



BBVA

RESEARCH

BBVA EAGLEs ESADE

Barcelona, 15th February, 2011

Agenda

Section 1

Emerging Economies: Current Situation

Section 2

The Future of Emerging Economies

Introducing the EAGLEs

Resilience against risk

Investment opportunities

Section 1

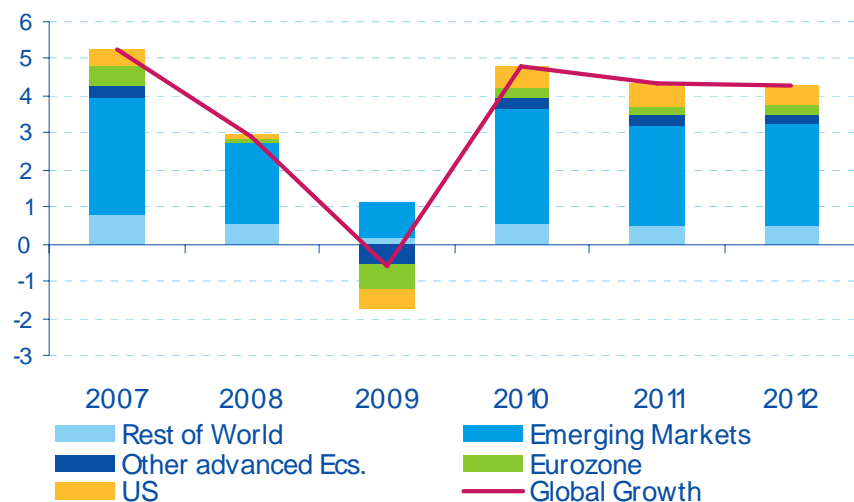
Growth prospects are very positive

The emerging economies are mainly responsible for global growth.

- The global economy maintains strong growth, and should reach 4.4% in 2011 and 2012
- The economic dynamism will remain vigorous in Asia and LatAm, where growth rates will exceed those recorded in developed countries

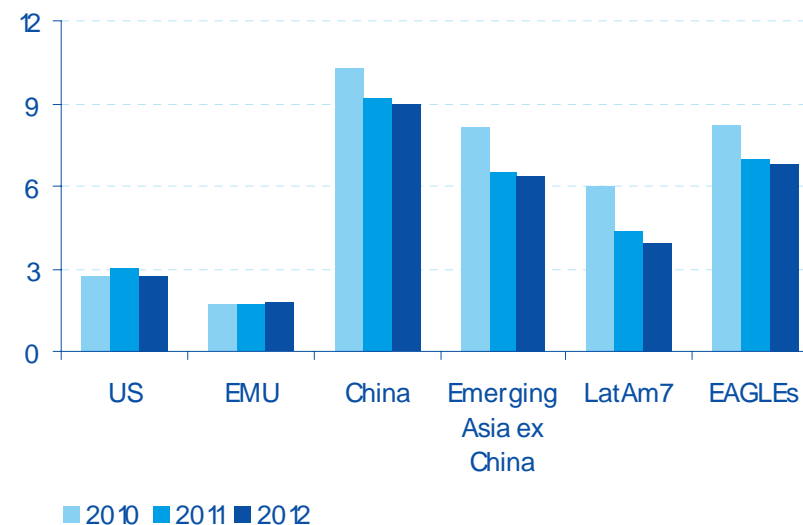
Contribution to global growth

Source: BBVA Research



GDP growth forecast (%)

Source: BBVA Research



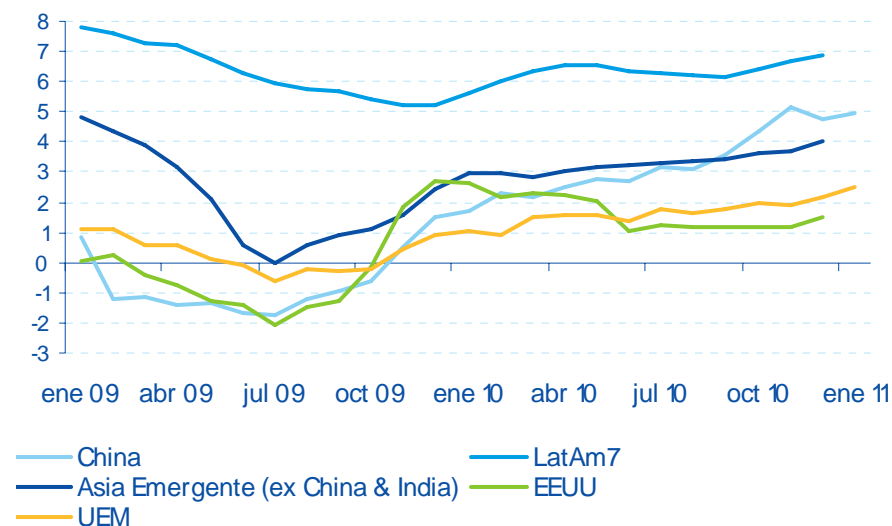
There are pressure factors in the economies

Pressure factors on prices and external positions

- Higher raw material prices owing to short-term factors: bad weather, geopolitical risk, and greater investment flows into commodities
- Moreover, the pace of differential activity with developed markets and appreciation pressures generate a trend towards impairment of current accounts in some key countries (Brazil)

Inflation (annual %)

