Key takeaways in 2013

Rethinking EAGLEs for the next decade

Special Topics

- EM markets portfolio flows: changing underlying forces
- The EM Middle-Class revolution will accelerate
- Are EAGLEs & Nest ready for income transition
- EM credit deepening: In the search for a healthy path
- Trends in South-South trade and global value chains
After a long period of time, the external environment is finally gaining momentum...

Manufacturing PMIs (2012-14)
(simple average for EAGLEs* and G7 groups)
Source: Haver
...but local EM drivers disappointed

Real GDP growth in 2013
(in %)
Source: IMF and BBVA research

+ Significant Upward Revision
- Significant Downward Revision

Estimation / data
Forecasts (March 2013)

Real GDP growth in 2013 (in %)

Source: IMF and BBVA research
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Rethinking BBVA EAGLEs

<table>
<thead>
<tr>
<th>Definition of EM</th>
<th>Candidates</th>
<th>Nest threshold</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
<td>Now</td>
<td>Implications</td>
<td></td>
</tr>
<tr>
<td>Consensus from different sources</td>
<td>IMF criteria and groupings</td>
<td>Stable and clear criteria.A mix of macro and institutions</td>
<td></td>
</tr>
<tr>
<td>45 countries; discretionary exclusion</td>
<td>All emerging economies</td>
<td>More candidates to be considered</td>
<td></td>
</tr>
<tr>
<td>Lowest contribution of a G6 economy (one country)</td>
<td>Avg contribution of non-G7 developed economies (with GDP &gt; USD 100bn)</td>
<td>Extension and stability of the threshold</td>
<td></td>
</tr>
</tbody>
</table>
Maintaining our robust methodology...

**Step 1: Estimating GDP level in the next decade**

- **Developed Economies**
- **Emerging Economies**

**Current GDP Level**

Current Size ("Initial size matters")

\[ \text{Current GDP Level} \]

**Growth rate (10 yrs)**

BBVA Research & IMF forecasts

\[ \text{Growth rate (10 yrs)} \]

**Final Size**

- **Institutions**
- **Technology**
- **Capital**
- **Labor**

\[ \text{GDP Level in 10 years} = \text{Current GDP Level} \times \text{Growth rate (10 yrs)} \]

**Step 2: Calculating Incremental GDP**

\[ \text{GDP Level in 10 years} - \text{Current GDP Level} = \text{Incremental GDP} \]
...but new thresholds broaden the scope in 2014 members

**BBVA World Economic Groups and Incremental GDP thresholds: 2013-2023**

Source: BBVA Research

- **EAGLEs**
  - China, India, Indonesia
  - Russia, Brazil
  - Turkey & México

- **G6 economies average**
  - USD 490bn

- **NEST countries**
  - Saudi Arabia, Nigeria, Thailand, Colombia, Philippines
  - Malaysia, Iraq, Vietnam, Bangladesh, Poland, Iran, Peru
  - South Africa, Chile, Kazakhstan, Qatar & Argentina

- **Non-G7 developed economies (with GDP > USD 100bn average)**
  - USD 157bn

- **Rest of emerging economies**
  - Rest of Emerging Markets
A bird’s eye to EAGLEs contribution...

Contribution to world growth in the next ten years and current GDP size (2013) (PPP-adj. 2013 USD)
Source: BBVA Research, IMF

China and India play in another league

The rest of the EAGLE`s are consolidating over time
... and the new list of Nest members

**Contribution to world growth 2013-2023 and current GDP size**

(2013 USD bn and 2013 USD PPP adjusted)

Source: BBVA Research, IMF
EAGLE’s contribution growth map...

