BBVA | RESEARCH

Economic Outlook

Brazil

Fourth Quarter 2011
Economic Analysis

- **Global turbulences reinforce domestic activity moderation.** GDP forecasts revised downwards to 3.2% in 2011 and 3.6% in 2012.
- **Inflation will trend downwards but will not converge to the target anytime soon.** The CB will focus on the former and will continue adjusting the SELIC rate downwards to bring domestic rates closer to international ones.
- **The real will remain strong around the 1.70 mark and the current account deficit will widen** in spite of economic slowdown.
- **Global moderation should help to keep the risks of domestic overheating under control, at least in the short-term.** And if developed economies fall back into recession, the Brazilian economy will experience a significant slowdown.

Index

Closing date: November 10th 2011

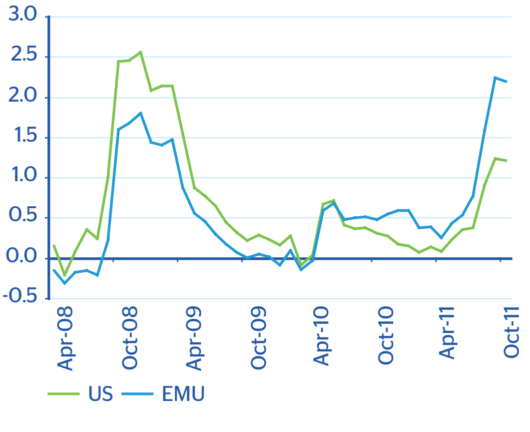
1. Global Environment: Global slowdown and risks tilted to the downside

The outlook for the global economy has worsened over the past few months, driven mainly by four factors that are still exerting their influence. First, lower than expected economic growth mainly, but not only, in developed economies (data had been already disappointing in the US in the first half of the year, which led to some analysts to expect a double dip). Although growth increased in the US in the third quarter, economic activity in Europe, which held very well in the first quarter, is now on a clear decelerating path. Second, the sovereign debt crisis in Europe has intensified and turned more systemic. While decisions announced in the October summit go in the right direction, there are still key elements unresolved, especially regarding the real firepower of the mechanisms for providing sovereign liquidity (a leveraged European Financial Stability Fund or EFSF), the restructure of Greek debt held by private investors, and a clear roadmap for advancing European governance towards a fiscal union. Third, the feedback between sovereign concerns and the health of the European financial system has intensified, and financial tensions in Europe have reached levels in many respects higher that after the fall of Lehman Brothers in October 2008 (Chart 1). This increases the risks of a negative impact on economic activity (see Box 1), further feeding a real-financial vicious circle. Finally, higher global risk aversion has increased financial market volatility significantly, spilling over to most risky assets, including emerging economies for the first time since 2009.

In this context, we revise downward our global growth forecasts by 0,3pp in 2011 and 2012, relative to our previous Global Economic Outlook, mostly due to lower expected growth in advanced economies (US and Europe, compensated in part by Japan), although emerging markets will also grow slightly less than previously anticipated. Thus, the global economy would grow by 3.9% in 2011 and 4.1% in 2012, supported by solid growth in emerging economies against lackluster performance in advanced countries (Chart 2).

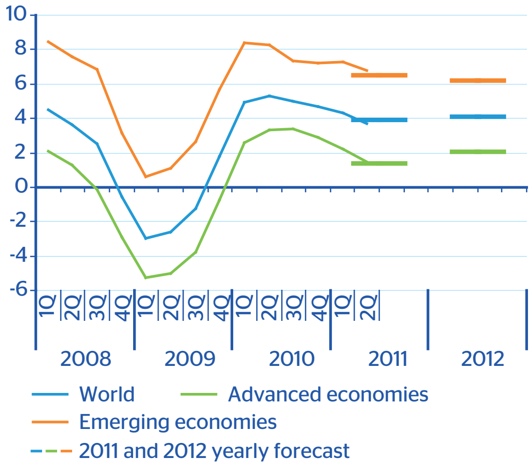
These are still robust growth rates, but risks to these projections are now strongly tilted to the downside, hinging in the short term on the evolution of the sovereign-financial crisis in Europe. In particular, a quick reduction of financial stress in Europe is needed to avoid a sharp effect on growth there and in other regions through financial exposures and global risk aversion.

Chart 1
BBVA Financial Stress Index



Source: BBVA Research

Chart 2
Global GDP growth (%yoy)



