

Decoupling of the U.S. and World Economy

EMEA “Market” Perspective

TÜSİAD-KOÇ UNIVERSITY ECONOMIC RESEARCH FORUM CONFERENCE

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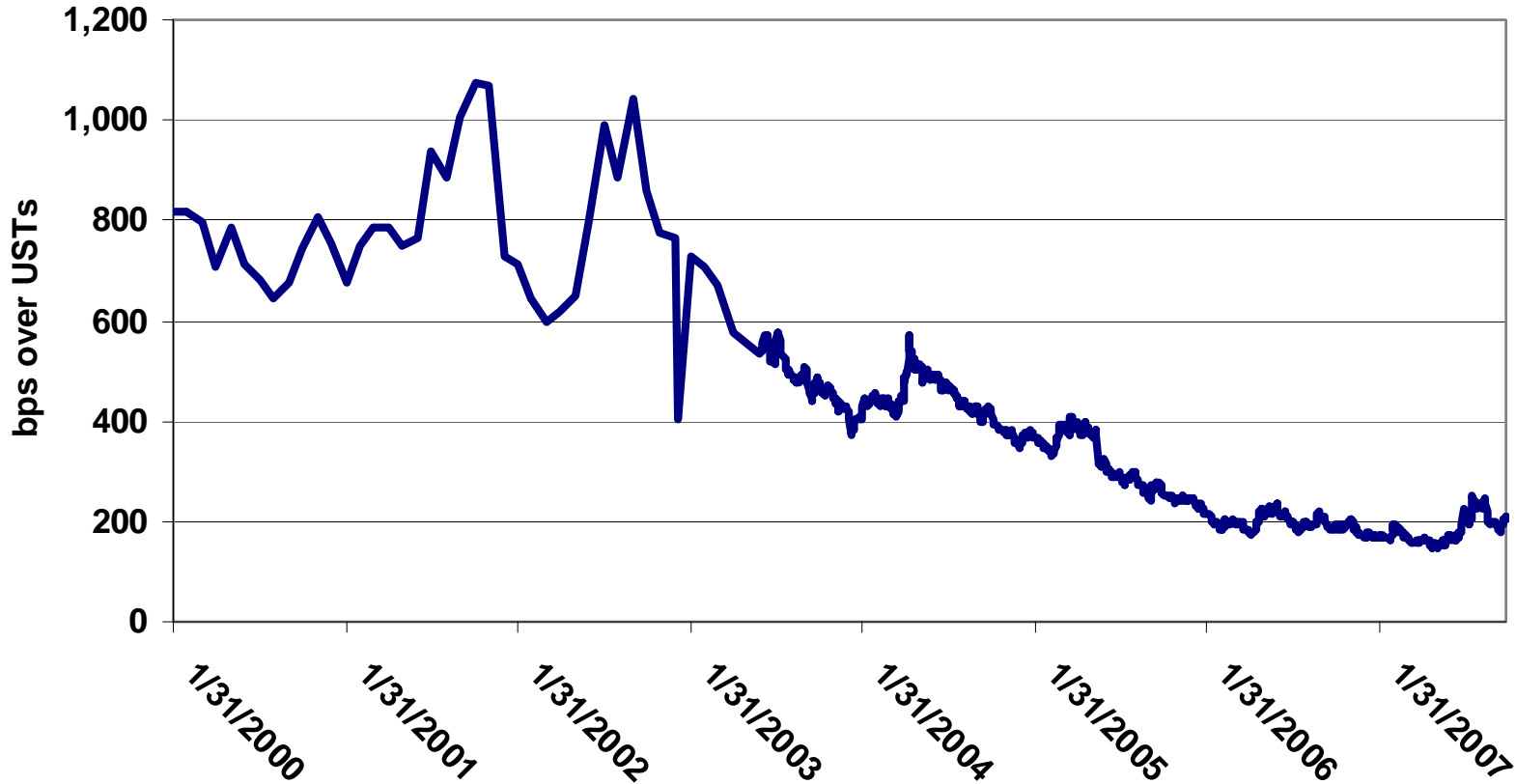
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- **Emerging markets continue to perform well/show resilience**
- **Marked improvement in fundamentals**
- **Technical backdrop is also very supportive**
- **Risks are on the credit/corporate side in EMEA**

Emerging Markets Have Proven Less Volatile, and Have Posted Consistent Returns...

EMBI+

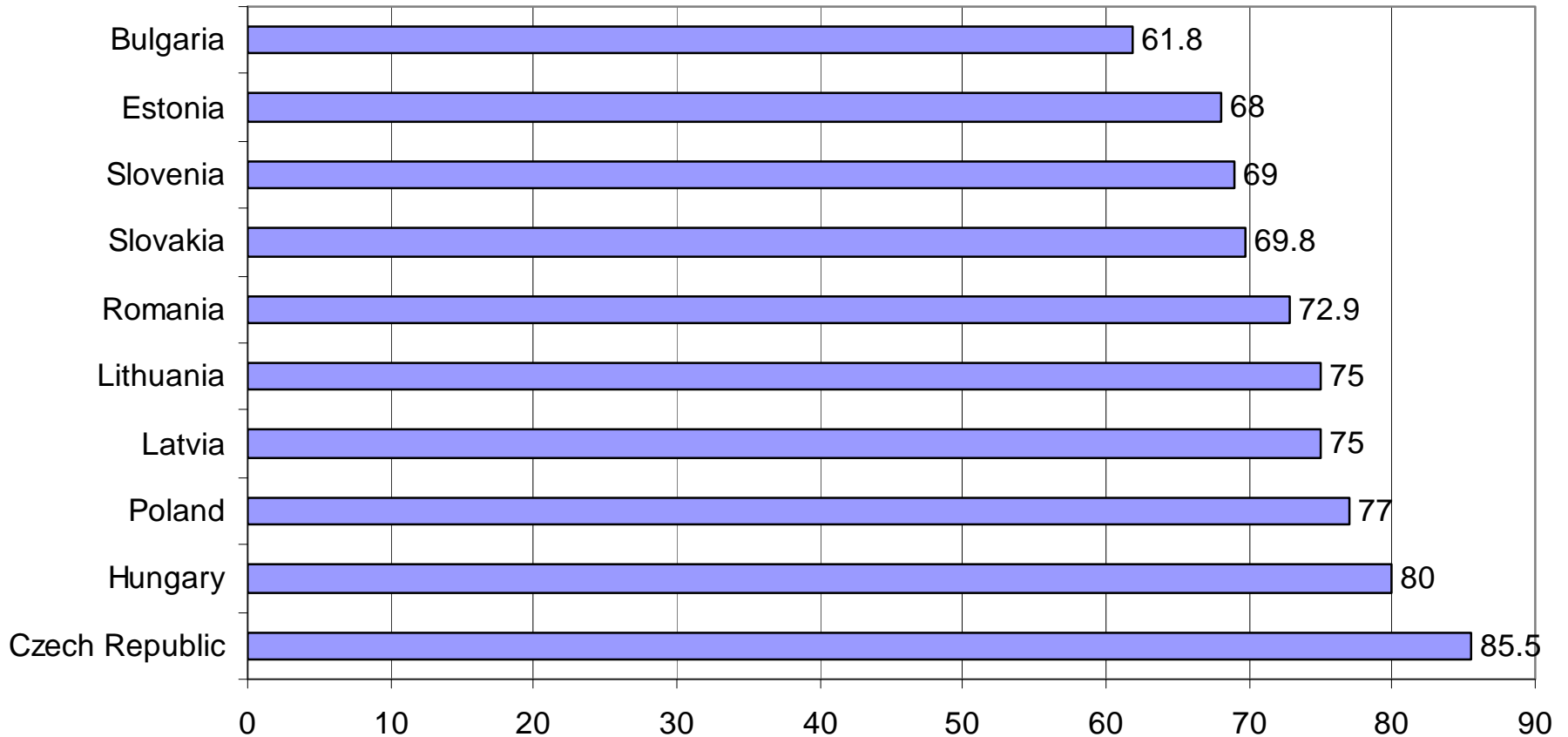


Sources: BSIL; Bloomberg.

- **Pick-up in trend real GDP growth**
- **Reduced inflation/lower interest rates**
- **Much improved public finances, lower deficits/surpluses, improved debt ratios**
- **Generation of current account surpluses**
- **Upturn in private capital inflows (particularly net FDI)**
- **FX appreciation**
- **Accumulation of FX reserves**
- **Overwhelming trend to rating upgrades**

EMEA Is More Dependent on EU...

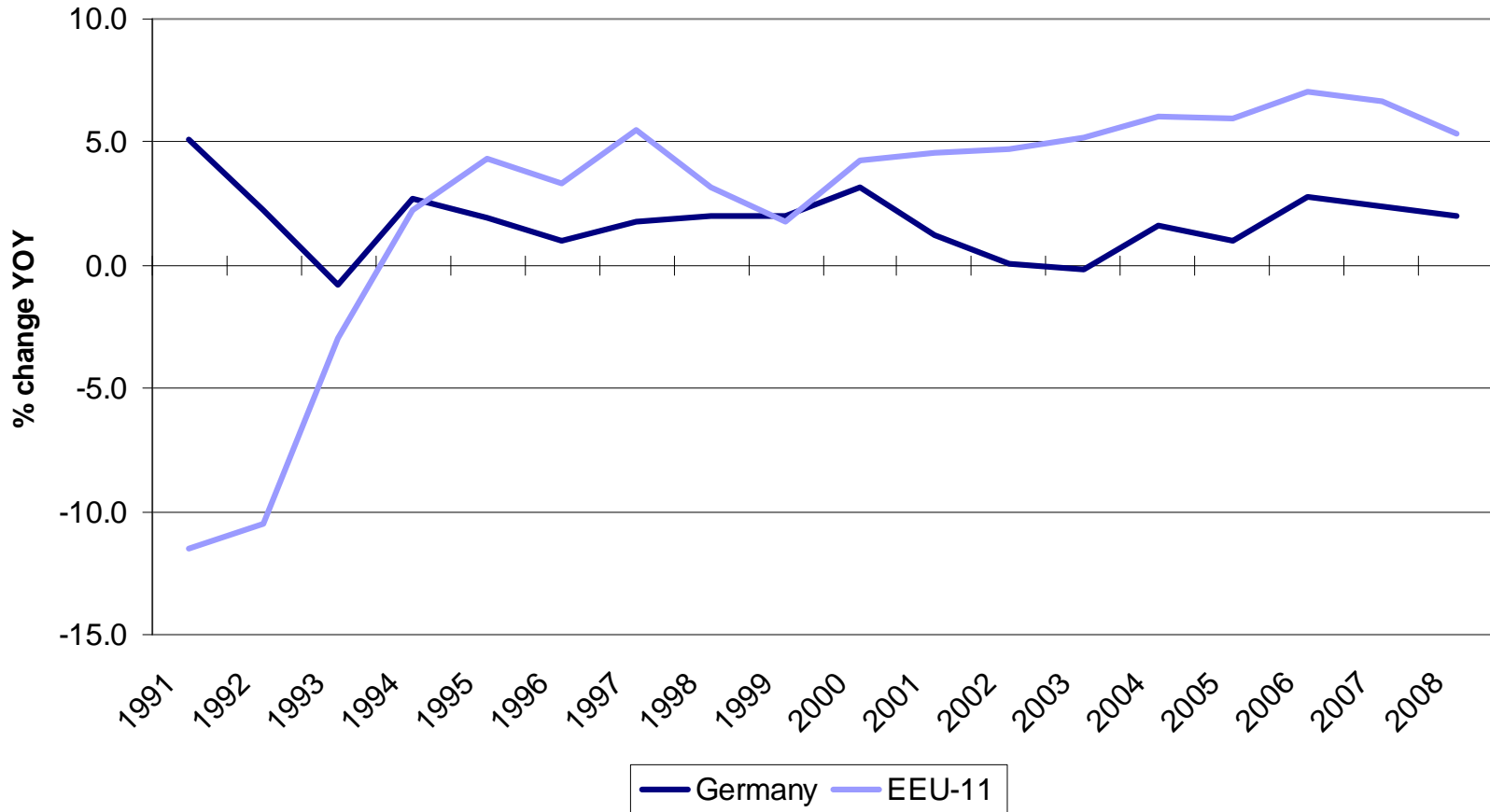
Share of EU in total exports (%)



Sources: Various countries.

