

CIS EUROBONDS: INTERESTING PICKS

IX Cbonds Emerging Markets Bond Conference

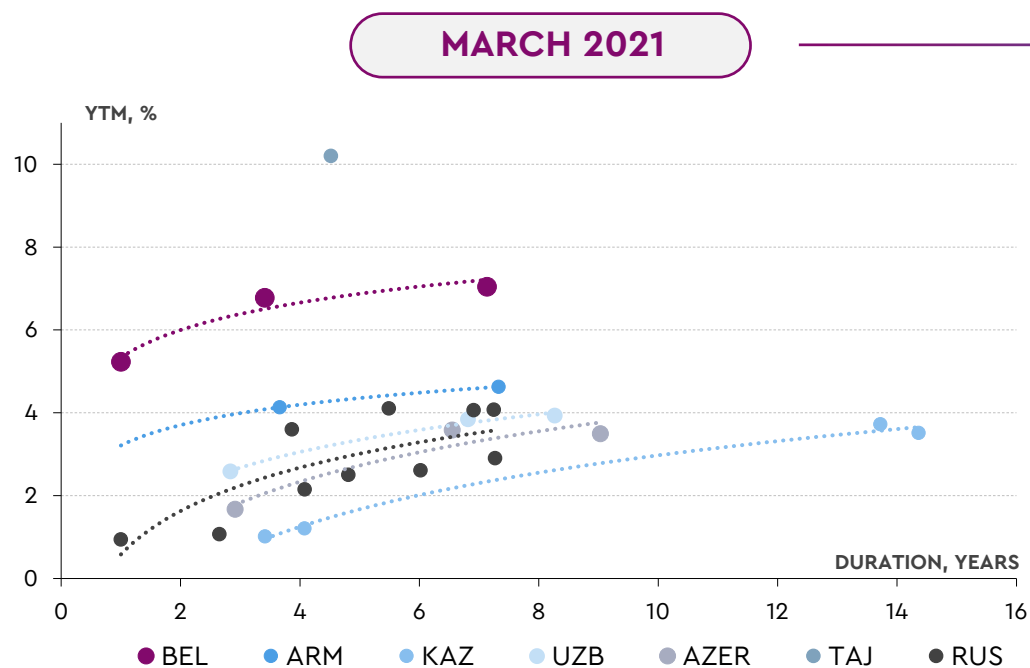
March 29, 2022

Overview of CIS eurobonds

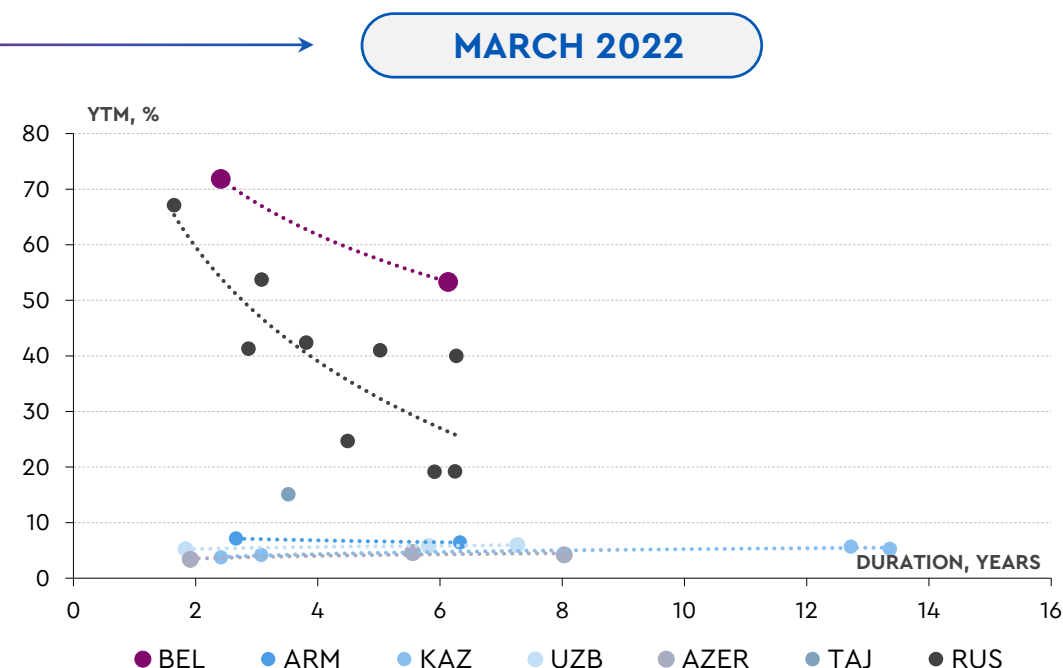
Attractive CIS stories

Over the past 12 months, yield curves of CIS sovereign debt have been under pressure from external factors

- Yield curves of major CIS countries shifted up by 1,750 bps on average due to heightened geopolitical risks.
- The sharpest move was in the Belarus curve, which shifted up by 5,560 bps due to economic ties with Russia.
- Azerbaijan was the best performer in the CIS with an upward move of 116 bps.



