RESEARCH

Country Risk Quarterly Report

BBVA Research

Cross-Country Emerging Markets Unit

September 2014

Summary

Financial Markets & Global Risk Aversion

- **Global financial appetite remained in the Financial Markets during a second consecutive quarter supported by the stand by in US monetary policy and the soft stance by the ECB**. Financial tensions have continued declining, specially in emerging markets, and sovereign risk premia are stable at very low historical levels in both developed and emerging markets (EM).
- The **Ukrainian-Russian conflict, the advance of the IS in Iraq & Syria** and the recent Argentinian sovereign debt problems have not triggered regional or global spillovers so far. In fact, **Global Risk Aversion (VIX) has remained stable during last quarter**. However, Geopolitical risks coming from **the Middle East are still on the rise in Iraq and neighbor countries.**
- **Net capital flows to EM moderated during the last quarter**, especially in EM Europe**.**

Sovereign Markets & Ratings Update

- **Sovereign risk premia in developed markets have remained at similar levels of our previous Quarterly Report, with some minor volatility in some peripheral countries (Greece and Portugal). There were only some exceptions of deteriorating spreads due to country specific events (Russia and Argentina).**
- **The positive credit rating cycle in the EU periphery has had one of its more positive quarters** with the u**pgrades of Portuga**l (second quarter in a row) and **Greece** by Moody's, and of **Ireland** by both S&P and Fitch.
- **The rating cycles across emerging regions continues to be mixed: Argentina suffered a strong downgrade** by all the rating agencies, meanwhile **Peru and Colombia were upgraded** by Moody's (two and one notches). **Bulgaria and South Africa were downgrad**ed by S&P and Croatia by Fitch.

Our own country risk assessment

- **Developed Markets continued to be supported by Central Banks** but with an increasing divergence between the US and European cycles and monetary policy. **The sovereign rating cycle has continued to improve in the EU periphery** despite low growth and disinflation, supported by monetary policy.
- **Emerging Markets evolution will mainly depend on the US monetary policy** and capital flows will continue to dance around news coming from the US economy and the Federal Reserve. The r**atings' divergence have started to accelerate with Emerging Europe being the riskiest region**
- **Geopolitical risk has clearly increased with the Ukraine-Russia conflict and the advance of ISIS in Iraq and Syria.** So far the conflict pressure is localized but the risk of spill overs is important. Social unrest pressures have diminished in Europe while increasing in Eastern Europe, North Africa and the Middle East.

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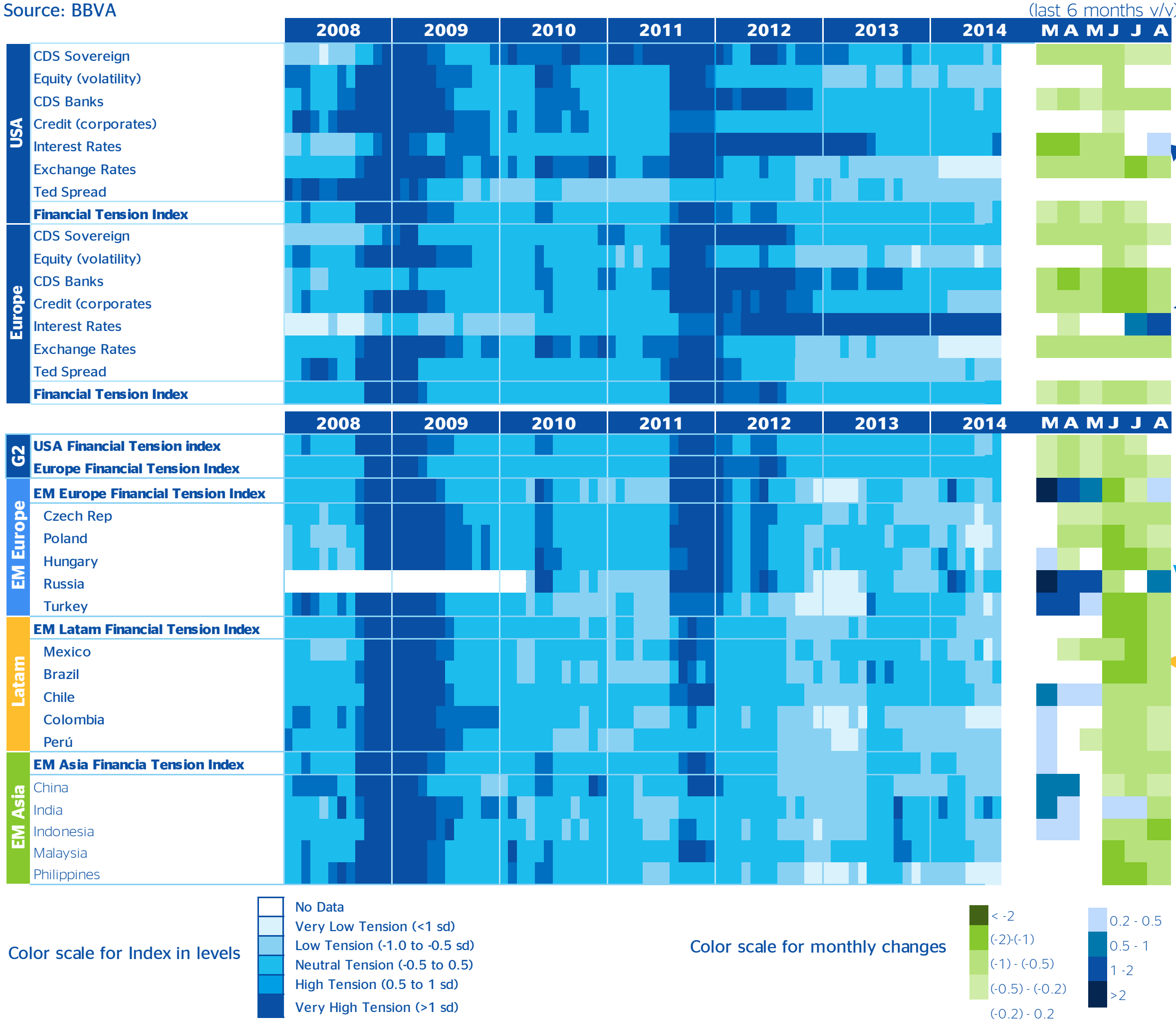
Section 1

Financial Markets Stress

BBVA Research Financial Stress Map

Source: BBVA

Changes
(last 6 months y/y)



Continuous decline in Financial Tensions in both USA and Europe of more than a year long, which persisted at a lower pace during the last quarter (June to August).

Financial tensions are at minimum levels. Corporates and banks continue to be the most benefited.

Financial tensions in EM Europe moderated but Ukrainian conflict is clearly impacting Russia. **The reduction on political uncertainty benefited Turkey**.

Latam´s financial pressures continue to relax in most of the countries of the region. All the countries have enjoyed a decline during the whole second quarter.

Financial tensions are again decreasing all over EM Asia, although the index is more volatile in India. Philippines outperforms.

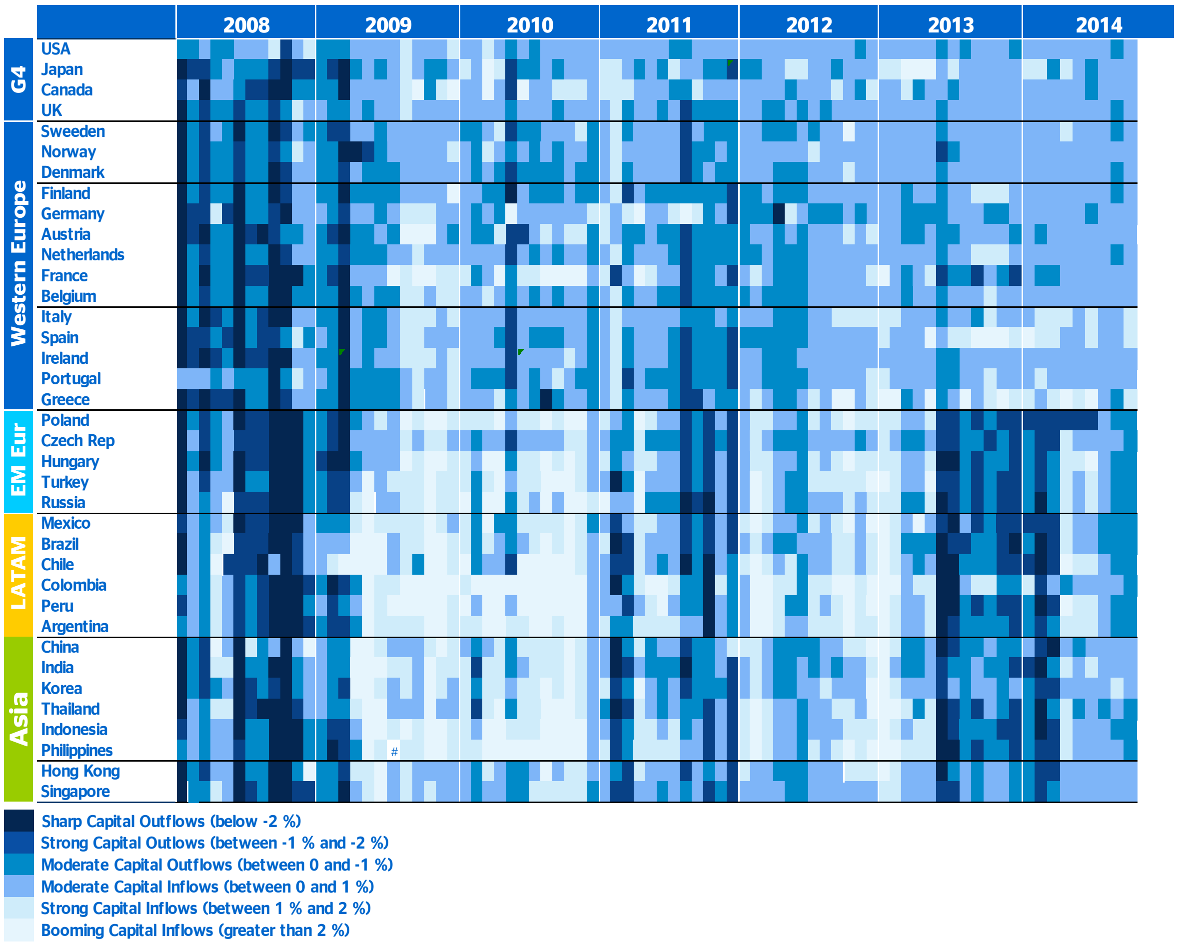
Section 1

Capital Flows Update

BBVA Country Portfolio Flows Map

(Country Flows over total Assets)

Source: BBVA Research



- **Previous quarter strong inflows to EM faded in during Q3** in LatAm and Emerging Europe due to weaker bond portfolio inflows. Meanwhile Asian inflows remained stable

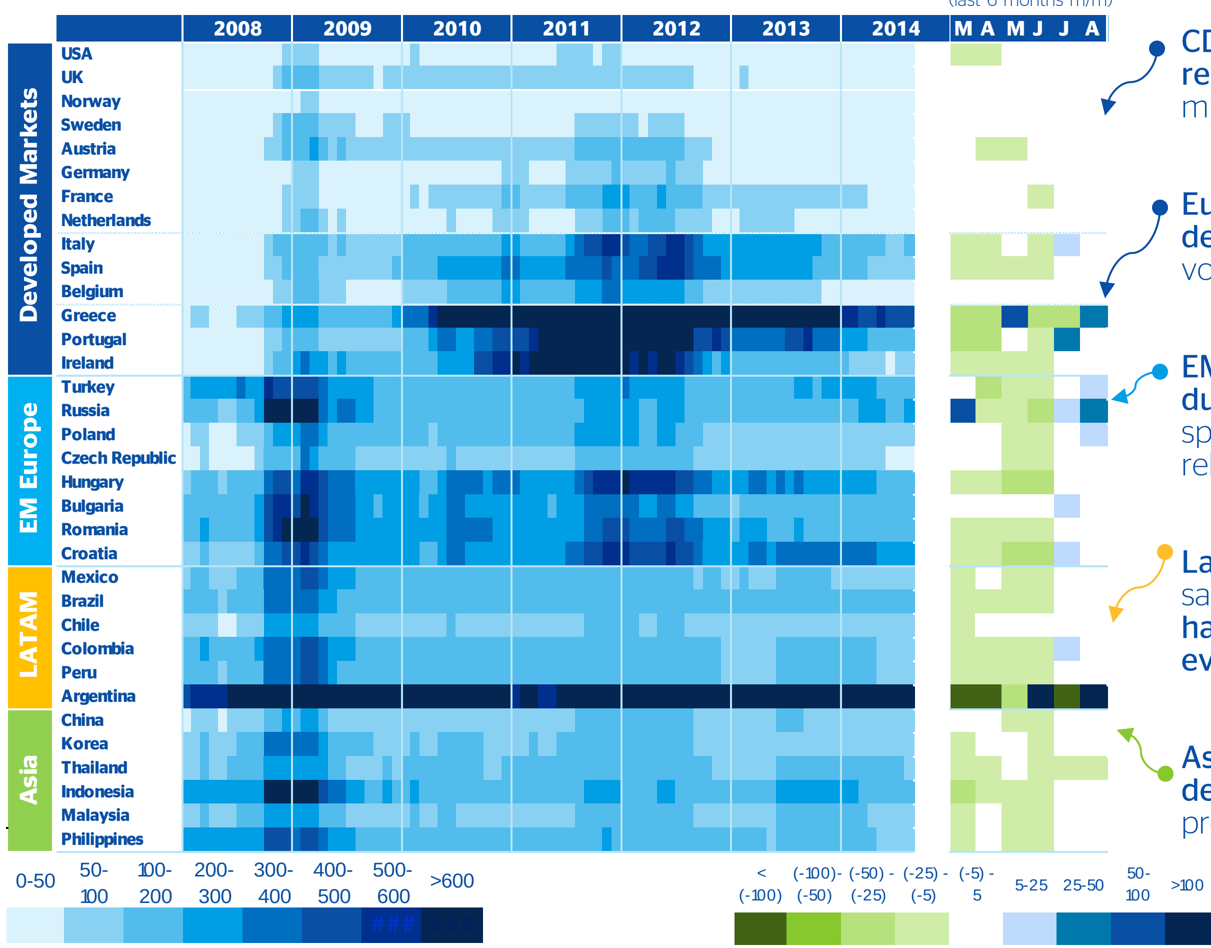
- **EM's Net flows (BoP) are estimated to have contracted by US$60Bn**, overly driven by social and geopolitical concerns (Russia, Thailand, etc) and growth underperformance.

