

## **Economic outlook fo Latin America: Amazingly good given the circumstances**

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September, 2008

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Doing well after the US collapse

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Positive given the circumstances

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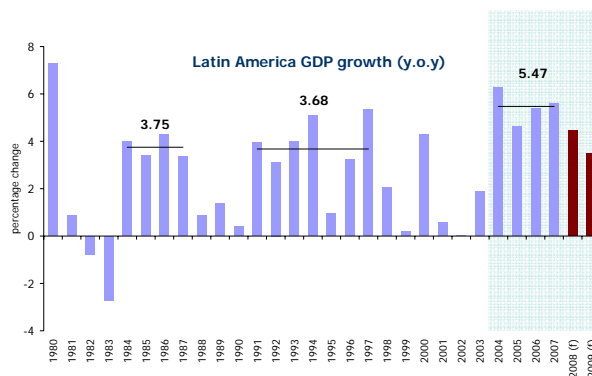
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## 1. Current developments

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### Characteristics of the current economic cycle:

- 1) Longer and higher growth.
- 2) Recent slow-down but moderate given the external environment



Source: IMF, National Sources and BBVA calculations \*Argentina, Brasil, Chile, Colombia, México, Perú y Venezuela

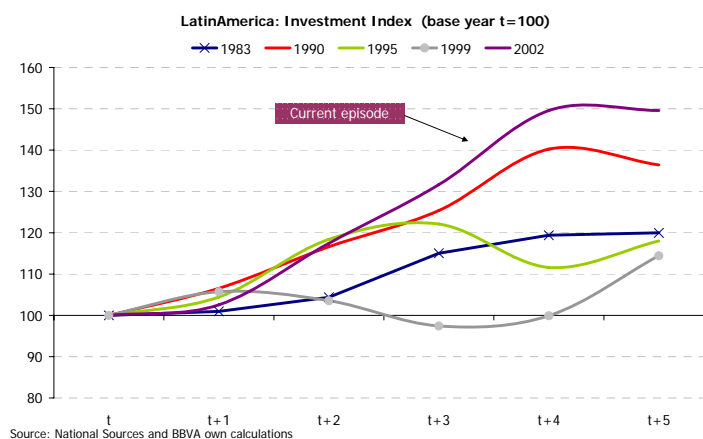
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## 1. Current developments

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### Why: 1) High vestment rates



Source: National Sources and BBVA own calculations

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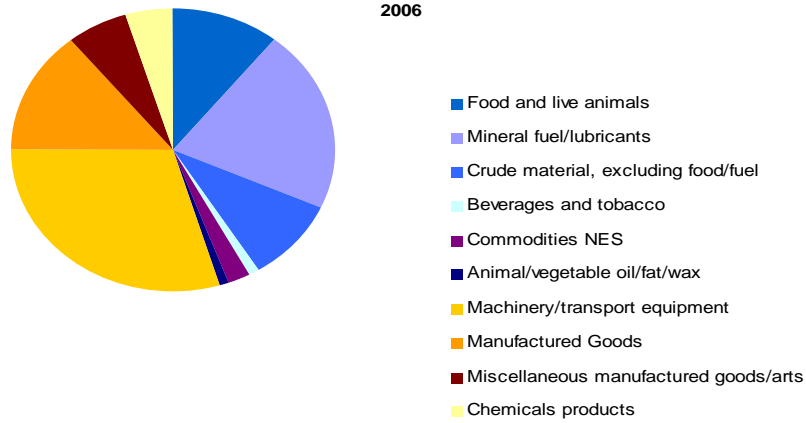
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1. Current developments

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Why: 2) More export diversification by product

Diversification by product



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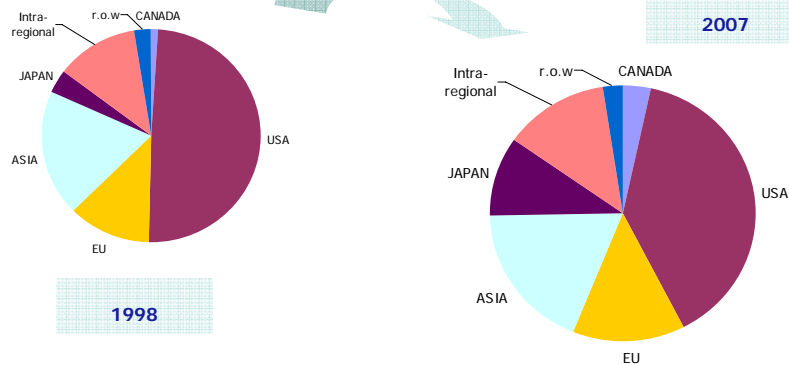
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1. Recent developments

