MR03

MONTHLY REPORT • ECONOMIC AND FINANCIAL MARKET OUTLOOK

NUMBER 410 | MARCH 2017

ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: INVESTMENT IN INFRASTRUCTURE

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
March 2017

CaixaBank, S.A.
Strategic Planning and Research

Av. Diagonal, 629, torre I, planta 6
08028 BARCELONA
www.caixabankresearch.com
research@caixabank.com

Date this issue was closed:
28 February 2017

Enric Fernández
Corporate Director,
Strategic Planning and Research

Oriol Aspachs
Director, Macroeconomics

Avelino Hernández
Director, Financial Markets

Estel Martín
Director, Banking Strategy

INDEX

Sixty years on from the Treaties of Rome

The 25th of March is the 60th anniversary of the signing of the Rome Treaties by West Germany, France, Italy and the Benelux countries. The most important of these treaties set up the European Economic Community (EEC) to develop a common market, customs union and common policies based on the premise that the greater the economic interdependence between countries, the less likelihood of conflict. The EEC has gradually evolved into today's European Union (EU) but, given increasing Euroscepticism, it is useful to remember that its main goal has already been achieved: peace among its Member States.

Today, however, the EU aspires to much more than just a peaceful future. It aims to create an inclusive, competitive economy based on solidarity and sustainability that is equipped for the future, and with mechanisms to tackle the aftermath of the crisis in terms of unemployment and public debt. An EU that stands together to combat terrorism, to guarantee a legal framework of freedoms, tolerance and equality and to provide Europe with a strong voice in an increasingly multipolar world in which the individual importance of European countries has become diluted because of the upsurge of the large emerging economies.

But equally important is the EU's aspiration to provide European citizens with a joint project that inspires them. Given citizens' increasing hostility towards EU policies and institutions, this is a complex challenge. Nor is it helped by the tendency of national governments to blame problems on Brussels and refuse accountability for decisions adopted jointly in the EU. Examples of this are Brexit and the rise of Eurosceptic parties, with the potential victory in France of Marine Le Pen, who classifies the EU as an anti-democratic monster and believes that France should leave the Union and abandon the euro.

There is no doubt that the gap between such aspirations and the EU's actual instruments and resources is massive. The current situation also involves huge challenges: doubts concerning globalisation, the repercussion of new technologies, the influx of refugees, the threat of terrorism...

Given this situation, the White Paper on the future of Europe recently published by the European Commission, «Reflections and scenarios for the EU27 by 2025», is certainly timely, encouraging informed discussion about the kind of Europe we want. Discussion which should naturally involve the European Parliament as well as national and regional parliaments and authorities, but which must especially include civil society, too.

For instance, in its White Paper the Commission has proposed five scenarios for 2025 (which are neither mutually exclusive nor exhaustive):

1. Carrying on, which would surely mean kicking the project on until circumstances (such as a suitably important conflict) force a decision to be taken.

2. Nothing but the single market. This does not seem to be a valid option for the euro area, which needs to do more and not less to ensure the integrity of the single currency.

3. Those who want more do more. In practice we already have this situation of a two-speed EU, with the euro and with Schengen, but the concept could certainly be extended to other areas.

4. Doing less more efficiently. For instance, by concentrating on domestic security, migration, border control and defence. Once again, this does not seem to be an option for the euro area countries.

5. Doing much more together, which would require greater political union. Most countries are perhaps not yet ready for this option but it does seem inevitable in the long term for the euro area countries.

As Jean-Claude Juncker himself points out, when deciding which path to take, «we should remember that Europe has always been at its best when we are united, bold and confident that we can shape our future together».

Enric Fernández
Chief Economist
28 February 2017

CHRONOLOGY

JANUARY 2017

23 Donald Trump signs an executive order formally withdrawing the US from the Trans-Pacific Partnership (TPP).

DECEMBER 2016

4 Italy holds a referendum, resulting in the rejection of the proposed constitutional reform. The Prime Minister, Matteo Renzi, resigns and is replaced by Paolo Gentiloni.
8 The ECB prolongs QE up to December 2017 and reduces its monthly asset purchases from 80 to 60 billion euros as from April.
14 The US Federal Reserve raises the fed funds rate by 25 bps to 0.50%-0.75%.
22 The Italian bank, Monte dei Paschi di Siena, fails in its attempt to increase its capital by 5 billion euros and the Italian government creates a 20 billion bailout fund to prop up the country's banking sector.

NOVEMBER 2016

8 Donald Trump is elected President of the US.
30 OPEC members reach an agreement to cut oil production to 32.5 million barrels a day.

OCTOBER 2016

29 Mariano Rajoy is sworn in as President of the Spanish government.

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.

AGENDA

MARCH 2017

2 Registration with Social Security and registered unemployment (February).
Quarterly national accounts (Q4).
8 Industrial production index (January).
9 Governing Council of the European Central Bank.
15 Fed Open Market Committee.
16 Quarterly labour cost survey (Q4).
17 Loans, deposits and NPL ratio (January and Q4).
21 International trade (January).
23 European Council.
30 Flash CPI (March).
Economic sentiment index of the euro area (March).
31 Balance of payments (January).
Net international investment position (Q4).
State budget execution (December, January and February).
Fiscal balance (2016).

APRIL 2017

3 Household savings rate (Q4).
4 Registration with Social Security and registered unemployment (March).
7 Industrial production index (February).
17 Financial accounts (Q4).
18 Loans, deposits and NPL ratio (February).
21 International trade (February).
27 State budget execution (March).
Labour force survey (Q1).
Governing Council European Central Bank.
Economic sentiment index of the euro area (April).
CPI flash estimate (April).
28 Balance of payments (February).
GDP flash estimate (Q3).
US GDP (Q1).

Well begun is half done... or maybe not?

2017 has got off to a good start. Macroeconomic data were slightly better than expected and the acceleration in activity in many Advanced and Emerging economies towards the end of 2016 is set to continue. This positive beginning, in line with the CaixaBank Research main scenario (GDP growth is expected to be 3.4% growth in 2017 compared with an estimated 3.1% in 2016), has been boosted by the good health of financial markets. In February , with few exceptions, risky assets (stocks and corporate bonds) continued to pose gains while risk-free interest rates were stable and the dollar and commodities firm. The good performance of the US stock market was particularly salient since it surged to record highs virtually without taking a break. How different from the start to 2016 when this same stock market collapsed!

Risks, what risks? Investors expect that the successful implementation of Trump's programme will provide a huge boost to US GDP growth at the same time that global growth factors driving growth will continue to support the Emerging and Advanced economies. However, investors also seem to be underestimating the risks related to the implementation of a fiscal expansion in a economy that is operating close to full employment, in addition to the uncertainty stemming from Trump's proposed changes to US trade policy. This will be a key issue in 2017: things are looking positive in many parts of the world and, if the potential risks (especially the political ones) do not materialise, things could even get better. But while there is still uncertainty, it would be advisable to be less complacent and more cautious.

The US economy is accelerating, but not because of the new Administration. The North American giant went up a gear in the second half of 2016 and the economy seems to have accelerated further at the start of 2017. In fact, unlike in previous years it may perform better than expected in Q1. Positive momentum is due to factors such as an expansionary monetary policy, a strong labour market and a recovery in the real estate. All of these factors have little to do with the possible outcome of Trump's fiscal expansion. Although it is reasonable to assume that a combination of tax cuts and more infrastructure spending could lead to higher growth, the impact will be noticed with a lag. It is obvious that there is no relation between a future economic stimulus and the current upswing in prices, which has been higher than expected. In March, with the release of the budget proposal, Trump's new economic policy will start to take shape. Then, and only then, the big questions hovering over the US will be answered.

Europe is still afflicted by uncertainty but that is not affecting GDP growth. Europe epitomises the paradox with which this Executive Summary began: expansion is underway and, if the political risks end up disappearing, growth might even be higher than expected in 2017. However, we must not forget that the realisation of this optimistic scenario depends critically on the word «if». At least that is the opinion of bond investors who are still demanding an appreciable return on sovereign bonds perceived as having high idiosyncratic risks, such as France and also the peripheral economies. Nevertheless, as decisive elections approach, it is true that the latest indicators point to moderate acceleration in growth while inflation seems to be finally getting back to normal.

The Spanish economy remains robust. Real Q4 GDP growth in 2016 (0.7% quarter-on-quarter) confirmed that the economy is on the right track. As has been the case in the past few quarters, domestic demand is the main driver of growth. A key factor supporting Spain's domestic demand is the good performance of its labour market, a trend which, judging by the positive Social Security registration figures, continued in January. Price data are providing a few more surprises. January's CPI stood at 3.0% year-on-year owing to to the sharp rise in electricity prices and the oil base effect, same figure as in February. Core inflation also increased, reaching 1.1% after three consecutive months on the rise. Strong GDP growth is a positive factor for an economy such as Spain's, which still has high levels of debt. In particular, the slow reduction in public debt (99.3% of GDP in 2016 compared to 99.8% in 2015) is a reminder of that fiscal consolidation should continue. In fact, in February both the IMF and the European Commission insisted again on the importance of making a greater effort to reduce its fiscal deficit.

FORECASTS

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

International economy

	2015	2016	2017	2018	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
GDP GROWTH										
Global	3.2	3.1	3.4	3.6	3.1	3.2	3.4	3.4	3.4	3.5
Developed countries	*2.1*	*1.6*	*2.0*	*2.0*	*1.7*	*1.8*	*1.9*	*2.0*	*1.9*	*1.9*
United States	2.6	1.6	2.3	2.4	1.7	1.9	2.2	2.5	2.2	2.3
Euro area	1.9	1.7	1.7	1.7	1.8	1.7	1.6	1.7	1.7	1.7
Germany	1.5	1.8	1.6	1.6	1.7	1.8	1.5	1.5	1.8	1.7
France	1.2	1.1	1.3	1.4	1.0	1.2	0.9	1.4	1.5	1.4
Italy	0.6	1.0	0.8	0.8	1.1	1.1	0.8	0.9	0.7	0.7
Portugal	1.6	1.4	1.5	1.4	1.7	2.0	1.9	1.9	1.2	0.8
Spain	3.2	3.2	2.6	2.2	3.2	3.0	2.9	2.6	2.5	2.3
Japan	1.3	1.0	1.1	0.8	1.1	1.6	1.3	1.2	1.0	1.0
United Kingdom	2.2	1.8	1.6	1.4	2.0	2.0	2.2	1.8	1.5	1.0
Emerging countries	*4.1*	*4.2*	*4.5*	*4.8*	*4.1*	*4.2*	*4.4*	*4.5*	*4.5*	*4.6*
China	6.9	6.7	6.4	5.9	6.7	6.8	6.6	6.5	6.3	6.2
India [1]	7.8	7.1	7.5	7.7	7.4	7.0	7.1	7.1	7.4	7.7
Indonesia	4.9	5.0	5.1	5.6	5.0	4.9	5.0	5.0	5.2	5.2
Brazil	–3.8	–3.4	0.9	2.1	–2.9	–1.8	–0.6	0.4	1.5	2.1
Mexico	2.6	2.3	1.8	2.3	2.1	2.4	1.5	1.5	2.0	2.1
Chile	2.3	1.7	2.0	2.5	1.6	1.5	1.8	1.9	2.1	2.3
Russia	–3.7	–0.6	1.3	1.6	–0.4	–0.4	1.0	1.3	1.4	1.5
Turkey	6.0	2.0	2.4	3.0	–1.8	0.7	1.5	2.5	2.7	2.8
Poland	3.9	2.9	3.3	3.1	2.3	3.1	3.4	3.4	3.4	3.1
South Africa	1.2	0.5	1.3	1.9	0.8	1.0	1.1	1.2	1.3	1.4
INFLATION										
Global	2.8	2.8	3.5	3.3	2.7	2.9	3.4	3.4	3.4	3.6
Developed countries	*0.3*	*0.7*	*2.1*	*1.9*	*0.6*	*1.1*	*2.0*	*2.0*	*2.2*	*2.0*
United States	0.1	1.3	2.7	2.4	1.1	1.8	2.7	2.7	2.8	2.7
Euro area	0.0	0.2	1.8	1.7	0.3	0.7	1.8	1.7	1.9	1.6
Germany	0.1	0.4	2.1	1.8	0.4	1.0	2.1	2.1	2.1	1.9
France	0.1	0.3	1.7	1.6	0.4	0.7	1.6	1.6	1.8	1.6
Italy	0.1	0.0	1.2	1.4	–0.1	0.2	1.2	1.2	1.3	1.2
Portugal	0.5	0.6	1.4	1.5	0.7	0.8	1.3	1.4	1.5	1.5
Spain	–0.5	–0.2	2.6	1.6	–0.2	1.0	2.9	2.6	2.6	2.1
Japan	0.8	–0.1	0.7	0.9	–0.5	0.3	0.7	0.6	1.1	0.6
United Kingdom	0.0	0.7	2.6	2.5	0.7	1.2	2.0	2.5	2.9	2.8
Emerging countries	*4.7*	*4.4*	*4.5*	*4.5*	*4.3*	*4.1*	*4.5*	*4.5*	*4.3*	*4.8*
China	1.4	2.0	2.2	2.2	1.7	2.2	2.4	2.3	1.7	2.2
India	4.9	4.9	5.2	5.4	5.2	3.7	4.2	4.2	4.8	7.5
Indonesia	6.4	3.5	4.1	5.0	3.0	3.3	4.0	4.9	3.9	3.8
Brazil	9.0	8.8	6.3	5.3	8.7	7.1	6.5	6.3	6.3	6.1
Mexico	2.7	2.8	4.5	3.4	2.8	3.2	4.8	4.6	4.5	4.2
Chile	4.3	4.0	3.2	3.3	3.8	3.3	3.0	3.1	3.2	3.3
Russia	15.5	7.1	5.1	5.2	6.8	5.7	5.3	5.1	5.0	5.0
Turkey	7.7	7.8	7.9	6.8	8.0	7.6	8.2	8.3	7.6	7.3
Poland	–0.9	–0.7	1.4	2.0	–0.8	0.2	0.7	1.5	1.5	1.8
South Africa	4.6	6.3	5.7	6.0	6.0	6.6	5.9	5.3	5.5	6.1

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

Forecasts

Spanish economy

	2015	2016	2017	2018	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Macroeconomic aggregates										
Household consumption	2.8	3.2	2.6	1.9	3.0	3.0	2.8	2.6	2.6	2.3
General government consumption	2.0	0.8	0.5	0.8	0.8	0.0	0.0	0.8	0.5	0.8
Gross fixed capital formation	6.0	3.1	2.7	2.9	2.6	2.2	2.7	2.1	3.0	3.3
Capital goods	8.9	5.1	2.1	2.8	4.3	2.7	2.5	1.2	2.0	2.8
Construction	4.9	1.9	3.1	3.0	1.6	1.9	2.8	2.7	3.4	3.5
Domestic demand (contr. Δ GDP)	3.3	2.8	2.2	1.8	2.5	2.2	2.2	2.2	2.2	2.1
Exports of goods and services	4.9	4.4	4.4	4.1	2.9	4.4	5.4	2.9	5.2	4.2
Imports of goods and services	5.6	3.3	3.6	3.2	1.0	2.3	3.6	1.9	4.9	3.9
Gross domestic product	**3.2**	**3.2**	**2.6**	**2.2**	**3.2**	**3.0**	**2.9**	**2.6**	**2.5**	**2.3**
Other variables										
Employment	3.0	2.9	2.0	2.0	2.9	2.7	2.1	2.0	1.8	2.1
Unemployment rate (% labour force)	22.1	19.6	17.8	16.5	18.9	18.6	18.8	18.0	17.2	17.2
Consumer price index	–0.5	–0.2	2.6	1.6	–0.2	1.0	2.9	2.6	2.6	2.1
Unit labour costs	0.2	–0.3	0.6	1.3	–0.3	–0.1	–0.2	0.5	0.9	1.1
Current account balance (cum., % GDP)[1]	1.4	2.0	1.6	1.4	1.9	2.0	1.9	1.8	1.7	1.6
Net lending or borrowing rest of the world (cum., % GDP)[1]	2.0	2.6	2.2	2.0	2.4	2.6	2.5	2.4	2.3	2.2
Fiscal balance (cum., % GDP)[2]	–5.0	–4.6	–3.4	–2.4						

Financial markets

INTEREST RATES										
Dollar										
Fed Funds	0.26	0.51	1.02	1.94	0.50	0.55	0.75	0.92	1.08	1.33
3-month Libor	0.32	0.74	1.39	2.20	0.79	0.92	1.09	1.29	1.49	1.69
12-month Libor	0.79	1.37	2.00	2.63	1.46	1.62	1.76	1.92	2.08	2.24
2-year government bonds	0.67	0.84	1.68	2.74	0.72	1.00	1.29	1.55	1.81	2.08
10-year government bonds	2.13	1.84	2.76	3.49	1.56	2.13	2.49	2.67	2.85	3.04
Euro										
ECB Refi	0.05	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month Euribor	–0.02	–0.26	–0.31	–0.21	–0.30	–0.31	–0.32	–0.31	–0.31	–0.30
12-month Euribor	0.17	–0.03	–0.07	0.05	–0.05	–0.07	–0.09	–0.07	–0.07	–0.06
2-year government bonds (Germany)	–0.24	–0.58	–0.68	–0.29	–0.64	–0.71	–0.77	–0.71	–0.65	–0.58
10-year government bonds (Germany)	0.53	0.10	0.48	0.85	–0.12	0.11	0.33	0.44	0.53	0.62
EXCHANGE RATES										
$/€	1.11	1.11	1.03	1.04	1.12	1.08	1.05	1.03	1.02	1.02
¥/€	134.33	120.30	120.48	120.71	114.26	117.96	122.05	121.14	119.70	119.05
£/€	0.73	0.82	0.89	0.88	0.85	0.87	0.86	0.89	0.90	0.90
OIL										
Brent ($/barrel)	53.61	45.63	59.35	65.79	47.49	51.96	56.53	58.43	60.40	62.03
Brent (€/barrel)	48.30	41.28	57.60	63.04	42.55	48.25	53.60	56.77	59.22	60.82

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

Forecasts

FINANCIAL OUTLOOK · **Calm amid the political uncertainty**

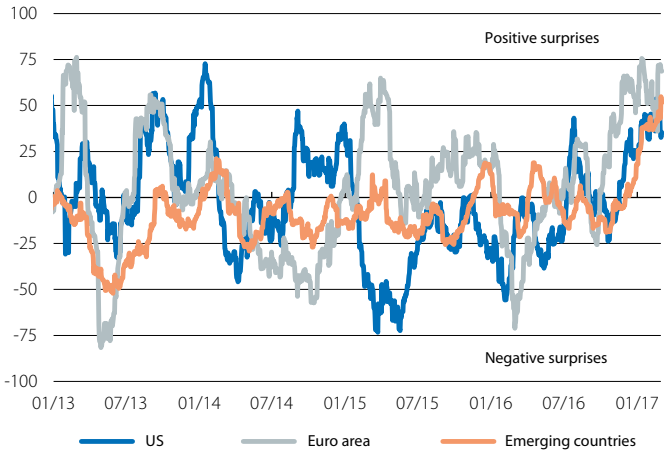
International markets performed well in February. The risk-on mood and low volatility witnessed since the US elections continued, albeit with some hiccups. In general, risky assets (stock markets and corporate bonds) continued their upward path, risk-free interest rates looked stable and the dollar and commodities stood firm. The main reason for this pattern has not altered over the past three months and is partly due to expectations of renewed growth and inflation in the US thanks to Trump's policies. But other factors have also come into play recently, such as positive economic indicators in key regions and the good corporate earnings season in the US. Given this situation, the performance of some assets has been superb. This is the case of US stocks, for instance, reaching all-time highs, as well as emerging shares and currencies.

Paradoxically, the exuberance shown by some kinds of assets might well turn out to be a source of instability. The US stock market outdoes the rest in this respect. Signals of overbought conditions and technical indicators for the US stock market advise caution. Should the current stock market momentum not ease of its own accord and in an orderly fashion, then a substantial correction will be increasingly on the cards. The potential triggers are not clear but it is revealing that the main catalyst of this stock market rally is the anticipation of expansionary measures by the US government. The market seems to be betting more on the «pros» than the «cons» of Trump's economic programme. If investors start to question the former and focus more on the latter, we may see a sharp adjustment in portfolios and notable disruption. This is illustrated by the divergence between the perceived levels of political uncertainty in the US and the implied volatility of its stock market (see the Focus «Caution, the US stock market reaches historic levels» in this *Monthly Report*).

No clear trend in Treasury bills. Unlike the trend in equity, the performance of US sovereign debt has been rather up and down. The 10-year yield has fluctuated around 2.4% while the 2-year bill has remained close to 1.2%. Such calm in US Treasury bills is probably due to the absence of any concrete news regarding fiscal policy. In the short term, this lack of definition in government bond rates will be interrupted by modest decreases. Especially if the new US government delays in specifying its strategy for taxation and public spending. The long-term investor position on US government stock may also push yields down even further. Bearish positions (expecting bond yields to rise) on these assets by speculative investors have reached record levels. In any case, we still expect interest rates to rise over the medium term. Good activity data, a vigorous labour market and strong inflationary pressures endorse this view.

