

BBVA EAGLEs

Emerging and Growth- Leading Economies

Annual Report 2012

BBVA EAGLEs: What is it?

- Concept introduced by BBVA Research 15 months ago to provide investors with a more rigorous and dynamic approach to selecting key Emerging Markets (EM)
 - Why rigorous
 - Why dynamic

BBVA EAGLEs: Why is it relevant?

- Continuous follow up of key EMs is needed because of rapid structural changes in those countries/global economy
- Investors' need to review their decisions often (hold to maturity strategy at any cost is not realistic)
- EMs themselves need to be fully aware of their relative relevance both as recipients of investments but also as new investors

BBVA EAGLEs: Why is it relevant for Turkey?

- Turkey plays a strategic role in the area, being the potential bridge between Europe and the Middle East (not only in the economic field)
- As an EAGLE, Turkey presents business opportunities stemming mainly from an increasing middle class and low financial and trade integration
- We identify Turkey as one of the most promising economies in the next 10 years, with relative good fundamentals for high growth

A guide to the Report

1. The new EAGLEs outlook

Box A. Forecasting Methodology

Box B. Our sample: 45 emerging markets

2. The map of risks to our outlook

Macroeconomic risks

Potential brakes to growth

3. Ad-hoc issues in the world of EAGLEs

Structural disequilibria: how do EAGLE countries fare when compared with developed ones?

Shifting wealth: China is the only global creditor within BBVA EAGLEs

What about the Gulf economies? An EAGLE in the making

EAGLEs in Africa? Not for the time being

Following the EAGLEs on the Web



Outline

The world is changing: deep knowledge about key emerging markets key

BBVA Research's own group: the EAGLEs

Other potential EAGLEs

Robustness of our analysis and balance of risks

Opportunities : Some specific examples

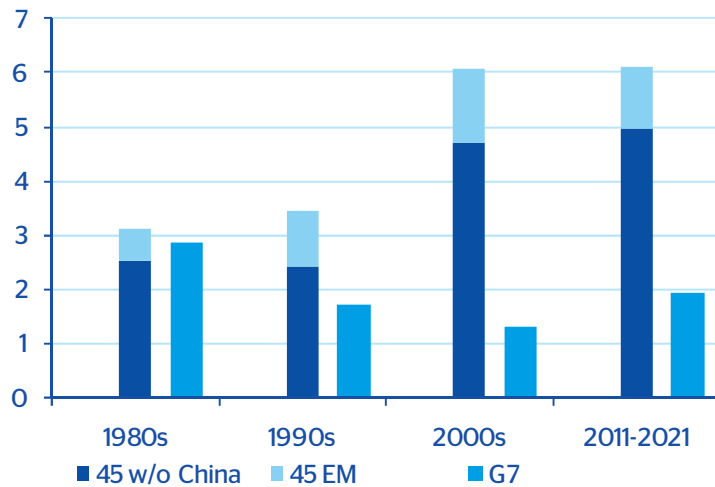


Emerging Markets Dynamism

- G7 countries' growth is expected to remain below 2% for the next 10 years
- EM growth to outpace G7 average by 4pp including China and around 3pp without
- 2012 will be the year in which EM and Industrialized Economies will have the same size

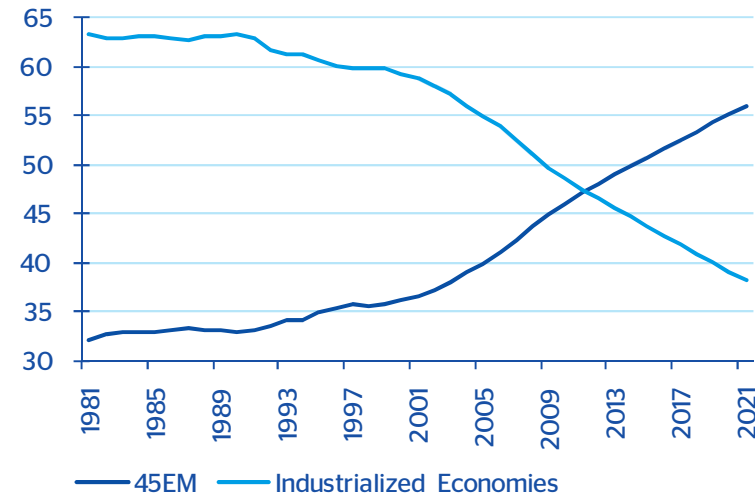
GDP adjusted by PPP: growth rates (%)

Note: 45 Emerging Markets- Argentina, Bahrain, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, Czech Rep., Egypt, Estonia, Hungary, India, Indonesia, Iran, Jordan, Korea, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, the Philippines, Poland, Qatar, Romania, Russia, Slovak Rep., South Africa, Sri Lanka, Sudan, Taiwan, Thailand, Tunisia, Turkey, Ukraine, the UAE, Venezuela and Vietnam.
Source: BBVA Research and IMF



Share of World GDP adjusted PPP: 45 Emerging Markets vs Industrialized Economies

Source: BBVA Research and IMF WEO





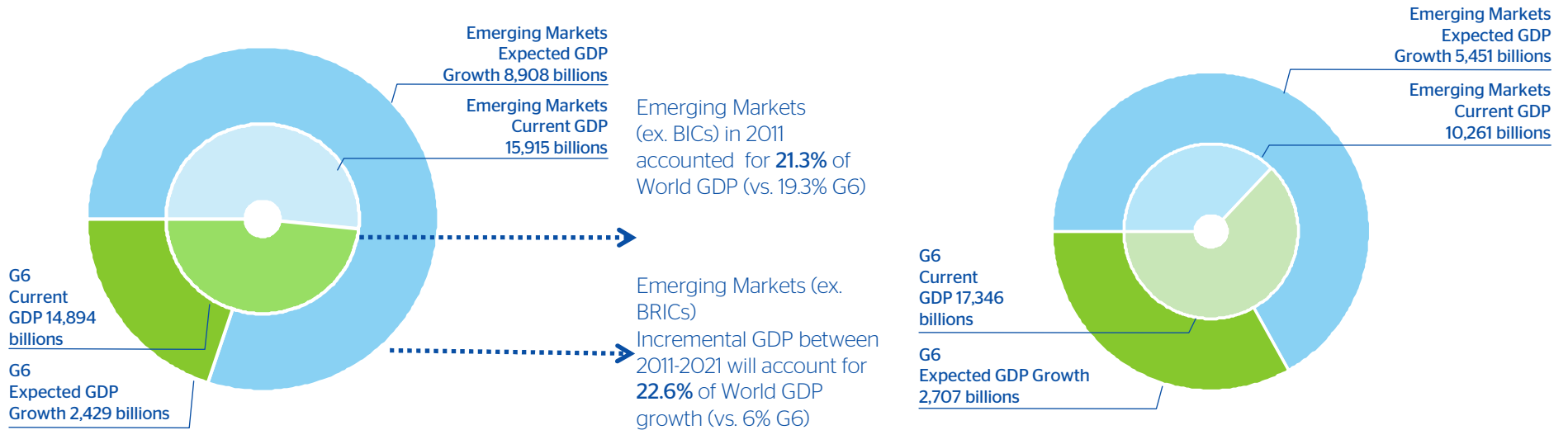
Life beyond BRICs in Emerging Markets

- **What about the other EM (ex. BRICs)?**
 - Combined size is bigger than the G6 in PPP terms (60% in USD terms)
 - Contribution to global growth in next 10 years 4 times larger (3 times in USD terms)

45 EM without BRICs vs G6: current economic size and incremental GDP 2011-2021

(billion USD, adjusted by PPP)
Source: BBVA Research and IMF WEO

(billion USD)
Source: BBVA Research and IMF WEO



G6 Aggregate: Canada, Germany, France, Italy, Japan and the UK
Emerging Markets: other Emerging Markets excluding Brazil, Russia, India and China



