



The impact of the eurozone debt crisis on CIS

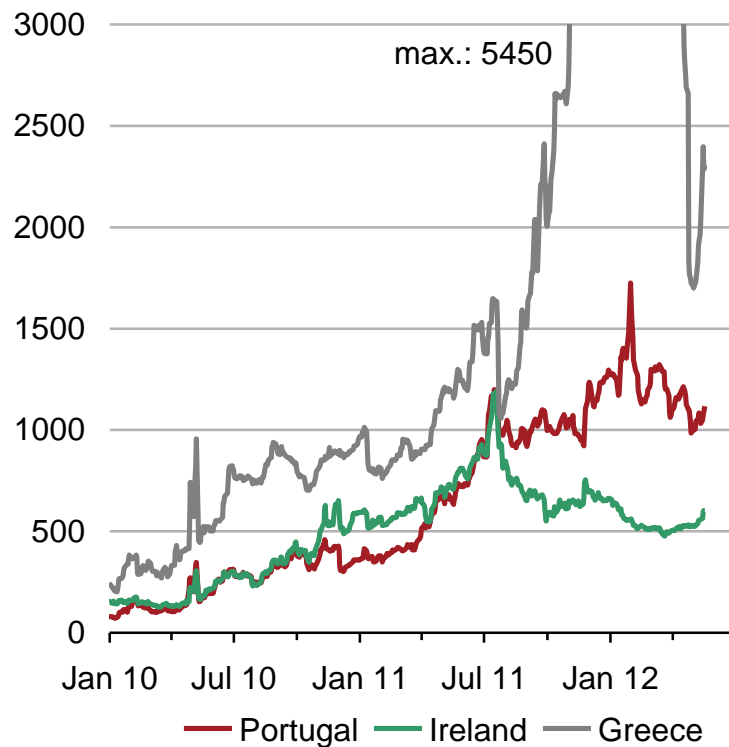
Dr Michael Ganske, CFA, Head of Emerging Markets Research

A new round of the euro zone debt crisis

Greece under pressure again, the effects of 3yr LTROs are abating

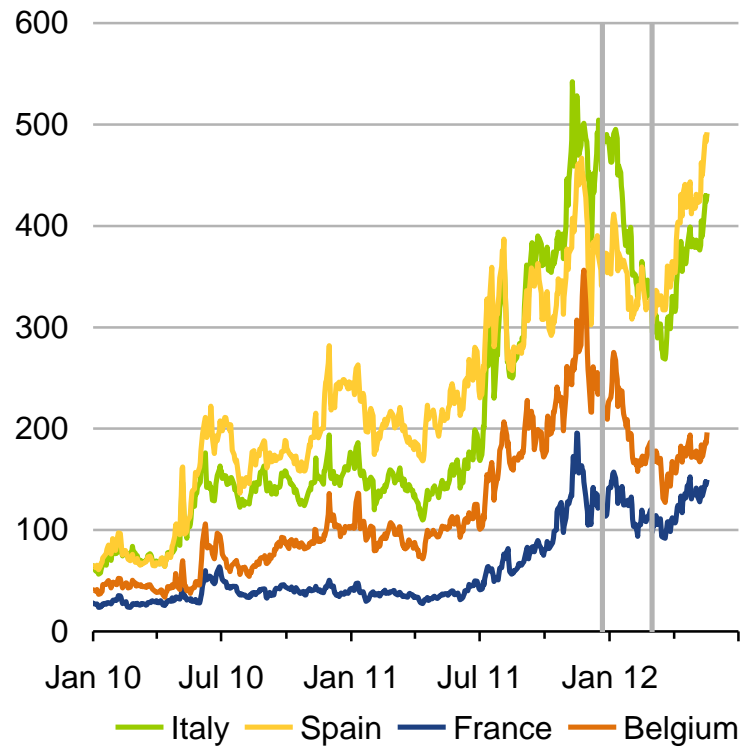
The “saved” countries

Spreads vs. 10yr Bunds, basis points



The contagion candidates

Spreads vs. 10yr Bunds, basis points



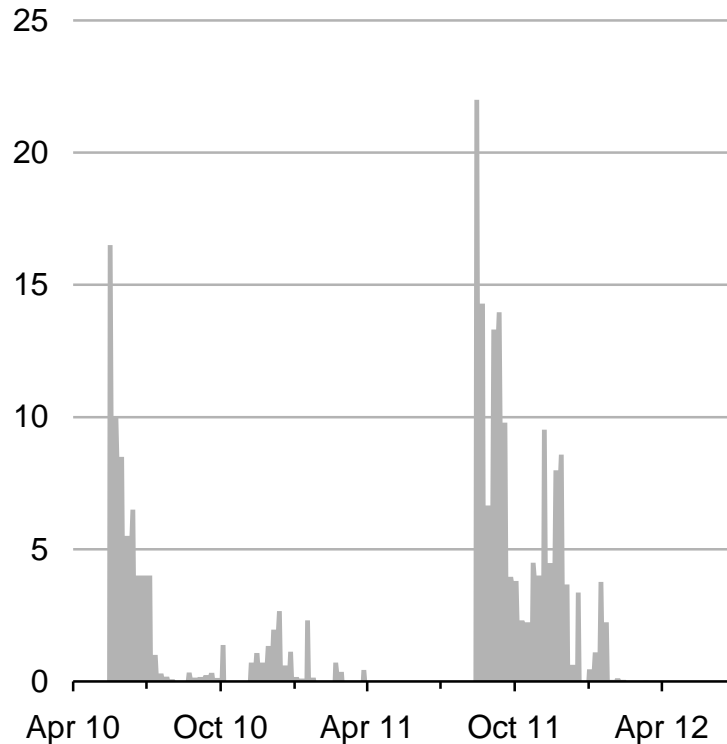
Sources: Bloomberg, Commerzbank Corporates & Markets

The ECB stopped buying peripheral government bonds...

