

## The Greek storm will not blow Europe's recovery off course

**There's growing uncertainty regarding Greece's situation but Europe's macroeconomic expansion is in no danger.** After months of negotiations, on 30 June the second bail-out programme expired without Greece and its institutional creditors reaching an agreement. As a result, the pending payouts were not made. Towards the end of the negotiations, the Greek government also decided to hold a referendum on 5 July regarding the institutions' proposal, implemented capital controls in order to mitigate the liquidity problems in its banks and did not pay its debt with the International Monetary Fund (IMF). In spite of these ups and downs and the uncertainty hovering over the next few months, the impact on European stock markets and risk premia has been subdued. This is thanks to the firewalls progressively implemented by the European Central Bank (ECB) over the last few years and to the institutional advances made in economic and monetary union (EMU) which reduce the likelihood of financial contagion. Also favourable is the more limited exposure of Europe's banks to Greek financial assets and the improved macroeconomic situation of the peripheral countries as a result of structural reforms and public adjustment policies. Lastly, the current favourable economic situation in Europe also helped to ease the impact. Supported by cheaper crude oil, the euro's depreciation and improved financial conditions, Europe's expansion is gaining traction. While, in January, most analysts expected the euro area's growth to be 1.1% in 2015, the figure is now 1.5%. However, the fact that the Greek crisis is unlikely to destroy the economic recovery does not mean we can be complacent: EMU still has to develop in key areas such as financial and fiscal. The so-called «Five Presidents' Report» outlines the roadmap that should be followed to progress with financial, economic and fiscal union, a timely and relevant proposal that should not be ignored.

**The Spanish economy continues to perform well.** Given the European context, how is the Spanish economy weathering these stormy months? Spain is probably one of the countries that best exemplify the general features we have listed for the euro area as a whole. In the short term the financial impact has been similar on both: the Ibex 35 and Eurostoxx 50 (the euro area's stock market index) suffered similar losses and the upswing in Spain's risk premium was limited. This is the result of the

aforementioned factors: ECB firewalls, better EMU and a solid economic tone. In this last aspect it should be noted that the Spanish economy has been particularly dynamic during the first half of this year. After recording strong growth in 2015 Q1, available indicators point to a similar rate in Q2. This justifies our upward revision of growth for the year as a whole to 3.1% although we expect the economy to slow down moderately in the second half of 2015 and in 2016 due to the gradual disappearance of temporary supportive factors (oil and the euro, in particular). Nevertheless, this gentle slowdown does not sully the fact that Spain has now entered a positive period that includes elements such as improved household income (benefitting from the good performance of the labour market), inflation (which is at last starting to reflect the more vigorous tone of domestic demand), growth in the external surplus, recovery in the real estate sector and a revival in credit.

**Global growth continues.** The impact of the Greek crisis becomes more diluted as we move away from Europe (as testified by its lower impact on high risk financial assets) and other factors take over. In the US, after an abnormally weak 2015 Q1, business indicators for Q2 point to an appreciable recovery in growth and the continuation of two major forces: contained inflation and a dynamic labour market. With these two elements in place, we expect the Federal Reserve to start raising its reference rate in autumn and then afterwards continue its monetary normalisation at a gradual pace. Japan, for its part, after recording a better Q1 than initially announced, is en route to growing by 1% in 2015, a modest figure that can be explained by the difficulties encountered by the country to boost private consumption. Another Asian giant, China, is on a different track. In its case the challenge is to achieve what the IMF calls «a new normal, aimed at safer and higher-quality (...) growth. A transition that is both challenging and necessary». Given this situation, the more moderate growth rate of GDP is seen as a by-product of this change in model. In any case China's situation is diametrically opposed to the complications facing other emerging economies, in particular Brazil and Russia which have recorded quite hefty drops in activity in the first part of the year that look like continuing for the remainder of 2015.