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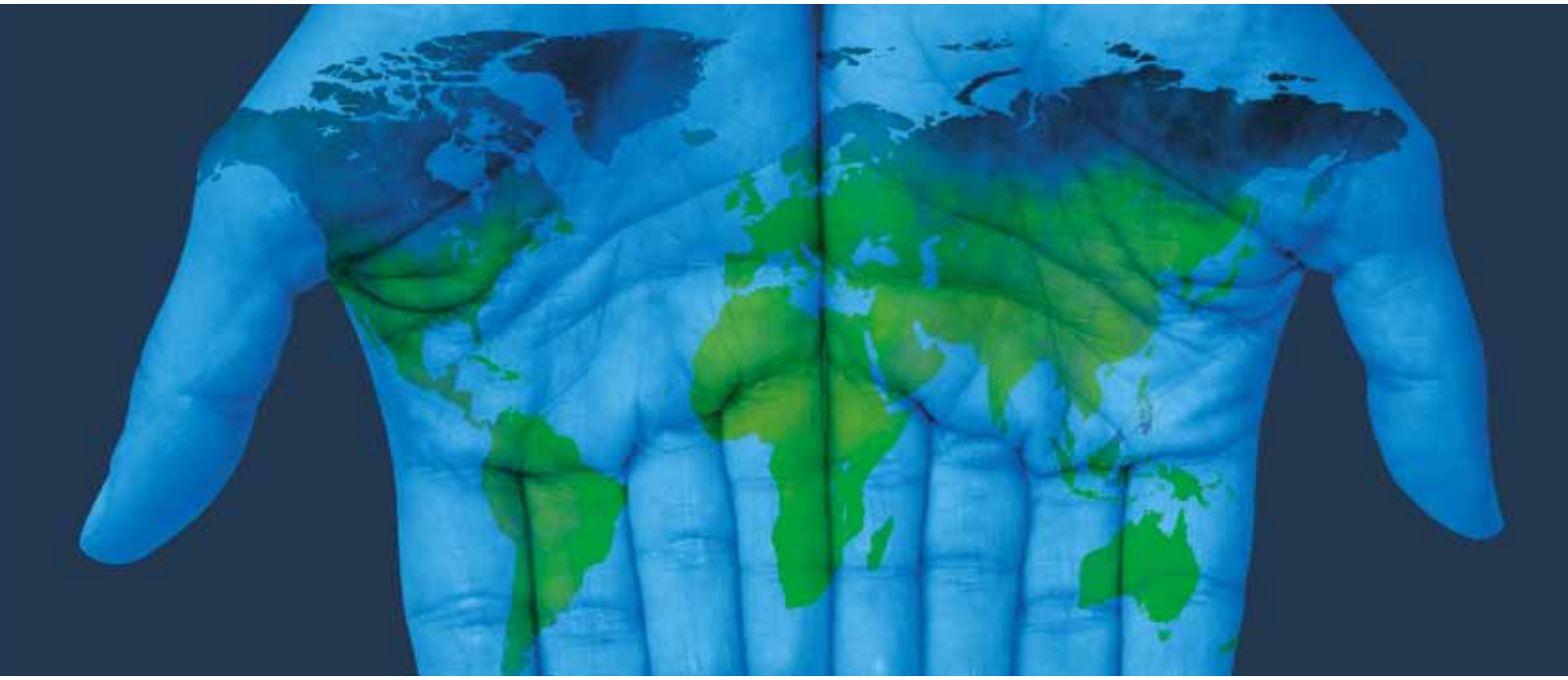

ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: IMMIGRATION: IMPACT AND PROSPECTS

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
October 2016

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INDEX

The challenge of immigration

The refugee crisis has placed immigration at the heart of Europe's political agenda. In the last few Eurobarometers (the public opinion surveys carried out by the European Commission), citizens have ranked immigration as their primary concern, above terrorism and the economic situation.

The humanitarian drama represented by the wave of refugees (Europe receives around 100,000 asylum applications per month) has resulted in huge displays of solidarity but has also revealed serious difficulties in coordinating an effective response by the European Union (EU). Reinforcing borders has helped to reduce the arrival of asylum seekers at the gateways to Europe but over a million people are still waiting for their applications to be processed and for a destination to rebuild their lives. Some countries, the most attractive ones for immigrants, have introduced temporary border controls with other EU member states. The plan is to revise these measures in November but there will be huge political pressure to keep them in place.

The fact is that, unfortunately, immigration and the terrorist threat help to create the perfect breeding ground for populist discourses of a more or less openly xenophobic nature. A few days ago Hungary's government held a referendum that asked «Do you want to allow the European Union to mandate the resettlement of non-Hungarian citizens to Hungary without the approval of the National Assembly?». In the United Kingdom, restrictions on immigration were one of the main points for those advocating Brexit while, in the US, Donald Trump is proposing the mass deportation of illegal immigrants and strong barriers to immigration. These are simple discourses that appeal to fears of terrorism and prejudices regarding immigration that result, at the very least, from an imperfect view of the issue.

Demographic patterns confirm that immigration will continue to be a central issue in Europe far and beyond today's refugee crisis. Europe will certainly need a continuous flow of immigrants if it wants to offset the effects of its ageing population. In addition, on the other side of our borders lie Africa and the Middle East, much poorer regions where growth rates for the population of working and emigrating age (between 15 and 44) are going to be the highest in the world over the coming decades. It is therefore essential to hold level-headed discussions in the EU in order to develop a strategy that helps to handle a situation that is here to stay. Such discussions, in addition to considering the advantages provided by orderly immigration, must also explore in-depth the vulnerabilities created by immigration among the local population.

The Dossier in this *Monthly Report* discusses some of the perceptions and prejudices surrounding the migratory phenomenon. For instance, it is noted that citizens tend to overestimate, and to a great extent, the proportion of the immigrant population in their societies. They also tend to believe that immigrants have a negative effect on the employment conditions of native workers, both on wages and employment rates. The empirical evidence, however, does not conclusively support this view, rather confirming that immigration helps to increase the participation of women in the labour market. Available studies also dispel the myth that immigration results in a net cost for the state: what immigrants contribute by paying taxes tends to offset any benefits they receive.

One of the articles in the Dossier looks at what is surely the most important aspect of immigration policy: strategies to integrate immigrants in the labour market and ultimately in the host society. Undoubtedly effective integration is fundamental not only to ensure social harmony but also for the sustainability, both in social and political terms, of the migratory flows themselves.

Enric Fernández
Chief Economist
30 September 2016

CHRONOLOGY

SEPTEMBER 2016

21 The Bank of Japan readjusts its ultra-expansionary monetary policy instruments in order to achieve a sharper interest rate curve.

AUGUST 2016

4 The Bank of England cuts its official interest rate to 0.25% and surprises by introducing more expansionary measures than expected.

JULY 2016

11 The Japanese Prime Minister, Shinzo Abe, approves a new package of fiscal stimuli.
27 The European Council annuls its fines on Spain and Portugal for not having taken effective measures to correct their excessive deficits and sets new budget targets.
29 The results of the EBA's stress tests are published.

JUNE 2016

23 The United Kingdom votes to leave the EU, causing huge turbulence in international markets.
26 Early general elections are held in Spain.
29 The ECB restores the eligibility of Greek sovereign debt as collateral in the central bank's regular financing operations and acknowledges the Greek government's commitment to applying the agreed adjustment measures.

MAY 2016

11 The Brazilian Senate temporarily suspends President Dilma Rousseff from office, intensifying the country's political instability.
18 The European Commission proposes new public deficit targets for Spain, whose approval is postponed to July together with the decision regarding the penalty for not meeting the 2015 deficit target.
24 The Eurogroup approves the first review of financial assistance for Greece and payment of the second tranche (10.3 billion euros). It also agrees to extend repayment dates and delay the payment of interest on public debt, but without providing any details.

AGENDA

OCTOBER 2016

4 Registration with Social Security and registered unemployment (September).
7 Industrial production index (August).
14 Financial accounts (Q2).
18 Loans, deposits and NPL ratio (August).
20 International trade (August).
Governing Council European Central Bank.
20-21 European Council.
25 State budget execution (September).
27 Labour force survey (Q3).
28 Flash CPI (October).
Flash GDP (Q3).
Economic sentiment index of the euro area (October).
US GDP (Q3).
31 Balance of payments (August).
GDP of the euro area (Q3).

NOVEMBER 2016

1-2 Fed Open Market Committee.
3 Registration with Social Security and registered unemployment (October).
7 Industrial production index (September).
13 Japan's GDP (Q3).
18 Loans, deposits and NPL ratio (September).
21 International trade (September).
24 Quarterly national accounts (Q3).
29 Flash CPI (November).
Central government budget execution (October).
Economic sentiment index of the euro area (November).
30 Balance of payments (September).

Central banks return to centre stage

The central banks are setting the agenda and affecting financial sentiment. After a relatively quiet holiday period, financial markets responded quite nervously to the accumulation of meetings by central banks in September (the ECB, Bank of England, Bank of Japan and Fed, in chronological order). The Fed's somewhat confused messages meant that a federal funds rate hike in September could not be entirely ruled out and the ECB and Bank of Japan were expected to take further steps in terms of their accommodative monetary policies. Given this situation, volatility spiked and risky assets were sold off, especially in the emerging countries. As these meetings were held it could be seen that there would not be too many changes to monetary policy: the ECB gave itself more time before taking any further decisions, the Bank of Japan focused on easing the financial pressure on banks and the Fed got ready, more unambiguously, for a federal funds rate hike at the end of the year. As a result, towards the end of September volatility eased and risky assets rallied. By the end of the month, the levels were similar to those recorded at the beginning of September in most advanced stock markets while the emerging economies had even advanced a little. This attention on central banks is partly due to the fact that purely macroeconomic data have tended to move along similar lines to those of previous months.

2016 is en route to achieving similar growth rates to 2015. As the year progresses, the pace of global activity seems to be similar to the figure posted in 2015. Nonetheless it should be noted that the composition of growth will vary a little from expectations: the US will perform slightly less well than forecast (growing by 0.2 pps less than predicted for 2016) but, on the other hand, the euro area and Japan will grow slightly more than expected (0.1 pps more in each case). The group of emerging economies is tending to recover the ground lost although commodity exporters are being penalised by a more adverse price scenario than initially expected (and, in some cases, shocks of political uncertainty). Precisely because of this situation, and after several unsuccessful attempts, OPEC has managed to agree a credible adjustment for production and, after its announcement, the price of Brent quality oil went from 46 to 49 dollars. This upswing reinforces the CaixaBank Research scenario of a recovery in the price of crude oil for the remainder of the year. Nonetheless the large stocks of oil, the resilience of unconventional supplies (shale) and lower growth in demand expected all suggest that, in the medium term, the speed at which prices will recover will be slower than predicted.

Equal growth in the US and euro area for 2016 as a whole. After a weak first six months of 2016, the US was expected to speed up its growth rate slightly in the second half of the year. This scenario has come about but, after the figures published for the third quarter, it should be noted that the expansion will be somewhat more contained than predicted: the year will end with 1.5% growth in GDP compared with the previous forecast of 1.7%. Nonetheless the strength of the US labour market and expected rise in inflation confirm that the economy will soon require monetary normalisation and, as mentioned previously, will start to tighten up conditions at the end of 2016. Meanwhile the euro area is continuing to expand moderately with an identical growth forecast to that of the US (1.5%). However, the different rates of expansion in the medium term on both sides of the Atlantic will be borne out as time goes on: in 2017 the US will accelerate to 2.1% while the euro area's economy rate of expansion will slow down slightly (to 1.3%).

The Spanish economy maintains its (strong) pace. High frequency business indicators point to 2016 Q3 ending with activity growing at a notable rate: according to the CaixaBank Research forecast model, the quarter-on-quarter rise in GDP will be 0.8%, an increase similar to that of previous quarters. This trend confirms the growth forecast for 2016 (3.1%). The final part of the year will, however, be slightly less dynamic and a precursor to a relatively more subdued 2017 (2.4%). The pattern of growth expected over the coming months suggests that the areas underpinning the cycle will remain almost unaltered: on the supply side, services will continue to lead the expansion while this role will be played by private consumption and investment on the demand side. However, a larger contribution by the foreign sector is expected to emerge over the coming quarters, a favourable development insofar as the sustainability xof growth is concerned. Given this positive situation, the public accounts need to be adjusted without delay. Although the trend so far has not been good (in July, the deficit for all public administrations as a whole was the same as one year earlier), it is true that the corrective measures announced by the government should help make up for this deviation. But although 2016 has been saved, this has not dispelled doubts regarding the country's capacity to meet its medium-term budget targets, a source of uncertainty that makes the Spanish economy more vulnerable to possible changes in international investor sentiment. Such a weakness should be corrected as quickly as possible, even more so when we remember that the favourable cyclical position of our economy will diminish slightly in the near future.

FORECASTS

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

International economy

	2014	2015	2016	2017	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
GDP GROWTH										
Global	3.4	3.2	3.1	3.5	3.0	3.1	3.1	3.1	3.4	3.5
Developed countries	*1.9*	*2.1*	*1.5*	*1.7*	*1.5*	*1.5*	*1.5*	*1.5*	*1.6*	*1.7*
United States	2.4	2.6	1.5	2.1	1.6	1.3	1.5	1.9	2.1	2.2
Euro area	1.1	1.9	1.5	1.3	1.7	1.6	1.4	1.2	1.0	1.1
Germany	1.6	1.5	1.8	1.4	1.8	1.7	1.8	1.7	1.3	1.3
France	0.7	1.2	1.3	1.0	1.4	1.3	1.2	1.1	0.7	1.1
Italy	–0.3	0.6	0.9	0.8	1.0	0.8	0.8	0.8	0.7	0.8
Spain	1.4	3.2	3.1	2.4	3.4	3.2	3.1	2.9	2.7	2.4
Japan	–0.1	0.6	0.6	1.0	0.1	0.8	0.5	1.1	0.9	1.0
United Kingdom	3.1	2.2	1.7	0.5	1.9	2.1	1.8	1.0	0.6	0.1
Emerging countries	*4.6*	*4.0*	*4.2*	*4.7*	*4.1*	*4.2*	*4.2*	*4.3*	*4.7*	*4.7*
China	7.3	6.9	6.6	6.3	6.7	6.7	6.6	6.5	6.5	6.5
India [1]	7.2	7.6	7.4	7.6	7.9	7.1	7.4	7.4	7.5	7.6
Indonesia	5.0	4.8	5.1	5.4	4.9	5.2	5.2	5.3	5.3	5.4
Brazil	0.1	–3.8	–3.3	1.1	–5.4	–3.8	–2.7	–1.3	0.5	1.2
Mexico	2.2	2.5	2.5	2.6	2.4	2.5	2.5	2.6	2.4	2.4
Chile	1.9	2.3	1.7	2.0	2.2	1.5	1.7	1.5	1.8	1.9
Russia	0.7	–3.7	–0.8	1.3	–1.2	–0.6	–0.7	–0.6	1.0	1.3
Turkey	3.1	3.9	3.2	2.9	4.7	3.1	2.7	2.4	2.2	2.7
Poland	3.3	3.6	3.3	3.5	2.6	3.1	3.7	3.7	3.6	3.6
South Africa	1.7	1.2	0.5	1.3	–0.5	0.7	0.9	1.0	1.1	1.2
INFLATION										
Global	3.2	2.8	2.8	3.3	2.9	2.8	2.7	2.9	3.2	3.3
Developed countries	*1.4*	*0.3*	*0.7*	*1.7*	*0.6*	*0.6*	*0.7*	*1.0*	*1.6*	*1.6*
United States	1.6	0.1	1.2	2.1	1.1	1.1	1.1	1.5	2.1	2.0
Euro area	0.4	0.0	0.2	1.4	0.0	–0.1	0.3	0.7	1.3	1.4
Germany	0.8	0.1	0.3	1.5	0.1	0.0	0.4	0.7	1.4	1.5
France	0.6	0.1	0.3	1.4	0.0	0.1	0.4	0.7	1.3	1.4
Italy	0.2	0.1	0.0	1.2	0.0	–0.3	0.0	0.4	1.1	1.2
Spain	–0.1	–0.5	–0.3	1.7	–0.7	–0.9	–0.1	0.7	1.9	1.8
Japan	2.8	0.8	–0.2	0.8	0.0	–0.3	–0.5	0.1	0.7	0.6
United Kingdom	1.5	0.0	0.6	2.1	0.3	0.4	0.7	1.2	1.9	2.0
Emerging countries	*4.7*	*4.7*	*4.4*	*4.4*	*4.6*	*4.5*	*4.3*	*4.3*	*4.4*	*4.5*
China	2.0	1.4	1.9	2.0	2.1	2.1	1.5	2.0	1.5	2.0
India	6.6	4.9	5.4	5.4	5.3	5.7	5.4	5.1	6.4	5.7
Indonesia	6.4	6.4	3.7	4.3	4.3	3.5	3.4	3.8	3.6	4.8
Brazil	6.3	9.0	8.8	6.5	10.2	9.2	8.6	7.3	6.7	6.5
Mexico	4.0	2.7	2.9	3.2	2.7	2.6	2.8	3.4	3.3	3.2
Chile	4.4	4.3	4.0	3.2	4.6	4.2	3.8	3.3	3.0	3.1
Russia	7.8	15.5	7.2	5.7	8.3	7.3	6.8	6.3	5.7	5.8
Turkey	8.9	7.7	7.5	6.3	8.6	6.9	7.7	6.8	6.5	6.3
Poland	0.2	–0.9	–0.6	1.7	–1.1	–1.1	–0.6	0.4	1.3	1.5
South Africa	6.1	4.6	6.5	6.1	6.5	6.2	6.1	7.1	6.4	5.8

Note: *1. Annual figures represent the fiscal year.*

Forecasts

Spanish economy

	2014	2015	2016	2017	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Macroeconomic aggregates										
Household consumption	1.2	3.1	3.4	2.4	3.7	3.6	3.3	3.1	2.7	2.5
General government consumption	0.0	2.7	0.4	0.4	2.4	0.1	–0.3	–0.5	–1.0	0.8
Gross fixed capital formation	3.5	6.4	3.9	3.2	5.1	4.0	3.5	3.0	3.6	3.1
Capital goods	10.7	10.1	7.0	3.2	9.3	7.8	6.1	4.8	4.6	2.8
Construction	–0.1	5.3	2.3	3.4	3.1	2.1	2.0	2.1	3.3	3.2
Domestic demand (contr. Δ GDP)	1.6	3.7	2.9	2.1	3.7	3.0	2.4	2.4	1.9	2.2
Exports of goods and services	5.1	5.4	5.7	5.2	3.8	6.8	5.8	6.2	7.8	4.4
Imports of goods and services	6.4	7.5	5.4	4.6	5.4	6.6	4.2	5.2	5.9	4.2
Gross domestic product	**1.4**	**3.2**	**3.1**	**2.4**	**3.4**	**3.2**	**3.1**	**2.9**	**2.7**	**2.4**
Other variables										
Employment	1.1	3.0	2.7	2.0	3.2	2.9	2.3	2.2	1.8	2.1
Unemployment rate (% labour force)	24.4	22.1	19.8	18.4	21.0	20.0	19.1	19.2	19.5	18.4
Consumer price index	–0.1	–0.5	–0.3	1.7	–0.7	–0.9	–0.1	0.7	1.9	1.8
Unit labour costs	–0.8	0.3	0.0	0.6	–0.2	0.4	0.0	0.0	0.0	0.3
Current account balance (cum., % GDP)[1]	1.0	1.4	1.8	1.6	1.4	1.8	1.9	1.8	1.8	1.7
Net lending or borrowing rest of the world (cum., % GDP)[1]	1.4	1.9	2.4	2.2	2.0	2.4	2.5	2.4	2.4	2.3
Fiscal balance (cum., % GDP)[2]	–5.8	–5.0	–4.6	–3.8						

Financial markets

INTEREST RATES										
Dollar										
Fed Funds	0.25	0.26	0.52	1.06	0.50	0.50	0.50	0.58	0.83	1.00
3-month Libor	0.23	0.32	0.74	1.39	0.62	0.64	0.79	0.92	1.08	1.29
12-month Libor	0.56	0.79	1.38	1.98	1.17	1.25	1.46	1.63	1.76	1.91
2-year government bonds	0.44	0.67	0.82	1.63	0.85	0.77	0.72	0.95	1.22	1.49
10-year government bonds	2.53	2.13	1.75	2.38	1.92	1.75	1.56	1.78	2.02	2.26
Euro										
ECB Refi	0.16	0.05	0.01	0.00	0.03	0.00	0.00	0.00	0.00	0.00
3-month Euribor	0.21	–0.02	–0.26	–0.21	–0.19	–0.26	–0.30	–0.29	–0.27	–0.24
12-month Euribor	0.48	0.17	–0.03	0.05	0.01	–0.02	–0.05	–0.05	–0.03	0.01
2-year government bonds (Germany)	0.05	–0.24	–0.54	–0.24	–0.46	–0.52	–0.64	–0.54	–0.43	–0.34
10-year government bonds (Germany)	1.23	0.53	0.09	0.71	0.30	0.12	–0.11	0.06	0.24	0.51
EXCHANGE RATES										
$/€	1.33	1.11	1.11	1.06	1.10	1.13	1.12	1.10	1.07	1.06
¥/€	140.40	134.33	118.60	114.77	127.05	121.91	114.26	111.17	111.29	113.42
£/€	0.81	0.73	0.82	0.83	0.77	0.79	0.85	0.85	0.85	0.84
OIL										
Brent ($/barrel)	99.45	53.61	45.74	59.32	35.72	47.35	47.43	52.46	56.17	58.57
Brent (€/barrel)	74.54	48.30	41.13	55.82	32.38	41.94	42.52	47.67	52.49	55.25

Note: *1. Four quarter cumulative. 2. Cumulative over four quarters. Does not include aid to financial institutions.*

Forecasts

FINANCIAL OUTLOOK · **Central banks interrupt the calm in the markets**

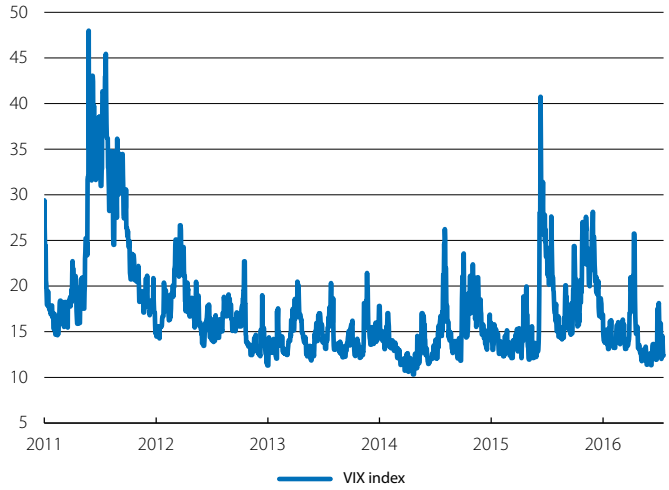
After a quiet holiday period, the month of September was hit by an outbreak of nervousness in international markets. Doubts regarding the actions of the central banks in developed countries was the main cause of this upswing in volatility. In particular, international stock markets reacted to the messages given out by several members of the Federal Reserve (Fed), which multiplied as the meeting of the Federal Open Market Committee (FOMC) was approaching. Such statements, which mostly pointed to a tightening up of the Fed's position given the strength of the US economy, fuelled a sentiment of risk aversion. This led to asset sales, especially in the emerging stock markets which suffered from sharp losses. However, this upswing in nervousness appears to be contained and limited mainly to the equity market. With a little perspective, this episode seems less virulent than others in the recent past, such as the ones at the start of the year due to China's problems or after the Brexit victory at the end of June.

