

Highlights

- The resumption of hostilities in the Middle East has rattled energy markets, as passage through the Strait of Hormuz is again minimal. Hostilities between Saudi Arabia and the Yemeni Houthis are also limiting Saudi oil exports through the Red Sea. Furthermore, Ukrainian strikes on Russian oil infrastructure have also diminished Russian oil exports. Consequently, Brent oil prices rebounded from a 71 USD per barrel low in June to 87 USD per barrel (as of 10 August). The futures curve still slopes downwards, indicating that a resolution to the conflict is still expected in the near term. This is in line with our base scenario. Natural gas prices also rebounded, from a 40 EUR per MWh June low to 60 EUR per MWh (as of 10 August). While the war in the Middle East is constraining gas supply, heatwaves have increased demand for natural gas. Furthermore, natural gas reserves are at historical lows (59% of total capacity) and need to be refilled at a rapid pace ahead of winter, causing further demand pressure.
- Inflation in the euro area stood at 2.9% in July, compared with 2.8% in June and 3.2% in May. This volatility is largely driven by energy prices, which were 10.0% higher in July than a year earlier, compared with year-on-year rises of 8.5% in June and 10.8% in May. Food price inflation, by contrast, is cooling off markedly: from 2.4% in March and April to 1.2% in July. Core inflation stood at 2.5% in July, following 2.4% in June and 2.6% in May. Volatile energy prices will continue to drive inflation trends in the coming months, making inflation considerably more difficult to predict. We expect average inflation of 2.8% for 2026, followed by 1.8% in 2027. This forecast assumes a normalisation of energy prices, as the energy shock is expected to remain temporary and fade out in the run up to the US mid-term elections (baseline scenario), and largely absent second-round effects of the energy price shock on core inflation.
- US inflation softened in June, dropping from 4.2% in May to 3.5% year-on-year and declining by 0.4% month-on-month. This softer figure is largely attributable to a 5.7% decline in energy prices, but the other components were also soft. Food prices increased by a modest 0.2%. Even more striking was the decrease in core inflation from 2.8% to 2.6%, with weakness present in all core components. Core goods declined slightly, thanks to decreases in a.o. vehicle, furniture, appliance, apparel and pharmaceutical prices. Core services remained unchanged compared to the previous month. Shelter prices increased by only 0.1%. This deceleration is partly attributable to a drop in hotel prices and rent inflation was also modest. Other services components were soft, with notably big drops in healthcare and motor vehicle insurance prices. Looking ahead, core inflation should continue to soften, given modest wage pressures and moderating rent inflation. We expect inflation to average 3.3% this year and 2.5% next year.

