2008 Credit Risk Conference

An Overview for Hong Kong Exporters

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@rating

coface

Latin America and the global slowdown: How does it compare with Emerging Asia?

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Key Questions

1. **Where were we then and where are we now?**
   - The shock from developed to emerging economies: from a magnified to a reduced impact
2. **Why?**
   - Several sources of strength in emerging markets, although not the same for Asia and Latin America
   - Some weaknesses linger in both regions
3. **What to expect?**
   - Slowdown in emerging economies but not a marked downfall.
   - Sound performance of financial indicators unless risk scenarios unravel.

Outline

1. Where were we then and where are we now?
2. Why a milder impact? Strengths
3. Weaknesses and risks
4. What to wait for

1 Where were we then and where are we now?

After several months into the crisis, emerging economies remain relatively unaffected by the financial turmoil.

Current expectations bluntly different to the last crises!

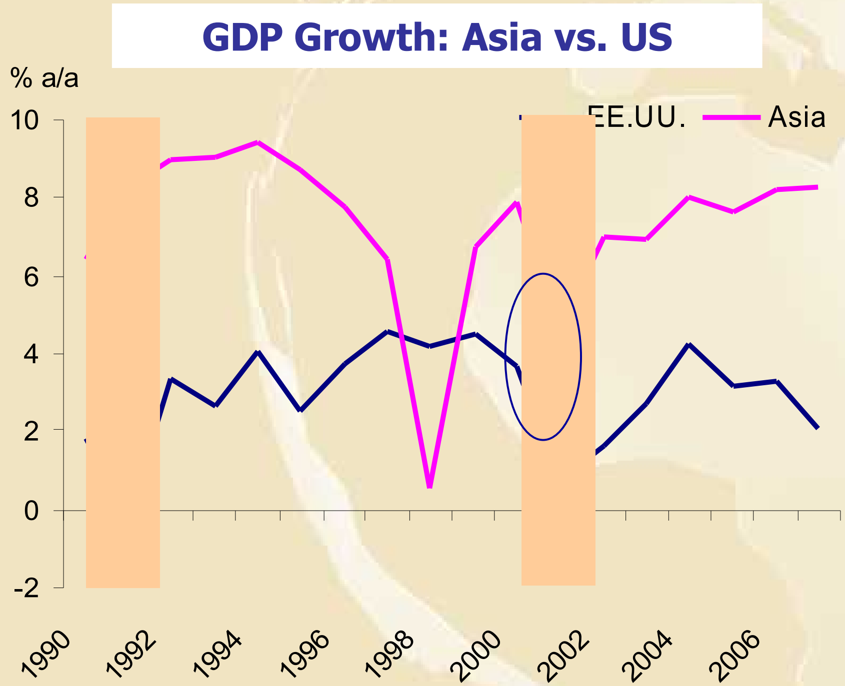
In previous instances, an amplified financial shock was usually translated into an economic crisis.

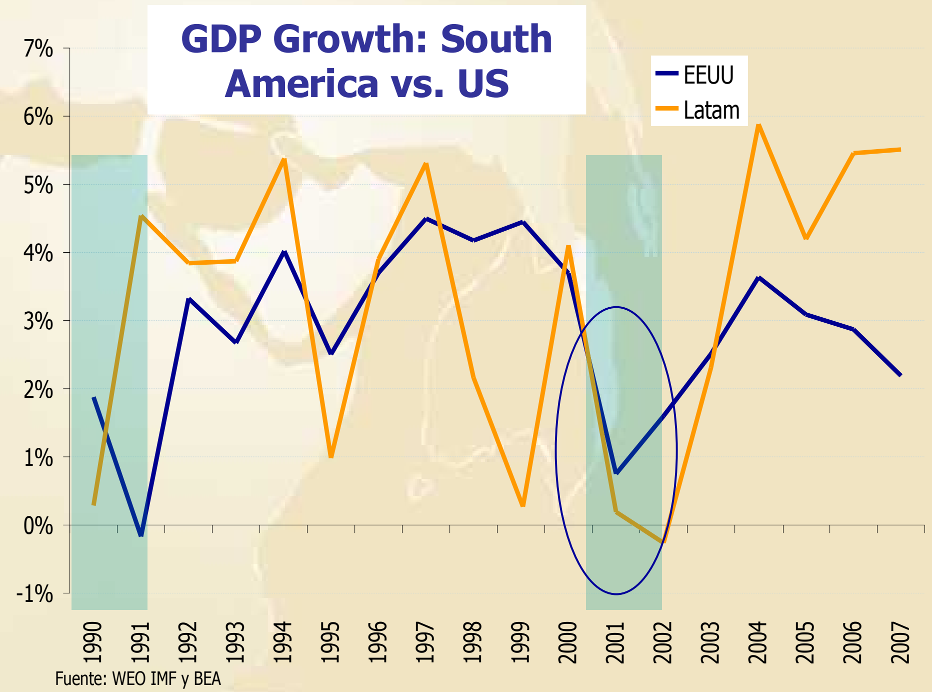
Even when the real channel was the main responsible for the crisis, the magnifying effect has always come through the financial channel:

- **External factors: increase in risk aversion and/or foreign interest rates**
- **Domestic factors: solvency, liquidity…**

1 Where were we then and where are we now?

- In 2001, the U.S. recession was cushioned in Asia (GDP falls 2.9 pps in the U.S. vs. 1.1 in Asia).
- While the impact was amplified in Latin America (GDP falls 4 pps). Important to note that it coexisted with an idiosyncratic crisis (Argentina)!





Outline

1. Where were we then and where are we now?

2. Why a milder impact? Strengths

3. Weaknesses and risks

4. What to wait for

2 Why a milder impact? Strengths

South America	Asia

1. Greater wealth (per capita GDP)
2. More domestic demand: Consumption and Investment
3. Twin surpluses
4. Stable financing: recovery of FDI and remittances
5. Debt reduction
6. Greater export diversification
7. Intense reserve accumulation
8. Financial development
9. Sounder financial system

2 Why a milder impact? Strengths

1. Greater wealth

	South America			Asia		
	Current	2000	1995	Current	2000	1995
Per capita incomer USD PPP	11420	8185	7253	9980	5932	4580
Domestic demand growth contrib.	7.1	2.8	5.3	8.9	7.3	10.5
Consumption	3.4	0.6	0.8	4.05	1.7	3.6
Investment	2.3	-0.1	0.3	4.8	2.5	4.3
Ratio Investmen/GDP	22.10	17.70	20.40	36.4	31	37.3

Source: BBVA based on IMF and national sources

2 Why a milder impact? Strengths

2. Tendency to twin surpluses

	South America			Asia		
	Current	2000	1995	Current	2000	1995
Fiscal balance/GDP	0.1	-2.8	-4.4	1.08	-2.1	-1.2
Current account/GDP	1.7	-1.7	-2.4	6.3	2.04	-1.98
Intal. reserves/GDP	15.00	9.80	9.70	42	21.8	14.6*

