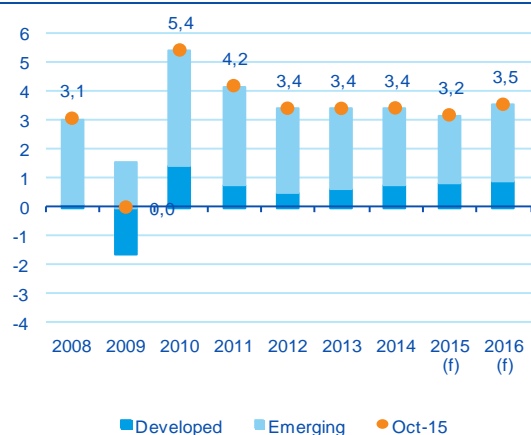


2 Slower global growth in 2015 and a limited improvement in 2016

According to our estimates, global GDP has chalked up four consecutive quarters of growth below the 2010-14 average, mainly due to the ongoing deceleration in the principal emerging economies, in a context in which doubts over the strength of the economic cycle and the financial stability of China have triggered a significant spike in financial tensions and further corrections in commodity prices.

As a result, global GDP should grow at 3.2% in 2015 (0.2% less than we forecast three months ago), the lowest since 2009 (see Figure 2.1), with growth in the emerging markets moderating to barely 4% YoY, compared to average growth in the five previous years of more than 5.5%. The outlook for 2016 is slightly more favourable, with global growth recovering to 3.5% (0.3% below our forecast three months ago), sustained by a better relative performance of both the developed and the emerging economies.

Figure 2.1
World GDP: annual growth (%). Forecasts 2015-16



Source: BBVA Research

Figure 2.2
BBVA Financial Tensions Index



Source: BBVA Research and Bloomberg

All in all, the stabilisation of commodity prices at low levels and the sustained rise in financial tensions in the emerging economies — accompanied by heavy capital outflows, sharp currency depreciation and a widening of sovereign spreads — are evidence that the balance of global risks is still to the downside. Even though monetary policy in the developed countries could mitigate the impact of a scenario of slower growth, the scope it has to kick-start the economic cycle is reduced, taking into account the low levels of interest rates and the high volume of liquidity already in existence. The combination of a financial shock in China, that takes the annual growth of that economy well below 6%, with an even slower recovery of the developed economies block than has been observed to date, is without a doubt a significant risk scenario, both because of its degree of plausibility (limited, but not extreme) and its severity, given its potential impact on the world economy generally and on Latin America in particular (see Box 1 regarding the specific impact on Latin America).

USA: downward growth revision due to the deterioration in the external environment

An overview of the principal economic areas shows a notable stabilisation of economic growth in the US at lower rates than in other recovery episodes. Private consumption remains key to the dynamics of economic recovery, although it will probably not be sufficient to wholly offset the drops in both exports (owing to the dollar's appreciation and the weakness of the emerging economies) and investment in the energy sector. GDP growth should thus be 2.5% in 2015 and 2016 as well.

The risks for the US economy in a more unfavourable global environment are influencing the Fed response and when the initial rate hike takes place, which ought to be in December. Whatever happens, the pace of rate increases is expected to be very gradual, probably reaching levels at end-2016 below those that we expected a quarter ago, and no higher than 1%.

China: upward revision of GDP growth expected for 2015, although this will not dispel the uncertainties over the pace of future economic deceleration

China's cyclical position is obviously one of the principal variables to watch at a global level. The sharp stock market correction in August served as a warning of the risks posed by a financial shock in the country of a severity to compromise the growth in domestic spending. The magnitude of the capital outflows and the spike in financial volatility resulted in the introduction of a considerable battery of monetary policy measures directed at easing the deterioration in liquidity and its potential impact on the financing model of the corporate sector, which is heavily leveraged. The unexpected official announcement of change regarding the daily yuan exchange rate and the progressive cuts in reference rates fall into the same context, and are also characterised by a progressive deceleration of economic activity, which has taken GDP growth below 7% YoY in the third quarter.

It seems that the authorities will continue to employ monetary stimulus measures (further interest-rate cuts have not been ruled out) and to exploit the central government's scope to use fiscal policy to ensure that economic growth does not fall below 6% YoY. Our forecasts suggest GDP growth of 6.9% for 2015 and 6.2% for 2016.

Eurozone: resilient domestic demand with the ECB ready to avoid further declines in inflation

In the eurozone, the economic recovery continues although the pace has not intensified as we anticipated some months ago. The pace of eurozone GDP growth could increase to 1.8% in 2016 (only 10bp less than we expected last quarter) due to the upturn in Italy and France. The accentuation of the risks to the downside to inflation forecasts, largely due to cheaper imported goods, together with the recent appreciation of the euro, appears to be pushing the ECB towards adopting new stimulus measures in the short term, as it has suggested.

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