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Poland at the crossroads – again

US-Ukraine Mineral Resources Agreement: Diplomatic coup in adverse circumstances?

The Global Gateway Initiative: How the EU shapes up against China in the Western Balkans

Latest trends in global monetary policy and financial markets

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Opinion Corner*: Poland at the crossroads – again

BY GRZEGORZ W. KOLODKO[1]

Sometimes, instead of solving a problem, democracy complicates it even further. This is precisely what we are seeing in Poland, which – after the presidential election – is doomed to continue the cohabitation of a government and a president with opposing ideological and political orientations. In such conditions, it will be difficult for the Polish economy to follow a path of dynamic and sustainable development.

How often are the words of Winston Churchill quoted that 'democracy is the worst form of government except for all those other forms that have been tried from time to time'! Democracy is much more than just free elections, but voter turnout speaks volumes. Almost 65% of those eligible to vote took part in the recent presidential elections in Romania. In Poland, almost 72% of voters cast their ballot. Whereas in the first case Mr Nicușor Dan, the pro-business and pro-Europe candidate, won by a significant nine-point margin, in Poland Mr Karol Nawrocki, a Eurosceptic nationalist, won by a narrow margin – just 1.7% of votes cast.

In the Polish political system, the president of the state is not as strong as in the US or France, but nor is he as (relatively) insignificant on the political scene as in Germany or Austria – especially in relation to economic issues. The president may submit legislative initiatives to parliament, and he enjoys negative power: he has the right to veto legislation. And the current liberal coalition government led by Prime Minister Donald Tusk lacks a big enough parliamentary majority to overturn a veto.

Interestingly, Polish economic situation, although by no means an ideal, was not decisive during the election campaign and nor has it been in its immediate aftermath. Electoral emotions were mostly shaped by cultural and political considerations. Two groups of issues proved particularly divisive: on the one hand, the rule of law, the justice system and moral issues such as abortion, LGBT+ minority rights and state–church relations; on the other hand, international relations, and especially the depth of integration within the European Union and relations with the US and Poland's neighbours – Germany in the west and Ukraine in the east. The issue of immigration was less controversial, as all parties involved had a similarly negative attitude towards it. There was also unity surrounding the pursuit of a vehemently anti-Russian course and the need to maintain an elevated level of military spending – at 4.7% of GDP (and growing), this is already the highest among NATO's members.

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* Disclaimer: The views expressed in the Opinion Corner section of the Monthly Report are exclusively those of the authors and do not necessarily represent the official view of wiiw.

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THE SHADOW SIDES TO THE POLISH ECONOMIC MIRACLE

Meanwhile, the economic problems that Poland faces should not be overlooked. Since the remarkable success of my 'Strategy for Poland', when real GDP per capita soared by a record 28% in the years 1994-1997, in terms of economic growth Poland has been a star among those countries undergoing post-socialist transformation. But we must avoid adopting a narrow approach and reducing our assessment of economic results to the quantitative increase in income. Unfortunately, in more than one respect the Polish economy is not faring too well.

This year, the fiscal deficit is approaching 7% of GDP (the second biggest deficit in the EU, after Romania), and the cost of servicing the public debt is in excess of 2.2%. That is unsustainable in the long term, especially since interest rates are quite high: e.g. the yield on ten-year government bonds is 5.6% – twice the average for the euro area. The same is true of inflation (Poland: 4.0%; euro area: 2.1% in May compared to the same month last year). As a result of the low level of expenditure on research and development (just 1.5% of GDP, among the lowest figures in the EU), Poland has fallen dramatically in the International Institute for Management Development's (IMD) ranking of economic competitiveness – down eleven places to 52nd position. This is the worst result for five years. The ranking is based on an analysis of over 260 indicators, including debt, employment conditions, trade, and the subjective opinions of managers. At the same time, the investment rate is just 17.5% of GDP.

This is compounded by the low fertility rate (an average of 1.34 births per woman in 2024 and declining). Together with the ageing of society, this further worsens the dependency rate, which is already 51.6%. Given the negative public attitude towards immigration, which intensified in the heat of the pre-election political clashes, the situation on the labour market is deteriorating dramatically. None of this bodes well for future development. A democracy in which emotions prevail over common sense is by no means conducive to the imperative of balancing the economy and strengthening social cohesion.

NATIONALISM AND ECONOMIC POPULISM, RATHER THAN PRAGMATIC PROGRAMMES

Nationalism and economic populism that promises pie in the sky are all too often a feature of politics. Instead of competing on pragmatic packages of sustainable socio-economic development, rivals vie over populist illusions: who will spend more public money from the budget on various noble causes and at the same time lower taxes; who will raise wages more and simultaneously cut prices; who will build more cheap housing and will further increase social transfers. And of course, who will better restrict competition from foreign producers by supporting domestic business – even though it is sometimes less efficient and more costly. All this to win the election, and then we will see... It is an economic absurdity, but the day after the presidential election, the political campaigning began for the next parliamentary elections, due to be held in two and a half years' time – or earlier, if the coalition government that has been in power for a year and a half does not survive until then. That cannot be ruled out, although the government did win a parliamentary vote of confidence shortly after the presidential election, in which the candidate supported by the coalition parties lost.

One does not need to make unrealistic promises to win over the majority of public opinion. Although it is certainly more difficult than playing the populist/nationalist card, one must preach the truth and count on the fact that, by proposing rational economic programmes that are consistent with the principles of economics, it is possible to gain the consent of the majority in society.

My conclusions are based not only on years of studies in comparative political economy and development policy. They also result from rich experience gleaned through my active involvement in real economic policy in periods that were no less challenging than they are today. It is incredible that a generation and a half ago – in 1989, during the historic Round Table negotiations, in which I participated – we reached agreement on the direction that profound economic reform should take and gained broad public support, whereas today even a semblance of such dialogue is impossible, because the post-Solidarity parties are so deeply at odds.

It is interesting that, as deputy prime minister and minister of finance in 1994-1997, I was able to continue with comprehensive systemic reforms that resulted in Poland's entry into the OECD, and consistently built up institutions to support the social market economy, without being sidetracked by populist or nationalist aberrations, even during the presidential election of 1995. It is important that we were also able to effectively oppose populist tendencies in 2002-2003, when I again – as deputy prime minister and minister of finance – coordinated the complex economic policy in the key period of negotiating the terms of accession to the European Union.

Let us hope that in the longer run pragmatism will again prevail and Poland will not waste its chance to catch up with the most economically developed countries.

US-Ukraine Mineral Resources Agreement: Diplomatic coup in adverse circumstances?[1]

BY GUNTER DEUBER[2] AND MARCUS HOW[3]

The US-Ukraine raw minerals agreement was a diplomatic success for the Zelensky administration – arguably the best possible outcome in the current circumstances. The agreement is in the very early stages of implementation and is highly unlikely to become fully effective until a sustainable peace agreement is in place between Russia and Ukraine. It could serve as a blueprint for future bilateral resource-for-reconstruction deals, while other countries may follow suit in formalising their support for Ukraine through similar frameworks.

CONTEXT

In February 2025, following the fiery public showdown between US President Donald Trump and his Ukrainian counterpart, Volodymyr Zelensky, the future of US military and financial support for Ukraine appeared gloomy. Just two months later, the Zelensky administration succeeded in turning things around and achieving an accord that is compatible with its geopolitical interests, concluding a landmark Mineral Resources Agreement (MRA) with the Trump administration. The first steps towards ratification and implementation then followed in April.

This was a considerable achievement. Back in October 2024, the Zelensky administration had first mooted the prospect of commercialising aid by offering exclusive Western access to Ukraine's raw mineral deposits. This was a strategy designed to pre-empt transatlantic fatigue over the cost of support by capitalising on the growing geopolitical competition for critical minerals.

Following his inauguration in January, President Trump seized on Kyiv's idea and briefly took ownership of it, with his administration outlining a proposal regarded as 'economic colonialism'. The demands floated by the Trump administration included the repayment of some USD 350-500bn in military aid, as well as the US being granted the rights to take over the Zaporizhzhia nuclear power plant.

The Zelensky administration risked the wrath of Trump by rejecting these onerous demands and by persisting in negotiating terms that were more mutually equitable. The end result provides a basis for the commercialisation of US support to Ukraine and is in line with the Trump administration's position that aid should be regarded as investment, with clear economic benefits for US strategic interests. At the same time, the Zelensky administration secured full recognition of 'Russia's full-scale invasion of Ukraine' and the desirability of a 'free, sovereign and secure Ukraine'.

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[1] Thanks to Benedetta Locatelli, Analyst, VE Insight. The views expressed here reflect the personal opinions of the authors and do not necessarily reflect those of Raiffeisen Bank International (RBI) or VE Insight.

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It is our assessment that the MRA is balanced and has the potential to support Ukraine's interests in the long term. However, there are concerns over whether the MRA will actually be implemented. These will be discussed in this article.

KEY POINTS OF THE MRA

The basis of the MRA is the creation of a United States-Ukraine Reconstruction Investment Fund (RIF), which will be jointly managed by the US International Development Finance Corporation (DFC) and Ukraine's Public-Private Partnership Agency on an equal partnership basis. A six-member Performance Committee will be established to this end.

