



# Can the Philippines become a BBVA EAGLE?

The Asian Banker: Philippines International Banking Convention

Manila, September 2012



## What is BBVA EAGLES?

- Concept introduced by BBVA Research 15 months ago to provide investors with a more rigorous and dynamic approach to selecting key Emerging Markets (EM)
  - Why rigorous
  - Why dynamic



## Why are the BBVA EAGLEs relevant?

- Continuous follow up of key EMs is needed because of rapid structural changes in global economy
- Investors' need to review their decisions often (hold to maturity strategy at any cost is not realistic)
- EMs should be fully aware of their relative relevance as recipients of investment but also as new investors



# Outline

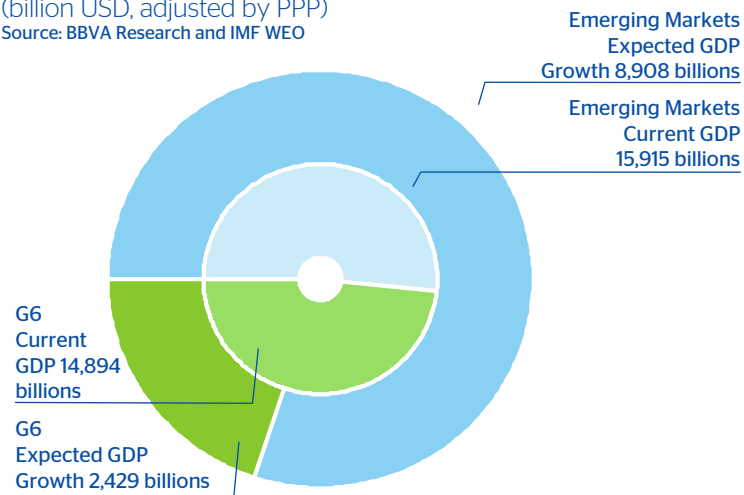
- 1. Life beyond BRICs**
- 2. Our own group of key emerging markets: BBVA EAGLEs**
- 3. The century of Asia**
- 4. The Philippines in the EAGLEs world**
- 5. Key policy conclusions**

# Life beyond BRICs in Emerging Markets (EM)

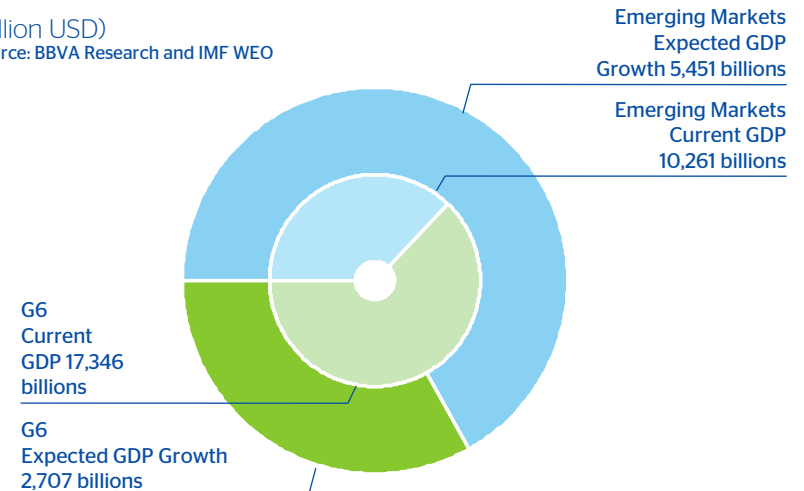
- Already large size of the pie
  - Combined size of EM (ex BRICs) bigger than the G6 (G7 ex US)
  - Close to 40% in USD terms
- Much larger if we look at future size
  - Contribution to global growth in next 10 years 4 times larger
  - (3 times in USD terms)

## 45 EM without BRICs vs G6: current economic size and incremental GDP 2011-2021

(billion USD, adjusted by PPP)  
Source: BBVA Research and IMF WEO



(billion USD)  
Source: BBVA Research and IMF WEO



G6 Aggregate: Canada, Germany, France, Italy, Japan and the UK  
Emerging Markets: other Emerging Markets excluding Brazil, Russia, India and China

