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Economic Perspectives

July 2018

Highlights

- Recent evidence suggests that while the global business cycle is still in good shape, it may be facing some significant challenges. Developed economies, in particular the US, are doing better than emerging markets at present. On the one hand this is a result of the strong performance of the US economy that is supported by fiscal stimulus. On the other, the looming threat of a trade war disturbing the workings of global value chains poses large risks for a lot of export-oriented emerging economies. Due to its trade openness Europe may be negatively affected by escalating trade conflicts too.

- In recent weeks, the trade tensions shifted up a gear with the implementation of additional tariffs on US imports from China, Chinese retaliation measures in response to this and the implementation of retaliation actions from several other US trading partners due to higher US tariffs on steel and aluminium. Potential next steps could be even more import tariffs by the US and/or US tariffs on car imports. It is hard to predict when and how this trade conflict will end. Related uncertainties are already weighing on sentiment and investment decisions globally. A significant further escalation with increasing protectionist measures is hence the main risk in our global scenario.

- Higher-than-expected oil prices are putting some temporary upward pressure on headline inflation around the world. Preliminary June inflation data for the euro area pointed to a slight increase of headline inflation to 2.0%, while core inflation remains stubbornly subdued at only 1.0%. Also in the US we have seen inflationary pressures building. However, US core inflation, supported by the sustained strength of the economy, is moving in a similar upward direction as the headline series.

- Risk awareness on financial markets has risen of late. This led to increased safe haven flows towards Germany and to a lesser extent also to the US, Japan and Switzerland, causing the USD to strengthen and government bond yields to drop. In this context, we saw some intra-EU spreads and emerging market rates rising. This environment of increased global risk aversion with the corresponding flight to quality led us to lower the path of the German 10y government bond yields on a 12 months' horizon. Given the US-German bond yield differential that will be larger than previously expected on a short-term horizon, together with the further market pricing in of monetary policy divergence, we expect the FX weakness of the Euro to continue in the short term.

- Focus article - Economic aspects of international immigration

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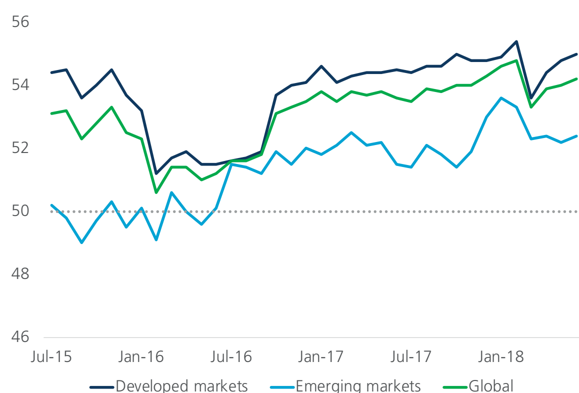
Global Economy

Global cycle facing trade storm?

Recent evidence suggests that while the global business cycle is still in good shape, it may be about to face some significant challenges. In terms of business sentiment measured by the world PMI, we saw a further recovery in the services sector in July after the sharp dip earlier this year. However, business optimism in global manufacturing, while still remaining above 50 signalling expansion, has continued to soften. Furthermore, the difference between sentiment in developed and emerging markets (EMs) widened in recent months (Figure 1). These divergences between sectors and regions can partly be explained by the ongoing developments on the trade front. The manufacturing sector, mainly producing tradeable goods, is the most vulnerable to a potential further escalation of the trade conflicts. Moreover, a lot of emerging markets have an export-oriented growth model. This means that they are heavily dependent on international trade. Therefore, EMs could potentially be hit the hardest in case of a full-blown trade war with heavily disturbed global value chains.

Another factor explaining the divergence between developed and emerging economies is the persistent relatively strong performance in the US economy. Despite the looming risk of a trade war, which would also have negative impacts on the US economy, corporate sentiment remains at elevated levels. However, US firms still have serious concerns surrounding the potential effects of the imposed and threatened import tariffs and potential retaliation from US trading partners. The example of Harley Davidson announcing plans to move production out of the US to avoid EU retaliatory tariffs illustrates that Trump's trade policy could also have a lot of unintended negative consequences for the US economy. Nevertheless, for now, the strong performance of the labour market and the favourable impact from the fiscal policy reforms remain supportive. We hence stick to our scenario of a real GDP growth peak of 2.8% for 2018. In 2019, growth will likely slow, reflecting the late-cyclical state of the US economy, tighter Fed policy and increasing tightness of the labour market.

Figure 1 - Business sentiment improving, in particular in developed economies (composite PMI, 50 = neutral level)



Source: KBC Economic Research based on Markit (2018)

Our growth outlook for the euro area is also unchanged. Real GDP growth for 2018 will be lower than in 2017, partly because of the disappointing first quarter, but will remain above potential. Differences across euro area countries will persist. Corporate sentiment in July measured by the composite PMI indicator slightly improved. This was mainly driven by a partial recovery in business optimism for the services sector in most major euro area economies and was in line with global developments. Consumer confidence remains at elevated levels, supported by the buoyant labour market. Some positive news also came from Germany, where the May data for factory orders (+2.6% mom) broke their four-month contraction, and remain at strong levels. The pickup in factory orders signals that domestic demand remains healthy. Additionally, May figures for industrial production beat expectations on the upside after several months of disappointing results. This momentum will serve as a buffer to counter the potential negative effects of increasing trade tensions on the trade-dependent German economy.

