

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.

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30 November 2017