Economic Perspectives

March 2024

Highlights

- Houthi hostilities continue to disrupt global supply chains, though the disruptions are mild for now. The global supply chain pressure indicator has only edged up slightly since the outbreak of the hostilities. Oil prices also remained broadly stable last month at 82 USD per barrel. The extension of OPEC+ supply cuts is putting upward pressure on oil prices in March, however. Gas prices on the contrary dropped 17% last month to 24.8 EUR per MWh thanks to milder winter weather and sky-high reserves. Global food prices slightly declined thanks to successful cereal harvests.

- In the euro area, inflation fell from 2.8% to 2.6% in February, thanks in large part to lower food price inflation. Core inflation dropped from 3.3% to 3.1%, thanks to lower goods inflation. Unfortunately, service inflation remains stubbornly high, as tight labour markets are driving up wages. We thus upgrade our 2024 inflation forecast from 2.1% to 2.4% and our 2025 forecast from 1.9% to 2%.

- In the US, inflation rose from 3.1% to 3.2% in February, due to a spike in energy prices. Food prices remained unchanged. Core inflation declined slightly from 3.9% to 3.8% last month. On a monthly basis, core inflation increased by 0.4%. Goods prices increased slightly, while both service and shelter inflation remain too high. Given the continued stickiness of US inflation, we upgrade our 2024 US inflation forecast from 2.8% to 3.2% and our 2025 forecast from 2.3% to 2.5%.

- Higher-than-expected inflation prints (especially in services inflation) are making central banks and, in particular, the Fed more cautious and are likely to slow the easing cycle. Though we still believe that both central banks will start cutting rates in June, we now expect the Fed to cut its policy rate only three times this year and the ECB to cut its deposit rate only four times. Meanwhile, the ECB's new operational framework will significantly reduce the margin between the refinancing and deposit rate (from 50 bps to 15 bps) from September on, lowering our forecasts for the former.

- In the euro area, growth remains lackluster. Investment is weakening, while consumer sentiment is only slowly recovering. The situation remains especially problematic in Germany, where the industry is struggling and household consumption underperforms in the aftermath of the energy crisis. We continue to expect a very gradual bottoming out of the euro area economy and a gradual recovery. As a result of historical data revisions, we reduce our 2024 forecast from 0.5% to 0.4% but maintain our 1.3% 2025 forecast.

- In the US, economic indicators softened last month as consumption and industrial production weakened. The labour market is also becoming somewhat less tight. Though 275k jobs were added in February, the unemployment rate increased from 3.7% to 3.9%. For the coming quarters, we remain bullish on the US economy, thanks to the positive supply shocks caused by higher productivity and strong migration. We thus slightly downgraded our 2024 forecast from 2.5% to 2.4%, while maintaining our 2% 2025 growth forecast.

- For China, we have modestly upgraded the GDP growth outlook for 2024 from 4.5% to 4.7% on the back of much stronger than expected industrial production figures in January and February. The recently confirmed 5% growth target for 2024 is therefore closer in reach, but significant uncertainty and headwinds still remain.

Global Economy

Introduction

February data showed that the fight against inflation is far from over. In both the US and the euro area, inflation remains stubbornly high and persistent. The evolution of services inflation (and shelter in the US) is especially concerning and shows that the path to the 2% target will not be smooth. This will push central banks to slow the pace of the rate cutting cycle. Surprisingly, inflation also resurged in China, thanks to higher food and recreation prices. This brought inflation back into positive territory.

On the growth front, there is more divergence. The US economy remains the clear outperformer, as it is benefitting from positive supply shocks such as high migration and high productivity growth. Euro area economic growth remains sluggish. Germany in particular is dragging euro area growth downwards. Meanwhile in China, the 5% growth target will be hard to reach. The real estate crisis remains a drag on its economy, while government support remains insufficient.

Middle East conflict is causing mild disturbances in global supply chains

Yemeni Houthi strikes on commercial ships in the Red Sea continue unabatedly. Strikes by a US-led coalition on Houthi targets have not put an end to the hostilities. The Houthi strikes have forced many commercial ships to reroute in order to avoid the Suez Canal. For now, the disruptions are not putting excessive strains on global supply chains. The Global Supply Chain Pressure Index, which integrates several metrics including shipping costs, airfreight costs and supplier delivery times, has only ticked up a bit since the outbreak of the hostilities late last year (see figure 1).

The disruptions also only had a limited effect on oil prices. They were broadly stable in February, rising 1.6% to 82 USD per barrel. OPEC+'s decision to extend voluntary cuts by three months (until June) has put upward pressure on oil prices this month, however.

Gas prices declined by 17% last month to 24.8 EUR per MWh, close to the historical average of 20 EUR per MWh. Prices are 48% lower than a year ago. Softer winter weather in the Northern Hemisphere have lowered demand for natural gas and allowed European gas reserves to remain well-filled. At 60% filled, EU gas reserves are now 20 percentage points higher than historical averages at this time of the year.

Global food prices also declined by 0.7% last month thanks to successful cereal harvests. Global food prices

Figure 1 - Global Supply Chain Pressure Index

Source: KBC Economics based on New York Fed, Baltic Exchange are now 10.5% lower than a year ago.

Difficult inflation cooling in euro area

In the euro area, inflation fell 0.2 percentage points to 2.6% in February. Core inflation slowed to 3.1% in February from 3.3% in January. The latter was mainly caused by the rate of price increase of non-energy goods. It decreased from 2.0% in January to 1.6% in February. Services inflation slowed by just 0.1 percentage points and still stood at 3.9%. Services inflation thus surprised to the upside both in January and in February. The important observation to make here is that the short-term dynamics of inflation were again higher in the first months of 2024 than in the last months of 2023 (see figure 2).

This confirms that the cooling of core inflation is an uphill and relatively long-term process and is likely to remain so for some time. New figures on wage and profit developments confirm that wage growth may have peaked, and that, as expected, profit margins are partially absorbing wage cost pressures. But the pace of wage growth is still quite high, and information recently published by the ECB on the subject suggests that, according to the wage agreements already concluded, the pace is likely to slow only slightly in the course of this year. Incidentally, wage negotiations are still taking place for a large group of workers in the first half of 2024. This makes the future wage development, and consequently that of service inflation, still uncertain to a large extent (see the [KBC Research Report of 28 January 2024](#) in this regard).

