



## Latin America shines: Is it for real this time?

Latibex

November, 2010

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### Main Messages

- Latin America has changed, both politically and economically
- A great deal of macroeconomic stability has been achieved: inflation has been conquered in most countries and fiscal discipline is now widespread
- These changes, together with external factors such as growing ties with Asia and benign terms of trade, have contributed to sustained growth in the region
- The region has passed major economic and political tests, and is emerging stronger from the current financial crisis: higher credit ratings and lower risk premiums are evidence of this
- There have been a few setbacks, but we believe they will be temporary
- Major challenges remain, but growing middle classes with an stake in the good performance of the economic system is a major source of stability
- There is room for further increases in potential growth if reforms materialize in microeconomic issues, investments in infra-structure and education
- We are convinced that this time is for real: Latin America is entering a path of sustained progress

## Index

Latin  
America  
shines: Is it  
for real this  
time?  
Latibex

Section I  
**Global Outlook**

Section II  
Latin America breaks with the past

Section III  
Latin America passes the “stress test”

Section IV  
A bright future, if the right road is taken

Section V  
Latin America: Investment possibility

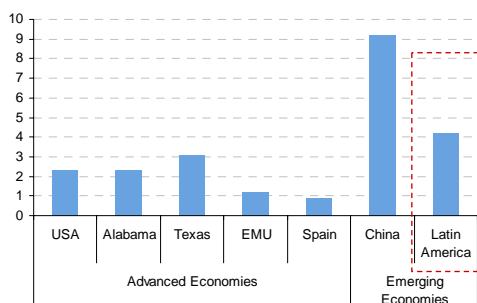
Section I  
**Global Outlook**

**Global Outlook**

Economic growth in 2010 across key geographical areas will be above expected one year ago. We expect positive growth for BBVA's key markets, significantly higher in Emerging Markets.

**2011 GDP growth revision**

Source: BBVA Research Forecasts. \*Latin America: Arg, Bra, Chi, Col, Mex, Per and Ven.



**Latin  
America  
Economic  
Growth:**

- **Breaks with the past**
- **Passes the “stress test”**
- **A bright future:**
  - Capital inflows
  - Commodity Prices
  - Asian Dynamism
  - Potential Growth

## Global Outlook

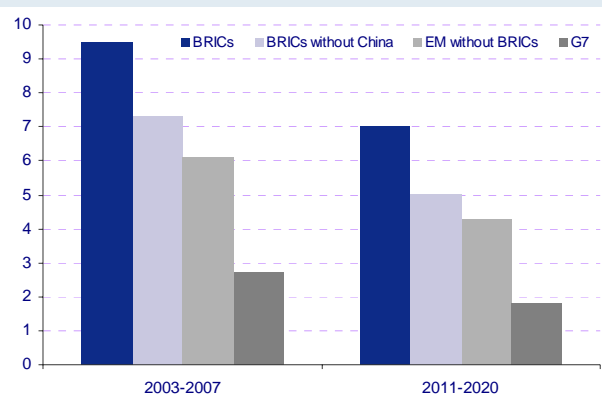
## Towards a two speed World

G7 countries' growth is expected to remain below 2% for the next 10 years

Emerging markets growth will outpace the G7 average by 4pp including China and 2,5pp excluding the Asian giant

## GDP adjusted by PPP: growth rate

Source: BBVA Research and IMF



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, Philippines, Poland, Qatar, Romania, Russia, Slovak Rep., South Africa, Sri Lanka, Sudan, Taiwan, Thailand, Tunisia, Turkey, Ukraine, UAE, Venezuela, Vietnam.

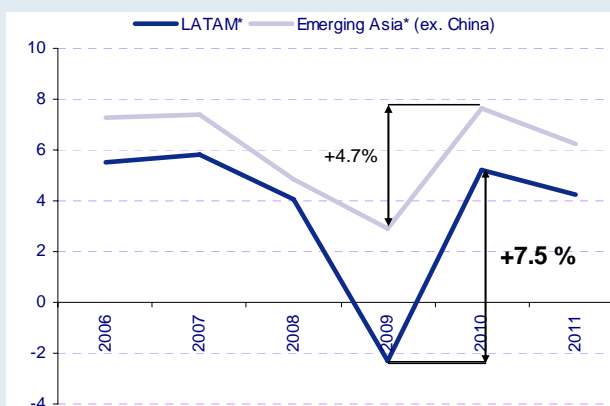
## Global Outlook

Everybody is looking at Asia, but the strength of Latin America can stand up to comparison

The recovery has been as strong, taking into account a deeper impact of the crisis

## GDP growth rate

Source: BBVA Research and IMF

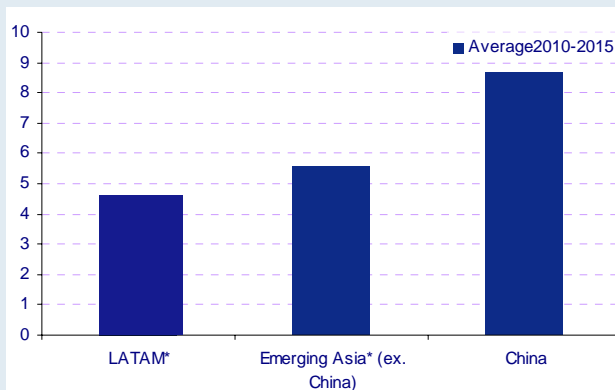


## Global Outlook

Excluding China, the growth differential is moderate (1pp) and...

**LATAM vs. ASIA: Potential GDP growth between 2010-2015**

Source: BBVA Research



LATAM: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela

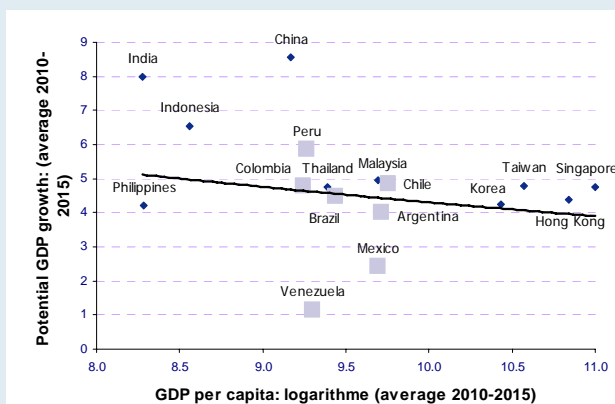
Emerging Asia: Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand

## Global Outlook

Moreover, since Latin American countries are more developed, their growth rates look very attractive

**LATAM vs. ASIA: Potential GDP growth and income per capita**

Source: BBVA Research



## Global Outlook

## BRICs (GS)



## Based on absolute size

- Bigger does not necessarily determine market potential



## Static concept

- Allows no anticipation: too much inertia
- Too long horizon: at least 20-25 years
- Why four countries? Subjective



## No clear cut-off

## BBVA EAGLEs definition



## Based on absolute growth

- Large enough size plus...
- Fast enough growth



## Dynamic concept

- Anticipation: dynamic concept
- Shorter horizon: next 10 years
- Flexible number of countries: "Club admission" depends on performance



## Defined Cut-off: the G6

BBVA EAGLEs is the set of countries whose contribution to World GDP growth is expected to be larger than that of the average G6 economy

## Global Outlook

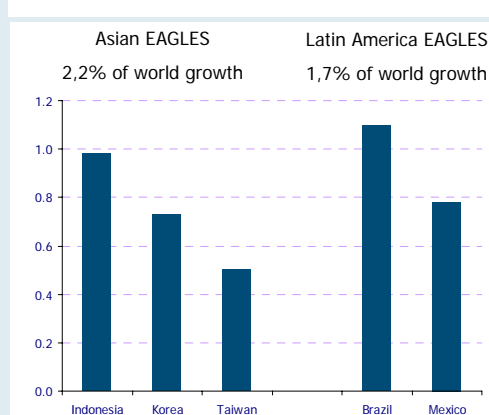
BBVA EAGLEs : Latin America compares with Asia in terms of its role for global growth in this decade

- 1) Latin American EAGLEs similar to Asian (ex China-India)
- 2) Latin American NEST countries close to Asian. Andinos region would make it into EAGLE status

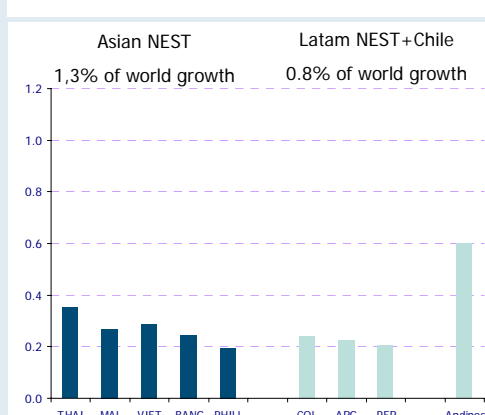
## Contributions to World GDP growth: 2010-2020

Source: BBVA Research

## EAGLE countries



## NEST countries



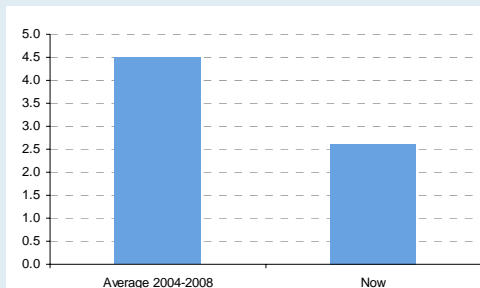
## Global Outlook

## High liquidity and low interest rates, at least for a while

While the long-term benchmark rate in USA is at record low levels due to high and rising liquidity to revive lending in the Advanced Economies, Latin America (as most Emerging Markets) has seen risk premiums fall, creating very favorable financial conditions and pressures for their currencies to appreciate

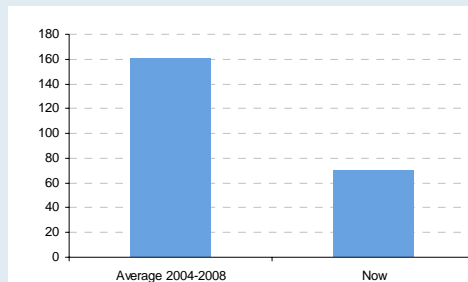
## Benchmark Rate US Treasury Bond (10 Y)

Source: BBVA Research Forecasts.



