Economic Perspectives

December 2025

Highlights

- Continued high supply is putting downward pressure on energy prices. This was most visible in natural gas prices which declined by 7% last month to 29 EUR per MWh, thanks to high US LNG supply. Oil prices also continued their descent, declining by 2.6% to 62 USD per barrel. High non-OPEC+ supply along with recent OPEC+ production quota increases have left the market oversupplied. Along with energy prices, food prices have declined by 1.5% month-on-month and 2% year-on-year thanks a.o. to large drops in sugar and dairy prices.

- Euro area inflation remained unchanged at 2.1% in November. Within non-core components, a decline in food inflation was compensated by an increase in energy inflation (caused by base effects). Core inflation stabilised at 2.4% as a decrease in goods inflation was compensated by an increase in services prices. Given lower oil and gas prices, we maintain our 2.1% forecast for 2025, while downgrading our 2026 forecast from 1.8% to 1.6%.

- The euro area economic recovery is underway. Q3 growth was revised upwards to a healthy 0.3% quarter-on-quarter. The growth was mostly generated by healthy gross capital formation and strong government consumption. Private consumption also remains weak as the household savings rate remains elevated. The labour market is also showing signs of easing. We maintain our 1.4% and 1% growth forecast for 2025 and 2026, respectively.

- The US economy is starting to show some signs of softening. Most notable is the weakening in consumer spending, which was flat in September. Weak auto sales and low consumer confidence point to further weakness ahead. The labour market is also gradually weakening as the unemployment rate has risen from 4.4% to 4.6%. Nonetheless, business confidence indicators continue to indicate economic resilience in the quarters ahead. We maintain our 1.9% and 1.7% forecasts for 2025 and 2026 growth, respectively. US inflation also seems to have reached its peak as forward-looking indicators point to softening ahead. We thus expect 2.7% inflation this year and 2.6% inflation next year.

- The Chinese economy likely slowed further in the fourth quarter, with sentiment indicators, industrial production, retail trade, and investment all pointing to flagging momentum. There could be some room for a modest recovery in 2026, but this will depend on how much and what kind of government stimulus is on the way. Given substantial headwinds to growth that remain, we continue to expect real GDP growth to come in just below the government growth target at 4.9% in 2025 before slowing to 4.4% in 2026.

- Monetary policy choices continue to diverge. The ECB maintained its deposit rate at 2% in December, as the euro area economy remains in a good place (with inflation hovering around its target). We expect this 2% rate to be maintained in 2026. In contrast, the Fed is in a conundrum as inflation remains well above target, while the labour market is weakening. The Fed decided to cut its policy rate in December, nonetheless. We expect two more rate cuts in the next quarter, bringing the policy rate to a neutral rate of 3.125%.

Global Economy

Global trade tensions eased again last month as the US softened its trade stance. In an attempt to address affordability concerns, the Trump administration expanded the list of products exempted from reciprocal tariffs. The focus was on food imports such as beef, coffee and exotic fruits. The US also announced a deal with Switzerland which lowered the tariff rate from 39% to 15%. Deals with Argentina, Guatemala, El Salvador and Ecuador have also been announced, though the details of these deals remain unclear. These recent changes have lowered the US effective tariff rate from 17.9% to 16.8%.

The lower tariffs and lowered trade uncertainty will give some support to the global economy, which is softening. This softening is most apparent in China, where the anti-involution campaign seems to have hurt investment. Retail trade and industrial production remain weak. Continued problems in the real estate sector continue to weigh on confidence as well. Signs of softening are also starting to show in the US, as consumption stalled in September and the labour market is showing signs of strain. The US economy is, nonetheless, surprisingly resilient given increased protectionism by the Trump administration.

In contrast to the US and China, the European economy is recovering gradually. Consumption remains weak, however, and there is strong divergence between member states. Economic divergence between the US and the euro area is also causing monetary policy divergence. While the ECB kept its policy rates unchanged, the Fed cut its policy rates again in December.

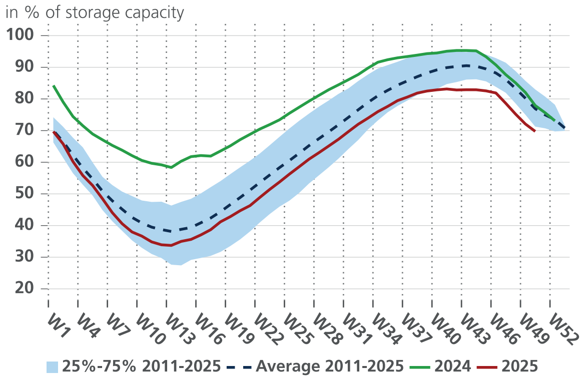
High supply keeps pushing energy prices down

Oil prices continued their descent last month, declining by 2.6% to 62 USD per barrel. Prices are now 13% lower than a year ago. Markets expect the current oversupply to continue well into 2026. This expectation was confirmed by an important change in OPEC's oil forecast for next year (which caused a 4% drop on the day of the report's publication). While the cartel had forecasted an oil deficit in prior months, it now expects the market to be in surplus in 2026. The unwinding of OPEC+ production cuts has been largely responsible for this oversupply. Since March, the cartel increased its production quota by almost 2.7 million barrels per day. Non-OPEC+ supply has also been rising significantly. The oversupply in the markets explains why recent geopolitical events (tensions in Venezuela, Ukraine-Russia developments...) have a limited effect on oil prices.

Despite the cold weather, gas prices also declined significantly in November. They reached 29 EUR per MWh at the end of November, 7% lower than the month before. Higher US LNG exports, along with lower Asian LNG demand (especially in China) are putting downward pressure on TTF prices. This explains why prices are subdued, even though EU gas reserves remain below historical averages (see figure 1).

Along with energy prices, food prices declined for the third month in a row. Prices declined by 1.5% last month and are now 2% lower than a year ago. The decline is caused by

Figure 1 - EU gas reserves
in % of storage capacity



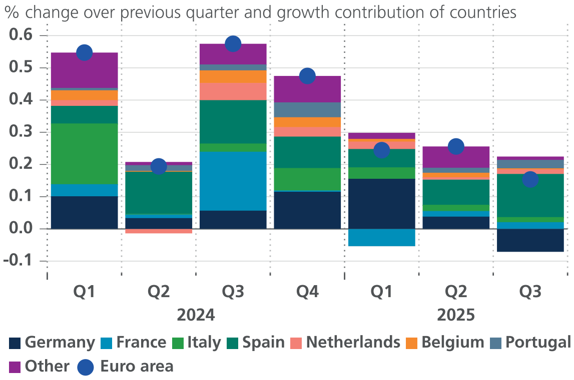
Source: KBC Economics based on Gas Infrastructure Europe (GIE) strong declines in sugar and dairy prices due to supply increases in both categories. Cereal prices ticked up slightly last month but remain 5.3% lower than a year ago. Strong harvests in a.o. Argentina and Australia along with record rice harvests in Asia have brought down cereal prices. In contrast, meat prices increased 4.9% year-on-year, largely driven by strong demand.

