

Latinwatch

Research Department

First quarter 2005



Latin America: welcome China
China: angel or devil for Latin America?
On sustainable growth in Brazil
Kyoto and Clean Development Mechanisms

Preface

A new stage of Latinwatch

With this issue of Latinwatch we begin a new stage: new formats, new contents, new publications.

This new stage is characterised by the fact that it includes for the first time a combination of quarterly and weekly publications, as well as occasional notes on specific questions produced by the Research Department of BBVA Group and coordinated by the different banks within the group.

In this sense, coinciding with the appearance of this quarterly Latinwatch, we are also putting out for the first time local quarterly publications called “Situaciones” on Argentina, Chile, Colombia, Mexico, Peru and Venezuela with a common structure and format. These publications serve a joint function. On the one hand, they complement the quarterly Latinwatch in providing information on economic developments in the respective countries with a great deal of detail. On the other hand, they constitute publications at a national level in which global aspects of financial markets and the world economy are combined with the specific aspects of the economies to which these publications are primarily specifically directed.

Apart from Latinwatch and the National Quarterly Situaciones, with the idea of dealing with subjects from a more structural point of view, we have designed a second series of publications on a weekly basis called “Weekly Situación”. These deal on a global level with each of the countries for which there is a Quarterly Situación, and are oriented towards providing information on markets and economies as it emerges. These publications share the same principles as the Quarterly Situaciones: coordinating global tendencies and going into more depth on the economic and financial reality of the countries concerned.

Finally, we have designed a series of economic notes that, occasionally, and under the heading of “EconomicWatch” gather together issues that have an impact on the economy and markets, and which combine speed with rigorous analysis.

The Latinwatch magazine completes the new line of publications of the Research Department that takes advantage of the synergies of the economic and financial analysis of the BBVA Group in its twin sphere of operations: global and domestic.

These publications can be consulted regularly on the group’s website, where from now onwards, the Research Department appears in the corporative page.

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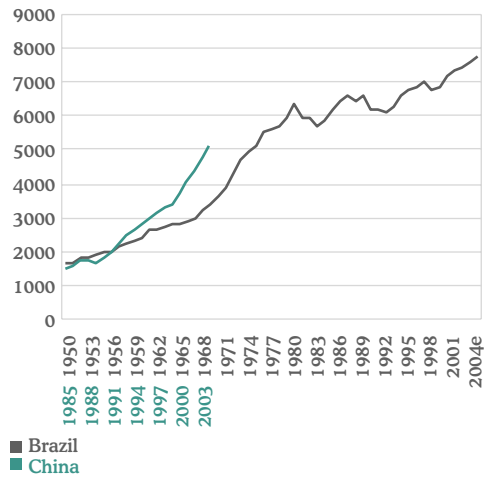
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Per capita income in PPP terms
(1996 constant dollars)



Source: BBVA based on Penn World Tables

Real commodity price index
(1900=1)



Source: Latin American Centre at Oxford University

Editorial

In a few years China has gone from being a marginal country within the world economy to playing a central role in economic development on an international level. Its influence ranges from the foreign currency markets and raw material prices to its impact on trade flows and direct investment among countries.

Between 1978 and 2003, China's real GDP grew at an average rate of 9.4%. This extraordinary performance has made the Chinese economy 12 times bigger than it was 25 years ago, with a size similar to the sum of the economies of Brazil, Mexico and Russia combined. It is already the seventh-largest economy in the world, and the second in GDP calculated in terms of purchasing power parity. If this trajectory continues over the next quarter of a century, the Chinese economy could be as big as that of the United States.

The Chinese phenomenon constitutes, at the same time, the development of an important potential market. China is the fourth-largest trade partner on a world level, and the third-biggest importer after the United States and Germany. In 2003, China absorbed half of the direct investment directed at emerging countries. In addition, more than 400 of the main multinational companies have made direct investments in China. The Chinese economy at the same time is a devourer of raw materials, not only as a result of its dynamism, but also because of the fact that it is still at an early stage of its development.

Latin America is one of the areas where the upsurge of China in world trade for raw materials has had most impact, since the majority of countries in the region specialise in the production of such goods. The exception in Latin America to this strong positive impact from China is Mexico. The Mexican economy has a high level of specialisation in the production of manufactured goods, particularly in assembly activity, and competes strongly in third markets with Chinese exports, particularly in the U.S. market. According to BBVA estimates, which are presented in one of the articles in this issue of Latinwatch, Mexico along with Thailand and Poland, share most in common with the pattern of Chinese exports. Mexico, however, is holding up well against competition from China, particularly in sectors where transportation costs are decisive.

The contrasting fortunes of Mexico and the rest of Latin America in the face of the Chinese phenomenon is a very potent reminder of how huge transformations in the world economy tend to generate challenges and opportunities at the same time. Who benefits in the long term will depend to a large extent on how these challenges and opportunities are met. The seeming losers of today could turn out to be winners in the future and vice versa. If competition from China serves as a catalyst for structural reforms, long since necessary in Mexico, the country could put itself in a position to exploit its enormous economic potential.

In the same way, it would be a mistake for the rest of Latin America to think that the boom in raw material prices is going to last for ever. Sooner or later, the prices of these goods will return to their secular trend of growth markedly lower than the general price level, as corresponds to goods whose relative demand, above a certain income threshold, tends to decrease as per capita income increases. And there will come a point in time in which the Chinese economy, such as has been the case of many other countries, will surpass that threshold.

Looking at things from a short-term perspective is one of the main banes that the Latin American economies suffer from. The bonanza today should be taken advantage of by Latin American countries to transform their economies: restore public finances to a state of health, invest in education and necessary and profitable infrastructures, and to diversify the productive apparatus in a decisive way. Only in this way will the future be assured.

In this issue of Latinwatch

Latin American countries currently face a variety of challenges given their openness to and involvement in the global economy. The current issue of our Latinwatch magazine focuses on some of these challenges, putting particularly emphasis on current problems that will form the agenda of governments in the region over the course of next year.

For example, the impact of China on the economies of Latin America has been significant. Therefore, in this edition we will present an analysis of the effects of the strong Chinese performance on countries in Latin America. During the past decade the growth of this Asian economy has been impressive and its impact on Latin America even greater. In particular, the region can be divided into two blocks: those countries that have benefited from the entry of a newcomer to the world economy (exporters of raw materials) and those that see China more as a competitor (producers of manufactured goods). The impact on one or the other of these groups is different, and this gives us an idea as regards the probable reaction that will take place in the region as development in China consolidates itself.

Next, we present a study on the potential growth of Brazil. This study, which is of a structural nature, presents the main characteristics of the Latin American economy and explores the main reasons why this country has entered a dynamic of growth below its potential. Alejandro Neut and Juan Antonio Rodríguez demonstrate how low levels of capital accumulation and a lack of growth in productivity can explain the poor performance of the Brazilian economy in the latter part of the past century.

Finally, another factor that will affect the way in which Latin America does business will be the coming into effect of the Kyoto Protocol. In particular, Tatiana Alonso details the main characteristics of the so-called Clean Development Mechanisms, or CDM. As is explained in this article, Latin America has shown particular interest in developing the use of these mechanisms in order to promote the adoption of less polluting technologies and to attract investment to the region.

The year 2004 will end with positive results for Latin America. In particular, we expect the region to grow 5% this year, a figure above the 2.6% posted in the past 20 years. Even more, for the first time in two decades, all of the countries in the region are growing at the same time.

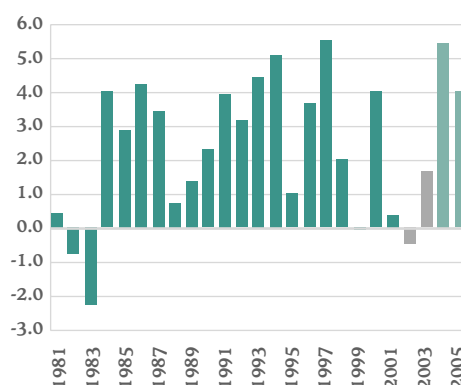
However, a more prudent analysis of the figures shows us that certain countries that have enjoyed high growth rates have done so as a result of the deep recessions they suffered during 2002 and 2003 (for example, Argentina, Venezuela and Uruguay). The question we therefore have to pose is whether the region can sustain the recovery beyond next year. Our assessment is positive, given the favourable perspectives in the domestic and external environments. Below we provide a brief explanation of our forecasts for both cases.

• International environment

The world economy in 2005 will show the third consecutive year of expansion in activity. Growth will slow from that seen in the current year as a consequence of monetary conditions that should be less expansionary, and owing to the impact of the increase in the price of oil, which is expected to moderate activity in the industrialised economies.

In this environment of expanding activity, it is to be expected that monetary policies will gradually adjust interest rates to less accommodating levels, following the trend initiated in 2004 in the United States and China; a process that seems to have run its course in economies such as the United Kingdom, and which should start to happen next year in the EMU.

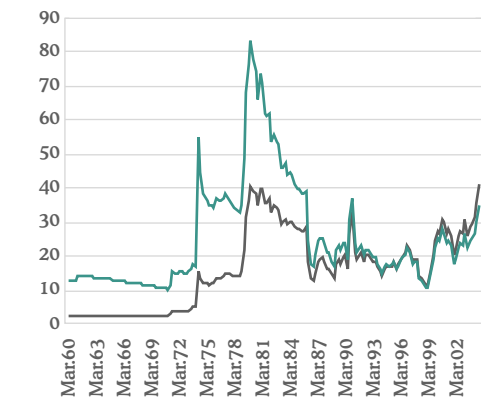
Regional GDP
(% annual change)



Source: BBVA based on national sources

Brent oil prices

(\$/barrel)

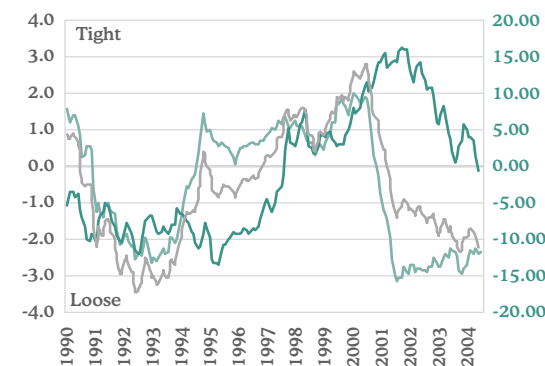


■ Nominal
■ Real

Source: BBVA

USA: index of monetary conditions (ICM)

(ICM)



■ Interest rates
■ Dollar
■ ICM

Source: BBVA

That said, this scenario of a gradual tightening of monetary policies could be open to question because of a variety of factors: the price of oil, the U.S. current account deficit and adjustments in the Chinese economy. In the United States, the combination of these factors points to the risk of a rise in interest rates, with a decoupling with respect to the situation in the EMU (European Monetary Union) where the balance of risks is on the downside.

Oil and the reaction of central banks

Expectations for the price of oil, which have played a leading role in 2004, will continue to be important next year. The main fear as regards oil lies in the fact that the recessions that have taken place in the world economy in the past thirty-five years have been linked to a greater or lesser extent to high oil prices. However, a number of differences can be identified currently. In the first place, the size of the current shock is more moderate and gradual than in the past as can be seen if one analyses oil prices in real terms. Secondly, the dependency of industrialised countries on oil has diminished in the past few years. Finally, in the past supply factors were the determinants of rises in crude prices. At present, there is a more equitable combination of supply and demand elements.

Oil, therefore, has a negative impact, although possibly moderate as regards activity. But then again one cannot forget the upward pressure it puts on prices. In this sense, this creates a dilemma for central banks. With inflation under control, central banks can focus more on their function of stimulating the economy, which would not be the case with upward surprises in inflation, a situation more likely to take place in the United States than the EMU, where exchange rate appreciation limits the impact of the oil shock.

Two engines with uncertainties

The main questions for the next few months lie in the economies that are acting as engines of growth, China and the United States. The sizeable current account deficit reached in the United States is seen as being increasingly unsustainable, especially in the face of the growing perception that, after the electoral victory of Bush, not only will adjustments in fiscal policy in the next few months not be forthcoming, but rather that the direction that will be taken is towards greater public spending and more tax cuts. China constitutes the other source of uncertainty. Its growth continues to be high despite the credit restriction measures adopted this year. The challenge is to moderate growth gradually in order to avoid a hard landing. The start of an upward cycle for interest rates in this economy has revived expectations that China will move towards market mechanisms, and in particular, that a revaluation of the Chinese currency against the dollar will take place in the next few months. That is to say, the economic decisions appear to be going in the opposite direction from that desired in the United States, with the possible dashing of hopes for a fiscal adjustment, or fail to materialise as in the case of the Chinese exchange rate system. For this reason, everything suggests that the adjustments that are needed will continue to take place by means of financial variables.