Trade conflict intensifying

In recent weeks, global trade tensions shifted up a gear with the US formally introducing a new tranche of previously announced import tariffs and releasing a list of planned additional tariffs on US imports from China. In response to the US protectionist actions, China and other US trading implemented retaliation measures. On top of this, threats of further tariffin increases were abundant in the newspapers and the investigation into US tariffs on car imports is still ongoing. US President Trump also decided to strengthen control over foreign investment in the US, mainly targeting investments coming from China. The scope of investments that will be subject to reviews by the Committee on Foreign Investment in the US (Cfius) will be broadened. Furthermore, there will be tougher controls in the US on trade in 'sensitive technologies'. It will therefore become more difficult for Chinese and other foreign firms to invest and trade in the US.

As such, the prospect of reaching an agreement in the escalating US-China trade conflict any time soon are becoming gloomier. This is especially the case when looking at the detailed list of products that the US is targeting with its new import tariffs. The list mainly contains products that are related to China's medium-term growth strategy 'Made in China 2025'. This strategy is aimed at upgrading the Chinese industry by making it more efficient, green and innovative. As the US is now targeting this structural goal of the Chinese government, it will likely be even more difficult to reach a deal and get concessions from China. The impact of the increased tariffs and a potential further escalation (e.g. with higher US import tariffs on cars) will reach far beyond the US and China, as the global economy is heavily integrated via global value chains. In these circumstances, negative spillovers to both other developed economies (Japan, EU) as well as to emerging markets seem unavoidable. Retaliation measures will only add to these negative effects. It is hard to see when and how this trade conflict will end. Related uncertainties are already weighing on sentiment and investment decisions globally. A significant further escalation with increasing protectionist measures is hence the main risk in our global scenario.

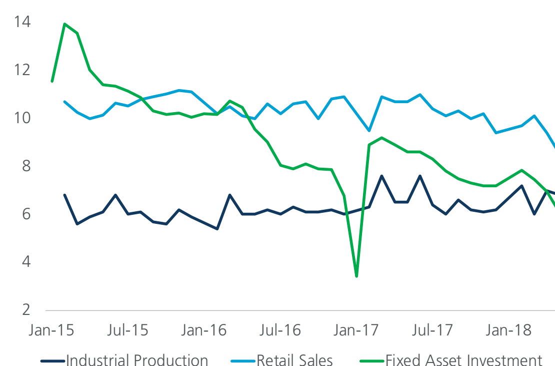
EMs on the frontline

With rising trade tensions, tightening financial conditions in the US and several country-specific issues, worries about emerging markets are again becoming a source of concern. The Chinese economy showed some further signs of a trend slowdown of late. Recent activity indicators on investment and retail sales were below expectations, which sparked concerns about a possible upcoming hard landing (figure 2). However, recent indicators are still in line with our scenario of a gradual growth deceleration. In particular the weaker investment growth in the infrastructure and utilities sector fits into the Chinese government's strategy to clean up unnecessary infrastructure projects to reduce financial risks. The authorities hope to strike a careful balance between cooling credit financing without freezing economic growth. The recent cuts in the reserve requirements by the Chinese central bank were part of this balancing act and were aimed at easing financial conditions somewhat to underpin growth.

The sharp depreciation move of the Chinese Renminbi (RMB) of late can also be seen as part of policy objectives. The recent weakening of the currency was preceded by an appreciating trend since mid-2017. By letting the currency appreciate, the Chinese authorities likely hoped to facilitate trade negotiations with the US. After all, President Trump repeatedly accused China of being a currency manipulator that intentionally keeps its currency weak to have a competitive advantage. This strategy led to some excess RMB strength, which was largely unwound by the recent sharp depreciation move. Going forward, China could use the RMB as a weapon in a trade war. However, competitive devaluations could spark large speculative capital outflows similar to what was seen in 2015-16. This would mean a tightening of financial conditions via outflows and declines in FX reserves. Furthermore, other countries in the region would also likely react with FX devaluations. Using the RMB as a trade war instrument would hence entail significant risks for China.

Figure 2 - Chinese activity indicators disappointed recently

(% change year-on-year)



Source: KBC Economic Research based on NBS (2018)

Another emerging market that came into the spotlight during last month was Mexico due to its elections. The left-of-center party of Andres Manuel Lopez Obrador (often abbreviated as AMLO) surpassed most polls and won a majority in both the lower and upper chambers of Congress. The message from AMLO has so far been relatively investor-friendly by saying he doesn't plan to make drastic economic changes. As such, the Mexican Peso strengthened after the election results were made public. Due to the Mexican elections, the negotiations on a reform of the NAFTA agreement with the US and Canada were suspended. The new Mexican president already stated that he aims to come to a "comprehensive treaty" with the US and Canada that will foster development. Some of AMLO's economic priorities even seem to be in line with the US's demands in the NAFTA discussions. For example, he has said that he will be willing to raise Mexican labour standards – an important requirement of the US administration. In the view of the US Congressional elections in November, NAFTA negotiations are likely to drag on until 2019. However, there seems to be some new hope for an agreement although a deal on some contentious topics will remain a hard nut to crack.

