At the gates of a demanding year

Financial volatility has returned to stay. The end of 2018 has been turbulent in the financial markets, bringing a close to a year unlike any in recent memory. In the last 12 months there have been three major stock market corrections: a fateful start to 2018, the so-called «Red October» and, finally, one of the worst Decembers in a long time, making it the worst year since the Great Recession for virtually all the stock market indices. The performance of the fixed-income market has also been far from placid. The yield of US sovereign debt fluctuated at around 3% for most of the year, but ended up falling to around 2.5%, while the sovereign risk premiums of Europe's periphery and of many emerging countries have spiked once again. It is the oil price, however, that has fluctuated the most, reaching a yearly high of 85 dollars per barrel of Brent in October before ending the year at around 55 dollars. What explains this year of extreme swings in the financial markets? Without a doubt, the continued tightening of monetary policy in the US, coupled with the early stages of departure from the exceptional monetary policy in Europe, have played an important role. However, generally speaking, none of this could be seen as a surprise, since the central banks communicated their intentions to the market well in advance. No, the key is to be found in uncertainty, which has given no respite.

Uncertainty gives no respite. Indeed, uncertainty is probably the word that sums up 2018. There has been uncertainty close to home, such as that which has gripped Europe in the form of a lack of clarity regarding Brexit and many doubts over Italy's real commitment to the sustainability of its public finances. There has also been slightly more distant uncertainty regarding the final extent of the protectionist shift in the US and China's response. Uncertainty has also arisen over the US' real capacity for growth as the fiscal boost dissipates; as well as regarding whether, in the mature phase of the North American cycle, we will be able to avoid inflation surprises that alter the Fed's route map towards greater tightening in its monetary policy. In short, there is uncertainty over what real rate of growth we will experience in 2019.

Yet, despite everything... we are not in such bad shape. Although the balance of risks is clearly tilted to the downside, and merely reviewing the different sources of uncertainty is enough to give you vertigo, it must be borne in mind that the global slowdown is taking place in a context of strong growth in economic activity in the recent past. In 2017, global growth stood at 3.7%, that of the euro area was 2.5%, while that of Spain reached 3.0%, and that of Portugal, 2.8%. For 2018, the estimated global growth is similar to that of the previous year, while in Europe the slowdown is more evident: the euro area will register growth of 1.9%, while for Spain it will be 2.5%, and 2.1% for Portugal. These are reasonably positive figures, especially considering that a large part of the slowdown is due to the fading of temporary support factors.

The tailwinds were important, but even without them Spain and Portugal continue to grow at a healthy rate. In recent years, various European economies, including those of Spain and Portugal, have benefited from so-called tailwinds – that is, growth contributed by a series of factors that have been beneficial for economic activity, such as the decline in oil prices, the depreciation of the euro and accommodative financial conditions. According to our estimates, in the case of Spain's growth, the partial reversal of these factors alone explains practically all of the slowdown witnessed in 2018. In the case of Portugal, meanwhile, this reversal is also responsible for a substantial portion of the economic slowdown.

A foundation of solid growth in the Iberian economies. The fact that Spain and Portugal continue to show notable growth rates, even as the tailwinds are dissipating, tells us that the current dynamics of their economies continue to benefit from the structural improvements implemented in recent years. In both countries, the recovery in lending to the private sector reflects the higher demand for financing and the favourable conditions for granting credit, while also confirming that the sanitation of the banking sector has been a success. A positive reading can also be taken from the trend in the public finances, which continue to improve and set the Spanish and Portuguese fiscal policy apart from their Italian equivalent, in case any doubts remained. Finally, the boom in the labour market in both countries is particularly noteworthy, providing significant support for domestic demand in addition to having clearly positive and much-needed social consequences. In short, 2019 will be a demanding year with significant risks on the horizon, but they will be addressed from a reasonably solid starting position.