MR11

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

NUMBER 373 | NOVEMBER 2013

ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: THE CHALLENGES OF THE PENSION SYSTEM

www.lacaixaresearch.com

"la Caixa"

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
November 2013

"la Caixa"
RESEARCH DEPARTMENT

Av. Diagonal, 629, torre I, planta 6
08028 BARCELONA
Tel. 34 93 404 76 82
Telefax 34 93 404 68 92
www.lacaixaresearch.com

e-mail:
For enquiries regarding
The *Monthly Report:*
informemensual@lacaixa.es

For subscriptions (new, cancellations, etc.):
publicacionesestudios@lacaixa.es

Date this issue was closed:
31 October 2013

"la Caixa" *Research*

- Jordi Gual
  Chief Economist
- Oriol Aspachs
  Director, European Unit
- Enric Fernández
  Director, Economic Research
- Avelino Hernández
  Director, Financial Markets Unit
  and International Unit

INDEX

EDITORIAL

PENSIONS: A CRUCIAL REFORM

This month's dossier looks at one of the key issues for the long-term sustainability of public finances in developed countries: the design and management of pension systems, a cornerstone to the welfare state.

The need to reform public pension systems comes from both the expected demographic trends in advanced economies and also from design failings in pay-as-you-go (PAYG) systems.

With regard to demographic trends, unless highly significant changes occur in migratory flows or policies to boost the birth rate, the outlook is for a gradual but inexorable ageing of the population and all that this entails in terms of a deteriorating dependency ratio, i.e. the number of pensioners for every employed worker.

With regard to design, PAYG systems are efficient mechanisms to collectively insure against risks such as longevity. But their partially redistributive nature places them at the heart of political debate and, unless there are very strict legal safeguards, the tendency is to set benefit levels with an implicit return that are higher than the real returns generated by the economy which is, ultimately, the profits resulting from the creation of jobs and from developments in work productivity.

Most of the reforms introduced in western countries over the last few years have attempted to guarantee the viability of public systems by incorporating more or less automatic mechanisms that adjust the system's benefits, both to demographic trends and also to the availability of resources actually generated by the economy. Reforms have also ideally attempted to modify people's behaviour, both in terms of the decision regarding how long they will work as well in relation to participation in the labour market. The reform that is being discussed in Spain falls within this context.

Reforms have gone further in some countries, attempting to promote private pension plans as a complement to public pensions. Private pensions are based on accumulation systems and therefore encourage saving, while the benefits depend on the returns achieved by the assets in which the resources saved have been invested. By definition, these are therefore systems that are not redistributive and where the benefits cannot exceed the funds actually generated. Obviously they also have their drawbacks, including administration costs and the risk assumed, given that their benefits depend on the volatility of the assets invested in.

Whatever the case, it is useful to note something that is often forgotten when discussing the dichotomy between public and private pensions. Beyond political connotations, their co-existence clearly makes sense. The public system is based on returns from an asset that is central to any economy, namely its labour force. Benefits will ultimately depend on growth in employment and real wages. On the other hand, private systems depend on returns from financial assets, basically bonds and shares. Past experience shows that the correlation between all these assets is very low and might even be negative. Common sense, and the basic rules of financial diversification, therefore suggest that it would be wise for developed economies to base their pension systems on a combination of both models, particularly when accumulation systems also help to diversify risk by accessing international financial assets.

Jordi Gual
Chief Economist
31 October 2013

Chronology

APRIL 2013

19 The government approves the **reform of the mortgage act**, amending the procedure for mortgage foreclosures.
26 The government presents the 2013-2016 Stability Programme, with a **more relaxed fiscal consolidation target**.

MAY 2013

2 The **European Central Bank** lowers the official interest rate to 0.5%.
29 The European Commission recommends relaxing the path of fiscal consolidation for Spain, setting the 2013 target for the general government deficit at 6.5% of GDP. It also defines a schedule of reforms, particularly of the labour market, taxation system and energy industry.

JUNE 2013

27 The European Council approves the **Recovery and Resolution Directive** that establishes an order of seniority for liabilities in bail-ins.

JULY 2013

4 The European Central Bank adopts a **forward guidance** policy, announcing that official interest rates will remain at the present or lower levels for an extended period of time.
12 The government approves the **energy reform** to tackle the electricity tariff deficit.

SEPTEMBER 2013

12 The European Parliament approves **the single supervisory mechanism for banking**, granting the power to supervise all euro area banks to the European Central Bank.

OCTOBER 2013

23 The European Central Bank establishes the schedule to **assess bank balance sheets** prior to assuming its single supervisory tasks. Three exercises will be carried out (risk assessment, asset quality review and a stress test), which will start in November 2013 and whose findings will be published in October 2014.

Agenda

NOVEMBER 2013

5 Registration with Social Security and registered unemployment (October).
7 Governing Council of the European Central Bank.
Industrial production index (September).
GDP flash estimate of the United States (third quarter).
14 GDP flash estimate for the euro area and Japan (third quarter).
18 Loans, deposits and NPL ratio (September).
20 International trade (September).
26 Government revenue and expenditure (October).
28 Quarterly national accounts (third quarter).
Flash CPI (November).
Index of economic sentiment euro area (November).
29 Balance of payments (September).

DECEMBER 2013

3 Registration with Social Security and registered unemployment (November).
5 Governing Council of the European Central Bank.
Industrial production index (October).
17 Quarterly labour cost survey (third quarter).
18 Loans, deposits and NPL ratio (October).
Fed Open Market Committee.
19 European Council.
20 International trade (October).
23 Government revenue and expenditure (November).
27 Balance of payments (October).
Net international investment position (third quarter).
30 Public administration balance (third quarter).

EXECUTIVE SUMMARY

MORE OPTIMISM

An optimistic tone dominated the month of October supported by economic, monetary and political factors. Leading business indicators confirm the gradual recovery of advanced economies while the emerging are reducing their cruising speed, although the much-feared hard landing is looking increasingly unlikely. This improved economic tone can partly be explained by the continuation of expansionary monetary policies: the Fed has delayed the start of it withdrawing stimuli, the Bank of Japan is maintaining its asset purchase plan and the ECB is stressing that its expansionary monetary policy will carry on. Significant advances have also been seen in the political and institutional sphere, particularly the progress made in the fiscal area in the USA and the ECB's public announcement of its roadmap to assess Europe's banks. However, as warned by the IMF in its World Economic Outlook, the greatest risk to global recovery is the failure to implement the structural reforms that can ensure sustainable growth.

The emerging countries are stabilising but must correct their macroeconomic imbalances. The capital outflows from emerging countries that started this summer have now stopped to a large extent. The financial conditions of these countries, especially the most vulnerable ones, have normalised, undoubtedly thanks to the Fed postponing its tapering. However, sooner or later the Fed will normalise its monetary policy so tensions may reappear, particularly if these economies do not take credible measures to correct their macroeconomic imbalances. On the other hand, China's capacity to grow continues to surprise: in Q3 it posted 7.8% growth year-on-year, outdoing all forecasts. In any case, the Asian giant also needs to implement structural reforms and, perhaps even more importantly, to rebalance its economy towards growth based more on consumption than on investment.

The shutdown has had a limited impact in the USA but the Fed has decided to delay tapering. In October, the USA captured a large part of the world's economic attention. On the one hand, negotiations regarding the federal budget and debt ceiling finally bore fruit, ensuring the government would function until January and suspending the debt ceiling until February while, on the other hand, the Fed delayed its withdrawal of monetary stimuli. It is estimated that the partial government shutdown for seventeen days had a limited impact on economic growth, so that our GDP growth forecasts for 2013 and 2014 remain unchanged. However, the latest economic figures, weaker than expected, will probably force the Fed to postpone a reduction in its rate of asset purchases until 2014 Q1. It did not take long to see the effects on the markets, especially in equity with stock markets at record highs.

The euro area continues to recover, supported by advances towards banking union. During October, leading business indicators behaved as expected, remaining in expansionary terrain and suggesting a slow recovery at different speeds between the core and the periphery. On the other hand, inflation surprised with a drop in its rate (0.7% in October). Given that this fall in inflation is due to temporary factors and the current situation, such as the low utilization of production capacity and high unemployment in some countries, we expect it to increase slightly as economic activity gains ground. The euro area's recovery is being helped by the first steps towards the implementation of the Single Supervisory Mechanism (SSM) for European banks. The ECB publicly announced its roadmap to assess the banking balance sheets of the main financial institutions, a process that starts in November 2013 and ends in October 2014, just before the SSM starts up.

Spain exits the recession. Slight growth in GDP in 2013 Q3 (0.1% quarter-on-quarter) confirms the end of the recession after nine quarters of contraction. Exports are still the main support for the recovery process. The good figures posted by employment, boosted by the tourism sector and the rest of services, indicate a scenario of gradual stabilisation in the labour market. Moreover, the drop in the risk premium and significant capital inflows in the form of foreign direct investment and portfolio investment encourage quiet optimism, although the figures from Q4 will be crucial in confirming whether the recovery is actually underway.

FORECASTS

Year-on-year (%) change, unless otherwise specified

International economy

	2012	2013	2014	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
GDP GROWTH									
Global	3.2	2.9	3.7	3.0	2.8	2.5	2.6	2.9	3.1
Developed countries									
United States	2.8	1.6	2.8	3.1	2.0	1.3	1.6	1.4	1.9
Euro area	–0.6	–0.4	1.0	–0.7	–1.0	–1.2	–0.6	–0.3	0.5
Germany	0.9	0.5	1.5	0.9	0.3	–0.3	0.5	0.6	1.5
France	0.0	0.2	0.8	0.0	–0.3	–0.5	0.3	0.3	0.5
Italy	–2.6	–1.7	0.4	–2.8	–3.0	–2.5	–2.2	–1.7	–0.4
Spain	–1.6	–1.2	0.8	–1.7	–2.1	–2.0	–1.6	–1.2	–0.2
Japan	2.0	2.0	1.8	0.4	0.3	0.1	1.3	3.1	3.4
United Kingdom	0.1	1.4	2.0	0.0	–0.2	0.2	1.3	1.5	2.4
Emerging countries									
Russia	3.4	1.7	2.6	3.0	2.1	1.6	1.2	1.8	2.2
China	7.8	7.6	7.6	7.4	7.9	7.7	7.5	7.8	7.5
India[1]	5.1	4.5	4.7	5.2	4.7	4.8	4.4	4.2	4.9
Brazil	0.9	2.9	3.2	0.9	1.4	1.9	3.3	3.4	3.2
Mexico	3.8	1.2	3.4	3.1	3.2	2.6	0.3	1.0	1.1
Poland	2.1	1.2	2.4	1.7	0.8	0.7	1.1	1.2	1.7
Turkey	2.2	3.4	3.5	1.5	1.4	2.9	4.4	3.2	3.0
INFLATION									
Global	4.0	3.3	3.5	3.5	3.4	3.4	3.3	3.4	3.3
Developed countries									
United States	2.1	1.5	1.8	1.7	1.9	1.7	1.4	1.6	1.4
Euro area	2.5	1.4	1.4	2.5	2.3	1.9	1.4	1.3	1.1
Germany	2.1	1.7	1.5	2.1	2.0	1.8	1.5	1.7	1.6
France	2.2	1.1	1.4	2.3	1.7	1.2	0.9	1.1	1.2
Italy	3.3	1.3	1.4	0.0	–0.2	0.2	1.3	1.3	2.2
Spain	2.4	1.5	1.1	2.8	3.1	2.6	1.7	1.2	0.5
Japan[2]	0.0	0.3	2.7	–0.3	–0.2	–0.6	–0.3	0.9	1.2
United Kingdom	2.8	2.7	2.6	2.4	2.7	2.8	2.7	2.7	2.5
Emerging countries									
Russia	5.0	6.6	5.1	6.0	6.5	7.1	7.2	6.4	5.9
China	2.7	2.6	2.6	1.9	2.1	2.4	2.4	2.6	2.9
India[3]	7.6	6.2	6.0	7.9	7.3	6.7	4.8	6.1	7.0
Brazil	5.4	6.2	5.9	5.2	5.6	6.4	6.6	6.1	5.7
Mexico	4.1	3.7	3.5	4.6	4.1	3.7	4.5	3.4	3.3
Poland	3.7	1.3	2.0	3.9	3.0	1.6	0.8	1.4	1.3
Turkey	8.9	7.5	6.6	9.0	6.8	7.2	7.0	8.3	7.5

Notes: *(1) Tax year and factor cost. (2) Including the consumption tax hike planned for April 2014. (3) Wholesale figures.*

Forecasts

Spanish economy

	2012	2013	2014	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Macroeconomic aggregates									
Household consumption	–2.8	–2.7	0.2	–2.8	–3.6	–4.3	–3.2	–2.6	–0.7
General government consumption	–4.8	–1.5	–1.2	–4.9	–5.0	–3.3	–2.4	0.1	–0.2
Gross fixed capital formation	–7.0	–6.5	–1.1	–7.5	–7.7	–7.5	–6.4	–7.3	–4.8
Capital goods	–3.9	–0.1	2.6	–3.7	–4.7	–4.2	0.4	–1.1	4.3
Construction	–9.7	–10.3	–3.1	–10.9	–10.0	–10.2	–10.5	–10.6	–10.1
Domestic demand (contr. Δ PIB)	–4.1	–3.1	–0.3	–4.2	–4.6	–4.7	–3.6	–2.9	–1.3
Exports of goods and services	2.1	5.2	5.6	3.3	4.4	3.6	9.2	3.7	4.1
Imports of goods and services	–5.7	–0.6	2.4	–4.6	–3.5	–4.8	3.1	–1.6	0.9
Gross domestic product	**–1.6**	**–1.2**	**0.8**	**–1.7**	**–2.1**	**–2.0**	**–1.6**	**–1.2**	**–0.2**
Other variables									
Employment	–4.8	–3.2	0.3	–4.7	–5.0	–4.5	–3.8	–2.9	–1.5
Unemployment rate (% labour force)	25.0	26.4	25.5	25.0	26.0	27.2	26.3	26.0	26.3
Consumer price index	2.4	1.5	1.1	2.8	3.1	2.6	1.7	1.2	0.5
Unit labour costs	–3.0	–1.2	0.0	–2.4	–5.3	–2.9	–2.3	–1.4	1.6
Current account balance (cum., % GDP)	–1.2	1.8	2.4	–2.4	–1.2	–0.1	0.7	1.4	1.8
Net lending or borrowing rest of the world (cum., % GDP)	–0.6	2.3	2.9	–1.9	–0.6	0.5	1.5	1.9	2.3
Fiscal balance (cum., % GDP)	–10.6	–6.9	–6.0	–9.6	–10.6	–10.5	–10.2		

Financial markets

INTEREST RATES									
Dollar									
Fed Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-month Libor	0.43	0.27	0.34	0.42	0.32	0.29	0.28	0.26	0.26
12-month Libor	1.01	0.70	0.79	1.04	0.88	0.77	0.70	0.67	0.66
2-year government bonds	0.27	0.32	0.70	0.26	0.27	0.26	0.26	0.36	0.39
10-year government bonds	1.78	2.32	3.05	1.62	1.69	1.93	1.98	2.70	2.68
Euro									
ECB Refi	0.88	0.58	0.50	0.75	0.75	0.75	0.58	0.50	0.50
3-month Euribor	0.57	0.21	0.20	0.36	0.20	0.21	0.21	0.22	0.21
12-month Euribor	1.11	0.53	0.53	0.89	0.60	0.57	0.51	0.54	0.51
2-year government bonds (Germany)	0.08	0.13	0.43	–0.01	0.01	0.11	0.06	0.17	0.19
10-year government bonds (Germany)	1.55	1.63	1.99	1.42	1.42	1.51	1.41	1.78	1.83
EXCHANGE RATES									
$/euro	1.29	1.32	1.32	1.25	1.30	1.32	1.31	1.32	1.34
¥/euro	102.71	128.81	135.84	98.44	105.44	121.84	128.88	131.09	133.44
£/euro	0.81	0.85	0.83	0.79	0.81	0.85	0.85	0.86	0.84
OIL									
Brent ($/barrel)	111.38	108.05	107.47	109.19	109.52	112.23	103.16	109.24	107.59
Brent (euros/barrel)	86.61	81.74	81.29	87.21	84.40	85.03	78.97	82.46	80.49

Forecasts

FINANCIAL MARKETS

The markets perform quite well in October, consolidating a positive medium-term trend. The episode of fiscal uncertainty in the USA having been overcome, the Federal Reserve (Fed) deciding to postpone its withdrawal of stimuli, as well as encouraging activity figures from China and the euro area have been the main reasons for the good climate in the markets. Of particular note was the dynamism of the stock markets and especially, once again, the Spanish stock market, as well as improved financial conditions for the emerging block.

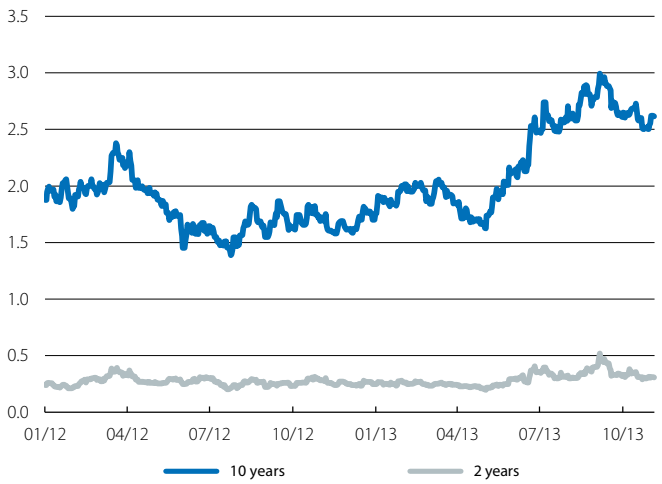
Paradoxically, too much complacency has become the main risk factor in the short term. Although this run of good results in the financial markets over the last few weeks is backed by solid fundamentals, we should not abandon caution regarding any setbacks or shocks that may appear (see the Focus «Global financial stability: progressing satisfactorily»). In this respect, the good performance by most financial assets since the end of the summer is leading to signs of exuberance in some areas, particularly in US credit markets. This is likely to impel the Fed to issue warnings in order to halt any possible excess that could jeopardise future financial stability. On other occasions, this kind of intervention (even when only verbal) has led to corrections in risk asset prices.

Political tensions due to the fiscal dispute in the USA had a limited impact on the markets. The partial shutdown of federal government and the tortuous negotiations between Republicans and Democrats to raise the debt ceiling did not make investors too nervous. Proof of this is the fact that the CDS premium (or protection against default) for US debt posted a minimal upswing that also quickly corrected itself. This also happened with the implied volatility index for government debt (which measures the cost of hedging and reflects the concerns of investors), whose upswing was limited in both time and size. Throughout the month, the yield on 10-year bonds fluctuated around 2.60%, in line with the latest news on the fiscal dispute and clues as to the Fed's possible course of action.

Doubts remain regarding when the Fed will start tapering. October's meeting of the Monetary Policy Committee did not dispel any doubts or provide any clues. As expected, it was agreed to maintain the monthly rate of debt purchases, apparently waiting for further evidence to confirm sustained improvement in activity and employment figures, as well as the resolution of certain doubts or risks. There are several reasons to believe the Fed will begin its monetary normalisation in the first quarter of next year. Firstly, the momentum of the economy has been affected by activity and employment figures that have lost steam compared with the second quarter, apart from the effects of the fiscal shutdown, which are difficult to gauge. Confirmation is required that the US economy has not lost its ability to withstand such knocks

USA: yields on public debt

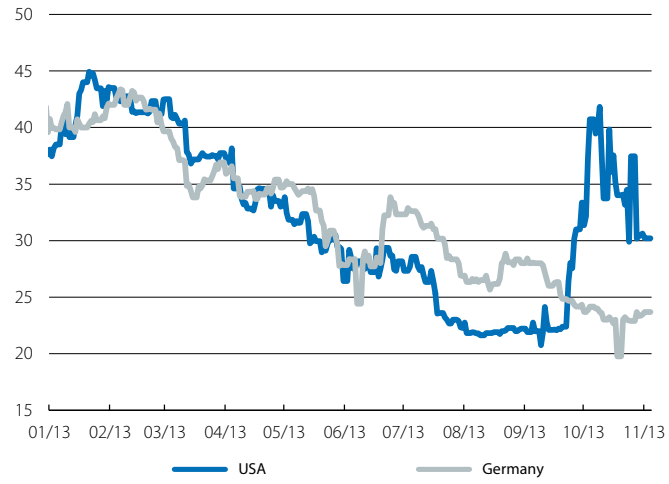
(%)



Source: *"la Caixa" Research, based on Bloomberg data.*

Sovereign risk premia of the USA and Germany

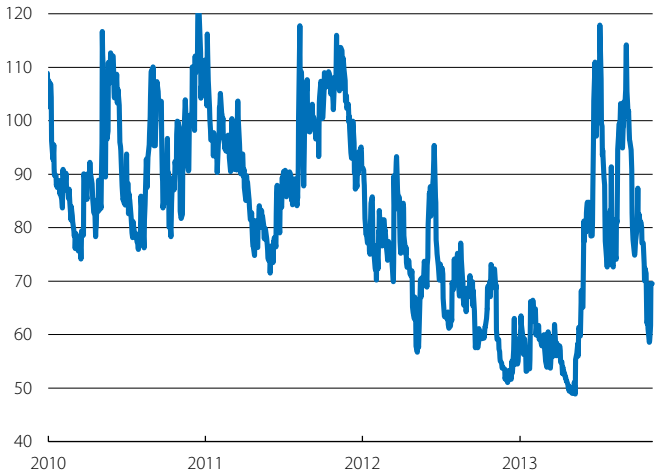
CDS at 5 years (in basis points)



Source: *"la Caixa" Research, based on Bloomberg data.*

Volatility in the government bond market

(MOVE index)



Source: *"la Caixa" Research, based on data from BoAML and Bloomberg.*

and that it is gaining momentum. Secondly, the financial context must stabilise, currently affected by the opposing forces of the trend in mortgage interest rates and the risk of overheating in some corporate bond markets. Lastly, the institutional context must also be taken into account, with Janet Yellen taking over from Bernanke at the Fed as from February. Everything seems to suggest, therefore, that the Fed will not abandon the conservative stance it has adopted and will delay the start of tapering with respect to the plans initially outlined last June.

