Economic Perspectives

January 2025

Highlights

- Severe winter conditions lifted energy prices last month. Oil prices rebounded to 75 USD per barrel in December, as a severe polar vortex is expected to increase energy demand in the US. They continued their ascent early January, as the US further tightened sanctions on the Russian energy market. However, oil prices remain far below their April peaks as high non-OPEC+ supply and low demand are leading to an oversupplied market. Gas prices continued their ascent in December, reaching 48.7 EUR per MWh end of 2024. Cold European weather conditions have resulted in rapid gas reserve withdrawals. But gas reserves remain in line with their normal levels at this time of the year.

- As expected, euro area inflation accelerated from 2.2% to 2.4% in December. The increase is primarily caused by energy-related base effects. Food inflation stabilised as did core inflation (at 2.7%). Goods inflation decreased, while services inflation surprisingly increased. Tariffs and a weak euro are likely to reignite inflation pressures in the coming quarters. We thus forecast 2.6% inflation in 2025 and 2.3% inflation in 2026.

- US inflationary impulses moderated in December. Though headline rose from 2.7% to 2.9%, this was primarily caused by a big jump in energy prices. In contrast, core inflation declined from 3.3% to 3.2% with notable softening across all major components (goods, services and shelter). Unfortunately this moderation might be short-lived as inflation may rebound once Trump's trade, migration and tax policies take effect. Worryingly, inflation expectations both by consumers and markets have risen markedly since his re-election. We thus maintain our 2.7% inflation forecast for 2025 and forecast 3.1% inflation in 2026.

- The expected stagflationary effect of the anticipated tariffs complicates monetary policy. In its December meeting, the Fed adopted a more hawkish tone and its dot plot indicated a slower pace of monetary easing, possibly in anticipation of a change in US trade policy. We foresee three rate cuts in 2025, after an initial Fed pause, and no rate cuts in 2026, keeping the Fed Funds rate in restrictive territory. In contrast we expect the ECB to focus more on growth concerns, cutting its deposit rate steadily to 2.00% by the end of Q2 this year. We expect the ECB to raise its deposit rate back to the neutral rate of 2.50% in 2026.

- The euro area economy remains in a tough spot. Though sentiment in the service sector is rebounding somewhat, manufacturing and the construction sector remain structurally weak. A possible trade war is likely to widen this performance gap. The economic woes are particularly acute in the core countries, France and Germany. Meanwhile non-core countries (Spain in particular) are overperforming. We maintain our 0.7% and 1.0% growth forecasts for this year and next year respectively.

- The US economy continues its stellar performance. This is particularly true in the labour market where 256k jobs were added last month, while the unemployment rate dipped. Consumer spending remains the main driver thanks to continued growth in real disposable income. Producer sentiment indicators improved markedly last month, in particular in the service sector. We upgrade our 2025 forecast from 1.7% to 1.9%, while forecasting 1.8% growth next year.

- The Chinese economy remains constrained by the troubles in the real estate sector, which are weighing on consumer confidence and domestic demand. However, there are tentative signs of improvement as imports rebounded and service business confidence rose. Government stimulus will also boost domestic demand. The export outperformance is unlikely to be maintained, however, as tariffs on Chinese goods are likely to increase materially. We upgrade our forecast this year from 4.4% to 4.5%, while forecasting 3.8% growth next year.

- Our economic forecasts are subject to high uncertainty, as Donald Trump re-enters the White House in January. Especially Trump's eventual trade policies are a major source of uncertainty. Though it is expected he will raise tariffs, it is yet unknown how high average tariffs will be and which industries and countries will be most affected. For now, we assume a gradual phasing in of a 10% blanket tariff on all imports and a 60% blanket tariff on Chinese imports. However, as we gain more clarity on his policies, we may adjust our forecasts accordingly.

Global Economy

2025 promises to be a turbulent year, as the US will most likely take a protectionist turn when Donald Trump is inaugurated on 20 January. Though it is still unclear how high US tariffs will be and which countries or industries will be hit hardest, it is clear that deglobalisation and fragmentation is likely to accelerate in the coming years. This protectionist turn will affect major economies in different ways.

In the US, the Trump effect will be less visible in growth statistics, as the downside effects of higher tariffs and lower migration could be partly compensated by increased deficit spending. In contrast, US inflationary pressures are likely to increase markedly, thus forcing the Fed in a more cautious direction.

In the euro area, higher tariffs are likely to push growth in its export-dependent economy below 1%, while a stronger dollar and possible retaliatory tariff hikes keep inflation above target in the coming years. The ECB is likely to bring back interest rates slightly below neutral to support the sluggish euro area economy.

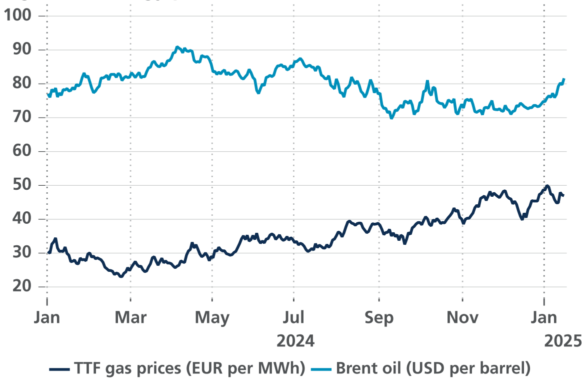
China, in contrast, is unlikely to face much inflationary pressure from higher tariffs. The country is still battling deflationary risks, caused by a real estate driven balance sheet recession. Its economic growth is likely to be harder hit by tariffs, however, likely weighing on growth going forward. Government stimulus might partly offset the trade blow.

Winter conditions affect energy prices

Oil prices increased to 75 USD per barrel in December, up from 72 USD per barrel end of November. The increase is likely driven by unfavourable weather conditions in the Northern hemisphere. In particular in the US, a polar vortex is pushing down temperatures well below typical winter averages. This will increase demand for heating oil this month and could disrupt production in some US oil facilities. More recently, the US decision to impose further sweeping sanctions on the Russian energy sector (and uncertainty regarding US sanctions against Venezuela) pushed prices close to 80 USD per barrel.

That said, oil prices remain far below the April 2024 peak of 91 USD (see figure 1). Indeed, notwithstanding the decision of OPEC+ to delay the unwinding of voluntary cuts till March, oil markets are likely to remain oversupplied this year. The International Energy Agency (IEA) still expects a 950k barrels per day supply overhang in 2025, given strong non-OPEC+ oil supply and tepid demand. If OPEC+ were to start unwinding production cuts end of March, as recently announced, the forecasted overhang would rise to 1.4 million barrels per day.

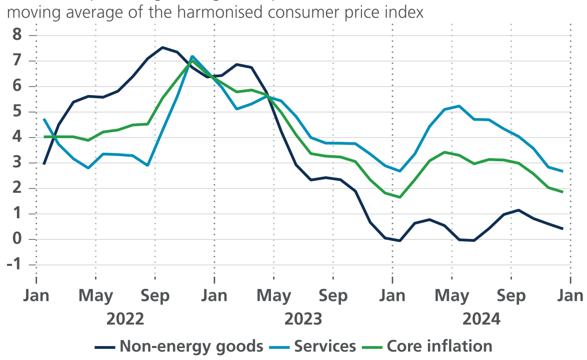
Figure 1 - energy prices



Source: KBC Economics based on ICE

Figure 2 - Core inflation in the euro area

annualised percentage change over previous 3 months of the 3 months moving average of the harmonised consumer price index



Source: KBC Economics based on ECB

Gas prices are also facing upward pressure. Beginning of January, TTF prices surpassed 50 EUR per MWh, a price level not seen since November 2023. TTF gas prices rose by 62.6% over the course of 2024. Several factors explain this upward pressure. On the demand side, a European cold spell, along with a so-called dunkelflaute (little wind and sunshine), drove up European gas demand and caused significant drops in EU gas reserves. These reserves are now only 71% full, 14 percentage points lower than at the same time a year ago, but in line with long-term average fill rates.

