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ECONOMIC & FINANCIAL ENVIRONMENT

DOSSIER: OUTLOOK 2018

CaixaBank Research

MONTHLY REPORT - ECONOMIC AND FINANCIAL MARKET OUTLOOK
December 2017

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Outlook 2018

As every December, this month we have devoted the *Monthly Report's* Dossier to next year's prospects.

Twelve months ago this Editorial underlined the importance of politics for the 2017 economic outlook. We talked about President Trump, the French and German elections, Brexit and the political situation in Spain.

One year on, the global and euro area economies have seen strong growth, even more than we expected, but our attention is still monopolised by politics.

In the case of Spain, the words we used last year are clearly still valid: major reforms require dialogue and compromises to be reached, acceptable to the vast majority of the population, which offer stability and certainty.

The Trump administration in the US has shown some common sense and is on the verge of securing approval for a tax reform that is by and large positive, although some protectionist tics are still a cause for concern.

In Europe, French and German voters supported pro-Europe parties but it remains to be seen whether the Franco-German axis can lead the reforms required by the euro area to strengthen the integrity of monetary union. Another «grosse Koalition» in Germany, which could come about in the next few weeks, would be excellent news. On the other hand, the Italian elections, just around the corner, will once again test the waters regarding the rise in populism and Euroscepticism.

As for Brexit, we expected the whole process to be highly complex and it looks like we were right. However, we are still optimistic about a transition period being established. This would allow more time for negotiations and enable a final agreement to be achieved that does not unduly penalise the free movement of people and capital. Nevertheless, there is still a considerable risk of no agreement being reached. Such an outcome would cause huge damage, most particularly to the British economy. With each day that passes, it becomes even clearer that it was a mistake to hold a Brexit referendum in which a large part of the electorate did not know what they were voting for. They only knew what they were voting against.

In other words, politics could once again present considerable challenges in 2018. It is crucial to overcome them. Only then can we successfully tackle the real problems of this era, such as the impact of technological change and the need for a more inclusive growth model, as well as the ageing population and its effects on pension systems and public finances as a whole. And not forgetting climate change, a challenge that tests the ability to cooperate internationally for the common good like no other. These, and not politics, are the issues we would like to address in December's Editorial next year.

To conclude, I would just like to wish you all a happy holiday and a prosperous 2018. And may politics follow suit.

Enric Fernández
Chief Economist
30 November 2017

CHRONOLOGY

NOVEMBER 2017

2 The Bank of England raises its benchmark interest rate by 25 bp to 0.50%.
Jerome Powell is appointed the new Chair of the US Federal Reserve, replacing Janet Yellen.
30 OPEC announces it will extend oil production cuts until the end of 2018, nine months later than initially agreed.

OCTOBER 2017

22 Shinzō Abe is confirmed as Japan's Prime Minister.
24 The 19th National Congress of the Communist Party of China re-elects Xi Jinping as General Secretary for a second five-year mandate.
26 The ECB announces its plan to reduce the volume of asset purchases (QE). Specifically, from January to September 2018, the ECB will reduce monthly purchases from EUR 60 to 30 billion.

SEPTEMBER 2017

15 Standard & Poor's raises Portugal's sovereign rating by one notch from BB+ to BBB-, up to investment grade.
20 The Fed announces it will start to reduce its balance sheet in October. It will start by allowing USD 6 billion in Treasury securities and USD 4 billion in debt and mortgage-backed securities to mature every month, a figure that will gradually increase over the next few quarters.
21 Standard & Poor's lowers China's sovereign rating from AA– to A+.
25 Angela Merkel wins the general election in Germany.

AUGUST 2017

16 Work begins on renegotiating the North American Free Trade Agreement (NAFTA).

JUNE 2017

8 The Conservative Party wins the elections in the UK but loses its absolute majority in parliament.
14 The US Federal Reserve raises the benchmark interest rate by 25 bp to 1%-1.25%.
18 In France, President Macron's party, La République En Marche (LRM), secures an absolute majority in the National Assembly.

AGENDA

DECEMBER 2017

4 Registration with Social Security and registered unemployment (November).
5 Industrial production index (October).
7 European Council.
12-13 Fed Open Market Committee.
14 Governing Council of the European Central Bank.
18 Loans, deposits and NPL ratio (October and Q3).
22 International trade (October).
27 Balance of payments (Q3).
Net international investment position (Q3).
28 State budget execution (November).
29 Balance of payments (October).
Flash CPI (December).
Household savings rate (Q3).

JANUARY 2018

11 Industrial production index (November).
15 Financial accounts (Q3).
17 Loans, deposits and NPL ratio (November).
25 Labour force survey (Q4).
Governing Council European Central Bank.
26 US GDP (Q4 and 2017).
30 30 Flash GDP (Q4).
Euro area GDP (Q4).
Economic sentiment index of the euro area (January).
30-31 Fed Open Market Committee.
31 Balance of payments (November).
Flash CPI (January).

2018: Recovery underway

The world economy is growing apace. Approaching year-end, indicators continue to point to global economic activity accelerating, on track to ending 2017 with 3.6% growth (3.2% in 2016). Apart from this greater dynamism in both advanced and emerging economies, the pattern of growth in 2017 was also more homogeneous across countries. Supported by accommodative financial conditions and a gentle rise in commodity prices, in 2017 the world economy has moved up a gear and is facing 2018 with the prospect of stronger growth (3.8% according to the CaixaBank Research scenario).

Global factors dominate the risk map. Macrofinancial and geopolitical risks remain in spite of the improved macroeconomic situation. The ECB set out much of its monetary policy for 2018 last month so attention has now turned to the US Federal Reserve (Fed). Assuming no last-minute surprises, this December the Fed will raise the fed funds rate to 1.25%-1.50%, a move already assumed by analysts and investors. With a view to 2018, however, there is still a marked discrepancy between the Fed's own signals, with a scenario of three hikes that coincides with the CaixaBank Research scenario, and the situation suggested by financial assets (between one and two hikes). This could produce some frictions. There is also doubt regarding the sustainability of high US equity prices and China's financial imbalances. Finally, the significant geopolitical and commercial risks must not be underestimated either (intensification of the Cold War in the Middle East, tensions with North Korea and NAFTA renegotiations).

US advances in the mature phase of the cycle. The second GDP estimate shows that economic activity grew by 2.3% year-on-year in Q3, outperforming the most optimistic forecasts, while the most recent indicators also point to solid progress in Q4. The consensus of analysts has therefore revised upwards the growth forecasts for 2017 and 2018 as a whole (2.2% and 2.4%, respectively, for CaixaBank Research), although this still contrasts with a moderate outlook for inflation. Meanwhile, on the political front, the Trump administration's tax reform continues to progress, with its proposal being passed by the House of Representatives. Nevertheless the Senate, which is still preparing its own proposal, must pass the same version of the bill for the reforms to actually become legislation.

Europe gains in confidence. The data available for the second half of the year continue to endorse an improved outlook for the euro area economy. In addition to the supporting factors of recent years (such as accommodative financial conditions and relatively low oil prices), confidence has also increased in the economic recovery and sources of domestic risk have eased in recent months. CaixaBank Research has once again raised its growth forecasts and now expects GDP to rise by 2.3% in 2017 and 2.2% in 2018. Europe still faces some significant political challenges, however, especially in relation to furthering European integration and Brexit negotiations with the UK. In fact, at the end of November the UK government increased its financial offer to leave the EU, with the aim of starting negotiations on a transitional agreement.

The economies of Spain and Portugal are progressing at full speed. In Spain, the second GDP estimate confirmed quarter-on-quarter growth of 0.8% (3.1% year-on-year) in Q3, a good figure supported by domestic demand (contributing 2.7 pp) which reinforces the CaixaBank Research scenario of 3.1% growth in 2017 as a whole. Looking ahead to 2018, the expansion will continue with more balanced growth. This will result from an expected slowdown in domestic demand (due to a decline in temporary supports such as low oil prices, tax reductions and purchases and investiment that had been posponed during the crisis being made). There will also be a greater contribution from the foreign sector, driven by a dynamic global economy and the gains made in competitiveness by Spain's export sector. Portugal's GDP grew by 0.5% quarter-on-quarter (2.5% year-on-year) in Q3 while Q4 indicators support CaixaBank Research's forecast of 2.7% growth in 2017 as a whole and 2.2% in 2018. As a result, investors continue to take on board Portugal's improving macroeconomic scenario and its sovereign rating could be upgraded again in the coming weeks and/or months.

FORECASTS

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

International economy

	2016	2017	2018	2019	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
GDP GROWTH										
Global	3.2	3.6	3.8	3.7	3.6	3.7	3.7	3.9	3.8	3.7
Developed countries	*1.7*	*2.2*	*2.2*	*1.9*	*2.2*	*2.3*	*2.3*	*2.4*	*2.2*	*2.1*
United States	1.5	2.2	2.4	2.0	2.2	2.3	2.4	2.7	2.5	2.3
Euro area	1.8	2.3	2.2	1.7	2.3	2.5	2.5	2.4	2.3	2.1
Germany	1.9	2.6	2.3	1.8	2.3	2.8	3.0	2.7	2.5	2.2
France	1.1	1.8	1.8	1.6	1.8	2.2	2.2	2.1	1.9	1.7
Italy	1.1	1.6	1.2	0.9	1.5	1.8	1.6	1.4	1.3	1.1
Portugal	1.5	2.7	2.2	2.1	3.0	2.5	2.3	2.0	2.3	2.4
Spain	3.3	3.1	2.4	2.3	3.1	3.1	3.0	2.7	2.4	2.2
Japan	1.0	1.5	1.1	1.0	1.5	1.6	1.3	1.3	1.0	1.0
United Kingdom	1.8	1.6	1.5	1.9	1.5	1.5	1.4	1.5	1.5	1.5
Emerging countries	*4.3*	*4.6*	*4.9*	*5.0*	*4.6*	*4.6*	*4.7*	*4.9*	*4.9*	*4.9*
China	6.7	6.8	6.5	6.3	6.9	6.8	6.7	6.6	6.4	6.4
India	7.9	6.3	7.3	7.5	5.7	6.3	7.0	7.0	7.2	7.4
Indonesia	5.0	5.1	5.5	5.6	5.0	5.1	5.3	5.5	5.5	5.5
Brazil	–3.6	0.7	2.1	2.4	0.3	1.0	2.0	2.2	2.0	2.0
Mexico	2.9	2.1	2.2	2.6	1.9	1.5	1.7	1.9	2.2	2.3
Chile	1.6	1.4	2.6	3.0	1.0	2.1	2.2	2.5	2.6	2.6
Russia	–0.3	1.7	1.8	2.4	2.5	1.8	2.0	1.9	1.8	1.6
Turkey	2.9	4.9	3.5	3.5	5.1	6.0	3.5	3.5	3.3	3.5
Poland	2.7	4.4	3.4	3.0	4.3	5.0	4.0	3.6	3.5	3.2
South Africa	0.4	0.7	1.3	1.5	0.4	0.6	1.0	1.5	1.2	1.2
INFLATION										
Global	2.8	3.1	3.2	3.2	3.0	3.0	3.2	3.2	3.3	3.3
Developed countries	*0.8*	*1.7*	*1.8*	*1.9*	*1.6*	*1.7*	*1.7*	*1.7*	*1.9*	*2.0*
United States	1.3	2.1	2.2	2.2	1.9	2.0	2.1	1.8	2.4	2.5
Euro area	0.2	1.6	1.5	1.8	1.5	1.5	1.5	1.5	1.6	1.7
Germany	0.4	1.7	1.6	1.9	1.6	1.7	1.7	1.6	1.7	1.8
France	0.3	1.2	1.4	1.7	1.0	0.9	1.3	1.3	1.4	1.5
Italy	0.0	1.4	1.3	1.6	1.6	1.3	1.2	1.3	1.3	1.4
Portugal	0.6	1.6	1.7	1.7	1.7	1.3	2.0	1.9	1.7	1.9
Spain	–0.2	2.0	1.6	1.9	2.0	1.7	1.5	1.0	1.6	2.1
Japan	–0.1	0.4	0.9	1.0	0.4	0.6	0.4	1.0	0.8	1.0
United Kingdom	0.7	2.7	2.5	2.3	2.7	2.8	2.9	2.6	2.5	2.5
Emerging countries	*4.3*	*4.1*	*4.2*	*4.1*	*3.9*	*4.0*	*4.3*	*4.3*	*4.3*	*4.3*
China	2.0	1.7	2.1	2.3	1.4	1.6	2.3	2.4	2.4	2.2
India	4.9	3.2	4.3	4.9	2.2	3.0	3.9	4.0	4.1	4.5
Indonesia	3.5	3.8	4.0	4.6	4.3	3.8	3.5	3.3	3.8	4.2
Brazil	8.8	3.5	4.3	4.5	3.6	2.6	3.1	4.3	4.2	4.3
Mexico	2.8	5.9	3.9	3.5	6.1	6.5	6.0	4.5	3.8	3.8
Chile	3.8	2.2	2.9	3.0	2.3	1.7	2.2	2.6	3.0	3.0
Russia	7.1	3.9	3.7	4.0	4.2	3.4	3.3	3.5	3.3	4.0
Turkey	7.8	10.6	8.2	7.5	11.5	10.6	10.3	9.0	8.5	7.7
Poland	–0.2	1.6	2.2	2.5	1.5	1.5	1.7	2.0	2.3	2.3
South Africa	6.3	5.4	5.1	5.4	5.3	4.8	5.0	4.4	4.8	5.5

Forecasts

Spanish economy

	2016	2017	2018	2019	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Macroeconomic aggregates										
Household consumption	2.9	2.4	2.0	1.9	2.4	2.4	2.5	2.3	2.0	1.8
General government consumption	0.8	1.2	1.0	0.8	1.1	1.0	1.8	1.2	1.0	0.9
Gross fixed capital formation	3.3	4.8	3.2	3.0	3.8	5.4	5.3	3.3	3.5	2.9
Capital goods	4.9	5.8	3.4	2.6	3.8	6.1	7.0	3.6	4.5	2.7
Construction	2.4	4.3	2.9	3.2	4.0	4.9	4.2	2.8	2.5	3.1
Domestic demand (contr. Δ GDP)	2.6	2.5	2.0	1.9	2.3	2.7	2.8	2.2	2.1	1.8
Exports of goods and services	4.8	5.2	4.1	4.2	4.4	4.9	5.1	2.9	3.9	5.1
Imports of goods and services	2.7	4.0	3.2	3.2	2.3	4.0	5.0	1.8	3.4	4.2
Gross domestic product	**3.3**	**3.1**	**2.4**	**2.3**	**3.1**	**3.1**	**3.0**	**2.7**	**2.4**	**2.2**
Other variables										
Employment	3.0	2.7	2.1	2.0	2.9	2.4	3.1	2.5	2.3	1.9
Unemployment rate (% labour force)	19.6	17.1	15.4	13.7	17.2	16.4	16.2	16.7	15.5	14.8
Consumer price index	–0.2	2.0	1.6	1.9	2.0	1.7	1.5	1.0	1.6	2.1
Unit labour costs	–0.6	–0.1	1.0	1.3	–0.4	–0.4	0.4	0.5	1.2	1.1
Current account balance (cum., % GDP)[1]	1.9	1.8	1.7	1.7	1.8	1.8	1.8	1.8	1.7	1.7
Net lending or borrowing rest of the world (cum., % GDP)[1]	2.1	2.0	1.9	1.9	2.0	2.0	2.0	2.0	1.9	1.9
Fiscal balance (cum., % GDP)[2]	–4.3	–3.1	–2.5	–2.1						

Financial markets

INTEREST RATES										
Dollar										
Fed Funds	0.51	1.11	1.75	2.52	1.05	1.25	1.33	1.50	1.58	1.83
3-month Libor	0.74	1.26	2.01	2.77	1.20	1.32	1.45	1.69	1.90	2.12
12-month Libor	1.37	1.79	2.30	2.86	1.75	1.73	1.91	2.09	2.23	2.37
2-year government bonds	0.84	1.38	2.35	3.16	1.28	1.36	1.64	1.90	2.20	2.50
10-year government bonds	1.84	2.33	2.88	3.52	2.26	2.24	2.39	2.58	2.78	2.98
Euro										
ECB Refi	0.01	0.00	0.00	0.08	0.00	0.00	0.00	0.00	0.00	0.00
3-month Euribor	–0.26	–0.33	–0.33	–0.07	–0.33	–0.33	–0.33	–0.33	–0.33	–0.33
12-month Euribor	–0.03	–0.14	–0.17	0.22	–0.13	–0.16	–0.18	–0.18	–0.18	–0.18
2-year government bonds (Germany)	–0.58	–0.74	–0.51	0.06	–0.74	–0.72	–0.74	–0.64	–0.55	–0.47
10-year government bonds (Germany)	0.10	0.38	0.63	1.39	0.31	0.42	0.44	0.52	0.56	0.66
EXCHANGE RATES										
$/€	1.11	1.13	1.16	1.19	1.10	1.17	1.17	1.16	1.15	1.16
¥/€	120.30	126.52	130.78	132.77	122.21	130.38	132.44	131.26	129.85	130.31
£/€	0.82	0.88	0.87	0.86	0.86	0.90	0.89	0.88	0.88	0.87
OIL										
Brent ($/barrel)	45.04	54.67	62.00	63.75	50.92	52.18	60.88	62.00	62.00	62.00
Brent (€/barrel)	40.73	48.58	51.57	53.82	46.34	44.84	51.77	51.43	50.58	51.90

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

Forecasts

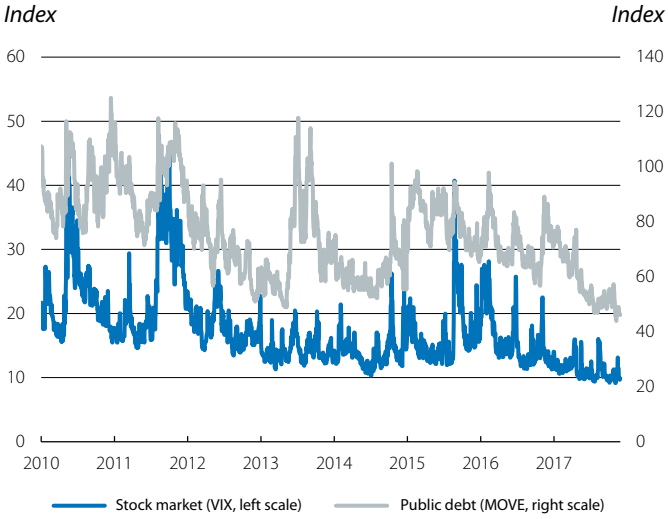
FINANCIAL OUTLOOK · **Volatility increases slightly in the main international financial markets**

International financial markets are continuing to advance but not without setbacks. Although November brought gains for most international stock markets the month had two distinct periods. During the first two weeks, the main international stock markets were hesitant and even posted the odd loss due to tax reform negotiations in the US and concerns over the high equity prices exhibited by some indices. European stock markets, particularly in peripheral countries, suffered the largest losses. Nevertheless, international stock markets looked more stable in the second half of the month, mainly supported by a solid earnings season on both sides of the Atlantic and continued improvement in the global macroeconomic, pointing to higher dividends in the future. Regarding the main bond markets, yields remained relatively stable in spite of a slight upswing at the beginning of the month.

The good macroeconomic outlook is still a major support for financial assets. Indices of economic surprises once again posted positive figures this month, both in the US and Europe as well as for the emerging economies. This further confirms the improved global macroeconomic situation. Nevertheless, although some sources of uncertainty appear to be fading (thanks to the progress made by US tax reform, for instance), others could pose a risk to major financial assets in the future. As inflation expectations are still relatively low, any sudden rise could lead international investors to adjust their expectations, accompanied by losses in the main indices (for more detail, see the article «Global macrofinancial risks» in the Dossier of this *Monthly Report*). The missile tests carried out by North Korea towards the end of November also remind us of the ever-present geopolitical risk, although this time it has not triggered any substantial movement on international financial markets.

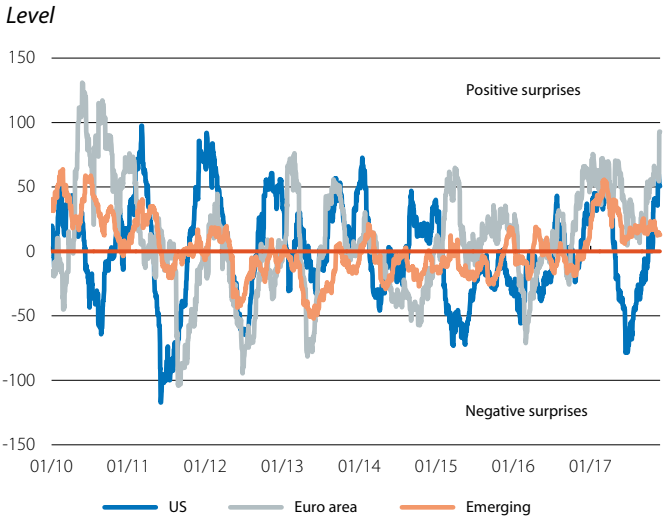
European stock markets lag while the US stock market soars. In spite of a timid start to the month, the US stock market ended November with record highs, boosted by the proposed tax reforms becoming more certain. European stock markets, however, found it harder to recover from the correction they suffered earlier in the month. In spite of the strong gains made after the ECB announced, at the end of October, that it would extend QE until September 2018, the markets ended up posting significant losses. There were widespread losses for all the region's countries (Eurostoxx50: –2.8%, DAX: –1.6%, CAC: –2.4% and PSI: –0.9%) with the Ibex posting one of the largest corrections (–3.0%), mainly because of continuing political uncertainty. Nevertheless, European equity markets looked more stable towards the end of the month, although they have yet to embark on a clear upward trend.