* Hong Kong not included in 1995

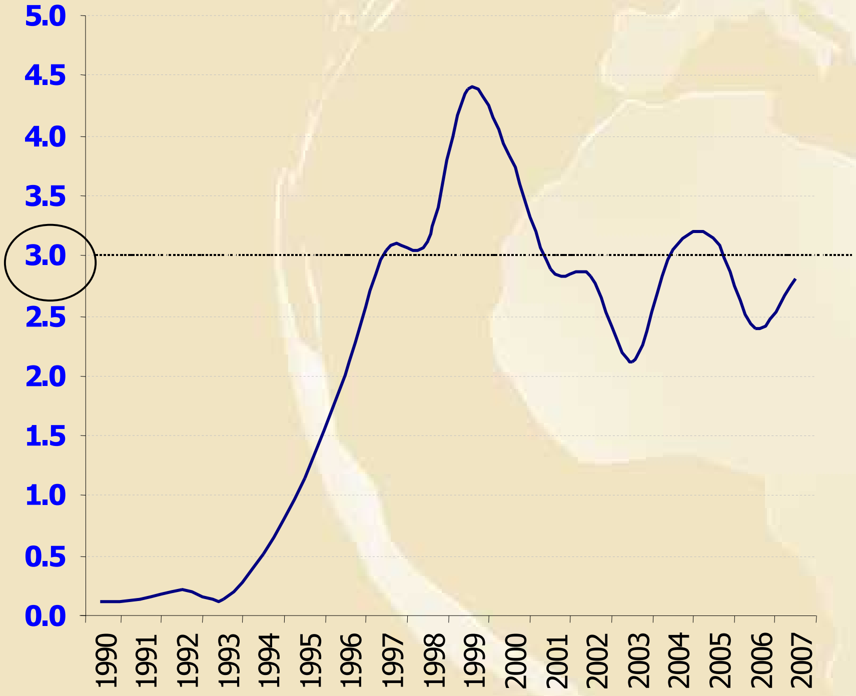
2 Why a milder impact? Strengths

3. Stable financing: Recovery of FDI

South America

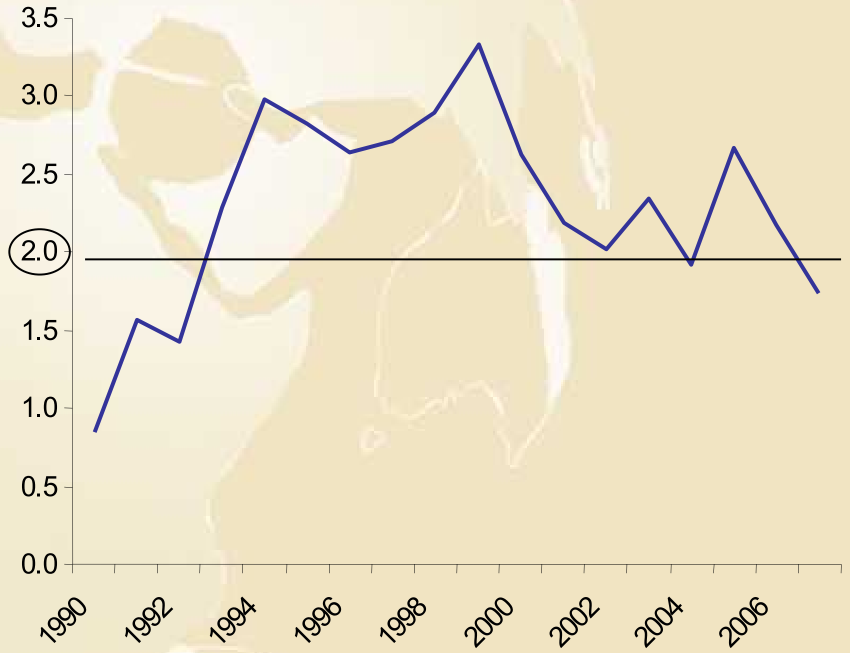
ASIA

South America: FDI as percent of GDP



National Sources

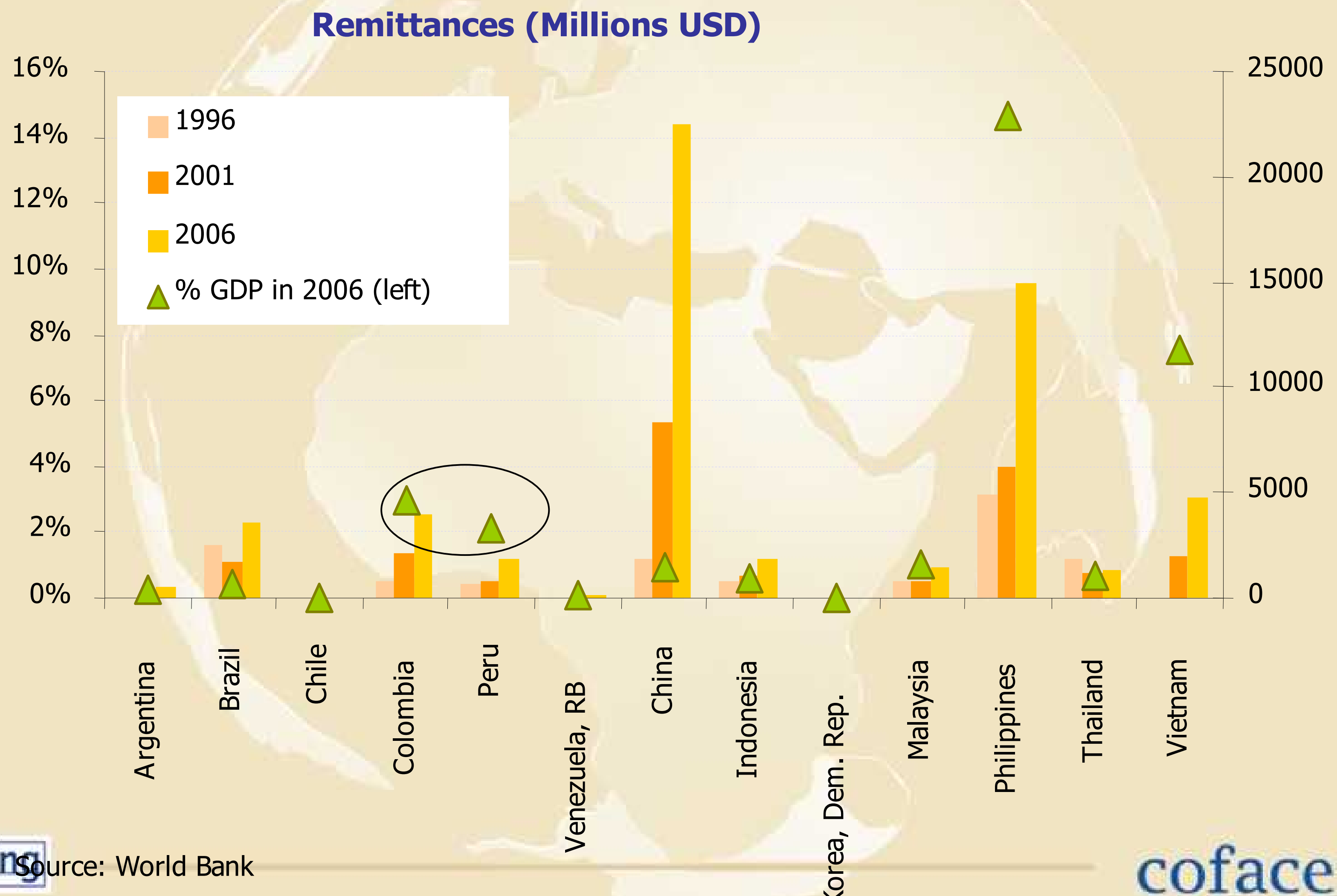
Asia, FDI as percent of GDP



Source: IMF

2 Why a milder impact? Strengths

4. Stable financing: growing remittances



Source: World Bank

2 Why a milder impact? Strengths

5. Debt reduction: lower public and external debt as well as debt service

	South America			Asia		
	Current	**2000**	**1995**	**Current**	**2000**	**1995**
Public Debt / GDP	37.3	40.4	30.4	37	40.1	30
External Debt / GPD	21.4	35.5	27.2	17.4	29.3	30.9
Debt services / GDP	3.3	7.6	3.8	1.9	4.1	3.5
External debt in USD as per cent of total	75.21	74.10	74.24	71.1	72.2	64.8