Index of economic surprises

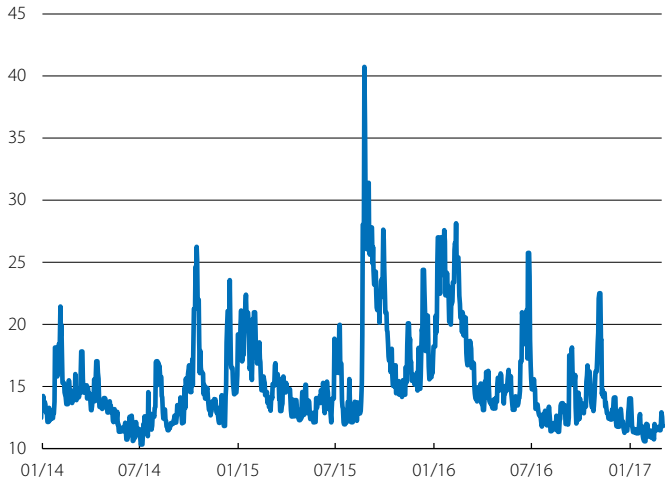
Level



Source: *CaixaBank Research, based on data from Citigroup and Bloomberg.*

US: Implied volatility in stock markets

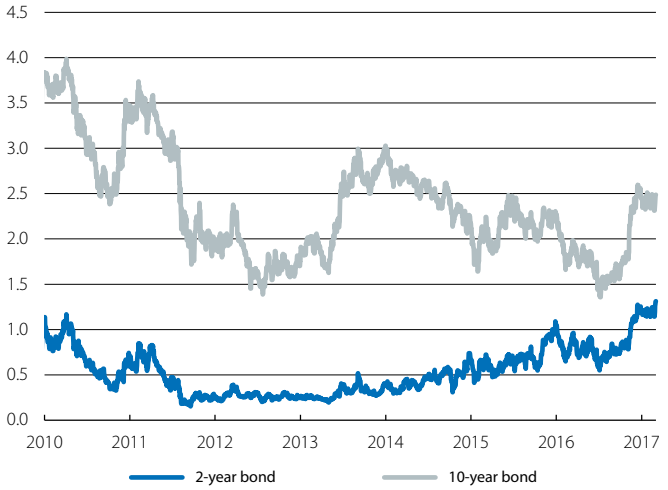
(%)



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

US: yield on public debt

(%)



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

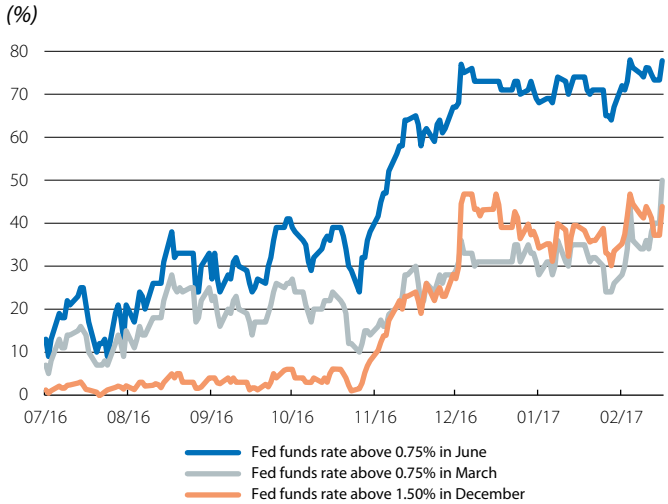
The Federal Reserve (Fed) repeats that it is ready to continue normalising interest rates. Although the monetary authority did not meet in February, recent statements by members of the Federal Open Market Committee (FOMC) have stressed that it would be better not to delay the hikes. Even the Fed Chair, J. Yellen, made a firm statement to this effect. The recent and expected macroeconomic trend suggests the Fed will follow its plan to carry out three Fed funds rate hikes this year. The current calm in the global financial environment, together with improved investor confidence, should encourage the Fed to implement its strategy. In fact, towards the end of February leading FOMC members stressed that the next rate hike would be «fairly soon». Markets have therefore advanced the date expected for this hike from May to March (with more than 50% probability). The market probability of the central bank carrying out three or more hikes in the Fed funds rate in 2017 has increased from 30% to 45%.

The ECB keeps to its stimulus policy in the euro area but investors are wondering how long this will last. Like the Fed, the ECB Governing Council (GC) did not meet in February either but statements made by GC members have been broadly in line with Draghi's messages in January, albeit with some slight differences. They confirm the need to continue asset purchases, in calendar and form, to consolidate the recovery in core inflation which is still sluggish. But those who are most critical of prolonging unconventional measures have been spurred on by higher inflation and activity figures than expected. For the time being, money market expectations suggest investors are not so nervous as to accelerate the end of QE. But debate on this issue is likely to intensify over the coming months.

Political uncertainty hits European sovereign debt. In just a few months the overriding risks in the euro area have gone from macroeconomic (or financial) to political. Political uncertainty is still very high due to a host of reasons. Elections in the Netherlands and France and complex Brexit negotiations are the main sources of tension but they are not alone. In particular, investors have been concerned about a potential surprise in the French presidential elections. This has pushed up yields on the German bund and turned around periphery risk premia, as well as the risk premium on French debt rising. At around 75 bps, the level is no cause for alarm but has not been reached since 2012.

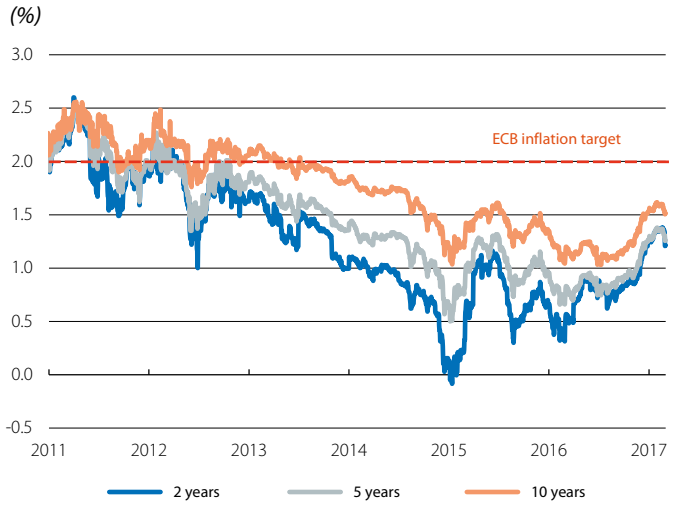
Equity picks up but with differences between regions and sectors. In addition to the key factors already mentioned behind the momentum in shares we should also note the recovery in corporate earnings and renewed search for yield. This upward trend has been particularly sharp in the US, where the four large indices (S&P 500, Dow Jones, Nasdaq and Russell) are at all-time highs. Regarding corporate earnings, profit growth in the US has been reasonably satisfactory (5% year-on-year) after the lacklustre previous quarters. The initial estimates for earnings in the technology

*US: probability of Fed fund rate hikes **



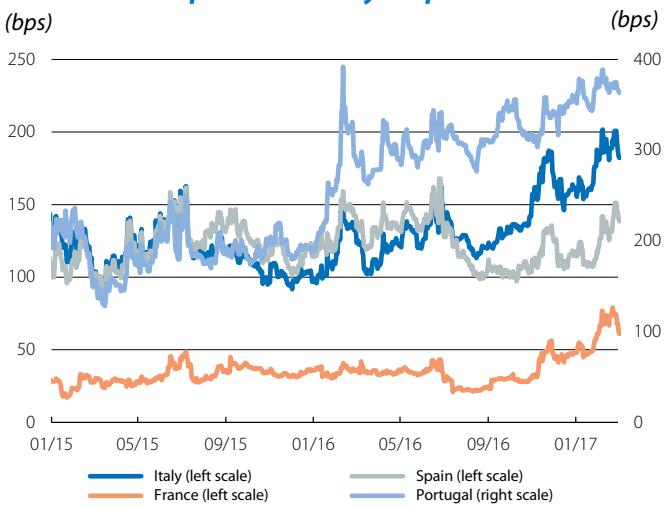
Note: ** Probabilities calculated based on Fed funds futures.*
Source: *CaixaBank Research, based on data from Bloomberg.*

*Euro area: inflation expectations **



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

Euro area: risk premia on 10-year public debt



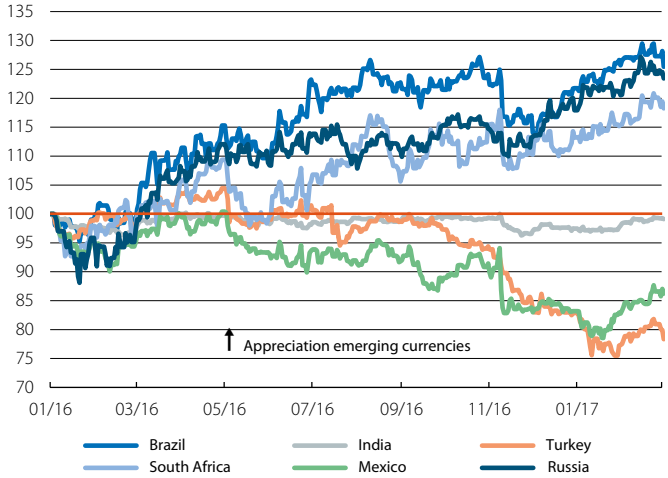
Source: *CaixaBank Research, based on data from Bloomberg.*

and financial sectors are particularly good (around 10% in both cases). Stock market gains have also varied considerably between sectors, with information technology, financials and construction leading the charge. Euro area shares have once again lagged behind those of the US (2.1% compared with 5.5% this year so far), a pattern that has become standard over the past few years. However, the region's profits are showing clear signs of recovery and, with just over half the companies having reported their earnings, year-on-year growth was 12% in 2016 Q4. This situation, together with the improved economic outlook for the euro area, contrasts with the poor performance of most European stock markets. The high political uncertainty in Europe seems to be having an effect on investor appetite for the Old Continent's stock.

Emerging assets successfully handle the complex political panorama of the advanced bloc. As noted at the beginning of this article, emerging stock markets and currencies have reported solid gains. Emerging stocks grew by 5% overall in February. The J.P. Morgan index for emerging currencies appreciated 2.5% during the month, making up the dip occurring after the US elections. The bond market has followed the same pattern and sovereign and corporate risk premia have fallen. Good activity figures for the emerging economies, the gradually correction of imbalances (internal and external) and attractive share prices (in general) are helping to sustain this constructive trend. The perception of emerging risk has also been boosted by oil prices settling above 55 dollars per barrel. Nevertheless, risks are still high. Particularly the potential consequences on investor appetite of the Fed's interest rate hike, especially if this ends up being faster than expected by the market. Mexico and Turkey are still the exception to this emerging boom, weak links due to various idiosyncratic features.

Emerging currencies against the dollar

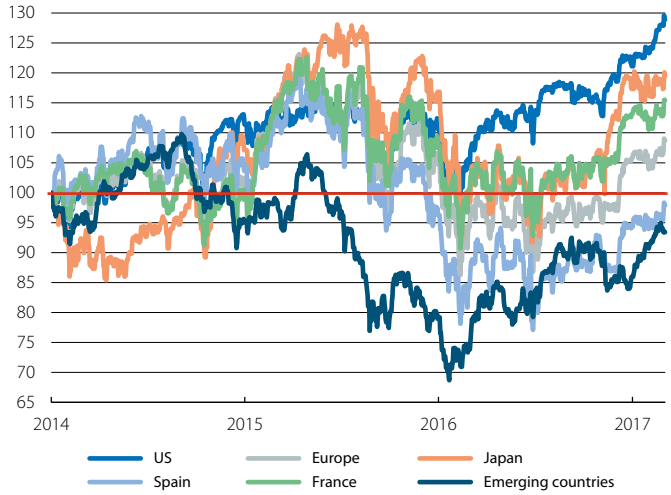
Index (100 = January 2016)



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

Main international stock markets

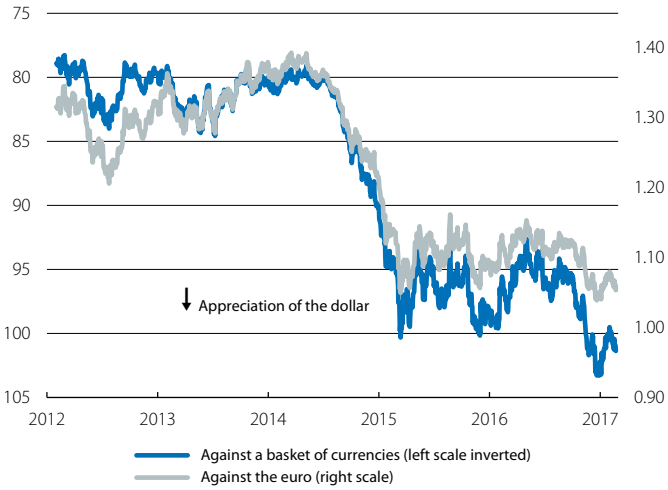
Index (100 = January 2014)



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

Dollar exchange rate

Index *(Dollars per euro)*



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

FOCUS · Diverging monetary policy in the emerging economies

Since the financial crisis in 2008, the central banks from the developed economies have dominated monetary policy debate while the actions of their emerging counterparts have taken second place. This article looks at monetary policy in the emerging countries.

Over the past decade, the trend in monetary policy in the emerging economies, measured as the average central bank interest rate for 20 developing countries, has gone through four major phases. A first phase, from October 2008 to mid-2010, when emerging monetary policy was generally and substantially accommodative in response to the financial crisis and relatively weak inflation. A second phase, between the second half of 2010 and the end of 2011, when strong inflationary pressures, with inflation close to 7% for the emerging economies as a whole, forced most emerging central banks to make a radical shift towards more restrictive policies. But this restrictive phase soon reversed when inflationary pressures waned between 2012 and 2013. Finally, since mid-2013, their stance has become slightly restrictive again.

The relatively stable trend observed overall since 2013 nevertheless hides considerable divergence between the emerging economies. Analysed by region, the monetary policy of the main emerging blocs followed a similar path from the outbreak of the financial crisis up to 2013. But as from 2013 emerging monetary policy has clearly diverged, with a more restrictive stance in Latin America and more accommodative approach in Eastern Europe, while Asian monetary policy tended to be restrictive until the end of 2014 and more expansionary afterwards (see the chart).

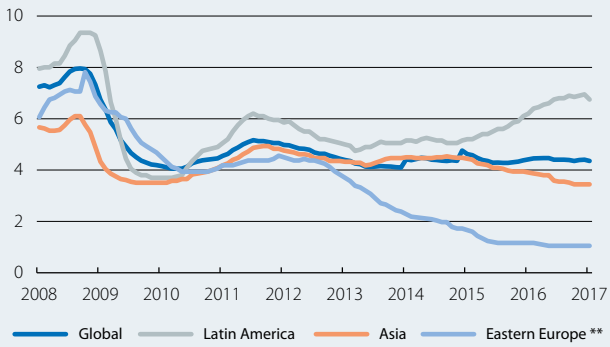
One of the main reasons for this divergence is diminishing global shock caused by the 2008 financial crisis. It is also quite significant that this divergence coincides with the taper tantrum of May 2013, perhaps an early sign that the repercussions of the financial crisis for the global economic cycle were starting to fade.

Such divergence is mainly due to two factors. It reflects monetary policy divergence between the developed bloc's two main central banks and the subsequent impact on their different areas of influence. The Fed's restrictive stance, announcing tapering in 2013, has pushed up the official interest rates of Latin American central banks while the ECB's maintenance of a highly accommodative stance has pushed down official interest rates in Easter Europe. Beyond these external influences, however, the divergence between each country's cyclical conditions is also a factor. The inflation trend in the different regions particularly justifies this divergence of monetary policy within the emerging bloc. Since 2013, contained inflation in Asian and Eastern European countries (except for Russia) has provided space to implement more accommodative monetary policy. On the other hand, the reappearance of inflationary pressure in Latin America as from 2014 has justified keeping a restrictive policy, while the recent shift in stance towards slight accommodation is due to the region's more moderate inflation. In real terms, interest rates in the different regions have therefore remained quite similar.

Continued divergence between the Fed's and ECB's monetary policies in the future will keep emerging monetary policy divergent to some extent. But the synchronicity of real interest rates over the past years suggests that the dominant factor should be shifting inflation dynamics, which will tend to fall in Latin American countries and speed up in Asian and especially Eastern European countries. This will help emerging monetary policy to converge again over the next few years.

Emerging monetary policy index *

(%)



Notes: ** Simple average of 20 emerging central bank interest rates (Brazil, Chile, China, Colombia, South Korea, Philippines, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Peru, Poland, Czech Republic, Romania, Russia, South Africa, Thailand and Turkey).*
*** Not including Russia.*
Source: *CaixaBank Research, based on data from Bloomberg.*

FOCUS · Caution, the US stock market reaches historic levels

Since 2009 the S&P 500 has been enjoying one of its longest win streaks ever and is now exhibiting considerably high valuations. The price/earnings ratio for the past 12 months is 23 while the historical average is 15.6. The CAPE index is also far above its historical average of 16.7 at around 29.[1] This level has only been exceeded on two occasions: during the bubbles of 1929 and 1999-2001. This has led to intense debate on how far the rally can run and the likelihood of a sudden dip.

Some of the factors firing up the stock market in the past few months have been the positive corporate earnings season, the recovery in mergers and acquisitions, the gradual return of retail investors to the stock market and some of President Trump's promises. Regarding the first factor, 73% of the companies published higher than expected earnings for 2016 Q4. The earnings season was particularly good for firms in the technology sector, health and finance. Analysts are therefore increasing their profit forecasts for the coming years. This change in investor perspective is also helped by the Fed's confidence in how the US economy will perform in the future.

Regarding the potential impact of Trump's economic agenda, although some measures may have a positive effect on share prices others will certainly offset these gains to a large extent. The new administration's fiscal policy (lower corporation tax, more infrastructure spending...) and regulatory measures (deregulating some key sectors such as energy and financial services) might boost share prices in the short to medium term. But increased protectionism or immigration controls could considerably harm US businesses. The stock market may also be hit by fiscal stimuli that ultimately push up inflation more than expected, which could lead to a significant rise in long-term interest rates.

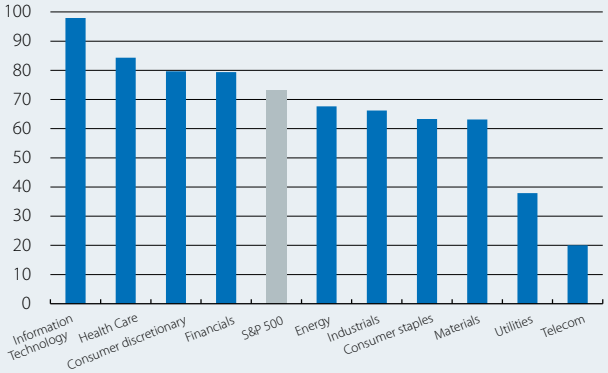
Gauging the impact of Trump's economic agenda on the stock market is not only difficult because the different measures cancel each other out. It is also because the details have yet to be specified for most of them. As shown by the enclosed chart, uncertainty remains high in the area of economic policy. But what really catches the attention is the historically low volatility of the US stock market, both the figure recorded in the past few months and also the forecast. The VIX index is widely used to gauge this volatility and is currently around 11.3 compared with a historical average of 19.6.

The VIX index and the economic policy uncertainty index have tended to mirror each other in the past. This time, however, it seems as if investors in the US stock market have taken sides and expect Trump's programme to ultimately serve their interests. But it will not be easy to substantially boost an economy so close to full employment. They may also be underestimating certain risks associated with other controversial aspects of Trump's agenda. While uncertainty remains, caution is advisable as such high share prices could be very vulnerable to possible setbacks.

1. The CAPE index is the ratio between price and the average earnings over the previous 10 years.

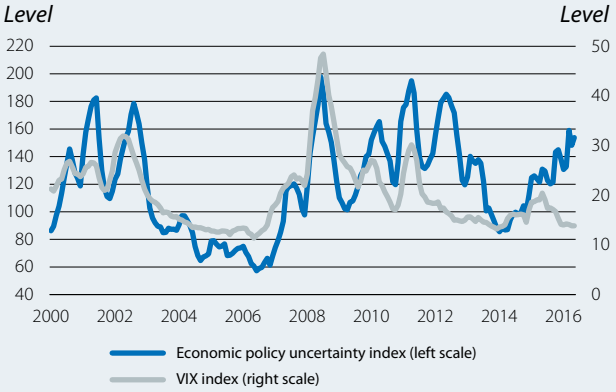
US: positive surprises in the 2016 Q4 earnings season

(% of firms whose earnings per share beat analyst predictions)



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

*US: VIX index and economic policy uncertainty index **



Note: ** Moving 6-month average. Economic policy uncertainty index by Baker, Bloom and Davis.*
Source: *CaixaBank Research, based on data from Bloomberg.*

KEY INDICATORS

Interest rates (%)

	28-Feb	31-Jan	Monthly change (bps)	Year-to-date (bps)	Year-on-year change (bps)
Euro area					
ECB Refi	**0.00**	0.00	0	0.0	–5.0
3-month Euribor	**–0.33**	–0.33	0	–1.1	–12.5
1-year Euribor	**–0.11**	–0.10	–1	–2.8	–8.6
1-year government bonds (Germany)	**–0.88**	–0.66	–22	–7.9	–39.6
2-year government bonds (Germany)	**–0.90**	–0.70	–20	–13.4	–32.9
10-year government bonds (Germany)	**0.21**	0.44	–23	0.2	10.3
10-year government bonds (Spain)	**1.66**	1.60	6	27.6	13.0
10-year spread (bps) [1]	**145**	116	29	27.0	2.4
US					
Fed funds	**0.75**	0.75	0	0.0	25.0
3-month Libor	**1.05**	1.03	2	5.2	41.7
12-month Libor	**1.74**	1.71	3	5.4	56.1
1-year government bonds	**0.82**	0.76	6	0.9	22.3
2-year government bonds	**1.26**	1.20	6	7.2	48.6
10-year government bonds	**2.39**	2.45	–6	–5.4	65.5

Spreads corporate bonds (bps)

	28-Feb	31-Jan	Monthly change (bps)	Year-to-date (bps)	Year-on-year change (bps)
Itraxx Corporate	**73**	73	0	0.9	–27.3
Itraxx Financials Senior	**92**	91	1	–1.7	–16.6
Itraxx Subordinated Financials	**211**	212	0	–10.1	–26.1

Exchange rates

	28-Feb	31-Jan	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
$/€	**1.058**	1.080	–2.1	0.6	–2.7
¥/€	**119.270**	121.800	–2.1	–3.0	–2.7
£/€	**0.854**	0.858	–0.5	0.1	9.3
¥/$	**112.770**	112.800	0.0	–3.6	0.1

Commodities

	28-Feb	31-Jan	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	**432.6**	432.5	0.0	2.3	12.8
Brent ($/barrel)	**55.6**	54.7	1.6	0.3	54.6
Gold ($/ounce)	**1,248.3**	1,210.7	3.1	8.3	0.8

Equity

	28-Feb	31-Jan	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	**2,363.6**	2,278.9	3.7	5.6	22.3
Eurostoxx 50 (euro area)	**3,319.6**	3,230.7	2.8	0.9	12.7
Ibex 35 (Spain)	**9,555.5**	9,315.2	2.6	2.2	12.9
Nikkei 225 (Japan)	**19,119.0**	19,041.3	0.4	0.4	19.3
MSCI Emerging	**936.4**	909.2	3.0	8.6	26.5
Nasdaq (USA)	**5,825.4**	5,614.8	3.8	8.2	27.8

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

ECONOMIC OUTLOOK · **World growth to speed up in 2017**

The scenario of faster global growth is firmly taking hold. The early part of the year has produced positive activity indicators at a global level. The macroeconomic data were slightly better than expected, both in the advanced and the emerging economies. This continued positive trend confirms the CaixaBank Research baseline scenario for 2017, with global GDP expected to grow by 3.4% (compared with the 3.1% growth estimated for 2016). These favourable forecasts are based on a monetary environment that is still very accommodative, the gradual recovery in oil prices and the consolidation of the emerging recovery, already discernible towards the end of 2016.

