Economic Perspectives

November 2024

Highlights

- Donald Trump's policy agenda has a major impact on our global economic outlook. We expect him to largely implement his trade agenda (including a 10% blanket tariff) and partially implement his migration plans. These will generate stagflationary shocks. The negative growth impact of his trade and migration policies will be partly compensated by extra fiscal spending, which will give a short-term sugar boost. Trump's reelection combined with a (slim) Republican majority in the US Congress also increases the likelihood of certain risks materialising, especially geopolitical risks and risks of reduced central bank independence.

- Following the election results, US growth is likely to be affected by the three major shocks discussed above. The trade shock will hit growth as it increases prices, reduces purchasing power of consumers and creates an uncertain investment climate. The migration shock will weigh on (growth of) the labour force, thus gradually reducing the productive capacity of the US. In contrast to both prior shocks, fiscal spending will contribute to growth, though we do not expect it to fully offset the negative effects of the trade and migration shocks. We hence lower our growth forecast for 2025 from 1.9% to 1.7%. Growht in 2024 remains elevated, however. US Q3 grew by 0.7%, as consumers keep the spending taps open. We thus forecast 2.7% GDP growth in 2024.

- In contrast to US growth, all US post-election policy shocks are expected to drive up inflation. Indeed, tariffs will drive up import prices, while the labour shock will drive up wages. Meanwhile, fiscal spending will generate a demand shock. This is unwelcome, since at the moment, US inflation remains above the 2% target. In October, inflation increased from 2.4% to 2.6%, due to unfavourable base effects, while core inflation remained at 3.3%. Shelter was the prime driver of US inflation, while other major components such as energy, food, core goods and core services (ex. shelter) remained soft. We maintain our 2.9% 2024 inflation forecast, while upgrading our 2025 inflation forecast from 2.4% to 2.6%.

- For the euro area, Trump's trade policies will have the most important impact as the migration and fiscal shocks will only affect the euro area economy mostly indirectly. Trump's tariffs will disproportionately affect exporting nations such as Germany. European consumers will also be hit as the EU is likely to retaliate. The trade war will further postpone and slow the euro area's gradual recovery. In Q3, the euro area's economy grew at a decent 0.4% (0.3% excluding Ireland), thanks to a strong performance by a.o. France, Spain and the Netherlands. We maintain our 0.7% 2024 forecast, but downgrade our 2025 forecast from 1% to 0.7%.

- In contrast to US inflation, the impact of Trump's policies on euro area inflation are ambiguous. Though tariffs will increase prices of US imports and will weigh on the euro, they could decrease prices of Chinese imports. That said, we expect the impact to be inflationary overall, also driven by a stonger US dollar, pushing up inflation to 2.5% in 2025. For 2024, we maintain our 2.4% forecast. As we anticipated, in October, euro area inflation rebounded from 1.7% to 2% due to unfavourable energy-related base effects and an increase in food price inflation. Core inflation remained at 2.7% as services inflation remained unchanged and goods inflation slightly increased.

- The Chinese economy is unlikely to emerge unscathed from the outcome of the US election. Blanket import tariffs of up to 60% on Chinese products as proposed by the incoming US president would come at a time when China is more reliant on exports as a driver of growth. Furthermore, fiscal policy measures detailed by China's Ministry of Finance for now fall short of providing direct stimulus to boost the real estate sector and household consumption. Overall, we keep 2024 real GDP growth unchanged at 4.8% but downgrade our 2025 forecast from 4.6% to 4.3%.

- Trump's policies will put central banks in a tough spot. That is especially the case in the euro area, where Trump's trade agenda will drive up inflation, while weighing on growth. We expect the ECB to view the trade shock as temporary and thus maintain our forecast of a gradual decline of the deposit rate to a cycle low of 2% by the second half of 2025. Trump's policies will also not simplify the job of the Fed. In contrast to the euro area, we expect the overall US inflationary shock to be higher in the coming years and the overall growth shock to be lower. We thus expect the Fed policy rate to bottom out at 3.625% in Q2 2025, 50 basis points higher than our October forecast.

Global Economy

Introduction

The reelection of Donald Trump will have a big impact for the US and global economy. Notably, his trade agenda, his immigration plans and his fiscal plans will have important ramifications and significantly alter our forecasts for growth, inflation, interest rates and exchange rates.

On trade, Donald Trump has vowed to drastically raise tariffs (10 to 20% for all imports and to 60% on Chinese imports). He might face some opposition from some Republican members of Congress (where his majorities are relatively narrow), members of his administration and business leaders. That said, given the prominence of the issue in his campaign and his protectionist record in his first term, we still expect him to largely implement his plans. We see the US raising average tariffs to 60% on Chinese imports and to 10% on imports from other nations. Trading partners are expected to retaliate in a targeted manner. The tariff increases will not all be implemented on Day 1 but phased in over the course of his term. This will be a drag on growth worldwide and cause inflation to rise (in particular in the US).

On immigration, Trump has vowed to stop the flow of migrants at the Mexican border, restrict legal migration and deport all undocumented migrants currently living in the US. Here again, we expect Trump's plans to face some resistance. Particularly his deportation plans will – next to operational constraints - face important hurdles as they require collabouration from local government officials (which are often Democratic) and necessitate significant funding from Congress. We still expect on average a monthly 27k reduction in new foreign-born labour over the course of his term, however. This will partially reverse the positive labour supply shock the US has seen in the past years. His plans will thus reduce the labour force and limit the productive capacity of the US. They could also cause labour shortages in the US and thus push up US inflation. The impact on the rest of the world will be quite limited.

In a counterbalance to the stagnating effects of his trade and migration plans, Trump proposes large tax cuts, such as an extension of the 2018 tax cuts and a further reduction of the corporate tax rate to 15%. Overall, his plans would increase the deficit by an estimated 4 trillion USD (14.6% of current GDP), according to the Penn Wharton Budget Model in the coming ten years. Though we expect the 2018 tax deductions and the corporate rate tax cut to pass Congress, we expect fiscal conservatives within Congress to push back on other tax proposals (e.g. tax-free tips) and expect them to demand some spending reductions. We thus expect his plans to add 1 percentage point GDP to the yearly budget deficit over the course of his term. This will push up US growth, but also cause further upward pressure on US prices and US bond yields.