Source: BBVA Research and IMF

In our view, there were five main points that needed to be successfully addressed in the October EU summits: (i) tackling definitively the sustainability of Greek debt; (ii) erecting sovereign firewalls in the EMU; (iii) pushing for further reforms in peripheral countries; (iv) strengthening the banking sector; and (v) advancing euro area governance. Although some of the more technical details still need to be determined, the recent summits have taken important steps in the right direction, but have not addressed definitely most of these points. First, private bondholders of Greek debt are asked to take a voluntary haircut of 50% –much higher than agreed in July– but doubts still linger about participation in the exchange and, even with full participation, about the solvency of Greece, which is still strongly conditional on measures that need to be taken in this country. Second, the EFSF will be leveraged as an insurance mechanism and complemented with outside investors (including possibly the IMF, although the G20 meeting was inconclusive in this respect), but it is unlikely that any of the specificities of the functioning of the EFSF are ready before December. Thus, many weeks will be needed to ascertain its effectiveness vis-à-vis private investors, and hence the ECB will still be needed as a buyer-of-last-resort for sovereign debt, against the reticence of core European countries. Third, it is welcomed that more economic reforms are now on the agenda of some countries (notably Italy, where these will be monitored by the IMF), and that as the help of the EFSF will be triggered by a request from countries and against conditionality, the likelihood of those being implemented increases. At the same time, the recapitalization of the banking sector is being done inefficiently, compensating a moderate stress testing of banks' balance sheets –just using market prices for sovereign portfolios but not for so-called "legacy assets"– with a significant increase in capital requirements (9% core tier1 capital). This risks a sudden and sharp deleveraging of European banks, with negative effects on the supply of credit without cleaning the balance sheets of banks in the euro area. Moreover, a long term liquidity provision mechanism is not in place yet, even though this is extremely important for banks to obtain financing. Finally, there have been some advances in European governance, but there is no clear roadmap to a fiscal union or Eurobonds, in our view a key element to make the monetary union more credible in the long run.

As we have mentioned in the past, partial solutions will probably just help prevent a further escalation of financial tensions, but they will remain elevated, increasing downside risks for economic activity in the eurozone. The agreements still leave doubts whether the necessary structure to prevent contagion and a systemic event from a Greek debt restructuring is in place: a large enough EFSF with the ECB as debt-buyer-of-last-resort and cleaned and recapitalized banks' balance sheets with access to financing. Without all of them, markets will continue to factor increased fatigue for reforms in Greece and fatigue for further bailouts in core countries, which increases the probability of a risk scenario of a credit crunch and a recession in Europe, with global spillovers.

More on the positive side, growth in the US seems to have reaccelerated in the third quarter, at least according to preliminary estimates. This is not saying much –growth in the first two quarters was very low and the output gap is still very high– but seems to have reduced market nervousness about a double dip. Nevertheless, the structural weakness of the US economy remains, as consumer and business confidence continue to be weak and the housing market could adjust further. This means lower resilience in the face of a possible shock coming from Europe. In addition, political deadlock could impede a "grand bargain" to (i) prevent an unintended fiscal contraction in the short run and (ii) push reforms towards a credible fiscal consolidation in the long run.

Emerging economies continue growing strongly, supported by the resilience of domestic demand. Still high commodity prices for Latin America and export growth in Asia –despite strong corrections in both cases– also contribute to a strong growth outlook, which is on track for a much awaited soft landing, which would be welcome in some countries. Renewed turmoil in Europe and the US already represent strong headwinds from financial markets in both regions –reflected in increased market volatility, depreciated exchange rates and reduced capital inflows–. However, many countries also enjoy sizable buffers –stronger public finances and better macroeconomic management than in the past– and are well positioned to introduce policy stimulus to counter weaker external demand. Overall, a more negative external environment has switched the focus in emerging countries from overheating to downside risks and, increasingly, the possible need for policy support.

2. Uncertain times: between domestic overheating and global recession risks

Just a few months ago, there were widespread concerns about the overheating of the Brazilian economy and the risks it could create. Recent global turbulences, however, moved those concerns to the backroom and markets are now more interested on knowing how Brazil would be impacted by a deterioration of the global environment. In other words, overheating risks were replaced by hard-landing -and even recession- fears.

As the 2008-2009 crisis evidenced, the Brazilian economy should not be expected to decouple. This means that domestic growth could drop significantly if developed economies double dip, or could continue growing at rates close to potential if the turbulences in Europe ease soon. In the latter case, overheating problems would arise again.

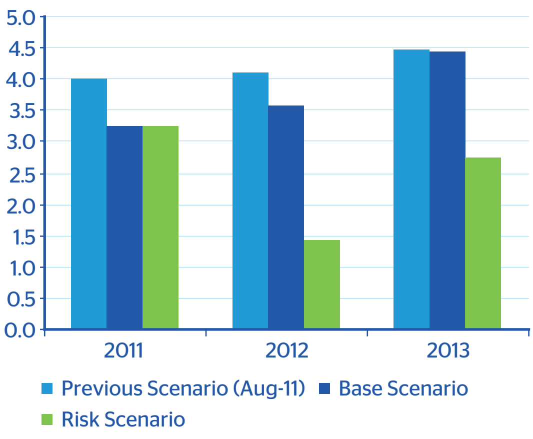
In our base scenario, developed economies will grow by less than expected before, but will refrain from entering into a recession. In line with this outlook, our base scenario for the Brazilian economy is one of growth around 3.0%-3.5% in the next two years instead of around 4.0% as we forecasted three months ago (see Chart 3). In this new case, the output gap remains positive but not as much as before (see Chart 4). This means that overheating problems should be kept under control for some time, although distortions generated by excessive growth should then resume when global tensions ease (from the middle of 2012 on in our base scenario).

In a risk scenario where developed economies double-dip but things do not get as bad as in the Lehman Brothers episode, GDP growth in Brazil drops from 3.6% in the base scenario to 1.8% in 2012. In this risk scenario, the country would be mainly impacted by the deterioration of domestic confidence, but trade and financial channels would also play a significant role.