Source: BBVA Research and Datastream



Brazil: Current Account Balance

Source: BBVA Research



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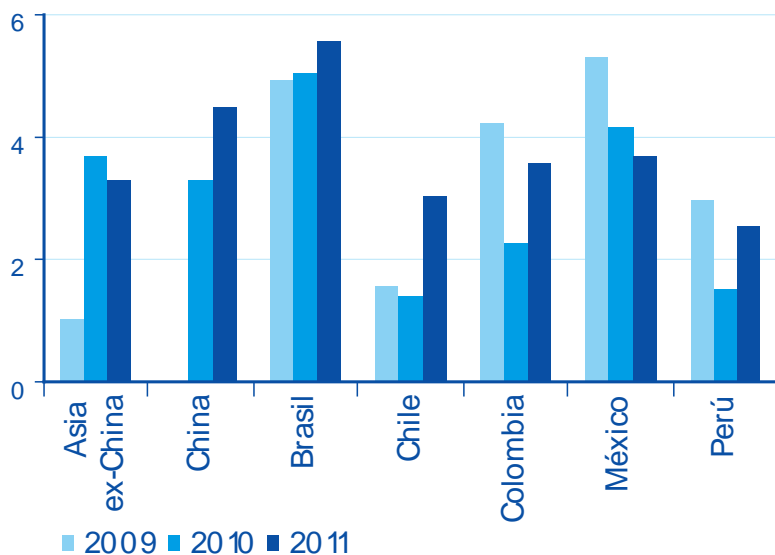
But the challenges appear manageable and there is room for the implementation of policies

Even so, inflation remains contained and there is broad capacity for reaction through monetary policy...

- Despite the upside risk of inflation (derived mainly from food and energy), a significant recovery is not expected
- Our expectations are modest increases in interest rates, but there is room to accelerate them effectively if inflation risks materialize

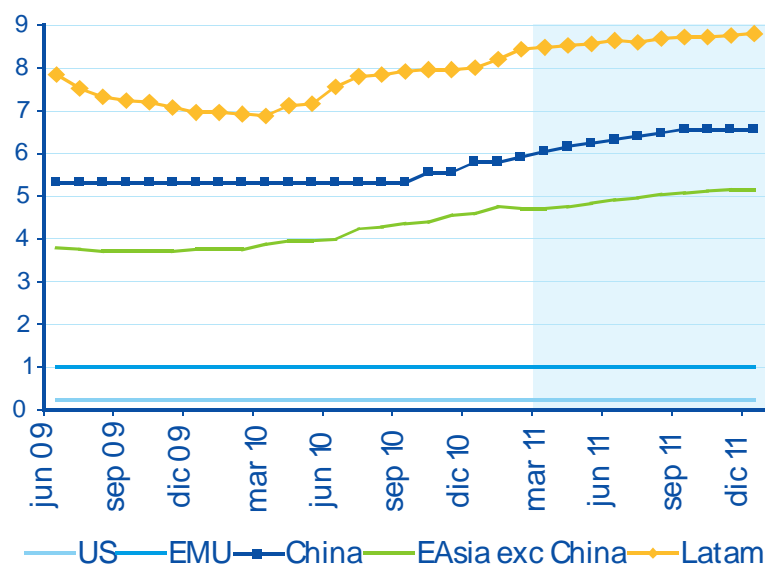
Inflation (annual average; %)

Source: BBVA Research



Official interest rates

Source: BBVA Research



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The future of Emerging Economies

- 1 World rotation: slowdown in G7 vs sustained growth in EEs
- 2 Beyond BRICs: other emerging markets are relevant
- 3 EAGLEs: Emerging And Growth-Leading Economies

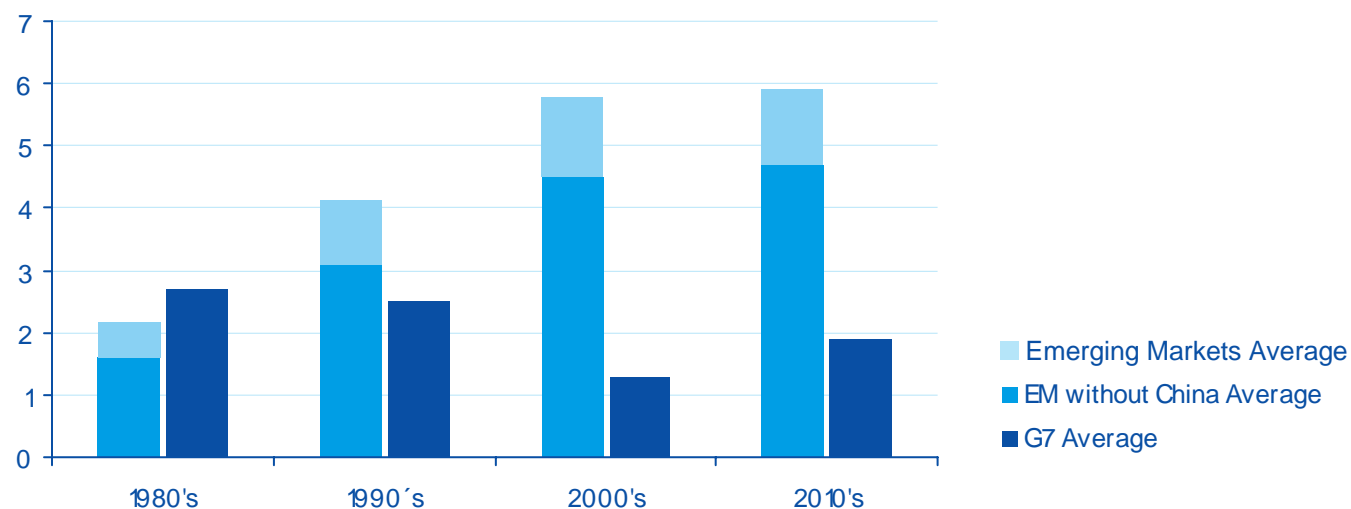
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World rotation: Slowdown in G7 vs sustained growth in EEs

- Growth in G7 countries is expected to remain below 2% for the next 10 years
- Growth in emerging markets will outpace the G7 average by 4pp including China, and 2.5pp excluding the Asian giant

GDP adjusted by PPP: growth rates

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, Mauricio, 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.

