Economic Perspectives

October 2024

Highlights

- Geopolitical tensions drove oil prices up to 81 USD per barrel earlier in the month (a 10% increase in a week's time) before they fell back somewhat to 74 USD per barrel by the end of the month. Markets remain volatile on fears that Israel could strike Iranian oil infrastructure in retaliation of Iran's earlier missile strikes. European gas prices meanwhile remained broadly stable, hovering around 40 EUR per MWh in October. Concerns about lower Russian pipeline supply loom large, however. Food prices also rose significantly, driven in large part by unfavourable weather conditions.

- Euro area inflation declined from 2.2% to 1.7% in September, dropping below the 2% target for the first time since June 2021. The drop was again mainly caused by a sharp fall in energy prices, while food inflation inched up slightly. Core inflation also softened from 2.8% to 2.7%. This drop was driven by lower services inflation (though this could be a one-off), as goods inflation remained unchanged. We slightly downgrade our inflation forecasts for 2024 and 2025 by 0.1 percentage point to 2.4% and 2.1% respectively.

- Lower energy prices drove down US inflation from 2.6% to 2.4% in September, while core inflation stagnated at 3.3%. Many components came in stronger than expected. Food inflation accelerated, while core goods prices increased for the first time since May. Most worrying, core service prices (ex. shelter) accelerated again. The only major downside surprise was shelter inflation which decelerated markedly. We now expect 2.9% inflation this year and 2.4% inflation next year.

- The euro area's recovery is progressing at an uncomfortably slow pace. In September, business confidence indicators weakened substantially for both the services and manufacturing sector (especially in Germany). Furthermore, in France, frontloaded fiscal consolidation may become a drag on growth from next year onwards. That said, the European labour market remains in good shape and lending is picking up again. We now expect 0.7% growth this year and a slow recovery to 1.0% growth next year.

- The US economy continues to outperform its peers. Consumption remains elevated while exports continue to grow. The outperformance in consumption is demand driven, supported by a positive supply shock in the labour market which added 254k jobs in September. A soft landing of the US economy seems in the making. Given the better-than-expected Q3 growth outlook, we upgrade our 2024 and 2025 forecasts by 0.2 percentage points to 2.8% and 1.9% respectively.

- Economic divergence between the euro area and the US is pushing our policy rate projections in different directions. In reaction to lower-than-expected inflation and disappointing sentiment indicators, the ECB recently cut its policy rate by another 25 basis points, somewhat earlier than we had anticipated. We now expect the ECB to cut the deposit rate to 2% by Q2 2025. In contrast, strong inflation and labour market data could slow the pace of Fed easing. We now anticipate only 50 basis points more of Fed rate cuts by the end of this year.

- The Chinese economy continued to slow in the third quarter, but new stimulus measures from the government suggest policymakers are looking for ways to boost growth. Details on the extent and aim of fiscal policy measures are still needed to determine how long-lasting the growth impact might be. Short-term interventions could lift fourth quarter growth and bring annual GDP growth closer to the 5% target. We have upgraded 2024 GDP growth to 4.8% and 2025 GDP growth to 4.6% (the latter due mostly to overhang effects).

Global Economy

Introduction

Major economies are diverging further. The main growth outperformer remains the US, where the labour market keeps benefitting from a positive supply shock while internal demand (consumption and investment) remains very strong. Unfortunately, the tightness in the labour market is also pushing up wages and driving up services inflation. The Fed will thus likely slow its easing cycle pace to 25 basis point decrements.

On the other side of the Atlantic, things look very different economically. In the euro area, business confidence is weakening. In contrast to the US, European governments are also starting to consolidate their budgets. Inflation figures also dropped below the ECB's target of 2% (though mostly because of low energy price inflation). This prompted the ECB to cut rates again already in October.

In China meanwhile, there is increasing evidence of a balance sheet recession, which is weighing on consumption and private investment and ultimately on economic growth. This recently prompted the government to introduce several support measures, including a loosening of monetary conditions by the People's Bank of China. The Chinese government has also pledged substantial fiscal stimulus, but more concrete details are still to be revealed.

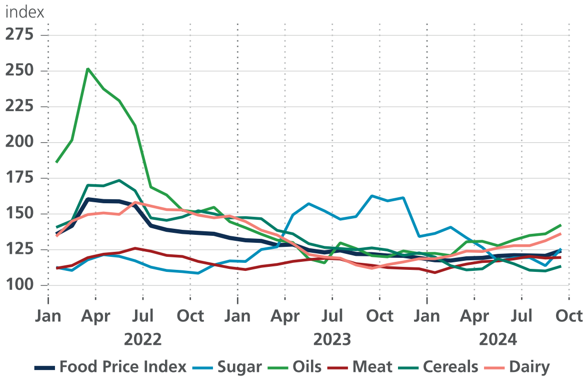
Our forecasts are mired in uncertainty, however, as increased protectionism in the aftermath of the US election or further escalation in the Middle East conflict could trigger a global stagflationary shock, driving up inflation, while weighing on growth.

Geopolitical tensions jolt oil prices

The Middle East conflict drove up oil prices in early October. Brent oil reached 81 USD per barrel on 7 October, up from 72 USD end of September. The spike occurred as Iran fired around 200 missiles directly at Israel in retaliation for Israel's attacks on Hezbollah, an Iran-back militia. Israel has vowed to respond, though how and when it will do so is yet unclear. As Iran exports nearly 2 million barrels per day (2% of the global supply), concerns that they could hit oil infrastructure pushed up oil prices. However, as Israeli top officials have now hinted that Israel will only strike military targets, the oil price dropped to 75 USD as of 15 October. Oil prices remain lower than they were a year ago. Indeed, the market is likely to remain oversupplied in the second half of 2024. Non-OPEC+ supply has continued to rise rapidly, while OPEC+ is expected to unwind voluntary cuts from December onwards as Saudi Arabia abandoned its unofficial price target of 100 USD per barrel.