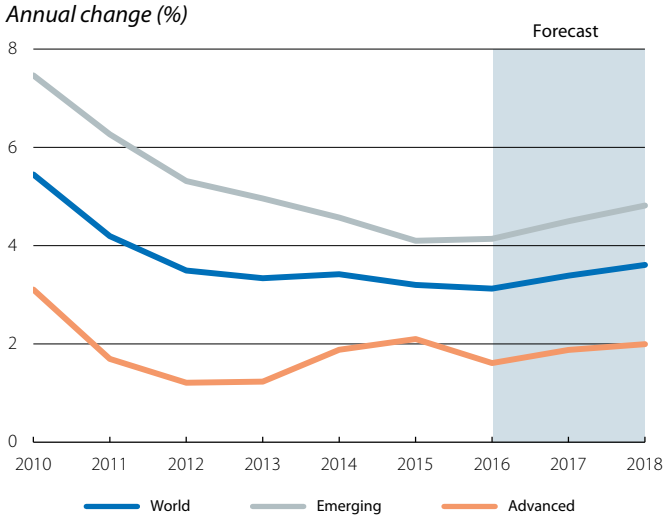
The balance of risks must also take into account higher inflation and certain political factors. In spite of this reasonably satisfactory outlook, risks are still high worldwide. Inflation figures for the beginning of 2017 were higher than expected in the advanced economies, justifying a slight increase in the forecast for global inflation in 2017. Should higher inflationary tensions continue throughout 2017, this risk might become significant as it would erode consumers' purchasing power and change the monetary policies that are currently expected. The political uncertainty faced by some advanced countries could also disrupt the benchmark scenario. The first actions taken by the Trump administration in immigration and diplomatic relations have increased uncertainty in the US. Nevertheless, we have maintained our scenario, assuming a pragmatic application of Trump's agenda thanks to the US system of checks and balances and the moderating influence by part of the Republican Party (there are Congress elections in November 2018 and a third of the Senate will be renewed, so the Republicans will not want Trump's actions to spoil their chances). Europe is also keeping an eye on its electoral calendar, with elections in the Netherlands, France, Germany and probably Italy on the horizon.

UNITED STATES

Waiting to Trump, the economy continues to accelerate. Donald Trump has yet to provide details on his government's economic programme. The key months will be March and April as the US President is expected to present the budget proposal to be debated in Congress. This will provide more clues as to the scope of his proposals to cut taxes and increase spending on infrastructures, as well as just how much support he can expect from the Republican ranks. If the proposals are very ambitious, they might be opposed by colleagues from his own party. But this political impasse has not stopped the US economy from performing well, confirming its mature point in the cycle. For instance, business confidence indicators (ISM) for manufacturing and services remained well inside the expansionary zone in January, at 56.0 points and 56.5 points respectively (above the 50-point threshold).

World GDP

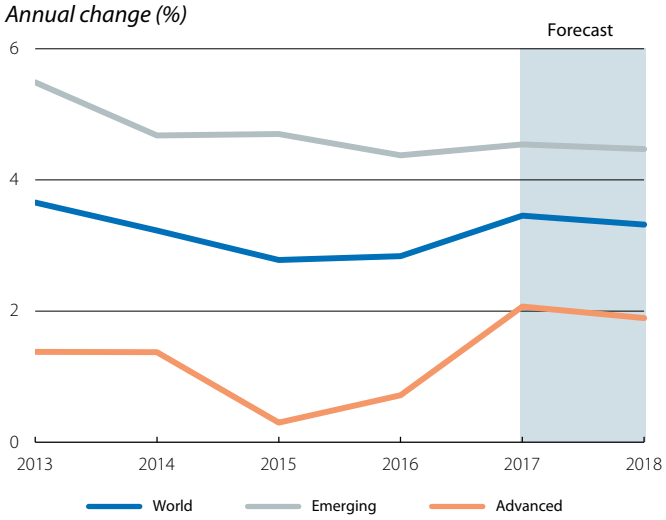
Annual change (%)



Source: *CaixaBank Research.*

World inflation

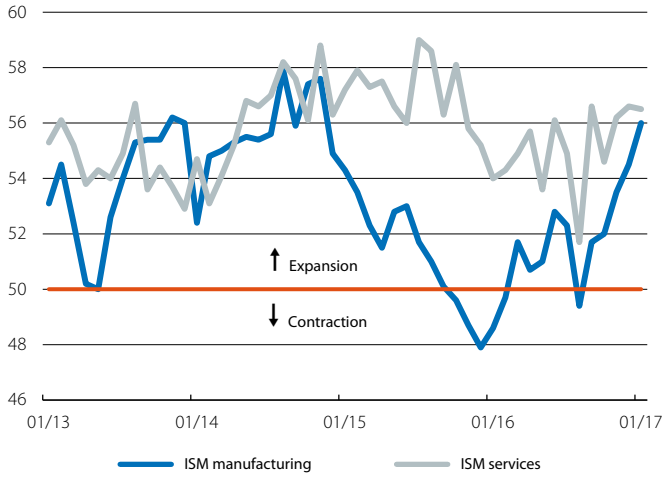
Annual change (%)



Source: *CaixaBank Research.*

US: activity indicators

Level



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

How much more can the US economy improve? The labour market is really buoyant. In January the unemployment rate remained almost the same at 4.8%. 227,000 jobs were also created, substantially more than expected, while wages rose by 2.5%, a considerable increase which suggests the US economy is strong. Its healthy labour market seems to confirm that the US economy is close to full employment, suggesting the fiscal stimulus announced by Trump may have only a limited positive effect, while the measures could end up making public debt soar and causing substantial inflationary tension.

US inflation continues its upward trend. This was 2.5% in January, up 0.4 pps on the previous month, driven by strong growth in the energy component and particularly petrol (+7.8% month-on-month). Core inflation stood at 2.3%, 0.1 pp more than December. Given these figures, CaixaBank Research has revised upwards its inflation forecasts for 2017, from 2.5% to 2.7% for the annual average.

The macroeconomic situation bolsters expectations of hikes by the Fed. The current macroeconomic environment, with a larger upswing in US inflation than expected and good activity figures, endorses the CaixaBank Research interest rate scenario which predicts three hikes in 2017. The market is now discounting between two and three hikes in 2017, spurred on by the macroeconomic data and the recent hawkish messages delivered by the Fed.

JAPAN

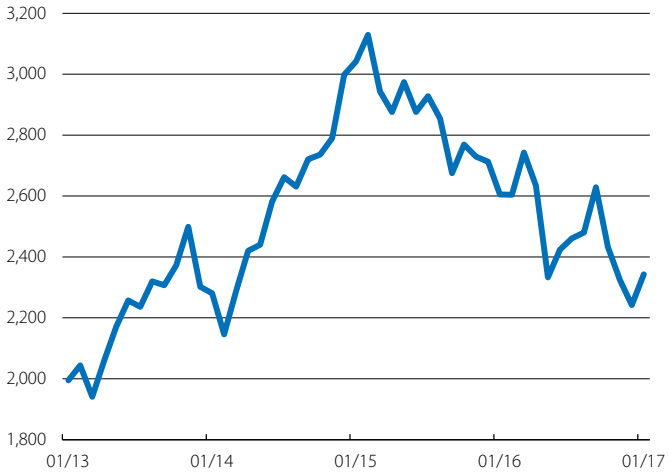
Japan is looking weak again. GDP grew by 0.2% quarter-on-quarter in 2016 Q4 (1.6% year-on-year), a slowdown compared with the first three quarters of the year. The annual average for 2016 is now a modest 1.0%. By demand components, GDP growth was driven by exports and non-residential investment. These Q4 figures, slightly higher than predicted, justify a technical revision of the 2017 GDP forecast from 1.0% to 1.1%. But this adjustment should not conceal the fact that the Japanese economy is still very delicate, hindered by weak domestic demand and too-low inflation, as confirmed by its sluggish private consumption (with zero growth in Q4) and the absence of appreciable wage rises.

EMERGING ECONOMIES

The emerging countries have started 2017 on the right foot. The activity indicator across all emerging countries produced by the IIF reveals their good situation. In January growth across emerging markets was 6.4% (annualised quarter-on-quarter), up 1.1 pps from December. Nevertheless, this indicator contrasts with the IIF growth forecast for the emerging economies in 2017 Q1, which is much lower (the forecast for annualised quarter-on-quarter growth in 2017 Q1 is 3.8%). One reason for this divergence is that the activity indicator in January did not capture certain downside risks, such as the temporary slowdown in the Indian economy in Q4.

US: labour market

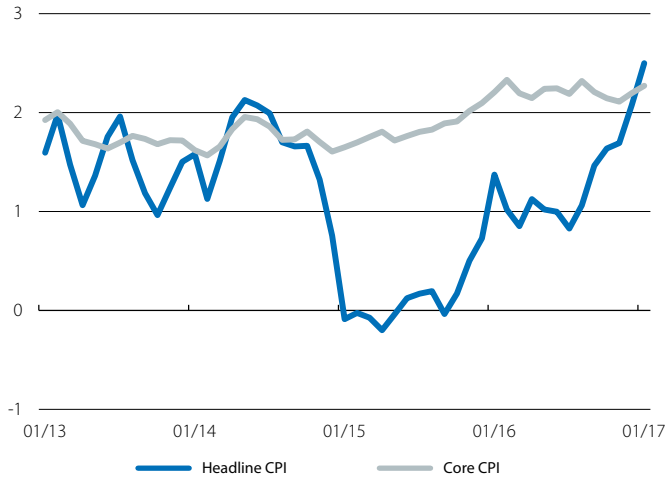
Jobs created, cumulative over 12 months (thousands)



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

US: CPI

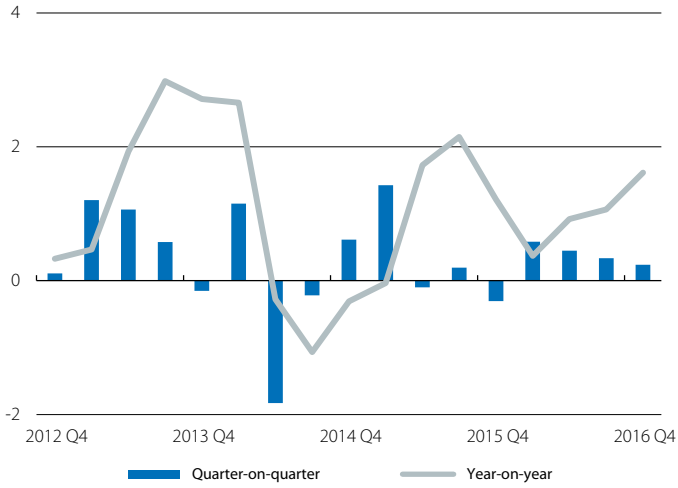
Year-on-year change (%)



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

Japan: GDP

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



Source: *CaixaBank Research, based on data from Japan's national statistics office.*

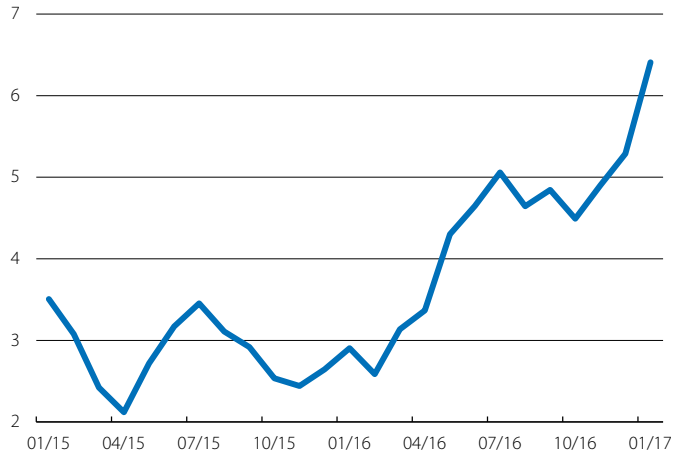
Capital flows reflect the emerging honeymoon period. In the final part of 2016, the emerging economies had suffered large net withdrawals of capital which intensified with Trump's victory in November's presidential elections. This trend changed in January, the first month, according to IIF estimates, that these economies posted notable foreign capital inflows (debt and equity) totalling 12.3 billion dollars. Flows were particularly strong towards emerging Asia (8 billion dollars) and Latin America (3.2 billion dollars).

China: no news from the front. Fewer economic indicators are released during the festivities for the Chinese New Year and the little data announced could not clarify the immediate outlook to any great extent. Of note were the international trade positive figures, although these must be interpreted with caution as Chinese traders significantly increased their exports in January prior to the holidays, which lasted from the end of January to 11 February. In spite of the better activity indicators over the past few months, we have maintained our scenario of a gradual slowdown in GDP in 2017 and 2018, with downside risks resulting from the complex financial situation faced by the Asian giant.

India keeps its brilliant record almost spotless while Mexico attempts to weather the storm. The Indian economy underwent a slight slowdown in 2016 Q4 with 7% growth, slightly lower than the 7.4% reported in the third quarter. Nevertheless, this figure is surprisingly high as the consensus of analysts and the IMF expected substantially less growth due to the negative effects of the withdrawal of large denomination bank notes, a surprise announcement by Modi's government at the beginning of November in order to curb the shadow economy. The resulting contraction in money supply, caused by delays and complications in exchanging these bank notes efficiently, has hindered activity and trade much less than expected in an economy where only 40% of the population has access to banks. Meanwhile Mexico, with its revised GDP figure for Q4, finally produced quarter-on-quarter growth of 0.7%, 0.1 pp more than the initial estimate from the end of January. This figure, lower than the 1.0% in Q3, confirms the slowdown in the Mexican economy given the uncertainty shock caused by the US trade policy. Nevertheless, the forecasts had been more negative, suggesting the country's strong activity before this shock is helping to cushion its effects, at least for the moment.

Emerging countries: growth index

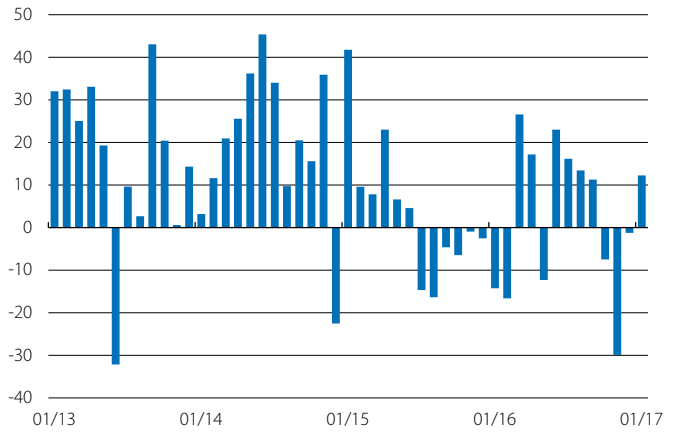
Annualised quarter-on-quarter change (%)



Source: *CaixaBank Research, based on data from the Institute of International Finance (EM Growth Tracker).*

*Net capital inflows to emerging countries **

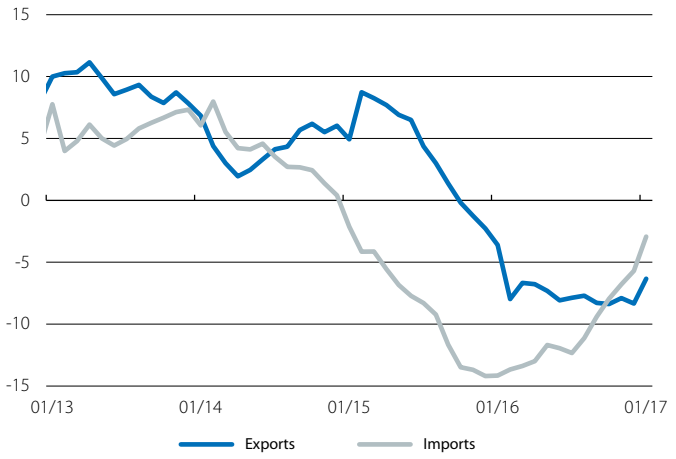
(Billion dollars)



Note: ** Portfolio flows (debt and stock). Countries included: Brazil, Chile, China, India, Indonesia, Mexico, Poland, Russia, South Africa and Turkey.*
Source: *CaixaBank Research, based on data from the IIF.*

*China: international trade of goods **

Year-on-year change, cumulative over 12 months (%)



Note: ** Nominal data in dollars.*
Source: *CaixaBank Research, based on data from China's national statistics office.*

FOCUS · Populism and extreme political views in turbulent times: an empirical analysis

The political phenomenon of populism is currently on the rise and will become even more apparent over the next few months. This is due to the political risks that would be associated, should they come to power, with the proposals made by populist parties in the run-up to imminent elections in the Netherlands and France. Populism is a blurry concept, however, and debate is ongoing regarding its boundaries. In Europe it has often been associated with political views at both ends of the ideological spectrum, to such an extent that the prestigious British think tank, Chatham House has coined the term «Populist Extremism». This suggests we could shed more light on the current populism boom if we had a better grasp of the behaviour and factors related to extreme political views.

With this aim in mind, we have used the European Social Survey (ESS), one of the most comprehensive surveys, to analyse the political inclinations of European citizens. This survey is useful to evaluate the attraction of extreme political platforms as it asks each respondent where they would place themselves on a left-right line from 0 to 10. The ESS has been conducted in Europe every two years since 2004 and, in its latest wave in 2014, it interviewed 40,185 citizens from 21 European countries.

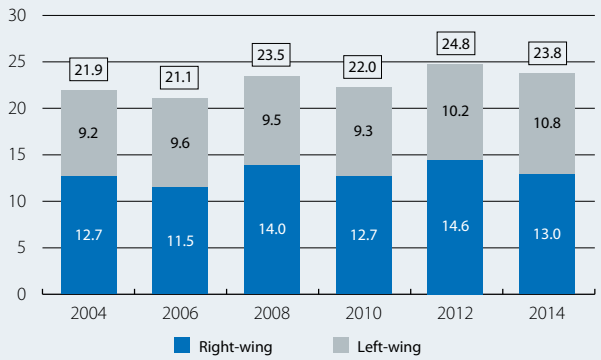
Firstly it is important to note that, according to ESS data, 23.8% of the European population identified with extreme political positions in 2014, corresponding to positions between 0 and 2 for the left-wing and between 8 and 10 for the right-wing. Of this percentage, 13.0% were on the right and 10.8% on the left. Surprisingly this percentage has remained relatively stable over time as it was 21.9% in 2004. There was, however, a slight but revealing spike after the financial crisis in 2008, when identification with these political views went from 21.1% in 2006 to 23.5% in 2008, the first wave carried out after the crisis.

So, if the preference for extreme political options has remained relatively stable, why have populist parties flourished recently? Two factors could potentially provide us with some insight into this apparent paradox. Firstly, a lot of populist parties mushroomed as a result of the financial crisis. Traditional parties had lost credibility and populists decided to enter the political arena and take advantage of the frustration in society. Secondly, the adverse effects of the economic crisis and loss of confidence in the main institutions might have encouraged those citizens who tend to support populist views to vote, while deterring more moderate voters from continuing to support the traditional parties.[1]

One key issue in the current populism debate concerns to what extent economic factors, including inequality, have helped the populist cause. To analyse this, we have once again used the ESS to discover the characteristics of respondents who support extreme political options. We divided the answers given by respondents to the different ESS questions into four groups. The first group is made up of economic factors, including household income and concern about inequality and unemployment. The second group contains socio-cultural and demographic factors, such as the importance placed by respondents on traditional values, their attitude towards immigrants, age and education. The other two groups are indicators of the respondents' trust in institutions and level of happiness, respectively. When we calculate the contribution of each group to explain the preference for extreme political options,[2] we can see that economic factors account for 20%, a significant percentage but not overwhelming and clearly lower than the relative weight of socio-cultural and demographic factors with 51%, and the institutional trust indicators, with 24%. In other words, the famous phrase «It's the economy, stupid!» is still valid but not as much as it used to be.

