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Economic perspectives

March 2018

Highlights

- Global economic fundamentals continue to point to a continuation of a healthy pace of growth. Although some sentiment indicators have cooled down somewhat compared to recent multi-year highs, the overall momentum is still reassuring. The US economy in particular continues to perform better for longer than initially expected. The recently approved tax reform and budget act, that allows for significantly higher government spending, are the main reasons for the persistent short-term optimism. Nevertheless, the accompanied widening of the fiscal and current account deficits poses risks for US economic growth in the long term.

- With the approval of the Grand Coalition in Germany, an element of political uncertainty in Europe disappeared. However, the Italian election outcome will lead to very difficult negotiations to form a coalition. An unstable government coalition would make urgently needed structural reforms in Italy unlikely. Moreover, not much progress is being made in the ongoing Brexit negotiations. Yet, financial markets don't seem to be that bothered as intra-EMU spreads are barely reacting.

- By implementing higher import tariffs on US steel and aluminium imports, President Trump has enforced the ongoing trend of rising global protectionism. Retaliatory actions from the main trading partners affected are plausible, but a full-blown trade war seems unlikely. After all, trade-dependent economies, such as the European Union, would suffer significantly if global trade collapses. Increasing US protectionism is expected to drive inflation up further, triggering higher US long-term interest rates.

- The ECB marginally changed its communication by omitting the easing bias in its most recent policy statement. Nevertheless, the general tone of the ECB remains cautious and forecasts for headline inflation in 2019 were even revised down. The ECB Governing Council clearly wants to play it safe for now. Consequently, we are keeping our base assumptions about the ECB policy path in place. However, given the limited inflation acceleration, we now expect a period of tapering in the asset purchases after September 2018. The first policy rate increase will be well after the end of quantitative easing, i.e. in second half of 2019 at the earliest.

- IN SCOPE: External imbalances in the Trump era

Global Economy

Healthy growth pace continues

Although there are some signs that the global economic momentum is cooling down slightly, most indicators still signal a healthy pace of growth. February's business sentiment indicators have come down a bit but are still at elevated levels. The pullback was especially the case in the euro area, where business sentiment reached a multi-year peak in the previous month. The downtick was mainly led by the manufacturing sector, but there also was a slight drop in firms' sentiment in services. Nevertheless, consumer confidence remains very high and labour market developments still show favourable trends. Therefore, we are sticking to our scenario of above-potential growth in the euro area. We expect real GDP growth to reach 2.5% in 2018 and 2.2% in 2019.

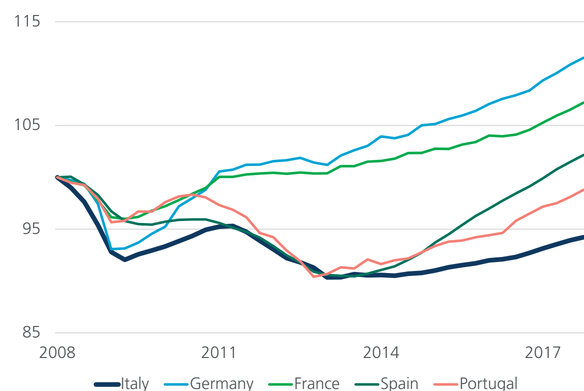
Meanwhile in the US, producers' optimism is still benefiting from the favourable international environment and from the fiscal stimulus measures that were approved. Besides the modest growth boost from the tax reform plan, the Budget Act that was signed in February will also be supportive for short-term growth in the US. The new budget contains a significant increase in government spending in 2018-2019. This will underpin aggregate demand and hence economic growth in the coming period. The downside to the budgetary plans is the longer-term impact. On the one hand, it will increase the government deficit and debt even further. On the other, higher government spending in infrastructure, etc. also means higher imports. Hence, the external current account deficit will increase too. This widening of the fiscal and current account deficits - the so-called twin deficit problem - will become a burden for US growth in the longer term as it will lead to higher interest rates. As a result, we are sticking to our scenario of a growth peak in 2018 and a slowdown afterwards, with 2.6% annual growth for this year and 2.3% for the next.

European politics not affecting markets

Although there have been several important political events in recent months, the financial markets don't seem to have been too bothered by them. Good news came from Germany. The political uncertainty that had been ongoing since the elections in September 2017 has receded as SPD members voted in favour of the Grand Coalition (GroKo). The GroKo's treaty text contains sizeable fiscal stimuli, which will focus on social issues, domestic investment and a gradual cutback of the solidarity tax. Domestic demand in Germany will therefore potentially benefit from these measures which in turn would cause the pace of growth in Germany to remain strong going forward. Moreover, the GroKo has a clear pro-European stance with a strong focus on reforms in the euro area. The main topics here are the reform of the European Stability Mechanism (ESM) - the emergency fund that provides financial assistance to euro area countries experiencing or threatened by severe financing problems - and larger financial contributions from Germany to the EU budget. Hence, the support of the new German government will likely also benefit the euro area as a whole. However, recent political developments - such as the resignation of Martin Schulz, one of Germany's most pro-EU politicians - combined with fiscal constraints and falling support for Chancellor Merkel, leave some doubt as to how much of the GroKo treaty will actually be implemented. Ultimately, the fundamental strengthening of the euro area is a project that needs the support of all EU member states. Hence, Europe's future depends very much on the international willingness to cooperate and boost European integration.