Implied volatility in financial markets



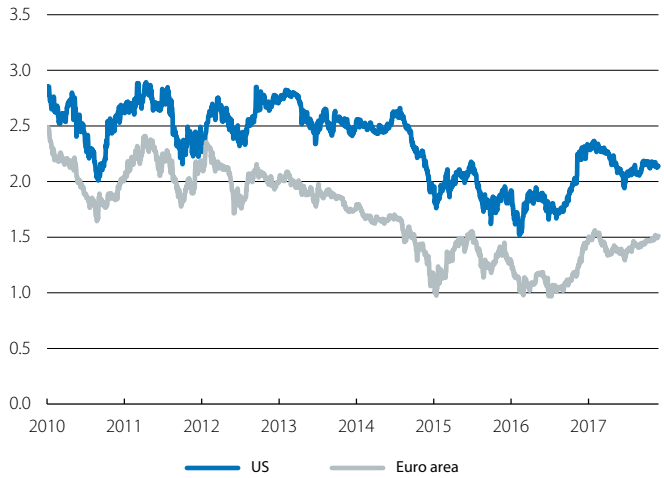
Source: *CaixaBank Research, based on data from Bloomberg.*

Index of economic surprises



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

Inflation expectations



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

The Fed and the ECB continue to convey confidence regarding economic activity. The minutes for the latest meetings of the two main central banks for the developed bloc published this month have confirmed their positive interpretation of the most recent economic activity figures. Specifically, after October's announcement of a reduction in stimuli by reducing its asset purchase programme, the ECB's Governing Council appeared more confident about inflation's recovery thanks to the more solid economic activity figures posted over the past few months by the euro area. Regarding the Federal Reserve, the strong US economy is supporting the scenario of another fed funds rate hike this December (already totally assumed by financial asset prices) and a progressively tougher monetary policy over the coming quarters. The appointment of Jerome Powell as the new Fed Chair and his emphasis on the need to raise interest rates gradually has also sent a message that the Fed's monetary policy will continue, at least over the next few months. However, there are still doubts regarding the impact his appointment will have on financial regulation (for more detail, see the Focus «A new Fed Chair: a new attitude?» in this *Monthly Report*).

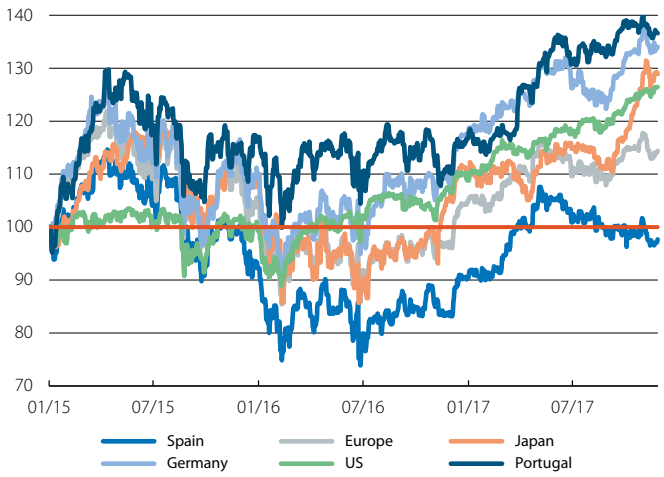
The bond markets remain relatively stable. Apart from a slight upswing early in the month, sovereign bond yields from the developed bloc remained relatively flat in November. In the US, short-term bond yields ended the month slightly up but this improvement was only partly passed on to the longer part of the curve, with the 10-year bond yield ending up at 2.4%. The risk premia of European periphery countries performed positively. Spain saw temporary upswings throughout the month but its risk premium finally stabilised at around 110 points while, in Portugal, it continued to fall. Stability was also the dominant trend in corporate bond markets in November, except for a slight temporary rise posted mid-month by high yield corporate bonds, both for European and US firms.

The euro appreciates again against the dollar. After correcting part of its strong appreciation throughout the year, the single currency once again rose in value to above USD 1.19. One of the main reasons for the euro's slight appreciation in November was uncertainty regarding US tax reforms. However, as these reforms made progress, the dollar started to stabilise towards the end of the month, keeping the euro-dollar exchange rate at USD 1.19. Most of the emerging currencies appreciated further against the dollar in November. One notable exception was the Turkish lira, which continued to lose value given tensions with the US and President Erdogan's repeated criticism regarding the need to tighten up monetary policy to combat inflation.

Emerging stock markets return to gains after an uncertain episode. Since the summer a pattern has appeared for emerging equity: increased risk aversion leading to losses on emerging stock markets that quickly recover their upward trend supported mainly by the good macroeconomic outlook.

Main advanced stock markets

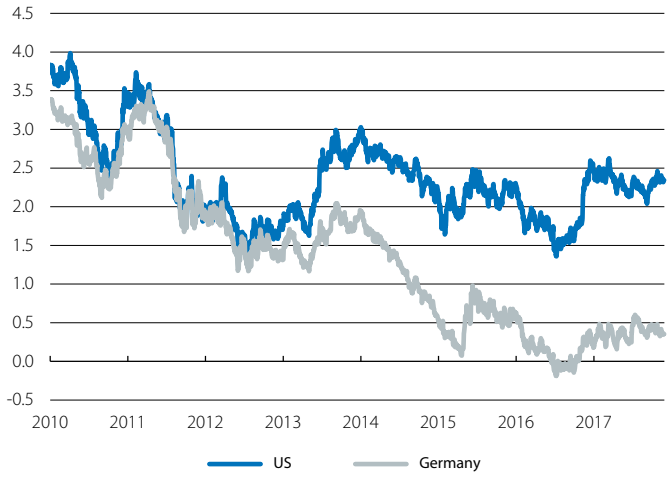
Index (100 = January 2015)



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

Yield on 10-year public debt

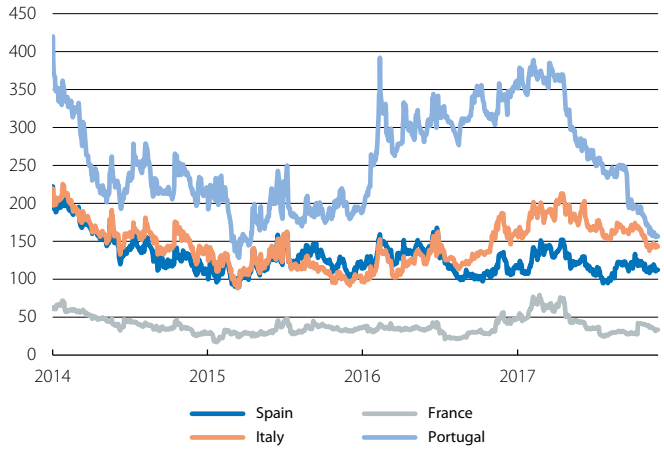
(%)



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

Euro area: risk premia on 10-year public debt

(bp)



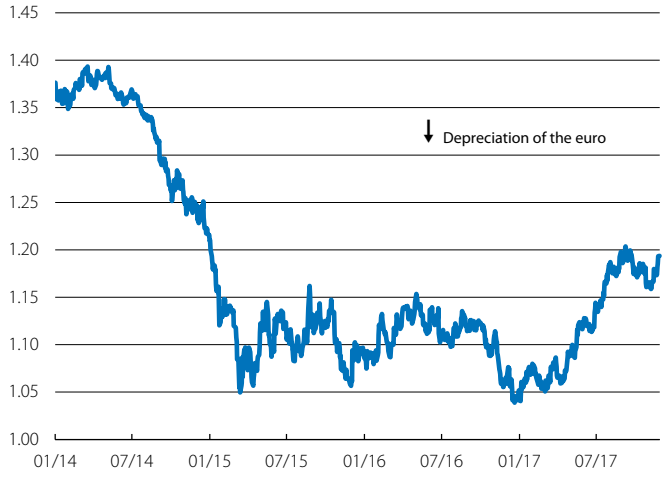
Source: *CaixaBank Research, based on data from Bloomberg.*

November was no exception, with marked losses in the first few weeks which were then offset by considerable gains in the second half of the month, although signs of weakness returned in the last few days. For the whole month, the MSCI emerging markets index grew by 0.2%. While the Chinese stock market showed signs of a slowdown (–2.2%) and the Turkish market posted further losses (–5.6%), most of the rest of emerging stock markets ended the month with gains.

OPEC confirms expectations and extends production cuts. At its meeting in Vienna on 30 November, OPEC members and allies announced that the production cap would be extended until the end of 2018. The cartel was confident that its decision to limit production to 1.8 million barrels per day would help to rebalance the market. The oil price had fluctuated all month above USD 60 due to anticipation of OPEC's decision. Russia's indecisiveness as to whether it would support the agreement had also led to uncertainty. Nevertheless the price of a barrel of Brent oil came close to USD 64 after the announcement. Although the organisation's efforts should help to rebalance the marked over the coming months, we expect the rise in the price of crude oil to be limited, mainly due to a possible recovery in US shale production. The new record set by US crude oil production at the end of November is a reminder of the need to remain cautious regarding future oil prices.

Dollar-euro exchange rate

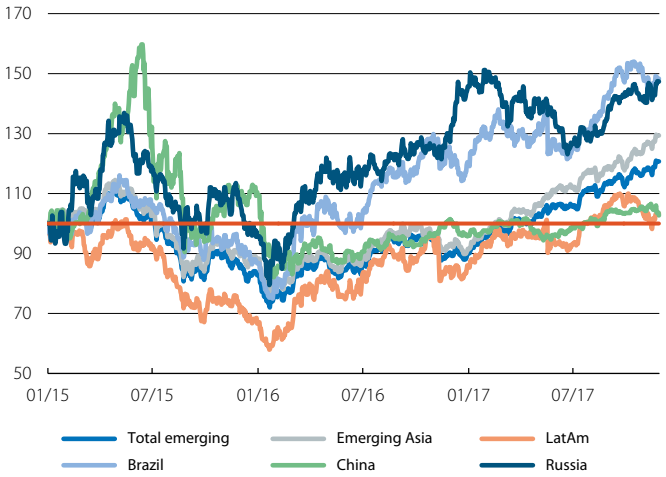
(Dollar-euro)



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

Emerging stock markets by region

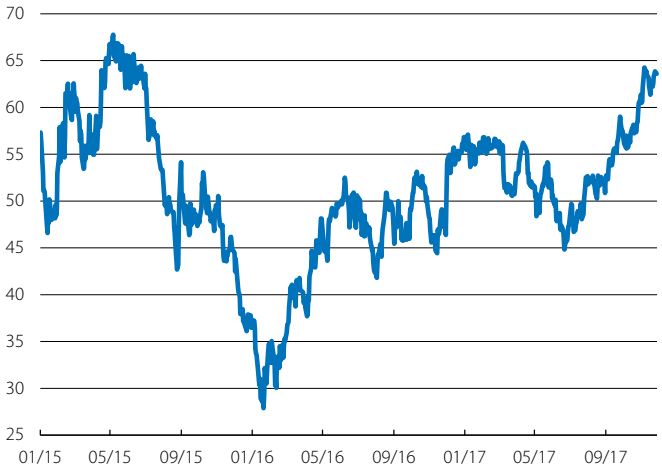
Index (100 = January 2015)



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

Brent oil price

(USD per barrel)



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

FOCUS · A new Fed Chair: a new attitude?

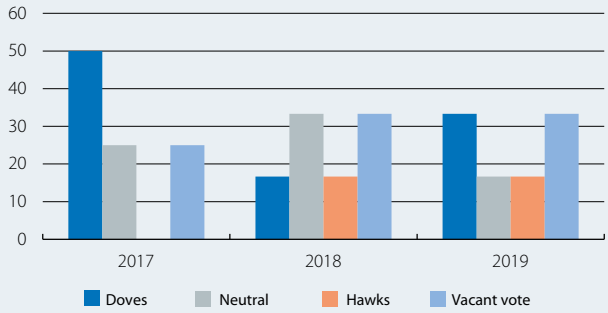
During his election campaign Donald Trump was very critical of the Fed's monetary policy and the regulations implemented in response to the 2007-2008 financial crisis. Now that he is President, Trump has decided not to renew Janet Yellen's position as the Fed Chair and to replace her with Jerome Powell as from February 2018.[1] This article looks at the implications of his appointment in terms of the outlook for monetary policy and potential alterations to financial regulation.

Apparently, Powell, who has been on the Fed's Board of Governors since 2011, is not a change candidate. In fact, this is how the markets interpreted his appointment and Trump's announcement caused few ripples. Throughout Powell's time as a governor, he has consistently voted with Yellen on monetary policy. He has also always taken a view very much in line with the incumbent Chair in his public appearances, both in terms of interest rate strategy and unconventional monetary policy tools. Nevertheless, in the early days he did admit to being uncomfortable with the extent of the quantitative easing programme implemented during Ben Bernanke's term, Yellen's predecessor.[2] But in some ways Powell is an unusual pick. A lawyer by training, most of his career has been spent in investment banking and he will be the first Fed Chair who is not an economist since the brief mandate of William Miller between 1979 and 1981.

The Fed Chair plays a key role, especially in terms of building the framework for discussion and creating a consensus (even more important now that forward guidance has become a vital monetary policy tool). Powell's appointment therefore suggests that the Fed will continue to raise the fed funds rate gradually, provided no disruptive factors appear in the macroeconomic scenario (three hikes in 2018 and two in 2019, according to the Fed's latest main projections published in September 2017). However, the Chair's vote is just one of the 12 that determine monetary policy.[3] There are two factors that could influence the course of monetary normalisation. First, the Board of Governors will have four vacancies[4] (in addition to the recent appointment of Randal Quarles). The Fed's composition could therefore alter considerably depending on who Trump chooses to fill these vacancies. Second, in 2018, the rotation of votes between the regional Federal Reserves could shift the Board in favour of a slightly faster normalisation rate (see the enclosed chart). However, this bias will be more or less accentuated depending on the profiles of Trump's appointments for the aforementioned vacancies.

Breakdown of FOMC voting rights by view of the macroeconomic scenario

Share of FOMC members eligible to vote (%)



Note: *In monetary policy, «doves» are those who prioritise the state of the labour market (typically easier conditions); «hawks» are those who prioritise containing inflation (typically more restrictive conditions) and neutral people are those who take up a position somewhere between the «doves» and the «hawks».*
Source: *CaixaBank Research, based on data from Reuters.*

These changes in the Fed's Board may also have implications for financial regulation. Recall that significant regulatory changes have been implemented since the Great Recession, incorporated into US legislation via the 2010 Dodd-Frank Act (DFA). This gave more prominence to the Fed as a regulator and supervisor.[5] It also introduced reforms to increase financial institutions' loss absorbing capacity (more demanding capital requirements and leverage and liquidity ratios and tougher stress tests) and included measures to regulate shadow banking and make the resolution of large financial institutions more credible.[6] It also set up the Financial Stability Oversight Council (FSOC), a coordinating body made up of representatives from the many different financial regulatory agencies. This is responsible for deciding which institutions are systemic (and therefore come under stricter regulations)

1. The month when Yellen's term ends. Powell's appointment is not expected to encounter any resistance from the Senate.
2. Text analysis techniques confirm, quantitatively, that Powell has taken up a very similar stance to Yellen although certain nuances seem to suggest a slightly less accommodative view of monetary policy.
3. Seven votes from the Board of Governors plus the vote from the Chair of the New York Federal Reserve and four votes which are distributed, on a rotation basis, among the Chairs of the remaining 11 regional Federal Reserves.
4. In addition to the three vacancies at present, another will be left by Yellen, who has already announced she will leave the Board of Governors even though she could continue as governor until 2024.
5. Added to the Fed's usual regulatory and supervisory scope, which was mainly state banks within the Federal Reserve system and bank holdings, were financial institutions deemed systemic (whether banks or not), in addition to giving the Fed authority to set stricter capital requirements and power of decision over the resolution procedures for financial institutions.
6. For example, through the obligation to have a living will that specifies how a possible bankruptcy would be resolved.

and for identifying sources of risk to financial stability (passing on recommendations to the relevant regulatory agency). Finally, the DFA also introduced the Volcker Rule which prohibits banks from using their depositors' funds to trade on their own accounts. In general terms, Powell appears to be essentially committed to these reforms, particularly greater capital and liquidity requirements, stating they are key to achieving a stronger and more stable financial system less exposed to severe crises. However, Powell is in favour of simplifying some of the regulations and especially of reducing the burden imposed on small and medium-sized financial institutions. He also seems open to considering adjustments to the Volcker Rule, focusing it more on institutions with a larger investment volume.

Powell's desire for simplification is coherent with some, but not all, of the proposals made by the US Treasury Department to relax financial regulation. Specifically, based on a document published in June 2017,[7] the Treasury suggests refining capital, liquidity and leveraging standards. This would include raising the asset threshold as from which an institution has to undergo stress tests, more severe prudential measures are applied and a living will is required. The Treasury also proposes readjusting the capital and liquidity standards for institutions deemed systemic,[8] as well as highly capitalised banks being able to opt out of stress tests and certain prudential requirements. Finally, the Treasury is in favour of redefining the type of transactions the Volcker Rule is applied to, possibly excluding banks that do not deal in large trading volumes.

This list of proposals shows that, in financial regulation terms, the agenda of Trump's administration goes far beyond appointing the Fed Chair. In fact, the US House of Representatives has already started to push for a large part of the Treasury's proposals, approving the Financial Choice Act last June. However, these proposals must still be passed by the Senate to become legislation and replace the DFA. Moreover, with regard to the design of regulation for the financial sector as a whole, it should be remembered that the Fed is not the only regulatory body in the US. Other important regulators include the Office of the Comptroller of the Currency (OCC) for most of the banks not regulated by the Fed; the Securities and Exchange Commission (SEC) for stock and options markets and investment companies such as hedge funds and money market funds, and the Consumer Financial Protection Bureau (CFPB), created under the auspices of the DFA to improve consumer protection within the financial sector.[9] Trump's administration has already proposed new Chairs for the OCC (Joseph Otting) and the SEC (Jay Clayton), while the aforementioned Financial Choice Act aims to reduce the CFPB's independence.

In conclusion, the Trump administration's agenda for financial deregulation needs to progress further down the legislative path before it can replace some aspects of the DFA. In monetary policy terms, moreover, Powell's appointment should uphold the existing strategy of gradual normalisation. However, the new Fed Chair has relatively limited experience in the world of economic policy. Hence the uncertainty regarding his true vision and future reaction to the challenges that will face the Fed. These include deciding the ultimate size of its balance sheet and the appropriate fed funds rate in the medium term, as well as handling the next phase in the economic cycle.

7. See the US Treasury Department (2017), «A Financial System That Creates Economic Opportunities: Banks and Credit Unions».
8. Specifically, the Treasury states that US standards for capital surcharges for systemic institutions, the leverage ratio and some ratios within the requirements for total loss absorbing capacity (TLAC) are considerably more demanding than those established internationally by the Basel Committee and the Financial Stability Board.
9. Another key agency is the Federal Deposit Insurance Corporation (FDIC) for deposit-holding institutions. Although, last June, Trump appointed James Clinger as the new Chair of the FDIC, one month later Clinger withdrew from consideration and the Chair's appointment is still pending.

KEY INDICATORS

Interest rates (%)

	30-Nov	31-Oct	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Euro area					
ECB Refi	0.00	0.00	0	0.0	0.0
3-month Euribor	–0.33	–0.33	0	–1.0	–1.6
1-year Euribor	–0.19	–0.19	0	–10.8	–11.1
1-year government bonds (Germany)	–0.72	–0.75	3	8.1	7.4
2-year government bonds (Germany)	–0.68	–0.75	7	8.6	5.2
10-year government bonds (Germany)	0.37	0.36	1	16.2	0.1
10-year government bonds (Spain)	1.45	1.46	–1	6.6	–16.5
10-year spread (bps) [1]	108	110	–2	–9.8	–16.8
US					
Fed funds	1.25	1.25	0	50.0	75.0
3-month Libor	1.49	1.38	11	49.2	54.8
12-month Libor	1.95	1.85	10	26.4	30.7
1-year government bonds	1.61	1.42	19	79.9	83.0
2-year government bonds	1.78	1.60	18	59.2	63.3
10-year government bonds	2.41	2.38	3	–3.4	–3.8

Spreads corporate bonds (bps)

	30-Nov	31-Oct	Monthly change (bp)	Year-to-date (bp)	Year-on-year change (bp)
Itraxx Corporate	48	50	–2	–23.9	–30.8
Itraxx Financials Senior	47	50	–3	–46.0	–59.4
Itraxx Subordinated Financials	111	113	–2	–110.1	–133.5

Exchange rates

	30-Nov	31-Oct	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
$/€	1.190	1.165	2.2	13.2	11.7
¥/€	133.960	132.340	1.2	8.9	10.1
£/€	0.880	0.877	0.4	3.1	4.0
¥/$	112.540	113.640	–1.0	–3.8	–1.4

Commodities

	30-Nov	31-Oct	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
CRB Commodity Index	429.4	427.6	0.4	1.5	2.0
Brent ($/barrel)	63.6	61.4	3.6	11.9	17.9
Gold ($/ounce)	1,274.9	1,271.1	0.3	10.6	8.8

Equity

	30-Nov	31-Oct	Monthly change (%)	Year-to-date (%)	Year-on-year change (%)
S&P 500 (USA)	2,647.6	2,575.3	2.8	18.3	20.8
Eurostoxx 50 (euro area)	3,569.9	3,674.0	–2.8	8.5	17.8
Ibex 35 (Spain)	10,211.0	10,523.5	–3.0	9.2	17.8
Nikkei 225 (Japan)	22,725.0	22,011.6	3.2	19.4	22.8
MSCI Emerging	1,120.8	1,119.1	0.2	30.0	30.6
Nasdaq (USA)	6,874.0	6,727.7	2.2	27.7	30.9

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

ECONOMIC OUTLOOK · **Economic activity continues to make solid progress towards the end of 2017**

Global activity indicators are still showing significant growth at the beginning of Q4. In October, the global composite Purchasing Manager Index (that includes both manufacturing and services) rose slightly to 54.0 points, comfortably in the expansionary zone. By sector, both the manufacturing and services index continued to point to notable growth in economic activity. At a regional level, euro area gains were once again strong in spite of a slight correction compared with September. This trend endorses the CaixaBank Research scenario which predicts moderate acceleration in world growth from 3.2% in 2016 to 3.6% in 2017 and 3.8% in 2018.