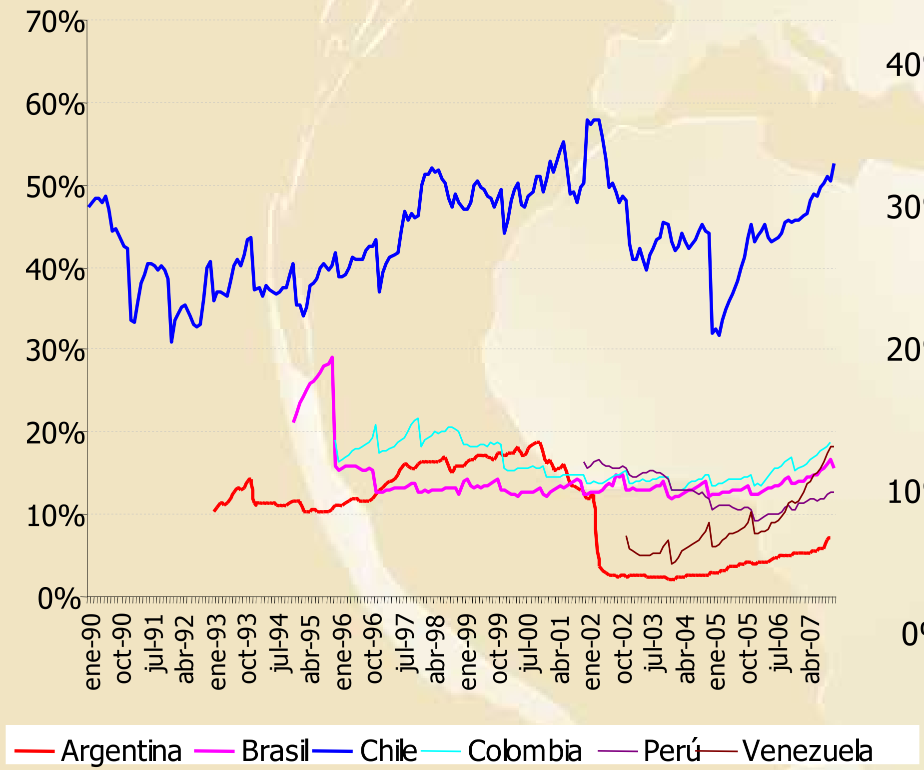
Fuente: BBVA a partir de fuentes nacionales

2 Why a milder impact? Strengths

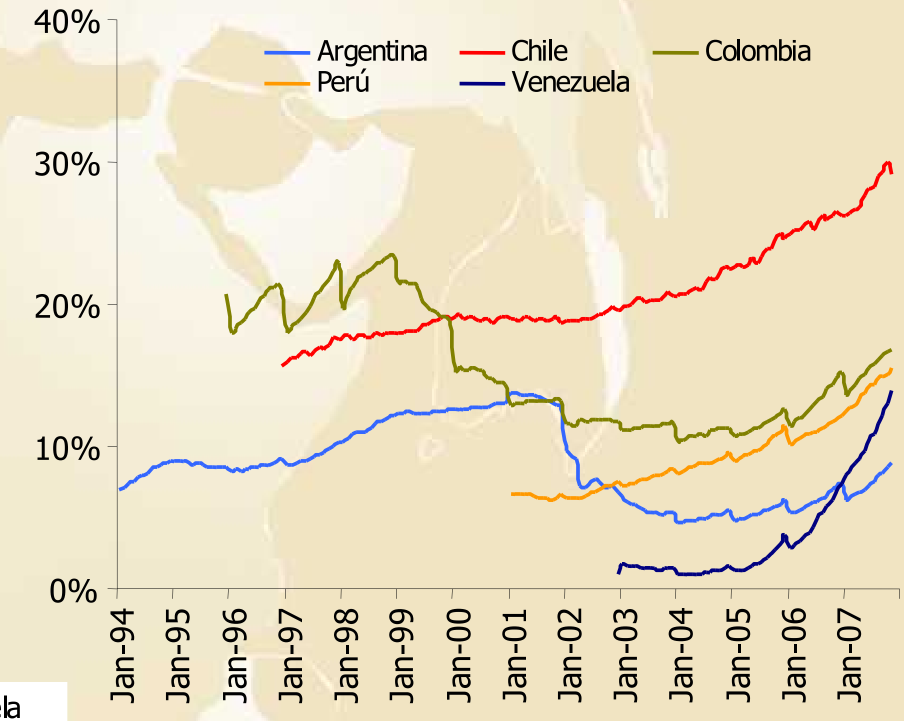
5. Debt reduction: Household & corporate debt still moderate despite recent increase

South America

Debt, non-financial corporations
As percent of GDP



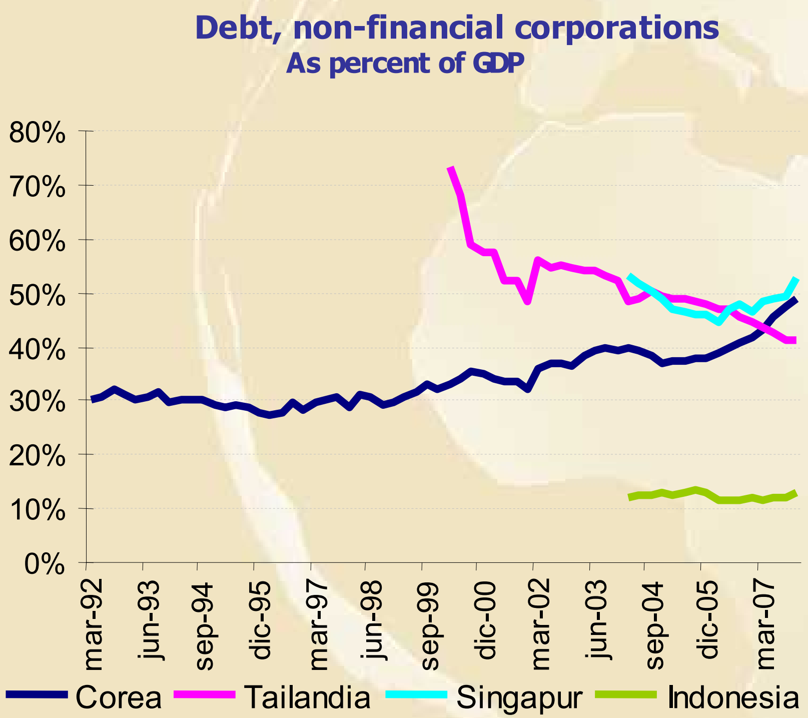
Debt, Households
As percent of disposable income

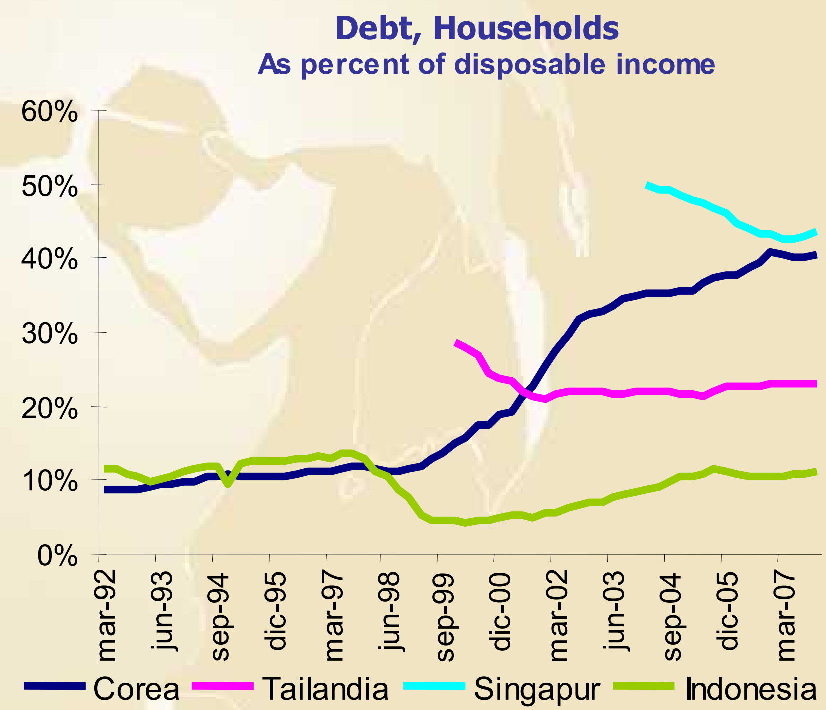


2 Why a milder impact? Strengths

5. Debt reduction: Household and corporate indebtedness slightly higher than in South America but does not trend upwards (except for Korea).