## Spread CDS Latin America vs. Germany.

Source: BBVA Research Forecasts. \*Latin America: Bra, Chi, Col, Mex and Per.



## Index

Latin  
America  
shines: Is it  
for real this  
time?  
Latibex

Section I  
Global Outlook

Section II

Latin America breaks with the past

Section III

Latin America passes the "stress test"

Section IV

A bright future, if the right road is taken

Section V

Latin America: Investment possibility

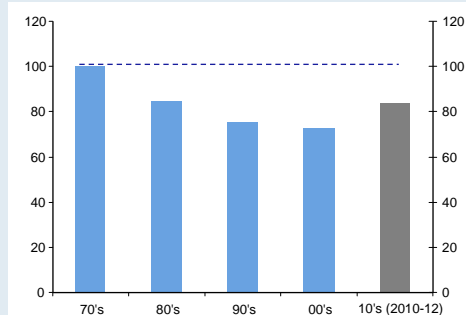
## Latin America breaks with the past

Latam is beginning to close the Income Gap after decades of disappointment

The financial crisis has not stopped the convergence process. In the past, recessions meant long periods of divergence

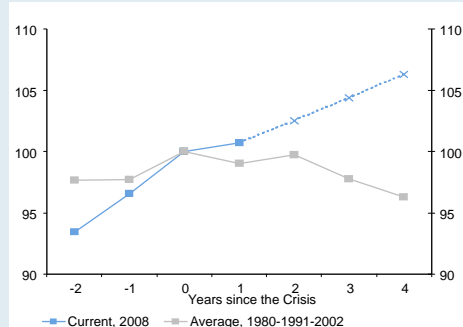
**LatAm, GDP per capita, relative performance to US, decade average. 70's=100**

Source: BBVA Research



**LatAm, GDP per capita, relative performance to US, crisis(\*) comparison. (\*) US recession in terms of GDP pc.**

Source: BBVA Research

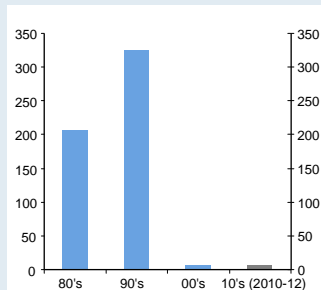


## Latin America breaks with the past

While taming inflation in the late 90s, the region made sustained progress in external and public solvency over the years

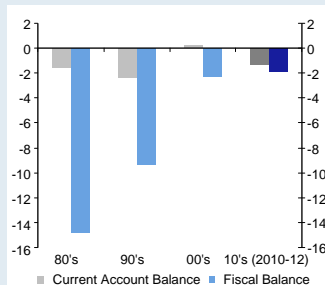
**LatAm, Inflation CPI, %, yearly average**

Source: BBVA Research



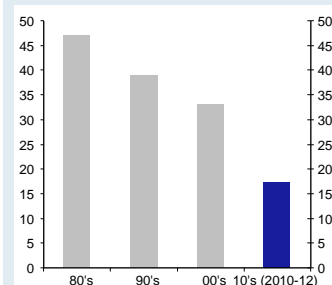
**LatAm, External and Fiscal Balance. As % of the GDP**

Source: BBVA Research



**LatAm, External Debt As % of the GDP**

Source: BBVA Research



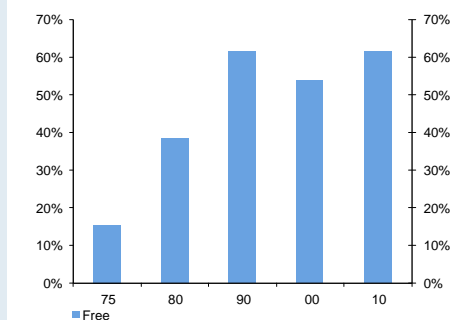
## Latin America breaks with the past

Economic change has come along with institutional progress

### LatAm, Political Freedom

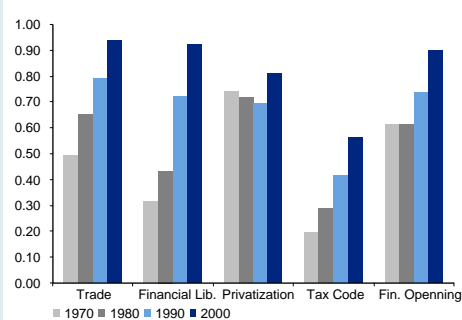
#### Freedom House Index, % of free countries

Source: BBVA Research with Freedom House data



### LatAm, Economic reforms

Source: BBVA Research based on IADB and ECLAC data



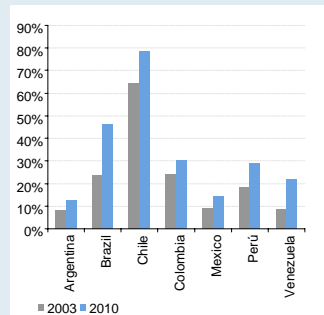
## Latin America breaks with the past

The banking systems have been able to speed up credit supply, to cut NPL losses and to preserve high capital to assets levels

### LatAm, Credit

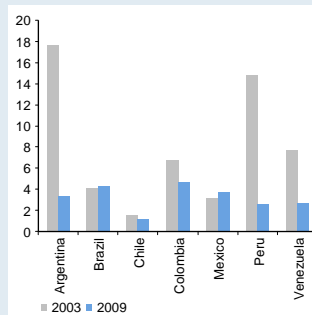
#### As % of the GDP

Source: BBVA Research, GSFR, 2010 Forecast.



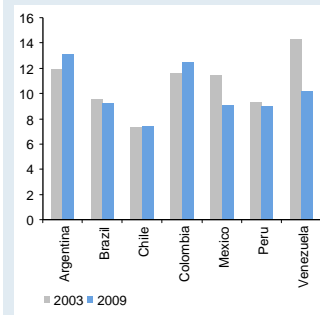
### LatAm, NPL %

Source: BBVA Research, GSFR



### LatAm, Bank Capital to Assets %

Source: BBVA Research, GSFR





## Index

Latin  
America  
shines: Is it  
for real this  
time?  
Latibex

Section I  
Global Outlook

Section II  
Latin America breaks with the past

Section III  
**Latin America passes the “stress test”**

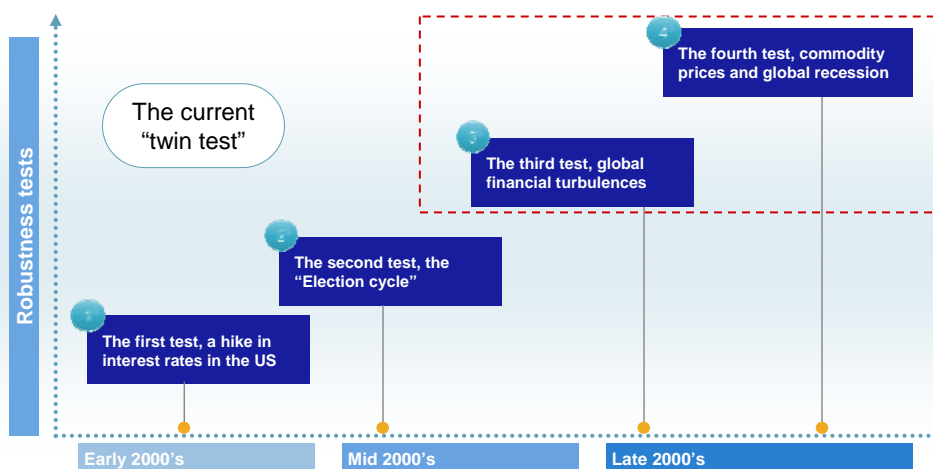
Section IV  
A bright future, if the right road is taken

Section V  
Latin America: Investment possibility

## Section III

The region has passed a demanding sequence of tests since the 90s

The region made substantial economic and institutional reforms, but also enjoyed a benign favorable environment in the second half of the 00s  
But the region also confronted – and passed -severe tests, including the global financial crisis of 08



