

## Economic perspectives

December 2021

### Highlights

- The economic outlook has become more uncertain and is subject to substantial downside risks heading into 2022. The pandemic still plays a prominent role in shaping the macroeconomic landscape, with the emergence of the Omicron variant serving as a reminder of this. Omicron represents a severe downside risk, which will ultimately depend on its transmissibility, ability to evade immunity, and overall health impact (e.g., on hospitalisations and mortality). In addition, multiple pandemic-related supply shocks are feeding into elevated inflationary pressures and are weighing on the near-term economic outlook. At the same time, our baseline scenario assumes that these headwinds will delay rather than derail the recovery, and we still expect strong annual growth rates in the euro area and the US from a historical standpoint.
- After a strong performance in the second and third quarter, the euro area recovery appears to be losing pace amid increasingly strong headwinds. While activity indicators paint a somewhat mixed picture, the latest spike in new Covid-19 infections has prompted renewed mobility restrictions, likely dampening activity well into Q1 2022. Against this backdrop, we have lowered our near-term growth forecasts, leading to marginally lower annual real GDP growth of 4.9% this year. In 2022, economic growth in the euro area was pared down more significantly from 4.2% to 3.5%.
- The US economy appears to be regaining momentum, following a soft patch seen in the third quarter. The fourth-quarter activity data have been mostly upbeat, boding particularly well for private consumption and exports. Meanwhile, the November employment report came in below expectations, but a broad array of indicators suggest that the US labour market is already on the tight side. The broad-based strength in activity data has led us to improve the US growth outlook for Q4, resulting in a moderately higher annual GDP growth for 2021 of 5.6%. The overall growth figure for 2022 is also slightly more positive at 3.7%.
- Oil prices have plummeted to USD 70 a barrel, triggered by the fears that the new Omicron variant could dampen oil demand. In our view, the oil market is currently pricing the tail risk that existing vaccines are not effective against the new variant. Oil prices are therefore likely to remain under pressure until more information on the virulence of Omicron variant is available.
- Inflation continues to surge to multi-decades high across advanced economies. We maintain a forecast for a gradual disinflationary path in the euro area and the US in the course of 2022, assuming a stabilisation in energy prices, some alleviation in global supply bottlenecks, and a normalisation in consumption patterns. While we acknowledge the upside risk to inflation

stemming from second-round effects, there is so far limited evidence, especially in the euro area, that temporary high inflation has set off a wage-price spiral through higher inflation expectations, which would be necessary to produce more entrenched inflationary pressures.

- The Fed is gravitating towards a more hawkish stance on monetary policy, signalled by the recent comments of several FOMC members, including Chair Powell. We now expect the Fed to double the tapering pace to USD 30 billion per month from January onwards, implying a first rate hike already by the end of Q2 2022, followed by two additional 25 bps rate hikes in the latter part of the year. Meanwhile, the ECB is taking a significantly more cautious approach. That said, increased uncertainty due to the emergence of the Omicron variant makes a delay on clarity on the post-PEPP world to early 2022 more likely. Overall, we maintain the view that the ECB will not raise its policy rate in 2022.

## Global economy

The global economy is set to face another challenging winter as we head into 2022. Although underlying growth momentum varies significantly among different regions, the economic outlook has become more uncertain and is subject to substantial downside risks, in particular with respect to the evolution of the pandemic. Almost two years into Covid-19, this highlights the fact that the pandemic still plays a prominent role in shaping the macroeconomic landscape. At the same time, the global economy continues to face a number of additional headwinds such as persistent supply chain disruptions and surging commodity prices, both feeding into elevated inflationary pressures in most economies.

### Another pandemic wave, another virus strain

To begin with, the near-term outlook has become cloudier due to the fourth Covid-19 wave in Europe, which poses risks for the entire Northern Hemisphere this winter (figure 1). Despite relatively high vaccination rates, the recent spike in new Covid-19 infections has led to renewed strain on healthcare systems, prompting additional mobility restrictions in many European countries. In Austria and Slovakia, nationwide lockdowns were implemented as a response to a rapid surge in ICU occupancy.

In our view, additional targeted/regional restrictions are likely to be imposed going forward, with a significant risk that more lockdowns could be implemented. That said, even in the absence of stricter lockdowns, voluntary social distancing is likely to have some negative economic consequences, dampening activity in large parts of Europe well into Q1 2022.

Moreover, the emergence of the new and possibly more transmissible Omicron variant could exacerbate these pressures. So far, it has triggered a wave of risk aversion across global

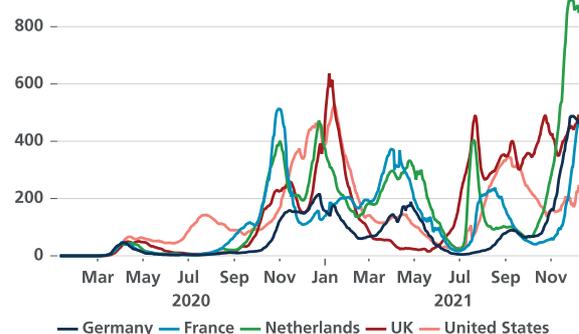
financial markets, but it is still unclear whether Omicron increases the risk of hospitalisation/death, and most importantly whether it reduces the efficacy of existing vaccines. All this will shape its economic impact and is set to present a significant source of uncertainty until there is more clarity on Omicron's characteristics.

We therefore think it is too early to assess its economic impact in our baseline scenario. In any case, despite recent progress in the medical response to Covid-19 (e.g., booster shots, vaccinations for children and antiviral drugs), the emergence of Omicron serves as a reminder that the exit from the pandemic will likely be bumpier and possibly longer than initially envisaged.