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Why: 3) More export diversification by destination

Diversification by destination



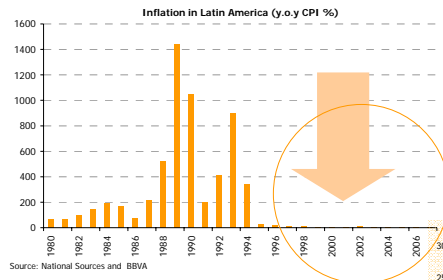
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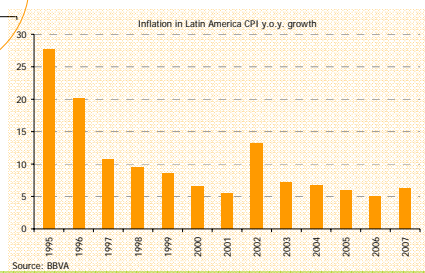
## 1. Recent developments

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### Why: 4) Major achievement in macro stability



#### 1. Lower inflation



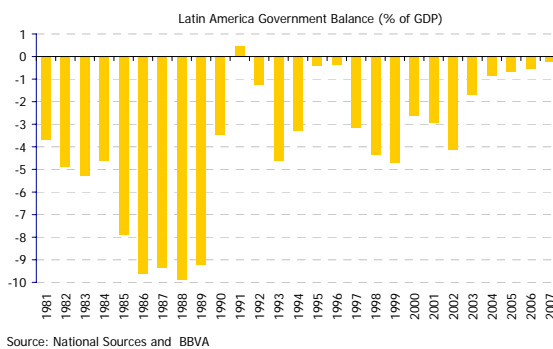
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## 1. Major developments

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### Why: 4) Major achievement in macro stability



#### 1. Lower inflation

#### 2. Lower fiscal deficit

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1. Recent developments

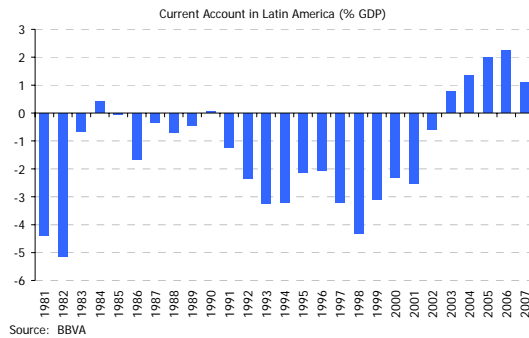
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Why: 4) Major achievement in macro stability

1. Lower inflation

2. Lower fiscal deficit

3. Lower external deficit



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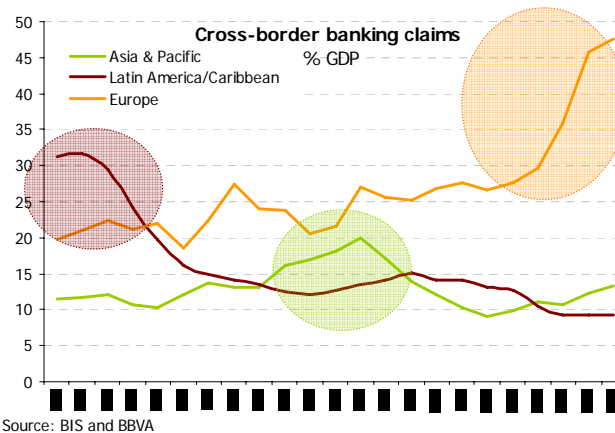
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1. Recent developments

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Why: 5) less dependence from foreign borrowing

Borrowing from international banks has followed relative to GDP, while it has increased substantially in emerging Europe.