Securities Markets Programme (SMP): little success, lot of trouble

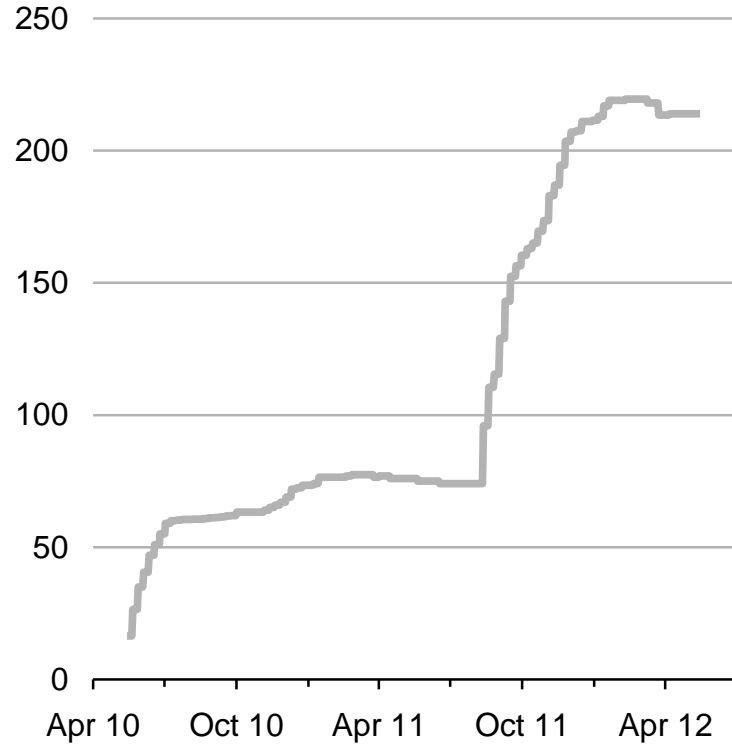
Weekly SMP intervention volumes

EUR billion



The ECB's SMP portfolio size

EUR billion



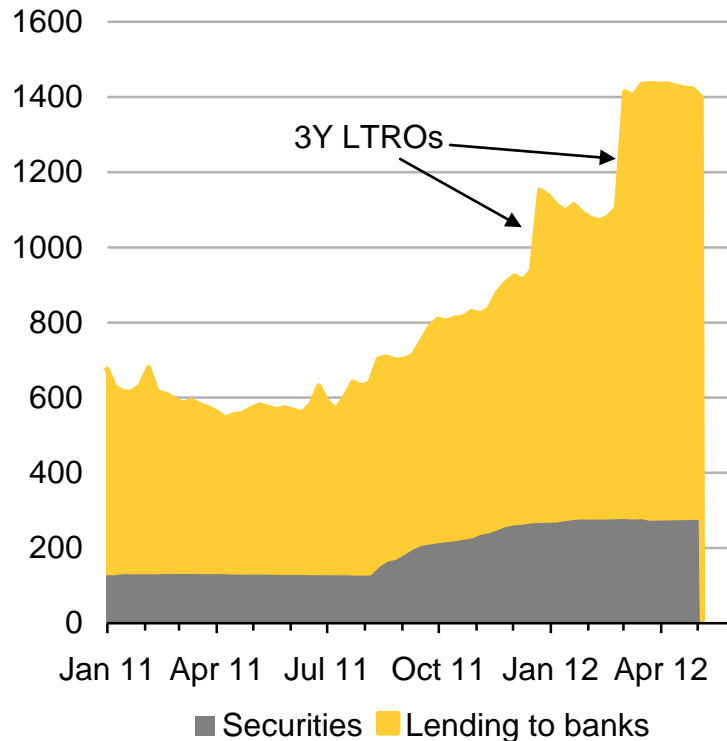
Sources: ECB, Commerzbank Corporates & Markets

...but is increasingly expansionary

QE à la Europe? No, it is worse than QE3

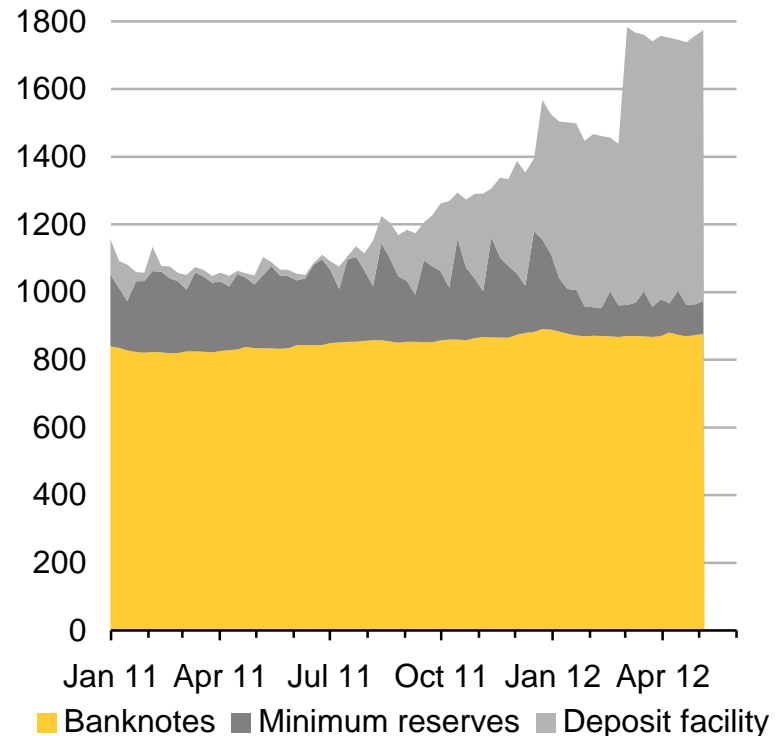
Liquidity providing operations

EUR billion



Monetary base

EUR billion



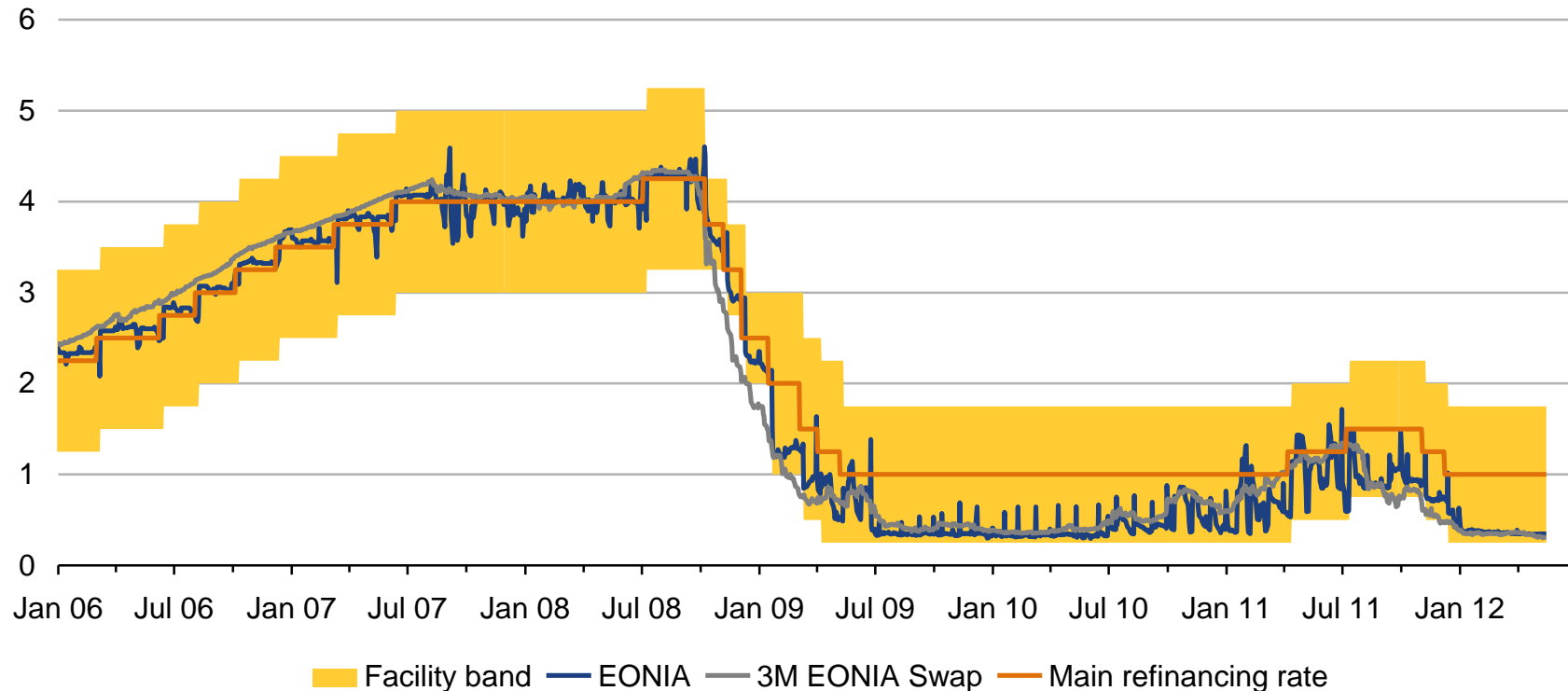
Sources: ECB, Commerzbank Corporates & Markets