### Supply-side shocks boost inflation

In addition to adverse Covid-19 developments, multiple pandemic-related supply shocks are weighing on the near-term economic outlook. Global supply chain disruptions have intensified further, limiting manufacturing output worldwide. While we still expect to see a gradual easing of supply

**Figure 1 - Confirmed Covid-19 cases**  
new cases, average for 7-day periods, per 100.000 inhabitants



Source: KBC Economics based on WHO, IMF

bottlenecks through 2022, the risk remains tilted towards longer-lasting pressures, especially should Omicron lead to another setback in the reopening of major exporting nations.

An additional supply constraint on growth is arising from elevated energy prices. In particular, soaring natural gas and electricity prices are eroding households' purchasing power (in spite of governments' emergency measures) and are further depressing output in the industrial sector. Against the backdrop of tight natural gas supplies in Europe, we see a colder-than-usual winter as another notable downside risk to our outlook.

These supply shocks have pushed inflation to multi-decades high across advanced economies, prompting the discussion about global stagflation (figure 2). We maintain the view that supply shocks as well as other pandemic-related dislocations (e.g., changes in the composition of spending patterns in favour of goods) are unlikely to create lasting price pressures. At the same time, that is not to say that inflation will not remain elevated in the coming months (especially in the US) with risks being tilted to the upside.

Importantly, there is currently limited evidence, particularly in the euro area, of strong second-round effects, i.e., we do not yet see that temporary high inflation has set off a wage-price spiral through higher inflation expectations, which would be necessary to produce more entrenched inflationary pressures. In addition, financial markets are not pricing a shift towards structurally higher inflation and seem not to have lost faith in central banks' ability to attain official inflation targets. Assuming a stabilisation in energy prices, some alleviation of global supply bottlenecks, and a normalisation in consumption patterns, we therefore maintain a forecast for a gradual disinflationary path in the euro area and the US in the course of 2022.

Overall, our baseline economic outlook has become somewhat

cloudier and is dominated by downside risks. The near-term headwinds are particularly strong in the euro area (reflected in real GDP growth downgrades), while the US economy appears to be better positioned for sustained activity over the upcoming winter. At the same time, our outlook assumes that headwinds will delay rather than fundamentally derail the recovery. And while real GDP growth is set to moderate across major economies next year, we still look for strong growth rates in both the euro area and the US from a historical standpoint. In China, real GDP growth is set to ease sharply in 2022 against the background of important downside risks stemming from the real estate sector and the policy push towards deleveraging.

### Euro area: winter is coming

After a strong performance in the second and third quarter, largely driven by an incremental reopening, the euro area recovery appears to be losing pace amid increasingly strong headwinds. Although retail sales posted a marginally positive 0.2% month-on-month pick-up in October, rising infections and renewed mobility restriction, together with high inflation, are likely to be a drag on the consumption recovery, darkening the economic outlook in the euro area for the months ahead.

Turning to sentiment indicators, fourth-quarter readings paint a mixed picture. On the one hand, the latest deterioration in consumer confidence reinforces the view of challenges to spending growth in the coming months (figure 3). In November, euro area consumer confidence dropped markedly (though from historically elevated levels), reflecting concerns about rising Covid-19 cases and heightened inflationary pressures.

On the other hand, the euro area composite PMI surprised to the upside and rose to 55.4 in November, rebounding after three consecutive declines. The gains were broad-based across

**Figure 2 - Inflation in the US and the euro area**



Source: KBC Economics based on Eurostat, BLS

**Figure 3 - Consumer confidence in the euro area**



Source: KBC Economics based on DG ECFIN, Eurostat

countries and sectors as both services (55.9) and manufacturing (58.4) moved higher and remained well anchored in expansionary territory. However, we take these signals with a grain of salt as the November PMI data did not fully capture the latest surge in infections and new mobility restrictions.

Against the backdrop of mounting headwinds, we have lowered our forecasts for quarterly growth in Q4 2021 and Q1 2022. The moderation in sequential growth dynamics from unusually strong rates seen in the last two quarters had been anticipated, but the recent developments, especially the deteriorating pandemic situation, suggest that growth dynamics are likely to slow more than previously expected.

Taken together, the downward revisions to the near-term growth outlook have brought us to marginally lower annual real GDP growth in the euro area of 4.9% (down from 5.0%) this year. In 2022, economic growth was pared down more significantly from 4.2% to 3.5% (in large part due to the lower overhang effect). That said, growth is set to remain strong by historical standards, supported by pent-up consumer demand (fuelled by still elevated household savings rates), fiscal support from a ramp-up in NGEU disbursements (boding well for public and private investment), and very accommodative monetary policy.

## US: re-accelerating momentum in activity

In contrast to the euro area, the US economy appears to be regaining momentum, following a soft patch seen in the third quarter. The fourth-quarter activity data have been mostly upbeat with solid October prints for personal consumption expenditure (+0.7% mom) and retail sales (+1.7% mom), suggesting consumption is off to a much better start this quarter compared to last. As with the retail sales report,

October industrial production exceeded market expectations, picking up by 1.6% mom, in part driven by the unwinding of hurricane-related disruptions in previous months.