Positive surprises in euro area growth

In the euro area, real GDP growth in the third quarter (compared to the second quarter) was revised slightly upwards from 0.2% to 0.3%. The breakdown of growth into expenditure components shows that (excluding Ireland) government consumption made the largest contribution to growth, followed by investment and private consumption. From a sectoral perspective, in most large(r) countries, the service sectors made the largest contribution to growth, while the contribution of manufacturing was significantly smaller. In Germany, the latter was even strongly negative.

It is striking that quarterly growth in household spending has gradually declined over the past five quarters (see figure 2). It was mainly sustained by Spanish consumers, while German consumers in particular underwhelmed in the third quarter. In general, consumers in the euro area kept their savings elevated, despite the increase in real wages and net job creation. In the third quarter, jobs increased by 278,100 versus the previous quarter, an increase of 0.2%. Compared with a year earlier, the increase was more than 1 million or 0.6%. It appears that sluggish confidence, which is improving only slowly, kept household savings at a historically high level.

Figure 2 - Household consumption in the euro area
% change over previous quarter and growth contribution of countries



Source: KBC Economics based on Eurostat

Looking back on 2025, it is striking that the economy has weathered the major geopolitical uncertainty and escalating trade tensions with the US in the first half of the year better than expected. Domestic demand is expected to strengthen again in 2026 when significantly more accommodative fiscal policy in Germany, together with the spending of the final tranches of Next Generation EU transfers, will counterbalance the dampening impact of fiscal consolidation in other countries. The past easing of monetary policy will also further stimulate the economy, as usual with some lag.

Producer confidence in the euro area continued to improve in November, although this was only the case in services and construction. In manufacturing, it fell slightly. The slight decline in German business expectations, as recorded in the Ifo surveys, following the upturn in October, was disappointing. This serves as a reminder that the slump in the German economy has not yet been overcome and that the expected improvement is likely to be only gradual.

We maintain our outlook of a gradual strengthening of domestic demand in the euro area from the last quarter of 2025 and especially in the course of 2026. The only tentative improvement in consumer confidence so far suggests that the consumption engine will only gradually shift into higher gear. However, if households reduce their currently very high savings more sharply than expected, there is also a chance that the pick-up in growth will be stronger than assumed here.

We have left our expectations for average real GDP growth in the euro area unchanged at 1.4% for 2025 and 1.0% for 2026. The higher average growth rate for 2025 than for 2026 is due to a higher carry-over effect from the previous year. Growth throughout the year is expected to be slightly stronger in 2026 than in 2025 (1.2% versus 1.1%).

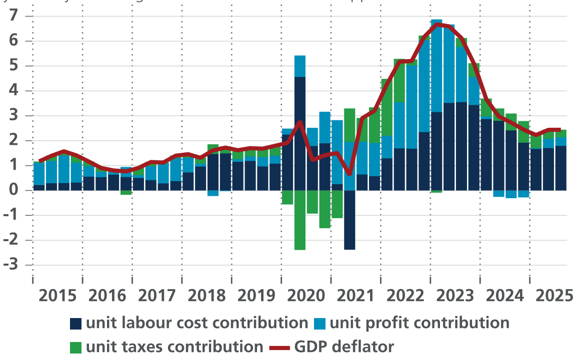
Inflation in the euro area slightly higher again

In the euro area inflation stabilized at 2,1% in November. Core inflation has remained stable at 2.4% over the past three months. However, this stabilisation masks a slowdown in goods inflation (excluding energy and food) from 0.8% in September to 0.5% in November, while services inflation rose from 3.2% in September to 3.5% in November.

The latter can be linked to the development of unit

Figure 3 - Euro area GDP deflator

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



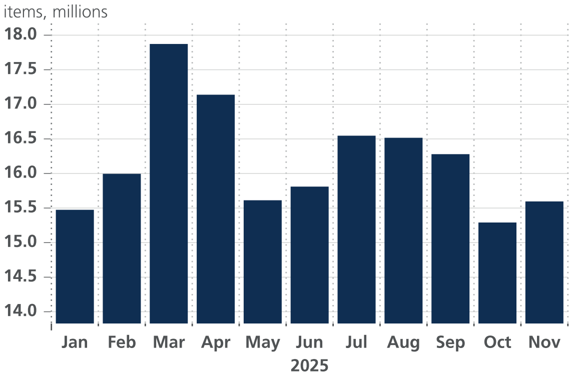
Source: KBC Economics based on Eurostat

labour costs. Year-on-year growth in compensation per employee stabilised at 4.0% in Q3, while labour productivity growth slowed slightly. As a result, unit labour costs again made a slightly higher contribution to inflation, as measured by the GDP deflator. This is because companies were able to pass on the slightly higher unit labour costs to their customers without eroding their unit profits (see figure 3).

Nevertheless, wage cost pressures on inflation are expected to ease in the coming quarters. Wage agreements continue to point to a slowdown in wage growth, while labour productivity growth is likely to remain stable or even strengthen somewhat. Given that labour costs are an important factor in services inflation in particular, we are maintaining our expectation of a further cooling of services and core inflation to around 2% by the second half of 2026. Meanwhile, compared to a month ago, futures point to significantly lower energy prices for the coming period. On that basis, we have revised our forecast for energy price inflation downwards, which has also lowered our forecast for total inflation in 2026 from 1.8% to 1.6%. For 2025, the forecast remains unchanged at 2.1%.

Figure 4 - Total vehicle sales

items, millions



Source: KBC Economics based on BEA

US economy is softening gradually

As the shutdown has ended, official data are again being released (though with a lag). They have thus far been a mixed bag. On the positive side, durable goods orders grew at a solid pace in September (+0.5%), boding well for equipment spending in H2. The trade deficit also narrowed substantially over the summer, which will push up the contribution of net exports in Q3 substantially.

On the negative side, real personal consumption expenditures were flat in September (and August figures were revised downwards). Over the third quarter, consumption still grew at a decent 0.7%. However, consumption is set to weaken in Q4. Consumer sentiment indicators remain at very low levels. The expiration of EV tax credits in September is also weighing on auto sales in Q4 (see figure 4). Furthermore, the shutdown could weigh on consumption by furloughed federal employees in Q4 (and bounce back in Q1 2026).

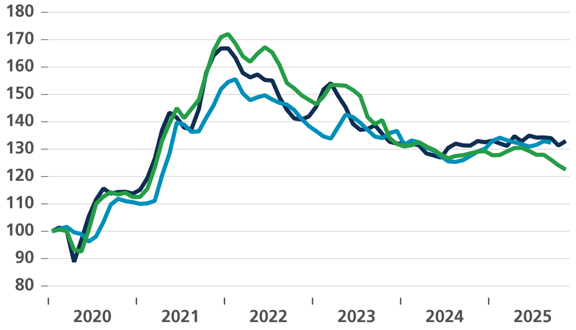
Some softening is also apparent in the labour market as the US unemployment rate increased from 4.4% to 4.6% from September to November. Job growth was also weak as non-farm payrolls increased by only 67k in total over the last three months. This low figure was partly caused by a sharp decline in federal employees in October by 162,000, as some of them accepted a deferred resignation offer and came off federal payrolls.

Nonetheless, the US economy remains resilient in the face of protectionist trade and migration policies. Business sentiment indicators still paint a positive picture overall, especially for the all-important services industry. We thus maintain our 1.9% and 1.7% growth forecasts for this year and next year, respectively (slightly below potential).