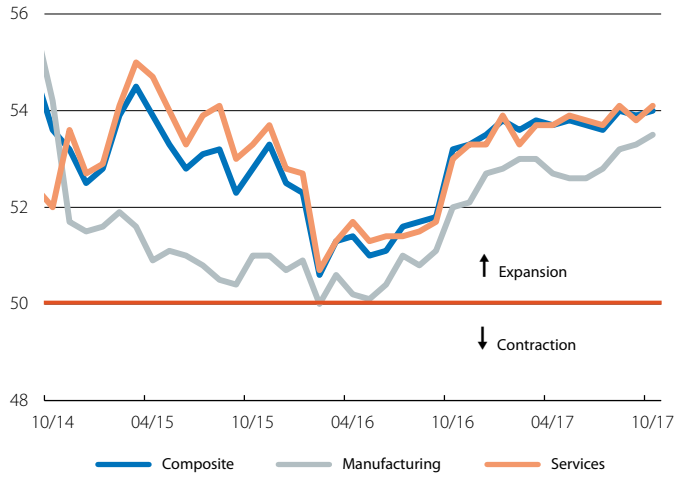
There are still pockets of uncertainty in this overall context of improvement, however. Particularly those of a financial nature, as well as a substantial number of geopolitical, political and trade risks. Some of the most prominent geopolitical risks are the intensification of the Cold War in the Middle East and persistent tensions with North Korea (see «Risks in 2018: (geo)politics and international trade» in the Dossier of this *Monthly Report*). In terms of trade, the outcome of the NAFTA negotiations is still a cause for concern. Although we believe these negotiations will produce a treaty that modernises economic relations between the US, Canada and Mexico, it might represent a backward step in terms of trade. For the time being, the most recent data point to significant advances in the trade of goods. This is not surprising given that, in the short term, the acceleration of economic activity boosts trade. In the longer term, international trade is also a major source of global economic growth. Protectionist outbreaks are therefore a downside risk to these good prospects.

UNITED STATES

The US economy continues to advance steadily. According to the Bureau of Economic Analysis's second GDP estimate, the US economy grew by a strong 0.8% quarter-on-quarter in Q3 (2.3% year-on-year). This was above the most optimistic forecasts and suggests the impact of Hurricanes Harvey and Irma has been less than expected. Growth will therefore end the year slightly higher than initially forecast (2.2% for 2017 as a whole). Early economic activity indicators for Q4 suggest growth has also remained strong in the final part of the year. In November, the Conference Board Consumer Confidence Index climbed to 129.5 points, a level not seen for the past 17 years, while the ISM business sentiment indices were comfortably in the expansionary zone in October, both for manufacturing and services (58.7 and 60.1 points, respectively).

Economic activity indicators: PMI

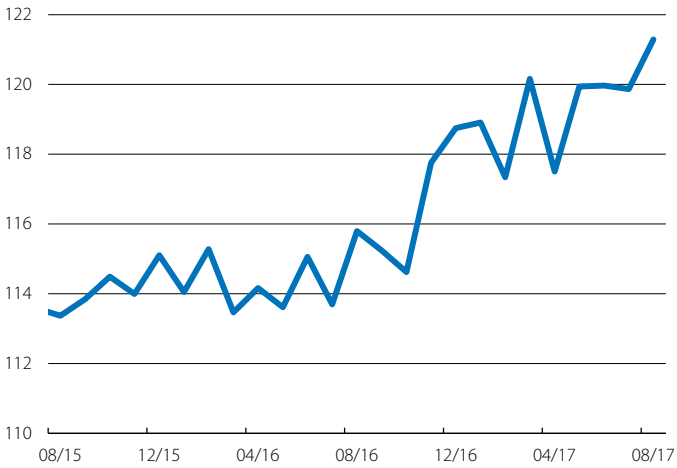
Level



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

Global goods trade by volume

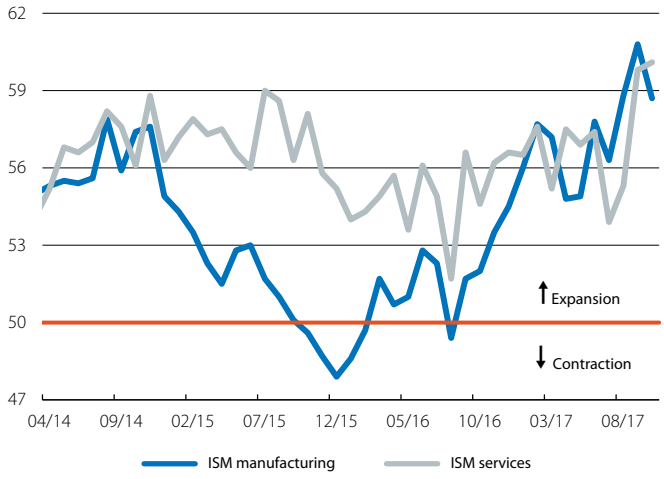
Index (100 = 2010)



Source: *CaixaBank Research, based on data from the CPB World Trade Monitor.*

US: economic activity indicators

Level



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

The labour market performed well again in October. After the poor figures posted in September due to the hurricanes, 261,000 jobs were created in October. The unemployment rate fell to 4.1% while the broader unemployment rate (U6, which takes into account discouraged workers and those working part-time but looking for full-time work, among other aspects) fell to 7.9%, the lowest level achieved during the last expansionary phase, namely in December 2006. Wages, on the other hand, rose by 2.4% year-on-year, 0.5 pp less than in September, the slowest growth since February 2016. In an economy so close to full employment, we would definitely expect stronger wage growth, as seen in the past (above 3%). However, structural factors such as globalisation, demographics and technology are very likely to be pushing down wage rises.

Inflation data supports another hike in the fed funds rate at the end of the year. US inflation stood at 2.0% in October, 0.2 pp below the previous month's figure. However, core inflation, less subject to the ups and downs in energy and food prices, stood at 1.8%, 0.1 pp higher than September after five months of stagnation. Undoubtedly this rise in the core figure will encourage the Fed to raise its benchmark interest rate at its next meeting in December, as predicted by CaixaBank Research.

Steps are being taken to pass the US tax reform. With strong support from Republicans, the House of Representatives passed the proposed tax reform bill. However, the Senate, where Republicans have a smaller majority, is still drafting its own proposal. For such tax reforms to come into effect, both the House of Representatives and the Senate must pass the same version of the bill. We expect this to happen no later than the end of Q1 2018.

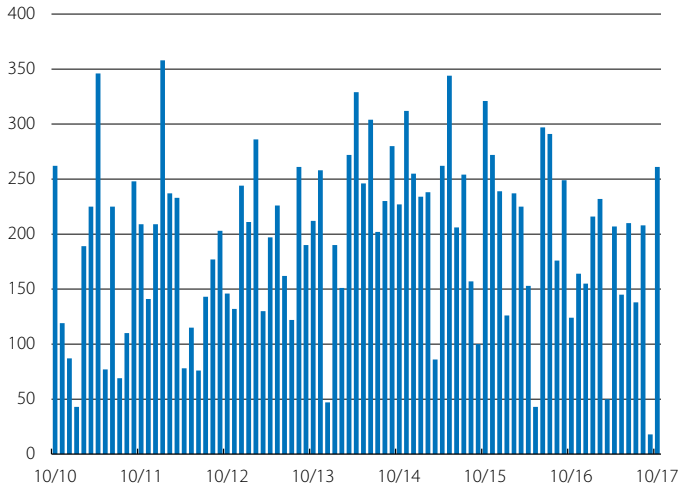
JAPAN

Japan's GDP grew again in Q3 2017, posting seven quarters of positive growth, something that has not happened since 2001. In quarter-on-quarter terms, the Japanese economy advanced by a significant 0.3% (1.7% year-on-year), supported by external demand due to robust growth in exports and a drop in imports. Inventories also made a significant positive contribution. Both components offset the decline in private consumption, which suffered a temporary dip in Q3. Given these figures, the growth forecast for 2017 as a whole is 1.5% (0.1 higher than the previous forecast).

Early economic activity indicators suggest this considerable growth will continue in the last quarter of the year. Japanese exports once again rose substantially in October, with year-on-year growth of 14.0% (14.1% in September). By region, exports to China were particularly important while sales to the US slowed slightly after months of strong growth. Exports also grew strongly in real terms, suggesting that foreign trade could make an important contribution to GDP growth in Q4, as it did in Q3. Both business and consumer sentiment indices stood at very high levels in October.

US: job creation

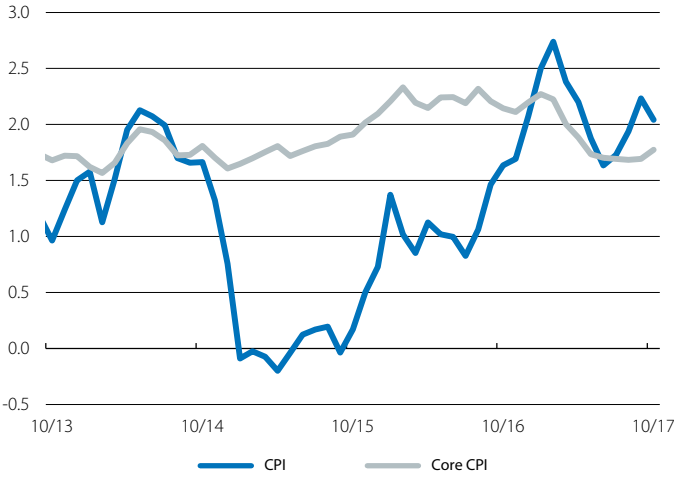
Month-on-month change (thousands of people)



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

US: CPI

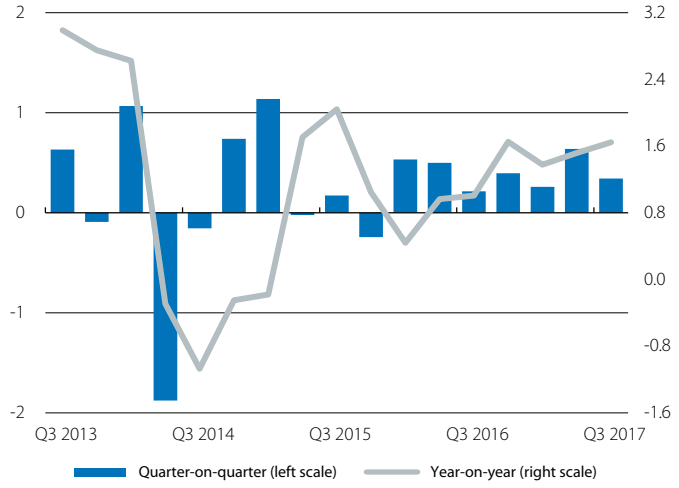
Year-on-year change (%)



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

Japan: GDP

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



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

EMERGING ECONOMIES

Capital is still flowing into the emerging countries. In October and November, emerging markets continued to attract foreign investment, with net capital inflows of USD 13.3 billion as a monthly average (portfolio flows, according to IIF estimates). These solid capital inflows are supported by the remarkable rate of growth in economic activity for the emerging countries as a whole, now at about 5% for the aggregate of the main economies.

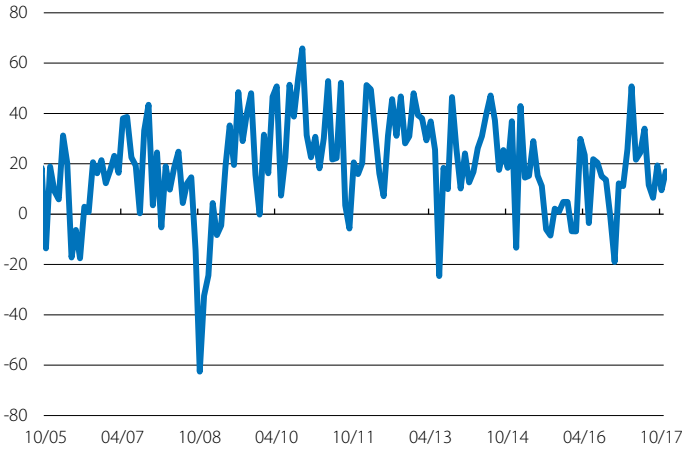
In China, economic activity indicators continue to look positive despite October's slowdown. Retail sales were up 10.0% year-on-year, a remarkable performance albeit 0.3 pp lower than the previous month, partly due to seasonal factors. Industrial production grew by 6.2% in October (6.6% in September). The impact of the new environmental regulations on industrial activity lies behind much of this moderation. Exports (in nominal and dollar terms) grew by a considerable 5.4% year-on-year in October (cumulative over 12 months) thanks to the acceleration in exports to Japan and the EU. However, the monthly figure (6.9%) was slightly lower than in September (8.1%) due to a slowdown in exports of steel and coking coal, industries affected by the aforementioned environmental measures. Beyond this slowdown in October, the good activity data for 2017 as a whole point to annual growth of 6.8% for 2017 and 6.5% for 2018 (the latter figure is slightly higher than the previous forecast).

India's GDP in Q3 2017 confirms that the economy is gradually recovering from its two most recent shocks (demonetisation and problems with implementing the new tax on goods and services). GDP grew by 6.3% year-on-year in Q3 2017 after posting weaker figures for the first and second quarters (6.1% in Q1 and 5.7% in Q2).

Mexico and Russia, two very different interpretations of slowing GDP growth in Q3 2017. In Mexico, an atypical Q3 figure does not alter the overall image of an economy withstanding the Fed's monetary normalisation, the NAFTA renegotiations and the uncertainty caused by upcoming presidential elections. On the other hand, the underlying sensation in Russia is one of fragility, not least because the economy is still suffering from continued international sanctions. Looking at the trends in more detail, the Russian economy grew by 1.8% year-on-year after an abnormally high 2.5% year-on-year figure posted in Q2 2017. Although the breakdown by components is not yet available, indicators suggest the main reason for this slowdown has been the trend in the industrial sector (and particularly oil extraction). Mexico's GDP fell by 0.3% quarter-on-quarter in Q3 (+1.5% year-on-year) after growing by 0.3% (1.9% year-on-year) in Q2. In this case the component breakdown reveals the main culprit for this slowdown was the secondary sector (principally mining, including oil extraction), particularly affected by the effects of Hurricane Harvey and, to a lesser extent, by the impact of the two September earthquakes. However, reconstruction work is expected to help growth to recover in Q4.

*Emerging capital inflows (portfolio) **

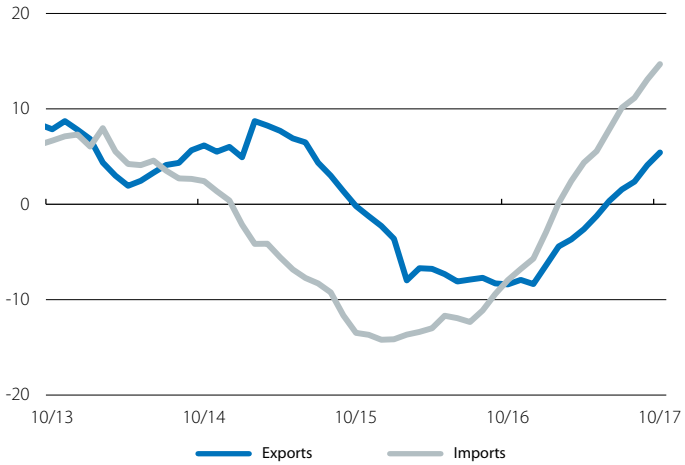
USD billion (monthly data)



Note: ** Non-resident capital flows regarding the emerging economies + indicates inflow, – indicates outflow.*
Source: *CaixaBank Research, based on data from the IIF.*

*China: international trade of goods **

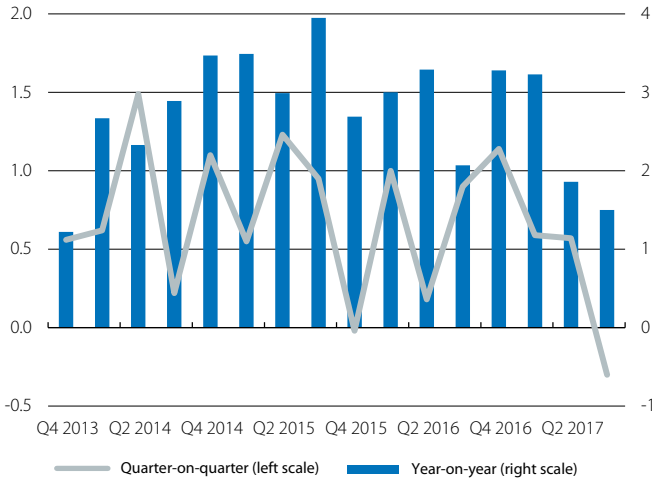
Year-on-year change in 12-month cumulative figure (%)



Note: ** Change calculated based on nominal data in dollars.*
Source: *CaixaBank Research, based on data from China's National Statistics Office.*

Mexico: GDP

Change (%) *Change (%)*



Source: *CaixaBank Research, based on data from Mexico's National Statistics Office.*

FOCUS · China's new political-economic cycle: a moment of truth for the Asian Giant?

Last October, the 19th National Congress of the Communist Party of China (CPC) was held in Beijing, an event that takes place every five years. All analysts were eagerly monitoring this meeting as the CPC lies at the heart of political power in China with great influence over the rest of the political and economic institutions.[1]

To begin with, the General Secretary of the CPC and the country's President, Xi Jinping, has strengthened his leadership Congress and will have greater leeway on his second term to implement. The numbers speak for themselves: the new Politburo, the decision-making body made up of top CPC leaders, has 15 members closely allied to Xi Jinping out of a total of 25 members. This figure was only 6 in the outgoing Politburo. Members close to other standpoints, such as those of former presidents Hu Jintao and Jiang Zemin, have lost a lot of weight in the new Politburo.

The consolidation of Xi's power can be seen in facts that, although symbolic, are of undeniable relevance. The first is that the CPC's constitution has been reformed so that it enshrines Xi's political thought, a recognition only paid previously to Mao Zedong.[2] The second is that the two military members of the Politburo are also very close to Xi.

However, there are still doubts as to who will be the Chinese leader from 2022, once Xi completes his second (and, theoretically, last) term. For the first time since the early 1990s, the Politburo Standing Committee, a group of 7 Politburo members headed by the General Secretary and representing the top echelons of the Chinese hierarchy, has not appointed a successor to the leader at the start of his second term. Some analysts have interpreted this as preparing the way for Xi to remain China's leader beyond 2022, although this has yet to be confirmed. Theoretically, the CPC General Secretary could remain in office for more than two terms if the unwritten age limits were not respected.[3] For the past 20 years, the convention has been that anyone aged 68 and over cannot be elected to the Standing Committee.[4] In fact, with the current age limits, only three Politburo members, none of whom sits on the Standing Committee, could succeed Xi in 2022 and govern until 2032. These are Chen Min'er, who is closely allied to Xi Jinping; Ding Xuexiang, also close to the current leader; and Hu Chunhua, from the group most closely aligned with Hu Jintao.

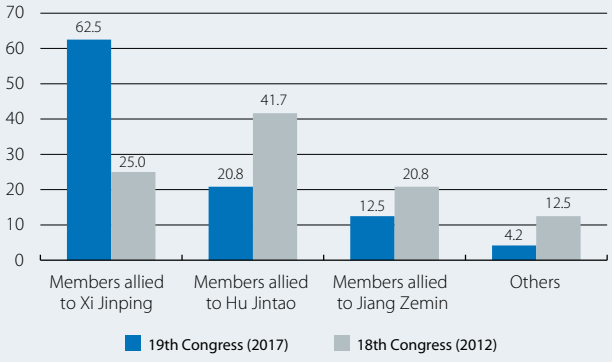
In economic terms, the election of Xi's economic adviser and close collaborator, Liu He, as a new Politburo member seems to indicate that economic policy will not undergo any major changes, at least in the near future. The rebalancing of the economy is therefore expected to continue gradually. The big question is whether the Chinese President, with more room to manoeuvre, will choose to move more decisively down the path of reform in order to reduce the country's high debt.

Nevertheless, Xi Jinping did give some clues in his opening speech at the Congress about the nature of his second term. In particular, the Chinese leader stressed the need for balanced economic growth and announced the continuation of reforms of state-owned enterprises to improve their efficiency and also measures to maintain financial stability. All unmistakable signs that Xi intends to ensure that the rebalancing of the economy goes as smoothly as possible.

However, the Chinese authorities are still rather ambitious with their growth targets. Xi hinted that the target set at the 2012 Congress, namely to double China's per capita income between 2010 and 2020, remains in place. This is a considerable challenge. According to our estimates, China's average annual growth would have to be a substantial 6.5% between 2018 and 2020 to reach the target.

Ideological composition of the Politburo of the Chinese Communist Party

(%)



Note: *The Politburo has 25 members but the percentage is made up of 24 members, since one of the members is Xi Jinping himself.*
Source: *CaixaBank Research.*

1. See the Focus «China's Game of Thrones: the keys and complexities of the political system» in MR10/2017.
2. The importance of the thoughts of Deng Xiaoping were also recognised, but posthumously.
3. On the other hand, the Chinese Constitution establishes that the country's President cannot run for a third term.
4. Xi will be 69 in 2022, when the next National Congress of the Communist Party of China is held.