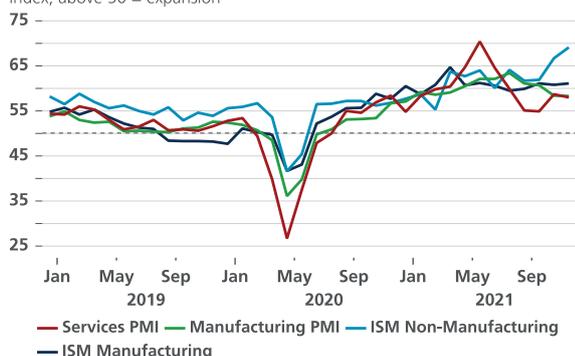
Incoming soft data reinforce the picture of solid recovery dynamics in the US economy. Across the board, business surveys remained well established in expansionary territory in November, with a particularly buoyant reading for the non-manufacturing ISM index (figure 4). The headline activity index for the manufacturing ISM also recorded a healthy outcome, led by strengthening in production, orders, and employment. The improvement in new export orders (from 53.4 to 54.6) bodes particularly well for exports, which may provide an additional boost to growth in the fourth quarter despite persistent supply constraints affecting the manufacturing sector.

At the same time, the November employment report disappointed with a 210,000 increase in non-farm payrolls, though this followed strong (and upwardly revised) gains recorded in October. Furthermore, the relatively soft headline figure comes with a drop in the unemployment rate from 4.6% to 4.2% (figure 5) and a modest pick-up in the labour force participation rate to 61.8%. Despite total employment still 3.9 million jobs down relative to the pre-pandemic level, a broad array of indicators (e.g., a multi-decade high quit rate) suggest that slack is rapidly diminishing and the US labour market is already on the tight side (also see [KBC Economic Opinion of 18 November](#)).

The broad-based strength in activity data has led us to improve the US growth outlook for the fourth quarter, which together with a marginal upward revision of Q3 data, increases annual GDP growth for 2021 to 5.6% from 5.5% previously. Meanwhile, we have marginally decreased the expected growth rate for Q1 2022 based on more of the catch-up growth from a relatively weak Q3 happening already in Q4. However, given overhang

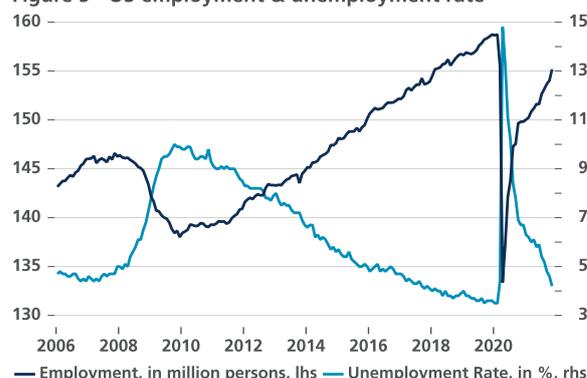
**Figure 4 - US business surveys**

index, above 50 = expansion



Source: KBC Economics based on ISM, IHS Markit

**Figure 5 - US employment & unemployment rate**



Source: KBC Economics based on BLS, DOL

effects, the overall growth figure for 2022 is still slightly more positive at 3.7% from 3.6% previously.

There are, nonetheless, important downside risks to this relatively upbeat outlook. Above all, risks related to pandemic developments continue to dominate, especially given relatively low vaccination rates (58% of the US population is fully vaccinated) combined with the November and December holidays in the US that translate into large, often indoor, gatherings.

### China: easing supply constraints

Although risks to the economic outlook in China have mounted in recent months, economic activity for the fourth quarter appears to be off to a strong start. October industrial production and retail sales both accelerated to 0.4% mom and 0.3% mom, respectively, corresponding to year-over-year growth rates of 3.5% and 4.9%, respectively. The data, particularly on the industrial side, together with an improvement in the November NBS manufacturing sentiment indicator back above 50 (at 50.1, signalling expansion), suggest that the supply-side constraints stemming from China's power shortages in September have started to ease. The data also suggest that though growth is expected to continue slowing in the fourth quarter, from 4.9% year-over-year in Q3, the slowdown could be somewhat contained, leaving annual growth of 8.2% in 2021 in reach.

However, there are still important downside risks to this outlook and the outlook for 2022, particularly stemming from the real estate sector and the policy push towards deleveraging. Various indicators suggest that turnover in the real estate market and associated construction investment is decelerating, presenting an important drag on growth. Policymakers in China, therefore, continue to face a trade-off between cracking down on risk in over-leveraged sectors and supporting growth. There are some nascent signals that the tide may be turning toward a moderate easing bias, however, given slight language adjustments in the PBoC's most recent monetary policy report (i.e., the removal of references regarding not engaging in large-scale stimulus) and a further 50 bps cut to the Reserve Ratio Requirement to 10% (following an earlier 50 bps cut in July).

### Oil: down sharply on Omicron fears

After reaching a three-year high of USD 86 a barrel in October, Brent crude has plummeted below USD 70 a barrel. Although oil prices started easing already in mid-November due to the US-led coordinated release of the Strategic Petroleum Reserves, the slump was largely triggered by fears that the new Omicron

variant could dampen oil demand. Despite the adverse price developments, the OPEC+ alliance has agreed to continue ramping up production by 400,000 barrels per day in January, defying market expectations for a pause in the tapering of production cuts. On the flip side, the alliance's December meeting is (unusually) technically still in session, indicating that OPEC+ stands ready to revisit its decision and "make immediate adjustments" should the downside risk to demand from Omicron start to materialise.

In our view, the oil market is currently pricing the tail risk that existing vaccines are not effective against the new variant. As a result, oil prices are likely to remain under pressure until more information on the virulence of Omicron variant is available, which can take several weeks. In the meanwhile, we maintain our constructive outlook for oil prices next year. Backed by still favourable fundamentals, we forecast Brent crude to average USD 80 a barrel in 2022.

