BBVA Research

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Global growth: A somewhat less encouraging macroeconomic panorama for 2019 and 2020

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World economic growth slowed more than expected in the second half of last year, while recent activity and confidence figures have been disappointing in general. In particular, industrial sector and international trade indicators have pointed to a clear deterioration, although the service and retail sectors have held up better. Along with worsening economic performance in Europe and China, there has been a downturn in Asian countries in general, as well as signs of a cyclical deterioration in the United States. In addition, fear of a rapid global slowdown and increased protectionist risks led to rising financial tension in late 2018, especially in developed economies where stock markets have fallen sharply, the price of safe-haven assets has risen and capital outflows have escalated. Given this scenario of greater global uncertainty, the major central banks, above all the **Federal Reserve, have reacted cautiously in their plans to normalize** monetary policy, a strategy that has been key to containing and partially reversing the tension that has been palpable since the start of the year.

Our new GDP growth forecasts take this new context into account. They are based on the presumption that the marked level of financial volatility may continue for the first six months of the year, assuming that the uncertainty hanging over the international panorama does not slacken off with an agreement between the US and China that brings the trade war between the two to a close without the need for further tariff hikes, a solution that avoids a no-deal Brexit, and the confirmation of a more cautious tone as far as US monetary policy is concerned. As a result, we forecast a **gradual slowdown in world economic growth, from 3.6% in 2018 to 3.5% in 2019 and 3.4% in 2020**.

As far as individual countries are concerned, **the slower growth will be more apparent in developed economies**. In the **United States**, we will probably see a prolongation of the restraint noted in the second half of last year, a downturn in domestic demand and an appreciation of the dollar which, along with the gradual disappearance of the effect of last year's round of financial stimuli, which, with private investment not stepping up to drive the economy, will slow growth 2.9% in 2018 to 2.5% in 2019 and 2% in 2020. **Eurozone** recovery has already been affected by the downturn in global demand. We expect to see more restrained growth of around 1.4% in 2019-20, in contrast to the 1.8% forecast for 2018. This growth is based on robust domestic economic fundamentals and an accommodating monetary and fiscal policy. This tendency will also have a bearing on growth in **Spain**, although it will nevertheless remain above the Eurozone average, slowing gradually from 2.5% in 2018 to 2% in 2020.

Growth rates in emerging economies will stay relatively stable, although the pattern will vary somewhat from country to country. In general, Asian economies are expected to slow, held back by **deceleration in China**, where unchanged forecasts have growth falling from 6.6% in 2018 to 6% in 2019 and 5.8% in 2020, while recovery in Latin America will gain traction (1.6% in 2018, 2.1% in 2019 and 2.4% in 2020). Growth will remain relatively **stable in Mexico and Peru** in 2018-20, while a **gradual recovery is forecast in the cases of Colombia and Brazil**. In **Argentina**, economic activity may shrink by around 1% in 2019 after the sharp 2.4% fall experienced in 2018 due to ongoing contractionary policies. These policies will nevertheless be eased over time, resulting in growth at around 2.5% in 2020. In **Turkey**, the economic adjustment process will continue after a tightening of both monetary and fiscal policy in order to redress the imbalances of the past years. This means that the slowdown in growth will persist through 2019 (up to around 1%) before it begins to pick up speed in 2020, rising to 2.5% before returning to levels that are closer to its growth potential.

This global scenario remains subject to mainly negative risks and is increasingly uncertain, given the political nature of much of the panorama. The most immediate concern is still that of protectionism, as well as worries about the intensity of economic activity both in the United States and China, and the increased uncertainty that prevails in Europe, due in large part to political factors.

Table 1 Gross Domestic Product (Annual average, %)

	2014	2015	2016	2017	2018	2019	2020
USA	2.5	2.9	1.6	2.2	2.9	2.5	2.0
Eurozone	1.4	2.0	1.9	2.5	1.8	1.4	1.4
Germany	2.2	1.5	2.2	2.5	1.5	1.3	1.4
France	1.0	1.0	1.1	2.3	1.5	1.6	1.5
Italy	0.2	0.8	1.3	1.6	0.9	0.4	0.9
Spain	1.4	3.6	3.2	3.0	2.5	2.4	2.0
United Kingdom	2.9	2.3	1.8	1.8	1.4	1.5	1.7
Latin America*	1.4	0.4	-0.2	1.9	1.6	2.1	2.4
Mexico	2.8	3.3	2.7	2.3	2.2	2.0	2.2
Brazil	0.5	-3.6	-3.3	1.1	1.2	2.2	1.8
Eagles**	5.4	4.8	5.3	5.4	5.2	5.0	5.0
Turkey	5.2	6.1	3.2	7.4	3.0	1.0	2.5
Asia and Pacific	5.6	5.7	5.6	5.6	5.5	5.3	5.2
Japan	0.3	1.3	0.6	1.9	0.9	1.0	0.6
China	7.3	6.9	6.7	6.8	6.6	6.0	5.8
Asia (ex. China)	4.2	4.6	4.6	4.6	4.5	4.7	4.6
World	3.6	3.4	3.3	3.7	3.6	3.5	3.4

* Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.
**Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey and Vietnam.
Forecast closing date: 22 January 2018.
Source: BBVA Research and the IMF

Table 2 Inflation (Annual average, %)

	2014	2015	2016	2017	2018	2019	2020
USA	1.6	0.1	1.3	2.1	2.4	2.2	2.1
Eurozone	0.4	0.0	0.2	1.5	1.7	1.6	1.6
Germany	0.8	0.1	0.4	1.7	1.9	1.7	1.7
France	0.6	0.1	0.3	1.2	2.1	1.5	1.6
Italy	0.2	0.1	-0.1	1.3	1.2	1.3	1.5
Spain	-0.2	-0.5	-0.2	2.0	1.7	1.3	1.5
United Kingdom	1.5	0.0	0.7	2.7	2.5	1.9	1.8
Latin America*	8.6	8.4	9.7	6.6	7.4	7.6	5.8
Mexico	4.0	2.7	2.8	6.0	4.9	4.2	3.8
Brazil	6.3	9.3	8.2	3.3	3.9	4.1	5.0
Eagles**	5.1	5.0	4.4	4.0	4.7	5.1	4.7
Turkey	8.9	7.7	7.8	11.1	16.3	18.4	13.4
Asia and Pacific	3.3	2.2	2.3	2.0	2.3	2.6	2.9
Japan	2.8	0.8	-0.1	0.5	1.0	1.2	1.6
China	2.1	1.5	2.1	1.5	1.9	2.3	2.5
Asia (ex. China)	4.3	2.8	2.5	2.4	2.7	2.8	3.2
World	3.6	3.1	3.2	3.3	3.9	3.9	3.6

* Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.
**Bangladesh, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Russia, Turkey and Vietnam.
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