As well as hydrocarbons, the MRA covers over 50 minerals and includes deposits, infrastructure and future revenue. The resources involved are generally owned by the Ukrainian state and include relevant territorial waters.

The key terms and conditions are:[4]

› Ukraine is to retain complete ownership of its resources and infrastructure.

› Ukraine will contribute 50% of revenue from the exploitation of new mineral, oil and gas projects to the RIF, with neither partner permitted to sell or transfer shares without mutual consent.

› Current projects are exempt from having to contribute to the fund, e.g. the revenues of Naftogaz and Ukrnafta will continue to be linked to the general budget.

› The US may offtake future mineral resources on competitive terms.

› Sanctioned and/or hostile actors will be barred from participating.

› Any future US military assistance to Ukraine will be counted as a capital contribution to the RIF, with profit rights being granted. This will already allow Ukraine to claim short-term aid, such as Patriot air defence missiles, to bolster its dwindling stocks.

› Ukraine will not reimburse the US for past military aid: there is no retroactivity or debt obligations.

› The MRA affirms a 'long-term strategic alignment' between the US and Ukraine, but does not include any security guarantees; however, the RIF will invest the proceeds of resource extraction in Ukraine's reconstruction and security.

Changes or disputes will be addressed jointly and consensually. Should EU accession obligations or other unforeseen circumstances necessitate any change to the MRA, both sides commit to good-faith adjustments. The agreement is rooted in trust and strategic coordination.

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[4] https://www.sipotra.it/wp-content/uploads/2025/03/BILATERAL-AGREEMENT-ESTABLISHING-TERMS-AND-CONDITIONS-FOR-A-RECONSTRUCTION-INVESTMENT-FUND.pdf

PRACTICAL IMPLICATIONS

There are five variables that will be key to the MRA going forward:

1. Security

The MRA does not explicitly state that a peace settlement between Ukraine and Russia is a prerequisite for its implementation. Theoretically, the RIF can – and will – begin its activities as soon as possible. Yet the viability of the MRA on a larger scale will hinge on ensuring stable investment conditions, which will necessarily involve the neutralisation of hybrid warfare and war risks.

There is no way around this: not only are sizeable lithium deposits close to the front line itself, but if the Russian military continues its bombardment of Ukrainian energy and transport infrastructure, then launching any greenfield project will be highly challenging, as well as too costly to insure.

Therefore, a peace agreement that is sustainable and credible is implicitly a prerequisite for the RIF to become effective. Such an agreement must include security guarantees for Ukraine, but the Trump administration has been at pains to avoid any such commitment. The furthest the MRA goes is to support Ukraine's goal of achieving security guarantees, while stating vaguely that 'participants will seek to identify any necessary steps to protect mutual investments'. At the very least, private security companies and paramilitaries may play a role in securing projects.

The Trump administration argues that the MRA will in itself be an implicit security guarantee, because the US will have a direct strategic stake in Ukraine's development. Furthermore, as US investors participate in projects, they will most likely deploy professionals whom the Russian military would have no interest in targeting – or at least that is the assumption. Such reasoning is very unlikely to provide comfort to investors.

At present, a peace agreement between Ukraine and Russia remains a remote prospect. Neither side has any interest in acceding to the demands of the other, which are regarded – by both sides – as too onerous. Russia is preparing for a summer offensive, during which it hopes to build on its incremental military successes; meanwhile, Ukraine is using innovative tactics to inflict heavy damage on Russia's strategic military assets.

2. Time

Security notwithstanding, the MRA is a framework predicated on long-term factors. It is not a short-term commercial play, and nor is it entirely mercenary. Indeed, its provisions stipulate that all profits generated over the first 10 years must be reinvested in Ukraine.

Exploiting untapped strategic mineral resources is both time and resource intensive even in a stable economy with established mining sectors and good infrastructure – let alone in Ukraine. That country's raw mineral sector is still in its infancy: the geological data cited are based on Soviet-era mapping conducted up to half a century ago, the estimates of which were based on physical availability, rather than on economic viability. The deposits will require further exploration before extraction can even commence.

All this will take place in an environment where the energy and logistical infrastructure has been devastated and must be rebuilt; and at least half of the notional deposits of manganese and rare earths lie in Russian-occupied territory.[5] The issuing of licences for projects is slow: only 20 were issued between 2012 and 2020 – 0.57% of the total number of existing licences.[6] As such, exploitation of Ukraine's minerals is estimated to require 10-20 years before real benefits are delivered, according to industry experts.

3. Financing

According to industry estimates, individual projects and mines typically require at least USD 2-3bn in upfront investment before they reach operational status. Yet in the case of Ukraine, these projects will also need to be accompanied by the reconstruction of energy and transport infrastructure. Indeed, Ukraine is currently operating at approximately 30% of its pre-war electricity capacity.

The RIF will play a key role in facilitating this. Theoretically, it will be possible for the RIF to finance extraction and reconstruction projects, including possibly through borrowing on international capital markets or from US-based investors with US guarantees attached. The MRA also contains a provision by which future US military aid is to be considered a capital contribution to the RIF, which will function as a form of credit.

There are also some reassurances for private investors under the MRA. It provides for free convertibility of the USD and the hryvnia (UAH) – in effect, a soft commitment to a flexible exchange rate system that maintains some leeway for limited and temporary capital controls to safeguard macro-financial stability.

Nonetheless, the extent to which the RIF will initially be backed with state guarantees and capital remains unclear. If the Trump administration is unwilling to commit to significant guarantees, the RIF will have one hand tied behind its back in terms of mobilising private investment. That will deprive Ukraine of the expertise and technology needed to advance projects, thereby creating a spiral of downward confidence.

4. Transparency

The MRA includes multiple provisions that stipulate expectations surrounding the transparency of the RIF and the projects that will operate under its remit. This reflects an implicit acknowledgement of the corruption risks in Ukraine, which are high and will likely keep on rising so long as active warfare continues.

There are various ways in which the MRA will counter and manage these risks directly. Certain payment flows and custodian functions are to be conducted with the involvement of foreign banks and financial institutions, and therefore will not be subject to purely Ukrainian control and operational authority. Sanctioned individuals and entities will be barred from participation in the RIF.

Furthermore, its governance structures will extend beyond the evenly split top-level board of the RIF. Investment and administrative committees will have a 3:2 US majority; the audit committee will be split

[5] https://www.bbc.com/news/articles/c20le8jn282o

[6] https://www.reuters.com/world/europe/us-ukraine-may-wait-decade-or-more-see-revenue-minerals-deal-2025-05-01/

evenly; while Ukraine wields a majority on the new projects committee. Ukrainian (and US) voting rights can be suspended if terms are breached.

There is a trade-off here: the international accountability provided for by the MRA may serve to undermine the equal partnership between the US and Ukraine. This dynamic could worsen over time, as the MRA stipulates that future US military assistance will be considered a capital contribution to the RIF, effectively increasing US influence.

Meanwhile, to meet the transparency standards outlined by the MRA, reform of the management of Ukraine's relevant state-owned enterprises (SOEs) is likely to be necessary. This process began after 2014, but progress has been inconsistent. SOEs under the State Property Fund and the Ministry of Energy still face political interference, opaque procurement and poor financials. Much of the mining sector remains in state hands, with firms lacking capital and technical capacity. Even major players like Ukrnafta and UkrGasVydobuvannya have only partially adopted governance reforms, and many still operate without independent supervisory boards.

As such, even if investors are able to avoid corruption, the ability of Ukrainian SOEs to deliver will be limited by institutional legacies.

5. Political

The MRA may represent a major diplomatic triumph for the Zelensky administration, but for now it is little more than a piece of paper wielded by the elephant in the room: Trump himself. The president is mercurial and unpredictable, striking deals that he later reneges on or otherwise revises – such as the 2020 US-Mexico-Canada Agreement or the 2025 US-UK Economic Prosperity Deal.

Indeed, both prior to and since the signing of the MRA, Trump has lurched between positions which include qualified support for Ukraine and rapprochement with Russia. His administration has explored the prospect of economic cooperation with Russia, which would necessarily involve the easing of some sanctions. Russian President Vladimir Putin even mooted the possibility of supplying critical minerals to the US, including from within Russian-occupied Ukrainian territories, and welcomed the participation of US investors in developing such deposits.

Alternatively, there is a chance that the Trump administration could tactically exploit opportunities to amend the MRA to its greater advantage, especially if Ukraine is perceived to be in a position of weakness. Thus, it is plausible that Trump might renege on or revise the MRA, or otherwise enter into other arrangements that undermine its viability.

Yet the political risks are not only confined to the US side. There are significant misgivings in Ukraine about the MRA, with both nationalists and actors quietly amenable to Russian interests posing a potential challenge to its long-term prospects, should they gain power. This would not be unprecedented: in the 2000s, the Putin regime abrogated many energy ventures, such as production-sharing agreements, formally agreed with US and other foreign investors in the previous decade.

Legal arguments are already emerging. They include the claim that the US exploited the duress that Ukraine is under to pressure it into an agreement that is an act of economic coercion, thereby expressly violating Article 3 of the 1994 Budapest Memorandum.[7] This could be reinforced by the US claiming greater influence over the RIF over time, as it contributes more military aid to Ukraine. Regardless of the merits of these arguments, they illustrate the MRA's vulnerability to challenge both internationally and domestically.

