

2017: growing in an uncertain world

The global economy is having to tackle a more uncertain environment but is still posting good rates of growth. It now looks like growing by 3.1% in 2016, a very similar rate to the 3.2% registered in 2015, and will accelerate notably in 2017 with growth predicted to reach 3.5%. However, the uncertainty surrounding the macroeconomic scenario has increased after Donald Trump's victory and will remain high at least until the stance of the new US government becomes clear. In the short term this impasse could bring about a more pronounced upswing in long-term interest rates and financial instability in key emerging countries. Nonetheless, the bulk of the evidence suggests that the agenda applied by the new US President will be pragmatic as he needs the support of the Republican Party's moderate wing in Congress to be able to implement his measures.

Moderate upward revision in growth and inflation forecasts for the US. After Donald Trump's election, the new CaixaBank Research scenario assumes a fiscal impulse of approximately 1 pp between 2017 and 2018 and predicts a moderate impact on growth and inflation. Specifically, the new forecasts place growth in 2017 and 2018 at 2.3% and 2.4%, respectively. This improved economic outlook strengthens the scenario of interest rate hikes by the Fed. In fact, after Trump's victory the market has quickly adjusted its expectations regarding the Fed's actions and now assumes it will raise interest rates on two more occasions in 2017, in addition to a hike in December 2016. This scenario is very similar to the one produced by CaixaBank Research, assuming three fed funds hikes next year.

The emerging financial environment is faltering given the new political scenario in the US. The combination of expansionary fiscal measures and less accommodative monetary policy does not help emerging assets to perform well and this can be seen in the reaction of the emerging stock markets and currencies over the last few weeks. It should be noted, however, that the emerging bloc as a whole is taking on this less favourable environment in a much stronger position than in previous episodes of instability. Especially relevant are the good activity figures posted over the last few months, which continue to show a notable acceleration in growth. The moderate recovery in oil prices, which is expected to continue after the different OPEC countries have reached an agreement to cap production, should also help the

emerging countries to recover as many of them still depend on commodity exports.

The euro area continues to recover at a moderate rate, supported by the ECB's expansionary monetary policy, low oil prices and the structural reforms carried out by different countries in the euro area. The impact of Brexit on growth has also been more subdued than initially expected, at least for the time being, although this does not mean it will not have a more significant impact in the medium term. Inflation is also showing a relatively favourable trend, supported by the growth in domestic demand and recovering oil prices. Nonetheless, it is still at a relatively low level and far from the ECB's target (in November, inflation was 0.6%). Given this situation, attention has once again turned to the ECB's actions as most of the evidence suggests that, over the coming months, the monetary authority will announce an extension to its asset purchase programme, which was initially meant to end in March 2017. At present, expectations that the ECB will enlarge QE, together with the market assuming a faster pace of interest rate hikes by the Fed, are substantially depreciating the euro against the dollar.

The Spanish economy stands out for its positive performance within Europe, with GDP growing strongly and better growth prospects for 2016 and 2017. In 2016 Q3, the Spanish economy grew by 0.7% quarter-on-quarter (3.2% year-on-year), in line with the CaixaBank Research forecast. However, the revision of the historical series, which states that, in the first half of 2016, the Spanish economy grew slightly more than previously announced, and the acceleration in activity shown by the early indicators for Q4, particularly in the labour market, have led us to revise upwards our GDP growth forecast for the whole of 2016 from 3.1% to 3.3%. This revision is also notable for 2017, namely from 2.4% to 2.6%. The bulk of the evidence therefore suggests that growth will remain strong and considerably higher than the advances made by most other developed countries. According to CaixaBank Research forecasts, this good rate of growth means that, in 2017, the Spanish economy will exceed the level of GDP achieved in 2008, before the recession started. Moreover, it should be noted that, although 2017's growth rate will be slightly lower than in 2016, this will be due to dwindling tailwinds and the trend in the underlying factors will still be favourable.