The outlook for investment seems fragile given the multiple sources of potential instability on the horizon. There are several elements that might generate new episodes of volatility in the short and medium term. In the political sphere, the calendar is brimming with important electoral events, such as the referendum on constitutional reform on 4 December in Italy and the repeat of presidential elections in Austria. But the US presidential elections will undoubtedly monopolise the attention of investors over the coming months and the ups and downs they bring might lead to episodes of turbulence, especially if a surprising result looks increasingly likely. Lastly, the reaction to the next interest rate hike in the US will also be crucial for the performance of financial assets over the coming months although the Fed's cautious tone will surely continue to ease the negative effects of this normalisation.

The European Central Bank (ECB) inaugurated the round of central bank meetings with few changes. The Governing Council (GC) of the euro area's monetary authority, which met at the beginning of September, decided not to make any changes or adjustments to the parameters of its monetary policy. After pointing out the effectiveness of the measures adopted so far and the resilience of the euro area's economy, in particular post-Brexit, the ECB President sent a clear message: no additional stimuli were being considered «for the time being». Draghi seemed confident that the ECB would meet its inflation target albeit at a somewhat slower pace than expected a few months ago. Investors, who were expecting additional measures such as the prolongation of the asset purchase programme (QE) beyond March 2017

Implied volatility of US stock markets

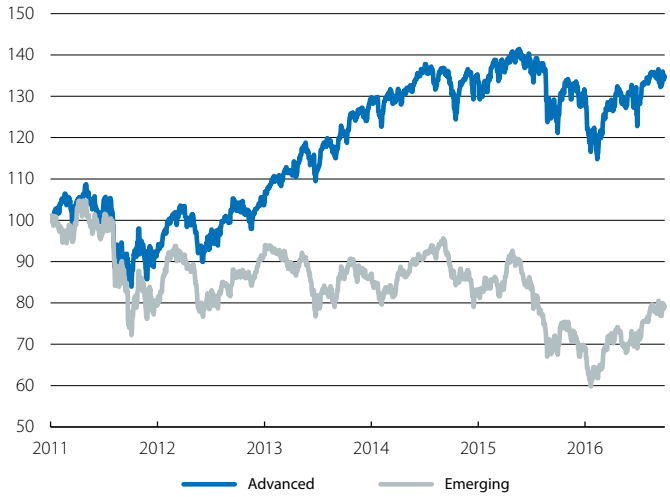
(%)



Source: *CaixaBank Research, based on Bloomberg data.*

International stock markets by geographical location

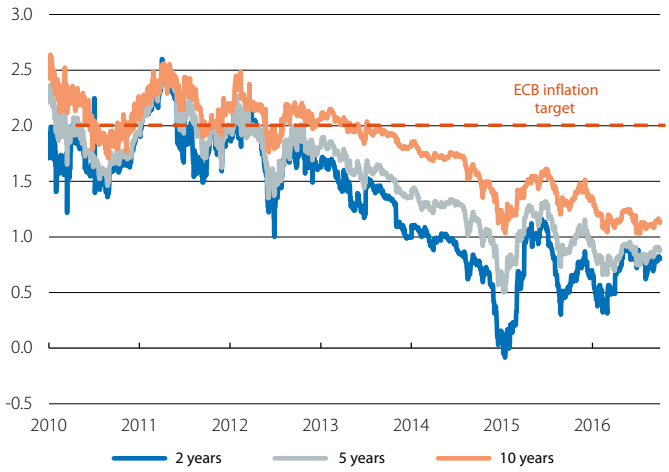
Index (100 = January 2011)



Source: *CaixaBank Research, based on Bloomberg data.*

*Euro area: inflation expectations **

(%)



Note: ** Inflation swaps.*
Source: *CaixaBank Research, based on Bloomberg data.*

or the expansion of eligible bonds, showed contained disappointment which led to slight losses in the main European stock markets and a temporary upswing in sovereign bond yields.

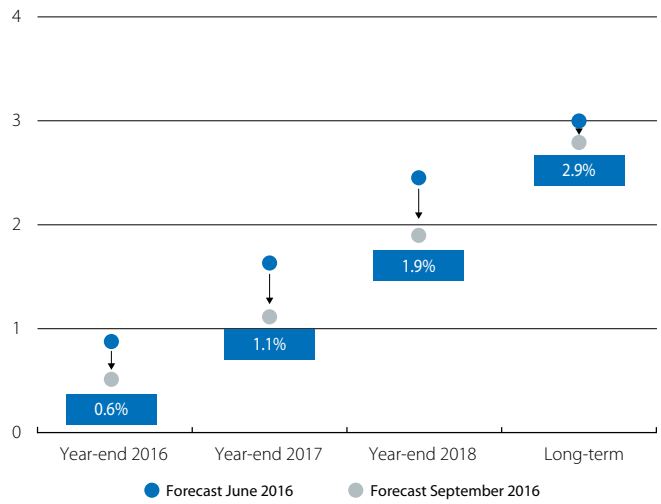
On the Asian continent, the Bank of Japan (BoJ) modified the tools of its ultra-expansionary policy so as not to penalise the financial sector. At a meeting that had aroused a lot of expectation, the BoJ decided to keep its main interest rate unchanged at –0.1% but announced it would adopt a policy of «yield curve control». Specifically this new focus will attempt to keep the yield on the 10-year Japanese sovereign bond at 0%, a level that may seem low but is higher than the one observed over the last few months. With the introduction of this new instrument, the BoJ hopes to establish a floor for yields on long-term bonds. It has justified this change as an attempt to mitigate the adverse effects of very low interest rates on bank profitability and the stability of the financial system. In spite of these new measures, the yield on Japan's 10-year sovereign bond fell slightly (to –0.07%), illustrating the scepticism of financial markets regarding the actions of the Japanese central bank (see the Focus «Bank of Japan: at the limits of monetary policy» in this *Monthly Report*).

Last but by no means least, the Fed decided to keep the federal funds rate unchanged but clearly opened the door to a hike in December. The central bank opted to wait and make sure that inflation is on the way to achieving its 2% target, although noting that «the case for an increase in the federal funds rate has strengthened». The messages announced by the Fed at its last meeting repeat its plan to carry out normalisation very gradually. Specifically, the US monetary authority is now signalling its intention to ease the rate of normalisation of its monetary policy via a downward revision of its projections for the federal funds rate. The FOMC members now expect two hikes in 2017 while the projections published in June assumed three hikes during the year.

In the European bond market, the environment of very low yields continues, awaiting more specific guidance from the ECB. In the last few weeks the yields on euro area public debt have shown signs of stabilising after their post-Brexit slide, although they are still at a very low level. The factors supporting this situation, such as the ECB's ultra-accommodative policy (continuing QE and forward guidance) and very modest inflation expectations and growth, are still very much in effect and should not undergo any significant change in the short term. However, long-term yields might pick up if the ECB decides to introduce adjustments to its QE to alleviate the shortage of eligible bonds, or if investors believe the central bank is less willing or able to extend the scope of its expansionary measures. In the periphery, debt is still being supported by the ECB's safety net but is looking more vulnerable to changes in conditions in the external

US: projected appropriate fed funds rate according to Fed members

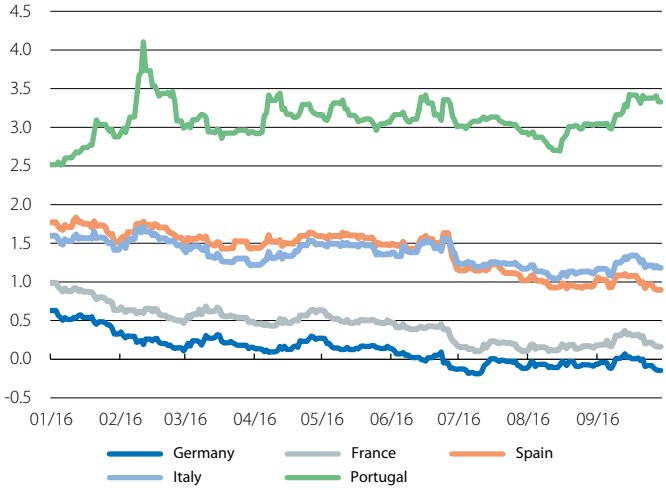
(%)



Source: *CaixaBank Research, based on data from the Federal Reserve.*

Euro area: yield on 10-year public debt

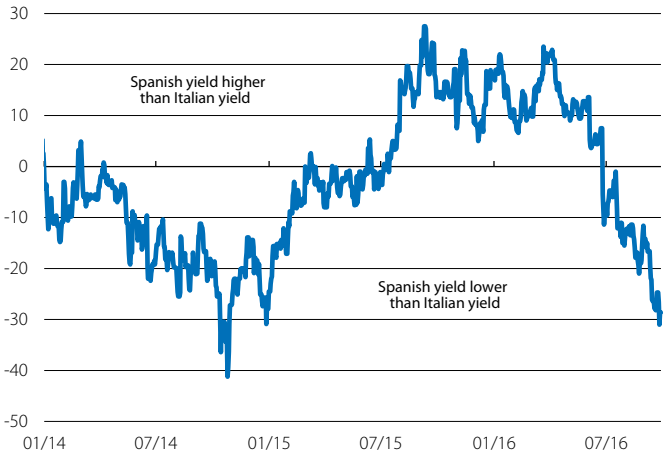
(%)



Source: *CaixaBank Research, based on Bloomberg data.*

Spain and Italy: spread between yields on 10-year public debt

(bps)



Source: *CaixaBank Research, based on Bloomberg data.*

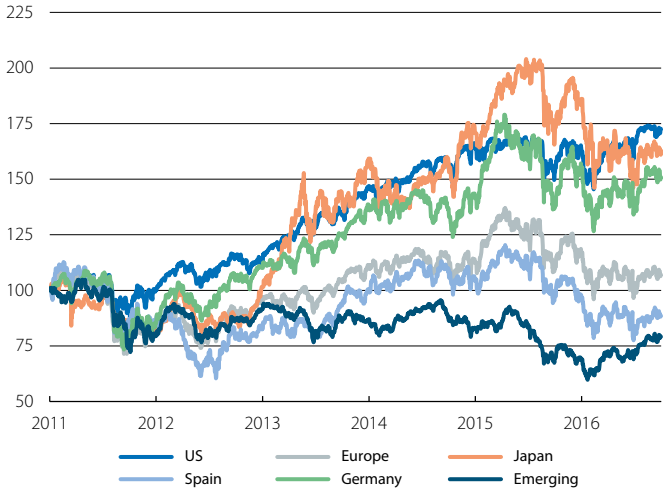
environment. The internal sources of uncertainty represented by Portugal and Italy (political uncertainty and doubts related to the banking sector) have meant that Spain's debt has performed relatively well compared with the rest of the periphery. Lastly, on the other side of the Atlantic, yields on US sovereign debt have performed unsteadily, lacking the dynamism to begin any sustained rise.

The emerging stock markets are battling to preserve a constructive tone and the banking sector is still dragging down European stock markets. The emerging stock markets were hardest hit by the doubts that reappeared before the meetings of the central banks and in particular the Fed, although they started to pick up again after the prudent conclusions of the US central bank's meeting were announced. This optimistic pattern might continue, at least in the short term, thanks to support from the «search for yield» in a context of high asset prices in the advanced block and slight improvement in the emerging macroeconomic outlook. Nonetheless, and probably more in the long term, the risks related to the emerging investor environment are still downward, especially if the Fed toughens up its normalisation because of inflationary pressures, a scenario the market sees as unlikely at present. In the advanced block, Europe's stock market is still weak, once again due to a poor performance by the banking sector. But this month the main source of anxiety shifted from banks in the periphery towards Germany due to concerns regarding some institutions with notable systemic risk. Beyond individual cases, the more far-reaching weaknesses of the sector, whose profits have been hit by the prolonged environment of rock-bottom interest rates, will continue to affect European stock markets.

The price of oil is fluctuating within a horizontal range, failing to break through the barrier of 50 dollars per barrel for any sustained period of time. In spite of the unexpected heads of agreement between the OPEC countries reached at the end of September in Algeria to limit production, resulting in a sharp upswing in the price of crude oil, the barrel of Brent has remained within the range of 45-50 dollars since the end of April. However, prices above 50 dollars should materialise with the adjustment in production that could finally be agreed at the official OPEC meeting in November. Nonetheless, the excess supply will take some time to reduce, given the increase in unconventional oil production (shale), which will continue to limit any upward movement in price. In any case we are unlikely to see any quick or easy exit for the crude oil market from the high volatility observed over the last few months.

Main international stock markets

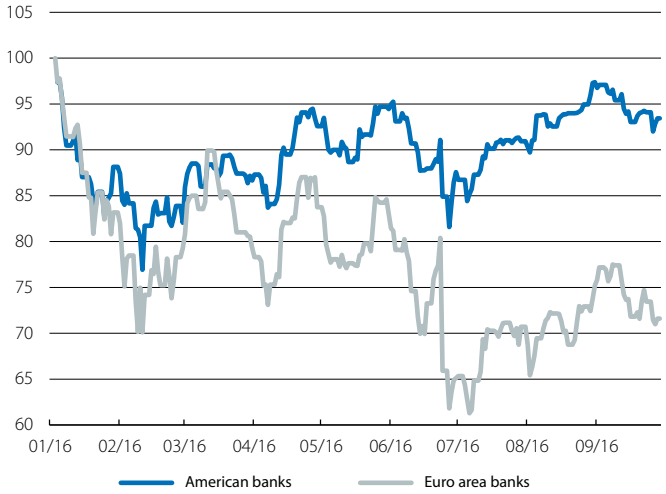
Index (100 = January 2011)



Source: *CaixaBank Research, based on Bloomberg data.*

Banking sector: US and euro area

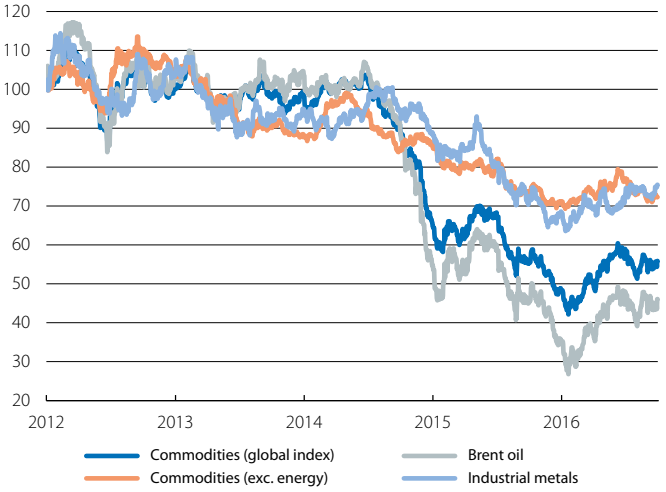
Index (100 = January 2016)



Source: *CaixaBank Research, based on Bloomberg data.*

Commodities

Index (100 = January 2012)



Source: *CaixaBank Research, based on Bloomberg data.*

FOCUS · The challenges of saving for retirement in a low interest rate environment

All-time low interest rates have become the most characteristic trait of the financial environment over the last few years. An analysis of the causes and consequences of this phenomenon is complex and multifaceted. Among the most directly involved sectors, of note is the case of long-term savings products to cover contingencies such as retirement, disability and death. A period of unexpectedly low interest rates represents a very significant challenge for both savers and for the financial institutions providing such products.

There are two broad families in the extensive catalogue of long-term pension and insurance products. On the one hand, defined contribution plans (DC) where savers (and, if applicable, the promoter) define the contributions to be made and the capital or benefits to be paid out at retirement (or when another contingency occurs which entitles the beneficiary to be paid) depend on the return achieved by these contributions during the period in question. In the case of defined benefit plans (DB), on the other hand, the benefit that will be received by the saver (or beneficiary) is established in advance, while contributions are determined using an actuarial formula. The supplier of the product (pension fund management firm, insurance company, etc.) guarantees the saver will receive the agreed benefit; i.e. a specific return.

Throughout a large part of Europe, and specifically in Spain, DC plans are the most widespread product. In these, savers assume the impact of the return being higher or lower than expected. Consequently the slump in the internal rate of return (IRR) for sovereign bonds is not good news for savers: if they want to maintain the same purchasing power in retirement, they will have to save more and/or shift towards types of assets with a higher expected return (such as corporate bonds and shares), trusting that the higher inherent risk will not materialise once they retire. The financial intermediaries managing and selling these products also face a difficult challenge: duly advising clients and managing pension fund portfolios to achieve, as far as possible, the objectives of their clients without incurring undue risk.

DB plans are widespread in the US and some European countries such as the UK, particularly company pension plans, through which companies guarantee their workers an income on retirement. With this kind of product, the supplier (company, public body, financial institution, etc.) assumes the impact of the return being higher or lower than expected. Unfortunately this impact is acquiring worrying levels in some sectors and jurisdictions. One way to illustrate this is by calculating the coverage ratio, which is merely the quotient between the market value of the assets in the pension fund and the present value of the future payments pledged. The sharp fall in interest rates has shot up the present value of liabilities so that, for instance, it has been estimated that the coverage ratio is barely 50% for funds promoted by municipal and state bodies in the US. The European Insurance and Occupational Pensions Authority (EIOPA), the regulator in Europe, has calculated that DB company pension funds are in a reasonably healthy situation (with a coverage ratio slightly above 100%), with the notable exception of the UK (80%). However, this coverage ratio could fall if low interest rates continue for several years and the promoters of these funds make use of certain clauses that allow them to limit their contributions or reduce the pay-outs they make.

This complex panorama of DB products is triggering significant movements in the sector. Especially in the US, employment-related funds can be seen asking companies for larger contributions, which could push down wages and/or reduce profits and, ultimately, investment. Funds also seem to be reducing their exposure to bonds (traditionally forming the core of their portfolios) and moving towards equity and alternative assets such as hedge funds and private equity. But possibly the most significant move is the overall tendency, for different countries and groups of promoters, to abandon DB plans and prioritise DC type products. This does not resolve the challenge of saving for retirement in a world of low interest rates but merely transfers the sphere of responsibility onto the shoulders of investors. In such a context it is absolutely crucial to have good advice and for retirement investment portfolios to be managed properly. And planning early for retirement is vital.

FOCUS · Bank of Japan: at the limits of monetary policy

If any central bank stands out for the forcefulness and heterodox nature of its policies, it is the Bank of Japan (BoJ). It therefore comes as no surprise that the announcement made at the end of July that the institution would extensively revise its strategy resulted in huge expectation. In September this process culminated in the adoption of changes that are important not so much for what they are but for what they are not.

With the aim of putting an end to two decades of deflation, in the spring of 2013 the BoJ embarked on an ambitious programme of purchasing financial assets (quantitative and qualitative easing, QQE) which, in addition to public and corporate bonds, also included equity and real estate assets. Since then the monetary authority has carried out two large adjustments to its initial programme. The first, in October 2014, aggressively increased the annual amount of purchases (QQE II). The second, in January 2016, introduced negative interest rates on bank reserves. Nevertheless it must be said that these successive attempts have been unsuccessful. The most recent data put general inflation at –0.5% year-on-year, very far from the target of +2%. Core inflation has also shown signs of weakening once again over the last few months, remaining at +0.2% ,while the trend in inflation expectations (both those based on consumer and analyst surveys as well as those embedded in the prices of financial instruments) is also disappointing, standing at around 0%.

To tackle this rather discouraging panorama the BoJ has, for the third time, readjusted the direction of QQE. Specifically two modifications will be introduced. The first, and most relevant, shifts the focus of monetary strategy towards controlling the shape of the yield curve. In fact the institution has announced a «target» level for yields on 10-year sovereign bonds of around 0%. To implement this control on the bond market, a target has been set for expanding the flexible monetary base, replacing the previous fixed target of 80 trillion yen per year. The average maturity target for the bond portfolio has also been eliminated (which was 7-12 years). The second adjustment is related to reinforcing the inflation target: the BoJ has promised to expand the monetary base until the inflation rate goes above 2% for a sustained period of time.

The implications of these changes on financial markets are not minor. On the one hand, explicit control of the debt curve will allow the BoJ to influence this curve according to requirements at any particular time. First of all this implies a de facto increase in buyer pressure on the short tranches of the curve (given that the yield on the 10-year bond is already in line with the target). A steeper curve will help to offset the harmful effects associated with ultra-expansionary policies regarding the margins of financial institutions. On the other hand, the message that the BoJ will tolerate inflation above 2% is ultimately attempting to raise the inflation expectations of agents and thereby lower real interest rates.