Source Bloomberg



Source Bloomberg



Factors impacting CIS eurobonds

EXTERNAL FACTORS



GEOPOLITICAL FACTORS



RISK APPETITE AMONG EM COUNTRIES



POLICY OF LEADING CENTRAL BANKS
(FED, ECB)



INCLUSION IN INDICES



PRINCIPLES OF SUSTAINABLE
INVESTING (ESG)



UNCERTAINTY
(e.g. onset of the pandemic)

DOMESTIC FACTORS



NEW GROWTH STORIES



REFORMS



PROSPECTS FOR SOVEREIGN
RATINGS UPGRADE

Overview of CIS eurobonds

Attractive CIS stories



CIS countries least affected by geopolitical risks



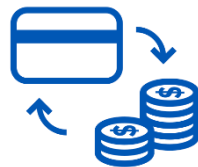
OIL & GAS EXPORTERS



GOLD EXPORTERS



CONSUMER GOODS EXPORTERS



MODERATELY DEPENDENT ON
REMITTANCES



ESG COMPLIANT



MULTI-VECTOR EXTERNAL POLICY



1. Uzbekistan: new stage of reforms

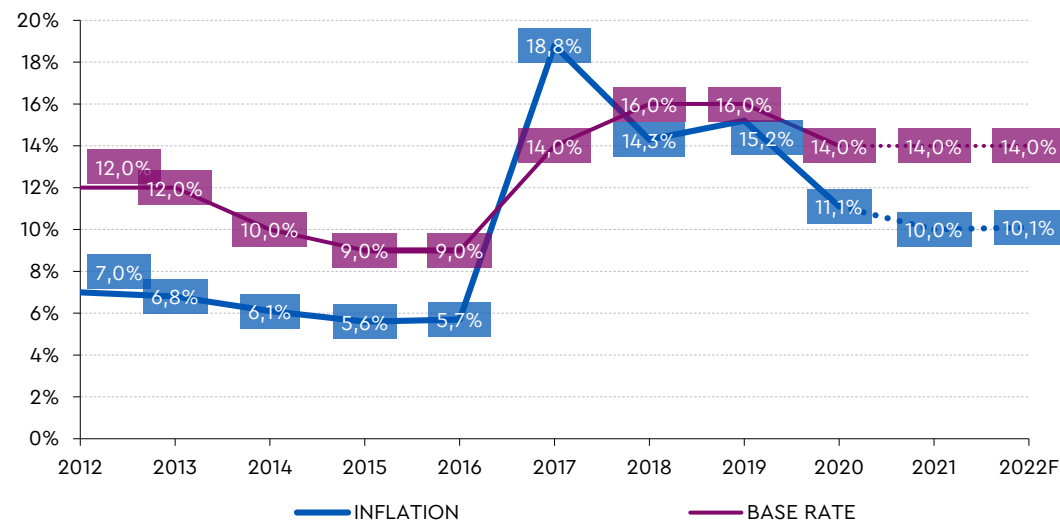
- Thanks to on-going reforms and fiscal stimulus, economic growth accelerated sharply to 7.4% in 2021.
- The Development Strategy for 2022-2026 was approved. Construction may become the third-largest contributor to GDP.
- The Strategy assumes an increase in exports to \$30 bln.
- After a rate hike to 17% in March, the Central Bank of Uzbekistan will maintain moderately tight monetary policy in 2022.
- High rates will support the attractiveness of UZS eurobonds.
- In 2022, Uzbekistan's economy will benefit from high gold prices and readjustment of global demand.
- We see the narrowing potential for Z-spreads of Uzbekistan's long eurobonds at around 100 bps.

EFFECT FROM IMPLEMENTATION OF STRATEGY TOTALS AROUND 0.7 PPS IN 2022 AND 1.3 PPS IN 2023



Source: State Statistics Committee of Uzbekistan, Gazprombank

AMID INCREASED INFLATIONARY RISKS, CBRU WILL CONTINUE TO PURSUE MODERATELY TIGHT MONETARY POLICY



Source: CBRU, State Statistics Committee of Uzbekistan, Gazprombank



Key construction projects: focus is shifting to low-carbon energy



Source: State Statistics Committee of Uzbekistan,
Open sources, Gazprombank

Uzbekistan's ratings have upgrade potential thanks to new Strategy

**BB-
STABLE**

S&P

RATING UPGRADE FACTORS SUPPORTED BY NEW STRATEGY

- Reforms and greater integration into the global economy that increase the potential for economic growth and improve **budgetary** and **external economic indicators**

