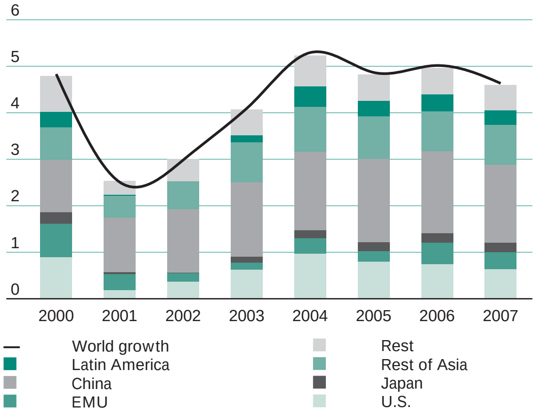
Growth and Contribution by Areas
Percentages

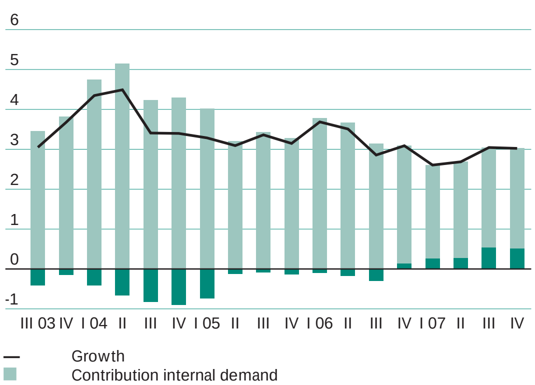


GDP Growth
Percentages

	2005	2006p	2007p
United States	3.2	3.3	2.8
EMU	1.5	2.7	2.2
Japan	1.9	2.2	2.0
China	9.9	10.4	9.5
Latin America	4.4	4.9	4.1
World	**4.9**	**5.0**	**4.7**

p projection
Source: BBVA

U.S.: Growth and Contributions
Annual %



Note: Projections as of the 4th quarter 2006
Source: BBVA

More globalized expansion in 2007

The year 2007 will be another good year for high economic growth. Although worldwide economic activity is expected to taper off slightly, it will grow at rates above 4.5%. This will be the fifth consecutive year in which world economic growth increased at rates above 4%, the most intense expansive cycle since the oil crisis of the 1970s.

By areas, growth will continue to tend to favor the emerging economies, with Asia in the lead. For the developed economies, the euro zone is the area that has provided the most positive surprises throughout 2006. Thus, the growth outlook projected by analysts for 2007 in the European Monetary Union has significantly been revised upwardly, approaching our central projection of 2.2%.

In the U.S. economy there seem to be more doubts given the strong downturn in the real estate sector. However, there are factors that indicate that the economy, and particularly household spending, will only experience a slight adjustment in 2007. Contributing to this will be the positive performance of employment and disposable income, some very favorable financing conditions for families, and the increase in their earnings despite the fall in the average price of housing. In addition, despite the negative contribution of residential investment, non-residential investment will continue to support economic growth, as will the external sector also, for the first time since the mid-1990s.

The positive performance of investment is not only limited to the U.S. economy. Indeed, one of the main characteristics of the current expansive cycle is that the business sector is in a very favorable position on a global level. Company earnings will continue to grow at very significant rates. In the United States, for example, estimates indicate that such growth could top 10% in 2007, although this rise is more moderate regarding the 20% increase posted in 2006, a figure not seen since the technological boom of 2000. This situation will, in turn, keep contributing to a continuation of mergers and acquisitions in the next few months, which will support the performance of the stock markets.

The emerging economies have not been exempt from this boom in investment, although the results have been unequal. The ratio of investment to gross domestic product is at its highest point of the past 20 years in the Asian economies, where it has returned to levels prior to the crisis of the 1990s. This is not the case in other emerging economies, such as Latin America or the Middle East, where the ratios are very much below the maximum levels reached in previous expansive cycles.

Nevertheless, the high savings rate in the emerging economies, surpassing the investment rate, will continue generating a pattern of global growth with significant imbalances. Thus, the gap in the current account balance between the group of net creditor countries (emerging economies) and net debtors (developed nations) will continue to be very high, representing around 2.5 points of global GDP.

However, this trend could have begun to stabilize in 2006. In fact, the U.S. deficit, currently above 6.5% of that country's GDP, could have reached its maximum level and could begin to reverse direction slightly, by around one percentage point in the next two years.

