Economic Perspectives

December 2024

Highlights

- 2024 is closing as it has been for most of the time: with the growth engine at different speeds in the world's major economies. In the US, domestic demand continues to grow solidly, but the strong US dollar and the prospect of import tariffs will nevertheless bring the growth engine to a lower speed. We thus confirm our growth estimate for real GDP of 1.7% in 2025 after growing 2.7% in 2024.

- The Chinese economy shows a few positive surprises amid a sea of challenges at the start of the fourth quarter and recent promises of even stronger fiscal stimulus to come in 2025 bode well for efforts to address China's lagging consumption. Many risks remain, however, particularly related to trade policy vis-à-vis the US. We therefore only marginally upgrade our 2025 growth forecast from 4.3% to 4.4% and keep 2024 growth unchanged at 4.8%.

- In the euro area, the better-than-expected figure for real GDP growth in Q3 2024 (0.4% against the previous quarter) was confirmed. There were admittedly large differences between countries and the figures were immediately overshadowed by disappointing monthly indicators on recent economic momentum and by political impasses in (among others) the two largest economies. Given also the imminent escalation of trade conflicts once President Trump takes office, we therefore maintain our expectation that the economy will continue to drag on at a listless growth rate of less than 1%, resulting in an annual average real GDP growth rate of 0.7% in both 2024 and 2025.

- The price of Brent oil remains relatively immune to geopolitical developments. It hovered in a narrow band in recent weeks, some 10% below the level during the first half of the year. In contrast, the first winter spike and dunkelflaute, together with the sudden halt of Russian natural gas deliveries to Austria, drove up the price of European natural gas to more than double its February 2024 low. Futures markets, however, suggest both lower oil and natural gas prices are on the horizon.

- Recent inflation data point to slow(er) disinflation in the US and the euro area. In particular, the rise to 2.7% in the US raised eyebrows as it was accompanied by signs of a new acceleration in underlying inflation. Core inflation still stands at 3.3% in the US. Inflation in the euro area also rose in November, by 0.2 percentage points to 2.2%. But this was mainly due to a base effect, reflecting the sharp fall in energy prices at the end of 2023. Core inflation stabilised at 2.7%. We expect both US and euro area inflation to receive new impulses from 2025 onwards from higher import tariffs. We therefore maintain our upwardly revised euro area inflation forecast of last month of 2.5% on average in 2025 (after 2.4% in 2024). Due to signs of stronger domestic inflationary pressures, we raised our inflation forecast for the US from 2.6% to 2.7% for 2025, after (an unchanged) 2.9% for 2024.

- Both the ECB and the Fed cut their policy rates by 25 basis points in December. We expect the ECB to cut its policy rate further in the first half of 2025 and leave it unchanged in the second half. The Fed is likely to insert a few pauses between its cuts. We expect three Fed rate cuts in 2025 by 25 basis points each at the policy meetings of June, September and December 2025 respectively. The ECB will cut deposit rates by a total of another 1 percentage point to 2.0% and the Fed will cut its policy rate by a total of 75 basis points to a range of 3.50 to 3.75%. That will lead to a stabilisation of long-term bond yields around current levels throughout 2025, with some small upward potential for the German bond yield towards the end of 2025.

Global Economy

2024 is closing as it has been for most of the time: with growth engines at different speeds in the world's major economies. Admittedly, there are signs that the strong growth of the US economy is waning, and some pleasant surprises surfaced in China's sputtering economy. But the latter do not warrant fundamentally greater optimism for the time being, while the US economy will continue to grow more strongly than Europe's even after the expected slowdown. Indeed, in the euro area, the better-than-expected real GDP growth rate in the third quarter - with admittedly large differences between countries - is overshadowed by new, sometimes very gloomy indicators.

After half the world's population has elected new parliaments and/or governments in 2024, 2025 will be a year heavily determined by government policy. Unfinished inflation cooling and the threat of new inflation impulses in the context of uncertain growth prospects place central banks in an uncomfortable policy dilemma. We expect both the US Federal Reserve (Fed) and the EA European Central Bank (ECB) to ease policy further. However, key questions remain, such as: (1) whether President Trump will fulfil his - from an economic point of view often poorly thought-out and inconsistent - election promises; (2) whether the Chinese authorities will put their recent words about additional stimulus to the economy into action; or (3) how the (new) governments in Europe will strike an economically meaningful and politically feasible balance between the need to stabilise public debt on the one hand and sustainable, structural strengthening of the economic tissue on the other? One thing is certain in this regard: uncertainty will be even greater in 2025 - as far as possible - than it already was in previous years.

Oil price insensitive to geopolitics

Between mid-November and mid-December, the price of Brent oil hovered mostly near USD 72 to 73 per barrel, about 10% lower than a year earlier. It thus responded remarkably moderately to geopolitical conflicts and tensions. The fall of Syrian President Bashar al-Assad also had no significant impact (for now).

The market seems more focused on Trump's re-election as US president and his potential policies. During his campaign, Trump repeatedly promised to lower inflation. But his strategy seems mainly based on lowering energy prices. To achieve this, he wants to use deregulation and tax cuts to increase domestic production (or in his own words, 'drill, baby, drill'). He also wants to put pressure on countries such as Iran and Venezuela, and possibly Russia. However, this geopolitical strategy could do just the opposite of what Trump wants to achieve. There could be upward pressure on oil prices as a result of, for instance, new sanctions against Venezuela. The designation of Marco Rubio as Secretary of State may nevertheless indicate that Trump does want to take a tough stance against these countries. Rubio is known for his tough stance on Iran and Venezuela. Trump will have to weigh such a strict stance against his goal of lower energy prices.

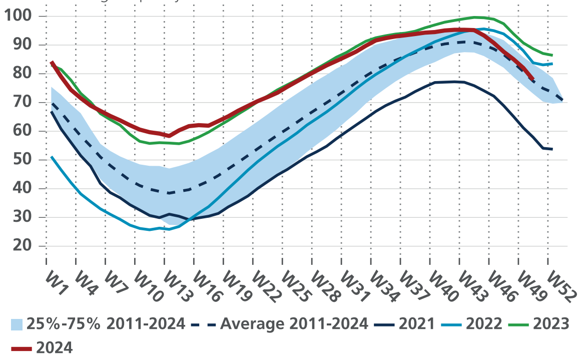
Apart from these policy choices, it is likely that the realisation of Trump's target will be helped by global oil supply and demand trends. The International Energy Agency (IEA) expects oversupply in oil markets to persist into 2025, even if OPEC+'s current production cuts remain in place. This outlook makes it difficult for OPEC+ to increase production again. In November, the cartel already decided to keep the current production cut still in place.