- **Divergence on growth patters among DMs (Jackson Hole):** fears of an earlier Fed's normalization while deflation worries in Europe pushed the ECB to reduce official rate and commit to further monetary accommodation (MBS and Covered Bonds purchase as from October).

- **Global factors will dampen reversal pressures,** soothing down the pace of portfolio flow contraction among EMs during Q4.

Section 2
Sovereign Markets Update

Sovereign CDS spreads
Source: Datastream and BBVA Research



CDS Spreads in the most advanced markets remained unchanged during the last quarter at minimum levels.

European periphery's CDS spreads continued decreasing in the last quarter, although it is still volatile in Greece and Portugal.

EM Europe's CDS remained basically unchanged during the second quarter, including Turkey's CDS spread. Russia's CDS was hurt by geopolitical events related to the Ukrainian conflict.

Latam sovereign CDS spreads are also stable at the same levels of previous quarter. **Argentina's CDS has blown up to values associated to a default event (over 10000 bps).**

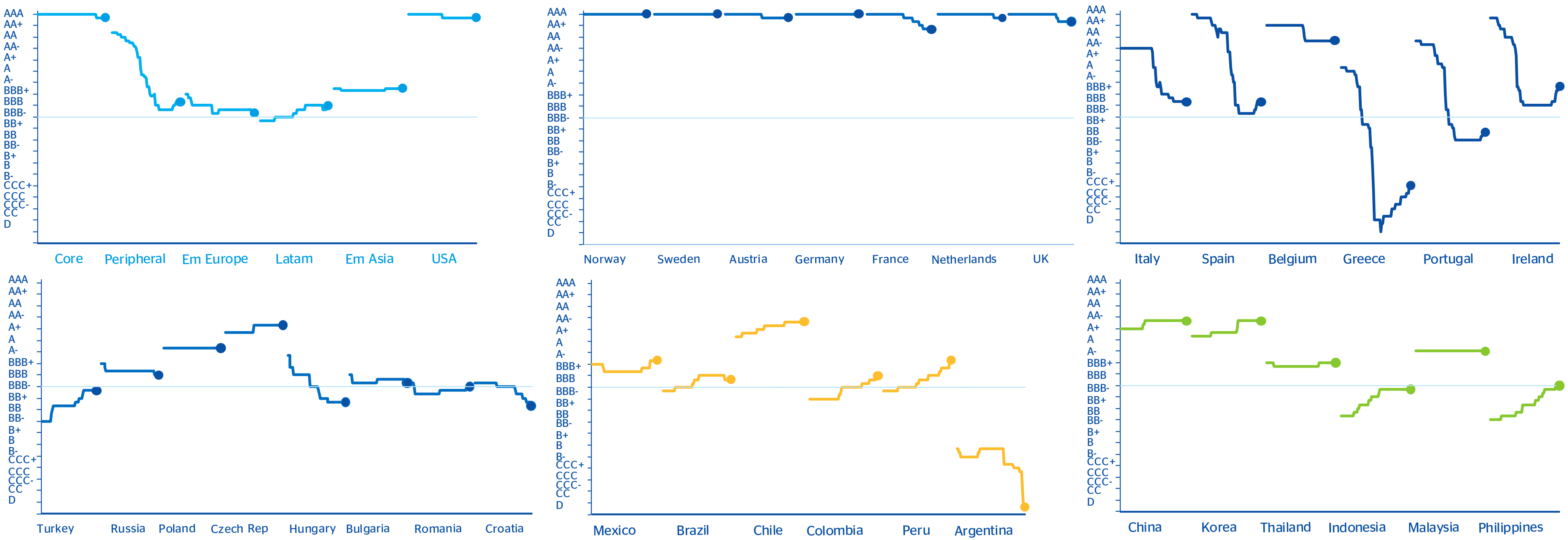
Asian sovereigns spreads remained stable or decreased. Thailand's CDS is returning to levels previous to the military coup.

Section 2

Sovereign Credit Ratings Update

Sovereign Rating Index 2008-2014

Source: BBVA Research by using S&P, Moodys and Fitch Data



Sovereign Rating Index: An index that translates the three important rating agencies ratings letters codes (Moody´s, Standard & Poor´s and Fitch) to numerical positions from 20 (AAA) to default (0). The index shows the average of the three rescaled numerical ratings.

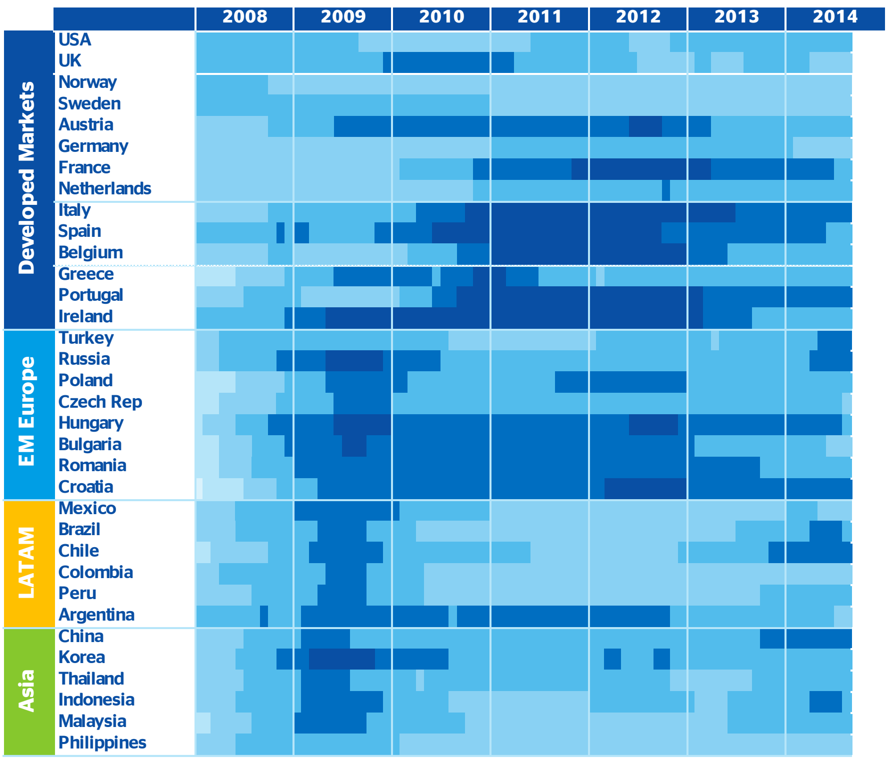
- **Developed Economies: New positive quarter for peripheral countries** as **Moody's upgraded Portugal** (second quarter in a row) and **Greece**, meanwhile **S&P and Fitch both upgraded Ireland by one notch**.
- **Emerging Markets: The outlook in Emerging Markets is still quite mixed**. In Latam, **Argentina suffered a strong downgrade** by all the rating agencies, meanwhile **Peru and Colombia were upgraded** by Moody's (two and one notches). **Bulgaria and South Africa were downgraded by S&P and Croatia by Fitch.**

Section 2

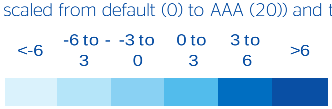
Sovereign downgrade Pressures Map

Rating Agencies Downgrade Pressure Map

(actual rating minus CDS-implied sovereign rating, in notches)
Source: BBVA Research

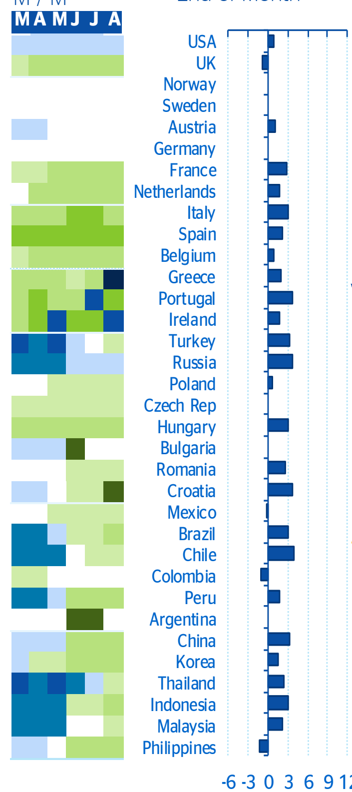


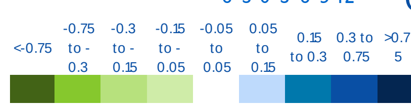
Downgrade Pressure Map: The map shows the difference of the current ratings index (numerically scaled from default (0) to AAA (20)) and the implicit ratings according to the Credit Default Swaps.



Changes Last 6M
M / M

Aug 2014
End of Month





Most developed markets' gaps between official and CDS's implicit ratings remained stable or decreasing. UK's implicit rating is now lower than its actual rating, pointing to a possible upgrade.

The overall decrease in the gaps has only been interrupted by the actual rating upgrades in peripheral countries (Ireland, Greece and Portugal).

Downgrade risk is slightly receding in Hungary, Turkey and Croatia (after its downgrade) but continues increasing in Russia, although the pressure is still low.

Downgrade pressure in Latin-America has decreased all over the region. Colombia still outperforms despite its recent upgrade.

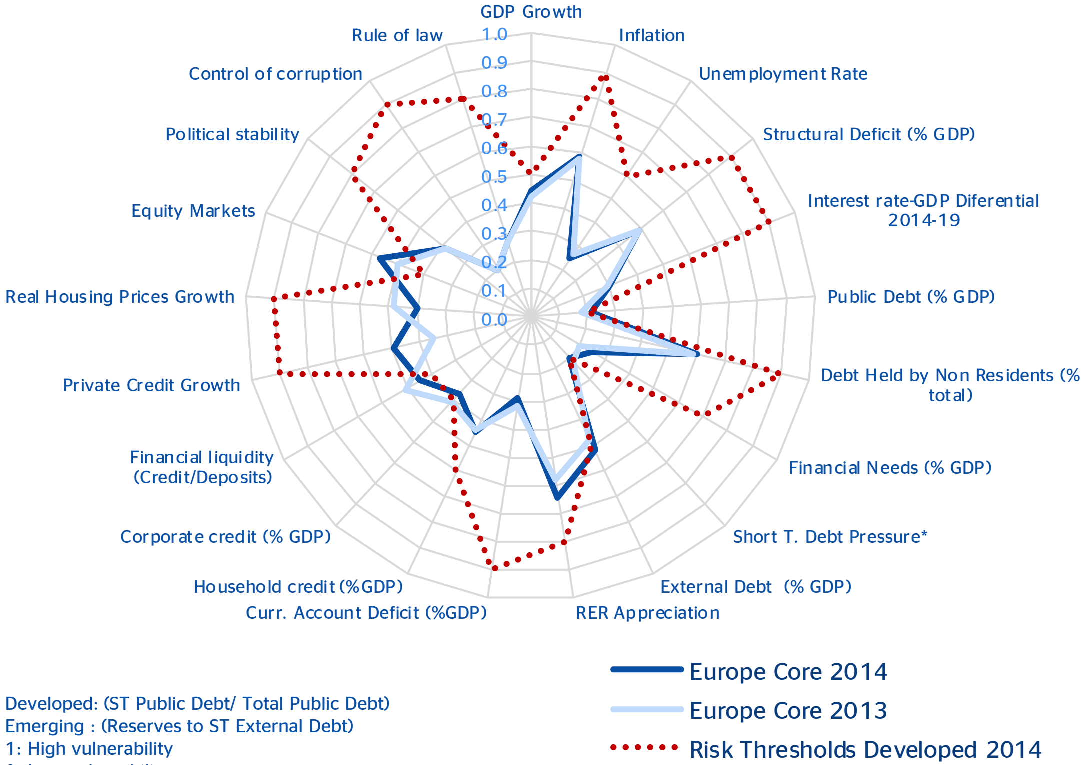
The downgrade risk also displays a negative trend across Emerging Asia. The gap has returned to negative levels in **Philippines (upgrade pressure).**

