Economic perspectives

January 2022

Highlights

- As we turn into the new year, the path of the pandemic continues to shape the macroeconomic landscape, highlighted by the latest emergence of the Omicron variant. We maintain the view that Omicron will not derail the economic recovery, which remains nonetheless affected by other headwinds, such as persistent supply chain bottlenecks and soaring energy prices. Overall, our assessment of the economic outlook remains positive, though subject to considerable downside risks. That said, we expect another year of robust, albeit sequentially lower, annual growth rates across major economies.

- The euro area economy appears to have ended the last year on a soft note, with activity weighed down by another pandemic wave and widespread supply bottlenecks. We expect the lukewarm activity seen in Q4 2021 to extend into the first quarter of 2022. After challenging winter months, we forecast that growth will strengthen to a strong (and above potential) pace, and solid momentum will continue into 2023. In year-on-year terms, real GDP growth in the euro area is expected to moderate to 3.5% in 2022 and 2.4% in 2023, after 5.1% last year.

- The recent activity data in the US suggest that the economy re-accelerated to a solid pace heading into the new year. Despite the rapid spread of Omicron, the US economy is well positioned for sustained momentum over the winter months. Sequentially lower economic growth thereafter will mostly reflect a normalisation in the growth pattern towards a more sustainable pace as the pandemic-related catch-up effects dissipate. Overall, we expect the US economy to expand by a healthy 3.6% in 2022 and a still respectable 2.3% in 2023, from 5.6% last year.

- 2022 will once again be a balancing act for Chinese policymakers straddling the objectives of prioritising growth and addressing risks in the economy. Besides risks stemming from the real estate sector, Covid developments present an important uncertainty for the economic outlook given the government's strict 'zero-covid' policy. Chinese policymakers have recently communicated a policy shift toward stabilising growth, particularly through moderately easier monetary and fiscal policy. This should help year-over-year growth figures recover toward 5%, leading to 2022 annual growth of 5.1%.

- Inflationary pressures accelerated sharply towards the end of 2021, with inflation readings at multi-decade highs in the US and the euro area, driven by several pandemic-related factors.

We maintain the view that most of these factors are unlikely to create lasting price pressures. As we move through 2022, inflation should, therefore, gradually moderate from currently elevated levels, assuming a stabilisation in energy prices and some alleviation in global supply bottlenecks. Admittedly, the inflation outlook remains subject to considerable uncertainty and near-term upside risks.

- At the December policy meeting, the Fed signalled a hawkish pivot towards faster monetary policy normalisation. The FOMC decided to double the pace of tapering, which is now expected to end in March, opening the door for a first rate hike in the same month. In total, we pencil in four 25 bps rate hikes for 2022, followed by another three 25 bps hikes in 2023. Meanwhile, the ECB announced the end of net purchases under the Pandemic Emergency Purchase Programme in March, but interest rate lift-off appears unlikely this year. Our baseline forecast assumes one 25 bps hike in the refinancing rate in 2023, together with raising the deposit rate from negative territory.

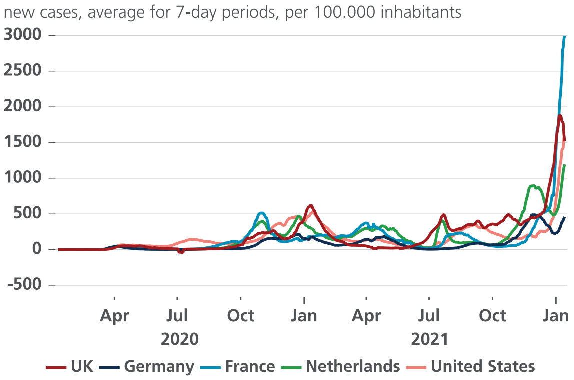
Global economy

As we move into year three of the pandemic, the world is still reeling with the effects of Covid-19. The past year was marked by important steps towards the normalisation of socio-economic life, helped by the rapid rollout of vaccination campaigns and the lifting of mobility restrictions in many parts of the world. Still, despite substantial progress in keeping the virus more under control, the path of the pandemic continues to shape the macroeconomic landscape, highlighted by the latest emergence of the Omicron variant, which increases the risks and uncertainty around the economic outlook in 2022.

The Omicron variant: is this time different?

The year 2022 started with yet another Covid-19 wave across the globe, triggered by the new Omicron variant which is associated with markedly greater transmissibility. As a result, the global case count is now well above the Delta peak from summer 2021 with record-high infection rates in the US and Europe (figure 1). On a positive note, available evidence suggests that the link between cases and severe disease has weakened materially with Omicron. That is to say, the Omicron variant appears to cause less severe illness than previous strains, and while it evades vaccine-induced immunity more easily than Delta, existing vaccines remain effective with a booster, in particular against severe cases.

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



Source: KBC Economics based on WHO, IMF

We have, therefore, maintained the view that Omicron will not derail the economic recovery. In the absence of full lockdowns, absenteeism (due to illness or quarantine) and the size of the behavioural shift towards caution will largely determine the drag on economic activity from Omicron. Importantly, activity has now become less sensitive to virus spread due to medical advances, implying a more limited dampening effect than earlier in the pandemic. Moreover, there are good reasons to believe that the link between the pandemic and economic activity will be weakened further this year, should we see the evolution toward endemic (and less virulent) seasonal Covid-19 waves.

Supply chain disruptions: starting to moderate?

The near-term growth picture remains also affected by persistent supply chain bottlenecks which have become a major challenge for the global economy since the outbreak of Covid-19. Against a backdrop of strong goods demand, global supply is slow to catch up due to factory shutdowns, shortages

Figure 2 - Global Supply Chain Pressure Index
standard deviations from average value

Source: KBC Economics based on NY Fed

Figure 3 - Dutch TTF natural gas
EUR per megawatt hour

Source: KBC Economics based on ICE

of key components and logistical bottlenecks, leading to weaker growth impulses and stronger inflationary pressures.

There are some tentative signs that supply chain disruptions have peaked, highlighted by the new Global Supply Chain Pressure Index published by the New York Federal Reserve (figure 2). In addition, the latest PMI data across major economies, namely the 'delivery times' subcomponent, indicate that supply constraints have eased on margin. Similarly, the Baltic Dry Index, which reflects shipping costs for bulk commodities, has declined sharply in recent months.

