Contained risk in some emerging countries

Further setbacks on the emerging front. The geopolitical conflict that has broken out between Russia and the Ukraine and increased doubts regarding China's economic growth dominated the economic news in March and led to an upswing in risk aversion among investors. However, any contagion to the international scene has been relatively contained. The medium-term outlook is still encouraging, essentially supported by sustained improvement in global growth, the continuation of favourable monetary conditions and a gradual recovery in the euro area's growth prospects.

Investors discriminate between emerging risks. The effect of tensions in the Crimean peninsula was restricted to losses on Russia's stock market and the depreciation of the rouble and Ukrainian hryvnia against the dollar, while the effect on the rest of the emerging financial environment was also limited. Doubts regarding whether China can sustain its growth have failed to have any huge repercussions either. The likelihood of a serious decline for the Asian giant cannot be ignored but it has a lot of room to act in terms of monetary, fiscal and macroprudential policy should there be a pronounced slowdown in growth.

The Federal Reserve updates its forward guidance. The latest activity indicators in the USA are starting to recover from the effects of the bad weather at the start of the year. The business sentiment index is now at a level compatible with moderate growth in the economy and consumer confidence has reached its highest level since January 2008. The recovery in the labour market is still the area that causes most doubts. Although 175,000 jobs were created in February, the average for the last three months is only 129,000, the lowest figure since July 2012. Given this situation, after the last meeting of the Federal Open Market Committee, Janet Yellen announced that interest rates would remain below their historical average even after the inflation and unemployment targets that had been set a few months ago are reached. The Fed thereby abandoned its quantitative forward guidance strategy and introduced qualitative variables related to the labour market, inflation and financial conditions. The Fed's new communication policy, less precise and somewhat changeable, is likely to lead to episodes of volatility, especially if inflation starts to pick up within the current context of rising wages.

The economic recovery is consolidating in the euro area. The flow of indicators published in March continues to point to a scenario of gradual recovery. The trend in domestic demand is particularly noteworthy, especially investment which is looking relatively more robust than anticipated. The recovery in the periphery countries is also slightly better than expected. Based on this progressive recovery, the ECB continues to choose not to act although it acknowledges that inflation will remain low for a prolonged period of time and has repeated that it will not hesitate to intervene should deflationary risks intensify. In spite of its apparent inaction, the ECB's discourse appears to be increasingly aware of the risk of deflation. In this respect, the declarations made by the President of the Bundesbank and member of the Governing Council of the ECB, Jens Weidmann, came as some surprise as he did not rule out the ECB buying up public and private debt in order to reactivate the economy and allay deflationary pressures. Little by little, the ECB's intention to carry out quantitative easing, as carried out in the USA, is becoming more credible. Perhaps, once this warning has been fully accepted by the market, it will no longer be necessary to carry it out.

The Spanish economy ended 2014 Q1 with figures that encourage optimism. Available indicators for the first few months of the year point to the rate of growth accelerating. This was the case of "la Caixa" Research's economic activity index, which places quarter-on-quarter growth in GDP between 0.3% and 0.6% in 2014 Q1, higher than the figure of 0.2% recorded in 2013 Q4. Moreover, the map of risks is also moving towards more benign territory. In this respect, the latest report on macroeconomic imbalances published by the European Commission highlights the significant advances being made by the Spanish economy to correct its main imbalances. Although there is still a long way to go, this places the country in a more advantageous position to ensure the recovery steadily picks up steam throughout the year.