In our view, in a scenario of global recession countercyclical policies in Brazil would be more focused on achieving a lower SELIC rates than on higher fiscal expenditures, as policy makers seem especially interested in taking interest rates permanently close to international levels. In addition, we expect a wide injection of liquidity in both dollars and reals using, respectively, international reserves (around 15% of GDP) and bank's mandatory reserves held in the Central Bank (around 11% of GDP). Finally, we see as very likely the acceleration of public credit as another countercyclical tool which entails some risks as public banks could end up more exposed to any deterioration of domestic activity. At the same time the expansion of public credit can reduce the room for the Central Bank to cut interest rates.

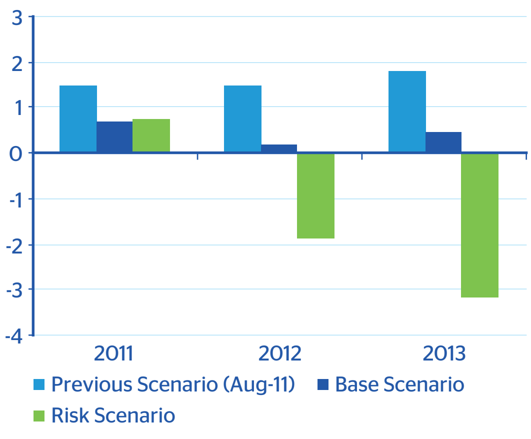
In the risk scenario, inflation should converge to the 4.5% target in 2012 in spite of the depreciation of the real (which would be in the 1.80-1.90 range). We expect the SELIC rate to go down to 8.5% in this scenario, while the current account deficit should deteriorate and reach 3% of GDP. Over the medium-term the correction in both economic activity and relative prices should then drive the current account deficit lower. The fiscal accounts would remain relatively strong as the impact of lower growth on revenues could be at least at some extent offset by lower interest rate payments (due to a lower SELIC) given that the direct impact of lower commodity prices on fiscal revenues is very low in Brazil.

Chart 3
GDP growth; BBVA forecast (%)



Source: BBVA Research

Chart 4
Output Gap (%)



Source: BBVA Research

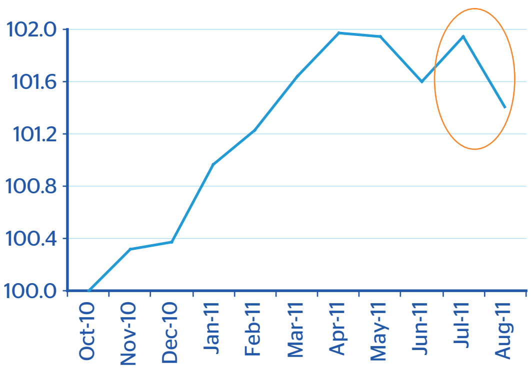
Having highlighted the unusual uncertainties and the main risks hovering around the economy, we focus on the description and analysis of our base scenario for the Brazilian economy in the remainder of this report.

3. GDP growth forecast cut to 3.2% in 2011 and 3.6% in 2012.

The economy should grow no more than 0.2%q/q in Q3 and a negative growth in quarterly terms should not be ruled out. This growth will be in sharp contrast with the 1.2%q/q and 0.8%q/q expansions observed in Q1 and Q2 respectively.

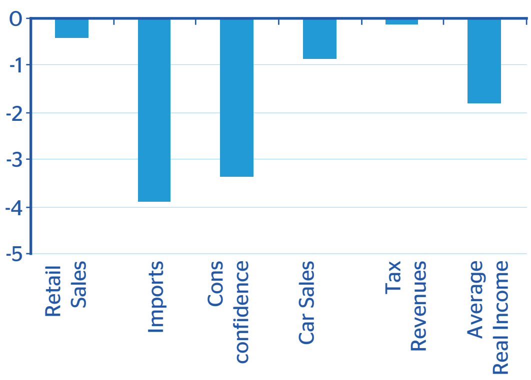
Evidence of moderation, which was relatively scarce in the first half of the year, is now almost everywhere, even in labor markets which were particularly resilient up to some months ago. Most demand indicators have been surprising to the downside in the last readings. Retail sales, for example, surprised with a 0.4%m/m drop in August, the worst result since March of 2010. Tax revenues, for another example, increased by 14.4%y/y in nominal terms in September, according to the seasonally adjusted series. Although this growth is still very strong, it is significantly lower than the 22%y/y average observed in the year from January to August. The tax revenues growth in September was, actually, the lowest in the year. And regarding labor markets, the unemployment rate went slightly up to 6.1% taking into account seasonal effects and the average real income dropped 1.8%m/m, the sharpest downward correction in practically seven years (for more high-frequency demand indicators see Charts 5 and 6 below).

Chart 5
Economic activity indicator: IBC-Br (CB's proxy for GDP; Oct-10=100; SA)



Source: BBVA Research

Chart 6
High-frequency demand indicators (% m/m; SA; last available information

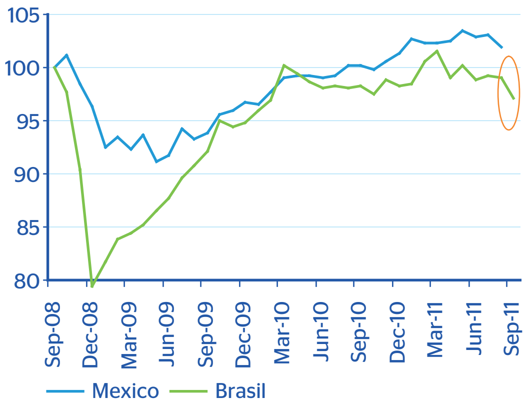


* September with the exception of Retail Sales which are from August
Source: IBGE, Central Bank of Brazil and FGV

The generalized evidence of significant moderation in Q3 is due to the lagged impact of more restrictive fiscal and monetary policies implemented in the first half of the year and, especially, the recent deterioration of the global scenario. Regarding the former, one of the main channels it is impacting the country is certainly the confidence channel: the consumer confidence index released by the Getulio Vargas Foundation (FGV) accumulated a 7% drop in Augusta and September and reached its lowest level since the beginning of 2010.