Trump's reelection also raises the likelihood of other major risks to our scenario materialising. Geopolitical tensions are expected to rise under his watch. The most important source of uncertainty is his position towards Ukraine and his willingness to continue funding its defence efforts. For now, we still expect Western funding to continue, allowing Ukraine to push the conflict into a stalemate. Further Russian advances and aggression are a material downside risk to our scenario, however.

The war in the Middle East is another geopolitical risk possibly amplified by Trump's reelection. His staunch support of Israel could embolden Israel to take stronger military action against Iran and its proxies (like Hezbollah). That said, he also appears wary of getting involved in foreign conflicts. Hence, we don't expect a major escalation of the conflict between Israel and Iran to occur.

His position towards Taiwan is also more ambivalent than his predecessor's. Nonetheless, the American political establishment has turned more hawkish towards China in recent years and his recent cabinet appointments are relatively hawkish towards China. We thus expect US support towards Taiwan to be maintained.

Trump's hostility toward institutions – both global and domestic - is another important economic risk. In particular, his criticism of the Fed risks undermining the independence of this critically important institution. In 2026, Trump will have the opportunity to appoint a new Fed chair. However, we still expect the Fed to maintain its independence over the course of Trump's term and act to counterbalance the inflationary effect of Trump's economic agenda.

Trump's reelection major source of uncertainty for US growth

The US election will obviously first and foremost affect the US economy. The impact of Trump's policies on US growth is highly uncertain. As we mentioned above, Trump's reelection will likely generate three shocks on the US economy, namely a trade shock, a labour shock and a fiscal shock.

The trade shock will clearly have a stagnating effect. It will hit consumers, reducing their purchasing power and also hurt exporters who will suffer from higher input costs and retaliatory tariffs. The labour shock also has a clearly stagnating effect. As migration policies turn more restrictive, the growth of the foreign-born labour population will slow dramatically. This will hurt the total productive capacity of the US and likely cause shortages in key industries such as construction, hospitality and agriculture.

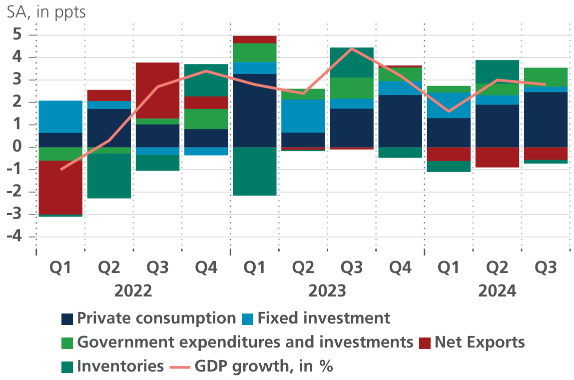
The stagnating effects will be partly counterbalanced by the sugar boost offered by Trump's expansionary fiscal policies. It is important to note here that given that there is limited slack in the US economy, the multiplier effect of this fiscal spending will likely be smaller than during Trump's first term. Furthermore, the demand shock generated by the fiscal stimulus will dissipate in the medium term, while Trump's trade and migration policies will also have more structural long-term effects.

There is much uncertainty over the size of each shock. This will become clearer in the coming months. That said, we expect the stagnating effects of the trade and migration shocks to outweigh the positive effect of the fiscal shock. We hence lower our growth forecast for 2025 from 1.9% to 1.7%

We however still expect 2.7% GDP growth this year. Indeed, US GDP again grew strongly in Q3 (see figure 1) at 0.7% quarter-on-quarter (slightly below our latest forecast). The growth was largely generated by personal

Figure 1 - US real GDP growth contributions

SA, in ppts



Source: KBC Economics based on BEA

consumption, which contributed 0.6 percentage points to growth last quarter. Government spending also made a solid contribution, as did equipment investment (again partially driven by a big jump in aircraft equipment spending). Other private investments disappointed. Residential spending and non-residential structures spending declined, while intellectual property products remained broadly flat. Other negative contributions came from net exports (the third time in a row) and inventories.

Growth in Q3 aside, the outlook for Q4 is also relatively favourable as we expect consumption spending to remain healthy in Q4. Indeed, retail sales grew by 0.4% in October, while consumer confidence indicators have made notable jumps lately in both the Michigan and Conference Board Surveys. Producer confidence has also improved slightly, though the gap between the manufacturing and services sentiment has widened further.

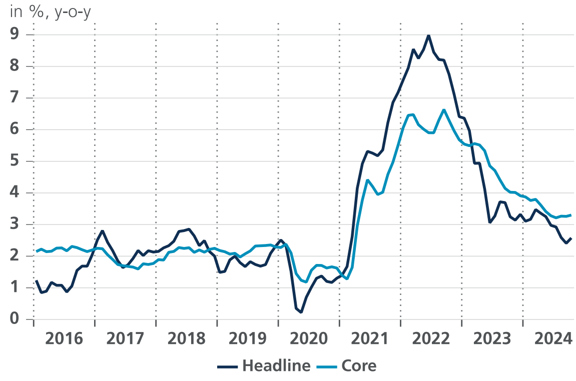
A sign of caution came from the labour market report. Indeed, job growth was minimal in October (+12k). That said, there were some attenuating factors here. Strikes at Boeing (which are now over) lowered job openings by 33k. Hurricanes also affected the job growth figure, though it is not possible to quantify its effect. We thus expect a bounce back in the next jobs report.

Trump's policies will drive up US inflation

Contrary to the impact on GDP growth, on US inflation, all expected policy changes point in the same direction, namely towards higher inflation. The trade shock will raise prices on imported goods and reduce competitive pressures on US firms. Meanwhile the migration shock will increase wage pressures, thus impacting services inflation. This will be partly compensated by lower shelter inflation, as lower migration will reduce demand for housing. Finally, the fiscal shock will provide a demand boost as tax cuts will allow households and firms to increase spending and investments. We thus increase our 2025 inflation forecast from 2.4% to 2.6% and expect a further transitory acceleration in inflationary pressures in later years.

In contrast to his first term, Trump's reelection is happening in an environment where US inflation remains above the Fed's target (see figure 2). Indeed, US inflation increased from 2.4% to 2.6% in October, though mostly as a result of unfavourable base effects. On a monthly basis,

Figure 2 - US inflation



Source: KBC Economics based on BLS

the increase was only 0.24%. Energy prices remained flat while food prices increased slightly.