Fortunately, food price inflation is cooling sharply (from 5.6% in January to 4.0% in February) and energy prices have dropped sharply (compared to autumn 2023 and certainly compared to peak levels in 2022). While the large downward impact that energy prices had on inflation in 2023 has largely dissipated, there will likely be no upward inflationary pressure from energy in the near future either. This is also evident from energy prices in futures markets. All this means that the fundamental inflation trend will remain downward in the coming months, although there are likely to be quite a few upward and downward swings around that downward trend.

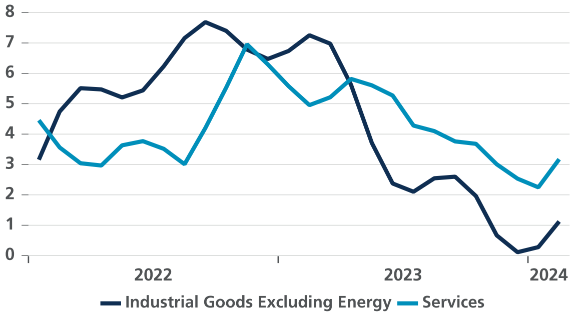
Against this backdrop, we continue to expect further inflation cooling but have nevertheless slightly raised our forecast for average inflation from 2.1% to 2.4% for 2024 and from 1.9% to 2.0% for 2025. The main reasons for this are somewhat higher-than-expected services inflation in January and February 2024 and the expectation that services inflation will remain slightly stronger in the coming months than factored into our previous forecast. Going forward, we expect much more volatile inflation as shocks start dominating inflation dynamics again.

US inflation rises again in February

US inflation rose from 3.1% to 3.2% in February. Energy prices were a major driver of this increase as they rose 2.3% last month. Food prices on the contrary, remained flat last month.

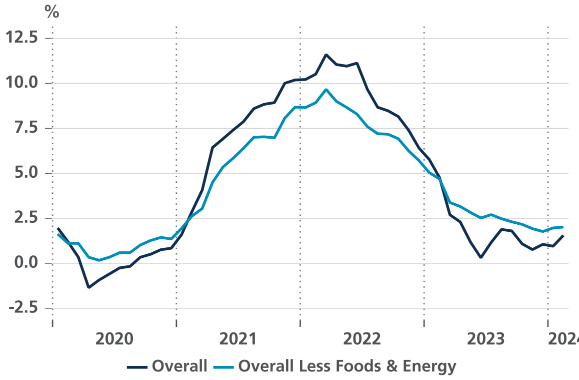
Core inflation continued its slow decent, declining from 3.9% to 3.8% last month. On a monthly basis, core inflation increased by 0.4%. Within core components, core goods prices increased by 0.1% last month, due to higher

Figure 2 - Short-term inflation dynamics in the euro area
annualized percentage change over the previous 3 months,
based on the 3 month moving average of the seasonally adjusted harmonized consumer price index



Source: KBC Economics based on ECB

Figure 3 - US Producer Price Index



Source: KBC Economics based on BLS

apparel and used car prices. This was the first monthly increase since May 2023. Core goods inflation could remain more elevated in the coming months. Producer prices have accelerated in recent months (see figure 3). Core producer prices increased by 0.3% last month.

Shelter prices also came out strong, increasing by 0.4% last month and by 5.8% since a year ago. Unfortunately, the Zillow Observed Rent Index, a leading indicator, has increased at a strong pace in the last five months, suggesting shelter inflation might remain elevated in the months to come.

Core services (ex. shelter) also remain strong, rising by 0.5% last month. The strong figure was primarily driven by a strong acceleration of transportation services (a volatile component). In contrast, medical care services surprisingly declined. Furthermore, average hourly earnings, a key driver of services inflation, only increased by 0.1% last month, suggesting somewhat softer services inflation ahead.

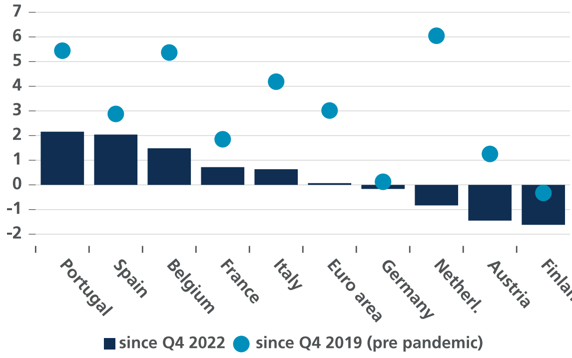
Given the upside surprise this month (and last month) and the stickiness of shelter prices, we upgrade our 2024 US inflation forecast from 2.8% to 3.2% and our 2025 forecast from 2.3% to 2.5%.

Growth differences in the euro area

The latest update of euro area GDP figures confirmed economic stagnation in the second half of 2023, with nevertheless notable differences between euro area countries. In Germany, real GDP in the fourth quarter was 0.3% lower than in the previous quarter, while in Spain it was 0.6% higher. The Italian economy's fourth-quarter growth was confirmed at 0.2%, and that of France was revised slightly upwards to 0.1%. The relatively sharp decline of the Dutch economy in the first three quarters of 2023 (cumulative decline of 1.1%) came to an end with a 0.3% increase in the fourth quarter.

The growth differences between euro area countries over the past year are still best reflected in the comparison of fourth-quarter 2023 GDP figures with those of the last quarter of 2022 (see bars in figure 4). Strong growth in the Iberian Peninsula contrasts sharply with the – sometimes sharp – economic downturn in more northern economies. The relatively strong growth of the Belgian economy also stands out.

Figure 4 - Real GDP growth in main euro area countries
Q4 2023, percentage change



Source: KBC Economics based on Eurostat

The growth differentials in 2023 reflect, among other things, the different impact of the covid pandemic and the energy crisis on national economies, as well as the policy responses to them and the speed and extent to which economies have already recovered from those shocks. For instance, the strong growth of the Spanish economy in 2023 is mainly due to a late catch-up to the post-covid recovery. Indeed, compared to the fourth quarter of 2019 – just before the pandemic outbreak – the Spanish economy's growth was in line with the euro area's average growth (see bullets in figure 4). Looking back at the period since the pandemic outbreak especially nuances the recent economic downturn in the Netherlands. Indeed, compared to the end of 2019, the Netherlands experienced very strong economic growth. It is also notable that the recent relatively strong growth performance of the Belgian economy holds up even in this slightly broader time perspective, while the German economy has been in an economic malaise since the onset of the pandemic. The economy there has barely grown in the past four years, mainly due to structural problems in industry, accompanied by underperformance in many service sectors.