**BB-
STABLE**

Fitch

- Maintaining **high economic growth** rates without macroeconomic imbalances
- Significant improvement of the sovereign **fiscal and external balances**

**B1
POSITIVE**

Moody's

- Implementation of **reforms** aimed at creating more competitive conditions in the economy and financial sector
- Mobilization of **internal sources of financing**, including UZS

OBSTACLES FOR RATING UPGRADE TO BE ELIMINATED

- Low **GDP per capita**
- Insufficiently flexible **monetary policy**

- Deterioration of **public finances** in the medium term
- Significant deterioration of the **external liquidity position**

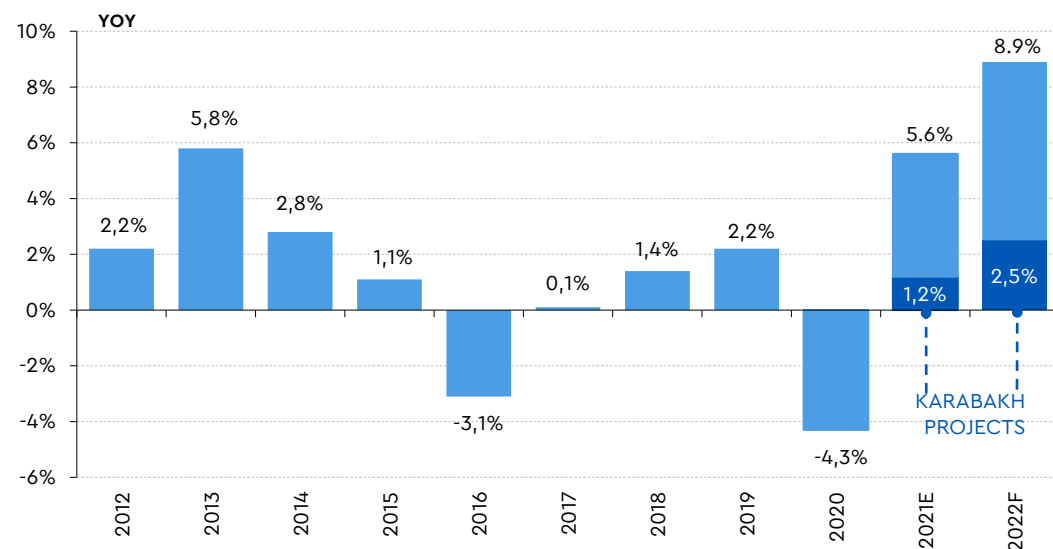
- High risks to **financial or macroeconomic stability**
- Escalation of the **internal political situation**
- Difficulties in accessing sources of **external financing**



2. Azerbaijan: new economic growth driver has emerged

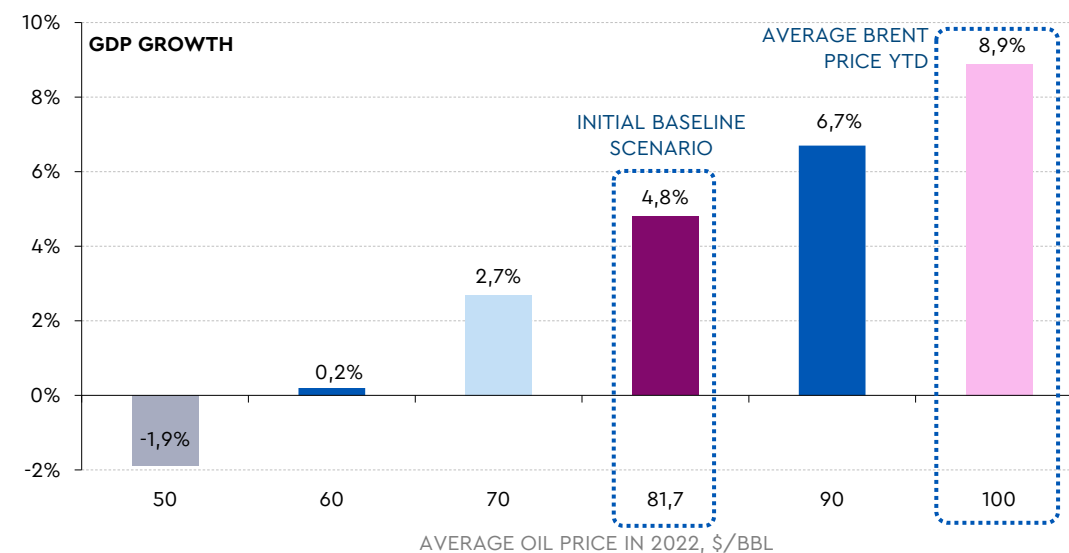
- Azerbaijan's investment case is one of the most interesting among CIS oil-exporting countries.
- In 2022, Azerbaijan's economy will benefit from high oil & gas prices and redirection of gas export flows to Europe.
- Given higher oil prices, economic growth in 2022 may reach 8.9%*. It will be supported by:
 - revival of domestic demand;
 - higher gas exports thanks to the launch of the TAP gas pipeline;
 - new non-oil growth driver – projects in Karabakh.
- "5-10-20": over the next five years, Azerbaijan plans to invest ~\$10 bln (20% of GDP) in projects in Karabakh.