- With growth of 0.4% quarter-on-quarter, real GDP in the euro area once again surprised to the upside in the second quarter of 2026. The originally estimated contraction in GDP growth in the first quarter (-0.2%) was revised up to zero growth. In both cases, the Irish figures played a significant role. They distort the picture of underlying growth dynamics, negatively in the first quarter and positively in the second quarter. Excluding Ireland, the euro area's real GDP grew by 0.3% in both the first and second quarter. This points to stronger economic resilience than expected. This is largely due to the Spanish economy, which once again recorded growth of 0.7% in the second quarter. In Germany, growth slowed compared to the first-quarter figure (which was revised upwards to 0.4%). But at 0.2%, it still exceeded expectations. In France and Italy, growth stood at 0.2%, which was also higher than expected. Despite the improvement in sentiment indicators during the early summer months, our growth forecasts for the immediate future remain cautious, given the numerous (potential) headwinds, to which the recent heatwave and low water levels on key inland waterways have now been added. Nevertheless, as the German government's stimulus program gains momentum, growth is expected to be placed on a firmer footing. We expect real GDP growth in the euro area to average 0.7% in 2026 and 1.1% in 2027.
- The US economy remains in decent shape. Though growth slowed down from 0.5% quarter-on-quarter in Q1 to 0.4% in Q2, this slowdown can largely be attributed to more volatile components. Indeed, both inventories and net exports made large negative contributions. Government spending also made a small negative contribution, partially because of Strategic Petroleum Reserve drawdowns. In contrast and notwithstanding the spike in energy prices, consumer spending remained solid, making a 0.5 percentage point contribution. Non-residential investments made another strong contribution, thanks to strong equipment and intellectual property product investments. Looking ahead, business sentiment indicators continue to point to solid growth. A big jump in auto sales also bodes well for consumer spending in Q3. That said, the labour market is softening somewhat as job numbers declined by 23k in July. The unemployment rate dropped to a low 4.1%, however. We now forecast growth to average 2% in both 2026 and 2027.
- The Chinese economy slowed in the second quarter, with GDP growth decelerating to 4.3% year-on-year as contributions from both consumption and investment fell back. Growth also decelerated in quarter-on-quarter terms, from 1.3% in Q1 to 0.9% in Q2, reviving questions about whether the government's official growth target for 2026 (a range of 4.5–5.0%) is achievable. We currently forecast 2026 average annual GDP growth at the lower end of this range, factoring in an end-year boost from front-loaded public spending. Multiple headwinds remain, however. The property sector remains in correction mode, weighing on confidence. Official business sentiment surveys for both the manufacturing and non-manufacturing sector signalled a contraction in activity in July. Consumption and investment could therefore remain weak in the coming quarters. Though exports continue to support growth, weaker export demand stemming from a more volatile global economic backdrop is an important growth risk. We expect growth to decelerate to 4.2% in 2027. Although producer price inflation, at 3.5% in July, has solidly returned to positive territory (after more than three years in deflation and partially reflecting higher energy prices), both core and headline CPI figures are still relatively subdued (respectively 0.9% and 0.5% year-on-year in July), highlighting the ongoing supply-demand imbalances plaguing the Chinese economy. We expect inflation to average only 1.1% in both 2026 and 2027.

- The on-going energy crisis is complicating monetary policy. Higher oil prices are pushing inflation well above central bank targets, while also hitting growth. In response, the ECB already hiked its policy rates in June. Though the ECB subsequently kept its rates unchanged at the July policy meeting, we expect it to raise its deposit rate to 2.50% in September in response to the increased inflationary pressures. We expect the deposit rate to remain at this level in both 2026 and 2027 in our baseline scenario. The Fed has yet to raise its policy rate this year. At its July meeting, three FOMC members already dissented and voted for a rate hike. Furthermore, FOMC Chair Warsh stressed that the economy and jobs market are resilient, while PCE inflation remains elevated relative to the 2% target. We thus expect the Fed to raise the Fed Funds Rate at its September meeting. We also expect the Fed to keep rates unchanged after the September meeting (in 2026). Our baseline policy rate scenario is highly contingent on the evolution of the conflict in the Middle East. A longer-lasting conflict (with even higher energy prices as a result) would prompt a more hawkish monetary policy from the Fed and the ECB. The rebound in energy prices has also pushed up government bond yields, with 10-year German and US government bond yields increasing to 3.2% and to 4.75% by the end of July. We expect the German and US government bond yields to moderate slightly to 3.15% and 4.55% by the end of 2027.
- Czech CPI inflation accelerated slightly from 1.5% in June to 1.7% in July, driven primarily by higher fuel prices, which reflect higher oil prices and the end of government measures to cushion the impact of higher prices. Food prices continued to dampen inflation, falling by 3.1% year-on-year. Domestic price pressures remained elevated, with services inflation accelerating to 4.7% and core inflation likely moving closer to 3%. Despite headline inflation remaining below the CNB's 2% target, persistent underlying price pressures and robust wage growth support the central bank's decision to keep its key two-week rate at 3.75%. Meanwhile, the Czech economy regained momentum in Q2 2026. Real GDP expanded by 0.4% quarter-on-quarter after 0.2% growth in Q1. Household consumption and foreign demand appear to have been the main drivers of growth, supported by rising real incomes and resilient consumer spending. Investment activity remained subdued due to elevated geopolitical uncertainty. We expect Czech GDP growth to land at 2.0% in 2026, although risks remain tilted to the downside due to geopolitical tensions and their potential impact on energy prices and external demand.
- The Hungarian economy grew by 0.4% quarter-on-quarter and 1.7% year-on-year in Q2 2026. Industry and the service sector pushed GDP upward, while agriculture held it back. For the remainder of the year, household consumption is expected to continue to support the economy. We expect real GDP growth to reach 1.8% in 2026, with an acceleration coming next year to 2.6%. Hungarian headline inflation declined in July to 1.2%, reflecting the impact of lower energy and food prices, while core inflation moderated to 1.9%. In the same month, the MNB reduced its key base rate by 25 basis points to 5.75%, marking its lowest level since May 2022. The strong currency, post-election stability, and the unfreezing of EU structural funds provided room for monetary easing. Lower borrowing costs will support a private sector recovery in late 2026, though the gradual unwinding of administrative price caps poses moderate inflation risks for the second half of 2026.
- Slovakia's inflationary pressures eased further in July, with HICP inflation slowing from 3.5% year-on-year to 3.0% in June, marking the lowest reading in two years. The disinflation was driven primarily by continued declines in food prices, while weak domestic demand helped contain underlying price pressures. Legislative measures under the government's fiscal consolidation package continue

