# Limited risk from the emerging economies

**The IMF expresses concern for world growth but the data tone down this sentiment**. In its biannual revision of economic and financial forecasts the IMF has corroborated the gradual improvement in advanced economies but warns of the worsening balance of risks for emerging countries (mainly macroeconomic imbalances, weak commodities, tougher financial conditions and the slowdown in the Chinese economy). In spite of this slightly pessimistic view, the IMF's quantitative revision of its macroeconomic scenario has been relatively modest as global growth forecasts (3.1% in 2015 and 3.6% in 2016) are only moderately lower than the previous figures. This is due to the growth predicted for China remaining the same, as well as the minimal downward revision for US growth which has offset the larger revision for some emerging countries (in particular Brazil and, to a lesser extent, Russia). The most recent economic trends endorse the IMF's analysis. Concern for the real state of China has been somewhat tempered by the latest indicators, in particular by GDP growth in Q3 which stands at 6.9%, just below the figure of 7.0% posted in Q2 and higher than the consensus and our own forecast. Meanwhile the United States continues to grow: although its GDP figure for Q3 has remained a little below our forecasts this does not appear to threaten the expansionary trend predicted. Unfortunately, the worrying outlook of the weak front identified by the IMF has also been confirmed; in October attention was particularly focused on the increase in political, economic and geopolitical risks in Brazil and Turkey.

**In addition to better macroeconomic figures, the actions taken by central banks are also helping to reduce the perceived risk for emerging countries**. First of all, as opposed to the chain of rather confused messages issued in August and September, since then communication has been considerably more precise. For example, the Federal Reserve is now giving out more specific messages, placing the expectations of an interest rate hike in a more plausible zone, in our opinion (our main scenario is that this hike will take place in December). The ECB has also been explicit, suggesting that monetary stimuli will be increased, also in December. Other cases are not limited to communication; for instance the People's Bank of China has carried out a further cut in its interest rates. These measures have had an effect on financial markets. Whereas August and September saw episodes of notable instability, volatility diminished in October with quite strong gains for risk assets.

**Compared with global fluctuations, the euro area's recovery is continuing without too many variations**. Supported by the now all-too familiar factors (cheaper oil, the euro's depreciation and accommodative monetary policy), activity is improving slowly but surely. Nevertheless some distinctions still need to be made depending on the country in question. Germany, in spite of its greater exposure to the emerging economies, and Spain continue to accumulate positive indicators and France is also improving although its rate of activity is still subdued. Italy is following a similar course but the best news is that its pace of reforms has speeded up. After adopting two key reforms before the summer (labour and education), it has now altered the Senate's role which, in addition to the new Electoral Act passed in May, will ensure more responsive governance of the country. Outside the euro area we should note that year-on-year growth in the United Kingdom is now comfortably above 2% although the rate has slowed down somewhat.

**The Spanish economy has reduced its rate of growth slightly but its outlook is still clearly positive**. The Spanish economy grew by 0.8% quarter-on-quarter in Q3, a little less than the 1.0% in Q2. This is a small slowdown resulting from the temporary support factors gradually coming to an end, a situation that was expected and does not essentially alter recent trends. Domestic demand is still the driving force behind the economy's expansion, supported by labour's positive performance (jobs are being created, albeit at a rather more gradual rate than in previous quarters, and this is helping households to regain their financial wealth). Moreover, thanks to the fall in energy prices, inflationary tension is still notable for its absence: although prices are expected to recover soon, for the present inflation has merely stopped falling. More recently the real estate market has also improved, simultaneously posting growth in housing sales, mortgages, prices and housing starts. As a result of the expansion in economic activity, tax revenue is also increasing appreciably, helping to reduce the public deficit both of the central government and the autonomous communities. Nevertheless, the rate of adjustment in the public accounts might not be enough to meet the deficit target for 2015 (4.2% of GDP), as the European Commission recently warned.