NEW PROJECTS IN KARABAKH WILL GIVE AN ADDITIONAL BOOST TO ECONOMIC GROWTH



Source: State Statistics Committee of Azerbaijan, Gazprombank estimates

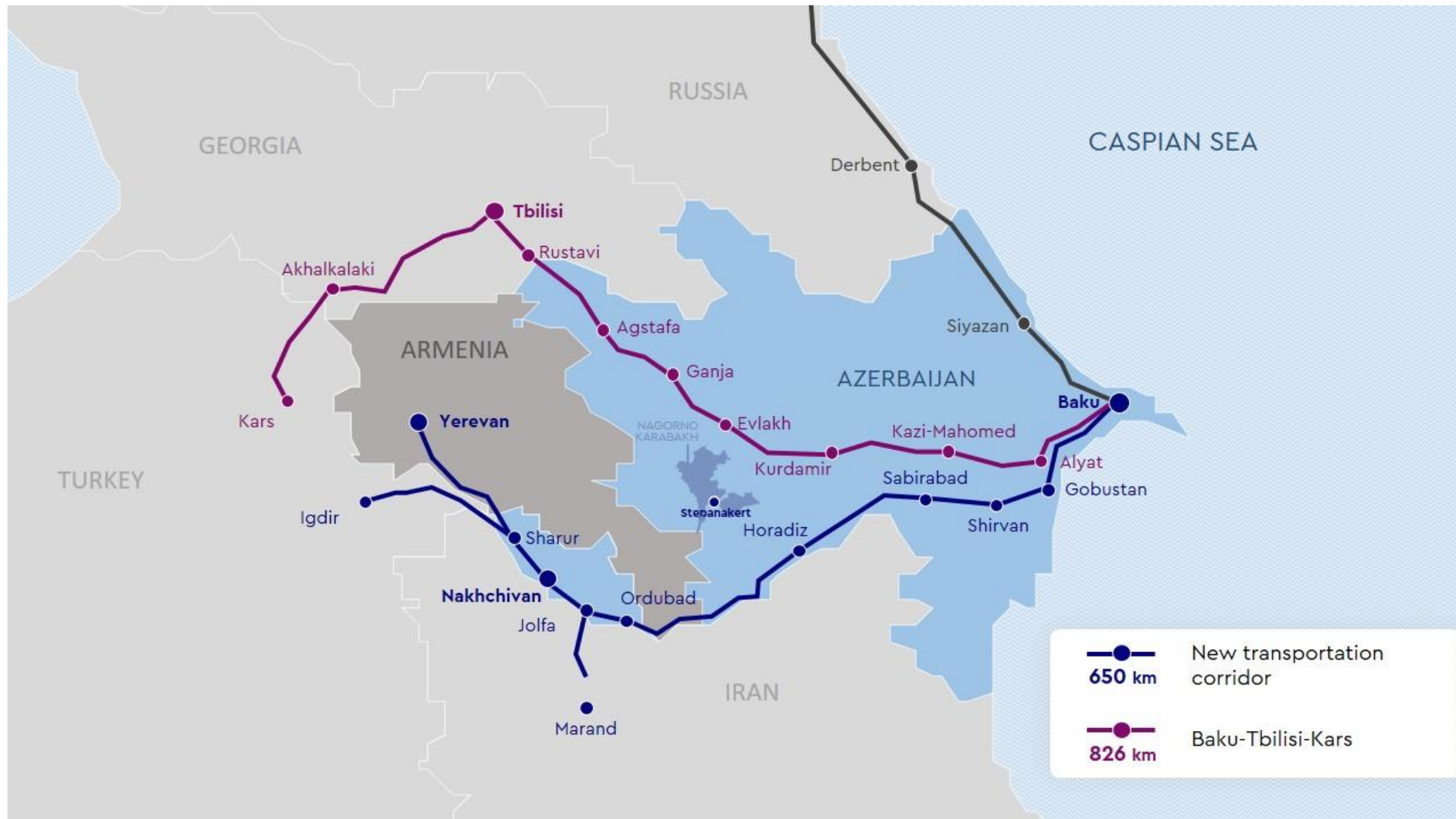
AZERBAIJAN ECONOMIC GROWTH SCENARIOS IN 2022 DEPENDING ON THE OIL PRICE



Source: Gazprombank estimates

* As the average oil price in 2022 may exceed our initial forecast of \$81.7/bbl

Construction of new railway transportation corridor will boost trade



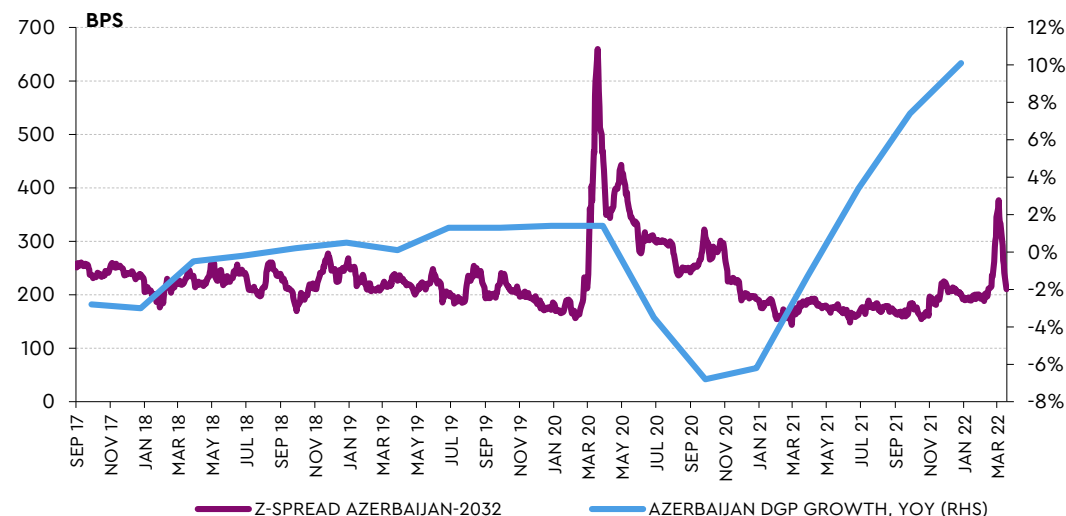
Source: open sources



UAE example as a benchmark for Azerbaijan

