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Information on economic, financial and monetary developments

September 2026

HRVATSKA NARODNA BANKA

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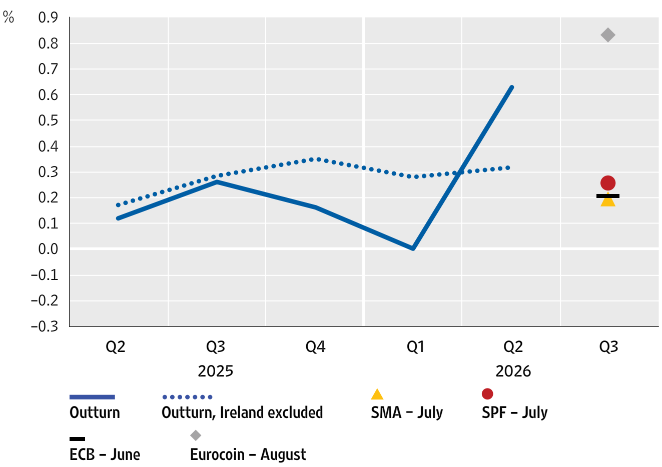
Summary

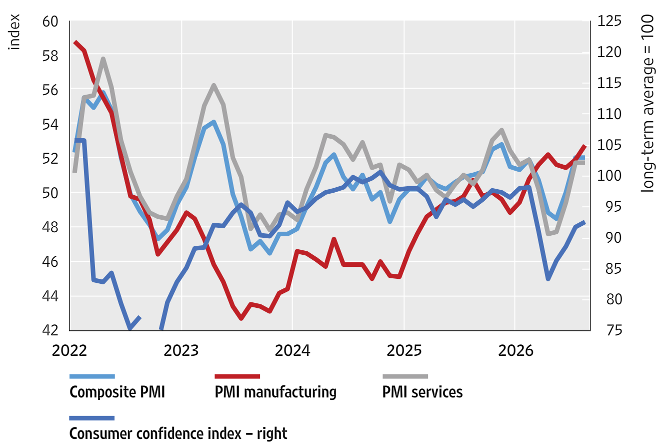
Economic activity in the euro area grew relatively strongly in the second quarter and is expected to maintain an upward trajectory into the third quarter, although at a more moderate speed. Following a stagnation of the euro area economy in the first quarter of 2026, Eurostat estimates for the second quarter of the year point to 0.6% growth (Figure 1). Euro area economic activity, having grown by 0.3% in the first quarter, continued to develop at a similar pace in the second quarter. This excludes Ireland due to its highly volatile data. This growth exceeded both market expectations and the ECB's own projection, the latter mostly ranging between 0.1% and 0.2%. As regards the four major euro area economies, Spain again recorded the highest growth rate (0.7%) in the second quarter of 2026, followed by Germany (0.3%) and Italy (0.2%), while economic activity in France stagnated. On an annual level, economic growth in the second quarter amounted to 1.3%, or 1.2% if Ireland is excluded. Most available estimates and survey data for the third quarter indicate that economic growth was moderate early in the second half of the year (Figure 2). Although retail sales fell in July, the main reason being reduced petrol consumption due to rising prices, the Economic Sentiment Indicator increased for the fourth consecutive month in August, returning to levels seen at the beginning of the year before the escalation of the Middle East conflict. Furthermore, the composite Purchasing Managers' Index (PMI), after a pronounced decline in the second quarter, strengthened significantly in July and August and is now in an expansion phase. The index strengthened mainly due to the services component, which, after a significant decline in the second quarter driven by heightened uncertainty and a drop in consumer confidence caused by the Middle East conflict, recorded a strong recovery in July and August. At the same time, the PMI manufacturing component rose slightly from the second quarter's average, mainly due to developments in the capital goods segment, which can largely be attributed to increased demand related to the development of artificial intelligence and defence investments.

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



Notes: ECB – June denotes the ECB's June 2026 short-term projection of real growth in the euro area (Broad Macroeconomic Projection Exercise, BMPE). The abbreviations SMA (Survey of Monetary Analysts) and SPF (Survey of Professional Forecasters) refer to the results of the ECB's surveys of market participants of July 2026.
Sources: Eurostat and ECB.