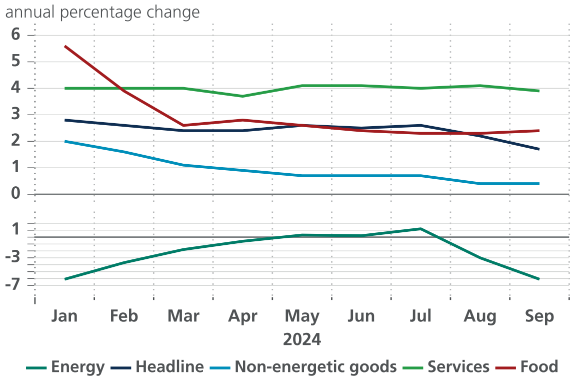
Gas prices remained broadly stable last month, reaching 39 EUR per MWh end of September. Prices could be more volatile in the coming months as the continuation of Russian gas transit via Ukraine remains a major source of uncertainty. Russia's gas transit contract with Ukraine expires at the end of 2024. Ukraine has indicated it would not negotiate a new contract. That said, the EU has ample gas reserves to absorb the blow of the potential loss of Russian supply. Indeed, EU gas reserves are 95% full at the moment, also in the most vulnerable, landlocked,

Figure 1 - FAO food indices



Source: KBC Economics based on FAO

Figure 2 - Inflation in the euro area



Source: KBC Economics based on Eurostat

European countries (e.g. Slovakia, Hungary and Austria).

Food prices rose by 3% last month, the biggest monthly increase since March 2022. Prices rose across all major categories. Sugar prices increased by 10.4% in the wake of dry weather and fires in Brazil. Cereal prices increased 3% due to excessive rainfall in Canada and Europe. Vegetable oil prices also rose sharply due to supply concerns. Meanwhile, meat and dairy prices rose due to stronger demand. Nonetheless, food prices remain much lower than their 2022 peaks (see figure 1).

Below 2% inflation in the euro area

In the euro area, inflation fell by half a percentage point to 1.7% in September. The sharp fall in energy prices (-6.1% against a year earlier) was the main cause. Food price inflation picked up slightly from 2.3% to 2.4%, while core inflation declined slightly, from 2.8% to 2.7%. Encouragingly, at 3.9%, services inflation recorded below 4.0% for the first time since April 2024 (see figure 2). In particular, the month-on-month increase (after adjusting for seasonal factors) in both goods (excluding energy) and services prices was very moderate. This could be due to short-term volatility, but could also be a sign that, against the backdrop of weak consumption and investment demand, inflation is cooling slightly faster than expected. For now, we still assume the first hypothesis. But downside risks to inflation are mounting, with some suggesting that inflation might even - as in the years before the pandemic - settle below the ECB's 2% target. However, those fears seem premature at the moment.

We nevertheless slightly lowered our forecast for the average inflation rate for 2024 and 2025 by 0.1 percentage point to 2.4% and 2.1%, respectively. That downgrade only reflects the lower-than-originally-expected level in September 2024. Moreover, the downward revision should not obscure the fact that base effects will temporarily boost inflation again in the last months of 2024, after which inflation will slow again in 2025. Volatile energy prices may thereby continue to provide surprising, though probably temporary, twists to the predominantly downward inflation path, converging toward the 2% inflation target.

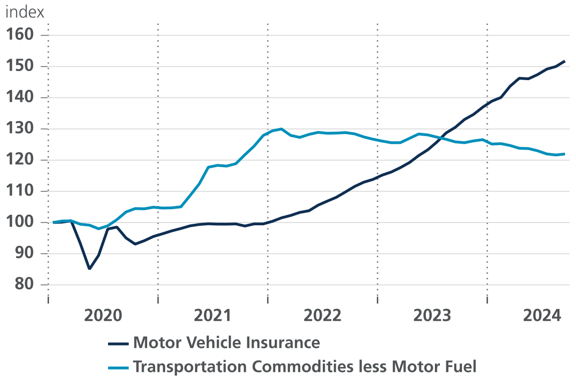
US inflationary impulses strengthen again

US inflation declined from 2.6% to 2.4% in September. Though that might seem like good news, a closer look reveals that US inflationary impulses are far from over. Indeed, the decline can mostly be attributed to a sharp drop in energy prices (-1.9%). In contrast to energy prices, food prices increased rapidly in September (+0.4% month-on-month).

Meanwhile, core inflation stagnated at 3.3%. Many core inflation components came in stronger than expected. Core goods prices increased by 0.2% month-on-month, the first increase since February. This increase was primarily driven by a big jump in apparel prices, while vehicle prices also increased mildly. Encouragingly, core goods producer price inflation softened last month, suggesting some softness ahead in goods inflation.

More worryingly, core services inflation (ex. shelter) also accelerated rapidly (0.55% month-on-month). Though a big increase in airline fares partly explained this increase,

Figure 3 - US car insurance vs vehicle prices



Source: KBC Economics based on BLS

other stickier services also showed high price increases. Most notably, car insurance prices keep rising rapidly despite the slowdown in vehicle prices (see figure 3). The acceleration in services inflation coincides with a further increases in average hourly earnings, which rose by 0.4% for the second month in a row. This suggests services inflation might remain elevated in the coming months.

The only downside surprise was the deceleration in shelter inflation (0.2% month-on-month). Though this deceleration was partly caused by a big drop in hotel prices, rent prices also decelerated. As forward-looking indicators have long suggested lower rent inflation, we might see lower shelter inflation readings in the coming months.

Given the uptick in services inflation, we upgrade our inflation forecast from 2.3% to 2.4% next year, while maintaining our 2.9% forecast for this year.

Waiting for stronger growth in the euro area

At the start of the fourth quarter, the euro area is still waiting for clear signs of the expected strengthening of growth. The Composite Purchasing Managers Indicator (PMI) fell again in September, slightly below the 50-threshold. According to this indicator, sentiment deteriorated in both manufacturing and service sectors. In Germany, the composite PMI has been quoting below the 50-threshold since July. In France and Italy, the same was true in September. The European Commission's business confidence indicator (ESI) paints a somewhat more nuanced picture of confidence stabilising at a rather low level.

EC surveys indicate that consumer confidence was also at low levels in the third quarter, threatening to end the improvement since autumn 2023. This is somewhat contradictory against the backdrop of a robust labour market, with employment growth slowing but remaining sustained, a historically low unemployment rate and a purchasing power recovery in wages. However, a more detailed analysis of the survey results shows that consumers did become somewhat less gloomy about the general economic situation and their personal financial situation in the third quarter. But this did not translate into plans for more major purchases. Until the summer, these plans were clearly on the rise, but since then they seem to have been scaled back again. This sub-indicator kept the overall confidence indicator low.