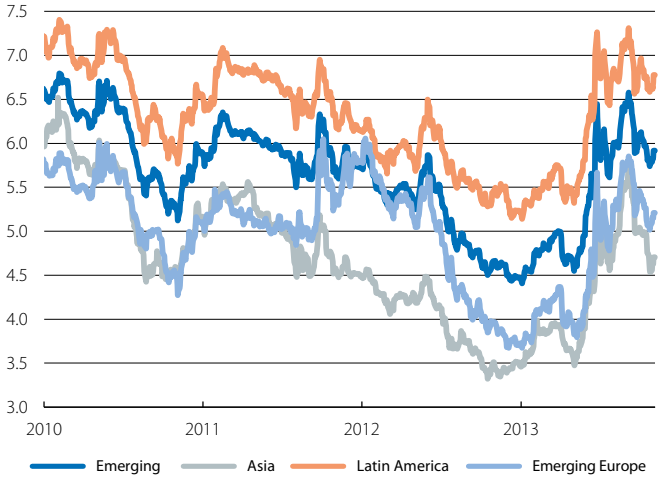
The financial environment continued to improve in the emerging block in October. Financial conditions in most of the emerging countries, particularly the so-called «BIITS» (Brazil, India, Indonesia, Turkey and South Africa), are continuing to perk up thanks to capital flows gradually getting back to normal. The Fed's decision to postpone its withdrawal of stimuli and the improved tone of economic activity in the emerging economies themselves (thanks both to domestic and foreign demand) lie behind this improvement. China and India have been clear examples of this more constructive situation. The slightly restrictive slant of the monetary policy adopted by countries such as Brazil and India has also helped, interpreted as a commitment to orthodoxy. Nonetheless, pushing forward with reforms is key to improving long-term economic fundamentals in the emerging regions and thereby enhance financial stability, particularly when the start of monetary normalisation in the USA, albeit postponed, is not too far off.

China is keeping an eye on latent risks on several fronts. The Asian giant's central bank has induced some tension in interbank market interest rates by restricting the extent of its liquidity injections. This seems to be in response to the improvement observed in economic indicators and especially to the rapid growth in credit and real estate prices. The latter have recorded the fastest growth for the last three years in large Chinese cities. Although the risks associated with rapid credit growth and the formation of real estate bubbles warrant a great deal of attention, it is encouraging to note that the Chinese authorities are still vigilant and ready to act when required.

The euro area's monetary policy will continue to be highly accommodative. As the ECB has repeated on several occasions, the fact that the euro area's economic recovery is very fragile fully justifies the institution's loose monetary policy. Moreover, the inflation rate is still falling while the euro is getting stronger. On the other hand, in October the «excessive liquidity» of banks with the ECB fell below the threshold of 200 billion euros which the monetary authority believes is adequate, which might push up monetary interest rates. In this respect, if any upswings in short-term rates were in danger of compromising market stability, the ECB would not hesitate to intervene by adopting new, very long-term liquidity injections (LTRO); although a further reduction in the official interest rate cannot be ruled out either.

Yields on sovereign bonds of emerging countries

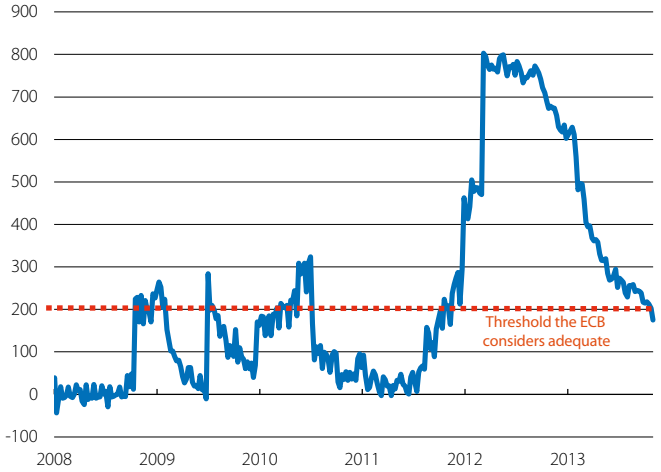
Bonds in dollars (%)



Source: *"la Caixa" Research, based on data from Thomson Reuters Datastream.*

ECB: excess bank reserves

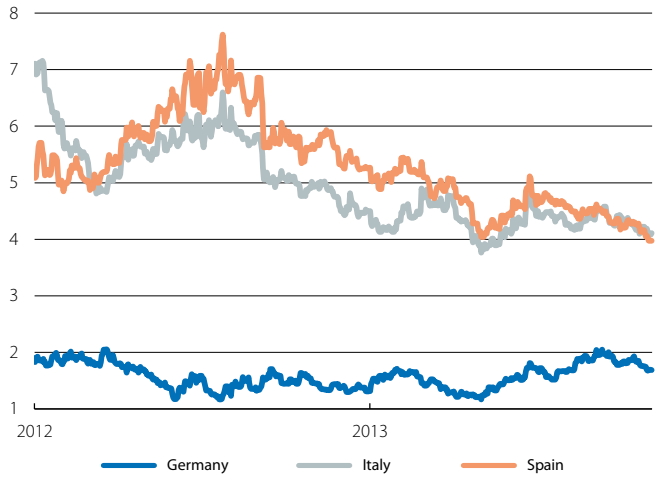
(Billion euros)



Source: *"la Caixa" Research, based on Bloomberg data.*

Euro area: yields on 10-year public debt

(%)



Source: *"la Caixa" Research, based on Bloomberg data.*

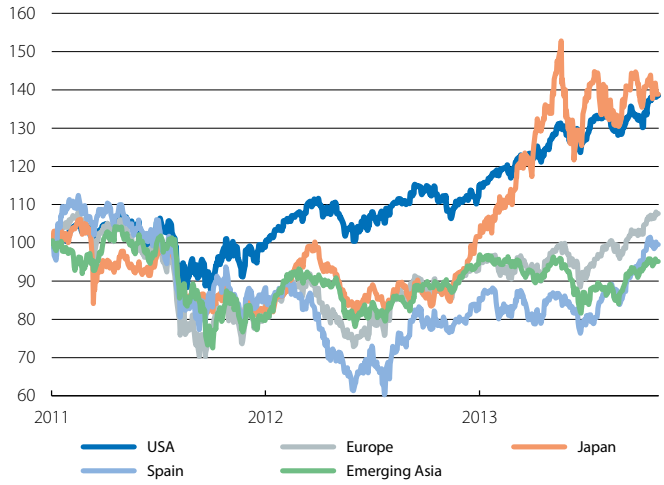
Once again, a positive monthly balance for Spain's public debt and equity. The favourable situation observed recently has been repeated, boosted by a solid improvement in the perceived risk of periphery sovereign debt and backed by the slow but gradual movement of investors from safe haven assets toward Italian and Spanish debt. The progress being made by Spain particularly stands out: the spread with the German 10-year bund is at levels close to 230 bps while the yield on 10-year bonds fell below 4% in some sessions. Along these lines, the Treasury issued 30-year syndicated debt which was successful in terms of both demand and yield. In the stock markets, the Ibex 35 capitalised on the generally favourable climate and has posted considerable gains since January (in the order of 20% cumulative), now standing at a two-year high. The main players were the sectors of consumer goods and banking. However, towards the end of the month a slight correction could be seen that might not be over yet. Further gains in the Spanish stock market will have to be accompanied by solid corporate earnings, a circumstance that seems likely in 2014.

Performance in unison with international equity markets. Both the US stock market (S&P 500 and Dow Jones have hit historical highs) and the European and Japanese markets have registered strong gains in their monthly figures thanks to the constructive climate of global financial conditions and the relatively positive trends in corporate earnings. Emerging stock markets have also performed satisfactorily, due partly to their prudent management of fiscal and monetary policies, promoting those factors that «attract» international capital flows. Although there is still a small amount of volatility, possible announcements or messages of a restrictive slant by the Fed and/or Chinese authorities could lead to corrections from the current levels.

Great activity in the corporate credit markets. Issuances of corporate bonds have reached record levels in the USA, specifically in the high yield and syndicated loan segments, denoting some overheating in the sector. In Europe the figures are still below the levels of 2012 although the year's trend is positive. Of note is the good tone shown by non-financial corporate bonds in Spain, achieving their highest volume for the last five years. The positive trend in country risk and perceptible improvements in activity figures underpin this dynamic.

Trends in the main international stock markets

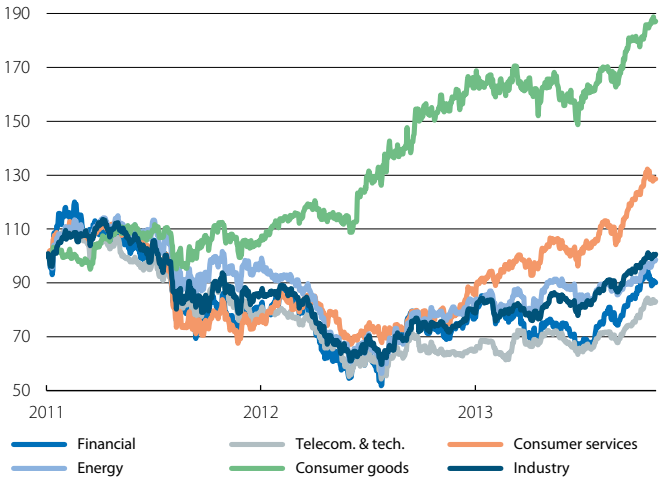
(January 2011 = 100)



Source: *"la Caixa" Research, based on Bloomberg data.*

Spanish stock exchange: trend by sector

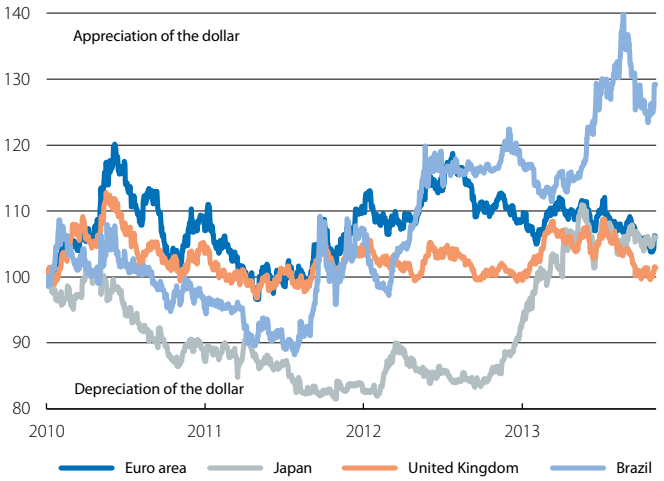
(January 2011 = 100)



Source: *"la Caixa" Research, based on Bloomberg data.*

Value of the dollar against different currencies

(January 2010 = 100)



Source: *"la Caixa" Research, based on Bloomberg data.*

FOCUS · The MARF: betting on corporate bonds

The efforts being made to facilitate financing for Spanish small and medium-sized firms have reached a significant milestone: on 7 October the Alternative Fixed-Income Market (MARF in Spanish) came into operation. This is an electronic platform run by Bolsas y Mercados Españoles (BME), a company with tried and tested experience in operating regulated financial markets. The aim of the MARF is to encourage medium-sized firms to issue commercial paper and bonds (probably those with an annual turnover of around 50 million euros or more), set up as an alternative to the traditional markets used by large corporations. In this respect, it is like a brother to the MAB (Alternative Stock Market), where the shares of smaller firms have been listed for several years.

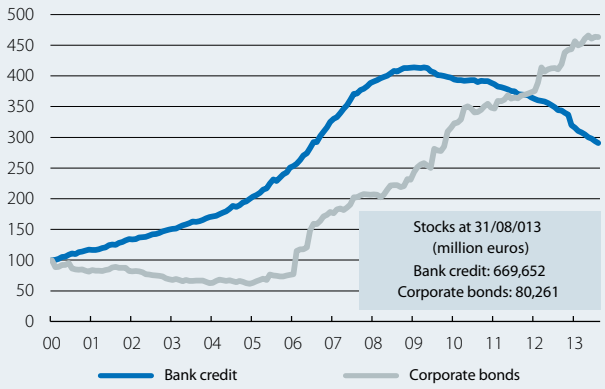
The main advantages for those firms using the MARF lie in significant reductions in the cost of handling and placing issuances and its simpler procedures. Firms have to present their audited annual accounts for the last two years (which must be free from any significant reservations) as well as a solvency report drawn up by a ratings agency.[1] The cost of security inscription is low: 0.0025 per thousand of the nominal amount when the maturity is less than twelve months and 0.025 per thousand when it is longer. The minimum nominal amount is 100,000 euros and the total value of the bonds issued can exceed the issuer's net worth. One very important point is the fact that the MARF is only aimed, at least initially, at institutional investors; i.e. investment and pension funds, insurance companies, venture capital companies, etc. Spanish collective investment vehicles will be able to invest up to 3% of their equity in instruments traded on the MARF. At the same time fiscal incentives have also been introduced in the form of deductions on corporation tax for capital gains achieved by investors.

The MARF was a requirement of the Memorandum of Understanding governing the financial assistance programme requested from the ESM last year by the Spanish government, justified by the need to improve the performance of Spain's financial system as a whole. In this respect, it constitutes an important step forward towards a model where bank and capital market channels complement each other harmoniously, attempting to make the most of the advantages offered by each one. Capital markets are poorly developed in Spain, particularly bond markets and their relative weight among the sources of corporate financing is low compared with not only the USA or the United Kingdom but also with other closer countries such as Germany. Given the current scenario in which bank balances are being rectified and deleveraged, brought about by more demanding regulatory requirements, it becomes particularly important to open up complementary sources of corporate financing. Over the last few months, large Spanish companies have already considerably increased their use of bond markets as part of an international phenomenon encouraged by the quantitative policies applied by central banks. A door has now been opened to medium-sized firms with the MARF. This is likely to be a gradual process although undoubtedly with great potential in the long term. To counter those who remember the MAB's little development, we should stress the success of projects similar to the MARF in Germany, France, Italy and Norway. Now it is up to the firms themselves to take the initiative.

(1) Risk reports for the issuance or regarding solvency must be issued by a registered ratings agency certified by the ESMA (European Securities and Markets Authority).

Spain: financing to resident non-financial firms

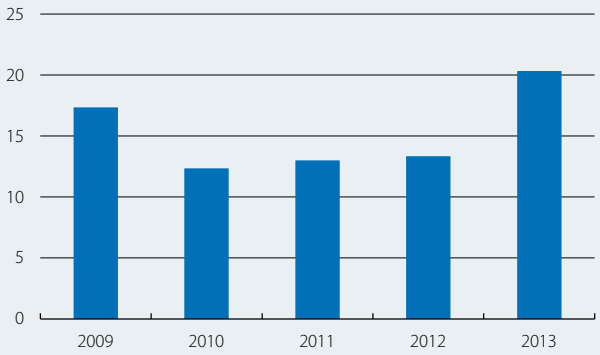
(Credit and debt stocks, January 2000 = 100)



Source: *"la Caixa" Research, based on data from the Bank of Spain.*

Bonds issued by Spanish non-financial firms

Cumulative over first nine months of every year (billion euros)



Source: *"la Caixa" Research, based on Dealogic data.*

FOCUS · Global financial stability: progressing satisfactorily

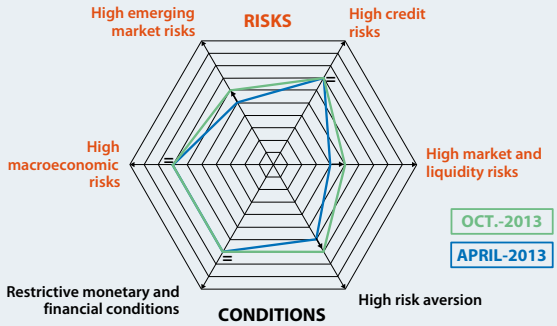
The International Monetary Fund (IMF) has just published its twice-yearly Global Financial Stability Report (GFSR) in which it assesses developments in key risks which both economic authorities and private agents must monitor closely. The map contemplated by the GFSR covers six global factors: (i) macroeconomic risks, (ii) emerging market risks, (iii) credit risks, (iv) market and liquidity risks, (v) investor risk appetite and (vi) monetary and financial conditions. The main message issued by the IMF is encouraging: the international financial system is undergoing a series of transitions toward greater global stability.

In the area of macroeconomic risks, the IMF believes the overall situation has not changed significantly since its previous report (April): it still expects activity to gradually improve at a global level but with a disparate geographical composition. On the one hand, the institution recognises that the recovery in the USA is gaining ground and that the situation in Europe is finally improving, albeit tentatively. However, it also indicates that growth prospects in several emerging countries are getting worse. This last point has led the IMF to state, perhaps with excessive caution, that the risks affecting markets from the global macroeconomic sphere are still downward. There is no doubt that the downgrading of growth forecasts for emerging countries is bad news as this effectively increases the downward risks for international growth. Unfortunately, such risk is being accentuated by expectations regarding the USA's monetary policy and the likelihood of capital leaving these countries, a situation that could deteriorate further if there is a sharp upswing in risk aversion on the part of investors. To cushion possible negative effects, the IMF recommends that local authorities should monitor the leveraging of agents (in particular in foreign currencies) and persevere with structural reforms as a factor to attract capital.

In principle, the fact that the USA's economic growth is consolidating is positive at a global level but uncertainty is also growing regarding how financial markets will react when the Federal Reserve (Fed) decides to start its monetary normalisation strategy. Regarding this risk, the GFSR quite rightly points out that the greatest challenge facing global financial stability at present is related to how any «collateral damage» is managed that may appear once the Fed starts to reduce its bond purchases. Undoubtedly the Fed will have to be appropriate and transparent in communicating its actions. As the IMF notes, it is important to bear in mind the fact that any worsening in liquidity conditions could cause serious, undesired effects. In particular, an initial sudden rise in interest rates could cause problems for leveraged positions in carry trade operations (which are financed in the short term but invest long term), which in turn could trigger mechanisms that amplify rate increases and tension, cutting short the recovery in activity and employment.

Global risk map

Nearer to the centre signifies less risk



Source: *International Monetary Fund.*

One area which the IMF duly praises is the advances that have been made in the euro area. Both structural reforms at a national level and the steps taken to improve the institutional architecture of monetary union are helping to reduce the financial pressures faced by governments in periphery countries. However, the GFSR believes that, on the whole, credit risks have hardly improved, claiming that bank balance sheets are taking too long to be put right. The IMF may be exaggerating this point somewhat to spur on governments to put their banks in order and implement European banking union.

In summary, the overall assessment of the IMF report is moderately positive. Although the challenges faced by authorities in the USA, euro area and emerging countries are highly complex due to the interconnection of risks, the reasonable coordination and cooperation observed at an international level and proper management carried out by central banks are paving the way for the transition toward a more stable global financial context to be completed successfully.

KEY FINANCIAL INDICATORS

Interest rates (%)

	31-Oct	30-Sept	Monthly change (b.p.)	Year-to-date (b.p.)	Year-on-year change (b.p.)
Euro					
ECB Refi	**0.50**	0.50	0	–25.0	–25.0
3-month Euribor	**0.23**	0.23	1	4.0	3.0
1-year Euribor	**0.55**	0.54	1	–1.0	–7.9
1-year government bonds (Germany)	**0.07**	0.10	–3	–5.0	8.1
2-year government bonds (Germany)	**0.12**	0.17	–5	14.3	13.6
10-year government bonds (Germany)	**1.67**	1.78	–11	38.2	27.0
10-year government bonds (Spain)	**4.03**	4.30	–27	–121.2	–170.1
10-year spread (b.p.)	**236**	252	–16	–159.5	–197.1
Dollar					
Fed funds	**0.25**	0.25	0	0.0	0.0
3-month Libor	**0.24**	0.25	–1	–6.8	–7.5
1-month Libor	**0.60**	0.63	–3	–24.6	–27.8
1-year government bonds	**0.09**	0.09	0	–4.6	–8.1
2-year government bonds	**0.31**	0.32	–1	5.5	2.8
10-year government bonds	**2.55**	2.61	–6	85.4	92.7

Spreads corporate bonds (b.p.)

	31-Oct	30-Sept	Monthly change (b.p.)	Year-to-date (b.p.)	Year-on-year change (b.p.)
Itraxx Corporate	**83**	104	–21	–34.2	–46.2
Itraxx Financials Senior	**117**	148	–30	–27.0	–59.6
Itraxx Subordinated Financials	**179**	216	–37	–61.8	–129.7

Exchange rates

	31-Oct	30-Sept	Monthly change (b.p.)	Year-to-date (b.p.)	Year-on-year change (b.p.)
$/euro	**1.358**	1.353	0.4	2.2	5.4
¥/euro	**133.600**	132.930	0.5	–13.6	–22.5
£/euro	**0.847**	0.836	1.4	–3.9	–5.2
¥/$	**98.360**	98.270	0.1	–11.7	–18.3

Commodities

	31-Oct	30-Sept	Monthly change (b.p.)	Year-to-date (b.p.)	Year-on-year change (b.p.)
CRB Index	**457.3**	467.6	–2.2	–5.7	–4.0
Brent ($/barrel)	**108.9**	109.2	–0.3	–5.6	–1.7
Gold ($/ounce)	**1,323.1**	1,328.9	–0.4	–21.7	–22.1

Equity

	31-Oct	30-Sept	Monthly change (b.p.)	Year-to-date (b.p.)	Year-on-year change (b.p.)
S&P 500	**1,756.5**	1,681.6	4.5	24.0	24.7
Eurostoxx 50	**3,068.0**	2,893.2	6.0	16.1	21.6
Ibex 35	**9,907.9**	9,186.1	7.9	21.2	26.6
Nikkei 225	**14,327.9**	14,455.8	–0.9	36.8	57.2
MSCI Emerging	**1,034.4**	987.5	4.8	–2.7	2.6
Nasdaq	**3,919.7**	3,771.5	3.9	30.4	31.2

INTERNATIONAL ECONOMY

Good news predominated in October on the international economic scene. After seventeen days of government shutdown, the USA barely managed to avoid a fiscal crisis. China's satisfactory GDP figures for the third quarter have also allayed fears of a hard landing for the world's second economy. Lastly, the emerging countries that had suffered most from capital outflows in the summer have managed to stabilise their situation. These three fronts have set the tone for autumn so far and confirm reasonable growth prospects for 2014, for most countries higher than the figures recorded in 2013.

Nonetheless there are still downside risks. Firstly, of note is the uncertainty surrounding the change in direction of the Fed's monetary policy (which it is delaying with respect to the plans initially announced in June) and the tortuous budget negotiations in the USA. Secondly, the Chinese economy is still navigating its way through a narrow channel with the risk of a slowdown on one side and of a real estate bubble on the other. Lastly, delays in the structural reforms required by various emerging countries could cut short the expected revival.