to weigh on household purchasing power, limiting private consumption growth. According to our forecast, average HICP inflation will reach 4.1% in 2026, supported by energy-related price pressures, while real GDP growth will remain subdued at 0.6% in 2026 and 1.2% in 2027.

- Bulgarian inflation also slowed considerably. Headline CPI inflation weakened to 4.4% in July from 5.5% in June, while harmonised inflation (HICP) decelerated to 4.1%. Nonetheless, domestic business surveys continue to point to persistent supply-side constraints. In July, 33.3% of industrial enterprises identified labour shortages as a factor limiting activity, while total hourly labour costs increased by 13.4% year-on-year in Q1 2026. We still expect inflation to average 4.7% this year and 3.5% next year. The Bulgarian growth outlook remains favourable, partly thanks to the recent introduction of the euro. Early evidence also points to stronger foreign direct investment (FDI) inflows. We forecast 2.6% growth this year and 2.4% next year.

Figures

Real GDP

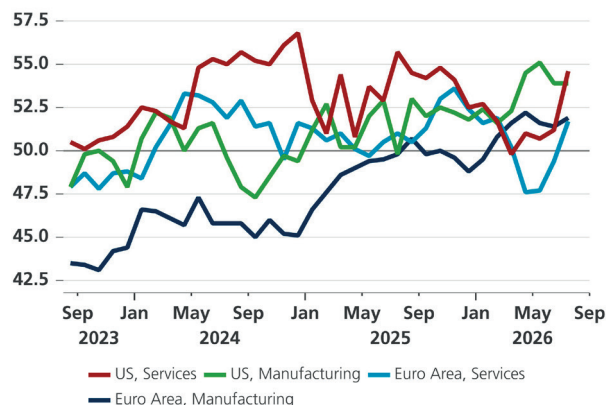
yearly change in %



Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators

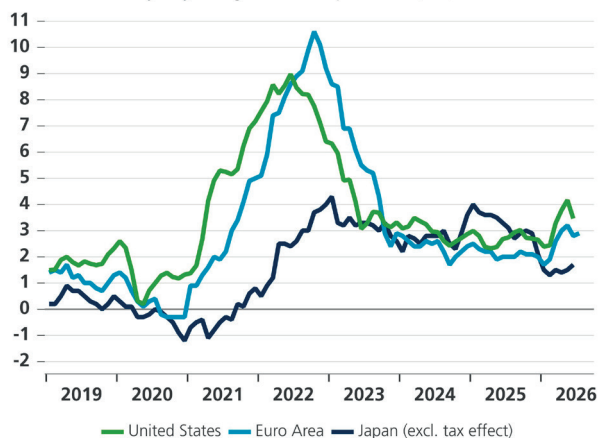
index, above 50 = expansion



Source: KBC Economics based on S&P Global

Headline inflation

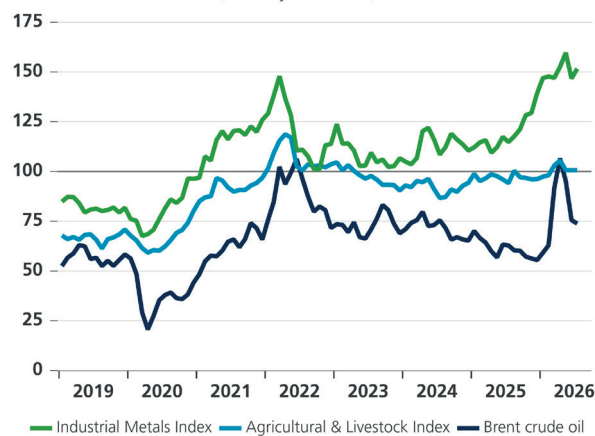
yearly change consumer price index, in %