Core inflation remained constant at 3.3% year-on-year. The main driver of core inflation was shelter inflation, which accelerated to 0.4% last month, due to a sharp increase in hotel prices and an acceleration in owner-equivalent rents. Forward-looking indicators still suggest this category will moderate, however.

Other core components remained relatively soft. Core goods prices remained flat as a big drop in apparel prices was compensated by a big jump in used cars and trucks. Services prices (ex. shelter) only increased by 0.3% last month, despite another big jump in airline fares. As the inflation figures were in line with expectations, we maintain our 2.9% inflation forecast for 2024.

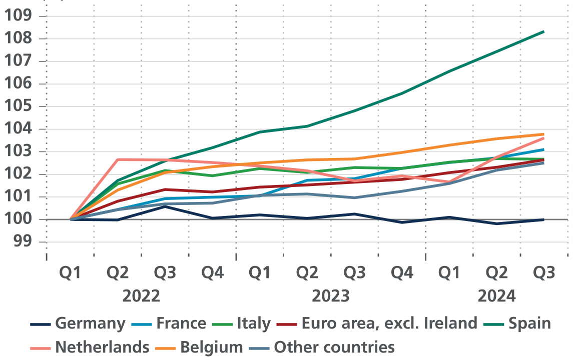
Higher-than-expected growth in euro area in third quarter

First estimates of euro area real GDP growth in the third quarter of 2024 show much stronger economic activity than business cycle indicators - and in particular confidence indicators - initially suggested. Compared to the previous quarter, real GDP grew by 0.4% quarter-on-quarter. This is double our expectation (0.2%). Half of the difference can be attributed to the particularly robust, but highly volatile and thus almost unpredictable, increase in Irish GDP (2.0%). Excluding Ireland, growth in the euro area would have been 'only' 0.3%.

Compared to expectations, this is still a beat, largely due to the German economy which appears to have grown

Figure 3 - Real GDP in the euro area

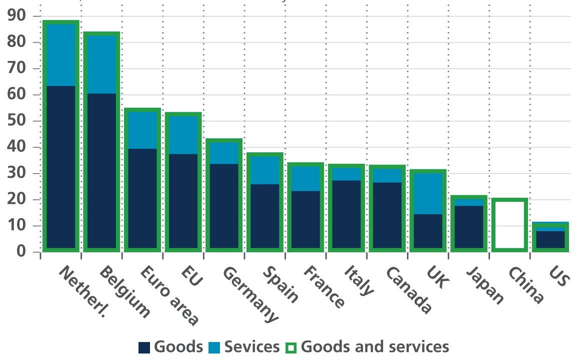
index, Q1 2022 = 100



Source: KBC Economics based on Eurostat

Figure 4 - Exports of goods and services

% of GDP, in 2023 or latest available year



Source: KBC Economics based on OECD, (no detailed data on China)

by 0.2% in the third quarter. According to Destatis (the German statistics institute), government and especially household consumption expenditure was at the basis of the growth rebound. That in itself is very good news, although it is immediately tempered by the fact that the GDP figures for the second quarter were revised sharply downwards: compared to the previous quarter, the economy contracted by 0.3% in Q2 rather than by 0.1%. As a result of this revision, despite the increase in the third quarter, the level of economic activity in Germany ended up in line with expectations. And that level, incidentally, was almost the same as in early 2022 (see figure 3). It illustrates the lingering economic malaise in Germany.

First estimates of third-quarter real GDP further confirm Spain's role as an absolute growth engine in the euro area. As in the previous quarter, and despite the recent natural disasters, real GDP quarter-on-quarter growth was 0.8%, fueled by consumption expenditure by both households and the government. In Italy, the growth stimulus from tax incentives for housing renovation seems to have faded. Real GDP growth there stagnated in the third quarter (0% growth). In contrast, the French economy received a boost due to the sale of tickets and broadcasting rights for the Olympics during the summer. France's real GDP growth doubled compared to the previous quarter to 0.4%. Given the precarious state of French public finances, this boost may remain a one-off. Besides, on balance, the Olympics already had only a limited impact on hospitality activity. Finally, it is notable that the Netherlands seems to be leaving behind the economic malaise it had fallen into during 2022. After 1.1% growth (compared to the previous quarter) in real GDP in the second quarter, a further sharp increase of 0.8% was recorded in the third quarter.

Deteriorating growth outlook for euro area

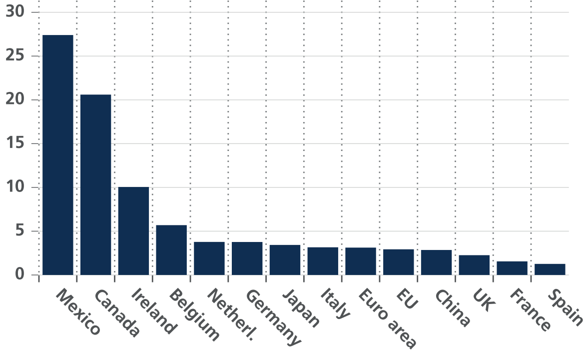
Confidence indicators for October remained lacklustre despite some bright spots. Activity in the manufacturing sector, especially in Germany, also failed to pick up. Meanwhile, the election of Donald Trump as the next US president further clouds the outlook for the European economy. Another negative confidence shock is now very likely. Over time, the announcement of higher import tariffs and the prospect of an escalating trade war are major concerns. The openness of European economies, as measured by exports of goods and services as a percentage of GDP, is much higher than that of the other major industrialised countries and, in particular, the US itself (see figure 4). It makes Europe particularly vulnerable to trade wars. Obviously, this is all the more true for small, open economies, such as Belgium.

The importance of exports to the US and consequently the direct sensitivity to generalised higher US import tariffs varies greatly from country to country. Obviously, it is very high for neighbouring countries Mexico and Canada (see figure 5). Within the euro area, sensitivity also varies widely across countries. It is particularly high for Ireland, but also for Belgium, the Netherlands and Germany, but rather small (and smaller than for Japan, China and the UK) in France and Spain.