*Trend in preferences for extreme political options in Europe **

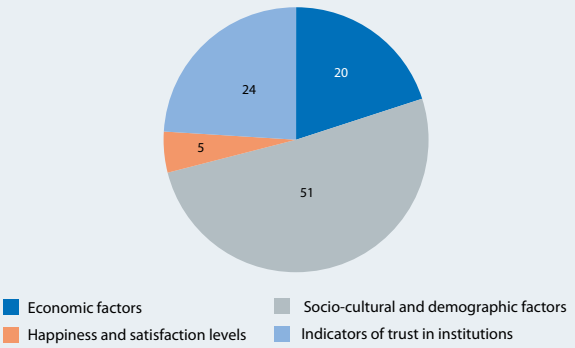
(% of all respondents)



Note: ** Extreme political options correspond, on the left-right line from 0 to 10, to political positions between 0 and 2 (left-wing) and between 8 and 10 (right-wing).*
Source: *CaixaBank Research, based on data from different rounds of the European Social Survey.*

Factors behind preferences for extreme political options

Contribution of each factor (% of the total)



Source: *CaixaBank Research, based on data from the 2014 European Social Survey.*

1. See Guiso, L., Herrera, H., Morelli, M. and Sonno, T. (2017) «Demand and supply of populism», CEPR.

2. Formally, the lineal probability model is as follows:
$Extr_{i,2014} = \beta * EF_{i,2014} + \gamma * SCF_{i,2014} * + \alpha * TI_{i,2014} + \mu * HL_{i,2014} + Ø_{country} + \varepsilon_i$.
Where $Extr_{i,2014}$ is a dummy variable equal to 1 if the individual *i* had extreme political positions in 2014, $EF_{i,2014}$ is the economic factor vector, $SCF_{i,2014}$ the socio-cultural factor vector, $TI_{i,2014}$ the trust indicators vector and $HL_{i,2014}$ the vector for happiness levels. Lastly, $Ø_{country}$ are fixed effects for each country and ε_i is a random error term.

FOCUS · Argentina: the dilemmas of macroeconomic adjustment

After Mauricio Macri became President in December 2015, he brought about a shift in economic policy that broke with the past and prioritised rapid adjustment. This was logical as the macroeconomic situation he had inherited was unsustainable. Argentina had seen little growth in the previous decade (2.2% annual average), inflation was high (25% at year-end 2015 according to the most reliable estimates), the official exchange rate was overvalued (by about 40% in December 2015) and the budget deficit stood at 6.6% of GDP in 2015. To make matters worse, Argentina had defaulted on its debt in 2001, resulting in considerable conflict with its creditors and its exclusion from international capital markets for 14 years.

Given this situation, the new economic policy aimed to achieve a fast adjustment in the economy by essentially acting on four areas. Firstly, economic and financial liberalisation, focusing primarily on making the exchange rate system more flexible and liberalising internal prices, highly subsidised in some categories such as energy. Secondly, more restrictive monetary policy, raising the interest rate from 33.0% in 2015 to 38.0% in mid-2016 (although the subsequent drop in inflation meant that interest rates could fall to the current 24.75%). Thirdly, fiscal adjustment, combining the already mentioned reduction in energy subsidies with other longer-term measures, such as cutting the number of civil servants. Finally, adjustment also included a number of actions to win back the confidence of international investors and regain access to capital markets. The most important measure was the resolution of pending legal proceedings with foreign creditors.

This new strategy was welcomed by the international financial community, as shown by its successful bond sale in April 2016 (the first since the 2001 default), totalling a remarkable 16.5 billion dollars, followed by two more, in June 2016 (2.75 billion dollars) and last January (7 billion dollars).

However, in spite of this good reception the macroeconomic adjustment is having considerable negative effects, more than predicted. The economy was expected to enter a recession but the intensity has been surprising. When the adjustment programme was announced, GDP was predicted to fall by 0.2% in 2016. The latest figures point to a 2% decline. As a combined result of the strong devaluation of the peso (37% since its free float in December 2015) and price liberalisation, inflation stood at 40% at year-end 2016 (although it has fallen significantly in the past few months). Fiscal consolidation has not gone as expected either. Tax revenue is being hit by the surprisingly strong recession and cost-cutting has been less than planned, for two reasons. Firstly, in August 2016 the Supreme Court of Justice suspended the increase in the gas tariff for residential consumers, accounting for 30% of the country's gas consumption. Secondly, a part of social spending, in particular social transfers to the provinces and spending on unemployment benefit, has risen not only due to cyclical effects but also because the government has raised their amounts. The decision to increase social spending may be connected to the economic situation being worse than forecast but it is also likely to be related to the social unrest caused by the adjustment, making Macri's government more unpopular (although its popularity is still clearly higher than the previous government at the end of its term).

So what is Argentina's outlook for 2017 and 2018? The government is dealing with a worse economic situation than forecast and faces key legislative elections in October 2017. Nevertheless, the scenarios shared by most analysts expect the country to exit recession in 2017 and inflation to continue falling. Up to October 2017, monetary policy is expected to remain restrictive while most budgetary adjustment is likely to be postponed. The key question is whether the recovery will arrive in time for the elections.

Argentina: key macroeconomic indicators

	2009-2013	2014	2015	2016 (e)	2017 (f)	2018 (f)
Growth in real GDP (%)	2.3	–2.5	2.7	–2.4	2.5	3.5
CPI inflation rate (%)	11.9	38.1	26.5	40.2	22.3	16.0
Current account balance (% of GDP)	–0.2	–1.4	–2.5	–2.3	–3.2	–3.6
Fiscal balance (% of GDP)	–2.4	–4.0	–6.6	–7.1	–7.4	–6.6
Public debt (% of GDP)	43.2	43.6	52.1	51.8	50.7	51.2

Note: *(f) Forecasts; (e) Estimate.*
Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

KEY INDICATORS

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

UNITED STATES

	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016 Q4	01/17
Activity							
Real GDP	2.4	2.6	1.6	1.3	1.7	1.9	–
Retail sales (excluding cars and petrol)	4.5	4.3	4.0	4.4	3.6	3.8	4.4
Consumer confidence *(value)*	86.9	98.0	96.0	94.8	100.7	107.8	111.8
Industrial production	2.9	0.3	–1.6	–1.1	–1.0	–0.1	0.0
Manufacturing activity index (ISM) *(value)*	55.6	51.4	50.0	51.5	51.1	53.3	56.0
Housing starts *(thousands)*	1,001	1,108	1,151	1,159	1,145	1,249	1,246
Case-Shiller home price index *(value)*	171	179	187	188	188	192	...
Unemployment rate *(% lab. force)*	6.2	5.3	4.9	4.9	4.9	4.7	4.8
Employment-population ratio *(% pop. > 16 years)*	59.0	59.4	59.8	59.7	59.8	59.7	59.9
Trade balance[1] *(% GDP)*	–2.8	–2.8	–2.8	–2.7	–2.7	–2.7	...
Prices							
Consumer prices	1.6	0.1	1.1	1.0	1.1	1.8	2.5
Core consumer prices	1.7	1.8	2.2	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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	01/17
Activity							
Real GDP	0.2	1.3	0.4	0.9	1.1	1.6	–
Consumer confidence *(value)*	39.3	41.3	41.4	41.2	42.1	42.1	43.2
Industrial production	2.1	–1.2	–3.2	–1.7	0.5	2.6	1.5
Business activity index (Tankan) *(value)*	13.5	12.8	6.0	6.0	6.0	10.0	–
Unemployment rate *(% lab. force)*	3.6	3.4	3.2	3.2	3.0	3.1	...
Trade balance[1] *(% GDP)*	–2.5	–0.5	–0.2	0.1	0.5	0.7	0.9
Prices							
Consumer prices	2.8	0.8	0.0	–0.3	–0.5	0.3	...
Core consumer prices	1.8	1.0	0.6	0.6	0.2	0.1	...

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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	01/17
Activity							
Real GDP	7.3	6.9	6.7	6.7	6.7	6.8	–
Retail sales	12.0	10.7	10.3	10.2	10.5	10.6	...
Industrial production	8.3	6.1	5.9	6.1	6.1	6.1	...
PMI manufacturing *(value)*	50.7	49.9	49.5	50.1	50.2	51.4	51.3
Foreign sector							
Trade balance[1] *(value)*	383	608	588	576	554	513	508
Exports	6.0	–2.3	–14.3	–7.5	–7.0	–5.2	8.0
Imports	0.4	–14.2	–14.1	–7.1	–4.7	2.1	16.7
Prices							
Consumer prices	2.0	1.4	2.1	2.1	1.7	2.2	2.5
Official interest rate[2] *(value)*	5.60	4.35	4.35	4.35	4.35	4.35	4.35
Renminbi per dollar *(value)*	6.2	6.3	6.5	6.5	6.7	6.8	6.9

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 · **Euro area growth gains momentum**

The European economy continues to perform well in the face of uncertainty. GDP growth in the euro area has managed to withstand the episodes of financial instability and political shocks of 2016, as the widespread improvement in activity indicators over the past few months shows. This has resulted in upgraded growth forecasts. CaixaBank Research now forecasts 2017 growth at 1.7%, 0.2 pps higher than its previous forecast. The European Commission has also slightly raised its forecast to 1.6%. However, the outlook is still assailed by political risks (Brexit negotiations and elections in the Netherlands, France, Germany and Italy). Adding to this domestic uncertainty are risks stemming from the US (uncertainty regarding the fiscal stimulus announced by the Trump administration, possible changes in trade policy and the Fed's monetary policy normalisation). Nevertheless, the euro area's recovery could gain further momentum if such risks dissipate.

The economic recovery has spread to a larger number of countries. Eurostat confirmed euro area Q4 GDP growth at 0.4% quarter-on-quarter, the same rate as in the previous quarter. GDP growth for the whole of 2016 stood at 1.7%. Across countries, strong growth was posted by Spain (0.7% quarter-on-quarter, the same rate as in Q3), and Portugal (0.6%, 0.5 pps above the Q1-Q3 average). Q4 GDP growth in France and Germany was 0.4% quarter-on-quarter, 0.2 and 0.3 pps above the figure from the previous quarter, respectively. On the other hand, Italy posted weak GDP growth (0.2% quarter-on-quarter). Over the coming quarters, we expect euro area growth to maintain a similar rate of growth, of between 0.4% and 0.5% quarter-on-quarter.

Emerging Europe is still growing, albeit unevenly. Q4 GDP data show that growth in Emerging Europe remained strong, and at a higher pace than in Q3 in most cases. Across countries, Romania and Slovakia continued to stand out with growth rates above 4.5% and 3.0% year-on-year, respectively. On the other hand, Poland's GDP growth surprised to the upside (3.1% year-on-year vs. 2.1% in Q3), while Hungary and the Czech Republic disappointed with lower than expected growth. In 2017, GDP growth for the majority of these countries is expected to be around 3%, given the euro area economic performance (their main market) and a more dynamic domestic demand.

Euro area activity remains strong in Q1, as shown by the composite PMI index, which in February remained comfortably in the expansionary zone (above 50 points) and rose to 56 points, the highest level since April 2011, while the economic sentiment index (ESI) edged up to 108 points. Across countries, France´s composite PMI increased the most and stood at 56.2 points (54.1 in January), while in Germany it reached 56.1 points (54.8 in the previous month) for the first

Euro area: European Commission GDP forecasts

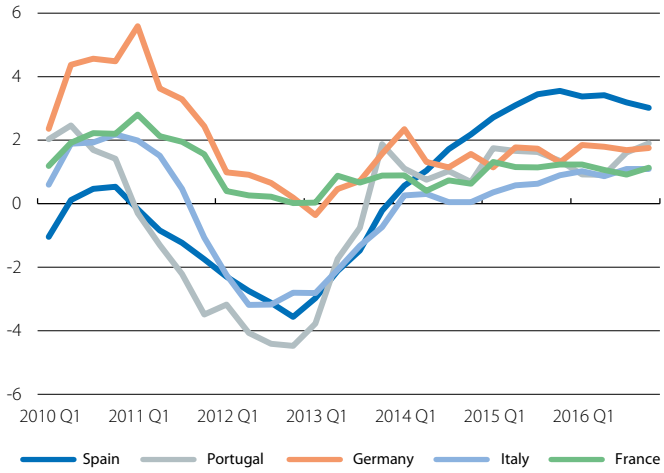
Annual change (%)

		Forecast		Change regarding autumn 2016 forecast	
	2016	2017	2018	2017	2018
Euro area	1.7	1.6	1.8	▲ 0.1	▲ 0.1
Germany	1.9	1.6	1.8	▲ 0.1	▲ 0.1
France	1.2	1.4	1.7	=	=
Italy	0.9	0.9	1.1	=	▲ 0.1
Spain	3.2	2.3	2.1	=	=
Portugal	1.3	1.6	1.5	▲ 0.4	▲ 0.1

Source: *CaixaBank Research, based on data from the European Commission (European Economic Forecast, Winter 2017).*

GDP

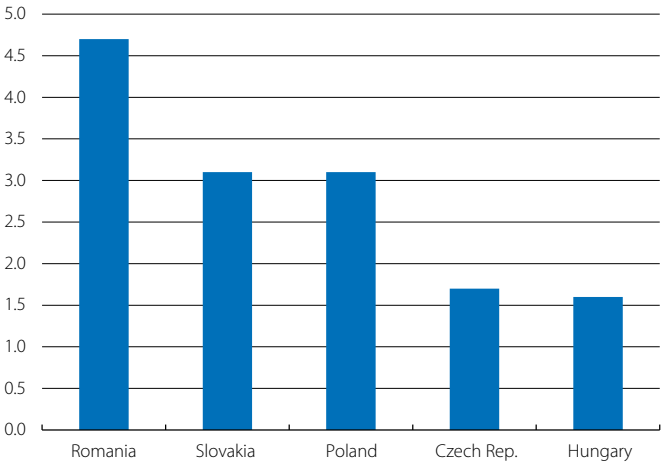
Year-on-year change (%)



Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

Emerging Europe: GDP in 2016 Q4

Year-on-year change (%)



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

time since 2014, and the IFO business sentiment indicator stood again at the highest level of the past three years. These figures point to a slight acceleration in the euro area in 2017 Q1.

Private consumption continues to drive the recovery. Retail sales were up 1.4% year-on-year in December and the 2016 Q4 average stood at 2.3% year-on-year, above the Q3 figure (1.5%). Therefore, private consumption remains one of the main drivers of the economic recovery in the euro area. On the other hand, the consumer confidence index for the euro area as a whole stood at –6.2 points, slightly below January's figure (–4.9) but far above the 2016 average (–7.7). Over the coming months, household consumption is expected to remain robust, supported by the improvements in the labour market and low interest rates, which should help to push up core inflation.

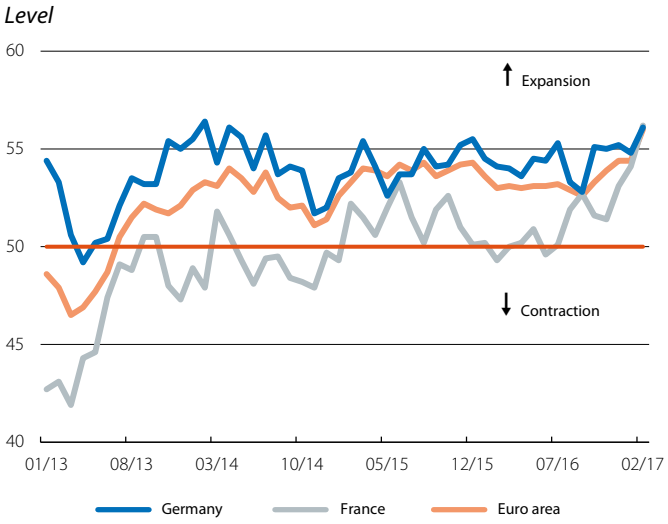
Inflation in the euro area strengthens. Eurostat confirmed that euro area headline inflation, as measured by the harmonized index of consumer prices (HICP), was 1.8% in January, 0.7 pps above December's figure, owing to a larger contribution from the energy component and unprocessed food. On the other hand, core inflation was confirmed at 0.9% in January. Over the coming months, we expect headline inflation to continue to recover as oil prices increase, and core inflation to rise along with the growth in activity and the improvements in the labour market. In this respect, the recovery in inflation expectations since mid-2016 is particularly encouraging and reflects the considerably lower risk of deflation in the euro area.

Euro area current account surplus reached an all-time high. The euro area's current account surplus (cumulative over 12 months) totalled 364.7 billion euros in December, or some 3.4% of GDP, and above the 319.4 billion euros recorded in December 2015. This increase is mostly due to a larger surplus in the balance of goods (372.2 billion euros, or 3.5% of GDP), driven by the depreciation of the euro. Over the coming quarters, we expect the external surplus to gradually shrink with the euro area's continued recovery and higher oil prices.

Greece's recovery continues to stutter and the bailout saga begins a new chapter. The Greek economy returned to growth in 2016 after the decline of 2015. However, growth remained weak, at 0.3% year-on-year, and GDP is still 26% below its pre-crisis level. On the other hand, an agreement on the next bailout loan tranche is yet to be reached. Nevertheless, the different institutions involved (European Commission, ECB, IMF and ESM) have decided to return to Athens to negotiate an additional package of structural reforms, focusing on improving the tax system, labour market regulation and the pension system. In this respect, the effective implementation of any of the reforms agreed will be key to boosting Greece's economic growth and ensuring the sustainability of its public debt.

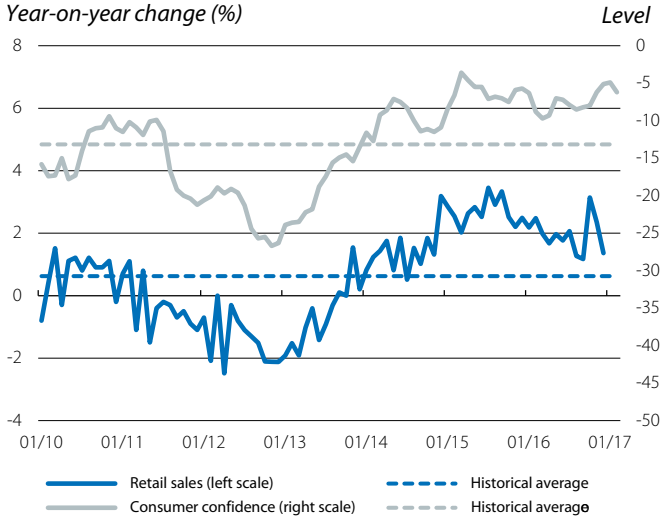
Portugal's outlook improves. The Portuguese economy in Q4 2016 grew faster than most analysts expected (2.0% year-on-

Euro area: PMI composite activity indicator



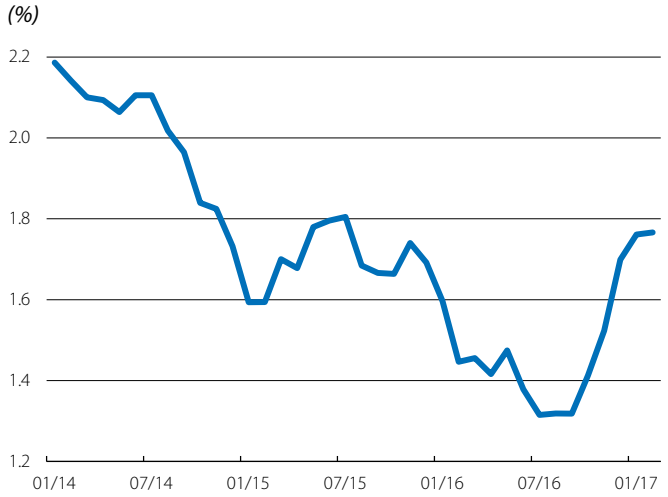
Source: *CaixaBank Research, based on data from Markit.*

Euro area: consumption indicators



Source: *CaixaBank Research, based on data from Eurostat and the European Commission.*

Inflation expectations: euro area *

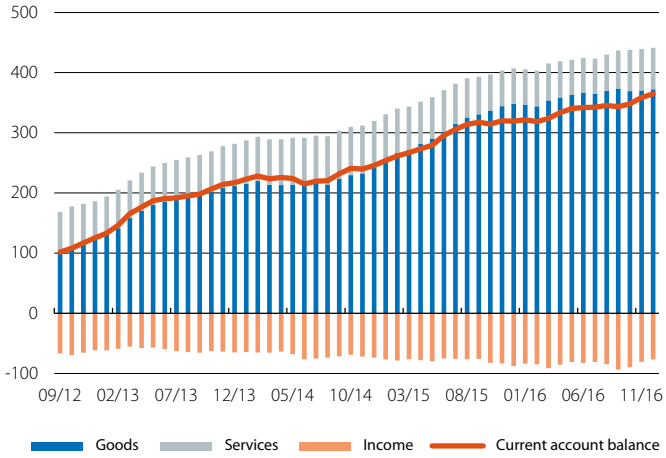


Note: ** Inflation Swap Forward 5Y5Y.*
Source: *CaixaBank Research, based on data from Bloomberg.*

year, vis-à-vis the 1.6% forecast), supported by a more dynamic domestic demand, especially investment, and by exports. Growth in 2016 stood at 1.4% year-on-year. Over the coming quarters, the economy is expected to continue to grow at a similar pace. This is reflected in the consensus forecast for 2017 (1.5%) and 2018 (1.4%), in line with the Caixabank Research forecast. Nevertheless, Portugal's debt financing costs remain high. On the one hand, this is due to investor concerns regarding the country's banking sector and public finances. Adding to these idiosyncratic risks is the political uncertainty that is currently assailing the euro area, although we expect this uncertainty to dissipate over the year. Regarding the Portuguese banks, considerable progress has been made over the past few months to dispel the uncertainty hovering over the sector, which should help to push down the risk premium. Regarding public finances, the 2016 fiscal deficit looks set to be below 3% of GDP, which should allow Portugal to exit the Excessive Deficit Procedure with the European Commission. In fact, the Commission has already downgraded its public deficit forecast for 2016 from 2.7% of GDP to 2.3%. Nevertheless, public debt remains high, at around 130% of GDP, so Portugal cannot let its guard down.