Natural gas price on the rise

Unlike oil prices, the price of European natural gas did rise significantly in November, by about 18%. And that while it was also on the rise in the previous months. The boom began as early as the end of February 2024, when the price had reached a post-energy price shock

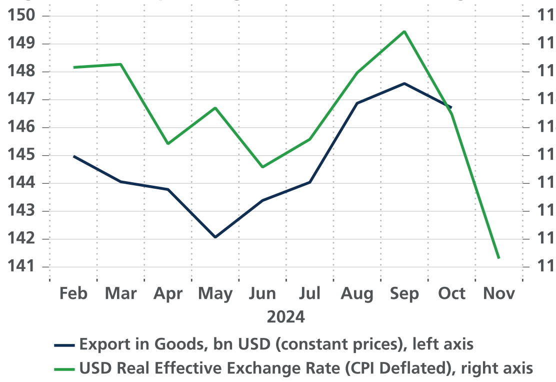
Figure 1 - EU gas reserves

in % of storage capacity



Source: KBC Economics based on Gas Infrastructure Europe (GIE)

Figure 2 - US export of goods and USD exchange rate



Source: KBC Economics based on USCB, ECB

low of around 23 euro per MWh. Since then, the price of European natural gas has more than doubled to 47.3 euro per MWh at the end of November.

The most recent climb in November can be explained in part by a first winter spike and the dunkelflaute (little wind and sun). This caused a gas consumption spike for both heating and electricity generation. As a result, EU gas stocks fell sharply from 95.2% in early November to 82% in early December. This is significantly lower than in the two previous years, but still in line with the average for the period 2011-2024 and by all means well above the level of crisis winter 2021 (see figure 1).

Another reason for the upward price pressure is the sudden suspension of gas supplies from Russian Gazprom to Austrian gas company OMV. On top of that, there is also the prospect that a five-year agreement on the transit of Russian gas through Ukraine's territory will expire on 1 January 2025. This would particularly impact Central European countries such as Hungary and Slovakia. According to the European Commission, the impact on European gas prices would be limited, as Europe should be able to replace the approximately 14 billion cubic metres of Russian gas transiting through Ukraine every year. Negotiations on this, as well as on security of supply for the countries concerned, are ongoing.

Nonetheless, the current higher gas price will sooner or later translate into higher energy bills for European consumers, even though futures markets, which set prices for the future, suggest a new relaxation of European gas prices as early as the beginning of 2025. However, the loss of purchasing power due to the higher gas price will be tempered by the lower oil price, for which the futures markets also forecast a decline.

Strong dollar curbs US economic growth

The US elections have not brought economic growth to a halt. But indicators and our nowcast (a quantitative estimate of the current pace of growth) suggest that momentum is still slowing a little compared to previous quarters. Consumption and non-residential investment continue to grow at a solid pace in the fourth quarter, but exports show signs of weakening. Admittedly, hard foreign trade figures are only available until the month of October, but we assume that the election result implies that the trade balance will not improve in November and December, and probably not in the first quarter of 2025 either. This translates into downward pressure on growth in the short term. It explains our view that real GDP growth will remain below potential in the last quarter of 2024 and the first of 2025.

The first argument for this view is the strong(er) dollar, which will work against exports (see figure 2). As in 2016, the US currency reacted extremely positively to the clear victory of Trump's Republican party. A statistical analysis shows that the dollar's subsequent appreciation can be explained mainly by the expected positive demand shock expected from this victory. But the threat of additional tariffs also played a role. Moreover, in secondary order, the relative strength of the dollar - particularly against the euro - was also the result of negative political shocks outside the US, namely the calling of early elections in Germany and the fall of the government in France. We estimate that the 5% appreciation of the dollar since the elections will cost 0.3 percentage points of real GDP growth in the fourth quarter of 2024 and the first of 2025.

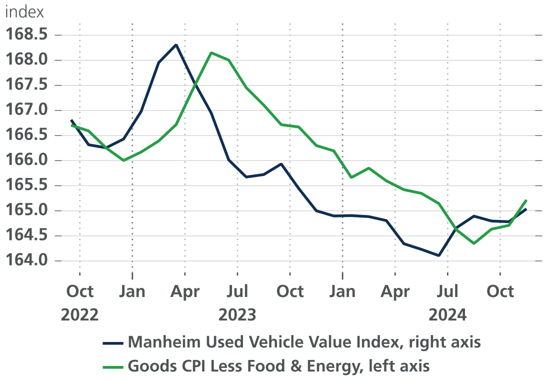
A second factor that may temporarily worsen the trade balance is the impetus that the threat of new tariffs may give to imports. Companies will be keen to avoid those duties by replenishing their stocks of imported products in advance. This may cause a temporary deterioration in the trade balance.

Mixed signals were recently sent out about tariffs and the new Trump administration's intentions regarding them. Some of Donald Trump's appointments to key economic posts, such as the appointment of Scott Bessent as Treasury Secretary, have turned out to be less bad than first feared. All in all, we left our forecast for US real GDP growth unchanged at 2.7% for 2024 and 1.7% for 2025.

Core inflation bounces back in the US

In contrast, we raised our expectation for US inflation. At first glance, it looks like just a simple adjustment to the official figure published for November. That was up to 2.7% from still 2.4% in September. But on closer examination, the detail of the new inflation figures contains more alarming signals. While core inflation stabilised at 3.3% in November, it contained a clear reversal in goods inflation in recent months. Once again, the price of used cars is the culprit (See figure 3). That was 2% higher in November than the previous month, when a 2.7% price rise was also recorded. That price rise was a major contributor to the month-on-month increase (after seasonal purge) in inflation by 0.3%, which is the highest rate of increase since March.

Figure 3 - Used car prices & core goods prices



Source: KBC Economics based on Manheim Consulting, BLS

This unfavourable development prompts us to slightly revise upwards our forecast for both core and headline inflation for December 2024 and the first half of 2025. While we continue to expect a gradual decline in inflation, this decline will be even slower than previously thought. Moreover, should the commodity component in core inflation continue to rise more stubbornly and rental price inflation hold at current levels, there is also a risk of core inflation settling stubbornly above the 2% inflation target. Close monitoring of core inflation price developments is therefore appropriate, as are Donald Trump's comments on future tariff policy. Because even more drastic tariff adjustments than those currently expected pose the biggest risk to our current inflation outlook for 2025.

We maintain our forecast for average inflation in 2024 at 2.9% but have raised the forecast for 2025 from 2.6% to 2.7%.

Positive surprises amid a sea of challenges in China

After several quarters of slowdown, the Chinese economy is showing early signs of improvement in the fourth quarter. Both industrial production and retail trade in October grew 0.41% month-over-month or 5.3% and 4.8% year-over-year, respectively. While the November retail sales data disappointed at 0.16% month-over-month, industrial production remained strong at 0.46% month-over-month. If strong activity data is sustained in December, this could help bring 2024 annual growth closer to the government's target of 5.0%. We currently forecast 4.8% growth. Business sentiment indicators also support this outlook, especially with the S&P manufacturing PMI improving to 51.5 in November (above fifty signals expansion). However, there are still important uncertainties and headwinds facing the economy. Total social financing growth, a measure of credit growth, continued to decline in October to 7.8% year-over-year. Fixed asset investment by the private sector continues to contract (at -0.3% year-to-date year-over-year) while consumer confidence remains abysmally weak, holding back consumption. The crisis in the real estate sector continues to weigh on prices and confidence as well, despite new policy measures to support the sector.