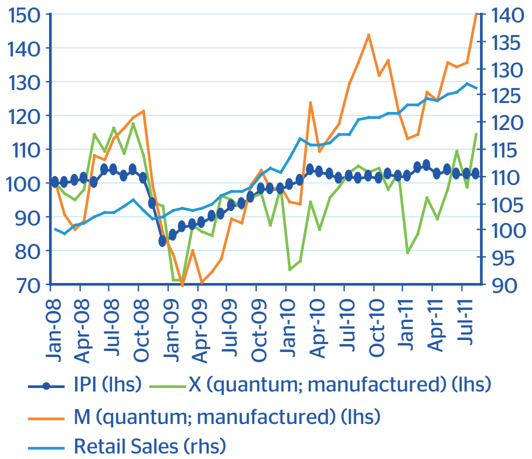
Most recent supply side indicators also show an extra deterioration in the last months. But in this case, the weakness was already evident since many months ago as the Chart 7 shows. This same chart, actually, reveals that i) current industrial production levels are below the levels observed three years right before the country felt the impact of the Lehman Brothers crisis; and that ii) industrial production in Brazil underperforms Mexico's, a country which was in general more impacted by the global turbulences in the last years and, especially, by the slowdown of the US economy.

Chart 7
Industrial production (Sep-08=100; SA)



Source: Banxico and Central Bank of Brazil

Chart 8
Industrial production compared to other activity indicators (Jan-08=100; SA)



Source: IPEDATA and BBVA Research

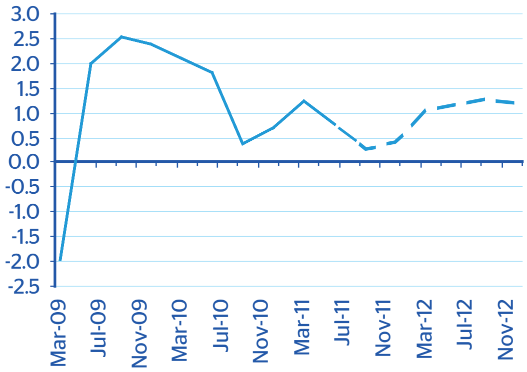
The weakness of industrial production in Brazil is due to a loss of competitiveness. After recovering from the worst of the 2008-2009 crisis in line with domestic demand (and supported by fiscal incentives), industrial production remained practically stable since the first half of 2010. Industrial production in the year up to date is only 1% higher than in the same period last year. At the same time, the volume of manufactured exports increased 3%. The expansion of domestic demand was, in the same period, around 7% according to retail sales indicators. These figures show that the domestic supply of manufactured products was lower than the overall demand. There is, therefore, a supply gap, which naturally is being filled in by imported manufactures: the data for the period show that the volume of manufactured imports grew 10%.

This evidence shows that was not due to insufficient aggregate demand that industrial production staggered. It was neither a problem of lack of capacity of production as capacity utilization averages 82.5% this year, only slightly higher than the 81.1% average between 2003 and 2010. Industrial production weakness is, therefore, a sign of lack of competitiveness driven by the appreciation of the exchange rate observed in the last months and by structural problems such as high tax burden and poor infrastructure.

The weakness of the industrial sector –as well as the weight the sector has in the political arena- helps us to understand the recent implementation of measures to prevent an extra appreciation of the currency ("currency war") and to protect domestic producers ("trade war"). Even tough these –and forthcoming- measures will provide some support, the perspectives for the sector are not very favourable as a more negative global outlook will add to a domestic environment in which demand was already in the middle of a moderation process.

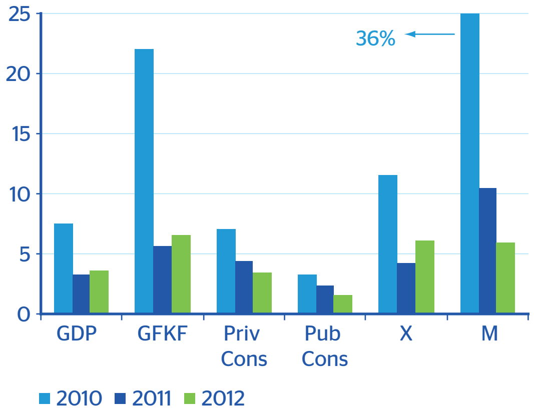
After downward adjustment of industrial production in Q3 (-0.9%q/q), some recovery is expected in the end of the year, due to incentives to rebuild inventories. This rebound should help GDP growth to be more robust in Q4 than in Q3.

Chart 9
GDP growth (q/q %)



Source: IBGE and BBVA Research

Chart 10
GDP growth by demand components (%)



Source: IBGE and BBVA Research

For the year as whole we expect GDP to grow 3.2%, with a negative bias. In comparison to 2010 when the economy grew 7.5%, there will be, therefore, an important moderation which is clearer when looking at GDP's demand components (see Chart 10).