All about migration

The issue of immigration overshadowed all other topics during the latest European Council at the end of June. After long discussions, EU leaders succeeded in agreeing a package of measures that reflect wide differences in views on what is a vexed topic in many countries. This agreement calls for 'controlled centres' in EU countries where migrants will be screened and their asylum claims will be processed. Those rejected will be sent back, those accepted will be returned under the so-called solidarity principle. Furthermore, the deal contains the exploration of 'regional disembarkation platforms' outside the EU where migrants that are rescued in the Mediterranean can be screened before going to the EU. However, overall, the agreement is rather short on details - e.g. it's not clear where the EU migrant centres would be set up - and on obligations as all actions would be voluntary. The problem of the distribution of asylum seekers across EU countries also remains unresolved. The main reason for this vagueness is probably the persistent and widespread divergencies in views among EU member states. A common European feeling is very far away and the fundamental topic of strengthening the EMU was pushed to the sidelines by the immigration issue.

Nevertheless, the fact that some kind of accord was reached must have been a relief for German Chancellor Merkel. Although vague and undetailed, the deal that was struck during the EU Council formed the basis for a domestic agreement between Merkel's party, the CDU, and the Bavarian sister party, the CSU. This followed a German political crisis that threatened to end the three-month-old coalition government. Being forced to make a lot of concessions to her coalition partners, Merkel's position has weakened both domestically and within the EU. As a consequence, she will likely not be able to push through far-reaching reforms of the EMU. Our hopes for major steps in the further EU integration process led by the French-German alliance have hence faded somewhat.

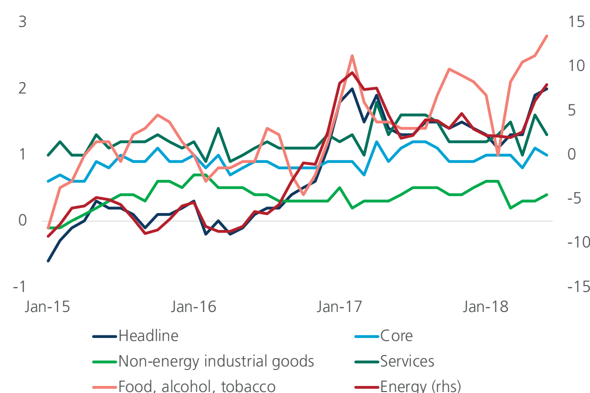
The immigration issue not only pushed the fundamental topic of strengthening the EMU to the sidelines. Another topic that was downgraded in importance at the EU Council was an assessment of progress on Brexit. This was also largely due to the fact that there was not much news to discuss. Prime Minister May earlier decided to postpone the publication of the details about the UK's view on the future relationship with the EU until after the EU Council. Last week, however, the British government managed to come to a consensus. Their issued proposals point towards a soft Brexit scenario, which will most likely be the least damaging for the UK economy. The proposals contain, amongst other things, a free trade area for goods between the UK and the EU. However, there are no details provided on services trade. The deal was put forward by the government, but not all government members were convinced as Brexit secretary David Davis decided to resign, followed shortly by Foreign secretary Boris Johnson. The next challenge for the UK government will now be the negotiations with the EU. Meanwhile, the UK economy keeps muddling through, in line with our base scenario. Uncertainties surrounding the Brexit will continue to weigh on sentiment and investment.

Oil prices driving up inflation

Higher-than-expected oil prices are putting some temporary upward pressure on headline inflation around the world. Preliminary June inflation data for the euro area pointed to a slight increase of headline inflation to 2.0%, while core inflation remains stubbornly subdued at only 1.0% (figure 3). Also in the US we have seen inflationary pressures building, although there core inflation is moving in a similar upward direction as the headline series. Since there seems to be some overshooting in the oil price of late and the US policy stance versus Iran is more restrictive than expected, we have increased our forecasts for the oil price path on a short-term horizon.

More specifically, we raised the expected oil price at the end of 2018 by 5 USD to 70 USD per barrel of Brent oil. An increase in Saudi and Russian production volumes is needed to limit the undersupply and to offset declines from Iran (sanctions) and Venezuela (economic crisis) in the short term. Moreover, the Organization of the Petroleum Exporting Countries (OPEC) has agreed to end the 'overcompliance' to their earlier imposed production cuts. Nevertheless, these production caps still

Figure 3 - Underlying euro area inflation remains low
(HICP, % change year-on-year)



Source: KBC Economic Research based on Eurostat (2018)

remain in place, putting upward pressures on the oil price until the end of this year. However, without more of a geopolitical supply impact, risks are skewed more to the downside, primarily in the form of US shale growth accelerating in response to higher prices, an end of OPEC cuts in 2019 and a moderation in demand growth. Hence, we stick to our scenario of a gradual slide of the oil price towards the end of 2018 albeit at a slightly higher level than previously projected (USD 70 per barrel compared to USD 65 per barrel projected last month). A return of oversupply in 2019 is expected with more US shale volumes and a tapering of the OPEC production cuts. New IMO shipping regulations should push the oil price higher again towards the end of 2019. The higher short-term oil price forecast means this will provide some additional albeit temporary support to inflation in the coming months.