Section 3

Regional Risk Update: Core Europe

Europe Core Countries: Vulnerability Radar 2014

(Relative position for the Emerging Developed countries. Max Risk=1, Min Risk=0)
*Include Austria, Belgium, France, Germany, Denmark, Norway and Sweden
Source: BBVA Research



Developed: (ST Public Debt/ Total Public Debt)
Emerging : (Reserves to ST External Debt)
1: High vulnerability
0: Low vulnerability

Most vulnerability indicators below the risk thresholds. Few changes with respect to 2013

Financial liquidity still close to risk threshold

Equity markets growth above risk threshold. External debt levels and Public debt should be monitored

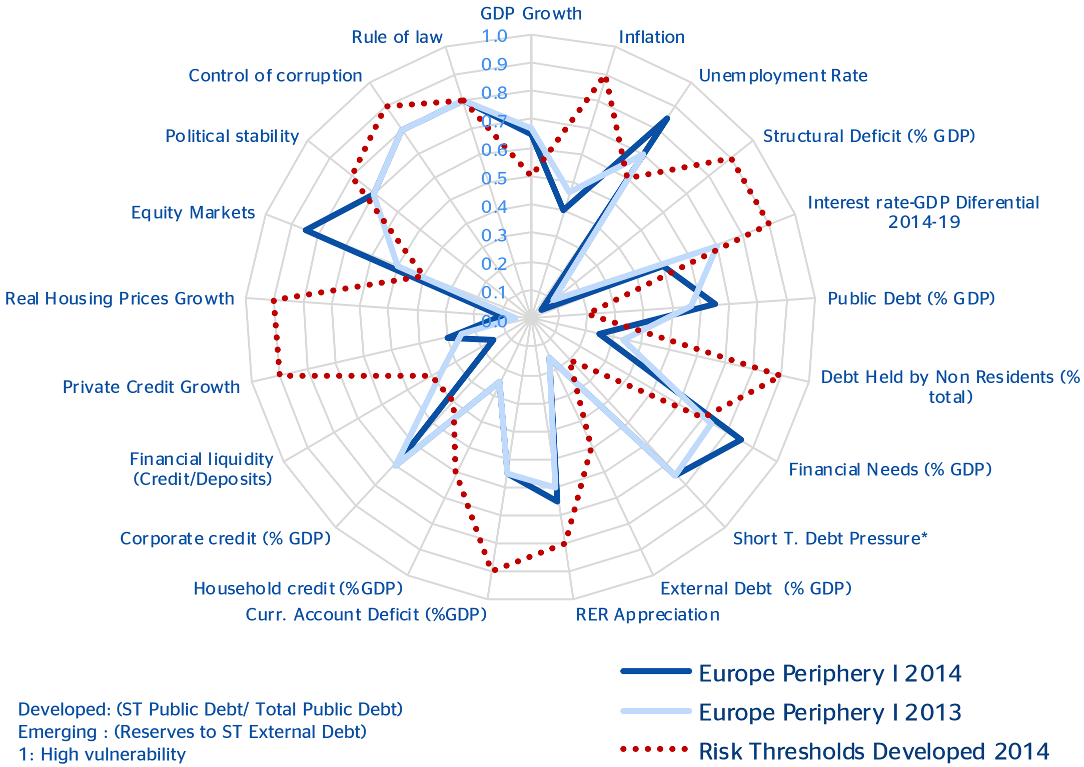
Vulnerability Radar: Shows a static and comparative vulnerability for different countries. For this we assigned several solvency , liquidity and macro variables and we reorder in percentiles from 0 (lower ratio among the countries to 1 maximum vulnerabilities.) Furthermore Inner positions in the radar shows lower vulnerability meanwhile outer positions stands for higher vulnerability.

Section 3

Regional Risk Update: Europe Periphery I

Europe Periphery I: Vulnerability Radar 2014

(Relative position for the Developed Market countries. Max Risk=1, Min Risk=0)
*Include Spain and Italy
Source: BBVA Research



Developed: (ST Public Debt/ Total Public Debt)
Emerging : (Reserves to ST External Debt)
1: High vulnerability
0: Low vulnerability

Interest Rate-GDP differential and Structural public balances continue to improve

Financial Needs deteriorating with respect to previous year

Equity Markets growth may call for concern; Public Debt and Corporate leverage levels still above risk thresholds

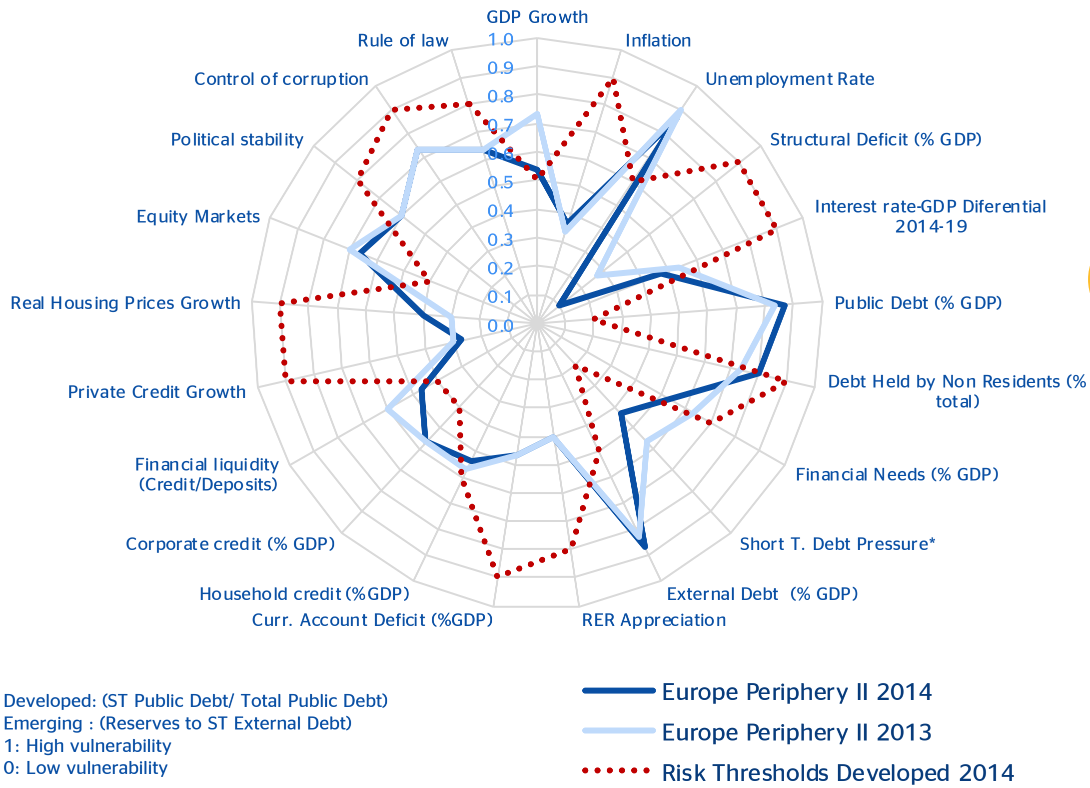
Vulnerability Radar: Shows a static and comparative vulnerability for different countries. For this we assigned several solvency , liquidity and macro variables and we reorder in percentiles from 0 (lower ratio among the countries to 1 maximum vulnerabilities.) Furthermore Inner positions in the radar shows lower vulnerability meanwhile outer positions stands for higher vulnerability.

Section 3

Regional Risk Update: Europe Periphery II

Europe Periphery II: Vulnerability Radar 2014

(Relative position for the Developed Market countries. Max Risk=1, Min Risk=0)
*Include Greece, Ireland and Portugal
Source: BBVA Research



Developed: (ST Public Debt/ Total Public Debt)
Emerging : (Reserves to ST External Debt)
1: High vulnerability
0: Low vulnerability

Structural public deficits and private balance sheets gradually improving

Debt Held by non-residents is rising with respect to 2013. High growth in equity markets. Deflation fears

Public debt and External debt levels are still way above risk levels. Unemployment rate still high

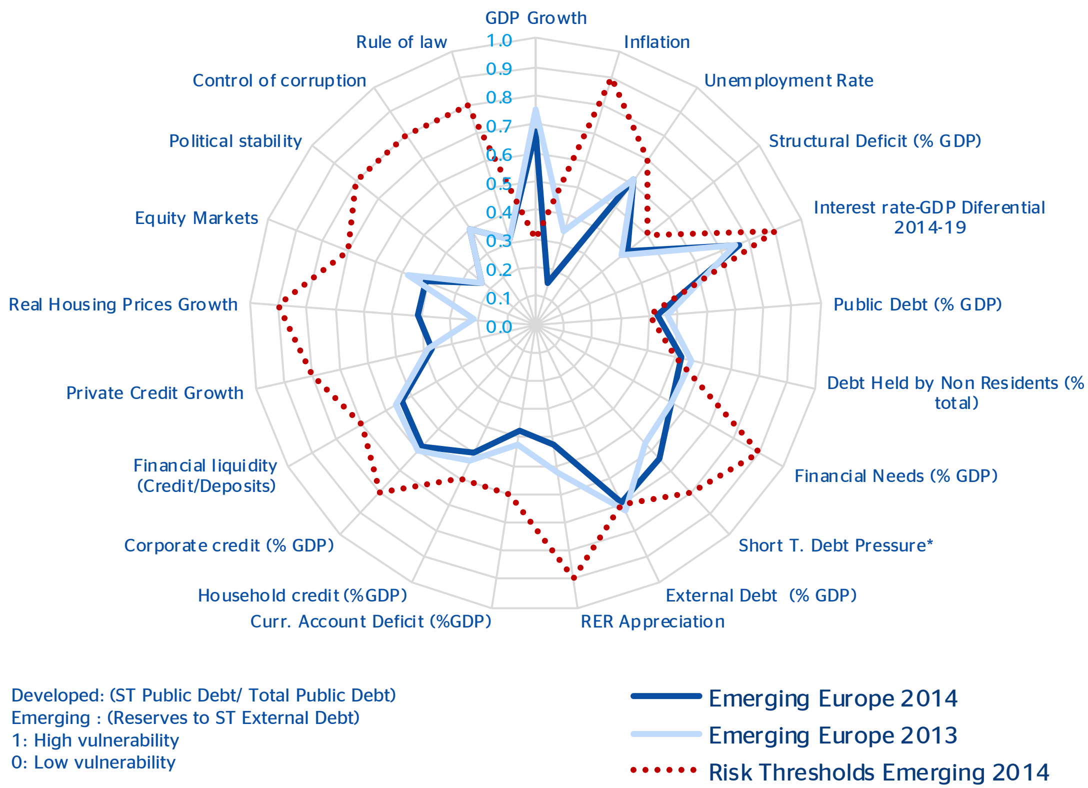
Vulnerability Radar: Shows a static and comparative vulnerability for different countries. For this we assigned several solvency , liquidity and macro variables and we reorder in percentiles from 0 (lower ratio among the countries to 1 maximum vulnerabilities.) Furthermore Inner positions in the radar shows lower vulnerability meanwhile outer positions stands for higher vulnerability

Section 3

Regional Risk Update: Emerging Europe

Emerging Europe: Vulnerability Radar 2014

(Relative position for the Emerging Market countries. Max Risk=1, Min Risk=0)
Source: BBVA Research



Developed: (ST Public Debt/ Total Public Debt)
Emerging : (Reserves to ST External Debt)
1: High vulnerability
0: Low vulnerability

Structural public balances and private credit at healthy levels. Most vulnerabilities below risk thresholds

Public Debt held by non residents vulnerable to investor sentiment changes (geopolitics)

Public and external debt levels still higher than risk threshold. GDP growth continues to be very low