Supply side concerns are also driving up gas prices. The expiration of a Russia-Ukraine gas transit deal lowers Russian supply to Europe, as 5% of total EU imports flowed via this route. Unplanned outages and maintenance work in Norway (Europe's largest supplier) are also regularly causing bouts of volatility in TTF prices. Most recently, earlier this month, a compressor failure at the Hammerfest LNG plant halted output for a week. The plant accounts for 5% of all Norwegian gas exports.

Euro area inflation higher again

According to Eurostat's flash estimate, euro area inflation rose further to 2.4% in December 2024, 0.2 percentage points higher than in the previous month and 0.7 percentage points above its recent low of 1.7% in September 2024. Both core and food price inflation stabilised at 2.7%, while disinflation from energy prices weakened from -2.0% in November to 0.1% in December. Within core inflation, there was a slight surprise increase in services inflation to 4.0% and a slight decline in non-energy goods inflation to 0.5%.

The increase in headline inflation at the end of 2024 was expected and mainly reflects base effects due to the sharp fall in energy prices in the last months of 2023. The stabilisation of core inflation at the excessively high level of 2.7% since September 2024 may seem somewhat worrisome at first glance. Yet the short-term dynamics (i.e., the increase versus the previous three months of the three-month moving average of the seasonally adjusted index) does show a cooling since September 2024 (see figure 2). However, disinflation has been bumpy and slow. Especially in services, the rate of price increase still remains relatively high. The latter – also as expected – is caused by wages catching up with inflation, a process which was still in full swing in 2024. This keeps wage cost pressures high.

According to the new ECB wage tracker, which reflects the wage growth rate contained in the ongoing collective agreements in seven euro area countries[1], that catch-up would peak by the end of 2024 (see figure 3). For 2025, the ongoing collective agreements suggest a sharp decline in the wage growth rate, with perhaps even a return to pre-pandemic low levels. However, the latter conclusion may be premature, as many collective agreements will expire during 2025 and soon new collective agreements will come into force. Nevertheless, given the gloomy economic climate, the already quite advanced disinflation and signs of cooling in the – albeit still quite tight – labour market, a pronounced decline in the wage growth rate is very likely. This would confirm the hypothesis we have long held in our forecasts.

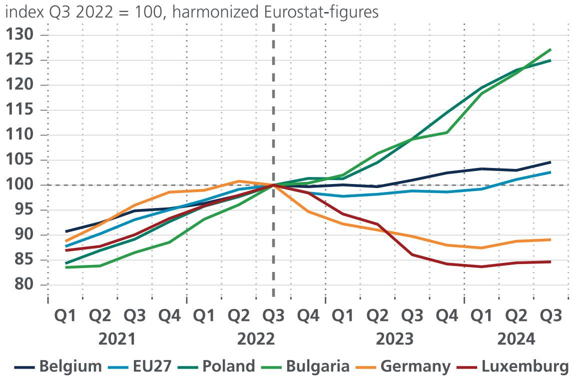
1 Germany, France, Italy, Spain, the Netherlands, Greece and Austria. Together, they represent 85% of workers in the euro area. Just under half of them are covered by collective agreements, included in the wage tracker. This gives a representative picture of the actual wage development in the economy as a whole, according to the ECB.

Figure 3 - ECB Wage Tracker

Source: KBC Economics based on ECB

Figure 4 - Evolution house prices in the EU27

index Q3 2022 = 100, harmonized Eurostat-figures



Source: KBC Economics based on Eurostat

We therefore maintain our expectation that inflationary pressures from wages will ease further during 2025. This should ensure another further decline in inflation in the early months of 2025. However, weaker inflationary pressures from the wage bill soon risk being thwarted by new inflationary impulses from trade tariffs in the context of expected escalating trade disputes after President Trump takes office or a stronger US dollar. As a result, (core) inflation in the euro area will increase somewhat during 2025 and on balance is expected to average slightly higher than in 2024. Recent developments in energy prices further suggest that the disinflationary impact of energy price dynamics will be more limited than estimated last month. We have therefore raised our forecast for average euro area inflation from 2.5% to 2.6% for 2025 (after 2.4% in 2024). For 2026, we project a new decline to 2.3% on average.

EU house price growth picking up

According to new Eurostat figures, year-on-year house price growth dynamics across the EU picked up further in Q3 2024 to 3.8%, from 3.0% in Q2 and 1.5% in Q1 (see figure 4). Although large differences between countries remain, the Q3 figures confirm that, overall, the European housing market has stopped cooling (see also our Economic Brief from 13 January 2025). Countries that faced a major correction during the past two years, including Germany and Luxembourg, saw their house prices rise again in the third quarter, after already increasing in the second. The only exception is Finland: after a slight increase in Q2, prices there fell again in Q3. In a number of countries that did not experience a cooling off in the past years, house price growth continued solidly in Q3. Bulgaria, in particular, recorded a cumulative price rise of a whopping 27% since end 2022.

US core inflation moderates

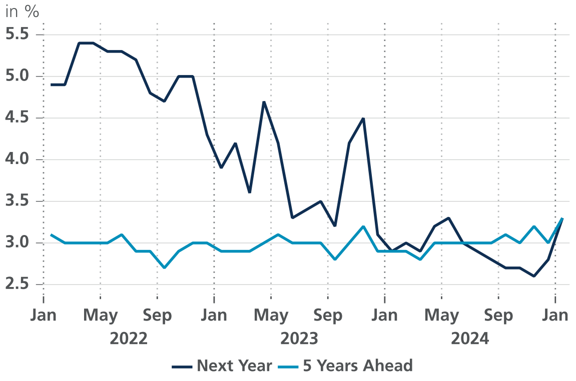
US headline inflation increased from 2.7% to 2.9% in December. The increase can mostly be attributed to a big month-on-month rise in energy prices of 2.6%. Food prices remained well-behaved as did core inflation. The latter declined from 3.3% to 3.2% (0.2% month-on-month). All core components showed moderate impulses in December.

Core goods increased minimally (0.1% month-on-month). This happened despite another important increase in the volatile used cars and trucks category. Forward-looking indicators suggest we might see prices moderate in this category in the coming months. Furthermore, core goods producer prices were flat last month, suggesting softer goods inflation ahead.

Shelter prices also moderated, increasing by only 0.26% month-on-month in December. This was partly driven by a decline in hotel prices, though rent of primary residence and owner-equivalent rent also remained well-behaved (as implied by forward-looking indicators).

Finally, service inflation (ex. shelter) also only increased by 0.3% month-on-month. This was despite a notable jump in the volatile airline fares component. The service inflation impulses are clearly softening as wage indicators such as the Employment Cost Index and average hourly earnings remain well-behaved.