Risk aversion and dovish ECB

Last month's ECB decision to taper its Asset Purchasing Programmes (APP) after September 2018 and end the APP in December 2018 was the ECB's first step towards monetary policy normalisation. However, in our view this step forward was accompanied by two steps backward. By changing its forward guidance for policy rates to "remain at their present levels at least through the summer of 2019" and in any case until inflation moves in target with the 2% goal, the ECB fixed market expectations for the next 12 to 15 months. This explains at least in part the unexpected decline in long-term German government bond yields. In contrast, the minutes of the Federal Reserve meeting in June suggest that the US central bank governors are more hawkish than the ECB's, despite their worries about the intensified uncertainty and risks associated with trade policy. They see the progress towards the Fed's dual mandate of maximum employment and stable prices as warranting further gradual normalisation of monetary policy. This is in line with our scenario of two more Fed rate hikes for this and two next year.

Besides the rather dovish stance of the ECB, other non-monetary events led to a decrease of the German long-term bond yield. Rising trade tensions, political turmoil in some euro area economies and increasing worries about emerging markets led to safe haven flows towards Germany and, to a lesser extent, the US, Japan and Switzerland. This environment of increased global risk aversion with the corresponding flight to quality led us to lower the path of the German 10y government bond yields a 12 months' horizon. We now see the yield rising to 1% by the end of the year. Nevertheless, our longer-term German yield forecasts are left unchanged as fundamental metrics such as the term premium and real interest rates make the current low yield unsustainable. The sudden rise in risk aversion also led to some sharp increases of some spreads against the German yield (e.g. the Hungarian spread). These recent moves were likely a temporary volatility effect. Given limited moves in intra-EMU spreads, our scenario for them remains unchanged.

Since we think the US-German bond yield differential will be larger than previously expected on a short-term horizon and that there will be further market pricing in of monetary policy divergence, we expect the EUR weakness to continue in the short term. The EUR is now expected to depreciate slightly further to 1.16 USD per EUR in 3 months' time (whereas 1.18 USD per EUR was expected previously). Our end of 2018 forecast is lowered from 1.20 to 1.18 USD per EUR.

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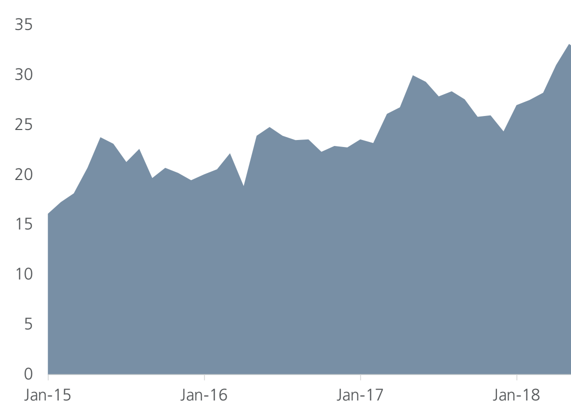
Bulgarian Economy

In June 2018, the overall business climate indicator decreased by 0.9 percentage point compared to the previous month as a result of the less favourable business climate in the construction and service sectors (figure 4). This is the first monthly decline since the beginning of the year as the indicator last month reached its highest level since 2009. The composite indicator for the industrial sector increased by 1.5 percentage point due to the optimistic business situation expectations of industrial entrepreneurs. The insecure economic environment and labour shortages remain the most serious business development problems. Also in other sectors, such as construction, a lack of suitable employees continues to be a major hurdle for further expansion.

As of July 1, 2018, most banks in Bulgaria will unilaterally change the contracts for consumer and housing loans in BGN. The reason for this is the new way in which interest rates should be determined after the base SOFIBOR ceases to exist. The change should, however, not affect current consumers. For the new interest rates, customers will be informed in writing by their serving banks.

Bulgaria intends to submit application documents for the ERM II, the waiting room for EMU membership, and for the European Banking Union. In the margin of the Eurogroup meeting of July 12, Bulgaria's intentions have been discussed. It is already clear that the consideration of Bulgaria's membership application in ERM II will be postponed for at least a year until the BNB has entered the so-called close cooperation with the European Central Bank (the Banking Union Option for Non-Eurozone Countries). In general, European institutions insist on further judicial and economic reforms before Bulgaria will move towards EMU membership.

Figure 4 - Bulgarian business climate edging down first time since start of the year (total business climate indicator, net balance of assessments about the present and the expected business situation in the enterprises)



Source: KBC Economic Research based on National Statistical Institute of Bulgaria (2018)

Detailed country forecasts	2017	2018	2019
Real GDP growth (in %)	3.6	3.5	3.4
Inflation (in %, harmonised CPI)	1.3	1.5	1.7
Unemployment rate (in %, end of year, Eurostat definition)	5.7	5.0	4.9
Government budget balance (in % of GDP)	0.8	-0.5	-0.5
Gross Public debt (in % of GDP)	25.1	24.7	24.2
Current account balance (in % of GDP)	5.0	3.4	1.4
House prices (avg annual %-change, total dwellings, Eurostat definition)	9.0	6.0	5.0

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Focus article: Economic aspects of international immigration