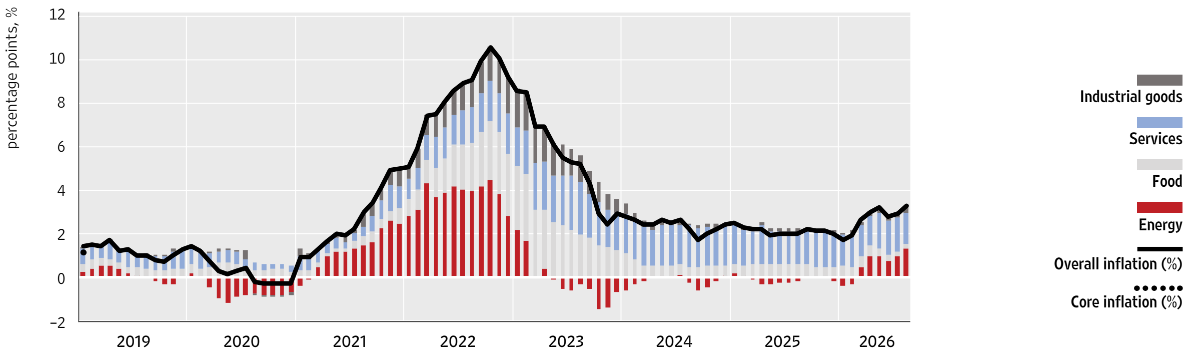
Figure 2 Survey indicators for the euro area



Sources: S&P Global and European Commission.

Eurostat's flash estimate shows that euro area inflation measured by the harmonised index of consumer prices (HICP) climbed from 2.9% in July to 3.3% in August, driven mainly by the acceleration of energy inflation (Figure 3)**.** The annual growth rate of energy prices jumped to 14.3% in August from 10.3% in July largely reflecting a rise in the retail prices of refined petroleum products caused by the re-escalation of the Middle East conflict. Food inflation remained at 1.2%, suggesting that the indirect effects of recent energy price hikes and adverse weather events on food price developments have been limited so far. The energy shock has not yet spilled over to core inflation to a large degree either. The euro area's core inflation (which excludes energy and food prices) decelerated slightly to 2.4% in August from 2.5% in July due to services inflation slowing down to 3.0% in August from 3.3% in July. The easing of inflationary pressures in the services sector is driven by the slowdown of wage growth in the euro area. In contrast, industrial goods inflation, the other main core inflation component, accelerated to 1.2% from 0.9% in July, with cost pressures on the prices of industrial goods mainly related to higher prices for energy and semi-finished products.

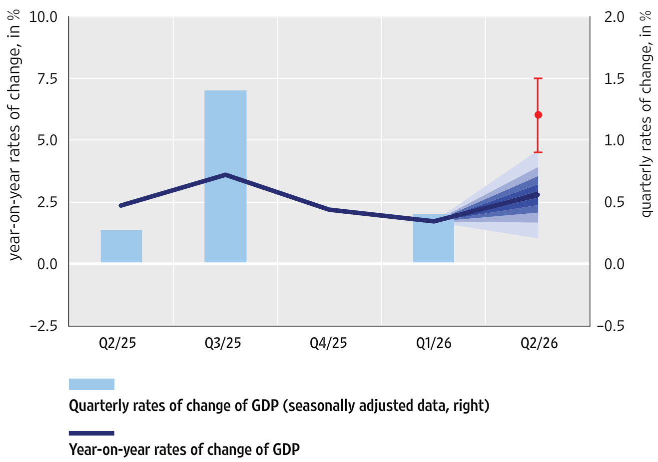
Figure 3 Euro area inflation indicators



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

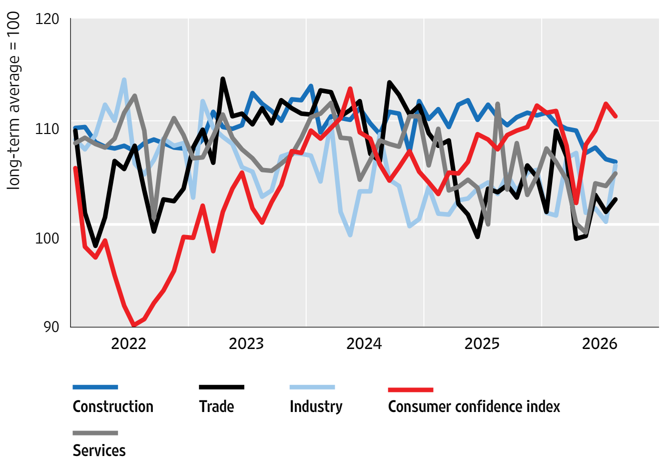
Croatia's high-frequency indicators available for the third quarter of this year point to a sharp quarterly acceleration of economic activity. According to the CNB's nowcasting model of economic activity, real GDP growth in the third quarter could stand at 1.2% on a quarterly level (0.4% in the second quarter), while the annual growth rate of economic activity could pick up to 2.8% from 1.7% in the second quarter (Figure 4). It should be noted, however, that GDP nowcasting is based on a relatively limited set of data, most of which are available up to and including July 2026. The industrial production volume increased by 3.9% in July from June and by 6.8% from the second quarter average. Observed by the main industrial components, growth is broad-based. The production of intermediate goods expanded significantly and so did the production of energy and capital goods. Real retail trade turnover also grew in July, rising by 1.4% from May and by 1.7% from the previous quarter average. In addition, tourism volume indicators showed a slight annual increase of 0.8% and 0.3% in tourist arrivals and nights spent, respectively, in July and August, and financial data from the fiscalisation system point to an increase in consumption in tourism-related activities in the summer months. Survey indicators also suggest favourable trends. Business optimism continued to improve at the beginning of the third quarter, although in most activities it is still below the levels recorded before the escalation of the Middle East conflict at the end of February (Figure 5). In contrast, consumer confidence recovered completely after plummeting in the second quarter. All confidence survey indicators thus exceed their long-term averages.