...but Has Been Resilient in the Face of Previous Growth Slowdown...

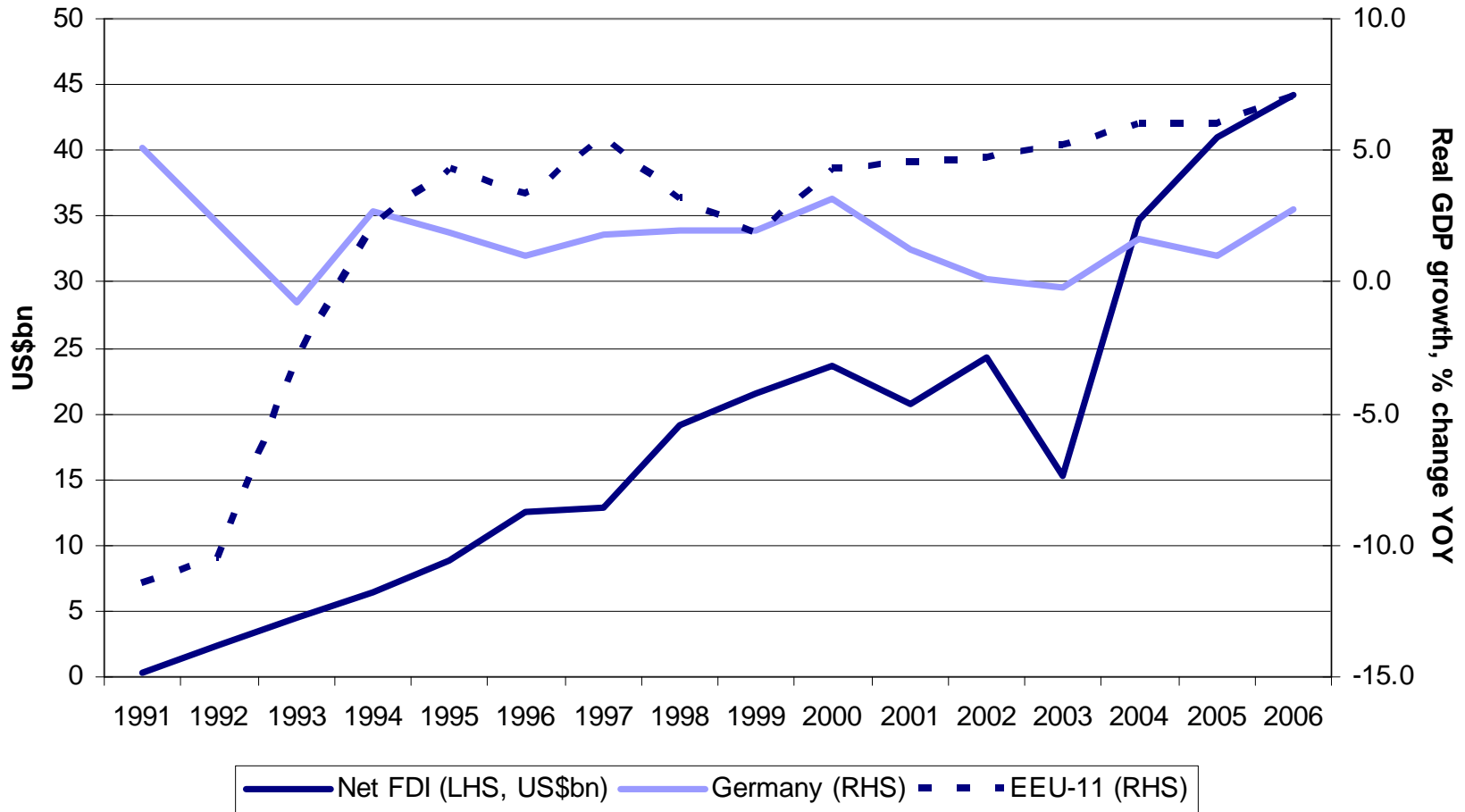
Real GDP growth trends



Sources: BSIL; IIF; WB.

...With Net FDI Providing an Underpinning to Growth and the Balance of Payments...

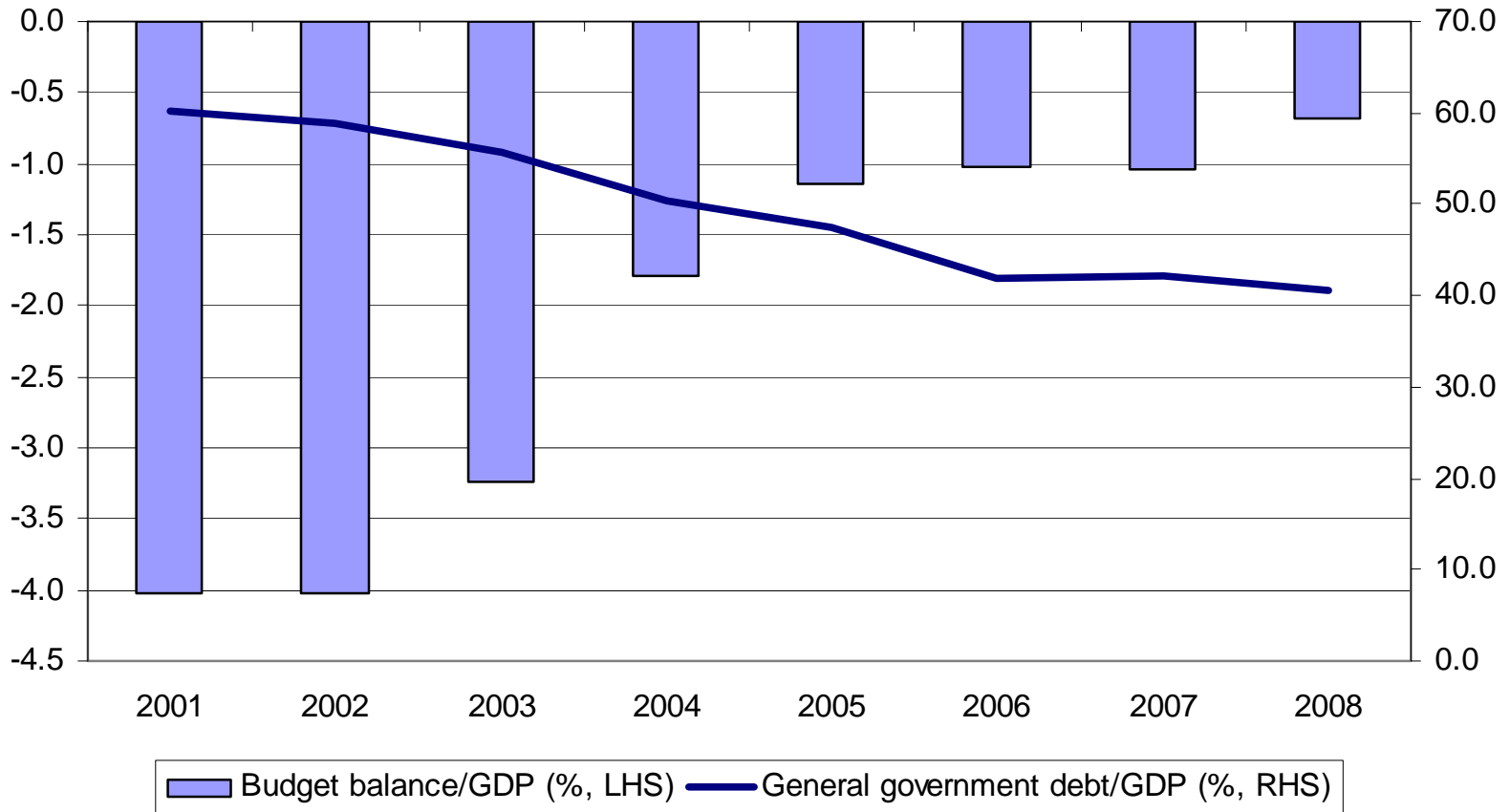
GDP growth, vs Net FDI inflows into EEU-11



Sources: BSIL; various local sources.