FOCUS · Decide where to internationalise your business: CIBI 2017

To tackle the severe economic crisis, a large number of Spanish firms had to open up their business to other countries. For instance, the number of regularly exporting companies increased from 39,000 in 2009 to 50,000 in 2016. But it is no easy task for a company to decide which foreign market is the best to target. A country's economic prospects, legal stability, degree of competition or ease of finding suppliers are just a few of the many factors to be taken into account.

To make this task easier, CaixaBank Research has developed the CaixaBank Index for Business Internationalisation (CIBI). This tool analyses the main aspects that determine a Spanish company's decision to enter a foreign market. The analysis is specifically applied to a total of 67 developed and emerging countries and allows them to be ranked by their attractiveness to Spanish companies over time.

The CIBI is built on five pillars that cover key aspects of the internationalisation process. These pillars help to assess each foreign country's strengths and weaknesses from the point of view of Spanish companies. The five pillars are: the degree of accessibility to the market of each country; the ease of operating in each market; its commercial attractiveness; the financial environment; and the macroeconomic and institutional stability.

Each pillar is made up several subpillars. For example, the commercial attractiveness pillar, which analyses the aspects that may contribute to determining the success of selling Spanish products in the country under study, contains two subpillars: one that measures the size of the target market and purchasing power of households, and another that evaluates the success enjoyed by products produced by Spanish companies.

Each subpillar is, in turn, the result of summarising data from a series of variables. For instance, the subpillar of labour conditions, which forms part of the ease of operating pillar, reflects aspects of the labour market in the country in question, such as labour productivity, workers' educational level and the minimum wage.[1]

In addition to considering a wide range of variables, any company wishing to break into another country must also duly assess the relative importance of each indicator. Replicating as closely as possible the decisions actually taken by internationalised Spanish firms, the different pillars have been grouped in such a way to ensure the final index accurately reflects typical Spanish exporters.[2]

The CIBI 2017 has been produced based on an analysis of the relevant indicators for a company's internationalisation and the study of the behaviour of Spanish exporters. Countries in Western Europe have the most favourable conditions overall, benefitting from a dynamic European economy. Nevertheless, all regions contain at least some countries that can be very attractive for Spanish companies.

Which market should your company target next? At www.caixabankresearch.com you will find the results of the CIBI 2017 with details by country and region, as well as a tool to create your own CIBI based on the relevance of each of the five pillars to your company. Internationalisation is costly but highly profitable when the appropriate strategy is applied. CaixaBank helps you to achieve this.

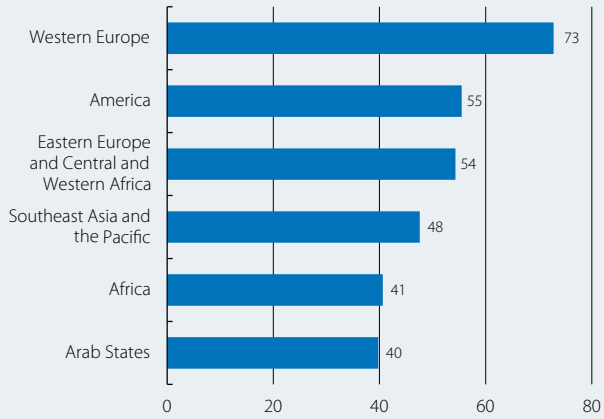
CIBI 2017 pillars and subpillars

Pillars (weight in %)	Subpillars
1. Accessibility (17%)	1.1 Distance, communications, and agreements with Spain 1.2 Infrastructures
2. Ease of operating (21%)	2.1 Easiness of operating a business 2.2 Labour conditions 2.3 Investment relations with Spain
3. Commercial attractiveness (38%)	3.1 Purchasing Power 3.2 Similar tastes to Spain
4. Financial environment (18%)	4.1 Credit 4.2 Financial development
5. Stability (6%)	5.1 Institutional 5.2 Macroeconomic

Source: *CaixaBank Research (CIBI 2017).*

Regional comparison

(Min. 0 - Max. 100)



Source: *CaixaBank Research (CIBI 2017).*

1. The different subpillar variables are standardised to make them comparable across countries. See «Nota Metodológica del Índice CaixaBank para la Internacionalización Empresarial (ICIE 2017)» (CIBI 2017), CaixaBank Research Working Paper 10/17.
2. Each pillar is assigned the relative weight that maximises the explanatory capacity of the geographical distribution of exports by Spanish companies.

KEY INDICATORS

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

UNITED STATES

	2015	2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	10/17	11/17
Activity								
Real GDP	2.9	1.5	1.8	2.0	2.2	2.3	–	...
Retail sales (excluding cars and petrol)	4.3	3.8	3.4	4.0	2.9	2.8	3.9	...
Consumer confidence *(value)*	98.0	99.8	107.8	117.5	118.1	120.3	126.2	129.5
Industrial production	–0.7	–1.2	–0.1	0.6	2.1	1.9	2.9	...
Manufacturing activity index (ISM) *(value)*	51.4	51.5	53.3	57.0	55.8	58.6	58.7	...
Housing starts *(thousands)*	1,107	1,177	1,248	1,238	1,167	1,164	1,290	,,,
Case-Shiller home price index *(value)*	179	189	192	197	199	200	...	...
Unemployment rate *(% lab. force)*	5.3	4.9	4.7	4.7	4.4	4.3	4.1	...
Employment-population ratio *(% pop. > 16 years)*	59.4	59.7	59.7	60.0	60.1	60.2	60.2	...
Trade balance[1] *(% GDP)*	–2.8	–2.7	–2.7	–2.8	–2.8	–2.8	...	...
Prices								
Consumer prices	0.1	1.3	1.8	2.5	1.9	2.0	2.0	...
Core consumer prices	1.8	2.2	2.2	2.2	1.8	1.7	1.8	...

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

	2015	2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	10/17
Activity							
Real GDP	1.1	1.0	1.7	1.4	1.5	1.6	–
Consumer confidence *(value)*	41.3	41.7	42.2	43.4	43.4	43.7	44.5
Industrial production	–1.2	–0.2	2.8	3.9	5.8	4.6	4.1
Business activity index (Tankan) *(value)*	12.8	7.0	10.0	12.0	17.0	22.0	–
Unemployment rate *(% lab. force)*	3.4	3.1	3.1	2.9	2.9	2.8	...
Trade balance[1] *(% GDP)*	–0.5	0.7	0.7	0.7	0.6	0.6	0.8
Prices							
Consumer prices	0.8	–0.1	0.3	0.3	0.4	0.6	...
Core consumer prices	1.4	0.6	0.2	0.1	0.0	0.2	...

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

CHINA

	2015	2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	10/17
Activity							
Real GDP	6.9	6.7	6.8	6.9	6.9	6.8	–
Retail sales	10.7	10.4	10.6	10.0	10.8	10.3	10.0
Industrial production	6.1	6.0	6.1	6.8	6.9	6.3	6.2
PMI manufacturing *(value)*	49.9	50.3	51.4	51.6	51.4	51.8	51.6
Foreign sector							
Trade balance[1] *(value)*	608	512	512	466	458	435	425
Exports	–2.3	–8.4	–5.3	7.8	9.0	6.9	6.9
Imports	–14.2	–5.7	2.1	23.9	14.3	14.7	17.4
Prices							
Consumer prices	1.4	2.0	2.2	1.4	1.4	1.6	1.9
Official interest rate[2] *(value)*	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Renminbi per dollar *(value)*	6.3	6.6	6.8	6.9	6.9	6.7	6.6

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

ECONOMIC OUTLOOK · **Surprisingly high euro area growth**

The euro area's economic outlook continues to improve. After posting good economic data in H1, the figures available for H2 2017 continue to be unexpectedly strong. This indicates continued improvement in the area's economic outlook. Apart from unexpectedly strong Q3 GDP data, a climate of high confidence has been confirmed, employment growth remains strong and private consumption continues to benefit from favourable financial conditions. Increased economic synchronisation across euro area members is also boosting economic growth. Inflation is the only dark spot in the current economic situation, still below the ECB's target. This is partly because there is still a lot of room in the labour market, limiting upward pressure on wages. Nevertheless, CaixaBank Research has raised its euro area growth forecasts by 0.1 and 0.2 pp to 2.3% and 2.2% for 2017 and 2018, respectively. The European Commission's forecasts are also being revised in this direction. However, there are obviously risk factors that could upset this good economic outlook. Externally, particularly geopolitical risks such as tensions arising from the North Korean conflict. In the financial area, risks include faster monetary policy normalisation by the Fed and the ECB and increasingly high debt in several emerging countries, notably China. There is also the risk of an unexpected spike in oil prices. Internally, the failure of Germany's negotiations to form a coalition government among conservatives, liberals and Greens (Jamaica coalition) increases the likelihood of an election although a repetition of the Grand Coalition with the Social Democrats cannot be ruled out. The data available so far suggests the short-term economic impact of this uncertainty will be limited, although the final outcome may have consequences for the euro area's reformist drive. A repetition of the Grand Coalition is the most favourable scenario in terms of continuing with the agenda of reforms. Another major risk factor is Brexit. Negotiations have stalled regarding financial aspects of the agreement. Nevertheless, the Conservative government is expected to increase its offer to ensure the EU agrees to move on to the second round of negotiations when it convenes at the next European Council meeting on 14-15 December. This would reduce the likelihood of a disorderly EU exit for the UK.

Unexpectedly strong growth in the largest euro area economies. The euro area maintained a solid growth rate in Q3 with a 2.5% year-on-year increase (0.6% quarter-on-quarter). Growth was especially strong in Germany (2.8% year-on-year), France (2.2%) and Italy (1.8%). In fact, Germany is surprising not only because of its good Q3 growth (0.8% quarter-on-quarter) but also because of the upward revision of its Q1 figure (from 0.7% to 0.9%). Spain and Portugal also posted good rates, up by 3.1% and 2.5%, respectively, albeit in line with expectations. Outside the euro area, Poland's

Euro area: European Commission GDP forecasts

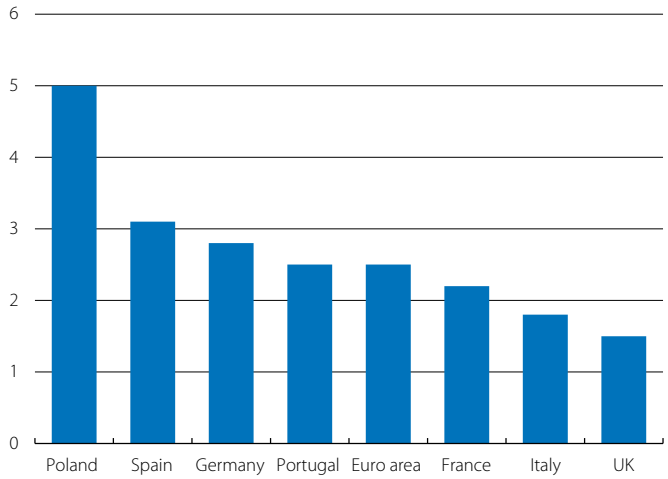
Annual rate of change (%)

		GDP forecast		Change compared with May 2017	
	2016	2017	2018	2017	2018
Euro area	1.8	2.2	2.1	▲ 0.5	▲ 0.3
Germany	1.9	2.2	2.1	▲ 0.6	▲ 0.2
France	1.1	1.6	1.7	▲ 0.2	= 0.0
Italy	1.1	1.5	1.3	▲ 0.6	▲ 0.2
Spain	3.3	3.1	2.5	▲ 0.3	▲ 0.1
Portugal	1.5	2.6	2.1	▲ 0.8	▲ 0.5
UK	1.8	1.5	1.3	▼ 0.3	= 0.0

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

EU: GDP in Q3 2017

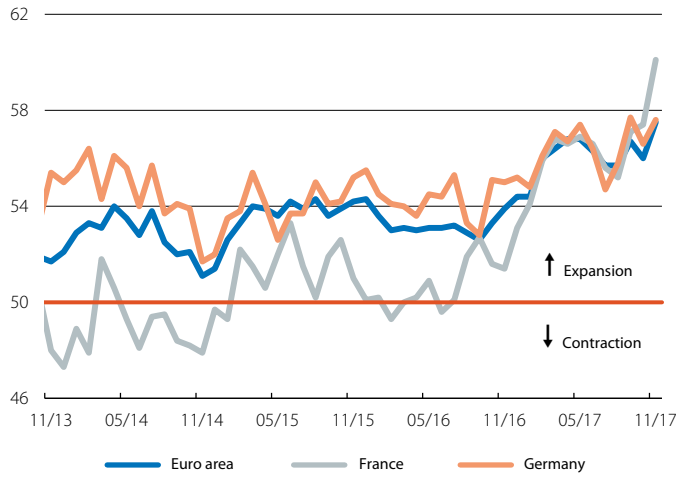
Year-on-year change (%)



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

Euro area: composite PMI economic activity indicator

Level



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

performance was strong, growing 5% year-on-year, while the UK, whose economy is beginning to suffer from the uncertainties and the depreciation of the pound caused by Brexit, advanced by a weak 1.5%.

Economic activity indicators point to strong euro area growth continuing in Q4. In general, the data points towards a continuation of the good trend of previous quarters. The composite business sentiment index (PMI) rallied strongly in November to 57.5 points, up 1.5 points from the previous month and significantly above the 56.1 point average for H1. The Economic Sentiment Index (ESI) also rose by 0.5 points in November compared with the previous month, to 114.6 points, its highest level since 2000. Finally, September's industrial production index grew by 3.2% year-on-year, well above the average of 1.4% in H1.

Household consumption continues to drive economic growth. This is due to improved sentiment, a favourable credit environment and good labour market prospects.
After contributing 0.5 pp to GDP growth in Q2 (0.7% growth quarter-on-quarter), CaixaBank Research predicts that private consumption will contribute 0.6 pp to GDP growth in Q3 and Q4. Good consumption indicators endorse this scenario. The consumer confidence index reached 0.1 points in November, its highest for the past 15 years. Retail sales also picked up strongly in September with 3.6% year-on-year growth, significantly above the 2.5% average recorded in H1.

The unemployment rate remains on a downward trend. The labour market's good performance continues to support household confidence. The unemployment rate fell by 0.1 pp in September to 8.9%, 1 pp lower than September 2016. There is still a long way to go, however. For example, the unemployment rate is still significantly higher than the 7.3% minimum reached before the financial crisis.

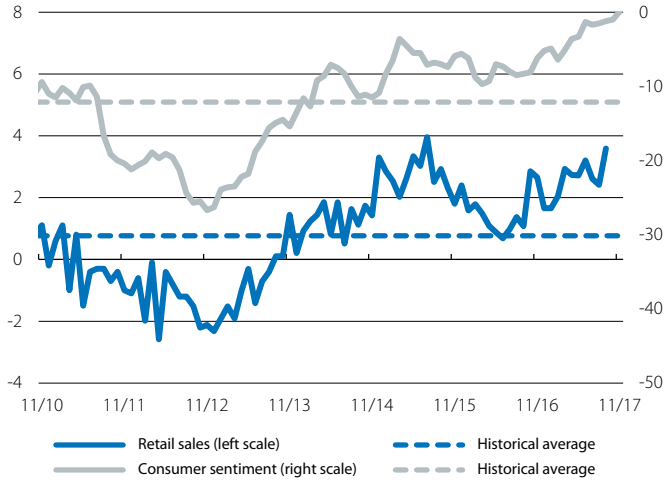
Inflation remains moderate in November. Inflation made up for its slight dip in the previous month and rose to 1.5%. This was due entirely to the higher contribution made by the energy component, which also explains why core inflation remained the same between October and November (1.1% year-on-year). Looking ahead to the next few quarters, we expect core inflation to continue rising in line with the recovery in economic activity. This will more than offset the downward pressure exerted by the euro's recent appreciation. In any case, all the evidence available suggests inflation will continue to rise very gradually. It will therefore remain below the ECB's target in 2018 (below but close to 2%).

PORTUGAL

The Portuguese economy is advancing steadily. After a brief slump in Q2 in which GDP growth dropped to 0.3% quarter-on-quarter, in line with CaixaBank Research's expectations, the economy picked up again in Q3 and grew by 0.5% quarter-on-quarter (2.5% year-on-year). The breakdown by component shows that domestic demand is still the main driver of growth,

Euro area: consumption indicators

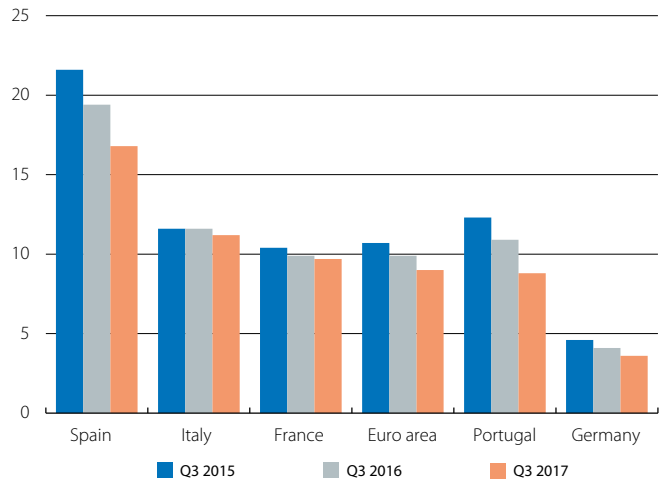
Year-on-year change (%) *Level*



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

Euro area: unemployment rate

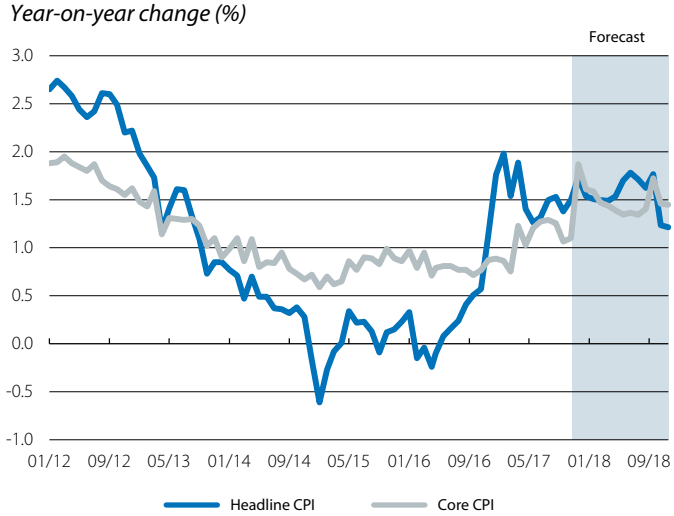
(%)



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

Euro area: Harmonised CPI

Year-on-year change (%)



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

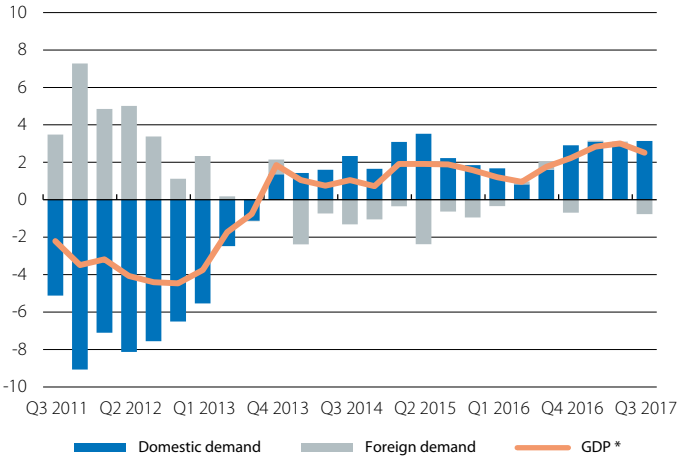
boosted by the trend in private consumption and investment. Indicators of economic activity available to date suggest the economy will remain in good shape over the next quarter. The Bank of Portugal's coincident indicator for economic activity, which summarises the trend of Portugal's high frequency indicators, rose by 2.7% year-on-year in October. This is slightly less than the previous month but above the 2.4% average recorded in H1. November's Economic Sentiment Index (ESI) also rose by 0.2 points to 115.8 points, well above the average for the first half of the year (111.5 points). Retail sales data also confirm the country's good economic performance, up by 3.9% year-on-year in September, 0.7 pp more than the previous month. The only negative point comes from industrial production data. In the past four months this had grown by more than 4% year-on-year but it fell in October to 1.2%. Nevertheless, the overall picture is still positive. Proof of this is the European Commission's upward revision of its growth forecasts for Portugal, now at 2.6% for 2017 and 2.1% for 2018.

Employment continues to support economic growth. In September, the unemployment rate fell to 8.6%, its lowest since the start of the recession. Employment grew by 3.2% year-on-year in Q3, equivalent to an increase of 147,000 jobs. Employment has now grown by more than 3% year-on-year in the past three consecutive quarters. Particularly positive is the fact that this improvement in employment prospects is widespread across different population segments and sectors. For example, compared with the same period in 2016, the unemployment rate for young people aged between 15 and 24 has fallen by 1.9 pp to 24.2%, a rate well below the 42.5% maximum reached in Q1 2013. The long-term unemployment rate has also fallen sharply to 4.9%, down 1.8 pp on the same period a year earlier. By sector, the good performance of services and particularly tourism will ensure a good job creation rate for the coming quarters.

Inflation is on the up. Headline inflation rose for the third consecutive month in October, up by 0.3 pp on the previous month to 1.9%. By component, particularly strong contributions were made by the tourism sector, such as restaurants and hotels, and transport. This effect is likely to be temporary and inflation is expected to slow down to around 1.6% over the next few months.