Figure 5 - US Consumer inflation expectations



Source: KBC Economics based on University of Michigan

Though strong base effects could push inflation figures further down in this quarter, we still expect inflationary impulses to rebound as Trump's inflationary policies (tariff, migration restriction and tax cuts) take effect later in the year. Indeed, in line with our forecast, consumer inflation expectations have risen markedly since Trump's re-election (see figure 5). According to the Michigan Survey, consumers now expect 3.3% inflation in the year ahead (up from 2.7% in October). Worryingly, consumers also raised their inflation expectations for the next 5 years to 3.3%, the highest level since 2008. Furthermore, financial market inflation expectations (based on inflation swaps) have also moved upward recently, both on the short and longer end. We thus maintain our 2.7% inflation forecast for this year and expect 3.1% inflation next year.

Yield curves moved up, both from the long end ...

Long-term US and German bond yields have risen sharply during recent weeks, partly due to higher inflation expectations, but also, in particular in the US, because of higher real bond yields. These higher real yields are a reflection of strong economic growth, as was illustrated again in the stronger-than-expected US labour market report for December 2024 (see further) as well as increasing risk premiums.

In the light of the recent upward movement, KBC Economics raised its short-term outlook for long-term bond yields in the US and Germany. However, our fundamental view from the second half of 2025 on remains broadly unchanged. This scenario implies that the German bond yield curve is expected to become upward sloping again in the first half of 2025. This is already the case for the US curve.

US-German interest rate differentials are currently driving the exchange rate of the US dollar against the euro. Via the channel of imported inflation for the euro area, this exchange rate represents a link between Fed and ECB monetary policy (i.e., the observed correlation of upward interest rate moves both in the US and in the euro area).

... and from the short end

Market expectations for Fed policy have become significantly more hawkish. Markets expect only one more cut in 2025. In other words, the market turned more hawkish than the Fed and the KBC Economics' scenario. Following its December meeting, the Fed suggested in its 'dot plot' that it may cut its policy rate twice this year by 25 basis points each. Nevertheless, KBC Economics continues to expect three rate cuts, which will bring the policy rate to 3.625% as the bottom in this rate cycle. We consider this to be slightly above neutral, given the remaining inflationary risks.

Moreover, the Fed marginally raised its estimate for the neutral rate to 3% from 2.9%, which may not be the end of the upward revision. The Fed 'dot plots' also suggested that the Fed expects the upcoming US policies to be inflationary, as reflected in the sizeable upgrade of its (core) inflation expectation for 2025, by 0.4 percentage points for headline PCE inflation and 0.3 percentage points for PCE core inflation. This confirms the impact assessment of tariffs made by KBC Economics.

By correlation with the Fed, and via the link of the weakened euro against the dollar, market expectations for the ECB policy rate have turned more hawkish as well, moving higher and into the direction of the KBC Economics' scenario which expects further rate cuts to reach a cyclical bottom of 2.00%. In contrast with expected Fed policy, we consider this a broadly neutral rate or even somewhat accommodative for precautionary reasons. Consequently, in 2026, we expect the ECB to raise its policy rate back to neutral (2.50%) once it will become apparent that the feared-for recession in 2025 will not have materialised.

QT cycle out of sync

The ongoing Quantitative Tightening (QT) in the US has led to a further decrease of excess liquidity in the US financial system. An indicator for this is the continued drop of the volumes placed by banks in the Fed's Reverse Repo program. Hence, to deal with the increasing risk of an unexpected liquidity shortage, the Fed is expected to soon announce a further tapering of its QT. This would be the second time, after May 2024, that such a tapering of QT would occur, and would have a somewhat dampening effect on long-term bond yields.

In contrast to the Fed, the ECB has increased the pace of its balance sheet normalisation in January 2025 by ending all reinvestments of maturing assets of its PEPP portfolio. In other words, there is currently not only a divergence between both central banks in terms of their interest rate policies, but also with respect to their quantitative policies.

PEPP's flexible reinvestments no longer available to ECB, but its TPI should suffice

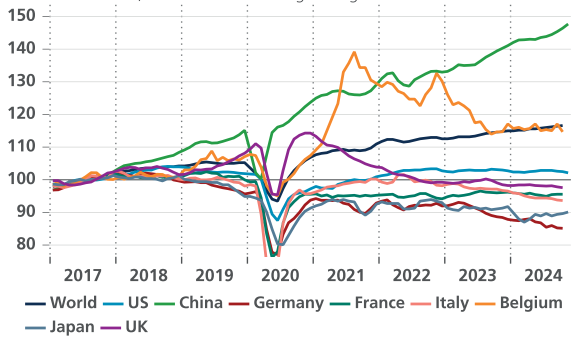
We confirm our scenario for EMU-sovereign yield spreads against Germany within the EMU. They are expected to remain broadly stable in the coming quarters, with their peak likely behind us. This despite the fact that an increasing number of euro area member states are not able to form a stable majority government, pass a formal fiscal budget, or both. While the Spanish spread is currently slightly decreasing thanks to its relatively favourable economic fundamentals, the medium-term downward potential for the French yield spread may be more limited than previously expected due to more persistent fundamental political risks, among which the possible consequences of the 2027 presidential elections.

From the ECB's point of view, the PEPP's flexible reinvestments (in terms of the choice of asset class, country and time) are no longer available as a tool to keep a lid on intra-EMU spreads if desired. However, the remaining option for the ECB to activate the Transmission Protection Instrument (TPI) appears to be sufficiently credible to the market as an effective backstop for EMU sovereign yield spreads.

2025: difficult and uncertain in the euro area

Economic challenges in the euro area became ever more sharply and painfully evident during 2024. These include relatively high energy costs in a context of high energy insecurity and dependence, coupled with still ambitious greening targets; new technologies and surging artificial

Figure 6 - Industrial production in the world
excluding construction, constant prices in USD
index 2017 = 100, three months moving average



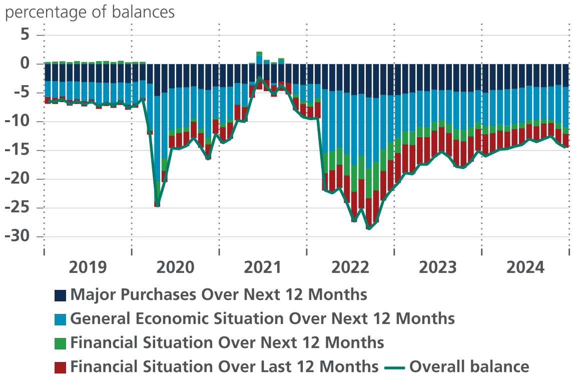
Source: KBC Economics based on World Bank

intelligence; (the threat of) global trade conflicts and protectionism. In this context, there is an urgent need for decisive government initiatives on a European scale in response to competition-distorting (industrial) policies of other economic powers (o.a. China and the US). However, this is complicated by increasing political instability in several EU member states. At the beginning of 2025, the major economic transformations contribute to predominantly weak business confidence, rather gloomy consumers and increasing doubts whether the remarkably strong resilience shown by the labour market in recent years will last.

The challenges are particularly strong for European industry. According to World Bank figures, industry output (manufacturing, mining and utilities) expressed in constant US dollars was almost 17% higher globally in October 2024 than on average in 2017 (see figure 6). However, in China, growth over this period was almost 50%, while in Germany – the industrial heart of Europe – industrial output significantly declined, while the US industry more or less stabilised at 2018-levels. The Belgian industry is an outlier in the comparison: it remained relatively robust before the pandemic and received a huge but temporary boost during the pandemic from corona vaccine production, followed by stabilisation since mid-2023, at a significantly higher level.

