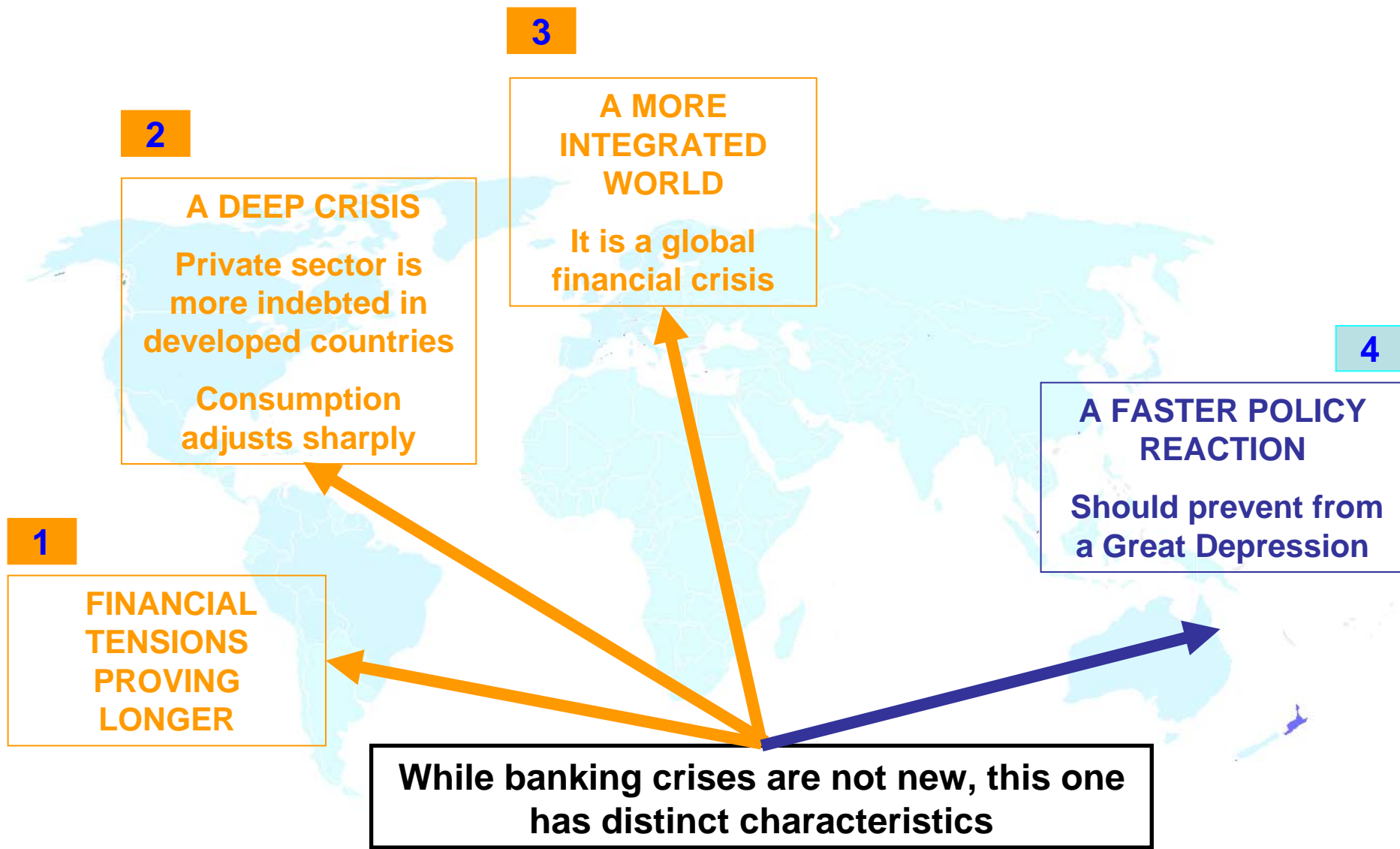


**The Global Financial Crisis:  
Where does Latin America  
Stand?**

**BBVA Economic Research Department  
April 23, 2009**



Where do we stand?



## 1 Financial tensions proving longer

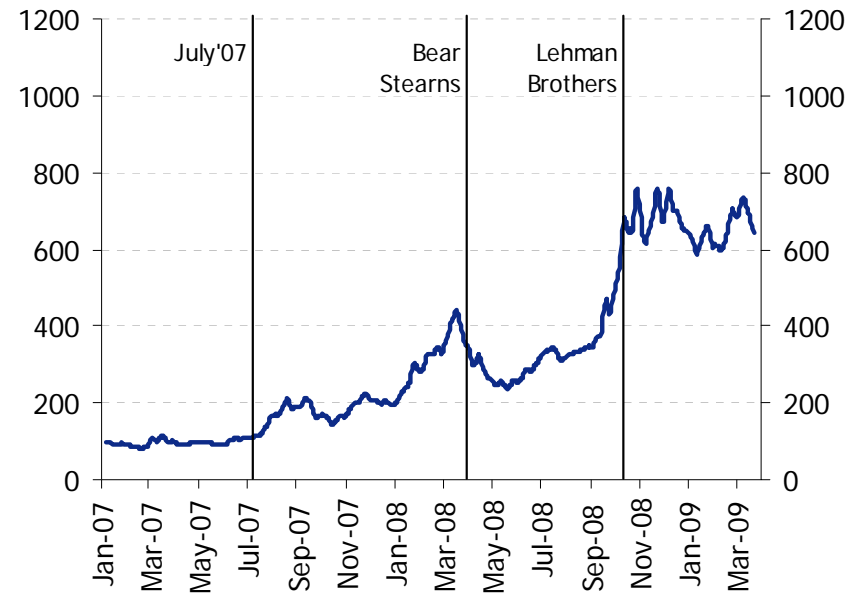
**USA: Financial Tensions Indicator**  
100 = January-07



Source: BBVA-ERD

First normalized principal component of the following series: OIS spread, implicit volatility, and banking and corporate CDS spread

**EMU: Financial Tensions Indicator**  
100 = January-07



Source: BBVA-ERD

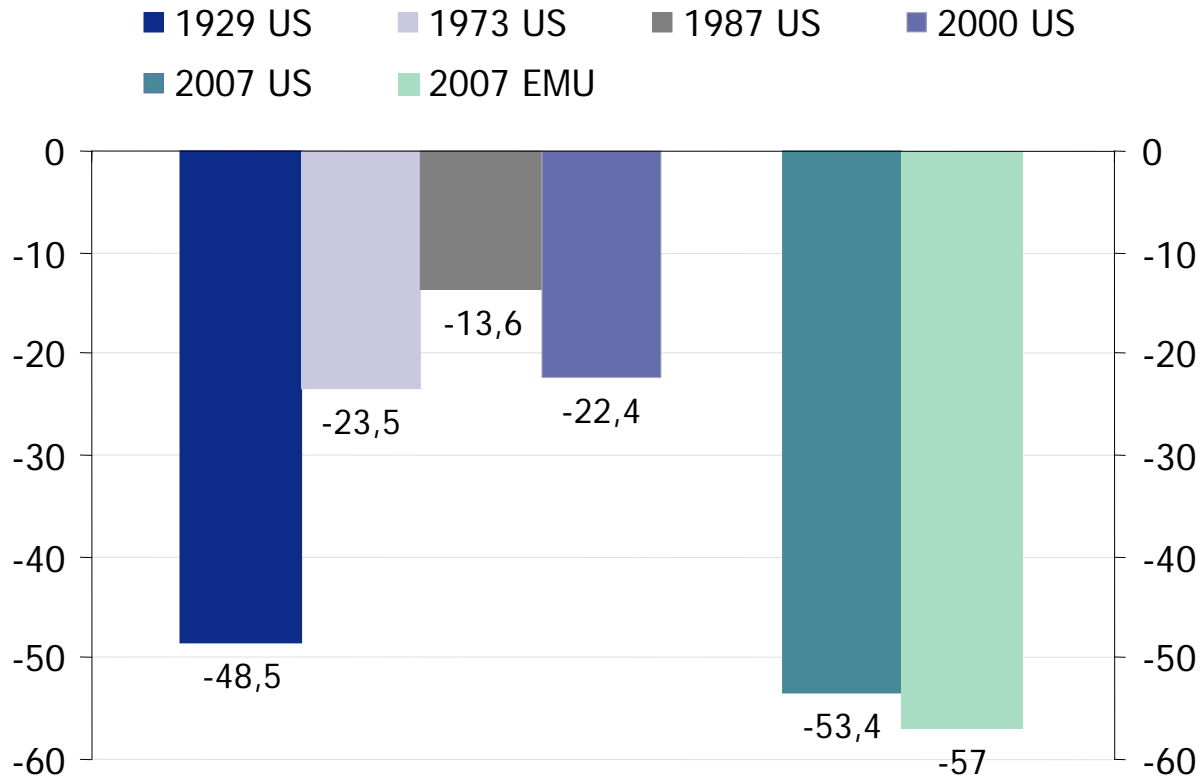
First normalized principal component of the following series: OIS spread, German implicit volatility, and banking, corporate sector and sovereign CDS spread

**Financial tensions are practically unabated from Lehman levels and still create a large drag on financial and economic activity**

### 2

### A deep crisis in developed countries

**Stock indexes: fall 18 months after the crisis started (%)**

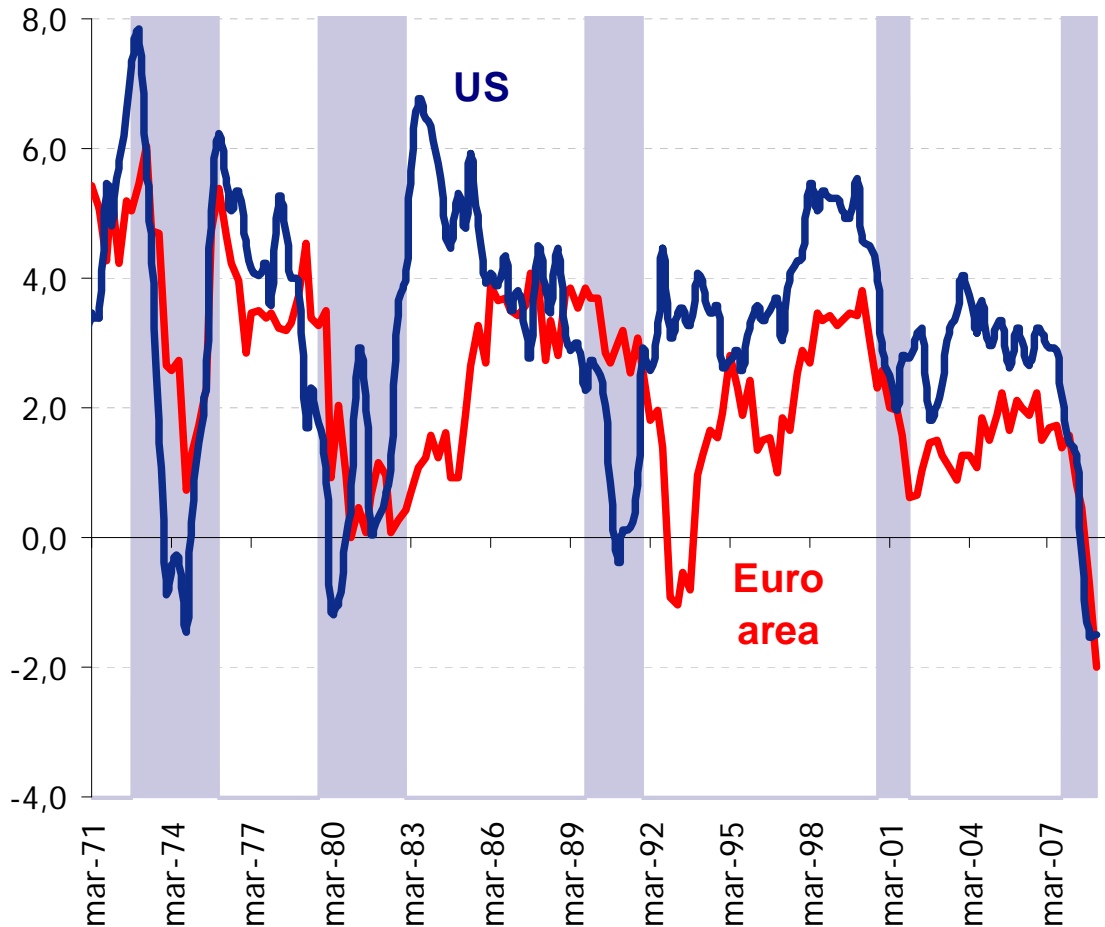


Source: Bloomberg and BBVA ERD

**Even after accounting for the recent rally, the decline in equity prices is greater than that in previous crises, causing a significant destruction in wealth.**

**2 A deep crisis in developed countries**

US and Euro area: Consumption (%yoy)



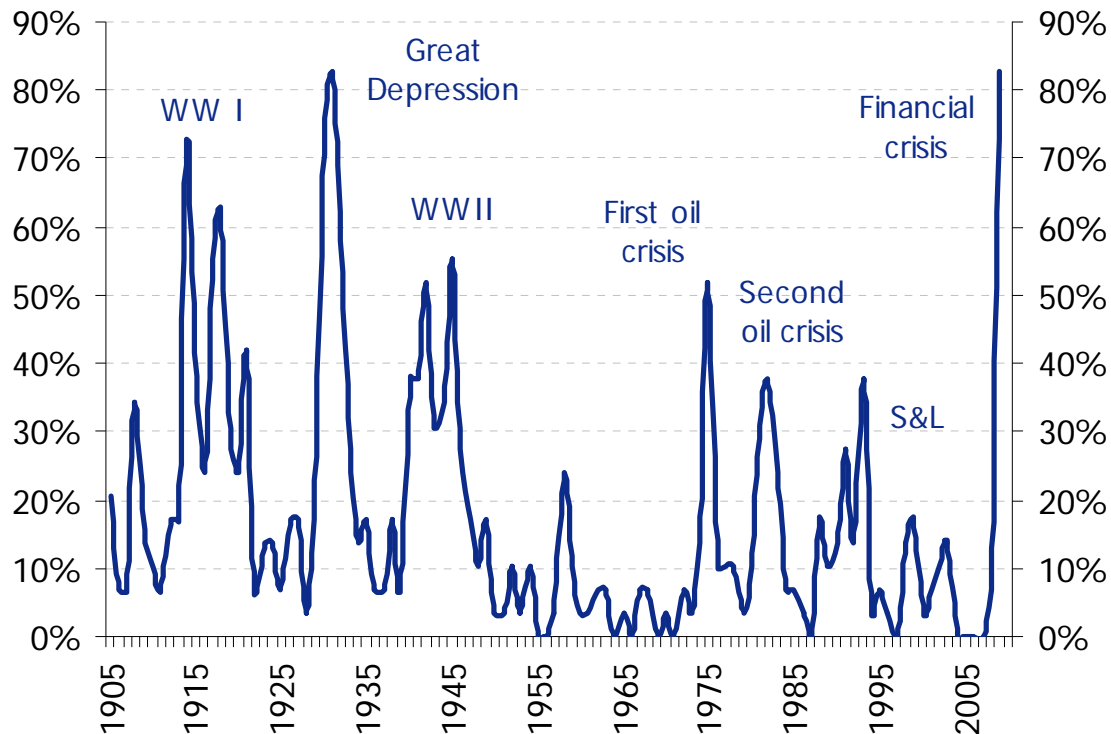
**Both excess debt and wealth destruction have resulted in the largest fall in consumption since WWII**

**Moreover, it has been highly synchronized...the world economy has run short of spenders**

### 3

### A more integrated world

**Number of countries in recession in the same year (as a % of total countries)**



Source: BBVA ERD and Maddison. 2009 forecasts from own estimations, Consensus Forecasts and Bloomberg. Analysis made with 29 economies (developed and emerging)

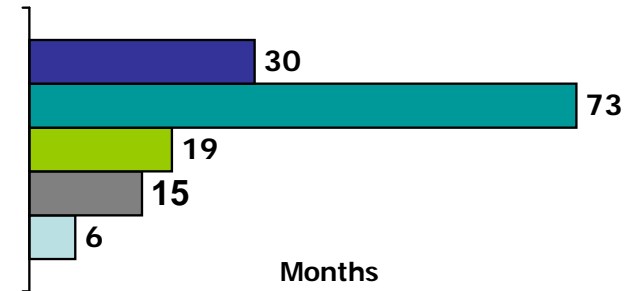
**The global character of the current crisis is reflected in the large number of countries that have been simultaneously affected... never since the Great Depression have so many countries been contracting at the same time**

### 4 A faster policy reaction

#### Monetary policy

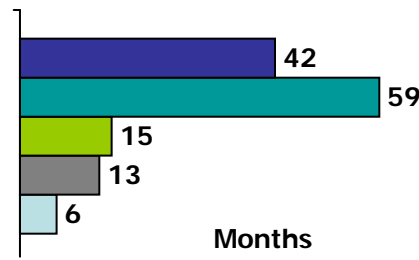
- Great Depression (Oct29)
- Japan (Jun91)
- Europe (Aug07)
- UK (Aug07)
- USA (Aug07)

#### Time to zero real interest rates\*



#### Time to first fiscal package

- Great Depression (Oct29)
- Japan (Jun91)
- Europe (Aug07)
- UK (Aug07)
- USA (Aug07)



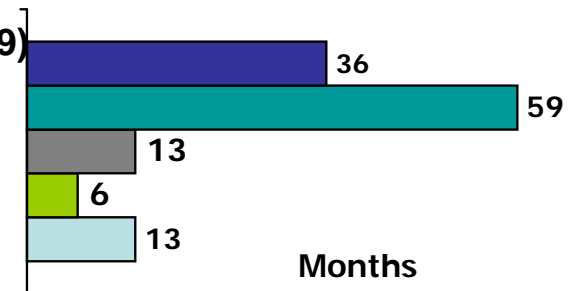
\*/Using ex-post inflation for the Great Depression. Inflation expectations for Japan, Europe, UK, USA.

