

BBVA EAGLEs

Emerging And Growth Leading Economies
Economic Outlook

Annual Report 2014

Cross-Country Emerging Markets, BBVA Research
March 2014



Index

Key takeaways in 2013

Rethinking EAGLEs for the next decade

Special Topics

EM markets portfolio flows: changing underlying forces

The EM Middle-Class revolution will accelerate

Are EAGLEs & Nest ready for income transition

EM credit deepening: In the search for a healthy path

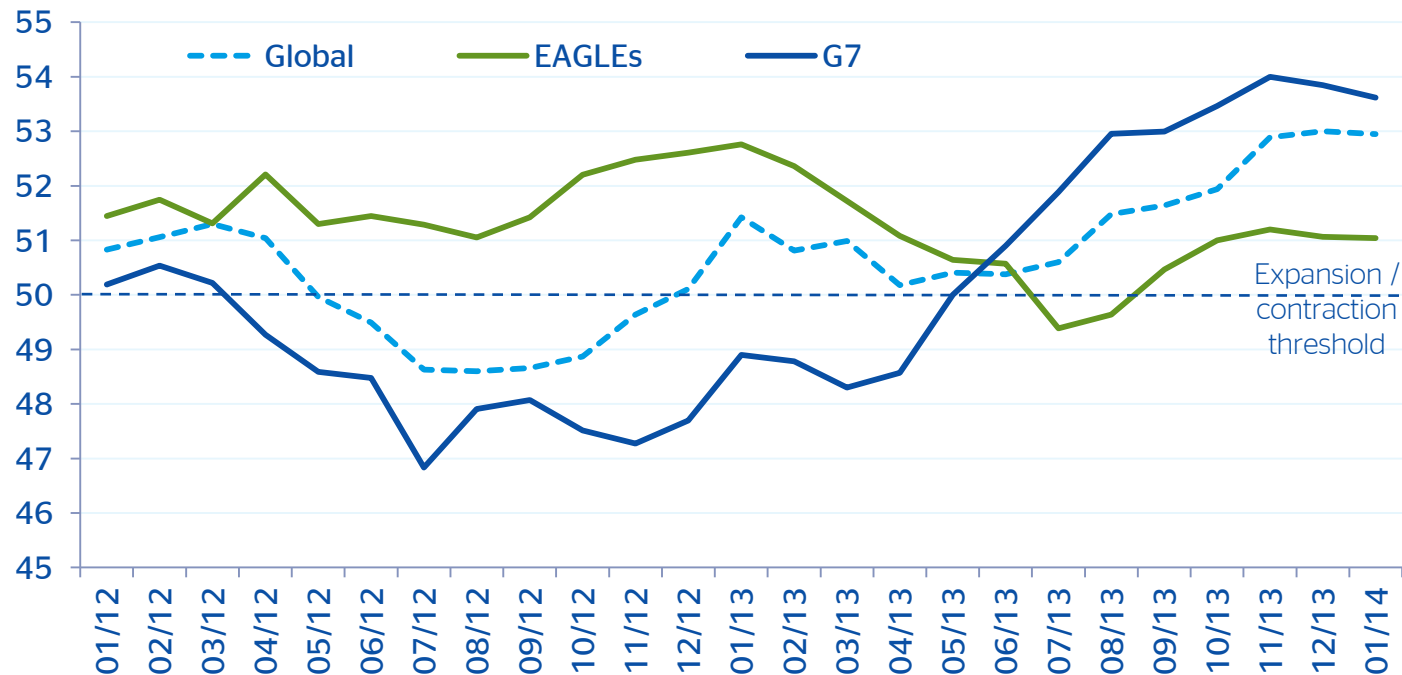
Trends in South-South trade and global value chains

After a long period of time, the external environment is finally gaining momentum...

Manufacturing PMIs (2012-14)

(simple average for EAGLEs* and G7 groups)

Source: Haver

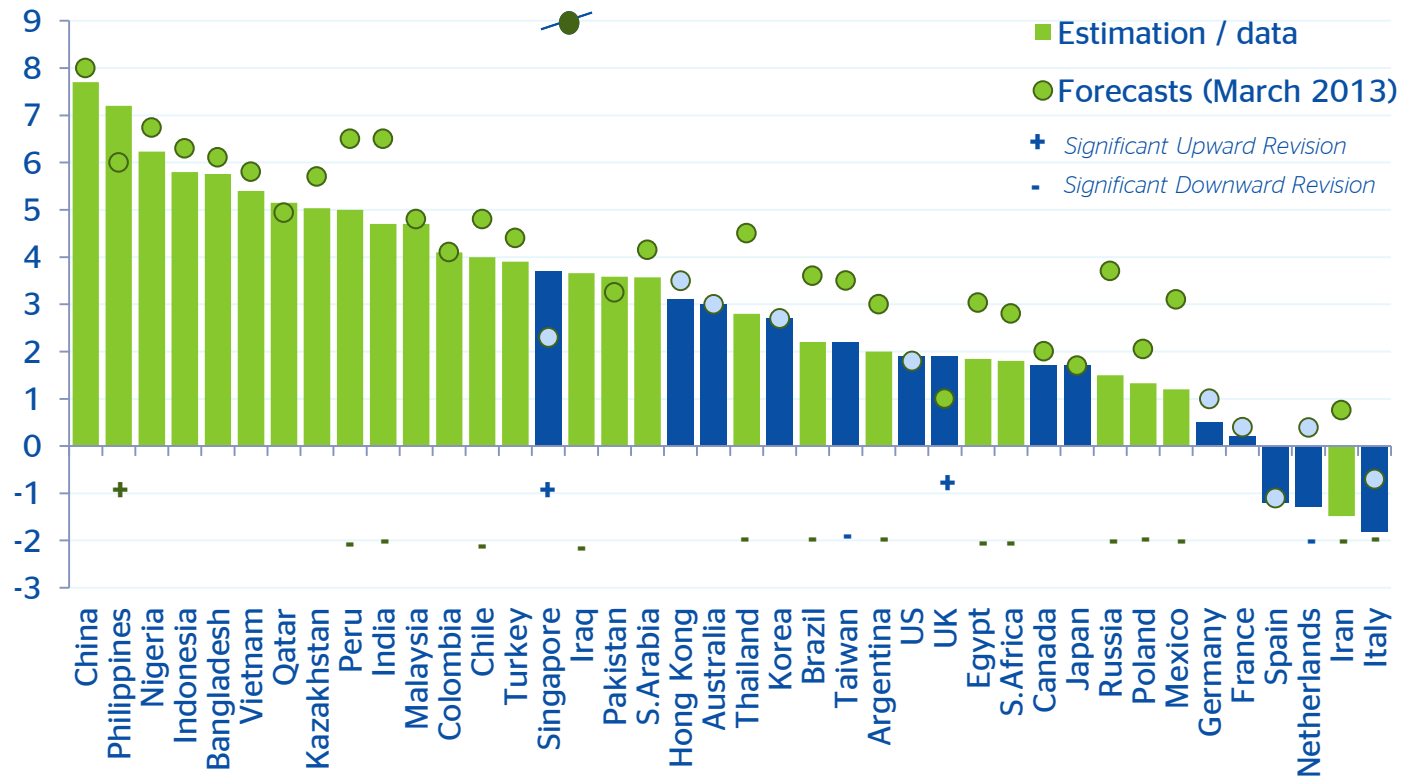


...but local EM drivers disappointed

Real GDP growth in 2013

(in %)

Source: IMF and BBVA research





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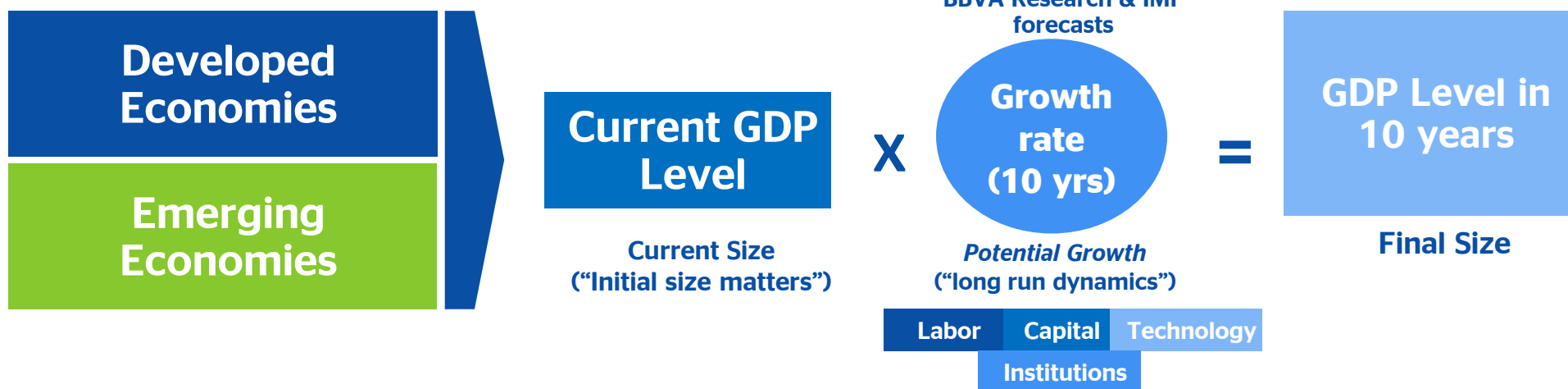
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Rethinking BBVA EAGLEs

	Before	Now	Implications
Definition of EM	Consensus from different sources	IMF criteria and groupings	Stable and clear criteria A mix of macro and institutions
Candidates	45 countries; discretionary exclusion	All emerging economies	More candidates to be considered
Nest threshold	Lowest contribution of a G6 economy (one country)	Avg contribution of non-G7 developed economies (with GDP > USD 100bn)	Extension and stability of the threshold

Maintaining our robust methodology...