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## **1. Life beyond BRICs**

## **2. Our group of key emerging markets: BBVA EAGLEs**

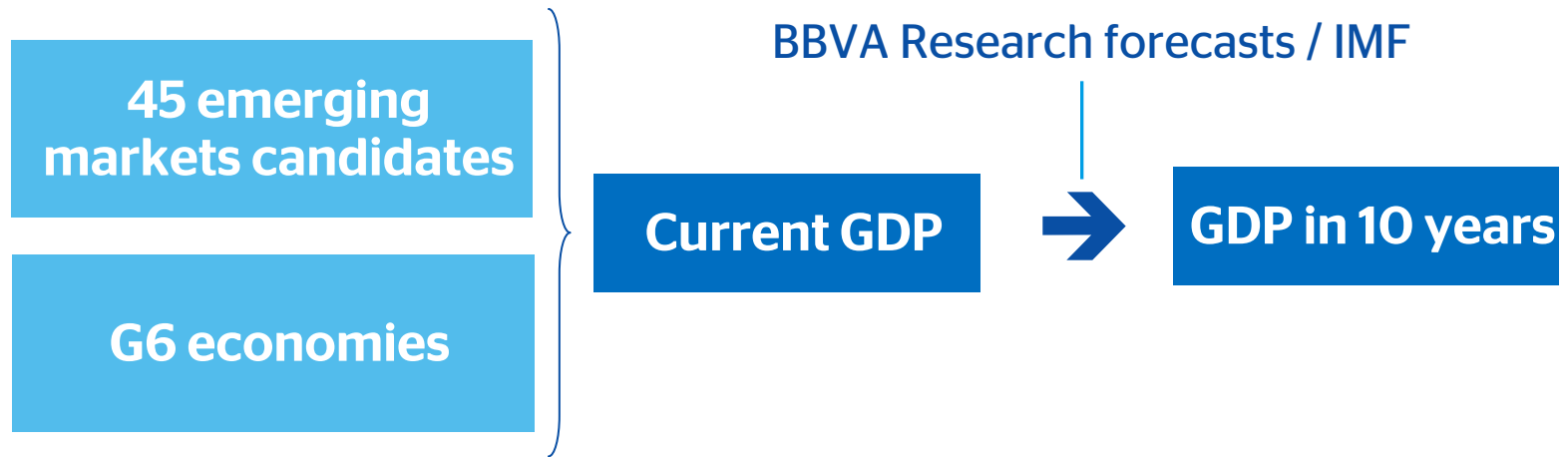
## **3. The century of Asia**

## **4. The Philippines in the EAGLE world**

## **5. Key policy conclusions**

# Methodology: a mix of Size and Growth

## Step 1



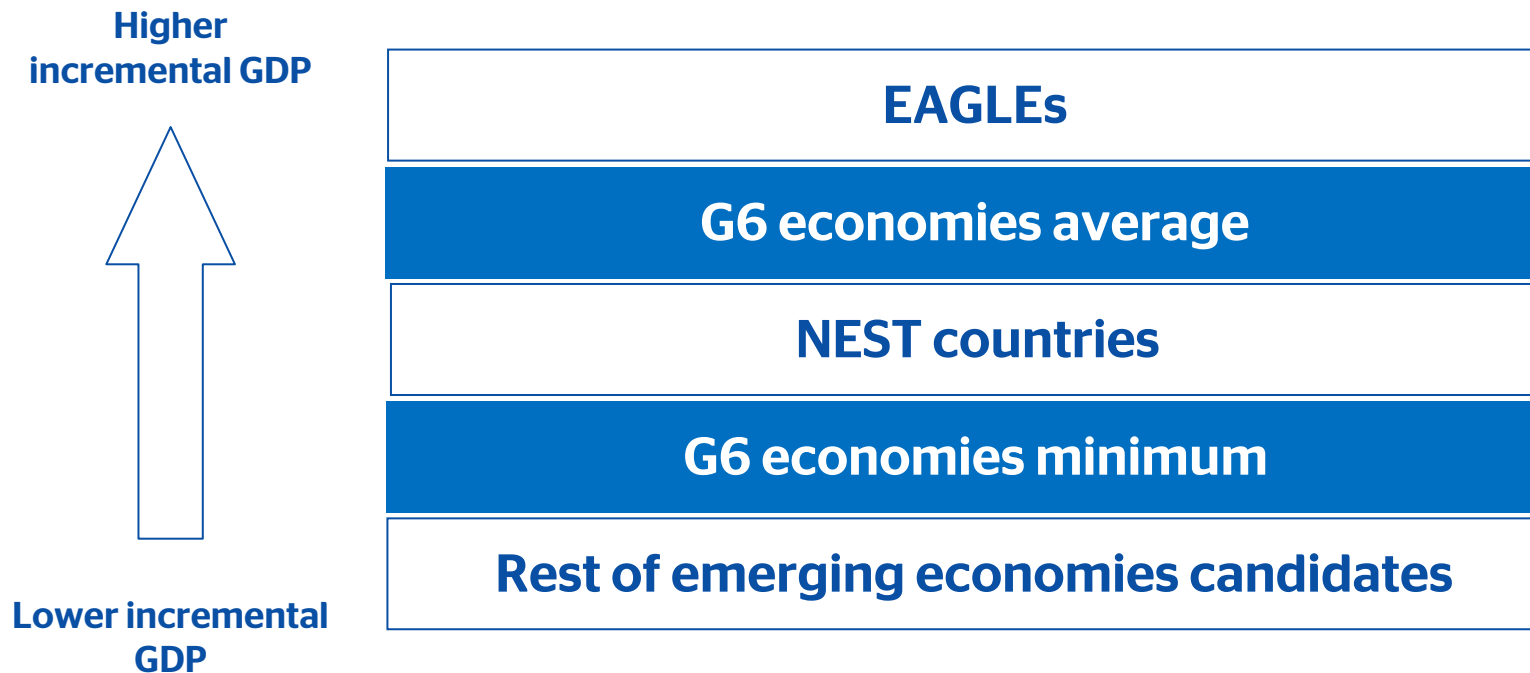
## Step 2



# Methodology: a mix of Size and Growth

## Step 3

Ordering and selection criteria according to incremental GDP







# How to determine the number of countries: The cut-off

## Incremental GDP of G6 economies (2011-2021 GDP change)

(billion USD, adjusted by PPP)



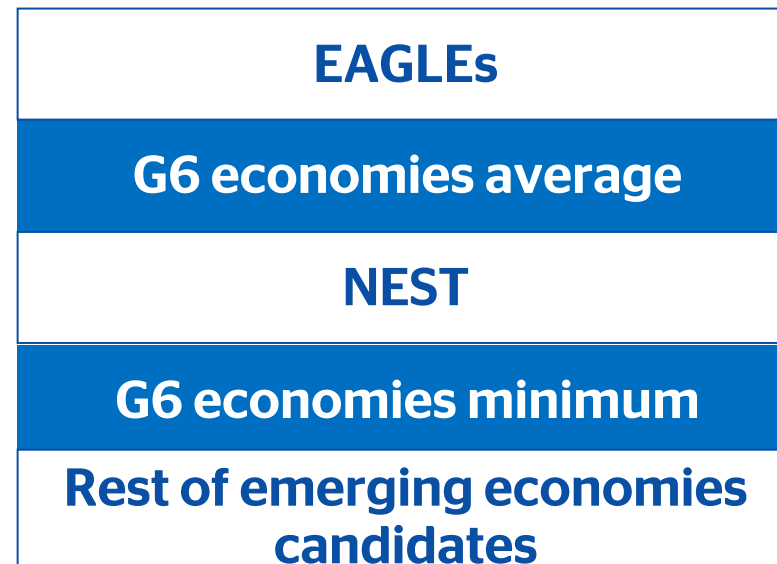
■ Japan    ■ Germany    ■ UK  
■ Canada    ■ France    ■ Italy



**405  
avg**



**134  
min**



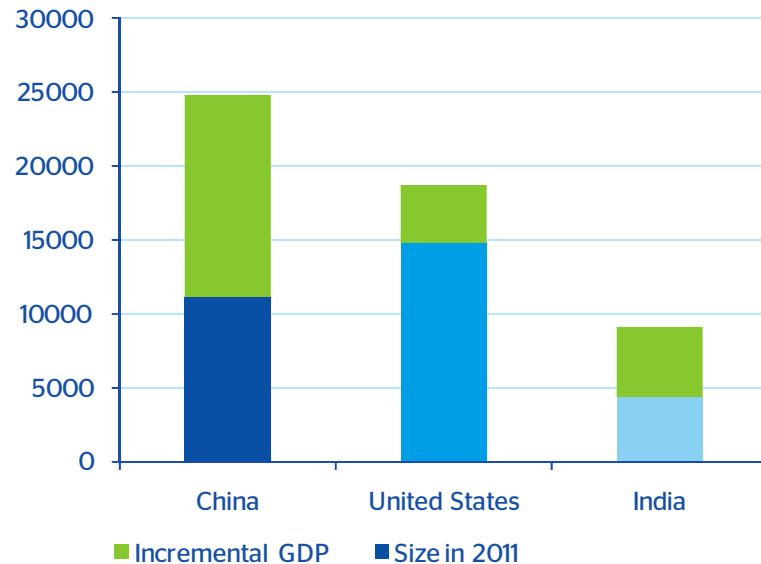
- EAGLEs: Any country with an incremental growth > USD 405 billion
- NEST: Countries with incremental growth higher than USD 134 billion but below USD 405 billion