#### Fiscal policy

#### Financial stabilization

- Great Depression (Oct29)
- Japan (Jun91)
- Europe (Aug07)
- UK (Aug07)
- USA (Aug07)

#### Time to first injection of public K





Where do we stand?

What to expect

Developed countries: Prospects for Recovery are brighter for the US than for Europe

Bank losses

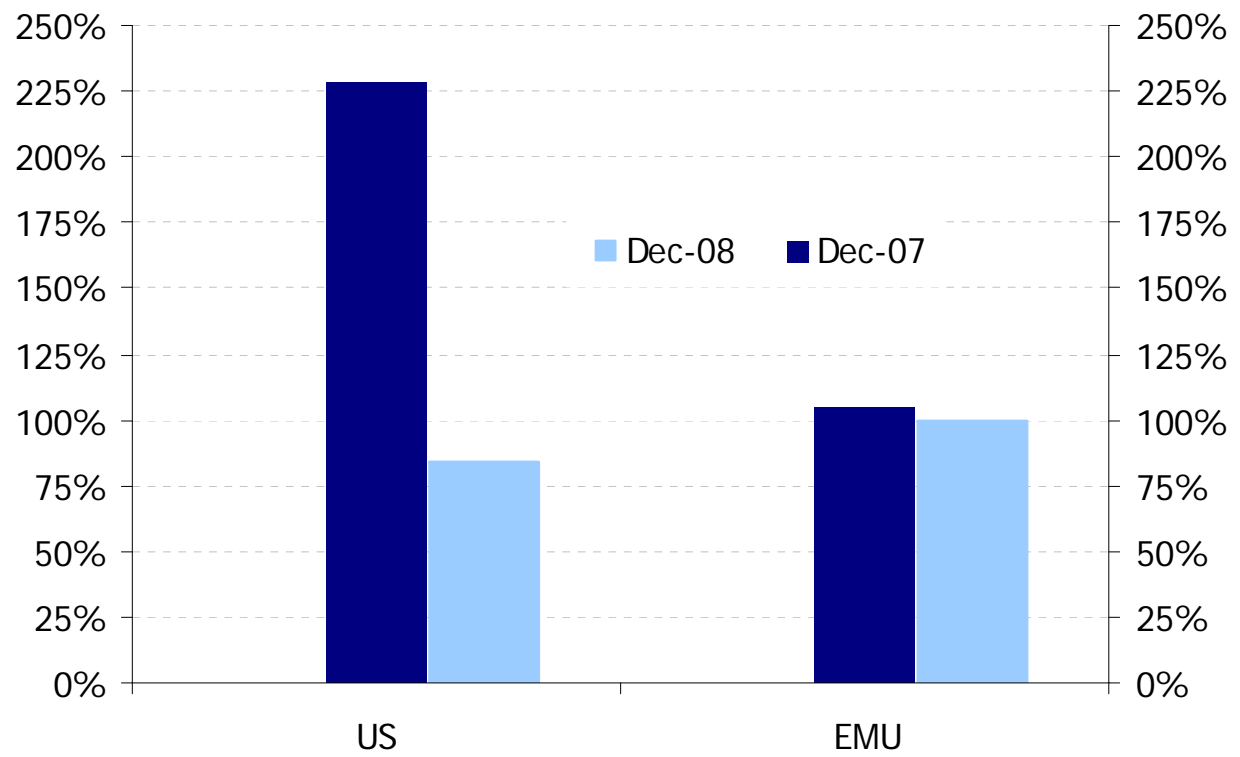
U.S.

- Quick response

Europe

- Slow recognition

**Banks: remaining exposure to structured products (as a % of tangible equity)**



Source: Bloomberg and ERD

## Fiscal policy

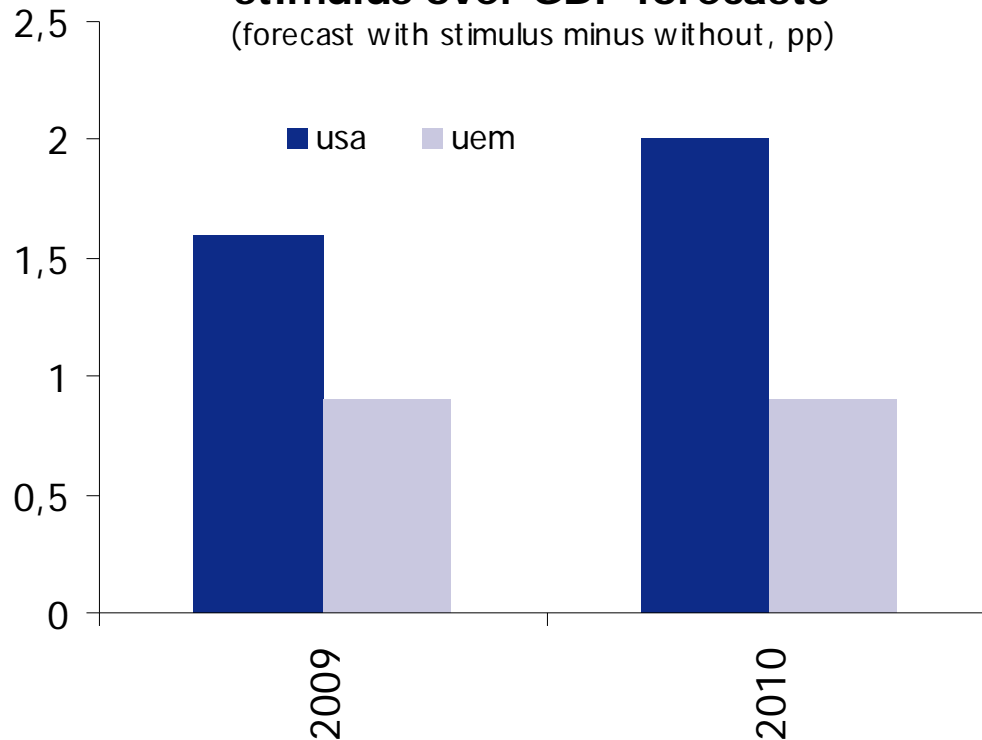
**U.S.**

- 1 plan, 1 country

**Europe**

- Uncoordinated and significant heterogeneity among countries

**USA & UEM: Estimated impact of fiscal stimulus over GDP forecasts**  
(forecast with stimulus minus without, pp)



**Bigger impact of fiscal programs on growth, as the size of discretionary spending in the US is higher than the automatic stabilizers in Europe**

## Monetary policy

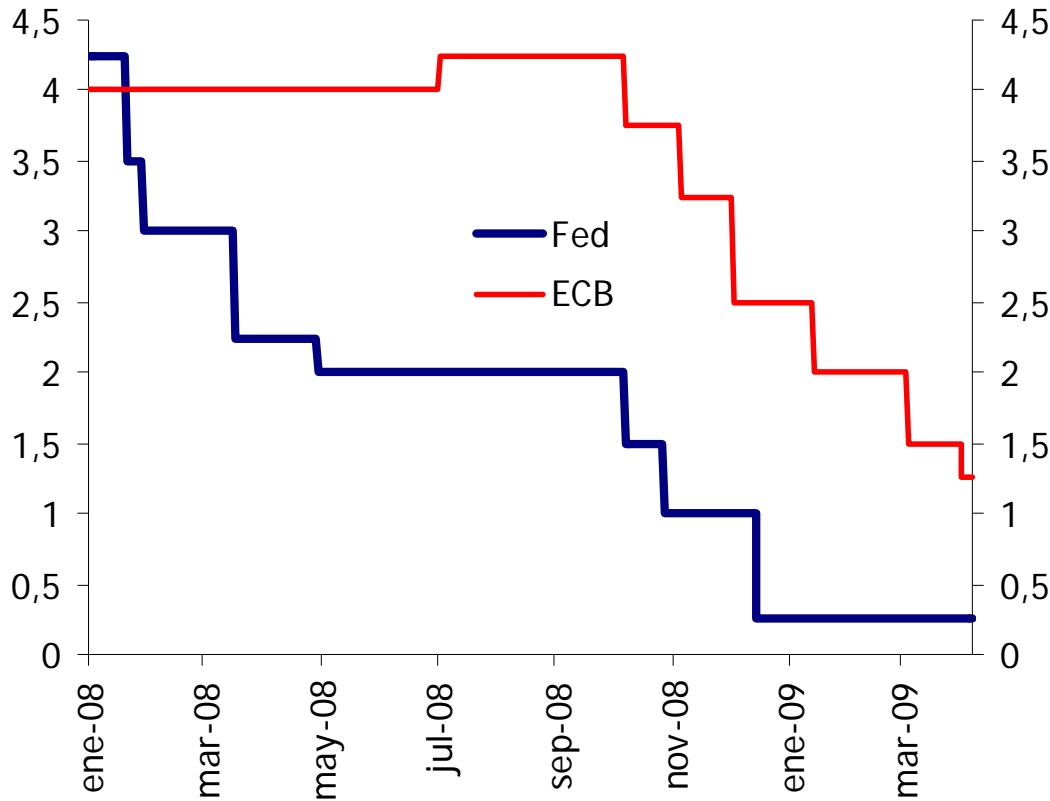
**U.S.**

• 0% target + commitment to keep them low

**Europe**

• Reluctance to reach 0% rate and commit to keep them low

Official interest rates (%)



**Monetary policy slower to face the facts in the euro area. The ECB even increased interest rates in July amid fears of inflation.**

Structural framework

U.S.

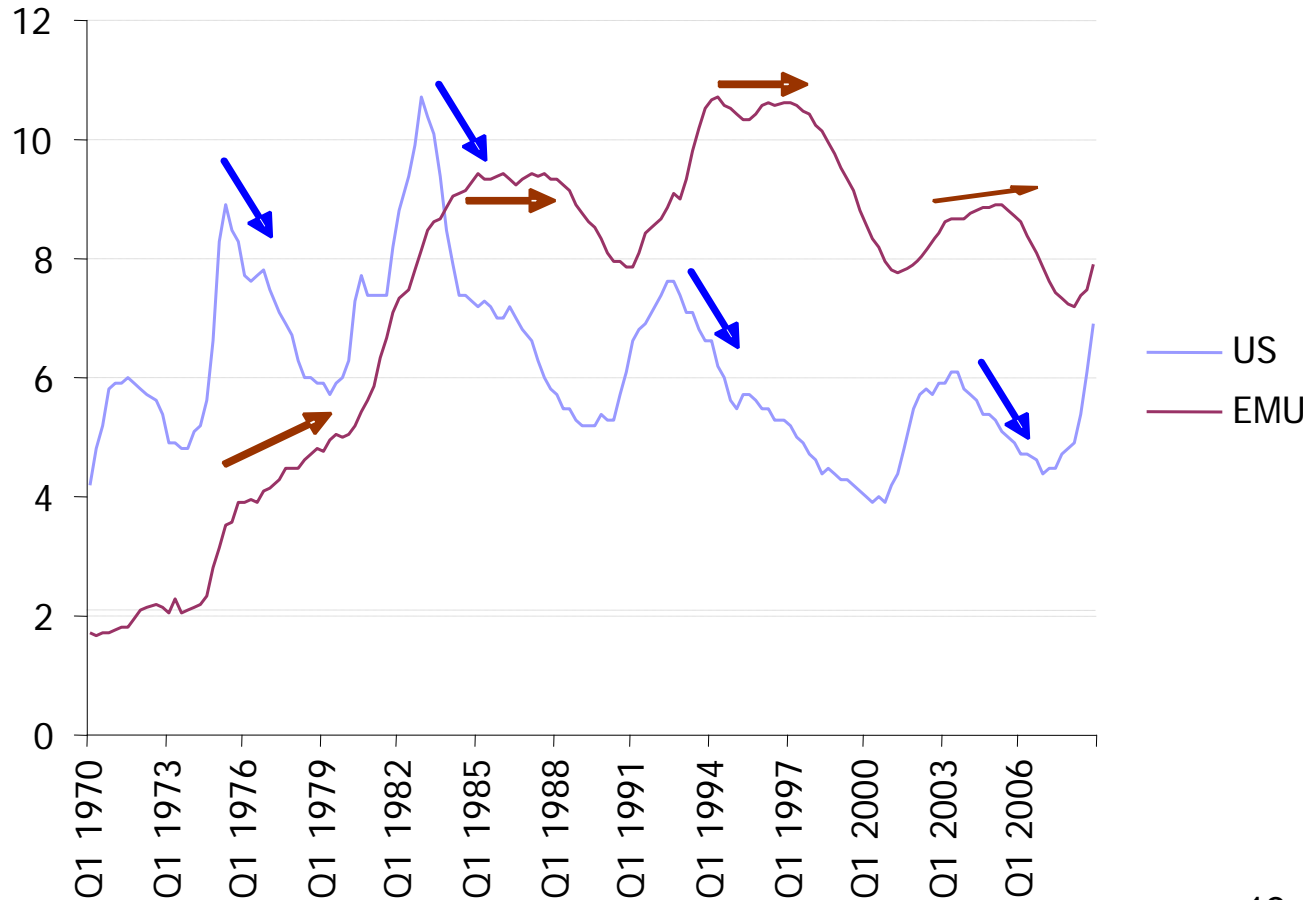
- “Creative Destruction”

Europe

- More rigidities

Unemployment rates

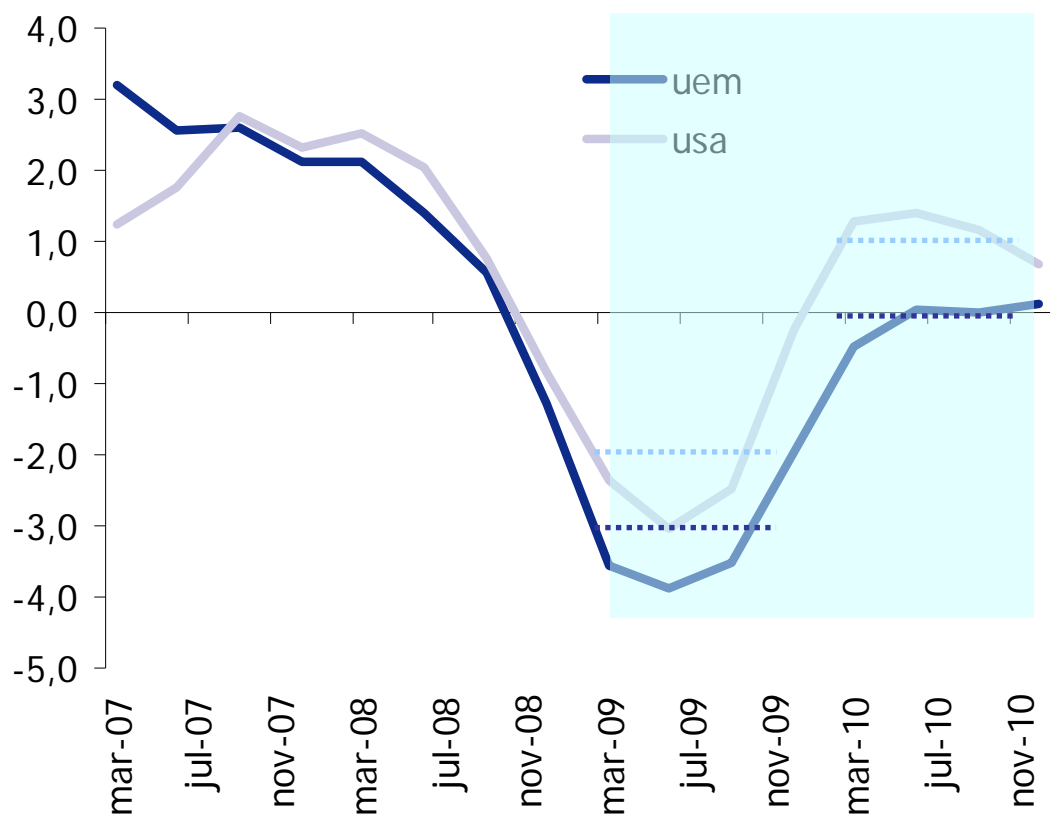
Due to structural rigidities, particularly in the labor market, the Euro area has usually recovered much more slowly after recessions than the US.



Our forecast

In light of the previous considerations, USA should recover earlier than UEM.