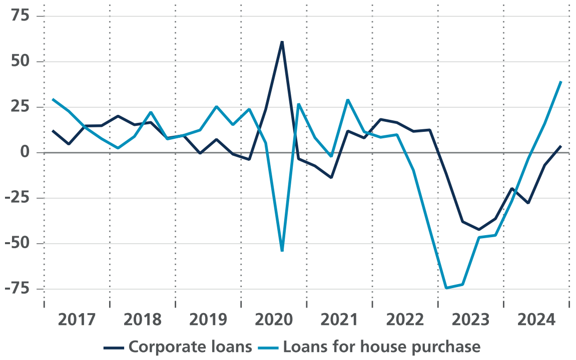
Weak spending plans may be caused by political uncertainty and tensions, not only on the world stage, but also domestically, where work on government budgets for the coming years (draft 2025 budget and the new medium-term fiscal-structural plans under European fiscal rules) is now ongoing everywhere. In France in particular, this revealed a surprisingly poor fiscal position. The deficit would reach 6.1% of GDP in 2024, compared to 5.5% of GDP in 2023 and an initial planned deficit of 4.4% of GDP for 2024. With unchanged policies, the deficit would widen further to 6.9% of GDP in 2025.

Prime Minister Barnier's minority government proposes to postpone the deficit target of 3% of GDP by two years to 2029. Nevertheless, limiting the deficit to 5% of GDP by 2025 would require additional savings of around 2% of GDP (one-third revenue and two-thirds savings). Given France's highly fragmented political landscape and fragile social climate, it is highly uncertain how and to what extent such a deficit reduction could be implemented. But it is clear that fiscal consolidation in France will most likely have to be more substantial than initially thought. In Spain and Italy, this is unlikely to be the case, or much less so.

Meanwhile, in Germany there are hardly any signs of a fundamental improvement in economic conditions, although neither are there reasons to believe that the economy would deteriorate substantially further. Rather, it looks like the ongoing stagnation could drag on for still a while longer.

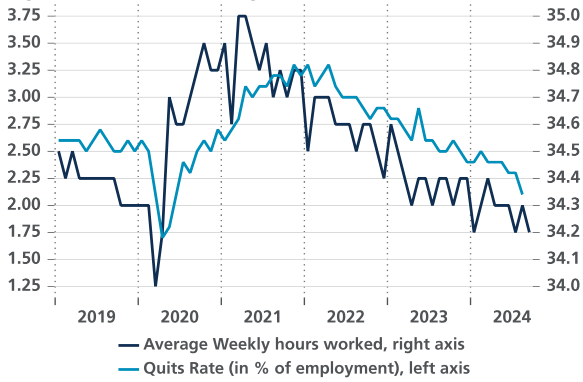
The ECB's September Bank Lending Survey pointed to a slight pick-up in credit demand from businesses, but

Figure 4 - Loan demand at euro area banks



Source: KBC Economics based on ECB

Figure 5 - labour hoarding indicators



Source: KBC Economics based on BLS

this was not (yet) reflected in the figures on actual credit growth. This is in line with the anaemic trend in business investment. Moreover, banks' assessment of economic conditions and risks prompts them to maintain a cautious lending policy. By contrast, the market for loans for house purchases is rebounding much more strongly (see figure 4), although its trickle-down to a revival in the construction sector (and durable goods consumption) remains to be seen.

So, with the year-end quietly approaching, it is starting to look more and more likely that the strengthening of domestic demand in the euro area expected for the second half of the year will not yet materialise. Although it should be added immediately that few hard economic indicators are available for the second half of the year. So positive surprises remain very well possible. Nevertheless, we have lowered our growth estimates from 0.1% to 0.0% in 2024 and from 1.2% to 0.6% in 2025 for German real GDP and from 1.1% to 0.8% in 2025 for France. (The downward adjustment for Italy in 2024 (and for that matter also for 2023) is due to a revision of historical figures). The expected average annual growth rate for euro area real GDP remains unchanged at 0.7% for 2024 but drops from 1.2% to 1.0% for 2025.

US economy still going strong

The US economy keeps overperforming. Indeed, most recent economic data shows that the US economy remains resilient. This is especially the case in the labour market. In September, non-farm payrolls rose by 254k, while prior months were revised upwards by 72k. Job openings also increased slightly, while the unemployment rate ticked down from 4.2% to 4.1%. There was also a big drop in part-time employed persons for economic reasons. All this data indeed confirm our hypothesis that the uptick in the unemployment rate in July was mostly caused by a temporary increase in new entrants to the labor market. One worrying element in the labour market report was the downtick in average weekly hours worked which along with the decline in the quits rate suggests that US firms are hoarding labour (see figure 5).

Aside from the labour market, other hard data were also strong. Retail sales grew by a healthy 0.4%, indicating that consumption will likely be again a major contributor to Q3 GDP. The trade deficit also declined markedly in August on stronger exports while manufacturer inventories increased mildly. Confidence indicators have also improved in the services sector, though they stagnated for manufacturing (at low levels).

One weakness in the US economy is residential investment. Indeed, residential construction dropped for the third month in a row. This might seem surprising given the recent softening in mortgage rates. However, since the large majority of US mortgages are fixed-rate (mostly 30 years), the impact of higher interest rates has yet to fully filter through in the housing market. Similarly, 700 billion USD worth of corporate loans are due to expire next year, which will weigh on corporate activity.

Given this lagged effect of higher rates, we still expect US economic growth to soften from 2.8% this year to 1.9% next year. Furthermore, the US election presents a major source of uncertainty for our forecast. Indeed, as we reported in January, increased protectionism in the aftermath of the

US election represents a major stagflationary risk. Our base scenario assumes no disruptive policy changes, but this could obviously change after the election.

Fed and ECB face increasing growth divergence

As a result of the expected increased growth divergence between the US and the eurozone, the expected policy rate path of the Fed and ECB also changed. The upward revision for US growth dynamics for the third quarter is expected to somewhat slow the Fed's easing cycle, more specifically moving in steps of 25 basis points to 4.375% by the end of 2024. At each subsequent policy meeting in 2025, the Fed is likely to continue easing by 25 basis points until it reaches its neutral policy rate of 3.125% (our estimate) in the third quarter of 2025. Since we assume a soft landing of the US economy, there is no reason for the Fed to drop its policy rate below that neutral level.