# China & India the largest EAGLEs

- China is playing in a league of its own
- India would have a larger contribution to GDP growth than the US

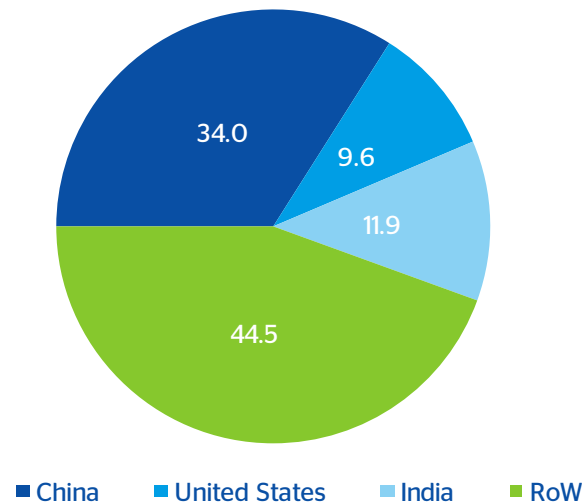
**Global Leaders in the next 10 years: GDP adjusted by PPP (billion USD)**

Source: BBVA Research and IMF WEO



**Global Leaders in the next 10 years: contribution to World economic growth 2011-2021 (%)**

Source: BBVA Research and IMF WEO

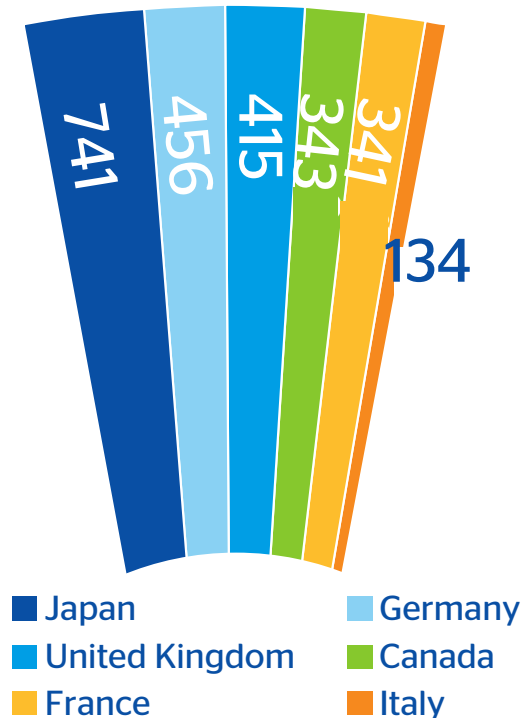
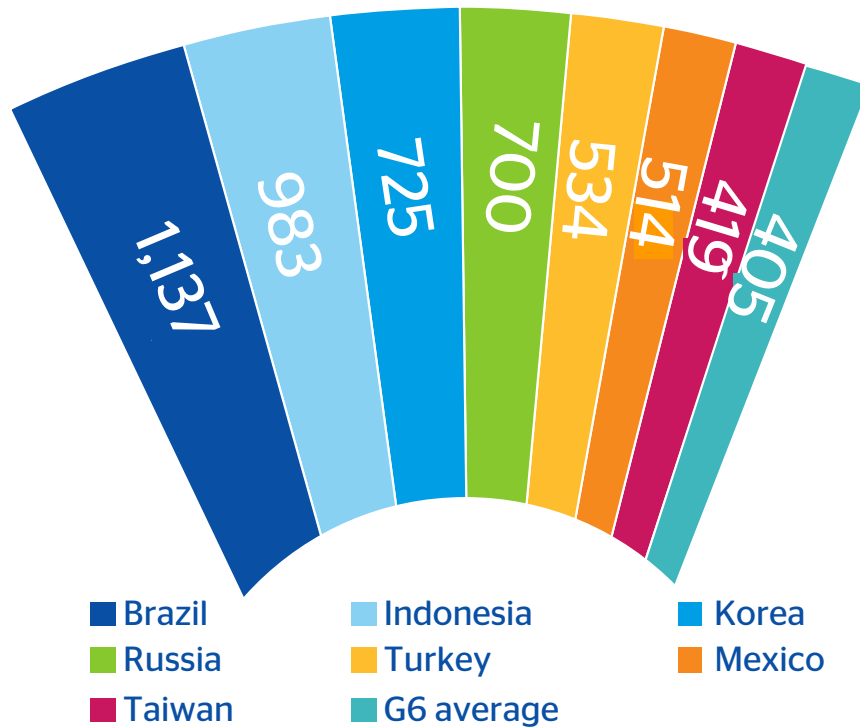


# Other EAGLEs are also global players

BBVA EAGLEs: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Turkey and Taiwan