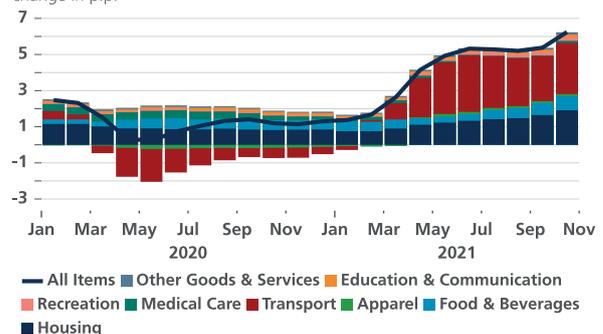
### Inflation: elevated but not lasting

A strong recovery in oil prices, together with the inflation impulse from reopening and supply bottlenecks have been the key driving forces behind surging prices this year. Admittedly, inflation has reached higher levels and remained elevated for longer than we had expected, prompting us to frequently upgrade our inflation outlook. In the course of 2022, we nonetheless expect inflation rates to moderate as we pencil in a stabilisation in energy prices, implying more favourable base effects coming into play. Furthermore, goods inflation is expected to decelerate amid a gradual easing in global supply chain disruptions, and a normalisation in the composition of spending (i.e., a rotation towards services).

In October, US headline CPI inflation accelerated to 6.2% year-

**Figure 6 - US headline inflation**

annual change in % & contribution of main components to the annual change in p.p.



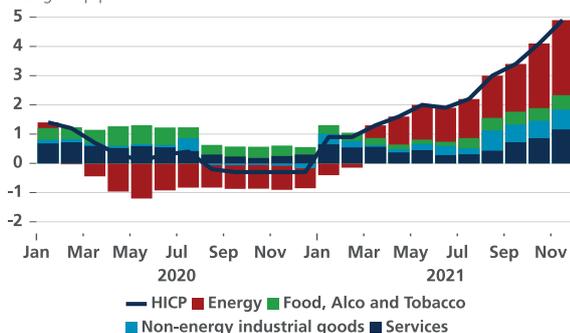
Source: KBC Economics based on BLS

on-year, led by increases in housing costs, food prices, and transportation costs (figure 6). The latter is driven to a large degree by higher fuel prices, but the price increase of new and used cars also accelerated again after decelerating between July and September. We see a similar story for housing price inflation, with the accelerating cost of fuels and utilities playing a role but increasing rent prices also contributing strongly.

The result is that core CPI inflation also increased to 4.6% year-over-year in October after having decelerated in July and August and stabilising in September. Year-over-year inflation will likely remain strong through the end of 2021, implying annual inflation at 4.6%. However, we continue to expect a deceleration of price growth through 2022, though potentially at a slower pace than previously envisioned. Given this and overhang effects, we have moderately revised up our 2022 annual inflation forecast from 2.7% to 3.0%.

In the euro area, headline HICP inflation rose to 4.9% year-on-year in November, the highest level since the creation of EMU (figure 7). Energy remained a major driver of inflation acceleration, but price momentum has turned increasingly broad-based with a sizable jump in services inflation and a somewhat more modest rise in non-energy industrial goods inflation, leading to a rise in core inflation to 2.6% year-on-year. Euro area inflation is expected to start falling notably in the coming months, helped by favourable base effects and the unwinding of technical factors, including tax and methodological changes. Following November's HICP data releases, we have mechanically updated our headline inflation forecast for 2021 to 2.6% (from 2.5% previously). Our forecast for euro area inflation in 2022 was also revised higher from 2.0% to 2.3%.

**Figure 7 - Euro area headline HICP inflation**  
annual change in % & contribution of main components to the annual change in p.p.



Source: KBC Economics based on ECB

## Central banks: time to take the turn

After the November policy meeting where the tapering of asset purchases was announced, the Fed appears to be gravitating towards a more hawkish stance on monetary policy. Fed Chair Powell, who is set to be re-appointed by President Biden to another four-year term, has made a notable remark that “transitory” is no longer the right description of the inflation story, implying that the balance of risks clearly shifted in his view. Importantly, Powell translated his new inflation view and associated risks into backing a faster taper process, echoing the hawkish views of some of his FOMC colleagues.

Against these strong hawkish signals, we now expect the Fed to accelerate the tapering pace from USD 15 billion to USD 30 billion per month from January onwards so that the tapering is completed by the end of the first quarter, or latest at the beginning of the second quarter of 2022 (instead of originally scheduled mid-2022). In our view, a much faster tapering implies an earlier lift-off than previously envisaged. We therefore now assume a first rate hike by the end of Q2 2022 (with an upside risk of lift-off as early as March), followed by two additional 25 bps rate hikes in the latter part of the year.

In Europe, the ECB is taking a significantly more cautious approach. The latest comments by ECB officials continued to emphasise the transitory nature of inflation stemming from supply-side shocks. At the upcoming December policy meeting, the ECB was expected to provide additional forward guidance about the likely end of its Pandemic Emergency Purchase Programme (PEPP) in March 2022. However, a sharp rise in new Covid-19 cases in Europe, and especially increased uncertainty due to the emergence of Omicron variant suggest a delay on clarity on the post-PEPP world to early 2022.

Overall, we side with the view of not expecting too much from additional bond purchases under the Asset Purchase Programme (currently EUR 20 billion a month) beyond the shelf date of the PEPP. Net asset purchases are expected to grind to zero towards the end of 2022, clearing space to tackle inflation via the traditional interest-rate mechanism afterwards. Along these lines, and consistent with the central bank’s own forward guidance, we do not expect the ECB to raise its policy rate in 2022.