Euro area: current account

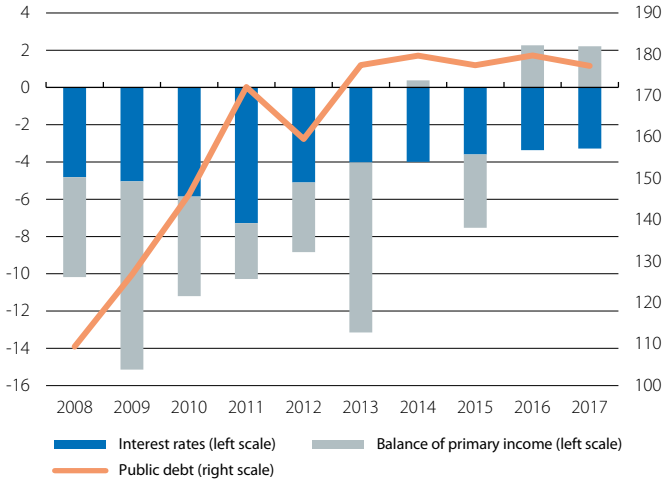
Cumulative over 12 months (billion euros)



Note: *Series seasonally adjusted.*
Source: *CaixaBank Research, based on data from the ECB.*

Greece: balance of primary income, interest rates and public debt

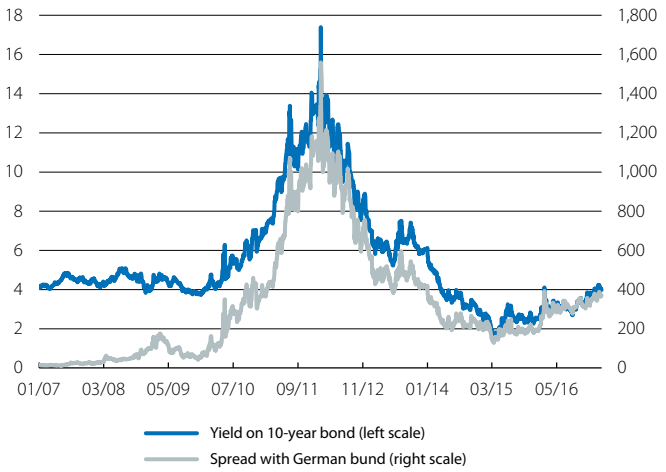
(% of GDP) *(% of GDP)*



Source: *CaixaBank Research, based on data from AMECO.*

Portugal: yield on 10-year public debt

(%) *(bps)*



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

FOCUS · ECB monetary policy and sovereign risk premia

Since the end of 2014, the policies of the European Central Bank (ECB) have helped to reduce the dispersion of the cost of debt across euro area countries.[1] As activity firms up and inflation returns to normal, in the second half of 2017 the ECB will probably start to think about tapering off its asset purchase programme (QE). How will this affect the cost of debt for euro area countries?

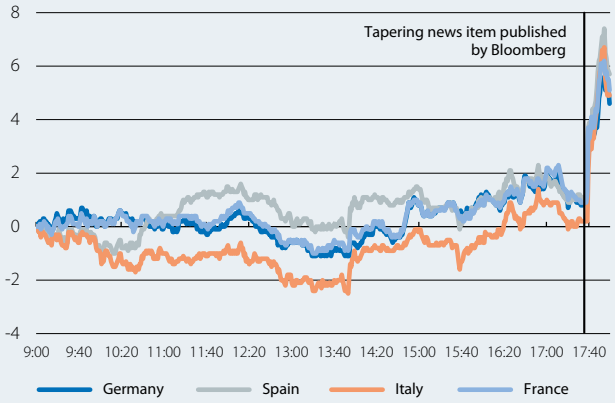
After the euro area's crisis, each country has to face different financing costs whose spread partly reflects the different economic prospects perceived by investors. However, today debt premia are being affected by the ECB's unconventional monetary policies. QE has pushed up demand for public debt, thereby pushing down interest rates. When the ECB withdraws from the market, we are therefore likely to see higher interest rates; a more accurate reflection of the market's true value. One way to estimate the impact of such movements is by analysing how sovereign debt premia react to changes in investor expectations regarding the ECB's monetary policy.

To isolate QE expectations from the huge flow of news influencing investor decisions, we have taken advantage of a «quasi-experiment» from 4 October 2016, when investors were surprised by a news item published by Bloomberg that warned the ECB was thinking about tapering its bond purchases.[2] As can be seen in the first chart, what had begun as a quiet session ended with a sharp upswing in interest rates, precisely at the time this news was published. Given that, until then, the market had not considered the possibility of tapering and that the news item's publication coincided with sharp movements in a question of minutes, we can be relatively certain that this reflects the impact of revised expectations. The second chart shows that the prospect of less expansionary monetary policy pushed up the interest rate on German debt and risk premia. The sensitivity provided by this «quasi-experiment» suggests that expectations of tighter monetary policy that push up the German interest rate by 10 bps would lead to a very slight increase in the risk premia of the core countries (around 1 bp) and a somewhat higher increase for the periphery (around 4 bps).

Other studies[3] have estimated that, for each 10-basis point drop in the German interest rate, the start-up of QE led to a fall in risk premia of up to 6 bps in the core and between 8 and 15 bps in the periphery. The lower sensitivity estimated for QE withdrawal could therefore be the result of the widespread improvement in the macroeconomic scenario. Although there are limitations to this exercise (it only reflects the immediate reaction of a subgroup of investors active at the time of the Bloomberg publication, also influenced by increased uncertainty), the greater sensitivity of the periphery is in line with its higher public debt. This indicates that, although tapering could push up risk premia, ultimately the impact will depend on each country's public finances and economic outlook.

*Sovereign bond interest rates **

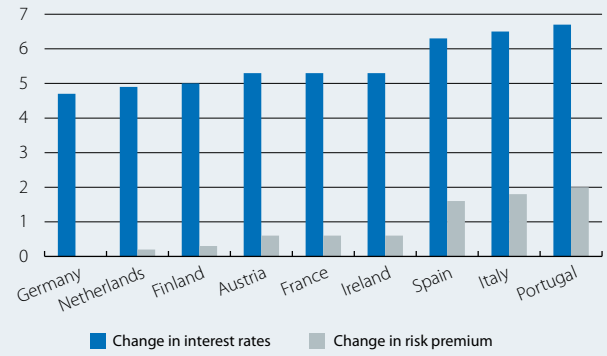
Index (0 = opening value)



Note: **10-year interest rate on 4 October 2016.*
Source: *CaixaBank Research, based on data from Bloomberg.*

*Tapering expectations and sovereign risk premia **

(bps)



Note: ** Change in 10-year interest rate between 17:37, the time when Bloomberg published a news item on tapering, and 17:54 on 4 October 2016.*
Source: *CaixaBank Research, based on data from Bloomberg.*

1. For instance, in 2012 the interest paid by Italy on its 10-year debt was almost 500 basis points (bps) more than Germany; today this figure is below 200 bps.
2. Google Trends shows an unprecedented increase in interest in ECB tapering over the following days.
3. De Santis, R. (2016), «Impact of the Asset Purchase Programme on Euro Area Government Bond Yields Using Market News», ECB Working Paper.

FOCUS · The anatomy of productivity in the euro area

There has been a lot of debate regarding the possible reasons for the euro area's weak growth over the past few years. The low productivity growth is among the most worrying.[1] It has stayed at around 1% year-on-year for the past two decades (see the first chart), clearly below the US, whose productivity has increased by 1.6% over the same period.

The trend in productivity growth in the different euro area countries appears to be quite varied. In general, the countries of central and northern Europe, such as Germany and France, have recorded larger increases although these are not especially high. The countries in southern Europe, however, have seen remarkably low rates of productivity growth.

Another important point is that productivity growth has varied greatly between sectors. In this respect, it is revealing to break down the increase in productivity for the economy as a whole into the growth within sectors and the change in their relative weights or share of the total. As can be seen in the first chart, most of this increase comes not from higher productivity sectors increasing their share but from an increase in productivity within sectors. For instance, 88% of Germany's productivity growth has come from an increase in sector productivity (that which would be observed if the share of all the sectors remained constant). In Spain this figure is 75%.

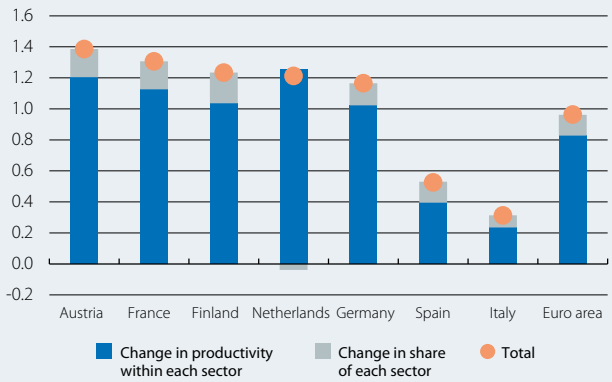
Another way to reveal the pattern is by breaking down the analysis to sector level (see the table). For the euro area as a whole, the social services sector (education, health, defence, etc.) and manufacturing exhibit a notably different pattern of productivity growth. Productivity in the social services sector is higher than for the economy as a whole but has not grown over the past few years. Its contribution to the economy's overall growth in productivity therefore comes from the considerable increase in its relative weight over the past few years (from 34% to 42%).[2] The trend in the manufacturing sector has been quite different. In this case productivity growth has been very high, 2.3% annualised between 1995 and 2014. This sector has lost share over the past two decades, however, and its contribution to productivity growth for the economy as a whole has therefore been relatively small.

Finally, the telecom industry has also made a notable contribution to productivity growth, in this case both due to its larger share and, especially, to the sector's higher productivity. This increase might even be underestimated as, with the available statistics, it is difficult to adequately capture the productivity growth in this sector (for instance, because it is difficult to measure the big improvements made in the quality of the goods it produces).

1. In this article, the trend in apparent labour productivity is analysed as the gross value added of each sector divided by the number of hours worked in each sector.
2. Share is measured as the number of hours worked in a sector out of the total hours worked.

*Annual productivity growth across countries **

Average 1995-2014 (%)



Note: ** Productivity is calculated as the gross value added by hour worked. Productivity growth for the euro area is the weighted average by GDP of the countries included in the analysis.*
Source: *CaixaBank Research, based on data from EU Klems.*

Contribution to the euro area's productivity growth between 1995 and 2014 by sector

	Share in 1995 (%) *	Share in 2014 (%) *	Relative productivity in 1995 **	Annualised change in productivity (%)	Sector contribution to productivity growth (%)
Agriculture, mining and fishing	6.5	4.0	0.44	2.31	–0.01
Manufacturing	19.0	14.5	1.00	2.30	0.17
Telecommunications	2.3	2.9	1.38	2.80	0.19
Tourism, trade and transportation	25.4	25.6	0.80	1.06	0.24
Construction and water supply	9.5	8.2	1.22	0.11	–0.08
Financial services	3.1	2.8	1.81	1.35	0.04
Social services	34.3	42.1	1.09	–0.10	0.39
Total	**100**	**100**	**1.00**	**0.91**	**0.91**

Notes: ** Sector share is defined as the number of hours worked in the sector divided by the total hours worked in the euro area.*
*** Relative productivity is the productivity of each sector out of the euro area's total productivity.*
Source: *CaixaBank Research, based on data from EU Klems.*

KEY INDICATORS

Activity and employment indicators

Values, unless otherwise specified

	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016 Q4	01/17	02/17
Retail sales *(year-on-year change)*	1.4	2.7	2.2	1.8	1.3	2.3	...	...
Industrial production *(year-on-year change)*	0.9	2.0	1.4	1.1	1.1	2.0	...	...
Consumer confidence	–10.2	–6.2	–8.3	–7.8	–8.2	–6.4	–4.8	–6.2
Economic sentiment	101.4	104.2	103.9	104.2	104.2	106.9	107.9	108.0
Manufacturing PMI	51.8	52.2	51.7	52.0	52.1	54.0	55.1	55.5
Services PMI	52.5	54.0	53.3	53.1	52.6	53.4	53.6	55.6
Labour market								
Employment (people) *(year-on-year change)*	0.6	1.0	1.4	1.4	1.2	...	–	...
Unemployment rate: euro area *(% labour force)*	11.6	10.9	10.3	10.1	9.9	9.7	...	...
Germany *(% labour force)*	5.0	4.6	4.3	4.2	4.1	3.9	...	...
France *(% labour force)*	10.3	10.4	10.2	9.9	10.1	9.6	...	...
Italy *(% labour force)*	12.7	11.9	11.6	11.6	11.6	11.9	...	...
Spain *(% labour force)*	24.5	22.1	20.5	20.1	19.3	18.7	...	...

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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	12/16	01/17
Current balance: euro area	**2.5**	**3.2**	**3.2**	**3.5**	**3.4**	**3.6**	**3.6**	**...**
Germany	7.3	8.3	8.5	8.9	8.7	8.5	8.5	...
France	–1.1	–0.2	–0.8	–0.8	–1.1	–1.1	–1.1	...
Italy	1.9	1.6	1.9	2.3	2.6	...	...	...
Spain	1.1	1.4	1.4	1.7	1.9	2.0	2.0	...
Nominal effective exchange rate[1] *(value)*	**101.8**	**92.3**	**94.1**	**94.8**	**95.1**	**94.8**	**94.2**	**94.3**

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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	12/16	01/17
Private sector financing								
Credit to non-financial firms[1]	–2.6	–0.4	1.2	1.7	2.1	2.2	2.3	2.3
Credit to households[1, 2]	–0.1	0.7	1.5	1.7	1.8	1.9	2.0	2.2
Interest rate on loans to non-financial firms[3] *(%)*	2.0	1.6	1.4	1.4	1.3	1.3	1.4	...
Interest rate on loans to households for house purchases[4] *(%)*	2.6	2.1	2.0	1.8	1.8	1.8	1.8	...
Deposits								
On demand deposits	6.0	11.1	11.2	10.1	9.5	9.3	9.8	9.3
Other short-term deposits	–2.0	–3.8	–2.4	–1.8	–1.2	–2.0	–2.6	–2.2
Marketable instruments	–7.2	2.6	–1.0	2.3	5.8	4.7	8.8	7.5
Interest rate on deposits up to 1 year from households *(%)*	1.3	0.8	0.6	0.6	0.5	0.4	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 Spanish economy starts the year on the right foot

Economic activity remains strong in 2017. The temporary tailwinds propelling the Spanish economy over the past two years (expansionary fiscal policy, low oil prices and favourable financial conditions) will gradually diminish although they should not disappear entirely for some time yet (debt will continue to be refinanced at lower interest rates than a few years ago and oil is unlikely to reach the price levels of 2013-2014). Structural factors such as improved competitiveness and a slightly more flexible labour market should also help to boost growth. The CaixaBank Research GDP growth forecast for 2017 as a whole remains at 2.6%, clearly above average for the advanced economies.

National account data for Q4 confirm the Spanish economy is doing well. GDP grew by 0.7% quarter-on-quarter (3.0% year-on-year) in 2016 Q4, in line with the CaixaBank Research forecast of 3.2% growth for the whole of 2016. The Q4 breakdown by component shows that domestic demand is slowing down gradually, contributing 2.2 pps to year-on-year growth in Q4 compared with 2.5 pps in Q3. Net external demand made a positive contribution of 0.8 pps in Q4 (0.7 pps in Q3). Strong exports and more subdued growth in imports are likely to keep the external sector's contribution positive throughout 2017.

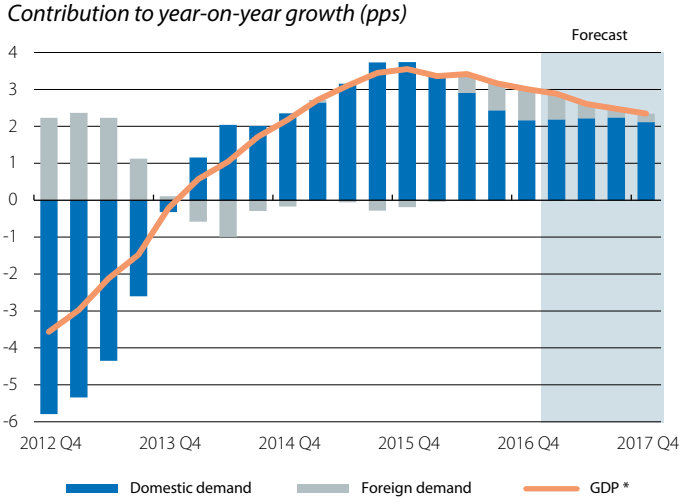
Private consumption remained strong in Q4 and shows no signs of tailing off. Private consumption grew by 0.7% quarter-on-quarter (3.0% year-on-year) in Q4. The positive trend in consumer confidence and retail sales suggest, in the early part of 2017, it will continue the same trend as the end of 2016. Job creation and the favourable credit conditions encouraged by the ECB's accommodative monetary policy, as well as banks being more able to lend to households, will help consumption to remain strong throughout 2017.

Business sentiment indicators are still high. The PMI for manufacturing and services stood at 55.6 and 55.0 points in January respectively, clearly in the expansionary zone and indicating that activity is performing well across a range of economic sectors. Consequently, the poor figure posted by investment in capital goods for 2016 Q4 (zero quarter-on-quarter growth) is expected to be temporary. Investment in construction, up by 0.7% quarter-on-quarter in Q4, is still increasing cautiously, far from the excesses of the past. Considering the good figures posted by new building permits, rising by 38% year-on-year in November, and the incipient housing shortage in some premium zones, this upward trend is expected to continue.

Strong economic growth is reflected in new jobs. According to national account data for Q4, equivalent full-time

GDP

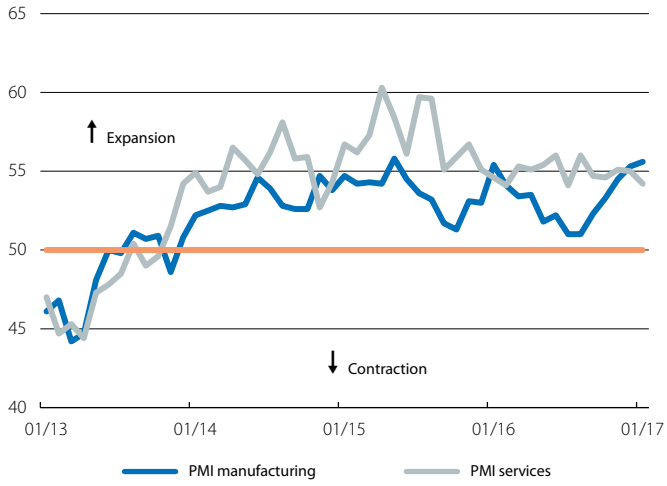
Contribution to year-on-year growth (pps)



Note: ** Year-on-year change (%).*
Source: *CaixaBank Research, based on INE data.*

Activity indicators

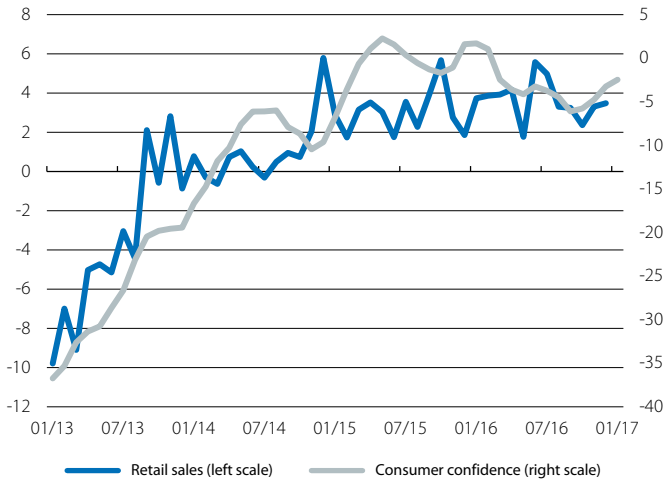
Level



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

Retail sales and consumer confidence

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



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

employment rose by 2.7% year-on-year, bringing the total 2016 figure to +2.9%, the equivalent of 463,000 full-time jobs, clearly reflecting the strong labour market in 2016. This remained strong in the first month of the year. In January, registered workers affiliated to Social Security rose by 67,460 (seasonally adjusted) and the job creation rate accelerated to 3.3% year-on-year (3.1% in December). In line with the trend in activity, we expect this job creation rate to moderate, although it will still be strong throughout 2017.

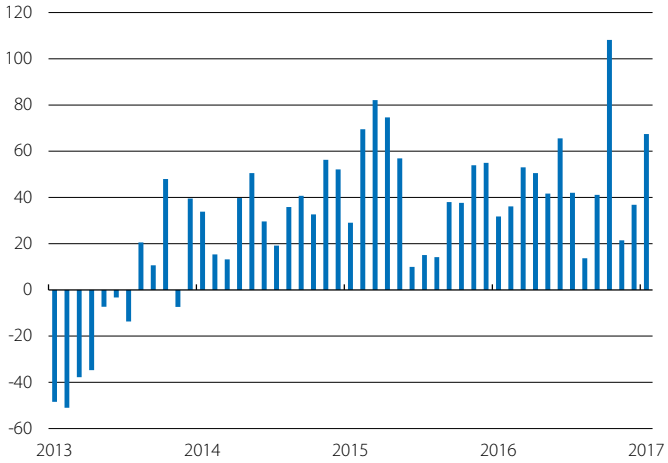
Thanks to the positive economic context, prices start the year with significant growth. Inflation rose to 3.0% in January and stayed at this level in February. This sharp price rise compared with one year ago is largely due to temporary factors. Electricity prices rose by 26.2% year-on-year in January while fuel prices continue to climb, following the trend in oil. Once these two effects diminish, the spike in inflation will gradually ease off in 2017. Core inflation will continue to rise steadily, however, supported by dynamic private consumption. This was up by 1.1% in January (1.0% in December).