However, unlike the Fed, the ECB is facing downside growth risks, which also carry downside inflation risks. According to its latest macroeconomic projections in September, the ECB still expects that inflation will fall to the 2% target in the second half of 2025. As a result of increased downside growth and inflation risks, the ECB cut its policy rate (the deposit rate) by another 25 basis points to 3.25% in October. Indeed, since the previous policy meeting in September, weaker activity indicators were released, such as manufacturing PMI confidence indicators. The ECB did stress that it does not expect a recession for the eurozone as a whole, despite the current weakness in Germany, the largest economy.

The ECB also stressed that activity indicators are not an end in themselves for its policy, but only play a role to the extent that they have an impact on expected future inflation. This leads us to the ECB's second argument for the interest rate cut, namely that the eurozone's disinflationary trend remains on track. In September, headline inflation fell more sharply than the ECB (and the market) expected to 1.7%, while core inflation also fell slightly from 2.8% to 2.7%. A note here is that the sharp fall in headline inflation was mainly due to a sharp negative year-on-year change in volatile energy prices. That effect does not necessarily continue to play out.

We assume the ECB will maintain the current pace of easing (25 basis points per policy meeting) until the end of the easing cycle. In doing so, it is expected to temporarily lower its deposit rate to 2%. This is below the neutral level (which we estimate at 2.50%), and thus acts as a growth stimulus.

European interest rate spreads kept in check by TPI, despite difficult fiscal outlook

Following its interest rate decision of October, in its policy statement, the ECB once again referred to its Transmission Protection Instrument (TPI) as the means to counter (in its view) unwarranted spread increases in the EMU government bond market. Against the backdrop of the current fiscal debates in, for example, France and Belgium, that reference is gaining additional relevance. Nevertheless, while intra-EMU sovereign spreads currently remain in check, we expect a limited rise towards the year-end due to increasing market focus on the difficult 2025 fiscal budget planning.

US bond markets leave US growth panic behind

Stronger-than-expected US macroeconomic data and moderation in the Fed's expected easing pace caused US government bond markets to leave behind their summer growth panic. This was mainly on the back of the latest US labour market data, indicating stronger than expected resilience. Consequently, US bond yields priced out a sharp emergency intervention by the Fed. As a result, US 10-year yields rose again above 4%. German 10-year rates followed that upward movement, but to a much more limited extent. As a result, the US-German bond yield spread widened sharply, causing the US dollar to gain ground against the euro.

Based on the interest rate differential between the 10-year government rate and the policy rate, the inversion of the US yield curve will likely revert back to normal in the first quarter of 2025. In the eurozone, this is not expected to be the case until the second quarter of 2025.

Chinese government intervenes as growth slows

Recent data releases continue to paint a gloomy picture of the Chinese economy. GDP growth slowed to 4.6% year-on-year in the third quarter, down from an already disappointing 4.7% year-on-year in the second quarter. While a September uptick in industrial production (0.6% month-over-month) and retail sales (0.4% month-over-month) likely prevented the growth outturn from being even worse, other September data point to still sluggish momentum and growing slack in the economy, especially in the private sector. Private fixed asset investment continued to contract (-0.2% YTD year-on-year) for the second month in a row, total social financing (a measure of credit growth) decelerated further to 7.9% year-over-year and was supported mostly by government bond issuance, and consumer confidence remains weak while household savings remain elevated. Inflation data for September also point to slack, with headline inflation decelerating to 0.4% year-on-year. Stripping out food price inflation, which has been elevated the past two months, prices fell 0.2% year-on-year. Producer prices also continued their decline (-2.8% year-on-year) for the twenty-third month in a row. While this does not change our 2024 average inflation outlook (0.5%), we downgraded our 2025 outlook from 1.6% to 1.4%.

Looking forward, however, risks to the downside might be declining as policymakers have clearly signaled their willingness to address growth concerns through a new stimulus package. A first step included more sizable than usual monetary policy easing (including cuts to the Reserve Requirement Ratio and 7-day Reverse Repo Rate), increased support for the real estate market, and new support for equity markets, the latter of which responded with exuberance to the announcement. Policymakers then followed up with pledges to complement monetary policy stimulus with fiscal policy stimulus, a much-needed element given weak demand for credit amid the housing market correction. While details on the total size of this spending, and importantly, how exactly it will be directed into the economy are still lacking, policymakers mentioned support to highly indebted local governments, subsidies to low-income households, and a recapitalisation of banks that have been suffering from weaker profitability (amid lower interest rates and weak credit demand) and increasing loan losses.

More details should be forthcoming in the coming weeks and will be crucial for determining to what extent the new stimulus push will address China's underlying problem of a weakened private sector or whether it will just be another sugar boost to help the government reach its growth target that quickly fizzles out. For now, we have upgraded the outlook for the fourth quarter, raising the 2024 growth forecast from 4.7% to 4.8%. This generates sizable overhang effects for 2025, which together with a slight upgrade to Q1 growth, raises our annual average growth outlook from 4.2% to 4.6%. The outlook overall, however, may still change as stimulus details become clear.

Belgium

Confidence indicators in Belgium weakened in recent months in line with growing concerns about the eurozone's growth outlook. Sentiment in manufacturing in particular worsened amid a weak external environment. Most striking, the assessment of export-order book levels took a new hit over the summer months, fully wiping out the previous upward trend which began in March (see figure BE1).

At the regional level, the gloom affecting industry seems to impact consumers' morale more in Flanders (see figure BE2). Belgium's industry is concentrated mainly in Flanders, with a number of well-known companies in the region declared bankrupt in the course of 2024 (e.g., bus manufacturer Van Hool and semiconductor maker BelGaN). For Belgium as a total, the number of employees involved in collective dismissals was strongly up in the first three quarters of 2024, reaching 8,900 people and rising above the 2010-2023 full-year average.

