

## BBVA EAGLEs methodology

Since 2000 we have witnessed an outstanding reduction in global inequality, due to the rapid and steady convergence of emerging and developed countries. This major transformation in the international investment scenario casts our focus on the growth-leading emerging economies.

In 2010, BBVA Research created a grouping of emerging markets called BBVA EAGLEs (Emerging and Growth-Leading Economies), whose contribution to world economic growth in the following ten years is expected to be larger than the average of the leading industrialised nations, namely the G6 countries (due to its size, the US is excluded from the benchmark but not from comparisons with the BBVA EAGLEs).

As a part of the proposal, the BBVA Nest was also created as a watch-list of emerging countries. Those economies could be part of the BBVA EAGLEs in the future, if they are able to improve their performance above the current forecasts.

The BBVA EAGLEs concept was created in search of giving transparency, flexibility and dynamism to the identification of the most relevant economies in the emerging world:

- Static concepts cannot capture the dynamic panorama of emerging economies and investment opportunities should not be limited to the BRICS countries. Thus, a quantifiable and extensive spectrum of key emerging markets, such as BBVA EAGLEs, should be brought to the fore.
- The BBVA EAGLEs concept is dynamic in the sense that it is not a fixed group of economies, but rather a club of elite emerging markets whose membership is revised once a year with the update of our forecasts.

BBVA Research is uniquely positioned to be a provider of information on emerging economies, due to its presence in Latin America and Asia, and its long standing analysis of the emerging world. The BBVA EAGLEs initiative is part of an effort to make BBVA Research's knowledge of emerging markets available to clients and interested parties.

In addition to the annual BBVA EAGLEs Economic Outlook, the project also includes Economic Watches and presentations on ad hoc issues.

### *How we define BBVA EAGLEs and Nest membership*

The reference variable in our calculations is the incremental GDP, i.e. the increase of real GDP in PPP-adjusted terms during the following ten years. To compute it we add growth forecasts to the estimate of PPP-adjusted for the starting year provided by the IMF<sup>1</sup>. Our approach is therefore a mixture of size and growth.

We update growth forecasts for the following ten years on an annual basis. We use BBVA Research projections for those countries that we cover in depth and IMF projections in the latest World Economic Outlook (and updates) for the remainder. In the latter case, we extend the available forecast horizon by assuming as constant the growth rate available for the last year.

Under particular circumstances, and to account for significant changes in the short and medium-term scenario, we might also consider other international sources such as IMF Regional Outlooks, the European Commission forecasts, the OECD projections or the World Bank economic perspectives.

After updating the growth forecasts we compute the incremental GDP for all countries in the world and then rank them from largest GDP to smallest, defining membership of BBVA EAGLEs and Nest as follows:

- The BBVA EAGLEs are defined as those emerging economies contributing to world growth more than the average of the G6 countries in the next ten years.
- The BBVA Nest is formed of those emerging economies contributing to world growth more than the average of the non-G7 developed economies which have a GDP of over USD100bn PPP-adjusted but below the EAGLEs threshold.

The countries included in the BBVA Nest benchmark are the following (ranked from largest GDP to smallest):

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<sup>1</sup> The IMF updated its WEO database at the end of 2014 including a new set of Purchasing Power Parities (PPPs) computed in the 2011 round by the International Comparison Program (ICP), which imply significant revisions to those estimated in 2005. In particular, among emerging economies the PPP-adjusted GDP levels increased substantially for African and Asian countries and to a lesser extent in Latin America and Europe, while the figures remained almost unchanged in developed economies.

- Korea, Spain, Australia, Taiwan, the Netherlands, Belgium, Sweden, Hong Kong, Switzerland, Austria, Singapore, Czech Republic, Greece, Norway, Israel, Portugal, Denmark, Finland, Ireland, New Zealand and Slovakia.
- We exclude the following developed countries as they do not reach the USD100bn threshold: Slovenia, Luxembourg, Estonia, Cyprus, Iceland, Malta and San Marino.

### **Addendum: criteria to define the condition of a country as an emerging economy**

We reference our sample of emerging countries to the IMF grouping of emerging and developing economies included in the World Economic Outlook. We choose this classification as it is provided by an international organisation, leaving aside considerations by private institutions such as investment banks (or ourselves). In addition, the choice of the IMF is consistent with the use of their projections for those countries that we do not cover in depth at BBVA Research.

We present below the criteria as stated by the IMF itself<sup>2</sup>:

*"The main criteria used by the WEO to classify the world into advanced economies and emerging market and developing economies are (1) per capita income level, (2) export diversification—so oil exporters that have high per capita GDP would not make the advanced classification because around 70% of its exports are oil, and (3) degree of integration into the global financial system. In the first criteria, we look at an average over a number of years given that volatility (due to say oil production) can have a marked year-to-year effect. Note, however, that these are not the only factors considered in deciding the classification of countries".*

*"This classification is not based on strict criteria, economic or otherwise, and it has evolved over time. The objective is to facilitate analysis by providing a reasonably meaningful method of organizing data. Reclassification only happens when something marked changes or the case for change becomes overwhelming. For example, Malta joining the euro area was a significant change in circumstances that warranted a reclassification from an emerging market and developing economy to an advanced economy".*

*"Some countries remain outside the country classification and therefore are not included in the analysis. Anguilla, Cuba, the Democratic People's Republic of Korea, and Montserrat are examples of countries that are not IMF members, and their economies therefore are not monitored by the IMF. Somalia is omitted from the emerging market and developing economies group composites because of data limitations".*

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<sup>2</sup>: [www.imf.org/external/pubs/ft/weo/faq.htm#q4b](http://www.imf.org/external/pubs/ft/weo/faq.htm#q4b), [www.imf.org/external/pubs/ft/weo/2013/02/pdf/statapp.pdf](http://www.imf.org/external/pubs/ft/weo/2013/02/pdf/statapp.pdf)