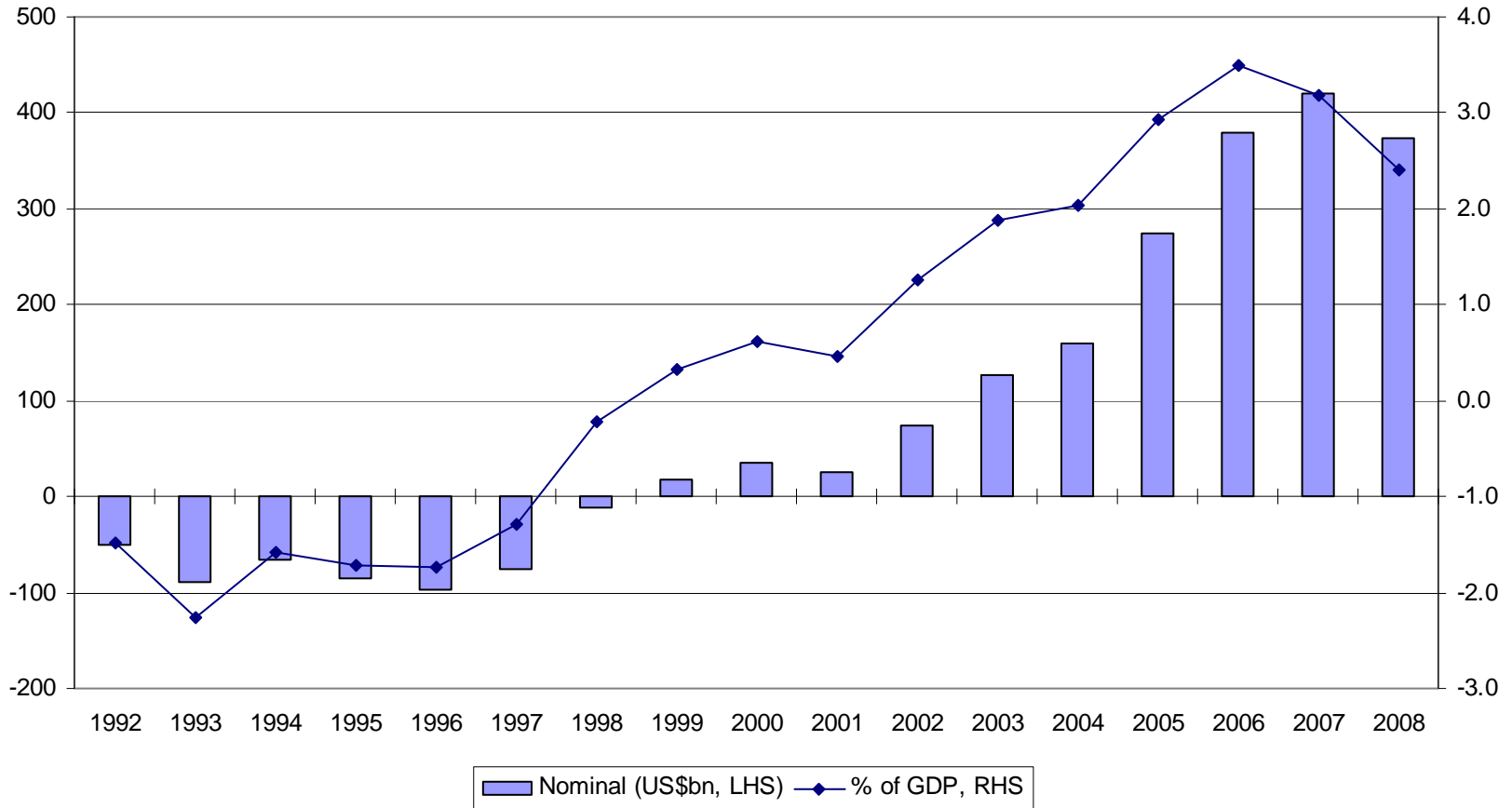
Public Finances Have Been Overhauled...

Trends in public finance, EMEA-25



Sources: BSIL; IIF; Fitch Ratings; country sources.

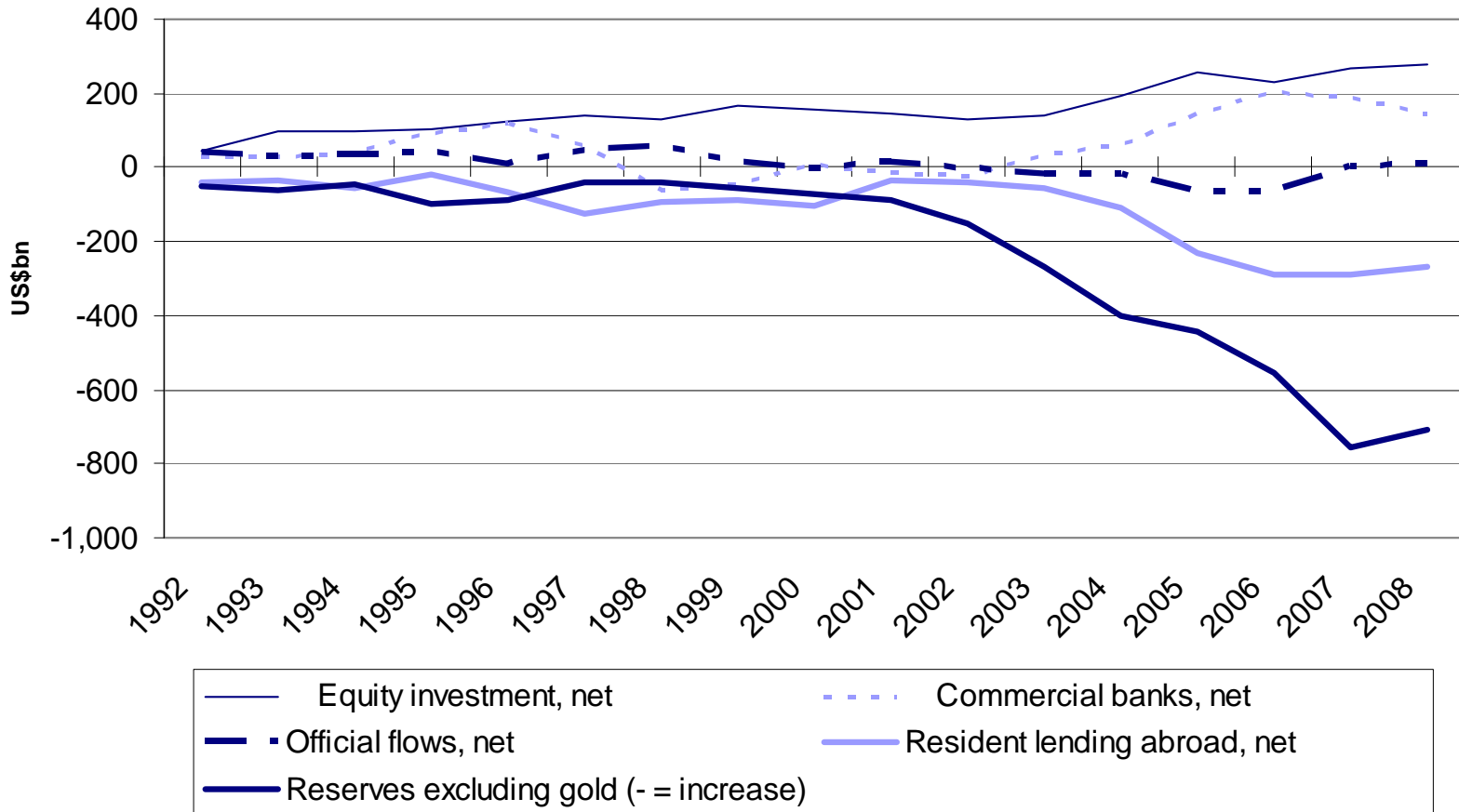
EMs: Current account performance



Sources: BSIL; IIF.

...and Capital Inflows Have Accelerated

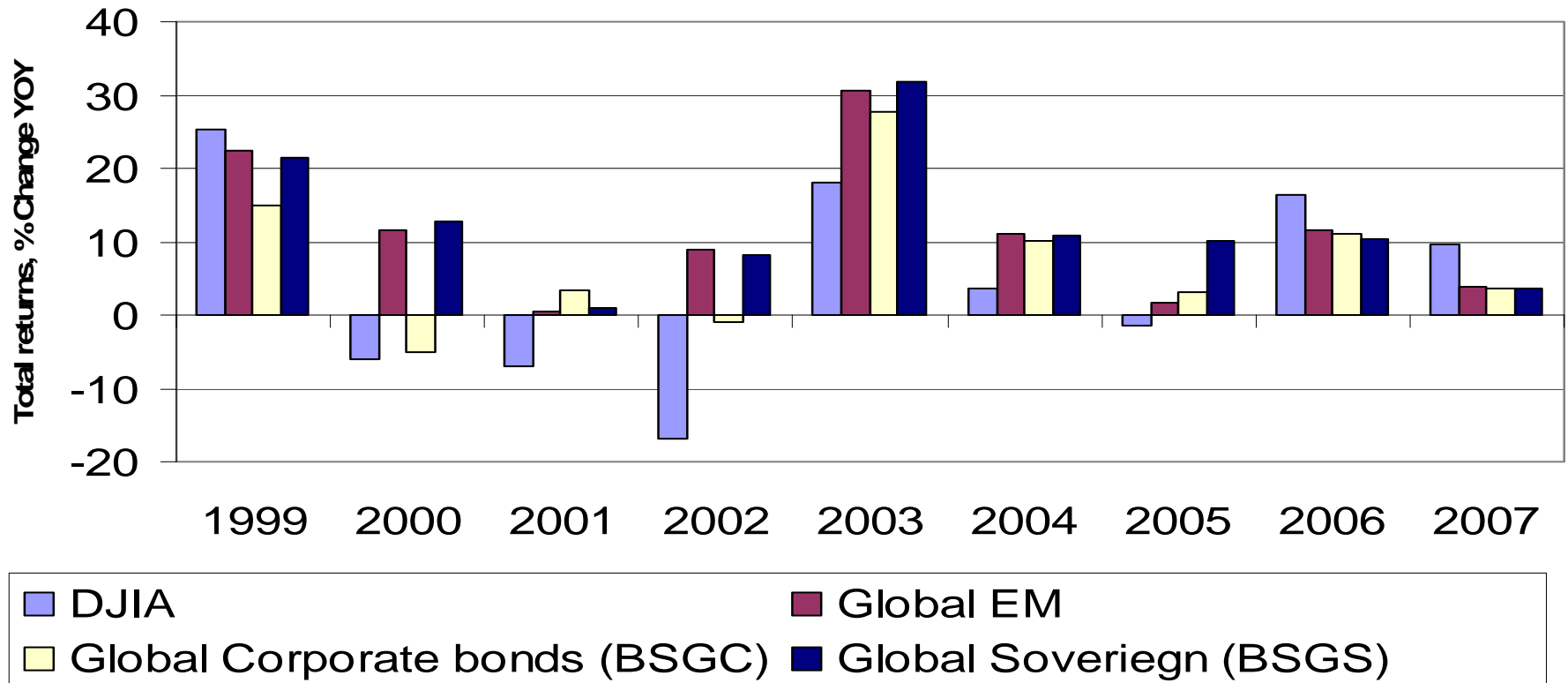
Net private sector capital flows to EMs



Sources: BSIL; IIF.

