

Economic perspectives

summer update 2021

Highlights

- The global recovery from the pandemic remains strong but uneven across regions. The latest Q2 2021 GDP data have confirmed the desynchronized nature of the recovery with momentum shifting from the US towards Europe. Overall, we maintain the positive economic outlook, assuming that the expansion has legs to run despite new uncertainties around the path to normalisation created by the rapid spread of the Delta variant. Similarly, headwinds from supply-side pressures appear to act as a speed-bump on the recovery, but we continue to hold the view that these headwinds are mostly temporary and will eventually abate without derailing the economic recovery in advanced economies.
- After two quarters of contraction, the euro area rebounded by a surprisingly strong 2.0% qoq in Q2 2021 amid progress in controlling the pandemic and a gradual reopening of the economies. In level terms, this leaves euro area GDP 3% below its pre-crisis level. Across countries, particularly buoyant growth rates were recorded in Spain and Italy, while France and Germany saw more moderate outcomes. Looking ahead, the euro area is set to maintain strong growth dynamics, supported by rising vaccination rates and robust pent-up demand. Along with the gradual Next Generation EU disbursements and favourable external environment, this will put the euro area on the track to full recovery from the pandemic in Q1 2022.
- The US has recorded another quarter of a robust economic performance which pushed the economy back above the pre-pandemic level. Real GDP rose by an annualised rate of 6.5% in Q2 2021, driven by private consumption, while inventories were a large drag on growth, likely reflecting production shortfall due to the supply-side bottlenecks. Going forward, we expect a somewhat slower but still solid pace of growth, aided by a further reopening of the economy and fiscal stimulus. Meanwhile, the labour market has made impressive progress in the past year; however, with 6.8 million fewer jobs than before the pandemic and some notable supply and demand imbalances, it is still a long way from full recovery.
- The Chinese economy grew by a stronger-than-expected 7.9% yoy in Q2 2021. This is down from the mechanically strong 18.3% yoy registered in Q1, which was a function of the extreme economic decline seen a year earlier during China's major lockdown. From a quarterly perspective, the economy gained momentum in Q2, led by net exports. Notably, the Chinese central bank cut the Reserve Requirement Ratio for all banks in July by 50 basis points. The

move seems to be rather pre-emptive and reflects China's advanced stage of the recovery. Together with expectations for some moderation in growth going forward, the RRR cut suggests the authorities are conscious to avoid an overly tight monetary policy stance.

- Inflationary pressures continue to strengthen across advanced economies. In the euro area, flash July headline inflation surprised to the upside and accelerated to 2.2% yoy, driven by a mix of strong base effects. In the US, even stronger near-term price pressures have taken hold with inflation surging to 5.4% yoy in June, led by a narrow set of categories related to the reopening. Although it may take longer than initially envisaged for these price pressures to clearly subside, we maintain the view that inflation is currently largely driven by transitory factors. Therefore, we do not anticipate spiralling inflation, yet the risks to the inflation outlook in the coming quarters remain clearly tilted to the upside.
- Both the ECB and the FED maintained their current accommodative monetary policy stance and 'look-through' position regarding recent inflation at July policy meetings. Following the updated monetary policy strategy, the ECB changed its forward guidance to reflect the new symmetric 2% inflation target, implying low interest rates for longer with no increase in policy rates expected within the next two years. Meanwhile, the Fed signalled that the US economy is making progress towards its dual mandate, however, the central bank refrained from setting a timeline for tapering down its asset purchases programme.