All this data nonetheless suggest that supply chain disruptions are still unprecedented from a historical perspective, and it will likely take some time for supply conditions to fully normalise. Supply bottlenecks are, therefore, likely to weigh on activity over the coming quarters, despite our assumption of a gradual unwinding in the course of 2022. At the same time, supply chains remain vulnerable to pandemic-related restrictions, and we see a considerable downside risk from the spread of Omicron in Asia, where some of the key manufacturing hubs are located. In particular, China's zero-tolerance policy, together with doubts over the effectiveness of the Chinese-made vaccines, raises the risk of negative spillovers to other regions of the world economy, potentially leading to longer – if not more intensified – supply chain disruptions.

Europe's energy crisis: what next?

Along with supply chain disruptions, Europe has witnessed a surge in natural gas prices (boosting wholesale and retail electricity prices), putting pressure on households' purchasing power and headline inflation during the winter months. In December, the Dutch TTF natural gas futures soared to a record high of EUR 183 per megawatt hour on the back of tight natural gas inventories (figure 3). Though still elevated, prices have declined markedly since then, helped by increased supplies of liquefied natural gas (LNG) to Europe. With inventories at unusually low levels, European gas prices are set to remain exposed to large swings and driven by volatile factors such as weather conditions and geopolitical tensions.

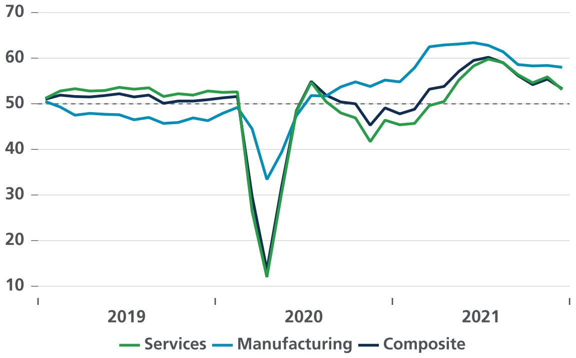
Euro area: winter sluggishness

The euro area economy appears to have ended the last year on a soft note, with activity weighed down by another pandemic wave and widespread supply bottlenecks. Still, the latest batch of hard data suggests a continued resilience of the euro area economy. In November, retail sales surprised to the upside and increased by 1.0% mom, indicating that consumer demand held up well heading into year-end. Meanwhile, industrial production in the euro area expanded by a healthy 1.1% mom in October, though this might reflect volatility in the data series more than the beginning of a new uptrend.

Looking ahead, we assume that growing pressure on the healthcare systems will be manageable, implying that ongoing policy measures are only temporary, and will not escalate into full-blown lockdowns (the Netherlands and Austria remain the exception). However, the recent pandemic wave, together with a surge in consumer (energy) prices has led to a notable pullback in consumer sentiment. In December, euro area consumer confidence declined for the third month in a row, though the survey remains above its long-term average and not far below its pre-pandemic level.

Figure 4 - Markit confidence indicators in the euro area

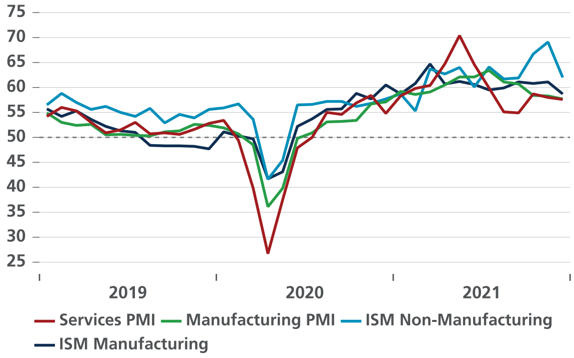
index, above 50 = expansion



Source: KBC Economics based on IHS Markit

Figure 5 - US business surveys

index, above 50 = expansion



Source: KBC Economics based on ISM, IHS Markit

Similarly, sentiment in the services sector has eased notably due to surging Covid-19 cases, as signalled by the December PMI reading in the euro area (figure 4). The good news is that services activity has so far deteriorated notably less than during previous waves and has remained in expansionary territory. The manufacturing PMI index also suggests a continued expansion with only a marginal month-on-month change in December. Across economies, the loss of momentum was heavily concentrated in Germany, where a composite PMI index dropped to 49.9, and points to a contraction in output. This is likely due to Germany's higher exposure to global supply chain disruptions which continue to weigh on activity in the common bloc.

Against this background, we expect the softness in activity seen in Q4 2021 to extend into the first quarter of 2022. After challenging winter months, we nonetheless forecast that growth will re-accelerate to a strong (and above potential) pace, and solid momentum will continue into 2023, assuming that Omicron (and possibly new variants) represent only a short-term drag on activity and supply chain disruptions will gradually ease. In year-on-year terms, real GDP growth in the euro area is expected to moderate to 3.5% in 2022 and 2.4% in 2023, after 5.1% last year.

US: strength in activity

The recent activity data in the US suggest that the economy re-accelerated to a solid pace heading into the new year. Although November retail sales growth moderated to 0.3% mom, it follows an upwardly revised increase of 1.8% mom in October, and likely reflects a strong pull-forward effect with earlier-than-normal holiday shopping. Similarly, after a strong 1.7% mom pick-up seen in October (largely reflecting hurricane-related payback effects), industrial production increased by a more moderate yet still respectable 0.5% mom in November, likely supported by some easing of supply chain disruptions.

The outbreak of the Omicron variant is a downside risks for the US economy, but we believe it will not overwhelm the healthcare systems and prompt a tightening of mobility restrictions. Coupled with increased adaptability to new variants, we maintain the view that the US economy is well positioned for sustained momentum in activity over the winter months. Along with a pullback in consumer sentiment, the main drag on activity from Omicron will, in our view, stem from increased absenteeism due to a rapidly rising number of workers (and their close contacts) that are forced to isolate.

The services sector will bear the major burden of the Omicron wave, as already signalled by PMI readings in December (figure 5). Similarly to the manufacturing sector, activity in services softened last month, with the headline ISM index for services down from an all-time high of 69.1 to 62.0. Although the December drop exceeded market expectations, and signals moderating near-term expansion, the overall level of services activity remains elevated from a historical standpoint.