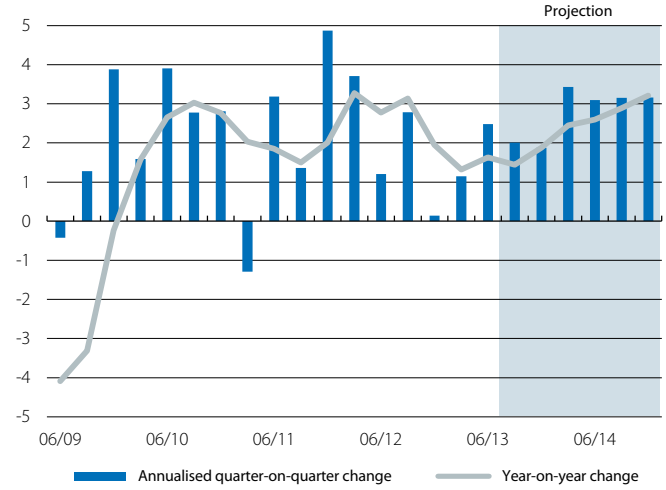
UNITED STATES

The short duration of the shutdown suggests its effect on the USA's economic activity will be modest. After bitter dispute between Republicans and Democrats, the US Congress reached two temporary agreements regarding the budget (see the Focus «Should we be worried about the consequences of the USA's fiscal debate?»). One to put an end to the partial government shutdown that had resulted in the suspension of non-essential discretionary budget items (1/6 of federal spending) and for two weeks sent home 800,000 «non-essential» public employees without pay. After several failed attempts, Congress approved payments to ensure the administration would be able to function up to 15 January 2014, while another agreement was also made to suspend the debt ceiling until 7 February 2014. After this positive outcome, and considering the short duration and limited scope of the items of expenditure affected, we have decided to maintain our GDP growth forecasts for 2013 and 2014 at 1.6% and 2.8%, respectively.

The challenge still facing US policymakers is to agree on a long-term plan for fiscal adjustment. The IMF itself, in its latest World Economic Outlook, states that the tactic of permanent threats (sequester, debt ceiling, etc.) constitutes an «excessive and inefficient» way to reach agreements on the country's public finances. In this respect, October's ferocious clash might have been a turning point, given that it has come at great political cost for the Republican Party in terms of its public image. Although more battles will undoubtedly be fought, it seems unlikely that a fiscal crisis of such magnitude will be repeated in 2014 (unless differences of opinion within

USA: GDP

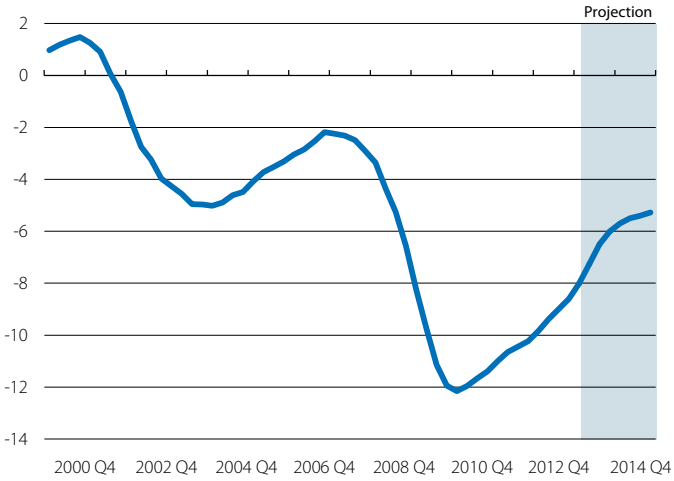
Year-on-year and quarter-on-quarter change (%)



Source: *"la Caixa" Research, based on data from the Bureau of Economic Analysis.*

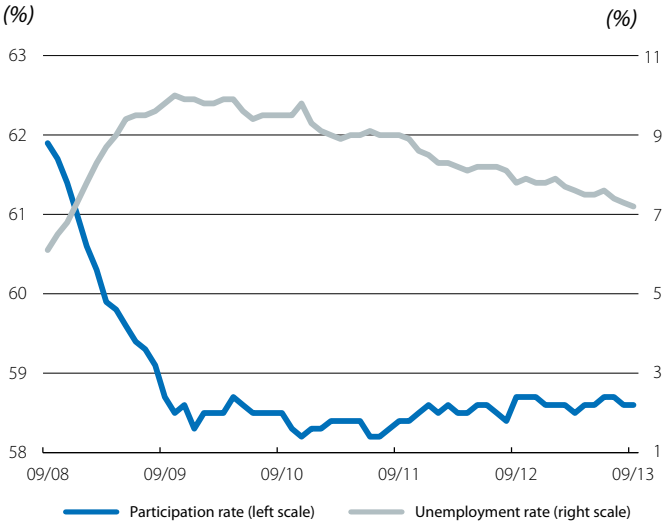
USA: public deficit

Cumulative data over four quarters (% GDP)



Source: *"la Caixa" Research, based on data from the Bureau of Economic Analysis.*

USA: employment



Source: *"la Caixa" Research, based on data from the Department of Labor.*

the Republican Party prevent them from reaching an internal compromise given the impending legislative elections).

A less dynamic rate of job creation delays our prediction regarding the start of tapering until 2014 Q1. Labour market figures confirm the USA's recovery although at a slightly more moderate rate than expected. The 148,000 jobs created in September came as a disappointment since they indicate a clear slowdown compared with the figures recorded in the first half of 2013, largely due to the high number of discouraged workers. This encourages us to be cautious concerning the outlook for disposable income and housing demand, two of the pillars supporting our forecasts for 2014. Given these greater risks and the difficulty entailed in interpreting October's activity figures (due to the effect of the shutdown), the Fed is unlikely to begin its tapering until well into 2014 Q1.

The rest of the activity indicators confirm this somewhat tepid recovery in the US economy. US entrepreneurs are curbing their optimism: the ISM manufacturing index rose to 56.2 points in September but the services index disappointed, remaining at 54.4 points (58.6 in August). Retail sales increased by 0.4% in September over the previous month (3.9% year-on-year), slightly above August's figure although retaining the tone of moderate growth. On the other hand, albeit not changing our positive perception, data from the real estate sector were weaker than expected. In particular, house prices (Case-Shiller index) rose again in August (0.9% month-on-month) but at a slower rate than in the first half of the year. Along the same lines the number of house sales also fell in month-on-month terms.

JAPAN

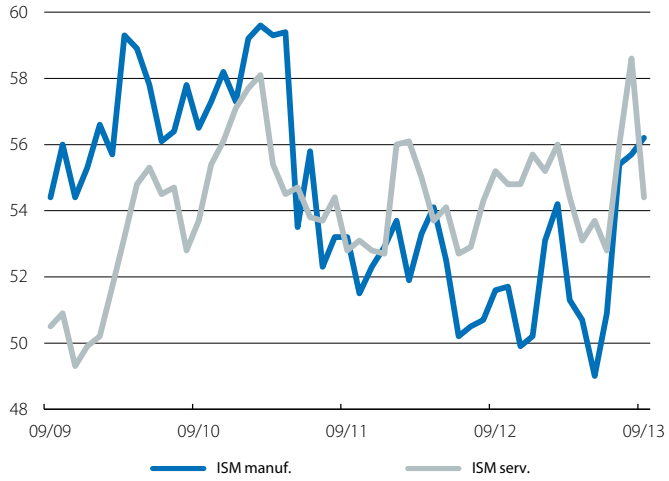
The data confirm the good tone of Japan's economic activity although deflation is still a threat. After the sharp increase in GDP growth for Q2, the Tankan index, which measures business sentiment, reached a six-year high in Q3. The rise in this index (calculated quarterly based on a survey of over 10,500 firms) is due to the expected improvement in foreign demand and the domestic consumption of services. Undoubtedly, this good figure for the Tankan index provides arguments for the decision to raise VAT in April 2014 (from 5% to 8%). Exports also grew strongly in September, by 13.5% year-on-year, although the trade deficit persists. Within this dynamic environment, September's general CPI rose by 1% year-on-year, its highest rate in five years, although the core CPI (without energy imports) stood at 0% year-on-year, a somewhat lower rate than in August.

EMERGING ECONOMIES

China is speeding up compared with the first half of the year, allaying fears of a hard landing for its economy. GDP grew by 7.8% year-on-year in 2013 Q3, above our forecasts, and by 7.5% in Q2. In quarter-on-quarter terms, the economy

USA: activity indicators

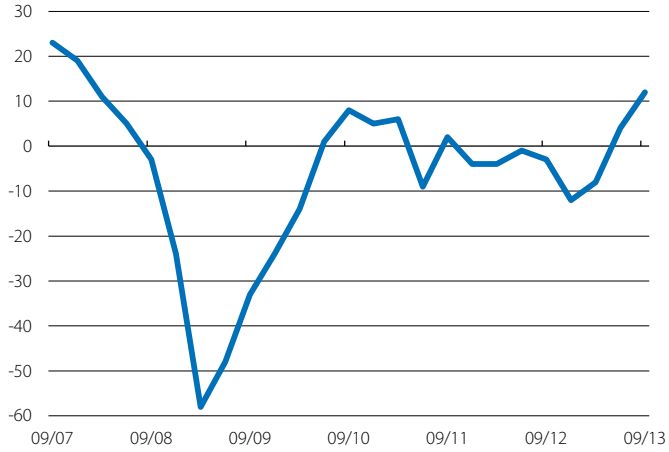
(Index)



Source: *"la Caixa" Research, based on ISM data.*

Japan: activity index (*)

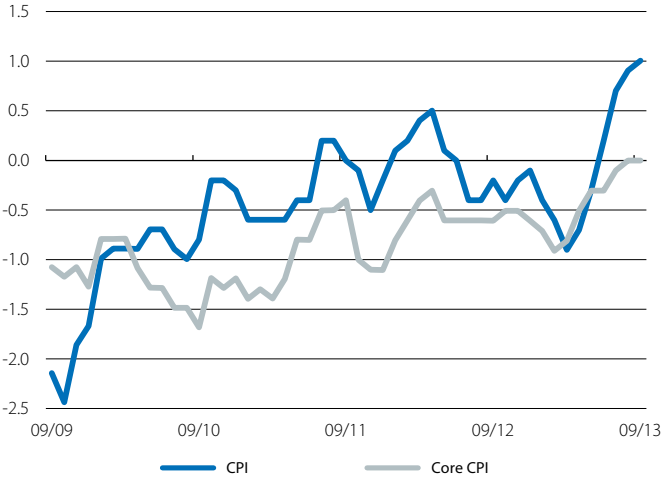
(Index)



Note: *(*) Tankan index for large firms.*
Source: *"la Caixa" Research, based on data from the Bank of Japan.*

Japan: CPI

Year-on-year change (%)



Source: *"la Caixa" Research, based on data from the Dept. of Commerce.*

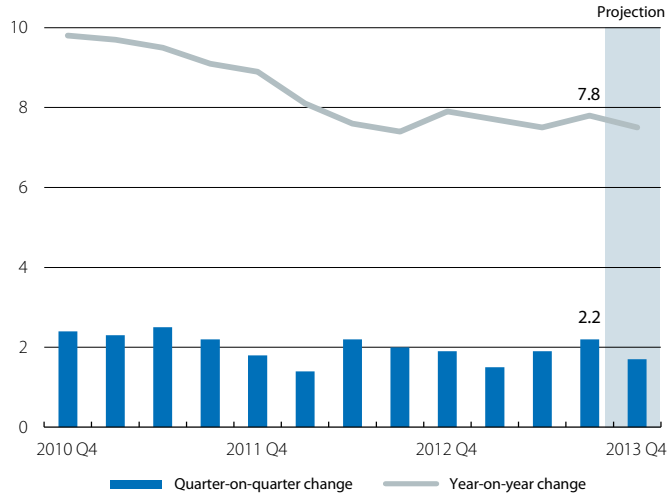
grew by 2.2%, a slightly higher rate than the figures of 1.9% and 1.5% posted in Q2 and Q1, respectively. This suggests that the worrying series of nasty surprises from the beginning of the summer, which had led to fears of a hard landing, has now been left behind. Several activity indicators in August and September (for example, retail and consumer goods, industrial production and the PMI) were already surprisingly high after the economic authorities introduced further stimuli (tax rebates for small firms). Now the GDP figure has confirmed the improved tone of the economy, which once again has investment as its key factor. This will undoubtedly continue to be an important factor in the short and medium term until the structural reforms required by the country (financial, hukou mobility system, extension of social networks, etc.) lead to a change in China's customary pillars of growth: a change toward a new model of growth where domestic consumption and services will become more important, with significant but more moderate growth rates.

Nonetheless, there are still risks for the Asian giant. In the short term there are three obstacles that could harm activity. Firstly, the renewed impetus of real estate prices (particularly in the large coastal cities and Beijing) may revive concerns about the formation of bubbles. Secondly, the large quantity and low transparency of debt held by local governments (largely channelled in the form of bank loans to special investment vehicles) increases fiscal and financial risks. Lastly, the rise in credit outside the regulated area (shadow banking) also magnifies financial risk.

The rest of the large emerging economies are overcoming this summer's capital outflows while we expect them to start a new round of reforms. The most recent PMI indicators have once again come as a pleasant surprise. Given this evidence, we expect a gradual improvement in GDP figures for Q3 in most emerging countries. The substantial rate of growth we predict in the medium term is based on these countries overcoming the numerous challenges facing them: infrastructures, financial system, labour market, etc. Mexico is leading the reformist drive after approving its labour, education, telecommunications and financial reforms, with approval still pending for fiscal and energy reforms. Both are controversial as well as fundamental in determining the country's long-term growth rate. In the short term, and after a slowdown in GDP in Q2, we expect a steady upswing in the Mexican economy. August's new rise in the economic activity index or IGAE (0.22% month-on-month) reaffirms this scenario of gradual reacceleration. The further cut in the official interest rate of 25 bps (to 3.50%) at the end of October will also help to improve the economic situation. Lastly, India seems to have joined the reformist drive started by Mexico, while Brazil still appears tentative given social discontent and electoral pressure in 2014.

China: GDP

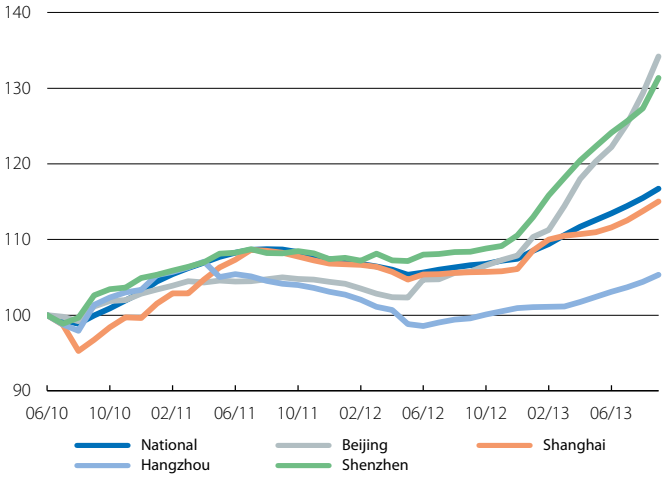
(%)



Source: *"la Caixa" Research, based on data from the National Bureau of Statistics of China.*

China: house prices

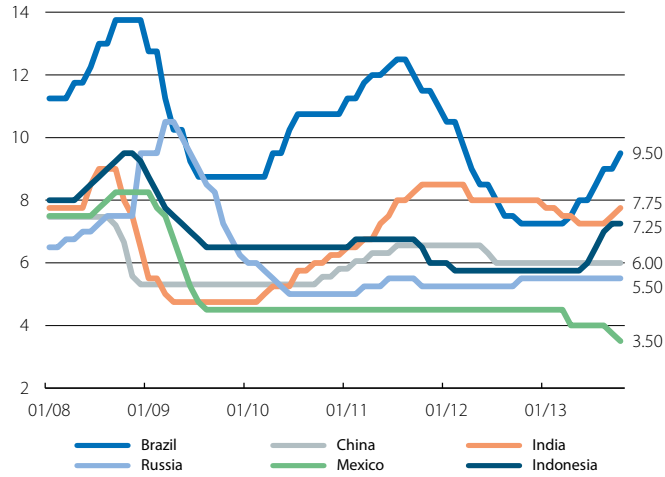
(Index June 2010 = 100)



Source: *"la Caixa" Research, based on data from the China Real Estate Index System (CREIS); SouFun.com.*

Emerging economies: official interest rates

(%)



Source: *"la Caixa" Research, based on data from Thomson Reuters Datastream.*

FOCUS · The latest IMF forecasts: constructive caution

The International Monetary Fund (IMF) published its World Economic Outlook (WEO) at the beginning of October. Regarding advanced countries, the Fund still expects moderate growth of 1.2% in 2013 which will speed up to 2.0% in 2014. The forecast for emerging economies is also one of acceleration: this year will end with a rate of 4.5%, reaching 5.1% in 2014 (lowered from the figure of 5.5% predicted by the IMF in July). In the Fund's opinion, two events that will affect the outcome of 2014 are the turning point in US monetary policy, aimed at normalisation, and China's lower growth due to its shift from an investment-based model of growth to one based on consumption. This moderation in China will relax global commodity prices and inflationary tensions.

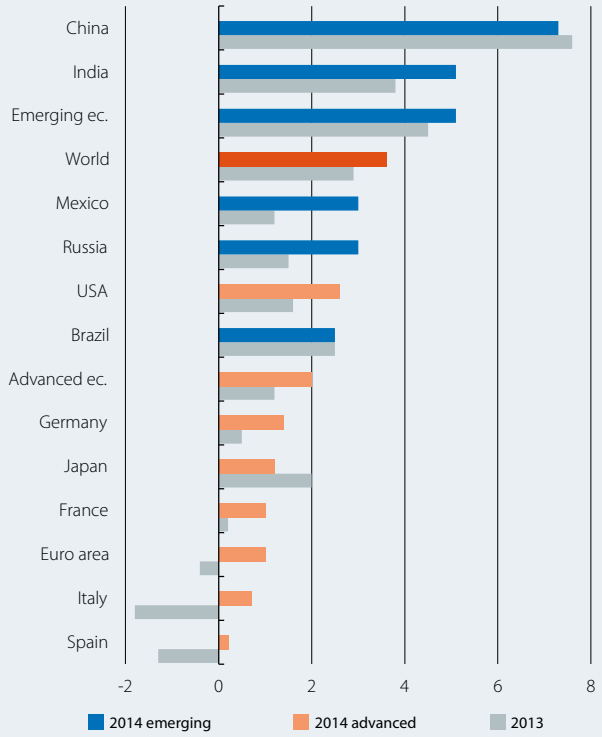
According to the Fund, growth in advanced economies is being supported by the improved tone in the American and Japanese economies, in line with our forecasts, while Europe's recovery is still fragile and with downside risks. The USA is expected to gain momentum in 2014: the IMF projection is 2.6% and ours 2.8%. This will be possible thanks to various factors: less fiscal adjustment than in 2013, private consumption boosted by higher household wealth and a real estate market that continues to recover thanks to demographics and a reduction in the oversupply of housing. For the Fund, there are downside risks that come from the fiscal debate (the debt ceiling and sequester) and upward pressures on interest rates. In our opinion, the agreement regarding the debt ceiling reached on 17 October (after the WEO was published) and our belief that the US recovery can withstand a moderate rise in interest rates justify a forecast that is slightly higher than the IMF's. In the medium term, the greatest risks are continued low activity rates in the labour market and stagnation in business investment. Japan's outlook is one of improvement based on the boost from Abenomic's expansionary policies but the Fund has identified, albeit tending to overestimate, two problematic points: the need to tackle fiscal consolidation (with a VAT hike in 2014) and the lack of precise plans for structural reforms.

The IMF believes the emerging economies are burdened by more restrictive financial conditions and by inflation limiting their central banks' room to manoeuvre. Although growth will pick up in 2014 it will still be 2.5 points lower than the figure recorded in 2010. China and India are prime examples of this dynamic although their situations are very different. India is the economy whose 2014 forecast has been lowered the most, given the significant bottlenecks affecting its capacity to grow without inflation. On the other hand China still has inflation under control and ample room to manoeuvre to support growth with monetary and fiscal policies. We believe this is a very important factor which leaves our forecast for 2014 at 7.6%, higher than the WEO's figure of 7.3%.

The IMF's growth forecast for Spain in 2014 is 0.2%, slightly below the 0.8% we have projected. This difference is due, firstly, to the fact that fiscal consolidation should have less of an effect on growth than estimated by the Fund considering the experience of the last few years. Similarly, the gains in competitiveness and greater internal flexibility already achieved by firms will help to create jobs and thereby boost demand and growth.

IMF: growth forecasts

(%)



Source: *"la Caixa Research", based on IMF data.*

FOCUS · Should we be worried about the consequences of the USA's fiscal debate?

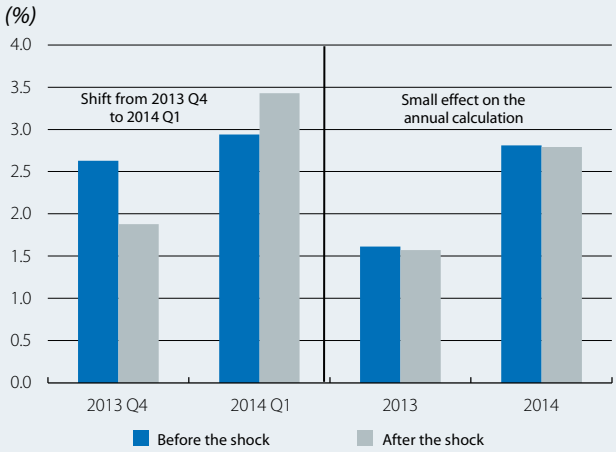
The arduous fiscal debate in the USA on the government shutdown (due to the lack of agreement to approve items in the federal budget) and the debt ceiling is one of the big risks facing the world economy in 2014. On 17 October, Congress reached an agreement that, for the moment, puts a stop to uncertainty regarding the debt ceiling and will limit the effects on US growth to the short term, so we have been able to keep our forecasts for GDP growth in 2013 and 2014 at 1.6% and 2.8%, respectively. But does this mark the end of hostilities? The answer is no.

The agreement reached is temporary and partial. It ensures the government will function until 15 January 2014 and that the debt ceiling regulation will not come into effect until 7 February 2014, although the allocation of 200 billion dollars for extraordinary expenditure could postpone this date until mid-March.

In the short term, the fiscal debate has had little impact on growth. The government shutdown has been limited to non-essential items of expenditure from the federal budget that need to have their budget allocation approved by both houses of Congress. These items, mainly federal government personnel costs, represent one sixth of federal expenditure (accounting for 3% of GDP) which, with the shutdown lasting almost three weeks, results in a decrease of 0.4-0.5 points in terms of annualised quarter-on-quarter growth. This loss will be offset in 2014 Q1 when the pending wages are paid, with an increase of equal size in the growth expected for 2014 Q1. In addition, uncertainty due to the debt ceiling may have deducted a further two percentage points which would not be automatically recoverable.

