Global Economic Outlook

Fourth quarter 2014
Economic Scenarios Unit

- Slow global recovery with downside risks in Europe
- This cycle is different in the developed markets; the crisis was deeper and the recovery is slower
- Economic globalisation: temporary deceleration or long-lasting stagnation?

Index

Closing date: 30 October 2014

1 Editorial

From a medium-term perspective, since the beginning this cycle has been different from previous cycles. Six years on from the deepest crisis since World War II we can say that, in general terms, per capita income in the developed economies is growing more slowly than in any other recovery in the second half of the 20th century. This is partly due to the high levels of private indebtedness built up in the previous expansion, resulting in debt service obligations that are restricting spending and investment decisions.

Altogether, this cycle is still compatible with an improvement in GDP growth in the coming quarters, although at a slower rate than we were forecasting three months ago. According to our calculations, global GDP will expand by 3.2% in 2014, the same as in 2013, and by 3.7% in 2015. These estimates are 0.2pp lower than our previous forecasts and are **subject to downside risk**. The global scenario is still pending the withdrawal of - extraordinary and sustained - monetary stimuli in the US, at the same time as **geopolitical risks are multiplying**. In addition, China is faced with the challenge of managing the slowdown in its economy, while at the same time reducing its financial vulnerabilities and rebalancing growth towards domestic demand; and the euro area is still facing downside risks to growth and inflation.

All in all, the economic policy is growth-supportive, especially as regards central bank provision of liquidity, but the **recent spike in financial volatility is a sign of the uncertainties surrounding the present economic recovery**. In terms of demand policies, **we expect fiscal policy to be less restrictive in the US and the euro area in 2014-15**, as a consequence of both discretionary decisions and the room for manoeuvre offered by more favourable funding conditions, which are in turn thanks to supportive monetary policy.

The Fed and the ECB will continue to play a crucial role in our forecast global economic scenario. In the most probable scenario, the Fed will continue guiding the perspectives for interest rates and shrinking its balance sheet in accordance with data prints on the recovery and inflation, with a bias towards erring on the side of patience. From the ECB, we expect communication consistent with anchoring policy rates for as long as necessary, and the implementation of balance-sheet expansion measures in addition to those already put into practice or announced. As well as the limitless provision of long-term liquidity for European banks, the availability of even cheaper funding if these funds are used to increase the flow of credit to the economy and the announced asset purchases, there is a significant increase in the probability of euro area sovereign bond purchases, provided that expectations for long-term inflation continue to de-anchor. Finally, **the banking sector asset quality review and balance-sheet stress** test was positive. This process has given the market more and more homogenous information on the European banking sector and introduces the implementation of the common supervision in the euro area. All of this is a necessary condition for allowing the flow of bank credit to meet solvent demand.

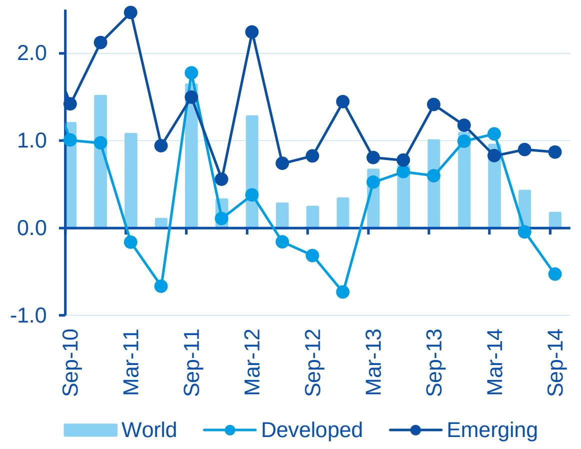
However, central bank support cannot be permanent: their ability to stimulate demand is waning because households and companies form their expectations and make their spending, saving and investment decisions taking into consideration, for example, their expectations for central bank policies. And the capacity for the latter to surprise is increasingly limited, particularly if the anchor of the price stability target is maintained**. The demand-led policies allow downward phases in the economic cycle to be offset, but other types of measures need to be implemented at the same time**, with a less immediate but more lasting impact. These policies should improve the efficiency of allocating resources – employment and capital – which are going to be less abundantly available than in the past. Employment, due to population ageing; capital, due to the regulatory changes in financial intermediation and the high levels of debt in the economy, which make it more expensive. **The efficient use of productive factors is not fostered by expansive demand-led policies. What we need is more measures that boost underlying capacity for growth.**

2 Slow global recovery with downside risks in Europe

Global economic growth continued in 3Q14, as shown by the positive variations of world trade volumes for goods and industrial production up to August. However, their **trend growth is very moderate**, with a rising path in the case of trade and falling in the case of industry. In both cases the moderation in global trade and industrial production is greater in the more developed economies, and of these, more in Japan and the eurozone than in the US.

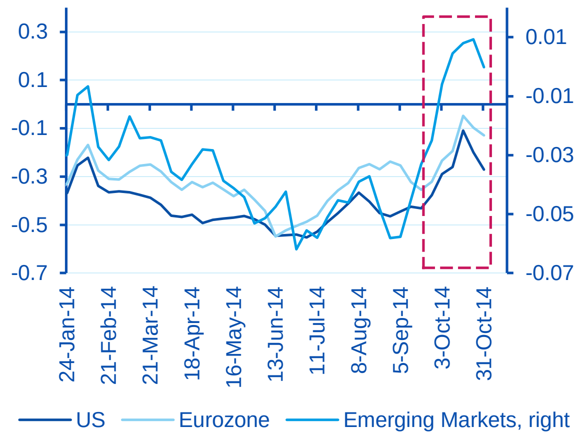
The confidence indicators for September remain consistent with the expansion of manufacturing activity, although it has been some months since they stopped improving in the key economic areas. An additional sign of the fragility of the present cyclical recovery is the uptick of the tension indicators (including our own) in the financial markets (volatility) since mid-September. In the case of the emerging economies (EMs), these have reached levels not seen since May 2013, when the market discounted a rapid withdrawal of Fed stimuli that actually never happened. At the same time, geopolitical risks are multiplying and negative surprises are building up on the consensus in the activity indicators, particularly in the eurozone and South America.

Figure 2.1
Industrial production ex-construction, % QoQ (*)



(*) 3Q14: year to August, variation June-August vs. March-May
Source: CPB and BBVA Research

Figure 2.2
BBVA Research Financial Tensions Index



Source: BBVA Research

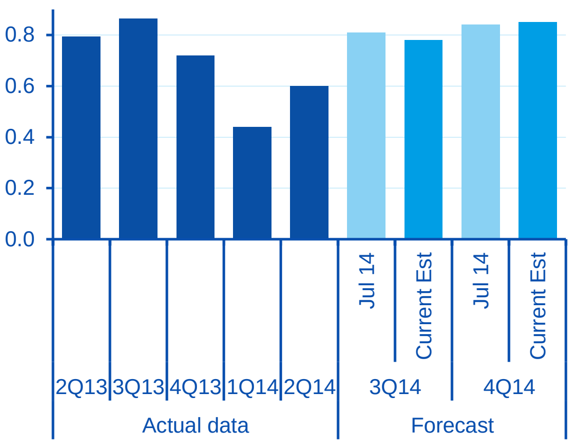
Altogether, the most likely scenario is that global growth improved in 3Q14 vs. 2Q14. According to our calculations, global GDP expanded 0.6% QoQ in 2Q14 and the forecast based on our BBVA Research GAIN[1] indicator is +0.8% in 3Q14. **However, there is downside risk to these figures** given that the industrial activity indicators and world trade in September could still moderate, and the effects of the financial volatility on confidence could be more persistent than we expect. Also, there are the **geopolitical risks** associated with the situation in Syria and Iraq and the fragile agreement between Ukraine and Russia. It is worth noting that sanctions are already having an impact on activity in important sectors such as the Russian energy.