Outlook main economies in the world - cut-off date 21/07/2021



		Real GDP growth (period average, based on quarterly figures, in %)			Inflation (period average, in %)		
		2020	2021	2022	2020	2021	2022
Euro area	Euro area	-6.7	4.2	4.5	0.2	2.0	1.5
	Germany	-5.1	3.2	4.4	0.3	2.5	1.8
	France	-8.0	5.1	4.3	0.5	1.5	1.3
	Italy	-8.9	4.2	4.6	-0.2	1.2	1.1
	Spain	-10.8	5.0	5.8	-0.3	1.4	1.3
	Netherlands	-3.8	2.1	3.4	1.1	1.9	1.5
	Belgium	-6.3	5.3	3.6	0.4	2.0	1.7
	Ireland	5.9	10.0	5.0	-0.5	1.5	2.0
	Slovakia	-4.8	4.2	4.6	2.0	1.7	2.2
Central and Eastern Europe	Czech Republic	-5.8	3.5	4.5	3.3	2.5	2.2
	Hungary	-5.1	6.7	5.1	3.4	4.2	3.2
	Bulgaria	-3.8	4.6	4.0	1.2	2.1	2.3
	Poland	-2.7	5.9	4.7	3.6	4.2	2.7
	Romania	-3.7	7.5	7.0	2.3	3.8	3.8
Rest of Europe	United Kingdom	-9.8	6.4	5.4	0.9	2.1	2.0
	Sweden	-2.9	4.0	3.6	0.7	1.7	1.5
	Norway (mainland)	-3.1	3.8	3.7	1.2	2.7	1.8
	Switzerland	-2.7	3.6	2.9	-0.9	0.4	0.5
Emerging markets	China	2.3	8.8	5.4	2.5	1.4	2.4
	India*	-7.3	9.5	6.6	6.2	5.2	4.6
	South Africa	-7.0	4.8	2.0	3.0	4.1	4.2
	Russia	-3.0	3.9	2.4	3.4	6.1	4.5
	Turkey	1.8	6.2	3.6	12.3	16.5	12.5
	Brazil	-4.1	5.3	2.4	3.3	7.0	4.5
Other advanced economies	United States	-3.5	6.5	3.8	1.2	3.8	2.2
	Japan	-4.7	2.6	2.8	-0.1	0.0	0.5
	Australia	-2.4	4.9	3.3	0.9	2.2	2.0
	New Zealand	-1.2	5.5	3.2	1.7	2.3	2.0
	Canada	-5.3	6.2	4.2	0.6	2.8	2.4
* fiscal year from April-March							21/07/2021

Policy rates (end of period, in %)		21/7/2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Euro area	Euro area (refi rate)	0.00	0.00	0.00	0.00	0.00
	Euro area (depo rate)	-0.50	-0.50	-0.50	-0.50	-0.50
Central and Eastern Europe	Czech Republic	0.50	0.75	1.00	1.25	1.50
	Hungary	1.07	1.40	1.55	1.67	1.68
	Bulgaria	-				
	Poland	0.10	0.10	0.10	0.10	0.25
	Romania	1.25	1.25	1.25	1.50	1.50
Rest of Europe	United Kingdom	0.10	0.10	0.10	0.10	0.10
	Sweden	0.00	0.00	0.00	0.00	0.00
	Norway	0.00	0.25	0.50	0.50	0.75
	Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
Emerging markets	China	2.95	2.95	2.95	2.95	2.95
	India	4.00	4.00	4.00	4.00	4.25
	South Africa	3.50	3.50	3.50	3.75	4.00
	Russia	5.50	7.00	7.00	7.00	6.75
	Turkey	19.00	19.00	18.00	16.00	14.50
	Brazil	4.25	5.75	7.25	7.25	7.25
Other advanced economies	United States (mid-target range)	0.13	0.13	0.13	0.13	0.13
	Japan	-0.10	-0.10	-0.10	-0.10	-0.10
	Australia	0.10	0.10	0.10	0.10	0.10
	New Zealand	0.25	0.25	0.25	0.25	0.25
	Canada	0.25	0.25	0.25	0.25	0.25

Outlook main economies in the world - cut-off date 21/07/2021

10 year government bond yields (end of period, in %)						
		21/7/2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Euro area	Germany	-0.40	-0.25	0.00	0.20	0.25
	France	-0.12	0.00	0.25	0.45	0.50
	Italy	0.69	0.85	1.10	1.40	1.45
	Spain	0.34	0.40	0.65	0.85	0.90
	Netherlands	-0.27	-0.10	0.15	0.35	0.40
	Belgium	-0.07	0.00	0.25	0.45	0.50
	Ireland	0.00	0.05	0.30	0.50	0.55
	Slovakia	-0.14	-0.05	0.20	0.40	0.45
Central and Eastern Europe	Czech Republic	1.75	1.90	2.10	2.16	2.23
	Hungary	2.77	2.65	2.70	2.75	2.80
	Bulgaria	0.14	0.10	0.35	0.55	0.60
	Poland	1.57	1.80	2.20	2.30	2.40
	Romania	3.78	3.42	3.45	3.50	3.50
Rest of Europe	United Kingdom	0.70	0.85	1.00	1.05	1.15
	Sweden	0.13	0.30	0.55	0.75	0.80
	Norway	1.14	1.30	1.55	1.75	1.80
	Switzerland	-0.36	-0.20	0.05	0.25	0.30
Emerging markets	China	2.92	3.15	3.40	3.45	3.70
	India	6.78	6.30	6.55	6.60	6.85
	South Africa	8.27	9.10	9.10	9.15	9.40
	Russia	7.12	7.00	6.90	6.90	6.60
	Turkey	16.94	17.00	16.50	15.50	15.00
	Brazil	9.25	9.30	9.35	9.40	9.65
Other advanced economies	United States	1.30	1.45	1.70	1.90	2.15
	Japan	0.00	0.00	0.00	0.00	0.00
	Australia	1.12	1.30	1.55	1.75	2.00
	New Zealand	1.53	1.65	1.90	2.10	2.35
	Canada	1.28	1.45	1.70	1.90	2.15