Central banks: attentive to the financial conditions

Monetary policy will continue to normalize in areas such as Japan or Europe. In the Japan's case, in addition to economic activity, the outlook for a moderate growth in inflation will determine the rate of gradual increases in the official interest rates, until they reach levels of around 1%. At the same time, the European Central Bank (ECB) can be expected to confirm our central scenario of interest rates at 4% in the first half of the year, a factor that the market did not incorporate until a few months ago.

It is in the United States where there is still some discrepancy between our outlook and that of the market. Although in the past month, with data showing solid growth in the economy, the markets have upwardly revised their expectations of a decline that had prevailed during the last half of 2006, they are still somewhat removed from our more plausible scenario of stability in the Fed's interest rates in 2007. Such expectations are derived from our outlook for soft moderate economic growth and still high core inflation, above the Fed's tolerance range (2% for the core deflator for consumer inflation), and the perception that, given the very lax conditions of monetary policy in the past, the central banks will be especially cautious in proposing a decrease in rates.

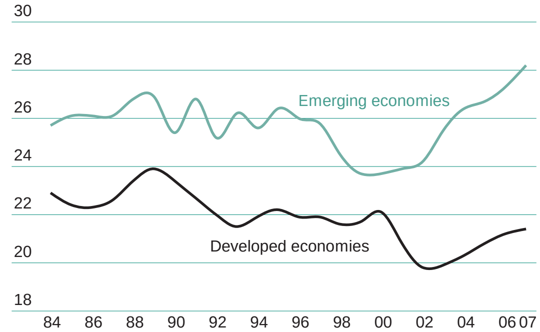
In fact, the current financial conditions, incorporating the prices of foreign currency and fixed and variable income assets, in addition to the short-term rates, are more relaxed than when the official interest rates were at 1% in 2003-2004. Something similar is occurring in Europe, where the financial conditions are at similar levels of relaxation as in 2004, when the ECB set the rates at 2%.

In any event, it is foreseeable that high international liquidity and financial relaxation will continue in 2007, mainly in the United States. In the first place, the stock markets could continue their revaluation at double digit rates. Secondly, long-term interest rates have important limits defining how much they can rise, in view of the renewed demand for debt from foreign investors, particularly Asians. We can definitively expect that the slopes of the yield curves, currently flat or inverted, will become positive, even in countries with still immature monetary policy cycles. Third and finally, although an additional depreciation of the dollar in relation to the euro is not contemplated in the central rate scenario, the U.S. currency will remain at somewhat depreciated levels with regard to its long-term value.

More localized uncertainties

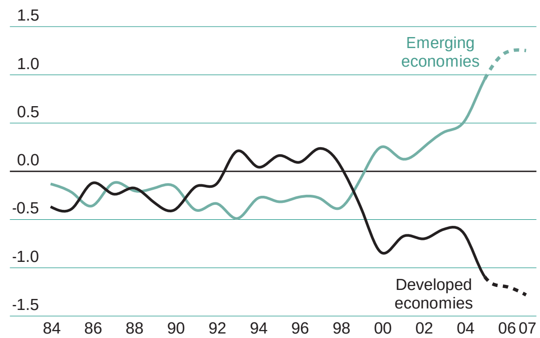
The central scenario of high global growth, renewed investment cycles, controlled inflation, and neutral monetary policies are not, however, exempt, from uncertainties. Such risks are derived mainly from two factors. The first, a new oil supply shock that would again send oil prices soaring, could generate greater inflationary pressure in

Investment
% of GDP



Note: Projections as of 2006
Source: BBVA

Current Account
% of world GDP



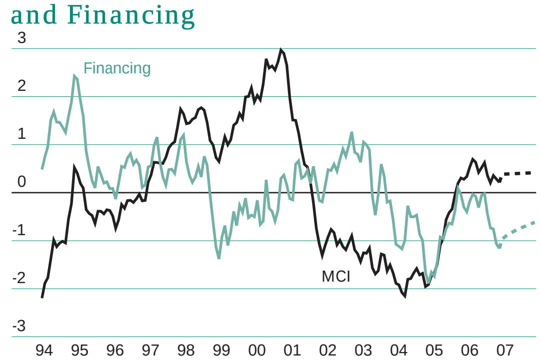
Note: Projections as of 2006
Source: BBVA with IMF data