**EAGLEs (excluding China and India) vs G6: Incremental GDP 2011-2021 (billion USD, adjusted by PPP)**

Source: BBVA Research and IMF WEO

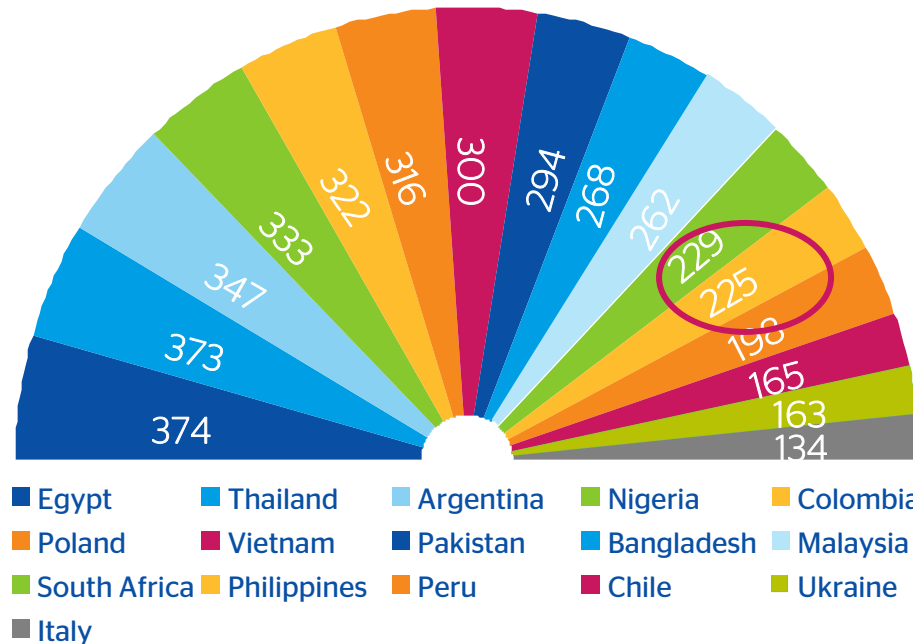


# The Nest of the EAGLEs and the Philippines

- The Philippines to contribute to global growth more than Italy (the smallest G6)
- Also expected to be larger than Peru, Chile or Ukraine

**Nest: Incremental GDP 2011-2021 (billion USD, adjusted by PPP)**

Source: BBVA Research and IMF WEO





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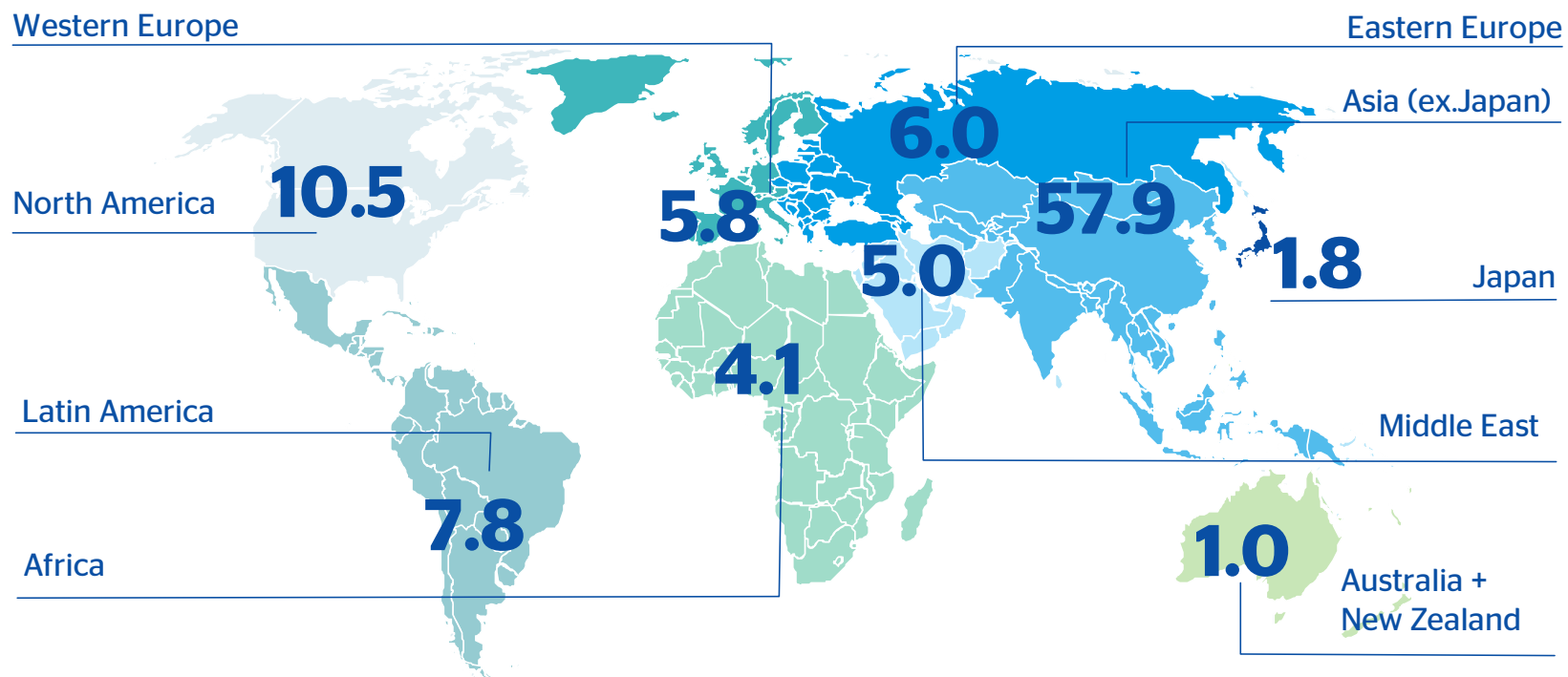


# New global economic order Asian, especially Chinese

- Emerging Asian economies to contribute close to 58% to global growth in next 10 years
- China largest contributor with 34% of global growth followed at distance by India (12%)
- Europe falls far behind but also North America

## Contribution to World economic growth by region between 2011-2021 (%)

Source: BBVA Research and IMF WEO





# Outline

**The world is changing: deep knowledge about key emerging markets key**

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**The century of Asia**

**The Philippines in the EAGLE world**

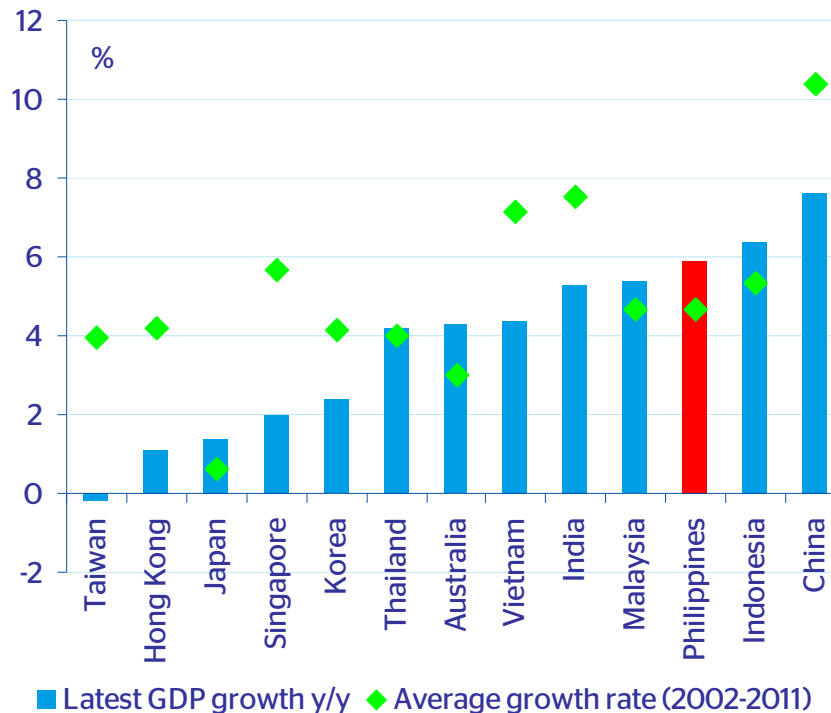
**Key policy conclusions**

# The Philippines: A recent star among starts

- The Philippines’ economic performance over the past ten years has been standard among Asia
- However, growth momentum is building recently and future prospects look favorable