Source: KBC Economics based on Eurostat, SBJ, BLS

Commodity prices

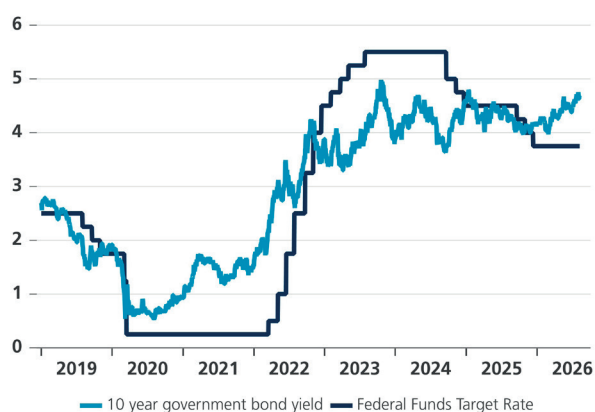
index, January 2013=100, in USD



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

United States interest rates

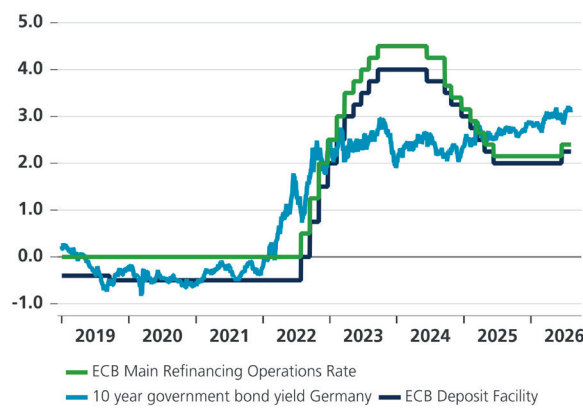
in %



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

Euro area interest rates

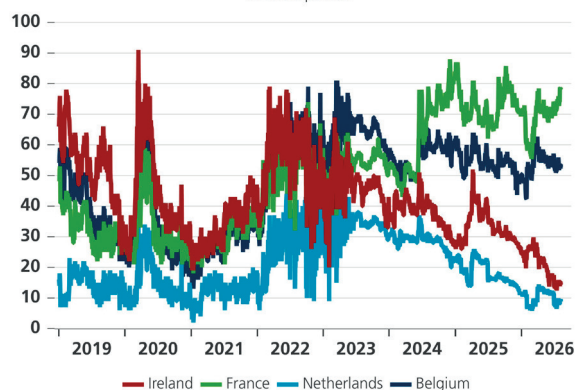
in %



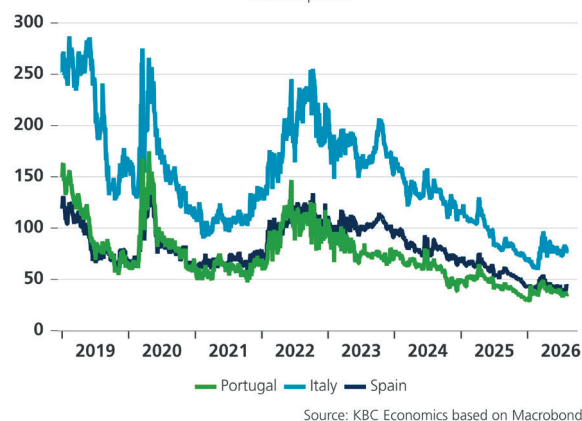
Source: KBC Economics based on Macrobond, ECB