Our analysis suggests a relatively limited drag from cooling services sector activity on real GDP growth in the first quarter of 2022. Against this backdrop, we assume that solid momentum from end-2021 will largely carry over into this year, and that sequentially lower growth rates will mostly reflect a normalisation in the growth pattern towards a more sustainable pace as pandemic-related catch-up effects dissipate. All in all, we expect the US economy to expand by 3.6% in 2022 and 2.3% in 2023, from 5.6% last year.

China: a balancing act

The year 2022 will once again be a balancing act for Chinese policymakers straddling the objectives of prioritising growth and addressing risks in the economy. While the government is expected to set an annual growth target around 5.5%, even reaching that level will be difficult, with most estimates for 2022 currently set around or only slightly above 5.0%.

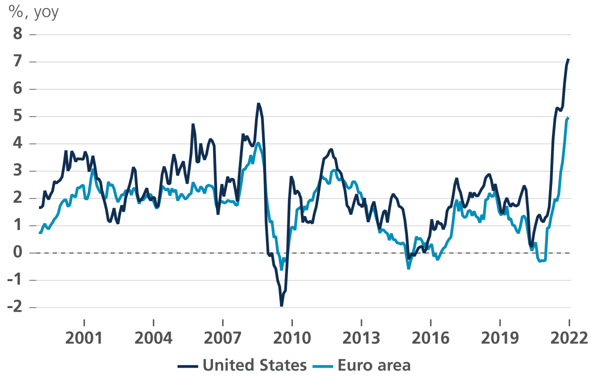
Looking back, GDP growth slowed notably over 2021 to levels that are generally below the pre-Covid trend – from 18.3% yoy in Q1 (driven by 2020 covid base effects) to 4.9% yoy in Q3. However, available indicators for the fourth quarter suggest that activity did recover at the end of the year after a slump in Q3. Such indicators include an improvement in manufacturing sentiment (NBS: 50.3 and Caixin: 50.9 for December), industrial production (from 0.05% mom in September to 0.4% mom in both October and November) and credit growth (from 9.9% yoy in September to 10% in October and 10.1% in November after several months of deceleration). Still, growth likely slowed further in year-over-year terms in Q4, leaving our expectation for 2021 GDP growth at 8.2%.

The main economic challenge for China in 2022 will be supporting growth without relying on a strong expansion in construction activity as the sector continues to deal with the fallout from highly indebted developers running into liquidity troubles. Though Evergrande, which defaulted in December and is currently going through a restructuring, is the most prominent of such cases, many other developers are also facing a cash crunch.

Covid developments also present an important uncertainty for the economic outlook in China given the government's strict 'zero-covid' policy, which has led to stringent lockdowns of various ports and cities at different times over 2021, including the ongoing lockdown of Xi'an. Together with the global spread of the more transmissible Omicron variant, this policy approach, if maintained, risks leading to important economic disruptions in the beginning of 2022.

Given these headwinds, it is not surprising that Chinese policymakers have recently communicated a policy shift toward supporting and stabilising growth, particularly through moderately easier monetary and fiscal policy. On the monetary side, this has included a 50 basis point cut to the Reserve Requirement Ratio (to 10% for large banks) in mid-December and a 5 basis point cut to the 1-year Loan Prime Rate (LPR) at the end of December. Some further monetary policy easing (whether through RRR cuts, LPR cuts or a combination of the two) is on the table for early 2022, though it will likely remain moderate. Meanwhile, fiscal policy is also being used to help stabilise growth, particularly through local government bond issuance and tax cuts. Together, these measures should help year-over-year growth figures recover toward 5%, leading to 2022 annual growth of 5.1%.

Figure 6 - Inflation in the US and the euro area



Source: KBC Economics based on Eurostat, BLS

Inflation: a gradual normalisation

Inflationary pressures accelerated sharply towards the end of 2021, with inflation readings at multi-decade highs in the US and the euro area (figure 6). A number of pandemic-related factors continue to push inflation higher: first, a strong recovery in energy prices, including crude oil and natural gas. Second, the reopening of economies, in particular, the sectors severely hit by lockdowns where prices are normalising from depressed levels. Third, persistent global supply chain disruptions have led to a surge in pipeline price pressures and robust core goods inflation.

We maintain the view that most of these inflation drivers are unlikely to create lasting price pressures. As we move through 2022, inflation should, therefore, gradually moderate from currently elevated levels. Central to this forecast is our expectation of a stabilisation in energy prices, implying more favourable base effects. In addition, goods inflation is expected to decelerate, assuming some alleviation in global supply bottlenecks and a normalisation in consumption patterns (i.e., a rotation towards services).

Admittedly, our inflation outlook is subject to considerable uncertainty and near-term upside risks. As global supply chains remain vulnerable to pandemic-related restrictions, in particular those in Asia, the spread of Omicron could lead to stronger and longer-lasting price pressures in core goods items than currently envisaged. Similarly, should natural gas (and electricity) prices in Europe re-accelerate, or remain elevated beyond winter months, energy price inflation would likely become notably stickier.

In the euro area, headline HICP inflation accelerated to 5.0% yoy in December, moderately above consensus expectations, while core inflation remained stable at 2.6% yoy. In our view, the December print marked the peak in euro area headline inflation, and a pronounced disinflationary path should start in early 2022, as technical factors (including the German VAT base effects) and the boost from energy price inflation gradually unwind. However, the latter is the largest uncertainty of our outlook, in particular with respect to the pace and extent of the passthrough of earlier natural gas price increases that could partly offset the disinflationary effect from a stabilisation in oil prices.

Taking on board the lagged passthrough of higher natural gas (and electricity) prices, and the evidence of still building pipeline pressures from supply bottlenecks, we have raised our forecast for euro area inflation from 2.3% to 2.7% in 2022, after 2.6% last year. However, this annual average forecast for 2022 masks a pronounced disinflationary path that is present in our monthly estimates. In 2023, we expect headline inflation to average 1.9%, broadly in line with the ECB's inflation target.