## The Philippines’ growth momentum has been increasing

Source: CEIC and BBVA Research



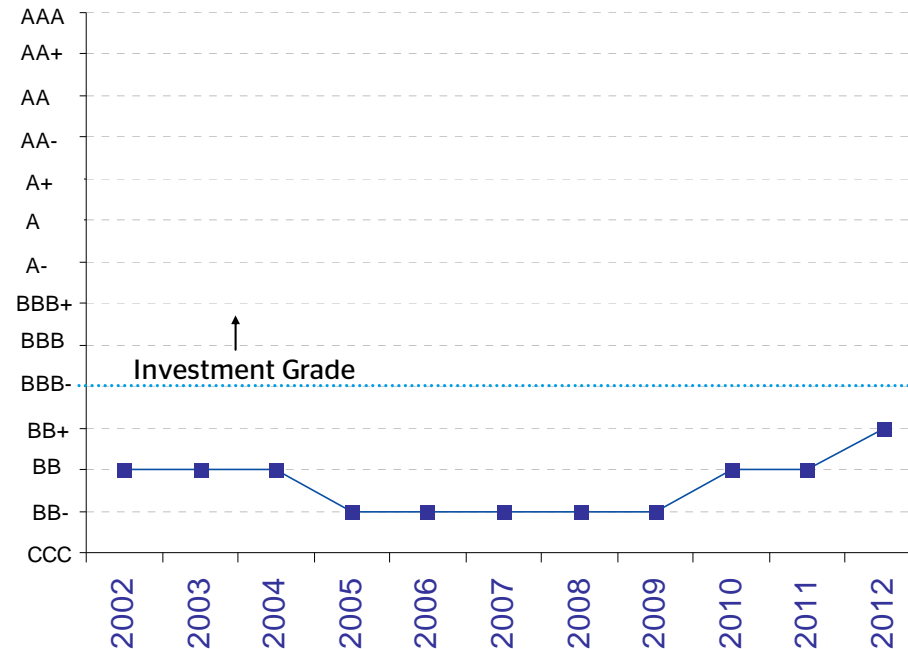


# Achieving investment grade is of the essence

- The Philippines holds its highest ratings in over a decade: now just one notch away from IG
- Being investment grade will help attract additional investment and lower the cost of borrowing in a more structural way

## An improving economy has left the Philippines one notch away from an investment grade rating

Source: Fitch, CEIC and BBVA Research

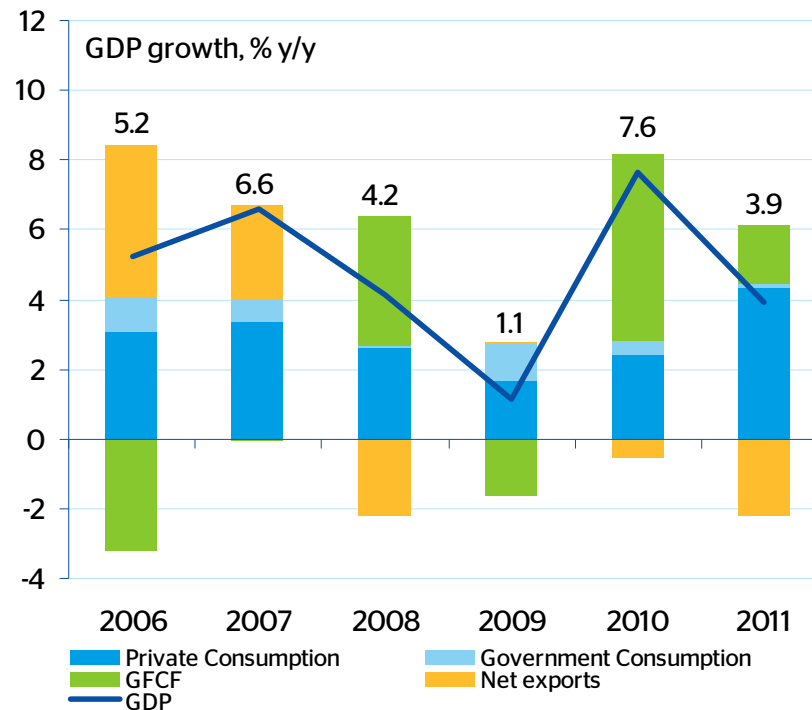


# Consumption king but investment more relevant

- Domestic demand has supported the Philippines' strong rebound from the financial crisis
- Consumption very resilient but investment growth playing a more important role