ASIA



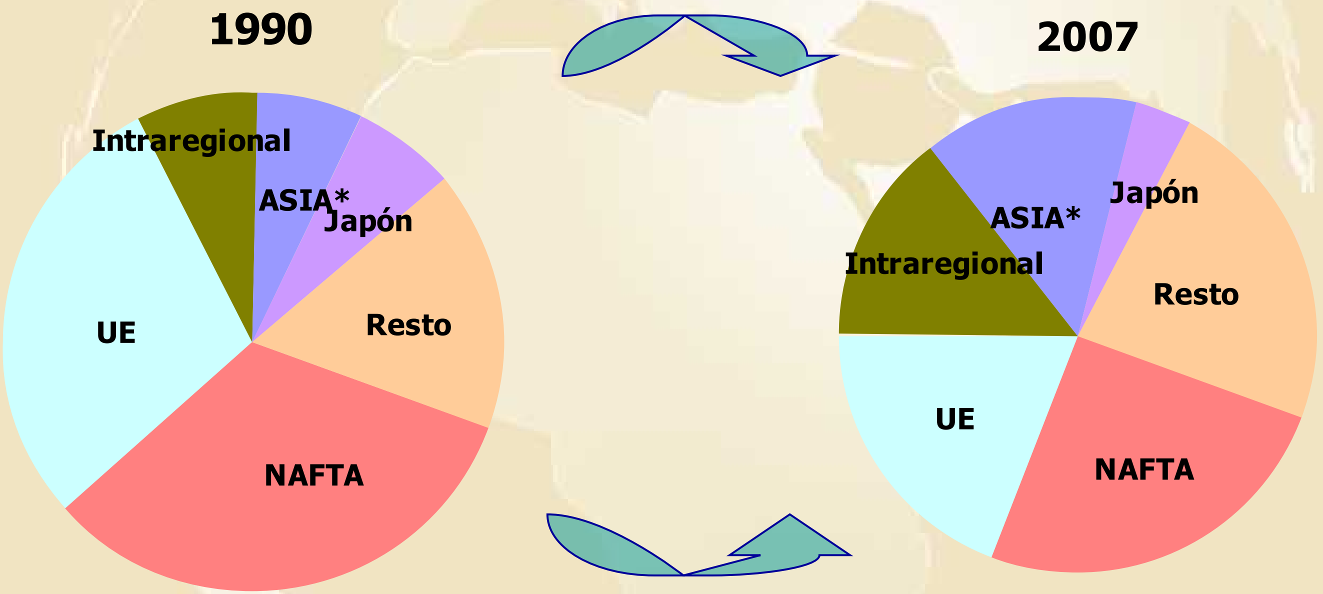


Fuente: BBVA, Bancos Centrales

2 Why a milder impact? Strengths

6. Greater export diversification and increasingly directed towards high growth areas.

South America



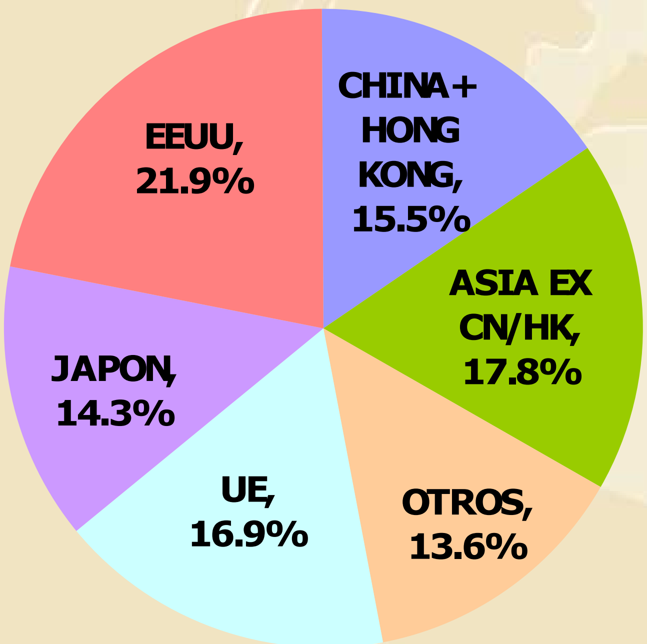
*Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Vietnam
Fuente: DOTS y BBVA

2 Why a milder impact? Strengths

7. Greater geographical export diversification althoughnot so much true for final demand

ASIA

1990



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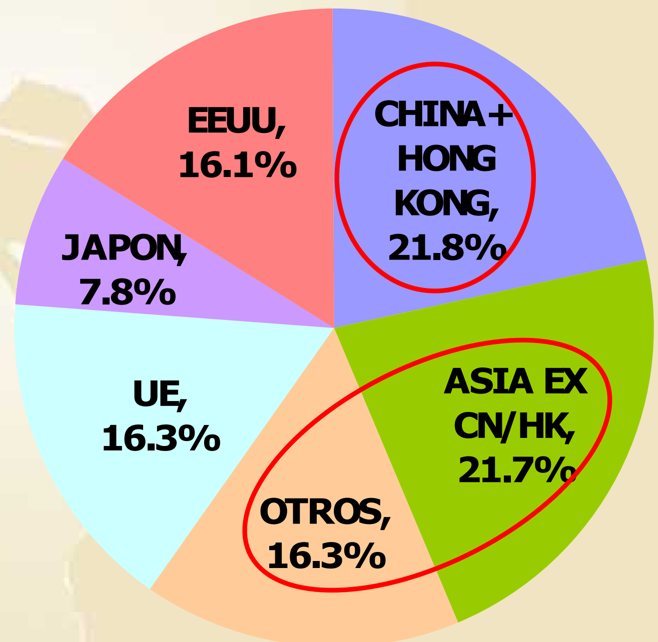


