

Latam: Managing success

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Latam Economic Outlook - First Quarter 2013 | Madrid, 19th of February of 2013

Main messages

- 1 The perception regarding the prospects of the global economic scenario has improved as a result of a relaxation of financial tensions, particularly in Europe, and the last-minute agreement to side-step the “fiscal cliff” in the U.S.
- 2 External risks for Latam are for now more unlikely and of lower impact than six months ago
- 3 Latin America will increase its growth from 2,8% in 2012 to 3.6% in 2013 and 3.7% in 2014. Therefore, it will converge towards its potential, underpinned by domestic demand
- 4 Monetary policies will stay on hold in 2013, except in Mexico, Colombia and Paraguay. Monetary policies will be less lax from 2014, with the exception of Brazil and Mexico, that will keep stable rates. The region must manage its success
- 5 It must find formulas to moderate appreciating exchange pressures looking out for possible internal excesses due to capital inflows

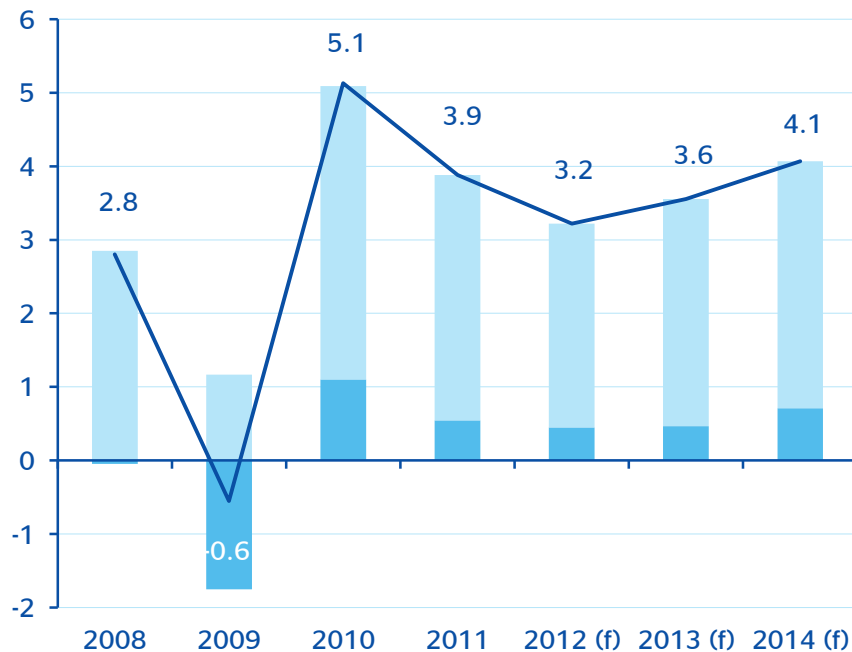
Summary

- 1. World Economy: the global economic outlook improves**
2. Growth will increase in Latin America in 2013
3. The challenges of managing succes in Latin America

The perception of the economic scenario improves

World GDP growth (% YoY)

Source: BBVA Research



Developed economies Emerging economies GDP Growth rate

Improved confidence boosts activity

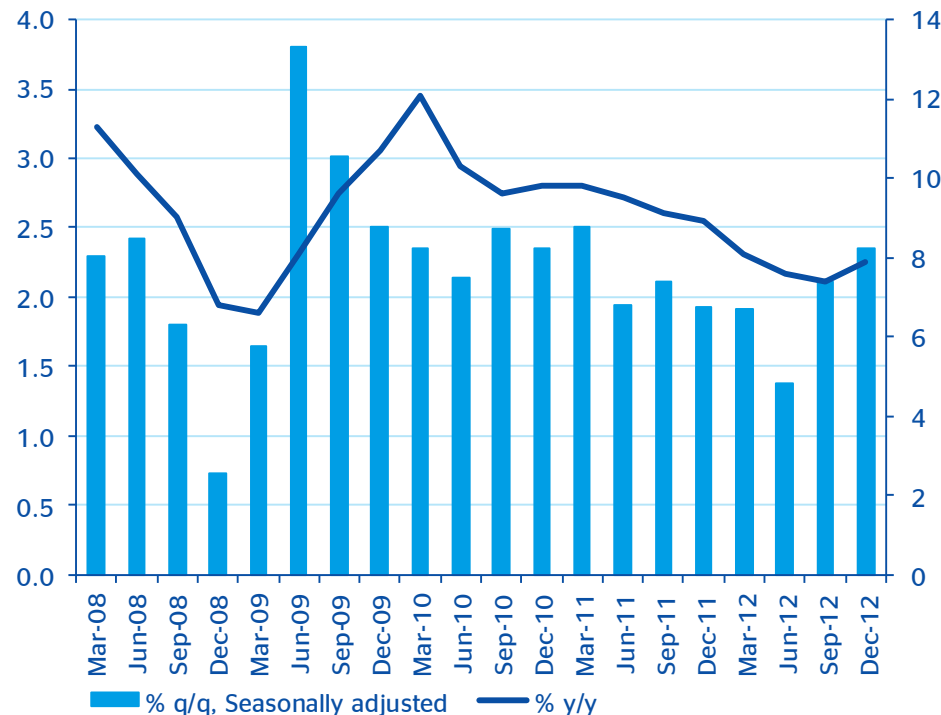
Progress in governance in Europe and further agreements on the U.S. fiscal deficit are necessary conditions for recovery

