

## Economic perspectives

August 2022

### Highlights

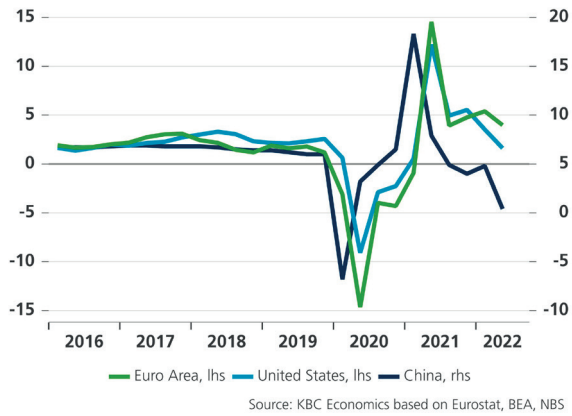
- Globally, high and persistent inflation remains a short-term problem of the first order. In the euro area, inflation rose to 8.9% in July and core inflation to 4%, suggesting a broadening of inflation pressures. In the US, headline inflation decreased modestly to 8.5% in July (down from 9.1% in June), while core inflation remained elevated at 5.9%. For 2022, we expect annual average inflation of 7.5% in the euro area and 8% in the US. Tighter monetary policy and declining demand (in addition to a stabilisation or decline in energy prices) should bring average inflation down to 4.3% in the euro area and 3.1% in the US, respectively, in 2023.
- Stubborn inflation has prompted central banks to accelerate the tightening of monetary policy. The ECB raised all policy rates by 50 basis points in July, which was more than announced. We expect the ECB to further normalise its policy and bring the policy rate back to the neutral level of 2.50%. The new Transmission Protection Instrument (TPI) and the flexibility in reinvesting maturing government bonds in the PEPP portfolio should prevent interest rate spreads within the eurozone from getting out of hand. Member states do have to meet four economic and fiscal criteria to enjoy the TPI shield. Meanwhile, the Fed raised interest rates by 75 basis points in July. This already brings the U.S. policy rate close to its neutral level. We believe that this increase is not yet sufficient to bring US inflation under control, and we expect the Fed funds rate to peak at 3.75%-4% in the first quarter of 2023.
- High inflation and tightening monetary policy will not leave our growth outlook unaffected either. Furthermore, Russia continues to have a stranglehold on the economic outlook, particularly for European economies. In late July, Russia reduced the supply of gas through its critical Nord Stream 1 pipeline to 20% of its total capacity. This forces European economies to reduce their dependence on Russian gas in the short term. To avoid a critical and prolonged energy shortage in the winter, the EU must look for import substitutions and save on gas consumption.
- In the second quarter, real GDP growth in the euro area still remained above expectations (0.7% versus the previous quarter), thanks to strong contributions from the services sector (and tourism in particular). However, leading indicators do not bode well. Purchasing managers' confidence, as recorded in the PMI, fell below the contraction threshold of 50 in July. Consumer confidence approached an all-time low. For now, our scenario assumes that Europe will manage to avoid critical energy shortages, but it is clear that high inflation, high uncertainty and tighter monetary

policy will push the economy into stagflation in the coming quarters. Moreover, risks to the growth outlook are strongly tilted to the downside. In case of critical and prolonged energy shortages, we can expect a hard recession.

