WEEKLY ANALYSIS

NUMBER 873, SEPTEMBER 16, 2024

ECB slashed key interest rates

Deposit facility rate lowered to 3.50%

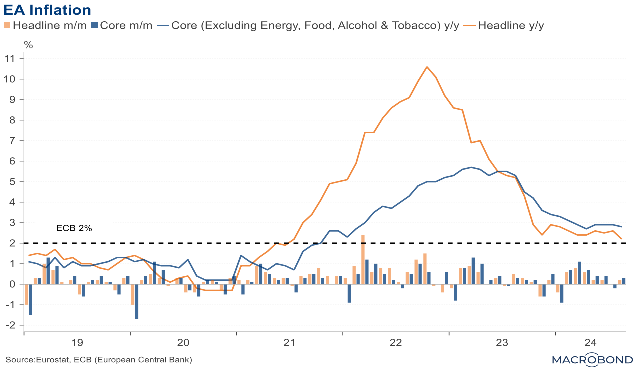
- The inflation drop in the summer months (2.2% y-o-y in August), growth slowdown of negotiated wages in Q2 (from 4.74% in Q1 to 3.55%) and weaker economic activity in the current quarter are the data that supported the ECB's decision to slash interest rates last week for the second time this year. The leading monetary policy interest rate, that on deposits (DFR), will be lowered by 25 bps, while the currently less significant interest rates on loans from the ECB (MRO and MLF) will be reduced by 60 bps (by applying changes of the operational framework for monetary policy implementation, there will be an asymmetrical reduction of the difference between key rates from 18 September, from 50 to 15 bps between MRO and DFR, while the difference between MRO and MLF will remain 25 bps). Thus, from 18 September DFR will be 3.50%, and MRO and MLF 3.65, i.e., 3.90%.

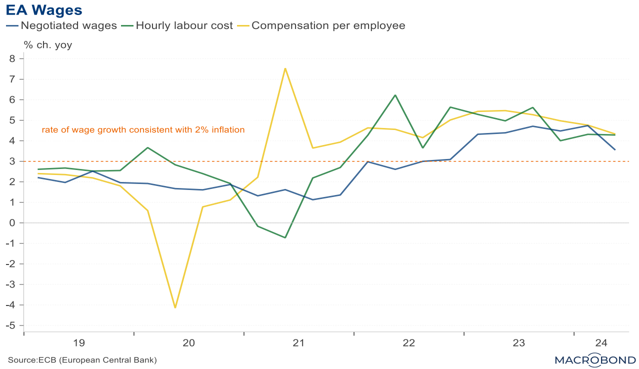
Inflation prognosis unchanged

- The ECB's September scenario points to a lower expected GDP growth compared to the previous projection, at 0.8% this year, 1.3% in 2025 and 1.5% in 2026. Forecasted inflation rates are unchanged, averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026, with a decline towards the target level seen in the second half of next year. Core inflation estimates have been revised slightly upwards for this year and the next, but a significant drop is expected here as well. Compared to our September estimates for the eurozone, the ECB is somewhat more optimistic regarding this year’s growth, while we are more optimistic regarding the rate and the intensity of the inflation drop in the upcoming years.

We expect the next reduction in December

- When asked about the meeting in October, Ms. Lagarde answered at the press conference that there are five weeks left until it, which is a relatively short period of time compared with other intervals in the past, and that the ECB will continue to be data-dependant. As there will not be significantly more data available by 17 October than today, we expect the next reduction in interest rates by 25 bps at the meeting on 12 December.





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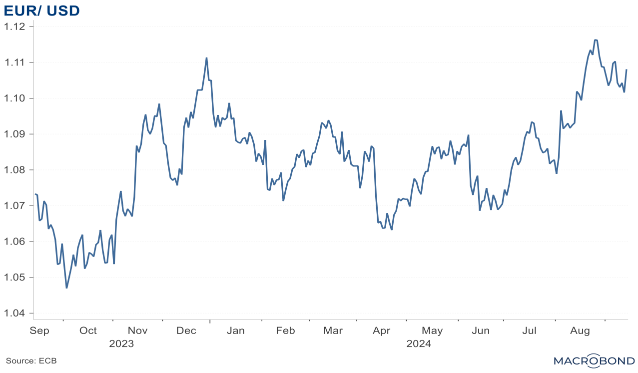
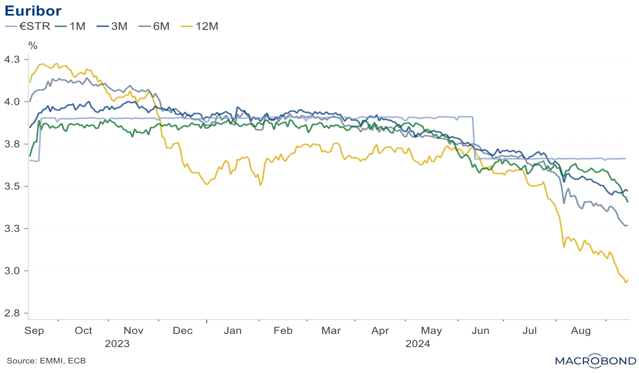
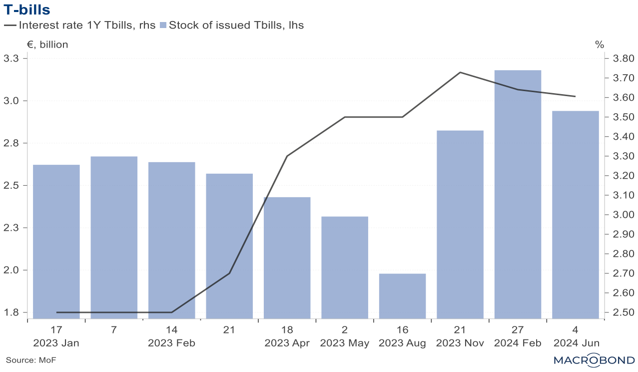
- On Friday, agency Standard & Poor's upgraded Croatia's long-term credit rating from BBB+ to the historically highest level of A-, maintaining a positive outlook.

S&P raised Croatia's rating to A-

- The ECB's interest rate cut and the expected first reduction by the Fed this week resulted in the continuation of a stable exchange rate EUR/USD that was 1.1081 at the end of the week, down by 0.2% w-o-w.
- Last week Euribor recorded a somewhat stronger decline, so on Friday 3M and 6M were 3.5, i.e., 3.3%, which is unchanged, i.e., down by 0.1 p.p. w-o-w. This week, the first round of subscription of 3M T-bills of the Ministry of Finance that were offered to natural persons will finish, and the second round of subscription for institutional investors will start.
- Crobex achieved a minor upward shift of 0.1% w-o-w, to 2,948 points. Out of more important sectoral indices, CROBEXindustry and CROBEXnutris recorded negative performances (-1.3% to 2,235, i.e., -0.2% to 905), while CROBEXtourist recorded a mild increase (+0.5% to 4,294). Crobis rose by 0.2% to 96.9 points.







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