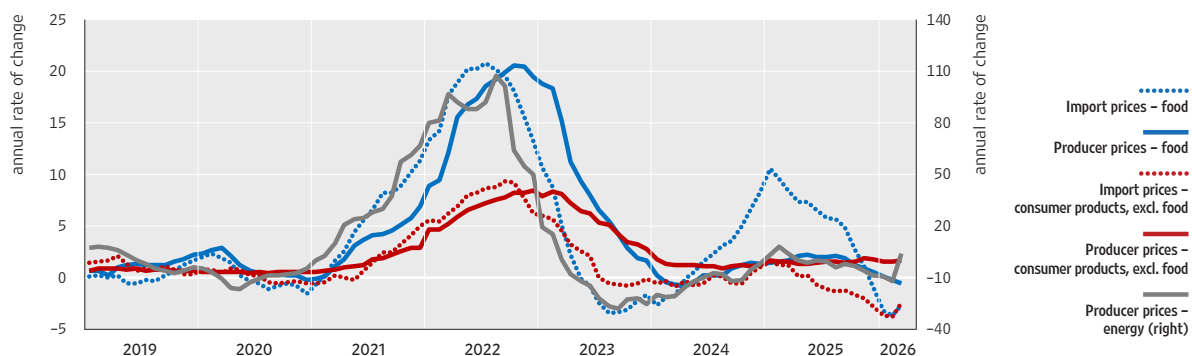
Figure 2.2.1 Euro area inflation indicators



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.

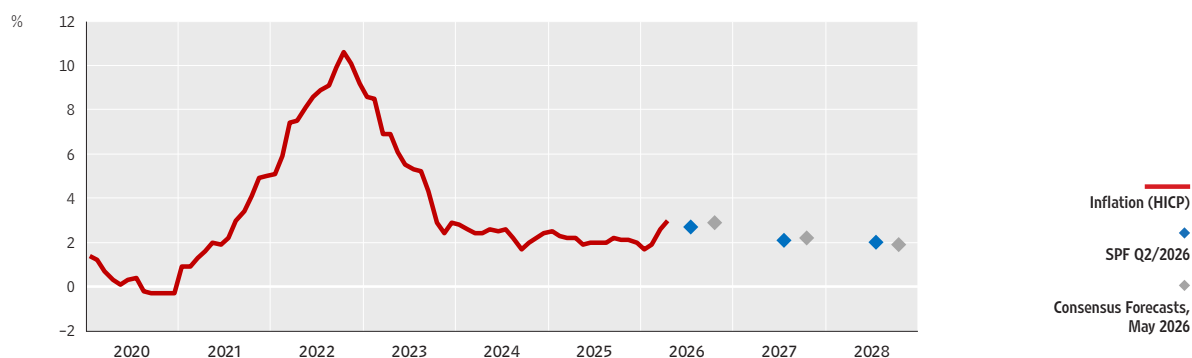
Figure 2.2.2 Indicators of inflationary pressures along the euro area pricing chain



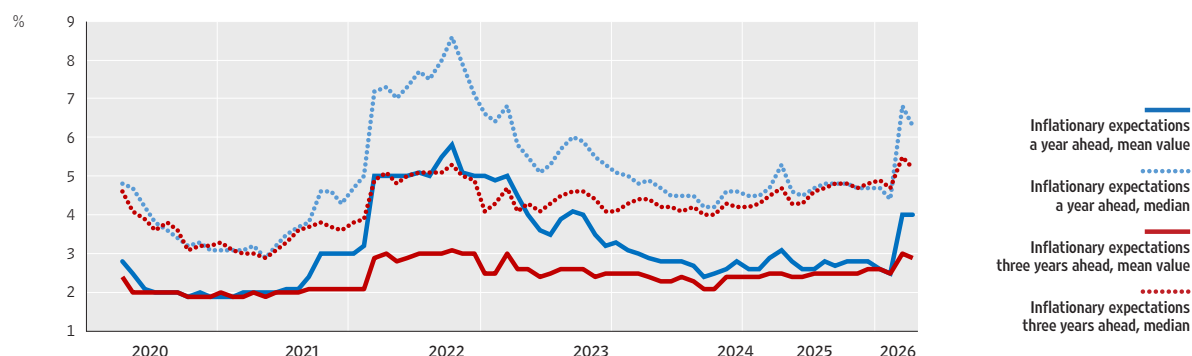
Notes: Producer prices refer to the domestic market. Food prices include alcoholic beverages and tobacco.

Source: Eurostat.

Under the influence of developments in services price inflation, core inflation (which excludes energy and food prices) slowed down in the first four months of this year to 2.2%, but in May it accelerated to 2.5%. The slowdown in wage growth in the euro area contributed to the weakening of inflationary pressures in the services sector. In addition, the weakening of the services prices inflation in April was also due to a favourable base effect associated with the more pronounced monthly growth of these prices in the same month of the preceding year, when Easter fell at the end of the month so the rise in prices of travel-related services was more pronounced. In contrast, the strengthening of current pressures on services prices in May was probably associated with the indirect effects of the increase in energy prices on developments in the prices of transport services and other travel-related services. Services inflation accelerated to 3.5% from 3.0% in April. Furthermore, industrial goods price inflation, the other main component of core inflation, accelerated during the first five months to 0.9%, from 0.3%, but remains low amid subdued import pressures (Figure 2.2.2), reflecting the lower prices of goods imported from China and the delayed effects of the appreciation of the euro in 2025.

Figure 2.2.3 Short-term and medium-term inflationary expectations of professional forecasters in the euro area

Note: SPF Q2/2025 (Survey of Professional Forecasters) refers to the results of the ECB survey of professional forecasters conducted from 31 March to 8 April 2026.
 Sources: Survey of professional Forecasters, ECB and Consensus Forecasts.

Figure 2.2.4 Short-term and medium-term consumer inflationary expectations in the euro area

Source: ECB Consumer Expectations Survey (CES) – April 2026, 1 June 2026.

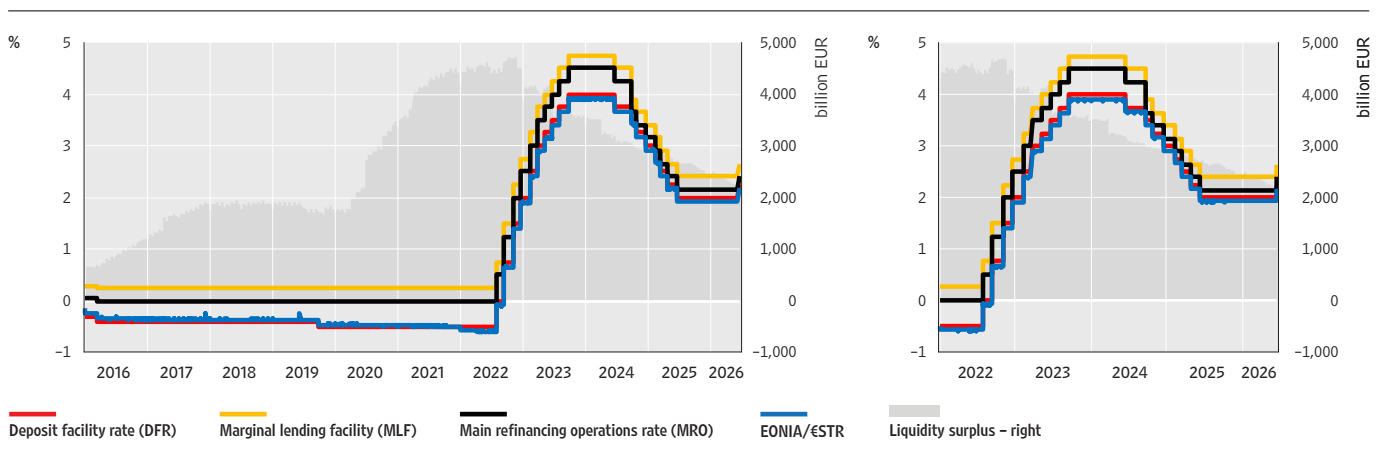
Professional forecasters expect temporary considerable acceleration of the euro area inflation, while consumers expect elevated inflation in the short and the medium term. According to the ECB Survey of Professional Forecasters for the second quarter of 2026, conducted at the end of March and at the beginning of April, professional forecasters expect euro area inflation to accelerate considerably in the short term due to the outbreak of the war in the Middle East and the connected energy shock, to 2.7% in 2026 from 2.1% in 2025. Respondents expect that as soon as in the next year inflation will return to close to the ECB target and amount to 2.1%, and 2.0% in 2028 (Figure 2.2.3). However, it is noteworthy, that prices of energy, primarily oil, were higher than previously expected in April and May, while market expectations of their developments in the projection horizon turned more negative. Further, the results of the ECB April survey on inflationary expectations of consumers (Figure 2.2.4) point to short term expectations in the euro area (for a year in advance, median) standing at an elevated level of 4.0%. Medium-term consumer inflationary expectations (for three years in advance, median) edged down in April to 2.9% after the 3.0% registered in March, but remained above the ECB 2% target level.

2.3 Monetary policy

Against the backdrop of elevated inflation, the ECB's Governing Council increased key interest rates by 25 basis points in June, its first change since June 2025. In the period from June 2024 to June 2025, the Governing Council of the ECB had lowered the deposit facility rate (DFR) of the central bank on eight occasions, by a total of 200 basis points, after having kept key interest rates steady since September 2023, which, considering the current high liquidity surplus, is a good indicator of the ECB's monetary policy. From June 2026, the DFR of the central bank was 2.25%, the main refinancing operations (MRO) rate stood at 2.40% and the marginal lending facility (MLF) rate was 2.65%. The Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term. Decisions on the appropriate level of interest rates will continue to be based on a data-dependent and meeting-by-meeting approach. In doing so, the Governing Council is not pre-committing to a particular rate path.

In the explanation to its decision in June, the Governing Council stressed that inflationary pressures caused by the war in the Middle East provide grounds for the decision on the increase in interest rates across a range of potential scenarios. In the new baseline projections, it is expected that the average overall inflation rate in the euro area will amount to 3.0% in 2026, 2.3% in 2027 and 2.0% in 2028. For inflation excluding energy and food, the baseline indicates an average rate of 2.5% in 2026 and 2027 and 2.2% in 2028. The baseline sees economic growth at an average of 0.8% in 2026, 1.2% in 2027 and 1.5% in 2028. The outlook remains uncertain, with upside risks for inflation and downside risks for economic growth; the overall implications of the war for medium-term inflation will depend on the intensity and duration of the energy price shock and the scale of its indirect and second-round effects. The effects of war in the Middle East in alternative scenarios are discussed in more detail in Box 5 Effects of the escalation of the conflict in the Middle East in alternative scenarios and deviations from the baseline projection.

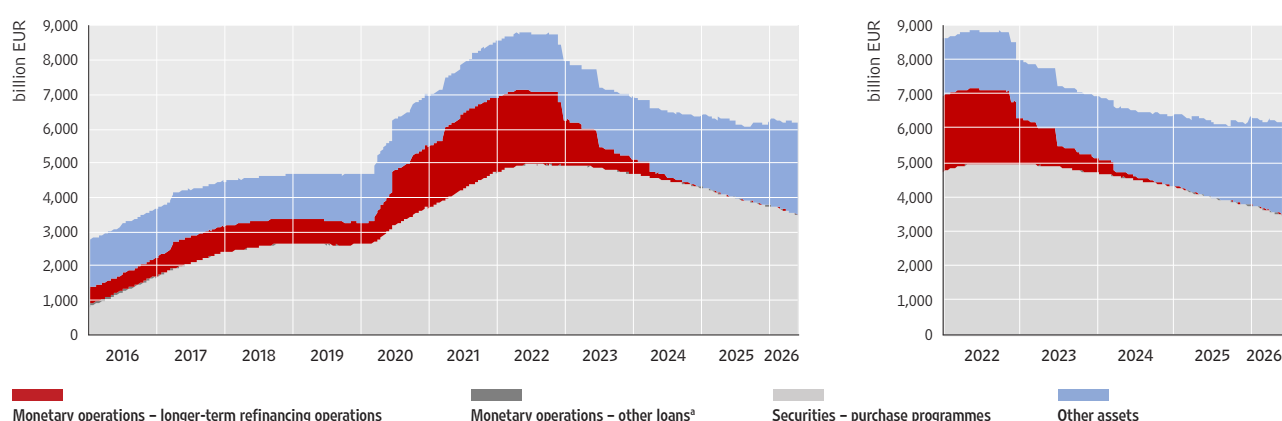
Figure 2.3.1 Key ECB interest rates



Source: ECB.

Eurosysteem assets linked to the conduct of monetary policy continued to gradually decrease. The portfolio of securities purchased within the asset purchase programme (APP) and the portfolio of the pandemic emergency purchase programme (PEPP) of the Eurosysteem 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 non-monetary assets was especially marked in gold, the value of which on the Eurosysteem's balance sheet has increased pronouncedly since the beginning of 2024 due to the rise in gold prices in financial markets.

Figure 2.3.2 Eurosysteem 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 Eurosysteem monetary balance sheet asset items are shown in grey and red and non-monetary in blue.

Source: ECB.

2.4 Financial markets and the banking system

Money market interest rates in the euro area increased following the outbreak of the war in the Middle East, reflecting a shift in expectations towards a more restrictive monetary policy stance by the ECB. The benchmark interest rate for the money market, €STR, moved within a very narrow range of around 1.9% from the beginning of the year to the end of May, as the ECB Governing Council did not change the key interest rates over the period in question. However, the outbreak of the war in the Middle East and the increase in energy prices triggered a rise in short-term inflationary expectations for the euro area and prompted investors to expect the monetary policy of the ECB to tighten. While during the first two months of the year market participants assessed the probability of changes in key interest rates over the year as relatively low, expectations quickly shifted following the outbreak of the war towards multiple interest rate hikes, which resulted in an upward shift in the €STR forward curve across the maturities spectrum (Figure 2.4.1, shift to the green line). Reflecting the anticipated

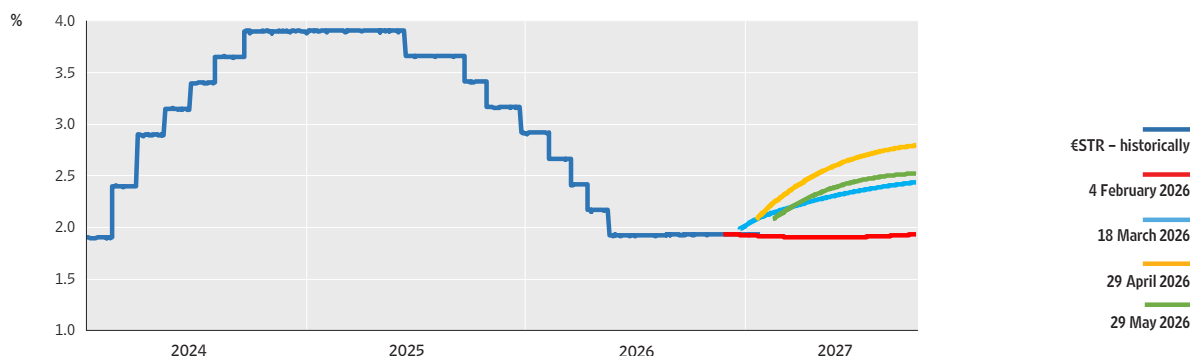
monetary policy tightening, the three-month EURIBOR increased from 2.0% at the end of 2025 to 2.3% at the end of May, the highest level in the past year.

After the outbreak of the war between the USA and Iran had triggered a significant drop and increased volatility in euro area bond and equity prices, the announcement of ceasefire in April spurred a strong rebound in stock prices. The initial reaction of the financial markets to the outbreak of the war in Iran was relatively moderate, but bond and stock prices began to decline gradually in March as expectations of a longer and more intensive conflict emerged. Particularly significant was the sharp rise in energy prices due to increased risks surrounding supply disruptions. The price of Brent oil reached USD 120 per barrel on several occasions, which was last recorded in June 2022, when markets were still strongly incorporating the effects of the start of the war in Ukraine and the related disruptions in energy markets into the price of oil. In such conditions, the GDP-weighted average yield on long-term government bonds of euro area member states exceeded 3.5% on several occasions, a level last observed in October 2023, immediately after the conclusion of the cycle of increases in the key ECB rates. By the end of May, the GDP-weighted average yield on long-term euro area government bonds had declined to around 3.3%, as market participants began to view an agreement on end the war as more likely. This represents an increase of some 10 basis points from the end of the year (Figure 2.4.3). In line with prevailing global developments, the yield on long-term Croatian government bonds increased by around 30 basis points, from 3.2% at the end of the previous year to 3.5% at the end of May. In March, Standard & Poor's raised Croatia's credit rating to A, the highest credit rating in the country's history. Equity indices showed marked resilience over the observed period, rebounding relatively quickly after a sharper decline in March, supported by the announcement of a two-week ceasefire between the United States and Iran in April and ongoing negotiations on ending the war. In this context, the US S&P 500 index rose by around 11% from the beginning of the year, reaching new all-time highs, additionally supported by the favourable data on US companies' earnings in the first quarter of the year, while the European Eurostoxx 50 equity index increased by around 5% over the same period.

After appreciating strongly in 2025, the euro depreciated slightly against the US dollar from the beginning of 2026 to late May, accompanied by a somewhat more pronounced depreciation of the nominal effective exchange rate. January saw increased volatility of the exchange rate of the euro against the US dollar, with the euro strengthening above 1.20 at one point, for the first time since mid-2021. After that, the euro depreciated slightly again towards the level of around 1.18. The outbreak of the war between the USA and Iran triggered a further decline in the value of the euro to levels of around USD/EUR 1.14, partly reflecting the relatively mild impact of such a geopolitical and energy shock on the USA compared with the euro area. The exchange rate of the euro against the US dollar stood at around USD/EUR 1.16 at the end of May, having depreciated slightly less than 1% from the end of December. Over the same period, the nominal effective exchange rate of the euro against a basket of currencies of the euro area's main trading partners depreciated somewhat more strongly by around 1.3% (Figure 2.4.2). In addition to the depreciation against the US dollar, the euro also

depreciated significantly against the Hungarian forint and the yuan renminbi, but strengthened against the Turkish lira and the Romanian leu.

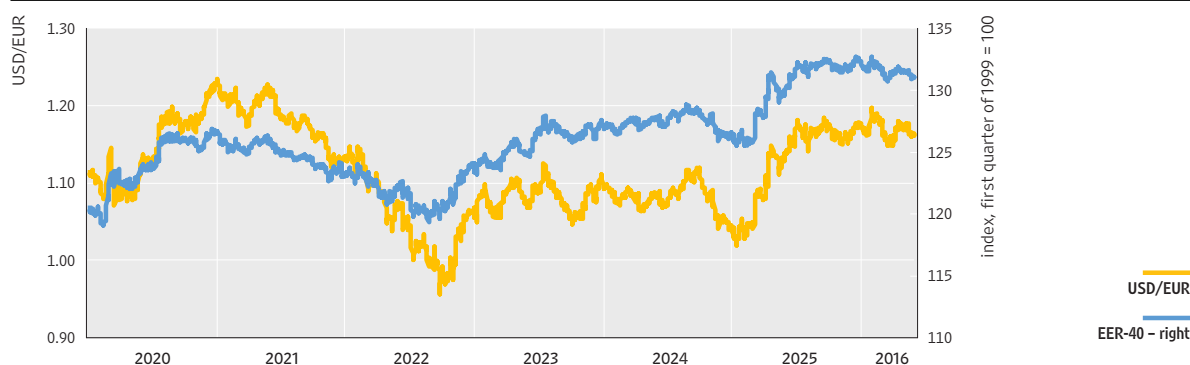
Figure 2.4.1 €STR forward curve



Notes: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves indicate selected forward curves formed on the day before the meeting of the Governing Council of the ECB and on the last observed date (29 May 2026).

Sources: Bloomberg and CNB calculations.

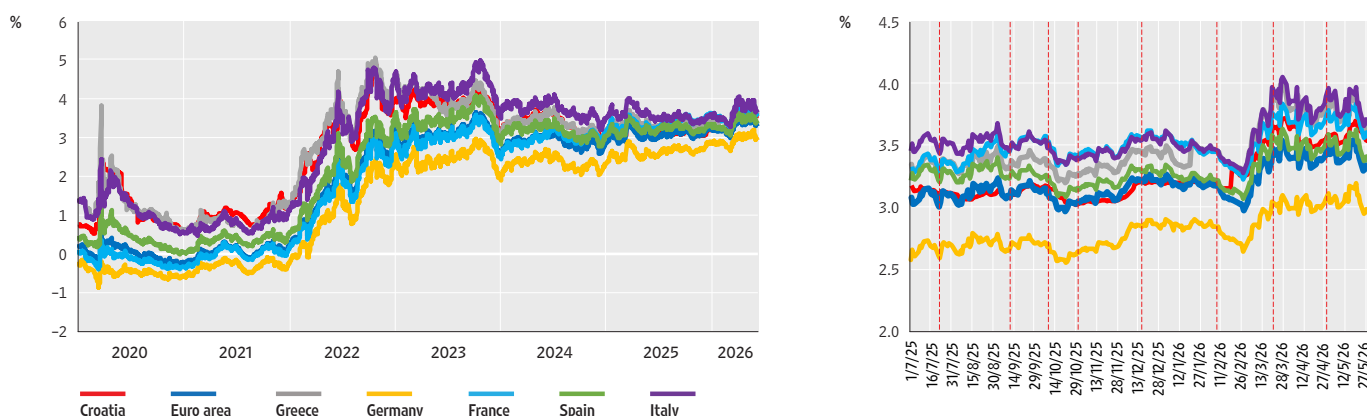
Figure 2.4.2 Exchange rates of selected currencies against the euro and the nominal effective exchange rate of the euro



Notes: EER-40 is the nominal effective exchange rate index of the euro against the 40 major trading partners of the euro area. Exchange rate increase indicates euro appreciation. Last data are for 29 May 2026.

Source: ECB.

Figure 2.4.3 Yields on long-term government bonds with the remaining maturity of approximately 10 years

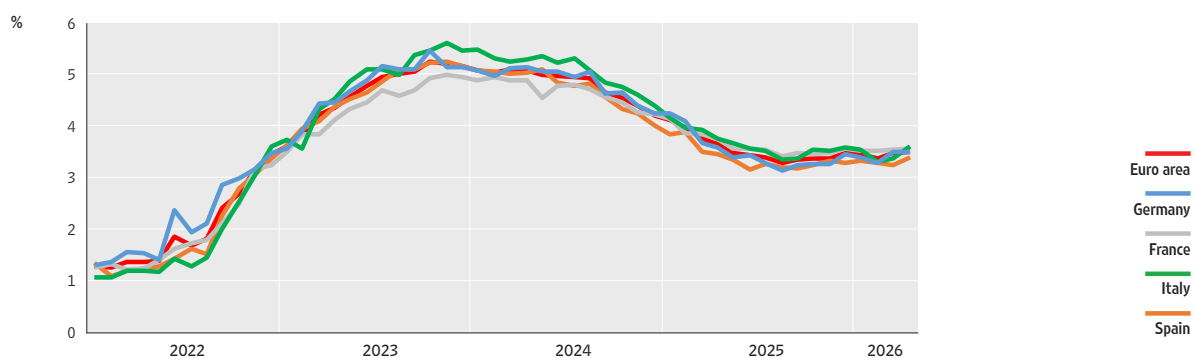


Notes: Yields for the euro area have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Bulgaria, Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the shown period of time. Last data are for 29 May 2026.

Sources: Bloomberg, Eurostat and CNB calculations.

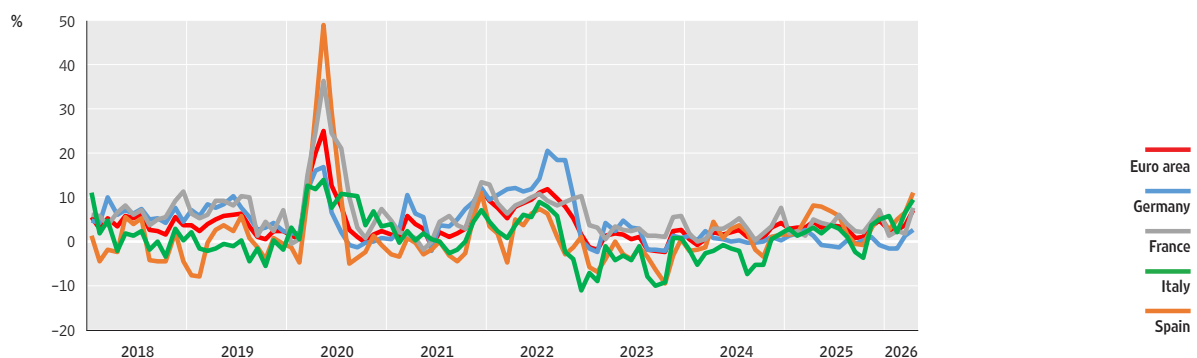
The interest rates of banks on corporate and household loans in the euro area increased slightly and lending continued to grow steadily. At euro area level, the average interest rate on pure new loans granted to non-financial corporations stood at 3.5% in April (Figure 2.4.4), up by 3 basis points from the end of 2025. The average interest rate on pure new housing loans stood at 3.5% in April (Figure 2.4.6), up by 13 basis points from the end of the preceding year. The quarterly annualised rate of growth in loans to non-financial corporations in the euro area (Figure 2.4.5) increased noticeably in April, driven by increased corporate demand for working capital funding amid elevated energy prices. At the same time, the gradual recovery in housing lending continued (Figure 2.4.7), albeit at a somewhat slower pace than in the second half of 2025.

Figure 2.4.4 Interest rates on pure new corporate loans

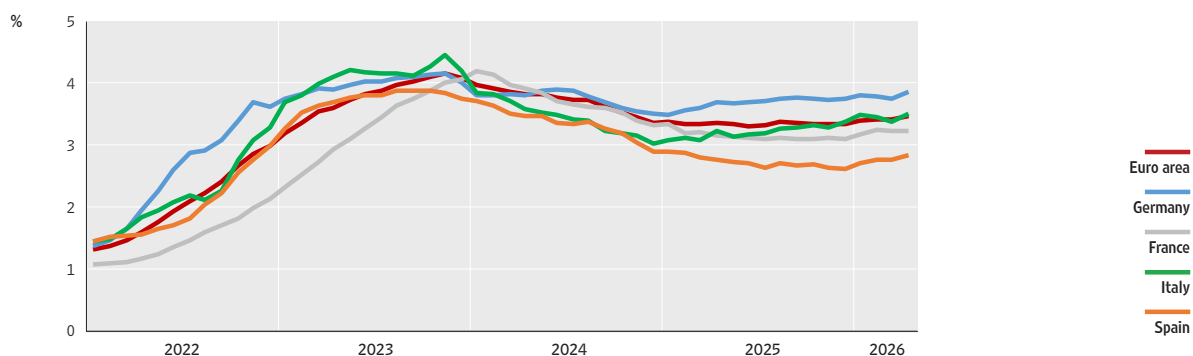


Source: ECB.

