

Impact of financial crisis on JI

Prepared by Deutsche Bank



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A Passion to Perform.

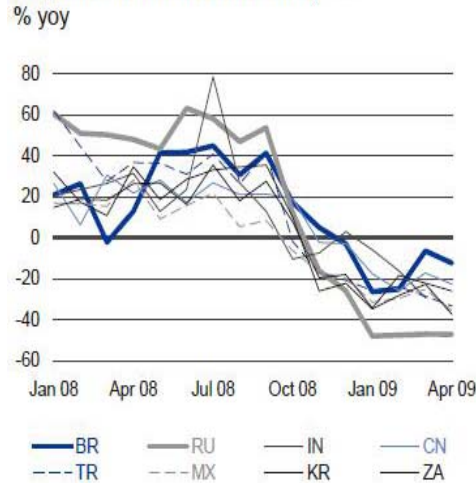
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Financial crisis was a large shock for Emerging Markets (EMs)

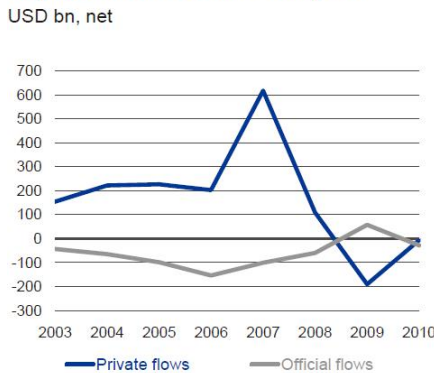
- Economic growth collapsed in Q4/08 and Q1/09
- Investors retreated massively from EMs after Lehman episode
- External financing dried out even for solid countries
- Some currencies plunged more than in full-blown crises in the 1990s

Exports fell dramatically ...



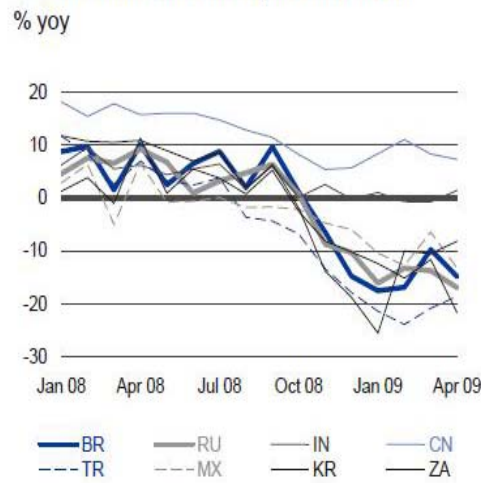
Source: IFS

Capital flows to EMs slumped



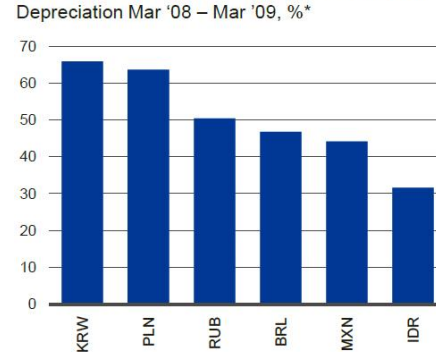
Source: IMF WEO

... as did industrial production



Source: IHS Global Insight

EM currencies depreciated sharply



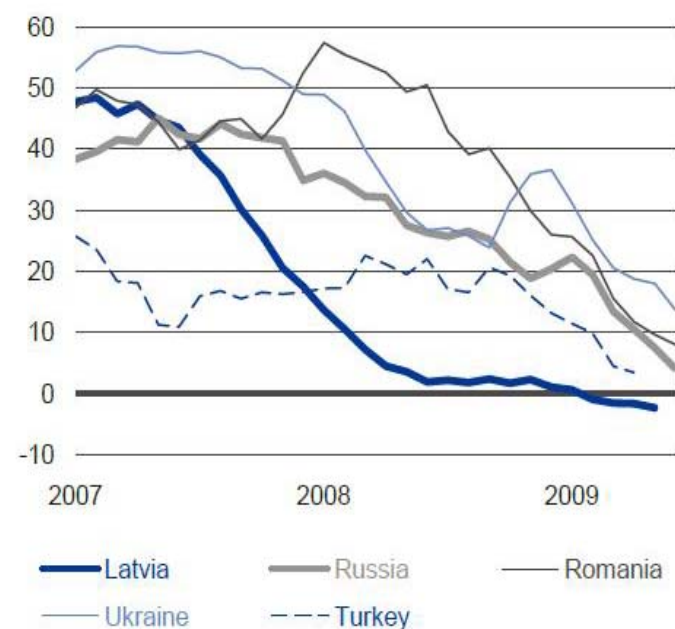
* vs USD except PLN vs EUR
Source: IHS Global Insight



