

Balance, outlook and New Year wishes

The balance of 2019 cannot be described as positive. Before the start of the year, we thought that the global economy could grow above 3.5%. As we approach its end, it seems that we will end up below 3.0%. In the last 20 years, the only years with lower growth were 2009, the year of the Great Recession, and 2001, marked by the terrorist attacks in the US. The average growth rate in the last decade, which includes 2009, is 3.4%, half a point more than in 2019. The trade war between the US and China, Brexit, the problems in the automotive sector in Europe and the impact on emerging economies of the interest rate hikes implemented by the Fed in 2018 have weighed down growth more than expected.

Compared to expectations, growth has been disappointingly low in the euro area, the United Kingdom and large emerging economies such as India, Brazil, Mexico and Turkey. Interestingly, the US and China have grown in line with expectations, despite them being the protagonists of a conflict that has done much damage – especially to the euro area, which is very open to trade. Spain has endured the storm reasonably well and will close the year growing around 2.0%, only slightly below what we envisaged. There is no doubt that, with a more favourable external environment and greater political stability, the Spanish economy would have left the forecasts trailing behind.

For 2020, we expect that global growth will only improve slightly, reaching above the 3.0% mark thanks to the rebound of the emerging economies that have performed worse this year. In the advanced economies, we expect the euro area to maintain a similar rate of growth to that of this year, at around 1%, while the US could lose some steam, since the effect of the fiscal stimulus has now dissipated and the economy is in a very mature phase of the cycle. In this context, it is foreseeable that the maturity of the cycle could also cause a slowdown in the pace of growth of the Spanish economy down to around the 1.5% mark.

This scenario of forecasts is based on a number of assumptions, mainly: the support of monetary policy – in particular in the US –, after the three interest rate cuts implemented in the second half of 2019; some support from fiscal policy in certain countries in the euro area, and, finally, an assessment that the uncertainties that have gripped demand will go no further, although they will by no means dissipate entirely.

As for the trade war, we think that the most likely scenario is that it will not get any worse, because risking a sudden slowdown in the US economy during an election year would be unwise for President Trump. However, it is also true that the struggle with China, which goes beyond the trade war, makes him gain popularity, giving him some incentives to keep it alive. With regard to Brexit, the other great source of uncertainty, the elections this December could serve to clarify the picture if, as suggested by the polls, Boris Johnson manages to win a majority in Parliament. In this case, one would expect a rapid ratification of the agreement and the commencement of negotiations for the future relationship framework between the United Kingdom and the EU, a process which could also prove complex.

As the end of the year is also a time for expressing wishes, I will dare to ask for three related to the economy: firstly, a return to multilateralism as a basis for international relations, something that is essential in order to tackle challenges such as climate change and to avoid falling into a process of deglobalisation, which would pose an enormous cost for the world economy. Secondly, a strengthening of the institutional architecture of the euro area, completing the banking union and the capital markets union, and moving toward fiscal union, something that is necessary in order to promote growth and stability in the Economic and Monetary Union. Finally, at the national level in particular, the launch of ambitious reforms to improve productivity and social cohesion, something which is key to alleviating the dependency on monetary policy – the only game in town – and curbing populism.

I also wish everyone one of you, dear readers, a happy festive period and a prosperous and happy 2020.

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