

Country Risk / Financial Markets / Global Economy

# The global respite turns the focus toward local risks

El País (Spain)

**Alfonso Ugarte**

Just as current medicine cannot predict exactly when someone will suffer a stroke or cancer, economic science cannot predict precisely when the next recession, financial crisis or sovereign default will occur. However, just like in medicine, we must remain aware of the vulnerabilities in each country and region that we know could generate serious problems.

These vulnerabilities generally come from the accumulation of imbalances that can amplify and extend an unexpected financial or economic shock, increasing risk for certain sectors of the economy (public, finance, external).

Analysts use various indicators and tools to monitor these vulnerabilities, such as the views of rating agencies, sovereign CDS (default insurance), public and private debt levels, public and external deficits, and many more. We consider all of these factors when analyzing Country Risk, to differentiate it from the global risks that affect markets worldwide.

One of the patterns that the Country Risk monitoring analysis that we conduct at BBVA Research ultimately highlights is a clear regional disparity between financial and fiscal vulnerabilities. While financial vulnerabilities (excess corporate leverage and excessive growth of housing prices) are high and worsening in countries in central and northern Europe and other advanced economies, they are improving in other regions. However, fiscal vulnerabilities, which are lower in most core European countries, are high and deteriorating (or not improving) in most other regions, especially Latin America and emerging Asian countries.

On the other hand, it is also essential to monitor how different global risk factors interact with local risks and the role that authorities and institutions—in particular central banks—play, due to their impact on financial markets. In recent months, we have seen growing concern about the strength of the economic cycle and the increased trade and technological tensions between the USA and China.

Currently, following the turbulence experienced at the end of last year, financial tensions and the global risk appetite (risk aversion) have been more controlled in recent months, primarily as a result of the softer and more expansive stance taken by the central banks (Fed, ECB, etc.), which has turned the focus toward idiosyncratic risks in certain countries, and promoted differentiation when global investors are assessing those risks. In this regard, the diagnosis of each economy's vulnerabilities becomes more relevant.

## DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

### ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).  
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25  
bbvaresearch@bbva.com www.bbvaresearch.com