However, there are reasonable doubts regarding the potential of this «third round» of QQE to reboot the country's inflation. In particular, the aim of increasing inflation expectations looks particularly complex and will require, more than ever, larger amounts of credibility regarding the BoJ. A more decisive contribution from other areas of economic policy would also help in this task while the financial markets have actually reacted to the announced changes with scepticism. The yield on Japan's 10-year bond has fallen slightly (to –0.07%), the yen appreciated by almost 1% against the dollar and long-term inflation expectations have not moved.

In some way this episode is revealing the limits of ultra-expansionary unorthodox monetary policies, with clearly decreasing and even negative returns. In particular the rectification made to achieve a steeper curve entails acknowledgement that indiscriminate purchases of bonds result in contractive transmission channels. On the other hand the message conveyed makes it clear that the BoJ has no intention to use what is known as «helicopter money», a limit which, if exceeded, could indeed take us to another dimension. The intrepid BoJ has ruled this out (at least for the time being).

Japan: inflation expectations and real interest rate

Notes: ** Inflation swaps. ** Overnight interest rate of the Japanese interbank market, adjusted for core inflation. The sharp drop observed in 2014 is due to effects caused by the VAT hike.*
Source: *CaixaBank Research, based on Bloomberg data.*

KEY INDICATORS

Interest rates (%)

	30-Sep	31-Aug	Monthly change (bps)	Year-to-date (bps)	Year-on-year change (bps)
Euro area					
ECB Refi	0.00	0.00	0	–5.0	–5.0
3-month Euribor	–0.30	–0.30	0	–17.0	–26.1
1-year Euribor	–0.06	–0.05	–1	–12.0	–20.2
1-year government bonds (Germany)	–0.65	–0.60	–5	–27.2	–38.1
2-year government bonds (Germany)	–0.68	–0.62	–6	–33.5	–42.8
10-year government bonds (Germany)	–0.12	–0.07	–5	–74.9	–70.7
10-year government bonds (Spain)	0.88	1.01	–13	–89.1	–101.2
10-year spread (bps)[1]	100	108	–8	–14.3	–30.5
US					
Fed funds	0.50	0.50	0	0.0	25.0
3-month Libor	0.85	0.84	1	23.7	52.5
12-month Libor	1.55	1.56	–1	37.2	69.9
1-year government bonds	0.59	0.59	0	–0.7	27.9
2-year government bonds	0.76	0.81	–5	–28.8	13.1
10-year government bonds	1.59	1.58	1	–67.9	–44.7

Spreads corporate bonds (bps)

	30-Sep	31-Aug	Monthly change (bps)	Year-to-date (bps)	Year-on-year change (bps)
Itraxx Corporate	73	68	5	–4.6	–18.3
Itraxx Financials Senior	101	90	11	24.4	5.5
Itraxx Subordinated Financials	242	203	38	85.8	47.4

Exchange rates

	30-Sep	31-Aug	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
$/€	1.124	1.116	0.7	3.4	0.5
¥/€	113.920	115.400	–1.3	–12.8	–15.0
£/€	0.866	0.849	2.0	17.5	17.2
¥/$	101.350	103.430	–2.0	–15.7	–15.5

Commodities

	30-Sep	31-Aug	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	402.4	402.8	–0.1	7.4	–0.2
Brent ($/barrel)	47.7	46.2	3.3	33.5	1.2
Gold ($/ounce)	1,315.8	1,309.0	0.5	24.0	18.0

Equity

	30-Sep	31-Aug	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	2,168.3	2,171.0	–0.1	6.1	12.9
Eurostoxx 50 (euro area)	3,002.2	3,023.1	–0.7	–8.1	–3.2
Ibex 35 (Spain)	8,779.4	8,716.8	0.7	–8.0	–8.2
Nikkei 225 (Japan)	16,449.8	16,887.4	–2.6	–13.6	–5.4
MSCI Emerging	903.5	893.7	1.1	13.8	14.1
Nasdaq (USA)	5,312.0	5,213.2	1.9	6.1	15.0

Note: *1. Spread between the yields on Spanish and German 10-year bonds.*

ECONOMIC OUTLOOK · **The global economy remains firm**

Growth in 2016 will be similar to the figure in 2015. Although the forecast for the medium-term rate has not essentially changed (in other words, the world economy will speed up in 2017 and 2018), the short-term trend is slightly more contained than predicted. This is fundamentally a reflection of a slightly weaker trend than expected in the US economy. Nonetheless it should be noted that part of this relatively less dynamism in the US will be offset by the better performance of European economies while the group of the emerging economies is tending to recover gradually, although commodity exporters are being penalised by a more adverse price scenario than initially expected (and, in some cases, shocks of political uncertainty).

UNITED STATES

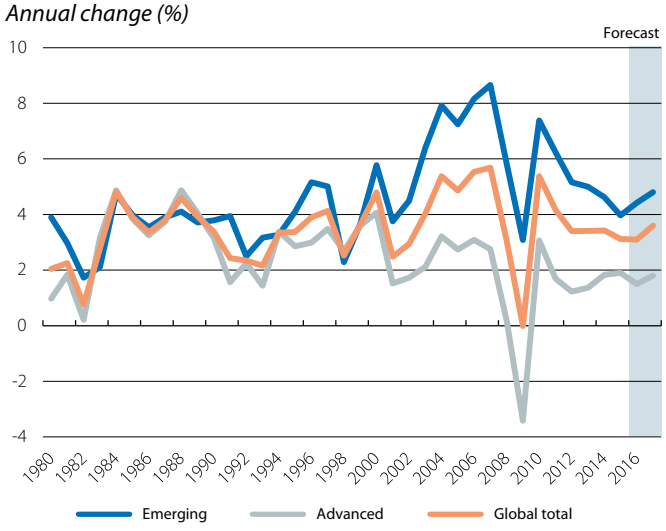
A somewhat less expansionary end to the year. As indicators are announced for 2016 Q3 it can be seen that the dynamism of the US economy is somewhat less than expected. However, these figures do not detract from the view that the third and fourth quarter will see better quarter-on-quarter growth in GDP than the figure for the first half of the year, even though the rate of acceleration will not be as much as expected. As a consequence, CaixaBank Research's forecast for 2016 has been changed from 1.7% to 1.5% and the one for 2017 from 2.2% to 2.1%, while in 2018 growth will be 2.0%. With regard to the longer term view, CaixaBank Research predicts that growth will remain slightly above 2% annually.

Industrial activity and services are the weaker areas in the economic outlook. Indicators for manufacturing and the tertiary sector point clearly to the more subdued tone of the US business cycle stage. In August the ISM indicator for manufacturing fell below 50 points, which would indicate a contraction in activity. However, for the quarter as a whole this indicator is offset by the figures posted in June and July, which were slightly better. A similar conclusion can be drawn from the trend in the ISM indicator for services: a drop in August (although in this case it is still above the 50-point threshold) which is offset by dynamic figures in the preceding two months. For its part the real estate sector, although continuing to advance, has also looked less vigorous than expected, apparently confirmed by the fact that, in August, only 0.9% more residential properties were started than one year earlier.

The bastion of the economy, private consumption, is holding firm. Nonetheless we should contrast this affirmation of a temporary deterioration with evidence that the mainstay of the US economy, namely private consumption, continues to appear solid. The consumer confidence index produced by the

World GDP: CaixaBank Research forecasts

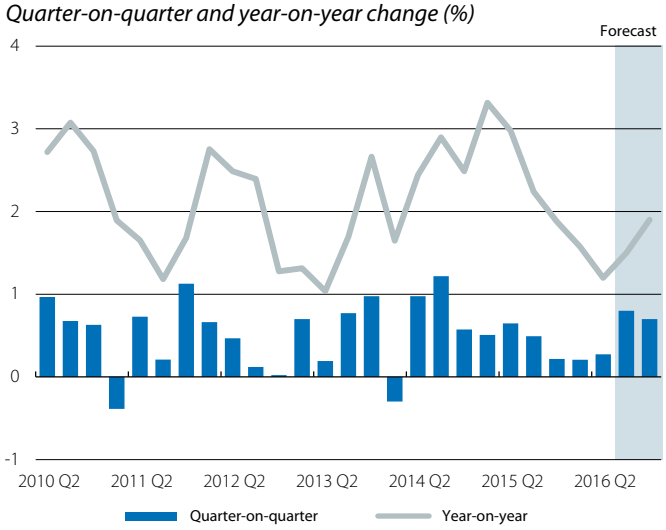
Annual change (%)



Source: *CaixaBank Research.*

US: GDP

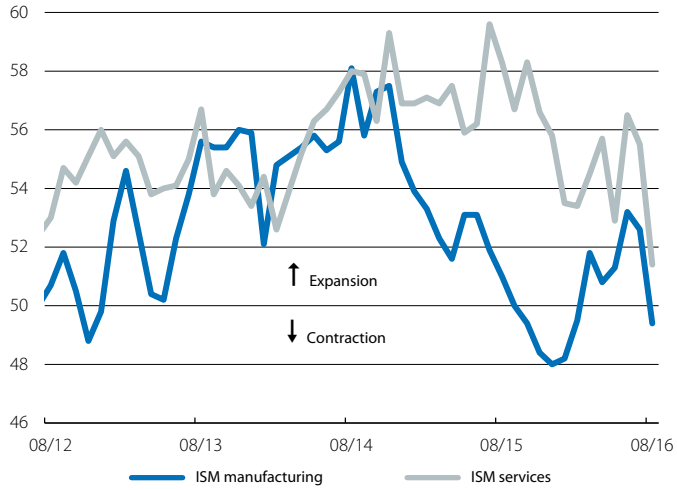
Quarter-on-quarter and year-on-year change (%)



Source: *CaixaBank Research, based on data from the BEA.*

US: activity indicators

Level



Source: *CaixaBank Research, based on data from the ISM.*

Conference Board stood at 101.1 points in August, its best figure in almost one year and clearly above its historical average (90.3).

The Federal Reserve (Fed), closer to a second hike. Does this temporary adjustment in the rate of activity mean the Fed is likely to delay its monetary normalisation once again? In our opinion the upward outlook for inflation and the good tone of the US labour market justify the Fed making a move at the end of the year, a decision that has become more likely after its meeting of 21 September. At this meeting the Fed provided economic agents with information that points more explicitly to another hike in the federal funds rate at the end of this year. In short, according to CaixaBank Research forecasts 2016 the Fed will more than likely raise the benchmark rate by 25 bps in December, a movement that will open the door to a more continued, albeit gradual process of interest rate hikes in 2017 and 2018 (75 bps in each of these years).

On the brink of an appreciable rise in inflation. In August inflation stood at 1.1% year-on-year, 0.3 pps above the previous month's figure. A notable rise in inflation is expected over the coming months and, if forecasts are accurate, this will reach 2.3% year-on-year by March 2017. Core inflation was 0.1 pp above the previous month's figure, at 2.3%. The labour market continues to look strong. 155,000 jobs were created in August, a significant number and even more so if we take into account the upward revision of July's figure (to 275,000). Unemployment remained at a low 4.9% and wages continued to rise appreciably (2.4% year-on-year).

JAPAN

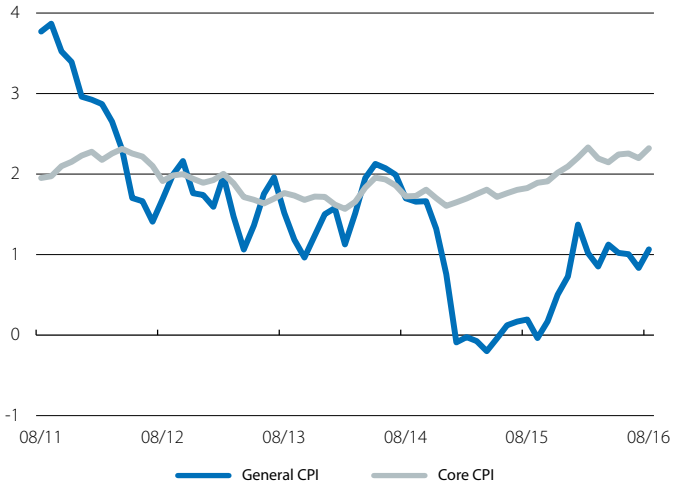
Has monetary policy reached its limit? The revised figure for GDP in 2016 Q2 has placed growth at 0.2% quarter-on-quarter compared with 0.05% in the first estimate. Nonetheless the fragile data for activity and persistent deflation (August's CPI without food, the benchmark for the Bank of Japan, fell by 0.5% year-on-year) reaffirm the fact that Japan's nominal growth is by no means reviving. Given this situation the Bank of Japan has opted for a relatively minor modification of its monetary policy. Far from focusing on more ambitious targets of a general nature, the institution realises that the financial sector's profitability is being damaged by a negative and very flat yield curve. It therefore announced that it will readjust bond purchases to make the yield curve sharper and ease pressure on the financial sector.

EMERGING ECONOMIES AND COMMODITIES

Asia continues to be the positive face of the emerging economies. China's activity data for August were slightly lower than those of June and July, confirming the credibility of the scenario of a soft landing predicted by CaixaBank Research. Nonetheless there are still some sources of risk over the medium to long term, in particular the trend in the

US: CPI

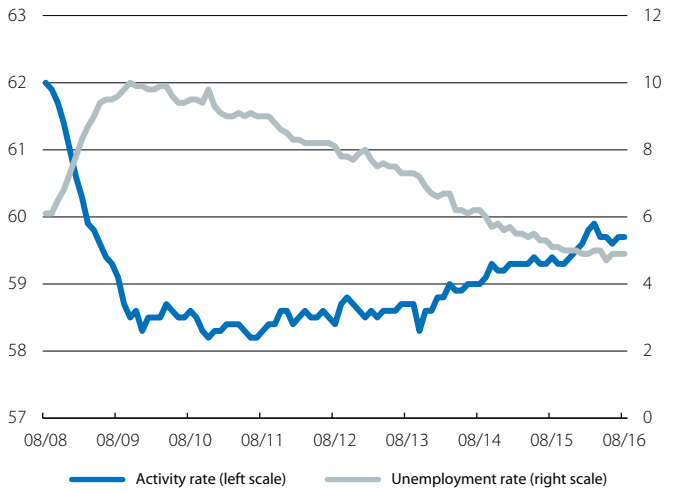
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

US: labour market

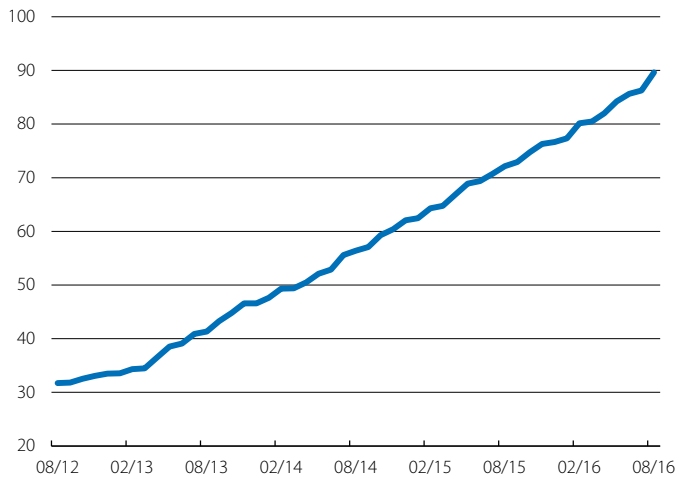
(%) *(%)*



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

Japan: assets of the Bank of Japan

(% of GDP)



Source: *CaixaBank Research, based on data from the Bank of Japan and the Ministry of the Interior.*

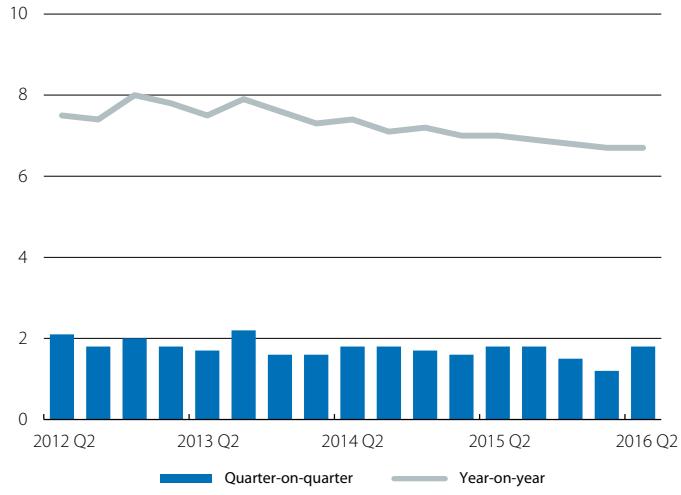
accumulation of private debt and doubts regarding part of its sustainability (see the Focus «China's corporate debt: a reason for concern?» in this *Monthly Report*). India's prospects are even better and the country looks like growing by more than 7% in 2016 and 2017 thanks to strong advances in consumption, both public and private. The first decisions made by the new governor of the central bank, Urjit Patel, should also be judged as positive, inaugurating his new role with an extension of the mechanisms to improve the banking system.

Turkey is accelerating but the outlook is not encouraging. In 2016 Q2 GDP grew by 3.1% year-on-year (0.3% quarter-on-quarter) compared with 4.7% year-on-year previously and far from the 5.7% achieved in 2015 Q4, although this slowdown was offset by the strong drive from public consumption (up by 15.9% year-on-year in Q2). In the short term the combination of domestic momentum (particularly boosted by public expenditure) and accommodative international financial conditions suggests the economy will remain relatively vigorous for the rest of 2016. Nonetheless the outlook becomes more negative for 2017. The international financial environment will presumably be more adverse from the time the US Fed tightens up its monetary policy, at the same time as growth in public consumption is likely to be more subdued. If we also add the country's continued political uncertainty (in fact, the main reasons why Moody's has downgraded Turkey's sovereign debt rating to below investment grade are of an institutional nature), then doubts increase even further.

Commodities: a change in scenario for oil. In September commodities tended to fluctuate without any definite trend so the CRB indicator, representative of commodities as a whole, ended the month at an almost identical level to the start of the year. Although this is the overall situation, of note was the downward trend in agricultural commodities. Nonetheless the star of the month has been oil. On 28 September, and after several unsuccessful attempts, OPEC proposed an adjustment in oil production that seems realistic: a reduction in production of around 700,000 barrels a day in 2017, leaving Iran, Nigeria and Libya out of the extraction limit. In response to this agreement, Brent quality oil went from 46 to 49 dollars per barrel, a trend that reaffirms the CaixaBank Research scenario of a recovery in the price of oil for the remainder of the year. However, large stocks, the resistance of shale and the expected deceleration in the growth in demand suggest that, in the medium term, this recovery will be slower than predicted.

China: GDP

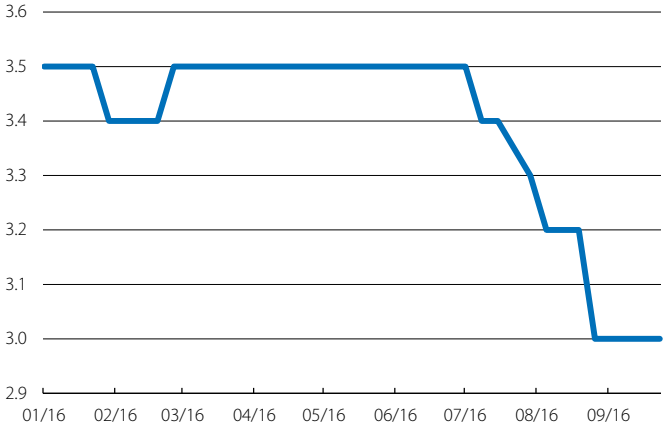
Quarter-on-quarter and year-on-year change (%)



Source: *CaixaBank Research, based on data from the Chinese National Statistics Office.*

Turkey: trend in GDP growth forecasts for 2017

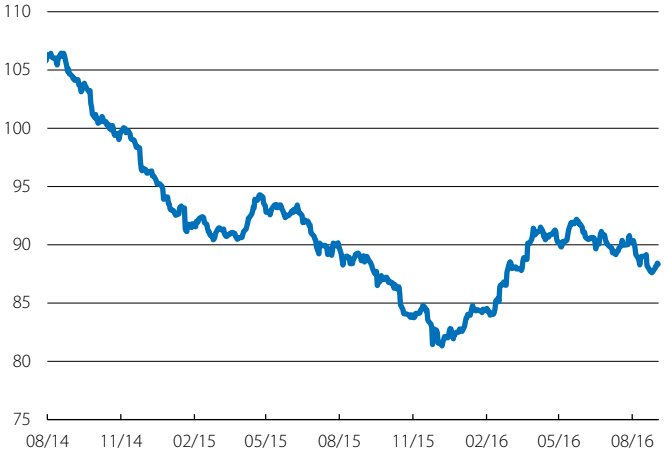
Annual change (%)



Note: *Consensus of analysts (Bloomberg).*
Source: *CaixaBank Research, based on Bloomberg data.*

Commodities: prices

Index (100 = 01/01/2014)



Note: *CRB commodity index.*
Source: *CaixaBank Research, based on data from the CRB.*

FOCUS · Clintonomics *vs.* Trumponomics

Hillary Clinton and Donald Trump, the two US presidential candidates (November 8), propose two totally opposed political, economic and social programmes; so much so that we must ask ourselves about each programme's potential implications for the US economy.

Taxes and public expenditure, international trade and immigration are the three key issues for both programmes while the need to increase spending on infrastructures is undoubtedly the only thing they actually agree about (see the table).

