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ECB again raised interest rates by 50 b. p.

- The ECB kept its "promise" from early February, raising the key interest rates by 50 b. p. at the last week's meeting. This from 22 March raises the interest rate on deposits (DFR) to 3.00%, on main refinancing operations (MRO) to 3.50%, and on overnight loans (MLR) to 3.75%.

Inflation remains the focus of the ECB

- Although inflation in the eurozone measured by the harmonised index of consumer prices is slowly faltering (in February the year-to-year rate was 8.5%), the decline is slow and the growth of the core inflation rate is worrying. The eurozone labour market remains robust; the level of employment is higher than in 2019, and the unemployment rate is steadily low, which creates constant pressure on prices. Price growth therefore remains the focus of the ECB, and according to the latest projections, inflation rate in the eurozone will remain at elevated levels for a long time to come, including core inflation (the rate without food and energy). On average this year, the overall rate is expected to reach 5.3% year-on-year and the underlying rate 4.6%, and will only be close to the 2% target towards the end of the projection horizon, in 2025. This is at least, as far as the overall rate is concerned, a more favourable scenario than that of December due to reduced pressure of energy prices, and more optimistic is also the scenario of GDP growth trend (1.0% in 2023 compared to the previously forecast 0.5%). The ECB stressed that the projections had been made before recent market tensions erupted, that could create pressures on prices and economic growth.

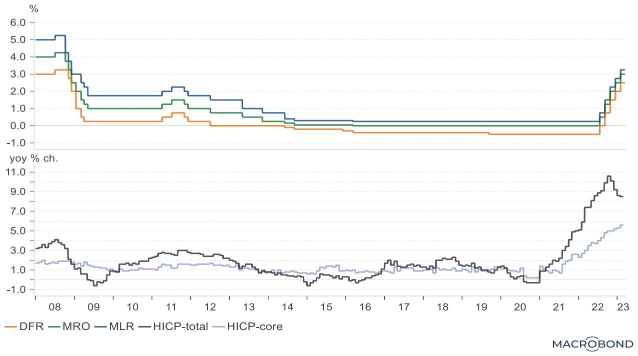
Reduction of asset purchase programme unchanged for the time being

- There is no change in the APP, so the reduction in the reinvestment of the principal from maturing securities will amount to €15bn per month by the end of June, and over time a decision will be made on the reduction pace from July. Nor did the ECB announce specific measures, i.e. instruments that would be available to banks due to the ongoing market turmoil, stressing that the system is capitalised and liquid and that the ECB's "policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy“.

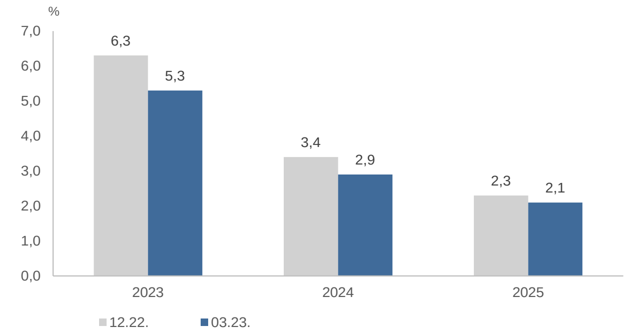
No indication of a further movement of interest rates

- The ECB gave us no indication of further interest rate movements, stating only that due to heightened uncertainty it would be guided by data and forecasts. Asked about future interest rate developments, Lagarde reiterated at the press conference indications from the press release that the development would depend on three factors: (1) he assessment of the inflation outlook in light of the incoming economic and financial data, (2) the dynamics of underlying inflation and (3) the strength of monetary policy transmission. She added that at this moment it is not possible to say decisively which path interest rates will take due to the increased level of uncertainty.

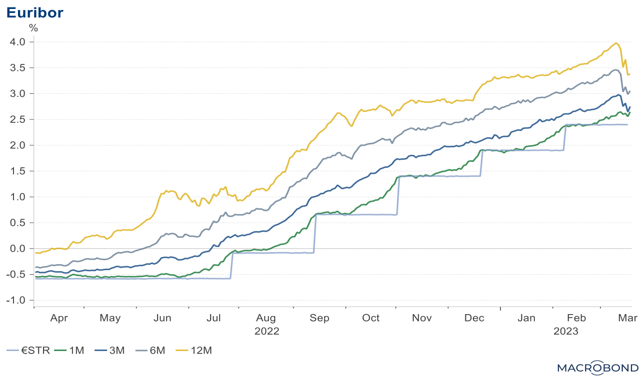
Euro Area: ECB interest rates and inflation



ECB staff projections: HICP, average, y/y change



- On Friday, the Croatian Bureau of Statistics announced, compared to the flash estimate (11.9%), a slightly corrected annual inflation rate for February (12%), while the monthly rate remained unchanged 0.2%. And while the annual rate slows under the influence of the base effect, the largest contribution to monthly inflation came from more expensive energy sources (fuels), clothing and footwear (new collections), hospitality and food, overheads and recreation and culture services.
- The dollar-to-euro exchange rate experienced turbulence last week. Fears about the bankruptcy of the US bank SVB prompted the weakening of the dollar to 1.07 on Monday and Tuesday, and by the end of the week the dollar recovered amid tensions in European markets over Credit Suisse. On Friday, the exchange rate was up by 0.3% w-o-w at $1.0623 for the euro.
- Market tensions have led to a drop in interest rates in the money market in the week behind us, although the end of the week, following the ECB meeting, brings their renewed slight upward shift. 3M Euribor was reduced w-o-w by 20 b. p. to 2.8% and 6M by 40 b. p. to 3.1%. This week, €7million of T-bills is due, but the auction has not been announced.
- Pressed by the negative performance of European stock exchanges, Crobex closed the week down by 1.2% w-o-w, i.e., at 2,244.6 points, with the most significant sectoral indices recording a unison trend (CROBEXindustry -0.5% to 1,320.8, CROBEXnutris -2.6% to 778.8, CROBEXtourist -0.2% to 4,046.1). Crobis was still at 93.9 points.



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