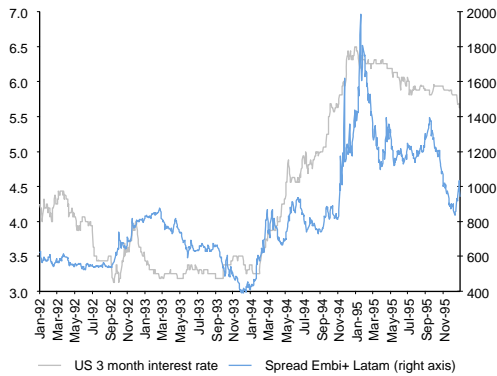
## First test: increase on global interest rates

Response to an increase on global interest rates: decoupling based on enhanced financial soundness

1994

## Spread EMBI Latam vs. US 3 month interest rate

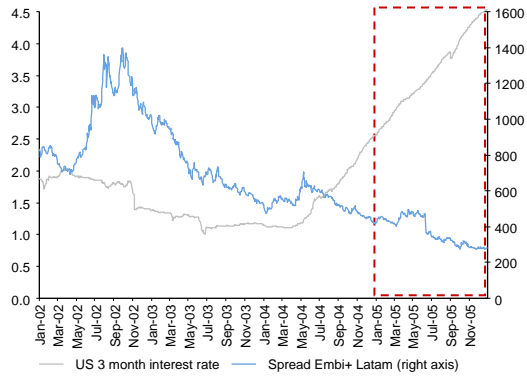
Source: JP Morgan, Datastream and BBVA Research



2004

## Spread EMBI Latam vs. US 3 month interest rate

Source: JP Morgan, Datastream and BBVA Research

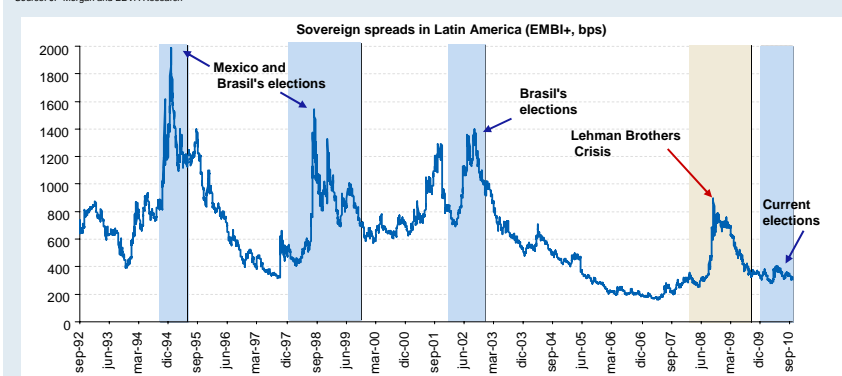


## Second test: the "Election cycle"

Presidential elections are losing their negative impact on risk premium they used to have in the past

## Uncertainty during Electoral Periods Embi spread Latin America, bps

Source: JP Morgan and BBVA Research



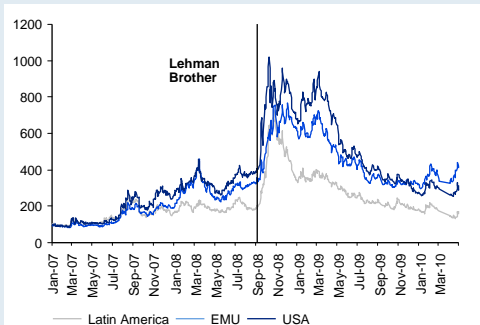
## Third test: global financial turbulences

The region resisted the global financial crisis, and has come financially stronger: lower spreads and less volatility without net foreign outflows

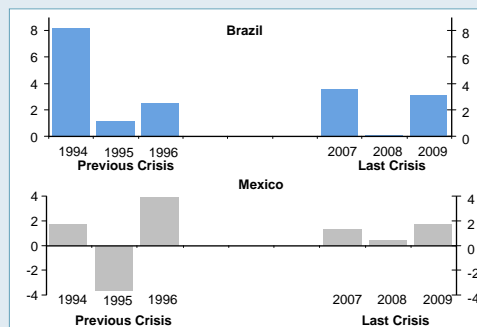
## BBVA Research Financial Stress Indicator

Jan07=100

Source: BBVA Research

Portfolio Foreign Investment  
Net Inflow, as % of GDP

Source: BBVA Research

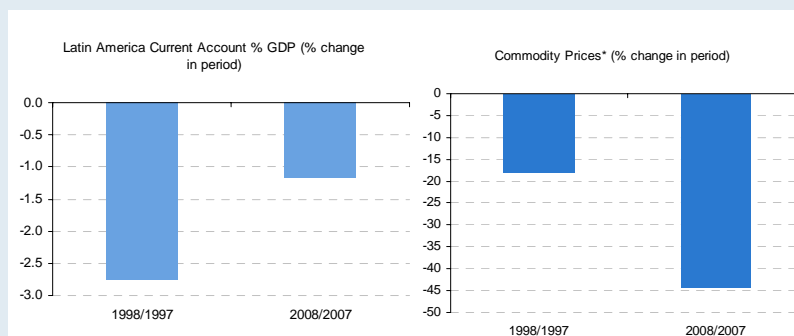


## Fourth test: commodities prices and global recession

The deterioration of the Current Account was milder than in the Asian Crisis in spite of a larger negative commodity prices shock

## Deteriorations in crisis periods

Source: BBVA Research. \*Latin America: Arg, Bra, Chi, Col, Mex, Per and Ven. \*Price average: Soybean, Brent and Copper.

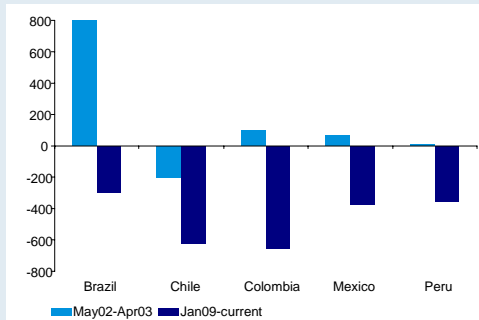


## New resilience allows countercyclical policies

In this cycle fiscal and monetary policies were expansionary, marking a major break with previous cycles when financial constraints did not allowed them

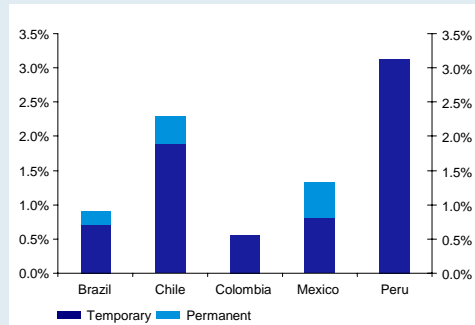
### Interest Rate changes during crises (2002 compared to 2009)

Source: BBVA Research



### LatAm, Fiscal Stimulus as % of the GDP

Source: BBVA Research



## Index

Latin  
America  
shines: Is it  
for real this  
time?  
Latibex

Section I  
Global Outlook

Section II  
Latin America breaks with the past

Section III  
Latin America passes the "stress test"

Section IV

## A bright future, if the right road is taken

Section V

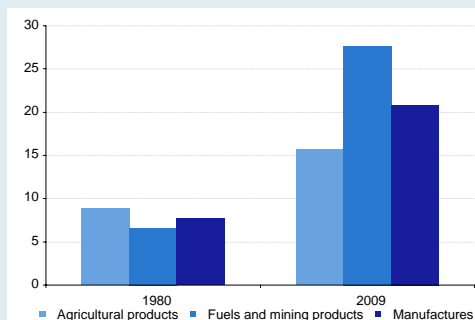
Latin America: Investment possibility

## A bright future, if the right road is taken

A more open region, both to trade and investment, is benefiting from Asian dynamism

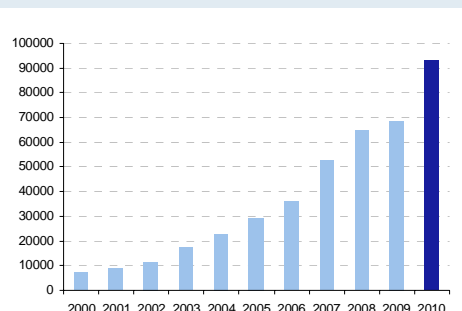
**Emerging Asia: share in world imports (%)**

Source: BBVA Research



**Latin America Exports's to Asia (US\$ M)**

Source: BBVA Research.



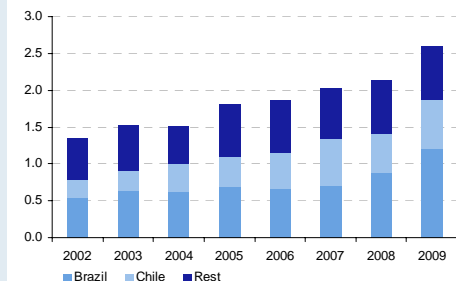
## A bright future, if the right road is taken

The region has increased significantly its trade integration with Emerging Asia during the last decade, mainly at the expense of traditional trade partners (U.S.).