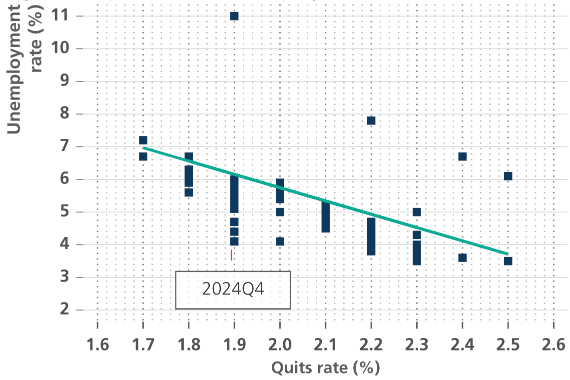
The industrial malaise, coupled with the prospect of trade tensions after President Trump takes office in the US, puts a damper on the growth outlook for 2025. The purchasing managers' confidence indicator (PMI) for the euro area manufacturing sector fell slightly again in December 2024 (ending at its lowest level of 2024), while European

Figure 7 - Consumer confidence in the euro area



Source: KBC Economics based on DG ECFIN

Figure 8 - quits rate vs unemployment rate



Source: KBC Economics based on BLS

Sentiment Indicators of the European Commission deteriorated markedly again in December. Business confidence remains weak, especially in Germany, but increasingly also in politically paralysed France.

Meanwhile, six months after the first cut in ECB policy rates, we still wait for a significant improvement in gloomy confidence in the interest-rate-sensitive construction sector. Fortunately, economic confidence in the service sector (PMI) rebounded markedly in December, while the Economic Sentiment Indicator for the service sector also improved. This supports our expectations that the euro area economy will not slip into recession, despite lacklustre economic momentum and low consumer confidence (see figure 7).

We therefore maintain our expectation that the euro area economy will continue to drag on at a listless growth rate of below 1%. We expect an overall limited pick-up in growth towards the end of the year and in the course of 2026, translating in a real GDP growth path for the euro area of 0.7% in 2025, and 1.0% in 2026.

US economy keeps outperforming

The US economy remains in solid shape. This is most apparent in the labour market. Non-farm payrolls increased by 256k jobs in December, while the unemployment rate decreased from 4.2% to 4.1%. Furthermore, the number of part-time employed for economic reasons dropped markedly. Job openings also increased again in November. The only negative labour-related news was the continued decline in the quits rate, which is typically correlated with higher unemployment (see figure 8). Indeed, a low quits suggests workers are reluctant to quit their current jobs, possibly due to concerns about employment availabilities.

The healthy labour market and the continued growth in real disposable income allow consumers to keep the spending tabs open. Personal Consumption Expenditures (PCE) grew by 0.3% in November. Strong auto sales growth also bodes well for December. Consumer sentiment showed that consumers remain positive about current economic conditions. However, expectation subindices declined, suggesting consumers might be concerned about the consequences of potential tariffs. Producer confidence also increased overall, though this was especially the case for the service sector (which will be less impacted by increasing tariffs). That said, even manufacturing indicators such as capital goods orders improved lately.

Given the ongoing economic momentum, we upgrade our 2025 forecast from 1.7% to 1.9%. This is due to an upgrade of our Q4 2024 and Q1 2025 figures. We expect tariffs and tighter migration policies to slow down economic momentum in later quarters and next year. For 2026, we thus forecast growth to be 1.8%, below potential growth.

Chinese growth hinges on government intervention and trade tariffs

China's economy found itself in difficult waters again last year. Persistent problems in the property sector, the local government financing crisis and the sluggish labour market put a damper on domestic demand and investments. A record number of trade restrictive

Figure 9 - Import and export growth in China

in % year-on-year

Source: KBC Economics based on CCS

measures, including import tariffs on electric cars, were also issued against China in 2024, mostly to protect domestic industries from heavily subsidised Chinese goods.

Despite all new trade restrictions, export figures were strong last year. In December, exports were up 10.7% on the same month a year earlier (see figure 9), a continuation of the strong performance in the rest of the quarter. The strong export figures can be partly explained by expectations that the US will impose higher import duties on China under President Trump. This prompted many Chinese companies to build up their inventories abroad and expedite the delivery of export orders. Imports also rose in December (+1.0%), but this increase followed two months of strongly negative growth (-2.3% in October and -3.9% in November). A Trump effect may also have played a role for imports, namely via increased demand for production equipment for semiconductors due to fears of stricter export controls by the US. Because of the strong export performance and weak import growth, we expect a strong positive contribution of net exports (i.e., exports minus imports) to GDP in the fourth quarter.

Whether increased import growth is the start of a sustained recovery in domestic demand remains to be confirmed in the coming months. The business confidence indicators for December also provided a cautiously positive sign that domestic demand is on the mend. The Purchasing Managers' Confidence Indicator (PMI) in the service sector rose to 52.2 in het last month of the year, the highest level since May 2024, thanks to an increase in domestic orders. For manufacturing, the PMI fell to 50.5 from 51.5. While this figure still narrowly points to an expansion, the decline shows that concerns about the external environment are growing.

We expect domestic demand to pick up in 2025, as the Chinese government reiterated in December that it wants to vigorously boost consumption and investment through fiscal policy this year. A slew of fiscal stimulus measures was already issued last year, but they mainly focused on tackling local governments' off-balance-sheet debt and had little impact on domestic demand. A big wave of new measures is expected for 2025, a first set of which was announced in early January. The new measures included an expansion of the trade-in program for consumer goods (such as cars and furniture), a large-scale subsidy program for business equipment and an unexpected pay rise for government employees.

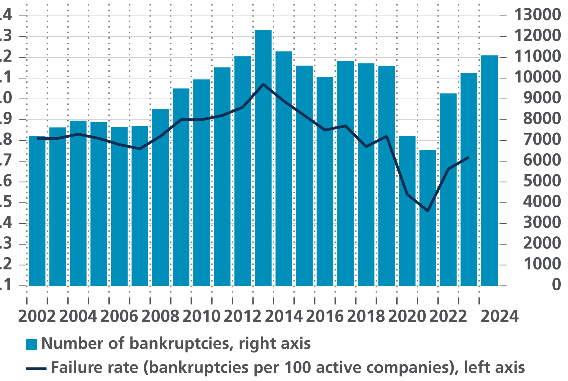
Measures were also taken from the monetary side last year, including a reduction in reserve requirements for banks and a drop in the monetary policy rate (7-day repo rate). We expect monetary policy easing to continue in the coming months, both through interest rate cuts and indirect measures.

The total amount of monetary and fiscal stimulus will depend heavily on the growth target the government will put forward for the year. This target will be announced in March during the Two Sessions, the annual plenary sessions of the country's two main political bodies. The more ambitious the target, the more the government will have to stimulate the economy. The threat of new import tariffs during Trump's presidency creates great uncertainty and complicates the exercise facing the Chinese government.

Because of the newly announced stimulus package and taking into account uncertainty about the international trade environment, we cautiously raise our outlook for real GDP growth for 2025 from 4.4% to 4.5%. The inflation outlook was revised slightly downwards based on December inflation data, to 0.2% for 2024 and 0.7% for 2025.