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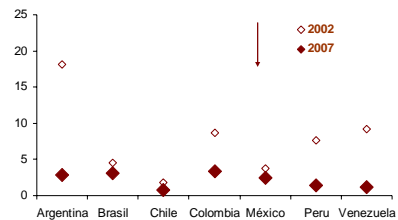
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## Why: 6) Sounder banking system

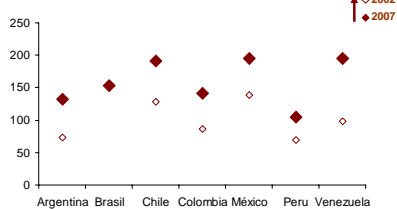
1. Banking regulation and supervision has improved and conservative policies have been maintained. In fact, the trend in credit quality has been very positive.

2. Highly provisioned

Latam, Bank non performing loans to total loans



Latam, Bank Provisions to nonperforming loans



Furthermore, no subprime losses

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## 2. Outlook and investment opportunities

Positive given the circumstances

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- The region has passed some important tests in the last years and currently is facing new challenges.
- They seem to be under control notwithstanding the horrible external environment

1 The first test, a hike in interest rates in the US

2 The second test, the "Election cycle"

3 The third test, global financial turbulences

4 The fourth test, growing inflation

5 The fifth test, commodity prices

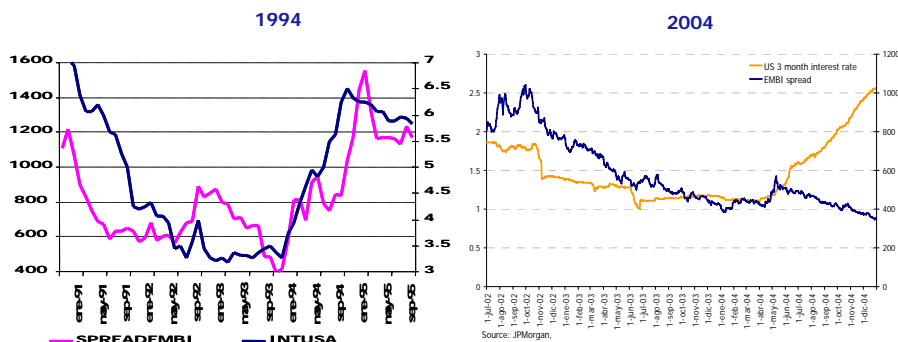
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1 The first test, a hike in interest rates in the US

**In 1994 spreads and interest rate moved closely together. However this relation seems broken since 2004**

**EMBI spreads and 3 month interest rates in the US**



Source: JPMorgan and FED

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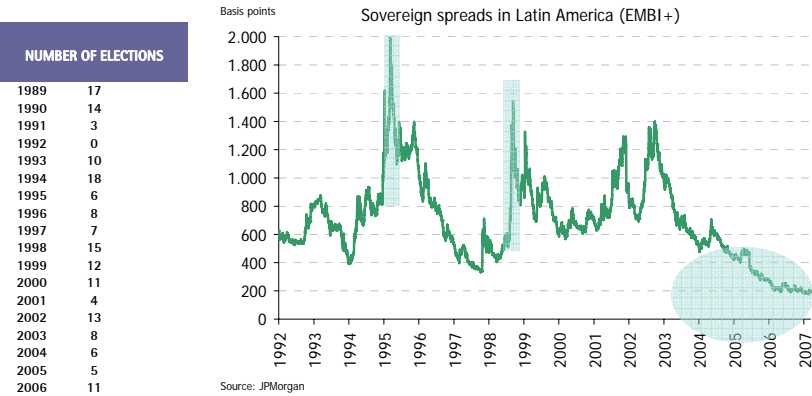
## 2. Outlook

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### 2 The second test, the "Election cycle"

In the past election periods weigh a lot.