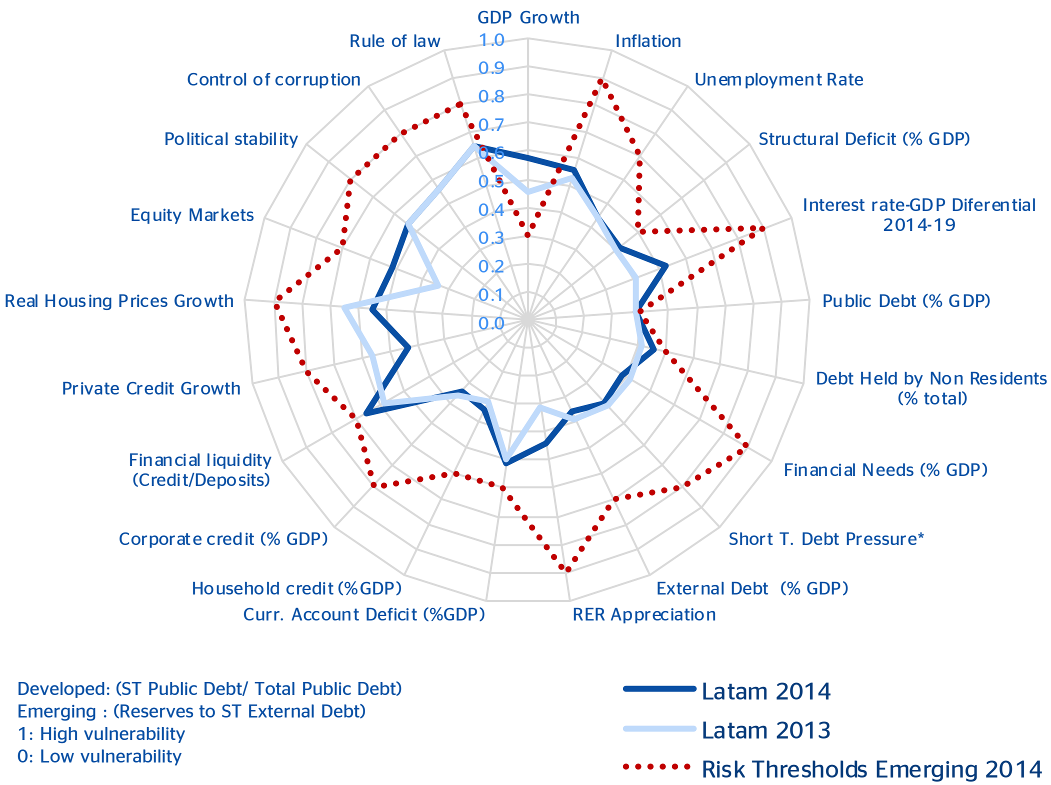
Vulnerability Radar: Shows a static and comparative vulnerability for different countries. For this we assigned several solvency , liquidity and macro variables and we reorder in percentiles from 0 (lower ratio among the countries to 1 maximum vulnerabilities.) Furthermore Inner positions in the radar shows lower vulnerability meanwhile outer positions stands for higher vulnerability

Section 3

Regional Risk Update: Latam

Latam: Vulnerability Radar 2014

(Relative position for the Emerging Market countries. Max Risk=1, Min Risk=0)
Source: BBVA Research



Developed: (ST Public Debt/ Total Public Debt)
Emerging : (Reserves to ST External Debt)
1: High vulnerability
0: Low vulnerability

Most vulnerability indicators are far from risk thresholds

Slight deterioration in financial liquidity (credit/deposits) and interest rate-GDP differential

Economic activity is slowing down in most countries. Current Account vulnerability relatively high in some countries

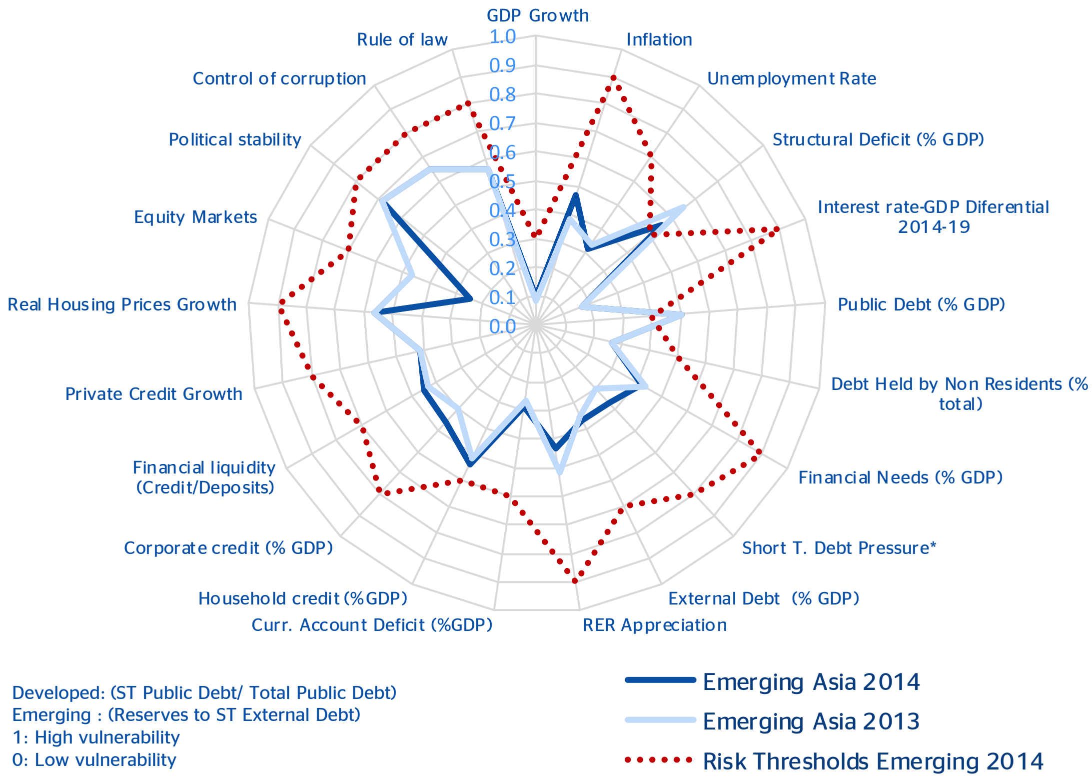
Vulnerability Radar: Shows a static and comparative vulnerability for different countries. For this we assigned several solvency , liquidity and macro variables and we reorder in percentiles from 0 (lower ratio among the countries to 1 maximum vulnerabilities.) Furthermore Inner positions in the radar shows lower vulnerability meanwhile outer positions stands for higher vulnerability.

Section 3

Regional Risk Update: Asia

Emerging Asia: Vulnerability Radar 2014

(Relative position for the Emerging Market countries. Max Risk=1, Min Risk=0)
Source: BBVA Research



Developed: (ST Public Debt/ Total Public Debt)
Emerging : (Reserves to ST External Debt)
1: High vulnerability
0: Low vulnerability

Activity indicators still the most solid among Emerging and Developed Markets

Private Credit and housing prices growth risks keep on rising in China

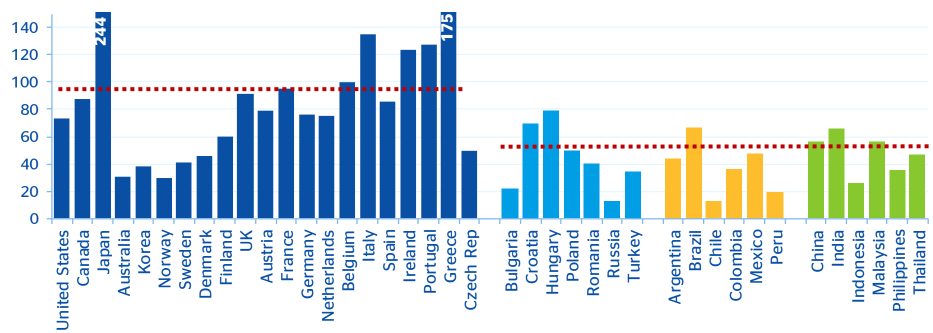
Structural fiscal deficits and public debt level above the risk thresholds in some countries

Vulnerability Radar: Shows a static and comparative vulnerability for different countries. For this we assigned several solvency , liquidity and macro variables and we reorder in percentiles from 0 (lower ratio among the countries to 1 maximum vulnerabilities.) Furthermore Inner positions in the radar shows lower vulnerability meanwhile outer positions stands for higher vulnerability

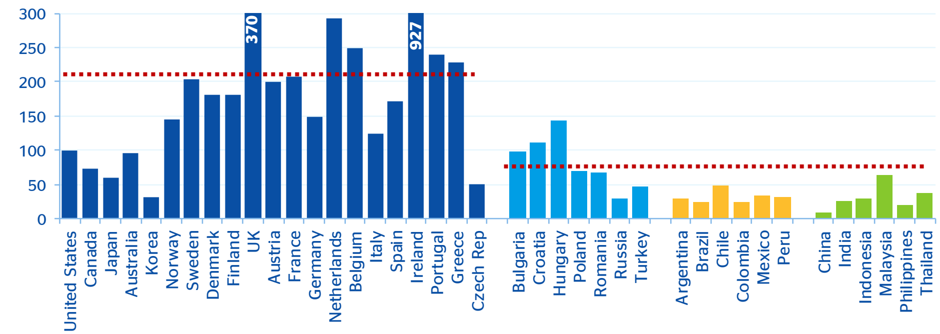
Section 3

Public and Private Debt Chart Gallery

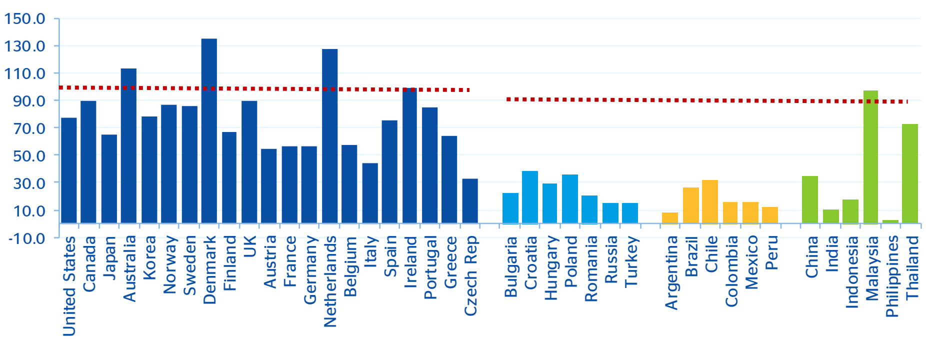
Gross Public Debt 2014
(% GDP)
Source: BBVA Research and IMF



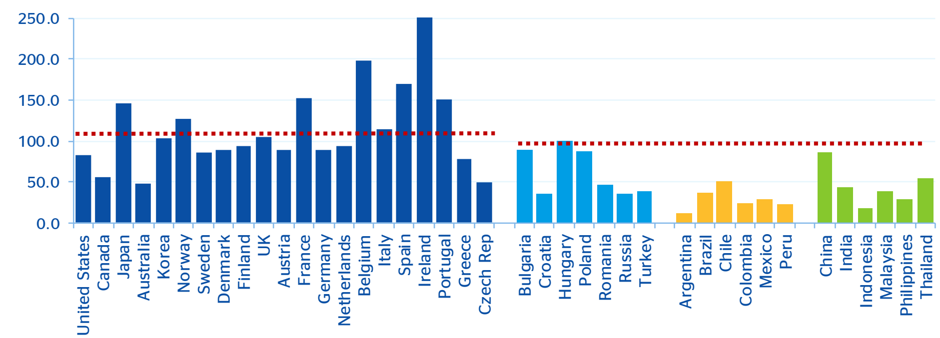
External Debt 2014
(% GDP)
Source: BBVA Research and IMF



Household Debt 2014
(% GDP)
Source: BBVA Research and BIS



Corporate Sector Debt 2014
(% GDP, excluding bond issuances)
Source: BBVA Research and BIS



Risk Thresholds

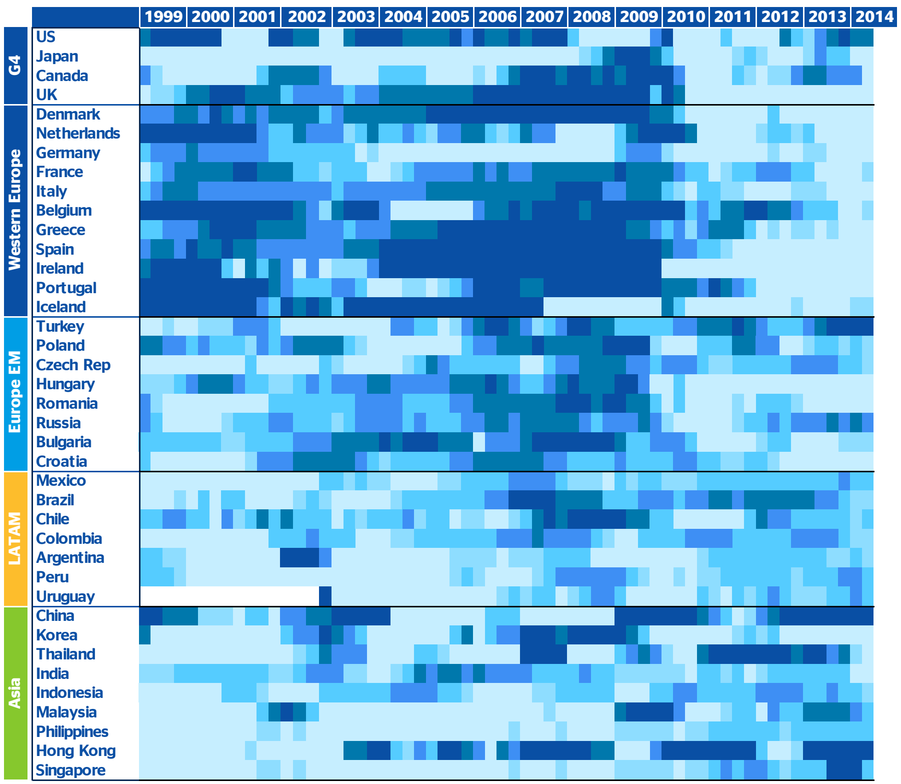
Section 3

Private Credit Pulse

Private credit colour map (1999-2014 Q2)

(yearly change of private credit-to-GDP ratio (Y/Y)

Source: BBVA Research and Haver



Booming: Credit/GDP growth is higher than 5%
Excess Credit Growth: Credit/GDP growth between 3%-5%
High Growth: Credit/GDP growth between 2%-3%
Mild Growth: Credit/GDP growth between 1%-2%
Stagnant: Credit/GDP is declining betwen 0%-1%
De-leveraging: Credit/GDP growth declining
... Non Available

Q/Q Growth

Last four quarters up until Q2-2014

Q/Q growth > 5%
Q/Q growth between 3 and 5%
Q/Q growth between 1.5% and 3%
Q/Q growth between 0.5% and 1.5%
Q/Q growth between -0.5% and 0.5%
Q/Q growth between -0.5% and - 1.5%
Q/Q growth between -1.5% and -3%
Q/Q growth between -3% and -5%
Q/Q growth < -5%

De-leveraging continues across most developed economies, although its pace is stabilizing in most of the economies (stagnant or slightly decreasing).