Figure 4 Quarterly gross domestic product



Notes: The estimate for the third quarter of 2026 refers to the CNB's monthly indicator of real economic activity (for more details on the calculation of the MRGA indicator, see Kunovac, D., and B. Špalat: "Nowcasting GDP Using Available Monthly Indicators", CNB Working Paper, W-39) The models are estimated on the basis of data published up to 3 September 2026. The red dot denotes an estimate of the quarterly change in real GDP, with historical errors of estimates within ±1 standard deviation.
Sources: CBS (seasonally adjusted by the CNB) and CNB calculations.

Figure 5 Consumer and business optimism indicators



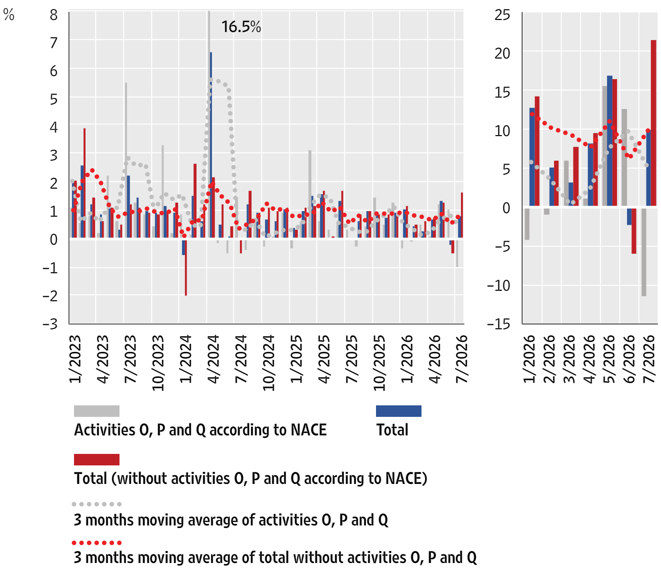
Source: Ipsos (seasonally adjusted by the CNB).

Employment growth eased slightly at the beginning of the third quarter, while wage growth remained robust. In July, employment stagnated at the level of the previous month, but rose slightly by 0.2% from April (the first month of the second quarter), following 0.3% in the second quarter and 0.1% in the first quarter. Employment in education, healthcare and social work (sections P, Q and R under NACE 2025; i. e. the public sector) increased by 1.5% in July, dropping by 0.2% (from April) in the rest of the economy. Employment growth slightly decelerated on an annual level to 0.8% in July, having stood at 0.9% in the previous four months. Unemployment continued to drop and was 2.5% lower in July than in June. However, the quarterly rate of decline slowed down, with the result that unemployment was 0.7% lower in July than in April, following a decrease of 6.2% and 2.8% in the first and second quarters, respectively. The registered unemployment rate stood at 3.9% in July. The nominal gross wage grew at a monthly rate of 0.8% in July, having dropped slightly in June. With respect to quarterly growth, the nominal gross wage increased by 1.9% from April, following the growth of 1.8% in the second quarter and 2.2% in the first quarter. Public sector wages[1] grew by 1.2% in the same period (relative to April) and wages in the rest of the economy increased by 2.4%, rising from 1.5% and 2.0%, respectively, in the second quarter. The annual growth of the nominal gross wage accelerated to 8.8% in July from 7.9% in June, while the growth of real wages accelerated to 4.7% from 3.2% in June (Figure 7).

1 Due to the recent transition of the methodology of the National Classification of Activities from the 2007 version to the 2025 version, long-term wage data under the new methodology are still unavailable; therefore, public sector wages continue to be calculated according to NACE 2007 activities O, P and Q.

Figure 6 Nominal gross wages

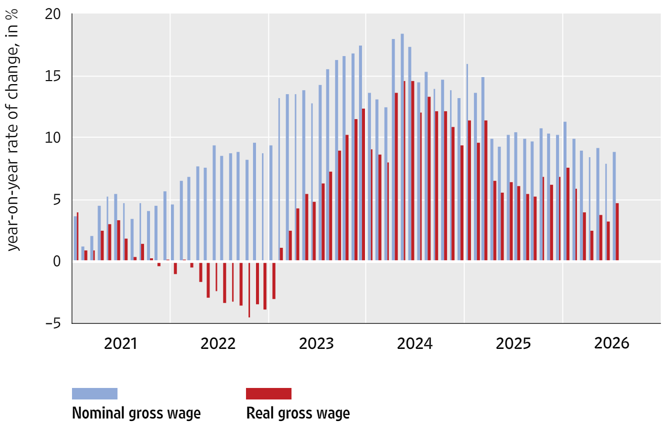
monthly rate of change (left) and annualised rate (right)



Note: The data refer to NACE 2007. The right side of the figure showing 2026 displays annualised growth rates.
Sources: CBS and CNB calculations (seasonally adjusted by the CNB).