For 2012, we expect GDP to expand 3.6%, slightly more than in 2011, and domestic demand to grow 4.5%, around the same as in 2011. The private consumption growth is expected to be around 3.5% in 2012 (4.4% in 2011) supported by the 14% minimum wage adjustment and lower interest rates. And the formation of fixed capital is forecasted to expand 6.6% in 2012 (6.6% in 2011) ahead of the sportive events the country will hold in 2014 and 2016 which will boost public and private investments.

4. Inflation will trend downwards but not fast enough

Even though domestic activity was slowing down since the beginning of the year, inflation continued to trend up as inertial price adjustments (especially in services) gained momentum and the labor market remained strong.

After moving up from 4.5% in August of 2010 to 7.3% in September, yearly inflation is expected to trend down from now on. The first step in this direction was the drop to 7.0% in October, the first in more than one year. The main support for this slowdown is statistical, due to high-base effects. Nonetheless, the slowdown of the domestic activity and the deceleration of global growth will add to this and reinforce the decline of yearly inflation.

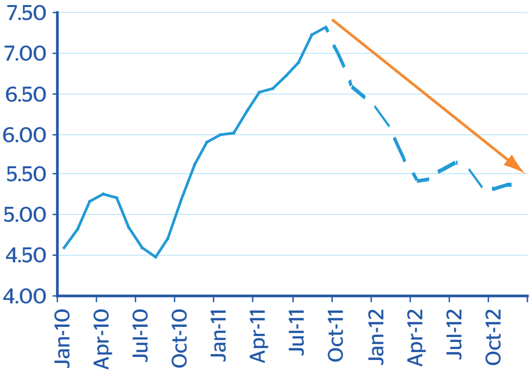
The main issue, therefore, is not whether inflation will weaken or not, but rather at what speed. The first issue to take into account is that domestic prices are in general very sticky in Brazil. In the 2008-2009 crisis, for example, inflation declined from 6.4% in October of 2008 to 4.2% in December of 2009 (barely less than the 4.5% inflation target), even though the economy fell into a (short) recession and commodity prices plummeted.

In addition to that, in our base scenario neither commodity prices nor domestic activity will drop significantly. They will rather stay relatively strong, creating obstacles for inflation to converge to target in 2012. Finally, we should bear in mind that the 14% minimum wage adjustment to be enacted in 2012 should also provide some support to inflation.

A simple exercise, illustrated by Chart 13, should make clear the difficulties for inflation to reach 4.5% anytime soon. If we assume monthly inflation will from November on behave exactly as in the previous crisis, meaning it will drop to 0.36%m/m and 0.28%m/m in the last two months of the year and then average 0.35%m/m in 2012, inflation would then converge to 4.3% by the end of 2012 (instead of to 5.4% as we have in our base scenario). There are, however, two main differences with the previous crisis. First, last time the country went through a recession and

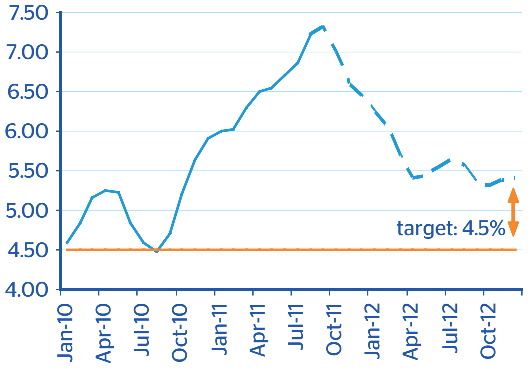
GDP fell 0.6% while this time the economy is expected to grow 3.6%. Second, in the 2008-2009 episode monetary policy was much tighter than now as at that time the CB increased the SELIC to 13.75% at the beginning of the turbulences (as inflation was still high). At this time, the CB will have cut the SELIC to 11.0% by the end of the year (in spite of inflation being high). On top of that, the 14% minimum wage adjustment next year is clearly another source of concern.

Chart 11
Inflation will slow down (IPCA % y/y)



Source: BBVA Research

Chart 12
... but will not converge to the target (IPCA % y/y)



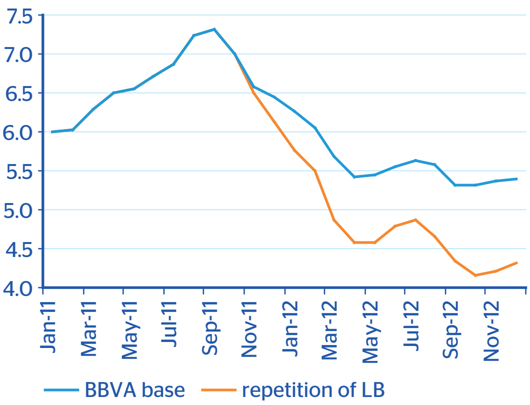
Source: BBVA Research

This does not mean that it is impossible for inflation to converge to 4.5% in 2012. It means that this would only happen if the crisis turns out to be as serious as in 2008-2009 which is clearly not our main scenario. We see in the CB's benevolent view of inflation a move to justify extra cuts of the SELIC. More than moving to a system where the CB focus on both growth and inflation instead of only inflation, we see the implementation of an strategy (or a bet?) to take interest rates permanently down to levels closer to observed in other countries.