The notable differences in the current account balances among countries are increasing year by year. Those who are more optimistic view this as the outcome of wider capital markets and of a lower domestic bias in the decisions of investors. Faced with this scenario, the depreciation of the dollar and the widening of the interest rate differential of the United States with respect to the EMU reflect the fear that the current situation is hardly sustainable. These two channels, currency and interest rates, reflect less willingness to continue financing the growing U.S. current account deficit. In the medium term, this will be reflected in stronger inflationary pressures, and lower U.S. economic activity, the impact of which will depend on the size and speed of financial adjustment.

In the short term, the problem is that a large part of this financial adjustment is taking place with costs for the EMU, whose expansion – which is very dependent on the foreign sector – is being slowed by the appreciation of its currency. As a consequence, expectations of an upward adjustment in interest rates on the part of the ECB have cooled. On the other hand, the resistance of the Chinese authorities to revalue their currency is generating an additional effect in the markets: China is carrying out strong intervention in the foreign currency market in the form of buying foreign bonds. This is helping to keep the returns in industrialised countries low. The possibility that this demand is shifting towards assets denominated in euros accentuates the movements that have been seen in the financial market: a stronger euro and a negative differential in interest rates for the EMU. In addition, this also reflects the vulnerability of the United States' situation to a change in the composition of the reserves of the Asian central banks. The reason for this is that direct investment flows, which played a significant role in the second half of the 1990s in financing the current account deficit in the United States, have been currently replaced by official flows linked to movements in the reserves of these central banks.

Financial scenarios for 2005

Taking into account the uncertainties that remain in place for the next few months, three scenarios for financial variables can be outlined. The first, which is the base scenario, is characterised by a gradual upward adjustment in interest rates, which in the case of the United States would mean ending 2005 with the Fed funds rate at 3.5%, and with a relatively stable dollar-euro rate of around 1.3. The second scenario, which foresees low rates, is more probable in the EMU than in the United States, and would be accompanied by a depreciation of the dollar towards levels of 1.35 against the euro by the end of 2005. The third scenario, which is more likely in the United States, envisages high interest rates, with the Fed funds rate reaching 4.5% at the end of 2005, and 10-year rates 6.5%, while the dollar is seen depreciating further to stand at 1.4 against the euro at the end of next year.

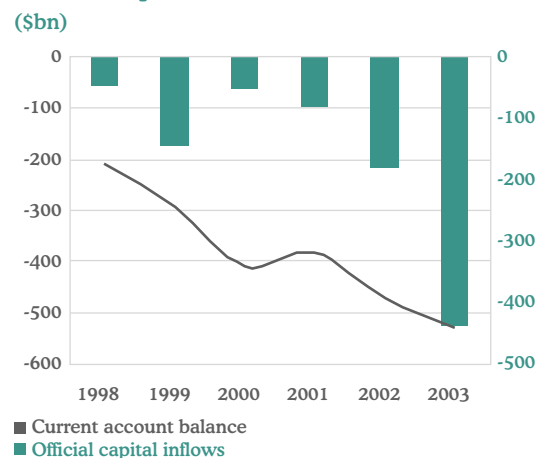
• Regional overview

Until the first quarter of this year, the international debt markets experienced an increase in liquidity that brought with it as a consequence a considerable reduction in borrowing costs. This situation has greatly benefited the economies of the region, and in a particularly significant way for countries with investment grade such as Chile and Mexico, which enjoy relatively low levels of debt, and which have taken advantage of the situation to improve their debt maturity profiles.

One of the other positive characteristics of the past debt rally has been that the greater accessibility to funding has not translated into significant imbalances in foreign accounts. In particular, the current account will be in surplus at the end of 2004, and a relatively low deficit will be seen next year (see graph). Therefore, unlike other periods in which the region faced a generalised increase in global interest rates, today there is a level of short-term debt that is manageable, with sufficient international reserves to maintain currencies stable. What is more, flows towards some countries in the region have improved their make-up and have become more stable. Such is the example of Mexico, where remittances by immigrants have become a source of constant and significant foreign currency (greater even than foreign direct investment).

During 2004, the Latin American economies benefited from a significant increase in raw material prices (see section on the BBVA-MAP in this edition). Countries that are net exporters of oil such as Colombia, Mexico and Venezuela have seen a strong improvement in their terms

USA: current account balance and official capital inflows



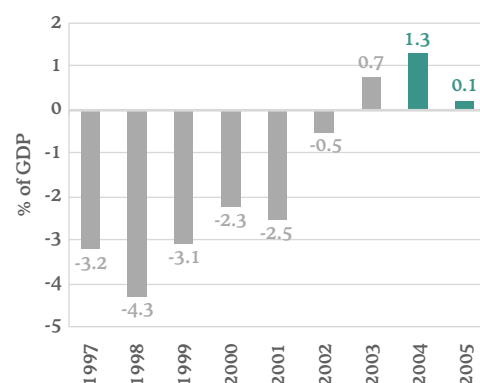
Source: BBVA

USA: baseline scenario

	Jun.04	Dec.05
Fed funds	2.75	3.50
10-year rates	5.10	5.50
Dollar-euro	1.28	1.30

Source: BBVA

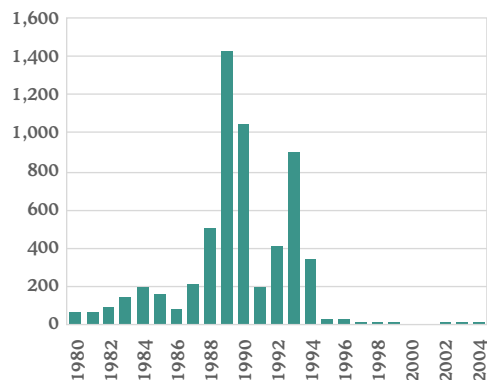
LATAM current account



Source: BBVA

Inflation in Latin America

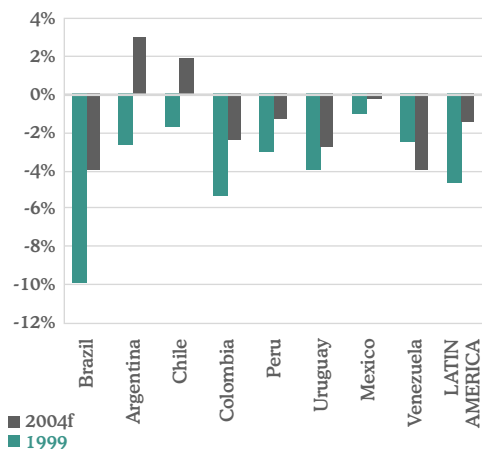
(% annual change)



Source: BBVA based on national sources

Public deficit

(% of GDP)



Source: BBVA

of trade throughout the year. In addition, other primary goods such as copper, sugar and coffee have also seen increases in prices that have benefited a number of countries in the region. Although we do not expect this scenario to repeat itself in 2005, we do believe that the changes that take place will not have a negative impact on the region. In particular, although we expect the prices of oil and soya will fall next year, the terms of trade for countries particularly affected by this such as Argentina will remain at relatively high levels.

On the other hand, the quality of domestic institutions has improved. This has been reflected in the conviction of the governments in the region that economic growth can only be achieved within a framework of monetary and fiscal discipline. In this respect, the gains made by Latin America in terms of reducing inflation have been significant (see graph). This has remained below two-digit levels in six of the past seven years, and we expect inflation to stand at around 6.7% at the end of 2005, and close to 6.2% in 2005.

Likewise the reduction in the fiscal deficit of a number of countries in the region has been significant. With the exception of Venezuela, all the governments of the biggest nations in the region have improved their financial position with respect to 1999. Examples such as Brazil, Colombia and Peru, where the changes have been notable, should be mentioned.

In addition, now that the episode of instability in Venezuela has blown over, the region will enjoy a year of relative calm in the political arena. In particular, only six elections are expected in the region, compared with the 13 held in 2002 and the 18 in 1994. Therefore, political issues will not be a major factor for Latin America for 2005.

In this way, the overview that has been presented so far establishes a favourable panorama for the region in the short term. However, certain doubts surround sustainable growth over the medium term. Given the uncertainty in international conditions from 2006, and the current favourable situation, the need for the region to implement structural reforms cannot be put off. In particular, after a period of significant changes at the end of the 1980s and the start of the 1990s, the economies in the region have left important bottlenecks (above all microeconomic ones) that would be worthwhile refocusing on.

Thus, it is to be desired that such important topics as social security reform should be put back on the negotiating table. Although the composition of the population of Latin America is relatively favourable, the privileges granted to certain sectors, and the pressures that could be generated by payments by governments in future years, could endanger fiscal stability and debt levels.

Likewise, it is equally important for the governments of the region to place special emphasis in generating greater tax revenues. In particular, tax revenues in Latin America scarcely represent 15% of GDP, while in developed countries they represent 35%. In this way, difficulties such as high taxes on income and tax evasion prevent the tax system from carrying out its job as a generator and distributor of wealth.

In addition to these two areas of reform, it is important to make advances in the establishment of a judicial system that guarantees respect for the laws as has been underscored by multilateral organizations.

Finally, summarising the above, 2005 presents a relatively optimistic panorama for the region given the international scenario and the current situation in the region. However, this calm should be taken advantage of to implement the structural reforms that are so necessary to assure growth in the future.

China: Angel or devil for Latin America?¹

China is shaping up at the start of the 21st century to being a global economic power. Its economy has registered average growth of 9.5% during the past 25 years, and is having an impact not only on Asia or within the OECD but also in Latin America. With a domestic savings rate and an investment rate close to 45% and relatively low salaries, China is seen as an opportunity and as a threat by the rest of the emerging countries, and in particular those of Latin America.

The Asian giant awakes: a positive impact for Latin America

Trade with Asia, and in particular with China, is much more important today for Latin America than for Asia. In the period 2003-2004, an explosion in trade took place between Latin America and China, which is already the third-largest importer worldwide. China has become the most important importer of raw materials in the world, a boom that has constituted a bonanza for Latin American countries as a whole. The region exports about 47% of the soya, 40% of the copper and 9.5% of the crude oil in the world.

Trade with China has in general terms been positive. While between 1997 and 2002, average growth in world imports of soya was 11%, the average growth in Chinese imports shot up 75%. World imports of copper grew by 5% over this period, while Chinese imports increased by close to 65%. In 2003, China stood as the biggest consumer of copper, tin, zinc, platinum, steel and iron. During last year, imports of nickel doubled, those for copper increased by 15%, soya 70% and oil 30%. In addition, it accounted for 50% of the cement used in the world, 30% of the coal and 36% of the steel.

A trade angel for Latin America

China is among the top five importing countries for Latin American exports, and at the same time is among the top ten exporters to the region.

Not only should the growth in the volume of trade flows be pointed out, but also, in particular, the short time in which this has taken place. Until the 1990s, trade flows between Latin American countries and China were relatively low. The strong increase started from 1992 as a result mainly of a pick-up in Latin American imports from China. Since then, exports to China have been growing over the past 10 years, coinciding with a reduction in Chinese import tariffs. They have picked up particularly since 2000, driven by the strength of Chinese demand and tariff levels at historically low levels.

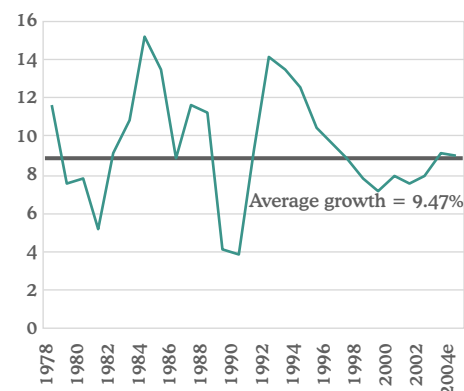
In this sense, China has seen a significant fall in its import tariffs in the past two decades, moving from a nominal average (weighted) tariff of 40.6% in 1992 to 11.1% at the end of 2001. After joining the WTO, China committed itself to reducing the nominal tariff to close to 6.9% in the following five years, but scarcely a year after making that commitment, tariffs had fallen to 6.4%.

Explosive growth in trade between Latin America and China took place in 2003. Exports from the region directed at the Chinese market grew by 72%, reaching 10.9 billion dollars. Latin American exports grew by 8.5% percent overall due to higher prices and greater volumes of basic products such as copper, soya, oil and cotton, driven by demand from developing Asian countries, especially China.