Leading indicators do not suggest a rapid, marked improvement for the German economy. Though we see a stabilisation of business confidence (at low levels), new orders in industry remain very weak. Fortunately, there is still a large stock of industrial orders, and the labour market is holding up well, while the recovery of households' purchasing power and of real wages is underway. This also makes a further sharp downturn in the German economy unlikely. We expect a struggling recovery after several more months of stagnation in early

2024.

This recovery would bring Germany in line with the rest of the euro area. Incidentally, the euro area's overall economic picture looks slightly better than Germany's. In particular, indicators of purchasing managers' confidence (PMIs) have provided bright spots in recent months. Meanwhile, the European Commission's indicators on business and consumer confidence point to a bottoming out.

Against this background, we leave our growth outlook for the euro area unchanged. A difficult first half of the year will be followed by a gradual firming of growth. The slight downward revision to the euro area's expected average real GDP growth rate in 2024 (from 0.5% to 0.4%) is purely due to a change in the spillover from 2023 into 2024 due to the revision of historical figures. We expect growth to pick up to 1.3% on average in 2025.

US economy softens in February, but remains strong

Recent economic indicators point to a US economy that is softening but remains strong. Consumers pulled the brakes in January as real personal consumption expenditures declined by 0.1% in January (following very strong growth in November and December 2023). Retail sales for February also disappointed and consumer sentiment dipped. Manufacturing indicators were also weak recently. New orders for manufactured durable goods were down 6.1% in January. Industrial production also declined by 0.1%. Housing data have improved, however. New home sales grew healthily in January and last month, housing permits reached a high not seen since October 2022.

The February labour market report was also a mixed bag. Though the headline job growth figure was impressive (+275k jobs), downward revisions to the two previous months of a combined 167k jobs cast a shadow over this impressive figure. Furthermore, unemployment increased from 3.7% to 3.9%. More positive was the tick up in average weekly hours from 34.2 to 34.3. Business surveys also point to slower job growth ahead as the employment subcomponents in both the manufacturing and non-manufacturing ISM surveys declined notably. That said, as the ratio of job openings to job seekers show (see figure 5), the US labour market remains very tight, and the US is unlikely to experience massive unemployment anytime soon.

Figure 5 - US job openings to job seekers ratio

Source: KBC Economics based on BLS

For the coming quarters, we remain convinced that the positive supply shock driven by higher productivity and migration inflows, along with the positive demand shock, driven by strong government spending and easing financial conditions, will keep growth healthy.

We thus remain rather bullish on the US economy and have only slightly downgraded our Q1 estimate in the wake of softer hard data. We now expect US growth to reach 2.4% in 2024 and 2% in 2025.

China struggles to reach 5% growth target

Though the outlook for the Chinese economy remains clouded by significant uncertainty, we have modestly upgraded our forecast for 2024 GDP growth from 4.5% to 4.7%. The main driver for this upgrade was stronger-than-expected industrial production figures for January and February (combined) at 7.0% year-on-year. This brings our 2024 GDP estimate closer to the recently confirmed government growth target of 5%. However, reaching that target will still be difficult given the structural challenges facing the Chinese economy. Indeed, we are yet to see signs of any turnaround in the real estate sector, and consumer confidence remains especially weak.

The government meetings held earlier this month, known as the two sessions, did not herald any major changes or surprises to the economic policy landscape. The estimated budget deficit remains roughly the same as last year at 3.0% of GDP, with an additional 0.8% of GDP issuance of off-budget ultra-long-term special government debt. This brings the fiscal impulse in line with last year's revised budget of 3.8% of GDP. Local government bond issuance for 2024 was increased modestly to 3.9 trillion yuan (3.1% of GDP) compared to 3.8 trillion in 2023 (3.0% of GDP). Questions still remain, therefore, as to how the government will boost lackluster consumption and whether the 5% growth target can actually be reached. We therefore note that despite the upgrade, downside risks remain.

Meanwhile, although headline inflation spiked back into positive territory in February at 0.7% year-on-year, after four months of deflation, the sharp monthly increase in food prices and "recreation, education and culture" prices likely reflects volatility around the Lunar New Year holidays. It is therefore too soon to confirm that China has turned its deflationary trend around. Our headline inflation forecast remains unchanged at 0.7% in 2024.

Central banks may moderate their expected rate-cutting cycle

Although the disinflationary trend is still on track, (core) inflation turns out to be stickier than previously expected. This underlying inflation pressure is, for example, reflected by the much stronger than expected February month-on-month increase of US PPI of 0.6% as well as the most recent uptick in CPI inflation to 3.2%. This contributed to a repricing of market expectations for the upcoming rate-cutting cycles by both the Fed and the ECB.

While the most likely timing for the first rate cut by the Fed still remains June, the risk that the disinflationary path going forward will be less smooth has increased during the past month. As a result, we now pencil in a cumulative 75 basispoints easing during 2024 (i.e., 3 rate cuts of 25 basis points each) resulting in a Fed funds target rate of 4.625% at the end of 2024.. For the time being, we confirm our scenario that the Fed will reach its 'neutral rate', that we estimate at 2.875%, by the end of 2025. Market expectations for 2024 are aligned with our scenario, and also consistent with the Fed's updated March 'dot plots', i.e., the median view of the FOMC (Federal Open Market Committee) members. During its March meeting, Fed also confirmed that its balance sheet reduction (QT) will be maintained at the pace previously announced (i.e. currently at a pace of 95 billion USD per month), but that 'fairly soon' details of a planned slowdown of this run-down will be announced.

We continue to expect the ECB to start its rate cutting cycle in June as well. Although the risk of a stickier-than-expected core inflation, and less future disinflationary impulses from energy prices, is also present in the euro area, we believe that the ECB's forward guidance is sufficiently firm and based on a reasonable assessment of the short-term evolution of euro area wage agreements, which will likely imply that the current wage increases are, broadly speaking, a temporary ex post catch-up for past inflation and will not become entrenched structurally. We therefore confirm our expectation that the ECB will start cutting its policy rate in June, although it will probably only cut four times in 2024 by 25 basis points each, bringing the deposit rate to 3% at the end of 2024. This view is broadly in line with current market expectations. Despite this slightly slower expected easing pace in 2024 compared to our previous forecasts, we confirm our view that the ECB will reach its neutral rate (2.5% according to our estimate) by the end of 2025.