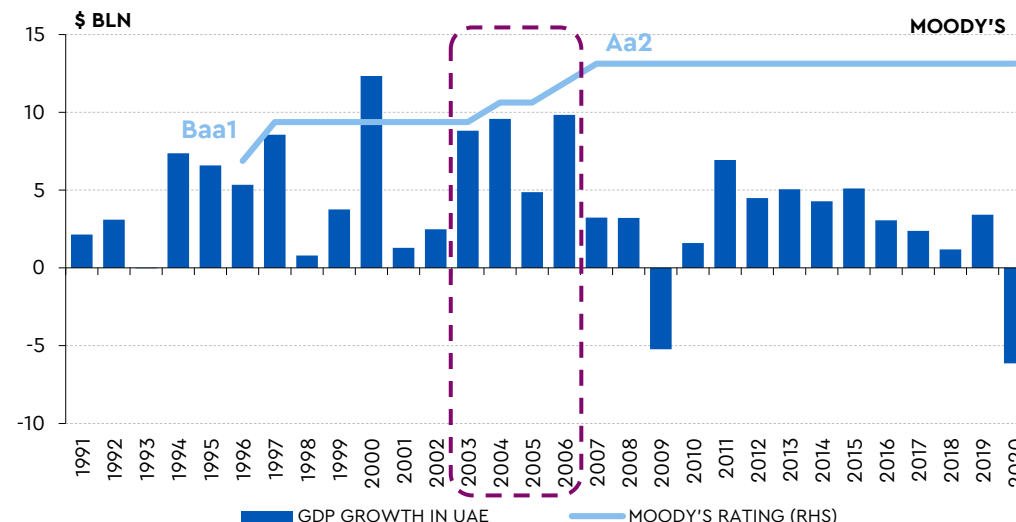
- The investment cases of sovereign oil and gas exporters will become more interesting once a new non-oil and gas driver of the economy emerges.
- Azerbaijan is one of the few such cases. A close example is the UAE in the 2000s, where accelerated growth was achieved through investments in non-oil sectors.
- Z-spreads of Azerbaijan eurobonds respond to changes in the dynamics of economic growth.
- Given the transition to the IG rating category, Z-spreads of long-dated Azerbaijan eurobonds have the potential to narrow by at least 100 bps.