Meanwhile, Italian voters turned their backs on the centre-left government and voted in favour of the two anti-establishment parties. The Five Star Movement and the anti-illegal migrant League party, won in total about 50% of electoral hearts. However, no party or coalition list succeeded in getting an absolute majority. Hence, given the large political differences, forming a coalition government will not be an easy task. The short-term impact of this will be rather limited. After all, the 2018 budget was already approved and the current government is still in charge until a new government is formed. From a longer-term perspective, the election outcome could be more problematic. Although Italy has made considerable efforts in

Figure 1 - Italy is still lagging behind its peers in terms of economic growth (real GDP, Q1 2008 = 100)



Source: KBC Economic Research based on Eurostat (2018)

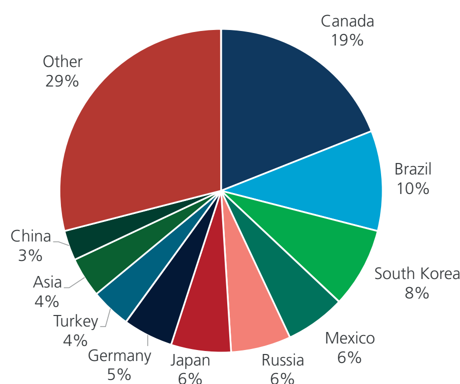
recent years to address structural growth problems, it is lagging behind its peers in terms of economic growth (figure 1). Further reforms are therefore urgently needed to increase Italy's growth potential and improve competitiveness. Moreover, higher growth is necessary to ensure the sustainability of the country's high government debt. However, there is little chance that an unstable government will implement these much-needed reforms. The financial markets don't seem to be overly worried about these developments. The Italian spread against the German 10-year yield even dropped following election day.

The Brexit story continues, but negotiations are not going very smoothly. The political turmoil and instability in the UK combined with the tough stance the EU negotiators are taking have raised market expectations of a hard Brexit after March 2019. This is, however, not part of our base scenario. Both parties in the negotiations have too much to lose from a hard Brexit. The consequences of such an outcome would be too severe for both the UK and the EU. Hence, we expect the negotiation circumstances to improve going forward. It is hard to predict the final outcome, but we still expect that a soft Brexit with some form of consensus agreement will be the endgame.

Elevated risk of a trade war

In order to fulfil an election campaign promise to protect the steel industry, US President Trump announced the implementation of higher tariffs on steel (25%) and aluminium (10%) imports. The US government is defending this decision as being necessary for national security, based on a US law from 1962. Although this argument is likely to be compatible with international legislation within the World Trade Organisation, it hasn't been used before as it could easily be copied by other trading nations. In theory, the announced tariff increase will apply to all countries that export to the US, but the measure is clearly a response to unfair trade practices by China. However, in an attempt to give the ongoing NAFTA negotiations a chance of success, Canada and Mexico, the two partners within NAFTA, are at least temporarily exempted from the tariffs. Other US allies can also be exempted under certain conditions. Without additional exemptions, the main steel trading partners that will be affected by the measures are Brazil, South Korea, Russia, Japan and the EU. The impact on China is estimated to be very limited, in particular in the steel sector (figure 2).

Figure 2 - Higher US import tariffs will have no major impact on China
(% share in total US imports of iron and steel by trading partner, 2016)



Source: KBC Economic Research based on Comtrade (2017)

These increased tariffs will certainly protect the US steel industry from foreign competition a bit more than was the case before, but it is highly questionable whether the tariffs will actually help it to overcome its challenges. Import restrictions are usually not the right response. The higher import rates will push up the prices of steel and aluminium products in the US. And because steel and aluminium are, of course, mainly inputs in the industrial process the prices of end products will go up too. The fact is that the decision boils down to a tax increase for American companies and consumers. The first thing that comes to mind is vehicles, but other products such as electronic devices and construction applications may also be affected. Ultimately, American consumers will pay the price of this policy measure. Moreover, historical evidence points to potential job losses in industries using steel and aluminium intensively.

Retaliatory action from the main affected countries is plausible, but we don't think a full-blown trade war can be expected any time soon. After all, trade-dependent economies, such as the European Union, would suffer significantly if global trade were to collapse. A deterioration of the international trade environment would weigh on sentiment and the uncertainty would likely depress investment. Hence, domestic demand in many countries would suffer, too. And although President Trump has used all his presidential powers, these powers are not unlimited either. Many members of US Congress were unhappy with the president's protectionist decisions. Domestic opposition is growing and will likely increase even more when the negative effects of the tariffs become visible. In any case, the actions taken by President Trump reinforce the trend that has been present around the world for several years now. Although all the main trading partners of the US have warned of the negative consequences of trade barriers, they are not entirely innocent themselves. As we already mentioned last month, the number of trade impeding measures being implemented around the world is still rising. Hence, despite the recovery

