The emerging countries tarnish a promising start to the year

The improvement in global activity is being marred by tensions in some emerging countries. The first month of 2014 witnessed two very different phases. The start of the year was very encouraging: short-term indicators confirmed the improvement in macroeconomic conditions and the IMF revised upwards its growth forecast for the world's economy by 0.1 percentage points, up to 3.7%. More favourable prospects in the developed economies dominated a narrative with a more promising tone for this year. In the second half of the month, however, the emerging countries gradually took over most of the economic headlines and not with good news. In some of these countries, the exit of foreign capital has drawn attention to their vulnerabilities, giving rise to another episode of turbulence which could jeopardise 2014's growth scenario should it become entrenched.

Growth in US activity is boosted by the Fed's decision to continue tapering. In spite of the slowdown in the GDP growth rate in 2013 Q4 (up by 3.2% annualised quarter-on-quarter compared with 4.1% in Q3), the underlying trend is still one of recovery. The labour market's sustained improvement and the latest figures for economic activity support a further reduction in the debt purchases carried out every month by the Fed, from 75 to 65 billion dollars. Although there are still notable risks associated with this process (upswings in volatility in yields on US public debt markets), our main scenario assumes a slow normalisation in proportion to the trends in employment and inflation.

Old obstacles reappear in the emerging block. The episode of instability starting in Argentina, where a reduction in the central bank's interventions in the foreign exchange market caused the peso to suddenly depreciate, has damaged investor sentiment. As in the summer, this has once again placed in the firing line those emerging countries that have high external imbalances and are dependent on foreign capital. Turkey is one of the economies with the greatest upswing in volatility: the severe depreciation of its currency has forced the country's central bank to react decisively and raise the official interest rate by 550 basis points, up to 10%. Doubts in Brazil and India have also necessitated further interest rate hikes, though these are more moderate than in the Turkish case. While such responses in the form of monetary policy can help to contain tensions in the short term, it is advisable for those countries perceived as weak to adopt credible structural measures to correct their macroeconomic imbalances. It should be noted, however, that these problems are not widespread among all emerging countries. The Chinese economy posted good growth figures for 2013 Q4, namely 7.7% year-on-year, bidding farewell to the bad news of last summer.

Tensions in the emerging countries have been passed on to the stock markets. The gains made in the early stages of the year vanished with new fears of another turbulent episode due to the Argentine peso crisis. Nonetheless, the medium-term outlook for stock markets is upward. In the European markets, the promising start made by periphery public debt offers an encouraging note although stock market trends will depend on the results of the ECB's stress tests on Europe's financial system.

In the euro area, growth is consolidating as the periphery recovers the ground it had lost. Awaiting the figures from the close of 2013, the high frecuency indicators suggest that growth is continuing to recover in 2014 Q1. The IMF's improvement of its growth forecast, up to 1.0%, indicates that the main risks in the region are gradually fading as the periphery countries join the recovery. For this year, domestic demand's increasing contribution to growth is expected to return inflation to more moderate levels (in January, it dropped to 0.7%, pushed down by energy prices).

The Spanish economy is starting to create jobs again. Economic activity grew by 0.3% quarter-on-quarter in 2013 Q4 and is laying down increasingly solid foundations: the recovery in domestic demand is notable and the foreign sector continues to improve its competitiveness. Given this situation, we have revised our growth forecasts for 2014 from 0.8% to 1.0% year-on-year. The labour market is also witnessing the improvement in economic activity. In 2013 Q4, the Spanish economy generated employment (seasonally adjusted), a phenomenon that has not been seen since 2008 Q1. The improved confidence in employment expectations and growth in activity to levels that correspond with job creation throughout 2014 have led us to revise our growth forecast for employment in 2014 by 0.3 percentage points, up to 0.6%.