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Economic perspectives

August 2019

Highlights

- The main economic themes that dominated the news in recent weeks were monetary policy and trade tensions. While the Federal Reserve has now started monetary easing by cutting its policy rate for the first time in several years, the ECB has also opened the door to more accommodative policy in upcoming months. We expect the Fed to cut rates twice more this year. The cuts should be seen as an insurance policy measure to counter a weak global economy at present as well as the potential future impact of risk factors such as global trade tensions. For the ECB, we foresee the start of a new quantitative easing programme and a 10 basis points cut in the deposit rate as early as September of this year.

- The main reason for these monetary policy choices are the persistent sluggish global economic environment, in particular in the manufacturing sector, combined with very muted inflationary pressures and increasingly elevated risks. The temporary truce in the US-China trade conflict at the G20 Summit in June was short-lived. Recent developments signal that a quick and comprehensive deal between the two economic superpowers is rather unlikely.

- Euro area growth slowed to +0.2% qoq in the second quarter of 2019, with German real GDP shrinking by -0.1%. We think a recovery in Germany won't happen any time soon as problems in the industrial sector look to be persistent. Weaknesses in the global economy have led to reductions in industrial production and exports, but domestic factors are also weighing on German activity. There is more and more evidence that consumers are becoming more wary, not least because unemployment is on the rise. Therefore, we have revised our growth forecasts for the German economy down. The poorer German outlook is one of the main reasons behind our cut in the 2020 growth forecast for the euro area as a whole.

- With the UK election of the new prime minister, Boris Johnson, the probability of a no-deal Brexit has risen. The new UK leader has a reputation for being fickle as well as unpredictable. Since taking office, his repeated promise to leave the EU on the 31st of October, with or without a deal, have added substantially more uncertainty to the UK outlook and added to downside risks for the EU as a whole. Meanwhile, the UK economy is suffering (-0.2% qoq in Q2) but not collapsing as household spending remains solid and this is significantly offsetting persistent and pronounced weakness in business investment.

- Recent events in Asia and Latin America have added further dimensions to the global uncertainty. The unrest in Hong Kong and the diplomatic and trade conflict between Japan and South Korea are worrisome developments for the global economy. Recent political developments in Argentina indicate that country-specific shocks in emerging markets remain likely.

Global economy

German drag on euro area growth

The latest preliminary growth figures from Eurostat point to a declined growth rate in Q2 for the euro area (0.2% qoq) as well as for the entire EU28 (0.2% qoq) (figure 1). These figures are lower than in previous quarters, but not dramatically so. However, they hide substantially different trends across the euro area that are worrisome. Most notable is the slightly negative growth rate for Germany (-0.1% qoq). This figure was no surprise as corporate sentiment indicators for the manufacturing sector remain on a declining trend and industrial production and exports recorded very poor figures in Q2. These trends are the result of international headwinds that result in a lower international demand for German products.

Moreover, there are more and more signs of spill-overs of this softness towards the domestic German economy. Consumer sentiment has been falling in recent months and retail sales are showing some weakness as well. Looking at new manufacturing orders, domestic orders have been declining in recent months, while foreign orders seem to be stabilising, albeit at a low level. The first signs of an impact on the labour market are also becoming visible. According to national statistics, the number of unemployed persons has risen in July. Overall, a German recovery in the near term seems rather unlikely and negative growth figures for Q3 now seem probable.

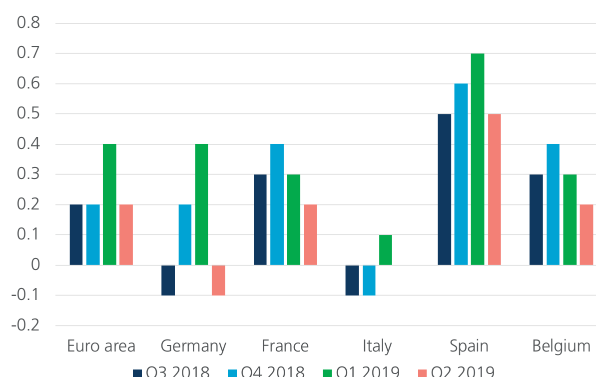
Although corporate sentiment indicators in some euro area countries such as France and Spain are showing signs of bottoming out, it is still too early to speak of a clear recovery. Moreover, the stabilisation in sentiment and some activity data is not being seen across the whole of the euro area with Germany being the main laggard.

Weak German growth has important consequences for our growth scenario for the euro area and the EU as a whole. For 2019 we expect the slowdown on a quarterly basis to be more pronounced but still temporary and mostly concentrated in Germany and the manufacturing sector. In 2020, a subpar recovery in quarterly growth dynamics is still most likely.

This will be driven by several factors. First, several other European countries have performed strongly in Q2. Growth in Central and Eastern Europe remains high, although also lower in most countries in the region. Most striking and perhaps surprising is the relatively strong performance in economies that are strongly integrated with the German economy. The Netherlands (0.5% qoq), Finland (0.9% qoq), Denmark (0.8% qoq), Czech Republic (0.6% qoq), Hungary (1.1% qoq) all show a stable or better performance than in the first quarter of this year. Spain and Portugal also continue on an excellent recovery path. Second, despite some recent weakening, domestic economic indicators (labour market, services,…) remain relatively strong in most euro area countries. Third, we expect a very accommodative monetary policy stance by the ECB and further calls for a significant fiscal stimulus are becoming more prominent across Europe. Furthermore, a period of below-potential growth, as we are currently seeing, should be followed by a return to potential growth in the absence of further shocks. The latter is still our main assumption.