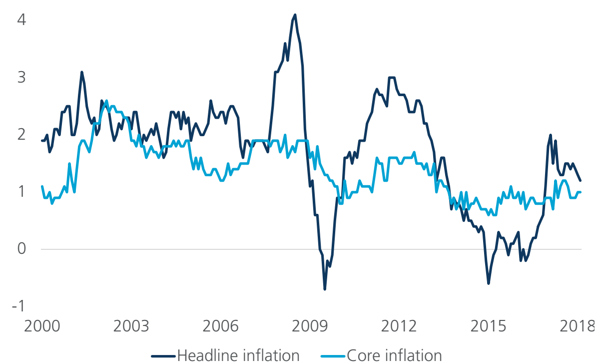
of international trade volumes in 2017, underlying tendencies still point to increasing protectionist measures that may weigh on global economic sentiment and may ultimately harm the positive economic outlook, though this is not our base scenario.

Growing divergence between Fed and ECB

Jerome Powell has made his first public appearance as the new Chairman of the Fed. Powell stated that he has become considerably more positive about the US economy since the Fed's December meeting. His view was underpinned by favourable labour market and inflation developments, the good shape of the global economy and the stimulus from the government's fiscal measures. Other Fed members also expressed their increased optimism about the state of the US economy. As a result, it has become more likely that the Fed will upgrade its policy rate forecasts at its policy meeting later this month. However, since there is not much new hard evidence compared to what we knew last month, we keep our base scenario of three rate hikes in 2018 and one more in 2019 for now. The risk of the Fed following a more aggressive path of hiking rates has nevertheless become larger. Depending on further developments in the international trade conflicts in the upcoming weeks, we may revise our US policy rate scenario. However, the impact of more protectionism is ambiguous. On the one hand, it may lead to less optimistic sentiment and a more negative economic outlook. On the other, increased protectionism may increase domestic prices and hence inflation.

The ECB on the other hand remains very cautious in its communication. At last week's policy meeting there was an initial small surprise as the ECB opted to remove a commitment to increase the scale or duration of its Asset Purchase Programme (APP) in the event of a deterioration in economic or financial conditions. The market absorbed (or ignored) the removal of this 'easing bias' because Governor Draghi's comments and the ECB's new economic projections sent a very clear signal that conditions that might warrant tighter ECB policy are unlikely to materialise any time soon. Draghi again reiterated the need for 'patience' and 'persistence'. The growth outlook was upgraded slightly for 2018 and left unchanged for 2019 and 2020. Price pressures are projected to increase only slowly. The ECB's new projections actually entail a small downward revision to headline inflation for 2019 to 1.4% from 1.5%. The absence of any marked upward momentum in actual or projected euro area inflation represents a notable constraint on ECB policy and signals the strong intention of the ECB to remain on the cautious side for some time (figure 3). Consequently, we are

Figure 3 - Lack of higher inflationary pressures explains cautious ECB stance (harmonised index of consumer prices, % change yoy, euro area)



Source: KBC Economic Research based on Eurostat (2018)

leaving our base assumptions about the ECB policy path in place. We expect the ECB to continue its quantitative easing (QE) at least until September 2018 at a monthly pace of net asset purchases of EUR 30 billion. After that we expect a period of QE tapering as inflation (expectations) remains below the ECB's target of just below 2%. The ECB will only start to raise its policy rate well after the end of its QE, i.e. probably in the second half in 2019.

Higher US yields and weaker USD in the longer run

Based on recent events and policy decisions, we have adjusted our forecasts for some of the financial indicators. We upgraded slightly our end-of year forecasts for US long-term sovereign yields in 12 months to 3.2%. Arguments supporting this are the higher future government financing needs and a larger current account deficit as a consequence of the approved fiscal stimulus. Furthermore, the increase of inflation expectations and real bond yields have led to a higher long-term sovereign yield in the US. We still expect the late-cyclical flattening of the yield curve to continue.

Our view on the German long-term bond yield has remained unchanged. We still expect it to rise to 1.75% at the end of 2019. We are also keeping our scenario of moderately rising intra-EMU spreads against the German long-term yield. Although there are some arguments for lower intra-EMU spreads in the future - such as the persisting excess liquidity thanks to the ECB's APP and the favourable global growth environment - we still think the counterarguments for higher intra-EMU spreads are more important. One factor supporting this is that expectations of

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tapering of the ECB's APP will be priced into markets which will lead to a normalisation of spreads reflecting country-specific risks. Moreover, the widening of spreads will go hand in hand with rising real rates. Furthermore, from 2019 on, economic growth in the euro area is expected to have passed its peak, putting the focus back on the sustainability of public finances.