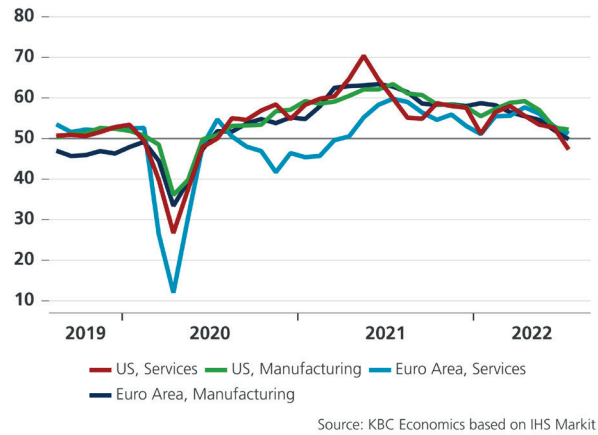
- Meanwhile, in the US, real GDP fell for the second quarter in a row (0.2% qoq), mainly due to falling inventories. Rising interest rates are already having an impact on growth rates there. All interest-sensitive spending – house sales, purchases of consumer durables, and business investment in equipment and buildings - contracted in the past quarter. Leading indicators also give cause for concern. The purchasing managers' confidence indicator (Markit PMI) continued to fall to 52 in July while consumer confidence has also deteriorated significantly. We expect real GDP growth in the U.S. of 1.5% in 2022 and 0.8% in 2023.
- In China, real GDP growth in the second quarter was even weaker than expected. The economy grew only 0.4% compared to a year earlier, implying a quarter-on-quarter contraction of 2.6%. Officials have moved away from the now-unachievable 5.5% growth target for 2022, suggesting strong stimulus is not likely to be on the way. While a recovery in the second half of the year is still expected, downside risks to this scenario are increasing given China's ongoing zero-covid policy and continued problems in the real estate sector.

# Figures

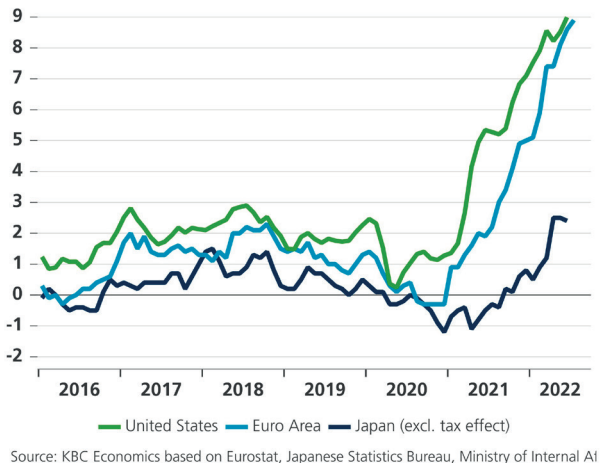
**Real GDP**  
yearly change in %



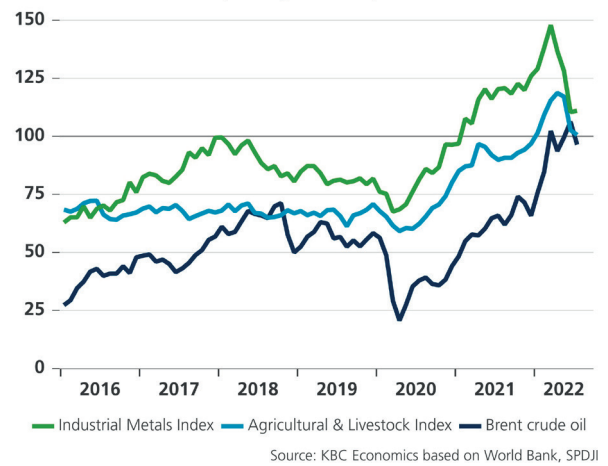
**Business confidence indicators**  
index, above 50 = expansion



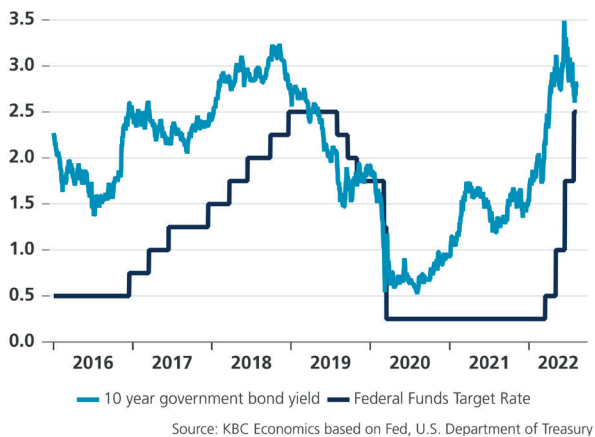
**Headline inflation**  
yearly change consumer price index, in %