Meanwhile, fiscal stimulus measures announced in November focus so far on addressing hidden local government debt – an important initiative, but one that won't directly and quickly support higher consumption.

However, policymakers have made it clear that more support is on the way. An official shift in the monetary policy stance from "prudent" to "moderately loose" last week, and a promise to introduce more fiscal policies that "vigorously boost consumption, improve investment and efficiency and expand domestic demand in all directions," are indisputable signals that the authorities in China plan to provide more firepower to the economy in the coming year.

How exactly this will look remains to be seen. Furthermore, these much-needed counter-cyclical domestic policies will come up against a more complicated global landscape in 2025 when Trump takes power in the US and is expected to follow through on his threat of raising tariffs on Chinese imports. As a result, we keep 2024 growth unchanged at 4.8% and have only marginally upgraded 2025 GDP growth from 4.3% to 4.4%, as many uncertainties remain.

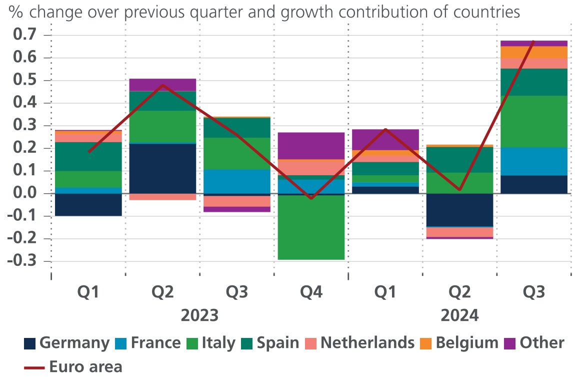
In the euro area, consumers boosted growth after all

In the euro area, initial estimates of third-quarter real GDP growth (versus the previous quarter) were confirmed at 0.4% and 0.3% when excluding the volatile Irish economy. So this remains a pleasant surprise. The spending components show a robust contribution from private consumption. On the one hand, that was the initial expectation, given the purchasing power recovery in wages and the resilient labour market. On the other hand, that expectation had been seriously tempered since the autumn as, among other things, the only shallow recovery in listless consumer confidence suggested that the expected consumption recovery would be delayed.

In the end, private consumption in the third quarter was after all up 0.7% compared to the previous three-month period. A third of this was provided by Italian consumers, while consumers in Spain and France also made a solid contribution (see figure 4). In the latter country, this was largely due to the temporary boost because of the Olympics. The contribution of consumers in Germany, on the other hand, was very modest, although quite decent compared to the previous four quarters. But the less than 12 and 18 million consumers in Belgium and the Netherlands, respectively, made a greater combined contribution to euro area consumption growth last quarter than the more than 84 million German consumers.

Figure 4 - Households' consumption expenditures

% change over previous quarter and growth contribution of countries



Source: KBC Economics based on Eurostat

The growth contribution of government consumption was limited but positive. By contrast, that of gross capital formation (excluding Ireland) and especially (net) exports were negative. The latter was especially the case in the most industrialised countries (Germany and Italy). It should be noted, however, that in Germany more than in Italy this was due to a fall in exports. In Italy, by contrast, the negative contribution of net exports was also due to relatively strong import growth in the wake of strong consumption growth. As for investment, in the three largest euro area countries, equipment investment is being scaled back, while construction investment (housing and other) is at best stabilising. However, the digitalisation of the economy is still boosting investment in intellectual property products, especially in Germany and France.

The European Commission's semi-annual survey of business investment also suggests very weak investment dynamics ahead for 2025. This is in line with weak business confidence. In the manufacturing and construction sectors, confidence has been very weak for quite some time and in the service sectors it has weakened in recent months. This was particularly reflected in the Purchasing Directors' Confidence Indicator (PMI), which fell back in November below the 50 threshold associated with the difference between expansion and contraction. However, a positive correction to above 50 again followed in December.

Meanwhile, the laborious improvement in consumer confidence did not continue in November. Consumers became gloomier, especially in France and Germany, but also in the Netherlands and Belgium, perhaps not coincidentally in countries also facing serious political difficulties. The latter make it difficult to assess what impulses can be expected from fiscal policy, both for consumers and entrepreneurs. Not least in Germany, the weakening labour market is probably also affecting consumer confidence. Moreover, convincing signs of improvement in the malaise in German industry are also awaited. Next February's German elections may bring more clarity.

2025 thus announces itself as a difficult and - once again - highly uncertain year, with numerous internal European challenges. Because Trump's re-election as US president, with the accompanying high probability of escalating trade conflicts, has also worsened the external growth environment, we lowered our growth outlook for European economies last month. Today, there are signs that through the conclusion of bilateral agreements, the biggest conflicts might be avoided, at least in the short term. But these are not such as to adjust the baseline scenario of an economy continuing to drag on at a listless growth rate of below 1% for a long time to come. We therefore maintain our projections for euro area real GDP growth of 0.7% in both 2024 and 2025.

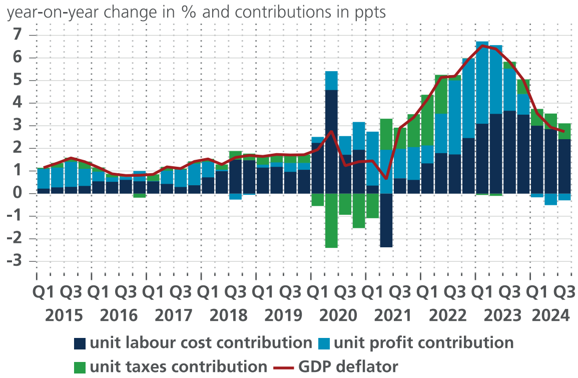
Euro area inflation higher again

As expected, euro area inflation rose further to 2.2% in November from 2.0% in October. The increase was mainly driven by less negative energy price inflation. It rose to -2.0% in November from -4.6% in October, mainly due to the base effect caused by the sharp fall in energy prices in November 2023. Food price inflation decreased slightly from 2.9% to 2.8%, while core inflation (inflation excluding energy and food prices) stabilised at 2.7%. That stabilisation was the result of a slight increase in goods price inflation (excluding energy) from 0.5% to 0.7%, while services inflation cooled slightly from 4.0% to 3.9%.

Meanwhile, analysis of the GDP deflator in the third quarter points to the gradual easing of labour cost pressures on price developments (see figure 5). This follows the slowdown in the rate of increase in the wage bill per employee and the hesitant recovery in productivity growth. However, wage cost pressures remain substantially higher than before the pandemic and, as expected, are slow to diminish. This is because the catch-up of wages to the 2021-2022 inflation shock is delayed, while the favourable employment development in the context of very weak economic growth has the downside of significantly dampening productivity growth.

