Diamonds in the rough
Unearthing opportunity in an uncertain world

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Key points for the global economy in 2013

- After a series of crises and setbacks, 2013 is looking a bit better
  - US economic fundamentals are strengthening
    - Jobs market is on a modest upswing
    - Housing is clearly recovering
  - China is bouncing back
    - Boom years are over, but so is the slump
  - European debt crisis is stabilising
    - Austerity will hold back growth…
    - But risk of a financial catastrophe is fading
  - Most emerging markets had a weak 2012…improving this year

- Central banks are supporting the recovery in a big way

- Don’t expect a brisk recovery, though; many risks remains
  - Debt levels still high; political crises in the US; Middle East, China-Japan tensions
State of play
Further away you are from the full employment line and the longer time it takes to get there, the worse the recession.
US federal spending is out of control…

…but spending cuts alone won’t balance the federal budget

% of GDP. Source: OMB
Corporate profits: at 50 year highs, albeit easing

US corporate profits are strong by historical standards. Revenue growth has been modest, but companies have managed costs well, and interest rates and borrowing costs have been low.
Euro zone: From crisis to chronic

- **Three related but distinct issues**
- **Underlying levels of sovereign debt**
  - Still very high for many countries, especially on the periphery; years to resolve
- **Fiscal austerity**
  - Necessary, up to a point, to reduce debt
  - Will keep growth at 1% or less for some time
- **Financial catastrophe and break-up?**
  - Less probability of market panic
    - But Italian election is a big concern
  - Euro zone break-up much less likely
  - ECB, bail-out funds, political will have all progressed

“Whatever it takes”
Hitting a BRIC wall? Cyclical and structural troubles

But some improvement in 2013 as conditions strengthen among trading partners and investor risk tolerance improves.
The next frontier
What we’re looking out for

- Large and young populations (from 246 million in Indonesia to about 50 million in Colombia)

- Diversified economies and not excessively dependent on raw materials (if possible)

- Political outlook is positive: there are risks, but they all have a reasonable chance of remaining stable in the medium term

- Sound macroeconomic fundamentals. As elsewhere, fiscal deficits have soared due to the global crisis, but debt is reasonably low
Africa
AFRICA: The engines of growth

- Rising external demand – especially from China and India – also good for commodity prices

- Rising internal demand – driven by urbanisation and “consumerisation”

- The macro outlook is favourable
  - Fastest growing region in the world, apart from China and India, in 2012-13

- Businesses can no longer afford to ignore Africa – but risks remain
The demographic dividend

Population in 2011

- Nigeria – 166m
- Ethiopia – 76m
- DRC – 68m
- South Africa – 49m
- Tanzania – 45m
- Kenya – 42m
- Uganda – 35m
- Ghana – 25m
- Mozambique – 24m
- Angola – 20m
Key risks: Security

- Armed conflict
- Violent demos
- Hostility to foreigners
- Terrorism
- Crime
- Kidnapping
Look to the east (of Africa)...

- **The East African Community** *(near)*
  - Common market established in mid-2010
    - reduces barriers to the free movement of people, goods and capital
  - Resource rich
  - Kenya (!) and Uganda oil; Tanzania gas
  - Rwanda a services hub
  - Towards a single currency?

- **Ethiopia** *(medium)*
  - Nearly 80m people
  - Tiny economy, but booming
    - GDP (at PPP rates)
      - 2007: US$77bn
      - 2016: US$149bn
    - Diversified exporter
    - Livestock, shoes, cut flowers, sugar refineries
    - US$5bn hydropower dam planned
Asia
ASEAN: Steady economic progress

- ASEAN GDP growth should hold up well through 2012, despite the importance of trade and the downturn in the West
- Indonesia attracting real attention from investors – domestically driven growth
- Philippines making welcome headway against traditional problems like fiscal deficits & graft
- Strong growth in the “poor cousins” – Laos, Myanmar & Cambodia

<table>
<thead>
<tr>
<th>2012</th>
<th>GDP (％)</th>
<th>Inflation (％)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Cambodia</td>
<td>6.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Laos</td>
<td>7.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Myanmar</td>
<td>5.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>6.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.7</td>
<td>13.8</td>
</tr>
</tbody>
</table>
ASEAN rising

Becomes world’s fourth biggest economy
ASEAN: Near, medium and...

- **Indonesia** (*near)*:
  - Bigger population than Brazil
  - Strong domestic demand
  - Rich natural resources
    - BUT: Uncertain political outlook

- **Philippines** (*medium)*:
  - Outsourcing boom
  - Big domestic market
  - Economic fundamentals look a bit better
  - *Improved* politics (but still a shambles)
    - BUT: Old problems persist (infrastructure, private consumption led)
• **Myanmar** *(long)*:
  - Huge, untapped potential
    - 10th largest gas reserves in the world
    - Population of 80m
  - 60% chance that gradual reform will continue
  - Foreign aid (and debt forgiveness) kick-starts development
  - **Western sanctions eased**
    - Opportunities in tourism, minerals, healthcare, education, and consumer goods
    - Joining Asian’s apparel supply chain? Bangladesh, Sri Lanka, Myanmar, Cambodia
  - **BUT**:
    - Appalling infrastructure and very low education levels
    - Whole reform process could go backwards
Middle East
What a difference a spring makes

<table>
<thead>
<tr>
<th>Real GDP growth (%)</th>
<th>2006-10</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>6.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Yemen</td>
<td>4.0</td>
<td>-7.0</td>
</tr>
<tr>
<td>Syria</td>
<td>4.9</td>
<td>-9.3</td>
</tr>
<tr>
<td>Libya</td>
<td>3.2</td>
<td>15.4</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2.8</td>
<td>6.3</td>
</tr>
<tr>
<td>UAE</td>
<td>3.2</td>
<td>3.6</td>
</tr>
</tbody>
</table>

-61% in 2011
Oil, oil, oil!