New operational framework

In March, the ECB communicated the results of the review of its operational framework. The result is a conceptual policy framework for the medium term, with an assessment planned for 2026 at the latest. The review has become necessary because of the current balance sheet normalisation policy, with an ongoing run-down of the ECB's APP portfolio and, from 2025, of the PEPP portfolio. Excess liquidity in the market decreases, which at some point will cause the interbank money market interest rates to start moving away from the ECB's deposit rate, potentially causing money market volatility. Moreover, the ECB must ensure that it provides sufficient liquidity at all times to satisfy structurally higher demand from the banking sector.

The result of the review essentially confirms the current so-called 'floor system', with a meaningful amount of excess liquidity in the market and the ECB's deposit rate as the policy rate. The changes compared to the currents system are that the spread between the main refinancing rate (MRO rates) and the deposit rate will be sharply reduced to 15 basis points (from the current 50), from mid-September 2024 on. The (punitive) marginal lending rate will be 25 basis points above the MRO. These spreads are fixed parameters, meaning that the only de facto policy rate left will be the deposit rate. In the new operational framework, a sufficient amount of excess liquidity will be provided by classic repo operations (MRO's, LTRO's, ...)

at the MRO rate, with full allotment and against broad collateral. This kind of liquidity provision is essentially demand-driven at the margin. The ECB expects that the 15 basis points extra cost to attract liquidity this way will not be high enough to stop banks from using it.

However, if demand for liquidity will at some point in time be insufficient to maintain the envisaged 'floor system' with the deposit rate as the policy rate, the framework includes the option for a direct liquidity injection by the ECB into the market by outright purchasing a so-called 'structural bond portfolio'. Hence, the demand-driven aspect of the floor system will, if necessary, be backed up by a supply driven 'policy back-stop'. In this new policy framework, the existing APP and PEPP portfolios will continue to be run down until they cease to exist.

Yield curve inversion likely to last a bit longer

US and German 10-year government bond yields have been relatively stable recently (despite some bouts of volatility) and are not expected to be much affected by the relatively minor changes in expected timings of the Fed and ECB easing cycles, especially since term premiums in both benchmark yields have also been relatively stable. This implies that we confirm our view that both the US and German 10-year bond yields are close to their peak, and will only marginally decline, if at all, during 2024. The somewhat slower expected easing path of short-term US and German interest rates means that the current yield curve inversion will remain in place somewhat longer and more pronounced than previously expected. We expect that, eventually, a bull steepening will revert yield curves to normal.

Despite the recent limited depreciation of the US dollar, we confirm our view that the US dollar is still fundamentally overvalued against the euro. A structural depreciating trend from the end of 2024 on at the latest is therefore the most likely scenario.

Intra-EMU sovereign spreads remain, in general, subdued. It is, however, likely that they will pick up again in the course of 2024 as electoral uncertainty will build and the budget preparation exercise for 2025 under the reactivated and stricter SGP rules will prove to be more difficult than markets currently price in.

Belgium

Belgian real GDP grew by 0.35% in the final quarter of 2023. The figure was revised slightly down from 0.40% in the preliminary estimate and stayed roughly equal to the qoq growth rates recorded in the three previous quarters. For the full year 2023, economic growth was at 1.5%, i.e. three times that of the euro area. The breakdown by GDP components shows that private consumption (+0.5%) and investment in dwellings (-2.7%) have continued their trend, confirming the still robust consumption dynamics and the ongoing housing market cooling. Public consumption and public investment rose by 2.0% and 0.5%, respectively. Most surprisingly, business investment contracted by no less than 8.5%, after several quarters of positive growth. The sharp drop was caused by an exceptional transaction, being the foreign sale of ships (24 petroleum tankers by shipping company Euronav). The sale of investment goods abroad also (positively) impacted exports, resulting in a 1.1 percentage point positive growth contribution of net exports (see figure BE1).

Headwinds

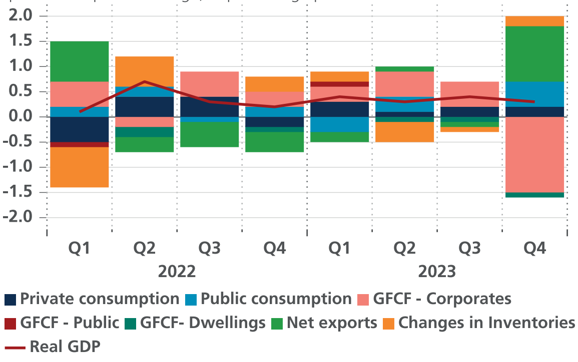
Despite the relatively good growth performance in 2023, the Belgian economy is currently facing a number of serious headwinds. First, industry is going through a difficult period, reflecting a bleak external environment combined with a loss of cost competitiveness due to past high wage increases. Value added in total industry was down 3.1% in volume terms in 2023 (in the manufacturing subsector the correction was smaller but still at -0.9%). According to industrial production figures, activity in the pharma, chemical and textile sectors fell strongly in particular. In February, we did see a slight uptick in sentiment in manufacturing, but it only reversed the setback of a month earlier. Several survey indicators, like the assessment of incoming export orders, continue to plummet and capacity utilisation in the sector reached very low levels.

Second, 2024 promises to be another difficult year for residential construction, as household investment in housing is expected to continue to shrink, albeit likely at a somewhat slower pace. The combination of high interest rates, material prices and personnel costs has hit the market for new constructions and renovations hard and will likely continue to put brakes on builders' new project intentions for some time. The difficult situation in residential construction is likely to be further complicated by the rollback of the 6% VAT for non-private demolition and reconstruction projects since the beginning of this year. More structurally and looking further into the future, the transition to a more energy-efficient housing stock will require a big renovation wave, which will benefit residential investment in the years to come.

Moderating job creation

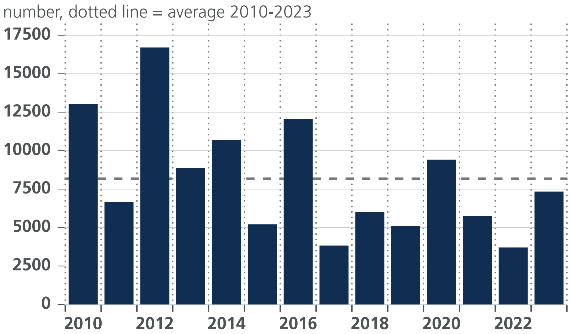
The increase in domestic employment continued to slow in the fourth quarter of 2023. Over the year 2023, almost 30,000 net jobs were created, down from 77,000 in 2022 and 120,000 in 2021. In industry, though, more than 4,000 net jobs were lost in the three final quarters of 2023. Mid-March, Belgian bus manufacturer Van Hool announced it would cut back production as it struggles to meet competition from electric buses made in China. More than

Figure BE1 - Breakdown Belgian growth by components
quarter-on-quarter change, in percentage points



Source: KBC Economics based on NBB

Figure BE2 - Employees affected by an announcement of an intention to make collective dismissals
number, dotted line = average 2010-2023



Source: KBC Economics based on Federal Public Service Employment, Labour and Social Dialogue

1,000 jobs, and even a few thousands (including those at suppliers) if the company were to ultimately go bankrupt, are at risk. In 2023, although on the rise, the number of employees affected by an intention to make collective dismissals (like the plan at Van Hool) remained below the longer-term annual average (see figure BE2). The risk of more job losses in industry from closing and restructuring is high, suggesting even more moderate employment growth ahead in the whole economy. In our scenario, the Belgian economy is expected to add 20,000 and 30,000 net jobs over 2024 and 2025, respectively.

