

Economic Perspectives

September 2018

Highlights

- The global economy continued its strong performance. However, growth became geographically less synchronized, while turbulence hit several emerging markets. Moreover, several risk factor disturb the overall optimistic picture.
- In particular the US economy remains in good shape. Net job creation increased further to 204000 in August and the unemployment rate remained at 3.9%, well below the level that the Fed considers to be sustainable in the longer term (4.5%). In line with this, average earnings growth accelerated to 2.9% year-on-year. The Fed will likely continue its current rate hiking cycle until it reaches a within the range of 3.25%-3.50% at the end of 2019. This level will be higher than the 2.9% that the Fed currently considers to be its longer-term neutral policy rate.
- Our near-term growth scenario for the euro area remains relatively favourable too, though less buoyant. In both the US and euro area economies, economic growth is currently well above its potential rate, and will gradually slow towards that potential rate. Real GDP growth in Central Europa is expected to remain markedly higher than for the euro area as a whole. This implies that the converging trend of the region has again shifted into a higher gear.
- At 2% in August, euro area headline inflation in the euro appears fully aligned with the ECB medium term target. However, underlying core inflation still only amounts to 1.0%. The large difference between both inflation measures is predominantly due to year-on-year changes in energy prices (+9.2% in August).
- The ECB confirmed its earlier forward guidance and reduced the amount of its net monthly asset purchases to 15 billion EUR, with the intention to end it at the end of 2018. Current policy rates are expected to remain unchanged until at least 'through the Summer of 2019'.
- German bond yields will probably normalise more gradually than we have expected so far. Excess liquidity remains present, political and economic risks create 'safe haven' effects and persistent German budget surpluses are keeping a lid on bond yields.
- A major political risk affecting the European economy remains Brexit. Our scenario is a 'softish but not smooth' outcome. This involves a sufficiently vaguely-worded exit agreement, after which the future trade relationship between both economies can then be worked out. Other major sources of uncertainty for the economy are the upcoming Italian budget, financial market volatility, rising protectionism and vulnerabilities in Emerging markets.
- Focus article - Emerging market vulnerabilities and weaknesses

Global Economy

US economy boosted by fiscal stimulus

The US economy remains in good shape. Confidence indicators in the manufacturing sector in particular improved and resumed their upward trend. The booming momentum was also reflected by the sustained strength of the labour market performance in August. Although the job market is already tight, net job creation increased further to 204,000 from 170,000 in July. As a result, the unemployment rate remained unchanged at 3.9%, well below the level that the Fed considers to be sustainable in the longer term (4.5%). Excluding the May 2018 figure (3.8%), the unemployment rate is at its lowest level since December 2000 (Figure 1). The combination of these strong data and the ongoing impulse stemming from expansionary fiscal policy led us to revise upward our US growth forecast for 2019 to 2.5%.

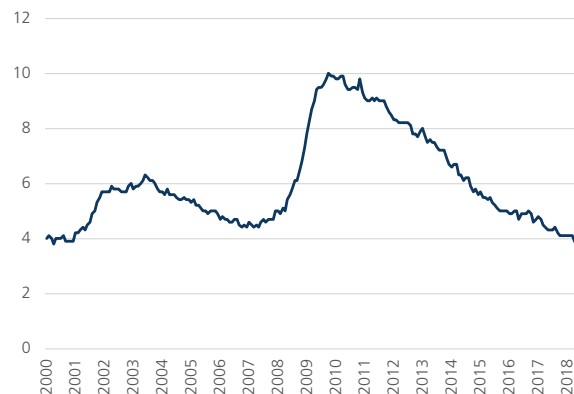
In line with the booming labour market, average earnings growth accelerated to 2.9% year-on-year compared to 2.7% in July. This suggests that the much-debated empirical relationship between labour market tightness and wage growth remains intact. Higher wage growth and unit labour costs should further support headline inflation. Together with somewhat higher oil prices and the typical late-cyclical inflation uptick, our US inflation forecast for 2019 is now somewhat higher (2.6%) compared to last month.

Against this background of strong growth momentum and some pointers towards building inflationary pressure, we expect the Fed to take a more aggressive policy stance, notwithstanding recent criticism by President Trump. In our view, the Fed will likely continue its current rate hiking cycle until the policy rate reaches a peak within the range of 3.25%-3.50% at the end of 2019. This level will be higher than the 2.9% that the Fed currently considers to be its longer-term neutral policy rate. Although this more hawkish Fed policy will push US 10y bond yields slightly higher as well, the US yield curve will nevertheless become flat by the end of 2019. This is consistent with our view that the US economy is in a late-cyclical state.

Euro area growth above potential...