**Saudi Arabia (near)**
- Biggest economy in the Middle East
- Grew by 7% in 2011; 5.7% last year
- Massive fiscal stimulus
  - Means opportunity in construction, consulting, retail, etc
- Huge industrial investment (aluminium, petrochems)
- BUT a gerentocracy

**Iraq (medium)**
- Oil output overtakes Iran (highest since late 1980s).
  - Could boost capacity to 12m b/d in a decade
- Substantial non-oil opportunities
  - Infrastructure (power, ports), construction, financial
- BUT risks aplenty
  - Bombings still a regular occurrence
  - Government is still a mess
    - Doesn’t spend its capital budgets
In long-term: Democratisation could improve growth drivers

<table>
<thead>
<tr>
<th>Comparative indicators</th>
<th>MENA</th>
<th>Emerging Asia</th>
<th>Latin America</th>
<th>Eastern Europe</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>External debt (% of GDP)</td>
<td>28.1</td>
<td>25.0</td>
<td>21.1</td>
<td>50.1</td>
<td>16.8</td>
</tr>
<tr>
<td>GDP per head (US$; PPP)</td>
<td>8,950</td>
<td>5,500</td>
<td>10,840</td>
<td>12,090</td>
<td>2,960</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>73.5</td>
<td>69.0</td>
<td>72.3</td>
<td>71.7</td>
<td>53.5</td>
</tr>
<tr>
<td>Mean years of schooling</td>
<td>5.5</td>
<td>4.4</td>
<td>6.4</td>
<td>8.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Institutional quality(^b)</td>
<td>4.8</td>
<td>5.7</td>
<td>5.0</td>
<td>5.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Index of regulation(^b)</td>
<td>5.3</td>
<td>6.6</td>
<td>5.9</td>
<td>6.6</td>
<td>5.1</td>
</tr>
<tr>
<td>World Bank ease of doing business (average rank)</td>
<td>92</td>
<td>83</td>
<td>95</td>
<td>70</td>
<td>139</td>
</tr>
<tr>
<td>Average tariff rate (%)</td>
<td>7.0</td>
<td>6.5</td>
<td>6.2</td>
<td>2.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Primary exports (% of GDP)</td>
<td>32.0</td>
<td>7.2</td>
<td>7.7</td>
<td>9.5</td>
<td>9.6</td>
</tr>
<tr>
<td>Growth in working-age population (%)(^c)</td>
<td>1.1</td>
<td>0.4</td>
<td>-0.7</td>
<td>0.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Growth in total population (%)(^c)</td>
<td>1.1</td>
<td>0.6</td>
<td>-0.3</td>
<td>0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Difference between growth in working-age and total population</td>
<td>0.0</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.1</td>
<td>0.4</td>
</tr>
</tbody>
</table>

\(^a\) Data generally relate to latest available year, usually 2009 or 2010. \(^b\) Index scale, 1 to 10; 10 = best. \(^c\) Projected annual averages in 2010-50.

Sources: Economist Intelligence Unit; national statistics; UN population projections, World Bank; Index of Economic Freedom.

- Taking a long-term perspective, democratic systems have a better record in delivering economic prosperity that authoritarian ones
- So don’t give up on Egypt! (...and Turkey remains one to watch)
Latin America
Mapping growth in 2013-17

• Slowdown in 2012; external headwinds

• Region is expected to grow around 4% annually in 2013-17

• Panama, Peru, Chile and Colombia among the top performers, with annual rates of 4.7% to 5.8%

• Most other countries to grow faster than the global annual average

• Mexico and Brazil to grow at an annual average of 3.7% and 3.6%
Colombia & Peru: Moving on

• **Colombia**
  • FARC on the wane
    • Murder rate down
    • Peace talks a sign of weakness
  • Economy is a stellar performer
    • Rapid FDI growth
    • Natural resources boom
    • Tradition of respect for private & intellectual property
    • FTAs with almost 50 countries (including the US)

• **Peru**
  • Highest growth rate in region next 5 years
  • Biggest reserves in the world in silver, copper, zinc
  • Fiscal surplus, low inflation
    • BUT, big urban/rural divide

**PERU**
• Population: 30m (2011)
• GDP: US$173.3bn (2011)
• FDI: US$ 6.9bn (2011)
• Average annual growth rate 2013-17: 5.8%
Flat wages means more competitive
US is enjoying a boom in shale gas production
Fastest-growing economies: Next five years

China
India
Nigeria
Vietnam
Indonesia
Colombia
Egypt
Turkey
Brazil
Russia
South Korea
Mexico
South Africa
US
Canada
Japan
UK
Germany
France
Italy

BRICs
CIVETS
Other EMs
G7

Prepare for opportunity.
Implications for business

- **Geographic refocusing**
  - Emerging markets will become the primary source of revenue and profit

- **Doing more with less**
  - Permanently leaner as low-cost competition increases
    - Freeing up resources to become more agile

- **Balancing the short and long-term**
  - Surviving today vs investment in a dramatically changing business