For 2024, we maintain our growth forecast for real GDP in the euro area at 0.7% on average. But the confidence shock from Trump's re-election and a looming trade war now make a near-term rebound of growth in Europe even more unlikely. Primarily due to the expected policy changes in the US (see above), we now rather assume

Figure 5 - Goods export to the US

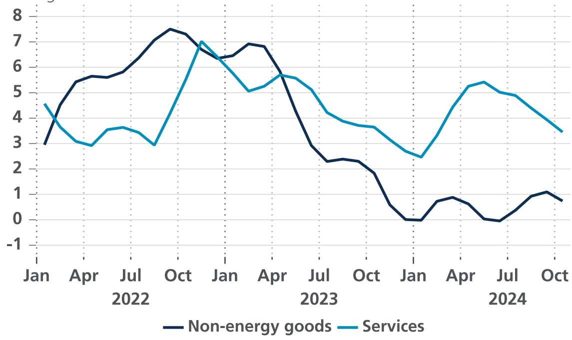
% of GDP, in 2023



Source: KBC Economics based on IMF

Figure 6 - Core inflation in de euro area

annualized percentage change over 3 months of the 3-months moving average



Source: KBC Economics based on ECB

that the economy will continue to drag on at a listless growth rate of below 1% for a long time to come. We therefore lower our estimate for expected real GDP growth in 2025 from 1.0% to also 0.7%. There is a real possibility that the economy will weaken more strongly and thus slide into recession. However, partly because of the imminent change of government in Germany, it cannot be ruled out completely for the time being that Europe could pull itself together, come to an agreement with Trump, and mobilise the necessary financing for the countless investments needed, as, for instance, reiterated in September in Draghi's report on the future of European competitiveness. In such a scenario, growth prospects could (significantly) improve.

Euro area inflation higher again

Inflation rose again in the euro area from 1.7% in September to 2.0% in October. A weaker year-on-year fall in energy prices (-4.6% in October versus -6.1% in September) and pick-up in food price inflation (from 2.4% to 2.9%) caused this. Core inflation stabilised at 2.7%. However, underlying inflation dynamics, measured by the short-term increase in the three-month moving average of the price index adjusted for seasonal fluctuations, continue to slow. But for services in particular, this cooling is slow, as expected (see figure 6).

Trump's re-election will not be without consequences for inflation in Europe either. In response to higher import tariffs in the US and to prevent an import tsunami from China, higher import tariffs will be inevitable in the EU too. Together with the weaker euro exchange rate, this will make imports more expensive and push up inflation.

Against this background, we have raised our inflation forecast for 2025 from 2.1% to 2.5% on average. We maintain the forecast for 2024 at 2.4%.

US election presents another headwind for Chinese growth

The election results in the US complicate the outlook for China, which we had upgraded last month on recent policy measures taken to stimulate the economy. The upgrade recognised that there would be a (potentially temporary) boost to growth in the current and coming quarters, which seems to be materialisng, with business sentiment indicators already ticking up in October. Retail sales and industrial production in October also remained decent at 4.1% month-on-month for both .

However, details on fiscal policy measures released in early November were somewhat disappointing. The RMB 10 trillion package (7.7% of GDP) over 5 years consists of RMB 6 trillion in new bond issuance plus RMB 4 trillion of previously announced bonds being reallocated, with both envelopes being used to clean up local government hidden debt (swapping it from off-balance sheet Local Government Financing Vehicle debt to on-balance sheet local government debt). The Finance Ministry expects this to save RMB 600 billion in interest payments over 5 years. While addressing LGFV debt is important, the announcement included no further plans to shift the fiscal burden from highly indebted local governments to the more financially healthy central government (see: China's new stimulus in a shifting policy framework). The announcement also lacked details on direct stimulus for households and the real estate sector.

Chinese policymakers may still be taking a step-by-step approach with further announcements on these issues coming in the future, especially now that the re-election of Trump in the US presents a new major downside risk for Chinese growth.

A major element of Trump's presidential campaign was a promise to reignite the trade war with China that he started in his first term. That first trade war, which started with US tariffs imposed on certain Chinese imports in July 2018, did lead to some drag on Chinese growth in 2018 and 2019 via trade effects, confidence, and investment. However, the overall effects were offset by a sharp depreciation of the Chinese RMB, the start of the pandemic in early 2020, which lead to a surge in demand for Chinese products, particularly Personal Protective Equipment, and some trade divergence through third countries to avoid US tariffs. If Trump carries through with his promises, there is likely to be a larger impact this time around for several reasons. First, although exports to the US account for a smaller share of total Chinese exports now than in 2018 (14.5% vs 19%), given the downturn in China's other drivers of growth (real estate investment and consumption), exports have become a much more important pillar of Chinese growth. Second, the blanket 60% tariffs being proposed on all Chinese imports into the US would be much higher than the 7.5-25% tariffs imposed on select items the first time around. Third, the CNY exchange rate versus the dollar is already close to a 16-year low, leaving less room for substantial exchange rate depreciation without triggering capital flight and financial stability concerns. All of this points to a complicated outlook for the Chinese economy. We have left our 2024 forecast for real GDP growth unchanged at 4.8%, but downgrade 2025 from 4.6% to 4.3%.

Fed and ECB position themselves differently for the growth-inflation trade-off

The stagflationary implications of President-elect Trump's expected policy changes pose major challenges for central banks. On the one hand, they have to take into account the negative impact on growth, which is a growing concern in the euro area anyway. On the other hand, the likely import tariffs in particular and a weakening euro threaten to fuel inflation and thus disrupt the disinflationary path towards the inflation target.

Financial markets are already assessing the Fed's and ECB's policy responses differently. According to the markets, the Fed will sharply slow down and moderate its easing path, while the ECB will give more weight to the negative impact on growth and thus cut its policy rate more sharply and faster than so far assumed.

Due to the volatility of financial markets since the US elections, we assume that the markets' reasoning, while plausible, is slightly exaggerated in terms of order of magnitude. We assume that – also on the back of backloaded and only gradual increases in inflation effects, the Fed will continue with its rate cuts in increments of 25 basis points per policy meeting, reaching the bottom of its policy rate in the cycle at 3.625% at its first meeting of the second quarter. That is earlier and at a higher level than what we assumed so far.