Figure 5 - Euro area GDP deflator

year-on-year change in % and contributions in ppts



Source: KBC Economics based on Eurostat

Wage cost pressures are expected to continue to decline gradually. This should trigger a new, further decline in inflation after the turn of the year, when the base effects of the sharp fall in energy prices have worn off by the end of 2023. However, that decline risks being breached during 2025 by new inflationary impulses from trade tariffs in the context of expected escalating trade disputes after President Trump takes office. As a result, (core) inflation in the euro area will pick up during 2025 and on average is expected to be slightly higher on balance than in 2024. Energy price inflation will still remain slightly negative in 2025 despite the rise in natural gas prices and thanks to lower oil prices (see above). Our forecast for overall inflation therefore remains unchanged at 2.4% for 2024 and 2.5% in 2025.

Fed and ECB again cut their policy rates

On 12 December, the ECB cut its policy rate, the deposit rate, by another 25 basis points to 3%, as expected. The ECB expects the euro area's disinflationary path to continue, basing this on its new December forecast (an inflation rate of 2.1% in 2025 from the previous September forecast of 2.2%). Eurosystem economists expect this against the backdrop of a weakening economic recovery. Real GDP growth in the euro area in 2025 is likely to be lower than in the September forecast, at 1.1% (versus 1.3%).

The ECB's interest rate decision was in line with KBC Economics' and market expectations. We expect an additional 25 basis point rate cut for each of the next policy meetings, which will bring the ECB policy rate to

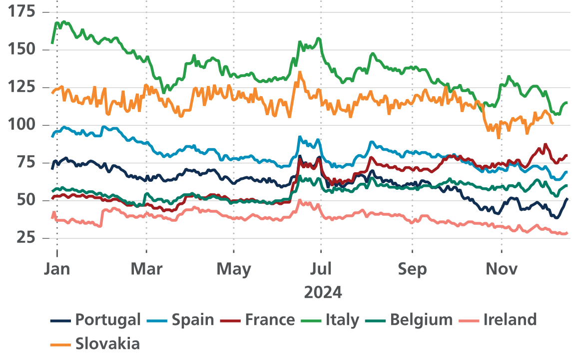
Figure 6 - Decreasing volumes of Fed's reverse repo facility suggest decreasing excess liquidity in the US

accepted volumes, in billion USD

Source: KBC Economics based on New York Fed

Figure 7 - Intra-EMU spreads over their peak

difference of 10 year government bond yield with Germany, in basis points



Source: KBC Economics based on Macrobond, Eurostat

its cyclical low of 2% by the end of the second quarter of 2025. That trough is still somewhat higher than what the market expects, but market expectations for inflation are too low and market growth pessimism too high, in our estimation. Moreover, a floor rate below our expectation of 2% would further weaken the euro sharply, resulting in additional imported inflation. The ECB will probably want to avoid that, in our view.

The Fed also cut its policy rate again by 25 basis points on 18 December. We continue to expect three more cuts by 25 basis points in 2025, but now with pauses in between them. Specifically, we expect rate cuts at the Fed's June, September and December meetings . As a result, the policy rate will have reached its cyclical bottom of the range between 3.50% and 3.75% at the end of 2025.

The Fed may provide forward guidance on the further path of its quantitative tightening in early 2025. Having already slowed the pace of unwinding its portfolios of government bonds and mortgage-related bonds in June 2024, it is possible that it will do so again soon. Indeed, indicators such as banks' use of the Fed's one-day reverse repo facility suggest that the amount of excess liquidity in the financial system has declined noticeably further (see figure 6). The Fed will want to take a more cautious course to avoid unforeseen liquidity shortages in the money market.

Bond yields

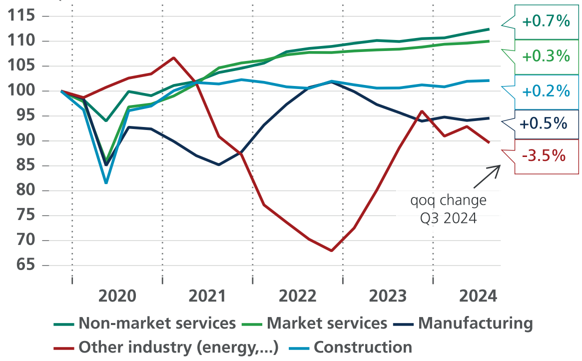
Against the background of a more cautious Fed communication after its December policy meeting, we have raised our outlook for US and German bond yields throughout 2025, to bring them broadly in line with their current levels. We For the German yield, we continue to assume that the market underestimates the inflation impact of an impending trade conflict and will correct towards the end of 2025. As a result, nominal German 10-year rates will also pick up again and reach 2.50% by the end of 2025. As a result, the US-German interest rate spread will remain high in the near term and create a weak euro exchange rate against the dollar.

Spreads over their peak

A second important change in our scenario concerns interest rate spreads between EMU governments and the German benchmark interest rate. We now assume that the peak of those interest rate spreads is behind us (see figure 7). At the moment, markets are not too worried about the fact that a number of national budgets for 2025 have not yet been approved, nor about the fact that a number of governments cannot rely on a parliamentary majority. In addition, the temporary fall in the German benchmark interest rate may also have played a role, increasing the search by investors for yields on other EMU government bonds. We expect the peak of the interest rate spread to be behind us. The prospect of the new German government relaxing debt brake rules after the February 2025 elections and adopting a more flexible fiscal policy with more public investment also raises the prospect of more German bond issuance. These will reduce the interest rate differential with other EMU countries.

Belgium

Figure BE2 - Gross value added in constant prices
index Q4 2019 = 100



Source: KBC Economics based on Eurostat

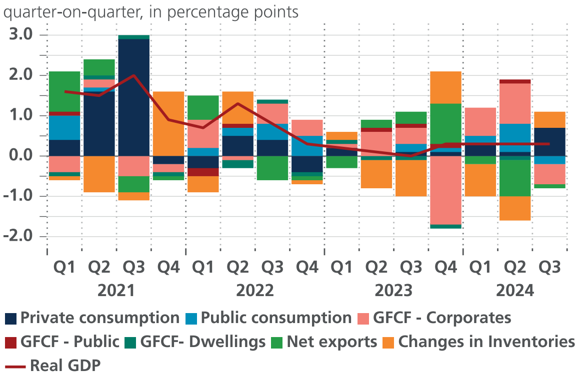
The earlier flash estimate of Belgium's Q3 2024 GDP growth was revised slightly up by the National Accounts Institute (NAI), from 0.2% to 0.3% qoq. The upward revision brought Q3 growth in line with growth in the euro area (excluding Ireland) and means that Belgian activity has increased at a steady rate of 0.3% for the fourth quarter in a row. Looking at component data, private consumption surprised with a 1.4% increase, the fastest qoq expansion since the pandemic. Residential building investment rose by 0.6% after the steep 2.1% contraction in Q2. On the negative side, business investment slipped by 3.0%, largely due an extraordinary investment in ICT services in Q2. Public consumption and investment were also down, by 0.7% and 0.3% respectively. Exports and imports decreased by 2.3% and 2.1%, respectively, resulting in net exports making a negative contribution to the change in GDP (-0.1 percentage points). Finally, the change in inventories, which also comprises statistical discrepancies, contributed positively (+0.4 percentage points), after having strongly weighed on GDP growth in the two previous quarters (see figure BE1).