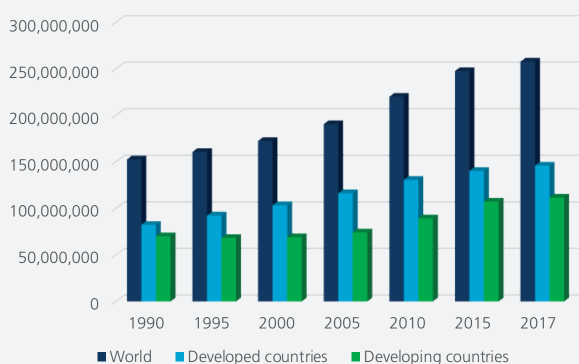
Immigration can be a sensitive issue in any society. The current immigration wave into the European Union divides the member states and causes many challenges to the goal of avoiding a humanitarian crisis. Nevertheless, European immigration is only a tiny part of global migration flows. There have always been and will always be international migration flows. Triggered by conflicts or socio-economic differences, people decide to leave their home country and look for a better (and hopefully safer) future in their host country. Economists have studied the phenomenon of migration intensively, in particular its economic impact on both the home and host economies. Although each migration flow is different, some facts and figures as well as clear insights are provided by economic research. We focus on the long-term effects of migration, rather than on the short-term costs and challenges of the current refugee crisis in Europe. These insights may be interesting to consider in the current debate.

Recent evolution in international immigration

Figure A shows the net number of people who migrated to other countries, split up between developed and developing economies as host countries, between 1990 and 2017. This number contains people who moved to other countries for various reasons, and hence not necessarily because of emergency situations in their home countries. There has been a clear increasing trend in the number of immigrants globally in recent decades. Most immigrants move towards developed countries, which is logical as they seek a better life. Still, a substantial part of global immigration happens towards developing countries. Currently about 260 million people live abroad. Only a small share of these migrants (on average 10%) are refugees or asylum seekers, as many people leave their home countries for less urgent reasons (professional, adventure, etc.). Figure B shows the recent evolution in the estimated number of refugees and asylum seekers in the world. It appears that the number of refugees went up substantially in recent years. A number of international conflicts is most likely the reason for this (including in the Middle East, Africa, and Latin America). Strikingly, most refugees end up in developing countries (82% of all refugees in 2017). Considering the current European immigration flow, only a small part of refugees from Africa or the Middle East ultimately make it to the European continent. In times of conflicts, people typically tend to flee to neighbouring countries first.

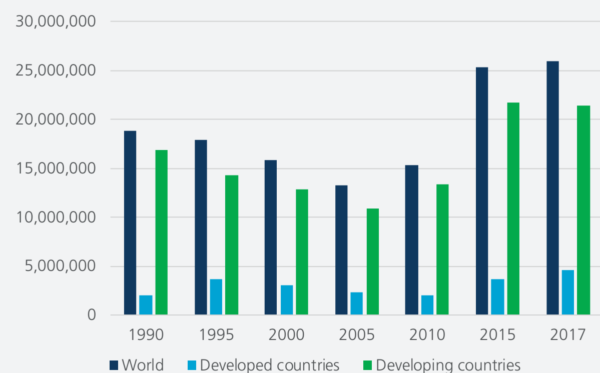
About 30 % of all immigrants live in Europe. This percentage,

Figure A - International migrant stock at mid-year, 1990-2017



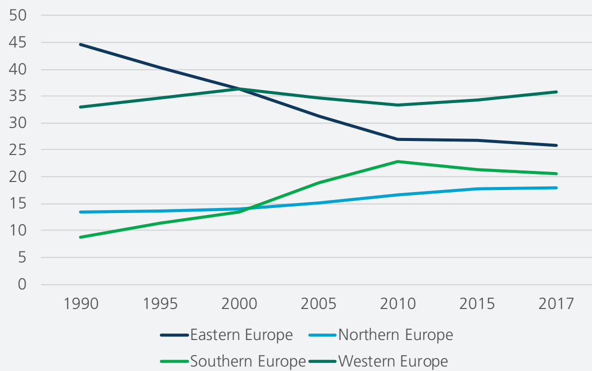
Source: KBC Economic Research based on UN (2018)

Figure B - Estimated number of refugees (incl. asylum seekers - stock) 1999-2007



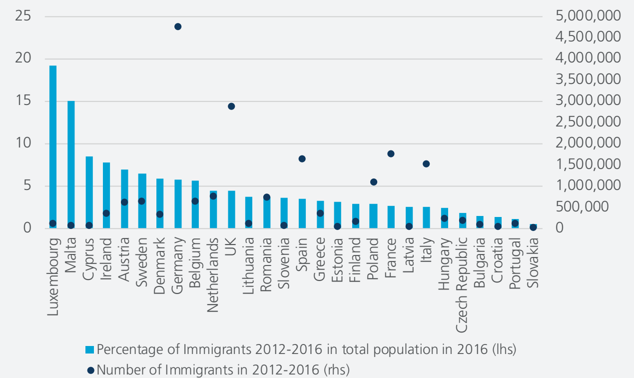
Source: KBC Economic Research based on UN (2018)

Figure C - Evolution in the share of each part of Europe in total global migration in Europe (stocks), 1990-2007



Source: KBC Economic Research based on UN (2018)