Regional contribution to world growth in the next ten years (%)
Source: BBVA Research, IMF

- North America: 12.5%
- Latin America: 6.9%
- Western Europe: 7.2%
- Eastern Europe: 6.2%
- Africa: 5.7%
- Middle East: 4.1%
- Asia ex-Japan: 54.7%
- Japan: 1.7%
- Oceania: 1.1%
- G7 Developed
- Non-G7 Developed
- Eagles
- Nest
- Other Emerging

The EAGLE’s & Nest are geographically balanced
...with a bias to the Asia-Pacific region

Regional contribution to world growth in the next ten years (%)
Source: BBVA Research, IMF

The center of gravity is moving to the Asia Pacific Region (77%)
Index

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EM Portfolio Flows: changing underlying forces...

Global “push” factors have been the dominant force driving portfolio flows to EM...

... but Local and Regional “pull” factors are becoming more relevant

Portfolio Flows to Emerging Markets (2012-2014)
(median flows and contributions, flows to total assets)
Source: BBVA Research and EPFR and IMF

Global “push” factors
Local “pull” factors

60% 40%
60% 40%
60% 40%
60% 40%
Ultra loose Monetary Policy in western countries ("push") and EM attractiveness ("pull") prompted “excess” flows into Emerging Markets …

… which sharply corrected with the FED announcement of the Tapering… We have already corrected previous excesses entering into the “Under-shooting” area
The EM Middle class revolution will accelerate and poverty will drop significantly

**Population by GDP pc in EM (1980-2025)**
(Eagles and Nest countries)
Source: BBVA Research

The Revolution of EM “Middle Class” is accelerating reaching near 3bn people. Some of them will jump faster joining the affluent classes

For the first time Poverty drop below Middle Classes
The EM Middle class revolution will accelerate and poverty will drop significantly...

**Change of population by GDP pc: 2013 to 2025**
(millions of people by countries and Groups)
Source: BBVA Research

- **China**: -600
- **India**: -400
- **EAGLE’s-5**
  - **Affluent**: 63
  - **Medium Middle-Class**: 167
  - **High Middle-Class**: 68
  - **Low Middle-Class**: 219
  - **Poor & Low Income**: 37
- **Nest**: 195
- **G7**: -200

**New 195 mln**
**Rich People** in
Eagles & Nest countries

**New 1100 mln**
**Middle Class** living in
EAGLE’s countries

- **Eagles & Nest**
  - **Nest will add 255 mln new**
  - **Middle Class**
  - **Eagles & Nest reducing poverty by 1000 mln**

*EAGLE’s 5: Indonesia, Russia, Brazil, Turkey and Mexico*
... in some places more than in others (EM Middle Class heterogeneity)

**Population by GDP pc: 2013**
(millions of people by countries and Groups)
Source: BBVA Research

![Population by GDP pc: 2013](chart)

**DMs**
- G7 average
- Korea
- Russia
- Turkey
- Mexico
- Brazil
- China
- Indonesia
- India
- Qatar
- Poland
- Argentina
- Malaysia
- Chile
- Kazakhstan
- Iran
- Peru
- Thailand
- Colombia
- South Africa
- Iraq
- Egypt
- Philippines
- Vietnam
- Nigeria
- Pakistan
- Bangladesh

**EAGLEs**
- Affluent
- High Middle-Class
- Medium Middle-Class
- Low Middle-Class
- Poor&Low Income

**Nest**
- ... in some places more than in others (EM Middle Class heterogeneity)

Source: BBVA Research
Are EAGLE’s and Nest ready for income transition?: different positions, different challenges...

Drivers

Low income
- Demographics, urbanization, high investment returns, Basic Manufacturing low wages
- Macro and institutional, social unrest, poverty, basic services, increasing inequality

Middle income
- Tertiarisation, Manufacturing diversification & sophistication, increasing middle classes, financial deepening
- Factor accumulation moderation, wages rise, need of higher education, technological skills and infrastructure

High income
- Diversification, sophistication, complexity, innovation, welfare systems
- Population aging, fiscal sustainability, increasing inequality, excessive leverage

Risks

Macro and institutional, social unrest, poverty, basic services, increasing inequality