- **More demand: performance track record, rating upgrades brings more investors to the table (x-over, high grade, traditional EM, sovereign wealth funds/regional investors)**
- **Less supply: Lower budget deficits, more privatization receipts = less debt financing. Stabilization funds/oil windfall funds used to fund debt buyback (e.g., Russia).**
- **Sovereigns have much lower refinancing risk**

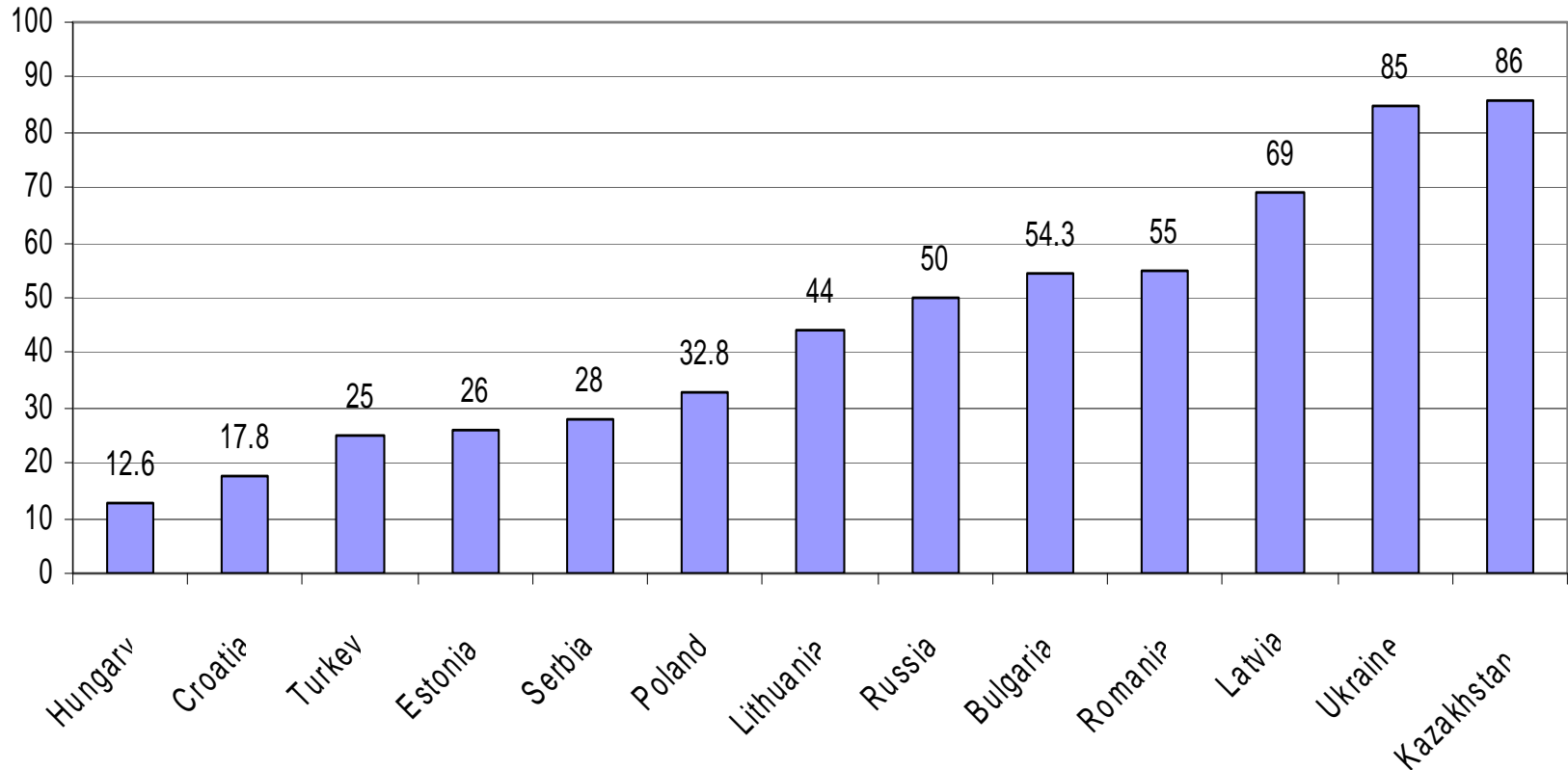
EM sovereign bond relative performance



Sources: BSIL; Bloomberg.

Credit Presents the Biggest Risk to EMEA...

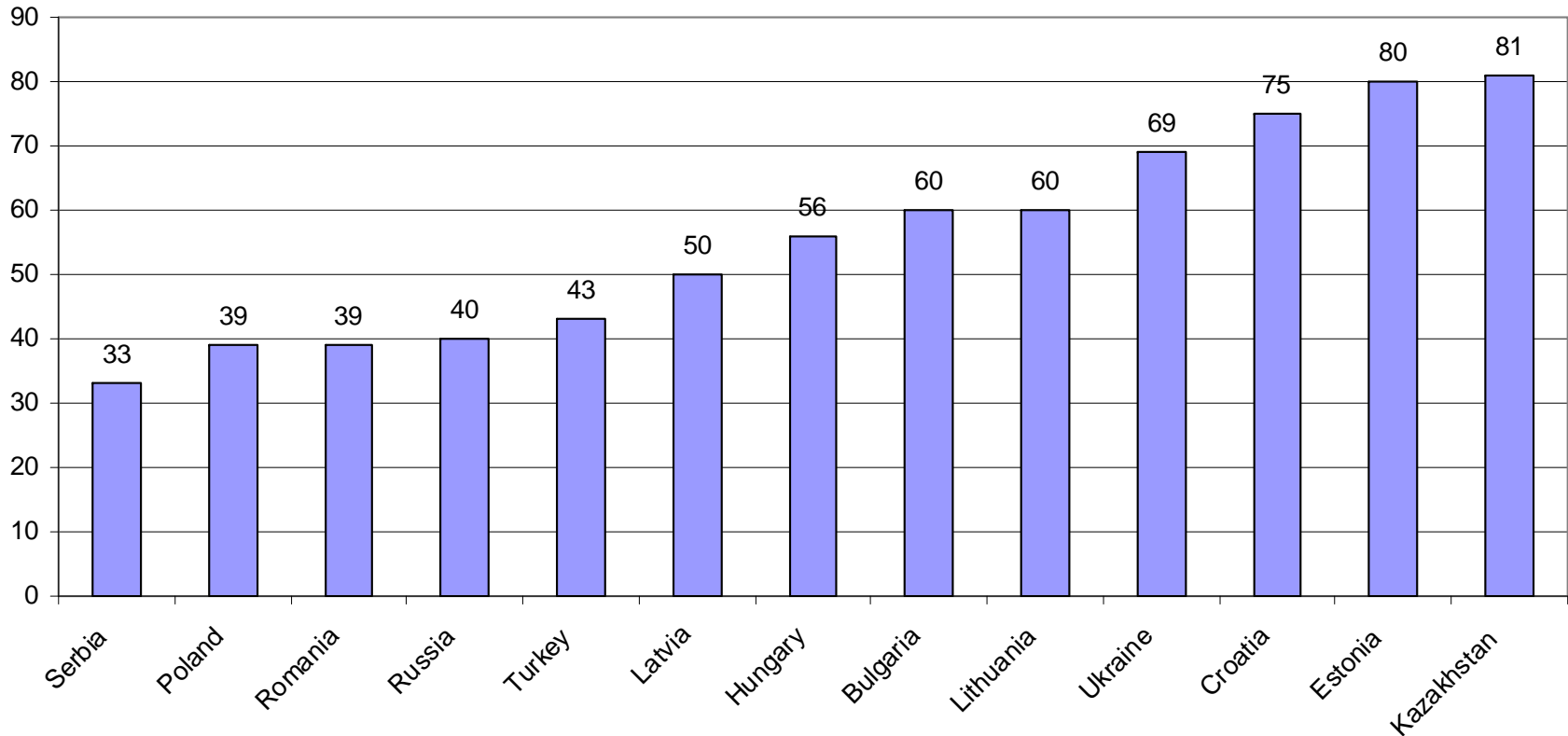
Growth in private sector credit (% change YOY)



Sources: BSIL; NBS; NBP; BNR; CBR; CBRT; BOL; MNB; BNB; LB; NBU; CNB; EB; NBK.

...as Private Sector Credit/GDP Is Rising...

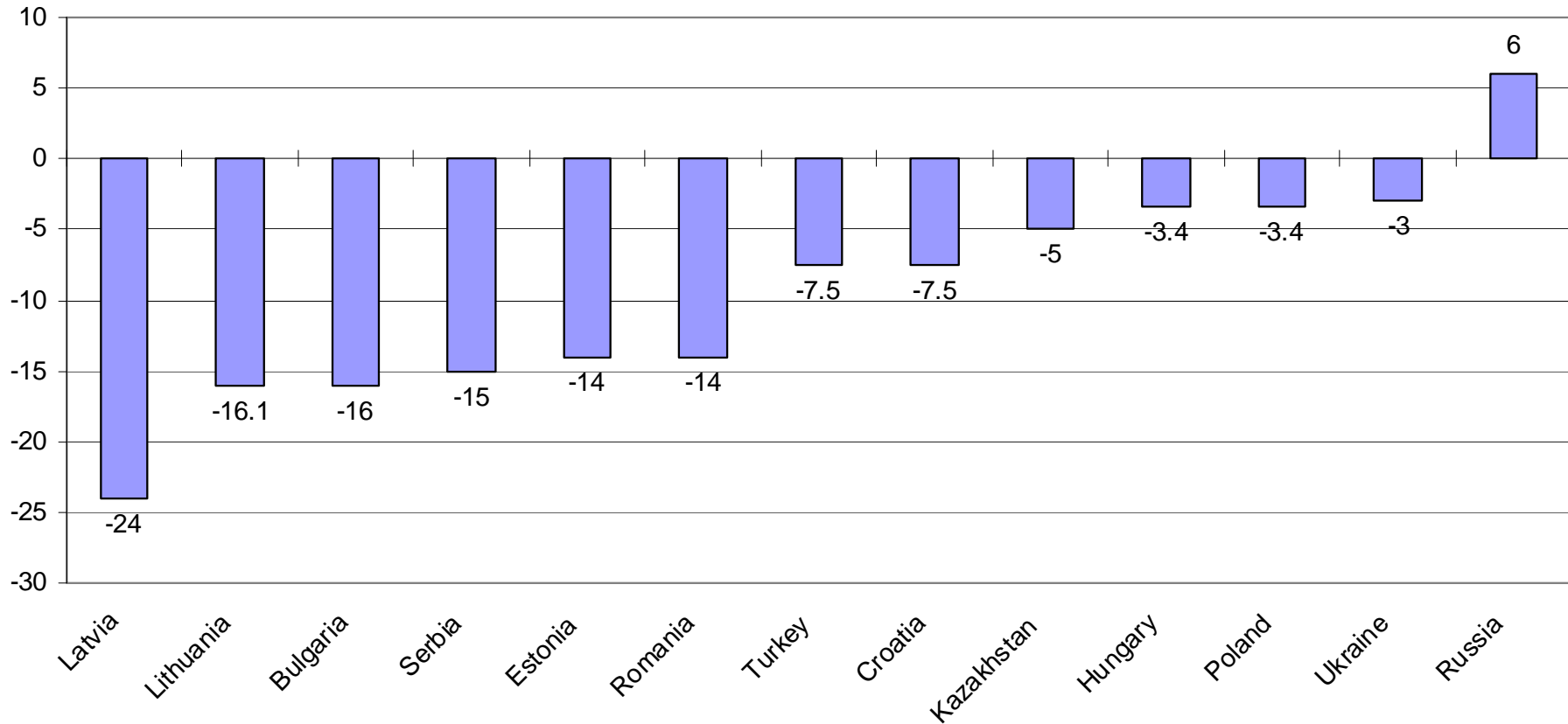
Private sector credit/GDP (%)



Sources: BSIL; NBS; NBP; BNR; CBR; CBRT; BOL; MNB; BNB; LB; NBU; CNB; EB; NBK.

