

Brussels, 15 December 2016

KBC-CBC Economic Perspectives 2017: De-globalisation affects European and Belgian economy

KBC chief economist Jan Van Hove and CBC chief economist Bernard Keppenne shed light on the expected economic developments in 2017 based on recently observed trends in the world economy. Their latest forecasts for the global, European and Belgian economy include projections for economic growth, inflation, interest rates and exchange rates.

2016 has been a year with political surprises affecting the global economic outlook. The economic impact of events like the Brexit referendum, Donald Trump's election as US president and the recent Italian constitutional referendum appears to be more complex than many observers anticipated. At the same time, these international events are expected to also affect the upcoming calendar year. 2017 will be characterised by more uncertainty caused by the Brexit negotiations, the design and implementation of Trumponomics, French presidential elections and German general elections, while developments in the Chinese economy and the European banking sector remain sources of great concern.

2017 will herald the start of Brexit negotiations, leading to economic disintegration in Europe. On the other side of the Atlantic Ocean, Donald Trump advocates a more protectionist approach to international trade and investment. Based on these developments, new economic research from the KBC group will be released dealing with the expected tendencies in global protectionism and their impact.

KBC and CBC have identified the following highlights:

- A gradual exit from the New Normal (low inflation and low interest rates) is expected, in particular in Europe. The American economy meanwhile is expected to benefit from Trumponomics, although less than currently anticipated in financial markets.
- Eurozone nominal growth forecasts for the upcoming years remain weak. Moreover real growth will be weakened by gradually increasing inflation. Higher inflation itself will result from energy price developments, while the core inflation will remain historically low around 1 %. Despite increased inflation expectations, the ECB inflation target of about 2 % won't be reached in the next few years.
- All growth components will have a limited contribution to overall growth. Investment prospects have improved, but remain structurally low. Net export contribution is very sensitive to the global rise of protectionism.
- Growth performances remain heterogeneous across European Union countries. However, growth has returned to all European Union countries. Hence the economic divergence across Europe has started to decline.

- European unemployment rates are declining, but remain high in Southern Europe. Structural problems in the Italian and French labour market are jeopardising a general improvement in the Eurozone labour market.
- The new KBC research reveals the ongoing strong growth in global protectionism, the potential shapes further de-globalisation could take and the expected impact on economic growth and development in Europe and Belgium.
- New KBC protectionism indicators point to a general rise in protectionism since the beginning of this century, reflecting growing tensions among the main trading nations that may result in an increased number of trade conflicts.
- The expectations point to a year characterised by further volatility, mainly triggered by upcoming political events.
- As a small open economy, the Belgian economy is expected to be very sensitive to these global developments. Forecast economic growth is close to the European average, but reflects a limited contribution from consumption, a volatile contribution from investments and a reduced impact from net export growth due to global protectionism and a slowing down of international trade.
- The further increase in long-term interest rates in combination with particular new housing policies is putting some pressure on the Belgian real estate market, but a soft rather than a hard landing is expected. Belgian public finances continue violating the European thresholds, but structural economic reforms will be further implemented leading to improvements in Belgium's international competitiveness and in the sustainability of the social welfare state.

For more information, please contact:

Jan Van Hove, chiefeconomist@kbc.be, Bernard Keppenne Bernard.keppenne@kbc.be

KBC Group NV

Havenlaan 2 – 1080 Brussels
 Viviane Huybrecht
 General Manager
 Corporate Communication/Spokesperson
 Tel. +32 2 429 85 45

Press Office
 Tel. +32 2 429 65 01 Stef Leunens
 Tel. +32 2 429 29 15 Ilse De Muyer
 Fax +32 2 429 81 60
 E-mail: pressofficekbc@kbc.be

KBC press releases are available at www.kbc.com
 or can be obtained by sending an e-mail
 to pressofficekbc@kbc.be

Follow us on www.twitter.com/kbc_group