Financial Projections
End of year

	2005	2006	2007p
Official rates			
U.S.	4.25	5.25	5.25
EMU	2.25	3.50	4.00
10-year rates			
U.S.	4.5	4.7	4.9
EMU	3.4	3.9	4.1
Dollar/euro	**1.19**	**1.32**	**1.30**

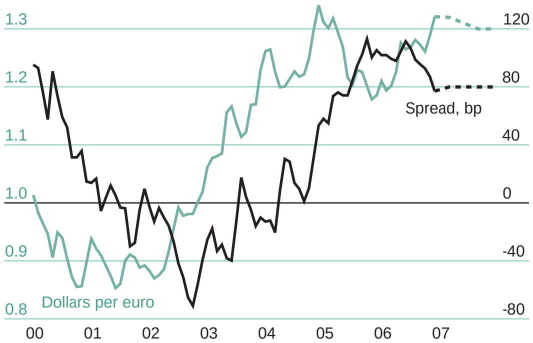
p projection
Source: BBVA

U.S.: Monetary Conditions Index* (MCI) and Financing



* Using core inflation
Note: Projections for 2007
Source: BBVA

Exchange Rate and Spread in 10-Year Interest Rates U.S./EMU



Note: Projections for 2007
Source: BBVA

the short term and recessive effects in the medium term. However, although the geopolitical risk remains, the recent development of oil prices appears to confirm BBVA's central scenario of moderation to levels between 50 and 55 dollars per barrel throughout 2007. In addition, anchoring medium-term inflation expectations and earnings in terms of energy efficiency of the economies appears permanent.

The main risk factor at present comes from the U.S. economy, specifically from the scope and duration of the adjustment in the real estate sector. And, above all, how much it will impact employment, household spending, and other economies. For the moment, as was mentioned previously, there are support factors that continue to sustain the soft adjustment scenario as the most probable.

At the present time, the balance of risks in the global scenario in the medium term is the decline of interest rates and a depreciation of the dollar.

Factors Behind Chinese Growth in 2007

Last year, the Chinese economy maintained high real growth (10.7%), which was the highest in 11 years and surpassed analyst expectations. This dynamism was boosted by investment—representing 50% of GDP—and the foreign sector where positive net flows are now close to 10%. Currently, the objective of the government is to achieve a gradual and orderly slowdown, seeking that investment and foreign surplus will tend to grow close to 8% and boosting domestic consumption. The soft slowdown forecast—and not a halt in activity—is a constant between the government and international analysts since 2004, but it could be closer to being achieved this year. The following is an analysis of the economic outlook for China in terms of four key factors: real activity, the foreign sector, monetary policy and growth risks.

Keys to real activity

In the short term, investment will continue to play a decisive role in economic growth in China, while consumption will gain share in GDP gradually. Nevertheless, for both to be at the same level, it will be necessary to wait until the end of the current five-year plan. The main concern does not lie in a soft slowdown in the short term, but rather in the sustainability of long-term growth.

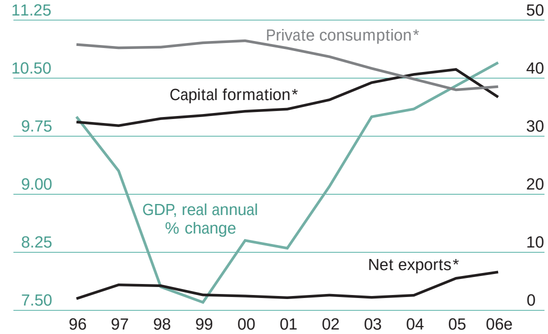
In 2007, the slowdown seen in recent months should continue, based on maintaining the restrictive policy of the central government, as well as the reforms regarding the distribution of dividends by state-owned firms—which will reduce their available funds for investment—and the evaluation of the management by the local governments, based on qualitative and not just quantitative criteria. However, in the medium term, it will be the acceleration of investment in infrastructure—relatively stagnant since 2003—that will be additionally boosted by the inauguration of new government equipment at all levels of the administration. The 2006-2010 five-year plan includes investments in infrastructure of 3.8 billion renminbis (approximately US$495 billion) in highways, ports and railways and 140 billion renminbis (close to US$18 billion) in airports. In total, we estimate that investment in China will be at least 50% higher than the investment made in the previous five years.