Section 2

Beyond the BRICs, other EEs are relevant

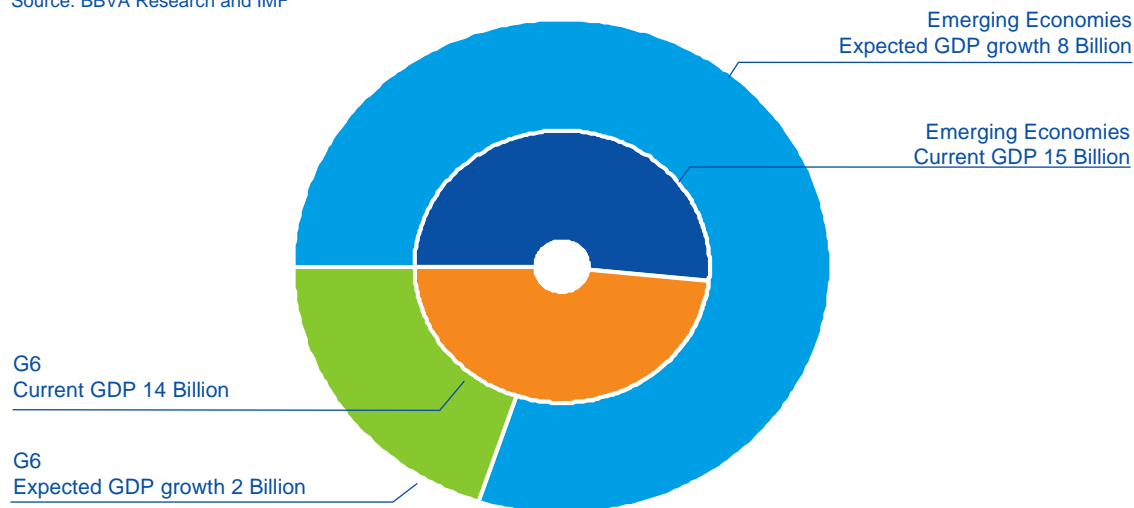
Other emerging economies (EEs):

- Their combined size is larger than the G6
- Contribution to global growth over the next 10 years will be 4 times greater

GDP: Current size and expected increase

(Billions of USD, adjusted by PPP)

Source: BBVA Research and IMF



G6 Aggregate: Canada, Germany, France, Italy, Japan and UK

Emerging Economies: other Emerging Economies excluding Brazil, Russia, India and China

Absolute growth is better than absolute size

BRICs (GS)

- ☒ Absolute size
 - Bigger does not necessarily determine a potential market
- ☒ Static concept
 - Allows no anticipation: inertia
 - Long horizon: at least 20-25 years
 - Why only four countries? Subjective
- ☒ No clear cut-off

BBVA EAGLEs

- ☒ Based on absolute growth
 - Large enough size plus...
 - Fast enough growth
- ☒ Dynamic concept
 - Anticipation: dynamic concept
 - Short horizon: next 10 years
 - Flexible number of countries: “Club admission” depends on performance
- ☒ Defined cut-off: the G6

BBVA EAGLEs is the group of countries whose expected contribution to global growth is greater than the average of the G6

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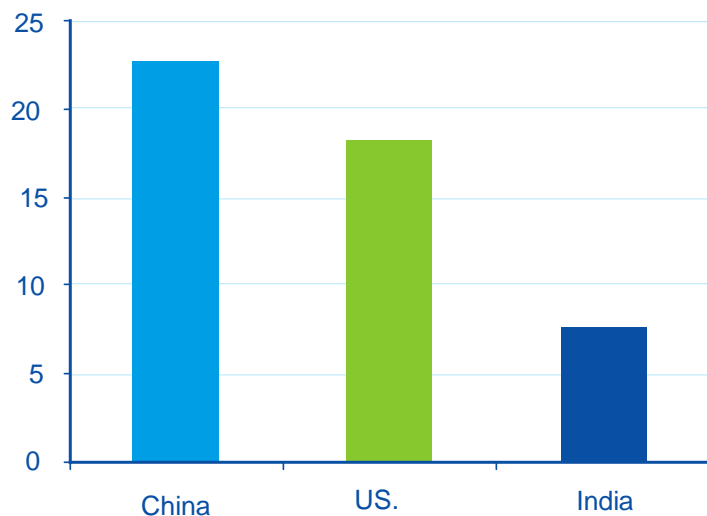
China is light-years away

- China's contribution to global growth represents 70% of the contributions of the BRICs
- In 2017, China's PPP-adjusted GDP will overtake US GDP

GDP adjusted by PPP: 2020 level

(Billions of USD)

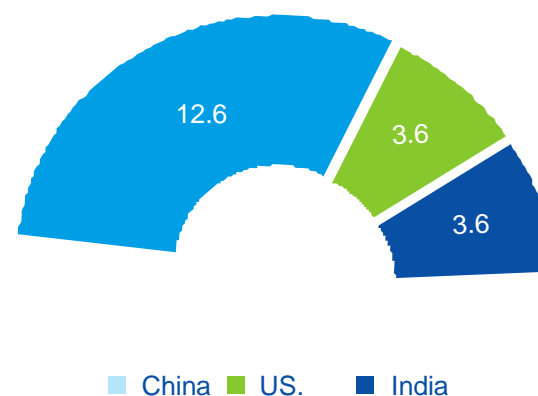
Source: BBVA Research and IMF



GDP adjusted by PPP: change between 2010-2020

(Billions of USD)