¹ This article was prepared on the basis of research carried out by Jorge Blázquez, Javier Rodríguez and Javier Santiso, "Angel or devil? Chinese Impact on Latin American Emerging Markets", BBVA Research Department, October 2004, presented in Washington D.C. (USA) in the Latin American Center of Georgetown University, October 4, 2004; in New York (USA) in the Institute of Latin American Studies of Columbia University, October 6, 2004; at the international conference co-organised by the World Bank and Deutsche Bank, "Asia and Latin America: Opportunities and Challenges - The World Bank Ninth LAC Meets the Market Conference" in New York (USA), October 26, 2004; and in LACEA, Costa Rica, November 6, 2004.

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China: GDP growth



Source: BBVA based on IIF

Latin America: share of commodity exports (% of total)

	Food	Fuel	Metals	Manufactures
Mexico	6	10	2	81
Brazil	31	1	9	54
Argentina	49	12	2	34
Colombia	32	31	1	31
Peru	35	7	39	17
Chile	25	1	48	16
Venezuela	2	83	2	12

Source: BBVA

China: nominal import tariffs

	Average	Weighted average	Dispersion	
			(standard deviation)	Maximum
1982	55.6
1992	42.9	40.6	...	220.0
1997	17.6	16.0	13.0	121.6
2002	12.3	6.4	9.1	71.0

Source: BBVA based on World Economic Outlook

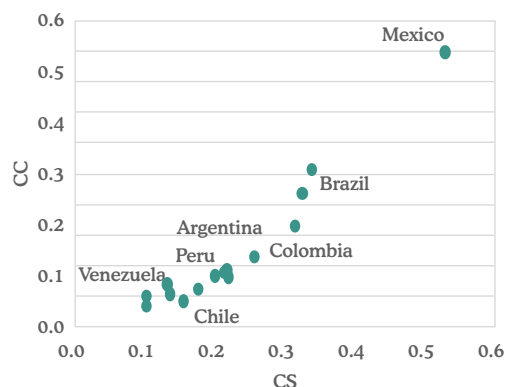
Trade with China. Shares and changes in percent

	Exports (% of total)			Imports (% of total)		
	2002	2003	Change	2002	2003	Change
Argentina	4.25	8.37	4.12	3.67	5.25	1.58
Bolivia	0.56	0.70	0.14	4.83	4.66	-0.17
Brazil	4.18	6.31	2.13	3.41	4.59	1.18
Chile	7.03	9.29	2.26	7.16	7.48	0.32
Colombia	0.23	0.51	0.28	4.2	—	—
Ecuador	0.29	0.22	-0.07	5.25	5.01	-0.24
Mexico	0.28	0.28	0.00	3.72	5.47	1.75
Paraguay	0.84	—	—	12.64	—	—
Peru	7.97	7.73	-0.24	6.19	7.61	1.42
Uruguay	5.57	4.27	-1.30	3.83	3.99	0.16
Venezuela	0.39	3.02	2.63	1.93	2.04	0.11

Bolivia's imports are for the first 6 months; Ecuador's and Venezuela's for the first 8 months.

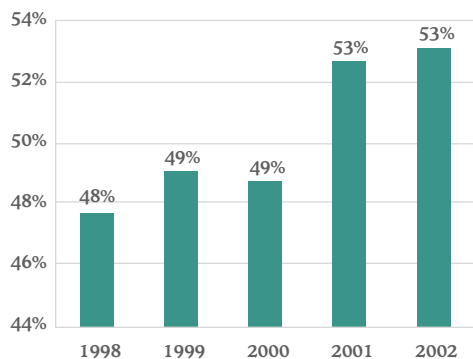
Source: BBVA based on Penn World Tables

Trade competition between China and Latin America



Source: BBVA

Trade competition between China and Mexico



Source: BBVA based on Summer and Hestos database

In 2003, Brazilian exports to China accounted for over 6% of total imports, while the figure for Argentina was 8.5% and 8% for Peru. This external stimulus was even greater in relative terms in the case of Chile where exports to China accounted for 9.5% of total shipments. The Latin American countries that most increased their exports were Argentina (125%), Brazil (80%), Venezuela (75%) and Colombia (60%), although increases were posted across the board in the countries in the region.

The case of Brazil, for example, stands out. The country has enjoyed an exceptional boom in its global exports, and in particular towards China. In 2004, Brazil will post a record trade surplus of close to 100 billion dollars. However, the tendency of the past four years, in which raw materials have gained weight in total exports, has remained in place. These moved from accounting for 23% of total exports in 2000 to 31% in the first 10 months of 2004 at the expense of manufactured products, whose share of total exports dropped from 16% to 14%, and in particular semi-manufactured products, which dropped from 61% to 55% over the same period.

Despite the positive impact China has had over the short term, the challenge of enhancing export specialisation has been raised. Exports of raw materials, which are characterised by having lower value added and being more exposed to greater price fluctuations, are gaining in importance. Therefore, the challenge once more raises itself of broadening exports beyond these products. The latest Brazilian figures point in this direction: although an exceptional increase in exports has been achieved and the target countries diversified, the challenge of achieving more diversification by export product remains in place.

When one analyses in detail the export-import structure of China, the positive effect for the whole of Latin America is borne out over time. Using a data base of 620 products, we have drawn up two indexes of trade competition with the aim of comparing the impact on trade generated by China during the period 1998-2002 for a group of 34 economies (15 of them Latin American). The observed outcome is that globally Latin America and China do not show high coefficients of specialisation (CS) or conformity (CC) in trade terms. That is to say, they are not on an aggregate level direct trade rivals. In fact, when compared with other emerging countries, the countries in Latin America, with the exception of Mexico, show lower coefficients. Asian or European countries such as Thailand or Poland show higher coefficients of specialisation and conformity.

Mexico is the country within the region which most competes with China, particularly in the U.S. market, which absorbs close to 90% of Mexican exports. According to figures from the U.S. Bureau of Economic Analysis (BEA), China's quota of total U.S. imports overtook that of Mexico for the first time in 2003. U.S. imports from China and Mexico accounted respectively for 13.2% and 11.9% of total imports.

Although China represents a competitive challenge for Mexico, it is important to go into details. Firstly, the figures for 2003 represent a one-off situation. In the first 10 months of 2004, we have seen a pick-up in Mexican exports to the United States in line with the resurgence of industrial activity in the United States (which is strongly correlated with that of Mexico).

Secondly, the losses in market share in the United States were relative, Japan and Canada being the two main losers, while Mexico maintained the same levels seen in early 2001.

Above all else, Mexico has ample margins for adjustment to this challenge.

The first is of a macroeconomic nature. For Mexico, the challenge is not in this sense as much competition from China, but that of constantly improving its productivity.

Other elements of competition are financial stability, a tax system that generates adequate incentives, the state of the rule of law, efficient productive infrastructure, labour market flexibility, and investment in human capital.

Above all, Mexico has the competitive advantage of its proximity to the U.S. market against low labour costs in China. In fact, transportation and distribution costs are higher today than production costs². The former can even be twice as high as the latter³. The effects of distance and time on trade costs over the past few decades have grown rather than diminished. In the case of Mexico, an improvement in the efficiency of maritime infrastructure to levels comparable to Sweden or France would bring about a reduction of 10% in its transportation costs to the United States.

Beyond trade flows

In general terms, the impact China has had on trade in Latin America has been positive. Beyond the short and medium terms, one can consider the impact of China from the point of view not only of trade flows but capital flows. Between 2000 and 2003, China became the main recipient of FDI in the world, accounting for close to 50% of FDI directed at emerging countries. Latin America suffered a fall. According to figures from CEPAL, the region barely received 36 billion dollars in FDI in 2003; an amount well below the 60 billion dollars received by China in the same year.

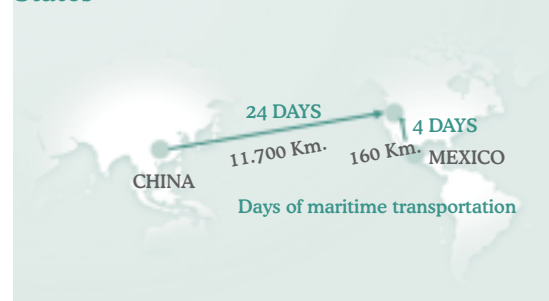
However, the boom in investment flows directed at China could represent, as Albert Hirschman might say, a "blessing in disguise" for Latin America. Chinese companies are increasing their international presence, and according to the latest survey by UNCTAD, China is set to become the fifth-biggest overseas investor in the world after the United States, Germany, the United Kingdom and France. In 2004, Baosteel, China's biggest steel producer, made the largest investment to date in Latin America (1.5 billion dollars), concretely in Brazil.

The recent trip in November by Chinese President Hu Jintao to four Latin American countries (Brazil, Argentina, Chile and Cuba) ended with the signing of a number of cooperation accords, in trade and investment with Brazil, Argentina and Chile, and in the area of biotechnology, education and agriculture in Cuba. In exchange, China achieved recognition as a market economy by these countries, and also by Peru.

In 2003, Latin America received a third of total overseas investment by China, according to official Chinese figures. Beyond trade flows between China and Latin America, the development of capital flows will constitute further good news from the East for the region.

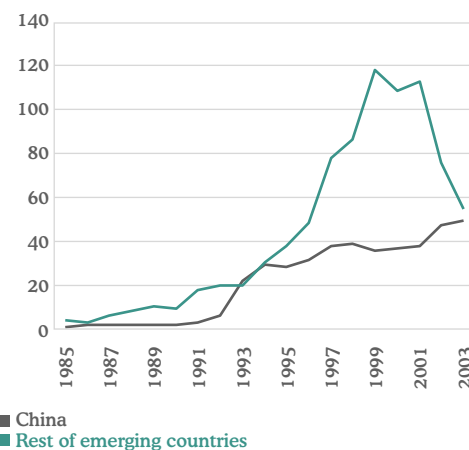
In 2005, the annual meeting of the IADB will be held in Okinawa (Japan), and should coincide with the acceptance of China as a new official member of the organization. Without doubt, the external stimulus on Latin America provided by China is more real than ever.

Geographical proximity to the United States



Source: BBVA

Foreign direct investment in real terms (billions of 2003 dollars)

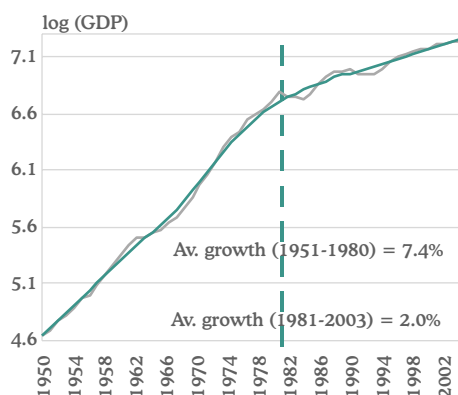


Source: BBVA basado en IIF

² See Alan Deardoff, "Local comparative advantage: trade costs and the pattern of trade", University of Michigan Gerald Ford School of Public Policy, *Discussion Paper*, No. 500, 2004.

³ See James Anderson and Eric van Wincoop, "Trade Costs", NBER, Boston College and University of Virginia, to be published in 2005 in the *Journal of Economic Literature*, and Evans, Charles and James Harrigan, "Distance, time and specialization", NBER *Working Paper*, No. 9729, 2003.

GDP and trend



Source: BBVA based on IPEA data

On sustainable growth in Brazil

A disappointing quarter of a century

In recent years economic research on Brazil has focused almost exclusively on the study of policies of economic stabilisation. Small wonder, really, bearing in mind the upheavals of the past quarter of a century. Over this period Brazil has suffered two oil crises (the country is a net importer of oil), a foreign debt crisis, hyperinflation, several recessions, currency changes, devaluations and a change of political regime (the end of the military dictatorship). With the recently achieved fiscal and monetary stability, however, attention has again turned to an issue that had been ignored for two decades. After having been locked away for several years, the issue of sustainable economic growth in Brazil is once again the subject of debate (see Teixeira da Silva Filho (2002)). After a rate of GDP growth this year that will be over 4%, the key question now is whether the country can sustain this pace of expansion in future.

In the 35 years after the Second World War, Brazil averaged an annual growth rate of 7%, cementing its position as the ninth-largest economy in the world. This golden period reached its peak during the 1970s when the Brazilian economy averaged rates of growth of over 8%, a performance that came to be known as the “Brazilian miracle”.

However, as the first graph shows, this trend changed abruptly in 1980. From that year onwards, despite a number of isolated years of strong economic growth, GDP has averaged an annual growth rate of only 2%.