CONCLUSION

It is our assessment that the MRA represents a tactical success for Ukraine in diplomatic terms, especially given the ambivalence of the Trump administration to its situation. Yet it is unclear whether it will solidify into strategic progress. Security and political risks remain major impediments to effective implementation of the MRA. Other lingering uncertainties include the fact that the MRA itself contains neither a firm dispute resolution mechanism nor an express statement of governing law.

On the other hand, if the US (and the DFC as an institution in itself) develops a genuine self-interest in the comprehensive implementation of the MRA, there is substantial upside potential for Ukraine, which would gain access to cutting-edge technology and expertise. The US is home to major international mining and exploration technology companies, as well as relevant machinery manufacturers. Several US companies are among the top 10 companies globally in this sector. In addition, the MRA could be opened up to other countries or to companies from other mining countries (such as Canada and Australia), with which US companies could otherwise form partnerships.

Beyond this, there are wider geopolitical implications arising from the MRA.

First, it is the first of its kind, reflecting US aims to secure strategic resources amid rising geopolitical competition. Thus, it might serve as a template for future bilateral deals, whether between the US and other countries or between Ukraine and its Western backers. There are already indications that this is the case. In February, the Democratic Republic of Congo (DRC) approached the US with an offer of access to its vast strategic resources mirroring the Ukrainian proposal, amid the rapid advance of Rwanda-backed rebels in its eastern regions. This energy-for-security deal might be agreed in the near future, although it is a different beast from the MRA, owing to the fact that the rebel threat is far more manageable than the Russian military.

Second, with the MRA the Zelensky administration has enacted a decisive shift against China, acceding to implicit clauses that bar hostile actors from engagement with the RIF. This implies that China will not be included in minerals-related reconstruction and investment efforts in Ukraine – a development that aligns with the US goal of countering China's systemic influence around raw materials. It also reflects Kyiv's frustration over Beijing's failure (or unwillingness) to broker a diplomatic solution. The window for Beijing to serve as a mediator in resolving the Ukraine conflict is thus closing.

Overall, the MRA may serve as a guiding mechanism to promote transparent, responsible and forward-looking long-term (direct) investment in critical sectors of the Ukrainian economy and thus support Ukraine's recovery strategy, while cohering with Kyiv's geopolitical priorities.

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7 https://www.geopoliticalmonitor.com/the-us-ukraine-critical-minerals-deal-breaches-the-budapest-memorandum/

The Global Gateway Initiative: How the EU shapes up against China in the Western Balkans

BY BERND CHRISTOPH STRÖHM[1]

The EU's Global Gateway Initiative which was established to compete with China's Belt and Road Initiative, aims to improve digital connectivity, infrastructure and sustainable development in the EU's backyard – including in the Western Balkan region. However, bureaucratic obstacles and a lack of political consensus have delayed its implementation. The EU runs the risk of a further loss of credibility and influence in the region if it does not carry through its projects under this ambitious initiative.

PORTS, POWER AND POLITICS: THE EU'S BID TO REGAIN STRATEGIC GROUND FROM CHINA

In 2021, the European Commission and the EU High Representative set out the Global Gateway Initiative (GGI), a new European plan to enhance health, education and research systems worldwide, as well as to increase environmentally clean and secure linkages in the digital, energy and transport sectors. The initiative seeks to mobilise up to EUR 300bn in investment between 2021 and 2027 in order to finance high-quality, sustainable projects.[2] As well as enabling the private sector in EU member states to invest and maintain its competitiveness, the initiative is intended to benefit the economies and societies of the EU's partners, while maintaining the highest labour and environmental standards.[3]

It is evident that the GGI strategy was purposely crafted to counter China's Belt and Road Initiative (BRI). BRI projects are often associated with allegations of corruption, and they frequently ensnare participating nations in a debt spiral that increases their dependence on China.[4] A year prior to the BRI's inception, China created the China–Central and Eastern European Countries (CEEC) Cooperation Forum (also once known as the 17+1 framework). Although the 17+1 framework is marketed as Chinese-led multilateralism, the actual agreements are frequently bilateral, and the development projects often involve China and individual countries.[5]

A significant factor behind the EU's critical stance toward China–CEEC cooperation is that 12 of the initial 17 European participants in the BRI initiative were EU members. Consequently, concerns arose

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2 See https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en (accessed on 25.5.2025).

3 ibid.

4 See https://www.kas.de/en/country-reports/detail/-/content/global-gateway-nimmt-langsam-fahrt-auf (accessed on 27.5.2025).

5 See https://www.bertelsmann-stiftung.de/en/our-projects/germany-and-asia/news/asia-policy-brief-chinas-economic-footprint-in-the-western-balkans (accessed on 27.5.2025).

that China could indirectly influence policymaking in the EU, through its close ties with certain member states.[6] Amid growing worries over China's strong links with Russia, the Baltic countries of Lithuania, Estonia and Latvia decided to leave the 17+1 initiative, thus dealing China's diplomatic efforts in Europe a serious blow. The Baltic states are generally incensed over Beijing's 'no-limits' alliance with Moscow, believing that Russia's invasion of Ukraine could be a prelude to a larger effort to regain its former empire. Lithuania was the first to leave the initiative in 2021; the withdrawal of Estonia and Lithuania in 2022 reduced the framework to 14+1.[7]

Among the most controversial BRI initiatives in Europe are those being undertaken in countries that are part of the China–CEEC Cooperation Forum: the Budapest–Belgrade high-speed railway and the Bar–Boljare highway, a motorway project in Montenegro. Both projects have been criticised as overblown and overly expensive. At over EUR 3.8bn, the Budapest–Belgrade rail link is indeed rather on the expensive side. The anticipated cost for the 160 km Hungarian section is around EUR 2bn, while the estimate for the 210 km Serbian stretch is EUR 1.8bn. The Hungarian government is using a Chinese state loan to finance 85% of the project to construct the Hungarian section, although – since the details of the loan deal were classified in 2020 for a period of 10 years – no further information is available.[8]

In another example, COSCO, a company owned by the Chinese government, possesses a majority share in the Greek port of Piraeus. This is just one of several European ports with significant strategic value that are controlled or partially owned by Chinese companies (others include Genoa and Trieste in Italy, and Antwerp-Bruges in Belgium). COSCO also holds a 24.9% stake in a container terminal at Hamburg port, something of a hot topic due to the port's designation as critical infrastructure.[9]

BRIDGING THE GAP: CHALLENGES IN MOBILISING INVESTMENT, PROJECT IMPLEMENTATION AND COORDINATION ISSUES

As part of the GGI, the Economic and Investment Plan for the Western Balkans aims to tackle bottlenecks in economic and social development, transport connections, energy security, environmental protection and human capital in the Western Balkans in the period 2021–2027, positioning the region as the next investment hub and engine of growth in Europe.[10] With the cooperation of international financial institutions, the plan aspires to mobilise public and private investment worth as much as EUR 30bn – including EUR 9bn in EU grants through the Instrument for Pre-accession Assistance (IPA) III – over this seven-year period.

Of the total sum, EUR 5bn has been pledged by the Western Balkans Investment Framework (WBIF) – a cooperative financial platform that was established 15 years ago by the European Commission, financial institutions, EU member states and Norway to improve investment collaboration in the public and commercial sectors. Within this framework, priority investment in the fields of energy, transportation,

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6 See https://ceias.eu/the-eus-de-risking-strategy-and-its-global-gateway-initiative/ (accessed on 25.5.2025).

7 See https://www.politico.eu/article/down-to-14-1-estonia-and-latvia-quit-chinas-club-in-eastern-europe/ (accessed on 26.5.2025).

8 See https://www.investigate-europe.eu/posts/from-budapest-to-belgrade-a-railway-line-increases-chinese-influence-in-the-balkans (accessed on 26.5.2025).

9 See https://ceias.eu/the-eus-de-risking-strategy-and-its-global-gateway-initiative/ (accessed on 26.5.2025).

10 See https://enlargement.ec.europa.eu/global-gateway-economic-and-investment-plans_en (accessed on 24.5.2025).

digital and human capital is to be supported to the tune of EUR 3bn in grants and loans.[11] Overall, the WBIF is financing 68 flagship investments, combining bilateral contributions from EU member states and Norway with favourable loans from international financial institutions.[12]

Figure 1 / Global Gateway Initiative: EU-Western Balkans and Turkey flagship projects

Source: European Commission, https://international-partnerships.ec.europa.eu/publications-library/global-gateway-flagship-projects-infographics_en

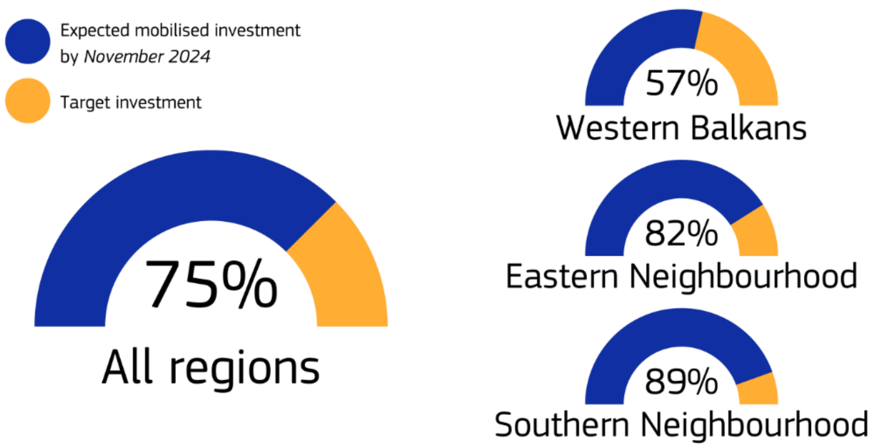
[11] See https://enlargement.ec.europa.eu/news/european-commission-announces-additional-eu12-billion-investment-package-infrastructure-and-support-2024-07-02_en (accessed on 25.5.2025).