Growth engine stuttering

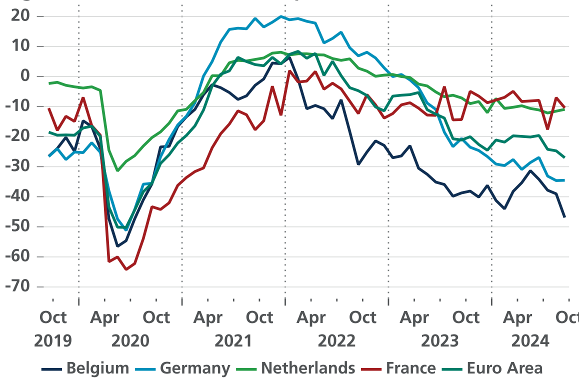
It's not all bad news, however, and hence the current weakness in manufacturing need not be a barometer of ill-health more broadly. The business climate in professional services is holding up well so far and in trade sentiment even edged up strongly in August and September. The depressed signals from the manufacturing surveys nevertheless led us to slightly revise downward the outlook for quarterly GDP growth in the third and next quarters. Specifically, and in line with changes to our euro area scenario, we downgraded qoq growth of the Belgian economy in Q3, from 0.20% to 0.15%, and in Q4, from 0.30% to 0.25%. Quarterly growth is expected to stay slightly below 0.30% in the first half of 2025, with a revival back to that rate from Q3 2025 on. Belgian growth for the whole year is now seen at 1.0% for both 2024 and 2025, down from 1.1% and 1.2% respectively.

Belgian harmonised inflation (HICP) stabilised at 4.3% in September, again witnessing that it is falling slower than expected. Following the drop between June and August, energy inflation fell only marginally this time, from 11.2% to 11.0%. Electricity and gas had a big upward month-on-month effect on the September inflation rate. The Belgian figures contrast to the euro area: while euro area inflation is cooling faster than expected, this is not the case in Belgium. As a result, we once again slightly revised the outlook for 2024 annual HICP inflation, from 4.0% to 4.1%. We still see monthly headline inflation figures falling further going into 2025. Our 2025 annual inflation forecast is now at 2.1%, slightly down from 2.2% previously.

Q2 house price data

In early October, Eurostat published harmonised house price figures for the second quarter of 2024. Most striking in the Q2 figures is the fall in the number of EU countries with a price decline compared to the previous quarter. At the peak in Q4 2022, there were sixteen. By Q1 2024, that number had dropped to eight and in Q2 2024 it fell further to just two (see [Sky over European housing market clears further (kbc.com)](kbc.com)). Belgium was one of these two, with the quarterly price decline limited to 0.2%. The correction concerned only new construction (-1.2%). Prices of existing

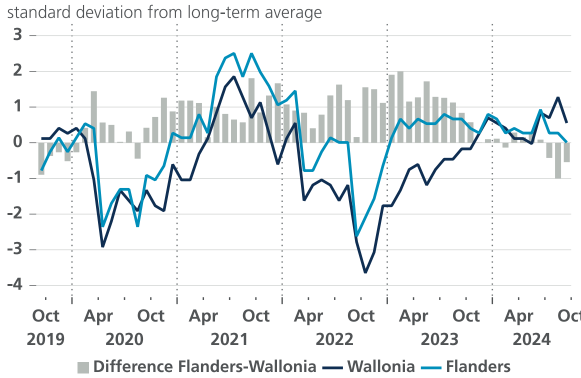
Figure BE1 - Assessment of export order-book levels



Source: KBC Economics based on DG ECFIN

Figure BE2 - Consumer confidence

standard deviation from long-term average



Source: KBC Economics based on NBB

Figure BE3 - House price development in Belgium

Eurostat's harmonised index, Q1 2019 = 100

Source: KBC Economics based on Eurostat

dwellings continued to rise slightly by 0.1% (see figure BE3). The minuscule decline in prices for dwellings as a whole followed three previous quarters of decent price increases. Cumulatively, that previous increase between Q2 2023 and Q1 2024 was 3.6%. For existing homes, it was 2.5%, for new ones as much as 8.1%.

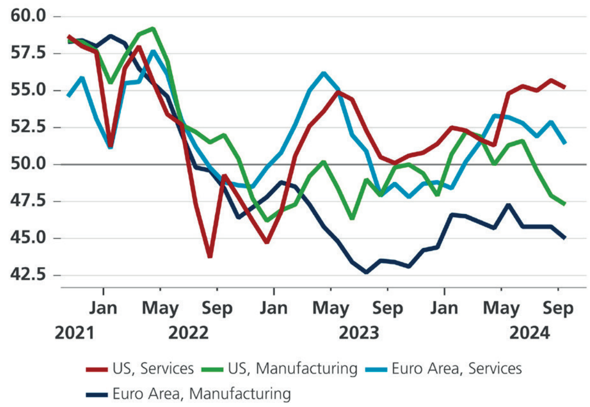
Typically, quarterly changes in house prices are quite volatile, so we need not be too worried about the small price drop in Q2. On an annual basis, price dynamics continued to pick up in Belgium, from 3.2% yoy in Q1 to 3.4% yoy in Q2. For new dwellings, the yoy increase in Q2 was 6.8% (7.8% in Q1), for existing dwellings, 2.6% (2.1% in Q1). In fact, the second-quarter figure brought some tempering to the robust pace of new construction price increases in previous quarters. The Q2 data do not change our view on Belgian real estate substantially. For existing and new dwellings taken together, we still see annual house price growth running at some 3% in both 2024 and 2025.

Figures

Real GDP
yearly change in %

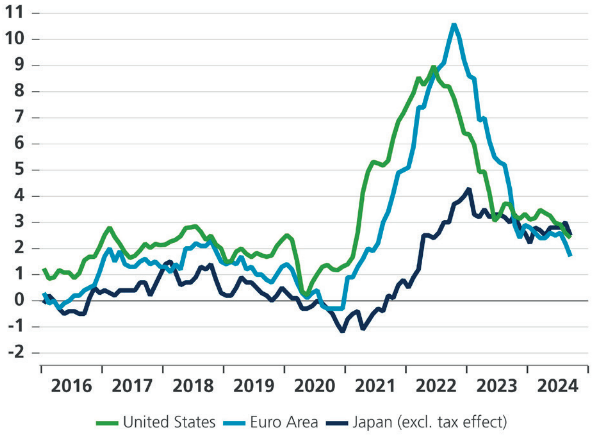
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



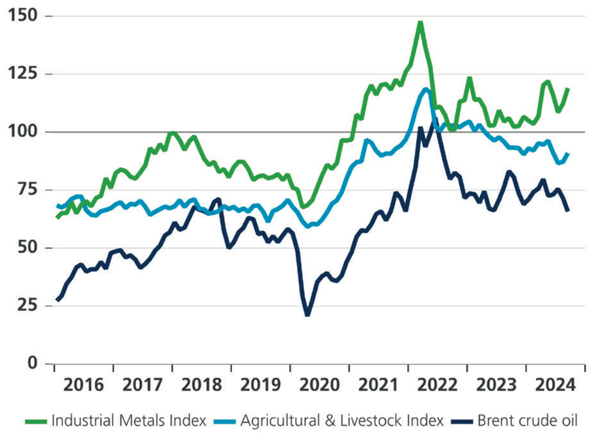
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



