

Protectionism and global prospects

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Following a good 2017, the global economic outlook for this year and next remain positive, but there is also a long list of uncertainties, to which has recently, and forcefully, been added the threat of escalating protectionism.

One of the good pieces of economic news this past year was that for the first time in quite some time the economic cycles of the major regions got into step with one another, with a gradual improvement in the emerging countries, less slowdown in China than had been feared and strong drive in the richest countries, especially Europe. This greater synchronisation will continue in the next few months, with global growth rate at around 3.8%, according to BBVA Research forecasts.

The US economy is being driven by improved confidence, accommodative financial conditions and the pull effect of the global economy, which is boosting exports and investment. The tax cuts approved in December and the increased spending (especially on defence and infrastructure) will not have a significant multiplier effect on the economy, but in the short term they may contribute to prolonging the favourable point in the cycle.

China continues to grow at clearly more than 6% a year, and it has started to pass reforms to ensure growth with fewer imbalances, especially financial ones, in accordance with the lines set out by the CPC congress in October, so it seems that its soft landing will continue.

Europe posted worse figures in the first quarter of the year, following very strong growth in 2017, but there are no discernible internal weaknesses likely to lead to a sharp slowdown in the next few quarters, so it seems that this is a passing phenomenon, as recently emphasised by Mario Draghi and the IMF.

As for risks, inflation, one of the variables to keep an eye on, has still not appeared, and in principle should accelerate only gradually. And political risks remain, although they have diminished in Europe since mid-2017 (except in Italy, which still needs to find a formula for government).

But protectionism is without doubt the variable that has taken top place in the list of risks. Despite the fact that the protectionist measures approved so far are few, and in principle it seems clear that the intention of the US administration is to force negotiations, the danger of escalating protectionism is real, with effects on long-term growth. And even if a trade war is avoided, if uncertainty about trade policy is prolonged it may very soon have a negative impact on economic confidence and investment.

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