In the US, CPI inflation rose to 7.0% yoy in December, in line with market expectations, while month-on-month inflation came in at 0.5%, slightly down from 0.8% in November. Housing (and related items) was by far the largest contributor to headline inflation last month, while energy prices contributed negatively for the first time in a long time. As a result, core inflation rose to 5.5% yoy, which implies that core PCE – a preferred price index of the Fed – picked up by 4.8% yoy in December.

We have increased our 2022 inflation forecast from 3.0% to 3.9%, reflecting still strong (and broadening) price pressures. We believe that housing costs will continue to drive inflation up in the first quarter of 2022, while Omicron-related labour shortages might keep upward pressure on some other items in the core CPI consumer basket. Headline inflation is expected to return back to the Fed's 2% target by the final quarter of 2022 amid more favourable base effects kicking in and some easing in global supply chain disruptions.

Central banks: Fed's hawkish pivot

At the final policy meeting of 2021, the Fed signalled a hawkish pivot towards a faster monetary policy normalisation. In view of rising risks of more sustained inflation and rapid progress in the labour market recovery, the FOMC decided to accelerate tapering by doubling the pace to USD 30 billion per month in January, while hinting at pulling forward rate hikes. We now expect the asset purchases programme to end in March, opening the door for the first 25 bps rate hike already in the same month. Altogether, we pencil in four 25 bps rate hikes for 2022 (vs. three hikes projected in the December FOMC dot plot), followed by another three 25 bps hikes in 2023. In addition, the balance sheet normalisation is also on the table, as the December FOMC minutes stated that Fed could begin shrinking its USD 8.8 trillion balance sheet "relatively soon after beginning to raise the federal funds rate".

In Europe, the ECB has also taken another (small) step towards normalising its monetary policy. As expected, the central bank announced the end of net purchases under the Pandemic Emergency Purchase Programme in March 2022, though proceeds from maturing bonds will be reinvested 'flexibly' at least through 2024, a year longer than previously envisaged. In order to smooth the exit from the extraordinary monetary setting, the ECB will raise the amount of bonds bought under its regular Asset Purchase Programme (APP). As a result, APP purchases will double to EUR 40 billion before gradually returning to the original EUR 20 billion in Q4 2022.

Against this backdrop, the updated staff projections for headline inflation showed a sizable upward revision for 2022 to 3.2% (vs. 1.7% in September). However, inflation is projected to fall back below the target in 2023, though only moderately at 1.8% and with upside risks. As the first interest rate hike remains conditional on ending the remaining bond purchases and inflation reaching 2% in the coming one to two years and staying there, lift-off appears unlikely this year. Our baseline forecast assumes one 25 bps hike in the refinancing rate in 2023, in addition to raising the deposit rate from negative territory.

Belgian Economy

A tough winter

The Belgian economy ended 2021 on a weak footing. In particular, private consumption is expected to have slowed down sharply in the fourth quarter after an earlier strong rebound in the second and third quarter. The resurgence of the pandemic and associated re-imposition of restrictions as well as increasing energy prices played spoilsport. People have adapted their mobility behaviour in response to rising Covid-19 infection rates, albeit less so in comparison to neighbouring countries (see figure BE1). In line with that, consumer confidence dropped back three times in a row in the final months of the year. Other headwinds for the economy came from continuing supply-side bottlenecks, which mainly weighed on manufacturing and construction. The NBB business barometer also came down from its summer peak, but then remained remarkably stable at still high levels in the last three months.

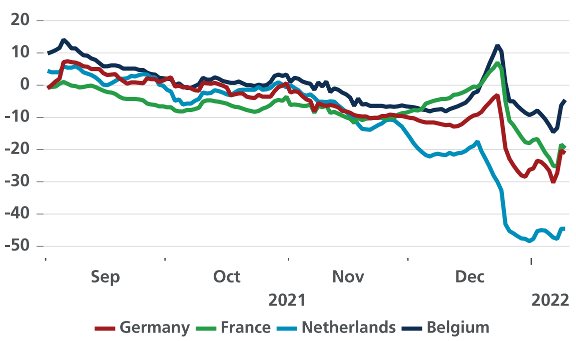
The labour market presents a specific challenge in the form of shortages of workers. Staff absences due to Covid infection and isolation come on top of an increasingly tight labour market and form an additional (temporary) hurdle for companies to maintain or even expand their activity. The high labour demand contrasts with the evolution in unemployment. At 5.9%, the Belgian unemployment rate towards end 2021 was still well above the pre-crisis rate (i.e. 4.9% in March 2020). Also, the use of the system of temporary unemployment has been up again since mid-November, following the new Covid wave (see figure BE2). These observations indicate that labour supply does not match up quite well with labour demand.

2022 started with a lot of uncertainty due to Omicron. Likely, persistent restrictions and deteriorating sentiment caused by the new variant of the virus will continue to weigh on economic activity for some months to come. After slow growth in Q4 2021 (estimated at 0.1%), we expect the quarterly growth rate of real GDP to remain moderate in Q1 2022 as well (at 0.2%). In our scenario, we assume that Omicron remains manageable for the health care system and hence no protracted full lockdowns causing a more serious economic impact will be needed. Taking a longer perspective, we did not alter our more positive view for growth from spring onwards, with quarterly growth figures picking up to 0.4%, 0.7% and 0.7% in Q2, Q3 and Q4, respectively. For the full year 2022, we stick to our 2.5% growth forecast, a figure close to the EC and recent NBB 2022 outlook (both 2.6%). Our 2023 growth forecast (1.8%) is close to the EC's as well (1.9%) but well below the NBB's (2.4%).

Inflation easing in the course of 2022

Belgian HICP inflation was running at 6.5% in December, down from the peak of 7.1% in November. We now believe that Omicron may result in somewhat longer-lasting supply-side disruptions than previously envisaged, with more upward pressure on prices as a result. Moreover, the price increases seem to lead to stronger labour cost growth in 2022, which in turn will be passed onto core inflation. This all made us further upgrade our average HICP inflation forecast for 2022, from 2.7% to 3.7%. We however continue to see monthly inflation figures easing in the course of the year, to levels below 2% towards end-2022, when base effects set in. Our 3.7% Belgian inflation forecast is one percentage point higher than our euro area inflation forecast, but still well below the forecast of the NBB (4.9%, HICP) and Planning Bureau (5.0%, CPI).