Step 1: Estimating GDP level in the next decade



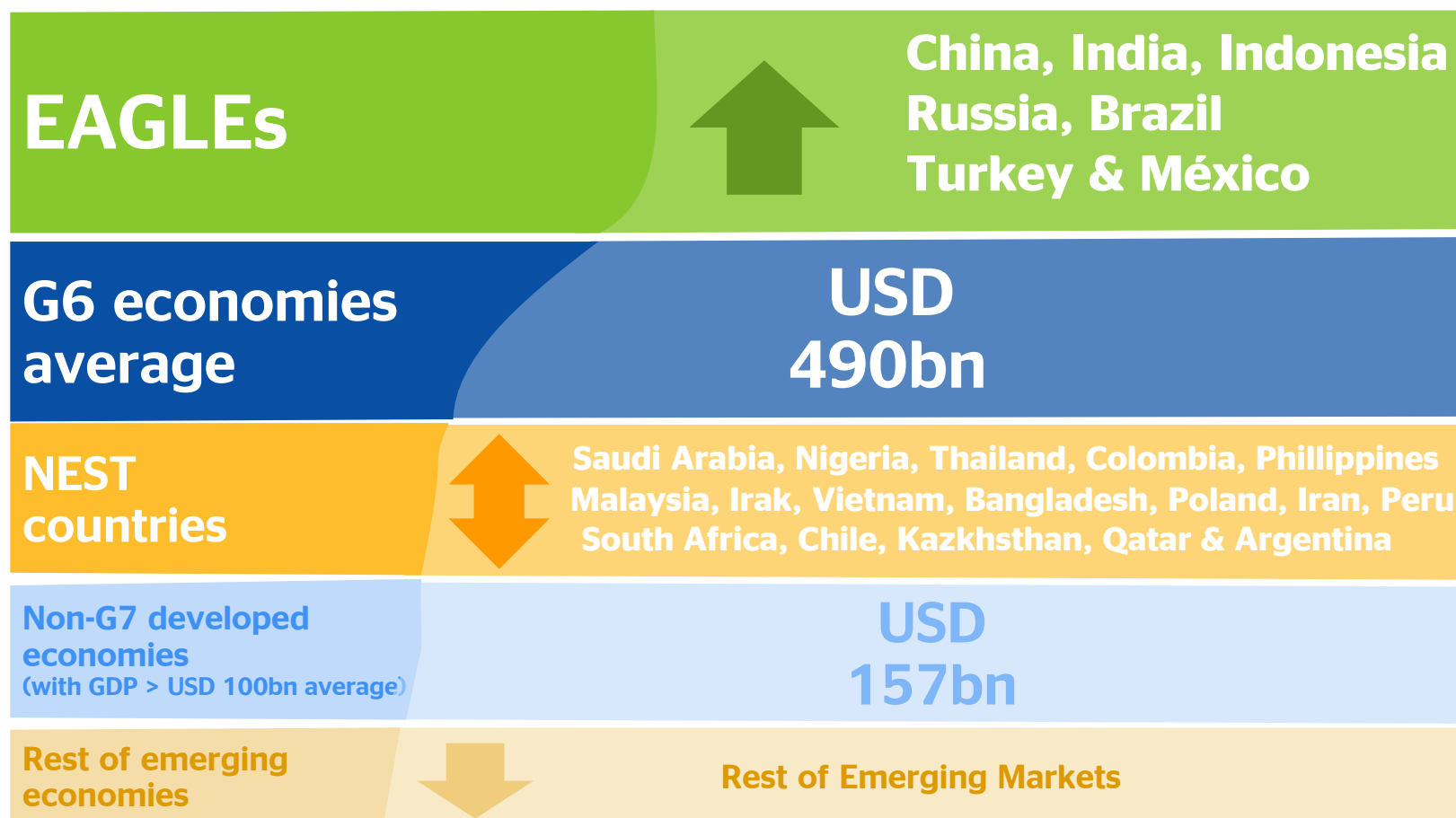
Step 2: Calculating Incremental GDP



...but new thresholds broaden the scope in 2014 members

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

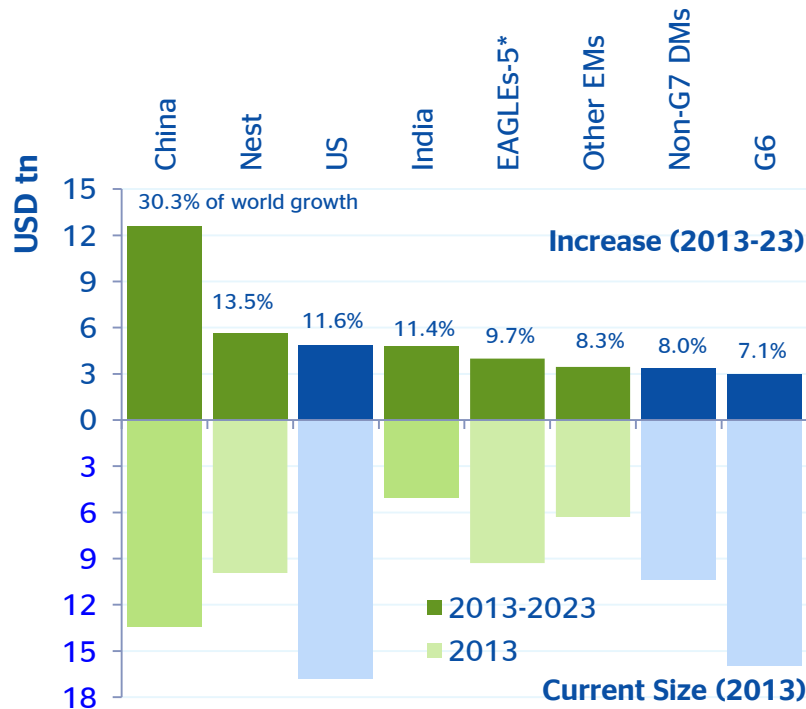
Source: BBVA Research,



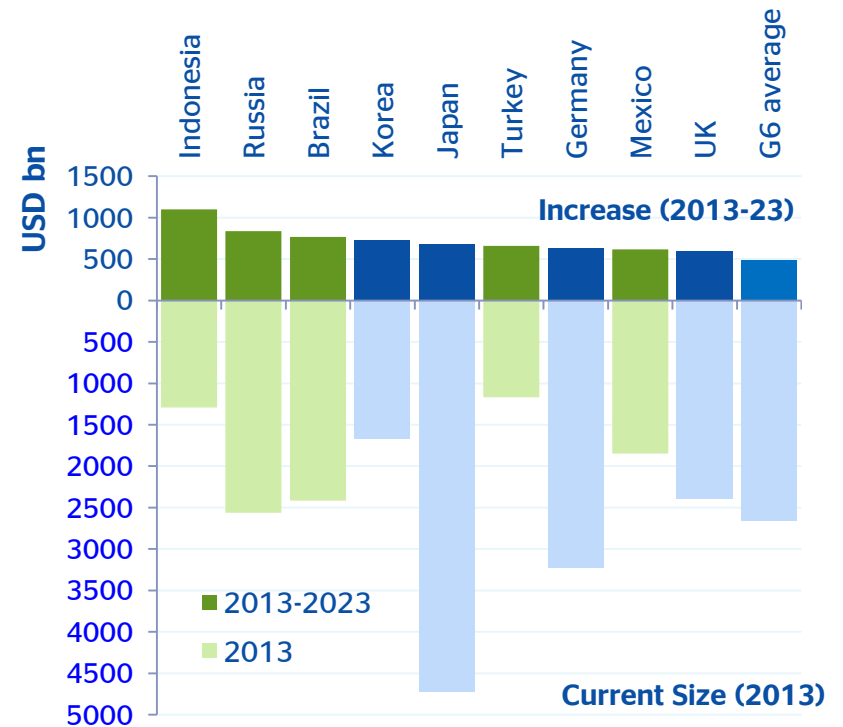
A bird's eye to EAGLEs contribution...

