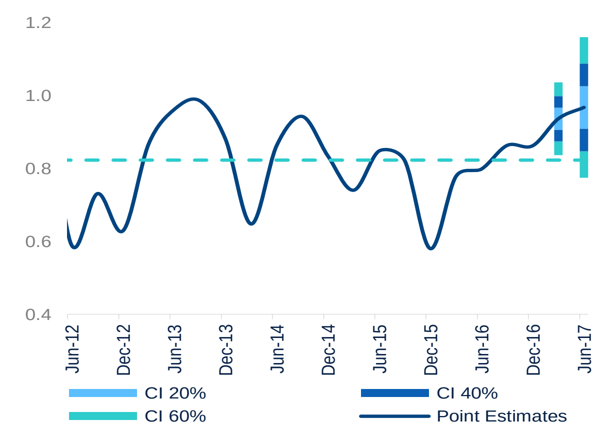
2. Global growth consolidates but risks remain

On balance, growth forecasts for 2017-18 are largely unchanged. There is a slight positive bias for the Eurozone and especially China, where we expect 6.0%-6.5% GDP growth by year-end. Latin America will emerge from recession this year, but with only moderate growth. As a result, our baseline is for global growth of 3.3% for 2017 and 3.4% for 2018, which, in both cases, is 0.1pp higher than our previous forecasts.

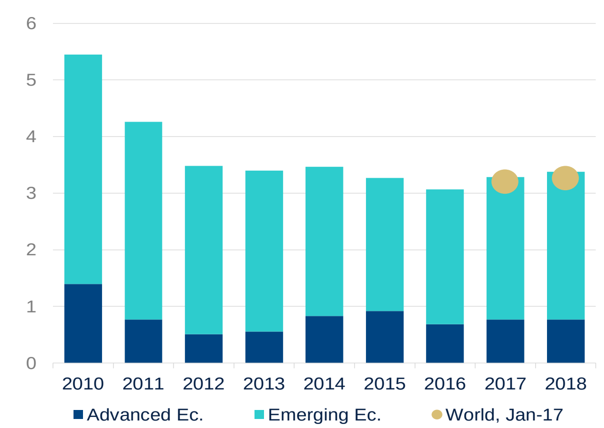
The overall improvement in confidence indicators and the advance of trade underlie the acceleration global in activity, consistent with a 0.9% quarterly growth rate. The performance of advanced economies continues to be particularly positive supported by the U.S. recovery and Europe's above average expansion. Financial markets have remained calm in recent months, recording low volatility in spite of high political uncertainty. Financial tensions have eased, especially in emerging economies, which were more negatively affected at the end of last year due to the uncertainty after the U.S. elections. Europe was an exception, as the uncertainty on the Dutch and French elections caused bond spreads to widen. However, after the results in the Netherlands and the first round in France, risk perception improved.

Figure 2.1 Global GDP Growth Forecasts Based on BBVA-GAIN (Quarter-over-quarter %)



Source: Haver and BBVA Research

Figure 2.2 Global Growth by Region (Year-over-year %)



Source: BBVA Research

The combination of a cyclical upturn and reflation allow central banks to start shifting to a less expansionary monetary policy stance. The Fed, which leads the process, increased rates for a third time in March. The impact on markets was smoothly absorbed as the increases were priced in. The ECB is also more optimistic about growth, but still not confident about inflation reaching its medium term target. An increase in financing costs can be expected at the global level on the projected horizon as monetary policy accommodation in the developed world is removed. The tightening of financial conditions will also depend on non-monetary factors such as policy uncertainty, inflation expectations and risk perception.

There are underlying risks that could moderate growth. In particular, the election cycle in Europe could destabilize the Eurozone if anti-EU candidates prevail while the Brexit negotiations could sour. In China, headwinds have not vanished: expectations of steeper RMB depreciation, mounting levels of corporate debt and a potential correction in housing prices. Finally, the impact of higher interest rates on emerging markets, geopolitical tensions and the rising tide of populism will continue to receive attention.

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