Figure D - Immigration in EU member states



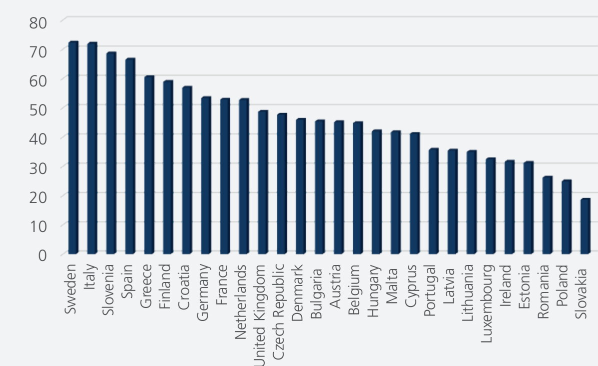
Source: KBC Economic Research based on Eurostat (2018)

which includes both refugees as well as any other immigrants, has remained relatively stable since 1990. Within Europe there has been a clear shift, as indicated in Figure C. While Eastern Europe used to be the main destination for immigration in the 1990s - in the aftermath of the fall of the Berlin Wall and the disappearance of the Iron Curtain -, in recent years Southern Europe has become a more important destination for immigrants (20% in 2017), reflecting the ongoing inflows from the Middle East and Africa. Nevertheless, the majority of migrants actually live in Western Europe (36% in 2017), indicating that the final destination for migrants is, most of the time, a more prosperous economy.

The number of immigrants differs substantially across EU member states. This is partly because total immigration figures include both intra-EU immigration and immigration from outside the EU. Figure D indicates the number of migrants arriving in each EU member state in recent years (sum of immigration between 2012 and 2016), as well as the percentage these migrants represent out of the total population in 2016. Apart from Luxembourg, where many foreigners tend to work, some clear trends become visible. Malta and Cyprus appear to host many migrants relative to their population size. Obviously, many people arriving on these Mediterranean islands will stay there. People arriving in Southern Europe, however, tend to move on to richer countries in Northern or Western Europe, notably Austria, Sweden, Demark and Germany. Also, Belgium and the Netherlands are important destinations, as is Ireland. However, migration towards those countries is likely to be related to the presence of many multinational companies and international institutions. It is obvious that this evidence signals why migration is a sensitive issue among European policy makers. While peripheral EU countries are confronted with the practical challenges caused by people crossing the EU frontiers in the short run, in the longer run it is other EU countries who are confronted with the challenges associated with a substantial and permanent influx of new people.

A substantial part of European immigration is due to intra-European migration flows. Figure E indicates the percentage of 2016 immigrants originating from non-EU countries for each EU member state. The figure clearly reflects the current immigration wave, as most entrance-point countries, as well as the most popular final destinations, currently have the largest relative inflows of non-EU immigrants.

Figure E - Percentage of 2016 immigrants born outside the EU



Source: KBC Economic Research based on Eurostat (2018)

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Economic impact of immigration in the long run

In the current debate, the emphasis is often put on the costs the current refugee crisis causes to the EU and its member states. Although immigration from refugees fleeing their countries causes substantial costs to the host countries in the short run due to emergency aid programmes, the economic evidence about the long-term impact is generally positive. Numerous economic studies point to substantial advantages generated by international immigration in general. We focus here on the long-term impact of historical migration flows. Though these findings cannot be extrapolated to the current European refugee crisis, these insights may contain interesting insights for the current debate. Each migration wave has, however, different features in terms of migrants' skills, age profiles, and the absorption of migrants into their host countries' economies. More extensive analysis is required to fully evaluate the economic costs and benefits of the current migration wave into Europe.

Economic research points to a sizeable migration impact. First of all, immigration increases the available labour in an economy. In particular in times when labour is scarce, as is currently the case in more and more western economies, immigration may help overcome shortages in the labour markets. Immigrants tend to be relatively highly educated on average. In particular high-skilled immigration is considered an important asset for any economy. Historical evidence supports this. Countries like the US and Australia have benefitted substantially from the inflow of human capital to boost long-term economic development. Potential as well as actual GDP benefits from immigration.

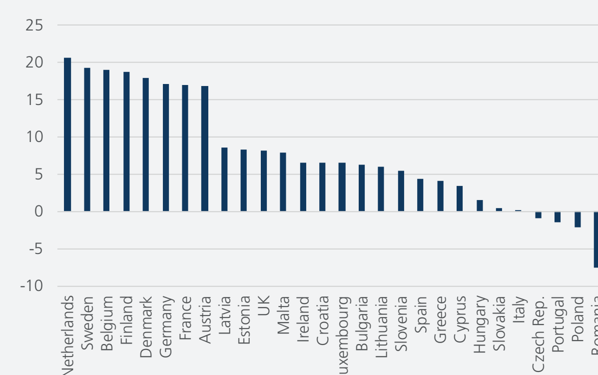
Secondly, an important debate is whether immigrants make a net positive contribution to the host economy as immigration also causes substantial costs. Research by the OECD confirms that the economic value generated by immigrants exceeds the costs related to immigration. In most countries, except in those with a large share of older migrants, it appears that migrants contribute more in taxes and social contributions than they receive in individual benefits. Hence the integration of immigrants in the local economy adds to economic growth.

Thirdly, there are clear benefits in the long-run because of the economic ties that are constructed between the home and host countries. Evidence by various international organizations and scholars suggests that immigrants often become active international traders between their country of birth and their new home countries. These effects tend to be larger when immigrants belong to a substantially large community with similar roots.

