Economic Perspectives

December 2023

Highlights

- As the Israel-Hamas conflict remains contained to Gaza (so far) and the risk of an immediate major escalation of the conflict into a broad-based regional conflict has declined, energy markets eased in November. As a result, oil prices declined by 7.7% in November to 80.3 USD per barrel. Signs of disunity in the OPEC+ cartel and high non-OPEC supply are also putting downward pressure on prices. Gas prices also declined by 8.3% to 41 EUR per MWh, as high reserves continue to exert downward pressure.

- In the euro area, headline inflation declined from 2.9% to 2.4% in November, as both food and energy inflation declined. Core inflation declined from 4.2% to 3.6%. The large decline in service inflation was especially encouraging. Goods inflation also declined substantially. Wage growth remains elevated, however. Nonetheless, given the broad-based inflation decline, we downgrade our 2024 forecast from 2.6% to 2.4%, while maintaining our 5.5% 2023 forecast. Going forward, we expect uncertainty regarding the further disinflation path to grow significantly as base effects wane and render inflation more sensitive to new price shocks.

- In the US, inflation declined from 3.2% to 3.1%. The decline was primarily driven by lower energy prices while food price inflation moderated. Core inflation remained unchanged at 4%. This was due to an acceleration of shelter and service inflation. Goods prices on the other hand, declined last month. Consumer inflation expectations dropped markedly. We maintain our 4.1% 2023 inflation forecast but downgrade our 2024 forecast from 2.6% to 2.5%.

- Lower inflation prints are making it increasingly likely that the rate-hiking cycle has come to an end, both for the ECB and the Fed. They could even bring forward the first rate cut. We now expect the first rate cuts in July for the ECB and June for the Fed. We forecast the ECB deposit rate and the Fed funds rate to drop to 3% and 4.125%, respectively, by the end of 2024. We expect both central banks to continue their quantitative tightening policies, even after rate cuts start. The ECB announced that from mid-2024 monthly reinvestments of its PEPP portfolio will be halved to an average of 7.5 billion EUR per month. From 2025, they will be stopped completely.

- In the euro area, growth is weakened by continued monetary tightening, lack of external demand and loss of competitiveness. The economy shrank last quarter on the back of lower inventories, while consumption kept on growing. Both France and Germany saw negative growth figures last quarter. Business sentiment is stabilising at low levels and consumer sentiment is rebounding somewhat. The labour market remains strong, however. Fiscal tightening in Germany could be an additional drag on growth. Going forward, we expect a gradual recovery from the second half of next year. We thus maintain our 0.5% growth forecasts for 2023 and 2024.

- US GDP grew by an impressive 1.3% quarter on quarter in Q3. This feat is unlikely to be repeated in Q4. Consumption is being dragged down by the resumption of student debt repayments, decreasing excess savings and continued monetary tightening. Inventories and residential investments are likely to contribute negatively to GDP and net exports remain stagnant. The labour market remains resilient, however. Forward-looking indicators, especially the services PMIs indicate that though next year's growth will be below potential, a (deep) recession will likely be averted. We keep our 2.4% 2023 growth forecast unchanged but upgrade our 2024 growth forecast from 1.0% to 1.2%.

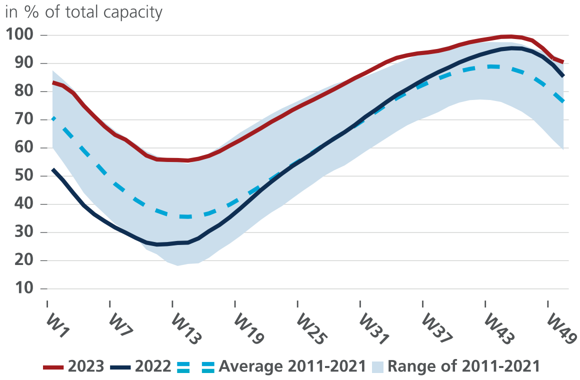
- In China, we maintain our GDP growth outlook of 5.1% for 2023 and 4.1% for 2024. Some recent activity and sentiment data suggest a positive end-of-year surprise for Q4 GDP could take 2023 growth higher, but significant hurdles (real estate, local government debt, consumer confidence, a.o.) remain. We therefore continue to expect growth to be somewhat below potential unless new major policy initiatives are announced.

Global Economy

The world economy weakens while inflationary pressures decline

The world economy is showing important signs of weakening. This is most apparent in the US, where the impressive 1.3% third quarter growth is unlikely to be repeated in Q4. The resumption of student debt repayments along with tight monetary conditions and decreasing excess savings is poised to be a drag on consumption. In China, the real estate market is showing increasing signs of distress, weighing on consumer confidence, and is dragging economic growth down. Meanwhile, European growth continues to be sluggish with confidence indicators stabilising at relatively low levels pointing to continued near-term stagnation.

Figure 1 - EU gas storage
in % of total capacity



Source: KBC Economics based on Gas Infrastructure Europe (GIE)

The good news, however, is that inflation has been sliding downwards especially in the euro area (though base effects will likely cause a temporary rebound next month and inflation uncertainty is likely to increase going forward). This will allow central banks to stop the rate hiking cycle and allow them to start loosening monetary conditions earlier than expected. As the economy adapts further, we expect a gradual global recovery from the second half of 2024 onwards.

Energy prices relax in November

Energy markets were rattled in October as the Israel-Hamas conflict erupted. Though Israel produces no oil and only a limited amount of gas, a wider conflict in the region could cause disruptions in the strait of Hormuz and critically tighten supply. That risk diminished in November as Iranian and Hezbollah leaders gave clear signals of not wanting to escalate the conflict. That said, recent attacks by Yemen's Houthis on commercial ships show a wider conflict is not fully off the table yet.

Nonetheless, oil prices declined by 7.7% in November to 80.3 USD per barrel in November. The announcement of OPEC+ to make voluntary cuts of around 2.2 million barrels per day for the first quarter of next year did little to reverse this downward trend. On the contrary, given the voluntary nature of the cuts, doubts were raised whether the countries committing to the cuts would actually follow through. Furthermore, the cuts were announced by only 8 of the 23 OPEC+ member countries. Many smaller members are thus not bound by supply constraints and could raise their output. Meanwhile, oil supply has risen rapidly in non-OPEC members such as the US, Brazil and Guyana.