Portugal: GDP

Contribution to year-on-year growth (pp)



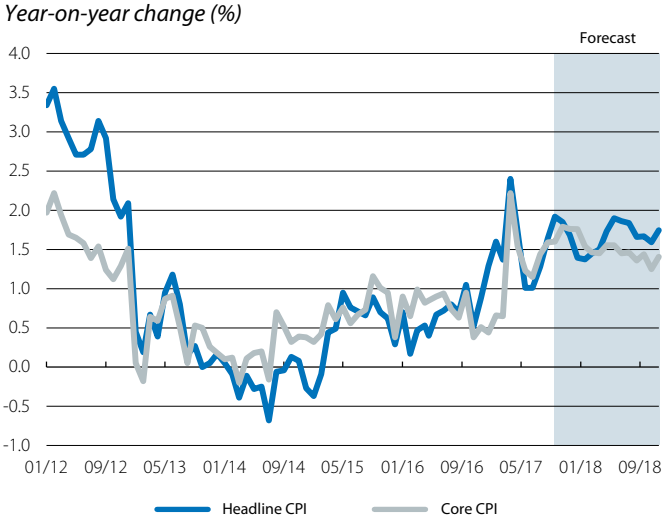
Note: ** Year-on-year change (%).*
Source: *CaixaBank Research, based on data from Eurostat.*

Portugal: employment rate and unemployment

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

Portugal: Harmonised CPI

Year-on-year change (%)



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

FOCUS · Beyond the unemployment rate

In 1958, economist William Phillips published the article that gave birth to the eponymous Phillips curve, the graphical representation of the inverse relationship between unemployment and inflation. However, while the euro area's unemployment rate has fallen sharply in the post-crisis years, this has not been accompanied by a significant upturn in inflation. Indeed, the curve seems to have flattened out (see the first chart). This Focus shows that one of the key factors behind the flattenning of the curve is that there is more slack in the labour market than as suggested by the unemployment rate.

The degree of slack can be measured in terms of the intensive and extensive margins. A company needing to increase capacity can act on the extensive margin, for instance by hiring a new employee. It can also act on the intensive margin, by offering its existing staff additional hours, thereby saving itself the costly process of recruitment. As a measure, the unemployment rate only relates to the extensive margin. To assess the degree of labour market slack taking both margins into account, the unemployment rate can be modified to create a new indicator, the underemployment rate. This is defined as the sum of the number of unemployed and part-time workers who would prefer to work longer hours out of the total labour force. As we can see from the second chart, the gap between euro area underemployment and unemployment rates has widened considerably in recent years.

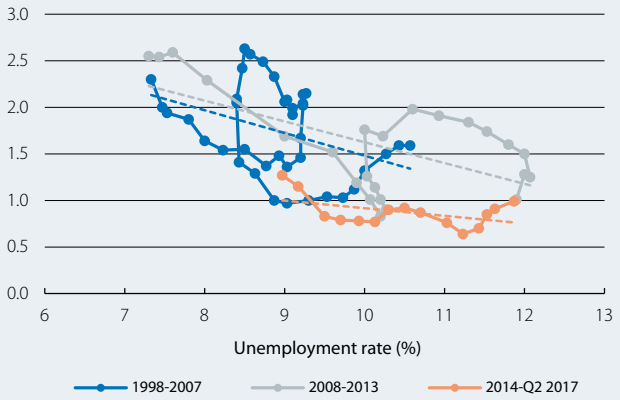
We can therefore generate another Phillips curve based on this new indicator. The third chart shows how the curve shifts to the right when the underemployment rate is used. Moreover, this shift increases for data from 2008 onwards. It can also be seen that, although there has been an erosion of labour market slack since 2014, it has yet to reach its pre-crisis levels. According to the new metric, it therefore seems too early to judge whether the curve has actually flattened out.

Finally, the participation rate is another key factor in analysing the labour market's degree of slack. The distinction between economically active and inactive people is often more blurred than may first appear in the official treatment of inactive people regarding the unemployment figure, when they are overlooked entirely. Like the unemployed, the economically inactive also exert a downward pressure on wage growth and therefore inflation.[1] This is because many of them may be willing to re-enter the labour market. This seems to have been the case for the euro area. While the participation rate among the working-age population already showed an upward trend in the years prior to the crisis, partly due to structural factors such as a later retirement age and the rise in female participation, the good job prospects in recent years have helped to maintain this trend.[2]

1. Blanchflower, D. G. and Posen, A. S. (2014), «Wages and Labor Market Slack: Making the Dual Mandate Operational», PIIE Working Paper.
2. The euro area participation rate increased by 2 pp between 2007 and Q2 2017, the equivalent of approximately 4.3 million people.

Phillips curve

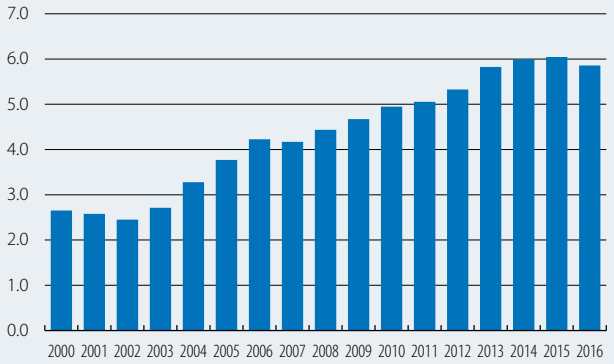
Core inflation (%)



Note: *The dotted lines represent the trend for the respective data set.*
Source: *CaixaBank Research, based on data from Eurostat.*

Underemployment

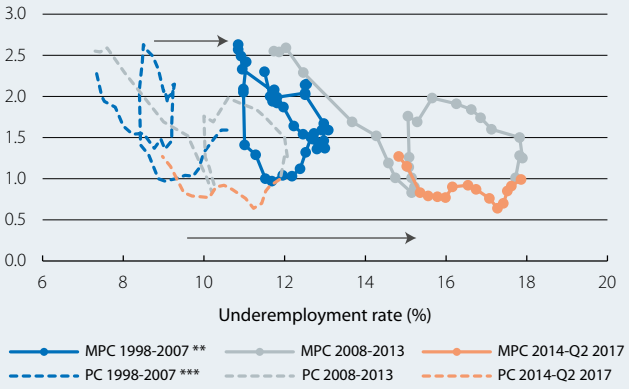
Difference compared with the unemployment rate (pp)



Note: *The underemployment rate is defined as the sum of the number of unemployed and part-time workers who would like to work longer hours out of the labour force.*
Source: *CaixaBank Research, based on data from Eurostat.*

Modified Phillips curve *

Core inflation (%)



Notes: ** The underemployment rate for the period Q1 1998-Q4 1999 has been calculated using the difference between the underemployment and unemployment rates in 2000. The underemployment rate between Q1 2017 and Q2 2017 uses the difference in 2016. ** MPC denotes the modified Phillips curve, which uses the underemployment rate to measure labour market saturation. *** PC denotes the Phillips curve, which uses the unemployment rate to measure labour market saturation.*
Source: *CaixaBank Research, based on data from Eurostat.*

FOCUS · The awakening of the Portuguese real estate market

Since Portugal emerged from the crisis in 2014, its real estate sector has undergone a remarkable recovery. This is reflected in the evolution of house prices, which after accumulating a 16.3% fall in nominal terms between 2007 and 2013 (22.0% in real terms), have risen by an average of 5.3% per year since the beginning of 2014 and are now back at pre-crisis levels.[1] The increased dynamism of the real estate sector can also be seen in the evolution of domestic house sales, which are growing at a double-digit rate since early 2015 (see the first chart).

The activation of the Portuguese real estate market is partly due to the more favourable economic environment. The improved economic outlook and the good performance of the labour market[2] have boosted household disposable income and consumer confidence. This, together with the improved financial conditions derived from the ECB's monetary policy, is supporting the recovery in housing demand. This is reflected in the data for new mortgage loans, which have been growing by over 30.0% per year since 2015. On the other hand, the demand for housing by non-residents is also having a very positive impact on the sector's recovery. The buoyancy of foreign demand can be partly explained by the implementation in 2009 of a more favourable tax treatment for «non-habitual» European residents and the introduction in 2012 of the Golden Visa,[3] aimed at attracting non-EU professionals and investors. Nevertheless, the real estate sector's recovery is also consequence of the good performance of the tourism sector in Portugal, which has encouraged many investors to acquire real estate to meet the growing demand for tourist accommodation. As a result, there are marked differences in house prices between premium areas, such as historical city centres or major tourist attractions, and the rest.

While a continuation of this upward trend in the market could be a cause for concern, the main indicators on housing affordability indicators do not suggest that the sector is overheated in aggregate terms. Specifically, the share of households that allocate more than 40% of their disposable income to housing costs[4] – a common indicator of affordability – stood at 7.5% at the end of 2016, a level well below the euro area average (11.0%).

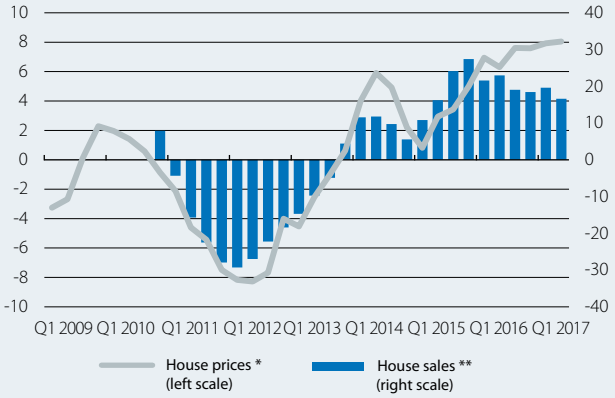
1. Transaction price in nominal terms. In real terms, prices have risen by 4.4% per year on average since 2014 and remain around 9.0% below their 2007 level.
2. The economic recovery has been gaining strength, especially since mid-2016, with growth accelerating to 2.5% year-on-year on average. The unemployment rate has fallen considerably, from 17.5% in 2013 to 8.5% in Q3 2017.
3. This type of visa grants a residence permit to, among others, non-EU citizens who invest EUR 500,000 or more in property in Portugal. Since its implementation, 5.412 Golden Visas have been granted and more than EUR 3 billion have been invested in real estate (approximately 14.0% of all foreign investment over the period), according to data from SEF Portugal and Banco de Portugal.
4. Cost of a mortgage (capital and interest) or rent.

Likewise, the ratio between property transaction prices and gross disposable income of a median household is around 7.5 (see the second chart), a level that is similar to the average over the past eight years (7.0).

Another indicator commonly used to assess the situation of residential property demand is the household debt level. Despite the strength that mortgage credit for residential property has been showing, household debt currently stands at 71.9% of GDP and continues to decline from its peak level (reached in 2013), although it remains above the euro area average (58.4%).[5] It is also important to highlight the fact that, although most mortgages have been granted at a variable rate,[6] the impact of higher interest rates on households' financial burden should be contained given that the ECB is expected to normalise its monetary policy very gradually.

Portugal: house prices and sales

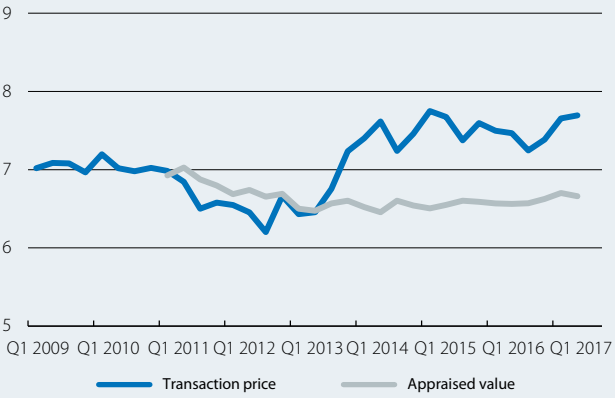
Year-on-year change (%) *Year-on-year change (%)*



Notes: ** Transaction price in nominal terms. ** Cumulative sales over 12 months.*
Source: *CaixaBank Research, based on data from Statistics Portugal.*

Portugal: affordability ratio

Ratio of house prices to GDHI



Note: *GDHI indicates the gross disposable income of an average household.*
Source: *CaixaBank Research, based on data from the INE and ECB.*

5. Eurostat data from Q1 2017.
6. Variable rate mortgages accounted for 83.4% of the total in 2016.

KEY INDICATORS

Activity and employment indicators

Values, unless otherwise specified

	2015	2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	09/17	10/17	11/17
Retail sales *(year-on-year change)*	2.7	1.5	2.4	2.1	3.0	2.8	3.7	...	...
Industrial production *(year-on-year change)*	2.1	1.5	2.3	1.3	2.7	3.6	3.3	...	...
Consumer confidence	–6.1	–7.7	–6.5	–5.5	–2.7	–1.5	–1.2	–1.1	0.1
Economic sentiment	104.2	104.8	106.9	108.0	110.0	112.1	113.1	114.1	114.6
Manufacturing PMI	52.2	52.5	54.0	55.6	57.0	57.4	58.1	58.5	60.0
Services PMI	54.0	53.1	53.4	55.1	56.0	55.3	55.8	55.0	56.2
Labour market									
Employment (people) *(year-on-year change)*	1.0	1.4	1.4	1.6	1.6	...	–	–	...
Unemployment rate: euro area *(% labour force)*	10.9	10.0	9.7	9.5	9.2	9.0	8.9	8.8	...
Germany *(% labour force)*	4.6	4.2	3.9	3.9	3.8	3.6	3.6	3.6	...
France *(% labour force)*	10.4	10.0	10.0	9.6	9.5	9.7	9.7	9.4	...
Italy *(% labour force)*	11.9	11.7	11.8	11.6	11.2	11.2	11.1	11.1	...
Spain *(% labour force)*	22.1	19.6	18.7	18.2	17.3	16.8	16.7	16.7	...

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

	2015	2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	10/17
Current balance: euro area	**3.4**	**3.6**	**3.6**	**3.5**	**3.2**	**3.4**	**...**
Germany	8.5	8.3	8.3	8.3	7.7	7.8	...
France	–0.4	–0.9	–0.9	–1.1	–1.2	–1.0	...
Italy	1.5	2.7	2.7	2.9	2.8	2.8	...
Spain	1.1	1.9	1.9	1.9	1.8	1.8	...
Nominal effective exchange rate [1] *(value)*	**91.7**	**94.3**	**94.5**	**93.7**	**95.2**	**98.5**	**98.6**

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

	2015	2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	08/17	09/17	10/17
Private sector financing									
Credit to non-financial firms [1]	–0.3	1.8	2.2	2.2	2.3	2.4	2.4	2.4	2.9
Credit to households [1, 2]	0.8	1.7	1.9	2.3	2.6	2.7	2.7	2.7	2.7
Interest rate on loans to non-financial firms [3] *(%)*	1.6	1.4	1.3	1.3	1.3	1.2	1.3	1.2	...
Interest rate on loans to households for house purchases [4] *(%)*	2.1	1.8	1.8	1.8	1.7	1.7	1.8	1.7	...
Deposits									
On demand deposits	11.1	10.0	9.3	9.4	10.2	10.5	10.6	10.9	10.5
Other short-term deposits	–3.8	–1.9	–2.0	–2.3	–2.9	–3.0	–2.7	–3.2	–2.7
Marketable instruments	2.6	2.7	4.2	5.7	0.7	–0.3	–0.4	1.0	–0.7
Interest rate on deposits up to 1 year from households *(%)*	0.8	0.5	0.4	0.4	0.4	0.4	0.4	0.4	...

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 stands firm

Economic growth remained strong in Q3 supported by domestic demand. Q3 national account data confirm that GDP grew by 0.8% quarter-on-quarter (3.1% year-on-year), in line with the CaixaBank Research forecast and the INE's estimate from one month ago. As already suggested by the economic activity indicators, Q3 GDP growth was slightly lower than in Q2, when it rose by 0.9% quarter-on-quarter. Domestic demand contributed 2.7 pp to year-on-year GDP growth, 0.4 pp more than in Q2. This firm domestic demand is mainly due to capital goods investment, which was stronger than expected and advanced by 2.5% quarter-on-quarter. Investment in construction slowed down, however, with 0.3% growth quarter-on-quarter, as a result of the deceleration in house construction and a slight dip in investment in civil engineering and other construction projects. Private consumption performed as expected, maintaining the previous quarter's growth rate (0.7% quarter-on-quarter).

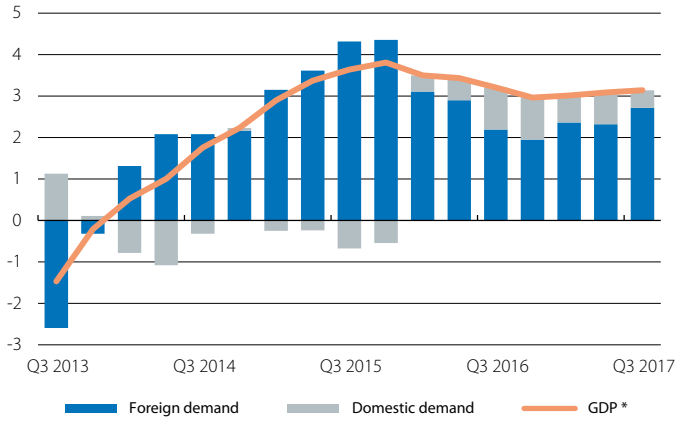
Foreign demand is running out of steam. It contributed 0.4 pp to GDP growth, 0.4 pp less than in Q2. The external sector's lower contribution is due to stagnant exports and imports in quarterly terms. Nevertheless, these data, although weaker than expected, are within the series' typical variability and do not alter the external sector's positive outlook. Looking ahead to the next few quarters, we expect the trend in the foreign sector to remain solid, supported by solid growth in the euro area (the destination of just over half Spanish exports) and synchronised growth at a global level. External demand should therefore continue to make a positive contribution to GDP growth (see the Dossier «The Spanish economy in 2018: the importance of the foreign sector» in this *Monthly Report*).

Early Q4 indicators point to the gradual slowdown in economic activity continuing. The services PMI index, which represents two-thirds of GDP, fell slightly to 54.6 in October. But it is still clearly in the 50-plus expansionary zone. Manufacturing indicators were positive, however, with a PMI of 55.8 points in October, the highest since 2007. Industrial production also accelerated in Q3 to 2.5% year-on-year (2.2% in Q2). Demand indicators for October pointed to a slowdown due to the uncertain political situation. Spain's total retail sales fell by 1.1% year-on-year in October, a drop that was particularly marked in Catalonia (down 3.9% year-on-year). However, November's economic sentiment indicators were very strong. For instance, the European Commission's ESI index rose to 110.8 points (110.2 in October), the highest for the past 23 months.

Favourable trend in the labour market. The number of registered workers affiliated to Social Security increased by

*Contribution of domestic and foreign demand to GDP growth **

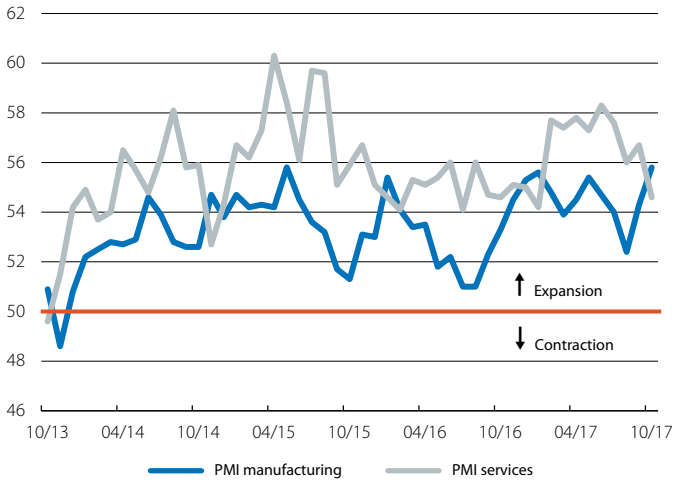
(pp)



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

Economic activity indicators

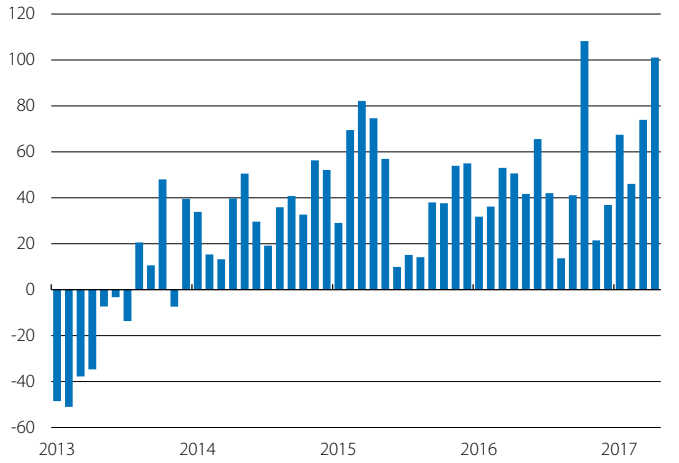
Level



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

*Registered workers affiliated to Social Security **

Month-on-month change (thousands of people)



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

101,479 in seasonally adjusted terms. This means the job creation rate remained at a high 3.5% year-on-year. The number of unemployed fell by 23,690 people, also in seasonally adjusted terms. National account data for Q3 point to employment increasing by 2.9% year-on-year in terms of full-time equivalent jobs, matching the previous quarter's record. In the past 12 months, 501,000 full-time equivalent jobs have been created.

Inflation eases in Q4. The recovery in oil prices, intensified by the dollar's appreciation against the euro, helped to keep headline inflation at 1.6% in November. But price moderation will be the dominant trend in this last quarter of 2017 and early 2018. The base effect of electricity prices, compared with very high levels early in 2017, is accompanied by a moderation in core inflation, which fell by 0.3 pp in October to 0.9%. This decrease was due to a smaller rise in the price of industrial goods (with a share of 24.8% in headline inflation) and services (41.2% share), specifically those related to housing and leisure and culture. For more details on the inflation outlook, see the Focus «The ups and downs of Spanish inflation: changing with energy» in this *Monthly Report*.