The 1979 oil crisis (Brazil is a net importer of oil), first, followed almost immediately by the foreign debt crisis, triggered in Brazil not only the start of the “lost decade”, but what has turned out to be a disappointing quarter of a century.

Stronger growth to resolve the imbalances

Macroeconomic disequilibria (hyperinflation, fiscal imbalances) have been obstacles to stronger growth in Brazil. Until the middle of the 1990s, the ever-present public deficit was financed by high inflation. The 1994 Real Plan spelt an end to the hyperinflation of the previous years but it caused the level of domestic public debt to shoot up. The composition of the debt also suffered since it was only possible to place indexed debt at variable interest and exchange rates.

In this way, an increase in country risk generally comes along with capital flight and a depreciation of the exchange rate, which in addition to generating inflation, raises the level of debt. In order to control inflation expectations, the Central Bank then needs to hike interest rates, leading in turn to further increases in the stock of debt and worse still a worsening in its composition and a higher country risk. In recent times, Brazil has managed to break out of this vicious circle thanks to the favourable conditions that exist for international financing: liquidity is high and aversion to risk is low. Inflation therefore remains high, but under control, providing a relatively calm environment in the short term.

The Brazilian government has made good use of this window of opportunity to begin to recompose the structure of the country’s debt, paying down indexed debt and issuing new debt with more favourable conditions. However, the restructuring is slow and depends upon the confidence of debt purchasers and international liquidity.

For this reason, the correction of this imbalance can only be guaranteed through sustained growth, a challenge that requires increasing productivity.

The importance of accumulating capital and making productive use of it

2004 will be a good year for Brazil. We expect growth of over 4% backed by a recovery in domestic demand and the solid performance of the external sector. Accumulated growth of the latter has been impressive at 36%.

But in the past 25 years, there have been 8 years with better performances than those forecast for 2004 (4.3%), but in no case did the desired take-off from stagnation materialise. For this reason, although the optimism that reigns could be justified, this needs to be based on greater evidence.

Looking at the two main factors of production, capital and labour, one can see an important and significant shift in the behaviour of capital. As can be seen in Graph 2, the stock of capital grew at an average annual rate of 8.3% before 1980 before slowing down rapidly to a growth rate of only 3% annually thereafter.

In order to be able to explain the shift in the accumulation of capital and eventually the poor performance of the economy, we use the breakdown proposed by Bach et al (2004). They break down the growth of capital as follows:

$$\frac{\Delta K}{K} = s \times \frac{P}{P_i} \times u \times A_k - \delta$$

where K ≡ stock of capital; ΔK ≡ growth of capital; s ≡ domestic saving; P/P_i ≡ inverse of the relative cost of the investment; u ≡ capacity utilization; A_k ≡ productivity of capital and δ ≡ depreciation of capital.

It is found that the rate of growth of capital depends positively on the rate of domestic savings, capacity utilization and the productivity of capital, and negatively on the relative cost of investment.

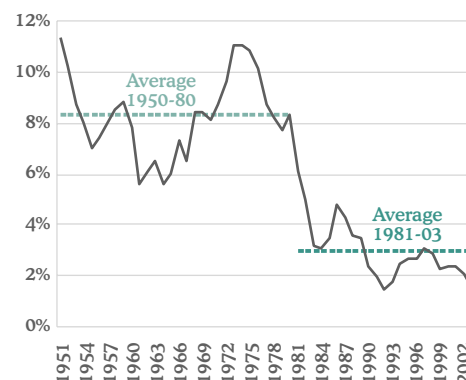
It is known that the savings rate in Latin American countries is very low, with Brazil being no exception. With an average savings rate of 19% of GDP in the past 25 years, Brazil stands well below the savings rate of the Southeast Asian countries (over 30%). But despite the limitation that this means for long-term growth, the low rate of savings in Brazil is not very different from that of Chile (22.8%) or Mexico (19.8%) (average over the past 10 years). Yet more important is the fact that the total savings rate did not suffer any significant change in the 1980s that explains the shift seen in the accumulation of capital.

As can be seen in Graph 3, the cost of investment (relative to the general price index for the economy) did undergo significant change. After averaging 0.77 in the years prior to 1980, the cost rose to 1.15 thereafter. If the cost of investment had remained at pre-1980 levels, *ceteris paribus*, Brazil would have a stock of capital 8.5% higher than it currently has. Using a Cobb Douglas production function, the increase in the stock of capital would have resulted in GDP being 12% higher than it is currently (with the level of labour equal to what it is at present, and an exogenous technological factor equal to the effective residual observed each year), putting Brazil on a similar level to Mexico in terms of per capita income.

The rise in the cost of investment is centred on the property sector (see Ellery et al (2004)). The argument most used to explain this is the increase in demand for property assets, which serve as a refuge against high inflation and the risk of default of domestic debt.

Capital utilization also fell significantly in all the productive sectors. After standing at 84% before 1980, the capital utilization rate fell on average 5.1 points, with drops of more than 12 percentage points in some

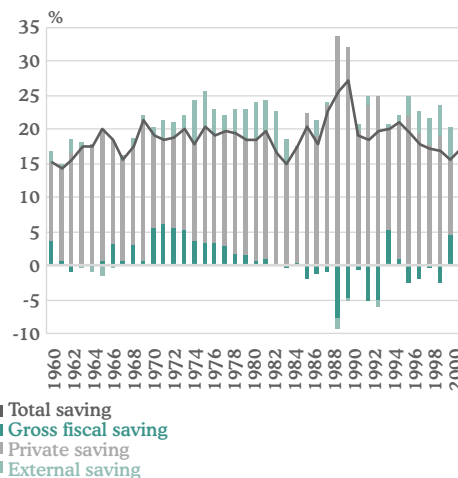
Growth in stock of capital (%)



Source: BBVA based on IPEA data

Savings rate

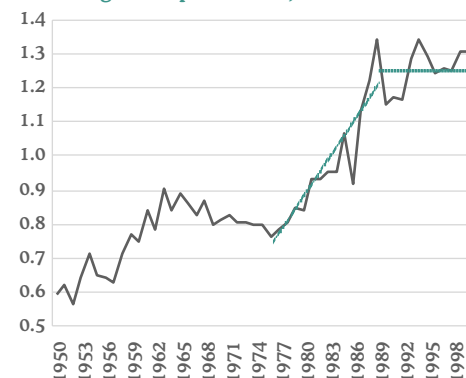
(% of GDP)



Source: IBGE

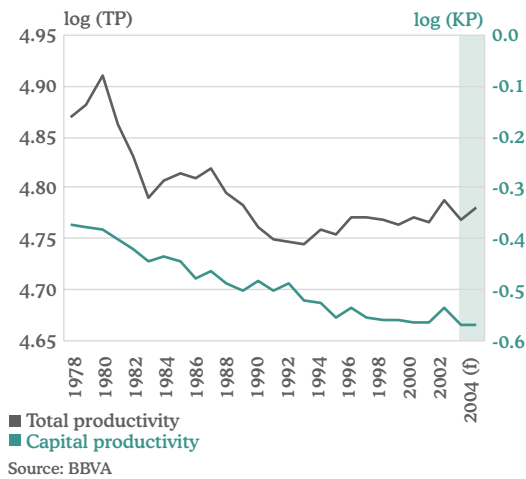
Relative cost of investment

(as a ratio of general price index)

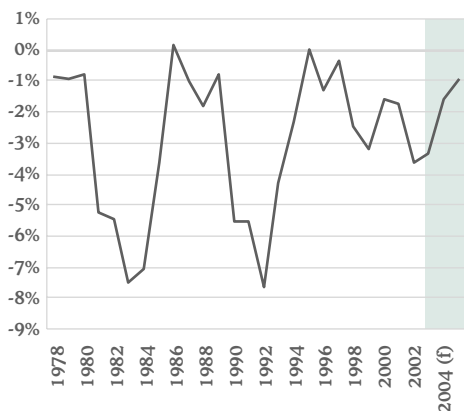


Source: BBVA based on Penn World Table data

Total factor productivity and capital productivity



Output gap



sectors (capital goods and construction materials). If Brazil had maintained its capital utilization rate, *ceteris paribus*, it would have 16% more capital today than it does have, with GDP 20% higher than at present, putting it on a level with Chile in terms of per capita income.

But the component that suffered a real disaster was productivity. After 1980, total factor productivity fell continuously over almost 15 years before starting to recover only from 1994 with the Real Plan. If the productivity of capital had been maintained at the levels at which it ended the 1970s, *ceteris paribus*, Brazil would have a stock of capital 57% higher than it does currently. This would have allowed Brazil's GDP to be 63% above what it is at present, which would mean a level of per capita income in the order of a country such as Greece.

The reforms of the Lula Administration

The Brazilian government is aiming to carry out a series of reforms (some of which have already been approved) which, if they take the shape of, and stick to, their initial objectives, could address the problems described above.

Examples include the current reform of the public social security system, and the planned reform of the private pension system, which will bring about an increase in domestic savings.

The tax reform corrects price distortions and allows a fall in the cost of long-term investments.

The bankruptcy law should help free up capital which is frozen through interminable lawsuits, thereby facilitating an increase in capacity utilization.

In addition, the PPPs project and judicial reform are aimed at achieving an increase in efficiency and in infrastructure, both of which are necessary in order to improve productivity.

Although the government has correctly analysed the underlying economic problems, the reforms are turning out to be very expensive in political terms (they are only approved after a complex process of negotiation and the concession of privileges), and the initial objectives suffer distortions that end up making the reforms more timid and often insufficient. The PT's need to maintain coalitions and the crossed interests of the representatives of the different States condition the passage of these reforms.

For this reason, although we find ourselves at the halfway point of an expansive phase of the economic cycle, which we expect to continue into 2005, it is necessary and urgent that the reforms are delivered sooner rather than later. These need to be directed at resolving both macroeconomic imbalances (a deeper reform of the social pension system is needed in order to bring about an increase in domestic savings) as well as inefficiencies on the microeconomic level (more infrastructure and lower transaction costs in order to enhance productivity). This is the way in which Brazil can assure itself over the long-term of the economic growth rates that are expected for this year and the next.

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Kyoto and Clean Development Mechanisms: an opportunity for Latin America?

The Kyoto Protocol is an international agreement in the fight against climate change that establishes limits to future greenhouse gas emissions (GGE) in advanced economies. Signed in 1997 by more than 100 countries, it suffered a big setback with the withdrawal of the United States in 2001. Despite the unconditional support of the European Union, Canada and Japan, it will not come into effect until February 2005, 90 days after expected ratification by Russia.

The first period for Kyoto compliance covers the period 2008-2012, and sets a global target for reductions of 5% below the levels registered in 1990. This objective is to be achieved through the joint effort of the so-called Annex B countries¹ and in accordance with a burden-sharing scheme based on starting emissions and the capacity of each economy to reduce these.

What are Clean Development Mechanisms?

There are a number of different options available for complying with Kyoto. On the one hand, there is the reduction in emissions itself, which can be achieved through greater energy efficiency or by investing in technology that is less polluting (such as renewable energy). On the other hand, there are "flexible mechanisms" that include areas such as the purchase of emission rights as well as clean investments in third countries. The justification for these mechanisms lies in the fact that GGE emissions are evenly spread in the earth's atmosphere and, therefore, the place where reductions are achieved is of little importance.

Emissions Trading is based on the exchange of emission rights among companies, both at a national as well as international level. In Europe, such trading will be available from January 2005². There are also other such budding voluntary markets in the United Kingdom, the United States and Australia.

Clean Development Mechanisms (CDMs) and Joint Implementation (JI) projects will allow Annex B countries to obtain green credits by financing projects to reduce emissions overseas, whether these be in developing countries, as is the case of the former, or in Annex B countries themselves in the case of the latter. These mechanisms present Latin America with the opportunity to capture significant investment flows and benefit from the acquisition of technologies that are compatible with the sustainable development of their economies.

The Development and Implementation of CDMs

CDMs can be carried out by companies or governments under the umbrella of national programmes, through international organizations or by means of the intermediation of private banks or other entities. To date, the World Bank has been particularly active, as have been a number of European governments and some Japanese companies.

The process starts with identifying the opportunity for a project and the drawing up of a detailed proposal on the base scenario of emissions and the reduction gains the project will bring about. The next step is to win approval from the Designated National Authority for CDMs in the country hosting the project. In order to do so, it is often necessary to negotiate with the host country important aspects of the project such as the sharing of credits.