For both the US and the euro area economy, we expect a gradually slowing trend in economic growth to become established in the years ahead. However, in the US, this is

Figure 1 - US unemployment rate well below pre-crisis level
(in % of labour force)



Source: KBC Economic Research based on BLS (2018)

temporarily offset by an expansionary fiscal policy boost, supporting growth in 2018. In the euro area, on the other hand, there is no such temporary policy boost. As a result, we currently observe a somewhat diverging growth dynamic between the two economies. This was for example reflected in the much stronger US growth momentum in the second quarter of 2018 (1.0% quarter-on-quarter not annualised in the US, compared to only 0.4% in the euro area).

Apart from the diverging fiscal policy stance, reasons for this comparatively weak European growth also include increasing labour shortages in some areas, uncertainty about Brexit, increased trade tensions and the sensitivity to the Emerging Market turmoil, which is decreasing foreign demand. On top of direct trade channels, these uncertainties also indirectly weigh on sentiment and investment decisions and hence on economic growth. In his press statement on 13 September, ECB President Draghi also explicitly mentioned financial market volatility as an increasingly prominent risk factor.

Nevertheless, despite being cautious about some risks facing the Euro area, our growth outlook for the next couple of years is reasonably positive. For both the US and euro area economies, economic growth is currently well above its potential rate, which is estimated at about 2.1% for the US and 1.5% for the euro area by the Fed and the European Commission respectively. This assessment is supported by the rapid and substantial fall of the unemployment rate in both economies. Moreover, real GDP growth in Central Europe is expected to remain markedly higher than for the euro area as whole. This implies that the converging trend of the region has again shifted into a higher gear.

... but core inflation remains subdued

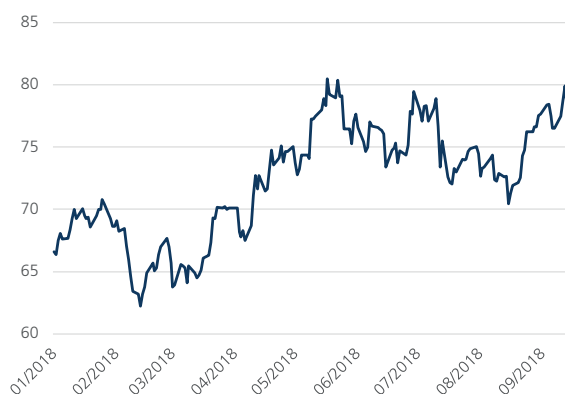
After a minor drop in August to 2.0%, headline inflation in the euro area appears broadly aligned with the ECB's medium-term target. However, underlying core inflation declined marginally and now stands at only 1.0%, well below the ECB's target of 'below but close to 2%'. The large difference between both inflation measures is predominantly due to large year-on-year changes in energy prices (+9.2% in August). Inflation in the service sector remained subdued at only 1.3%, while prices of non-energy industrial goods went up by only 0.3% compared to the same month a year ago.

We expect energy prices to remain somewhat elevated in the near future. Compared to last month's forecast, oil prices are now expected to remain at a slightly higher level, ending 2018 at about 75 USD per barrel of Brent. This is mainly due to a stronger-than-expected impact of supply-side factors such as US sanctions on Iran and a supply shortfall from Venezuela. Moreover, oil prices have been volatile in recent weeks, reaching a temporary bottom of 70 USD/barrel in mid-August before rising again to its current level of about 80 USD per barrel of Brent (Figure 2). This level and volatility has in part been caused by elevated global political and economic uncertainty. Since we expect that the energy component will remain an important driving force of headline inflation in the near term, we also raised our 2019 inflation forecast for the euro area.

Slower German bond yield normalisation

On 13 September, the ECB confirmed its earlier forward guidance and, as it had signalled in June, reduced the amount

Figure 2 - Volatile oil price on the rise again
(USD per barrel of Brent)



Source: KBC Economic Research based on Thomson Reuters Datastream (2018)

of its net monthly asset purchases to 15 billion EUR from 30 billion EUR previously. It also reiterated its forward guidance that, unless economic conditions deteriorate, the Asset Purchase Programme will be ended by the end of 2018. Current policy rates are expected to remain unchanged until at least 'through the Summer of 2019', and in any case as long as it is necessary. In other words, the ECB's policy stance is set to remain highly accommodative and we continue to expect only one policy rate hike in 2019.

Two things will likely happen as a result. First, the policy divergence between the ECB and the Fed will in the coming months be supportive of the US Dollar exchange rate. In the coming months, we therefore expect the Euro to weaken towards a lower level at the end of 2018 (1.15 USD per EUR) than anticipated last month. In the second half of 2019, the relative dynamics of monetary policies will likely change, starting off a gradual appreciating trend of the Euro against the Dollar.