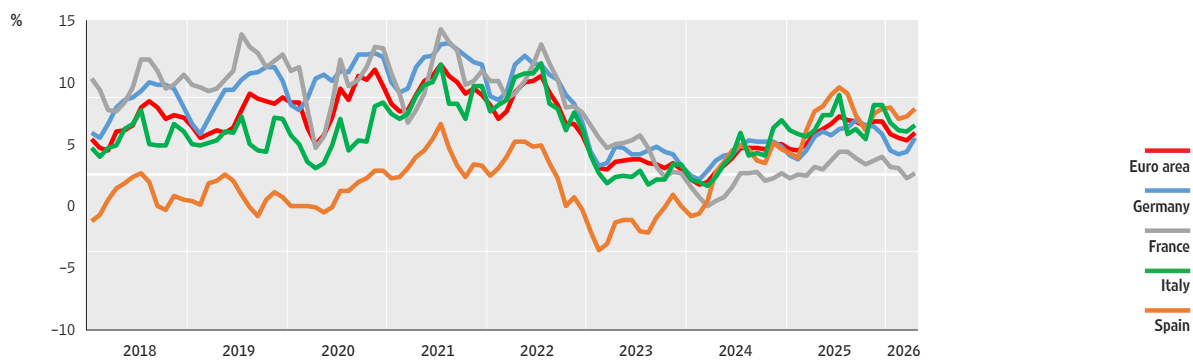
Figure 2.4.5 Lending momentum in the euro area (corporations)



Sources: ECB and CNB calculations.

Figure 2.4.6 Interest rates on pure new housing loans to households

Source: ECB.

Figure 2.4.7 Lending momentum in the euro area (housing loans to households)

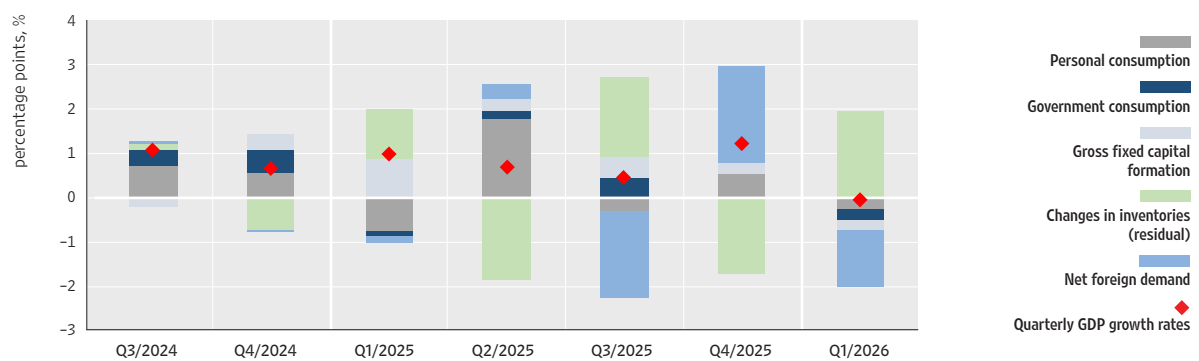
Sources: ECB and CNB calculations.

3 Croatian economy

3.1 Real developments

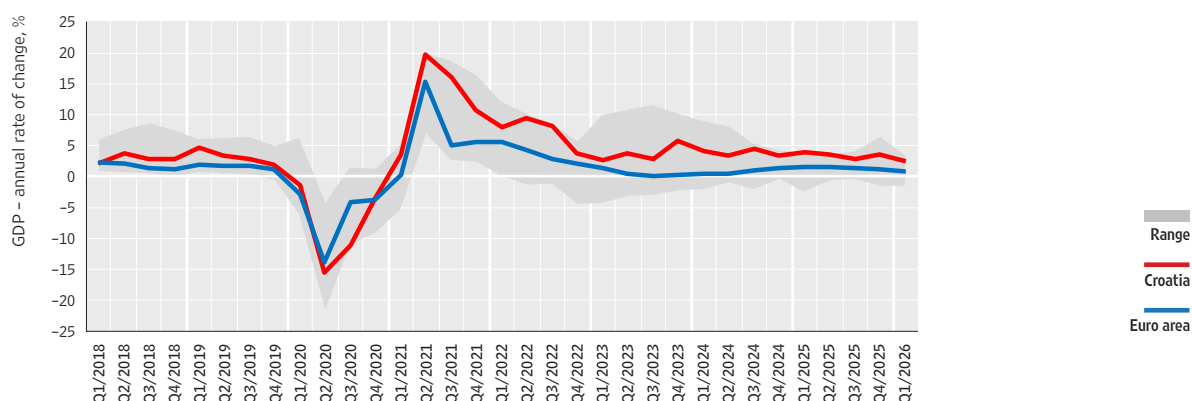
After the strong growth seen towards the end of 2025, economic activity stagnated in Croatia in early 2026. Unfavourable trends were observed across all major components of aggregate demand, with investment, government consumption, and exports of goods and services recording pronounced declines from the previous quarter. At the same time, imports continued to grow, albeit at a slower pace than in the preceding quarter, resulting in the negative contribution of net foreign demand at the beginning of 2026 (Figure 3.1.1). On the production side, such developments reflect a strong decline in manufacturing and construction from the preceding quarter, while trade and tourism-related activities stagnated, while in the services sector, activity mostly increased from the previous quarter. Growth slowed down considerably from the same period in 2025, to 2.2% from the 3.9% recorded at the end of 2025. Still, all main GDP components remained higher than in the first quarter of 2025, except for exports of goods and services, which decreased in annual terms. Despite the significant increase in global uncertainty following the outbreak of the war in Iran, high-frequency indicators indicate that growth strengthened in the second quarter, although these estimates are currently based on a very limited set of data for the beginning of the second quarter.

Figure 3.1.1 Contributions to the quarter-on-quarter change in real economic activity



Source: Eurostat.

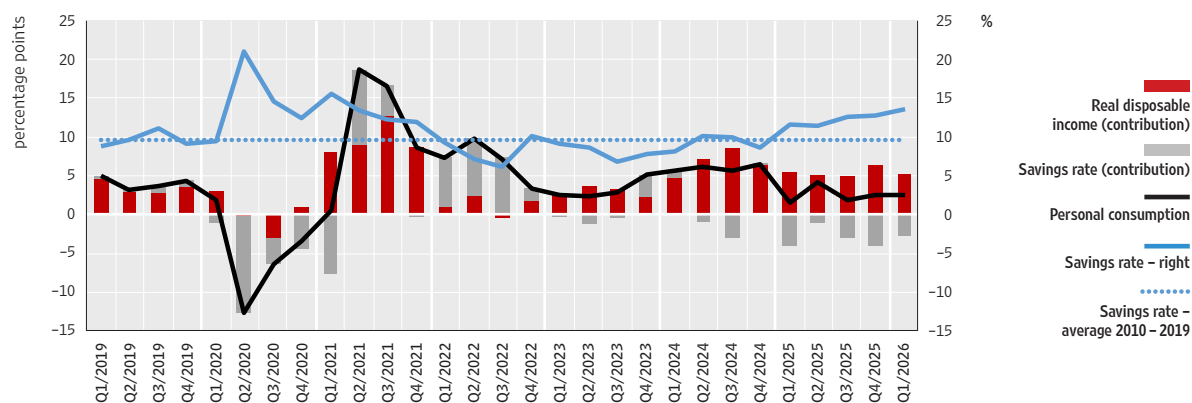
Figure 3.1.2 Trends in economic activity in Croatia and the euro area



Note: The figure shows the range of values of real GDP growth of individual euro area member states, excluding Ireland.
Source: Eurostat.

In the first quarter of 2026, personal consumption decreased slightly from the end of the preceding year even though the relatively strong increase in real income continued. In quarterly terms, consumption dropped by 0.4%, while the annual growth rate, due to base effects related to the boycott of retail chains in early 2025, remained unchanged at 2.6%. While detailed retail trade turnover data point to a decline in personal consumption in the first two months of the year, in March, real retail turnover strengthened noticeably. A part of this increase, however, may be attributed to spending by foreign tourists, partly driven by a calendar effect, as Easter school holidays in Austria and Germany began already at the end of March this year. Such developments suggest that the initial impact of the war in the Middle East did not have a significant impact on consumer behaviour, as also indicated by the relatively moderate decline in consumer confidence in March. Since at the same time real income continued to grow relatively strongly, albeit at a slower pace than in the previous quarter, the savings rate increased further and still stands well above the pre-pandemic average.

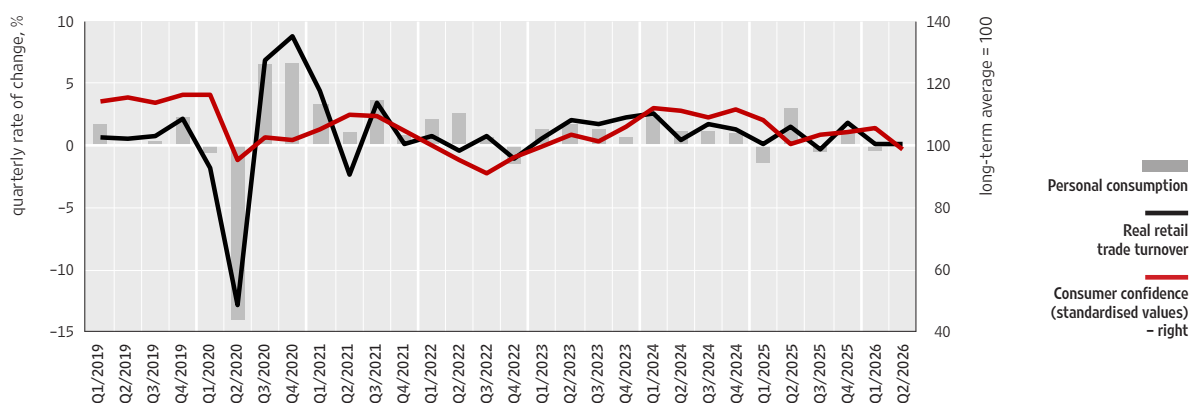
Figure 3.1.3 Contribution of disposable income and savings rate to the annual change in personal consumption



Notes: Quarterly disposable income values have been estimated using the Chow-Lin method and a series of employee compensation and gross operating surplus and mixed income as indicators. It should be noted that the calculation of disposable income in the national accounts also includes imputed sources of income, such as financial services indirectly measured and imputed housing rent, which do not have a direct impact on household purchasing power.

Sources: Eurostat and CNB calculations.

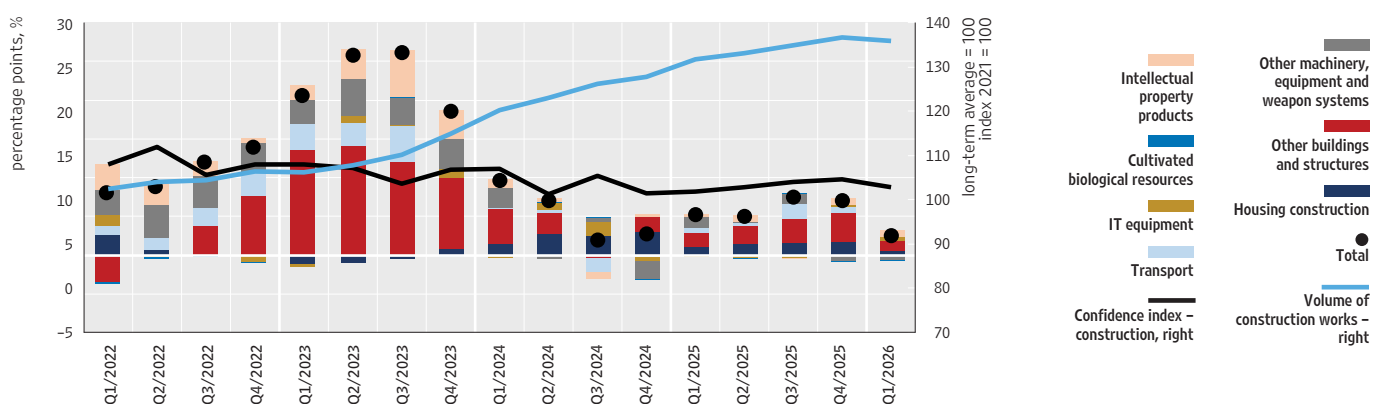
Figure 3.1.4 Personal consumption, retail trade and consumer confidence



Sources: CBS and Ipsos.

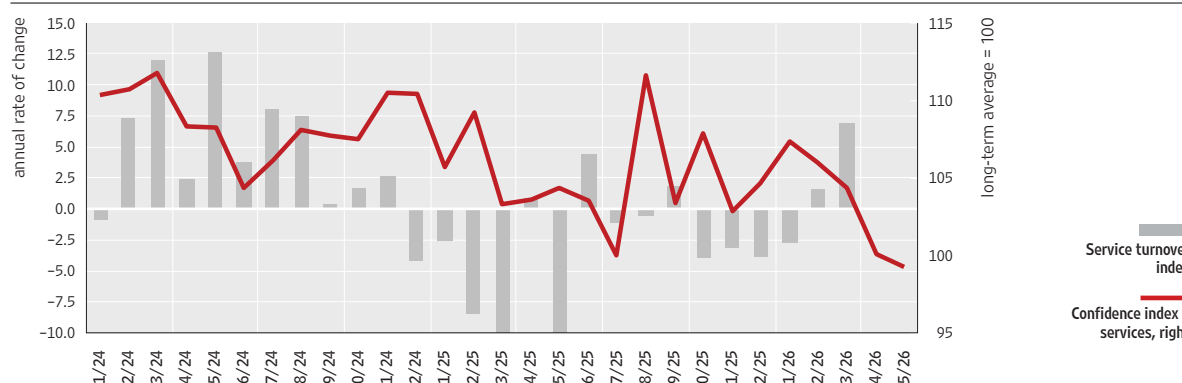
Investment activity also contracted at the beginning of 2026, ending a period of five consecutive quarters of robust growth. Gross fixed capital formation went down by 0.8% at the beginning of 2026 relative to the fourth quarter of 2025. By asset type, construction activity declined markedly on a quarterly basis in both residential construction and infrastructure, which was only partly offset by a strong increase in investment in machinery and equipment, resulting in a sharp slowdown in the annual investment growth rate of 2.5% (Figure 3.1.5). However, the weaker construction performance early in the year could also have been caused by unfavourable weather conditions, as suggested by the results of the Business Confidence Survey, which show that the share of respondents describing weather conditions as limiting factors increased considerably. Furthermore, confidence in the construction sector remained exceptionally strong in April and May, standing well above its long-term average, which suggests that the heightened uncertainty associated with the war in Iran may, for now, have only a limited impact on this segment of investment activity.

Figure 3.1.5 Investment activity indicators and confidence in the construction sector



Sources: CBS, Ipsos and CNB.

Figure 3.1.6 Developments in turnover volume of service activities and confidence in the services sector



Note: Services include sectors H, I, J, L, M and N.

Sources: CBS, Ipsos and CNB.

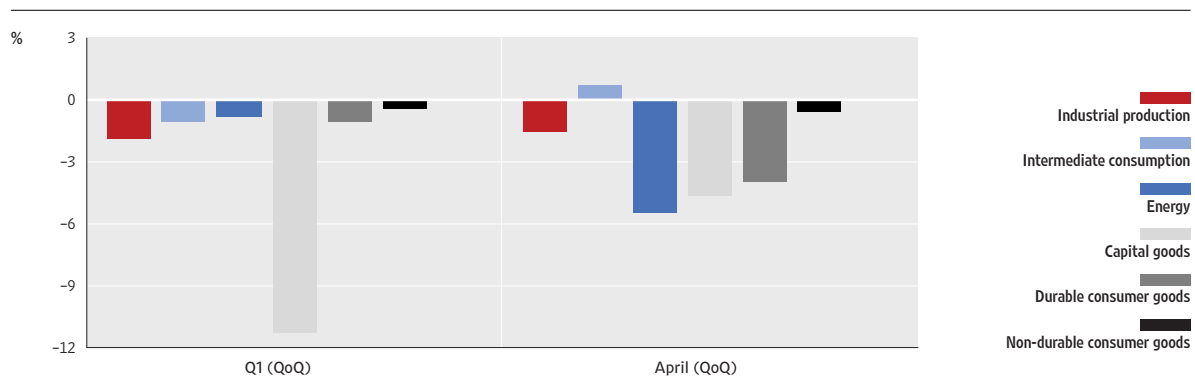
Total exports of goods and services decreased noticeably in the first quarter, following strong growth in the previous three months. Both goods exports and services exports decreased from the previous quarter, at a broadly similar pace. The weaker performance of goods exports at the beginning of the year may partly reflect a moderation following the unusually strong growth recorded at the end of the previous year, but it is also likely related to subdued demand in Croatia's main trading partners. Detailed nominal goods trade data for January and February indicate that the decline in goods exports was broadly based across product categories, with exports of energy products recording a particularly sharp decrease in the first two months of the year. Following the weak performance in the exports of services over the past two years, primarily as a result of reduced price competitiveness in tourism, real services exports also dropped at the beginning of 2026, despite relatively favourable volume indicators in tourism. On the other hand, real imports of goods continued to increase, albeit at a slower pace than in the previous quarter, with net foreign demand making a negative contribution to real growth.

Viewed by main activities, weaker economic performance in the first quarter largely reflected a decline in manufacturing and construction value added, while growth was recorded in most service activities. Total gross value added increased by 0.3% on a quarterly basis in early 2026 and by 2.1% compared with the same quarter of the previous year. Industrial value added decreased markedly, by 2.6% in quarterly terms, bringing an end to favourable indicator developments recorded throughout most of last year. Detailed industrial production data suggest that the decline was broadly based, with the sharpest decrease recorded in the production of capital goods. The continued monthly decline in industrial production in April, coupled with a sharp fall in confidence in industry in May, points to a continuation of unfavourable developments in the second quarter. Following an extended period of exceptionally strong performance, developments in construction weakened in the first quarter, with value added having gone down by 1.6% in quarterly terms. At the same time, confidence in construction remained at very high levels in April and May, although it decreased somewhat relative to its average level in the first quarter. As regards services, developments were favourable across most activities, with the strongest growth recorded in real estate activities

and ICT. By contrast, value added in trade, transport and tourism-related activities remained broadly unchanged from the previous quarter.

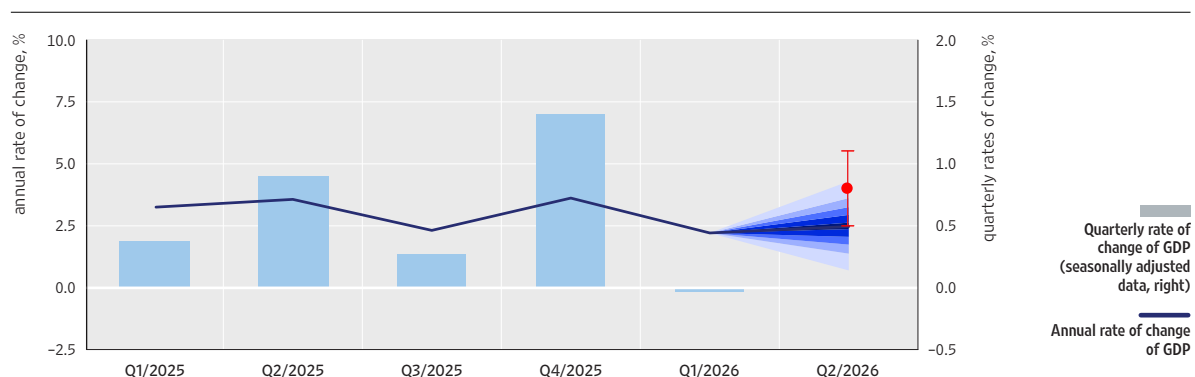
The nowcasting of GDP for the second quarter of 2026 using the standard model based on monthly indicators (MRGA) points to accelerated growth in economic activity. According to the CNB's nowcasting model of economic activity, real GDP growth in the second quarter could hover around 0.7% on a quarterly level and around 2.4% on an annual level (Figure 3.1.8). It should be noted, however, that the high-frequency data currently available for the second quarter are still limited. Economic growth may have strengthened, as suggested by the slight acceleration in the growth of real retail trade turnover relative to the average of the preceding quarter and by the strong growth in construction in March, which could generate a positive carry-over effect in the second quarter. On the other hand, industrial production continued to weaken in April, marking its fourth consecutive month of decline.

Figure 3.1.7 Industrial production



Note: (QoQ) signifies growth relative to the average of the preceding quarter.
Source: CBS.

Figure 3.1.8 Quarterly GDP, seasonally adjusted real values



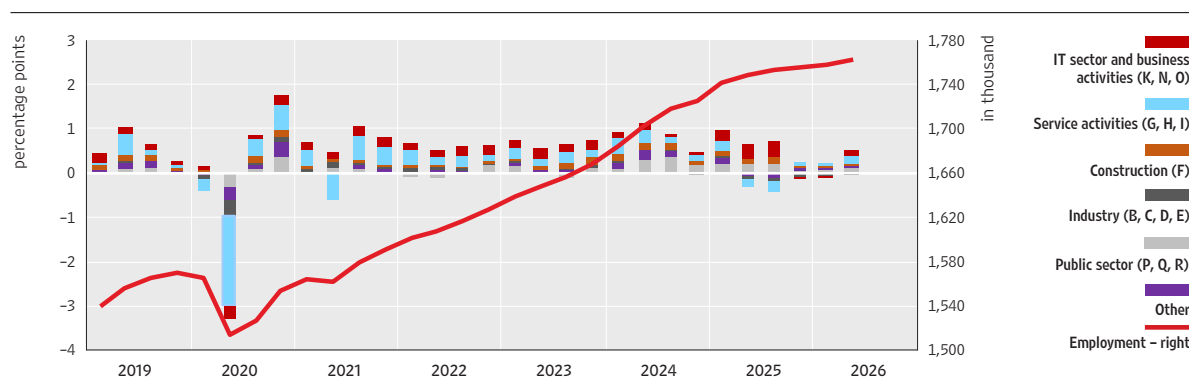
Notes: The estimate for the second quarter of 2026 refers to the monthly indicator of real economic activity of the CNB (for more details on the calculation of the MRGA indicator, see CNB survey Kunovac, D., and B. Špalat: Nowcasting GDP Using Available Monthly Indicators). The models are estimated on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

Sources: Eurostat, CBS and HNB.

3.2 Labour market

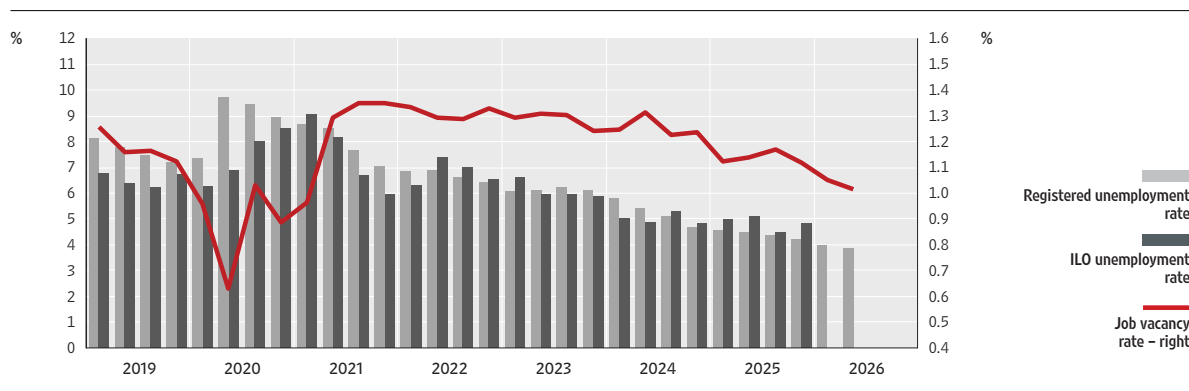
Employment continued stagnating at the beginning of 2026, with mild strengthening observed in March and April. According to administrative data, after the stagnation in January and February, in March and April employment grew slightly with the number of the employed going up by 0.4% in April from the end of the previous year. The number of employed persons went up in both the public and the private sector. In the first four months of 2026, employment grew the most in service activities, construction, IT activities and business activities, and employment growth continued in education, human health and social work (activities O, P and Q under the NCA 2025, [Figure 3.2.1](#)). On the other hand, amid strong growth in labour costs and their relatively high share in GVA, manufacturing industry has continued to register a decline in the number of employed ever since the beginning of 2025 and a simultaneous weakening of foreign demand. The annual growth in employment slowed down to 0.9% in the first four months of this year, after the 1.7% registered in the fourth quarter of 2025.

Figure 3.2.1 Employment by NCA, seasonally adjusted data, contributions to the quarterly rate of change



Note: Data for the second quarter of 2026 refer to April and show contributions to the rate of change relative to January of the same year (first month of the first quarter). Source: CPII (seasonally adjusted by the CNB).

Figure 3.2.2 Unemployment and job vacancy rates, seasonally adjusted data



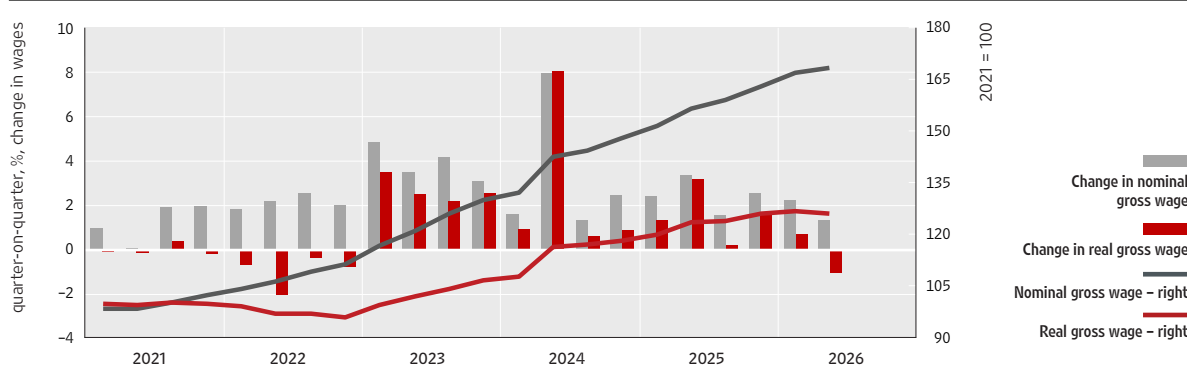
Notes: Data for the second quarter of 2026 refer to April. The job vacancy rate is calculated as the share of total posts that are vacant in the total demand for labour (the sum of the number of persons insured with the CPII and vacant posts). Sources: CBS, CES, Eurostat and CNB calculations (seasonally adjusted by the CNB).

The contraction in the number of the employed continued at the beginning of the year paired with further reduction in the number of new job vacancies. In the first four months

the decline in unemployment intensified, which resulted in a decrease in the registered unemployment rate in the first quarter of 2026, to 4.0% after 4.2% in the previous quarter and additionally to 3.8% in April. However, at the same time, the fall in job vacancy rates continued in the first four months of 2026 (Figure 3.2.4), which might indicate a gradual easing of the domestic demand for labour following the strong growth over the past years. The latest survey data available are those for the fourth quarter and they indicate an increase in the unemployment rate to 4.8%, up from 4.5% in the third quarter.

The growth of the average nominal gross wage decelerated mildly at the beginning of the year but remained relatively strong. The average nominal gross wage at the beginning of 2026 continued to grow at a slower intensity than at the end of 2025; in the first quarter of 2026 it exceeded the amount from the previous quarter by 2.2% (2.6% in the fourth quarter of 2025, Figure 3.2.5). Public sector wages grew only mildly (0.8%), while wages in the rest of the economy grew 2.5% (after growing 2.7% in the previous month). On a monthly basis, after a more pronounced growth in January (1.0%), and a slowdown in February and March (0.3%), wage growth accelerated to 0.7% at the beginning of the second quarter. In annual terms, the growth of the average nominal gross wage slowed down to 8.4% in April, after having reached 10.0% in the first quarter of 2026, primarily due to the base effect associated with last-year's strong growth of wages due to one-off payments in the broadcasting sector. As regards real wages, due to more pronounced inflationary pressures their growth slowed down to 0.7% in the first quarter from the previous quarter (fourth quarter of 2025), when they totalled 1.6%. In annual terms, the growth in real wages slowed down to 5.7% in the first quarter (from 6.6% in the fourth quarter of 2025) and additionally to 2.4% in April.