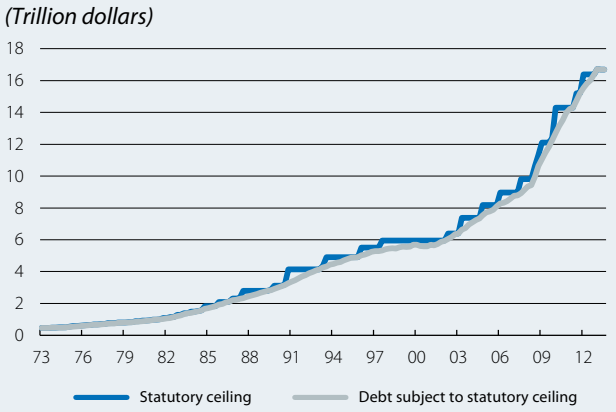
Beyond 2014 Q1, fiscal uncertainty will once again be present throughout the coming year. The biggest problem is the debt ceiling, representing a clear risk for growth in 2014. Apart from Congress's attitude, the public debt subject to the legal ceiling (almost all of it) has followed an upward trend, aggravated by the crisis, which has taken it from 30% of GDP in 1973 to 100% today. This fuels the arguments of those who want to keep the debt ceiling inflexible, which would mean the USA could not get into more debt. The impossibility of issuing more debt would force the administration to make a difficult choice. To continue being able to pay for debt already taken out and prevent a collapse in confidence in the markets, the administration would have to reduce its expenditure, which would entail a much greater government shutdown than the one seen this October. A cut in spending due to the debt ceiling lasting one month would result in a reduction of 175 billion dollars, 4.2% of the GDP for one quarter.[1] Our baseline scenario assumes that such a situation would be avoided but only by employing half measures and without any substantial rise in the debt ceiling to dispel doubts: doubts that push down our GDP growth forecast for 2014 (2.8%).

USA: "la Caixa" GDP flash forecast



Source: *"la Caixa" Research, based on data from the Bureau of Economic Analysis.*

USA: public debt and statutory ceiling (*)



Note: *(*) The debt subject to the statutory limit is 99.5% of the total, excluding debt prior to 1917, United States Notes.*
Source: *"la Caixa" Research, based on data from the Federal Reserve.*

(1) See Goldman Sachs, US Economics Analyst, issue No: 13/40, October 5, 2013, page 10.

KEY ECONOMIC INDICATORS

Year-on-year change (%), unless otherwise specified

UNITED STATES

	2011	2012	2012 Q4	2013 Q1	2013 Q2	2013 Q3	09/13	10/13
Activity								
Real GDP	1.8	2.8	2.0	1.3	1.6	...	–	–
Retail sales (without cars or petrol)	5.4	4.9	4.4	3.7	4.2	4.1	3.9	...
Consumer confidence *(value)*	58.1	67.1	70.4	62.8	75.1	81.0	80.2	71.2
Industrial production	3.4	3.6	2.8	2.4	2.0	2.5	3.2	...
Manufacturing activity index (ISM) *(value)*	55.2	51.7	50.6	52.9	50.2	55.8	56.2	56.4
Housing starts *(thousands)*	612	783	896	957	869	...	...	...
Case-Shiller repeat sale price *(value)*	140	141	145	150	157	...	...	...
Unemployment rate *(% lab. force)*	8.9	8.1	7.8	7.7	7.6	7.3	7.2	...
Employment-population ratio *(% pop. > 16 years)*	58.4	58.6	58.7	58.6	58.6	58.6	58.6	...
Trade balance (1) *(% GDP)*	–3.6	–3.3	–3.3	–3.1	–3.0	...	...	...
Prices								
Consumer prices	3.2	2.1	1.9	1.7	1.4	1.6	1.2	...
Underlying consumer prices	1.7	2.1	1.9	1.9	1.7	1.7	1.7	...

Note: *(1) Cumulative figure over last 12 months.*
Source: *"la Caixa" Research, based on data from the Department of Commerce, Department of Labor, Federal Reserve, Standard & Poor's, ISM and Thomson Reuters Datastream.*

JAPAN

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13
Activity									
Real GDP	–0.6	2.0	0.4	0.3	0.1	1.3	–	...	–
Consumer confidence *(value)*	37.7	40.0	40.1	40.0	44.1	44.8	43.6	43.0	45.4
Industrial production *(value)*	–2.6	0.2	–3.7	–6.3	–6.5	–3.1	0.4	0.9	4.8
Business activity index *(Tankan) (value)*	–1.3	–5.0	–3.0	–12.0	–8.0	4.0	–	12.0	–
Unemployment rate *(% lab. force)*	4.6	4.4	4.3	4.2	4.2	4.0	3.8	4.1	4.0
Trade balance (1) *(% GDP)*	–0.6	–1.3	–1.3	–1.4	–1.7	–1.9	–2.0	–2.0	–2.1
Prices									
Consumer prices	–0.3	0.0	–0.4	–0.2	–0.6	–0.3	0.7	0.9	1.0
Underlying consumer prices	–1.0	–0.6	–0.6	–0.5	–0.8	–0.4	–0.1	0.0	0.0

Note: *(1) Cumulative figure over last 12 months.*
Source: *"la Caixa" Research, based on data from the Communications Department, Bank of Japan and Thomson Reuters Datastream.*

CHINA

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13
Activity									
Real GDP	9.3	7.7	7.4	7.9	7.7	7.5	–	7.8	–
Retail sales	17.1	14.3	13.6	14.9	12.3	12.5	13.2	13.4	13.3
Industrial production	13.7	10.0	9.1	10.0	9.6	9.1	9.7	10.4	10.2
PMI manufacturing *(value)*	51.4	50.8	49.7	50.5	50.5	50.5	50.3	51.0	51.1
Foreign sector									
Trade balance (1) *(value)*	154	231	196	231	274	272	264	266	254
Exports	20.2	8.0	4.5	9.5	18.4	3.9	5.1	7.1	–0.3
Imports	25.0	4.3	1.4	2.8	8.3	5.0	10.9	7.0	7.4
Prices									
Consumer prices	5.4	2.7	1.9	2.1	2.4	2.4	2.7	2.6	3.1
Official interest rate (2) *(value)*	6.56	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Renminbi per dollar *(value)*	6.5	6.3	6.4	6.2	6.2	6.2	6.1	6.1	6.1

Notes: *(1) Cumulative balance over 12 months. Billion dollars. (2) End of period.*
Source: *"la Caixa" Research, based on data from the National Bureau of Statistics and Thomson Reuters Datastream.*

EUROPEAN UNION

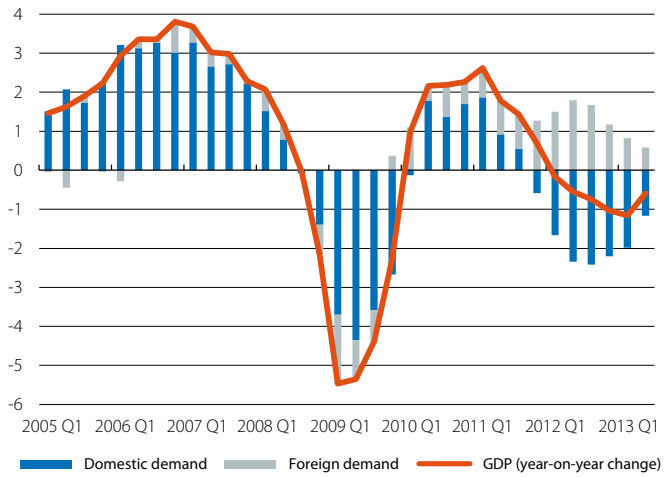
The economic outlook is still in line with a gradual recovery over the coming quarters. After six consecutive quarters of contraction, GDP growth returned to positive figures in 2013 Q2 with a 0.3% change quarter-on-quarter thanks to the revival in domestic demand as well as the rise in net exports. Nevertheless, leading activity indicators point to a moderation in this recovery for the second half of the year, although the underlying trend in the medium term suggests it will continue to advance. This slight slowdown will be largely due to domestic demand since, in spite of good results in Q2, a more gradual recovery is expected because of the pressure on domestic consumption produced by high unemployment rates and cuts in public spending in some countries. The main star of the recovery will therefore continue to be exports although the supporting actor, domestic demand, is also beginning to stand out on the stage.

Leading supply indicators underline the fact that the recovery is underway. These point to a small correction in the rate of GDP growth with a view to Q3 as the results from the previous quarter were better than expected owing to temporary factors, although the underlying trend is positive. On the one hand, the composite PMI for the euro area, one of the best leading indicators for activity, fell slightly in October, thereby halting the upward trend started in March, caused largely by a drop in the services PMI. Nonetheless, both the services and manufacturing PMI remain in expansionary terrain (above 50 points), suggesting that positive growth figures will continue. On the other hand, August's industrial production for the euro area picked up by 1.0% monthly. However, the year-on-year rate of change is still negative, posting levels that are very similar to Q2. This inability to present any clear change in trend underlines just how fragile the current recovery process is. By country, industrial production in Germany once again provided a pleasant surprise with a 1.4% change quarter-on-quarter, although Italy disappointed with a 0.3% drop, adding to doubts regarding the country's recovery.

Different speeds of recovery can be seen in the euro area depending on the country in question. At one end of the scale are the core countries, Germany and France, growing steadily thanks to improved domestic demand. In 2013 Q3, year-on-year growth of 0.6% and 0.3% is expected for these two countries, respectively. At the other end of the scale, most of the periphery economies still have negative year-on-year growth, although this figure is shrinking. Exports partly offset the fall in domestic consumption. The United Kingdom has now enjoyed three consecutive quarters of positive growth rates and once again provided a positive surprise in 2013 Q3 by growing 0.8% quarter-on-quarter (in 2013 Q2 it had already posted growth of 0.7%), thereby consolidating its recovery.

Euro area: GDP components

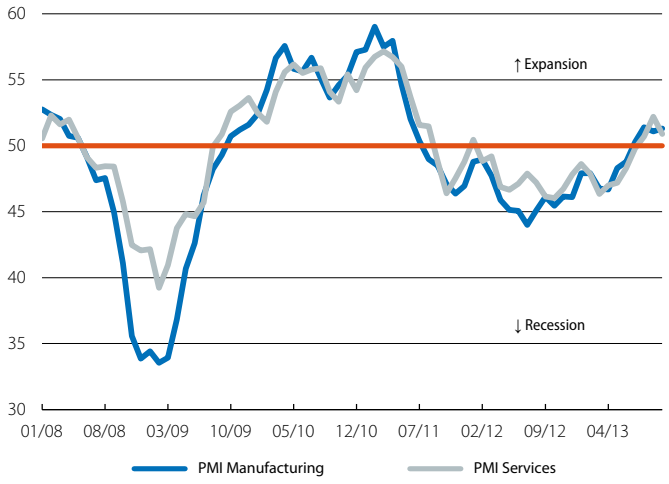
Contribution to growth (%)



Source: *"la Caixa" Research, based on Eurostat data.*

Euro area: activity indicators

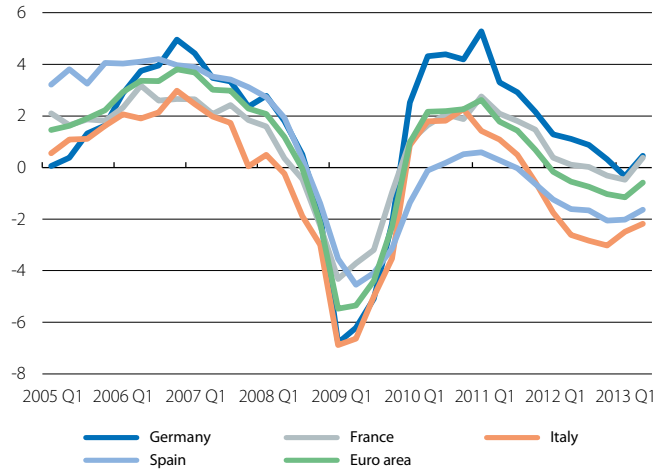
(Index)



Source: *"la Caixa" Research, based on data from Markit Economics.*

Euro area: GDP of the main countries

Year-on-year change (%)



Source: *"la Caixa" Research, based on Eurostat data.*

Domestic demand remains weak in the euro area, albeit with signs of improvement. Q2 was the turning point for domestic demand, which started to post positive growth rates for the first time since the beginning of 2011. Regarding household consumption, this has underlined the upward path started at the beginning of the year, as shown by the indicator for consumer confidence, whose improvement in Q3 has been almost double that in Q2 (4.9 points compared with 2.8). Although consumers may be gradually gaining in confidence, it is still difficult for this to push up consumption, as we can see when we analyse the retail sales figures, whose year-on-year change was –0.3% in August, compared with –0.6% in the previous month. Retail sales are therefore continuing to reduce their rate of decline but quite slowly.

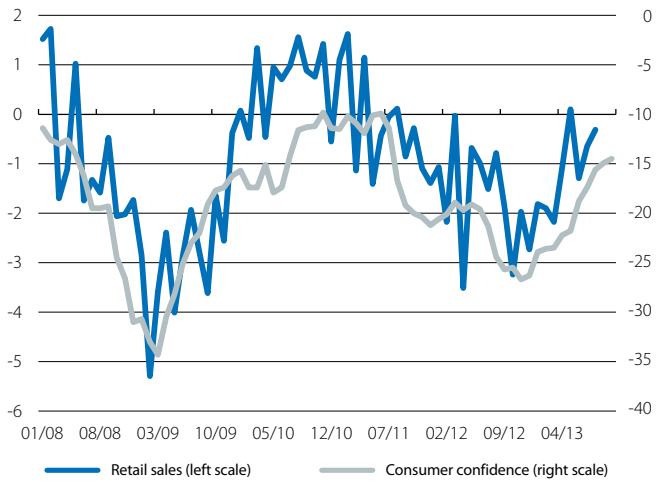
The unemployment rate has hit the ceiling. It has remained stable at 12.2% for the last two months and, if the exit of the recession is confirmed, could start to fall gradually towards the end of the year and the beginning of the next. This is suggested by the employment expectations index which improved in September for the sixth consecutive month and is now coming close to the levels at which, historically, jobs have started to be created (see the Focus «Job creation will come at differing speeds»). Given that the labour market still has high unemployment rates, there is no pressure on wages, with inflation remaining at moderate levels as a result of the economic situation and also the fact that oil prices are still at their annual minimum (see the Focus «Risk of deflation in the euro area?»).

The foreign sector is the main support for the recovery. The current account surplus is improving. In 2013 Q2 this stood at 1.2% of GDP, 1.1 percentage points above the figure for 2012 Q2. Although, to a large extent, this improvement in the current account results from the drop in goods imported (–5.2% year-on-year in 2013 Q2), exports have kept up notable growth rates in the last few quarters: between 2010 Q1 and 2013 Q2 they have grown by an average of 6.1% year-on-year. This has helped to soften the impact of the crisis on economic activity. Moreover, this trend is likely to continue in the coming months. The index of export expectations, for example, is still improving and has now reached the same level as the end of 2011.

The threats to the support represented by the foreign sector for the recovery seem to be under control. One of the factors that, in the last few months, has gained momentum and, should it continue, could slow up growth in exports is the euro's appreciation. The single currency has not only appreciated considerably against the dollar (around 7% in the last twelve months) but also notably against the rest of the euro area's trading partners. A good example of this is the real effective exchange rate which has appreciated by 5.2% since October 2012. The second factor to take into account is the slowdown in the growth of emerging countries. In the last ten months, for example, the GDP growth forecast by the consensus of analysts for 2014 for the main Asian countries

Euro area: demand indicators

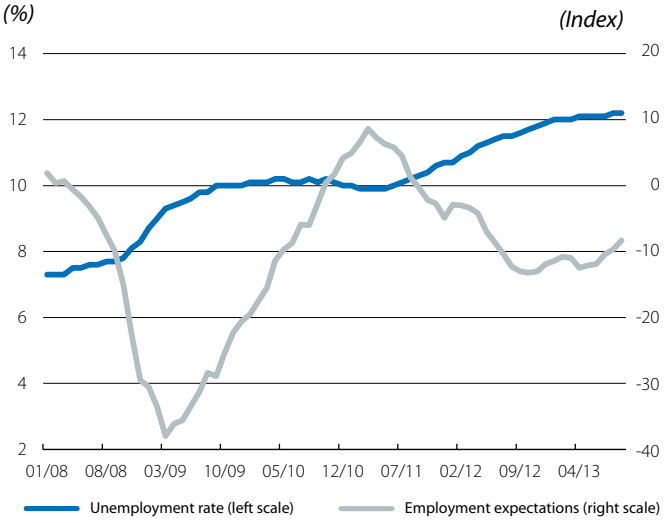
Year-on-year change (%)



Source: *"la Caixa" Research, based on data from Markit and Eurostat.*

Euro area: labour market indicators

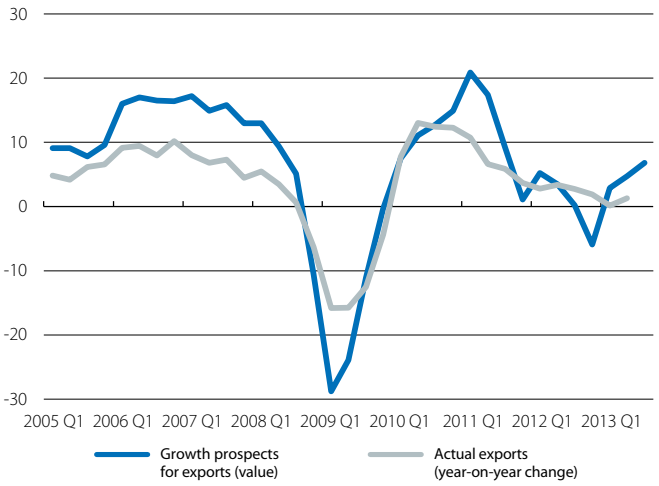
(%)



Source: *"la Caixa" Research, based on data from Eurostat and the European Commission.*

Euro area: exports

Value and year-on-year change (%)



Source: *"la Caixa" Research, based on data from Eurostat and the European Commission.*

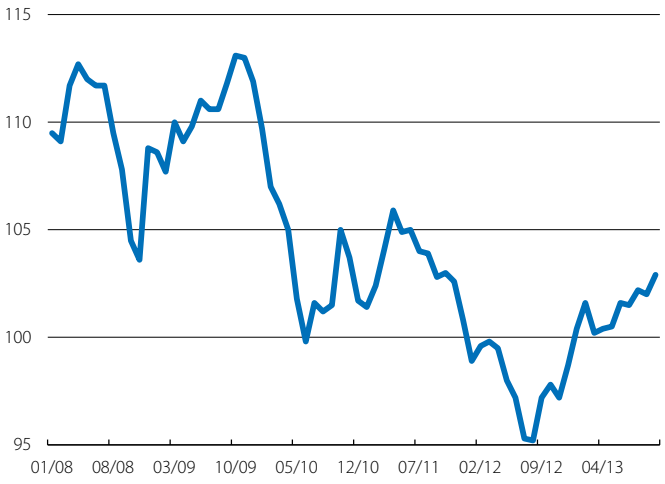
has been lowered by 0.20 p.p. and that of the main Latin American countries by 0.80 p.p. In any case, the growth forecast is still high, 4.7% and 3.1%, respectively, and this downward correction is not likely to continue for much longer. These revisions have particularly been due to capital outflows, caused by fears of the withdrawal of monetary stimuli in the USA, the famous tapering. Fears that have now dissipated as the uncertainty surrounding US fiscal policy means that monetary policy must remain accommodative to make sure the recovery in activity does not derail.

Financial markets are still fragmented. Considerable progress has been made over the last few months in sovereign debt markets with significant reductions in the risk premia of periphery countries. But there is still fragmentation in terms of household and corporate financing with great differences between countries; for example, the spread between core and periphery countries in terms of the average interest rate for company loans is close to 2.6 p.p. in 2013 compared with 0.8 p.p. in 2007. This situation is incompatible with the normal functioning of monetary union and the efficient transmission of monetary policy, which is still completely accommodative, keeping the official interest rate at 0.5% and with the possibility of more measures being taken to inject liquidity should the ECB see upward pressure on monetary rates.

Within the framework of the single supervisory mechanism, the ECB publicly announced its roadmap to assess Europe's banks. This will affect 130 financial institutions in eighteen member states and will start in November 2013 with its planned end date for October 2014, when the results per country and bank will be published. This process will consist of three exercises: a risk assessment, an asset quality review (with a capital requirement of 8.0% CT1) and a stress test (the capital thresholds for which still need to be specified). Once this evaluation has ended, and before the single supervisory mechanism enters fully into operation, European banks will have to apply any corrective measures arising from the assessment, which might include recapitalisation and the disposal of assets. Questions arise from the other pillars supporting banking union, namely the single resolution mechanism and where funds will come from should more capital be required. These issues must be tackled at the next Council of Economic and Finance and Ministers of the European Union (ECOFIN), planned for 15 November.

Euro area: real effective exchange rate

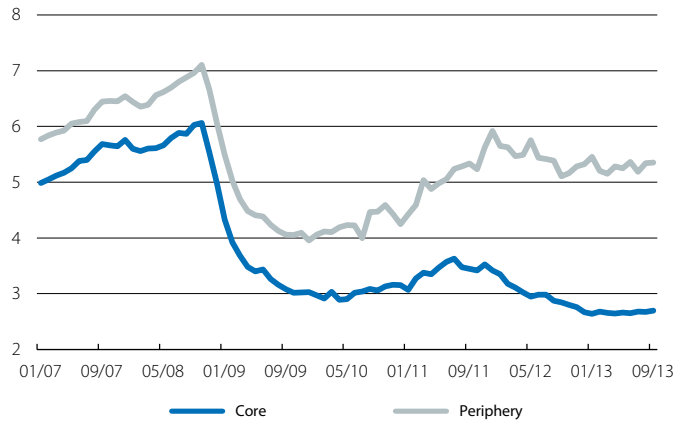
(Index)



Source: *"la Caixa" Research, based on ECB data.*

Euro area: credit to firms

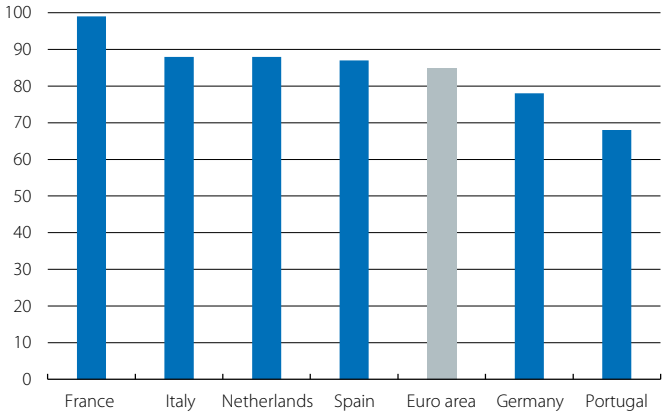
Average interest rate for loans under one million euros (%)



Note: *Core includes Austria, Belgium, Germany, Finland, France, Luxembourg and Netherlands. Periphery includes Spain, Greece, Italy, Ireland and Portugal.*
Source: *"la Caixa" Research, based on ECB data.*

Volume of bank assets to be supervised by the ECB

Total assets by region (%)



Note: *Bank assets that will be supervised by the ECB as a percentage of all bank assets by country or region.*
Source: *"la Caixa" Research, based on ECB data.*

FOCUS · Job creation will come at differing speeds

The euro area's GDP once again posted a positive growth rate in 2013 Q2 (0.3% quarter-on-quarter), after six consecutive quarters of contraction. Improvement was widespread: Germany and France led the recovery (0.7% and 0.5% quarter-on-quarter, respectively), while in the periphery the recession continues to diminish. The trend in the latest economic indicators points to this growth rate gaining ground over the coming quarters. The question now is: when will jobs start to be created?