The interbank market is flooded with liquidity

Money market rates depend on the deposit rate, not on the main refinancing rate

ECB interest rates and EONIA

Percent



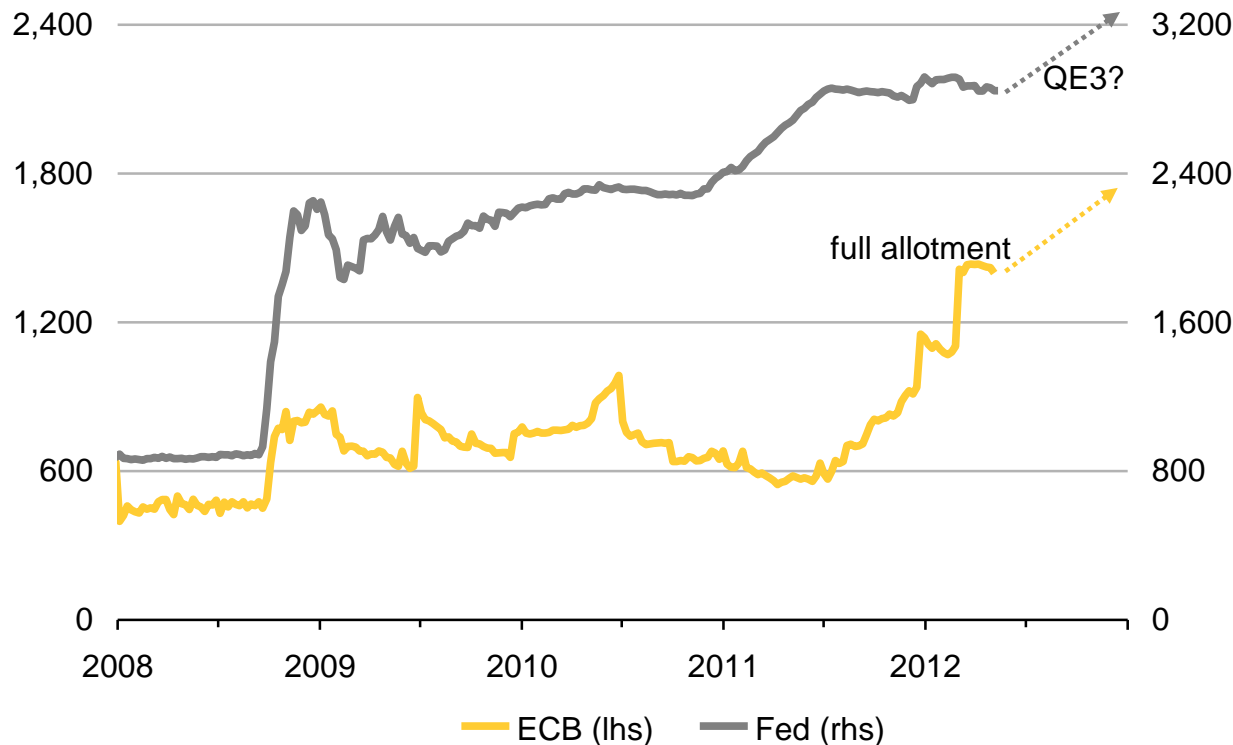
Sources: ECB, Bloomberg, Commerzbank Corporates & Markets

The new instrument of monetary policy: liquidity

Who is printing money at a faster pace?

Monetary bases are expanding quickly

ECB monetary base, EUR billion; Fed monetary base, USD billion



Sources: ECB, Federal Reserve System, Commerzbank Corporates & Markets

What are the contagion channels for CIS?