Belgium

Figure BE2 - Bankruptcies and failure rate in Belgium



Source: KBC Economics based on Statistics Belgium (Statbel)

Most sentiment indicators dropped in the final month of 2024, adding to the growth concerns for the Belgian economy. The further loss of consumer confidence was mainly due to less optimistic unemployment expectations. The worsening followed the ongoing moderation on the labour market. Business confidence fell after two months of improvement and continued its downward path seen since spring 2024. Sentiment deteriorated across almost all sectors. Construction was the only sector that saw confidence strengthen in December, for the third month in a row. A sharp fall of confidence in business-related services brought an abrupt end to the positive trend seen in the sector since August. Manufacturing confidence dropped once again, more than reversing previous month's upside surprise gain. The downturn in the sector's sentiment started in spring 2024 and was strongly driven by a less favourable assessment of total order-books, in line with businesses' more pessimistic assessment of their competitive position (see figure BE1).

Bankruptcies up

The weakening of the business climate was also reflected in the evolution of bankruptcies. More than 11,000 companies went bankrupt last year, marking a 7% rise compared to 2023. The construction and transport sectors fared particularly badly, both reaching a record high. Despite lots of bad news about the sector, bankruptcies in manufacturing stayed well below their 2013 peak. For the economy as a total, the increase in bankruptcies largely reflects a normalisation following artificially low numbers during the pandemic period. As the number of active companies continued to grow steadily, the failure rate (i.e. the number of bankruptcies per 100 active companies) is a better indicator. In 2022 and 2023, this rate rose to 0.66% and 0.72% respectively, up from a historically low of 0.46% in 2021 (see figure BE2). For 2024, data on the number of active companies are not yet available. Likely the failure rate, while increasing further, remained well below the record level seen in 2013 following the sovereign debt crisis. Moreover, compared to neighbouring countries, bankruptcies in Belgium increased earlier but not more sharply on balance (see figure BE3).

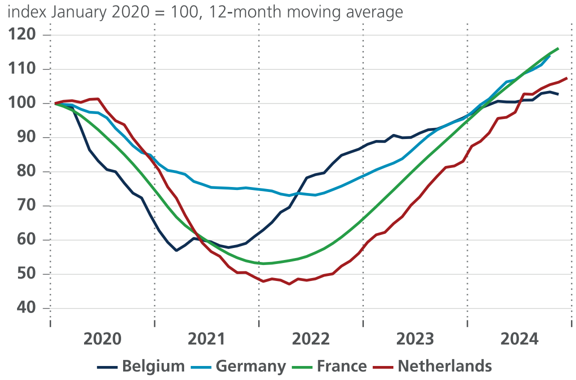
Our GDP growth forecast for 2025 was kept at 0.6%. For 2026, we see Belgian economic activity still growing below potential, at 0.9%. This rather downbeat outlook relates to the expected protectionist turn of the US

Figure BE1 - Export orders versus competitive position

Source: KBC Economics based on NBB, DG ECFIN

Figure BE3 - Bankruptcies of companies

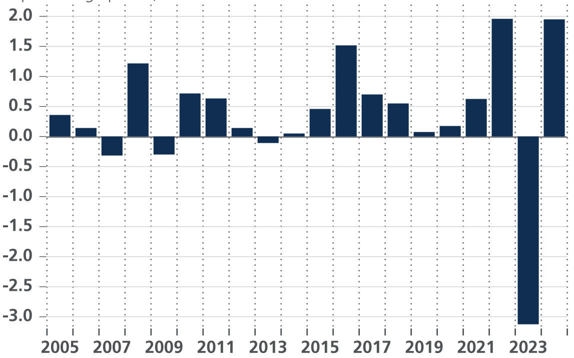
index January 2020 = 100, 12-month moving average



Source: KBC Economics based on Statistics Belgium, DESTATIS, CBS, Banque de France

Figure BE4 - Inflation differential Belgium versus euro area

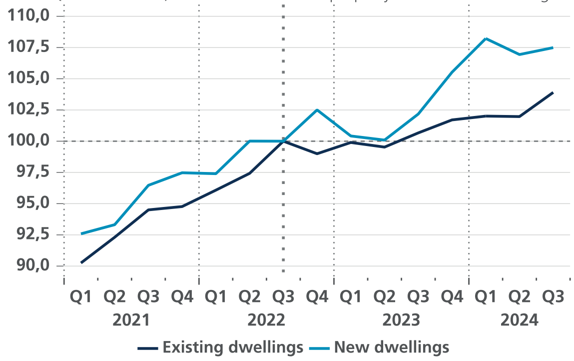
in percentage points, HICP



Source: KBC Economics based on Eurostat

Figure BE5 - Harmonised house price index in Belgium

index Q3 2022 = 100, characteristics of the property sold remain unchanged



Source: KBC Economics based on Eurostat, Statbel

following president Trump's re-election. Under this scenario, which is at the downside of the range of forecasters, the manufacturing industry in particular continues to experience difficult times. Growth risks for the Belgian economy are tilted to the upside, though, and hinge on the severity of Trump's economic policies. Lower than expected tariff increases could lift our GDP growth outlook for 2025 and 2026.

Belgian harmonised inflation (HICP) for December came in at 4.4%, down from 4.8% in November. Average annual inflation reached 4.3% in 2024. With this, Belgian headline inflation again rose well above euro area inflation last year, which has been the case in 16 out of the past 20 years (see figure BE4). A higher sensitivity to market prices for energy, the statistical treatment of energy-related fiscal measures and higher food inflation were the main factors behind this. In our updated scenario, we now expect Belgian inflation to average 2.8% this year, up from 2.6% in our previous forecast. The revision is in line with the revised inflation outlook for the euro area and reflects slightly higher expected energy inflation. Annual HICP inflation for 2026 is forecast at 2.2%.

Q3 house price data

In early January, Eurostat published harmonised house price data for the third quarter of 2024 (see also our Economic Brief "European housing market is no longer cooling off"). The price index in Belgium went up by 1.6% qoq, which implies an acceleration from the Q2 (-0.3%) and Q1 (+0.8%) data. The Q3 figure confirms that, most likely, we have put the cooling in the Belgian housing market behind us. Since the second half of 2023, there has been a remarkable price divergence between existing and new dwellings. The price recovery of existing dwellings was more moderate, but accelerated in Q3 2024. In contrast, the again weak Q2 and Q3 figures for new construction brought a welcome tempering, after a cumulative price rise of as much as 8.1% between Q2 2023 and Q1 2024 (see figure BE5). Given the somewhat stronger than expected qoq price rise in Q3 2024 for total dwellings, we revised upward the estimated annual house price growth in 2024 from 2.9% to 3.1%. Taking into account the expected development of market fundamentals, we expect that Belgian house prices continue to rise moderately, by some 3% per year, in both 2025 and 2026.

Central and Eastern Europe

The automotive sector remains a concern for CEE economies

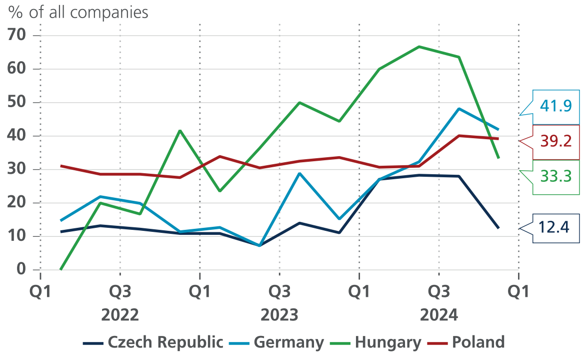
We have already emphasised the risk associated with weak industrial performance in our December issue. Since then, another set of weak industrial figures has been published in several CEE countries. Czech industrial production fell by 0.3% month-on-month and by 2.7% year-on-year in November – finishing both below our estimate (-2.5%) and market expectations (-1%). Hungary's industrial production in November was 1.6% below October's level. The sector's performance has fallen in seven of the last nine months, meaning that the downward trend of more than two years has not been broken. Furthermore, seasonally adjusted Polish figures showed a month-on-month industrial decline of 2.8%.