## Robust domestic demand, investment have been fueling the surge in growth

Source: CEIC and BBVA Research

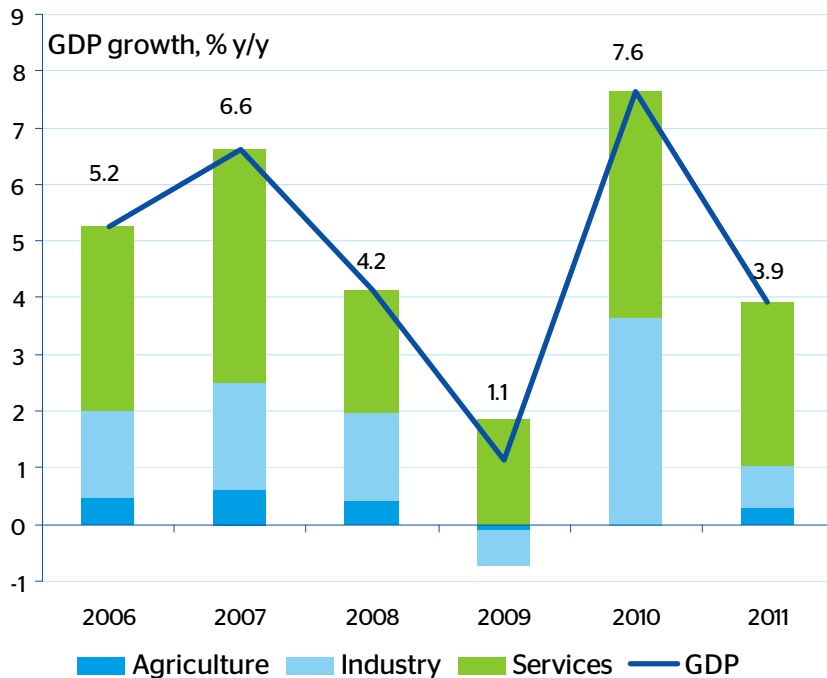


# Service sector key with increasing importance of tourism

- The service sector has been a reliable contributor to economic growth
- Within the service sector, tourism has emerged as a key growth area

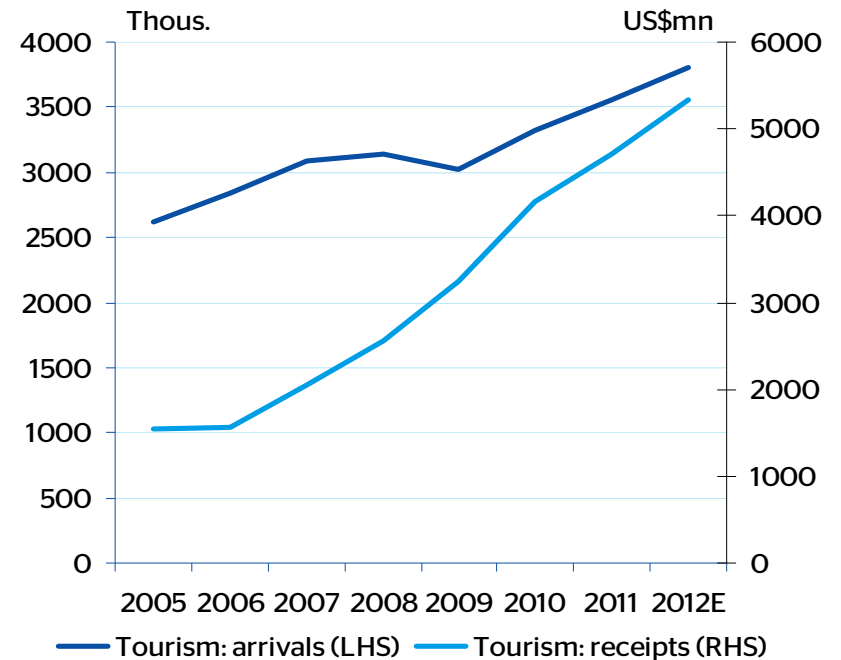
## Service sector growth is being driven by trade, real estate, and financial services...

Source: CEIC and BBVA Research



## ...while rising tourism is also boosting the service sector

Source: CEIC and BBVA Research

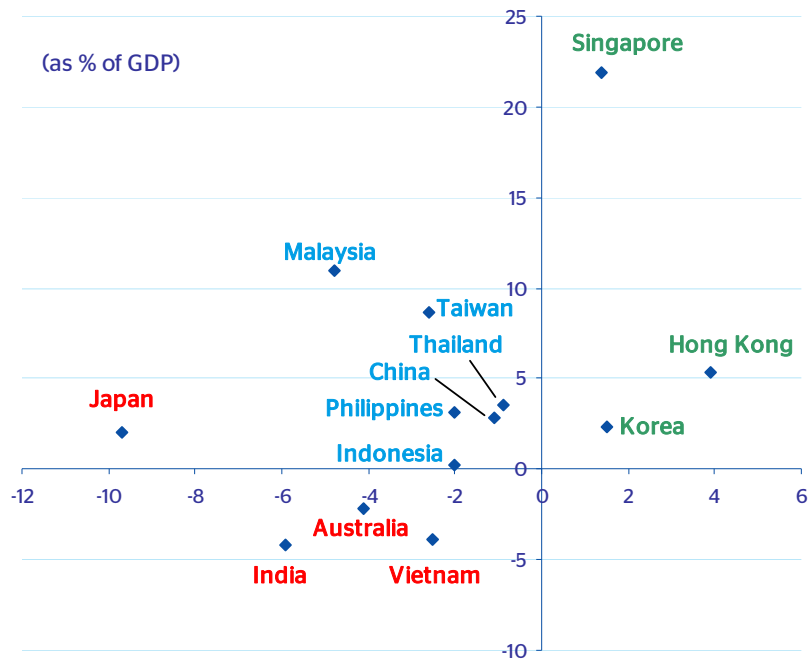


# Well deserved rating through improved fundamentals

- The government has adequately managed its deficit spending and is in line with regional peers
- Foreign reserves have grown and sufficiently cover near-term requirements

## The Philippines public deficit is well managed, and the current account is typically in surplus

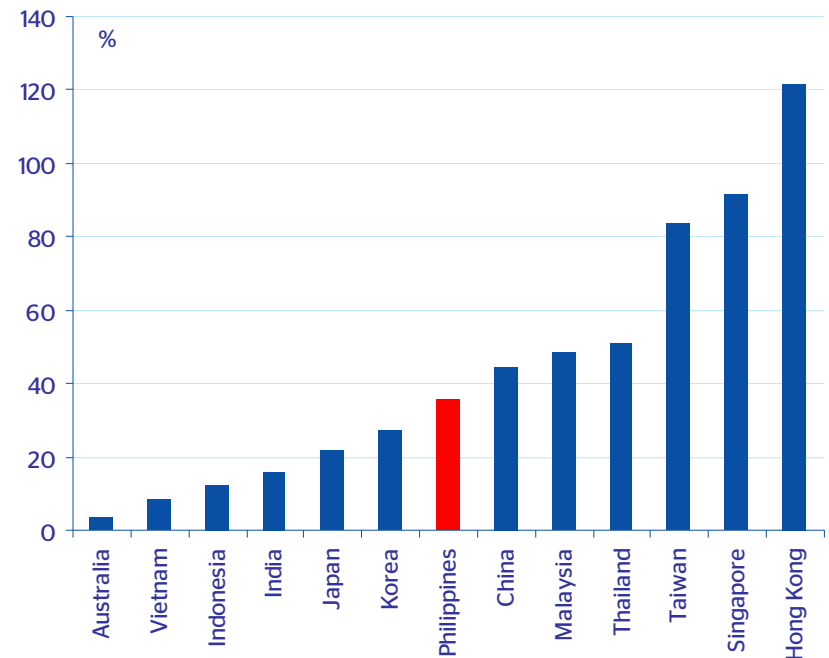
Source: CEIC and BBVA Research



Fiscal Surplus/Deficit (x-axis) Current Account surplus/deficit (y-axis)