...but now better economic fundamentals weigh more than election periods



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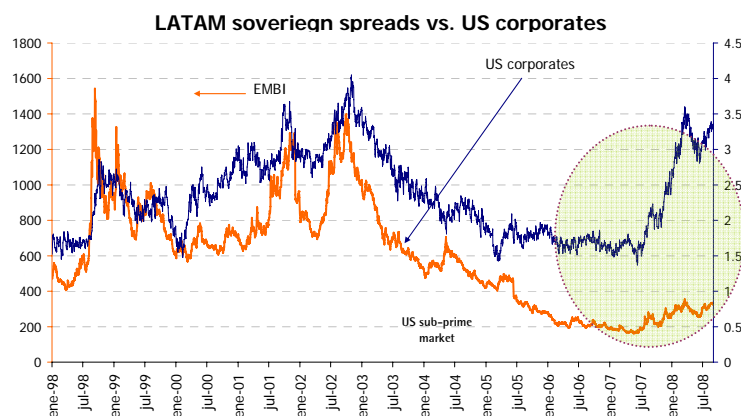
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## 2. Outlook

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### 3 The third test, global financial turbulences

Latin American ones have experienced a relatively marginal deterioration of financing conditions, in contrast with behavior of US corporate bonds



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## 2. Outlook

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### The third test, global financial turbulences

Despite the unfavorable environment, some countries in the region have recently obtained the Investment Grade

	2001		2007		Current grade	
	From	to	From	to		
Argentina	↓	BB- SD	→		B+	
Brazil	↓	B+ BB-	↑	BB+ BBB-	BBB-	New Investment Grade
Chile	→		→		A+	
Colombia	→		→		BB-	
Mexico	↓	BB+ BBB-	→		BBB+	
Perú	→		↑	BB+ BBB-	BBB-	New Investment Grade
Venezuela	→		→		BB-	

Source: Standard and Poors and BBVA

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## 2. Outlook

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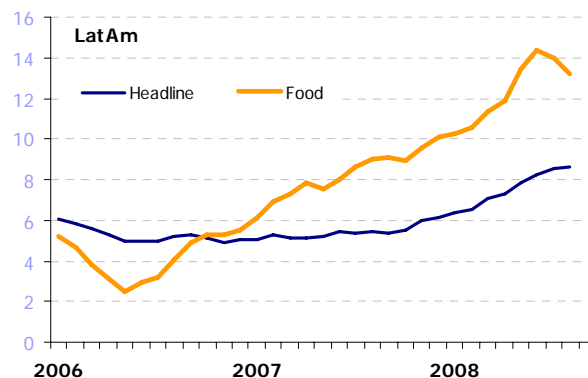
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### The fourth test, growing inflation

Inflation is accelerating but mainly food

Monetary policy is reacting aggressively

Hard to think inflation will get out of control: history matters!



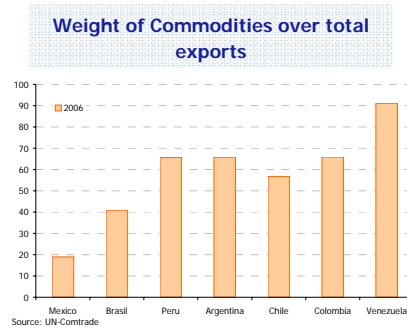
Source: IMF, National Statistical Authorities and BBVA calculations. Aggregate weighted with GDP

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## 5 The fifth test, commodity prices

Latin American countries are still highly dependent on commodities



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## Tests in the current difficult external environment

## Check list

- |   |  |   |
|---|--|---|
| 1 | The first test, a hike in interest rates in the US | ✓ |
| 2 | The second test, the "Election cycle"              | ✓ |
| 3 | The third test, global financial turbulences       | ✓ |
| 4 | The fourth test, growing inflation                 | ? |
| 5 | The fifth test, commodity prices                   | ? |

•History is good basis to avoid 4

•Large buffer for 5: reserves and Asia. Still diversification needed

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## IN SUM

- Nobody would have expected Latin America to withstand the current US circumstances in such a good way
  - Trade relations with Asia are a large part of that story
- Latin America and Asia are highly complementary: not only commodities but also different geography (proximity to US)

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## IN SUM

- Important to foster relations even further: that is why we are here!
- This is what BBVA is doing with banks in 9 countries in Latin America and a growing presence in Asia
  - Strategic partnership with CITIC in China and Hong Kong
  - Branches and representative offices in the major capitals in Asia
  - And plans for further expansion

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**Thank you very much**

**Questions welcome**