[12] See https://enlargement.ec.europa.eu/global-gateway-economic-and-investment-plans_en (accessed on 24.5.2025).

Notable examples of GGI flagship projects in the Western Balkans include the Corridor VIII rail and road link in Bulgaria and North Macedonia, the Trans-Balkan Electricity Corridor in Serbia, Montenegro and Bosnia and Herzegovina (BiH), and the establishment of critical raw material exploration facilities in countries such as Serbia, BiH, Kosovo, Albania and Montenegro.

By November 2024, the anticipated investment mobilisation of the Economic and Investment Plan for the Western Balkans amounted to EUR 17.2bn – 57% of the estimated EUR 30bn that should be mobilised by the end of 2027. This is substantially less than in other EU neighbourhood regions (see Figure 2) and suggests a significant potential shortfall in the target investment, reflecting the challenges in project implementation and funding disbursement.[13]

Figure 2 / The share of mobilised investments under the EU Global Gateway economic and investment plans, as % of total



Source: European Commission, https://enlargement.ec.europa.eu/global-gateway-economic-and-investment-plans_en

The coordination issues and project implementation delays are partly a result of the division of responsibilities between two separate institutions that distribute the EU's infrastructure funds: the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Besides, several of the programmes under the GGI are not new; rather, they are existing projects that have been rebranded to conform to the initiative's parameters. This strategy has also given rise to complaints that the GGI is largely repackaging earlier pledges and lacks innovative content.[14] Even though this strategy should speed up project implementation, the EU bloc's global investment plan continues to be severely hampered by Byzantine bureaucracy and by environmental and social restrictions associated with EU financing – this was criticised back in 2024 by the former European commissioner for international partnerships, Jutta Urpilainen.[15]

[13] See https://enlargement.ec.europa.eu/global-gateway-economic-and-investment-plans_en (accessed on 24.5.2025).

[14] See https://www.idos-research.de/en/the-current-column/article/the-european-unions-global-gateway-should-reinforce-but-not-replace-its-development-policy/ (accessed on 24.5.2025).

[15] See https://www.ft.com/content/690e65c5-ee93-4a21-b4c7-12110ae48984 (accessed on 23.6.2025).

NOTABLE DELAYS IN THE IMPLEMENTATION OF INDIVIDUAL PROJECTS

Corridor VIII rail link

As part of the GGI, the European Union unveiled a financial and technical support package worth EUR 560m for this crucial railway project in North Macedonia. The financing will go toward building 24 km of track and electrifying a further 88 km along Corridor VIII. The project should enhance connectivity within the region and with the EU.[16] The general concept of Corridor VIII – namely to establish a pan-European road and rail transport route that crosses and connects the challenging terrains of Albania, North Macedonia and Bulgaria – was first mooted more than 20 years ago. It held out the ambitious promise of reshaping East–West logistics, spurring regional development and strengthening Southeast Europe's ties to the EU.[17]

Even though Corridor VIII is a component of the EU's flagship Trans-European Transport Network (TEN-T), its implementation has been plagued by internal politics, bureaucratic inertia and charges of corruption that cut across state borders.[18] The project's general rail infrastructure is still fragmented, particularly along those stretches that straddle the borders of the corridor's participant countries (Bulgaria, Albania and North Macedonia). Excessive travelling times and infrastructure constraints mean that those sections of the corridor that have already been constructed are underutilised. The fact that Corridor VIII is currently a patchwork of unfinished roads and old railways is making it difficult to transport people and goods from the Adriatic coast to the Black Sea by road and rail. At the official level, the governments in Sofia, Skopje and Tirana are continuing to prioritise completion of the corridor as a means of modernisation and collaboration that will clearly benefit a region that has remained on the fringes of European economic progress.[19] Nevertheless, the project's implementation has been hindered by coordination challenges among the various financial institutions and by the need for comprehensive environmental and social impact assessments.

Bosnia and Herzegovina's southern gas interconnection

This energy diversification project aims to provide an alternative gas supply route for BiH and to increase the country's gas supply capacity by connecting its gas transmission system with that of Croatia. The plan is for the southern gas interconnector's bidirectional pipeline to extend to 236 km – 162 km in BiH and 74 km in Croatia. The interconnection is to be linked to the Croatian Split–Zagvozd gas pipeline.[20] The EBRD was going to cover the cost of the pipeline – approximately EUR 100m, according to preliminary estimates. More recent estimates, however, indicate that the cost could exceed EUR 200m.[21]

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16 See https://www.eib.org/en/press/all/2023-532-north-macedonia-eu-supports-railway-network-to-complete-corridor-viii-connection-to-bulgarian-border (accessed on 28.5.2025).

17 See https://www.tiranatimes.com/corridor-viii-the-forgotten-lifeline-of-the-balkans/ (accessed on 28.5.2025).

18 ibid.

19 See https://www.balcanicaucaso.org/eng/Areas/Bulgaria/Corridor-8-the-long-and-winding-road-238168# (accessed on 28.5.2025).

20 See https://www.wbif.eu/project-detail/PRJ-BIH-ENE-009 (accessed on 28.5.2025).

21 See https://www.forbes.com/sites/lidiakurasinska/2025/01/26/bosnia-moves-ahead-with-new-pipeline-to-reduce-dependence-on-russian-gas/ (accessed on 26.5.2025).

Even though strategically very important, the project has faced significant setbacks and delays. Some of these stems from a lack of political consensus in BiH: three BiH cantons have refused to grant urban planning consent, citing political disagreement and demanding amendments to the project.[22] Disputes within the Federation of BiH about the project's managing corporation have meant that the project has been stalled for years. The proposal has been resurrected by the federal government's current transmission operator, BH-Gas. However, the Croat HDZ BiH party wants a separate business to be established in Mostar to take over the project's development.[23] The lack of political consensus means that the projected timescale for completion of the pipeline is too optimistic – the project is unlikely to be ready before 2030.[24]

CONCLUSION

While the GGI's aim of supporting sustainable, digital and infrastructure development in the Western Balkan region is laudable, significant obstacles to its implementation remain and could compromise the initiative's efficacy. Even early on, progress was hampered by several issues, and such problems as the lack of political consensus and transparency are still prevalent in the region. It is also vital to evaluate whether the EU has managed to effectively communicate the objectives and benefits of the GGI to the Western Balkan countries. Failure to meet the ambitious scope of the initiative – namely to mobilise EUR 30bn by 2027 – could create additional confusion and dilute its success in the region. Here it should also be stressed that the EU's general approach of making financial aid conditional on certain reforms has already led to 'reform fatigue' in some Western Balkan countries, most notably North Macedonia.

Regarding the issue of the GGI as a direct rival to the BRI, it is evident that BRI projects enjoy some advantages vis-à-vis GGI projects: BRI projects are centrally supervised, executed by China's state-owned enterprises and typically funded by China's state-owned banks.[25] With its decentralised private-sector engagement, the EU finds it difficult to compete with the high level of coordination between Chinese public enterprises, state-owned banks and the Chinese government.[26] Even with the EU's focus on transparency and sustainability, it is evident that bureaucratic hurdles are slowing the rollout of EU-sponsored projects. In contrast, China is much more agile – even if there are legitimate worries about debt risks and governance issues. Some countries in the Western Balkans, faced with pressing development needs, find that speed and efficiency attractive.

Looking at the big picture, the GGI has the potential to boost connectivity and development in the Western Balkans. But the road ahead is bumpy for the initiative: there are lingering geopolitical vulnerabilities; institutional capacity is shaky; incentives for reform are often unclear; and communication from the EU side could benefit from a major upgrade. At the superficial level, EU funding remains tied to reforms and preconditions, such as respect for democratic processes, macro-financial stability, a

22 See https://n1info.ba/english/news/three-cantons-reject-urban-planning-consent-for-southern-gas-interconnection/ (accessed on 26.5.2025).

23 See https://bankwatch.org/blog/bosnia-and-herzegovina-southern-gas-interconnector-why-gas-at-all-should-be-the-key-question (accessed on 28.5.2025).

24 Ibid.

25 See https://www.bruegel.org/newsletter/david-and-goliath-eus-global-gateway-versus-chinas-belt-and-road-initiative (accessed on 29.5.2025).

26 Ibid.

prudent public financial management and budget transparency.[27] If the EU wants the GGI to succeed, it will need to tackle these obstacles head on. After all, the GGI is more than just another infrastructure programme: it is a test of whether the EU can act as a serious 'geoeconomic' player on the world stage, especially when up against such competitors as China and Russia.