With regard to the fiscal area, both candidates defend the need to increase spending[1] but while Clinton targets tax hikes, especially for the higher income bracket, Trump defends extensive tax cuts which are widespread but mainly benefit high earners. This position by the Republican candidate has been widely criticised due to the sharp rise in public debt it would entail. In particular, and according to the independent Committee for a Responsible Federal Budget, Trump's fiscal programme would push total US public debt from its current figure of 104% of GDP up to 143% by 2026. On the other hand, the increase in expenditure proposed by Clinton would largely be offset by larger tax revenues. In this case, and according to the same organisation, public debt as a percentage of GDP would hardly change, reaching 107% of GDP by 2026.[2]

Apart from such fiscal issues and their consequences for the country's coffers, also of concern are the potential effects on the country's growth of measures regarding its tax system, public spending, international openness and immigration. In this respect Trump's programme performs badly in comparison. Although more expenditure on infrastructures should improve US growth potential in the medium term, the high level of public debt and tax cuts proposed would limit its capacity to increase spending. The country's economic potential would also be harmed by the greater economic isolation proposed by the Republican candidate, particularly his plan to deport over 11 million illegal immigrants and increase trade barriers with Mexico and China, countries he accuses of taking advantage of their relations with the US.

Once again, at the other end of the scale, Clinton supports the controversial legalisation of a large number of undocumented immigrants, as well as other measures to open up the country to migratory flows. With regard to commercial ties between the US and the rest of world, and although Clinton is by no means a solid defender of free trade, she adopts a conservative position which would help keep the country's current trade relations as they are. On the whole Clinton's policies are not too far from the current status quo, so it is reasonable to conclude that, in the medium term, growth in the US economy would remain around the rates observed today.[3]

Nonetheless, and before we finish, it should be noted that neither Clinton nor Trump are likely to implement their programmes 100%. For this to be feasible, the same political party would have to win both the Presidential elections and also a comfortable majority in both houses (also with elections on November 8, with all the seats in the House of Representatives being renewed and a third of the Senate). The most likely scenario of a legislature without any clear majority would result in less radical and more conservative policies.

	Hillary Clinton	*Donald Trump*
Taxes and public spending	▲ Taxes (especially high-income)	▼ Taxes (especially high-income)
	▲ Infrastructure spending ($275 billion in 5 years)	▲ Infrastructure spending (not specified)
	▲ Education spending ($500 billion in 10 years) ▲ Health spending ($400 billion in 10 years)	▲ Defense spending (not specified) Repeal Affordable Care Act (Obamacare)
International trade	• Moderate trade policies (status quo)	• Exit Trans-Pacific Partnership • Big tariffs for China and Mexico
Immigration	• Path to legalization for undocumented immigrants living in the country	• Massive deportation program • Limit immigration

Source: *CaixaBank Research, based on both candidates' stances on key issues, Committee for a Responsible Budget, Deutsche Bank and Moody's Analytics.*

1. While Clinton provides extensive details on the almost 40 measures contained in her programme, Trump tends to limit himself to providing very general information on different points of interest.
2. Other studies, including the one produced by the Tax Policy Center, offer similar estimates for both programmes. The softer version of Trump's initial tax proposal, used as a basis by many of these analyses, does not result in any radical change in the estimates.
3. Moody's Analytics predicts average annual economic growth in 2016-2026 of 1.4% should Trump win; 2.4% should Clinton win and 2.1% with no change in the current policies. Along the same lines, Oxford Economics and the Peterson Institute for International Economics point to significant losses in the level of GDP and employment should tariffs be increased on goods from Mexico and China and deportations carried out, as announced by Trump.

FOCUS · China's corporate debt: a reason for concern?

Concerns have been growing for some time now regarding Chinese debt and in particular its corporate debt. This is because two thirds of its total non-financial debt comes from the corporate sector. This figure is in addition to the rise in non-performing bank loans: bad quality loans[1] have gone from 3.5% at the beginning of 2014 to the current figure of 5.8% and the IMF estimates that the banks associated with these loans could represent 7% of Chinese GDP.

Such concerns are well-founded. According to BIS data, in March 2016 the ratio of Chinese corporate debt to GDP was 169% and, since the beginning of 2009, it has increased by 72 pps. If we compare this with other countries we can see that China is the only important economy where both the level and growth in debt are high (corporate debt is around 71.6% and 105% of GDP, respectively, in the US and the euro area).

However, before we go on to analyse China's corporate debt we should also mention some aspects that affect the overall assessment. On the one hand this figure includes a large part of debt held by Chinese local governments which have used special vehicles to finance costly projects in infrastructures and property developments. According to the IMF such debt accounts for 41% of GDP but it is complicated to identify which part of this debt the central government would be willing to take on should the local governments not be able to repay it. On the other hand there is also the problem of double counting as entrusted loans, used mainly between companies belonging to the same parent, account for 17% of GDP. Taking such factors into account, corporate debt might actually be lower and closer to the IMF's estimates (145% of GDP).

In spite of these distinctions, however, it cannot be denied that the level of Chinese corporate debt is worrisome. In fact several estimates state that debt ratios above 90% can be an economic burden since minor economic shocks can seriously damage indebted firms and increase defaults, as well as reducing aggregate demand.[2]

Continuing with our analysis of China's corporate debt, another negative factor to bear in mind is the fact that a large part has been issued by state-owned enterprises (SOE[3]), which tend to be less efficient and are highly leveraged, although it is also true that the central administration could help such firms if necessary. The concentration of debt in just a few sectors is also a cause for concern: 32% of the total is in manufacturing, with 29% in real estate and construction and 23% in mining and utilities. This concentration can aggravate the systemic risk of the debt should any of these sectors enter into a crisis and not be able to meet their obligations.

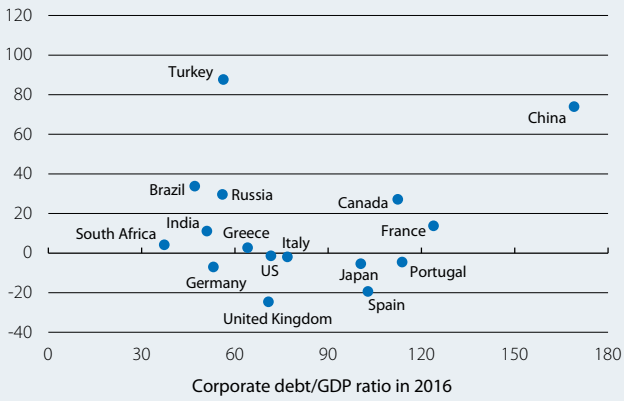
It is also important to examine how the debt is financed and when it matures. China's corporate debt has largely been financed by bank loans so we must therefore look at the relationship of the banking sector with the corporate sector. According to official figures, in 2014 the banking sector's contribution to total credit was 69% but its contribution was 87% in 2008, so the share of the banking sector has decreased, a result of the rise in shadow banking.

On the other hand, more than half this corporate debt is short-term (whereas short-term debt is less than one third of the total debt in the US and the euro area). In the second half of 2016 Chinese companies will have to either repay (or roll over) debt totalling no less than 341 billion dollars, suggesting that some firms might find themselves in a difficult situation in the near future.

In short, China's corporate debt is high and has sky rocketed over the last few years, so it might well become a source of problems. Therefore this is an area that will have to be monitored very closely.

International comparison of corporate debt

Growth in the corporate debt/GDP ratio 2009-2016



Source: *CaixaBank Research, based on data from the Bank for International Settlements.*

1. Bad quality loans are the sum of non-performing loans and special mention loans.
2. See Cechetti, S., Mohanty, M. S. and Zampolli, F. (2011), «The real effects of debt», Bank of International Settlements, Working Paper, no. 352.
3. SOE is the acronym for state-owned enterprise.

KEY INDICATORS

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

UNITED STATES

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16	08/16	09/16
Activity									
Real GDP	2.4	2.6	2.2	1.9	1.6	1.3	–	...	–
Retail sales (excluding cars and petrol)	4.5	4.3	4.2	3.5	4.0	–118.9	3.7	3.4	...
Consumer confidence *(value)*	86.9	98.0	98.3	96.0	96.0	94.8	96.7	101.8	104.1
Industrial production	2.9	0.3	0.1	–1.6	–1.6	–1.0	–0.5	–1.1	...
Manufacturing activity index (ISM) *(value)*	55.6	51.3	51.0	48.6	49.8	51.8	52.6	49.4	...
Housing starts *(thousands)*	1,001	1,108	1,156	1,135	1,151	1,159	1,212	1,142	...
Case-Shiller home price index *(value)*	171	179	179	182	187	188	188	...	...
Unemployment rate *(% lab. force)*	6.2	5.3	5.2	5.0	4.9	4.9	4.9	4.9	...
Employment-population ratio *(% pop. > 16 years)*	59.0	59.3	59.3	59.4	59.8	59.7	59.7	59.7	...
Trade balance[1] *(% GDP)*	–2.8	–2.8	–2.8	–2.8	–2.7	–2.7	–3.6	...	...
Prices									
Consumer prices	1.6	0.1	0.1	0.5	1.1	1.1	0.8	1.1	...
Core consumer prices	1.7	1.8	1.8	2.0	2.2	2.2	2.2	2.3	...

Note: *1. Cumulative figure over last 12 months.*
Source: *CaixaBank Research, based on data from the Department of Economic Analysis, Department of Labor, Federal Reserve, Standard & Poor's, ISM and Thomson Reuters Datastream.*

JAPAN

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16	08/16
Activity								
Real GDP	–0.1	0.6	1.8	0.8	0.1	0.8	–	...
Consumer confidence *(value)*	39.3	41.3	41.0	42.2	41.4	41.2	41.3	42.0
Industrial production	2.1	–1.2	–0.4	–1.1	–3.2	–1.7	–0.9	1.2
Business activity index (Tankan) *(value)*	13.5	12.8	12.0	12.0	6.0	6.0	–	...
Unemployment rate *(% lab. force)*	3.6	3.4	3.4	3.3	3.2	3.2	3.0	3.1
Trade balance[1] *(% GDP)*	–2.6	–0.6	–1.0	–0.6	–0.2	0.1	0.4	0.5
Prices								
Consumer prices	2.8	0.8	0.1	0.2	0.0	–0.3	–0.5	–0.5
Core consumer prices	1.8	1.0	0.6	0.7	0.6	0.6	0.3	0.2

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

CHINA

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16	08/16
Activity								
Real GDP	7.3	6.9	6.9	6.8	6.7	6.7	–	...
Retail sales	12.0	10.7	10.7	11.1	10.3	10.2	10.2	10.6
Industrial production	8.3	6.1	5.9	5.9	5.9	6.1	6.0	6.3
PMI manufacturing *(value)*	50.7	49.9	49.8	49.7	49.5	50.1	49.9	50.4
Foreign sector								
Trade balance[1] *(value)*	383	608	583	608	601	602	610	602
Exports	6.0	–2.3	–6.3	–5.2	–11.5	–5.0	–5.6	–2.8
Imports	0.4	–14.2	–14.4	–11.8	–13.7	–6.8	–12.6	1.5
Prices								
Consumer prices	2.0	1.4	1.7	1.5	2.1	2.1	1.8	1.3
Official interest rate[2] *(value)*	5.60	4.35	4.60	4.35	4.35	4.35	4.35	4.35
Renminbi per dollar *(value)*	6.2	6.3	6.3	6.4	6.5	6.5	6.7	6.6

Notes: *1. Cumulative figure over last 12 months. Billion dollars. 2. End of period.*
Source: *CaixaBank Research, based on data from the National Bureau of Statistics of China and Thomson Reuters Datastream.*

ECONOMIC OUTLOOK · The recovery in the euro area continues at a slow but firm pace

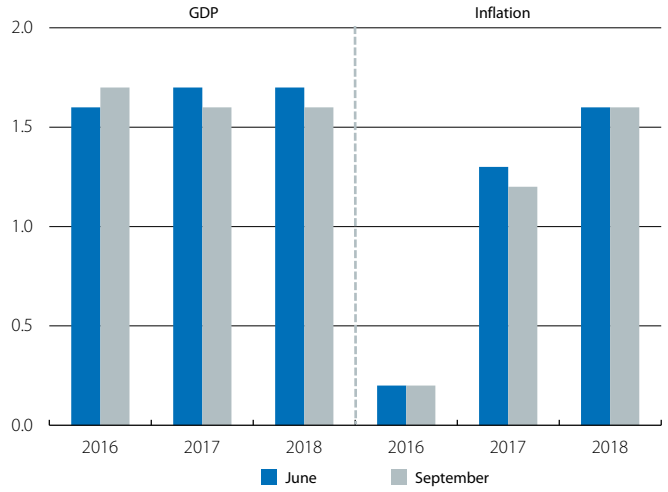
Growth in the euro area is consolidating at moderate levels with risks on the horizon. The upswing in uncertainty caused by Brexit has had a more subdued impact than anticipated on the euro area. The CaixaBank Research forecasts, and those of most analysts, therefore place GDP growth at around 1.5% in 2016 and 1.3% in 2017. Domestic demand and in particular household consumption are expected to continue forming the mainstay of the recovery although the foreign sector will gradually become more important. Another sign of the limited impact on the euro area expected for Brexit, at least in the short term, is that the ECB has kept its economic forecasts almost unchanged. In fact the institution revised slightly upwards its growth forecast for 2016 to 1.7%, just above the CaixaBank Research forecasts. However, it revised its forecasts for 2017 and 2018 downwards a little, to 1.6%. On the whole the euro area is therefore expected to continue growing in the medium term at similar rates to those observed in the last few quarters. Nevertheless uncertainty is still high and Brexit remains one of the major sources of risk. The UK Prime Minister, Theresa May, has announced that the country will officially apply to leave the EU before the end of March. Negotiations will begin from that moment on and it may effectively leave the EU in 2019. The economic impact of Brexit over the medium to long term (for the United Kingdom and the EU) will depend on how these negotiations are carried out and the new relationship finally agreed between the UK and the EU.

The foreign sector, key to growth in the euro area in Q2. Specifically, GDP growth was 0.3% quarter-on-quarter and the contribution made by exports to growth was 0.4 pps; the contribution made by the domestic demand was therefore –0.1 pps. These figures must be interpreted with caution, however. The negative contribution by domestic demand was particularly due to a fall in inventories while household consumption continued to rise at a notable rate. Given the high volatility usually observed in inventories and the greater inertia of household consumption, the bulk of the evidence available suggests that, in the coming quarters, domestic demand will continue to support growth. What should be noted, and as has been the case over the last few quarters, is the disparate pace of growth between countries, with Spain and Germany advancing at a much faster rate than Portugal, France or Italy.

Business indicators point to a similar rate of growth in the coming quarters. This has been suggested, for example, by the composite PMI for the euro area in Q3, standing at 52.9 points, a figure that's almost identical to the one in Q2, namely 53.1 points. Another sign of this situation is provided by the economic sentiment index holding steady in Q3 at

Euro area: ECB forecasts for GDP and inflation

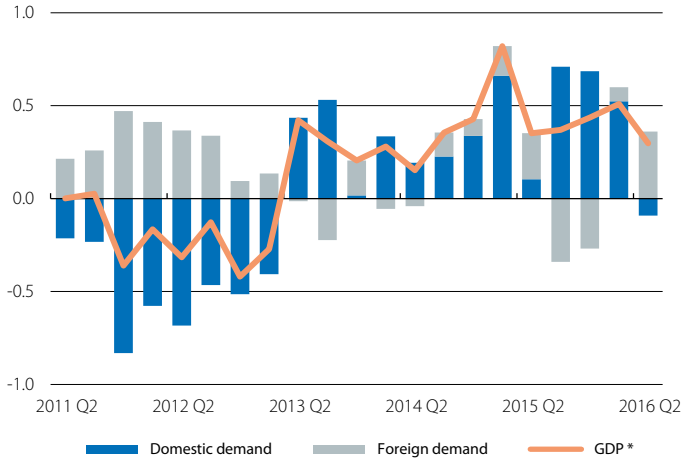
Annual change (%)



Source: *CaixaBank Research, based on data from the ECB.*

Euro area: GDP

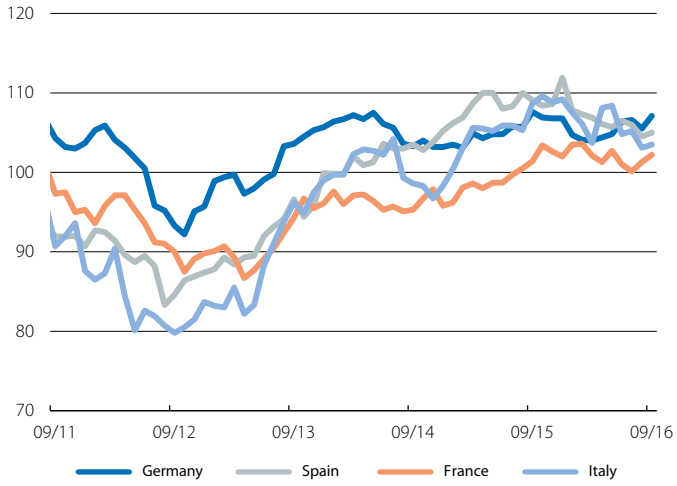
Contribution to quarter-on-quarter growth in GDP (pps)



Note: ** Quarter-on-quarter change (%).*
Source: *CaixaBank Research, based on Eurostat data.*

Euro area: economic sentiment index

Level



Source: *CaixaBank Research, based on European Commission data.*

104.3 points, a figure which is also very similar to the one in Q2. The downside risks, however, are not minor. The industrial production index, for instance, grew by 0.2% in July (average of the year-on-year change over the last three months), a slower rate than in the first few months of the year, while the underlying trend perceived in the industrial sector is one of a clear deceleration.

The good tone continues for household consumption. Retail sales in the euro area accelerated their growth to 2.4% year-on-year in July, a faster rate than the one seen in the first half of the year (1.8%) and its historical average (0.7%) while the consumer confidence index of the euro area in Q3 stood at –8.2 points, a level similar to that of the first half of the year (–8.1). The trend shown by these indicators is also expected to continue over the coming quarters seeing as the main factors of support (the rate of job creation continuing, confidence in the recovery and accommodative financial conditions) will still be active.

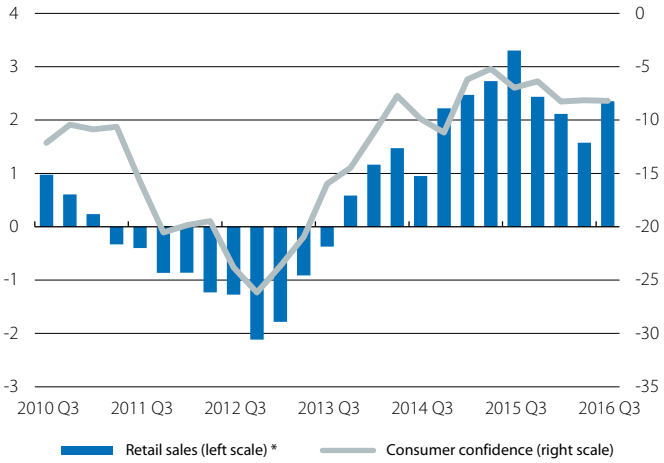
The recovery in the labour market consolidates, supporting growth in household consumption. In 2016 Q2 employment increased by 1.5% year-on-year in the euro area, a slightly higher rate than the previous two quarters. By country, of note is the job creation rate in Germany (2.5%) and Spain (2.3%), while in Italy (2.0%) and in particular France (0.5%) it is still rather sluggish. Unemployment, for its part, stood at 10.1% in August, 0.6 pps below the level of a year ago. Also in this case the levels are still very disparate between countries. With regard to wage costs, the year-on-year increase in 2016 Q2 was 0.9%, 1.3 pps below the previous quarter. This reduction was largely due to the surprising smaller increase in wages observed in Germany (from 2.7% in 2016 Q1 to 1.1% in 2016 Q2).

Inflation in the euro area consolidates its advance. The harmonised index of consumer prices (HICP) for the euro area grew in September by 0.4% year-on-year, a figure 0.2 pps higher than the previous month due especially to a smaller drop in the energy component. Core inflation, however, remained stable at 0.8% for the fifth consecutive month. CaixaBank Research forecasts point to inflation continuing to recover, supported by the progressive rise in oil prices and the recovery in domestic demand.

The current account surplus is still at high levels. Specifically, this reached 343 billion euros in July (cumulative over 12 months), a figure that places it slightly above the average for the first half of the year and which still shows an upward trend similar to that of the last few years. This strength in the current balance is particularly thanks to the increase in the goods account surplus (362 billion euros in July) which has partly been boosted in the last few quarters by the drop in oil prices. Another element promoting European exports is the euro's depreciation. While the effect of oil prices is likely to begin reversing in the coming quarters given that we expect a gradual upward trend to become established, the effect of the euro's depreciation will remain active, to some extent because

Euro area: consumption indicators

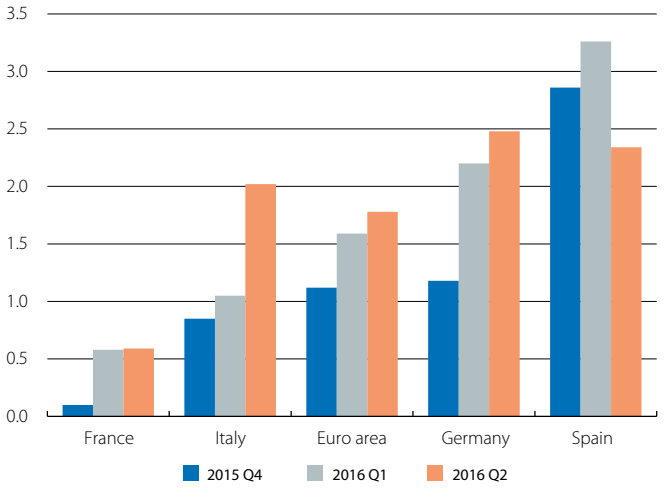
Year-on-year change (%) *Level*



Note: ** 2016 Q3 includes only the data from July.*
Source: *CaixaBank Research, based on data from Eurostat and the European Commission.*

Employment

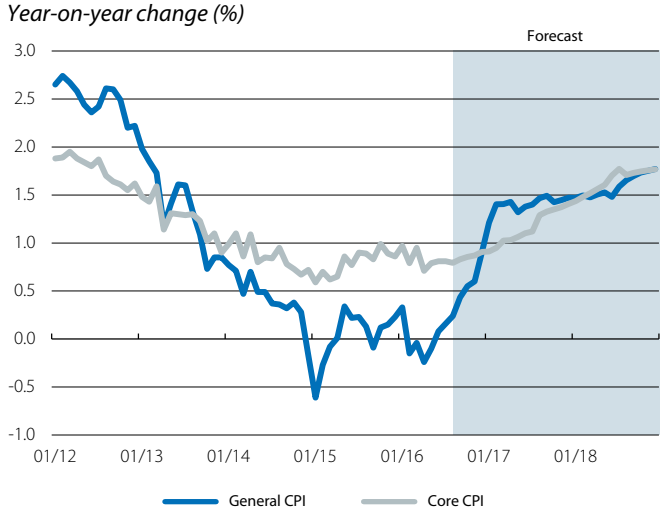
Year-on-year change (%)



Source: *CaixaBank Research, based on Eurostat data.*

Euro area: Harmonised CPI

Year-on-year change (%)



Source: *CaixaBank Research, based on Eurostat data.*

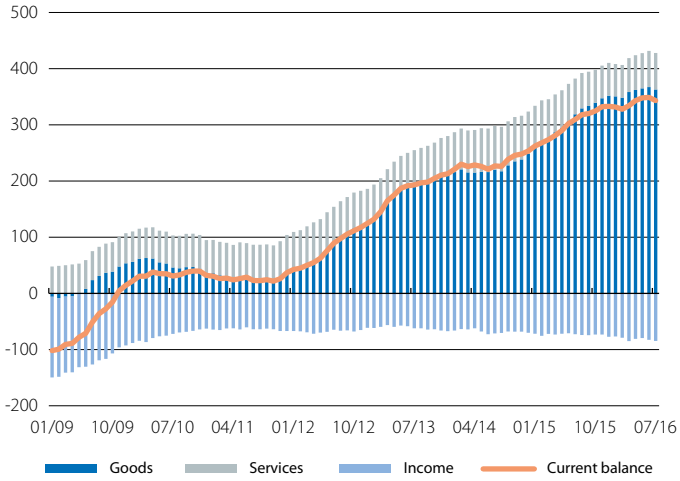
of the ECB continuing its ultra-accommodative monetary policy. Moreover, global demand will gradually recover the energy lost in the last few quarters. On the whole, therefore, we expect the foreign sector to take a leading role once again.