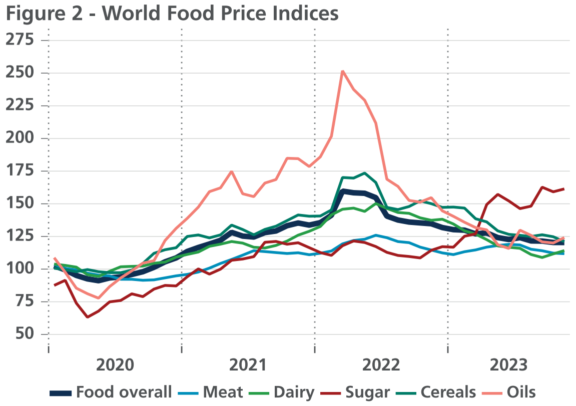
Gas prices also declined by 8.3% to 41 EUR per MWh in November. Though colder winter weather has increased gas consumption in recent weeks and gas reserves have declined markedly as result, gas reserves remain far higher than historical averages (see figure 1). This will allow Europe to avoid major gas disruptions this winter.

Global food prices also continued their downward trend in November and are down 0.5% month-on-month and 10.9% year-on-year. A successful wheat harvest in the US, along with a strong sugar harvest in Brazil are pushing up supply, while demand is under pressure (especially for meat) (see figure 2).

Euro area inflation drops further

Inflation fell again in the euro area more sharply than expected. According to Eurostat's flash estimate, it stood at 2.4% in November, half a percentage point lower than in October. The annual increase in all major components - energy, food and core goods and services - declined. Seasonally-adjusted figures from the ECB suggest that the short-term dynamics of core inflation may have already fallen to the ECB's target. Indeed, the annual increase in the three-month moving average versus the previous three-month period was 2% (annualised) in November. However, it is too early to immediately conclude from this single figure that the target has been definitively reached in this cycle. But it is clear that core inflation is cooling, sharply for goods price inflation and, as expected, more gradually for services inflation. Indeed, the latter, in particular, continues to be fuelled by wage cost increases, although third-quarter figures show that part of these wage cost increases are absorbed through weakening increases in profits per unit of product (see figure 3). Meanwhile, more favourable energy prices are causing lower-than-expected energy price inflation, and food price inflation is also cooling, though it still remains quite high at 6.9%. Going forward, we expect disinflation to lose pace as base effects wane and inflation to become more sensitive to new inflation shocks.

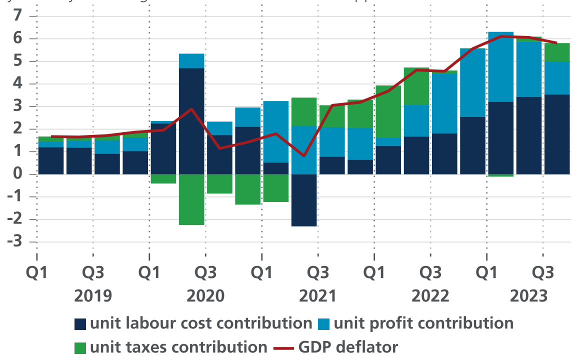
Figure 2 - World Food Price Indices



Source: KBC Economics based on FAO

Figure 3 - Euro area GDP deflator

year-on-year change in % and contributions in ppts



Source: KBC Economics based on Eurostat

We have left our expectations for the cooling of future inflation dynamics unchanged for now. However, lower-than-expected inflation readings pull average expected inflation for 2024 down from 2.6% to 2.4%.

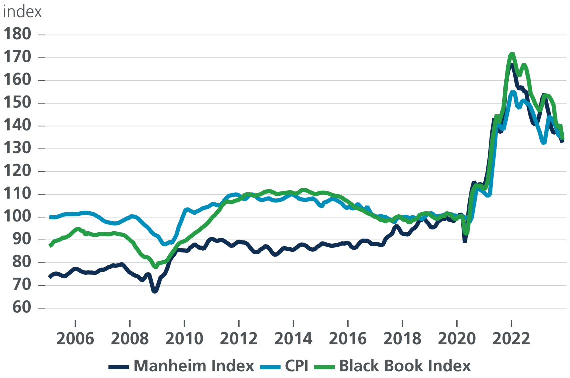
US Inflation edges down in November

US inflation declined from 3.2% year-over-year in October to 3.1% in November. The decline was primarily driven by energy prices which declined by 2.3% last month, while food prices increased by only 0.2%. Unfortunately core inflation was unchanged versus last month, staying at 4% year-over-year. On a month-on-month basis, core inflation increased by 0.3% in November.

The increase was primarily driven by core services which rose 0.5% month-on-month. Within core services, shelter inflation accelerated again, rising 0.4% month-on-month and 6.5% year-on-year. This acceleration might be temporary, however, as market rents increased only by around 3% year-on-year according to Zillow (a leading indicator of shelter inflation).

Services less energy services and shelter prices also rose by 0.5% month-on-month, a concerning acceleration. Service prices are primarily driven by wages which also

Figure 4 - US used cars and trucks (2020=100)



Source: KBC Economics based on Manheim Consulting, BLS, Black Book

rose by an elevated 0.35% last month. Rising wages could be compensated by rising productivity, however. Q3 productivity growth was revised upwards to 2.5% year-on-year. Unit labor costs were thus revised downwards and thus increased by only 1.5% year-on-year in Q3 2023. Furthermore, we expect certain services components, such as vehicle insurance price inflation to moderate in the coming months given the slowdown in car price inflation in the prior months.

Contrary to services, goods prices declined by 0.3% last month. This decline happened despite a 1.6% increase in the volatile used car and trucks component. This increase is likely temporary as forward-looking indicators point to lower used car prices in the coming months (see figure 4). Excluding used car and trucks, core good prices declined by 0.6% last month, reflecting a continued windfall from easing supply chains.

As November inflation figures were broadly in line with our expectations, we maintain our 4.1% 2023 inflation forecast. Looking further ahead, according to the Michigan Survey, inflation expectations for the year ahead declined from 4.5% in October to 3.1% in November. 5-year inflation expectations declined from 3.2% to 2.8%. Correspondingly, we downgrade our 2024 forecast from 2.6% to 2.5%.