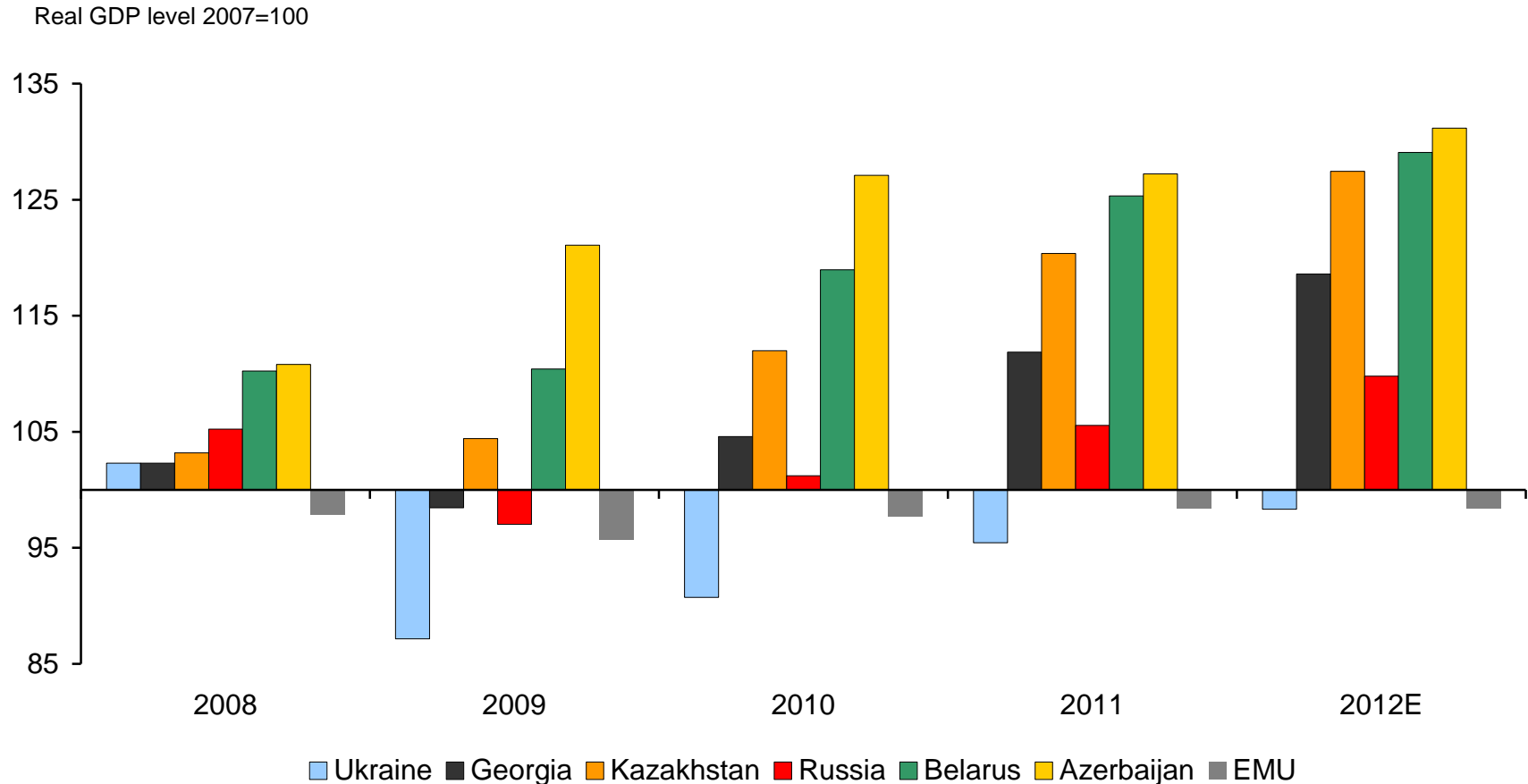
1. Trade

- the fiscal compact will cause subdued growth dynamics; in our main scenario of no Euro breakup, we expect the eurozone economy to contract by 0.4% this year and to grow by 0.8% in 2013.
- Greece exit or a complete eurozone breakup will create dislocations in its aftermath and will in the short term impair economic growth severely.
 - a eurozone in recession is reducing demand for exports from CIS; deteriorating the trade balance of the latter and decreasing their economic growth as a consequence
 - a complete eurozone breakup would very likely trigger a global recession, hitting commodity prices, which would create a negative terms of trade shock for the CIS

2. Financial Markets

- Risk aversion fuelled by the eurozone debt crisis is increasing financial markets volatility (risk-on & risk-off phases) and is making it more difficult to refinance on the international capital market.
- On the positive side:
 - the countermeasures taken by developed markets central banks (historical low key rates, QE, LTRO) are creating abundant liquidity which is also flowing into CIS assets
 - Global fixed income investors are increasingly alert to credit risk when investing in sovereigns, which is favouring CIS with its solid credit fundamentals
- Similar to post Lehman, a eurozone breakup would freeze the international capital market temporarily

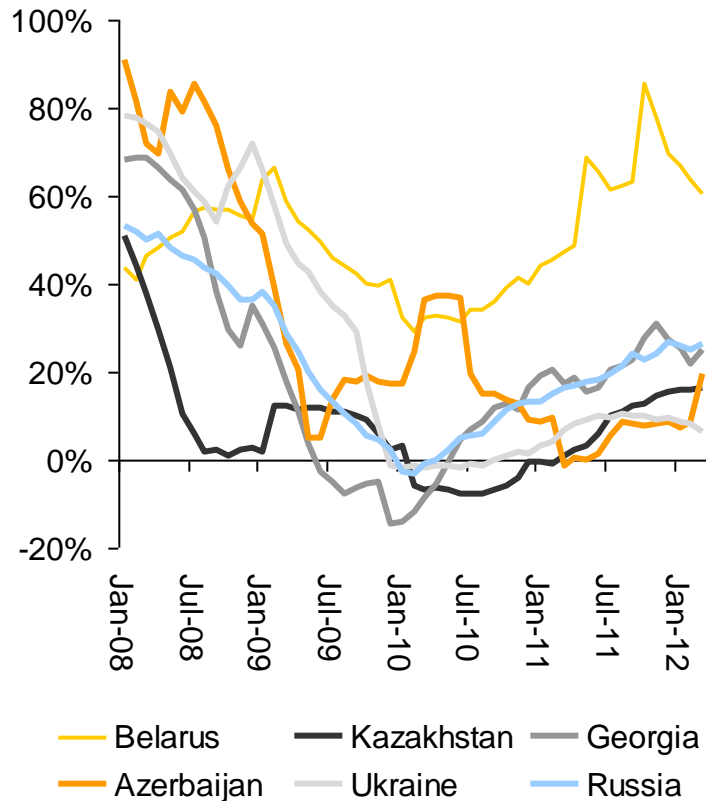
Overall, CIS is showing a solid economic recovery, but ...



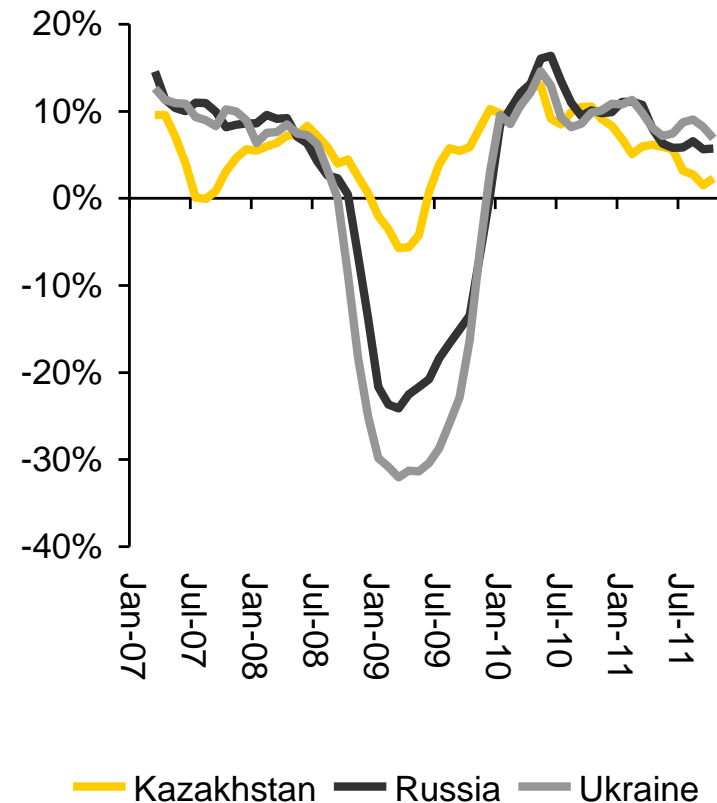
Sources: IMF, Commerzbank Corporates & Markets estimates

... credit growth is flattening out and industrial production is slowing

Credit to private sector % y/y:

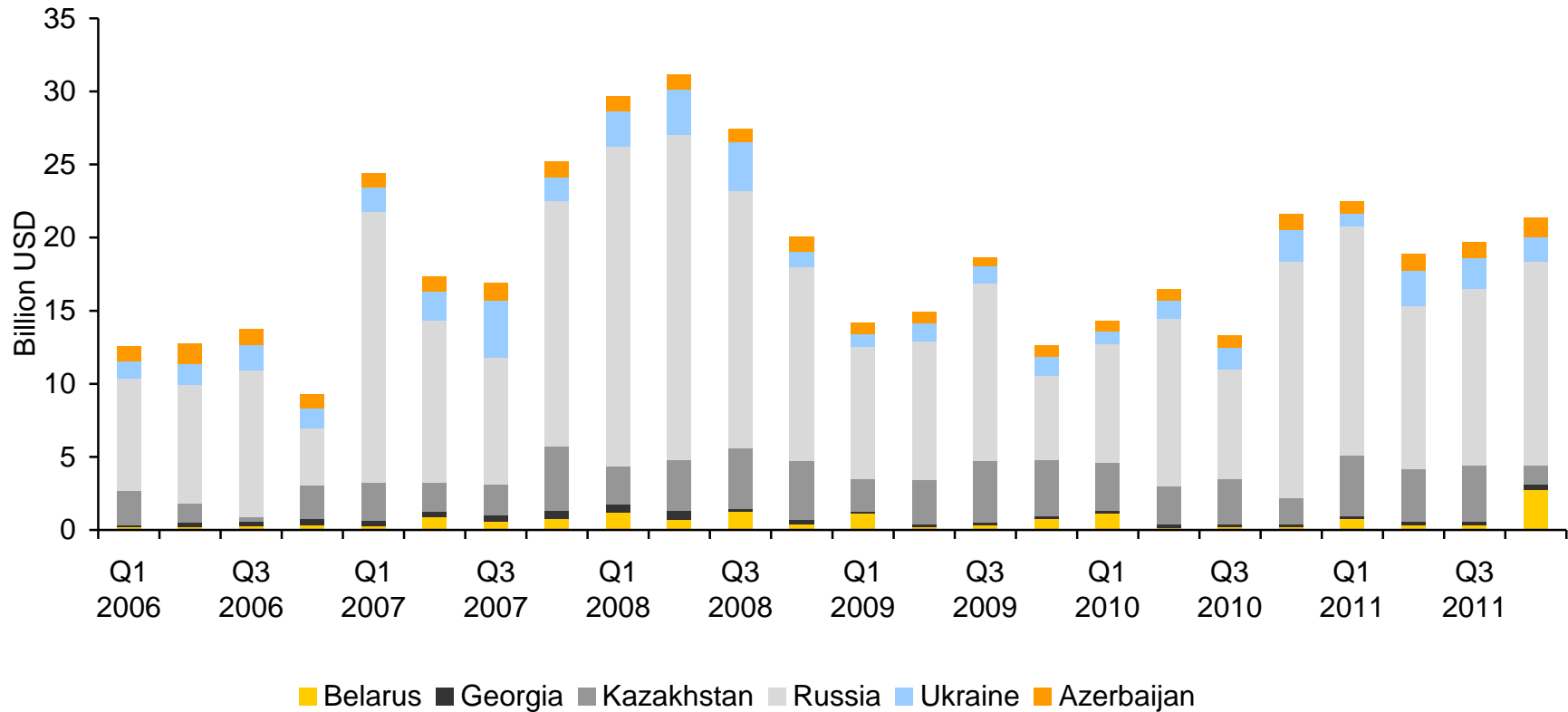


Industrial production, 3mma % y/y



Sources: IHS, National Central Banks, Commerzbank Corporates & Markets estimates

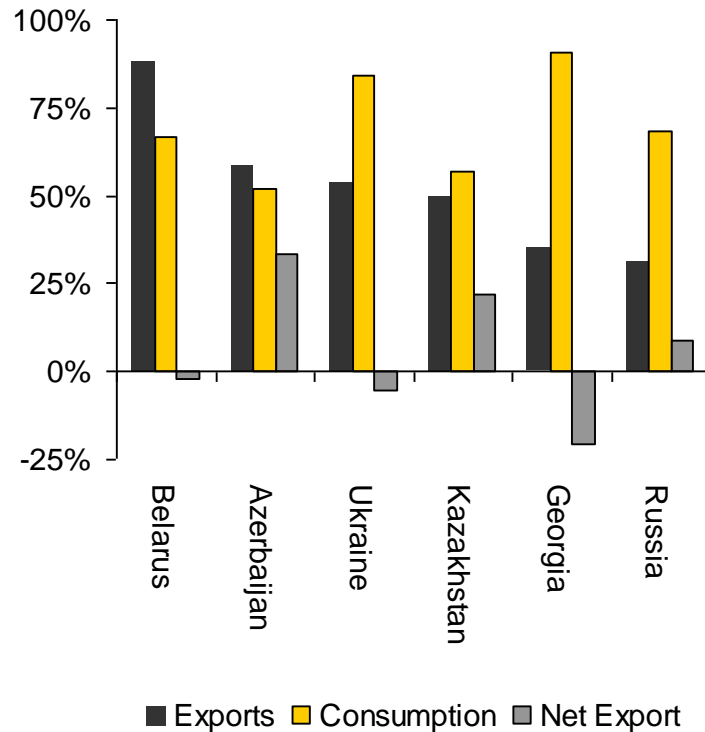
FDI Inflows recovering since global recession



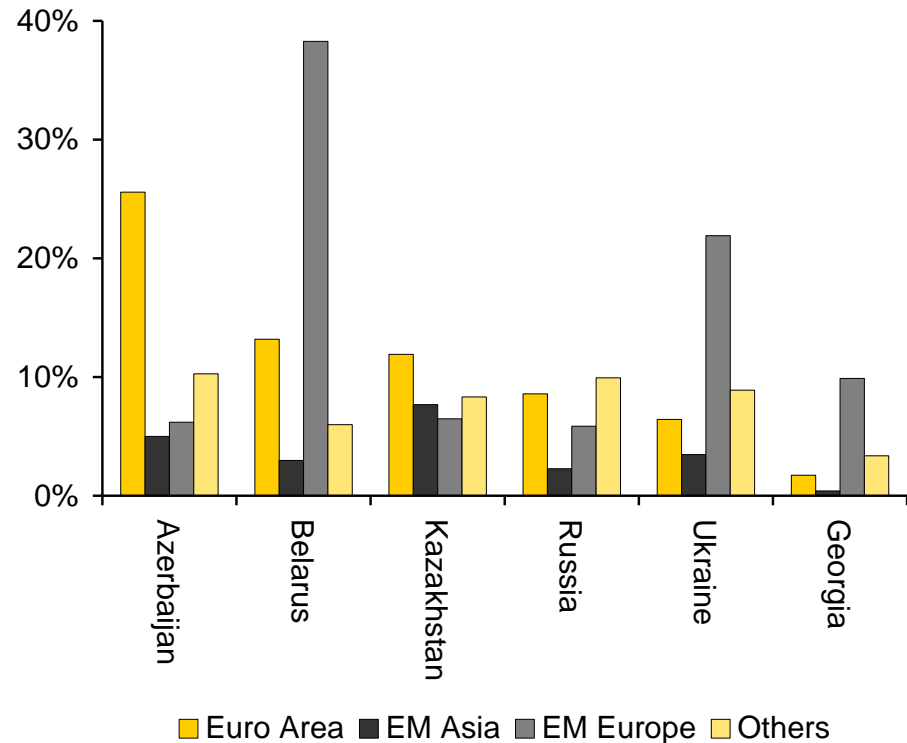
Sources: National Central Banks, Commerzbank Corporates & Markets

Who is exposed to a EU recession?