The ECB will maintain accommodative monetary conditions. At its September meeting the ECB left its monetary policy unchanged and insisted that the accommodative environment would remain over the coming quarters. Although growth in the euro area is still relatively limited, the impact of the ECB's measures is significant. The M3, for example, has been growing by more than 5% year-on-year, on average, since January 2015. Another sign of the effect of the ECB's measures is the relaxation in conditions to be eligible for credit, leading to more loans being granted. However, it is too early to claim that the policies promoted by the ECB are free from risk as they may result in a bad allocation of resources and excessive risk-taking. Moreover, it is increasingly evident that the ECB has very little room left to manoeuvre. Most action regarding economic policy is therefore likely to shift towards fiscal policy in those few countries that still have some margin, and especially towards structural reforms, an area in which all countries could improve.

The European Commission has asked for more emphasis on structural reforms and for an adequate use of the fiscal margin available. Specifically, the European Commission has suggested that one element that could boost growth in the short and medium term is investment in infrastructures. That is why it has extended both the duration and size of the European Fund for Strategic Investments (EFSI), also known as the Juncker plan. This prolongation of the EFSI, which is managed by the European Investment Bank (EIB), should increase its lending capacity to 500 billion euros by 2020. The ultimate success of the plan will depend on the investments chosen and how effectively it attracts private financing. However, the measure illustrates the will of the European Commission to give more weight to investment as a means of increasing the euro area's economic prospects.

Euro area: current balance

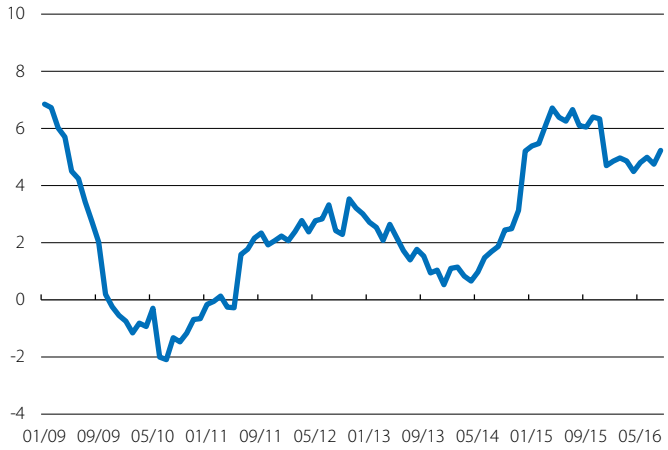
Billion euros (cumulative over 12 months)



Source: *CaixaBank Research, based on data from the ECB.*

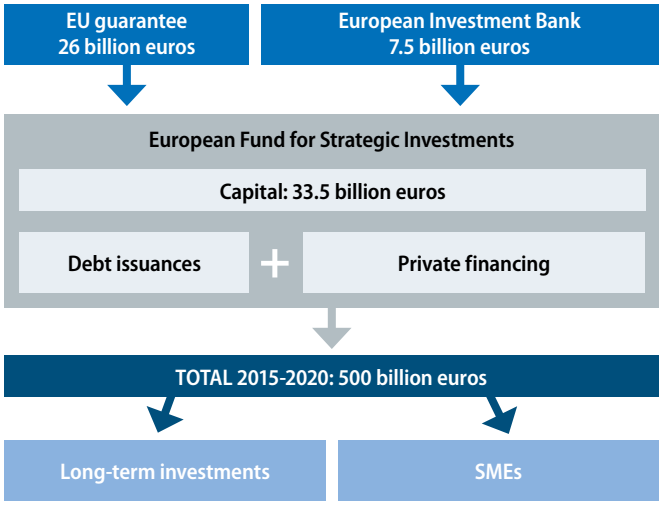
Monetary aggregate M3

Year-on-year change (%)



Source: *CaixaBank Research, based on data from the ECB.*

Enlargement of the European Fund for Strategic Investments (EFSI)



Source: *CaixaBank Research, based on European Commission data.*

FOCUS · The bias in market forecasts of interest rate

The European Central Bank (ECB) started lowering interest rates eight years ago[1] and, according to the ECB itself in June, the market does not expect a rise in the benchmark rate (Refi) until 2021. Irrespective of whether our readers believe the Refi rate will remain so low for another five years, below we will analyse why market expectations are wrongly interpreted in so many cases.

The simplest way to calculate the future interest rate expected today by the market is by comparing current interest rates at different maturities. For example, public debt interest rates at 2 and 10 years can provide the implied 8-year interest rate expected within two years. However, the information provided by these implied rates is biased.

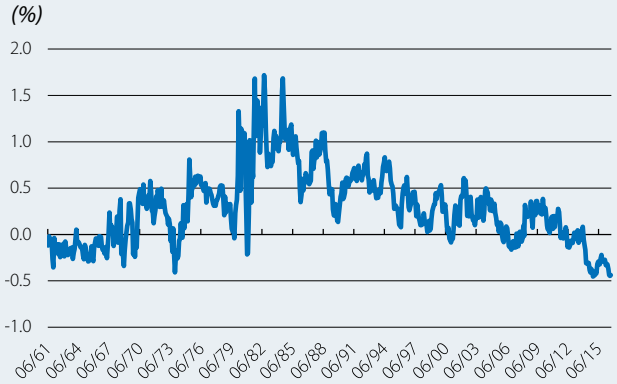
Specifically, the long-term interest rate reflects expectations regarding future rates and also a term premium for the additional risk of committing to a long-term investment (instead of reinvesting continuously with short-term maturities).[2] At present, this term premium is substantially negative in the US (see the first graph); in other words, investors are willing to sacrifice part of the yield they would obtain a priori by reinvesting short-term assets in order to guarantee long-term returns. In addition to indicating a willingness to pay for investing long-term at a fixed rate, a negative term premium also implies that the long-term interest rates observed in the market are a downwardly biased estimate of the market's expectations. As illustrated by the second graph, once adjusted for the term premium, the data show that the market expects significantly higher interest rates. For example, according to the implied curve, in 2020 the 1-year interest rate for a US Treasury bill would be 1.7%. However, when this is adjusted for the term premium, we can see the market actually expects a 2.4% yield.

This bias in estimated implied rates has increased with the implementation of unconventional monetary policies. In particular the large-scale asset purchases carried out by the main central banks of the advanced economies are helping to push down the term premium because they reduce uncertainty regarding future monetary policy and push up demand for long-term public debt.[3] Consequently, while central banks continue to buy up assets on a large scale, the widely used implied rates, which do not adjust for the term premium, will suggest artificially low expected future rates.

In conclusion, although the market is a great processor of data, within the current environment it is particularly important to be careful when interpreting this information.

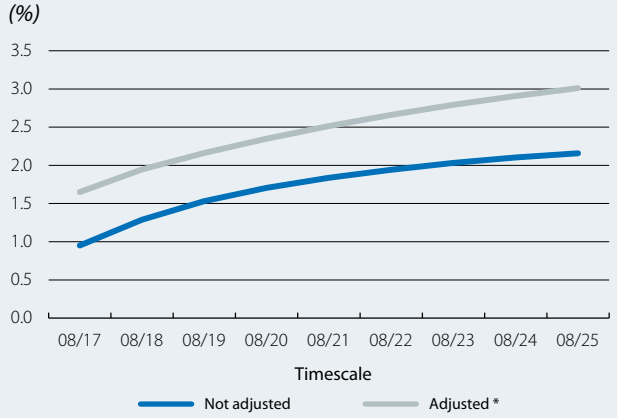
1. Although an attempt was made at normalisation between May and July 2011, this was undone quickly in November the same year.
2. For more information on the term premium, see the Focus «US Treasury term premia: not yet, but likely» in MR12/2014.
3. Other factors responsible are a low perception of risk regarding inflation and strong global demand for safe, liquid assets.

*Term premium for the 1-year interest rate on US Treasury debt **



Note: ** Estimated according to the method of Adrian, Crump and Moench, 2013, «Pricing the term structure with linear regressions», Journal of Financial Economics, 110.*
Source: *CaixaBank Research, based on data from the Federal Reserve.*

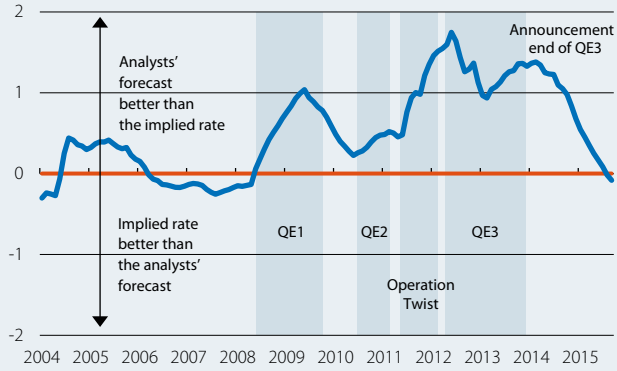
1-year US Treasury interest rate: market expectations



Note: ** Forecast having eliminated the term premium.*
Source: *CaixaBank Research, based on data from the Federal Reserve.*

*Market forecast vs. analysts' forecast: * Forecast error at 12 months*

*(Log of the relative error,** moving average of 12 months)*



Notes: ** Forecast for 3-month US Treasury bills. ** A value higher (lower) than 0 indicates a better (worse) forecast by the analysts compared with the implied rates.*
Source: *CaixaBank Research, based on data from Consensus Economics and Bloomberg.*

FOCUS · Italy's bank saga continues

Italian banks have been under huge pressure for some months now, and the latest news coming in is not helping to put those fears to rest. The stress tests carried out by the ECB and the European Banking Authority (EBA) provided even more evidence of the situation Italian banks are in.[1] Another indication of the sector's weakness is the 40% drop so far this year in the share price of the main banks – this is double the figure for all European or Spanish banks.

The main problems of Italian banks stem from low profitability (which affects all European banks) and a high NPL ratio and low coverage levels. Concerns regarding the Italian banking system have been fuelled by different and complex factors. Some of them are longstanding issues, such as high operating costs, a suboptimal corporate governance, and great sensitivity to the economic cycle. Moreover, in the last few quarters, two factors – the environment of low interest rates and increased regulatory pressure – have been added to the structural weaknesses.

In order to dissipate doubts over Italian banks, short-term measures aimed at repairing banks' balance sheets are required. In the long run, structural measures are also needed. Both represent a challenging task. Regarding the short term, it is worth noting that the portfolio of non-performing loans totals approximately 360 billion euros,[2] or some 18% of all loans. The task is therefore huge and the measures that have been proposed so far are not sufficient.

The Italian government is trying to avoid the use of public funds to bail out troubled banks and to prevent small investors from taking losses. In order to assist banks, two mechanisms have been set up: the Atlante fund and the system of state guarantees for the securitisation of bad loans (GACS). The Atlante fund hopes to attract private capital so as to recapitalise banks in difficulty and to acquire portfolios of non-performing loans. However, it has not managed to collect enough capital (4.25 billion euros), and so it has limited capacity. On the other hand the GACS, which has been operating for several months now, aims to encourage the securitisation of non-performing assets so as to take them off bank balance sheets. However, its impact has been modest so far since neither banks nor investors agree on the mechanism to transfer non-performing loans to the special purpose vehicle. Other measures seeking to repair banks' balance sheets include a recently issued decree law aimed at simplifying bankruptcy procedures and speeding up the recovery of collateral, and the implementation of mechanisms to encourage an increase in provisions.

One of the measures being proposed to ensure the sustainability of Italy's banks in the long term is a further consolidation of the banking system (there are currently more than 640 banks). This should boost efficiency by generating economies of scale and improving corporate governance. To this end, a recently issued decree law seeks to modernise the governing structure of cooperative and mutual banks, as well as to encourage their consolidation. Moreover, enhanced banking supervision under the ECB's comprehensive assessment is expected to help make the system more transparent and credible.

In addition to the complicated idiosyncrasies of the Italian banking system, the economic and political context (e.g. the banking situation, the economic weakness, and the lack of political leadership, all closely interrelated) helps explain the situation the sector currently finds itself in. Italian GDP growth has been disappointing for many years now (the average growth rate since 2001 is 0.0%) and the reforms carried out so far have not managed to change this trend.

Given this situation, the outcome of the upcoming referendum on constitutional reform is of the utmost importance. In addition to the possible changes proposed by the reform, the referendum will also help gauge the support that M. Renzi enjoys to continue implementing the programme of reforms. Polls suggest that there is a large number of undecided voters, which is not a cause for optimism.

Europe's banking sector: solvency, profitability and credit risk

(%)

		Germany	Spain	France	Netherlands	Italy	Portugal	EU
Solvency	CET 1 (fully loaded)	13.3	10.6	13.2	13.7	11.3	10.0	12.9
Profitability	ROE	2.5	7.0	5.3	7.5	3.3	–2.5	5.8
	Cost-to-income ratio	76.5	52.1	75.9	68.9	69.0	68.6	66.0
Credit risk	NPL ratio	3.1	6.3	4.0	2.7	16.6	19.2	5.7
	Coverage ratio	37.3	45.4	50.9	37.5	45.8	41.0	43.8

Note: *Data for 2016 Q1. The fully-loaded CET 1 capital ratio uses current data including the regulator's requirements for 2019.*
Source: *CaixaBank Research, based on data from the EBA Risk Dashboard.*

1. In July's stress tests, an Italian bank had the worst results of the whole EU: in the adverse scenario, the fully-loaded CET1 capital ratio of the Monte dei Paschi di Siena bank would fall to –2.4%. It has now announced a plan including the sale of a large number of non-performing loans and a capital increase of 5 billion euros.
2. Gross stock of non-performing loans (NPL) at the end of 2015. Data from IMF Italy Country Report, July 2016.

KEY INDICATORS

Activity and employment indicators

Values, unless otherwise specified

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16	08/16	09/16
Retail sales *(year-on-year change)*	1.4	2.7	3.3	2.4	2.2	1.5	2.9	...	...
Industrial production *(year-on-year change)*	0.9	2.0	2.5	1.7	1.3	1.0	–0.5	...	...
Consumer confidence	–10.2	–6.2	–7.0	–6.4	–8.3	–7.8	–7.9	–8.5	–8.2
Economic sentiment	101.5	104.2	104.5	106.2	104.0	104.3	104.5	103.5	104.9
Manufacturing PMI	51.8	52.2	52.2	52.8	51.7	52.0	52.0	51.7	52.6
Services PMI	52.5	54.0	54.0	54.2	53.3	53.1	52.9	52.8	52.1
Labour market									
Employment (people) *(year-on-year change)*	0.6	1.1	1.1	1.3	1.4	1.4	...	...	...
Unemployment rate: euro area *(% labour force)*	11.6	10.9	10.7	10.5	10.3	10.1	10.1	10.1	...
Germany *(% labour force)*	5.0	4.6	4.5	4.5	4.3	4.3	4.2	4.2	...
France *(% labour force)*	10.3	10.4	10.5	10.2	10.2	10.0	10.3	10.5	...
Italy *(% labour force)*	12.6	11.9	11.6	11.6	11.6	11.5	11.4	11.4	...
Spain *(% labour force)*	24.5	22.1	21.6	20.9	20.5	20.1	19.6	19.5	...

Source: *CaixaBank 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

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16	08/16
Current balance: euro area	**2.6**	**3.3**	**3.3**	**3.3**	**3.4**	**3.6**	**3.5**	**...**
Germany	7.3	8.5	8.3	8.5	8.6	9.0	8.8	...
France	–1.1	–0.2	–0.1	–0.2	–0.8	–0.9	–0.9	...
Italy	1.9	1.6	1.8	1.6	1.9	2.4	2.4	...
Spain	1.1	1.4	1.5	1.4	1.4	1.8	1.8	...
Nominal effective exchange rate[1] *(value)*	**101.8**	**92.3**	**92.7**	**92.4**	**94.1**	**94.8**	**94.9**	**95.2**

Note: *1. Weighted by flow of foreign trade. Higher figures indicate the currency has appreciated.*
Source: *CaixaBank 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

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16	08/16
Private sector financing								
Credit to non-financial firms[1]	–2.6	–0.4	–0.1	0.4	1.1	1.6	1.9	1.9
Credit to households[1, 2]	–0.1	0.7	1.0	1.3	1.5	1.7	1.8	1.8
Interest rate on loans to non-financial firms[3] *(%)*	2.0	1.6	1.5	1.5	1.4	1.4	1.3	...
Interest rate on loans to households for house purchases[4] *(%)*	2.6	2.1	2.1	2.0	2.0	1.8	1.8	...
Deposits								
On demand deposits	6.0	11.0	12.0	11.4	11.2	10.1	9.4	10.0
Other short-term deposits	–2.0	–3.9	–4.6	–4.0	–2.6	–2.1	–1.4	–1.5
Marketable instruments	–7.2	2.8	1.6	0.7	–1.0	2.5	5.0	4.5
Interest rate on deposits up to 1 year from households *(%)*	1.3	0.8	0.7	0.7	0.6	0.6	0.5	...

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: *CaixaBank Research, based on data from the European Central Bank.*

ECONOMIC OUTLOOK · The economy continues to advance at a good pace

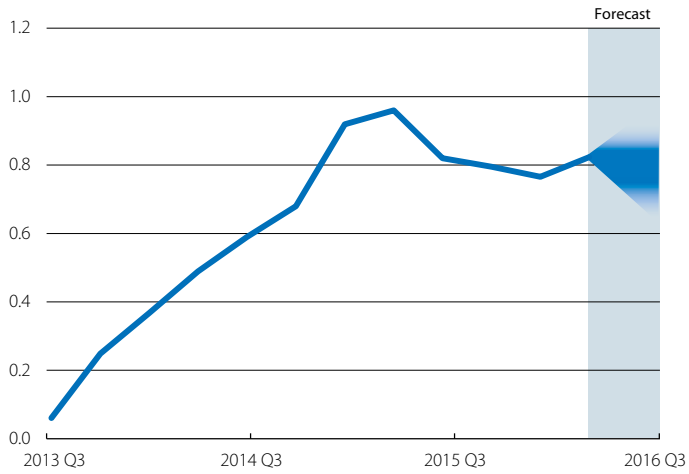
The growth rate remained high in Q3. Although the information available is still incomplete, high frequency business indicators point to the rate of expansion still being very vigorous between July and September. Specifically, the CaixaBank Research GDP forecast model places quarter-on-quarter growth at 0.8%, a similar figure to the one posted in the last four quarters. The good performance by activity for the year to date, better than expected, has led many analysts to revise upwards their growth forecasts for GDP for the whole of 2016 (at CaixaBank Research we have kept our forecast at 3.1% given that we already improved it last month). The forecast for 2017, however, has not been revised and stands within a range that is considerably lower than 2016, between 2.1% and 2.5% (the CaixaBank Research forecast is 2.4%). This means that, in the final part of this year and especially in the coming year, a slowdown is expected in activity with GDP growth rates of around 0.6% quarter-on-quarter.

On the supply side, the services sector is consolidating its role as the main engine of the recovery. Since improvement began in 2013 Q3, the activity sector leading the recovery on the supply side is market services (the services sector excluding public administration, healthcare and education). And, for the time being, this upward momentum does not seem to be running out of steam. This can be seen in the turnover for the services sector, up by a considerable 4.4% year-on-year in July. However, the signs of slowdown in industry are increasingly evident: in July the index for industrial turnover speeded up its decline to –2.8% year-on-year while new industrial orders posted –8.0%. In any case these negative figures are offset by two relevant aspects. Firstly, the decline in industry can be largely explained by the energy sector: turnover for industrial business without energy grew by 0.5% year-on-year in July. Secondly, the drop in producer prices is also having a negative effect on turnover for the sector. If we analyse volume-based indicators (instead of value-based) such as the industrial production index, and exclude divisions related to energy (and, for example, «Supply of electricity, gas, steam and air conditioning»), the outlook is more encouraging: in July the rate of year-on-year change stood at 1.4%. Another positive note is provided by the manufacture of automobiles with a cumulative growth in production of 30% between January 2013 and July 2016.