More dovish monetary policy stance expected in 2024

The latest macroeconomic data for the Eurozone and the US point to a more favourable inflation trajectory in an environment of weakening economic growth in the near term. Therefore, we expect both the Fed and the ECB to start their rate cut cycle in the second quarter of 2024. For the ECB, this is slightly earlier than what we had anticipated so far. That means there will be one additional rate cut for the ECB in 2024. After all, after its policy meeting of 15 December, the ECB indicated that the dampening effect on inflation of the monetary tightening that has been implemented is becoming more and more visible and that inflation in 2025 will fall towards the inflation target of 2% in 2025. Specifically, we now take into account a first rate cut by the ECB in June 2024, followed by an easing cycle in steps of 25 basis points. This brings the ECB's deposit rate from the current 4% to 2.75% by the end of 2024.

In light of the weakening growth dynamics in the U.S. in the fourth quarter of 2023 and probably also in the first quarter of 2024, we also expect the Fed to start its easing cycle in the second quarter. This expectation was reinforced by the Fed's policy meeting of 13 December. Our expectation is between the market expectation (six expected rate cuts in 2024), and the Fed’s own guidance (three).

US and German 10-year bond yields have fallen sharply over the past month to around 3.9% and 2%, respectively. We consider that in part a temporary market exaggeration. Since we assume that market expectations are getting a bit ahead of themselves, we expect in response a moderate upward correction in 10-year bond yields (both US and German) by the end of the first quarter of 2024. After that correction, the downward trend in bond yields will resume.

As a result, the slope of the US yield curve (10-year bond yields relative to policy rates) is expected to shift from the current inverse curve to a more or less flat curve by the end of 2024. Given the stronger initial inversion, however, the German yield curve will still be inverse at the end of 2024 and may only flatten thereafter.

The end of the Fed's rate hike cycle and the prospect of the start of the easing cycle caused the US dollar to weaken to around 1.09 USD per EUR. The currency is expected to remain around current levels for the rest of this year before weakening slightly further in the first and second quarters of 2024 due to weakening US growth and the Fed's first rate cut in the second quarter. Thereafter, the US dollar is expected to continue its gradual depreciation to 1.15 USD per EUR by the end of 2024, driven by its fundamental overvaluation.

Spreads on 10-year government bonds within the Eurozone remained largely unchanged last month, with the Italian spread even narrowing slightly. This confirms our earlier assessment that stagnant growth and related challenges to public finances were offset by the credibility of the ECB's Transmission Protection Instrument. As a result, we confirm our forecast for spread levels through 2024, including the slightly upward path toward it by the end of the first quarter of 2024.

So far, the flexible and of the ECB's PEPP flexible reinvestments also contributed to moderate spreads between EMU governments. On 14 December, however, the ECB announced that it will take a further step toward normalising its balance sheet size during 2024. Maturing assets from its PEPP portfolio will no longer be fully reinvested from the second half of 2024. There will then be a net reduction in the portfolio amounting to an average of EUR 7.5 billion per month. From the beginning of 2025, reinvestments will cease completely.

More generally, we expect both the Fed and the ECB to continue their quantitative tightening in 2024, even after the start of their interest rate cutting cycles.

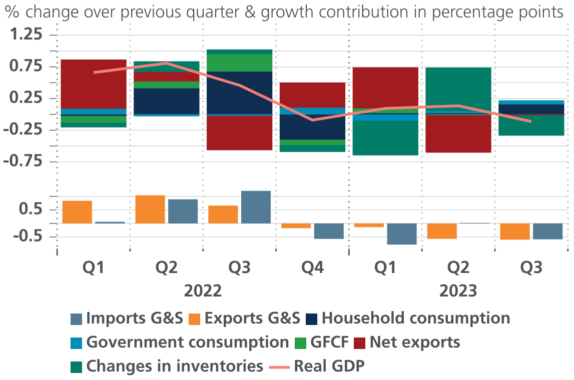
Euro area stagnation

The latest Eurostat figures confirm that euro area real GDP contracted by 0.1% in the third quarter of 2023 compared to the previous quarter. The contraction followed very modest growth of 0.1% in the previous two quarters. Compared to a year earlier, real GDP was at the same level.

Lower inventories are the main cause of the slight contraction (see figure 5). Household and government consumption increased by 0.3% compared to the previous quarter, making a small positive growth contribution of 0.2 and 0.1 percentage points, respectively. Gross

Figure 5 - Real GDP growth in the euro area

% change over previous quarter & growth contribution in percentage points



Source: KBC Economics based on Eurostat

capital formation stagnated and exports fell by 1.1%. The contraction in imports was just slightly larger at 1.2%.

The slight contraction of the German economy (-0.1%) was also confirmed, while the French economy recorded a slight contraction too (-0.1%) in contrast to the previously published flash estimate for growth (+0.1%). In the Netherlands, the economic downturn was slightly deeper (-0.2%), while the economies of major southern European countries recorded positive growth rates. Although, at 0.1% in Italy and 0.3% in Spain, these remained more modest than in Belgium (0.4%). Southern Europe mainly made up the difference with stronger growth in household consumption.

Meanwhile, the indicators on business confidence present a mixed picture, but without making major movements. Overall, they suggest a bottoming out of (still) weak confidence. Encouragingly, the Ifo indicator on business confidence in Germany shows a slight improvement - albeit from low levels - also on future expectations. In the six-monthly investment survey, euro area business leaders flagged plans to increase investment further, albeit at a slower pace than in the past three years. This survey suggests that investment is likely to remain stronger than previously suggested on the basis of weak demand for investment bank credit as recorded in the ECB's Bank Lending Survey. Ample financial buffers of European firms may explain the divergent message from both surveys: higher (real) interest rates may induce firms to finance investment with their own financial resources.

Despite the slight contraction of real GDP in the euro area, the number of employed people increased by 0.2% in the third quarter of 2023 compared to the second quarter. However, the number of hours worked declined by 0.1% in line with the GDP contraction. This could reflect workers' preferences to work fewer hours. However, the diverging trend could also indicate some weakening of the labour market, while companies remain reluctant to lay off employees outright against the backdrop of structural tightness. At the same time, the annual increase in average hourly earnings stabilised at 5.2% in the third quarter, well above inflation. With inflation cooling further to 2.4% in November, this means that there is now plenty of real wage growth in the euro area. Against this background, the decline in consumer confidence since last August came to an end in November.

