CYCLE

- Economy passed its cyclical peak.
- Cycle has matured.
- After impressive growth rates (>3%), the economy is expected to converge to its medium-term potential (1.8%).
- Factors holding back economic potential:
    1. Low productivity growth
    2. Unfavorable demographics.
    3. High structural unemployment.
- Downside risks:
    a. External:
        a.1. Escalating protectionism.
        a.2. No-deal Brexit.
        a.3. Slowdown in trading partners growth.
        a.4. Tightening of financial conditions due to aggressive monetary policy normalization.
        a.5. Increase of oil prices.
    b. Domestic:
        b.1. Lack of reform momentum (fragmented Parliament).
        b.2. Internal regional tensions (undermine confidence). Nevertheless, economic activity in the past has proven to be resilient to political uncertainty.

PRICES

- Core inflation expected to gradually move to 2% in the coming years (mature business cycle).
- Insufficient fiscal buffer.

FISCAL STANCE

LABOUR MARKET

- Unemployment: 14.55% Q3-2018.
- Wages: 1.2% in 2017; 2-3% annually 2018-2010.
- It's high, but below its long term average.
- Weak spots:
    1. Youth unemployment (1/3).
    2. High share of temporary contracts.
    3. Involuntary part-time employment.

EXTERNAL POSITION

- Current account surplus: 1.8% of GDP (5th consecutive annual surplus).
- The larger energy trade deficit, due to higher oil prices, was partially offset by a greater services trade surplus (especially tourism).
- Weaker demand for trading partners and higher oil prices.
- Net International Investment Position: -84% of GDP

LEVERAGE

- Timid continuation of the deleveraging process.
- Loans for consumer durables are expanding rapidly.
- Favorable financial conditions: 10-year government bond yields below their 2017 average.

REAL STATE MARKET

- Lowest level: -35% over pre-crisis levels.
- Now: -20% (with exceptions: big cities and the coast).
- Factors behind the rapid increase:
    1. Growth in employment and disposable income.
    2. Low interest rates on mortgage loans.
    3. Purchases from institutional investors.
    4. Tourist demand for online accommodation services.

BANKING SYSTEM

- Nonperforming loans: 4.5% of total loans (just below the euro area average).
- Common equity tier-1 (CET1) ratio: 13.4% in 2017.
- Assets (claims) in emerging markets: 15% (US$ 550 billion).
- Problem? Not exactly, because a subsidiary model: there is no intragroup funding, and parent banks hedge against most exchange rate risk.