Z-SPREADS OF AZERBAIJAN EUROBONDS DEPEND ON EXPECTED GROWTH OR DECELERATION OF THE ECONOMY



Source: Bloomberg, State Statistics Committee of Azerbaijan, Gazprombank estimates

CASE OF UAE RATING UPGRADE BASED ON INVESTMENT OF OIL AND GAS PROCEEDS IN THE NON-OIL AND GAS SECTOR



Source: IMF, Moody's, Gazprombank

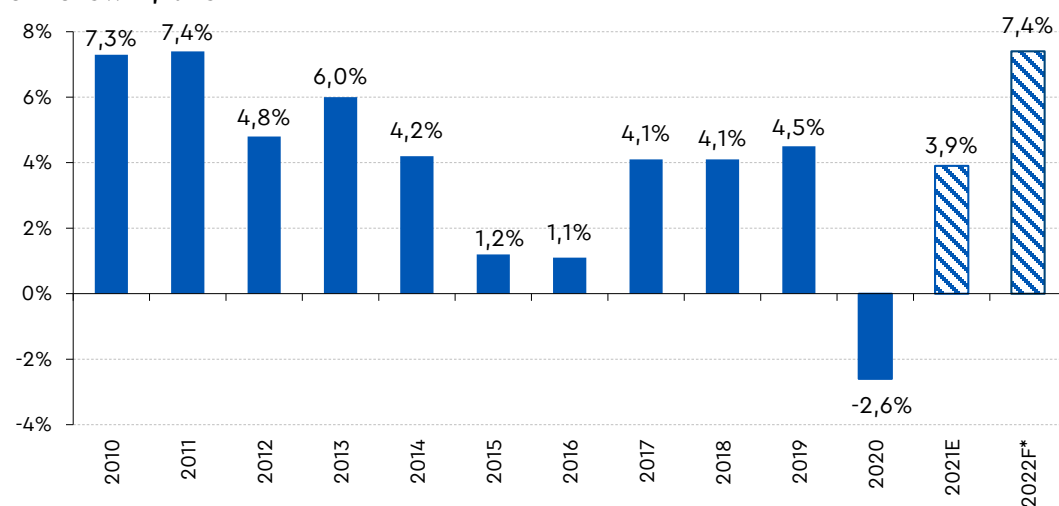


3. Kazakhstan: building a New Kazakhstan

- After the January events and completion of the power transition, Kazakhstan launched economic reforms and transformation of the institutional system.
- Kazakhstan is one of the key beneficiaries of higher commodity prices (oil, gas, metals and uranium). We also expect an increase of Kazakh non-oil exports due to reorientation of import flows to Russia.
- Still, we see significant inflationary risks. The National Bank of Kazakhstan adheres to conservative monetary policy to support the KZT and contain inflation.
- Narrowing potential for Z-spreads of Kazakhstan long eurobonds of 100-110 bps.

KAZAKH ECONOMY WILL BENEFIT FROM HIGH OIL PRICES

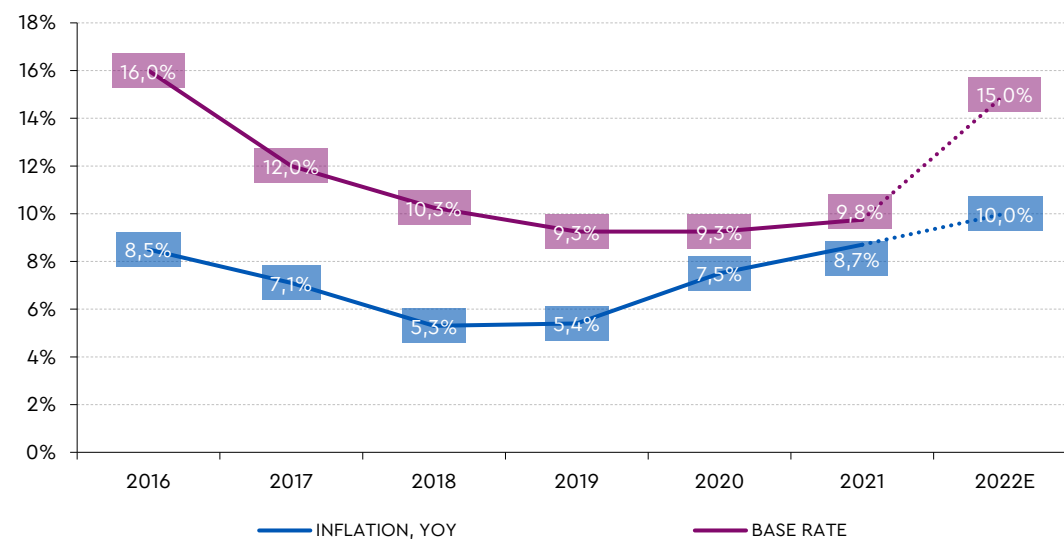
GDP GROWTH, % YOY



*For average Brent oil price 100 \$/barr.