Deleveraging is stronger in UK and Ireland. On the other hand, private leverage is still growing in the US although is losing steam in the last two quarters.

In EM Europe, credit growth has accelerated in Turkey. Meanwhile, the growth of private leverage is stagnant in the rest of the countries.

Private credit growth continues to be sluggish in Latin America. In most of the countries leverage has not grown in the last two quarters, with the exception of Mexico, where it has recovered in the second quarter.

In China and Hong Kong credit ratio growth has slowed down in the second quarter although is still booming in annual terms. There are no signs of excess credit growth in the rest of the countries.

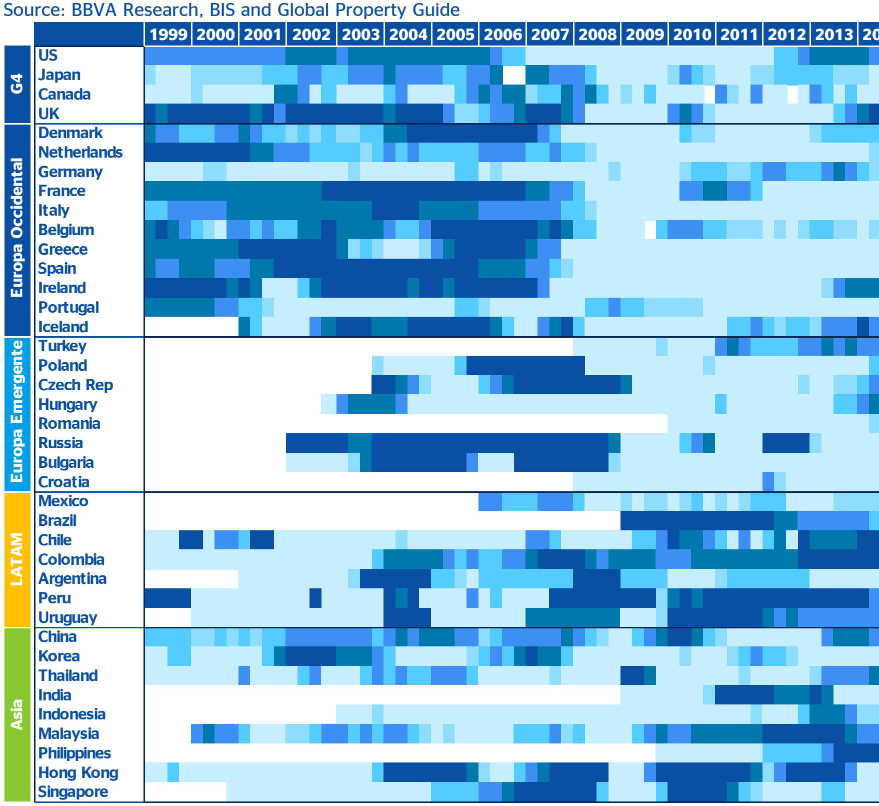
Section 3

Real Housing Prices Pulse

Real housing prices colour map (1999-2014 Q2)

(yearly change of real housing prices Y/Y)

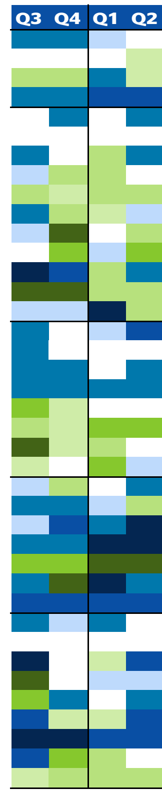
Source: BBVA Research, BIS and Global Property Guide



Booming: Real House prices growth higher than 8%
Excess Growth: Real House Prices Growth between 5% and 8%
High Growth: Real House Prices growth between 3%-5%
Mild Growth: Real House prices growth between 1%-3%
Stagnant: Real House Prices growth between 0% and 1%
De-Leveraging: House prices are declining
Non Available Data

Q/Q Growth

Last four quarters up until Q2-2014



Q/Q growth > 3.5%
Q/Q growth between 2% and 3.5%
Q/Q growth between 1% and 2%
Q/Q growth between 0.5% and 1%
Q/Q growth between -0.5% and 0.5%
Q/Q growth between -0.5% and - 1%
Q/Q growth between -1% and -2%
Q/Q growth between -2% and -3.5%
Q/Q growth < -3.5%

US real housing prices growth has reduced its pace in the last quarter. Meanwhile, **real growth in UK is accelerating**.

Europe's correction in prices continues with some positive growth in the Germany, Denmark and Ireland.

Housing prices' growth has accelerated in Turkey, Hungary and Czech Republic in the second quarter, meanwhile prices are stagnant or declining in the rest of the countries.

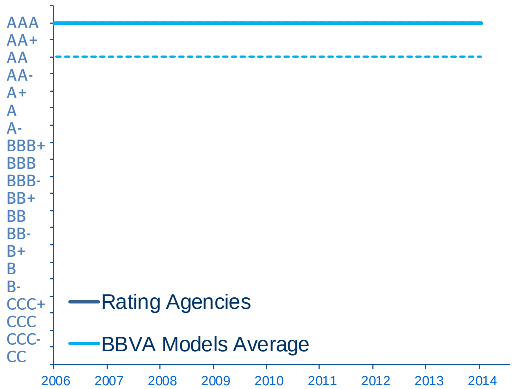
In Latam**, real housing prices are booming again in Colombia and Chile, and are moderating its growth rate in Peru.**

Housing prices growth is finally slowing down in China. Prices are booming in Hong Kong and growth is accelerating again in Philippines. Prices have been decreasing in Singapore for over a year.

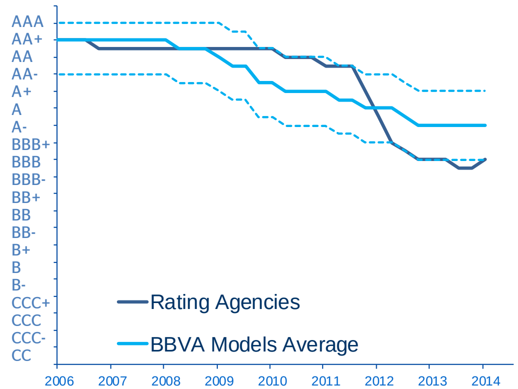
Section 3

Regional Risk Update: Western Europe

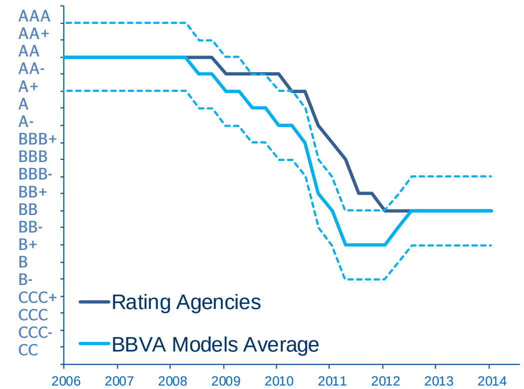
Europe Core: Sovereign Rating
(Rating agencies and BBVA scores +-1std dev)
Source: Standard & Poors, Moody´s, Fitch and BBVA Research



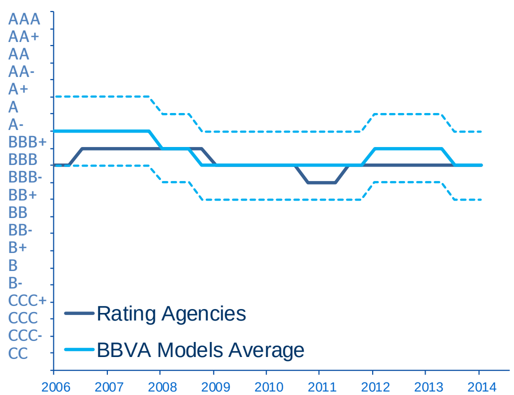
Europe Periphery I: Sovereign Rating
(Rating agencies and BBVA scores +-1 std dev)
Source: Standard & Poors, Moody´s, Fitch and BBVA Research



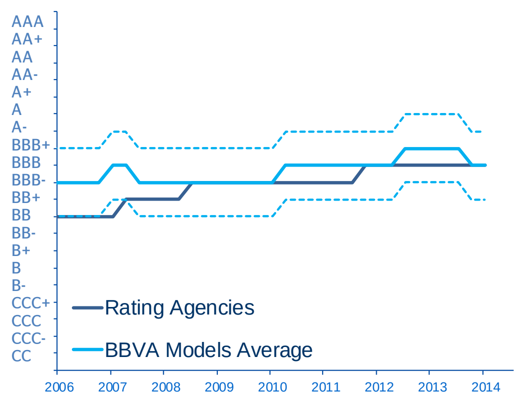
Europe Periphery II: Sovereign Rating
(Rating agencies and BBVA scores +.1 std dev)
Source: Standard & Poors, Moody´s, Fitch and BBVA Research



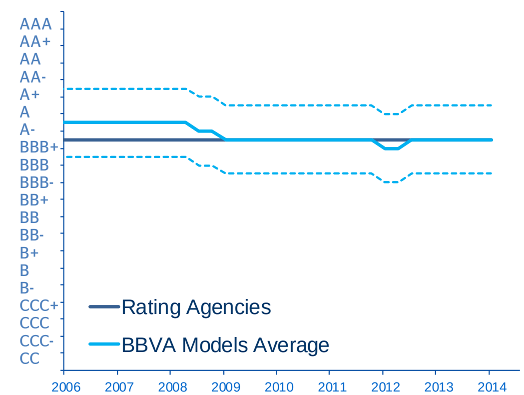
EM Europe: Sovereign Rating
(Rating agencies and BBVA scores)
Source: Standard & Poors, Moody´s, Fitch and BBVA Research



Latam: Sovereign Rating
(Rating agencies and BBVA scores)
Source: Standard & Poors, Moody´s, Fitch and BBVA Research



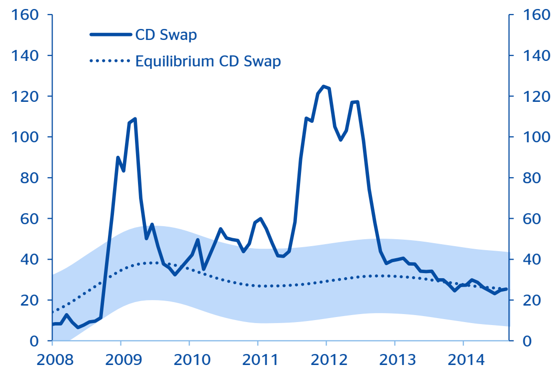
Emerging Asia: Sovereign Rating
(Rating agencies and BBVA scores)
Source: Standard & Poors, Moody´s, Fitch and BBVA Research



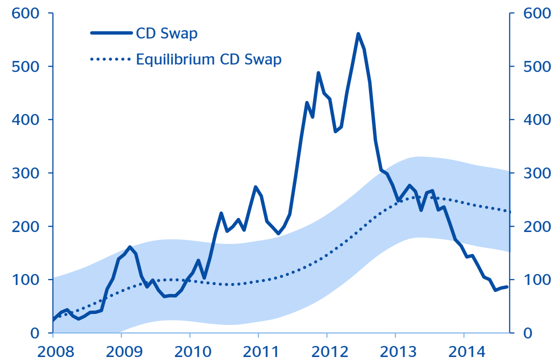
Section 3

Regional Risk: CD Swaps Update

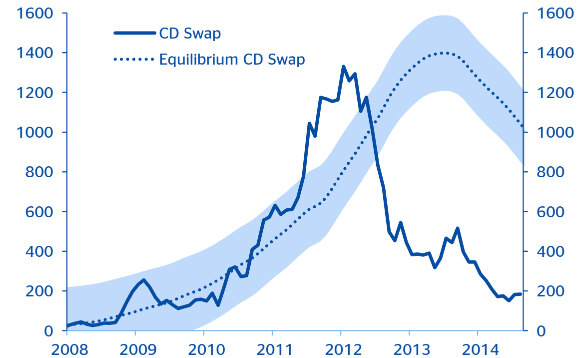
Europe Core: CD Swap 5 year
(equilibrium: average of 4 alternative models + 0.5 Standard deviation)