Traditionally, a change in trend in the labour market does not usually come until medium-term growth prospects have recovered. That is why, for the moment, the recent progress made in the euro area's economic activity is only now starting to have a slight effect on the labour market. Jobs are still being lost but at a slower rate. Specifically, the quarter-on-quarter fall in employment decreased by 0.3 percentage points in 2013 Q2 to –0.1%.

One relatively simple way of determining somewhat more accurately the point as from which jobs might start to be created consists of analysing the historical relationship between the change in GDP and that of employment.[1] In general, the larger the growth in GDP, the higher the growth rate in jobs, and vice versa. But the minimum rate of GDP growth as from which jobs are usually created, known as the job creation threshold (JCT), has historically been very different between countries.

On the one hand, countries such as Germany and Austria have a negative JCT. In other words, these economies do not necessarily lose jobs when they have a moderately negative GDP rate. A good example of this has occurred over the last few years: while GDP has fallen more or less sharply in these countries, the jobs lost have been almost zero in all cases. The flexibility of their labour markets has allowed them to minimise the impact of the recession on employment. In these countries, companies were able to reduce the hours worked by their employees when facing weaker demand, thereby avoiding job losses. If, instead of analysing the relationship between GDP trends and the number of employed, we carry out the analysis using the number of hours worked, then the result is different: a positive GDP growth rate is required for the number of hours worked to grow.

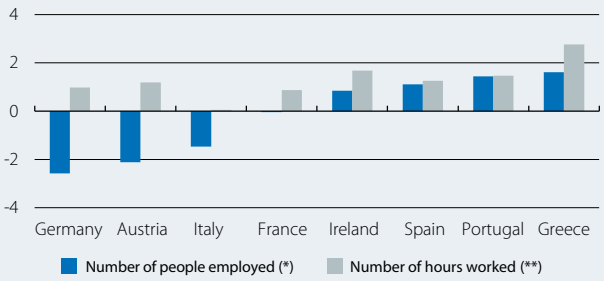
On the other hand, periphery countries have a positive JCT: they usually generate employment when they have positive GDP growth rates. Specifically, it can be observed that the annualised quarter-on-quarter growth rate as from which jobs have been created is 0.8% in Ireland, 1.1% in Spain, 1.4% in Portugal and 1.6% in Greece.[2] In these countries, whose labour markets have historically been less flexible, the number of hours worked could not be adjusted and, therefore, the GDP growth rate required to generate employment and the one for the number of hours worked to rise are, in general, more similar.

These values are indicative of the growth rate as from which, historically, jobs have been created in net terms but the far-reaching changes being carried out by the periphery countries invites us to view such figures with caution. The gains in competitiveness achieved over the last few years by the labour factor will probably lower their JCT. A more flexible labour market in countries such as Spain and Portugal is also likely to boost the recovery in employment. Lastly, changes in the productive model occurring in many periphery countries, in general those with a more important export sector, could also modify their JCT, although in this case the final effect is difficult to generalise as it depends on the type of sector leading this process.

In short, job creation in the euro area appears to be close at hand. The core countries, where the recovery is expected to gain ground over the coming quarters, should consolidate the good performance being enjoyed by their labour markets. In the periphery countries, where job creation is more crucial, growth rates of around 1% are expected for the coming year, a level close to their historical JCT. This will therefore be a good test to see whether the reforms undertaken in the last few years are starting to bear fruit.

Job creation thresholds

Annualised quarter-on-quarter growth in GDP (%)



Notes: *(*) GDP growth required for the number of employed people to rise.*
(**) GDP growth required for the number of hours worked to rise.
Source: *"la Caixa" Research, based on Eurostat data.*

(1) See «Informe de evaluación del impacto de la reforma laboral» by the Spanish Ministry of Employment and Social Security (2013) and De Cea, P. and Dolado, J.J., «Output Growth Thresholds for Job Creation and Unemployment Reduction in Spain» (2013).

(2) These coefficients have been obtained after estimating the following regression with quarterly figures between 2000 Q1 and 2013 Q2 for each country:
$\triangle \log Employment_t = c + a_1 \triangle \log PIB_t + a_2 \triangle \log PIB_{t-1}$.

FOCUS · Risk of deflation in the euro area?

Inflation stands at a moderate rate in the euro area as a whole. In September it was 1.1% (October's flash estimate, 0.7%), but the downward trend occurring since the middle of last year is now leading to fears of possible deflation. Within a context where nominal interest rates cannot fall much further, a drop in inflation would push up real interest rates, making it difficult for the euro area to recover. Moreover, many countries must make a big effort to deleverage and low inflation rates would complicate this process even further. We will therefore analyse whether such fears of possible deflation are well-grounded.

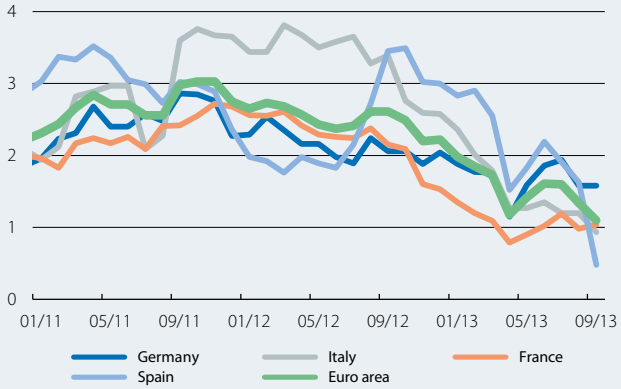
In part, the drop in the rate of inflation occurring over the last few months is a reflection of the economic situation. Industrial capacity utilization remains at low levels: in 2013 Q2 it was 78.3%, 2.8 percentage points below its historical average. The labour market's situation is also keeping inflationary pressures very contained, with the unemployment rate remaining at around 12% this year, keeping wage increases moderate. We believe these factors will diminish as the upturn in activity gains ground over the coming quarters. Although the euro area's recovery is likely to be very measured and industrial capacity utilization and unemployment are therefore only expected to pick up gradually, what does seem clear is that these factors will stop pushing down the inflation rate.

There are another two elements that have also helped inflation to fall over the last few months: the trend in oil prices and the tax changes implemented in several countries in the euro area. With regard to first factor, one example is that the average price of Brent quality oil was 87.3 euros per barrel between January and September 2012 while in 2013 it has fallen to 82.1 euros. Given that, over the coming months, oil prices are expected to remain stable at their current rates, this should not be a factor that continues to push down the inflation rate. On the other hand, the last few months have seen a reverse in the effect of the tax hikes implemented in several countries in the euro area. One sign of this is that inflation at constant taxes, excluding energy products, has been more stable over the last few months (1.1% in September 2013 compared with 1.4% in January 2012). In other words, it has fallen by 0.3 p.p. as opposed to 0.9 p.p. for the general CPI.

In short, the fall in inflation observed over the last few months is due to transitory factors and the current situation. For deflation to occur, the euro area would have to enter recession again and, although the risks are still high, all the evidence suggests that the direction finally taken by the region is the opposite: namely recovery.

Harmonised CPI for the main countries of the euro area

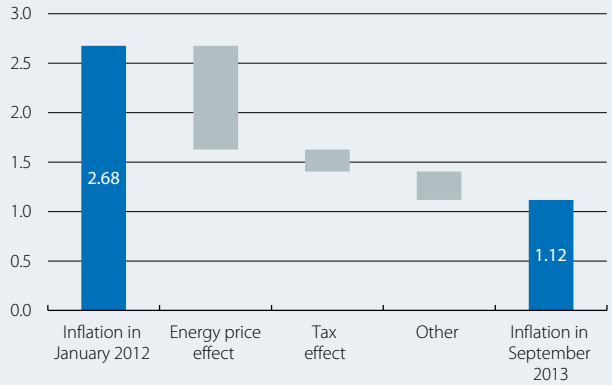
Year-on-year change (%)



Source: *"la Caixa" Research, based on Eurostat data.*

Contribution to the fall in inflation of the euro area

Year-on-year change (%)



Source: *"la Caixa" Research, based on Eurostat data.*

KEY ECONOMIC INDICATORS FOR THE EURO AREA

Activity and employment indicators

Values, unless otherwise specified

	2011	2012	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13	10/13
Retail sales *(year-on-year change)*	–0.2	–1.7	–2.6	–2.0	–0.8	–0.6	–0.3	...	...
Industrial production *(year-on-year change)*	3.3	–2.4	–3.1	–2.3	–1.1	–1.9	–2.1	...	...
Consumer confidence	–14.5	–22.3	–26.2	–23.7	–20.9	–17.4	–15.6	–14.9	–14.5
Economic sentiment	101.8	90.4	86.8	90.1	89.8	92.5	95.3	96.9	97.8
Manufacturing PMI	52.2	46.2	45.9	47.5	47.9	50.3	51.4	51.1	51.3
Services PMI	52.6	47.6	46.9	47.6	47.5	49.8	50.7	52.2	50.9
Labour market									
Employment (people) *(year-on-year change)*	0.3	–0.7	–0.7	–1.0	–1.0	–	...	–	...
Unemployment rate: euro area *(% labour force)*	10.2	11.4	11.8	12.0	12.1	12.1	12.2	12.2	...
Germany *(% labour force)*	6.0	5.5	5.4	5.4	5.3	5.3	5.3	5.2	...
France *(% labour force)*	9.6	10.3	10.6	10.8	10.8	11.0	11.0	11.1	...
Italy *(% labour force)*	8.4	10.7	11.3	11.9	12.1	12.1	12.4	12.5	...
Spain *(% labour force)*	21.7	25.1	26.1	26.5	26.4	26.5	26.6	26.6	...

Source: *"la Caixa" Research, based on data from the Eurostat, European Central Bank, European Commission and Markit.*

Foreign sector

Cumulative balance over the last 12 months as % of GDP of the last 4 quarters, unless otherwise specified

	2011	2012	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13	10/13
Current balance: euro area	0.1	1.5	1.5	1.8	2.1	2.2	2.2	...	...
Germany	6.2	7.0	7.0	6.9	7.0	7.0	6.9	...	...
France	–1.8	–2.2	–2.2	–2.2	–1.9	–1.9	–1.8	...	...
Italy	–3.1	–0.4	–0.4	0.1	0.3	0.4	0.6	...	...
Spain	–3.8	–1.1	–1.1	–0.2	0.4	0.5	0.6	...	...
Nominal effective exchange rate[1] *(value)*	103.4	97.9	97.9	100.7	100.8	101.5	102.2	102.0	102.8

Note: *(1) Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated.*
Source: *"la Caixa" Research, based on data from the Eurostat, European Commission and national statistics institutes.*

Financing and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2011	2012	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13
Private sector financing								
Credit to non-financial firms[1]	2.0	–0.3	–1.5	–1.4	–2.1	–2.8	–2.9	–2.7
Credit to households[1] [2]	2.7	1.2	0.7	0.4	0.3	0.3	0.3	0.3
Interest rate on loans to non-financial firms[3] *(%)*	2.8	2.4	2.2	2.1	2.2	2.2	2.1	2.2
Interest rate on loans to households for house purchases[4] *(%)*	3.3	3.1	2.9	2.9	2.9	2.8	2.8	2.8
Deposits								
On demand deposits	1.4	4.1	7.2	8.0	9.4	8.1	7.6	7.3
Other short-term deposits	2.6	2.0	1.9	1.0	0.1	0.2	0.4	0.2
Marketable instruments	–5.5	0.5	–3.2	–9.7	–15.6	–17.7	–16.3	–16.6
Interest rate on deposits up to 1 year from households *(%)*	2.6	2.8	2.7	2.4	2.1	1.9	1.8	1.7

Notes: *(1) Data adjusted for sales and securitization. (2) Including NPISH. (3) Loans of more than one million euros with a floating rate and an initial rate fixation period of up to one year. (4) Loans with a floating rate and an initial rate fixation period of up to one year.*
Source: *"la Caixa" Research, based on data from the European Central Bank.*

SPANISH ECONOMY

The Spanish economy gets back to growth after more than two years in recession. According to preliminary figures from the INE, GDP rose by 0.1% quarter-on-quarter in 2013 Q3, placing the year-on-year change at –1.2%. This marks the end of nine consecutive months of contraction which, added to the first recession of 2008-2009, have reduced real GDP by 7.5% compared with its level in 2008 Q1. This exit from the recession is being supported by the foreign sector which, according to the Bank of Spain's estimates and our projections, will have increased its contribution to quarter-on-quarter GDP growth by 0.2 percentage points up to 0.4 p.p. The good performance by tourism, which in twelve months up to September reached a new record high 59.6 million visits, and the fall in imports lie behind this larger contribution. Exports of goods, however, grew by a slower rate between July and August than in Q2. For the economy as a whole to pick up, it is vital for domestic demand to gain ground as well. For the moment, estimates point to its rate of decline stabilising, with a similar contribution to GDP growth as in Q2 (–0.3 p.p.).

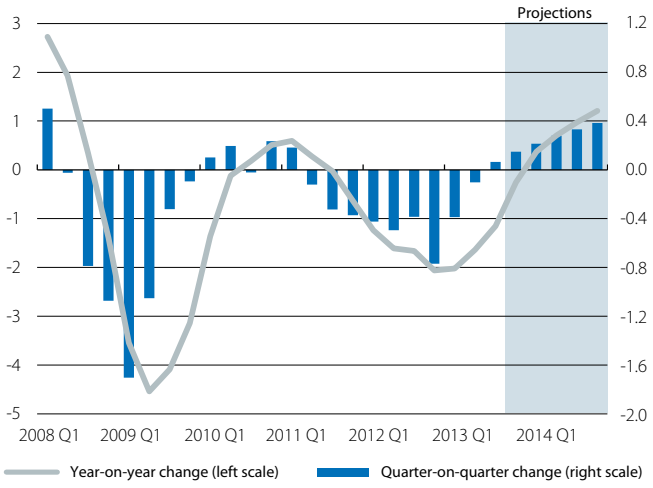
Tourism boosts job creation in 2013 Q3. The number of those in employment posted one of the largest rises in Q3 since the start of the crisis (39,400). This reflects the good performance by services which, in turn, is due both to the excellent tourist season and also to the improved performance by the rest of market services. For example, the number of employed people rose by 24,800 in trade and by 6,700 in professional, scientific and technical activities. Even those more directly affected by the crisis, such as real estate and financial services, posted a rise in employment during the quarter. However, non-market services (public administration, education and healthcare) are continuing to adjust and, as a whole, led to job losses (–76,600). Apart from services, no clear signs of improvement can be seen as yet in the rest of the sectors. Industry lost more jobs in 2013 Q3 (–14,700) than the average for the previous three years in Q3 (–6,100). Construction, however, reduced its rate of job losses. After having lost more than 1.6 million workers since 2008, all the evidence suggests that employment in this sector is stabilising at around 1 million people. We expect the improvement in the labour market to continue as the economic recovery consolidates.

The unemployment rate fell for the second consecutive quarter and stood at 26.0% in 2013 Q3. This reduction, namely 0.3 p.p., is partly due to a further drop in the labour force (–33,300). As in the previous quarter, the foreign population is responsible for this decrease (–38,500) while Spanish workers registered a slight increase (5,200). In the coming quarters, we expect a further drop in the labour force although this will steadily moderate. The unemployment rate will also come down, but very gradually.

Private consumption is gaining support. On the one hand, the stabilisation of the labour market will help to halt the

GDP growth

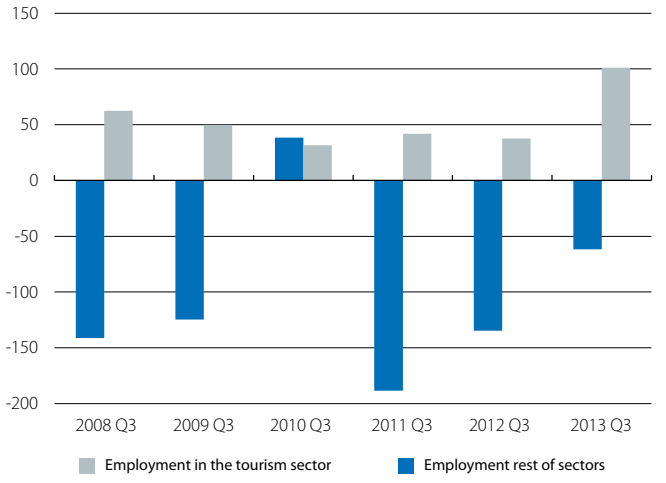
Year-on-year change (%) *Quarter-on-quarter change (%)*



Source: *"la Caixa" Research, based on INE data.*

Employment trends in Q3

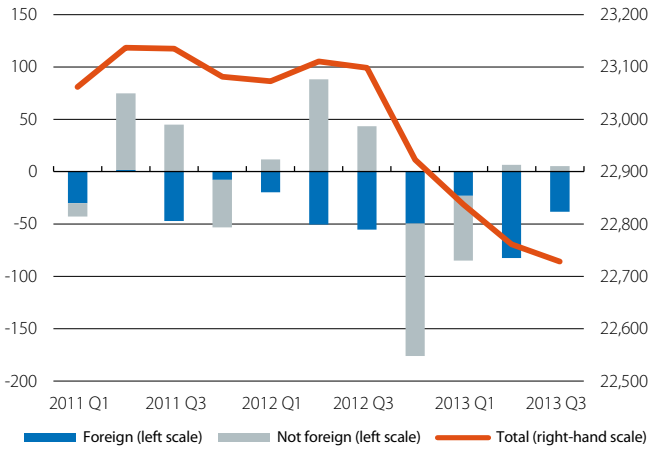
Quarter-on-quarter change (thousands of employees)



Source: *"la Caixa" Research, based on INE data.*

Labour force by nationality

Quarter-on-quarter change (thousands) *(Thousands)*



Source: *"la Caixa" Research, based on INE data.*

decline in household disposable income. The latest data available, for Q2, show that its rate of decline is slowing down (–2.1% year-on-year in Q2 vs. –2.8% in Q1). Private consumption also has other kinds of support, such as the extension of the "PIVE" subsidy plan for buying vehicles, which should maintain the good progress made by car registrations. All this has been reflected in a substantial improvement in demand indicators for Q3. Consumer confidence is now at clearly higher levels than those of Q2, although falling slightly in October. In September, retail sales recorded their first year-on-year positive change rate in 3 years. Part of this increase is because the VAT hike in September 2012, which led to purchases being brought forward, is no longer having any effect. In any case, if we compare the average for the index in the months of August and September with the previous year, the rate of decline has eased (–1.2% year-on-year).

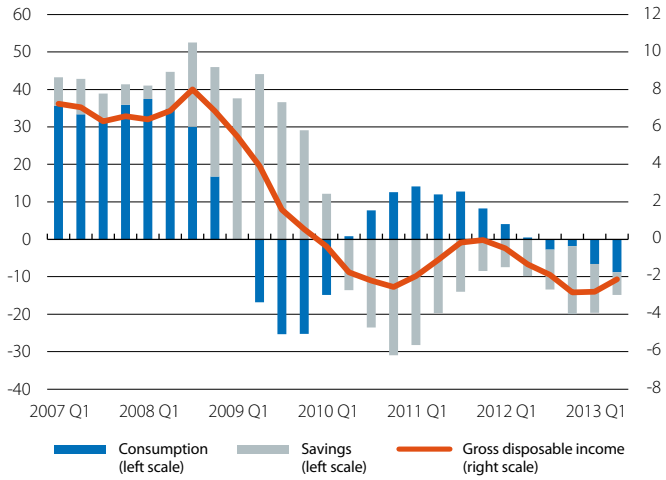
Consumers are also being supported by low inflation, helping households to maintain their purchasing power. According to October's flash estimate, inflation was negative (–0.1% year-on-year), something that hasn't happened since October 2009. This fall is higher than the figure used in our forecasts and that of most analysts. The breakdown by component has yet to be published but the bulk of the evidence available suggests that this larger decline would be due to the fall in prices of unprocessed food and the moderation in the increase in university education prices, which last year rose by 22.3% month-on-month. The dilution of this second effect should have reduced the year-on-year change in the CPI by 0.1 p.p. Moreover, low oil prices might have offset increasing electricity bills, with the energy component falling more than expected. In any case, we expect inflation to return to positive but moderate figures in the coming months.

The Spanish economy's growth prospects are improving. In October, the consensus of analysts placed the annual rate of change for GDP at –1.3% for 2013 and at 0.5% for 2014, an upward revision of 0.3 percentage points in both cases compared with the forecasts of only a few months ago. These improved projections are due to greater confidence in the Spanish economy's capacity to generate growth, to the progress made in correcting macroeconomic imbalances and the credibility of the adjustments and reforms undertaken. This has also been reflected in the progressive normalisation of financing flows from abroad and the lower risk premium. Along these lines, the government has also increased its GDP growth forecasts in the medium term, now set at 1.3% for 2015 and 1.7% for 2016 (0.9% and 1.5% in the previous forecast).