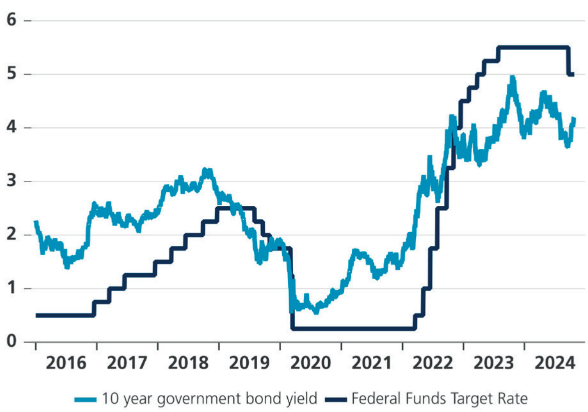
Source: KBC Economics based on Eurostat, SBJ, BLS

Commodity prices
index, January 2013=100, in USD



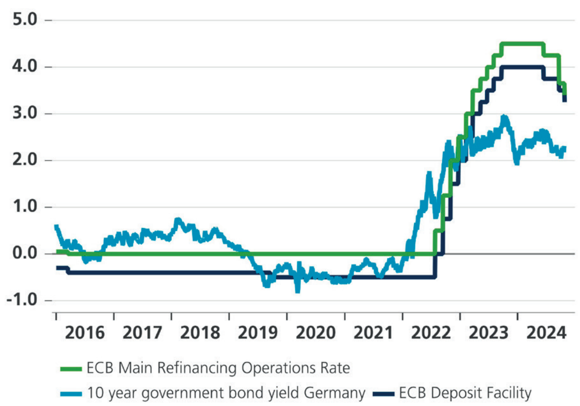
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



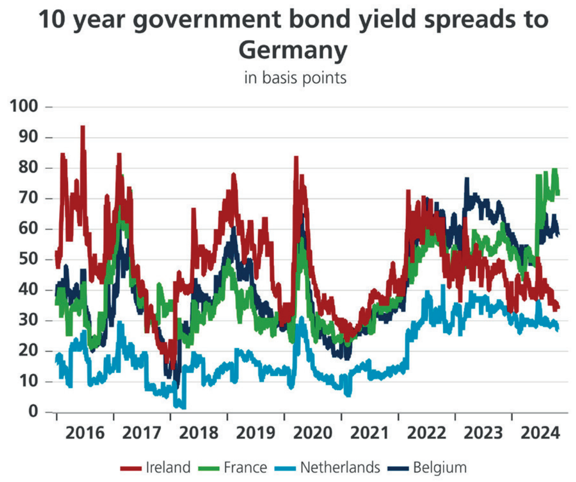
Source: KBC Economics based on Fed, U.S. Treasury

Euro area interest rates
in %

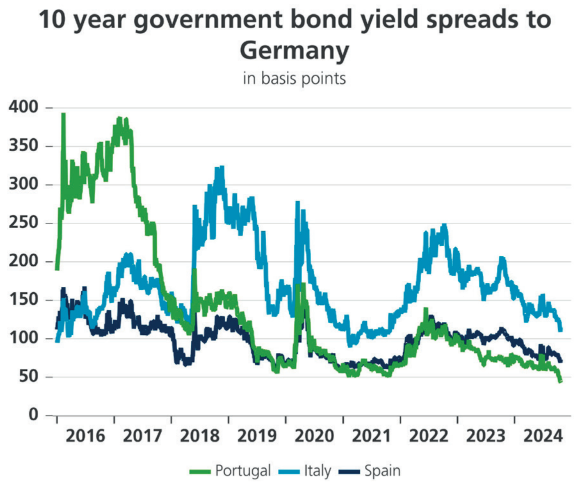


Source: KBC Economics based on Macrobond, ECB

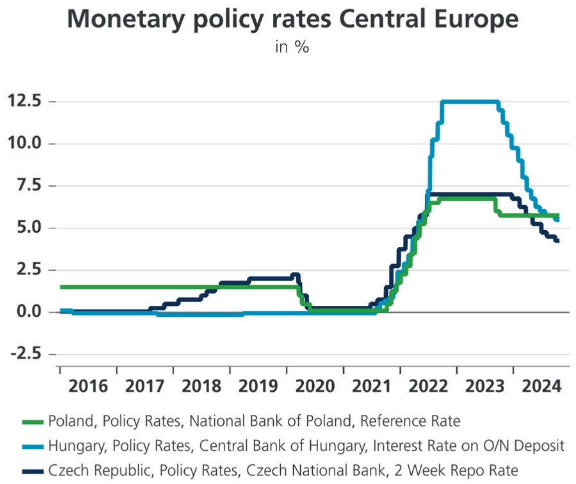
Figures



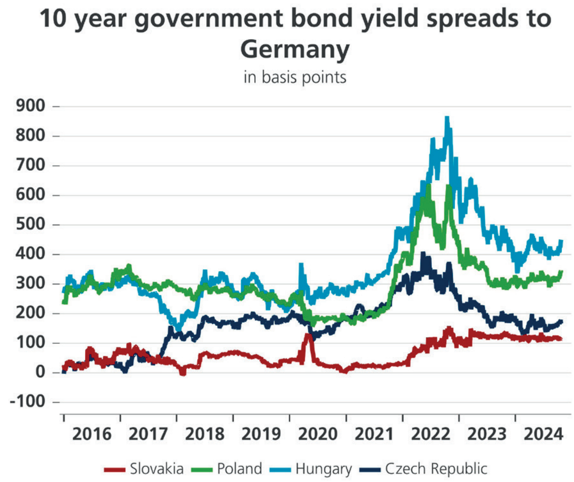
Source: KBC Economics based on Macrobond