The main problem continues to be weaker external demand reflecting both cyclical weakness in global investment activity and structural problems of the neighbouring German economy as confirmed, for example, by the latest set of PMIs. In Poland, Hungary and the Czech Republic, recent months have also revealed production declines in the regionally-important automotive segment (see figure CEE 1).

From a long-term perspective, the Czech automotive segment seems to be still in relatively good shape reporting levels of production significantly above 2019 levels, relatively low demand obstacles (see figure CEE 2) and high capacity utilisation (see figure CEE3). For now, the tight financial balances of Czech auto suppliers have not led to major production disruptions. The situation can worsen as the uncertainty complicates investment plans of suppliers to transform from combustion engines to EV/BEV production. Additionally, the funds available for investment and restructuring in the automotive segment could be reduced by European fines on combustion engine producers (which is the case for the whole CEE region).

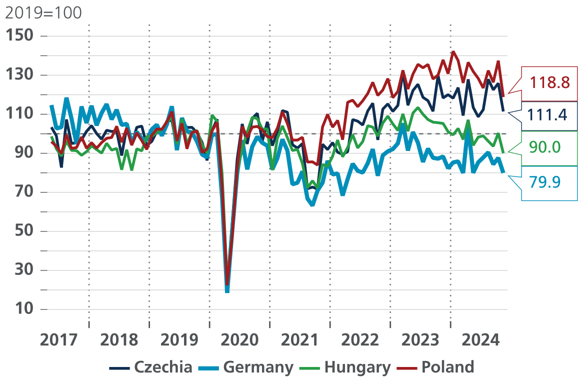
Meanwhile the Hungarian automotive output might be boosted by new large production capacity, like BMW or BYD. On the contrary, the Hungarian producers might be hit more by the tariffs on car exports to the US. As our simple input-output model shows, the sensitivity of Hungarian automotive to US demand is approximately twice as large in comparison with the Czech Republic and Poland.

Figure CEE2 - Automotive: insufficient demand as obstacle to growth



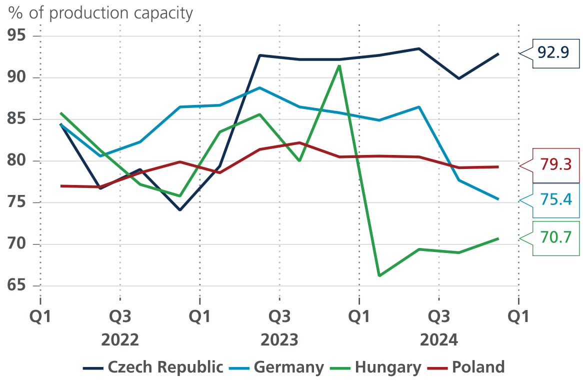
Source: KBC Economics based on DG ECFIN

Figure CEE1 - Production in the automotive segment



Source: KBC Economics based on Eurostat

Figure CEE3 - Automotive: capacity utilisation



Source: KBC Economics based on DG ECFIN

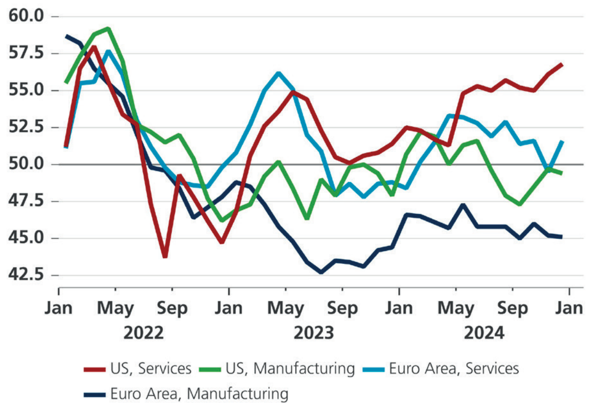
From a GDP perspective, the uncertainty in the automotive sector remains a major challenge, especially for the Czech Republic, where the share of the automotive sector on value added is approximately 4.5% and after including associated production, the share increases to more than 7%. In Hungary, it is close to 3%, while in Poland the impact of the automotive sector on the overall economy remains rather low (with a share of approximately 1.5%). Most recent industrial and automotive data represent a risk, mainly to our Czech GDP outlook, where we assume a slight acceleration in the economic recovery in the quarters ahead.

Figures

Real GDP
yearly change in %

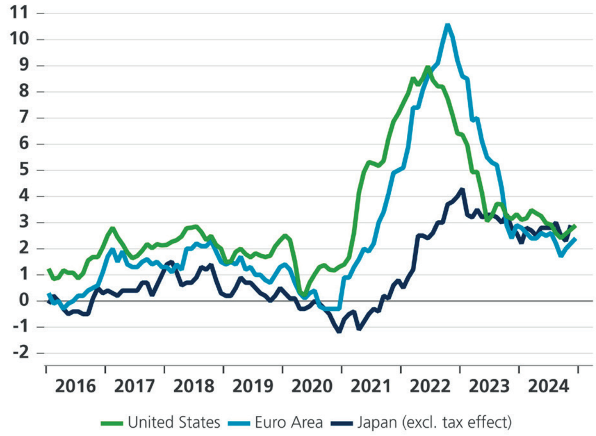
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



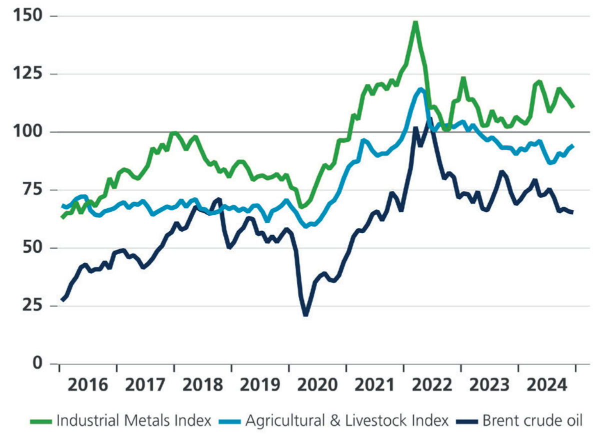
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



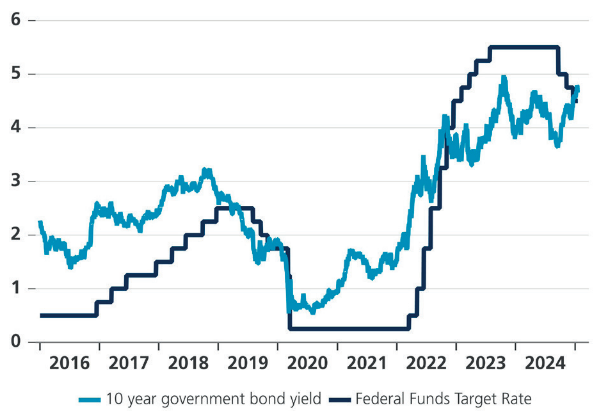
Source: KBC Economics based on Eurostat, SBJ, BLS