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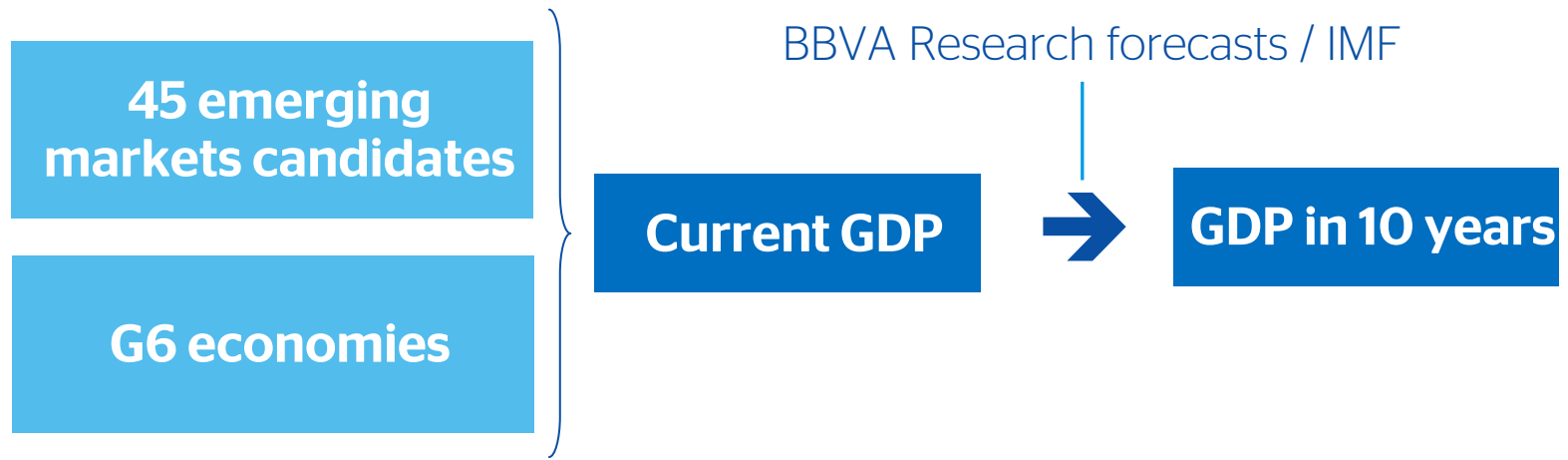
Robustness of our analysis and balance of risks

Opportunities: Same specific examples



Methodology: a mix of Size and Growth

Step 1



Step 2

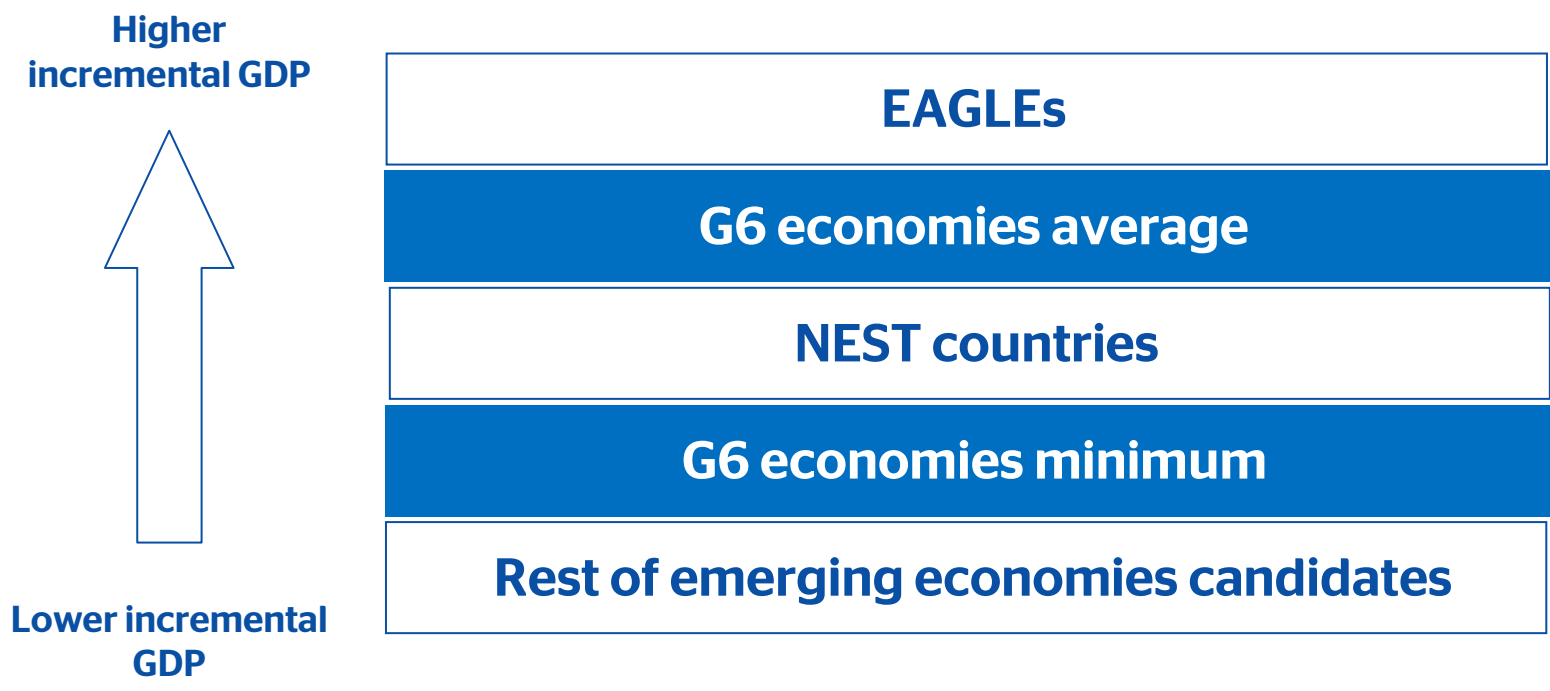




Methodology: a mix of Size and Growth

Step 3

Ordering and selection criteria according to incremental GDP



Growth forecasts: a mix of Cycle and Structural factors

Short & Medium term Cyclical

- Fiscal policy
- Monetary policy
- External demand
- Commodity prices
- Confidence
- Credit restrictions
- Financial markets

Long term Structural

- Demographics
- Labor market structure
- Capital stock
- Total factor productivity
(infrastructures, technology,
business climate, institutions,
regulation,...)

Differences with Other EM groupings

BRIC (GS)

- Absolute size**
 - Bigger does not necessarily determine market potential
- Static concept**
 - No anticipation, but inertia
 - Too long horizon (>20-25 years)
 - Why only 4 countries? Subjective
- No clear cut-off**

BBVA EAGLEs

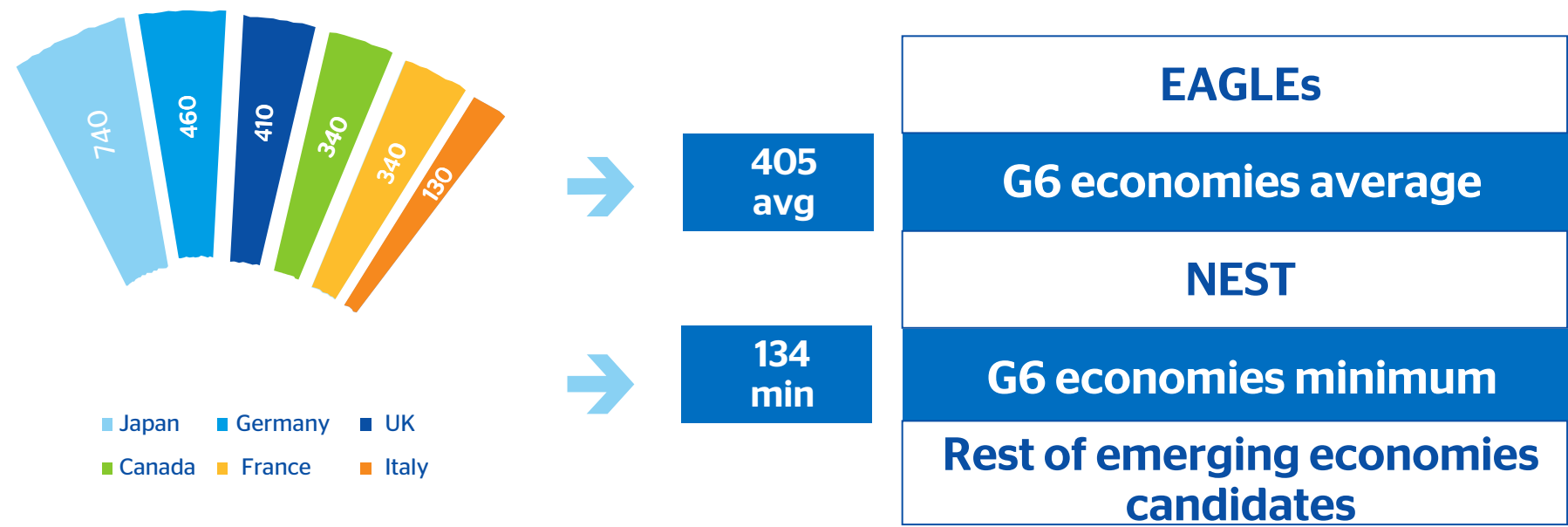
- Absolute growth**
 - Large enough size plus...
 - Fast enough growth
- Dynamic concept**
 - Anticipation
 - Shorter horizon: 10 years
 - Flexible number of countries: admission depends on performance
- Defined cut-off: the G6 group**

