

## 2014: MORE LIGHT AND LESS SHADOW

### The overall balance for 2013 is positive and the outlook for 2014 better.

In the USA, the recovery process has consolidated in 2013 and debate is now focused on when its expansionary monetary policy will start to be withdrawn. The euro area is one step behind but considerable advances have also been made. Activity now enjoys positive growth rates and the sovereign debt crisis, although not completely over, has interestingly remained in the background over the last few months. The trend for the main emerging countries, in general, has also been favourable although in their case the capital outflows brought about by the debate concerning the start of tapering has revealed significant vulnerabilities in some of them.

**The risks, however, remain high** and relate to the handling of economic policy. A large portion of the positions in emerging assets dissolved by investors have ended up in corporate bonds with high yields but low credit quality. The Fed is keeping a close eye on this situation and mere verbal interventions may be enough to bring about corrections in these markets. In the euro area, institutional support has become even stronger, if possible, given the current scenario in which standard monetary policy has very little room left to manoeuvre.

**The USA keeps steady.** GDP grew by 0.7% in quarter-on-quarter terms, more than expected and higher than the figure for Q2. Although this news was positive, the excessive weight of a component as volatile as the accumulation of stocks and the modest expansion in private consumption and investment led to doubts regarding the pace of growth in the final part of 2013. However, the most recent figures have dispelled fears of a weaker Q4. Business activity continued to increase in October and November and October's employment figures were higher than expected.

### China builds up steam and its desire to reform.

The latest activity figures for China confirm that the economy is getting back its dynamism. However, the most significant news comes from the area of economic reform. In the Third Plenary Session of the CPC Central Committee, different lines of action were announced that, should they be completed, will make private initiative more important. Of note is the reduction in some subsidies that benefit state firms, administrative and fiscal reforms and a greater degree of liberalisation. In this last area the country is expected to open up more to foreign investment and liberalise its financial sector.

### The recovery in the euro area continues apace but the gap widens between Germany and France and Italy.

As expected, the euro area's GDP growth moderated slightly in Q3 (0.1% quarter-on-quarter compared with 0.3% in Q2). This should not be cause for concern, however, as the good figure for Q2 was partly due to temporary factors and, once discounted, the trend is still positive. However, the divergence in the growth capacity of the different countries that is slowly coming to light must be monitored closely. Germany has been confirmed as the economic motor; in general, the so-called periphery countries are also gradually joining the recovery. The other side of the coin is represented by France and Italy, countries where a weaker underlying pulse can be observed: in both cases the decline in GDP was 0.1% in 2013 Q3, Q4 indicators do not suggest any great improvement and there are still doubts regarding the medium-term growth capacity. This divergence in patterns of growth, although not a risk in the short term, could generate tensions regarding the time when expansionary monetary policy should start to be moderated and how quickly, something that will probably be discussed in 2014, particularly as a result of tapering.

### Domestic demand boosts the recovery of the Spanish economy.

The Spanish economy embarked on the road to recovery with the foreign sector as its only ally but domestic demand has now finally appeared on the scene. In 2013 Q3 its contribution to growth, in quarter-on-quarter terms, was 0.3 percentage points. This change was boosted by quite an appreciable increase in household consumption (0.4%) and investment (0.2%). Part of this upswing is the result of improved growth prospects in the short and medium term, so that decisions can start to be taken regarding consumption and investment that had previously been postponed due to the great uncertainty surrounding the macroeconomic scenario. This situation is offset by exports which, in Q3, lost the energy they had displayed in the first six months of the year. As long as the euro area's recovery continues to consolidate and doubts diminish regarding the emerging economies, the foreign sector should regain its importance of the last few years. However, to consolidate the recovery, it is vital to continue improving competitiveness and to fully implement the agenda of reforms agreed with Brussels.