Second, the accommodative ECB policy will likely cause the German bond yields to normalise more gradually than we previously expected. German 10 year government bonds are now expected to yield 0.60% at the end of 2018. This seems strangely out of line with macro-economic fundamentals of the euro area such as expected growth and core inflation. However, there are some powerful factors at play that may continue to contain German bond yields, which serve as a benchmark for the euro area as a whole. Even after the expected end of the ECB's Asset Purchase Programme this year, excess liquidity will remain substantial and continue to exert downward pressure on yields. Moreover, the high level of political and economic risk will create 'safe haven' effects and direct capital flows towards perceived risk free assets such as German Bunds. Risks both inside and outside Europe play a role. Within Europe the Brexit negotiations are supposed to lead to an agreement by the end of 2018 which may not proceed in a smooth way. Also the political situation in Italy remains a risk factor. At a global level, continuing trade conflicts and emerging market turmoil make investors look for safer alternatives.

On a more general note, a scarcity of German Bunds is likely playing a major role. Otherwise, it would be difficult to explain the relatively stronger impact of flight to quality capital flows on German Bunds than on US Treasuries, which have a longer and well-tested history as a safe haven. In the European context, demand for risk free assets is not only boosted by financial regulation, but at the same time the supply of these risk free German Bunds is restricted by persistent German budget surpluses. According to the latest forecasts of the European Commission, the German general government surplus in 2018

will amount to 1.2% of GDP and is expected to further rise to 1.4% of GDP in 2019. An unbroken sequence of budget surpluses since 2014 implies an absolute fall in gross public debt and hence a decrease in the supply of Bunds.

Italian risk without contagion so far...

Meanwhile, the yield spread of other euro area sovereigns versus Germany has remained broadly stable in recent weeks, with the notable exception of the Italian spread. Market fears that the new Italian government may propose a draft budget law in October that would not be compatible with EU stability rules, sharply increased Italian spreads to 290 basis points at the end of August. ECB president Draghi specifically referred to the economic damage that may have been caused by this policy uncertainty. However, after some reassuring comments, the spread again sharply fell to below 240 basis points (Figure 3). According to Italian press reports, Italian Minister of Finance and Economy Tria had threatened to resign if the financial implications of the government programme would lead to an unsustainable government budget for 2019.

The absence of contagion to the spread of other vulnerable euro area member states sends the reassuring message that markets are considering the matter as a contained Italian issue, with limited risk for the euro area as a whole. Based on past experience, that market assessment may, however, quickly change again once the actual budget law is presented in October.

...but general risk premia on upward trend

Despite the relative calm with respect to general intra-EMU sovereign spreads, credit spreads in general have been rising recently and will likely continue to do so. This is for example the case for the risk premia on European corporate bonds and for insurance premia (CDSs) on bonds issued by investment grade quality European and US corporates. In principle, this tentative normalisation of risk premia is a healthy evolution. Together with other institutions, the Bank for International Settlements has warned for many years that many risk premia are artificially compressed by the abundant liquidity provision by central banks and no longer accurately reflect the true credit risk. As such, an orderly upward correction of risk premia should promote longer term financial stability. It should therefore be welcomed. At the same time, however, the increasing risk premia also reflect the actual presence of real risks in the global economy, ranging

from trade conflicts, emerging market turmoil to geopolitical events. For this reason, they should remain closely monitored.

Softish but not smooth Brexit

A major political risk affecting the European economy remains Brexit. As time passes by without substantive progress on a few notable sticking points, the risk of a Brexit without an exit deal increases, although this is not our base scenario. Our expectation remains that there will be an exit agreement with a sufficiently vague wording that both the UK and the EU can live with. During the following transition period between the Brexit date and the end of 2020, the future trade relationship between both economies can then be worked out.

As ECB President Draghi mentioned during his latest press conference on 13 September, the main sources of uncertainty for the economy are, apart from financial market volatility, the rise of protectionism and vulnerabilities in emerging markets.

Trade conflicts have indeed become an inherent feature of the global economy of late. The US-China trade war escalated further with new US tariffs on Chinese imports and Chinese retaliation measures in response. Another recent development was the provisional bilateral agreement between the US and Mexico as part of the overall renegotiation of NAFTA. This bilateral agreement essentially requires a higher share of local content of Mexican exports to the US. Moreover, a higher share of these exports would be required to be produced by workers earning a higher minimum wage. The question remains whether Canada will agree to this deal. Some sensitive issues remain to be discussed, such as the potential arbitration

Figure 3 - Italian spread sensitive to fiscal uncertainty
(10y government bond yield spread to Germany, in basis points)



Source: KBC Economic Research based on Thomson Reuters Datastream (2018)

procedures and tariffs on some agricultural products. On the one hand, it is not obvious that the US Congress would agree with a trade deal that excludes Canada. On the other hand, the US administration is increasing pressure on Canada by threatening to increase import tariffs on Canadian cars. These developments are bad news for free trade and ultimately for global economic prospects. Either NAFTA including Canada will come to end and lead to damage to the Canadian economy, or, in case of an agreement, President Trump's confrontational negotiation tactics will have proven to be effective. This could inspire him to apply them in other trade conflicts as well, notably the one with the EU, which is currently at a stage of 'ceasefire'.