Source: BBVA Research and IMF



- India is another world-class player

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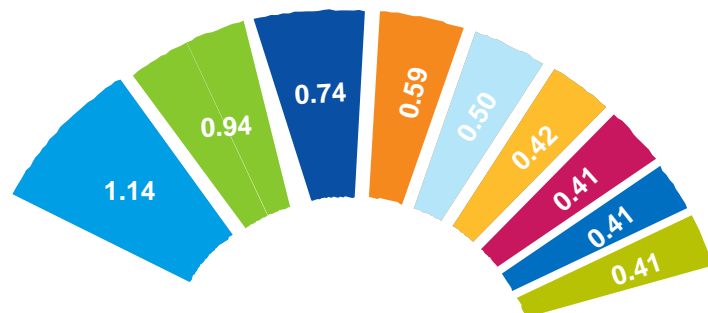
EAGLEs: Emerging And Growth-Leading Economies

- In absolute terms, each EAGLE economy will contribute more to global growth than the G6 average
- The BRICs plus Korea, Indonesia, Mexico, Turkey, Egypt and Taiwan

GDP adjusted by PPP: change between 2010-2020

(Billions of USD)

Source: BBVA Research and IMF



■ Brazil
 ■ Indonesia
 ■ Korea
 ■ Russia
 ■ Mexico
 ■ Egypt
 ■ Turkey
 ■ Taiwan
 ■ G6 Average

GDP adjusted by PPP: change between 2010-2020

(Billions of USD)

Source: BBVA Research and IMF



■ Japan
 ■ Germany
 ■ United Kingdom
 ■ Canada
 ■ France
 ■ Italy

G6 average: Canada, Germany, France, Italy, Japan and UK

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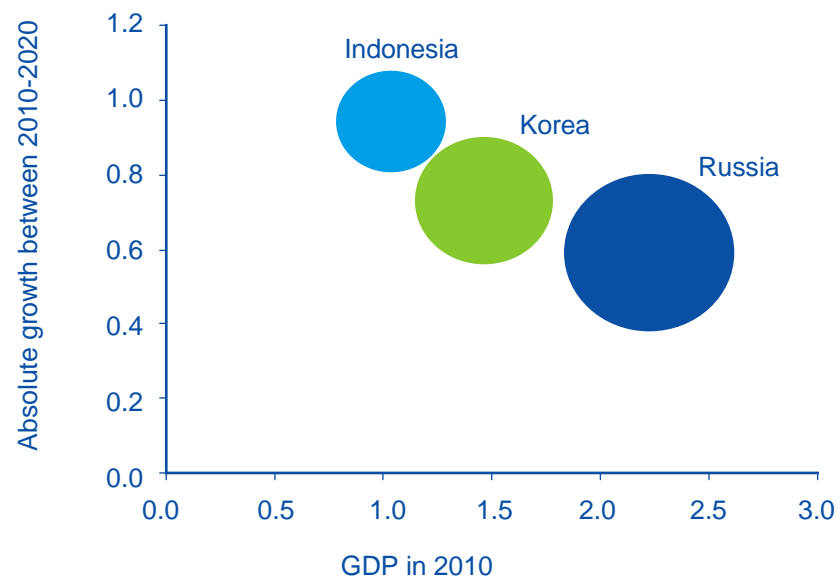
Bigger size does not mean better opportunities

For example, the case of Indonesia and Korea, compared with Russia

GDP adjusted by PPP: change between 2010-2020

(Billions of USD)

Source: BBVA Research and IMF



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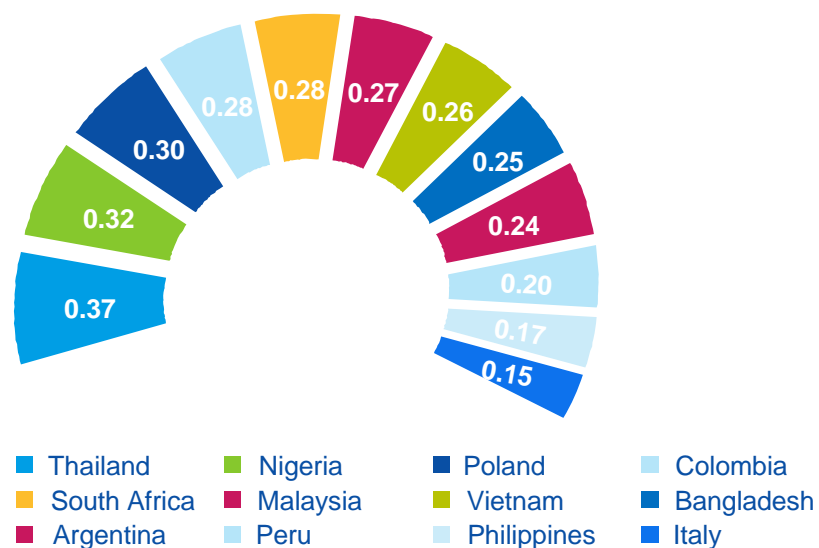
Anticipation: Who will be the next EAGLEs?