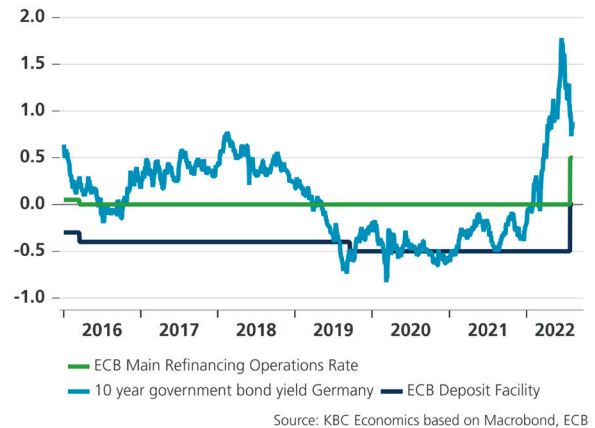
**Commodity prices**  
index, January 2013=100, in USD



**United States interest rates**  
in %

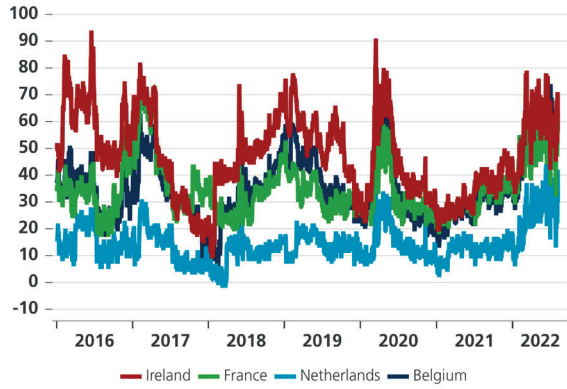


**Euro area interest rates**  
in %



# Figures

**10 year government bond yield spreads to Germany**  
in basis points



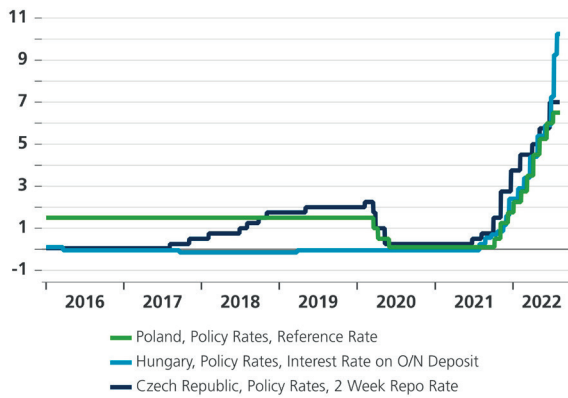
Source: KBC Economics based on Macrobond

**10 year government bond yield spreads to Germany**  
in basis points



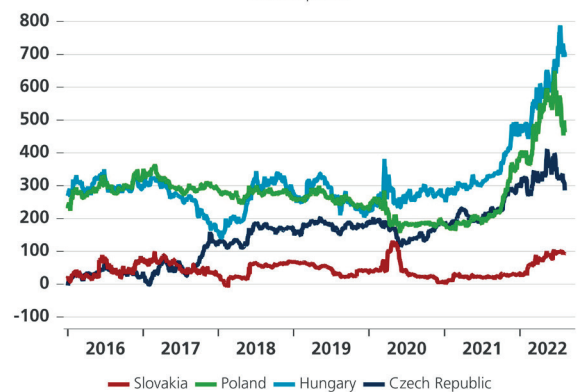
Source: KBC Economics based on Macrobond