Exchange rates (end of period)						
		21/7/2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
USD per EUR		1.18	1.20	1.21	1.27	1.30
CZK per EUR		25.71	25.10	24.90	24.70	24.60
HUF per EUR		359.83	349.00	353.00	355.00	355.00
PLN per EUR		4.59	4.60	4.50	4.48	4.44
BGN per EUR		1.96	1.96	1.96	1.96	1.96
RON per EUR		4.92	4.93	4.93	4.92	4.92
GBP per EUR		0.86	0.85	0.86	0.87	0.88
SEK per EUR		10.25	10.05	10.00	10.00	10.00
NOK per EUR		10.51	10.20	10.00	9.80	9.80
CHF per EUR		1.08	1.10	1.14	1.15	1.15
BRL per USD		5.26	5.00	5.00	5.00	5.00
INR per USD		74.48	74.00	74.00	73.50	73.25
ZAR per USD		14.65	14.00	14.00	14.00	14.00
RUB per USD		74.02	72.00	71.00	71.00	70.00
TRY per USD		8.59	8.90	9.00	9.10	9.20
RMB per USD		6.47	6.47	6.45	6.45	6.45
JPY per USD		110.32	111.00	112.00	112.00	112.00
USD per AUD		0.73	0.76	0.77	0.79	0.80
USD per NZD		0.70	0.72	0.74	0.75	0.76
CAD per USD		1.26	1.22	1.20	1.18	1.18

Outlook KBC home markets - cut-off date 21/07/2021

	Belgium			Ireland		
	2020	2021	2022	2020	2021	2022
Real GDP (average yearly change, in %)	-6.3	5.3	3.6	5.9	10.0	5.0
Inflation (average yearly change, harmonised CPI, in %)	0.4	2.0	1.7	-0.5	1.5	2.0
Unemployment rate (BE:Eurostat definition; IE: covid-19-adjusted national definition) (in % of the labour force, end of year)	6.0	6.5	6.0	21.7	10.0	6.0
Government budget balance (in % of GDP)	-9.4	-7.5	-5.5	-4.9	-4.5	-2.5
Gross public debt (in % of GDP)	114.1	114.0	114.2	58.4	59.0	58.0
Current account balance (in % of GDP)	-0.1	0.4	-1.0	2.7	7.0	12.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	4.2	4.0	2.5	0.3	4.5	3.0

	Czech Republic			Slovakia		
	2020	2021	2022	2020	2021	2022
Real GDP (average yearly change, in %)	-5.8	3.5	4.5	-4.8	4.2	4.6
Inflation (average yearly change, harmonised CPI, in %)	3.3	2.5	2.2	2.0	1.7	2.2
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.2	3.0	2.6	7.1	8.0	7.5
Government budget balance (in % of GDP)	-6.2	-8.0	-5.5	-6.2	-7.0	-4.5
Gross public debt (in % of GDP)	38.1	43.6	46.3	60.6	67.0	65.0
Current account balance (in % of GDP)	3.6	2.5	1.6	-0.5	-2.0	-2.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	8.4	9.8	3.7	9.6	6.0	3.0

	Hungary			Bulgaria		
	2020	2021	2022	2020	2021	2022
Real GDP (average yearly change, in %)	-5.1	6.7	5.1	-3.8	4.6	4.0
Inflation (average yearly change, harmonised CPI, in %)	3.4	4.2	3.2	1.2	2.1	2.3
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.1	3.8	3.5	5.5	5.0	4.8
Government budget balance (in % of GDP)	-8.1	-7.5	-5.9	-3.4	-3.9	-2.0
Gross public debt (in % of GDP)	80.4	79.3	78.0	25.0	26.9	28.0
Current account balance (in % of GDP)	-0.0	1.5	1.0	-0.4	2.0	3.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	4.4	4.5	3.5	4.6	5.0	4.8

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