2. Global environment – higher growth, but with high uncertainty

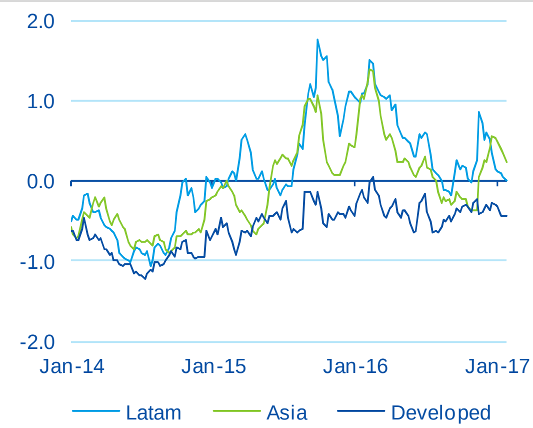
Increased global economic growth, but uncertainty is high and there are long-term risks

The global environment improved in the last months of 2016 and is continuing to do so in early 2017. Global growth accelerated in the last quarter of 2016, confidence has clearly improved in all areas and the indicators for the industrial sector are growing alongside a budding improvement in world trade.

Despite this acceleration, the outlook for 2017 and 2018 is plagued with uncertainty. This is principally related with the economic policy of the new US administration, the shape of which remains largely to be seen. Fiscal stimulus and deregulation measures have been announced in various sectors, which was positively received by the markets in developed economies, but not in the emerging ones, which registered capital outflows and depreciation in their currencies, reflected in an increase in financial tensions at the end of 2016 (Figure 2.1). However, announcements of protectionist measures can seriously damage international trade in the medium and long term and affect confidence in the near future, especially outside the US. Likewise, the uncertainties still pending on US economic policies appear to have been moderating market optimism since the beginning of the year.

Figure 2.1

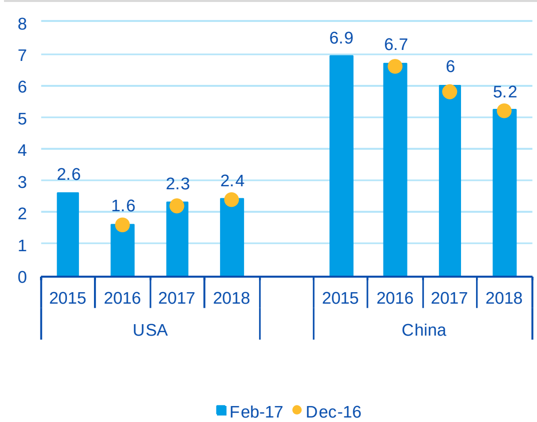
BBVA financial stress index



Source: BBVA Research

Figure 2.2

GDP growth in the US and China (%)



Source: BBVA Research

The magnitude of inflationary pressures is another unknown opening up at a global level. Raw material prices (in particular oil) have picked up somewhat more than expected in recent months, following the OPEC agreement and improved activity. If to this, we add the size of the balances accumulated by the developed countries' central banks in recent years due to quantitative easing programmes and the prospect of fiscal stimulus, the result is that the risks of deflation of just a few quarters ago have been replaced by inflationary pressures, generating a number of questions about the responsiveness of their monetary policy.

In principle, the Federal Reserve remains cautious and continues to aim for a relatively slow rate normalisation. Our forecast is for two interest rate increases to take place this year, with a further two in 2018. For its part, we expect the ECB to begin the process of withdrawal from QE in early 2018 and decide on the first interest rate increase at the end of that year.

Overall, our growth projections for 2017 in the major economies have not been substantially revised, although they are subject to a greater degree of uncertainty than usual. The base effect of increased growth at the end of 2016 and its inertial effect, together with the fiscal stimulus packages expected in the US, encourage us to slightly upwardly revise the forecasts for the US and Europe and slightly more for China, while the forecasts for Latin-American countries are being revised downward, principally due to idiosyncratic factors. In particular, in the US we anticipate growth of 2.3% and 2.4% in 2017 and 2018 (Figure 2.2). In China, we expect growth of 6% in 2017, which would be reduced to 5.2% in 2018, given the vulnerabilities facing the economy and an economic policy aimed more at ensuring financial stability than maintaining growth. Thus, overall growth should increase slightly from 3% in 2016 to 3.2% in 2017 and 3.3% in 2018.

Global growth will increase from 3% in 2016 to 3.2% in 2017 and 3.3% in 2018

The risks are largely downward and are governed by the mentioned uncertainty linked with protectionism in the US, a less friendly attitude towards immigration and the danger that the fiscal stimulus policies will not have any impact on growth and will increase inflation, or that the deregulation announced in various sectors will not be properly managed. To this is added the possible reaction of other countries or regions to these protectionist impulses. An unexpected rise in inflation could lead to the tightening of monetary policy by the main central banks, with global consequences. In the long term, the risks of the accumulation of imbalances in China, together with the lack of structural reforms in public companies, may have an impact on capital flows and currency and lead to sudden slow-down. In Europe, the political risk is high, in a year filled with election dates. Furthermore, geopolitical risks continue to run high, generally speaking.

DISCLAIMER

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