In this context, **monetary policy will remain focused on supporting activity, while fiscal policy will be less restrictive in tone in** 2014-15 in both the US and the eurozone than in the recent past. Even in China, together with the budget consolidation at the local and regional government level it is felt that additional

1: Details on the methodology of BBVA Research GAIN available at: http://bit.ly/1nl5RIn measures to support growth could be implemented if necessary by the central government. In the case of the more developed economies, the tone of fiscal policy is the result of both the discretionary decisions taken by the authorities, in some cases in Europe preoccupied by the short-term effects on growth of the rapid and intense fiscal consolidations, and by the room for manoeuvre afforded due to the more favourable funding conditions from sovereigns bonds. The latter is a direct consequence of **central bank support, with their policies of anchoring expectations of interest rates and the provision of liquidity to the system**, which is what has allowed the above-mentioned discretionary decisions to be taken by the authorities in countries with increasing primary public deficits and levels of indebtedness.

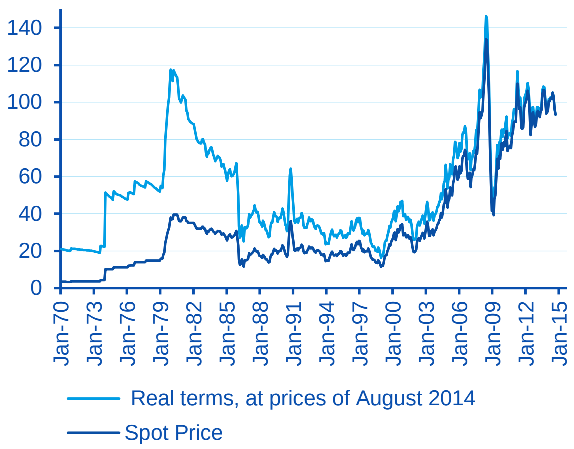
Finally, **the fall in oil prices is a favourable factor for global growth expectations** to the extent that this is the result of a positive supply shock, especially for the **sustained increase in unconventional oil production[2].** The diminished transfer of income from importers to producers gives more scope for the former to attend to their spending, saving and investment decisions, which is a much more positive situation for the economic scenario. All increases in productive capacity of a limited and growing demand resource, even for a more efficient use, help to put a brake on prices that in real terms are at similar levels to those of the oil crisis at the end of the 1970s.

Figure 2.3
Global GDP, % QoQ
Forecasts based on BBVA GAIN



Source: BBVA Research

Figure 2.4
Oil price (West Texas, USD/barrel)



Source: BBVA Research, Haver Analytics

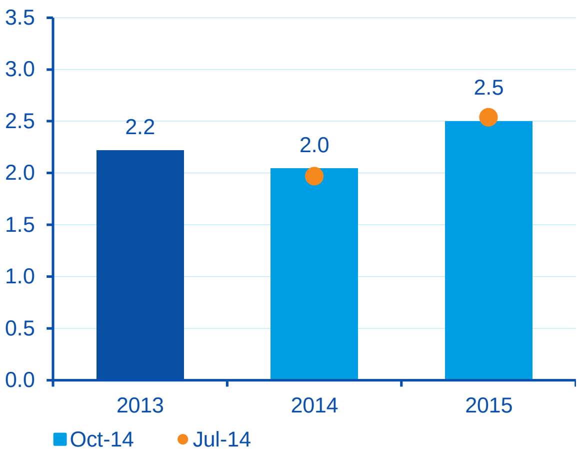
These income transfers to consumer countries have their flip side in the producer countries of oil and, in general, raw materials, where prices are also falling due to the moderation of demand from Asia. These countries are posting decelerating activity and downward adjustments to perspectives for growth in 2015 as well, which is doubtless affecting some South American economies where we are seeing a delay in expected productive investments.

US growth remains in line with our expectations, and could reach 2.5% in 2015. After the unexpected and transitory drop in activity in 1Q14, the activity, spending and employment indicators have recovered to the extent that the pace of GDP growth could well be above 2.5% in the second half of the year, and thus average 2% for 2014 as a whole. In fact, in the light of the first estimation of 3Q14 GDP growth this forecast has a positive bias of around 0.2 pp. However, **the role of the Fed, which emphasises caution and patience before acting on the signs of improvement in the economy, continues to support our**

2: The recent fall in oil prices reflects not only the increased supply, but also USD appreciation and a moderation in expectations of demand, in both DMs and EMs.

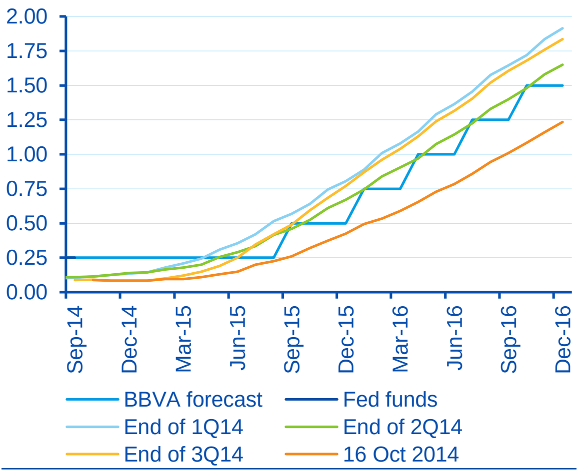
scenario of a cyclical recovery in the US underpinned by the solid creation of employment and the increase in household wealth. The Fed's scope for manoeuvre is favoured by the lack of inflationary tensions in a context of a stronger dollar and lower oil prices, together with moderate wage increases.

Figure 2.5
US: GDP growth (% YoY)



Source: BBVA Research

Figure 2.6
US: expectations of Fed funds rate (%)

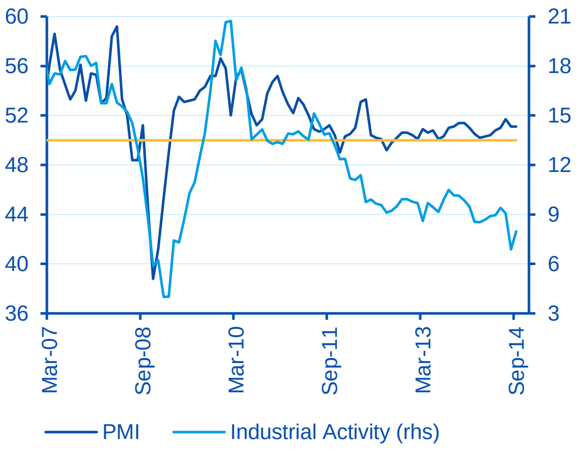


Dates are the last day in the quarter with the exception of 3Q14, which is 16 October
Source: BBVA Research

Our outlook for China is unchanged, but with a downward bias due to the external environment and the possibility of economic policy support. In 3Q14 GDP growth continued to decelerate, to 7.3%, reflecting the moderation in domestic activity, particularly in the construction and real estate sectors, but partially offset by an unexpected and intense upturn in exports. We maintain our outlook for GDP growth at 7.2% in 2014, although we do not rule out that the final print could be a few basis points higher. Altogether, the risks to growth in China continue to be to the downside from 2015 onwards, precisely because of the brake on external demand that the situation in Europe might imply and the adjustment underway in the real estate sector in a context of high leverage and the introduction of measures to control its less regulated banking system.