These circumstances have prompted the following changes in our real GDP growth forecasts for the euro area economy: 2019 real GDP growth has been raised from 1.0% to 1.1%. This is a technical correction due to stronger-than-anticipated preliminary GDP growth results for Q2 that offset our downward revision in quarterly dynamics for the remainder of 2019. The

Figure 1 - German economy main source of concern in the euro area
(real GDP, quarter-on-quarter change, in %)



Source: KBC Economics based on Eurostat

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forecasts for annual real GDP growth in 2020 was lowered from 1.3% to 1.1%. This is largely due to weaker forecasts for the German economy. Obviously, our scenario depends heavily on our assumptions that neither a hard Brexit (also see Box 1) nor a direct trade war confrontation between the US and the EU will occur. Both remain the major risks to the EMU growth scenario.

US economy slowing

As expected, US real GDP growth in Q2 was weaker than in the previous quarter (2.1% qoq annualised from 3.1% in Q1). On the positive side, the growth composition was more solid. Private consumption contributed strongly to growth after rather disappointing results in Q1. As the US labour market remains relatively resilient to global economic jitters for now, we expect private consumption to remain a strong support for the US economy going forward. As a consequence of global weakness in the manufacturing industry which has been aggravated by the US-China trade war, net exports contributed negatively to growth as exports shrank on a quarterly basis and imports remained roughly constant. The latter are likely to be driven by pre-emptive imports by US firms that anticipate higher US tariffs on imports from China. Given weaknesses in the global economy, net exports will likely remain a drag on growth in the near future. Overall, uncertainties surrounding US trade policies are also weighing on corporate sentiment and activity. The ISM indicator for both manufacturing and services dropped in recent months and business investments moderated in Q2.

As a result of downward revisions to growth figures for previous quarters by the US statistical office, our US growth forecast for 2019 as a whole was lowered from 2.5% to 2.3%. In the second half of the year, we don't expect a significant rebound in growth as most indicators are pointing towards a slowdown. Going forward, our growth projections for 2020 are unaltered at 1.7%.

Box 1 - Mixed trends in UK economy amid increased political uncertainty

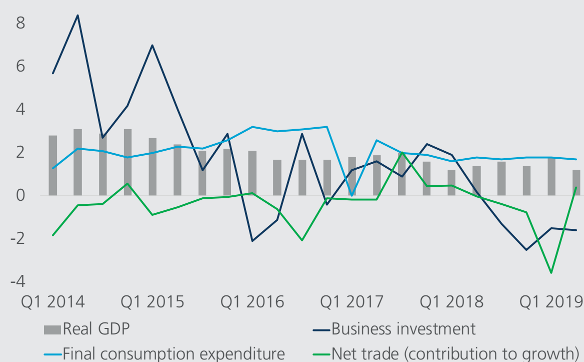
Not surprisingly, the UK economy is showing signs of weakness amid Brexit uncertainties and global headwinds, but it is not collapsing (figure B1). Recent months have shown some markedly different trends between the consumption and production side of the economy. Household spending seems to be holding up quite well with consumer confidence underpinned by solid employment gains and an improvement in wage growth in recent months. Businesses, on the other hand, remain very pessimistic, in particular in the manufacturing sector. Moreover, the persistent uncertainty around Brexit is also reflected in business investment, which again posted negative year-on-year growth in Q2. Hence, the UK economy is currently in a kind of schizophrenic state, but the overall performance remains rather subdued. We expect growth to reach 1.2% this year and 1.1% next year , with household consumption being the main positive contributor.

Persistent weakness in business spending in the UK is largely a reflection of the uncertain political situation centred on Brexit. Boris Johnson, the new prime minister, is widely seen as unpredictable and not driven by a particular political view of the world. His early pronouncements and appointments to cabinet and his team of advisors suggest a much more aggressive approach to Brexit than that of former PM Theresa May. In this regard, he has indicated that the EU must make significant changes to the deal May previously negotiated with Brussels, arguing that in the absence of such concessions, the EU would bear the responsibility for a no-deal Brexit.

While the new UK Prime Minister is talking tough with the EU, his approach in relation to domestic politics seems notably more hard line. Boris Johnson appears to be attempting to effectively bypass parliament by planning an early election that would see parliament out of session in the weeks leading up to October 31st, the current scheduled departure date of the UK from the EU. The centrepiece of Johnson's approach is a two-day exit/election calendar, that would envisage Brexit on October 31st, and a general election in the UK on November 1st. Hence, before any evidence of Brexit related disruptions to economic activity might become evident. The next UK elections are scheduled for 2022 but early elections can be triggered by a government defeat in a confidence vote. Such a confidence vote is expected to be triggered by the largest opposition party, the Labour party, when Parliament reconvenes on September 3rd or shortly after. If, as expected, the Johnson government loses that vote, it has 14 days to win parliament's confidence. If not, the Prime Minister must ask the Queen to dissolve parliament and decides on the election date (no sooner than 25 working days ahead). Importantly, it is up the Prime Minister to decide the date when that election should be held and Johnson has indicated he will choose the election date of November 1st - the day after Brexit is currently planned.

The UK has no written constitution and a very divided parliament. So, currently it is unclear if an alternative coalition of MP's could or would form a temporary administration to block a no-deal exit on October 31st. Given that there is a clear if unorganised majority within parliament opposed to a no-deal Brexit, we continue to assume that the Brexit deadline will be postponed into 2020 and that eventually a deal will be found that is acceptable for both the UK and the EU, without fully derailing economic momentum. However, a hard Brexit, without any deal, has become a notably increased risk in recent weeks.

