BBVA Research

Global Economy

Prospects, risks and challenges

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The annual and spring meetings of the International Monetary Fund (IMF) and the World Bank have taken the pulse of the global economy and assessed its prospects, risks and challenges. There were no surprises in the forecasts. The IMF revised its world growth rate forecast downwards to 3.7% for 2018 and 2019, with rather more disparity than previously among the main regions, a sign that the best of the current cycle is already behind us. The main developed economies are slowing more or less sharply, with financing conditions still generally accommodative but set to become less and less so depending on how fast inflationary expectations take hold.

Meanwhile it is precisely in their financing conditions that emerging markets are suffering the impact of monetary normalisation in the US and China's braking as part of the plan for a smooth landing to reduce its debt.

Among the risks, the meeting once again highlighted the intensification of trade protectionism, a policy now being pushed by the US, which despite the lessons of the past has again returned as a strategy for changing the rules of the game which its government believes put it at a disadvantage. Nothing new in this either. A scenario in which the measures announced by the US (25% import duties on all imports from China and on all automotive imports) were to be applied and the consequent retaliatory measures taken would not just unleash impacts through the purely trading channels but would also curtail growth due to increased uncertainty, amplified moreover by the financial markets. However, this scenario, the probability of which depends on political strategies and the severity of the macroeconomic impact of which is also uncertain, is only a risk. A risk moreover that is very difficult to quantify precisely because recent evidence is non-existent.

The challenge for national and multilateral political leaders is not just to short-circuit the protectionist action-retaliation spiral, which can be done by signing agreements with a bias towards the mercantilism and trade bilateralism of the US, a lesser evil compared with breakdown. The real challenge also includes strengthening the multilateral governance of the world economy, starting with trade, ensuring a level playing field for all, effective in conflict resolution, such that there is no need to threaten to break it or weaken it to the point where it becomes irrelevant by constructing regional alliances which in turn seek to impede the signing of trade agreements with China.

A world of blocs confronting one another does not help to improve the standard of living, and is also more vulnerable in a crisis. For example, if there were to be another crisis like the one that started in 2008, would a global coordinated response like that of 2008 be possible now? This is the challenge — to ensure that the post-Lehman world continues to be multilateral..

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