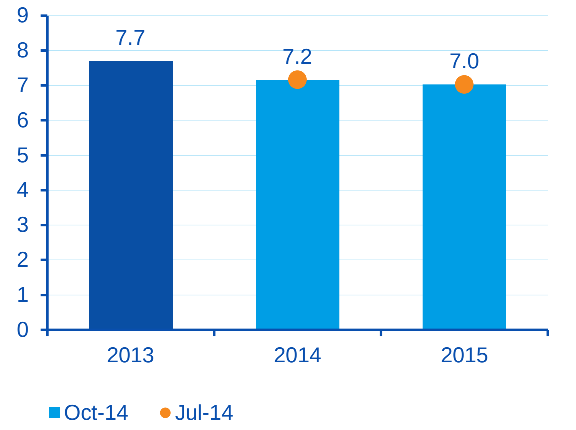
China is facing the task of managing the present deceleration of economic growth while reducing its financial risks and rebalancing growth in favour of domestic demand. In this scenario, the authorities will remain disposed to intervene so that the deceleration does not intensify more than is desirable, and growth does not fall below the targets set. Thus we would not be surprised to see additional monetary policy easing (with cuts in the reserve ratio or liquidity injections), expansive central government fiscal policy (albeit with consolidation at the local government level) and on-going structural reforms.

Figure 2.7
China: confidence and industrial activity indicators



Source: Haver Analytics

Figure 2.8
China: GDP growth (% YoY)



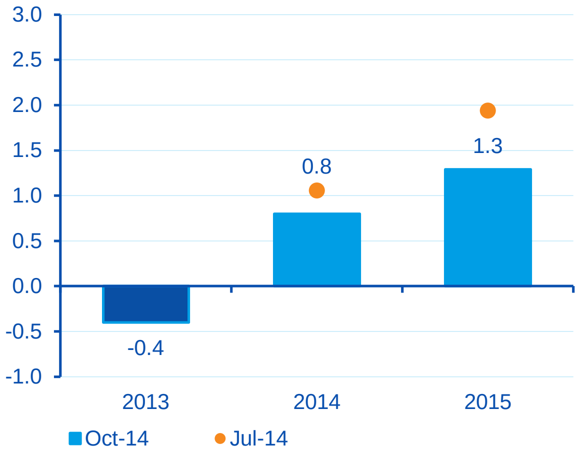
Source: BBVA Research

In the eurozone the recovery will be even slower than expected. The stagnation of GDP growth in 2Q14, with weaker performances in general in the larger economies, has led us to revise our outlook for growth in the region downwards for 2014 and 2015. The Ukraine/Russia crisis is having an impact on trade and the confidence indicators of the more exposed economies in the centre of Europe, which in the case of Germany is feeding through into negative surprises in investment. In Europe as a whole, this reduced confidence is coinciding with weak activity prints and the limited ability of the authorities in the region to take steps to tackle this deterioration of expectations of low growth and inflation. **The lack of agreement between the national authorities as to the causes of the problems, and thus the differences about the most appropriate measures to implement, together with an increasingly domestic rather than European bias to the decisions, is continuing to hamper governance of the euro area.** What the euro area needs is a combination of deeper reforms, the continuation of monetary and liquidity stimuli and, finally, a fiscal policy that allows some room to manoeuvre the rules in support of growth.

The ECB has continued to take action, going ahead with the first TLTRO auction, with rather disappointing results, and setting in motion its purchase programme for assets in the hands of the banking system backed by credit. All the measures, those already implemented, those announced and those that will probably eventually be announced (secondary-market sovereign bond purchases) are designed to bring inflation expectations more closely into line with the objective of price stability, which have been de-anchoring since 2H12. In our most likely scenario, euro depreciation has to make a contribution, given the different expectations of Fed and ECB actions. While for the former we are expecting a gradual withdrawal of stimuli, for the latter we are expecting the opposite, balance-sheet expansion.

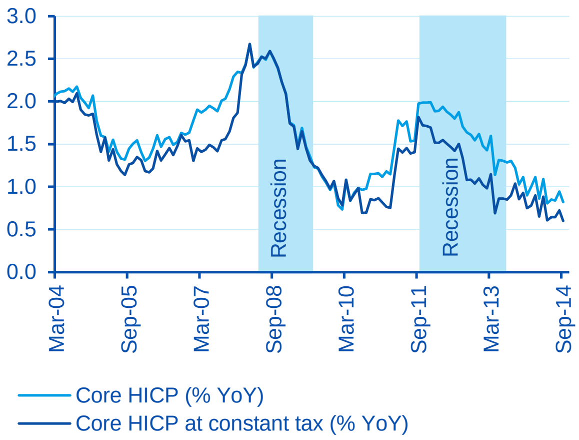
An additional positive element for the conditions of growth in the euro area is the recent announcement of the asset quality review and balance-sheet stress test that was carried out on the banking sector. This process has given the market more and more homogenous information on the European banking sector and implies the implementation of the common banking supervision in the eurozone. All of this is a necessary condition for allowing the flow of bank credit to meet solvent demand.

Figure 2.9
Eurozone: GDP growth (% YoY)



Source: BBVA Research

Figure 2.10
Eurozone: core inflation (% YoY)