- Other approaches have been made to select a group of emerging economies (CIVETS, CARBS, NEXT-11) and all of them lack the dynamic and transparent criteria of the EAGLEs method



How to determine the number of countries: The cut-off

Incremental GDP of G6 economies (2011-2021 GDP change)
(billion USD, adjusted by PPP)



- EAGLEs: Any country with an incremental growth > USD 405 billion
- NEST: Countries with incremental growth higher than USD 134 billion but below USD 405 billion

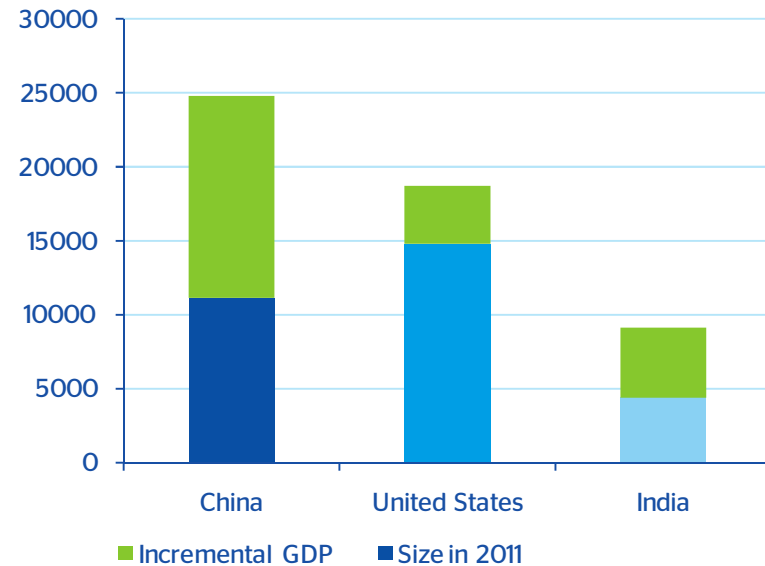


China & India the largest EAGLEs

- China is playing in a league of its own
- India would have a larger contribution to GDP growth than the US

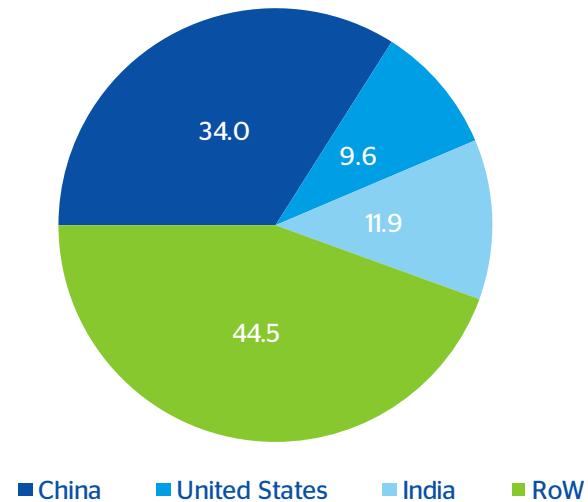
Global Leaders in the next 10 years: GDP adjusted by PPP (billion USD)

Source: BBVA Research and IMF WEO



Global Leaders in the next 10 years: contribution to World economic growth 2011-2021 (%)

Source: BBVA Research and IMF WEO





Other EAGLEs also world players

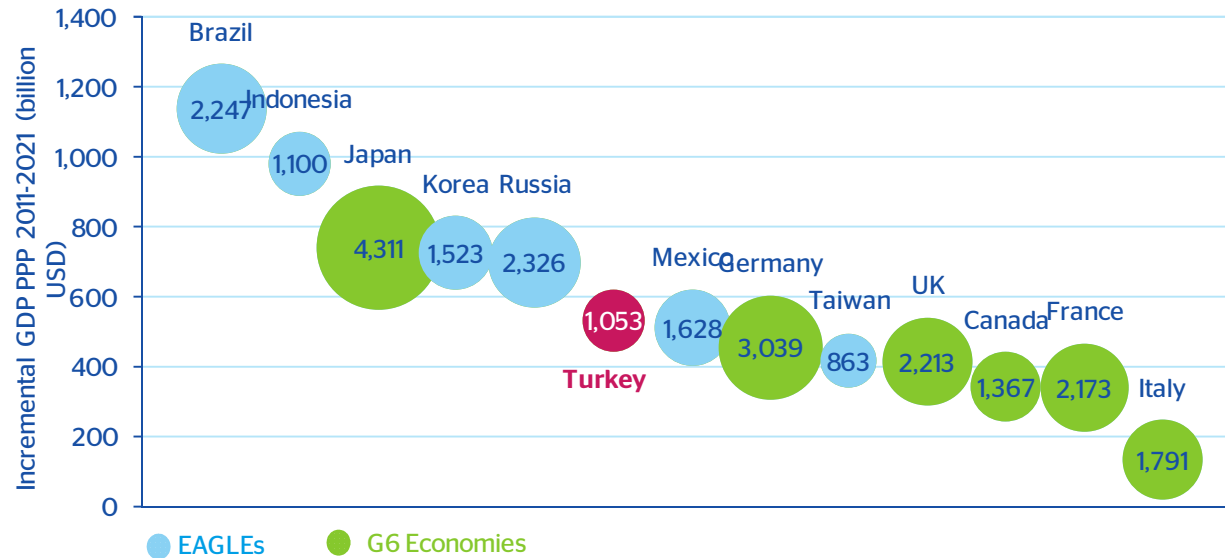
BBVA EAGLEs*: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Turkey and Taiwan

EAGLEs (excluding China and India)* vs G6 Economies: current economic size and contribution to World economic growth 2011-2021 (%)** in billion USD adjusted by PPP

* China and India are off the chart; their incremental GDP is expected to be USD 13,718 billion and USD 4,820 billion with the current size of USD 11,067 billion and USD 4,314 billion respectively.

** Size of the bubble represents the GDP in billion USD adjusted by PPP in 2011

Source: BBVA Research and IMF WEO



Note: EAGLEs members, according to the January 2011 forecast

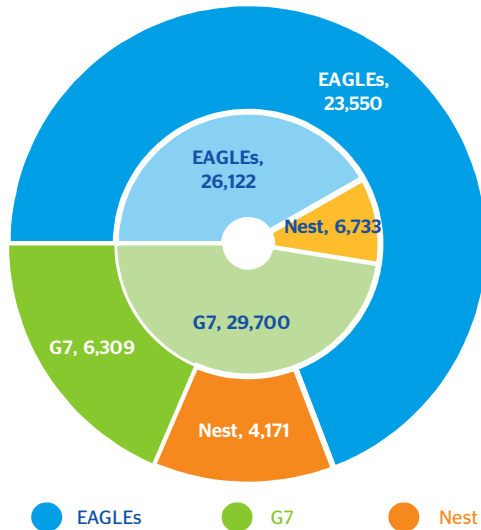


EAGLEs versus G7: A new G?

EAGLEs will be responsible of almost 60% of the new World GDP in the next ten years, Nest almost 9%, whereas G7 will contribute around 16%

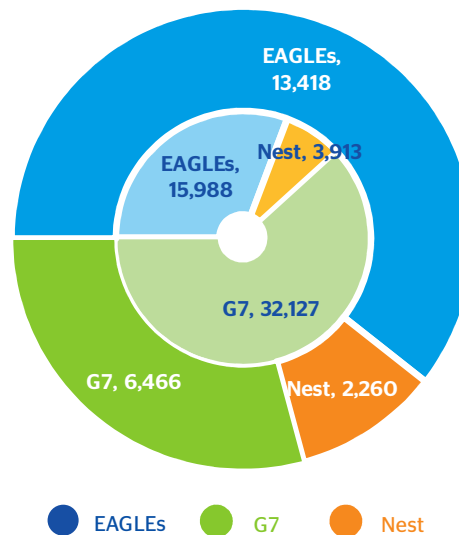
EAGLEs, Nest and G7: current economic size and incremental GDP 2011-2021 (billion USD PPP)

Source: BBVA Research and IMF WEO



EAGLEs, Nest and G7: current economic size and incremental GDP 2011-2021 (billion USD)

Source: BBVA Research and IMF WEO



45 EM: Argentina, Bahrain, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, Czech Rep., Egypt, Estonia, Hungary, India, Indonesia, Iran, Jordan, Korea, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, the Philippines, Poland, Qatar, Romania, Russia, Slovak Rep., South Africa, Sri Lanka, Sudan, Taiwan, Thailand, Tunisia, Turkey, Ukraine, the UAE, Venezuela and Vietnam.
Industrialized economies: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Portugal, Singapore, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.



