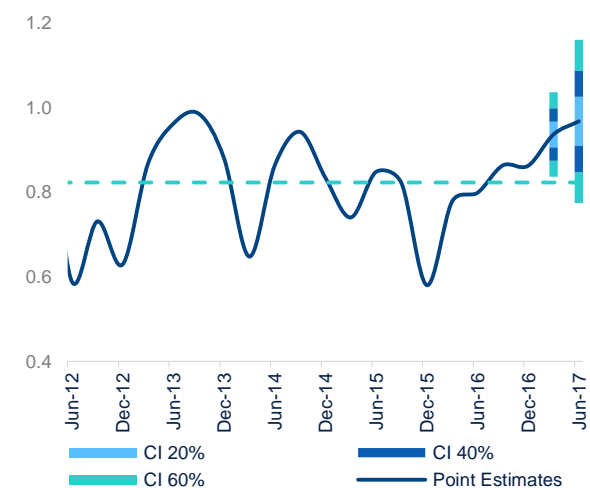


2. Global environment: global growth consolidates but there are still risks

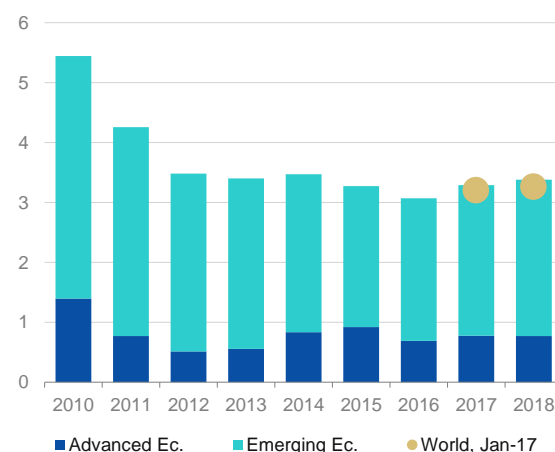
GDP growth continued to increase worldwide, to rates of around 1% per quarter, exceeding the 0.8% average since 2011. This acceleration has been driven by a generalised improvement in confidence levels, coupled with advances in world trade, stimulated above all by monetary and fiscal stimulus measures in China. The performance of developed countries continues to be especially strong, with the consolidation of recovery in the US and with Europe growing above its potential. In contrast, Latin America will emerge from this year in recession, although there will be some moderate growth.

Figure 2.1 World GDP growth. Forecasts based on BBVA-GAIN (% QoQ)



Source: BBVA Research

Figure 2.2 Global growth and contributions by region (% YoY)



Source: BBVA Research

Improved performance worldwide is accompanied by some clarification regarding the American economy, where expectations of rapid reflation supported by a fiscal boost and of a rapid drift towards protectionism have lessened, or at least been delayed. Nevertheless, the difficulty of carrying out a reform of the healthcare system also revealed

We have revised global growth upwards to 3.1% in 2016, 3.3% in 2017 and 3.4% in 2018

problems in getting other measures approved, such as those associated with tax cuts or the infrastructure spending plan, effectively eliminating the probability of strong impetus in the short term.

As regards the financial markets, over the last few months they have remained calm, recording low volatility in spite of the high uncertainty. In this context, the central banks are making gradual progress in the process of normalising monetary policy. The US Federal Reserve, which is leading this process, is maintaining its message of gradual withdrawal, so we predict that there will be two further interest rate hikes this year and another two in 2018, up to 2%. At the same time, there are already plans to undertake the third phase of the exit strategy, in other words, the

reduction of the balance sheet, something which probably will not happen until next year and will be put in place passively. The ECB also appears more optimistic about growth, but is not yet confident about inflation and is lagging behind the Federal Reserve's speed of withdrawal. Given this process of monetary policy normalisation, a rise in the cost of financing at the global level is to be expected.

Overall, our forecasts for growth in 2017-18 have been revised only marginally. We have raised them in view of the good start to the year in the case of the Eurozone, and above all for China, where we expect growth of 6.3% and 5.8% in 2017 and 2018 respectively, about 0.5 percentage points more than three months ago. In the US, we continue to predict growth of 2.3% this year and 2.4% in 2018, supported by a boost in investment. As a result, expected worldwide growth is 3.3% for 2017 and 3.4% for 2018, which, in both cases, is one tenth of a percentage point higher than our previous forecasts.

The risks continue to be weighted to the downside. Apart from the lingering uncertainty about the measures that will eventually be approved in the USA, above all as regards trade, doubts are focused on the election results in France and Italy, due to the highly negative impact they could have on Eurozone stability in the (unlikely) event of a victory for the fiercely anti-European parties. There is also the risk associated with the Chinese economy, where the recent strength of investment may slow the process of reducing imbalances. Other significant risk factors are the Brexit negotiations (which have not got off to a good start), the multiple geopolitical risks and the risks associated with the normalisation of monetary policy, especially in the US.

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