Sectoral perspective

Turning to the production approach to GDP, the steady Q3 growth was due to activity in services and construction, where value added (in volume terms) continued to display positive growth of 0.4% and 0.2%, respectively. Non-market services (+0.7%) grew stronger than market services (+0.3%). In industry, value added once again contracted, this time by a small 0.1%. In the narrower manufacturing subsector (excluding energy) activity rose by 0.5%, though (see figure BE2). High-frequency indicators, like the assessment of export-orders, are also pointing to tentative signs of recent improvement in Belgian manufacturing. Despite a small rebound in November, the general sentiment in the sector stays subdued overall, though. Interviews conducted for the latest NBB Business Echo indicate that, in particular, energy-intensive industries face pressure from reduced demand, global overcapacity and persistently high costs. In business-related services and construction, general sentiment continued to improve in November. It is worth noting that there was a remarkable turnaround in the demand outlook in construction (see figure BE3).

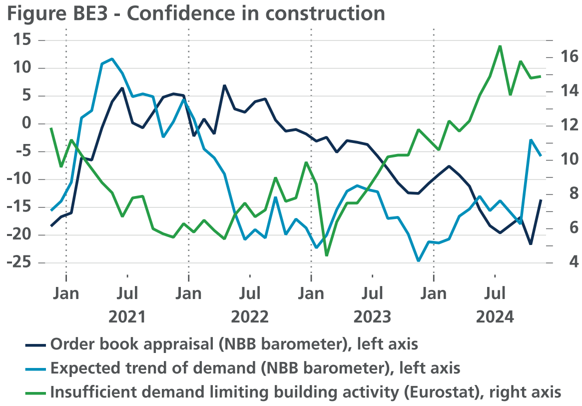
While producer sentiment has been edging up slightly in October and November, consumer sentiment has deteriorated of late, indicating that the strong Q3 growth

Figure BE1 - Contribution to Belgian GDP growth
quarter-on-quarter, in percentage points



Source: KBC Economics based on NBB

Figure BE3 - Confidence in construction



Source: KBC Economics based on NBB, DG ECFIN of private consumption will most likely not be repeated in the final quarter. Fundamentals for consumption have weakened. Global uncertainty has been on the rise, likely driving up households' savings intentions, while the cooling of the labour market impacts purchasing power. Quarterly growth of domestic employment came to a standstill in the second quarter and in the third quarter only very few jobs were created. Belgium's unemployment rate data since mid-2024 were revised slightly upward by Eurostat. The harmonised unemployment series now shows a slightly upward trend since summer 2024. In October, the rate (which is seasonally adjusted) stood at 5.8%, up from 5.5% in June.

Small scenario update

This month's revisions to our scenario for the Belgian economy are limited. Following Eurostat's adjustments, we upwardly revised the estimate for the end 2024 unemployment rate from 5.6% to 5.8%. Taking into account the NAI's upward revision for Q3 GDP growth and keeping our estimate for Q4 qoq growth at 0.2%, we increased the outlook for full year 2024 growth from 0.9% to 1.0%. Our GDP growth forecast for 2025 was kept at 0.6%. As explained in our previous month's publication, this relatively downbeat outlook relates to the expected protectionist turn of the US following president Trump's re-election. We see the resulting international trade shock as a given in our base scenario, whereas most other forecasters still see it as a key risk.

Belgian harmonised inflation (HICP) for November came in somewhat higher than expected at 4.8%, up from 4.5% in October. As a result, we now see average annual HICP inflation reaching 4.3% in 2024. In our updated scenario, we still see easing inflationary pressures in 2025 but think that Belgian inflation will average 2.6% next year, up from 2.3% in our previous forecast. The upward revision follows a number of measures recently taken by regional governments and (semi-) public companies that will keep core inflation somewhat higher than previously expected (among which an increase in the price of service cheques in all three regions, a higher drinking water bill in Flanders due to the passing on of water treatment costs, higher postal and public transport tariffs).

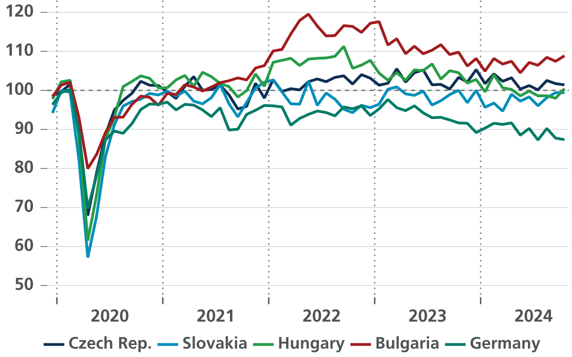
Central and Eastern Europe

Industrial output clouded by downside risks in CEE

GDP growth in Central and Eastern European economies has varied substantially since the beginning of 2024. The third-quarter prints widened the gap, ranging from a growth of -0.7% qoq in Hungary to 0.6% qoq in Bulgaria, while the Czech Republic and Slovakia recorded modest positive gains (see figure CEE1). Looking into the final quarter of this year, our updated nowcasts point to stagnation of economic activity in Hungary and likely broadly unchanged growth momentum in the remainder of the CEE economies.

Figure CEE2 - Industrial output in the CEE region

index 2019=100



Source: KBC Economics based on Eurostat

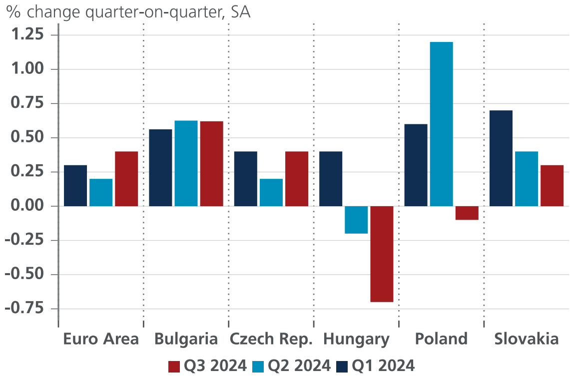
However, zooming in specifically on industrial production, which has a relatively high share of total GDP in regional economies, the picture is less positive. Compared to the 2019 level, industrial output was flat in the Czech Republic, Slovakia and Hungary without clear turnaround signals (see figure CEE2). This is in line with the recently published readings of industrial sentiment. In the Czech Republic, the PMI index in the manufacturing sector has remained visibly below the 50-point threshold for almost two and a half years. Considering the harmonised EC business survey, industrial confidence indicators continue to deteriorate and remain at relatively low levels from a historical point of view (see figure CEE3). What is particularly concerning is the assessment of order-book levels, an important forward-looking indicator. Hungary's outlook, in particular, looks gloomy and very similarly to the situation in Germany (see figure CEE4).

Industrial production in the CEE region is held back by weak external demand, largely linked to the underperformance of the German industrial sector. In fact, industrial production in Germany has been steadily declining already for seven years with a 18% decline from the 2017 peak. A combination of cyclical and structural impediments is likely to dampen output also for the coming quarters. In our baseline scenario, we assume a gradual improvement from the second half of 2025 on and further in 2026 when expected German fiscal policy easing together with the supply-side reforms of the new government are likely to boost overall economic activity.