Consumption, exports and trade-balance, % GDP 2011



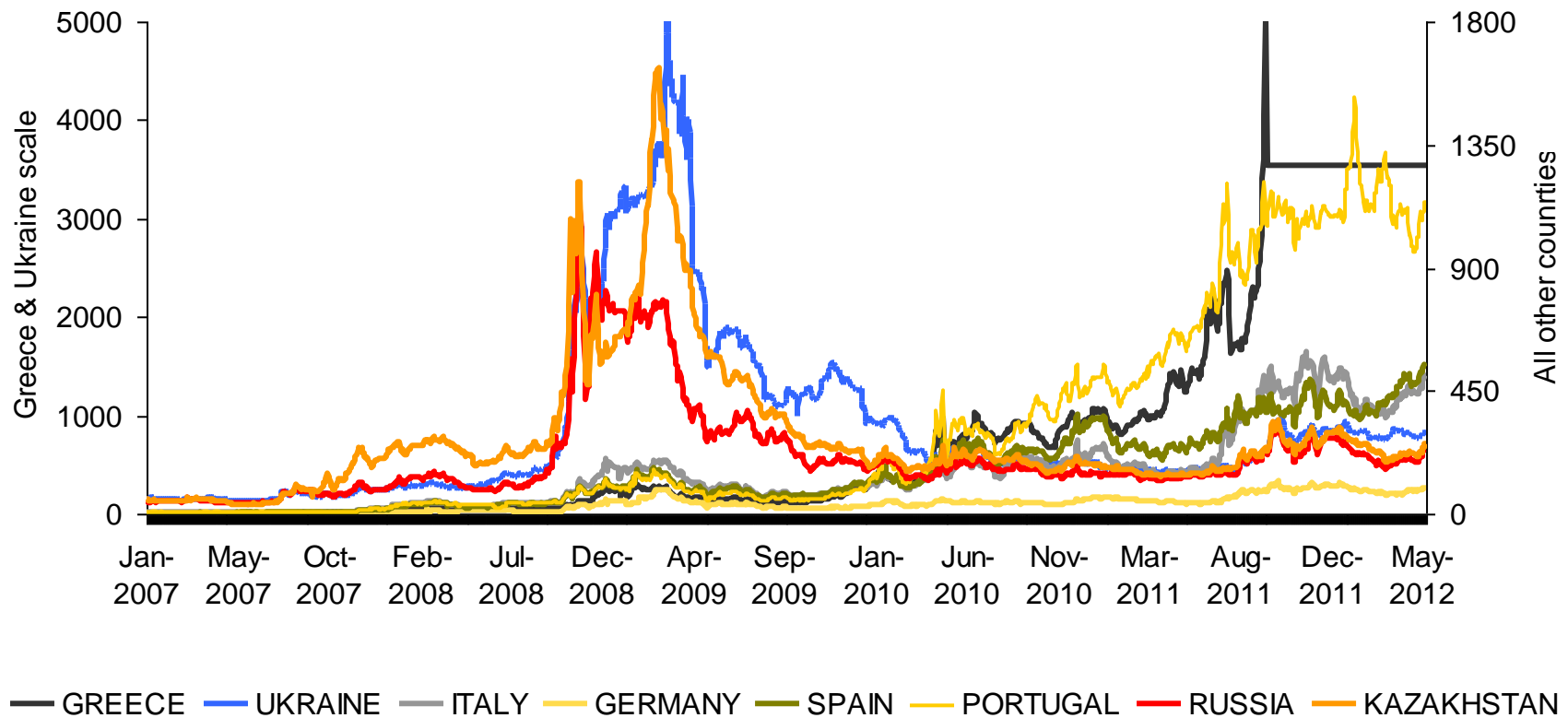
Exports to various destinations, % GDP 2011



Sources: Central Banks, IMF, Commerzbank Corporates & Markets

- › Georgia, Russia and Ukraine more domestic driven than export-driven, which makes them less affected by eurozone slowdown.
- › Azerbaijan and Kazakhstan surprisingly high share of exports into eurozone due to energy exports.
- › Belarus figures distorted by currency devaluation in May & September 2011.

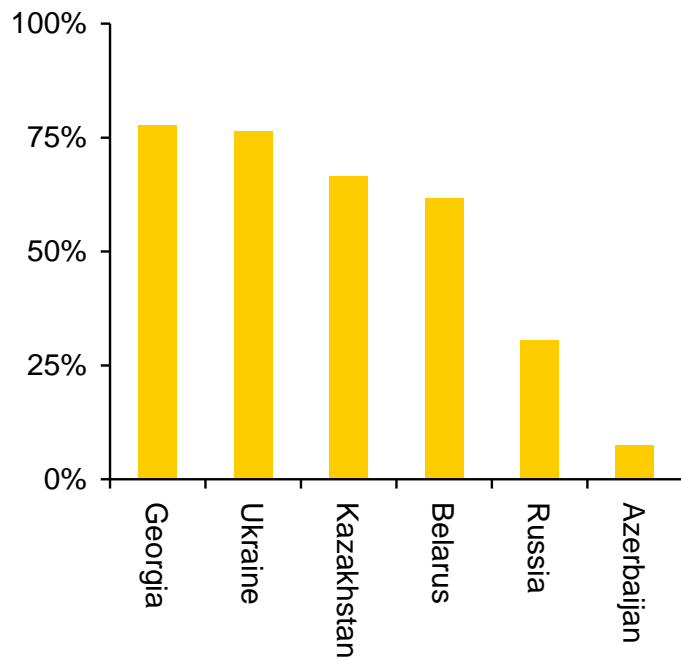
CDS Spreads: so far moderate contagion from eurozone woes