In our view, the ECB will continue its easing path as envisaged in increments of 25 basis points per meeting, reaching an accommodative level of 2% for its policy rate (the deposit rate) from the second quarter of 2025. In doing so, the ECB continues rebalancing risks focusing more on the weakening growth environment. Financial market expectations, assuming undershooting to a bottom level of 1.75%, seem exaggerated, especially since the market apparently also assumes that the structural neutral rate has fallen to that level.

US-Germany interest rate differential widens and weakens euro

Driven by market expectations of a more cautious Fed, US long-term government bond yields also rose sharply. This was also due to rising inflation expectations, but it went beyond that, pushing up real interest rates (and risk premiums) as well. Since the fundamental cause of this move (the expected policy changes by Trump) is likely to remain in place, we raise the expected path of US 10-year yields to 4.50% by the end of 2025.

In contrast, in the euro area, German 10-year yields rose markedly less, commensurate with risinig inflation expectations. As a result, real 10-year rates remained roughly unchanged. This also caused an increasing interest rate differential between the US and Germany, causing the US dollar to appreciate sharply against the euro (to USD 1.05 per EUR). Since, as mentioned, this differential will not narrow so quickly, we expect the US dollar to remain strong around its current exchange rate throughout 2025 with even the possibility of a temporary further appreciation. The weak euro creates additional inflationary pressures, thus exacerbating the growth-inflation dilemma for the ECB.

Intra-EMU spreads remain under control

Despite increased general uncertainty in financial markets, EMU government interest rate spreads against Germany remain under control. Due to the difficulties of a number of EMU governments to agree on a budget for 2025 (including France, Spain and Belgium), let alone one that complies with the rules of the Stability and Growth Pact, we expect that the current level of those interest rate spreads may rise slightly towards the year-end and remain there through 2025. However, we do not expect a full-fledged derailment of those spreads. A first reason is that Germany, as the euro area benchmark market, does not yet have a budget for 2025 itself and will not get one until after the elections in February 2025. This leads to some risk premium entering the German bond yield as well. In addition, we can still count on the ECB's Transmission Protection Instrument, which acts as an instrument of last resort to prevent 'unjustified' spread increases.

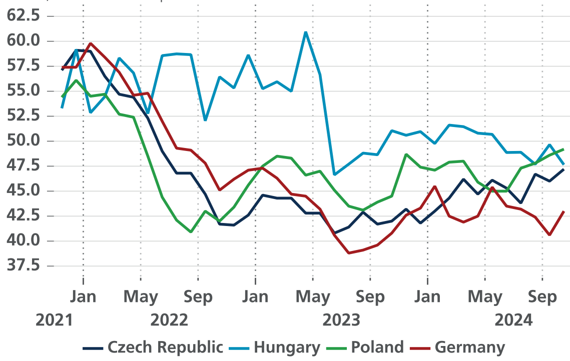
Central and Eastern Europe

US elections and weak German growth trigger negative revisions in GDP outlook

The Republican sweep may also be a challenge for Eastern European economies. While our baseline scenario assumes that the Trump administration does not increase tensions for the entire region by pushing the Russia-Ukraine conflict in an undesirable direction, other economic policy steps still may have a negative impact on the region. From a macroeconomic point of view, the most damaging policy for Eastern Europe will be the possible imposition of across-the-board tariffs of 10% (or possibly 20%), as Donald Trump promised during the election campaign. Although the direct exposure of regional exports to the US may not be high (see figure CEE1), the impact would clearly be stagflationary. For these reasons, we have downgraded the outlook for economic growth in 2025 and 2026, while we have also revised up the inflation outlook slightly for most countries in the region.

Let us add that the negative GDP growth revisions in the Czech Republic and Hungary also reflect a deterioration in the near-term outlook. Given the evolution of the Czech and Hungarian monthly data (see figure CEE2) and third-quarter GDP results, respectively, we expect growth to be weaker (than previously expected) in the fourth quarter and in the first half of 2025. The negative revisions can be attributed to the still very weak economic activity in Germany, which is the most important trading partner of both countries. Perhaps needless to say, in addition to structural problems and the threat of trade wars, the German economy has to deal with uncertainty ahead of early parliamentary elections called for February 2025.

Figure CEE2 - Business Confidence (PMI) in Manufacturing
index, above 50 = expansion

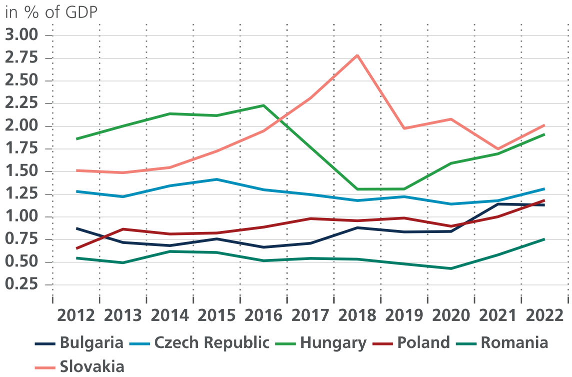


Source: KBC Economics based on S&P Global, HALPIM

Bearish spillovers from Trump trade to regional bonds and currencies

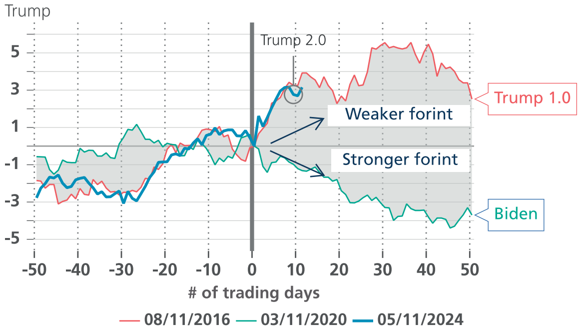
Though Central European economies may be vulnerable to the imposition of US tariffs only in 2025 (or possibly later), regional financial markets - especially bonds and currencies - have immediately felt the impact of the Republican sweep. Recall that Central European government bond yields settled at 35-55 bps higher than at the beginning of October. Moreover, regional currencies are also trading at weaker levels, with the most visible losses being in the Hungarian forint (see figure CEE3). In this context, it is logical that the post-election upward revision of our outlook for the US yield curve must

Figure CEE1 - Exports of goods to the US
in % of GDP



Source: KBC Economics based on Eurostat

Figure CEE3 - Forint against the dollar (USDHUF) around the US elections
cumulative precentage change, rebased to 100 at election dates Biden and Trump



Source: KBC Economics based on ICE

also bring corrections in the outlook for Eastern European fixed-income and forex markets.