At the same time, there is a substantial risk of higher US trade tariffs in early 2025. While direct trade exposure of CEE economies towards the US is relatively low, the indirect exposure via Germany's supply chains (as well as through the confidence channel) is noticeable (see figure

Figure CEE1 - Real GDP growth in the CEE region

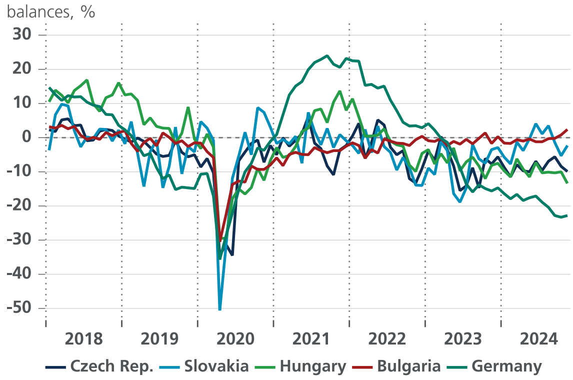
% change quarter-on-quarter, SA



Source: KBC Economics based on Eurostat, HCSO, NSI, GUS

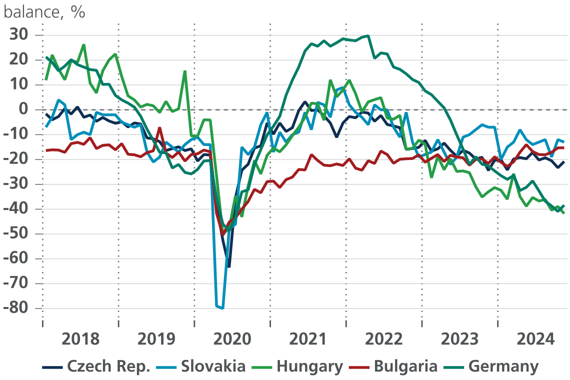
Figure CEE3 - Industrial confidence indicator

balances, %



Source: KBC Economics based on DG ECFIN

Figure CEE4 - Assessment of order-book levels in industry

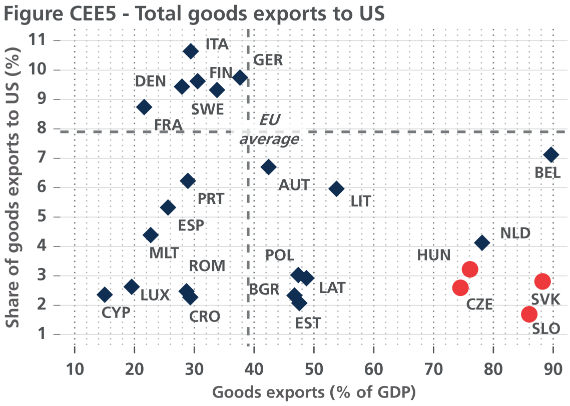


Source: KBC Economics based on DG ECFIN

CEE5). The impact of Trump's trade policies, however, remains highly uncertain as we lack details on their scope and timing. Still, CEE economies are, in general, among the most exposed to growing threats in global trade such as higher protectionism given their elevated level of openness (exports related to GDP).

Overall, our GDP outlook looks for relatively solid growth rates across the CEE economies next year. The outlook is nonetheless dominated by large uncertainty and downside risks, specifically for the industrial sector which remains under considerable pressures from an adverse external environment.

Figure CEE5 - Total goods exports to US



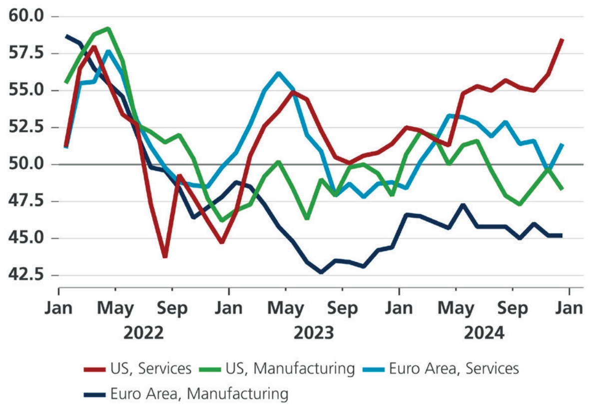
Source: KBC Economics based on Eurostat

Figures

Real GDP
yearly change in %

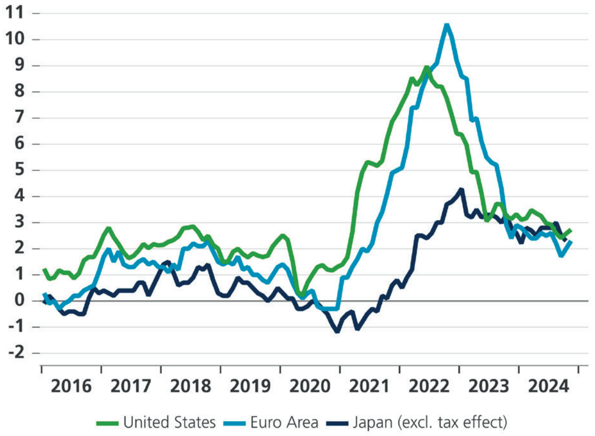
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



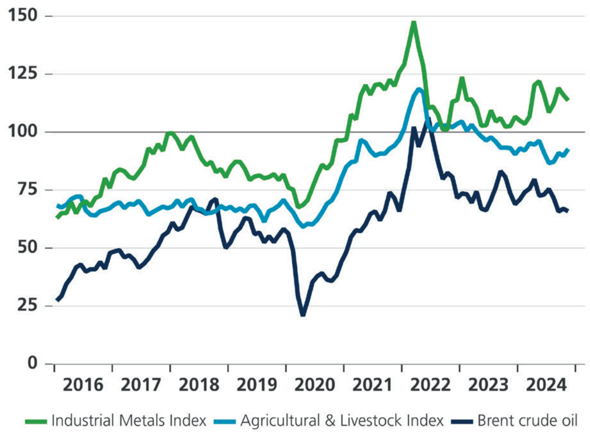
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



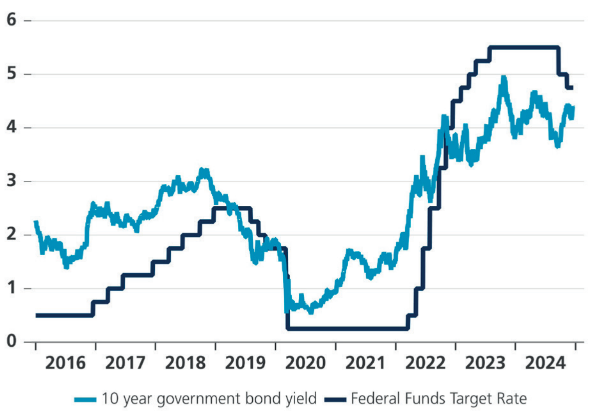
Source: KBC Economics based on Eurostat. SBJ. BLS