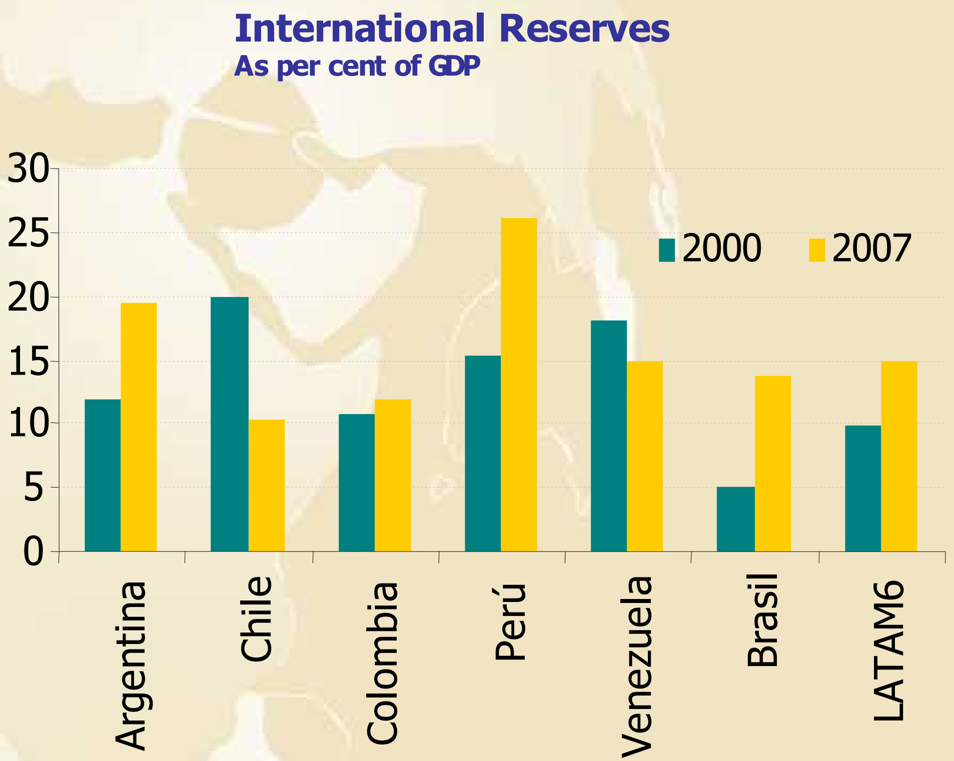
Fuente: BBVA, Thomson Financial

2 Why a milder impact? Strengths

8. Intense reserve accumulation

ASIA

South America

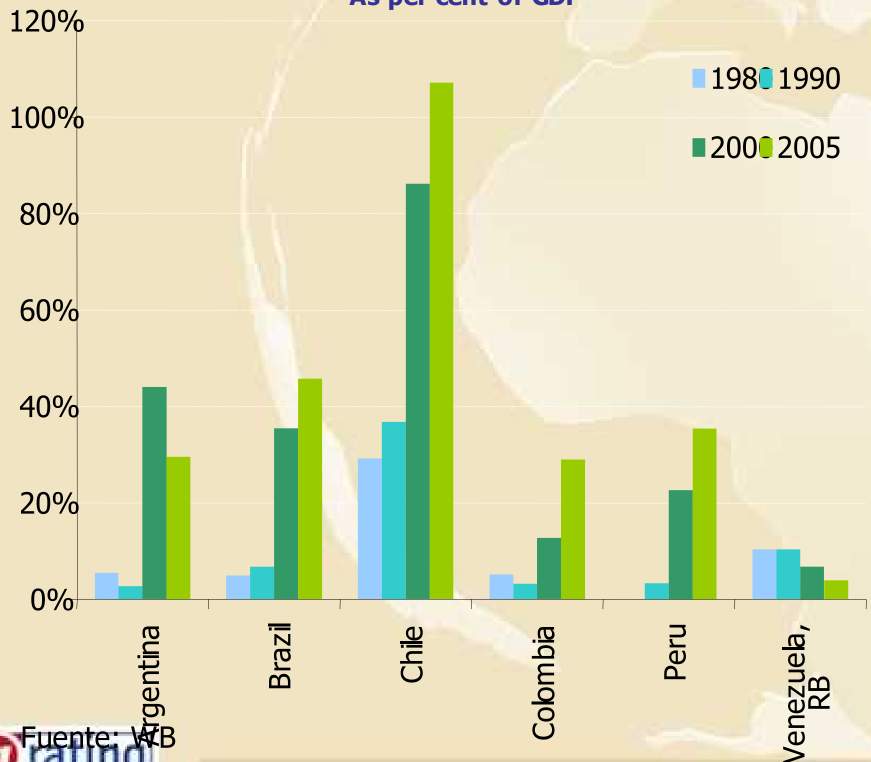


2 Why a milder impact? Strengths

9. Financial development: Capital markets are growing…

South America

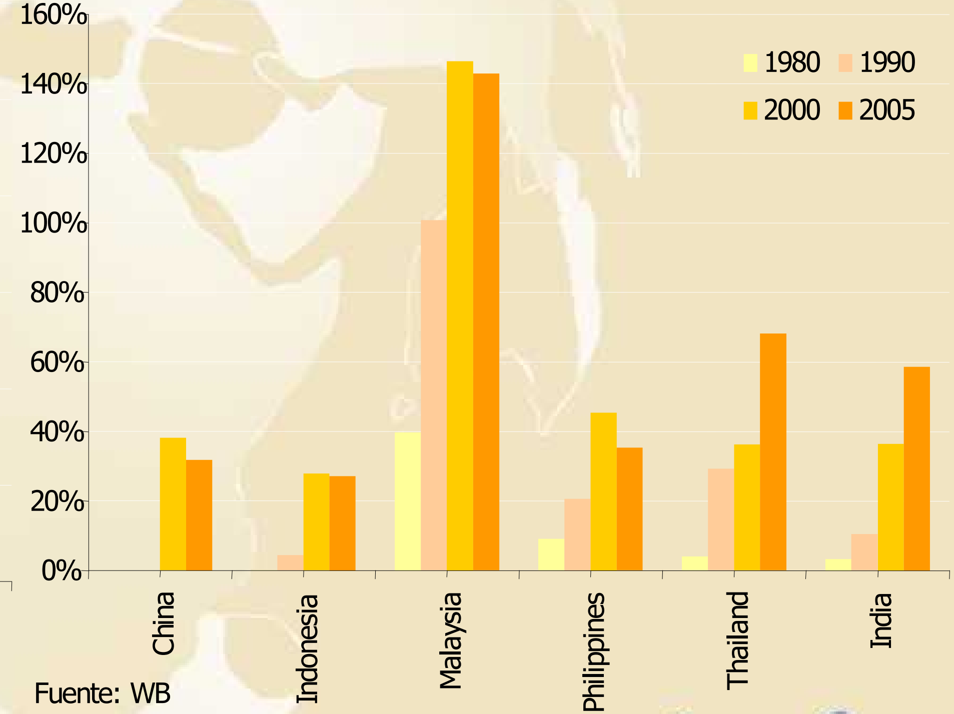
Stock market capitalización
As per cent of GDP