Outline

The world is changing: need to know more about key emerging markets

BBVA Research's own group: the EAGLEs

Other potential EAGLEs

Balance of risks and robustness

Opportunities: Same specific examples

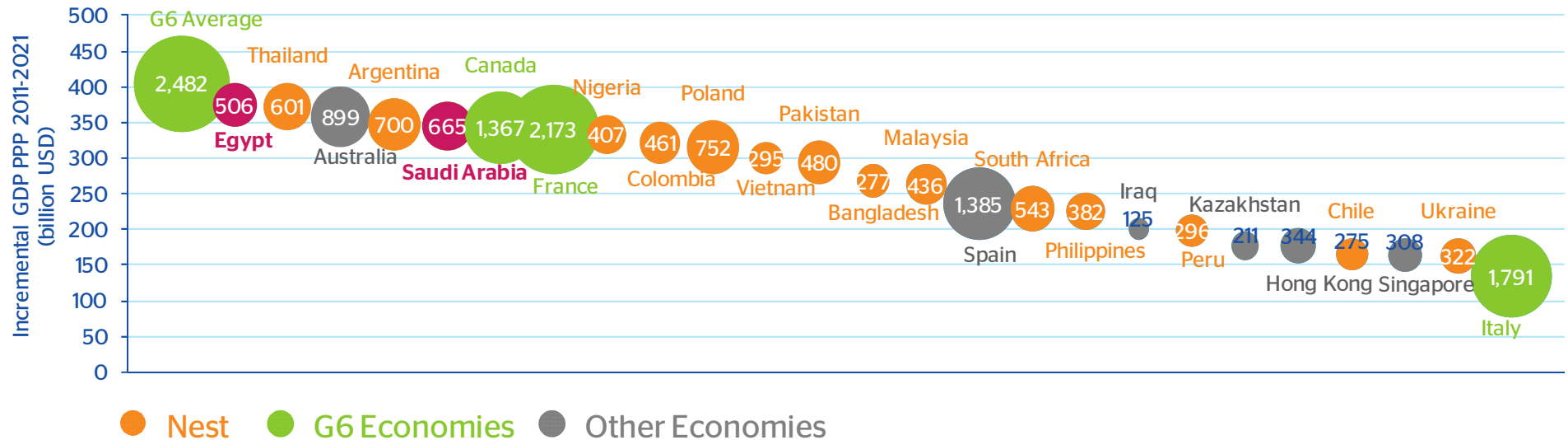
The Nest a watch list of potential EAGLEs

- As many as 15 economies in the NEST (contributing more to global GDP than smallest G6, Italy)
- Egypt relegated from the EAGLEs; Chile and Ukraine advanced from the group of other EM to NEST

Nest, G6 and Other Economies: current economic size and contribution to World economic growth 2011-2021 (%)* in billion USD adjusted by PPP

* Size of the bubble represents the GDP in billion USD adjusted by PPP in 2011

Source: BBVA Research and IMF WEO



Note: NEST members, according to January 2011 forecast.

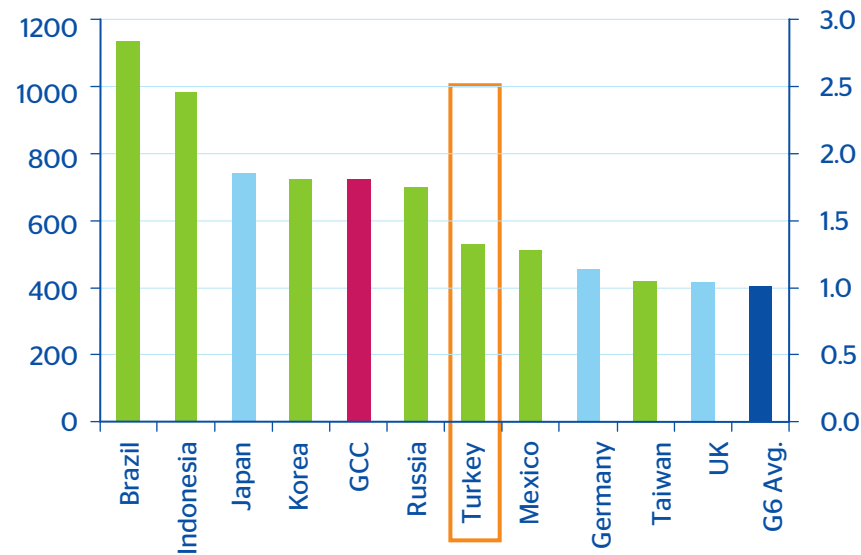


GCC an EAGLE in the making

- GCC rapid growth driven by high oil prices, which will probably continue in the medium term.. This explains the GCC larger future size and its growing global relevance if economic integration is pursued
- However, big challenges remain in the GCC such as very high social expenditure as well as lack of diversification

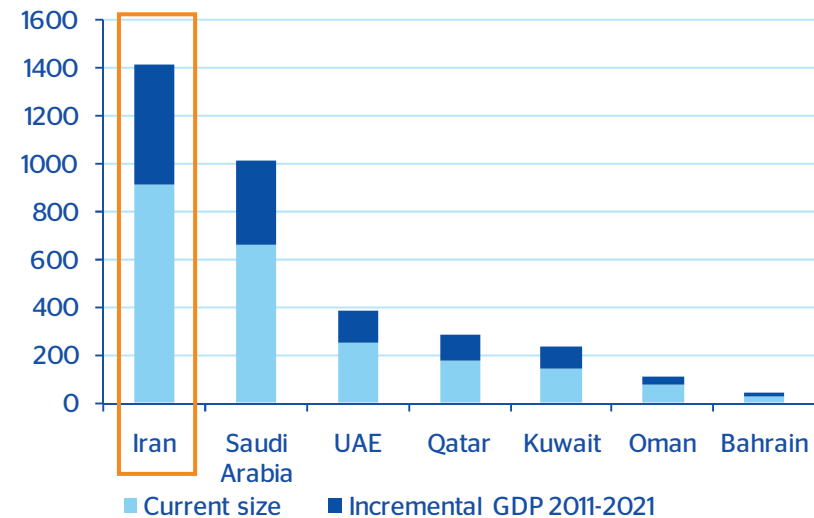
Incremental GDP adjusted by PPP (billion USD) and contribution to World economic growth 2011-2021 (%)*

* The graph excludes China (USD 13,718 billion, 34%) and India (USD 4,820 billion, 11.9%)
Source: BBVA Research and IMF



GCC countries and Iran: current economic size and incremental GDP 2011-2021 (billion USD)

Source: BBVA Research and IMF WEO



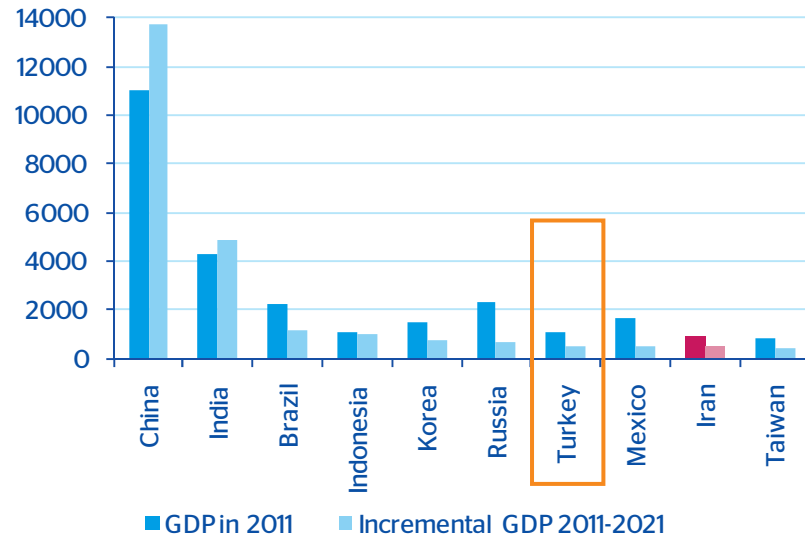


Iran: an inconvenient EAGLE?