# Central and Eastern European Economies

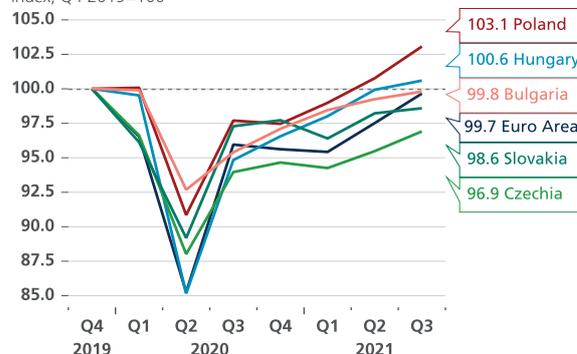
## The pandemic and supply shocks impact CEE performance in 2021

The economies of Central and Eastern Europe (CEE) have been significantly affected by repeated waves of Covid-19 throughout 2021. The good news is that the adverse economic impact has been markedly lower compared to Q2 2020 when full-blown lockdowns triggered a sharp economic downturn. Importantly, this the case despite the fact that the latest surge in new cases is at record highs (figure CEE1). The renewed infection waves are, however, still hampering activity, increasing pressure on public finances and preventing some regional economies from fully recovering from the pandemic. In fact, only Poland and Hungary have already recovered above the Q4 2019 level of output, while Czechia, Slovakia and Bulgaria are all notably below the pre-pandemic level (figure CEE2).

Divergent pandemic developments and mobility restrictions are important factors behind the differences in economic performance across the CEE region. Moreover, the size of the fiscal response to Covid-19, whether in the form of increased public consumption or direct/indirect support to affected sectors and households, also plays some role. While we have seen an increase in public consumption in all CEE economies, there are substantial differences. The sharpest rise in additional spending (or foregone revenues) is recorded in Hungary and Czechia, while Bulgaria lags behind its regional peers.

A notable heterogeneity is also visible with respect to

**Figure CEE2 - Real GDP growth in the CEE region**  
index, Q4 2019=100



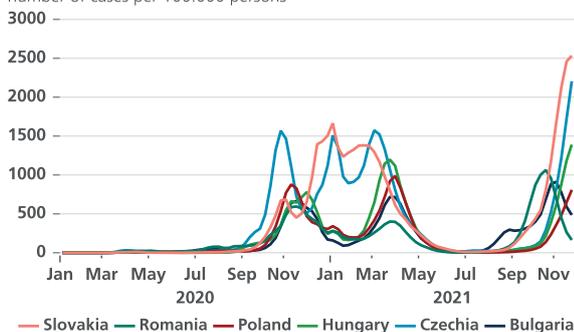
Source: KBC Economics based on Eurostat, SUSR

investment activity. While in Hungary real investment has already surpassed the pre-covid level this year (with a positive reflection on developments in the construction sector), it lags behind by almost 9% in Czechia and even 14.5% in Slovakia. Significantly less divergent developments can be seen in household consumption, which, despite falling sharply across the region last year, recovered very quickly thanks to government support. It is worth adding that comparable data for Q3 2021 for Bulgaria are not yet available, but given the preliminary performance of this economy, the picture is unlikely to be much different.

The impact of the pandemic also varies based on economic structure. CEE economies with a strong industrial backbone, and in particular with a significant share of the automotive industry, appear to be affected more severely of late (figure CEE3). Indeed, the automotive sector managed to kick-start activity after the first Covid-19 wave last year and was thus able

**Figure CEE1 - National 14-Day Notification Rate of New COVID-19 Cases**

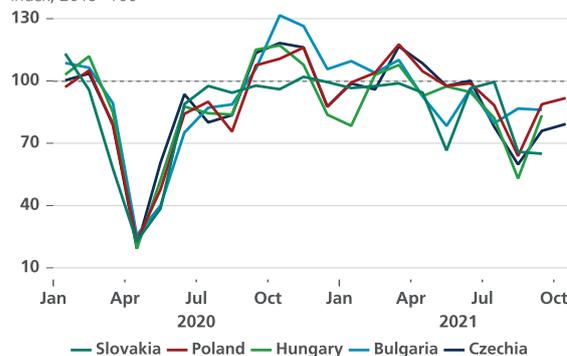
number of cases per 100.000 persons



Source: KBC Economics based on ECDC

**Figure CEE3 - Auto production in CEE**

index, 2019=100



Source: KBC Economics based on Eurostat, SUSR

to quickly compensate previous output losses. At the beginning of this year, value added in Poland's and Hungary's industrial sectors surpassed the pre-crisis level, while rapidly approaching this mark in Czechia.

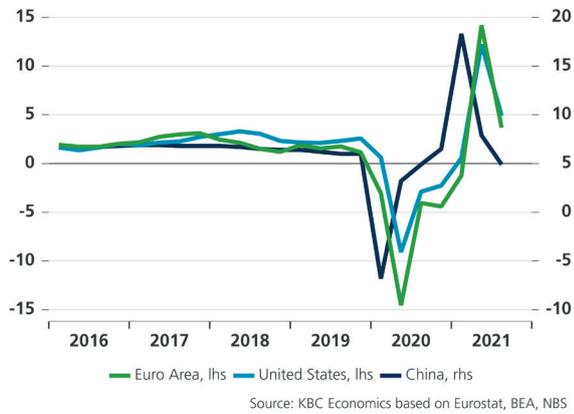
However, a shortage of semiconductors and other components in the automotive industry led to a reversal of the previously favourable trend in countries heavily dependent on the automotive industry, mainly Czechia, Slovakia and Hungary. The strategy of some manufacturers to continue producing at a limited extent into stocks (and to complete after having received chips) prevented an even more pronounced industry slump, particularly in Q3 2021. However, it also meant that a change in inventories became one of the most important drivers of real GDP growth in these economies. Overall, global supply chain disruptions have affected industrial output in Czechia and Slovakia most severely, which is also reflected in a deteriorating export performance of both economies.