Another eleven economies are expected to contribute to global growth more than Italy, the smaller contribution in the G6

GDP adjusted by PPP: change between 2010-2020

(Billions of USD)

Source: BBVA Research and IMF



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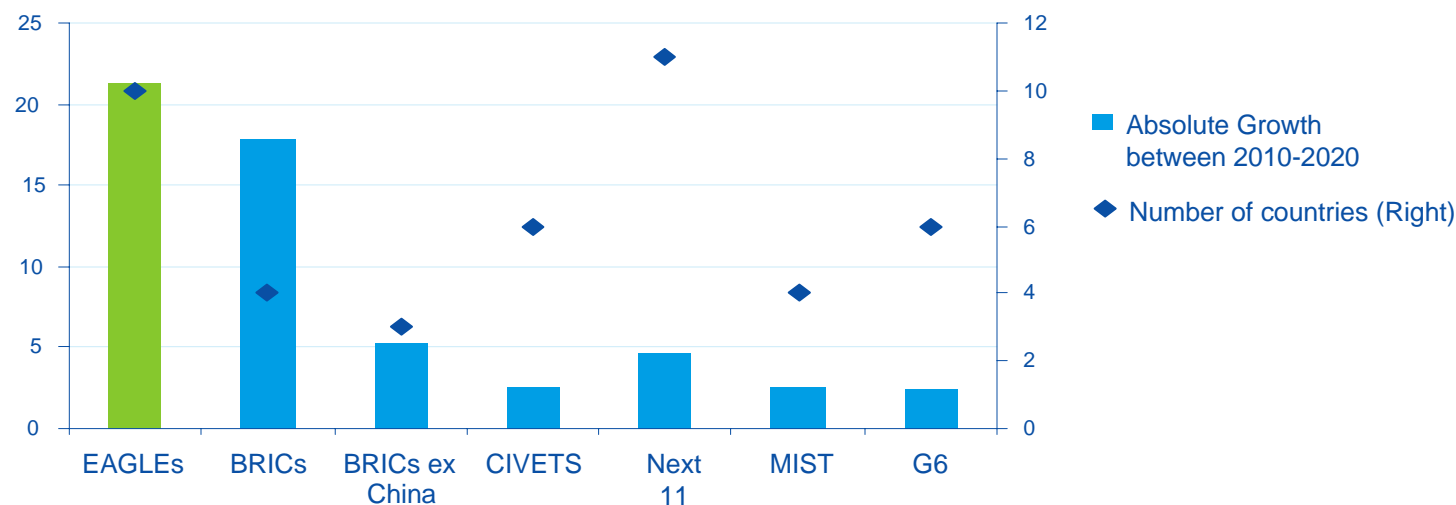
EAGLEs: A better concept in terms of both GDP and geography

EAGLEs include the world's most important economies over the next ten years

EAGLEs and other groups: absolute growth 2010-2020

(GDP adjusted by PPP, Billions of USD)

Source: BBVA Research and IMF



CIVETS: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. Next 11: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Korea, Turkey and Vietnam. MIST: Mexico, Indonesia, Korea, Turkey

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Resilience: There is room for a negative prediction error

- It will be difficult for most EAGLEs to be excluded from the club
- Some countries in “The Nest” are close to becoming EAGLEs

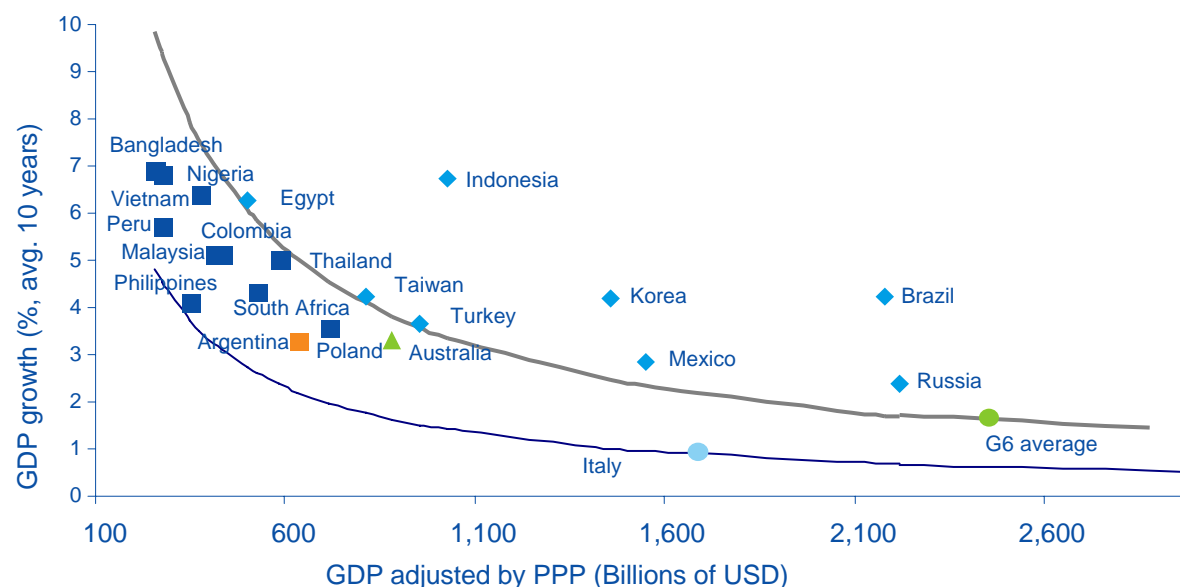
The “EAGLEs Nest”

Thailand
Nigeria
Poland
Colombia
South Africa
Malaysia
Vietnam
Bangladesh
Argentina
Peru
Philippines