The impact of Trump's tariff policies is also having a smaller than anticipated impact on inflation. Though at 2.7% in November, US headline inflation remains at an elevated level, inflation seems to have passed its peak. Lower oil prices will bring down energy prices, while the recent lowering of tariffs on certain food items could

Figure 5 - Used cars and trucks prices

index, 01/2020 = 100



Source: KBC Economics based on Manheim Consulting, BLS, Black Book

temper food inflation. Forward-looking indicators also point to further softening in shelter prices and used car prices (see figure 5). Lower wage pressures also bode well for services inflation. Furthermore, consumer inflation expectations have also come down, though they remain at elevated levels. We expect 2.7% inflation this year and 2.6% inflation next year, with risks tilted to the downside.

Chinese economy is under pressure

The Chinese economy shows signs of a continued slowdown in the fourth quarter. Private and official business sentiment indicators generally edged down in November with the exception of the NBS manufacturing PMI, which remains in contraction territory at 49.2. Retail trade and industrial production growth continued to decelerate on a year-over-year basis in November, with retail trade showing particularly weak momentum (-0.42% month-over-month). Meanwhile, fixed asset investment fell for the third month in a row (-2.6% year-to-date year-over-year in November), suggesting so-called anti-involution efforts may be causing a sharper-than-expected pull back in investment. These dynamics support our view of GDP growth slowing further from 4.8% year-over-year in Q3 to 4.4% year-over-year in Q4. This would bring annual GDP growth for 2025 to 4.9%, just under the government's official growth target of 5%.

Looking ahead, there could be some room for a modest recovery in growth momentum in 2026. Much of this will depend on how much and what kind of government stimulus is on the way, which in turn will likely depend on where the government sets the growth target for 2026. A 5% target will be harder to reach without further support, especially given that long-standing challenges remain (such as the real estate sector correction, weak consumption growth, excess capacity, an aging population, and over-indebted local governments and households). On top of these challenges, exports as a main driver of growth, which was the case in 2024 and 2025, may face new headwinds given ongoing global tensions related to trade (though the temporary trade truce between China and the US reached in October reduces some uncertainty in this respect). Given these dynamics, we leave our 2026 growth outlook unchanged at 4.4%. We also leave our average annual inflation forecasts for 2025 and 2026 unchanged at -0.1% and 0.7%, respectively. Though headline inflation has inched up in recent months on easing food price deflation, overall, deflationary pressures in the economy remain as evidenced by still declining producer prices (-2.2% year-over-year in November).

Fed continues easing cycle

On 10 December 2025, the Fed cut its policy rate by 25 basis points to 3.625% as expected. The statement noted that risks still posed a policy dilemma, particularly downside risk to the labour market and upside risk to inflation. According to Fed Chair Powell, policy rates are now in a zone of plausible estimates of neutral interest rates. This means that subsequent rate cuts will be more data-dependent and thus less obvious than has been the case so far, when Powell still explicitly labelled policy rates as (moderately) restrictive. We confirm our view that the Fed will cut the policy rate to 3.125% in two steps of 25 basis points each at the next two policy meetings (in January and March), thus bringing an end to the easing cycle. That level is consistent with Fed officials' median estimate for the long-term neutral interest rate.

In addition, the Fed explicitly confirmed that reserves in the financial system have declined from 'abundant' to 'ample'. In other words, the already concluded policy of quantitative tightening has achieved its goal. However, the Fed now seems concerned that the liquidity reduction has gone a little too far to accommodate certain moments of additional liquidity needs. For monetary policy transmission, this could pose problems if, as was recently the case, the overnight money market rate were to rise above the target range of the policy rate due to a liquidity shortage. Indeed, that would weaken the Fed's policy grip on money market rates and thus undermine monetary policy transmission.

In addition, Powell also referred to 15 April 2026, 'Tax Day', when a large number of tax payments will be made. The US Treasury will receive these amounts through its account at the Fed, temporarily withdrawing them as available liquidity in the market. This would threaten to create shortages. The September 2019 liquidity problem, which marked the end of the QT program at the time, followed a similar scenario.

Learning from that experience, the Fed, after its latest policy meeting, announced a new program of 'liquidity management' to be launched this month. To respond to the market's liquidity needs, the Fed will be able to buy short-term government securities (mainly 'T-bills') amounting to 40 billion US dollars in December. In subsequent months, that amount would fall to around 20 billion US dollars per month. Powell stressed that this is purely part of liquidity management and would not affect the Fed's monetary policy stance. This policy neutrality of the planned purchases of 'T-bills' is undoubtedly the Fed's intention. However, we cannot overlook the fact that this will inject non-negligible amounts of liquidity into the market, which will inevitably have a side effect on short-term and long-term interest rates.

ECB keeps its policy rate unchanged as expected

The ECB kept its policy rate unchanged at 2% at its policy meeting on 18 December, as expected. It has long been our view that this is the bottom of the current interest rate cycle. Meanwhile, the market has also largely priced out the possibility of another precautionary rate cut. On the contrary, the main risk scenario for the market is that of a first rate hike in autumn 2026. However, that timing seems too early to us, although we share the assessment that the deposit rate at 2% is rather at the lower end of the neutral band.

The current outlook assumes that no meaningful new shocks to the macro-financial environment will occur in the coming months. Shocks related to the international monetary system cannot be ruled out and would impact the scenario. Examples of such potential shocks include a new focus on the US administration’s 'Mar-a-Lago Accord' plans, disruptive attacks on the Fed's independence and rising geopolitical tensions related to the Euroclear case.

Against this backdrop, we confirm our scenario of the euro gradually appreciating further against the dollar. In the somewhat longer term, this has to do with the relative valuation of both, while in the short term, the interest rate differential between the Fed and the ECB also plays a role.

Higher term premiums push up bond yields

In recent weeks, bond yields rose more sharply than expected. This was especially the case for German yields. The main reason was the further decompression of the term premium of German yields. The era of relative scarcity of German Bunds seems to be over, so the term premium demanded by investors for those bonds is normalising upwards. The recent rise is therefore more than just temporary volatility. The continued upward trend in German 10-year real yields also points in that direction, confirming our scenario that this upward normalisation could continue for some time.

On balance, we confirm the expected path for US 10-year rates. However, since the German counterpart has risen more sharply and faster than we expected, we raise the expected path for 2026. In other words, we expect a further gradual rise in the German 10-year rate to around 2.90% by the end of 2026.

Intra-EMU spreads decrease further

Over the past month, eurozone government bond yield spreads against Germany fell further. In other words, these yields rose less rapidly than German ones. Explanatory factors include the reassuring existence of the ECB's Transmission Protection Instrument (TPI) and the expected (moderate) cyclical recovery in the eurozone. The higher term premium on German government bonds, especially, plays an important role, reflecting the German debt agency's sharply increased debt issuance to finance Germany’s planned fiscal stimulus.

