

## NUMBER 906, JUNE 9, 2025

### ECB continues to cut interest rates

- At last week's meeting, the ECB Governing Council lowered interest rates by 25 b.p. encouraged by the further weakening of inflationary pressures, which brought the deposit facility rate to 2.00% as of 11 June. According to the flash estimate, inflation in the euro area fell to 1.9% year-on-year in May (from 2.2% a month earlier), with the growth in prices of services recording a sharp decline to 3.2% (from 4.0%), i.e. the lowest level since March 2022. In a statement, the ECB said that inflation is currently at levels around the medium-term target of 2%, and the new projections have lowered it significantly due to the effect of energy prices (which was not factored into the March scenario), with the additional effect of a stronger euro. Thus, the average annual inflation rate is forecast at 2% in 2025 (2.3% earlier), in 2026 at 1.6% (1.9% earlier), and in 2027 at 2.0% (unchanged), with the lowest level of 1.4% expected in the first quarter of next year. However, this does not open the door wide for a further sharp reduction in key rates, as at the same time core inflation is expected to reach an average of 2.4% this year and 1.9% in 2026 and 2027, i.e. around the target level. At a press conference, Lagarde said that taking into account the latest cut and the current level of interest rates, she believes that we are nearing the end of the monetary policy cycle.
- The GDP projections of the euro area were only slightly adjusted. Euro area GDP growth in the first quarter of 0.3% quarter-on-quarter (+1.2% year-on-year) exceeded forecasts, largely due to the strengthening of goods exports ahead of the implementation of higher US tariffs, but the ECB maintained this year's projection at 0.9%, expecting a slowdown in the remainder of the year. The growth projection in 2026 has been lowered from 1.2% to 1.1% and maintained at 1.3% in 2027.
- In an environment of uncertainty that the ECB continues to assess as high, two alternative scenarios for the evolution of US tariffs have been created, which clearly shows that developments on this front will have a significant impact on the ECB's decisions. While the baseline scenario includes tariffs for all countries of 10% and the absence of reciprocal tariffs (with the exception of China with effective tariffs of 40% and the introduction of reciprocal tariffs), a negative alternative scenario envisages an escalation of the trade war and the imposition of reciprocal tariffs, in which case growth and inflation (effect of higher tariffs would be offset by lower demand) in the euro area would be lower than in the baseline scenario. In a positive alternative scenario, the US and the EU in the

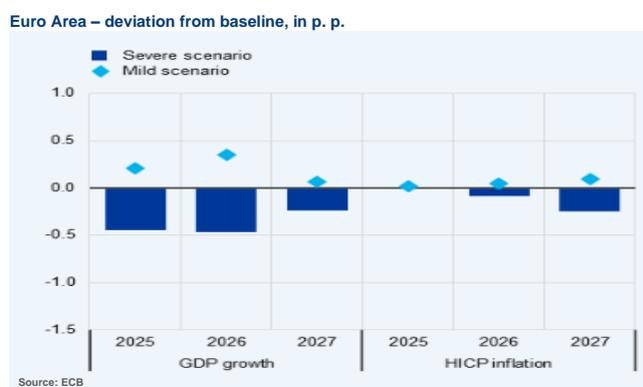
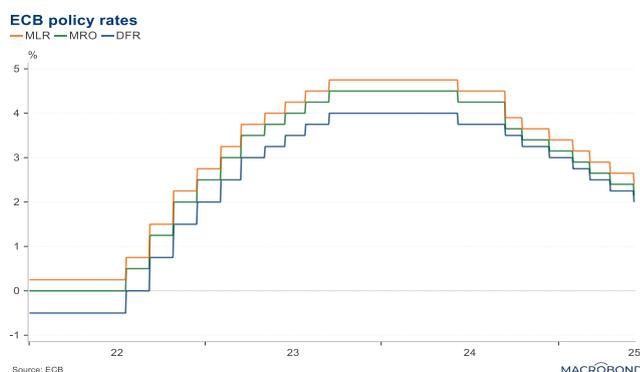
**Deposit facility rate  
from 11 June 2.00%**

**GDP growth  
projection in 2025  
unchanged**

**ECB developed  
scenarios for the  
movements of tariffs**

third quarter this year are abolishing bilateral tariffs, the US is lowering tariffs on China, while China is eliminating reciprocal tariffs. As a result, euro area GDP growth in 2025 and 2026 would be mildly higher and inflation slightly higher than in the baseline scenario. At this point, the probability of the baseline to positive scenario being realized is higher than the negative one. Taking this into account, and the ECB's projections for inflation and money market interest rates, another rate cut is possible in the coming period. We believe, however, that this will not happen in July, but that the ECB will decide to wait (at least) until September, when more data on economic trends will be available. Asked about the pause in July and waiting for the new September projections, Lagarde said that she believes that the ECB is "in a good position to navigate the uncertain conditions that will be coming up" after the latest cut, from which we read that a cut in September is possible for the time being, but not certain.