Initially Latam's exports to Asia have been biased towards commodities and are benefiting from high prices

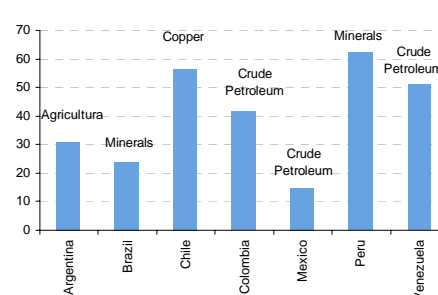
**Asian imports from Latin America (% over total Asian imports)**

Source: MF and BBVA Research



**Concentration of the main product's exports to Asia from Latin America (% over total exports in each country).**

Source: BBVA Research.



## A bright future, if the right road is taken

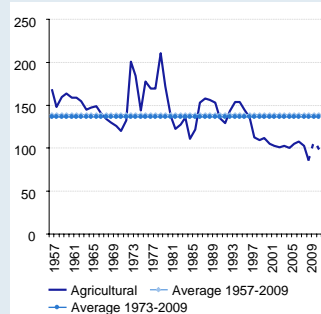
Rising incomes, urbanization and fast industrialization in China put a lot of pressure on all kind of commodity markets. India is just at the beginning of a similar process

Commodity prices have been resilient to the financial crisis. A new cycle of high prices seem to be starting, fueled by fast Asian development. There is a similarity with the post WWII reconstruction in Europe and Japan

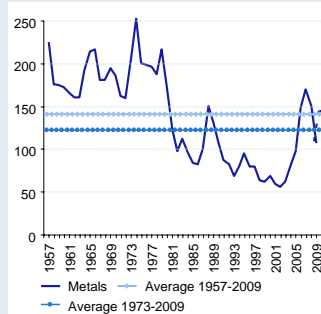
## Long-term trends in commodity prices (US cents 2009/pound)

Source: IADB (2010) and BBVA Research

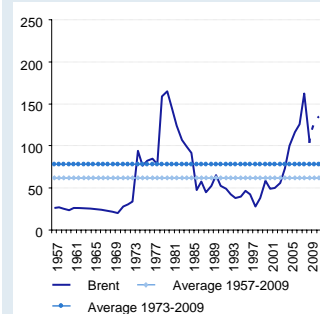
## Agricultural



## Metals



## Brent

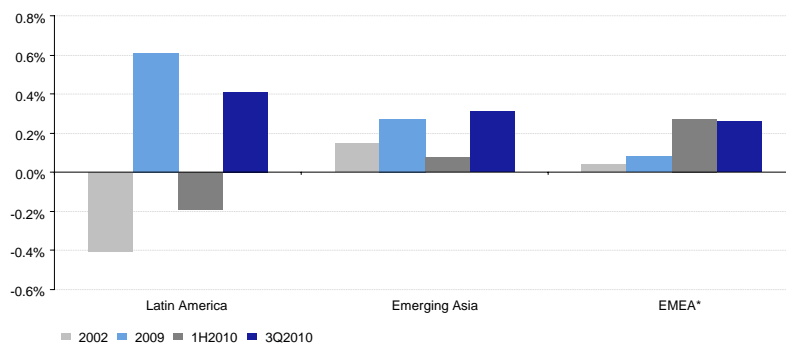


## A bright future, if the right road is taken

Strong growth, (relative) high yields and (relative) low risk is prompting capital inflows in the region

Emerging Markets Net Equity Inflows  
(Yearly Flows as % of Total Regional Assets)

Source: EPFR and BBVA Research. \*EMEA: Emerging Europe, Middle East and Africa

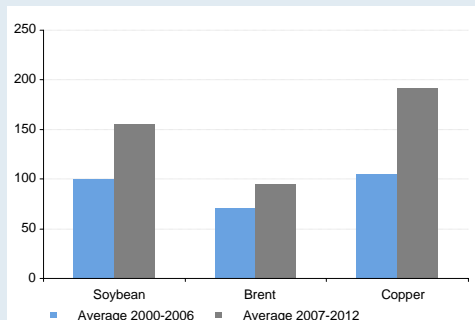


## A bright future, if the right road is taken

Some new policy dilemmas: Stronger fundamentals means more appreciated currencies – in real terms – over the long – run

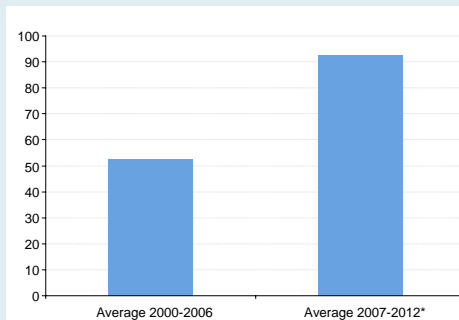
## Real Commodities Price (Respect US CPI, base 2005=100)

Source: IMF and BBVA Research.



## Foreign Direct Investment to the region (US\$ bn)

Source: BBVA Research. \*Forecast BBVA Research.



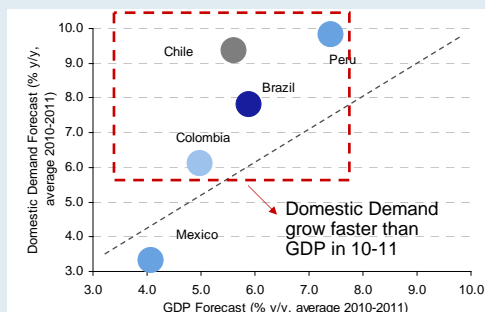
## A bright future, if the right road is taken

Short term dilemmas: Domestic demand growth is outperforming GDP growth in almost all countries (Mexico is the exception) with significant risks of overheating, while policy interest rates are well below neutral levels in most countries

## GDP and Domestic Demand Forecast

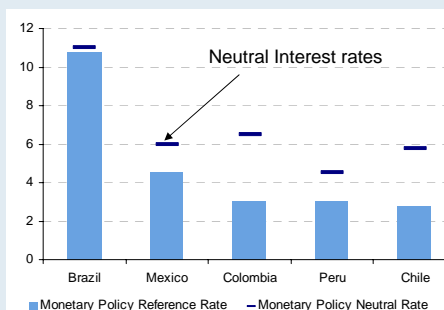
(% y/y, average 2010-2011)

Source: BBVA Research



## Monetary Policy Rates (%)

Source: BBVA Research

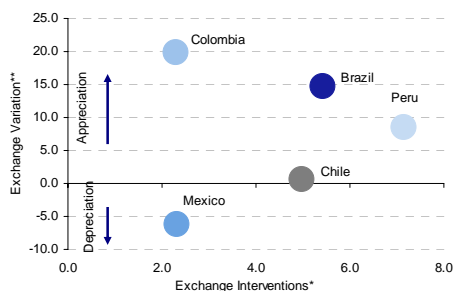


## A bright future, if the right road is taken

Short term dilemmas: FX interventions have failed to prevent excessive appreciations in most countries, and policy makers are increasingly tilting towards capital controls. However, if these measures prove effective, there is a risk they will backfire through high inflation

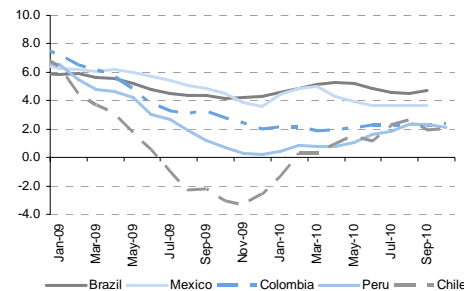
## Exchange Rate: Appreciations and Interventions

Source: BBVA Research. \*Exchange intervention: International Reserves: net purchase between Jan08-Sep10 (% GDP). \*\*Exchange variation: Appreciation/Depreciation in Real Effective Exchange Rate between Jan08-Sep10



## Inflation (% y/y)

Source: BBVA Research

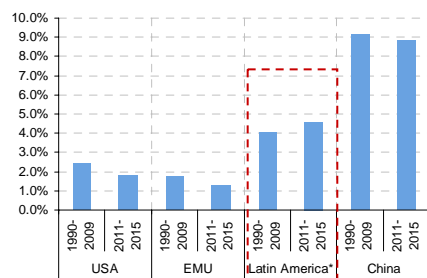


## A bright future, if the right road is taken

There is room for further increases in potential growth in the case extra microeconomic reforms and more investments in infra-structure and education materialize

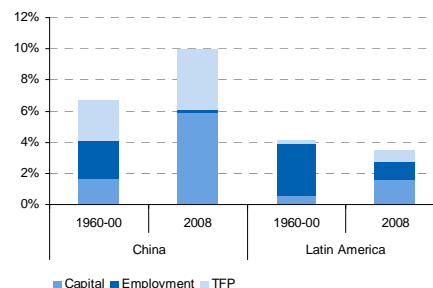
## Potential Output Growth (% yoy change)

Source: BBVA Research. \*Latin America: Arg, Bra, Chi, Col, Mex, Per and Ven.



## Growth sources

Source: BBVA Research. \*Latin America: Arg, Bra, Chi, Col, Mex, Per and Ven.