Figure 3.2.3 Average nominal and real wage
seasonally adjusted data



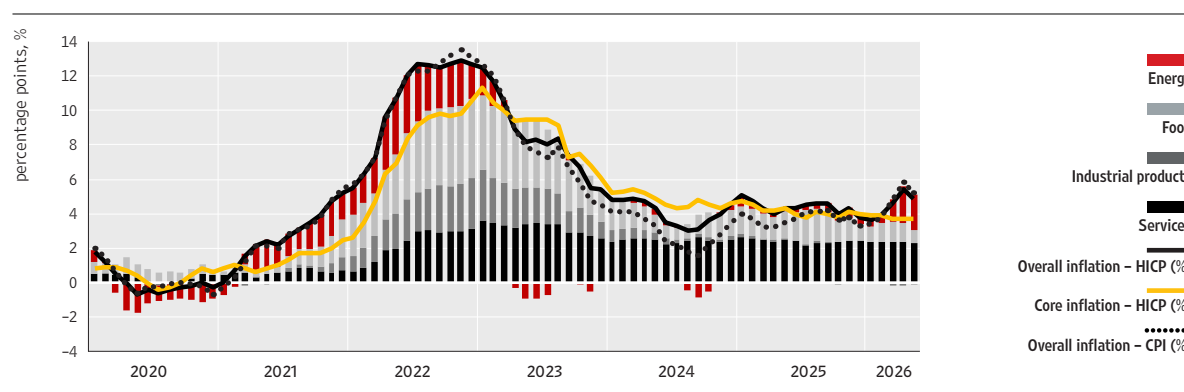
Note: Data for the second quarter of 2026 refer to April and show contributions to the rate of change relative to January of the same year (first month of the first quarter).
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

3.3 Price developments

Price developments in Croatia in the first half of 2026 were marked by a pronounced acceleration of total inflation owing to the outbreak of the war in the Middle East and the sudden surge in the price of energy, while core inflation decreased. Overall inflation

measured by the harmonised index of consumer prices (HICP)¹² moved within a relatively narrow range before the beginning of the war in the Middle East with certain oscillations due to developments in the prices of energy and food. Thus, in January 2026, after the average 4.0% in the previous quarter, overall inflation slowed down to 3.6%, the lowest level since October 2024, only to accelerate mildly in February to 3.9% due to the growth in the prices of food and energy. The growth in the prices of energy on global markets following the outbreak of war in the Middle East accelerated inflation in the following two months so it reached 5.4% in April (Figure 3.3.1). In May, inflation slowed down again to 4.9% due to the slowdown in the prices of food and a slight decrease in the prices of energy and services. Thus far higher prices of energy have not resulted in any very significant indirect impacts on inflation; food inflation and core inflation (which excludes energy and food prices) were lower in May this year than in the period before the outbreak of the war. The slowdown in core inflation reflects an annual fall in the prices of industrial prices amid low import pressures and a slowdown in the prices of market-determined services which was aided by the weakening of domestic demand and the slowdown in the growth of labour costs.

Figure 3.3.1 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.

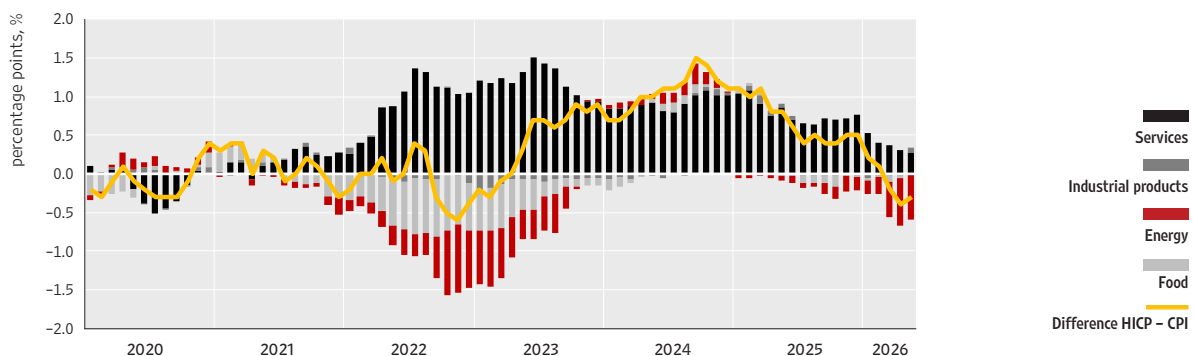
- 1 The Harmonised Index of Consumer Prices (HICP) is calculated according to a harmonised approach that provides a comparable measure of inflation for EU member states, whereas the Consumer Price Index (CPI) is a national consumer price index. The CPI and HICP are calculated on the basis of the same representative basket of goods and services. The main difference is in the population coverage (HICP includes the total consumption of institutional households and non-residents in the Croatian territory, which is not included in the national consumer price index).
- 2 Since January 2026 changes have been introduced to the HICP calculation. One of the most noteworthy changes is the application of the new European Classification of Individual Consumption according to Purpose, version 2 (ECOICOP, ver. 2). In addition, the HICP calculation now includes a new category, Games of chance. The implementation of the new classification did not affect the historical time series of the total HICP (2015 = 100), which has remained unchanged to the second decimal place. Furthermore, the base year for harmonised indices of consumer prices has been changed from 2015 = 100 to 2025 = 100. While the rebasing of the index did not affect the rates of change already released, in some cases a slight change may have occurred due to rounding. Since the national CPI is calculated according to a methodology that is aligned with the Eurostat methodology for harmonised indices of consumer prices, all changes are simultaneously applied in the national CPI.

Table 3.3.1 Structure of the harmonised and the national consumer indices, 2026

in %	HICP	CPI
Energy	12.2	15.7
Food	29.0	31.9
Processed food	21.4	22.7
Unprocessed food	7.6	9.2
Core inflation	58.8	52.5
Industrial products	26.0	26.9
Services	32.8	25.5
Catering services	8.5	4.6
Accommodation services	4.1	0.9
Other services	20.2	20.0

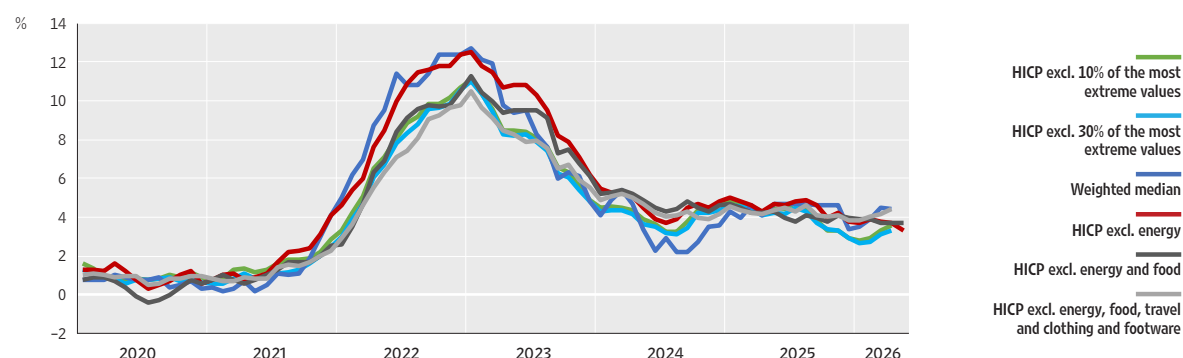
Notes: Food includes beverages and tobacco, while industrial goods exclude energy. Core inflation excludes prices of energy, food, alcohol and tobacco
Sources: Eurostat and CBS.

The acceleration of the inflation is more pronounced if the national indicator CPI is observed. In the structure of residents' consumer basket, this indicator largely reflects a higher share of energy and administered prices, which rose sharply, and a smaller share of tourism-related services, where prices have been slowing down. The CPI inflation accelerated more in the first five months than HICP inflation, from 3.3% in December 2025 to 5.2% in May 2026, with the CPI being higher than the HICP for the first time since the beginning of 2023 (Figure 3.3.2). Higher inflation as measured by the national than measured by the harmonised index reflects differences in the structure of the goods and services basket used for their calculation (Table 3.3.1). The recent acceleration in energy price growth had a stronger impact on CPI due to the higher share of energy than in the HICP. Owing to a different structure of consumption, the growth of individual administered prices of services had at the same time a stronger impact on CPI than on HICP, while the gradual slowdown in the growth of prices related to tourism had a stronger impact on HICP than on CPI. Accordingly, services price inflation, if CPI is observed, increased noticeably, from 6.3% in December 2025 to 7.9% in May 2026, with the contribution of the prices of services in the overall inflation measured by CPI being smaller in April and May than the contribution of energy prices.

Figure 3.3.2 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 the prices of a specific component to overall HICP inflation than to CPI inflation.
Sources: Eurostat, CBS and CNB calculations.

Figure 3.3.3 Core inflation indicators in Croatia



Notes: Trimmed mean eliminates 5% (15%) of components (out of a total of 107 components) 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.

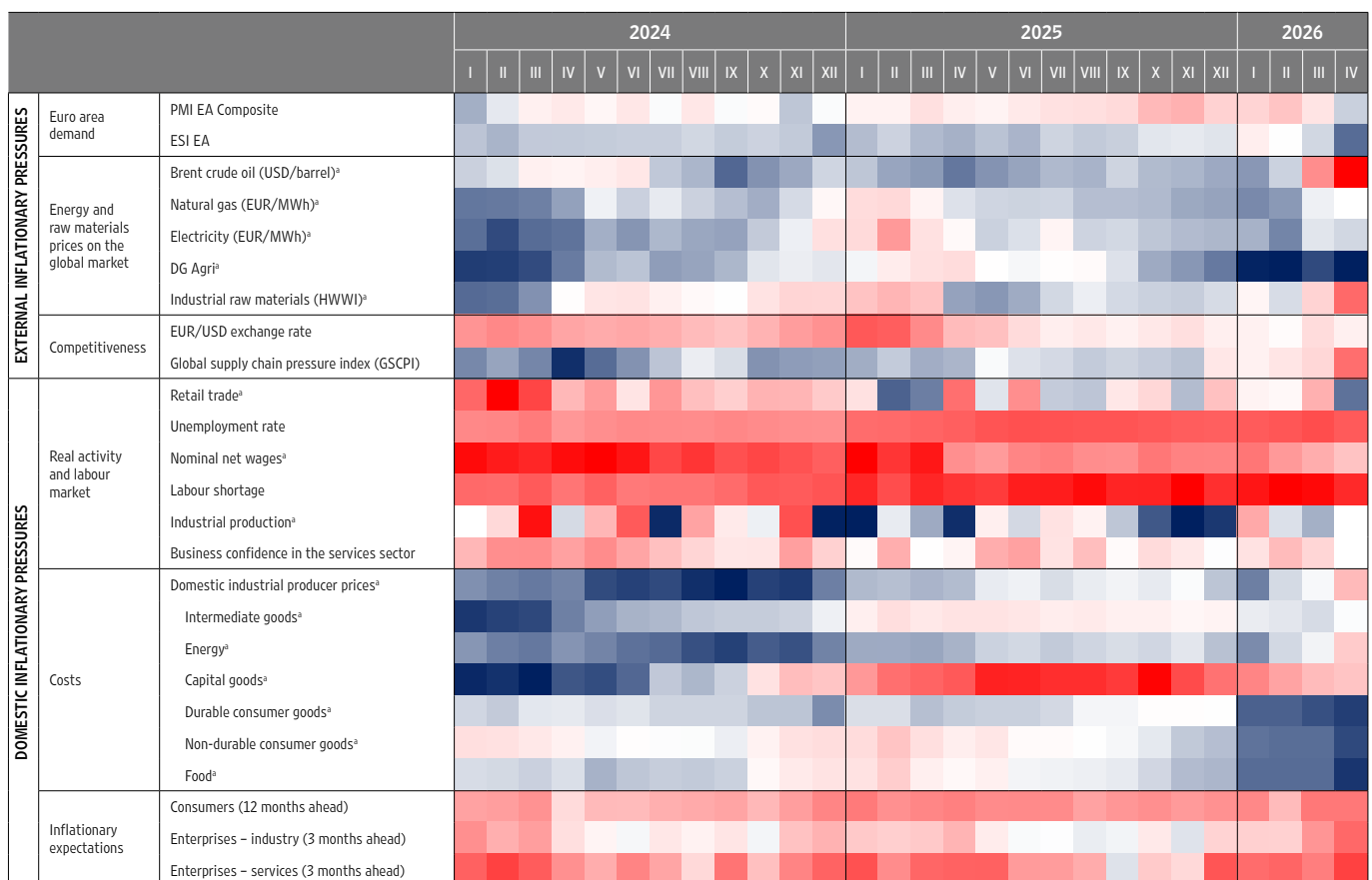
The acceleration of the overall inflation (HICP) in the first half of 2026 is a result of a noticeable acceleration in energy price inflation. Energy price inflation in Croatia exceeded the euro area average even before the outbreak of the war in the Middle East as a result of the growth of administered prices of gas, electricity and heat energy, that is, the subsequent revocation of energy subsidies compared with other countries. The strong acceleration of energy price inflation from 3.9% in February 2026 to 17.5% in April was a result of the pronounced increase in retail refined petroleum prices, even though the growth of these prices was mitigated by Government measures. Although energy price inflation slowed down to 16.9% in May it continued to strongly contribute to the growth of consumer prices, with its contribution to the overall inflation in April and May increasing to 2.1 percentage point, the highest contribution since the end of 2022 and only slightly lower than the contribution of service prices.

After having accelerated from 3.4% in December 2025 to 4.0% in March 2026, food price inflation had decelerated noticeably by May, to 2.5%, its lowest level since mid-2024. The slowdown in food price inflation was aided by both processed and unprocessed foods. The easing of current pressures on food prices may be associated to the earlier decline in the prices of certain food commodity prices in the global and the European market, the annual decline in producer prices in the food industry and the slowdown in wage growth, which mitigates cost pressures, while simultaneously tempering demand-side pressures. These developments indicate that thus far there are no signs of higher energy prices and other input costs in production, such as that of fertilisers, spilling over to food prices.

After hovering around the average of 4.0% in the second half of 2025, core inflation mildly decreased in the first five months of 2026, holding steady at 3.7% since March this year. The slowdown in core inflation was aided by both of the main components. Thus, amid low import pressures the annual rate of change in industrial prices slowed down from 0.0% in December 2025 to -0.7% in March and April 2026, rising slightly to -0.5% in May. Detailed data available as at April indicate that the greatest contribution to the slowdown in the inflation of industrial prices in 2026 up to that point came from clothing, medicines and, to a smaller extent, new motor vehicles. Services price inflation moved around an average 7.2% with

minor oscillations from August 2025, while in May 2026 it slowed down to 7.0%, with services continuing to be the component with the highest individual contribution to overall inflation. The structure of services price inflation, with the gradual slowdown in market-determined services prices and acceleration of the inflation of administered prices is analysed in more detail in Box 2 Role of market-determined and administered prices in the recent developments of services inflation in Croatia. Elevated services price inflation reflects continued solid domestic demand amid relatively strong growth of labour costs, although pressures from the labour market are gradually easing (Figure 3.3.4). Developments in alternative indicators of underlying inflation, which exclude certain volatile components were not balanced. Although these indicators predominantly went up from the very end of 2025, they are still somewhat lower than the average of the second half of last year (Figure 3.3.3).

Figure 3.3.4 Indicators of external and domestic price pressures



^a Annual rate of change.

Notes: Labour shortage is the ratio between the vacancy rate and the registered unemployment rate. The PMI EA Composite and ESI EA series have been corrected after standardisation so as to show the neutral value in white. The red (blue) colour indicates a positive (negative) deviation in the value in a given month relative to the 2010-2025 average (expressed by the number of standard deviations), where the intensity of the shade of the colour indicates the size of an upward (downward) deviation from the average.

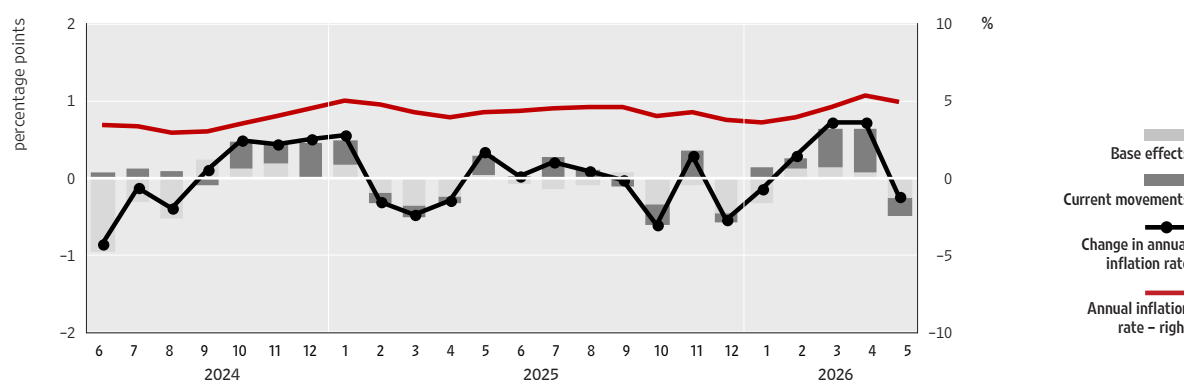
Sources: ECB, Eurostat, Bloomberg, NY Fed, HWWI, CBS and Ipsos.

The acceleration of the overall inflation in the first five months of 2026 predominantly reflects pronounced current pressures³ which are limited to the segment of energy prices

3 The change in the annual rate of inflation month-on-month depends on the change in retail prices from the month before (“current inflation”) and the monthly rate of change in prices in the same month of the year before (“base effects”). For more details, see HNBlog, Kunovac, D. and M. Luketina: *On the way down – the role of base effects in the slowdown of consumer inflation*.

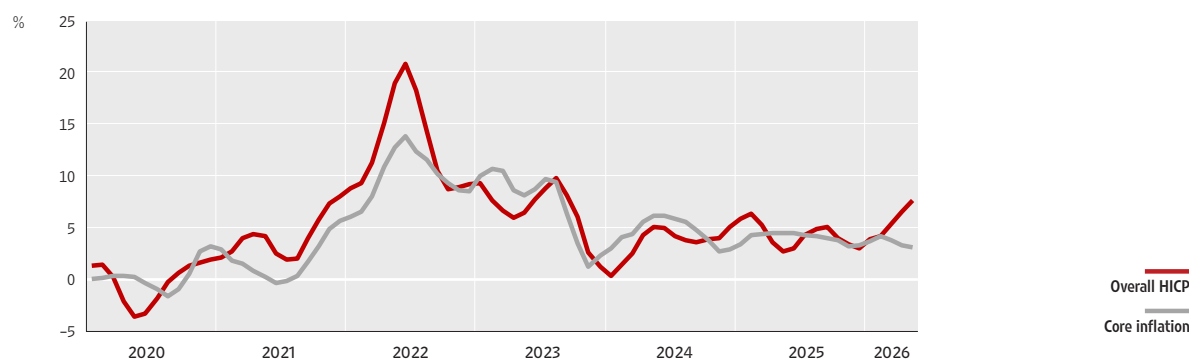
after the outbreak of the war in the Middle East. The current pressures on consumer prices were less pronounced in 2025 than in the preceding year, maintaining the moderate level at the beginning of 2026 as well. The external energy cost shock following the outbreak of the war created strong current pressures in March and April, which eased in May (Figure 3.3.5). The strengthening of current pressures was also noticeable in the growth of the short-term indicator of overall inflation (Figure 3.3.6), the momentum (that is the quarterly rate of change calculated from the seasonally adjusted data and expressed in annual terms).

Figure 3.3.5 Contributions of base effects and current developments to a change in annual inflation



Note: The base effects and current developments were adjusted for the usual developments that are relatively stable and do not affect annual inflation considerably.
Sources: Eurostat and CNB calculations.

Figure 3.3.6 Momentums of overall and core inflation

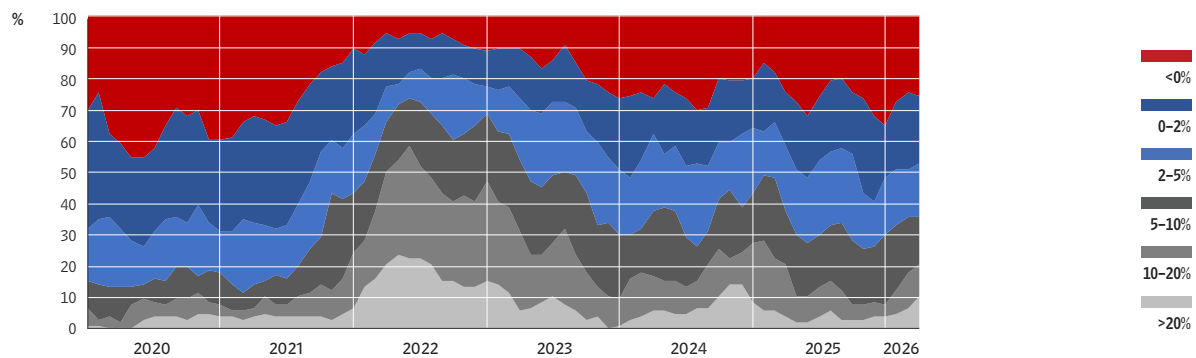


Note: The quarterly rate of change on an annual level has been calculated according to the quarterly moving average of seasonally adjusted harmonised indices of consumer prices.

Sources: Eurostat and CNB calculations.

Inflation diffusion continues to be lower than in the preceding year but short-term inflationary expectations of consumers and corporates increased. The share of sub-components in the consumer price index, whose quarterly rate of change is expressed on an annual basis, was above 2% in April, and totalled 52.3%, which was less than last year (Figure 3.3.7). However, short-term corporate inflationary expectations increased in the first five months of 2026 both in the service sector and in industry, where they reached the highest level since the beginning of 2023. In addition, there was a noticeable growth in short-term consumer inflationary expectations (Figure 3.3.8).

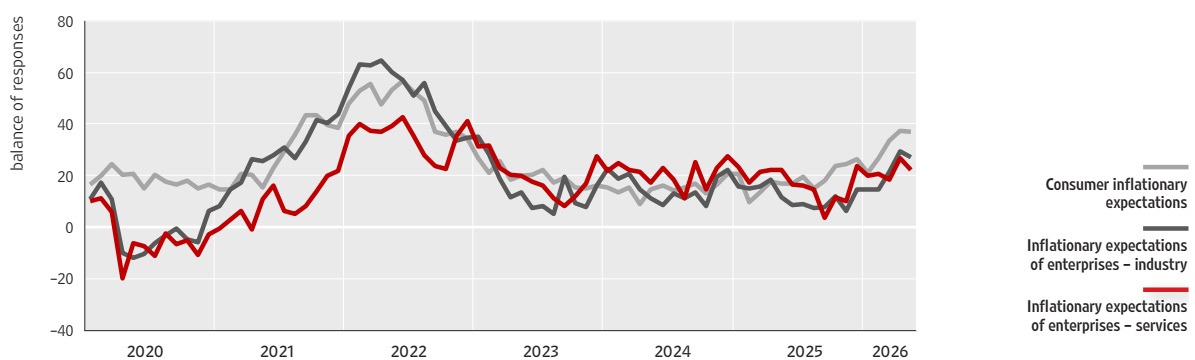
Figure 3.3.7 Diffusion of consumer price inflation



Note: The figure shows the share of the number of products whose prices changed within a defined range in the total number of products according to the annualised quarterly rate of change of seasonally adjusted price indices of 107 components of the harmonised consumer price index.

Sources: Eurostat and CNB calculations.

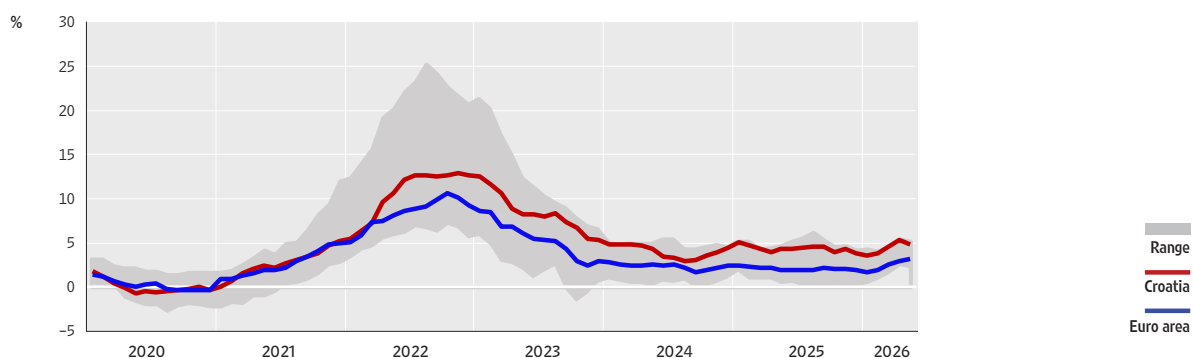
Figure 3.3.8 Short-term inflationary expectations of consumers and corporates



Note: Consumer expectations refer to a twelve-month period ahead and corporate expectations refer to a three-month period ahead.

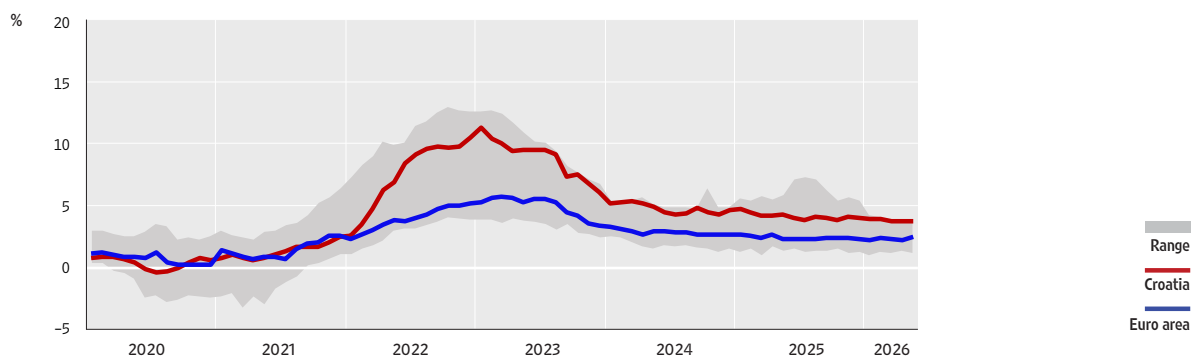
Source: Ipsos.

Inflation in Croatia accelerated in the first four months of 2026 more than the euro area average. However, in May the inflation differential again declined to the level from the end of last year. In April 2025 the overall inflation in Croatia outstripped the euro area average by 2.4 percentage points (Figure 3.3.9), as against the difference of 1.8 percentage points in December 2025. The increase in the inflation differential in that period predominantly reflected stronger acceleration of energy price inflation, as well as greater weight of energy in the consumer basket in Croatia compared with the euro area average. However, the inflation differential decreased considerably in May, to 1.7 percentage points since inflation at the euro area level accelerated and in Croatia it slowed down. The reduction in the inflation differential in May was affected by the more pronounced deceleration in food price inflation in Croatia, accompanied by the deceleration of services price inflation in Croatia, while at the euro area level it accelerated. In May 2026, core inflation in Croatia exceeded the euro area average by 1.2 percentage points (Figure 3.3.10), which is 0.5 percentage points lower than the difference in November last year.