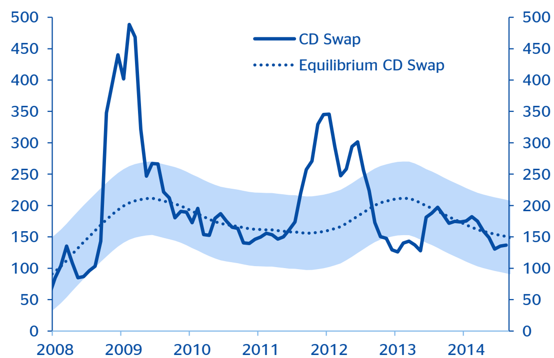
Europe Periphery I: CD Swap 5 year
(equilibrium: average of 4 alternative models + 0.5 Standard deviation)



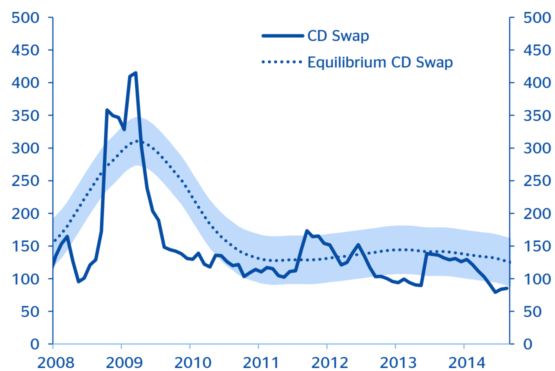
Europe Periphery II: CD Swap 5 year
(equilibrium: average of 4 alternative models + 0.5 Standard deviation)



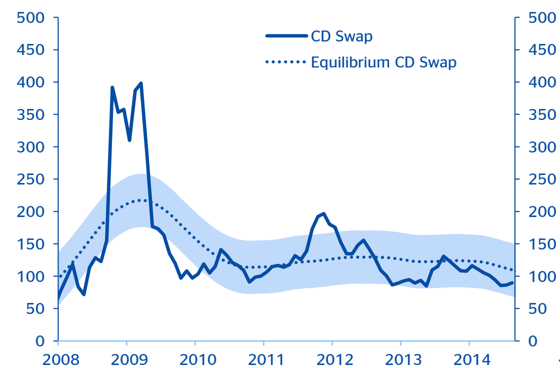
EM Europe: CD Swap 5 year
(equilibrium: average of 4 alternative models + 0.5 Standard deviation)



LATAM: CD Swap 5 year
(equilibrium: average of 4 alternative models + 0.5 Standard deviation)



EM Asia: CD Swap 5 year
(equilibrium: average of 4 alternative models + 0.5 Standard deviation)



Section 3

Vulnerability Indicators: Developed Economies

Vulnerability Indicators* 2014: Developed Countries

Source: BBVA Research, Haver, BIS, IMF and World Bank

	Fiscal Sustainability			External Sustainability			Liquidity Management			Macroeconomic Performance			Credit and housing			Private debt			Institutional		
	Structural Primary Balance **(1)**	Interest rate GDP growth differential 2014-19	Gross Public Debt **(1)**	Current Account Balance **(1)**	External Debt **(1)**	RER Appreciation **(2)**	Gross Financial Needs **(1)**	Short Term Public Debt **(3)**	Debt Held by non Residents **(3)**	GDP Growth **(4)**	Consumer prices **(4)**	Unemployment Rate **(5)**	Private Credit to GDP Growth **(4)**	Real Housing Prices Growth **(4)**	Equity Markets Growth **(4)**	Household Debt **(1)**	NF Corporate Debt **(1)**	Financial liquidity **(6)**	WB Political Stability **(7)**	WB Control Corruption **(7)**	WB Rule of Law **(7)**
United States	-1.9	-1.3	73	-2.6	99	1.4	24	17	32	2.0	1.9	6.3	6.1	3.6	12.9	78	83	216	-0.6	-1.4	-1.6
Canada	-1.7	-0.4	87	-3.5	72	-7.9	16	13	22	1.5	1.5	7.3	-3.9	-0.4	24.9	89	55	142	-1.1	-1.9	-1.8
Japan	-6.1	-1.1	244	-0.1	60	-17.5	58	50	8	0.9	3.6	3.6	-3.2	-1.7	10.9	65	146	80	-0.9	-1.6	-1.3
Australia	-2.3	0.2	31	-3.4	95	-4.1	5	2	46	3.1	3.0	5.9	2.3	3.9	12.7	113	49	122	-1.0	-2.0	-1.7
Korea	0.6	-1.7	38	6.4	30	8.8	3	4	13	3.5	1.6	3.7	-1.0	-0.2	7.5	78	104	194	-0.2	-0.5	-1.0
Norway	-8.6	-1.5	30	12.2	144	-3.4	-7	4	46	1.4	2.1	3.2	-8.5	1.0	31.5	86	126	335	-1.3	-2.2	-1.9
Sweden	-1.1	-1.7	41	5.8	203	-2.1	8	7	47	1.5	0.2	7.8	0.9	-0.4	19.6	85	85	305	-1.2	-2.3	-1.9
Denmark	0.3	0.7	46	5.6	180	1.2	8	7	43	1.5	1.3	5.6	-5.6	2.6	44.7	135	89	380	-0.9	-2.4	-1.9
Finland	-0.7	-0.5	60	5.6	180	3.0	8	5	83	1.5	1.3	5.6	0.6	-5.5	28.6	67	93	162	-1.4	-2.2	-1.9
UK	-2.0	-0.4	95	-2.8	370	6.3	12	6	30	2.9	1.7	2.9	-16.7	8.4	8.5	90	105	103	-0.4	-1.6	-1.7
Austria	-0.6	0.0	79	2.5	200	2.9	12	10	87	1.0	1.7	4.9	-2.3	3.0	12.4	55	89	124	-1.3	-1.3	-1.8
France	-0.3	-0.8	96	-1.7	207	0.9	17	13	64	0.5	0.7	9.5	0.9	-1.6	18.3	56	152	126	-0.6	-1.4	-1.4
Germany	2.5	-0.2	76	6.7	148	1.9	7	7	61	1.7	0.9	6.7	-2.8	0.9	23.5	56	89	58	-0.8	-1.8	-1.6
Netherlands	1.1	-0.5	75	10.6	293	3.4	14	11	56	0.7	1.6	8.3	-2.6	0.2	19.9	127	94	104	-1.2	-2.1	-1.8
Belgium	1.3	0.6	100	-0.9	250	1.3	15	12	63	1.0	0.6	8.6	0.5	0.6	33.8	57	198	63	-0.9	-1.6	-1.4
Italy	3.9	1.8	135	1.1	124	1.6	28	26	37	0.1	0.4	12.5	-2.9	-5.0	39.7	45	114	84	-0.5	0.0	-0.4
Spain	1.9	-0.5	85	0.3	172	1.2	21	13	40	1.3	0.1	24.5	-14.4	-4.6	40.7	76	170	123	0.0	-1.0	-1.0
Ireland	0.3	0.7	124	3.8	927	0.4	9	1	65	2.8	0.9	11.3	-20.0	7.2	18.6	100	291	184	-0.9	-1.4	-1.7
Portugal	2.3	0.6	127	0.1	239	0.1	21	17	64	0.9	0.1	13.7	-13.3	0.0	20.8	85	151	139	-0.7	-0.9	-1.0
Greece	5.3	-0.5	175	1.4	229	-1.3	16	13	86	-0.1	-0.3	26.6	-0.8	-4.5	43.3	64	78	94	0.2	0.3	-0.4

*Vulnerability Indicators: (1) % GDP (2) Deviation from 4 years average (3) % of total debt (4) % year on year (5) % of Total Labor Force (6) Financial System Credit to Deposit (7) Index by World Bank Governance Indicators

Section 3

Vulnerability Indicators: Emerging Economies

Vulnerability Indicators* 2014: Emerging Countries

Source: BBVA Research, Haver, BIS, IMF and World Bank

	Fiscal Sustainability			External Sustainability			Liquidity Management			Macroeconomic Performance			Credit and housing			Private debt			Institutional		
	Structural Primary Balance **(1)**	Interest rate GDP growth differential 2014-19	Gross Public Debt **(1)**	Current Account Balance **(1)**	External Debt **(1)**	RER Appreciation **(2)**	Gross Financial Needs **(1)**	Reserves to Short Term External Debt **(3)**	Debt Held by non Residents **(3)**	GDP Growth **(4)**	Consumer prices **(4)**	Unemployment Rate **(5)**	Private Credit to GDP Growth **(4)**	Real Housing Prices Growth **(4)**	Equity Markets Growth **(4)**	Household Debt **(1)**	NF Corporate Debt **(1)**	Financial liquidity **(6)**	WB Political Stability **(7)**	WB Control Corruption **(7)**	WB Rule of Law **(7)**
Bulgaria	-0.8	0.4	22	2.0	98	0.1	4	1.6	44	1.6	-1.0	11.3	0.6	-6.7	24.3	23	89	100	-0.3	0.2	0.1
Czech Rep	-0.3	-0.2	49	-1.3	51	-6.6	9	6	31	2.0	1.7	7.6	0.1	4.0	14.9	33	49	83	-1.0	-0.2	-1.0
Croatia	-2.8	1.7	69	-1.6	111	-0.5	11	2.3	34	-0.6	0.9	20.2	-0.5	-2.5	-0.7	38	35	91	-0.6	0.0	-0.2
Hungary	1.6	1.2	79	1.6	143	-3.8	20	1.5	59	3.1	0.4	8.0	-2.3	5.8	-2.2	29	100	118	-0.7	-0.3	-0.6
Poland	-0.4	-0.9	50	-0.7	70	0.7	10	1.2	50	3.3	0.3	12.1	0.5	1.6	16.1	35	87	108	-1.0	-0.6	-0.7
Romania	-0.2	-1.1	40	-1.4	67	2.4	9	1.9	54	2.2	1.6	4.7	-4.6	0.8	33.3	20	47	126	-0.1	0.3	0.0
Russia	-0.1	-1.5	13	2.6	29	-5.1	2	5.3	22	-0.1	1.9	5.3	3.9	-6.2	11.0	15	35	125	0.8	1.0	0.8
Turkey	1.2	2.4	35	-5.8	46	0.6	26	1.0	31	1.5	7.9	9.3	11.2	4.1	2.9	15	38	127	1.2	-0.2	0.0
Argentina	-0.6	-21.0	44	-0.9	28	-23.9	5	1.0	36	-1.7	39.3	7.3	0.8	-28.4	165.0	8	--	74	-0.1	0.5	0.7
Brazil	2.0	4.3	67	-3.6	23	-4.4	19	10.9	19	1.3	6.2	5.4	0.7	2.0	12.0	26	37	131	-0.1	0.1	0.1
Chile	-1.0	0.1	13	-1.3	47	-7.3	2	2.5	18	2.3	3.7	6.0	1.1	9.9	-3.8	32	52	218	-0.3	-1.6	-1.4
Colombia	0.1	-0.1	36	-3.3	24	-4.9	4	3.8	29	4.7	3.4	9.5	0.4	8.8	9.7	16	24	214	1.4	0.4	0.4
Mexico	-1.4	-0.1	48	-1.5	33	2.0	10	2.3	47	2.5	3.7	4.9	2.2	0.4	9.3	16	29	106	0.7	0.4	0.6
Peru	0.5	-2.2	19	-5.1	31	7.2	1	10.8	60	5.2	3.0	5.9	2.1	4.2	7.2	12	23	92	0.9	0.4	0.6
China	-0.5	-6.1	56	1.7	7	5.8	6	6.4	...	7.5	2.2	4.1	9.7	3.3	-4.6	35	85	207	0.5	0.5	0.5
India	-2.4	-4.1	65	-1.9	24	-7.7	13	3.0	6	5.7	6.9	11.8	-1.8	-9.9	31.0	10	43	78	1.2	0.6	0.1
Indonesia	-1.2	-4.8	26	-3.2	29	-8.7	4	2.0	50	5.1	7.1	6.0	0.8	0.8	1.2	18	18	106	0.6	0.7	0.6
Malaysia	-1.7	-3.6	56	5.9	64	-1.4	9	2.7	26	6.4	3.3	3.1	1.0	3.6	6.2	97	--	92	0.0	-0.3	-0.5
Philippines	0.4	-2.3	35	3.4	20	2.1	8	9.2	...	6.4	4.4	7.0	1.3	13.8	5.9	3	29	57	1.2	0.6	0.5
Thailand	0.2	-3.2	47	3.1	37	0.2	9	2.2	12	2.5	2.3	0.6	-1.3	5.2	2.3	72	55	126	1.2	0.3	0.2

*Vulnerability Indicators: (1) % GDP (2) Deviation from 4 years average (3) % of total debt (4) % year on year (5) % of Total Labor Force (6) Financial System Credit to Deposit (7) Index by World Bank Governance Indicators