There is still a risk of a slight deviation from the public deficit target. Budget execution figures for September show that the general government deficit fell by 0.3 percentage points over the previous month, down to 3.6% of GDP (the same level as in September 2012). In spite of the possible positive effect of the economy's growth in 2013 Q4, the central

Gross disposable income, savings and consumption

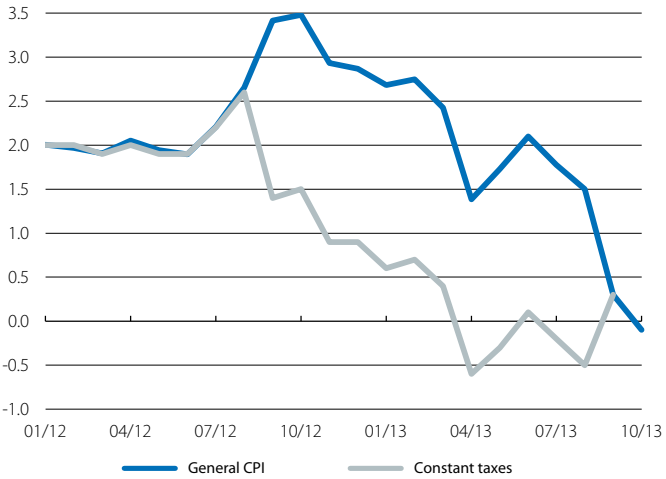
Year-on-year change (thousands) *Year-on-year change (%)*



Source: *"la Caixa" Research, based on INE data.*

General CPI and at constant taxes

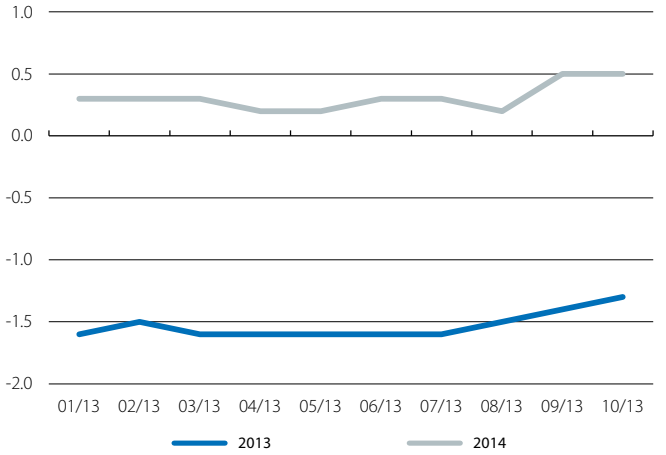
Year-on-year change (%)



Source: *"la Caixa" Research, based on INE data.*

Trends in GDP growth forecasts for 2013 and 2014

Annual change (%)



Source: *"la Caixa" Research, based on Consensus Forecast data.*

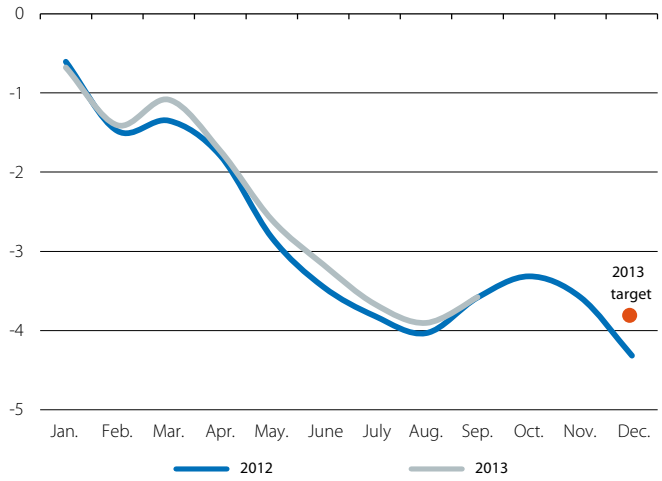
government is unlikely to achieve its deficit target (–3.8% of GDP) given that, between October and December last year, when numerous measures were implemented (the VAT hike, elimination of extraordinary pay, extraordinary revenue from the fiscal amnesty), the deficit increased by 0.7 percentage points. That is why we have maintained our deficit forecast at 6.9% including bank losses (0.3% of GDP), slightly above the target for all public administration (6.8% of GDP).

Bank credit continues to fall within a context of private deleveraging and the redressing of bank balance sheets. In September, bank credit to the private sector fell by 12.4% year-on-year, a similar drop to the preceding months and denoting a certain stabilisation in credit flows. Part of this decline reflects the transfer of assets to the Sareb in December and February but the fall is still 6.6% even when this effect is discounted. In the case of firms, part of the drop in bank financing has been replaced by companies issuing securities other than shares, posting a growth of 12.5% year-on-year. In the case of households, a large part of the drop in outstanding credit is due to the early repayment of loans to acquire housing. The necessary process of balance sheet adjustment in the private sector makes this reduction in the level of debt unavoidable, so we expect the weakness in demand to continue for some time yet.

The conditions that limited the supply of credit are gradually easing. Spanish banks have made a significant effort to redress their balance sheets with an 11.9% rise in provisions in the last year. Moreover, the sources of bank funding are gradually getting back to normal: deposits are increasing (5.4% year-on-year), use of ECB funding is decreasing (–36% year-on-year) and the bonds issued are being welcomed by investors. Nonetheless, the bank NPL rate rose to 12.1% in August and is likely to increase further in September due to the adoption of new criteria to classify refinanced loans. These criteria will be applicable to all European banks in the asset quality analyses that are beginning this November, as a step prior to the Single Supervisory Mechanism (SSM) starting up in November 2014. 16 banks are subject to this analysis in Spain, accounting for 87% of the sector's assets. Given the great effort already made by Spanish banks to redress their balance sheets, no last-minute surprises are expected. This can also be seen in the IMF's latest Global Financial Stability report, which warns of latent non-performing loans in the business sector. Based on an analysis of the capacity of non-financial companies to return the debt they have taken out, the study concludes that, in Spain, potential bank losses would total 104 billion euros in the most adverse scenario, an amount that could be covered entirely with existing provisions. In the case of Italy and Portugal, the estimated losses are larger than the provisions, leading to additional losses that would have to be met with future profits and by consuming capital.

Central government budget execution

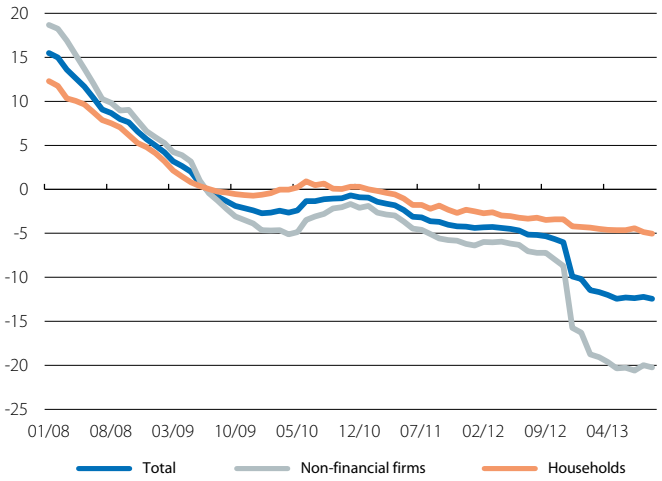
Cumulative balance for the year to date (% GDP)



Source: *"la Caixa" Research, based on IGAE data.*

Bank credit to the private sector

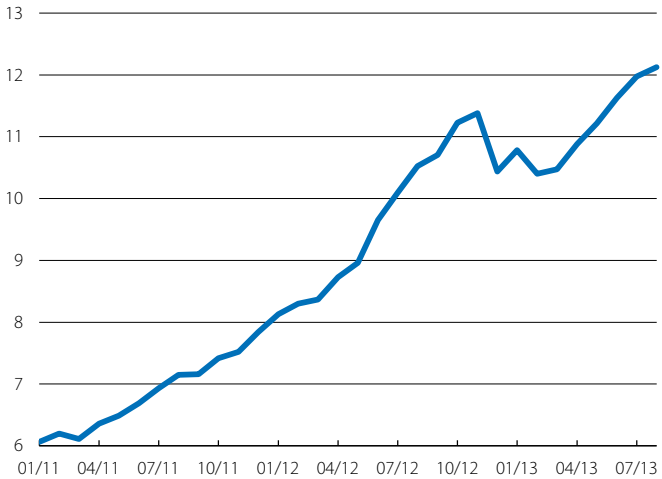
Year-on-year change (%)



Source: *"la Caixa" Research, based on data from the Bank of Spain.*

NPL ratio

Doubtful loans out of total credit (%)



Source: *"la Caixa" Research, based on data from the Bank of Spain.*

FOCUS · The 2014 Budget: less fiscal consolidation

Spain's proposed central government budget (PGE in Spanish) for 2014 reveals one highly significant difference compared with previous years: the effort made by central government regarding fiscal consolidation will decrease considerably next year. There are mainly two reasons for this: a less ambitious reduction target for the central government deficit and the expected positive effect of the economic recovery on public accounts.

With regard to the first aspect, in 2014 the central government is required to reduce its deficit by just 0.1 percentage points, from 3.8% of GDP to 3.7%. This is therefore a smaller correction than those carried out in 2011 and 2012, of 0.5 and 0.9 percentage points, respectively. The second factor reducing budgetary requirements is the expected improvement in the Spanish economy in 2014. According to the government, GDP will grow in real terms by 0.7% year-on-year in 2014 and in nominal terms by 2.1%. Since the deficit target is set as a ratio of GDP, with merely an increase in the latter (the denominator), the government deficit will fall by 0.1 percentage points.

Moreover, the recovery in economic activity will also help to improve public sector budget flows. According to the 2014 Budget, higher household consumption will boost VAT revenue by 1.3 billion euros next year (2.5% more than in 2013). But this is no isolated case. According to the Bank of Spain's estimates, 1.0% growth in nominal GDP leads to a 1.3% rise in tax revenue.[1] Direct taxes are the most elastic: for each percentage point rise in GDP, income tax revenue increases by 1.9% and corporation tax by 1.2%. If we apply these figures to the growth in nominal GDP forecast by the 2014 Budget, we can see that, in three out of the four main tax areas, the increase in revenue forecast by the Budget is lower than the figure obtained by using historical elasticity and government projections. It therefore seems that the trend in tax revenue projected by the Budget is relatively conservative. In fact, should there be any deviation from the target deficit this year, next year there will probably be some room to manoeuvre and make up any ground lost.

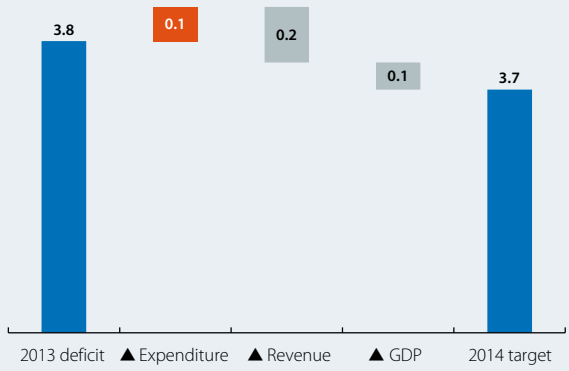
The smaller fiscal effort expected for 2014 will also help to reduce pressure on central government spending. In fact, on a national accounts basis, the spending budgeted by the central government will increase slightly in 2014. Spending on infrastructures and research, which almost halved between 2010 and 2013, will continue to fall but at a lesser rate.

(1) See Banco de España, la nueva Ley de Estabilidad Presupuestaria. Boletín Económico, April 2013.

To sum up, after several years of tough adjustments in central government accounts, the pressure will finally start to ease. This circumstance, however, must not jeopardise the commitment to carry out fiscal consolidation. Public debt will exceed 100% of GDP in 2015, a level at which no last-minute surprises can be afforded.

Contribution to central government deficit adjustment in 2014

(% of GDP)



Source: *"la Caixa" Research, based on data from the 2014 Budget.*

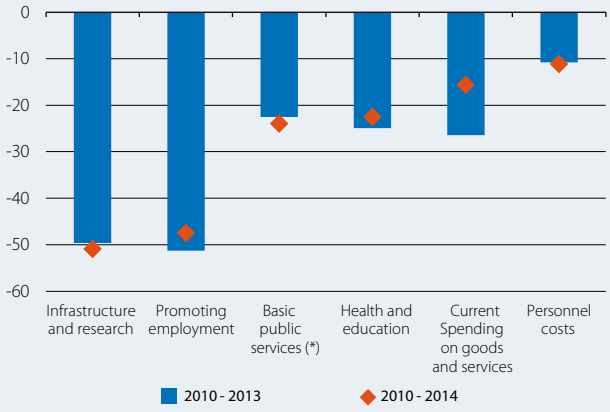
Trend in tax revenue in 2014

	Advance settlement 2013 (million euros)	Increase in 2014 based on historical elasticity (%)(*)	Increase forecast by 2014 Budget (%)(**)
Income tax	71,982	4.0	1.6
Corp. tax	21,181	2.4	–8.4
VAT	53,397	2.1	2.5
Special taxes	20,344	2.1	–1.6

Notes: *(*) Revenue elasticity is the percentage variation of revenue assuming a 1% rise in nominal GDP. We use the elasticity figures estimated by the Bank of Spain, Boletín Económico, April 2013.*
(**) After discounting the impact of fiscal measures in 2014.
Source: *"la Caixa" Research, based on data from the 2014 Budget and the Bank of Spain.*

Adjustments in the main items of spending

Cumulative change in Budgets since 2010 (%)



Note: *(*) Includes spending on Justice, Defence and Foreign Policy.*
Source: *"la Caixa" Research, based on Budget data.*

FOCUS · e-commerce: an expanding market

Between 2008 and 2012, e-commerce sales[1] grew by 14.2% according to the INE's annual survey on the use of ICTs and e-commerce by firms. This figure contrasts with the trend in total sales which fell by 14.8% in the services sector and by 23.2% in industry over the same period. Even those sectors that experienced the largest drop in their overall business, more than 30%, enjoyed modest growth in online sales. Given the huge growth potential for this distribution channel, in this Focus we analyse the patterns followed by companies employing e-commerce.

The number of firms that have jumped on the e-commerce bandwagon has risen non-stop: in 2012, 14.4% of companies sold via different electronic channels compared with 11.1% in 2008. The business volume generated by these sales totalled 183.1 billion euros, accounting for 14.0% of all sales made by Spanish firms. Penetration by sector is quite uneven: accommodation services top the ranking with 27.4% of the sales via this channel, in contrast with just 1.5% for the real estate sector.

By size, big companies make the largest number of sales online while medium-sized firms have increased their sales the most over the last four years. This partly reflects the fixed costs associated with accessing such technology. As the costs of accessing electronic sales fall, differences due to company size are likely to dissipate.

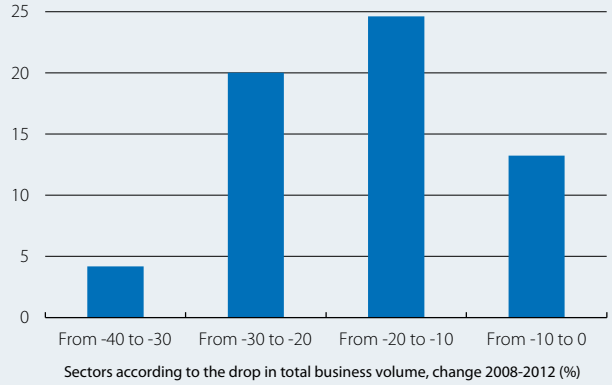
Once companies have adopted this distribution channel, they use it to broaden their potential market and to internationalise. In 2012, 18% of online sales in Spain were for foreign markets (14.7% to other EU countries and 3.3% outside the EU). It is notable that both large and small firms follow this pattern suggesting that, once the fixed cost of accessing new technology has been incurred, the opportunities arising for internationalisation are similar for all kinds of companies.

Compared with other EU countries, Spanish firms are well positioned: the percentage of firms selling online is similar to the average (14%) and more than in Italy (4%) or France (11%). However, there is still a long way to go to reach the figures of more advanced countries such as Germany (22%) or the Nordic countries (27% in Sweden). Continuing to invest in technology and innovation is the way to achieve the improvements in corporate efficiency that can be provided by e-commerce.

(1) e-commerce is taken to be any transaction carried out via remote networks. Payments and product deliveries may be carried out via these or other means.

e-commerce sales by the drop in total sales by sector

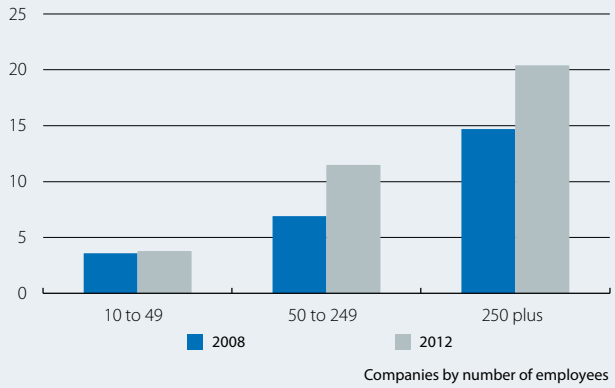
e-commerce sales, change 2008-2012 (%)



Source: *"la Caixa" Research, based on INE data.*

e-commerce by company size

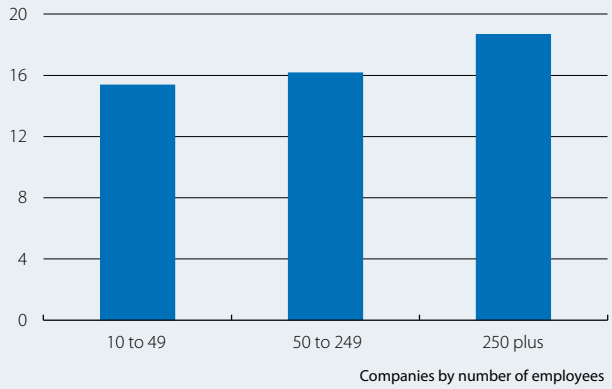
Average share of e-commerce sales out of total sales (%)



Source: *"la Caixa" Research, based on INE data.*

Exports via e-commerce

e-commerce sales to foreign markets (%)



Source: *"la Caixa" Research, based on INE data.*

FOCUS · The return of foreign capital

The sovereign debt crisis reached its zenith when fears of a possible break-up of the euro started to cause significant capital outflows from the periphery countries. In 2013 this trend has completely turned around and international investors have regained notable confidence in Spain, as shown by the growth in foreign investment.

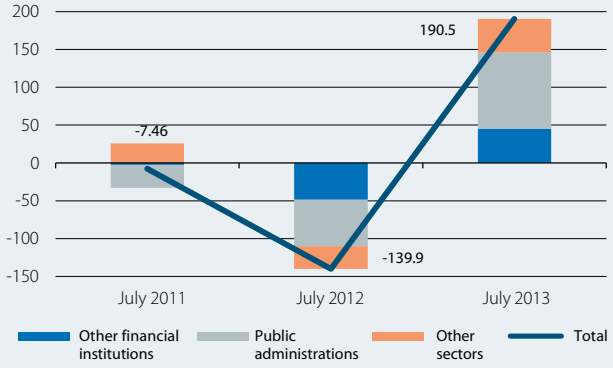
We can best see this change in trend in the performance of portfolio investment, which plummeted between 2011 and 2012. Specifically, in July 2012, cumulative net foreign portfolio investment over the previous twelve months was 139.9 billion euros lower than the same figure for July 2011. The exit of foreign investors was widespread throughout the different institutional sectors but was particularly marked in public administrations accounting for 43.8% of the total reduction. It was not until Mario Draghi announced that all necessary measures would be taken to guarantee the euro's future that this trend started to change, an announcement that, together with the institutional advances made toward a greater degree of coordination and integration at a European level, also helped to lessen doubts regarding the future of the single currency. Since then, net foreign portfolio investment has gradually made up the ground it had lost and, in July 2013, was already 190.5 billion euros higher than its figure one year earlier. This improvement has also been widespread, although once again public administrations recovered the most (52.7% of the total increase).

Similarly, this return of foreign investment is occurring without the cost of debt rising. In fact, the average cost of issuing public debt has fallen significantly with the average effective yield (not including the ESM) being 3.4% in 2012 while, on average, this year it has fallen to 2.6%. This improvement can also be seen in the private sector where corporate bonds are being issued at increasingly lower costs. For example, in August 2012 the average spread for issuances by financial firms was 390 bps while in October 2013 it was 147 bps, a trend that is also shared by non-financial firms.

Foreign direct investment (FDI) is generally more long term and therefore less volatile. In July 2012, net FDI was just 4.7 billion lower than the figure for the previous year, a drop of 17.3%. In July 2013, the increase was already 8.2 billion so that this loss has already been made up. In fact, in spite of the slump experienced in 2012, Spain was still one of the main European countries to receive FDI. In 2008, Spain was the fifth country to receive FDI with a total of 77.9 billion dollars and although this amount was substantially lower in 2012 (36.2 billion dollars), it remained in the top ten list of countries receiving FDI.