Emerging market turmoil there to stay

The ongoing turbulence on emerging markets also continues to contribute to global risk and uncertainty. Although emerging markets as a whole are not a homogenous group of economies, most of them are affected by the impact of the Fed policy tightening cycle on net global capital flows. In particular emerging markets with weak economic fundamentals and unsustainably expansionary macroeconomic policies (leading to unhealthy current account deficits and high inflation) are suffering markedly. Recent prominent examples for this are Argentina and Turkey. The Argentine central bank was forced to raise its policy rate to 60% in order to support the exchange rate of the Peso and fight inflation. Based on the same reasoning, the Turkish central bank raised its policy rate on 14 September from 17.75% to 24%, against the explicit wish of the government. But even for emerging markets with relatively healthy macroeconomic fundamentals, the near-term financial environment will remain challenging for as long as the Fed tightening cycle continues.

Bulgarian Economy

Preliminary data from the National Statistical Institute confirmed earlier GDP growth estimates of 3.4% in Q2 2018 compared to Q2 2017, and of 0.8% compared to Q1 2018. The main growth contribution came from private consumption (+5% yoy), gross fixed capital formation (+ 4.6% yoy) and government consumption (+ 2.3% yoy). Since we expect exports to continue declining, we forecast overall real GDP growth for 2018 to be 3.5%. The reasons for the poorer export performance are the ongoing trade conflicts and the crisis in neighbouring Turkey.

Low inflation is one of the criteria for convergence within the EU

(the so-called Maastricht criteria) and its level and movement is currently very important because of Bulgaria's bid to join the ERM II currency mechanism. For the time being, there is every prospect of meeting these convergence criteria. We expect average inflation to be 2.0% for 2018, before slowing down to 1.8% in 2019. This expected path is mainly due to a strong base effect in prices of energy products. The rise in (real) disposable incomes will likely also provide continued support for consumption growth and inflation. In line with strong economic growth, the unemployment rate in Bulgaria fell to an all-time low of 4.8% in June. The reasons for this drop are, however, double-sided. On the one hand, strong economic growth is leading to higher demand for labour. On the other hand, the supply of labour is also shrinking mainly as a result of strong emigration. As a result, Bulgarian companies are increasingly facing the problem of a labour shortage.

Detailed country forecasts	2017	2018	2019
Real GDP growth (in %)	3.6	3.5	3.4
Inflation (in %, harmonised CPI)	1.3	2.0	1.8
Unemployment rate (in %, end of year, Eurostat definition)	5.7	4.8	4.7
Government budget balance (in % of GDP)	0.8	-0.5	-0.5
Gross Public debt (in % of GDP)	25.1	24.7	24.2
Current account balance (in % of GDP)	5.0	3.4	1.4
House prices (avg annual %-change, total dwellings, Eurostat definition)	9.0	6.0	5.0

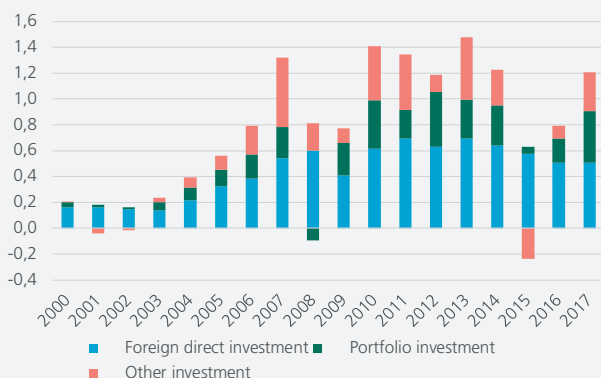
Focus article - Emerging market vulnerabilities and weaknesses

Emerging markets have taken a beating in recent months. Though turbulence in Argentina and Turkey—whose currencies have respectively lost 54% and 39% of their value against the USD this year—have dominated the headlines, they are not the only emerging markets to face increased market volatility. Such volatility in emerging markets is common when the Federal Reserve is in the middle of a policy tightening cycle. Indeed, with interest rates in the U.S. rising and expected to rise further, some emerging markets may find it more difficult to secure (re)financing from international capital markets. Furthermore, a loss of market confidence and associated pressure on a country's currency can have sizable repercussions for growth, especially when financial stability considerations push central banks to raise interest rates. Therefore, it is worth considering the vulnerabilities of several emerging markets and possible implications of further market turbulence.