Contribution to world growth in the next ten years and current GDP size (2013) (PPP-adj. 2013 USD)

Source: BBVA Research, IMF



China and India play in another league



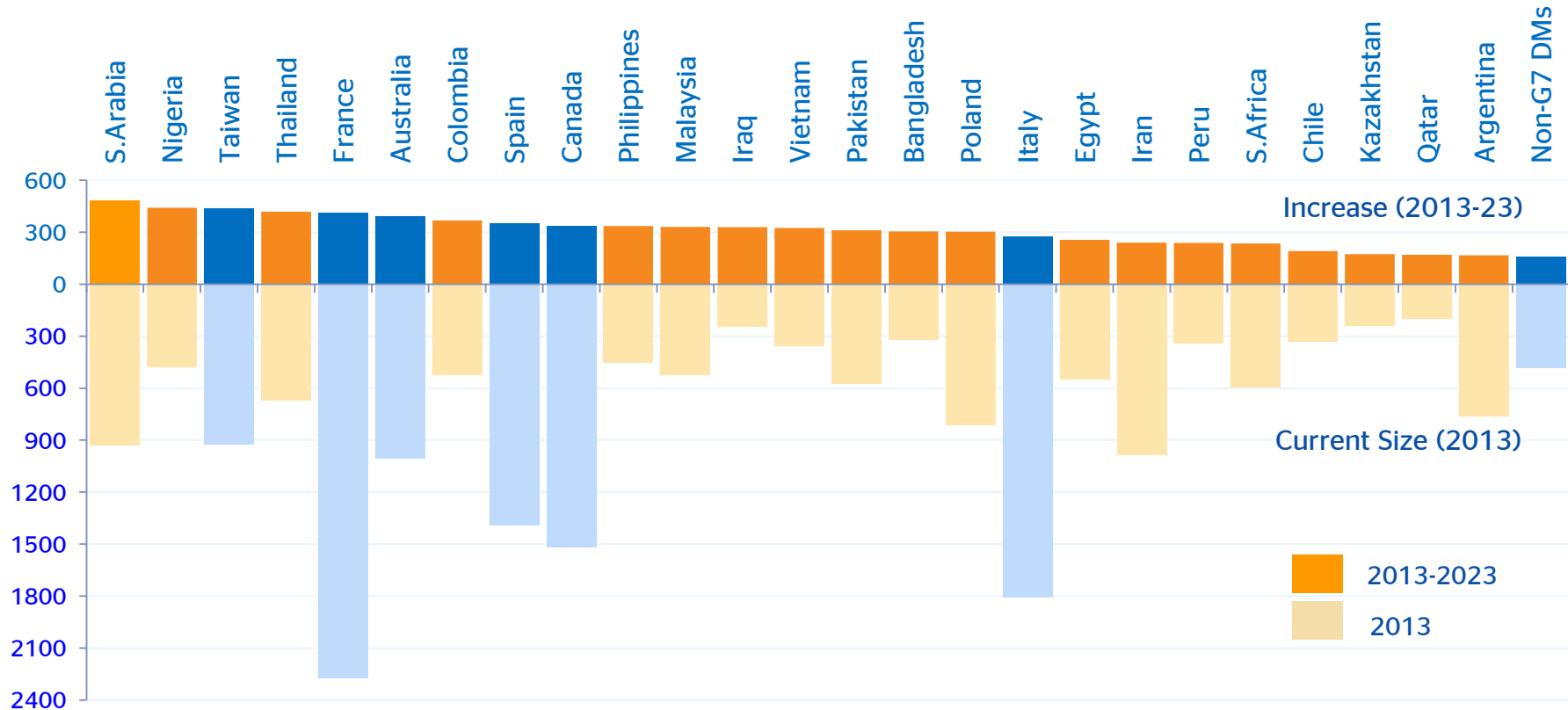
The rest of the EAGLE's are consolidating over time

... and the new list of Nest members

Contribution to world growth 2013-2023 and current GDP size

(2013 USD bn and 2013 USD PPP adjusted)

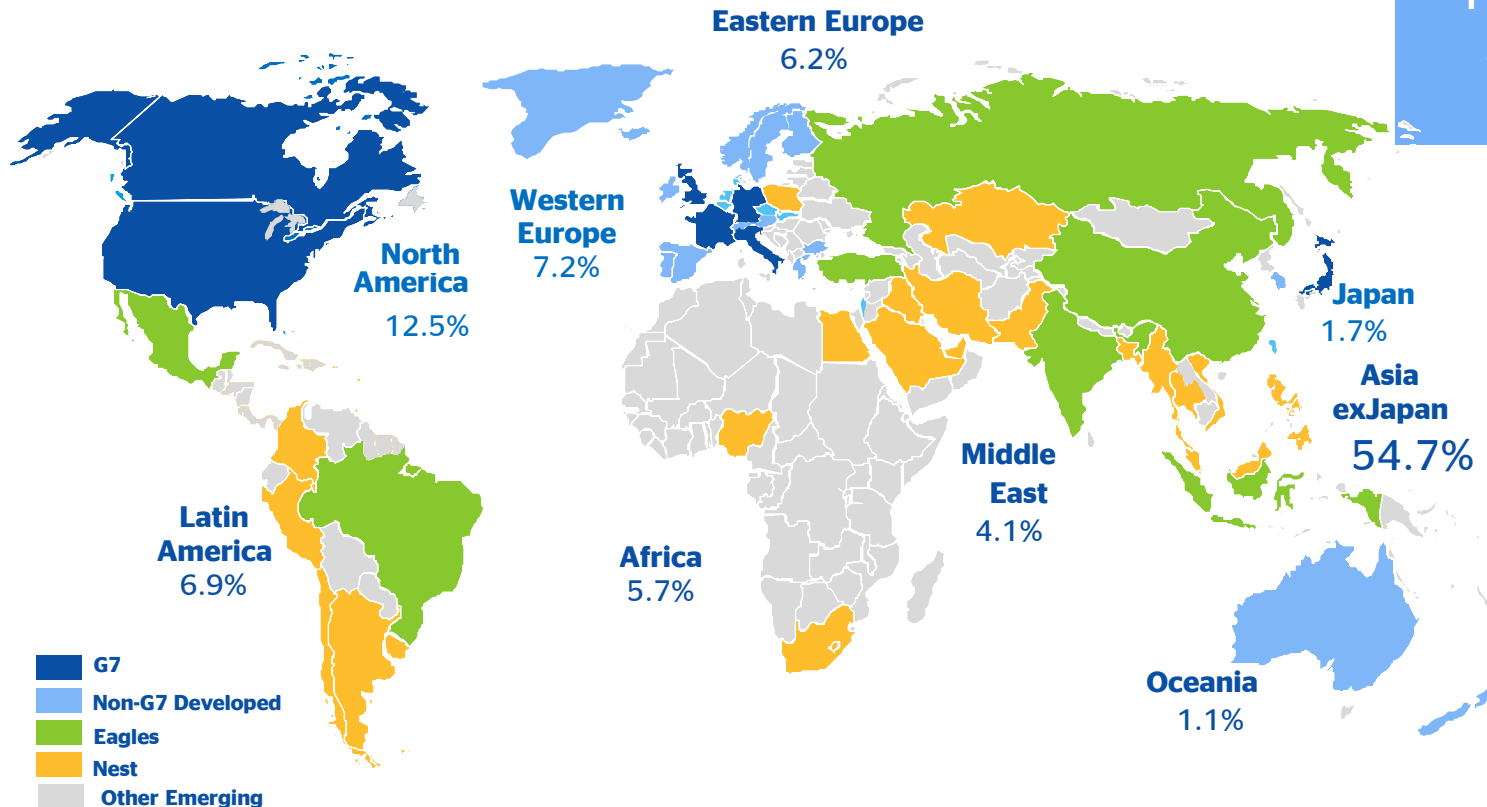
Source: BBVA Research, IMF



EAGLE's contribution growth map...

Regional contribution to world growth in the next ten years (%)