In summary, recent economic indicators are in line with our expectations that the period of economic stagnation, which the euro area has been experiencing since mid-2022, will continue until the first quarter of 2024. We have therefore maintained our outlook of annual average real GDP growth of 0.5% in both 2023 and 2024. We have slightly lowered the German economy's growth forecast for 2024 from 0.3% to 0.2% due to the political malaise over fiscal policy after the Constitutional Court declared the government's "creative" application of fiscal rules unconstitutional in mid-November. The slight downward revision of the growth rate for the French economy by 0.1 percentage points to 0.8% for 2023 and to 0.7% for 2024 is due to the downward adjustment of growth in the third quarter of 2023. In the longer term, we expect a gradual economic recovery of the European economy from the second half of 2024 onwards.

Impressive Q3 US growth unlikely to be repeated in Q4

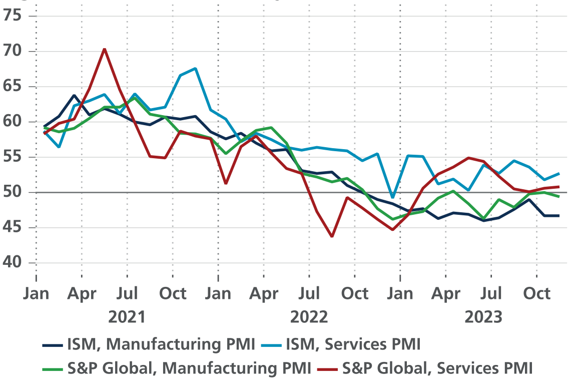
US Q3 GDP growth was revised upwards from 1.2% to 1.3% quarter-on-quarter, a very strong performance. Non-residential fixed investment and government spending were revised upwards, while consumer spending was slightly revised downwards. Nonetheless, consumption remained the main growth engine, contributing almost half of last quarter's GDP growth.

The picture will likely be different for Q4. The resumption of student debt repayments, along with tight monetary conditions and decreasing excess savings is putting downward pressure on consumption this quarter. In October, personal consumption expenditures increased by 0.2%. That remains a decent figure (and is higher than we anticipated). Nonetheless, it remains much weaker than September's 0.7% personal consumption expenditures growth.

Aside from consumption, the high inventory growth of Q3 is unlikely to be repeated in Q4 and there could even be a negative growth contribution coming from inventories in Q4. Non-residential investment could also contribute negatively to Q4 GDP, as new home sales declined by 5.5% in October. Net exports also look stagnant for now.

The most resilient part of the US economy remains its labour market. 199k jobs were added in November, while the unemployment rate edged down again from 3.9% to 3.7% and the participation rate ticked up from 62.7% to 62.8%. Average weekly hours ticked up from 34.3 to 34.4. We should add some caveats here. Parts of the strong job growth was due to returning strikers (an estimated 40k). Furthermore, most of the job growth was in non-cyclical

Figure 6 - US Business Surveys



Source: KBC Economics based on ISM, S&P Global

sectors such as healthcare and government. Nonetheless, the job growth was still impressive this late in the cycle.

When looking at next year, we also saw some encouraging signs in the latest PMI figures. Though PMI figures slightly worsened for the manufacturing sector, they showed a noticeable improvement for the service sector (see figure 6). The latter has much more weight in the US economy. This suggests that though next year's growth will likely move well below potential, a (deep) recession is likely to be averted. Given this improvement, we maintain our 2.4% 2023 growth forecast, but upgrade our 2024 forecast from 1.0% to 1.2%.

Chinese economy set to surpass the 5% growth target

In China, some tentative positive data points suggest there's room for China's Q4 GDP figure to surprise to the upside, bringing 2023 real GDP growth above the 5.1% that we currently pencil in. Exports in November turned positive (0.5% year-over-year) for the first time in seven months, while the S&P services and manufacturing PMIs both improved in November (to 51.5 and 50.7). Credit growth (Total Social Financing) also improved for the fourth straight month, but still remains relatively subdued at 9.6% year-over-year. The uptick in credit growth is mainly being supported by (local) government bond issuance as the authorities hope to stimulate the sluggish economy. However, concerns about the real estate sector are still elevated, with increasing spill-over risks to the financial sector and local governments. More state support is likely needed (and possibly under way) to improve both investor and consumer confidence going forward. For these reasons, we maintain our 2024 outlook for growth of only 4.1% until either further policy clarity is provided or signs of a more sustained uptick in activity become evident.

Central and Eastern Europe

Lower inflation but unimpressive recovery

In short, we assume a continued transition to a lower-inflation environment while economic growth is set to remain below potential. In other words, we are confident inflation will decline further, yet remain above the 2% target. The lagged effects of relatively strict monetary policy, together with weakening external demand will nonetheless result in an unimpressive recovery with downside risks. This is not dissimilar to our forecast for the euro area, however, there are important nuances such as the differences in the economic structures, as well as the timing of the start/expected pace of monetary policy easing.

Inflation trending down but remaining above the target

The good news is that 2024 is set to be another year of inflation easing across the CEE region (see figure CEE1). We expect the most pronounced disinflation in both Hungary and the Czech Republic. However, while in the former, headline inflation will remain stubbornly above the central bank's target (at 5.4%), the latter's inflation is set to move closer to the central bank's target (at 2.5%). Annual inflation is expected to remain relatively far above the target also in Slovakia (4.0%), Bulgaria (5.0%) and Poland (5.5%).

The explanation is relatively straightforward – while the ongoing decline in headline inflation is largely fueled by easing energy and food inflation (i.e., the base effect), these positive drivers are set to weaken dramatically. In other words, still above-target inflation will be primarily a result of sticky core price pressures across the region, largely driven by tight labour markets and solid wage growth.

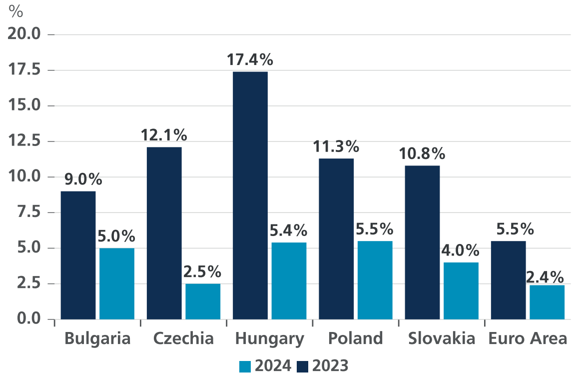
A synchronous monetary policy easing

Against the backdrop of lower price pressures, some CEE central banks have already started their easing cycle, and more is to come next year (see figure CEE2). The National Bank of Hungary (MNB), the regional frontrunner, is expected to deliver a decline in the BUBOR rate from the current 10.5% to 6.0% by end-2024. In a similar manner, the Polish central bank (NBP) has so far delivered 100 basis points of easing, and we see a further decline by a cumulative 175 basis points to 4.0% by the end of next year.