## A bright future, if the right road is taken

## Latin America Forecast

GDP (% y/y)	2003-2008*	2009	2010	2011-2012*
Argentina	8.2	-2.1	8.0	4.8
Brazil	4.2	-0.2	7.5	4.4
Chile	4.7	-1.5	5.4	5.5
Colombia	5.0	0.8	4.8	5.5
Mexico	3.1	-6.6	4.5	3.5
Peru	7.0	0.9	8.5	6.3
Venezuela	7.3	-3.3	-2.3	1.5
LATAM	4.7	-2.4	5.8	4.2

Source: BBVA Research

Inflation CPI (% y/y, average)	2003-2008*	2009	2010	2011-2012*
Argentina	9.5	6.3	10.5	12.0
Brazil	7.0	4.9	4.8	4.7
Chile	3.9	0.4	1.5	3.0
Colombia	5.8	4.2	2.2	3.3
Mexico	4.3	5.3	4.5	3.8
Peru	2.9	3.0	1.7	2.6
Venezuela	22.1	28.6	30.0	26.8
LATAM	7.1	6.4	6.5	6.4

Source: BBVA Research

Current Account (% GDP)	2003-2008*	2009	2010	2011-2012*
Argentina	3.3	3.5	1.2	-0.3
Brazil	0.6	-1.6	-2.4	-3.0
Chile	1.7	2.5	-0.4	-1.7
Colombia	-1.8	-2.1	-2.7	-3.0
Mexico	-0.8	-0.6	-1.2	-2.1
Peru	0.1	0.1	-1.3	-2.5
Venezuela	13.4	2.4	9.9	11.8
LATAM	1.2	-0.3	-0.7	-1.4

Source: BBVA Research

Fiscal Balance (% GDP)	2003-2008*	2009	2010	2011-2012*
Argentina	1.5	-0.6	0.3	-0.4
Brazil	-3.2	-3.3	-2.6	-2.2
Chile	4.6	-4.6	0.5	-0.1
Colombia	-3.5	-4.1	-4.2	-3.6
Mexico	-1.3	-2.7	-2.3	-1.8
Peru	0.8	-1.9	-1.4	-0.6
Venezuela	-0.5	-5.1	-3.0	-0.7
LATAM	-1.5	-3.0	-2.2	-1.7

Source: BBVA Research

## Index

Latin  
America  
shines: Is it  
for real this  
time?  
Latibex

Section I  
Global Outlook

Section II  
Latin America breaks with the past

Section III  
Latin America passes the "stress test"

Section IV  
A bright future, if the right road is taken

Section V  
Latin America: Investment possibility

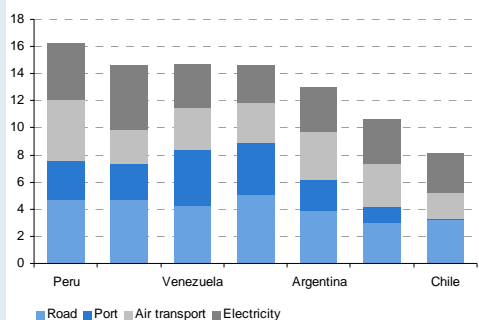
## Latin America: Investment possibilities

## Investment's necessity in infrastructures

Latin American prove to be like very propitious for environment private investment in infrastructure and their challenge is mostly one of execution and innovation to deal with the specific complexities that each country faces

## The infrastructure Quality Gap Index\* (IQGI)

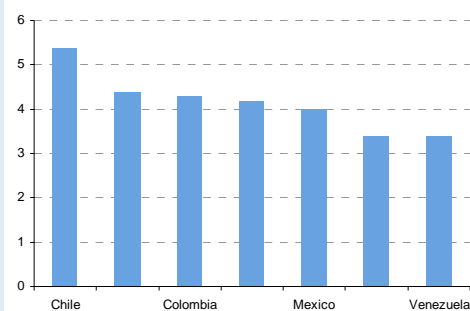
Source: World Economic Forum.



\* This index assesses the quality gap in road, port, air transport and electricity infrastructure of a given country with respect to a control country, namely Germany, which was chosen in light of its world-class infrastructure development.

## The infrastructure private investment attractiveness index (IPIAI)\*\*

Source: World Economic Forum.



\*\* which measures the institutions, factors and policies that attract private investment in infrastructure projects. See the detailed composition of the IPIAI. <http://www.weforum.org/en/initiatives/gcp/InfrastructurePrivateInvestmentAttractivenessIndex/index.htm>

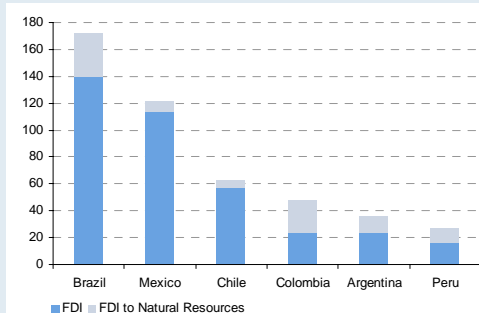
## Latin America: Investment's possibilities

## Foreign Direct Investment in Natural Resources

The region will need in the short term financing, principally for the execution of projects based on natural resources

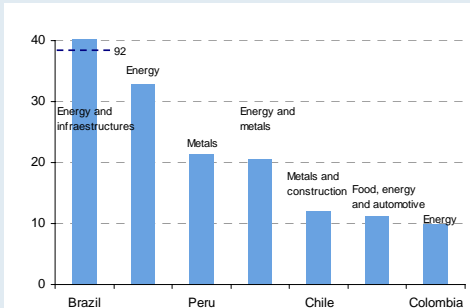
## Foreign Direct Investment US\$ bn (accumulated stock since 2005).

Source: BBVA Research.



## Financing need of Top ten investment projects

Source: BBVA Research



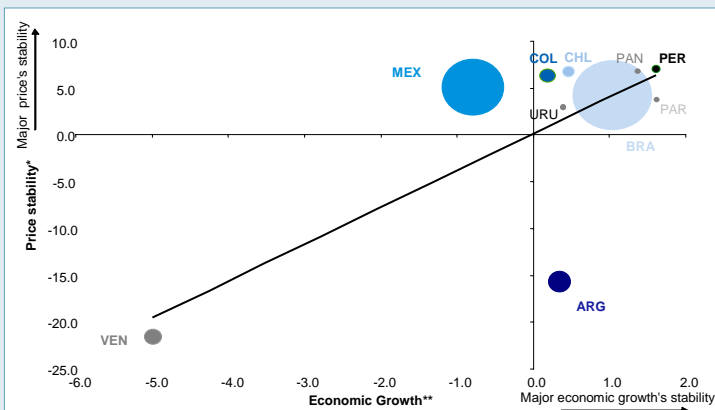
## Latin America: Investment's possibilities

But Latin America is not one entity: there is diversity in the region

## Diversity in the region (GDP and CPI forecast)

Source: BBVA Research. \*Price Stability: CPI 2010-2012 (spread % y/y average latam vs. average country). \*\*Economic Growth: GDP 2010-2012 (spread % y/y average country vs. average latam) Bubble size: Total GDP based on purchasing-power-parity (PPP).

- The “two giants” (BRA, MEX)
- Medium Size Emerging South America: medium size countries combine good performance both in inflation and growth (CHL, COL, PER)
- The “heterodox” countries: most countries have achieved low inflation, but it remains a problem in ARG and VEN



## Argentina

## An economy at full speed

- The economy will grow strongly in 2010, in spite of a slowdown in 2H. Higher political uncertainty and lower growth are expected in 2011, which, together with less expansionary demand policies in 2012-13 will lead to the output gap closing towards 2014
- Positive growth surprises in 1H10: the recovery in confidence, low interest rates and exchange rate stability are boosting consumption. Better than expected investment performance.
- When faced with supply constraints, expansionary fiscal and monetary policies are increasing inflationary pressures. A credible anti-inflation plan is required to put a cap on 2 digit price increases.
- In spite of rising imports and real exchange rate appreciation, the current account is expected to remain in surplus until 2012
- Improving fiscal solvency, although doubts about 2011 financing and the possibility of tapping credit markets remain
- The banking system remains solid, but size is an issue

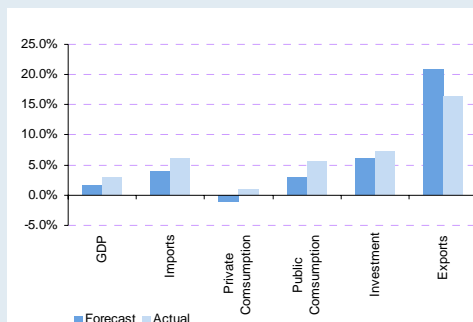
The economy will grow vigorously in 2010 (8 %) led by domestic demand  
Positive growth surprises in 1H10 have led to continuous upward revisions in GDP forecasts

#### Some favorable shocks in 2010:

- Record soy harvest due to end of drought
- Strong demand for industrial exports stemming from above average growth in the region, particularly Brazil which is our main trading partner
- Higher than expected agricultural commodity prices.

#### GDP – II Quarter 2010 Seasonally Adjusted

Source: BBVA Research based on Indec.