Figure 7 Nominal and real gross wages

year-on-year rate of change



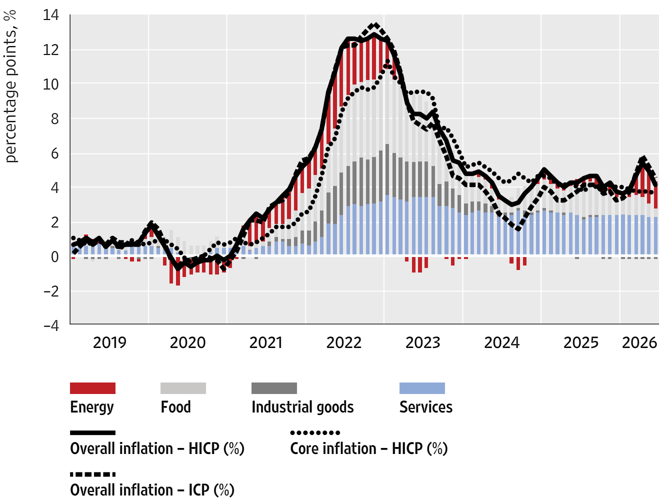
Sources: CBS and CNB calculations.

Inflation in Croatia accelerated slightly in August 2026 reflecting the rise in energy prices associated with the renewed intensification of geopolitical tensions in the Middle East, while the rise in the prices of other components slowed down markedly. According to a flash estimate, inflation measured by the harmonised index of consumer prices (HICP)[2] accelerated slightly to 3.7% in August from 3.6% in July (Figure 8), mostly due to upward current pressures on energy prices. The annual increase in energy prices accelerated again after three consecutive months of slowdown, standing at 16.9% in August, considerably more than the 11.5% of July. The increase in the domestic retail prices of refined petroleum products reflected the spillover of higher crude oil prices in the global market following the renewed escalation of the Middle East conflict and rising crack spreads. Energy prices were the main drivers of overall inflation in August (2.1 percentage points). In contrast to energy, the price inflation of other components slowed down. Food inflation decelerated in August for the fifth month in a row, falling to 0.3%, its lowest level since May 2019 and considerably below the pre-pandemic average. Unprocessed food products were the main contributor to a further slowdown in food inflation, but the rise in processed food product prices also slowed down slightly. The easing of cost pressures on food prices can still be associated with the previous fall in the prices of certain food commodities in the global and European markets, which has contributed to the annual decline in producer prices in the food industry, as well as with the slowdown in the growth of labour costs. In addition, core inflation, which excludes volatile energy and food prices, decelerated sharply to 2.7% in August from 3.4% in July. This decline mainly reflects the slow-down of services inflation, (to 5.6% from 6.8% in July), resulting from the easing of current pressures, evident in the noticeable decrease

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

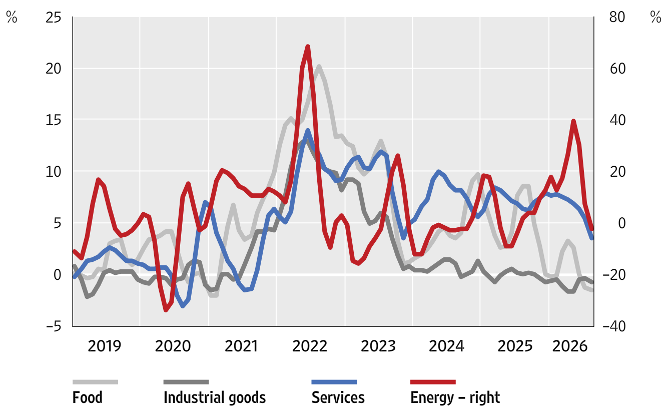
of the short-term inflation indicator, momentum[3] (Figure 9), but to a smaller degree also from a favourable base effect related to the strong growth of these prices (especially rents) in August last year. In addition, amid low import pressures the annual rate of change in industrial prices, the other core inflation component, slowed down further, from –0.9% in July to –1.1% in August. Inflation measured by the national consumer price index (CPI), which reflects the structure of consumption of Croatian residents, accelerated, according to a flash estimate, to 4.1% in August from 3.9% in July, as a result of the acceleration of energy inflation, while inflation of other components, as in the harmonised indicator, decelerated. The harmonised indicator of overall inflation was 0.4 percentage points lower than the national indicator in August, after a difference of 0.3 percentage points in the previous three months, due to the lower contribution of energy prices to the harmonised indicator, in which they have a smaller share than in the national indicator (Figure 11). The pace of inflation acceleration (HICP) in August was lower in Croatia than the euro area average, so the gap between inflation in Croatia and the euro area average narrowed from 0.7 percentage points in July to 0.4 percentage points in August, the lowest gap since the beginning of 2022 and lower than the pre-pandemic average (Figure 12). The inflation differential narrowed noticeably in the last four months (from 2.4 percentage points in April), mostly reflecting a stronger slowdown in food inflation in Croatia. In addition, inflation of other main components (services, energy and industrial goods) slowed down over this period, while the euro area average inflation of these components accelerated (energy, industrial goods) or remained unchanged (services) .