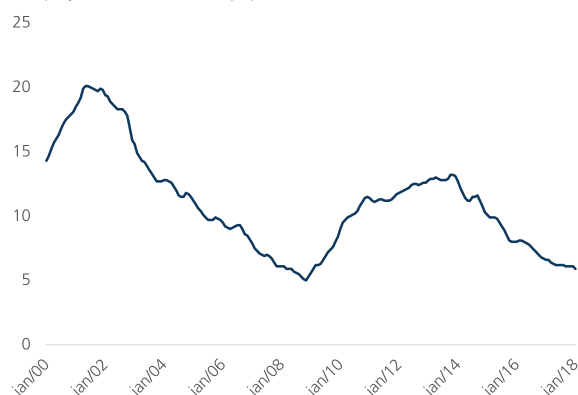
In general, we are sticking to our scenario for the USD per EUR exchange rate. A downward correction of EUR against the USD in the short term is still possible as the interest rate differential between the two regions rises. Moreover, the announcement by ECB President Draghi, most likely in June 2018, of a period of tapering after September 2018 will likely weigh on the EUR. However, in the medium to long term, all fundamentals point towards a further weakening of the USD against the EUR, by even more than we previously expected. Rising inflation expectations together with expected higher inflation differentials in the US compared to the euro area will cause downward pressures on the USD. Moreover, the twin deficit problem in the US and the threat of a US-induced trade war are potential factors that could lead to a further weakening of the Dollar against the Euro. Therefore, we expect the long-term equilibrium exchange rate to be somewhat higher and we see the USD depreciating towards 1.30 USD per EUR by end 2019.

The Bulgarian Economy

In the fourth quarter of 2017, Bulgaria's real GDP grew by 3.6% compared to a year earlier and by 0.8% compared to the previous quarter. For 2017 as a whole this results in annual growth of 3.8%. By final use, final consumption (82.3%) accounts for the largest share in GDP and contributed the most to GDP growth. Gross capital formation accounted for 22.6% of GDP in relative terms. The foreign trade balance is, however, negative. Exports and imports of goods and services increased by 2.0% and 9.4%, respectively. Real GDP growth is expected to remain at 3.8% in 2018 and 3.7% in 2019. Domestic demand will be a major driver of growth, while net exports will only make a positive contribution in 2019. Investment and private consumption will have a major contribution to GDP growth in 2019. It is expected that in 2018 private consumption will continue to rise in line with wage growth. Public investment will be supported by the absorption of European funds.

According to the National Statistical Institute, the unemployment rate in Bulgaria decreased to 5.6% in the fourth quarter of 2017 (5.9% in January according to the Eurostat definition).

Figure 4 - Bulgarian unemployment rate almost at pre-crisis low
(unemployment in % of active population)



Source: KBC Economic Research based on Eurostat (2018)

Compared to a year earlier, the number of unemployed persons decreased by 11.9% while the unemployment rate declined by 1.1 percentage point. Accordingly, the unemployment rate is almost back at its pre-crisis low (figure 4). The male unemployment rate fell by 1.2 percentage point and the female unemployment rate by 0.8 percentage point, reaching almost the same level (respectively 5.6 % and 5.7%). The largest demand for labour was in manufacturing (30.4%), government (13.6%) and trade (13.5%). The most sought after professions are nannies and caregivers for people, machine operators, store vendors and skilled food production workers.

On 22 January 2018, the Ministry of Finance held an auction for the sale of 25-year BGN-denominated government securities (GS) with a volume of BGN 100 million maturing on 24 January 2043. Market participants showed strong interest in the issue, submitting bids totalling a nominal value of BGN 139.9 million. The Ministry of Finance did not approve the subscription, taking account of the fiscal status as well as the purpose of financing at an optimal price. The Ministry of Finance will continue its balanced and flexible policy of managing government debt - with its debt being one of the lowest across the EU - by taking account of both the market status and the need to secure diversified sources of financing.

Detailed forecasts for the Bulgarian economy	2017	2018	2019
Real GDP growth (in %)	3.8	3.8	3.7
Inflation (in %, harmonised CPI)	1.3	1.5	1.7
Unemployment rate (in %, end of year, Eurostat definition)	6.1	6.0	5.9
Government budget balance (in % of GDP)	0.8	-0.5	-0.5
Gross Public debt (in % of GDP)	24.7	24.5	24.0
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: External imbalances in the Trump era

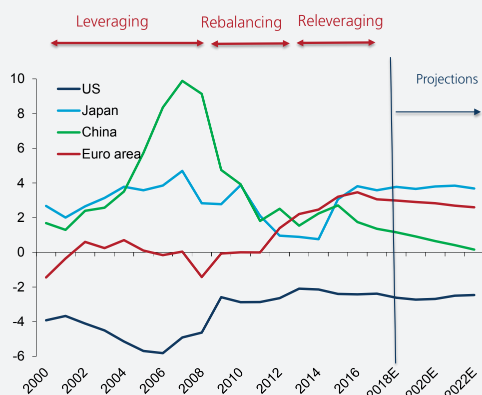
International trade relationships in general, and external (im)balances in particular, are once again the focus of attention. This has particularly been the case since US President Trump took office in January 2017, with the stated objective to deal with what he perceives to be 'unfair trade deals' of the US with its trading partners. A longer term understanding of the trend in international (im-) balances is helpful to put recent trade policy events into the appropriate perspective.