### USA vs UEM GDP (%)



**Where do we stand?**

**What to expect**

**Emerging markets: Asia and Latam fare significantly better than Eastern Europe**

**Emerging markets stand before the crisis with new sources of resilience.****Domestic**

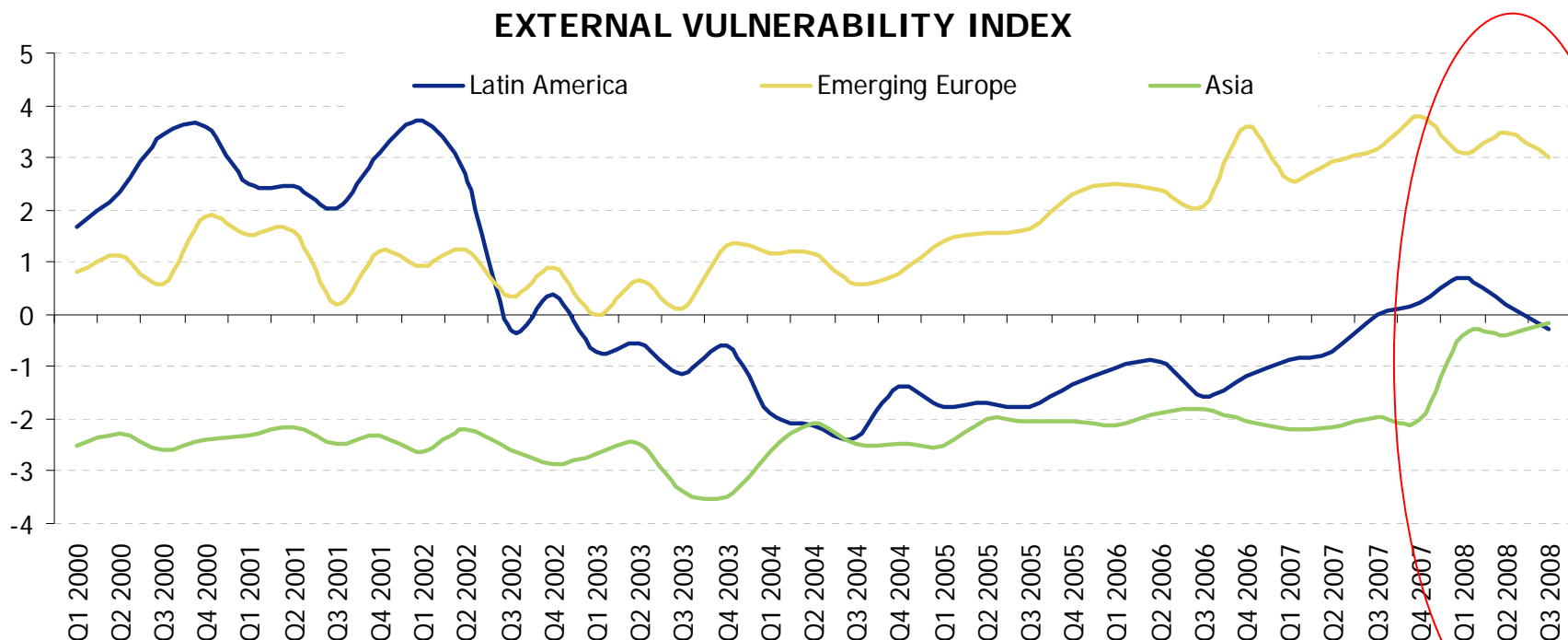
- 1. Public sector accounts, formerly a direct cause for financial turbulence in emerging markets, are characterized today by much healthier fiscal balances.**
- 2. Improvements in the regulatory framework and entry of foreign banks have led to sounder financial systems. Banking sectors in emerging markets have not joined the wave of bankruptcies seen in the developed world.**
- 3. Many emerging economies can today engage in countercyclical fiscal policies, especially on the monetary side: aggressive cuts in interest rates are combined in some cases with relevant fiscal efforts. Policies that are so far avoiding a major credit crunch. In addition, international reserves can be used as a countercyclical tool.**

**External**

- 1. Fresh sources of official capital inflows spin off the crisis. Those emerging economies with a proven macroeconomic record should be able to tap new facilities (IMF Flexible Credit Line, Federal Reserve Swap lines).**



Given the nature of the crisis, it is crucial to give an assessment of the degree of vulnerability. Our BBVA index of vulnerability shows marked differences across regions.

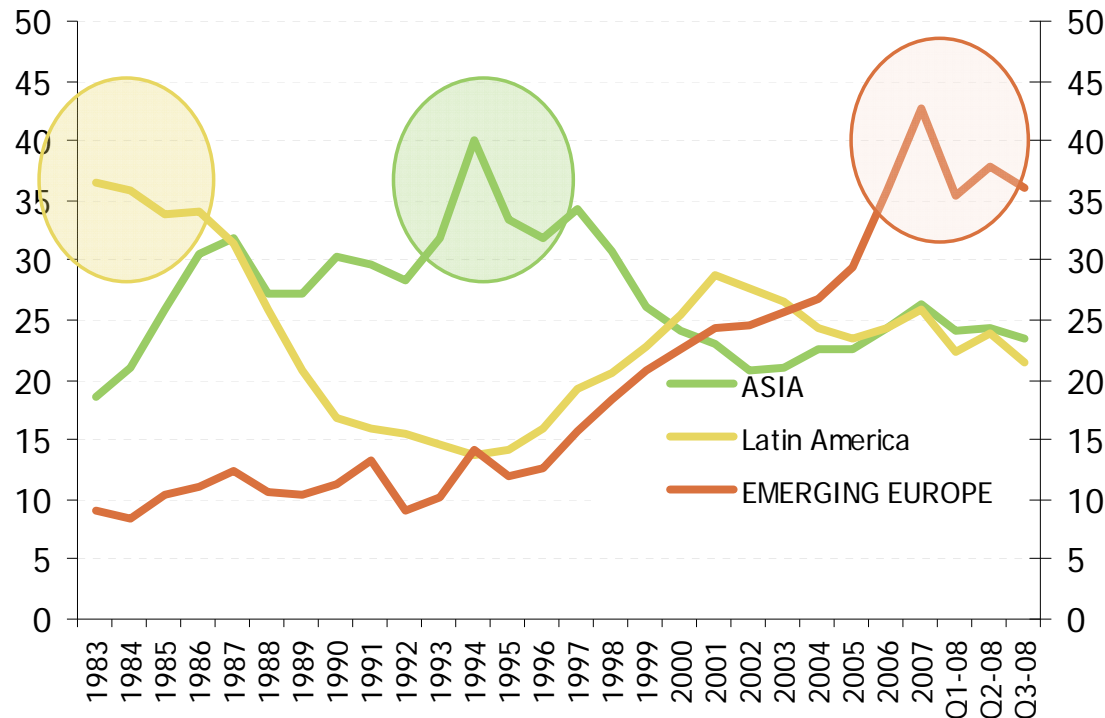


Source: IMF, BIS, IFS and BBVA calculations.

\* Asia included: China, India, Indonesia, Thailand, Malaysia, Philippines, Hong Kong, S. Korea and Singapore. \* Emerging Europe included: Russia, Poland, Hungary, Czech Republic, Slovakia, Lithuania, Latvia, Romania, Bulgaria, Turkey and Estonia. \* Latam America included: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Latin American countries have reduced its dependency on international banking financing, while other regions have dangerously increased it.

### Cross-Border Banking Liabilities (% GDP)



Source: IMF (WEOOct08), BIS and BBVA.

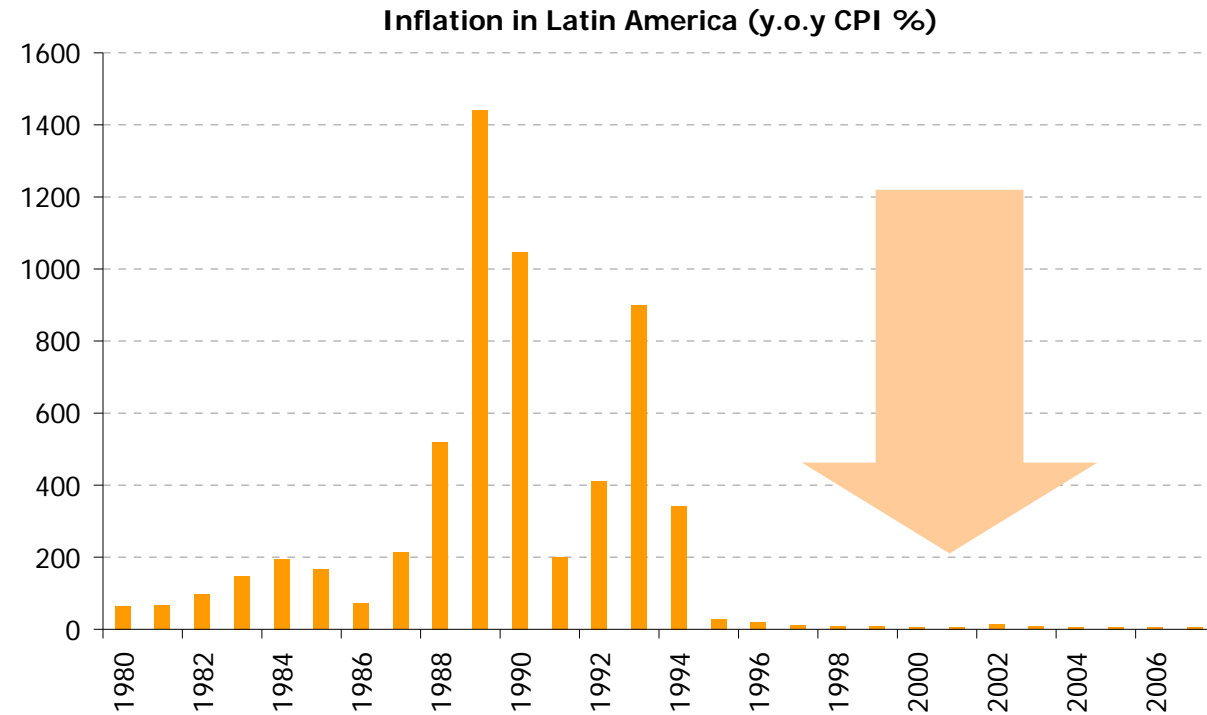
Where do we stand?

What to expect

Latin America: Structural features should alleviate the shock

## Macroeconomic achievements

## Taming inflation with greater Central Bank credibility

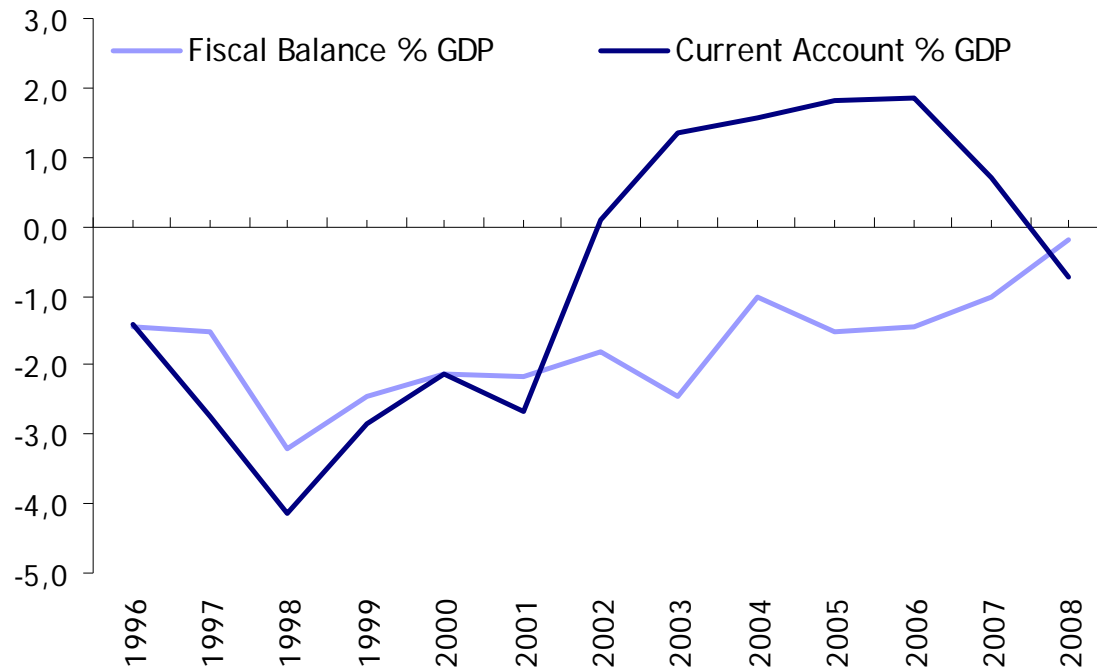


Source: National Sources and BBVA

## Macroeconomic achievements

**Reducing imbalances: lowering financial dependency and increasing the room for fiscal policy. And increasing level of reserves**

**Latin America: Fiscal Balance and Current Account % GDP**

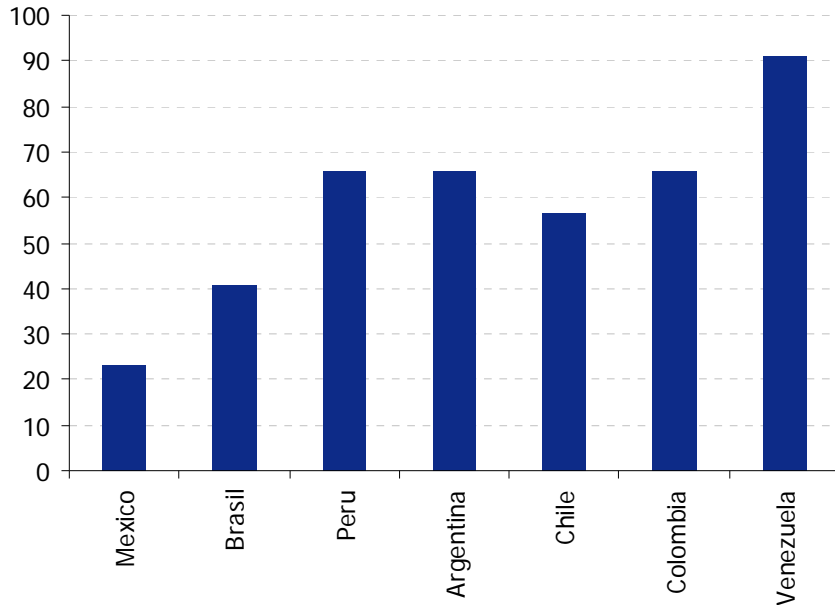


Source: WEO and IIF

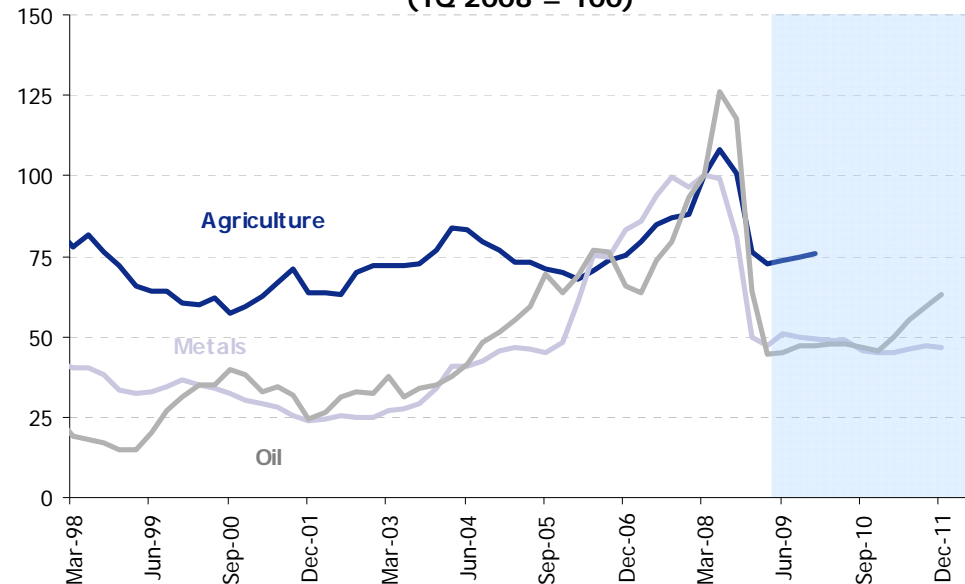
## Trade Patterns

Export dependence from commodities has been a source of weakness with plummeting prices. But going forward, we expect a stabilization of prices at higher levels than in previous decades.