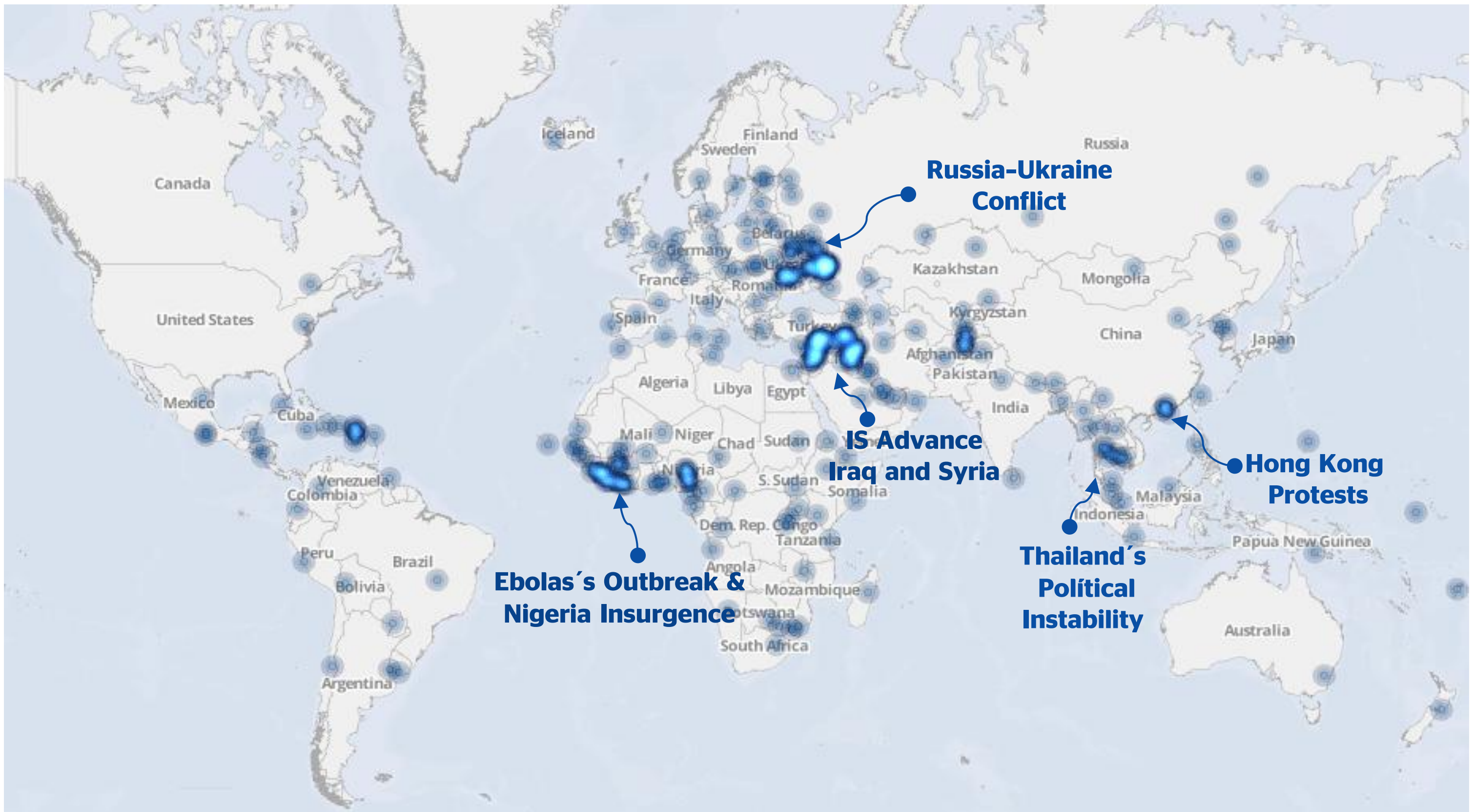
Special Topic

Geopolitics: Tracking conflicts and protests

BBVA World Conflict Heatmap (3Q-2014)

(Number of conflict / Total events)

Source: www.gdelt.org & BBVA Research



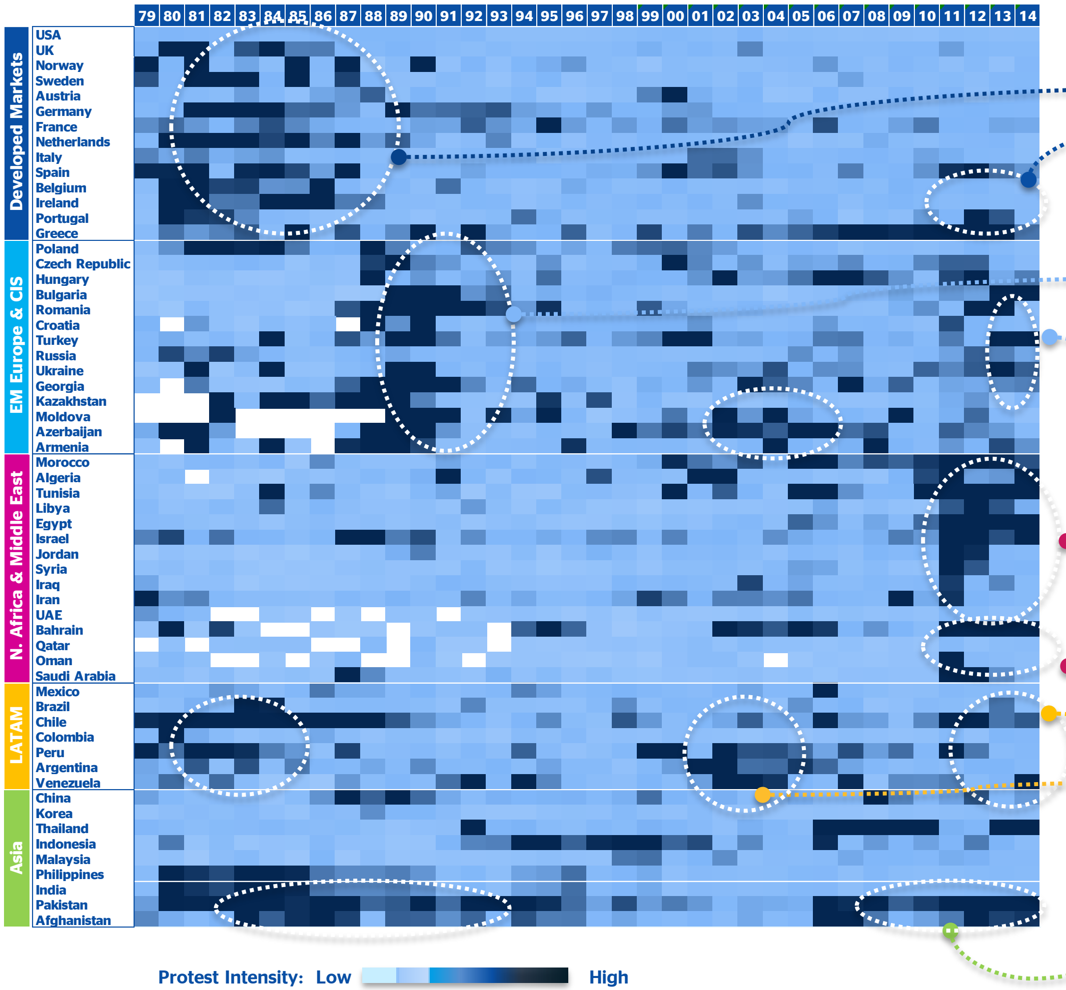
Special Topic

Geopolitics: Tracking conflicts and protests

World Protest Intensity Map (1979-2014)

(Number of protests / Total events. Dark Blue: High Intensity)

Source: www.gdelt.org & BBVA Research



Despite the contnious diffusion on the Media, Protest intensity <u>in Developed Countries</u> looks to be lower than in the Early Eighties... After a longer period of calm, the financial crises trigger a a rise in Social Unrest in some EU periphery countries. Fortunately is abating

<u>Emerging Europe and CIS countries</u> experienced high protest intensity just before of the fall of the comunism. Some revival of protest intensity should be monitored in Central Europe but specially in Russia, Ucraine and the Caucasus

<u>North Africa and Middle East</u> were serverely hitted by the Arab Spring and protest intensity continues in Northern Africa and some Gulf Countries

With some exceptions <u>Latam´s protest intensity</u> remain low relative to history. Most of the protests were associated to Economic Crisis (Debt crisis in the 80s and the latest regional crisis

<u>Asia</u> remains calm with China´s protest activity at moderate levels..with Thailand´s at the top

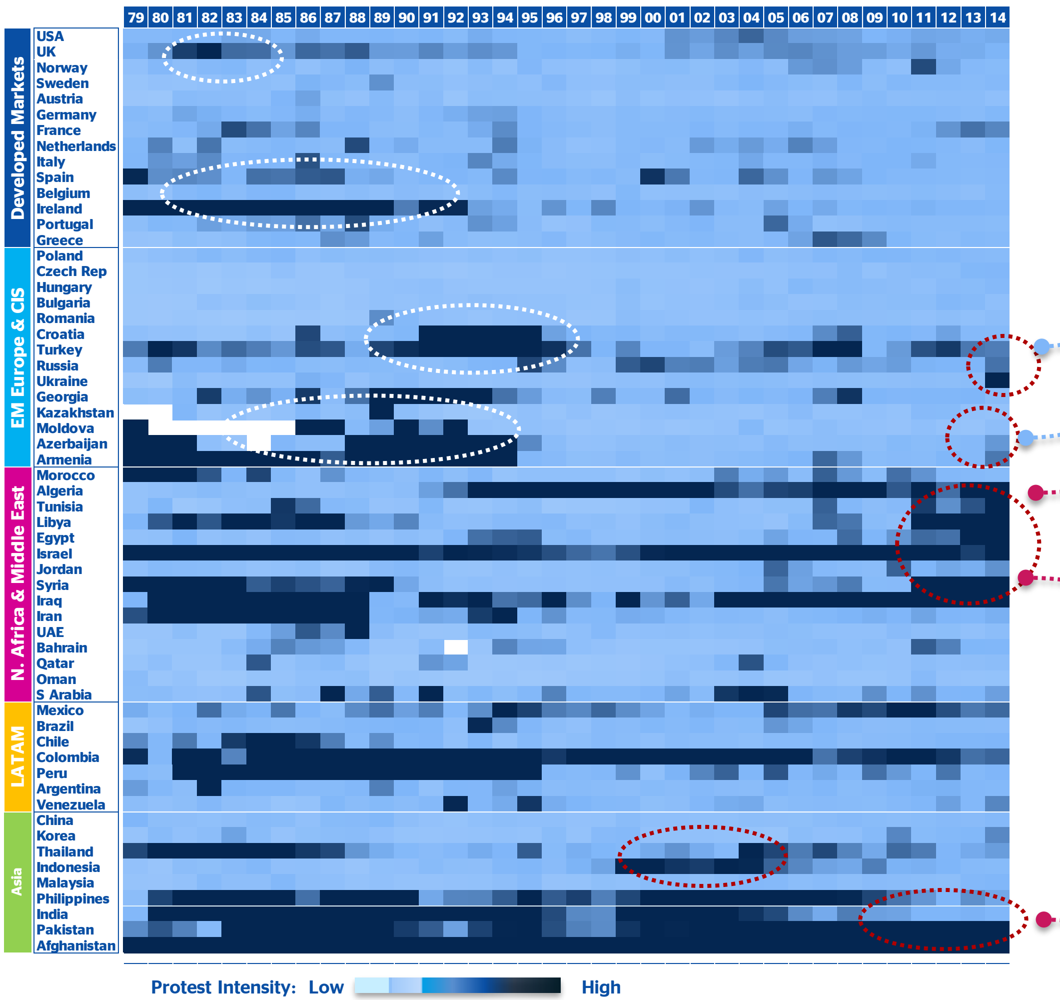
Special Topic

Geopolitics: Tracking conflicts and protests

World Conflict Intensity Map (1979-2014)

(Number of protests / Total events. Dark Blue: High Intensity)

Source: www.gdelt.org & BBVA Research



Protest intensity do not pass through to conflicts **in Developed Countries** and the conflict intensity in these countries is rather low …
The last protest activity in Europe is mostly related to terrorism activity as in UK, Ireland and Spain during mid eighties

Emergg Europe and CIS countries haved reduced during the last decade. New worrying signal have recently appeared In Ukraine and Russia but also in some former republics

The conflict activity in **North Africa and Middle East** continue to be intense with critical situation in North Africa but also in Syria and Iraq. The conflict intensity in the Gulf Countries remains contained

Latam´s conflict activity has been related to rebels activity (as in Colombia) or criminal activity (Mexico). Both countries show relaxing situations.