Source: BBVA Research

Indifference curves: size and growth of the EAGLEs and the Nest

Source: BBVA Research



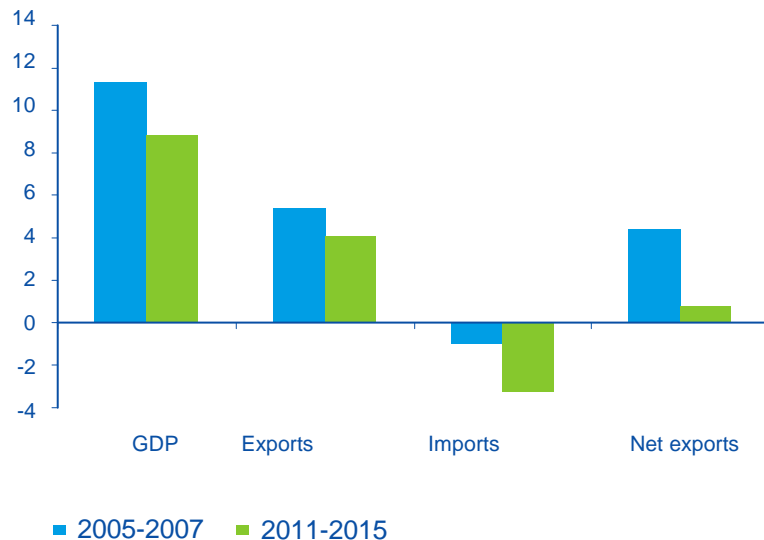
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Resilience: Less dependence on external demand

- China is fundamental: BBVA Research forecasts anticipate a moderation in export growth of around 1/3 compared to the pre-crisis period
- On the other hand, faster growth of emerging economies and the growing importance of South-South trade can anticipate better export performance in EAGLEs than in developed countries

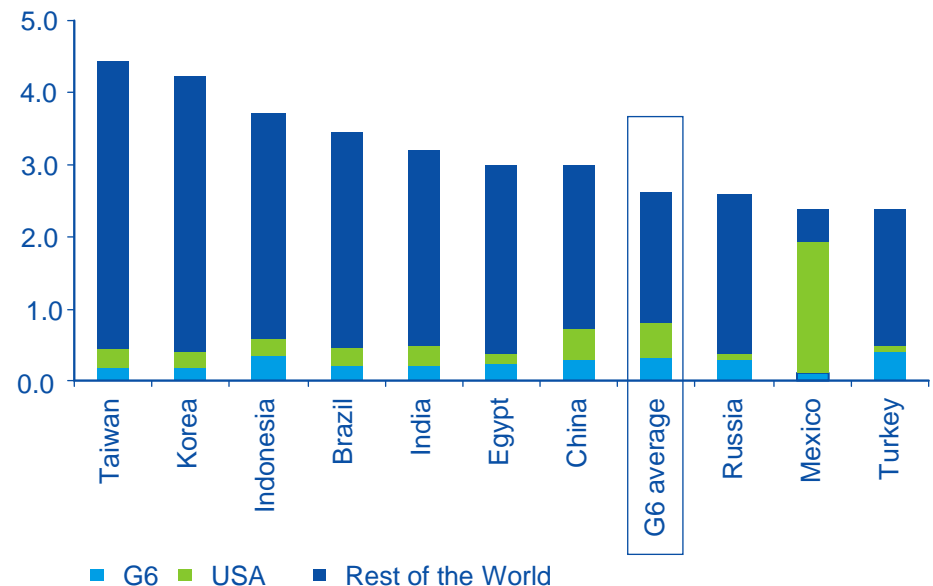
China: contributions to GDP Growth

Source: BBVA Research



External demand growth forecast

Source: BBVA Research



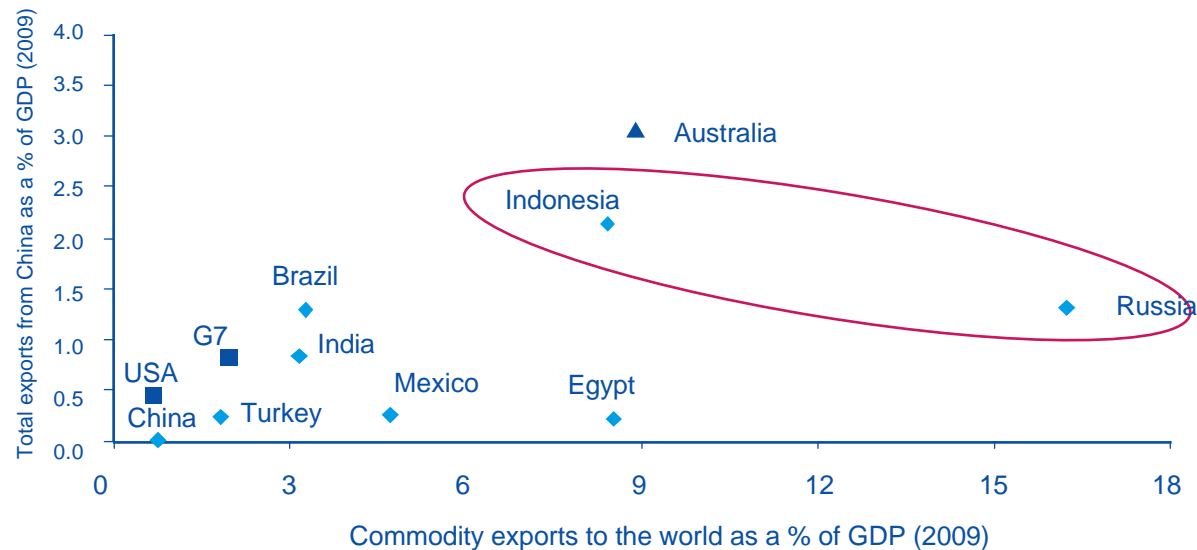
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Resilience: Low dependence on raw materials and China