¹ Europe, Russia, Canada, New Zealand and Japan. The United States and Australia did not ratify Kyoto.

² The European Union obliges member countries to control GGE emissions from 2005 and to meet the target reductions in the period 2008-2012 regardless of Kyoto coming into effect. The CDMs will generate credits for reductions registered from 2000 and these can be traded for emission rights in the European Market from 2008.

Entry into effect of Kyoto: combined % of emissions

Geographical area	% Mt. CO ₂	
	(1990)	Accumulated
EU and candidate countries	32%	32%
Japan	9%	40%
Others	4%	44%
Threshold at entry into effect		55%
Russia	17%	62%
USA	36%	98%

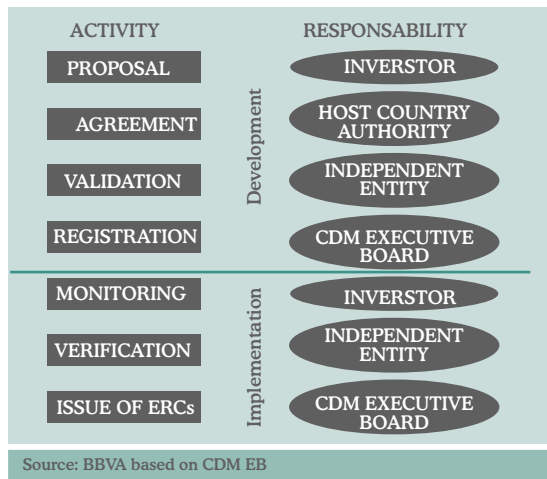
Source: BBVA based on European GD on the Environment

Share of greenhouse gases in the atmosphere

Carbon dioxide	CO ₂	85%
Methane	CH ₄	7%
Nitrous oxide	N ₂ O	6%
Fluoride gases	HFCs, PFCs, SF ₆	2%
Total GGE		100%

Source: BBVA based on UNFCCC

Diagram of stages and agents involved in a CDM



Finally, the methodology for calculating emissions needs to be audited by an independent entity designated by the Executive Board for CDMs, an international organism responsible for the approval and issue of Emission Reduction Certificates (ERCs).

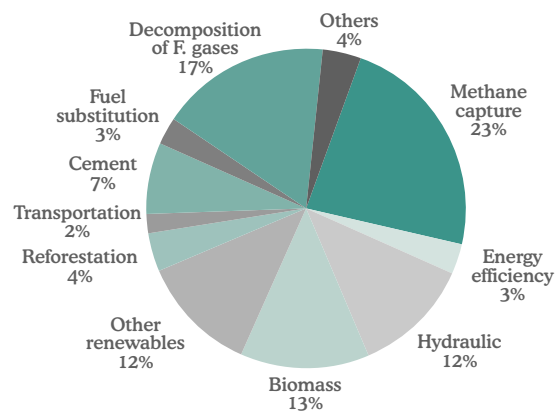
In order to be approved by the Board, the projects need to be incremental, that is, they produce a reduction in emissions above that which would take place if the CDM were not carried out. Therefore, eligible projects will be those that in general substitute emission installations for others with less polluting technologies. (for example, the substitution of diesel for biomass in electricity generation). Experience shows that those CDMs that provide social benefits such as the creation of employment or provide impetus to local industries are viewed favourably both by the Designated National Authorities and the Executive Board.

According to figures presented by the World Bank in conjunction with other international organisms,³ the process that leads to the approval of a CDM can last over six months and carry with it transaction costs of over 150,000 euros. This means that projects are viable with reductions of over 100,000 tCO₂e per year, with 150,000 tCO₂e being the average size of those that exist.

The final phase of implementation involves tracking the reduction in emissions and their verification by an independent entity. ERCs are issued by the Executive Board on the basis of the reductions certified by this entity. Experience indicates that several years may go by before the CDM begins to generate credits.

The average unit cost of developing and implementing CDMs that have been registered to date comes in at around 1.2 euros per tonne of reduction.

Reduction of GGEs in CDMs by technology. 2003



What is the potential of CDMs?

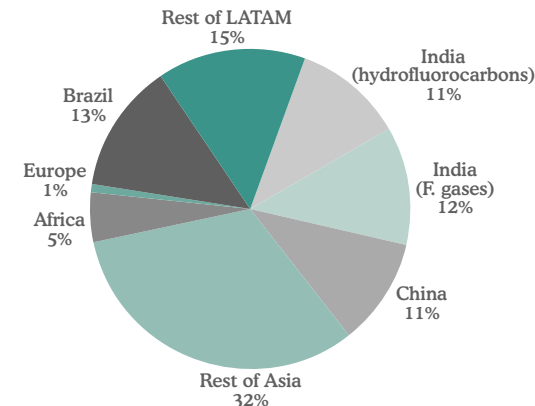
The forecasts put together by the Intergovernmental Panel on Climate Change put the purchasing needs of Annex B countries at 900 MtCO₂e/year between 2008 and 2012. With a maximum supply of CA rights and credits of 700 Mt (525 for Russia and Ukraine and 175 for other countries), a minimum of 200Mt remain to be covered through CDM credits.

However, it can be seen that Russia and Ukraine have economic incentives to restrict their supply of rights to avoid the market price plummeting. With the supply of 400Mt, the average price reached will be in the order of 11 euros/tCO₂e, with demand for certificates at 500Mt.

Both the OECD⁴ and the World Bank believe there will be no problems in meeting demand for ERCs. However, given that the average life of investments associated with CDMs is over 20 years, it is essential to guarantee the value of certificates beyond 2012 if one wants to continue to attract capital. It is hoped that Annex B countries adopt measures that do so.

CDM host countries

(% of reductions)



Investment directed so far at CDMs is over 600 million euros, and the OECD hopes that this will reach 800 million euros once Kyoto comes into effect, and private sector initiatives appear. This international body believes that the development of CDMs could become a magnet for other investments, increasing by six or eight times the investment associated with the CDM itself. Therefore, the amount of investment mobilised between 2008 and 2012 could reach 6.4 billion euros.

The prices registered in transactions carried out during 2003-2004 have been between 3 and 6.5 euros per credit, depending on the timeframe for completion and the share of risks agreed. Estimates for the future show a range of prices of between 8 and 12 euros for 2008-2012.

³ "Estimating the Market Potential for the Clean Development Mechanism: Review of Models and Lessons Learned", PCF plus Report 19, WBCFB, IEA and IETA, June 2004.
⁴ OECD, "Taking Stock of Progress under the CDM", June 2004.

CDMs, an opportunity for Latin America

Latin America has been a pioneer in the implementation of Clean Development Mechanisms, accounting for the biggest number of projects up to 2003 and the highest percentage of reductions (40% in the same year).

By country, activity in Brazil stands out with 13 projects registered at present, followed by Chile and Costa Rica. The prospects for Mexico and Colombia are also good after establishing agreements and undertaking negotiations with some of the governments of the Annex B countries.

The projects that have been registered are concentrated mainly in three sectors: renewable energies (wind, biomass and biodiesel), the reduction of methane emissions and electricity generation efficiency. In addition, opportunities have been identified in the area of industrial efficiency, the treatment of residual fluids, and reforestation activities.

As regards demand for ERCs, what stands out is the strong presence of governments both directly (as is the case with Holland) as well as indirectly through their participation in the *Carbon Finance Business* (CFB) programme, which encompasses all the carbon funds managed by the World Bank.⁵ However, the register of projects presented to the CDM Executive Board highlights that there will a significant increase in the participation of the private sector in the future.

The main specific risks associated with CDMs have to do with uncertainty surrounding the value of certificates and the probability of project approval being rejected or delayed. To the extent that Latin American countries are able to minimise the risks intrinsic to them through the creation of efficient Designated National Authorities, they will be able to attract a higher number of investments of this nature.

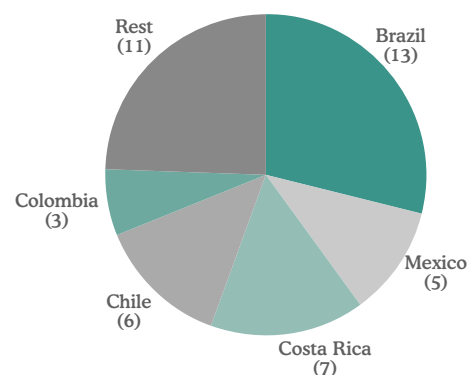
Since 2004, Asia has topped the rankings of host countries due to the launch of a number of macro projects on methane combustion and the breakdown of fluoride gases. Despite this, Latin America continues to post levels of activity above those of its reduction potential by means of CDMs, which is estimated at 15% of the world total, and which could bring in investment of more than 1 billion euros in the period 2008-2012. For purposes of comparison, this amount of funding represents 10% of direct foreign investment from developed countries directed at the region in 2003, 18% of Official Development Aid received during the same year, and 1% of the investment in the electricity sector targeted by the International Energy Agency for the period 2000-2030.

The proven ability of Latin America to attract CDM investments has most likely been due to the favourable foreign investment environment the region enjoys compared with other economies, as well as efforts made to provide the necessary institutional measures to facilitate the development of these projects. In this sense, the fundamental role of Designated National Agencies should be highlighted.

On the other hand, it is to be thought that the strong presence in the region of large European groups that are leaders in polluting sectors such as energy, and subject to strong reduction commitments, will help reinforce the attraction of investments to Latin America.

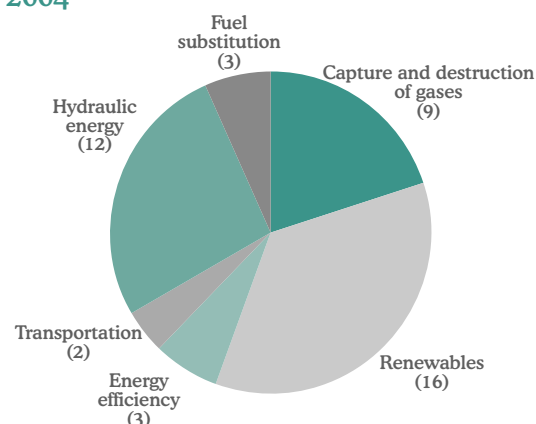
Finally, Latin American countries could consider the possibility of carrying out Clean Development Mechanisms on their own, and later sell the associated certificates to other countries.

CDMs developed in Latin America. 2004



Source: IDB

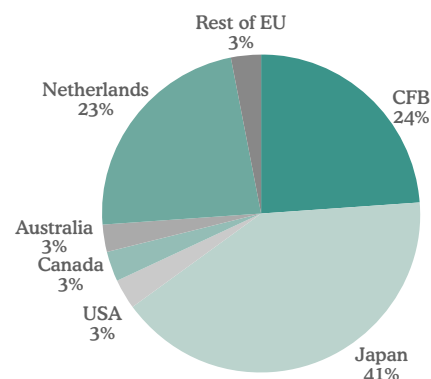
Latin American CDMs by technology. 2004



Source: IDB

Investors in CDMs. 2004

(% of ERCs)



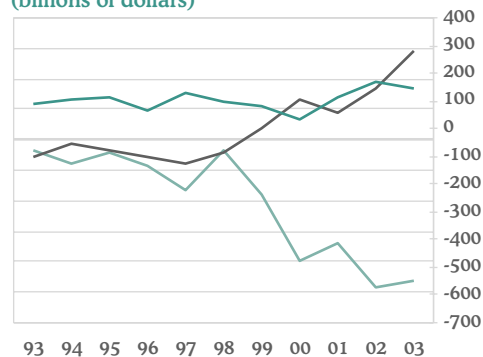
Source: World Bank

⁵ Amongst these is the *Prototype Carbon Fund*, which receives 50% of European public investments.