Why are emerging markets in the spotlight?

For years after the financial crisis, major central banks such as the Federal Reserve and the ECB lowered interest rates to zero (or even negative) and implemented unconventional, quantitative easing policies. During this period of very easy financial conditions, emerging markets also had notably easier access to financing. Capital flows to emerging markets recovered and, save for a dip in 2015-2016, remained strong until recently (figure A). Furthermore, many emerging markets racked up

Figure A - EM Non-Resident Capital Flows (USD tn)



Source: KBC Economic Research based on IIF

sizable debt positions, some of which are denominated in foreign currency.

Now, however, the Federal Reserve is in the midst of a hiking cycle and is winding down its balance sheet, which had grown substantially thanks to quantitative easing. The ECB is also set to end its monthly Asset Purchase Programme by the end of 2018, though a first rate hike isn't expected until after summer 2019. With global interest rates rising, a stronger USD, and financial conditions tightening, markets appear to be reconsidering whether 'search for yield' behaviour may have led to a misallocation of funds in previous years.

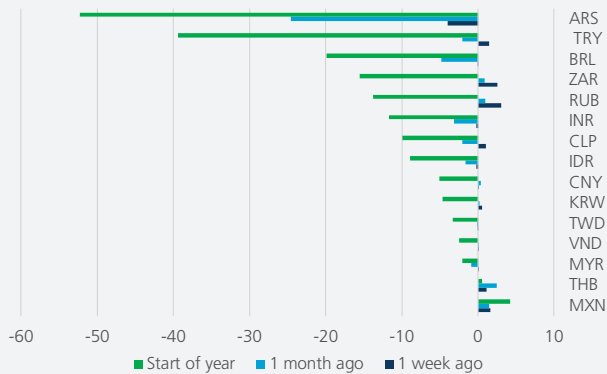
Reflecting such concerns, net capital flows to emerging markets have dropped off since the beginning of the year. A sudden decline, or even reversal of capital flows and more limited access to international financing means that a country has to very quickly adjust its macroeconomic imbalances, such as its current account deficit or fiscal deficit. When market forces necessitate an abrupt adjustment of a country's current account deficit, for example, this either requires a decline in imports or an increase in exports. Of course, a weaker currency helps in both regards. As such, it is not surprising that the currencies of those emerging markets with the largest imbalances have generally come under the most pressure this year.

Not all sources of financing to emerging markets are the same however. As seen in figure A, foreign direct investment (FDI) tends to be much more stable than volatile portfolio investment. Countries that are more reliant on portfolio flows, therefore, are more vulnerable to a sudden shift in risk sentiment. Furthermore, fears of further losses on emerging market assets may spur holders of that country's debt to either sell the assets or hedge their currency exposure, putting additional pressure on the currency. This means that countries with a higher proportion of debt held by non-residents are also more vulnerable.

Which countries have the highest imbalances?

As seen in figure B, the Argentine peso (ARS), Turkish Lira (TRY), Brazilian real (BRL), South African Rand (ZAR), Russian

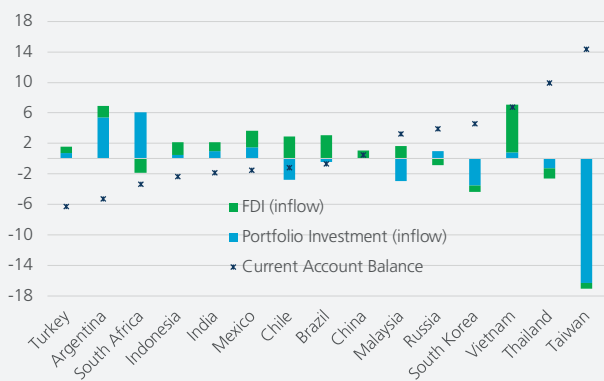
Figure B - Change in emerging market currencies vs USD (in %, as of 18 September 2018)