Figure B1 - UK economy weakening but not collapsing
(year-on-year change, in %)



Source: KBC Economics based on UK Office for National Statistics (2019)

In general, US wage growth indicators are showing signs of stabilisation or even of being past their peak (figure 2). Average hourly and weekly earnings growth are moderating and the employment cost index is showing signs of more limited growth. The NFIB survey pointed to less firms that recently raised or are planning to raise workers' compensation. Hence, inflationary pressures coming from the wage channel are expected to wane somewhat. Moreover, the global inflationary environment remains subdued. This is reflected in our downward revision to US inflation forecasts. We now expect US headline inflation as measured by the CPI indicator to reach 1.9% in 2019 (from 2.0%) and 2.1% in 2020 (from 2.2%). Since Fed-watched PCE inflation measure is usually lower than the CPI, the former will remain below the Fed's 2% inflation target.

September ECB easing

At its most recent meeting, the ECB made an important further step to restart policy easing. It changed its forward guidance to an easing bias as it explicitly said that rates might be lowered. The central bank firmly reiterated that it is prepared to take further action if needed. It also signalled that the options for further easing are now being examined, another sign that the ECB will be ready to ease policy further in September. The ECB specifically mentioned ways to reinforce forward guidance, mitigating measures such as a tiered rate system and options for the size and the composition of potential new assets purchases. Hence, we altered our scenario for the ECB's monetary policy. We expect the central bank to cut its deposit rate at the September meeting by 10 basis points to -0.50% and keep it this low-point afterwards. This drop in the deposit rate will likely be combined with the introduction of a tiered rate deposit system. This is intended to mitigate the negative impact of the low policy rate on banks' net interest income in order to safeguard financial stability in the euro area. Alongside the drop in the deposit rate, the ECB is expected to introduce a new asset purchasing programme and make its forward guidance even more dovish.

From an economic point of view, a rate cut is questionable. Lowering negative interest rates further is unlikely to boost growth and inflation, while negative side-effects might be aggravated. Therefore it cannot be excluded that the forward guidance pointing to the possibility of further rate cuts is mainly intended to reassure markets that the ECB stands ready to act in case of major economic shocks, notably a no-deal Brexit or trade war escalation affecting the EU. In those circumstances, it makes economically sense to mitigate the shock by a more accommodative monetary policy. However, markets seem to interpret the forward guidance differently, namely as a clear engagement to cut rates anyhow as a pre-emptive measure in

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Figure 2 - US wage indicators past their peak
(year-on-year change, in %)

Source: KBC Economics based on US Bureau of Labor Statistics (2019)

a period of economic weakness and exceptional uncertainty. If the ECB doesn't live up to market expectations, financial markets might react sharply and the ECB's credibility might become at risk.

As a result of this ultra-loose monetary policy projection, we don't see many factors that could trigger a significant increase in long-term sovereign bond yields in the remainder of this year. On the contrary, they might even go somewhat lower once the ECB actually cuts its policy rate or when we approach the Brexit deadline end of October. Hence, we lowered our year-end expectation for the 10y German bond yield to -0.70% (from -0.20%). Throughout 2020 a very gradual normalisation is likely, but to a lesser extent than projected earlier (-0.30% instead of 0.15%). As a consequence of the likely new ECB asset purchasing programme, intra-EMU spreads will remain roughly constant at their current low levels. Nevertheless, there is still a risk of country-specific events that could spark some temporary financial market nervousness. In particular, events regarding the Italian government crisis might lead to temporary increases in the Italian spread versus the German 10y bond yield.

Fed joins easing club

As largely expected, the Fed cut its funds target rate by 0.25 percentage points to a range of 2.00-2.25% at its most recent policy meeting. At the same time, the Fed announced that it will conclude the reduction of its aggregate securities holdings (balance sheet roll-off) this month, two months earlier than previously indicated. The rate cut can be considered as a pre-emptive act to ensure a sustained expansion of economic activity and inflation to reach the symmetric 2% target. Fed chairman Powell labelled the rate cut as a mid-cycle policy adjustment and not as the start of a long series of rate cuts. The rate cut should mainly be seen as an insurance against a weak global economy, in particular in Europe and China, and against the potential impact of global trade tensions. Consistent with this communication, we expect the Fed to implement two more rate cuts of 25 basis points in the remainder of this year. Since 2020 is a presidential election year and the Fed usually abstains from intervening in such period, we don't think more rate cuts will follow.

Given this even more accommodative stance of the Federal Reserve, the US long-term government bond is likely to remain lower. We reduced our 10y yield forecasts for end 2019 to 1.60% (from 1.85%) and for end 2020 to 2.00% (from 2.40%).

Moderate EUR appreciation

The altered forecasts for monetary policy in the US and the euro area also affect the outlook for exchange rates. Though we still expect the EUR to appreciate against the USD, the appreciation path will likely be somewhat more moderate in the near term than initially projected. Substantial additional policy easing by ECB, combined with the Fed statement that its rate cuts are only a mid-cycle adjustment and not the beginning of a long easing cycle are less supportive for the EUR. Moreover, German and euro area economic weakness reduce the upward potential of the currency. Also Brexit-related uncertainty will likely lead to EUR underperformance. Escalating US-EU trade conflicts can quickly lead markets to reprice their expectation of the relative extent of policy easing by the Fed and ECB, with implications for the USD per EUR exchange rate.