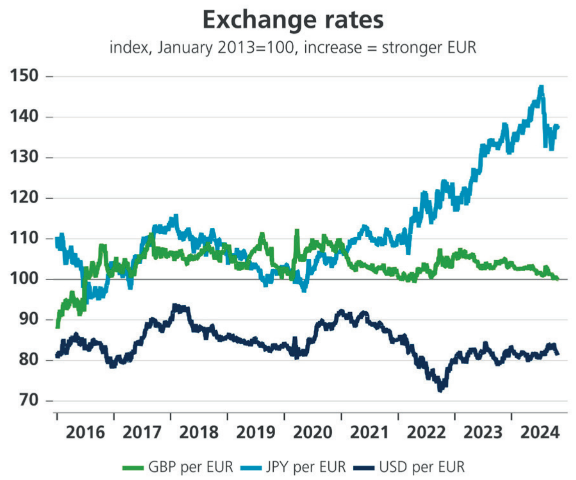
Source: KBC Economics based on Macrobond



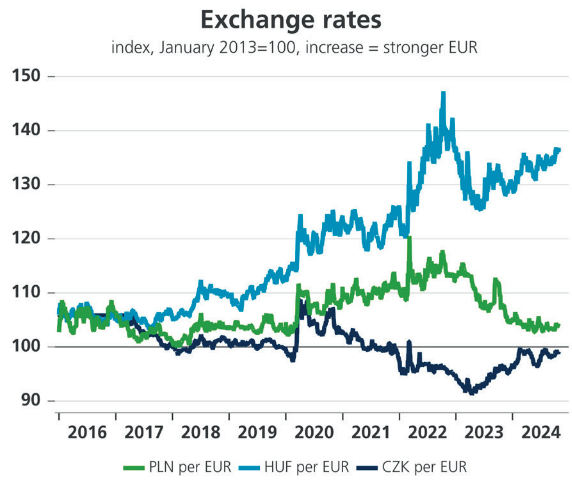
Source: KBC Economics based on CNB, MNB, NBP



Source: KBC Economics based on Macrobond, AKK, Eurostat



Source: KBC Economics based on Macrobond



Source: KBC Economics based on Macrobond

Outlook main economies in the world

		Real GDP growth (period average, based on quarterly figures, in %) 2023	2024	2025	Inflation (period average, in %) 2023	2024	2025
Euro area	Euro area	0.5	0.7	1.0	5.4	2.4	2.1
	Germany	-0.1	0.0	0.6	6.1	2.6	2.6
	France	1.1	1.1	0.8	5.7	2.6	1.8
	Italy	0.8	0.6	0.8	5.9	1.0	1.4
	Spain	2.7	2.4	2.1	3.4	3.0	2.0
	Netherlands	0.1	0.6	1.3	4.1	3.0	2.2
	Belgium	1.4	1.0	1.0	2.3	4.1	2.1
	Ireland	-3.2	-0.9	4.6	5.2	1.6	1.9
	Slovakia	1.6	2.3	2.0	11.0	2.9	5.2
Central and Eastern Europe	Czech Republic	0.0	1.0	2.7	12.1	2.5	2.5
	Hungary	-0.8	1.2	3.0	17.0	3.7	3.8
	Bulgaria	2.0	2.2	2.6	8.6	3.1	3.0
	Poland	0.1	2.9	3.3	10.9	4.1	3.9
	Romania	2.4	2.0	3.1	9.7	5.4	4.1
Rest of Europe	United Kingdom	0.3	1.0	1.3	7.1	2.6	2.3
	Sweden	-0.1	0.7	1.9	5.9	2.9	1.2
	Norway (mainland)	1.1	0.6	1.2	5.7	3.2	2.3
	Switzerland	0.7	1.4	1.5	2.1	1.2	0.9
Emerging markets	China	5.2	4.8	4.6	0.2	0.5	1.4
	India*	8.2	6.5	6.1	5.4	4.6	4.9
	South Africa	0.7	0.9	1.6	6.1	4.8	4.7
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	5.1	3.1	2.7	53.9	58.9	29.6
	Brazil	2.9	3.1	2.1	4.6	4.3	4.1
Other advanced economies	United States	2.9	2.8	1.9	4.1	2.9	2.4
	Japan	1.7	0.0	1.2	3.3	2.6	2.1
	Australia	2.0	1.2	2.1	5.6	3.4	2.8
	New Zealand	0.9	0.7	1.9	5.7	3.1	2.1
	Canada	1.2	1.1	1.7	3.6	2.5	2.1
*** fiscal year from April-March**						18/10/2024	

Policy rates (end of period, in %)		18/10/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Euro area	Euro area (refi rate)	3.40	3.15	2.65	2.15	2.15
	Euro area (depo rate)	3.25	3.00	2.50	2.00	2.00
Central and Eastern Europe	Czech Republic	4.25	3.75	3.50	3.50	3.50
	Hungary	6.50	6.25	6.00	5.50	5.25
	Bulgaria	-				
	Poland	5.75	5.75	5.75	5.25	4.75
	Romania	6.50	6.25	6.00	5.75	5.50
Rest of Europe	United Kingdom	5.00	5.00	4.50	4.25	4.00
	Sweden	3.25	2.75	2.50	2.25	2.50
	Norway	4.50	4.50	4.00	3.50	3.50
	Switzerland	1.00	0.75	0.50	0.50	0.50
Emerging markets	China (7-day r. repo)	1.50	1.50	1.50	1.50	1.50
	India	6.50	6.50	6.25	5.75	5.75
	South Africa	8.00	7.75	7.50	7.25	7.25
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	50.00	47.50	42.50	35.00	30.00
	Brazil	10.75	10.75	10.75	10.75	10.75
Other advanced economies	United States (mid-target range)	4.875	4.375	3.875	3.375	3.125
	Japan	0.25	0.25	0.40	0.40	0.50
	Australia	4.35	4.35	4.10	3.85	3.60
	New Zealand	4.75	4.25	3.75	3.50	3.50
	Canada	4.25	3.50	3.00	2.75	2.75