- Iran’s expected GDP is now above the G6 Average so it nominally qualifies as an EAGLE
- However, UN sanctions make it an impossible candidate for any market oriented grouping of EM
- Lack of information about infrastructure, institutional framework and other relevant sectors

EAGLEs and Iran: current economic size and incremental GDP (billion USD)

Source: BBVA Research and IMF WEO

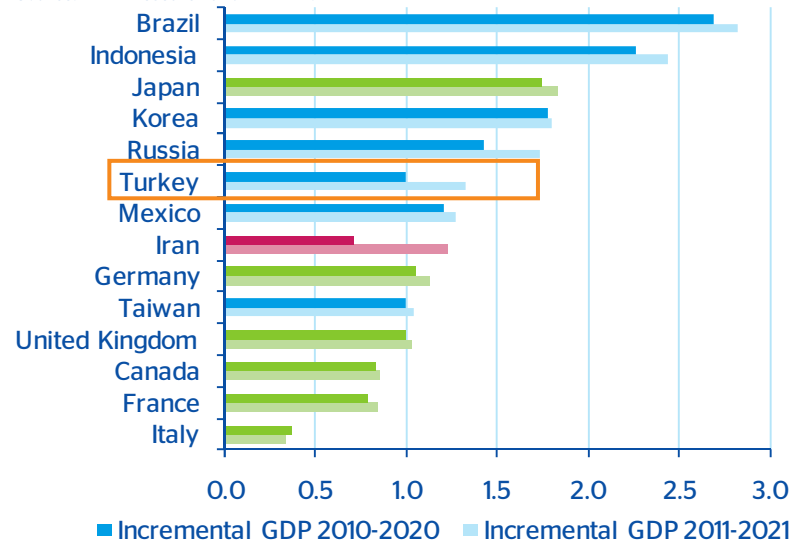


EAGLEs and G7: contribution to World economic growth (percentage)

(percentage)

*out of chart: China (30.2% & 34%), India (8.5 & 8.9%) and the US (8.7% & 9.6%)

Source: BBVA Research and IMF WEO





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The world is changing: need to know more about key emerging markets

BBVA Research's own group: the EAGLEs

Other EAGLEs around

Robustness of our analysis and balance of risks

Opportunities: Same specific examples

Robustness: Significant idiosyncratic shocks should take place to alter group members

Membership sensitivity of the EAGLEs and the Nest countries

Source: BBVA Research.O

		Average annual growth in the next 10 years		
		Baseline scenario	To become a NEST...	Difference
EAGLEs	China	8.4	0.4	-8.0
	India	7.8	0.9	-6.9
	Brazil	4.2	1.7	-2.5
	Indonesia	6.6	3.2	-3.4
	Korea	4.0	2.4	-1.6
	Russia	2.7	1.6	-1.0
	Turkey	4.2	3.3	-0.9
	Mexico	2.8	2.2	-0.5
	Taiwan	4.0	3.9	-0.1
		Baseline scenario	To become an EAGLE...	Difference
NEST	Egypt	5.7	6.1	0.4
	Thailand	4.9	5.3	0.3
	Argentina	4.1	4.7	0.6
	Nigeria	6.2	7.1	1.0
	Colombia	5.4	6.5	1.1
	Poland	3.6	4.4	0.8
	Vietnam	7.3	9.0	1.8
	Pakistan	4.9	6.3	1.4
	Bangladesh	7.0	9.4	2.4
	Malaysia	4.8	6.8	2.0
	South Africa	3.6	5.7	2.1
	Philippines	4.8	7.5	2.7
	Peru	5.3	9.0	3.7
	Chile	4.8	9.5	4.6
	Ukraine	4.2	8.5	4.3



Macroeconomic risks and potential brakes to growth

Macroeconomic Risks

- Sudden collapse of growth
- External demand
- Macroeconomic disequilibria

Institutional & Social Risks

- Institutional factors
- Social unrest risks
- Inclusive growth challenge

Balance of Risks for the EAGLEs

	Growth model	External demand	Macro imbalances	Institutional	Social Risk	Inclusive Growth
China	Low labor force growth & weak TFP fundamentals			Shortages on the public side	Food dependency	Inequality
India	Weak TFP fundamentals		Twin deficits & high public debt	Shortages on private and public sectors	Food dep. / high unemployment / low secondary education enrolment	Poverty
Brazil	Low quality infrastructures	China and commodities dependency	Small twin deficits and high public debt	Investment climate		Inequality
Indonesia	Weak TFP fundamentals	Reliance on commodities		Shortages on private and public sectors	Food dependency . low secondary education enrolment	Poverty
Korea		China dependency				
Russia	Decline in labor force / low quality infrastructures	Low trade partners' growth / reliance on commodities		Shortages on private and public sectors	Food dependency	Poverty
Turkey		Low trade partners' growth	Current account deficit			
Mexico	Weak TFP fundamentals	Low trade partners' growth				Inequality & poverty
Taiwan	Low labor force growth	China dependency / very open				

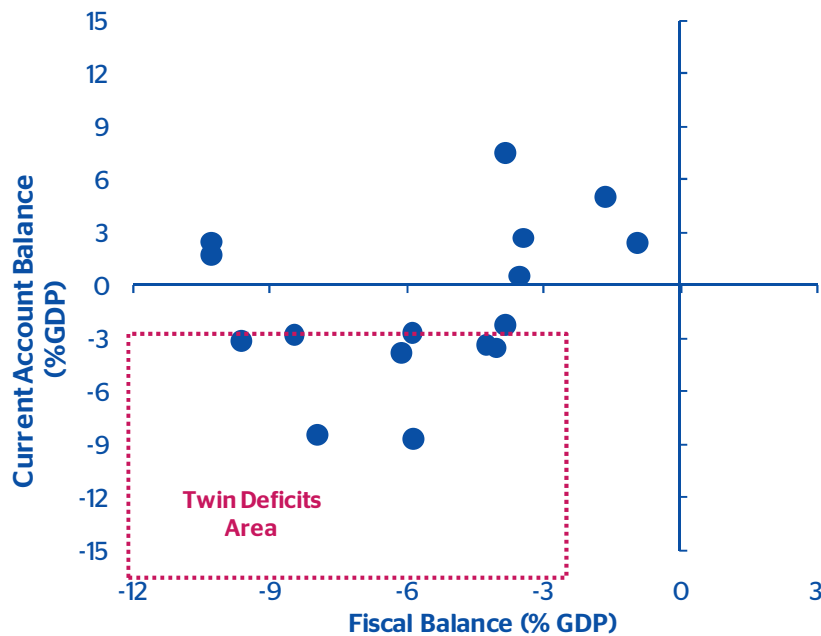


Macroeconomic imbalances for of a G7 risk

- **The Old View:** Emerging Markets Economic Growth traditionally higher than the Developed Economies. But the **Risk-Return trade off not favorable for Emerging Markets**
- The New Paradigm: Past crisis in EM trigger improvements in macro prudential policymaking management. **Higher Economic Growth + Low risk**

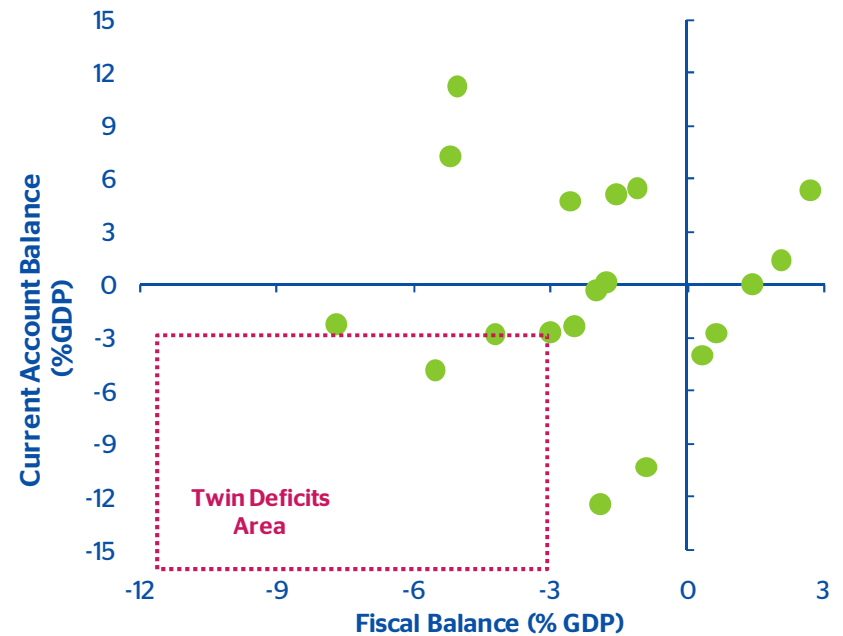
Developed Economies: Twin Deficits 2011

(CAC and Fiscal Balance as % of GDP)
Source: BBVA Research and IMF WEO



Emerging Economies: Twin Deficits 2011

(CAC and Fiscal Balance as % of GDP)
Source: BBVA Research and IMF WEO





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Business opportunities in many areas