27 See https://enlargement.ec.europa.eu/funding-technical-assistance/reform-and-growth-facility-western-balkans_en (accessed on 23.6.2025).

Latest trends in global monetary policy and financial markets

BY BILJANA JOVANOVIKJ[1]

Late 2023 and early 2024 marked the beginning of a gradual shift toward monetary easing, as inflation in the advanced economies began moving closer to target and growth momentum softened. However, the outlook became significantly more uncertain in early 2025, following the imposition of US tariffs and the escalation of global trade tensions. The key question now is not only the pace and timing of further rate cuts, but also whether heightened geopolitical and trade-related risks will delay or even reverse the easing cycle in some countries.

Yield curves remain inverted across short- to medium-term horizons, with European yields reaching their lowest point around the two-year maturity, while US yields bottom out near the three-year mark. Markets continue to be concerned about the short-term risks. We expect the curves to maintain this shape in the short term, followed by a gradual transition to upward slopes after 2025.

Overall, the monetary policy communication of major central banks remains broadly accommodative, though it now places greater emphasis on the elevated uncertainty triggered by the recently imposed US tariffs and the resulting escalation in global trade tensions. Until this shift in the external environment, the pace of rate reductions had even exceeded market expectations, as central banks responded proactively to disinflationary trends and the weakening growth momentum. With the exception of the Bank of Japan (BoJ), all other major central banks – the European Central Bank (ECB), the US Federal Reserve (Fed), the Bank of England (BoE), the Swiss National Bank (SNB) and the Bank of Canada (BoC) – have reduced their policy rates since September 2024: by 125, 50, 50, 75 and 150 basis points (bps), respectively. At their most recent monetary policy meetings, however, the Fed, BoC and BoJ opted to hold their policy rates steady, signalling a more cautious stance in light of rising external risks.

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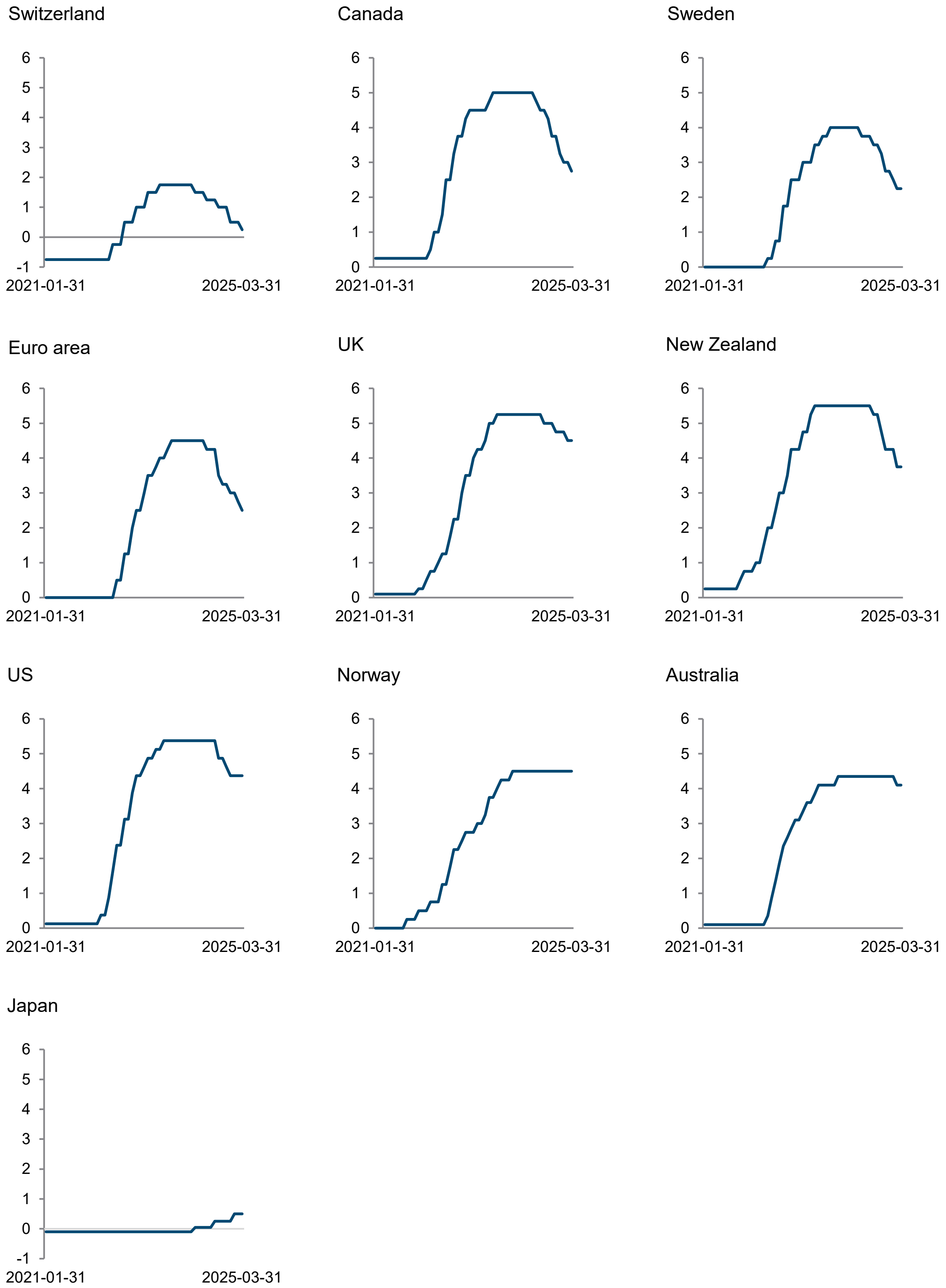
1 The text of this article was finalised on 16 May 2025.

Figure 1 / Monetary policy rates in major economies, in %



Source: Bank for International Settlements (2025), Central bank policy rates, BIS WS_CBPOL 1.0 (data set).

At its latest monetary policy meeting in April 2025, the **ECB** cut its policy rates in response to declining inflation and mounting concerns over the euro area's growth outlook amid escalating trade tensions. While the ECB refrained from providing explicit forward guidance, markets anticipate further monetary easing in the period ahead, with the economic outlook already showing signs of deterioration.

In May 2025, the **US Fed** kept its policy rate unchanged, citing increased uncertainty from the newly imposed trade tariffs and their potential inflationary risks, amid solid labour market conditions and, for the time being, stable financial markets. The Fed views the GDP decline in Q1 2025 as a temporary distortion caused by front-loaded imports ahead of tariff hikes, and considers it too early to regard the dip as a signal of some broader economic slowdown. In the near term, the Fed is expected to maintain a cautious approach to monetary policy easing, with interest rate cuts likely postponed until later in the year and the policy rate projected to converge gradually toward a neutral range of 2.0% to 2.5% by the end of 2027.

After a series of rate cuts, the **Bank of Canada** held its policy rate steady at 2.75% in April 2025, citing the need to assess the full impact of US tariffs on the Canadian economy. The bank also signalled its readiness to make further adjustments, depending on how economic conditions evolve.

In May 2025, the **Bank of England** reduced its main policy rate by 25 bps to 4.25%, marking its lowest level since May 2023. This decision was driven by a combination of factors, including a gradual decline in inflation, slowing GDP growth and a loosening labour market. Looking ahead, with inflationary risks largely under control – despite heightened global uncertainties – the BoE is likely to continue to reduce interest rates.

The **Swiss National Bank** lowered its policy rate to 0.25% in March 2025, a decision driven by persistently low inflation and the appreciation of the Swiss franc amid global trade tensions. While the SNB remains cautious about reintroducing negative interest rates, it has indicated its readiness to act if currency appreciation threatens price stability.

The **Bank of Japan** maintained its policy rate at 0.5% at its most recent monetary policy meeting, in May 2025. Its stated goal is a gradual normalisation of its policy, together with a simplification of its monetary policy framework. However, even though inflation has risen, the BoJ is cautious about further tightening, due to potential downside risks from global trade tensions. Market analysts anticipate a possible rate hike later in the year, if domestic economic conditions remain supportive.

Although the peak of inflation and monetary policy tightening is past, credit and interest rate risks remain elevated. It is too early to assume that the adverse effect of credit tightening has fully materialised, given that the impact might come with a lag for long-term borrowers. With credit costs high, the adverse effects could be delayed: the real estate sector and the worsening of the credit portfolio of financial institutions deserve particular attention.