Net foreign portfolio investment by institutional sector

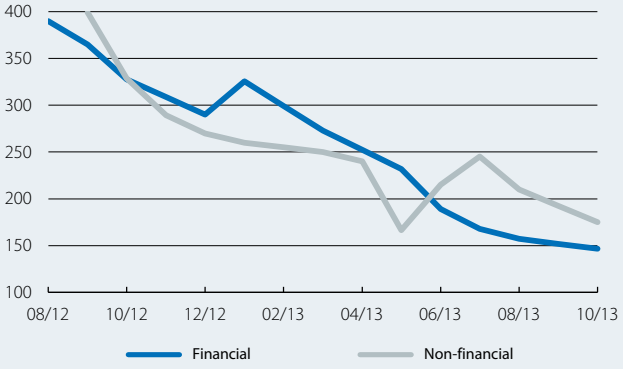
Annual change, cumulative over 12 months (billion euros)



Source: *"la Caixa" Research, based on data from the Bank of Spain.*

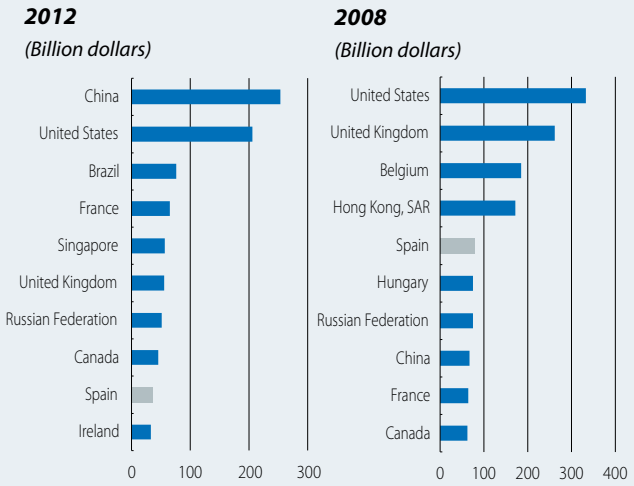
Cost of issuing debt: private sector (*)

Mid-swap spread (basis points)



Note: *(*) To ensure standardisation, this only includes those companies with a constant issuance rate during the period and a rating higher than BBB.*
Source: *"la Caixa" Research, based on Bloomberg data.*

Top 10 countries receiving FDI in the world



Source: *"la Caixa" Research, based on World Bank data.*

KEY ECONOMIC INDICATORS FOR SPAIN

Year-on-year (%) change, unless otherwise specified

Activity indicators

	2011	2012	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13	10/13
Industry									
Electricity consumption	–0.9	–2.2	–2.6	–3.4	–1.5	–2.8	–2.4	–1.5	...
Industrial production index	–1.3	–6.0	–5.7	–4.2	–1.7	–1.2	–2.0	...	...
Indicator of confidence in industry *(value)*	–12.5	–17.5	–17.9	–15.9	–15.4	–14.2	–12.7	–11.4	–14.2
Manufacturing PMI *(value)*	47.3	43.8	44.5	45.7	47.6	49.8	51.1	50.7	...
Construction									
Building permits	–13.5	–42.7	–43.5	–28.0	–27.2	–1.5	–39.9	...	...
House sales	–18.1	–8.7	3.5	7.9	0.6	–5.0	–15.4	...	...
Services									
Foreign tourists	6.1	1.9	–1.5	1.8	5.3	2.9	7.1	4.7	...
Services PMI *(value)*	46.5	43.1	42.6	45.7	46.5	48.5	50.4	49.0	...
Consumption									
Retail sales	–5.4	–7.2	–10.2	–8.5	–5.0	–3.3	–4.4	2.3	...
Car registrations	–14.5	–13.5	–21.6	–11.1	2.5	14.8	–18.3	28.5	...
Consumer confidence index *(value)*	–17.1	–31.7	–37.8	–32.6	–28.7	–22.7	–21.2	–17.5	–20.7

Source: *"la Caixa" Research, based on data from the Ministry of Finance, Ministry of Public Works, INE, Markit and European Commission.*

Employment indicators

	2011	2012	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13
Registered as employed with Social Security (1)								
Employment by industry sector								
Manufacturing	–2.7	–5.3	–5.9	–5.8	–5.1	–4.2	–4.0	–3.6
Construction	–12.2	–17.0	–16.8	–15.8	–13.8	–11.6	–10.8	–10.1
Services	0.2	–1.7	–2.6	–3.0	–2.5	–2.4	–2.1	–1.9
Employment by professional status								
Employees	–1.4	–3.8	–4.7	–5.1	–4.4	–4.2	–4.0	–3.6
Self-employed and others	–1.2	–1.4	–1.6	–1.4	–1.1	–0.6	–0.5	–0.3
TOTAL	**–1.3**	**–3.4**	**–4.1**	**–4.4**	**–3.8**	**–3.6**	**–3.4**	**–3.0**
Employment (2)	**–1.9**	**–4.5**	**–4.8**	**–4.6**	**–3.6**	**–**	**...**	**–**
Hiring contracts registered (3)								
Permanent	–9.2	–1.3	23.8	18.4	1.5	5.7	1.1	9.3
Temporary	1.2	–4.0	–3.3	–2.4	6.0	8.8	1.2	11.1
TOTAL	**0.3**	**–3.9**	**–1.5**	**–0.8**	**5.6**	**8.6**	**1.2**	**11.0**
Unemployment claimant count (3)								
Under 25	0.6	4.5	0.5	–4.3	–6.1	–5.6	–6.9	–6.8
All aged 25 and over	5.4	11.7	11.7	8.4	5.2	3.3	2.5	1.2
TOTAL	**4.8**	**10.9**	**10.5**	**7.1**	**4.0**	**2.4**	**1.6**	**0.4**

Notes: *(1) Mean monthly figures. (2) LFS estimate. (3) Public Employment Offices.*
Source: *"la Caixa" Research, based on data from the Ministry of Employment and Social Security, INE and Public Employment Offices.*

Prices

	2011	2012	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13	10/13
General	**3.2**	**2.4**	**3.1**	**2.6**	**1.7**	**1.8**	**1.5**	**0.3**	**–0.1**
Core	1.7	1.6	2.3	2.2	1.9	1.7	1.6	0.8	...
Unprocessed foods	1.8	2.3	3.3	3.3	4.3	7.4	7.6	2.8	...
Energy products	15.8	8.8	8.8	4.8	–1.1	–0.4	–2.2	–3.7	...

Source: *"la Caixa" Research, based on data from the INE.*

Foreign sector

Cumulative balance over the last 12 months in billions of euros, unless otherwise specified

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	07/13	08/13
Trade of goods								
Exports *(year-on-year change)*	15.4	3.8	4.2	4.2	3.9	11.9	1.3	3.8
Imports *(year-on-year change)*	9.6	–2.8	–2.1	–6.4	–6.9	0.6	–3.0	–3.6
Current balance	**–39.8**	**–11.5**	**–24.3**	**–11.5**	**–2.4**	**3.9**	**4.7**	**6.4**
Goods	–42.3	–25.7	–32.7	–25.7	–19.1	–12.7	–11.7	–10.3
Services	34.6	37.0	37.1	37.0	37.6	37.9	38.2	38.2
Income	–25.7	–18.7	–21.4	–18.7	–17.2	–16.4	–16.3	–16.0
Transfers	–6.4	–4.1	–7.3	–4.1	–3.7	–4.9	–5.5	–5.5
Net lending (+) / borrowing (–) capacity	**–34.3**	**–4.9**	**–19.1**	**–4.9**	**4.9**	**12.0**	**13.2**	**14.9**

Source: *"la Caixa" Research, based on data from the Department of Customs and Special Taxes and Bank of Spain.*

Public sector

Percentage GDP, cumulative in the year, unless otherwise specified

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	09/13
Net lending (+) / borrowing (–) capacity	**–9.6**	**–10.6**	**–5.2**	**–10.6**	**–0.6**	**–3.1**	**–**	**...**	**–**
Central government [1]	–5.6	–8.0	–4.6	–8.0	–1.1	–3.4	–3.7	–3.9	–3.8
Autonomous regions	–3.4	–1.8	–1.0	–1.8	–0.1	–0.8	–0.7	–0.8	...
Local government	–0.5	0.2	0.4	0.2	0.2	0.2	–	...	–
Social Security	–0.1	–1.0	–0.1	–1.0	0.2	0.8	0.1	–0.2	...
Public debt *(% GDP)*	**70.5**	**86.0**	**79.1**	**86.0**	**90.1**	**92.3**	**–**	**...**	**–**

Note: *(1) Includes measures related to bank restructuring but does not include other central government bodies.*
Source: *"la Caixa" Research, based on data from the IGAE, Ministry of Taxation and Bank of Spain.*

Financing and deposits of non-financial sectors

Year-on-year change (%), unless otherwise specified

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	07/13	08/13	Balance 08/13 [1]
Financing of non-financial sectors [2]									
Private sector	–1.9	–4.0	–4.2	–5.8	–8.1	–8.7	–8.5	–8.3	1,885.7
Non-financial firms	–1.9	–4.2	–4.2	–6.9	–10.6	–11.4	–11.3	–11.0	1,079.6
Households [3]	–2.0	–3.8	–4.1	–4.1	–4.4	–4.8	–4.5	–4.5	806.1
General government [4]	16.0	14.9	15.0	17.1	18.7	18.4	17.8	17.9	944.7
TOTAL	**1.9**	**0.6**	**0.5**	**0.0**	**–1.0**	**–1.3**	**–1.2**	**–1.0**	**2,830.4**
Liabilities of financial institutions due to firms and households									
Total deposits	0.3	–4.5	–6.2	–2.7	–0.1	1.8	4.3	5.4	1,190.7
On demand deposits	1.9	0.2	–0.9	–1.9	0.9	3.2	3.4	5.0	274.3
Savings deposits	–1.4	–2.8	–0.8	0.2	–0.6	–1.1	–0.4	–0.1	201.2
Term deposits	0.6	–6.7	–9.6	–4.4	–0.9	1.6	5.7	6.7	694.3
Deposits in foreign currency	–12.3	–4.0	–7.1	20.1	20.5	22.7	23.4	27.2	21.0
Rest of liabilities [5]	–4.4	–13.2	–19.2	–18.3	–20.2	–19.2	–19.7	–9.8	130.0
TOTAL	**–0.4**	**–5.7**	**–8.0**	**–4.8**	**–2.8**	**–0.9**	**1.5**	**3.7**	**1,320.8**
NPL ratio *(%)* [6]	**7.8**	**10.4**	**10.7**	**10.4**	**10.5**	**11.6**	**12.0**	**12.1**	**–**
Coverage ratio *(%)* [6]	**59.6**	**73.8**	**62.4**	**73.8**	**70.4**	**65.8**	**66.4**	**66.0**	**–**

Notes: *(1) Billion euros. (2) Resident in Spain. (3) Including NPISH. (4) Total liabilities (consolidated). Liabilities between different levels of government are deduced.*
(5) Aggregate balance according to supervision statements. Includes asset transfers, securitized financial liabilities, repos and subordinated deposits. (6) Data end of period.
Source: *"la Caixa" Research, based on data from the Bank of Spain.*

THE CHALLENGES OF THE PENSION SYSTEM

Pension reform in times of crisis: various recipes to tackle similar challenges

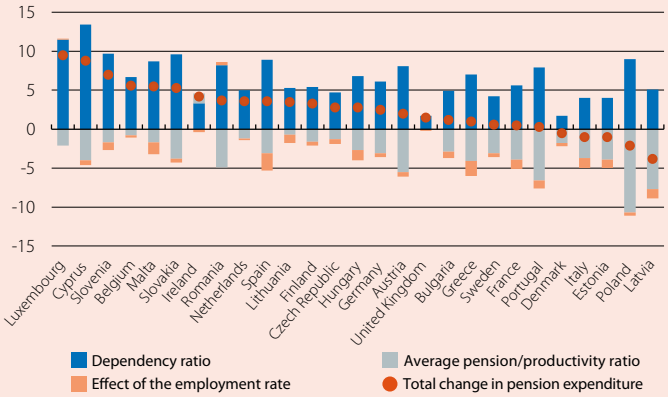
Since the economic and financial crisis started in 2007, thirty-four developed countries have reformed their pension systems to a greater or lesser extent.[1] This reformist wave is a warranted phenomenon as the serious cyclical economic deterioration is in addition to growing structural pressures threatening public pension systems. According to European Commission figures, expenditure on public pensions as a percentage of GDP will grow in almost all European countries over the coming decades (see the graph below). This rise will be particularly dramatic in countries such as Luxembourg, Cyprus and Slovenia, whose public pension expenditure will increase by more than 6 percentage points (pp) up to 2060. A large group of countries, including Spain, will record rises of between 3 and 5 pp. Although these may seem like relatively moderate variations at first sight, by 2060 eight out of the twenty-seven members of the European Union (EU) will allocate more than 15% of their GDP to expenditure on pensions, a figure that rises to twenty-two members if we place this threshold at 10% of GDP.

Which factors are putting pressure on public pension systems? The increase in expenditure on public pensions as a percentage of GDP will be greater the higher the proportion of pensioners compared with the working age population (i.e. the dependency ratio); the lower the participation rate; and, lastly, the higher the average pension compared to productivity.[2] In the case of EU countries, and based on European Commission figures, the component that lies behind almost all this increase in pension expenditure over the period 2010-2060 is the dependency rate. In fact, with the exception of the United Kingdom and Ireland, the contribution of the average pension/productivity ratio and employment variables (participation rate) is negative, i.e. their expected trend over the period in question is expected to reduce expenditure on pensions. In short, the major source of pressure is demographic.[3]

This being the scenario in the future, how are public pensions being reformed in advanced countries? A distinction is usually made between two broad types of reform: those affecting specific parameters of the system without altering its essence, and those transforming its fundamental design. Since 2007, the reforms that have been carried out by countries within the Organization for Economic Cooperation and Development (OECD) have been related to changing parameters. This is therefore a generation of reforms with less scope than many implemented in the 1990s and the beginning of the next decade. Countries such as Italy, Latvia, Poland and Sweden introduced «notional accounts», a pay-as-you-go system where pensions are calculated depending on the contributions accumulated, returns generated and life expectancy. Also reforming their systems, countries such as Hungary, Poland, Sweden, Slovakia and Slovenia, among others, complemented their public PAYG system by introducing an additional capitalisation system.

Contribution to the change in expenditure on public pensions (2010-2060)

Percentage points (% of GDP)



Source: *"la Caixa" Research, based on data from The 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010-2060), European Commission, 2012.*

However, since 2007 countries have opted to make selective changes in the system's parameters (see the table below). In particular, the most frequent measure is related to raising the official retirement age, an option justified by longer life expectancy. This measure is being implemented progressively so that, once it has been completely rolled out, the standard retirement age in almost all OECD countries will be sixty-five or older. A second area of action is the modification of incentives for early retirement, aiming to bring the effective retirement age closer to the official one. With the aim of making early retirement much less attractive,

(1) See OECD, «OECD Pensions Outlook», 2012.
(2) In more precise terms, what is being presented here is an arithmetical breakdown of pension expenditure as a percentage of GDP as a multiplication of three components: the dependency ratio (proportion of pensioners to the working age population), the ratio of expenditure per pensioner compared with productivity and a component calculated as the inverse of the employment rate (employees divided by the population of working age).
(3) The European Commission has carried out its simulation using a specific model for each country and also making specific assumptions for the different parameters at a national level. In the case of Spain, for example, the hypotheses used for the fundamental variables are as follows: 1.4% growth in productivity as an annual average (2010-2060); moderate rise in the average pension in real terms (1% as an annual average); increase in the employment rate from 62.6% in 2010 to 77.2% in 2060; and an increase in the dependency rate from 47% to 79%, also between 2010 and 2060.

many OECD countries have increased the number of years of contributions required to qualify for a full pension or have made extraordinary payments to those delaying their retirement beyond the official age.

A third area where extensive action has been taken is in how pensions are calculated. Various countries have chosen to give less weight to the last salary or the highest salary received during employment. For example, Finland, Poland, Portugal, Slovakia and Sweden have started to use the average wage of a worker's whole professional life, while Austria now calculates pensions based on the best forty years in wage terms compared with the previous figure of fifteen.

A fourth block of measures to adjust parameters concerns the revaluation of pensions. In contrast to the option to link pensions to wage increases, prevalent in many advanced economies, countries such as Austria, Greece, Hungary and Italy have linked this revaluation, entirely or partially, to trends in prices. A fifth type of crucial modification aims to ensure that pension reforms do not affect the lowest pensions too much. The two most usual options are to apply higher revaluations to low pensions (such as in Belgium and Finland) or to make complementary payments for such pensions (Canada, Australia and Korea).

Lastly, and probably the most innovative measure in the current phase of reforms: some countries have started to use «automatic adjustment mechanisms». An initial variation to these mechanisms consists of adjusting parameters such as the retirement age (Denmark), the contribution period required to qualify for a full pension (France and Italy) or the initial pension (Finland and Portugal) to trends in life expectancy. A second group of automatic mechanisms adjust the revaluation of pensions according to macroeconomic variables and those of the pension system itself. For example, Germany takes the pensioner-contributor ratio into account; Hungary and Portugal, GDP growth, and Sweden, the actuarial balance of the system. The «sustainability factor» that is now being discussed in Spain belongs to this kind of mechanism (see the Dossier: «Pension reform in Spain: necessary... but sufficient?» in this Report).

Main reforms of public pension systems in advanced countries since 2007 (*)

	Raising the retirement age	Incentives to delay retirement	How pensions are calculated	Changes in revaluation method	Compensating low pensions	Automatic adjustment mechanisms
Germany	•	•		•	•	•
Australia	•	•			•	
Austria	•	•	•	•		
Belgium		•			•	
Canada					•	
Chile					•	
Korea	•				•	
Denmark		•				
Slovakia	•		•			
Spain	•	•	•	• (**)	•	• (**)
Estonia	•					
Finland		•	•	•	•	•
France	•	•	•		•	•
Greece	•		•		•	•
Hungary	•	•	•	•		
Ireland	•	•				
Israel						
Italy	•	•	•	•	•	
Japan	•		•			
Mexico						
Norway		•	•	•		•
New Zealand	•		•	•	•	
Netherlands	•					
Poland		•	•	•		
Portugal	•	•	•	•		•
United Kingdom	•	•	•	•	•	
Czech Republic	•		•		•	
Sweden	•		•		•	
Turkey	•			•		

Notes: *(*) The table summarises the reforms adopted between September 2007 and February 2012. (**) If the Proposed Bill is adopted that regulates the Sustainability Factor and Revaluation Index of the Social Security Pension System.*
Source: *"la Caixa" Research, based on data from the CESifo DICE Report 2009 and 2012 and OECD Pension Outlook 2012.*

Given the wide range of measures being implemented, the immediate question is whether these will be enough to ensure public pension systems are sustainable. A definitive answer cannot be given at present. As these are very long-term processes, small changes made today in the system could result in notable improvements in the long run. Nevertheless, without permanent changes in the productive model of advanced countries it is difficult to rule out tensions related to pensions. Little wonder that, given the demographic pressures, there are few options beyond prioritising innovation and growth in productivity and ensuring the labour market functions more efficiently.

Àlex Ruiz
International Unit, "la Caixa" Research

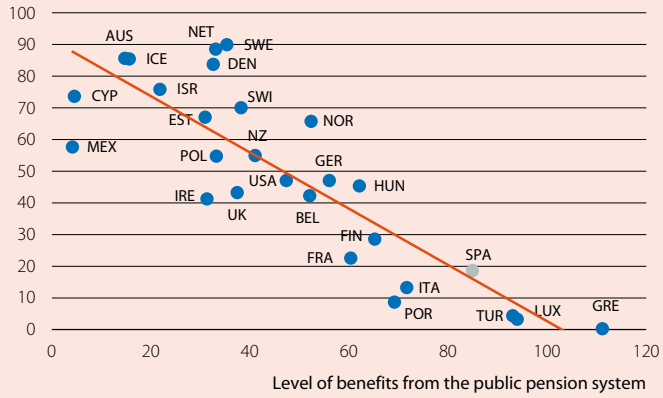
Private pensions: a complement to the public pension system

Demographic trends are posing a significant challenge for public pension systems. In particular, the reduction in the number of workers compared with the number of pensioners is pushing down the purchasing power of pensions in pay-as-you-go (PAYG) systems (and pushing the retirement age up). For example, the OECD's latest annual report on pensions estimated that, according to the current rules in force, the future pension of someone earning an average wage who started working in 2008 at twenty years of age would not exceed 60% of their wages just before retiring in twenty-two of the thirty-four member states. Given this situation, private pensions are required to play an increasingly relevant role and many countries have started to introduce a range of measures to encourage their inhabitants to take them out.

The degree of participation in private pension plans varies considerably between countries. In general, this tends to be less the higher the level of benefits from the public pension system.[1] But precisely those countries with the largest benefits are the ones that need to make the greatest adjustments, or are already doing so, to their public pension systems and consequently they are likely to experience a substantial rise in private plan participation in the near future. This would be the case of Spain where, according to OECD figures, an average worker's pension is relatively high compared with their wage before retirement while the rate of participation in private plans is among the lowest.

Less participation in private pension plans as the level of benefits rises from the public pension system

Workers with private plans (%)



Source: *Pensions Outlook 2012, OECD.*

The rate at which private pension plans are taken out, in those countries where this is voluntary, clearly tends to increase with the worker's age. In fact, people usually start to contribute to private plans too late to be able to maintain their purchasing power after they retire. In this respect, there is ample research in the field of behavioural economics[2] that shows people do not have enough savings discipline. Procrastination (delaying the decision), short-sightedness (not taking the future sufficiently into account) and inertia (refusing to modify a pattern of behaviour) have a considerable effect on the level of savings.

A late start to saving entails significant cost in terms of losing the multiplying effect provided by compound interest. For example, contributions of 3,000 euros per year (increasing by 2% per year in line with inflation) over forty years and with an average annual return of 5% would provide us with a retirement capital of 507,355 euros. If the decision to make contributions was taken later but contributing a larger amount, the final result would be clearly lower: contributions equivalent to 6,000 euros per year as of today (also with an annual increase of 2%), starting within twenty years and lasting twenty years would become 364,270 euros.

The vast majority of countries have traditionally used different fiscal incentives to encourage people to take out pension plans. These initiatives generally allow, up to a limit, a discount on taxable bases according to the contributions made and defer the taxes on this portion of income until retirement. This kind of incentive particularly benefits higher income taxpayers who are facing higher marginal rates on their income. Other countries, a minority, have chosen to offer fixed-sum incentives, such as discounting a percentage of the contributions made to the pension plan from any tax to be paid. In any case, tax incentives have not been powerful enough to result in a significant rise in the degree of private plan coverage. In other words, it would be very expensive for the public treasury to promote universal cover through fiscal incentives.

Given this situation, some countries have opted to make it compulsory to take out a private pension plan. In cases such as that of Australia, the system specifies a mandatory minimum level of contributions, an option that is not without problems since the level of savings required may be too high for some families, especially young ones who might prefer to use their income to invest in their children's education or in purchasing a home. Recently, and as an alternative to the compulsory option, the automatic

(1) Relationship between the retirement pension received and average wage before retirement.
(2) Richard H. Thaler, Cass R. Sunstein (2008), «Nudge: Improving Decisions about Health, Wealth, and Happiness».

enrolment of workers in private pension plans has become more important. Under this scheme, companies must enrol all employees and allocate a percentage of their wages to their pension plan. Workers have a period of time to state whether they wish to continue making contributions or cancel their participation. Among other countries, this initiative exists in the USA, United Kingdom, Italy and New Zealand and, since it was implemented, significant increases have been observed in the percentage of people of working age with private pension plans. Another advantage of automatic enrolment is that, as a reform, it is politically easier to impose than making contributions compulsory.

The case of New Zealand (with its «KiwiSaver» scheme) shows the importance of the system's design and in particular the choice of the default contribution rate in automatic enrolment models. When a new worker joins, New Zealand companies must enrol them in a private pension plan, allocating at least 2% of their wages to this plan. Employees have two months to withdraw and can freely fix the percentage of their salary they wish to allocate to the plan. When this model was implemented in July 2007, the default contribution rate was set at 4% and was subsequently lowered to 2% in April 2009 to minimise the percentage of people withdrawing from the system. In June 2011, most workers had kept the fixed default rate: 62% of employees starting with a 4% rate kept this rate, while the percentage rose to 80% among those who had started with a rate of 2%. This example illustrates, once again, the importance of inertia in human behaviour.

In short, having a private pension plan is becoming advisable in any attempt to maintain purchasing power after retirement. The public authorities, aware of this and of the biases affecting human behaviour when saving for the future, are using different alternatives to promote their use among the population. This is a necessary effort to reduce inequality at retirement age between those who are more cautious and prepare in advance and those who like to live for the day until it is too late.