Belgium

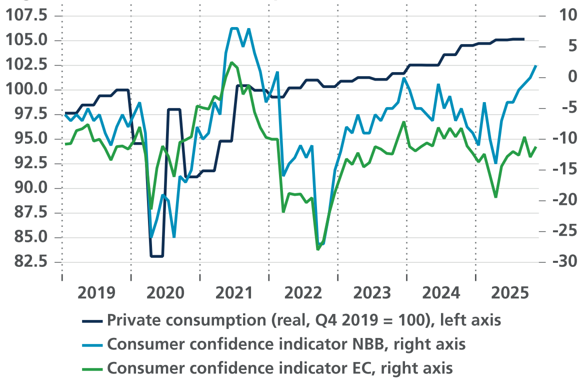
The earlier flash estimate of Q3 2025 GDP growth was confirmed at 0.3% qoq by the National Accounts Institute (NAI). Value added growth in industry came out slightly above the preliminary estimate reported earlier (i.e., 0.3% instead of 0.2%), while in the services sector and, especially, in construction it was below (i.e., 0.3% instead of 0.4% and 0.9% instead of 1.3%, respectively). Looking at the Q3 component data, a number of notable changes stand out (see figure BE1). Private consumption growth slowed markedly, attaining only 0.1%. Investment in housing continued its downward path, falling by 2.4%. Government consumption and investment increased by 0.7% and 0.6%, respectively. Business investment grew by a strong 2.8%. Exports and imports both fell by 0.7%, resulting in a slight positive growth contribution of net exports (+0.1 percentage points). Finally, growth in Q3 was held back by a large negative contribution from changes in inventories (-0.4 percentage points).

Contradictory data

The slowdown in consumer spending in Q3 contradicts the strong revival in consumer confidence (see figure BE2). The remarkable improvement in the NBB survey observed since spring results from consumers' more optimistic unemployment expectations, which in turn was driven by the imminent limitation of the duration of unemployment benefits. The survey question regarding unemployment expectations is not part of the EC confidence indicator which, as a result, has been less buoyant over the recent period. Also, the further correction in housing investment in Q3 is at odds with the gradual, albeit volatile, recovery of business confidence seen in the subsector of construction of residential buildings (see figure BE3). The surge in business investment in Q3 surprises as well, given that most companies interviewed for the recent NBB's Business Echo reported to have moderated their investment spending. In fact, the surprisingly strong Q3 investment figure was distorted by a number of exceptionally large transactions.

More generally, confidence of Belgian businesses rebounded in November, after the modest fall recorded in the previous month. As a result, the underlying trend of confidence continued to rise, despite persistent uncertainty on the international economic and geopolitical environment. A positive element is that, at least so far, the fall-out of US import tariffs on Belgian exports seems to have been contained. Although some

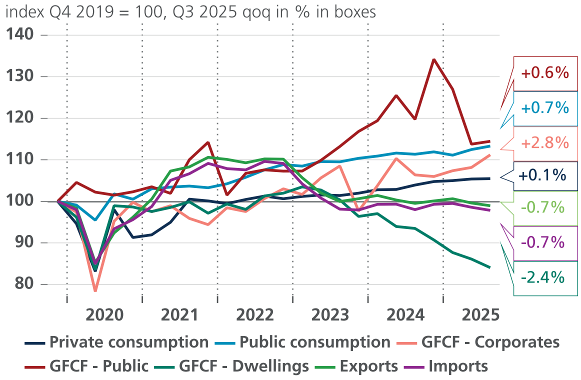
Figure BE2 - Private consumption vs.consumer confidence



Source: KBC Economics based on Eurostat, NBB, DG ECFIN

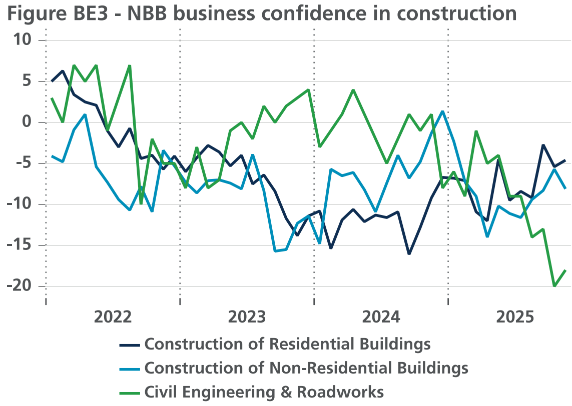
Figure BE1 - Components of real GDP

index Q4 2019 = 100, Q3 2025 qoq in % in boxes



Source: KBC Economics based on NBB

Figure BE3 - NBB business confidence in construction



Source: KBC Economics based on NBB

impact from the trade disruption may still materialise, the further rebound in the assessments of export-order books gives hope that the ultimate effect of US tariffs on the Belgian economy will not be quite as strong as had been feared.

Labour market resilient

Together with GDP data, the NAI also reported on net job creation in Q3. Employment rose at a somewhat faster pace (+0.2% qoq) compared to previous quarters. More than 11,000 net jobs were added to the workforce, against less than 5,000 on average in the previous four quarters. The stronger growth was largely related to public-sector employment. In particular, nearly half the amount of net job creation in Q3 was in the subsector of human health and social work activities. Belgium's harmonised unemployment rate rose to 6.4% in October, reaching the euro area rate for the first time since 2008. At first glance, the worsening seems to indicate that the labour market is deteriorating. However, the (limited) rise in the unemployment rate since autumn 2023 was fuelled by the participation rate (active population in % of people at working age) increasing somewhat more than the employment rate (people employed in % of people at working age).

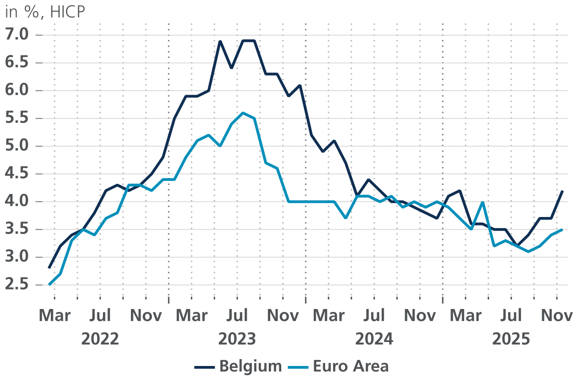
We slightly upgraded estimated Q4 qoq GDP growth to 0.3%, driven by the continued positive trend in industrial confidence. Full year growth in 2025 is still seen at 1.0%. We kept quarterly growth dynamics in 2026 unchanged, resulting in full year growth of 1.1% in 2026. Belgian inflation based on the HICP came in at 2.6% in November, slightly up from 2.5% in October. Core inflation (excluding energy and food) rose more strongly, from 2.5% to 2.8%, and now is 0.7 percentage points above its low of 2.1% reached in August. The rise was caused in particular by higher services inflation (see figure BE4). The risk of sustained higher services inflation in the coming months is compensated by lower expected energy inflation, due to futures contracts currently suggesting a lower path for oil and gas prices compared to a month ago. As a result, we kept our outlook for annual Belgian HICP inflation in 2026 at 1.6%, down from 3.0% in 2025.

Budget deal

End-November, the Belgian federal government agreed on a budget package, setting a new multi-annual path to meet the EU expenditure rule by 2029. The deal involves a mix of spending cuts and new revenue streams, generating a budgetary effort totalling EUR 9.2 billion. Despite the political agreement, budget concerns are not yet off the table. Without additional action, we see Belgium's budget deficit still above 4% of GDP by the end of the legislative term in 2029. As a result, the deficit will then be above the 3% target put forward in the original multi-annual plan and needed to end Belgium's excessive deficit procedure in 2029. Instead of stabilising in 2027-2028, as envisaged in the original multi-annual plan, Belgium's public debt ratio will still be on an upward path, reaching an expected level well above 110% by 2029.

