

NUMBER 830, SEPTEMBER 18, 2023

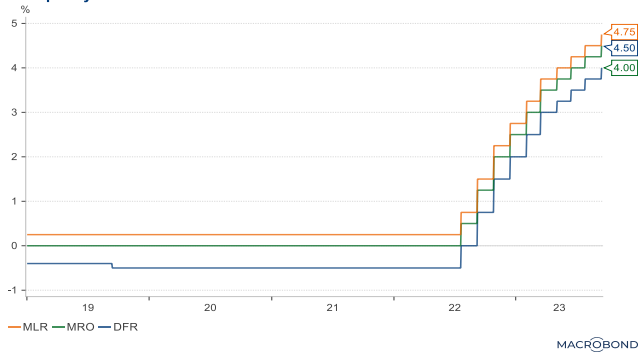
ECB indicated the end of the cycle of interest rate hike

- Last week's meeting of the European Central Bank was highly anticipated after a long time because the market was divided – the probability of another increase was almost equal to that of retaining interest rates on existing levels. In the end, the ECB decided in favour of another rate hike by 25 bps, despite lower projected growth of GDP and underlying inflation (although they explained the decision as due to depth and length of expected duration of inflationary pressures). Thursday's meeting, in our opinion, marked the end of the tightening monetary policy cycle, judging by the forward guidance: "Based on our current assessment, we consider that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to our target."
- Inflation projections for 2023 and 2024 have been slightly increased to an average 5.6% and 3.2% y-o-y, but this only reflects higher energy prices. The key here is that the 2025 projection was reduced to 2.1% as well as especially important underlying inflation projections that were cut to 2.9% for 2024 and 2.2% for 2025 y-o-y. This signals that the ECB is expecting for inflation to gradually return to its medium-term objective of 2% during 2024 and 2025, which supports our expectations that 2024 will mark the beginning of monetary policy relaxation. Although Ms Lagarde mentioned that the Governing Council members did not discuss on how long should interest rates remain at current levels, stating that the ECB will base their decisions on data, our projection is that the first reduction will occur in September 2024.
- Risks to our estimation are prominent. At the press conference Ms Lagarde emphasized the significance of a part of statement "based on our current assessment" thus leaving space for a possibility of further increase or prolonged period of maintaining rates at their current levels, in case the inflation exceeds projections. Data could again surprise the ECB which cut the projections of real y-o-y growth for eurozone GDP to 0.7% in 2023 and 1.0% in 2024, thus still remaining more optimistic than our forecasts.