Nevertheless, on a longer-term horizon, our EUR appreciation path still remains valid. On balance, financial markets are expecting more rate cuts by the Fed with a higher probability. The Fed's policy reaction function takes also into account international trade developments, which is not supportive for the USD. This gives President Trump de facto leverage to put pressure on the Fed to further reduce its policy rate and weaken the USD (or at least prevent too much of an USD appreciation). Moreover, from a fair-value perspective, the EUR is still somewhat undervalued.

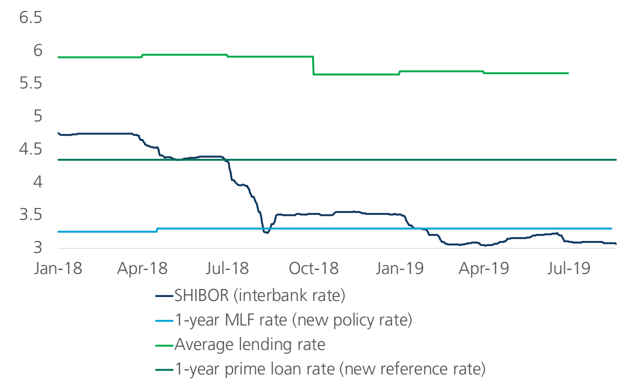
Short-lived trade war truce

Last month, we anticipated that the trade war truce between the US and China after the June G20 Summit would be of

Figure 3 - Chinese currency depreciation as a new weapon in the US-China trade war (CNY per USD)

Source: KBC Economics based on MSCI

Figure 4 - Chinese interest rates (in %)



Source: KBC Economics based on SHIBOR, PBoC

temporary nature. A new escalation in the dispute came even sooner than we expected. Arguing that the US-China trade negotiations weren't yielding enough progress, US president Trump announced additional tariffs of 10% on a list of US imports worth USD 300 billion. The Chinese counterreaction followed a few days later with a depreciation of the CNY above the psychological border of 7.00 CNY per USD (figure 3). In turn, the US Treasury Department labelled China as a currency manipulator. The latter mainly has symbolic implications since the related consequences already applied to China before the currency manipulator label. Still, it does add further pressures to the negotiations that are already difficult. More recently, the US government postponed higher tariffs on a number of Chinese products. Although this can be seen as a sign of goodwill towards China, the decision is more driven by domestic factors. The drastic and unexpected rise of tariffs would likely weigh on US retail sales. By postponing tariffs till mid-December the impact on the US economy should be more limited.

In our view, structural CNY devaluation is likely not the strategy the Chinese authorities will follow. The related risks (large capital outflows,…) are high and it would go against the longer-term aim of making the renminbi more market-oriented and globally traded. Nevertheless, additional CNY depreciation spikes in the coming months are possible as a retaliatory measure if the US decides to raise import tariffs again. All in all, both sides at the negotiation table don't seem to be in a hurry to reach a deal in the near term. Instead, there appears to be an element of brinkmanship, with both sides looking to see if short-term economic problems for the other may lead them to make some additional concessions. Hence, we expect the US-China conflict to continue during the coming months with ups and downs and to spread to various economic conflicts (notably on technology).

Meanwhile, the Chinese authorities are trying to introduce more, albeit limited, stimulus to support lending growth in the economy with reforms to their benchmark interest rate system. New bank loans to households and businesses will be based on the Loan Prime Rate, calculated based on input from 18 banks and quoted as a spread above the 1-year Medium-Term Lending Facility rate, which in turn effectively becomes the new policy rate (figure 4). The aim is to improve the monetary policy transmission mechanism as, despite various easing measures since the start of the trade war, the average lending rate in China has not come down as much as interbank rates.

And now for something new

Various topics have been persistently on the agenda in our Economic Perspectives. In recent weeks new events popped up that may ultimately influence our economic outlook as well. New risks manifested in Asia (also see Box 2 and 3). A diplomatic conflict between Japan and South is escalating into a trade conflict, posing risks to local and global supply chains. Moreover, the intensification of protests in Hong Kong may disturb the city-state's role of major international financial centre and channel through which China gets access to international financial markets. The latest political developments in Argentina are clearly a new concern to financial markets with a marked depreciation of the Argentinean peso. For now, it remains a country-specific event risk, but it remains to be seen whether there will be contagion effects on other emerging markets.

Box 2 - Japan-South Korea conflict: another sign of rising protectionism

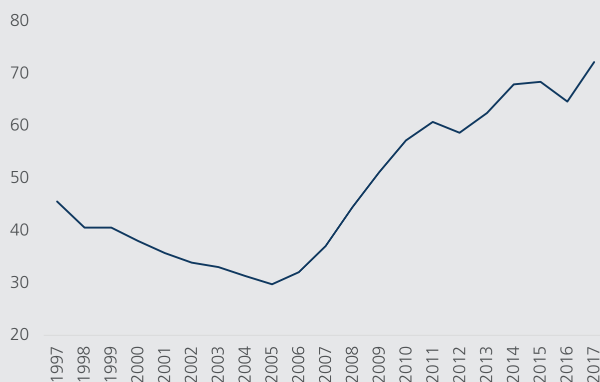
The tensions between Japan and South Korea started with a diplomatic incident in which South Korea demanded compensation from Japanese companies for the forced labour of Koreans during the Japanese occupation. Japanese companies' assets have since been seized by Korea. A fierce Japanese reaction followed. Initially, Japan introduced administrative measures to slow the export of high-tech electronic components to South Korea. Such measures are equivalent to export restraints, a trade policy often implemented during conflicts to avoid that scarce goods leave the country and benefit trading partners. In this case, the high-tech electronic components are essential for the production of a variety of electronic equipment by South Korean conglomerates. The Japanese government then went a step further by removing South Korea from its 'white list' of preferential export partners. South Korea reacted with a similar measure.