Build-up of external imbalances…

The period running up to the Great Financial Crisis (from the early 2000s until 2007) was characterised by a systematic build-up of external imbalances. This is reflected in the systematic rise of the current account balances of the major economies (figure A). Put simply, the current account balance of an economy is the sum of the trade balance in goods and services, the primary income balance (e.g. international dividend and interest rate payments) and the secondary income balance (e.g. international transfer payments).

The rising imbalances in the first half of the 2000s were particularly visible in the rising Chinese surplus and rising US deficit. A primary driver was the Chinese entry into the World Trade Organisation (WTO) in 2001 and the opening of the Chinese economy to the global economy and international trade. This boosted Chinese (net) exports which became a major driver of China's impressive growth performance. The high national savings rate and the artificially undervalued exchange rate of the renminbi contributed to the rising Chinese current account surplus. Moreover, this fitted perfectly into the policy objective of many Asian economies to generate substantial external surpluses in order to avoid a repetition of the adverse economic experience of the Asian crisis in 1997. At the time, unsustainable current account deficits, with their mirroring feature of huge short-term capital inflows and overvalued exchange rates, eventually led to an abrupt implosion of this economic growth model.

Figure A -Current account balances of G4
(in % of 'regional' GDP)



Source: KBC Economic Research based on IMF

By definition, the world as a whole has a balanced current account. Therefore, if there are economies with current account surpluses, there have to be economies with matching current account deficits. The early 2000s wasn't the only period when the US was the main deficit economy. One factor driving the increasing deficit was the traditionally low US household savings rate. Another contributing factor was the accelerating trend of financial innovation, mainly in the US financial services sector. These innovations led to increasing financial inflows from the rest of the world to the US economy, causing a rising surplus on the financial account of the US balance of payments. Since the financial account is by accounting definition the mirror image of the current account, this financial account surplus also implied higher current account deficits.

During the whole of this leveraging period, Japan consistently remained a surplus economy. This essentially reflected the high national saving rate, i.e. the limited absorption of Japanese economic output by domestic demand. The gap between them consistently generated a current account surplus for Japan. As in Japan, the current account balance of the euro area was also stable in this period. Unlike Japan, however, it was always virtually in balance.

… leading to a Great Financial Crisis and Recession

Up to the start of the Great Financial Crisis in 2007, these large

international imbalances were increasingly considered to be a major risk to the global economy and financial stability. In particular, there was a fear of a disorderly rebalancing. This unwinding materialised in 2007 (start of the Financial Crisis) and in 2008 (the start of the Great Recession). The corresponding rebalancing of the external imbalances was driven by several factors, both in the financial and the real sector of the economies.

First, the sharp and abrupt reduction of international capital flows to the US after the outburst of the Financial Crisis meant an equally sharp rebalancing of financial accounts (and hence also of current accounts). As a result, the US current account deficit started to improve, while the Chinese surplus declined.

The unprecedented loosening of monetary policy by the US Fed in the wake of the Lehman bankruptcy and the outburst of the Great Recession amplified the reversal of international capital flows out of the US, mainly towards emerging markets. It is a striking feature that the euro area financial and current account remained broadly in balance during this period. The Fed's quantitative easing led to a significant liquidity outflow from the US financial sector to the Chinese one, helped by the tight currency peg of the renminbi to the US dollar at the time. The corresponding worsening of the US financial account and its improvement within emerging markets also implied the rebalancing of the current account imbalances.

Second, looking at the crisis period from the perspective of the real economy, the rebalancing of external balances can be understood via the abruptly weakened domestic demand, that supressed demand for imports and hence reduced imbalances for current account deficit economies. The rebalancing in traditional surplus economies, such as China, was supported by reduced global demand from trading partners.

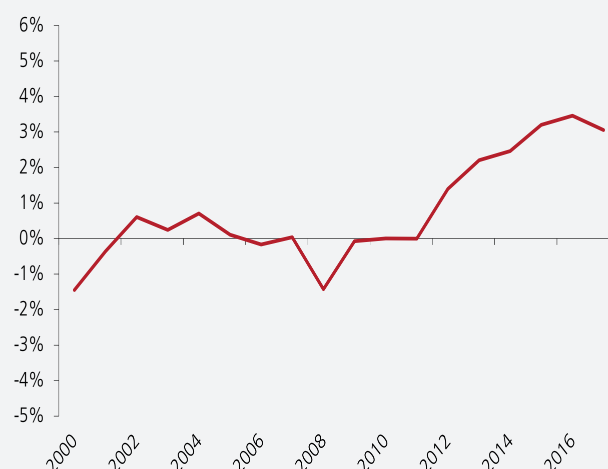
A third factor was the rebalancing role of market variables such as real exchange rates between major economies. In particular, in the context of shifting its economic growth model from export-led to domestic demand-led, Chinese policy makers allowed the real effective exchange rate of the renminbi to gradually appreciate. In part this happened via a higher inflation rate than there was in China's main trading partners. In subsequent years, the nominal appreciation of the renminbi also contributed to this effect.

The return of global imbalances?

