2014, a year that is improving

World growth will speed up during the rest of the year. Now that we are halfway through 2014, what can we expect from the second half of the year? Current forecasts point to the global activity rate, which was somewhat disappointing at the start of 2014 but has improved noticeably in Q2, speeding up in the last two quarters of the year. This trend will push world growth to 3.4% in 2014, its best figure since 2011. Activity will also continue its expansion in 2015 with world GDP growing by 3.9%. However, this positive outlook has not prevented the central banks from insisting on ultra-expansionary messages and actions: the Fed has repeated that monetary normalisation will be slow while the ECB has adopted an extensive package of measures that ultimately aim to allay the threat of deflation and bolster Europe's recovery. As a result of these actions, interest rates have remained low (US) and have even fallen in some cases (Germany), the risk premia for bonds (corporate, emerging and periphery) have fallen and stock markets have tended to rise. Although such financial developments are positive, of concern is the fact that such an accommodative tone taken by central banks may increase complacency to risk.

The US is growing again. As we move away from the atypical Q1, considerably affected by adverse weather and the delay in implementing Obamacare (with consumers postponing their doctor visits, waiting for the health cover to come into force so they could save on their bills), it now seems clear that the recovery is becoming more intense and solid. More intense because, once the high frequency indicators become available, Q2 growth is likely to be around 4% annualised quarter-on-quarter; and more solid because the pattern of growth will benefit from a greater contribution from private consumption, one of its least volatile components. This growth in activity is being accompanied by two additional positive trends: in spite of a slight upswing in April and May, prices are still failing to show any worrying tensions and the labour market is performing better than expected, especially in terms of job creation.

A gradual but fragmented recovery in the euro area. Growth in the euro area stood at 0.9% year-on-year in Q1, a GDP growth rate that, considering the trend shown by leading business indicators, could be repeated or even improve slightly. However, two aspects are still slightly disconcerting. The first, the disparity observed between economies such as Germany and some of the periphery countries, where the recovery is building up steam, and France, Italy or the Netherlands, whose figures are still disappointing. Outside the euro area, it is worth noting the expansionary tone of the British economy, whose recent performance warrants an upward revision of the growth forecast for 2014. The second area of concern is inflation remaining at a low level. Given this situation, the ECB has decided to act, implementing an extensive package of expansionary measures (interest rate cuts, further LTROs for banks, etc.) aiming to ease monetary conditions, revive bank lending and combat the risk of deflation. According to our main scenario, as 2014 progresses, and more noticeably in 2015, the recovery will tend to consolidate, helping inflation to pick up and move away from its current worrying levels.

Domestic demand underpins Spain's economic growth. The progress seen in the latest indicators for consumption, investment and the labour market point to domestic demand still being the main driver of the Spanish economy's increasing dynamism. This advance in domestic demand has led to a notable upswing in imports, acting as a brake on the correction in the trade deficit. Nonetheless we expect exports to return to stronger growth rates over the coming months, helped by the excellent performance of tourism. If we add to this the effect, which cannot be quantified as yet, of the ECB's expansionary measures and Spain's tax reform, the risk is that growth will end up being greater than we predict. However, in spite of this domestic recovery, the trend in prices (inflation stood at 0.2% year-on-year in May) has led us to moderately downgrade our inflation forecast for 2015, which we have now placed at 1.1% (1.3% previously). Within this context of a reviving economy and tax revenue, the government has presented a tax reform aimed at reducing the fiscal burden on companies and households. Particularly of note are the changes in income tax: a reduction in the number of tranches from 7 to 5 and a cut in tax rates.