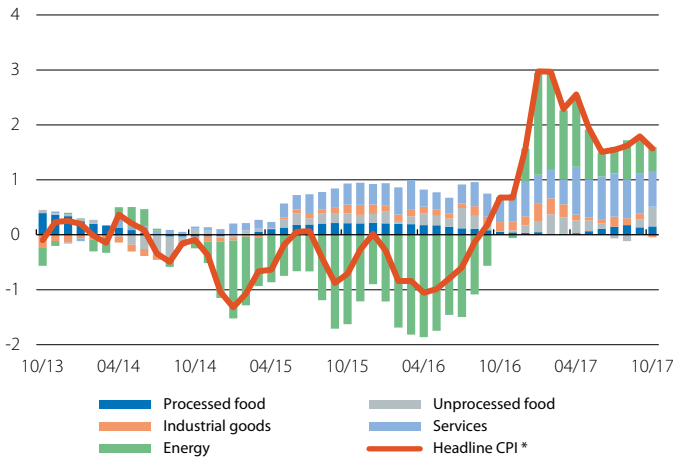
The current account is still in surplus despite rising energy imports. After the publication of September's current account data, which for the 12-month cumulative period was 1.8% of GDP, we still expect the current account to end 2017 with a surplus of around 1.8% of GDP, close to the 1.9% achieved in 2016. This is because the larger energy bill due to rising oil prices is being offset by the good performance of exports and an income balance that is still supported by low interest rates. The deterioration in the balance of goods is almost entirely due to the larger energy deficit, increasing by EUR 4,867 million cumulative up to September. The non-energy surplus, however, fell by just EUR 467 million between January and September. The improvement in the services surplus is mostly due to tourism, whose income rose by 11.6% year-on-year in the 12-month period up to September. However, the higher expenditure by Spanish tourists abroad, up by 13.6%, has limited the improvement in the overall balance of tourism services.

Tourist arrivals dipped slightly in October. Specifically, 7.3 million international tourists arrived, an increase of 1.8% year-on-year, a notable deceleration compared to the 10.4% year-on-year average between January and September. This slowdown in international tourism was particularly marked in Catalonia (down by 4.7% year-on-year in October). By origin, the arrival of German and French tourists increased slightly in year-on-year terms while the arrival of English tourists, the largest share, has hardly varied at all from one year to the next.

The total general government deficit stood at 2.0% of GDP in September (excluding local government corporations) and the year is very likely to close on target. Up to September, general government had accumulated an adjustment of

CPI

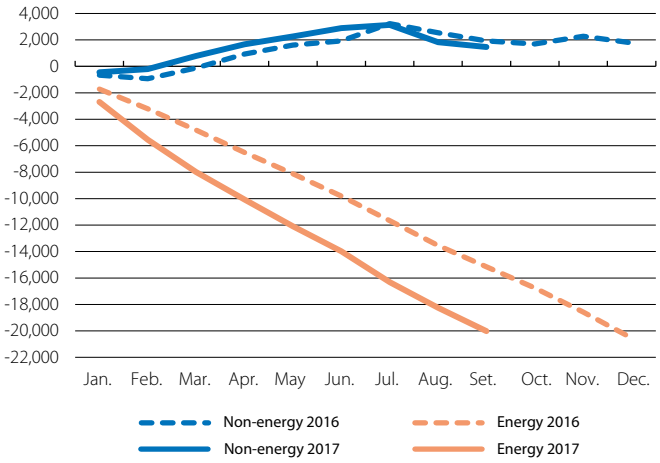
Contribution to year-on-year growth (pp)



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

Energy and non-energy trade balance *

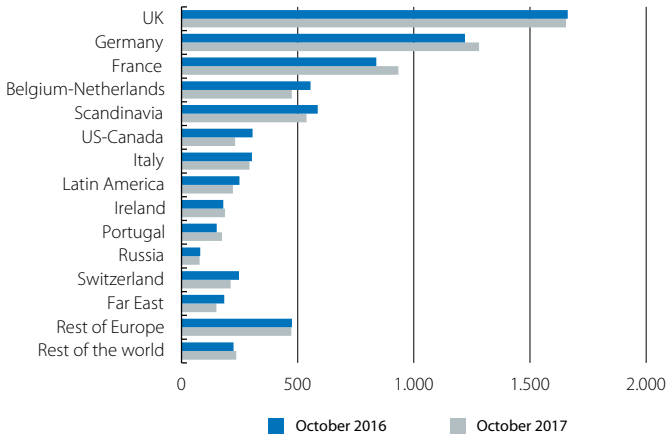
(EUR million)



Note: ** Cumulative for the year.*
Source: *CaixaBank Research, based on data from the Customs Department.*

Foreign tourist arrivals by country of origin *

(Thousands of people)



Note: ** Number of tourists.*
Source: *CaixaBank Research, based on data from the INE.*

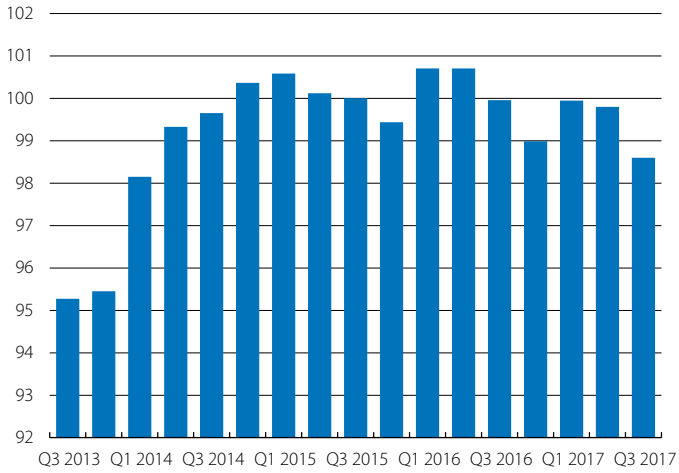
1.2 pp out of the total 1.3 pp needed to reach the deficit target of 3.0% of GDP by 2017 (3.1% including bank restructuring costs). By administration, the central government deficit, with data up to October, fell to 1.1% of GDP compared with 2.0% in October 2016. The autonomous communities have also improved, posting a surplus of 0.1% of GDP in September which contrasts with the 0.2% deficit in September 2016. In September, Social Security registered a deficit of 0.6% of GDP, the same as in September 2016. In spite of these positive figures, public debt remains high. In Q3 it totalled 98.6% of GDP, close to the peak of 100.7% of Q3 2016 and well above the 43.8% average for the period between 2006 and 2010, both included. It is therefore important not to become complacent and to continue with fiscal consolidation efforts.

The real estate market continues to improve. House prices published by the Ministry of Public Works, based on the appraised value, rose by 2.7% year-on-year in Q3, 0.7% quarter-on-quarter, recovering from a relatively lukewarm Q2. The sector continues to improve with purchases of non-subsidised residences rising by 13.5% in the 12-month period up to September and a 23.2% increase in new building permits in August. Over a longer timescale, the market is now midway between the levels of 2007, the last year of the bubble, and 2013, the last year of declines. House sales and new building permits have posted cumulative increases of 45.3% and 57.4% compared with the 2013 level but are 41.5% and 79.6% below the 2007 level, respectively.

The NPL ratio is falling and bank loans continue to flow. In September, the NPL ratio fell to 8.33% (down 0.16 pp year-on-year) thanks to the increase in the loan portfolio and the reduction in doubtful loans. Growth in loans and the sale of non-performing asset portfolios will continue to reduce this rate over the coming months. One of the factors enabling banks to continue lending to households and enterprises, as shown by the latest available data, are their healthy balance sheets. In October, new lending to households for house purchases rose by 16.8% year-on-year in the first nine months of the year while new consumer credit was up 17.2%. Lending to SMEs also increased by a significant 8.7%, while new operations for large companies are starting to pick up again (0.5%).

Public debt

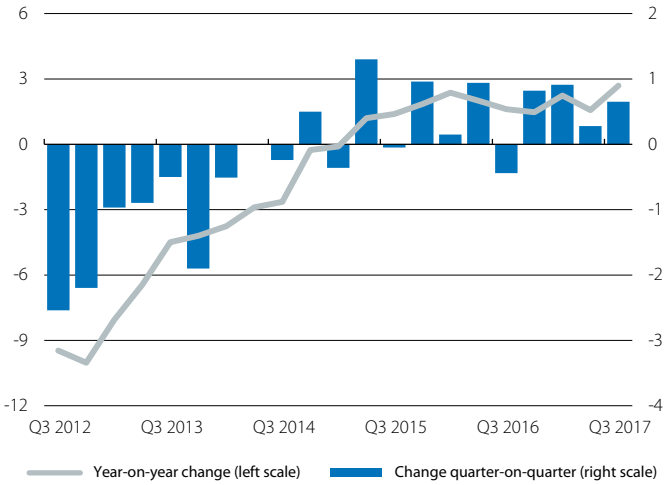
(% of GDP)



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

House prices

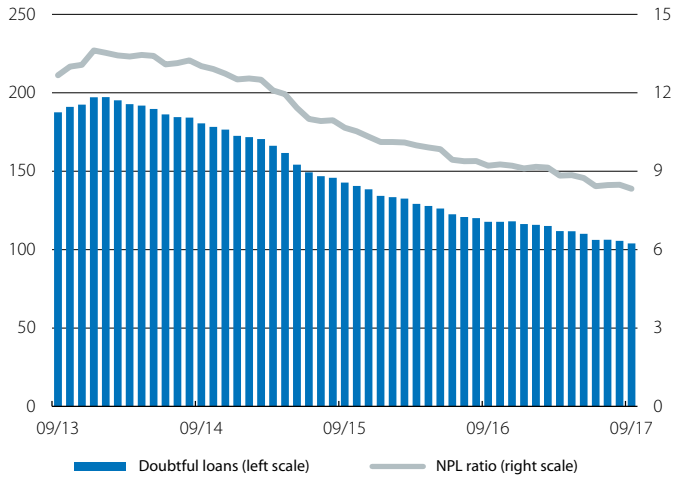
Change (%) *Change (%)*



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

NPL ratio and doubtful loans

(EUR billion) *(%)*



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

FOCUS · The ups and downs of Spanish inflation: changing with energy

The underlying trend for Spanish inflation is stable, with very moderate rises. A good example of this is the evolution in core inflation, going from near-zero to around 1% in the past three years. Headline inflation has been much more volatile over the same period, however, going from negative rates to close to 3% before dropping again relatively sharply. While we expect the underlying trend to continue rising, headline inflation is very likely to remain erratic over the coming quarters.

As already mentioned, the underlying trend can clearly be seen by the evolution in core inflation. This is very likely to continue its gradual ascent. The euro's appreciation in recent quarters, around 10% since the end of 2016, will certainly help to contain core inflation. Nevertheless the sustained and relatively high growth in economic activity and falling unemployment rate will continue to support a gradual recovery. We therefore expect core inflation to continue rising in 2018, reaching just over 1.5% towards the end of the year.

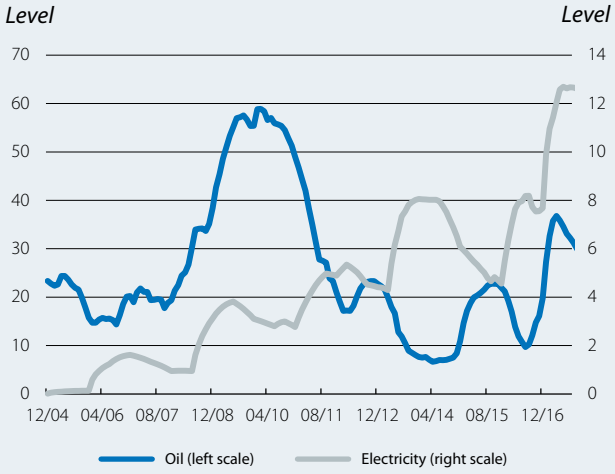
Headline inflation is expected to be around 1.7% next year. However, the CPI components not included in the core rate are more difficult to predict and will most likely continue to fluctuate considerably (see the enclosed chart). The trend in electricity prices is particularly significant. Although this accounts for a relatively small share of the CPI, specifically 3.5%, its fluctuations throughout the year have been so great they have ended up affecting headline inflation. In January 2017 the year-on-year increase was 26.2% while in October its growth rate fell to 3.4%. With due reservation, given the fluctuating electricity prices in Spain, and provided the upswing observed early last year is not repeated, the electricity component could fall by about 10% year-on-year in January 2018, which would push down headline inflation.

Fuel prices will also help to keep headline inflation volatile.[1] The price of crude oil in euros has fluctuated widely in 2017, both due to the volatility of the euro-dollar exchange rate but particularly because of the volatility of crude oil prices in dollars. This has posted year-on-year growth rates that have altered by more than 20 pp from one month to the next. Although we expect the price of crude oil to stabilise at levels similar to the present, namely around EUR 52 per barrel of Brent quality, the year-on-year rate of change will fluctuate markedly (due to the volatility of crude prices in 2017), which will also affect headline inflation.

1. Fuels account for 7.7% of the CPI, approximately twice as much as the euro area.

Increasing volatility in oil and electricity prices, especially since the recession beginning in 2008, has also increased the margin of error in the headline inflation forecast. Analysing the performance of both prices over the past few years we can state, with 40% probability, that in 2018 average inflation may deviate by around 0.5 pp regarding the forecast as a result of the behaviour of these two goods.[2] Now, more than ever, we must focus on the evolution in core inflation to determine the underlying trend in prices.

Standard deviation of oil and electricity prices *



Note: ** Standard deviation of the two-year moving average.*
Source: *CaixaBank Research, based on data from Markit.*

2. Specifically, for each variable, we have used the deviation corresponding to the 20th and 80th percentile of the empirical distribution for year-on-year changes.

FOCUS · Spain's mortgage credit bill

In November, the Council of Ministers passed a mortgage credit bill that could come into force during the first half of 2018 if approved by Congress. This bill transposes Europe's mortgage credit directive into Spanish law.[1] However, it also contains some additional measures, such as their application to the self-employed. The main aim of these changes is to increase consumer protection, make mortgage contracts more transparent and provide the financial system with greater legal certainty.

Essentially, the bill has four pillars that would significantly alter how the mortgage market works. First, for new mortgages taken out after the law comes into force, it lowers the commission that can be charged on early repayments.[2] For variable interest rate mortgages, one of two options can be agreed. Maximum commission[3] of 0.5% of the capital repaid early in the first three years (subsequently 0%) or 0.25% commission in the first five years (afterwards 0%). For fixed-rate mortgages, the maximum commission would be 4% in the first 10 years and 3% thereafter. Und er current legislation, the maximum commission is 0.5% in the first five years and then 0.25% for variable interest rate mortgages while there is no legal limit for fixed-rate mortgages.

The bill's second pillar makes it easier to convert variable interest rate mortgages into fixed-rate. The aim is to improve the financial stability of households should interest rates rise. As interest rates are currently at an all-time low, now is a particularly good time to encourage such conversions. Over 85% of the mortgages in Spain are linked to the Euribor so that the expected rise in interest rates will increase the financial burden of a large number of households. Fixed-rate mortgages, which do not transfer interest rate risk to the borrower, keep the interest rate stable until the end of the contract and thereby help financial planning. The measures proposed, which are retroactive and apply to all outstanding mortgages, include the lowering of the notary and registration costs associated with converting mortgages and a reduction of commissions for the early repayment of mortgages, with a maximum of 0.25% of the outstanding capital in the first three years and 0% subsequently. The law would also make it easier to convert mortgages taken out in a foreign currency into euros (or into the currency in which the borrower receives most of his or her income). This provides greater protection against exchange rate risk.

The bill's third pillar establishes tougher criteria for financial institutions to foreclose on a mortgage. For this to take place, more than 2% of the capital granted or more than nine monthly payments must be in arrears during the first half of a loan's life. During the second half of the loan's term, over 4% or more than 12 monthly payments must be in arrears. This change in the law, which would apply both to existing and new mortgages, establishes a single criterion that strengthens the legal certainty of mortgage contracts. Interest for late payment has also been changed, establishing a rate of three times the legal interest rate at the time (9% in 2017) during the late payment period on the outstanding capital.

The fourth pillar of the bill focuses on greater transparency. Firstly, it aims to ensure that borrowers understand the financial and legal obligations involved in the contract. It also gives them the chance to ask the notary for free advice up to seven days before signing the contract (the notary must certify that these obligations have been understood). Tied selling is also banned (being forced to take out other products together with the mortgage, such as insurance). However, combined sales (without any obligation) are allowed, provided the product quotes are presented separately so the cost of each one can be appreciated. Finally, a Europe-wide standardised form would have to be used to ensure transparency of form, as well as specific documentation when particularly sensitive clauses are involved. The government may also approve a model contract that is simple and easy to understand, which the parties can use if deemed appropriate.

In summary, the changes introduced by the bill will encourage greater transparency, legal certainty and consumer protection for mortgage contracts. All this should help to reinforce financial stability.

1. Directive passed in 2014 which should have been transposed into national law by March 2016. Several countries have yet to do this: Spain, Croatia, Cyprus and Portugal.
2. This commission compensates financial institutions for the loss caused by early repayment.
3. In all cases, never exceeding the financial institution's potential loss.

FOCUS · Employment and productivity: positive signs

The good performance of the Spanish labour market continues, as shown by the latest LFS data for Q3 2017. In the past year, the number of employed has increased by 521,700 while the net job creation growth rate has remained at a high 2.8% year-on-year. Widening our perspective to take into account the last four years, net job creation totals an impressive 1,819,200 people, a 10.6% cumulative growth rate. This means more than half the jobs destroyed in the recessionary phase (2007-2013) have now been recovered.[1]

Job creation is widespread across all sectors of economic activity, albeit with significant variation in their respective recovery rates. Dividing the sectors into two groups by productivity level,[2] it can be seen that most employment is being generated in low-productivity sectors, which have the largest share in the economy (see the first chart). However, employment growth is more dynamic in the more productive sectors. These have consequently been gaining weight in total employment (from 18.7% in Q3 2013 to 19.1% currently). In fact, 22% of the net jobs created between Q3 2013 and Q3 2017 were in sectors with above-average productivity, rising to 38% over the past year.

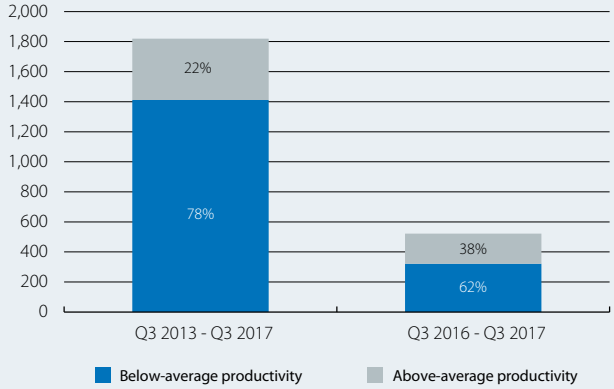
By economic activity, the two most productive sectors have posted higher job creation rates, approximately 14% cumulative between Q3 2013 and Q3 2017. These sectors are information and communications (ICT) and industry (see the second chart). Construction has also seen notable growth in employment (12.3% over four years) as the new upward cycle in the real estate sector takes hold. However, its share of the total number of employed is still far from the figure posted in the previous expansionary phase. Retail, transport and hotels & restaurants, with a 29.8% share of total employment, account for 32.4% of the jobs created in the past four years. This reflects tourism's good performance in the current recovery stage. Finally, the sectors in which employment has grown the least since 2013 are public administration, education and health, and artistic and recreational activities (8.8% and 6.4%, respectively), both with below-average productivity.

In summary, the Spanish labour market is moving in the right direction. Job creation figures are positive and the employment trend by sector reveals that, little by little, a change in the production model is underway.

1. The number of employed fell by 3,523,400 people between Q3 2007 and Q3 2013.
2. Economic activity sectors are grouped according to whether their apparent labour productivity is above or below average. Apparent labour productivity is defined as the gross value added (GVA) of each sector divided by the number of full-time equivalent workers (FTE).