Outlook main economies in the world

10 year government bond yields (end of period, in %)		18/10/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Euro area	Germany	2.20	2.25	2.30	2.30	2.30
	France	2.93	3.15	3.20	3.20	3.15
	Italy	3.39	3.65	3.70	3.70	3.70
	Spain	2.90	3.05	3.10	3.10	3.10
	Netherlands	2.48	2.65	2.70	2.70	2.70
	Belgium	2.79	2.95	3.00	3.00	3.00
	Ireland	2.56	2.65	2.70	2.70	2.70
	Slovakia	3.18	3.35	3.40	3.40	3.40
Central and Eastern Europe	Czech Republic	3.90	3.90	4.00	4.10	4.10
	Hungary	6.65	6.20	6.00	5.70	5.60
	Bulgaria*	3.90	3.95	4.00	4.00	3.85
	Poland	5.59	5.30	5.00	4.80	4.30
	Romania	6.86	7.00	7.00	7.00	7.00
Rest of Europe	United Kingdom	4.10	4.15	4.20	4.20	4.20
	Sweden	2.03	2.05	2.10	2.10	2.10
	Norway	3.60	3.65	3.70	3.70	3.70
	Switzerland	0.45	0.50	0.55	0.55	0.55
Emerging markets	China	2.08	2.10	2.30	2.40	2.50
	India	6.82	6.80	6.85	6.85	6.85
	South Africa	9.30	9.25	9.25	9.25	9.25
	Russia	15.13	Temporarily no forecast due to extreme uncertainty			
	Turkey	27.71	27.00	25.50	24.00	24.00
	Brazil	12.85	12.50	12.20	12.10	12.10
Other advanced economies	United States	4.11	4.00	4.10	4.10	4.10
	Japan	0.97	1.15	1.15	1.25	1.25
	Australia	4.33	4.20	4.30	4.30	4.30
	New Zealand	4.46	4.35	4.45	4.45	4.45
	Canada	3.17	3.05	3.15	3.15	3.15

***Caution: very illiquid market**

Exchange rates (end of period)	18/10/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
USD per EUR	1.08	1.09	1.10	1.11	1.12
CZK per EUR	25.23	24.90	24.60	24.40	24.40
HUF per EUR	399.89	400.00	402.00	404.00	405.00
PLN per EUR	4.31	4.33	4.27	4.26	4.25
BGN per EUR	1.96	1.96	1.96	1.96	1.96
RON per EUR	4.97	5.00	5.00	5.00	5.00
GBP per EUR	0.83	0.84	0.85	0.86	0.86
SEK per EUR	11.42	11.35	11.30	11.25	11.20
NOK per EUR	11.81	11.60	11.40	11.30	11.30
CHF per EUR	0.94	0.95	0.95	0.95	0.95
BRL per USD	5.64	5.64	5.61	5.59	5.56
INR per USD	84.04	83.82	83.44	83.06	82.69
ZAR per USD	17.58	17.53	17.45	17.37	17.29
RUB per USD	96.30	Temporarily no forecast due to extreme uncertainty			
TRY per USD	34.29	36.00	37.67	39.45	41.25
RMB per USD	7.10	7.13	7.15	7.20	7.25
JPY per USD	150.04	153.00	150.00	145.00	140.00
USD per AUD	0.67	0.69	0.70	0.71	0.71
USD per NZD	0.61	0.61	0.61	0.62	0.63
CAD per USD	1.38	1.38	1.36	1.35	1.34

Outlook KBC markets

	Belgium			Ireland		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	1.4	1.0	1.0	-3.2	-0.9	4.6
Inflation (average yearly change, harmonised CPI, in %)	2.3	4.1	2.1	5.2	1.6	1.9
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5.6	5.6	5.6	4.5	4.4	4.5
Government budget balance (in % of GDP)	-4.4	-4.6	-5.1	1.3	1.4	1.3
Gross public debt (in % of GDP)	105.2	105.8	108.0	43.3	41.2	38.6
Current account balance (in % of GDP)	-0.8	-0.5	-1.0	9.8	10.4	9.6
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	2.3	2.9	3.0	3.1	3.0	4.0

	Czech Republic			Slovakia		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	0.0	1.0	2.7	1.6	2.3	2.0
Inflation (average yearly change, harmonised CPI, in %)	12.1	2.5	2.5	11.0	2.9	5.2
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.7	2.9	3.2	5.5	5.5	5.5
Government budget balance (in % of GDP)	-3.7	-2.7	-1.9	-4.9	-5.8	-4.9
Gross public debt (in % of GDP)	42.4	43.4	44.1	56.0	58.2	59.2
Current account balance (in % of GDP)	0.3	0.7	0.9	-1.7	-2.0	-2.8
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	-1.7	3.9	4.2	-0.2	1.5	3.0

	Hungary			Bulgaria		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	-0.8	1.2	3.0	2.0	2.2	2.6
Inflation (average yearly change, harmonised CPI, in %)	17.0	3.7	3.8	8.6	3.1	3.0
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.2	4.0	3.6	4.4	4.2	4.1
Government budget balance (in % of GDP)	-6.7	-4.8	-4.1	-1.9	-2.9	-2.8
Gross public debt (in % of GDP)	73.5	74.1	73.6	23.1	24.3	25.8
Current account balance (in % of GDP)	1.0	1.5	1.3	0.8	-0.7	-0.9
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	7.1	7.0	4.5	9.9	12.2	5.0

Outlook Belgian economy

National accounts (real yearly change, in %)	2023	2024	2025
Private consumption	1.4	1.0	1.1
Public consumption	1.6	1.9	0.8
Investment in fixed capital	3.6	1.3	3.0
Corporate investment	6.0	2.2	4.0
Public investment	6.3	6.9	2.0
Residential building investment	-5.7	-5.1	-0.2
Final domestic demand (excl. changes in inventories)	2.0	1.3	1.5
Change in inventories (contribution to growth)	0.1	-0.7	0.1
Exports of goods and services	-3.3	-2.6	0.5
Imports of goods and services	-2.6	-3.2	1.2
Gross domestic product (GDP), based on quarterly figures	1.4	1.0	1.0
Household disposable income	3.8	1.6	0.9
Household savings rate (% of disposable income)	14.5	15.0	14.7

Equilibrium indicators	2023	2024	2025
Inflation (average yearly change, in %)			
Consumer prices (harmonised CPI)	2.3	4.1	2.1
Health index (national CPI)	4.3	3.3	2.1
Labour market			
Domestic employment (yearly change, in '000, year end)	25.5	19.2	30.0
Unemployment rate (in % of labour force, end of year, Eurostat definition)	5.6	5.6	5.6
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-4.4	-4.6	-5.1
Public debt	105.2	105.8	108.0
Current account balance (in % of GDP)	-0.7	-0.5	-1.0
House prices (average yearly change in %, existing and new dwellings, Eurostat definition)	2.3	2.9	3.0

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