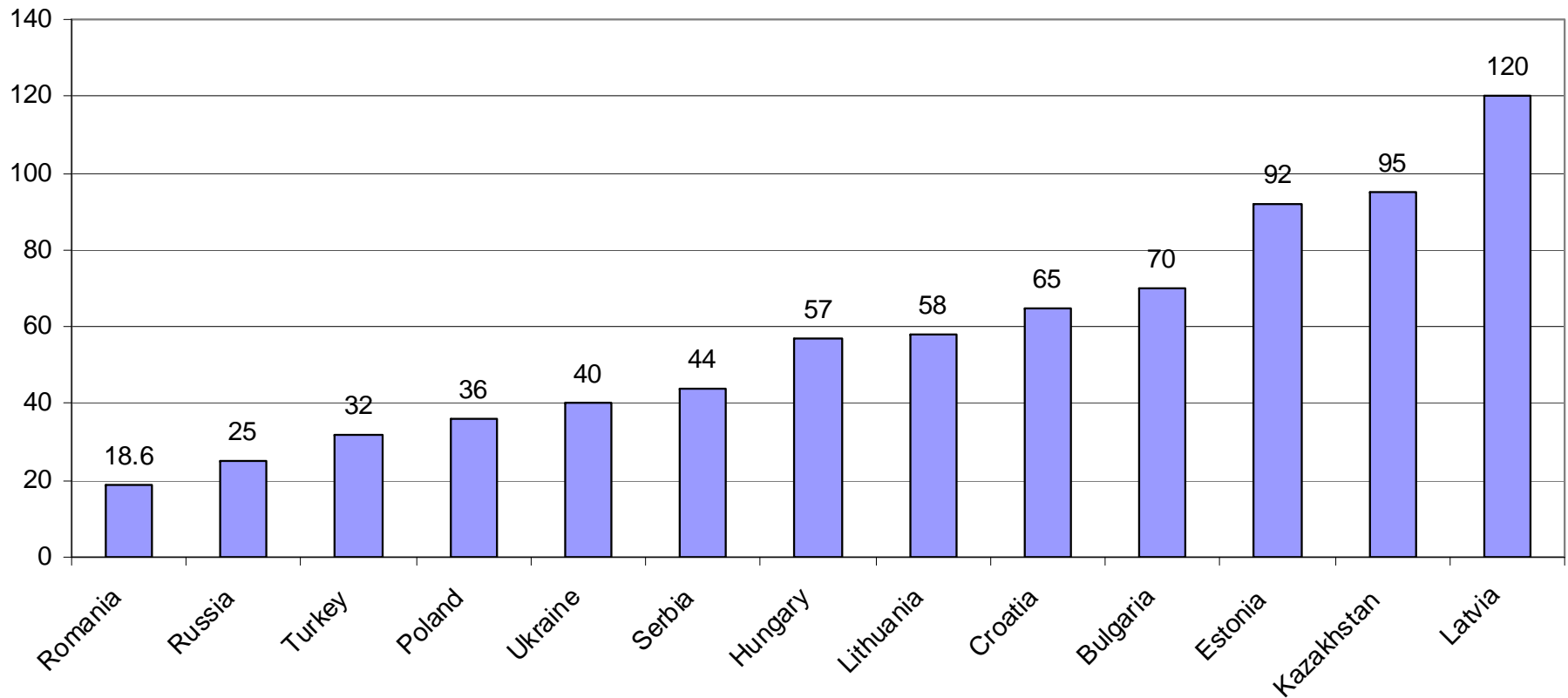
...Boosting Current Account Deficits...

Current account balance (% of GDP)



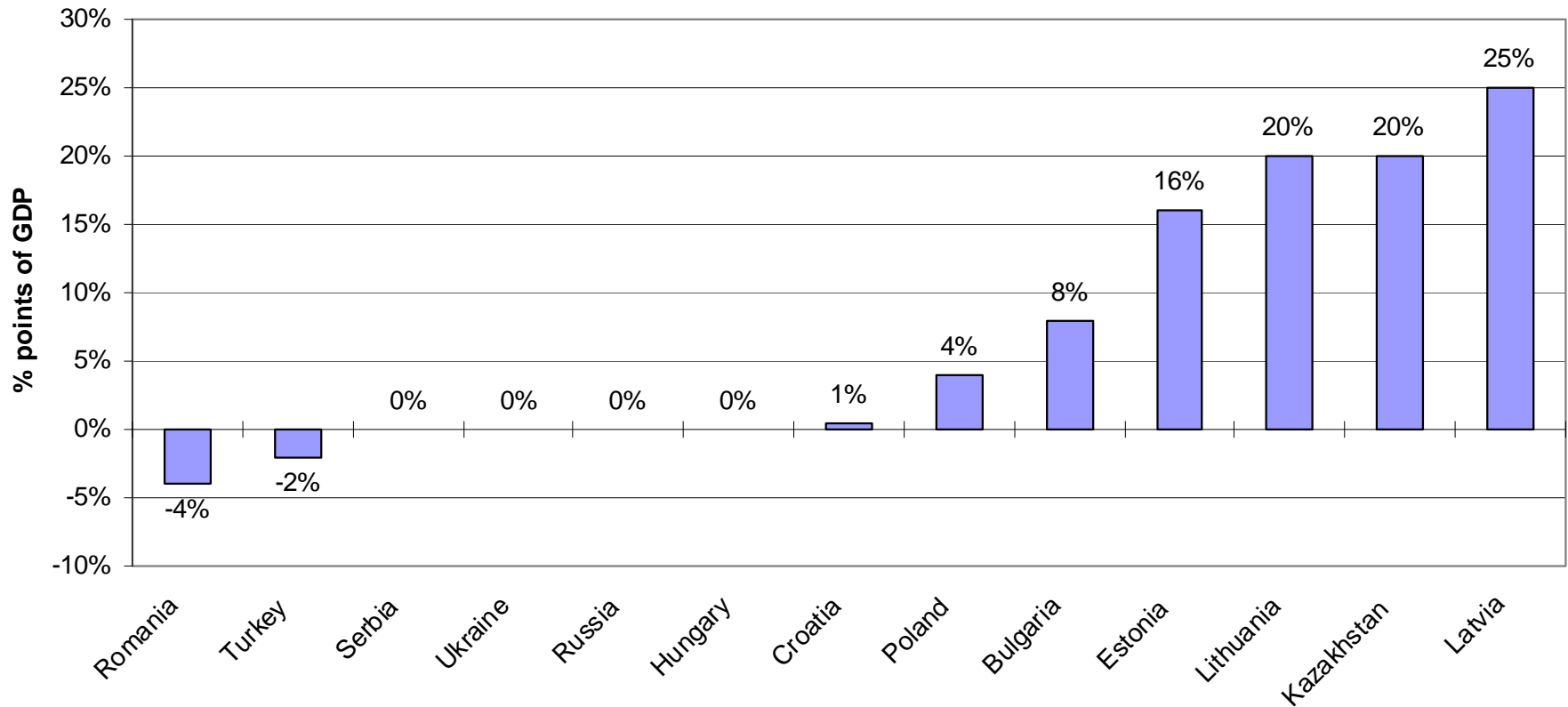
Sources: BSIL; NBS; NBP; BNR; CBR; CBRT; BOL; MNB; BNB; LB; NBU; CNB; EB; NBK.

Private sector external debt/GDP (%), 2007



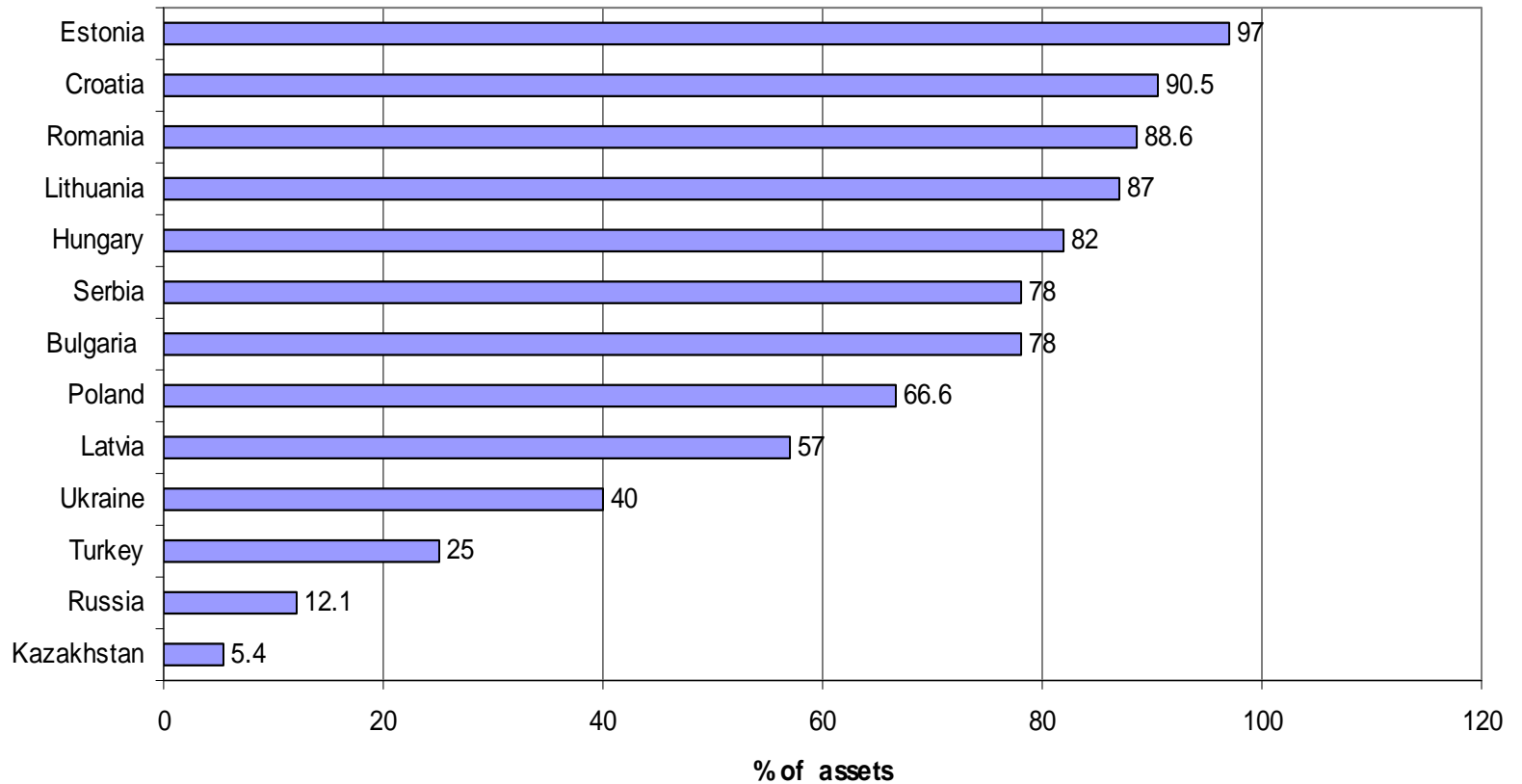
Sources: BSIL; NBS; NBP; BNR; CBR; CBRT; BOL; MNB; BNB; LB; NBU; CNB; EB; NBK.