In addition, it is not only the automotive industry that is currently under pressure, but also the service sector - especially the part related to tourism. Foreign travel restrictions, including those imposed in most of the CEE economies have had a negative impact on the performance of the hospitality sector, which will take a long time to recover from the Covid-19 shock, especially in Czechia. In contrast, other service sectors, such as IT or financial services (with the exception of Poland) are still undergoing expansion in the covid period.

All CEE economies are currently facing another strong wave of the pandemic and other-pandemic related supply shocks. The latter includes persistent supply chain disruptions and surging energy prices. At the same time, the outlook for the automotive industry remains uncertain, as it continues to face problems with semiconductor supply. In our view, Czechia and Bulgaria, in particular, face a potential short-term downturn, while Poland, Hungary and Slovakia should continue to show relatively solid expansion in the last quarter of this year. As the pandemic subsides and supply-side pressure gradually ease, the economic backdrop in the CEE region should improve further, implying that even regional laggards, such as Czechia, Slovakia and Bulgaria, should recover to the pre-pandemic level of output.

# Figures

**Real GDP**  
yearly change in %



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



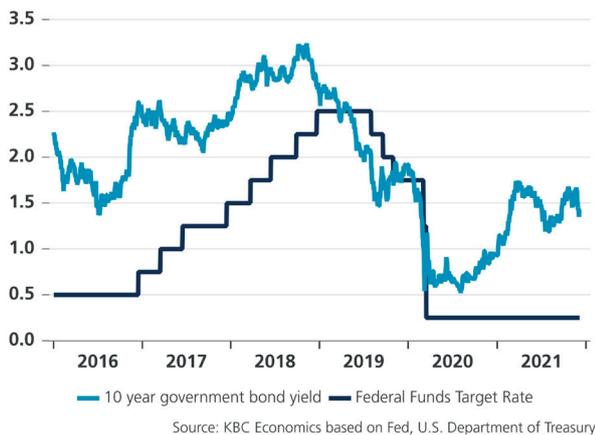
**Headline inflation**  
yearly change consumer price index, in %



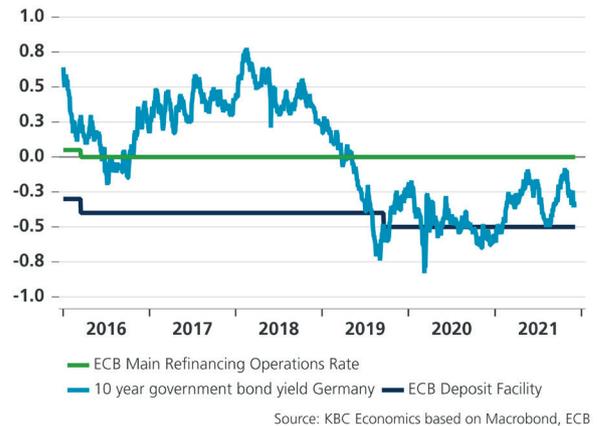
**Commodity prices**  
index, January 2013=100, in USD



**United States interest rates**  
in %

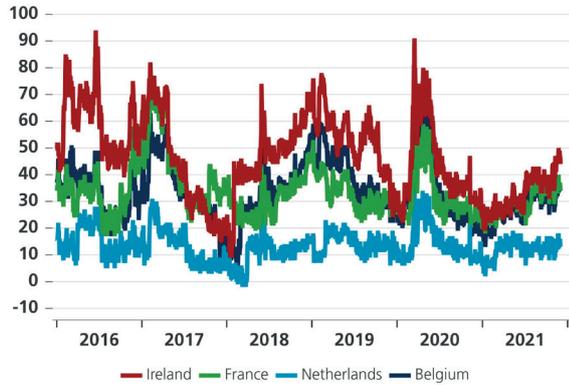


**Euro area interest rates**  
in %



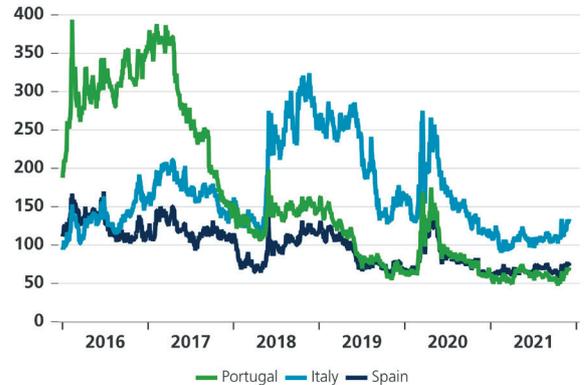
# Figures

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



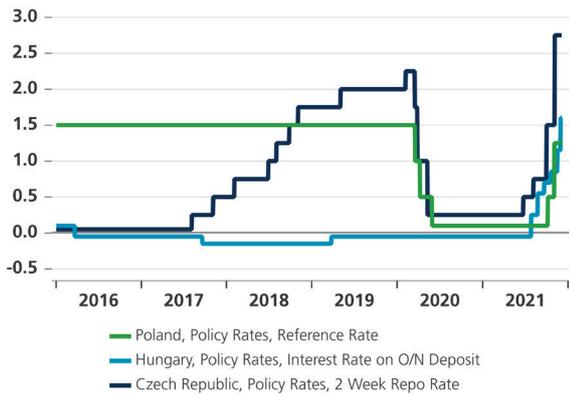
Source: KBC Economics based on Macrobond