**Monetary policy rates Central Europe**  
in %



Source: KBC Economics based on CNB, MNB, NBP

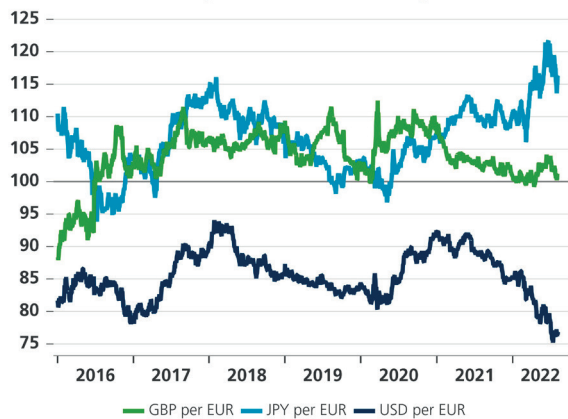
**10 year government bond yield spreads to Germany**  
in basis points



Source: KBC Economics based on Macrobond, AKK, Eurostat

**Exchange rates**

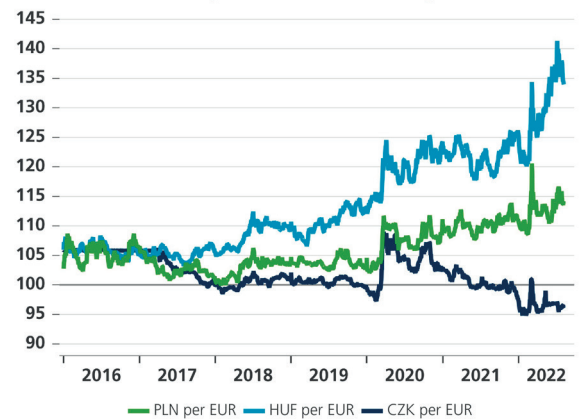
index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

**Exchange rates**

index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

# Outlook main economies in the world



		Real GDP growth (period average, based on quarterly figures, in %)			Inflation (period average, in %)		
		2021	2022	2023	2021	2022	2023
<b>Euro area</b>	Euro area	5.3	2.8	0.4	2.6	7.5	4.3
	Germany	2.6	1.0	0.0	3.2	7.8	5.3
	France	6.8	2.4	0.2	2.1	5.5	3.8
	Italy	6.6	3.0	0.1	1.9	7.2	3.5
	Spain	5.1	4.7	2.0	3.0	8.5	4.4
	Netherlands	4.9	2.7	0.2	2.8	10.0	4.7
	Belgium	6.2	2.4	0.3	3.2	8.9	3.9
	Ireland	13.5	6.0	3.6	2.4	7.5	4.5
	Slovakia	3.0	2.1	2.2	2.8	11.5	10.5
<b>Central and Eastern Europe</b>	Czech Republic	3.5	2.4	1.5	3.5	15.0	6.5
	Hungary	7.1	5.1	1.0	5.2	12.2	10.0
	Bulgaria	4.0	1.8	2.3	2.9	12.5	6.5
	Poland	5.8	3.4	2.9	5.2	12.1	8.0
	Romania	5.9	5.5	5.0	4.1	12.0	9.0
<b>Rest of Europe</b>	United Kingdom	7.4	3.5	0.8	2.9	8.5	5.2
	Sweden	4.9	2.3	1.6	2.7	6.7	4.0
	Norway (mainland)	4.2	3.2	2.2	3.9	4.9	2.9
	Switzerland	3.7	2.5	1.5	0.6	2.6	1.4
<b>Emerging markets</b>	China	8.1	3.2	5.5	0.9	2.1	2.3
	India*	8.7	6.5	5.0	5.5	6.7	4.1
	South Africa	4.9	1.8	1.5	4.8	6.5	5.3
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	11.0	3.3	3.2	19.6	70.0	55.0
	Brazil	4.6	1.4	0.7	8.7	10.2	5.5
<b>Other advanced economies</b>	United States	5.7	1.5	0.8	4.7	8.0	3.1
	Japan	1.7	1.6	1.7	-0.2	2.0	1.3
	Australia	4.8	4.0	2.4	2.8	6.1	4.0
	New Zealand	5.1	2.3	2.3	3.9	6.0	2.8
	Canada	4.5	3.6	1.9	3.6	6.7	3.3
<b>* fiscal year from April-March</b>						8/08/2022	

