

Slowdown of inflation in May

- The eagerly awaited publication of the first estimate of inflation has brought refreshment, in line with last week's weather conditions. Namely, according to the harmonized index, the annual inflation rate slowed down to 4.9% in May after three consecutive months of acceleration (from 5.4% recorded in April), while the monthly growth amounted to 0.1%. Looking at the main components, the said slowdown mostly reflects a noticeable slowdown in food price growth (from 3.7% in April to 2.5% in May), which lowered the contribution of this category to headline inflation from 1.1 p.p. to 0.7 p.p. A slightly smaller contribution was also recorded in energy, where price growth slowed down from 17.5% to 16.9%, and in services, which recorded a slowdown in price growth from 7.3% to 7.0%. On the other hand, a slight decrease in the negative contribution to headline inflation was recorded in industrial products, where the rate rose from -0.7% in April to -0.5%. In short, we can conclude that the largest contribution to inflation continues to come from services (2.3 p.p.) and energy (2.1 p.p.), while so far we do not notice a spillover to the prices of food or industrial products, which does not mean that this will not happen with a certain time shift – judging by the food industry's survey expectations on sales price movements. In contrast to Croatia, the average inflation rate in the euro area accelerated to 3.2% in May from 3.0% recorded a month earlier, primarily due to the acceleration of the growth of prices of services from 3.0% to 3.5% and a slight acceleration in the prices of energy and industrial products, while the growth of food prices slowed to 2.0% from 2.4% in April. And while we wait for the release of more detailed data on June 17, we can only speculate about the patterns of acceleration in the growth of services prices in May. Namely, it is unclear whether the acceleration is due to the schedule of the holidays or whether the energy shock is spilling over to transport and hospitality services faster than expected. In conclusion, the data for May is in line with expectations that inflation in the euro area will remain above 3% until the end of the year, and that core inflation could peak at around 2.5% at the end of this year – early next year.
- On Friday, Eurostat published revised data on euro area GDP for the first quarter, with the growth estimate revised down from the previous 0.1% to -0.2% compared to the previous quarter. This marked the first quarterly contraction since the fourth quarter of 2022, and the annual growth rate slowed to 0.3%, compared to a previously estimated 0.8% and 1.2% at the end of 2025. However, the decline in economic activity is entirely due to a strong correction in Ireland, where GDP contracted by 12.1% q-o-q, significantly more than the previously estimated -2%, primarily due to a sharp decline in multinational sector activity of 27%. At the same time, so-called modified domestic demand in Ireland increased by 0.6% compared to the previous quarter, supported by personal consumption. Excluding the Irish effect, euro area GDP growth slowed only slightly, to 0.3% in the first quarter, from 0.4% in the previous quarter. Among the larger members of the euro area, only France recorded a decline in economic activity, of 0.1% compared to the previous quarter, after an earlier estimated growth of 0.2%. Taking into account the described revision of GDP in the first quarter and the signals from the surveys for April and May, assuming a recovery of the volatile Irish component of GDP already from the current quarter, the analytical department of our parent bank

In May, HICP slowed to 4.9%, national ICP to 5.2%

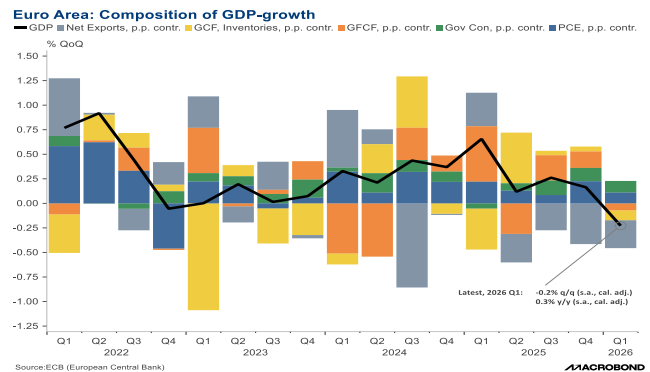
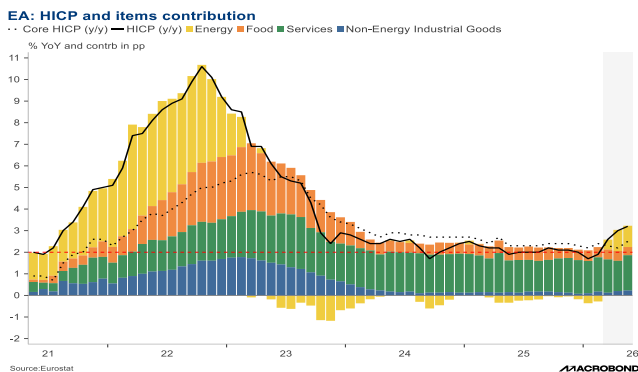
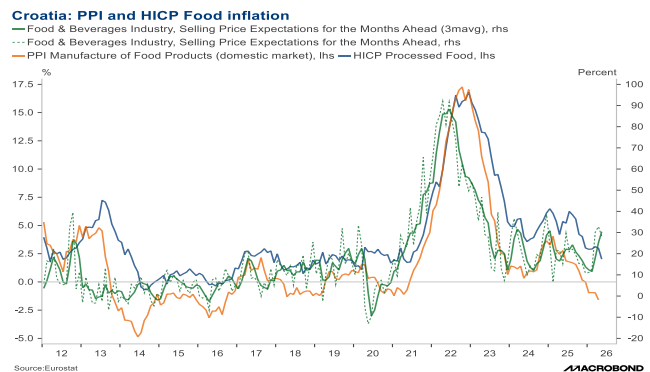
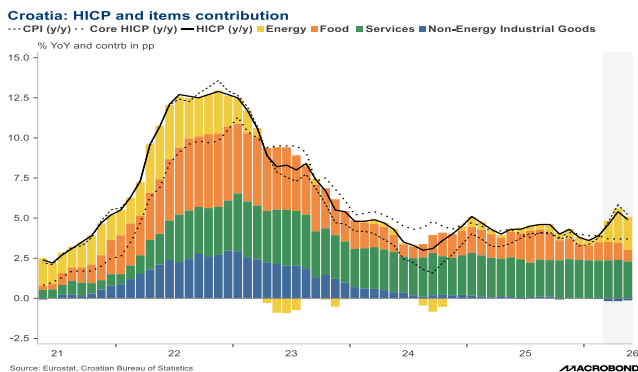
In the euro area, inflation accelerated to 3.2%...