We decided to keep our cautious economic outlook unchanged. The scenario implies that quarterly GDP growth in Belgium weakens to 0.2% in both the current and next quarter, thereafter strengthening again to 0.3% in the third and fourth quarter, in line with our scenario for the euro area. Hence, we also continue to see the annual growth rate for the Belgian economy in 2024 at 1.1%, down from the relatively strong 1.5% in 2023. In 2025, growth is expected to stabilise at 1.1%. Belgian HICP inflation rose sharply in February, from 1.5% to 3.6%, driven by energy and, more specifically, the disappearance of the downward impact of government measures to ease household energy bills. The good news is that core HICP inflation (i.e., excluding energy and food) was down more strongly than in previous months, reaching 4.0% and narrowing the still positive gap with the euro area (3.1%). The big rise in general inflation in February was beyond our expectation (we had expected the rate to rise to 2.6%). Given the strong upswing, we upgraded our average annual inflation estimate for 2024 from 3.6% to 3.8%. The rate for 2025 was kept unchanged at 2.1%.

Central and Eastern Europe

Why did real wages in the Czech Republic fall more than in the rest of Central Europe?

Czech real wages strongly lagged behind both the EU and the Central European average. While Czech wages have grown above average in nominal terms over the last three years (7.5% in 2023), they are still relatively low compared to their regional peers – Poland and Hungary. Though all regional economies faced double digit inflation over the last two years, Czech real household income was ultimately hit the most (see figure CEE 1).

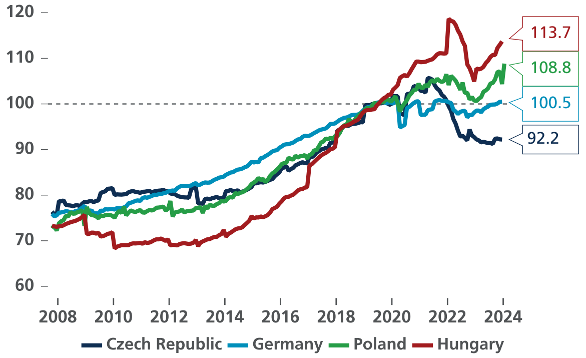
One explanation may simply be the lower bargaining power of Czech trade unions in a Czech society, which have historically not had much experience with higher inflation. These arguments could also be underpinned by the sharp rise in the Czech profits and their share of GDP.

That said, trade union weakness can hardly explain all the differences, as its strength is not significantly different compared to regional peers according to OECD statistics. And while on average the profitability of the Czech corporate sector has gone up sharply, the increase in profitability has probably not been driven by the largest Czech employers - manufacturing, for example, has visibly lagged behind, as the CNB analysis shows.

Compared to 2019, the main factors differentiating the Czech Republic from the region seem to be lower productivity and a stronger exchange rate. Productivity has been hit more in the Czech Republic by the combination of the COVID 19 pandemic and the energy crisis. And if we also consider the relatively stronger Czech crown, it translates into the fastest growth in nominal unit labor costs in the region, no matter how steep the fall of domestic real wage was (see figure CEE 2). Looking ahead, the situation in the Czech Republic may improve, as productivity is more cyclical and could catch up with the region during a recovery.