In our view this is a risky strategy with potentially high costs in terms of credibility. Even if inflation ends up converging to 4.5% next year as the CB has been saying, there will be a credibility cost for the monetary authority as its monetary strategy has sounded more as a bet or a wish than a technical decision. This implies that inflation could remain high over a longer period, especially after global tensions ease.

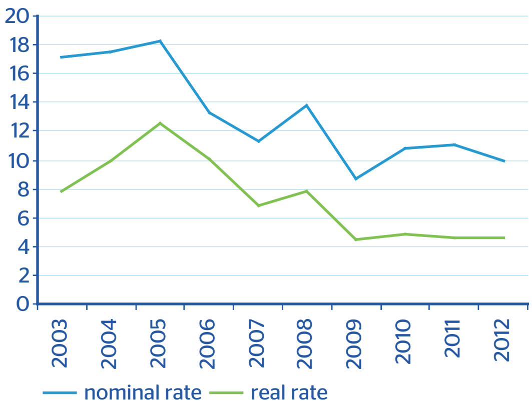
Independently of these costs, we expect the SELIC to be cut by 50bps in the next monetary policy meeting at the end of November and then to close the year at 11.0%. For the next year, the space for additional cuts will be limited by a less supportive fiscal policy (fiscal target to be met this year but not in 2012) and also by the fact that inflation should not converge to the 4.5% target as soon as the CB expects, but the monetary authority should find/create some room for continue cutting the SELIC. We expect it to be at 10.0% by the end of 2012, but a one-digit rate should not be ruled out.

Chart 13
BBVA Forecasts for inflation versus repetition of LB scenario (IPCA y/y %)



Source: BBVA Research

Chart 14
Interest rates: SELIC (%)



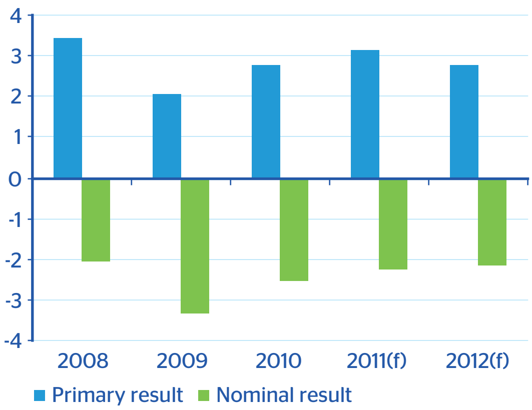
Source: Central Bank of Brazil and BBVA Research

5. Fiscal and monetary coordination is improving, but they have a long way to go yet

In spite of our criticisms to the current monetary policy, we see good news in the coordination of economic policies under the government of Dilma Rousseff. Differently from before, this government has been recognizing that a tighter fiscal policy could help the CB to implement a laxer monetary policy. On the other hand, the CB has been conditioning new SELIC cuts to the achievement of fiscal targets.

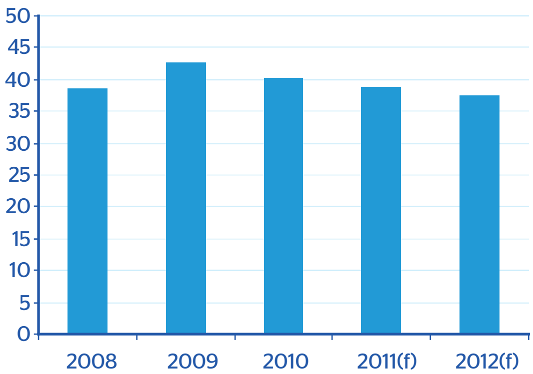
We see policy makers willing to implement a tighter fiscal policy in exchange for a lower SELIC rate, but in practice there are serious challenges to adopt a more restrictive fiscal policy in 2012. The most evident one is the minimum wage adjustment of 14% to be enacted at the beginning of the next year. As social security payments are linked to the minimum wage, this will increase the social security deficit to 1.2% of GDP from 1.0% in 2011, not to mention the impact on the wage bill. Another barrier for implementing a better fiscal result is political: this year's expenditures cuts generated some problems within the governmental base and in Congress and repeating the medicine next year could prove to be too bitter. In addition to these factors, public revenues could drop as share of GDP (from 23.8% this year to 23.6% in 2012) as the economy slowdown in 2012. Finally, the need to make investments in preparation for the 2014's World Cup and 2016's Olympics should reduce the room for expenditure cuts. All in all, we expect the primary surplus to reach 2.7% of GDP and, therefore, to fall short of the 3.1% target.

Chart 15
Fiscal Accounts (% GDP)



Source: Central Bank of Brazil and BBVA Research

Chart 16
Net public debt (%GDP)

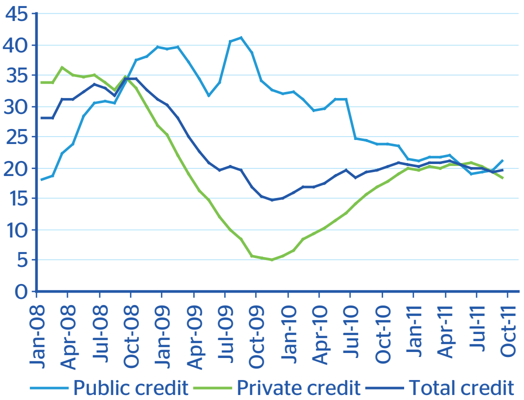


Source: Central Bank of Brazil and BBVA Research

On the negative side the country still misses a better coordination between monetary and credit markets. Public credit continues fuelling the dynamism of credit markets, which restricts the space for implementing a laxer monetary policy. In line with this view, the Central Bank suggested recently in one of its communiqués the introduction of measures to moderate the concession of subsidized credit (a clear reference to credit supplied by the BNDES, the development public bank).

