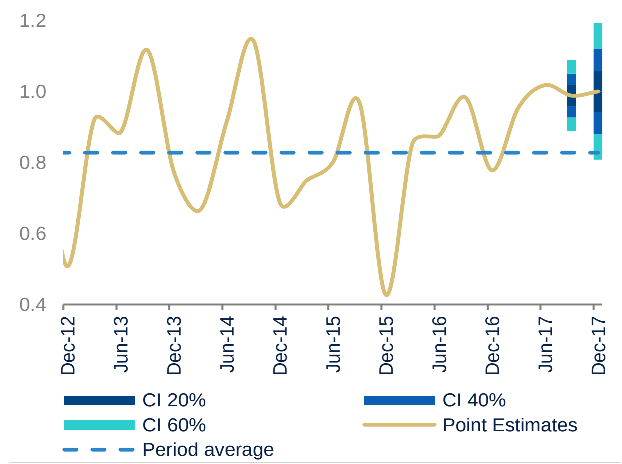
2. Synchronized global growth

Our new global growth forecast assumes acceleration to 3.4% in 2017-18, which implies an upward revision of around 0.2pp. This reflects a stronger economic performance in all areas (Figure 2). In advanced economies, growth has improved dispelling doubts of persistent headwinds in the coming quarters. In emerging economies, stable growth in China will continue to support the rest of Asia and Latin American. In addition, Russia and Brazil will no longer be dragging global growth down. Hence, the current recovery is proving to be both stronger and more synchronized.

In the third quarter, market dynamics were broadly unchanged since the first half of the year. Central banks are pressing ahead with the gradual process of withdrawing monetary stimulus. Specifically, the U.S. Federal Reserve started reducing its balance sheet in October. The European Central Bank (ECB) at its October meeting announced its plans to scale down its net asset purchase program to EUR 30bn, which it will begin implementing in January. The withdrawal of stimulus will be gradual and the ECB will remain as flexible as possible, although the precise strategy it will adopt is uncertain. Like in the previous quarter, the combination of low volatility, reduced interest rates and dollar weakness have resulted in a favorable outlook for emerging markets (EM).

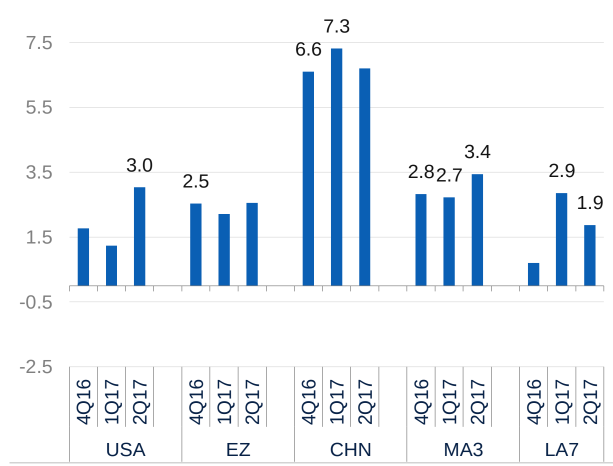
Despite the stronger growth outlook and abundance of liquidity in financial markets, inflation remains moderate. In the case of EM, the appreciation of their currencies and increases in commodity prices has helped inflation to continue to abate. Among the developed economies weaker than expected inflation is due to the lower energy prices, especially in Europe.

Figure 2.1 World GDP growth
(QoQ, %, forecasts based on BBVA-GAIN)



Source: BBVA Research

Figure 2.2 GDP growth by region
(Seasonally adjusted annual rate, %)

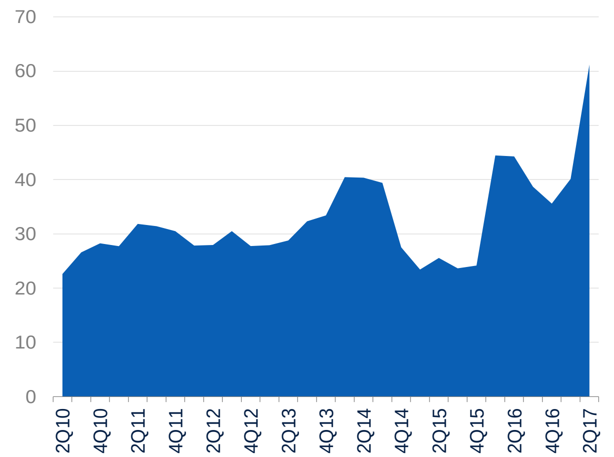


Source: BBVA Research

In Europe, a surge in global demand has supported exports, while higher confidence and labor market fundamentals has led to sustained improvements in consumption and investment. As such, for 2017, we have revised up our GDP forecast by 0.2pp to 2.2%, which implies above-potential growth for the third year in a row.

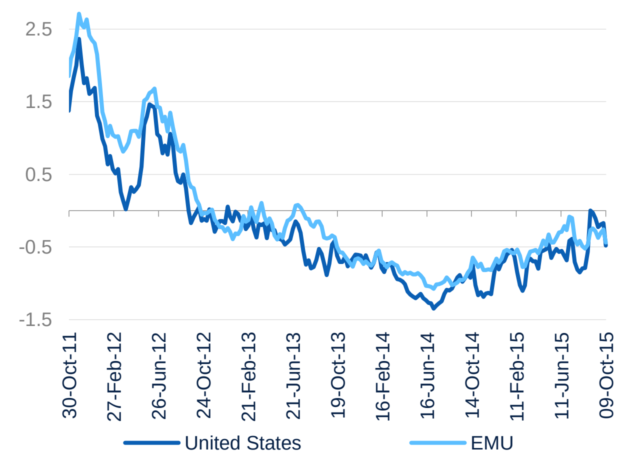
In terms of risks, Brexit negotiations, unresolved banking problems in certain European countries, and political tensions in some E.U. Member States remain a source of uncertainty with respect to the European economy. In the U.S., a retrenchment in business confidence or a sharp correction in asset prices could jeopardize growth synchronization. In China, although fiscal stimulus and a more gradual slowdown in growth have diminished the risks over the forecast horizon, they are still rising over the medium term. In fact, increasing debt levels amid moderate reforms to state-owned companies could result in a nontrivial correction. That said, the balance of risks remains modestly tilted to the upside for the near-term given the strong tailwinds from growing global business cycle synchronicity.

Figure 2.3 Synchronization index (Based on the time variance of GDP)



Source: BBVA Research

Figure 2.4 Financial tensions index. USA vs. Eurozone (Normalized)



Source: BBVA Research

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