**Weight of commodities over total exports**  
(2006; %)



**Commodities Real Price Index\***  
(1Q 2008 = 100)

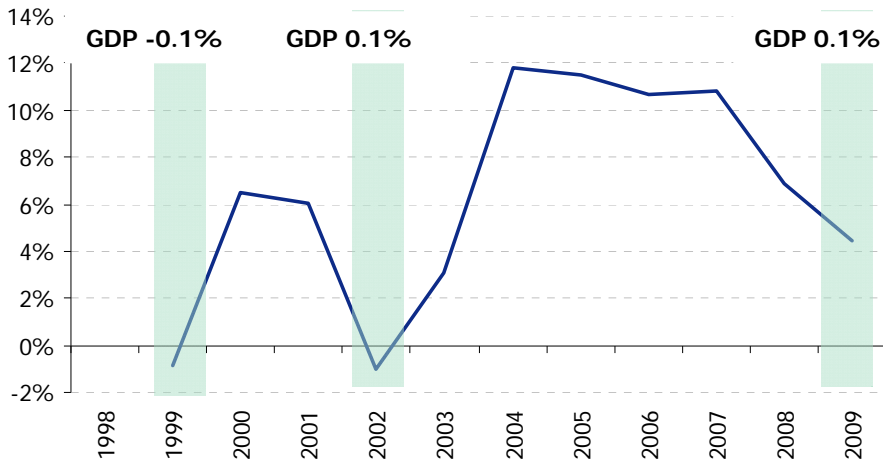


Source: UN-Comtrade and BBVA Calculations

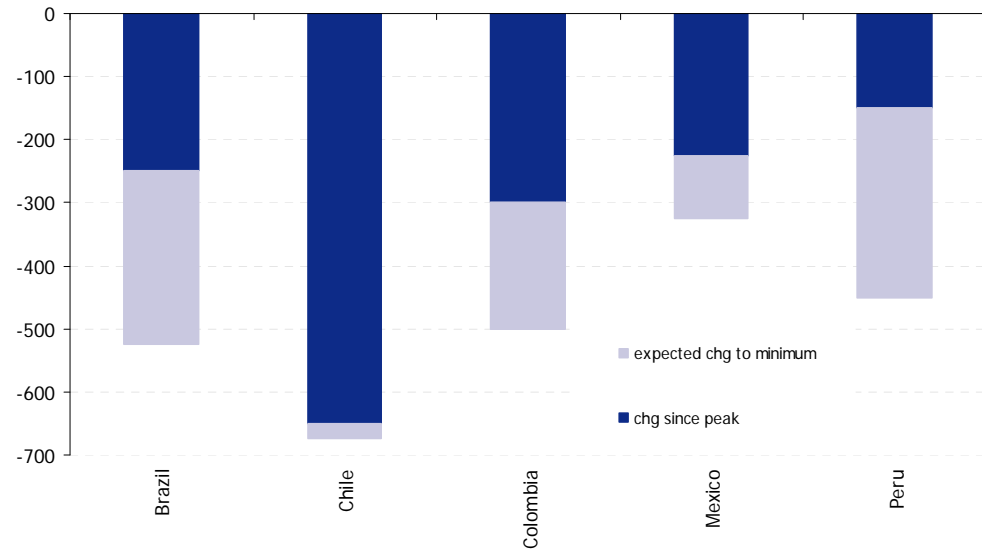
### Policy Maneuvering

Unlike most instances of crises in the region, today Latin America has the ability to engage in both fiscal and monetary countercyclical policies.

### Government Expenditure



**Official Rates**  
Variation from rate peak (nov 08) and projections (pb)



## Monetary authorities preferences

	Risk-aversión of monetary authorities	Preferences revealed
MEXICO	Medium	Growth, nominal stability
BRAZIL	Medium	Growth, nominal stability
SOUTH AMERICA 5	Medium	Growth, nominal stability

## Monetary policy implementation

	Assessment	Change in official rates since January	Expected change in official rates	Additional Measures
MEXICO	Agressive but less so than other Latam Countries and lagging the economic cycle	-225	-100	MX: increasing supply of USdollars by IMF and Fed Swap Lines; Public guarantees to private bond's offers through National Development Banks
BRAZIL	Quite aggressive	-250pb	-275pb	Credit expansion measures and use of int. reserves to increase liquidity
SOUTH AMERICA 5	Very aggressive in inflation targeters	-316pb	-202pb	Reserve requirements cuts in some countries and measures to promote bank credit

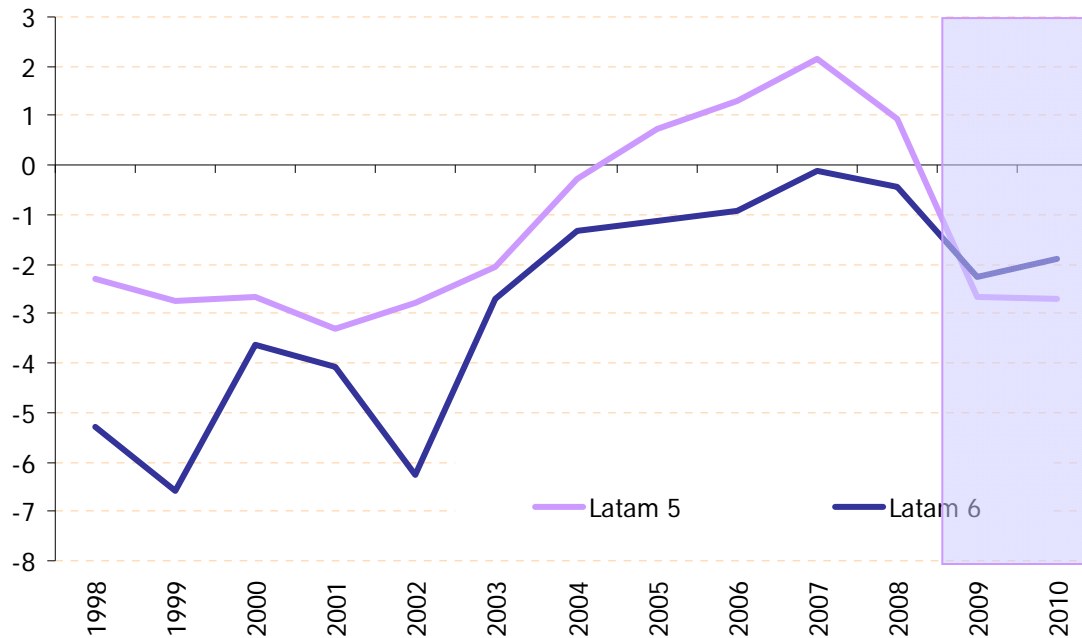


## Monetary policy effectiveness

	Assessment	Change in long-term interest rates since January	Credit evolution
MEXICO	Constrained by international turmoil	April 2009: -30 pbs	Slowing down as economic activity deteriorates, especially households. Substitution effect on Corporate funding from non-banking to banking loans limits corporate loan slowdown
BRAZIL	Rate cuts: small; other liquidity measures: high.	Long term rates are falling	Moderation despite public sector expansion
SOUTH AMERICA 5	Too early to tell. Further rate cut expected	No signs yet of transmission through credit segments	Credit is slowing down across the board

**Fiscal policy will be large and effective in Peru and Chile and limited in other countries.**

South America: Fiscal deficit, as % of GDP



**The fiscal position is expected to deteriorate in 2009, mainly as consequence of the economic slowdown but also due to lower commodity prices. No additional deterioration is expected in 2010.**

## Fiscal Policy Design

	Assessment	Total amount as		Expenditure %		Taxes+Transfers %		NEW since January
		2009	2010	2009	2010	2009	2010	
MEXICO	Countercyclical for the first time	8.8	2	1	0.2	0.4	0	0.5
BRAZIL	Countercyclical for the first time, but small	6	-	0.2	-	0.3	-	0.5
SOUTH AMERICA 5	Large and effective in Chile and Peru. Limited impact in Argentina	10.4	0.9	1.0	0.1	0.1	0.0	- 0,2 (because of Argentina)

## Fiscal Policy Implementation

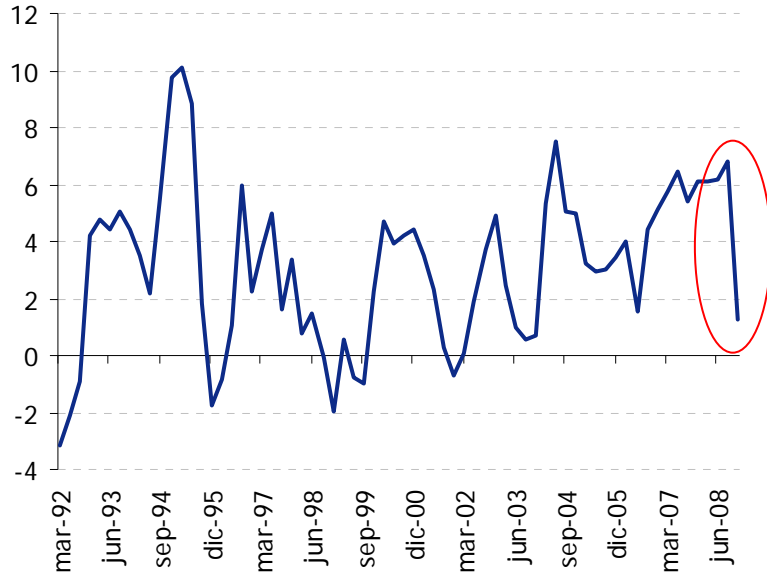
	Date of start	Total amount as	Maximum impact		Expected fiscal surplus, as per cent of GDP		
		bn USD	expected on GDP.	expected on GDP.	2008	2009	2010
		Date of maximum impact	2009	2010	2008	2009	2010
MEXICO	January 2009	2009Q2/ Q3	0.6	0.1	-2.1	-3.0	-2.9
BRAZIL	Q1 09	2009Q2/ Q4	0.3	0.1	-1.6	-1.9	-1.2
SOUTH AMERICA 5	January 2009, Chile and Peru on schedule Argentina lagging considerably	2009H2	0.8		1.0	-2.7	-2.7

Where do we stand?

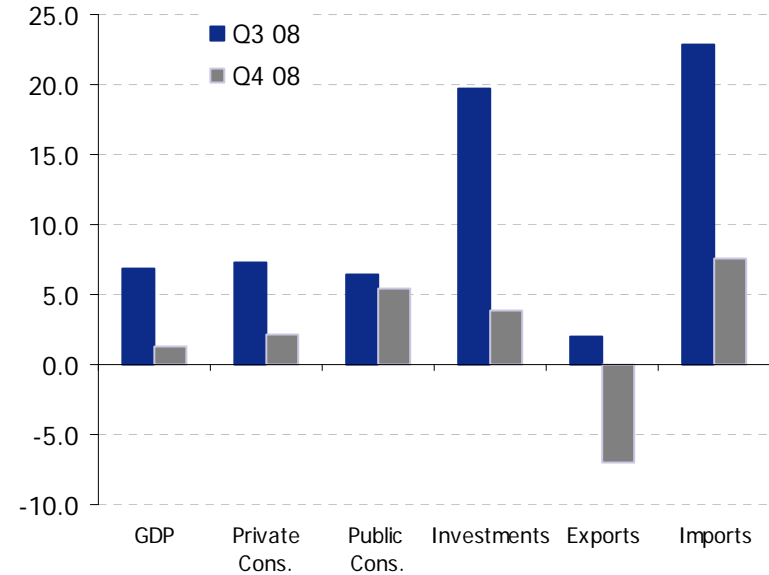
What to expect

**Brazil: dependence on international economy is higher than expected. World crisis is driving private consumption and investment down and public policies are not strong enough to offset the negative impacts of the crisis.**

**Brazilian GDP**  
(y-o-y %)



**GDP Components**  
(y-o-y %)

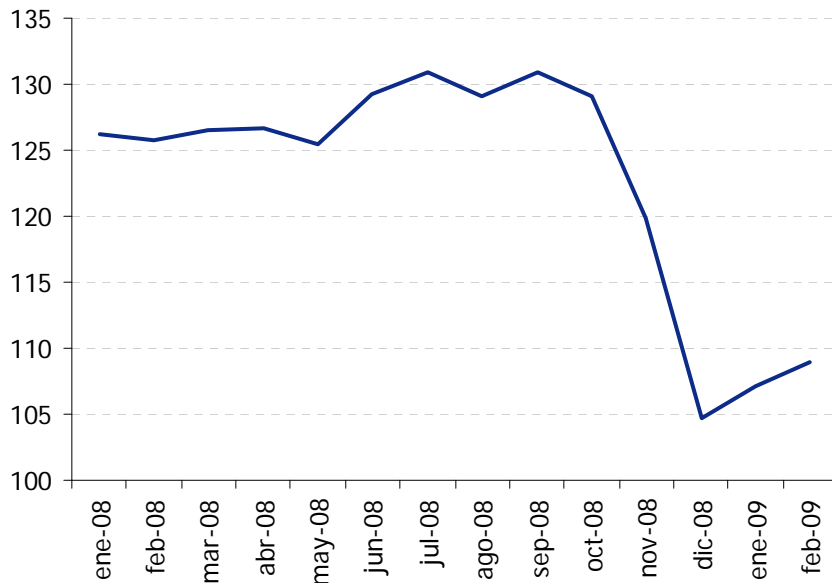


The economic activity was heavily impacted by global turbulences in Q4 2008 and GDP fell 3.6% q-o-q (+1.3% y-o-y).

All GDP components were heavily impacted by the financial stress and by the sharp change in perspectives, with the exception of the public consumption that was able to provide some support.

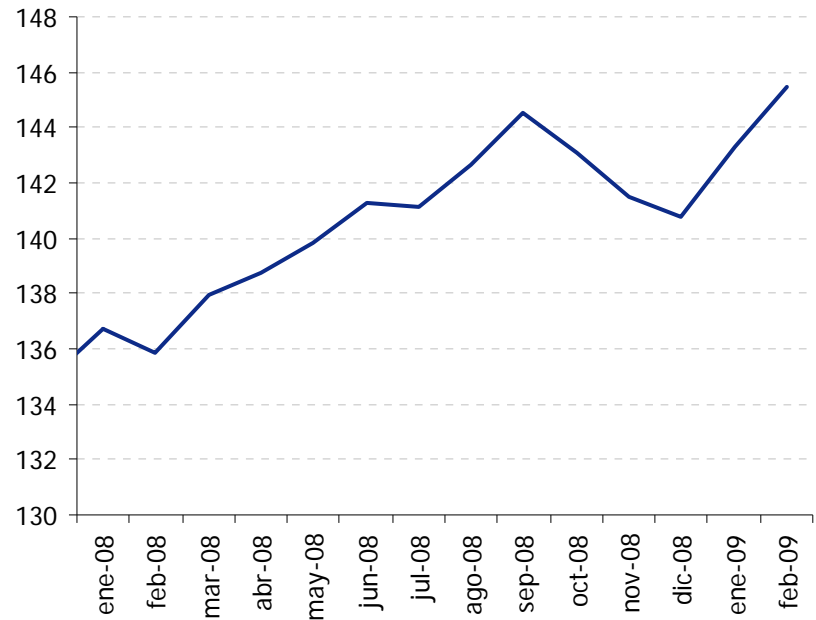
The impact was especially felt in the industrial sector (-7.4% q-o-q) and in capital formation (-9.8% q-o-q).

