NO. 947, 15 JUNE 2026

The ECB raised interest rates by 25 bps

- Last Thursday, as expected, the Governing Council of the European Central Bank (ECB) decided to increase its three key interest rates by 25 bps. Accordingly, the interest rate on the deposit facility will increase to 2.25%, the rate on the main refinancing operations to 2.40% and the rate on the marginal lending facility to 2.65%. The increase will take effect on 17 June.

Revised inflation and growth projections

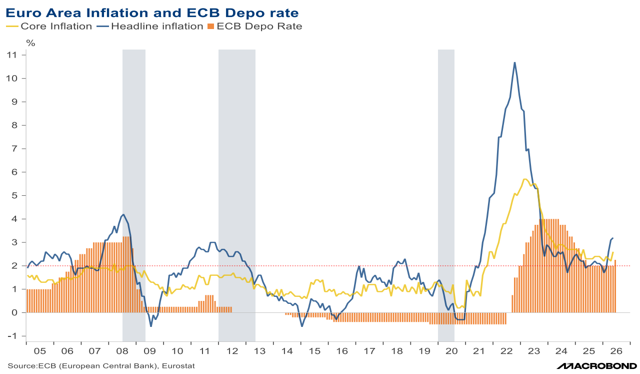
Simultaneously, per baseline of the new Eurosystem staff projections, headline inflation is expected to average 3.0% in 2026, 2.3% in 2027 and 2.0% in 2028. The underlying inflation (total excluding energy and food) in the baseline scenario is 2.5% in 2026 and 2027 and 2.2% in 2028. Compared with March projections, inflation projections in 2026 and 2027 were revised up due to a higher path for energy prices, which, to some extent, are expected to feed into food, goods and services inflation. The baseline scenario predicts economic growth at an average of 0.8% in 2026, 1.2% in 2027 and 1.5% in 2028, which is a downward revision for 2026 and 2027 due to a more pronounced impact of the war on commodity markets, real incomes and confidence. Compared to March baseline scenario, technical assumptions include significantly higher oil prices, a slightly stronger euro, higher interest rates, and an increase in the effective US tariff rate on imports from the euro area. The assumption is that oil price will average 112 USD/bbl in 2Q2026, up by 25% compared to the March projections and more than 75% higher than in the December 2025 projections. Oil price assumptions for 2027–2028 have also been revised upwards, although to a lesser extent, implying a stronger assumed decrease over the projection horizon (-32% by the end of 2028 vs. -22% in the March projections). Conversely, gas price assumptions were slightly lowered in the short term due to weaker demand but are increased in the later part of the projection horizon, as gas supply disruptions are expected to be more durable.

Updated and alternative scenarios

Along with the described baseline scenario, updated alternative adverse and severe scenarios have been published, as well as additional so-called mild scenario. The alternative scenarios use distributions derived from option prices to define alternative paths for oil and wholesale gas prices. It is assumed that oil and gas prices will follow the 25th percentile of market-based distributions from 3Q2026 in the milder scenario, the 75th percentile in the adverse scenario, and the 95th percentile in the severe scenario. The percentiles provide a market-based assessment of the current risks related to energy prices and implicitly include alternative development paths for the Middle East war and its implications for energy supply disruptions. In the milder scenario, oil price decreases to 88 USD/bbl, and gas price to 41 EUR/MWh in 3Q26, in which case they remain around 15-20% below the baseline scenario levels during the entire horizon. Such projected trajectory reflects investor expectations that the conflict could end very quickly, leading to a rapid normalisation of global oil and gas markets and the return of prices to pre-crisis levels by the end of 2026. In the adverse scenario, oil prices rise to 122 USD/bbl and gas prices to 60 EUR/MWh in Q3, remaining around 20–30% above baseline scenario levels during the entire horizon, reflecting market expectations of a longer conflict than assumed in the baseline scenario. In the severe scenario, oil prices rise by about 60%, and gas prices double, reaching 166 USD/bbl, i.e., 98 EUR/MWh in 3Q26. The shocks are at the same time also very persistent, so the deviations from the baseline scenario also at the end of projection horizon are of similar size. This consistency partially reflects longer-term higher uncertainty but may also reflect market expectations of a long-term conflict followed by significant damage to regional oil and gas infrastructure, which would keep energy prices elevated for a longer period. Both the adverse and severe scenarios point to a gradually weaker GDP growth of the euro area (during 2026–2027) and higher and more protracted inflation (during the entire horizon) compared to the baseline projections, with the severe scenario suggesting a pronounced deterioration in the outlook prompted by persistent energy price shocks and increased uncertainty. In the milder scenario economic activity would recover, and inflation would subside more quickly.