Source: KBC Economic Research based on Macrobond

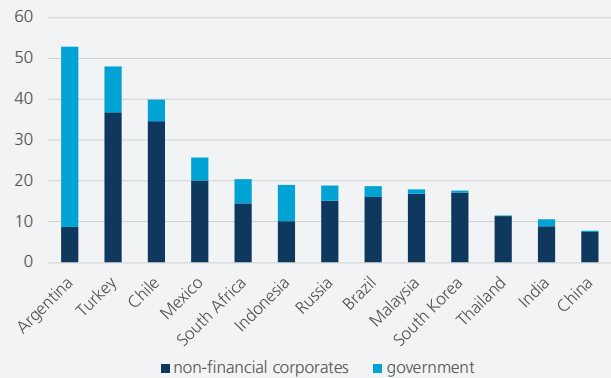
rouble (RUB), Indian rupee (INR), Chilean peso (CLP) and Indonesian rupiah (IDR) have all depreciated significantly against the USD this year (~9% or more). In many cases, the central bank and authorities have had to intervene to stabilize the currency. Though of course, idiosyncratic factors are at play for countries like Argentina and Turkey (i.e. a legacy of debt defaults and an erosion of policy norms, respectively), each of these economies have notable imbalances or weaknesses related to their financing needs. In terms of the balance of payments, for example, Turkey, Argentina, South Africa and Indonesia, all have current account deficits larger than 2.0% of GDP. Furthermore, Argentina and South Africa have a notably high reliance on portfolio investment (figure C). Several of the countries whose currencies were hardest hit in recent months also have either sizable fiscal deficits, high levels of public debt relative to GDP (or both). What's more, a non-negligible

Figure C - Balance of Payments, 4Q-rolling (% of GDP)



Source: KBC Economic Research based on national authorities

Figure D - Foreign Currency Debt, % of GDP (Q1 2018)



Source: KBC Economic Research based on IIF

portion of that government debt, in addition to corporate debt, is denominated in USD for several emerging markets (figure D). Finally, while many emerging markets have international reserves which more than cover short-term external debt, Argentina and Turkey either fall short, or have reserves just equal to short-term external debt.

Taken together, as seen in figure E, it is not surprising which economies have endured the most market turbulence this year. It is also worth pointing out, however, that while several emerging market economies have notable vulnerabilities, those of Argentina and Turkey, which have clearly spun into crisis-mode, are far more substantial. Furthermore, for many emerging markets, several of these metrics are much stronger than compared to previous crisis periods. Indeed, the fact that most of these emerging markets now have a floating or managed-float currency, rather than one pegged to the dollar, means that the necessary adjustments can take place. Hence, though emerging markets in general have faced market pressure this year, it does not necessarily mean that crisis-like conditions will spill over to all emerging markets.

What are the consequences?

The authorities in emerging markets do have policy tools available to combat market volatility. Indeed, in response to pressure from markets, authorities and central banks in several of these economies have raised interest rates, intervened in currency markets, and proposed new fiscal adjustments. In Argentina and Turkey, the respective central banks have raised rates a whopping 3,125 and 1,600 basis points respectively

Figure E - Vulnerabilities heat map

	Argentina	Turkey	Brazil	South Africa	Russia	India	Chile	Indonesia	China	South Korea	Vietnam	Malaysia	Thailand	Mexico
Current account balance (4Q rolling, % GDP)	-5,2	-6,3	-0,7	-3,3	3,9	-1,9	-1,2	-2,3	0,5	4,5	6,8	3,2	9,9	-1,5
Portfolio investment (4Q rolling, % GDP)	5,4	0,7	-0,4	6,1	1,0	1,0	-2,8	0,5	0,0	-3,5	0,8	-2,9	-1,2	1,5
Fiscal Deficit (% of GDP)	6,5	2,3	7,8	4,5	1,5	6,9	2,7	2,5	4,0	-1,9	4,7	2,9	0,6	1,1
Public debt (% of GDP)	52,6	28,5	84,0	52,7	17,4	70,2	23,6	28,9	47,8	39,8	58,2	54,2	41,9	54,2
FX denominated debt (% of GDP, NFC & govt)	52,9	48,0	18,8	20,4	18,9	10,6	39,9	19,0	7,8	17,6	N/A	17,9	11,6	25,7
Reserves to short term external debt	0,7	1,0	7,5	1,5	7,7	4,0	1,7	2,5	2,7	3,2	N/A	0,9	3,3	5,0
Depreciation vs USD since start of year	-52	-39	-20	-16	-14	-12	-10	-9	-5	-5	-2	-2	1	4

Source: KBC Economic Research based on Macrobond, National Authorities and IIF

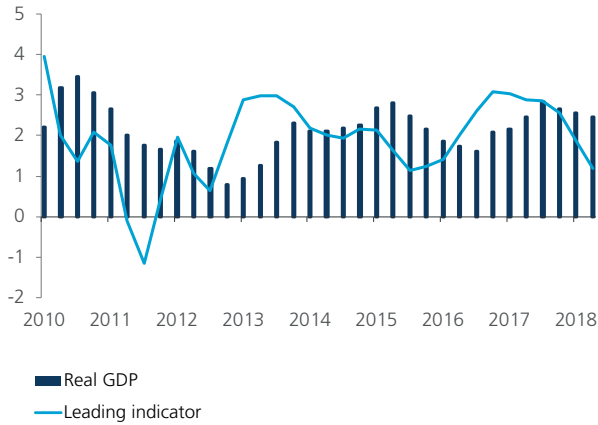
since the start of the year. They are not alone though. The Indonesian central bank has raised rates 125 basis points to combat the rupiah's worst slide since 1998 and has intervened in the market by selling reserves and purchasing local currency denominated bonds. India's central bank has raised its policy rate as well, while the Central Bank of Brazil cut short an easing cycle in response to weakness in the BRL.