The contribution of the foreign sector is gaining in importance for demand. The update of the accounting series for GDP carried out every year by the INE has revealed that domestic demand made a smaller contribution to GDP growth in 2015 (3.4 pps compared with 3.8 pps estimated previously). However, this was offset by a lower negative contribution

GDP

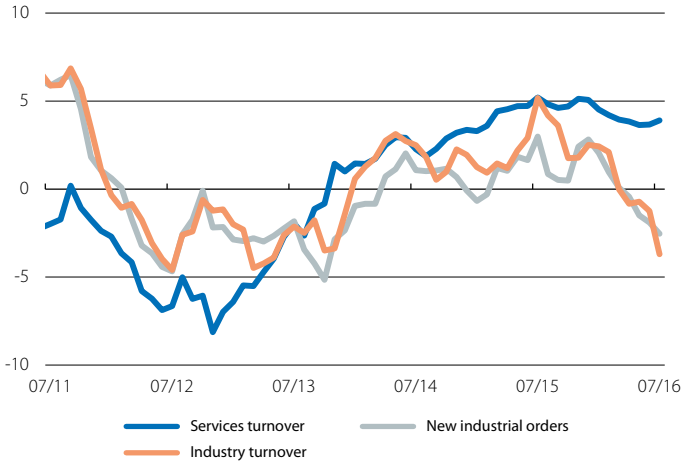
Quarter-on-quarter change (%)



Note: *90% confidence interval.*
Source: *CaixaBank Research, based on INE data.*

Activity indicators *

Year-on-year change of the moving 3-month average (%)



Note: ** Series seasonally adjusted.*
Source: *CaixaBank Research, based on INE data.*

Update of the accounting series for GDP (2015)

Year-on-year change (%)

	Old series	Revised series	Difference	
Real GDP	3.2	3.2	0.0	=
Domestic demand (contr. Δ GDP)	3.8	3.4	–0.4	▼
Household consumption	3.1	2.9	–0.2	▼
Government consumption	2.7	2.0	–0.7	▼
Gross fixed capital formation	6.4	6.0	–0.4	▼
Foreign demand (contr. Δ GDP)	–0.6	–0.1	0.5	▲
Exports of goods and services	5.4	4.9	–0.5	▼
Imports of goods and services	7.5	5.6	–0.9	▼
Nominal GDP	3.8	3.7	–0.1	▼
Deflator	0.6	0.5	–0.1	▼
Nominal GDP (million euros)	1,081,190	1,075,639	–5,551	▼

Source: *CaixaBank Research, based on INE data.*

negative by external demand (–0.1 pps compared with –0.6 pps previously). This improved trend in the foreign sector reinforces the idea that a shift is occurring towards a more sustainable model of growth based on greater export capacity among Spanish businesses and less dependence on imports. This trend continued in the first two quarters of 2016: the excellent performance by exports (and the more subdued growth in imports) meant that exports contributed positively to GDP growth in year-on-year terms.

The temporary dip in the exports of goods in July is not a cause for concern, at present. The decline (–9.1% year-on-year) can be explained, to a large extent, by a calendar effect so that a large part of this bad figure is expected to be made up in August. More worrying is the slowdown in world trade and the impact this might have on Spain's export sector, which is looking very resilient at the moment. The larger decline in imports in July (–12% year-on-year) helped to improve the trade deficit, standing at 8,436 million euros in cumulative terms from January to July (compared with a deficit of 12,876 million in the same period of 2015).

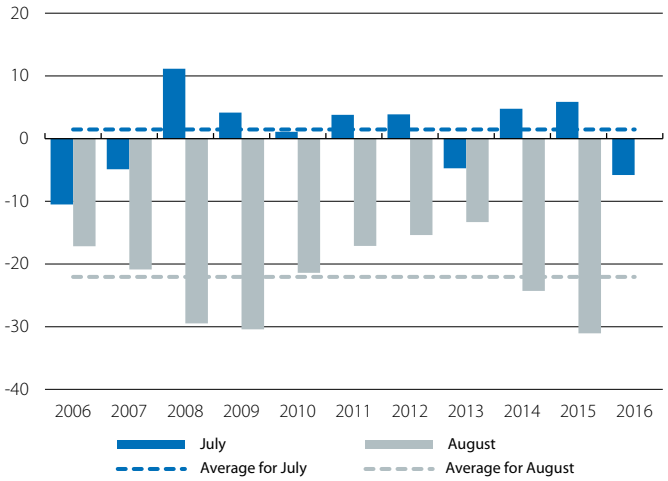
The recovery in the labour market continues at a good rate. The number of registered workers affiliated to Social Security fell by 144,997 people in August, a very similar seasonal decline to the one seen by registered workers in August every year. A large part of this drop was concentrated in sectors that tend to stop in the holiday period and begin again in September, such as education (–58,052) and construction (–12,011). The year-on-year rate of change therefore remained at a high 3.0% (3.1% in July). Moreover, the significant improvement in employment expectations in September, both for services and retail activity, suggests that employment will continue to evolve favourably in the final part of the year.

Labour costs are still moderate. One factor that may be contributing to the dynamic job creation rate are the contained labour costs per worker, which continue almost at a standstill. According to the Quarterly Labour Cost Survey in 2016 Q2, this stood at 2,589 euros per worker and month, representing a year-on-year change rate of –0.1%. In a context of low inflation (0.3% in September) and high unemployment (20.0% in Q2), it is likely the wage containment will continue and that the improvement in the disposable income of households will continue to come from an increasing number of employed people.

A sharp increase in consumption keeps savings at moderate rates. The good trend in the labour market can also be seen in wage income which grew by 3.9% year-on-year in Q2 and offset the drop in non-wage income (–4.3% year-on-year), although this did not prevent gross disposable household income (the sum of wage and non-wage income) from slowing down to 1.7% year-on-year. The lower growth in disposable income and strong boost by private consumption in Q2 (2.9% year-on-year in nominal terms) meant that the

Exports of goods

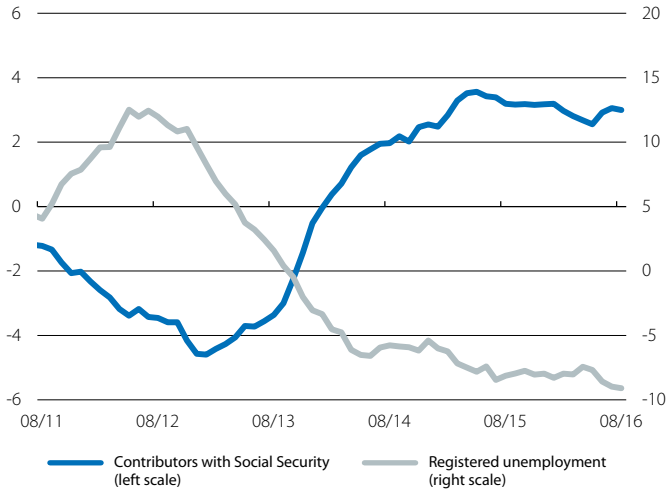
Month-on-month change in July and August each year (%)



Source: *CaixaBank Research, based on data from the Bank of Spain.*

Contributors with Social Security and registered unemployment

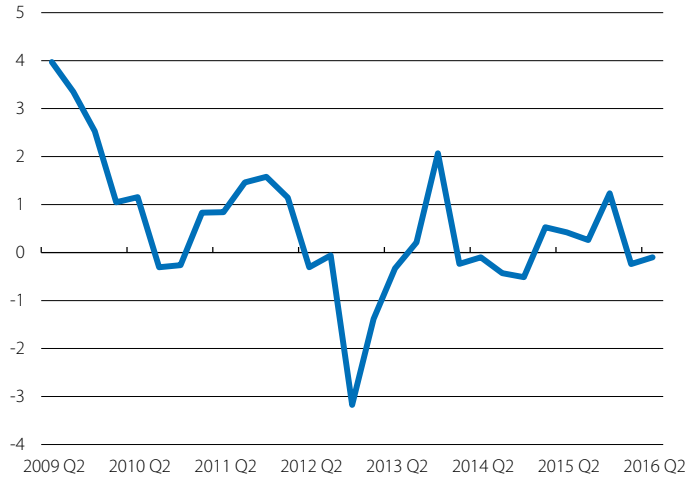
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Ministry of Employment and Social Security.*

Labour cost per worker

Year-on-year change (%)



Source: *CaixaBank Research, based on INE data.*

savings rate stood at 8.3% of gross disposable household income, 1 pps below the figure of 2015 Q2.

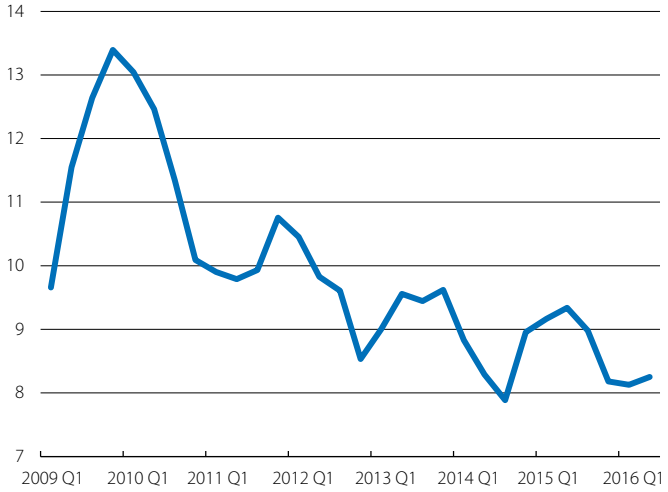
House prices retained their expansionary tone in 2016 Q2. The index based on sales grew by 1.8% quarter-on-quarter (3.9% year-on-year) while price valuations grew by 0.9% quarter-on-quarter (2.0% year-on-year). Sales also are evolving favourably (13.5% year-on-year in July). With a view to the coming quarters, the upward trend in prices is likely to continue thanks to the boost provided by demand for housing, a still very low level of activity in construction and the scarcity of housing for sale in certain prime areas (for instance in large cities). This is suggested by the sharp increase in land prices, up by 6.6% year-on-year in Q2, which tends to anticipate the future trend in house prices by a few months.

Growth in bank lending continues to support the recovery. Easier financial conditions are also playing an important role in the recovery in the real estate sector. In July new mortgages for purchasing housing rose by 27% year-on-year (cumulative over 12 months), providing fundamental support for demand. In any case the outstanding balance of mortgage credit is still falling (–3.6% year-on-year) while the outstanding balance of consumer credit continues to increase at a good rate (4.5% year-on-year). With regard to loans to non-financial firms, a breakdown of bank loans in 2016 Q2 by segment shows a moderation in the decline in credit to production sectors although developer credit and loans for the construction industry still fell at high rates. The NPL ratio held steady at 9.4% in July but the reduction in the NPL ratio for developer loans over the last year was particularly noticeable.

The adjustment in public accounts is still pending. In July the deficit for public administrations as a whole, excluding local corporations, stood at 3.1% of GDP (without including losses due to financial aid, namely 0.2% of GDP). This figure is the same as the one for July 2015 and therefore shows the lack of adjustment in public accounts this year. It should be noted that the measures announced by the government (increased advanced payments of corporation tax) should correct this trend in the final part of the year. However, doubts still remain regarding the country's capacity to meet its fiscal consolidation targets in the medium term, making the Spanish economy more sensitive to possible changes in international investor sentiment. This aspect is of vital importance given the high level of public debt. Specifically, in 2016 Q2 this reached 100.5% of GDP, a figure that is far from the forecasts sent to Brussels as part of the Stability Programme 2016-2019, where debt was expected to end the year at 99.1% of GDP.

Savings rate

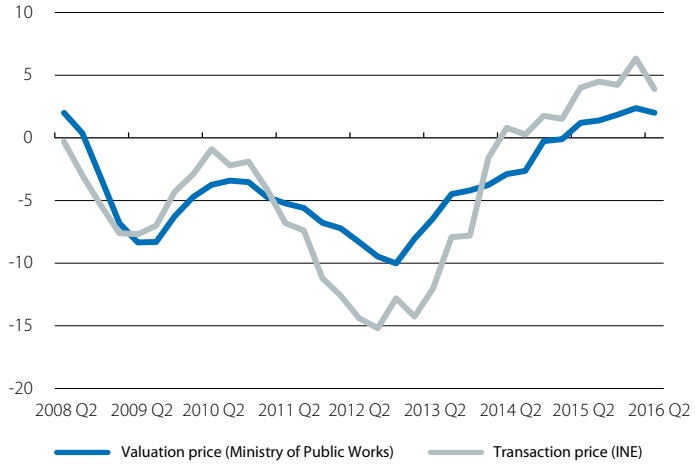
(% of gross disposable income)



Source: *CaixaBank Research, based on INE data.*

House prices

Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Ministry of Public Works and the Spanish Statistics Institute (INE).*

Credit and doubtful loans (2016 Q2)

	Balance (billion euros)	Year-on-year change (%)	NPL ratio (%)
Households (housing)	544	–3.6	4.7
Households (consumption)	121	4.5	8.1
Productive activities	614	–7.2	14
Construction	42	–9.8	29.6
Developers	125	–9.8	26.9
Services	319	–8.7	8.7
Industry	110	–0.2	9.5
Agriculture	19	6.3	9.1
Total *	1,279	–4.6	9.4

Note: ** The total balance does not include loans to NPISH or unclassified loans.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

FOCUS · Weighing up the labour market

The pace of job creation was very strong in 2016 Q2. According to Spain's Labour Force Survey (LFS), the number of employees increased by 271,000, a very positive figure but somewhat lower than expected after the number of registered workers affiliated to Social Security had risen more than expected between April and June, namely by 436,000. The notable difference between these two figures is not a temporary phenomenon of 2016 Q2. In fact, since employment started to recover in 2014 Q1, the trend for workers registered with Social Security has been more favourable than that for LFS employees. Specifically, between January 2014 and June 2016 the cumulative growth in affiliated employment was 9.8%, almost 2 pps higher than the growth in LFS employment (8.0%) (see the first graph).

Such differences between both series are customary as, for instance, the two data sets have very different sources: the LFS is based on a survey using a representative sample of the population while the data on affiliated workers come from an administrative register that records the workers registered with Social Security. Another difference between both sources is how the shadow economy is handled. In other words, some people are in employment but not affiliated to Social Security so that, when they are surveyed by the LFS, they are considered to be in employment. This reason for the discrepancy between the two series could become even more relevant during a phase of economic expansion when shadow economy jobs tend to shift towards the formal economy. As workers are given an employment contract, they would be entered in the Social Security registers while, for LFS purposes, they would already be counted as employed.

To analyse whether this factor might be playing an important role in the current recovery of Spain's labour market, we have analysed the employment trend by sector of activity between 2014 Q1 and 2016 Q2 according to the estimated share of the shadow economy in each of these sectors.[1] As can be seen in the second graph, employment has grown in those sectors with a larger share of the shadow economy (this relationship can be seen in both employment series). It is also notable that the difference between the growth in affiliated workers and in LFS employees is larger in those sectors with a larger share of the shadow economy (such as retail). In these sectors affiliated workers grew by 9.8% on average while LFS employment rose by 8.9%, a difference of 1.0 pps. However, in those sectors with a smaller share of the shadow economy (for example finance and insurance), affiliated workers actually grew on average by less than LFS employees (5.9% and 6.3%, respectively). These results would be in line with the idea that the larger growth in affiliated workers is associated with an increase in formal employment. This trend can be seen at the aggregate level but there are some exceptions. For example, construction has a large share of the shadow economy (31%) but its growth in LFS employees was larger than in affiliated workers (14.3% and 11.3%, respectively).

In summary, the most recent data regarding job creation show that the labour market is recovering at a good rate. Moreover, the analysis presented in this Focus suggests this recovery may be accompanied by an increase in formal employment.

1. The estimated share of the shadow economy by sector at a European level is obtained from Schneider, F., 2013, «The Shadow Economy in Europe 2013», A. T. Kearney and Visa.

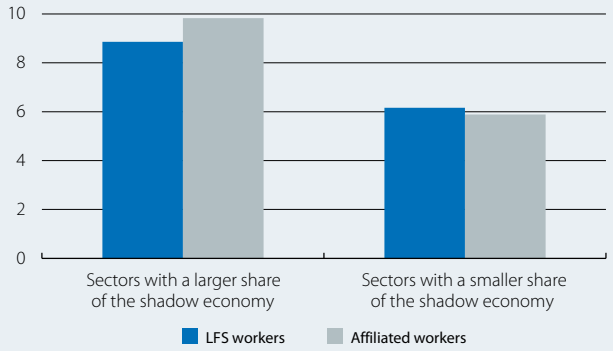
Employment according to the LFS and workers registered with Social Security

Index (100 = January 2014)

Source: *CaixaBank Research, based on data from the LFS and the Ministry of Employment*

Growth in employment by the relative share of the shadow economy

Cumulative change between 2014 Q1 and 2016 Q2 (%)



Note: *Only those sectors of activity are included for which shadow economy data are available according to Schneider (2013).*
Source: *CaixaBank Research, based on data from the LFS, Ministry of Employment and Social Security and Schneider (2013).*

FOCUS · Geographical mapping of Spanish exports

Exports are playing a big role in the Spanish economy's performance. Since the end of 2007 they have gone from 25.7% to 33.2% of GDP and have contributed to half the cumulative nominal growth for the economy as a whole since 2013 Q3, when the economy started to recover. It is therefore vital to examine to what extent exports might be a structural strength over the coming years. A good way to begin is to ask where Spanish exports end up; i.e. in which markets Spanish firms are making the most effort and the most progress.

Based on IMF data regarding the trade of goods by country of origin and destination, we have defined an export propensity index (EPI), this being the fraction of a country of origin's exports (such as Spain) to a destination country D (as a percentage of all Spanish exports), divided by the fraction of the world's exports to country D (as a percentage of all the world's exports). An EPI above one indicates that Spain's commercial relationship with country D is especially important.

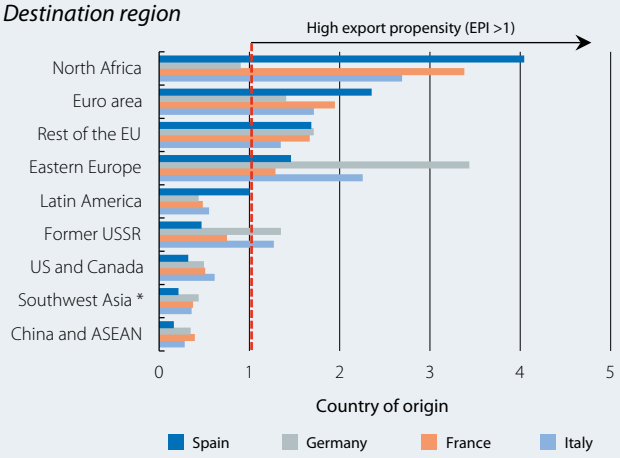
The geographical mapping of Spanish exports confirms a general conclusion for world trade: distance matters, and a great deal. Beyond this phenomenon, there are four more significant ideas: eurocentrism, the importance of North Africa, neutrality in Latin America and a delay in Emerging East Asia. The eurocentrism of Spanish exports is reflected by an EPI of 2.2 for the euro area in 2015, higher than the EPI of France or Germany, both of which export more intensively outside the EU (see the first graph). However, in dynamic terms Spain stands out, together with Germany, as the economy that has diversified the destination of its exports the most since 2000. Albeit starting from a higher level, Spanish exports reduced their dependence on the euro area more than French or Italian exports in the period 2000-2015 (see the second graph). It is also worth noting the positive fact that Spain is taking more advantage of the EU's enlargement towards the East with a significant increase in the EPI to Poland, Bulgaria and Romania.

Regarding other regions, Spain's export propensity is also higher to North Africa, especially Morocco (IPE of 11.7). This propensity with Morocco is higher than for France (4.8) in spite of the language ties between both countries. The growth experienced by this region and the fact that Morocco, unlike its neighbours, performs better in manufacturing than in commodities represent a positive note for Spanish exports.

Spain's export neutrality to Latin America (IPE of 1.0) may come as a surprise given the country's language and cultural ties with the region. However, it should be noted that the Spanish EPI in Latin America is double that of France or Germany. The delay in Asia, however, is more worrying. The EPI for exports to Emerging East Asia (China, Hong Kong, Taiwan, India, ASEAN, Pakistan and Bangladesh) is a low 0.2 and is not growing. It is also much lower than the figure for German, French and Italian exports. Given that imports by Emerging East Asia went from 16.5% to 25.7% of the world's total between 2000 and 2015, we can conclude that Spain should increasingly focus on Asia.

Export Propensity Index (EPI) to selected regions in 2015

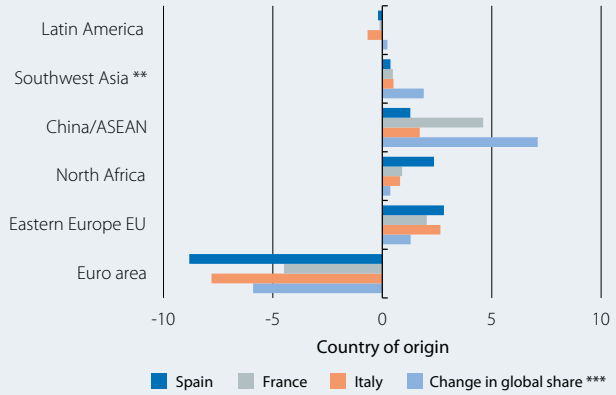
Destination region



Note: ** Southwest Asia: India, Pakistan, Bangladesh and Sri Lanka.*
Source: *CaixaBank Research, based on data from Thomson Reuters Datastream and the IMF.*

*Change in the share of exports by destination between 2000 and 2015 **

Destination region (pps)



Notes: ** Exports from the country of origin compared to its total exports.*
*** Southwest Asia: India, Pakistan, Bangladesh and Sri Lanka.*
**** Change, between 2000 and 2015, of the share of imports from each region with regard to the world total (in percentage points).*
Source: *CaixaBank Research, based on data from Thomson Reuters Datastream and the IMF.*

FOCUS · Fiscal adjustment in Spain: a look back and forward

Spain came under an excessive deficit procedure in April 2009 due to the deterioration in its public accounts caused by the economic crisis. On this date the European Commission issued a recommendation for the country to reduce its budget deficit to below 3% of GDP by 2012. However, given the unexpected worsening of the economy, the Commission issued three new recommendations between 2009 and 2013, extending the deadline for correcting the excessive deficit to 2013, 2014 and 2016, consecutively. On these occasions the Commission stated that Spain had taken effective measures to correct its structural deficit, attributing its failure to achieve the target to the increase in the cyclical deficit.