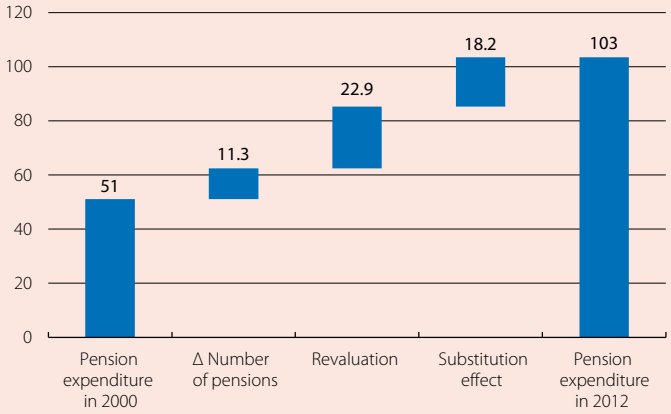
Antonio Escoda Viladomiu
Economic Analysis Unit, "la Caixa" Research

Pension reform in Spain: necessary... but sufficient?

Since 2011, the pension system has been the focus of a large portion of the government's reforming efforts. The aim is clear: to ensure it is sustainable in the long term. The path is gruelling. To guarantee the sustainability of the pension system it is vital to increase the revenue and/or reduce the expenditure of Social Security while minimising the impact on its beneficiaries and contributors. Not an easy task by any means but an unavoidable one. Spain's ageing population will put Social Security expenditure under steadily increasing pressure. Moreover, the strong impact of the economic crisis on the labour market has drastically reduced revenue. All this has accelerated the government's agenda for pension reform. Will the actions undertaken be enough to ensure that Social Security revenue and expenditure are balanced in the long term?

Breakdown of the increase in nominal pension expenditure

Change between 2000 and 2012 (billion euros)



Source: *"la Caixa" Research, based on data from Spain's Social Security and Statistics Institute (INE).*

Main reforms of the retirement pension system

	Measure	Effects
Act 27/2011	Raise the retirement age from 65 to 67	△workers ▽pensioners
	Toughen up requirements for early retirement (accentuated in RD-Act 5/2013)	△workers ▽pensioners ▽average pension
	Extend the basis for calculation from 15 to 25 years	▽average pension
	Increase from 35 to 37 years the contributory period required to achieve 100% of the basis for calculation	△workers ▽pensioners ▽average pension
	Incentives to lengthen working life	△workers
	Changes in partial retirement	△contributions
2013 Sustainability Factor Bill	Intergenerational Equity Factor (IEF) in 2019	▽average pension
	Annual Revaluation Factor (ARF) in 2014	▽average pension

Source: *"la Caixa" Research.*

Let's start by looking at Social Security revenue. The deterioration in the labour market over the last few years has led to a sharp drop in employment and to wage containment, reducing Social Security contributions by almost 7 billion euros between 2008 and 2012. However, expenditure on contributory pensions increased by 18.8 billion euros in the same period. Three factors lie behind this increase. Firstly, the rise in the number of pensioners who, as shown by the graph on the left, account for around 20% of the increase in pension expenditure between 2000 and 2010. Secondly, and with the greatest impact on the growth in pension expenditure over the last decade, pension revaluation. Until 2010 pensions were updated at least by inflation, guaranteeing that pensioners would maintain their purchasing power, albeit at a high cost. Lastly, expenditure also depends on the trends in the average pension due to the substitution effect. In other words, the difference between the pension received by new pensioners and the one received by those leaving the Social Security register. In 2012, for example, not only did the number of new pensioners (308,400) vastly exceed the number of withdrawals (259,530) but the average pension for the former group was 354 euros higher than that for the latter. Although the drop in revenue is very likely to reverse once the economy reaches sustained levels of growth that allow jobs to be created, this will not be enough to correct the structural imbalance inherent in the pension system. According to projections by the European Commission in 2012, in the absence of reforms the ratio of Social Security contributors to the pensioner population will fall from 2.4 in 2010 to 1.3 in 2060 while pension expenditure will increase by 3.6 percentage points of GDP over the same period.[1] Such long-term projections have a high level of uncertainty. For example, another migratory wave such as the one experienced in the first decade of this century could substantially alter this scenario. However, it is vital to introduce far-reaching reforms that help to balance the Social Security accounts based on the scenario that, today, is deemed most probable.

An initial reform was carried out of the pension system in 2011, modifying this from different angles (see the enclosed table). Some of the measures taken reduce the growth rate for the number of pensioners by increasing the working life of employees,

(1) See European Commission, «The 2012 Ageing Report: Economic and budgetary projections for the UE27 Member States (2010-2060)», European Commission, 2012. For more information, see the Dossier: «Pension reform in times of crisis: various recipes to tackle similar challenges» in this Report.

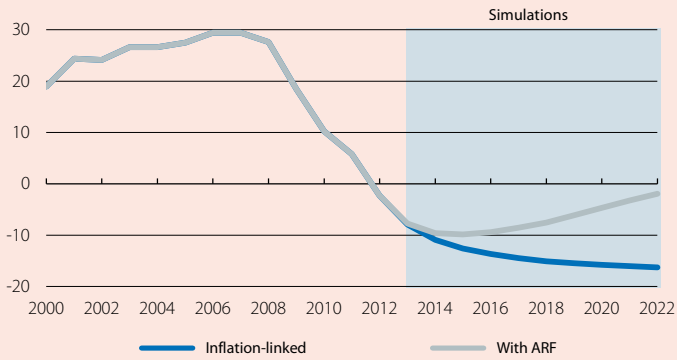
increasing the contributory period required to qualify for a full retirement pension or gradually raising the retirement age, from 65 in 2012 to 67 years in 2027. With the new law, the period used as the basis for calculation has also been extended from 15 to 25 years. Given that a person's salary usually grows over a large part of his or her working life, this extension will reduce new pensions by between 3% and 4% approximately, thereby affecting the substitution effect.

These initial changes represent a first step in bolstering the sustainability of the pension system but do not correct the long-term structural imbalance.(2) That is why, in line with the European Commission's recommendations, the government has presented a bill to introduce the sustainability factor as a core element of the pension system. This mechanism is made up of two instruments: the intergenerational equity factor (IEF) and the annual revaluation factor (ARF). The IEF takes life expectancy and therefore the ageing population into account in calculating pensions. Although the total amount of pension to be received may remain constant, the longer life expectancy means that the monthly payment received is less. According to INE projections, life expectancy at the age of 65 increases by 5% every ten years but, seeing as this measure will only affect new pensioners, its impact on Social Security expenditure will be noticed very gradually. The government estimates that savings on pension expenditure due to the introduction of this corrective factor will be, annually, 0.1% of GDP in 2030 and will increase to 0.6% of GDP by 2050.

The main novelty introduced by this bill is the revision of the revaluation rate for pensions via the ARF. As we have seen previously, this was the main factor behind the increase in pensions between 2000 and 2012. Specifically, revaluation increased pension expenditure by 45% in this period, a slightly smaller rise than the one that would have occurred had pensions been raised in line with inflation every year. According to the ARF system, the annual revaluation of all public pensions will depend on Social Security budgetary flows and the economic cycle so that, when these are not favourable, pressure on expenditure will decrease. The main aim is to equate growth in Social Security revenue to that in expenditure. To this end, the revaluation rate must coincide with the increase in net revenue from the growth rate in the number of pensions and the substitution effect. Moreover, a corrective element is added so that, when Social Security has a recurring deficit, growth in expenditure will be less than that in revenue, and vice versa. All this is mitigated both by the economic cycle and by the minimum level (0.25%) and maximum level (inflation +0.25%) between which the ARF can fluctuate, thereby avoiding excessively sharp variations in the revaluation rate.

Trend in the Social Security balance

Balance as percentage of Social Security expenditure



Source: *"la Caixa" Research, based on data from Spain's Social Security and Statistics Institute (INE).*

According to the government's estimates, introducing the ARF in 1997 would not have substantially modified the revaluation of pensions over the last few years. In fact, during that period, only 2011 and 2012 would have seen a revaluation lower than the increase in prices. This effect would have been almost entirely offset by the revaluation in pensions above inflation during the preceding years.

However, in the coming years the ARF will have significant impact. According to the government, the new revaluation measures will reduce expenditure on contributory pensions by almost 33 billion euros between 2014 and 2022 (compared with a scenario of an inflation-linked revaluation of 2.0%). The enclosed graph shows this effect: the introduction of the ARF helps to reduce the Social Security deficit (measured as a percentage of all Social Security expenditure) in the coming years. A scenario that contrasts with the increase in the deficit that would occur if pensions were revalued in line with the rate of inflation. To achieve this improvement in the Social Security deficit in an environment where the rise in revenue is expected to be very subdued and, moreover, the ratio of contributors to pensioners will continue to fall, it is likely that the ARF will place the revaluation at relatively moderate levels for several years. In short, there is no doubt that the pension reforms presented over the last two years are necessary to halt the deterioration in the Social Security accounts. Moreover, all the evidence suggests they have helped to take an important step forward toward long-term sustainability.

Maria Gutiérrez-Domènech and Joan Daniel Pina
European Unit, "la Caixa" Research

(2) See «La reforma silenciosa: los efectos de los límites máximos y mínimos (de cotización y pensiones) sobre la sostenibilidad del sistema» FEDEA (2012).

Financial solutions for retirement: something more than mere products

Retirement is a highly significant phase in people's lives with far-reaching implications in many different spheres. The sphere of finance and wealth is one of these. Proper long-term planning is advisable to keep purchasing power at a suitable level once income from employment ceases. Such planning starts by setting a target,[1] involves assumptions or predictions related to certain variables and includes gauging the risks and tolerance of these to ultimately establish an agenda of actions to be taken. Throughout this process, it is very useful to know the range of financial products available as well as any other investment vehicles that could be used to achieve the goal. Some of these are specifically designed, by law and/or by financial intermediaries, as savings products for retirement and therefore offer particular advantages that should be taken into consideration.

Although they may have received less attention than corporate finances, academic studies on household finances contribute thoughts, figures and conclusions that are useful when planning for retirement.[2] First of all, based on life cycle theory, there is a need for a person or family to contemplate retirement at the same time as other landmarks such as decisions regarding the time and resources to be devoted to education and training, whether to buy or rent a home, descendants, inheritance, etc. Logically this merely accentuates the complexity of the problem. Moreover, other focuses emphasise the existence of additional elements: restrictions (a clear case when individuals own assets that cannot be sold directly, such as human capital), friction (for example, in getting a mortgage and therefore buying a home), distortions (such as those caused by taxes) and the environment of high uncertainty inherent in decisions involving such a long timescale. The existence of certain cognitive biases that move people's behaviour away what is rational is another important factor, identified in studies from the field of behavioural economics.[3] As a result of all the above, it comes as no surprise that, given the difficulty of this problem, family units may make «mistakes», sometimes far-reaching ones, when taking decisions about savings or investment with a view to retirement. One of the most significant mistakes is the low or zero investment in shares and other risky assets (but also prospects of a better return). Also anomalous is the low degree of diversification and bias towards local assets among household investments. But perhaps the most significant dysfunction is the phenomenon of procrastination:[4] in general, individuals tend to systematically postpone those decisions that entail some kind of sacrifice or concession in the present and result in a benefit that can only be enjoyed in the distant future. Within the context of retirement, this kind of behaviour can lead to savings that are clearly below what is necessary or optimum. Savings products that include a strategy to enforce discipline and a long-term view are highly recommended to assuage such a weakness.

Comparative statistics[5] point to Spanish households suffering from such problems. Investments in pension funds and insurance policies, which are products specifically designed for retirement, only account for 14% of their total financial assets, very far from the European average[6] which stands at 37%. Moreover, positions in mutual funds and listed shares, also associated with the long term, stand at 12% while the average in Europe is 17%. In contrast is the high relative weight of bank deposits, considered as safe and very liquid assets, which account for 50% compared with 34% in Europe.[7] But undoubtedly the differentiating feature for household wealth in Spain, considering not only financial assets but also property, is the preponderance of housing and real estate in general. The share of households that own their home[8] reaches 83%, appreciably higher than the 60% average for the euro area and a long way from Germany's 44% and France's 55%.

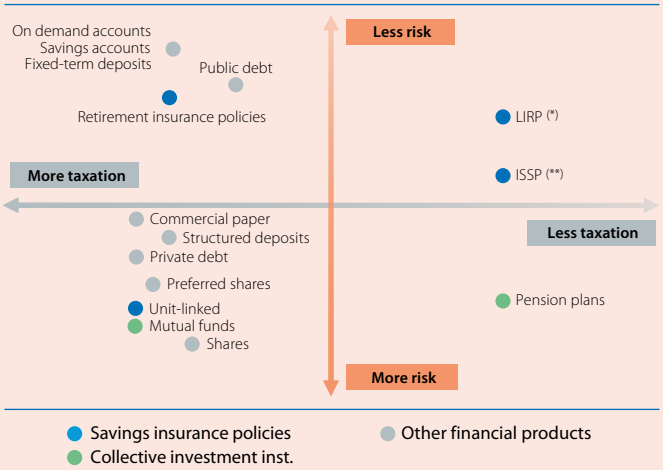
Certainly, bank deposits, on one side of the spectrum, and real estate, on the other, are viable instruments to channel savings towards retirement. They have failings in terms of profitability (particularly when we consider taxation and maintenance costs), risk diversification and liquidity (the former too much and the latter not enough). It is also doubtful whether they are the best

(1) Quantify the desired purchasing power and discount the amount received via a public pension and other possible income.
(2) See Campbell, John, «Household Finance», presidential address to the American Finance Association, Journal of Finance 61, 2006.
(3) See Shlomo Benartzi and Richard H. Thaler, «Behavioral Economics and the Retirement Savings Crisis», Science Magazine, Vol. 339, 2013.
(4) «Retirement Savings and Decision Errors: Lessons from Behavioral Economics», Federal Reserve Bank of San Francisco Economic Letter, 2008.
(5) Data compiled by the Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones (Inverco), referring to 2011.
(6) The considerable differences in the structure of financial savings of Spanish households compared with the average for the euro area may be due to many different factors. Although the identification and analysis of these goes beyond the confines of this article, some of the key variables that may help to explain the particular features of the Spanish case are related to the level of risk aversion among households, the legal framework, as well as the specific fiscal structure of savings products and the population's level of financial education.
(7) 24% of the remaining assets in Spain are distributed as follows: 4% in bonds and 20% in other assets. For Europe, investments in bonds (6%) and in other assets (6%) account for the remaining 12%.
(8) «The Eurosystem Household Finance and Consumption Survey», European Central Bank, 2013. Data for Spain corresponding to 2008.

option to assuage the problem of procrastination. It therefore seems advisable for Spanish families to focus more on financial products that have been specifically designed for this purpose. There are two basic types: pension plans and savings plans. Within the first category, of note are individual pension plans (IPPs), which are shares in funds managed by «collective investment scheme management companies». In this product, the person participating in the fund, by means of one-off or regular contributions (an excellent mechanism to combat procrastination), delegates to a specialist company the management of the resources according to the investment policy established in the fund's prospectus, which explains the investment universe and criteria for diversification and risk control.[9] The capital accumulated can only be cashed in on retirement,[10] either as a single payment, regular income or a combination of both. In tax terms, IPPs have the advantage of reducing the taxable base for income tax by an amount equivalent to the contributions made every year[11] and, once the plan pays out, this is taxed as income from work. Savings insurance policies can take a range of legal forms: income insurance, life insurance retirement plans (LIRPs), individual systematic savings plans (ISSPs, another anti-procrastination formula) and unit-linked schemes. Some of their features are very different to those of IPPs: the insurance company guarantees a minimum return at maturity,[12] the capital invested can be cashed in at any time and any returns made are taxed as gains on investment with certain advantages.[13] Other financial innovations that facilitate retirement planning are those that allow the home to be converted into income once someone has retired, in particular reverse mortgages and life annuities from the property. The list could go on in other areas, with retirement insurance policies, survival insurance benefits, etc.

Risk vs. taxation - financial and insurance products

Types of products



Notes: *(*) LIRP: Life Insurance Retirement Plans. (**) ISSP: Individual Systematic Savings Plans.*
Source: *"la Caixa Research", based on data from Aviva and AFI.*

In short, families have a wide range of products at their disposal that are of great use to overcome the complex challenge of planning savings for retirement. Properly combined, they help to broaden investment opportunities, diversify and limit risk, reduce costs, take advantage of fiscal benefits, improve the attributes of traditional assets and avoid the traps set by human behaviour itself in matters of finance.

Financial Markets Unit, "la Caixa" Research

(9) The risk profile varies depending on the fund's investment policy. Normally, funds with great exposure to equity have a higher associated risk than those investing their assets in bonds and the money market.
(10) In the event of permanent inability to carry out any work, physical disability, severe dependence, death or legal unemployment, the participant (or beneficiaries) can cash in the pension plan.
(11) The limit is set at 10,000 euros per year and at 12,500 euros when the participant is aged over 50.
(12) Except for unit-linked, where the investor assumes the risk of the investments made (mainly in mutual funds).
(13) The main difference between LIRPs and ISSPs lies in the tax treatment applied. In the case of ISSPs, any returns generated are exempt from tax provided the capital accumulated is not cashed in for 10 years, annual contributions do not exceed 8,000 euros and the cumulative amount of these does not exceed 240,000 euros. In the case of LIRPs, returns are not exempt and are taxed as gains from investment: the first 6,000 euros being taxed at 21%, between 6,000.01 and 24,000 at 25% and, for higher sums, 27%. LIRPs are also liquid products: investors can cash in the capital accumulated at any time.

"la Caixa" *Research*

PUBLICATIONS

All publications are available on Internet: **www.lacaixaresearch.com**
E-mail: **publicacionesestudios@lacaixa.es**

WORKING PAPER SERIES

Vulnerabilidad de las economías emergentes
Àlex Ruiz, 02/2013

Sareb: claves estratégicas
Sandra Jódar-Rosell, 01/2013

Ajuste de capacidad en el sistema financiero español
Inmaculada Martínez, 09/2012

El ahorro y la eficiencia energéticos: un impulso para la competitividad de la economía española
Pere Miret, 08/2012

Risk on-Risk off: las correlaciones en tiempos de crisis
Eduardo Pedreira, 07/2012

Commodity Cycles: What Has Changed during the Last Decade?
Eduardo Pedreira and Miguel A. Canela, 06/2012

Inversiones financieras en España: impacto de la inestabilidad en los mercados
Inmaculada Martínez, 05/2012

Is There a Property Bubble in China?
Clàudia Canals and Mercè Carreras-Solanas, 04/2012

El sobreendeudamiento de las empresas españolas: ¿problema común o de unas pocas?
Sandra Jódar-Rosell and Inmaculada Martínez, 03/2012

Hungría y la ayuda financiera de la UE y el FMI: ¿cambio en el mapa de riesgos?
Àlex Ruiz, 02/2012

Spanish Public Debt: Myths and Facts
Oriol Aspachs-Bracons and Joan Daniel Pina, 01/2012

¿Cuándo se recuperarán los precios de la vivienda en Estados Unidos?
Jordi Singla, 11/2011

DOCUMENTOS DE ECONOMÍA "la Caixa"

Unión Bancaria: ¿de hormigón o de paja?
Jordi Gual

Enseñanzas latinoamericanas para una crisis europea
Àlex Ruiz

Los requisitos de capital de Basilea III y su impacto en el sector bancario
Jordi Gual

Perspectivas de desapalancamiento en España
Oriol Aspachs-Bracons, Sandra Jódar-Rosell and Jordi Gual

Diferencial de inflación con la eurozona: ¿mejora sostenible?
Pere Miret

La recuperación del comercio mundial. Lo que la crisis se llevó
Marta Noguer

Inmigración y mercado laboral: antes y después de la recesión
Joan Elias

"la Caixa" ECONOMIC PAPERS

Banking Union: made of concrete or straw?
Jordi Gual

European Integration at the Crossroads
Jordi Gual

Capital Requirements Under Basel III and Their Impact on the Banking Industry
Jordi Gual

Should the ECB Target Employment?
Pau Rabanal

Integrating Regulated Network Markets in Europe
Jordi Gual

MR MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

Report on the economic situation (available also in Spanish version)

CURRENT ECONOMY

FINANCIAL SYSTEM

COLECCIÓN COMUNIDADES AUTÓNOMAS

CÁTEDRA "la Caixa" ECONOMÍA Y SOCIEDAD

El tiempo que llega. Once miradas desde España
José Luis García Delgado (editor)

ECONOMIC STUDIES

Europe, Like America. The Challenges of Building a Continental Federation
Josep M. Colomer

El cambio climático: análisis y política económica. Una introducción
Josep M. Vegara (director), Isabel Busom, Montserrat Colldeforns, Ana Isabel Guerra and Ferran Sancho

Academic Advisory Council

The Academic Advisory Council guides the Research Department in its work analyzing the economic and social policies that might be effective in ensuring the progress of Spanish and European society. The members of the Council are:

- Pol Antras
  Harvard University
- Philippe Bachetta
  Université de Lausanne
- Ramon Caminal
  Institut d'Anàlisi Econòmica (CSIC)
- Manuel Castells
  Universitat Oberta de Catalunya
  and University of Southern California
- María Paz Espinosa
  Universidad del País Vasco
- Josefina Gómez Mendoza
  Universidad Autónoma de Madrid
- Marta Reynal-Querol
  Universitat Pompeu Fabra
- Joan Enric Ricart
  IESE Business School
- Xavier Sala-Martín
  Columbia University
- Jaume Ventura
  CREI - Universitat Pompeu Fabra

"la Caixa" GROUP: KEY FIGURES
As of December 31, 2012

Financial activity	MILLION €
Total customer funds	294,739
Receivable from customers	221,501
Profit atributable to Group	135

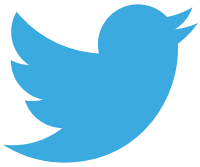
Staff, branches and means of payment	
Staff	34,128
Branches	6,342
Self-service terminals	9,696
Cards (million)	12.5

Community projects: budget for activities in 2013	MILLION €
Social	334
Science and environmental	67
Cultural	64
Educational and research	35
TOTAL BUDGET	**500**

Publications

All publications are available on Internet: www.lacaixaresearch.com
E-mail: publicacionesestudios@lacaixa.es

"la Caixa" *Research* on Twitter



@laCaixaResearch

Sign up and follow us on Twitter to get our latest publications and news from our site.

Our aim is to create and spread economic and social knowledge to contribute towards the Spanish and European development.

Design and production: www.cege.es
Legal Deposit: B. 21063-1980 ISSN: 1134-1920

"la Caixa"

ELEMENTAL CHLORINE FREE GUARANTEED

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C015618