Something is moving in the international economy

With the first half of the year now over, the narrative of a resilient global economy continues to be consolidated. It is showing resilience both to the obstacles it has had to face in recent years and to the structural changes that are occurring as globalisation adjusts to a new geopolitical paradigm, the main exponent of which is the revival of industrial policy as a means to achieve that ever so diffuse concept of strategic autonomy. In the meantime, economic policy has been successfully addressing the effects that the mismatches between global supply and demand have had on inflation and on household and business finances, albeit at a significant cost in terms of a loss of degrees of freedom in fiscal policy.

In this context, in which uncertainty continues to dominate economic agents' decision-making, the world economy could grow by 3.1% this year (3.3% in 2025), which is practically the cruising speed that was reached during the period between the global financial crisis and the outbreak of the pandemic. However, it is far from the 4.4% average recorded in the first seven years of this century. The positive part of this return to the pre-pandemic starting block is that the most disruptive scenarios which threatened to derail the business cycle at certain times in recent years have been avoided. However, the mediocrity of the growth reflects the fact that the scars of the recent crises have not yet fully healed and that the contribution of investment and productivity to potential growth remains low.

So what next? With the international order in the midst of an adjustment, we are entering the summer period with a feeling of tense calm, faced with a challenging geopolitical scenario to which a new layer of complexity is added every week. The seemingly reassuring outcome of the European elections has given way to a new source of risk with the convening of parliamentary elections in France, which may lead to a complex cohabitation in the final phase of Macron's presidency. All this complicates the country's already fragile fiscal situation, with the recent opening of an excessive deficit procedure and a downgrading of its rating. As a result of all this, France's risk premium has rebounded to a high of 85 bps (the biggest spike since 2011 in the midst of the euro crisis), surpassing the risk premium of Portugal and coming very close to that of Spain. Although the results of the second round have calmed investors' nerves, we are facing the biggest internal adjustment in the assessment of sovereign risk in the euro area in recent years. While the ECB has firewalls in place to control the risk of fragmentation (the TPI programme), the increased sensitivity of «bond vigilantes» to any unexpected deterioration in the fiscal outlook serves as a new warning to sailors following the «Truss effect» and reflects the fact that the post-COVID fiscal free bar has definitively closed.

Therefore, as we enter a time of year in which the liquidity of the markets is usually reduced, financial asset prices are beginning to show a little more nervousness among investors, reflecting the current demanding valuations and the shift in monetary policy expectations that has occurred since January. The instability has also spread to emerging countries, such as Mexico, where political risk and the worsening fiscal outlook are causing major currency adjustments, decreasing the margin for manoeuvre of central banks that have already been lowering interest rates. In the case of developed countries, more and more central banks are beginning to relax their monetary policy (Switzerland, Canada, Sweden, the euro area, etc.), without the divergence with the Fed's strategy leading to any financial tensions besides an anticipated appreciation of the dollar (+1.1% in the effective exchange rate in the last month). In this regard, the key factor in the second half of the year will be how the Fed manages its first interest rate cut. It will be essential to consolidate the monetary policy expectations of investors, who are concerned about the evolution of the public accounts (if there are no adjustments, the public deficit would remain at around 6% for the next decade), as well as about political risk, especially following the first US presidential debate. In short, political risk and market sensitivity will be the centre of attention over the summer, which is nothing new under the sun.

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