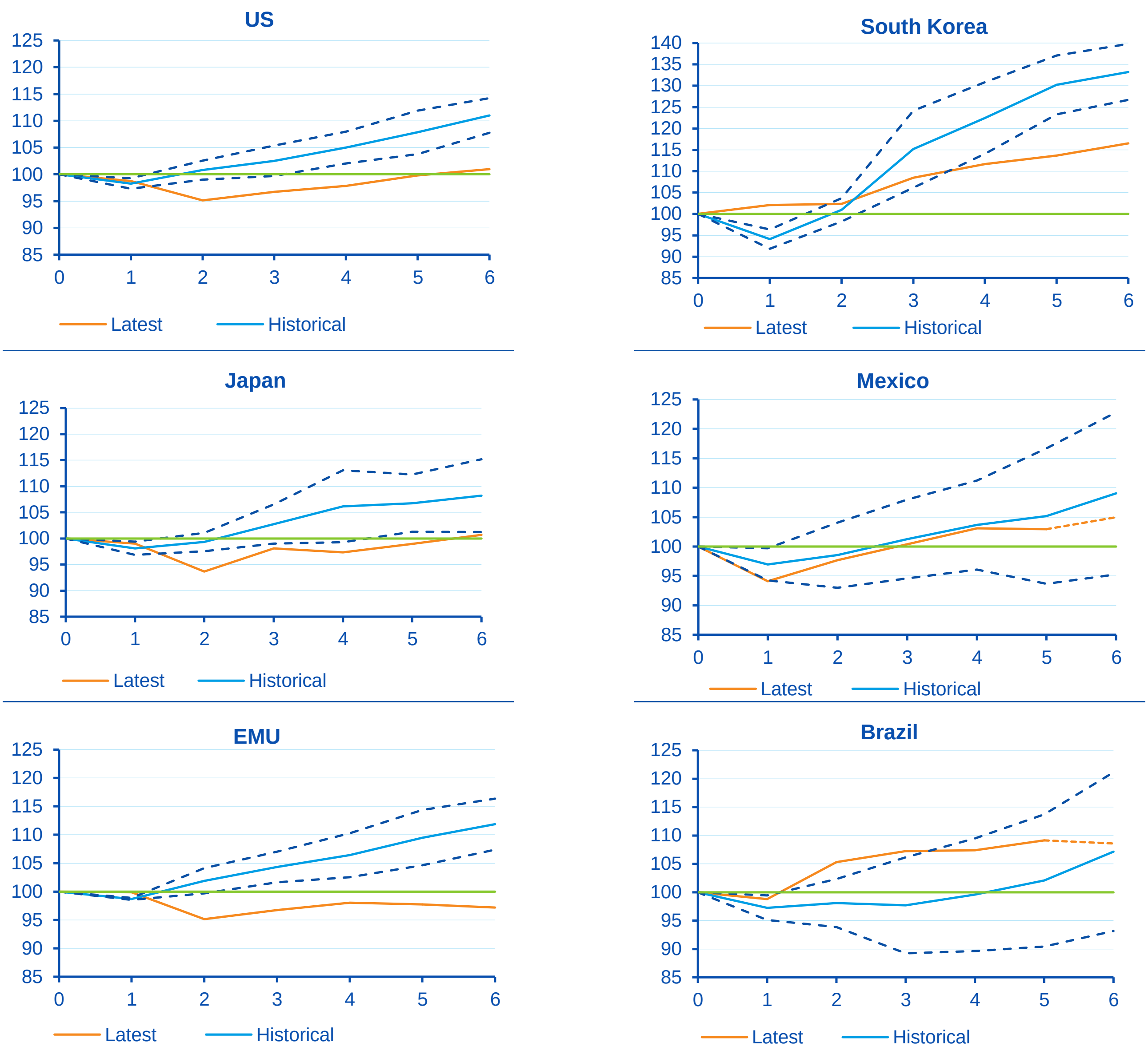


Source: BBVA Research

3 This cycle is different

The present economic cycle, which began with the Great Recession in 2008-09, has characteristics that differentiate it considerably from the previous cycles, both during the crisis and in the recovery which is still underway. As can be seen in Figure 3.1, in the US, Japan and the euro area – the three most important economic areas during the majority of the period concerned – the fall in per capita income during the recent recession has been more severe and long-lasting than the historical average since World War II.[3]

Figure 3.1
Per capita income, comparison of recessions and recoveries

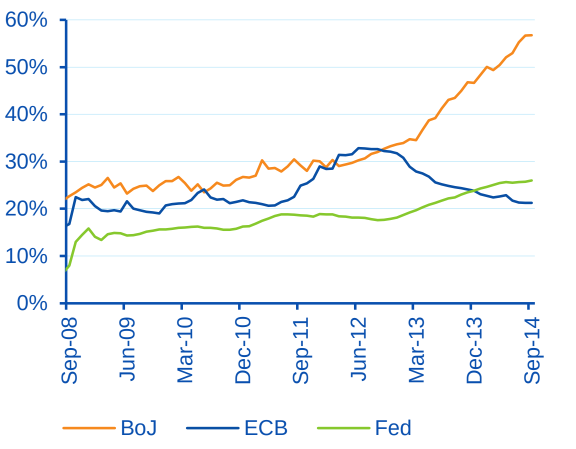


t=100 in the year before the fall in GDP pc; Historical: average cycle of recessions and recoveries since 1950.
The bands reflect the highs and lows of the historical cycles.
Most recent: 0=2007 except Mexico and Brazil (2008).
Source: BBVA Research

3: We have chosen GDP per capita as a reference for economic performance to avoid the potential distortions of making comparisons in a period of more than 60 years when there was a change in population growth.

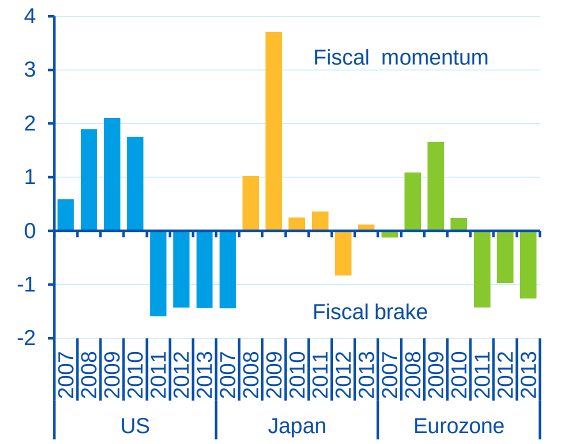
On the other hand, **the pace of the current recovery in the developed countries is slower than in previous cycles**, particularly in the euro area, the only one of the three large areas where in 2013 per capita income was still below pre-crisis levels (2007).[4] This uneven performance was in spite of the stimuli to demand provided in these three areas, by both the central banks and the fiscal authorities. However, the intensity and duration of the liquidity stimuli and supportive fiscal policy measures have differed significantly. Figures 3.2 and 3.3 illustrate both types of measures in terms of central bank balance sheets[5], and a fiscal stimulus measure[6]. As can be seen, **the differences between the policies applied in the three main areas are significant, with less decisive measures implemented in the euro area to date.**

Figure 3.2
Central bank balance sheets, % GDP



Source: BBVA Research based on Haver Analytics data

Figure 3.3
Fiscal impulse. Annual change (multiplied by -1) of the primary public deficit, cyclically adjusted, % of potential GDP.



Source: BBVA Research based on IMF data (Fiscal Monitor, Oct-14)