Increase in the number of employed by sector productivity

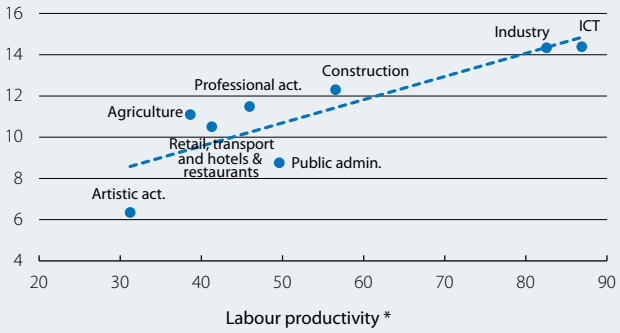
(Thousands)



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

Relationship between job creation and sector productivity

Employment growth between Q3 2013 and Q3 2017 (%)



Note: ** Apparent labour productivity is defined as the gross value added of each sector divided by the number of full-time equivalent workers. The financial and real estate sectors are excluded. Q2 2017 data (cumulative over four quarters).*
Source: *CaixaBank Research, based on data from the INE (LFS).*

KEY INDICATORS

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

Activity indicators

	2015	2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	09/17	10/17	11/17
Industry									
Electricity consumption	1.7	0.1	–0.1	1.6	1.2	0.3	–1.5	...	...
Industrial production index	3.3	1.9	1.9	1.9	2.1	2.5	3.4	...	...
Indicator of confidence in industry *(value)*	–0.3	–2.3	–0.6	0.3	–0.5	–0.1	2.1	2.5	5.5
Manufacturing PMI *(value)*	53.6	53.2	54.4	54.8	54.9	53.6	54.3	55.8	...
Construction									
Building permits *(cumulative over 12 months)*	20.0	43.7	36.9	24.5	18.4	...	...	...	...
House sales *(cumulative over 12 months)*	10.9	13.1	13.9	15.2	12.2	13.3	13.1	...	...
House prices	1.1	1.9	1.5	2.2	1.6	2.7	–	–	...
Services									
Foreign tourists *(cumulative over 12 months)*	5.6	8.2	10.1	10.0	10.2	10.3	10.3	9.4	...
Services PMI *(value)*	57.3	55.0	54.9	56.4	57.8	56.8	56.7	54.6	...
Consumption									
Retail sales	3.0	3.6	3.0	0.5	2.5	1.8	2.7	–1.5	...
Car registrations	21.3	11.4	8.9	7.8	6.3	6.7	4.6	13.7	...
Consumer confidence index *(value)*	0.3	–3.8	–3.2	–2.8	1.5	0.2	–1.1	–1.4	–1.7

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

Employment indicators

	2015	2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	09/17	10/17
Registered as employed with Social Security [1]								
Employment by industry sector								
Manufacturing	2.2	2.8	2.8	3.0	3.1	3.1	3.2	3.1
Construction	4.7	2.6	3.3	5.3	6.1	6.1	6.3	6.8
Services	3.5	3.2	3.5	3.4	3.8	3.6	3.6	3.7
Employment by professional status		3.5						
Employees	3.5	3.5	3.8	4.0	4.4	4.1	4.1	4.1
Self-employed and others	1.9	1.0	0.9	0.9	0.9	0.7	0.8	0.7
TOTAL	**3.2**	**3.0**	**3.3**	**3.4**	**3.8**	**3.5**	**3.5**	**3.5**
Employment [2]	**3.0**	**2.7**	**2.3**	**2.3**	**2.8**	**2.8**	**–**	**–**
Hiring contracts registered [3]								
Permanent	12.3	14.2	13.3	15.4	10.2	11.0	12.7	21.4
Temporary	11.2	7.2	6.6	12.1	9.6	5.0	3.7	7.6
TOTAL	**11.3**	**7.8**	**7.1**	**12.4**	**9.6**	**5.5**	**4.5**	**8.8**
Unemployment claimant count [3]								
Under 25	–11.0	–12.6	–13.2	–13.3	–17.3	–9.4	–6.7	–6.9
All aged 25 and over	–7.2	–8.2	–9.0	–9.2	–10.3	–8.7	–8.5	–8.0
TOTAL	**–7.5**	**–8.6**	**–9.4**	**–9.6**	**–10.9**	**–8.8**	**–8.3**	**–7.9**

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

	2015	2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	09/17	10/17	11/17
General	**–0.5**	**–0.2**	**1.0**	**2.7**	**2.0**	**1.7**	**1.8**	**1.6**	**1.6**
Core	0.6	0.8	0.9	1.0	1.1	1.3	1.2	0.9	...
Unprocessed foods	1.8	2.3	1.0	4.1	2.5	–0.2	2.2	4.9	...
Energy products	–9.0	–8.4	1.6	15.3	8.0	5.4	5.8	3.9	...

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

	2015	2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	07/17	08/17	09/17
Trade of goods									
Exports *(year-on-year change, cumulative over 12 months)*	4.3	1.7	1.8	1.7	5.1	5.6	6.8	6.9	7.6
Imports *(year-on-year change, cumulative over 12 months)*	3.7	–0.4	–0.3	–0.4	3.7	5.7	7.7	8.2	9.0
Current balance	**12.2**	**21.5**	**19.3**	**21.5**	**21.6**	**21.0**	**20.9**	**20.7**	**20.8**
Goods and services	25.3	33.7	31.9	33.7	32.0	32.3	31.7	32.0	31.9
Primary and secondary income	–13.1	–12.2	–12.6	–12.2	–10.4	–11.3	–10.8	–11.2	–11.1
Net lending (+) / borrowing (–) capacity	**19.2**	**24.2**	**24.4**	**24.2**	**24.1**	**23.1**	**23.0**	**22.8**	**22.9**

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

	2015	2016	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Net lending (+) / borrowing (–) capacity [1]	**–5.3**	**–4.5**	**–0.8**	**–3.1**	**–2.9**	**–4.5**	**–0.4**	**–2.2**	**...**
Central government	–2.6	–2.7	–0.8	–1.9	–2.6	–2.7	–0.4	–1.1	–1.5
Autonomous regions	–1.7	–0.8	–0.1	–0.6	–0.1	–0.8	–0.2	–0.7	0.1
Local government	0.4	0.6	0.0	0.1	0.5	0.6	0.1	0.2	...
Social Security	–1.2	–1.6	0.2	–0.6	–0.6	–1.6	0.1	–0.5	–0.6
Public debt *(% GDP)*	**99.4**	**99.0**	**100.8**	**100.7**	**99.9**	**99.0**	**99.9**	**99.8**	**99.6**

Note: *1. Includes aid to financial institutions.*
Source: *CaixaBank Research, based on data from the IGAE, Ministry of Taxation and Bank of Spain.*

Credit and deposits in non-financial sectors [1]

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

	2015	2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	08/17	09/17	10/17
Deposits [2]										
Household and company deposits	–0.6	2.5	3.2	3.0	3.2	2.5	2.3	2.3	2.9	2.7
Sight and savings	14.7	16.0	15.7	16.2	18.6	18.8	17.2	17.3	17.3	16.7
Term and notice	–16.3	–16.0	–15.1	–17.7	–22.0	–24.9	–25.1	–25.1	–25.1	–25.5
General government deposits	6.7	–14.2	–9.4	–29.1	–28.0	–26.7	6.8	9.0	9.5	7.0
TOTAL	**–0.2**	**1.2**	**2.4**	**0.4**	**1.0**	**0.5**	**2.6**	**2.6**	**3.2**	**2.9**
Outstanding balance of credit [2]										
Private sector	–5.5	–3.6	–3.3	–3.2	–2.7	–2.1	–2.3	–2.4	–2.1	–2.0
Non-financial firms	–7.3	–5.3	–5.2	–5.2	–4.3	–3.0	–3.9	–4.0	–3.7	–3.3
Households - housing	–4.6	–3.7	–3.3	–3.1	–3.0	–2.8	–2.7	–2.7	–2.7	–2.7
Households - other purposes	–2.6	2.0	3.1	2.9	3.6	3.2	3.6	3.5	4.4	4.0
General government	0.2	–2.9	–2.2	–2.7	–3.2	–12.6	–11.6	–10.9	–12.2	–11.6
TOTAL	**–5.2**	**–3.6**	**–3.2**	**–3.2**	**–2.7**	**–2.9**	**–3.0**	**–3.0**	**–2.8**	**–2.7**
NPL ratio *(%)* [3]	**10.1**	**9.1**	**9.2**	**9.1**	**8.8**	**8.4**	**8.3**	**8.5**	**8.3**	**...**

Notes: *1. Aggregate data from Spain's banks. 2. Residents in Spain. 3. Data up to end of period.*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

OUTLOOK 2018

Global prospects: a (minimal) lexicon for an accurate reading of 2018

Using the right adjective was of the utmost importance for the Catalan writer Josep Pla. He believed that any adjective chosen should be intelligible, clear and precise. Albeit in a different sphere, economists face a similar challenge when it comes to characterising the cyclical outlook. The language used should be precise and capture the essence of the moment, as Josep Pla demanded. With this challenge in mind, and hand in hand with the Collins English Dictionary, we propose a brief lexicon of adjectives we believe will be applicable in the approaching 2018 and subsequent years.

Dynamic: *adj. 3. characterised by force of personality, ambition, energy, new ideas, etc.*

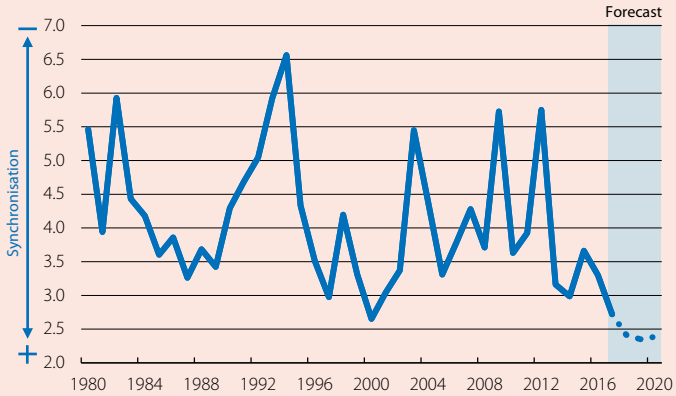
The first distinguishing feature of the current phase in the global economic cycle can clearly be associated with the adjective «dynamic». According to CaixaBank Research forecasts, the world economy will grow by 3.8% in 2018, slightly more than the 3.6% estimated growth in 2017. Similar forecasts are given by other organisations, such as the IMF and the World Bank. Historically speaking, these are positive figures that outperform the average annual growth since 1980, namely 3.5%. Moreover, if we broaden our focus and extend the timescale to 2022, these forecasts point to growth continuing at similar rates to those of 2017 and 2018. Consequently, after the global GDP growth observed in 2017, in 2018 the world economy will press down a little harder on the accelerator and is on track to enjoy several favourable years.

Synchronise: *vb. 1. to occur or recur or cause to occur or recur at the same time or in unison.*

The second adjective in this brief lexicon is «synchronised», the participle of the verb «synchronise». This highlights a unique feature of the current point in the cycle: the very similar growth enjoyed by different economies. For instance, the IMF expects only six countries to post negative growth rates. More sophisticated measures to evaluate the degree of synchronisation also come up with the same conclusion. Calculating the deviation between growth across countries and world growth, the degree of synchronisation in 2018 and subsequent years will be the highest since 1980. The only year that comes close to this figure is the one occurring during the recovery in growth in 2000.[1]

Synchronisation of the economic cycle *

Index



Note: ** The indicator is the standard deviation of each country's GDP growth minus world growth, where each country's relative weight is that country's share of global GDP in purchasing power parity terms for each year.*
Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*

Mature: *adj. 1. relatively advanced physically, mentally, emotionally, etc.*

The third essential feature of the current cycle concerns its degree of maturity. In everyday usage, «mature» generally has a positive connotation. However, a mature economic cycle is not, *per se*, better or worse than a cycle that is not mature. This state is merely associated with a number of specific features. Typically, a country at this stage of the economic cycle is more likely to have inflationary tensions because of the extensive use of its production factors and the emergence of bottlenecks. Determining the point in the cycle is complex enough for advanced economies providing high quality statistical information. But this calculation becomes even more unreliable for the global economy as a whole. Nevertheless, several measures suggest that the world's economy is slowly entering a more mature phase of the cycle.[2] The number of countries registering a positive output gap

1. Formally, the synchronisation indicator is calculated as follows:

$$synchro_t = \sqrt{\sum_c^C \left[s_{c,t} * (\dot{Y}_{t,c} - \dot{Y}_{world,t})^2 \right]}, \text{ where } t \text{ denotes time and } c \text{ country.}$$

The variable $synchro_t$ represents the level of global synchronisation in the year t, $s_{c,t}$ corresponds to the share of country c of global GDP in purchasing power parity terms in year t, $\dot{Y}_{t,c}$ is the GDP growth in country c during the year t and, finally, $\dot{Y}_{world,t}$ is global growth during the same period t.

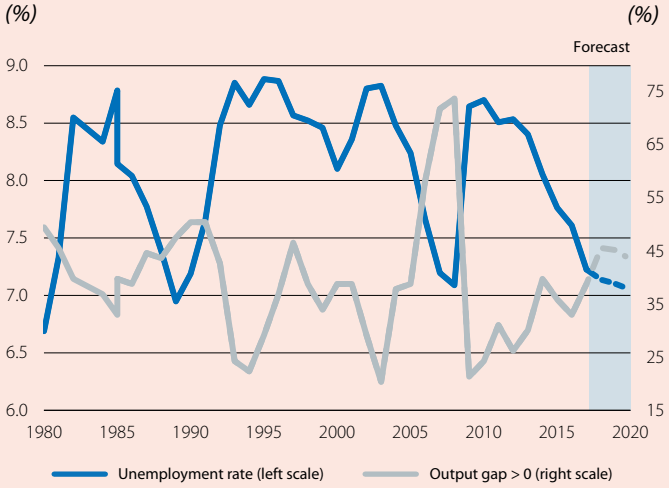
2. Specifically, output gap data suggest that the current point in the economic cycle is the one called «phase 1» by Fernandez, E., (2013), «Potential GDP and the output gap: what do they measure and what do they depend on?», MR 05/2013. In other words, with a positive and increasing output gap, which can be associated with the initial stages of a mature phase in the cycle.

(i.e. with real GDP exceeding potential) in 2018-2020 will therefore be the largest since 2008, before the Great Recession. Similarly, the world's average unemployment rate will be the lowest since 1990.

Sustainable: *adj. 2. (of economic development, energy sources, etc.) capable of being maintained at a steady level without exhausting natural resources or causing severe ecological damage.*

So far three adjectives have been used to describe the point in the cycle. But when it comes to analysing the quality of growth, i.e. when moving from a description to a forecast, the key is whether this expansion is sustainable or not. Although the adjective «sustainable» tends to be used in the environmental sense, here we are interested in sustained economic growth in the sense that it can be maintained over time. There are several reasons to conclude that the current growth rate is sustainable. First, expansion is taking place without large macroeconomic imbalances being generated. Unlike the growth observed in the first half of the 2000s, economies are accumulating smaller current account imbalances and forecasts suggest this pattern might continue in the coming years. Another important aspect is related to what is probably the most distinctive feature of the current expansion, namely its high degree of synchronisation. Synchronised growth is, *a priori*, more sustainable because, should idiosyncratic shocks occur that only affect certain countries, other economies would be able to offset the negative impact. This diagnosis, recently repeated by ECB members when referring to Europe's expansionary cycle, can also be applied to the global growth cycle as a whole. However, if such synchronisation is due to a common factor and this factor deteriorates, the impact would also be more generalised than in a less synchronised situation. As has been argued several times, the global factor behind the current expansionary cycle is likely to be the global accommodative financial conditions. The CaixaBank Research main scenario predicts that a combination of very gradual normalisation with good forward guidance will help those countries most dependent on financing to steadily adapt to the somewhat tougher financial conditions.

World: unemployment rate and percentage of countries with a positive output gap



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

Uncertain: *adj. 5. liable to variation; changeable.*

When trying to make economic predictions, we must remember that the future is, by definition, uncertain, although perhaps less so than it used to be. Nevertheless, given all the above, we can conclude that the situation and outlook are favourable. Growth will be strong and of a higher quality than in recent years. This same conclusion has been reached by several organisations. For example, in its latest outlook the IMF states that the upside and downside risks are balanced. For many years the concluding remark made by the IMF and other agencies had always been a variant of «but there are downside risks». Nevertheless, although risks have certainly become more balanced, the remaining sources of uncertainty should not be taken lightly. Global growth faces two main types of risk. Firstly, those of a macrofinancial nature, with the accumulation of debt as a major factor, a weakness that could come to the fore if global financial conditions tighten up more sharply than expected. Secondly, there are also political risks in the broadest sense, including geopolitical and a potential protectionist shift. Both these types of risk are covered by the other articles in this Dossier.

To conclude, let's return once more to the master wordsmith. Along with his requirement for a clear, intelligible and precise adjective, Josep Pla also demanded that writing should be as closely based on reality as possible. This is obviously not so far removed from the requirement imposed on economists and the description and forecasts presented here have attempted to follow this principle. Ultimately, time will tell whether our analysis, and its translation into adjectives, has also come up with an accurate prediction.

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Risks in 2018: (geo)politics and international trade

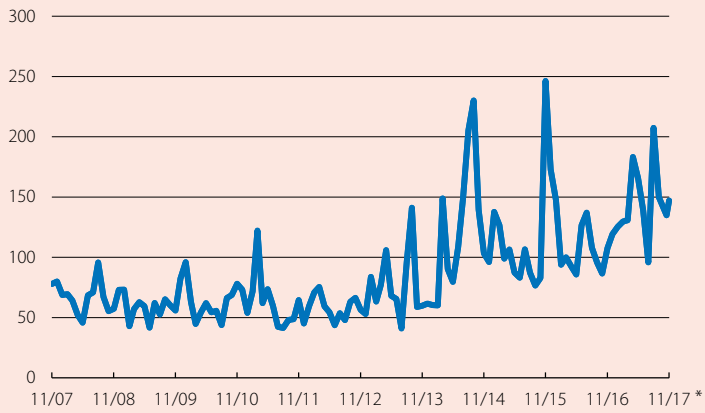
An analysis of political and geopolitical risks is becoming essential to reliably forecast the economic outlook. Tensions in these areas tend to have a significant impact on global macroeconomic performance, as well as on the ever-nervous financial markets.

According to the geopolitical risk (GPR) index developed by Caldara and Iacoviello, geopolitical tensions have increased in recent months (see the chart).[1] This kind of indicator is very useful for assessing (and quantifying) the impact of geopolitical uncertainty on global economic performance. In fact, Caldara and Iacoviello estimate that a spike in tensions such as the one observed in recent months tends to lead to a decline in economic activity and lower asset prices, both real and financial, as well as increased financial volatility, largely due to greater uncertainty.

The escalation in protectionist political forces often lies behind this increased tension between countries, especially in the developed bloc. The so-called rise of populism. Macron's victory in France and the unexpectedly poor results achieved by the far right in the Netherlands in the first half of 2017 may have eased Europe's greatest fears. But in September the far right entered the German parliament for the first time since 1945. The far right also performed very well in Austria's elections in October, while the populist and Eurosceptic billionaire, Andrej Babis, is the Czech Republic's new Prime Minister.

*Geopolitical Risk index **

Level



Note: ** November data based on newspaper searches up to 10 November 2017.*
Source: *CaixaBank Research, based on data from the Geopolitical Risk Index (Caldara and Iacoviello).*

Generally speaking, these parties may not have enough support to govern but they are already influencing the political agenda and this is very likely to continue over the next few years. This influence is most noticeable in the area of trade. There are two perfect examples of such influence: Brexit, and the protectionist policy President Trump is trying to implement in the US.

The United Kingdom's withdrawal from one of the most prosperous free trade areas on the planet can be seen as a protectionist shift by the country. However, in recent months the UK's bargaining position has appeared relatively weak and the country has little support for a hard Brexit. In fact, a reasonably far-reaching agreement in terms of free trade in goods and services and a transition period seem increasingly likely, what is known as a soft Brexit.[2] Uncertainty, however, remains very high.

On the other side of the Atlantic, Trump's «America First» brand of populism has already claimed a few victims. These are climate change, with the US abandoning the Paris Agreement; Iran, with potentially new demands regarding nuclear security; and also international trade, with the US abandoning the Trans-Pacific Partnership deal (TPP). There are also concerns regarding the outcome of negotiations to redesign the North American Free Trade Agreement (NAFTA), which began in summer 2017 and are expected to end at the beginning of 2018.

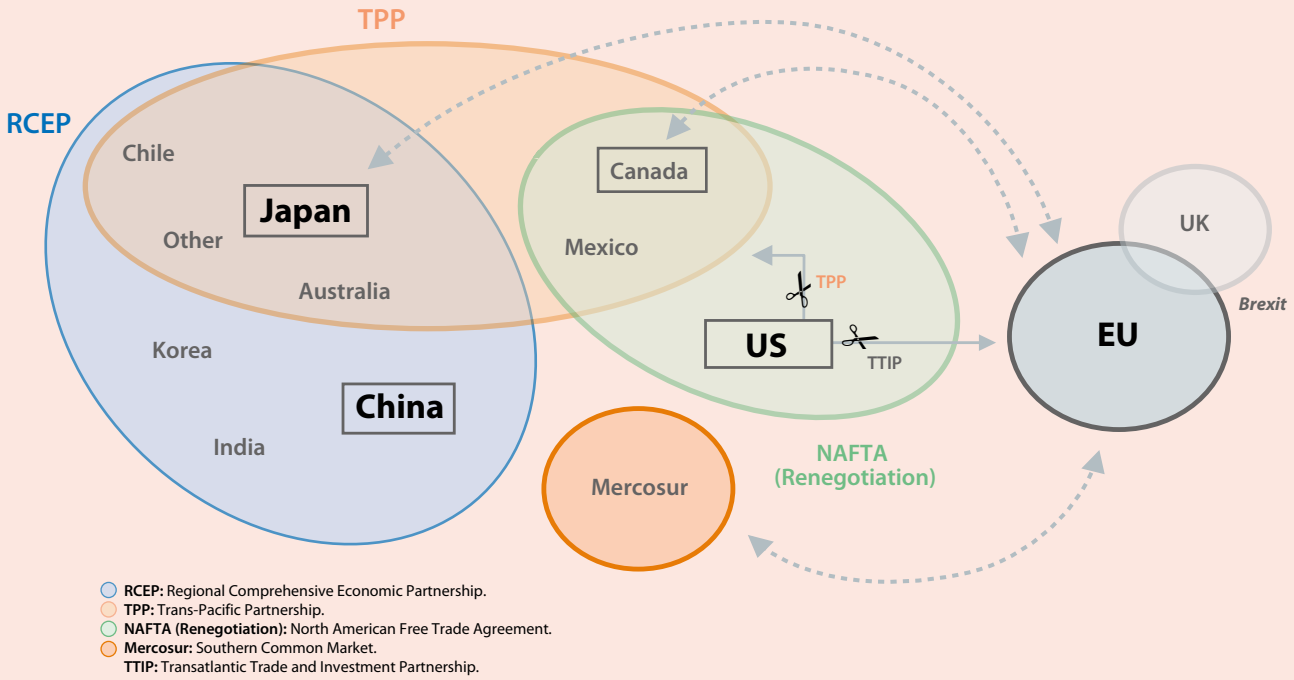
This agreement between Canada, Mexico and the United States, established in 1994, boosted North American economic relations. Trade flows between the three countries increased substantially, tripling in just a few years, a much higher increase than growth in trade with the rest of the world. And although it is very difficult to separate the ultimate impact of the treaty from the many different events of the time, such as the huge technological changes of the 1990s and 2000s and China's entry into the international arena, estimates generally point to a distinctly positive effect.