Figure BE4 - Services inflation

in %, HICP



Source: KBC Economics based on Eurostat

Central and Eastern Europe

Economic data published since early November 2025 highlight a growing divergence in the CEE region. Bulgaria and Czechia show resilience, albeit driven by different factors (domestic consumption vs. balanced recovery). In contrast, Hungary and Slovakia are grappling with stagnation and sluggishness. This divergence is largely structural: economies heavily dependent on the German industrial supply chain (Hungary, Slovakia, and to a lesser extent, Czechia) are suffering from the ongoing industrial slowdown in Germany, while those with stronger domestic demand dynamics (Bulgaria) are insulated.

Fiscal policy has taken centre stage across the CEE region. Czechia has been pursuing a gradual consolidation, which may lose momentum with a new, post-election cabinet. Still, we forecast the public budget deficit at a mere 1.7 % of GDP in this year and below 3% of GDP in 2026. Hungary faces a dilemma: it needs to consolidate but is opting for stimulus to revive growth, risking a "twin deficit" problem (fiscal and current account deficit). Recently, the government in Budapest has announced new budgetary measures targeting families and SMEs. The measures, which boost domestic demand, are strengthening fears of a widening budget gap in 2026 due to pre-election spending. We forecast the Hungarian public budget deficit at 5.0% of GDP in 2025 and 5.3% of GDP in 2026. In a sharp contrast to Hungary, the most significant policy development in November in Slovakia was the approval of another robust fiscal consolidation package. Key measures include raising the standard VAT rate to 23% for unhealthy foods (effective Jan 2026), introducing a new tax on financial transactions for businesses, and increasing corporate levies. Moreover, a "tax pardon" was introduced to encourage the settlement of tax arrears without penalties, aiming to boost short-term revenue. Owing to the adopted fiscal austerity, we may expect the Slovak budget deficit to start declining from 5.5% of GDP last year to 5.0% of GDP in 2026.

Bulgaria's imminent entry into the Eurozone is a landmark event for the region. It signals continued integration of the Balkans into the EU core. For the wider region, it highlights the benefits of a credible monetary anchor. Conversely, the floating currencies (CZK, HUF, PLN) have allowed for independent monetary policy but also have exposed these economies to higher inflation volatility and imported price pressures. A special feature of Bulgaria's transition to the euro is the fact that it has progressed in recent years (and now comes to a close) amid a turbulent political environment, manifested, among other things, by frequently changing governments. After the resignation of the current government in December, we may only hope that if early elections are held in spring 2026, the winner will be more successful than predecessors in restoring political stability in the country.

While headline inflation is falling (most notably in Czechia), sticky services inflation remains a risk across the board. In Czechia, inflationary pressures continued to ease significantly. The annual inflation rate dropped to 2.1% in November, the lowest level since April, driven by falling food and energy prices. This figure aligns closely with the Czech National Bank's 2% target, validating previous monetary tightening. We forecast Czech annual HICP inflation to oscillate in a narrow range around 2.3% for the foreseeable future. Consumer price growth in Slovakia is moderating. The HICP inflation rate was estimated at 3.8% year-on-year in November, and we expect its annual value to remain at 4.2% this year and next year. Hungarian harmonized year-on-year inflation remains stickier than in other Visegrad countries, driven by services. It has been hovering above 4% since December 2024 and we do not expect the average rate to drop below 3.5% next year. In Bulgaria, with the year-on-year inflation rate at 5.3% in October, rapidly growing prices of consumer goods and services have been accompanied by a record high increase in real estate prices. The Bulgarian National Bank introduced borrower-based measures to cool the overheating mortgage market and ensure financial stability ahead of the currency switch. As a result of a disinflation process foreseen to start next year, annual HICP inflation should slide down to 2.7% in 2026.

As for fresh data on real GDP growth, the Czech economy demonstrated solid resilience in Q3 2025, expanding by 2.8% year-on-year and 0.8% quarter-on-quarter. This growth was primarily driven by a recovery in household consumption, supported by rising real wages and a decline in the savings rate, alongside strong gross capital formation. The Czech labour market remains tight with unemployment hovering around 3.1%, one of the lowest in the EU, though slight increases are expected as the economy cools. In Hungary, economic performance remains sluggish. Q3 2025 GDP grew by only 0.6% year-on-year and stagnated on a quarterly basis. While the construction and services sectors showed some strength, industrial output and agriculture acted as significant drags on the economy. In line with expectations, Slovakia also recorded only modest growth of 0.8% year-on-year and 0.3% quarter-on-quarter in Q3 2025. Growth was supported by net exports and a recovery in investment, although household consumption remained subdued due to fiscal tightening fears. Bulgaria outperformed its regional peers with strong growth of 3.2% year-on-year and 0.7% quarter-on-quarter in Q3 2025. Domestic consumption remains the primary engine of Bulgarian growth, fuelled by real wage increases, which can, in turn, push up inflation.

The CEE outlook is still clouded by external threats, specifically adverse implications of US tariffs and the continued weakness of the German automotive sector. This is a critical risk for the Visegrád economies (CZ, HU, SK), which are deeply integrated into global automotive supply chains. In the period 2025 to 2026, we forecast the fastest average annual real GDP growth to take place in Bulgaria (2.7%), followed by Czechia (2.0%). In contrast to the frontrunners, the growth in Hungary and Slovakia should be weaker on average though accelerating; from 0.4% to 2.3% in the former economy and from 0.7% to 0.9% in the latter.

Box 1 – Some CEE labour markets are slightly cooling, but wage pressures remain high

Labour markets in many CEE countries remain tight, leading to continued labour hoarding in certain sectors and potential wage pressures. In a few countries, such as Hungary and the Czech Republic, conditions are slightly cooling, with unemployment rates slowly rising. This is partly due to the slowdown in German industry and supply shocks linked to geopolitical events. Nevertheless, wage forecasts for these countries remain elevated. Unemployment is still (well) below NAIRU estimates, and even small adverse economic shocks are unlikely to change that.

Labour shortages

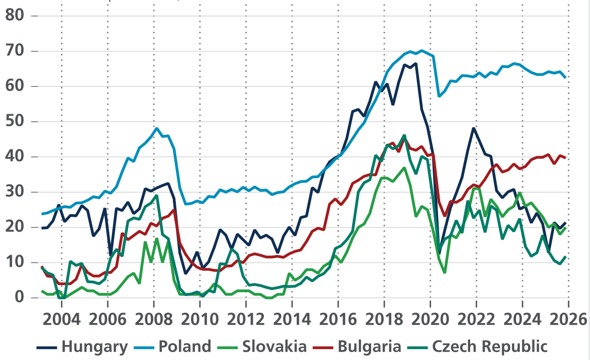
For years, companies across CEE have reported labour shortages as a key factor limiting production (see figure CEE1). This trend shows little sign of reversing and has several causes. Ageing populations and persistently low birth rates have reduced the working-age cohort, while many skilled workers have emigrated to Western Europe in search of higher wages. Rapid economic growth and integration into EU supply chains have amplified labour demand, but slow wage convergence continues to fuel emigration. Education and training systems lag behind evolving industry needs, creating skills gaps in sectors such as healthcare, construction and IT. Immigration from Ukraine and the Western Balkans has helped, but limited inflows from non-European countries and low participation among women and older workers exacerbate the problem, making labour shortages a persistent challenge for competitiveness and growth.