### Industrial Production Index SA



### Retail Sales

(Index: jan 01=100)



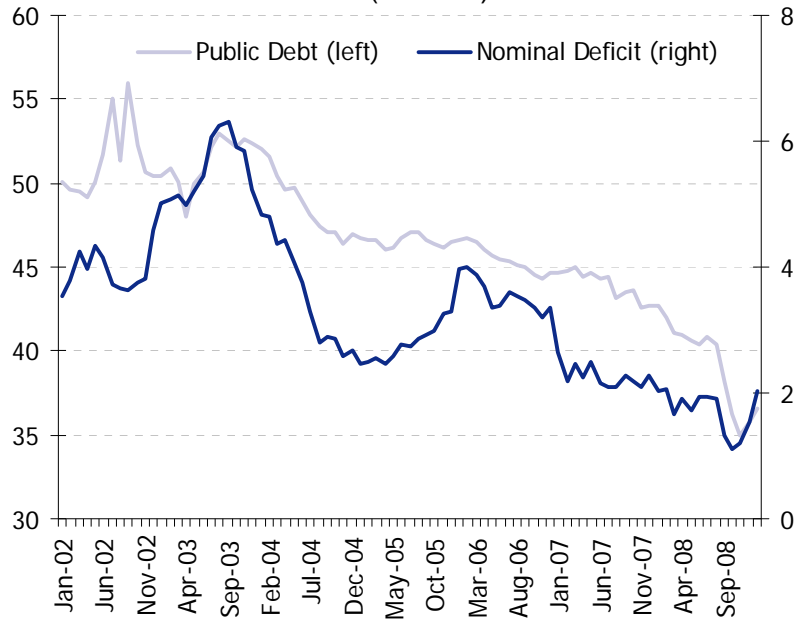
Fuente: Bloomberg

**High frequency data suggests that activity conditions will continue deteriorating in Q1 09, although at a slower pace. GDP is expected to fall 1.5% q-o-q in Q1 09.**

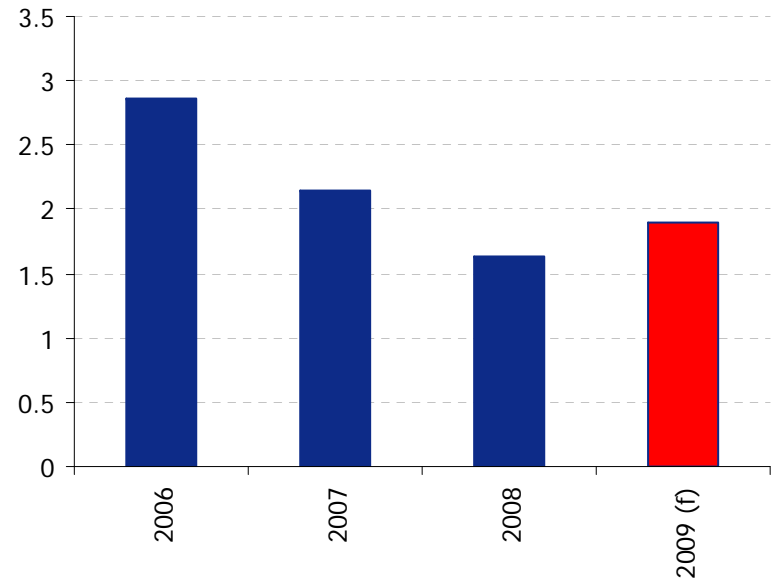
**Some recovery in the margin is being observed as liquidity and credit conditions are better now than in the end of last year and as the economy starts to benefit from some countercyclical policies.**

**Production and investments levels remain depressed despite some recent recovery. Sales are more resilient as falling inflation and lower interest rates are partially compensating higher unemployment and lower confidence.**

**Public Debt and Nominal Deficit**  
(% GDP)

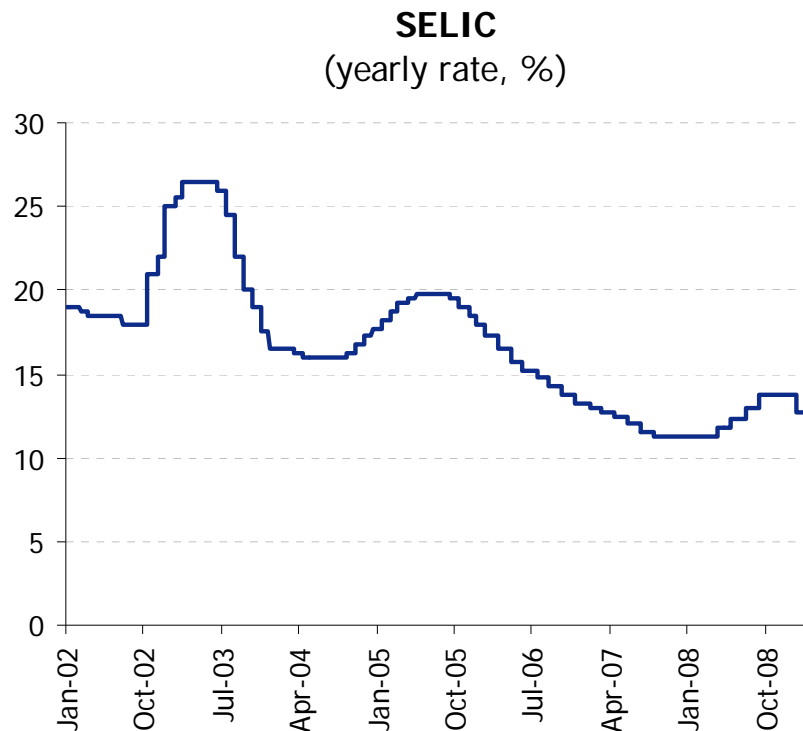
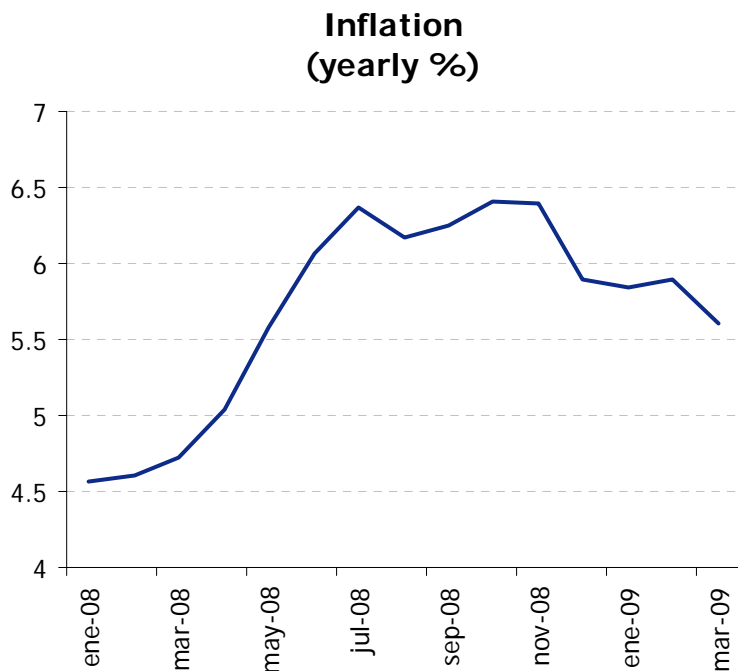


**Fiscal Deficit (% GDP)**



**The recent improvements in public accounts provide some (limited) margin of maneuver. For the first time in many years the country will be able to implement countercyclical measures.**

**Public expenditure and tax cuts are helping to alleviate the impact of the crisis in some sectors (real estate, social, infrastructure, durable goods, exports). The government reduced its goals for primary surplus from 3.8% to 2.5% in 2009 and 3.3% from 2010 on. However the resources are very limited to provide a strong support against the crisis.**



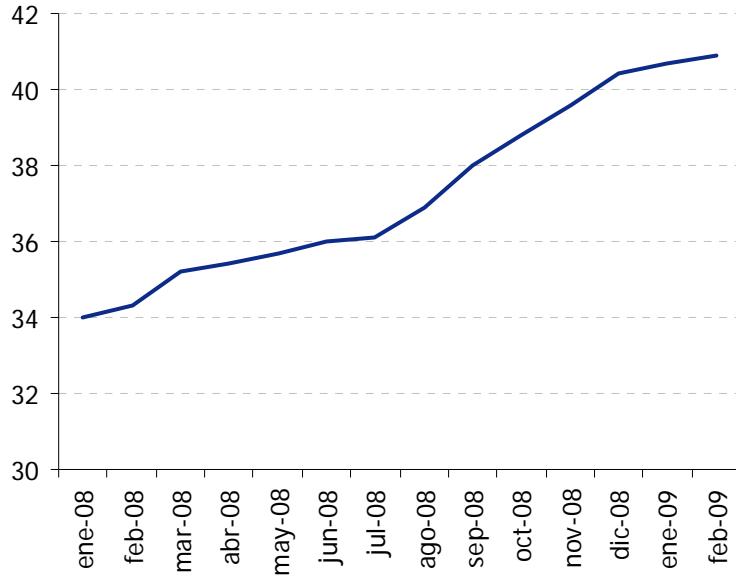
**As both inflation and internal demand are moderating, the Central Bank has been reducing official interest rates to historical lows.**

**The SELIC is now at 11.25% and should be around 8.50% in the end of the year.**

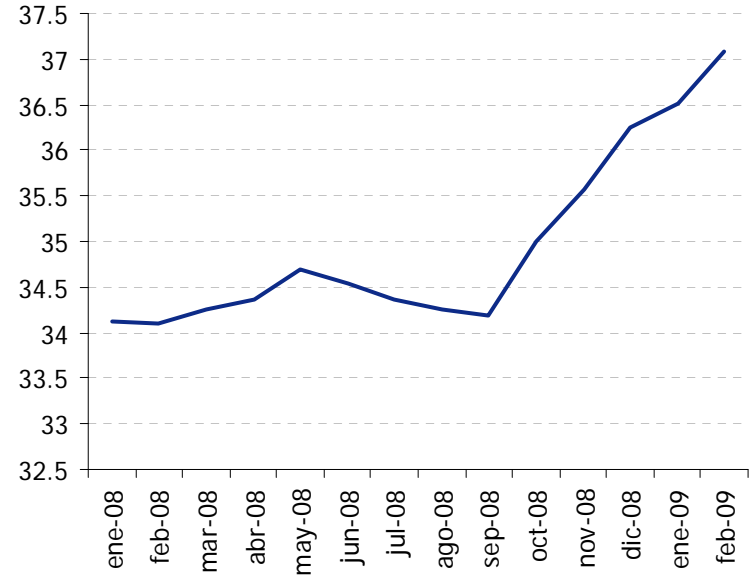
**The government has been also implementing a series of measures to avoid a sharp deterioration of the credit conditions. However, credit growth will fall from more than 30% before the crisis to something around 10% in 2009.**



**Credit to the Private Sector  
(% GDP)**



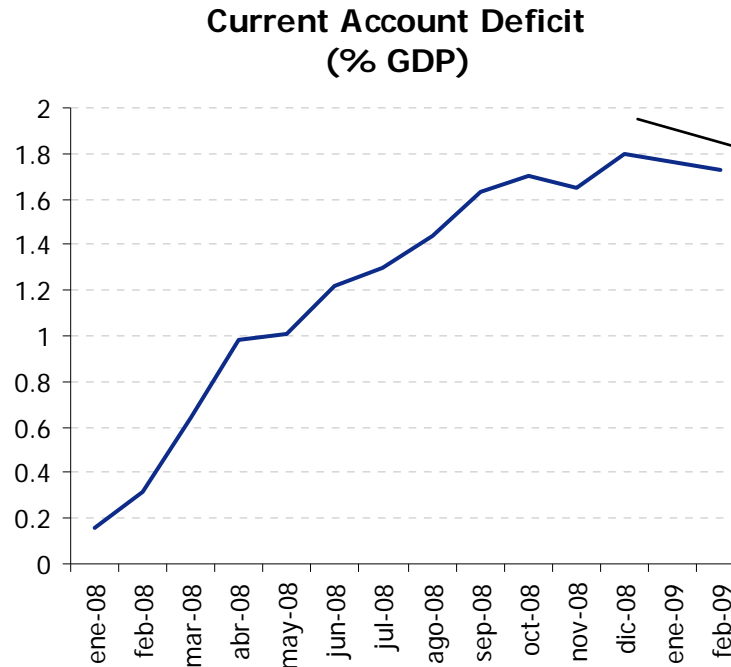
**Public Credit  
(% Total Credit)**



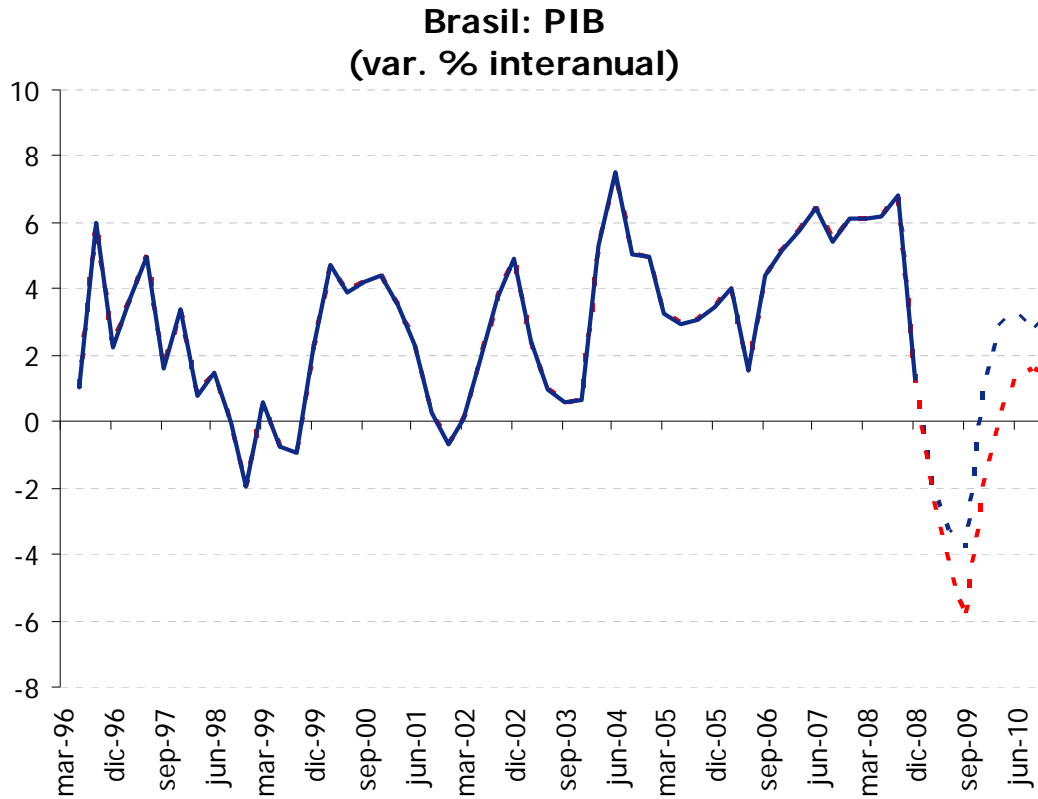
**Public banks have now a higher share of total credit in the economy as the government has been using public banks to inject resources in the economy.**

**Smaller banks continue to face liquidity problems, although the situation is improving following government specific actions (incentives for bigger banks to buy the portfolio of smaller banks, guarantee of institutional deposits...)**

Very differently from other crises episodes, the external accounts should remain on track. The currency depreciation and the sharp moderation in the internal demand will maintain current account deficit under control.



As a sign of the new times for the Brazilian economy, the government is expected to contribute to IMF funds instead of borrow resources from the organism.

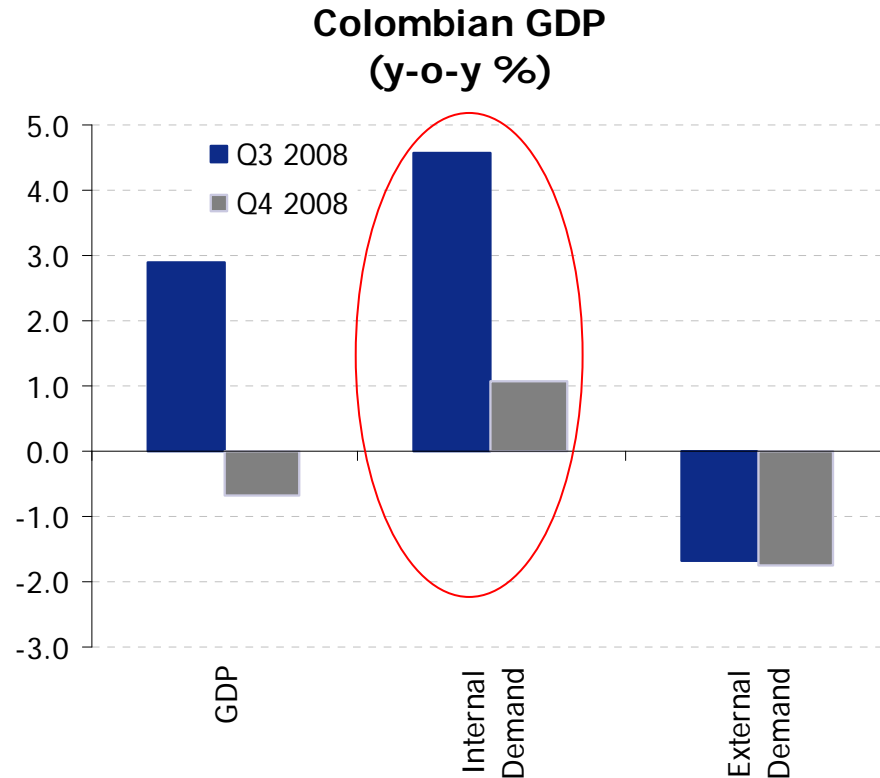


The economy is expect to start to recover in the middle of the year following the world economy and the impact of countercyclical measures.

Where do we stand?

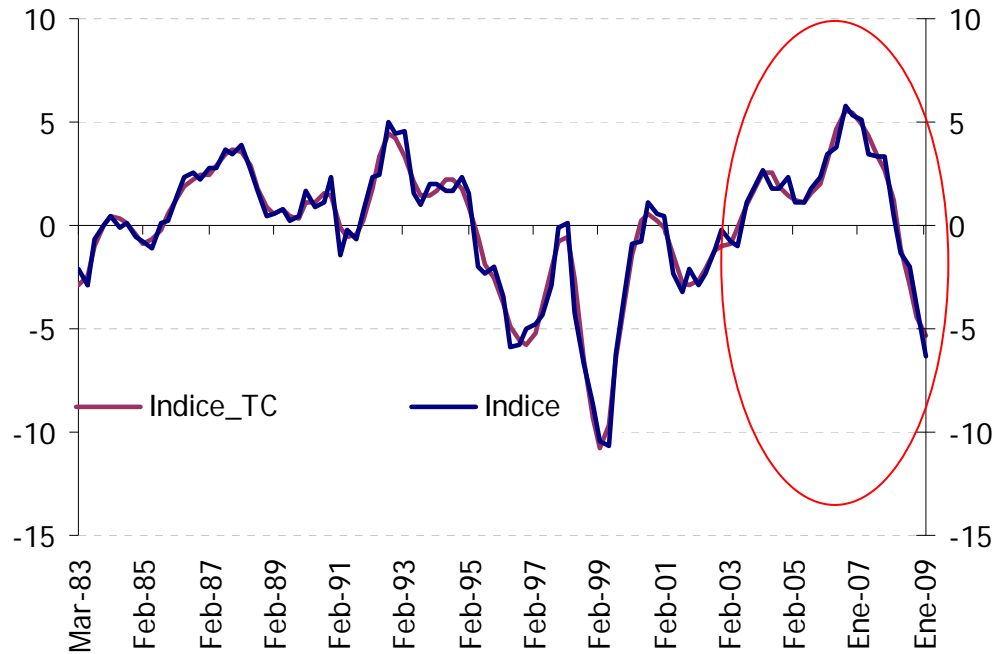
What to expect

Colombia: without margin for fiscal policy, the country has secured financing for 2009, thus requesting the new IMF line as an insurance against potential shocks.