Commodity prices
index, January 2013=100, in USD



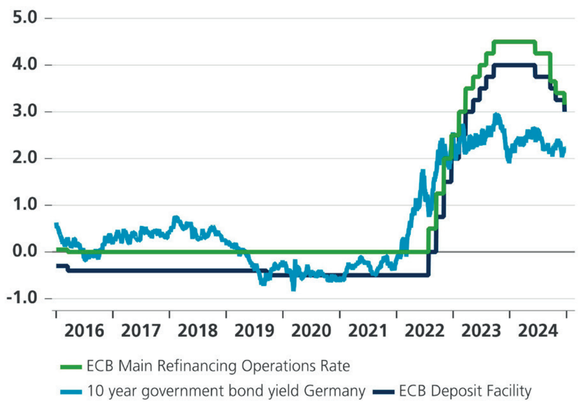
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



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

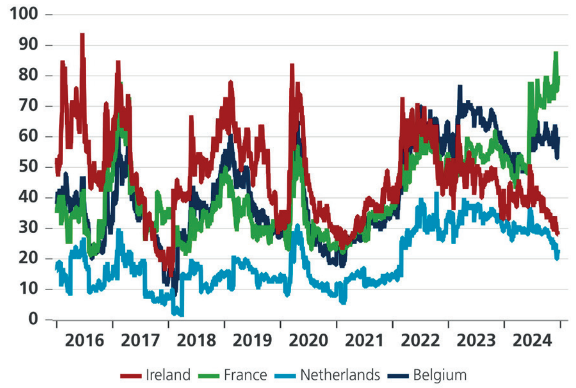
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

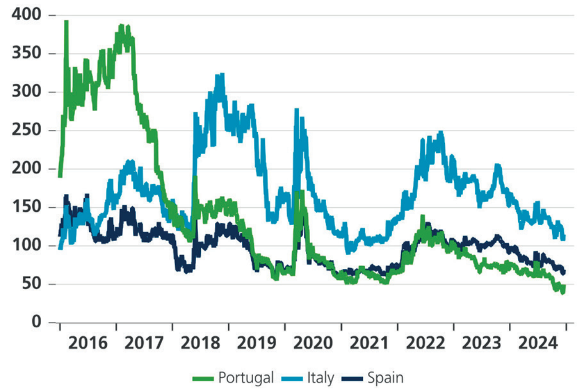
Figures

10 year government bond yield spreads to Germany
in basis points



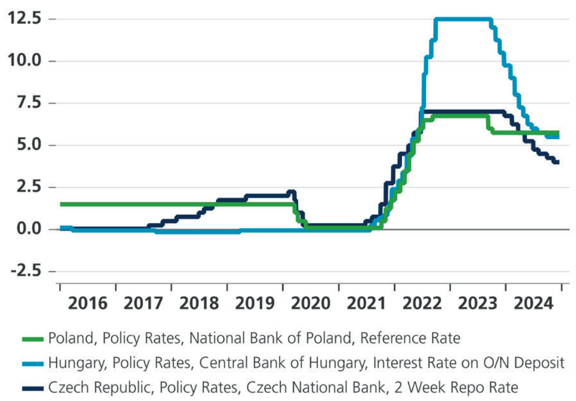
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



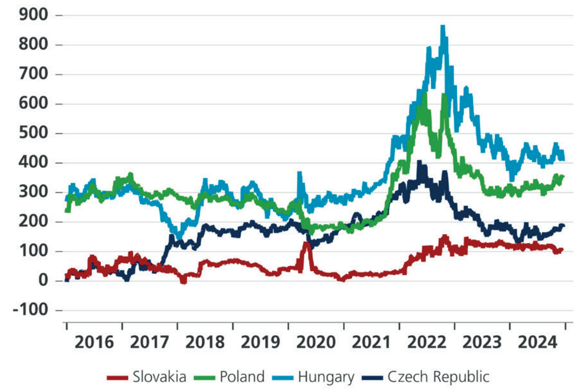
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



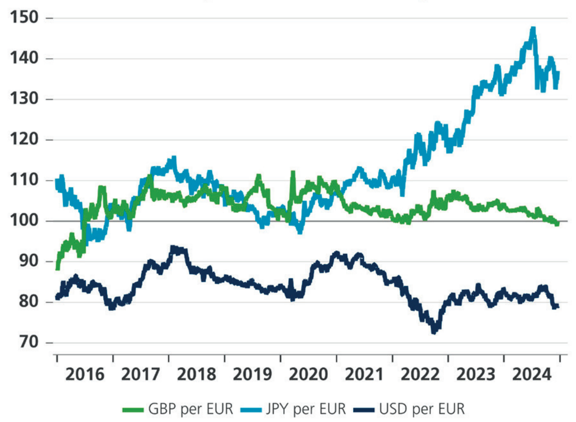
Source: KBC Economics based on CNB, MNB, NBP

10 year government bond yield spreads to Germany
in basis points



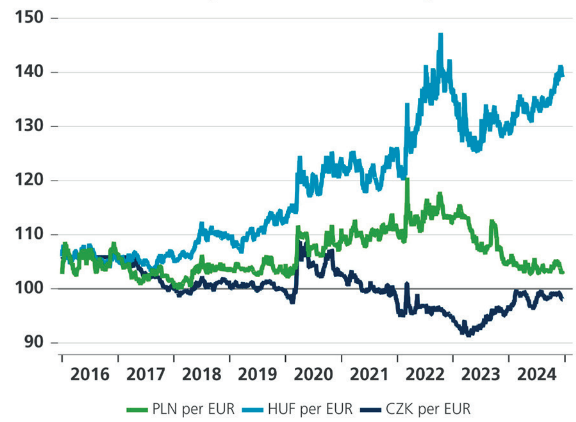
Source: KBC Economics based on Macrobond, AKK, Eurostat

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	-0.2	0.3	6.1	2.5	3.0
	France	1.1	1.1	0.6	5.7	2.4	2.0
	Italy	0.8	0.5	0.4	5.9	1.0	1.8
	Spain	2.7	3.1	2.0	3.4	2.8	2.3
	Netherlands	0.1	0.9	1.4	4.1	3.3	2.5
	Belgium	1.3	1.0	0.6	2.3	4.3	2.6
	Ireland	-5.5	-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	0.4	2.1	17.0	3.7	3.7
	Bulgaria	2.0	2.2	2.1	8.6	2.9	3.1
	Poland	0.1	2.9	3.1	10.9	3.9	4.1
	Romania	2.4	1.6	2.8	9.7	5.5	4.1
Rest of Europe	United Kingdom	0.3	0.9	1.3	7.1	2.5	2.6
	Sweden	0.0	0.6	1.8	5.9	2.9	1.0
	Norway (mainland)	1.0	0.9	1.5	5.7	3.2	2.5
	Switzerland	0.7	1.4	1.3	2.1	1.1	0.6
Emerging markets	China	5.2	4.8	4.4	0.2	0.3	0.8
	India*	8.2	6.2	6.5	5.4	4.9	4.7
	South Africa	0.7	0.5	1.3	6.1	4.4	4.4
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	5.1	3.1	2.7	53.9	58.9	30.8
	Brazil	3.2	3.5	2.2	4.6	4.4	4.2
Other advanced economies	United States	2.9	2.7	1.7	4.1	2.9	2.7
	Japan	1.5	-0.2	1.2	3.3	2.6	2.3
	Australia	2.1	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	1.5	1.2	1.7	3.6	2.4	2.0
*** fiscal year from April-March**						19/12/2024	