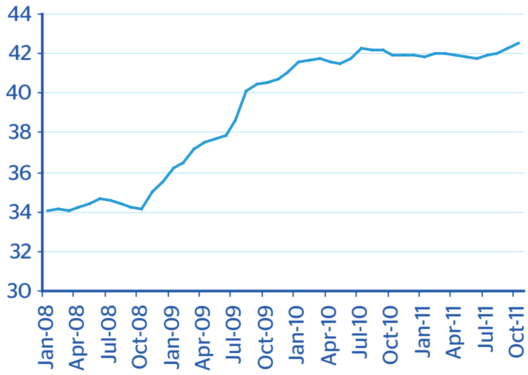
In contrast with other sectors, credit markets have barely moderated. The credit stock is growing around 20%y/y since the middle of 2010, and will surpass the CB's 17%y/y forecast for overall expansion this year. In September, public credit grew 21.2%y/y, with no sign of moderation (21.4% y/y in Q1 2011).Also in September, private credit expanded 18.4%y/y, down from 19.9%y/y in the first quarter of the year (see Chart 17).

Chart 17
Credit growth (y/y %)



Source: Central Bank of Brazil

Chart 18
Public credit (% of total credit)



Source: Central Bank of Brazil

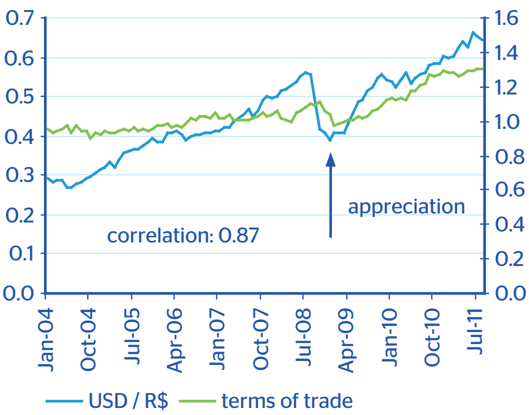
In spite of its resilience, we still expect credit markets to follow the overall tone of the economy and to ease. If that proves not to be the case, then the CB will have less space for implementing a laxer monetary policy, and the risks of overheating will increase.

In this context, and with additional reductions in the SELIC, we expect more "macro-prudential" measures to keep credit markets under control.

6. A strong real and a wider current account deficit

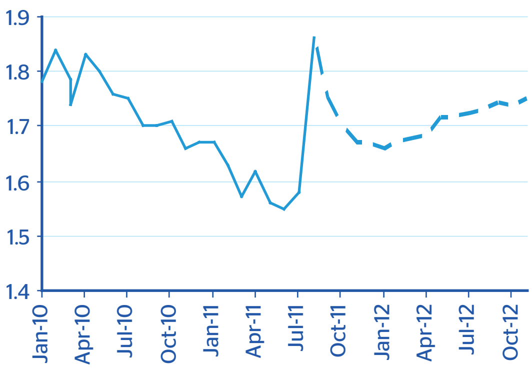
Following global turbulences, the real depreciated quickly and sharply and neared the 1.90 mark recently (see Chart 20). This depreciation triggered the intervention of the CB which stopped buying dollars and started selling dollars for the first time in many months. This weakness was only temporary and the real appreciated back to levels around 1.75 as commodity prices recovered partially while risk aversion eased.

Chart 19
Terms of trade and real exchange rate



Source: Central Bank of Brazil and BBVA Research

Chart 20
Exchange rate (R$/USD)



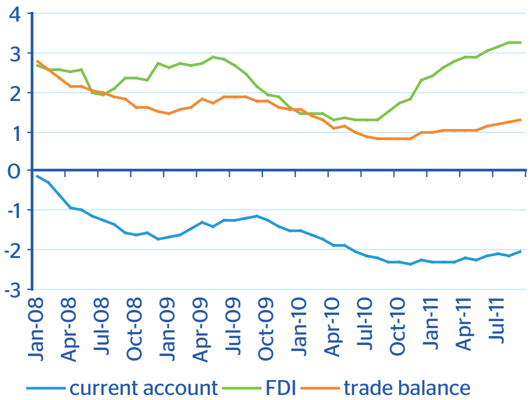
Source: Bloomberg and BBVA Research

Based on a simple statistical model in which the exchange rate depends on terms of trade and country-risk and which explains more than 90% of the variation of the real in the last years, we expect the real to remain relatively strong around 1.70 in the remainder of this year and in 2012 (see Chart 20). Behind this view are the assumptions incorporated in our base scenario that losses in commodity prices will be limited and that Brazil's country risks measured by the EMBI+ will average 200 bps next year (it is currently around 220bps).

A laxer monetary policy, the global environment and the chances of more intervention in FX markets should prevent further appreciation of the Brazilian currency. Regarding intervention in FX markets, Congress should soon approve the law that authorizes monetary authorities to tax FX derivatives markets. After that, we expect the government to see this tax as another tool in their toolkit, meaning that it could be increase the tax on derivatives (currently at 1%) if pressures on the real mount or set it equal to zero if the real depreciates sharply.