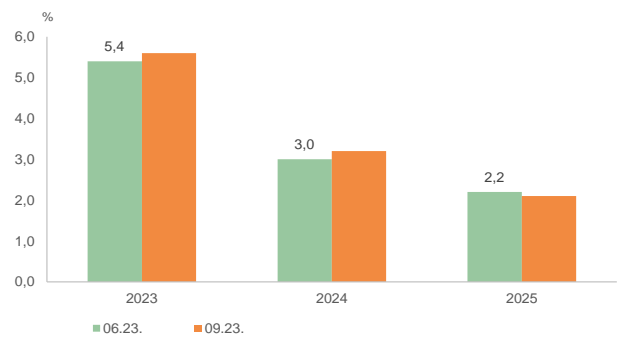
Interest rates
raised by 25 bps

We expect first
reduction in
September 2024

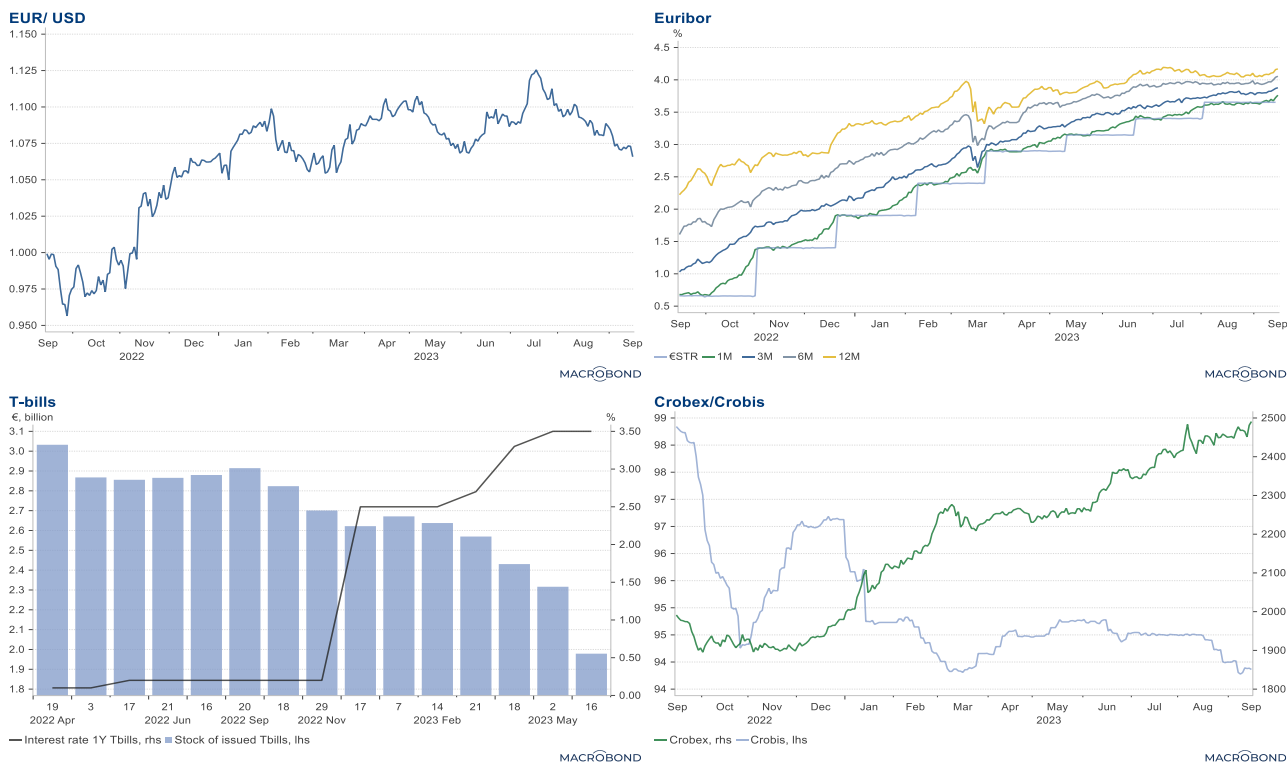
ECB policy rates



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



- ECB's interest rate hike and data which continue to indicate the strength of US economy have propped up the strengthening of the dollar against the euro last week. End of the week saw EUR/USD at 1.0658 dollar to the euro, down by 0.4% w-o-w.
- Last week, Euribor rose by 10 bps w-o-w, so on Friday 3M was 3.9%, and 6M 4.1%. This week EUR 77 million of T-bills is due, but without auction.
- ZSE continues to record positive trends, so Crobex closed Friday up by 0.9% w-o-w, i.e., at 2,491 points. The most important sector indices recorded divergent trends – CROBEXindustry and CROBEXtourist were reduced (-0.5% to 1,621, -0.6% to 4,177), while CROBEXnutris increased (by 2.8% to 886). Crobis overturned the trend (+0.1% to 93.9 points).



LEGAL DISCLAIMER

This publication is issued by PRIVREDNA BANKA ZAGREB-DIONIČKO DRUŠTVO, Zagreb, Radnička 50 (hereinafter: PBZ) and aimed at clients of the PBZ Group. This publication is intended for information purposes only and may not in any way be considered an offer or invitation to purchase any property or rights mentioned in it. The informative nature of this publication means that it may not serve as a substitute for the personal judgment and assessment of any reader or anyone who receives this publication. The information, opinions, analyses, conclusions, forecasts and projections given here are founded on publicly available data whose accuracy PBZ relies on but cannot guarantee. Accordingly, all the opinions, attitudes, conclusions, forecasts and projections given in this publication are subject to changes, which depend on changes to the data as published by the source used. PBZ allows further utilization of the data given in this publication on the condition that the publication is indicated as the source. All the property mentioned in this publication and whose movement is the subject of comment may from time to time be the subject of trade or positions taken by PBZ.

ECONOMIC RESEARCH

Ivana Jović
Ana Lokin

TRANSLATION

Ana Biloš
Jelena Marinović

www.pbz.hr