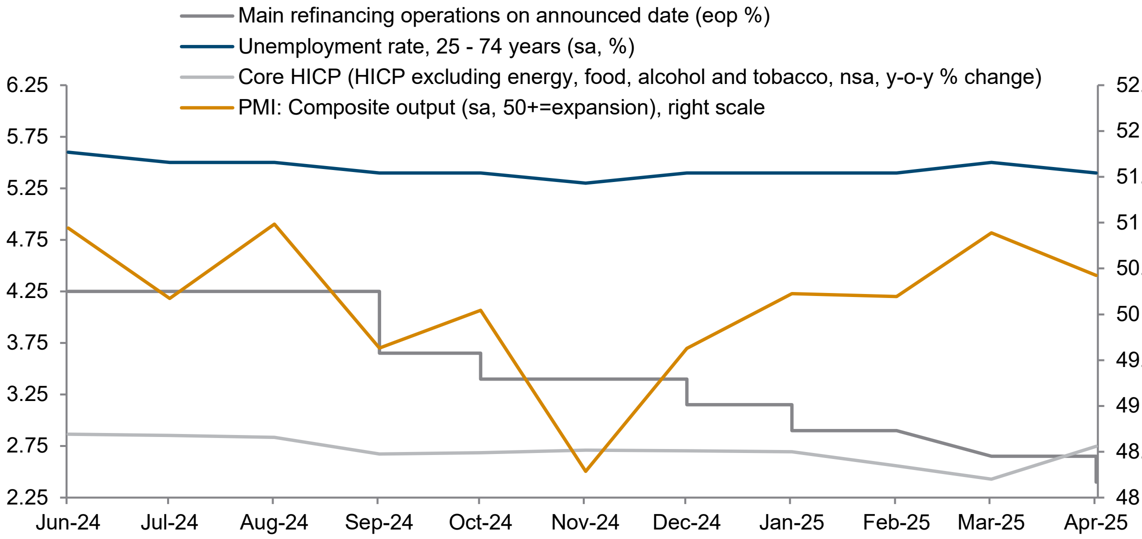
EURO AREA

Latest communication and projections

The ECB has reduced its policy rate five times since September 2024. The latest cut – of 25 bps – was implemented on 17 April and was justified by the ongoing disinflationary trend, broadly in line with forecasts. Both core and headline inflation declined in March 2025, with underlying indicators suggesting that inflation is likely to converge sustainably towards the 2% medium-term target.[2] In light of recent trade tensions and heightened global uncertainty, the ECB acknowledged a weakening growth outlook for the euro area and pointed to a likely decline in confidence among households and firms. It also highlighted the fact that future policy rate decisions will be guided by inflation developments and broader economic and financial conditions. Since it is increasingly anticipated that there will be negative effects on growth and demand, further rate cuts are to be expected before the end of the year.

As of April 2025, the ECB maintained its stance on minimum reserve requirements, with no recent discussions indicating a change. The remuneration of minimum reserves remains at 0%, a decision made in July 2023.[3] Given the current trajectory towards monetary easing, the rationale for altering reserve requirements has diminished further.

Figure 2 / Euro area inflation and economic activity



Source: ECB, SPG, Eurostat, EUROSTAT/Haver.

In line with its March 2024 announcements,[4] the ECB is continuing to promote the revitalisation of the interbank lending market, aiming to establish it as the primary mechanism for liquidity provision to banks. This shift signifies a move away from the quantitative easing era that followed the 2008-2009 financial crisis. To facilitate this transition, the ECB is implementing two key measures. First, it will continue to let the asset purchase programme and pandemic emergency purchase programme portfolios run off over

2 https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.mp250417~42727d0735.en.html

3 https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr230727~7206e9aa48.en.html

4 https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240313~807e240020.en.html

the coming years, with the lower bound of its balance sheet remaining unannounced. Both portfolios are declining at a measured and predictable pace, as was confirmed at the latest press conference of the ECB.[5] Second, effective as of 18 September 2024, the ECB narrowed the spread between its key policy rates – the spread between the deposit facility and the costs of the main refinancing operations was reduced from 50 to 15 bps, and the spread between the deposit and the lending facility from 75 to 40 bps.[6] These adjustments seek to enhance the attractiveness of interbank lending by encouraging banks to rely more on market-based funding than on central bank facilities.

wiiw forecast

With inflation continuing its downward trajectory and an increasing emphasis on downside risks to growth, we expect the ECB to proceed with further interest rate reductions to support demand and stabilise the macroeconomic outlook. In addition to the adjustments already implemented, we expect two further rate cuts this year: one in June and the other in September. In line with the operational framework, we expect a realignment of the main refinancing operations (MROs), deposit facility rate (DFR) and marginal lending facility (MLF) spreads, which will lead to bigger cuts in the main refinancing rate, but less so in the deposit rate. In the baseline scenario, we expect an additional 25 bps reduction in the key rate over the course of 2026.

Table 1 / EUR rate forecasts, annual average

	2023	2024	2025	2026	2027	2028	2029	2030
Policy rate (main refinancing operations)	3.8	4.1	2.3	1.8	1.7	1.7	1.7	1.7
Policy rate (lending rate)	4.1	4.4	2.6	2.0	1.9	1.9	1.9	1.9
Policy rate (deposit rate)	3.3	3.7	2.2	1.6	1.5	1.5	1.5	1.5
3m	0.5	3.5	2.0	1.5	1.5	1.6	1.6	1.6
2yr IRS	1.4	2.6	1.7	1.3	1.5	1.7	1.7	1.7
10yr IRS	1.8	2.4	2.3	2.2	2.2	2.2	2.2	2.2

Note: Numbers are rounded to one decimal place. Historical data and forecasts as of 16 May 2025.
Source: wiiw.

US

Latest communication and projections

Despite ongoing political tensions, recent indicators suggest that the labour market conditions are still solid, with the unemployment rate stabilising at a low level. Core inflation has declined, but remains above the 2% target, with risks tilted to the upside following the imposition of trade tariffs. Financial markets have regained their stability after the heightened volatility and downturn triggered by President Trump's Liberation Day announcement. GDP data for Q1 2025 showed a decline,[7] primarily driven by front-loaded imports ahead of anticipated tariff hikes. With private consumption and investment still expanding at a solid pace, this dip in GDP is most likely a temporary distortion, rather than a clear signal

[5] https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.mp250417~42727d0735.en.html

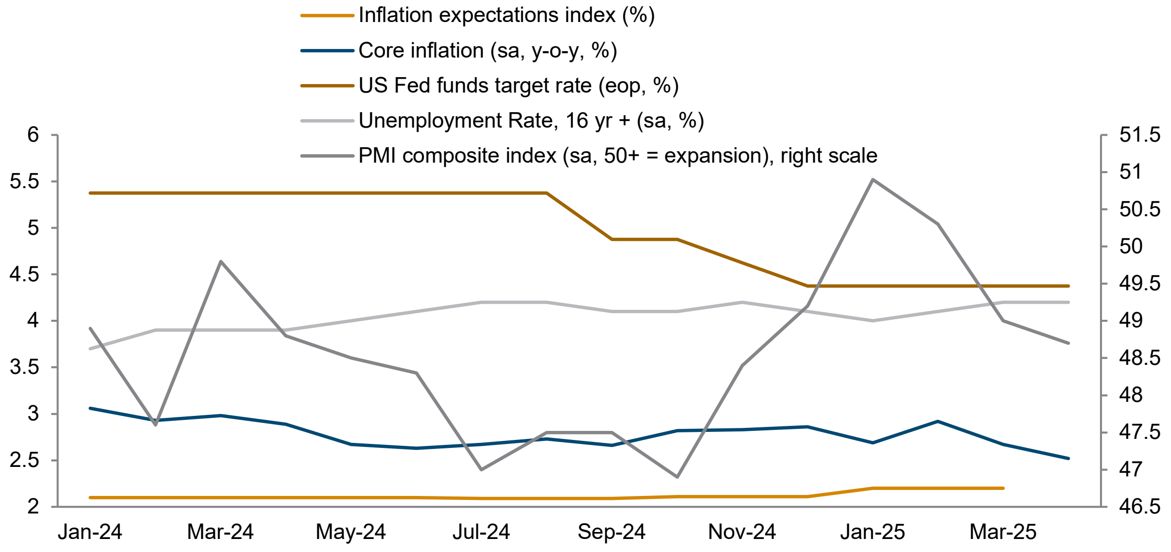
[6] https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240313~807e240020.en.html

[7] https://www.bea.gov/news/2025/gross-domestic-product-1st-quarter-2025-advance-estimate

of any broader economic slowdown. However, recent surveys of households[8] and businesses[9] indicate a sharp decline in sentiment and rising uncertainty about the economic outlook. It remains to be seen to what extent these shifts weigh on future spending and investment decisions.

Over the past six months, the Fed has shifted towards a more accommodative monetary policy stance, implementing rate cuts in response to moderating inflation and slowing economic growth. Since September 2024, it has lowered its main policy rate twice – in November and again in December – by a total of 50 bps.[10] However, in May 2025 the Fed opted to keep the rate unchanged, citing both increased uncertainty surrounding the inflation outlook (linked to the introduction of trade tariffs) and the (for now) stable financial markets.[11]

Figure 3 / US inflation and economic activity



Source: ISM, FRB, BEA, BLS/Haver.

wiiw forecast

Despite the elevated inflationary risks, with US interest rates still above the neutral level, the risk of growth deceleration continues to weigh on the outlook. In addition, markets have interpreted the recent US–China trade agreement as a positive signal for global trade stability, which may further support risk sentiment. Against this backdrop, we expect further monetary policy accommodation, albeit in a cautious manner, with planned rate cuts likely postponed until later in the year. Our baseline assumes that the Fed will implement two 25 bps cuts before the end of 2025. Over the longer term, we anticipate a gradual return to price stability only after 2026, with the policy rate converging toward a neutral range of 2.0% to 2.5% by the end of 2027.