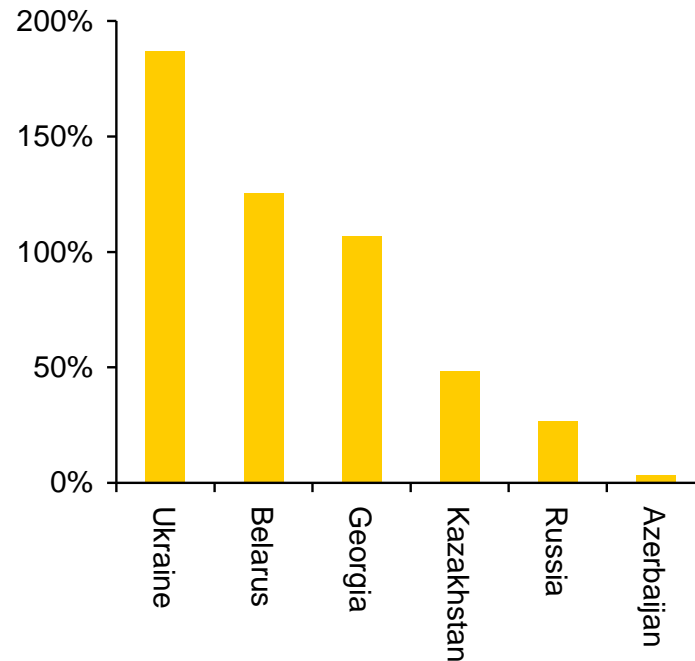
Sources: Bloomberg, Commerzbank Corporates & Markets

External debt and rollover requirements compared

External debt % GDP, and 2012F rollover requirements % FX reserves



■ External Debt / GDP (2011)



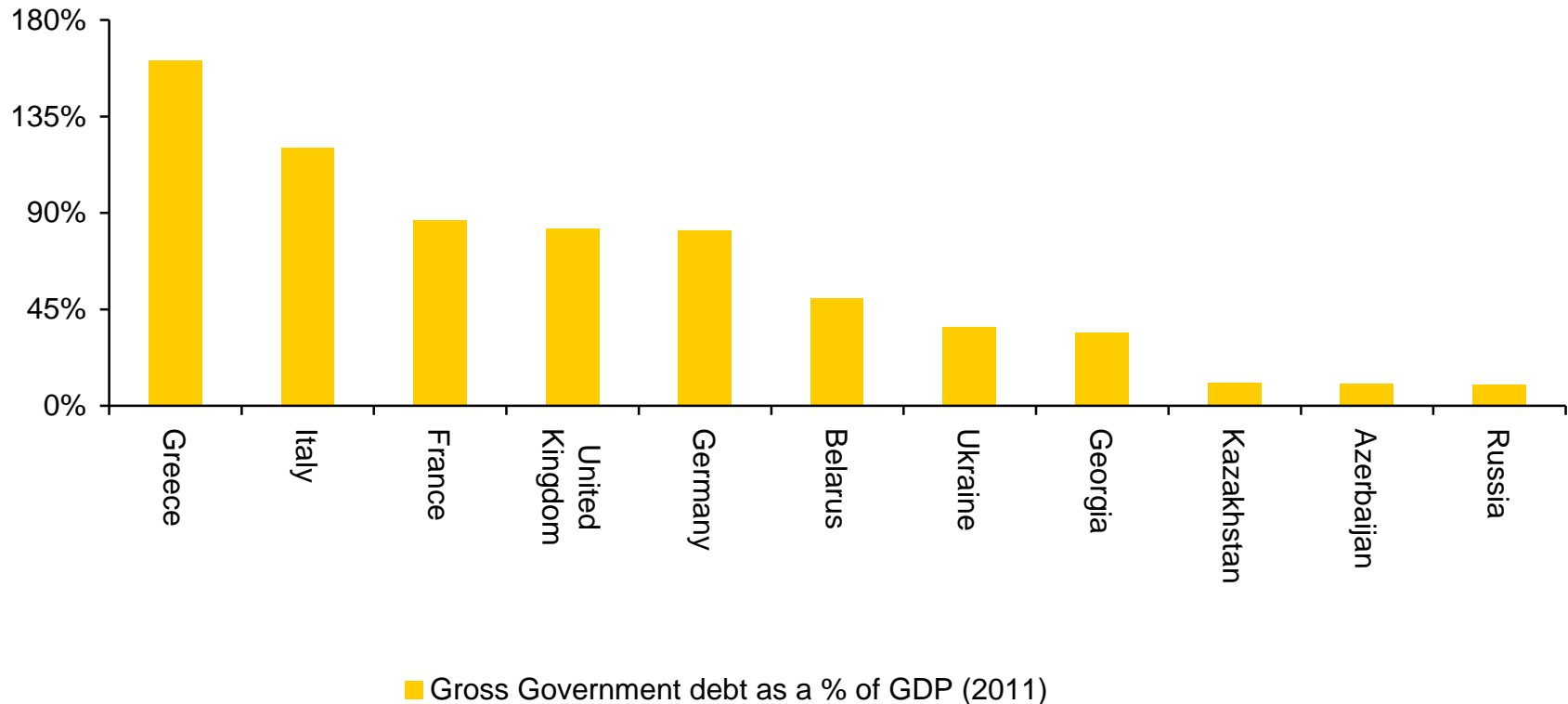
■ 2012F rollover requirements as % FX Reserves

Sources: Central Banks, IIF, CEIC, Commerzbank Corporates & Markets

- › Russia and Azerbaijan low external debt, but also Ukraine's and Georgia's external indebtedness below critical non-sustainability level.
- › Short term debt rollover requirements high for Ukraine and Belarus, which makes these countries vulnerable should the international capital market freeze up in a eurozone meltdown scenario.

Solid CIS credit profile should curtail financial market contagion (1)

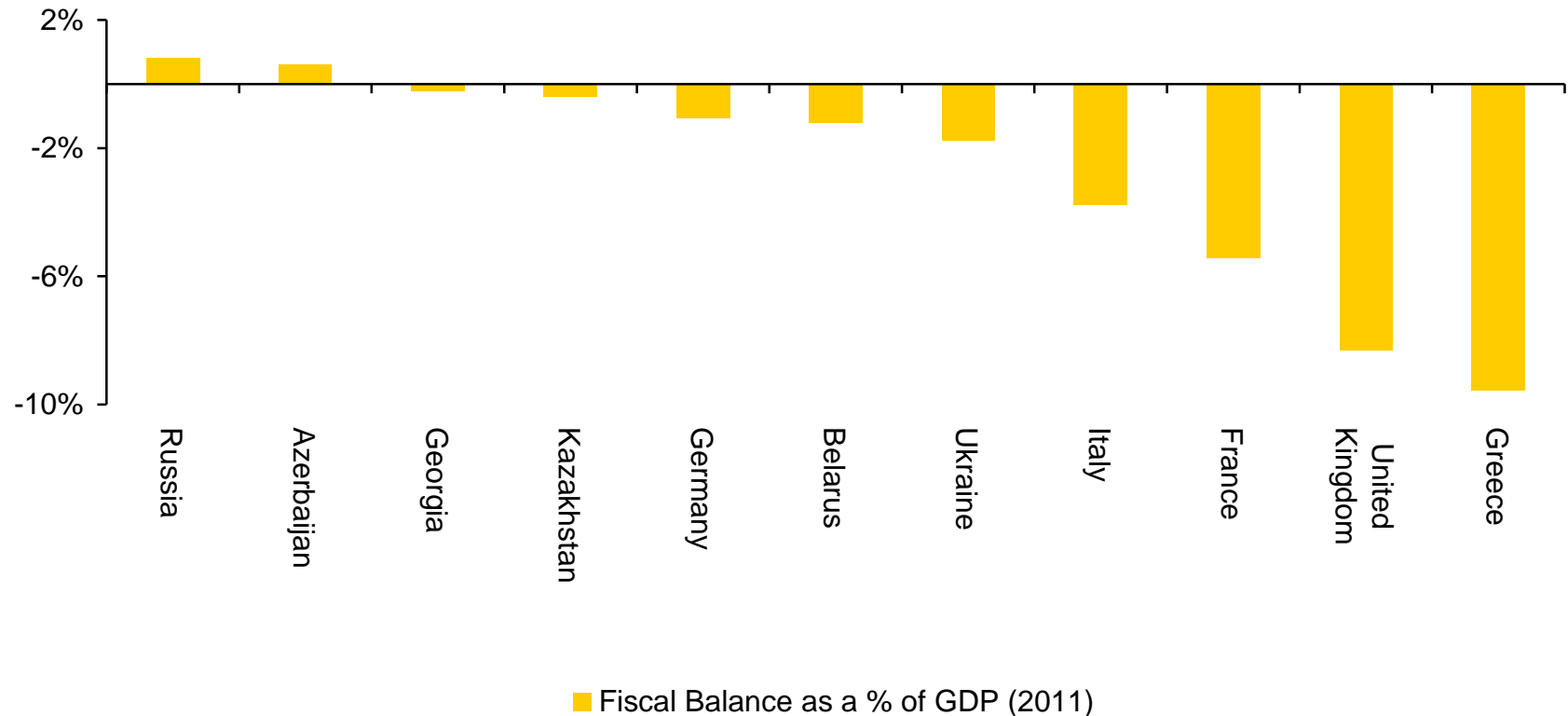
- Compared to the eurozone, CIS sovereign indebtedness very low