The current balance will remain positive in 2017. Exports of Spanish goods slowed down slightly in the last part of 2016 although recent gains in competitiveness (with lower unit labour costs than our trading partners) and notable geographical diversification have ensured this slowdown is less marked than for the advanced economies on average. The increase in non-energy imports resulting from dynamic consumption has gone hand-in-hand with a larger energy imports bill due to higher oil prices. Nevertheless, the limited slowdown in exports, good outlook for the tourism industry and the moderate nature of oil price increases will help to maintain a positive external balance in 2017. Customs data for December confirm these trends, with goods exports up by 1.7% year-on-year (cumulative over 12 months), boosted by a 2.8% increase in non-energy exports. Meanwhile imports fell by 0.4% year-on-year due to a fall in energy imports (down by 23.7% due to base effects), a dip that will ease throughout 2017. The current account surplus for 2016 as a whole was 2.0% of GDP. This surplus will continue in 2017 albeit to a lesser extent, around 1.6% of GDP, especially because of rising oil prices.

Spain's good economic performance should help to reduce its large public debt. In 2016, public debt totalled 99.3% of GDP (99.8% in 2015), a high level that warrants continued efforts to strengthen the country's national accounts. As a consequence of the budget measures adopted by the government in December 2016, the European Commission improved its budget deficit forecast for 2017 to 3.5% of GDP (previously 3.8%). But it still believes these measures are not enough to achieve the agreed deficit target of 3.1% of GDP. In its annual report on Spain, the IMF also stated that the fiscal deficit is too high as a result of the relaxation carried out over the past two years. It has recommended resuming gradual but credible fiscal consolidation measures. In this report, the IMF

*Registered workers affiliated to Social Security **

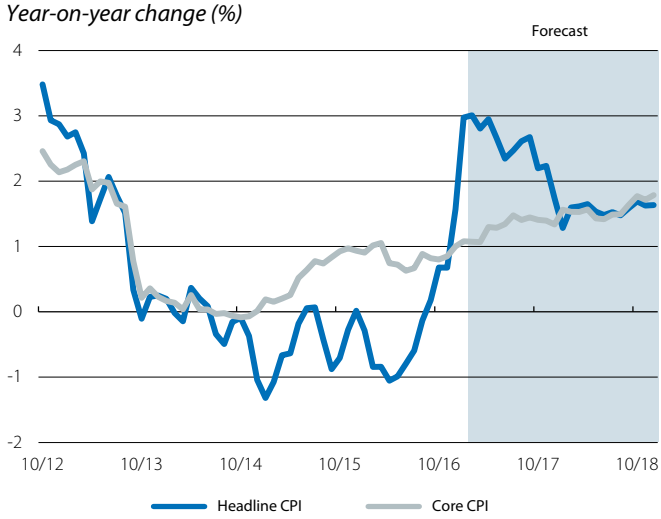
Month-on-month change (thousands of people)



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

CPI

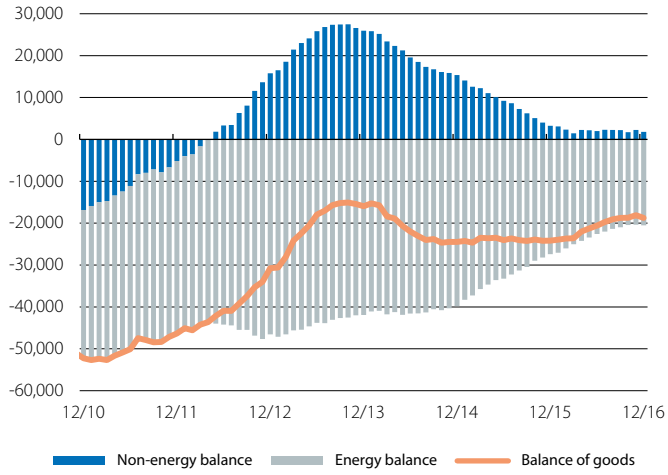
Year-on-year change (%)



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

International balance of goods

Cumulative over 12 months (billion euros)



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

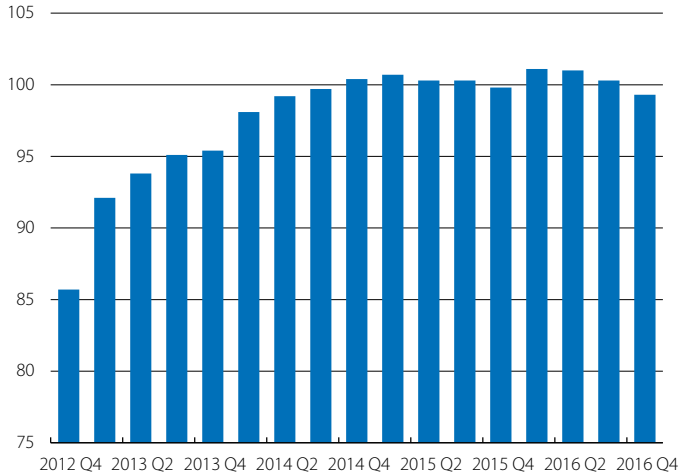
suggests maintaining the structural reforms carried out, continuing improvements in productivity and increasing the size of SMEs.

Banks are in a more solid position, helping the economy to grow. The number of new loans granted to households and small enterprises rose sharply in 2016. Regarding households, new consumer loans accelerated in 2016 as a whole, up by 29.0%, while mortgage loans also advanced considerably but less than in 2015. Loans to SMEs also continued to rise. However, loans to large enterprises fell sharply on account of these firms opting to issue corporate bonds. This improved flow of credit is supported by the higher quality of bank assets. The NPL ratio stood at 9.1% in December, with a cumulative improvement of 4.5 pps since the peak of December 2013. The downward trend in non-performing loans has therefore consolidated, falling by 13.5% year-on-year in December. In the medium term, this drop in the NPL ratio will continue to be boosted by the improvements seen in economic activity and the labour market, as well as sales of non-performing portfolios.

Better flows of mortgage loans boost the new upward cycle in the real estate sector. Another sign of the economy's good performance is the increasingly unquestionable recovery in the real estate sector. Valuations of non-subsidised housing have seen positive growth in year-on-year terms for the past seven quarters. They rose by 1.5% year-on-year in 2016 Q4 (0.8% in quarter-on-quarter terms), bringing the average increase in 2016 to 1.9%. House prices are expected to continue rising over the coming months, boosted by demand and the shortage of housing in some prime zones.

Public debt

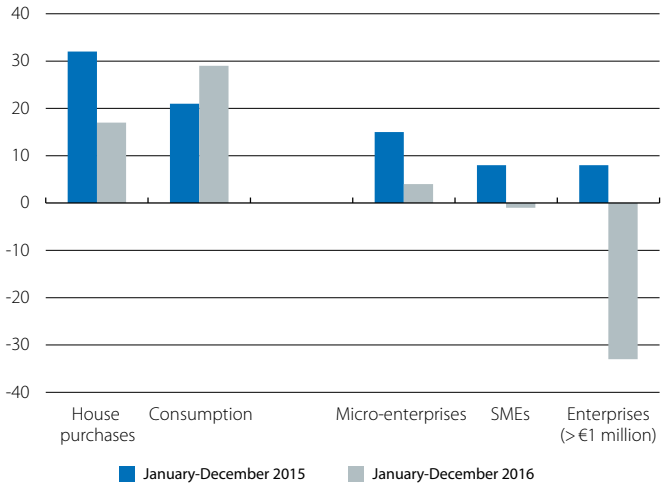
(% of GDP)



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

New loans granted

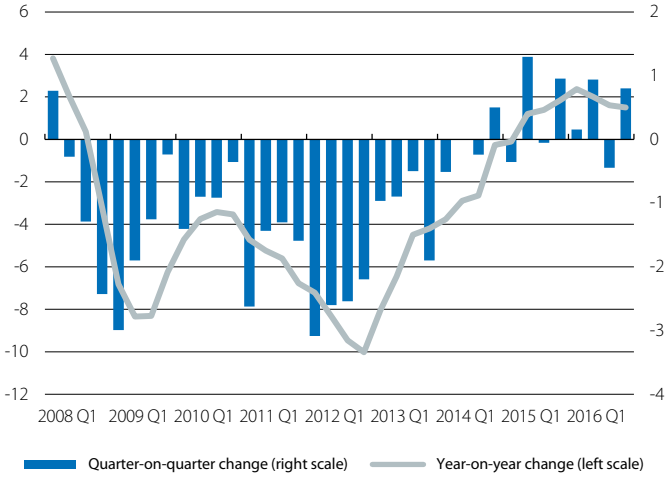
Annual change (%)



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

Housing prices

Change (%) *Change (%)*



Source: *CaixaBank Research, based on data from the Ministry of Public Works.*

FOCUS · Household deleveraging, at different speeds

In general, household debt has fallen dramatically over the past eight years. The most recent figures, for 2016 Q3, place this at 103.5% of gross disposable household income (GDHI), 31.5 pps below the peak reached in 2008 Q2. This substantial fall, together with lower interest rates, has helped to greatly reduce the debt burden of households: debt payments (including capital and interest) accounted for 7.3% of GDHI in 2016 Q2 compared with 11.7% in 2008 Q2.[1] Households are therefore in a healthier financial situation on the whole. However, these aggregate data hide very different realities. Spain's 2014 household financial survey (EFF)[2] allows us to examine the deleveraging in different types of household. In this article we analyse two segments of the population hardest hit by the crisis: young people and low-income households.

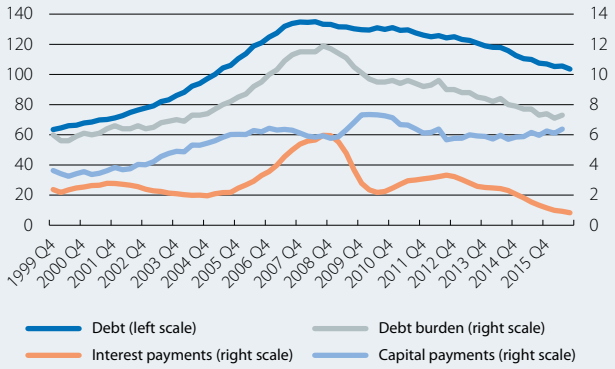
Between 2011 and 2014, the percentage of young households (reference person aged under 35) with some kind of outstanding debt fell considerably, from 80% to 56%. These figures reflect that fewer people at the age to create a new household have bought housing: while 69.3% of young households owned their main residence in 2011, in just three years this percentage fell to 49.5%. However, this figure is still higher than the euro area average (30%)[3] and especially Germany (10%).

A second important issue is the evolution of indebtness by household income level.[4] Among households with a medium income level (percentiles 20 to 80), the percentage of households holding debt fell between 2011 and 2014. This situation contrasts with the trend in debt for low-income households (less than percentile 20): the percentage of households holding debt rose from 20.8% in 2011 to 27.5% in 2014 and the average value of this debt also increased from 18,900 euros to 24,500 euros per indebted household. However, the debt burden for this group of low-income indebted households[5] fell sharply, from 46.2% in 2011 to 38.5% in 2014, thanks largely to lower interest rates. Nevertheless, this population segment still has a very high level of debt compared with indebted European households in the same income percentile (27.5%).

1. Aggregate debt burden data come from «BIS, debt service ratios statistics».
2. The EFF is survey published every three years by the Bank of Spain. This article uses data from 2011 and 2014 (most recent data). In this time period, household debt fell from 126.1% to 112.6% of the GDHI.
3. European data come from «The Eurosystem Household Finance and Consumption Survey», Second wave, ECB.
4. Households are divided into six groups according to their income level (percentiles).
5. Debt burden by household only takes into account households holding debt. The total debt burden (which includes all households) is therefore lower.

Household debt and debt burden *

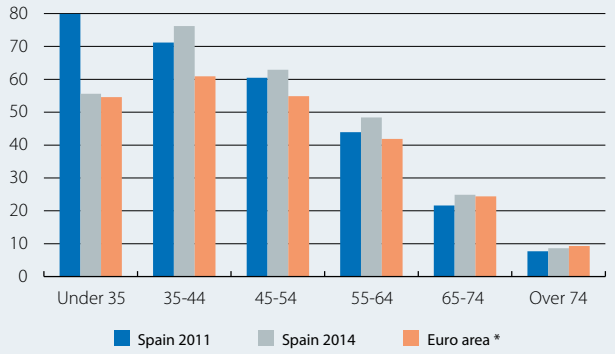
(% of GDHI) (% of GDHI)



Note: ** Debt burden includes interest and capital payments. GDHI is the gross disposable household income.*
Source: *CaixaBank Research, based on data from the Bank of Spain and the Bank for International Settlements.*

Households holding debt by age of reference person

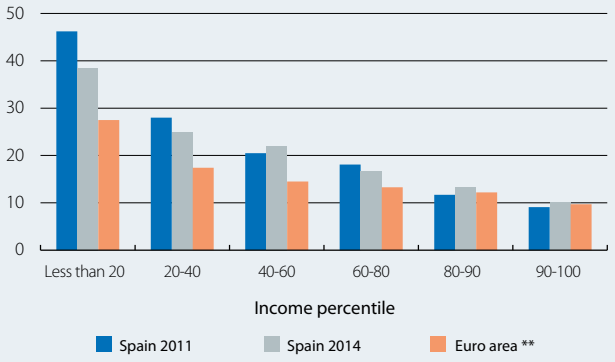
(% of all households)



Note: ** Euro area data correspond to 2011-2013, depending on the country.*
Source: *CaixaBank Research, based on data from the Bank of Spain (EFF) and ECB (HFCS).*

Debt burden * of households holding debt by income level

(% of household income)



Notes: ** Debt burden includes interest and capital payments.*
*** Euro area data correspond to 2011-2013, depending on the country.*
Source: *CaixaBank Research, based on data from the Bank of Spain (EFF) and ECB (HFCS).*

FOCUS · The sector diversification of Spanish exports

Spanish exports of goods have performed exceptionally well over the past decade. It also looks like Spanish firms are now competitive in a wider range of sectors internationally as the diversification of these exports has also increased. This greater diversification makes the Spanish economy less vulnerable to shocks in specific sectors.

The diversification of a country's exports can be measured by calculating the Gini coefficient. This provides a range from 0, maximum diversification, to 100, maximum concentration (when a country exports just one good). Based on data from Comtrade[1] and using a degree of disaggregation of 96 sub-sectors, we can see that the main euro area countries enjoy a similar degree of sector concentration. In general, this has fallen since the euro was adopted in 2000. Portugal and Spain are the two European countries whose sector concentration reduced the most between 2000 and 2014. This also fell in Germany and France but to a lesser extent, while it remained unchanged in Italy, albeit starting from a lower level of concentration. As a result, Spain and Portugal now have a lower sector concentration for their exports than the other large countries in the euro area (France, Italy and Germany).

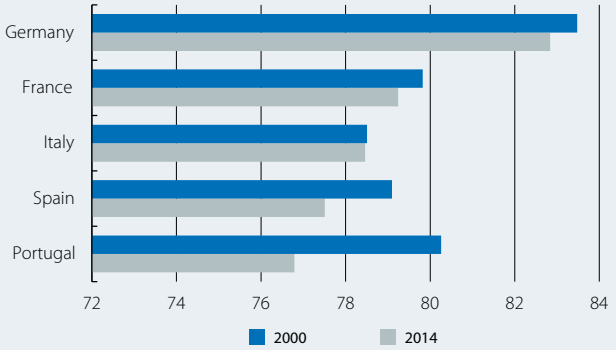
At a wider level of aggregation (27 sectors instead of 96 sub-sectors), the trend remains towards greater sector concentration between 2000 and 2014 in European countries. But Spain now has a similar concentration level to Germany and is more concentrated than France, Italy and Portugal. This suggests that Spanish exports have a high degree of intrasector diversification; i.e. between the sub-sectors in each sector.

Beyond the degree of diversification it is also useful to analyse the changes in sector composition. One key point is that, between 2000 and 2014, the sector composition of Spanish exports altered more than in other large European economies. Those with the biggest increases in their share of all Spanish exports were chemicals, pharmaceuticals and food, which jointly went from a 25.0% share in 2000 to 31.2% in 2014. More importantly, they played a vital role in export growth, contributing 58.9%. The food sector made a particularly significant contribution of 26.8% to the total growth in exports. Although we need to take into account the fact that the food industry in general is gaining ground in the main European countries, as well as US and China, the Spanish case is more accentuated in quantitative terms. Within this industry, the largest gains were made in meat, fruit and vegetables while this growth was led by dairy and cereals in other countries.

The automobile industry was among those sectors losing share of Spanish exports, steadily falling from 23.7% in 2000 to 16.2% in 2014. But in spite of its smaller share, the industry is still competitive and contributed 21.9% to export growth between 2000 and 2014. This reduction in share had nothing to do with the industry's performance (whose exports grew by 21.9% in the same period) but to the exceptional results of exports by the other sectors mentioned previously.

Gini coefficient for exports of goods

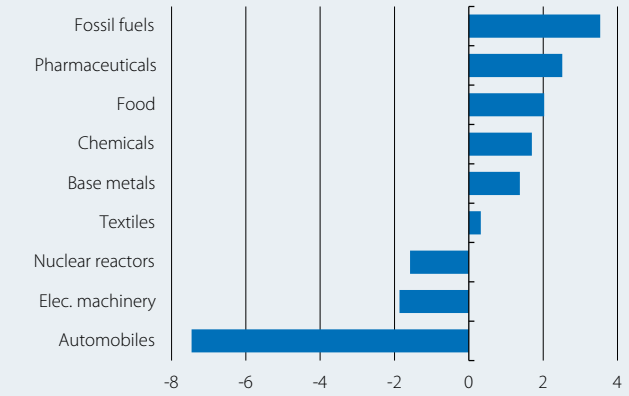
Level



Note: *The Gini coefficient is calculated based on the shares of 96 sub-sectors (0 = maximum diversification, 100 = maximum concentration).*
Source: *CaixaBank Research, based on data from Comtrade.*

Changes in the sector composition of Spanish exports

Change in share between 2000 and 2014 (%)



Source: *CaixaBank Research, based on data from Comtrade.*

1. Data gathered by the United Nations. Exports measured in nominal terms.

FOCUS · Housing stock: marked by the past

Today's expansion in the real estate sector is very uneven. For example, while house prices in the provinces of Barcelona and Madrid are growing by 6.6% and 4.3%, respectively,[1] they are still falling in most provinces of Castile & Leon and Castile-La Mancha. Why such a divergence?

One of the main reasons is the legacy of the real estate crisis in the form of new housing that has yet to be bought. As shown by the first chart, this stock varies greatly between provinces and is particularly large in the centre of the country, apart from Madrid.

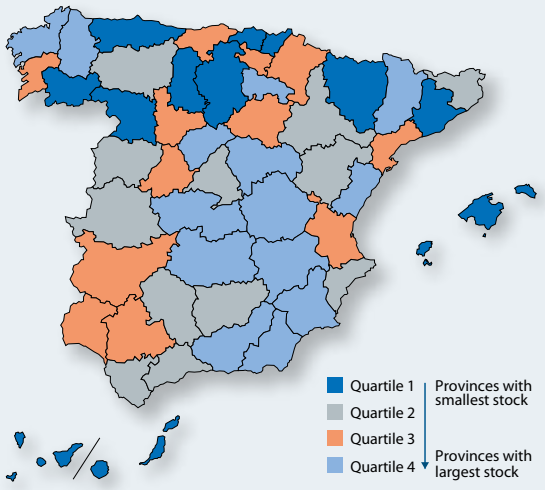
This larger stock acts as a brake on prices since it boosts the supply. As can be seen in the second chart, prices are still falling in zones with an above-average stock while they are rising in zones with a more limited supply. House prices rose by 0.7% year-on-year in the 25% of provinces with the smallest stock (quartile 1) but fell by 0.5% year-on-year in the 25% of provinces with the largest stock (quartile 4).[2] This reveals the different trend in the expansionary price cycle in each province depending on its stock.

But we must also remember that no connection has been observed between the stock of new housing on sale in each province and the speed of the recovery in house purchases (see the third chart). In fact, house purchases grew rapidly in almost all provinces. This is very good news for stock absorption[3] in those provinces where supply is still too large, and for the real estate sector as a whole. In 2016, purchases rose by 13.6% year-on-year, bringing the total number of homes bought in the year to 403,866. Growth in house purchases looks set to continue at a good rate, boosted by the labour market recovery and favourable financial conditions.

1. Year-on-year change in 2016 Q3 in the valuation of non-subsidised housing by the Ministry of Public Works.
2. Average year-on-year change in 2016 Q3. Provinces are ordered from less to more stock and divided into four groups or quartiles. «Quartile 1» contains the 25% of provinces with the smallest stock and «Quartile 4» the 25% of provinces with the largest stock.
3. Not all housing stock on sale ends up being sold as it may not meet the preferences or needs of the current housing demand.