Policy rates (end of period, in %)		8/8/2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	
<b>Euro area</b>	Euro area (refi rate)	0.50	0.75	1.75	2.25	2.75	
	Euro area (depo rate)	0.00	0.50	1.50	2.00	2.50	
<b>Central and Eastern Europe</b>	Czech Republic	7.00	7.50	7.50	7.50	7.50	
	Hungary (BUBOR 3M)	11.98	12.60	13.60	13.10	11.60	
	Bulgaria	-					
	Poland	6.50	6.75	7.25	7.75	7.75	
	Romania	5.50	4.75	5.00	5.00	5.00	
<b>Rest of Europe</b>	United Kingdom	1.75	2.00	2.50	2.75	2.75	
	Sweden	0.75	1.25	1.75	2.00	2.25	
	Norway	1.25	1.75	2.25	2.75	3.00	
	Switzerland	-0.25	0.00	0.25	0.50	0.50	
<b>Emerging markets</b>	China	2.85	2.85	2.85	2.85	2.85	
	India	5.40	5.40	5.65	5.90	6.15	
	South Africa	5.50	6.25	6.50	6.75	7.00	
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	14.00	14.00	14.00	14.00	14.00	
	Brazil	13.75	14.00	14.00	14.00	13.75	
<b>Other advanced economies</b>	United States (mid-target range)	2.38	2.88	3.63	3.88	3.88	
	Japan	-0.10	-0.10	-0.10	-0.10	-0.10	
	Australia	1.85	2.25	3.25	3.50	4.00	
	New Zealand	2.50	3.00	4.00	4.25	4.25	
	Canada	2.50	2.75	3.50	3.75	3.75	

# Outlook main economies in the world

10 year government bond yields (end of period, in %)						
		8/8/2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
<b>Euro area</b>	Germany	0.90	1.75	2.25	2.60	2.60
	France	1.44	2.35	2.85	3.25	3.25
	Italy	3.01	4.25	5.00	5.60	5.60
	Spain	2.00	2.85	3.35	3.75	3.75
	Netherlands	1.20	2.10	2.60	3.00	3.00
	Belgium	1.48	2.35	2.85	3.25	3.25
	Ireland	1.50	2.45	2.95	3.35	3.35
	Slovakia	1.89	2.50	3.00	3.40	3.40
<b>Central and Eastern Europe</b>	Czech Republic	3.94	4.60	4.35	4.35	5.25
	Hungary	7.96	8.90	8.50	7.50	7.00
	Bulgaria	3.00	2.65	3.15	3.55	3.55
	Poland	5.52	7.80	7.50	7.30	6.30
	Romania	8.27	9.10	9.20	9.30	9.40
<b>Rest of Europe</b>	United Kingdom	1.96	2.90	3.20	3.50	3.50
	Sweden	1.43	2.35	2.85	3.20	3.20
	Norway	2.75	3.75	4.25	4.60	4.60
	Switzerland	0.50	1.50	2.00	2.35	2.35
<b>Emerging markets</b>	China	2.74	3.45	3.75	3.85	3.90
	India	7.35	8.20	8.50	8.50	8.50
	South Africa	10.26	11.40	11.70	11.70	11.70
	Russia	9.04	Temporarily no forecast due to extreme uncertainty			
	Turkey	16.28	20.00	21.00	21.00	22.00
	Brazil	12.83	13.55	13.85	13.85	13.85
<b>Other advanced economies</b>	United States	2.79	3.80	4.10	4.10	4.10
	Japan	0.18	0.25	0.25	0.25	0.25
	Australia	3.22	4.30	4.60	4.60	4.60
	New Zealand	3.37	4.60	4.90	4.90	4.90
	Canada	2.72	3.80	4.10	4.10	4.10