Source: BBVA Research, IMF

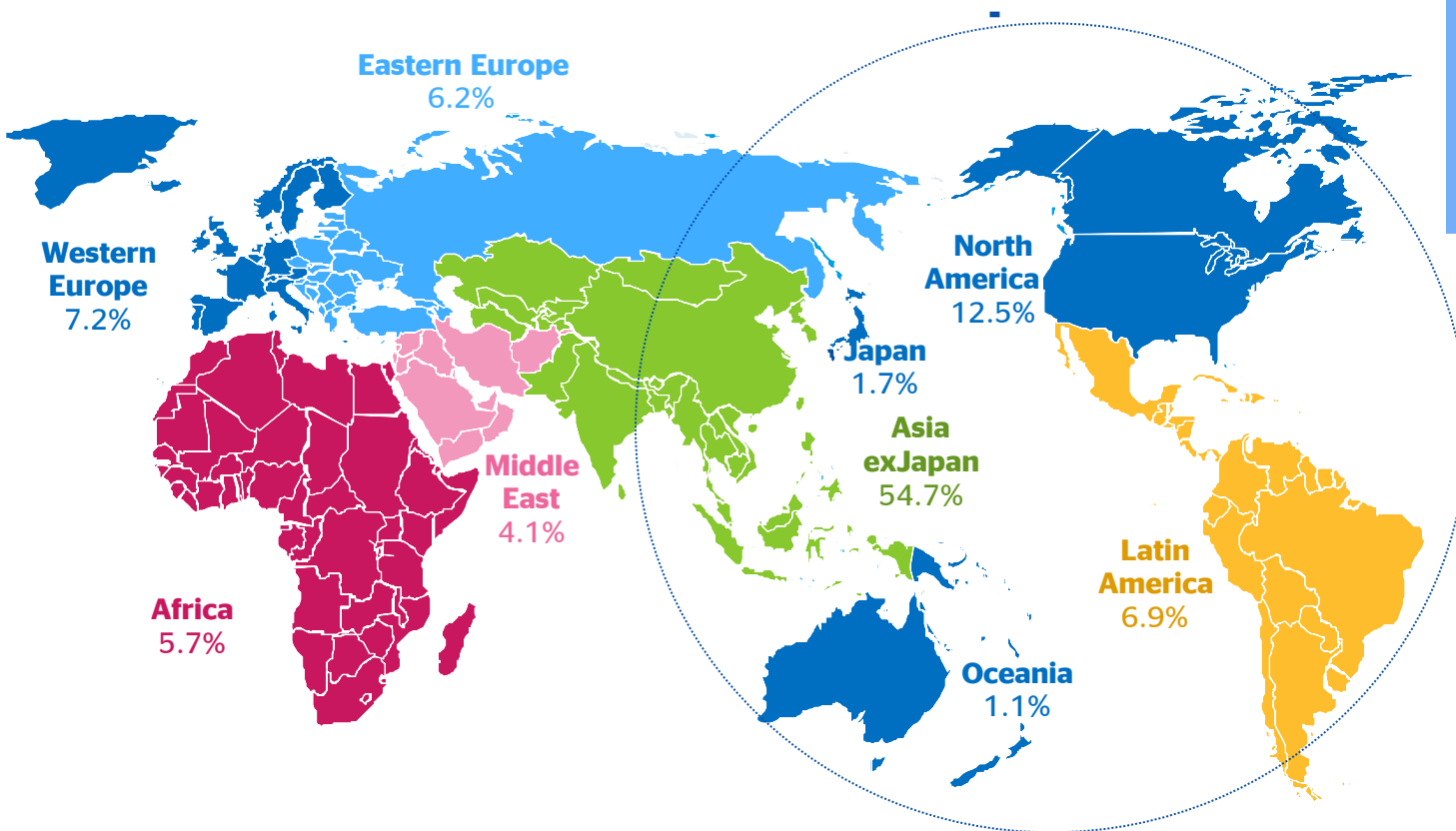


The EAGLE's & Nest are geographically balanced

...with a bias to the Asia-Pacific region

Regional contribution to world growth in the next ten years (%)

Source: BBVA Research, IMF



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



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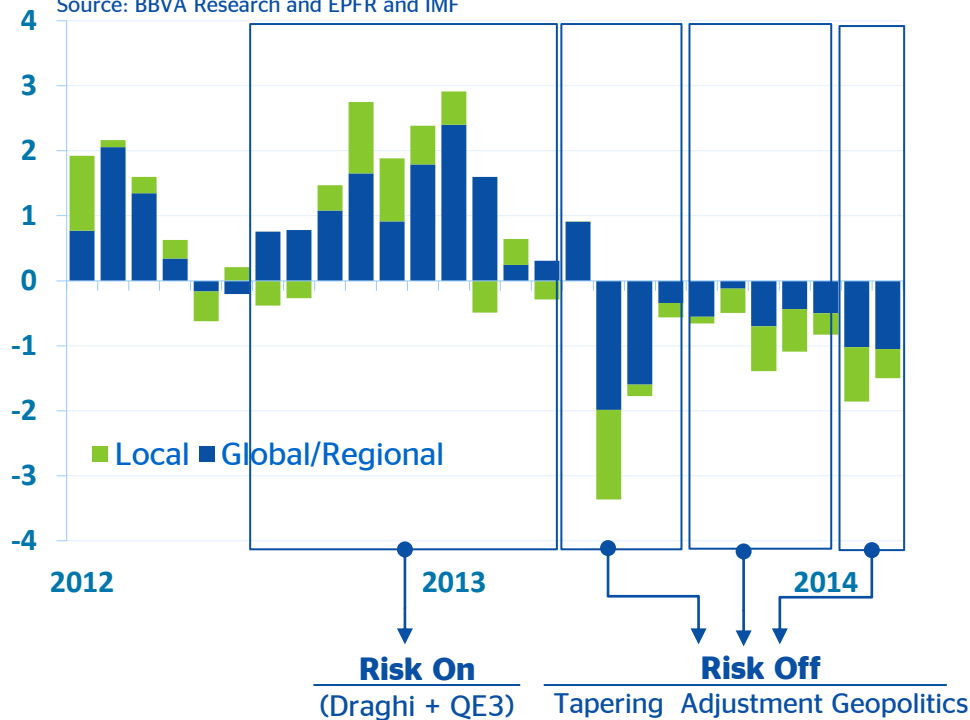
Trends in South-South trade and global value chains

EM Portfolio Flows: changing underlying forces...

Portfolio Flows to Emerging Markets (2012-2014)

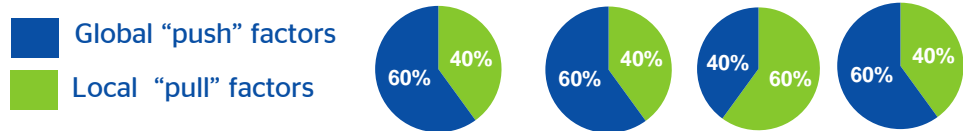
(median flows and contributions, flows to total assets)

Source: BBVA Research and EPFR and IMF



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

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

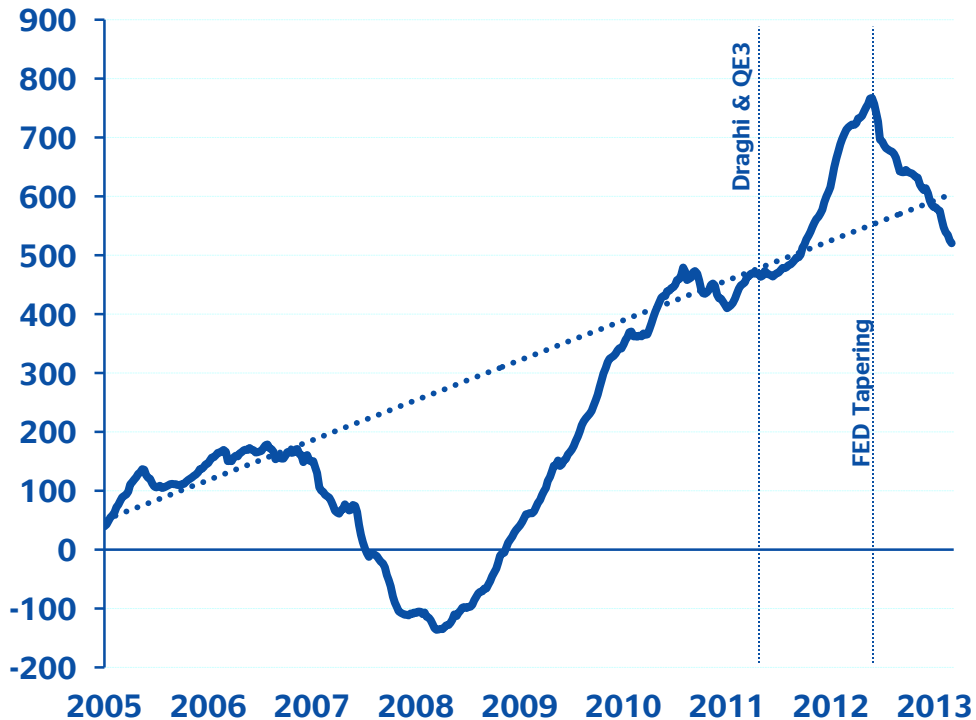


EM Portfolio Flows: ... with limited room to the downside

Portfolio Flows to Emerging Markets (2012-2014)

(cumulative from 2005)

Source: BBVA Research, EPFR and IMF



Ultra loose Monetary Policy in western countries (“push”) and EM attractiveness (“pull”) prompted “excess” flows into Emerging Markets ...

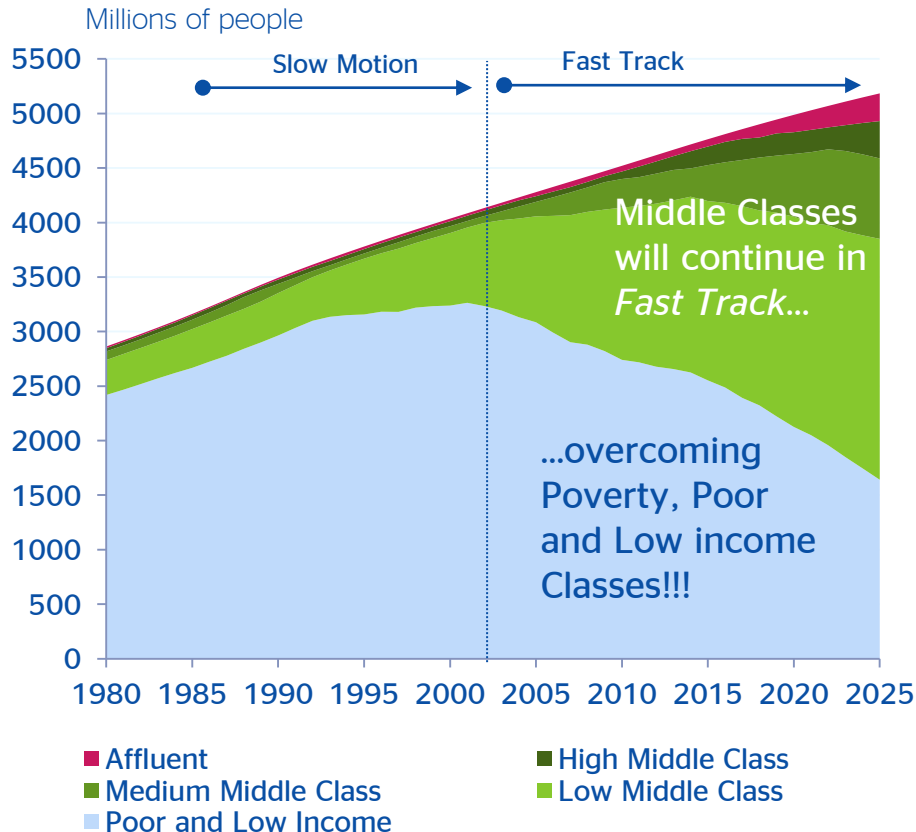
... which sharply corrected with the FED announcement of the Tapering... We have already corrected previous excesses entering into the “Under-shooting” area