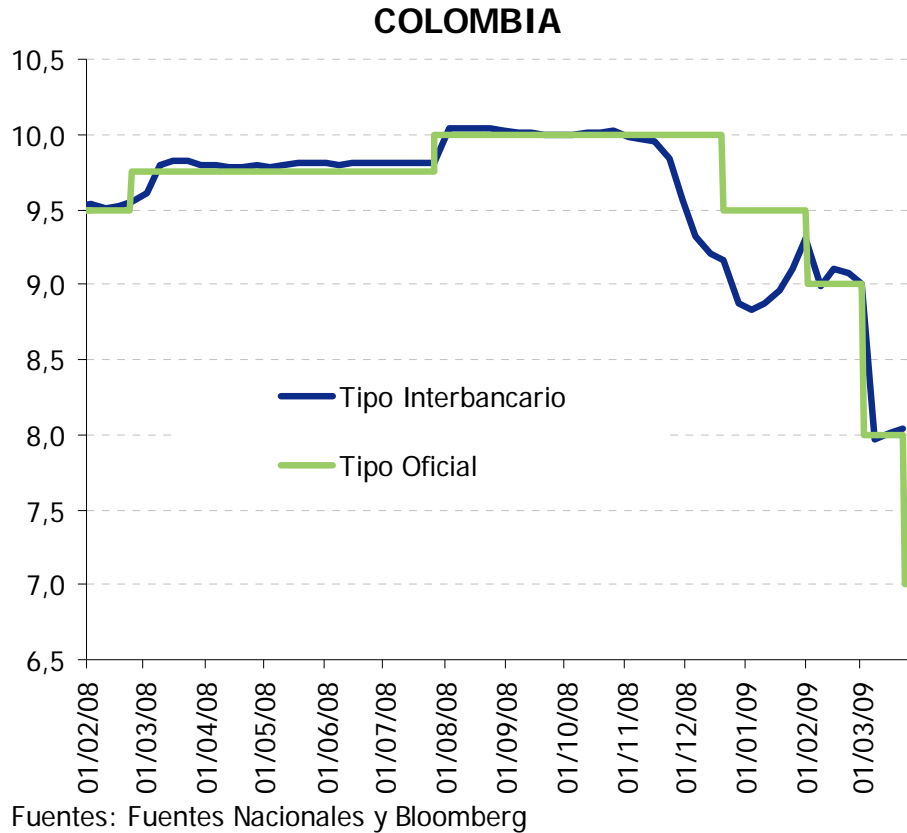
**Q4 08 GDP was worse than expected as internal demand was strongly affected. The deterioration of labor conditions drove private consumption down. Worse credit conditions and lower confidence impacted investments down.**

**Indice General de Actividad Económica -  
BBVA**



Fuente: SEE BBVA

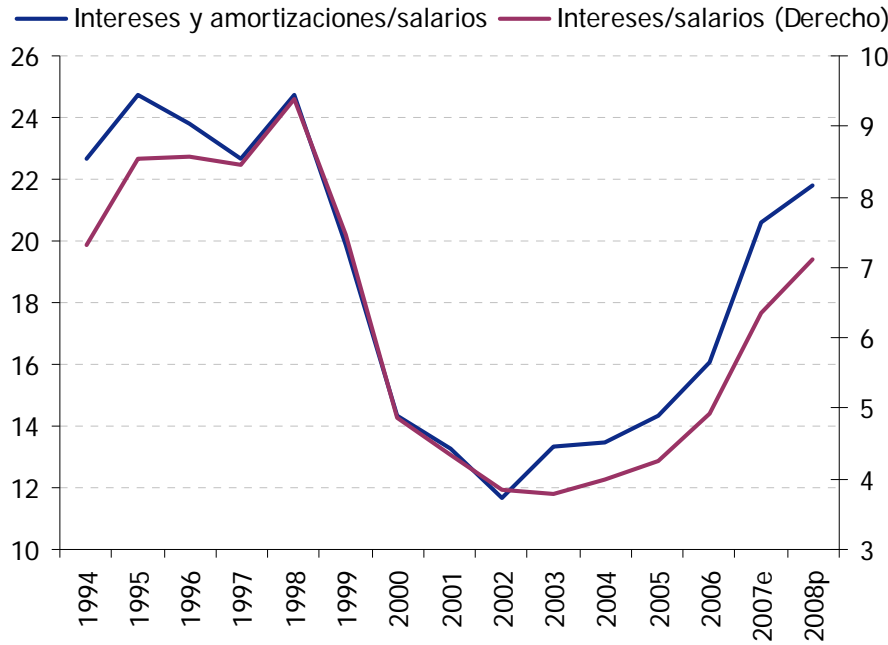
**The economy continued to deteriorate in the first quarter of 2009 as it is displayed by the most recent activity indicators. There are, however, some elements providing a positive support: a higher disposable income, falling inflation, some expansion in public expenditure and a partial recovery of exports given a more depreciated exchange rate.**



**The Central Banks has been cutting interest rates and will continue doing so till rates reach 6% in the end of the year.**

**Interbank and credit rates are expected to fall following official rates declines.**

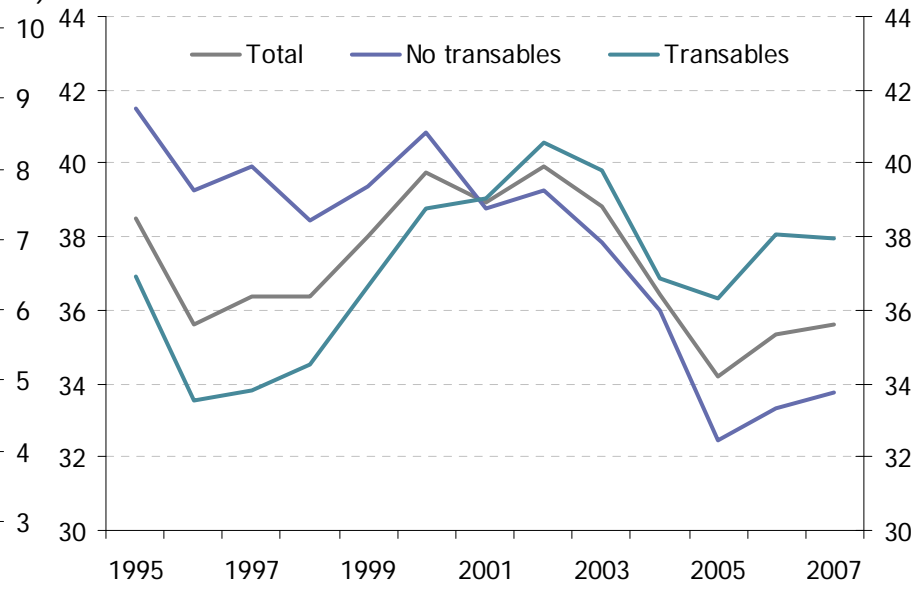
### Colombia Carga financiera de los hogares (Porcentaje del salario)



Fuente: Banco de la República

SEE BBVA

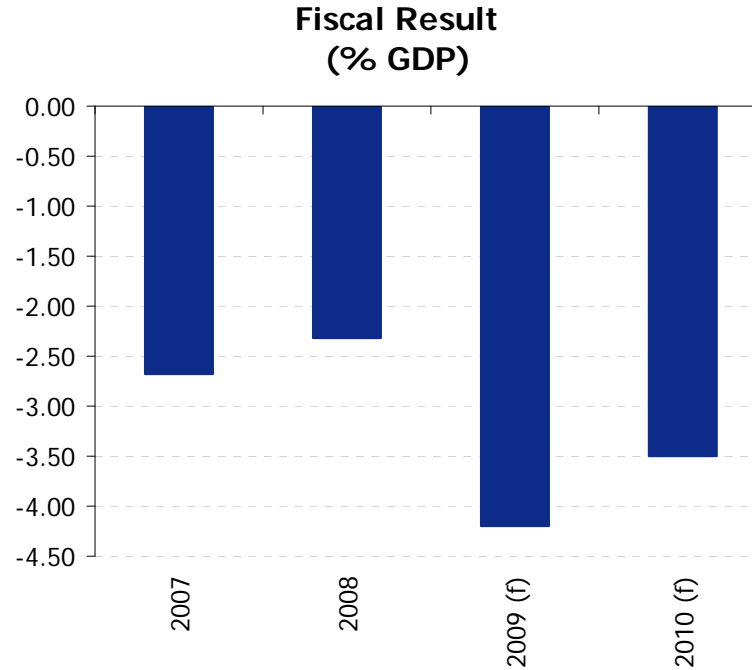
### Colombia Endeudamiento total (Pasivos totales/activos totales, %)



Fuente: Superintendencia Financiera de Colombia y de Sociedades; cálculos del Banco de la República

**The reduction in the interest rates will alleviate the debt burden of the families.**

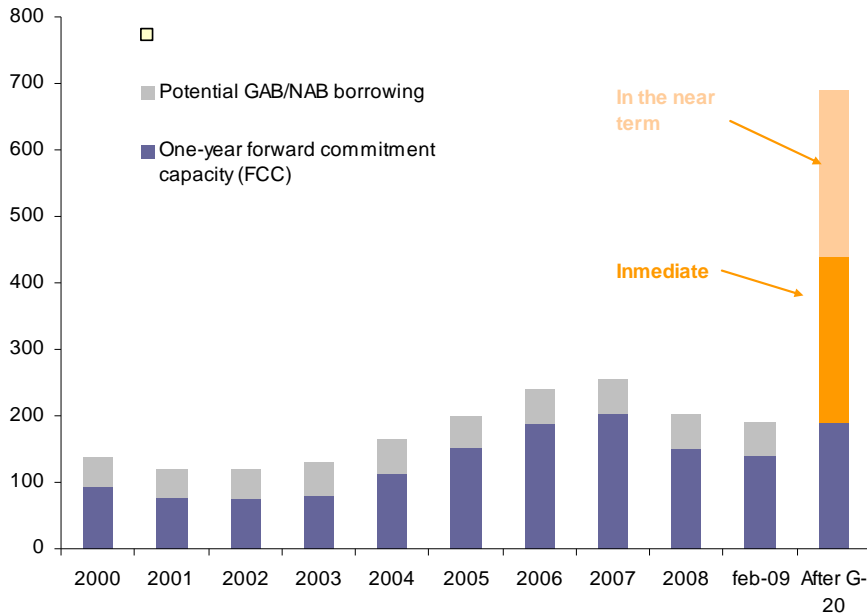




**Although the funding of 2009's deficit is in great part guaranteed, the deterioration of the economic activity makes Colombian public accounts a source of vulnerabilities.**

**As a consequence, there is no room to implement countercyclical fiscal policies.**

IMF lending capacity, USD bn

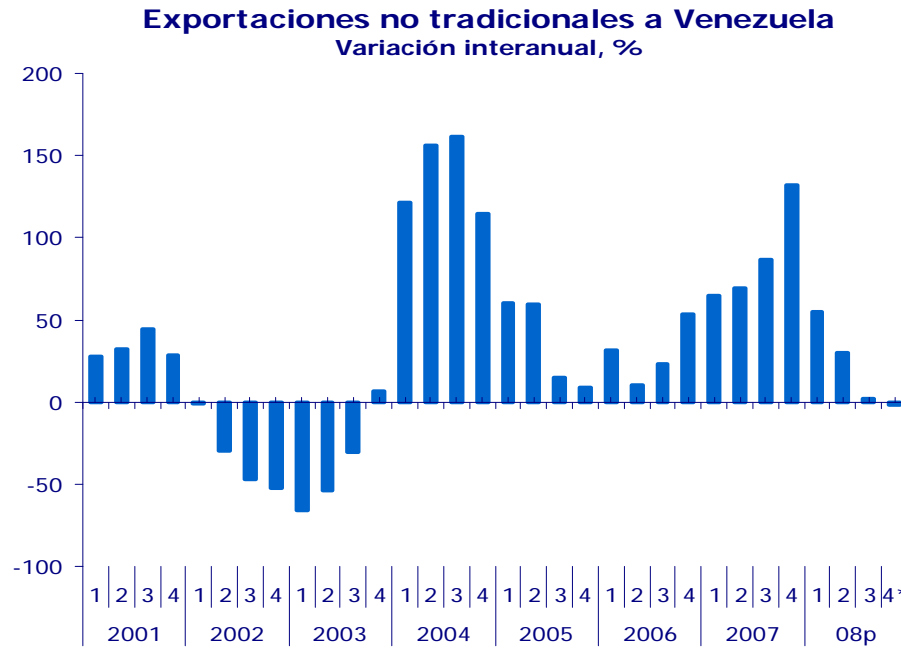


**Colombia has been the second (after Mexico) Latin American country to ask for IMF funds for countries with sound macroeconomic fundamentals.**

**The use of IMF resources is seen as an insurance against a further deterioration of the funding environment.**

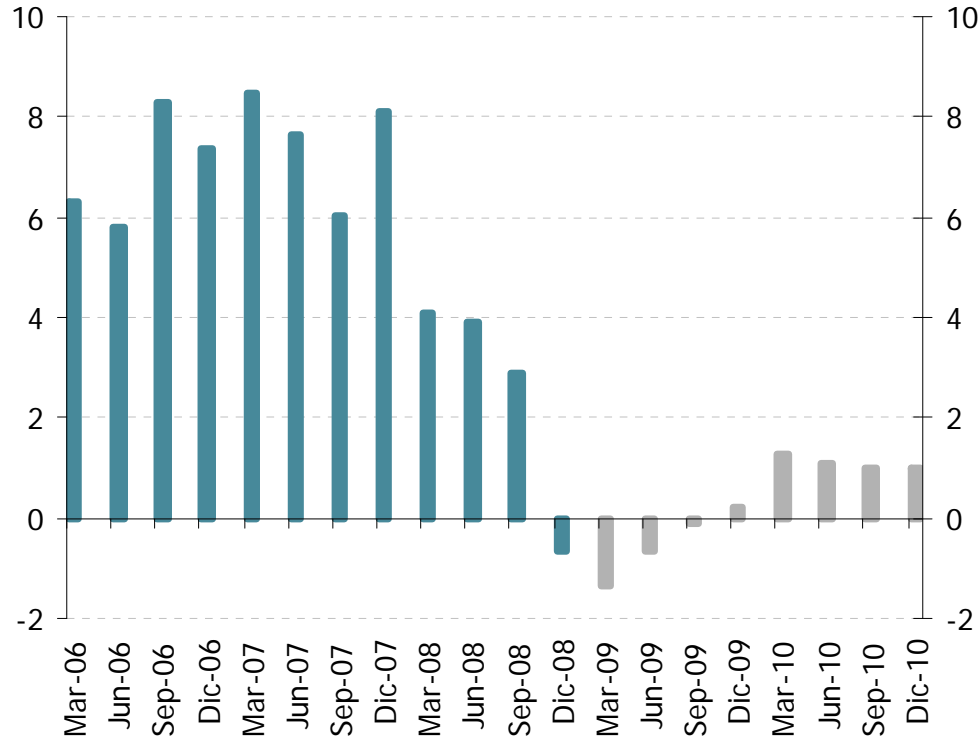
### Emerging Markets' recourse to IMF Flexible Credit Line

Members already under FCL	Amount (US \$ bln)
Colombia	10.4 (9 times quota)
Mexico	47 (10 times quota)
Poland	20.5 (10 times quota)
Members likely to apply for FCL	
Turkey	10



**15% of Colombian exports are destined to either Ecuador or Venezuela. This makes the country especially vulnerable to problem in these countries.**

**Producto Interno Bruto**  
(Variación interanual, %)



Fuente: DANE y cálculos SEE BBVA

SEE BBVA

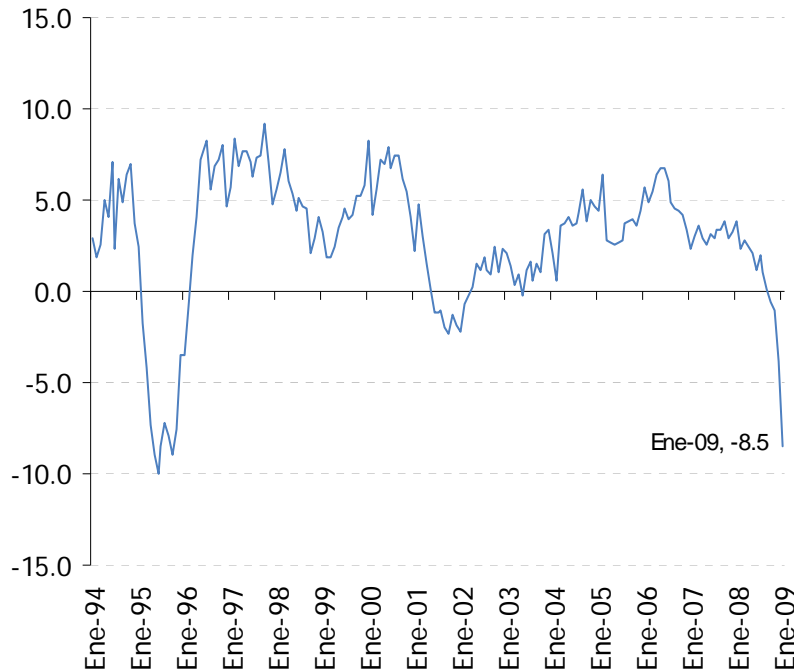
**Economy will keep falling in the first quarter of 2009 and then will start a low speed recovery.**

Where do we stand?

