A good first half of the year

The global economy is speeding up. One year ago, the world was facing a wave of uncertainty: against (almost) all expectations, the United Kingdom was embarking on a course that will result in the country leaving the EU. The first six months of this year, however, see global growth around 3.4%, considerably faster than the average growth for 2016, namely 3.1%, and very low financial volatility. Both the advanced and emerging economies are enjoying this expansion. In Q1, the US grew by 2.0% in year-on-year terms; Japan, by 1.6%; China, 6.9%, and India, 6.1%. Its key supports are evident. First, a monetary policy in the advanced countries that is still accommodative in spite of the US Fed starting its normalisation, once again raising the fed funds rate in June, from 1.0% to 1.25%. Second is the moderate recovery in commodities. This might come as some surprise. Although OPEC announced, at the end of May, that it would be prolonging its production caps, oil prices fell sharply in June. Nevertheless, commodity prices in general are now 6% higher than a year ago (and a steady rise is still on the cards, both for black gold and many other commodities). Key emerging countries are also exiting their recessions. A case in point is Brazil which, after going through a painful economic crisis and although still immersed in considerable institutional problems, managed to achieve its first positive quarter-on-quarter growth since 2014.

This macroeconomic bonanza has been accompanied by a prolonged climate of relative calm in the financial markets. Stock markets have made gains this year so far and, as already noted, the volatility of financial assets is still very low. This trend reflects the aforementioned acceleration in the world economy and also a certain reduction in downside risks in the short term. A large part of public discussion during the first six months of the year was dominated by the uncertainty surrounding the electoral outcomes in several European countries and the stance ultimately adopted by the US administration, as well as various sources of geopolitical risk. But the election results in the Netherlands and France, and even the first few actions taken by the US government, have been far from extreme. Although this does not mean there are no sources of political risk in the medium term (protectionism, populism, Brexit, etc.), it is true that the pressure has eased for the time being.

Europe is growing, and growth is more widespread than before. Within this context of less compromising short-term risks, the first six months of the year have confirmed that growth in the euro area is getting stronger. The region's GDP rose by 1.7% year-on-year in Q1, a positive tone that was prevalent across countries, with particularly good performances by Spain (3.0%) and Portugal (2.8%) but also in core countries such as Germany (1.7%). Available indicators point to this good rate of economic activity continuing in Q2. But perhaps one of the newest features of Europe's current situation is the decision taken regarding the liquidation of two medium-sized Italian banks. Since their liquidation was deemed not to have a significant impact on financial stability, the Single Resolution Mechanism has not been applied but rather Italian bankruptcy law. The Italian government has also been authorised to use state funds to support the process. European Banking Union is being constructed and this decision serves to mark its boundaries. Also related to European construction, the outcome of the British general election has increased the likelihood of a «soft» Brexit, helping the UK to maintain reasonable access to Europe's single market.

The Spanish economy is capitalising on the improved external environment. After posting good growth figures in Q1 (0.8% quarter-on-quarter), the Q2 figures suggest Spain's economic activity has remained strong. This can be seen, for example, in the CaixaBank Research GDP nowcasting, forecasting very similar quarter-on-quarter growth to Q1. This good rate of GDP growth in 2017 is essentially due to improvements in the external environment. As we have mentioned, there are three major factors: less political uncertainty after crucial elections in France and the Netherlands; a stronger mandate for a «soft» Brexit by the UK and, in economic terms, the likelihood of a more moderate rise in oil prices than previously expected. This particularly benefits the Spanish economy as it is highly dependent on oil imports. The country should therefore take advantage of this situation to continue promoting an ambitious agenda of structural reforms to underpin the economy's capacity to withstand any future storms.