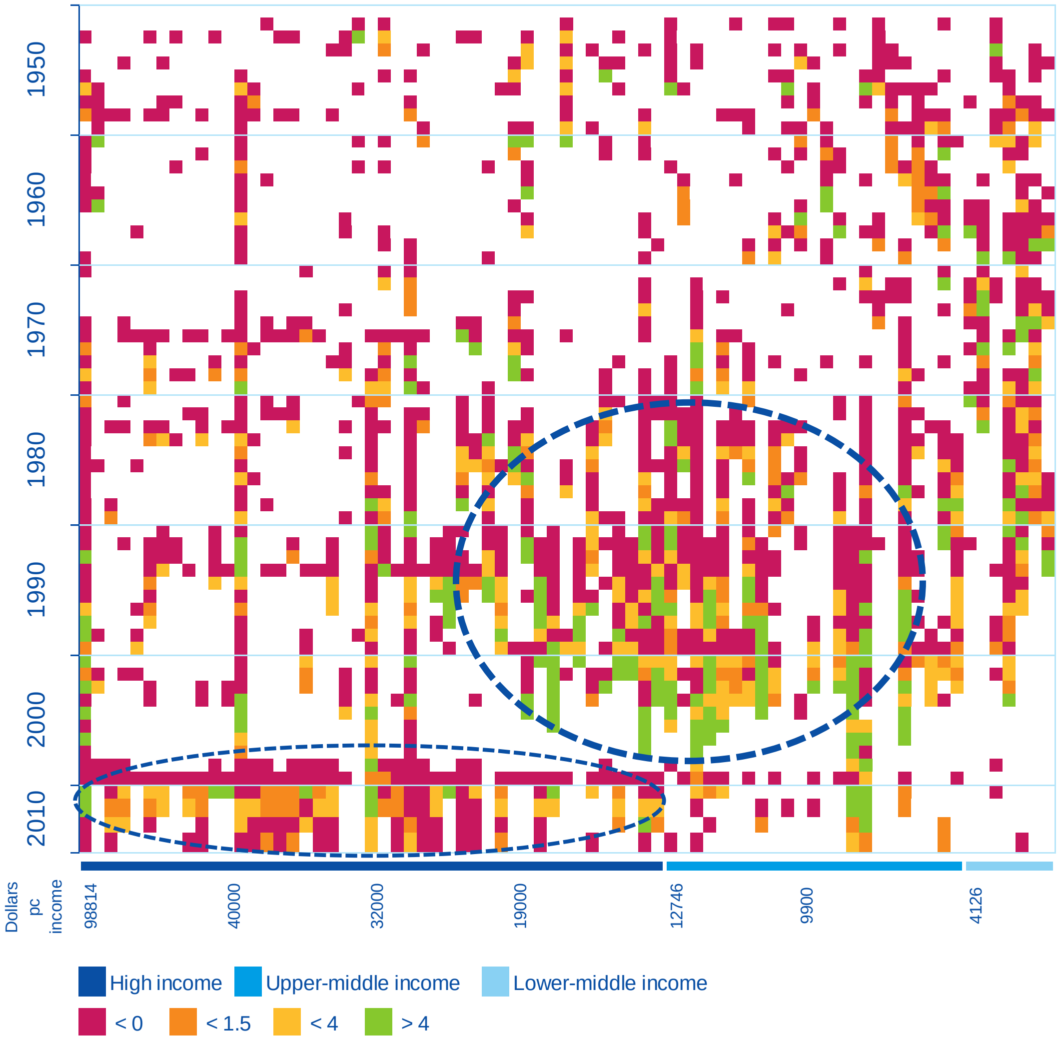
As far as the EMs are concerned, and in contrast to the DMs, there appears to be no common pattern in terms of their performance in the present cycle, nor in the comparison of previous cycles. As illustrated in the right panel Figure 3.1, the performance of Korea, Brazil and Mexico differs considerably in the present cycle. In this context, South Korea did not register a recession in 2008-09, while Mexico saw a severe contraction in activity, similar in intensity to its worst crisis (in 1994, which was domestic in origin), and Brazil had a minor recession (for its present cycle). Similarly, there appears to be little in common between their rates of recovery compared with previous cycles, ranging between a very slow improvement, similar to the DMs, in Korea[7] and an average performance in Mexico, or an intense recovery at the start in Brazil which has since exhausted itself.

The existence of a common pattern in the recent cycle in the more developed economies, with severe contractions and slow recoveries, and the lack of the same in the developing and emerging economies, is maintained when considering a wider group of countries. Figure 3.4 shows a general perspective of GDP per capita performance by capturing the evolution from 1950 to 2013 for the 75 largest

4: Within the EU, Germany's economic performance is different, as in contrast to the rest of the EMU, it went into crisis (defined as a fall in GDP pc) a year later, in 2009, and started to recover in the second year (2010). Thanks to this, the template for the German cycle is similar to the historical average, and slightly above the lower band. The loss of pace in Germany's recovery in recent years coincides with the continuing fall in GDP pc of its principal economic partners in the EMU, particularly at the periphery.
5: The size of a central bank's balance sheet increases when it provides liquidity to the economy.
6: We illustrate fiscal stimulus measures by means of the annual change (multiplied by -1) in the primary budget balance corrected for the cycle, such that a positive (negative) figure represents a favourable (unfavourable) impact on activity.
7: The strong growth of South Korea in recent decades led to an upgrade in its status in the 1990s from being considered one of the developing economies to being considered an advanced economy, according to the IMF classification.

economies ranked by their level of income in 2007[8]. In turn, we have ordered this selection of countries according to their level of per capita income in 2013. For example, the country with the highest per capita income (the furthest to the left) is Qatar, with nearly USD99,000, and the lowest in our sample (number 75, the furthest to the right) is Myanmar with USD1,740 per capita.

Figure 3.4
Economic crisis map 1950-2013. Years in which GDP pc falls or rises without reaching the level prior to the beginning of the crisis. 75 economies with the highest GDP in 2007, ordered from highest to lowest GDP pc in 2013



Source: BBVA Research, World Bank, IMF & Angus Maddison

Figure 3.4 reveals that there are two different groups of countries affected by recession in the 1980s and 1990s and by the 2008-09 crisis. As can be seen, the previous recessions were particularly severe in the middle income countries, between USD14,000 and USD5,500 per capita, principally in Latin America and South-east Asia. The persistence of the contractions in GDP (in per capita terms) is an indication of the severity of the recessions, from which the economies also emerged with strong growth, in some cases of more than 4% a year. These events are related to external financing crises, which implied drastic adjustments to domestic demand to deal with the balance of payments deficits. Local currency devaluation was one of the adjustment mechanisms, together with the pure restriction of demand of external factors. The

8: This aggregate represented 96.7% of global GDP in 2007.

devaluation favours a quick recovery after assuming the impoverishment measured in foreign currency both in terms of income and the assets in the balance sheet.

In contrast, the 2008-09 crisis and the subsequent slow recovery is fundamentally having an impact on middle to high income countries, upwards of USD24,000 per capita, particularly in Europe and North America (the US and Canada). One common characteristic in this group of countries is the high level of indebtedness, at historical highs at the start of the crisis, and which has continued growing since then, especially the public-sector debt component (Figure 3.5). **The strong growth in private-sector credit was one of the characteristics of the expansion, at least in the DMs, and came to an end in 2007. This growth showed signs of being excessive in some of those economies in the middle of the past decade.** This level of debt was unsustainable in terms of the credit long term fundamentals: macroeconomics, the institutional strength of the economy, and the regulation of the financial sector[9]. The vulnerability of the economies that had largely grown based on the resource of future savings, leverage, manifested itself in the unfolding of a financial crisis, of an intense (and as far as we can see, long-lasting) re-evaluation of the relationship between risk and return, i.e. of the rate of interest that allows the flow of funds from creditors to debtors.

The re-evaluation of risk was reflected in falls in the prices of financial assets in a negative feedback loop with more expensive and less available funding, which in turn constrained the ability of the more indebted members of society from servicing their liabilities. The lack of confidence and balance-sheet deterioration affected real activity and employment in a vicious circle of demand stimuli and negative responses regarding the state of the economy.