Figure BE1 - Google mobility data: retail and recreation
deviation from normal situation, 7 days moving average



Source: KBC Economics based on Google

Figure BE2 - Temporary unemployment due to Covid-19
number of persons, 7 days moving average

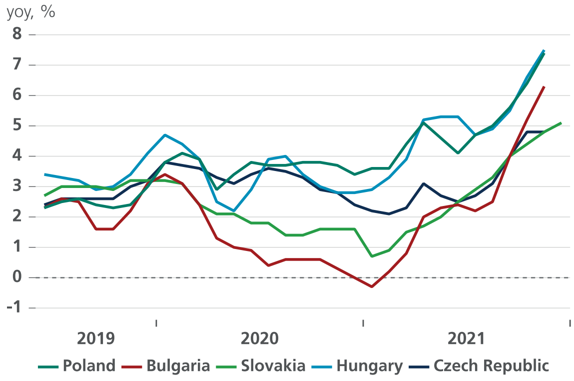
Source: KBC Economics based on RVA

There are still a lot of risks surrounding our base scenario. In case the high infectiousness of Omicron (or other new virus variants) would require broad-based and severe lockdown measures, this again would severely impact economic activity. Next, in case of continuing energy price pressures and/or a longer-lasting wage-price spiral, inflation would be higher for longer than currently assumed. Finally, there are risks indirectly related to Covid-19. First, sooner or later the government will have to address the unsustainable budget position caused by the pandemic. This requires consolidation measures that might hamper economic growth. Second, price dynamics on the Belgian housing market soared during the pandemic. With no slowdown in the near term (e.g., due to continued investor appetite), the existing overvaluation would build up further, ultimately causing a house price correction.

Central and Eastern European Economies

Inflation surge prompted sharp monetary policy tightening

CEE1 - HICP inflation in CEE



Source: KBC Economics based on Eurostat

Consumer prices accelerated rapidly in the CEE region in the course of 2021 (figure CEE1). By the end of last year, headline inflation reached 10-year highs across regional economies, and there remains large uncertainty around the timing of a decisive easing of these strong inflationary pressures. We expect a further upward shift in the regional inflation readings in early 2022, as rising costs are passed through to prices with some delay (and not always in a symmetric manner).

In general, the reasons behind elevated inflation in the CEE region are similar to those seen in many other countries: strong aggregate demand, supported by initially loose monetary and fiscal policy, is clashing with the pandemic-crippled supply side of the economy. That said, surging energy prices, supply chain disruptions (the lack of some key materials and logistical constraints) and tight labour markets have all contributed to rapidly rising prices across CEE economies.

The inflation spike has prompted central banks in CEE to start an unusually aggressive tightening cycle. The Czech National Bank (CNB), which has long been the most hawkish central bank in the region, has so far hiked its key rate to 3.75%, delivering a sizable 3.5 ppts of tightening between May and December 2021. In addition, the CNB's hawkish forward guidance signals more interest rate hikes to come early this year to make sure that inflation expectations remain well anchored. We forecast the CNB will deliver another 75-bps hike at its February policy meeting, bringing the key rate to a peak of 4.5% during this cycle. Other measures taken by the CNB to anchor inflation expectations include tightening the rules for mortgage lending and increasing the countercyclical capital buffer.

Meanwhile, Poland's NBP progressed further in the hiking cycle in January, pushing its key interest rate to 2.25%. Still, the NBP remains behind its regional peers in terms of the size of policy tightening, which is even more striking if we take into account deeply negative (ex-post) real interest rates in Poland. This is due to headline inflation surging to 8.6% yoy in December, significantly above the NBP inflation target of 2.5%. As a result, we expect the NBP will continue, albeit reluctantly, its monetary tightening cycle until the first signs of inflation stabilisation emerge, likely not before Q2 2022.

Finally, the Hungarian central bank (MNB) raised its key interest rate from 2.1% to 2.4% in December. At first glance, it might seem that monetary policy setting in Hungary is more akin to that in Poland than in Czechia, but the opposite is true. In fact, the MNB is primarily using its one-week deposit rate to influence the short end of the yield curve. The one-week deposit rate has been hiked to 4% as of January 2022, after being as low as 1.75% in mid-November. Such a sharp increase in interest rates was implemented in response to an increasing risk of higher and more persistent inflation. Unlike in Czechia and Poland, the rate hikes in Hungary have been reinforced by ending the central bank's bond purchase programme. Overall, we expect that at the current stage of monetary tightening, the one-week deposit rate will peak at 4.50% at the end of Q1 2022, bringing the 3-month BUBOR to 5%.

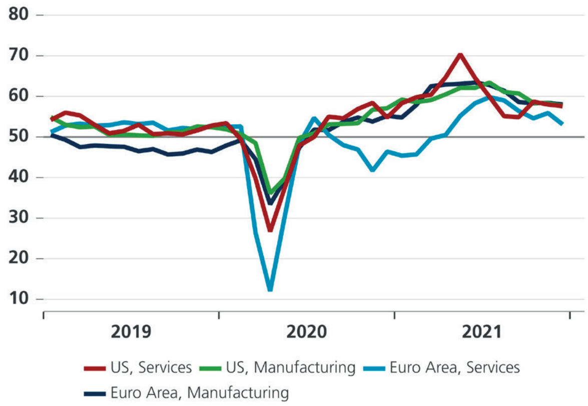
Although price pressures are expected to strengthen further in the CEE region at the beginning of 2022, the combination of a sharp monetary policy tightening, and our expectations for a stabilisation in energy prices and some easing in global supply bottlenecks should bring inflation back towards the targets levels, in particular in the latter part of this year. At the same time, there are notable upside risks to our inflation outlook, related not only to the persistence of global supply bottlenecks but also to tight labour markets in many of the regional economies.