Sources: CMA, Bloomberg, Commerzbank Corporates & Markets

Solid CIS credit profile should curtail financial market contagion (2)

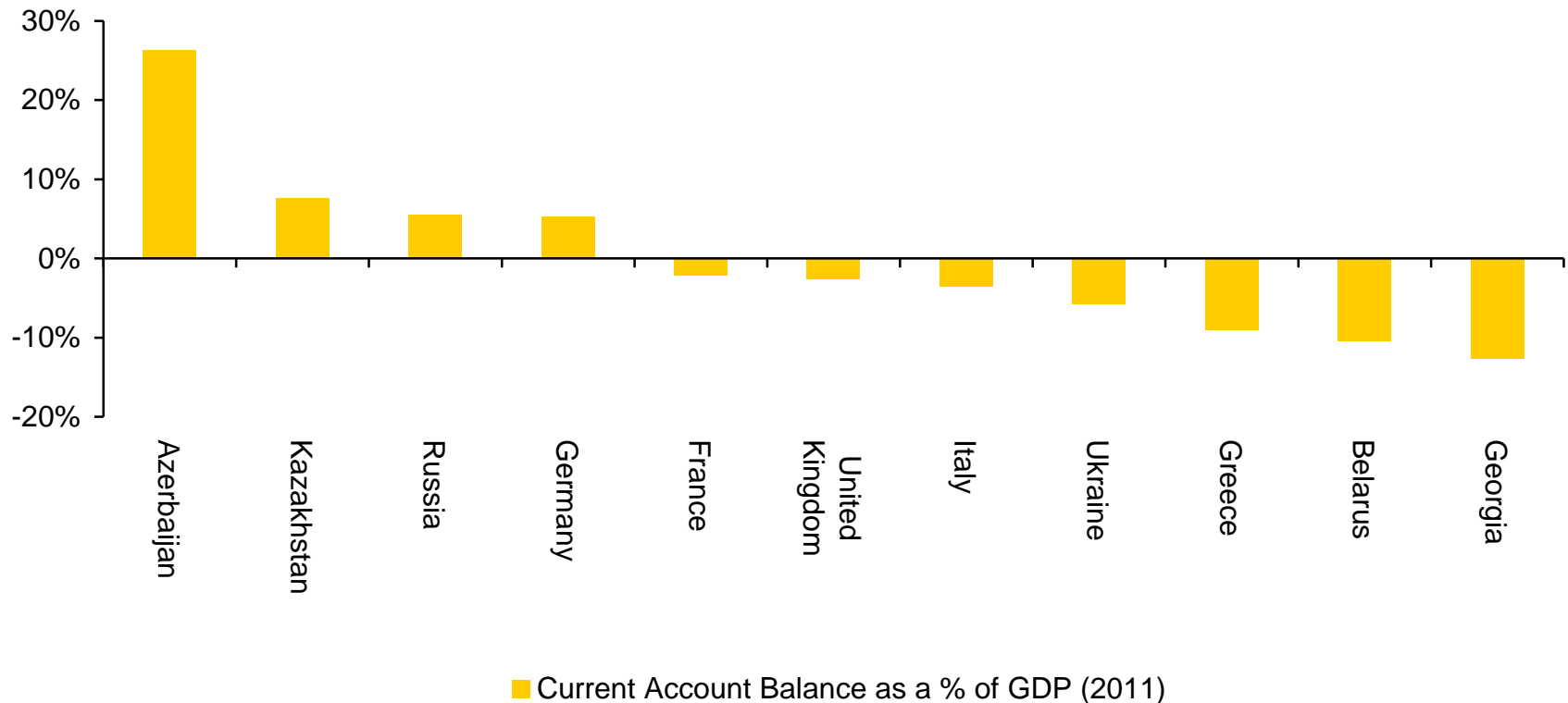
- Fiscal policy: Greater leeway for fiscal stimulus in CIS



Sources: Bloomberg, Commerzbank Corporates & Markets

Solid CIS credit profile should curtail financial market contagion (3)

- Current account: surplus immunizing in worst case scenario of eurozone collapse



Sources: Bloomberg, Commerzbank Corporates & Markets

Key Macro Forecasts

Key statistics

	Real GDP growth			Inflation			Current Account, % GDP		Fiscal Balance, % GDP (2012)	External Debt, % GDP (present)	FX Reserves, USD bn (latest)
	2011	2012F	2013F	2011	2012F	2013F	2011	2012F			
Azerbaijan	0.1	3.1	1.9	5.6	5.6	6.4	26.3	25.5	-0.9	7.5	11.2
Kazakhstan	7.5	5.9	6	7.4	6.4	6.8	7.6	5.4	4.4	66.4	29.8
Russia	4.3	3.5	3.7	8.5	6.2	6	6	3.4	1	30.4	465.7
Ukraine	5.2	2.5	3.8	8	5.5	7	-6.5	-6.9	-3.2	76.3	30.4
Belarus	5.3	3	3.3	108.7	43.5	27.5	-10.4	-8.4	-0.1	61.7	11.5
Georgia	7	6	5.5	2	5	6	-11.6	-11.8	-2	77.7	2.6

Sources: IMF, Commerzbank Corporates & Markets estimates

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