


Economic Briefings

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OUTLOOK GLOBAL ECONOMY

World economy braces itself for an end to zero interest rate policy

Over the past month the world economy has undergone a stabilisation. Among other things this was reflected in the increase in business confidence in the emerging economies. The stabilisation of Chinese quarterly growth and the provisional turnaround in the capital outflow from emerging economies also suggest that the weakness during the summer months is over, at least for now. Developments in the western economies also remain encouraging. While domestic demand in the euro area continues to recover and to benefit from the low energy and commodity prices, the US labour market report for October erased any doubts about the underlying dynamic of the US economy. An initial rate increase by the Fed in December is now very much on the cards. In anticipation of this there was a rise in both US and, to a lesser extent, German 10-year rates. By contrast the absence of headline inflation in the euro area induced the ECB to announce a probable easing of its policy in December. This policy divergence has already led to a weakening of the euro against the US dollar. The inflationary effect this is having is already helping the ECB to jack up inflation in the euro area.

Global

Vulnerability emerging economies remains

Concerns about the emerging markets eased over the past month. During the summer months there were fears that the slowdown in these economies would be stronger than expected and could endanger the recovery in the western economies.

All in all, however, the slowdown in the emerging markets was not as bad as expected. The growth dynamic of the Chinese economy held up for example in the third quarter in relation to the second quarter (1.8% non-annualised). Furthermore the recent weakening of a number of Chinese industrial indicators is not unexpected, since this reflects a deliberate policy to stimulate private consumption at the expense of investment growth. The reduction in forecast average growth in China for the next five years to 6.5% also reflects that transition.

In addition the postponement of the first rate increase by the US Fed in September, at least for now, put a stop to the capital outflow from emerging economies. Moreover, in Turkey the election victory by President Erdogan's AKP party rekindled optimism in the financial markets, which saw a period of political uncertainty come to an end.

Nevertheless many emerging economies remain vulnerable. Commodity exporters continue to suffer from low export prices, most notably the falling metal prices. The fall in demand due to the slowdown of growth, especially in China, is a significant factor. Meanwhile the Brent oil price also remains below 50 USD per barrel. Latin American markets, as well as Russia and even Arab oil-exporting countries, consequently remain under pressure.

The second source of vulnerability remains the renewed likelihood of an imminent turnaround in Fed interest-rate policy. This will in all probability spark off a fresh outflow of capital from the emerging markets, with weaker exchange rates, higher interest rates and further slowdowns in growth. Thanks to their healthy economic fundamentals, such as their current account balances, the emerging markets in Asia appear the best placed to withstand this development.

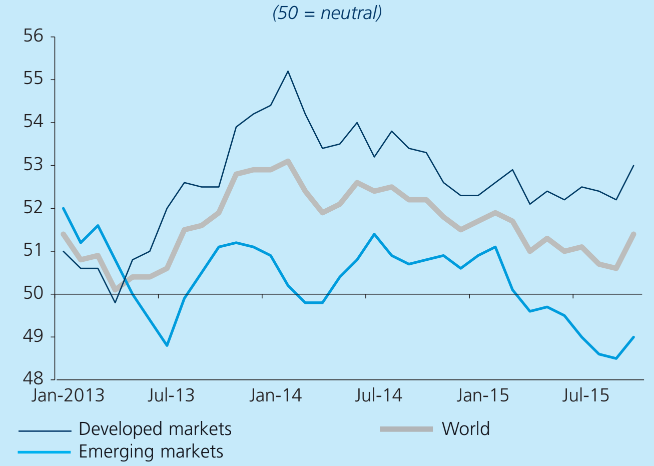
World economic growth to pick up again in 2016

The growth of the world economy will on balance be a good deal lower in 2015 than in 2014 (2.9% in comparison with 3.3%). We are however expecting growth to pick up again in 2016 to around 3.4%. In the first place that is because we do not expect the slowdown in the emerging markets to be sufficiently strong to threaten the recovery in western economies via the trade mechanism. In addition growth in the euro area will pick up further, supported in particular by the growth of private consumption. The latter is in turn buttressed by the real wage growth due to the low energy prices and ongoing gradual decline in the European unemployment rate: the forecast growth for 2016 (1.9%) is still well above the potential growth rate. A more growth-friendly fiscal policy and the likelihood of an even more accommodating monetary policy on the part of the ECB will also do their bit. As a result of the improved competitiveness of many peripheral euro countries and the depreciation of the euro, net exports are also contributing to the economic growth of the euro area.

The growth engine for the global economy, however, remains the US economy. A net 271 000 new jobs were added in

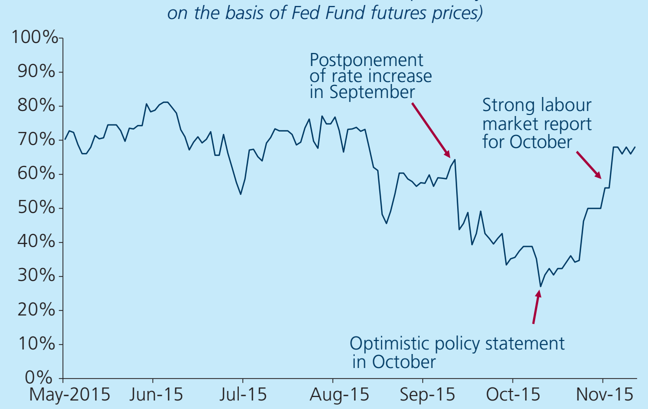
Business confidence in manufacturing industry recovers worldwide

(50 = neutral)



Markets see an almost 70% chance that Fed will raise its benchmark rate in December 2015

(likelihood of a rate increase of at least 25 basis points by the end of 2015, on the basis of Fed Fund futures prices)



Real GDP growth		2014	2015	2016
America		2.1	1.6	2.3
	North America	2.4	2.4	2.9
	Latin America	1.5	0.0	0.9
Europe		1.4	1.2	1.9
	Euro area	0.8	1.6	1.9
	Central Europe	2.9	3.3	3.2
Asia		5.5	5.2	5.3
	Japan	-0.1	0.5	1.3
	Asia excl. Japan	6.4	6.1	6.0
	China	7.3	6.8	6.5
	India	7.3	7.3	7.5
World		3.3	2.9	3.4
Crude oil (Brent per barrel USD, end of year)		56	55	60

October, bringing down the unemployment rate to 5.0%. That banished any doubts concerning the labour market dynamic in the US following the disappointing labour market reports in the previous months. It was also noteworthy that signs of mounting wage pressure had become visible. The annual growth of average hourly pay rose for example in October to 2.5%, as compared with 2.2% in September. The coming months will need to show whether this was a one-off phenomenon or whether the US economy is now effectively approaching full employment, with rising wages as a result.