The most extreme risk scenarios are less likely now thanks to the response by economic policies

Brighter prospects for emerging economies

China: GDP Growth (% YoY)

Source: BBVA Research



Improved prospects for the Chinese economy provide support to the global economy.

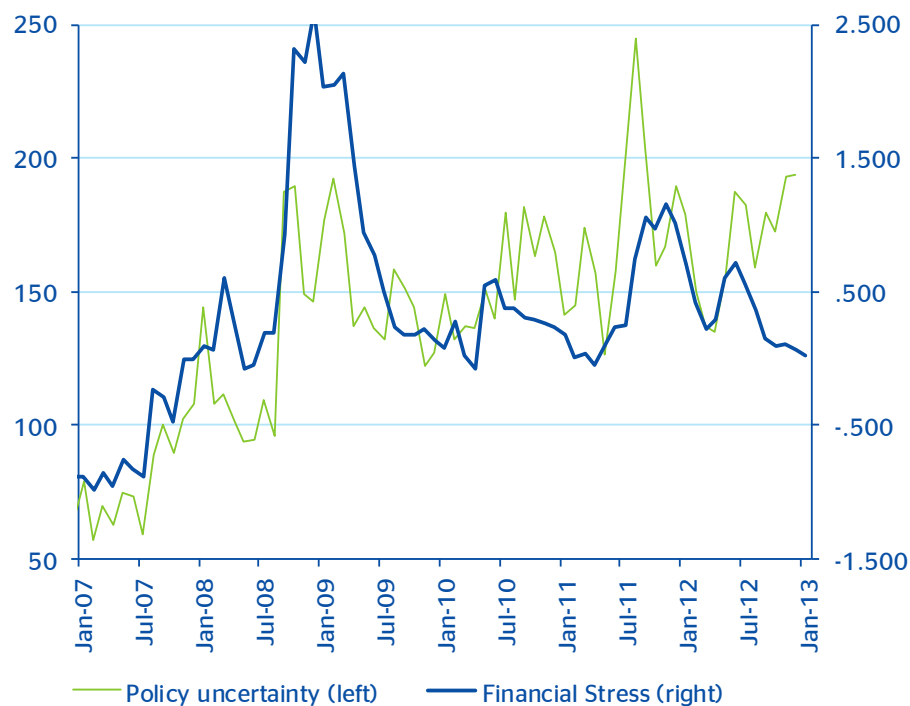
Investment, backed by stimulus measures, and exports to the rest of Asia and the U.S. are behind China's renewed growth

Mid term, consumption must take over as a growth driver in China

The U.S. weathers the impact of fiscal uncertainty

U.S. economic policy uncertainty index

Source: BBVA Research based on data from PolicyUncertainty.com



Economic policy uncertainty has not prevented financial stress from easing...