Fuente: WB

ASIA

Stock market capitalización
As per cent of GDP



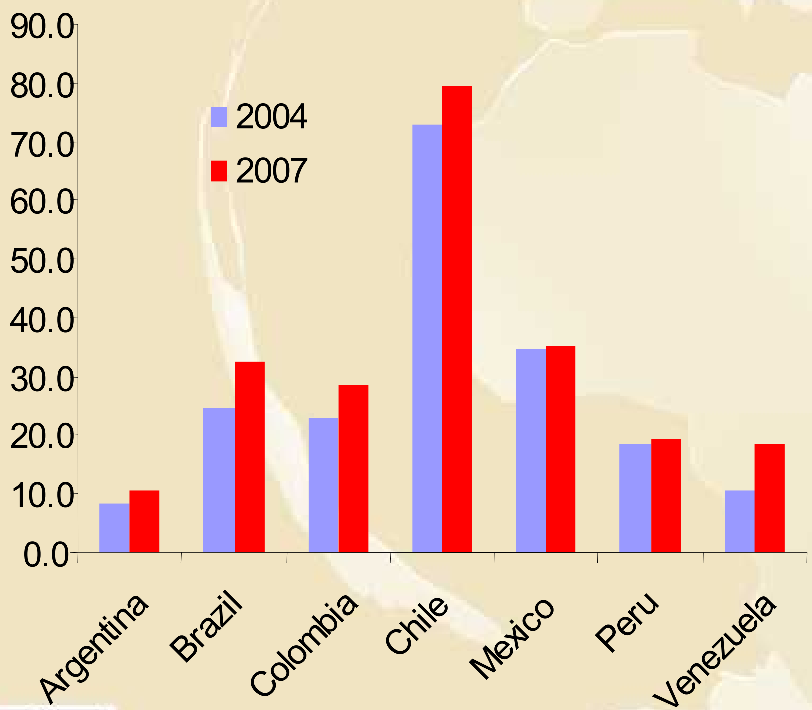
Fuente: WB

2 Why a milder impact? Strengths

9. Financial development: But not in detriment of bank credit, which keeps on growing in both regions

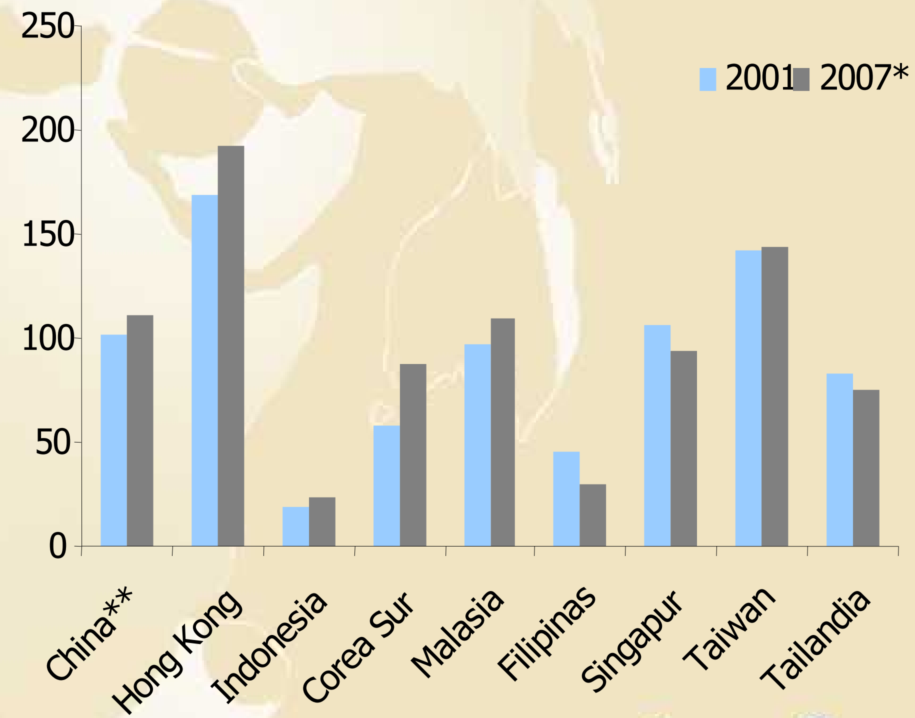
South America

Credit, as per cent of GDP



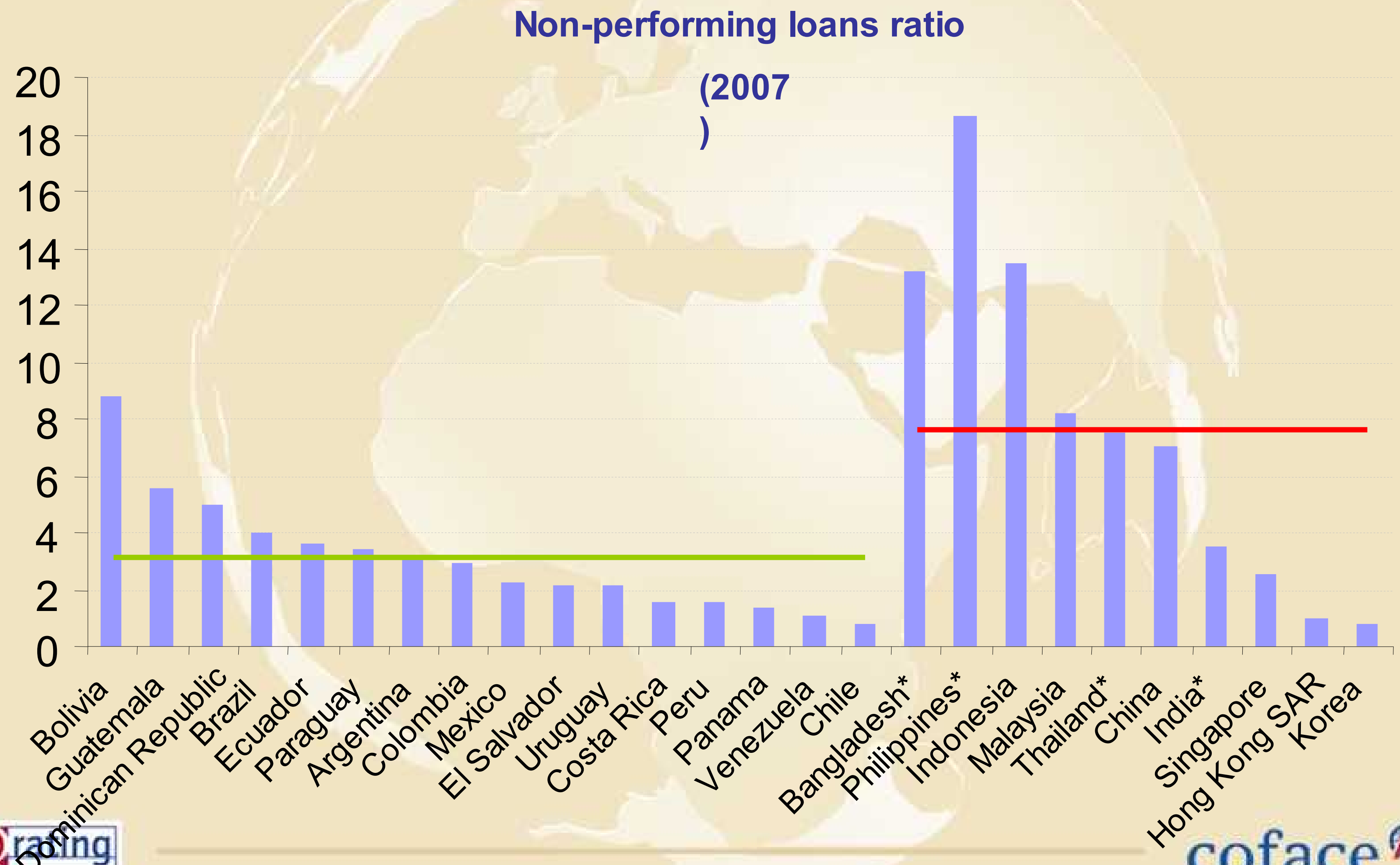
ASIA

Credit, as per cent of GDP



2 Why a milder impact? Strengths

10. Sounder financial system in Latin America



Source: IMF

* 2006

Outline

1. Where were we then and where are we now?

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3. Weaknesses and risks

4. What to wait for

3. Weaknesses and risks

LATAM	ASIA

1. Excessive dependency from commodity prices, particularly in Argentina and Venezuela