Figure 8 Inflation indicators in Croatia



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

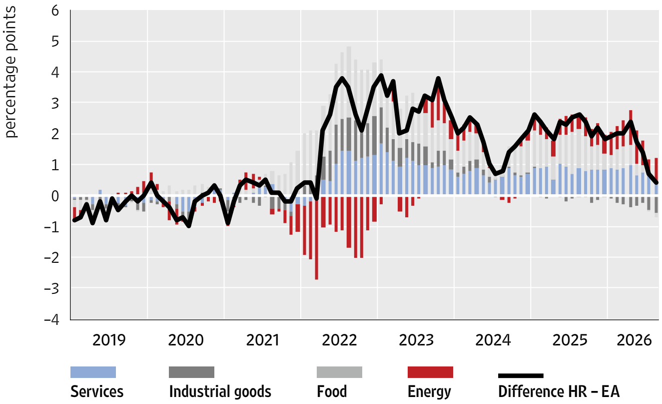
Figure 9 Momentums of the main inflation components



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

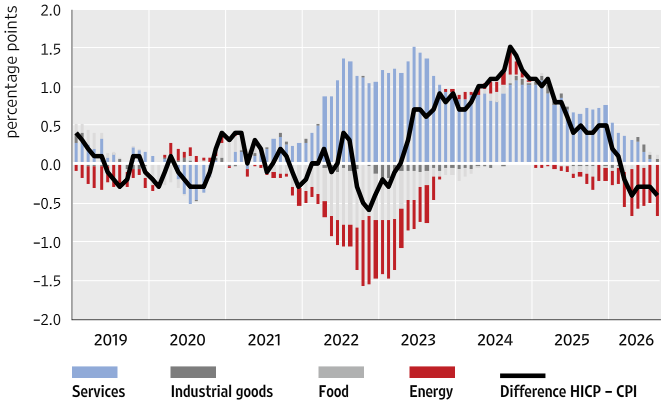
3 Momentum is a short-term inflation indicator that shows annualised three month-on-three-month rates of price change, seasonally adjusted.

Figure 10 Difference between overall inflation and the contributions of the main components to overall inflation in Croatia and the euro area



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

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

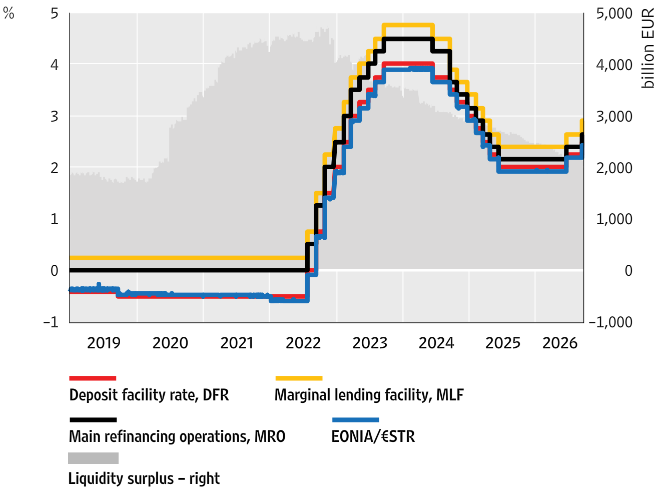


Note: A positive (negative) value denotes a larger (smaller) contribution of the inflation of prices of a specific component to overall HICP inflation than to CPI inflation.
Sources: Eurostat, CBS and CNB calculations.

At its meeting on 10 September, the Governing Council of the ECB decided to raise the three key ECB interest rates by 25 basis points (Figure 12)**.** The interest rate on the deposit facility, a relevant indicator of the ECB's monetary policy, stands at 2.50% as of mid-September. The Governing Council underlined that the conflict in the Middle East continues to generate inflationary pressures and that inflation is set to remain well above target for an extended period. The outlook remains highly uncertain, with risks to the upside for inflation and to the downside for economic growth. Risks to economic activity and inflation stem primarily from highly volatile energy prices, so the updated scenarios show a wide range of possible growth and inflation developments with different assumptions about the intensity and duration of the energy shock and its indirect and secondary effects. The Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term. Decisions on the appropriate levels of interest rates will continue to be based on a data-dependent and meeting-by-meeting approach. The Governing Council is not precommitting to a particular rate path.