## There are adequate reserves to cover short-term expenditures

Source: Bloomberg and BBVA Research



Foreign Reserves/GDP

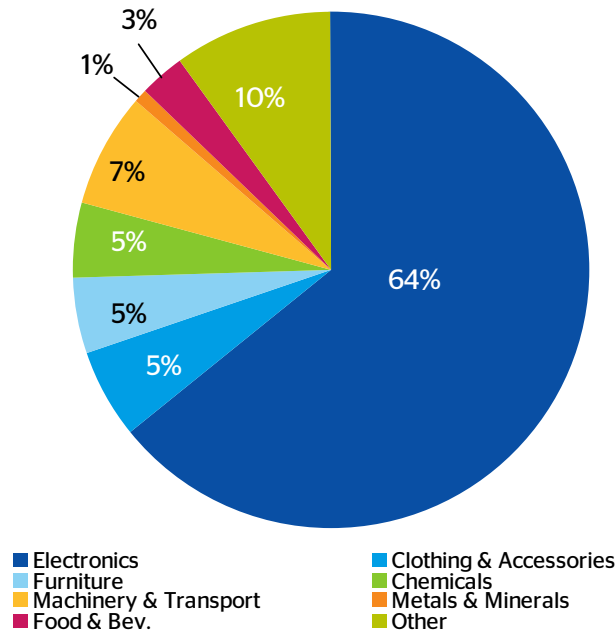
# Export strategy is clearly electronics

- Exports focus on electronics, with typical export share between 60-75%
- Agri-business is a growing focus for exporters as well

## Electronics account for the majority of manufactured exports

Source: CEIC, IMF and BBVA Research

Manufacturing exports - by category



# How can the Philippines fly like an EAGLE?

- Continue to grow its **middle class**:
  - Policies to provide further boost to private consumption
    - Avoid poverty trap (better income distribution)
  - Focus on value-added businesses, which will create more high-paying jobs
  - **Education**, health policies, social protection
  - Retention of human capital
- **Increasing productivity through upgraded infrastructure**
- **Financial inclusion key**



# Balance of Risks: The Philippines vs EAGLEs

	Growth model	External demand	Macro imbalances	Institutional	Social Risk	Inclusive Growth
<b>China</b>	Low labor force growth & weak TFP fundamentals			Shortages on the public side	Food dependency	Inequality
<b>India</b>	Weak TFP fundamentals		Twin deficits & high public debt	Shortages on private and public sectors	Food dep. / high unemployment / low secondary education enrolment	Poverty
<b>Brazil</b>	Low quality infrastructures	China and commodities dependency	Small twin deficits and high public debt	Investment climate		Inequality
<b>Indonesia</b>	Weak TFP fundamentals	Reliance on commodities		Shortages on private and public sectors	Food dependency . low secondary education enrolment	Poverty
<b>Korea</b>		China dependency				
<b>Russia</b>	Decline in labor force / low quality infrastructures	Low trade partners' growth / reliance on commodities		Shortages on private and public sectors	Food dependency	Poverty
<b>Turkey</b>		Low trade partners' growth	Current account deficit			
<b>Mexico</b>	Weak TFP fundamentals	Low trade partners' growth				Inequality & poverty
<b>Taiwan</b>	Low labor force growth	China dependency / very open				
<b>Philippines</b>	Low quality infrastructure			Shortages on private and public sectors	High dependency on remittances	Poverty

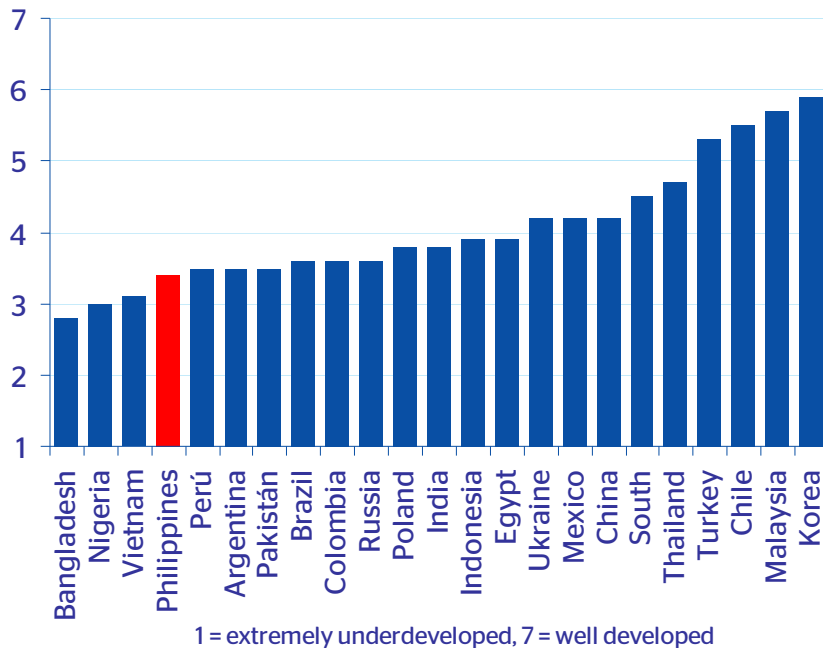


# Next drivers of growth: Infrastructure and demographic dividend

- Further upgrading infrastructure will be necessary in order to make important advances
- “Demographic bonus” in the coming years to support growth but potential source of social unrest (55% of the population is younger than 25 years of age)