Such actions are not without consequence, however. Indeed, a decline in capital flows, subsequent forced adjustment of macroeconomic imbalances, and rising interest rates to support the currency can all be a significant drag on growth. This weakening comes at a time when several emerging markets are already facing headwinds to growth, or only experiencing tepid recoveries which could easily be derailed by further adverse developments. Increased uncertainty due to escalating global trade conflicts, especially between the U.S. and China (but also with regard to NAFTA renegotiations and U.S.-E.U.

trade relations), are also weighing on market sentiment towards emerging markets. Additional tariffs between the U.S. and China, for example, could have spill over effects for smaller Asian economies that are highly integrated into China's export value chains.

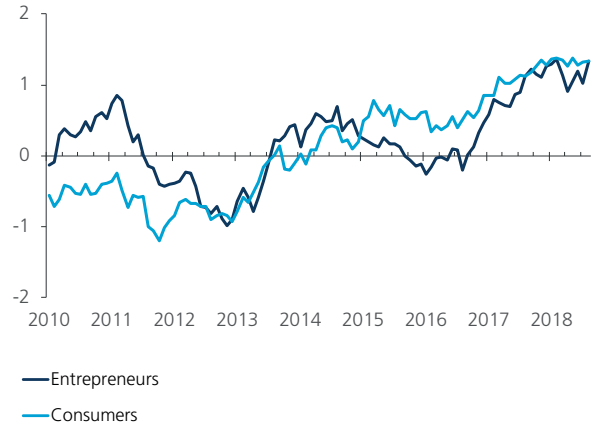
Hence, it is likely to continue to remain a difficult period for emerging markets for some time. Given dollar strength and various lingering uncertainties, economies that still need to undertake macroeconomic adjustments will likely continue to face market pressure or weaker growth. However, it is clear that some emerging markets are in a much better position relative to their peers and market pressure doesn't mean an economy will tailspin into crisis. The risk remains that sentiment towards emerging markets could sour completely, leading to across the board sudden stops in capital flows and plummeting currencies, but for most economies at the moment, the turbulence appears to be just turbulence.

Figure 1 - Economic activity in the OECD
(annualised quarterly change in %)



Source: OECD

Figure 2 - G4 confidence
(standard deviation from the long-term average)



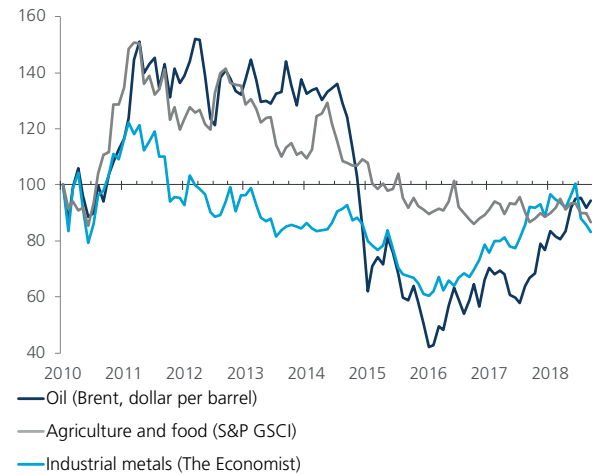
Source: National sources

Figure 3 - Inflation
(consumer price index, y-o-y change, in %)



Source: Eurostat, BLS and OECD

Figure 4 - Commodity prices
(January 2011 = 100)



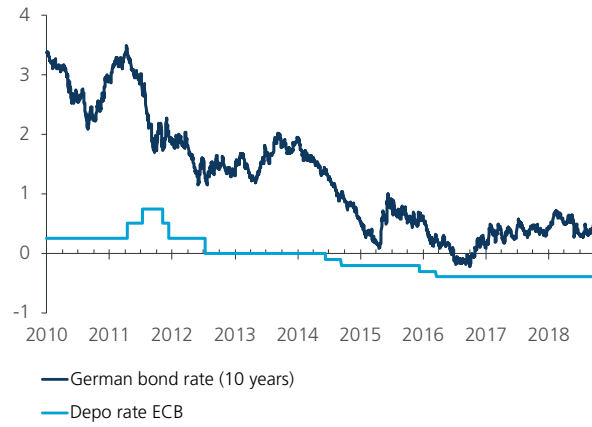
Source: ICIS pricing and S&P

Figure 5 - Interest rate movements US
(in %)