On the other hand, the Czech National Bank (CNB) is yet to begin its easing cycle. We nonetheless believe the first rate cut is around the corner. Our baseline scenario assumes a first rate cut at the 21 December policy meeting, but there is a significant risk of postponement to early 2024. Either way, the beginning of the easing cycle will be cautiously measured in the face of pro-inflationary risks, namely loosely anchored inflation expectations. Overall, we are of the view that next year will bring a pronounced decline in the key interest rate from the current 7.0% to around 4.0%.

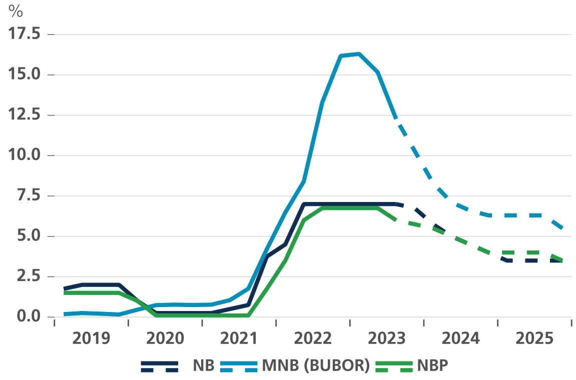
Importantly, while we expect a further downward movement in key policy rates, their level over the forecast horizon is set to remain significantly above the post-

Figure CEE1 - Annual HICP Inflation in the CEE region



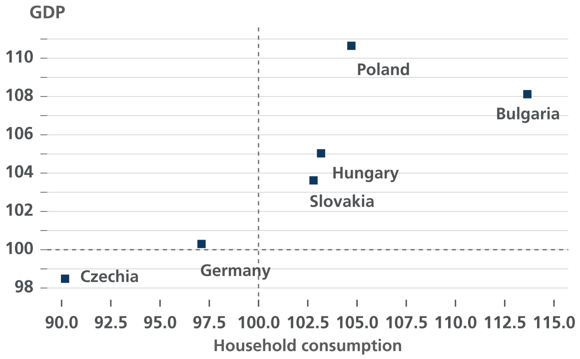
Source: KBC Economics based on Eurostat

Figure CEE2 - Key policy rates in the CEE region



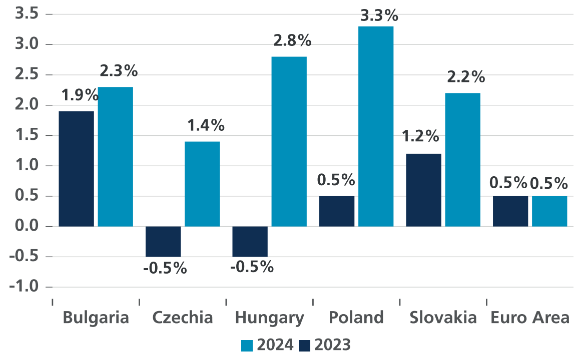
Source: KBC Economics based on CNB, NBP, MNB

Figure CEE3 - GDP & Household Consumpiton in CEE
index, Q4 2019-100



Source: KBC Economics based on Eurostat

Figure CEE4 - Annual Real GDP growth in the CEE region
%



Source: KBC Economics based on Eurostat

Lehman era of extremely low interest rates. First, this is because of expectations of higher policy equilibrium rates in the core markets. Furthermore, still elevated core price pressures will prevent CEE central banks from bringing rates down in a similar manner as before the pandemic. Finally, the matrix of potential risks is generally titled in a pro-inflationary direction, including more volatile geopolitics, higher energy prices, or supply chain disruptions stemming from accelerating deglobalisation.

Economic growth to remain below potential

Turning to growth, the latest GDP releases point towards unbalanced momentum across the region. In Poland and Hungary, third-quarter figures showed an accelerating quarter-on-quarter growth of 1.5% and 0.9%, respectively. On the other hand, sequential momentum eased in Bulgaria (0.4%) and Slovakia (0.3%), while the Czech Republic recorded a relatively steep decline of 0.5% qoq, thus remaining the very last economy in the EU not recovering to the pre-pandemic level of Q4 2019 (see figure CEE3).

For the remainder of 2023, our nowcasts suggest still significant growth differences. The regional dynamics are, however, expected to be rather constrained except for Poland, where our estimate suggests 1.0% quarter-on-quarter growth. As a result, annual 2023 GDP growth is set to come out as relatively subdued in the region, ranging from -0.5% in the Czech Republic and Hungary to 1.9% in Bulgaria.

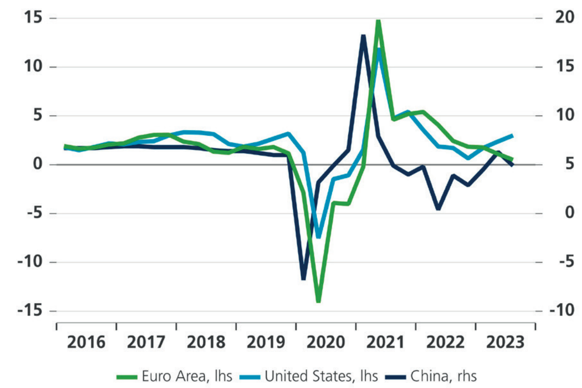
This will be followed by a below-potential recovery across CEE economies in 2024, similar to what we expect in the euro area (see figure CEE4). Poland should maintain the position of regional outperformer with a projected annual GDP growth of 3.3%. On the other hand, economies with the closest trade and financial links to the poorly performing German economy are set to see a more moderate recovery. This is particularly the case of the Czech Republic (1.4%) and Slovakia (2.2%) and to a lesser extent also Hungary (2.8%). Bulgaria's growth is expected to accelerate somewhat to 2.3%.

On the positive note, our growth outlook for the CEE region assumes that declining inflation should support the recovery in household consumption to varying degrees, based on the size of negative real income shock in the past. On a similar note, we expect a positive growth impulse from higher absorption of EU funds, driven by the spending from the Recovery and Resilience Facility, as well as the Modernisation Fund.