Figure CEE1 - Real wages

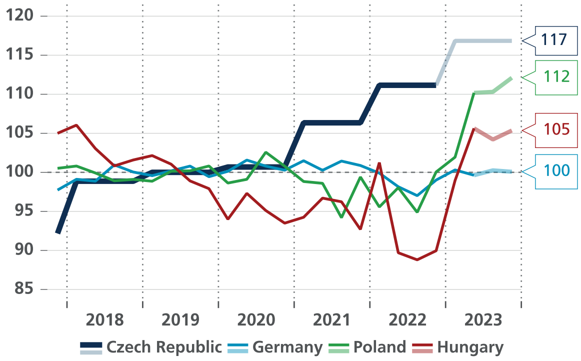
Index 2019=100



Source: CSOB with use of OECD, CZSO, DESTATIS, GUS, BLS, HCSO, INSEE, ONS, BUBA

Figure CEE 2 - Unit Labour Costs

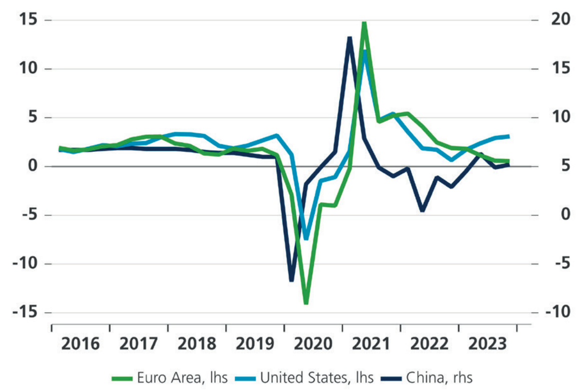
2019=100



Source: KBC Economics based on Eurostat, OECD

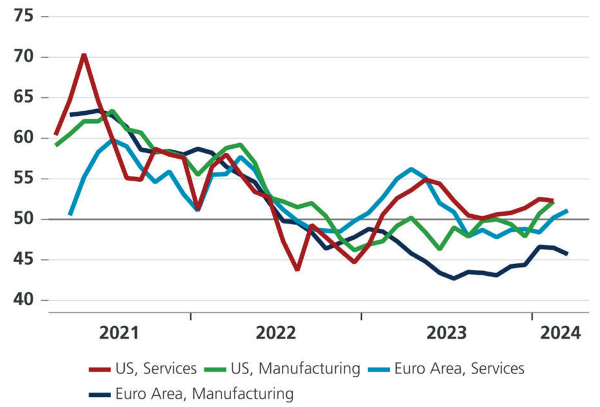
Figures

Real GDP
yearly change in %



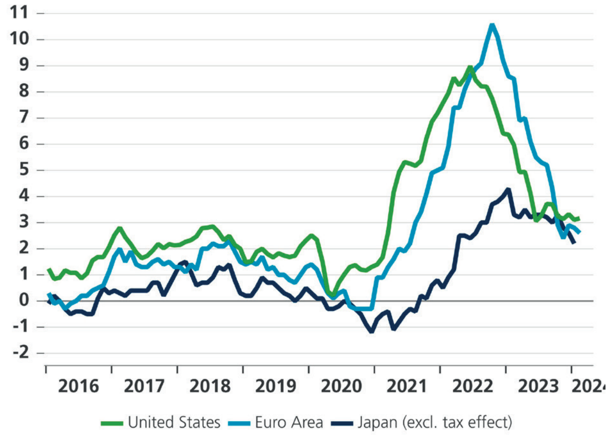
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



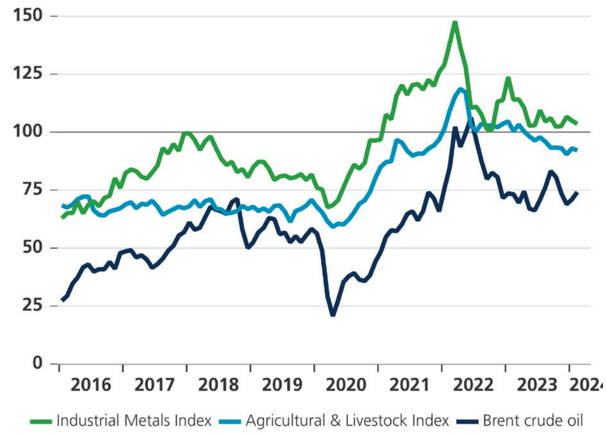
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



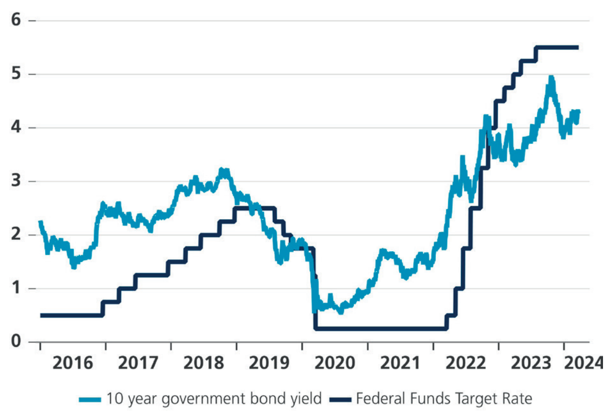
Source: KBC Economics based on Eurostat. SBJ. BLS

Commodity prices
index, January 2013=100, in USD



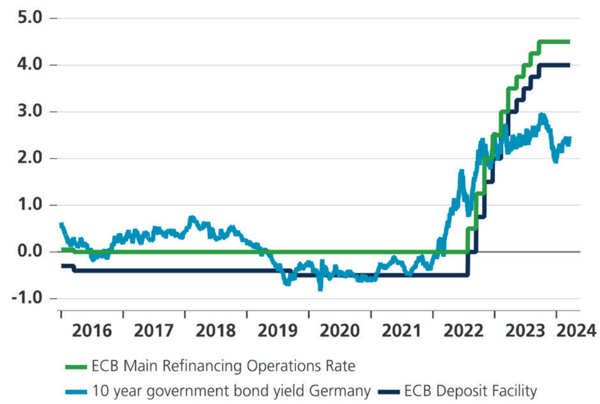
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



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

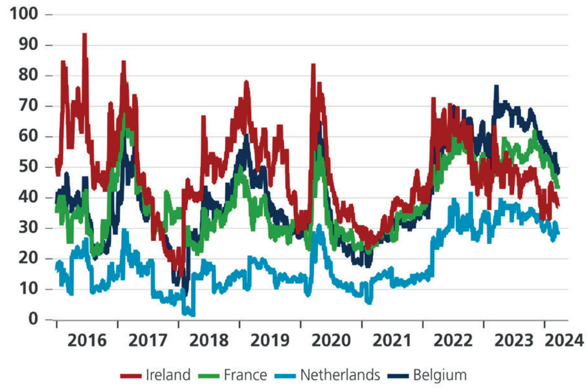
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

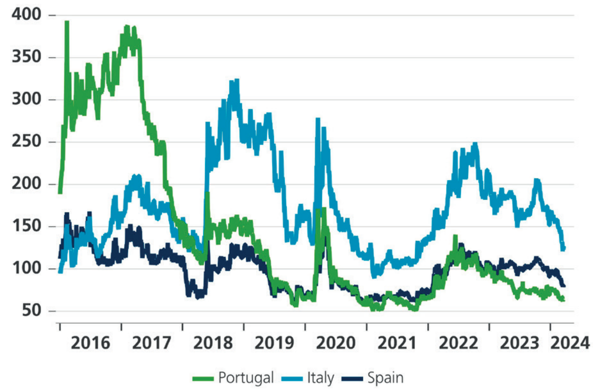
Figures

10 year government bond yield spreads to Germany
in basis points



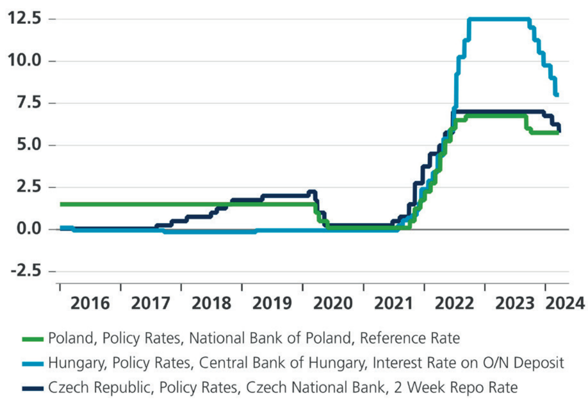
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



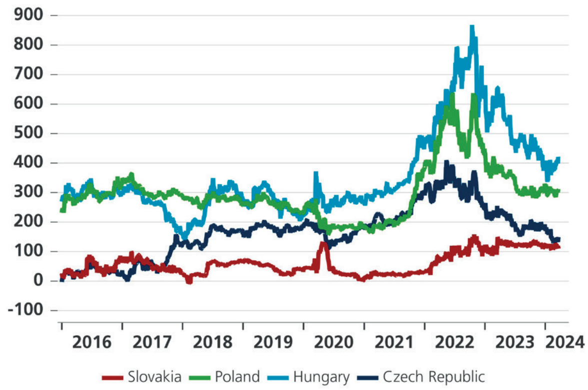
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