Against the background of the absence of headline inflation, the real wage rises combined with the increase in the number of jobs mean that the growth of private consumption remains the most important driver of US growth. The weaker growth in the third quarter was almost entirely due to the reduction in stocks and is probably no more than temporary. For 2016 we are consequently anticipating accelerating growth of 2.9%: as in the euro area, this is above the potential growth rate.

Fed versus ECB

The strong jobs report for October and the wording of the press release after the meeting of the Federal Reserve Board in October render an initial rate increase by the Fed in December highly likely. The Fed regards the low headline inflation (0.2% in October) as a temporary phenomenon brought about by the earlier fall in the oil price and the strengthening of the dollar. The ECB by contrast is closely tracking the low headline inflation rate in the euro area (0.1% in October) and foreshadowed an almost certain expansion of its accommodating policy at its meeting in December. A possible driver of this policy difference is that the underlying core inflation in the euro area (1.1%) is a good deal lower than in the US (1.9%) and still far removed from the 2% inflation target the ECB wants to achieve in the medium term. As a result of this policy divergence the euro weakened further against the dollar and the interest rate spread between US and German government bonds widened.

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Headline inflation around...
(y-o-y change, in %)

...but core inflation at more normal levels
(y-o-y change, in %)

United States

First policy rate increase in sight

As expected, the weak growth in the first quarter of 2015 proved no more than temporary. In the second quarter real GDP grew by an annualised 3.9% on the previous quarter. The provisional figures for the third quarter once again point to weaker growth, although this was primarily due to inventory reduction and the revised figures could differ. Nevertheless the composition of growth remains reassuring. The contribution to growth by domestic demand and more specifically private consumption remains solid. That confirms our scenario of consumption-driven growth in the context of an improving labour market with gradually mounting wage pressure.

Consumption-based growth

Despite the absence of significant upward wage pressure, private consumption over the past two quarters once again formed the most important driver of growth. The low inflation, strong dollar and further improvements in the labour market were all contributory factors. Although job creation in August and September slowed, the October report gave evidence of a strong recovery. Furthermore consumer confidence, despite the recent weakening, remains at a high level. From this we conclude that private consumption will continue to be the most important growth contributor in the next few quarters.

The main cause of the lower growth in the third quarter was the negative contribution made by the inventories component. The reason for this goes back to the first quarter of this year, when the bad weather and strikes in a number of ports on the west coast held back private consumption. Businesses were consequently obliged to build up their stocks. These were drawn down again in the third quarter, thereby depressing growth. This sharp change in inventories is however temporary. Therefore, we are not expecting the inventories component of GDP growth to have a major impact in the coming quarters.

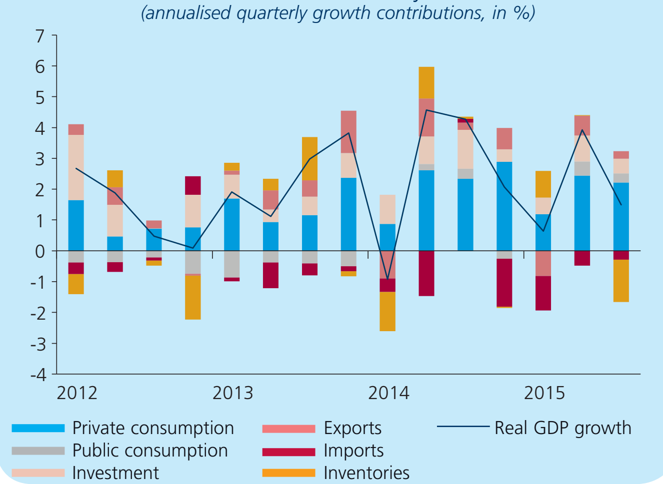
Apart from inventory-building the growth of investment also slowed. The annualised quarterly growth contribution amounted to 0.5%, compared with 0.8% in the second quarter. Investment in the energy sector, in particular, fell heavily due to the sharp fall in oil prices over the previous 12 months. On the other hand the growth of investment in housing remains at a healthy level. The high consumer confidence is supporting the housing market, while the rising house prices are in turn continuing to fuel private consumption through the increase in household wealth.

Labour market in a healthy state

The excellent labour market report for October has fully erased the doubts created by the weaker reports for August and September. With job creation of 271 000 and an unemployment rate of just 5.0%, the labour market engine is operating at full throttle. Most of the jobs were created in the service sector. The general weakness in the industrial sectors does not therefore appear to be hindering the service sector, in turn increasing confidence in the robustness of the US economy. Other labour market indicators also provide grounds for optimism. The number of employees working part-time involuntarily for economic reasons has come down sharply. Furthermore, greater numbers of employees are taking voluntary dismissal as they see good prospects of finding a new job. On top of that the first signs of upward wage pressure have finally become visible.

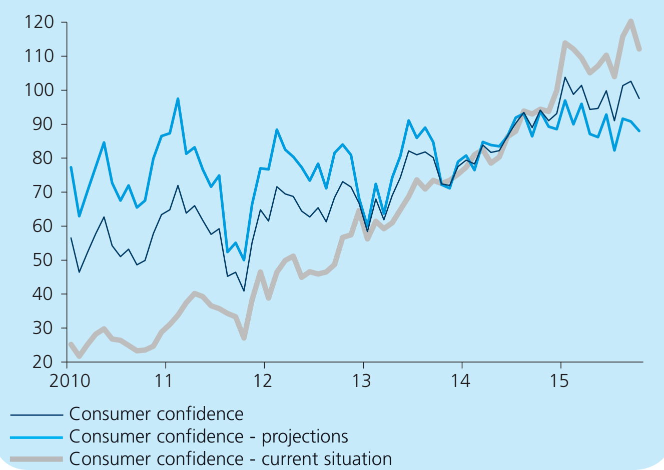
Strong domestic demand confirms robustness of the economy

(annualised quarterly growth contributions, in %)



Consumers the most important driver of growth

(index, 1985 = 100)



Forecasts US		2014	2015	2016
Real GDP growth		2.4	2.5	2.9
Inflation		1.6	0.2	2.2
	16-11-2015	**+3m**	**+6m**	**+12m**
Policy rate	0.25	0.50	0.75	1.25
10-year rate	2.26	2.50	2.65	2.80
USD per EUR	1.07	1.03	1.03	1.05

Rate increase likely in December

Against our expectations the US Federal Reserve decided at its September meeting not to raise its key interest rate. Despite the solid results on the labour market and the robust economic growth during the second quarter, the Fed cited a number of arguments in order to keep interest rates at their historically low level. In this regard it was notable that the central bank expressed its concern about the possible impact of global economic and financial trends on US growth and inflation. Even though temporary in nature, the greater volatility in the financial markets during the summer months induced the Fed to keep matters under review and adopt a cautious approach.