The EM Middle class revolution will accelerate and poverty will drop significantly

Population by GDP pc in EM (1980-2025)

(Eagles and Nest countries)

Source: BBVA Research



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

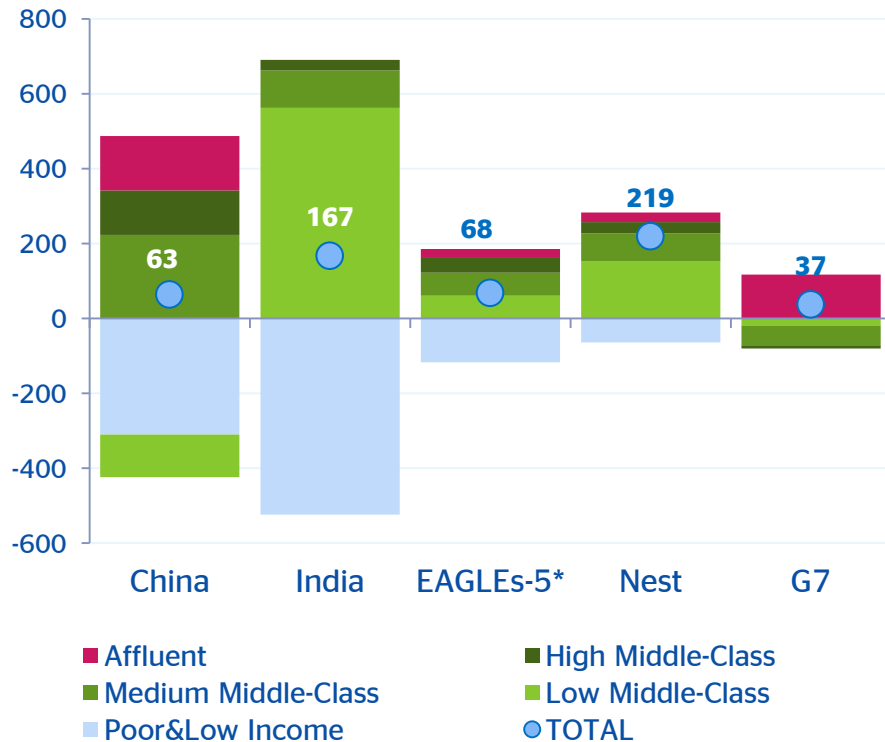
For the first time **Poverty** drop below **Middle Classes**

The EM Middle class revolution will accelerate and poverty will drop significantly...

Change of population by GDP pc: 2013 to 2025

(millions of people by countries and Groups)

Source: BBVA Research



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

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

**Nest will add
255 mln new
Middle Class**

**Eagles & Nest
reducing poverty
by 1000 mln**

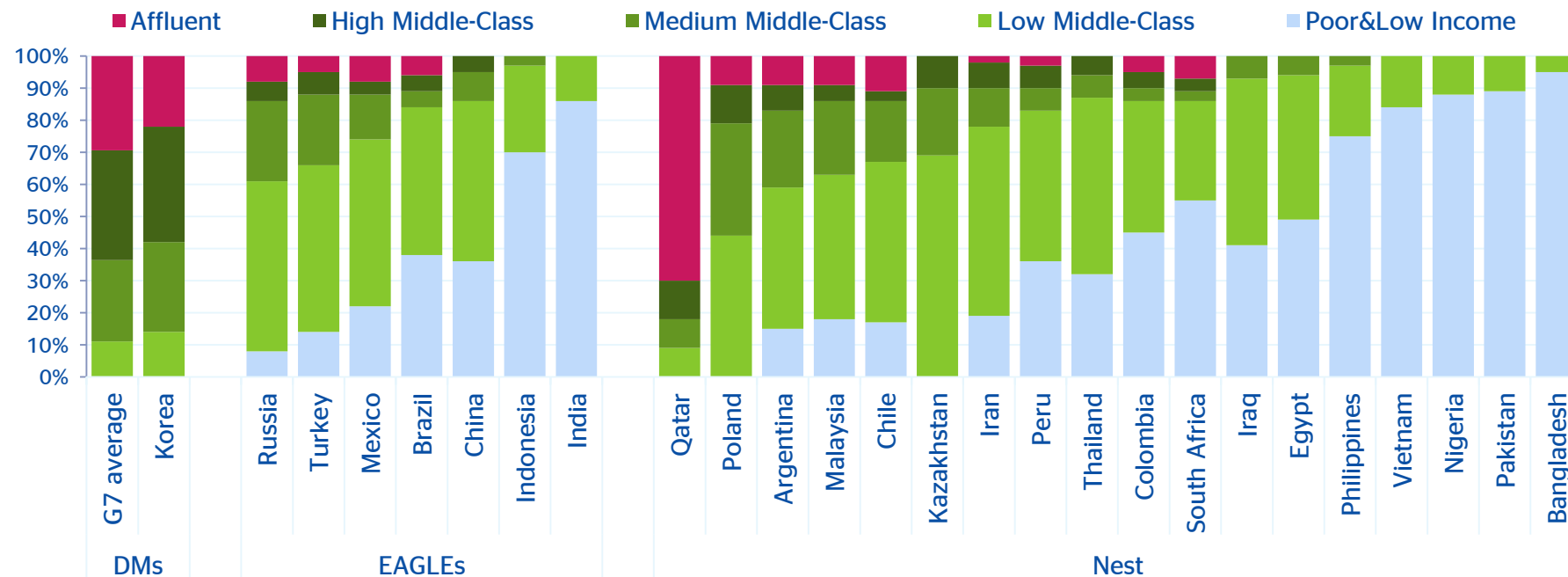
*EAGLE's 5: Indonesia, Russia, Brazil, Turkey and Mexico