Figures

Real GDP
yearly change in %

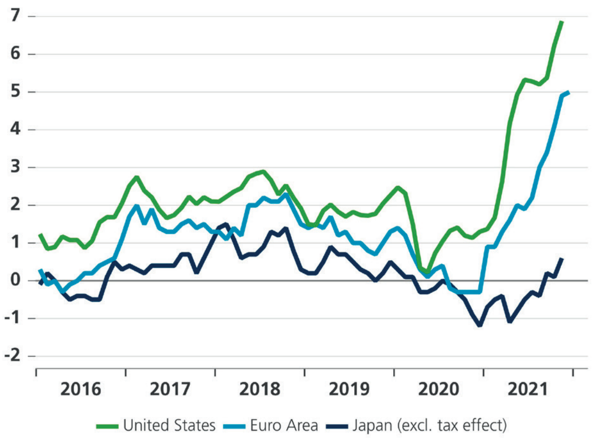
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



Source: KBC Economics based on IHS Markit

Headline inflation
yearly change consumer price index, in %

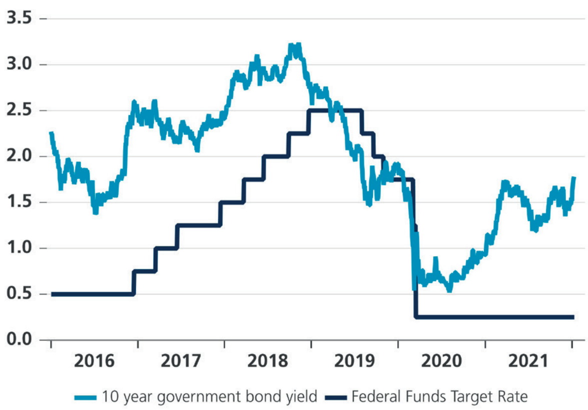


Source: KBC Economics based on Eurostat, Japanese Statistics Bureau, Ministry of Internal Af

Commodity prices
index, January 2013=100, in USD

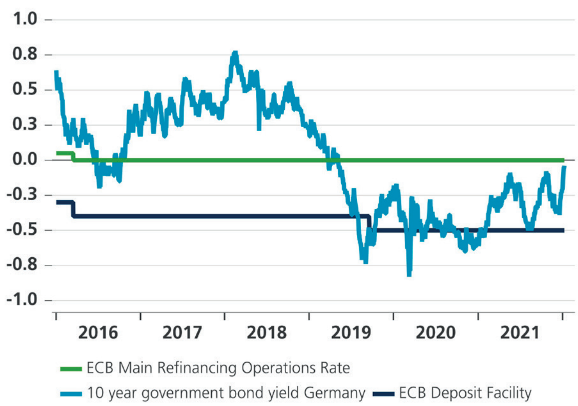
Source: KBC Economics based on World Bank, SPDJI

United States interest rates
in %



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

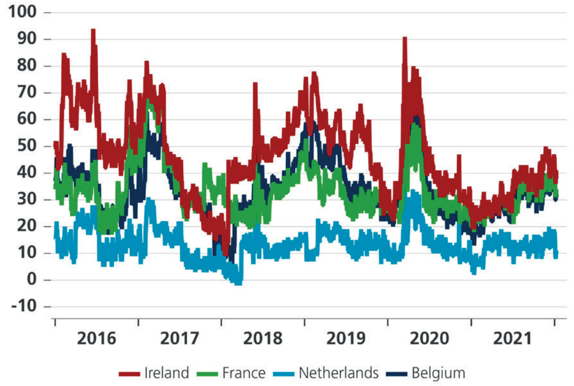
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

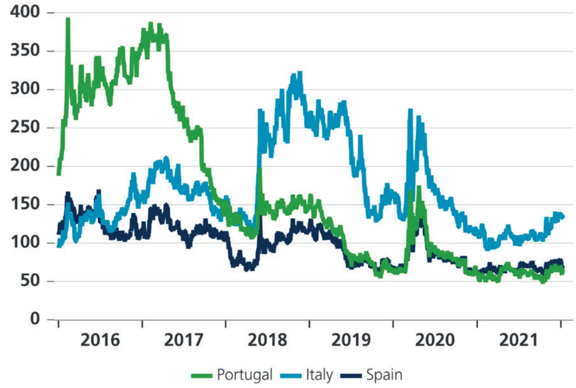
Figures

10 year government bond yield spreads to Germany
in basis points



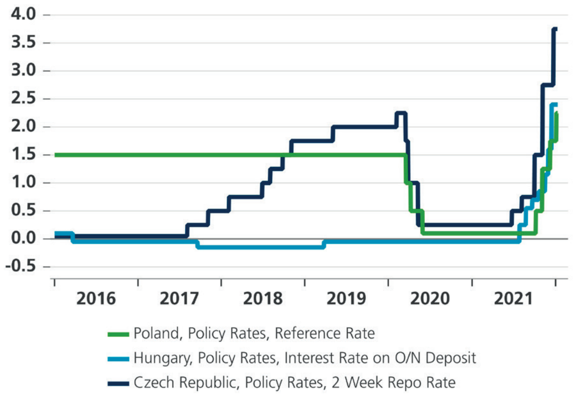
Source: KBC Economics based on Macrobond

10 year government bond yield spreads to Germany
in basis points



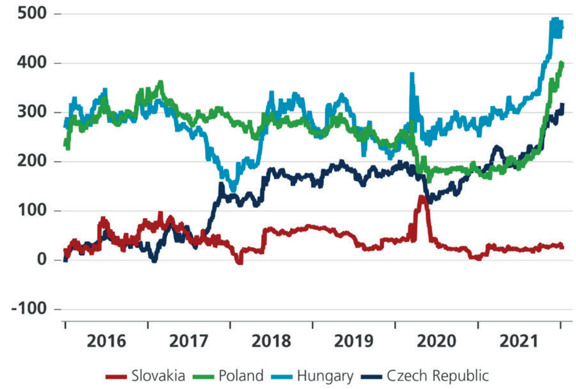
Source: KBC Economics based on Macrobond

Monetary policy rates Central Europe
in %



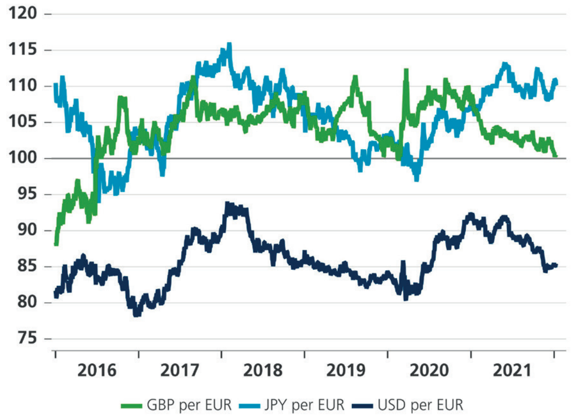
Source: KBC Economics based on CNB, MNB, NBP