These developments will hurt bilateral trade between both countries and substantially distort the global market for televisions, computer screens, smartphones, etc. The fact that, once again, trade policy is being used in essentially a diplomatic conflict, signals how widespread, and perhaps how acceptable, protectionism is in today's global economy. The US protectionist rhetoric seems to have inspired others. Globally, protectionism is on the rise and putting pressure on existing global value chains. As more trade conflicts pop up in various regions, the economic damage will only grow.

Box 3 - Hong Kong protests could have global implications

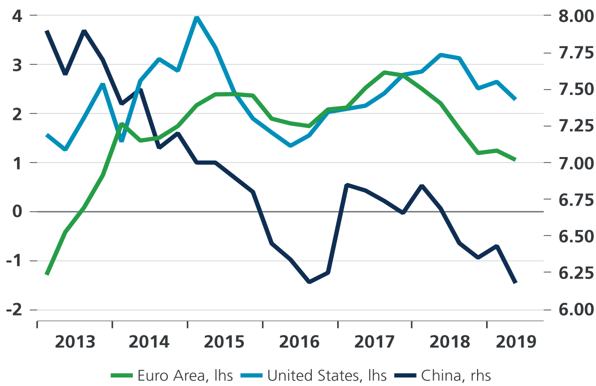
Since the UK handover of Hong Kong to China in 1997, Hong Kong has enjoyed particular freedoms and rights as a special administrative region. However, some of these freedoms and rights are threatened by China's attempts to bring Hong Kong under stricter control. The current street protests follow similar demonstrations against such threats in the past. As the conflict intensifies, international concerns grow. Global economic interests in Hong Kong are substantial as it is still the main financial centre in the region. But the impact on mainland China raises concerns too. Hong Kong is an important access point for China to international financial markets and vice versa. Many foreign direct investments in China occur via Hong Kong (figure B3). Finally, there are concerns that the unrest could cause an outsized response from China, leading not only to violence in Hong Kong, but also to an international diplomatic crisis. Within the context of the ongoing US-China trade war, the conflict is a dangerous cocktail that could have serious implications for the global economy.

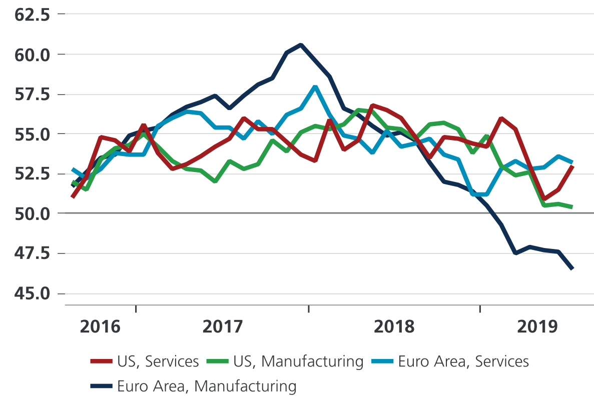
Figure 2 - Foreign capital channelled via Hong Kong to China
(as a % of total Chinese foreign direct investment)

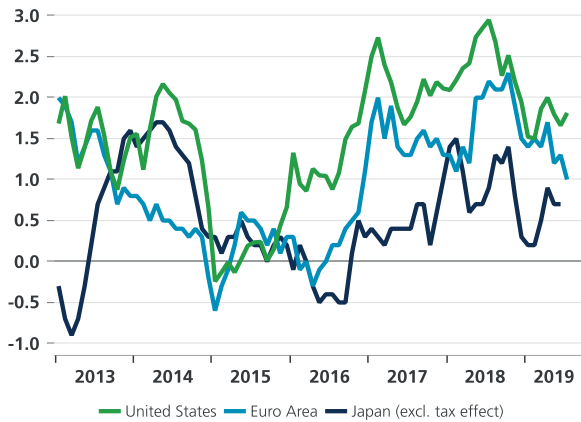


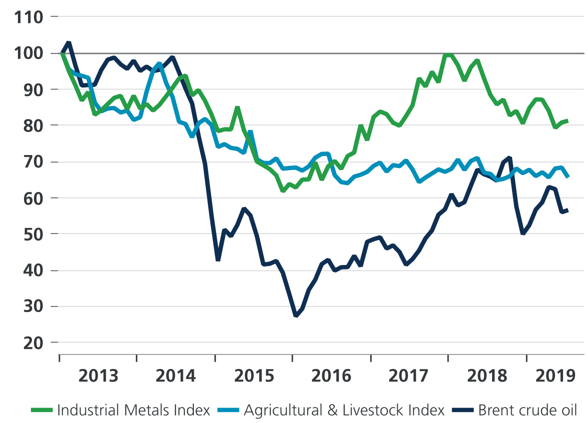
Source: KBC Economics based on China Ministry of Commerce