Non-accelerating inflation rate of unemployment

The NAIRU or non-accelerating inflation rate of unemployment is the level at which inflation remains stable because wage pressures are balanced. If unemployment falls below NAIRU, firms compete for scarce labour, pushing wages up and feeding inflation. Conversely, when unemployment is above NAIRU, wage growth slows and inflationary pressures ease. NAIRU estimates have been trending downward for many years in the region (see figure CEE2) despite demographic headwinds partly offset by Ukrainian migration and return migration. This decline is driven by structural factors such as anchored inflation expectations which have reduced wage sensitivity to unemployment, integration into global supply chains which limits firms' ability to pass higher labour costs into prices, and productivity improvements that allow companies to absorb wage increases without triggering inflation. These changes have weakened the traditional link between low unemployment and accelerating inflation enabling NAIRU to remain low even in an environment of limited labour supply.

Figure CEE1 - Labour limiting industrial production

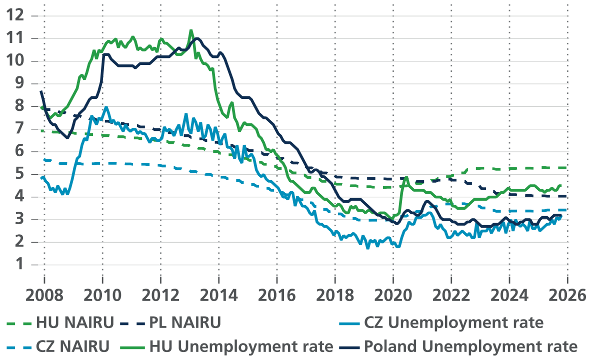
number of respondents, in %



Source: KBC Economics based on DG ECFIN

Figure CEE2 - NAIRU vs Unemployment rate

in %



Source: KBC Economics based on Eurostat

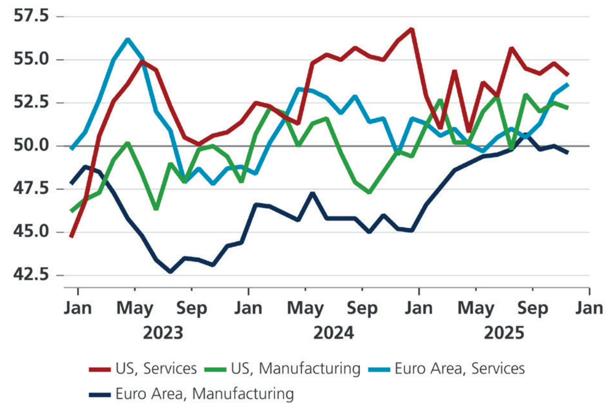
Nevertheless, unemployment rates remain below estimated NAIRU levels, resulting in continued upward wage pressures. For Hungary, we expect wage growth of 9.5% in 2026, after likely reaching 9.1% this year. In Bulgaria, following a year of double-digit wage growth, expected at 10% in 2025, growth in 2026 is forecast at around 8.7%. In the Czech Republic, where unemployment has risen the most among the countries mentioned, wage growth is still expected at 5.5% in 2026 after reaching 7% this year.

Figures

Real GDP
yearly change in %

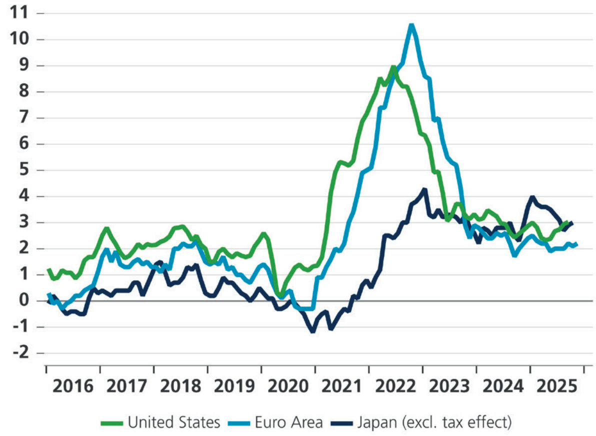
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



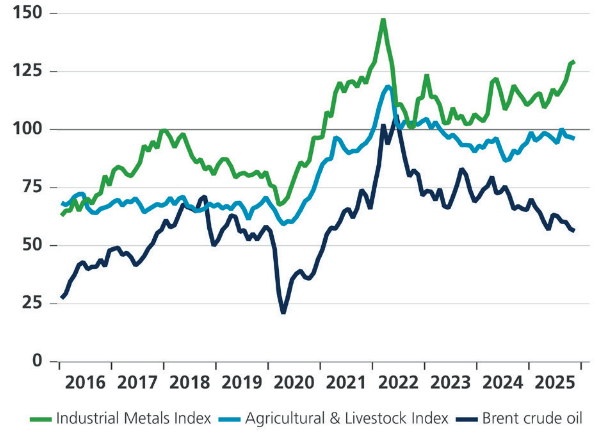
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



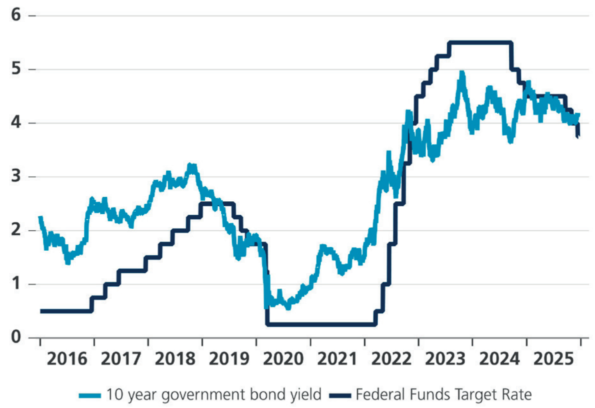
Source: KBC Economics based on Eurostat, SBJ, BLS

Commodity prices
index, January 2013=100, in USD



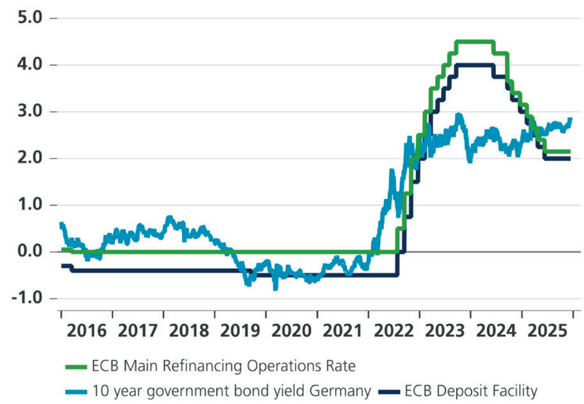
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



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

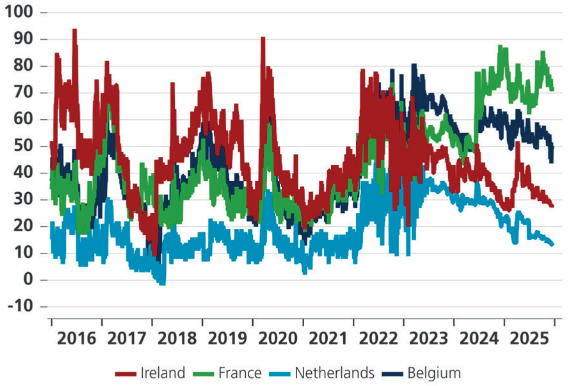
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