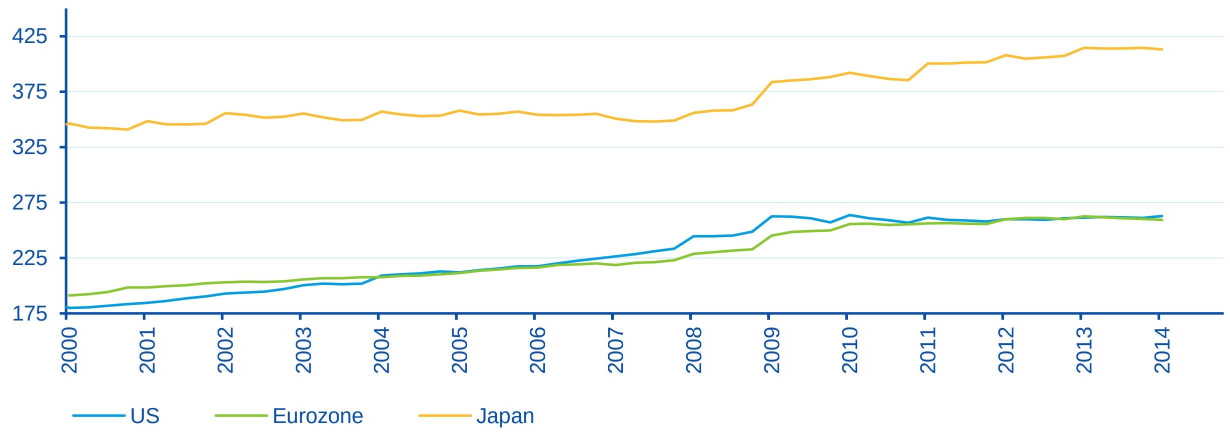
The weakness derived from these excessive levels of debt was not mirrored in the middle-income countries. On the one hand, levels of debt are in general relatively low, consistent with their degree of economic development, which has scope to increase. On the other hand, the levels are not excessive, for the long-term fundamental reasons noted above. In many cases, the middle-income economies have been obliged to make successive adjustments as a consequence of the crises that they experienced in the previous decades.

After a lengthy period of financial leverage, the subsequent deleveraging also takes its time, and has hardly started in some of the more exposed economies. This augurs the continuity of a cycle that differs from the previous on average, at least in the more developed economies, with lower average growth. This is also coherent with other medium-term factors such as lower population growth and a more complex regulatory environment that in itself implies a higher cost of capital.

Altogether, the slowness of the present recovery is not just down to the causes noted above, linked to imbalances which have yet to be corrected. There are factors that are particular to the development of some very important economies, such as China and India, and which represent challenges for the rest of the world due to the change in their supply and foreign demand relationship. This is also related to **changes in the process of economic globalisation**, of an increase of flows between goods, services, employment and capital, which appears to have been slowing down since just before the beginning of the crisis. Thus, an additional element to be taken into account in the interpretation of the dynamic of the recovery that we can expect in future is the role to be played by international trade (see **Box 1**). As explained in that section, many of the factors that drove trade in the last few decades will not be present in the coming years. Assuming that a higher level of international trade will have a positive impact on economic growth, the contraction in such trade would thus accentuate the factors supporting a scenario of a slow recovery over a prolonged period.

9: For more details, see "An overview of the global process of leverage" in Global Outlook, BBVA Research 4Q13, pp 18-27, available at: http://bit.ly/1DN76sP.

Figure 3.5
Total debt, % GDP. Public-sector and non-financial private-sector debt

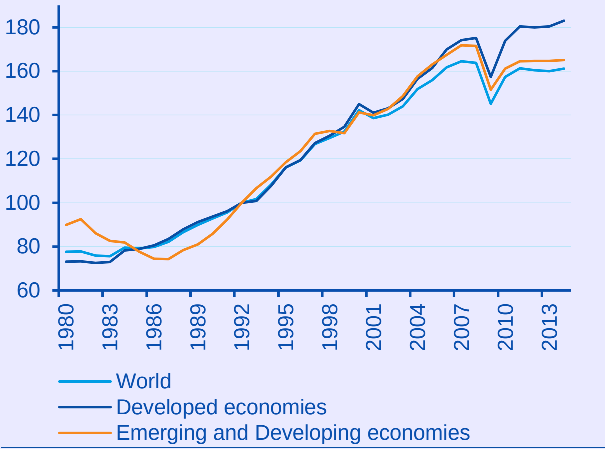


Source: BBVA Research based on BIS, OECD, AMECO & IMF data

Box 1. Economic globalisation: temporary deceleration or long-lasting stagnation?

The slow pace of recovery by the developed economies after the latest crisis coincides with a break in the long period of increasing world trade in goods and services (see Figure B.1.1). The ratio of the volume of international trade in goods and services to GDP, which had advanced continuously since the mid-1980s, fell during the years of the crisis and has not recovered its previous rate of growth.

Figure B.1.1
International trade in goods and services as % GDP, 1992=100

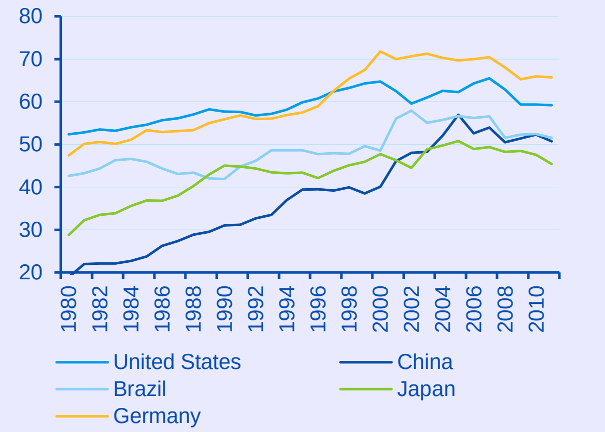


Source: BBVA Research based on IMF data

The international flow of goods and services, together with movements of capital, labour and know-how, are all valid indicators of economic globalisation, a concept which cannot be measured directly but which is very important when it comes to explaining the dynamics of global activity. **In recent years, economic literature has tried to measure the impact of globalisation on growth,** a link which is assumed to be direct given that trade fosters sector and regional specialisation, allowing for advantages in terms of productivity and efficiency. In addition, globalisation stimulates competition, which promotes the search for higher productivity, disseminating expertise and know-how through the investment in capital, the movement of labour and, in short, of knowledge.

A good reference for starting to define and measure the effects of globalisation is the work carried out by the KOF Swiss Economic Institute. The KOF has created an index that measures globalisation, with a series of indicators that reflect three dimensions: economic, social and political, for which it calculates different measurements that are then aggregated.[10] This family of indicators can be used to study the impact of different measures of globalisation. The KOF's findings are that **the dimension of globalisation that has a statistically robust impact on growth is the economic dimension; and also that this impact occurs both through effective flows of goods, capitals and services, and through restrictions on their movement.[11]**

Figure B.1.2
Economic Globalisation Index
The higher the index, the more globalisation



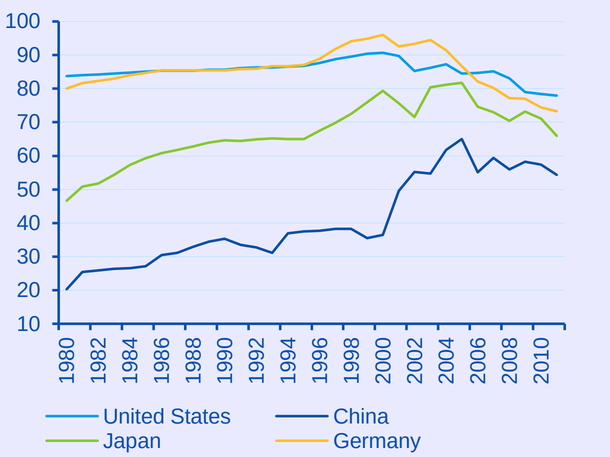
Source: KOF Swiss Economic Institute

10: All these are quantified for 207 countries annually from 1970 to 2007. For more details see: http://bit.ly/1xNscFo
11: There is also less robust evidence of the positive role in growth of the free flow of information (availability of internet and TV as well as access to international press). Panel data study covering a sample of 123 countries between 1970 and 2000. Axel Dreher, "*Does Globalisation Affect Growth? Empirical Evidence from a new Index*", Applied Economics 38, 2006.
12: Aggregates information on flows of goods, capital and services as well as perceptions of restrictions on these interchanges.