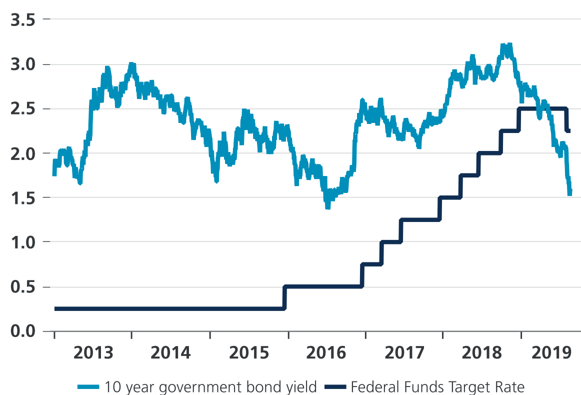
Figures

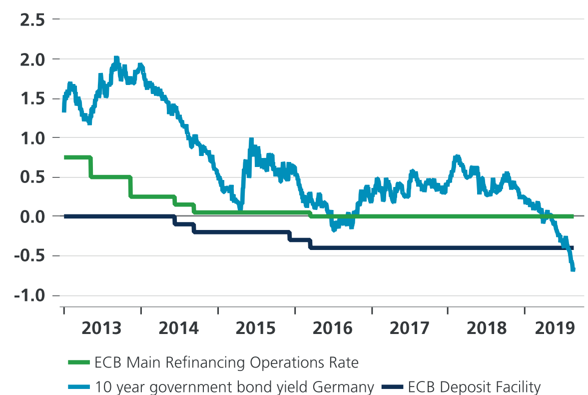






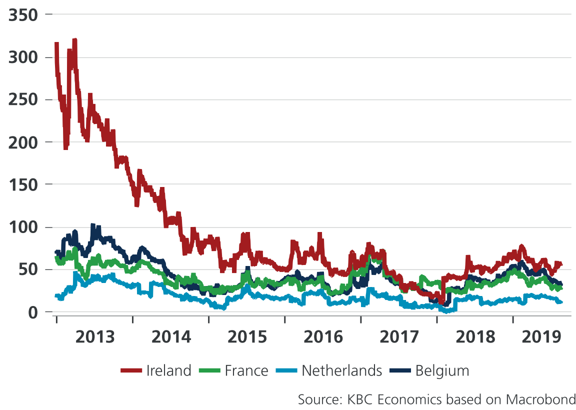






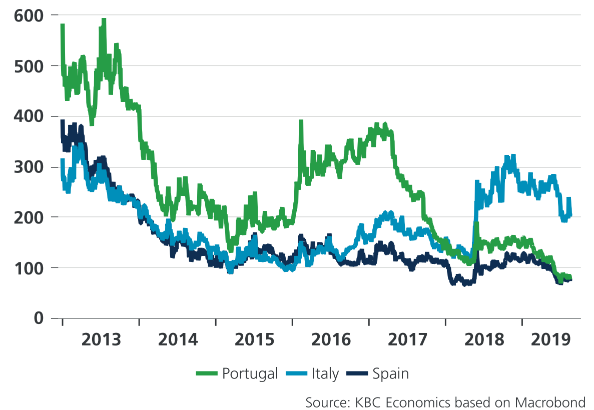
Figures

10 year government bond yield spreads to Germany
in basis points



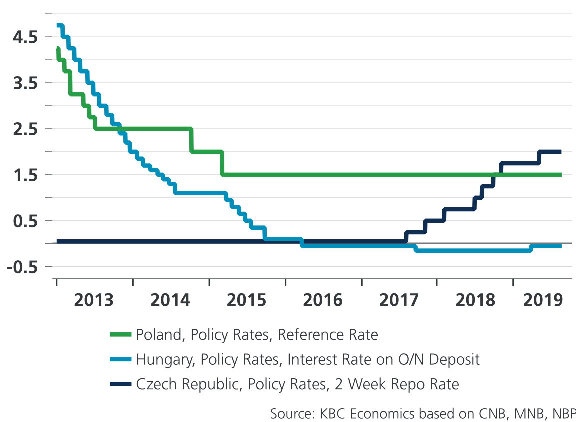
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



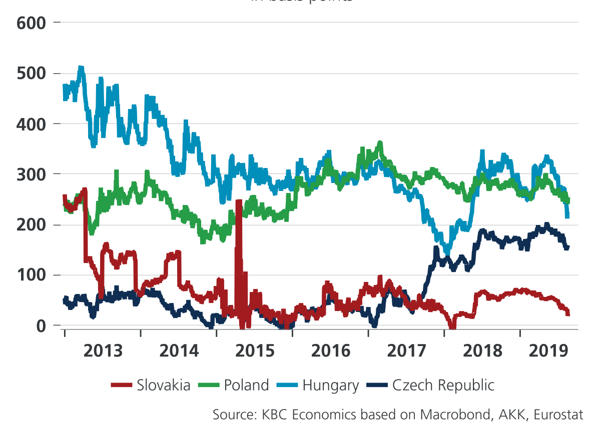
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



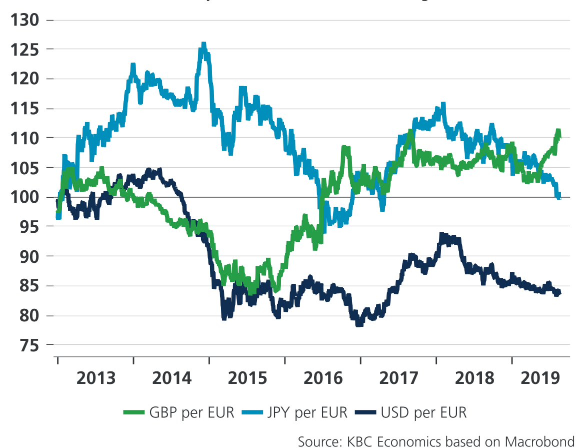
Source: KBC Economics based on CNB, MNB, NBP