- Exposure to raw materials is a greater risk than dependence on China, with the exception of Russia
- In the case of the “Nest” some economies are more dependent on China and on commodities

Exports to China and commodity exports: % of GDP

Source: BBVA Research



Note: Australia is not an Emerging Economy

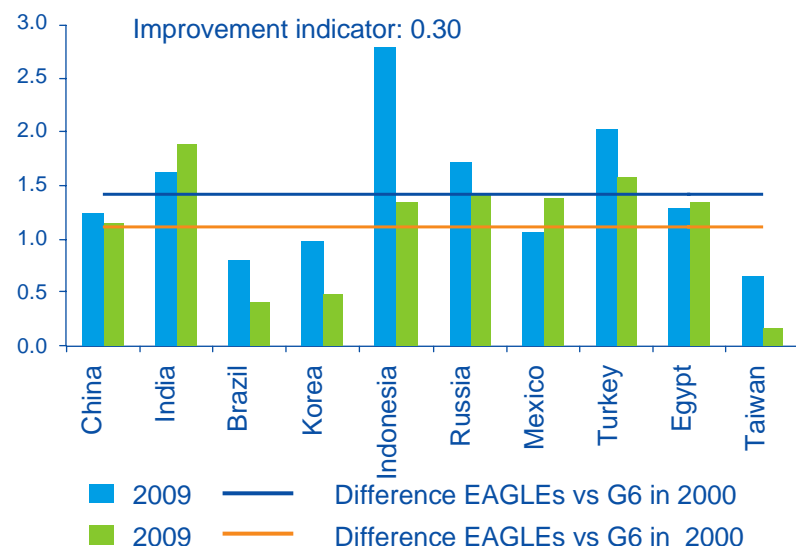
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Resilience: The institutions are improving, the difference with G6 narrows

- Most EAGLEs show significant progress in recent years in institutions indicators
- The greatest progress was made in political stability, while control of corruption remains a weakness

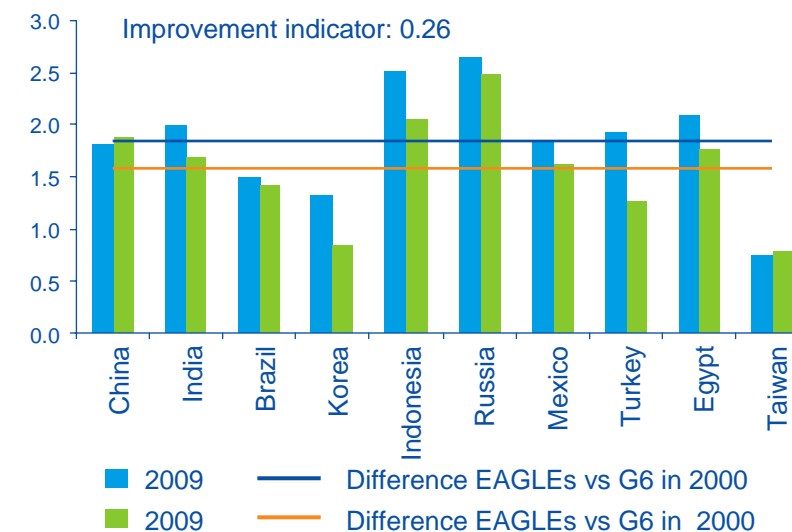
Institutions: political stability and absence of violence/terrorism

Source: BBVA Research and WB



Institutions: control of corruption

Source: BBVA Research and WB



Note: The bars show the difference between EAGLEs and the G6 average for the 4 indicators obtained from the composite indexes of the Worldwide Governance Indicator: 1. Political stability and absence of violence, 2. Government's effectiveness and regulation quality, 3. Rule of law, 4. Control of corruption. The lines represent the average gap between EAGLEs and the G6. G6: Canada, Germany, France, Italy, Japan and UK

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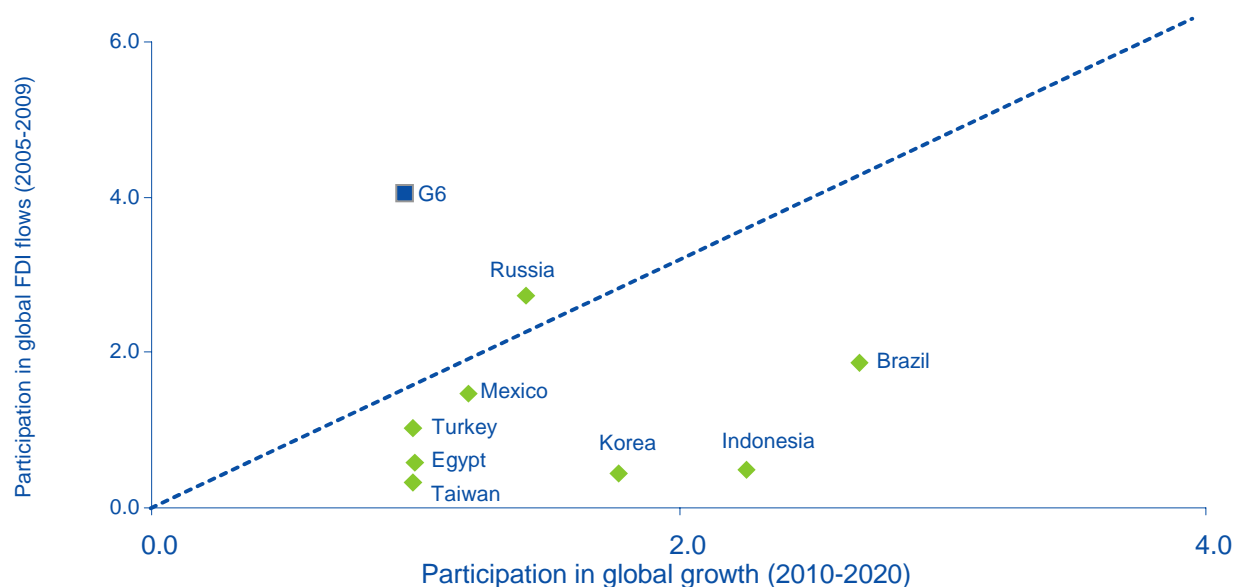
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FDI: The EAGLEs are undervalued

