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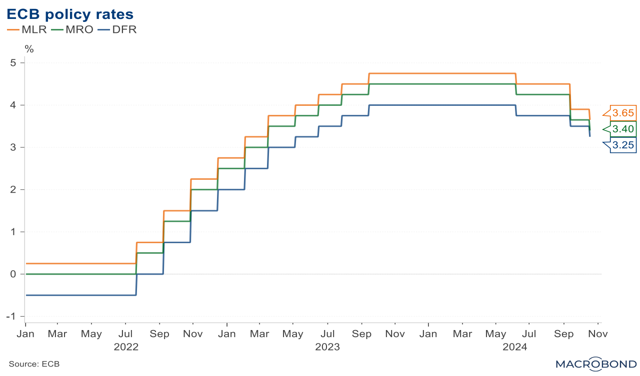
ECB lowers interest rates by 25 b.p.



Deposit facility rate down to 3.25%

- Commenting the September meeting of the European Central Bank, we stated that the next interest rate cut was not expected before December. In the meantime, however, numerous data have been published that point to a weaker economic activity of the euro area than expected, that is compared to the projected stronger growth in the second half of the year. What also came as a surprise is that the annual inflation rate in the euro area declined sharply to 1.7% (from 2.2% in August), which all supported our expectations that the ECB would decide to cut interest rates once again already at its meeting on 17 October. All the three key interest rates were thus reduced by 25 b.p. so that the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will equal 3.25%, 3.40% and 3.65% respectively, with effect from 23 October.

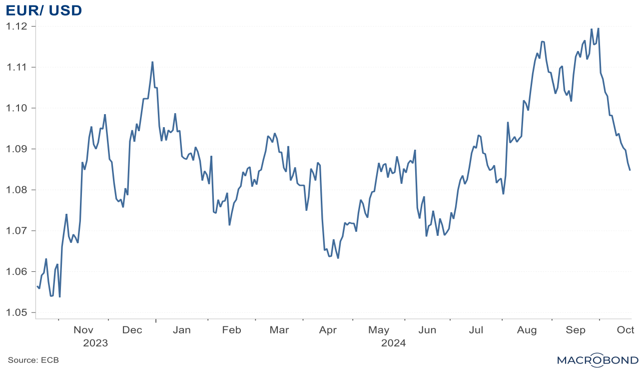
Next cut expected in December

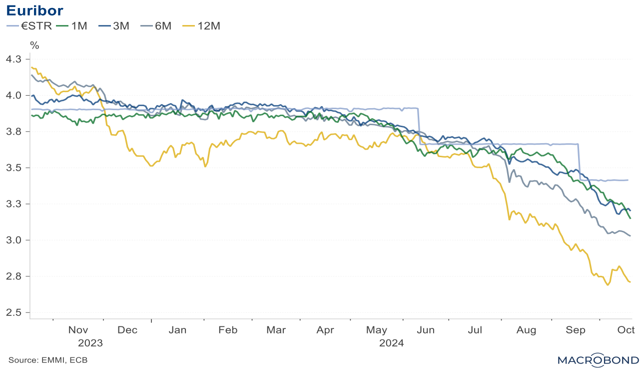
- In its press release, the ECB justifies its decision by the fact that the disinflationary process is well on track and that indicators of economic activity are weaker than expected. At the press conference, when asked about the December meeting, President Lagarde stated that all the numbers, from inflation to PMI in the largest countries, were heading downwards and that by December much more data would be available to help decide on the next move. Hence, Lagarde did not expressly exclude the possibility of cutting the rates again at the next meeting, and our baseline scenario is another rate cut by 25 b.p. in December, although we do not exclude a 50 b.p. cut either. Next year we expect the pace of cuts to slow down. Hence, the first cut should take place in March and the second and the last one in June, thus completing the cycle of monetary policy loosening with the interest rate on the deposit facility landing at 2.50%.

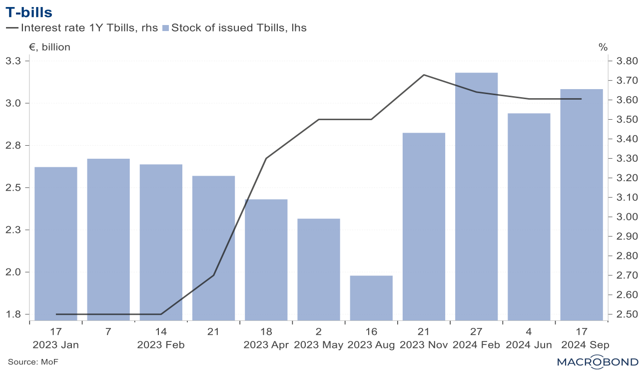
- On Friday the Croatian Bureau of Statistics published revised national account data according to which real growth rates changed in the range from -0.4 percentage points to +0.4 percentage points. Hence, for example, rate of GDP decline in 2009 was moderated from -7.2% to -6.8%, while the 2021 growth rate was reduced from +13.0% to +12.6%. As regards the last two years, the 2022 growth rate was increased from the previously published 7.0% to 7.3%, and the 2023 growth rate got revised from 3.1% to 3.3%. Looking at components, real growth rate of personal consumption was corrected to the greatest extent in 2021 and 2022, namely by 0.2 percentage points (from 10.5% to 10.7% and from 6.7% to 6.9% respectively), growth rate of government spending in the period 2020-2022 was corrected downwards in the range from -0.1 to -0.5 percentage points, while growth rate in 2023 was raised from 6.6% to 7.1%. The most extensive data revision is noticeable in investments, where the real growth rate in 2019 was lifted by 3.8 percentage points (from 9.0% to 12.8%), and in 2022 by as much as 10.3 percentage points (from 0.1% to 10.4%), while the 2023 growth rate was increased by 6 percentage points (from 4.2% to 10.1%).

Revised GDP data, investment growth in 2022-2023 much stronger than previously published

- For the fourth week in a row, the euro continued to weaken against the dollar due to positive economic trends in the USA as well as anticipated cuts of ECB rates, which took place last week. The exchange rate ended the week at 1.0847 dollars per euro, down 0.8% w-o-w.
- Euribor declined for the shortest and longest maturity, while 3M and 6M remained steady w-o-w at 3.2 and 3.0% respectively.
- As publication of financial reports is heating up, Crobex went up 1.7% w-o-w, reaching 3,030 points thanks to a 3.3% growth of CROBEXindustry (to 2,309 points). At the same time, CROBEXnutris and CROBEXtourist recorded a decline of -1.9 and 0.5% respectively (to 882 and 4,171 points respectively). Crobis edged up to 97.8 points.







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