The tone of the press release issued after the October meeting, however, was a good deal more optimistic. Various elements in the report suggest that monetary normalisation is around the corner. In the first place the Fed is continuing to monitor developments in the rest of the world, but these are no longer seen as a direct threat to the US economy. Important factors in this regard were the reduced volatility and reassuring Chinese growth figures for the third quarter. In addition the description of the US economy remained unchanged despite the weaker results in the last few months. The Fed therefore views the recent weakening as a temporary intermezzo. Finally the central bank for the first time explicitly referred to the next meeting of its board in December as a possible time to increase the policy rate.

The likelihood of an initial rate increase in December has therefore increased greatly since this statement, although there is as yet no absolute certainty. The Fed emphasises that its decision remains dependent on the available data. Further progress towards achieving its target of full employment and 2% inflation in the medium term remains the necessary condition to be fulfilled. Our scenario is based on a further improvement in the labour market, rising inflation due to statistical base effects, strong private consumption growth and further wage increases due to the ever tighter labour market. Unless the data disappoint substantially during the coming weeks, we consequently anticipate an initial rate increase of 25 basis points in December. Thereafter the Fed will continue slowly but steadily with its tightening cycle.

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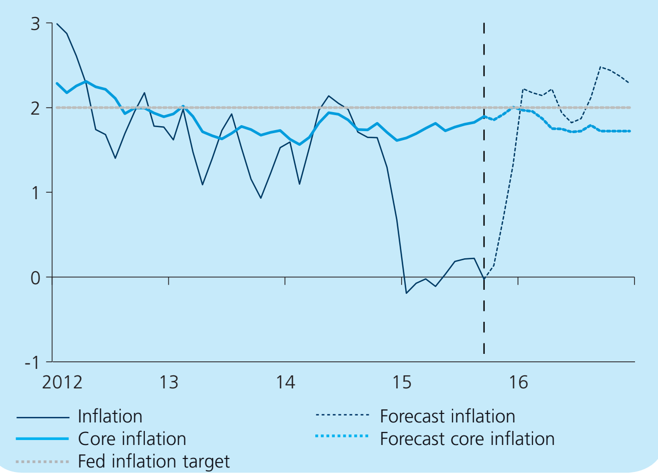
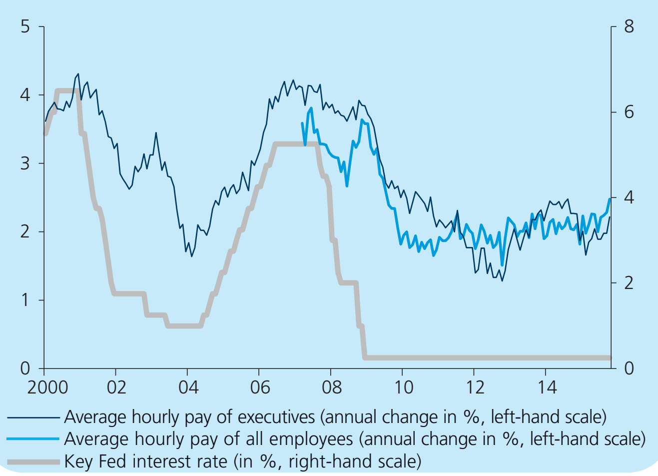
Inflation currently held down by low energy prices

(y-o-y change in consumer prices, in %)



Upward wage pressure visible at last



Economic Briefings Europe

Euro area

Robust outlook for growth despite slowdown in third quarter

In the third quarter of 2015, euro area growth increased by 0.3% quarter-on-quarter and by 1.6% year-on-year. At the national level, quarterly growth came to 0.2% in Italy and to 0.3% in Germany and France. With quarterly growth of 0.8%, Spain continued to turn in the best performance of the euro area's four largest economies. In Portugal, growth stalled again.

For 2015 and 2016 we are expecting GDP to grow by 1.6% and 1.9% respectively, underpinned by private consumption and investment. International trade will also make a limited contribution to growth in 2016, based primarily on export growth to the UK and the US and on condition that economic growth in the developing economies does not weaken further. The main drivers of growth in the euro area will be the weak euro, low oil price and exceptionally accommodative monetary policy of the ECB. Furthermore the changeover from a neutral to a slightly stimulatory budgetary policy in 2016 will also provide an additional boost for the economies in the euro area.

Now that the Greek debt crisis has been resolved (at least temporarily) by the agreement on the third bailout package, the refugee crisis is top of the European political agenda. From an economic perspective the influx of refugees should provide an additional economic boost in the short term via consumption, investment (chiefly in the construction sector) and budgetary easing. In the long term and on condition that the refugees find work in the EU, the influx will counter the decline in the labour force. From a political viewpoint, the refugee crisis is primarily a challenge to the strength and cohesion of the Union.

Lending continues to recover

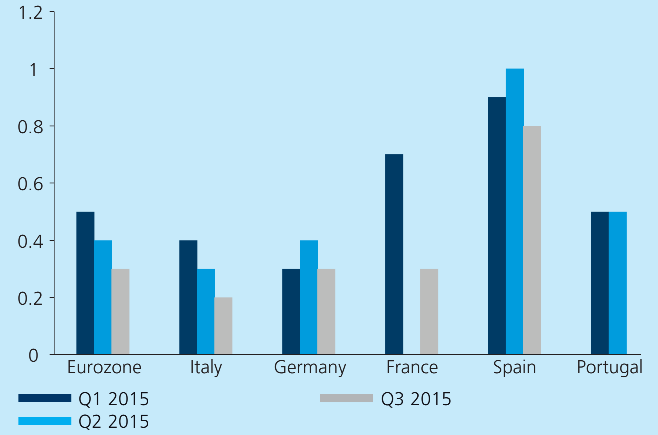
The ECB's Bank Lending Survey provided evidence of a broad recovery in the demand for and supply of credit in the third quarter of 2015. Credit terms and conditions were relaxed both for corporate and consumer loans, partly in response to the additional liquidity pumped into the market by the ECB via the Asset Purchase Programme (APP). Within the group of companies, SMEs – the backbone of the euro area economies – saw a particular relaxation in their credit terms and conditions over the past quarter. For the fourth quarter, banks anticipate a further relaxation of the credit terms and a solid increase in demand, primarily for loans to businesses. Although lending still remains below pre-crisis levels, the recovery is good news for investment and consumption and consequently also for the growth prospects in the euro area.