This Economic Globalisation Index[12], compiled by the KOF in very important economies at a global level (Figure B.1.2), **reveals stagnation since the middle of the previous decade, following a long positive trend** and, after the crisis, a generalised deterioration. That is, a comparable performance to that of international trade in goods and services.

According to this indicator, the stagnation is not only due to the reduced flow of goods, services or capital (of foreign investment, both direct and portfolio), but also to the **increased restrictions on economic flows** in the form of import tariffs, non-customs barriers and capital controls. All these restrictions are shown for the same economies in Figure B.1.3.[13]. There is a notable increase in hindrances to the economic flows in the three developed countries before 2008-09: in Germany and the US since the beginning of the past decade and in Japan since the middle of it.

Figure B.1.3
Economic Globalisation Index: restrictions
The higher the index, the fewer the restrictions



Source: KOF Swiss Economic Institute

The slowdown in economic globalisation could be indicating that one of the driving forces of growth in past decades is less influential than before. Should this situation continue**, this slower increase in globalisation could have a negative impact on economic growth.**

Of course, **there are factors that are no longer driving world trade in the same way as before**. First, there are some events which are unlikely to recur, such as the entry into the world trade system of economies such as China, which was a one-off. Also, **we are not seeing new free trade agreements between important countries**. The scant progress on global agreements in the context of the World Trade Organisation (WTO) is an example of the less favourable environment that now exists to promote and implement global policies to stimulate trade. In particular the trade-off between long-term benefits of opening up trade, and the costs in the short term. The WTO has **taken 10 years, from 2004 to 2013, to reach a customs facilitation agreement that still has not been implemented.**[14]

However, **some important agreements has been made in the past two decades.** To start with, partial trade agreements but in large economic areas, such as the single market in the EU and NAFTA in North America. At the other end of the scale, it could be argued that the Mercosur and the Andean Community agreements in South America had a positive impact on trade. And this process is not over. **Future boosts to trade could come from agreements between the existing large free trade areas, such as between the EU and the US**, with the Transatlantic Trade & Investment Partnership (TTIP), which has been under negotiation since February 2013.[15]

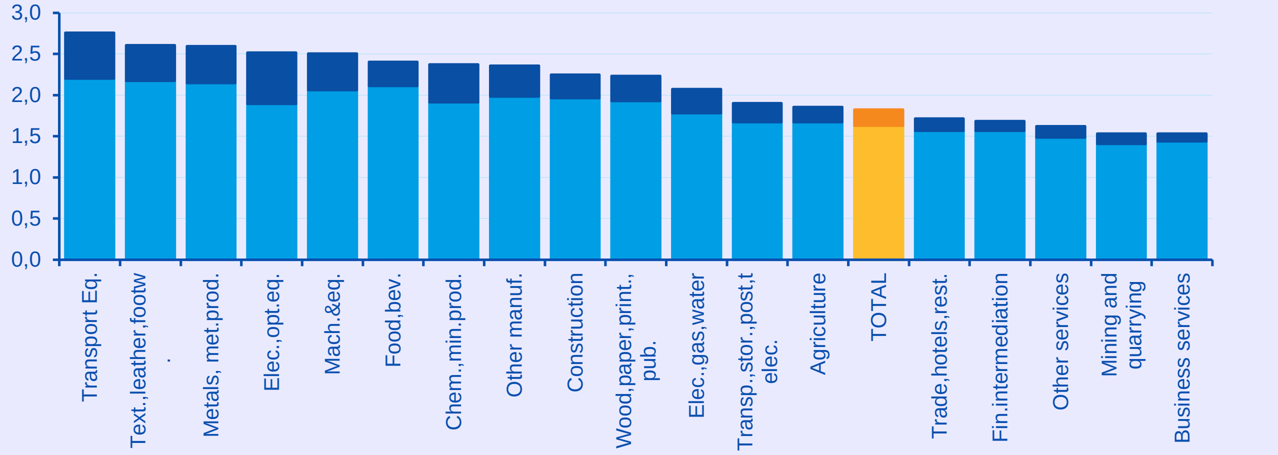
There are innovations which may continue strengthening trade flows, such as the extension of the **global value chains** (GVCs), the relocation of productive processes across different economies, favoured by the technological advances which allow a better exploitation of the complementarities (specialisation, costs) in know-how that imply increasingly more complex productive processes. **This international segmentation of production**

12: Aggregates information on flows of goods, capital and services as well as perceptions of restrictions on these interchanges.
13: For details on the definitions employed in the methodological document of the KOF's Economic Globalisation Index see: http://bit.ly/1yOKp6u
14: Customs facilitation is the combination of administrative processes required for products to cross borders. Compliance involves a significant cost, particularly the fall in import tariffs. For more details see: http://bit.ly/1wVkAUF
15: In progress since 2011 is the Pacific Alliance between Chile, Colombia, Mexico and Peru, a regional integration initiative that includes the elimination of trade barriers.

has great advantages and should reduce the incentives to rearm protectionism, as these measures eventually have more negative domestic effects than when production had a higher local content and could be substituted.

In this box we have shown how according to some measurements, globalisation is decelerating, and that although this behaviour could be transitory, there are signs that this stagnation might be more permanent. Is this a transitory slowdown a reflection of lower post-crisis global growth? Or is it a defensive policy in a more complex world, with asymmetric growth levels? **The trend in international trade in the coming years and its impact on world growth are an ongoing debate.**

Figure B.1.4
Number of stages in the productive process (2009). Index, minimum=1 when no intermediate products are used



Source: BBVA Research based on OECD data

4 Tables

Table 3.1
Macroeconomic Forecasts: Gross Domestic Product

(Annual average, YoY rate)	2011	2012	2013	2014	2015
United States	1.6	2.3	2.2	2.0	2.5
Eurozone	1.6	-0.6	-0.4	0.8	1.3
Germany	3.7	0.6	0.2	1.3	1.4
France	2.1	0.4	0.4	0.4	1.1
Italy	0.6	-2.4	-1.8	-0.3	0.8
Spain	-0.6	-2.1	-1.2	1.3	2.0
UK	1.1	0.3	1.7	3.1	2.7
Latin America *	4.1	2.6	2.4	0.9	1.8
Mexico	4.0	3.7	1.3	2.5	3.5
Brazil	2.7	1.0	2.5	0.2	1.3
EAGLES **	7.0	5.4	5.3	4.9	5.3
Turkey	8.8	2.1	4.1	2.5	3.9
Asia Pacific	6.1	5.2	5.2	5.0	5.2
Japan	-0.5	1.5	1.5	1.1	1.3
China	9.3	7.7	7.7	7.2	7.0
Asia (exc. China)	3.8	3.5	3.4	3.5	3.9
World	4.1	3.4	3.2	3.2	3.7