At the same time, we see some important headwinds over the horizon. First, the external environment is becoming more challenging for export-oriented CEE economies with stagnating growth in Germany and an expected slowdown in the US. In addition, over the short- to medium-term, structural challenges pose important downside risks, particularly high energy prices, supply chains frictions and a bumpy transition towards electric vehicles within the European automotive sector.

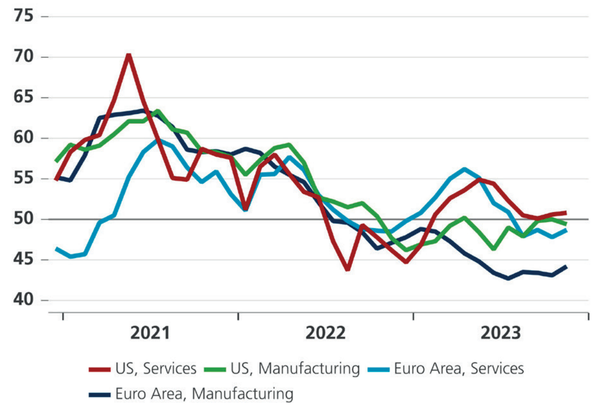
Figures

Real GDP
yearly change in %



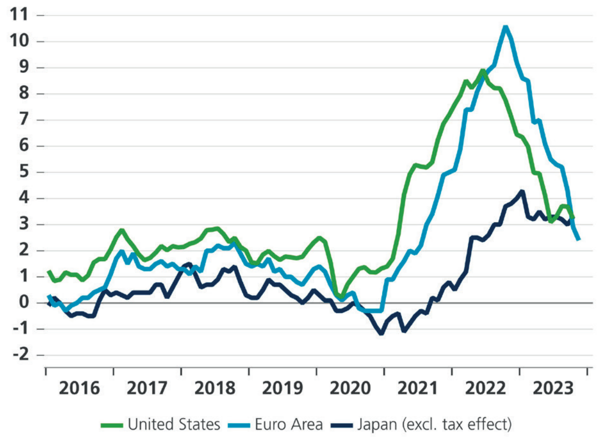
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



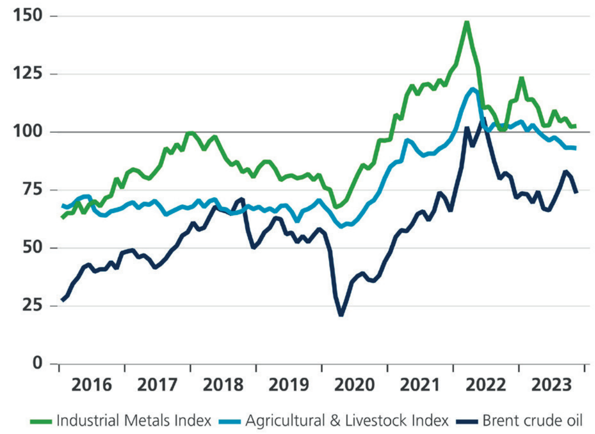
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



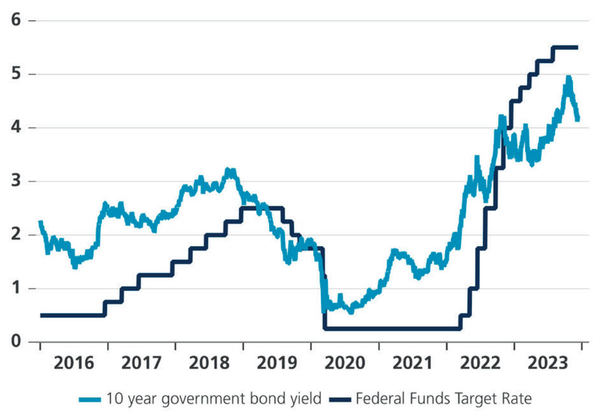
Source: KBC Economics based on Eurostat, SBJ, BLS

Commodity prices
index, January 2013=100, in USD



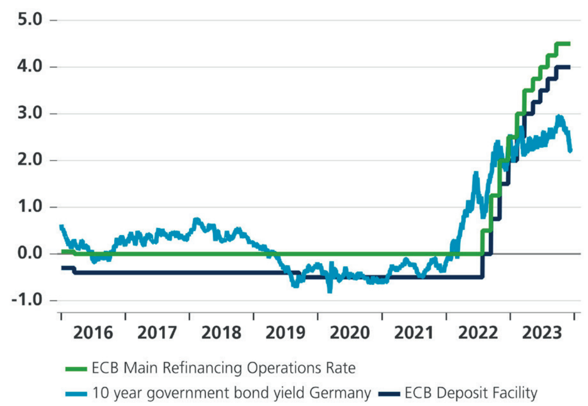
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



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

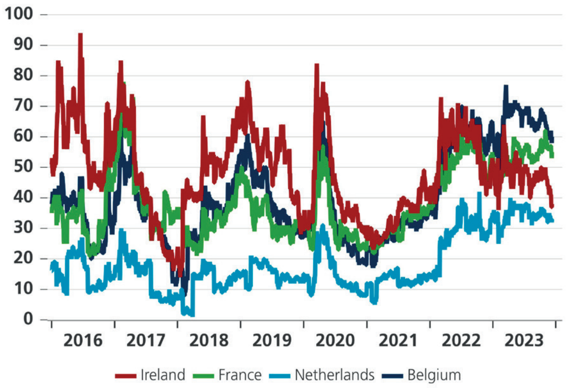
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

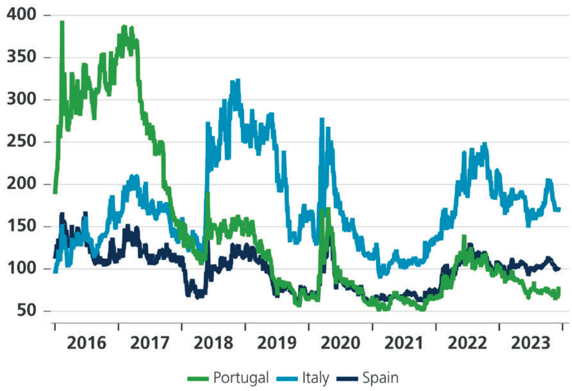
Figures

10 year government bond yield spreads to Germany
in basis points



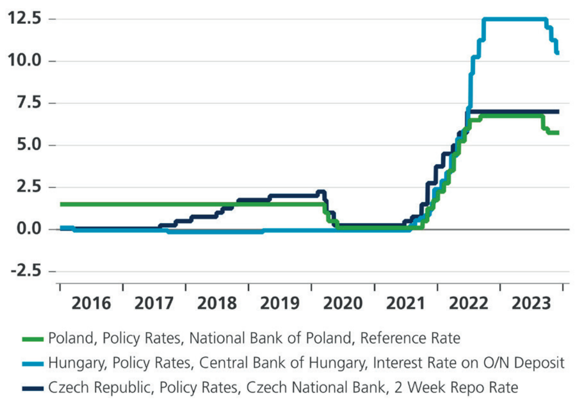
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