Throughout these years Spain made a considerable effort in terms of fiscal consolidation and managed to reduce almost half its total deficit, going from 11.0% in 2009 to 5.8% in 2014. This reduction was achieved thanks to a significant adjustment carried out via measures applied both to income and expenditure. In particular, between 2010 and 2013 Spain reduced its structural deficit by 5 pps via a cumulative increase of 13.2% in revenue and a 12% reduction in spending.[1]

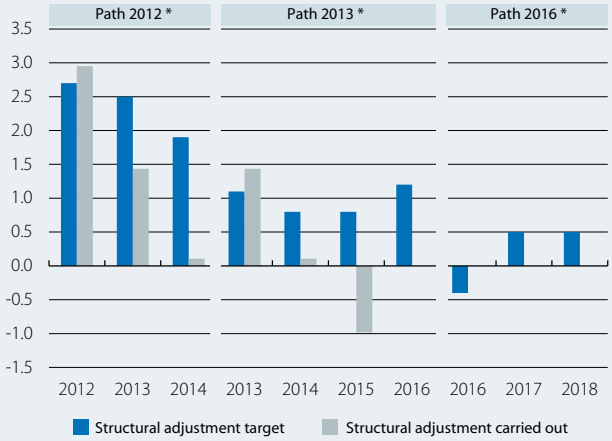
More or less intensively, the structural deficit continued to be adjusted until 2014 (see the first graph) but deteriorated considerably in 2015. That year the public deficit stood at 5.0% of GDP and, given the country's evident inability to meet the 2016 deadline for exiting the excessive deficit procedure, the European Commission granted two more years, up to 2018, to bring the deficit below 3%. On this occasion the European Commission believed that, unlike in the previous extensions, Spain had not taken effective measures to correct its deficit in 2015. In fact, last year the structural deficit increased by 1 pp as a consequence of the expansionary measures adopted and the cuts in Income Tax and Corporation Tax, structurally reducing the country's capacity to collect revenue. Consequently, the 1.8 pps adjustment in the cyclical deficit, resulting from the positive trend in the economy and low interest rates, was not enough to achieve the deficit target, set at 4.2% of GDP (see the second graph).

The new path agreed with the European Commission has set deficit targets of 4.6%, 3.1% and 2.2% of GDP for 2016, 2017 and 2018, respectively. Although the 2016 target seems achievable, for 2017 new measures would have to be passed to consolidate the public accounts as the improvement in the cyclical deficit due to the economy's good performance will not be enough to meet the target. Specifically, the Commission believes that structural measures are needed in the order of 0.5% of GDP both in 2017 and in 2018 (around 6 billion euros annually). Without such measures the required structural adjustment would not be carried out and the total deficit could exceed 3.6% of GDP next year.

Taking advantage of the current favourable economic context to put Spain's public finances in a solid position must be a priority. Otherwise it might be forced to adjust its accounts in a less propitious environment.

Adjustment of the structural budget balance

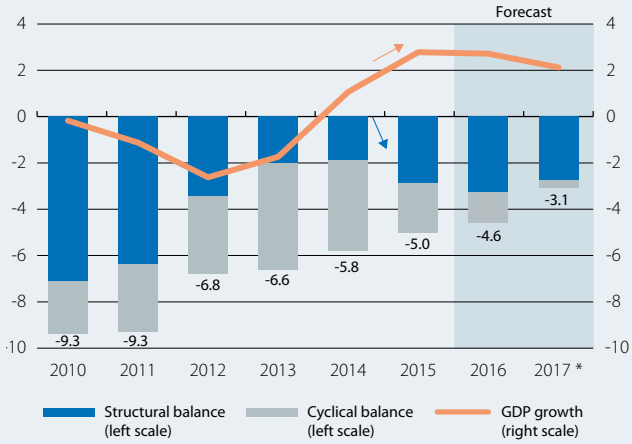
(% of GDP)



Note: ** Targets agreed with the European Commission.*
Source: *CaixaBank Research, based on European Commission data and AMECO.*

Fiscal balance and GDP growth

(% of GDP) *Year-on-year change (%)*



Note: ** Deficit targets agreed with the European Commission.*
Source: *CaixaBank Research, based on European Commission data.*

1. Changes in nominal terms in income and expenditure adjusted by the cycle. See OECD, «Economic Surveys Euro Area», June 2016.

KEY INDICATORS

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

Activity indicators

	2014	2015	2015 Q4	2016 Q1	2016 Q2	07/16	08/16	09/16
Industry								
Electricity consumption	–0.1	1.6	2.5	–0.6	0.9	–3.0	0.1	...
Industrial production index	1.3	3.3	4.2	2.6	1.4	0.4	...	...
Indicator of confidence in industry *(value)*	–7.1	–0.3	0.3	–1.9	–2.8	–3.1	–5.2	–3.0
Manufacturing PMI *(value)*	53.2	53.6	52.5	54.3	52.5	51.0	51.0	...
Construction								
Building permits *(cumulative over 12 months)*	–7.7	20.0	31.1	45.2	47.9	46.9	...	...
House sales *(cumulative over 12 months)*	–5.6	10.9	11.9	10.6	14.1	13.5	...	...
House prices	–2.4	1.1	1.8	2.4	2.0	–	...	–
Services								
Foreign tourists *(cumulative over 12 months)*	7.2	5.6	4.8	5.9	7.4	8.5	...	...
Services PMI *(value)*	55.2	57.3	55.9	54.7	55.5	54.1	56.0	...
Consumption								
Retail sales	1.0	3.0	3.4	3.8	3.8	5.0	3.3	...
Car registrations	18.4	21.3	17.1	8.0	17.8	4.3	14.6	...
Consumer confidence index *(value)*	–8.9	0.3	1.6	–2.5	–3.2	–5.8	–5.2	–7.3

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

Employment indicators

	2014	2015	2015 Q4	2016 Q1	2016 Q2	07/16	08/16
Registered as employed with Social Security [1]							
Employment by industry sector							
Manufacturing	0.1	2.2	2.7	2.8	2.7	2.7	2.7
Construction	–1.6	4.7	4.1	2.6	2.1	2.5	2.6
Services	2.2	3.5	3.4	3.1	3.0	3.3	3.3
Employment by professional status							
Employees	1.4	3.5	3.6	3.4	3.1	3.5	3.5
Self-employed and others	2.2	1.9	1.4	1.2	1.0	0.9	0.9
TOTAL	**1.6**	**3.2**	**3.2**	**3.0**	**2.7**	**3.1**	**3.0**
Employment [2]	**1.2**	**3.0**	**3.0**	**3.3**	**2.4**	**–**	**...**
Hiring contracts registered [3]							
Permanent	18.8	12.3	7.6	8.3	17.4	10.9	30.9
Temporary	13.1	11.2	11.8	6.2	9.1	0.4	15.3
TOTAL	**13.4**	**11.3**	**11.5**	**6.4**	**9.8**	**1.1**	**16.3**
Unemployment claimant count [3]							
Under 25	–8.2	–11.0	–11.7	–10.9	–12.0	–14.3	–14.8
All aged 25 and over	–5.3	–7.2	–7.5	–7.8	–7.5	–8.5	–8.6
TOTAL	**–5.6**	**–7.5**	**–7.9**	**–8.1**	**–7.9**	**–9.0**	**–9.1**

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

Prices

	2014	2015	2015 Q4	2016 Q1	2016 Q2	07/16	08/16	09/16
General	**–0.1**	**–0.5**	**–0.3**	**–0.7**	**–0.9**	**–0.6**	**–0.1**	**0.3**
Core	0.0	0.6	0.9	1.0	0.7	0.7	0.9	...
Unprocessed foods	–1.2	1.8	2.5	2.1	2.7	5.7	3.7	...
Energy products	–0.8	–9.0	–10.2	–13.1	–13.6	–12.0	–9.1	...

Source: *CaixaBank Research, based on data from the INE.*

Foreign sector

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

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	06/16	07/16
Trade of goods								
Exports *(year-on-year change)*	2.5	4.3	3.4	3.8	0.2	4.3	2.1	–9.1
Imports *(year-on-year change)*	5.7	3.7	3.3	3.3	–0.7	–0.3	–0.9	–12.0
Current balance	**11.2**	**14.7**	**16.0**	**14.7**	**15.4**	**19.4**	**19.4**	**19.8**
Goods and services	25.5	26.2	26.8	26.2	26.0	29.7	29.7	30.7
Primary and secondary income	–14.3	–11.5	–10.8	–11.5	–10.6	–10.3	–10.3	–10.9
Net lending (+) / borrowing (–) capacity	**16.3**	**21.7**	**22.1**	**21.7**	**22.2**	**25.9**	**25.9**	**26.1**

Source: *CaixaBank 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

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	07/16
Net lending (+) / borrowing (–) capacity [1]	**–5.9**	**–5.1**	**–3.1**	**–5.1**	**–0.7**	**...**	**...**
Central government	–3.7	–2.6	–2.1	–2.6	–0.8	–1.9	–2.7
Autonomous regions	–1.8	–1.7	–1.1	–1.7	–0.1	–0.7	–0.1
Local government	0.6	0.4	0.3	0.4	0.1	...	...
Social Security	–1.0	–1.3	–0.3	–1.3	0.2	–0.6	–0.5
Public debt *(% GDP)*	**99.3**	**99.3**	**99.7**	**99.3**	**100.6**	**100.5**	**...**

Note: *1. Includes aid to financial institutions.*
Source: *CaixaBank 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

	2014	2015	2015 Q3	2015 Q4	2016 Q1	2016 Q2	06/16	07/16	Balance 07/16 [1]
Financing of non-financial sectors [2]									
Private sector	–6.2	–3.9	–4.0	–3.1	–3.7	–3.5	–2.9	–3.2	1,619.1
Non-financial firms	–7.1	–4.0	–4.3	–3.0	–4.1	–4.3	–3.5	–4.0	900.9
Households [3]	–5.1	–3.7	–3.6	–3.3	–3.1	–2.6	–2.2	–2.1	718.2
General government [4]	6.9	4.7	4.3	4.4	3.5	4.3	4.6	5.4	1,100.7
TOTAL	**–1.8**	**–0.7**	**–0.9**	**–0.3**	**–0.9**	**–0.6**	**0.0**	**0.1**	**2,719.8**
Liabilities of financial institutions due to firms and households									
Total deposits	–0.9	–1.0	–1.1	–0.5	–0.4	–0.3	–0.4	–0.6	1,156.9
On demand deposits	10.8	18.5	18.8	17.7	16.2	16.0	15.4	15.5	425.1
Savings deposits	5.8	12.9	13.7	15.2	13.4	12.1	11.4	11.5	271.2
Term deposits	–7.6	–15.3	–16.3	–15.8	–15.4	–16.4	–16.4	–17.2	439.3
Deposits in foreign currency	1.1	5.6	5.1	–2.3	–4.0	1.6	–1.5	–2.6	21.4
Rest of liabilities [5]	–8.2	–13.0	–14.0	–15.1	–16.7	–16.3	–14.0	–12.8	89.7
TOTAL	**–1.7**	**–2.2**	**–2.3**	**–1.9**	**–1.9**	**–1.7**	**–1.6**	**–1.6**	**1,246.6**
NPL ratio *(%)* [6]	**12.5**	**10.1**	**10.7**	**10.1**	**10.0**	**9.4**	**9.4**	**9.4**	**–**
Coverage ratio *(%)* [6]	**58.1**	**58.9**	**60.6**	**58.9**	**59.0**	**58.7**	**58.7**	**59.0**	**–**

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: *CaixaBank Research, based on data from the Bank of Spain.*

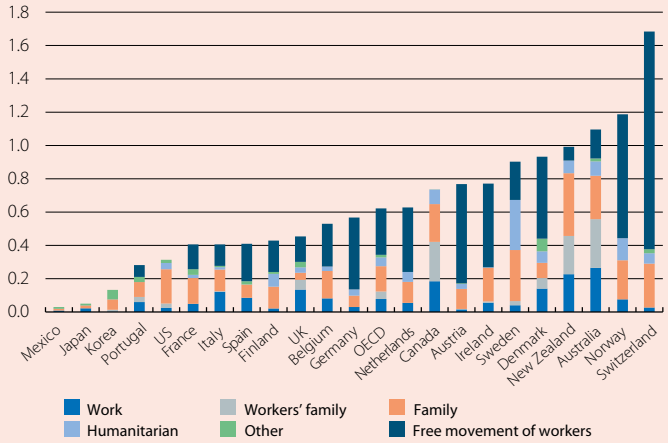
IMMIGRATION: IMPACT AND PROSPECTS

The phenomenon of immigration in advanced countries: from perception to reality

In a recent survey, carried out in 14 countries, the citizens were asked what percentage of the population they believed were immigrants. The average response was that this proportion was 24%, around double the real figure. In some countries this deviation was extreme: in the US the perceived share of the immigrant population was 32% (when it is actually 12%) and in Italy, 30% (when the real figure is 7%).[1] These findings are not atypical as they have been confirmed by survey after survey.[2] But is this the only perception bias regarding immigration? By no means. In another survey the British were asked about the composition of immigration, distinguishing between immigrants from the EU and those from outside the Community. Once again there was a discrepancy between perception and reality as the British believed that 25% of their immigrants were from the EU when in fact this percentage is 37%.[3] This is probably because we tend not to notice immigrants so much when they resemble us more closely. And this matters because, according to the Eurobarometer, while 58% of EU citizens have a perception of non-EU immigrants that is fairly or very negative, this figure falls to some extent in the case of EU immigrants, standing at 36%. Such bias is even greater in the case of relatively recent phenomena such as political refugees: according to the «Humanitarian Index» study in 2016, the Germans and French believed they had accepted five times more Syrian refugees than had really been the case.

Migratory flows by category, 2013 *

(% of the total population)



Note: ** Permanent migrants.*
Source: *CaixaBank Research, based on OECD data.*

So if our perception of the migratory phenomenon is misguided, what is the reality? With regard to the first bias identified, namely the volume or total number of immigrants, the actual situation is much more moderate: in 2014, for the OECD countries as a whole, the number of immigrants born outside their country of residence accounted for approximately 13% of the population. Moreover the variation in this figure has been very gradual in spite of the sharp ups and downs in the cycles of the advanced economies over the last few years: in 2000 the share was 10%. Logically this trend for the OECD as a whole hides considerable disparity between countries. Spain's share in 2014, for example, was 13.2%, a figure similar to Germany's 13.3% and the 13.4% in the US but a long way from Switzerland's 28.9% or 28.5% in Australia, at the higher end of the sample, or the figure of 0.8% in Mexico and 1.7% in Japan at the lower end. There is also a difference in the speed with which the current level of immigrants has been reached: in the period 2000-2014, while Spain saw an 8.4 pps increase in its proportion of immigrants, in Israel the ratio fell by 8.6 pps. In fact, the rate of change in relative immigration is one of the factors which the literature has identified as the reason for the concern or anxiety voiced by public opinion regarding the immigration phenomenon, concerns which could, in turn, be fuelling the bias in perception.[4]

The second error in perception, mentioned above, focuses on the category or type of migrant, especially those we might call «non-traditional», such as those given asylum for humanitarian reasons. In 2014, and as has been the case over the last few years, the main type of immigrant entering OECD countries were those known as «family migrants», accounting for one third of all new immigrants.[5] The second category are immigrants from countries with agreements to allow the free movement of people (a situation that mostly affects European countries, whether they are in the EU or not). These two categories account for close to two thirds of the inflows of immigrants in OECD countries. The third type, at a notable distance from the other two, are immigrants

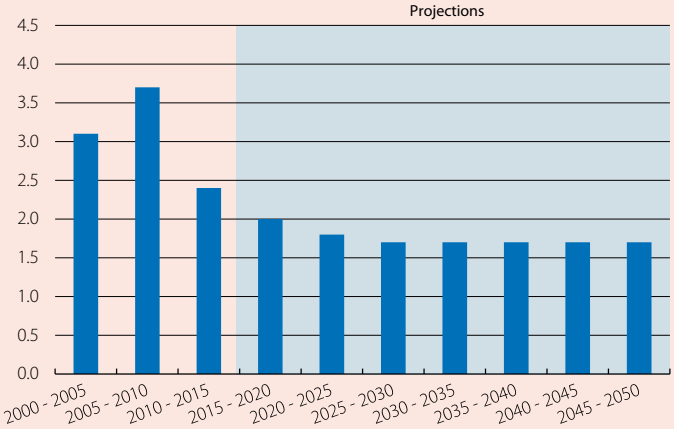
1. Ipsos MORI (2014), Survey «Perceptions are not reality: Things the world gets wrong».
2. For example, in a previous survey, namely Transatlantic Trends (2010), the perceived proportion of immigrants to the total population was 25% in Italy compared with 7% in reality, and 39% in the US compared with the real figure of 14%.
3. Ipsos MORI (2016), Survey «European Union, the Perils of Perception».
4. See the World Migration Report 2011, International Organization for Migration.
5. Family migrations are those where a citizen resident in the country, whether a national or foreigner, is joined by their direct relatives such as their wife and children.

looking for work. Even lower are the numbers of immigrants for humanitarian reasons and those known as «workers' relatives».[6]

These figures therefore reveal a bias that could be related to composition; i.e. the difference between the type of immigrants actually registered and that perceived. A significant proportion of immigrants (especially those coming under the category of the European free movement of people) probably tend to be perceived as more similar to the inhabitants of their host countries so the bias that occurs is, as we have seen, one of underestimating their share. New categories, however, which tend to be widely reported in the media, such as humanitarian refugees, are significantly overestimated and there is also a tendency to think this is a recent phenomenon when, in fact, such immigration was already a relatively recurrent feature in the period of 2008-2014.

Long-term migratory prospects in advanced economies

Average annual net migration rate (per 1,000 inhabitants)



Source: *CaixaBank Research, based on data from the United Nations.*

These two biases, namely in level and composition, are not merely academic curiosities. One way or another, people's perceptions affect the quality of community life, the possibilities of integration and immigration policies (for a review of these, see the article «Immigration policies: not only entering but also integrating» in this Dossier). It is therefore easier (o rather, less difficult) to design appropriate policies if economic agents are aware of the real situation of immigration. Moreover future trends suggest that, in the advanced countries, population growth will largely equate with growth through immigration.

According to the United Nations, between 2015 and 2050 the natural growth in the population (births minus deaths) of higher income countries will be approximately 20 million people, while the contribution made by net immigration will be 90 million; in other words 82% of the growth in population will come from immigration. However, we should not forget that, in the advanced countries, the share of immigrants out of the total population will rise from a figure in the order of 13% in 2015 to 18% by 2050. A significant change but by no means a Copernican Revolution for the composition of advanced societies.

In spite of everything, and given this projection, it is important for the migratory phenomenon to at least be perceived in realistic terms and not through myths or rumours. The sociologist Auguste Comte has been attributed the phrase «demography is destiny». To paraphrase, and considering such projections, immigration is the future for many advanced societies and, to prepare themselves, they would be better off starting with an analysis based on fact. We trust that this Dossier, which contains articles exploring migratory policies («Immigration policies: not only entering but also integrating»), the economic effects of immigration («The economic impact of immigration») and some aspects of the Spanish case («The migratory phenomenon in Spain: from immigration to emigration?») may serve as our own grain of sand in building up a more realistic image of a situation that is of the utmost importance, both now and in the future.

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6. This category includes cases, for example, of families getting back together when some of the members have previously immigrated to the host country.

The economic impact of immigration

What is the impact of immigration? There are many different economic and social effects of immigration in the host country and tackling all their dimensions is like opening up Pandora's box. That is why, rather than providing an exhaustive review of all the areas where immigration might have a significant impact, this article focuses its analysis on one of the most important aspects: its effects on the labour market. It also takes a brief look at the impact migration flows might have on two other dimensions: the use of public resources and social cohesion.

From the point of view of the labour market, the effect of immigrants entering an economy is often simplified as an increase in the labour supply and therefore as a shock that pushes down the wages of native workers. However, a country's productive structure is actually much more complex, with the result that this conclusion is not valid in most cases.

Firstly, not all workers in a country are equal, and neither are immigrants. In this respect the effects of a wave of immigration on the host country's workers will depend both on the qualities and skills of these workers and also on those of the immigrants. In particular, workers with similar characteristics to the immigrants (substitutes) are more likely to see their wages fall.[1] Hence, for this segment of workers the arrival of immigrants does actually mean an increase in the labour supply. On the other hand, if the native workers' characteristics are very different from those of the immigrants, the situation of such workers might actually improve with their arrival (the complementarity effect). Such is the case of many skilled female workers in developed countries who have been able to increase their hours of paid employment and thrive in their professional careers thanks to a larger supply of domestic services (particularly for looking after children and the elderly) resulting from migratory flows.[2] The overall effect of workers arriving from other countries on the host country's workers will therefore be positive if the benefits of the workers who gain from this arrival are greater than the costs suffered by those who lose out.[3]

Although numerous studies have attempted to estimate the impact of foreign workers entering a host country's labour market, the foremost experts in the field still find it hard to establish any common ground. One of the reasons for this lies in the difficulty of isolating the effect of immigration from other factors that could also be affecting the labour market at the same time, such as technology, globalisation and even the economic cycle itself.