The paradox of capital flows

Importers and exporters of capital (1993-2003)

(billions of dollars)

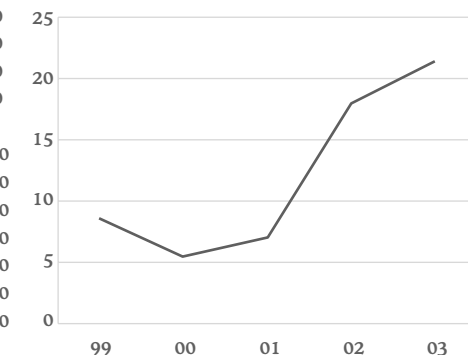


■ Emerging economies
■ Euro area, Canada, United Kingdom and Japan
■ USA

Source: BBVA based on IMF

Reserves

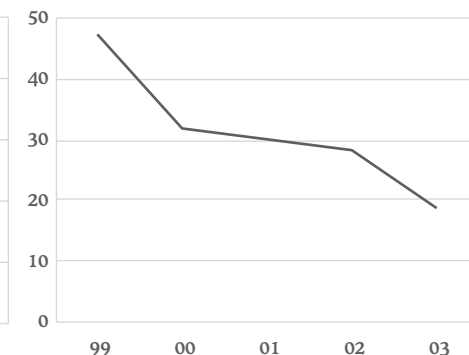
(% of total international flows)



Source: BBVA based on IMF

Direct investment

(% of total international flows)



Source: BBVA based on IMF

Neoclassical theory predicts that capital flows move from developed markets to less developed markets, since in the latter, in general, capital is a limited resource and productivity is higher. With the free movement of capital, investors assign resources to regions or countries that offer the maximum returns. It is without doubt that the marginal productivity of capital is greater in emerging markets than it is in developed markets. On this basis we should be able to observe significant flows of capital towards the former. However, a large number of emerging markets – and this includes Latin America since 2003 – find themselves in a situation that can be compared to what is known as the “Lucas Paradox”¹: currently, emerging economies instead of receiving capital are exporting it.

What has happened of late?

It is important to note that during the period 2000-2004, emerging economies have been net exporters of capital. This is due to the fact that in times of crisis, or when risk-adjusted returns point to less exposure to emerging markets, investors reassign and/or relocate their investments. It is for this reason that some emerging markets have become net exporters of capital.

It was the non-resident sector in the first two years of the period 2000-2004 that led the exit of private capital, while in the last two years it was the official sector – through the accumulation of reserves (NIRs) – that led the departure of capital. In the 1980s, the U.S. deficit was financed by capital mainly from Europe, Japan, and other developed countries. Currently, emerging markets form a significant part of the group that finances the United States.

When trends at the region level are observed, the panorama is not substantially different. Emerging Asian countries have been net exporters of capital since 1998, European emerging countries since 2000, while Latin America has been a net exporter – albeit marginally – since 2003. Although the exit of private resident capital increased in Asia, flows of non-resident private capital reached a peak that began in 1999. What is most important is that despite the crisis, FDI to Asia has remained stable, with China continuing to be the country that has sparked most interest for the FDI directed at the region. In emerging European countries, the inflows of private non-resident capital dropped significantly in the period 2001-2002, although this trend reversed in 2003, and a historic high was reached. Clearly, the change in trend was supported and brought about by expectations of the entry of some countries into the EU, something that remains evident if we note that the bulk of the flows took the form of FDI and debt. In the same way as happened in Europe, inflows of non-resident private capital in Latin America dropped significantly from 1997, while the outflow of resident private capital moderated substantially from the same year.

If we analyse the flows of capital from a historical point of view, we can argue that these appear to be recovering, although they remain far from the levels reached in 2000.

Comparing the composition of flows in 2003 with the average in the previous four years, one can observe that changes have taken place. On the one hand, the most important change is seen in FDI, whose proportion of the total fell by 47%. On the other hand, reserves more than double in importance. This is explained by the strong accumulation of reserves on the part of countries in the Asian region. Specifically, in 2003 the accumulation of reserves on the part of Japan and China

¹ Robert Lucas, “Why doesn’t Capital Flow from Rich to Poor Countries?” *American Economic Review*, Vol. 80, No. 2, 1990, 92-96.

Composition by asset type

	1999-2002	2003	Change
FDI	34	18	-47%
Fixed and variable income	31	31	-2%
Bank assets	25	30	19%
Reserves	10	21	119%

Source: BBVA

FDI for 5 emerging countries

	2002	2003	2004 (*)	Accum. 2004 / Total 2003
Argentina	1,093	1,020	1,454	143%
Brazil	16,566	10,144	12,381	122%
Chile	1,594	1,587	4,323	272%
China	49,039	56,000	48,692	87%
Mexico	14,775	10,783	10,292	95%

* Data are for first half; Brazil 3rd quarter 2004
Source: BBVA based on Central Banks

was equivalent to 57% of the current account deficit in the United States. In 2004, reserves continued to increase in importance due to the fact that Japan carried out significant intervention aimed at stemming the appreciation of the yen against the dollar with the purpose of reducing the risk of its recovering stalling.

An attempt to explain the paradox

A number of countries have suffered from the paradox more than others. This can be explained from two points of view. The first is from the point of view of the fundamentals that affect the production structure. At this level, one can include differences in the factors of production, government policies and institutions. We take into account that these differences can have an impact on productivity. Secondly, we can focus on the imperfections in capital markets, which is to say in country risk and asymmetries in information. Therefore, although capital is more productive and obtains higher returns in emerging countries, these market failings represent an obstacle to the flow of capital towards these countries.

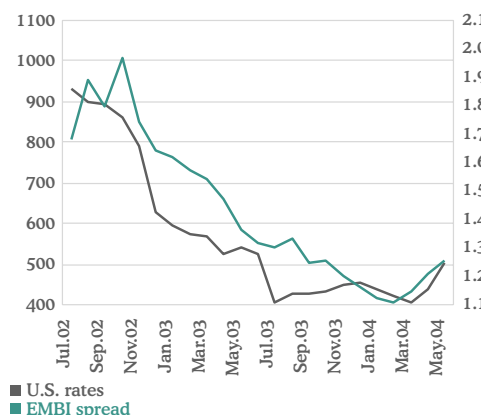
Undoubtedly, global factors such as (low) interest rates in developed markets, in particular the United States, play a positive and determining role in the continuation of private credit flows towards the emerging markets. On the other hand, we also have the situation in which the role of the government, political stability and the degree of openness of the economy are important references for FDI investors. Certain countries, such as in the case of China, bear the burden of country risk and asymmetries in the flow of information in the same way as others, but counterbalance the exportation of private capital with reforms focused on improving their productive structure as well as making their institutions more flexible. In this they have another channel through which they can generate differences with respect to other emerging economies. It is true that China has been one of the main accumulators of NIRs, but it is also true that it is a more attractive target country for FDI investment, which constitutes a solid and stable source of funding and growth. So far in 2004, the FDI figures indicate that a floor might have been reached and that the amounts involved might be picking up again.

Although Latin America is not advancing aggressively with the reforms needed to attract fresh capital, it still has good opportunities available to it. China's need to assure a supply of raw materials implies the existence of significant possibilities of direct investment from China to Latin America². Without doubt, China today offers a real opportunity both in terms of trade as well as direct investment.

² Jorge Blázquez, Javier Rodríguez and Javier Santiso, "Angel or devil? Chinese Impact on Latin American Emerging Markets", Madrid, *BBVA Research Department*, October 2004.

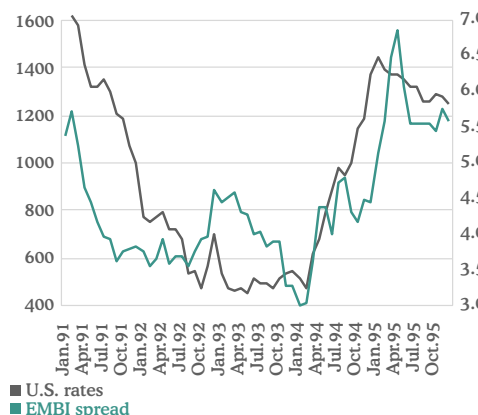
Emerging spreads and liquidity

Graph 1.
Spreads and U.S. interest rates
(2002-2004)



Source: JP Morgan and U.S. Federal Reserve

Graph 2.
Spreads and U.S. interest rates
(1991-1996)



Source: JP Morgan and U.S. Federal Reserve

Graph 3.
Spreads and U.S. interest rates
(1996-2002)



Source: JP Morgan and U.S. Federal Reserve

Over-reaction of emerging spreads to international liquidity?

In the second half of 2003, the sovereign debt spreads of emerging countries fell rapidly, and by 2004 had stabilised at levels comparable to those prior to the Southeast Asian crisis. The purpose of this article is to analyse how important international liquidity is in these incidents and to anticipate what will happen to spreads in the face of the expected rise in U.S. interest rates.

Domestic and external factors

The factors that affect the price of fixed-income assets can be classified according to their origin: domestic or external. Among the domestic factors, or the supply side, one finds shocks such as the size of issues, debt maturity, the willingness and capacity of the government to pay, accumulated reserves and export capacity. Among external factors, or the demand side, one finds changes in the aversion to risk and the level of liquidity that exists in the global markets.

Many analysts believe that the current scenario has been brought about by an external shock associated with greater international liquidity. In particular, they believe that the determining factor has been the U.S. Fed's expansionary monetary policy. Empirically, this analysis is based on the high correlation seen between U.S. interest rates and the spread of emerging market bonds. In the period July 2002-May 2004, the correlation between 3-month interest rates in the United States and the EMBI spread was 0.91 (Graph 1).

1994 versus 2004: Return to the past?

This high correlation has caused concern among many analysts who remember the events of 1994, when high liquidity gave way to restrictive policies on the part of the Fed (interest rates went from 3% to 6% in scarcely 12 months). This rise made the rollover of Mexican debt more expensive and triggered the Tequilazo. The correlation between 1991 and 1996 was high at 0.67 (Graph 2). Meanwhile, the rise in interest rates during the Tequilazo (between 1994 and the start of 1995) brought with it a strong rise in the EMBI spread, to over 1,000 basis points. During this period, the correlation between rates and spreads stood at 0.81.

But what happens with this relationship if you look at it over a wider period of time? If you look at the correlation in the six years that separate the two periods mentioned above, one can see that it is not significant and what is more is negative (-0.26), with periods such as the three years between 1999 and 2001 in which the correlation reached -0.41 (Graph 3). In addition, if we look at the past six months between May and November 2004, we get a negative correlation in which rates in the United States have been rising while the spread of emerging bonds has been falling.

SVAR analysis

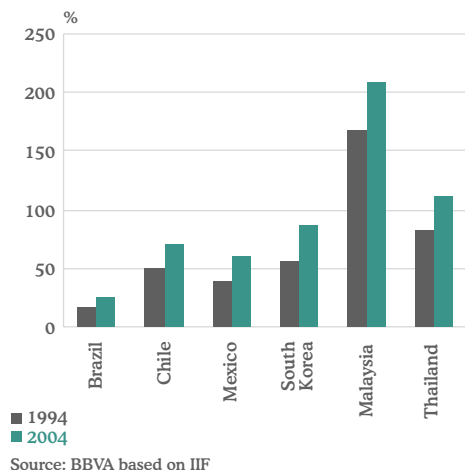
We proceed now to present a simple analysis of the data. In order to do so, we establish the relationships between emerging risk and international liquidity using structured vector autoregressions. We distinguish between domestic (specific to emerging bonds) and external (specific to international liquidity) changes using the assumption that contemporary changes in international liquidity affect emerging market bond spreads but not vice-versa. Contrary to what many analysts have predicted, this identification shows that U.S. interest rates significantly affect emerging market bond spreads but not on the scale associated with the Tequilazo.

For the model we use all of the sample, between January of 1991 and October of 2004, under the following specification:

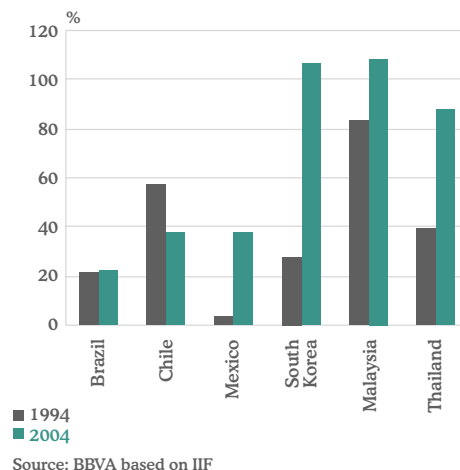
$$Av = C(L)v + Be,$$

Where: v is a vector of dimension 2, with its first coordinate equal to a standard index of international liquidity and its second coordinate equal to an index of emerging market risk, A is a 2-by-2 lower triangular matrix with ones along its diagonal, $C(L)$ a lag operator of the order 2 and B a diagonal matrix.

Graph 4.
Total trade (% of GDP)
(1994-2004)



Graph 5.
Reserves as % of foreign debt
(1994-2004)



Based on the methodology used by Blanchard (2004), we define the emerging risk index as $\log(\text{Spread}/100 + \text{Yield})$. In this equation, Spread and Yield are the spread and percentage return on the EMBI basket of bonds.

International liquidity is measured by the term spread of the long-term 10-year rate and the short-term 3-month rate. Assuming a one-to-one relation between long-term and short-term equilibrium rates, changes in the index imply a divergence or convergence between the actual short-term rate and that expected by the markets in equilibrium. As such, an increase in the term spread is associated with greater liquidity, while a fall is associated with lower liquidity.

