Global Economy

How does the global economic panorama look for the next two years?

Expansión (Spain)

Miguel Jiménez

The adjustment that took place in financial markets towards the end of 2018 was mainly brought about by worsening macroeconomic data at the global level, particularly in the manufacturing sector, and much influenced by the trade tensions between the US and China. The signs of weakness this time also included the US, and this led to doubts as to whether the world economy was perhaps slowing down faster than had been foreseen and whether the US Federal Reserve's monetary policy of continuing to raise interest rates at a steady rate in 2019 might not exacerbate the process. The adjustment has partly corrected since the beginning of the year, following a more conciliatory response from the Fed and a fairly optimistic tone on the trade negotiations. Even so, the debate on the degree of deterioration of the world economy continues, and this week it was one of the subjects for discussion in the Davos meetings. At what rate will the world economy slow in the next two years? Is there a real danger of recession in the US? What is happening in China's economy, and how much room for manoeuvre does it have? How will the main factors of uncertainty (protectionism, Brexit, etc.) evolve next year?

In the new BBVA Research global macroeconomic forecasts we are assuming that some of the uncertainties currently plaguing the global economy will largely dissipate in the next few months. One of the main keys is to be found in the trade negotiations between the US and China, which will probably come to a satisfactory conclusion by 2 March, the deadline for the further increase on import duties on Chinese goods. Until now, the impact of the trade war has been moderate, but a new round of tariffs (up to 25% on a large volume of goods) would have a direct impact on trade, not to mention the effect on confidence and investment. The US authorities are well aware of this; hence the good atmosphere that seems to prevail in the negotiations. In any case, uncertainty persists, given the volatility to be expected nowadays from the US authorities, to put it mildly.

The issue of Brexit has become spectacularly more complicated in the past few weeks; it remains gridlocked, and the prime minister's strategy of threatening a no-deal exit to force a vote in favour of the current plan is a risky one. However, it seems that there is movement in the UK Parliament and the EU to arrive at alternative solutions. Any solution that avoids an abrupt exit on 29 March will be welcome.

A third element that it is reasonable to assume is that the major central banks will continue to be prudent on the path of normalisation of their monetary policies. The Fed will possibly raise interest rates again this year (perhaps even twice), but it will pay close attention to data and markets. The ECB may delay the rate hikes until after the summer.

With these assumptions, it is logical to suppose that the global economy will continue to slow gently. Our predictions are for world growth of 3.5% in 2019 and 3.4% in 2020. The fiscal stimulus in the US will start to fade from this year, and the absence of inflationary pressures should avoid an abrupt rise in rates, which is the typical trigger for recessions in the absence of significant financial shocks. The US should grow by around 2.5% in 2019. China will continue to apply the brakes in the context of a structural change, high levels of debt and a narrower margin for stimulus policies than in the past. The euro zone, although still having a margin to exhaust the cycle, and with solid fundamentals, will be affected by the lower volumes of world trade and by significant structural problems and political uncertainties, so it too will slow, to around 1.4%, not far from its potential.

All in all, a relatively moderate scenario, but encircled by numerous downside risks, although it should be possible to control them if reasonable economic policies are applied.

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ENQUIRIES TO:
BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25
bbvaresearch@bbva.com www.bbvaresearch.com