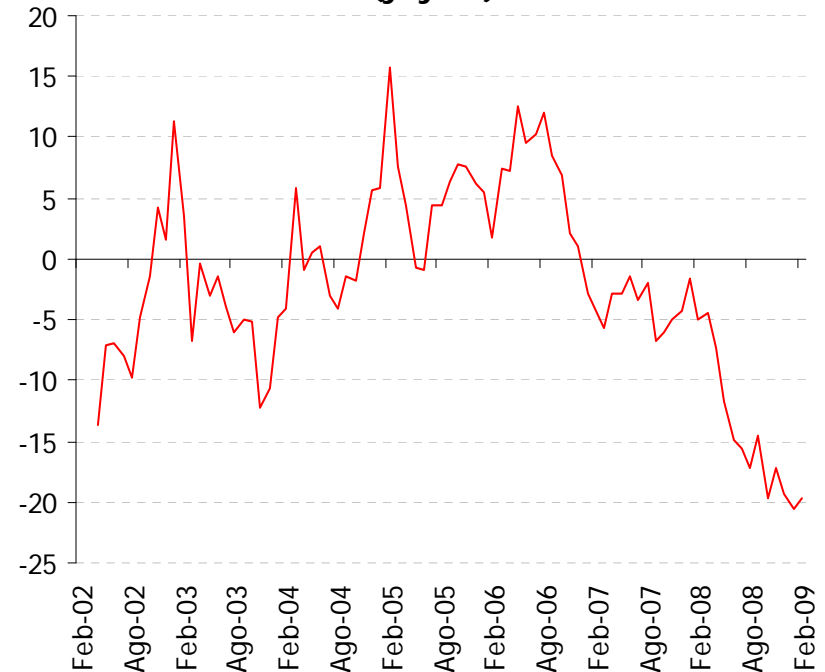
What to expect

**Mexico: After a rough adjustment in 2009, the country will profit from the earlier recovery of the U.S.. Policy capacity is being utilized; and as a preventive measure, the available sources of external financing.**

**IGAE**  
(Var a/a%)



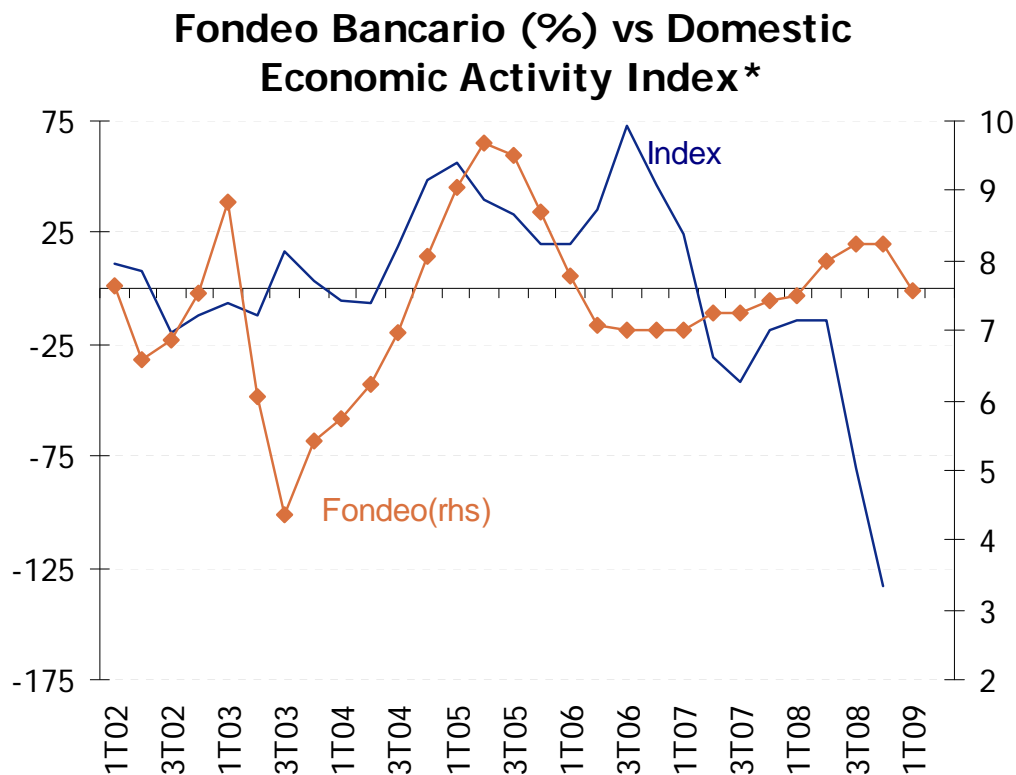
**Consumer Confidence**  
(y/y %)



The juncture deterioration has been sudden and deeper than thought before.

The global scenario confirms a lower external demand for the Mexican economy.

As a consequence of the lower exchange rate risks, economic activity factors are weighting more in the Balance of Risks; and the central bank has accelerated its pace of interest rates cut (225 bp in the past four months)



Source: BBVA Bancomer

\* Index is based on the weighted growth difference between domestic demand and investment

## 1. Federal Reserve Swap for US\$30 billion

-Banxico auctioned \$4,000 millions the April 21st, making use of the Fed Swap line for the first time. The objective is to auction dollars to commercial banks & development banks.

## 2. FCL (Facility Credit Line) from the IMF, for USD 47 bn

### Expectations:

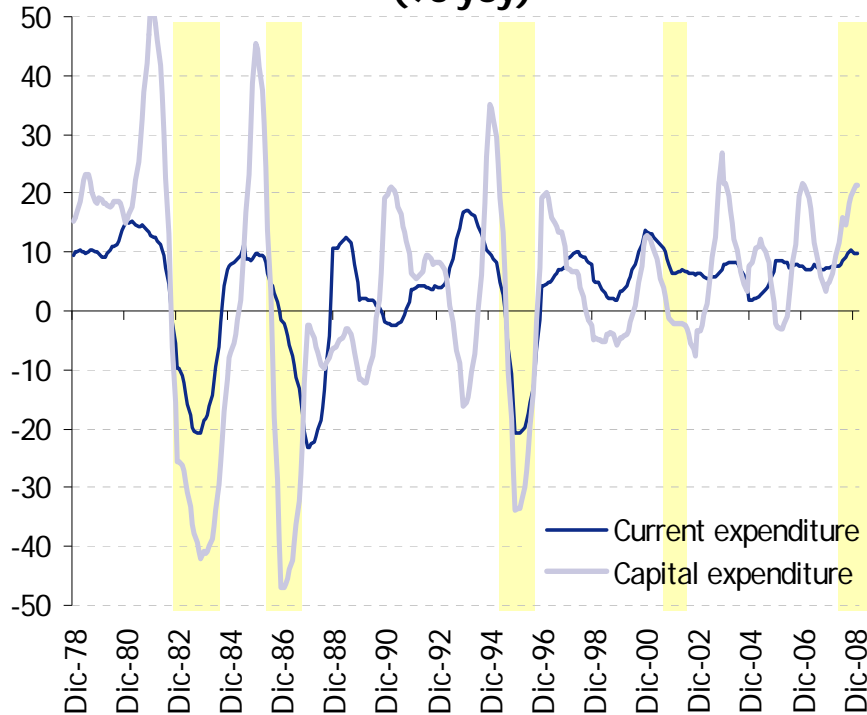
-This potential injection of liquidity into the economy aim to **increase investor and consumer confidence.**

-The **Mexican peso should bolster.**

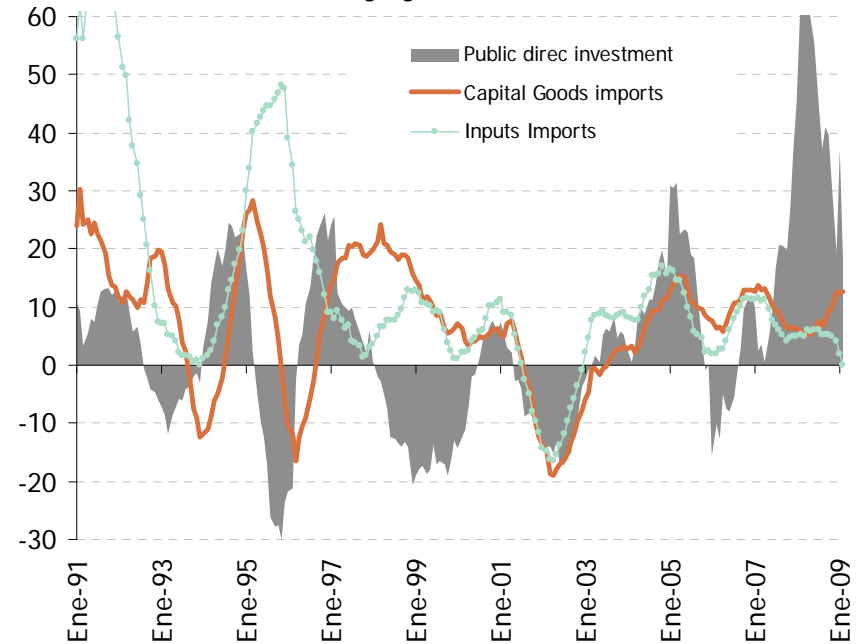
-It would probably lead to **lower interest rates**



**Mexico: Government Expenditure (% yoy)**

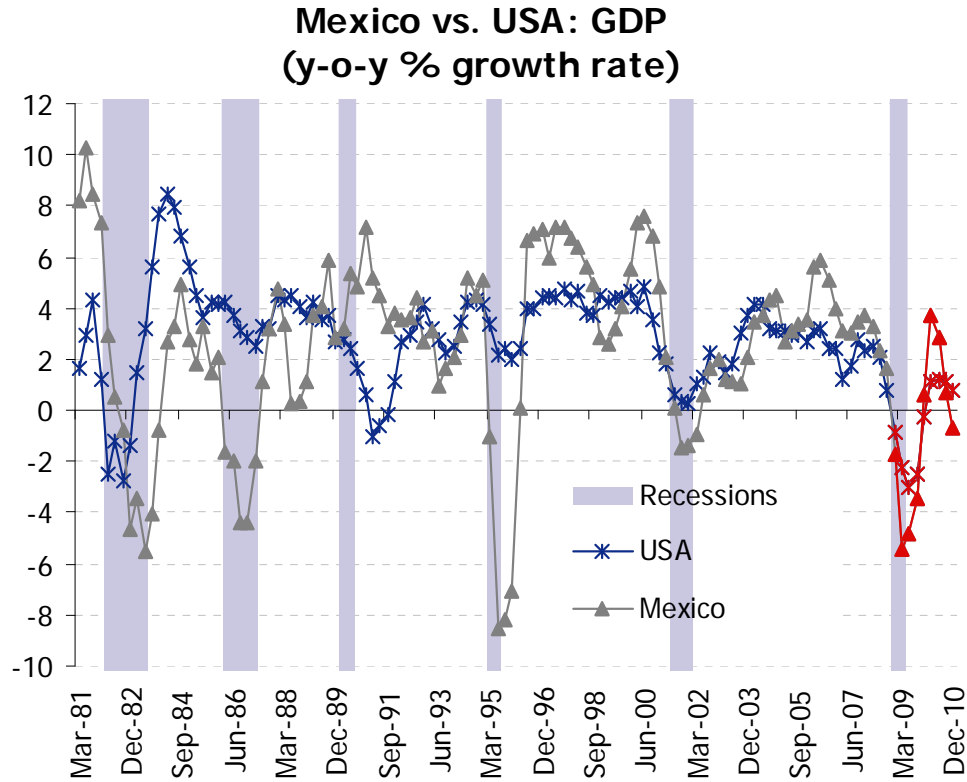


**Mexico: Public investment and imports (% yoy, ma12m)**



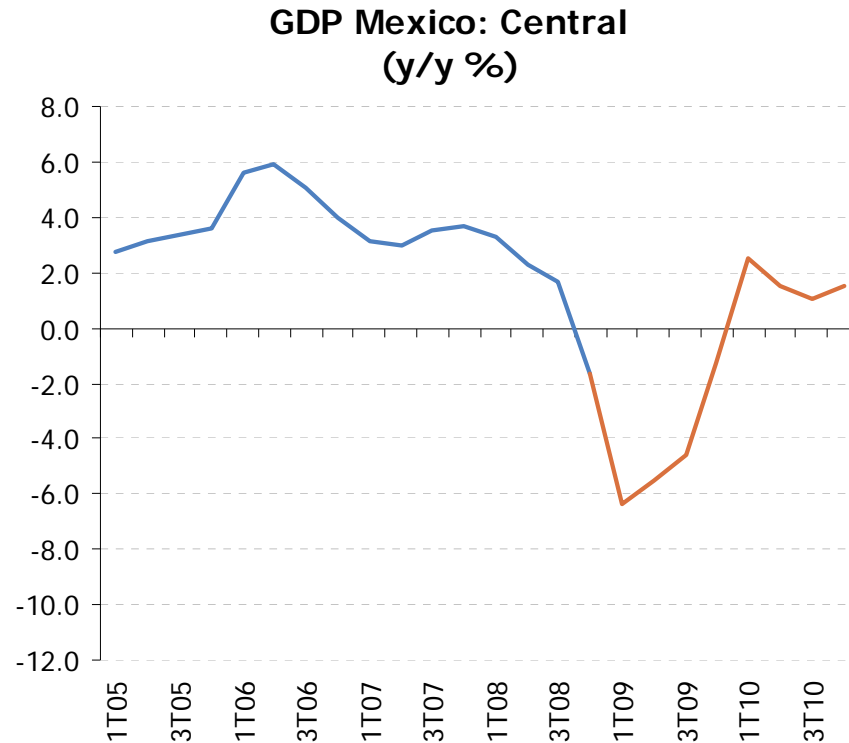
**The Mexican Fiscal Policy will be counter cyclical in 2009 for the first time in history.**

**Considerable risk of import dilution of capital expenditure**



Source: BBVA ERD

**Mexico entered in recession with US and the recovery of its the neighbor will be a main ingredient for its recovery.**



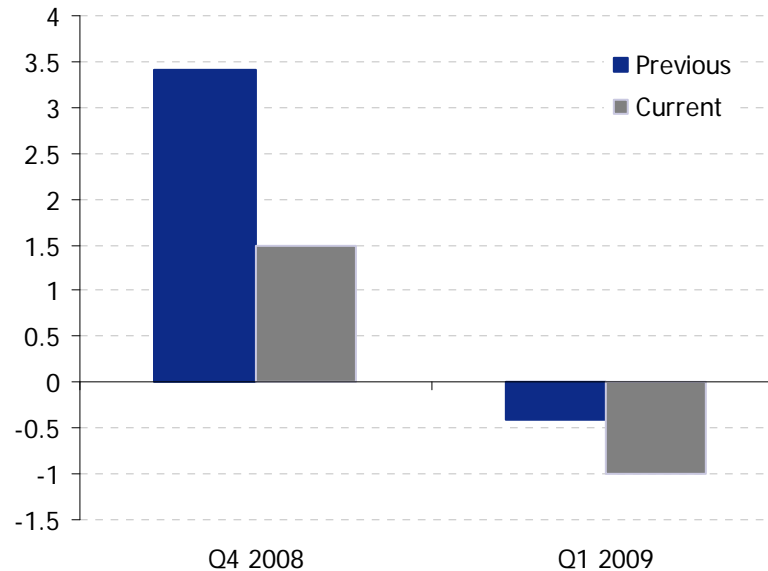
**A feebler than expected business cycle in the USA, a loss of confidence, as well as expansionary fiscal and monetary policies, point towards the fact that the worst performance of the economy might happen during the first half of 2009**

Where do we stand?

