

## 9. Risks to our economic growth forecast for 2017

There are five main risks, two of them external and three domestic. **The first of these is linked to the Chinese economy.** The strength of that country's economic growth continues to be fed by greater borrowing and driven by investment. In this context, the reshaping of the sources of growth there fails to progress and domestic financial vulnerabilities have sharpened, vulnerabilities that include parallel banking activity, high corporate debt and inefficient public companies. Should these vulnerabilities fail to be plugged and end up derailing the ordered process of slowing down the Chinese economy, this would considerably affect world growth and the prices of raw materials. On the domestic front, the impacts would be reflected in a slower pace of foreseen 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 ongoing uncertainty surrounding the measures that will be implemented by the new administration in that country. Even though it is true that in some cases the tone of radical changes has lowered somewhat and as regards others it seems that these will not be easy to undertake, which reduces the likelihood of risk scenarios arising, it still remains unclear what will finally be done in fiscal policy, trade policy, deregulation and immigration matters. 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 main risks is that of continuing delays in the major infrastructure projects.** This risk was already factored into the projections we made two months ago. The risk then materialised, so in our new baseline we have incorporated some of these delays, such as, the delay in the construction of the second subway line in Lima. In spite of this, risk persists. Our new baseline scenario assumes that, moving forward, the construction work on big infrastructure projects will speed up. This involves a release from interference, the expropriation of land and assurances given concerning the financing of the works. If this is not finally achieved in time, the growth of economic activity we are predicting will suffer.

**A second domestic risk is business and consumer confidence not recovering or even worsening.** Our baseline scenario projection includes a gradual recovery of this confidence - currently at pessimistic levels – as the weather problems recede and work is started on restoring and rebuilding the infrastructure damaged by *El Niño Costero*. However for example, if people see that economic activity (beyond the mining of natural resources) fails to recover after the drop in the first quarter, that the infrastructure projects are not unfettered, that social conflicts worsen or that restoration or rehabilitation work after *El Niño Costero* does not progress, it is then quite likely that current business and consumer pessimism remains or even worsens, jeopardising the gradual recovery of private sector expenditure predicted in our baseline scenario.

**Finally, there is a risk of planned public spending not taking place.** What happened in the first quarter and the fact that a lot of the restoration or rehabilitation work on public infrastructure damaged by *El Niño Costero* will have to be undertaken at sub-central government level, resulting in procedural delays, means risking delays to the work which would negatively affect public expenditure expansion, the main support of growth on the expenditure side in 2017.

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