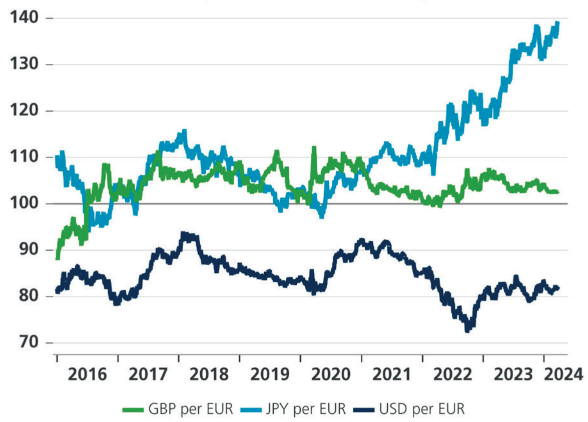
Source: KBC Economics based on CNB, MNB, NBP

10 year government bond yield spreads to Germany
in basis points



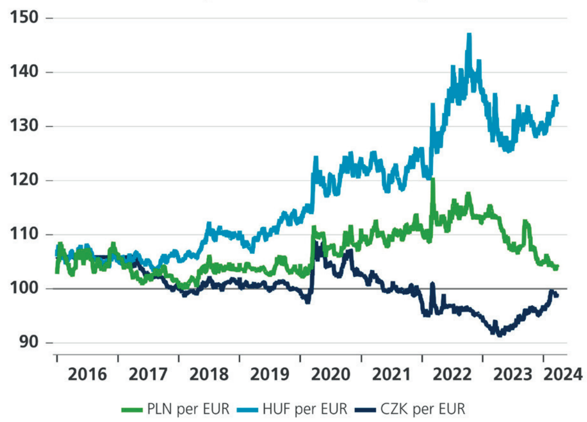
Source: KBC Economics based on Macrobond, AKK, Eurostat

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, based on quarterly figures, in %)			Inflation (period average, in %)		
		2023	2024	2025	2023	2024	2025
Euro area	Euro area	0,5	0,4	1,3	5,4	2,4	2,0
	Germany	-0,1	0,1	1,3	6,1	2,8	2,5
	France	0,9	0,7	1,2	5,7	2,8	1,8
	Italy	1,0	0,6	0,9	5,9	2,0	1,8
	Spain	2,5	1,8	2,0	3,4	3,0	2,0
	Netherlands	0,1	0,6	1,2	4,1	3,0	2,2
	Belgium	1,5	1,1	1,1	2,3	3,8	2,1
	Ireland	-3,2	2,5	4,5	5,2	2,3	2,1
	Slovakia	1,1	2,0	3,2	11,0	3,5	4,5
Central and Eastern Europe	Czech Republic	-0,4	1,4	3,1	12,1	2,3	2,5
	Hungary	-0,7	2,3	3,6	17,0	4,3	4,0
	Bulgaria	1,9	2,3	3,0	8,6	4,2	3,0
	Poland	0,1	3,0	3,8	10,9	4,9	3,7
	Romania	2,1	3,2	3,0	9,7	6,5	5,0
Rest of Europe	United Kingdom	0,1	0,3	1,1	7,1	2,6	2,1
	Sweden	0,0	0,1	2,1	5,9	3,0	1,8
	Norway (mainland)	1,1	0,6	1,5	5,7	3,4	2,4
	Switzerland	0,8	1,1	1,6	2,1	1,6	1,2
Emerging markets	China	5,2	4,7	4,2	0,3	0,7	2,0
	India*	7,7	6,3	6,3	5,4	4,8	4,6
	South Africa	0,6	1,0	1,6	6,1	4,8	4,7
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	4,5	2,2	3,2	53,9	52,6	27,2
	Brazil	2,9	1,7	1,8	4,6	4,0	3,8
Other advanced economies	United States	2,5	2,4	2,0	4,1	3,2	2,5
	Japan	1,9	0,7	1,0	3,3	2,3	1,6
	Australia	2,1	1,4	2,2	5,6	3,5	2,9
	New Zealand	0,6	1,0	2,2	5,7	3,3	2,2
	Canada	1,1	0,6	1,9	3,6	2,6	2,1
*** fiscal year from April-March**						21/3/2024	

Policy rates (end of period, in %)						
		21/3/2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Euro area	Euro area (refi rate)	4,50	4,50	4,25	3,40	3,15
	Euro area (depo rate)	4,00	4,00	3,75	3,25	3,00
Central and Eastern Europe	Czech Republic	5,75	5,75	4,75	4,00	3,50
	Hungary (base rate)	9,00	8,25	6,50	6,25	6,25
	Bulgaria	-				
	Poland	5,75	5,75	5,50	5,50	5,50
	Romania	7,00	7,00	6,75	6,75	6,50
Rest of Europe	United Kingdom	5,25	5,25	5,25	5,00	4,50
	Sweden	4,00	4,00	3,75	3,25	3,00
	Norway	4,50	4,50	4,50	4,25	3,75
	Switzerland	1,50	1,50	1,50	1,25	1,00
Emerging markets	China	2,50	2,50	2,50	2,40	2,30
	India	6,50	6,50	6,50	6,25	6,00
	South Africa	8,25	8,25	8,00	7,50	7,50
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	50,00	50,00	50,00	50,00	45,00
	Brazil	10,75	10,75	9,75	9,50	9,50
Other advanced economies	United States (mid-target range)	5,38	5,38	5,13	4,88	4,63
	Japan	0,10	0,10	0,10	0,10	0,10
	Australia	4,35	4,35	4,35	4,10	3,85
	New Zealand	5,50	5,50	5,50	5,25	5,00
	Canada	5,00	5,00	5,00	4,75	4,25