Figures

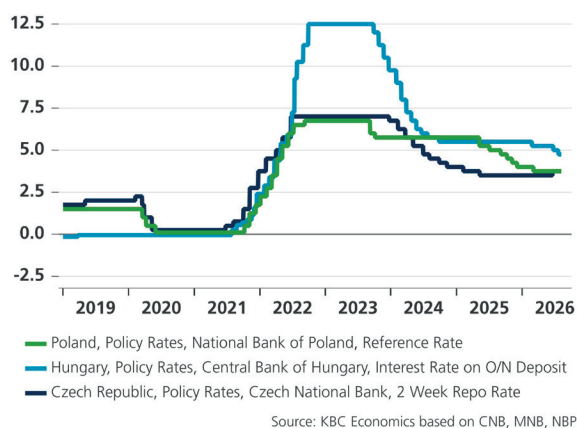
10 year government bond yield spreads to Germany
in basis points



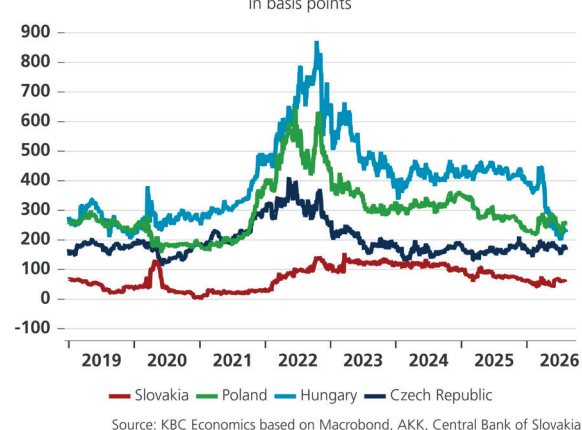
10 year government bond yield spreads to Germany
in basis points



