

Economic Watch

Global

Madrid, 4 November 2011
Economic Analysis

Economic Scenarios

Chief Economist
Juan Ruiz
juan.ruiz@bbva.com

Europe

Chief Economist
Miguel Jiménez González-Anleo
mjimenezg@bbva.com

G20 Cannes' Summit

No concrete agreements and no progress on the European debt crisis

- **The main points in the Cannes' original agenda were overshadowed by the European debt crisis and the threat of a Greek referendum**

The main points in the original agenda included (i) the reform of the international monetary system (IMS) with the idea of convincing China to flexibilize its exchange rate and include its currency in the basket for the IMF's SDR, (ii) reducing global imbalances and supporting global growth, trying to obtain a commitment from countries with external surpluses to increase demand and countries with a more solid fiscal position to support private sector demand, and (iii) strengthening financial regulation, where the main proposal backed by France and Germany was the introduction of a financial transactions tax

- **Advancing on the solution of the European debt crisis gained center stage, but there was no major progress on that front either.**

The G20 leaders welcomed the eurozone rescue plan agreed in Brussels in October, but there was no reference to supporting the EFSF from non-eurozone countries. In addition, the G-20 reached no agreement on how the IMF could assist in resolving the euro-zone debt crisis. Any decisions on how funds could be channeled through the IMF are postponed to a meeting of G20 finance ministers in February. It is not clear how the announced new IMF facility (a Precautionary and Liquidity Line, PLL) improves existing IMF facilities (FCL and PCL). The only silver lining is the agreement to have the IMF monitor the implementation of Italy's commitments for reform. This is important as Italy has not convinced eurozone leaders with its proposed reform measures, and shows that Italy is now the main source of concern on the eurozone sovereign front. However, as the only decision of substance in respect to the eurozone crisis, this is a very poor result.

- **Scant advances on the original points of the G20 agenda. Chinese position on exchange rate flexibility and global imbalances remains unchanged**

There were only vague commitments from China to more balanced growth, but nothing that has not been said before, and no mention whatsoever of changing its exchange rate management, even with the sweetener of including it into the IMF's SDR basket. Chinese declarations about global imbalances were also very vague. Solutions to global imbalances get postponed once again.

- **No commitments were made on specific measures to promote growth**

The G20 said countries where public finances were strong were committed to take measures to support domestic demand and countries with large external surpluses committed to increase domestic demand and increase exchange rate flexibility. But there were no specific commitments to new measures from individual countries.

- **As expected, there was no consensus on a financial transactions tax. The list of global SIFIs focuses the attention**

The release of the list of 29 Global SIFIs played a prominent role, although there are serious doubts about the coherence of the SIFIs framework, including the possibility of exacerbating moral hazard as markets may interpret that Global SIFIs have implicit public sector support. As expected, the proposal of a financial transactions tax, reached no consensus on the face of strong opposition from the US and UK, despite French efforts.

- **All in all, the G20 summit turns out to be a lost opportunity**

The badly managed euro crisis forced a last minute change in the agenda for the G20 summit, as all countries wanted to be certain what was going to happen in Greece before deciding anything. The threat of a Greek referendum and the possibility of a disorderly default meant that countries outside Europe wanted the eurozone to demonstrate it had the crisis under control before they consider additional IMF resources. In the end, there were no advances on the G20 and the IMF building a financial protection wall for Italy and Spain. Thus, an opportunity to reduce market tensions in Europe was lost. This is further evidence that the solution to the European debt crisis will have to start from within Europe.

As for the medium-run issues such as promoting growth and addressing global imbalances, there were no changes in deeply established positions, especially in China, so no major progress could be achieved relative to previous summits. We will thus have to wait and see if the gulf separating surplus and deficit countries is bridged, an unlikely proposition as of now.

DISCLAIMER

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

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

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

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

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

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

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

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

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

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