Commodity prices
index, January 2013=100, in USD



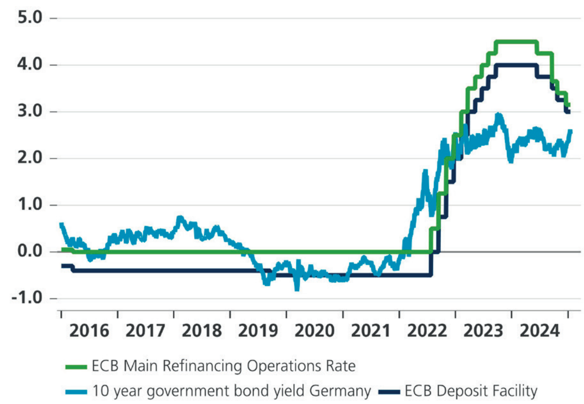
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



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

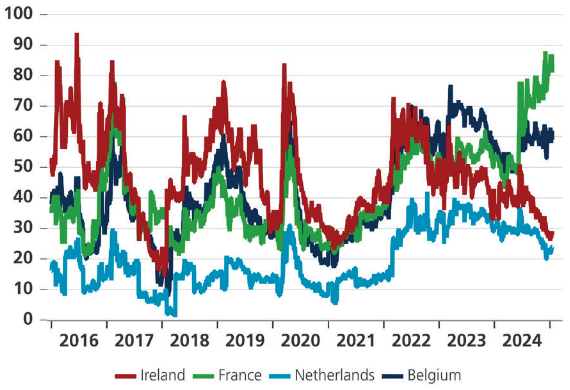
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

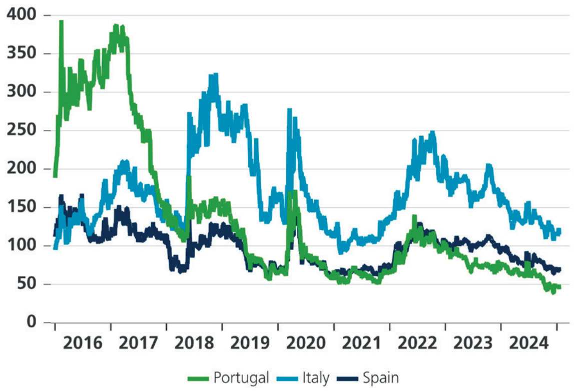
Figures

10 year government bond yield spreads to Germany
in basis points



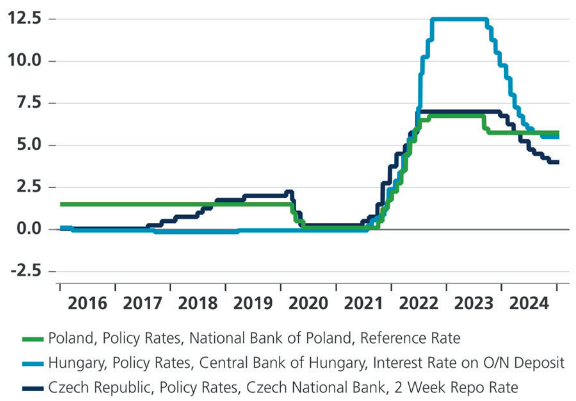
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



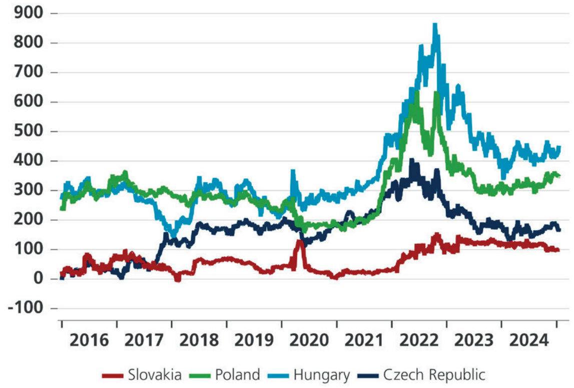
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



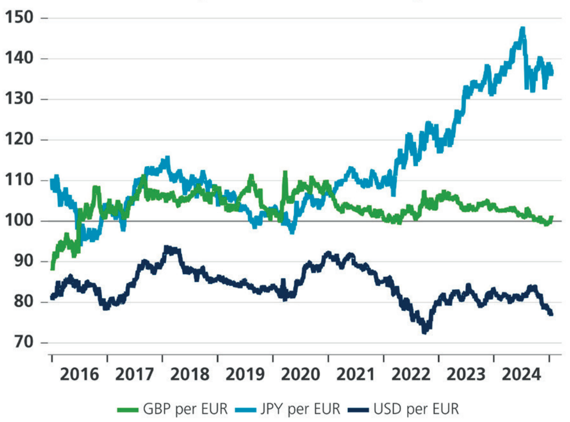
Source: KBC Economics based on CNB, MNB, NBP

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 %)		
		2024	2025	2026	2024	2025	2026
Euro area	Euro area	0.7	0.7	1.0	2.4	2.6	2.3
	Germany	-0.2	0.3	0.9	2.5	3.0	2.6
	France	1.1	0.6	1.0	2.4	2.0	2.1
	Italy	0.5	0.4	0.5	1.0	1.8	2.0
	Spain	3.1	2.0	1.8	2.8	2.3	2.2
	Netherlands	0.9	1.4	1.0	3.3	2.5	2.4
	Belgium	1.0	0.6	0.9	4.3	2.8	2.2
	Ireland	0.3	4.2	4.5	1.3	1.7	2.0
	Slovakia	2.2	2.0	2.6	3.1	4.4	2.6
Central and Eastern Europe	Czech Republic	1.0	2.3	2.3	2.7	2.5	2.4
	Hungary	0.4	2.1	3.6	3.7	3.8	3.6
	Bulgaria	2.2	2.1	2.4	2.9	3.1	3.2
	Poland	2.7	3.1	3.2	3.7	4.1	2.7
	Romania	1.1	2.5	2.9	5.6	4.3	3.6
Rest of Europe	United Kingdom	0.9	1.3	1.3	2.5	2.6	2.3
	Sweden	0.6	1.8	2.8	2.9	1.0	1.8
	Norway (mainland)	0.9	1.5	1.0	3.2	2.5	2.3
	Switzerland	1.4	1.3	1.9	1.1	0.6	1.0
Emerging markets	China	4.8	4.5	3.8	0.2	0.7	1.7
	India*	6.2	6.5	6.5	4.8	4.4	4.6
	South Africa	0.5	1.6	1.7	4.4	4.4	4.5
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	2.9	2.6	4.0	58.5	31.8	17.2
	Brazil	3.5	2.2	2.1	4.4	4.2	3.5
Other advanced economies	United States	2.8	1.9	1.8	2.9	2.7	3.1
	Japan	-0.2	1.2	0.6	2.6	2.3	2.1
	Australia	1.2	2.1	2.4	3.4	2.8	2.7
	New Zealand	0.2	1.9	2.6	3.1	2.1	2.0
	Canada	1.2	1.7	2.0	2.4	2.0	2.1
*** fiscal year from April-March**						10/1/2025	

Policy rates (end of period, in %)		10/1/2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Euro area	Euro area (refi rate)	3.15	2.65	2.15	2.15	2.15
	Euro area (depo rate)	3.00	2.50	2.00	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	5.50	4.75
	Romania	6.50	6.50	6.25	6.00	5.75
Rest of Europe	United Kingdom	4.75	4.50	4.25	4.00	4.00
	Sweden	2.50	2.00	2.00	2.00	2.00
	Norway	4.50	4.25	4.00	3.75	3.75
	Switzerland	0.50	0.25	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	6.25	5.75	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	47.50	42.50	35.00	30.00	30.00
	Brazil	12.25	14.25	15.00	15.00	15.00
Other advanced economies	United States (mid-target range)	4.375	4.375	4.125	3.875	3.625
	Japan	0.25	0.50	0.50	0.50	0.75
	Australia	4.35	4.10	3.85	3.85	3.85
	New Zealand	4.25	3.75	3.25	3.25	3.25
	Canada	3.25	3.00	2.75	2.75	2.75

