The advanced countries take over

Little by little the world economy is getting back to normal. Although the main sources of risk have not disappeared, investors believe they have now entered a more stable phase. Having overcome setbacks early in the year, the financial and economic environment has tended to improve in the main emerging countries, the US and the euro area. According to the IMF's new scenario of forecasts, world growth will reach 3.6% in 2014 and 3.9% in 2015, both figures higher than the growth achieved in 2013, namely 3.0%, and than the recent historical average. This acceleration in global growth will mainly result from the revival in the advanced economies but perhaps the most important change in the panorama outlined by the IMF is its belief that another global recession is now less likely.

Relative calm in the financial markets. In developed countries, economic recovery and expectations that accommodative monetary conditions will continue are providing a favourable environment for risk assets in general and sovereign debt in particular. The Fed is still reducing its bond purchases (tapering) and has suggested that official interest rates will be raised around mid-2015, not too far in the future and also likely to be brought forward. In general, financial conditions are progressing well in the emerging markets, leaving behind the tensions seen at the start of the year although there is still very clear discrimination between countries. There are two worrying cases, however. For the second time this year the Brazilian monetary authorities have raised the official interest rate, this time to 11%, in an attempt to slow up inflation. In Russia, immersed in a geopolitical conflict with the Ukraine and exposed to sanctions by the West, the central bank has raised its official rate by half a point to 7.5%. With this measure, the authorities hope to limit the flight of capital and check rising prices. This action was taken after Standard & Poor's had lowered Russia's credit rating to BBB–, one step away from junk bonds. The agency is concerned about its economy's huge dependence on energy exports and the dangers posed to investment and domestic consumption by any further international sanctions.

The US and China announce lower GDP growth than expected in 2014 Q1 but recent activity indicators are favourable. In the case of the US economy, GDP remained practically at a standstill, advancing by a meagre 0.1% in annualised quarter-on-quarter terms. However, a large part of this situation is due to unusually bad weather early in the year. Moreover, the latest business indicators have confirmed the economy is performing well, so it is still plausible to expect growth in activity to pick up this year and reach levels close to 3%. With regard to the Asian giant, its GDP grew by 1.4% quarter-on-quarter, a slightly lower figure than expected but enough to dispel fears of a possible hard landing for the economy. The Chinese government believes this rate of growth is within a reasonable range given the economy's structural transformation towards a more consumption-driven model.

Growth prospects improve in the euro area but pressure on the ECB increases. Strong exports and particularly more solid demand in the euro area underlie the region's improved growth prospects. The IMF, for example, has revised upwards its growth forecasts for 2014 and 2015 by 0.1 p.p., to 1.2% and 1.5% year-on-year respectively. In spite of the improved performance by economic activity, the inflation rate is still at a very low level, fuelling debate regarding the risk of deflation. In fact, pressure has been growing over the last few months for the ECB to act. Added the list of factors pressurising the ECB to employ a more accommodative monetary policy is the euro's appreciation and the upswing in money market rates. For the moment the ECB has limited itself to verbal action but the tone of its statements has become firmer and more specific, to the extent that it has managed to convince agents it will carry out quantitative easing should this end up being necessary, something difficult to imagine just a short time ago.

Spain's activity continues to build up steam but the effect on the labour market will take some time to appear. GDP grew by 0.4% quarter-on-quarter in 2014 Q1, in line with the latest activity figures which already pointed to an increase in the rate of growth. At the other extreme, according to the LFS, in 2014 Q1 employment fell by 0.1% quarter-on-quarter seasonally adjusted, a more negative situation than the Social Security registration figures had originally suggested. However, the good performance figures should end up affecting the labour market over the coming months. This can be seen in the new series of forecasts by the government, in which it has also highlighted the improvement in the public deficit predicted for this year.