Key to Chinese foreign sector

For 2007, there will persist a high trade surplus and the accumulation of foreign currency reserves where the contraction in domestic demand (particularly investment) will intensify the dependence of growth on the foreign sector. However, the appreciation of the Chinese currency, the easing of certain controls on capital outflows, the rise in foreign direct investment and the increase in production costs will delimit the increase in the surplus. The main keys for 2007 will be:

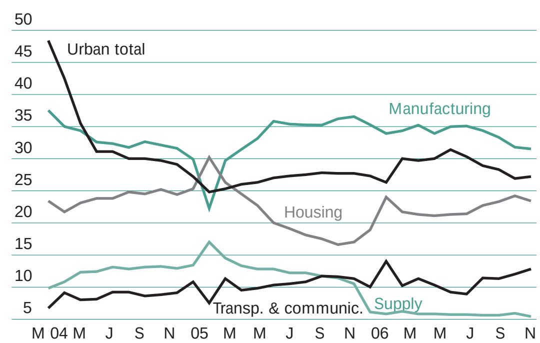
1. The growing protectionist sentiment among the Chinese entrepreneurial class (more evident as of foreign participation in Chinese banks) that is pressuring Beijing toward protectionist policies.

GDP: Main Components



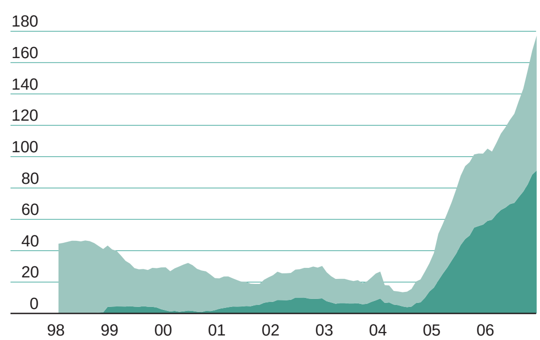
* GDP %
e estimated
Source: BBVA with Datastream data

Fixed Urban Investment
% share in growth by sectors



Source: BBVA

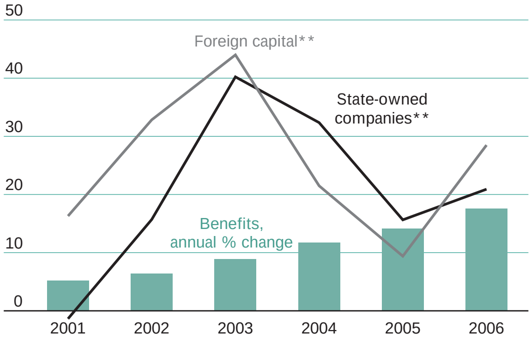
Trade Balance by Type of Company
Cumulative nominal, last 12 months, billions of dollars



Domestic
Foreign capital
Source: BBVA

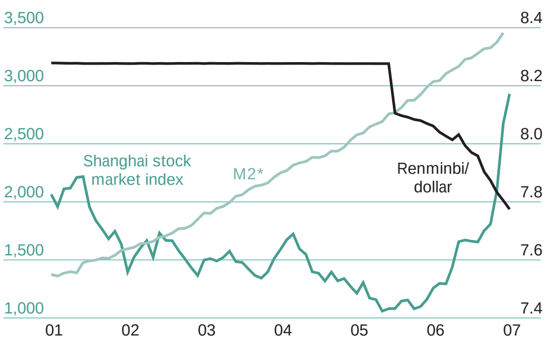
Performance of Company Benefits*

End of period, at 2000 prices



* Industrial companies with annual sales greater than 5 billion renminbis
** Billions of renminbis
Source: BBVA

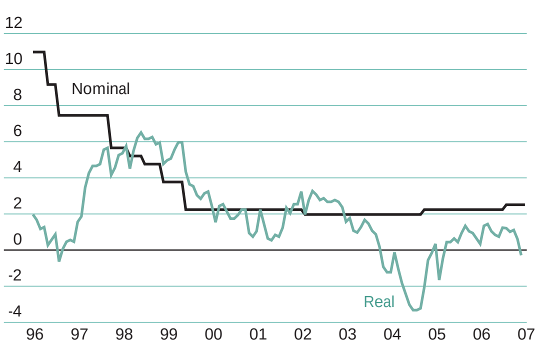
China: Conditions of Monetary Liquidity and Appreciation of the Renminbi



* Billions of renminbis
Source: BBVA with Datastream data

Official 12-Month Deposit Rate

Annual %



Source: BBVA with Datastream data

The national consensus is that China does not need to continue to attract foreign investment with preferential treatment plans, and therefore, they should compete under the same conditions as the national companies. On the one hand, the foreign investment firms that use China as an export platform contribute over 50% of the foreign imbalance, and BBVA estimates indicate that, in the aggregate, Chinese exports account for more than two thirds of the imports component.