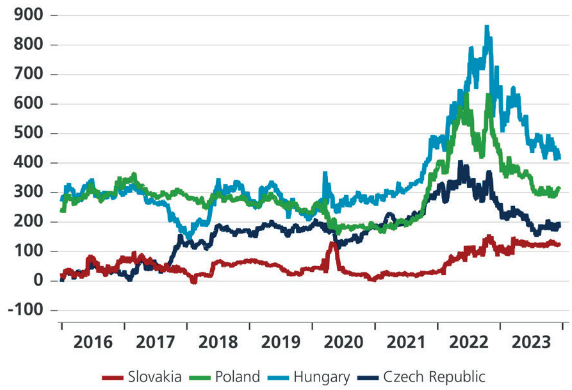
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



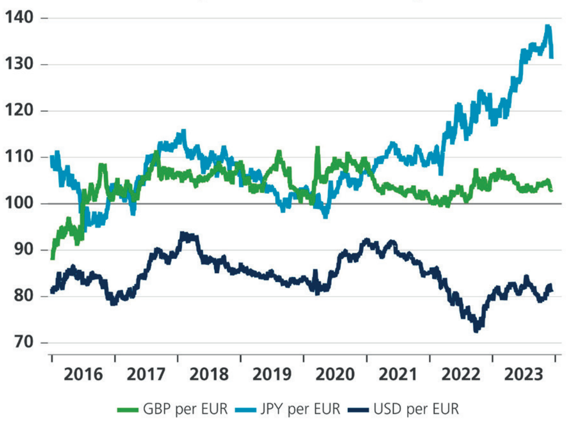
Source: KBC Economics based on CNB, MNB, NBP

10 year government bond yield spreads to Germany
in basis points



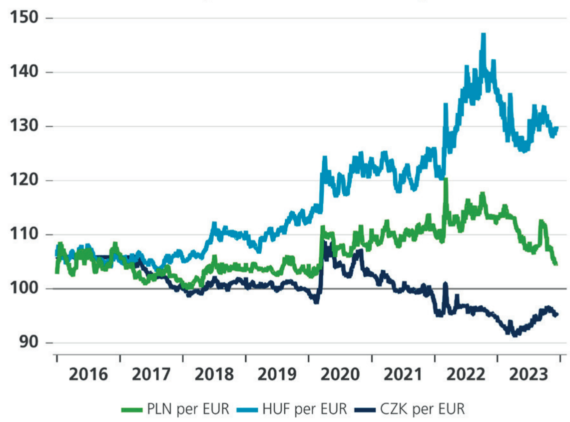
Source: KBC Economics based on Macrobond, AKK, Eurostat

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, in %)			Inflation (period average, in %)		
		2022	2023	2024	2022	2023	2024
Euro area	Euro area	3.4	0.5	0.5	8.4	5.5	2.4
	Germany	1.9	-0.1	0.2	8.7	6.1	2.5
	France	2.5	0.8	0.7	5.9	5.6	1.9
	Italy	3.9	0.7	0.3	8.8	6.2	2.0
	Spain	5.8	2.3	1.4	8.3	3.4	3.1
	Netherlands	4.4	0.1	0.4	11.6	4.3	3.2
	Belgium	3.0	1.4	0.8	10.3	2.3	3.6
	Ireland	9.4	2.9	2.5	8.1	5.4	3.2
	Slovakia	1.8	1.2	2.2	12.1	10.8	4.0
Central and Eastern Europe	Czech Republic	2.4	-0.5	1.4	14.8	12.1	2.5
	Hungary	4.6	-0.5	2.8	15.3	17.4	5.4
	Bulgaria	4.2	1.9	2.3	13.0	9.0	5.0
	Poland	5.5	0.5	3.3	13.2	11.3	5.5
	Romania	4.6	2.5	3.2	12.0	10.5	7.0
Rest of Europe	United Kingdom	4.3	0.4	0.2	9.3	7.4	3.1
	Sweden	3.0	-0.6	0.3	8.1	8.5	3.5
	Norway (mainland)	3.7	1.3	1.0	6.2	5.3	2.9
	Switzerland	2.7	0.8	1.2	2.8	2.2	1.6
Emerging markets	China	3.0	5.1	4.1	2.0	0.4	1.5
	India*	7.2	6.6	5.6	6.7	5.3	4.5
	South Africa	1.9	0.6	1.3	7.0	6.1	5.7
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	5.5	3.7	2.0	72.3	53.0	50.2
	Brazil	3.0	3.2	1.5	9.3	4.7	3.8
Other advanced economies	United States	1.9	2.4	1.2	8.0	4.1	2.5
	Japan	0.9	1.9	1.0	2.5	3.2	2.2
	Australia	3.8	1.8	1.4	6.6	5.6	3.2
	New Zealand	2.3	1.1	0.9	7.2	5.7	3.4
	Canada	3.8	1.1	0.9	7.0	3.9	2.6
*** fiscal year from April-March**						15/12/2023	

Policy rates (end of period, in %)		15/12/2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Euro area	Euro area (refi rate)	4.50	4.50	4.50	4.25	3.75
	Euro area (depo rate)	4.00	4.00	4.00	3.75	3.25
Central and Eastern Europe	Czech Republic	7.00	6.75	5.75	5.00	4.50
	Hungary (BUBOR 3M)	10.25	10.30	8.30	7.10	6.60
	Bulgaria	-				
	Poland	5.75	5.75	5.50	5.00	4.50
	Romania	7.00	7.00	7.00	6.75	6.75
Rest of Europe	United Kingdom	5.25	5.25	5.25	5.25	5.00
	Sweden	4.00	4.00	4.00	4.00	3.75
	Norway	4.50	4.25	4.25	4.25	4.25
	Switzerland	1.75	1.75	1.75	1.75	1.50
Emerging markets	China	2.50	2.50	2.50	2.50	2.50
	India	6.50	6.50	6.50	6.25	6.00
	South Africa	8.25	8.25	8.25	8.00	7.75
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	40.00	40.00	45.00	45.00	45.00
	Brazil	11.75	11.75	10.75	10.00	9.50
Other advanced economies	United States (mid-target range)	5.375	5.375	5.375	5.125	4.625
	Japan	-0.10	0.00	0.00	0.00	0.00
	Australia	4.35	4.35	4.35	4.35	4.35
	New Zealand	5.50	5.50	5.50	5.50	5.50
	Canada	5.00	5.00	5.00	5.00	4.50