Asia remains calm with most of the conflict activity related to Central Asia (Afganistan, Pakistan)

Annex

Methodology: Indicators and Maps

- **Financial Stress Map:** It stresses levels of according to the normalized time series movements. Higher positive standard units (1.5 or higher) stand for high levels of stress (dark blue) and lower standard deviations (-1.5 or below) stand for lower level of market stress (lighter colors)
- **Sovereign Rating Index:** An index that translates the three important rating agencies ratings letters codes (Moody's, Standard & Poor's and Fitch) to numerical positions from 20 (AAA) to default (0) . The index shows the average of the three rescaled numerical ratings
- **Sovereign CD Swaps Map:** It shows a colour map with 6 different ranges of CD Swaps quotes (darker >500, 300 to 500, 200 to 300, 100 to 200, 50 to 100 and the lighter below 50 bps)
- **Downgrade Pressure Map:** The map shows the difference of the current ratings index (numerically scaled from default (0) to AAA (20)) and the implicit ratings according to the Credit Default Swaps. We calculate implicit probabilities of default (PDs) from the observed CDS and the estimated equilibrium spread. For the computation of these PDs we follow a standard methodology as the described in Chan-Lau (2006) and we assume a constant Loss Given Default of 0.6 (Recovery Rate equal to 0.4) for all the countries in the sample. We use the resulting PDs in a cluster analysis to classify each country at every point in time in one of 20 different categories (ratings) to emulate the same 20 categories used by the Rating Agencies. The map and the graph plot the difference between the actual sovereign rating index and the CDS-implied sovereign rating, in notches. Higher positives differences account for Downgrade potential pressures and negative differences account for Upgrade potential. We consider the +-3 notches area as the Neutral one
- **Vulnerability Radars & Risk Thresholds Map:**
  - A **Vulnerability Radar** shows a static and comparative vulnerability for different countries. For this we assigned several dimensions of vulnerabilities each of them represented by three vulnerability indicators. The dimensions included are: Macroeconomics, Fiscal, Liquidity, External, Excess Credit and Assets, Private Balance Sheets and Institutional. Once the indicators are compiled we reorder the countries in percentiles from 0 (lower ratio among the countries) to 1 (maximum vulnerabilities) relative to its group (Developed Economies or Emerging Markets). Furthermore, Inner positions (near 0) in the radar shows lower vulnerability meanwhile outer positions (near 1) stand for higher vulnerability. Besides we compare the positions of the country with risk thresholds in red whose values have been computed according to our own analysis or empirical literature
  - **The Distance to Risk Map**: Shows in different colours a summary table of vulnerability radars. Darker colours stand for indicators above risk thresholds (developed or emerging depending the country). Lighter colours reflect safe values in the sense of a high distance to the risk thresholds. Dimensions are computed as the geometric average of the three indicators included in each of the dimensions

Annex

Methodology: Indicators and Maps

Risk Thresholds Table

Vulnerability Dimensions	Risk Thresholds Developed Economies	Risk Thresholds Emerging Economies	Risk Direction	Research
Macroeconomics				
GDP	1.5	3.0	Lower	BBVA Research
Inflation	4.0	10.0	Higher	BBVA Research
Unemployment	10.0	10.0	Higher	BBVA Research
Fiscal Vulnerability				
Ciclically Adjusted Deficit ("Strutural Deficit")	-4.2	-0.5	Lower	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/100
Expected Interest rate GDP growth diferential 5 years ahead	3.6	1.1	Higher	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/100
Gross Public Debt	73.0	43.0	Higher	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/100
Liquidity Problems				
Gross Financial Needs	17.0	21.0	Higher	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/100
Debt Held by Non Residents	84.0	40.0	Higher	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/101
Short Term Debt Pressure				
Publi Short Term Debt as % of Total Publi Debt (Developed)	9.1		Higher	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/100
Reserves to Short term debt (Emerging)		0.6	Lower	Baldacci et Al (2011). Assesing Fiscal Stress. IMF WP 11/100
External Vulnerability				
Current Account Balance (% GDP)	4.0	6.0	Lower	BBVA Research
External Debt (% GDP)	200.0	60.0	Higher	BBVA Research
Real Exchange Rate (Deviation from 4 yr average)	5.0	10.0	Higher	EU Commission (2012) and BBVA Research
Private Balance Sheets				
Household Debt (% GDP)	84.0	84.0	Higher	Chechetti et al (2011). "The real effects of debt". BIS Working Paper 352 & EU Comission (2012)
Non Financial Corporate Debt (% GDP)	90.0	90.0	Higher	Chechetti et al (2011). "The real effects of debt". BIS Working Paper 352 & EU Comission (2013)
Financial liquidity (Credit/Deposits)	130.0	130.0	Higher	EU Commission (2012) and BBVA Research
Excess Credit and Assets				
Private Credit to GDP (annual Change)	8.0	8.0	Higher	IMF Global Financial Stability Report
Real Housing Prices growth (% yoy)	8.0	8.0	Higher	IMF Global Financial Stability Report
Equity growth (% yoy)	20.0	20.0	Higher	IMF Global Financial Stability Report
Institutions				
Political Stability	0.2 (9th percentil)	-1.0 (8th percentil)	Lower	World Bank Governance Indicators
Control of Corruption	0.6 (9th percentil)	-0.7 (8th percentil)	Lower	World Bank Governance Indicators
Rule of Law	0.6 (8th percentil)	-0.6 (8 th percentil)	Lower	World Bank Governance Indicators

Annex

Methodology: Models and BBVA country risk

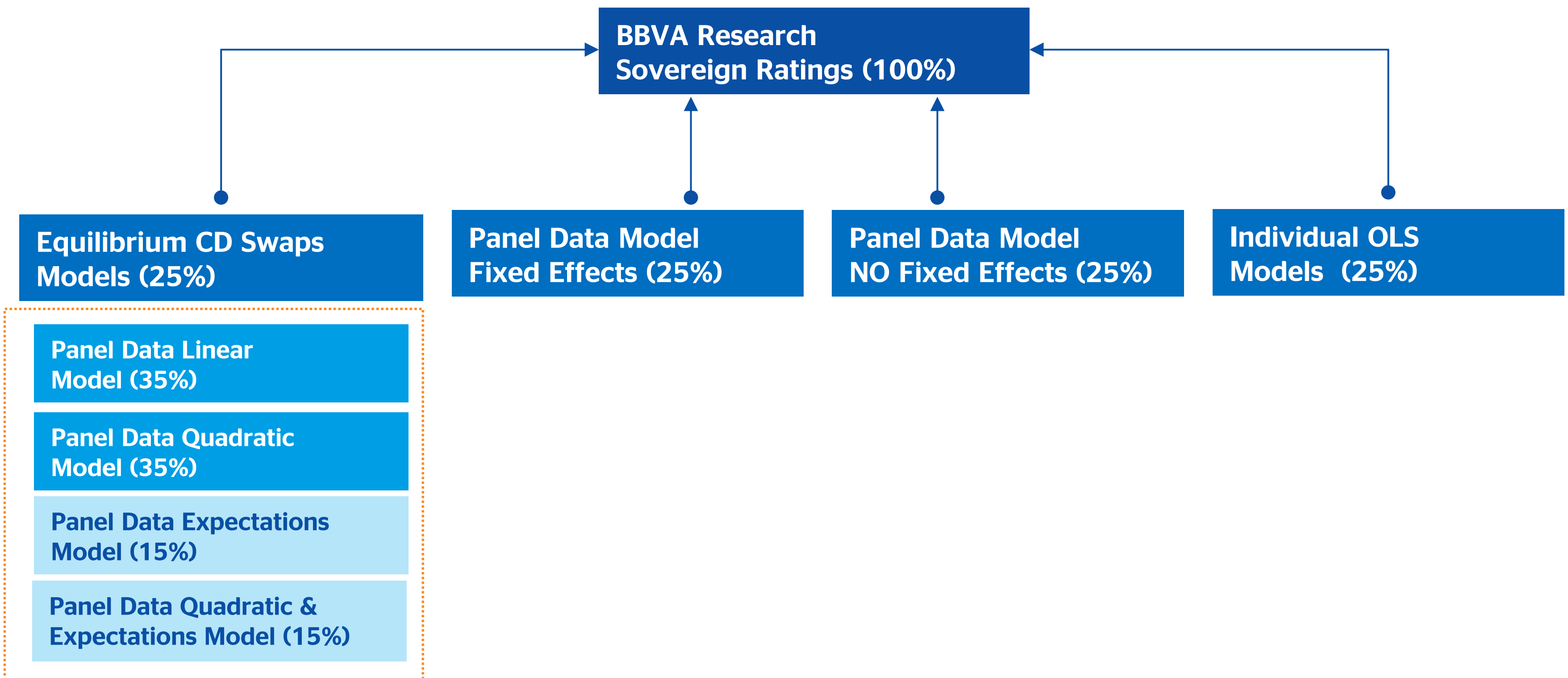
- **BBVA Research Sovereign Ratings Methodology:** We compute our sovereigns ratings by averaging four alternatives sovereign rating models developed at BBVA research:
  - **Credit Default Swaps Equilibrium Panel Data Models:** This model estimates actual and forecasts equilibrium levels of CD Swaps for 40 developed and emerging markets. The long run equilibrium CD Swaps are the result of four alternative panel data models. The average of these equilibrium values are finally are finally converted to a 20 scale sovereign rating scale. The CD Swaps equilibrium are calculated by a weighting average of the four CD Swaps equilibrium model estimations (30% for the linear and quadratic models and 15% for each expectation model to correct for expectations uncertainty). The weighted average is rounded by 0.5 standard deviation confidence bands. The models are the following
    - **Linear Model (35% weight):** Panel Data Model with fixed effects including Global Risk Aversion, GDP growth, Inflation, Public Debt and institutional index for developed economies and adding External debt and Reserves to Imports for Emerging Markets
    - **Quadratic Model (35% weight):** It is similar to the Linear Panel Data Model but including a quadratic term for public (Developed and emerging) and external debt (Emerging)
    - **Expectations Model (15% weight):** It is similar to the linear model but public and external debt account for one year expected values
    - **Quadratic Expectations Model (15% weight):** Similar to the expectations model but including quadratic terms of public debt and external debt expectations
  - **Sovereign Rating Panel Data Ordered Probit with Fixed Effects Model:** The model estimates a sovereign rating index (a 20 numerical scale index of the three sovereign rating agencies) through ordered probit panel data techniques. This model takes into account idiosyncratic fundamental stock and flows sustainability ratios allowing for fixed effects , thus including idiosyncratic country specific effects
  - **Sovereign Rating Panel Data Ordered Probit without Fixed Effects Model:** The model estimates a sovereign rating index (a 20 numerical scale index of the three sovereign rating agencies) through ordered probit panel data techniques. This model takes into account idiosyncratic fundamental stock and flows sustainability but fixed effects are not included, thus all countries are treated symmetrically without including the country specific long run fixed effects
  - **Sovereign Rating Individual OLS models:** These models estimate the sovereign rating index (a 20 numerical scale index of the three sovereign rating agencies) individually. Furthermore , parameters for the different vulnerability indicators are estimated taken into account the own history of the country independent of the rest of the countries

Annex

Methodology: Models and BBVA country risk

BBVA Research Sovereign Ratings Methodology Diagram

Source: BBVA Research



Annex

Methodology: Tracking Protests and Conflicts

We elaborate a tracking of protests and conflicts' indexes for every country in the world since January 1, 1979 through present day in daily, monthly, quarterly and annual frequency. To construct them, **we use a rich Big-Data- base of international events (GDELT at www.gdelt.org)** which monitors the world's events included in news media from nearly every corner of the world in print, broadcast, and web formats, in over 100 languages, every moment of every day and that stretches back to with daily updates.

- **BBVA Protest Intensity Index:** We collect every registered protest in the world for a particular time considering a **wide variety of protests** as: demonstrate or rally, demonstrate for leadership change, demonstrate for policy change, demonstrate for rights, demonstrate for change in institutions and regime, conduct hunger strike for leadership change, conduct hunger strike for policy change, conduct hunger strike for rights, conduct hunger strike for change in institutions and regime, conduct hunger strike not specified before, conduct strike or boycott for leadership change, conduct strike or boycott for policy change, conduct strike or boycott for rights, conduct strike or boycott for change in institutions and regime, conduct strike or boycott not specified before, obstruct passage or block, obstruct passage to demand leadership change, obstruct passage to demand policy change, obstruct passage to demand rights, obstruct passage to demand change in institutions and regime, protest violently or riot, engage in violent protest for leadership change, engage in violent protest for policy change, engage in violent protest for rights, engage in violent protest for change in institutions and regime, engage in political dissent not specified before.

- **BBVA Conflict Intensity index:** In the same way, we collect every registered conflict in the world for a particular time considering a **wide variety of conflicts** as: impose restrictions on political freedoms, ban political parties or politicians, impose curfew, impose state of emergency or martial law, conduct suicide, carry out suicide bombing, carry out car bombing, carry out roadside bombing, car or other non-military bombing not specified below, use as human shield, use conventional military force not specified before, impose blockade, restrict movement, occupy territory, fight with artillery and tanks, employ aerial weapons, violate ceasefire, engage in mass expulsion, engage in mass killings, engage in ethnic cleansing, use unconventional mass violence not specified before, Use chemical, biological, or radiological weapons, detonate nuclear weapons, use weapons of mass destruction not specified before.

Using this information, we construct an intensity index for both events. **The number of protests and conflicts each month are divided by the total number of all events recorded in GDELT that month to create a protest and conflict intensity score** that tracks just how prevalent protest and conflict activity has been month-by-month over the last quarter-century, correcting thus for the exponential rise in media coverage over the last 30 years and the imperfect nature of computer processing of the news.

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