Policy rates (end of period, in %)						
		19/12/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Euro area	Euro area (refi rate)	3.15	3.15	2.65	2.15	2.15
	Euro area (depo rate)	3.00	3.00	2.50	2.00	2.00
Central and Eastern Europe	Czech Republic	4.00	4.00	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	5.75	5.50
	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	2.50	2.50	2.00	2.00	2.00
	Norway	4.50	4.50	4.25	4.00	3.75
	Switzerland	0.50	0.50	0.25	0.25	0.25
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	7.75	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	12.25	12.25	14.25	14.25	14.25
Other advanced economies	United States (mid-target range)	4.375	4.375	4.375	4.125	3.875
	Japan	0.25	0.25	0.50	0.50	0.50
	Australia	4.35	4.35	4.35	4.10	3.85
	New Zealand	4.25	4.25	3.75	3.50	3.50
	Canada	3.25	3.25	3.00	2.75	2.75

Outlook main economies in the world

10 year government bond yields (end of period, in %)		19/12/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Euro area	Germany	2.30	2.30	2.30	2.30	2.30
	France	3.10	3.10	3.10	3.10	3.08
	Italy	3.47	3.40	3.40	3.40	3.38
	Spain	2.99	3.00	3.10	3.10	3.08
	Netherlands	2.53	2.50	2.50	2.50	2.50
	Belgium	2.90	2.90	2.90	2.90	2.89
	Ireland	2.58	2.60	2.60	2.60	2.60
	Slovakia	3.17	3.20	3.20	3.20	3.20
Central and Eastern Europe	Czech Republic	4.11	4.10	4.20	4.20	4.20
	Hungary	6.47	6.25	6.20	6.15	6.10
	Bulgaria*	3.85	3.90	3.90	3.90	3.90
	Poland	5.90	5.60	5.60	5.50	5.10
	Romania	7.46	7.00	7.00	7.05	7.20
Rest of Europe	United Kingdom	4.60	4.45	4.45	4.45	4.45
	Sweden	2.26	2.00	2.00	2.05	2.20
	Norway	3.78	3.60	3.60	3.65	3.80
	Switzerland	0.29	0.20	0.20	0.20	0.40
Emerging markets	China	1.74	1.75	1.80	1.80	1.80
	India	6.79	6.80	6.80	6.80	6.80
	South Africa	9.12	9.15	9.15	9.15	9.15
	Russia	15.13	Temporarily no forecast due to extreme uncertainty			
	Turkey	28.32	28.50	26.00	24.00	24.00
	Brazil	14.77	14.50	14.50	14.50	14.50
Other advanced economies	United States	4.54	4.50	4.50	4.50	4.50
	Japan	1.07	1.05	1.15	1.25	1.25
	Australia	4.44	4.25	4.25	4.25	4.35
	New Zealand	4.61	4.45	4.45	4.45	4.55
	Canada	3.28	3.10	3.10	3.10	3.20

***Caution: very illiquid market**

Exchange rates (end of period)	19/12/2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
USD per EUR	1.04	1.04	1.05	1.06	1.06
CZK per EUR	25.12	25.30	25.30	25.20	25.10
HUF per EUR	414.92	405.00	404.00	406.00	408.00
PLN per EUR	4.25	4.30	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	0.82	0.83	0.84	0.85
SEK per EUR	11.46	11.60	11.60	11.60	11.60
NOK per EUR	11.82	11.70	11.65	11.60	11.55
CHF per EUR	0.93	0.93	0.93	0.92	0.91
BRL per USD	6.27	5.99	5.99	5.96	5.96
INR per USD	85.06	84.67	84.67	84.27	84.27
ZAR per USD	18.29	17.75	17.75	17.67	17.67
RUB per USD	103.05	Temporarily no forecast due to extreme uncertainty			
TRY per USD	35.05	35.00	37.10	38.94	40.48
RMB per USD	7.30	7.28	7.29	7.30	7.32
JPY per USD	156.77	155.00	155.00	155.00	155.00
USD per AUD	0.62	0.63	0.63	0.64	0.65
USD per NZD	0.57	0.57	0.57	0.58	0.59
CAD per USD	1.44	1.43	1.43	1.42	1.41

Outlook KBC markets

	Belgium			Ireland		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	1.3	1.0	0.6	-5.5	-0.9	4.6
Inflation (average yearly change, harmonised CPI, in %)	2.3	4.3	2.6	5.2	1.6	1.9
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5.6	5.8	6.0	4.5	4.4	4.5
Government budget balance (in % of GDP)	-4.2	-4.5	-5.3	1.5	3.8	0.8
Gross public debt (in % of GDP)	103.1	104.2	107.0	43.3	42.4	40.7
Current account balance (in % of GDP)	-0.8	-0.5	-1.2	8.1	12.0	11.2
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	5.6	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	3.0	3.0

	Hungary			Bulgaria		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	-0.8	0.4	2.1	2.0	2.2	2.1
Inflation (average yearly change, harmonised CPI, in %)	17.0	3.7	3.7	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

Outlook Belgian economy

National accounts (real yearly change, in %)	2023	2024	2025
Private consumption	0.6	1.9	1.5
Public consumption	3.2	3.5	0.9
Investment in fixed capital	3.5	1.2	1.7
Corporate investment	5.1	1.7	1.9
Public investment	5.9	7.4	2.3
Residential building investment	-2.5	-4.2	0.4
Final domestic demand (excl. changes in inventories)	1.9	2.1	1.4
Change in inventories (contribution to growth)	-0.1	-0.9	0.3
Exports of goods and services	-7.1	-4.5	-2.6
Imports of goods and services	-6.8	-4.4	-1.3
Gross domestic product (GDP), based on quarterly figures	1.3	1.0	0.6
Household disposable income	2.4	1.4	1.6
Household savings rate (% of disposable income)	14.1	14.2	14.4

Equilibrium indicators	2023	2024	2025
Inflation (average yearly change, in %)			
Consumer prices (harmonised CPI)	2.3	4.3	2.6
Health index (national CPI)	4.3	3.3	2.5
Labour market			
Domestic employment (yearly change, in '000, year end)	26.2	7.5	15.0
Unemployment rate (in % of labour force, end of year, Eurostat definition)	5.6	5.8	6.0
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-4.2	-4.5	-5.3
Public debt	103.1	104.2	107.0
Current account balance (in % of GDP)	-0.7	-0.5	-1.2
House prices (average yearly change in %, existing and new dwellings, Eurostat definition)	2.3	2.9	3.0

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