Perhaps the most visible changes in our outlook are adjustments in regional longer-term interest rates, where we expect the yield curves to remain partly influenced by global developments, or rather by developments in the US. At the same time, speaking about the Hungarian yield curve, it is worth noting the significant change in the outlook for the NBH's base rate. In the case of NBH monetary policy, we think that central bank’s fear of a weak forint will outweigh the recent worsening in the economic outlook (as the Hungarian economy faces a technical recession now). Hence, we believe the NBH will be much more cautious in cutting official interest rates deeper, should the forint remain weak. Hence, our updated view is that the NBH will stay in a wait-and-see mode for the rest of this year, while we see only a 100 bps (aggregate) cut next year (compared to 125 bps as we had penciled in before the US elections).

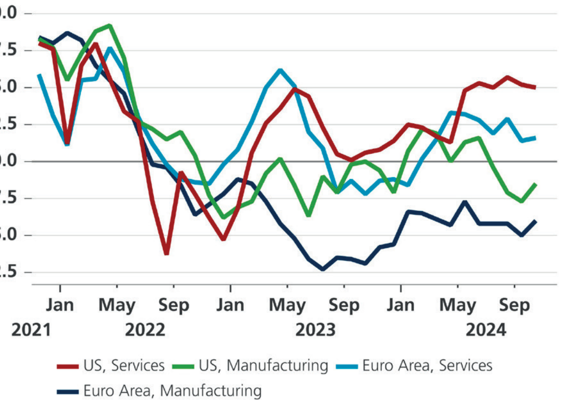
This brings us to revisions to the outlook for Central European currencies, which are negatively impacted by higher US interest rates. Moreover, regional currencies may also suffer from the uncertainty associated with the snap elections in Germany and concerns about whether its economy will eventually fall into a real recession. For the above reasons, we do not expect the koruna or the forint to be able to post visible gains in the 6-month horizon. The wild card in our outlook remains the zloty, where the NBP's persistently hawkish stance may support the currency more than in other countries in the region.

Figures

Real GDP
yearly change in %

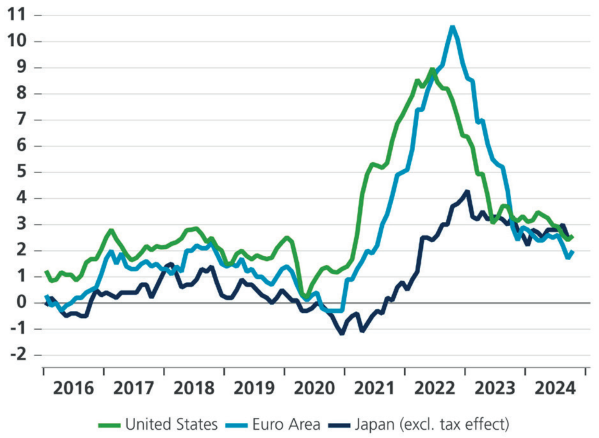
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



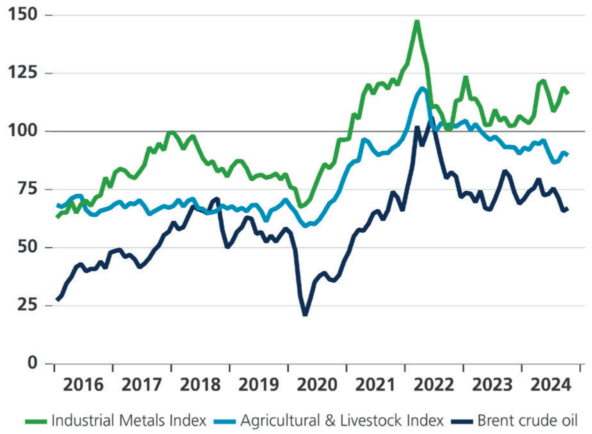
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



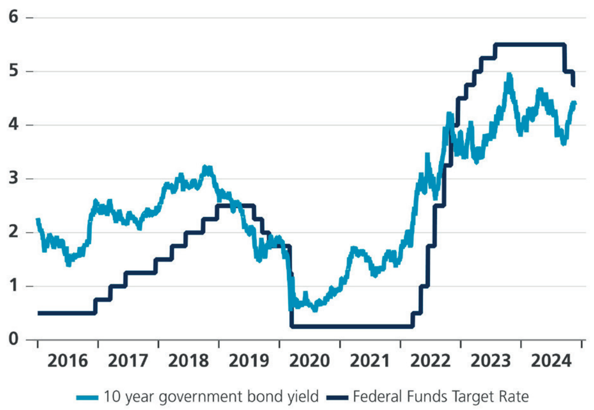
Source: KBC Economics based on Eurostat, SBJ, BLS

Commodity prices
index, January 2013=100, in USD



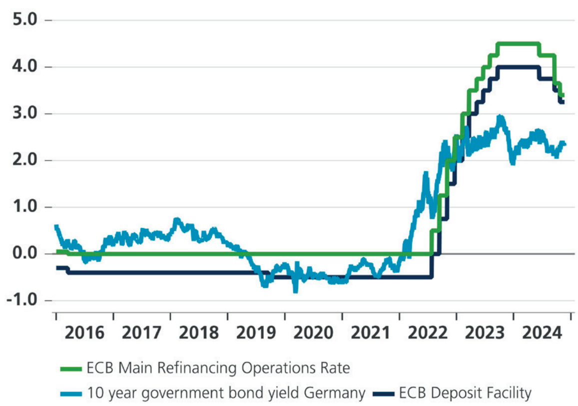
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



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

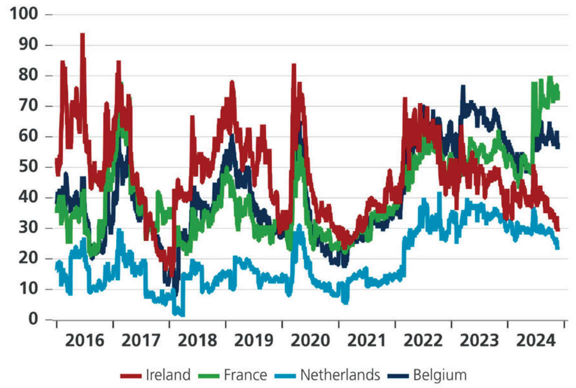
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