2. Greater trade openness, but still strong reliance on US/EU demand

3. More inflation

4. Possible increase in the cost of external capital

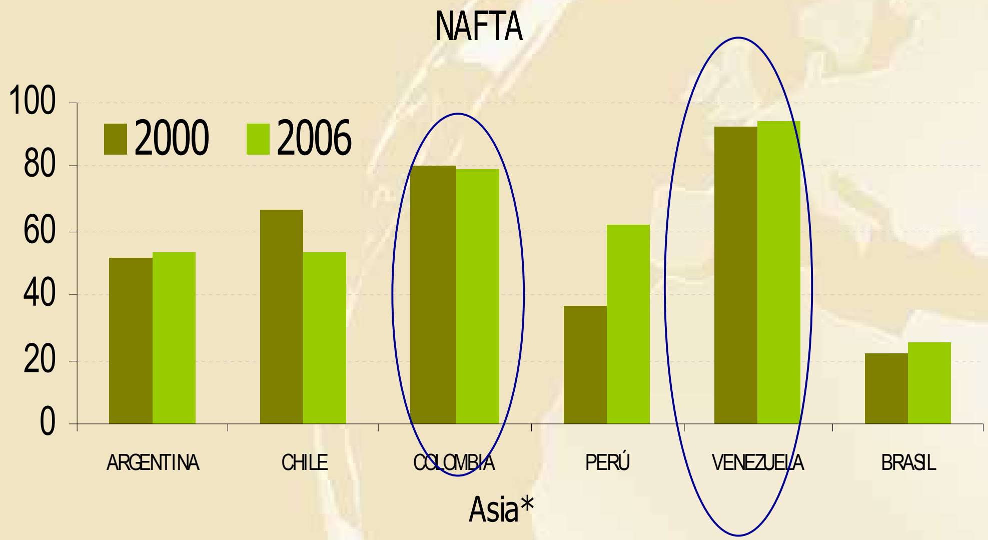
5. Energy restrictions (Chile &Argentina) and how to share commodity boom (Argentina)

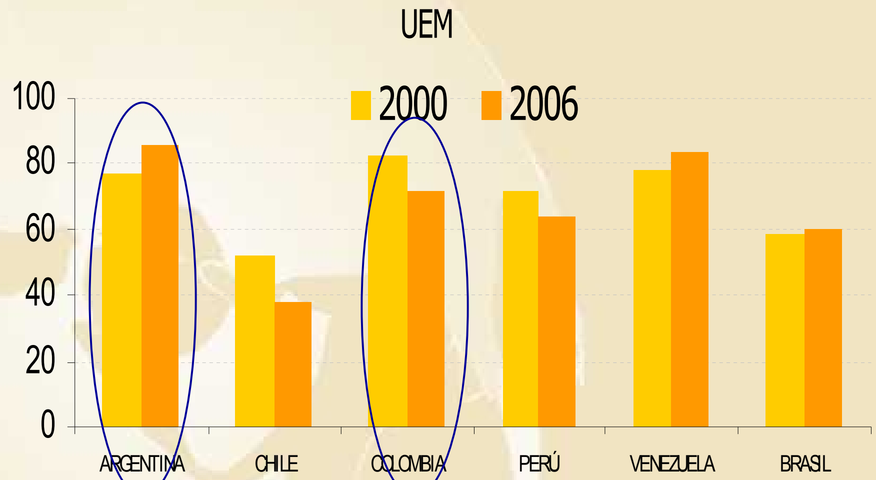
6. Colombia: risk of broken trade relations with Venezuela

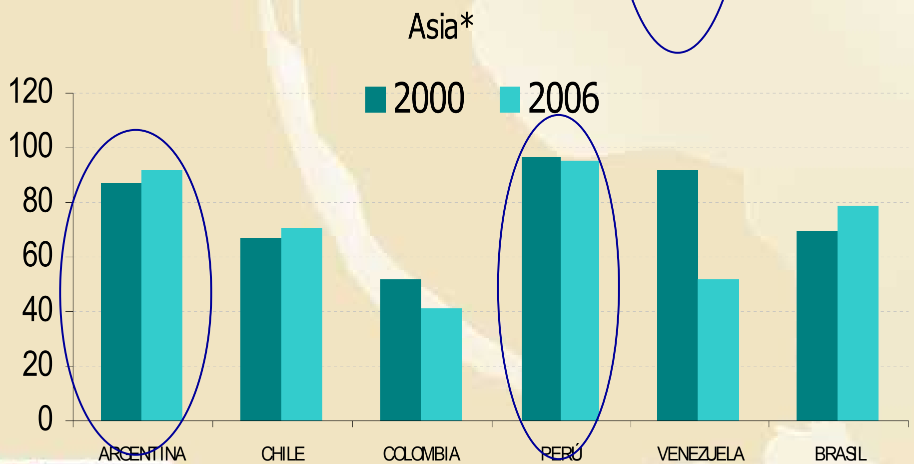
3. Weaknesses and risks

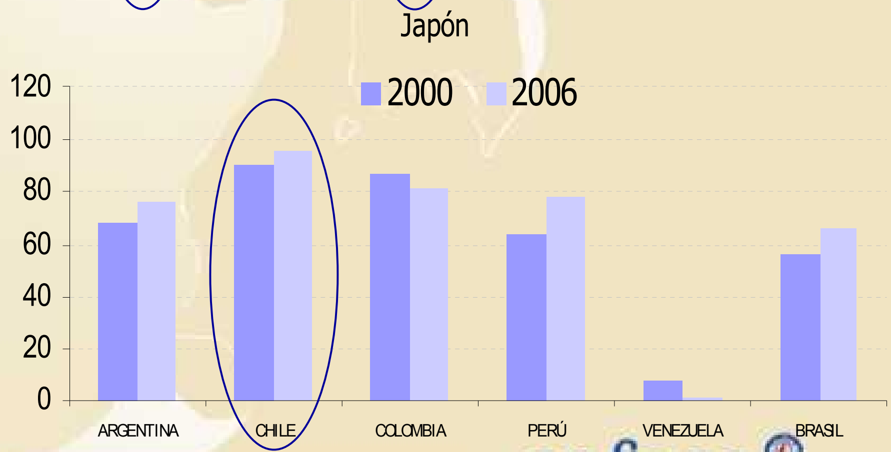
1. Excessive dependency from commodity prices

Raw materials exports over total, by destination









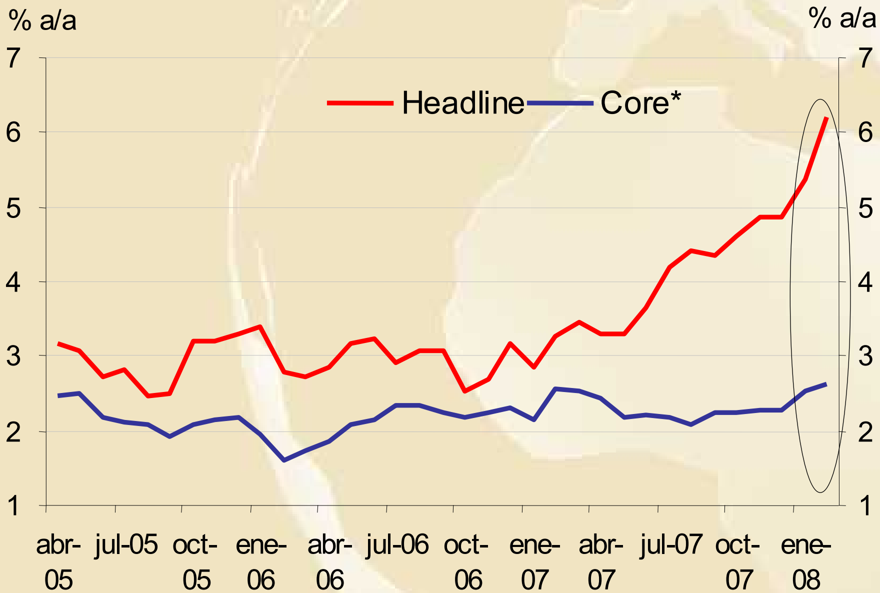
India, China, Thailand, Philippines, Malaysia, Indonesia, Vietnam y Bangladesh
Fuente: COMTRADE y BBVA