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



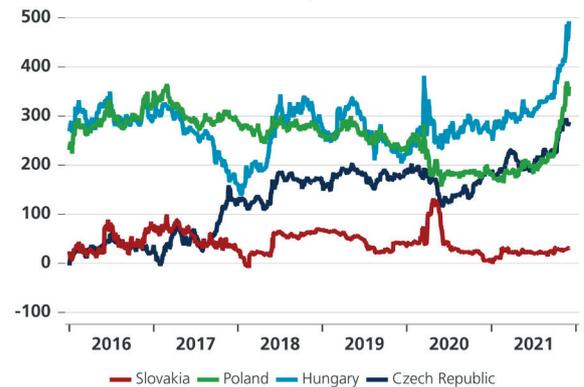
Source: KBC Economics based on Macrobond

**Monetary policy rates Central Europe**  
in %



Source: KBC Economics based on CNB, MNB, NBP

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



Source: KBC Economics based on Macrobond, AKK, Eurostat

**Exchange rates**

index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

**Exchange rates**

index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

# Outlook main economies in the world



		Real GDP growth (period average, based on quarterly figures, in %)			Inflation (period average, in %)		
		2020	2021	2022	2020	2021	2022
<b>Euro area</b>	Euro area	-6.5	4.9	3.5	0.2	2.6	2.3
	Germany	-4.9	2.7	2.9	0.3	3.2	2.3
	France	-8.0	6.7	3.5	0.5	2.1	2.2
	Italy	-9.0	6.2	4.0	-0.2	2.0	2.2
	Spain	-10.8	4.3	4.9	-0.3	2.9	2.2
	Netherlands	-3.8	4.4	3.1	1.1	2.7	2.2
	Belgium	-5.7	6.0	2.5	0.4	3.0	2.7
	Ireland	5.9	15.0	7.0	-0.5	2.4	2.4
	Slovakia	-4.4	3.3	4.5	2.0	3.2	4.6
<b>Central and Eastern Europe</b>	Czech Republic	-5.8	2.8	4.2	3.3	3.4	4.4
	Hungary	-4.9	6.5	4.8	3.4	5.0	4.7
	Bulgaria	-4.3	3.0	4.0	1.2	2.8	2.5
	Poland	-2.5	5.0	4.7	3.6	5.2	4.7
	Romania	-3.7	7.5	5.0	2.3	6.0	5.0
<b>Rest of Europe</b>	United Kingdom	-9.8	6.9	5.0	0.9	2.3	3.5
	Sweden	-3.1	4.4	3.5	0.7	2.0	1.9
	Norway (mainland)	-3.0	3.8	3.9	1.2	3.2	1.8
	Switzerland	-2.5	3.4	3.0	-0.9	0.5	0.7
<b>Emerging markets</b>	China	2.3	8.2	5.1	2.5	0.9	2.3
	India*	-7.3	8.6	8.1	6.2	5.3	4.7
	South Africa	-6.4	5.3	2.0	3.0	4.5	4.6
	Russia	-3.0	4.4	2.5	3.4	6.7	5.5
	Turkey	1.8	11.0	3.0	12.3	19.0	25.0
	Brazil	-4.1	4.7	2.0	3.3	8.2	6.8
<b>Other advanced economies</b>	United States	-3.4	5.6	3.7	1.2	4.6	3.0
	Japan	-4.7	2.2	3.0	-0.1	-0.2	0.7
	Australia	-2.2	3.8	3.5	0.9	2.5	2.1
	New Zealand	-1.1	5.3	3.3	1.7	2.9	2.5
	Canada	-5.2	5.0	4.1	0.6	3.3	2.9
<b>* fiscal year from April-March</b>						3/12/2021	

Policy rates (end of period, in %)		3/12/2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
<b>Euro area</b>	Euro area (refi rate)	0.00	0.00	0.00	0.00	0.00
	Euro area (depo rate)	-0.50	-0.50	-0.50	-0.50	-0.50
<b>Central and Eastern Europe</b>	Czech Republic	2.75	3.25	3.50	3.50	3.50
	Hungary (BUBOR 3M)	3.47	3.50	4.00	4.00	3.75
	Bulgaria	-	-	-	-	-
	Poland	1.25	2.25	3.00	3.00	3.00
	Romania	1.75	1.75	2.25	2.75	3.00
<b>Rest of Europe</b>	United Kingdom	0.10	0.10	0.25	0.50	0.75
	Sweden	0.00	0.00	0.00	0.00	0.00
	Norway	0.25	0.50	0.50	0.75	1.00
	Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
<b>Emerging markets</b>	China	2.95	2.95	2.90	2.90	2.90
	India	4.00	4.00	4.00	4.25	4.25
	South Africa	3.75	3.75	4.00	4.25	4.50
	Russia	7.50	8.00	8.00	8.00	7.75
	Turkey	15.00	14.00	14.00	14.00	14.00
	Brazil	7.75	9.25	11.25	11.25	11.25
<b>Other advanced economies</b>	United States (mid-target range)	0.13	0.13	0.13	0.38	0.63
	Japan	-0.10	-0.10	-0.10	-0.10	-0.10
	Australia	0.10	0.10	0.10	0.10	0.25
	New Zealand	0.75	0.75	1.00	1.25	1.50
	Canada	0.25	0.25	0.50	0.75	1.00