Exchange rates (end of period)					
	8/8/2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
<b>USD per EUR</b>	1.02	0.95	0.95	0.98	1.00
<b>CZK per EUR</b>	24.51	24.70	24.70	24.60	24.60
<b>HUF per EUR</b>	393.23	400.00	390.00	380.00	375.00
<b>PLN per EUR</b>	4.70	4.75	4.70	4.68	4.60
<b>BGN per EUR</b>	1.96	1.96	1.96	1.96	1.96
<b>RON per EUR</b>	4.91	4.95	4.95	4.95	4.95
<b>GBP per EUR</b>	0.84	0.86	0.86	0.88	0.89
<b>SEK per EUR</b>	10.36	10.75	10.50	10.30	10.30
<b>NOK per EUR</b>	9.93	10.15	10.00	9.90	9.90
<b>CHF per EUR</b>	0.98	0.98	0.97	0.97	0.97
<b>BRL per USD</b>	5.11	5.35	5.35	5.35	5.35
<b>INR per USD</b>	79.52	79.50	79.50	79.50	79.50
<b>ZAR per USD</b>	16.64	16.75	16.50	16.50	16.50
<b>RUB per USD</b>	60.60	Temporarily no forecast due to extreme uncertainty			
<b>TRY per USD</b>	17.96	20.00	22.00	24.00	26.00
<b>RMB per USD</b>	6.76	6.70	6.70	6.70	6.65
<b>JPY per USD</b>	134.80	135.00	136.00	137.00	137.00
<b>USD per AUD</b>	0.70	0.70	0.70	0.72	0.73
<b>USD per NZD</b>	0.63	0.64	0.64	0.65	0.66
<b>CAD per USD</b>	1.29	1.28	1.26	1.25	1.24



## Outlook KBC home markets

	Belgium			Ireland		
	2021	2022	2023	2021	2022	2023
Real GDP (average yearly change, in %)	6.2	2.4	0.3	13.5	6.0	3.6
Inflation (average yearly change, harmonised CPI, in %)	3.2	8.9	3.9	2.4	7.5	4.5
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5.7	5.8	6.1	5.1	5.0	4.8
Government budget balance (in % of GDP)	-5.5	-4.6	-5.1	-1.9	0.1	0.3
Gross public debt (in % of GDP)	108.2	105.4	108.5	56.0	49.0	45.0
Current account balance (in % of GDP)	-0.3	-2.4	-2.4	13.9	11.0	10.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	7.1	5.0	2.5	8.3	11.5	3.5

	Czech Republic			Slovakia		
	2021	2022	2023	2021	2022	2023
Real GDP (average yearly change, in %)	3.5	2.4	1.5	3.0	2.1	2.2
Inflation (average yearly change, harmonised CPI, in %)	3.5	15.0	6.5	2.8	11.5	10.5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.1	2.7	3.3	6.5	6.3	6.4
Government budget balance (in % of GDP)	-5.9	-5.6	-4.5	-6.2	-4.5	-4.5
Gross public debt (in % of GDP)	42.0	44.6	46.4	63.1	63.0	62.5
Current account balance (in % of GDP)	-0.8	-2.5	-1.9	-1.8	-3.5	-3.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	19.7	14.0	1.5	6.4	9.5	3.5

	Hungary			Bulgaria		
	2021	2022	2023	2021	2022	2023
Real GDP (average yearly change, in %)	7.1	5.1	1.0	4.0	1.8	2.3
Inflation (average yearly change, harmonised CPI, in %)	5.2	12.2	10.0	2.9	12.5	6.5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.6	3.7	3.9	4.6	6.0	5.3
Government budget balance (in % of GDP)	-6.8	-4.8	-3.4	-4.1	-5.0	-2.0
Gross public debt (in % of GDP)	76.8	72.1	70.4	25.1	27.0	29.8
Current account balance (in % of GDP)	-2.6	-4.9	-2.5	-0.2	-2.5	-2.4
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	16.6	9.5	3.5	8.7	9.5	5.0

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