A diagnosis of the world economy? Global resilience, latent risks

Global economic activity remains firm. Q1 is likely to end with world growth at 4%, a figure not seen since 2014 and supporting the good outlook for 2018 as a whole (global growth is expected to reach 3.9%, slightly above the 3.7% achieved in 2017). One particularly positive aspect of this growth is that it seems to be occurring across several regions and sectors. Importantly, the underlying tone is still strong in the two main economic engines, the US and China, although the American economy may have been slightly less expansionary than expected early in 2018. The series of positive soft indicators in the US has been offset by other less favourable real indicators, pointing to moderate Q1 growth. Nevertheless, this somewhat more hesitant start to the year does not look like compromising the favourable outlook for the next few quarters. China's economic progress also seems to be fundamentally positive. In fact, industrial production and retail sales have been surprisingly high despite the distortions that always occur due to Chinese New Year celebrations. In summary, it is reasonable to expect this good growth rate to continue, supported by financial conditions remaining amply accommodative, oil prices staying within a reasonable range for both exporters and importers, and the recovery in large emerging economies such as Brazil and Russia, as well as good economic growth rates continuing in emerging Asia. We should also add the positive inertia for economic growth provided by the high levels of business and consumer confidence.

Arrhythmia in the financial markets. Although the macroeconomic lung is performing well, the financial heart is looking more erratic. After a long period of what was surely over-complacency, resulting in invariably low volatility, in Q1 instability returned to the financial markets due to expectations of a less accommodative monetary policy stance and fears of greater protectionism at a global level. After spikes in sovereign interest rates in January and equity corrections in February, in March the main international stock markets were still erratic and losses continued. However, while February's stock market corrections were triggered by expectations of a tighter monetary policy stance on the part of the US Federal Reserve (Fed), the losses in March followed announcements of higher customs tariffs by Trump's administration, both at the beginning and end of the month. With all eyes on US trade policy, March's central bank meetings had little effect on investor sentiment. This was the case both of the Fed's meeting, agreeing another hike in the fed funds rate, and also the ECB meeting, which hinted at quantitative easing soon coming to an end.

Europe, Spain and Portugal are in good shape. Europe, on the other hand, is still sailing through relatively calm waters. The latest economic activity figures confirm that Europe as a whole, and in particular the Iberian economies, are going through a positive moment in the business cycle. As this is partly due to the efforts made to correct macroeconomic imbalances, this good dynamic could continue for a significant period of time. Also related to cementing a better economic future for the continent, it is important an agreement has been reached and confirmed on the Brexit transition period, which should limit disruption for both parties. We should also celebrate the Grand Coalition reached in Germany, opening the door to implementing the adjustments required by the EU, to some extent compensating the uncertain political panorama in Italy. Even closer to home and to the present, indicators for Spain suggest that Q1 growth will have been similar to that of the second half of 2017. This good rate of GDP growth is expected to continue over the coming quarters, driven by global economic activity remaining strong, particularly in the euro area, as well as accommodative financial conditions thanks to the ECB's expansionary monetary policy stance. The trend is also favourable in Portugal as, together with its continued expansion (growth in 2017 was the highest of the past 17 years), there are increasing indications that this growth is more balanced. Importantly, in 2017 Portugal's public deficit (0.9% of GDP, without including the recapitalisation of the Caixa Geral de Depósitos) far outperformed the target set. This is the path to be taken, not only by Portugal and Spain but Europe as a whole: to grow more, provided we can also grow better.