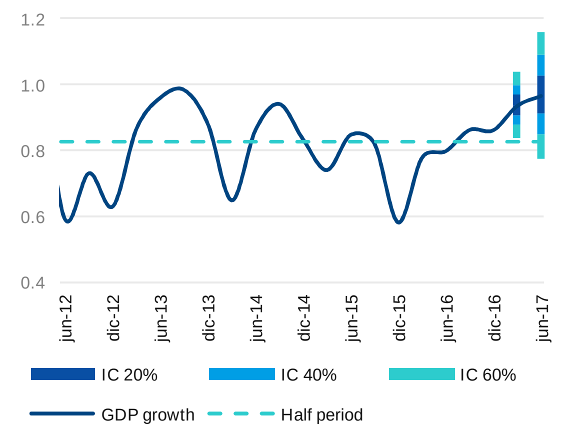
2. Global environment: global growth consolidates but there are still risks

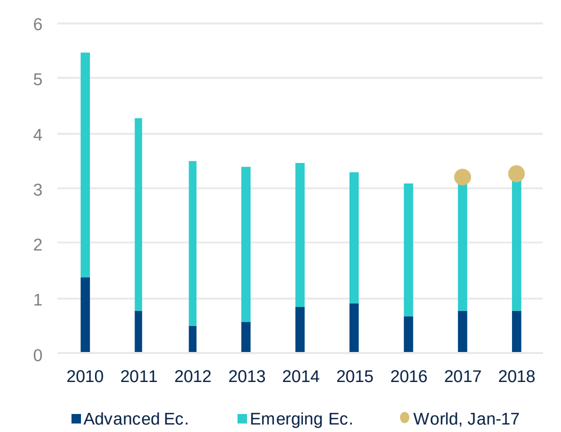
The pace of GDP growth worldwide continues to increase, up to rates of around 1% QoQ, thus surpassing the 0.8% average since 2011. This acceleration has been followed by general improved confidence, coupled with advances in global trade, stimulated largely by monetary and fiscal stimuli in China. The performance of countries in the developed world continues to be very strong. In the USA the recovery is strengthening and in Europe growth is occurring at rates that exceed 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 % variation)



Source: BBVA Research

Figure 2.2 Global Growth and Contributions by Region (YoY % variation)



Source: BBVA Research

We have revised the increase in global growth, which will rise from 3.1% in 2016 to 3.3% in 2017 and 3.4% in 2018.

Improved performance worldwide is accompanied by greater clarification regarding the US economy, where expectations of rapid recovery of inflation based on a fiscal boost and those of a scenario characterised by a swift turn towards protectionism have lessened, or at least been delayed. Nevertheless, the difficulty of carrying out a reform of the health care system has also revealed problems in getting other measures approved, such as those associated with tax cuts or the infrastructure spending plan. This eliminates the probability of a strong short term impetus.

With regard to the **financial markets,** over the last few months these **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 standardising monetary policy. The FED, which is leading this process, maintains its message of gradual release, so we predict there will be two additional 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 will continue to lag behind the FED's exit pace. Given this process of monetary policy stabilisation, a global rise in the cost of financing globally can be expected going forward.

Overall, our forecasts for growth in 2017-18 have been revised only marginally. The best starts to the year have occurred in the Eurozone and especially China (where growth of 6.3% and 5.8% in 2017 and 2018 respectively is expected, around 0.5 percentage points more than three months ago), while the rates for the Latin American countries are slightly more negative this year (with the notable exception of Mexico). In the US, we continue to predict growth of 2.3% this year and 2.4% in 2018, based on the boost in investment. As a result, expected worldwide growth is 3.3% and 3.4% for 2017-18, which, in both cases, is 0.1% higher than our previous forecasts.

The risks of a downturn continue. Apart from the uncertainty that is still associated with the measures that are finally to be approved in the USA, above all in the business sector, there are doubts regarding 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 elements. There is also the risk associated with the Chinese economy, where recent strong investment may slow down the reduction in imbalances. Other significant elements of risk are the Brexit negotiations (which have not started off on the right footing), the many geopolitical risks and the risks associated with the standardisation of monetary policy, above all in the USA.

LEGAL NOTICE

This document, prepared by BBVA Research Department, is informative in nature and contains data, opinions or estimates connected with the date of its publication. These derive from the department’s own research or are based on sources believed to be reliable, and have not been independently verified by BBVA. BBVA therefore makes no guarantee, express or implied, as to the document's accuracy, completeness or correctness.

The estimates contained in this document have been formulated according to generally accepted methods and should be taken as such, i.e. as estimates or projections. The historical evolution of economic variables (positive or negative) is no guarantee that they will evolve in the same way in the future.

The contents of this document are subject to change without prior notice for reasons of, for example, economic context or market fluctuations. BBVA does not give any undertaking to update any of the content or communicate such changes.

BBVA assumes no responsibility for any loss, direct or indirect, that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or solicitation to acquire, divest or acquire any interest in assets or financial instruments, nor can it form the basis of any contract, commitment or decision of any kind.

In particular as regards investment in financial assets that may be related to the economic variables referred to in this document, readers should note that in no case should investment decisions be made based on the contents of this document and that any persons or entities which may potentially offer them investment products are legally obliged to provide all the information they need to take these decisions.

The contents of this document are protected by intellectual property law. It is expressly prohibited to reproduce, process, distribute, publicly disseminate, make available, take extracts, reuse, forward or use the document in any way and by any means or process, except where it is legally permitted or expressly authorised by BBVA.

BBVA | Research

This report has been produced by the Peru Division

Head Economist, Peru
Hugo Perea
hperea@bbva.com
+51 1 2112042

Francisco Grippa
fgrippa@bbva.com

Ismael Mendoza
ismael.mendoza@bbva.com

Yalina Crispin
yalina.crispin@bbva.com

Marlon Broncano
marlon.broncano@bbva.com

Vanessa Belapatiño
vanessa.belapatino@bbva.com

BBVA Research

Chief Economist BBVA Group
Jorge Sicilia Serrano

MACROECONOMIC ANALYSIS
Rafael Doménech
r.domenech@bbva.com

Global Economic Situations
Miguel Jiménez
mjimenezg@bbva.com

GLOBAL FINANCIAL MARKETS
Sonsoles Castillo
s.castillo@bbva.com

Long-Term Global Modelling and Analysis
J. Julián Cubero
juan.cubero@bbva.com

Innovation and Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

FINANCIAL SYSTEMS AND REGULATION
Santiago Fernández de Lis
sfernandezdelis@bbva.com

International Coordination
Olga Cerqueira
olga.gouveia@bbva.com

DIGITAL REGULATION
Álvaro Martín
alvaro.martin@bbva.com

Regulation
María Abascal
maria.abascal@bbva.com

FINANCIAL SYSTEMS
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Spain and Portugal
Miguel Cardoso
miguel.cardoso@bbva.com

United States
Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Middle East, Asia and Geopolitical
Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey
Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

South America
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

ENQUIRIES TO: BBVA Research Peru Av. República de Panamá 3055, San Isidro, Lima 27, Peru. Tel: + 51 12112042-bbvaresearch@bbva.com
www.bbvaresearch.com