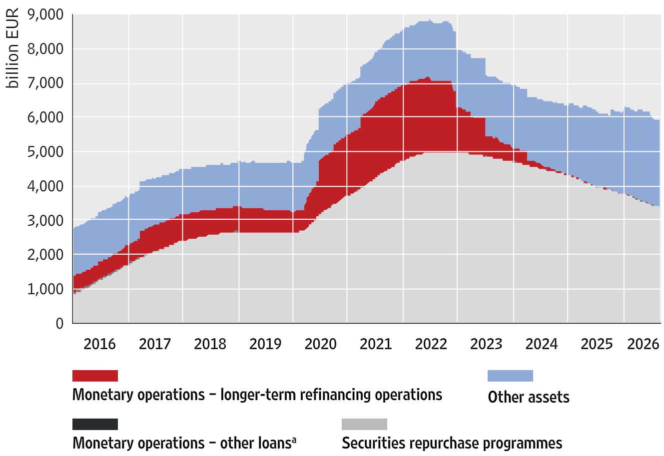
Eurosystem assets linked to the conduct of monetary policy continue to decrease gradually (Figure 13)**.** The portfolio of securities purchased within the asset purchase programme (APP) and the portfolio of the pandemic emergency purchase programme (PEPP) of the Eurosystem are diminishing steadily at 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. Non-monetary policy assets were smaller in the third quarter than in the first half of the year, primarily due to lower gold prices in financial markets.

Figure 12 Key ECB interest rates



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

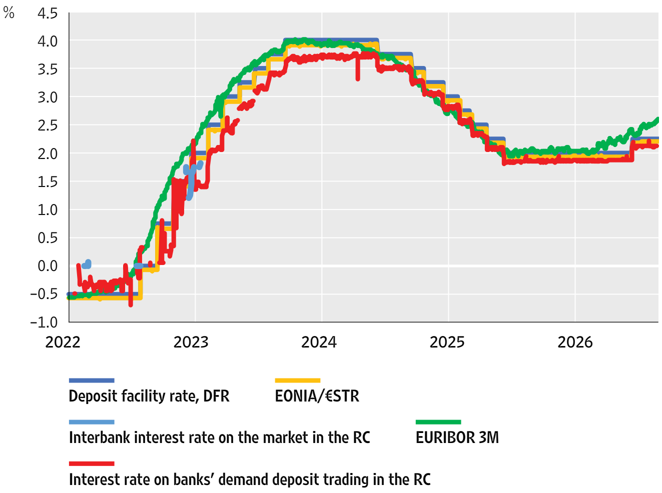
Figure 13 Eurosystem balance sheet



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

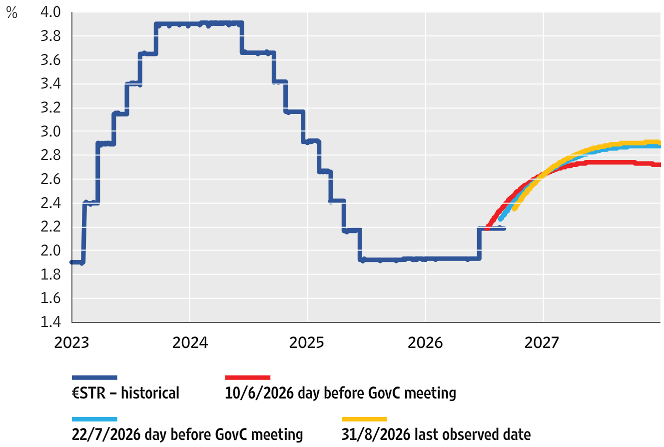
The revival of the US-Iran conflict in early July sparked a rise in oil prices and short-term inflation expectations. Euro area bond yields rose, while equity indices reached new historical highs reflecting favourable macroeconomic indicators and good corporate performance in the second quarter. Although a US-Iran framework peace deal was reached in mid-June, the conflicts resumed in early July. The price of Brent oil, which fell to around USD 70 per barrel at the end of June, stood at about USD 90 per barrel at the end of August. Higher oil prices supported the rise in short-term inflation expectations in the euro area. From the resurgence of the conflict in early July to the end of August, investors thus positioned themselves towards a multiple increase in key ECB interest rates in the coming quarters (Figure 15) against one increase of 25 basis points expected at the end of June. Growing market expectations of increases in key interest rates were reflected in the growth of the three-month EURIBOR rate, which reached 2.6% in August, its highest level since January 2025 (Figure 14). Long-term government bond yields increased significantly in the summer months. The euro area GDP-weighted average yield on long-term government bonds of euro area member states stood at 3.7% at the end of August and was about 40 basis points higher than at the end of June, reaching levels similar to those in October 2023, immediately after the end of the cycle of increases in key ECB rates (Figure 16). The yield on long-term Croatian bonds rose slightly less in the same period, by around 30 basis points, from 3.4% to 3.7%, which could partly reflect the lower liquidity of Croatian bonds. Long-term US bond yields also increased. The yield on ten-year US bonds stood at 4.7% at the end of August, which is about 20 basis points more than at the end of June. The US dollar weakened against the euro and stood at around USD/EUR 1.16 at the end of August, against 1.14 at the end of June. In equity markets, European equity indices increased in the period under review. The Eurostoxx 50 stock index rose by around 1.5% in July and August, reaching historically high levels in mid-August, supported, inter alia, by the publication of better than expected macroeconomic data for the euro area (GDP, PMI) and good business performance of companies in the second quarter.