Inflation is the main problem, but is not expected to get out of control

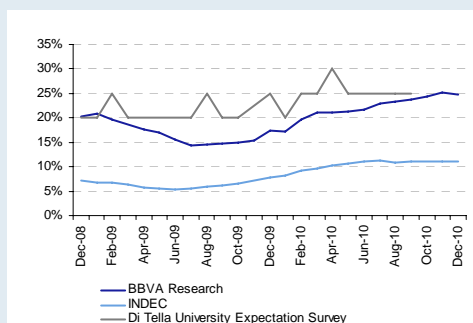
Inflation expectations are not anchored and even during the 2009 recession, CPI increased by 17% yoy  
Expansionary fiscal and monetary policies face growing supply constraints, increasing inflationary pressures.  
The FX rate continues to act as a nominal anchor

#### Inflation is end 2010 at 25%, edging up in 2011:

- Impact of wage agreements signed in 2Q10 granting increases of 30-35% y/y
- Fiscal policies: increases in pensions, childhood subsidies and Income Tax deductions
- Monetary policy: external surplus plus monetization of Central Bank 2009 quasi fiscal results

#### Inflation (% y/y)

Source: BBVA Research

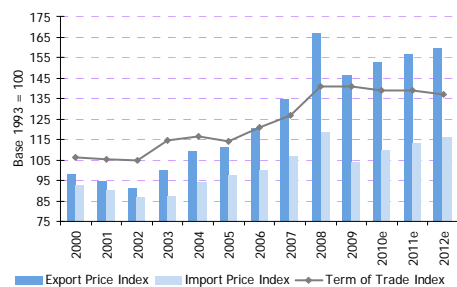


## Argentina

The external sector remains strong  
New set of international commodity prices maintains  
terms of trade above historical averages

## Term of Trade

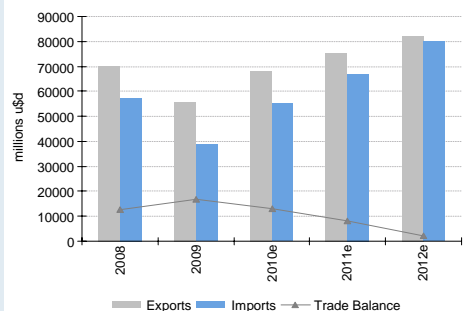
Source: BBVA Research based on Indic.



The trade surplus will fall to USD 13 billion in  
2010 due to rising imports (+42% e y/y),  
but the current account will remain in surplus until 2012

## Trade Balance

Source: BBVA Research.



## Argentina

Financing Needs: Argentina	
Principal investment projects	Financing needs (US\$ M)
Cóndor Cliff Hidroeléctrica	4000
Yacimiento Pascua Lama (Oro y plata)	3000
Agua Rica (cobre y oro)	2300
Gasoducto del Noreste Argentino	1000
<b>Financing Needs (US\$ M)</b>	<b>10300</b>

Source: BBVA Research.

**Robust domestic demand**

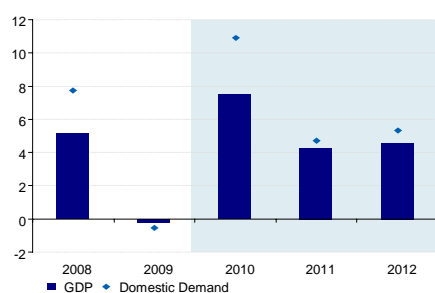
GDP to grow more than 7% in 2010, especially supported by domestic demand, and to near potential pace in 2011-12 following the reversal of monetary and fiscal policies and in line with global slowdown

**Inflation under control**

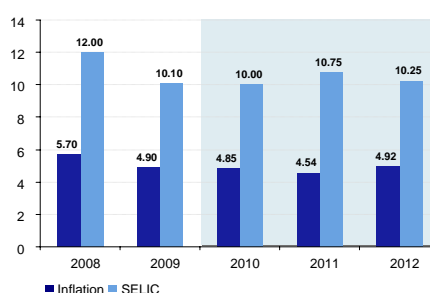
Interest rates to remain at current levels (10.75%) in 2011. FX concerns could prevent authorities to adopt a more tight monetary policy but inflation should remain under control due to activity moderation

**GDP and domestic demand growth (%)**

Source: BBVA Research

**Inflation and interest rates (average %)**

Source: BBVA Research.

**Strong currency**

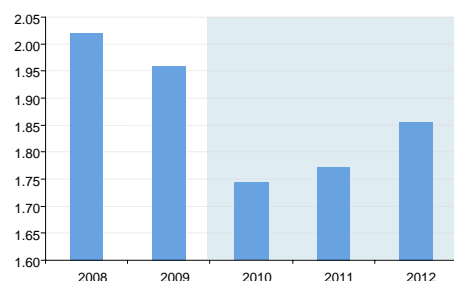
Growth and interest rate differentials will continue to pressure the real which however is expected to depreciate slightly in nominal terms due to inflation differential and current account pressures

**Current account deterioration**

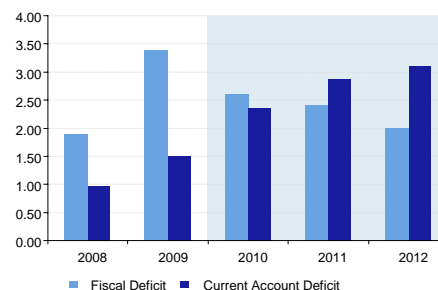
Robust growth is expected to support a reduction of fiscal deficits and also a continuous deterioration of the current account

**Exchange rate: BRL / USD**

Source: BBVA Research

**Fiscal and Current account deficits**

Source: BBVA Research.



## Trade recovery

Exports and imports continue to recover and pre-crisis levels are expected to be soon reached. Exports are being supported by commodity prices and Asian growth and imports by domestic dynamism

## Narrowing trade surplus

Trade surplus is expected to drop from USD 25 bi in 2009 to USD 16 bi in 2010, USD 7 in 2011 and slightly more than zero in 2012 following the dynamism of the domestic demand and a relatively appreciated real

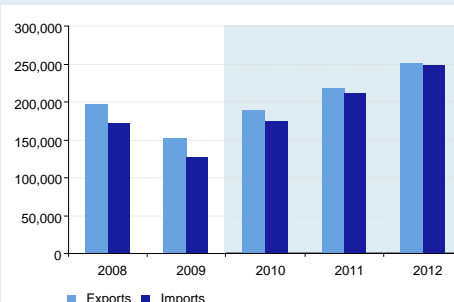
## Exports and Imports (USD millions)

Source: BBVA Research



## Exports and imports (USD millions)

Source: BBVA Research.



## Financing Needs: Brazil

Principal investment projects	Financing needs (US\$ M)
Tren Alta Velocidad Rio - Sao Paulo	20000
Refinaria Abreu Lima	13529
Refinaria COMPERJ	11294
Generación Energia Eletrica - Usina Hidreletrica Belo Monte	11176
Generación Energia Eletrica - Usina Hidreletrica Santo Antonio	8235
Ferrovía Norte-Sur	7647
Generación Energia Eletrica - Jirau	5471
Usina Temonuclear Angra III	4882
Plataforma de Petroleo - Campo Marlim	4882
Pre Sal - Piloto de Produccion Tupi	4706
<b>Financing Needs (US\$ M)</b>	<b>91822</b>

Source: BBVA Research.

**Domestic demand growth moderates**

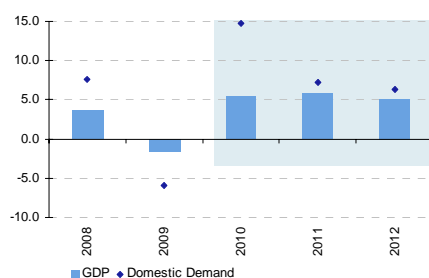
GDP to grow 5,8% in 2011, especially supported by domestic demand but closing the gap between DD and GDP and converging to potential GDP growth in the mid term

**Inflation back to target**

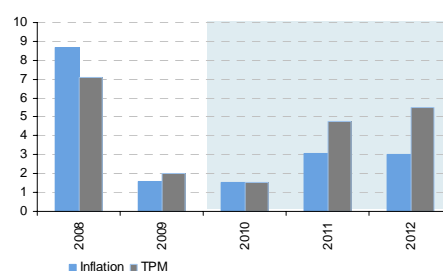
Inflation returns to the Central Bank's target, while the policy rate gradually increases, but exchange rate appreciation can determine stop ahead of schedule

**GDP and domestic demand growth (%)**

Source: BBVA Research

**Inflation and interest rates (average %)**

Source: BBVA Research.

**Exchange rate remains strong**

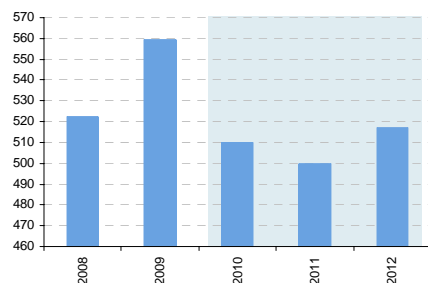
Until 2011 exchange rate appreciated as a result of fundamentals (strong economic growth, fiscal expansion and high copper prices). Then real exchange rate remains constant

**Solid fiscal and external outlook**

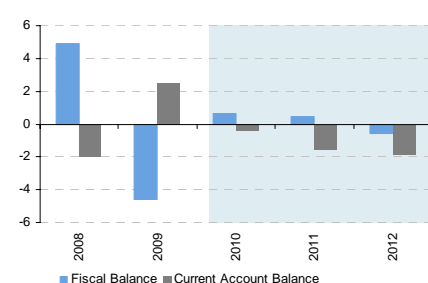
Transitory tax increases and high copper prices would keep fiscal balance under control. Moderate deterioration in the balance of payments as imports increase faster than exports

**Exchange rate: CLP / USD**

Source: BBVA Research

**Fiscal and Current account balance**

Source: BBVA Research.