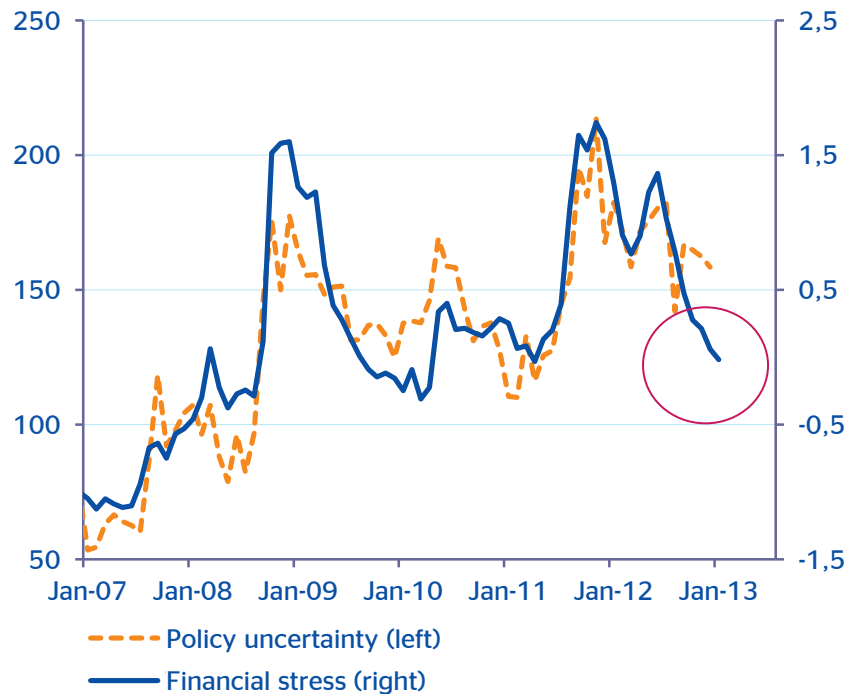
...enabling private consumption to continue growing at near pre-crisis levels

Extraordinary monetary expansion counterbalances the potential impact of fiscal uncertainty on economic performance

EMU: lower perception of risk with progress towards a banking union

Eurozone area: economic policy uncertainty index

Source: BBVA Research based on data from PolicyUncertainty.com



What has happened since last summer?

1. The ECB says it is “ready to do whatever it takes” to preserve the euro

2. Second Greek bailout: a decisive movement against euro break-up risks

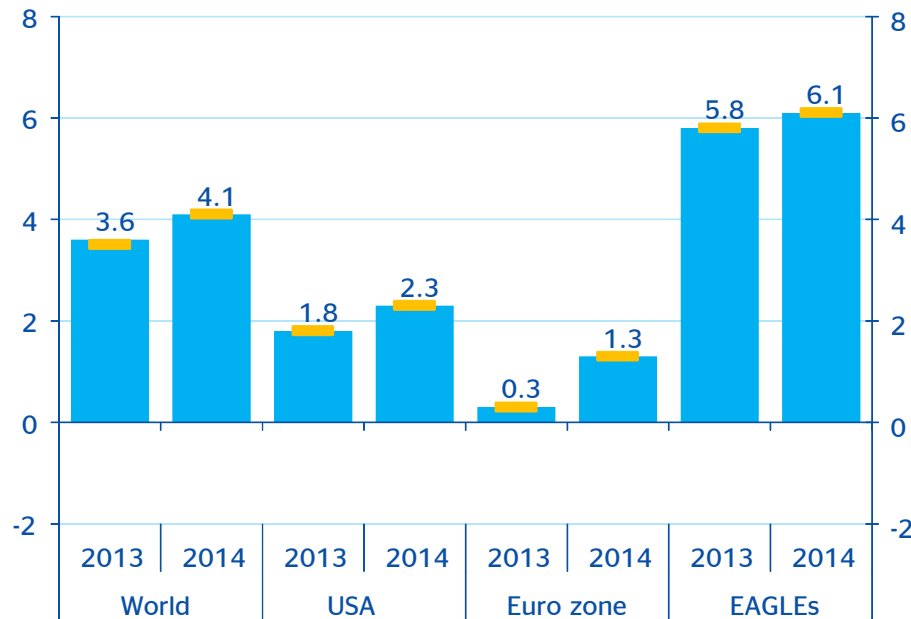
3. EU council: decisive and continuous steps towards a banking union

-> capital inflows back to Europe, and not only to peripheral countries; financial stress eases

Growth looks set to remain uneven

GDP growth (% YoY)

Fuente: BBVA Research



■ Feb-13 ■ Nov-12

A three-speed world

- There is still a high dispersion in growth rates
- The EAGLES have proven to be crisis-resistant, reinforcing the “new normal” paradigm
- Euro area: brighter prospects, but recovery will be slow, uneven and vulnerable