Figure 3.3.9 Synchronisation of overall inflation in Croatia and the euro area

Note: Grey areas show the range of values of individual member states of the euro area.

Source: Eurostat.

Figure 3.3.10 Synchronisation of core inflation in Croatia and the euro area

Note: Grey areas show the range of values of individual member states of the euro area.

Source: Eurostat.

BOX 1**What do millions of prices reveal about inflation?**

The CNB developed a new system for the nowcasting of food inflation, enabling significantly more precise monitoring in real time. After the government decision requiring retailers to regularly publish updated price lists (“the Israeli price transparency model”), a large volume of retail price data has become available, useful for monitoring inflation. The CNB thus constructed a new model based on this large set of data. Over the past year, food inflation nowcasting based on the new model proved to be significantly more precise than other existing models: the estimation error has been reduced to ± 0.5 percentage points (pp), whereas the error of the previous model reached as much as 1.3 pp. The largest deviations were observed in categories such as bread and wine, which may result from the specific influence of local points of sale outside large retail chains.

Regular monitoring of food prices is important, as the high volatility of these prices and the significant share of food in consumption directly affect purchasing power and inflationary expectations and ultimately also determine the accuracy of inflation projections. Specifically, food and non-alcoholic beverages account for one quarter of the consumption basket in Croatia, and since they are purchased on a daily basis, it is precisely based on the developments in these prices that the consumers form their perception of overall inflation.⁴ Furthermore, they are subject to rapid and unpredictable changes due to global supply chain disruptions, as well as increasingly pronounced climate changes and extreme weather events that directly affect agricultural production.⁵ The development of advanced nowcasting systems that rely on high-frequency microdata in real time has thus become an indispensable tool for the precise monitoring of inflation. Such an analytical approach also enables the comparison of price developments across locations in Croatia where retail chains covered by the decision on retail price list transparency operate. Furthermore, it enables the detailed monitoring of pricing policies of retail chains at very high frequency, down to the level of individual products in each individual shop.

The availability of daily retail price data from retail chains mitigates the issues of lag and small sample sizes that have affected existing models for food price inflation nowcasting. Existing models have relied on commercial databases of product prices in retail chains¹, which were typically available with a significant time lag, or on data collected from the websites of certain retailers, which provided only a partial insight into price developments. Under the government decision⁶ on price transparency, the largest retailers are required to publicly disclose their price lists. Data from around 950 retail outlets across Croatia are automatically collected every morning from these publicly available sources. Since mid-May 2025, a large volume of retail price data has been available on a daily basis in a machine-readable

4 <https://www.hnb.hr/-/inflacija-i-percepcija-inflacije-u-hrvatskoj>

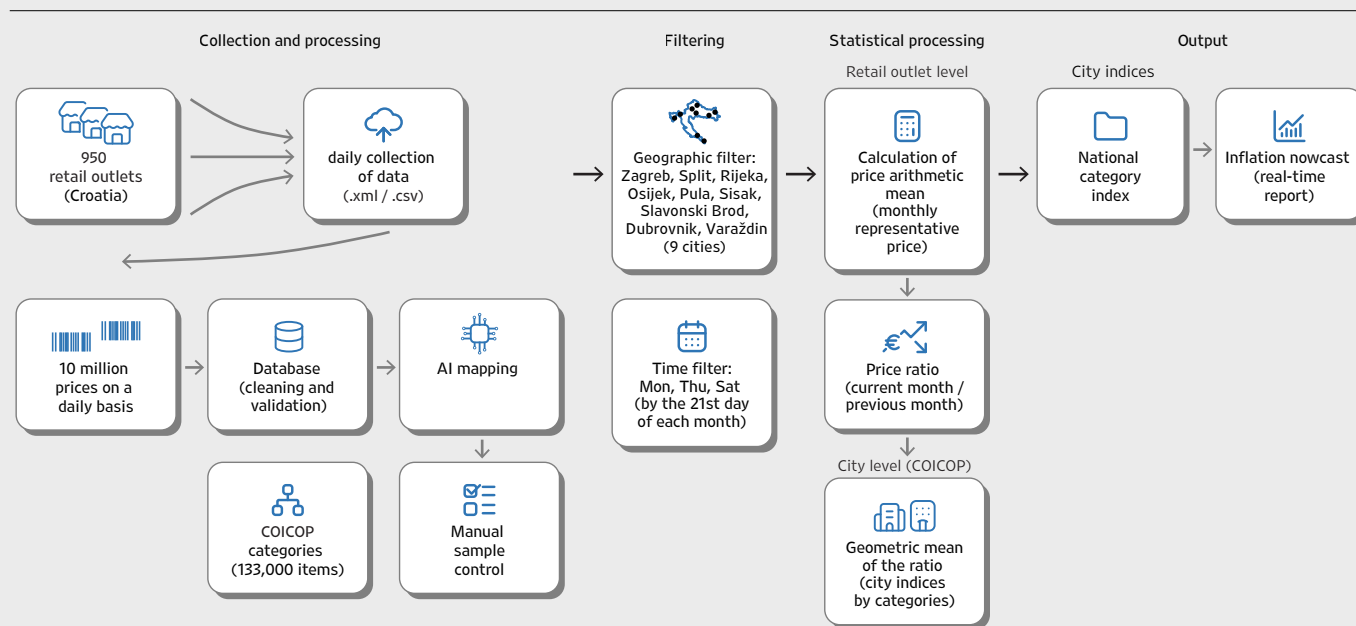
5 <https://www.hnb.hr/-/vino-i-cokolada-kakva-je-veza-globalnih-poremecaja-s-domacim-cijenama-hrane>

6 OG 75/2025 (2 May 2025)

format. Accordingly, the price data on around 10 million products are now available daily, enabling a timely and comprehensive insight into the situation on the market.

The replication of the food price inflation indicator compiled by the CBS on the basis of daily data on individual prices requires the harmonisation of time and geographical coverage, as well as the aggregation of those prices in line with CBS methodology. The replication of the inflation indicator follows four steps (Figure 1). To harmonise geographical and time coverage, only data from nine cities (Zagreb, Split, Rijeka, Osijek, Slavonski Brod, Pula, Sisak, Dubrovnik and Varaždin) collected up to the 21st day of each month are included in the calculation. Since statistical weights are not available at the level of individual elementary aggregates, but only at the level of broader ECOICOP product groups, it is necessary to classify items according to their corresponding ECOICOP categories. Approximately 133,000 individual products were classified into 84 ECOICOP food categories using a large language model, which automatically assigned each product to a category based on its name. Checks on a smaller sample have shown that the model correctly mapped individual items into groups in more than 90% of cases. As it is not known which specific products are observed by the CBS in the field within a given ECOICOP category, the geometric mean of the monthly change in the average price of each individual item in a given shop is calculated.

Figure 1 Data processing

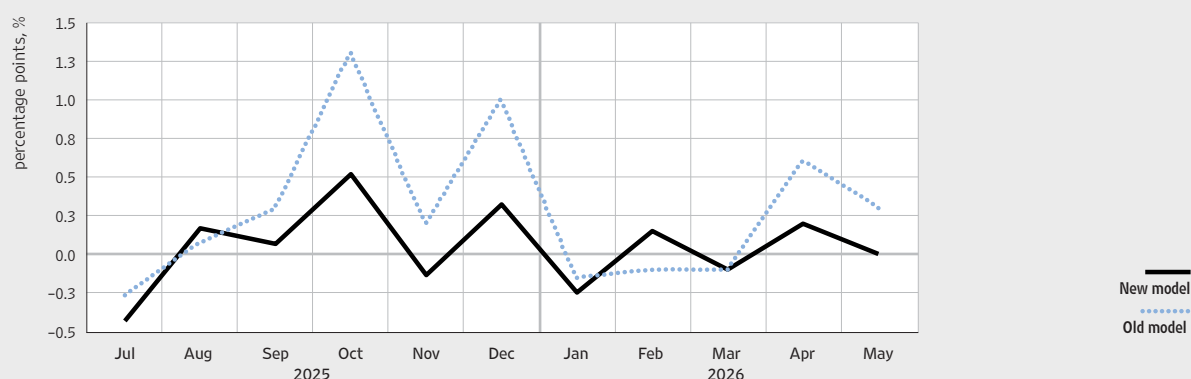


Source: CNB.

A comparison of estimation performance of the new system with that of the previously used models (Figure 2) points to a substantial improvement in accuracy. The higher accuracy of the model reflects the significantly larger volume of collected data, including broader geographical coverage and a greater number of monitored retail chains and outlets. The use of an LLM for product classification, which has replaced the previous, less precise approach based on a more rudimentary product categorisation method has also contributed to this

improvement. Estimation accuracy was tested using out-of-sample simulations, with only the data available up to the 21st day of each month being used in the estimation for that month. The new system reduces the estimation error band to ± 0.5 percentage points (pp), while the error of the previously used model reached as much as 1.3 pp.

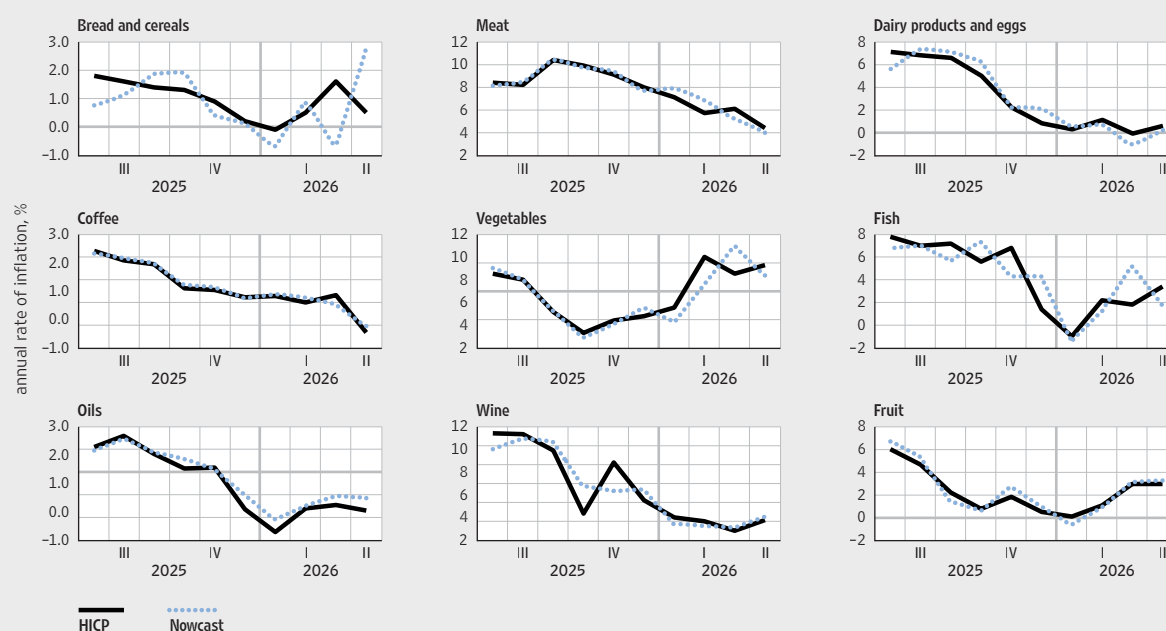
Figure 2 Model performance comparison



Notes: The figure shows deviations of the estimated annual rate of inflation from the actual one in percentage points. As of January 2026, the results of the model are shown in line with the new ECOICOP 2 classification.

Sources: retail price lists and Eurostat.

The accuracy of the estimates varies across product groups and depends primarily on category homogeneity and the share of sales outside large retail chains (Figure 3). The model performs better in relatively homogeneous categories such as meat, dairy products and eggs, coffee, and oils and fats. The relatively high accuracy of inflation estimates for these groups reflects the fact that they comprise standardised products that are predominantly sold in large retail chains. Occasional larger deviations are mainly caused by abrupt changes in the seasonal assortment in the fruit and vegetables category, as well as by lower forecasting accuracy in the categories of bread, wine and fish. These results may also reflect the inclusion of price observations from outlets outside major retail chains. For example, bread price developments may be significantly influenced by local bakeries that are not required to disclose their prices online on a daily basis, while in the case of wine, the large number of products available on the market and their heterogeneity create additional challenges in replicating the index. Moreover, the prices of fresh fish and fruit and vegetables are strongly affected by seasonal fluctuations and by daily supply in local markets and fish shops. This diversity of points of sale and products themselves makes it difficult to nowcast inflation based solely on price data from large retail chains.

Figure 3 Comparison of estimated and actual inflation by components

Note: As of January 2026, the results of the model are shown in line with the new ECOICOP 2 classification.

Sources: retail price lists and Eurostat.

The new nowcasting system is a significant analytical milestone in the real-time monitoring of inflation. Although estimates based solely on prices from large retail chains are subject to certain methodological limitations, primarily in relation to items that are frequently purchased at local markets and specialised shops, the reliability of the model is exceptionally high. By combining large sets of updated data and artificial intelligence, the system successfully overcomes the issues of lags and limited samples that constrained earlier models. Ultimately, this advanced approach not only enables the faster identification of inflationary trends but also provides a high-quality informational basis for further economic analyses.

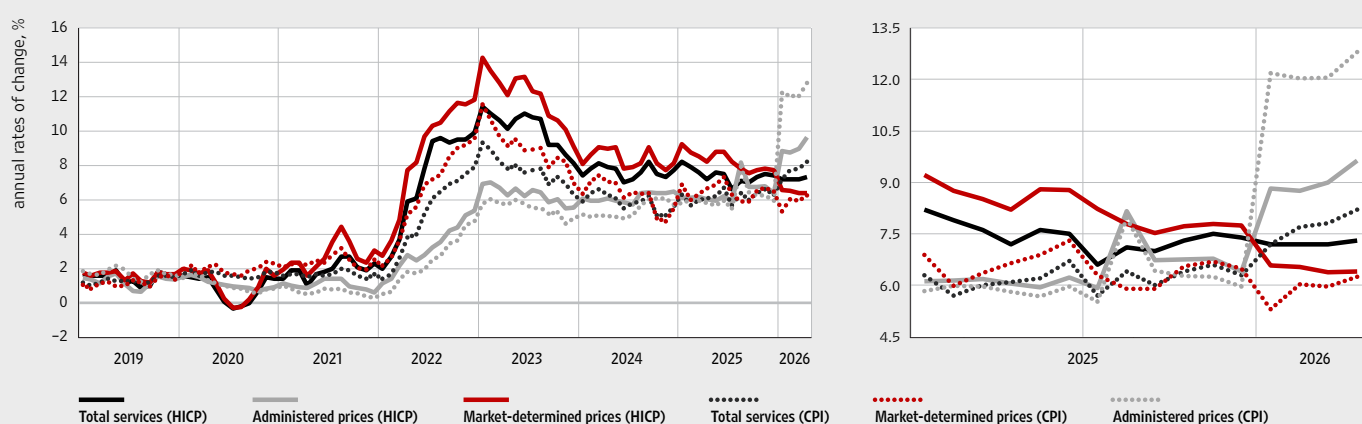
BOX 2

Role of market-determined and administered prices in the recent developments of services inflation in Croatia

Services inflation in Croatia slowed down significantly from its peak of 11.4% (HICP) in January 2023, but has nevertheless remained relatively elevated. After dropping to 6.6% in July 2025, primarily owing to the decrease in the contribution of market-determined prices of services, services inflation picked up again, reaching levels above 7%. Such developments are a result of the acceleration in the inflation of administered prices of services, while the inflation of market-determined prices continued to moderate. Although the inflation of prices of catering and accommodation services decreased considerably and thus contributed the most to the slowdown in the inflation of market-determined prices of services, it has remained among the highest in the euro area.

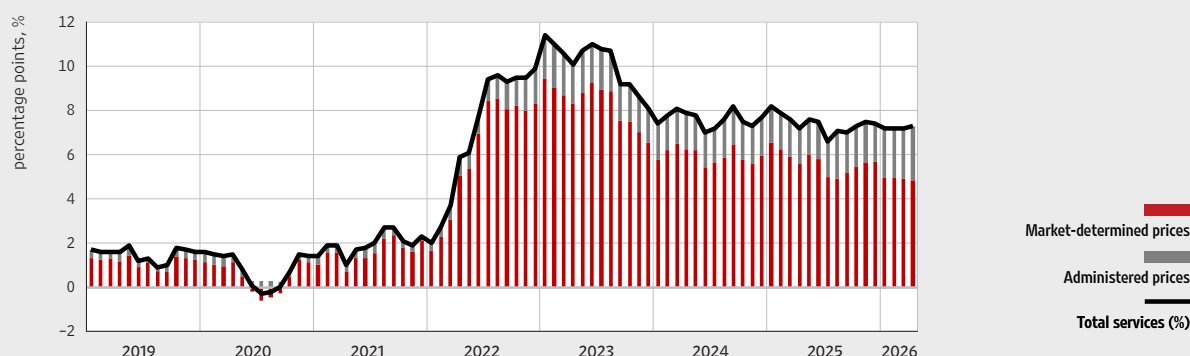
Since the beginning of 2026, services price inflation in Croatia has held steady at an elevated level. At the same time, its structure has changed substantially, with market-determined service prices contributing less to overall inflation, and the importance of inflation in administered prices increasing. Services inflation slowed down significantly after peaking in early 2023.⁷ After reaching 11.4% in January 2023, services inflation, as measured by the Harmonised Index of Consumer Prices (HICP) moderated gradually to 6.6% in July 2025 (Figure 1). After that, services inflation picked up, and in the first four months of 2026, it stagnated at levels from 7.2% to 7.3%. Such recent developments reflect the divergent dynamics of inflation in market-determined and administered prices of services, with inflation in market service prices gradually declining, while inflation in administered prices is rising.

Figure 1 Inflation of market-oriented and administered prices of services (HICP and CPI)



Note: In contrast to the CPI, the HICP covers the consumption of foreign tourists and institutionalised households (such as educational, healthcare and religious institutions, etc.).
Sources: Eurostat and CNB calculations.

⁷ For more information on the developments in the services inflation in the first four months of 2023, see Box 1 Recent developments in the inflation of service prices, Macroeconomic Developments and Outlook No 14, June 2023.

Figure 2 Contributions of market-determined and administered prices to services inflation (HICP)

Sources: Eurostat and CNB calculations.

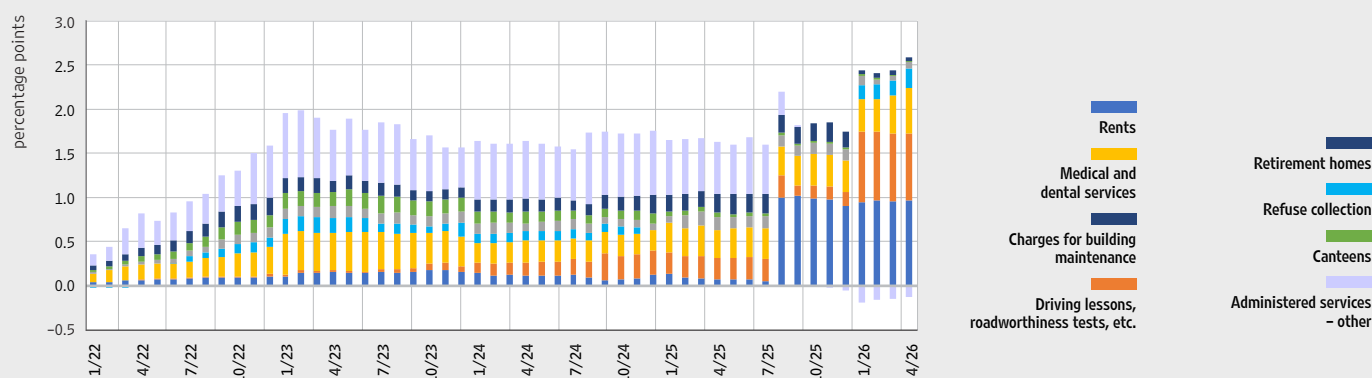
Inflation of administered prices⁸ picked up significantly from mid-2025 and its contribution to overall service price inflation increased by nearly one percentage point from July 2025. Following its increase in 2022, inflation in administered prices remained relatively stable at elevated levels. This can be attributed, among other factors, to the spillover of higher energy and food costs, which was reflected, for example, in the rising prices of retirement home services as well as university and school canteen services. The inflation of administered prices as measured by the HICP thus stood at 5.9% in July 2025. However, since mid-2025 it has picked up noticeably, so that in August 2025, it increased to 8.1%, and in April 2026 it reached 9.6%. As a result, it exceeded inflation in market-determined service prices by 3.2 percentage points, after having remained consistently below it until the beginning of this year. The recent acceleration in administered services price inflation is primarily linked to rental price growth⁹ recorded in August 2025 and the rise in the prices of roadworthiness tests seen in early 2026 (Figure 4). The contribution of prices of rent to services inflation increased from 0.1 percentage points in July to 1.0 percentage point in August 2025. Furthermore, the contribution of driving lessons, roadworthiness tests and similar services increased from 0.2 percentage points in December 2025 to 0.8 percentage points in January 2026 (Figure 3). The effect on services inflation as measured by the CPI is even more pronounced considering the greater importance of services with administered prices in the consumption of residents.¹⁰

8 Administered service prices account for approximately one quarter of the basket used to calculate the services price index in Croatia and are classified into fully administered prices and predominantly administered prices. Fully administered prices refer to services whose prices are directly set by government authorities and regulatory agencies at the national, regional, or local level. In Croatia, this subcomponent in 2026 included, for example, rents for permanent residences, retirement home services, driving lessons, tests, licences and roadworthiness tests. Predominantly administered prices cover services in relation to which government authorities or regulators have a significant influence on price-setting, for instance through requirements for prior approval of price changes or by setting minimum or maximum price limits. This group includes, among other services, refuse collection, kindergarten services, and food in university and school canteens.

9 As of 1 July 2025, a model was introduced in Zagreb for tenants meeting the criteria for affordable housing, under which rent is determined based on household income rather than, as previously, on apartment size, which led to an increase in rents. At the same time, rent for socially vulnerable tenants remained unchanged.

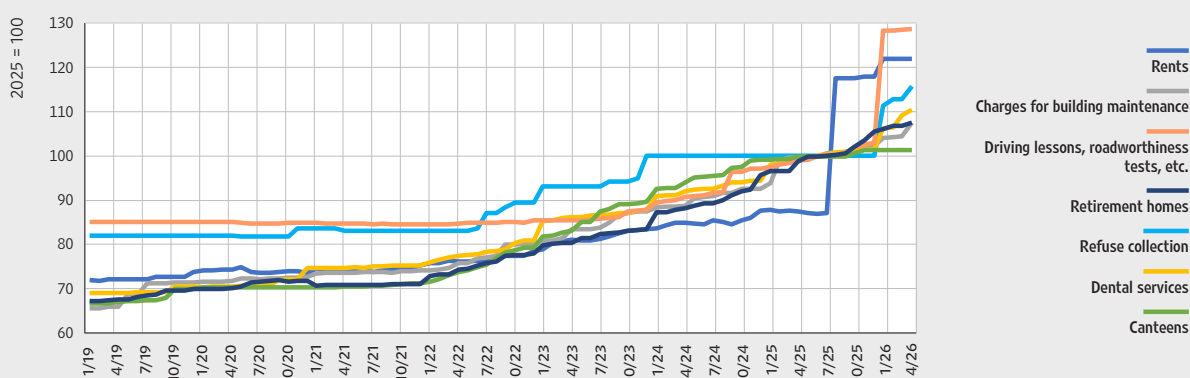
10 Looking at the national consumer price index (CPI), it is evident that the acceleration in the annual growth of administered prices during the first four months of 2026 was more pronounced than in the HICP, primarily due to a higher weight of certain components whose prices rose sharply (for example, driving lessons and roadworthiness tests in January). At the same time, the slowdown in the annual growth of market-determined prices was less pronounced, reflecting the lower share of accommodation services, which contributed the most to the deceleration of these prices in the HICP. Hence, if the CPI is observed, in the first four months of 2026 overall services inflation picked up.

Figure 3 Contributions of the subcomponents of administered prices to services inflation (HICP)



Sources: Eurostat and CNB calculations.

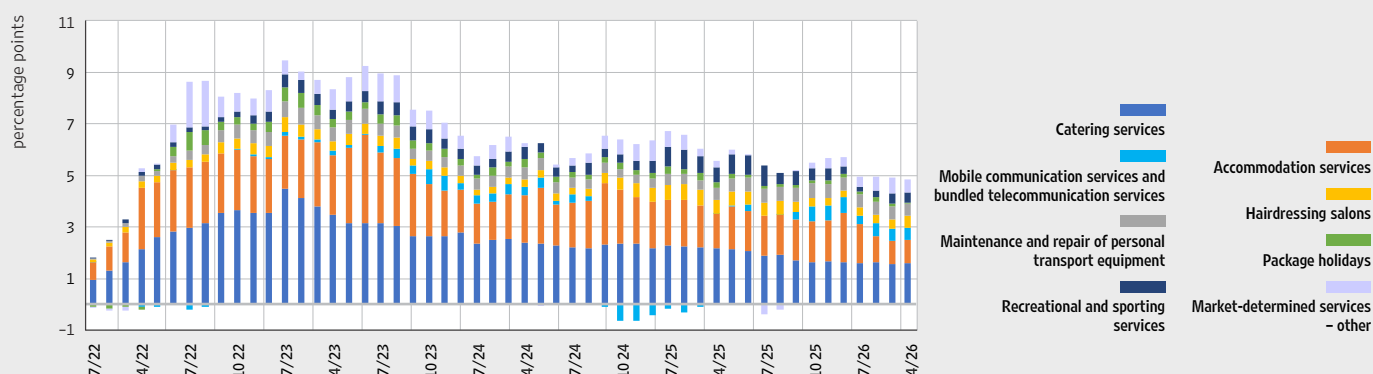
Figure 4 Developments in selected administered prices (HICP)



Source: Eurostat.

In contrast to the inflation of administered prices, the inflation of market-determined prices has been moderating since the beginning of the current year. Inflation of market-determined prices thus shrank from 14.3% in January 2023 to 7.7% in December 2025 and 6.4% in April 2026, with their contribution to overall services inflation dropping from 9.4 to 4.8 percentage points (Figure 5). Observed by components, the greatest contribution to the slowdown in the inflation of market prices of services from its peak recorded in January 2023 came from accommodation and catering services. Despite this, inflation in market-determined service prices remained somewhat elevated, pointing to persistent inflationary pressures, particularly those related to rising wages and domestic demand for services. Labour costs continue to grow at a relatively strong pace, albeit at a slightly slower rate than in the previous two years. Given the higher sensitivity of service prices to wage growth compared with other components, and in the context of solid domestic demand, this continues to contribute to elevated service price inflation.