Annual growth in private sector external debt in 2007



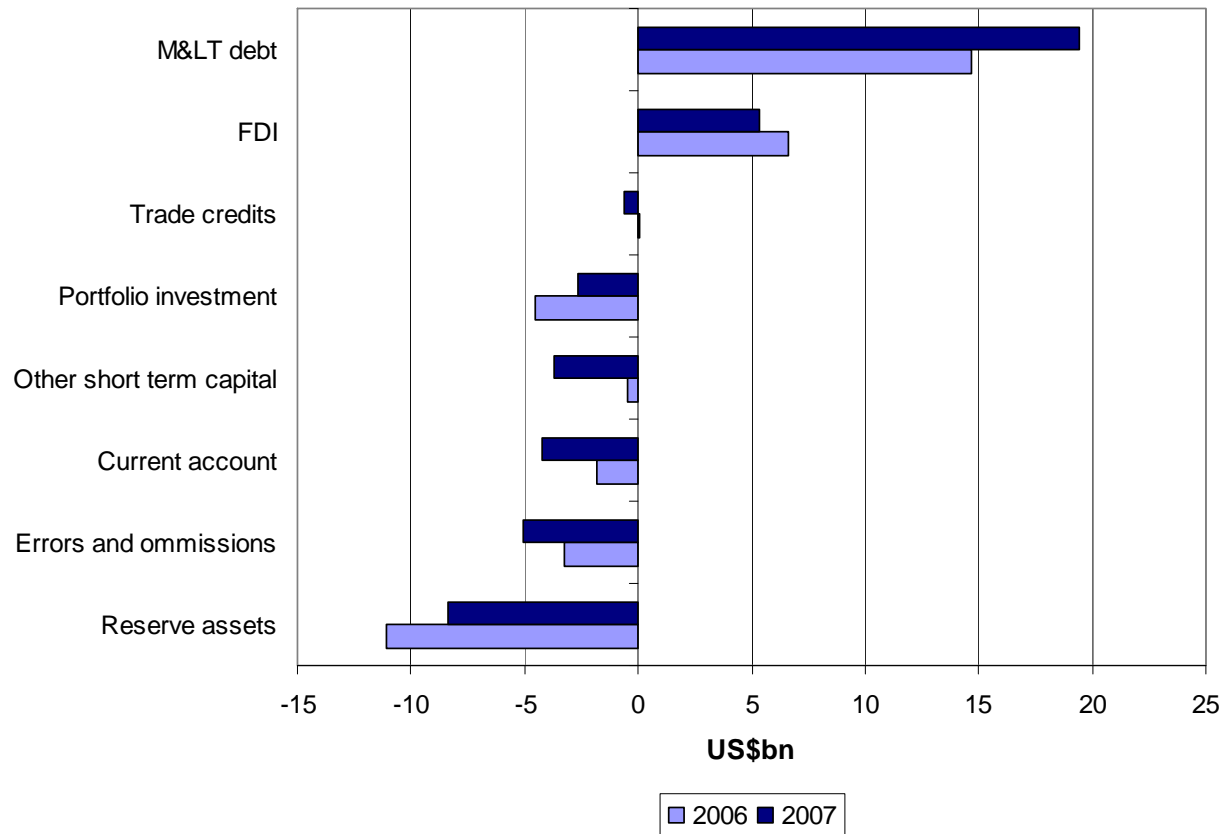
Sources: BSIL; NBS; NBP; BNR; CBR; CBRT; BOL; MNB; BNB; LB; NBU; CNB; EB; NBK.

Foreign penetration of the banking sector, 2007



Sources: BSIL; Fitch Ratings.

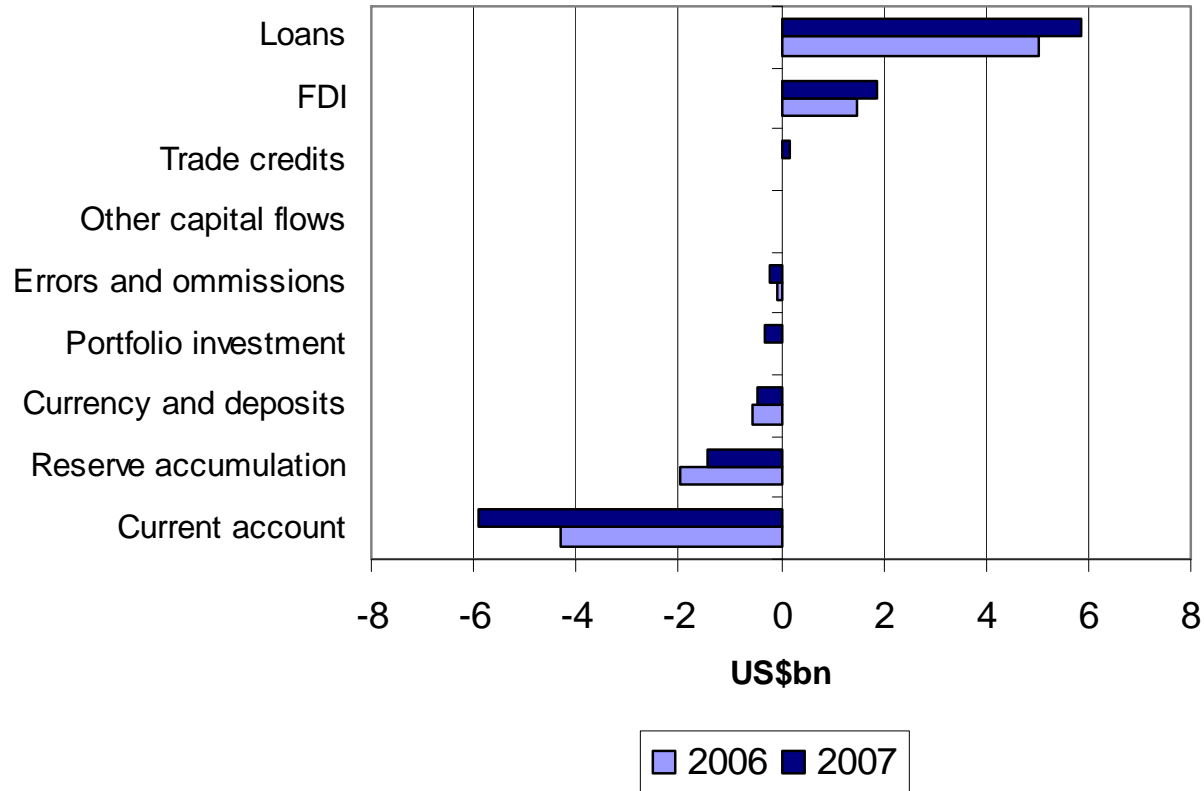
Kazakhstan: Sources and uses of external financing



Sources: BSIL; NBK

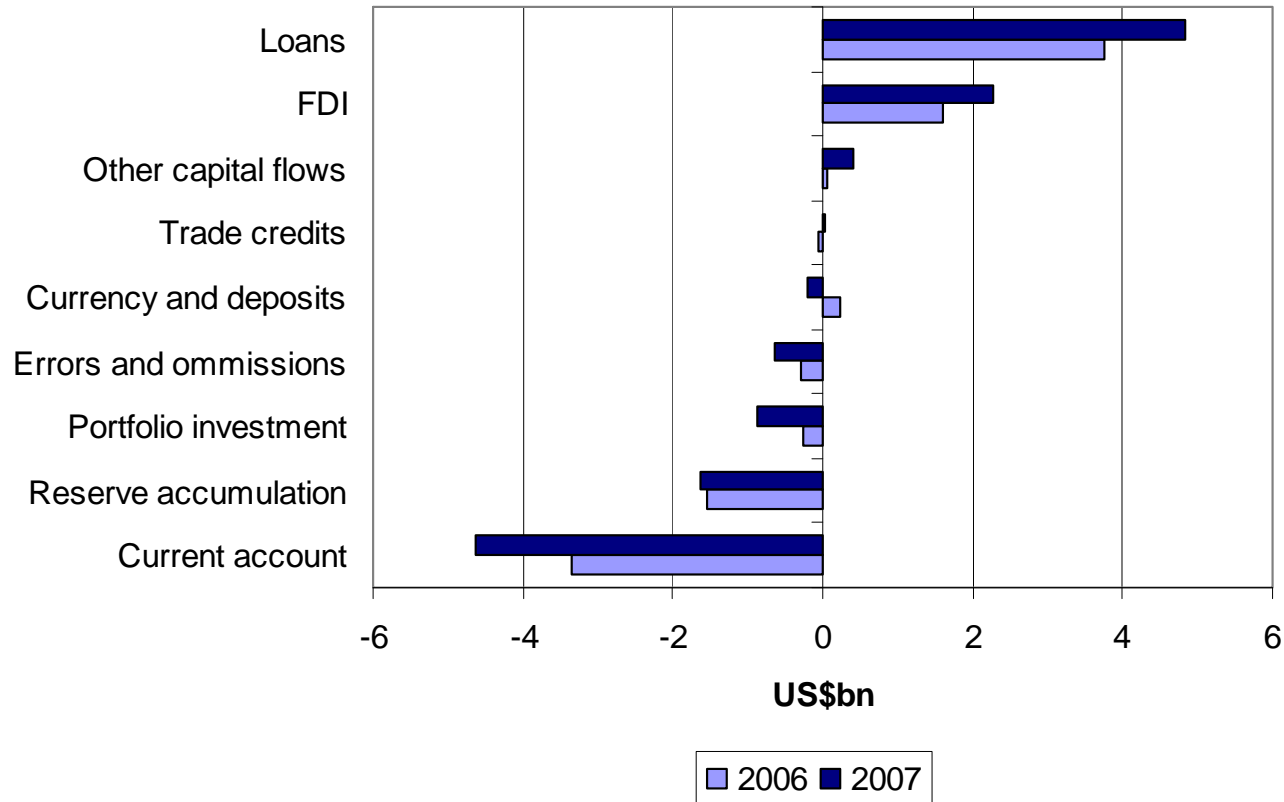
...and Problems are Being Felt Across the Region With the Baltics Particularly Exposed...