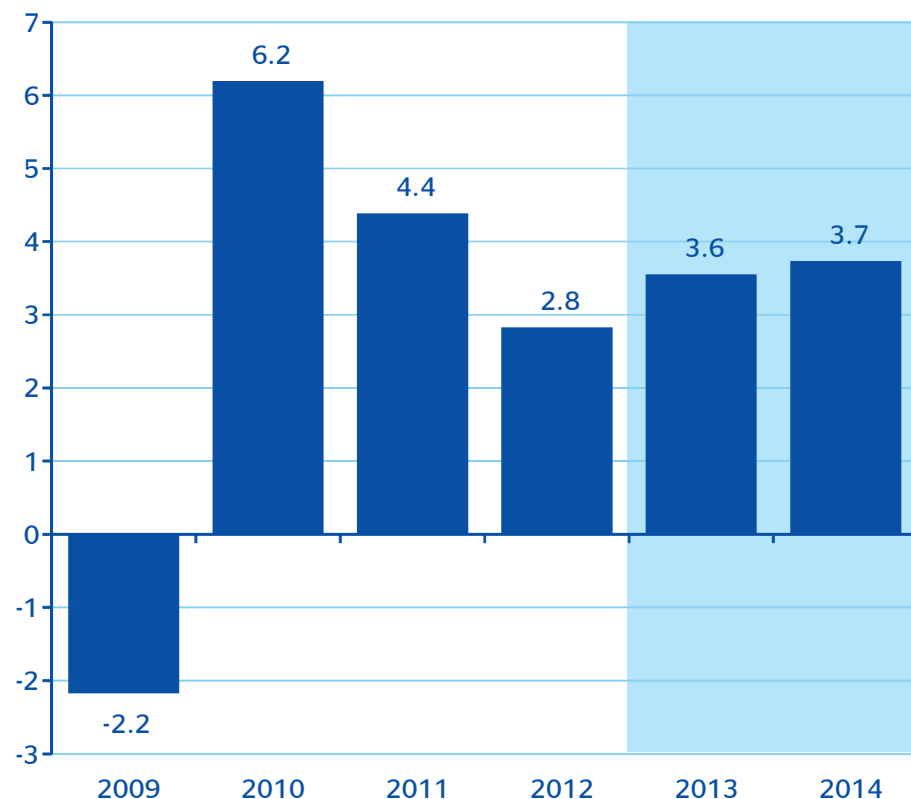
Summary

1. World Economy: the global economic outlook improves
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Growth in the region will jump up from 2.8% in 2012 to 3.6% in 2013 and 3.7% in 2014

Latam*: GDP Growth (%)

Source: BBVA Research



The growth recovery will be gradual from the first quarter of 2013 on, due to improvements in Brazil, Argentina and Colombia

The region will converge to its potential growth, around 4%

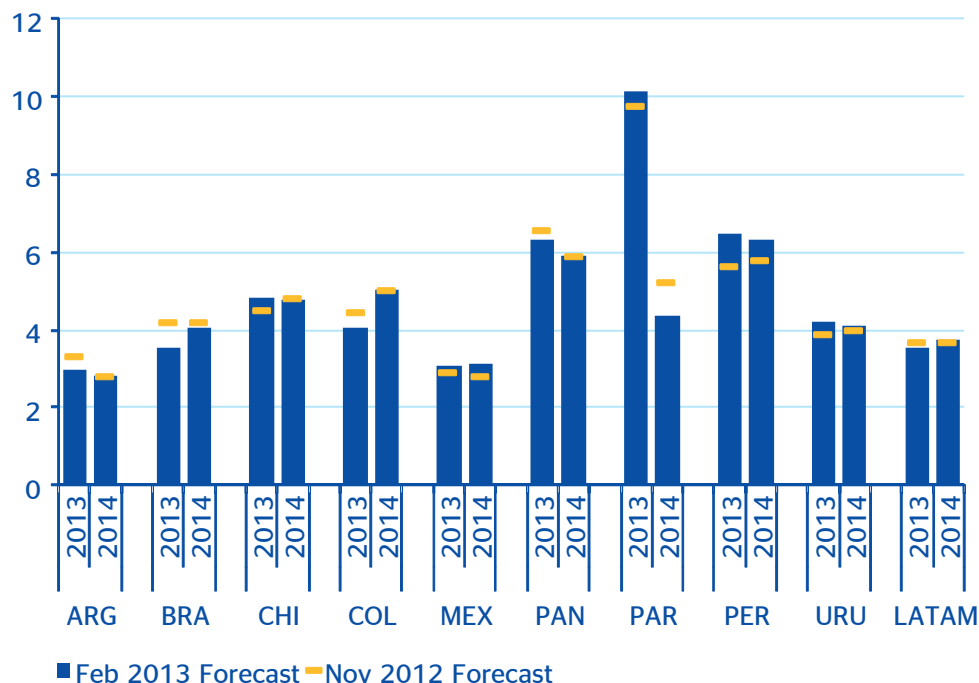
Growth will be underpinned by strong domestic demand and high commodity prices