Financing Needs: Chile	
Principal investment projects	Financing needs (US\$ M)
Cerro Casale, Minería-cobre	4200
El Morro, Minería-cobre	2500
Caserones, Minería-cobre	1997
Cochrane, Central termoeléctrica a carbón	1100
Santa María 2, Central termoeléctrica a carbón	650
Plan de renovación de flota LAN, Transporte aéreo	520
Altos de Lampa, proyecto inmobiliario	320
Modernización Planta Laja, Celulosa	295
Tercera Planta Gran Santiago, Procesamiento de aguas	250
Central Hidroeléctrica Ñuble	240
<b>Financing Needs (US\$ M)</b>	<b>12072</b>

Source: BBVA Research.

**GDP growth near potential**

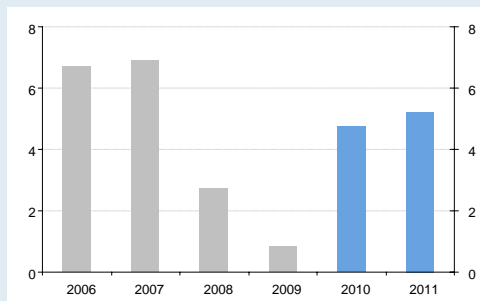
Economy expands at a sustainable pace, based on strong consumption dynamics and a slower recovery of investment. Exports and industrial production affected by trade restrictions with Venezuela.

**Inflation remains well anchored**

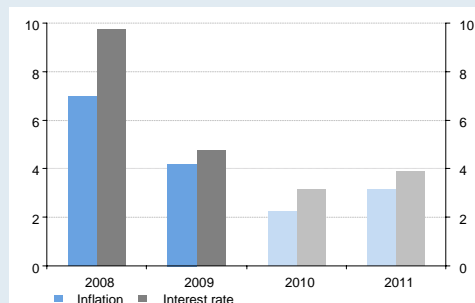
Benign behavior of inflation and exchange rate concerns will post-pone normalization of the monetary policy stance until 1H11. High liquidity sets a limit to stronger exchange rate intervention

**GDP growth (%)**

Source: BBVA Research

**Inflation and interest rates (average %)**

Source: BBVA Research.



## Structural reforms key to consolidate fiscal sustainability

### Fiscal deficit stabilizes

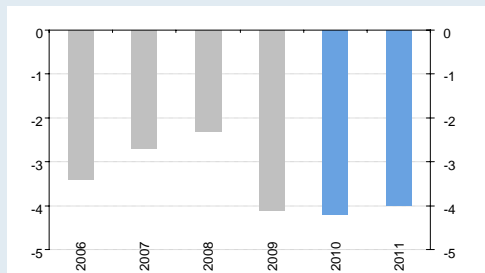
Fiscal deficit will improve slightly, from 4.2% of GDP to 4.0% in 2011, as increased public investment will put some pressures on expenditure. Approval of the fiscal rule essential for consolidation of fiscal sustainability

### Current account deteriorates

Current account deficit will continue to be financed mainly by foreign direct investment in the oil and mining sector

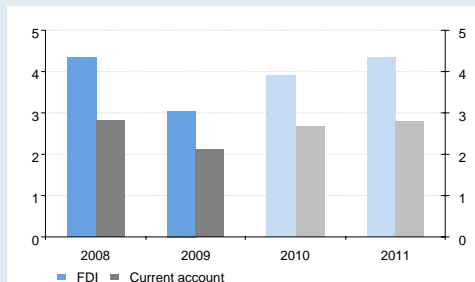
#### Fiscal balance (% GDP)

Source: BBVA Research



#### Current account deficits and FDI (% GDP)

Source: BBVA Research



Financing Needs	
Principal investment projects	Financing needs (US\$ M)
Oleoducto Bicentenario	2520
Autopista de la Montaña	1800
Transversal de las américas	510
Sistema Ferreo Central y Tren del Carare	840
Hidroeléctrica Ituango	1800
Hidroeléctrica Sogamoso	840
Hidroeléctrica Porce IV	486.6
Planta de tratamiento de Aguas Residuales en Bello	348.9
Planta de tratamiento de Aguas Residuales en Canoas (Dos fases)	663
Diseño, fabricación, lanzamiento y validación de desempeño en órbita del sistema Satelital de Comunicaciones Sociales de Colombia SATCOL	164.4
<b>Financing Needs (US\$ M)</b>	<b>9972.9</b>

Source: BBVA Research

**Large impact of external shock**

As soon as global demand came back, Mexico resumed its recovery path. It is foreseeable a GDP higher than previous peak in the first half of 2011

**But a strong financial sector**

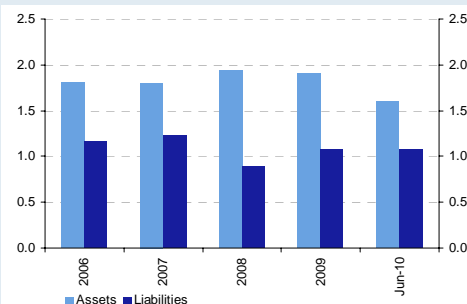
A free exchange rate and a revamped banking system allowed a depreciation to act as a shock absorber without pass through on inflation or credit channel interruption

**Mexico, GDP (2003=100)**

Source: BBVA Research

**Bank System External Position (Foreign currency, % GDP)**

Source: BBVA Research.

**Financial resilience**

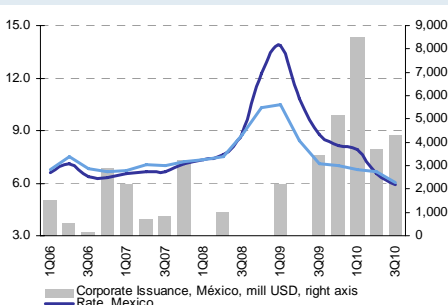
Cost and access to funding have improved in Mexico during 2010. In 2011, global liquidity, (moderated) growth and sound financial situation of corporate sector should give support to low and stable capital cost

**Inflation and rates well anchored**

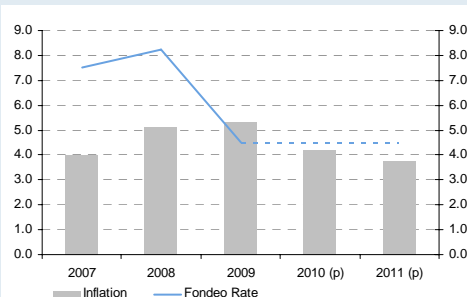
Disinflationary process during the forecast horizon and inflation expectation anchorage will produce an ever longer monetary policy pause

**Mexico, Corporate Credit in USD (%)**

Source: BBVA Research

**Inflation and interest rates (average and eop)**

Source: BBVA Research.



## Mexican competitiveness ...

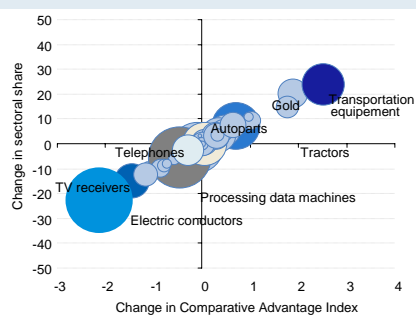
Mexican comparative advantage is not just a matter of price, instead there is a variety of differences in productivity among industries...

... has contributed to resilience of the Mexican market share in the US

## México: manufactures exports to USA

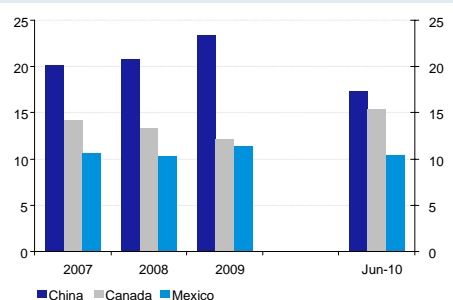
(Change in sectoral shares & competitive advantages 1998-2000 vs 2007-2009)

Source: BBVA Research



## Mexico: Market Share (as % of total manufacture exports)

Source: BBVA Research.

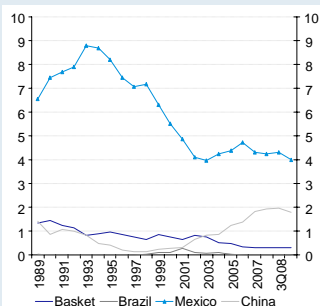


## Mexican competitiveness

Very diverse performance considering sector breakdown persist: those products in which the advantage revealed grows are those that have increased their penetration in the US market

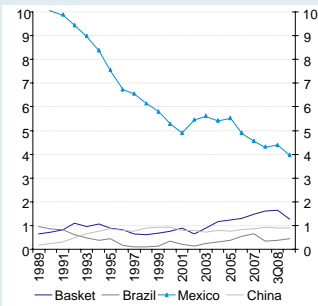
## Comparative Advantage Index: TV Receivers

Source: BBVA Research



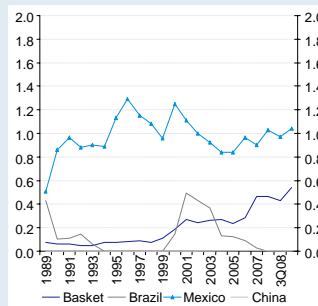
## Comparative Advantage Index: Electricity Appliances

Source: BBVA Research



## Comparative Advantage Index: Transport Equipment

Source: BBVA Research



\* Basket includes the following countries: China, Taiwan, Tailandia, Corea del Sur, Malasia, Hong Kong, Singapur, Turquía, Filipinas, Indonesia, Hungría, Polonia and Portugal.