Since 2012, external balances have begun to releverage gradually. Monetary factors that have contributed to this are the implementation of additional quantitative easing policies by central banks in economies that already had a current account in surplus or at least in balance. Perhaps the most remarkable feature has been the build-up of a substantial current account surplus in the euro area. This can to a large extent be attributed to a substantial increase in the national savings rate as a result of three factors. First, there was significant fiscal consolidation in an effort to contain the euro area sovereign debt crisis, which reached a climax at the end of 2011. Second, considerable economic reforms were carried out mainly in peripheral euro area economies to restore international competitiveness. And third, in 2014, a large drop in oil prices boosted European real incomes and savings. Fiscal consolidation, lower oil prices and persistent labour and product market reforms in the euro area have been the main driving forces of the build-up of the current account surplus.

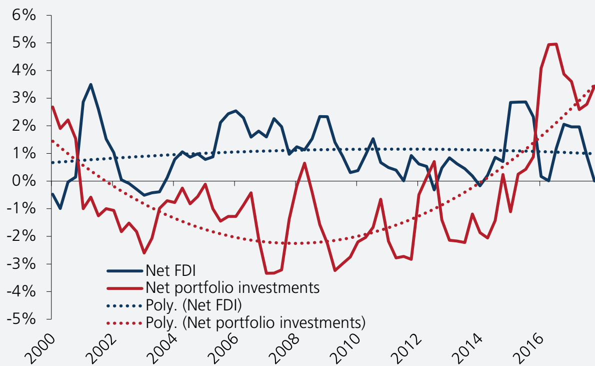
The emergence of a current account surplus in the euro area raises the question of the composition of the corresponding financial account deficit. Figures B and C suggest that, on aggregate, the euro area 'recycles' its current account surplus through net outward portfolio investments rather than through more durable net outward direct investments. To the extent that foreign direct investments are in the long run a more productive form of investments than simple portfolio investments, this suggests that the euro area's net international investment position is currently not evolving as favourably as it could.

Figure B - Rising euro area current account surplus…
(in % of GDP)



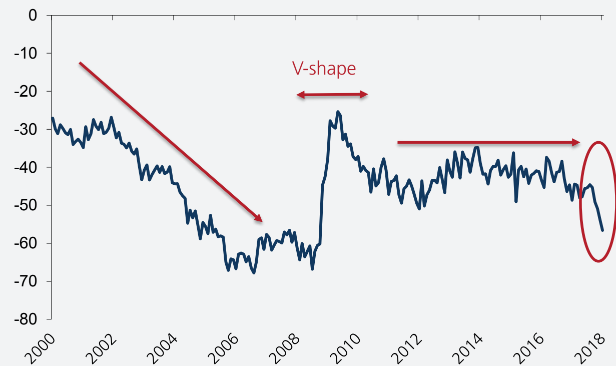
Source: KBC Economic Research based on IMF

Figure C - ...increasingly recycled by net outward portfolio investments
(in % of GDP, 4 Quarter Moving Average)



Source: KBC Economic Research based on ECB

Figure E- US trade deficit sharply deteriorated recently
(in bn USD)

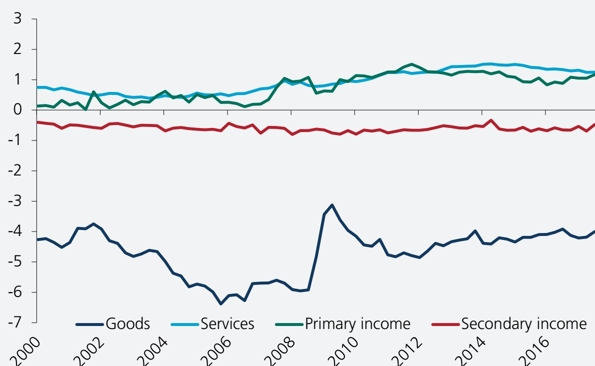


Source: KBC Economic Research based on Bureau of Economic Analysis

Trumps trade policies are ineffective

The lion's share of the US current account deficit referred to is caused by the deficit on the trade balance in goods (Figure D). Together with the deficit on the secondary (transfer) income balance, this outweighs by far the US surplus on the trade balance in services and primary income balance. This suggests that an adequate policy to address the US current account deficit would be to further boost the export of US services.

Figure D- Goods and secondary income deficits dominate service and primary income surplusses
(in % of GDP)

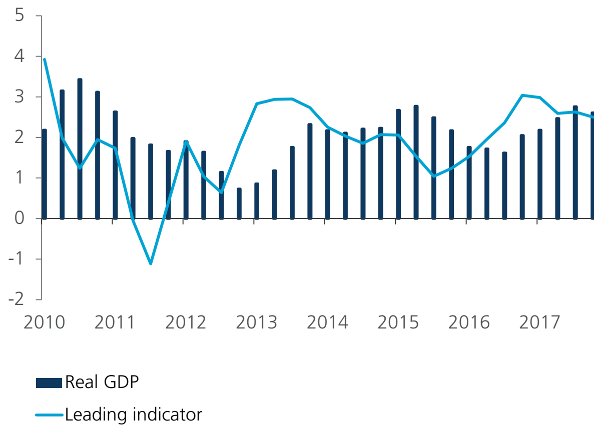


Source: KBC Economic Research based on Bureau of Economic Analysis

Moreover, more timely data of the joint goods and services trade balance (figure E) point to a sharp increase in the deficit in the past two months, after several years of broad stability. The most plausible cause of the sudden deterioration is the strong growth of domestic demand. In the context of an economy operating close to, or at full capacity and full employment, the additional demand can only be satisfied by more imports, consistent with the latest increase of the trade deficit.