Outlook main economies in the world

10 year government bond yields (end of period, in %)		15/12/2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Euro area	Germany	2.01	2.05	2.20	2.20	2.15
	France	2.54	2.65	2.90	2.90	2.85
	Italy	3.72	3.95	4.20	4.20	4.15
	Spain	2.99	3.15	3.40	3.40	3.35
	Netherlands	2.32	2.45	2.60	2.60	2.55
	Belgium	2.66	2.75	3.00	3.00	2.95
	Ireland	2.34	2.45	2.70	2.70	2.65
	Slovakia	3.23	3.40	3.70	3.70	3.65
Central and Eastern Europe	Czech Republic	3.87	4.40	4.33	4.25	4.10
	Hungary	5.99	6.50	6.50	6.40	6.20
	Bulgaria*	4.50	4.20	4.30	4.30	4.25
	Poland	5.03	5.30	5.10	4.80	4.40
	Romania	6.43	7.50	7.70	7.90	8.00
Rest of Europe	United Kingdom	3.67	3.75	3.90	3.90	3.85
	Sweden	2.11	2.10	2.25	2.25	2.20
	Norway	3.24	3.30	3.45	3.45	3.40
	Switzerland	0.62	0.65	0.80	0.80	0.75
Emerging markets	China	2.63	2.60	2.75	2.70	2.65
	India	7.16	7.15	7.05	6.90	6.85
	South Africa	9.77	9.75	9.85	9.80	9.75
	Russia	12.69	Temporarily no forecast due to extreme uncertainty			
	Turkey	22.57	25.00	30.00	30.00	30.00
	Brazil	10.65	10.85	10.85	10.50	10.45
Other advanced economies	United States	3.90	3.90	4.05	4.00	3.95
	Japan	0.70	0.85	1.00	1.00	1.00
	Australia	4.07	4.10	4.25	4.20	4.15
	New Zealand	4.64	4.65	4.80	4.75	4.70
	Canada	3.11	3.10	3.25	3.20	3.15

***Caution: very illiquid market**

Exchange rates (end of period)	15/12/2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
USD per EUR	1.09	1.10	1.11	1.12	1.13
CZK per EUR	24.51	24.60	24.80	24.60	24.50
HUF per EUR	383	385	382	385	387
PLN per EUR	4.32	4.35	4.30	4.28	4.25
BGN per EUR	1.96	1.96	1.96	1.96	1.96
RON per EUR	4.97	5.00	5.05	5.10	5.15
GBP per EUR	0.86	0.87	0.88	0.89	0.90
SEK per EUR	11.19	11.25	11.20	11.10	11.00
NOK per EUR	11.43	11.50	11.20	11.10	11.00
CHF per EUR	0.95	0.97	0.97	0.97	0.97
BRL per USD	4.94	4.91	4.89	4.87	4.84
INR per USD	83.01	82.76	82.39	82.02	81.66
ZAR per USD	18.27	18.23	18.15	18.07	17.99
RUB per USD	89.26	Temporarily no forecast due to extreme uncertainty			
TRY per USD	29.06	29.62	31.46	33.38	35.97
RMB per USD	7.12	7.16	7.15	7.13	7.10
JPY per USD	141.52	140.00	138.00	136.00	135.00
USD per AUD	0.67	0.66	0.67	0.68	0.69
USD per NZD	0.62	0.61	0.62	0.63	0.64
CAD per USD	1.34	1.36	1.35	1.33	1.31

Outlook KBC markets

	Belgium			Ireland		
	2022	2023	2024	2022	2023	2024
Real GDP (average yearly change, in %)	3.0	1.4	0.8	9.4	2.9	2.5
Inflation (average yearly change, harmonised CPI, in %)	10.3	2.3	3.6	8.1	5.4	3.2
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5.7	5.8	5.7	4.4	4.3	4.3
Government budget balance (in % of GDP)	-3.5	-4.8	-5.0	1.7	1.3	1.2
Gross public debt (in % of GDP)	104.3	106.2	106.5	44.4	39.9	36.1
Current account balance (in % of GDP)	-1.0	-2.0	-1.6	10.9	8.2	7.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	5.6	1.0	1.5	12.3	1.4	3.0

	Czech Republic			Slovakia		
	2022	2023	2024	2022	2023	2024
Real GDP (average yearly change, in %)	2.4	-0.5	1.4	1.8	1.2	2.2
Inflation (average yearly change, harmonised CPI, in %)	14.8	12.1	2.5	12.1	10.8	4.0
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.3	2.8	3.3	6.0	6.1	6.3
Government budget balance (in % of GDP)	-3.2	-3.8	-2.5	-2.0	-6.0	-5.5
Gross public debt (in % of GDP)	44.2	43.9	44.3	57.8	58.2	58.2
Current account balance (in % of GDP)	-6.1	-0.3	-0.3	-7.4	-4.5	-3.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	16.9	-2.0	1.7	13.7	-3.5	0.0

	Hungary			Bulgaria		
	2022	2023	2024	2022	2023	2024
Real GDP (average yearly change, in %)	4.6	-0.5	2.8	4.2	1.9	2.3
Inflation (average yearly change, harmonised CPI, in %)	15.3	17.4	5.4	13.0	9.0	5.0
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.7	4.1	3.8	4.1	4.5	4.2
Government budget balance (in % of GDP)	-6.2	-5.8	-4.0	-2.9	-3.0	-3.0
Gross public debt (in % of GDP)	73.9	70.5	68.9	22.6	22.9	25.0
Current account balance (in % of GDP)	-8.0	0.1	-0.3	-1.5	-1.5	-1.2
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	22.3	0.0	3.0	13.8	8.4	0.7

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