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

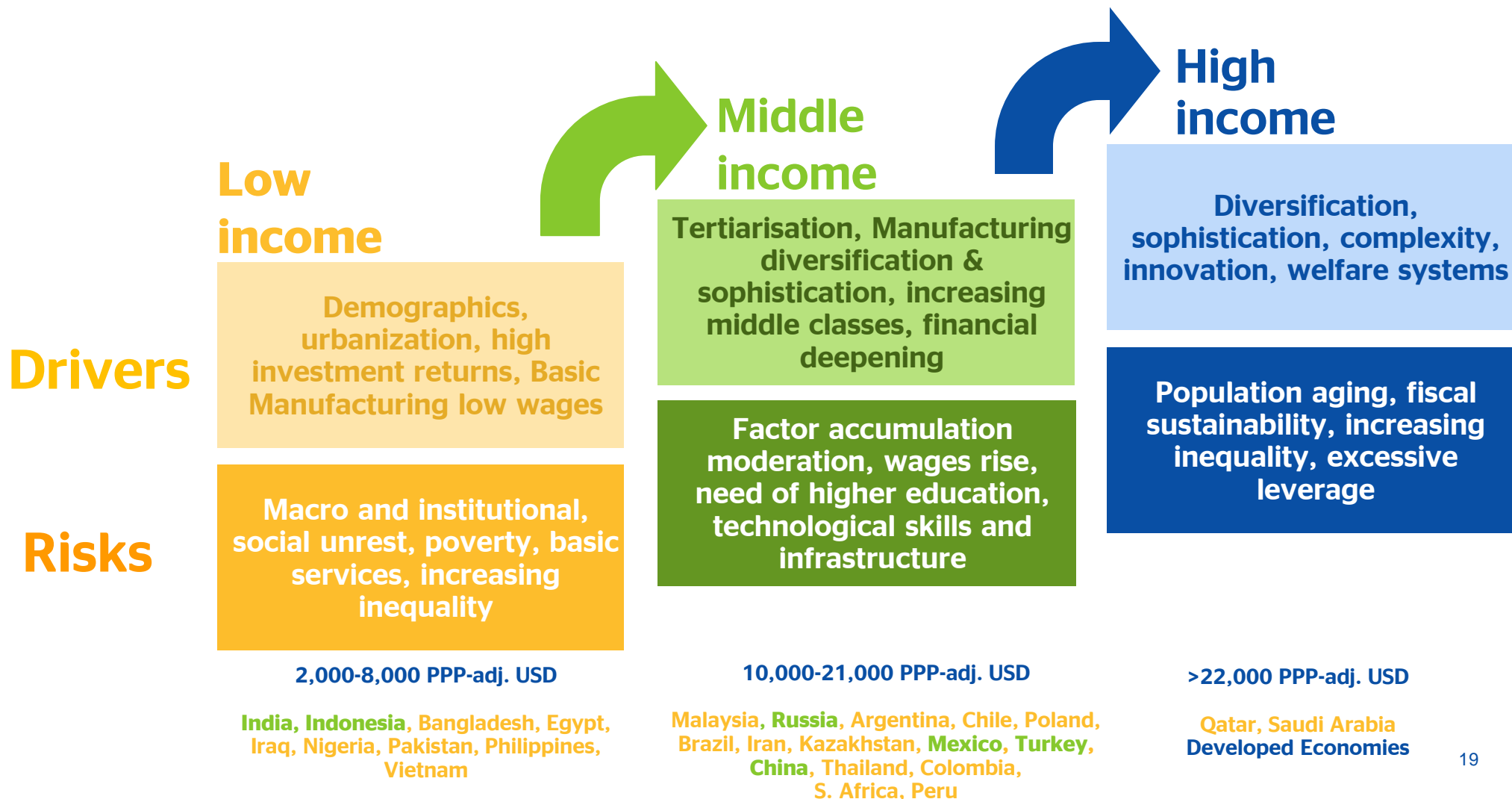
Population by GDP pc: 2013

(millions of people by countries and Groups)

Source: BBVA Research



Are EAGLE's and Nest ready for income transition?: different positions, different challenges...

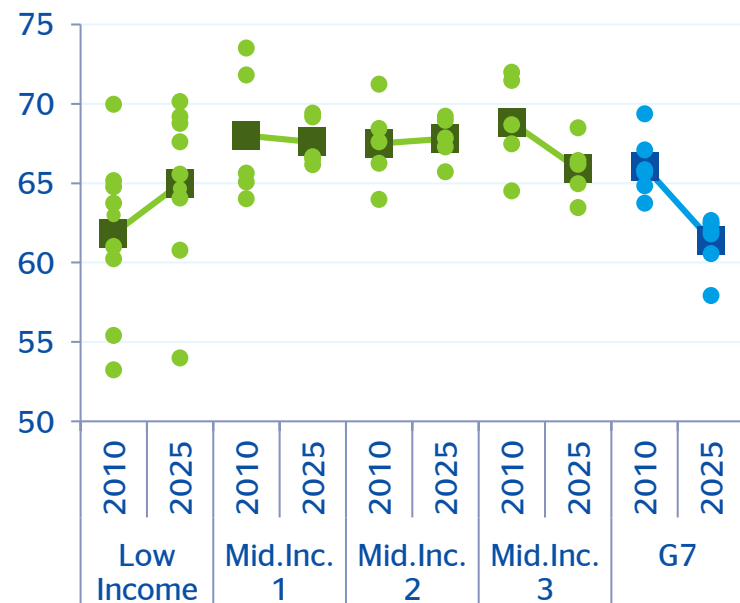


Are EAGLE's and Nest ready for income transition?: different positions, different challenges...

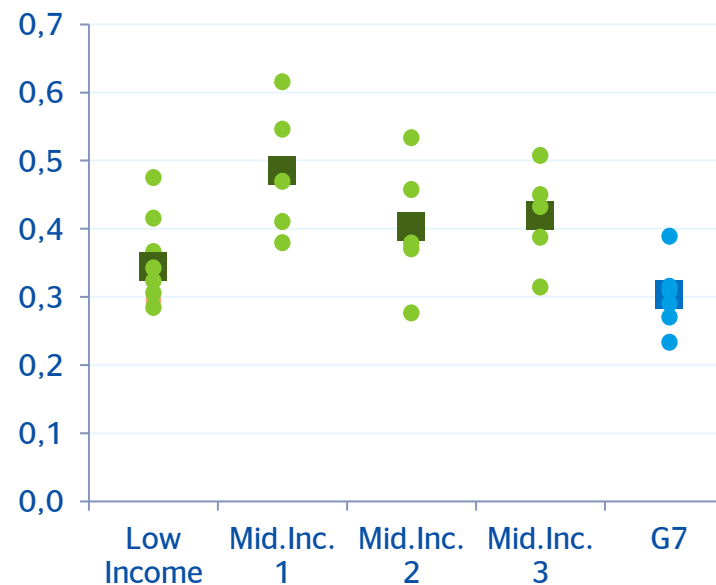
Economic development and population dynamics

Source: BBVA Research, UN, World Bank, UNU-WIDER

Share of population with 15-64 (%)



GINI inequality index (latest)

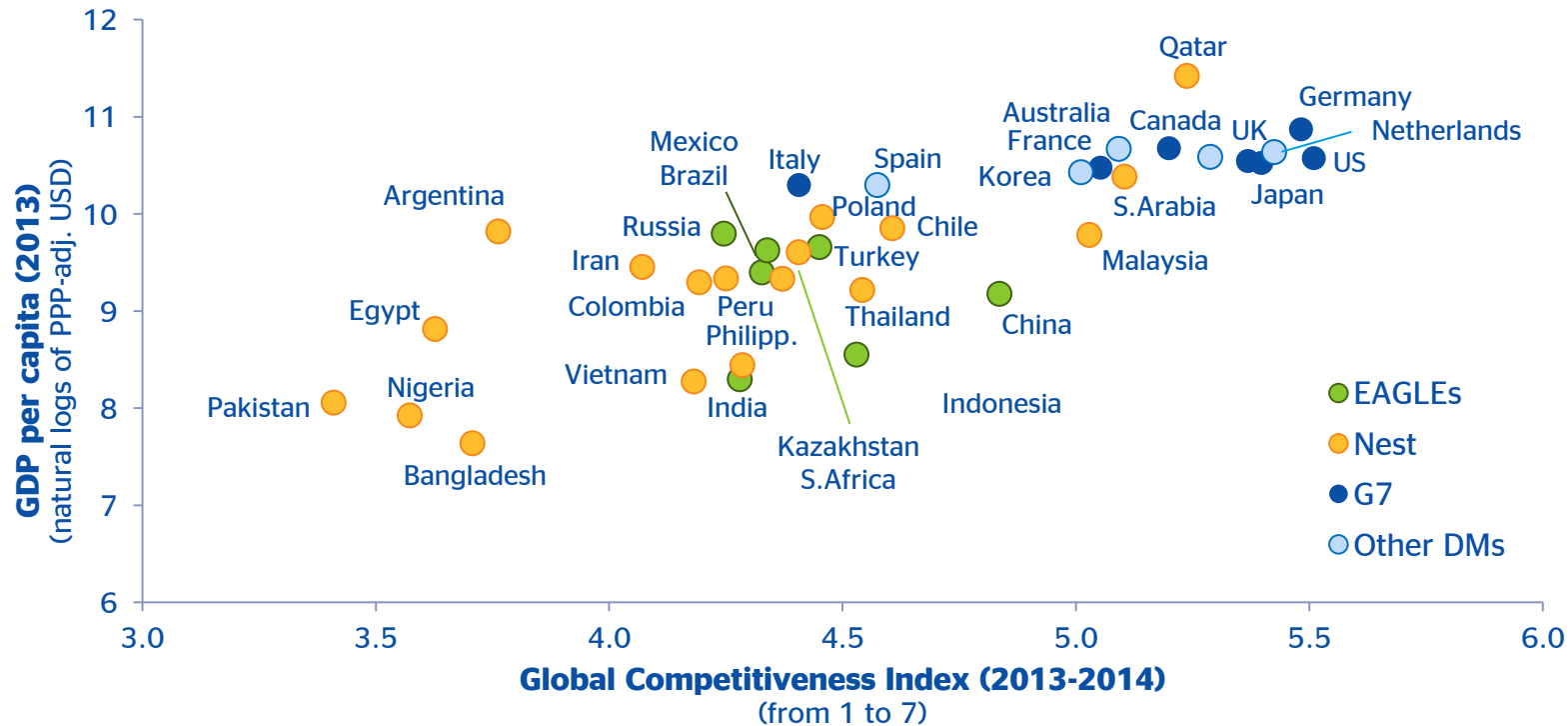


*Low Income = India, Indonesia, Bangladesh, Egypt, Iraq, Nigeria, Pakistan, Philippines and Vietnam; Middle Income 1 = China, Thailand, Colombia, South Africa and Peru; Middle Income 2 = Brazil, Iran, Kazakhstan, Mexico and Turkey; Middle Income 3 = Malaysia, Russia, Argentina, Chile and Poland

Are EAGLE's and Nest ready for income transition?: policy room to change development paths...

