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Economic Analysis

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Global recovery: here to stay?

The United States goes on playing with fire regarding the debt ceiling agreement (now to be reached in February), delaying the massive monetary stimulus and awaiting the arrival of their Super(wo)man at the helm of the Federal Reserve. In the meanwhile, the rest of the world continues its "epic" climb toward a sustainable global recovery. The slowdown affecting large emerging countries, especially in Asia, will be offset by better prospects for still vulnerable developed economies.

In the eurozone, the business cycle has improved due to recovering domestic demand. And if the forecasts for 2013 are met, it would practically leave the recession behind. The strong commitment of the European Central Bank (ECB) to an expansionary monetary policy, beyond its timid *forward guidance,* could materialize in additional liquidity injections (LTRO) and even lower interest rates cannot be ruled out. That would be more than welcomed for those financial sectors that are more concerned about the capital requirements of Basel III, asset quality reviews, or stress tests. Such an umbrella in addition to greater flexibility in short-term fiscal objectives and optimism in financial markets, open a window of opportunity which Europe should use to move towards banking union.

In emerging countries, doubts still linger on their ability to keep growing at the strong paces to which they were used to. In Asia, the slowdown is a reflection of decreasing growth potential, while in Latin America it is a sign of slower cyclical momentum. However, those countries with large external deficits financed by short-term capital and with highly dollarized liabilities or relatively rigid exchange rates may be affected by capital outflows, as a result of rising long-term rates in the United States.

The global economy faces significant challenges. Sooner than later, the extraordinary times of massive monetary policies will come to an end, and global growth, so unevenly distributed, could suffer. Proof that the road will not be easy is the financial stress and volatility affecting emerging economies as a result of the mere threat of withdrawal of monetary stimulus by the Federal Reserve. The journey to deleveraging, required in some advanced economies, will not help either. However, many cyclical signs of improvement in the Untied States and the eurozone (low volatility, active central banks, improved confidence surveys), along with the encouraging progress of the Japanese economy, suggest that the global recovery, although slow and subdued, is here to stay.