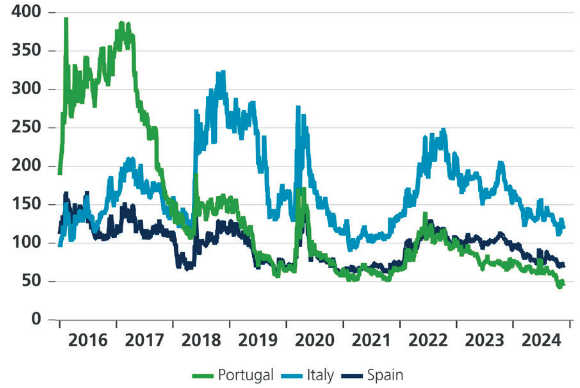
Figures

10 year government bond yield spreads to Germany
in basis points



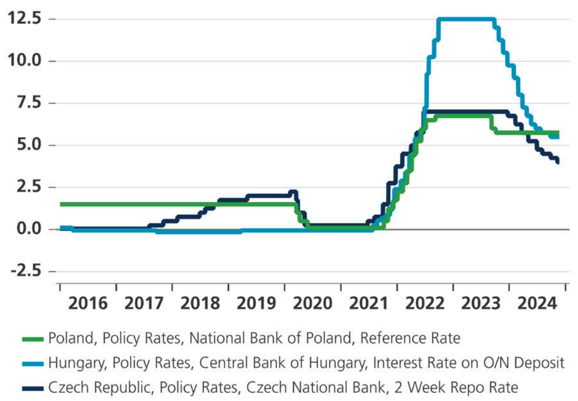
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



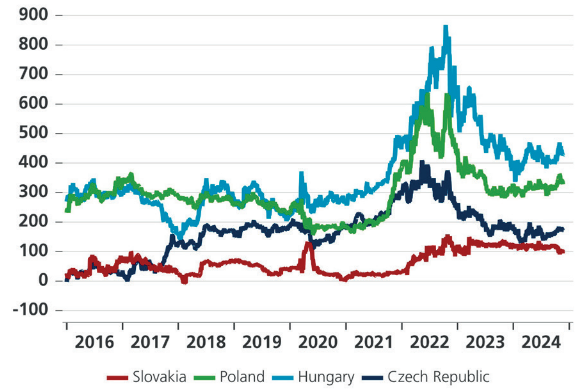
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



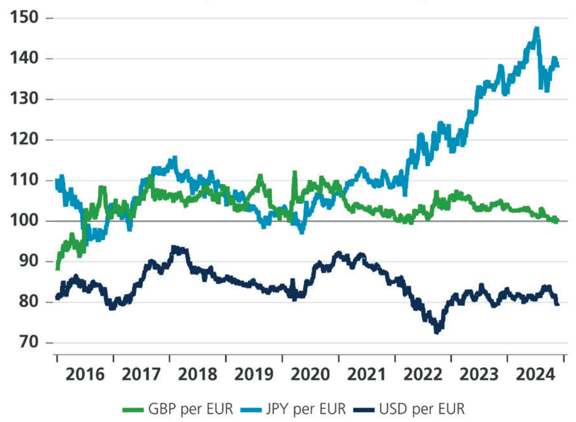
Source: KBC Economics based on CNB, MNB, NBP

10 year government bond yield spreads to Germany
in basis points



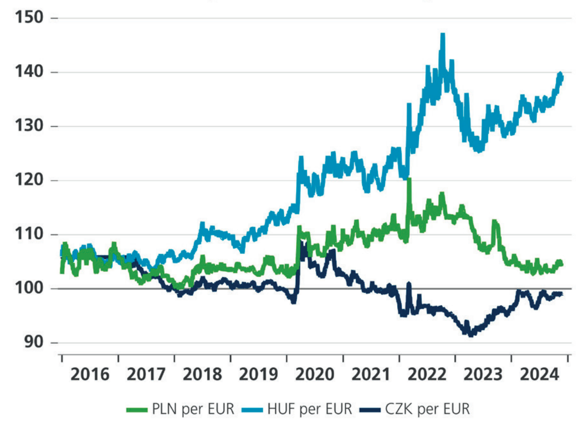
Source: KBC Economics based on Macrobond, AKK, Eurostat

Exchange rates
index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

Exchange rates
index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

Outlook main economies in the world

		Real GDP growth (period average, based on quarterly figures, in %)			Inflation (period average, in %)		
		2023	2024	2025	2023	2024	2025
Euro area	Euro area	0,5	0,7	0,7	5,4	2,4	2,5
	Germany	-0,1	-0,1	0,3	6,1	2,6	2,6
	France	1,1	1,2	0,6	5,7	2,6	1,8
	Italy	0,8	0,4	0,4	5,9	1,0	1,4
	Spain	2,7	3,1	2,0	3,4	3,0	2,0
	Netherlands	0,1	0,5	1,1	4,1	3,0	2,2
	Belgium	1,3	0,9	0,6	2,3	4,2	2,3
	Ireland	-3,2	-0,9	4,6	5,2	1,6	1,9
	Slovakia	1,4	2,2	2,0	11,0	3,2	5,2
Central and Eastern Europe	Czech Republic	0,0	1,0	2,3	12,1	2,5	2,5
	Hungary	-0,8	0,5	2,4	17,0	3,7	3,8
	Bulgaria	2,0	2,2	2,1	8,6	2,9	3,1
	Poland	0,1	2,9	3,1	10,9	4,0	4,1
	Romania	2,4	2,0	3,1	9,7	5,4	4,1
Rest of Europe	United Kingdom	0,3	0,9	1,3	7,1	2,6	2,4
	Sweden	-0,1	0,7	1,8	5,9	2,9	1,1
	Norway (mainland)	1,1	0,6	1,3	5,7	3,2	2,4
	Switzerland	0,7	1,5	1,4	2,1	1,1	0,7
Emerging markets	China	5,2	4,8	4,3	0,2	0,3	1,0
	India*	8,2	6,4	5,9	5,4	5,1	4,7
	South Africa	0,7	0,9	1,2	6,1	4,5	4,3
	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	1,9	4,6	4,4	4,3
Other advanced economies	United States	2,9	2,7	1,7	4,1	2,9	2,6
	Japan	1,7	-0,1	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	0,2	1,9	5,7	3,1	2,1
	Canada	1,2	1,1	1,6	3,6	2,4	2,0
*** fiscal year from April-March**						15/11/2024	