Outlook main economies in the world

10 year government bond yields (end of period, in %)		21/3/2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Euro area	Germany	2,39	2,30	2,30	2,30	2,30
	France	2,84	2,80	2,87	2,93	3,00
	Italy	3,66	3,72	3,91	4,11	4,30
	Spain	3,20	3,19	3,29	3,40	3,50
	Netherlands	2,64	2,59	2,63	2,67	2,70
	Belgium	2,93	2,89	2,96	3,03	3,10
	Ireland	2,77	2,71	2,74	2,77	2,80
	Slovakia	3,64	3,61	3,68	3,74	3,80
Central and Eastern Europe	Czech Republic	3,88	3,90	3,90	3,90	3,90
	Hungary	6,66	6,40	6,20	6,00	5,80
	Bulgaria*	4,00	3,86	3,88	3,89	3,90
	Poland	5,45	5,20	5,00	4,60	4,30
	Romania	6,65	7,00	7,30	7,60	8,00
Rest of Europe	United Kingdom	3,96	3,95	3,95	3,95	3,95
	Sweden	2,44	2,30	2,30	2,30	2,30
	Norway	3,70	3,50	3,50	3,50	3,50
	Switzerland	0,71	0,65	0,65	0,65	0,65
Emerging markets	China	2,29	2,35	2,35	2,35	2,40
	India	7,05	7,00	6,95	6,90	6,85
	South Africa	10,43	10,15	10,10	10,05	10,00
	Russia	13,95	Temporarily no forecast due to extreme uncertainty			
	Turkey	24,92	25,00	25,00	25,00	22,50
	Brazil	10,90	10,65	10,60	10,55	10,50
Other advanced economies	United States	4,23	4,15	4,10	4,05	4,00
	Japan	0,74	0,75	0,75	0,75	1,00
	Australia	4,08	4,05	4,00	3,95	3,90
	New Zealand	4,62	4,55	4,50	4,45	4,40
	Canada	3,44	3,40	3,35	3,30	3,25

***Caution: very illiquid market**

Exchange rates (end of period)	21/3/2024	Q1 2024	Q2 2024	Q3 2024	Q4 2024
USD per EUR	1,09	1,09	1,09	1,09	1,10
CZK per EUR	25,24	25,20	24,90	24,70	24,60
HUF per EUR	393,82	390,00	388,00	395,00	398,00
PLN per EUR	4,31	4,30	4,37	4,32	4,29
BGN per EUR	1,96	1,96	1,96	1,96	1,96
RON per EUR	4,97	5,00	5,05	5,10	5,20
GBP per EUR	0,86	0,85	0,86	0,87	0,88
SEK per EUR	11,38	11,23	11,25	11,20	11,15
NOK per EUR	11,54	11,45	11,30	11,15	11,10
CHF per EUR	0,97	0,98	1,00	1,00	1,00
BRL per USD	4,97	4,98	4,98	4,98	4,95
INR per USD	83,09	82,90	82,90	82,90	82,52
ZAR per USD	18,75	18,76	18,76	18,76	18,68
RUB per USD	91,72	Temporarily no forecast due to extreme uncertainty			
TRY per USD	31,94	32,00	33,33	34,49	35,95
RMB per USD	7,20	7,20	7,20	7,20	7,15
JPY per USD	151,10	145,00	142,00	140,00	137,00
USD per AUD	0,66	0,66	0,66	0,67	0,68
USD per NZD	0,61	0,62	0,63	0,64	0,65
CAD per USD	1,35	1,35	1,33	1,31	1,30

Outlook KBC markets

	Belgium			Ireland		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	1,5	1,1	1,1	-3,2	2,5	4,5
Inflation (average yearly change, harmonised CPI, in %)	2,3	3,8	2,1	5,2	2,3	2,1
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5,6	5,6	5,5	4,5	4,8	4,7
Government budget balance (in % of GDP)	-4,2	-4,5	-4,9	1,7	1,8	1,8
Gross public debt (in % of GDP)	105,2	105,7	107,4	42,7	39,0	35,7
Current account balance (in % of GDP)	-0,7	-0,5	-1,0	7,8	7,2	7,1
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	2,0	2,2	2,5	2,5	3,0	4,0

	Czech Republic			Slovakia		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	-0,4	1,4	3,1	1,1	2,0	3,2
Inflation (average yearly change, harmonised CPI, in %)	12,1	2,3	2,5	11,0	3,5	4,5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2,8	3,3	3,2	5,6	6,1	6,1
Government budget balance (in % of GDP)	-3,8	-2,5	-1,7	-6,1	-6,5	-6,0
Gross public debt (in % of GDP)	43,9	44,3	43,5	57,5	58,5	60,0
Current account balance (in % of GDP)	1,2	0,9	1,0	-4,5	-3,5	-3,0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	-1,7	1,9	3,5	-2,0	0,2	3,5

	Hungary			Bulgaria		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	-0,7	2,3	3,6	1,9	2,3	3,0
Inflation (average yearly change, harmonised CPI, in %)	17,0	4,3	4,0	8,6	4,2	3,0
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4,2	3,9	3,6	4,3	4,2	4,0
Government budget balance (in % of GDP)	-6,5	-4,9	-3,9	-3,0	-3,0	-3,0
Gross public debt (in % of GDP)	73,5	73,4	72,6	22,5	24,1	25,8
Current account balance (in % of GDP)	0,3	0,3	0,6	0,3	-1,0	-0,5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	3,5	3,5	4,0	9,7	0,7	3,0

Outlook Belgian economy

National accounts (real yearly change, in %)	2023	2024	2025
Private consumption	1,4	1,5	1,4
Public consumption	0,4	2,3	1,0
Investment in fixed capital	3,3	-2,2	2,4
Corporate investment	6,3	-2,5	2,9
Public investment	2,5	3,1	2,6
Residential building investment	-5,7	-4,5	0,6
Final domestic demand (excl. changes in inventories)	1,6	0,8	1,6
Change in inventories (contribution to growth)	0,4	0,0	-0,0
Exports of goods and services	-3,3	-1,0	2,3
Imports of goods and services	-2,8	-1,4	2,8
Gross domestic product (GDP), based on quarterly figures	1,5	1,1	1,1
Household disposable income	4,4	1,8	1,4
Household savings rate (% of disposable income)	14,6	14,9	14,7

Equilibrium indicators	2023	2024	2025
Inflation (average yearly change, in %)			
Consumer prices (harmonised CPI)	2,3	3,8	2,1
Health index (national CPI)	4,3	3,2	2,0
Labour market			
Domestic employment (yearly change, in '000, year end)	29,2	20,0	30,0
Unemployment rate (in % of labour force, end of year, Eurostat definition)	5,6	5,6	5,5
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-4,2	-4,5	-4,9
Public debt	105,2	105,7	107,4
Current account balance (in % of GDP)	-0,7	-0,5	-1,0
House prices (average yearly change in %, existing and new dwellings, Eurostat definition)	2,0	2,2	2,5

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