- EAGLEs' participation in global FDI is low; they are expected to be major recipients of FDI flows in coming years
- The G6 is clearly overrated

Share of world GDP growth and FDI inflows

Source: BBVA Research & UNCTAD



G6 average: Canada, Germany, France, Italy, Japan and UK

Out of scale:

- China = 6% worldwide FDI, 30% global growth
- India = 2% worldwide FDI, 9% global growth

Section 2

Population: The demographic bonus benefits EAGLEs

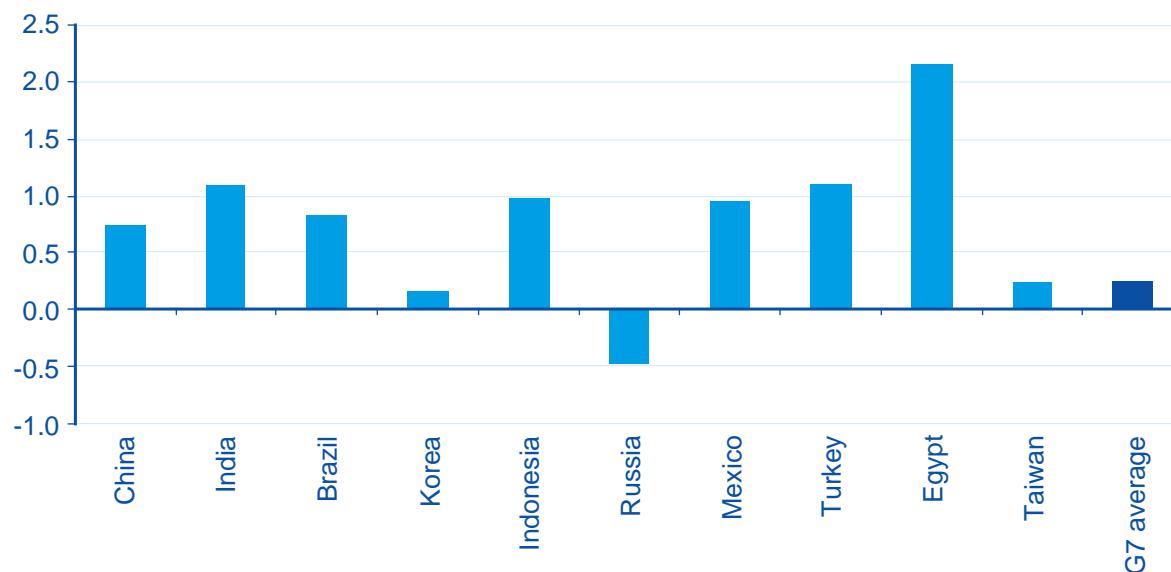
Population growth drives the contribution to global GDP

- With the additional impact of the increase in working-age population (which will continue to grow over the next decade, even in China) and employment rates

Contribution to potential GDP growth:

Population growth, global participation rate and NAIRU

Source: BBVA Research



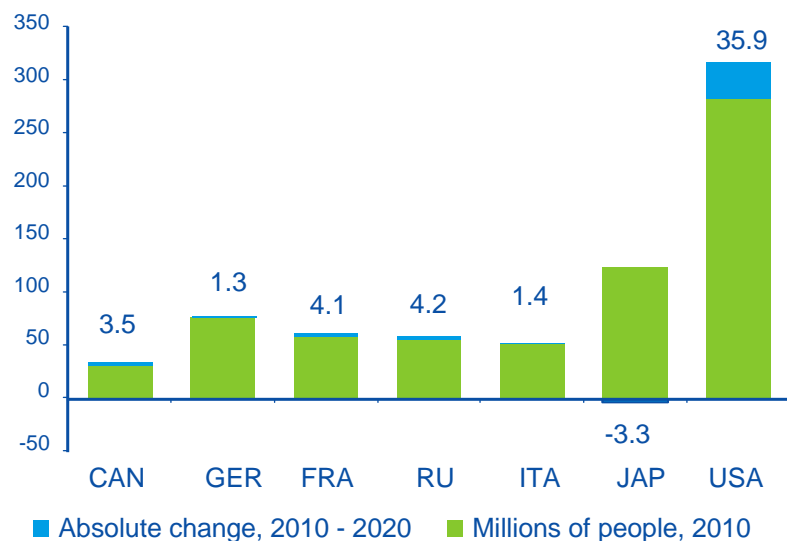
The middle classes will grow more in EAGLEs

- Households with monthly income higher than USD 800 adjusted by PPP
- China is the country with the largest middle class
- The gains in Brazil and Russia are considerable
- In other countries, more time is still needed

G7: Middle class growth

Millions of people with annual income above USD 9,600 adjusted by PPP

Source: BBVA Research



EAGLEs: Middle class growth

Millions of people with annual income above USD 9,600 adjusted by PPP

Source: BBVA Research