Consumption still the mainstay

During the current period of recovery, consumption has proved to be the most important growth engine for the euro area. In particular, the low commodity prices and fall in the unemployment rate have increased household purchasing power in recent months, thereby boosting consumption. Nominal wage growth, on the other hand, has made no more than a minor contribution to the present economic recovery. The unemployment figures and employment growth have still not recovered sufficiently for this to happen, especially in the southern countries. We expect private consumption to continue making an important contribution towards growth in the euro area in the quarters ahead.

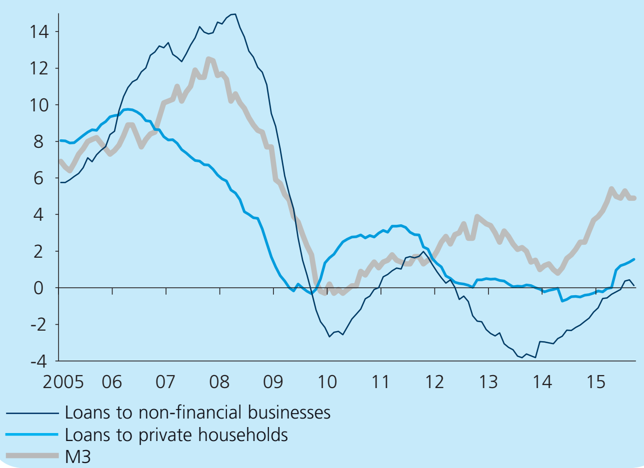
Temporary slowdown in euro area growth in third quarter

(GDP growth, quarter-on-quarter change, in %)



Credit cycle continues to recover in the euro area

(M3 money supply growth and lending components to private sector, annual change in %)



Forecasts euro area		2014	2015	2016
Real GDP growth		0.8	1.6	1.9
Inflation		0.4	0.1	1.2
	16-11-2015	+3m	+6m	+12m
Policy rate ECB	0.05	0.05	0.05	0.05
10-year rate Germany	0.55	0.90	1.10	1.25

Investment remains the Achilles heel of European recovery

So far total investment spending remains well below pre-crisis levels. This may largely be explained by the cautious nature of the recovery, the uncertainty over economic policy in the euro area countries and the high corporate indebtedness that is undermining bank balance sheets and bank confidence and moreover preventing businesses from building up further debt. All this means that the recovery in the euro area remains vulnerable. Apart from a solid growth contribution from private consumption, however, we also expect investment demand to gradually start supporting economic growth in the coming quarters. We do so on the basis of the measured increase in demand for loans by businesses, the trend towards reversing the tighter bank credit terms and conditions, and the improvement in business confidence.

Exports supported by weak euro

In both 2015 and 2016 we expect net exports to make a positive growth contribution is a result of the weaker euro and robust growth in the US and UK. The slowdown in China and by extension the emerging economies will in all probability depress growth in the euro area to only a limited extent. If however the turbulence surrounding the emerging economies is sustained or if the economic slump in these markets is stronger than expected, export growth in the euro area could be adversely affected.

Monetary and budgetary relaxation

Despite the highly accommodative monetary policy of the ECB the inflation figures currently remain well below the 2% inflation target. In fact, they have even dropped below zero this year on two occasions. This has been mainly due to the fall in energy prices that started the second half of 2014. If we leave the energy component out of the calculations, the pattern of inflation over the past year looks more stable. Even if oil prices were to continue fluctuating around the present level, headline inflation is highly likely to receive an uptick towards the end of 2015 from statistical base effects.

Even so, in the absence of an upward oil price correction or unexpectedly strong upward domestic or foreign price pressures, headline inflation in the euro area in 2016 will remain well below the ECB target of just under 2%. The ECB has accordingly indicated that further monetary easing, such as an extension of the Asset Purchase Programme, is likely in December.

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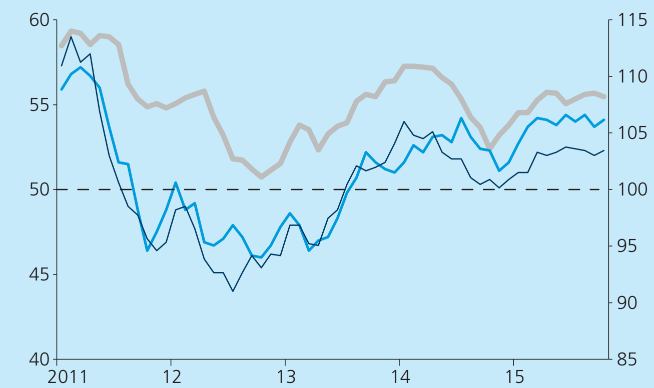
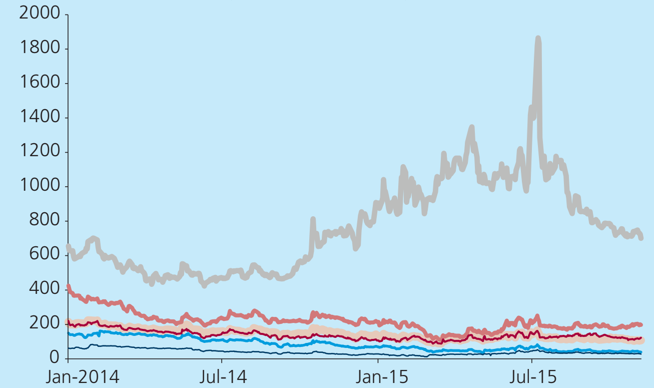
Confidence indicators point to sustained economic recovery
(euro area producer confidence (PMI), 50 = neutral level and IFO indicator for Germany, 2005 = 100)



Greek debt crisis resolved for the time being, without contamination of remaining 'periphery'
(spread of 10-year rates on Germany, in basis points)



United Kingdom

Growth remains robust

According to a provisional estimate by the Office for National Statistics (ONS), real GDP in the UK grew by 0.5% in the third quarter. Underlying this figure, however, was weakness especially in manufacturing industry and construction while the service sector grew once again.

As in the previous quarter the weak global growth and appreciation of sterling will probably continue to weigh on net exports in the coming quarters. Domestic private demand, by contrast, will remain strong, supported by easier lending conditions and sustained real and nominal income growth due to the increasing tightness in the labour market. The biggest downside risk to growth in the UK is a further slowdown in the developing economies, which would dent confidence and hence also domestic demand.