**Another reduction possible – but not in July**

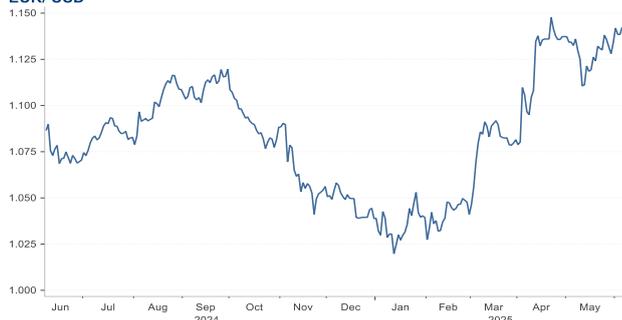


- According to the flash estimate, harmonized inflation in Croatia rose to 4.3% in May from 4.0% in April, driven by a monthly increase in the overall price level of 0.6%. This is primarily the result of an increase in prices of food by 1.2% and services by 1.1%. By contrast, prices of non-energy industrial goods fell by 0.1%, while energy prices decreased by 1.2% month-on-month. Year-on-year, food inflation accelerated to 5.6%, up from 4.6% in April. Services inflation strengthened to 7.6%, compared to 7.2% previously, while the rise in energy prices accelerated slightly to 1.5% from 1.4%. Non-energy industrial goods inflation slowed to 0.3%, down from 0.5%. Core inflation rose slightly to 4.3%, from 4.2% in April. At the same time, inflation as measured by the national index accelerated to 3.5% from 3.2% recorded in April. On average, in the first five months of this year, the harmonized inflation rate was 4.5%, and the national inflation rate was 3.5%.
- Weak data from the US economy and slow progress in trade talks with China led the dollar to weaken to \$1.1411 per euro, up by 0.6% week-on-week.

**Inflation accelerated in May**

- Following the ECB's decision, Euribor continued to decline, falling up to 5 b.p. week-on-week, bringing 3M and 6M to 1.96% and 2.04% respectively by the end of the week. Last week, €1.3 billion of one-year treasury bills were issued, of which natural persons subscribed €810 million with a yield of 2.60%, and institutional investors €524 million with a yield of 2.09%. This increased the balance of issued bills to €4.2 billion. This week, the first round of subscription of quarterly treasury bills for natural persons begins, with a yield of 2.60%. The planned amount of the issue is €850 million, and €855 million is due on June 19.
- Crobex maintained its positive trend, rising 1.1% week-on-week (to 3,496 points) with a mixed performance of sectoral indices (CROBEXindustry -0.4% to 2,611, CROBEXnutris +3.9% to 837, CROBEXtourist -0.1% to 4,544). Crobis is down by 0.1% (to 99.1 points).

### EUR/ USD



Source: ECB

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### Euribor

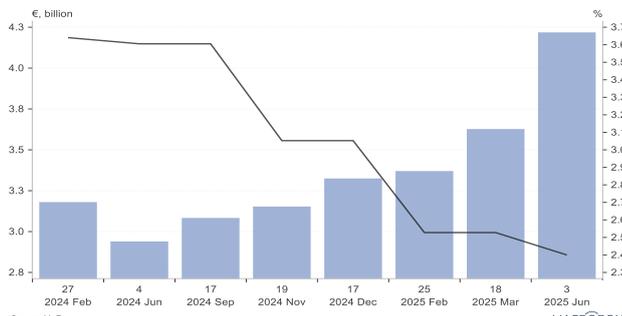


Source: EMMI, ECB

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### T-bills

Interest rate 1Y Tbills, rhs ■ Stock of issued Tbills, lhs



Source: MoF

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### Crobex/Crobia

Crobex, rhs ■ Crobia, lhs



Source: Zagreb Stock Exchange

MACROBOND

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