Latvia: Sources and uses of external financing



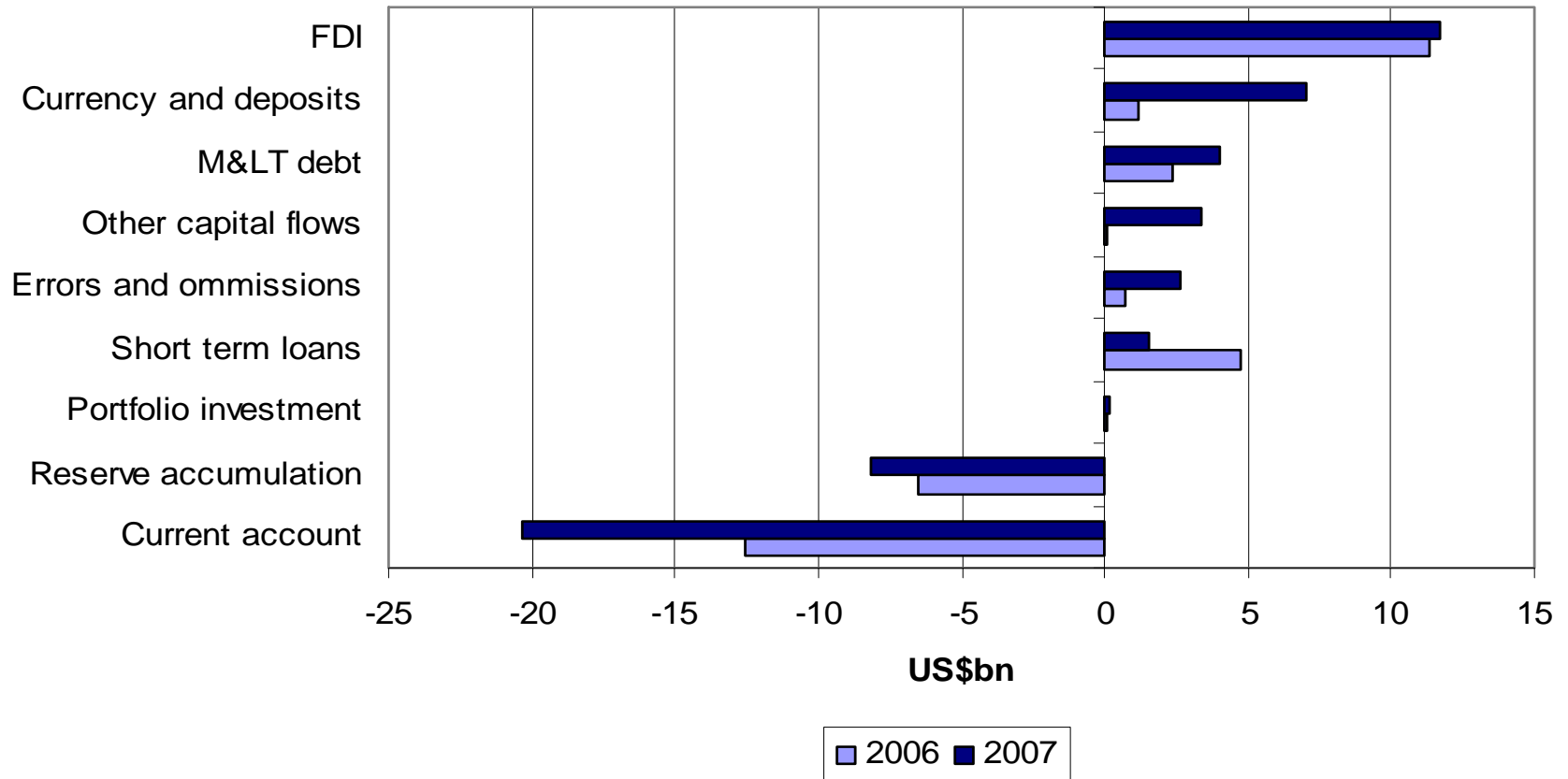
Sources: BSIL; BOL.