Monetary policy rates Central Europe
in %

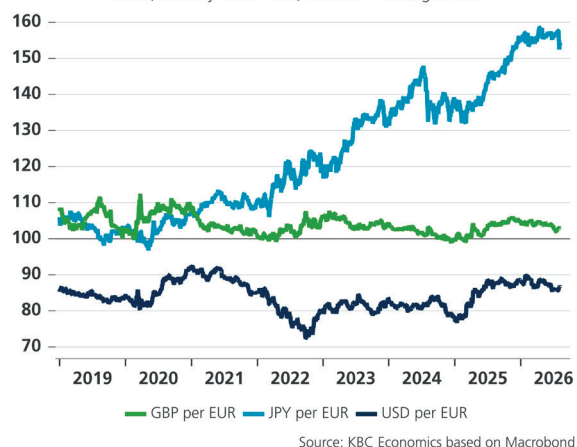


10 year government bond yield spreads to Germany
in basis points



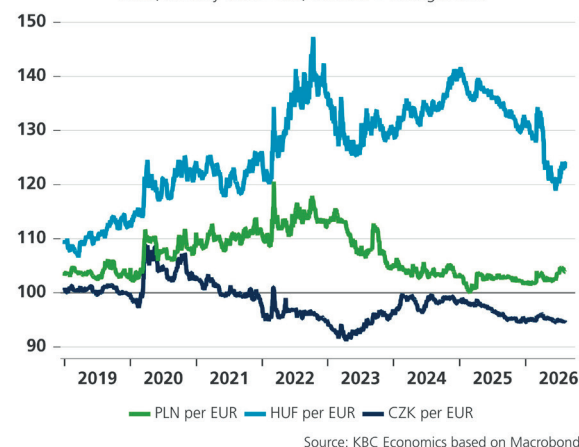
Exchange rates

index, January 2013=100, increase = stronger EUR



Exchange rates

index, January 2013=100, increase = stronger EUR



		Real GDP growth (period average, based on quarterly figures, in %)			Inflation (period average, in %)		
		2025	2026	2027	2025	2026	2027
Euro area	Euro area	1.3	0.7	1.1	2.1	2.8	1.8
	Germany	0.3	0.9	0.9	2.2	2.7	2.4
	France	0.9	0.6	0.9	0.9	2.2	1.6
	Italy	0.7	0.8	0.7	1.6	2.8	1.7
	Spain	2.8	2.5	1.9	2.7	2.7	2.2
	Netherlands	1.6	1.3	1.2	3.0	2.4	2.0
	Belgium	1.0	0.6	1.1	3.0	3.2	2.1
	Ireland	12.3	-2.7	6.5	2.1	3.5	2.9
	Slovakia	0.8	0.6	1.2	4.2	4.1	3.5
Central and Eastern Europe	Czech Republic	2.7	2.0	2.1	2.3	2.1	3.3
	Hungary	0.4	1.8	2.6	4.4	2.2	3.1
	Bulgaria	3.2	2.6	2.4	3.5	4.7	3.5
	Poland	3.6	3.2	3.2	3.4	3.2	2.6
	Romania	0.7	-0.2	2.3	6.8	8.1	4.1
Rest of Europe	United Kingdom	1.3	1.0	1.1	3.3	3.3	2.6
	Sweden	1.8	2.1	2.3	2.6	0.7	2.0
	Norway (mainland)	1.7	1.5	1.8	2.8	3.4	2.6
	Switzerland	1.4	1.1	1.3	0.1	0.6	0.7
Emerging markets	China	4.9	4.5	4.2	0.0	1.1	1.1
	India*	7.7	6.7	6.7	2.1	4.8	4.7
	South Africa	1.1	1.3	1.4	3.2	4.5	3.8
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	3.6	2.8	3.7	34.9	30.9	23.3
	Brazil	2.3	1.9	1.8	5.0	4.6	4.0
Other advanced economies	United States	2.1	2.0	2.0	2.7	3.3	2.5
	Japan	1.1	0.6	0.8	3.2	1.9	2.3
	Australia	2.0	1.9	1.8	2.8	4.2	2.9
	New Zealand	0.7	1.7	2.4	2.8	3.6	2.3
	Canada	1.9	0.7	1.8	2.2	2.7	2.0
* fiscal year from April-March						10/8/2026	

		Policy rates (end of period, in %)				
		10/8/2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Euro area	Euro area (refi rate)	2.40	2.65	2.65	2.65	2.65
	Euro area (depo rate)	2.25	2.50	2.50	2.50	2.50
Central and Eastern Europe	Czech Republic	3.75	3.75	3.75	3.75	3.75
	Hungary	5.75	5.50	5.50	5.25	5.00
	Poland	3.75	3.75	3.75	3.50	3.50
	Romania	6.50	6.50	6.50	6.50	6.50
Rest of Europe	United Kingdom	3.75	3.75	3.75	3.75	3.75
	Sweden	1.75	1.75	2.00	2.00	2.00
	Norway	4.25	4.50	4.50	4.50	4.50
	Switzerland	0.00	0.00	0.00	0.00	0.00
Emerging markets	China (7-day r. repo)	1.40	1.40	1.40	1.30	1.20
	India	5.25	5.25	5.25	5.25	5.50
	South Africa	7.00	7.25	7.25	7.00	7.00
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	37.00	37.00	35.00	33.00	30.50
	Brazil	14.00	14.00	13.75	13.25	13.00
Other advanced economies	United States (mid-target range)	3.625	3.875	3.875	3.875	3.875
	Japan	1.00	1.00	1.25	1.25	1.25
	Australia	4.35	4.35	4.35	4.35	4.35
	New Zealand	2.50	2.75	3.00	3.25	3.25
	Canada	2.25	2.25	2.25	2.50	2.50