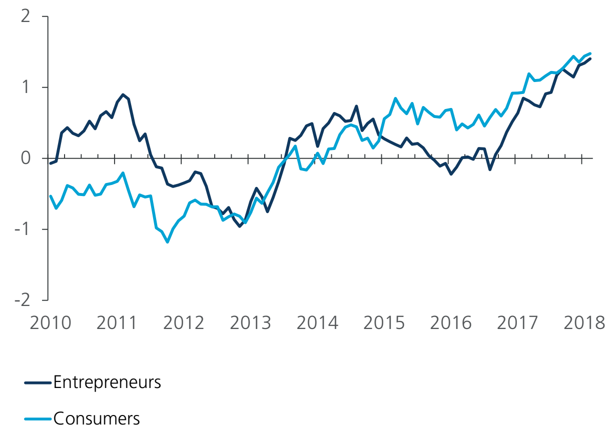
The data therefore suggest that the US trade deficit is more a reflection of the buoyant US domestic demand, rather than a lack of international competitiveness. However, given that the US trade deficit is nevertheless considered to be a problem, the appropriate policy response seems to be to stimulate US exports, e.g. for the service sector or for innovative industrial activities. Restricting imports to the US by protectionist measures would be counterproductive, only leading to higher inflation and eventually also to lower US export growth itself.

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



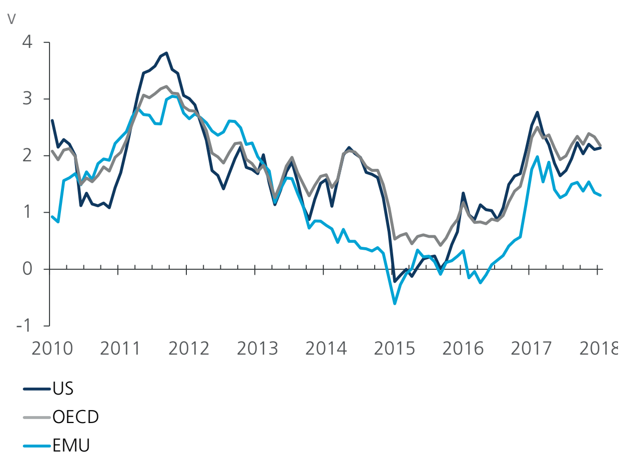
Source: OECD

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



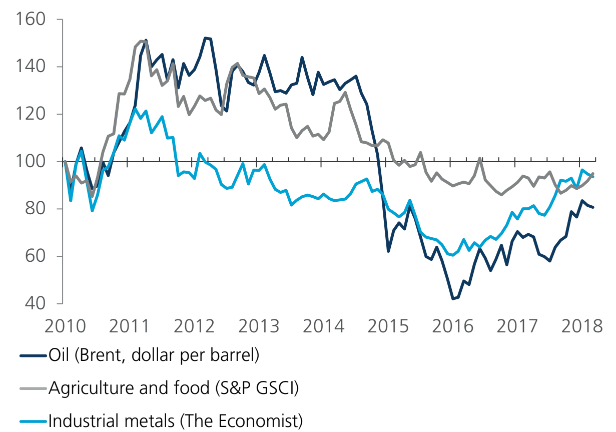
Source: National sources

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



Source: Eurostat, BLS and OECD

Figure 4 - Commodity prices
(January 2011 = 100)