Lithuania: Sources and uses of external financing



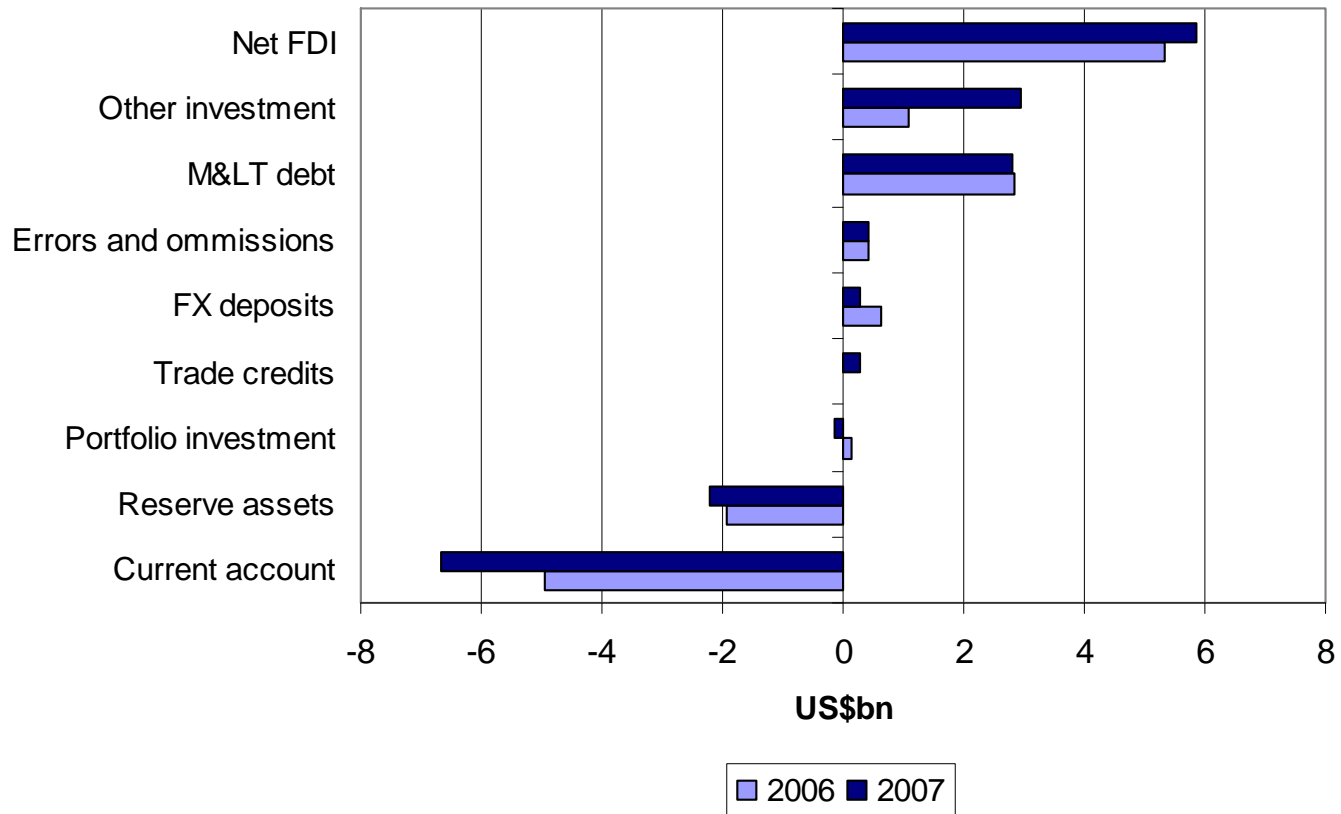
Sources: BSIL; BL

Romania: Sources and uses of external financing



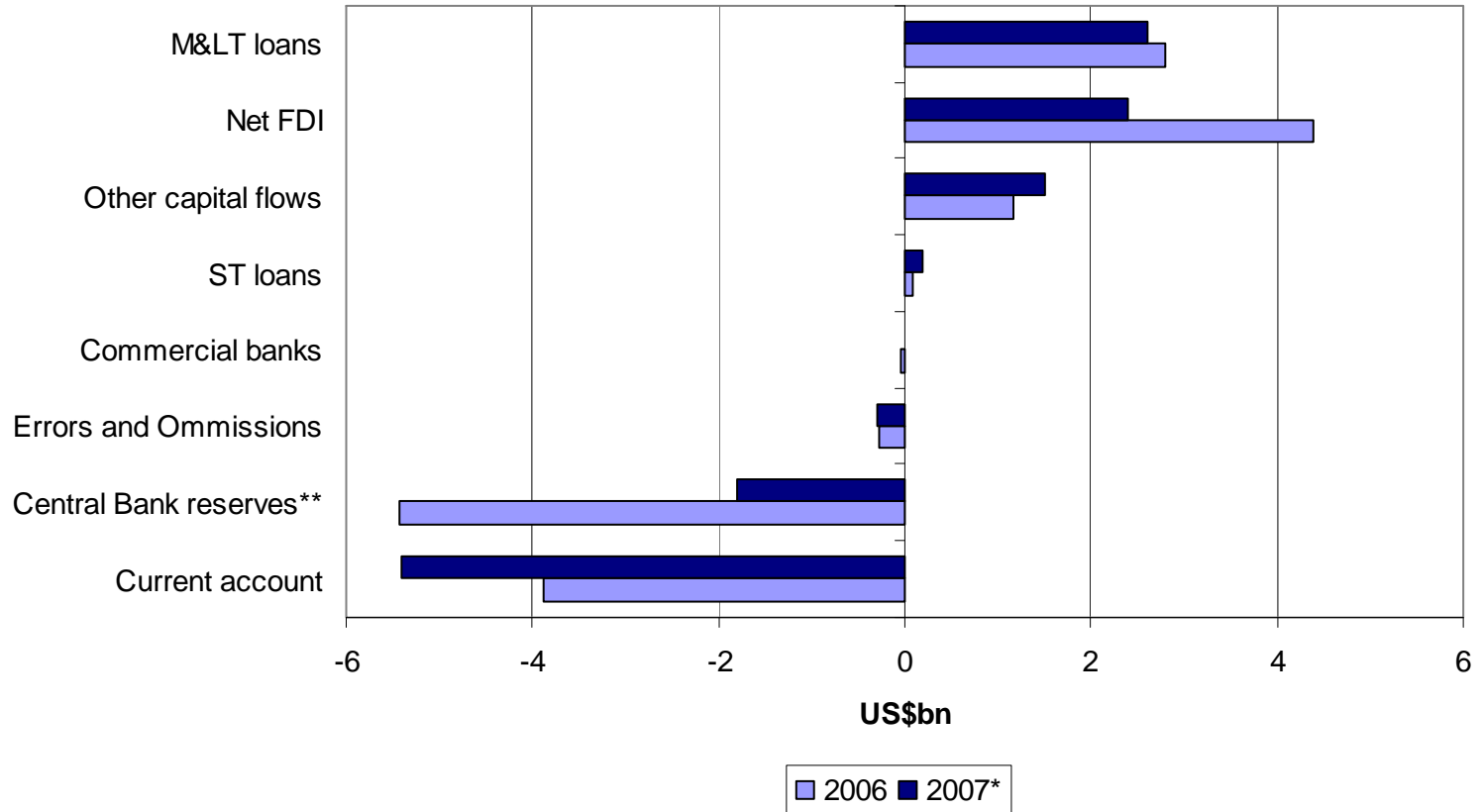
Sources: BSIL; BNR

Bulgaria: Sources and uses of external financing



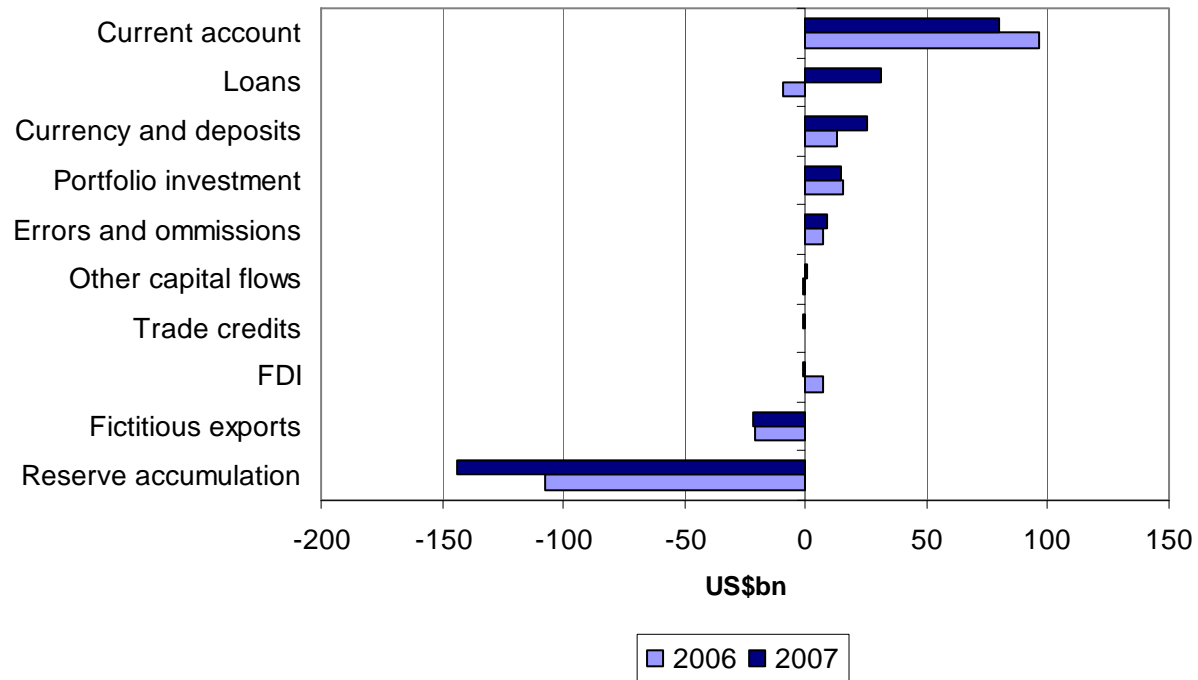
Sources: BSIL; BNB

Serbia: Sources and Uses of External Financing



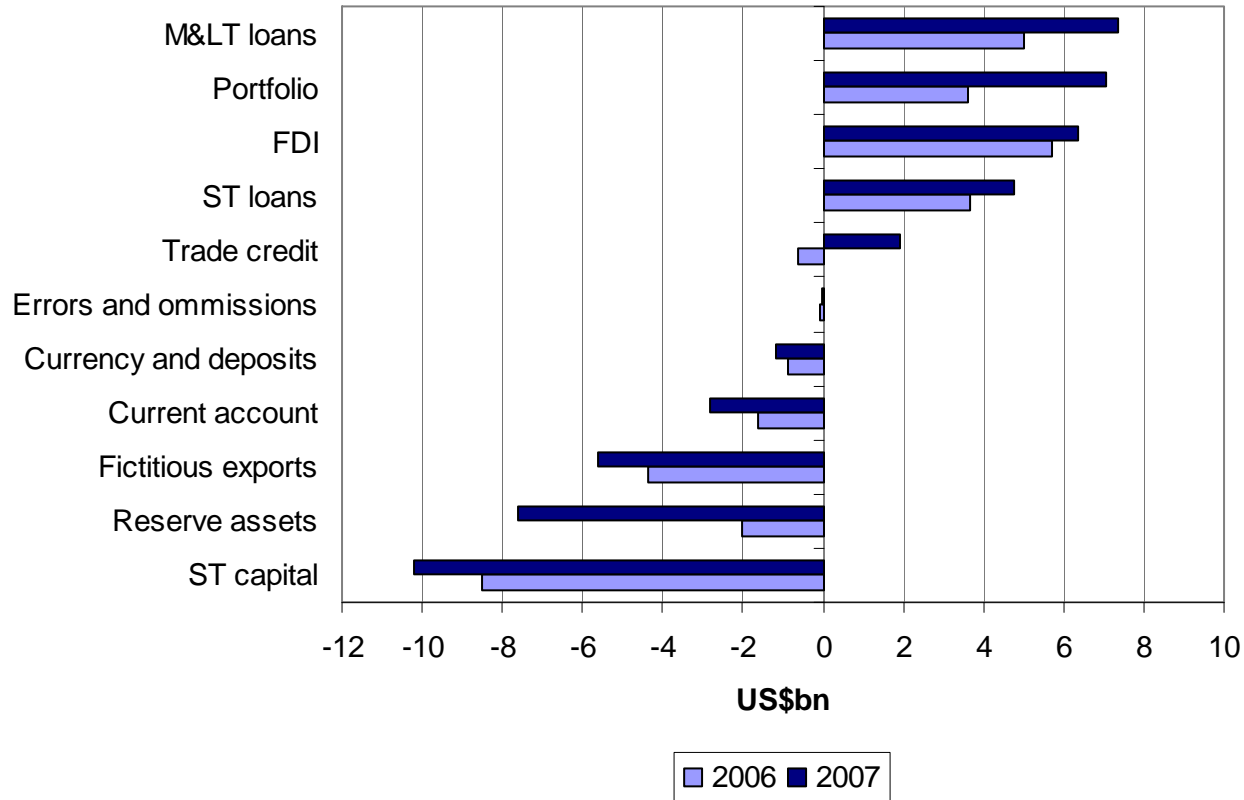
Sources: BSIL; NBS.

Russia: Sources and uses of external financing



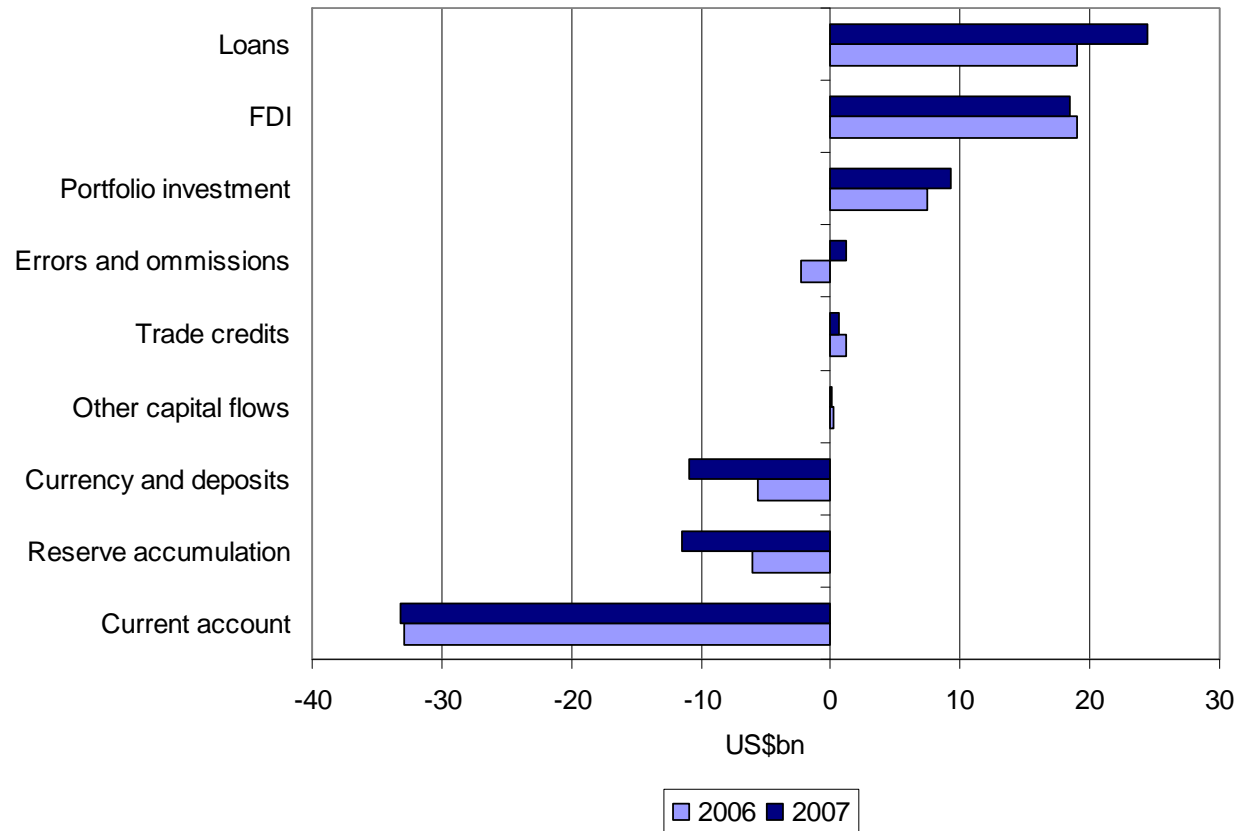
Sources: BSIL; CBR.

Ukraine: Sources and Uses of External Financing



Sources: BSIL; NBU

Turkey: Sources and uses of external financing



Sources: BSIL; CBRT

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