* Ponderate average to Argentina, Brazil, Chile, Colombia, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela

Growth will stand out in the Andean countries, PAR, PAN and URU

Latam Countries: GDP Growth (%)

Source: BBVA Research



Better than expected performance in PER, CHI and MEX. Growth surprised negatively in Brazil. Transitory moderation in Colombia

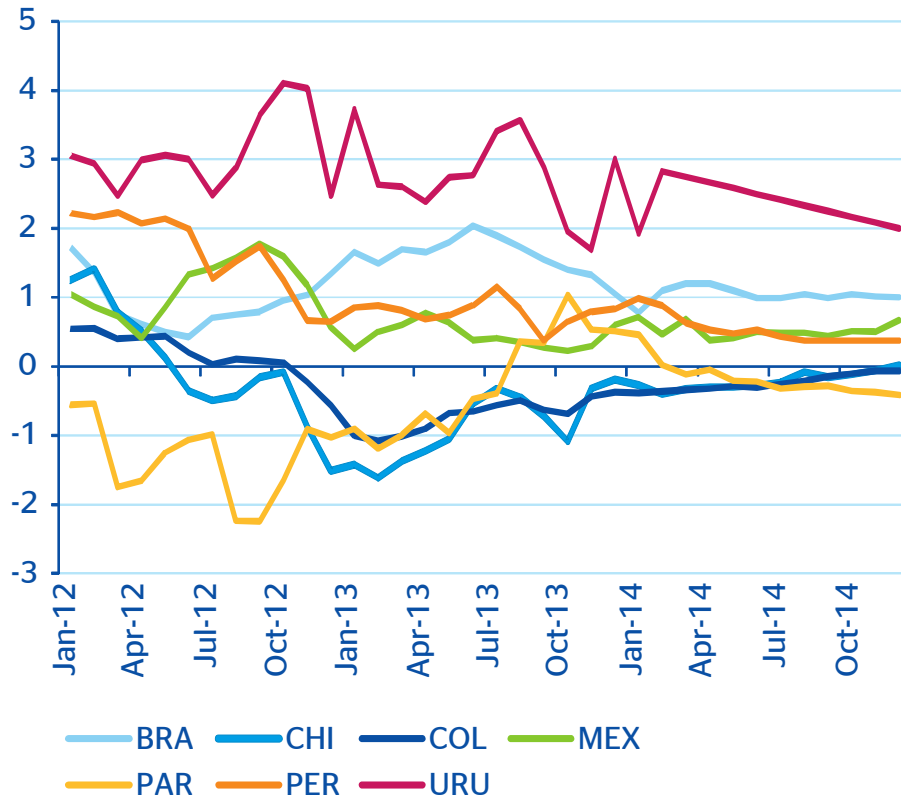
Brazil: economic policies start to drive growth up in 2013

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Inflation will remain pegged in Andean countries and Mexico while pressures will rise in Brazil

Inflation in countries with inflation targets (YoY%)

