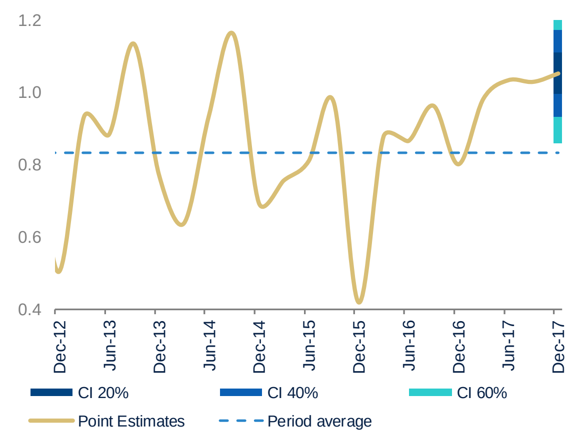
2. Global growth reaffirms

Solid, sustained global growth in 2017

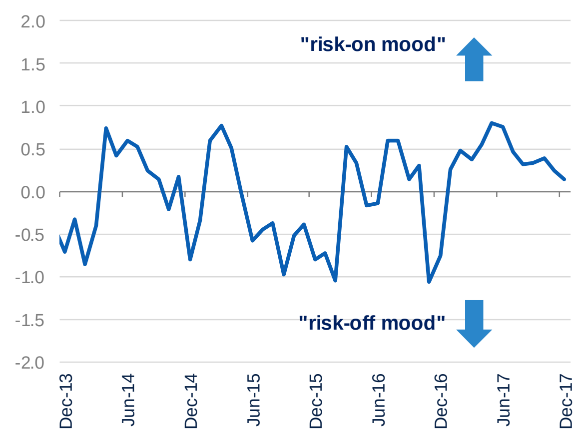
World economic growth consolidated in late 2017 at around 1% QoQ (Figure 2.1), reflecting improved results in all major regions and prospects of holding firm for the next few quarters. The support of economic policy, especially in the developed economies, has at last had a clear impact on the real economy, 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. On the financial markets, in the absence of any negative global shocks, the fundamentals have continued to support risk-taking by investors (Figure 2.2), as a result of which capital continues to flow into emerging economies, albeit with some gradual moderation in recent months. Thus world growth may have increased by 0.4 pp to around 3.7% in 2017, 0.2 pp more than was forecast three months ago.

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

In the past three months, reasons for maintaining a degree of optimism on all the major regions have increased. In the US, the recovery consolidated over the course of the year, with growth rates somewhat higher than expected and improvements in the labour market. Tax reforms were finally passed, which may slow cyclical recovery. Nevertheless, they will not have a significant impact in the long-term. Meanwhile, recent Federal Reserve appointments point to an unchanged monetary policy, which should be reflected by a very gradual approach to normalisation. In China, the measures passed by the authorities stabilised the economy while also implementing structural reforms and approving an economic strategy that focuses more on getting fiscal imbalances under control and less on meeting growth targets. Finally, the euro zone has registered higher than expected growth in 2017, underpinned by an improved global environment and stronger domestic demand, which is benefiting from the reduced 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 developed economies, while many emerging economies still have room for manoeuvre when it comes to using monetary policy to bolster growth.

Our forecasts point to global growth accelerating slightly in the 2018-19 two-year period by around 0.1 pp to 3.8%, implying an upward revision of some 0.3 pp relative to the scenario presented three months ago. This change is in response to the higher growth projected for the US, China and the euro zone in 2018, due mainly to greater economic activity in the past few quarters, but also to the economic measures being implemented in the US and China. In particular, we now expect the US to grow by 2.6% in 2018 (0.4 pp more than three months ago) and by 2.5% in 2019, boosted by the effects of the tax reform and improved external and domestic fundamentals. For China, we foresee a more moderate slowdown thanks to the improved international environment and the economic policy strategy following the 19th Communist Party Congress, with growth of 6.3% in 2018 and 6.0% in 2019, compared with 6.7% in 2017. As for the euro zone, we have revised our growth forecast upwards by 0.4 pp for 2018, to 2.2%, followed by 1.8% in 2019, underpinned by the strength of domestic demand and the positive contribution of net exports. Lastly, in the Latin American economies we now expect to see a stronger recovery this year, due to the upward revision of global demand and higher commodity prices. Despite the foreseeable stability of world growth, we still expect a certain tempering of growth in developed economies in 2019, while in the majority of emerging economies the recovery will continue to consolidate.

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 business confidence and the behaviour of the financial markets.

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