Unlike other measures of liquidity such as 3-month rates, this turns out to be highly significant in all the time intervals considered. We obtain a significant $A(2,1)$ with the correct sign (between 0.06 and 0.11 depending on the time interval under consideration). Considering the whole of the sample, we obtain a $A(2,1)$ of 0.06 with a z-test of 2.05. A drop in liquidity such that the term spread drops by 30 basis points (i.e. a negative change equal to one standard deviation) produces an increase of 0.035 points in the emerging spread index after 3 months (at current levels, this change is equivalent to an increase of 17.5 basis points in the emerging spread). This positively-signed effect lasts for at least 7 months. As is to be expected, one can also observe that none of the domestic shocks specific to the emerging spread have an impact on interest rates in the United States and the liquidity of the global markets.

Hazarding the use of this simulation to predict the future spread, the eventual end to these shocks will make the spread rise once more from -3.28 to -2.83 (which is equivalent to a rise of 250 basis points) by the end of 2005.

There are many other factors that one needs to control econometrically in order to be able to predict the future spread. Forecasts are not the strong point of time series, particularly if they are medium- and long-term forecasts. In any case, the current situation for reserves and the structure of emerging debt ratifies the result in the sense that the expected increase in the spread will not be of the catastrophic extent of 1994.

The macroeconomic fundamentals are better than in 1994 and the channels of transmission are not as sensitive. The first channel whereby a rise in U.S. interest rates affects the emerging spread is a substitution effect: it is more attractive to acquire U.S. bonds at the expense of those offered by emerging markets. This displacement of demand translates into lower prices for emerging bonds and, consequently, a possible increase in spreads.

The second effect has to do with the supply of emerging bonds. As U.S. interest rates increase, bringing about a subsequent demand for dollars, the dollar appreciates. This appreciation is accompanied by an increase in the probability of default of emerging debt (particularly in Latin America since sovereign debt is mainly denominated in dollars), and in consequence the risk premium of such paper.

But the sensitivity shown by spreads today is different from that seen in 1994 (Graphs 4 and 5). This is due to the fact that one of the lessons learned from the 1990s was the need to maintain more reserves alongside greater openness to trade and better debt structuring, particularly by lengthening maturities. As a result, it is to be hoped that when the imminent rise in rates in the United States takes place, spreads of the Latin American countries will rise, but not in the traumatic manner of 1994, rather in a gentler fashion that does not create adverse dynamics.

Oliver Blanchard, "Fiscal Dominance and Inflation Targeting: Lessons from Brazil", NBER working paper 10389, March 2004.

Alicia García Herrero and Alvaro Ortiz, "The Role of Global Risk Aversion in Explaining Latin American Spreads", Bank of Spain and Repsol YPF, 2004 (mimeo).

Commodities^{1, 2}

BBVA-MAP index

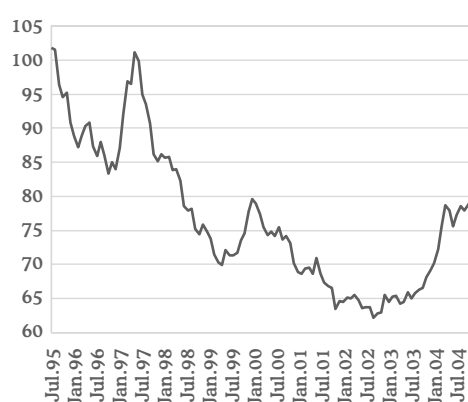
(1995=100)



Source: BBVA

BBVA-MAP excluding oil

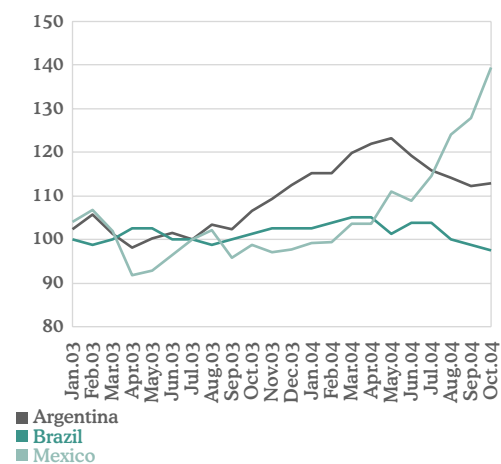
(1995=100)



Source: BBVA

BBVA-MAP by country

(2003=100)



Source: BBVA

The trend for commodity prices has been upwards throughout 2004. The BBVA-MAP index has seen a considerable rise since the middle of 2003 (40%), mainly driven by changes in the price of oil. However, the improvement in export revenues in Latin America is not only due to rises in the price of oil. In particular, if we look at the performance of the index excluding oil, we can see that growth in the prices of goods such as copper, coffee, sugar and gold have also had a positive impact on the region. In this way, countries such as Chile, Colombia, Mexico, Peru and Venezuela have benefited greatly from these increases.

It bears mentioning those goods that showed falls in prices during this year. In particular, soya, wheat, maize and beef showed significant falls. It is not surprising, therefore, that our indexes for countries such as Argentina, Brazil and Uruguay have performed negatively over the past few months. In the case of Argentina, these effects have been mitigated by the fact that the country is a net exporter of oil, an advantage not enjoyed by Brazil or Uruguay.

Finally, our forecasts for next year point to falls in the prices of coffee, copper, oil and soya. However, these estimates stand at levels above those for 2003. Therefore, we expect the situation to continue to be favourable in 2005, but not to the extent as was the case in 2004.

¹ The BBVA-MAP includes the prices of the main commodities produced by Latin America, with the weighting assigned to each of these prices a function of the importance that net exports of the good concerned has within the foreign trade of the region.

² In this edition of Latinwatch we present a new version of our index of commodity prices, the BBVA-MAP. Details on how this has been drawn up are included in a methodological note available on our website <http://www.bbva.es>

BBVA-MAP commodity index

(% change as at October)

	Last 12 months	Last 3 months	Since January
BBVA-MAP	40.41	14.64	36.61
EX-OIL	17.06	1.50	13.52
COMPONENTS			
Metals	32.78	6.93	22.85
Agriculturals	11.67	-2.22	8.41
Energy	62.04	28.14	60.91
COUNTRIES			
Argentina	5.99	-2.38	0.53
Brazil	-3.99	-6.49	-4.70
Chile	23.88	1.10	16.48
Colombia	34.96	15.86	33.36
Mexico	41.24	21.73	42.76
Peru	12.91	4.19	8.31
Uruguay	-19.80	-9.42	-22.20
Venezuela	58.74	26.13	55.57

Source: BBVA

Commodity prices

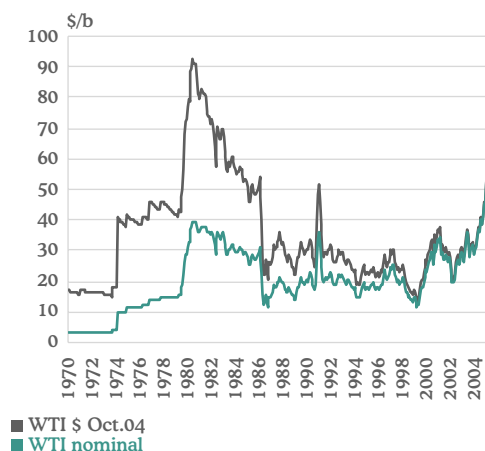
(period average)

	2003	2004/f	2005/f
Coffee (US\$ / lb)	0.65	0.85	0.80
Copper (US\$ / ton)	81	126	115
Gold (US\$ / ounce)	409	438	450
Oil* (US\$ / barrel)	29.6	40.6	34.2
Soya (US \$ / ton.)	238	267	225

f /forecasts
* Oil Brent
Source: BBVA

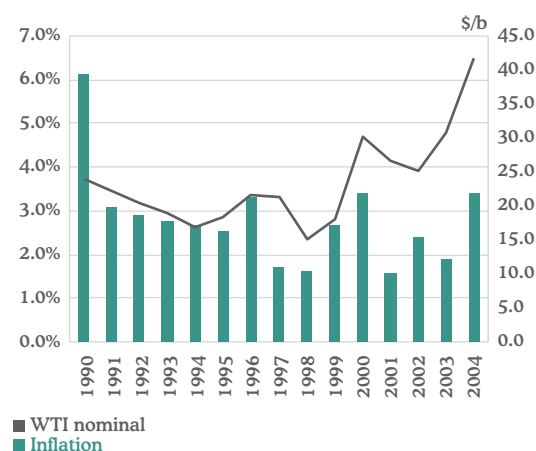
The oil market

Oil prices



Source: BBVA Banco Provincial

U.S. inflation vs oil prices



Source: BBVA Banco Provincial

The price of oil will fall by 26% in the next two years

In 2004, the oil market distinguished itself by showing an increase that at the end of October stood at 72%, with a volatility of 17%. If the situation is analysed from the end of 2001, the increase in the price of oil amounts to 155%, with an average price for a barrel of Brent of 30 dollars and a volatility of 22%. In the light of this performance, three questions come to mind: What has changed in the oil market? Why has the impact of the rise in the price of oil on the economy been less than in the past? And how will it perform over the next two years?

The first question leads us to the consideration that the oil market has undergone structural changes in the past five years that explain its current behaviour. About 75% of the average increase in daily demand over this period has come from emerging countries led by China and the rest of the Asian countries. These are characterised by being two and a half times less efficient in the use of oil per unit of GDP than OECD countries. On the supply side, 60% of the average increase in the daily amount of crude on offer has been provided by the former countries of the now defunct Soviet Union, led by Russia, while OPEC countries have only provided 20%. In addition, the output capacity of OPEC has gone from accounting for 15% of world demand for crude in 1989 to 2% at present. Behind the fall in the elasticity of supply lies the drop registered in real terms in investment in exploration and production, which showed an average fall of 16% in the period 1983-2003 with respect to 1973-1982, while production increased between these two periods by 13%.

Inelasticity of supply means that the growing political instability seen in the Middle East has a bigger impact on prices that it had previously. On the other hand, expectations on the part of economic agents that if one of the producers in the region drops out of the market, it cannot be made up for by the rest, given the limited additional production capacity, is leading to heightened demand.

The structural changes in the oil market have combined together to produce a structural increase in prices. With respect to the market in the 1980s and 1990s, the fair value for Brent would lie within a range of 30-32 dollars per barrel in real terms in 2004 dollars.

Despite prices, the impact has been limited

The second question has to do with what impact a rise in oil prices of these magnitudes should have on economies in terms of inflation and growth. The first thing one has to take into account when addressing these matters is that an analysis of nominal magnitudes does not tell us much. We need to analyse real magnitudes. In this sense, an evaluation of the average price for Brent for this year puts the figure at 38 dollars. This price in real terms represents only half of that seen between 1974 and 1984. This means that when assessed in real terms, prices are not so high. What is more, the current average rise in real terms represents for the United States only 60% of that during the previous sustained rise in prices seen in 2000 (which lasted 20 months). Meanwhile, in the case of Europe, the current rise is only 44% of the previous one due to the appreciation of the euro.

In the short term, the productivity shocks have meant that the rise in oil prices in real terms has not had a devastating effect on growth. This is borne out by the growth forecasts for 2004 and 2005 both for the United States and Europe as

Oil scenario

\$/b	Baseline scenario		\$/b	Baseline scenario	
	WTI	Brent		WTI	Brent
2003:I	33.9	31.3	2005:I	44.7	40.3
2003:II	30.0	27.0	2005:II	40.6	37.8
2003:III	31.0	28.6	2005:III	39.0	36.3
2003:IV	29.9	28.5	2005:IV	37.4	34.8
2004:I	35.2	31.8	2006:I	35.9	31.4
2004:II	38.4	35.5	2006:II	35.5	32.0
2004:III	44.1	41.7	2006:III	34.9	32.4
2004:IV	48.8	42.7	2006:IV	34.1	31.7

Source: BBVA Banco Provincial

well as for Japan. In general terms, a sustained increase in oil prices has a bigger impact on inflation than on growth. In fact, an analysis of these three developed economies shows that for the United States a sustained increase in oil prices of 10 dollars lasting over a year causes a fall in activity of 0.2%, and an increase in inflation of 40 bp. For Europe, the impact is 0.4% and 50 bp, while in the case of Japan it is 0.3% and 50 bp. Between the alternatives that oil prices generate a fall in growth in the short term or a pick-up in inflation in the medium term, the latter seems to be more the case. Even more so taking into account the importance the Federal Reserve is beginning to attach to the U.S. current account deficit.