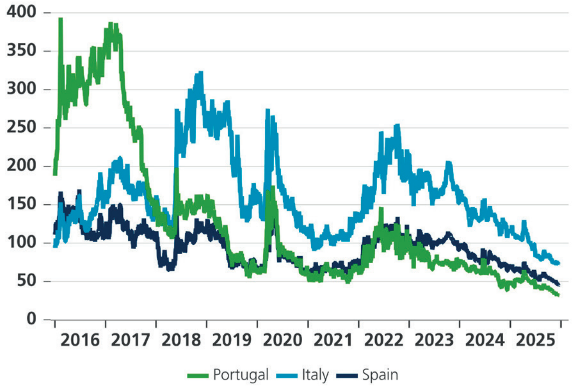
Figures

10 year government bond yield spreads to Germany
in basis points



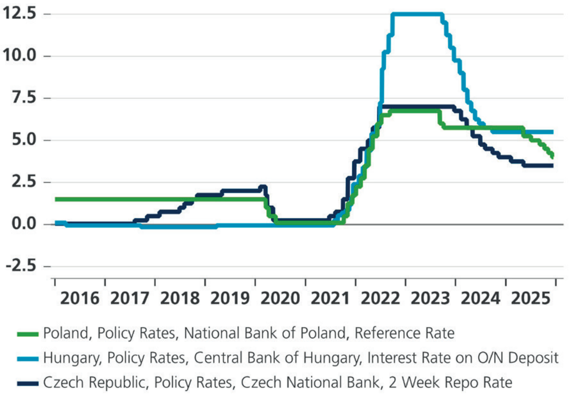
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



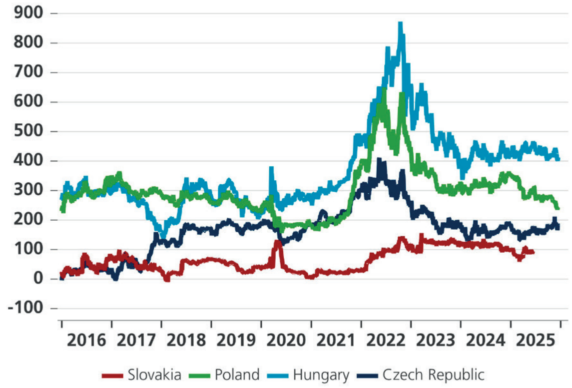
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



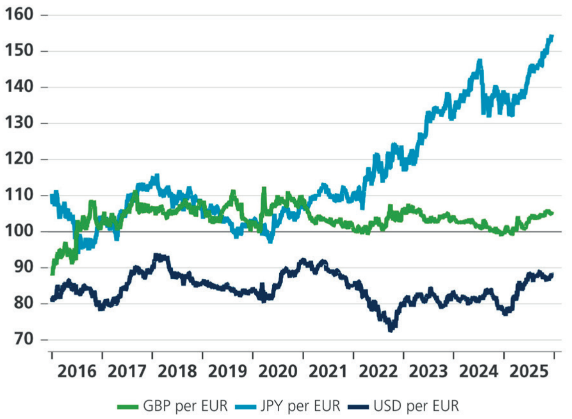
Source: KBC Economics based on CNB, MNB, NBP

10 year government bond yield spreads to Germany
in basis points



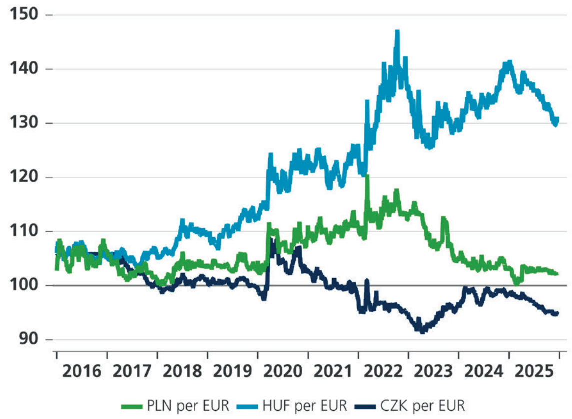
Source: KBC Economics based on Macrobond, AKK, Eurostat

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	0.8	1.4	1.0	2.4	2.1	1.6
	Germany	-0.5	0.3	0.8	2.5	2.3	1.7
	France	1.1	0.8	1.1	2.3	1.0	1.6
	Italy	0.5	0.6	0.5	1.2	1.6	1.4
	Spain	3.5	2.8	2.1	2.9	2.6	1.9
	Netherlands	1.1	1.7	1.0	3.2	3.1	2.8
	Belgium	1.1	1.0	1.1	4.3	3.0	1.6
	Ireland	2.6	10.1	3.8	1.4	1.8	1.4
	Slovakia	1.9	0.7	0.9	3.2	4.2	4.2
Central and Eastern Europe	Czech Republic	1.1	2.5	2.0	2.7	2.4	2.2
	Hungary	0.6	0.4	2.3	3.7	4.4	3.5
	Bulgaria	3.2	3.1	2.7	2.6	3.5	3.4
	Poland	3.0	3.4	3.3	3.6	3.3	2.8
	Romania	0.9	1.0	1.5	5.8	7.3	6.4
Rest of Europe	United Kingdom	1.1	1.4	1.0	2.3	3.4	2.5
	Sweden	0.9	1.2	2.3	2.0	0.7	1.0
	Norway (mainland)	0.6	2.0	1.7	2.9	2.9	2.3
	Switzerland	1.4	1.3	1.1	0.9	0.2	0.5
Emerging markets	China	5.0	4.9	4.4	0.2	-0.1	0.7
	India*	6.5	7.4	6.4	4.6	1.9	4.0
	South Africa	0.5	1.3	1.5	4.4	3.2	3.7
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	3.3	3.4	3.3	58.5	34.9	24.8
	Brazil	3.4	2.3	1.5	4.4	5.0	4.0
Other advanced economies	United States	2.8	1.9	1.7	3.0	2.7	2.6
	Japan	-0.2	1.0	0.6	2.7	3.1	1.8
	Australia	1.0	1.7	2.2	3.2	2.6	2.7
	New Zealand	-0.4	0.3	2.3	2.9	2.7	2.1
	Canada	2.0	1.1	1.1	2.3	2.0	2.0
*** fiscal year from April-March**						16/12/2025	