- **Urbanization** and increase of **middle classes**:
 - Boost of private consumption
 - Change in **consumption patterns**
 - Demand of **touristic services**
- **Investment** to close the **infrastructure gap** and to promote **export-led economy**
- Sustained **demand for commodities and energy sources**
- **Financial deepening**:
 - **Credit** for increasing consumption and investment, also housing
 - Development of **pension systems (population aging increasingly an issue)**
- Opportunities related to **inclusive growth challenge**
 - **Education**, health policies, social protection



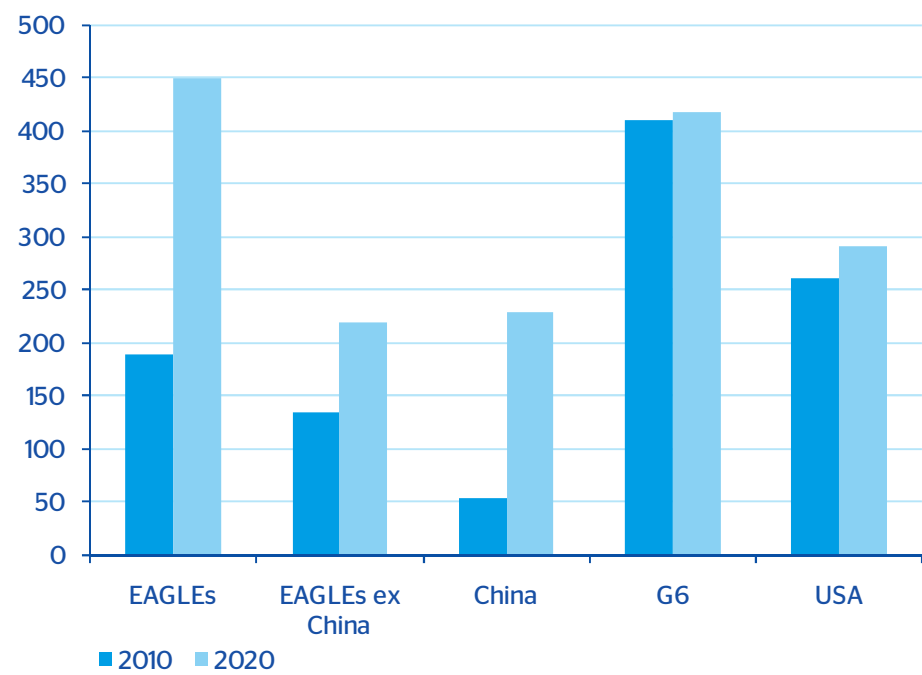
The middle income class is going to grow the most in EAGLEs

Growing opportunities for financial services, sales of durable goods, education, health and insurance industry among others

Middle income class

(millions of people 2010 - 2020)

Source: BBVA Research



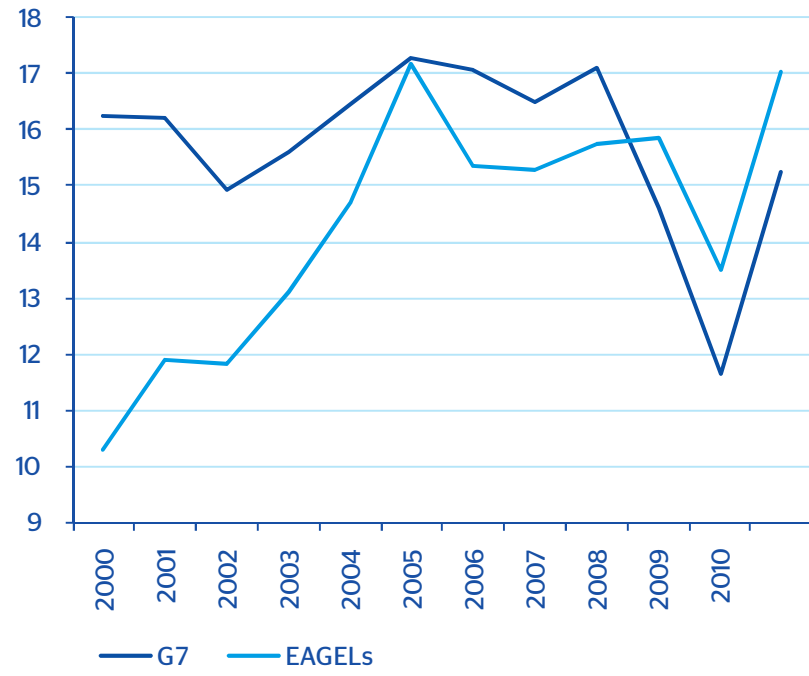


EAGLEs lead automobile production

The rise in production implies **technology transfers and a productivity catch up** process underway

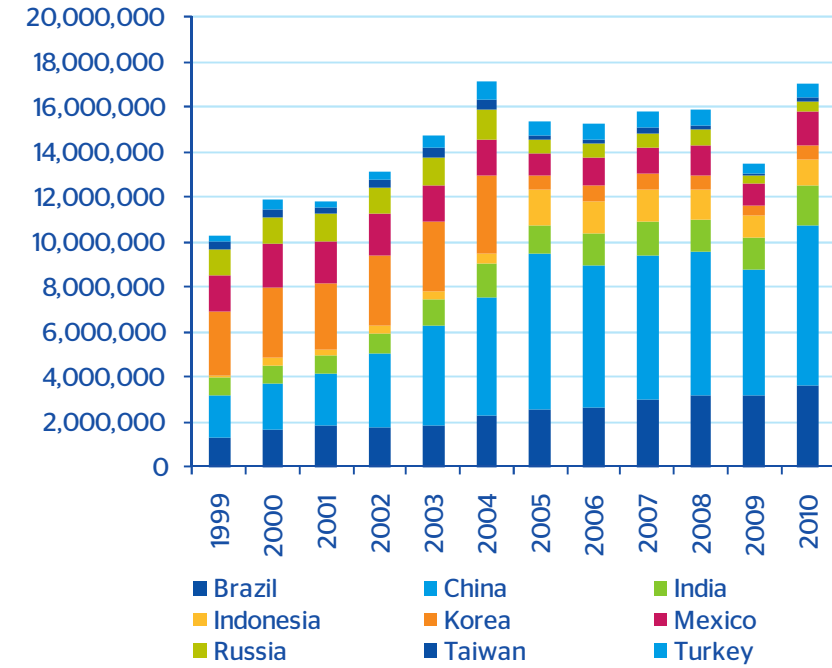
EAGLEs vs G7: automobile production

(million of units)
Source: BBVA Research and International Organization of Motor Vehicle Manufacturers (OICA)



EAGLEs: automobile production

(million of units)
Source: BBVA Research and International Organization of Motor Vehicle Manufacturers (OICA)



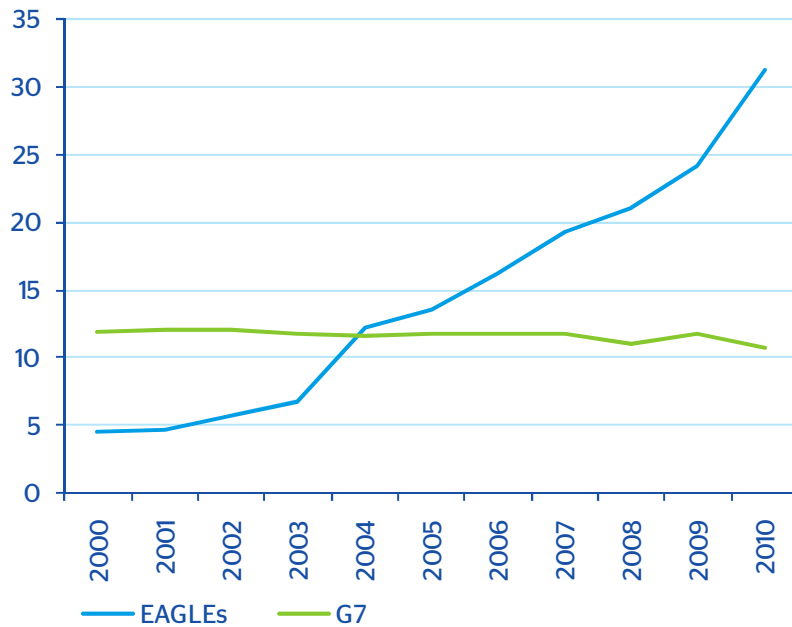


EAGLEs auto sales also growing much faster

- **Sales surged** as income rose and middle income class increased
- **Retail banking opportunities**