Source: Fed and Datastream

Figure 6 - Interest rate movements euro area
(in %)



Source: ECB and Datastream

Outlook world economies

	Real GDP growth		Inflation	
	2018	2019	2018	2019
US	2.9	2.5	2.5	2.6
Euro area	2.2	1.9	1.8	1.7
Belgium	1.5	1.4	2.0	1.8
Germany	2.1	1.9	1.9	1.8
Ireland	6.0	3.5	0.9	1.6
UK	1.3	1.2	2.5	2.1
Sweden	2.6	2.2	1.9	1.9
Norway	2.4	2.2	2.1	1.9
Switzerland	2.1	1.8	0.8	1.0
Slovakia	3.6	3.7	2.8	2.6
Poland	4.7	3.2	1.6	2.7
Czech Republic	3.0	2.7	2.1	2.2
Hungary	4.2	3.4	2.8	3.3
Bulgaria	3.5	3.4	2.0	1.8
Russia	1.8	1.7	2.9	4.0
Turkey	3.0	0.5	15.5	17.5
Japan	1.1	1.0	1.0	1.0
China	6.3	6.0	2.1	2.2
Australia	2.8	2.8	2.2	2.3
New Zealand	2.9	3.0	1.7	2.0
Canada	2.0	1.9	2.3	2.0
World	3.9	3.8	-	-

	10-year rates			
	18/09/18	+3m	+6m	+12m
US	3.02	3.20	3.30	3.40
Germany	0.47	0.60	0.80	1.10
Belgium	0.79	1.00	1.25	1.65
Ireland	0.96	1.15	1.35	1.70
UK	1.56	1.60	1.90	2.35
Sweden	0.62	0.75	0.95	1.25
Norway	1.93	2.05	2.25	2.55
Switzerland	0.01	0.15	0.35	0.65
Slovakia	0.91	1.10	1.35	1.70
Poland	3.25	3.30	3.40	3.60
Czech Republic	2.19	2.20	2.30	2.40
Hungary	3.80	3.20	3.25	3.40
Bulgaria	1.00	1.40	1.60	1.95
Russia	8.82	8.80	8.50	8.30
Turkey	18.48	20.50	20.00	19.00
Japan	0.12	0.00	0.00	0.00
China	3.67	3.70	3.70	3.70
Australia	2.67	2.65	2.85	2.95
New Zealand	2.63	2.65	2.85	2.95
Canada	2.37	2.35	2.55	2.65

	Policy rates			
	18/09/18	+3m	+6m	+12m
US	2.00	2.25	2.50	3.00
Euro area (refi rate)	0.00	0.00	0.00	0.00
Euro area (depo rate)	-0.40	-0.40	-0.40	-0.40
UK	0.75	0.75	0.75	0.75
Sweden	-0.50	-0.50	-0.25	0.00
Norway	0.50	0.75	0.75	1.00
Switzerland*	-0.75	-0.75	-0.75	-0.75
Poland	1.50	1.50	1.50	1.50
Czech Republic	1.25	1.50	1.50	1.75
Hungary	0.90	0.90	0.90	0.90
Romania	2.50	2.75	2.75	3.00
Russia	7.50	7.50	7.50	7.50
Turkey	24.00	24.00	24.00	21.50
Japan	-0.10	-0.10	-0.10	-0.10
China	4.35	4.35	4.35	4.35
Australia	1.50	1.50	1.50	1.75
New Zealand	1.75	1.75	1.75	1.75
Canada	1.50	1.75	1.75	2.00

*Mid target range

	Exchange rates			
	18/09/18	+3m	+6m	+12m
USD per EUR	1.17	1.15	1.17	1.19
GBP per EUR	0.89	0.89	0.90	0.92
SEK per EUR	10.42	10.25	9.75	9.50
NOK per EUR	9.54	9.50	9.30	9.25
CHF per EUR	1.13	1.16	1.18	1.20
PLN per EUR	4.30	4.33	4.33	4.35
CZK per EUR	25.43	25.50	25.30	25.10
HUF per EUR	322.91	317.00	317.00	318.00
BGN per EUR	1.96	1.96	1.96	1.96
RUB per EUR	78.82	78.20	76.05	76.16
TRY per EUR	7.46	7.36	7.61	7.85
JPY per EUR	131.35	126.50	128.70	130.90
RMB per USD	6.86	6.90	6.95	7.00
USD per AUD	0.72	0.71	0.72	0.74
USD per NZD	0.66	0.65	0.66	0.67
CAD per USD	1.30	1.29	1.26	1.25

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