

Liquid times, solid economy?

At the speed of events in today's geopolitical world, it is difficult to take a step back from the heated reality and reflect on the medium-term economic outlook and trends. In the first week of November alone (when these lines are being written) we have witnessed a resounding victory for Donald Trump and the Republican Party in the US Senate and House of Representatives, at the same time as the collapse of the coalition government in Germany, which is one of the countries potentially affected by the protectionist shift that can be expected of the new US Administration. So, in just over 24 hours, the degree of uncertainty surrounding the tone of future economic policy in two of the great global powers has risen significantly. In these liquid times we are living in – in which a moderately stable, repetitive and even boring economic and political environment has given way in the last 15 years to a changing, unpredictable reality subject to continuous transformation – from time to time it is necessary to pause and reflect on the key trends for the near future.

That is what we seek to do every November in our Dossier on the annual outlook, aware that these ideas and projections will be subjected to the stress test of what the economic and geopolitical reality will bring us. Our outlook begins with the search for a new normal in the pattern of the global economic activity cycle which we anticipate for 2025, understood as the closing of the gap between supply and demand which has been present for much of the past five years. This will consolidate inflation's return to rates close to the target (2%) and, as a consequence, the approximation of interest rates to neutral levels (2% in the euro area and 3% in the US). Moreover, since the oil market seems to have an equilibrium price in the 70-80 dollar range, all the conditions would be in place to consolidate the soft landing of the world economy (with growth slightly above 3%).

In this context, the central banks will have to manage the easing of monetary policy, forging ahead with the withdrawal of unconventional measures, regulating the speed of the interest rate cuts towards neutral territory and monitoring the effects of the easing of financial conditions on financial stability. In any case, after 15 years marked by an excessive role of monetary policy, economic policy should pivot towards a triple target (as the IMF has just reminded us). This would include a fiscal policy that seeks to stabilise the debt dynamics (a particularly challenging task in the US and China), a monetary policy that transitions from restrictive to neutral territory (good

news for emerging markets) and more decisive supply policies aimed at boosting potential growth. This is the best way to address old problems that had been blurred by the fog of inflation: low potential growth, high levels of global public debt (over 100 trillion dollars) and mediocre productivity, especially in Europe.

In this context, although we think that the growth of the Spanish economy will moderate slightly in 2025 (2.3%), the factors that support growth will allow economic activity to maintain cruising speed over the coming months. Topping this list of factors is the recovery of household purchasing power, which together with the lowering of interest rates (and accumulated savings) will enable a slight acceleration of private consumption. Other key factors include the favourable effects of demographics and the strength of the labour market. If, moreover, investment in equipment ends up reflecting the boost provided by the NGEU funds and the improvement in financing conditions, all this could more than offset the more modest contribution expected from public consumption in the context of the reintroduction of the European fiscal rules. In short, in liquid geopolitical times, let's hope that the economy will continue to show resilience and strength next year.

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