EAGLEs vs G7: automobile domestic sales

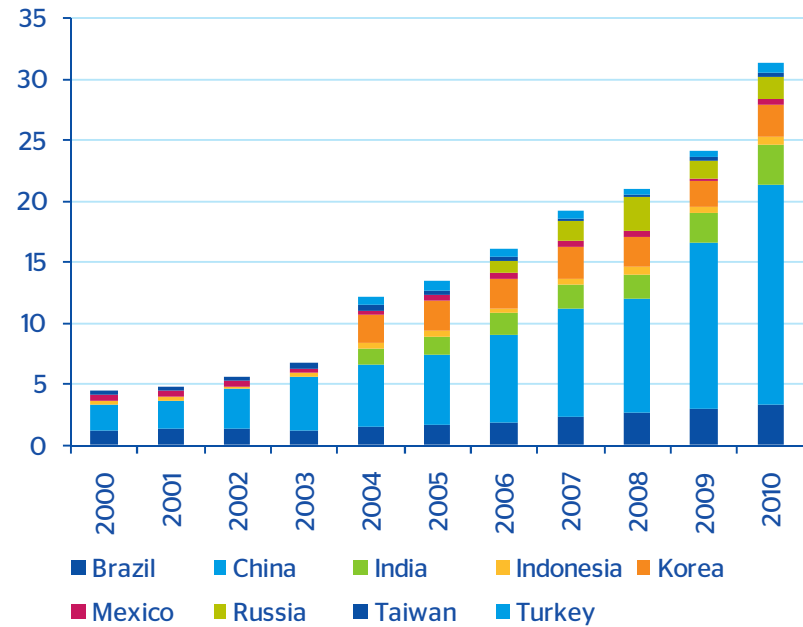
Source: BBVA Research and Local automotives associations



EAGLEs: automobile domestic sales

(million of units)

Source: BBVA Research and Local automotives associations



EAGLEs growing tourism industry

EAGLEs are becoming a **top destination** for tourist services worldwide

EAGLEs: International Tourism Receipts (billion USD)

*Note: no data for Taiwan
Source: BBVA Research and WDI

Country	Ranking in 2005	Ranking in 2010	2005	2010	Percentage Change
China	7	3	32	50	58
Turkey	9	8	20	25	25
India	26	15	8	15	92
Korea	24	16	8	14	67
Russia	25	19	8	13	63
Mexico	16	21	13	13	-2
Indonesia	38	30	5	8	50
Brazil	40	33	4	6	48
EAGLEs			97	142	46
G7			394	372	-5

EAGLEs growing number of tourists

5 EAGLEs are in the top 20 of the countries whose citizens expend the most in tourism services

EAGLEs: International Tourism Expenditure (billion USD)

* Note: no data for Taiwan

Source: BBVA Research and WDI

Country	Ranking in 2005	Ranking in 2010	2005	2010	Percentage Change
China	7	4	25	60	142
Russia	9	9	18	30	64
Korea	11	13	17	20	16
Brazil	29	14	6	19	228
India	25	17	8	14	66
Mexico	23	21	9	9	1
Indonesia	34	23	5	8	79
Turkey	40	29	3	5	66
EAGLEs			91	166	82
G7			394	410	4

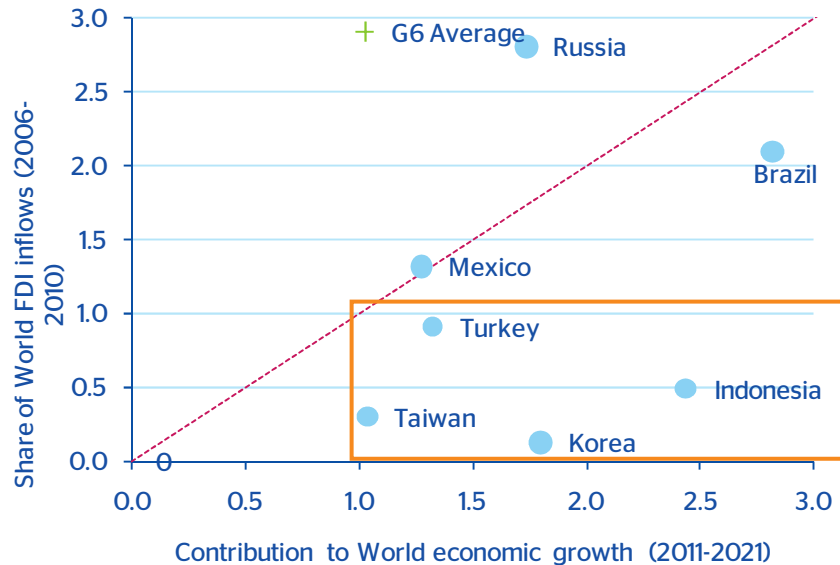


EAGLEs FDI inflows underrepresented

- Most of the EAGLEs and Nest will **continue to be huge recipients of FDI in coming years**
- **G6 is clearly overrepresented**

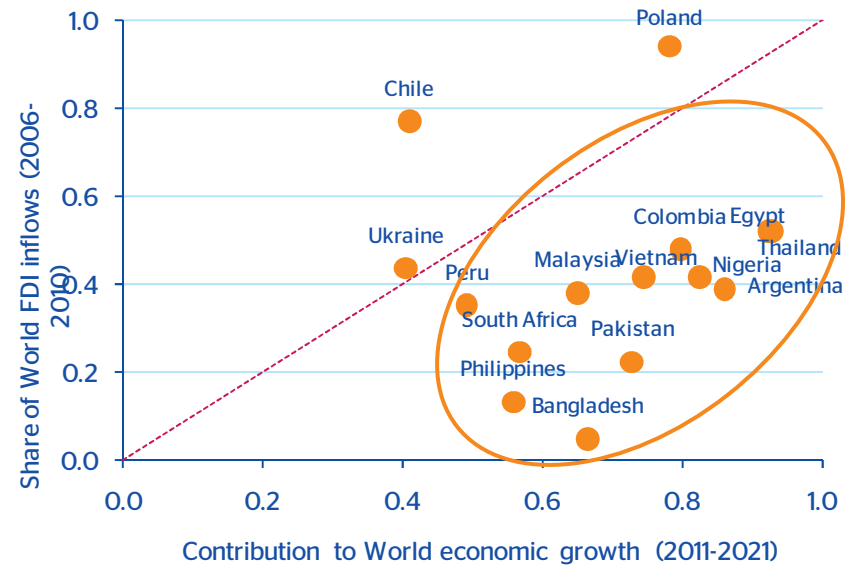
EAGLEs: contribution to World economic growth vs share of World FDI inflows (percentage)

out of chart: China (FDI share: 9.2%; Contribution share: 34%)
 India (FDI share: 1.8%; Contribution share: 11.9%)
 G6 Average: Canada, France, Germany, Italy, Japan and the UK
 Source: BBVA Research, IMF and UNCTAD



Nest: contribution to World economic growth vs share of World FDI inflows (percentage)

out of chart: G6 Average (FDI share: 2.9 Contribution share: 1%)
 G6 Average: Canada, France, Germany, Italy, Japan and the UK
 Source: BBVA Research, IMF and UNCTAD