GDP per capita and Global Competitiveness Index (GCI) in selected economies

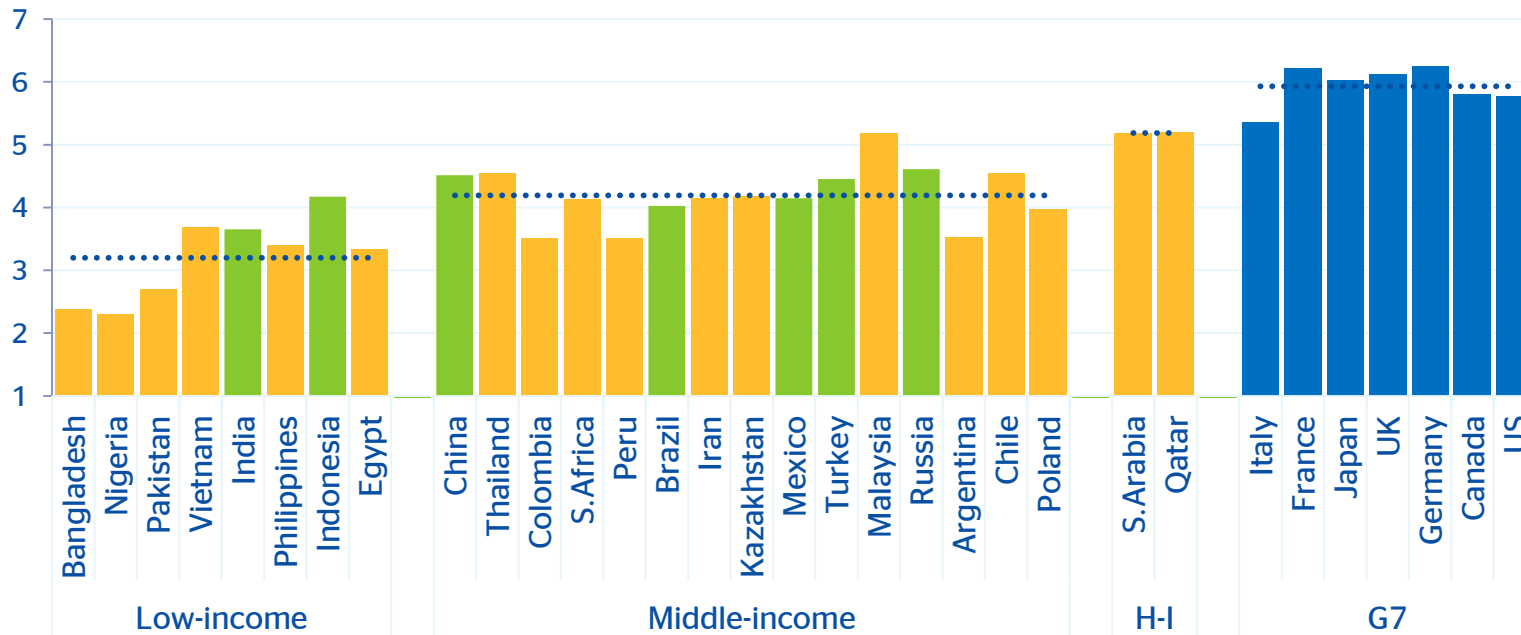
Source: BBVA Research, WEF



Are EAGLE's and Nest ready for income transition?: infrastructure will play a crucial role...

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

Source: BBVA Research, WEF



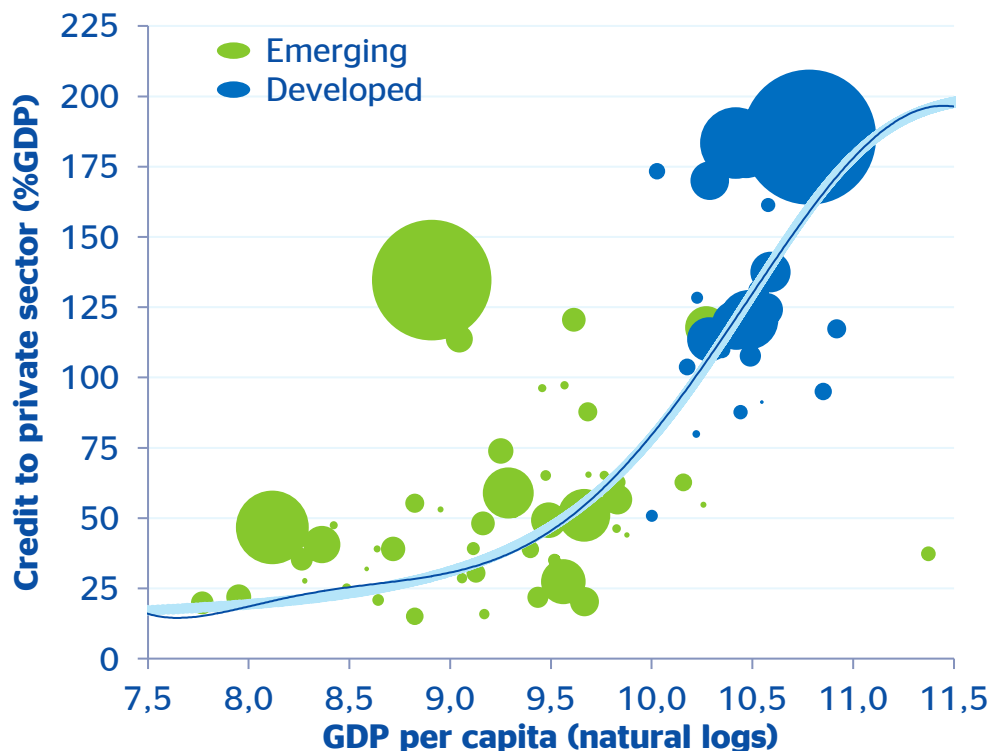
H-I = High income countries; no data available for Iraq; discontinuous lines represent group averages

... and Credit Deepening will help to finance development as long as it follows a healthy path

Credit to the private sector and GDP per capita (2013)

(credit to GDP and GDP per capita PPP adjusted)

Source: BBVA Research and IMF



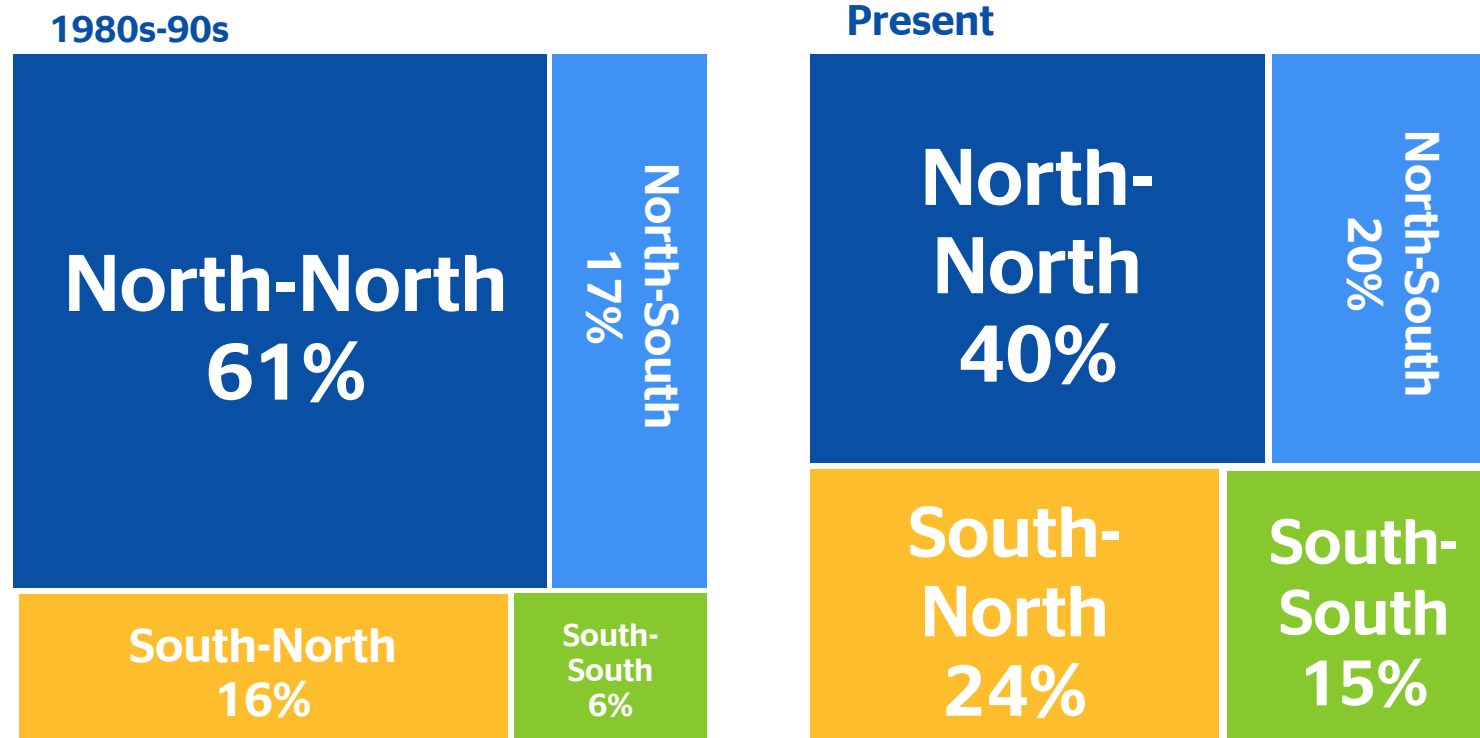
Note: the trend represents long-term relation between GDP per capita and the ratio of credit regardless of other variables which play a relevant in our model; the size of the bubbles are proportional to the absolute value of GDP

Trends in South-South trade and Global Value Chains (GVCs): South-South trade on the rise...