10 year government bond yield spreads to Germany
in basis points



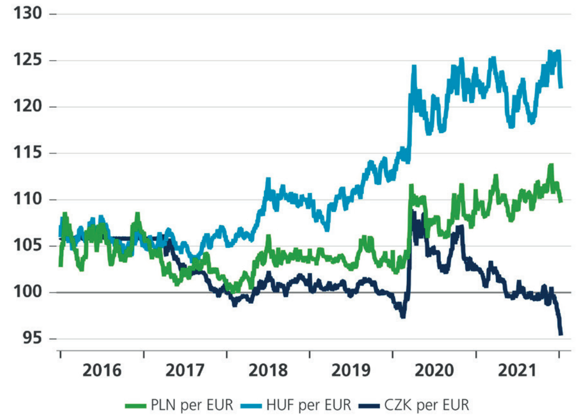
Source: KBC Economics based on Macrobond, AKK, Eurostat

Exchange rates
index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

Exchange rates
index, January 2013=100, increase = stronger EUR



Source: KBC Economics based on Macrobond

Outlook main economies in the world

		Real GDP growth (period average, based on quarterly figures, in %)			Inflation (period average, in %)		
		2021	2022	2023	2021	2022	2023
Euro area	Euro area	5.1	3.5	2.4	2.6	2.7	1.9
	Germany	2.7	2.9	2.2	3.2	3.1	2.2
	France	6.6	3.5	2.3	2.1	2.5	1.6
	Italy	6.2	4.0	2.2	2.0	2.5	1.5
	Spain	4.6	5.3	4.3	3.0	3.4	1.6
	Netherlands	4.5	3.1	2.0	2.8	2.8	1.8
	Belgium	6.0	2.5	1.8	3.2	3.7	2.0
	Ireland	15.0	7.0	4.0	2.4	3.2	2.3
	Slovakia	3.1	4.5	4.5	2.9	5.5	2.5
Central and Eastern Europe	Czech Republic	2.8	4.2	3.7	3.5	4.4	2.5
	Hungary	6.4	4.8	4.0	5.1	5.3	3.3
	Bulgaria	3.3	4.0	3.0	2.8	2.5	2.0
	Poland	5.6	4.6	3.3	5.3	4.7	2.2
	Romania	7.5	5.0	4.5	7.0	5.5	4.5
Rest of Europe	United Kingdom	7.0	4.5	2.1	2.6	3.9	2.2
	Sweden	4.4	3.5	2.1	2.1	2.1	1.7
	Norway (mainland)	4.1	3.8	2.0	3.3	2.2	1.8
	Switzerland	3.5	3.0	1.9	0.5	0.8	0.5
Emerging markets	China	8.2	5.1	5.0	1.0	2.2	2.2
	India*	9.2	8.8	5.2	5.4	4.7	4.5
	South Africa	4.6	1.7	1.8	4.5	4.9	4.2
	Russia	4.4	2.5	1.9	6.7	6.3	3.7
	Turkey	11.0	3.0	3.5	19.6	35.0	20.0
	Brazil	4.6	1.7	1.8	8.3	7.2	3.6
Other advanced economies	United States	5.6	3.6	2.3	4.7	3.9	2.2
	Japan	1.8	3.2	1.4	-0.2	0.7	0.6
	Australia	3.8	3.5	2.8	2.5	2.1	2.2
	New Zealand	5.3	3.3	2.6	2.9	2.5	2.2
	Canada	4.7	4.0	2.8	3.4	3.3	2.2
*** fiscal year from April-March**						10/01/2022	

Policy rates (end of period, in %)						
		10/1/2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Euro area	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
Central and Eastern Europe	Czech Republic	3.75	4.50	4.50	4.50	4.50
	Hungary (BUBOR 3M)	4.25	5.00	5.00	4.75	4.50
	Bulgaria	-				
	Poland	2.25	3.25	3.75	3.75	3.75
	Romania	1.75	1.75	1.75	2.00	2.25
Rest of Europe	United Kingdom	0.25	0.50	0.75	0.75	0.75
	Sweden	0.00	0.00	0.00	0.00	0.00
	Norway	0.50	0.75	1.00	1.25	1.25
	Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
Emerging markets	China	2.95	2.95	2.95	2.95	2.95
	India	4.00	4.00	4.25	4.25	4.50
	South Africa	3.75	4.25	4.50	4.75	5.00
	Russia	8.50	9.00	9.00	8.75	8.25
	Turkey	14.00	14.00	14.00	14.00	14.00
	Brazil	9.25	11.75	11.75	11.75	11.75
Other advanced economies	United States (mid-target range)	0.13	0.38	0.88	1.13	1.13
	Japan	-0.10	-0.10	-0.10	-0.10	-0.10
	Australia	0.10	0.10	0.25	0.50	0.75
	New Zealand	0.75	1.00	1.25	1.50	2.00
	Canada	0.25	0.50	1.00	1.25	1.50

Outlook main economies in the world

10 year government bond yields (end of period, in %)		10/1/2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Euro area	Germany	-0.05	0.20	0.40	0.50	0.60
	France	0.28	0.55	0.75	0.90	1.05
	Italy	1.26	1.60	1.90	2.10	2.40
	Spain	0.64	0.95	1.15	1.30	1.45
	Netherlands	0.05	0.35	0.55	0.70	0.85
	Belgium	0.26	0.55	0.75	0.90	1.05
	Ireland	0.36	0.70	0.90	1.05	1.20
	Slovakia	0.12	0.40	0.60	0.75	0.90
Central and Eastern Europe	Czech Republic	3.29	2.91	2.86	3.03	3.05
	Hungary	4.77	4.70	4.60	4.40	4.25
	Bulgaria	0.70	0.70	0.90	1.05	1.20
	Poland	4.06	4.00	4.20	4.20	4.00
	Romania	5.50	5.50	5.60	5.70	5.80
Rest of Europe	United Kingdom	1.18	1.50	1.60	1.70	1.75
	Sweden	0.40	0.55	0.75	0.85	0.95
	Norway	1.85	2.00	2.20	2.30	2.40
	Switzerland	0.02	0.20	0.40	0.50	0.60
Emerging markets	China	2.81	3.10	3.35	3.45	3.60
	India	6.59	6.70	7.00	7.10	7.30
	South Africa	9.48	9.80	10.10	10.20	10.40
	Russia	8.50	8.00	8.00	7.75	7.25
	Turkey	23.57	23.00	23.00	23.00	26.00
	Brazil	11.06	11.40	11.70	11.80	12.00
Other advanced economies	United States	1.77	2.00	2.30	2.40	2.60
	Japan	0.14	0.00	0.00	0.00	0.00
	Australia	1.88	2.10	2.40	2.50	2.70
	New Zealand	2.54	2.75	3.05	3.15	3.35
	Canada	1.72	1.95	2.25	2.35	2.55