Bank of England rate increase in 2016

Just like the Federal Reserve (Fed) in the US, the Bank of England (BoE) in the UK will in all probability also tighten its monetary policy in the coming months. The precise timing of any such move is hard to predict. The current low headline inflation rate (-0.1% in September) may be primarily due to the low commodity prices and the strength of sterling, but the lack of strong upward domestic price pressure meant that just one member of the BoE's Monetary Policy Committee voted for a rate increase at its meeting in October. In the coming months inflation will rise as the end-of 2014 fall in oil prices drops out of the year-on-year comparison. If this rise is coupled with a further increase in domestic price pressure, a rate hike by the BoE in the first half of 2016 will become more likely. In addition the policy decisions of the Fed in the US and the ECB in the euro area will probably also indirectly affect the BoE's monetary policy.

Forecasts UK	2014	2015	2016
Real GDP growth	2.6	2.7	2.4
Inflation	1.5	0.1	1.4

	16-11-2015	+3m	+6m	+12m
Policy rate	0.50	0.50	0.75	1.00
10-year rate	1.97	2.20	2.36	2.60
GBP per EUR	0.71	0.70	0.69	0.68
USD per GBP	1.52	1.46	1.49	1.54

Referendum

In 2016 the British people will be able to express their opinion in a referendum on the UK's membership of the EU. Recent polls suggest that the British will probably vote to stay in (on average roughly 44% in favour and 38% against), but the gap between the yes and the no camp has shrunk in recent months, primarily due to the refugee problem. We do however continue to expect that when it comes to the moment of truth, those in favour of remaining in the EU will carry the day. There is much at stake for the UK, such as London's status as the financial capital of Europe and the ability to have a say over the rules of the European single market. In addition the Scottish drive for independence would probably resurface if the UK were to leave the EU.

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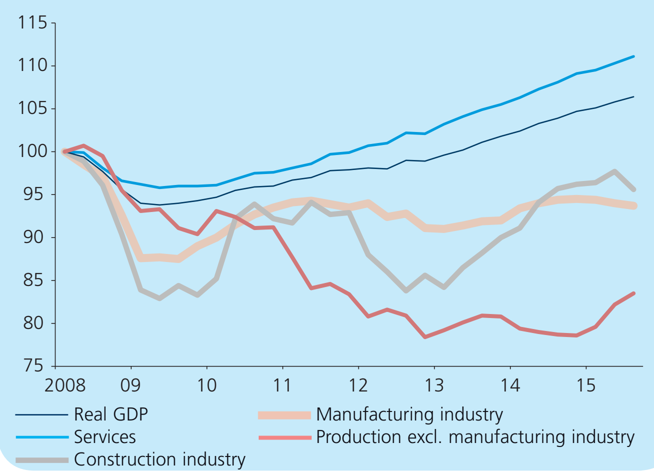
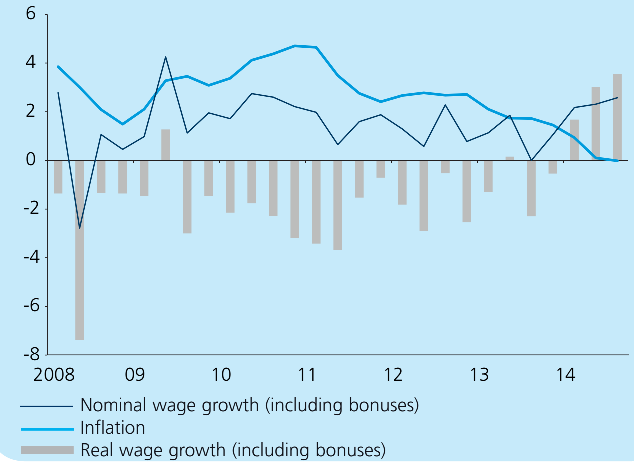
Economic recovery in UK driven by service sector

(production per sector, Q1 2008 = 100)



Strong real wage growth due to falling commodity prices and increased labour market tightness

(annual change in %)



Central Europe

Relatively strong growers

In recent years the Central European countries have been among the best performing economies in the EU. Since the European recovery got underway in early 2013, real GDP in the biggest countries in the region has grown by 9.0% (Poland), 8.0% (Czech Republic), 7.8% (Hungary) and 7.3% (Slovakia). In the euro area as a whole growth in this period amounted to just 3.0%. In recent quarters domestic demand has been the main driver of growth in Central Europe. Consumption was supported by real wage increases and job creation. In most countries consumer confidence has meanwhile reached historically high levels. Investment received a stimulus from the European cohesion funds. Countries had until the end of 2015 to use the available funds in the 2007-2013 programme period. Since 2010 the financing under the cohesion policy has amounted to over 60% of government investment.

The relatively favourable economy is coupled with a significant decline in the unemployment rate. In September this was 3.5 (Poland), 2.5 (Czech Republic), 4.8 (Hungary) and 3.4 (Slovakia) percentage points below the peak in 2013. In the euro area the figure was down by just 1.3 percentage points. Meanwhile inflation in most Central European countries remained below or around 0%. We expect the strong domestic demand, wage increases and tight labour markets gradually to lift inflation to a higher plane. Statistical base effects linked to the movement in oil prices will also be a contributory factor.

VW scandal not a great threat

The recent Volkswagen scandal has generated concern about the impact this could have on Central European economies. VW has a particularly strong presence in the Czech Republic, Hungary and Slovakia. The three countries account for 12.4% of worldwide VW production. We consider that the consequences will not be so severe and will not weaken the current recovery. There could however be negative effects if car-buyers shun VW models in the months ahead or if VW cuts back on investment in the region. The negative confidence effect on potential buyers is likely to be limited. A few years ago Toyota was also grappling with a 'reputation shock' due to unintended acceleration problems with some of its models. The company did overcome that shock without great ructions. At the time Toyota had moreover to contend with weak demand in the aftermath of the financial crisis. Consumption demand is at present picking up in Europe, as reflected in the buoyant demand for cars.

New SME programme in Hungary

In Hungary recent indicators suggest that the economy may be slowing. Concerns in this regard have seen the Hungarian central bank switch its focus from inflation to the macro-economic climate. In early November it launched a new *Growth Supporting Programme*, aimed at stimulating bank lending to SMEs. In addition it raised the possibility of leaving its key policy rate unchanged until as late as autumn 2017. We think that it will already proceed to increase rates in early 2017, reflecting the threat of a capital outflow from Hungary once the Fed embarks on a rate-increase cycle. The pressure this will exert on the forint calls for more rapid policy normalisation. In the Czech Republic the central bank announced that it could abolish its exchange rate policy, aimed at avoiding the appreciation of the koruna above the EUR/CZK threshold of 27, towards the end of 2016.