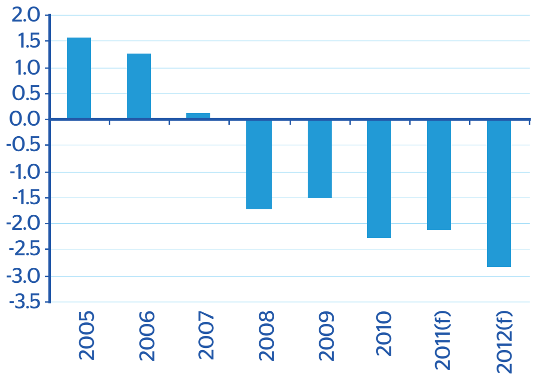
All in all, the real should average 1.72 in 2012 in comparison to 1.66 in 2011. Neither this small depreciation, nor the moderation of economic activity will guarantee an improvement of the current account next year. On the contrary, we expect the current account deficit to reach 2.1% of GDP this year and then 2.8% in 2012. Both income and service deficits are expected to continue under pressure and to move up to 3.3% and 1.6% of GDP, respectively, in 2012 from 3.2% and 1.5% in 2011. The trade surplus is forecasted to drop to 0.5% of GDP in 2012 from 1.2% this year following a downward correction of Brazil's terms of trade.

Chart 21
Current account, trade balance and FDI (% GDP)



Source: Central Bank of Brazil and BBVA Research

Chart 22
Current Account (% GDP)



Source: BBVA Research

At least in our base scenario, FDI inflows, which have been peaking this year, will continue funding the current account deficit. And in any case the CB could make use of its large international reserves (15% of GDP) if the real comes under pressure.

In a risk scenario where developed economies face a new recession, the current account should initially deteriorate (following a sudden deterioration of terms of trade and higher global risk aversion) and then ease in line with an expected adjustment of both exchange rate and domestic demand. FDI would weaken and international reserves would then be used to provide liquidity in dollars.

7. Forecast tables

Table 1
Macro Forecasts Yearly

	2010	2011	2012
GDP (% y/y)	7.5	3.2	3.6
Inflation (% y/y, eop)	5.0	6.4	5.4
Exchange Rate (vs. USD, eop)	1.75	1.67	1.75
Interest Rate (%, eop)	10.00	11.00	10.00
Private Consumption (% y/y)	7.0	4.4	4.5
Government Consumption (% y/y)	3.3	2.3	1.6
Investment (% y/y)	22.0	5.6	6.6
Fiscal Balance (% GDP)	-2.5	-2.2	-2.2
Current Account (% GDP)	-2.3	-2.1	-2.8

Source: BBVA Research

Table 2
Macro Forecasts Quarterly

	GDP (% y/y)	Inflation (% y/y)	Exchange Rate (vs. USD)	Interest Rate (%)
Q1 10	9.3	4.9	1.80	8.75
Q2 10	9.2	5.1	1.80	9.75
Q3 10	6.8	4.6	1.74	10.75
Q4 10	5.0	5.6	1.69	10.75
Q1 11	4.1	6.1	1.66	11.42
Q2 11	3.1	6.6	1.58	12.08
Q3 11	3.0	7.1	1.64	12.17
Q4 11	2.7	6.7	1.71	11.17
Q1 12	2.6	6.0	1.67	10.75
Q2 12	3.0	5.5	1.69	10.75
Q3 12	4.0	5.5	1.73	10.58
Q4 12	4.8	5.4	1.75	10.00

Source: BBVA Research

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

This report has been produced by the Emerging Markets Unit:

Enestor Dos Santos
enestor.dossantos@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia

Emerging Markets:
Alicia García-Herrero
alicia.garcia-herrero@bbva.com.hk

Cross-Country Emerging Markets Analysis
Álvaro Ortiz Vidal-Abarca
alvaro.ortiz@bbva.com

Asia
Stephen Schwartz
stephen.schwartz@bbva.com.hk

China

India
Sumedh Deorukhkar
deorukhkar@grupobbva.com

Latam Coordination
Joaquín Vial
jvial@bbvaprovida.cl

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Alejandro Puente
apuente@grupobbva.cl

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Mexico
Adolfo Albo
a.albo@bbva.bancomer.com

Macroeconomic Analysis Mexico
Julián Cubero
juan.cubero@bbva.bancomer.com

Developed Economies:
Rafael Doménech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

United States
Nathaniel Karp
nathaniel.karp@bbvacompass.com

Financial Systems & Regulation:
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Pensions
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Global Areas:

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Economic Scenarios
Juan Ruiz
juan.ruiz@bbva.com

Innovation & Processes
Clara Barrabés
clara.barrabes@bbva.com

Market & Client Strategy:
Antonio Pulido
ant.pulido@grupobbva.com

Equity Global
Ana Munera
ana.munera@grupobbva.com

Global Credit
Javier Serna
Javier.Serna@bbvauk.com

Global Interest Rates, FX and Commodities
Luis Enrique Rodríguez
luisen.rodriguez@grupobbva.com

Contact details:

BBVA Research
Paseo Castellana, 81 – 7th floor
28046 Madrid (Spain)
Tel. + 34 91 374 60 00 and + 34 91 537 70 00
Fax. +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com
Legal Deposit : M-31256-2000