What to expect

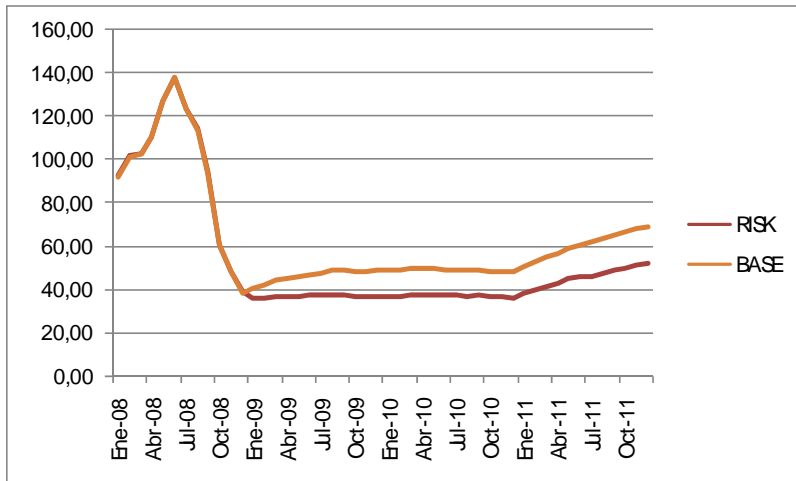
Venezuela: the country faces an important problem in its public accounts due to lower oil prices. This together with supply problems imply a long-lasting adjustment in the activity.

GDP: surprise in Q1 08 and downward revision for Q1 09

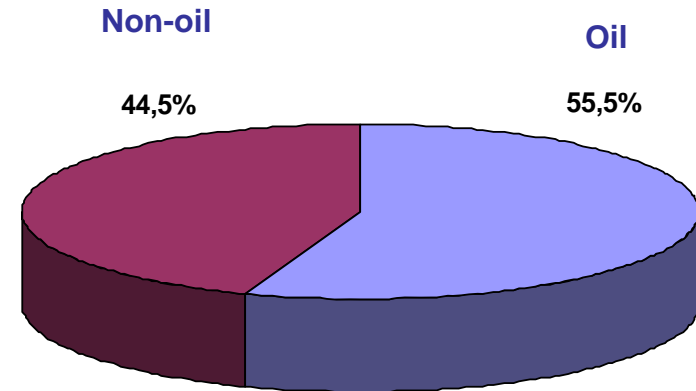


The deterioration of world environment and lower fiscal expenditures are driving private consumption and investments down. GDP growth in Q4 2008 was lower than expected and Q1 09 should display a sharper contraction.

Oil prices: Brent USD/B



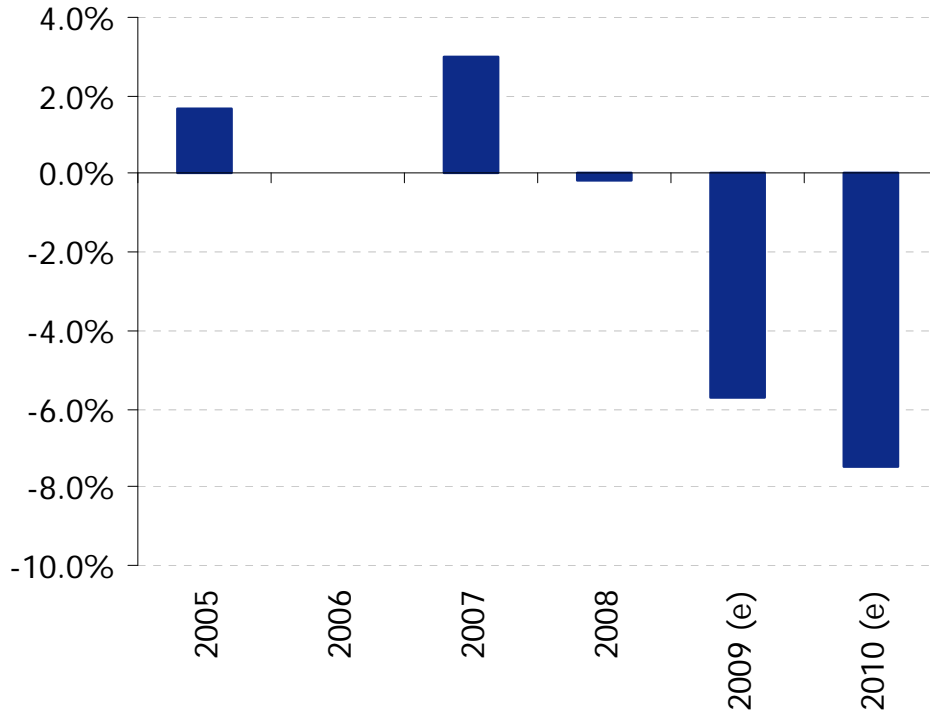
Fiscal revenues, 2008



Fuente: Min. Finanzas. Cifras preliminares

**The world crisis drove oil prices down with a negative impact on Venezuelan accounts.**

## Fiscal Result / GDP

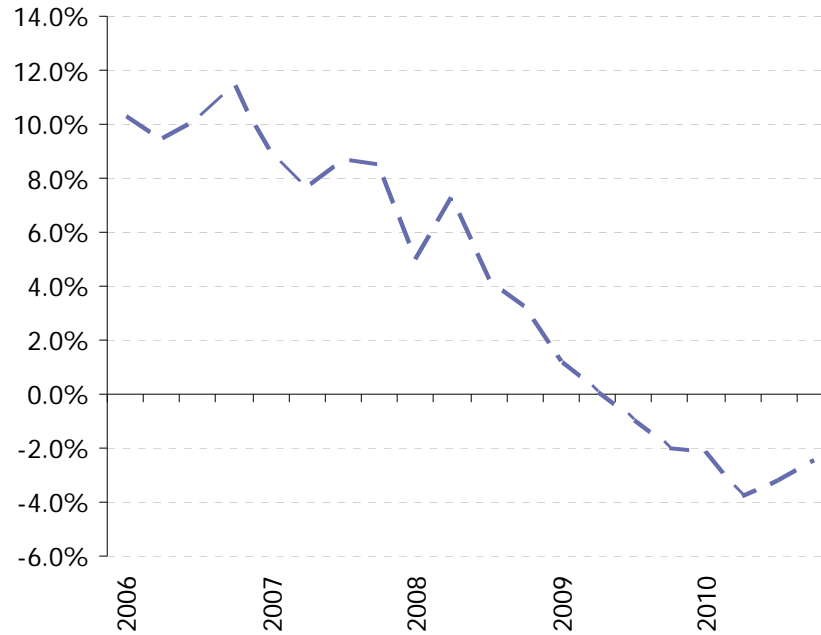


Previously accumulated resources provide some space for fiscal policy in 2009 but much less in 2010.

The government has taken some actions to face the problem, but measures are not enough to resolve the issue.

In case no more measures are taken, funding problems could emerge in 2010.

GDP changes



**Deterioration of activity is likely to be more persistent than in other countries in the region as the public expenditures are now constrained and due to supply restrictions.**



How is BBVA positioned?



- **In a context in which the financial and economic crisis has clearly taken a toll on the financial industry, BBVA's retail banking business model remains intact.**

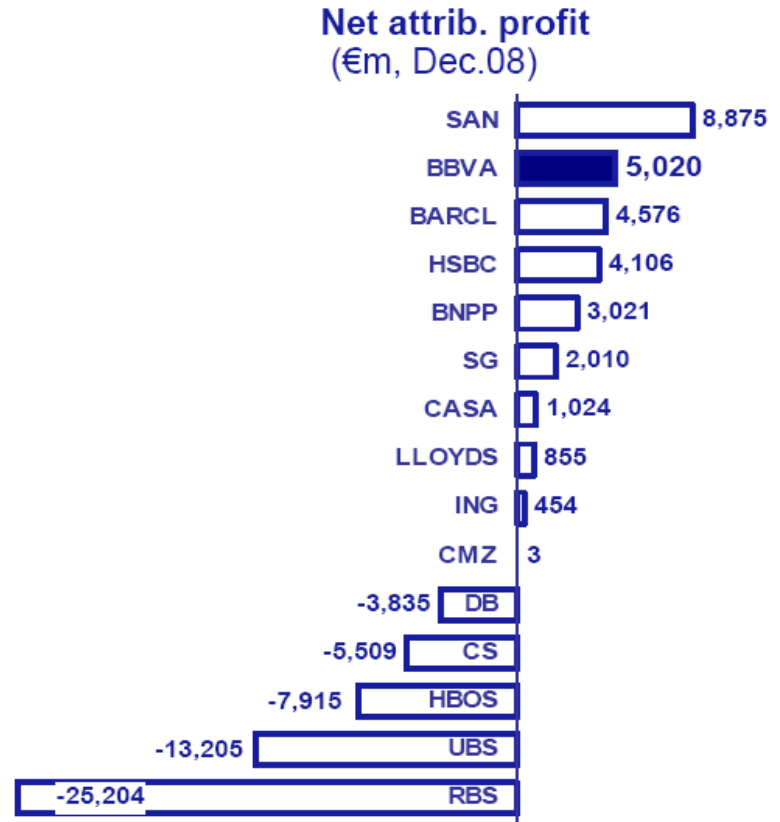
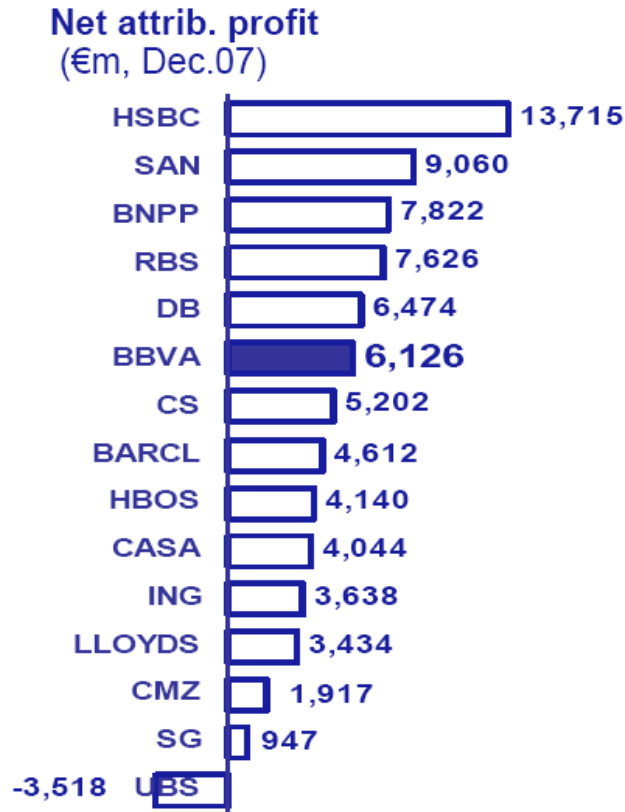
**Our earnings performance in the last year has been outstanding**

**BBVA**

	2007	2008
<b>Net attributable profit ranking</b>	11 <sup>th</sup>	2 <sup>nd</sup> 
<b>Market capitalization ranking</b>	17 <sup>th</sup>	7 <sup>th</sup> 
<b>Total shareholder return ranking*</b>	3 <sup>rd</sup>	1 <sup>st</sup> 
<b>S&amp;P rating</b>	AA-	AA 

**... as a consequence of a prudent management and corporate positioning in retail banking**

### 2008, a year in which the financial and economic crisis has clearly taken a toll on the financial industry...

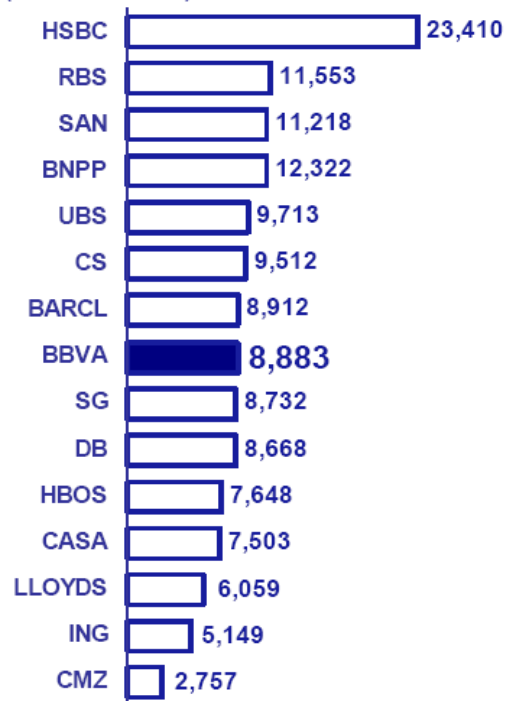


Internal sources based on published figures.

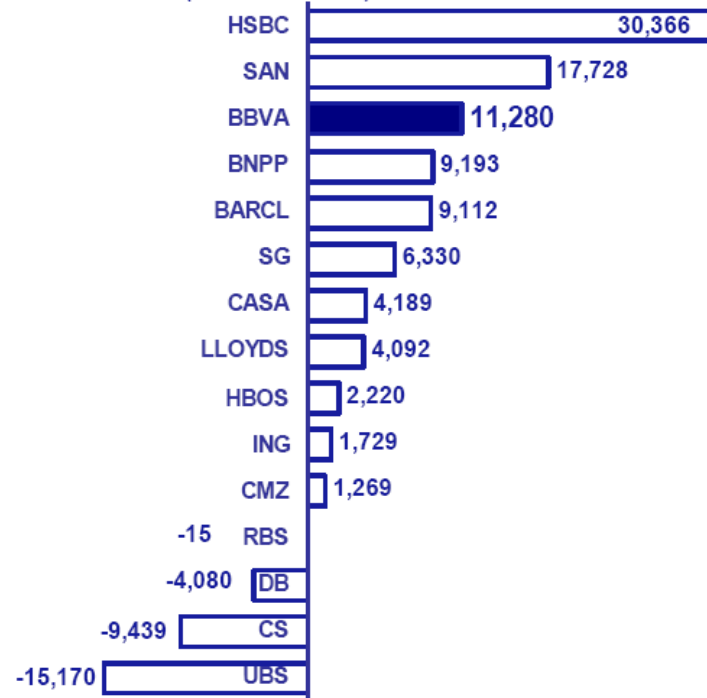
... but the evolution of the operating profit provides a clearer view of the impact of the crisis

**BBVA**

Operating Profit  
(€m, Dec.06)



Operating Profit  
(€m, Dec.08)

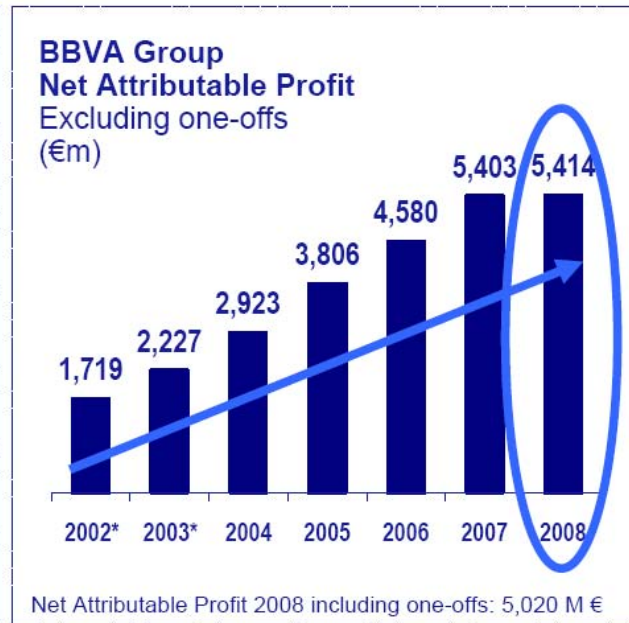
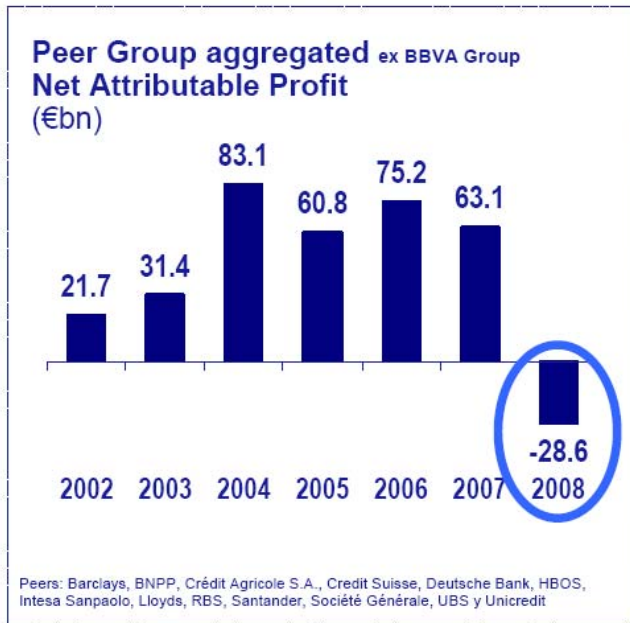


**BBVA's retail banking business model remains intact**

In an environment of great complexity ...

**BBVA**

### BBVA is an exception ...



**The Global Financial Crisis:  
Where does Latin America  
Stand?**

**BBVA Economic Research Department  
April 23, 2009**