8 https://www.conference-board.org/topics/consumer-confidence/press/CCI-Apr-2025

9 https://www.reuters.com/business/us-small-business-sentiment-declines-further-april-2025-05-13/

10 https://www.federalreserve.gov/newsevents/pressreleases/monetary20241107a.htm, https://www.federalreserve.gov/newsevents/pressreleases/monetary20241218a.htm

11 https://www.federalreserve.gov/newsevents/pressreleases/monetary20250507a.htm

Table 2 / USD rate forecasts, annual average

	2023	2024	2025	2026	2027	2028	2029	2030
Policy rate	5.2	4.5	4.0	3.3	2.8	2.3	2.3	2.3
3m	2.4	4.3	3.8	3.1	2.7	2.0	2.0	2.0
2yr IRS	3.2	4.1	3.4	3.3	3.1	2.8	2.8	2.8
10yr IRS	2.8	4.1	3.7	3.7	3.4	3.3	3.3	3.3

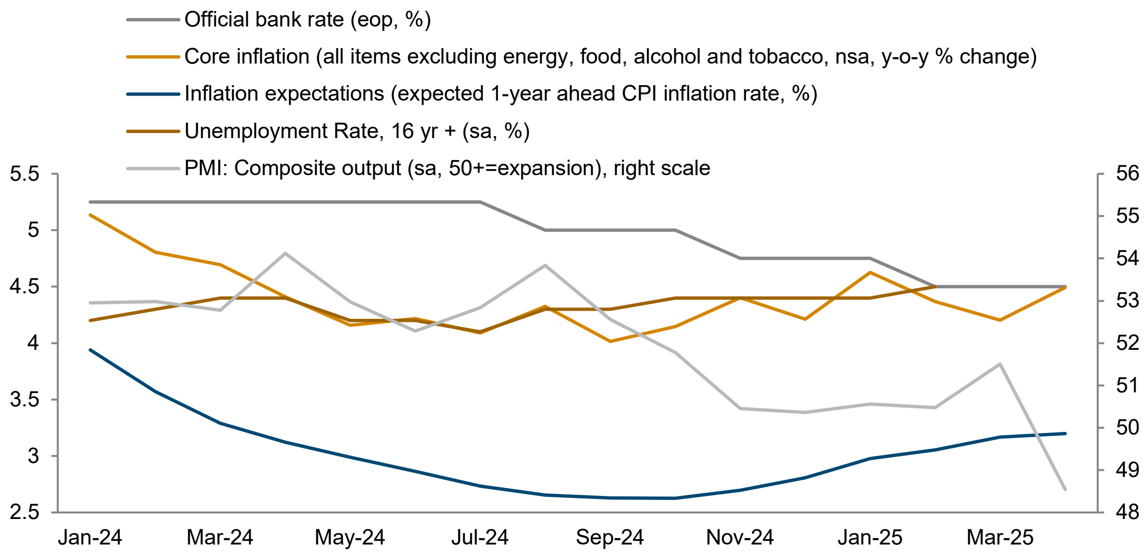
Note: Numbers are rounded to one decimal place. Historical data and forecasts as of 16 May 2025.
Source: wiiw.

UK

Latest communication and projections

Following the initial rate cut in August 2024 that marked the start of a gradual easing cycle, the Bank of England has maintained a dovish monetary policy stance, delivering three additional rate cuts totalling 75 bps in November 2024, February 2025 and May 2025. These reductions were implemented in response to moderating inflation and emerging signs of an economic slowdown.[12] Looking ahead, with the disinflationary process continuing and inflationary expectations under control, the BoE will most probably continue with the reduction of interest rates. This is in line with the BoE's communication[13] and financial market expectations.

Figure 4 / UK inflation and economic activity



Source: BoE, ONS, CIPS/SPG/Haver.

12 https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/may-2025

13 https://www.bbc.com/news/articles/cwyqyp7xp12o

wiiw forecast

Following the rate cut implemented in May 2025, we expect the Bank of England to lower the policy rate by a further 25 bps in the second half of the year, followed by a sequence of four additional cuts of 25 bps throughout 2026. As inflation stabilises around the target, we project a continued gradual easing, with the policy rate reaching 2.5% by 2028.

Table 3 / GBP rate forecasts, annual average

	2023	2024	2025	2026	2027	2028	2029	2030
Policy rate	4.7	5.1	4.4	3.6	2.8	2.5	2.5	2.5
3m	1.7	5.0	4.2	3.3	2.5	1.9	1.7	1.7
2yr IRS	2.8	4.3	3.7	3.1	2.6	2.2	2.0	2.0
10yr IRS	4.0	4.1	4.5	4.1	3.6	3.3	3.2	3.2

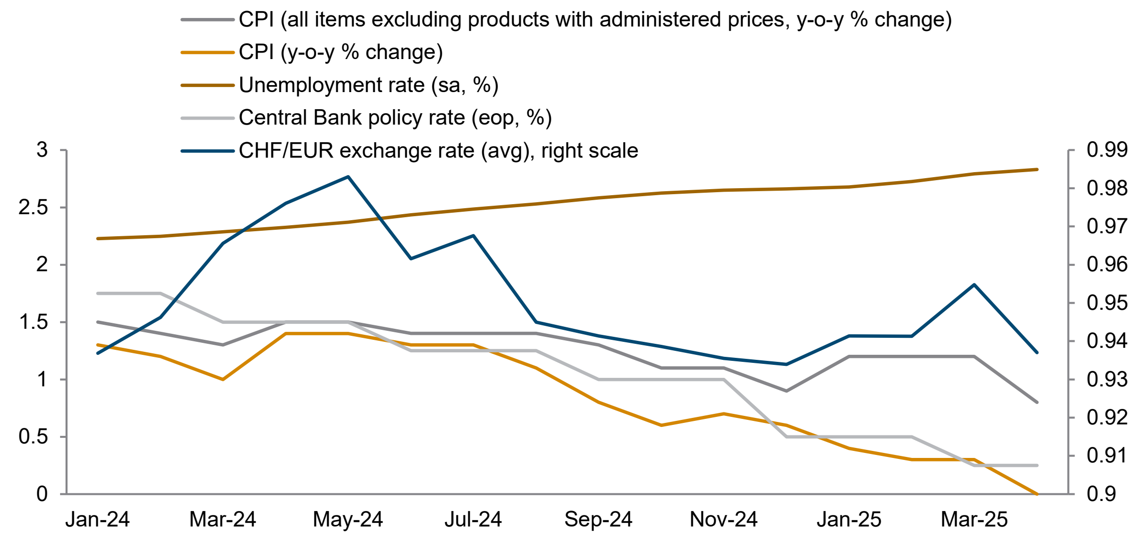
Note: Numbers are rounded to one decimal place. Historical data and forecasts as of 16 May 2025.
Source: wiiw.

SWITZERLAND

Latest communication and projections

The Swiss National Bank has maintained a dovish stance in response to declining inflation. Since September 2024, it has implemented two rate cuts totalling 75 bps, bringing the policy rate down from 1.0% to 0.25% by March 2025. The most recent cut aimed to counter low inflationary pressures and mitigate the appreciation of the Swiss franc, which threatens export competitiveness and price stability.[14] However, with the key rate already at 0.25%, analysts argue that foreign exchange interventions – rather than further rate cuts – are likely to remain the SNB's most effective tool.

Figure 5 / Switzerland inflation and economic activity



Source: SFSO, ECB, SNB/Haver.

[14] https://www.reuters.com/world/europe/swiss-francs-surge-tariff-turmoil-pressures-snb-act-2025-04-23/

Looking ahead, the SNB has highlighted significant uncertainties stemming from global trade tensions and geopolitical risks. With interest rates already at a low level, the room for further cuts is narrowing. However, given that inflation stood at 0% in April 2025, the possibility of reintroducing negative interest rates cannot be ruled out, if economic conditions warrant it.[15]

wiiw forecast

Low inflation, weak economic growth and an appreciating currency have prompted the SNB to reduce interest rates more rapidly than previously anticipated. We now expect one further cut of 25 bps in December 2025, which would bring the policy rate to the zero lower bound. Thereafter, we assume the SNB will keep the rate unchanged, relying – if necessary – on alternative instruments, most likely foreign exchange interventions, to support the economy. While our baseline does not include a return to negative interest rates, the SNB has communicated that this option remains on the table.

Table 4 / CHF rate forecasts, annual average

	2023	2024	2025	2026	2027	2028	2029	2030
Policy rate	1.5	1.3	0.3	0.2	0.1	0.1	0.0	0.0
3m	0.0	1.1	0.1	0.1	0.1	0.1	0.1	0.1
2yr IRS	0.7	0.8	0.0	0.0	0.0	0.0	0.0	0.0
10yr IRS	1.4	0.9	0.5	0.4	0.4	0.4	0.4	0.4

Note: Numbers are rounded to one decimal place. Historical data and forecasts as of 16 May 2025.
Source: wiiw.