# Outlook main economies in the world

10 year government bond yields (end of period, in %)						
		3/12/2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
<b>Euro area</b>	Germany	-0.37	-0.20	0.20	0.40	0.50
	France	-0.01	0.15	0.55	0.75	0.90
	Italy	0.93	1.10	1.60	1.90	2.10
	Spain	0.37	0.55	0.95	1.15	1.30
	Netherlands	-0.23	-0.05	0.35	0.55	0.70
	Belgium	-0.02	0.15	0.55	0.75	0.90
	Ireland	0.09	0.30	0.70	0.90	1.05
	Slovakia	-0.17	0.00	0.40	0.60	0.75
<b>Central and Eastern Europe</b>	Czech Republic	2.59	2.80	2.83	2.85	2.88
	Hungary	4.56	4.35	4.30	4.25	4.10
	Bulgaria	0.70	0.30	0.70	0.90	1.05
	Poland	3.29	3.10	3.40	3.40	3.40
	Romania	5.64	5.65	5.60	5.50	5.40
<b>Rest of Europe</b>	United Kingdom	0.79	1.00	1.40	1.50	1.70
	Sweden	0.11	0.30	0.70	0.90	1.00
	Norway	1.47	1.60	2.00	2.20	2.30
	Switzerland	-0.28	-0.10	0.30	0.50	0.60
<b>Emerging markets</b>	China	2.91	3.00	3.40	3.70	3.80
	India	6.37	6.40	6.70	7.00	7.10
	South Africa	9.60	9.80	9.90	10.10	10.20
	Russia	8.41	8.00	7.90	7.80	7.50
	Turkey	20.45	20.00	20.00	19.50	19.00
	Brazil	11.34	11.60	11.70	11.70	11.80
<b>Other advanced economies</b>	United States	1.45	1.60	2.00	2.30	2.40
	Japan	0.06	0.00	0.00	0.00	0.00
	Australia	1.63	1.85	2.25	2.55	2.65
	New Zealand	2.36	2.60	3.00	3.30	3.40
	Canada	1.51	1.65	2.05	2.35	2.45

Exchange rates (end of period)						
		3/12/2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
<b>USD per EUR</b>		1.13	1.14	1.14	1.18	1.19
<b>CZK per EUR</b>		25.41	25.10	25.10	24.70	24.60
<b>HUF per EUR</b>		363.62	360.00	350.00	353.00	355.00
<b>PLN per EUR</b>		4.59	4.64	4.60	4.58	4.55
<b>BGN per EUR</b>		1.96	1.96	1.96	1.96	1.96
<b>RON per EUR</b>		4.95	4.95	5.00	5.05	5.09
<b>GBP per EUR</b>		0.85	0.86	0.88	0.89	0.90
<b>SEK per EUR</b>		10.31	10.15	10.00	9.90	9.85
<b>NOK per EUR</b>		10.29	10.10	9.85	9.80	9.75
<b>CHF per EUR</b>		1.04	1.04	1.05	1.08	1.10
<b>BRL per USD</b>		5.60	5.60	5.50	5.50	5.50
<b>INR per USD</b>		75.14	74.75	74.50	74.00	73.50
<b>ZAR per USD</b>		15.88	15.00	15.00	15.00	15.00
<b>RUB per USD</b>		73.50	73.00	72.00	70.00	71.00
<b>TRY per USD</b>		13.77	14.00	15.00	15.50	16.00
<b>RMB per USD</b>		6.37	6.40	6.40	6.40	6.40
<b>JPY per USD</b>		113.42	113.00	113.00	113.00	114.00
<b>USD per AUD</b>		0.71	0.73	0.73	0.74	0.75
<b>USD per NZD</b>		0.68	0.69	0.70	0.72	0.74
<b>CAD per USD</b>		1.28	1.25	1.24	1.23	1.21

## Outlook KBC home markets

	Belgium			Ireland		
	2020	2021	2022	2020	2021	2022
Real GDP (average yearly change, in %)	-5.7	6.0	2.5	5.9	15.0	7.0
Inflation (average yearly change, harmonised CPI, in %)	0.4	3.0	2.7	-0.5	2.4	2.4
Unemployment rate (BE:Eurostat definition; IE: covid-19-adjusted national definition) (in % of the labour force, end of year)	6.0	6.2	6.0	21.0	7.5	6.0
Government budget balance (in % of GDP)	-9.1	-8.0	-5.3	-4.9	-2.0	-0.8
Gross public debt (in % of GDP)	112.8	112.9	113.3	58.4	55.3	52.5
Current account balance (in % of GDP)	0.9	0.4	-1.0	-2.7	14.0	15.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	4.2	6.0	3.0	0.3	7.5	6.0

	Czech Republic			Slovakia		
	2020	2021	2022	2020	2021	2022
Real GDP (average yearly change, in %)	-5.8	2.8	4.2	-4.4	3.3	4.5
Inflation (average yearly change, harmonised CPI, in %)	3.3	3.4	4.4	2.0	3.2	4.6
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.2	3.0	2.6	7.1	7.2	7.0
Government budget balance (in % of GDP)	-5.6	-7.2	-5.1	-5.5	-5.0	-4.5
Gross public debt (in % of GDP)	37.7	42.7	44.3	59.7	65.0	65.0
Current account balance (in % of GDP)	3.6	-0.1	-0.4	-0.0	-2.0	-2.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	8.4	12.8	5.2	9.6	5.0	3.5

	Hungary			Bulgaria		
	2020	2021	2022	2020	2021	2022
Real GDP (average yearly change, in %)	-4.9	6.5	4.8	-4.3	3.0	4.0
Inflation (average yearly change, harmonised CPI, in %)	3.4	5.0	4.7	1.2	2.8	2.5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.2	3.8	3.5	5.6	5.0	4.8
Government budget balance (in % of GDP)	-8.0	-7.5	-5.1	-4.0	-3.9	-2.0
Gross public debt (in % of GDP)	80.1	79.3	77.3	24.7	26.9	28.0
Current account balance (in % of GDP)	-1.6	-2.0	-0.9	0.0	2.0	3.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	5.0	10.0	4.5	4.6	8.0	6.5

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