2,000-8,000 PPP-adj. USD
- India, Indonesia, Bangladesh, Egypt, Iraq, Nigeria, Pakistan, Philippines, Vietnam

10,000-21,000 PPP-adj. USD
- Malaysia, Russia, Argentina, Chile, Poland, Brazil, Iran, Kazakhstan, Mexico, Turkey, China, Thailand, Colombia, S. Africa, Peru

>22,000 PPP-adj. USD
- Qatar, Saudi Arabia

Developed Economies
Are EAGLE’s and Nest ready for income transition?: different positions, different challenges…

**Economic development and population dynamics**
Source: BBVA Research, UN, World Bank, UNU-WIDER

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### Share of population with 15-64 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Low Income</th>
<th>Mid.Inc. 1</th>
<th>Mid.Inc. 2</th>
<th>Mid.Inc. 3</th>
<th>G7</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2025</td>
<td></td>
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</tbody>
</table>

### GINI inequality index (latest)

<table>
<thead>
<tr>
<th>Year</th>
<th>Low Income</th>
<th>Mid.Inc. 1</th>
<th>Mid.Inc. 2</th>
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<td>2010</td>
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<tr>
<td>2025</td>
<td></td>
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</tr>
</tbody>
</table>

*Low Income = India, Indonesia, Bangladesh, Egypt, Iraq, Nigeria, Pakistan, Philippines and Vietnam; Middle Income 1 = China, Thailand, Colombia, South Africa and Peru; Middle Income 2 = Brazil, Iran, Kazakhstan, Mexico and Turkey; Middle Income 3 = Malaysia, Russia, Argentina, Chile and Poland*
Are EAGLE’s and Nest ready for income transition?: policy room to change development paths…)
Are EAGLE’s and Nest ready for income transition?: infrastructure will play a crucial role...

Quality of overall infrastructure (1-7) in EAGLEs, Nest and G7 countries (2013-2014)

Source: BBVA Research, WEF

H-I = High income countries; no data available for Iraq; discontinuous lines represent group averages
... and Credit Deepening will help to finance development as long as it follows a healthy path.

Credit to the private sector and GDP per capita (2013)
(credit to GDP and GDP per capita PPP adjusted)
Source: BBVA Research and IMF

Note: the trend represents long-term relation between GDP per capita and the ratio of credit regardless of other variables which play a relevant in our model; the size of the bubbles are proportional to the absolute value of GDP
Trends in South-South trade and Global Value Chains (GVCs): South-South trade on the rise...

**Distribution of world exports according to origin and destination**
(% of total)
Source: BBVA Research, IMF/DOTS

<table>
<thead>
<tr>
<th></th>
<th>1980s-90s</th>
<th>Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-North</td>
<td>61%</td>
<td>40%</td>
</tr>
<tr>
<td>North-South</td>
<td>17%</td>
<td>20%</td>
</tr>
<tr>
<td>South-North</td>
<td>16%</td>
<td>24%</td>
</tr>
<tr>
<td>South-South</td>
<td>6%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Note: 1980s-90s corresponds to the 1980-1999 average and Present to the 2010-2012 average.
Trends in South-South trade and GVCs: ...gravitating around the Asian Factory

South-South trade flows by regions (USD bn) (2012)
Source: BBVA Research, IMF/DOTS

Total South-South Trade: 2.92 tn

Rapid economic growth of Southern countries
Further progress in trade liberalization
Development of global value chains
Trends in South-South trade and GVCs: countries should pursue VA gains...

**Exports by regional trade network: 2000 & 2009**
(gross value and value added basis, in USD)

*Source: BBVA Research, OECD*

Increase domestic connectivity with other activities

Increase value retention drain through foreign inputs or imports of final products

Increase diversification in commodities and manufacturers

Upgrade technological content most of them merely “assemblers”
Trends in South-South trade and GVCs: strategic alliances can help

Current GDP size and expected change in the next decade
(PPP-adj. 2013 USD)
Source: BBVA Research, IMF
Thank you!
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