Source: BBVA Research and Haver



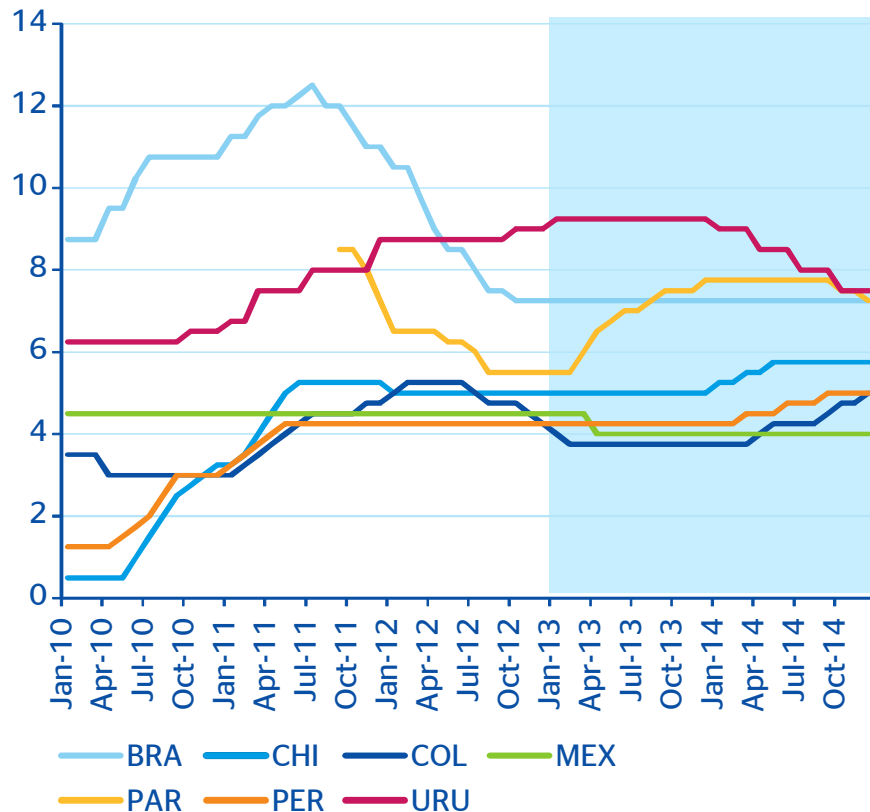
Better than expected performance in PER, CHI and MEX. Growth surprised negatively in Brazil. Transitory moderation in Colombia

Inflation will remain within the target ranges in 2013 and 2014, except URU

Inflationary pressures in Brazil will continue to accumulate in 2013. Inflation will remain under control due to tax cuts and management of administrative prices

Central banks will stay on hold, except in COL, MEX and PAR

Official interest rates in countries with inflation targets (%)
 Source: BBVA Research and Haver



Precarious balance between the uncertain global situation and the pressures of domestic demand

Stable interest rates in 2013 in PER, CHI, BRA and URU

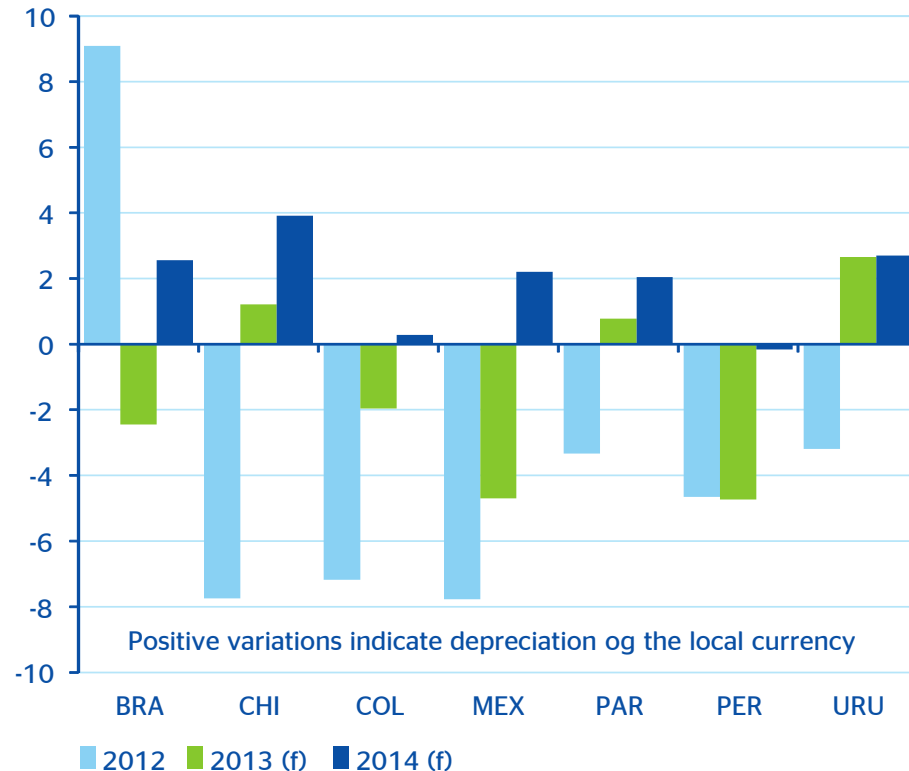
Interest rates cuts in MEX and COL due to lower inflationary pressures. Increases in PAR in order to keep inflation within target ranges