3. Weaknesses and risks

2. More inflation, more worrying in South America, insofar it is not so focused on energy and food

ASIA

EMERGING ASIA*: Headline vs Core inflation

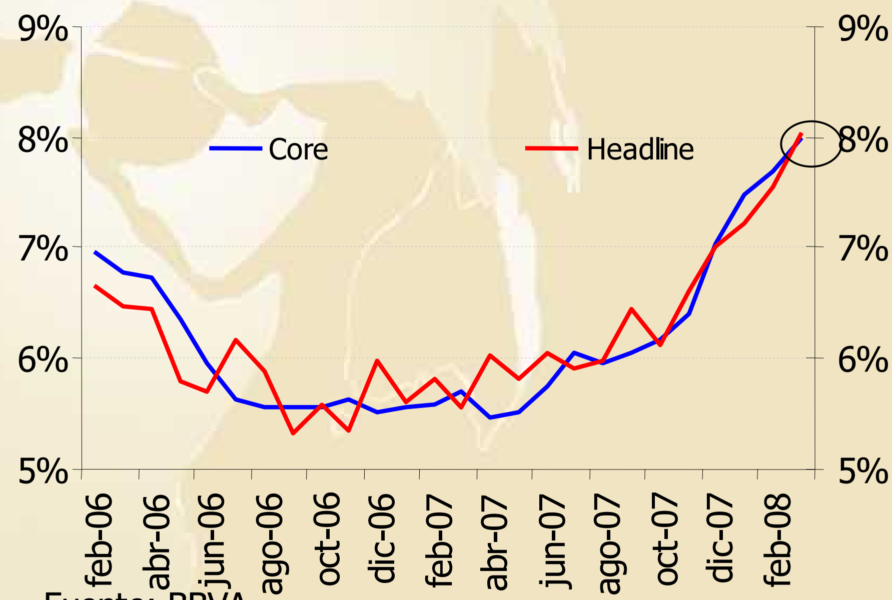


*Ponderado por PIB nominal 2000. Subyacente: Indonesia, Taiandia, Filipinas, Corea, Taiwan , India (WPI ex-combustible y productos basicos) y China (IPC ex-alimentos)

Fuente: BBVA

South America

South America: Headline vs Core inflation



Fuente: BBVA

3. Weaknesses and risks

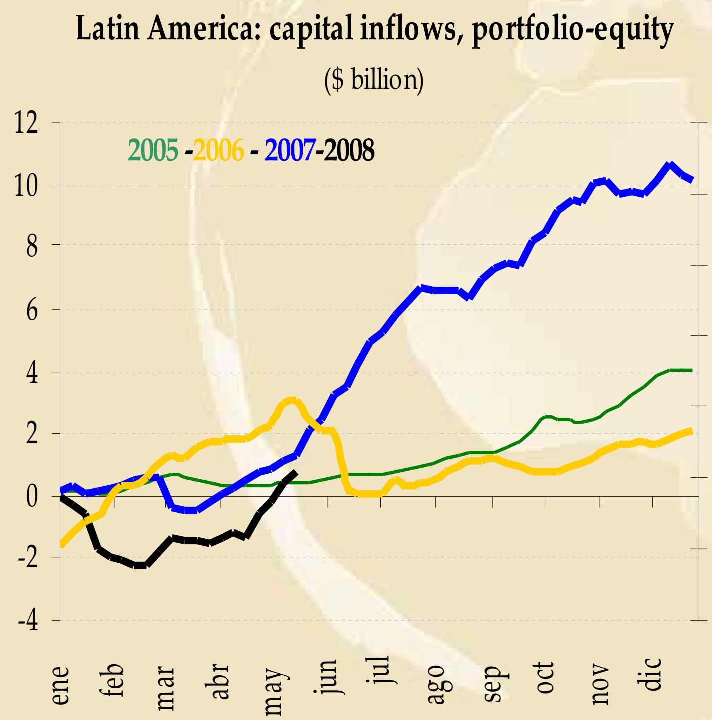
3. Possible increase in the cost of external capital

While Latin America is still generally more dependent on foreign capital, the situation has improved with reduction of debt and shift to local debt.

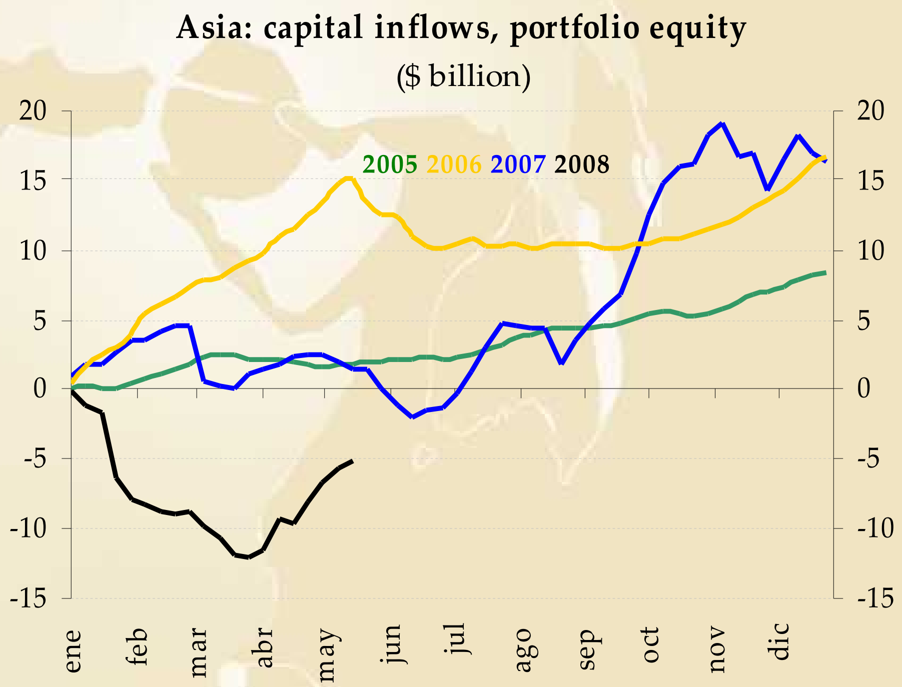
In addition, equity outflows have been greater in Asia.

South America

ASIA



Fuente: BBVA en base a EPFR



Fuente: BBVA - Capital Flows y EPFR

Outline

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4. What to wait for

- **The gloomy global context will, no doubt, have <u>some</u> affect on Asia and Latin America. However, the strengths that both regions have been building since the last crises should allow them to <u>weather the storm.</u>**
  - **We estimate an average 1.5 p.p. reduction in growth for the Latin American region in 2008**
  - **This could even be seen as a positive development since 2007 was the peak of the cycle and overheating a major threat**
    - **Very much true for Asia**
- **However, three major risks could considerably worsen this positive Latin American outlook**
  - **Sharp fall in <u>commodity prices</u>**
  - **Sharp increase in the <u>cost of money</u>**
  - **A return of high inflation**

4. What to wait for

How to measure these risks?:

1. Commodity prices:

- **We do not expect an immediate significant drop given supply concerns and Asian demand**
- **If a 30% fall occured, we estimate a further growth reduction of 1.5 pp for South American countries (much higher in Argentina and Venezuela).**

2. Cost of capital:

- **We do not expect a sharp increase since capital outflows are turning into inflows.**
- **However, if EMBI went back to levels similar to previous crises, expected additional reduction in growth of 1.5 pp (worse for Colombia)**

Note that 1. could be the cause of 2.!: double risk!

3. Persistently higher inflation:

- **Higher cost of money due to reaction of monetary policy**
- **Back to indexation/dollarization?**

This risk is probably orthogonal to 1&2

Thank you for your attention!