Article

Global economic expansion is taking hold

Content available in
Spanish Catalan

After a slightly worrying start to 2015 due to the increase in downside risks, February has eased the gloomiest predictions. A good barometer to measure this change in tone is the performance of financial markets: although financial volatility picked up in January, in February it calmed down again. At a global level this is due to the combination of an intensification in expansionary policies by central banks (18 central banks have cut their interest rates so far this year), positive activity figures from many economies and the resolution, albeit only partial, of some sources of geopolitical and political conflict (a ceasefire in Ukraine and the extension of the bail-out programme
for Greece). This temporary relief is encouraging expectations of the global expansion consolidating over the coming months in spite of it being notably uneven between countries.

More solid expansion in the US, China going through a soft landing and Japan coming out of recession in slow motion. The unevenness of the recovery can particularly be seen in the cyclical differences between large non-European countries. The US started 2015 by maintaining a good growth rate, largely thanks to the positive tone of private consumption (particularly helped by cheaper oil), to the recovery in investment, both corporate and residential, and to less fiscal adjustment. Given this expansionary scenario, the fundamental debate is still when the Federal Reserve will start to raise the reference interest rate. For the time being, given the low inflation and contained wages, the bulk of the evidence suggests that the Fed will wait until the end of 2015 before starting to normalise its monetary policy. Compared with the US situation, China continues to engineer a soft landing by taking measures of an expansionary nature (lowering the official interest rate and reducing the cash reserve ratio, as well as bringing forward different infrastructure projects and measures to support the real estate sector), which should stop the slowdown from becoming a hard landing. With regard to Japan, it is still battling to completely exit the recession of 2014. Positive growth in 2014 Q4 means it has now recovered from two consecutive quarters of declines in GDP but is doing so at a slower rate than expected.

Europe is improving but the future is far from risk-free. The euro area has resolved some of its most pressing problems but doubts remain in the medium term. Good economic growth figures for 2014 Q4 (up 0.3% quarter-on-quarter) have been followed by activity indicators in January and February that suggest the recovery is gradually becoming more dynamic. Inflation also picked up in February, dispelling deflationary fears even though it is still in negative terrain. This risk has also been reduced by the onset, in March, of QE (quantitative easing) by the European Central Bank (ECB). Nonetheless it should be noted that the acceleration in growth we expect over the next few quarters depends largely on the combination of four factors: the fall in oil prices, the euro's depreciation, the ECB's monetary expansion and the Juncker Plan for investment. In short, Europe's expansion is on track but this is partly due to temporary factors, highlighting the need to continue with further structural reforms that, in turn, provide more room for fiscal policy. A second source of problems is Greece and its negotiations with the Eurogroup regarding the terms of its financial aid. After much dissent, the two parties in the dispute have agreed to extend the bail-out programme for another four months, on condition that a large number of reforms will be carried out. The agreement has considerably reduced uncertainty in the short term but only represents a temporary solution until a new framework of financial aid is adopted and there may be some temporary upswings in financial volatility while this new, more definitive agreement is being drawn up.

Spain is benefitting from a favourable environment. The Spanish economy continues to capitalise on a series of conditions that are in its favour for the time being. Thanks to cheaper oil and the euro's depreciation, the economy ended 2014 and started 2015 in better shape than expected. The boost provided by these temporary factors, which have momentum, and the fact that growth in 2014 Q4 was greater than expected, have led us to revise upwards our growth forecasts for 2015 (from 2.3% to 2.5%) and for 2016 (from 2.1% to 2.3%). Although we expect the driving forces behind this expansion will still be private consumption and investment, as the scenario advances exports are likely to improve their contribution to growth. These positive figures have spread to other areas of the economy: the rate of job creation is still vigorous, the real estate sector is showing signs of improvement, both in demand and supply, and inflation picked up in February. We expect these three trends to continue in 2015.