New housing stock on sale

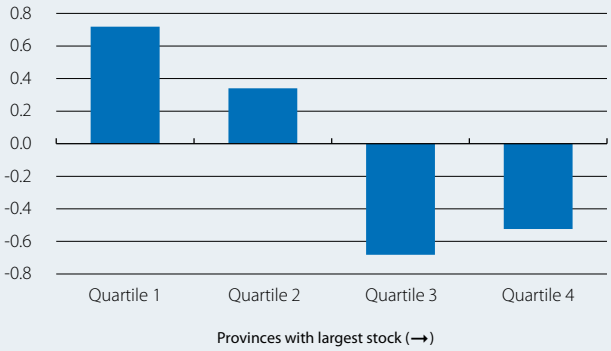
(% of total housing)



Note: *«Quartile 1» includes the 25% of provinces with the smallest stock. «Quartile 4» includes the 25% of provinces with the largest stock.*
Source: *CaixaBank Research, based on data from the Ministry of Public Works and Tinsa.*

House prices by stock in provinces

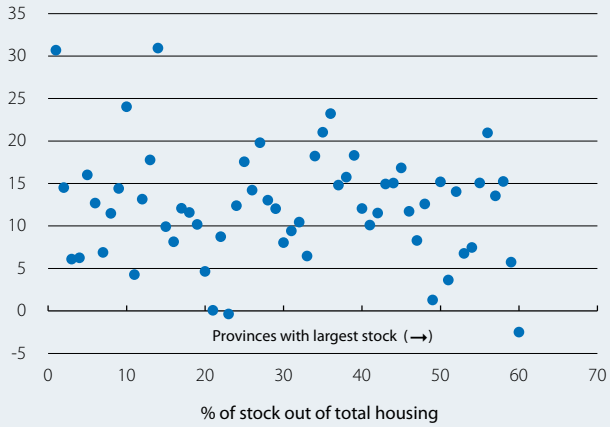
Year-on-year change in house prices (%)



Note: *Price data at 2016 Q3.*
Source: *CaixaBank Research, based on data from the Ministry of Public Works and Tinsa.*

House purchases by stock

Year-on-year change in purchases (%)



Source: *CaixaBank Research, based on data from the Ministry of Public Works, Tinsa and INE.*

KEY INDICATORS

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

Activity indicators

	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016 Q4	01/17	02/17
Industry								
Electricity consumption	–0.1	1.7	–0.8	0.8	0.4	0.1	5.0	1.2
Industrial production index	1.3	3.3	2.6	1.4	1.9	...	...	...
Indicator of confidence in industry *(value)*	–7.1	–0.3	–1.9	–2.8	–3.8	–0.6	0.1	1.7
Manufacturing PMI *(value)*	53.2	53.6	54.3	52.5	51.4	54.4	55.6	...
Construction								
Building permits *(cumulative over 12 months)*	–7.7	20.0	45.2	48.1	44.8	...	...	...
House sales *(cumulative over 12 months)*	–5.6	10.9	10.6	14.1	13.3	...	...	...
House prices	–2.4	1.1	2.4	2.0	1.6	...	–	...
Services								
Foreign tourists *(cumulative over 12 months)*	7.2	5.6	5.9	7.5	9.3	10.1	10.3	...
Services PMI *(value)*	55.2	57.3	54.7	55.5	54.9	54.9	54.2	...
Consumption								
Retail sales	1.0	3.0	3.8	3.8	3.8	3.1	...	...
Car registrations	18.4	21.3	8.0	17.8	11.0	8.9	10.6	...
Consumer confidence index *(value)*	–8.9	0.3	–2.5	–3.2	–6.1	–3.2	–2.5	–3.8

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

Employment indicators

	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016 Q4	12/16	01/17
Registered as employed with Social Security [1]								
Employment by industry sector								
Manufacturing	0.1	2.2	2.8	2.7	2.7	2.8	2.7	3.0
Construction	–1.6	4.7	2.6	2.1	2.7	3.3	3.2	4.7
Services	2.2	3.5	3.1	3.0	3.3	3.5	3.4	3.4
Employment by professional status								
Employees	1.4	3.5	3.4	3.1	3.5	3.8	3.6	3.9
Self-employed and others	2.2	1.9	1.2	1.0	0.9	0.9	0.9	0.9
TOTAL	**1.6**	**3.2**	**3.0**	**2.7**	**3.0**	**3.3**	**3.1**	**3.3**
Employment [2]	**1.2**	**3.0**	**3.3**	**2.4**	**2.7**	**2.3**	**–**	**–**
Hiring contracts registered [3]								
Permanent	18.8	12.3	8.3	17.4	17.9	13.3	13.4	19.5
Temporary	13.1	11.2	6.2	9.1	7.1	6.6	6.0	16.7
TOTAL	**13.4**	**11.3**	**6.4**	**9.8**	**7.9**	**7.1**	**6.5**	**16.9**
Unemployment claimant count [3]								
Under 25	–8.2	–11.0	–10.9	–12.0	–14.4	–13.2	–13.9	–12.3
All aged 25 and over	–5.3	–7.2	–7.8	–7.5	–8.6	–9.0	–9.1	–9.2
TOTAL	**–5.6**	**–7.5**	**–8.1**	**–7.9**	**–9.1**	**–9.4**	**–9.5**	**–9.4**

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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	01/17	02/17
General	**–0.1**	**–0.5**	**–0.7**	**–0.9**	**–0.2**	**1.0**	**3.0**	**3.0**
Core	0.0	0.6	1.0	0.7	0.8	0.9	1.1	...
Unprocessed foods	–1.2	1.8	2.1	2.7	3.5	1.0	–5.7	...
Energy products	–0.8	–9.0	–13.1	–13.6	–8.6	1.6	30.9	...

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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	10/16	11/16	12/16
Trade of goods									
Exports *(year-on-year change)*	2.5	4.3	0.2	4.3	–1.1	3.2	–1.6	8.5	2.9
Imports *(year-on-year change)*	5.7	3.7	–0.7	–0.3	–3.7	3.0	–1.7	5.3	5.6
Current balance	**11.2**	**14.7**	**15.4**	**18.9**	**20.7**	**22.3**	**20.7**	**21.9**	**22.3**
Goods and services	25.5	26.2	26.0	29.3	31.3	32.3	31.7	32.1	32.3
Primary and secondary income	–14.3	–11.5	–10.6	–10.3	–10.6	–10.0	–10.9	–10.2	–10.0
Net lending (+) / borrowing (–) capacity	**16.3**	**21.7**	**22.2**	**25.4**	**26.2**	**26.9**	**26.0**	**26.7**	**26.9**

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	2016 Q1	2016 Q2	2016 Q3	10/16	11/16
Net lending (+) / borrowing (–) capacity [1]	**–6.0**	**–5.1**	**–0.7**	**–3.0**	**–2.8**	**–**	**–**
Central government	–3.7	–2.6	–0.8	–1.9	–2.6	–2.0	–2.4
Autonomous regions	–1.8	–1.7	–0.1	–0.7	–0.2	–0.3	–0.5
Local government	0.5	0.5	0.1	0.1	0.5	–	–
Social Security	–1.0	–1.2	0.2	–0.6	–0.6	–0.6	–0.7
Public debt *(% GDP)*	**100.4**	**99.8**	**101.1**	**101.0**	**100.3**	**–**	**–**

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	2016 Q1	2016 Q2	2016 Q3	2016 Q4	12/16	Balance 12/16 [1]
Financing of non-financial sectors [2]								
Private sector	–5.8	–3.9	–3.2	–2.9	–2.1	–1.9	–1.3	1,635.2
Non-financial firms	–6.4	–4.0	–3.4	–3.2	–2.2	–1.9	–1.0	914.3
Households [3]	–5.0	–3.6	–3.0	–2.5	–2.0	–1.9	–1.7	720.9
General government [4]	5.9	4.0	3.5	4.2	4.6	3.1	3.0	1,098.6
TOTAL	**–1.8**	**–1.0**	**–0.6**	**–0.2**	**0.5**	**0.1**	**0.4**	**2,733.8**
Liabilities of financial institutions due to firms and households								
Total deposits	–0.9	–1.0	–0.4	–0.3	–0.3	0.0	–0.1	1,152.3
On demand deposits	10.8	18.5	16.2	16.0	16.4	17.8	18.2	444.6
Savings deposits	5.8	12.9	13.4	12.1	11.5	12.5	13.4	279.6
Term deposits	–7.6	–15.3	–15.4	–16.4	–17.4	–19.6	–21.0	406.8
Deposits in foreign currency	1.1	5.6	–4.0	1.6	–1.9	1.1	–1.4	21.3
Rest of liabilities [5]	–8.2	–13.0	–16.7	–16.3	–11.3	–18.9	–17.5	84.0
TOTAL	**–1.7**	**–2.2**	**–1.9**	**–1.7**	**–1.2**	**–1.6**	**–1.5**	**1,236.3**
NPL ratio *(%)* [6]	**12.5**	**10.1**	**10.0**	**9.4**	**9.2**	**9.1**	**9.1**	**–**
Coverage ratio *(%)* [6]	**58.1**	**58.9**	**59.0**	**58.7**	**59.3**	**59.0**	**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.*

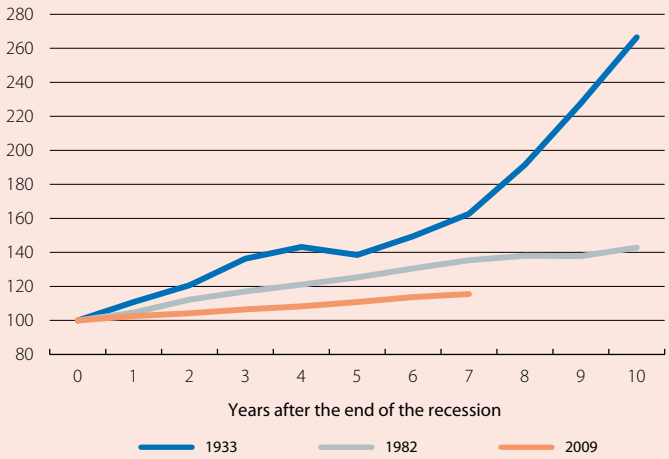
INVESTMENT IN INFRASTRUCTURE

Infrastructure: the common ground

The rivalry between F.C. Barcelona and Real Madrid is replicated in economics between demand-oriented and supply-oriented economists. In the current climate, the former support expansionary fiscal and monetary policy while the latter endorse structural reforms to make the economy more flexible and boost output. Can you imagine Real Madrid fans ever wearing an F.C. Barcelona shirt (or vice versa)? This is actually possible in economics with the common ground provided by infrastructure investment. Why does it enjoy such consensus? What is the status of infrastructure investment globally? Is it enough? What challenges are involved? The articles in this month's Dossier examine such questions, from the US to the large emerging economies in Asia and Latin America, as well as Europe.

Post-recession recovery in US GDP

Index (100 = initial year)



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

The unexpectedly weak global recovery has intensified debate in academic and economic policy circles.[1] As can be seen in the first chart, US GDP would be markedly higher today if its economy had recovered from the Great Recession at the same rate as after previous recessions. This is particularly shocking for demand-oriented economists because of the aggressive monetary policies in place. According to Larry Summers, former Secretary of the US Treasury, such secular stagnation is due to structural changes that have weakened both household and corporate consumption and investment (increased inequality and hysteresis effects[2] in the advanced economies, higher savings in emerging economies and an ageing population). In such a situation, Summers believes that sufficiently low interest rates cannot be achieved through monetary policy to offset the structural shortfalls in demand. The solution is therefore more expansionary fiscal policy, and one way of implementing this is by spending more on infrastructures.

Supply-oriented economists believe the weaker recovery is due to poorer growth potential than anticipated. Robert Gordon of Northwestern University suggests the digital revolution's impact on growth has been much weaker than in other technological revolutions of the past.[3] Boosting infrastructures would eliminate bottlenecks that are strangling supply and would increase production capacity beyond the effect of the digital revolution.

Finally, there is a third group of economists, including the renowned Kenneth Rogoff from Harvard, who take an intermediate stance and suggest the problem is one of a debt overhang. This is an important argument in the infrastructure debate as it emphasises the need to target high-return projects that do not compromise the sustainability of debt. The International Monetary Fund (IMF) estimates that, for the advanced economies as a whole, a 1 pp of GDP increase in public investment could raise output by 2.5% and reduce the public-debt-to-GDP ratio by almost 10% provided this investment is efficient, while there is no significant effect if it is not.[4]

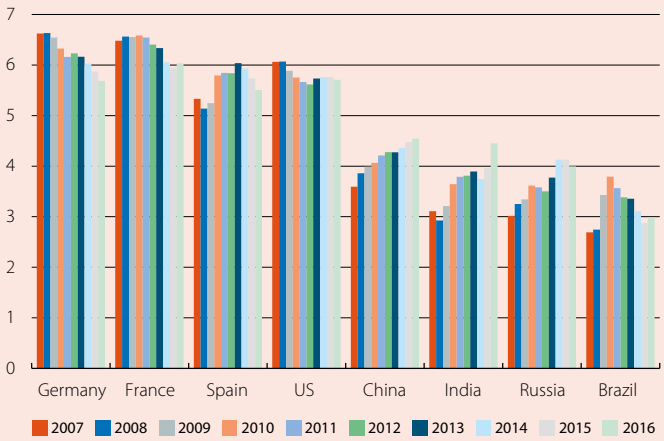
However, in spite of this common ground between economists and a potentially positive macroeconomic impact, the quality of infrastructures in the advanced economies has deteriorated over the past few years (see the second chart). For instance, as explained in the article «The US: to invest or not to invest, that is the question» in this Dossier, there has been a sharp decline in the quality of US roads, with growing congestion problems. Moreover, a considerable gap has been observed, both in the US and in Europe, between the investment planned and that required to keep infrastructures competitive. In response, Donald Trump

1. Some economists claim the weakness of the recovery is misleading and due to problems of measurement, underestimating actual growth. But they still believe infrastructure investment can boost growth potential.
2. In economics, the term «hysteresis» refers, for example, to the permanent loss of skills suffered by the long-term unemployed.
3. This argument is actually defended by both supply and demand-oriented economists. Olivier Blanchard, a top-flight demand-oriented economist, claims that a worse outlook in terms of future output leads to weak demand in the present.
4. IMF, 2014, «Is it time for an infrastructure push? The macroeconomic effects of public investment», World Economic Outlook, chapter 3.

proposes a one billion dollar investment programme over ten years but the what and the how are far from certain. The European Commission has implemented the Juncker Plan (see the article «Infrastructure in the European Union and the Juncker Plan» in this Dossier), with the added incentive of strengthening European integration. In the emerging economies, in contrast, infrastructure quality has steadily improved (with the notable exception of Brazil). Economic convergence is partly responsible: as shown by the third chart, development is related to higher infrastructure quality and this relationship is particularly strong in low-income economies. However, as explained in the article «Infrastructures and emerging economies: a cocktail for each development stage» in this Dossier, it remains to be seen whether the emerging economies are using the most efficient forms of investment to take advantage of the latest technological revolution, namely telecom and digital infrastructures.

Trend in infrastructure quality

*(1-to-7 scale) **

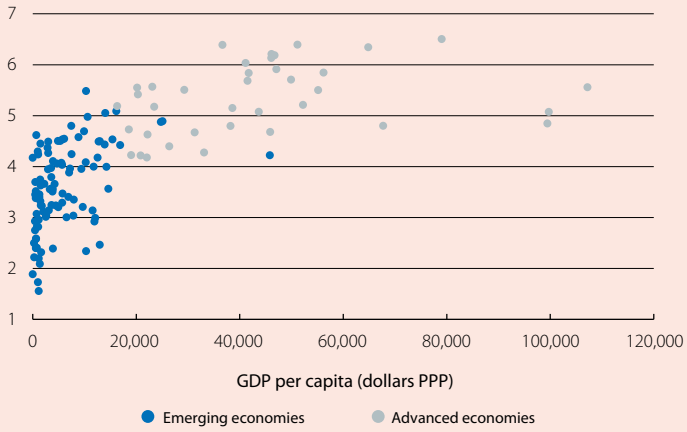


Note: ** A higher score indicates better infrastructure quality.*
Source: *CaixaBank Research, based on data from the Global Competitiveness Report.*

Given this situation, and the investment proposed by the advanced and emerging economies, we are left with one key question: how can we identify and finance those infrastructures with the greatest impact on output? Infrastructures usually entail high initial costs and profits are spread over a long period. They also tend to generate externalities and have features that characterise them as public goods (no competition and no exclusion). As a consequence, the optimum level of infrastructure investment cannot be achieved by private initiative alone. The public sector has therefore tended to be responsible for infrastructure construction and even management. But the public sector has not always invested in the most productive projects either. Moreover, with the arrival of what could be termed the Fourth Industrial Revolution (digitalisation and automation) and underlying factors such as the ageing population and climate change, the precise nature of this optimum infrastructure for the future is far from certain. Given such problems of knowledge and efficient management, public-private partnerships (PPPs) have become more popular, especially in the emerging economies. In a typical PPP, the private firm provides the initial financing required and designs, builds, operates and maintains the infrastructure, making use of its know-how and ensuring an efficient use of resources. In exchange, it receives regular payments from the public sector for a specific period of time. However, PPPs are not always successful and have sometimes been used to dodge restrictions on public spending and to finance relatively unprofitable projects, especially in the emerging economies.

Infrastructure and economic development

*Infrastructure quality (1-to-7 scale) **



Note: ** A higher score indicates better infrastructure quality.*
Source: *CaixaBank Research, based on data from the Global Competitiveness Report.*

Ultimately the question is whether Trump in the US, the Juncker Plan in Europe or initiatives such as the New Silk Road in the emerging economies can identify and carry out high-return projects which, at the end of the day, are the ones that can produce a virtuous circle of growth. The answer? Come and take a look.

Adrià Morron Salmeron
Macroeconomics Unit, Strategic Planning and Research Department, CaixaBank

The US: to invest or not to invest, that is the question

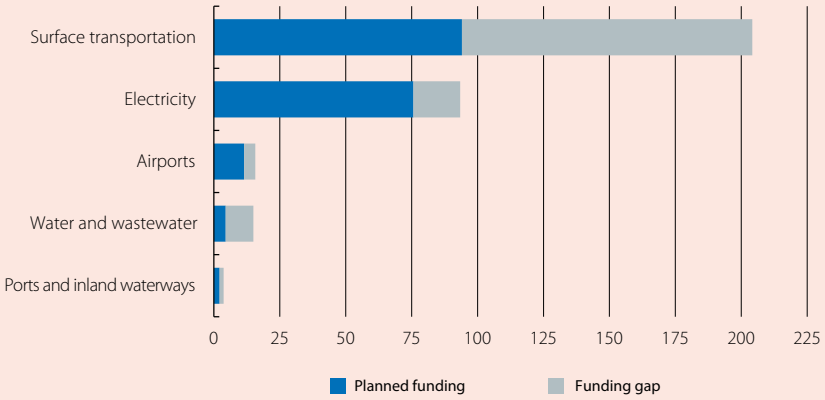
In the last US presidential election, the stance on key issues of the Republican candidate (and now President) Trump and of the Democrat Clinton had little in common except for the need to increase spending on infrastructures. In fact, there appears to be widespread consensus regarding this need in the US. Some economists argue that more and better infrastructures could offset the country's lower growth in productivity. Beyond economic interests, some simply wish for pothole-free roads and bridges in good shape.

And the latter are not without reason. Around 25% of US roads are in a poor condition, more than 40% of its highways are heavily congested, a problem that has increased by 36% in the past six years, and the country has one of the worst trends in infrastructure quality among the advanced economies.[1]

According to the American Society of Civil Engineers (ASCE), there is a wide gap between planned and optimum infrastructure funding over the next 10 years. Although the ASCE may obviously have a vested interest in exaggerating the need for more infrastructure funding (as it benefits them directly), the estimated 144 billion dollar annual shortfall (equivalent to 0.9% of GDP) is at least revealing. In spite of the considerable rise in federal expenditure on improving and maintaining roads promoted by the Obama administration,[2] this shortfall has been a problem for some years now and entails a significant economic cost: 147 billion dollars in 2015 according to the ASCE, due to higher spending on vehicle repairs, longer travel times, less safety for citizens and environmental costs.

US: annual spending on infrastructures *

*(Billion dollars) ***



Notes: ** According to the American Society of Civil Engineers, optimum funding equals the planned funding plus the funding gap.*
*** In billions of dollars, constant 2015 value.*
Source: *CaixaBank Research, based on data from the American Society of Civil Engineers «Failure to Act. Closing the Infrastructure Investment Gap for America's Economic Future, 2016».*

From a strictly economic point of view, the benefits of investing in infrastructures can outweigh the costs. Of course, provided this investment is in projects that boost the country's production capacity. Numerous studies analysing and quantifying the effects on productivity and economic growth of fiscal measures aimed at increasing infrastructure investment in the US conclude that the effects on growth can be broadly positive, both in the short and long term. In the short term, higher spending stimulates demand while in the long term it improves production capacity (i.e. it affects supply).

The multipliers for the US case in particular, based on empirical evidence from the 1950s to the 2000s, range from a very modest 0.4 to a considerable 2.2.[3] For example, a multiplier of two means that, for every extra dollar spent on improving infrastructures, GDP increases by two dollars in the medium term.

One concern related to increased spending is the potential impact on public debt. This is particularly relevant in the US, where the public sector foots the bill for most infrastructure projects (the local, state and/or federal government) and where public debt is already at a high 104.8% of GDP. But in this respect, once again, a large number of studies conclude that the public-debt-to-GDP ratio might actually fall, as the increase in debt due to larger fiscal deficits would be more than offset by the higher GDP. This is in line with the estimate of relatively high fiscal multipliers.

1. According to data from the US Federal Highway Administration, the IMF and the American Society of Civil Engineers (in a study by the Economic Development Research Group).
2. President Barack Obama introduced a bill to increase federal spending on surface transportation infrastructures. It was passed in December 2015 (Fixing America Transportation Act or FAST).
3. See Reichling, F. and Whalen, C. (2015), «The Fiscal Multiplier and Economic Policy Analysis in the United States», Working Paper 2015-02 (No. 49925) for a summary of different studies on fiscal multipliers. And Leduc, S. and Wilson, D. (2013), «Roads to Prosperity or Bridges to Nowhere? Theory and Evidence on the Impact of Public Infrastructure Investment», NBER Macroeconomics Annual, 27(1), 89-142, for a specific example of highway investment.

Infrastructure investment therefore seems to have helped the US to grow in the past. Nevertheless, some of these positive effects could be undermined by certain distinctive features of the US economy today. The labour market's limited slack is one such case in point. If the labour market is close to full employment, fiscal policy would have more of an impact on inflation and much less on growth. An unemployment rate below 5% and 2.5% wage rises suggest that the US labour market's slack is increasingly limited. In this case, and according to various analyses including the IMF World Economic Outlook for 2014, the fiscal multiplier would be around one, clearly far from the aforementioned two.