Source: State Statistics Committee of Kazakhstan, Gazprombank

AMID INCREASED INFLATIONARY RISKS, NBK WILL CONTINUE TO PURSUE TIGHT MONETARY POLICY

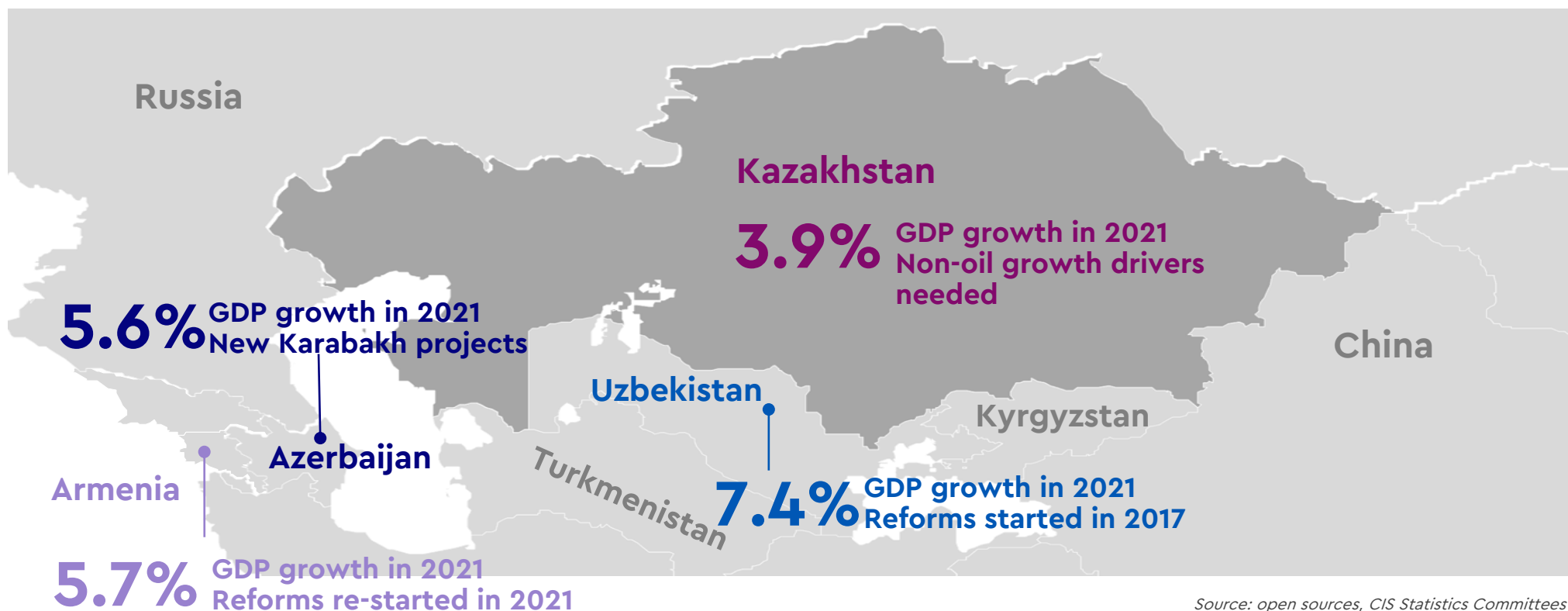


Source: NBK, State Statistics Committee of Kazakhstan, Gazprombank



Reshuffling of Kazakh institutions: fertile ground for reforms

- Neighboring CIS countries, where further reforms are being implemented, are achieving higher growth.
- We see two potential reform areas for Kazakhstan:
 - 1) social reforms, which have long been discussed;
 - 2) structural economic reforms in the longer term via closer economic ties with Russia, China and Turkey.



Completed power transition and strong commodities will support sovereign ratings

▲ RATING UPGRADE FACTORS

**BBB-
Stable**

S&P

- **Improvements in institutional efficiency**
- Strengthening of the business environment
- Solid improvement in the banking sector

**BBB
Stable**

Fitch

- **Further building of external and fiscal buffers**
- **Strengthening of economic policy framework**
- Medium-term fiscal consolidation

**Baa2
Stable**

Moody's

- **Reforms strengthen the institutional framework, policy credibility and effectiveness**
- Economic competitiveness beyond expectations
- **Reforms accelerate economic diversification**

▼ RATING DOWNGRADE FACTORS

- Deterioration of external balances
- Slower than anticipated fiscal consolidation

- Erosion of the sovereign balance sheet
- Weakening of economic policy framework
- Weakening of monetary policy credibility
- Weakening of confidence in flexibility of the FX rate