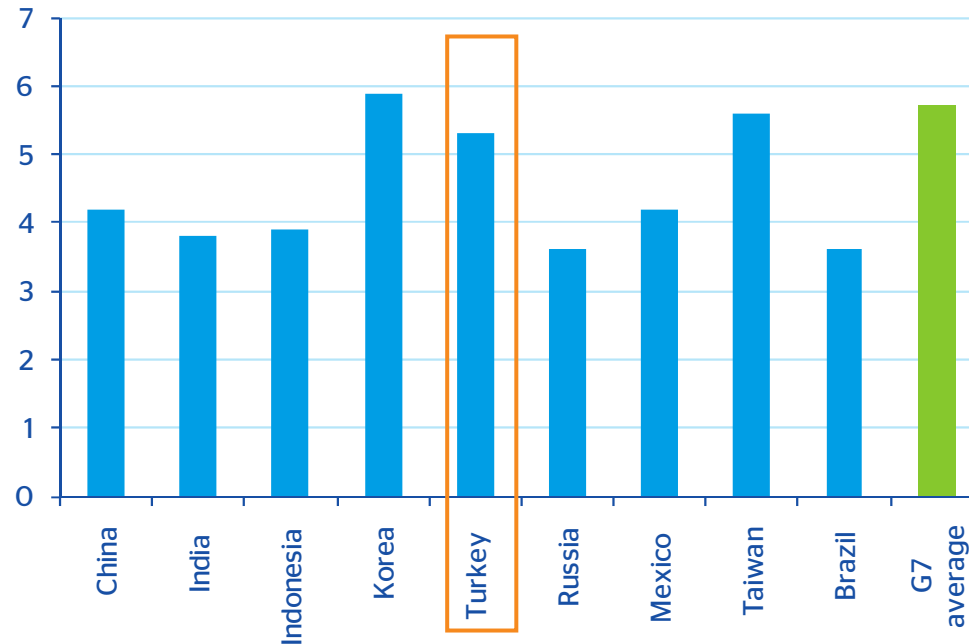


EAGLEs need to close the gap of quality and quantity of infrastructure

- EAGLEs should attract FDI to fund **infrastructure projects**
- An ambitious agenda will **foster economic growth and improve their competitiveness**

EAGLEs: Quality of Overall Infrastructure

Source: WEF 2011-2012





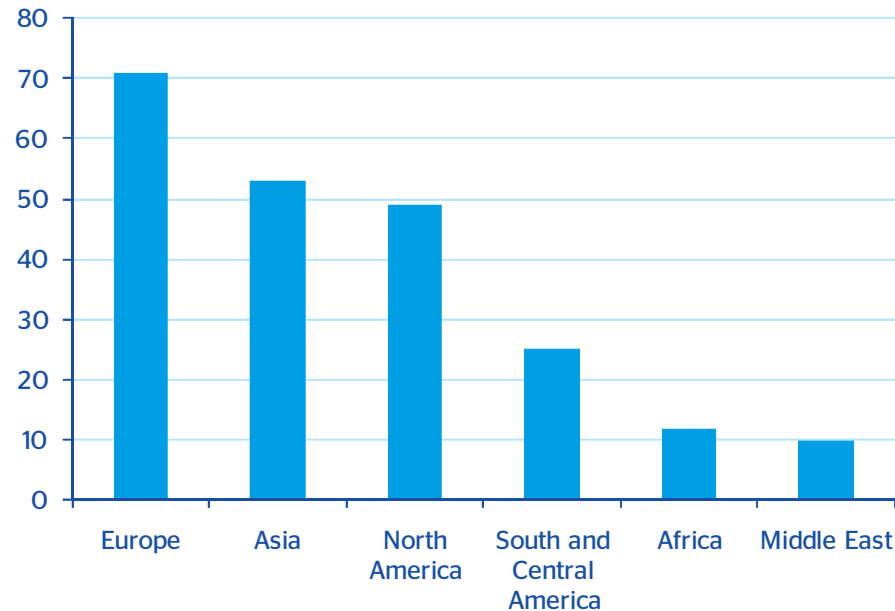
Much more room for integration in EM

- **Trade integration in Asia** has not required any formal process (like in the EU or the many failed attempts in Latin America) and linkages have **developed naturally**, building an integrated network for manufacturing
- Integration should also be fostered in **investment projects and financing**

Intraregional trade in the world (2010)

(as a percentage of total trade)

Source: BBVA Research and WTO



Key Messages about EAGLEs

Key contributors to global growth

- The **EAGLEs and the Nest** are expected to contribute more than two thirds of **World growth in the next ten years**. On the other hand, G7 contribution would be around 16 per cent

The New EAGLEs and the first falling angel

- **China and India** are the largest ones. **Turkey is the leader in Emerging Europe**. **Brazil, Indonesia, Korea, Russia, Mexico and Taiwan** are also leading emerging economies. **Egypt became the first “fallen angel”**

Special issues in BBVA EAGLEs second annual report

- **China is becoming the world’s largest creditor.**
- **After Turkey, the GCC as a block is the next Middle East EAGLE.** Iran complies with the criteria of future size but lacks the minimal institutional requirements
- Despite experiencing sound economic progress, **Africa is still lagging behind with no EAGLE to be sind (Egypt and South Africa in the next)**



Key Messages about EAGLEs

Low vulnerability

- Macroeconomic vulnerabilities on EAGLEs members are bounded. **The promising outlook for economic growth creates a unique opportunity to tackle the bottlenecks for growth**

Opportunities within the EAGLEs

- **FDI** into EAGLEs to increase. **The rise of the middle income class** will boost consumption of durable goods and services. **Infrastructure** investment to rise (very low except in China)



Appendix

Full list of emerging markets candidates

Annex: Full list of emerging markets candidates

45 Emerging Markets and G7 Projections

*G6 = G7 - US

Source: BBVA Research and IMF WEO

	Country	GDP (billion USD PPP)			Average annual growth (%)		Country	GDP (billion USD PPP)			Average annual growth (%)	
		2011	2021	Change				2011	2021	Change		
EAGLES	China	11,067	24,785	13,718	8.4		UAE	256	388	131	4.2	
	India	4,314	9,135	4,820	7.8		Romania	259	386	126	4.1	
	Brazil	2,247	3,385	1,137	4.2		Morocco	160	276	116	5.6	
	Indonesia	1,100	2,083	983	6.6		Qatar	178	286	107	4.8	
	Korea	1,523	2,249	725	4.0		Sri Lanka	113	213	100	6.6	
	Russia	2,326	3,026	700	2.7		Czech Rep.	268	361	93	3.0	
	Turkey	1,053	1,587	534	4.2		Kuwait	147	236	88	4.8	
	Mexico	1,628	2,141	514	2.8		Tunisia	100	186	86	6.4	
	Iran (excluded)	912	1,409	497	4.4		Venezuela	366	445	79	2.0	
	Taiwan	863	1,281	419	4.0	Other	Hungary	192	261	68	3.1	
	G6 average	2,482	2,887	405	1.5	Emerging	Slovak Rep.	125	188	64	4.2	
		Egypt	506	880	374	5.7	Economies	Sudan	95	149	53	4.5
		Thailand	601	974	373	4.9		Bulgaria	100	145	46	3.8
	Argentina	700	1,048	347	4.1		Oman	80	115	35	3.7	
	Nigeria	407	740	333	6.2		Lithuania	60	87	27	3.8	
	Colombia	461	783	322	5.4		Jordan	36	56	20	4.5	
	Poland	752	1,067	316	3.6		Latvia	34	50	16	4.0	
	Vietnam	295	595	300	7.3		Bahrain	30	46	16	4.3	
NEST	Pakistan	480	774	294	4.9		Estonia	26	39	12	3.9	
	Bangladesh	277	545	268	7.0		Mauritius	19	29	10	4.5	
	Malaysia	436	698	262	4.8							
	South Africa	543	772	229	3.6	G7	United States	14,806	18,687	3,881	2.4	
	Philippines	382	607	225	4.8		Japan	4,311	5,052	741	1.6	
	Peru	296	494	198	5.3		Germany	3,039	3,495	456	1.4	
	Chile	275	441	165	4.8		UK	2,213	2,628	415	1.7	
	Ukraine	322	485	163	4.2	*G6	Canada	1,367	1,710	343	2.3	
	G6 minimum	1,791	1,925	134	0.7		France	2,173	2,513	341	1.5	
							Italy	1,791	1,925	134	0.7	
Groups	EAGLES	26,122	49,672	23,550	6.6							
	NEST	6,733	10,904	4,171	4.9							
	G6	14,894	17,323	2,429	1.5	Other	Saudi Arabia	665	1010	345	4.3	
	G7	29,700	36,009	6,309	1.9	Economies	Iraq	125	325	201	10.1	
World	77,204	117,565	40,361	4.3		Kazakhstan	211	388	177	6.3		



Appendix

Find out more about EAGLEs

EAGLEs Presence on the Internet

Review

- A **permanent follow-up** is made by BBVA Research with an **annual update of EAGLEs and NEST members.**
- **Quarterly report on EAGLEs economic situation**
- **Special topics covered in BBVA's Eagles watches**
- Complementary analysis tools like the **Country Risk Observatory**
- Reports and presentations to be found at www.bbvaeagles.com

Diffusion

- Experts discussions and comments in BBVA EAGLEs **Twitter** and **LinkedIn Discussion Group**

Dialogue

- Cooperation with **local think-tanks for knowledge network** on the analyzed economies: TUSIAD is our think-tank in Turkey





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