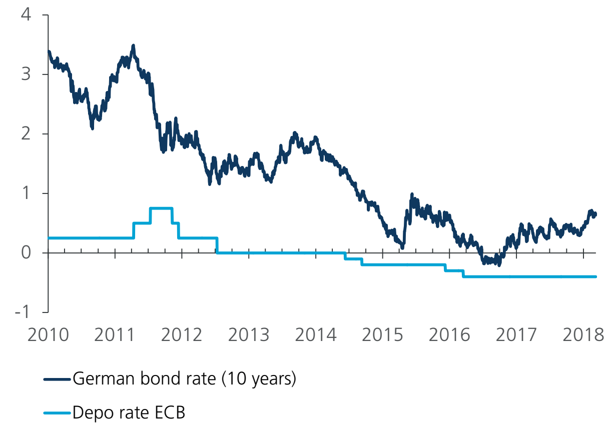


Source: ICIS pricing and S&P

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	2.6	2.3	2.4	2.4
Euro area	2.5	2.2	1.5	1.6
Belgium	1.9	1.7	1.6	1.7
Germany	2.6	2.3	1.7	1.8
Ireland	3.5	3.2	0.9	1.6
UK	1.4	1.3	2.6	2.2
Sweden	2.6	2.0	1.8	1.7
Norway	2.2	2.2	1.8	2.0
Switzerland	1.9	1.7	0.7	0.9
Slovakia	3.9	3.9	2.2	2.2
Poland	3.8	3.4	2.2	2.5
Czech Republic	3.0	2.8	2.0	2.1
Hungary	3.8	3.5	2.5	3.2
Bulgaria	3.8	3.7	1.5	1.7
Russia	1.9	1.8	3.5	4.0
Turkey	4.0	3.9	10.0	9.0
Japan	1.3	1.0	1.0	1.3
China	6.5	6.3	2.3	2.3
Australia	2.8	2.8	2.2	2.3
New Zealand	2.9	2.8	1.9	2.0
Canada	2.2	1.8	2.0	2.0
World	3.9	3.8	-	-

10-year rates	13/03/18	+3m	+6m	+12m
US	2.88	2.90	3.00	3.20
Germany	0.62	0.80	0.90	1.30
Belgium	0.90	1.05	1.15	1.70
Ireland	1.05	1.25	1.35	1.80
UK	1.49	1.60	1.70	2.45
Sweden	0.80	1.00	1.10	1.50
Norway	1.94	2.10	2.20	2.60
Switzerland	0.10	0.30	0.40	0.80
Slovakia	0.88	1.10	1.20	1.70
Poland	3.33	3.60	3.70	3.80
Czech Republic	1.92	1.75	1.80	1.80
Hungary	2.77	2.90	2.90	3.40
Bulgaria	1.30	1.46	1.60	2.10
Russia	7.04	7.50	7.75	8.00
Turkey	12.32	11.20	11.00	11.00
Japan	0.05	0.00	0.00	0.00
China	3.86	4.00	4.00	4.00
Australia	2.82	2.80	2.90	3.10
New Zealand	2.99	3.00	3.10	3.30
Canada	2.25	2.25	2.35	2.55

Policy rates	13/03/18	+3m	+6m	+12m
US	1.50	1.75	2.00	2.25
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	-0.50	-0.25
Norway	0.50	0.50	0.50	0.75
Switzerland*	-0.75	-0.75	-0.75	-0.75
Poland	1.50	1.50	1.50	1.75
Czech Republic	0.75	0.75	1.00	1.50
Hungary	0.90	0.90	0.90	0.90
Romania	2.25	1.75	1.75	1.75
Russia	7.50	7.00	6.75	6.75
Turkey	8.00	8.00	8.00	8.00
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	2.00	2.25
Canada	1.25	1.25	1.50	1.75

*Mid target range

Exchange rates	13/03/18	+3m	+6m	+12m
USD per EUR	1.23	1.20	1.22	1.26
GBP per EUR	0.89	0.90	0.91	0.93
SEK per EUR	10.15	10.00	9.75	9.50
NOK per EUR	9.57	9.50	9.35	9.25
CHF per EUR	1.17	1.17	1.19	1.22
PLN per EUR	4.21	4.22	4.27	4.22
CZK per EUR	25.46	25.20	25.70	24.90
HUF per EUR	311.69	311.00	310.00	307.00
BGN per EUR	1.96	1.96	1.96	1.96
RUB per EUR	70.20	68.40	69.54	71.82
TRY per EUR	4.77	4.68	4.82	5.04
JPY per EUR	132.12	129.60	131.76	136.08
RMB per USD	6.33	6.35	6.35	6.40
USD per AUD	0.79	0.76	0.76	0.78
USD per NZD	0.73	0.71	0.72	0.73
CAD per USD	1.29	1.28	1.26	1.25

Outlook Belgian economy

National accounts (real y-o-y change, in %)	2017	2018	2019
Private consumption	1.2	1.4	1.5
Public consumption	0.9	0.9	0.6
Investment in fixed capital	1.0	2.5	2.5
Corporate investment	1.2	3.1	2.5
Public investment	3.5	5.8	5.4
Residential building investment	-0.1	1.0	1.3
Final domestic demand (excl. changes in inventories)	1.1	1.5	1.5
Change in inventories (contribution to growth)	0.3	0.0	0.0
Exports of goods and services	4.2	3.2	3.6
Imports of goods and services	3.9	3.0	3.4
Gross domestic product (GDP)	1.7	1.9	1.7
Disposable household income	1.3	2.0	2.2
Household savings ratio (% of disposable income)	11.3	11.6	12.2

Equilibrium indicators	2017	2018	2019
Inflation (in %)			
Consumer prices	2.2	1.6	1.7
Health index	1.8	1.4	1.7
Labour market			
Domestic employment (change during the year, in '000)	65.0	40.0	35.0
Unemployment rate (end of year, Eurostat-definition)	6.6	6.5	6.4
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-1.0	-1.1	-1.3
Public debt	102.8	102.0	101.0
Current account balance (% of GDP)	-0.2	0.0	0.2
House prices (change during the year, existing and new houses, Eurostat, in %)	4.0	2.9	2.8

UBB Part of KBC Group

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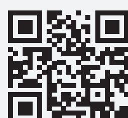

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