10 year government bond yields (end of period, in %)		10/8/2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Euro area	Germany	3.14	3.15	3.15	3.15	3.15
	France	3.93	3.85	3.80	3.85	3.75
	Italy	3.92	3.85	3.85	3.85	3.80
	Spain	3.58	3.55	3.55	3.55	3.55
	Netherlands	3.23	3.25	3.25	3.25	3.25
	Belgium	3.67	3.65	3.65	3.60	3.55
	Ireland	3.30	3.35	3.35	3.35	3.35
	Slovakia	3.80	3.85	3.80	3.80	3.80
Central and Eastern Europe	Czech Republic	4.76	4.80	4.70	4.40	4.30
	Hungary	5.44	5.40	5.15	5.10	5.05
	Bulgaria *	4.01	3.95	3.85	3.75	3.75
	Poland	5.74	5.40	5.30	5.10	5.00
	Romania	6.91	7.00	7.00	7.00	7.00
Rest of Europe	United Kingdom	4.94	5.00	5.00	5.00	5.00
	Sweden	3.01	3.00	3.00	3.00	3.00
	Norway	4.40	4.40	4.40	4.40	4.40
	Switzerland	0.38	0.40	0.40	0.40	0.40
Emerging markets	China	1.70	1.80	1.80	1.80	1.80
	India	6.77	6.85	6.85	6.85	6.85
	South Africa	8.47	8.60	8.60	8.60	8.60
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	32.20	32.00	30.00	29.00	27.00
	Brazil	14.57	14.70	14.60	14.60	14.60
Other advanced economies	United States	4.67	4.60	4.60	4.60	4.60
	Japan	2.81	2.75	2.75	2.75	2.75
	Australia	4.98	4.90	4.90	4.90	4.90
	New Zealand	4.70	4.65	4.65	4.65	4.65
	Canada	3.67	3.60	3.60	3.60	3.60

*Caution: very illiquid market

Exchange rates (end of period)		10/8/2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
USD per EUR		1.16	1.12	1.14	1.15	1.16
CZK per EUR		24.25	24.20	24.10	23.90	23.80
HUF per EUR		363.40	360.00	360.00	362.00	365.00
PLN per EUR		4.30	4.35	4.30	4.28	4.25
RON per EUR		5.24	5.25	5.26	5.28	5.30
GBP per EUR		0.86	0.87	0.90	0.90	0.90
SEK per EUR		10.96	11.25	11.20	11.00	11.00
NOK per EUR		10.97	11.00	11.00	10.75	10.75
CHF per EUR		0.93	0.92	0.92	0.92	0.92
BRL per USD		5.09	5.14	5.09	5.07	5.05
INR per USD		95.30	96.76	95.91	95.49	95.08
ZAR per USD		16.17	16.71	16.56	16.49	16.42
RUB per USD		Temporarily no forecast due to extreme uncertainty				
TRY per USD		47.71	48.80	51.20	53.50	55.70
RMB per USD		6.74	6.78	6.78	6.77	6.75
JPY per USD		158.74	160.00	158.00	157.00	157.00
USD per AUD		0.71	0.70	0.70	0.71	0.71
USD per NZD		0.59	0.59	0.60	0.61	0.62
CAD per USD		1.39	1.43	1.45	1.45	1.45

Outlook KBC markets – Central and Eastern Europe

	Czech Republic				Slovakia		
	2025	2026	2027		2025	2026	2027
Real GDP (average yearly change, based on quarterly figures, in %)	2.7	2.0	2.1		0.8	0.6	1.2
Inflation (average yearly change, harmonised CPI, in %)	2.3	2.1	3.3		4.2	4.1	3.5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.2	3.2	3.0		5.7	5.9	5.9
Government budget balance (in % of GDP)	-2.1	-2.7	-3.1		-4.5	-5.0	-5.4
Gross public debt (in % of GDP)	44.2	46.0	47.8		61.4	63.5	65.5
Current account balance (in % of GDP)	0.7	0.0	0.1		-3.7	-3.6	-3.3
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	10.4	7.7	4.5		12.4	7.5	5.0

	Hungary				Bulgaria		
	2025	2026	2027		2025	2026	2027
Real GDP (average yearly change, based on quarterly figures, in %)	0.4	1.8	2.6		3.2	2.6	2.4
Inflation (average yearly change, harmonised CPI, in %)	4.4	2.2	3.1		3.5	4.7	3.5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.5	4.5	4.1		3.1	3.3	3.4
Government budget balance (in % of GDP)	-4.7	-6.8	-5.5		-3.5	-5.7	-3.8
Gross public debt (in % of GDP)	74.6	76.1	76.9		29.9	30.1	33.6
Current account balance (in % of GDP)	1.8	0.0	0.5		-5.4	-6.0	-5.2
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	18.3	9.0	5.0		14.6	7.9	4.5

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