1 Editorial

Outlook for the global economic scenario has brightened over the last three months, as the downward adjustment in world growth and the slump of financial markets have halted. **The 6.7% growth YoY registered in China's economy in 1Q16** has calmed jitters about the potential shock waves of China's economic reshaping process, which is in fact being smoothed out by authorities' greater monetary and fiscal support. The risk of a dramatic adjustment in the exchange rate, once capital outflows have been curbed, has also been mitigated. As regards the **Fed**, the perspective of very slight interest rate hikes relies on the lack of immediate pressure from prices or wages and the effects of the complex global scenario on employment in the US. The evolution of **commodity prices**, particularly oil, has also been positive in the last quarter. **Prices have increased from levels so low that large dollar-indebted corporations from emerging markets were having troubling servicing their debt**. This in turn triggered deterioration in markets and a negative wealth effect on spending in oil importing economies.

The brighter global scenario is limited in scope and is fragile, however. It does not involve fundamental changes in the factors which cause a background of low growth with exposure to many different sources of uncertainty.

The improvement in recent months is limited because the pace of global growth in the first part of 2016 will be between 2.6% and 3.0% YoY. This is more positive than the 2.5% YoY in 4Q15, but falls short of the **average 3.2% for the 2011-15 period** or the **4% of the decade up to 2008**. Another reason for caution is the **deceleration in global trade**, where the growth in goods and services is at its lowest levels since the collapse at the end of 2008.

Economic outlook is fragile. For example, the Fed has warned of downside risks, confirming the weakness of the present recovery. Furthermore, the fact that the ECB, the Bank of Japan and the Bank of China are applying or are going to apply expansionary measures underlines **how precarious growth is and the difficulty in achieving price stability**.

The **increase in oil prices** is driven above all by the less dynamic supply, but has **not come about through sustained improvement in expected demand**. What is more, the problems which have built up on financial balance sheets in the corporate sector of commodity-producing economies remain a significant concern in view of the weakness of their currencies against the dollars and the fact that their production models are not properly adjusted to a low oil price scenario. This is all taking place against a background in which **China, which has the largest demand increases for commodities, is continuing to shift towards lower trend growth, while also reshaping its economic model towards greater weight of the services sector. This adjustment is taking place slowly** precisely because of the current monetary and fiscal measures. These policies focus on spending and so far have hardly addressed the question of structural reforms to allocate capital and employment more efficiently, so the measures do not iron out unsustainable long term imbalances, such as excess capacity or increased corporate debt in state-owned enterprises.

Economic outlook is also fragile because now there are a greater number of events of uncertainty which are significant enough to affect growth, in this "new normal" period following the 2008-09 global crisis and the 2010-11 European sovereign debt crisis. This is because of two **new developments which spell greater uncertainty in the economic panorama**. First, the extensive use of non-conventional monetary policies (quantitative easing and interest rate anchoring), which can affect correct assessment of risks by economic agents, decoupling it from economic fundamentals and triggering volatility. Two, the more diverse sources of potential risks, as we have emerging economies with an increasing degree of financial integration and which are in turn undergoing adjustment due to the changes under way in China.

In short, **the strength of the economic global economy will continue to be shaped by financial markets which have to cope with a great variety of potential risks** against the background of different economic forces consistent with anaemic growth.

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