Financing Needs	
Principal investment projects	Financing needs (US\$ M)
Coca Cola Alimentos	5000
IDESA (Mex) Braskem (Bra) Energia	2500
NIHD Telecomunicaciones	970
Volkswagen Automotriz	550
General Motors Automotriz	500
Mitsui Energía	480
Nestle Alimentos	400
Telefónica Telecomunicaciones	300
Bombardier Aeronáutica	250
Pepsico Alimentos	245
<b>Financing Needs (US\$ M)</b>	<b>11195</b>

Source: BBVA Research

Strong and sustainable economic growth

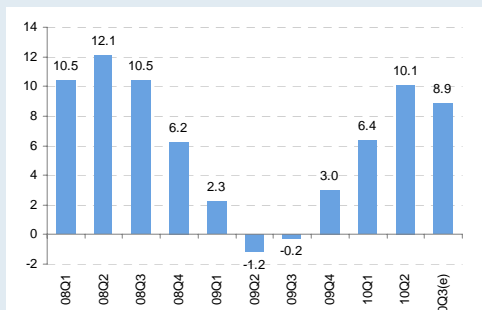
**Strong rebound in 2010, driven by private demand**

The economy has grown at a pace close to 8,5% yoy up to 3Q10

This is supported by high business and consumers confidence, as well as by improving jobs creation conditions

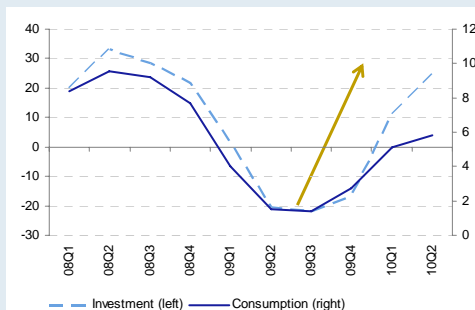
**Peru: GDP (yoy % change)**

Source: Central Bank of Peru and BBVA Research Peru



**Peru: private consumption and investment (yoy % change)**

Source: Central Bank of Peru



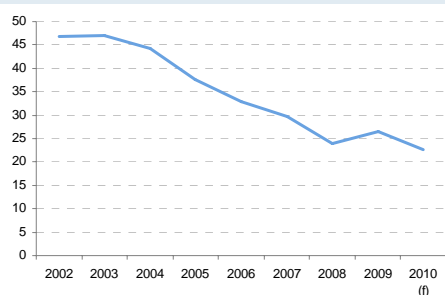
Healthy macro foundations support high growth rates in the coming years

### Strong growth (6%) in the medium term

Public debt resumes its downward trend. Net international reserves have reached almost 30% of GDP, an important buffer stock against eventual future external shocks. Pace of cyclical recovery and solid macro foundations anticipate an improvement in Peru's credit rating in 2011

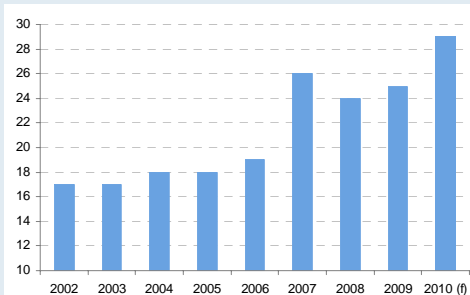
#### Peru: public debt (% of GDP)

Source: Central Bank of Peru and BBVA Research Peru



#### Peru: net international reserves (% of GDP)

Source: Central Bank of Peru and BBVA Research Peru



The public sector has currently PEN 46 billion (13% of GDP) deposited in the Peruvian financial system

Financing Needs	
Principal investment projects	Financing needs (US\$ M)
Las Bambas (Minería - Cobre)	4200
Quellaveco (Minería - Cobre)	3000
Minas Conga (Minería - Oro)	3000
Galeno (Minería - Cobre)	2500
Toromocho (Minería - Cobre)	2500
Antapaccay (Minería - Cobre)	1500
Rio Blanco (Minería - Cobre)	1440
Los Chancas (Minería - Cobre)	1200
Ampliación de tajo Antamina (Minería - Cobre)	1100
Ampliación minera Cerro Verde (Minería - Cobre)	1000
<b>Financing Needs (US\$ M)</b>	<b>21440</b>

Source: BBVA Research

## Venezuela

Triggers  
and  
channels

- **Although the economy contracted 1.9% y/y in Q2 10, the performance was better than expected.** GDP result was helped by a much higher than anteceded public spending, driven by higher contribution of PDVSA, allowing an increase in FX supply to the economy. **We revised up our GDP growth forecasts to -2.3% in 2010 from 3.8%**
- **Several leading indicators anticipate a recovery**, as consequence of an easier exchange policy in the official markets (Cadivi, Sitme and bond issuances)
- **FX constraint relaxed**, a more active role of the government supplying FX to the 3 formal markets have alleviated FX shortages, allowing for an expansion of critical imports

## Impacts

- **Economy is bottoming out**, thanks to better access to key imported inputs as well as to the gradual normalization of energy supplies
- **Inflation stays put**, thanks to improvements in imported goods supplies

## To watch

- **Concerns remain about the speed at which Public Sector outstanding debt is increasing.** Exchange strategy supporting by USD bonds issuances and PDVSA cash flow needs have increased the total debt-to-GDP ratio from 18.8% in 2008 to nearly 26.3% by end-2010.
- **Government capacity of holding this exchange strategy depends on PDVSA commitment in supplying dollar to the Central Bank**
- **Electric power supplies remain tight**, due to the deterioration of existing capacity. This will remain a constraint for growth and economic recovery throughout 2011.
- **We would not expect any departure from the current capital control/CADIVI framework**; rather, modest efforts to rationalize the current system could be possible in the short run.
- **A likely radical agenda (for example, more nationalizations) might be expected in the short term** after Chavez's popularity drop. This add elements to an extremely tough environment for local businesses.

## Venezuela

Road to the  
recovery

**The main risk of this recovery is the government capacity to sustain an expansive public spending**, given the adverse business environment

**The amount of PDVSA's payments to BCV** will be a key issue regarding international reserves available to support private imports

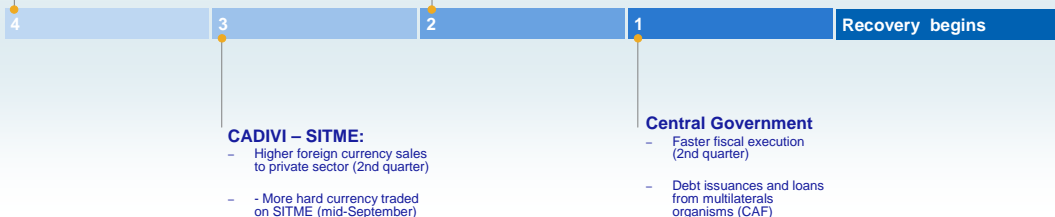
**The higher concern about domestic issues** could imply a reduction on preference oil supply to Petrocaribe and other countries in the region, given the growing oil supply to China according to long term financial agreement signed by Venezuela

## PDVSA:

- Lower preference oil exports (2nd quarter)
- Higher delivery of petrodollars to BCV (2nd quarter)
- Growing oil taxes payments and social expenses (2nd quarter)

## FONDEN / Others:

- Growing expenditures oriented to solve power supply crisis
- Intensive use of resources accumulated on Chinese Fund
- Long term financial agreement with China should provide USD 20 billion



## Venezuela

Financing Needs	
Principal investment projects	Financing needs (US\$ M)
Proyectos de recuperación secundaria Distrito Norte Oriente - Sector Petróleo y Gas	9737
Proyecto Gas Delta Caribe Oriental - Sector Petróleo y Gas	8811
Central Hidroeléctrica Tocoma - Sector Eléctrico	3060
Complejo Criogénico de Occidente - Sector Petróleo y Gas	2659
Construcción Complejo Generador Termocentro - Sector Eléctrico	2187
Modernización Central Hidroeléctrica de Guri - Sector Eléctrico	2106
Construcción Planta Termoeléctrica A. J. Sucre - Sector Eléctrico	1472
Tercer puente sobre el Río Orinoco - Sector Vialidad	1000
Modernización Planta Centro - Sector Eléctrico	978
Interconexión de transmisión de gas Centro Oriente-Occidente - Sector Petróleo y Gas	884
<b>Financing Needs (US\$ M)</b>	<b>32894</b>

Source: BBVA Research



## Latin America shines: Is it for real this time?

Latibex

November, 2010

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