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

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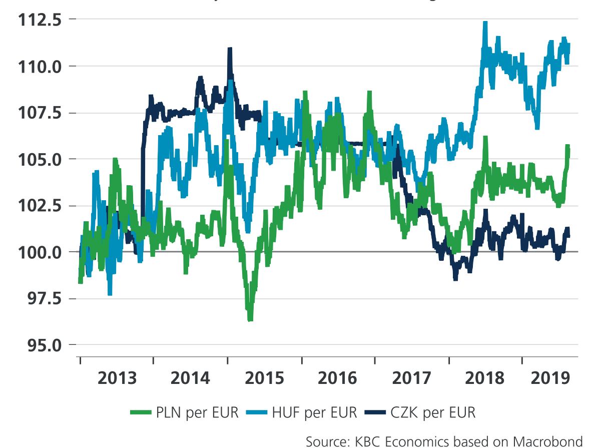

Source: KBC Economics based on Macrobond

Outlook main economies in the world

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		Real GDP growth (period average, in %)			Inflation (period average, in %)		
		2018	2019	2020	2018	2019	2020
Euro area	Euro area	1.9	1.1	1.1	1.8	1.3	1.5
	Germany	1.5	0.4	0.8	1.9	1.4	1.5
	France	1.7	1.2	1.1	2.1	1.3	1.6
	Italy	0.7	0.1	0.4	1.2	0.8	1.2
	Spain	2.6	2.1	1.7	1.7	1.2	1.6
	Netherlands	2.6	1.7	1.7	1.6	2.3	1.6
	Belgium	1.4	1.1	0.8	2.3	1.7	1.6
	Ireland	8.2	5.0	3.0	0.7	1.3	1.8
	Slovakia	4.1	3.5	2.9	2.5	2.5	2.3
Central and Eastern Europe	Czech Republic	2.9	2.4	2.2	1.9	2.4	2.4
	Hungary	4.9	4.3	3.5	2.9	3.4	3.5
	Bulgaria	3.1	3.2	3.1	2.6	2.5	2.3
	Poland	5.1	4.4	4.2	1.2	2.1	2.7
	Romania	4.4	3.6	3.5	4.2	3.4	3.3
Rest of Europe	United Kingdom	1.4	1.2	1.1	2.5	1.8	1.9
	Sweden	2.4	2.0	1.9	2.0	1.9	2.0
	Norway	2.4	2.2	1.8	2.8	2.0	2.0
	Switzerland	2.6	1.6	1.6	0.9	0.8	1.0
Emerging markets	China	6.6	6.1	5.7	2.1	2.4	2.5
	India*	6.8	6.5	7.2	3.9	3.5	4.3
	South Africa	0.8	0.4	1.2	4.6	4.5	5.0
	Russia	2.3	1.2	1.7	2.9	4.5	3.7
	Turkey	2.6	-1.5	2.5	16.3	17.0	12.0
	Brazil	1.1	0.9	2.2	3.7	3.9	3.8
Other advanced economies	United States	2.9	2.3	1.7	2.4	1.9	2.1
	Japan	0.8	0.9	0.5	1.0	1.0	1.4
	Australia	3.0	2.7	2.7	1.9	2.1	2.4
	New Zealand	2.8	2.8	2.6	1.6	1.9	2.0
	Canada	2.1	1.9	1.7	2.3	1.8	2.1

* fiscal year from April-March

09/08/2019

Policy rates (end of period, in %)						
		09/08/2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Euro area	Euro area (refi rate)	0.00	0.00	0.00	0.00	0.00
	Euro area (depo rate)	-0.40	-0.50	-0.50	-0.50	-0.50
Central and Eastern Europe	Czech Republic	2.00	2.00	2.00	1.75	1.75
	Hungary	-0.05	-0.05	-0.05	-0.05	0.05
	Bulgaria	-	-	-	-	-
	Poland	1.50	1.50	1.50	1.50	1.75
	Romania	2.50	2.75	2.75	2.75	2.75
Rest of Europe	United Kingdom	0.75	0.75	0.75	0.75	0.75
	Sweden	-0.25	-0.25	-0.25	-0.25	-0.25
	Norway	1.25	1.25	1.50	1.50	1.50
	Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
Emerging markets	China (MLF as of 20/08/'19)	3.30	3.20	3.10	3.10	3.10
	India	5.40	5.40	5.00	5.00	5.00
	South Africa	6.50	6.50	6.25	6.25	6.25
	Russia	7.25	7.25	7.00	6.75	6.75
	Turkey	19.75	17.00	15.00	15.00	14.00
	Brazil	6.00	6.00	5.50	5.50	5.50
Other advanced economies	United States (upper limit)	2.25	2.00	1.75	1.75	1.75
	Japan	-0.10	-0.10	-0.10	-0.10	-0.10
	Australia	1.00	1.00	1.00	1.00	1.00
	New Zealand	1.00	1.00	1.00	1.00	1.00
	Canada	1.75	1.75	1.75	1.75	1.75