On the other hand, their benefits in 2006 grew more than the state-owned companies, following the slowdown of the two previous years. In March, the review of tax concessions to exports is expected (reimbursement of the VAT) in force since 1996 and the homogenization of the tax treatment, which presupposes an estimated increase in the current tax rate of 15% for foreign investment companies to more than 25%.

2. The intensification of intra-regional competition due to exports, in particular in case of a slowdown in foreign demand that could pressure toward intervention of other central banks in the region in order to maintain the competitiveness of their exchange rate.

3. The creation of a special agency for investing part of the reserves with more aggressive profitability criteria than those of the central bank. Although, the central institution will maintain the administration of most of the reserves, the creation of said agency will accelerate the diversification process and, in time, will contribute toward reducing the pressure of appreciation on the renminbi.

Monetary policy keys in China

The monetary policy will be more restrictive in 2007, continuing last year's trend. The central bank is showing concern regarding the rapid increase of liquidity in the system and—as a result—due to inflation in assets, in particular as a result of the formation of a speculative bubble in the securities and real estate markets.

The options of the central bank to withdraw liquidity could be, among others: (a) to increase the compensation on the deposits of the financial institutions with the central bank and new rises in the cash coefficient; (b) to eliminate the current 20% tax on the earnings of bank deposits and new increases in the official interest rates; (c) to establish a tax on capital earnings in the stock exchange, in an analogous way, to the tax on the benefits of real estate promoters;[1] and (d) a more aggressive appreciation of the renminbi against the U.S. dollar.

In 2007, conditions are in place for new increases in interest rates in China; of note among these are: (a) the backing of Beijing on the objective of reducing liquidity; (b) higher inflation on the basis of the continuous increase in disposable income and in production costs; (c) the real interest rates in minimums; and (d) the lower probability of reductions in the U.S. federal funds rate (Fed).

1 In force as of February 1, 2007. See original communiqué at: http://www.chinatax.gov.cn/n480462/n480498/n575817/4933245.html

Risks for the Chinese economy

Domestic factors:

1. A more restrictive monetary policy than expected: a re-acceleration of investment could cause greater rises in interest rates, although subject to the exchange rate policy. Excessively high interest rates could cause an abrupt drop in investment and the massive entry of capital flows of a speculative nature in view of the reduction of spreads and appreciation expectations of the renminbi.

2. Surprises in inflation in case: (a) the government allows significant rises in agricultural prices and—the same as in the past—the improvement in rural income reduces migration and labor supply in Chinese cities; and (b) if the tax on fuels and the reform of its prices in line with the fluctuation on the international markets[2] is approved, as well as the upward review of other government-regulated prices, mainly in energy supplies and natural resources.

3. A more aggressive than expected appreciation of the renminbi: the appreciation rate of the renminbi could accelerate prior to the second bilateral U.S.-China summit meeting in May. However, the consensus of appreciation in China is maintained at around an annual 5%, and a surprise upward move could cause serious losses due to uncovered financial positions.

4. Financial crisis: there still exist doubts regarding the solidity of the banking sector in face of an abrupt slowdown of activity and a rapid increase in unpaid loans. In the capital market, expectations of a gradual appreciation of the renminbi and an expected increase in stock investments by the insurance companies—among other institutional investors—explain the optimism on share valuations, but also the risk of a more restrictive monetary policy and the potential formation of a bubble similar to that of Japan in the eighties.

5. Political environment: in 2006: the Chinese government started an anti-corruption campaign[3] that could cause new public projects to be postponed for fear of being involved in an investigation. The uncertainty surrounding the renewal of command of the Chinese Communist Party (CCP) in October and the formation of a government team committed to the economic reform process will be key in the coming five-year period. About two thirds of the high officials faithful to the binomial Hu-Wen would have renewed their posts up to the moment, reinforcing their position in face of the most conservative of the CCP. At the same time, the region is living a year of controversial elections (Thailand, Taiwan) that could be the cause of greater volatility and instability on the markets.