Outlook main economies in the world

10 year government bond yields (end of period, in %)		10/1/2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Euro area	Germany	2.56	2.45	2.45	2.45	2.50
	France	3.42	3.25	3.25	3.24	3.27
	Italy	3.74	3.55	3.55	3.53	3.56
	Spain	3.25	3.15	3.15	3.14	3.18
	Netherlands	2.80	2.65	2.65	2.65	2.70
	Belgium	3.20	3.05	3.05	3.04	3.08
	Ireland	2.84	2.75	2.75	2.75	2.80
	Slovakia	3.43	3.35	3.35	3.35	3.40
Central and Eastern Europe	Czech Republic	4.14	4.20	4.20	4.20	4.20
	Hungary	6.90	6.75	6.50	6.30	6.10
	Bulgaria*	3.85	3.85	3.85	3.80	3.80
	Poland	6.05	5.80	5.70	5.10	4.80
	Romania	7.65	7.50	7.50	7.50	7.55
Rest of Europe	United Kingdom	4.84	4.75	4.75	4.75	4.80
	Sweden	2.41	2.30	2.30	2.30	2.35
	Norway	3.97	3.90	3.90	3.90	3.95
	Switzerland	0.42	0.30	0.30	0.30	0.35
Emerging markets	China	1.63	1.60	1.60	1.50	1.50
	India	6.77	6.70	6.70	6.60	6.60
	South Africa	9.17	9.10	9.10	9.00	9.00
	Russia	15.13	Temporarily no forecast due to extreme uncertainty			
	Turkey	26.45	26.00	24.00	24.00	22.50
	Brazil	14.75	14.60	14.60	14.50	14.50
Other advanced economies	United States	4.70	4.60	4.60	4.50	4.50
	Japan	1.20	1.20	1.30	1.30	1.30
	Australia	4.55	4.45	4.45	4.35	4.35
	New Zealand	4.68	4.60	4.60	4.50	4.50
	Canada	3.35	3.25	3.25	3.25	3.25

***Caution: very illiquid market**

Exchange rates (end of period)	10/1/2025	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD per EUR	1.03	1.04	1.04	1.04	1.04
CZK per EUR	25.10	25.30	25.20	25.10	25.10
HUF per EUR	413.44	404.00	406.00	408.00	413.00
PLN per EUR	4.26	4.30	4.26	4.25	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	0.84	0.84	0.85	0.86	0.87
SEK per EUR	11.48	11.50	11.50	11.50	11.50
NOK per EUR	11.77	11.75	11.75	11.75	11.75
CHF per EUR	0.94	0.94	0.94	0.93	0.93
BRL per USD	6.04	6.10	6.10	6.10	6.10
INR per USD	85.92	86.00	86.25	86.50	86.75
ZAR per USD	18.95	19.00	19.00	19.00	19.00
RUB per USD	101.50	Temporarily no forecast due to extreme uncertainty			
TRY per USD	35.42	37.10	38.94	40.48	42.00
RMB per USD	7.33	7.34	7.36	7.40	7.40
JPY per USD	158.11	160.00	160.00	160.00	160.00
USD per AUD	0.62	0.61	0.60	0.60	0.60
USD per NZD	0.56	0.55	0.54	0.54	0.54
CAD per USD	1.44	1.45	1.46	1.46	1.46

Outlook KBC markets

	Belgium			Ireland		
	2024	2025	2026	2024	2025	2026
Real GDP (average yearly change, based on quarterly figures, in %)	1.0	0.6	0.9	0.3	4.2	4.5
Inflation (average yearly change, harmonised CPI, in %)	4.3	2.8	2.2	1.3	1.7	2.0
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5.8	6.0	5.9	4.4	4.5	4.5
Government budget balance (in % of GDP)	-4.5	-5.3	-5.6	3.8	0.8	0.8
Gross public debt (in % of GDP)	104.2	107.0	110.1	42.4	40.7	39.0
Current account balance (in % of GDP)	-0.5	-1.2	-1.3	12.0	11.2	10.3
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	3.1	3.0	3.0	8.0	4.0	4.0

	Czech Republic			Slovakia		
	2024	2025	2026	2024	2025	2026
Real GDP (average yearly change, based on quarterly figures, in %)	1.0	2.3	2.3	2.2	2.0	2.6
Inflation (average yearly change, harmonised CPI, in %)	2.7	2.5	2.4	3.1	4.4	2.6
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.9	3.2	3.1	5.5	5.5	5.5
Government budget balance (in % of GDP)	-2.8	-2.1	-1.9	-5.8	-4.9	-4.5
Gross public debt (in % of GDP)	43.3	44.3	44.7	58.2	59.5	60.8
Current account balance (in % of GDP)	0.7	0.3	0.5	-2.0	-2.8	-2.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	4.5	5.4	3.5	3.0	3.0	3.5

	Hungary			Bulgaria		
	2024	2025	2026	2024	2025	2026
Real GDP (average yearly change, based on quarterly figures, in %)	0.4	2.1	3.6	2.2	2.1	2.4
Inflation (average yearly change, harmonised CPI, in %)	3.7	3.8	3.6	2.9	3.1	3.2
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.6	4.3	3.9	4.2	4.2	4.0
Government budget balance (in % of GDP)	-4.8	-4.1	-3.9	-2.9	-3.0	-3.0
Gross public debt (in % of GDP)	73.8	73.4	72.9	24.3	26.8	28.0
Current account balance (in % of GDP)	1.5	1.3	1.0	-0.7	-0.9	-1.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	12.6	5.5	4.0	15.1	5.0	3.5

Outlook Belgian economy

National accounts (real yearly change, in %)	2024	2025	2026
Private consumption	1.9	1.5	1.6
Public consumption	3.5	0.9	0.5
Investment in fixed capital	1.2	1.7	2.3
Corporate investment	1.7	1.9	2.6
Public investment	7.4	2.3	2.0
Residential building investment	-4.2	0.4	1.3
Final domestic demand (excl. changes in inventories)	2.1	1.4	1.5
Change in inventories (contribution to growth)	-0.9	0.3	0.0
Exports of goods and services	-4.5	-2.6	0.3
Imports of goods and services	-4.4	-1.3	1.2
Gross domestic product (GDP), based on quarterly figures	1.0	0.6	0.9
Household disposable income	1.4	1.6	1.3
Household savings rate (% of disposable income)	14.2	14.4	14.2

Equilibrium indicators	2024	2025	2026
Inflation (average yearly change, in %)			
Consumer prices (harmonised CPI)	4.3	2.8	2.2
Health index (national CPI)	3.3	2.8	2.0
Labour market			
Domestic employment (yearly change, in '000, year end)	7.5	15.0	30.0
Unemployment rate (in % of labour force, end of year, Eurostat definition)	5.8	6.0	5.9
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-4.5	-5.3	-5.6
Public debt	104.2	107.0	110.1
Current account balance (in % of GDP)	-0.5	-1.2	-1.3
House prices (average yearly change in %, existing and new dwellings, Eurostat definition)	3.1	3.0	3.0

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