Article

Recent developments

To counter doubts, more monetary and fiscal ammunition

Content available in
Spanish Catalan

Doubts regarding global economic growth have reappeared on the scene. The latest indicators for activity have been surprisingly negative, giving grounds to question, once again, the solidity of the pillars supporting the recovery process. Following the pattern of the last few years, economic policy has not been slow to respond. The drip of announcements of new stimulus measures has again become constant over the last few months. Belief that this is only a temporary glitch is based on confidence in the effectiveness of these measures and that the economy will continue to receive support, if necessary.

The Bank of Japan has responded by starting its own monetary revolution: it aims to take the monetary base from 29% to 57% of GDP. The first consequence of this monetary expansion has been the yen's depreciation, accompanied by significant stock market gains. The effects, however, are also being felt beyond the Japanese economy. The drop in yields on European government securities is partly due to the anticipation of easier global monetary conditions.

The ECB and the Fed are still active. For months now, the ECB has been debating whether to lower the official interest rate, a decision that, should it be carried out, will have little impact on the real economy as risk-free short and medium-term interest rates have little room to fall. Much more relevant are the measures being studied, and which must soon be taken, to end the euro area's financial fragmentation, seen particularly in the different credit conditions suffered by SMEs depending on which country they are based in. For its part the Fed is still keeping an eye on the pace at which the US economy is recovering and is prepared, if necessary, to speed up its asset purchase programme.

European fiscal policy is plotting a new course. The USA and Japan had already been implementing a more lax approach since the crisis started but the slowness of the recovery on the old continent has convinced Brussels that it is better to ease fiscal consolidation measures. Spain is the clearest example: the new public deficit target for 2013 has finally been set at 6.3%, 3.3 percentage points higher than the target set by the Stability Programme last year. Moreover, the deadline for bringing the deficit below 3% has been extended to 2016. This is not a unique case. For example, Portugal has also been given 2 more years to lower its deficit to below 3% and France has been given one additional year's margin. To a great extent, the euro area's double dip recession is due to inopportune management of the sovereign debt crisis and slow advances towards European integration. Whether the economic recovery consolidates or not will therefore depend, ultimately, on the progress being made in areas such as banking or fiscal union over the coming months. However, less pressure on public accounts will help to make this process easier to bear.

The emerging economies are prepared to act, if necessary. The listless stock markets of the main emerging countries, the fall in oil prices and in the main commodity indices have raised doubts regarding the sustainability of current growth rates. However, we interpret the recent stock market losses as a one-off that is not only due to weak global growth figures but also to transitory factors such as the squaring up of speculative positions. It is also important to distinguish between the economic situations the different countries are going through. The robust growth presented by China has little to do with the slowdown being suffered by India, Russia and Brazil. In these countries, moreover, inflation is far from under control. However, the main emerging countries have enough room to implement policies to stimulate their economies. In fact, they have already started to apply expansionary measures, combining monetary with fiscal depending on the circumstances. This factor, together with continuing structural reforms and the low level of public and private indebtedness, leads us to believe that the economic revival in the emerging world will not be long in coming.

Implementing the agenda of structural reforms is the major guarantee for long-term growth. In developed countries, the fiscal and monetary measures being applied, are making it easier to digest the adjustments to imbalances generated over the last decade. However, a more or less easy monetary or fiscal policy does not guarantee a good growth rate in the long term. The stimuli announced so far, and the commitment to continue taking action if necessary, are providing a window that must be used to carry out an ambitious agenda of structural reforms. We trust it will be implemented.