Eastern Europe: Crisis forces painful adjustment

CEE: Sharp fall in credit growth

Real credit growth, % yoy



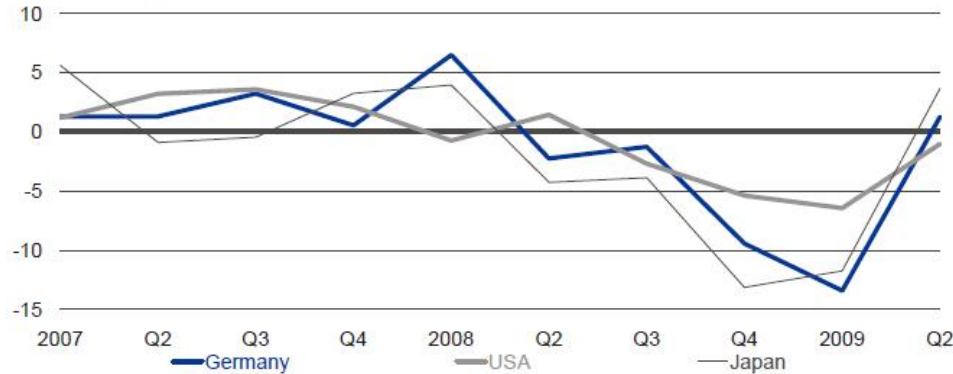
Sources: IMF, DB Research

- Private sector with large exposure to FX and external financing
- Smaller economies affected by recession in euro area; CIS hit by commodity price slump
- Ongoing sharp reversion of credit boom and C/A deficits
- Relatively strong public sector finances (or IMF-led aid) a plus
- To watch ahead:
 - Bank and corporate balance sheet clean-up
 - Currency risks in the run up to euro accession

Eastern Europe lagging behind improving fundamentals elsewhere

Recession in large developed markets ending

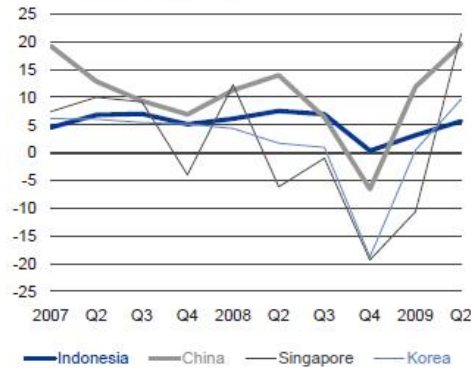
US, Germany and Japan gathered steam in Q2
GDP growth, % qoq saar



Sources: IHS Global Insight, DB Research

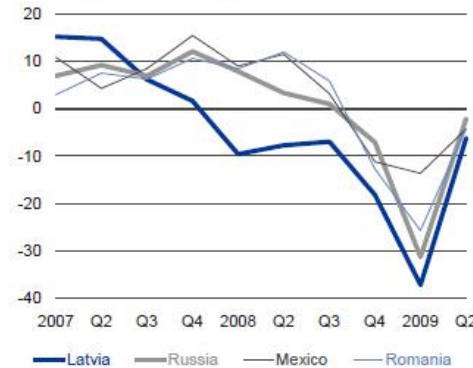
Emerging markets have recovered or bottomed out

V-shaped recovery in Asia
GDP growth, % qoq saar



Sources: IHS Global Insight, DB Research

Eastern Europe and Mexico lagging
GDP growth, % qoq saar



Sources: IHS Global Insight, DB Research





Impact of financial crisis on Joint Implementation

1. Financial crisis has affected JI in two ways:
 - Lower ERU production due to drops in industrial production
 - Projects are postponed due to investment delays caused by lack of financing
2. Most financing windows are closed except for the strongest counterparties with ability to offer security for lending
3. In addition to credit risk, issuance and transfer ERU procedures remain largely untested:
 - Only 3 out of 14 JI countries have issued ERUs
 - Ukraine is the only Eastern European country to have issued any ERUs
4. On top of this, pricing expectations of project owners don't reflect the new risk averse environment

Summary

- Financial crisis was a large shock for the EM economies
- Situation in EM improves, but Eastern Europe is lagging behind
- Lower ERU production, adverse credit conditions and investment delays jeopardize the economics of potentially successful JI projects
- Issuance and transfer procedures remain largely untested
- In limited situations financing for JI projects is available, but only the best projects involving the sound counterparties

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