JAPAN

Latest communication and projections

In 2024, Japan initiated a major policy shift, as the Bank of Japan moved away from its ultra-loose monetary policy after 30 months of sustained inflation. The BoJ abandoned yield curve control, ceased purchases of exchange-traded funds and real estate trusts, and implemented its first rate hike since 2007, aiming to normalise and strengthen monetary policy transmission. These efforts continued into early 2025, with the BoJ raising its policy rate to 0.5% in January 2025 to address persistent inflation and rising wages. At its May meeting, the BoJ kept the key policy rate unchanged at 0.5%, amid growing concerns that US President Trump's tariff measures could dampen both global and domestic economic growth.

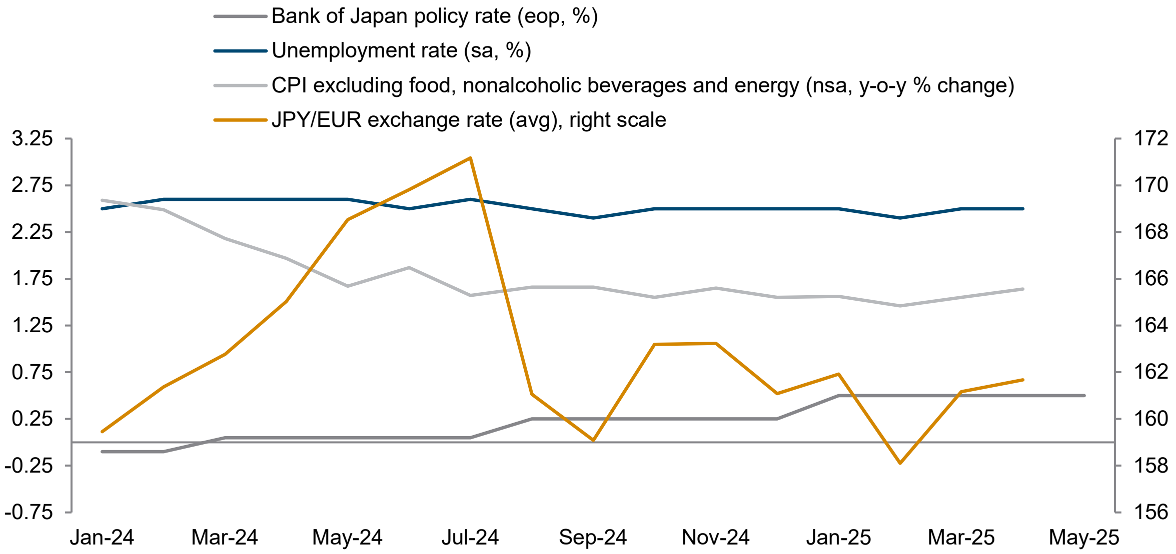
The BoJ faces significant challenges in balancing its policy objectives. Monetary policy normalisation was already expected to proceed gradually, due to two key factors highlighted in previous forecasts: (i) the rise in corporate bankruptcies driven by higher credit costs and (ii) the growing risks to public debt sustainability following the loosening of yield curve control. In addition, heightened uncertainty surrounding US tariffs and potential retaliatory measures by other countries has increased the downside risks to growth and inflation, potentially delaying further policy rate hikes.[16] However, in its latest communication, the BoJ clearly signals its readiness to provide further monetary policy stabilisation, conditional on its economic and price forecasts being met.[17]

15 https://www.reuters.com/business/finance/swiss-national-bank-ready-take-rates-below-zero-tackle-low-inflation-2025-05-06/

16 https://www.reuters.com/business/boj-will-keep-raising-rates-if-inflation-converge-toward-2-governor-ueda-says-2025-04-24/

17 https://www.boj.or.jp/en/mopo/outlook/gor2504b.pdf

Figure 6 / Japan inflation and economic activity



Source: BoJ, ECB, MIC/Haver.

wiiw forecast

Considering all these factors, we expect the upward trend in interest rates to continue throughout the forecast period. The increase is likely to be gradual, with the policy rate projected to reach 1.2% by 2030.

Table 5 / JPY rate forecasts, annual average

	2023	2024	2025	2026	2027	2028	2029	2030
Policy rate	-0.1	0.1	0.5	0.8	1.1	1.2	1.2	1.2
3m	0.0	0.2	0.5	0.8	1.1	1.2	1.2	1.2
2yr IRS	0.0	0.3	0.7	1.0	1.3	1.4	1.4	1.4
10yr IRS	0.4	0.9	1.1	1.3	1.6	1.7	1.7	1.7

Note: Numbers are rounded to one decimal place. Historical data and forecasts as of 16 May 2025.
Source: wiiw.

CANADA

Latest communication and projections

Since September 2024, the Bank of Canada has implemented four consecutive rate cuts totalling 150 bps, from 4.25% to 2.75% in March 2025. These cuts were made in the context of relatively low and stable inflation, which provided a favourable environment for continued monetary accommodation. In Q1 2025, the inflation rate hovered near the BoC's 2% target, with removal of the consumer carbon tax and declining global oil prices expected to place additional downward pressure on inflation in the coming months.

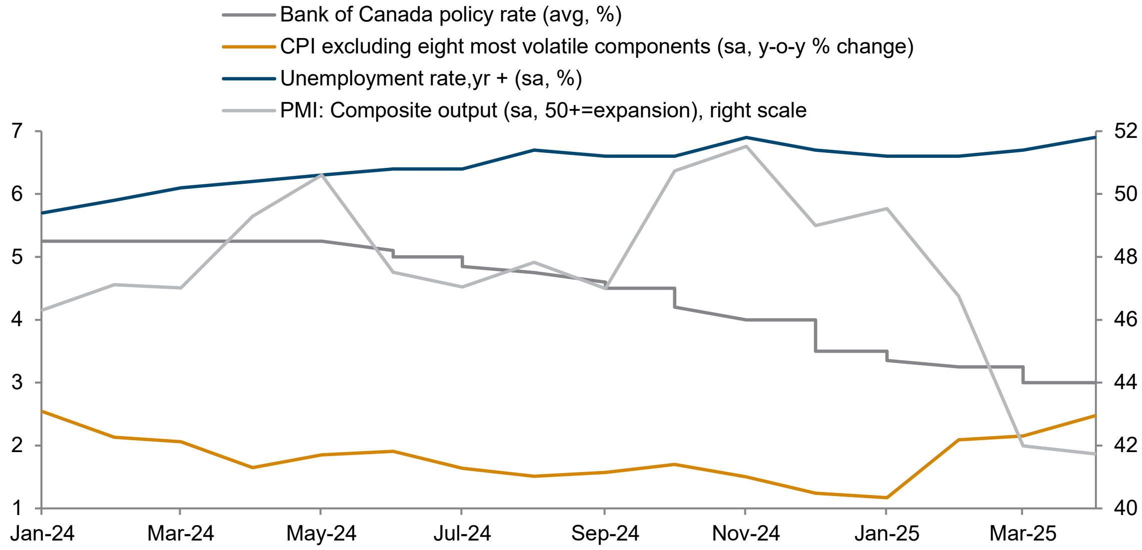
On 16 April 2025, the BoC held the policy rate steady at 2.75%, citing significant uncertainties stemming from US tariffs on Canadian exports and their potential inflationary effects.[18] The bank will proceed

[18] https://www.reuters.com/world/americas/bank-canada-governing-council-mulled-cutting-rates-again-april-2025-04-30/

cautiously, balancing upward inflationary risks from cost pressures against downward inflationary risks from weaker growth, while closely monitoring how tariffs and global uncertainty affect demand, investment and inflation expectations.[19]

Although the BoC has emphasised that it will not commit to a specific rate path until the uncertainties related to US tariffs subside,[20] analysts expect further rate cuts later in 2025, potentially bringing the policy rate down to between 2.0% and 2.25% – based on the view that the negative impact on demand and growth will outweigh potential inflationary pressures.[21]

Figure 7 / Canada inflation and economic activity



Source: Bank of Canada, Statistics Canada, S&P Global/Haver Analytics.

wiiw forecast

Given the heightened uncertainty surrounding the impact of US tariffs on Canadian economic activity and inflation, we expect the BoC to proceed more cautiously, delivering only one additional rate cut of 25 bps by year-end. From 2026 onward, we anticipate a faster pace of monetary easing, with the policy rate projected to decline to 1.5% by 2027.

Table 6 / CAD rate forecasts, annual average

	2023	2024	2025	2026	2027	2028	2029	2030
Policy rate	4.7	4.5	2.8	2.1	1.5	1.5	1.5	1.5
3m	2.7	4.3	2.7	1.9	1.3	1.2	1.2	1.2
2yr	3.5	4.0	2.7	2.0	1.4	1.3	1.3	1.3
10yr	3.3	3.6	3.2	3.1	3.0	2.9	2.9	2.9

Note: Numbers are rounded to one decimal place. Historical data and forecasts as of 16 May 2025.
Source: wiiw.

19 https://www.bankofcanada.ca/2025/04/fad-press-release-2025-04-16/

20 https://www.reuters.com/markets/rates-bonds/bank-canada-holds-rates-says-tariffs-could-cause-deep-recession-2025-04-16/

21 https://www.morningstar.ca/ca/news/263702/bank-of-canada-hits-pause-on-rate-cuts-but-analysts-see-more-ahead-.aspx

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multi-country articles and statistical overviews

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