Most of these studies focus on the US and, in this case, two positions have been found: those who believe that immigration has reduced the wages of US workers and those who claim that the impact has been negligible. For instance, David Card, a Berkeley professor and one of the leading experts in the field, concludes that immigration has not significantly affected US workers of any type. George Borjas, however, a Harvard professor and leading exponent of the opposing position, believes that the wages of unskilled US workers have fallen substantially as a consequence of migratory flows.[4] According to Borjas, immigration is actually increasing the mobility of US workers (within and outside the country) and its impact on the wages of these workers is significant and must be taken into account. However, other more recent studies, which do take into account this effect noted by Borjas, seem to confirm Card's thesis of a modest effect on wages.[5]

Specifically, David Card argues that the arrival of unskilled foreign workers in the US has been absorbed without any fluctuations in wages thanks to an adjustment in production techniques. The idea behind this mechanism is simple: an agricultural good, for example, can be produced using various combinations of the labour factor and capital factor and each country chooses its appropriate mix depending on the availability of each of these factors. This can be seen when we compare how an agricultural good is produced in an advanced country and in an emerging country: in relative terms, agricultural production is more machine-intensive in advanced countries than in emerging economies. Similarly, when a country such as the US receives a wave of unskilled immigrants, they can be absorbed via a slight change in the intensity of the production factors, in this case by increasing the intensity of the «unskilled worker» factor compared with the «machinery» factor. The downward pressure on wages resulting

1. The employment rate may also be affected if the downward pressure on wages places it within a range at which natives prefer not to work.
2. For the case of Spain, see Farré, L., González, L. and Ortega, F. (2011), «Immigration, family responsibilities and the labor supply of skilled native women». The BE Journal of Economic Analysis & Policy, 11(1).
3. If immigrants had the same skills as the native workers, wages could be affected in the short term but, in the long run, this effect would tend to be diluted by the country increasing its production capacity.
4. See Card, D. (2005), «Is the new immigration really so bad?». The Economic Journal, 115(507), F300-F323. And Borjas, G. J. (2006), «Native internal migration and the labor market impact of immigration». Journal of Human resources, 41(2), 221-258.
5. See Ottaviano, G. I. and Peri, G. (2012), «Rethinking the effect of immigration on wages». Journal of the European economic association, 10(1), 152-197.

from a larger supply of unskilled workers is offset by the upward pressure resulting from a higher unskilled worker demand from those sectors wishing to take advantage of the larger supply of these workers.[6]

The economists who claim that immigration's impact on wages has been insubstantial argue that there is another mechanism in play, namely a «change in the production mix». Specifically, it has been observed that countries receiving large migration flows change the composition of the goods they produce, increasing the production of those with a more intensive use of the kind of worker entering the country. In this way, and as in the previous case, labour supply and demand adjust, leaving wages essentially untouched.

Whatever the perimeter of the labour market, another area that tends to attract attention whenever the impact of immigration is analysed is the use made by immigrants of public services. However, as is also the case in the sphere of labour, all the factors need to be appropriately assessed. Some natives may be at a disadvantage by the arrival of immigrants, a case in point being the crowding-out effect which poorer natives can suffer when accessing subsidised housing. However, the arrival of immigrants is also normally accompanied by an increase in economic activity and therefore in revenue. In fact, a recent OECD study shows that, when all factors are considered, the total effect of immigration on host countries' public accounts is broadly neutral.[7]

Our analysis of the impact of immigration would not be complete without mentioning one of the issues causing most controversy: the effect of immigration on social cohesion. According to Paul Collier, an Oxford professor and expert in the field, trust and cooperation are two aspects that characterise modern, prosperous economies. A prosperity that is reinforced, in turn, by this combination of trust and cooperation: two closely linked attributes since, without trust, there cannot be any cooperation. However, the virtuous circle established between prosperity-modernity and trust-cooperation is fragile as it is built on trust between individuals from the same society. As pointed out in the next article in the Dossier, «Immigration policies: not only enter but also integrate », any migratory policy must focus on the orderly management of migratory flows and, above all, on successfully integrating immigrants.

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6. There are different studies by Gordon H. Hanson and Matthew Slaughter that reveal the importance of this mechanism in various economies. There is also evidence for the Spanish case in the article by González, L. and Ortega, F. (2011), «How do very open economies adjust to large immigration flows? Evidence from Spanish regions». Labour Economics, 18(1), 57-70.
7. See Liebig, T. and J. Mo (2013), «The fiscal impact of immigration in OECD countries». International Migration Outlook 2013, OECD Publishing.

Immigration policies: not only entering but also integrating

Immigration is a reality in almost all western countries and, given the context of an ageing population growing at an uneven rate among countries, it is a phenomenon that will gain in importance over the coming years. Managing immigration poses a significant challenge for the host countries, however. If immigration is here to stay, it is of the utmost importance for governments to develop an immigration policy that successfully manages migration flows and helps recent immigrants to integrate effectively.

To ensure migration flows are orderly and effective, policies need to focus on two areas. Firstly, illegal immigration must be controlled successfully at the border, ensuring that immigrants living in a country have all their necessary documentation in order. Secondly, regular migration must be encouraged and it should be in line with the country's needs and objectives. In this respect one of the crucial aspects for granting a visa is to take into account the main objective for migration, such as getting a job, joining the family or fleeing a war, to name the main reasons.

Economic immigration lies at the heart of immigration policies in the first place because of its potential impact on the host country's labour market.[1] In general permits can be granted focusing on either the demand for or the supply of labour. Via demand, obtaining a work permit (be it temporary or permanent) tends to depend on the specific needs of the job market and whether there is a proven shortage of labour for a specific occupation. The problem lies in duly verifying this shortage. Several countries have mechanisms to help them identify which occupations are finding it difficult to meet their demand for labour. For example, for certain jobs in the US an offer must be advertised in the local market before the company can hire people externally. Via supply, obtaining a permit usually depends on the characteristics of the immigrant. An illustrative case are the points–based migration systems used by Canada, Australia and New Zealand in which visas are granted when the applicant achieves a minimum score in a questionnaire that takes into account aspects such as knowledge of the country's language and educational attainment. You can check yourself if you would be eligible for a permanent visa in Australia in the table below (if you don't reach at least 60 points, you are not even allowed to apply). Both types of policy, supply and demand-based, can achieve the same result; it is merely a question of how each system is designed and, in practice, most countries use a combination of the two. What is important is whether the system provides the legal mechanisms so that immigrants can be hired with all levels of training and experience, taking into account both the present and the long-term needs of the labour market as well as the impact of immigration on the country.

Another large proportion of migratory flows comes from family migration and free movement. These categories are made up, respectively, from the immigration of direct relatives of a citizen residing in a country, be they nationals or foreigners, and by immigrants from a country with an agreement allowing the free movement of people, such as the EU and the agreement between Australia and New Zealand. For both kinds of flows, a permit depends on these immigrants not becoming an economic burden for the host country, so there is usually a minimum income requirement or their rights to certain social benefits is restricted and even, for a relative of an immigrant, the requirement of a minimum level of knowledge of the country's language to ensure they can integrate.

Points granted for each factor to be given a permanent visa in Australia

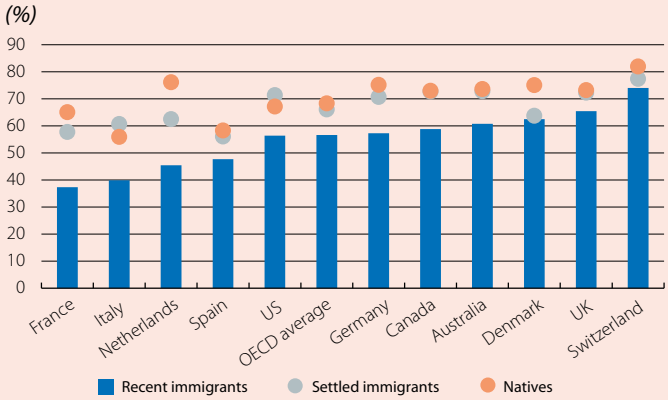
Factor	Description	Points
Age	18-24 years	25
	25-32 years	30
	33-39 years	25
	40-44 years	15
	45-49 years	0
English language ability (level certified in official test)	Competent	0
	Proficient	10
	Superior	20
Education	Doctorate from an Australian university or other of a recognised standard	20
	Bachelor degree from an Australian university or other of a recognised standard	15
Education (cont.)	Diploma or equivalent in Australia	10
	Other qualification recognised by the competent authority	10
Skilled employment (maximum 20 points) – Outside Australia (in the last 10 years)	Between 3 and 5 years	5
	Between 5 and 8 years	10
	Between 8 and 10 years	15
Skilled employment (maximum 20 points) – In Australia (in the last 10 years)	Between 1 and 3 years	5
	Between 3 and 5 years	10
	Between 5 and 8 years	15
	Between 8 and 10 years	20
Other factors	Credentialed community language qualifications	5
	Partner skill qualifications	5

Note: *A Skilled Independent visa for permanent immigration to Australia requires applicants to score a minimum of 60 points.*
Source: *CaixaBank Research, based on data provided by the Australian of Commerce of Immigration and Border Protection.*

1. Economic immigration accounted for 14% of permanent migratory flows (of more than one year's residence) in OECD countries in 2014. See the article «The phenomenon of immigration in advanced countries: from perception to reality» in this Dossier for more details.

The last relatively significant category is migration due to humanitarian reasons,[2] made up of asylum seekers seeking protection in the host country. In this case the criterion for granting a permit is governed exclusively by the need to protect the immigrant and not by economic criteria or the aim of maximising integration in the country. The current system to apply for asylum in developed countries, which protects rights but is complex, has not been adapted to handle large and unexpected flows of refugees such as those observed in 2015 and 2016. Broadly speaking, the main areas which can be improved are the capacity to handle applications for asylum and temporary refuge as well as coordination between host countries. All these actions are of the utmost importance but are also highly complex.

Employment rates by place of birth and duration of stay, 2015



Note: *Recent migrants are those who arrived within the five years preceding the survey and settled migrants are those who arrived at least five years before the survey. The population refers to the working-age population (15-64).*
Source: *CaixaBank Research, as from «OECD International Migration Outlook 2016».*

In addition to managing migratory flows, an effective immigration policy must also have efficient integration measures, an important issue both for the immigrants and also for the economy and social cohesion of the host country. Entrance policies attempt to maximise the integration of immigrants but this takes time to materialise and is not always successful. A host of factors can hinder the process but the most common are usually a limited knowledge of the language, inadequate or unrecognised qualifications and employment discrimination.

One of the starting points to improve the integration of immigrants is therefore to ensure their skills and qualifications are accredited in their country of origin. The case of a Russian nuclear physicist who could only work as a taxi driver in London may seem extreme but the truth is that, in the EU, around 33% of immigrants with university qualifications are working in jobs that require a lower level of education.[3] Another vital step for integration involves being able to communicate correctly in the host country's language. Immigrants also tend to have a limited knowledge of how the labour market works and a small network of contacts, making it difficult for them to integrate. And it is not only immigrants who face such limitations; their children also tend to encounter problems at school and in the world of work.

Integration policies must therefore take many different aspects into account, which could make them very complex. However, there is one integration mechanism that has been shown to be highly effective; getting a job. This helps, for example, to perfect language skills and to develop a network of contacts. Partly because of this, immigrants who arrive with a work permit integrate more quickly than those arriving with a visa granted for family or humanitarian reasons. Most integration policies must therefore focus on helping immigrants to find a job. In this respect, one of the main challenges faced by immigrants is discrimination due to their country of origin when looking for employment. Several studies carried out in developed countries show that, when identical CVs are sent to companies that only differ in terms of the applicant's name, those with a foreign name have less chance of being called for an interview.[4] On the other hand, another of the key aspects in measures to encourage employment are active employment policies, which must pay particular attention to certain groups with specific problems, such as immigrants.

The last step for the full integration of an immigrant in the host country is to take on that country's nationality (known as naturalization). Most countries only grant this after many years of residence and after passing a test to ensure a minimum knowledge of the language and country (you can try to take Spain's citizenship test, required to obtain Spanish nationality!).[5] Obtaining nationality may be the biggest incentive for an immigrant to integrate into their host society and establishing demanding requirements that link nationality with integration tends to have very positive results.

In summary, migratory policies make up, as we have seen, a whole series of measures that go beyond the protection of a country's borders. Appropriately handling migration flows is the first step but successful integration in the host country must be the ultimate goal.

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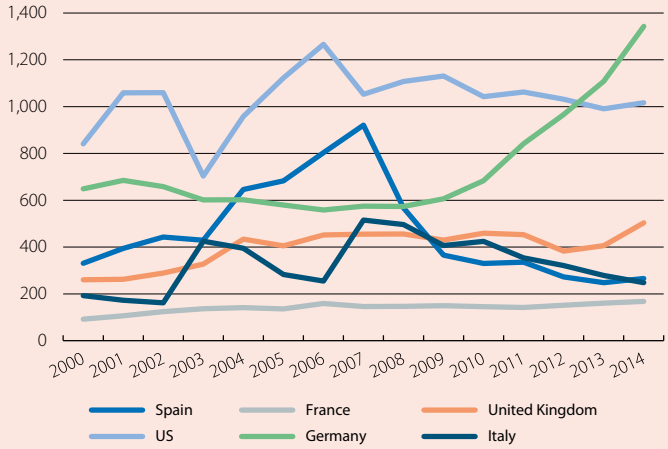
2. Around 9% of permanent migratory flows in OECD countries corresponded to immigrants due to humanitarian reasons.
3. Compared with about 25% among the native population. OECD (2015), «Indicators of Immigrant Integration».
4. OECD (2014), «International Migration Outlook».
5. Test of constitutional and socio-cultural knowledge of Spain (Conocimientos Constitucionales y Socioculturales de España or CCSE): https://ccse.cervantes.es/

The migratory phenomenon in Spain: from immigration to emigration?

A large number of people immigrated to Spain in search of opportunities during the first decade of the new millennium. In fact, between 2004 and 2008 Spain received a cumulative flow of 3.7 million people and, in 2007, broke the record for the number of foreigners entering the country, over 900,000 in total, becoming the second largest receiver of immigrants in absolute terms among the OECD countries after the United States.[1] However, the crisis not only put a stop to immigration[2] but also stimulated emigration; to such an extent that net migration remained in the red between 2012 and 2014. In this article we analyse the evidence regarding the most recent migration phenomena observed in Spain, with particular attention on emigration over the last few years and the departure of more highly educated young people.

Immigration flows

(Thousands of people)

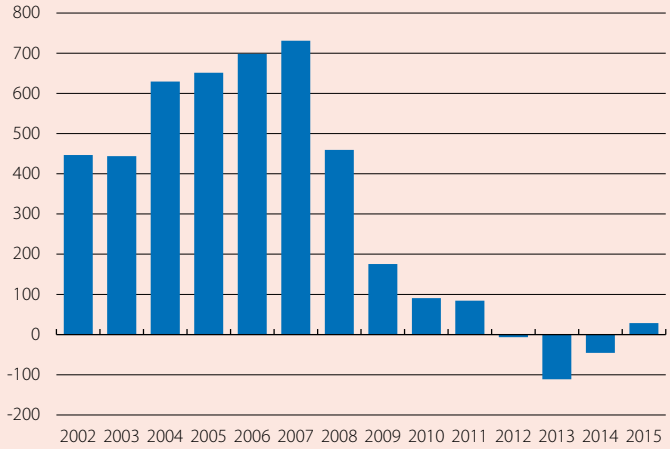


Source: *CaixaBank Research, based on OECD data (International Migration Database).*

Immigration affects the host country in many different ways. In this Dossier, the article «The economic impact of immigration» analyses the main channels through which this phenomenon affects the economy. For Spain, where the volume of immigrants born outside the country represents 13.2% of the population, a figure similar to countries such as Germany and the United Kingdom,[3] different studies have analysed the effects of the recent wave of immigration on the country. These analyses coincide in noting that, insofar as the labour market is concerned, the flow of immigration had zero or minimal effect on the total levels employment and wages received by the Spanish although it did affect the specialisation and distribution of jobs among native workers, encouraging them to carry out jobs involving fewer manual tasks.[4] The arrival of immigrants also had a positive effect on the participation rate for skilled native female workers resulting from the increased availability of services provided by immigrants,[5] as well as helping to postpone the problems caused by its ageing population. The impact of the larger supply of labour on economic growth was also appreciable: according to government estimates, immigration lies behind more than 50% of the growth in Spanish GDP between 2000 and 2005.[6] However, at an aggregate level immigration had a negative effect on productivity and reduced the amount of capital per worker as immigrant workers were employed in typically labour-intensive sectors such as construction. Along the same lines, it is estimated that immigration contributed by one third to the housing boom of 1998-2008, in terms of prices and also new construction.[7]

Net migration

(Thousands)



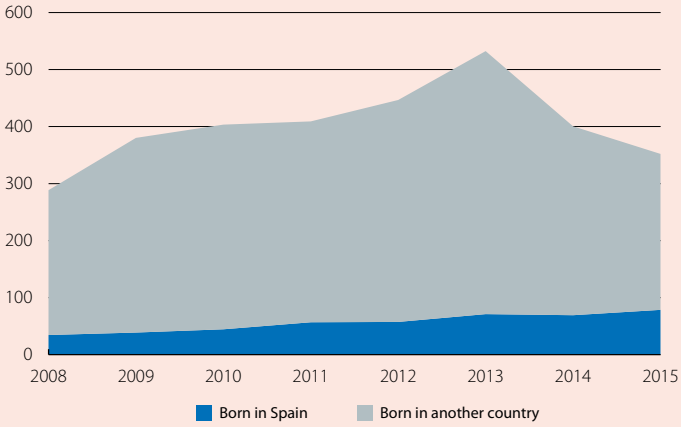
Source: *CaixaBank Research, based on INE data (statistics of residential variations).*

1. See OECD, International Migration Database.
2. 397,524 people immigrated to Spain in 2015. See Estadística de variaciones residenciales, INE.
3. Data from 2014. See OECD, International Migration Database.
4. De la Rica, Sara, Glitz, Albrecht and Ortega, Francesc (2014), «Immigration in Spain: what have we learned from recent evidence?». Cuadernos Económicos de ICE, vol. 87, pp 9-28; and De la Rica, Sara and Amuedo-Dorantes, Catalina (2009), «Complements or Substitutes? Task Specialization by Gender and Nativity in Spain». IZA Discussion Paper No. 4348.
5. De la Rica, Sara, Glitz, Albrecht and Ortega, Francesc (2014), «Immigration in Spain: what have we learned from recent evidence?». Cuadernos Económicos de ICE, vol. 87, pp 9-28.
6. The same study states that immigration had a net impact on per capita income of 3 pps in the period 1996-2005. Sebastián, Miguel (2006), «Inmigración y economía española: 1996-2006». Oficina Económica del Presidente del Gobierno.
7. González, Libertad and Ortega, Francesc (2013), «Immigration Housing Booms: Evidence from Spain». Journal of Regional Science, 53(1): 37-59.

The flow of immigration and emigration changed suddenly when the Spanish economy entered the recession in 2008. It has been calculated that, every year since 2009, around 400,000 people have left Spain while, in the period 2002-2005, this figure remained at 50,000 on average. Spain has seen several marked waves of emigration in its past (such as the emigration to America in the 19th century and early 20th, movements due to the Civil War and emigration to developed Europe in the 1960s and 70s), so this phenomenon is not new. Although these figures have caused some alarm due to fears that the most highly qualified young people are leaving the country, the so-called «brain drain», a slightly more sophisticated analysis reveals that most of those who have emigrated are foreigners and mainly the immigrants who had arrived with the migratory wave of 1998-2007.

Flow of emigration from Spain abroad by place of birth

(Thousands)



Source: *CaixaBank Research, based on INE data (migration statistics).*

In particular, out of the 352,003 people who emigrated from Spain in 2015, only 64,136 had been born in the country. The extent of the emigration of young Spaniards born in Spain is therefore smaller than we might suppose on first looking at the statistics (they account for just 18% of all emigrants). However, it should be noted that this number has more than doubled since 2009 with France, the United Kingdom, Germany and Argentina being the main countries chosen by such emigrants.[8]

As in the case of immigration, emigration also has notable consequences for the country of origin. Continued flows of emigration could limit the growth potential of the Spanish economy and aggravate the problems entailed by its ageing population. In particular, the emigration of young skilled workers reduces the size of the skilled labour force, which could erode growth in productivity and, ultimately, economic activity.[9] In the case of Spain, the emigration rate among skilled workers in 2011 was among the lowest in the OECD, specifically 2.8%, in contrast with advanced economies such as France, Sweden, the Netherlands and United Kingdom with rates of 6%, 7%, 8% and 11%, respectively.[10] Moreover, a recent study by the Bank of Spain states that, as from 2011, the share of lower qualified people has risen among the population of emigrants born in Spain.[11] These findings suggest that emigration is not limiting growth in production capacity, at least at present. Nevertheless it is a phenomenon that needs to be monitored closely as the emigration of young Spaniards will probably continue for some time yet, as is the case in most of the developed economies.

Lastly, it should also be noted that many people who have emigrated in the last few years will probably end up returning. In a recent analysis, the OECD estimated that between 20% and 50% of the immigrants received by a country leave within the first five years of their arrival, either to return home or to go on to another country.[12] Spain, which is already posting notable rates of growth in economic activity and employment, should be able to offer those who have emigrated enough opportunities for professional and personal development for them to want to return.

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8. It should be noted that the statistics may be underestimating the number of people who have left the country as they are based on the registration figures of residents abroad and there may be a significant number of emigrants who have not registered as resident in another country.
9. OECD (2015). «Connecting with Emigrants: A Global Profile of Diasporas».
10. The rate is defined as the number of people with a further education born in Spain and living abroad out the total native population with a further education in Spain. OECD (2015), «Connecting with Emigrants: A Global Profile of Diasporas».
11. Izquierdo, Mario, Jimeno, Juan F. and Lacuesta, Aitor (2015). «Spain: From immigration to emigration?», Bank of Spain.
12. OECD (2008), «International Migration Outlook».

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	MILLION €
Customer funds	296,599
Receivable from customers	206,437
Profit atributable to Group	814
Market capitalisation	18,702
Customers (million)	13.8
Staff	32,242
Branches in Spain	5,211
Self-service terminals	9,631

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	MILLION €
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