Less lax monetary policy in 2014, except in MEX, BRA and URU

Exchange rates will appreciate slightly

Changes in the nominal exchange rate vs. Dollar in countries with inflation targets (% jan-dic)

Source: BBVA Research and Haver



Exchange rates will appreciate slightly as tensions in financial markets recede

Measures will be taken in several countries to moderate appreciation

Increasing dilemmas in some central banks, as in Perú, as domestic demand remains robust and appreciatory pressures remain relevant

Summary

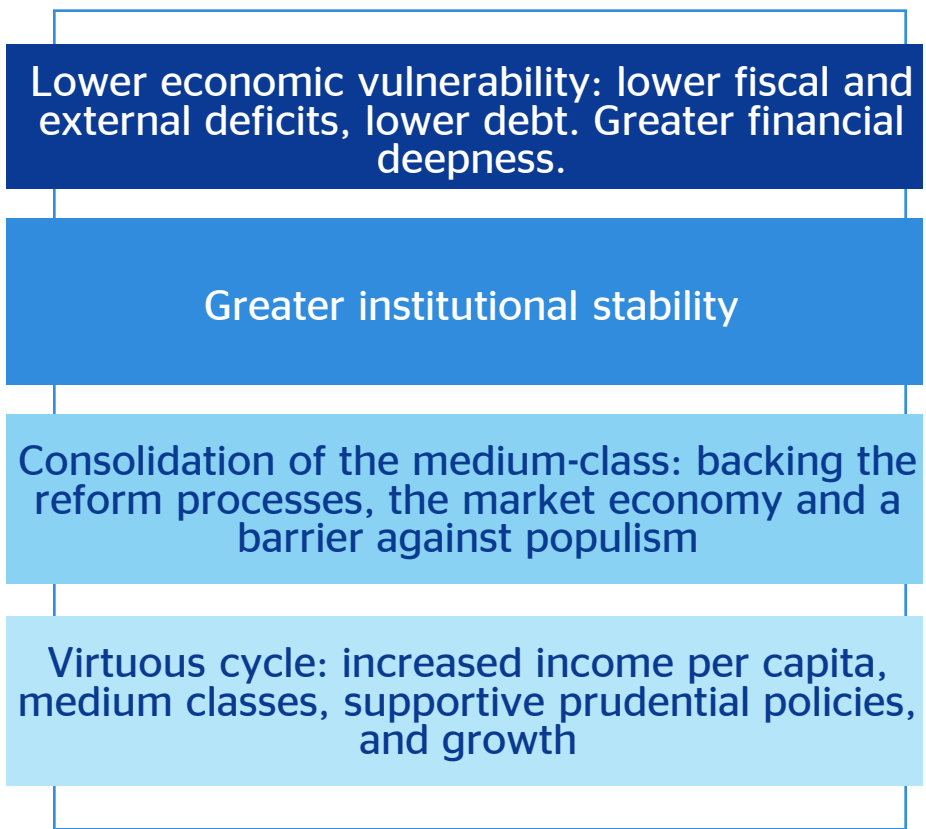
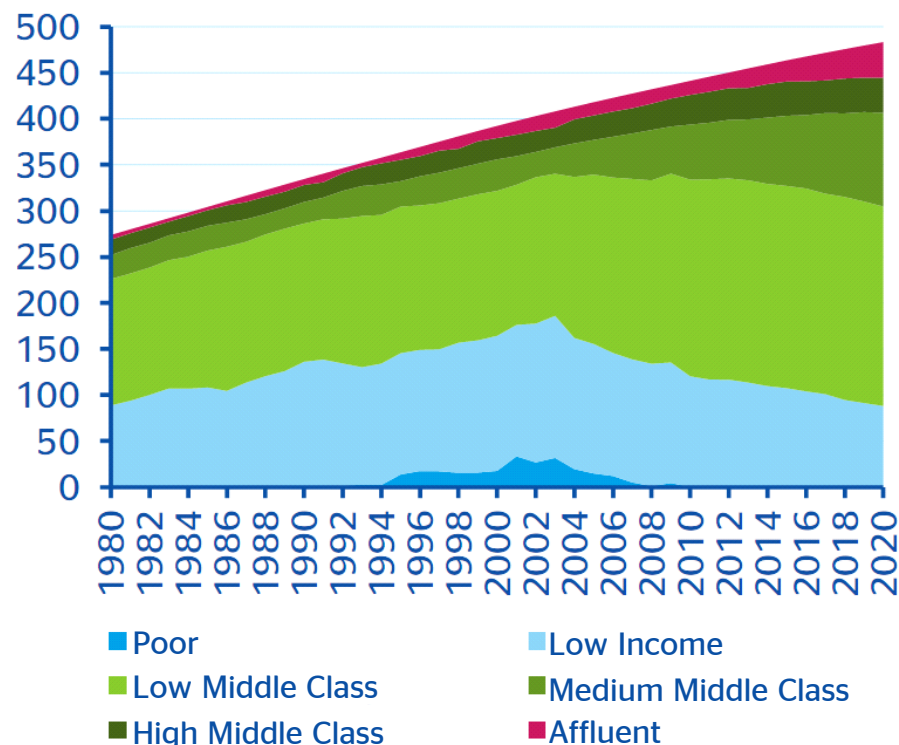
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The “new normal” of Latam: high growth and low vulnerability