There is a flaw to this argument, however. Increased investment in infrastructures could particularly help out those people facing significant structural employment problems after the economic-financial crisis of 2008: low qualified, middle-aged men who, discouraged by the crisis, have left the labour market but could be readily employed in the construction sector.

Another factor that could lessen the benefits of greater investment in traditional infrastructures is the rate of technological progress. The world is changing, and quickly. Can the most representative infrastructures, which have provided the US with solid growth for the last 50 years, remain effective in today's knowledge economy? Is improving the state of the roads, even though they are clearly in a poor condition, more crucial than ensuring a wireless broadband connection is available across the country to boost the use of drones or driverless cars? This new technological situation certainly raises doubts as to the most appropriate infrastructures and how much one investment project or another might affect productivity.

In short, the public sector has an important but difficult role to play in the new US economy. Its investment can help to develop the industry of the future. But deciding exactly how much should be spent and on what has become a lot more complex given the country's current business cycle stage and the uncertain environment.

Clàudia Canals
Macroeconomics Unit, Strategic Planning and Research Department, CaixaBank

Infrastructure in the European Union and the Juncker Plan

The Treaty of Rome, which celebrates its 60th anniversary this month, already stressed the importance of trans-European infrastructures and established a common transport policy. The aim was to help create a single market and reinforce economic and social cohesion in Europe. Sixty years on, infrastructure investment is still perceived as a crucial aspect of the European project and the Juncker Plan is a clear sign of this.

Infrastructures are fundamental to boost a region's economic growth. The right infrastructures reduce production costs and help the flow of goods, services, people and information. As they integrate markets, they also encourage competition, increasing incentives to innovate and improving productivity. The European Union (EU) is a case in point. In order for the European single market to perform at an optimum level, the region requires integrated infrastructure networks for transport, energy, telecommunications, etc. that link all its member States.

The development of the Trans-European Networks (TEN) was established as a priority in the 1992 Maastricht Treaty. These include not only the prominent transport networks (TEN-T) but also those for energy (TEN-E) and telecommunications (eTEN). TEN-T networks consist of nine European corridors that, by 2030, should unite 94 European ports with railway and road connections, 38 key airports with train connections to the major cities, 15,000 kilometres of high-speed trains and 35 cross-border projects to reduce bottlenecks. In the case of energy, the TEN-E network is expected to improve the cross-border interoperability of the electricity and gas networks and also boost renewables. Finally, the aim of the eTEN telecommunications network includes modernising broadband networks and launching trans-European electronic services of common interest in the areas of health and public administration.

In general, infrastructures have improved substantially in the European Union since the TEN network project began. However, according to the European Investment Bank (EIB) there is still a significant gap in infrastructure investment. By their estimates, the shortfall between the investment made in infrastructures and that required to achieve the different global benchmarks will reach 335 billion euros a year in the next five years. More than 30% of this gap concerns energy infrastructures to guarantee energy supply in the EU, modernise distribution networks and achieve greater energy efficiency in buildings and industry. In the era of the knowledge economy, of note are telecom infrastructures, which account for 19% of this gap, requiring improved data management capacity and cyber-security. The rest of the infrastructures required are related to logistics and transport (24% of the gap) and water and waste management (27%).

EU investment needs in infrastructure according to the EIB

(Billion euros)

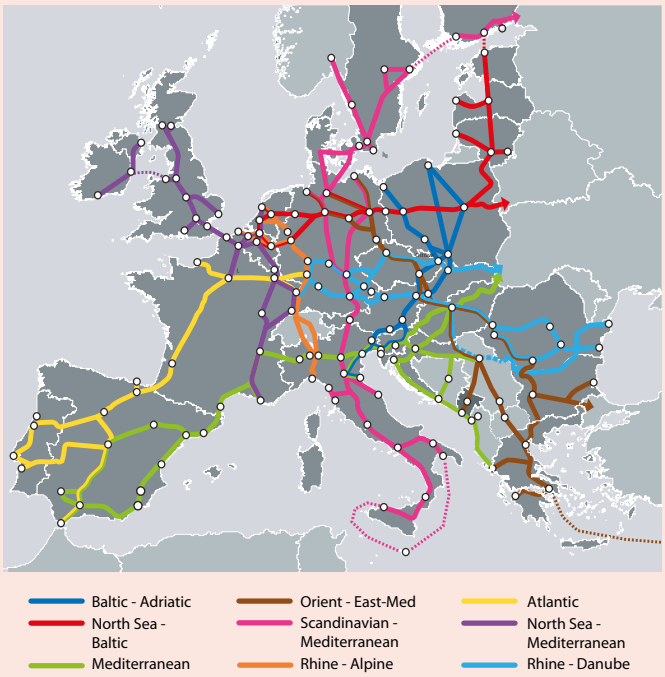
	Annual investment			
	Required	Current	Gap	(% of total)
Investment needs in transport and logistics infrastructure	**160**	**80**	**80**	**24%**
Modernising urban transport to meet global benchmarks	80	40	40	
Ensuring sufficient capacity in interurban traffic (including Trans-European Transport Networks)	80	40	40	
Investment needs in the energy sector	**230**	**130**	**100**	**30%**
Upgrading energy networks (gas and electricity)	64	47	18	
Energy efficiency savings in buildings and industry	112	42	70	
Power generation, including renewables	53	41	12	
Investment needs in the telecommunications sector	**160**	**95**	**65**	**19%**
Reaching global benchmark for broadband services	75	45	30	
Matching US data centre capacity	50	25	25	
Matching US investments in cyber-security	35	25	10	
Investment needs in water and waste sectors	**138**	**48**	**90**	**27%**
Water security, including flood risk management	15	2	13	
Compliance and rehabilitation of Europe's water infrastructure	75	30	45	
Enhancing waste management/materials recovery	8	3	5	
Additional needs for resilient and efficient urban infrastructure	40	13	27	
Total	**688**	**353**	**335**	**100%**

Note: *For more details and specific periods by infrastructure type, see EIB (2016), «Restoring EU Competitiveness. 2016 updated version».*
Source: *CaixaBank Research, based on data from the European Investment Bank.*

Since infrastructures are almost public goods, part of this investment could be via public funding. However, the hefty investment required and the difficulty of selecting the right projects to ensure efficient infrastructure investment has raised the profile of public-private partnerships (PPP) in the European case (see the article «Infrastructure: the common ground» in this Dossier for more details). Doubts regarding the investment required in such a context of technological change, as well as the degree of risk involved, mean that the public sector is increasingly acting as a catalyst for investment, providing legal security (clear rules) while the private sector takes care of the project design and most of the investment.

Trans-European Transport Networks (TEN-T)

Ten-T Core Network and Corridors



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

The investment plan for Europe, better known as the Juncker Plan, is a paradigm for PPP: it aims to kickstart EU investment by mobilising financial resources more effectively, allowing the EIB to finance riskier but more innovative projects and getting rid of barriers to investment in the EU. The core of the plan is investment project funding via the European Fund for Strategic Investments (EFSI), set up in June 2015. With a capital of 33.5 billion euros, from contributions made by the European Commission (26 billion) and the EIB (7.5 billion) as a guarantee, it aims to promote investment in strategic infrastructure and in smaller businesses and midcap companies to the value of 500 billion euros between 2015 and 2020.[1] At present, the implementation of the Juncker Plan is going according to plan. In January 2017, 31.5 billion euros of funding had already been approved for 444 operations in 28 EU countries, with an expected total investment of 168.8 billion euros, around 33% of the overall target. Most of the projects are investments in infrastructures and innovation in the sectors of energy, industry and transport, focusing primarily on large countries such as France, Italy, the United Kingdom and Spain. In fact Spain is one of the countries benefitting the most, with funding approved for 40 projects valued at 3.42 billion euros and a total investment of 23 billion euros.

One important part of the Juncker Plan also aims to raise investor awareness of the projects and reduce the difficulties associated with investment, such as regulatory fragmentation. The European Investment Project Portal promotes investment projects to attract private financing and provides support jointly with the European Investment Advisory Hub. The Plan also hopes to improve the investor environment in general, reducing the barriers to investment that still exist in the EU, such as red tape and market fragmentation.[2]

So far the Juncker Plan seems to have achieved a good level of investment, in line with expectations.[3] However, it is still too early to draw any conclusions regarding its effectiveness or impact. Many projects have yet to be implemented and their results will be seen in the medium term. It is also difficult to evaluate whether the projects chosen would not have been implemented without the Plan, i.e. whether they are actually «additional». Their level of risk is also difficult to gauge, in spite of the fact that the degree of innovation and riskiness is a necessary condition to involve EFSI support. Claeys and Leandro believe it is premature to state that the EFSI has led to the funding of additional projects as most of those approved are very similar to others already financed by the EIB, and the little information available makes it difficult to judge their risk profile.[4]

The Juncker Plan acts as a complement to the infrastructure investment already made by the European Commission at a trans-European level, mostly channelled through other programmes such as the Connecting Europe Facility, Horizon 2020 and European structural and investment funds as part of the EU's cohesion policy. In any case, it represents a shift in public intervention in infrastructure investment towards redressing market faults and underinvestment, in which public funding is used to attract private capital and help the financing of a larger number of projects.

Josep Mestres Domènech
Macroeconomics Unit, Strategic Planning and Research Department, CaixaBank

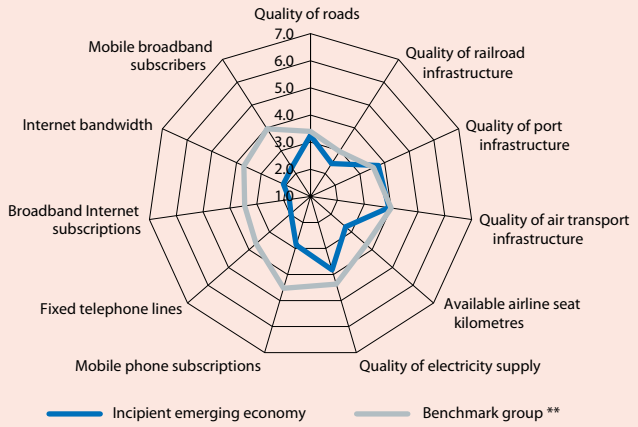
1. The aim is to multiply the initial capital by 15, using this as a guarantee to issue debt instruments valued at 100 billion euros which is then used as a guarantee to attract 400 billion more in private investment.
2. EIB (2016), «Breaking Down Investment Barriers at Ground Level. Case studies and other evidence related to investment barriers under the third pillar of the Investment Plan for Europe».
3. For more details, see the three different EFSI evaluations produced by the European Commission, EIB and Ernst & Young, respectively.
4. Claeys, G. and Leandro, A. (2016), «Assessing the Juncker Plan after one year», Bruegel.

Infrastructures and emerging economies: a cocktail for each development stage

In 2012, the global infrastructure investment per year was approximately 4 billion US dollars. This could rise to 9 billion dollars by 2025. 60% will be spent on infrastructures in the Asia-Pacific region.[1] Demand for investment in the emerging economies will therefore drive global infrastructure development over the coming decades. One of the clearest examples is the initiative popularly dubbed the New Silk Road. Although this project has yet to be fully defined, the aim is to link 65 countries in Asia, Africa and Europe, either through a number of overland megaprojects or a series of maritime ports. It will include at least six large economic corridors, entails a total investment that could reach 6 trillion US dollars (approximately half China's current GDP) and should be completed by around 2050. Its economic clout promises to be as colossal as the initiative itself, since it will improve trade flows in a potential market representing 40% of world GDP with around 4.4 billion people. In short, large-scale infrastructures will soon be more or less synonymous with the projects required by the emerging economies. And that is precisely the issue this article attempts to throw light on: are there any common features to emerging infrastructures that help them make a decisive contribution to socio-economic development?

Infrastructures of incipient emerging economies

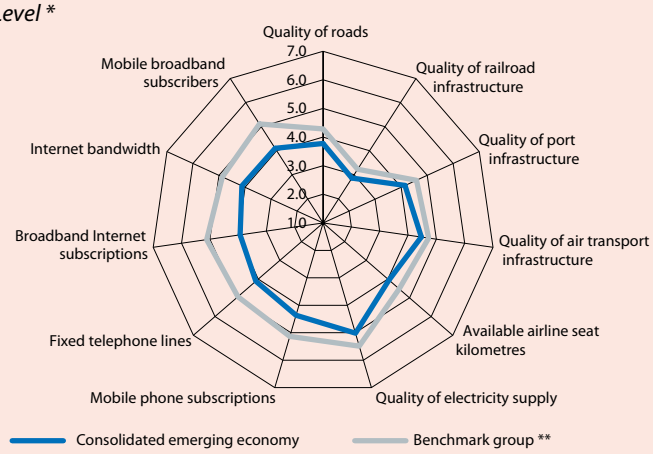
*Level **



Notes: ** Where 7 is the best quality infrastructures and 1 the worst.*
*** Countries moving from the incipient emerging group to the consolidated emerging group.*
Source: *CaixaBank Research, based on data from the World Bank and the Global Competitiveness Report.*

Infrastructures of consolidated emerging economies

*Level **



Notes: ** Where 7 is the best quality infrastructures and 1 the worst.*
*** Countries moving from the consolidated emerging group to the advanced economy group.*
Source: *CaixaBank Research, based on data from the World Bank and the Global Competitiveness Report.*

But first we need to classify the emerging economies according to their degree of socio-economic development. The typical approaches range from using income per capita to group emerging countries to establishing categories according to qualitative traits. In this article we have decided to use the classification provided by the Global Competitiveness Report (GCR), which combines both approaches and identifies three large groups of countries based on their development.[2] The three emerging economies which readers tend to think of are in the first two categories (which we will call «incipient emerging» and «consolidated emerging»), while the advanced economies are in the third group.

In addition to these broad categories, the GCR also identifies some economies which have managed to «escape» from their group and are moving towards the next development stage. For instance, while India is included in the stage of incipient emerging economies, the Philippines and Vietnam are transitioning towards the consolidated emerging stage. Using this classification, the question to be answered is: how different are the infrastructures of these transitioning economies compared with those of their previous group? The infrastructures were characterised by identifying 11 key dimensions, ranging from the quality of the roads to digital infrastructures (see the enclosed charts for the detailed categories). We can therefore compare the average infrastructures possessed by an incipient emerging economy with those, on average, of a country that is already moving towards the consolidated emerging stage, or compare the average infrastructures of the consolidated emerging stage with those of countries heading towards the advanced economy stage.

1. PricewaterhouseCoopers (2015), «Capital project and infrastructure spending». Outlook 2025.
2. Stage 1 economies, which in GCR terminology are «factor-driven», are countries whose income per capita tends to be below 2,000 dollars; stage 2 economies («efficiency-driven») are between 3,000 and 9,000 dollars and, finally, stage 3 economies («innovation-driven») exceed 17,000 dollars.

As expected, our analysis reveals that emerging economies must improve in all areas of infrastructure to improve their development status: the infrastructures of benchmark countries outclass their precursors in almost each and every one of these dimensions. But some details need to be added to this general assertion. Firstly, transitioning from an incipient to a consolidated emerging economy seems to involve a larger infrastructural jump than when escaping the category of consolidated emerging economies. Secondly, the need to improve infrastructures across the board does not necessarily mean all kinds of infrastructures are equally critical. The data show that each group of emerging countries is closer to the next development group in terms of what might be called the traditional infrastructures (roads, ports, energy, etc.) than in those related to the new information and communication technologies (ICTs). When developing, countries tend to act first in traditional areas, later on tackling the area of ICT infrastructures.

This being the trend for large groups, it is revealing to look at some particular examples of countries. India is currently in the group of incipient emerging economies. Indian governments have repeatedly stressed that infrastructures must be improved for it to move on from its current stage of development. What has been the outcome of this investment? The country now has better traditional infrastructures not only than the other countries in the same category but also than its benchmarks at the next development stage. Paradoxically, its ICT infrastructures are generally poor in quality although the country is renowned for its subcontracted work in this area.

Another revealing case is Russia, a country classified as transitioning from an incipient to a consolidated emerging economy. The general opinion is that Russia has run aground in this transition as it has failed to acquire the necessary elements to make the jump to the next stage. However, an examination of its infrastructures shows that the country seems to have made a significant effort to prioritise these. Russia now compares well, even with the best emerging economies, in aspects such as air transport, railways and some ICT infrastructures. The price? Accepting bad quality in infrastructures such as roads, for example.

And what about China? In our terminology, the Asian giant is a consolidated emerging economy. The country has based a large part of its traditional growth model on domestic investment. As a (predictable) result, its traditional infrastructures are good. But the country is one step behind in terms of ICT infrastructures, although perhaps not to the extent of India. If its plan for the future is to shift the onus onto services, especially high added value, investment must be channelled towards this kind of infrastructure.

A fourth emerging country that tends to attract attention in the area of infrastructures is Brazil. It has been repeatedly hit by production ergo infrastructure bottlenecks due to the economy overheating when its growth was accelerating. The data confirm this view. Brazil, a consolidated emerging economy, is far below its benchmarks, both in traditional and also in many ICT infrastructures, making any jump unlikely in the short term unless it acts decisively.

Finally, we should take a look at the singular case of Malaysia. Most emerging countries have infrastructures that are more or less in keeping with their income per capita. But this is not the case of Malaysia, whose infrastructures are clearly better than expected given its development stage. Its growth potential is therefore likely to improve. A key point to understanding this situation is that a large part of Malaysia's strategy relies on strengthening its ties with one of the world's most advanced economies, namely Singapore.

Having reviewed the mix of infrastructures in the emerging countries and identified the ideal composition, the question is now how to achieve this perfect cocktail and, in particular, how it can be made with limited resources. Although an in-depth analysis of the issue is beyond the scope of this article, the literature on infrastructure funding has stressed the growing importance for the emerging economies of a specific kind of financing, namely public-private partnerships (PPPs). Although totally public funding and development was the norm in the past, especially in developed countries, PPPs are now becoming increasingly popular in the emerging economies. According to World Bank figures, the stock of public capital financed by PPPs has gone from almost zero to the equivalent of 3% of GDP in the emerging countries in 2013, while in the advanced countries it is estimated to be 10 times less.

In summary, for most of the emerging countries studied, the «recipe», if we dare offer one, seems to be the following: once the basic traditional infrastructures are in place, ICT infrastructures should be enhanced to improve the country's chances of making larger jumps in development. As investment in ICT infrastructures is riskier, and public funding is limited in many of these countries, some kind of private involvement is also required. In other words, in the perfect infrastructure cocktail, the more advanced the emerging country, the larger the proportion of ICTs and PPPs.

Àlex Ruiz
Macroeconomics Unit, Strategic Planning and Research Department, CaixaBank

CaixaBank Research

PUBLICATIONS

All publications are available online at **www.caixabankresearch.com**
E-mail: **research@caixabank.com**

WORKING PAPER SERIES

¿Un sistema europeo de garantía de depósitos?
Enric Fernández, Gerard Arqué and Cristina Plata, 02/2017

Nota Metodológica del Índice CaixaBank para la Internacionalización Empresarial (ICIE)
Sergio Mayordomo and María Rodríguez-Moreno, 11/2016

From missing disinflation to missing inflation: Understanding the recent path of inflation in the US
Nadim Elayan Balagué and Ayman El Dahrawy Sánchez-Albornoz, 03/2016

La posición externa de la economía española: claves para reducirla
Jorge Meliveo and Judit Montoriol, 02/2016

Radiografía de la productividad del trabajo en España
Maria Gutiérrez-Domènech, 01/2016

Termómetro inmobiliario de "la Caixa" Research
Ariadna Vidal Martínez, 01/2015

La internacionalización del renminbi: un largo camino por recorrer
Clàudia Canals, 03/2013

Vulnerabilidad de las economías emergentes
Àlex Ruiz, 02/2013

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

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

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

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

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

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

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

DOCUMENTOS DE ECONOMÍA CAIXABANK

La eficiencia del sector público, clave para la consolidación fiscal
Oriol Aspachs, Anna Campos, Jordi Gual and Judit Montoriol

¿Por qué Europa genera poco crecimiento y empleo?
Jordi Gual

La prociclicidad del sistema financiero después de las reformas
Sandra Jódar-Rosell and Jordi Gual

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

Enseñanzas latinoamericanas para una crisis europea
Àlex Ruiz

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

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

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

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

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

CAIXABANK ECONOMIC PAPERS

Banking Union: made of concrete or straw?
Jordi Gual

European Integration at the Crossroads
Jordi Gual

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

Should the ECB Target Employment?
Pau Rabanal

Integrating Regulated Network Markets in Europe
Jordi Gual

MR MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK

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

CURRENT ECONOMY

FINANCIAL SYSTEM

COLECCIÓN COMUNIDADES AUTÓNOMAS

CÁTEDRA "la Caixa" ECONOMÍA Y SOCIEDAD

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

ECONOMIC STUDIES

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

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

CAIXABANK GROUP: KEY FIGURES
As of December 31, 2016

	MILLION €
Customer funds	303,895
Loans and advances to customers, gross	204,857
Profit atributable to Group	1,047
Market capitalisation	18,768
Customers (million)	13.8
CaixaBank Group employees	32,403
Branches in Spain	5,027
Self-service terminals	9,479

"la Caixa" BANKING FOUNDATION COMMUNITY PROJECTS: BUDGET 2017

	MILLION €
Social	304.2
Excellence in research and training	79.6
Raising awareness of culture and knowledge	126.2
TOTAL BUDGET	**510**

CaixaBank Research on Twitter  @CABK_Research

Follow us on Twitter to get the latest news from CaixaBank Research.

All our publications are available at www.caixabankresearch.com

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

Design and production: www.cegeglobal.es
Legal Deposit: B. 21063-1988 ISSN: 1134-1920

CaixaBank Research