

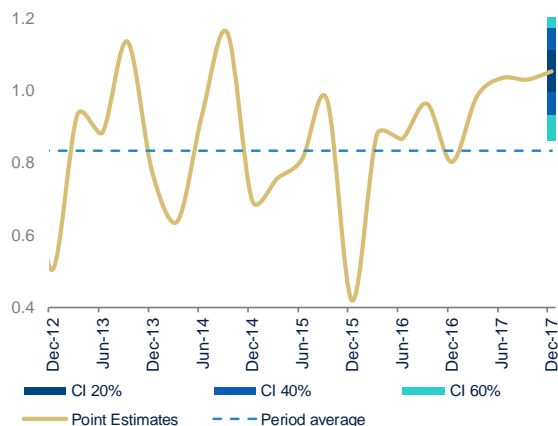
2. Global growth confirmed

World economic growth consolidated at around 1% QoQ (Figure 2.1) in late 2017, reflecting improved results in all major areas and prospects of continuing in good health over the coming quarters. The support of economic policy, especially in the developed economies, has at last had a clear impact on the real economy, with recovery in investment gaining traction, underpinned by increased demand and an upturn in world trade, which in turn continues to drive the recovery of the manufacturing sector. Meanwhile, private consumption continues to perform well in the advanced economies, while gaining momentum in emerging economies. Prospects and confidence in many emerging economies have also been favoured by the increase in commodity prices, as well as by the relative calm in financial markets. In respect of those, an absence of adverse global shocks has meant that fundamentals have sustained risk-taking by investors (Figure 2.2) who continue to prompt capital inflows into the emerging economies, although there has been a certain gradual let-up to this in recent months. World growth could have picked up by 0.4pp to around 3.7% in 2017, i.e. 0.2 pp more than was being predicted three months ago.

Over the past three months, there have been more reasons to remain optimistic in all of the key areas. In the United States the recovery has been taking hold over the year, with slightly higher-than-expected growth rates and improvements in the labour market. Tax reforms were finally passed, which may slow cyclical recovery. Nevertheless, they will not have a very significant impact in the long-term. Meanwhile, recent Federal Reserve appointments point to an unchanged monetary policy, which should be reflected in a very gradual approach to normalisation. In China, the measures passed by the authorities have managed to stabilise the economy, while some structural reforms have been implemented and an economic strategy has been approved that focuses more on getting fiscal imbalances under control and less on meeting growth targets. Finally, the Eurozone recorded higher-than-expected activity growth in 2017, supported by an improved global climate and stronger internal demand which is benefiting from the easing political uncertainty.

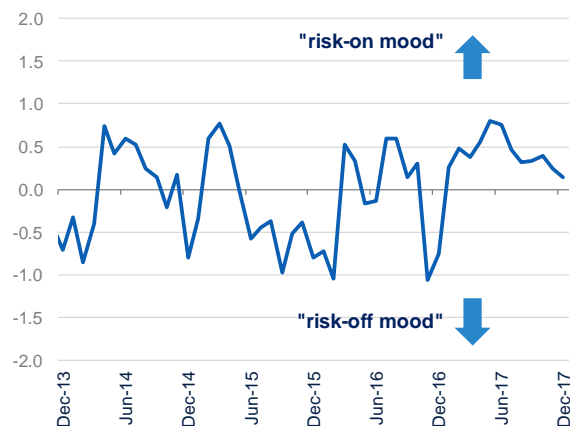
This scenario of increased growth and higher demand has been accompanied so far by subdued inflation, despite the expansionary measures adopted by the major central banks and the gradual reduction in idle capacity in the developed economies. In any case, the increased growth and higher oil prices should push inflation up in the short term, facilitating advances in the normalisation of central bank policy in the developed economies, while many emerging economies still have room for manoeuvre when it comes to using monetary policy to bolster growth.

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



Source: BBVA Research

Figure 2.2 Risk appetite indicator
(global factor using EPFR flows)



Source: BBVA Research based on EPFR

Global risks are abating compared to three months ago, although they are still substantial, especially those of a political hue

Our forecasts point to global growth slightly accelerating in 2018-19 (by around 0.1 p.p.) to 3.8%, meaning an upward revision of 0.3 p.p. with respect to the scenario advanced three months ago. This change has come in response to higher growth forecasts now for the United States, China and the Eurozone in 2018, mainly due to improved economic activity in recent quarters, though also

to the economic measures implemented in the first two areas. Specifically, we expect the United States to grow 2.6% in 2018 (0.4pp more than three months ago) and 2.5% in 2019, driven by the effects of tax reform and improved external and domestic fundamentals. For China we predict a more sedate slowdown (thanks to the better international climate and economic policy strategy in the wake of the 19th Communist Party Congress), with growth of 6.3% in 2018 and 6% in 2019, compared to 6.7% in 2017. On the other hand, in the Eurozone we are revising growth upwards by 0.4 p.p. in 2018 to 2.2%, which should be followed up by 1.8% in 2019, shored up by the strength of internal demand and a positive contribution from net exports. Finally, in Latin American economies, we now expect to see a somewhat stronger recovery this year, due to the upward revision for global demand and higher commodity prices. Despite the envisaged stability of world growth, we still expect a certain tempering of growth in developed economies in 2019, while the recovery will continue to consolidate in most emerging economies.

The risks to this relatively benign world panorama continue to exist, although they have declined since three months ago. Prominent above all are risks of a political and geopolitical nature, which may influence both business confidence and the behaviour of the financial markets.

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