External factors:

1. Propagation of the avian flu. The development of the avian flu is the greatest risk at this time. The epidemic is out of control in Indonesia, Thailand and Vietnam; and, recently, it has caused

2 http://english.gov.cn/2007-01/30/content_512996.htm

3 In Shanghai, 11 high official posts and 9 other persons have been accused of the crime of corruption for US$475 million, and, in the banking sector, 164 employees for US$3.3 million.

China: Forecast Consensus
Renminbi per dollar

Organization	Renminbi/ dollar	Annual appreciation	Affiliation
Trade Ministry	na	3%	Cabinet
NDRC	na	2-3%	Cabinet
Prof. Fan Gang	na	5%	Central Bank
CAITEC	7.10-7.50	3.1%-4.1%	Trade Ministry
CICC	7.44	5%	Central Huijin Inv.
China Jianyin Investment Securities	7.50	4.10%	Private
China Galaxy Securities	7.46	4.70%	Private

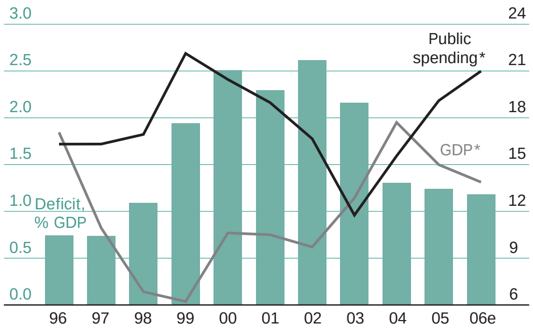
Source: BBVA, China Press

Political Calendar in Asia for 2007

Date	Country	Leader	Event
May	Philippines	Gloria M. Arroyo	Legislat. elections; in 2010, Presidential
July	Hong Kong	Donald Tsang	Elections for Governor
July	India	Manmohan Singh	Presidential Elections
July	South Korea	Roh Moo-Hyun	Presidential Elections; in 2008, Parliament
October	**China**	**Hu Jintao**	17 Congress Chinese Communist Party
October	Thailand	Surayud Chulanot	Presidential elections
December	Taiwan	Chen Shui-bian	Legislative elections; In 2008, Presidential

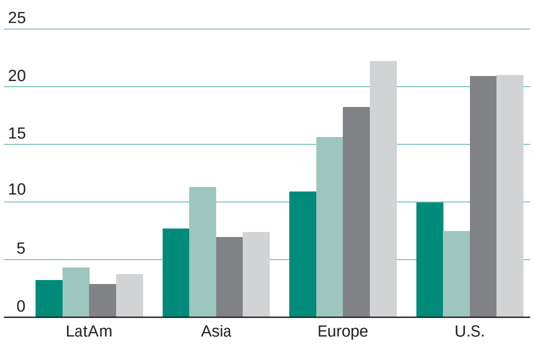
Source: BBVA, Merrill Lynch, press

Public Spending and Fiscal Deficit
At current prices, 2006 estimated



* Annual % change
e estimated
Source: BBVA with Datastream data

Foreign Trade by Region
% share, at current prices



Source: BBVA with Chinese Trade Ministry data

alarm in Japan. Even if the authorities were to react immediately, the risk lies in a possible mutation of the virus that would make possible the transmission between persons, causing a human epidemic. In the worst scenario, the economic loss is estimated at 2% of GDP of the region, that is, over US$90 billion and an unpredictable number of human losses.[4]

2. Abrupt slowdown in the U.S. or oil price increases. In both scenarios, the Chinese economy is in a better situation than in the past to counteract its potential negative impact. A conservative fiscal policy has placed it in a solid position to establish more expansive policies should it be necessary. At the same time, its foreign sector is increasingly more interrelated with other geographical areas, mainly Europe and other emerging countries in Asia and Latin America, thereby reducing its dependence on the U.S.

3. Trade protectionism. If China does not significantly appreciate the renminbi against the dollar, the protectionist threats of the U.S. could finally see the green light, seriously damaging bilateral relations. However, the focus of attention could turn, in its place, toward Japan and the weakness of the yen

In short, we expect that the risks will remain moderate and growth solid in 2007, prolonging the longest stage of stable growth in China.

4 Milan Brahmbhatt of the World Bank (November 2005).