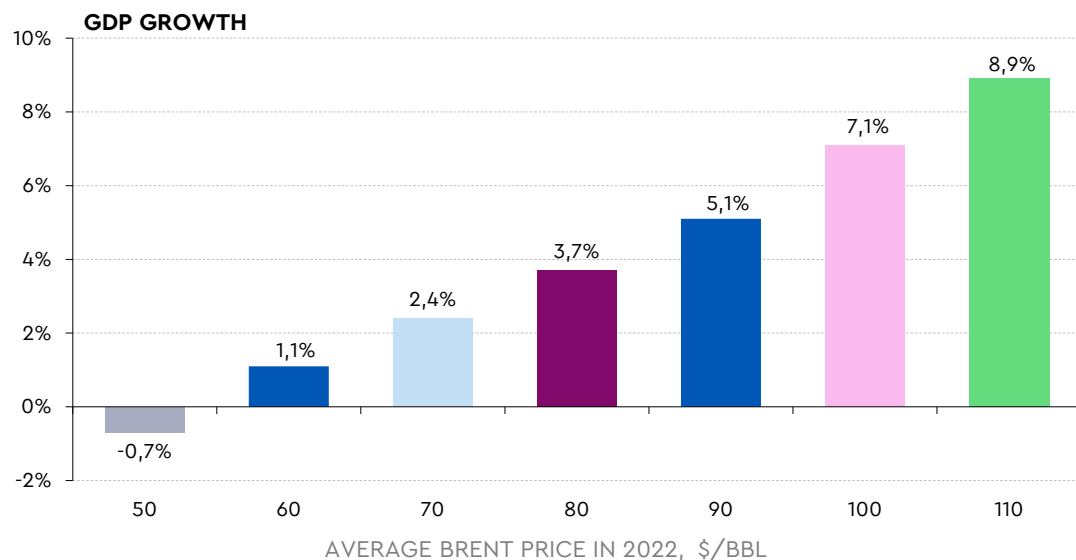
- Significant and long-lasting deterioration of economic and fiscal metrics
- Emergence of domestic political risks, with a negative impact on the reform agenda and the business environment



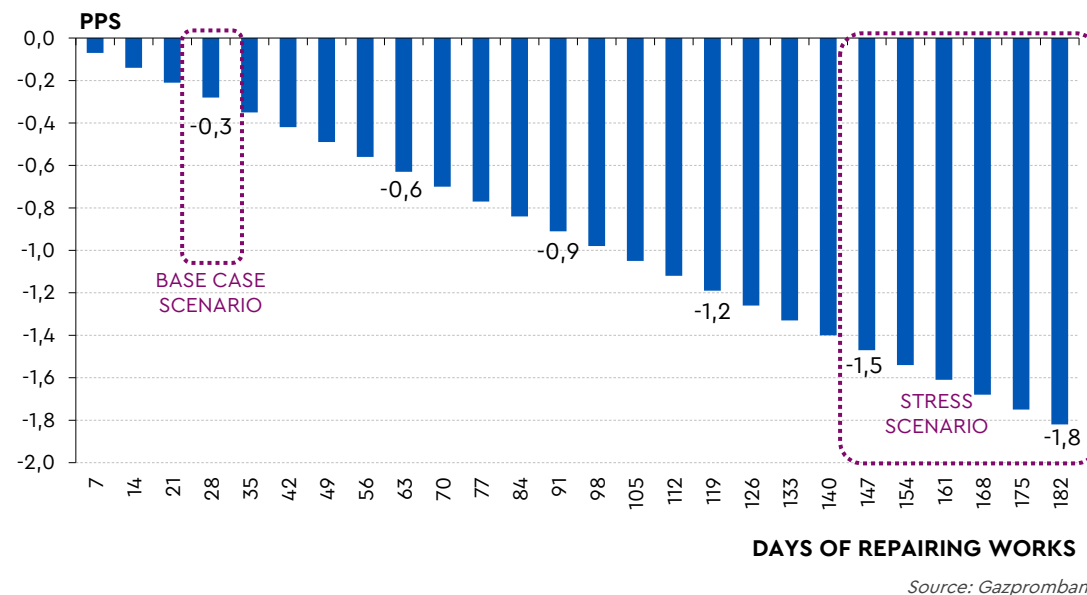
Effect of CTC damage on economic growth will be moderate

- Crude oil exports in 2021 totaled \$31 bln or 59% of overall goods exports from Kazakhstan.
- Crude oil loadings via the CTC terminal totaled about 2/3 of overall Kazakh oil exports.
- As the CTC has been partially repaired, Kazakhstan expects production to fall by no more than 320 kbpd.
- As only oil exports are being affected, while domestic extraction and processing facilities are operating normally, oil refining and chemicals are not under pressure.
- One month of CTC repairs with production reduced by 320 kbpd may cost Kazakhstan 0.2-0.3 pps of economic growth in 2022 (base case scenario). This effect will be mitigated by higher oil prices.

IN BASE CASE SCENARIO, NEGATIVE EFFECT WILL BE MODERATE



ESTIMATED EFFECT OF CPC REPAIR TIME ON ECONOMIC GROWTH



Thank you for your attention

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