

6. Risks to our output growth forecast for 2017

There are five main risks, two of them external and three domestic. **The first is related to China, and, in particular, to the financial vulnerabilities it presents.** If these are not addressed, they could eventually derail the orderly process of deceleration (and re-composition of the sources of growth) sought by the economic authorities of that country. These vulnerabilities include the activity of parallel banking, high corporate debt, inefficient public companies and the real estate market. In the latter case, for example, prices in the real estate market of different Chinese cities have increased significantly since the middle of last year. There is a risk that these prices are above levels that are consistent with the fundamentals of the economy (housing bubble). A downward correction would have negative effects on the Chinese economy, which in turn would significantly affect world growth and the prices of raw materials⁴. Locally, the impacts would be reflected in a slower pace of activity and a further decline in financial assets, including the local currency.

The second external risk is in the United States and, in particular, in the uncertainty generated by the measures that will be implemented by the new administration in that country. So far, regarding what was said during the campaign, it is not clear what will be carried out in terms of fiscal policy, trade policy, deregulation and immigration. What is finally done could eventually have real and financial impacts different to those considered in the baseline scenario.

On the domestic front, one of the risks is that of continuing delays in the major infrastructure projects. Our baseline scenario assumes that, discounting the pipeline and any other irrigation project, construction work will be accelerated in the other projects. This implies it is necessary for land expropriation to be completed, interference to be eliminated and the financing of the works to be provided. If this is not finally achieved in time, the growth of activity will suffer.

A second risk on the domestic front is that the high expectations initially greeting the new government will become deflated. In other words, the population might, for example, perceive that economic activity (other than the extraction of natural resources) is not recovering, or is recovering only very slowly, that the infrastructure projects remain stuck, or that social conflicts are intensifying. In this environment, business and consumer confidence is likely to deteriorate, compromising the gradual recovery of private sector spending anticipated in our baseline scenario.

Finally, there is a risk that the recent climatic anomalies will be prolonged and have a negative impact on different productive activities. According to the latest report published by the committee that tracks these anomalies (ENFEN), the conditions for a weak coastal El Niño event have consolidated in the southern hemisphere summer⁵. Since the second week of January, sea surface temperature anomalies have

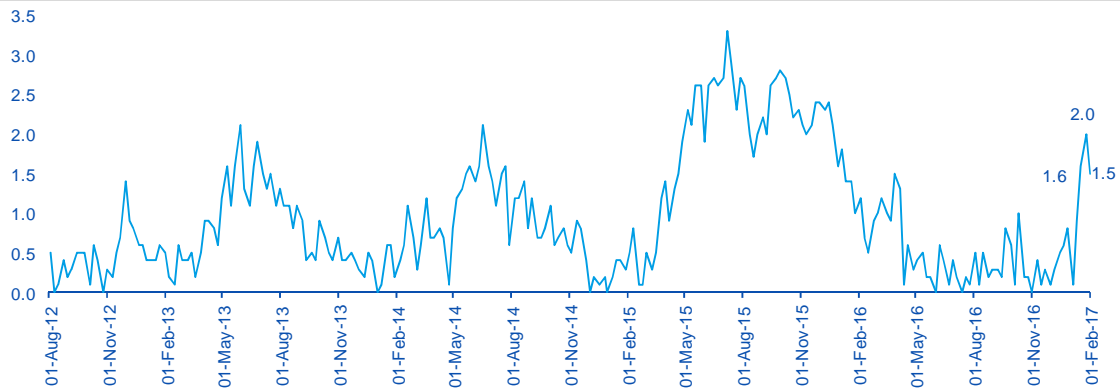
⁴. China, as well as being the second largest economy in the world, is one of the main users of raw materials. It accounts for about 40% of the world's demand for basic metals such as copper, zinc, tin and lead.

⁵. ENFEN, Official Communiqué No. 03-2017, 2 February 2017. See: <https://www.dhn.mil.pe/Archivos/oceanografia/enfen/comunicado-oficial/03-2017.pdf>.

increased rapidly (see Figure 7.1), which in the margin even correspond to a more intense El Niño phenomenon. The baseline projection scenario incorporates these anomalies, but assumes that they are only transitory. However, if these abnormalities persist at current levels, it would affect agriculture, fishing, manufacturing, construction, trade and services. There would also create additional inflationary pressures.

Figure 6.1

**Anomaly in the sea surface temperature, Niño 1+2
(deviation from historical average, in °C)**



Source: BBVA Research based on NOAA

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