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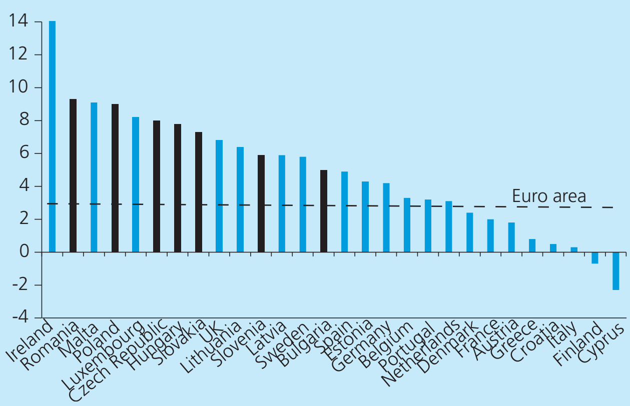
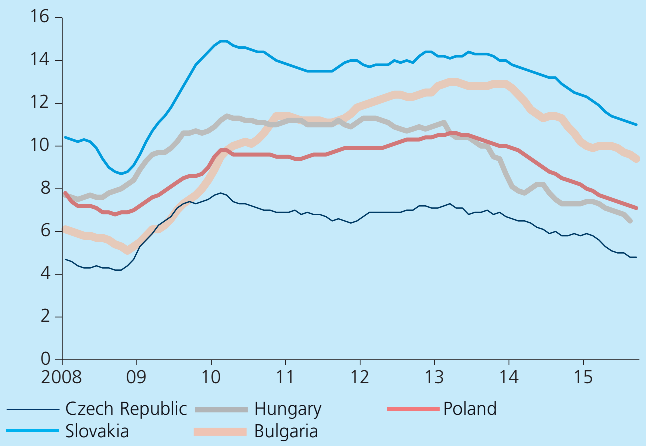
Relatively strong growth in Central Europe
(% change in real GDP since 1Q 2013)



Sharply declining unemployment rate
(harmonised Eurostat figures, as % of working population)



Emerging markets

Growth slowing and greater risks

Chinese growth slowdown (?)

Following the weak first quarter, the Chinese economy staged something of a recovery. Real GDP grew by 1.8% q-o-q in both the first and second quarter. On the basis of these data there is therefore no question of any slowdown. The annual rate of real GDP growth, however, is on a downward trend. In particular, the weakness of the industrial sector and international trade held back growth. The composition of growth, however, appears to be heading in the right direction. The strong contribution to growth by the service sector prevented a stronger slowdown. In addition, the growth of retail sales has picked up again in the last few months. The transition to a more consumption-driven economy appears therefore to have got underway.

The slowdown is not unexpected and has indeed been planned for by the Chinese government for the coming years. At the end of October the leaders of the Communist Party decided on the blueprint for the new five-year plan. During the period 2016-2020 they are aiming at more balanced, inclusive and sustained growth as the basis for a prosperous society. Premier Li announced that the average annual growth target for real GDP during that period would be approximately 6.5%, as compared with 7% in 2011-2015. In addition the Chinese leaders decided among other things to abolish the controversial one-child policy. In doing so they are seeking to counter the ageing of the population and give private consumption an additional boost. Over the coming years we consequently expect a gradual slowdown in growth, with consumption becoming ever more important.

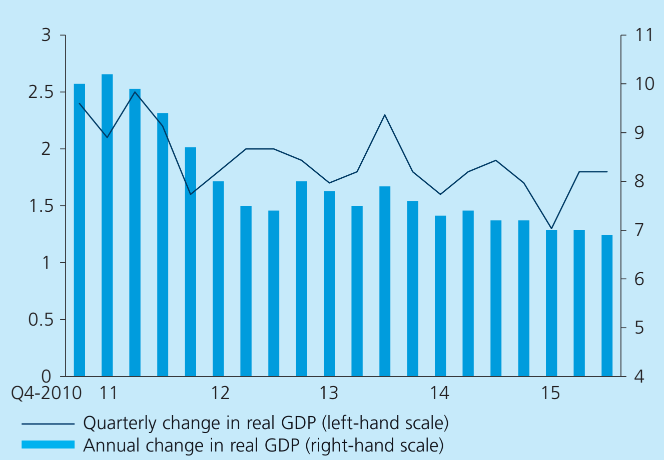
Forecasts China		2014	2015	2016
Real GDP growth		7.3	6.8	6.5
Inflation		2.0	1.5	2.1
	16-11-2015	+3m	+6m	+12m
Policy rate	4.35	4.35	4.35	4.35
10-year rate	3.16	3.20	3.20	3.20
RMB per USD	6.37	6.40	6.45	6.50

Relaxation and liberalisation in China

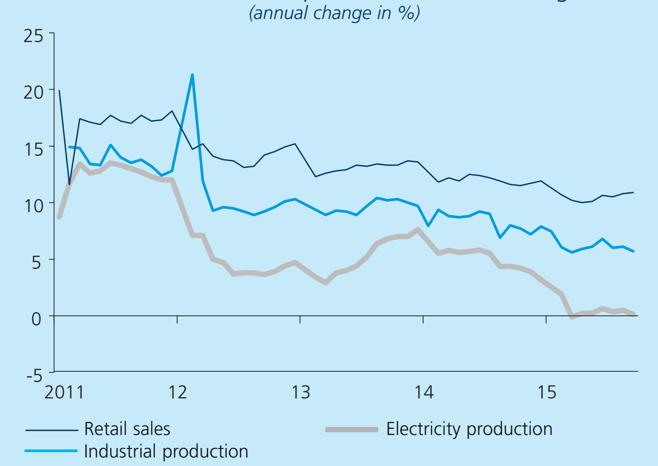
The weak inflation and more rapid fall of producer prices are generating deflation fears. This induced the Chinese central bank to relax its monetary policy still further. At the end of October it cut its benchmark rates for deposits and loans for the sixth time since November last year. As well as that it cut the reserve requirements for banks. In doing so the central bank wants to reduce the cost of borrowing and encourage the financing of SMEs, with the ultimate goal of kindling economic growth.

As part of its financial liberalisation programme the central bank altered its exchange rate policy in mid-August. The mini-devaluation of the yuan, by some 3%, was coupled with the transition to a more market-based determination of the exchange rate. The closing rate of the previous day now determines the day's rate around which the yuan may be traded. The real exchange rate of the yuan had risen sharply during 2015 due to the appreciation of the US dollar, to which the yuan was pegged. The intention behind the central bank's reform was to

Chinese slowdown remains limited
(in %)



Growth of Chinese retail sales on upward path, whereas industrial production is weakening
(annual change in %)



relax the peg and so prevent a further real appreciation of the yuan. As a result of the decision the yuan came under downward pressure. The central bank responded by selling foreign currency reserves in order to stop the currency from weakening any further. In the coming year we expect the central bank to taper its support for the yuan gradually, leading to a steady depreciation of the currency.