Growth and inflation projections for the euro area
% YoY

		Mar-26	Jun-26			
		baseline scenario	baseline scenario	milder scenario	adverse scenario	severe scenario
Real GDP	2025	1.5	1.5	1.5	1.5	1.5
	2026	0.9	0.8	0.8	0.7	0.5
	2027	1.3	1.2	1.4	0.9	0.4
	2028	1.4	1.5	1.6	1.5	1.6
HICP	2025	2.1	2.1	2.1	2.1	2.1
	2026	2.6	3.0	2.9	3.3	4.0
	2027	2.0	2.3	1.8	3.0	5.3
	2028	2.1	2.0	1.8	2.3	3.0
HICP ex energy and food	2025	2.4	2.4	2.4	2.4	2.4
	2026	2.3	2.5	2.4	2.5	2.5
	2027	2.2	2.5	2.3	2.7	3.8
	2028	2.1	2.2	2.1	2.3	2.9

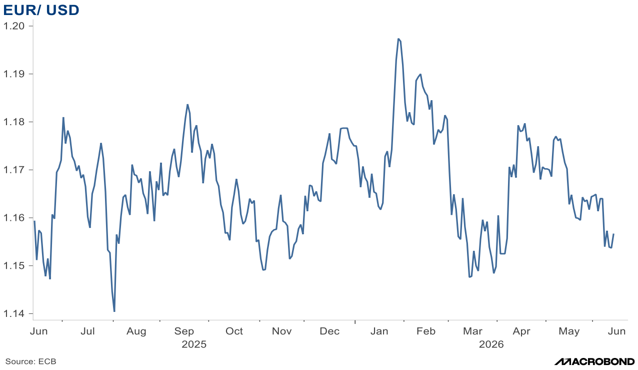


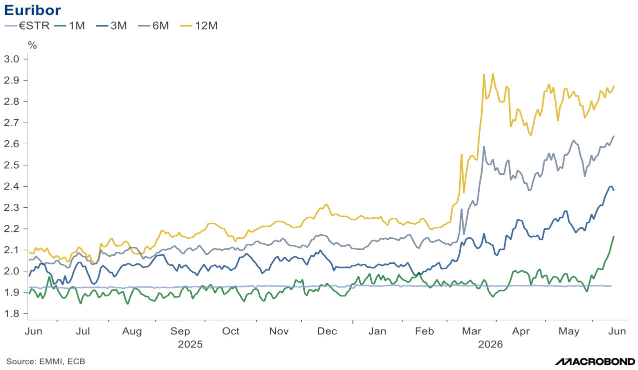
Source: ECB

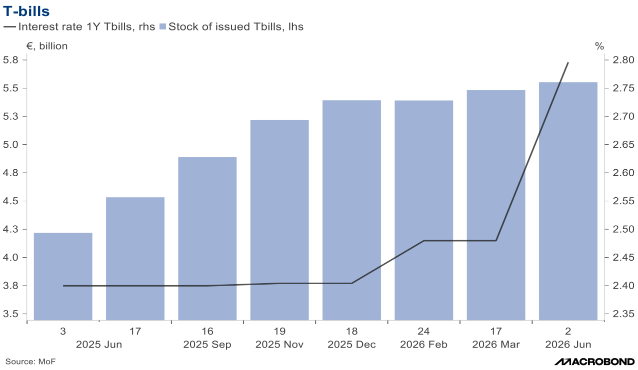
For now, our baseline scenario remains unchanged. We still presume that oil prices will decrease in Q3, due to reopening of the Strait of Hormuz. If that happens, monetary policy adjustment will be gradual and limited. It is unlikely in that case that interest rates would rise again in July: the ECB would find itself surrounded by an oil counter-shock and the deceleration of the inflation process, which would reduce the need to curb domestic demand to prevent price increase. Still, we could expect another increase in September, after which a third one could follow in late 2026 or in early 2027, as an adjustment to the strengthening of demand. This is also the current prevailing market scenario: implicit probability of an increase in July is currently around 34%, while the probability of a move in September is 100%. If, however, the blockade of the Strait of Hormuz is prolonged, preparations should be made for a possibility of a more frequent and longer cycle of interest rate increase, in which case the terminal rate could exceed 3%.

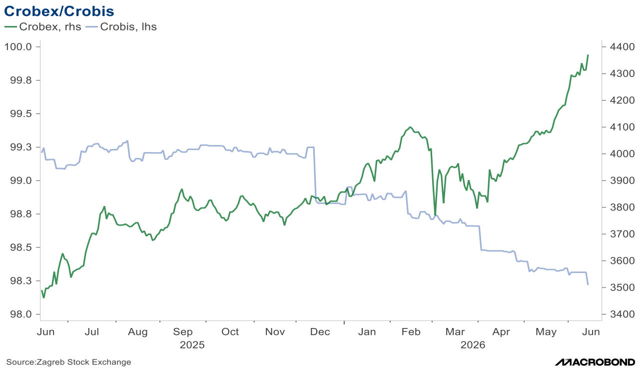
We still expect that the next rate increase will follow in September

- The EUR/USD exchange rate finished Friday at 1.157 dollars to the euro, i.e., -0.6% w-o-w.
- Compared to Friday the week before, 3M Euribor finished the week at 2.38%, i.e., +7 bps, while 6M Euribor finished the week at 2.64% (+5) and 12M at 2.87% (+3 bps).
- Crobex finished the week at 4,371 points, i.e., +1.5% w-o-w, whereas CROBEXnutris and CROBEXtourist recorded growth of 1.2% (to 836) and 1.1% (to 6,013), while CROBEXindustry declined by 2.6% to 3,957 points. Crobis stagnated at 98 points.









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