... and GDP due to the Irish effect recorded its first contraction since 4Q22

estimates that the growth of the euro area economy in the middle two quarters of the year will amount to 0.2% q-o-q, which points to a downward revision of the estimate of the average annual GDP growth rate for 2026, to 0.5% from 0.7% previously expected.

■ As for monetary policy, both analysts and markets are confident that the ECB will raise its key interest rates by 25 basis points at its June 10-11 meeting. While the central bank avoids giving quantitative guidance on the trajectory of interest rates and continues to reiterate that decisions are taken on a meeting-by-meeting basis, public statements in recent weeks suggest that a broad consensus has been reached in favour of adjusting monetary policy. The underlying rationale is that the actual economic scenario is now closer to what was highlighted as an adverse scenario in March: longer duration of the energy shock increases the risk of spillovers from inflationary effects and therefore suggests that the ECB should act to contain what it can control – the endogenous component of inflation, linked to domestic demand and expectations. The new macroeconomic projections should bring a shift in the baseline scenario, i.e. show a more unfavourable relationship between growth and inflation. Our and the parent bank's expectation is that the ECB will act gradually – i.e. in increments of 25 basis points – and that it will still not provide clear guidance on its next moves. These two aspects are linked to the same problem: high scenario uncertainty, which could lead sharply either to a fall in oil prices (if the United States and Iran agree to lift the blockade of navigation) or, conversely, to a new spike if the blockade is extended beyond June. So, while the baseline scenario of our parent bank implies a further increase in official interest rates, for now it sees the second increase on September 10, not July 23, while it sees the third move, also of 25 basis points, at the beginning of 2027. (Source: ISP Weekly economic monitor)

Certain rise in interest rates on Thursday, followed by a further increase in September and early 2027.



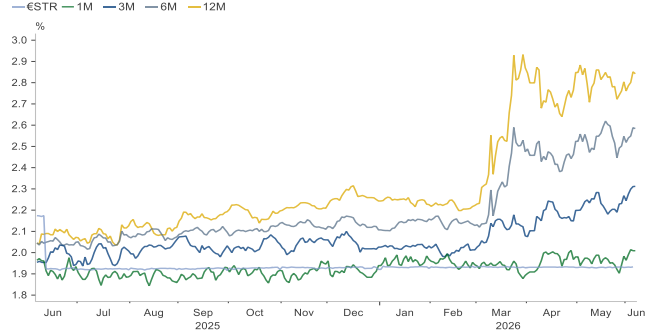
- The EUR/USD exchange rate closed at \$1.164 to the euro on Friday – unchanged w-o-w.
- Compared to Friday a week earlier, 3M Euribor closed the week at 2.31%, i.e. +4 basis points, the same as 6M Euribor which closed the week at 2.58%.
- Crobex closed the week at 4,306 points or +2.0% w-o-w, with CROBEXindustry and CROBEXtourist recording growth of 0.9% (to 4,061) and 3.6% (to 5,948), while CROBEXnutris recorded a decrease of 0.9% to 826 points. Crobis stagnated at 98.3 points.

EUR/ USD



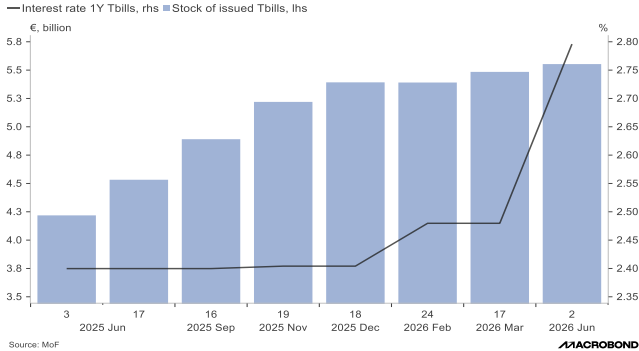
Source: ECB

Euribor



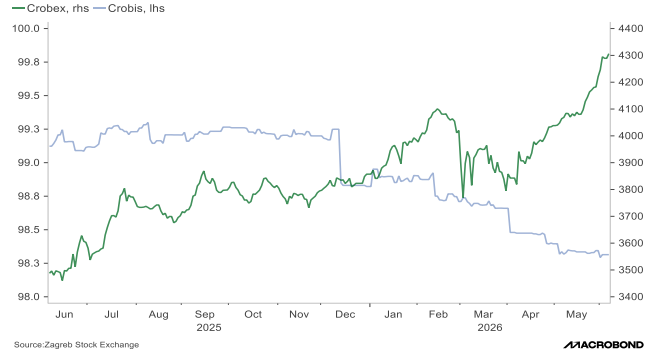
Source: EMMI, ECB

T-bills



Source: MoF

Crobex/Crobis



Source: Zagreb Stock Exchange

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