Latin America’s population per GDP per capita

range (million of people)

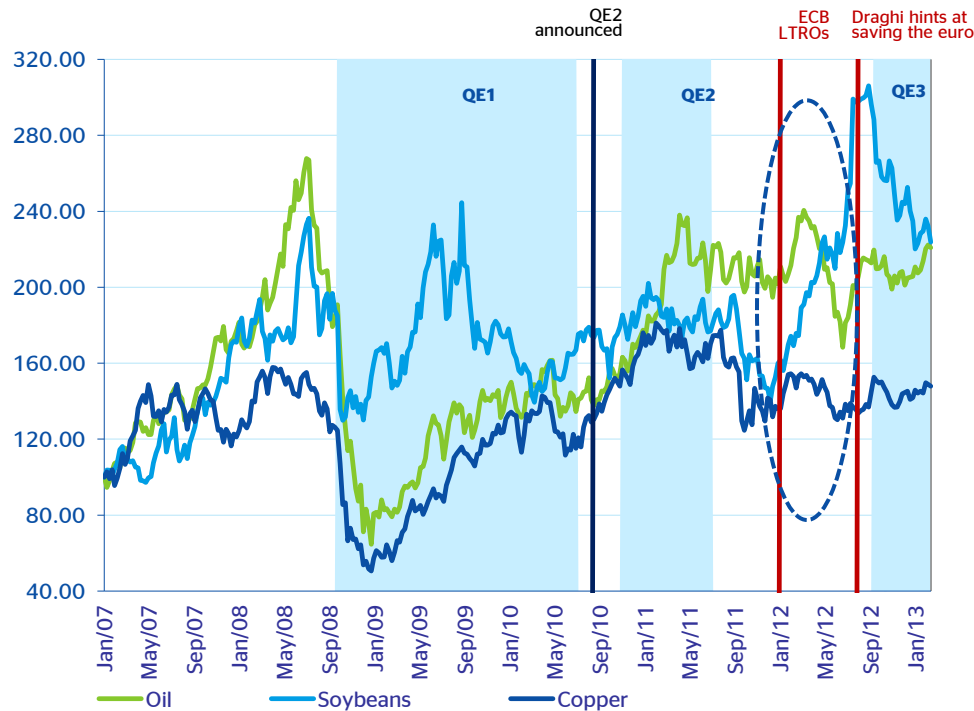
Source: BBVA Research



The region will continue to be attractive to international investors...

Capital Inflows to Latin America (million of dollars)

Source: BBVA Research and EPFR



Capital Inflows to Latam

Liquidity expansion
in developed economies

High growth

Low vulnerability

Greater exchange flexibility and financial
openness than Asia

... what will force the region to manage succes

The challenge: moderate the pressions over the exchange rates and look out for domestic distortions derived from short-term speculative capital inflows



Two complementary answers



**Resisting to the impact:
macroprudential meassures**

Theoretically valid but still in experimental phase

Imperfect substitute to monetary policy, with unknown risks

In the long-term, it might slow the necessary financial profundization in the region

**Take advantage of the momentum:
canalize the global liquidity**

Reinforce direct investment in the region, especially in infrastructure

Take advantage of the good times to drive reforms

Develop the banking system as a natural intermediary

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