The price will fall by 11 dollars between 2004 and 2006

The third question leads us to the consideration that, in the short term, the lack of alignment between the market price and the "structural" is represented in a current risk premium of 14 dollars. This risk premium comprises of both demand and supply factors that will gradually disappear over the course of the next two years.

On the supply side, there is a risk premium of 9 dollars that will disappear to the extent that Saudi Arabia produces more, Iraq stabilises its output at levels of between 2 and 2.4 million barrels per day, and that the tax problems facing Yukos are out of the way. On the demand side, to the extent that there are no new surprises, the 5 dollar risk premium will disappear in the short term. Looking ahead to next year, it is expected that world demand will rise by only 2% after having undergone an increase of 3.5% in 2004. For the developed countries, the forecast increase in demand for next year is about 1.4%. On the supply side, the increase is expected to be similar to that for demand. For this reason, the actual stock of inventories is expected to be stable.

For 2004, an average price for Brent of 38 dollars is expected. It is expected to remain virtually at the same levels for 2005, when an average of 37.3 dollars is forecast. This, however, will mean a correction of 18% on a year-end comparison between the two years. For 2006, the estimated average is 32 dollars, with a correction of 8.7% between the end of 2005 and 2006. The accumulated correction for the next two years is estimated at 11 dollars, equivalent to 26% compared with the level at the end of 2004.

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International Context

	Real GDP (%)				Consumer prices (% , end of year)			
	2002	2003	2004	2005	2002	2003	2004	2005
USA	2.2	3.1	4.4	3.5	2.4	1.9	3.4	2.4
EMU	0.9	0.5	1.8	1.9	2.3	2.0	2.2	1.9
Japan	-0.3	2.6	4.2	2.0	-0.3	-0.4	0.0	0.0
China	8.0	9.1	9.0	8.5	-0.8	1.2	4.0	3.0

	Official interest rate (% , end of period)				Exchange rate (vs \$, end of period)			
	25/11/04	Mar-05	Jun-05	Dec-05	25/11/04	Mar-05	Jun-05	Dec-05
USA	2.00	2.75	3.25	3.75				
EMU (\$/€)	2.00	2.00	2.00	2.50	1.32	1.28	1.28	1.30
Japan (yenes/\$)	0.10	0.10	0.10	0.10	103	106	104	100
China (\$/cny)	5.58	5.58	-	-	8.28	8.28	8.28	8.28

Latin America

	Real GDP (%)				Consumer prices (% , end of year)			
	2002	2003	2004	2005	2002	2003	2004	2005
Argentina	-10.9	8.7	7.6	4.5	41.0	3.7	6.1	8.0
Brazil	1.9	0.5	4.3	3.7	12.5	9.3	7.5	6.0
Chile	2.0	3.3	5.6	5.7	2.8	1.1	2.3	2.2
Colombia	1.8	3.9	4.0	4.0	7.0	6.5	5.6	5.5
Mexico	0.7	1.3	4.1	3.8	5.7	4.0	5.3	4.0
Peru	5.2	4.0	4.3	4.1	1.5	2.5	3.4	2.3
Uruguay	-10.8	2.5	9.5	4.0	25.9	10.2	9.0	8.5
Venezuela	-8.9	-9.2	17.4	3.9	31.2	27.1	18.5	22.4
LATAM ¹	-0.5	1.6	5.4	4.0	13.2	7.1	6.7	6.2

	Fiscal balance (% GDP)				Current account balance (% GDP)			
	2002	2003	2004	2005	2002	2003	2004	2005
Argentina ²	-1.4	0.5	2.6	1.9	9.8	6.3	2.2	0.9
Brazil	-10.3	-3.7	-4.0	-4.0	-1.7	0.8	2.0	0.7
Chile ²	-0.7	0.0	2.2	1.6	-0.7	-0.8	2.7	0.4
Colombia	-3.7	-2.7	-2.5	-2.4	-2.0	-1.8	-1.5	-2.7
Mexico	-1.2	-0.6	-0.3	-0.1	-2.2	-1.5	-1.2	-2.0
Peru	-2.3	-1.9	-1.4	-1.2	-1.9	-1.8	-0.7	-1.1
Uruguay	-4.0	-3.2	-2.9	-2.5	2.0	1.7	0.4	0.6
Venezuela ²	-3.0	-5.1	-4.1	-3.5	8.1	10.3	14.5	11.8
LATAM ¹	-4.3	-1.9	-1.6	-1.5	-0.5	0.7	1.3	0.1

¹ Average of the countries. ² Central Government.

	Exchange rate (% , vs \$, end of year)				Interest rates (% , end of year) ³			
	2002	2003	2004	2005	2002	2003	2004	2005
Argentina	3.40	2.96	3.00	3.12	30.0	3.8	3.3	6.0
Brazil	3.53	2.89	2.90	3.20	25.0	16.5	17.3	15.5
Chile	702	599	590	596	3.0	2.3	2.5	3.8
Colombia	2865	2778	2607	2841	7.7	7.9	7.7	8.2
Mexico	10.31	11.24	11.40	11.85	7.0	6.0	8.6	9.2
Peru	3.51	3.46	3.30	3.40	3.8	2.5	3.0	4.5
Uruguay	27.22	29.34	27.30	29.00	69.9	4.0	n.d.	n.d.
Venezuela	1387	1600	1920	2300	26.8	15.1	12.4	13.1

³ For each country interest rate see the following page.

Argentina

	2003	2004f	2005f	2003	2004f	2005f
GDP (%)	8.7	7.6	4.5	0.5	4.3	3.7
Consumer prices (% end of year)	3.7	6.1	8.0	9.3	7.5	6.0
Trade balance (\$bn)	15.5	11.3	8.8	24.8	34.2	24.5
Current account (% GDP)	6.3	2.2	0.9	0.8	2.0	0.7
Reserves (\$bn. end of year)	14.1	19.1	23.1	49.3	52.0	53.0
Exchange rate (end of year vs US\$)	2.96	3.00	3.12	2.89	2.90	3.20
Fiscal balance (% GDP) ¹	0.5	2.6	1.9	-3.7	-4.0	-4.0
Interest rate (end of year) ²	3.8	3.3	6.0	16.5	17.3	15.5
Real effective exchange rate (end of year, dec-97=100)	52	51	53	60	62	58

1/ Argentina: Central Government Balance. Excluding privatisation receipts
2/ Argentina: 30-d deposits interest rate in pesos; Brazil: SELIC rate

Brazil

Chile

	2003	2004f	2005f
GDP (%)	3.3	5.6	5.7
Consumer prices (% end of year)	1.1	2.3	2.2
Trade balance (\$bn)	3.0	8.3	5.7
Current account (% GDP)	-0.8	2.7	0.4
Reserves (\$bn. end of year)	15.9	15.0	15.0
Exchange rate (end of year vs US\$)	599	590	596
Fiscal balance (% GDP) ¹	0.0	2.2	1.6
Interest rate (end of year) ²	2.3	2.5	3.8
Real effective exchange rate (end of year, dec-97=100)	84	85	83

1/ Chile: Central Government
2/ Chile: Official interest rate (from August 2001 in nominal terms); Colombia: 90-d DTF interest rate

Colombia

	2003	2004f	2005f
GDP (%)	3.9	4.0	4.0
Consumer prices (% end of year)	6.5	5.6	5.5
Trade balance (\$bn)	0.2	0.6	-1.1
Current account (% GDP)	-1.8	-1.5	-2.7
Reserves (\$bn. end of year)	10.9	13.0	13.1
Exchange rate (end of year vs US\$)	2778	2607	2841
Fiscal balance (% GDP) ¹	-2.7	-2.5	-2.4
Interest rate (end of year) ²	7.9	7.74	8.2
Real effective exchange rate (end of year, dec-97=100)	71	78	74

Mexico

	2003	2004f	2005f
GDP (%)	1.3	4.1	3.8
Consumer prices (% end of year)	4.0	5.3	4.0
Trade balance (\$bn)	-5.7	-6.1	-10.7
Current account (% GDP)	-1.5	-1.2	-2.0
Reserves (\$bn. end of year)	57.4	62.5	64.0
Exchange rate (end of year vs US\$)	11.24	11.40	11.85
Fiscal balance (% GDP)	-0.6	-0.3	-0.1
Interest rate (end of year) ²	6.0	8.6	9.2
Real effective exchange rate (end of year, dec-97=100)	105	103	103

2/ Mexico: 28-d Cetes interest rate; Peru: Interbank interest rate

Peru

	2003	2004f	2005f
GDP (%)	4.0	4.3	4.1
Consumer prices (% end of year)	2.5	3.4	2.3
Trade balance (\$bn)	0.7	2.4	2.3
Current account (% GDP)	-1.8	-0.7	-1.1
Reserves (\$bn. end of year)	10.2	12.0	11.7
Exchange rate (end of year vs US\$)	3.46	3.30	3.40
Fiscal balance (% GDP)	-1.9	-1.4	-1.2
Interest rate (end of year) ²	2.5	3.0	4.5
Real effective exchange rate (end of year, dec-97=100)	89	92	90

Uruguay

	2003	2004f	2005f
GDP (%)	2.5	9.5	4.0
Consumer prices (% end of year)	10.2	9.0	8.5
Trade balance (\$bn)	0.0	-0.1	0.0
Current account (% GDP)	1.7	0.4	0.6
Reserves (\$bn. end of year)	2.1	n.a.	n.a.
Exchange rate (end of year vs US\$)	29.34	27.30	29.00
Fiscal balance (% GDP) ¹	-3.2	-2.9	-2.5
Interest rate (end of year) ²	4.0	n.a.	n.a.
Real effective exchange rate (end of year, dec-97=100)	75	84	86

1/ Venezuela: Central Government
2/ Uruguay: 30-d BCU Papers interest rate in pesos; Venezuela: 30-d Certificado Participaciones rate
3/ Venezuela: including FIEM

Venezuela

	2003	2004f	2005f
GDP (%)	-9.2	17.4	3.9
Consumer prices (% end of year)	27.1	18.5	22.4
Trade balance (\$bn)	14.8	21.8	19.4
Current account (% GDP)	10.3	14.5	11.8
Reserves (\$bn. end of year)	21.3	21.1	22.7
Exchange rate (end of year vs US\$)	1600	1920	2300
Fiscal balance (% GDP) ¹	-5.1	-4.1	-3.5
Interest rate (end of year) ²	15.1	12.4	13.1
Real effective exchange rate (end of year, dec-97=100)	98	92	93

Research Department Presentations

Bogotá www.bbva.com.co

Title	Institution-Client	Place and date
Coyuntura y perspectivas cambiarias	Banca de Empresas BBVA	Medellín, Nov. 5 04
Coyuntura y perspectivas cambiarias	Banca de Empresas BBVA	Cali, Nov. 4 04
Coyuntura y perspectivas cambiarias	Banca de Empresas BBVA	Bogotá, Nov. 2 04
Algunas causas y remedios del déficit presupuestal	Universidad de los Andes	Bogotá, Oct. 26 04
Coyuntura macroeconómica	Tesorería BBVA	Bogotá, Oct. 15 04

Buenos Aires www.bancofrances.com.ar

Title	Institution-Client	Place and date
VI Congreso de Economía	Consejo Prof. de Ciencias Económicas de la Ciudad de Bs.As.	Buenos Aires, Apr. 04
Conference: 2004 Economic Outlook	FORUM business information	Buenos Aires, Mar. 04

Caracas www.provincial.com

Title	Institution-Client	Place and date
Escenario 2004-2005	Instituto Venezolano de Ejecutivos de Finanzas	Maracaibo, Nov. 04
The Oil Market: Short- and Long-Term Prospects	Venezuela Corporate Leaders' Forum	Caracas, Nov. 04
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Madrid www.bbva.com

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Europa, Situación y Perspectivas	Grupo Expertos Coyuntura	Madrid, Nov. 04
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Chinese Impact on Latin America	Georgetown University	Washington, Oct. 04
Latin America: Oh, les beaux jours!	BBVA Corporate Banking	Paris, Oct. 04
Las Claves del Escenario Macroeconómico y Financiero	Jornadas de Empresa Familiar	Oviedo, Set. 04

Mexico www.bancomer.com

Title	Institution-Client	Place and date
México: Transformación y Perspectivas	CESCE	Madrid, Oct. 25 04
Ambiente de Inversión en el Sector Turismo	Bolsa Mexicana de Inversión Turística	México, Set. 9 04

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