Distribution of world exports according to origin and destination

(% of total)

Source: BBVA Research, IMF/DOTS



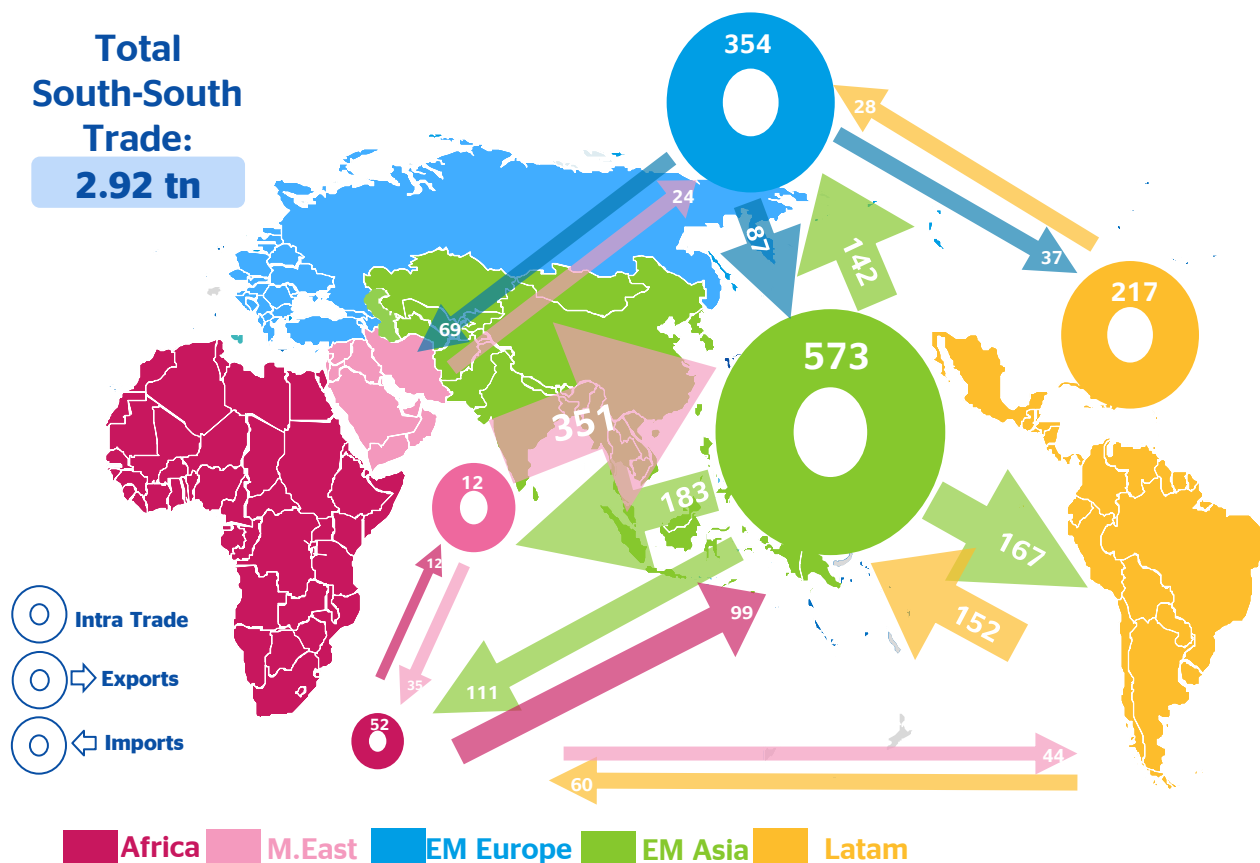
Note: 1980s-90s corresponds to the 1980-1999 average and Present to the 2010-2012 average

Trends in South-South trade and GVCs: ...gravitating around the Asian Factory

South-South trade flows by regions (USD bn) (2012)

Source: BBVA Research, IMF/DOTS

**Total
South-South
Trade:
2.92 tn**



**Rapid economic growth
of Southern countries**

**Further progress in
trade liberalization**

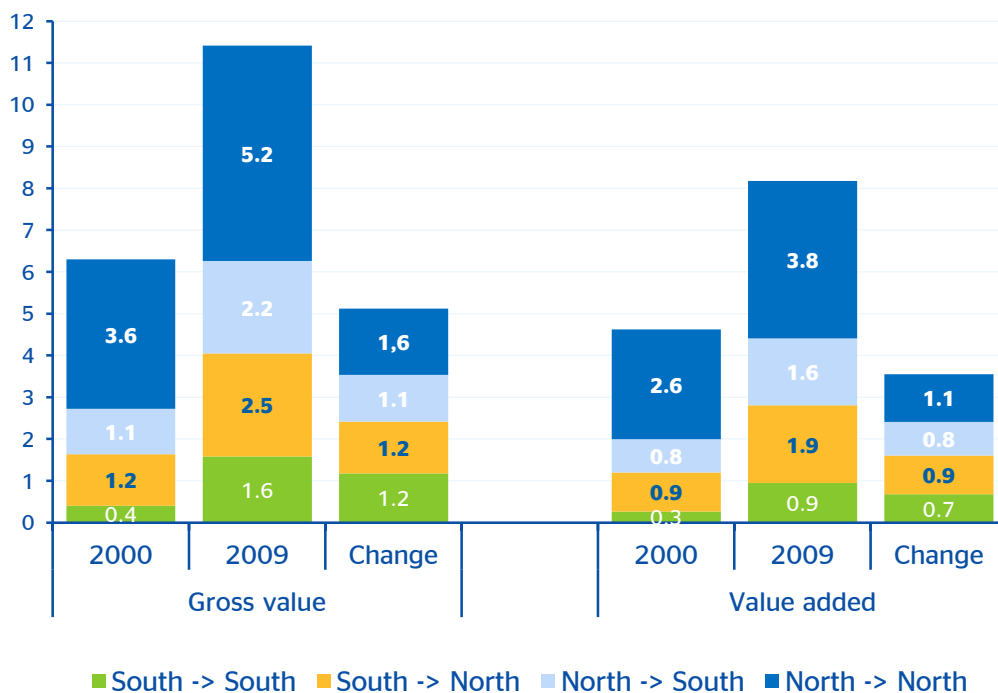
**Development of
global value chains**

Trends in South-South trade and GVCs: countries should pursue VA gains...

Exports by regional trade network : 2000 & 2009

(gross value and value added basis, tn USD)

Source: BBVA Research, OECD



Increase domestic connectivity with other activities

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

Increase diversification in commodities and manufacturers

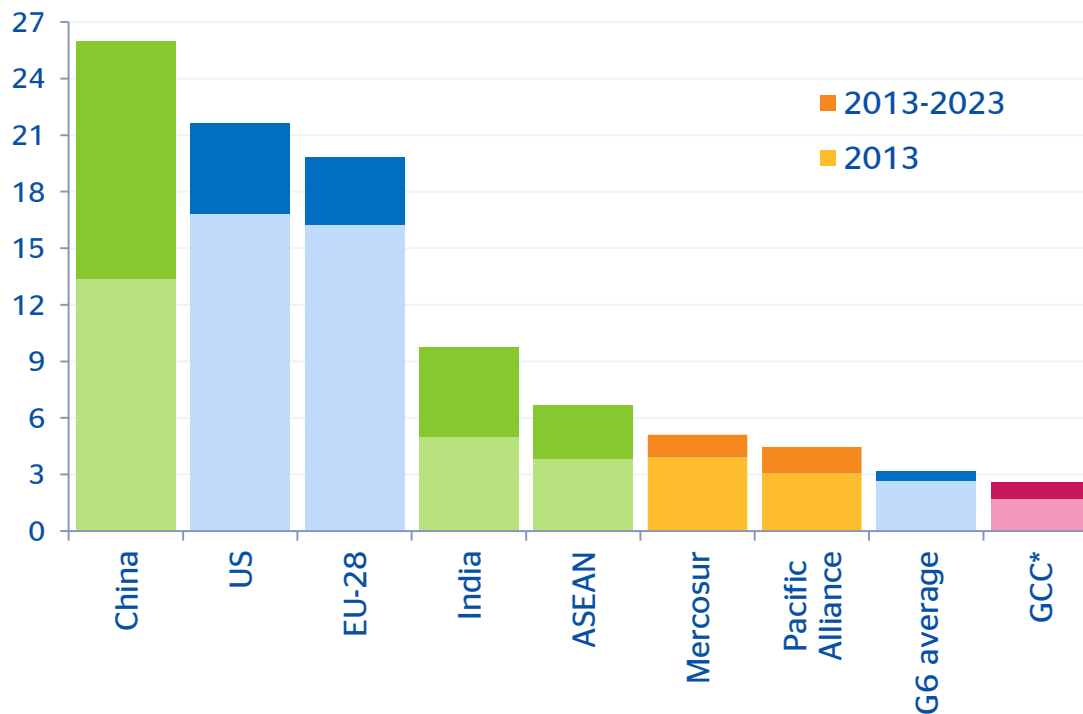
Upgrade technological content most of them merely “assemblers”

Trends in South-South trade and GVCs: strategic alliances can help

Current GDP size and expected change in the next decade

(PPP-adj. 2013 USD)

Source: BBVA Research, IMF





Thank you!

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