Policy rates (end of period, in %)		16/12/2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
Euro area	Euro area (refi rate)	2.15	2.15	2.15	2.15	2.15
	Euro area (depo rate)	2.00	2.00	2.00	2.00	2.00
Central and Eastern Europe	Czech Republic	3.50	3.50	3.50	3.50	3.50
	Hungary	6.50	6.50	6.50	6.50	6.25
	Bulgaria	-				
	Poland	4.00	4.00	3.75	3.50	3.50
	Romania	6.50	6.50	6.50	6.50	6.50
Rest of Europe	United Kingdom	4.00	3.75	3.50	3.50	3.50
	Sweden	1.75	1.75	1.75	1.75	1.75
	Norway	4.00	4.00	4.00	4.00	4.00
	Switzerland	0.00	0.00	0.00	0.00	0.00
Emerging markets	China (7-day r. repo)	1.40	1.40	1.30	1.20	1.10
	India	5.25	5.25	5.25	5.25	5.25
	South Africa	6.75	6.75	6.75	6.50	6.25
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	38.00	38.00	35.00	32.50	30.00
	Brazil	15.00	15.00	14.50	13.50	12.50
Other advanced economies	United States (mid-target range)	3.625	3.625	3.125	3.125	3.125
	Japan	0.50	0.75	0.75	0.75	0.75
	Australia	3.60	3.60	3.85	3.85	3.85
	New Zealand	2.25	2.25	2.25	2.25	2.50
	Canada	2.25	2.25	2.25	2.25	2.25

Outlook main economies in the world

10 year government bond yields (end of period, in %)		16/12/2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
Euro area	Germany	2.85	2.85	2.85	2.88	2.88
	France	3.56	3.55	3.55	3.58	3.58
	Italy	3.53	3.55	3.55	3.58	3.58
	Spain	3.29	3.30	3.30	3.33	3.33
	Netherlands	2.99	3.00	3.00	3.03	3.03
	Belgium	3.34	3.35	3.35	3.38	3.38
	Ireland	3.04	3.05	3.05	3.08	3.08
	Slovakia	3.55	3.55	3.55	3.58	3.58
Central and Eastern Europe	Czech Republic	4.67	4.50	4.40	4.30	4.30
	Hungary	7.06	6.90	6.80	6.60	6.50
	Bulgaria (EUR)*	3.66	3.50	3.50	3.53	3.53
	Poland	5.30	5.20	5.10	4.90	4.80
	Romania	6.95	6.95	6.95	6.98	6.98
Rest of Europe	United Kingdom	4.52	4.50	4.50	4.53	4.53
	Sweden	2.82	2.85	2.85	2.88	2.88
	Norway	4.18	4.20	4.20	4.23	4.23
	Switzerland	0.29	0.30	0.30	0.33	0.33
Emerging markets	China	1.79	1.77	1.82	1.87	1.97
	India	6.58	6.56	6.61	6.66	6.76
	South Africa	8.39	8.38	8.43	8.48	8.58
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	28.74	28.75	28.00	27.00	26.00
	Brazil	13.53	13.75	13.80	13.85	13.95
Other advanced economies	United States	4.17	4.15	4.20	4.25	4.35
	Japan	1.96	1.95	2.00	2.05	2.10
	Australia	4.74	4.75	4.80	4.85	4.95
	New Zealand	4.57	4.65	4.70	4.75	4.85
	Canada	3.42	3.45	3.50	3.55	3.65

***Caution: very illiquid market**

Exchange rates (end of period)	16/12/2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
USD per EUR	1.18	1.16	1.18	1.20	1.21
CZK per EUR	24.34	24.30	24.00	23.90	23.90
HUF per EUR	385.18	383.00	385.00	389.00	392.00
PLN per EUR	4.22	4.25	4.25	4.25	4.23
BGN per EUR	1.96	1.96	1.96	1.96	1.96
RON per EUR	5.09	5.09	5.11	5.12	5.14
GBP per EUR	0.88	0.88	0.89	0.90	0.90
SEK per EUR	10.93	10.90	10.85	10.80	10.75
NOK per EUR	11.95	11.80	11.70	11.60	11.50
CHF per EUR	0.94	0.93	0.93	0.93	0.93
BRL per USD	5.42	5.43	5.38	5.33	5.31
INR per USD	90.95	91.00	90.23	89.48	89.11
ZAR per USD	16.79	16.95	16.80	16.66	16.60
RUB per USD	Temporarily no forecast due to extreme uncertainty				
TRY per USD	42.71	43.34	45.33	47.44	49.28
RMB per USD	7.04	7.05	7.03	7.00	7.00
JPY per USD	154.87	153.00	150.00	147.50	145.00
USD per AUD	0.66	0.67	0.68	0.69	0.70
USD per NZD	0.58	0.58	0.58	0.59	0.60
CAD per USD	1.38	1.38	1.37	1.36	1.34

Outlook KBC markets - Central and Eastern Europe

	Czech Republic			Slovakia		
	2024	2025	2026	2024	2025	2026
Real GDP (average yearly change, based on quarterly figures, in %)	1.1	2.5	2.0	1.9	0.7	0.9
Inflation (average yearly change, harmonised CPI, in %)	2.7	2.4	2.2	3.2	4.2	4.2
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.8	3.2	3.2	5.2	5.4	5.7
Government budget balance (in % of GDP)	-2.0	-1.7	-2.9	-5.5	-5.2	-5.0
Gross public debt (in % of GDP)	43.3	43.9	45.4	59.7	61.5	63.5
Current account balance (in % of GDP)	1.7	1.0	0.7	-4.6	-4.0	-4.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	5.0	10.0	6.4	3.8	10.4	5.0

	Hungary			Bulgaria		
	2024	2025	2026	2024	2025	2026
Real GDP (average yearly change, based on quarterly figures, in %)	0.6	0.4	2.3	3.2	3.1	2.7
Inflation (average yearly change, harmonised CPI, in %)	3.7	4.4	3.5	2.6	3.5	3.4
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.4	4.4	4.0	3.8	3.8	3.7
Government budget balance (in % of GDP)	-5.0	-5.0	-5.3	-3.0	-3.0	-3.0
Gross public debt (in % of GDP)	73.5	73.5	73.6	23.8	27.8	31.3
Current account balance (in % of GDP)	1.7	1.3	1.0	-1.5	-3.3	-3.1
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	13.7	13.0	7.5	16.5	14.7	8.5

Outlook KBC markets - Belgium

National accounts (real yearly change, in %)	2024	2025	2026
Private consumption	2.0	1.7	1.1
Public consumption	1.8	1.1	1.2
Investment in fixed capital	2.0	-0.5	3.2
Corporate investment	3.1	2.8	4.2
Public investment	11.6	-5.6	2.8
Residential building investment	-6.9	-8.8	-0.4
Final domestic demand (excl. changes in inventories)	2.0	1.0	1.6
Change in inventories (contribution to growth)	-0.5	0.3	0.0
Exports of goods and services	-1.7	-1.0	-1.3
Imports of goods and services	-1.3	-0.6	-0.7
Gross domestic product (GDP), based on quarterly figures	1.1	1.0	1.1
Household disposable income	0.8	1.0	1.1
Household savings rate (% of disposable income)	12.9	12.3	12.2

Equilibrium indicators	2024	2025	2026
Inflation (average yearly change, in %)			
Consumer prices (harmonised CPI)	4.3	3.0	1.6
Health index (national CPI)	3.3	2.6	1.7
Labour market			
Domestic employment (yearly change, in '000, year end)	13.4	28.7	30.0
Unemployment rate (in % of labour force, end of year, Eurostat definition)	6.0	6.4	6.2
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-4.4	-5.3	-5.5
Public debt	103.9	106.9	109.0
Current account balance (in % of GDP)	-0.4	-1.1	-1.3
House prices (average yearly change in %, existing and new dwellings, Eurostat definition)	3.2	2.6	3.1

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