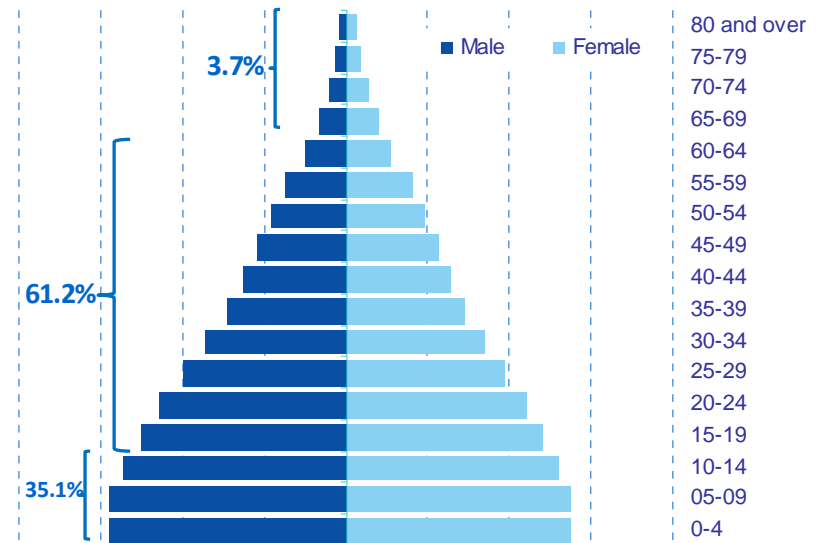
## Improving the quality of the Philippines’ infrastructure\* would provide positive spillovers...

Source: World Economic Forum and BBVA Research



## ...and future growth is likely to be supported by a favorable ‘demographic dividend’

Source: EIU and BBVA Research



\* From 2011-2012 Global Competitiveness Report, World Economic Forum

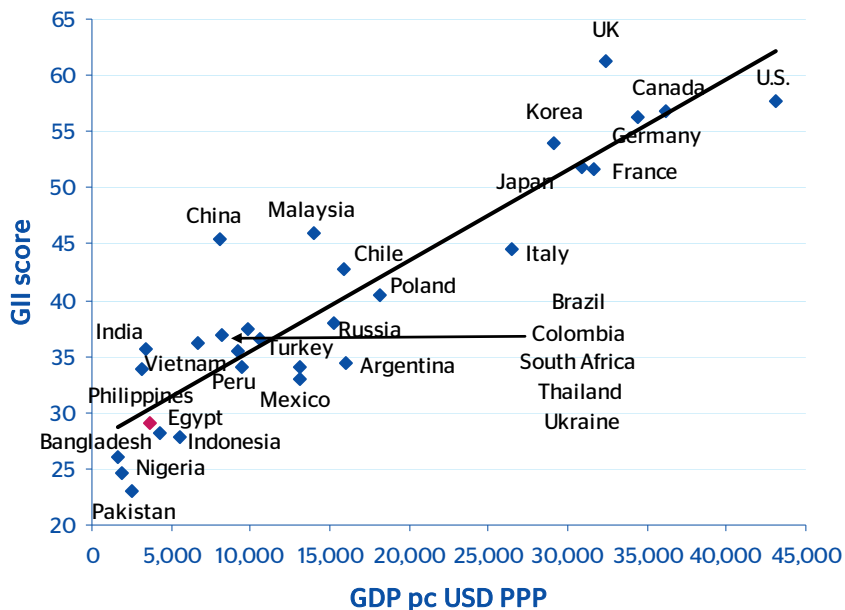


# More efforts to improve total factor productivity

- Efforts to transform economy into an electronic manufacture hub not enough to foster productivity growth.
- Human capital (retention) key

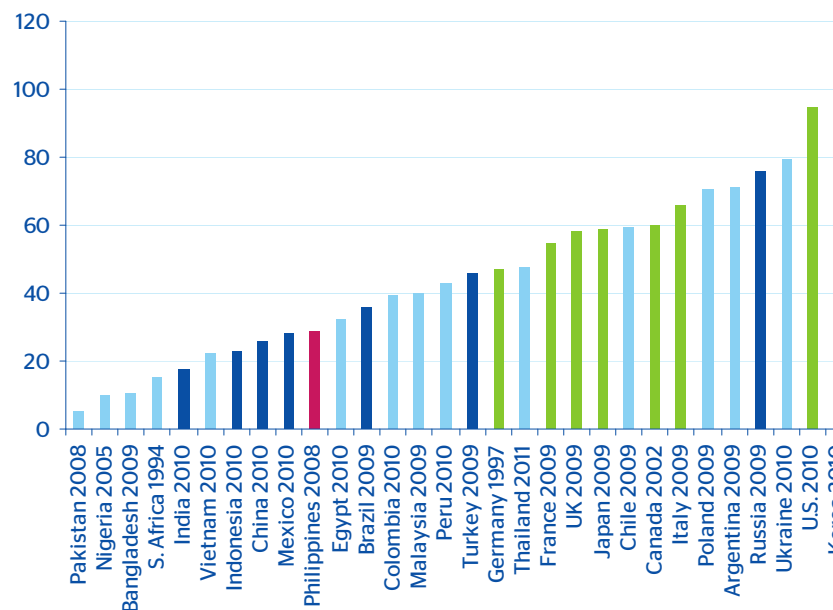
## GPP pc USD PPP vs GII score 2012

Source: BBVA Research, IMF, UN Pop and GII 2012



## School Enrollment, Tertiary (% Gross)\*

Source: BBVA Research and WDI



Note: last year available



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# Key policy conclusions

## Change in centre and periphery in the global economy

- The **EAGLEs and the Nest are expected to contribute more than 2/3 to global growth in next 10 years** (G7 contribution would be around 16 percent)

## Key emerging markets going beyond the BRICs

- **We should start focusing on other emerging markets (not only the BRICs). Our EAGLEs and NEST groups offers regular analysis of a set of key countries based on a dynamic analysis and clear benchmarking**

## The Philippines: Opportunities ahead

**The Philippines is in our Nest and has done very well lately, specially on the macro and country side.**  
**These policies need to be maintained notwithstanding the current global uncertainty: achieving investment grade is of the essence**  
**More to be done to find new sources of growth: Increasing total factor productivity through better human capital which can be retained in the country**

# Appendix

**Find out more about EAGLEs**

# EAGLEs Presence on the Internet

## Review

- A **permanent follow-up** is made by BBVA Research with an **annual update of EAGLEs and NEST members.**
- **Quarterly report on EAGLEs economic outlook**
- **Special topics covered in BBVA's EAGLEs watches**
- Complementary analysis tools like the **Country Risk Observatory**

## Diffusion

- Reports and presentations to be found at **[www.bbvaeagles.com](http://www.bbvaeagles.com)**
- Experts discussions and comments in BBVA EAGLEs **Twitter** and **LinkedIn Discussion Group**

## Dialogue

- Cooperation with **local think-tanks for knowledge network** on the analyzed economies: TUSIAD is our think-tank in Turkey



# Cross-Country Unit Team Members

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