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 30 October 2014.
Source: BBVA Research and IMF

Table 3.2
Macroeconomic Forecasts: Inflation

(Annual average, YoY rate)	2011	2012	2013	2014	2015
United States	3.1	2.1	1.5	1.9	2.2
Eurozone	2.7	2.5	1.4	0.5	1.0
Germany	2.5	2.1	1.6	0.9	1.5
France	2.3	2.2	1.0	0.7	0.9
Italy	2.9	3.3	1.3	0.3	0.7
Spain	3.2	2.4	2.4	0.0	1.0
UK	4.5	2.8	2.6	1.5	1.6
Latin America *	7.0	6.3	7.8	13.1	14.2
Mexico	3.4	4.1	3.8	4.0	3.4
Brazil	6.6	5.4	6.2	6.3	6.2
EAGLES **	6.6	5.1	5.3	4.8	4.6
Turkey	6.5	8.9	7.5	8.8	7.0
Asia Pacific	4.9	3.4	3.5	3.4	3.6
Japan	-0.3	0.0	0.4	2.2	1.5
China	5.4	2.6	2.6	2.2	2.3
Asia (exc. China)	4.6	4.0	4.2	3.9	3.7
World	5.2	4.2	4.09	4.2	4.4

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 30 October 2014.
Source: BBVA Research and IMF

Table 3.3

Macroeconomic Forecasts: Current Account

(Annual average, YoY rate)	2011	2012	2013	2014	2015
United States	-3.0	-2.8	-2.4	-2.7	-2.6
Eurozone	0.1	1.4	2.3	2.2	2.1
Germany	6.1	7.1	6.8	6.7	7.1
France	-1.0	-1.5	-1.4	-1.7	-1.6
Italy	-3.1	-0.5	1.0	0.9	0.9
Spain	-3.7	-1.2	0.8	1.2	2.1
UK	-1.7	-3.7	-4.2	-4.1	-3.8
Latin America *	-1.0	-1.6	-2.5	-2.4	-2.1
Mexico	-1.1	-1.3	-2.1	-1.6	-1.9
Brazil	-2.1	-2.4	-3.7	-3.7	-3.7
EAGLES **	-0.1	-0.4	-0.3	0.1	0.3
Turkey	-9.9	-7.6	-7.0	-6.0	-6.0
Asia Pacific	1.5	1.1	1.4	1.7	1.7
Japan	2.0	1.0	0.7	1.2	1.3
China	1.9	2.3	2.0	2.5	2.8
Asia (exc. China)	1.5	0.5	1.3	1.3	1.2

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date 30 October 2014.
Source: BBVA Research and IMF.

Table 3.4

Macroeconomic Forecasts: Government Balance

(Annual average, YoY rate)	2011	2012	2013	2014	2015
United States	-8.7	-6.8	-4.1	-3.1	-2.7
EMU	-4.1	-3.6	-2.9	-2.8	-2.6
Germany	-0.9	0.1	0.1	0.0	0.0
France	-5.1	-4.9	-4.1	-4.4	-4.1
Italy	-3.5	-3.0	-2.8	-3.0	-2.6
Spain *	-9.1	-6.8	-6.6	-5.5	-4.2
UK **	-7.6	-8.3	-5.8	-5.7	-4.3
Latin America ***	-2.2	-2.3	-2.7	-3.9	-3.7
Mexico	-2.7	-2.6	-2.3	-3.6	-3.5
Brasil	-2.6	-2.5	-3.7	-4.0	-3.6
EAGLES ****	-2.3	-2.9	-3.0	-3.4	-3.3
Turkey	-1.4	-2.1	-1.2	-2.2	-1.6
Asia Pacific	-2.8	-2.9	-2.9	-2.9	-2.7
Japan	-9.8	-8.7	-8.4	-7.2	-6.4
China	-1.1	-2.1	-1.9	-2.5	-2.5
Asia (exc. China)	-3.9	-3.5	-3.5	-3.2	-2.9

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 30 October 2014.
Source: BBVA Research and IMF.

Table 3.5

Macroeconomic Forecasts: 10-year government bond yield

(Annual average)	2011	2012	2013	2014	2015
United States	2.8	1.8	2.4	2.6	3.1
Germany	2.6	1.5	1.6	1.2	1.0

Forecast closing date: 30 October 2014.
Source: BBVA Research and IMF

Table 3.6

Macroeconomic Forecasts: Exchange Rates)

(Annual average)	2011	2012	2013	2014	2015
EUR-USD	0.72	0.78	0.75	0.75	0.84
USD-EUR	1.39	1.29	1.33	1.33	1.19
GBP-USD	0.62	0.63	0.64	0.61	0.64
JPY-USD	79.8	79.8	97.6	104.7	115.3
CNY-USD	6.46	6.31	6.20	6.14	6.02

Forecast closing date: 30 October 2014.
Source: BBVA Research and IMF

Table 3.7

Macroeconomic Forecasts: Official Interest Rates

(End of period)	2011	2012	2013	2014	2015
United States	0.25	0.25	0.25	0.25	0.50
Eurozone	1.10	0.75	0.25	0.05	0.05
China	6.56	6.00	6.00	6.00	6.00

Forecast closing date: 30 October 2014.
Source: BBVA Research and IMF

DISCLAIMER

This report has been produced by the Economic Scenarios Unit:

Chief Economist for Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Rodrigo Falbo
rodrigo.falbo@bbva.com

Rodolfo Mendez Marcano
rodolfo.mendez@bbva.com

Alberto González de Aledo
alberto.gonzalezdealedo@bbva.com

Alejandro Buesa Olavarrieta
alejandro.buesa@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech Vilariño
r.domenech@bbva.com

Spain
Miguel Cardoso Lecourtois
miguel.cardoso@bbva.com

Europe
Miguel Jimenez González-Anleo
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area
Alicia García-Herrero
alicia.garcia-herrero@bbva.com

Cross-Country Emerging Markets Analysis
Alvaro Ortiz Vidal-Abarca
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano Herrera
carlos.serranoh@bbva.com

LATAM Coordination
Juan Manuel Ruiz Pérez
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive Carrasco
jselaive@bbva.com

Colombia
Juana Téllez Corredor
juana.tellez@bbva.com

Peru
Hugo Perea Flores
hperea@bbva.com

Venezuela
Oswaldo López Meza
oswaldo.lopez@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Recovery and Resolution Strategy
José Carlos Pardo
josecarlos.pardo@bbva.com

Global Coordination
Matías Viola
matias.viola@bbva.com

Global Areas

Economic Scenarios
Julián Cubero Calvo
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo Delgado
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas Sánchez-Caro
oscar.delaspenas@bbva.com

Contact details:

BBVA Research
Paseo Castellana, 81 – 7th floor
28046 Madrid
Tel.: +34 91 374 60 00 y +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com
Legal Deposit: M-31256-2000