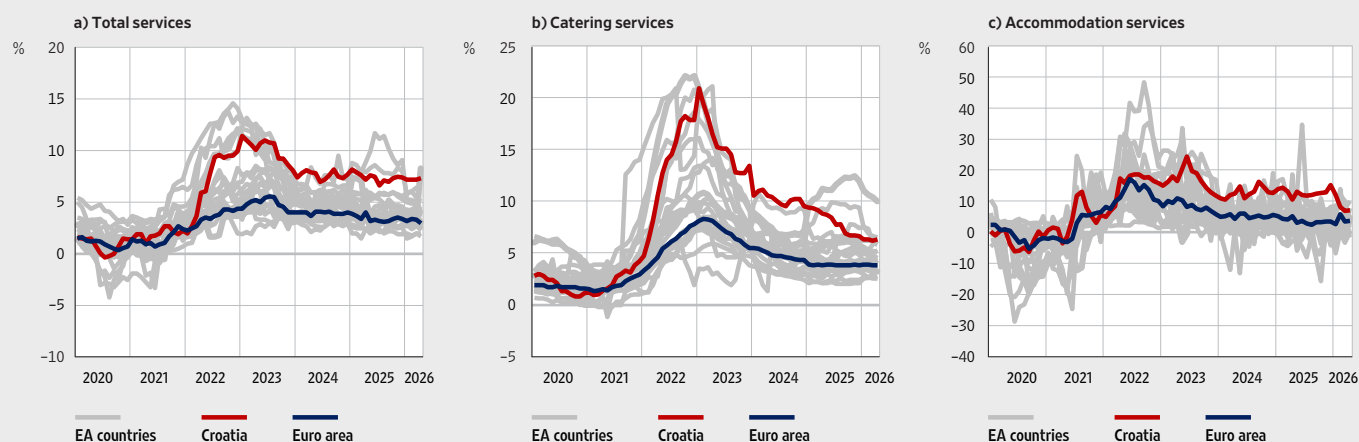
Figure 5 Contributions of the subcomponents of market-determined prices to services inflation (HICP)



Sources: Eurostat and CNB calculations.

In other euro area countries, services inflation moderated until April 2026 as well, following peaks reached at the end of 2022 or the beginning of 2023. The pace of this slowdown in Croatia was among the most pronounced, but service price inflation still remained one of the highest in the euro area (Figure 6a). Although the largest contribution to the slowdown in market-determined service price inflation came from catering and accommodation services, their annual price growth remained elevated. In April 2026, only Bulgaria and Greece recorded a higher annual growth rate of catering service prices among euro area countries, while similar and/or only slightly lower annual growth rates for these services were observed in Portugal and Lithuania (Figure 6b). Furthermore, over the same period, higher annual growth rates of accommodation service prices were recorded in Belgium and Latvia, while all Mediterranean countries registered similar and/or lower annual rates of change in accommodation service prices (Figure 6c). The stronger increase in the prices of catering and accommodation services than in most other euro area countries largely reflects the faster growth in labour costs in accommodation and catering activities in Croatia than in the euro area as a whole (Figure 7). To a lesser extent, the more pronounced annual increase in the prices of these services in Croatia relative to the euro area may also have been influenced by the somewhat higher increase in food prices in Croatia over the preceding year.

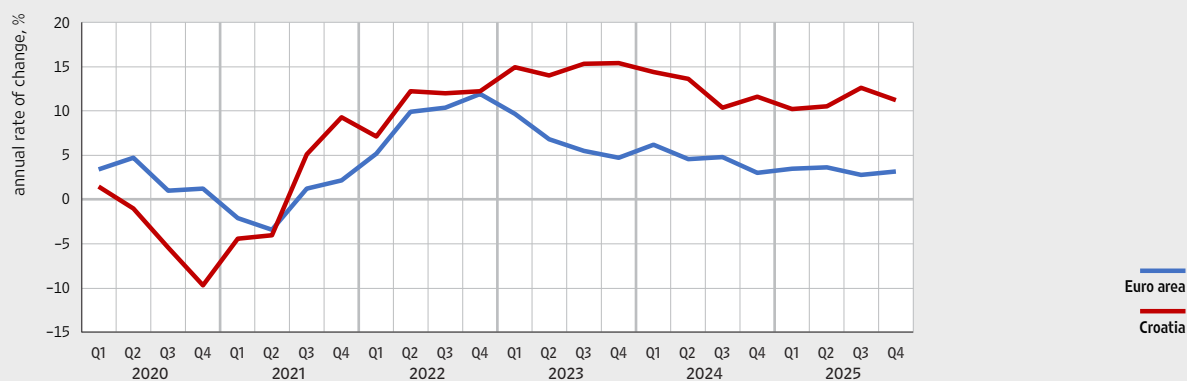
Figure 6 Annual rates of change in service prices in Croatia and euro area countries (HICP)



Source: Eurostat.

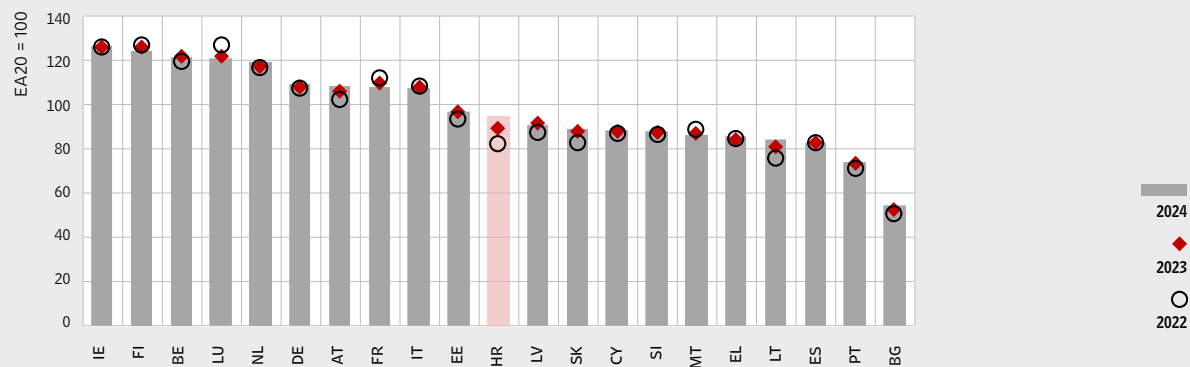
Accommodation and catering services inflation is expected to continue to moderate gradually, assuming the energy shock proves to be transitory, while inflation in administered prices is projected to decline following the freeze on these prices under the government measures of May 2026. The easing of inflationary pressures in the services sector is expected to be driven primarily by the slowdown in labour cost growth, the recent moderation in food price increases, and subdued growth in foreign demand for tourism services. Moreover, the effect of the price convergence process should gradually diminish as the level of catering and accommodation service prices in Croatia has become broadly aligned with the euro area average. According to the latest available data for 2024, these prices were higher than in most other Mediterranean countries (Figure 8).

Figure 7 Labour costs in accommodation and food service activities



Source: Eurostat.

Figure 8 Levels of prices of restaurants and hotels in euro area countries

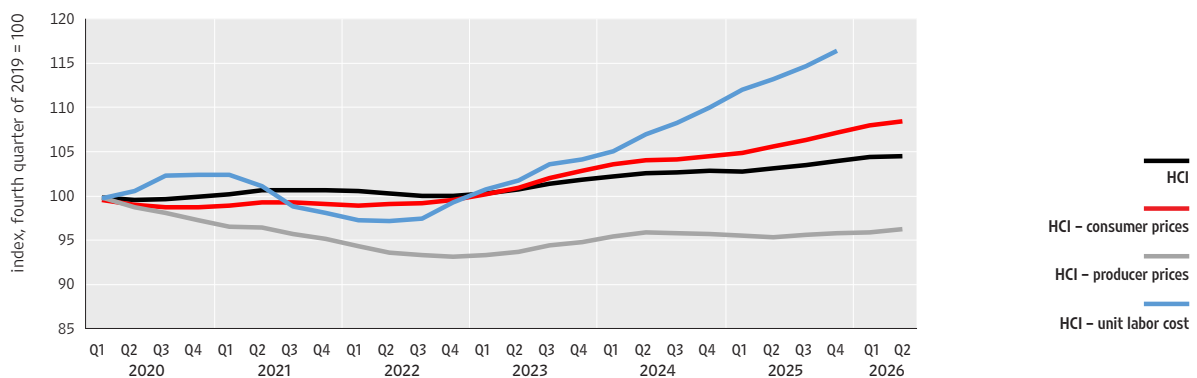


Sources: Eurostat and CNB calculations.

3.4 Economic relations with foreign countries

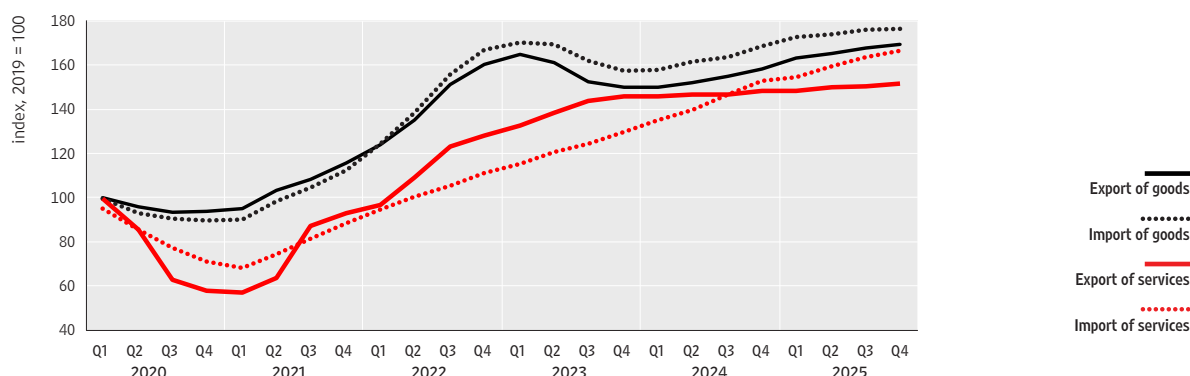
Harmonised competitiveness indicators suggest a further worsening of the competitiveness of the Croatian economy relative to the main trading partners in the second half of 2025 and in early 2026. The cost competitiveness indicator, which takes into account the relative changes in unit labour costs in Croatia relative to trading partners (HCI-ULC) suggests a further strong deterioration that started in mid-2022 (Figure 3.4.1). The further worsening of competitiveness in 2025 reflects continued strong wage growth, partly mitigated by relatively fast productivity growth. After the competitiveness indicator exceeded its long-term average last year, it continued to worsen until it reached the relatively elevated level last recorded in the second quarter of 2012. The worsening of the cost competitiveness of the Croatian economy was accompanied by further unfavourable developments in the indicator of price competitiveness deflated by relative consumer prices (HCI-ULC), although they were less pronounced during the observed period. The same indicator exceeded its long-term average already back in 2023, while the intensity of its deterioration, according to the data for the first and for the second quarter (incomplete) of 2026, slowed down slightly from the previous year. At the same time, the harmonised indicator deflated by producer prices (HCI-PPI), which are more susceptible to price effects from external markets, has remained stagnant so far in 2026, below the levels reached before the outbreak of the COVID-19 pandemic.

Figure 3.4.1 Harmonised competitiveness indicators



Notes: The increase in indicators denotes appreciation. Series are shown as the moving average of four quarters. Data for the second quarter of 2026 refer to April.
Source: CNB.

Figure 3.4.2 Exports and imports of goods and services

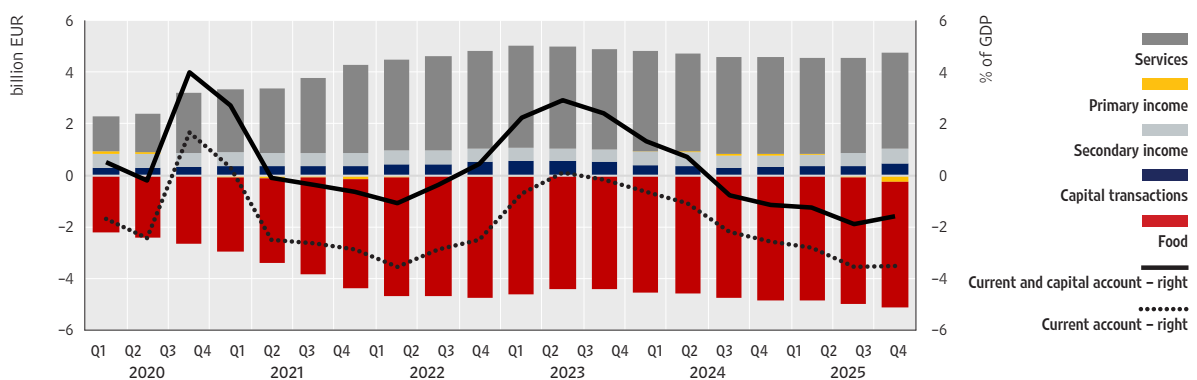


Note: Series are shown as the moving average of four quarters.

Source: CNB.

The mentioned trends of deterioration in the price and cost competitiveness of the domestic economy can also be seen in foreign trade, particularly in the services segment (Figure 3.4.2). The real exports of services fell again last year, while nominal exports rose, albeit slightly, according to the balance of payments data. The small nominal annual growth in services exports is mostly due to the only modest growth in tourist services exports (1.8%), reflecting a further weakening of price competitiveness seen in this sector after the pandemic. Revenues from exports of other services also rose only slightly, while revenues from transport services held steady and the revenues from manufacturing services on physical inputs owned by others shrank. In contrast, services imports continued to grow strongly, mirroring a pronounced increase in tourist consumption by residents abroad (17.3%), followed by a somewhat smaller growth in expenditures for other services. This led to a fall in the share of the services balance in GDP to 15.9% from 17.5% of GDP in 2024. In contrast, the growth in goods exports remained relatively strong, despite persistently low external demand and worsened price competitiveness, with the negative trade in goods balance in 2025 falling by some two percentage points of GDP, to 20.9% of GDP. The market share of Croatian goods exports to the EU has been growing steadily over the last ten years, with data suggesting the strengthening of non-price competitiveness as the main driver of this growth followed partly by the sectoral structure of Croatian goods exports and the structure of European demand, particularly after the pandemic (for more details see Box 3 Constant market share analysis of the competitiveness of Croatian goods exports to the European Union). As regards developments in trade in goods in early 2026, the first two months witnessed a fall in goods exports and a somewhat bigger fall in goods imports, reflecting primarily somewhat poorer results in January. Aggregate data for March suggest a recovery of nominal goods exports and imports, which could, however, primarily reflect the value effects associated with the spike in energy prices following the outbreak of the war in the Middle East.

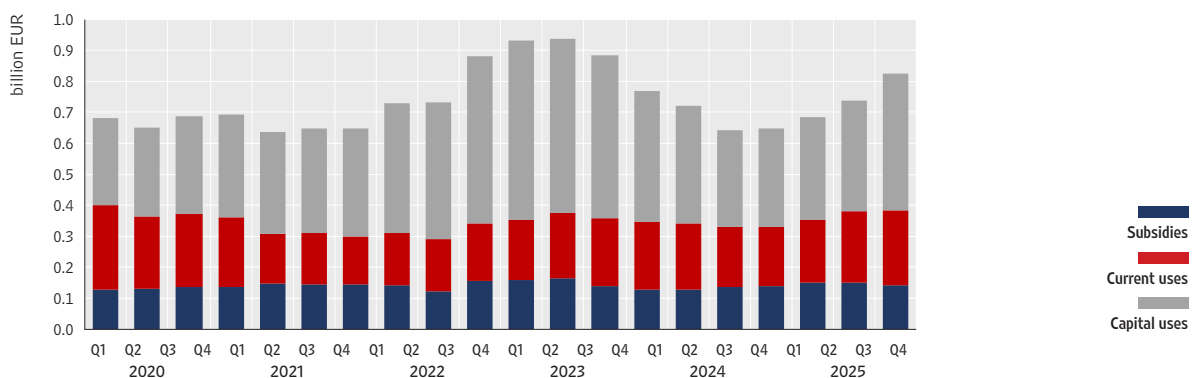
Figure 3.4.3 Balance of payments (b.o.p.)



Note: Series are shown as the moving average of four quarters.

Source: CNB.

Figure 3.4.4 Utilisation of EU funds



Note: Series are shown as the moving average of four quarters.

Source: MoF.

The negative balance of the current and capital account widened from -0.8% of GDP in 2024 to -1.6% of GDP in 2025. (Figure 3.4.3). In addition to the described developments in trade in goods and services, this was also due to a noticeable deterioration in the primary income balance, mainly as a result of the rise in the profits of foreign-owned enterprises and a considerable increase in expenditures on the compensation of foreign workers in Croatia. In contrast, the secondary income balance improved in 2025 from the year before, mainly as a result of an increase in current inflows from EU funds, and, to a lesser extent, to an increase in remittances of workers and personal remittances from abroad. As regards the use of EU funds, following the decline in disbursements to end beneficiaries in the year before, the year 2025 saw a recovery with the approaching expiry of the period for the use of the funds under the Recovery and Resilience Facility (end-2026), with the net inflows from EU funds rising from 2.2% of GDP in 2024 to 2.7% of GDP, which, in addition to the positive impact on the secondary income balance also had a positive impact on the improvement in the capital account balance (Figure 3.4.4).

In line with the widening of the total deficit in the current and capital account of the balance of payments, the financial account recorded a much larger capital inflow in 2025 than

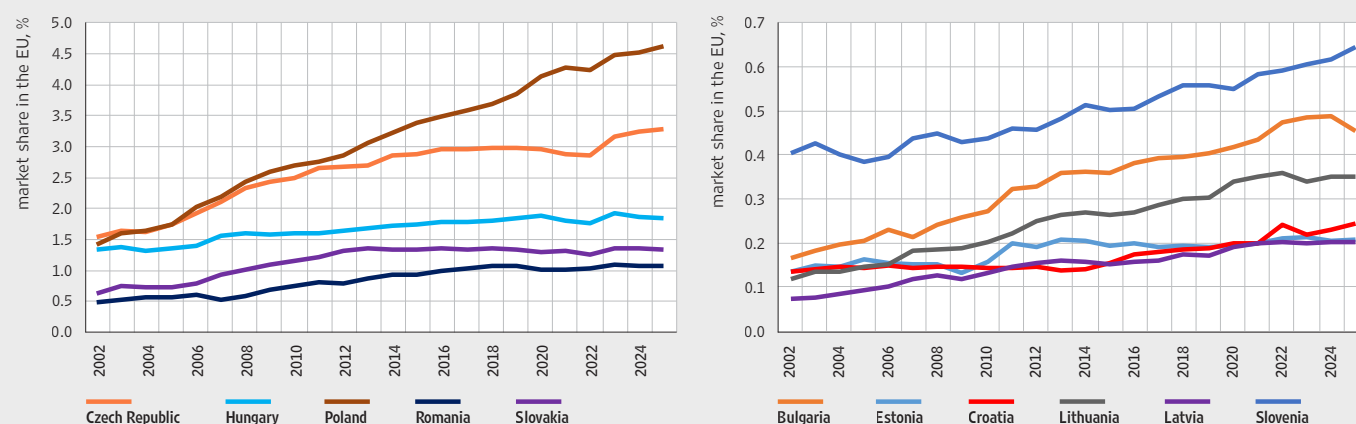
in the year before, amounting to EUR 2.6bn or 2.8% of GDP. After steadily improving for many years, the total net debt position of domestic sectors deteriorated by EUR 1.1bn. Broken down by sectors, the net position of the central bank deteriorated by EUR 2.4bn mainly as a result of a decline in the previously accumulated claims on the Eurosystem (TARGET balance, recorded on the central bank's balance sheet, but reflecting cross-border financial flows of all domestic sectors executed through the banking system). TARGET balance deterioration was mitigated by a simultaneous increase in CNB cash claims, reflecting high net inflows of euro banknotes associated with tourist consumption by non-residents in Croatia. The central government increased its net external debt by EUR 0.2bn, while other domestic sectors continued to deleverage, albeit slower than in the year before. Net capital inflow from equity investments in 2025 stood at EUR 0.9bn (approximately 1% of GDP), half as much as in the year before. Most of the total equity investments consisted of reinvested earnings, while direct equity investments remained very modest. More substantial amounts were generated in investments in real estate, with the downward trend present for many years continuing, as it did in business consulting, insurance activities and the metal industry.

BOX 3**Constant market share analysis of the competitiveness of Croatian goods exports to the European Union**

The share of Croatian exports of goods on the European Union market has been growing continuously since Croatia joined the single market, and the dynamics of growth intensified further after the COVID-19 pandemic. The constant market share analysis shows that enhanced competitiveness provided the main impetus for growth, with additional support stemming from the structure of Croatia's export of goods and the European demand, especially in the aftermath of the pandemic. The comparison with other new EU member states shows that, after joining the EU, Croatia compensated for the lag in its market share by enhancing the competitiveness of its exports. Following the pandemic, market share growth became more geographically balanced and was increasingly supported by shifts in the structure of European demand, the regionalisation of production, and Croatia's deeper integration into European value chains. At the same time, an analysis by product technological complexity suggests that Croatian exports still primarily rely on low and medium-technology industries, although there are signs of enhanced competitiveness in some higher value-added industries.

Despite the strong growth seen over the past years, the share of Croatian exports on the EU market remains modest considering the relative size of the domestic economy. Over the past two decades, the share of Croatian exports of goods in total EU imports increased by 74%; however, despite this growth, it amounted to only 0.24% in 2025, approximately half the size of Croatia's share in the European Union's total GDP. At the same time, market shares of other new EU member states increased at a faster rate, more than doubling on average in the observed period (Figure 1). Consequently, the gap between Croatia and most peer countries remained substantial. The largest divergences were recorded in the 2002–2012 period, when Croatia experienced significantly slower market share growth than the new EU member states that had already been integrated into the single European market. Earlier accession and longer total period of EU membership enabled the faster integration of these countries into European value chains, a stronger inflow of foreign investment and the development of a more competitive and export-oriented industrial base.

Figure 1 Shares of exporters from individual member states on the EU market



Sources: Eurostat and CNB calculations.

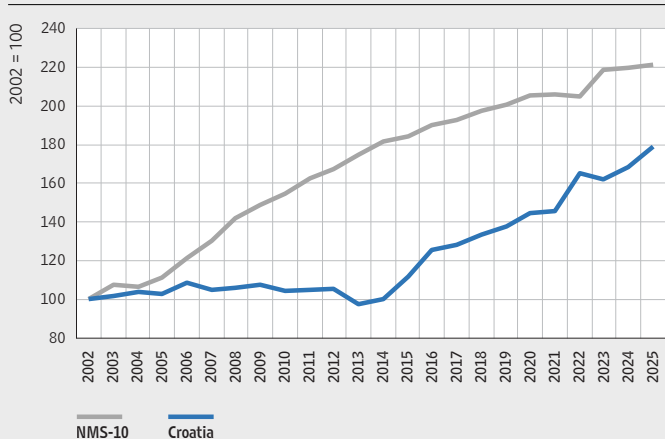
Accession to the European Union and favourable structural changes significantly accelerated the growth of Croatian exports to the EU market. Following the accession to the EU in 2013, the market share of Croatian exports of goods began to increase significantly faster than in the preceding decade under the influence of the removal of trade barriers, the redirection of exports from the CEFTA market to the EU and the strengthening of institutional and market integration (Figure 2). Over the past twelve years of its membership in the EU, Croatia has achieved growth in its market share of goods exports that is just as strong as that recorded by most other new EU member states over a comparable period.¹¹ Although the macroeconomic circumstances during the time of their accession were different, such a comparison nevertheless enables an assessment of the effects of EU accession as it relates to the same stage of integration into the single market. As shown in Figure 3, the annual average growth in Croatia's market share hovered around 6 percentage points, lower than in the Baltic states, Poland and Romania, and higher than in the Czech Republic, Estonia, Slovenia, Slovakia and particularly in Hungary. This suggests that Croatia successfully used the advantages of joining the single European market and compensated for the lag from the period preceding accession.

Experiences of member states that joined the EU earlier show that the growth in market shares slows down gradually over time. This became particularly evident after the pandemic, when most of the new member states recorded noticeably weaker growth in market share than during the early years of their EU membership (Figure 3). Croatia, however, still recorded one of the highest market share growth rates, which is partly linked to the short period of EU membership relative to the majority of other new member states: its annual average growth hovered around 5%, while the growth rate of most other member states stood

11 The relatively strong growth in Croatian exports following EU accession partly reflects the methodology applied by the Croatian Bureau of Statistics in recording the trade in goods. Specifically, unlike balance-of-payments data, the Croatian Bureau of Statistics (CBS) statistics also include transactions related to physical inputs, quasi-transit trade and re-exports, which may lead to some overestimation of growth in the export of goods and of the positive effects identified by the CMS analysis. According to the trade in goods statistics, the value of exports of goods is around 15% higher than that recorded in the balance-of-payments statistics. This gap has doubled since Croatia's accession to the EU, primarily owing to the expansion of quasi-transit trade and re-exports, while the share of physical inputs has remained relatively stable. Since comparable and sufficiently disaggregated data that would enable the identification of transactions by products for Croatia and other countries are not available, it is not possible to separately assess their effect or exclude it from analysis.

below 3% and that of Hungary, Romania and Slovakia almost stagnated. This suggests that the growth in Croatia's market share may be attributed to the continuous effects of EU accession and the increasingly deeper integration into European value chains, additionally supported by the adoption of the euro and accession to the Schengen Area. A part of the export growth during this period can also be attributed to Croatia's expanding role as a transit and distribution hub for goods destined for other EU markets, reflected in the growth of re-exports, which was further consolidated during the pandemic. In addition, export growth was supported by the increasing volume of processing and finishing activities in certain labour-intensive industries. Still, judging by the experiences of other new member states, the effect of the integration into the single market may be expected to start moderating in the upcoming years. Therefore, the maintenance of an above-average export growth will increasingly depend on the productivity gains, technological advancement and the further deepening of the integration of Croatian firms in European value chains.

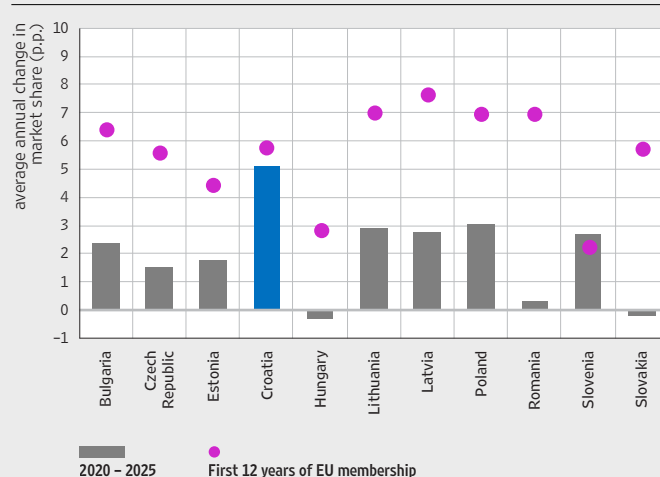
Figure 2 Developments in the shares of exporters to the EU market



Notes: New EU member states (NMS-10) include Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia. SITC level 3, 9 and 793 components are excluded.

Sources: Eurostat and CNB calculations.

Figure 3 Change in the market shares of new EU member states



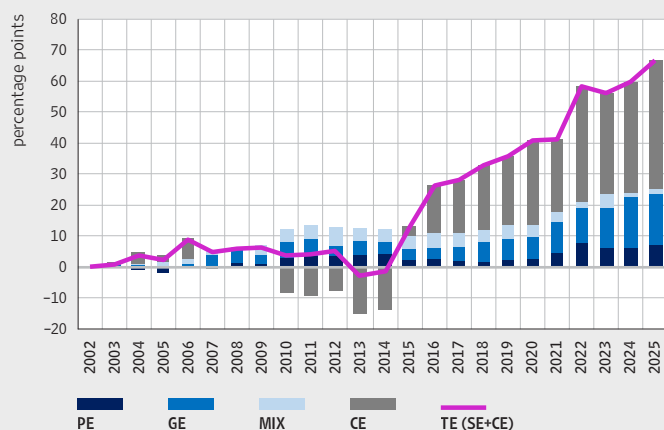
Sources: Eurostat and CNB calculations.