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



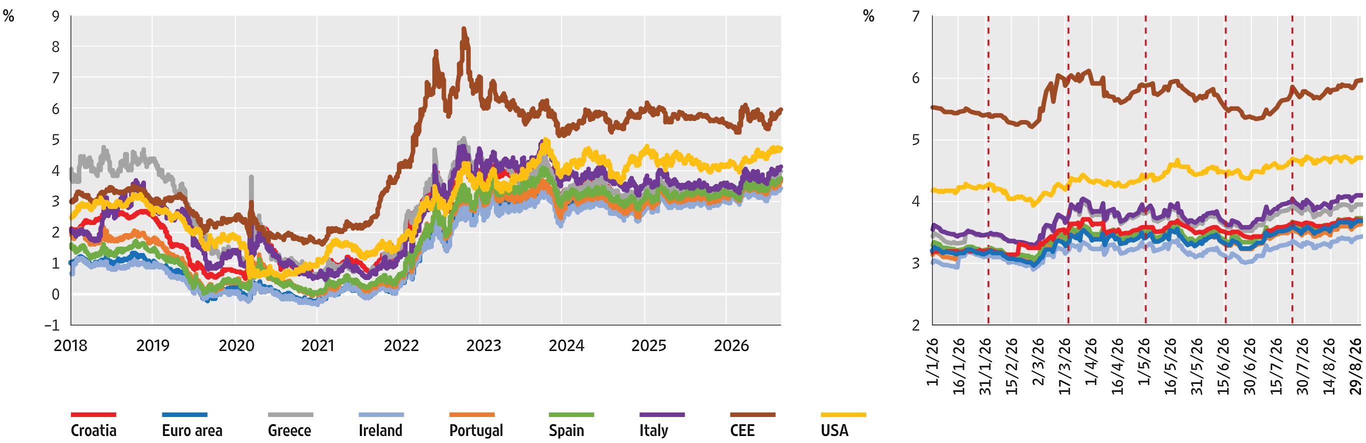
Note: DFR (deposit facility rate). At the beginning of 2022, EONIA was replaced by €STR. The overnight interest rate on the money market in Croatia in 2022 is based on euro transactions. The latest data are for 31 August 2026.
Sources: ECB and CNB.

Figure 15 €STR forward curve



Note: The forward curve is estimated using the overnight indexed swap rate (OIS). Forward curves show the selected forward curves formed during the observed period, concluding with the latest available data from 31 August 2026.
Sources: Bloomberg and CNB calculations.

Figure 16 Yields on long-term government bonds with the remaining maturity of approximately 10 years

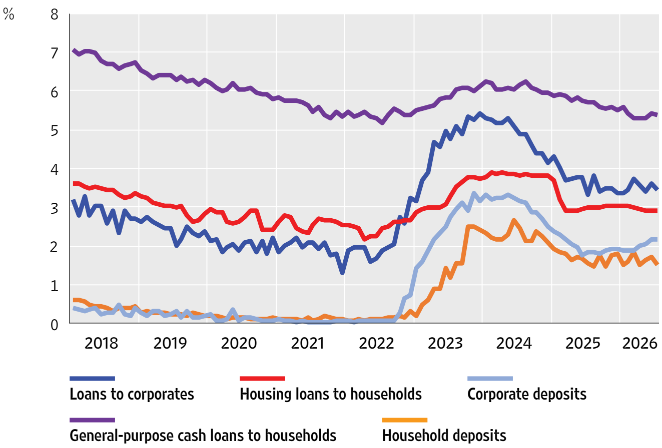


Notes: CEE – countries of Central and Eastern Europe (the Czech Republic, Hungary, Poland and Romania); yields for the euro area and CEE have been weighted by the share of GDP of the countries included. Data from the euro area do not include those from Bulgaria, Lithuania, Latvia, Estonia, Luxembourg and Malta. The red dotted lines denote ECB Governing Council meetings in the observed period. Latest data are for 30 June 2026.
Source: Bloomberg.