Policy rates (end of period, in %)						
		15/11/2024	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	4,00	3,75	3,50	3,50	3,50
	Hungary	6,50	6,50	6,25	6,00	5,75
	Bulgaria	-				
	Poland	5,75	5,75	5,75	5,25	4,75
	Romania	6,50	6,50	6,25	6,00	5,75
Rest of Europe	United Kingdom	4,75	4,75	4,50	4,25	4,00
	Sweden	2,75	2,50	2,00	2,00	2,00
	Norway	4,50	4,50	4,00	3,75	3,75
	Switzerland	1,00	0,75	0,50	0,50	0,50
Emerging markets	China (7-day r. repo)	1,50	1,50	1,40	1,30	1,20
	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	11,25	11,50	12,00	12,25	12,25
Other advanced economies	United States (mid-target range)	4,625	4,375	3,875	3,625	3,625
	Japan	0,25	0,25	0,40	0,40	0,50
	Australia	4,35	4,35	4,35	4,10	3,85
	New Zealand	4,75	4,25	3,75	3,50	3,50
	Canada	3,75	3,50	3,25	3,00	3,00

Outlook main economies in the world

10 year government bond yields (end of period, in %)		15/11/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Euro area	Germany	2,35	2,40	2,40	2,40	2,40
	France	3,11	3,30	3,30	3,30	3,25
	Italy	3,58	3,80	3,80	3,80	3,80
	Spain	3,07	3,20	3,20	3,20	3,20
	Netherlands	2,60	2,80	2,80	2,80	2,80
	Belgium	2,94	3,10	3,10	3,10	3,10
	Ireland	2,68	2,80	2,80	2,80	2,80
	Slovakia	3,29	3,50	3,50	3,50	3,50
Central and Eastern Europe	Czech Republic	3,99	4,10	4,20	4,20	4,20
	Hungary	6,76	6,50	6,30	6,20	6,10
	Bulgaria*	3,85	4,10	4,10	4,10	3,95
	Poland	5,71	5,60	5,60	5,20	5,00
	Romania	7,08	7,10	7,10	7,10	7,10
Rest of Europe	United Kingdom	4,50	4,55	4,55	4,55	4,55
	Sweden	2,10	2,15	2,15	2,15	2,15
	Norway	3,79	3,85	3,85	3,85	3,85
	Switzerland	0,41	0,45	0,45	0,45	0,45
Emerging markets	China	2,10	2,10	2,10	2,10	2,20
	India	6,83	6,75	6,75	6,75	6,85
	South Africa	9,12	9,15	9,25	9,40	9,50
	Russia	15,13	Temporarily no forecast due to extreme uncertainty			
	Turkey	27,96	27,00	25,50	24,00	24,00
	Brazil	12,90	12,65	12,65	12,65	12,75
Other advanced economies	United States	4,45	4,25	4,25	4,25	4,35
	Japan	1,07	1,15	1,15	1,25	1,25
	Australia	4,62	4,45	4,45	4,45	4,55
	New Zealand	4,81	4,65	4,65	4,65	4,75
	Canada	3,28	3,10	3,10	3,10	3,20

***Caution: very illiquid market**

Exchange rates (end of period)	15/11/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
USD per EUR	1,06	1,06	1,06	1,06	1,06
CZK per EUR	25,29	25,30	25,30	25,20	25,10
HUF per EUR	405,53	402,00	404,00	406,00	408,00
PLN per EUR	4,32	4,35	4,27	4,26	4,25
BGN per EUR	1,96	1,96	1,96	1,96	1,96
RON per EUR	4,98	5,00	5,00	5,00	5,00
GBP per EUR	0,83	0,82	0,83	0,84	0,85
SEK per EUR	11,59	11,70	11,60	11,60	11,60
NOK per EUR	11,76	11,70	11,65	11,60	11,55
CHF per EUR	0,94	0,95	0,95	0,95	0,95
BRL per USD	5,79	5,76	5,76	5,76	5,76
INR per USD	84,41	84,28	84,28	84,28	84,28
ZAR per USD	18,28	18,21	18,21	18,21	18,21
RUB per USD	100,20	Temporarily no forecast due to extreme uncertainty			
TRY per USD	34,42	35,69	37,81	39,55	41,07
RMB per USD	7,23	7,23	7,25	7,28	7,30
JPY per USD	155,68	157,00	155,00	155,00	155,00
USD per AUD	0,65	0,65	0,65	0,66	0,67
USD per NZD	0,59	0,57	0,57	0,58	0,59
CAD per USD	1,41	1,40	1,40	1,40	1,38

Outlook KBC markets

	Belgium			Ireland		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	1,3	0,9	0,6	-3,2	-0,9	4,6
Inflation (average yearly change, harmonised CPI, in %)	2,3	4,2	2,3	5,2	1,6	1,9
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5,6	5,6	6,0	4,5	4,4	4,5
Government budget balance (in % of GDP)	-4,2	-4,5	-5,3	1,3	1,4	1,3
Gross public debt (in % of GDP)	103,1	104,2	107,0	43,3	41,2	38,6
Current account balance (in % of GDP)	-0,8	-0,5	-1,2	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	2,3	1,4	2,2	2,0
Inflation (average yearly change, harmonised CPI, in %)	12,1	2,5	2,5	11,0	3,2	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)	-3,8	-2,8	-2,1	-5,2	-5,8	-4,9
Gross public debt (in % of GDP)	42,4	43,6	44,5	56,1	58,2	59,2
Current account balance (in % of GDP)	0,3	0,7	0,3	-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	0,5	2,4	2,0	2,2	2,1
Inflation (average yearly change, harmonised CPI, in %)	17,0	3,7	3,8	8,6	2,9	3,1
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4,3	4,6	4,3	4,4	4,2	4,2
Government budget balance (in % of GDP)	-6,7	-4,8	-4,1	-1,9	-2,9	-3,0
Gross public debt (in % of GDP)	73,4	73,8	73,4	23,1	24,3	26,8
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

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