The constant market share (CMS) analysis enables the separation of the effects of export structure and competitiveness on changes in market share. The CMS analysis enables the estimation of the contribution of individual factors to changes in market share. In particular, the method indicates the extent to which geographical orientation and the product structure of exports, as well as other factors such as competitiveness, contribute to the developments in the market share of Croatian exporters in a given market. The methodology identifies two key effects that determine changes in total market share (TE): the structural effect (SE) and the competitiveness effect (CE). The structural effect (“pull effect”) measures whether the relative specialisation of exports of a particular country is directed towards products/markets linked with increased demand and distinguishes between product (PE), geographical (GE) and mixed structural (MIX) effects. All other changes in export market shares that are not linked with structural features of exports are included in the competitiveness effect (“push effect”). Such changes in market shares comprise the price and non-price competitiveness of

exports, including, for example, the quality of export products, manufacturing innovations or exchange rate effects.

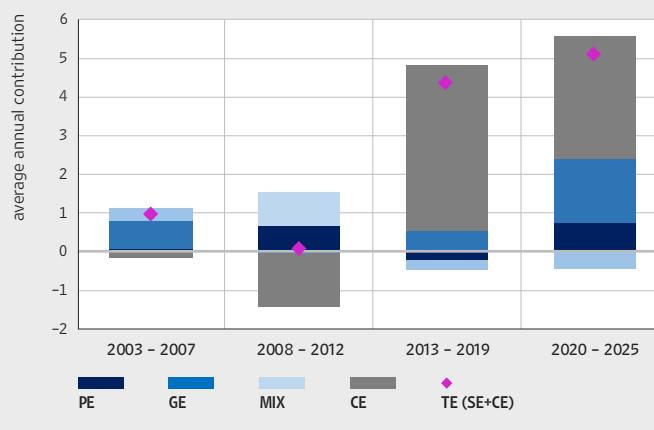
The growth in the market share of Croatian exports following EU accession was primarily a result of the increasing competitiveness of exporters. The results of the CMS analysis¹² show that the increase in the market share of Croatian goods exports following accession to the EU was largely driven by the “push” competitiveness effect (Figure 4). From Croatia’s accession to the EU to the outbreak of the pandemic the competitiveness effect was the main driver of the growth in the market share, while the contribution of structural factors remained positive, but relatively modest. These results suggest that Croatian exporters did not expand their market share primarily due to a favourable sectoral export structure or orientation towards the fastest-growing markets, but largely as a result of strengthened competitiveness and improved integration into the single European market. Specifically, the product effect (PE), which reflects the sectoral structure of exports, was slightly negative, as Croatian exports at the beginning of the observed period were not strongly represented in technology-intensive industries, which were among the main drivers of growth in import demand in the EU. This partly reflects Croatia’s lower integration into European value chains prior to EU accession, as well as the slower development of high-technology export sectors compared with some other transition economies. On the other hand, the geographical effect (GE) was slightly positive thanks to the relatively strong orientation of Croatian exports towards neighbouring markets in the new EU member states, particularly Slovenia, which recorded relatively dynamic growth in import demand in the observed period (Figure 5).

Figure 4 Decomposition of the cumulative change in the market share of Croatian goods exports to the EU



Sources: Eurostat and CNB calculations.

Figure 5 Decomposition of the year-on-year change in the market share of Croatian goods export to the EU



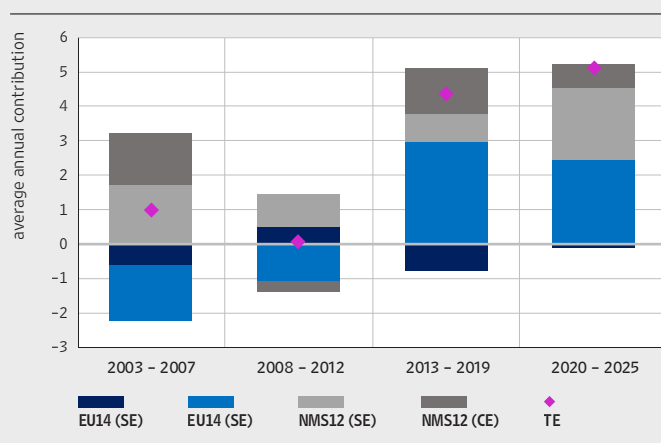
Sources: Eurostat and CNB calculations.

After the pandemic, Croatian exporters successfully combined increased competitiveness with better adaptation to changes in European demand. The competitiveness effect remained exceptionally strong in the post-pandemic period, but at the same time, the

12 Due to pronounced volatility, the following components have been excluded from the scope of data: SITC 3 (Energy), SITC 9 (Commodities and transactions not classified elsewhere) and SITC 793 (Ships).

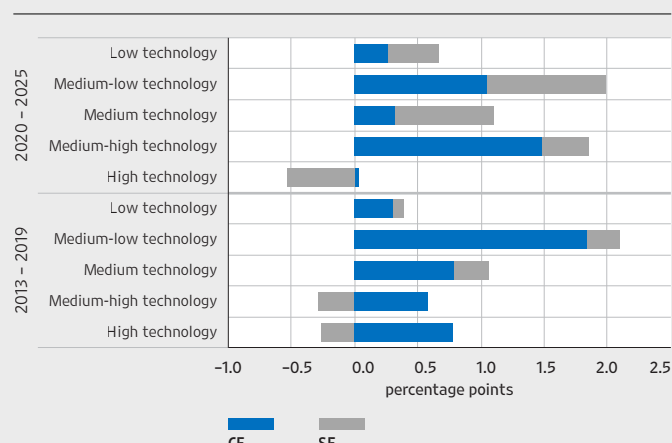
contribution of structural factors increased as well. This suggests that while the competitiveness of Croatian exporters increased, the changes in the structure of European demand and international trade also increasingly contributed to the growth of its market share. Observed by destination countries, in the post-pandemic period, the growth in the market share of Croatian exports was widely distributed across the markets of new and old EU member states (Figure 6). Decomposition shows that in the 2020–2025 period, both the markets of new member states (NMS10) and those of older member states (EU14) provided positive contributions to growth. The contribution of the markets of new member states was somewhat higher than in the pre-pandemic period. This primarily reflects Croatia's strengthening export presence in neighbouring markets, particularly Slovenia. At the same time, market share increased in more developed EU markets as well, including Germany, Austria and Italy, reflecting the deeper integration of Croatia in European value chains.

Figure 6 Decomposition of total effects by export destination countries



Note: Old EU member states (EU14) are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden.
Sources: Eurostat Comext and CNB calculations.

Figure 7 Decomposition of total effects by technological complexity of production



Sources: Eurostat Comext and CNB calculations.

The technological structure of exports became more balanced and diversified after the pandemic. As regards the technological complexity¹³ of exported products, the analysis shows that the structure of growth in the market share of Croatian exports in the EU differed between the pre-pandemic and the post-pandemic period (Figure 7). In the 2013–2019 period, market share growth was generated predominantly in medium-low technology activities, primarily in the wood and metal processing industries and certain segments of food and textile manufacturing. Contributions of other technology groups to market share growth were

13 The classification of manufacturing activities according to Galindo-Rueda, F. and F. Verger (2016.), "OECD Taxonomy of Economic Activities Based on R&D Intensity", OECD Science, Technology and Industry Working Papers, 2016/04, OECD Publishing, Paris, <https://doi.org/10.1787/5jl73sqqp8r-en> comprises the following categories based on the technological complexity of production: (i) **high-technology industries** include pharmaceuticals, computers, electronic and optical products, and air and spacecraft and related machinery; (ii) **medium-high-technology industries** include chemical products, certain medical products, electrical equipment, machinery and equipment n. e. c., motor vehicles, trailers and semi-trailers, other transport equipment, and weapons and ammunition; (iii) **medium-technology industries** include rubber and plastic products, basic metals, other non-metallic mineral products, and other products excluding certain medical products; (iv) **medium-low-technology industries** include food, textile and wood products, as well as furniture manufacturing; (v) **low-technology industries** include agricultural raw materials (cereals and live animals) and raw rubber.

significantly smaller, with medium-high and high-technology activities recording positive competitiveness effects, which were largely offset by unfavourable structural factors.

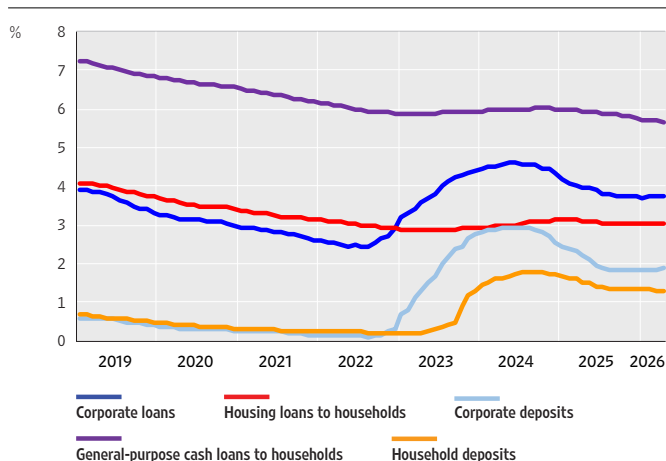
After the pandemic, market share growth became more broadly distributed across technology groups. While low, medium-low and medium-technology industries still constitute around two thirds of the total increase in market share, the share of medium-high technology industries has increased noticeably as well. The increase is primarily attributable to the competitiveness effect. Within the medium-high-technology group, export growth was particularly strong in the chemical industry and in the production of electrical power equipment, transformers and electrical devices, which is likely related to the energy transition, investments in energy infrastructure, and the reorganisation of European supply chains. In the medium-low-technology group, structural factors are becoming increasingly important, while low-technology activities have maintained a moderate positive contribution based on a combination of competitiveness and structural effects. This suggests that after the pandemic, Croatia strengthened the competitiveness of some of its more technologically complex export sectors, while changes in the structure of European demand and international trade increasingly supported market share growth.

High-technology sectors still have a limited role in the growth in the market share of Croatian exporters to the EU. Although the competitiveness effect remained slightly positive in that group after the pandemic, the total contribution remained negative due to the exceptionally unfavourable structural effect. This suggests that Croatia is still not strongly represented in the most technology-intensive industries which are recording the fastest increase in demand at EU level, such as electronics, ICT equipment and sophisticated pharmaceutical products. Although certain segments of manufacture of electrical equipment and appliances are exhibiting positive competitiveness effects, their share is still not large enough to make any significant change to the overall technological structure of Croatian exports.

3.5 Banking system

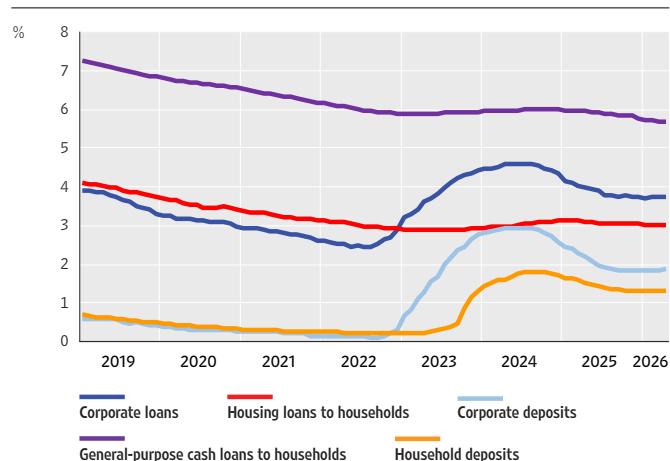
The interest rates on corporate loans rose slightly in the first four months of 2026, while those on household loans fell slightly. The interest rates on newly-granted loans to non-financial corporations rose slightly in the first four months of 2026, but continued to fluctuate within a relatively narrow range at levels reached in mid-2025 (Figure 3.5.1). The average interest rate on loans newly granted to non-financial corporations was 3.6% in April 2026, up by 22 basis points from the end of the previous year. The variable interest rates linked to the EURIBOR, the benchmark parameter used for granting approximately a half of corporate loans, rose, as did the fixed interest rates used in the approval of the remainder of these loans. In the first four months of 2026, the EURIBOR rose markedly amid rising expectations from market participants of a more restrictive ECB monetary policy stance. In April 2026, the three-month, six-month and twelve-month EURIBOR were on average 13 basis points, 31 basis points and 48 basis points, respectively, higher than in December 2025. Yields on long-term government bonds relevant for setting fixed interest rates also rose. Thus, in April 2026, the average yield on long-term Croatian government bonds was up 27 b.p. from December 2025. The average interest rates on the existing corporate loans remained broadly unchanged after falling almost steadily since mid-2024 and stood at 3.8% in April 2026 (Figure 3.5.2). Unlike interest rates on corporate loans, which rose, the interest rates on household loans showed no clear trend in early 2026. The average interest rate on newly-granted general-purpose cash loans fell in the first four months of 2026 by 20 b.p. to 5.3%, i.e. close to the levels seen in mid-2022. This partly reflects the promotional offers of individual banks. However, the average interest rate on newly-granted housing loans remained close to the levels seen after the fall in the first quarter of 2025, and in April 2026 it stood at 2.9%, up by 10 b.p. from December 2025. Interest rates on existing general-purpose cash loans and housing loans to households continued to fall gradually, and were 7 b.p. and 1 b.p., respectively, lower in April than in December and stood at 5.7% and 3.0%, respectively.

Figure 3.5.1 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 and in kuna with a currency clause in euro 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 3.5.2 Interest rates on existing loans and time deposits of corporates and households

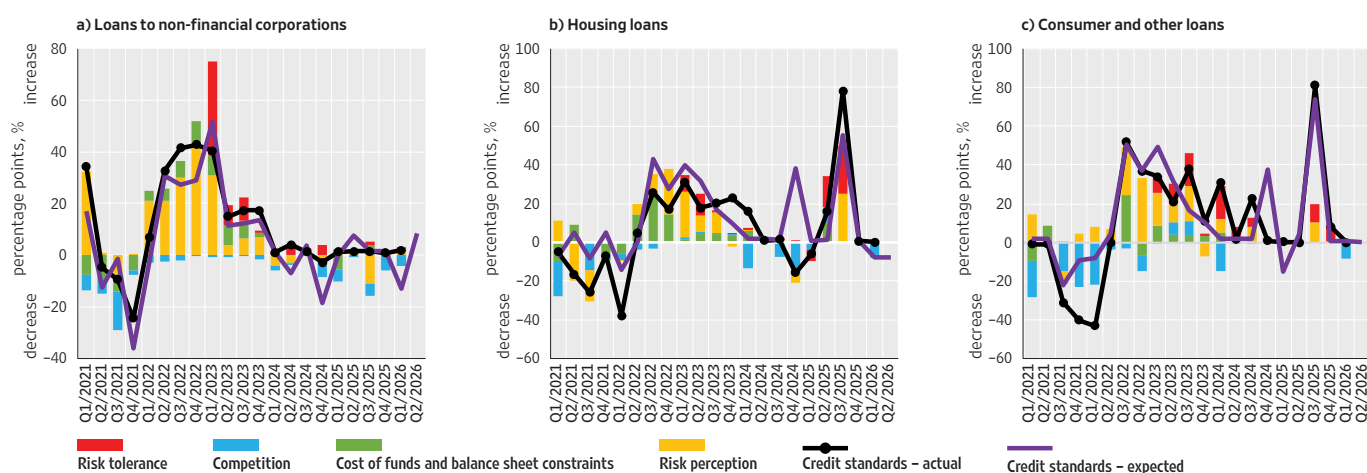


Notes: Data up to December 2022 refer to loans and deposits in kuna and in kuna with a currency clause in euro and in euro, and from January 2023 to loans and deposits in euro. Data refer to pure new loans and deposits. Deposits with a maturity of less than one month have been excluded.
Source: CNB.

Interest rates on corporate time deposits were stable in the first four months of 2026 and so were the interest rates on household time deposits, which ranged around the average levels recorded in 2025, although they were slightly more volatile. Interest rates on pure new corporate time deposits held steady at the lower level reached in mid-2025. In April 2026, the average interest rate on pure new corporate time deposits stood at 2.0%, up by 8 b.p. from December 2025 (Figure 3.5.1). In the first four months of 2026, interest rates on pure new household time deposits fluctuated within the range of 1.5% to 1.8%, around the average levels seen in 2025, mainly reflecting the promotional activities of some major banks. In April 2026, they stood at 1.5%, down by 29 b.p. from December 2025.

According to Bank Lending Survey results, in the first quarter of 2026, corporate and household lending standards remained mostly unchanged from the previous quarter. Corporate lending standards did not see any significant changes from early 2024 (Figure 3.5.3). As regards households, after significant tightening in the third quarter of 2025 with the introduction of macroprudential measures, the standards of lending to this sector have not changed much. In the first quarter of 2026 some banks cited increased competition among banks as the main factor behind their relaxation. In the second quarter of 2026, banks expect to see some small tightening of the standards of lending to corporates, relaxation of the standards for granting housing loans and no changes in the standards for granting consumer and other household loans.

Figure 3.5.3 Bank lending survey
lending standards and factor contributions



Notes: "Risk tolerance" was introduced in the first quarter of 2023 and reflects a bank's tolerance to risk in its lending policy, which can change depending on changes in the bank's general business strategy. "Cost of funds and balance sheet constraints" is the unweighted average of the "Impact of capital position", "Impact of ability to access market financing" and "Impact of liquidity". "Competition" is the unweighted average of "Impact of bank competition" and "Impact of non-bank competition". "Risk perception" is the unweighted average of the "Impact of general economic activity", "Housing market prospects" and "Borrowers' creditworthiness".

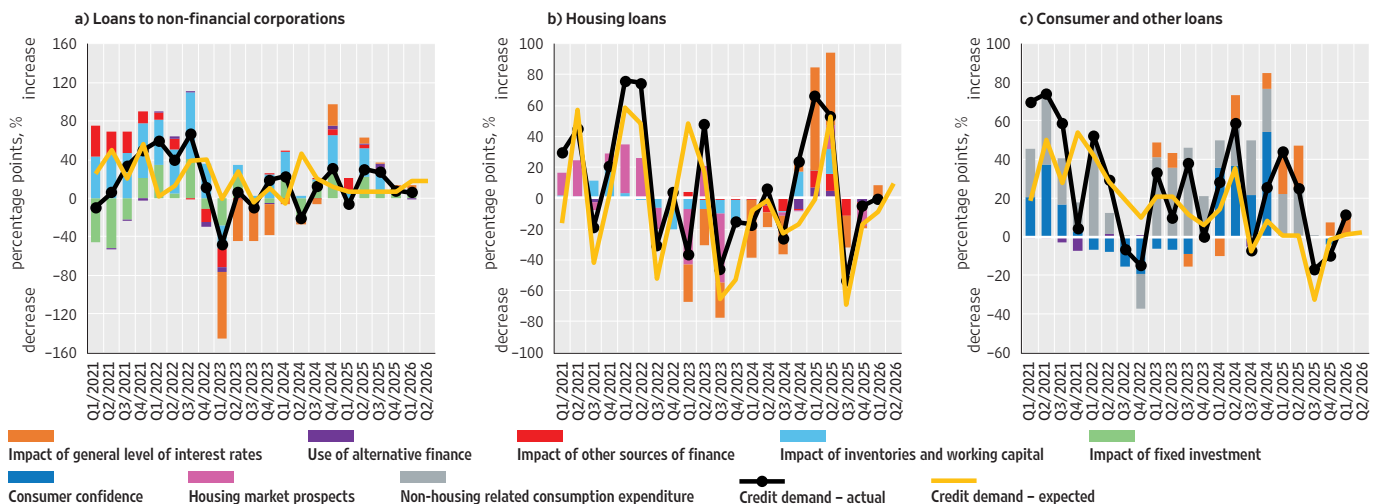
Source: CNB.

Corporate demand for loans has continued to rise, albeit at a somewhat slower pace than in the year before, while household demand for housing, consumer and other loans has been slowly recovering. The increased corporate demand for loans was triggered primarily by corporate need for investment financing and to a lesser extent the need to finance inventories and working capital (Figure 3.5.4). As regards the household sector, after falling sharply

in the third quarter of 2025, the demand for loans recovered at the end of 2025 and in the first quarter of 2026, partly driven by banks' new promotional interest rates. In the second quarter of 2026, banks expect to see a relatively small growth in corporate and household demand for loans, with the smallest growth being anticipated for consumer and other loans.

Figure 3.5.4 Bank lending survey

demand change and factor contributions



Notes: "Interest rate level" is a term introduced in the first quarter of 2023. "Other financing needs" is the unweighted average of "Debt restructuring and refinancing" and "Impact of mergers and acquisitions and corporate restructuring". "Use of alternative finance" is the unweighted average of "Impact of internal financing", "Impact of loans from other banks", "Impact of loans from non-banks", "Impact of debt securities issuance" and "Impact of equity issuance".

Source: CNB.

Loans to corporates and households grew relatively strongly in the first four months of 2026, although they slowed down on an annual level. From January to April, loans to households rose by EUR 1.0bn, with 50% of the increase being accounted for by housing loans and some 40% by general-purpose cash loans. Housing loans lost some momentum¹⁴, having slowed down from 13.9% in December 2025 to 12.7% in April while the momentum of general-purpose cash loans more than doubled during the same period, having risen from 6.3% to 15.1%, on the back of the promotional interest rates of banks. On an annual level, loans to households slowed down from 13.1% in December to 12.4% in April, with the growth in general-purpose cash loans and housing loans also slowing down, from 11.3% to 10.3% and from 15.5% to 14.9%, respectively. The slowdown on an annual level reflects the effect of the base period, i.e. faster growth in this type of loan in the same period of the previous year. In the first four months of this year corporate loans rose by EUR 0.8bn with lending to the corporates gaining momentum, rising from 13.7% in December to 14.6% in April (Figure 3.5.6). The growth in corporate loans is broadly distributed across purposes and activities, with food service activities standing out and accounting for one third of the growth. On an annual level, the growth in corporate loans slowed down in April to 10.2% from 12.8% in December¹⁵

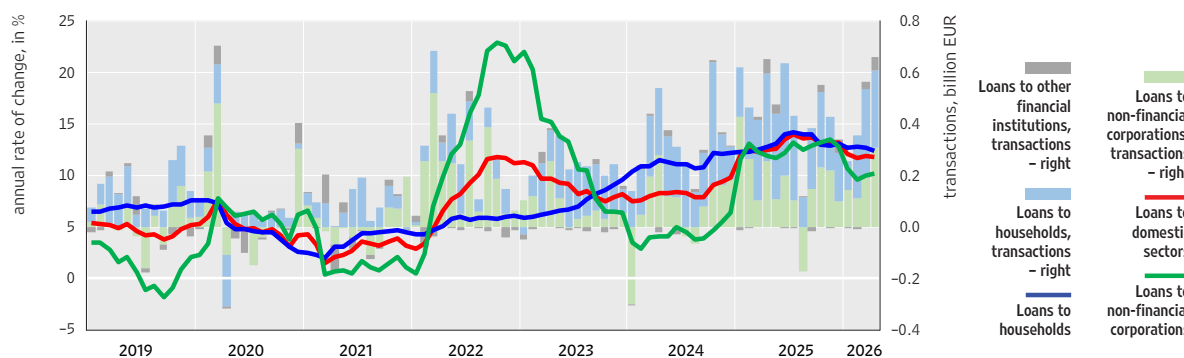
¹⁴ Momentum is a short-term indicator of lending activity which shows annualised three months-on-three months rates of change in loans.

¹⁵ After adjustment for the effect of large one-off transactions, the growth in corporate loans slowed down from 9.8% in December 2025 to 9.0% in April 2026.

(Figure 3.5.5) as a result of a faster growth in loans from January to April last year than in the same period of this year.

Figure 3.5.5 Loans

transactions and annual rates of change, transaction-based

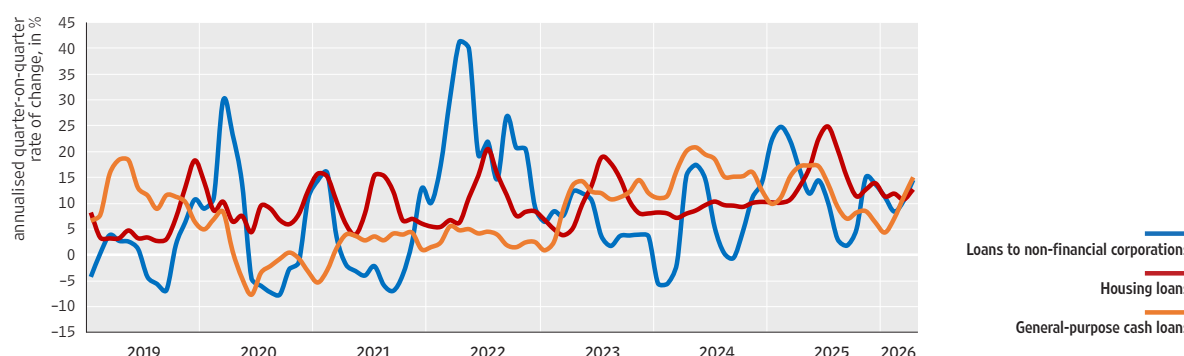


Note: Loans to domestic sectors exclude loans to general government.

Source: CNB.

Figure 3.5.6 Lending momentum, corporates and households

(transaction-based)



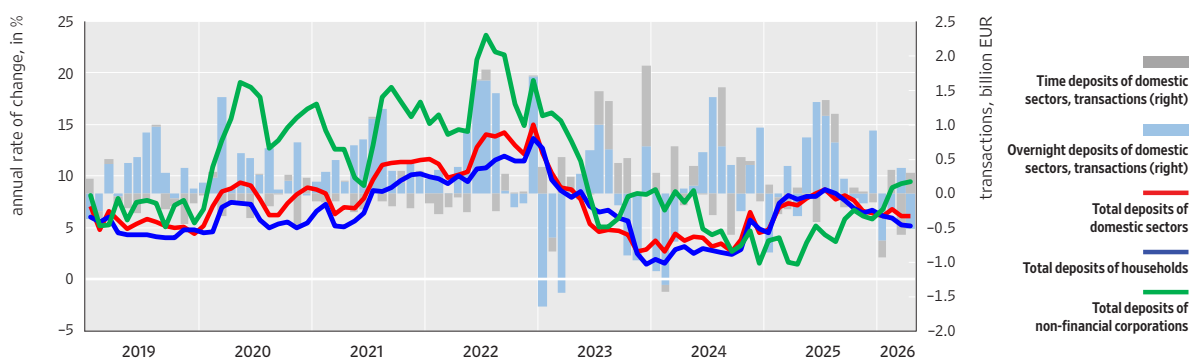
Note: Momentum is a short-term indicator of lending activity which shows annualised three-months-on-three-months rates of change in loans.

Sources: CNB and CNB calculations.