Exchange rates (end of period)	10/1/2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022
USD per EUR	1.13	1.13	1.13	1.15	1.17
CZK per EUR	24.35	24.50	24.30	24.10	24.10
HUF per EUR	357.75	350.00	350.00	355.00	360.00
PLN per EUR	4.53	4.55	4.53	4.50	4.48
BGN per EUR	1.96	1.96	1.96	1.96	1.96
RON per EUR	4.94	4.95	4.95	4.95	4.95
GBP per EUR	0.83	0.83	0.84	0.85	0.87
SEK per EUR	10.30	10.10	10.00	9.90	9.75
NOK per EUR	10.01	9.85	9.80	9.75	9.75
CHF per EUR	1.04	1.05	1.06	1.08	1.10
BRL per USD	5.64	5.70	5.70	5.60	5.60
INR per USD	74.04	74.30	74.25	74.25	74.00
ZAR per USD	15.61	15.60	15.60	15.60	15.60
RUB per USD	75.07	75.00	73.00	73.00	72.00
TRY per USD	13.86	15.00	15.50	16.00	16.50
RMB per USD	6.37	6.40	6.40	6.40	6.40
JPY per USD	115.22	115.00	115.00	115.00	115.00
USD per AUD	0.72	0.73	0.74	0.75	0.76
USD per NZD	0.68	0.70	0.71	0.72	0.73
CAD per USD	1.26	1.25	1.23	1.21	1.20

Outlook KBC home markets

	Belgium			Ireland		
	2021	2022	2023	2021	2022	2023
Real GDP (average yearly change, in %)	6.0	2.5	1.8	15.0	7.0	4.0
Inflation (average yearly change, harmonised CPI, in %)	3.2	3.7	2.0	2.4	3.2	2.3
Unemployment rate (BE:Eurostat definition; IE: covid-19-adjusted national definition) (in % of the labour force, end of year)	5.9	5.7	5.6	9.0	6.0	5.2
Government budget balance (in % of GDP)	-6.4	-4.7	-4.9	-1.5	-0.8	0.3
Gross public debt (in % of GDP)	109.1	108.1	110.5	55.0	52.5	50.5
Current account balance (in % of GDP)	0.4	-1.0	-0.5	16.0	15.0	13.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	6.0	3.0	2.0	8.0	7.0	3.0

	Czech Republic			Slovakia		
	2021	2022	2023	2021	2022	2023
Real GDP (average yearly change, in %)	2.8	4.2	3.7	3.1	4.5	4.5
Inflation (average yearly change, harmonised CPI, in %)	3.5	4.4	2.5	2.9	5.5	2.5
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.0	2.6	2.3	6.8	6.5	6.2
Government budget balance (in % of GDP)	-7.2	-5.1	-4.3	-6.5	-5.0	-4.5
Gross public debt (in % of GDP)	42.7	44.3	46.0	60.6	65.0	65.0
Current account balance (in % of GDP)	-0.1	-0.4	0.0	-0.5	-2.0	-2.5
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	12.8	5.2	3.4	5.0	3.5	3.0

	Hungary			Bulgaria		
	2021	2022	2023	2021	2022	2023
Real GDP (average yearly change, in %)	6.4	4.8	4.0	3.3	4.0	3.0
Inflation (average yearly change, harmonised CPI, in %)	5.1	5.3	3.3	2.8	2.5	2.0
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	3.6	3.3	3.0	5.0	4.8	4.6
Government budget balance (in % of GDP)	-7.5	-4.6	-3.0	-3.2	-4.5	-2.0
Gross public debt (in % of GDP)	79.3	76.3	73.9	26.2	29.8	31.0
Current account balance (in % of GDP)	-2.0	-0.9	0.2	1.0	3.0	1.0
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	10.0	4.5	3.5	8.0	6.5	4.5

Outlook Belgian economy

National accounts (real yearly change, in %)	2021	2022	2023
Private consumption	6.2	5.2	2.4
Public consumption	4.1	3.7	1.5
Investment in fixed capital	9.7	1.7	3.3
Corporate investment	8.9	0.4	3.9
Public investment	12.8	7.2	2.5
Residential building investment	10.4	2.7	1.7
Final domestic demand (excl. changes in inventories)	6.5	3.9	2.4
Change in inventories (contribution to growth)	-0.8	-0.2	0.1
Exports of goods and services	8.8	3.5	4.6
Imports of goods and services	8.4	4.9	5.4
Gross domestic product (GDP)	6.0	2.5	1.8
Household disposable income	0.7	1.9	2.1
Household savings rate (% of disposable income)	16.0	13.4	13.1

Equilibrium indicators	2021	2022	2023
Inflation (average yearly change, in %)			
Consumer prices (harmonised CPI)	3.2	3.7	2.0
Health index (national CPI)	2.0	3.7	2.0
Labour market			
Domestic employment (yearly change, in ‘000, year end)	101.2	25.0	60.0
Unemployment rate (in % of labour force, end of year, Eurostat definition)	5.9	5.7	5.6
Public finances (in % of GDP, on unchanged policy)			
Overall balance	-6.4	-4.7	-4.9
Public debt	109.1	108.1	110.5
Current account balance (in % of GDP)	0.4	-1.0	-0.5
House prices (average yearly change in %, existing and new dwellings, Eurostat definition)	6.0	3.0	2.0

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