Outlook main economies in the world

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10 year government bond yields (end of period, in %)						
		09/08/2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Euro area	Germany	-0.58	-0.70	-0.70	-0.60	-0.50
	France	-0.28	-0.40	-0.40	-0.30	-0.20
	Italy	1.80	1.55	1.55	1.65	1.75
	Spain	0.25	0.05	0.05	0.15	0.25
	Netherlands	-0.47	-0.55	-0.55	-0.45	-0.35
	Belgium	-0.23	-0.30	-0.30	-0.20	-0.10
	Ireland	-0.01	-0.15	-0.15	54.40	0.00
	Slovakia	-0.18	-0.35	-0.35	-0.25	-0.15
Central and Eastern Europe	Czech Republic	0.96	1.10	1.10	1.18	1.30
	Hungary	1.95	2.10	2.10	2.20	2.35
	Bulgaria	0.45	-0.10	-0.10	0.00	0.10
	Poland	1.98	2.10	2.00	2.10	2.20
	Romania	4.20	5.30	5.80	5.80	5.80
Rest of Europe	United Kingdom	0.47	0.50	0.60	0.65	0.70
	Sweden	-0.26	-0.40	-0.40	-0.30	-0.20
	Norway	1.17	1.05	1.05	1.15	1.25
	Switzerland	-0.93	-1.05	-1.05	-0.95	-0.85
Emerging markets	China	3.04	3.00	3.00	3.10	3.20
	India	6.49	6.30	6.30	6.40	6.50
	South Africa	8.40	8.20	8.20	8.30	8.40
	Russia	7.29	7.40	7.25	7.20	7.15
	Turkey	14.47	15.50	15.00	14.50	14.50
	Brazil	7.15	7.00	7.00	7.20	7.35
Other advanced economies	United States	1.70	1.60	1.60	1.70	1.80
	Japan	-0.22	-0.20	-0.10	0.00	0.00
	Australia	0.96	0.90	0.90	1.00	1.10
	New Zealand	1.11	1.00	1.00	1.10	1.20
	Canada	1.23	1.15	1.15	1.25	1.35

Exchange rates (end of period)					
	09/08/2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
USD per EUR	1.12	1.11	1.14	1.15	1.16
CZK per EUR	25.82	25.90	25.70	25.50	25.50
HUF per EUR	324.90	325.00	323.00	323.00	323.00
PLN per EUR	4.32	4.30	4.28	4.25	4.23
BGN per EUR	1.96	1.96	1.96	1.96	1.96
RON per EUR	4.72	4.77	4.78	4.78	4.78
GBP per EUR	0.93	0.92	0.88	0.90	0.91
SEK per EUR	10.73	10.55	10.45	10.40	10.35
NOK per EUR	9.98	9.70	9.50	9.45	9.40
CHF per EUR	1.09	1.11	1.12	1.13	1.14
BRL per USD	3.92	3.90	3.85	3.85	3.85
INR per USD	70.80	70.50	70.30	70.25	70.15
ZAR per USD	15.18	15.00	14.90	14.80	14.80
RUB per USD	65.44	64.00	64.00	64.00	64.00
TRY per USD	5.50	5.75	6.00	6.00	6.10
RMB per USD	7.06	7.05	7.05	7.08	7.08
JPY per USD	105.66	106.00	106.00	106.00	106.00
USD per AUD	0.68	0.70	0.70	0.71	0.71
USD per NZD	0.65	0.66	0.66	0.67	0.67
CAD per USD	1.32	1.30	1.30	1.30	1.30

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Outlook KBC home markets

	Belgium			Ireland		
	2018	2019	2020	2018	2019	2020
Real GDP (average yearly change, in %)	1.4	1.1	0.8	8.2	5.0	3.0
Inflation (average yearly change, harmonised CPI, in %)	2.3	1.7	1.6	0.7	1.3	1.8
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	5.8	5.7	5.9	5.6	4.8	4.9
Government budget balance (in % of GDP)	-0.7	-1.7	-2.0	0.0	0.3	0.4
Gross public debt (in % of GDP)	102.0	101.6	101.5	64.0	61.0	57.0
Current account balance (in % of GDP)	-1.3	-1.4	-1.8	9.1	7.5	6.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	2.9	2.6	2.1	10.2	2.5	2.5

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	Czech Republic			Slovakia		
	2018	2019	2020	2018	2019	2020
Real GDP (average yearly change, in %)	2.9	2.4	2.2	4.1	3.5	2.9
Inflation (average yearly change, harmonised CPI, in %)	1.9	2.4	2.4	2.5	2.5	2.3
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.0	2.0	2.1	6.1	6.2	6.3
Government budget balance (in % of GDP)	0.9	0.0	-0.5	-0.7	-0.7	-0.7
Gross public debt (in % of GDP)	32.7	31.0	30.2	49.0	48.0	47.0
Current account balance (in % of GDP)	0.3	0.2	0.1	-2.0	-1.5	-1.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	8.6	5.0	2.0	7.4	5.0	4.0

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	Hungary			Bulgaria		
	2018	2019	2020	2018	2019	2020
Real GDP (average yearly change, in %)	4.9	4.3	3.5	3.1	3.2	3.1
Inflation (average yearly change, harmonised CPI, in %)	2.9	3.4	3.5	2.6	2.5	2.3
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.6	3.5	3.5	4.8	4.7	4.6
Government budget balance (in % of GDP)	-2.2	-1.8	-1.0	0.1	-0.5	0.4
Gross public debt (in % of GDP)	70.8	68.7	65.9	22.1	19.0	17.7
Current account balance (in % of GDP)	0.5	-0.2	-1.0	2.4	1.2	1.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	9.7	5.8	4.0	6.6	5.0	4.0

09/08/2019

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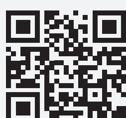

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