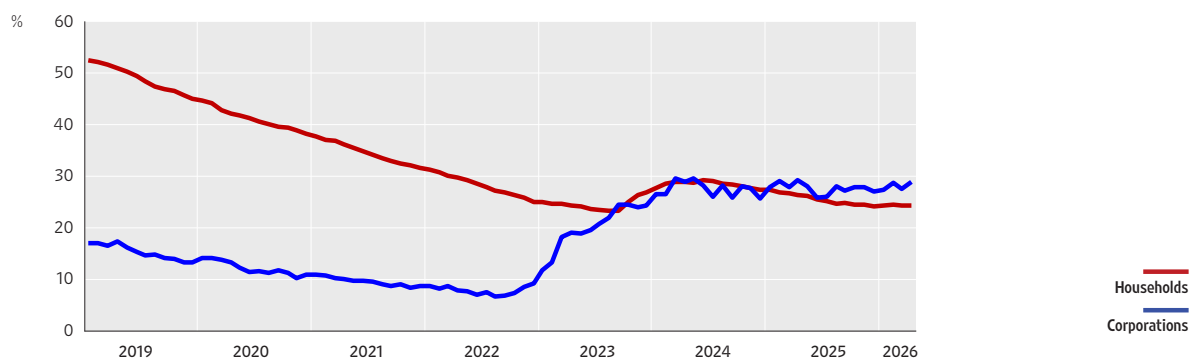
Total deposits of domestic sectors (general government excluded) fell by EUR 1.3bn from January to April 2026. The fall in deposits was mostly due to the fall in net foreign assets of monetary institutions (EUR 2.2bn) as a result of significant cross-border outflows from credit institutions and the fall in net claims on the central government (EUR 1.0bn), while the increase in claims on other domestic sectors contributed to the growth in deposits (EUR 1.8bn). Some 70% (EUR 0.9bn) of the decline in total deposits can be attributed to overnight deposits, with companies and households reducing the balance of their overnight deposits by EUR 1.1bn and EUR 0.1bn, respectively, while other financial institutions increased this balance by EUR 0.2bn, of which 60% can be accounted for by pension funds (Figure 3.5.7). Time deposits also fell (EUR 0.4bn), mirroring the fall in time deposits of other financial institutions, primarily pension funds. The share of household time deposits in total deposits stabilised at levels reached in the second half of 2025 (around 24%), while that of corporates ranged around levels slightly below 30%, with small fluctuations (Figure 3.5.8).

Figure 3.5.7 Deposits

transactions and annual rates of change, transaction-based



Note: Deposits of domestic sectors exclude general government deposits
Source: CNB.

Figure 3.5.8 Share of time deposits in total deposits

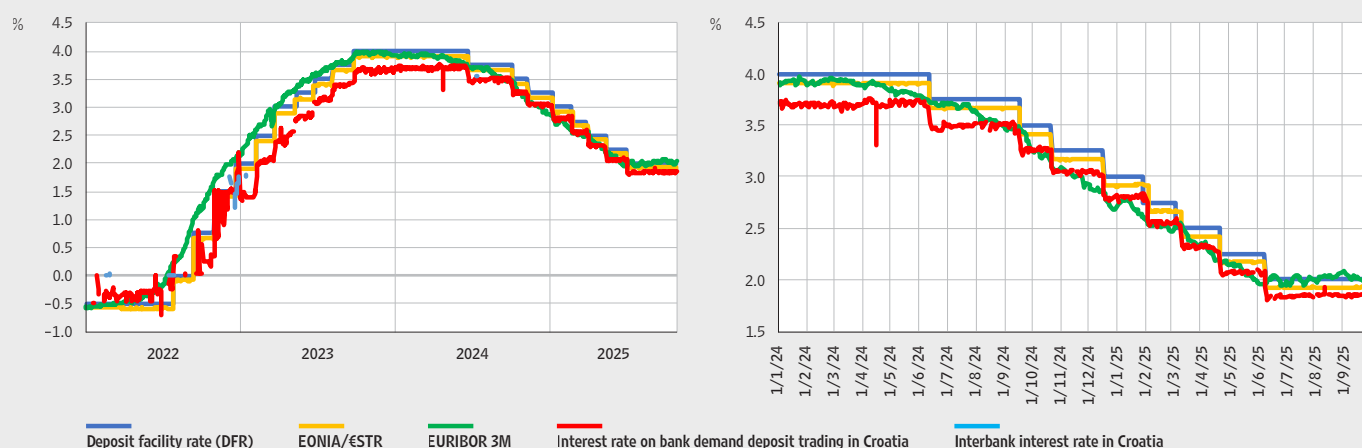
Note: Total deposits include overnight and time deposits, deposits redeemable at notice and repurchase agreements.
Source: CNB.

BOX 4**Transmission of ECB key interest rates to bank interest rates in Croatia**

During the easing of the ECB's restrictive monetary policy stance, the interest rate transmission to corporate time deposits and corporate loans is the strongest due to their connectedness to short-term market interest rates, while for households it is weaker and more heterogeneous than those of other euro area member states. As regards the euro area average, a slightly weaker interest rate transmission in Croatia to corporate and household loans and deposits, except for housing loans, is also a feature of the cycle of tightening and the cycle of easing of the monetary policy restriction, which points to the importance of domestic structural and institutional factors. In the most observed segments in Croatia the transmission during the cycle of easing was comparable to the transmission during the preceding cycle of tightening, especially to corporate loans and time deposits of corporates and households. The asymmetry of transmission is more pronounced for household loans and is reflected primarily in interest rates on housing loans being reduced more during monetary policy easing than they are increased during monetary policy tightening.

The end of the cycle of moderation of the degree of monetary policy restrictiveness in the middle of last year provides for an assessment of the transmission of changes in key interest rates of the European Central Bank on interest rates of Croatian banks in that period. After the strongest monetary policy tightening cycle since the euro area was formed, in mid-2024 the cycle of the monetary policy loosening started. In the period from July 2022 to June 2023, key ECB interest rates increased by as much as 400 basis points, and were maintained stable by the ECB's Governing Council from September 2023. The cycle of monetary policy rate cuts started in June 2024 and by June 2025 they had been cut eight times by altogether 200 basis points.

Figure 1 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 are for 30 September 2025.
Sources: ECB and CNB.

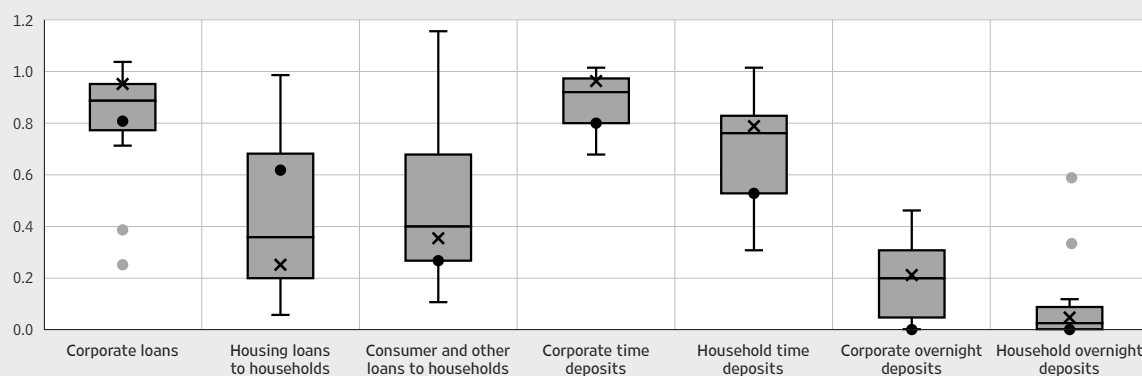
The transmission of interest rates to the money market is almost complete and instantaneous (Figure 1), while the transmission of lending rates and interest rates on bank deposits is indirect and gradual. The overnight interest rate €STR is closely linked to key ECB interest rates and therefore indirectly reflects their changes, while EURIBOR also mirrors the expected developments in short-term rates on the money market. Since the three-month EURIBOR is the relevant benchmark for a sizeable portion of newly-granted corporate loans, interest rate transmission further in the analysis is defined as the change in bank interest rates in relation to the change in the three-month EURIBOR. However, the intensity of transmission to bank interest rates also depends on certain domestic structural and institutional factors. In Croatia, such factors contributed during the last period of monetary tightening to an interest rate transmission weaker in most segments than the euro area average. They include the one-off effects of joining the euro area, such as the decrease in the risk premium and increase in liquidity surplus, as well as the characteristics of the banking system including a stable deposit base, a relatively low ratio of loans to deposits and a small share of variable rate loans.¹⁶

The intensity of interest rate transmission in Croatia during the cycle of easing of the restrictiveness of ECB monetary policy is predominantly harmonised with the euro area average, although certain deviations are visible between corporate loans and household loans and among individual financial instruments (Figure 2). Considering that changes to ECB's key interest rates are predominantly transmitted to bank interest rates through market interest rates and given the fact that interest rates on approximately half of new corporate loans are linked to EURIBOR, the transmission of changes in market interest rates to these loans is more direct. There was a strong transmission of the decrease in the three-month

16 For more details, see Deskar-Škrbić, M., Jukić, S., Lesničar, K. and J. Zrnc (2023): How strong is the pas-through of ECB policy rates to bank interest rates in Croatia? HNBlog (available at: <https://www.hnb.hr/en/-/uhvati-me-ako-mozes-rast-kamatnih-stop-a-na-orocene-depozite>) and Jukić, S., Mužić, I., Šošić, V. and J. Zrnc (2024): Catch me if you can: the rise of the deposit rates, HNBlog (available at: <https://www.hnb.hr/en/-/uhvati-me-ako-mozes-rast-kamatnih-stop-a-na-orocene-depozite>).

EURIBOR to interest rates on loans to this sector (some 81%) in Croatia as well, and a similar pattern was visible at the euro area level (some 94%). Also, interest rate transmission on corporate time deposits in Croatia and the rest of the euro area was almost as strong as transmission to loans.

Figure 2 Transmission of the change in three-month EURIBOR to bank interest rates in euro area countries

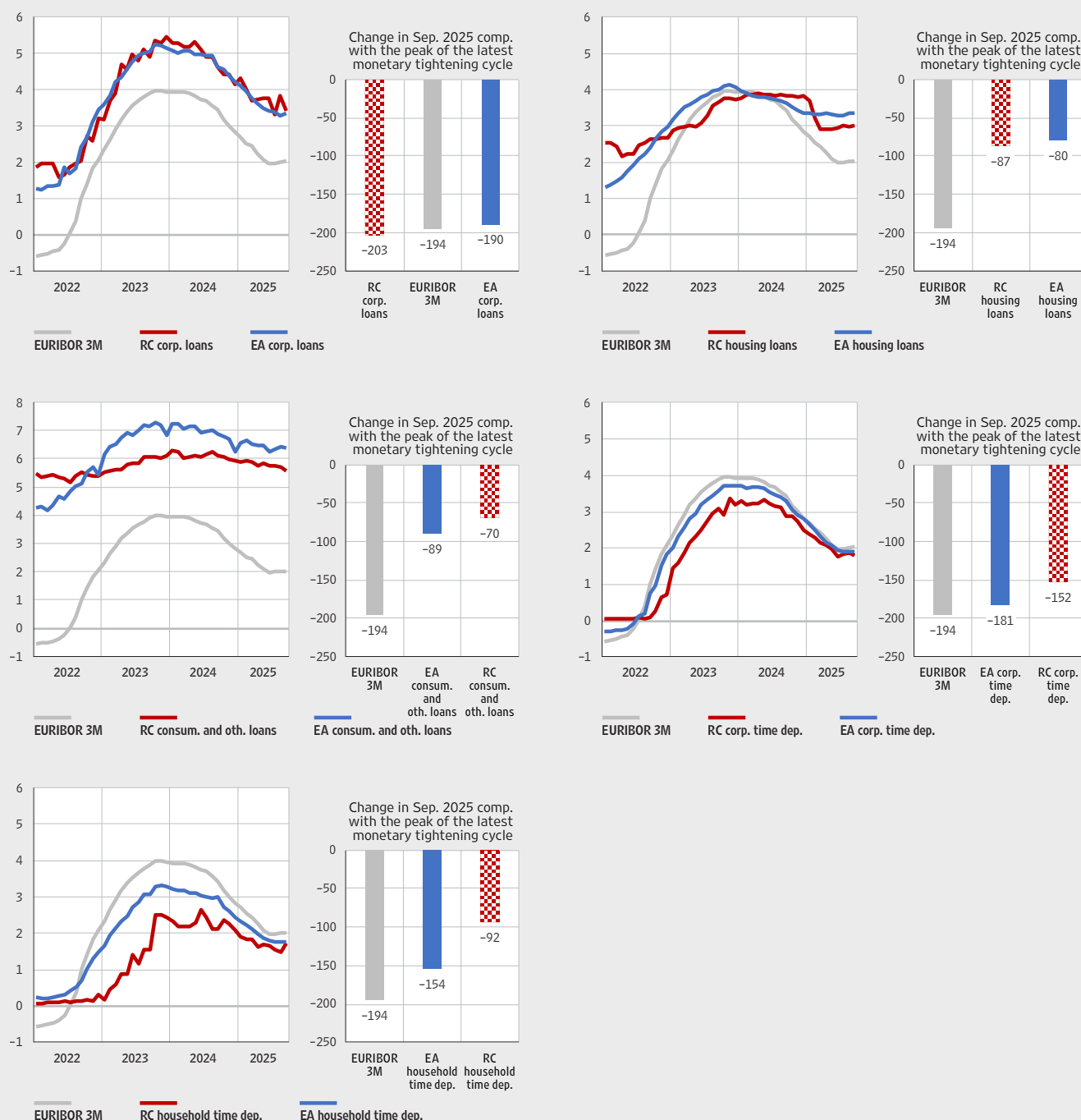


Note: Since June 2024 to September 2025; horizontal lines depict minimum and maximum values, values for 25th percentile, median and 75th percentile, while x signs represent average values for all euro area member states, and black dots depict average values for Croatia.

Sources: ECB and CNB calculations.

The transmission to household lending and deposit rates was weaker than for corporates and more heterogeneous among euro area member states (Figures 2 and 3). Most new loans to households are granted at a fixed interest rate and the transmission of changes in short-term market interest rates to these loans is weaker than to corporate loans. The level of interest rates on this type of loan depends on expectations of future market interest rates, on fixation costs, which in addition to those previously stated, include also the assumption of risk of change in interest for the bank in the long term, as well as on costs of long-term sources of financing, alternative investments, etc. A growth in the share of newly-granted loans to households with a variable interest rate was observed in recent months, which might increase the susceptibility of this loan segment to changes in short-term market interest rates. The intensity of transmission to interest rates on consumer and other loans to households in Croatia (26%) was slightly weaker than the euro area average. This result should be viewed in the context of a very limited growth in these interest rates over the previous tightening cycle, which diminished the room for their subsequent decrease. However, the greatest difference is visible on housing loans. Interest rates on housing loans have decreased in Croatia by some 60% of the decrease in EURIBOR, which is more than double the strength of the average reaction in the euro area. The stronger transmission in Croatia may be associated with increased competition in the market for housing loans at the beginning of 2025 amid the high liquidity of the banking system and a decline in the interest rate on ECB's deposit facility. Therefore, some banks had the incentive for more active lending to preserve their profitability, so as part of their promotional offers they considerably cut interest rates on housing loans. Attempting to keep their existing clients and possibly attract some from other banks, very soon other banks announced lower interest rates.

Figure 3 Interest rates on household and corporate loans and deposits in Croatia

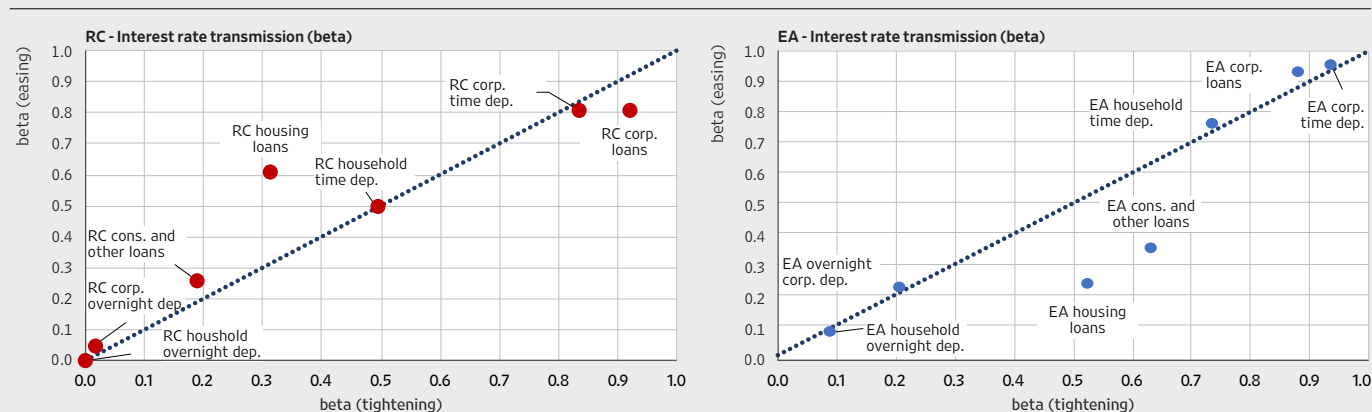


Sources: CNB, CBS and CNB calculations.

The reaction of household deposit rates in Croatia was also weaker than the euro area average. In the euro area, 76% of the decrease in the three-month EURIBOR was transmitted to interest rates on household time deposits, while in Croatia it was some 50%. Although the limited interest rate transmission during the previous monetary policy tightening cycle in the period 2022-2023 contributed to the lower initial interest rate level in multiple segments, the weakest interest rate transmission in Croatia and the rest of the euro area is visible on interest rates on overnight deposits. Due to a very low levels of these rates at the beginning

of the easing cycle, the room for their further reduction was limited, so during the easing of the restrictiveness of monetary policy, interest rates on overnight deposits, especially those of households, have almost not changed in Croatia.

Figure 4 Comparison of interest rate transfer in the last cycle of tightening and easing of monetary policy restriction



Notes: The beta coefficient measures the intensity of transmission of changes in the three-month EURIBOR on bank interest rates. It is calculated as the ratio of covariance of bank interest rates and the three-month EURIBOR and the variance of three-month EURIBOR.

Sources: CNB, CBS and CNB calculations.

The comparison of the intensity of interest rate transmission in the tightening and the easing cycle of monetary policy restrictiveness provides for the assessment of the symmetry of reaction of credit institutions' interest rates amid the rise and fall in market interest rates (Figure 4). A symmetrical transmission means that the susceptibility of interest rates to changes in key interest rates is similar in both directions, while asymmetry means that the strength of transmission is different in the two cycles. In most observed segments the transmission during the cycle of easing was comparable to the transmission during the preceding cycle of tightening, especially to corporate loans and time deposits of corporates and households. The asymmetry of transmission is more pronounced in the case of household loans. In Croatia asymmetry of transmission is reflected primarily in the stronger reduction of interest rates on housing loans during monetary policy easing than their growth during tightening. During the period of tightening, the legally prescribed interest rate cap protected households from stronger growth, and weaker transmission was also aided by the housing loan subsidy programme and the decline in the country's risk premium due to joining the euro area. On the other hand, stronger reduction during the easing cycle may be associated with the mentioned increased competition in the housing loans market at the beginning of 2025, when one systemically important bank considerably lowered interest rates on housing loans as part of its promotional offer after which other banks quickly followed suit. In the euro area, in contrast to Croatia, monetary policy transmission had almost twice as strong an impact on the growth of interest rates on housing loans than on their reduction. For consumer and other household loans divergences are less pronounced but also indicate a slightly stronger transmission during the easing cycle in Croatia.

4 Projections for Croatia

4.1 Baseline assumptions

The CNB's June projection draws on worsened expectations for the global economy relative to the previous projection, primarily because of the continued blockade of the Strait of Hormuz and uncertainties regarding the future course of the war in the Middle East¹⁷. The fragile truce and the continued blockade of the Strait of Hormuz in April and May resulted in higher expected prices of energy, financial conditions worsening and increased uncertainty. Against such a background, the expectations regarding global economic growth for this and next year have been revised downwards relative to the March projection, with a somewhat more pronounced revision in 2026. At the same time, the expected growth in real global trade has been revised upwards considerably throughout the entire projection horizon, mostly because of better results at the beginning of the year but also because of the resilience of foreign trade despite the uncertainties. Foreign demand for Croatian exports is weaker than under the previous projection, especially the demand of foreign partners from other euro area countries.

The expected energy prices under the baseline scenario were raised considerably relative to the previous projection. Crude oil prices saw a large upward revision throughout the entire projection horizon as a result of the uncertainties surrounding the war in the Middle East. Thus, the average price of crude oil per barrel in 2026 according to market expectations is now estimated to stand at approximately USD 97, some USD 15 per barrel up from the previous projection. Forward agreements indicate that although the prices are expected to fall gradually, they will remain elevated in the following years. Electricity prices were also revised upwards although they are also expected to normalise gradually, while the expected prices of gas have not changed much. The prices of other raw materials, particularly food raw materials, were mainly revised upwards, reflecting the expected adverse effects of growing production costs.

The expectations regarding economic growth in the euro area worsened slightly from the previous projections and the expectations regarding inflation were revised upwards considerably. Short-term indicators suggest a further moderate growth amid higher energy prices and heightened uncertainty, making a negative impact on domestic demand. However, over the medium-term, economic activity should be maintained by the recovery of real income, the resilient labour market and increased investments in infrastructure, defence and new technologies. The growth in real GDP of the euro area could amount to 0.8% in 2026, 1.2% in 2027 and 1.5% in 2028. At the same time, the expected inflation was revised upwards as a result of a sharp increase in energy prices caused by the war in the Middle East and its spillover onto other components of consumer prices. Inflation could thus rise to 3.0% in 2026 and then fall to 2.3% in 2027 and 2.0% in 2028. The projections continue to rest on the assumption of a gradual fall in energy prices during the following quarters, however, until a more permanent

17 The external and technical assumptions of the projection were taken over from the ECB and finalised on 21 May 2026.

de-escalation of the war in the Middle East is achieved, the outlook for growth and inflation remains highly uncertain.

Table 4.1.1 Projection assumptions regarding the international environment and prices of raw materials

		Current projection				Deviations from the previous projection			
		2025	2026	2027	2028	2025	2026	2027	2028
International environment									
Global economic growth (excl. EA)		3.6	3.0	3.2	3.3	0.0	-0.3	0.0	0.0
USA		2.1	2.1	1.8	1.9	-0.1	-0.3	0.0	0.0
China		5.0	4.7	4.1	4.0	0.0	0.1	0.1	0.0
Global trade		5.5	4.2	3.6	3.5	0.5	1.9	0.7	0.3
Foreign demand (EA)		4.6	3.2	3.4	3.4	0.3	1.1	0.4	0.1
Foreign demand (HR)		3.4	2.3	3.0	3.5	0.1	-0.5	-0.3	0.1
Prices of raw materials									
Prices of oil	USD	69.1	96.9	82.2	77.1	0.0	19.2	14.0	9.8
Prices of electricity	EUR/MWh	83.6	89.3	78.2	68.1	0.0	1.9	0.4	4.4
Prices of gas	EUR/MWh	36.2	45.6	37.5	27.9	0.0	-1.6	2.4	6.9
Prices of raw materials (excl. energy) % of change	USD	5.8	3.0	0.8	-1.9	0.0	2.2	0.3	-1.3
prices of food raw materials	USD	9.3	-15.1	1.2	-3.5	0.0	2.5	1.8	-0.9
prices of other raw materials	USD	3.3	16.6	0.5	-0.8	0.0	1.7	-0.9	-1.7
Euro area									
Economic growth		1.5	0.8	1.2	1.5	1.5	0.8	1.2	1.5
Inflation		2.1	3.0	2.3	2.0	2.1	3.0	2.3	2.0

Notes: Projection assumptions refer to the ECB June projection cycle (June 2026 BMPE) as at 21 May 2026. Deviations from the previous projection for oil, electricity and gas prices are shown in percentages and those of other variables are shown in percentage points.

Source: ECB.

4.2 Macroeconomic variable projections

Economic growth in Croatia is expected to slow down in the projection horizon, while economic developments remain highly uncertain due to the conflict in the Middle East. Economic expansion in 2026 might continue to rest mainly on domestic demand in conditions characterised by the robust labour market, expected growth in real income and faster utilisation of EU funds, while the contribution of goods and services exports is expected to strengthen towards the end of the projection horizon due to the projected acceleration in the growth of foreign demand. Nevertheless, real GDP growth in 2026 might slow down noticeably from 2025, partly due to the consequences of the war in the Middle East, reflected primarily in energy price growth, and their negative impact on real income, lower external demand and heightened uncertainty. The baseline scenario is based on the assumption that the conflict will be short-lived and that energy prices would start falling in line with market expectations already by mid this year. This could spur recovery in foreign demand and goods and services exports next year and boost consumer and business confidence, but the growth in domestic demand might continue to slow down in line with the expected further slowdown in real income growth, gradual fiscal policy tightening and smaller disbursements of funds from EU

funds. Consequently, real GDP growth could slow down slightly in 2027 as well, and similar developments are expected at the end of the projection horizon.

Table 4.2.1 Key macroeconomic variable projections

annual growth rates

	2025	2026	2027	2028
Real GDP	3.4	2.4	2.3	2.2
Personal consumption	2.5	3.0	2.5	2.3
Government consumption	4.1	2.9	2.4	1.7
Capital investments	6.1	3.6	1.4	1.5
Exports of goods and services	0.9	0.9	1.9	2.3
Imports of goods and services	2.8	2.6	1.9	1.8
Contributions to GDP growth¹				
Domestic demand	4.0	3.3	2.4	2.1
Exports of goods and services	0.5	0.4	0.9	1.1
Imports of goods and services	-1.5	-1.4	-1.0	-1.0
Inventories	0.5	0.0	0.0	0.0
Labour market				
Change in employment	2.5	0.8	0.7	0.7
Unemployment rate (ILO) ²	4.9	4.7	4.6	4.5
Nominal gross wage	10.8	7.9	5.1	3.9
Real gross wage	6.8	2.8	2.0	1.3
Inflation (HICP)				
Total	4.4	4.9	3.1	2.7
HICP excl. energy and food	4.1	4.1	3.4	2.8
Food	5.5	3.0	3.4	2.9
Energy	3.3	13.0	1.0	1.4
Inflation (CPI)	3.7	5.0	3.0	2.6

1 In percentage points.

2 As % of labour force.

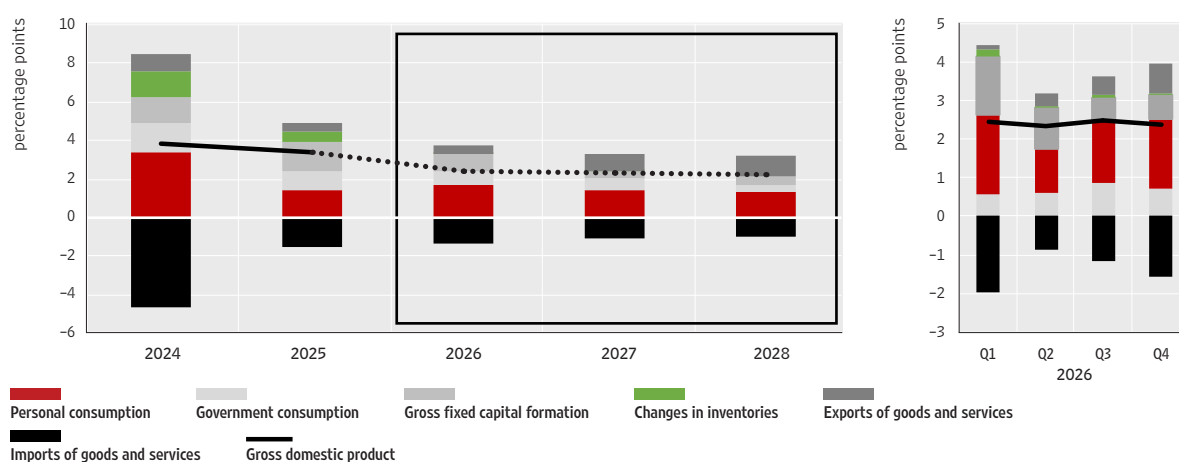
Note: Table 4.2.1 sums up the estimated and projected values of key variables for Croatia resulting from the inclusion of baseline assumptions and historical results in the short-term and medium-term macroeconomic models used by the Croatian National Bank, subject to corrections of model estimations based on the judgement of experts for individual economic areas.