In July 2026, average interest rates on pure new corporate loans and general-purpose cash loans to households were lower than in June, while the interest rate on housing loans held steady. The interest rate on corporate loans fell by 18 basis points to 3.44%, coming closer to the level of the last quarter of 2025 after fluctuations in recent months (Figure 17). The fall in July mostly reflects lower rates on long-term loans and loans with variable interest rates linked to the EURIBOR. The fall could be observed in the segment of loans above EUR 1m, whose interest rates fluctuate significantly depending on the enterprises borrowing in a given month, while interest rates on loans of up to EUR 1m increased by 21 basis points. As regards household lending, interest rates on general-purpose cash loans remained at the lower levels reached after a sharp decrease at the beginning of the year, amid a series of promotional offers by banks, which were later repeated. These rates fell by 4 basis points in July, down to 5.36%, and were 36 basis points lower than the average rate in 2025. The rates on both fixed-rate and variable-rate loans indexed to EURIBOR edged down, the share of the latter loans in total general-purpose cash loans increasing but remaining very small. In such conditions, the volume of new cash loans remained very high at EUR 351m, close to the highest levels reached in the first half of 2025. In July, the interest rate on pure new housing loans remained at 2.91% for the third consecutive month, i.e. 15 basis points below the February level, returning approximately to the level reached after a sharp fall in early 2025, in a period marked by promotional offers from banks. The interest rate on housing loans with a fixed-to-maturity interest rate held steady at 2.92%, with their share rising to 86.4%, while the interest rate on loans with a variable interest rate indexed to EURIBOR edged down to 2.81%. However, the effective interest rate on the latter loans grew to 3.36%, exceeding that on fixed-rate loans (3.24%). The volume of pure new housing loans (EUR 291m) remained higher than the averages in the first half of 2026 and in 2025. Interest rates on existing loans changed only slightly in July: for corporate loans, they edged up to 3.83%, while for general-purpose cash loans and housing loans they edged down, to 5.64% and 3.02%, respectively.

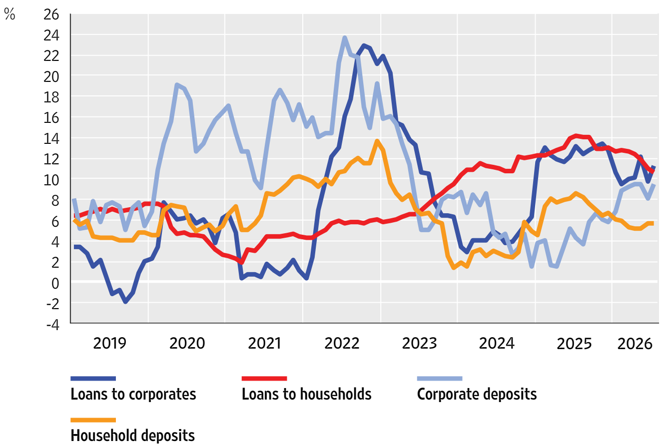
In July, interest rates on pure new corporate time deposits increased and those on household time deposits decreased. The interest rate on pure new corporate time deposits continued to grow, rising by 2 basis points to 2.19%, while that on household time deposits decreased by 20 basis points to 1.53%. Interest rates on existing deposits changed only slightly: the average rate on corporate deposits rose slightly to 0.56%, with an increase in the rates on time and overnight deposits, while that on household deposits remained at 0.31%, with almost unchanged rates on both deposit types.

Figure 17 Interest rates on pure new loans and time deposits of corporates and households



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

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



Source: CNB.

Loans to domestic sectors (excluding general government) increased sharply by EUR 0.6bn (1.3%) in July, with a strong growth of corporate loans and continued relatively strong household lending. Corporate loans increased by EUR 364m (2.0%), of which loans to large and medium-sized enterprises increased the most, manufacturing being particularly prominent among activities contributing to monthly growth. The momentum of housing loans strengthened from 13.3% to 14.4% and their annual growth accelerated from 9.7% to 11.2%. Real estate activities and trade, which together account for almost half of the total annual increase in corporate loans, continued to make the largest contribution to annual growth. Household loans grew by EUR 284m (1.0%), with the growth of general-purpose cash loans (EUR 114m) and housing loans (EUR 165m) recording a stronger pace than in the previous months. The momentum of cash loans dropped from 12.7% to 11.8% due to the exclusion of the strong April growth from the calculation, while the momentum of housing loans increased from 12.6% to 13.3%. The annual growth of cash loans accelerated from 9.3% to 9.8%, while the growth of housing loans slowed down from 13.0% to 12.2%, mostly due to the base effect associated with the exceptionally strong growth of housing loans in the middle of the previous year, so that the annual growth of total household loans slowed down slightly from 11.0% to 10.7% (**Figure 18**).

Domestic deposits (excluding general government) grew by EUR 1.6bn in July, at the peak of the tourist season. The growth was supported by an increase in net foreign assets of monetary institutions and loans to domestic sectors, while the decrease in net claims on the central government acted in the opposite direction. Corporate deposits went up EUR 0.9bn and household deposits increased by EUR 0.7bn, with overnight deposits rising by EUR 1.0bn and time deposits by EUR 0.6bn. The annual growth of total deposits accelerated from 6.1% in June to 6.3% in July. The share of corporate time deposits increased from 27.7% to 29.6% and continued to fluctuate around the levels reached in 2024, while the share of household deposits continued to decrease, from 23.3% to 22.9%, remaining well below the peak of 29.2% in mid-2024.