Challenges to overcome

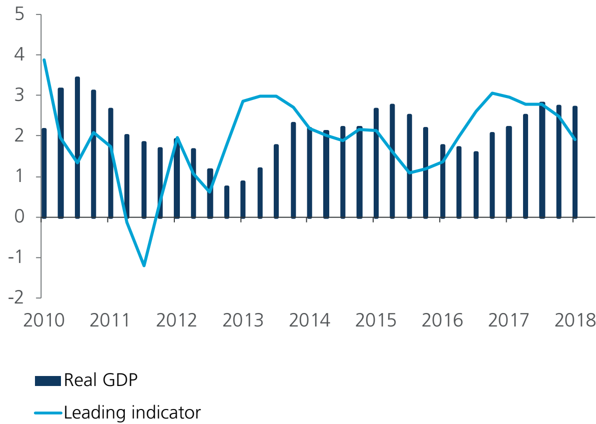
Research evidence suggests that the positive impact of immigration in the long run is often conditional on the right policy actions. Integrating immigrants in the local labour market appears to be challenging in many countries, not at least because of cultural and language differences. As an illustration, Figure F indicates the difference in the employment rate between immigrants (born outside the EU) and locals. In eight EU member states, this difference exceeds 10%, implying that immigrants are substantially less likely to be active on the labour market than locals. However, in many societies, people debate whether integration programmes should be compulsory or not, and on how far assimilation in the local culture and language should go. Again, each country and situation is different and requires a tailor-made approach. In general it holds that a good policy mix can help overcome many challenges. This often requires a structural and long-term approach that aims at gradual integration in the host country's economy and labour market. Countries lacking such approach are most likely to be confronted with substantial social and economic challenges. The common short term policy response to such challenges seems to be to close borders and worry about such issues later, rather than to adapt. A long-term policy on immigration seems the best approach.

Figure F - Employment rate people aged 20-64: difference between people born in reporting country and people born outside EU28 (2017)



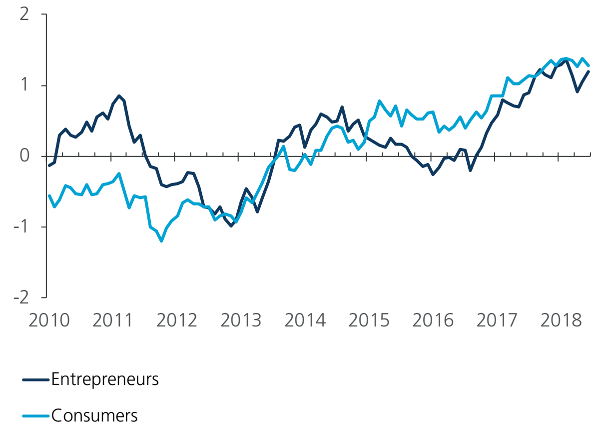
Source: KBC Economic Research based on Eurostat (2018)

Figure 1 - Economic activity in the OECD
(annualised quarterly change in %)



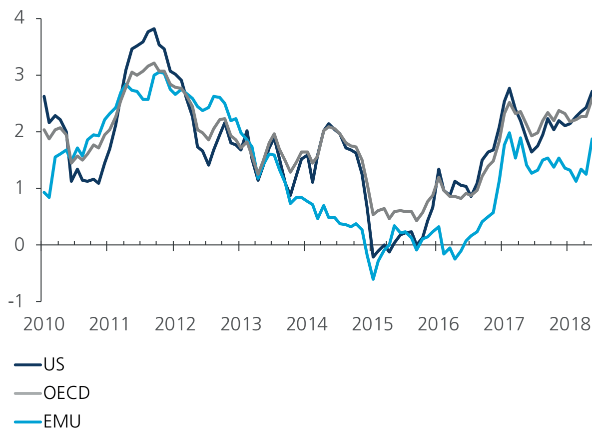
Source: OECD

Figure 2 - G4 confidence
(standard deviation from the long-term average)



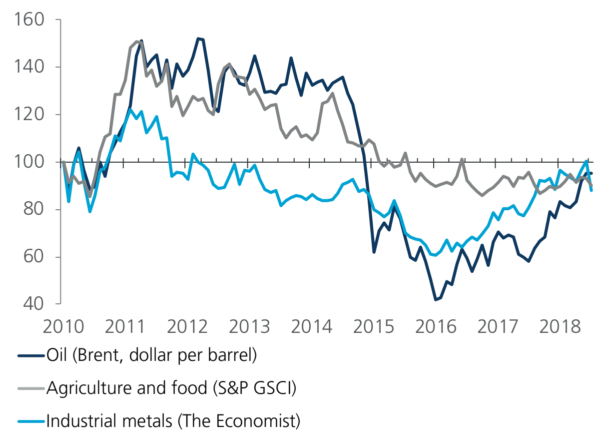
Source: National sources

Figure 3 - Inflation
(consumer price index, y-o-y change, in %)



Source: Eurostat, BLS and OECD

Figure 4 - Commodity prices
(January 2011 = 100)