Sources: CBS, Eurostat and CNB estimations and projections

Real economic activity in 2026 might slow down to 2.4%, with domestic demand remaining the main contributor to growth. In light of the robust labour market and growth in real income, personal consumption might be the biggest contributor to growth in 2026. Despite slower expected growth in real income and a slowdown in employment from 2025, its annual growth rate is expected to accelerate slightly, mostly mirroring the base effects related to retail chains boycott in early 2025, and to a lesser extent subdued consumption during the summer months. As the growth in consumption might exceed the growth in real income, the saving rate is projected to fall slightly but, due to heightened geopolitical uncertainties, remain much above the pre-pandemic average. In contrast, after having accelerated in the previous year, investment growth might slow down in 2026. This primarily reflects a slowdown in the growth of public investments from the two-digit growth rate recorded in 2025. However, their growth in 2026 might continue to be relatively strong, as this year expects to see the peak of disbursements from EU funds. The growth in private investments might

continue to be relatively robust although slightly slower than previously expected, given the slowdown in economic activity growth and the heightened uncertainty. The war in Iran could slow down foreign demand growth, which is expected to lead to a considerable slowdown in the growth in goods exports, while services exports, primarily due to the diminished price competitiveness of Croatian tourism, could stagnate. The relatively strong domestic demand is expected to bring about a much stronger imports than exports growth, with the contribution of net foreign demand to GDP growth in 2026 possibly remaining negative in 2026.

Figure 4.2.1 GDP and GDP components, contributions



Sources: CBS and CNB estimations and projections.

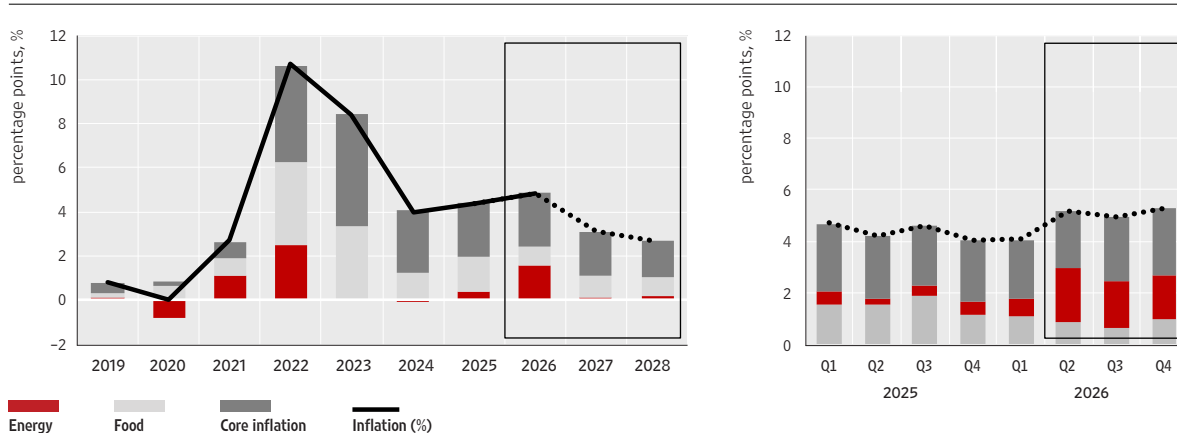
In the remainder of the projection horizon, Croatian economy is expected to slow down to the average of 2.3% as a result of the expected weakening of domestic demand, while the growth of goods and services exports is expected to increase. Personal consumption might slow down gradually, reflecting the expected slowdown in real income growth, influenced also by the expected more restrictive fiscal policy. Investment activity is also expected to slow down primarily due to smaller use of EU funds as the use of funds under the Recovery and Resilience Facility is expected to peak in 2026, while the disbursements to end beneficiaries under the new financial perspective might strengthen only gradually. At the same time, the growth in private investments might be relatively stable, supported by smaller uncertainty and gradual recovery in foreign demand. Imports growth is expected to slow down in line with developments in domestic demand, while exports growth might accelerate towards the end of the projection horizon. As a result, the contribution of net foreign demand to GDP growth might remain slightly positive until the end of the projection period.

Predominant risks to growth in the projection period are negative, with high uncertainty related to the duration and intensity of the conflict in the Middle East. The main channels of transmission of these negative risks lie primarily in foreign demand smaller than expected and higher energy prices, which could additionally reduce the real disposable income of households. A longer-term conflict could prolong the period of heightened uncertainty, delaying investment decisions and decisions on the consumption of durable goods. The risks to tourism are estimated as two-way. On the one hand, heightened geopolitical uncertainty

might drive some European tourists away from Asian to Mediterranean destinations, which could lead to services exports exceeding the projected levels. As a primarily road destination, Croatia might be less hit by any prolonged disruptions in air travel than other Mediterranean countries. On the other hand, longer conflict could lead to a smaller overall propensity to travel while difficult connectivity through air hubs in the affected region would limit arrivals from remote overseas markets, especially from Asia. However, should a peace agreement be reached relatively quickly, energy prices could normalise faster than expected and uncertainty diminish considerably, which would have a positive impact on consumer and business confidence and economic growth.

The surge in energy prices could further accelerate inflation in 2026 before its expected slowdown in 2027 and 2028. The expected increase in the average annual rate of overall inflation (HICP) from 4.4 % in 2025 to 4.9 % in 2026 is exclusively the result of the pronounced acceleration in the growth of energy prices caused by the conflict in the Middle East. In contrast, food price inflation is expected to slow down, while core inflation (excluding volatile prices of energy and food) could hold steady at the previous year's level. In the remainder of the projection horizon, inflationary pressures are expected to ease as a result of a slowdown in the growth of wages and personal consumption, subdued growth in foreign demand for tourist services, more restrictive fiscal policy and the fall in energy prices. Thus, overall inflation might slow down to 3.1% in 2027, mostly owing to a reduced pressure on food prices, and to a lesser extent to a slowdown in core inflation, while food price inflation might accelerate slightly, due to the delayed effects of energy price increase and the increase in the prices of other production inputs, such as fertilisers. A further slowdown in overall inflation to 2.7% in 2028 reflects a continued reduction of core inflation and the expectation of lower inflation of food prices as a result of smaller pressures on food raw material prices in the global and European market.

Figure 4.2.2 Projection of harmonised index of consumer prices



Sources: Eurostat and CNB estimations and projections.

Energy price inflation should accelerate considerably in 2026. Thus the average annual growth rate of energy prices, after standing at 3.3% in 2025, could stand at 13.0% in 2026. Such a pronounced acceleration of energy price inflation primarily reflects the effects of the

spillover of the strong growth in crude oil and petroleum products prices in the global market onto domestic retail prices of petroleum products, taking into account market expectations about crude oil price trends in the remainder of the year.

In contrast to the inflation of energy prices, the growth in food prices is expected to slow down in 2026. Food price inflation could slow down to 3.0% in 2026, down from the acceleration to 5.5% in 2025. The expected slowdown in food price inflation reflects the easing of pressures arising from the prices of food raw materials in the global and European markets and the slowdown in wage growth, which reduces cost and demand pressures. The gradual spillover of higher energy prices will have the opposite effect on food price inflation, which is expected to accelerate in the second half of this year and at the beginning of the next year.

Core inflation might hold steady at the previous year's level in 2026 and stand at 4.1%. Both components of core inflation (industrial goods price inflation and services price inflation) might remain on a similar level as in the year before. Industrial goods price inflation might thus remain low and stand noticeably below its long-term average as a result of the negative rates of change in the first half of the year, while it is expected to gradually accelerate towards the end of the year. The persistently high services price inflation rate reflects solid domestic demand in the conditions of a further growth in disposable income, and the earlier increase in some administered prices (rent, road tolls, refuse and sanitation services).

The expected slowdown in overall inflation to 3.1% in 2027 mostly reflects the slowdown in the annual growth in energy prices, taking into account the assumed reduction in crude oil prices in the global market. The expected fall in overall inflation in 2027 can also, albeit to a lesser extent than that of energy prices, be attributed to the slowdown in core inflation amid a slowdown in the growth of personal consumption and wages and a relatively high level of tourism-related services prices. In contrast, food price inflation could accelerate due to the indirect effects of higher energy prices in the year before, the delayed effects of the increase of other input costs, such as prices of fertilisers and higher pressures from food product prices in the European market.

A further slowdown in overall inflation to 2.7% in 2028 can be attributed to the expected continuation of a slowdown in core and food price inflation, while the inflation of energy prices could accelerate. The expected acceleration of energy price inflation in 2028 is due to the estimated impact of the announced introduction of the new EU Emissions Trading System 2 (EU ETS2) for the building sector, road transport and fuel emissions for sectors outside the existing EU ETS. The estimated impact of EU ETS2 is based on a common technical assumption for the euro area as a whole. If the effect of the possible impact of EU ETS2 is excluded, energy price inflation will also slow down additionally towards the end of the projection period.

The inflation differential between Croatia and the euro area average should decrease gradually. According to the latest forecasts of the Croatian National Bank and the European Central Bank of June 2026, the difference between the average annual inflation rate in Croatia and the euro area average rate could decrease in 2026 from the previous year and stand at 1.9

percentage points, down from 2.3 percentage points in 2025. In 2027, the inflation differential could decrease further, to 0.8 percentage points, declining further to 0.7 percentage points in 2028, roughly at the level of the pre-pandemic long-term differential achieved on average.

The average annual inflation rate measured by the national consumer price index (CPI) could accelerate further to 5.0% in 2026, but is expected to slow down to 3.0% and 2.6% in 2027 and 2028, respectively. The acceleration in overall inflation measured by the national index in 2026 is due to a fast acceleration in energy price growth and a faster growth of services prices than in 2027, when the growth in energy and services prices is expected to slow down. The slowdown in overall inflation in 2028 can be attributed to the slowdown in core and food price inflation, while, as in the case of the HICP, energy price inflation might accelerate. In line with recent results, the average annual CPI inflation rate could be slightly higher than HICP inflation in 2026 and again somewhat lower in the following two years, with relatively small differences between these two indicators in line with historical developments.

The projected inflation is exposed to substantial uncertainty and risks, with prevailing risks that could drive inflation higher than anticipated. Considerable inflationary risks continue to be linked to geopolitical uncertainties, primarily because of the conflict in the Middle East, which may lead to new disruptions in energy supply and drive up crude oil prices in the global market. Bigger energy price growth increases the indirect impacts on inflation and the risks for secondary impacts through higher inflationary expectations and stronger wage growth than foreseen currently, particularly in the context of the robust labour market. Also, the risks to higher food price inflation arise from the possible extreme weather conditions and bigger delayed effects of input costs growth. In contrast, inflation could be lower than expected in the event of an earlier de-escalation of the situation in the Middle East, a weaker than expected economic growth due to the escalation of trade tensions and the related weakening of foreign demand, as well as a more pronounced appreciation of the euro that could alleviate imported inflationary pressures.

Compared with the previous CNB projection, the growth in Croatia's real GDP in 2026 has been revised downwards by 0.2 percentage points (Table 4.2.2). Lower external demand than previously expected and relatively unfavourable developments seen at the beginning of the year led to a downward revision of all the main components of GDP, except government consumption. However, external demand could continue to grow over the projection horizon, with its expected increase in 2027 supporting the continued growth in total goods and services exports. Growth for 2027 has been revised slightly downwards (by 0.1 percentage point), which also reflects somewhat more unfavourable expectations related to foreign demand and energy prices relative to earlier expectations.

Table 4.2.2 Deviations from the CNB projection of March 2026

	2025	2026	2027
Real GDP			
June 2026	3.4	2.4	2.3
March 2026	3.2	2.6	2.4
Difference (p. p.)	0.3	-0.2	-0.1
Inflation (HICP)			
June 2026	4.4	4.9	3.1
March 2026	4.4	4.6	2.8
Difference (p. p.)	-	0.3	0.3
Inflation (CPI)			
June 2026	3.7	5.0	3.0
March 2026	3.7	4.4	2.7
Difference (p. p.)	-	0.6	0.3

Sources: CBS, Eurostat and CNB estimations and projections.

In comparison to the previous projection of March this year, the average annual overall inflation rate (HICP) could be 0.3 higher in 2025 and 2027. The revision of overall inflation in 2026 is the result of the higher expected price of energy reflecting higher recent results and increased market expectations regarding the developments in crude oil prices in the global market in the projection horizon relative to the March assumptions. Despite higher energy prices and resulting stronger expected indirect effects of higher prices of energy on the growth in consumer prices, core inflation has been revised slightly downwards since recent figures for industrial products inflation were substantially lower than expected. Food price inflation has also been revised downwards due to lower than expected results. Upward inflation projection revision in 2027 reflects more indirect effects in line with higher energy prices. The projection for inflation measured by the national index of consumer prices in 2026 has been revised by a higher amount than HICP inflation due to higher than expected results.

BOX 5**Effects of the escalation of the conflict in the Middle East in alternative scenarios and deviations from the baseline projection**

Amid large uncertainty arising from geopolitical tensions in the Middle East, in addition to the baseline projection, alternative, hypothetical scenarios were made of energy price developments and their potential effect on economic growth and inflation in Croatia. The scenarios analysed are based on the assumption of a different intensity and duration of growth in energy commodity prices. Current scenarios are calibrated according to market-implied distributions of the probability of developments in energy prices, while the CNB's March projections were based on assumptions on the duration and intensity of the conflict. The current unfavourable scenarios thus assume initially a somewhat milder but more persistent, price pressure. A milder scenario assumes a faster fall in energy prices than under the baseline scenario. The results point to a more considerable slow-down in GDP growth and much stronger inflationary pressures in the event of stronger and more persistent disturbances in the energy market with the negative effects spilling over mostly onto the fall in real purchasing power, weakening of foreign demand and increased uncertainty. In contrast, under the milder scenario, inflation could be lower and GDP growth slightly faster than under the baseline projection. The calculations do not take into account any additional fiscal and monetary policy response relative to the baseline assumptions.

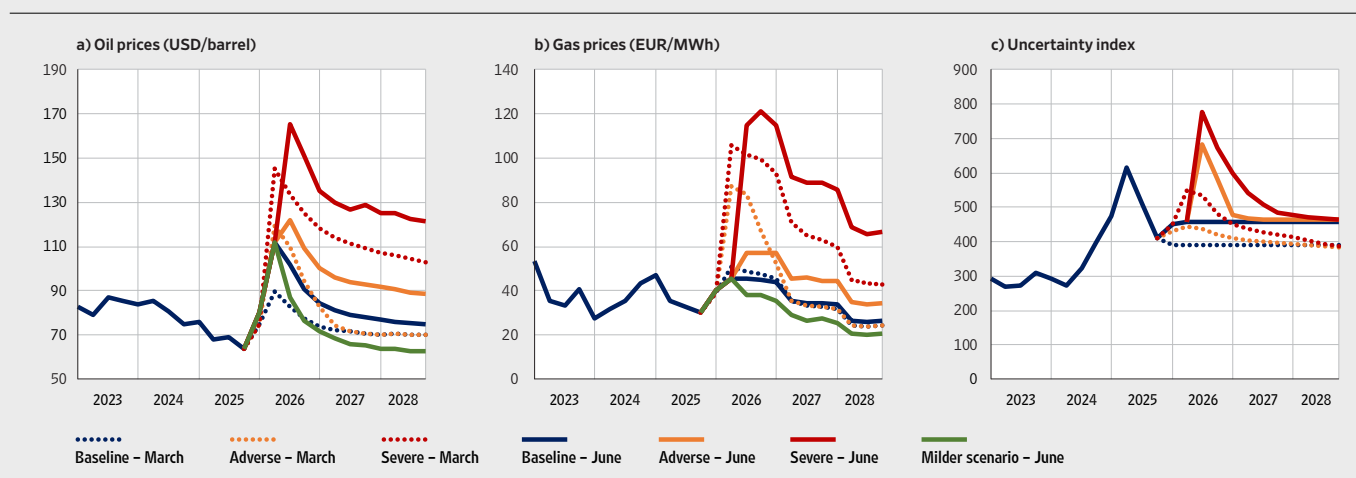
In view of heightened uncertainty regarding the duration and intensity of the war in the Middle East and its impact on raw material prices, global supply chains and financial markets, the CNB's baseline projection was complemented by alternative scenarios. These scenarios differ in terms of the intensity and persistence of energy disruptions, the level of uncertainty and the impact of all these factors on foreign demand. The baseline and alternative paths of oil prices have been revised upwards from the March expectations, especially at the long end of the futures curve, with the baseline assumptions approaching the trajectory of the March adverse scenario¹⁸. In contrast, the baseline scenario for natural gas prices has not changed much, reflecting the high resilience of the European market based on structural energy adjustments and diversification of imports amid a new energy disruption. Under the adverse scenario, gas prices are also slightly more favourable than under the March assumptions, while they have been revised upwards under a severe scenario. In addition, compared with the scenarios under the CNB's March 2026 projection, the June scenarios are not directly linked to assumptions on the duration and intensity of the conflict; instead, the movements in energy prices are derived from market-implied probability distributions. These

18 Larger shock persistence relative to the March scenarios coupled with a higher level of uncertainty over longer horizons may reflect market expectations that the conflict may last longer than initially expected and that the elimination of disruptions in energy flows might take a while, even once the Strait of Hormuz is re-opened.

methodological changes mostly served to increase additionally the projected paths for oil and gas prices under the alternative scenarios, except under the adverse scenario, and that exclusively this year when they somewhat mitigated the increase in the assumed path. In particular, the assumptions under the different scenarios are as follows:

- The adverse scenario rests on the assumption that the pronounced disruptions in energy supply will continue, but that there will be no escalation that would imply a considerable further destruction of energy infrastructure. Under such conditions, the assumed path of energy prices as of the third quarter of 2026 follows the 75th percentile of the market-implied probability distribution (Figure 1). At the same time, a short-lived increase in uncertainty is assumed, approximated by an increase in the European EPU index¹⁹ by approximately 50%, followed towards the end of 2026 by a rapid return to the levels from the fourth quarter of 2025, thus keeping uncertainty only slightly above the baseline path.
- The severe scenario reflects the materialisation of much stronger and more persistent disruptions in the supply of energy products, which would implicitly include significant further destruction of energy infrastructure. Under such conditions, the path of energy prices is assumed to follow the 95th percentile of market-implied distribution. The increase in uncertainty in this case is much bigger and assumes an initial growth in the EPU index of approximately 70%. Unlike the adverse scenario, the uncertainty in that case holds steady at exceptionally elevated levels until the end of 2027, after which, in 2028, it remains only marginally above the baseline projection.
- The milder scenario is based on the normalisation of global energy markets during the third quarter of 2026. Under such conditions, the path of energy prices is assumed to fall below the baseline projection and follow the 25th percentile of the market-implied distribution. In this scenario, uncertainty remains at the levels observed under the baseline projection.

Figure 1 Key assumptions under the baseline and alternative scenarios

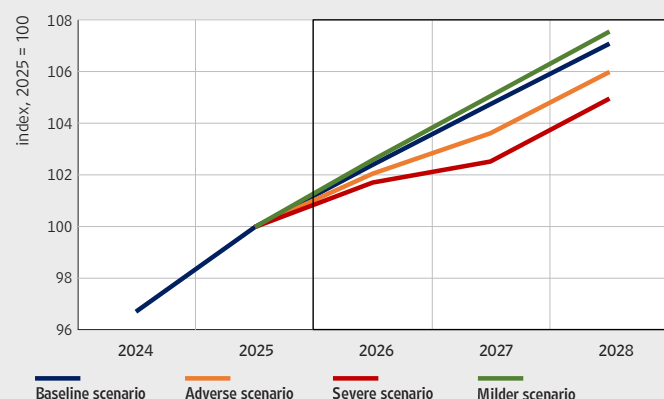


Sources: CNB and ECB.

19 The Economic Policy Uncertainty Index (EPU) for Europe measures the level of economic uncertainty by counting articles in major European newspapers containing uncertainty, economic and policy terms. These results are standardised and aggregated at national (France, Italy, Germany, Spain, United Kingdom) and European level.

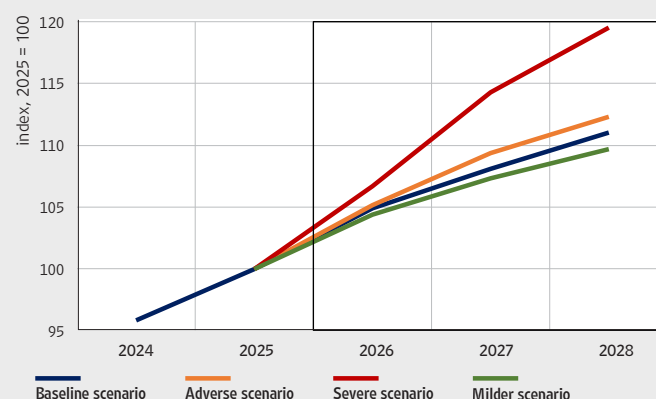
The materialisation of the assumed shock in alternative unfavourable scenarios would result in a faster slowdown in economic activity and strengthening of inflationary pressures, with the negative effects on growth spilling over mainly to a fall in real disposable income and pronounced uncertainty, while inflationary pressures would arise from direct and secondary effects of the energy price increase. Under the adverse scenario, the impact on the domestic economy would be pronounced throughout the entire projection horizon and would be seen primarily in a slowdown in the growth of personal consumption due to diminished purchasing power of households and slower export dynamics caused by the weakening of foreign demand. At the same time, heightened uncertainty would put additional pressure on economic activity, directly prompting the postponement and reduction of private investments. In 2026, the growth in real GDP would be 0.3 percentage points lower than under the baseline projection, in 2027 it would be 0.8 percentage points lower and in 2028 it would be 0.1 percentage point higher than under the baseline projection (Figure 2). HICP inflation in 2026 might increase by 0.3 percentage points from the baseline projection, mainly due to higher energy prices. In 2027, the deviation from the baseline scenario would increase to 0.9 percentage points, primarily due to a delayed fall in energy prices and stronger indirect and secondary effects of relatively expensive energy products as a result of higher production costs and a delayed pass-through to wage growth. The deviation would narrow down to 0.2 percentage points in 2028, due to a gradual weakening of these pressures. In a severe scenario, the energy shock and global disruptions might result in much stronger and persistent effects on real activity and inflation. Thus, the growth in GDP in 2026 might be 0.7 percentage points lower than under the baseline projection, 1.5 percentage points lower in 2027 and in 2028, 0.2 percentage points higher than under the baseline projection (Figure 2). This mainly reflects lower personal consumption as a result of a much slower growth in real disposable income and precautionary motives of households. The high level of uncertainty might have a bigger impact on private investment dynamics, while lower external demand might have an additional impact on goods and services exports. HICP inflation in 2026, 2027 and 2028 would be 1.8, 4.0 and 1.9 percentage points, respectively, higher than under the baseline projection. In addition to a strong direct impact on energy prices, bigger indirect and secondary effects on core inflation could also play a role in an exceptionally adverse scenario in 2027 and 2028, driven by higher inflationary expectations and faster transfer to wage growth. GDP growth under the milder scenario would be somewhat faster throughout the entire projection horizon, while inflation would be somewhat lower and fall to 2.2% in 2028.

Figure 2 Projection of gross domestic product



Source: CNB.

Figure 3 Projection of harmonised index of consumer prices



Source: CNB.

The macroeconomic impacts of unfavourable alternative scenarios are more pronounced over a medium term relative to the scenarios under the previous projection cycle and are somewhat milder this year. The growth in economic activity under the baseline scenario is slower and the inflation rate higher than under the previous projection throughout the entire projection horizon. The March adverse scenario has already partly materialised, particularly as regards developments in oil prices. The projected growth in GDP is slower under the alternative scenarios than under the March alternative scenarios. Such developments reflect somewhat poorer than expected results at the beginning of the year as well as a stronger energy shock, which is reflected, primarily through more pronounced uncertainty, smaller foreign demand and a fall in real disposable income of households, in economic activity (Table 1). As regards inflation, the alternative scenarios result in smaller impacts of the energy shock in 2026, while in 2027, inflation follows the higher path driven by a faster growth in energy prices and their persistent elevated levels. The deviation from the previous projection is most pronounced in the severe scenario primarily reflecting stronger embedded assumptions about the persistence of disruptions and more pronounced indirect effects on core inflation.

Table 1 Projection of the gross domestic product and the harmonised index of consumer prices

		Annual rate of change, %				Deviation from the previous projection (b.p.)		
		Baseline projection	Adverse scenario	Severe scenario	Milder scenario	Baseline projection	Adverse scenario	Severe scenario
GDP	2026	2.4	2.1	1.7	2.6	-0.2	0.0	-0.1
	2027	2.3	1.5	0.8	2.4	-0.1	-0.5	-0.6
	2028	2.2	2.3	2.4	2.4			
HICP	2026	4.9	5.2	6.7	4.4	0.3	-0.4	-0.3
	2027	3.1	4.0	7.1	2.8	0.3	0.6	1.3
	2028	2.7	2.7	4.6	2.2			

Source: CNB.

Alternative scenarios do not include a potential additional monetary or fiscal policy response except the interest rate path embedded in the projection based on market expectations nor do they identify additional channels through which the war in the Middle East might impact economic developments. These factors largely include the risks to potential output, problems with supply chains and the supply of energy, the impact on credit supply and the potentially stronger impact of higher production costs on global food prices.

Abbreviations and Symbols

Abbreviations

€STR	euro short-term rate
APN	Agency for Transactions and Mediation in Immovable Properties
BEA	U. S. Bureau of Economic Analysis
bn	billion
CBS	Central Bureau of Statistics
CEA	Croatian Employment Agency
CNB	Croatian National Bank
CPF	Croatian Pension Fund
CPI	consumer price index
EA	euro area
ECB	European Central Bank
ESI	Economic Sentiment Indicator
EU ETS2	Emissions Trading Scheme
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Fed	Federal Reserve System
GDP	gross domestic product
GSCPI	Global Supply Chain Pressure Index
HICP	harmonised index of consumer prices
HWWI	Institute for International Economics in Hamburg (Hamburgisches Weltwirtschaftsinstitut)
ILO	International Labour Organization
IMF	International Monetary Fund
MoF	Ministry of Finance
m	million
MLF	marginal lending facility
MWh	megawatts per hour
NACE	national classification of activities
OECD	Organisation for Economic Co-operation and Development
OOH	owner-occupied housing
PMI	Purchasing Manager's Index
p. p.	percentage points
Q	quarter
SMA	Survey of Monetary Analysts
SPF	Survey of Professional Forecasters
SVAR	structural vector autoregressive model
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
VAT	value added tax

Three-letter currency codes

CHF	Swiss franc
CNY	Yuan Renminbi
EUR	euro
GBP	pound sterling
JPY	yen
USD	US dollar
XDR	special drawing rights

Two-letter country codes

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GB	Great Britain
GR	Greece
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LU	Luxembourg
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	The Netherlands
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia

UK United Kingdom

Symbols

–	no entry
....	data not available
0	value is less than 0.5 of the unit of measure being used
Ø	average
a, b, c,...	indicates a note beneath the table and figure
*	corrected data
()	incomplete or insufficiently verified data



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