Increasing risks in emerging markets

The anticipated slowdown has been underway for some years now not just in China but also in the other emerging growth markets. The downside risks for these countries have, however, recently increased. In the first place the prospect of an initial rate increase by the US constitutes an additional threat. According to the World Bank, a subsequent increase in US bond rates would adversely affect growth in the emerging economies. In addition a US rate increase would lead to a steep decline in capital flows to those countries. An even bigger risk, however, is faced by businesses in the emerging markets. On account of the flexible monetary policy throughout the world, these companies have been able to increase their borrowings, denominated largely in US dollars, at low cost. If the dollar appreciates as a result of the US interest-rate hike, many companies will no longer be able to repay their debts.

The second factor that has recently heightened concerns about the emerging markets is the fall in commodity prices. Exporters of commodities, including Brazil, Russia and Venezuela, have been badly hit in consequence. According to the IMF the negative impact on GDP growth in energy-exporting countries could rise to several percentage points between 2015 and 2017. Finally the Chinese slowdown also increases the level of uncertainty concerning the other emerging markets. The Asian emerging economies in particular are highly vulnerable on account of their extensive financial and trading ties with China.

Spillover effects limited

Apart from internal problems, such as ageing and lower productivity growth, the combination of low commodity prices, monetary tightening in the US and the slowing of the Chinese growth engine will hold back growth in the emerging markets. We do however consider that the spillover effects on western economies will be limited, as the low commodity prices form a positive supply shock for both Europe and the US. Furthermore, a US rate increase would be the result of a favourable economic climate in the US, from which Europe would also benefit. In addition exports to emerging markets account for only a small proportion of European and US GDP. It is also reassuring that no spillover effects have not shown up in the real data so far. In our view the slowdown in emerging markets does not therefore constitute a systemic risk for the global economy.

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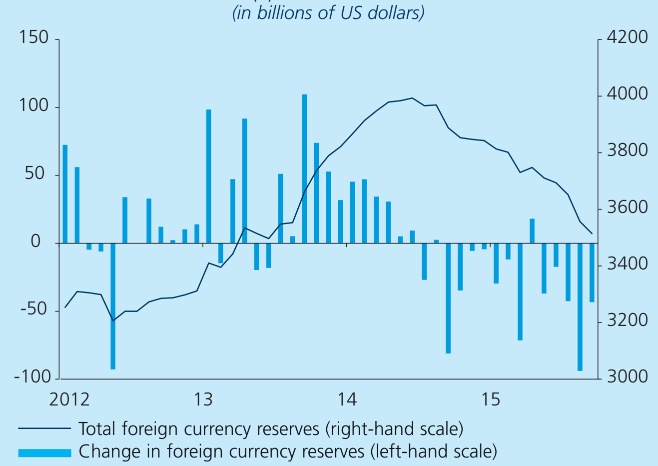
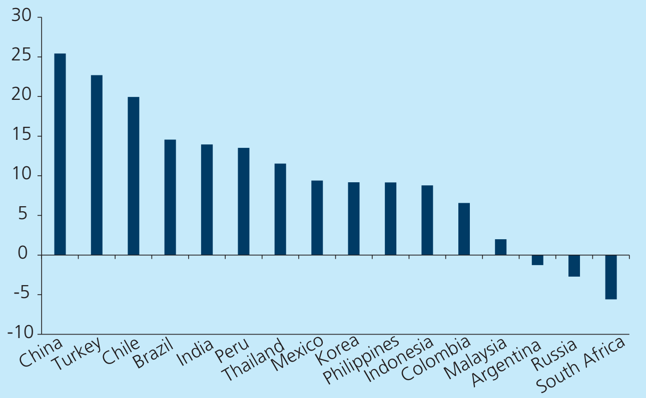
Chinese central bank sells foreign currency in order to support the renminbi
(in billions of US dollars)



Sharp rise in corporate debt risk for emerging markets
(change in corporate debt between 2007 and 2014, as % of GDP)



Japan

No improvements for time being

Again a technical recession

The strong first quarter, based primarily on inventory building, was rapidly followed by disillusionment. Real GDP growth during the second and third quarter was negative, causing the Japanese economy to fall in a technical recession again. The inventories component made the largest negative growth contribution in the third quarter while also corporate investments shrank. Especially producers in the industrial sector scaled back their capital expenditures despite their high profits. On the other hand, private consumption contributed positively to growth, which was consistent with the rise in retail sales during the last few months. Therefore growth for 2015 as a whole will be limited. Based on a somewhat stronger domestic demand we are, however, predicting improvements for 2016.

Inflation suffering from low energy prices

In September inflation once again hit zero. The upward pressure of the VAT increase in spring 2014 has died out, while energy prices continue to fall. Underlying inflation (i.e. excluding food and energy prices) is by contrast on an upward path, having risen since May to 0.9% year-on-year. Although the trend is therefore slightly upward, the central bank's 2% inflation target remains well beyond reach for the time being.

Despite the disappointing inflation and growth figures, the Bank of Japan did not expand its quantitative easing policy. It did however emphasise that it will continue to provide easing as long as that remains necessary in order to achieve its inflation target on a lasting basis. The proposed timing has been postponed by six months to the second half of 2016. To the extent that energy prices rise again and Japanese growth picks up, we are expecting a gradual increase in inflation in 2016.

Forecasts Japan		2014	2015	2016
Real GDP growth		-0.1	0.5	1.3
Inflation		2.7	0.7	1.3
	16-11-2015	+3m	+6m	+12m
Policy rate	0.10	0.10	0.10	0.10
10-year rate	0.31	0.50	0.55	0.60
JPY per USD	122.94	124.00	124.00	125.00
JPY per EUR	131.79	127.10	127.10	131.25

Barely any increase in real wages

The Japanese labour market is becoming tighter by the month. Unemployment is just 3.4%, meaning that the economy is approaching full employment. Furthermore there are ever more unfilled vacancies for each unemployed person and employers face growing difficulty attracting suitable candidates. Even so wages are barely rising. Despite their high profits – largely attributable to the weaker yen – Japanese companies continue to resist pay rises. This is weighing on consumer purchasing power. A sustained recovery in the growth of private consumption is therefore non-existent at the present time. Under pressure from the growing tightness in the labour market, higher wage growth in the coming months is in our view inevitable, which will support consumption.