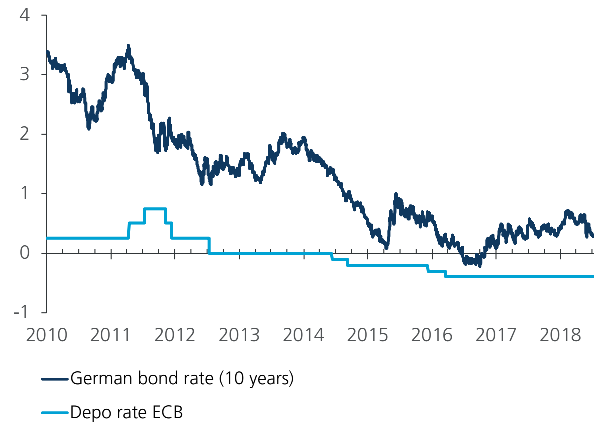


Source: ICIS pricing and S&P

Figure 5 - Interest rate movements US
(in %)

Source: Fed and Datastream

Figure 6 - Interest rate movements euro area
(in %)



Source: ECB and Datastream

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Outlook world economies

	Real GDP growth		Inflation	
	2018	2019	2018	2019
US	2.8	2.3	2.4	2.4
Euro area	2.3	2.0	1.5	1.6
Belgium	1.6	1.5	2.0	1.7
Germany	2.1	1.9	1.8	1.8
Ireland	6.0	4.0	0.9	1.7
UK	1.3	1.2	2.5	2.2
Sweden	2.6	2.2	1.9	1.9
Norway	2.4	2.2	2.1	1.9
Switzerland	2.1	1.8	0.8	1.0
Slovakia	3.6	3.7	2.8	2.6
Poland	4.5	3.2	1.8	2.5
Czech Republic	3.2	2.7	2.0	2.2
Hungary	3.9	3.4	2.5	3.2
Bulgaria	3.5	3.4	1.5	1.7
Russia	1.8	1.7	2.9	4.0
Turkey	4.2	3.6	11.7	10.0
Japan	1.1	1.0	1.0	1.0
China	6.3	6.1	2.1	2.2
Australia	2.8	2.8	2.2	2.3
New Zealand	2.9	3.0	1.7	2.0
Canada	2.0	1.9	2.3	2.0
World	3.9	3.8	-	-

10-year rates	10/07/18	+3m	+6m	+12m
US	2.87	3.00	3.20	3.30
Germany	0.33	0.60	1.00	1.25
Belgium	0.70	0.90	1.30	1.60
Ireland	0.81	1.00	1.45	1.75
UK	1.30	1.70	2.10	2.35
Sweden	0.52	0.80	1.20	1.45
Norway	1.75	2.05	2.45	2.60
Switzerland	-0.08	0.20	0.60	0.85
Slovakia	0.69	0.90	1.30	1.85
Poland	3.20	3.30	3.50	3.60
Czech Republic	2.19	1.80	1.85	2.10
Hungary	3.51	3.50	3.20	3.50
Bulgaria	1.04	1.40	1.80	2.10
Russia	7.57	7.50	7.50	7.50
Turkey	16.79	16.00	15.50	14.50
Japan	0.04	0.00	0.00	0.00
China	3.56	3.70	3.70	3.50
Australia	2.64	2.80	3.00	3.10
New Zealand	2.90	3.00	3.20	3.30
Canada	2.17	2.30	2.50	2.60

Policy rates	10/07/18	+3m	+6m	+12m
US	2.00	2.25	2.50	3.00
Euro area (refi rate)	0.00	0.00	0.00	0.00
Euro area (depo rate)	-0.40	-0.40	-0.40	-0.40
UK	0.50	0.75	0.75	0.75
Sweden	-0.50	-0.50	-0.25	-0.25
Norway	0.50	0.75	0.75	1.00
Switzerland*	-0.75	-0.75	-0.75	-0.75
Poland	1.50	1.50	1.50	1.75
Czech Republic	1.00	1.00	1.25	1.50
Hungary	0.90	0.90	0.90	1.10
Romania	2.50	2.75	2.75	3.00
Russia	7.25	7.00	7.00	7.00
Turkey	17.75	17.75	17.75	17.75
Japan	-0.10	-0.10	-0.10	-0.10
China	4.35	4.35	4.35	4.35
Australia	1.50	1.50	1.50	1.75
New Zealand	1.75	1.75	1.75	2.00
Canada	1.25	1.50	1.50	1.75

*Mid target range

Exchange rates	10/07/18	+3m	+6m	+12m
USD per EUR	1.17	1.16	1.20	1.25
GBP per EUR	0.88	0.89	0.89	0.90
SEK per EUR	10.26	10.00	9.75	9.50
NOK per EUR	9.41	9.35	9.30	9.25
CHF per EUR	1.16	1.18	1.20	1.22
PLN per EUR	4.33	4.38	4.33	4.25
CZK per EUR	25.93	25.90	25.50	25.00
HUF per EUR	325.34	325.00	315.00	315.00
BGN per EUR	1.96	1.96	1.96	1.96
RUB per EUR	73.34	71.92	73.80	76.25
TRY per EUR	5.54	5.34	5.58	5.88
JPY per EUR	130.38	127.60	132.00	137.50
RMB per USD	6.62	6.65	6.70	6.75
USD per AUD	0.75	0.75	0.76	0.78
USD per NZD	0.68	0.69	0.70	0.72
CAD per USD	1.31	1.28	1.26	1.25

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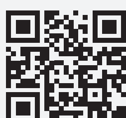

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