In an economic bloc as strong as North America (which accounts for about 30% of world GDP and 12% of global exports), any final redesign of the Treaty that entails some reversal in trade would weaken global demand and could jeopardise the strength of the current expansion. In the long term, moreover, such a move would compromise the productivity gains achieved through these countries becoming more open to trade, something that the region and, in particular, the US cannot afford.

We believe the NAFTA renegotiations will ultimately be constructive, helping to modernise the agreement. But we cannot be sure. In particular, because the US has made it clear it wants significant changes in the Treaty's conditions. Changes that allow it, among other things, to reduce the considerable trade deficit it has with Mexico. Changes to cope with increasing Asian competition by altering the «rules of origin». These determine which goods are entitled to preferential tariff treatment under the NAFTA, based on the percentage of intermediate inputs from the US, Mexico or Canada. At present the US believes they allow too many non-US inputs to enjoy the advantages of the free trade region. And the US also wants to lower existing barriers to trade in digital services. Demonstrating its willingness to push for far-reaching change, it has also proposed a sunset clause every five years if all three countries fail to ratify the agreement. As this would increase uncertainty and depress investment flows, we do not believe such an extreme proposal will succeed. However, there could be a compromise, such as the one proposed by Mexico a few weeks ago, in which the status of the agreement would be reviewed every five years.

1. The Geopolitical Risk Index counts the number of words related to tensions and geopolitical acts in the main newspapers. See https://www2.bc.edu/matteo-iacoviello/gpr.htm for more details.
2. For more information, see the Focus «Brexit, the road ahead» in MR10/2017.

Trade agreements: the latest or those currently under negotiation



Source: *CaixaBank Research.*

Brexit, the NAFTA renegotiation and the US withdrawal from the TPP and TTIP (the agreement it was negotiating with the EU) may give the impression that the world is embarking on a new protectionist phase. But the truth is that, outside the borders of the US and UK, globalisation continues to expand steadily, with several significant multilateral trade agreements under negotiation or virtually signed.[3] In November, for example, Japan, Canada and Mexico, along with the other countries in the original TPP, agreed to continue negotiations without the US economy. The US had been a key member for two reasons. First, because of its size. With the US, the countries under the umbrella of the TPP accounted for 40% of world GDP and around a quarter of trade flows. These figures fall sharply without the US but they are still relevant. For example, the remaining countries still account for an impressive 15% of world exports. Secondly, because the US was demanding high standards related to intellectual copyright and also in areas such as labour where, for example, it was demanding compliance with International Labour Organisation standards. However, the determination of the other countries to carry on is highly significant politically, sending a clear message in favour of continuing to work towards greater trade integration at a global level. They have also announced their intention to maintain high standards in the final agreement, which will probably be reached early in 2018.

A new trade agreement (the RCEP) is also being forged in Asia that will encompass 16 countries, including especially China, Japan and India, the region's three largest economies. Although the RCEP cannot be considered a substitute for the original TPP, since it focuses only on reducing tariff barriers in a region where tariffs are already relatively low, the inclusion of India, a large economy whose tariffs are still high, has huge potential. We should remember that, 25 years ago, China hardly traded with its neighbours (and even less with the rest of the world) but is now the leading exporting power.

Finally, the group of countries that make up the EU is not missing out either. This year agreements have already been signed with Japan and Canada and negotiations are currently underway with the four founding countries of the Mercosur bloc (Argentina, Brazil, Paraguay and Uruguay), among others (see the diagram). The agreement with Japan not only sets up a free trade area that rivals NAFTA in size and scope but also sets very comprehensive standards and provisions regarding the environment, labour market and intellectual copyright, in line with the high degree of development of both countries. The agreement with Mercosur countries, however, does not aspire to be as broad in non-tariff and regulatory issues as the agreement with Japan or Canada, although it is relevant for many economic sectors (such as agriculture).

Trade's centre of gravity is fast shifting from the Atlantic to the Pacific. The US tried to establish its industry regulations as international standards through the important economic treaties it was negotiating but now it seems to have renounced this aim, at least for the moment. This new situation must be seen as an opportunity for the EU which, providing it acts quickly and effectively, now has more leeway to influence the rules of global trade. China will not make this easy and another very likely obstacle is the potentially new US president in three years' time.

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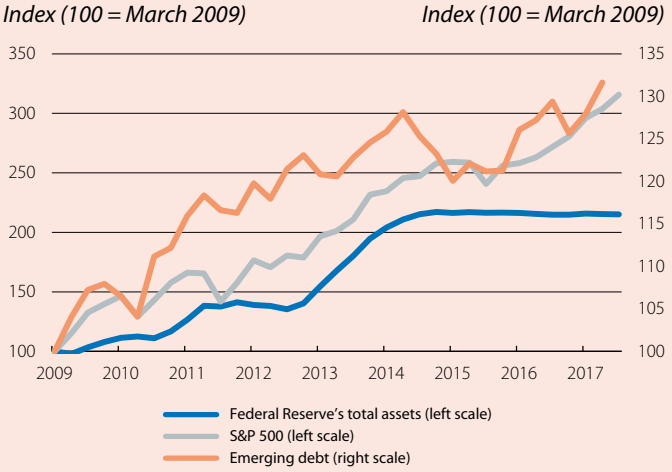
3. In recent years, major multilateral agreements such as those that would result from the completion of the Doha Round, have given way to smaller multilateral agreements.

Global macrofinancial risks

The global growth outlook for 2018 is positive. Both emerging and advanced economies are expected to grow faster than in previous years and this expansion is likely to continue over the next few years. But this trend is not free from risk, particularly in the area of macrofinance. This article examines the major macrofinancial risks on the horizon and analyses their causes and possible consequences. Only then will it be possible to assess how far this good outlook for 2018, and for the years ahead, might be jeopardised by macrofinancial factors.

In more detail, two macrofinancial imbalances have developed in recent years which, because of their potential scope and contagion, pose a risk to economic prospects in general. The first is the sharp increase in global debt which, according to BIS, has grown by 40% since 2008. This increase is largely a consequence of the large rise in debt in emerging economies, which has grown by more than 50 pp since the financial crisis and has risen from 276% of GDP in 2007 to around 325% in 2017. While there are concerns regarding the sustainability of emerging debt, the advanced economies are also in the spotlight due to the strong appreciation of some financial assets, especially US equity. The S&P 500 index began to recover after the financial crisis in the first quarter of 2009. Since then it has increased by more than 200%, the equivalent of an average annual increase of more than 14%. Fundamental valuation ratios such as the CAPE have also reached levels not seen since the dotcom bubble of the 2000's, suggesting the US stock market might be overvalued.[1] This combination has fuelled concerns among analysts and investors.

Asset purchase programme, stock market and emerging debt



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

Although several factors have contributed to the development of these two macrofinancial risks, the highly accommodative monetary policy stance taken up in the period after the 2007 financial crisis appears to be one of the main reasons behind the imbalances. In fact, when a central bank takes measures to reduce interest rates, one of the aims is precisely to encourage a search for yield and investment in riskier assets. Logically, during a recession or economically weak period, this mechanism helps to boost the economy.

The effectiveness of the unconventional monetary policy measures implemented by the main central banks is indisputable. We only have to look at the close relationship between the trend in US equity, emerging debt and the US Federal Reserve's swollen balance sheet.

Assuming monetary policy has played an important part in the development of such imbalances, the question that immediately comes to mind is how they will be affected by the interest rate normalisation which the main central banks are expected to carry out over the next few years.

Recent experience suggests that, provided interest rates are raised gradually, the impact should be contained. It is true that when the Fed announced its intention to begin monetary normalisation in 2013, there was a one-off episode of increased risk aversion and capital outflows from many emerging economies of a certain size. However, since then the effects on emerging flows have been limited, particularly after normalisation started in earnest, which has been gradual and with highly measured forward guidance. As US monetary normalisation is expected to remain very gradual, its impact on risk asset trends should be relatively contained.

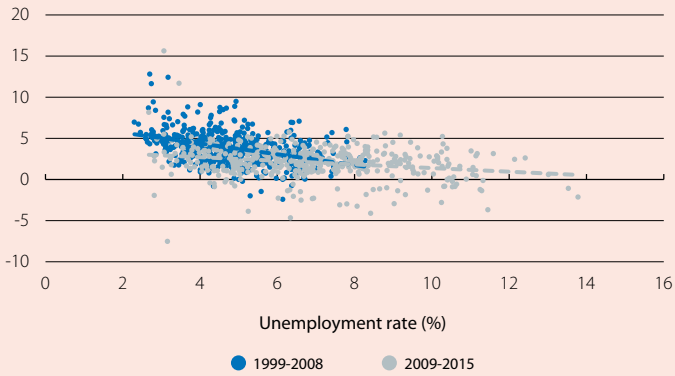
We can therefore conclude that one of the key aspects of this discussion is whether the Federal Reserve might be forced to become more aggressive in its monetary policy. One typical reason would be inflation; more specifically, higher inflation than expected. Answering this question is tantamount to understanding why inflation has only recovered slightly in recent years given the growth in economic activity.

1. For more details, see the article «US equity prices: a cause for concern?» in the Dossier of the MR11/2017.

The strongest reason given for the sluggish rise in inflation is mainly based on the flattening of the Phillips curve, indicating that inflation is now less sensitive to changes in the output gap. The curve has particularly flattened out since the financial crisis (see the second chart).[2] Given this change in the inflationary pattern, the Fed has become cautious and expects inflation to rise gradually. Investors, however, expect inflation to remain very low and this is reflected in financial asset prices. For instance, the trend in inflation expectations implied by some financial market instruments fell sharply at the end of 2014 and has barely recovered since.

*US: wage growth and unemployment rate in different states **

Annual wage growth (%)

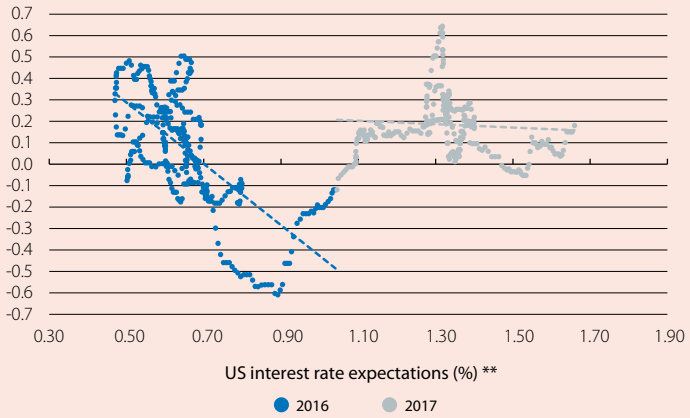


Note: ** Each dot represents the annual figure for each state.*
Source: *CaixaBank Research, based on data from the US Census Bureau, US Bureau of Labor Statistics (BLS) and Federal Reserve Bank of San Francisco.*

However, there is reason to believe that the Phillips curve is largely flatter due to cyclical factors whose influence may soon disappear. As shown by Daly *et al.*,[3] the weakness in wage growth and, as a result, inflation in the US over the past few years may be due to a change in the composition in the labour market. During the economic recovery, workers earning below-average wages have joined the labour market, ultimately slowing down wage growth. However, as the expansion intensifies, this factor will have less impact and wage growth will accelerate. In fact, various labour market indicators suggest the labour market is very close to levels typical of a mature economic cycle. This suggests that unexpected increases in inflation are now more likely than in previous years.

Capital flows towards emerging economies and US interest rate expectations

*Capital inflows to emerging economies (USD billion) **



Notes: ** One-month moving average of net non-resident portfolio flows to emerging markets.*
*** One-month moving average of 1Y fed fund rate.*
Source: *CaixaBank Research, based on data from Bloomberg and the IIF.*

And here we come full circle and must again examine the possible repercussions of the aforementioned macrofinancial imbalances should inflation rise unexpectedly and quite sharply. At the outset, an increase in inflation expectations would push up long-term interest rates, which could lead to corrections in high US equity valuations.[1] Higher inflation expectations and a more demanding financial environment could also damage emerging debt. In this case it is revealing to look at the sensitivity of financial conditions in emerging economies to those of the US. As can be seen in the third chart, emerging capital flows have responded little to changes in US interest rate expectations in 2017. The situation was different in 2016, however, when higher interest rate expectations resulted in a fall in portfolio capital flows to emerging markets.

Which year will 2018 resemble? The stable 2017 or more agitated 2016? The answer largely depends on the dexterity of the Federal Reserve in a year when it will have to handle more demanding situations than in the recent past.

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2. See Leduc, S. and Wilson, D. J. (2017), «Has the Wage Phillips Curve Gone Dormant», Economic Letter, Federal Reserve Bank of San Francisco.
3. See Daly, Mary C., Bart Hobijn and Pedtke, J. (2017), «The Good News on Wage Growth», SF Fed Blog, Federal Reserve Bank of San Francisco.

The Spanish economy in 2018: the importance of the foreign sector

The outlook for the Spanish economy in 2018 is positive. Consensus forecasts expect the expansionary trend beginning in 2013 to continue and employment to go on growing at a good rate. Correction should also continue for the main macroeconomic imbalances (i.e. private agents will reduce their debt further, the public deficit will fall below 3% and a current account surplus with the rest of the world will be maintained). This should help to consolidate a new economic cycle, more solid and balanced than the previous expansionary phase, in which the external sector plays a key role. Let's examine this in more detail.

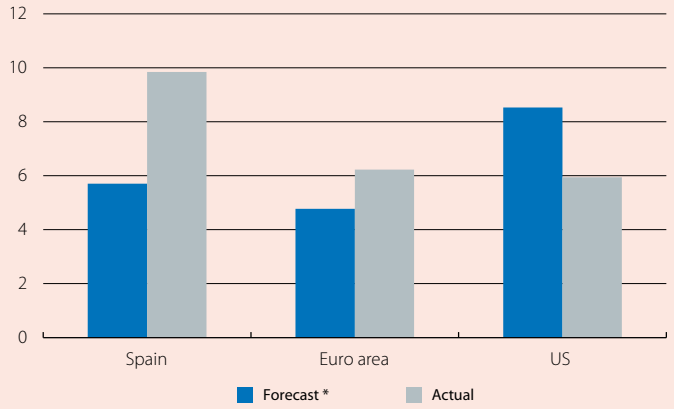
The Spanish economy has performed exceptionally well over the past three years with annual growth above 3%. As a result, more than 1.5 million jobs have been created. This growth rate has not only surpassed that of other developed economies but has also been better than expected. As can be seen in the first chart, the Spanish economy grew by 9.8% between 2015 and 2017 compared with 6.2% and 5.7% in the euro area and US, respectively. Spain's actual growth was also 40% higher than the forecast.[1] The euro area has also performed surprisingly well but to a lesser extent (23%), while the US has had negative growth «surprises» in each of the past three years.

Focusing on Spain, if we break down the «surprise» of GDP growth into the contribution made by domestic and by foreign demand[2] we can see that, with the exception of 2015, the latter is responsible for Spain's good economic performance (see the second chart). In other words, in 2016 and in 2017 foreign demand's contribution to GDP growth was more than expected a year earlier, while domestic demand performed in line with forecasts.[3] This simple exercise shows how the external sector has been coming to the fore, indicating an increasingly competitive and internationalised economy. However, its greater openness to international trade also makes the country more dependent than ever on its trading partners and more exposed to global risks.

So how will the world economy perform in 2018? As explained in detail in the previous articles of this Dossier, the new year will probably see more synchronised growth in the different economies overall and stronger global demand. Both factors will boost Spanish exports in 2018. But the external environment will also be the source of some global risks that could mar these good prospects. These include geopolitical risks and a resurgence of protectionism that could slow down world trade.[4] A close eye should also be kept on the financial instability that could result from the monetary normalisation carried out by central banks in

Surprises in GDP growth during the recovery

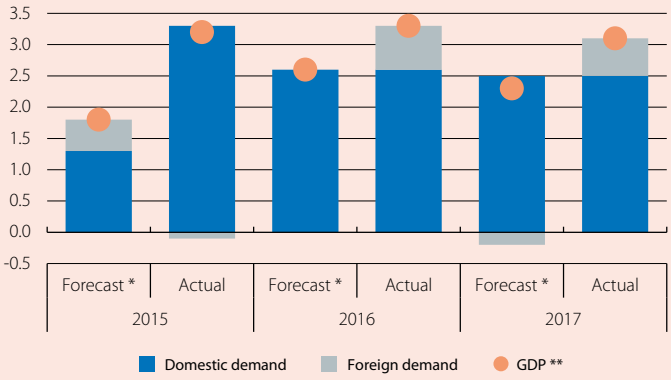
Cumulative change 2015-2017 (%)



Note: ** For each year, the forecast used is that published by Consensus Forecasts in the January of the previous year. Data in real terms.*
Source: *CaixaBank Research, based on data from Eurostat and Consensus Forecasts.*

Spain: surprises in GDP composition during the recovery

Contribution to annual GDP growth (pp)



Notes: ** For each year, the forecast used is that published by FUNCAS panel in the January of the previous year. Data in real terms. ** Annual rate of change (%).*
Source: *CaixaBank Research, based on data from INE and the FUNCAS panel.*

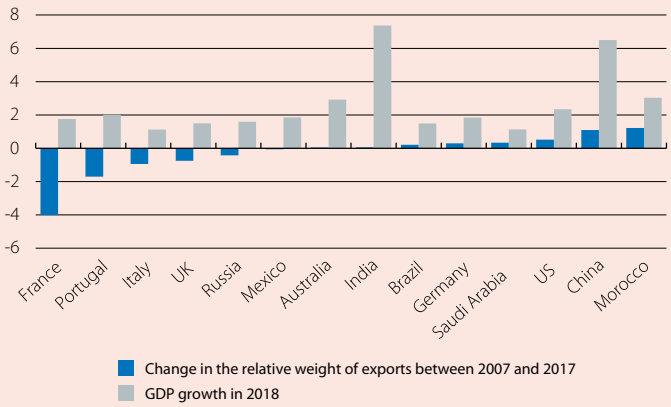
1. We compared the growth forecast made by Consensus Forecasts in January of the previous year with the actual growth figure. For example, we used the January 2014 publication by Consensus Forecasts to obtain the GDP growth forecast for 2015. Growth data for 2017 have not yet been published, so the forecast made in January 2016 has been compared with the most recent forecast (November 2017).
2. The forecasts for contribution to GDP growth of domestic and foreign demand come from the FUNCAS panel in March of the year prior to the forecast reference period.
3. The positive surprise in external demand is mainly due to lower than expected import growth.
4. See the article «Risks in 2018: (geo)politics and international trade» in this Dossier.

the main advanced economies.[5] Nevertheless, Spain's private sector has carried out significant deleveraging and balance sheet consolidation, making it more able to withstand potentially tougher financial conditions.[6]

The domestic factors supporting the external sector in recent years (competitiveness gains, greater export diversification and an increase in the range of products exported) will continue to boost the sector, aided by a slightly accelerating global economy.[7] In geographical terms, we can calculate the increase in demand for Spanish exports in 2018 according to the relative weight of each destination and the GDP growth forecast for each country, based on Datacomex data for trade in goods and by destination country.[8] According to this calculation, Spanish exports could grow by 6.4% in 2018 in nominal terms,[9] and contribute 1.5 pp to GDP growth (1.1 pp when the import content of exports is taken into account). To put these figures into perspective, it is useful to analyse how exports would have grown if the number of destinations had not increased over the past decade. To this end, we used the geographical composition in 2007. The result is that export growth would have been less, 4.7%. It is therefore evident that the increased geographical diversification of Spanish exports will provide an additional boost to exports in 2018 and have an impact on GDP growth of around 0.3 pp.[10]

Change in the relative weight of export destination and GDP growth in 2018

(%)



Note: *The destination countries with a greater relative weight for Spanish exports have been selected for each continent.*
Source: *CaixaBank Research, based on data from Datacomex and the IMF.*

In this new expansionary phase, the fact that Spain now exports to a larger number of destinations is an advantage since it means that exporters are better able to take advantage of the good growth rate forecast for most of our trading partners. However, this good performance by the foreign sector will not entirely offset the expected slowdown in domestic demand. A deceleration that has already begun to be felt towards the end of 2017. This is due to the disappearance of certain factors that had been driving domestic demand in recent years (lower oil prices, tax cuts and durable goods purchases and investments that had been postponed during the crisis). The uncertainty related to Spain's more complex political situation could also have an impact. As a result, CaixaBank Research expects GDP growth to moderate from 3.1% in 2017 to 2.4% in 2018. Nonetheless, this slower rate of progress will still be among the highest of the advanced economies.

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5. See the article «Global macrofinancial risks» in this Dossier.
6. It should be noted that the CaixaBank Research central scenario assumes a very gradual adjustment of the ECB's monetary policy and that financial conditions will remain highly accommodative for a long period of time.
7. For a detailed analysis of the destination markets for Spanish exports, see the Focus «Geographical mapping of Spanish exports» published in MR10/2016.
8. IMF GDP growth forecasts from Autumn 2017.
9. Note that this calculation does not take other factors into account that also influence exports, such as competitiveness or changes in preferences in destination countries.
10. The direct impact of export growth on GDP is about 0.4 pp but given the high import intensity of exports, the overall effect on GDP growth is somewhat smaller. A volume effect must also be taken into account, since exports have risen from 25.7% of GDP in 2007 to 33.2% currently. This effect lies behind about 0.1 pp of the total impact (namely 0.3 pp).

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As of 31 March 2017

	MILLION €
Customer funds	338,053
Loans and advances to customers, gross	227,934
Profit attributable to Group, YTD	403
Market capitalisation	24,085
Customers (million)	15.8
Employees	37,638
Branches	5,525
Branches in Spain	4,990
Self-service terminals in Spain	9,461

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

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