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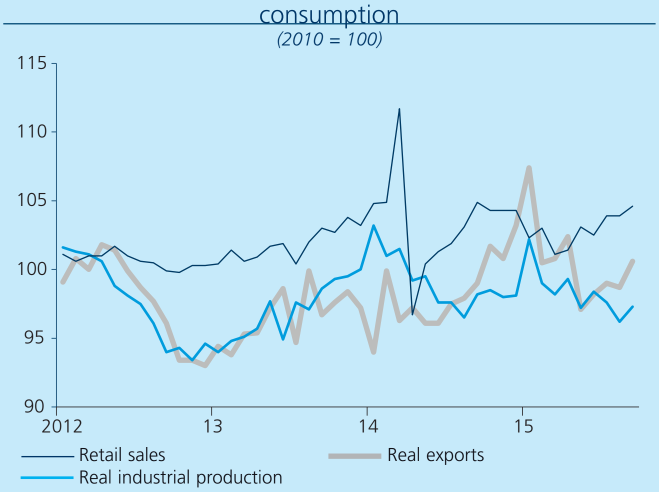
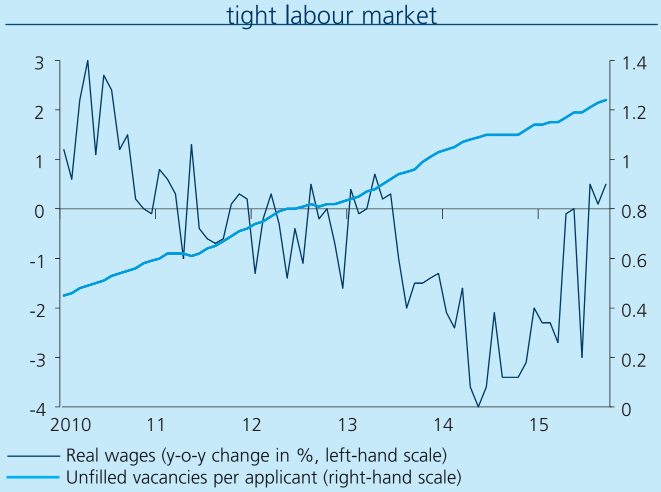
Weak third quarter despite positive developments consumption



Employees' purchasing power barely rises despite tight labour market



Economic Briefings Tables

	Real GDP growth		Inflation	
	2015	2016	2015	2016
US	2.5	2.9	0.2	2.2
Euro area	1.6	1.9	0.1	1.2
Belgium	1.3	1.6	0.5	1.5
Germany	1.8	2.0	0.2	1.6
Ireland	6.5	4.5	0.1	1.0
UK	2.7	2.4	0.1	1.4
Sweden	2.5	2.6	0.2	1.4
Norway	1.6	2.1	2.1	2.3
Switzerland	0.6	1.1	-1.1	-0.2
Slovakia	3.2	3.2	-0.2	0.5
Poland	3.4	3.7	-0.8	1.0
Czech Republic	4.0	2.5	0.4	1.5
Hungary	3.0	2.4	0.2	2.4
Bulgaria	1.8	2.0	-0.7	1.0
Russia	-4.0	0.3	15.0	8.0
Turkey	2.9	3.1	7.4	7.2
Japan	0.5	1.3	0.7	1.3
China	6.8	6.5	1.5	2.1
Australia	2.3	2.6	1.8	2.5
New Zealand	2.2	2.4	0.5	1.8
Canada	1.2	2.2	1.1	2.1

Policy rates

	16-11-2015	+3m	+6m	+12m
US	0.25	0.50	0.75	1.25
Euro area	0.05	0.05	0.05	0.05
UK	0.50	0.50	0.75	1.00
Sweden	-0.35	-0.35	-0.35	-0.35
Norway	0.75	0.75	0.75	0.75
Switzerland	-0.25	-0.25	-0.25	-0.25
Poland	1.50	1.25	1.00	1.00
Czech Republic	0.05	0.05	0.05	0.05
Hungary	1.35	1.35	1.35	1.35
Romania	1.75	1.75	1.75	1.75
Russia	11.00	10.00	9.00	9.00
Turkey	7.50	7.75	8.00	8.25
Japan	0.10	0.10	0.10	0.10
China	4.35	4.35	4.35	4.35
Australia	2.00	2.00	2.00	2.00
New Zealand	2.75	2.75	2.75	2.75
Canada	0.50	0.50	0.50	0.75

Exchange rates

	16-11-2015	+3m	+6m	+12m
USD per EUR	1.07	1.03	1.03	1.05
GBP per EUR	0.71	0.70	0.69	0.68
SEK per EUR	9.32	9.25	9.20	9.10
NOK per EUR	9.30	9.23	9.00	8.75
CHF per EUR	1.08	1.08	1.08	1.08
PLN per EUR	4.25	4.25	4.20	4.15
CZK per EUR	27.02	27.00	27.00	27.00
HUF per EUR	311.52	310.00	308.00	306.00
RON per EUR	4.43	4.43	4.43	4.43
BGN per EUR	1.96	1.96	1.96	1.96
RUB per EUR	70.88	69.70	71.75	73.50
TRY per EUR	3.09	3.13	3.23	3.41
JPY per EUR	131.79	127.10	127.10	131.25
RMB per USD	6.37	6.40	6.45	6.50
USD per AUD	0.71	0.68	0.68	0.67
USD per NZD	0.65	0.62	0.62	0.61
CAD per USD	1.33	1.34	1.34	1.35

10-year rates

	16-11-2015	+3m	+6m	+12m
US	2.26	2.50	2.65	2.80
Germany	0.55	0.90	1.10	1.25
Belgium	0.84	1.15	1.35	1.45
Ireland	1.10	1.40	1.60	1.75
UK	1.97	2.20	2.36	2.60
Sweden	0.87	1.10	1.30	1.45
Norway	1.60	1.90	2.00	2.11
Switzerland	-0.32	-0.05	0.15	0.30
Slovakia	0.85	1.10	1.20	1.35
Poland	2.69	2.55	2.75	2.90
Czech Republic	0.52	0.90	1.20	1.35
Hungary	3.51	3.60	3.65	3.65
Bulgaria	2.78	3.15	3.25	3.25
Russia	9.94	12.00	12.00	12.00
Turkey	9.66	10.40	10.90	11.40
Japan	0.31	0.50	0.55	0.60
China	3.16	3.20	3.20	3.20
Australia	2.90	3.05	3.20	3.35
New Zealand	3.56	3.75	3.90	4.05
Canada	1.65	1.90	2.05	2.20

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